



Steel Executive Summary: October 2008

Recent Issues

- **BHO – RIO Acquisition Receives Australian Approval** – The Australian Competitive and Consumer Commission approved the BHP Billiton bid to purchase Rio Tinto Group, which would create the world's largest mining company. With the Australian approval, speculation that the takeover will succeed continues to grow. The combined company would control over a third of the world's iron ore mining. European Union regulators continue to review the merger and expect to issue a ruling by mid-January 2009. (*Bloomberg, 01 October 2008*)
- **Africa's Largest Steelmaker Cuts Prices Again** – The largest steelmaker in Africa, ArcelorMittal South Africa, announced that it will cut average long and flat steel prices by ten percent. The company had previously cut prices in 2008 in response to weakening demand. The average price reduction of \$120/metric ton will take effect starting on 01 November 2008. (*Bloomberg, 30 September 2008*)
- **Oman Invests in Domestic Steel** – The government of Oman announced that it will invest \$5 billion into a new domestic steel facility as an effort to increase its position among the Gulf region iron and steel producers. Analysts expect Oman's steel output to reach 1.1 million metric tons by 2010. (*Middle East North Africa Financial Network, 29 September 2008*)

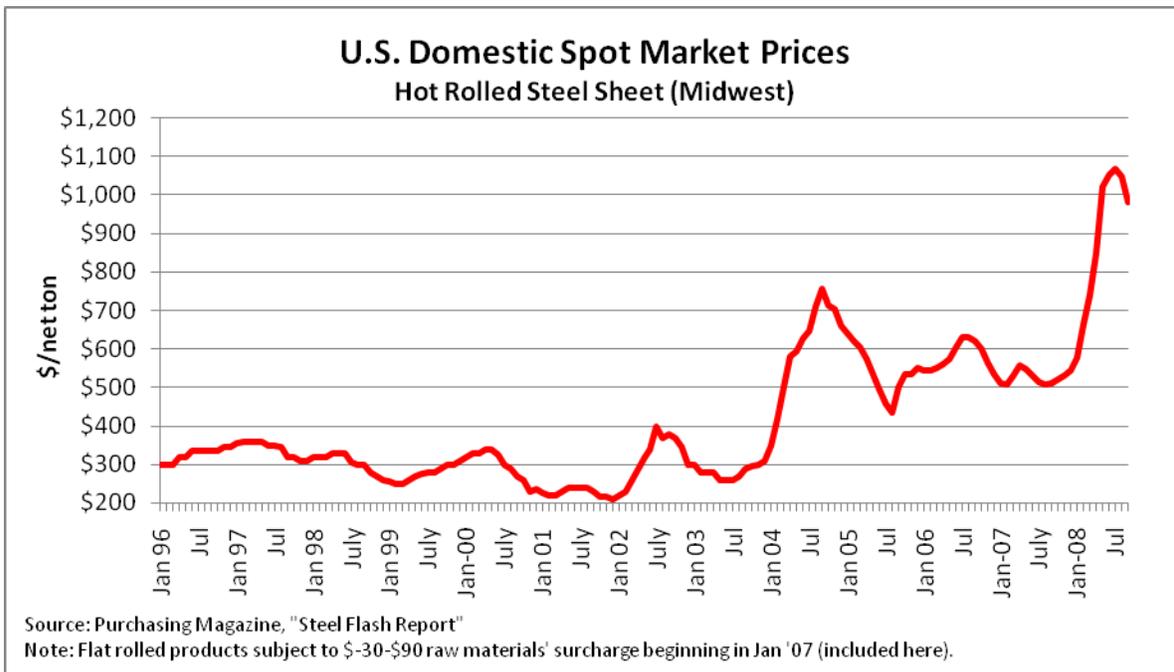
Price Issues of Note (from Purchasing Magazine)

- Tracking with the larger economic trend, demand for steel products remains relatively weak on behalf of the manufacturing and building industries. The softer demand continues the declining transaction prices witnessed in the previous months. However, some industry analysts believe that lower steel imports and production cuts by mills may slow the declining prices, potentially helping them to level.

Prices

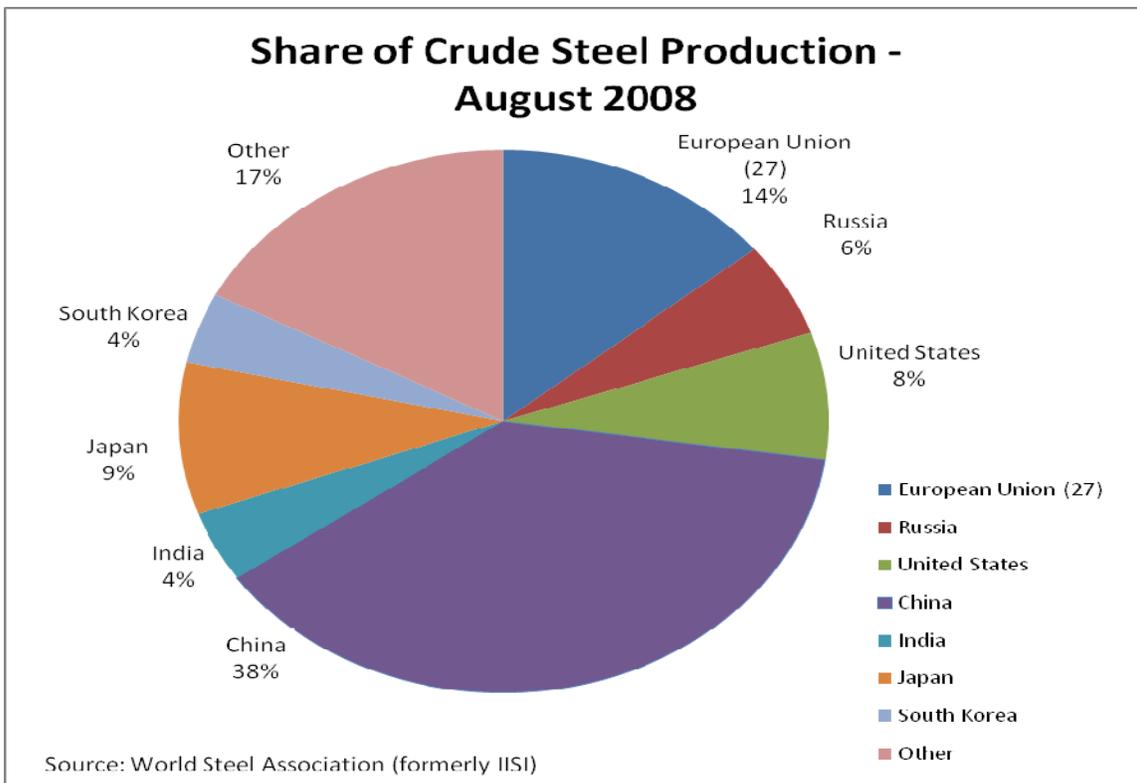
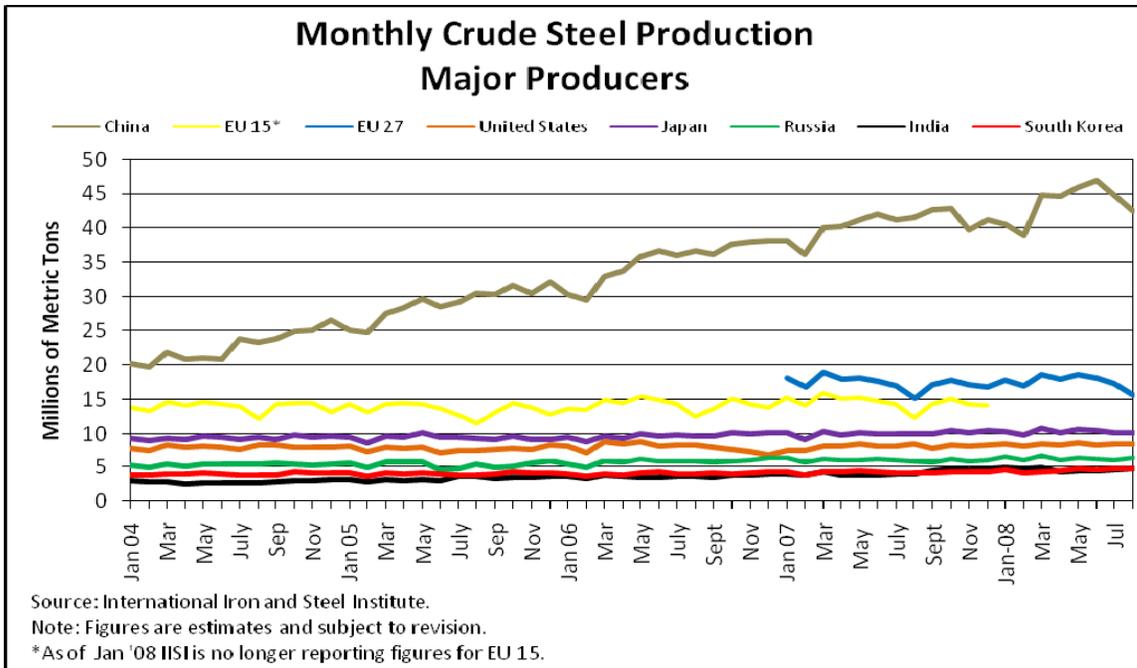
- Steel prices decreased slightly across all product groups from August 2008 to September 2008. Hot-rolled sheet decreased 6.11% in September to \$983/net ton from \$1047/net ton while cold-rolled sheet decreased 7.48% to \$1064/net ton from \$1150/net ton. Prices were up considerably in the first half of 2008. Over the previous

six months period, the price of hot-rolled sheet increased by 32.84%, while cold-rolled sheet increased by 32.17%. The hot-rolled sheet prices represent a 91.62% increase over September 2007, while cold-rolled sheets are up 77.93% over the previous year.



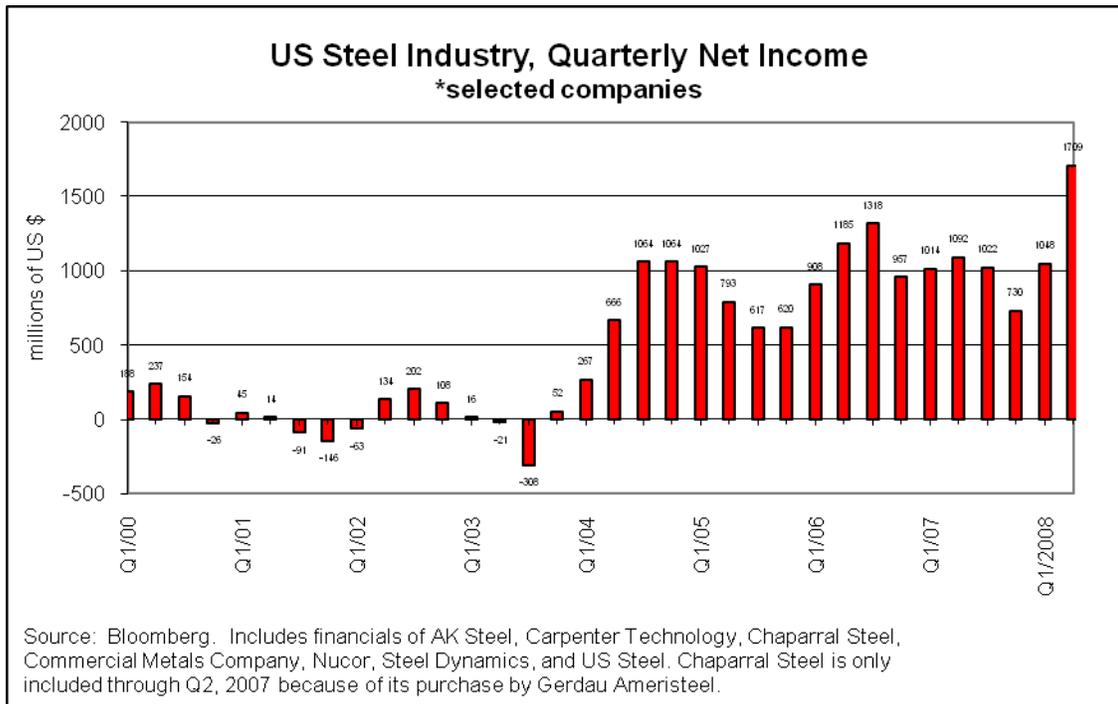
Global Production

- World steel production decreased 3.8% from 116.6 million metric tons in July 2008 to 112.2 million metric tons in August 2008.
- China remains the largest steel producer worldwide with an August 2008 production level of 42.57 million metric tons, a 5.2% decrease from July 2008. The European Union 27 remains the second largest producer with an August 2008 production level of 17.41 million metric tons.
- China's single share is more than a third of world production and was only fraction of this amount within the last decade. China's share is larger than the combined production of the US, the EU 15, Russia, and Japan, which historically were the largest producers of steel. In 2000, China's share of world production stood at 17 percent, while the EU-15 accounted for the largest share at 18 percent. In seven years, China's share has more than doubled; other producers have seen their shares decrease.

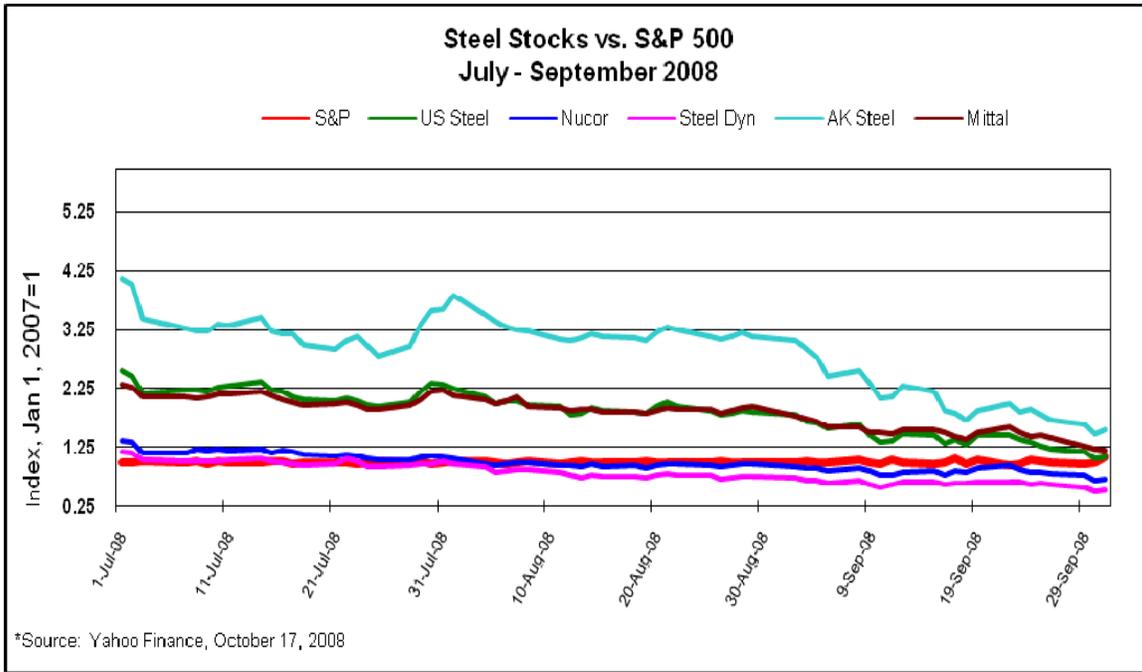
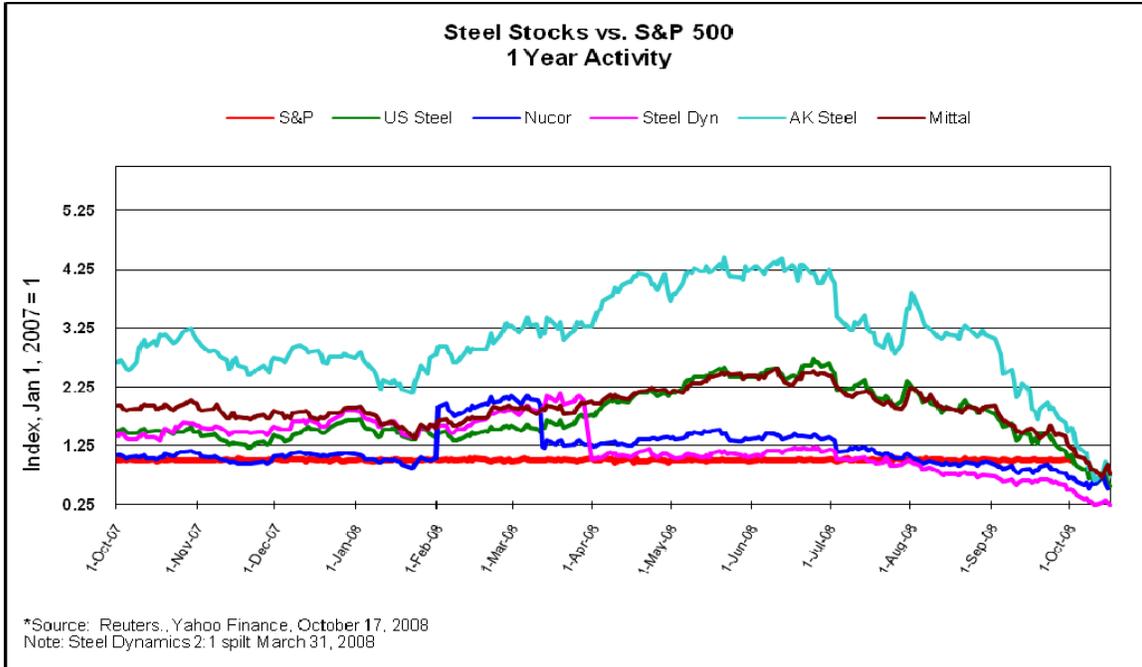


Industry Status

- Most steel stocks continue to outperform the S&P 500. Quarterly net income for US steel dropped off in the second half of 2007 but rebounded significantly in the first and second quarters of 2008. The net income chart now includes AK Steel, Carpenter Technology, Commercial Metals Company, Nucor, Steel Dynamics, and US Steel.

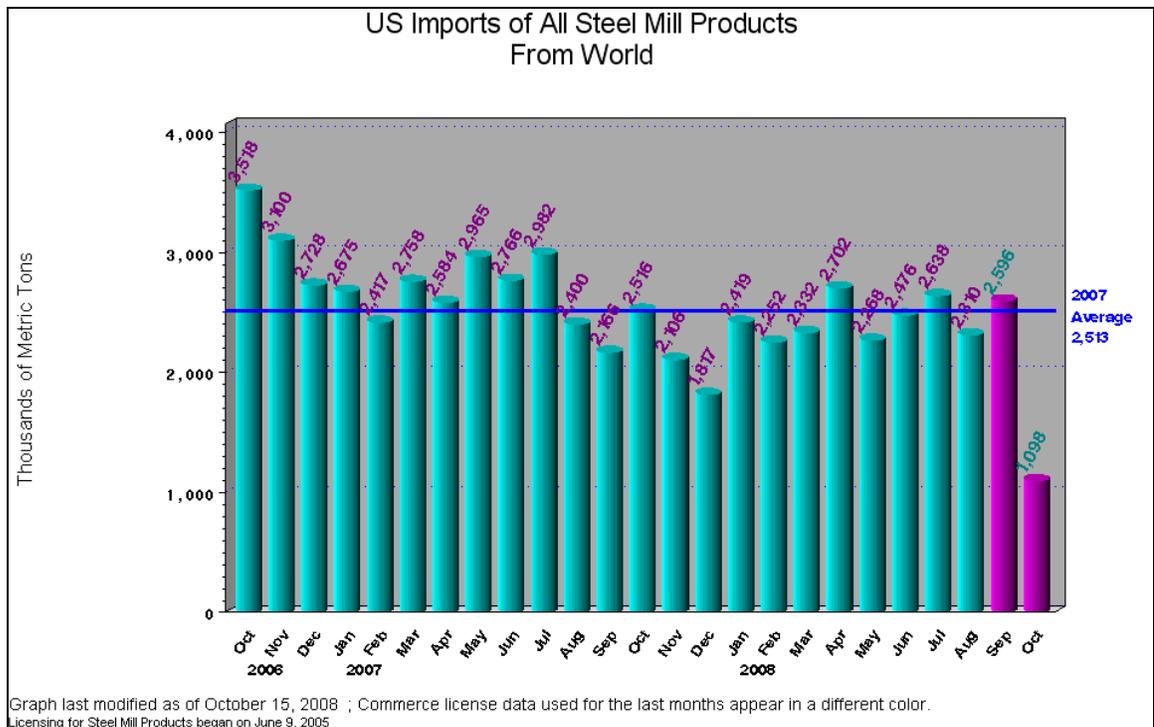


- Partially as a result of the price increases in many steel products, most steel stocks have been outperforming the S&P 500 since early 2006. There was an increase in some steel stocks over 2007, but others have experienced volatility since January 2008. Since early August, Nucor and Steel Dynamics have been underperforming the S&P 500. Since July, the steel stocks and the S&P 500 shown on the 3-month steel stocks chart have decreased. Steel Dynamics split (2:1) on March 31st, 2008. The steel stocks charts now include the S&P 500, US Steel, Nucor, Steel Dynamics, AK Steel, and Mittal.



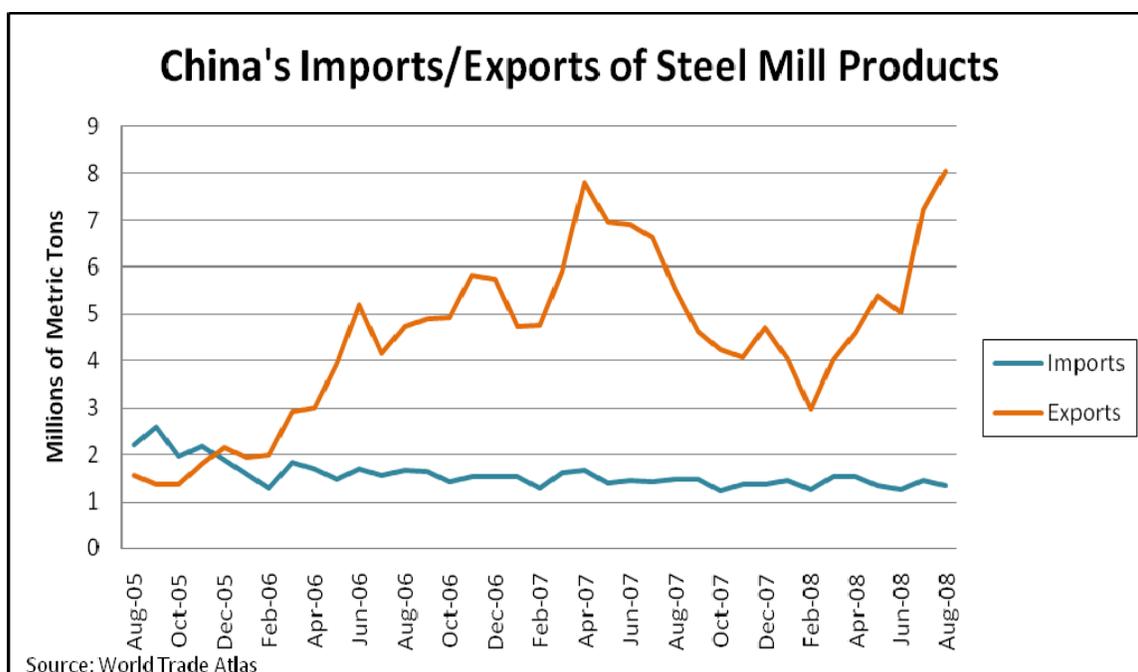
Imports of Steel Mill Products

- Since August 2007 U.S. imports of steel mill products have been fluctuating slightly. A two year low level occurred in December 2007 with 1.8 million metric tons imported. U.S. imports of all steel mill products decreased 12.42% to 2.3 million metric tons in August 2008 from July 2008, according to final August figures from the Census Bureau. Data gathered from the licensing system reflect an increase of 12.35% in steel imports to 2.6 million metric tons in September 2008. Based on licensing data, steel imports may be 19.83% higher in September 2008 than in September 2007, which is 3.3% higher than the 2007 average.

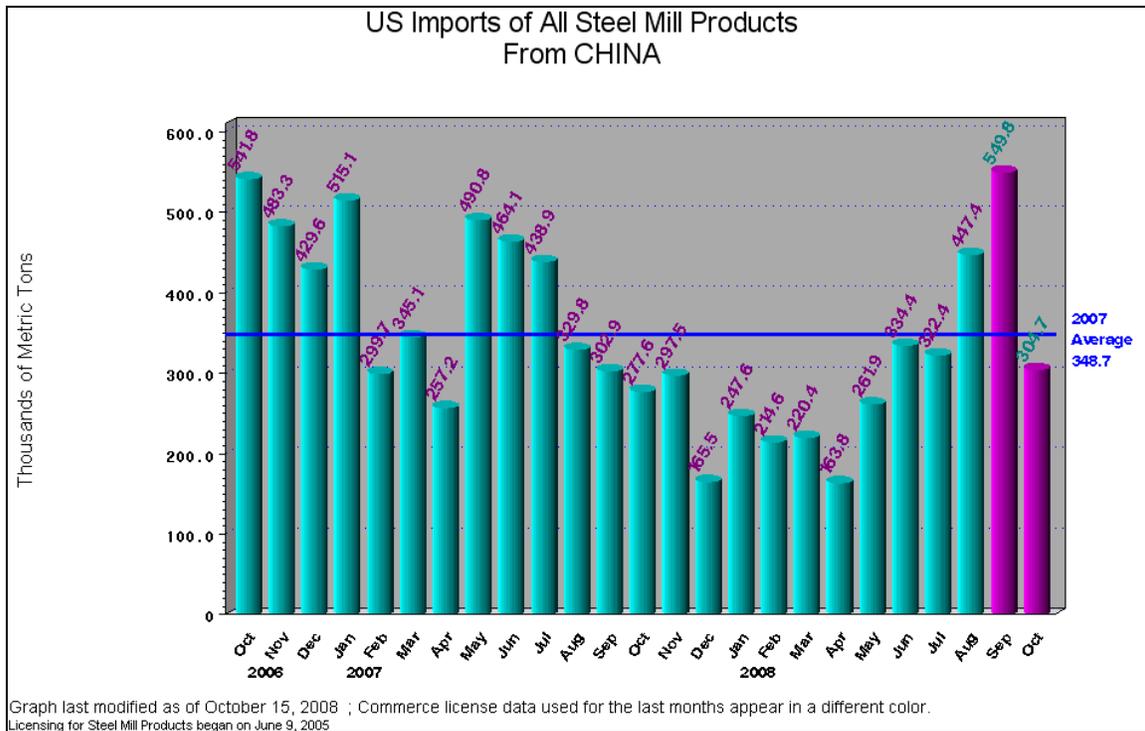


China

- China became a net exporter of steel in 2005, and the gap between exports and imports grew steadily until April 2007, when Chinese steel exports peaked at just above 7.8 million metric tons. Exports in August 2008 have surpassed the April 2007 peak, rising to 8.06 million metric tons. From July and August 2008, Chinese exports increased 11.31% from 7.24 million metric tons to 8.06 million metric tons. August 2008 exports are 3.3% higher than the previous peak in April 2007. Overall, August 2008 exports are 170.3% more than in February 2008. Chinese imports decreased 7.35% between July 2008 and August 2008 to 1.34 million metric tons. August 2008 imports are 39.6% lower than imports in August 2005.

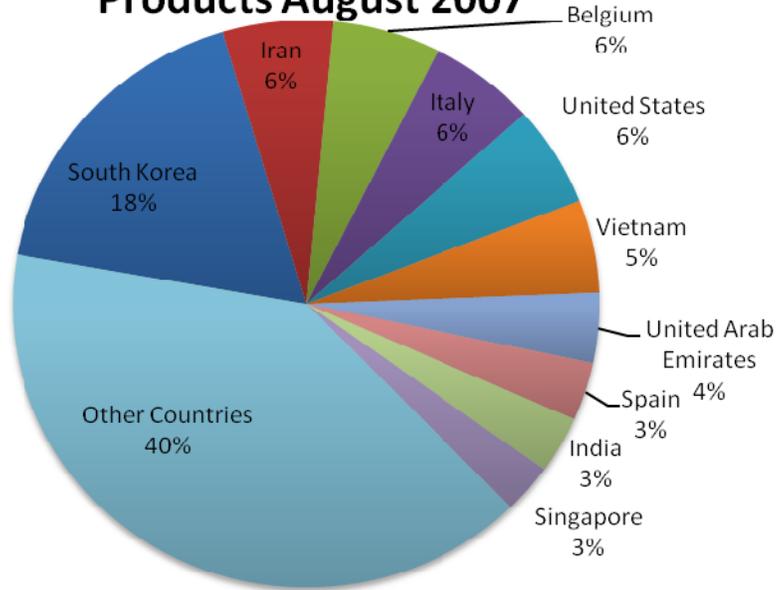


- Between May 2007 and April 2008 U.S. imports of steel mill products from China declined for the most part, with the exception of November 2007 and January 2008. April 2008 was a low point at 163,873 metric tons. In May through September 2008 there has been a significant increase with 549,896 metric tons imported in September, a 235% increase from the April 2008 low. Imports from China in the first half of 2008 remained below the 2007 average but have since exceeded the previous annual average.



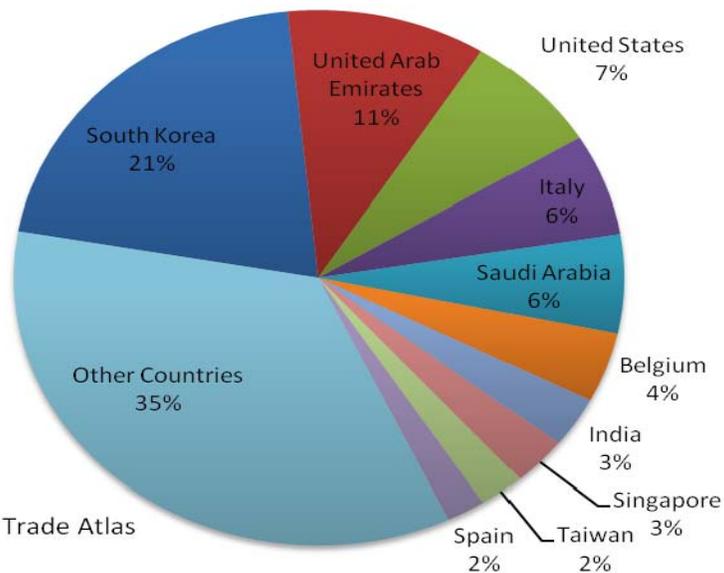
- South Korea captured the largest share of exports of steel mill products from China at 21% in August, down from 23% in July 2008. The United States holds the third largest share of Chinese steel exports at 7.2%, which is a 1.5% more share than a year ago. The quantity of Chinese steel exports to the United States increased 84.5% between August 2007 and August 2008 from 3.18 million metric tons to 5.87 million metric tons.

Chinese Export Partners of Steel Mill Products August 2007



Source: Global Trade Atlas

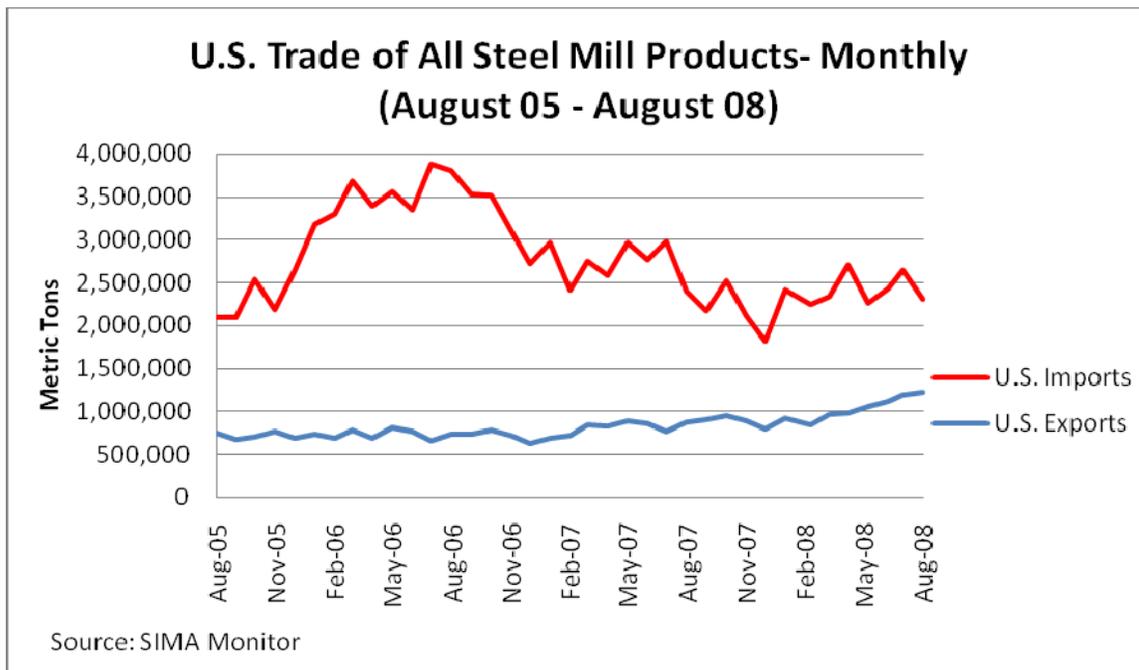
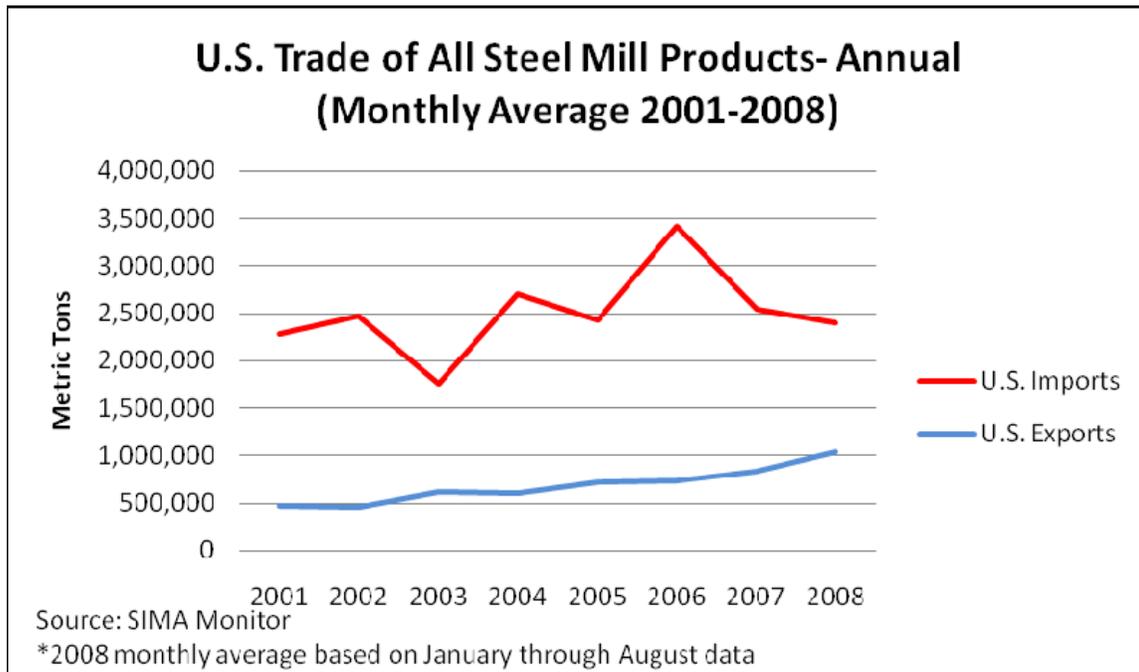
Chinese Export Partners of Steel Mill Products August 2008



Source: Global Trade Atlas

United States Trade Balance

- U.S. imports of steel mill products have fluctuated since January 2005, while exports have remained relatively stable with a slight, gradual increase. The high point for imports occurred in July 2006 when the trade balance was -3,214,800 metric tons.



Steel Import Trends by Country and Product

- **Notable Increases**

Country	Product	Average monthly quantity July 2008 - September 2008 (metric tons)	Average monthly quantity October 2007 - June 2008 (metric tons)	Ratio of current to historic average quantity
TURKEY	Plates in Coils -- C & A	14,685	1	17617.00
JAPAN	Oil Country Goods -- C & A	10,681	1,317	8.11
CHINA	Bars-Hot rolled -- C & A	42,568	10,688	3.98
INDIA	Blooms, Billets and Slabs -- C & A	36,773	11,408	3.22
CHINA	Oil Country Goods -- C & A	205,833	82,785	2.49
MEXICO	Oil Country Goods -- C & A	6,259	2,578	2.43
COLOMBIA	Oil Country Goods -- C & A	11,446	5,580	2.05
WORLD	Oil Country Goods -- C & A	346,142	168,886	2.05

- **Notable Decreases**

Country	Product	Average monthly quantity July 2008 - September 2008 (metric tons)	Average monthly quantity October 2007 - June 2008 (metric tons)	Ratio of current to historic average quantity
GREECE	Line Pipe -- C & A	5,992	15,824	0.38
BRAZIL	Blooms, Billets and Slabs -- C & A	30,818	86,832	0.35
CANADA	Line Pipe -- C & A	5,531	37,611	0.15

SOURCE: US Department of Commerce, Import Administration, SIMA
Table last modified October 20, 2008, with Licensing data collected through September 2008 and Final Census data compiled through August 2008.

A notable change is defined here by a significant decrease in the current three month average quantity over the previous nine months average quantity; the program examines the largest importers within each product group. Steel mill categories are defined by 10-digit HTS codes

SIMA Team Contact Information

Import Administration
Office of Policy
14th & Constitution Ave., NW, Suite 2837
Washington, DC 20230
(202) 482-2105
(202) 501-1377
Steel_License@ita.doc.gov
<http://ia.ita.doc.gov/steel/license/index.html>
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