Composite steel forecast from MEPS

- 05 Jul 2007

MEPS reported that world all products price in June went down by 1.2% mainly due to Chinese suppliers exporting as much material as possible prior to the imposition of an export levy on June 1st 2007 thus created significant oversupply in North America and adversely affecting EU market. MEPS said that "As a consequence of the new conditions in China which affect global markets, our previous forecast has been downgraded this month."

MEPS said that the slight upturn is not now expected to occur through the remainder of 2007 although reasonably firm construction demand around the world should reduce the impact of falling scrap prices on global long product values and strong flat products consumption in Asia should keep selling values firm in the region. MEPS said that "Opposing price trends in the US and EU are likely to counter each other. The net result is a forecast for slightly rising global figures in 2007 falling slightly in 2008."

For EU, MEPS said that "In EU all products prices, this month are down by USD 22 per tonne. Both flat and long products went into decline. Oversupply in the flat products segment from an influx of foreign material over the past few weeks pushed transaction prices lower in the strip mill categories. A recent decrease in scrap costs was responsible for customers in the long products segment demanding lower transaction figures. In the final quarter further cuts in long products selling values are predicted for seasonal reasons as cold weather restricts building and construction projects. Flat products are likely to be steady. The all products figure is therefore, expected to show a USD 30 per tonne reduction in the final trimester and into the early part of 2008 prior to stabilizing for the remainder of the forecast period."

For North America, MEPS said that "All products price in June fell by one percentage point. This was below our expectations and forecast further reductions through the third trimester. Strip mill product prices will suffer from oversupply in the market and long product figures are cut as the producers reluctantly pass on some of their lower input costs to customers. A steady all products price improvement is then forecast for the final quarter and into the first half of 2008. Domestic demand should have improved in the consumer goods and construction sectors of industry. Over the following three trimester, the flat and long product sectors are unlikely to be subject to substantial import pressure. A weak currency, coupled with relatively low domestic prices will not make this region a particularly attractive market for Asian, East European or South American exporters."

For Asia, MEPS said that "Asian all product price was stable in June slightly down on our prediction last month. Most of this could be attributed to currency exchange rate movements against the US dollar. Flat product prices fell slightly as several strip sector prices drifted lower. Long product values eased upwards mainly structural shapes. It added that we have downgraded our May all products forecast-principally due to weaker conditions likely to prevail in the flat products segment. Considerable oversupply is now expected in the strip mill sector in China with the introduction of the export levy. New capacity, due to come on stream in the near term was already likely to put negative pressure on prices and believe that the Chinese mills will not be in a position to significantly lift their export values into the Asian region. This will probably lead to only a slight all products price improvement for the rest of the year and a modest decline in 2008 in the flat products segment. Marginally higher prices are probable for long products over the forecast period."

MEPS forecast for SS and nickel

- 06 Jul 2007

MEPS reported that SS hot rolled Plate type 316 transaction values moved up during June in both the EU and North America but fell in Asia for the first time since December 2005. MEPS said that "This difference in price developments is the result of the alloy surcharge mechanism in the West and also a large reduction in local selling values in China. The nickel price decline is making this situation worse."

MEPS said that most deals are now being conducted as transaction values. It said "The alloy surcharge is still a fact of life, but basis figures are being adjusted to compensate. This is expected to continue in July as the surcharge rises further. From August onwards, the recent nickel declines will have a negative impact on the alloy extra and as such, stainless selling values in both the EU and North America. Transaction figures are forecast to fall in all areas through to the beginning of 2008."

MEPS added that nickel prices plunged in June as the LME introduced new lending guidelines and stocks continued to rise. It said "Values had been hovering around the USD 50,000 per tonne mark before the LME made their announcement. This sent figures plummeting by over 25% in just 2 weeks. Prices are set to continue moving downwards as the summer slowdown begins. Stainless steel production levels are expected to drop over the next few months resulting in lower demand for nickel. This should cause LME values to reduce to around USD 30,000 per tonne by the end of 2007. They are then forecast to stabilize during the first quarter of 2008 as demand begins to return."

Global mining industry to boom further in 2007- PWC Report

- 16 Jul 2007

According to the PricewaterhouseCoopers' report on global trends in the mining industry in the year 2006 called 'Riding the Wave 2007', the year 2007 is likely to see the global mining industry clock record financial results and witness further consolidation as industry leaders continue to spread out from their geographical homes to operate assets globally.

Mr Hugh Cameron global mining leader and Mr Tim Goldsmith mining leader in Asia Pacific & mine project leader in the report said that "The prospect of takeovers of companies of all sizes means that CEOs must remain focused, both on moving their companies forward and managing their position, in the current environment of mega mergers hunt or be hunted."

The report provides an aggregated view of the global mining industry in 2006, represented by 40 of the world's largest mining companies based in 14 countries. These 40 mining companies account for over 80% of the global industry by market capitalization.

According to the report, China and India are key markets as far as total revenue by customer location is concerned, with both accounting for 8% each, however Europe and North America continue to dominate totally accounting for 37%. The report said that "Unprecedented demand, primarily driven by Asia, continues. There remains confidence that demand will exceed supply, leading to the continuation of high commodity prices for the time being. This transaction activity is often hostile and no one is immune to their attentions. High cash flows and easily accessible funds mean that this trend will continue." It added that there are growing indications of potential for private equity funds to share in the returns from the industry.

According to the report, the mining boom experienced over the last few years has some way to go. Urban migration and Asia's appetite for commodities point to strong demand; in general terms, supply has not yet caught up to demand and is struggling to do so. Many issues such as lack of skilled workers and equipment shortages are impacting input costs. Mine developments take a long time and the cost of development has risen rapidly besides, health and safety remain key issues to manage.

For 2006, total industry revenue has rose by 37% YoY to USD 249 billion while net profit has rose by 64% YoY to USD 67 billion. During 2006, takeover activity picked up as a number of mega deals were sealed.

Global crude steel production in June up by 8.5% YoY

- 19 Jul 2007

International Iron and Steel Institute reported that the total crude steel production in June 2007 for the 67 countries was 110.6 million tonnes up by 5.7% YoY as compared to June 2006. The global crude steel production in January to June 2007 was 651.036 million tonne up by 8.5% YoY.

The growth in crude steel production during April 2007 among regions was again led by Asia as discussed

	Jun'06	Jun'07	Change	A-J'06	A-J'07	Change
Total	104636	110643	5.7%	600144	651036	8.5%
Asia	55769	61277	9.9%	312984	355755	13.7%
North America	11414	11157	-2.3%	67337	64098	-4.8%
CIS (6)	10013	10381	3.7%	58579	62747	7.1%
South America	3583	3887	8.5%	21711	23562	8.5%
Africa	1564	1529	-2.2%	8910	9251	3.8%
Middle East	1211	1295	6.9%	7423	7550	1.7%
Oceania	749	726	-3.1%	4269	4334	1.5%

In '000 tonnes
Source IISI
EU is not mentioned although included in the total

Among the top 20 nations, China as usual stood first with 41.500 million tonne production of crude steel registering tremendous growth of 13.2% YoY as compared to June 2006.

Rank	Country	Jun'06	Jun'07	Change	A-J'06	A-J'07	Change
1	China	36619	41500	13.3%	200532	237533	18.5%
2	Japan	9690	9975	2.9%	56981	59424	4.3%
3	United States	8580	8300	-3.3%	50660	48368	-4.5%
4	Russia	5836	6139	5.2%	34923	36969	5.9%
5	South Korea	4240	4353	2.7%	23936	25595	6.9%
6	Germany	3988	4096	2.7%	23324	24551	5.3%
7	India	3611	3723	3.1%	21575	22885	6.1%
8	Ukraine	3478	3475	-0.1%	19754	21403	8.3%
9	Italy	2715	2716	0.0%	16168	16472	1.9%
10	Brazil	2380	2733	14.8%	14479	16337	12.8%
11	Turkey	2018	2094	3.8%	11307	12638	11.8%
12	France	1784	1601	-10.3%	10640	10519	-1.1%
13	Taiwan, China	1610	1725	7.1%	9963	10317	3.6%
14	Spain	1662	1625	-2.2%	9336	9691	3.8%
15	Mexico	1331	1365	2.6%	8001	8580	7.2%
16	United Kingdom	1233	1298	5.3%	7149	7405	3.6%
17	Canada	1386	1375	-0.8%	8002	6490	-18.9%
18	Belgium	948	705	-25.6%	5802	5489	-5.4%
19	Poland	891	925	3.8%	4859	5481	12.8%
20	Iran	801	827	3.2%	4881	4837	-0.9%

In '000 tonnes
Source IISI

Please note: many figures are estimates due to the summer holidays in the Northern Hemisphere.

China publishes floor price for ferroalloys exports

- 19 Jul 2007

Chinese Customs has published floor export price for ferroalloys causing panic in the weak ferroalloy market. The price stands at USD 1500 per tonne FOB for SiMn6517, USSD 960 per tonne FOB for 75# FeSi, USSD 940 per tonne FOB for 72# FeSi and USSD 1350 per tonne for high carbon FeMn. Floor price has the similar effect as tariff adjustment, to raise actual price, yet it is brewed by Customs.

Meanwhile, China's ferroalloy market players worry that the floor price will push up costs for exporters and purchasers, leading to more difficult exports and squeezed profit margins. Export price now can hardly reach USD 1200 per tonne FOB for SiMn6517 while the floor price stands at USD 1500 per tonne. As steelmakers have knocked down Mn series alloys prices owing to weak steel market, producers' hope of earning profits by exports now is snuffed out by the floor price.

Mr Zhang Zengchan assistant to chairman of Chinese Ferroalloy Industry Association said that the floor price is initially implemented to prevent tax evasion by low quotations and high transaction prices, but now it is to restrict exports of high energy consuming products.

The policy stipulates that export tariff will be imposed according to current floor price and Mn series alloys are impacted notably. Most traders report decreased transactions. In FeSi market, as the gap between actual price and floor price stays narrower, purchasers only need to afford tariff of USD 4 per tonne to USD 5 per tonne, thus receives mild influences.

In view of the overlarge trade surplus, Chinese government will lay stress on controlling too swift development of high energy consuming industry and curbing exports in the coming period.

(Sourced from MySteel.net)

MEPS forecasts for long products in North America

- 30 Jul 2007

MEPS's North American Average Rebar figure moved down slightly this month. MEPS said that "This was in line with our expectations as demand remained strong. In the short term, rebar values are expected to hold up as scrap prices continue to show no signs of movement. New import licenses suggest that volumes are set to rise over the next few months. This should put greater pressure on quarter four transaction figures. The first half of 2008 should then see a revival in prices as buying returns ahead of increased activity in the construction sector."

MEPS North American Wire Rod value showed no change this month. MEPS said that "The market continues to be firm as imports currently do not pose much threat. Wire Rod transaction figures have surpassed that of Rebar over the last few months, standing approximately USD 30 per tons above rebar prices. Wire rod numbers have risen more than 20% since the beginning of the year."

MEPS said "Overcapacity in the Chinese market for both products could result in increased volumes of imports into the North American market through the fourth quarter. This coupled with the traditional seasonal slowdown over the winter months is expected to cause transaction values to fall around 5% by the end of 2007."

Global industrial production set to accelerate in Q4 2007

- 30 Jul 2007

According to UK metals analysts CHR Metal's latest monthly report Global IP Watch, global industrial production continues to expand at a reasonably fast pace but should start to accelerate again in the Q4 of 2007.

CHR estimates that global industrial production growth was up by 5.7%YoY in April 2007 and it is looking for that pace to be matched in May 2007. That marks a slight slowdown from 6.2% growth in March but weakness in the OECD area is being offset by strong growth in non OECD countries. Here growth remains at around 10% YoY "with little to indicate that it will decline significantly from this level in the near term".

CHR said that it is not expecting non OECD growth to accelerate much either in the next couple of months as both China and India the two countries with the largest weighting in the non OECD index are already growing at rates which many consider to be unsustainable. It added that "Our base case forecast is for global IP growth year on year to stabilize around current levels over the next month or two before a new upward trend begins to assert itself in quarter."

Its one warning is the potential negative impact of still rising oil prices and the decline in value of the US dollar to multi year lows against many other currencies, which may introduce greater uncertainty into the global economic outlook and hurt prospects for growth.

Precision Castparts continues hot streak

- 28 Jul 2007

Metal products maker Precision Castparts Corp announced that it's fiscal first quarter profit nearly doubled, mainly on the strength of the aerospace market and several new acquisitions.

Precision Castparts said that its total sales of USD 1,660.1 million in the Q1 of fiscal 2008 jumped by 49.2% YoY over 2006 Q1 sales of USD 1,112.4 million. Its net income from continuing operations also showed a marked year over year improvement, growing to USD 225.4 million as compared to USD 114.5 million in the Q1 of fiscal 2007.

The results for the Q1 of fiscal 2008 include a full quarter of Special Metals, a full quarter of GSC Foundries and Cherry Aerospace and nearly a full quarter of McWilliams Forge, which was acquired on April 3rd 2007.

Mr Mark Donegan chairman & CEO of Precision Castparts Corp said that "We have positioned the Company extremely well to take full advantage of the upward trends in our major markets. We are seeing extremely strong demand in the commercial aerospace market, with sustained growth in IGT and continued upside opportunities in non aerospace markets served by extruded pipe and Special Metals' nickel-based alloys. Over the past 12 months, we have added the necessary critical capacity to handle higher volumes, and we will be alert to any new market developments that might require further capital investments. We will continue to focus on our businesses with unswerving, unrelenting attention to value creation and profitable growth. Acquisitions, supported by a strong balance sheet, will also be a key strategic driver for the future."

Mr Donegan added that "In addition to our constant drive to capitalize on all areas of opportunity, the recent acquisition of Caledonian Alloys will enable us to capture more fully the value stream of metals crucial to our manufacturing operations. Caledonian will essentially create a closed-loop system for the retention and reuse of internally generated revert and will enable us to gain access to additional sources of critical metals outside PCC."

Precision Castparts Corp is a worldwide, diversified manufacturer of complex metal components and products. It serves the aerospace, power generation, automotive, and general industrial and other markets. PCC is the market leader in manufacturing large, complex structural investment castings, airfoil castings, and forged components used in jet aircraft engines and industrial gas turbines. The Company is also a leading producer of highly engineered, critical fasteners for aerospace, automotive and other markets.

Hot band prices continuing on downward trend

- 26 Jul 2007

SteelBenchmarker reported that the US hot rolled band spot price for July 9th 2007 has dropped by 1.9% to USD 575 per ton, FOB the mill for the 4th consecutive time. The World export HRB price dropped 1.6% to USD 571 per tonne, FOB the port of export for the 7th consecutive time. The Chinese HRB ex works price plummeted 4.3% to USD 422 per tonne for the 4th consecutive time while the Western European HRB price dropped by 1.2% to USD 696 per tonne, ex works for the 2nd consecutive time.

The 4 benchmark prices for HRB included in the June 11th 2007 report are

1. US
USD 575 per ton
Down by USD 11 per tonne from USD 586 two weeks ago
Down by USD 55 per ton from the high of USD 630 on April 9th 2007
Up by USD 4 per tonne from the low of USD 571 on January 22nd 2007

2. World Export Price
USD 559 per ton
Down by USD 8 per tonne versus USD 567 two weeks ago
Down by USD 37 per tonne from the recent high of USD 596 on March 26th 2007
Up by USD 60 per tonne from the previous low of USD 499 on December 11th 2006

3. Western Europe
USD 673 per ton
Down by USD 11 per tonne from USD 684 two weeks ago
Down by USD 23 per tonne from the recent high of USD 696 on June 11th 2007
Up by USD 117 per tonne from the low of USD 556 on November 27th 2006

4. China
USD 402 per ton
Down by USD 10 per ton from USD 412 two weeks ago
Down by USD 55 per ton from the recent high of USD 457 on May 14th 2007
Up by USD 29 per tonne from the low of USD 373 on July 24th 2006

SteelBenchmarker publishes steel benchmark prices for HRB, CR coil, rebar, and standard plate in the US, Western Europe, mainland China, and the world export market every fortnight.

Goldman Sach forecasts nickel prices fall to USD 25,000

- 26 Jul 2007

Goldman Sachs Group Inc said that nickel may fall to as low as USD 25,000 per tonne as inventories continue to rise in the coming weeks.

Mr James Gutman an analysts with Goldman Sachs London said "In the near term, we believe the risk of overshoot to the downside remains significant.'' He predicted on April 2nd 2007 that nickel would fall to USD 30,000 a tonne by 2008.

Goldman Sachs said that stainless steel producers, who use about two thirds of the world's nickel, may cut demand by about 100,000 tonnes a year.

As per recent reports, stockpiles of nickel tracked by the LME soared 76 % in the past two months to 12,642 tonnes, the highest since June 22nd 2006. Nickel for delivery in three months has lost 35% since trading at a record USD 51,800 a tonne on May 9th 2007.

MEPS forecasts global crude steel output in 2007 to go up by 7.5 YoY

- 24 Jul 2007

According to MEPS's latest world steel outlook, world crude steel output is now forecast to reach 1.337 billion tonnes in 2007 representing a 7.5% YoY increase on the 2006 figure, blast furnace iron production is forecast to expand by almost 7.9% and direct reduced iron supply by 4.8%.

MEPS, in its report said that the migration of steel production to the Asian continent is reinforced by the fact that 83% of the rise in steelmaking in 2007 will be supplied from this region although mills in the former USSR and South America are also expected to make major contributions.

Region	2006	2007	Change
EU 25	207.1	212.3	2.51%
Other Europe	28.0	31.7	13.21%
Former USSR	119.8	125.5	4.76%
NAFTA	131.5	127.3	-3.19%
South America	45.3	49.5	9.27%
Africa	18.6	19.3	3.76%
Middle East	15.4	16	3.90%
China	422.1	489	15.85%
Japan	116.2	119.5	2.84%
Other Asia	130.8	138.2	5.66%
Oceania	8.7	8.8	1.15%
Total	1244	1337	7.48%

Volume in million tonnes
Source: MEPS - World Steel Outlook

MEPS forecasts a 2.5% rise in steel manufacturing across the EU 27 in 2007 representing a gain of more than 5 million tonnes. Recent entrants from Eastern Europe are expected to contribute the remaining 1.1 million tonnes. Strong steel production growth is forecast for the remainder of non EU Europe. New capacity installations are pushing output higher in Turkey and many East European states. We forecast growth in 2007 at in excess of 13% in the sub region.

MEPS' forecast for crude steel output in 2007 in the former USSR has been slightly up rated to just above 125 million tonnes. Crude steel production in the NAFTA region is forecast to decline by 3.3% in 2007 compared to the outturn in 2006. Real demand is sluggish in the United States and Canada.

South American crude steel production in 2007 is increase by 4.2 million tonnes. Consumption is expanding rapidly across most of the region as economic activity improves. African crude steel output in 2007 is expected to be slightly above the figure recorded in 2006.

Steel production in the Middle East is expected to rise in 2007 by 4% YoY. All the expansion will be utilized to meet local requirements. In fact, regional demand is growing faster than output.

Asia continues to be the powerhouse of production for the steel sector around the world. Demand remains extremely strong across most of the region. Steel output gains are being put in place in all the major manufacturing nations. MEPS now envisage total Asian steelmaking in 2007 approaching 750 million tonnes equating to a 142% rise in the past 10 years.

A modest improvement in steel output is envisaged in 2007 in the Oceania region.

NYMEX to use WSD pricing to launch steel futures

- 24 Jul 2007

The New York Mercantile Exchange Inc announced that its has signed a licensing agreement with World Steel Dynamics Inc and would introduce a steel futures contract based on WSD's SteelBenchmarkerTM benchmark pricing system on the NYMEX ClearPort® electronic clearing and trading platforms later this year.

The expected contract will be USA hot rolled band steel futures. The contract size will be 20 short tons with a minimum price fluctuation of USD 0.50 per short ton and will be listed for 18 consecutive months. Final settlement day will be the fourth Wednesday of the current contract month.

Mr Richard Schaeffer chairman of NYMEX said "We are very pleased to be the first exchange to offer a steel futures contract to serve the North American market. NYMEX has worked closely with the steel industry for several years to develop a contract which will meet the needs of producers and consumers and serve as a transparent benchmark for the industry."

Mr Peter Marcus MD of WSD said "We see a great market for steel futures contracts in the steel industry. Price volatility has increased in the steel market, and futures contracts will enable end users and producers to lock in prices and margins. NYMEX and World Steel Dynamics have teamed up to provide a new price risk tool, based on the SteelBenchmarkerTM index. The SteelBenchmarkerTM was developed to provide unbiased spot market price opinions and incorporates numerous safeguards to prevent collusion, manipulation or other misuse. We are pleased to partner with the NYMEX, the global leader in physical commodities trading, to introduce steel futures contracts."

SteelBenchmarkerTM is an index developed by World Steel Dynamics. Twice each month, steel mills, traders, distributors and steel users in the United States, Western Europe and those who buy or sell steel internationally, provide their confidential opinions to the SteelBenchmarkerTM system on the spot price for near term delivery to the mid sized buyer.

The release added that NYMEX and WSD will work together to provide marketing and education for these financially settled contracts.

THE WASHINGTON TIMES

COMMENTARY

Alarm bells on China

William Hawkins
July 30, 2007

Release of International Monetary Fund economic growth projections for 2007 set off a rash of misleading headlines. Many claimed that because China will lead the world with a national gross domestic product growth of 11.2 percent, it is the "engine of the global economy." This implies what is happening in China benefits the rest of the world, when in fact it is really only empowering China. Its impact on other countries is problematic.

The "global economy" is not based on the "harmony of interests" once envisioned by 19th century classical liberals, but on cut-throat competition. Winners and losers in these commercial contests impact the national societies in which they operate. Where factories and research labs are located, where high-skilled jobs and workers reside, where income is earned, spent and invested and where education and enterprise are fostered make all the difference in the world. There is no world community in any meaningful sense. Energetic nations rise, complacent ones decline. If globalization is anything more than a catch phrase, it means the age-old struggle for wealth and power is now waged worldwide. It matters more than ever who comes out ahead.

The IMF data show that among the advanced English-speaking countries, which Americans are accustomed to thinking are the basis for international security and progress, the United States, United Kingdom and Australia are all running large current account deficits. Only Canada is in rough balance. This means they are losing the economic contest to more vigorous rivals elsewhere.

A common failing in all these states is the continued embrace of 19th century "free trade" theory — largely conceived in the British Isles, which has disarmed them in the global struggle.

One would have thought the role of this "dismal science" in the decline of the British Empire a century ago, and the rise of the United States on the basis of the very different principles of economic nationalism, would have led policymakers to take the better route. Yet, over the last few decades, Washington has abandoned its successful approach of Alexander Hamilton and Teddy Roosevelt for the failed "ideals" of David Ricardo and Richard Cobden.

Meanwhile, China, Japan and the rest of Industrial Asia run large trade surpluses. Their capacity to produce is supported by the ability to add foreign markets to domestic demand on a net basis.

Exporting to the United States is most vital to China, which actually makes the American market its "engine of growth." Meanwhile, GDP growth in the U.S. (a mere 2 percent) languishes at the bottom of the list for advanced economies, as wealth and industry are outsourced overseas. Consumers try to live high as debtors rather than producers — an unsustainable decadence.

The growth that China generates in Africa and Latin America is just as deceptive. Countries that export oil or raw materials to feed Chinese industry are doing well, but this is the old colonial pattern. As China pays for these commodities with manufactured goods, local economic development is stunted.

Beijing has offered investments in infrastructure, but aimed at making shipments of oil and metals out of these countries easier. To smaller countries with financial difficulties, these deals seem attractive but will not generate real long-term growth across society.

Brazil, which a few years ago was seduced by Chinese promises, has had second thoughts. It sees itself as a rising industrial economy, but has been swamped by Chinese imports that have hurt local manufacturing. In early July, Brazil agreed to join the United States in protesting China's currency manipulation at the IMF. Beijing sets the value of the yuan by fiat, at an exchange rate that makes its exports more competitive.

The need to persuade China to revalue the yuan was made apparent in the IMF's World Economic Outlook published in April. The IMF calculates that "The U.S. trade balance may be more responsive to changes in the real value of the U.S. dollar than often assumed." This has been seen in regard to European exchange rates that move in a market environment. Since Chinese rates are not set by the market, it will be necessary to adopt other measures, such as the countervailing duties used to offset other subsidies.

Mr. Cobden was wrong when he claimed with trade, "the motive for large and mighty empires, for gigantic armies and great fleets would die away." History shows ambitions expand with economies. Beijing is pouring its gains into increased military power and diplomatic clout. This is particularly true in electronics, a commercial industry the IMF says is the principle growth area for Chinese exports, and which defense experts (like the Rand Corp.) cite as the main source of increased Chinese military capabilities.

While some heedless business interests see China as a partner that will share the spoils in its rise to great-power status, Beijing is a strategic rival to the United States. The IMF report is an alarm bell, not a dinner bell.

William Hawkins is senior fellow for national security studies at the U.S. Business and Industry Council.

New US industry sponsored reports huge subsidy support to Chinese steel sector

- 31 Jul 2007

A newly released study in US has concluded that the Chinese steel industry has benefited from massive government subsidies, many of which violate China's World Trade Organization obligations. The report titled "Money for Metal: A Detailed Examination of Chinese Government Subsidies to its Steel Industry" documents more than USD 50 billion in subsidies granted to Chinese steel producers by the Chinese government. It said that these subsidies have fueled the unprecedented expansion of China's steel industry and the sharp increase in China's steel exports at the expense of its international competitors. The study also found that Chinese government ownership and control of the steel industry is far greater than previously reported.

The report documents a wide range of government subsidies, including the following
1. USD 17.3 billion (CNY 130 billion) in preferential loans and directed credit.
2. USD 18.6 billion (CNY 141 billion) in equity infusions and or debt to equity swaps
3. USD 5 billion (CNY 38.9 billion) in land use discounts
4. USD 1.2 billion (CNY 9.47 billion) in government mandated mergers
5. USD 258 million (CNY 2 billion) in direct cash grants.

Mr Alan Price partner at Wiley Rein LLP and one of the study's authors said that "China's massive subsidies and pervasive government control of its steel industry are unprecedented and violate WTO rules. Eight of the 10 largest Chinese steel groups are 100% controlled by the Chinese government, and more than 90% of the production of China's top 20 steel groups is state controlled. This report documents the extent to which the Chinese steel industry has been fueled by subsidies, and remains controlled and directed by the government."

The USD 52 billion in documented subsidies discussed in Money for Metal are only a fraction of the subsidies that actually exist, due to the limited number of Chinese steel companies reviewed and the partial nature of the data that even these companies reported. Government subsidies allowed China's steel production to increase by more than 170% between 2000 and 2005 and by another 20% in 2006. China's steel capacity and production are now four to five times larger than that of the entire North American steel industry. Subsidies have also helped China become the largest single steel exporting country by volume in 2006.

The study, written by Mr Wiley Rein LLP and sponsored by the American Iron and Steel Institute, the Steel Manufacturers Association, the Committee for Pipe and Tube Imports and the Specialty Steel Industry of North America expands earlier research through a detailed review of the financial statements of leading Chinese steel producers, including but not limited to Angang, Baosteel, Laiwu, Maanshan, Shougang and Wuhan. The four associations who sponsored the report recognize that constructive discussions, which are hoped for during the US China Steel Dialogue meeting to be held in Washington DC on August 2nd to 3rd 2007, must play a role in addressing the issues detailed in this report. An executive summary is attached.

Mr Andrew Sharkey president of AISI said that "The result of these massive subsidies is that China's government controlled steel production is distorting the world marketplace and the problem is only getting worse. China's overcapacity and its steel exports to the United States are skyrocketing."

Mr Tom Danjczek president of SMA said that "As China continues to produce steel at breakneck speed exports will only increase, causing damage to US producers and their workers. The subsidies provided by the Chinese government give the Chinese steel industry an artificial advantage over its international competitors. China is not a low-cost producer."

Mr Roger B Schagrin executive director and general counsel of the CPTI said that "The domestic steel pipe, tube and fittings industry has been on the front lines in its battle to challenge trade distorting steel subsidies from China which are threatening the very existence of this critical steel sector in the U.S.". He added, "Pipe and tube producers recently filed the first two steel countervailing duty cases against China on circular welded pipe and rectangular tubing, which have been initiated by the Department of Commerce."

Mr David A Hartquist counsel to the Specialty Steel Industry of North America said that "These massive subsidies include stainless steel producers as well. SSINA will shortly publish an updating of our April 2007 report documenting newly discovered Chinese government subsidies to the stainless steel sector."

SS pricing mechanism effected due to nickel slide

- 06 Aug 2007

MEPS reported that Western stainless steel producers of strip mill products have temporarily abandoned their traditional basis plus surcharge mechanism for selling their material. MEPS said that most EU and US mills are now quoting only transaction figures principally to disguise the discounts necessary to obtain orders after the fall in the price of nickel since early June.

MEPS said that "Technically, surcharges in July for grade 304 increased by around 5% and 3% in the EU and US, respectively. With the prospect of them falling over the next two months by almost EUR 750 and USD1400 per tonne it is not surprising that customers are refusing to pay the current inflated figures. The alloy surcharge is almost meaningless in negotiations at this time."

MEPS added that mill orders have dried up and many producers have plans to cut output in the short term but are pushing material into stock and selling at substantially discounted levels to generate the limited business available.

However MEPS said that "Western stainless steel makers are reluctant to give up the alloy surcharge mechanism which has served them well over the last decade. They continue to publish official figures for July and August deliveries, despite the fact that they will not be used for most deals. As a result, we will be publishing the quoted surcharge values in our tables."

AK Steel announces September 2007 surcharges for electrical steels

- 05 Aug 2007

AK Steel has advised its customers that a USD 225 per ton surcharge will be added to invoices for electrical steel products shipped in September 2007.

AK Steel's surcharges are based on reported prices for raw materials and energy used to manufacture the products, with the July 2007 purchase cost used to determine the September 2007 surcharges.

AK Steel headquartered at Middletown in Ohio produces flat rolled carbon, stainless and electrical steel products, as well as carbon and stainless tubular steel products, for automotive, appliance, construction and manufacturing markets.

MEPS forecasts for SS and nickel

- 04 Aug 2007

MEPS reported that EU Average Stainless Steel transaction prices have now entered the path to the abyss. It said that basis figures have been sacrificed in the month of July, which has seen most deals concluded using only the effective price and this could continue in the short term as alloy surcharges remain at the mercy of nickel price fluctuations.

MEPS said that HR coil figures are expected to suffer more than plate because this market is weaker and under more pressure from imports and higher inventory levels. It said "Hot rolled plate prices are, however, now beginning to show signs of softness. Falling alloy surcharges from August onwards should result in transaction values for both products recording significant drops into the fourth quarter of this year. The decline in nickel prices is forecast to ease after the summer, which should help to stabilise the stainless market by early 2008.”

Meps added that “Nickel prices moved lower in July as they fell further into their deep descent. The July monthly average is set to be around USD 8,500 per tonne lower than June's figure. Values are now forecast to go below the psychological USD 30,000 per tonne in August as stocks on the LME continue to rise. There is still the possibility for another severe drop in the cost of nickel. Stability should return to the market later this year as production cuts from stainless steel producers over the summer months come to an end. New nickel capacity, due on stream later this year and in 2008, is expected to prevent values rising dramatically before the end of the forecast period.”

Chinas restrictive steel export policies completed – CISA

- 02 Aug 2007

China Securities News cited Mr Luo Bingsheng deputy director of China Iron & Steel Association as saying that China's restrictive polices for steel export have come close to an end and what's to follow is observing the effects. According to Mr Luo steel export will drop considerably in H2 of 2007 yet the resources redirected back to domestic market may not cause price plunge at home.

Mr Bingsheng said the export curbing policies have basically completed and now it's to see their effects. He said “If these policies realize expectant fruits of narrowing export notably in H2 of 2007 no new polices will follow but if price gap between domestic and overseas market still expands till being able to offset the hiked cost resulting from these policies, the export volume may rebound and further regulatory measures would be likely.”

Mr Bingsheng said that "This however may cause wide price shakes at home and we are trying every means to prevent this from happening." Mr Luo considers moderate export, like some 10% of production is good to raise the steel industry's international competitive edge. He added that they are pushing forward the qualifications granting for steel exporters in order to straighten export order. At present, China has over 11600 steel exporters. Over the steel dialogue between China and Europe, Mr Luo insists on carrying on negotiation to solve once antidumping case is aroused China will also take active legal actions to safeguard the mills' benefits.

Based on 2006 export volume and price, cut on export rebate and tax imposition will raise steel exporting cost totaling CNY 21.8 billion. Mr Luo said that in this case, profit for export would come lower than domestic sale in later half year. The export volume is predicted to fall by a big range in second half of 2007 by some 40% to 50%, translating to 51.6 million tonnes for the whole year, 20%YoY. The reduced part in H2 of 2007 will flow back and add to domestic supply. However, given strong overseas demand and similar robustness at home as well as firm cost support, the steel price is believed to stabilize with slight vibration in H2 of 2007.

China has witnessed four curbing policies on steel export in 2007
1.Cut export rebate of some special steel and stainless, CR products to 5% and cancel that of 83 customs codes incl. common carbon steel, HR plate, sections and wire rod etc, effective from April 15th 2007.
2. Exercise export license management on the 83 customs codes that were removed of export rebate from May 20.
3. Further impose a 5% to 10% export tax on the 83 customs codes and raise export tax for billet/slab, steel ingot and pig iron from 10% to 15% from June 1st 2007.
4. Scrap export rebate for common carbon welded pipe excluding petroleum casing pipe and cut that of seamless pipe and articles of iron & steel from 13% to 5% from July 1st 2007.

(Sourced from MySteel.net)