THE STEEL INDEX
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TSI Monthly Steel Review - May 2011

Monthly Summary

- World HRC market falls lost pace/reversed during May, buoying other sheet and flat markets.
- Producers trialled differing strategies to stem price falls, from price-hikes, to 'minimum' prices.
- Iron ore contract prices remained flat quarter-on–quarter. Coking coal prices remained level.
- Spreads of Chinese exports vs EU/US ex-mill prices reduced—US spreads noticeably. Lead time reductions also helped reduce import competitiveness as buyers look to match inventory to underlying demand even more closely. PMI data from the EU and US fell, the latter sharply.
- Scrap prices began to rise over May, lending support to coil prices especially in the US.

Contact us:
Vaseem Karbhari
info@thesteelindex.com
+44 (0) 207 645 9415

Terry Chuay
chuay@thesteelindex.com
+65 6227 7811

Han Xun
han@thesteelindex.com
+86 21 5110 5490

TSI Weekly Steel Hot Rolled Coil Reference Prices (change week-on-week)

	May 2-8		May 9-15		May 16-22		May 23-29		May 30 - Jun 5	
USA US$/short ton	826	-0.7%	824	-0.2%	784	-4.9%	784	0.0%	773	-14%
Northern Europe €/tonne	597	-0.8%	592	-0.8%	590	-0.3%	592	+0.3%	598	+10%
Southern Europe €/tonne	561	+0.4%	548	-2.3%	547	-0.2%	546	-0.2%	546	0.0%
Turkey US$/tonne	762	+15%	768	+0.8%	780	+1.6%	780	0.0%	790	+13%
Chinese Exports to EU/N.Am US$/tonne (FOB)	715	0.0%	725	+1.4%	725	0.0%	725	0.0%	720	-0.7%
Chinese Exports to Asia US$/tonne (FOB)	705	+0.4%	704	-0.1%	705	+0.1%	705	0.0%	718	+18%

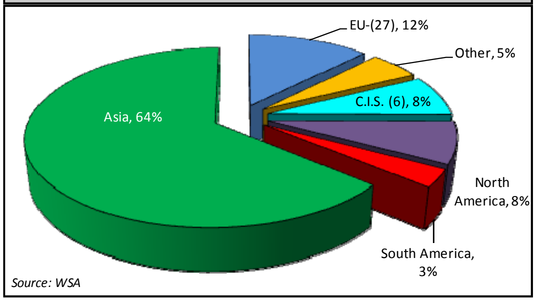
TSI Hot Rolled Coil Monthly Averages (change month-on-month)

	February		March		April		May	
USA US$/short ton	845.75	+10.5%	887.25	+4.9%	855.50	-3.6%	**798.20**	**-6.7%**
Northern Europe €/tonne	629.25	+11.6%	631.00	+0.3%	600.50	-4.8%	**593.80**	**-1.1%**
Southern Europe €/tonne	632.00	+7.7%	618.75	-2.1%	572.00	-7.6%	**549.60**	**-3.9%**
Turkey US$/tonne	811.50	+6.2%	807.25	-0.5%	750.00	-7.1%	**776.00**	**+3.5%**
Chinese Exports to EU/N.Am US$/tonne (FOB)	728.00	+8.9%	747.00	+2.6%	737.50	-13%	**722.00**	**-2.1%**
Chinese Exports to Asia US$/tonne (FOB)	736.25	+9.0%	714.25	-3.0%	705.50	-12%	**707.40**	**+0.3%**

United States

- US weekly steel output hit a 6-week high in May, according to the AISI—utilisation levels were just shy of 75% of capacity.
- Toyota announced Tsunami-affected (i.e. Supply chain affected) US production at 30% of capacity in May is expected to climb back to levels of around 70% by June; removing some sheet-related gloom.
- Although HRC prices continued to fall—they paused mid-month, with the import spread reducing from over US$120/s.ton, to US$53/s.ton. HRC posted a full US$53/s.ton (-6.4%) four-week-change (4WC) decrease, although falls eased at month end.
- CRC prices fell early and seemed to solidify over the month. CRC shed US$60/s.ton month-on-month (m-on-m), maintaining its recent spread to HRC.
- Galvanised material fell in sympathy with HRC, losing US$73/s.ton (-7.4%) on its 4WC, moving in line with CRC.
- The plate (A36 grade) market, which had seemed a little firmer than sheet markets in April, managed to retain stability in May, oscillating up and down in a tight US$5/s.ton band (around the US$1,050/s.ton mark). It finished the month by adding US$3/s.ton—the only upward movement within the US carbon flats market.
- Domestic shredded scrap prices regained April levels at the end of May, putting on US$19/l.ton in the Midwest—stoked by offshore demand. With iron ore (contract) levels largely stable, it may be this move which most helps lend sheet price stability.
- PMI data showed US manufacturing remaining in a state of growth, though the growth rate appeared to dip sharply, to the lowest reading for 12 months.
- Import levels grew strongly, with arrivals now starting to hit US shores. Lead times for HRC fell again—to just 4 weeks.

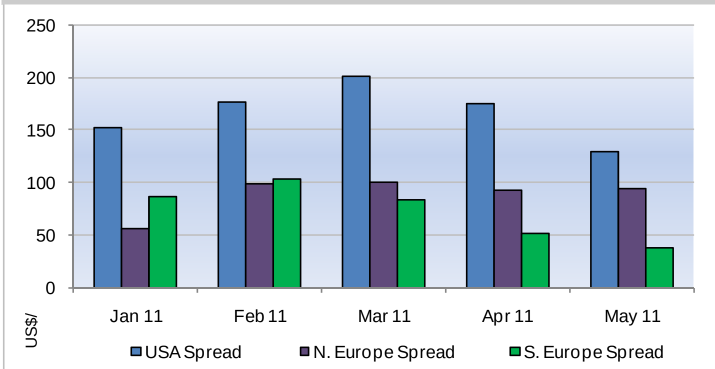
Crude Steel Production - April 2011



Northern & Southern Europe

- The divergent demand fundamentals between N. and S. Europe continued in May, despite Northern European PMI's weakening. This proved another factor in keeping an average HRC premium of €43/tonne for Northern material in place in May.
- The spread of ex-mill European HRC prices in S. Europe and FOB HRC exports from China eroded from US$113/t, to US$66/t by month-end. In contrast, N. European HRC import spread remained in triple digits (US$141/t), losing only US$25/t over May.
- N. European 4WC in HRC prices saw a minor rise of €1/t (0.2%) in May. The last reading taken saw prices rise €6/t week-on-week (w-on-w), suggesting the trough may have been reached. S. European prices have been more pressured by imports, losing €15/t on their 4WC, though remaining level on w-on-w measures, again suggesting a bottom may have been found.
- CRC price falls in Northern Europe lagged those of HRC, so have continued down, despite signs of HRC stabilising: the 4WC saw a fall of €17/t, though there was no change w-on-w. S. Europe's 4WC was down €6/t, & also flat w-on-w.
- Galvanized prices fell throughout Europe. N. European HDG dropped €7/t on a 4WC, to reach €699/t. While S. European HDG fell –0.7% w-on-w, its 4WC is registering a slight rise of €5/t, to €650/t.
- N. European plate had further to fall over May as stockholders reduced stock prior to the Summer holiday season: the 4WC was €31/t, down –4.1%. In S. Europe, the 4WC was –1.0%, though the last w-on-w change was upward….by €5/t.
- Rebar prices in Northern Europe were mixed; up 2.1% on their 4WC, though down €12/t last week. The Southern region was more positive, registering a minor €2/t rise in the last w-on-w movement and up €10/t on its 4WC. With scrap prices in Turkey moving upward, firming European scrap prices, a potential source of weakness in rebar markets may have been removed for the short term.

HRC Spreads - Chinese Exports (inc. freight) vs US/Europe (domestic)



Source: TSI

HRC Lead Times - 4-Week Rolling Average	
USA	4.7
Northern Europe	6.2
Southern Europe	5.3
Turkey	4.2
Chinese Exports to EU/North America (FOB)	12.0
Chinese Exports to Asia (FOB)	5.5

Note to graph (left):
Spread calculated as China export (FOB) + freight, vs. domestic prices.

Turkey

- Turkish HRC showed strength, rising US$10/t (1.3%) w-on-w and US$28/t on a 4WC to reach US$790/t. The HDG market also showed improvement, rising w-on-w and up US$18/t over a 4WC.

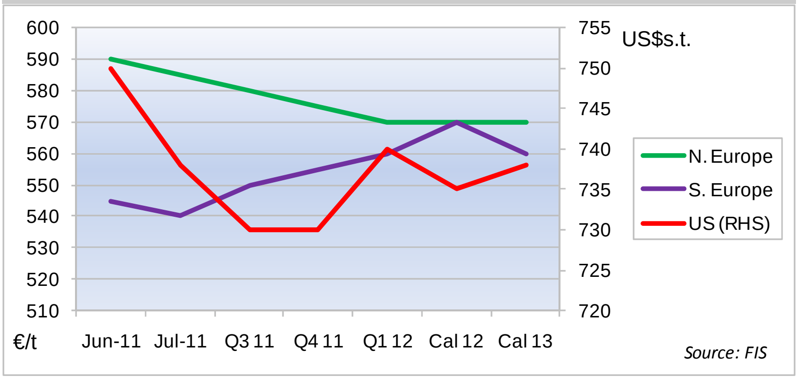
Chinese Exports

- Chinese HRC export prices to Europe and the US eased slightly w-on-w (down US$5/t), though on a 4WC, they are slightly up (to US$720/t FOB) —reflecting less bearish market conditions in export destinations. CRC offer prices (FOB) are stable, though down –1.8% 4WC, to US$784/t.
- Chinese HRC export prices to Asia rose by US$2/t (0.3%) m-on-m, holding relatively steady at US$707/t.

ICAP Steel Freight Rates, US$/t (change week-on-week)

	May 2-8		May 9-15		May 16-22		May 23-29		May 30 - Jun 5	
China - Europe	36.5	+1.1%	34.9	-4.4%	34.7	-0.6%	35.4	+2.0%	35.8	+1.1%
Europe - China	50.3	0.0%	49.5	-1.6%	49.3	-0.4%	49.6	+0.6%	48.4	-2.4%
China - USA	30.0	0.0%	28.8	-4.0%	28.6	-0.7%	29.3	+2.4%	29.7	+1.4%
USA - Europe	34.1	+3.0%	34.5	+1.2%	36.3	+5.2%	36.4	+0.3%	37.0	+1.6%
Europe - USA	13.4	0.0%	13.5	+0.7%	13.4	-0.7%	13.5	+0.7%	13.6	+0.7%

HRC Forward Curves



TSI on the market - June

- With semi-annual automotive contracts up for renewal, all eyes will be on Blechexpo (Stuttgart) this week, where OEM's and mills will meet to negotiate prices for H2 contracts. With H1 contracts being priced in the low €600/t range, mills are expected to push for a €60-80/t price hike led by raw material increases earlier this year. They are, however, yet to announce their intentions and such attempts will no doubt meet resistance from market participants. Stampers can point to poor spot prices to justify minimal price hikes. Any increases may positively impact spot prices for the coil market in Europe.
- Forward markets expect North and South European HRC prices to converge in Cal 12, with bids there lying at the €560/t mark. The US HRC market remains in heavy backwardation (see Steel Monthly - April) though recent price increases in US domestic scrap coupled with mill price hike announcements may halt further slides.
- TSI's latest market survey shows a recent change in sentiment in the US market, where 23% of those polled expected prices to increase (over the next 3 months) compared with less than 5% in the week prior to this.
- The latest European market outlook shows weekly stock levels decreasing for 40% of those polled, with less than 10% of market participants surveyed stating an increase in stock levels.
- Strong import demand from Southern Europe for flat steel has seen Turkish HRC and CRC prices strengthen over the month. This, along with rising scrap prices, is currently lending support to domestic price increases, though the European holiday slow-down may interrupt such rises.
- Following ArcelorMittal's announcement to temporarily idle its furnaces in Liège and Florange, more mills may look to adjust production during the summer season, with implications for steel stockholders and end users.

Contact The Steel Index

UNITED KINGDOM	CHINA	SINGAPORE
Peek House 20 Eastcheap London EC3M 1EB	3301 Shanghai Plaza 138 Hua Hai Zhong Lu (M) Shanghai 200021	69 Circular Road #02-01 Singapore 049423
Tel: +44 20 7645 9415 Fax: +44 20 7929 4666	Tel: +86 21 5110 5490 Fax: +86 21 5110 5480	Tel: +65 6227 7811 Fax: +65 6223 9315
Jarek Mlodziejewski info@thesteelindex.com	Han Xun han@thesteelindex.com	Terry Chuay chuay@thesteelindex.com

About The Steel Index (TSI)

The Steel Index (TSI) is the premier specialist source of independent iron ore, steel and scrap price information based on actual transactions worldwide. TSI is also currently developing coking coal reference prices.

Transaction price data is submitted confidentially to TSI on-line by companies buying and selling a range of relevant iron ore, scrap and steel products. TSI's index reference prices are then calculated using transparent and verifiable procedures.

TSI supplies the reference prices for the only cleared European flat steel swap contracts. LCH.Clearnet offers a clearing service for Over-the-Counter (OTC) steel swap contracts, settling against TSI's Northern & Southern European HRC prices.

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