

Metal Bulletin Research

Ferro-alloys Monthly

A unique source of market intelligence, analysis and forecasts covering the international ferro-alloys industry

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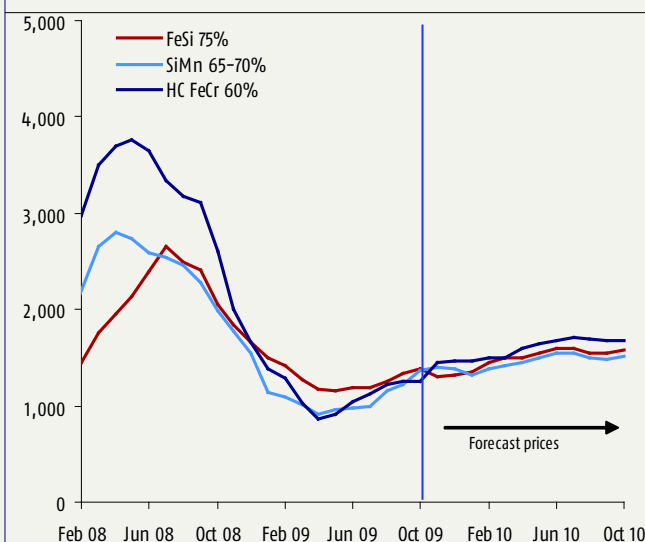
● There has been little change this month for the ferro-alloys as general steel market weakness continues to dampen any efforts in a price rally. Bulk alloys have fared marginally better particularly manganese alloys with the exception of Chinese material, which is suffering as result of falling demand from steel/higher ore costs. EU and US manganese alloys have both seen gains this month with steelmakers restarting capacity and keen to replenish depleted stocks. **MBR believes more price gains may be seen as alloy output has so far been disciplined, but is on the rise.** A surge in demand may create a sharp rise in prices, but rising manganese alloy output may resist this.

● Although South African charge chrome producers have negotiated price rises of 14-16%, this is still less than half of the proposed 30% price increase. We think that this increase is insufficient for producers who will push for higher increases next quarter as they struggle with a stronger rand, higher wage settlements and power cost pressures.

● Noble alloys have continued to struggle as prices have drifted down throughout the month. Ferro-molybdenum appeared to have bottomed out at the end of the month and has seen a slight uptick. Ferro-vanadium has had no such fortune as demand from steelmakers continues to wane.

European ferro-alloy price forecasts (\$/tonne)

Any support in pricing is from tight supply rather than a pick-up in demand from steel mills



Source: Metal Bulletin Research

		2007	2008								2009
		Year	Year	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct
EUROPEAN FREE MARKET PRICES^(1,3)											
Ferro-silicon, 75% Si	€/t	885	1,373	992	878	847	848	843	875	925	938
Ferro-manganese, 78% Mn	€/t	896	1,813	1,060	888	863	805	735	750	800	875
Silicon Metal, min. 98% Si, 10-20 tonne lots	€/t	1,585	2,313	1,877	1,826	1,831	1,698	1,557	1,570	1,591	1,653
Silico-manganese, 65-75% Mn	€/t	927	1,535	786	695	708	707	709	817	851	930
Charge chrome, 52% Cr	\$/lb	0.47	0.50	0.79	0.69	0.69	0.74	0.89	0.89	0.89	1.03
Ferro-chrome, 6-8% C, 60% Cr	\$/lb	1.21	2.27	0.78	0.65	0.69	0.79	0.84	0.92	0.95	0.95
Ferro-chrome, 0.1% C, 68-70% Cr	\$/lb	1.64	4.26	1.94	1.72	1.70	1.70	1.80	1.88	1.93	1.92
Nickel, LME cash(4)	\$/lb	16.87	9.56	4.40	5.06	5.73	6.79	7.25	8.91	7.91	8.41
Nickel, 3-month forward(4)	\$/lb	16.41	9.65	4.44	5.10	5.77	6.82	7.28	8.92	7.93	8.45
Ferro-molybdenum, 65-70% Mo	\$/kg	73.16	69.39	21.73	20.81	23.74	25.91	32.28	41.72	34.54	29.62
Ferro-molybdenum, 60% Mo(4)	\$/kg	70.97	68.98	28.00	28.00	28.00	28.00	28.00	40.81	35.18	34.00
Molybdic oxide, drummed(4)	\$/lb	30.60	29.56	8.64	8.18	9.74	10.34	13.39	17.98	15.00	12.61
Ferro-titanium, 70% Ti	\$/kg	10.89	7.54	2.78	2.94	2.70	2.62	3.35	4.61	4.44	4.15
Ferro-tungsten, 75% W(4)	\$/kg	33.37	33.88	27.14	24.56	24.77	25.50	25.41	27.32	29.00	27.28
Ferro-vanadium, 70-80% V	\$/kg	37.15	61.54	22.43	19.50	18.92	22.78	28.30	34.08	32.84	26.34
US FREE MARKET PRICES^(1,5)											
Ferro-silicon, 75% Si	\$/lb	0.65	1.12	0.69	0.61	0.53	0.59	0.63	0.67	0.78	0.79
Silicon metal	\$/t	2,320	3,812	2,851	2,647	2,555	2,517	2,441	2,436	2,473	2,681
Ferro-manganese, 78% Mn	\$/t	1,375	2,828	1,300	1,019	963	928	923	1,070	1,343	1,480
Silico-manganese, 65-75% Mn	\$/t	1,693	2,365	1,045	890	882	882	824	1,023	1,317	1,576
Ferro-chrome, 6-8% C, 60-65% Cr	\$/lb	1.08	2.09	0.78	0.70	0.73	0.76	0.82	0.86	0.91	0.91
Ferro-molybdenum, 65-70% Mo	\$/lb	33.50	32.45	10.19	9.75	9.75	10.08	10.81	17.88	18.13	15.72
Molybdic oxide, canned	\$/lb	30.33	29.64	9.25	8.55	9.02	10.35	11.44	17.13	15.42	13.48
Ferro-vanadium, 70-80% V	\$/lb	18.89	33.08	11.33	9.38	7.79	9.35	10.25	12.22	13.00	11.88
HONG KONG FREE MARKET PRICES⁽⁶⁾											
Ferro-silicon min. 75%	\$/t	877	1,528	1,073	1,065	1,073	1,075	1,073	1,163	1,195	1,150
Ferro-manganese min. 75% Mn, 7.5% C	\$/t	1,125	2,447	1,156	1,150	1,150	1,150	1,167	1,350	1,315	1,315
Silico-manganese min. 65% Mn, max 17% Si	\$/t	1,118	2,077	1,150	1,116	1,121	1,175	1,175	1,308	1,465	1,395
Silicon metal min. 98.5% fob Chinese ports	\$/t	1,359	2,170	1,568	1,631	1,615	1,570	1,589	1,675	1,675	1,675
Ferro-chrome 8% C, 60% Cr	\$/lb	0.83	1.24	0.72	0.62	0.63	0.75	0.82	0.84	0.95	0.95
Ferro-molybdenum min 60% Mo	\$/kg	70.27	66.63	23.50	21.00	22.28	22.50	28.14	50.00	50.00	43.19
JAPANESE IMPORT PRICES⁽⁷⁾											
Ferro-silicon, Chinese	\$/t	930	540	1,145	1,125	1,120	1,100	1,158	1,175	1,220	1,190
Silicon metal, spot	\$/t	1,359	805	1,638	1,613	1,620	1,610	1,625	1,640	1,765	1,818
Silico-manganese, Chinese	\$/t	1,218	484	1,348	1,138	1,125	1,125	1,125	1,455	1,445	1,440
Charge chrome, producer	\$/lb	0.92	0.47	0.81	0.71	0.71	0.71	0.91	0.91	0.91	1.05
Molybdic oxide	\$/lb	30.57	28.76	8.41	7.90	9.65	10.50	13.21	18.00	15.88	13.25
Ferro-vanadium	\$/kg	37.14	8.15	23.00	20.13	19.35	23.25	27.75	34.30	35.00	27.50
EXCHANGE RATES											
Dollar/sterling	\$/£	2.00	1.86	1.42	1.47	1.54	1.63	1.63	1.65	1.65	1.61
Yen/dollar	¥/\$	117.83	103.46	97.64	99.02	96.74	97.15	94.39	94.87	92.19	90.26
Dollar/euro	\$/€	1.37	1.47	1.30	1.32	1.36	1.40	1.41	1.43	1.45	1.47

Source: Metal Bulletin Research

Notes:

Current month's averages are to the 23rd

(1) Tonnage prices are bulk basis; lb or kg prices are metal contained

(3) Delivered basis, except (4) in warehouse (5) in warehouse, Pittsburgh (6) fob main Chinese ports

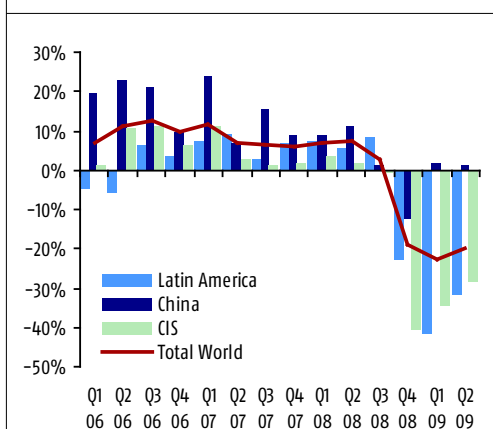
(7) average of Tex report bimonthly quotes

Global Crude Steel Production
(million tonnes)

	2006	2007	2008	Q3 08	Q4 08	Q1 09	Q2 09	Mar 09	Apr 09	May 09	Jun 09	Jul 09	Aug 09
Belgium	11.46	10.60	10.54	2.76	1.69	0.92	1.25	0.43	0.42	0.44	0.38	0.40	0.47
France	19.87	19.25	17.97	4.66	3.32	2.94	2.92	1.05	0.82	0.99	1.11	1.10	0.82
Germany	47.22	48.54	45.86	11.82	9.61	7.30	6.51	2.07	1.87	2.17	2.47	2.69	2.95
Italy	31.19	31.85	30.53	6.89	6.48	4.91	4.94	1.65	1.60	1.69	1.65	1.52	0.74
Spain	18.18	18.67	17.78	5.23	2.95	2.86	3.58	1.20	1.17	1.16	1.25	0.93	1.11
United Kingdom	13.96	14.41	13.37	3.58	2.48	2.06	2.24	0.79	0.67	0.82	0.75	0.83	0.82
Other Europe	64.30	64.81	63.25	16.27	11.84	9.31	9.93	3.35	2.96	3.31	3.66	3.74	3.89
Total Europe	206.18	208.12	199.29	51.20	38.37	30.29	31.36	10.53	9.52	10.58	11.26	11.21	10.80
% Change Y-o-Y	7.2%	0.9%	-4.2%	4.1%	-25.5%	-44.0%	-43.6%	-44.1%	-48.1%	-44.0%	-38.7%	-37.5%	-32.5%
Canada	15.45	15.12	16.34	4.26	3.55	1.87	2.31	0.64	0.79	0.75	0.77	0.64	0.70
USA	98.54	98.21	91.28	25.03	15.73	11.80	12.66	3.95	3.90	4.31	4.45	4.97	5.55
Total N America	113.99	113.33	107.62	29.29	19.28	13.67	14.97	4.59	4.69	5.06	5.22	5.61	6.25
% Change Y-o-Y	4.9%	-0.6%	-5.0%	1.9%	-34.1%	-53.6%	-49.4%	-54.1%	-51.8%	-50.0%	-46.3%	-43.4%	-38.3%
Latin America	62.67	66.74	66.31	18.11	13.44	10.09	11.93	3.52	3.80	3.98	4.15	4.82	4.82
% Change Y-o-Y	-0.3%	6.5%	-0.6%	8.4%	-22.6%	-41.6%	-31.8%	-40.6%	-34.8%	-32.5%	-28.1%	-22.9%	-21.6%
Japan	116.22	120.20	118.75	30.45	26.40	17.59	19.09	5.74	5.72	6.48	6.89	7.66	8.31
India	42.62	49.39	55.47	13.85	13.96	13.17	13.89	4.50	4.58	4.73	4.58	4.73	4.77
South Korea	48.53	51.18	52.91	14.06	12.20	10.40	12.33	3.77	4.09	4.24	3.99	4.03	4.24
Taiwan	20.21	20.61	20.85	5.03	4.43	4.20	3.38	1.40	1.12	1.15	1.12	1.24	1.24
Other Asia (excl. China)	38.07	41.08	42.86	11.05	9.21	9.57	10.61	3.35	3.45	3.54	3.62	3.61	3.68
China	421.46	487.63	498.23	127.07	108.88	127.04	139.30	45.10	43.41	46.46	49.43	50.68	52.33
Total Asia	687.11	770.09	789.06	201.50	175.07	181.97	198.59	63.87	62.38	66.59	69.62	71.94	74.57
% Change Y-o-Y	14.1%	12.1%	2.5%	2.8%	-11.3%	-8.7%	-6.8%	-9.8%	-10.1%	-7.0%	-3.5%	2.6%	10.6%
Africa	17.14	18.17	16.34	4.43	2.99	3.30	3.67	1.20	1.24	1.22	1.22	1.21	1.20
Australasia	8.70	8.75	8.67	2.18	1.87	1.15	1.16	0.30	0.35	0.38	0.43	0.47	0.57
Russia	70.47	72.49	67.92	18.59	11.56	12.65	14.03	4.63	4.48	4.68	4.87	5.02	5.02
Ukraine	40.90	42.83	37.04	9.37	5.49	6.82	6.96	2.38	2.30	2.35	2.30	2.66	2.66
Other CIS	7.87	8.80	8.03	2.27	1.61	1.60	1.83	0.61	0.59	0.62	0.62	0.66	0.66
World Total	1,215.04	1,309.31	1,300.44	336.94	269.84	261.53	284.49	91.63	89.34	95.46	99.69	103.60	82.06
% Change Y-o-Y	10.2%	7.8%	-0.7%	2.7%	-19.1%	-22.9%	-19.7%	-23.2%	-23.0%	-20.2%	-16.0%	-11.5%	-26.9%

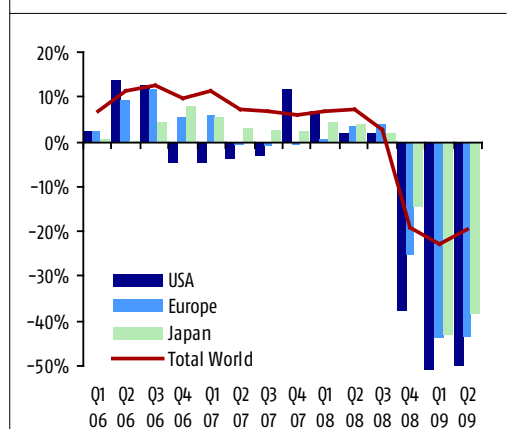
Source: International Iron & Steel Institute, Metal Bulletin Research

Quarterly crude steel production emerging markets (% change y-o-y)



Source: IISI, Metal Bulletin Research

Quarterly crude steel production mature markets (% change y-o-y)

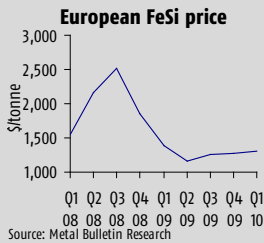


Source: IISI, Metal Bulletin Research

Ferro-silicon highlights

- Chinese ferro-silicon prices slide on general steel market weakness
- US prices still rising as steelmakers continue to boost operating rates
- European prices make gains on tight supply

Market Outlook



In China, the ferro-silicon market slipped in October after a month of relative inactivity in September, as weaker demand from the steel and magnesium sectors dragged on prices. Producers have cut prices to boost sales, although we expect prices will fall further against weak demand in the steel sector. Cheaper offers are likely to find a floor relatively soon, however, given low capacity utilisation after hefty cuts earlier this year.

In the USA, however, ferro-silicon imports have fallen sharply in recent months and there is yet no sign of that changing, while domestic consumer demand among steel mills has been firm. Replacement costs are at a similar level, although we expect any increase in Chinese exports will take several weeks to hit the US market and, given the fragile condition of the US economy, there will be market reluctance to boost domestic supply.

China succumbs to weakness...

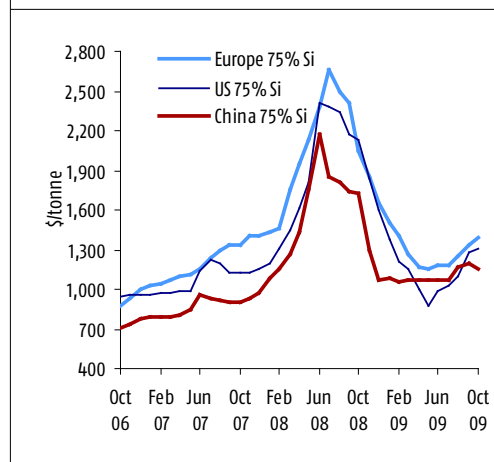
Although electricity charges have been increasing since the end of the third quarter, there is no sign of an end to weakening ferro-silicon prices. In response, more smelters in China have opted to shut furnaces to cut stocks.

Ferro-silicon with 75% silicon content is trading at Rmb5,300–5,500/tonne (\$780–805/tonne before 25% export tax) ex-works, although bigger smelters have been offering at more expensive numbers.

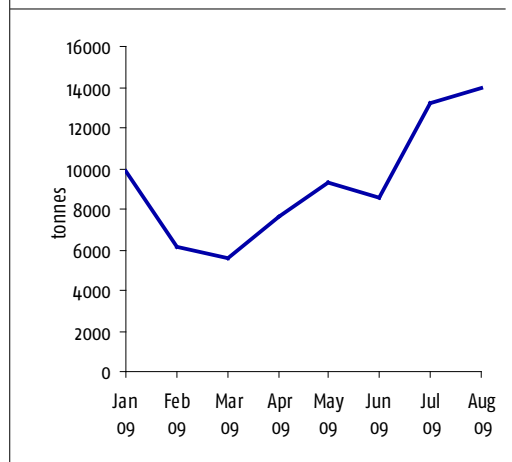
Export prices for 75% grade material have been relatively unchanged at \$1,140–1,170/tonne fob, with few deals done. There has been scant recovery in foreign demand since the week-long Chinese National Day holidays, with some producers cutting their exports to only a fraction of their typical levels.

China exported a total of 246,086 tonnes of ferro-silicon in the first eight months of this year, off some 75% exported in the same period of 2008. **Elsewhere in Asia, Indian demand has also been weak and we believe prices may fall further in the run-up to year-end holidays, with prices now around Rs53,000/tonne (\$1,125/tonne) for 70–75% grade.**

Ferro-silicon US free market price (75% Si content) Prices are climbing outside China as demand from US and EU steel mills looks more positive



Chinese ferro-silicon exports to Japan in 2009 – Japan upped import levels in July as demand from steelmakers picked up



...as US prices rally...

The US ferro-silicon spot market has edged up against a steady increase in domestic steel production and limited availability. The spot market is up by \$0.84–0.87/lb delivered, well up on a low this year of \$0.52/lb in May.

Chinese ferro-silicon exports to the USA fell by almost 95% in the first seven months of this year. Imports typically account for around two-thirds of annual ferro-silicon supply in the USA.

October steel production in the USA increased for almost four months in a row as a pick-up in order books sees mills boosting production. Steel mills increased their capacity utilisation rates to over 60% in October from just 40% a few months ago. However, 12 months ago US steel production was at an utilisation rate of 77.5%, and in the first eight months of this year, steel production was off some 45% from the same period last year.

The possibility of more domestic ferro-silicon production being restarted is slim, however. Some idled furnaces would need to be converted from silicon metal production before starting, resulting in yet more weeks of delay, with little chance of substantial increased supplies this year.

...with tight availability in Europe

The European ferro-silicon market has regained ground on limited availability and, to a lesser extent, steady low level demand. Ferro-silicon prices are at €1,000–1,050/tonne duty delivered paid, depending on tonnage, grade and delivery.

Underlying consumption has been improving in recent weeks on slowly climbing demand from steel mills that have been looking to replenish their stores of raw materials after several months of destocking.

As the market has been well supported on falling stocks against tighter supply in recent weeks, sellers saw an opportunity to emphasise that situation in quarterly negotiations. Fourth-quarter contracts have been settled with major buyers at €970–980/tonne, and about €100/tonne more than the level settlements were agreed on in the previous quarter.

EU production may be restarting

There has been industry talk that some shuttered European production has been restarted, although most of the new material has already been sold and any excess should have negligible impact on short-term market supply.

European ferro-silicon imports have been limited this year and down by more than one-third year on year in the first half of this year, while a big part of domestic production has been shuttered in recent months.

Global Ferro-silicon Supply-Demand Balance ('000 tonnes Si content)

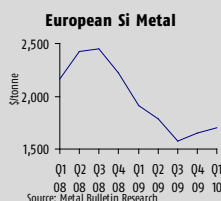
	Q1 08	Q2 08	Q3 08	Q4 08	2008	Q1 09e	Q2 09e	Q3 09e	Q4 09f	2009f	Q1 10f	Q2 10f	Q3 10f	Q4 10f	2010f
Europe (including CIS)	305	315	280	220	1,120	200	220	240	255	915	200	220	240	255	915
Asia (including China)	555	565	540	480	2,140	460	470	490	520	1,940	460	470	490	520	1,940
North America	90	95	90	70	345	65	70	75	80	290	65	70	75	80	290
Other	55	60	55	40	210	40	40	50	55	185	40	40	50	55	185
Global Consumption	1,020	1,066	1,013	811	3,911	752	818	834	851	3,255	860	898	869	893	3,520
Global Production	1,100	1,225	980	769	4,074	700	725	800	858	3,083	850	900	900	913	3,563
Market Balance	80	159	-33	-42	164	-52	-93	-34	7	-172	-10	2	31	20	43
Price Forecast – European Market (\$/t)	1,562	2,157	2,516	1,848	2,021	1,391	1,168	1,254	1,275	1,272	1,300	1,325	1,330	1,375	1,333

Source: Metal Bulletin Research

Silicon metal highlights

- Shortage of silicon metal boosts European prices
- Chinese suppliers aim for higher prices on expectation of stronger demand
- US prices rise as auto production improves

Market Outlook



The European silicon metal market is climbing against persistent supply tightness, but market worries about future demand may cap attempts to move prices even higher in the near term. Some consumers of chemical grade silicon metal have also been buying material on a spot basis for delivery in the fourth quarter, which we think should persist in the short term given the low level of quarterly contracts and consumer indications. The theme has been similar in

China, where the silicon metal market has bucked a general slowdown, with suppliers increasing their offer prices on tight supply. Many suppliers have reported low stock levels and expect stronger prices as a consequence. Availability is tight due to a fall in output against regional power shortages in key producing areas. Silicon metal prices in the USA have been rising as trading activity improves, with consumers looking to cover their needs on a prompt basis.

European supply shortage dominates market

European spot market prices for standard secondary aluminium-grade (98.5% grade, 5-5-3) are at €1,650-1,700/tonne (\$2445-2514/tonne), while better grades of low iron content silicon metal (4-4-1) are around €50-100/tonne (\$74-148/tonne) above that, depending on tonnage and delivery. The market is mostly above €1,650/tonne, although most buyers have balked at paying €1,700/tonne, we understand. Still, with material relatively tight, despite only moderate demand, a few deals for small tonnages have been settled at the top end of the current range. Chinese metal is being offered above €1,700/tonne, although no firm deals have been agreed.

Secondary aluminium demand in Europe has been quieter in recent weeks after Germany recently ended its car scrappage scheme. France and the UK have extended the schemes beyond 2009.

China supply supports tightness

Many Chinese silicon metal plants have increased their offers to Rmb9,800/tonne (\$1,440/tonne before 15% export tariff) delivered to ports for 98.5% min (5-5-3) grade metal, up Rmb200/tonne from before the holidays. Export prices for 5-5-3 grade metal are at \$1,720-1,730/tonne fob. Chinese suppliers are waiting for demand to catch up with stronger offers, which may be pared in the coming weeks unless consumers buy. China's Ningbo Hesheng Group is expected to commission the first phase of its poly-silicon facility in November. It will invest up to Rmb1.5bn (\$220m) in the project, which is designed to produce 5,000 tpy of poly-silicon and 140,000 tpy of silicon metal.

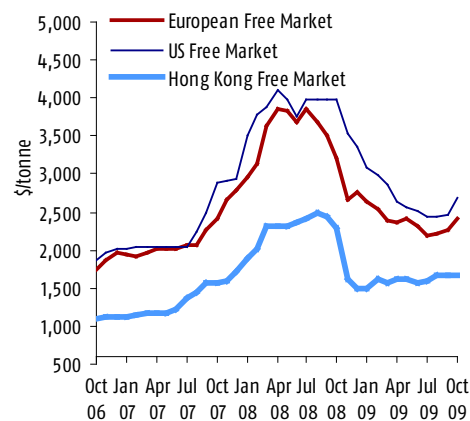
Silicon metal demand in India has been stable, with consumers seemingly satisfied with standard grade stocks, but there is more activity in the pure silicon segment. Silicon export prices to India, from China, are around \$1,700-1,750/tonne.

US activity increases

The domestic US spot market silicon metal price is holding at \$1.13-1.19/lb delivered, although Globe has been offering at \$1.20-1.25/lb. According to dealers, foreign producers, such as Ferroatlantica and Simcoa, have been offering material at slightly cheaper prices. The success of the cash-for-clunkers car programme has cleared automakers excess inventories, and is encouraging new car output, and in turn silicon metal consumption. Globe is reportedly considering the restart of two of its plants - in

Silicon metal prices

Prices have moved up in Europe and the US on the back of tight supply

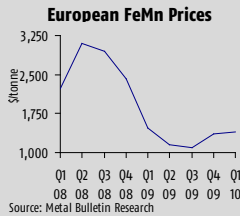


Source: Metal Bulletin Research

Manganese highlights

- Chinese manganese alloy prices succumb to domestic steel industry slowdown
- US prices move higher as import supply falters and demand improves
- European prices also climb on tight supply and increased demand

Market Outlook



The Chinese market is tentative and cautious, caught between weak prospects of a steel recovery in the short term and production discipline as smelters shut output against weak demand. The market may be capped to the upside due to weaker demand, although there should be support from a fall in alloys production and stronger ore costs. There has been genuine tightness in the US market in recent weeks as

suppliers have limited stocks after a lengthy period of depletion and output cuts. Steel-makers in Europe are restarting capacity keen to replenish their depleted stocks to meet customer needs. We expect to see more price gains as alloy output has so far been disciplined, but it is rising. Tight supply should give solid support to the market, with little to spare for spot business after a recent raft of quarterly settlements.

China under pressure

The Chinese manganese alloys market has been slipping in October as falling steel demand has outweighed a drop in alloys production and more expensive ore costs. Prices for standard 65/17 grade silico-manganese are in a range of Rmb7,000–7,300/tonne (\$1,025–1,070/tonne) ex-works, and a few deals have been more recently settled below Rmb7,000/tonne. Export prices have been steady despite quiet business, with 65/17 grade material at \$1,300–1,330/tonne fob, while lesser grade 60/14 material is around \$1,100/tonne fob. Spot prices for imported 44–46% grade lumpy ores are at Rmb51–54/mtu (\$7.50–7.95/mtu duty paid), little changed.

South African manganese ore producer Assmang has settled at a monthly price of \$6.00/mtu for 44% grade ore to Chinese consumers for shipments in November. BHP Billiton, meanwhile, has set its offer for 44% grade lumpy ores at \$6.50/mtu cif China for shipments in the fourth quarter, unchanged from Q3. Eramet Comilog has increased its offer prices to \$5.30/mtu basis cif China for 44% grade lumps and to \$5.60–5.80/mtu for 48% grade lumps for shipments in October.

The ferro-manganese market has been muted with prices mostly steady at Rmb6,600–6,900/tonne (\$970–1,015/tonne before 20% export tax) ex-works for high-carbon material with 65% manganese content and \$1,450/tonne fob for 75% manganese content.

China's Sinosteel Guangxi Ferroalloys, has commissioned the first phase of its new facility to produce 100,000 tpy of refined ferro-manganese. Sinosteel Jilin Ferroalloys has commissioned a new 30,000 KVA furnace to produce 40,000–45,000 tpy of silico-manganese.

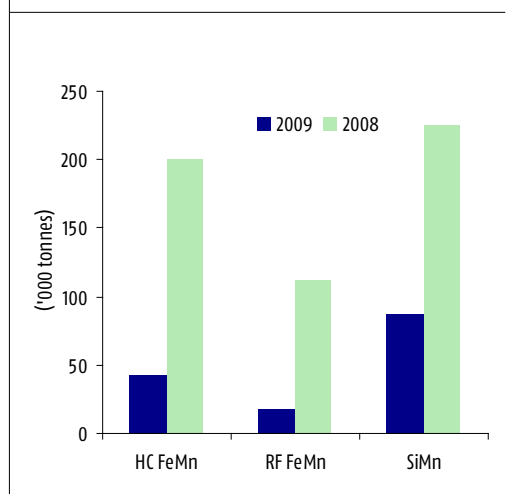
US manganese alloy prices rally

Ferro-manganese and silico-manganese prices in the USA posted gains in the past week on the back of improving demand and tight supply. US steel mill capacity utilisation rates continue to improve, with US steelmakers operating an average of 61.7% of capacity in the past week.

Most Q4 business has already been completed, so there are few transactions occurring, but for those consumers still in need of manganese alloys, they are finding supplies tight and material difficult to source. In response, prices are climbing. US high-carbon ferro-manganese prices are up to \$1,460–1,510/l. ton, while medium-carbon ferro-manganese prices improved to \$1.02–1.08/lb. Silico-manganese prices posted further gains, reaching

US manganese alloy imports

Jan-Aug year-on-year comparison



Source: Metal Bulletin Research

\$0.71–0.74/lb over the past week. With domestic US manganese alloy production limited to just two modestly sized producers – Eramet North America and Felman Production, and the occasional sale of material from the US Defense National Stockpile Center (DNSC), the USA is dependent on imports for the bulk of its manganese alloy supplies. Supplies are so tight at present, that there was little reaction to the DNSC's recent sale of 30,000 short tons of high-carbon ferro-manganese. The DNSC material was snapped up by Eramet and several trading companies including Glencore and Traxys North America.

The decline in US imports through the first eight months of 2009 has far exceeded even the magnitude of the tremendous downturn in US steel production this year. While US crude steel output was down by 49% year on year in the first eight months of 2009, US imports of high-carbon ferro-manganese plummeted by 79% over the period to 42,228 tonnes compared with 199,737 tonnes previously, while imports of refined ferro-manganese plunged by 84% year on year to just 18,370 tonnes from 111,729 tonnes in the same months of 2008. US silico-manganese imports also fell in excess of the decline in steel output, crashing by 61% year on year through August to 86,883 tonnes from 224,980 tonnes previously. **With global manganese alloy capacity still characterised by numerous closures, we do not foresee a rapid increase in shipments to the USA in the near term. Supply shortages will remain an uplifting, or at the very least a stabilising, factor for US manganese alloy prices for the remainder of 2009.**

Meanwhile, Minera Autlan, North America's biggest manganese producer based in Mexico, has restarted its Gómez Palacio plant in the northern state of Durango, after having halted production last November due to weak demand. Autlan has also restarted other furnaces that had been temporarily shut down this year, and expects to operate at full capacity in the fourth quarter.

Europe moves up

Spot prices have been increasing across all alloys in recent weeks, with the trend strengthening since last month as renewed demand met with tight availability after months of hefty production cuts and destocking. Medium-carbon ferro-manganese prices have increased by €100/tonne to around €1,300–1,400/tonne, while low-carbon material has increased by €50/tonne to €1,450–1,550/tonne. Silico-manganese spot prices have been supported at €970–1,020/tonne delivered, while high-carbon ferro-manganese has also been steady at €920–970/tonne delivered.

Prices may rally strongly now if strengthening demand jumps suddenly, although rising manganese alloy production in Europe and abroad should balance against this.

Last month, Vale restarted its plant at Dunkerque, France, with full annualised production of some 103,000 tonnes to be hit soon, while its plant in Norway at Mo I Rana, which has the capacity to produce some 130,000 tonnes of ferro-alloys, is up to full speed in Norway. Slovakia's OFZ recently restarted one of its six furnaces, with half of its furnaces now back in production, while last month Macedonian producer Skopsi Leguri said it will start 4,500 tpm of silico-manganese production in October.

Global High-carbon Ferro-manganese Supply-Demand Balance ('000 tonnes)															
	Q1 08	Q2 08	Q3 08	Q4 08	2008	Q1 09e	Q2 09e	Q3 09e	Q4 09f	2009f	Q1 10f	Q2 10f	Q3 10f	Q4 10f	2010f
Global Consumption, Mn Content	987	1,030	980	785	3,781	679	738	753	767	2,937	821	857	830	853	3,361
Global Production (Gross Weight)	1,300	1,350	1,275	934	4,859	850	875	950	1,009	3,684	1,010	1,050	1,060	1,079	4,199
Global Production, Mn Content	1,014	1,053	995	729	3,790	663	683	741	787	2,874	788	819	827	842	3,275
Market Balance, Mn Content	27	23	15	-56	9	-16	-56	-12	20	-64	-33	-38	-3	-11	-86
Price Forecast - European Market (\$/t)	2,269	3,105	2,941	2,411	2,682	1,475	1,160	1,087	1,350	1,268	1,400	1,500	1,550	1,600	1,513
Global Silico-manganese Supply-Demand Balance ('000 tonnes)															
	Q1 08	Q2 08	Q3 08	Q4 08	2008	Q1 09e	Q2 09e	Q3 09e	Q4 09f	2009f	Q1 10f	Q2 10f	Q3 10f	Q4 10f	2010f
Global Consumption, Mn Content	1,379	1,441	1,370	1,097	5,287	992	1,078	1,100	1,121	4,291	1,182	1,234	1,194	1,227	4,837
Global Production (Gross Weight)	2,100	2,250	2,000	1,587	7,937	1,350	1,500	1,600	1,670	6,120	1,700	1,755	1,800	1,870	7,125
Global Production, Mn Content	1,407	1,508	1,340	1,063	5,318	905	1,005	1,072	1,119	4,100	1,139	1,176	1,206	1,253	4,774
Market Balance, Mn Content	28	67	-30	-34	31	-87	-73	-28	-2	-190	-43	-58	12	25	-63
Price Forecast - European Market (\$/t)	2,190	2,706	2,429	1,766	2,273	1,083	955	1,124	1,350	1,128	1,415	1,550	1,575	1,575	1,529

Source: Metal Bulletin Research

Global Stainless Steel Production ('000 tonnes)

	2007	2008	Q3 08	Q4 08	Q1 09	Q2 09	Jan-09	Feb-09	Mar-09	Apr-09	May-09	Jun-09	Jul-09	Aug-09
Belgium	1,522	1,470	316	243	236	241	66	95	75	87	72	82	94	74
France	306	295	61	64	51	47	22	16	13	14	15	18	11	10
Germany	1,504	1,567	384	287	251	339	77	117	57	85	126	128	132	140
Italy	1,563	1,483	318	319	193	320	75	64	54	89	100	131	116	41
Spain	1,106	994	260	165	157	137	75	47	35	40	47	50	58	66
United Kingdom	351	342	80	53	39	57	15	14	10	11	17	29	15	20
Sweden	646	573	143	99	120	106	38	38	44	30	38	38	10	39
Finland	973	957	208	173	173	175	49	50	74	65	56	54	60	33
Austria	52	65	14	13	9	6	3	3	3	2	2	2	1	2
Total EU15	8,023	7,746	1,784	1,416	1,229	1,428	420	444	365	423	473	532	497	425
Other Europe	96	79	23	15	22	16	6	7	9	6	1	8	9	17
Total Europe	8,119	7,825	1,807	1,431	1,251	1,444	426	451	374	429	474	540	506	441
% Change Y-o-Y	-13.4%	-3.6%	22.8%	-30.7%	-45.3%	-37.1%	-45.7%	-42.5%	-52.4%	-45.3%	-39.6%	-31.2%	-35.5%	-43.8%
USA	2,189	1,922	432	293	363	338	124	151	88	84	140	114	-	-
Brazil	385	357	90	75	45	45	15	15	15	15	15	15	-	-
Total Americas	2,574	2,279	522	368	408	383	139	166	103	99	155	129	-	-
% Change Y-o-Y	-12.1%	-11.5%	-3.0%	-39.8%	-43.1%	-43.0%	-24.1%	-44.5%	-54.8%	-58.7%	-34.5%	-33.8%	-	-
South Africa	657	613	158	130	90	90	30	30	30	30	30	30	-	-
% Change Y-o-Y	-9.4%	-6.7%	44.6%	-24.1%	-44.2%	-45.1%	-54.5%	-54.5%	-54.5%	-54.5%	-54.5%	-54.5%	-	-
China	7,206	6,938	1,651	1,430	1,650	1,925	450	550	650	650	650	625	-	-
India	1,800	1,510	390	260	160	197	50	55	55	60	65	72	-	-
Japan	3,839	3,573	947	674	346	445	115	116	115	129	134	182	197	0
South Korea	2,172	1,855	471	391	325	380	92	102	131	121	128	130	-	-
Taiwan	1,536	1,547	386	272	179	270	40	53	85	88	90	92	-	-
Total Asia	16,553	15,422	3,844	3,027	2,659	3,217	747	876	1,036	1,048	1,067	1,101	-	-
% Change Y-o-Y	9.0%	-6.8%	0.9%	-27.8%	-37.2%	-25.4%	-53.4%	-43.6%	-35.9%	-37.0%	-35.1%	0.0%	-	-
Total Stainless	27,903	26,139	6,331	4,956	4,408	5,135	1,342	1,523	1,543	1,606	1,726	1,801	-	-
% Change Y-o-Y	-1.1%	-6.3%	6.8%	-29.6%	-40.5%	-31.0%	-44.3%	-38.8%	-38.7%	-38.0%	-32.3%	0.0%	-	-

Sources: ISSF, AISI, Eurostat, Tekko Tokei Geppo, TSIIA, KISA, Jernkontoret, UKISSB, Eisen Und Stahl, Federacciai, IBS, INSG, Metal Bulletin Research

NB. italics = estimates

Historical and forecast global stainless steel production growth rates (% change y-o-y)

Historical and forecast global stainless production and growth rates

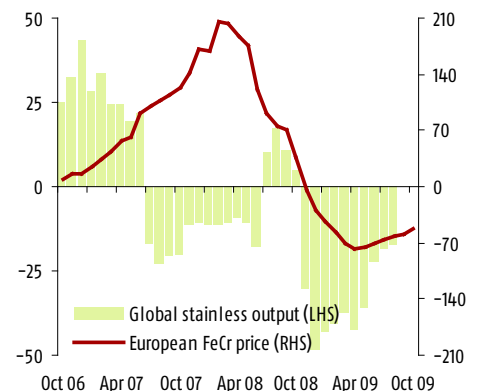
	Q2 09	Q3 09f	Q4 09f	Q1 10f
('000 tonnes)	5,147	5,920	6,230	6,070
(chg yoy)	-30.9%	-6.5%	25.7%	40.4%

Production remains heavily constrained in the EU and USA, but we are seeing a strong revival in Asia. Nevertheless production rates remain constrained relative to historical levels.

- USA** Capacity utilisation rates have been rising and now stand at 70-75%.
- Europe** Capacity utilisation rates have been rising in the the thirs quarter and now stand at approximately 75%.
- Asia** Chinese mills have been running at nearly full capacity, indeed production for second quarter 2009 was up year-on-year. Japanese mills are reportdel read to ramp up production to 80-85% for the rest of the year.

Source: Metal Bulletin Research

European HC ferro-chrome price vs global stainless steel production (% chg y-o-y)

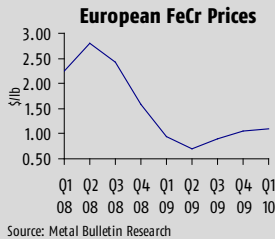


Source: IISI, Metal Bulletin Research

Ferro-chrome highlights

- South African producers conclude fourth-quarter price negotiations...
- ...and further price hikes are expected for the first quarter
- Chinese stockpiles are increasing

Market Outlook



South African charge chrome price negotiations settled up 14–16%, less than half of the proposed 30% price increase. While this price increase suggests that demand for ferro-chrome is improving, the strong rand and high wage settlements render the 14% increase insufficient for South African producers. South Africa's electricity provider, Eskom, is proposing a 48% per year tariff increase for the next three years. This comes after a 31% electricity price hike earlier this year. South African producers cannot afford to absorb these cost increases in

their entirety without passing them on to their customers. These increases come at a time when the stainless steel market is only just beginning to show signs of recovery and stainless mills can ill afford to negotiate too high a settlement price. If the Eskom tariffs hikes come to fruition, which we believe is highly likely, South African chrome producers will have no choice but to increase their prices sharply. We therefore believe first-quarter charge chrome settlements will see an upward revision of 15% and prices between \$1.15–1.23/lb.

South African producers return to full production...

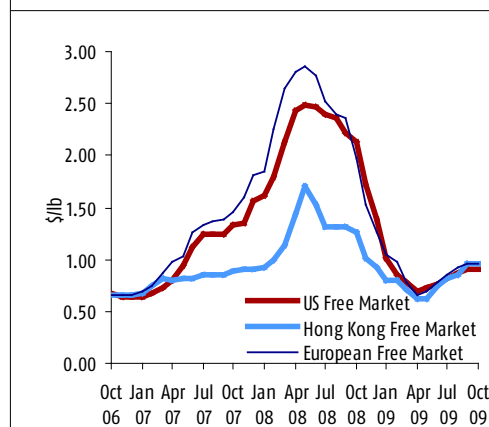
South Africa's Herculon Ferrochrome has returned to full capacity output, up from 60% following a rise in global demand for ferro-chrome and the completion of its \$180m enclosure project. The successful completion of the enclosure makes Herculon the first ferro-chrome producer in the world to have converted semi-closed furnaces into closed ones.

The conversion enables the plant to produce in a more environmentally friendly way and is far safer with less dust and heat generated around the furnaces. **We believe this achievement may precipitate a number of producers in the coming year to follow suit, which could lead to further temporary supply disruptions.**

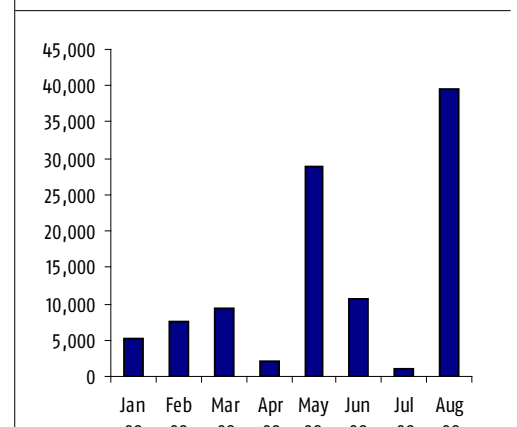
...and conclude fourth-quarter price negotiations

Japan's largest stainless mill, Nippon Steel and Sumikin Stainless Steel (NSSC), has accepted a 14% rise in fourth-quarter charge chrome prices from South African suppliers. This means that NSSC will have to pay \$1.11/lb for the material, up from \$0.97/lb in the third quarter. To pass on the cost, NSSC is trying to lift its domestic stainless list prices by \$56–111/tonne for the fourth quarter and will also have to reflect the price hike in export contracts.

High-carbon ferro-chrome prices – prices are holding despite the lack of transactions and movement



US imports of HC ferro-chrome (tonnes) – after a sharp decline in July imports hit a yearly record in August



In Europe, fourth-quarter price negotiations with South African producers were concluded at \$1.03/lb, representing a 16% increase.

We believe, however, that by the first quarter of next year, prices will have increased by at least another 12%. Eskom, South Africa's electricity provider, has indicated that it intends to raise electricity tariffs by 48% per annum for the next three years. The alternative is to pass a 130% once-off price hike. ***There is no way that South African producers can absorb these electricity hikes and they will have to pass at least 20-25% per annum increases to their stainless steel mill customers.***

US prices to remain flat

US ferro-chrome prices remain stable in the domestic market as active traders look to China for any fluctuation in ferro-chrome and chrome ore procurement after the Chinese national holiday. US prices are expected to follow the market trend set by China. US prices have remained static for about six weeks hovering at \$0.89-\$0.90/lb, with small spot truckloads being exchanged on an as-needed basis.

The balance of 2009 will remain a difficult period for traders. We do not believe that US stainless mills will return for large purchases in the near future and expect ferro-chrome prices to remain unchanged, unless influenced by external factors in Asia or South Africa.

Chinese demand stays weak

The Chinese ferro-chrome market has stabilised though demand remains weak, with many suppliers concluding only a few deals with domestic consumers. A Gansu-based producer with output of 3,000 tpm, reported that although it offered \$1,645/tonne ex-works for medium-carbon ferro-chrome 60%, it had still concluded no deals.

Stockpiles are increasing without any offtakes and we believe that more than two months' supply from Gansu producers are being warehoused now. This could hamper future demand once buying returns to the market.

Weak demand was reiterated by a Henan-based producer, also with a current output of 3,000 tpm, which feared that it might have to reduce prices in order to attract buyers. In Jiangsu, chrome ore is being offered at \$4.51/dmtu ex-ports for South African concentrate chrome ore 44% and \$5.76/dmtu ex-ports for Pakistani lumpy chrome ore 40-42%, but although there were some enquiries from buyers, no deals were transacted. Many traders have chosen to try and wait out this lull period until prices begin to rise to a minimum of \$5.01/dmtu ex-ports for lumpy chrome ore 40-42%.

Given the fact that stockpiles are increasing and buying activity remains depressed, we believe that it is optimistic to believe that this price is achievable over the next two months.

Ferro-chrome Supply-Demand Balance ('000 tonnes)

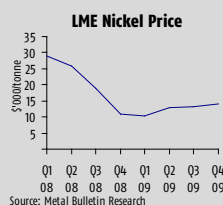
	Q1 08	Q2 08	Q3 08	Q4 08	2008	Q1 09	Q2 09	Q3 09e	Q4 09f	2009f	Q1 10f	Q2 10f	Q3 10f	Q4 10f	2010f
Global Consumption	1,882	1,940	1,764	1,427	7,013	1,316	1,197	1,416	1,584	5,513	1,560	1,629	1,717	1,847	6,754
Global Production	2,033	2,060	1,933	1,242	7,268	866	1,401	1,525	1,635	5,428	1,635	1,745	1,655	1,743	6,778
DLA Stock Disposals	7	3	2	2	14	1	7	8	2	18	5	5	5	5	20
Market Balance	159	122	171	-183	270	-449	211	117	54	-67	80	121	-57	-99	44
Price Forecast - Europe (\$/lb)	2.25	2.81	2.43	1.59	2.27	0.94	0.71	0.89	1.10	0.91	1.20	1.30	1.40	1.60	1.38

Source: Metal Bulletin Research

Nickel highlights

- Nickel needs further dollar weakness to break the \$20,000/tonne barrier
- High prices needed before many idled mines can restart
- Despite the LME stocks rise, we maintain that the fundamentals are tight

Market Outlook



Nickel prices rallied stronger at the end of October, rising by more than 3%, but it fell short of regaining the \$20,000/tonne mark. The rise was not unexpected, amid dollar weakness and the strength in other commodities. However, the dollar turned stronger yesterday as the euro slumped, which undermined nickel's rally, and we think we will need to see the US currency

resume its weaker trend if the \$20,000/tonne level is to be broken again. We maintain that, under the surface, the fundamentals of the nickel market are robust at the moment (and bullish INSG data is starting to reflect this too). Prices also appear to be responding to the underlying tightness, despite being masked by the continuing rise in LME stocks.

Stocks still rising amid continuing deliveries and patchy demand

The rise in LME nickel stocks averaged a fairly significant 334 tonnes a day last week. This is around half the daily rate of increase that occurred in late August and early September, when the first batch of Norilsk's deliveries were arriving in Rotterdam. We may assume from the slower rise in stocks, now that there is more appetite among stainless steel mills as they are restocking for production increases planned for this quarter. There may also be some incentive to commit to purchases sooner rather than later as nickel prices have started to rally again. **However, we hear that demand for nickel is soft in China at the moment, and this may be the cause of metal arriving on warrant in LME warehouses in Asia recently.**

Behind the scenes, we still think the fundamentals are tight

Generally, we had expected nickel demand to be firmer this quarter than it appears, buoyed by an increase in purchases from the stainless steel sector, and by the fact that ferro-nickel and stainless scrap shortages would boost usage of LME-deliverable nickel. **However, the continuing relocation of inventories by Norilsk is masking what we still believe to be a tight fundamental situation for nickel, especially given the ongoing strikes in Canada.**

Avebury needs \$20,000/tonne nickel for a restart

Following on from our observations in recent reports about imminent developments in the nickel industry's project pipeline, we note this week that China's Minmetals says it needs a steady nickel price above \$20,000/tonne to consider opening its suspended Avebury mine in Tasmania. This is a similar figure to the \$18,000/tonne price that Toledo Mining recently said was its breakeven level at Berong in the Philippines.

We also hear that Vale Inco's massive 60,000 tpy Goro mine is still not free of protests by locals, who continue to oppose the new mine. Protests have turned violent in the past and have delayed the construction process. The latest (and much-delayed) January start-up date remains under threat, as does the plant's ramp-up schedule.

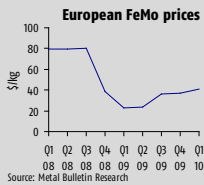
Nickel Supply-Demand Balance ('000 tonnes)															
	Q1 07	Q2 07	Q3 07	Q4 07	2007	Q1 08	Q2 08	Q3 08	Q4 08	2008e	Q1 09	Q2 09f	Q3 09f	Q4 09f	2009e
Refined Consumption	348	349	336	360	1,393	353	346	325	270	1,294	277	290	300	325	1,192
% change year-on-year	8.4	3.6	1.8	5.0	4.7	1.4	-0.9	-3.3	-25.0	-7.1	-21.5	-16.2	-7.7	20.4	-7.9
Refined Production	338	360	351	366	1,415	356	359	332	326	1,373	307	299	297	309	1,212
% change year-on-year	3.7	11.5	10.4	8.0	8.3	5.3	-0.3	-5.4	-10.9	-3.0	-13.8	-16.7	-10.5	-5.2	-11.7
Market Balance	-10	11	15	6	22	3	13	7	56	79	30	9	-3	-16	20
Total Stocks	70	78	93	99	99	124	137	144	200	172	230	239	236	220	220
No of Weeks Consumption	2.4	2.9	3.6	3.6	3.7	4.6	5.1	5.8	7.4	6.7	10.8	10.7	10.2	8.8	9.6
Price Forecast - US \$/tonne	41,449	47,982	30,226	29,935	37,398	28,863	25,730	18,961	10,913	21,117	10,460	12,992	18,000	17,500	14,738
Price Forecast - US \$/lb	18.80	21.76	13.71	13.58	16.96	13.092	11.671	8.60	4.9501	9.58	4.74	5.89	8.16	7.94	6.69

Source: Metal Bulletin Research

Molybdenum highlights

- European ferro-molybdenum bottoms out
- Chinese prices continue to slip
- Low levels of activity in the USA depress prices

Market Outlook



Ferro-molybdenum prices have certainly slipped again this month, but there is more optimism as we finally reached a bottom. We think that although prices are unlikely to suddenly shoot up next month we should see signs of improvement and with Metal Bulletin's International Ferro-

Alloys conference in November we expect to see prices move much more next month as trading activity picks up at the event. However, should low offers continue to be refused, we think this will support prices and we don't think that prices at the end of November will be below \$26.50/kg.

Price slip further in October

This month has been a U-shaped price curve where the first three weeks in October followed the pattern seen through September as prices continued to fall. Once again with every price drop, we were being assured by market participants that the bottom had been reached and prices couldn't possibly fall any further. Indeed in mid-October we were hearing of transactions for western grade ferro-molybdenum being made at \$29.80/kg. This deal was for five to ten tonnes of material, which again has been typical of the low volume transactions this month. **With still very little demand for raw materials from the steel industry there is more back-to-back purchasing of material.**

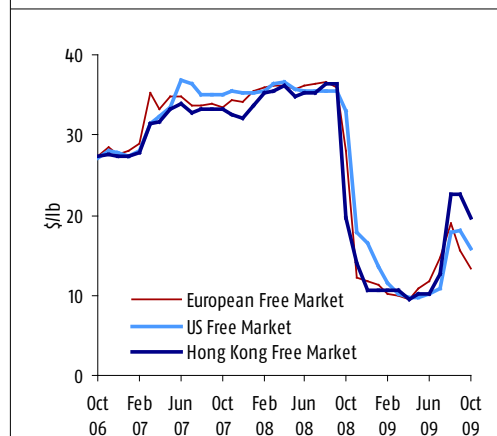
Ferro-molybdenum bottoms out in Europe...

Over the last two weeks in October it finally looks as though ferro-molybdenum has reached a bottom. Prices actually fell below the \$25/tonne mark, much to the surprise of those market participants we spoke to who were expecting prices to bottom at \$27/kg; we were told of a couple of transactions being made at \$24.85-24.95/kg – the lowest transaction level we heard of. It would also appear that in a market where small tonnages are required, a premium is being demanded; we have been told that a producer sold one and a half tonnes to a consumer at \$28/kg. **As we have mentioned before, traders have been accepting lower offers than producers as they typically face more pressure to liquidate positions in a climate of tight credit.**

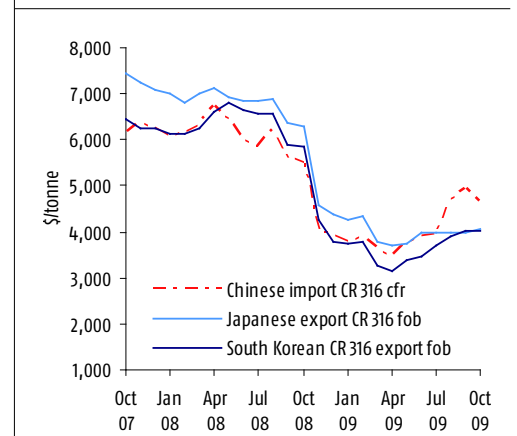
...as low offers are met with refusal

MBR was told that in the third week of October, an offer of between 100-200 tonnes for European material was made at \$24.50/tonne, but was not accepted. We think that this signalled that prices had bottomed and have been creeping back up since. Offers have now reached \$25.50-25.75/kg,

Ferro-molybdenum prices – prices have bottomed out but we do not expect to see significant gains in November



Historic Asian CR 316 fob transaction prices Stainless prices have started to tumble as demand from end users is depleting



with more enquiries for prompt delivery. Mid-month transactions were being made for November delivery where traders accepted lower offers, which were contributing to the downward trend in prices. Molybdenum oxide also slipped over this month before bottoming out at \$10.50/lb. The most recent offers heard of are between \$10.50–10.75/lb with more business on the upside. However, the number of actual transactions remains thin due to a severe lack in demand. **Despite speculation of offers for above \$11/lb we have not heard of any transactions being made higher than this level at the end of the week.**

With prices for oxide at this low level, converters are out of the market. With average conversion costs, and using an oxide price of \$10.50/lb at the bottom of the range, we think that ferro-molybdenum will need to be at around \$26.50/kg for conversion to be a viable option. This is more than \$1/kg higher than the transactions we have heard of.

Chinese demand still in doldrums

Ferro-molybdenum prices have also suffered the same negative movement in China with the latest offers for ferro-molybdenum at Rmb126–131,000/tonne. Demand is clearly outpacing supply with plenty of inventory in the market and we have been told that producers are cutting output and miners have been producing at a loss. Lacklustre sales of stainless steel due to appalling levels of demand from end users at Chinese stainless steel mills has forced steelmakers to halt any purchases of ferro-molybdenum. With European molybdic oxide prices also slipping considerably this month and negative signals from stainless mills in pricing, confidence in a price recovery for ferro-molybdenum is waning as speculation of further price drops grow.

Molybdenum concentrate in China has seen a steep rate of decline this month, with recent offers being made for Rmb1,900–1,950/tonne. Buyers are staying on the sidelines of the market as they wait for signs of stability, but are also reluctant due to high inventories. **We understand that a ferro-molybdenum producer in Huludao is holding more than a month inventory of concentrate.**

Recent figures from Chinese customs suggest 5,067 tonnes of molybdenum concentrate and molybdic oxide were imported in September, a 17% month-on-month decrease, taking nine-month imports totals to 51,350 tonnes. With high levels of molybdenum concentrate inventories and declining stainless steel prices we think that concentrate prices are likely to slip more next month, which will also push down ferro-molybdenum prices.

August levels high

Similarly weak demand in the USA from the stainless steel industry has also pushed down prices and we have not heard of many sales this month. Demand from stainless steel producers has fallen considerably since August and ferro-molybdenum prices in the spot market have been sliding down from the highs we saw in August at the peak of restocking activity. We think that inventory levels from contracted supply may be low at mills, and we may see more enquires at the latter end of next month.

Primary Molybdenum Supply-Demand Balance (million lb Mo contained)

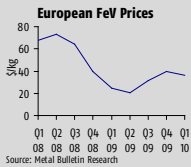
	Q1 08	Q2 08	Q3 08	Q4 08	2008	Q1 09e	Q2 09e	Q3 09e	Q4 09f	2009f	Q1 10f	Q2 10f	Q3 10f	Q4 10f	2010f
Global Consumption	137	137	119	122	515	108	104	110	138	460	110	113	120	122	465
Global Supply															
Global Mined Production	125	131	133	121	510	112	114	113	90	429	123	122	129	109	483
Conversion Losses to Oxide (1.5%)	-2	-2	-2	-2	-8	-2	-2	-2	-1	-6	-2	-2	-2	-2	-7
Recovery from Catalysts	2	2	2	2	8	1	1	1	1	4	1	1	1	1	4
Total Global Supply	125	131	133	121	510	111	113	112	90	427	122	121	128	108	480
Market Balance	-12	-6	14	-1	-5	3	9	2	-48	-33	12	8	8	-14	15
Price Forecast - European Market															
Ferro-Molybdenum (\$/kg)	79.23	79.31	79.95	38.24	69.18	22.98	23.48	36.18	48.50	32.79	48.50	30.75	33.00	35.25	36.88
Molybdic Oxide (\$/lb)	33.77	33.40	33.56	17.24	29.49	9.14	9.42	15.46	18.00	13.00	13.00	13.00	13.00	14.00	13.25

Source: Metal Bulletin Research

Vanadium highlights

- Prices continue to weaken as the market remains in oversupply
- Chinese prices are still declining...
- ...and the rest of Asia's ferro-vanadium market remains weak

Market Outlook



There has been little change in the direction of the ferro-vanadium market as prices have continued to fall. There is simply not enough demand from steelmakers to support prices. Where deals are being made they are for small volumes and each deal is successively smaller than the previous

one. Traders are becoming increasingly desperate to move material and are accepting lower prices. We do not expect to see much change over the next month as we are seeing few signals to indicate a demand recovery and would not be surprised to see offers slip further.

US ferro-vanadium market poised to fall

Ferro-vanadium spot prices in the US continue to fall with prices now between \$11/lb and \$12/lb as opposed to \$11.50-\$12.50/lb two weeks ago. **We believe that this is an indication that production of high-strength steels and tool steels are about to soften and thereby push vanadium prices down even further.**

The market in the USA has been flat for over a month with no purchasing by steelmakers, although there have been reports of interest in contract business. With little demand for ferro-vanadium it is almost impossible to actually pinpoint how far the market might actually drop, however **in MBR's view, we believe that prices will settle between \$11.00-\$11.80/lb.** Meanwhile, vanadium pentoxide prices seem to have stabilised at around \$6.50-\$6.90/lb.

Chinese ferro-vanadium prices still declining...

Chinese domestic ferro-vanadium demand remains low with mid-October mainstream prices at around \$14.70/lb and still dropping. Mills could purchase ferro-vanadium at \$13.67/lb, a price much in line with vanadium pentoxide. Suppliers from Hebei province were even prepared to drop their prices to \$14.11/lb, if quantities purchased were high enough just to move inventory. Suffering from slow demand from steel mills and other consumers, Chinese ferro-vanadium 50% decreased further to \$27.40-\$27.70/kg from \$28.40-\$28.70/kg.

A trader from Gansu told MBR that he had concluded no deals during October and that some suppliers were decreasing their offers to \$25.20/kg in a desperate attempt to procure business. A Jiangsu-based producer, with production capacity of 300 tpy, also confirmed that he had conducted no sales during October. **In MBR's view, the dearth of business will continue to put downward pressure on prices. We believe that Chinese ferro-vanadium prices could settle at \$26.8-\$27.5/kg in the next month.**

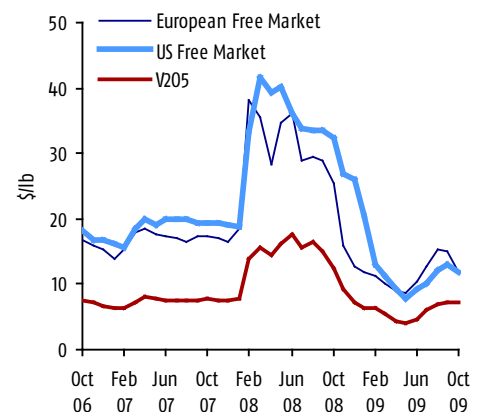
Meanwhile, vanadium-pentoxide is still holding a high level at \$14.70/lb, though Chinese vanadium powder 98%-99% has received hardly any enquiries and 166,000 tpy of extra capacity has just been brought on by Cheng Steel. **We therefore believe that the pentoxide market is also poised to fall.**

...and demand from the rest of Asia is quiet

With almost no demand from end users, the South Korean market continues to remain lacklustre, with prices having stabilised around \$27/kg.

Ferro-vanadium prices

Prices have continued to fall as demand remains lacklustre



Source: Metal Bulletin Research

Key global economic indicators

	Historical												% change y-o-y		
	2007	2008	Q4 2008	Q1 2009	Q2 2009	Feb 09	Mar 09	Apr 09	May 09	Jun 09	Jul 09	Aug 09	Q4 2008	Q1 2009	Q2 2009
EU															
GDP (EU 13) €bn	8,926	9,176	2,275	2,221	2,217	-	2,221	-	-	2,217	-	-	0.6%	-3.2%	-3.8%
IPI: sa: EU 15: Manufacturing (Mfg) (EU)	108	105	98	92	89	91.93	90.71	89.60	88.95	88.13	87.28	-	-10.0%	-16.7%	-17.4%
IPI: sa: EU 27: Manufacturing (Mfg) (EU)	109	107	100	92	90	91.61	90.86	90.48	90.63	90.38	90.40	-	-9.5%	-18.5%	-17.6%
Interest rate %	3.85	3.85	3.2	1.8	1.1	2.00	1.50	1.25	1.00	1.00	1.00	1.00	-	-	-
Consumer Price Index (2005 = 100)	104	108	108	107	108	107	108	108	108	108	108	108	2.3%	1.0%	0.2%
Construction Production Index BC (EU 13) (2000 = 100)	108	105	98	92	89	91.93	90.71	89.60	88.95	88.13	87.28	-	-10.0%	-16.7%	-17.4%
Construction Production Index (EU 27)	105	102	98	95	94	94.65	94.64	95.14	93.32	92.54	91.71	-	-7.6%	-10.3%	-9.1%
Motor vehicle production (EAMA)	19,716,685	18,424,038	3,708,025	3,414,577	-	-	-	-	-	-	-	-	-26.1%	-34.8%	-
USA															
GDP \$bn	13,808	14,265	3,550	3,524	-	-	14,097	-	-	-	-	-	-74.7%	-75.1%	-
Industrial Production Index (2002=100)	111	109	104	99	96	99	98	95	95	98	97	100	-6.7%	-11.5%	-13.5%
Interest rate: federal funds rate (monthly average) %	5.02	1.93	0.5	0.2	0.2	0.22	0.18	0.15	0.18	0.21	0.16	0.16	-88.7%	-94.2%	-91.4%
Consumer Price Index	207	215	213	212	214	212	213	213	214	216	215	216	1.6%	0.0%	-1.2%
Automobile: domestic production ('000 unit)	3,924	3,777	820	418	465	139	177	158	144	164	148	226	-14.8%	-58.7%	-51.6%
Housing starts (m units)	16.10	10.80	2	2	2	0.57	0.52	0.48	0.55	0.59	0.59	0.60	-43.6%	-50.2%	-46.9%
Energy production (BTU tn)	71,504	73,714	18,546	18,442	18,265	5,760	6,309	6,005	6,133	6,128	-	-	2.8%	0.8%	-0.6%
Brazil															
GDP R\$m	2,597,612	2,889,719	747,152	684,609	762,094	224,093	224,092	242,330	256,211	263,553	265,214	260,485	8.8%	2.8%	4.5%
Industrial Production Index (2002=100)	122	126	120	101	112	95	111	106	114	115	123	125	-6.3%	-14.6%	-12.3%
Motor vehicles production: total	2,974,040	3,220,475	591,374	664,361	807,017	204,401	274,911	253,731	268,933	284,353	281,956	295,009	-25.1%	-16.2%	-10.9%
Russia															
GDP Rm	32,199	41,849	11,709	8,229	9,386	2,759	2,961	3,085	3,150	3,151	3,480	3,440	23.7%	-0.4%	-6.2%
Industrial production (2002=100)	141	144	143	122	123	120	133	123	120	125	131	127	-5.8%	-14.2%	-15.3%
China															
GDP Index (PY=100)	113	110	109	106	107	-	106	-	-	107	-	-	-3.5%	-4.1%	-3.0%
Industrial production: motor vehicles ('000 unit)	767	804	2,130	2,696	3,533	853	1,169	1,181	1,148	1,204	1,137	1,167	159.1%	213.3%	283.6%
Floor Space under Construction: Sqm Thn	32,875,396	39,843,867	13,357,944	6,662,323	10,614,004	2,001,767	2,658,789	3,081,936	3,496,160	4,035,908	4,292,178	4,722,813	17.0%	15.0%	16.1%
Japan															
GDP JPYbn	2,062,001	2,029,594	481,391	481,391	478,832	-	481,391	-	-	478,832	-	-	-6.5%	-7.4%	-6.9%
IPI: manufacturing (Mfg) (2005=100)	107	104	72	74	76	67	77	72	72	83	86	78	-35.7%	-32.5%	-27.9%
Motor vehicle production (JAMA)	11,596,327	11,563,629	1,518,872	1,579,758	1,711,645	481,396	552,071	485,405	542,282	683,958	742,284	571,787	-51.5%	-50.3%	-40.5%
Building construction starts sq m '000	160,991	157,411	29,217	28,245	28,499	9,795	9,992	9,431	8,823	10,246	10,105	8,965	-21.8%	-22.2%	-31.7%
South Korea															
GDP Wbn	901,189	702,334	336	308	352	-	-	-	-	-	-	-	-99.9%	-99.9%	-99.9%
Industrial Production Index (IPI) 2005 = 100	116	119	112	103	117	100	114	116	115	122	124	117	-11.3%	-15.5%	-6.2%
India															
GDP R\$m	41,666,870	48,381,390	12,896,190	12,896,190	12,386,920	-	12,896,190	-	-	12,386,920	-	-	12.4%	8.0%	7.1%
Industrial production (93/94 = 100)	263	275	284	285	280	277	306	269	280	291	291	292	5.4%	-0.9%	3.8%
Motor vehicle production	10,878,262	11,137,622	2,940,199	3,053,158	3,069,894	931,125	1,020,009	989,065	1,044,084	1,036,735	1,130,163	1,133,839	3.3%	9.6%	9.5%
Turkey															
GDP TL '000	843,178,421	950,098,199	209,433,394	209,433,394	228,817,251	-	-	-	-	-	-	-	-4.7%	-2.8%	-4.4%
Industrial Production Index	48	57	-	-	-	-	-	-	-	-	-	-	-	-	-
South Africa															
GDP Zm	1,999,086	2,283,778	574,850	574,850	579,701	-	574,850	-	-	579,701	-	-	7.8%	6.5%	2.3%
Industrial production: manufacturing (2000=100)	124	126	-	-	-	-	-	-	-	-	-	-	-	-	-
FX															
\$/€	1.37	1.47	1.30	1.33	1.36	1.28	1.31	1.32	1.36	1.40	1.41	1.43	-10.2%	-11.4%	-12.8%
\$/Rmb	7.61	6.95	6.83	6.83	6.83	6.84	6.84	6.83	6.82	6.83	6.83	6.83	-8.0%	-4.6%	-1.8%
\$/Y	117.76	103.38	96.56	97.81	97.39	92.92	97.86	98.92	96.64	96.61	94.37	94.90	-14.6%	-7.0%	-6.9%

Source: Metal Bulletin Research, CIBC Data

Historical and forecast global steel production growth rates (% change y-o-y)

Historical and forecast global steel production growth rates (% change year-on-year)					
	Q1 09	Q2 09	Q3 09	Q4 09	
(m tonnes)	261	284	305	320	
(chg yoy)	-22.9%	-19.7%	-10%	19%	

Crude steel production in December 2008 was the lowest the world has seen since February 2004. Total production growth for 2008 was negative for the first time in years. The cutbacks which took place around the world were unprecedented. They will be reversed in Asia before the rest of the world.

- USA** Demand for steel products has stabilised, but the auto industry remains weak. This is especially important in the US market. Steel growth is likely to be negative for the whole of next year. Capacity utilisation is now 50%.
- Europe** Steel production is beginning to improve in Europe, but very slowly. Output for 2009 will be the lowest in a long time.
- Asia** China is producing steel at a phenomenal rate. India too is producing at a greater rate than it did last year. Production growth for both countries in the first half of the year was 1%. Other Asian countries are producing at a slower rate, however it does seem that the worst is over.

Source: Metal Bulletin Research

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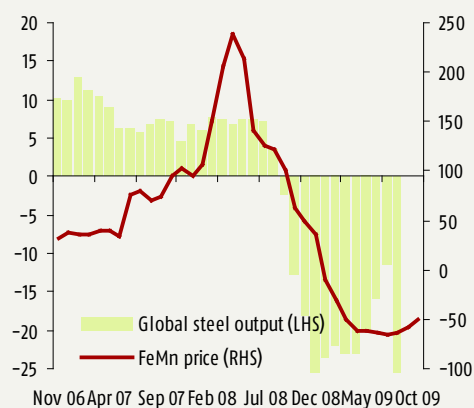
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European HC ferro-manganese price vs global steel production (% change y-o-y)



Source: IISI, Metal Bulletin Research

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