



## **Steel Executive Summary: February 2009**

### **Recent Issues**

- **“Buy American” Steel Provision Draws Criticism** – A provision included in the House of Representatives version of the 2009 stimulus package mandates that steel for infrastructure projects in the stimulus package be produced in the United States. The provision has been criticized by Canada, the EU, and others as protectionist. Some critics fear that such a provision could cause retaliatory efforts by trading partners, sparking trading wars. The Senate version contains similar language but expands coverage to all manufactured goods. During Senate debate on the stimulus package, the provision was amended to address criticisms by stating the provision will be “applied in a manner consistent with United States obligations under international agreements.” An amendment to remove the “Buy American” provision was defeated. Passage of the provision in the final version of the stimulus package is uncertain as the House and Senate work out the differences in their versions. (*Yahoo News – AP, 29 January 2009 & Bloomberg, 05 February 2009*).
- **WTO Reviewing US Steel Duties Against China** – The WTO has agreed to review US countervailing duties on certain Chinese steel pipes. The US blocked a first request by the Chinese government; however, Beijing made a second request, which may not be denied under WTO rules. The review panel will begin examining the case and the countervailing duties to determine legality under WTO and other agreements. Seven countries and the EU have signed on with interest in order to gain access to some of the review proceedings. (*Bloomberg, 20 January 2009*)
- **Chinese-Brazilian Plant Deal Cancelled** – Brazil’s large iron ore mining company, Vale, and China’s largest steelmaker, Baosteel, have called off an agreement to build a steel slab plant in Brazil. The multi-billion dollar agreement, initiated in 2007, would have created a plant with an expected output of 5 million tonnes per year. The companies cite the decline of world steel demand as the factor for the dissolution of the deal. (*Reuters, 17 January 2009*)

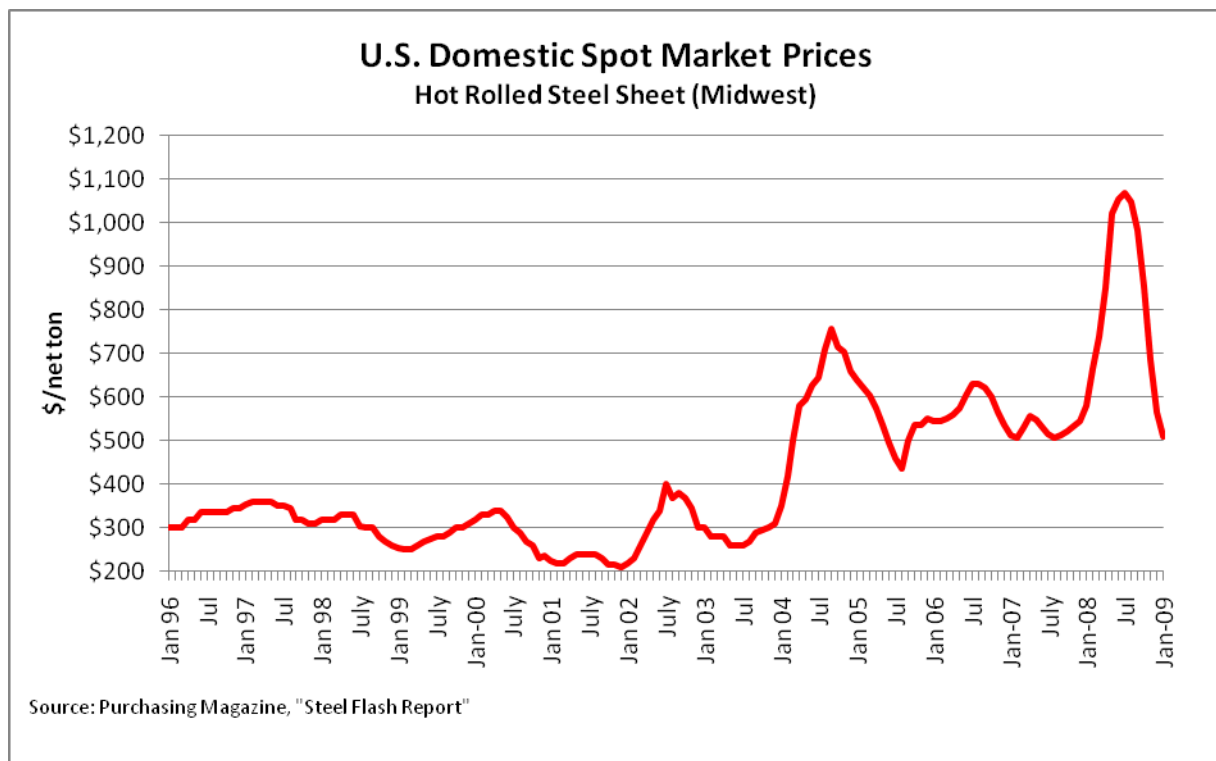
### **Price Issues of Note** (from Purchasing Magazine)

- Prices continue their descent amid declining demand for steel products in the manufacturing and construction industries and reduced raw material costs. The continued declines have nearly erased the gains previously seen earlier, bringing prices near levels from the beginning of 2008. Some analysts forecast that steel prices,

demand, and production will continue to decline throughout 2009. The recent economic downturn has significantly impacted the steel industry across many facets.

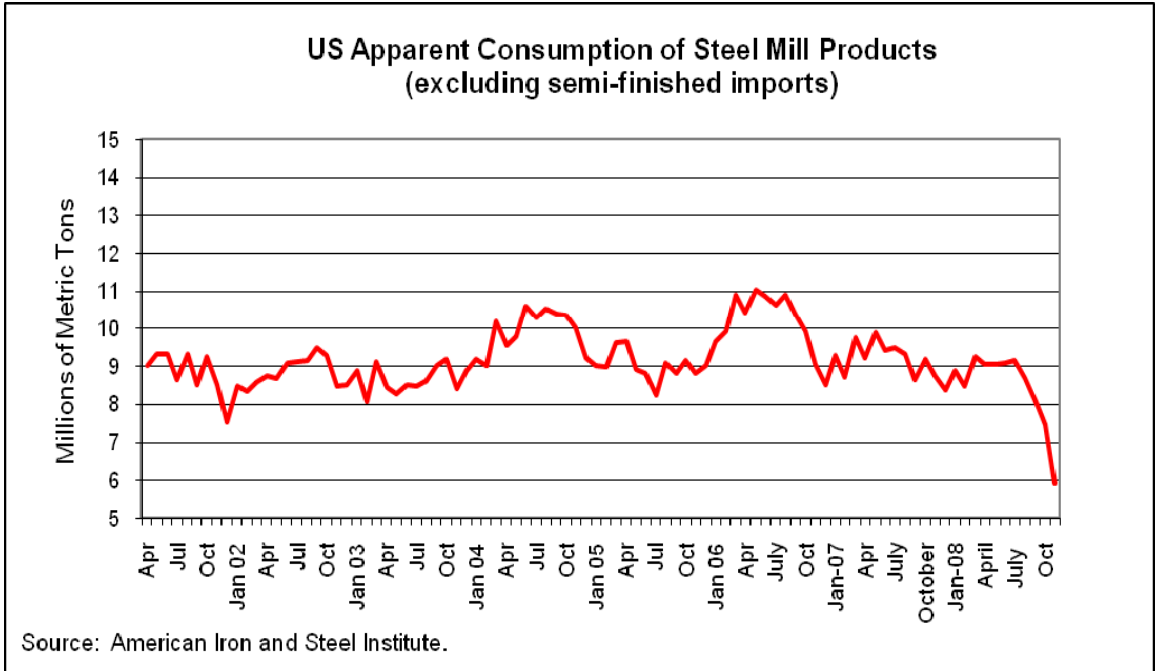
## **Prices**

- Steel prices decreased across all product groups except for steel scrap (heavy melt) from December 2008 to January 2009. Hot-rolled sheet decreased 10.07% in January to \$509/net ton from \$566/net ton, while cold-rolled sheet decreased 9% to \$607/net ton from \$667/net ton. Stainless sheet prices fell 18.34%. Prices were up considerably in the first half of 2008, peaking in July for the year. Over the previous six months period, the price of hot-rolled sheet decreased by 52.34%, while cold-rolled sheet decreased by 47.35%. Hot-rolled sheet prices indicate a 12.09% decrease since January 2008, while cold-rolled sheet prices are down 7.89% from the previous year.

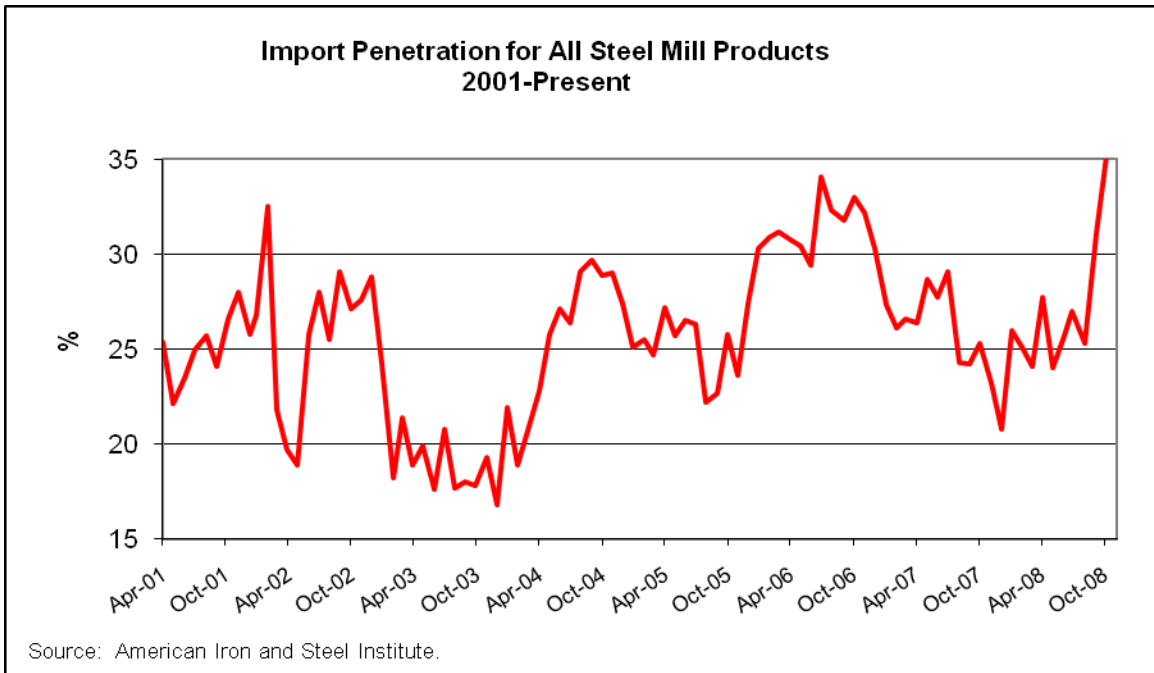


## **Demand**

- Apparent consumption (used to measure domestic demand) for steel, excluding semi-finished products, decreased to 5.9 million metric tons in November 2008 from 7.5 million in October 2008 (-20.85%). November 2008 demand decreased 32.5% from November 2007 level. Demand reached its highest level since 2001 in May 2006 at 11.1 million metric tons (26.3% higher November 2008).

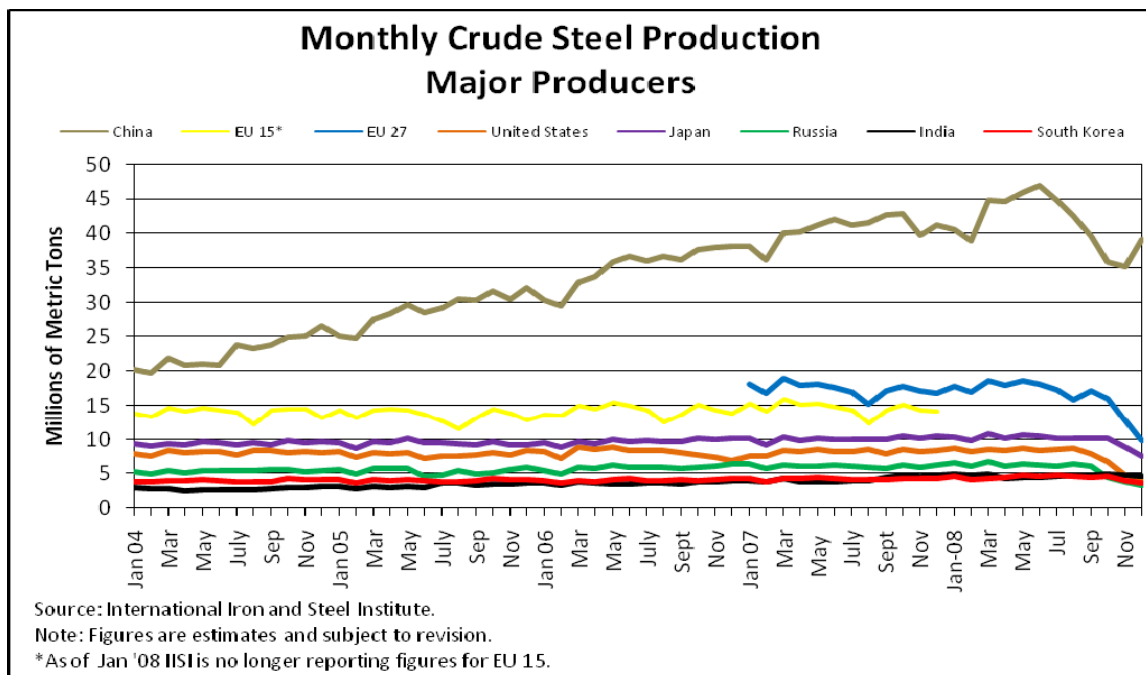


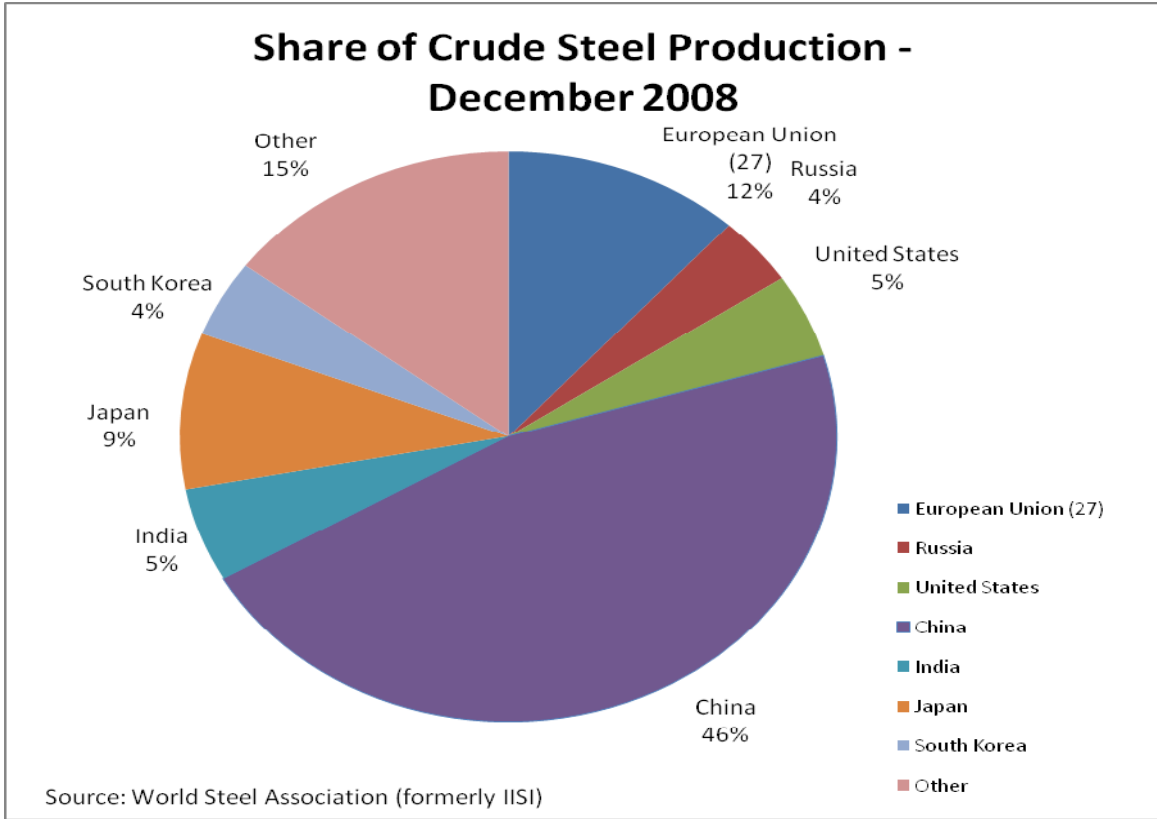
- Import penetration for all steel mill products in November 2008 was at 35.9%, up from 26% in January 2008, and surpassing highs of 33% in October 2006 and then 35.2% in October 2008.



## **Global Production**

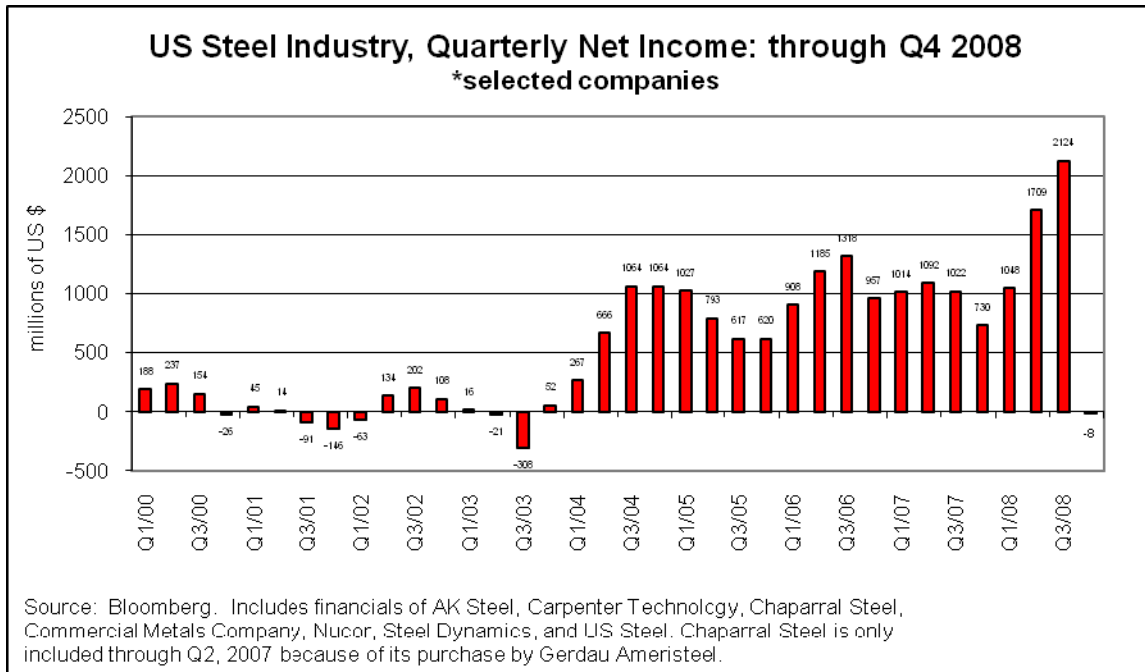
- World steel production decreased 3.9% from 87.8 million metric tons in November 2008 to 84.4 million metric tons in December 2008.
- China remains the largest steel producer worldwide with a December 2008 production level of 39.04 million metric tons, a 10.9% increase from November 2008. The European Union 27 remains the second largest producer with a December 2008 production level of 9.88 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 46.25% share is larger than the combined production of the US, the EU 27, 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 eight years, China's share has almost tripled; other producers have seen their shares decrease.



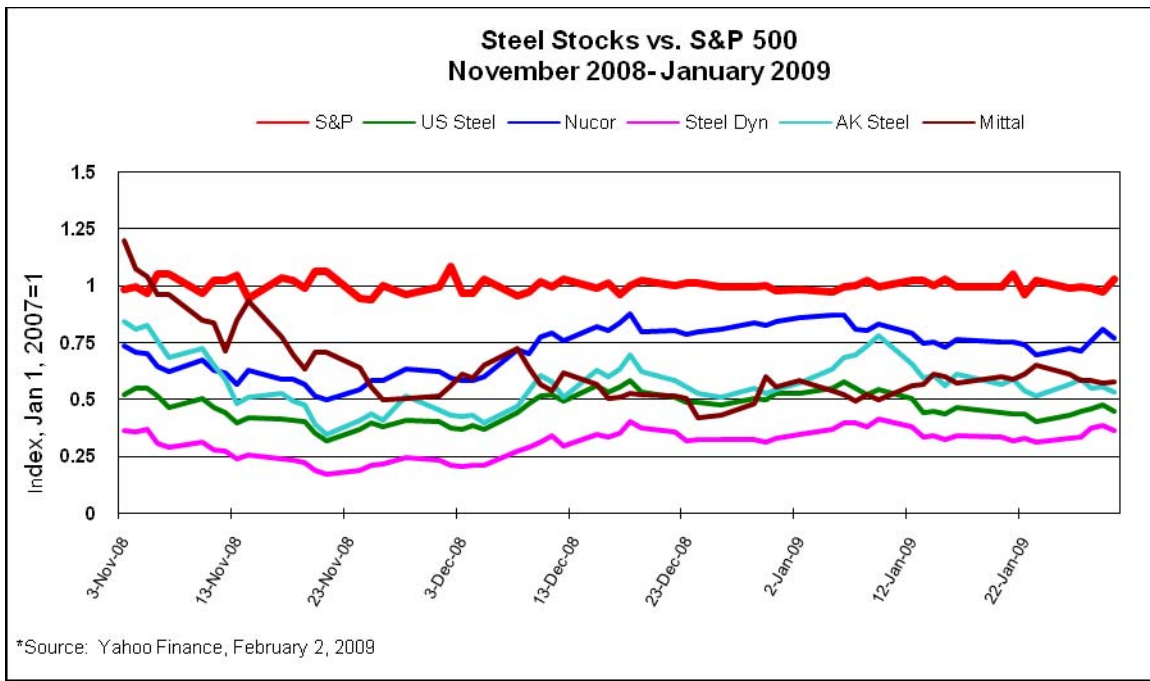
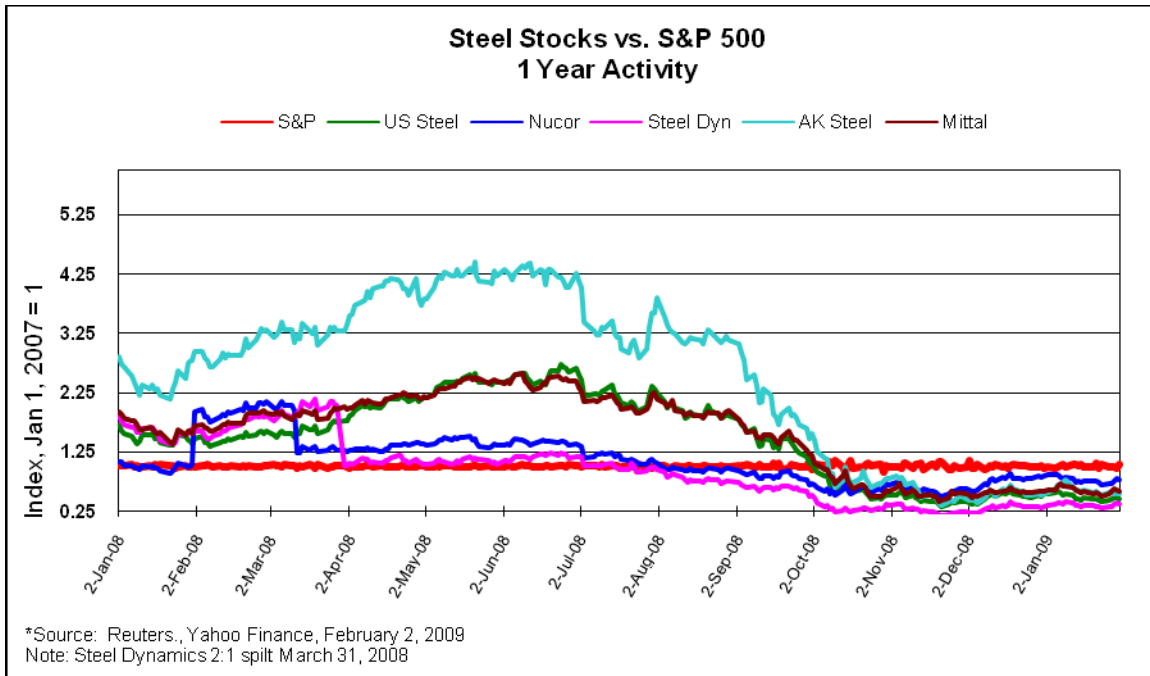


**Industry Status**

- As a whole, the US steel industry posted a net loss of \$7.5 million in the 4<sup>th</sup> Quarter. Quarterly net income for AK Steel dropped significantly to a loss of \$430 million. Steel Dynamics also ended the quarter with a loss. Carpenter Technology was the chart’s only company to yield a net income higher than Q3 of 2008. The net income chart now includes AK Steel, Carpenter Technology, Commercial Metals Company, Nucor, Steel Dynamics, and US Steel.

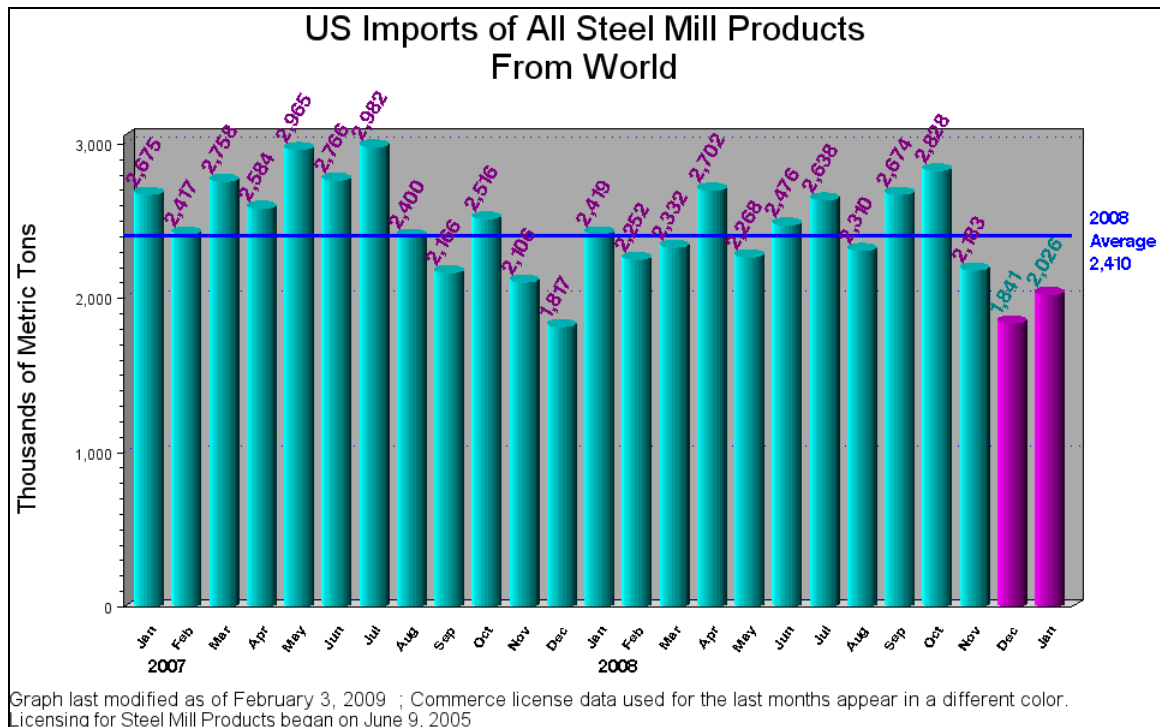


- Most steel stocks outperformed the S&P 500 from early 2006 until October 2008, with a few stocks such as Nucor and Steel Dynamics dropping lower than the S&P as early as July 2008. With the exception of Mittal, steel stocks ended January 2009 lower than 2009's opening price but higher than the share price in late November 2008. There was an increase in some steel stocks over 2007, but all have experienced significant volatility since January 2008. Since July, both the steel stocks and the S&P 500 shown on the 3-month steel stocks chart have decreased, with steel stocks remaining lower than the S&P 500 since the beginning of October. Steel Dynamics split (2:1) on March 31<sup>st</sup>, 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 23% to 2.18 million metric tons in November 2008 from October 2008, according to final November figures from the Census Bureau. Data gathered from the licensing system reflect an increase of 10% in steel imports to 2.03 million metric tons in January 2009. Based on licensing data, steel imports may be 16% lower in January 2009 than in January 2008 and 24.3% lower than in January 2007. January 2009 imports, according to licensing figures, are 15.9% below the 2008 average.

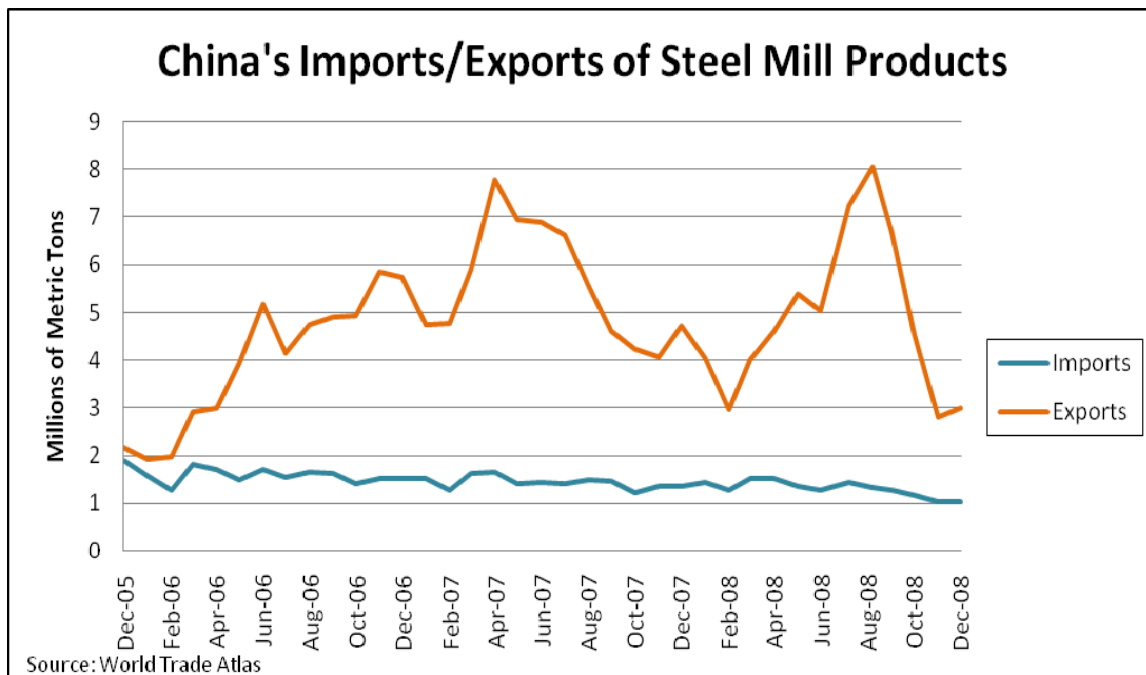


## **China**

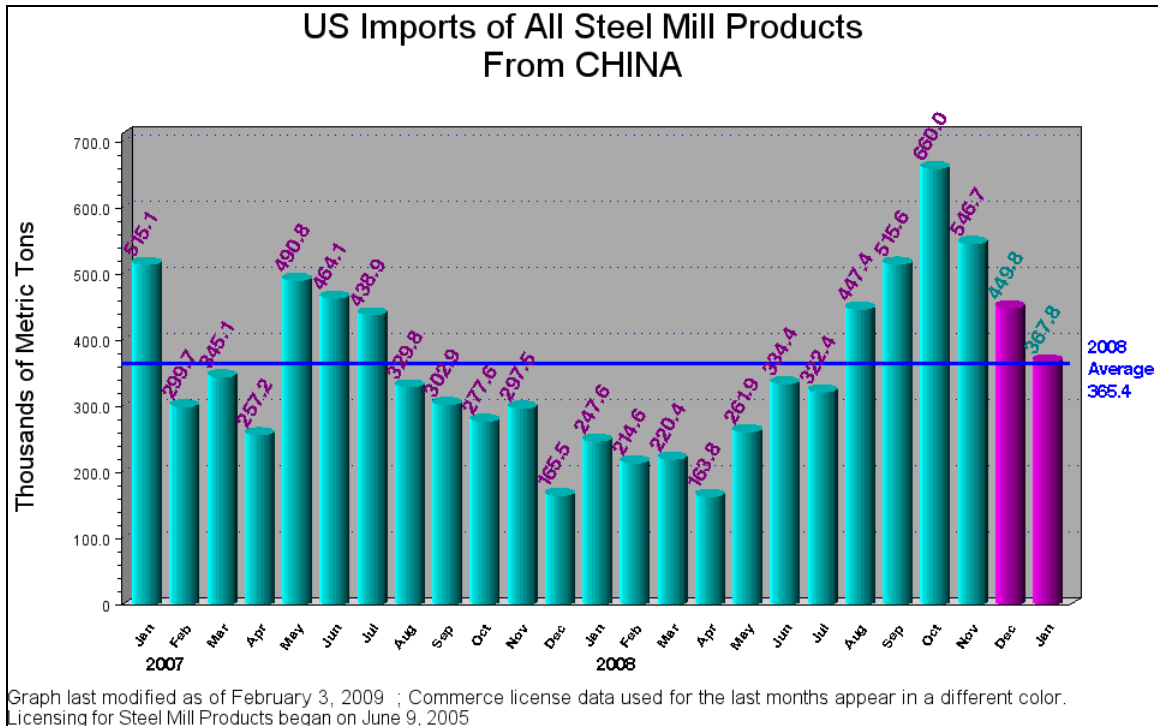
- China became a net exporter of steel in 2005, and the gap between exports and imports grew steadily until April 2007, when Chinese steel exports peaked at just above 7.8 million metric tons. Exports in August 2008 surpassed the April 2007 peak, rising to 8.06 million metric tons. From November to December 2008, Chinese exports increased 7.18% from 2.795 million metric tons to 2.996 million metric tons, reversing the 5 month downward trend. Since the August 2008 peak, exports have



decreased 62.8%. December 2008 steel mill exports are 36.46% lower than December 2007 exports. Chinese imports decreased 0.24% between November 2008 and December 2008 to 1.027 million metric tons. December 2008 imports are 45.68% lower than imports in December 2005.

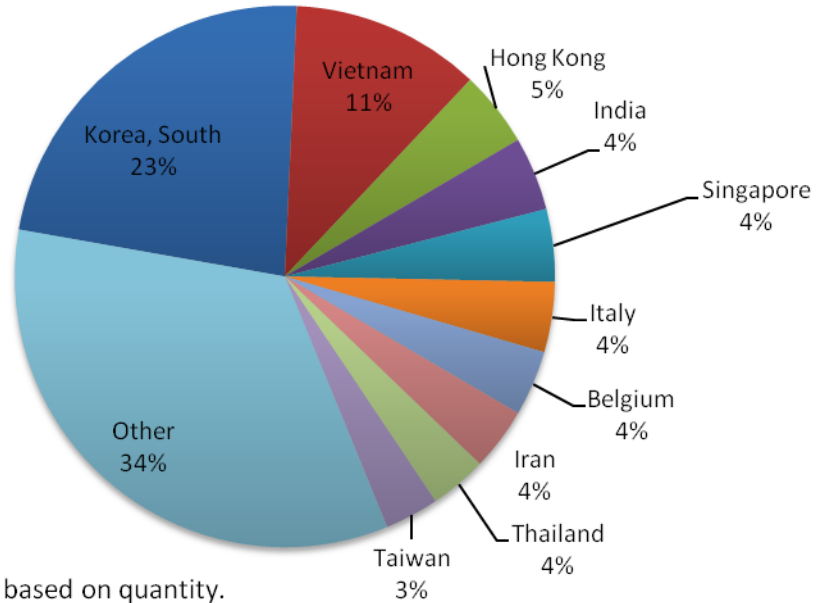


- Between May 2007 and April 2008 U.S. imports of steel mill products from China declined for the most part, with the exception of November 2007 and January 2008. April 2008 was a low point at 163,873 metric tons. In May through October 2008 there was a significant increase with 660,013 metric tons imported in October. In November 2008 imports were at 546,709 according to final Census data, a 173% 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, with September through November imports at the highest level in two years and December imports 23.1% above the 2008 average. As a result of recent economic conditions, imports from China fell 18.26% from November to December 2008, then another 18.23% from December 2008 to January 2009, based on license data.



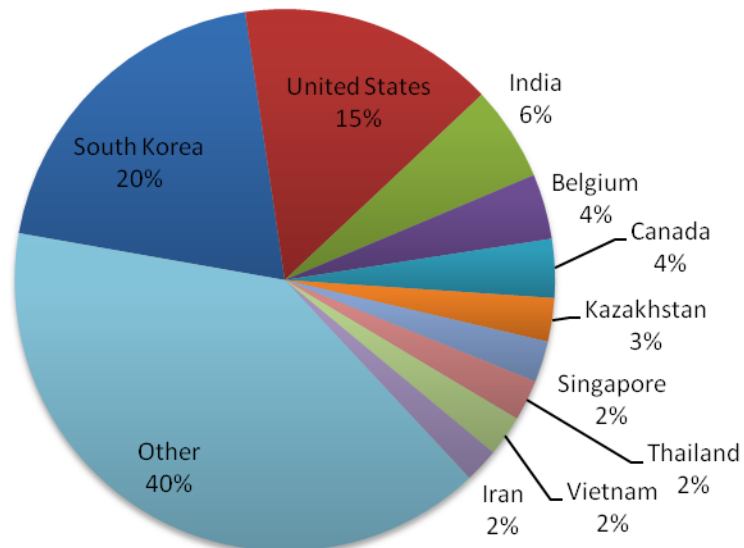
- South Korea captured the largest share of exports of steel mill products from China at 19.9% in December 2008, slightly more than the November 2008 level. The United States holds the second largest share of Chinese steel exports at 15%, which is almost five times its share a year ago. The quantity of Chinese steel exports to the United States increased 205% between December 2007 and December 2008 from 150 million metric tons to 459 million metric tons.

## Chinese Export Partners of Steel Mill Products December 2007



Source: Global Trade Atlas, based on quantity.

## Chinese Export Partners of Steel Mill Products December 2008

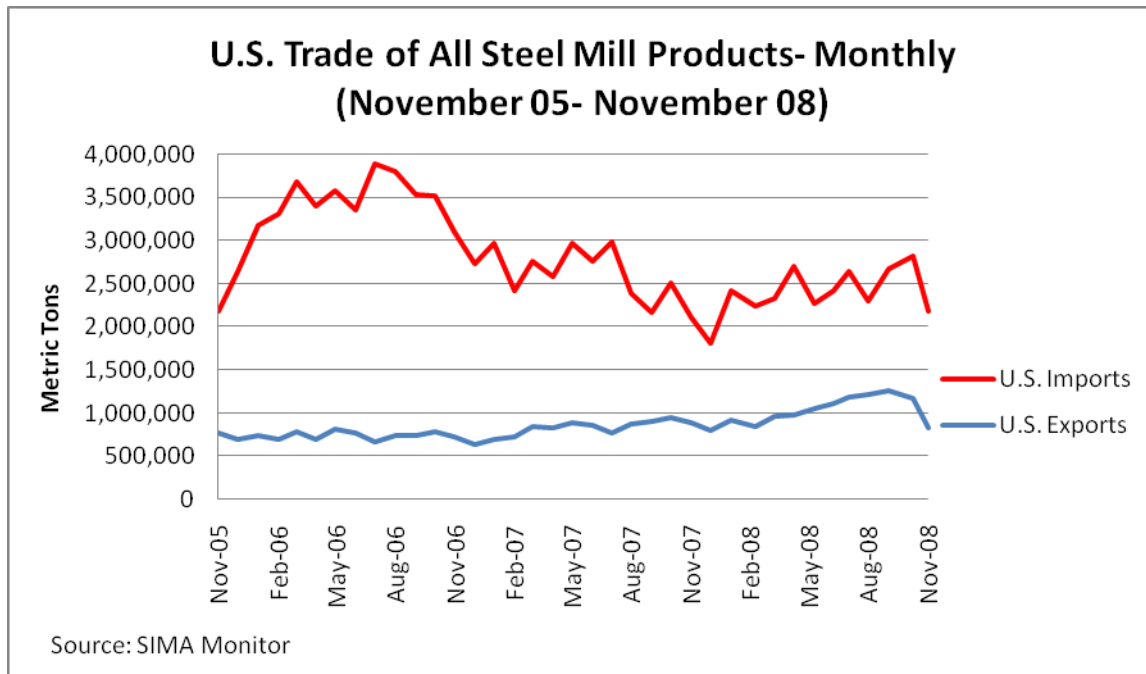


Source: Global Trade Atlas, based on quantity.

## 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. November 2008 exports and imports both decreased, with exports 6% lower than the level in November 2007 and imports 20% higher than the December 2007 low of 1,817,588 metric tons.





### **Steel Import Trends by Country and Product**

- Notable Increases

Country	Product	Average monthly quantity November 2008 - January 2009 (metric tons)	Average monthly quantity February 2008 - October 2008 (metric tons)	Ratio of current to historic average quantity
TURKEY	Bars-Hot rolled -- C & A	8,525	987	8.64
CHINA	Oil Country Goods -- S	11,196	1,547	7.24
WORLD	Oil Country Goods -- S	16,616	4,221	3.94
TURKEY	Wire Rods -- C & A	25,682	8,249	3.11
MEXICO	Plates in Coils -- C & A	8,169	2,944	2.78
TURKEY	Plates in Coils -- C & A	25,761	9,739	2.65
JAPAN	Oil Country Goods -- C & A	16,216	6,301	2.57
TURKEY	Standard Pipe -- C & A	8,371	3,277	2.55
INDIA	Oil Country Goods -- C & A	11,316	4,997	2.26
WORLD	Oil Country Goods -- C & A	445,110	269,169	1.65

- **Notable Decreases**

Country	Product	Average monthly quantity November 2008 - January 2009 (metric tons)	Average monthly quantity February 2008 - October 2008 (metric tons)	Ratio of current to historic average quantity
UKRAINE	All Products	45,682	119,555	0.38
UKRAINE	All Carbon & Alloy Products	43,941	119,158	0.37
BRAZIL	Blooms, Billets and Slabs -- C & A	26,111	72,851	0.36
ITALY	Line Pipe -- C & A	6,789	19,410	0.35
WORLD	Blooms, Billets and Slabs -- C & A	170,469	503,854	0.34
CANADA	Line Pipe -- C & A	5,597	24,389	0.23
UKRAINE	Blooms, Billets and Slabs -- C & A	13,989	92,310	0.15
CANADA	Blooms, Billets and Slabs -- C & A	12,288	97,766	0.13
MEXICO	Blooms, Billets and Slabs -- C & A	13,428	119,946	0.11

SOURCE: US Department of Commerce, Import Administration, SIMA  
Table last modified February 5, 2009, with Licensing data collected through January 2009 and Preliminary Census data compiled through December 2008.

A notable change is defined here by a significant increase in the current three month average quantity over the previous nine months average quantity; the program examines the largest importers within each product group. Any increases for which import levels had been reached between February 2007 and January 2008 have been eliminated.

Steel mill categories are defined by 10-digit HTS codes.

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