

Metal Bulletin Research

Stainless Steels Monthly

Global market analysis of stainless steel flat and long products

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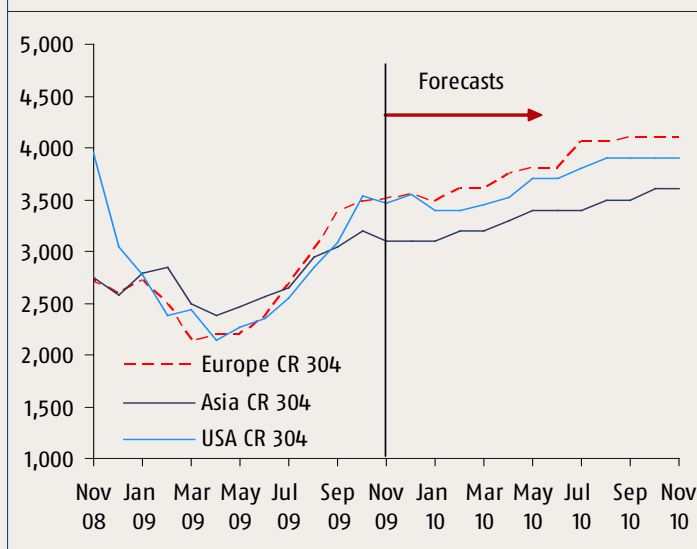
● Having rallied in the middle part of the year stainless steel markets look set to finish 2009 in a bearish mood. **US mills shied away from raising base prices for November – as was their initial intention due to falling surcharges – in order not to discourage buying.** In October customers stayed clear of making purchases because of the predicted fall in the November surcharge, yet MBR understands that there is little expectation of a resumption of purchases before the end of the year. This comes despite the fact that inventories are now very low.

● European mills attempted to raise their base prices this month, but this was received coolly by the market and in fact base price offers from European mills actually fell. Indeed, **the European market is under the potential threat of import competition from Asia, and the scope for further increases from mills is now very limited, especially as surcharges are bound to rise for December due to nickel's rally in the last month.** MBR understands that production continues to rise in Europe despite the fact that demand remains fairly unconvincing and there is a concern that this could further undermine pricing.

● Asian markets continue to be blighted by oversupply but a rise in nickel has kept prices stable this month. **There is now some evidence of decreasing capacity utilisation rates in China, through maintenance outages as well as production cuts, but there is little chance of the market returning to balance before the second quarter of 2010.**

Stainless steel transaction price forecasts (\$/tonne)

Having rallied in the second and third quarters of 2009, prices look set to fall into the first quarter of 2010, before recovering towards the second half of 2010



Source: Metal Bulletin Research

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Cold-rolled Stainless Steel Coil, Sheet^(1,2 or 3)												
Market			Grade 304, 2mm			Grade 316, 2mm ⁽⁴⁾			Grade 430, 2mm			
			Nov 09	Oct 09	Jan - Nov 09	Nov 09	Oct 09	Jan - Nov 09	Nov 09	Oct 09	Jan - Nov 09	
Europe:												
Base	Germany	Y-o-Y % chg	euro/tonne	1300 - 1350 19.4%	1325 15.2%	1121 -5.5%	2290 - 2450 4.2%	2370 1.9%	2125 -7.7%	1340 - 1450 13.4%	1395 11.6%	1193 -9.2%
	Italy ⁵	Y-o-Y % chg	euro/tonne	1240 - 1282 20.7%	1261 17.3%	1046 -7.1%	2140 - 2346 12.2%	2243 9.4%	1960 -6.0%	1290 - 1338 15.3%	1314 13.3%	1106 -9.2%
	France	Y-o-Y % chg	euro/tonne	1290 - 1338 21.1%	1314 16.8%	1106 -7.8%	1890 - 2010 5.4%	1950 2.6%	1721 -18.0%	1290 - 1338 13.8%	1314 11.8%	1115 -13.4%
	United Kingdom	Y-o-Y % chg	£/tonne	1170 - 1204 23.6%	1187 17.5%	989 -5.3%	1670 - 1820 10.8%	1745 7.4%	1521 -7.3%	1270 - 1293 19.2%	1282 17.0%	1079 -4.6%
	Spain	Y-o-Y % chg	euro/tonne	1290 - 1338 34.8%	1314 28.2%	1079 -2.3%	-	-	-	-	-	-
	Belgium	Y-o-Y % chg	euro/tonne	1290 - 1170 16.0%	1230 11.8%	1051 -10.6%	-	-	-	-	-	-
	Netherlands	Y-o-Y % chg	euro/tonne	1290 - 1338 20.6%	1314 16.8%	1097 -8.2%	-	-	-	-	-	-
	USA:											
Base	East Coast	- Domestic	\$/lb	0.75 - 0.77 6.4%	0.7 2.6%	0.7 -6.6%	0.91 - 1.00 0.6%	0.9 -9.0%	0.9 -6.0%	0.50 - 0.62 2.2%	0.5 -2.6%	0.52 -3.4%
	- Import ⁶	Y-o-Y % chg	\$/lb	0.62 - 0.68 -9.7%	0.7 -12.8%	0.6 -16.0%	0.94 - 1.04 4.0%	1.0 -5.9%	0.9 -12.2%	-	-	-
Transaction	West Coast	- Import ⁶	\$/lb	2.30 - 2.70 28.3%	2.5 25.5%	2.2 5.7%	-	-	-	-	-	-
	Y-o-Y % chg	\$/lb	2.30 - 2.70 28.3%	2.5 25.5%	2.2 5.7%	-	-	-	-	-	-	
Asia:												
Transaction	China	Y-o-Y % chg	\$/tonne	2991 - 3167 -12.2%	3300 -8.6%	2689 -30.6%	4450 - 4800 -15.9%	4946 -11.7%	4113 -30.3%	1400 - 1648 -12.9%	1575 -11.4%	1279 -23.0%
	Japan	Y-o-Y % chg	\$/tonne	3100 - 3200 -26.7%	3100 -28.7%	3285 -27.6%	4000 - 4100 -35.7%	3975 -37.6%	3983 -39.7%	-	-	-
	South Korea	Y-o-Y % chg	\$/tonne	2800 - 2900 -20.8%	2833 -21.3%	2451 -38.5%	3940 - 4140 -30.9%	4017 -31.9%	3676 -40.3%	-	-	-
	Taiwan	Y-o-Y % chg	\$/tonne	2725 - 2800 -25.3%	2846 -25.2%	2408 -39.9%	-	-	-	-	-	-
Hot-rolled Stainless Steel Plate^(1,2 or 3)												
Market			CMP, Grade 304, 3-8mm			CMP, Grade 316, 3-8mm			PMP, Grade 304, 8-30mm(6)			
			Nov 09	Oct 09	Jan - Nov 09	Nov 09	Oct 09	Jan - Nov 09	Nov 09	Oct 09	Jan - Nov 09	
Europe:												
Base	Germany	Y-o-Y % chg	euro/tonne	1690 - 1786 7.3%	1738 5.3%	1524 -4.4%	1940 - 2122 4.7%	2031 4.2%	1807 -8.6%	1940 - 2066 5.7%	2003 4.1%	1775 -8.3%
	Italy	Y-o-Y % chg	euro/tonne	1440 - 1562 9.6%	1501 7.2%	1301 -6.2%	1890 - 2010 5.7%	1950 4.0%	1727 -11.4%	1740 - 1898 5.8%	1819 3.9%	1608 -8.0%
	France	Y-o-Y % chg	euro/tonne	1640 - 1786 9.1%	1713 7.1%	1492 -5.5%	2040 - 2234 2.7%	2137 1.8%	1918 -8.6%	1790 - 1954 5.8%	1872 4.0%	1655 -11.4%
	United Kingdom	Y-o-Y % chg	£/tonne	1340 - 1394 11.1%	1367 8.5%	1175 -4.5%	1590 - 1786 6.2%	1688 5.5%	1486 -7.0%	1500 - 1618 7.5%	1559 6.1%	1363 -4.1%
	Spain	Y-o-Y % chg	euro/tonne	1490 - 1618 9.4%	1554 7.2%	1349 -6.3%	2040 - 2178 5.2%	2109 4.1%	1874 -7.0%	1690 - 1786 7.3%	1738 5.3%	1525 -12.8%
	USA:											
Base	East Coast	- Domestic	\$/lb	0.81 - 0.84 -0.5%	0.8 -1.7%	0.8 -3.8%	0.95 - 1.20 6.4%	1.1 5.4%	1.0 -1.0%	1.10 - 1.20 -2.3%	1.2 -3.1%	1.13 -4.6%
	- Import ⁶	Y-o-Y % chg	\$/lb	0.75 - 0.85 -1.8%	0.8 -3.6%	0.8 -5.2%	1.05 - 1.10 0.5%	1.1 -0.9%	1.0 -3.8%	1.10 - 1.15 -3.8%	1.1 -5.5%	1.10 -6.9%
Transaction	West Coast	- Import ⁶	\$/lb	2.15 - 2.29 -5.5%	2.2 -6.5%	2.1 -9.1%	3.26 - 3.28 -0.4%	3.3 -0.8%	3.2 -3.5%	2.61 - 2.55 -0.2%	2.6 -0.5%	2.51 -3.1%
	Y-o-Y % chg	\$/lb	2.15 - 2.29 -5.5%	2.2 -6.5%	2.1 -9.1%	3.26 - 3.28 -0.4%	3.3 -0.8%	3.2 -3.5%	2.61 - 2.55 -0.2%	2.6 -0.5%	2.51 -3.1%	
Asia:												
Transaction	China	Y-o-Y % chg	\$/tonne	3000 - 3400 -6.7%	3180 -18.1%	2532 -35.5%	4780 - 5100 -17.5%	4929 -18.3%	4401 -28.7%	2876 - 3000 -23.6%	2915 -26.3%	2618 -35.4%
	Japan	Y-o-Y % chg	\$/tonne	2500 - 2600 -26.2%	2550 -26.7%	2345 -33.6%	3900 - 4200 -34.1%	4050 -34.8%	3956 -38.5%	2600 - 2700 -34.8%	2650 -36.5%	2551 -39.0%
	South Korea	Y-o-Y % chg	\$/tonne	2859 - 3200 -28.0%	3009 -30.0%	2787 -37.8%	4100 - 4375 -31.1%	4233 -31.3%	4015 -37.6%	2760 - 2890 -31.5%	2805 -33.4%	2686 -38.8%
	Taiwan	Y-o-Y % chg	\$/tonne	2630 - 3100 -26.5%	2858 -27.8%	2564 -39.2%	-	-	-	2700 - 2890 -26.9%	2781 -28.2%	2483 -40.2%

1. Ex-mill prices for business negotiated in November with large-vol buyers. Excludes alloy surcharges applied by European and US producers

2. Unless specified, prices refer to sheet/cut plate 3. Historical prices are quoted as an average 4. For France prices shown are for 316L material

5. Coil basis 1mm for sheet. 6. Quarto plate 7. US import prices are duty unpaid

Cold-drawn Stainless Steel Bars^(1,2 & 3)

Market		Grade 304, 20-30mm			Grade 316, 20-30mm			
		Nov 09	Oct 09	Jan - Nov 09	Nov 09	Oct 09	Jan - Nov 09	
Europe:								
Base	Germany	euro/tonne	1340 - 1450	1395	1204	1690 - 1786	1738	1537
	Y-o-Y % chg		10.3%	7.7%	-2.0%	5.7%	4.4%	-2.5%
	Italy	euro/tonne	1320 - 1394	1357	1166	1540 - 1674	1607	1402
	Y-o-Y % chg		11.2%	8.6%	-0.2%	8.6%	7.1%	-3.1%
	France	euro/tonne	1340 - 1506	1423	1231	1710 - 1842	1776	1565
	Y-o-Y % chg		9.9%	7.4%	-1.8%	6.7%	5.4%	-1.9%
United Kingdom	£/tonne	1050 - 1069	1060	892	1260 - 1394	1327	1144	
	Y-o-Y % chg		14.6%	11.0%	-0.2%	10.1%	8.3%	-1.1%
EU import	euro/tonne	1250 - 1350	1364	1164	-	-	-	
	Y-o-Y % chg		5.3%	7.8%	-2.5%	-	-	-
USA:								
Midwest	- Domestic	\$/lb	0.76 - 0.80	0.78	0.71	1.05 - 1.10	1.08	0.97
	Y-o-Y % chg		-8.6%	-9.7%	-15.4%	3.0%	2.0%	-6.8%
Base	Import ⁵							
	- East Coast	\$/lb	0.71 - 0.76	0.73	0.68	1.00 - 1.22	1.11	1.03
Y-o-Y % chg		-15.8%	-16.7%	-20.7%	-3.0%	-3.8%	-9.5%	
- West Coast	\$/lb	0.69 - 0.86	0.78	0.74	0.96 - 1.01	0.99	0.94	
	Y-o-Y % chg		-10.9%	-11.9%	-15.6%	-12.2%	-13.0%	-15.8%
Asia:								
Transaction	China	\$/tonne	3050 - 3260	3150	2815	4096 - 4200	4148	3749
	Y-o-Y % chg		-24.2%	-26.7%	-36.8%	-25.6%	-26.1%	-34.4%
	Japan	\$/tonne	2760 - 2940	2825	2705	3600 - 3800	3700	3501
	Y-o-Y % chg		-33.5%	-36.1%	-41.9%	-32.4%	-32.1%	-40.4%
South Korea	\$/tonne	2993 - 3200	3090	2875	3765 - 4020	3888	3708	
	Y-o-Y % chg		-34.2%	-35.7%	-42.0%	-31.1%	-32.7%	-38.2%
Taiwan	\$/tonne	2993 - 3145	3064	2792	3750 - 4020	3863	3629	
	Y-o-Y % chg		-27.5%	-27.9%	-37.6%	-29.2%	-29.6%	-37.4%

Hot-rolled Stainless Steel Bars^(1,2 & 4)

Market		Grade 304, 50-100mm			Grade 316, 50-100mm			
		Nov 09	Oct 09	Jan - Nov 09	Nov 09	Oct 09	Jan - Nov 09	
Europe:								
Base	Germany	euro/tonne	1180 - 1248	1214	1036	1280 - 1360	1320	1136
	Y-o-Y % chg		12.4%	10.4%	0.0%	10.9%	14.8%	-5.4%
	Italy	euro/tonne	1140 - 1226	1183	1005	1240 - 1316	1278	1089
	Y-o-Y % chg		13.2%	10.0%	2.3%	13.1%	11.1%	-11.0%
	France	euro/tonne	1180 - 1282	1231	1051	1440 - 1562	1501	1307
	Y-o-Y % chg		12.4%	9.4%	-1.4%	8.8%	7.2%	-1.2%
United Kingdom	£/tonne	900 - 1002	951	781	1140 - 1226	1183	1003	
	Y-o-Y % chg		20.4%	16.0%	3.8%	13.8%	11.6%	1.3%
EU import	euro/tonne	1100 - 1180	1183	1007	-	-	-	
	Y-o-Y % chg		6.5%	7.5%	0.0%	-	-	-
USA:								
Midwest	- Domestic	\$/lb	0.74 - 0.77	0.75	0.69	1.00 - 1.02	1.01	0.95
	Y-o-Y % chg		2.8%	1.5%	-5.3%	1.1%	0.1%	-5.1%
Base	Import ⁵							
	- East Coast	\$/lb	0.72 - 0.75	0.74	0.68	1.01 - 1.10	1.05	1.00
Y-o-Y % chg		2.1%	0.7%	-5.1%	0.4%	-0.5%	-4.7%	
Asia:								
Transaction	China	\$/tonne	3050 - 3260	3150	2744	4096 - 4200	4148	3585
	Y-o-Y % chg		-9.5%	-13.8%	-27.4%	-22.0%	-22.2%	-35.3%
	Japan	\$/tonne	2760 - 2940	2825	2466	3600 - 3800	3700	3488
	Y-o-Y % chg		-26.0%	-28.4%	-40.8%	-34.8%	-35.9%	-42.8%
South Korea	\$/tonne	2993 - 3200	3090	2803	3765 - 4020	3888	3474	
	Y-o-Y % chg		-30.8%	-32.1%	-40.5%	-27.8%	-27.1%	-38.0%
Taiwan	\$/tonne	2993 - 3145	3064	2731	3750 - 4020	3863	3632	
	Y-o-Y % chg		-26.8%	-26.9%	-37.1%	-28.1%	-27.5%	-35.2%

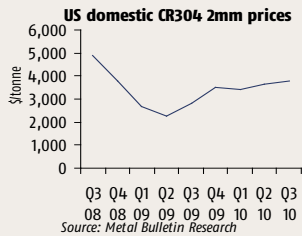
1. Ex-mill prices for business negotiated in November with large-volume buyers - excludes alloy surcharges applied by European and US producers

2. Historical prices are quoted as an average 3. Bright-drawn condition 4. Rough turned/peeled condition 5. US import prices are duty unpaid

American Highlights

- No base price rises for November
- Inventories remain low
- Import offers remain limited

Market Outlook



We understand that base prices in the USA have held stable for November despite the fact that surcharges fell by an average of 9% for austenitic materials. The fact that nickel has rallied again this month means that we should see transaction prices rise in December. This may mean that mills will no longer have the opportunity to raise base prices

before the end of the year. Owing to the continued poor financial position at mills, however, we should see base prices rise in the first quarter. Especially as there is a good chance that surcharges will fall, given that nickel prices are at the top end of their recent trading range.

Mills shy away from base price increases

It is a measure of the weakness of demand at present that mills did not take the opportunity to raise base prices for November, despite the widely anticipated fall in the surcharge. **MBR understands that the surcharge driven uptick in transaction prices in October had a greater than expected detrimental effect on purchasing, and that the limited inventory restocking we have seen over the last few months came to an almost complete halt.**

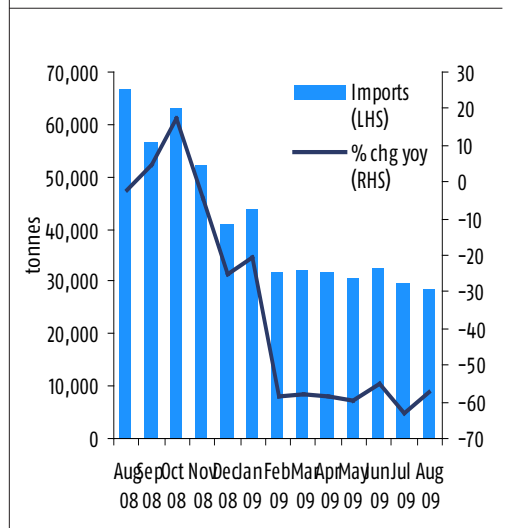
It was against this background that mills decided to shy away from base price increases, in order not to make buyers reluctant to make purchases in what is the last full month of business for the year.

Inventories remain low in limited purchasing

Nevertheless, we remain confident that the US market is in a relative state of balance. Inventories at service centres remain very low at approximately 2.6 months of shipments – as opposed to the three months plus that is typical. Also, lead times from mills remain at 6–8 weeks for standard materials, which is reflective of the fact that production discipline on the part of mills has balanced out the effect of lower demand.

US imports of stainless steel

US mills still have room to increase prices without the threat of import competition



USA Stainless Shipments and Inventories

All Shapes '000 Tons		Quarterly total											
		Q1 2009	Q2 2009	Q3 09	Jan-09	Feb-09	Mar-09	Apr-09	May-09	Jun-09	Jul-09	Aug-09	Sep-09
USA Stainless Shipments													
All Shapes	Total	339.4	341.5	360.9	113.1	111.1	115.2	110.1	110.4	121	118.2	123.9	118.8
	% change year-on-year	-31.7%	-29.6%	143.2%	-28.8%	-35.9%	-30.1%	-36.7%	-30.1%	-21.0%	-23.1%	-15.5%	-19.9%
		Quarterly average											
USA Stainless Inventory (EOM) All Shapes													
	Total	338.8	284.9	295.0667	346.1	347	323.4	289.3	284	281.4	289	291.2	305
	Months	3.0	2.5	2.5	3.1	3.1	2.8	2.6	2.6	2.3	2.4	2.4	2.6
		% change year-on-year											
		-31.4%	-43.3%	-33.3%	-30.2%	-28.8%	-35.1%	-41.7%	-44.0%	-44.1%	-39.9%	-37.5%	-31.0%

Source: MSCI, Metal Bulletin Research

As stated last month mill depot inventories are relatively low and as a result mills can sell available capacity from production tonnages. Although as anticipated domestic mills have been able to replenish depots in November as production orders decline.

Little movement on import front

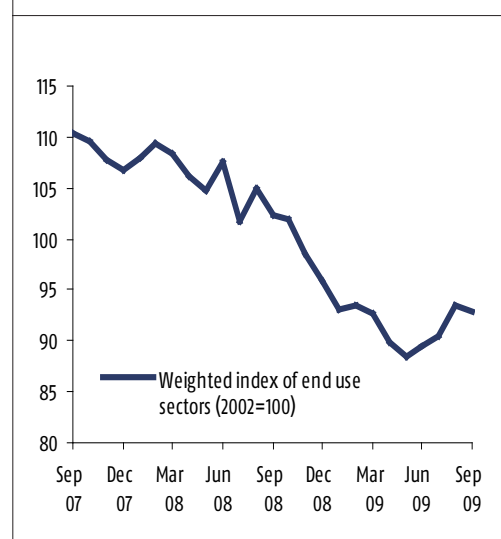
Mills can take solace from the fact that their inability to raise prices in November has meant that there is still very little material being offered from Asian and European mills, and as we have previously postulated we do not expect that we will see significant import tonnages from Asia in the remainder of 2009. Moreover, **there is still room for the domestic mills to raise base prices in the New Year before the Asian mills start to find the US marketplace attractive.**

Economic outlook improves slightly

There are also some positive economic signals in the USA. US industrial output rose by 0.7% in September, its third successive monthly increase, although this still represents a year-on-year decline of 6.1%. Moreover, the previous month's increase was revised upwards, from 0.8% to 1.2%.

The rate of capacity utilisation in the manufacturing and industrial sectors has also begun to recover, rising by 2.2 percentage points, to 70.5% between June and September. However, it remains well below its historical average (1972–2008) of 80.9%. All of this should bode well for restocking in end-use industries. One bleak spot is that now the 'clash for clunkers' scheme has expired the short-term outlook for automotive demand is uncertain, especially seeing as inventories at car plants have been replenished.

MBR's US stainless end use demand index
There has been a recovery of sorts in economic activity in recent months, the outlook is still precarious however



Source: Metal Bulletin Research

Selected North American Stainless Steel Statistics

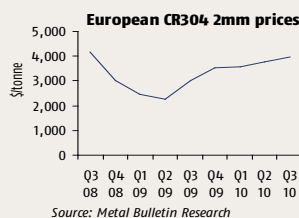
Tons											% Change y-o-y		
	USA	2007	2008	Dec-08	Jan-09	Feb-09	Mar-09	Apr-09	May-09	Jun-09	Jul-09	Current month	Year-to-date
Mill Shipments													
Blooms, Slabs, Billets	1,298	2,486	121	110	71	75	55	59	59	48	-71.4%	-72.4%	
Wire Rods	41,084	35,190	1,658	1,401	2,051	1,896	1,690	1,492	2,013	2,894	-16.0%	-37.0%	
Plates - Cut Lengths	157,446	137,513	7,576	7,859	10,186	7,357	7,565	10,636	9,808	10,070	-18.8%	-28.6%	
Plates - In Coils	106,909	76,858	2,752	3,256	5,275	3,520	5,411	9,797	10,492	14,990	153.5%	-4.9%	
HR Bars	17,432	48,799	2,021	2,664	3,128	2,468	2,565	2,292	2,285	2,403	-43.4%	-43.1%	
CF Bars	124,526	101,779	5,272	7,142	6,180	6,277	5,671	5,505	5,526	5,928	-33.1%	-37.3%	
Pipe and Tubing	14,201	14,175	974	1,078	1,117	957	677	767	744	776	-37.1%	-26.6%	
HR Sheets	85,254	74,381	1,463	2,685	5,190	2,986	3,526	4,838	12,250	6,556	77.8%	-32.1%	
CR Sheets	873,298	839,156	37,294	44,932	52,664	36,851	39,428	50,461	56,305	64,531	10.1%	-42.9%	
HR Strip	4,938	9,057	390	578	1,301	826	441	743	141	512	-35.0%	-34.4%	
CR Strip	450,242	326,560	13,288	14,537	15,164	16,999	16,615	50,461	13,822	16,794	-30.5%	-25.0%	
Total (excl. semis)	1,860,615	1,663,468	72,688	86,132	102,256	80,137	83,589	136,992	113,386	125,454	1.7%	-35.7%	
Apparent Consumption													
Ingot and Steel for Castings	10,228	8,018	-127	-817	-1,443	15	-725	-245	-387	112	-94.2%	-159.6%	
Blooms, Slabs, Billets	116,223	105,495	8,142	6,923	7,480	5,043	4,754	-2,239	5,930	4,699	18.2%	-46.4%	
Wire Rods	61,135	52,602	2,347	2,217	2,328	2,356	2,187	1,861	2,446	3,313	-44.9%	-48.3%	
Plates - Cut Lengths	194,951	148,407	8,743	10,288	9,675	6,647	7,107	5,648	4,595	-1,054	-108.5%	-53.0%	
Plates - In Coils	139,599	88,372	3,269	3,415	5,656	3,589	6,511	10,295	11,031	14,986	66.1%	-12.0%	
HR Bars	41,303	77,398	3,232	4,131	3,532	3,471	3,693	3,616	2,511	3,016	-58.2%	-51.6%	
CF Bars	191,089	166,409	9,468	10,982	10,010	11,222	10,162	9,337	7,689	8,800	-45.9%	-37.5%	
Pipe and Tubing	134,946	238,548	7,923	9,139	5,569	5,975	6,348	5,271	4,993	8,353	-94.1%	-76.6%	
HR Sheets	77,796	78,810	3,022	4,357	5,769	3,567	3,531	3,963	6,418	5,744	-305.7%	-36.2%	
CR Sheets	1,228,323	1,203,195	50,513	60,358	63,131	48,287	51,850	62,543	71,209	79,574	-15.4%	-48.9%	
HR Strip	4,643	5,220	91	480	1,075	549	337	531	48	628	153.2%	-16.8%	
CR Strip	491,735	371,618	15,835	16,934	17,161	19,707	18,594	52,225	15,578	18,985	-35.2%	-27.9%	
Total finished (excl. semis)	2,547,435	2,430,579	104,443	122,301	123,906	105,370	110,320	155,290	126,518	142,345	-54.7%	-47.1%	

Source: AISI, MSC, Metal Bulletin Research

European Highlights

- Slight reduction in November base prices...
- ...as production fails to track demand
- Base price outlook flat for fourth quarter

Market Outlook



We have seen some slight reductions in base prices over the month, as producers attempt to boost demand. End user demand plummeted through the summer months, thanks mainly to lower automotive activity, but production levels did not reflect this as they continued to improve in year-

on-year terms. On top of this, European producers will be forced to contend with the increasing threat of Asian imports, offers for which are already significantly below domestic prices. As a result we expect base prices to remain flat for the rest of the year and we hold a cautious view on the first quarter of 2010.

Base prices down slightly in October...

Increased uncertainty in the European stainless market has resulted in some base price decreases in October, 304 grade 2mm CR coil base prices have been reduced by around €30/tonne (\$45/tonne) to stand in the region of €1,115-1,200/tonne (\$1,670-1,795/tonne). **We understand, however, that Thyssenkrupp among other had planned to increase base prices slightly due to falling surcharges in October but that this was rejected by the market. The average European surcharge for 316 material has reduced by €84/tonne to €1,657/tonne, while 304 material surcharges have dropped by €2/tonne to €1,042/tonne. We do not expect any attempted increase to be successful in influencing an upward trend in the market.**

...on uncertain end-use demand

As with previous months, prices have been underpinned by buyers restocking their inventories, but without sufficient end-user demand to back up consistent restocking of inventories, the purchasing habits of these buyers remain subject to volatility. As the chart shows, the MBR EU27 stainless demand index dropped significantly through the summer months. While this is not altogether unexpected given summer shutdowns at producers and end users, the scale of the drop does leave us with some concern; the index reading for August stood at 88.5, the lowest of 2009 and indeed the lowest of the last 10 years. One of the major drivers for this drop was a dip in automotive activity, as motor vehicle registrations fell from 1,310,000 in July, to under 830,000 in August.

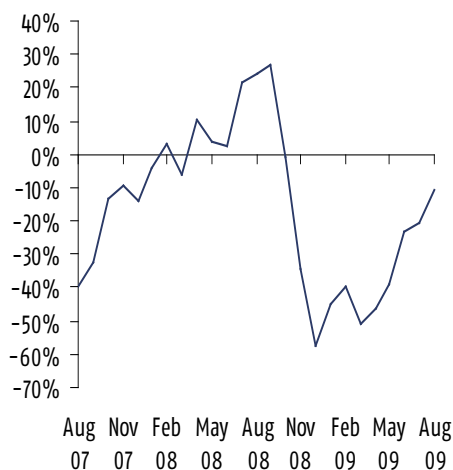
We do expect the index to show an increase for September as business returned to more usual levels after the summer period, however we expect end user demand levels to remain precarious for the rest of the fourth quarter and indeed much of the first quarter of 2010. This will remain an issue and has the potential to undermine any price growth which comes about as a result of restocking activity.

Threat of cheaper imports likely to undermine the market further...

Domestic producers have also resisted price increases so far due to an increase in the volume of offers from Asia, notably India. We understand that recent offers have come from Asia for 304 2mm CR coil at a level of €1,850-1,900/tonne and are therefore up to €390/tonne lower than the domestic offer range of €2,157-2,242/tonne.

European stainless production % chg yoy

Despite the expected production slump in the summer months, output continues to improve in year on year terms



Source: Metal Bulletin Research

But domestic production continue to increase

Given the subdued demand outlook and competitive import offers, it appears illogical that European production should be continuing to increase. However after producing at 50–55% of capacity in the third quarter, Outokumpu is now producing at 60–70%, citing 20,000–30,000 tonnes of lost sales due to production constraints in the third quarter as reason to increase its output for the fourth. On top of this, as MBR mentioned last month, Acerinox is producing at 75–80% of record capacity, while ThyssenKrupp also plans to increase output by reducing short time work by 30%

European domestic production in July and August stood at 506,000 tonnes and 433,500 respectively – much reduced from June's level of 541,000 tonnes, the peak production rate of 2009. While lower production is not unexpected in the summer months, what is surprising is that the output drops of July and August were much less pronounced than one might have thought; as the chart shows in Year-on-year terms output continued to improve through July and August to -21% and -10% respectively.

Q4 and Q1 2010 cautious

As a result of these factors in the market, we expect there to be little prospect of a sustained recovery in the European market in the fourth quarter and indeed the first quarter of 2010. Subdued demand, of which we see little potential for improvement in the short term, along with increased production levels, are likely to undermine any significant price increases. Added to this, the threat of Asian imports, which are only being held at bay as buyers do not wish to commit to long lead times, may start to become more attractive should their offers reduce any further.

MBR's EU27 stainless demand index

Demand reduction was greater than expected during the summer months, leading to the index's lowest level in 10 years



Source: Metal Bulletin Research

Selected European Stainless Steel Statistics

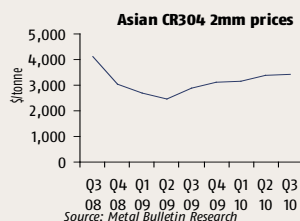
tonnes	2007	2008	Jan-09	Feb-09	Mar-09	Apr-09	May-09	Jun-09	Jul-09	% change y-o-y	
										Current month	Year-to-date
EU15 Exports											
Plate	908,215	687,280	24,799	31,155	46,193	39,801	42,314	39,793	65,254	10.8%	-38.8%
HR Sheet	6,792	4,961	579	357	661	276	504	278	346	-13.7%	-3.7%
HR Strip	9,748	8,326	259	461	291	481	745	479	1,448	266.5%	-23.2%
Wide Strip	256,461	192,836	601	1,249	9,650	8,861	17,127	8,863	20,487	103.5%	-54.8%
CR Strip	237,334	219,510	12,844	12,077	12,717	14,421	12,451	14,422	15,863	-8.6%	-29.6%
CR Sheet	525,463	540,499	28,960	37,462	42,247	38,897	41,871	38,892	56,020	22.3%	-20.1%
Reworked Plate	100,940	98,460	4,697	6,118	7,407	5,448	5,766	5,447	6,150	-33.0%	-32.2%
Reworked Strip	39,919	32,575	985	1,465	908	896	1,004	895	1,414	-61.2%	-67.0%
Rod	88,180	90,747	1,904	3,024	3,240	3,675	4,014	3,673	5,532	-47.7%	-57.2%
Round Bars	34,134	34,761	1,979	2,896	1,992	2,222	1,780	2,221	2,506	-26.9%	-27.1%
Other HR Bars	28,942	25,441	1,157	1,920	2,089	1,796	1,596	1,798	1,957	-28.4%	-21.8%
CF Bars	141,031	129,050	6,816	7,264	9,038	8,078	6,964	8,070	10,236	-17.3%	-32.3%
Forged Bars	26,163	27,607	2,108	1,986	2,161	1,894	2,067	1,892	2,198	0.7%	-16.0%
Sections	23,216	28,073	1,374	2,279	1,789	1,477	1,384	1,477	2,114	-37.1%	-32.3%
Tubes	155,122	161,269	9,373	12,054	10,546	11,433	11,308	11,429	12,984	-28.1%	-22.1%
Total	2,581,660	2,281,395	98,435	121,767	150,929	139,656	150,895	139,628	204,509	3.1%	-33.8%
EU15 Imports											
Plate	307,413	228,606	7,726	11,309	7,555	12,687	10,786	12,686	8,459	-72.1%	-49.3%
HR Sheet	3,580	2,053	218	516	218	175	297	175	598	140.1%	78.1%
HR Strip	4,810	4,394	255	117	244	95	574	93	283	-22.3%	-49.8%
Wide Strip	58,415	33,064	2,455	75	4,397	1,579	4,532	1,579	2,123	-65.1%	-14.5%
CR Strip	47,483	44,346	1,688	1,420	2,256	1,800	1,847	1,799	2,157	-47.9%	-51.4%
CR Sheet	631,482	399,331	14,025	15,024	19,383	15,104	18,884	15,101	16,882	-66.0%	-59.6%
Reworked Plate	11,897	12,202	900	2,097	609	340	720	341	1,337	19.2%	-10.1%
Reworked Strip	4,286	3,649	152	394	409	277	224	278	187	-55.3%	-2.0%
Rod	59,168	42,379	2,069	2,894	1,619	2,484	808	2,484	1,764	-60.3%	-47.8%
Round Bars	10,778	11,432	919	824	714	1,799	905	1,800	597	-51.3%	11.7%
Other HR Bars	12,582	13,182	1,474	907	675	1,024	845	1,021	639	-44.7%	-6.4%
CF Bars	75,969	70,284	4,976	4,037	3,633	2,556	2,580	2,553	2,708	-57.0%	-45.8%
Forged Bars	8,469	6,665	463	647	397	193	510	193	140	-67.0%	-38.8%
Sections	15,587	17,117	1,469	817	662	826	723	825	648	-62.8%	-41.5%
Tubes	55,094	54,114	2,579	2,556	2,341	2,408	2,127	2,409	2,877	-43.9%	-49.5%
Total	1,307,013	942,818	41,368	43,634	45,112	43,347	46,360	43,337	41,398	-63.3%	-50.5%

Source: Customs statistics, Metal Bulletin Research

Asian Highlights

- Nickel's rise see mills hold prices stable...
- ...as oversupply continues to weigh on the market
- Chinese mills lower utilisation rates

Market Outlook



The Asian stainless steel market remains in a precarious balance at present. Prices have, however, held their ground this month as the rise in the price of nickel has provided some buoyancy to market prices. As a result list prices from regional mills look broadly unchanged this month. We understand, however, that discounts are on offer from these price levels. Additionally, nickel appears to be at the higher end of its current value range and a fall in its price could

see the stainless steel prices move lower than present levels. Oversupply continues to weigh on the market and we have seen mills shutting down capacities for maintenance, suggesting that they are holding sufficient stocks to be able to cover shipments at present. Moreover, in China we feel that this is almost certainly a politically convenient way to lower output in the face of growing oversupply.

Chinese prices stable despite nickel's rise

In China, having fallen for six weeks prices have stabilised for November because of the rise in the price of nickel. Shanxi Taigang Stainless Steel and Zhangjiagang Pohang Stainless have held list prices flat for November.

Taigang Stainless is keeping Grade 304 list prices at Rmb21,620/tonne (\$3,167/tonne) for 2B 2mm cold rolled coil and Rmb20,420/tonne for 2B 2mm hot rolled coil, while the Grade 430 2B 2mm cold rolled coil price is also unchanged at Rmb2,620/tonne. Pohang Stainless is also keeping its Grade 304 cold rolled coil price at Rmb21,200/tonne and hot rolled coil price at Rmb19,800/tonne.

Local Taiwanese prices unchanged

In Taiwan, Yusco has lifted its export offers by \$50-100/tonne from the end of last month but has kept its local list prices stay unchanged. Its latest export offers are \$2,750-2,850/tonne cfr for CR 304 2mm and \$2,650/tonne cfr for HRC. For domestic shipments and those to China MBR understands that traders and stockists are offering CR 304 2mm at \$2,730-2,800/tonne cfr and HRC at \$2,600-2,700/tonne.

South Korean mills cut local prices

MBR is also aware that in South Korea Hyundai Steel has decreased domestic stainless prices by Krw160,000/tonne (\$136/tonne) following a similar move by Posco.

China stainless steel production and trade statistics

	2007	2008	Q3 2008	Q4 2008	Q1 2009	Q2 2009	Mar 09	Apr 09	May 09	Jun 09	Jul 09	Aug 09	quarter-on-quarter % ch.	year-on-year % ch.
'000 tonnes														
Production	7,206.16	6,938.08	1,651.15	1,429.77	1,650.00	1,925.00	-	-	-	-	-	-	17%	2%
Net Imports														
HR Shapes	-20.11	-13.13	-3.32	-2.18	-2.39	-0.45	-1.01	-0.80	0.18	0.17	0.46	0.79	-81%	-89%
HR Bars	6.43	7.38	2.03	1.30	0.93	1.57	0.30	0.42	0.52	0.63	1.00	0.92	68%	-26%
HR Rounds	-2.81	2.31	0.34	1.23	0.12	1.00	0.10	0.06	0.32	0.61	1.07	0.79	736%	131%
HR Wire rods	25.65	36.79	9.74	12.16	12.80	16.39	5.21	4.84	5.46	6.10	7.04	3.40	28%	180%
HR Sheets and plates	271.29	142.47	26.47	15.79	44.35	118.09	11.98	17.93	42.77	57.38	54.71	58.46	166%	145%
HR Strips	29.91	-19.54	-11.33	-4.80	-2.59	0.85	-1.53	-0.73	0.97	0.61	0.83	1.27	-133%	-126%
CR Narrow strips	56.09	29.32	6.83	5.95	5.65	11.17	1.62	1.78	3.93	5.45	4.06	3.75	98%	66%
CR Wide strips	192.46	28.46	1.29	5.16	4.28	11.04	0.82	1.72	4.15	5.17	4.90	6.19	158%	45%
CR Sheets and strips	-27.60	66.75	3.60	48.17	41.14	76.65	13.54	13.51	25.04	38.10	35.69	40.62	86%	-617%
Total HR Sheets, plates and strips	301.20	122.93	15.13	10.99	41.76	118.94	10.45	17.21	43.74	57.99	55.54	61.37	185%	165%
Total CR Sheets and strips	164.86	95.21	4.90	53.32	45.42	87.69	14.36	15.22	29.19	43.27	40.70	47.86	93%	-1319%
Total net imports of which:	531.32	280.81	35.64	82.77	104.30	236.30	31.02	38.73	83.34	114.23	109.76	116.19	127%	384%
Total flats	522.15	247.46	26.86	70.26	92.83	217.80	26.43	34.21	76.87	106.72	100.19	110.28	135%	391%
Total longs	9.16	33.35	8.79	12.51	11.46	18.51	4.60	4.52	6.48	7.51	9.57	5.91	61%	314%

Source: ISSB, ISF, Metal Bulletin Research

Hyundai Steel has cut its Grade 304 2mm cold rolled coil price to KR₩3.45m/tonne (\$2,921/tonne), leaving its Grade 430 cold rolled coil price unchanged at KR₩2.257m/tonne (\$1,911/tonne).

This comes after Posco cut October prices by KR₩150,000/tonne (\$127/tonne) for 300 series products, citing weakening global stainless prices and raw material costs. Posco is now supplying 304 CRC 2mm at KR₩3.52m/tonne (\$2,980/tonne).

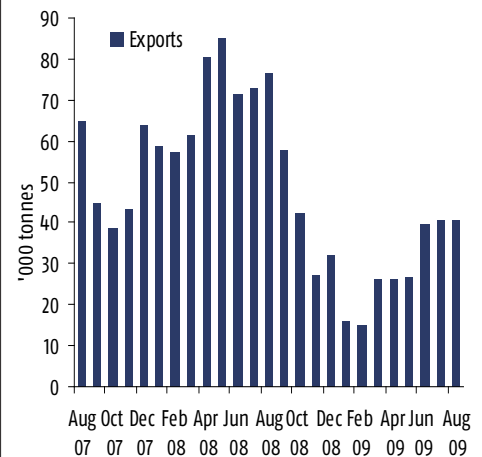
Chinese mill outages reflect oversupply...

In order to counter the demand-supply imbalance that has been growing in China in the last three months we have seen mills implement maintenance outages in order to reduce output and run down inventories.

Pohang stainless completed an eight day outage in October, equivalent to 10,000tonnes of cold rolled production. MBR understands that Baosteel is also

Chinese stainless exports

The Chinese market remains oversupplied despite the fact that exports have picked up noticeably since the third quarter



Source: Metal Bulletin Research

Selected Asian Stainless Steel Statistics '000 tonnes

	2007	2008	Jan-09	Feb-09	Mar-09	Apr-09	May-09	Jun-09	Jul-09	Aug-09	Current month	% change y-o-y Year-to-date
India												
Production	2,400.0	2,510.0	250.0	250.0	250.0	230.0	240.0	230.0	-	-	21.1%	27.2%
Net Exports												
HR Shapes	55.5	64.8	2.5	3.0	-	-	-	-	-	-	-47.5%	-51.9%
HR Bars	-9.3	-6.7	-0.2	-0.3	-	-	-	-	-	-	-61.1%	-57.1%
HR Rounds	5.1	26.0	1.3	0.4	-	-	-	-	-	-	32.1%	157.1%
HR Wire rods	32.1	25.5	1.5	0.5	-	-	-	-	-	-	-78.7%	-58.1%
HR Sheets and strips	-7.4	-82.4	-4.3	-6.0	-	-	-	-	-	-	-26.2%	-10.8%
CR Sheets and strips	47.5	-14.1	4.3	5.6	-	-	-	-	-	-	6451.4%	147.8%
Consumption	2,476.5	2,497.0	244.8	246.9	-	-	-	-	-	-	36.6%	32.2%
South Korea												
Production												
Section	0.2	0.4	0.0	0.0	0.8	0.0	0.0	0.0	-	-	-	-
Bar	44.7	42.4	2.5	3.3	3.3	2.3	2.0	3.1	-	-	-8.6%	-19.5%
Wire rod	135.0	125.1	6.7	10.0	9.4	7.1	9.8	11.1	-	-	-17.5%	-14.3%
Plate	69.3	45.3	1.2	2.1	2.5	2.8	3.0	4.0	-	-	-22.9%	-45.8%
HR coil	1,622.4	1,399.8	69.4	73.0	98.2	92.8	96.8	119.8	-	-	-11.9%	-26.8%
Electric welded tube	13.3	13.0	0.4	0.7	0.9	1.2	1.3	1.2	-	-	-51.1%	-19.8%
Total	1,871.6	1,613.0	79.8	88.4	114.1	105.0	111.5	138.0	-	-	-12.7%	-26.2%
Net Exports												
Section	10.9	14.1	0.9	1.1	1.9	1.4	1.7	1.5	1.3	-	-29.9%	6.7%
Bar	5.4	9.3	2.7	3.8	4.1	3.1	3.3	5.0	0.9	-	-70.1%	-392.9%
Wire rod	146.4	91.9	2.5	5.0	5.1	5.0	7.5	7.8	-1.4	-	-120.5%	-41.7%
Plate	45.0	182.5	6.9	11.1	5.7	14.5	4.9	16.7	14.0	-	-25.4%	-47.3%
HR coil	1,400.7	1,284.4	57.8	63.3	89.5	100.6	85.4	100.7	-12.9	-	-111.7%	-40.9%
CR coil, sheet and strip	975.3	770.5	28.9	30.3	53.8	57.4	58.4	61.4	-16.2	-	-123.7%	-44.2%
Electric welded tube	5.0	1,236.5	7.9	9.5	11.4	11.6	-	-	-	-	#VALUE!	-90.1%
Total	1,608.5	1,582.1	70.8	84.3	106.3	124.6	102.8	131.6	1.9	-	-98.7%	-38.7%
Taiwan												
Production												
Bar	44.8	43.2	2.3	2.7	2.8	1.8	-	-	-	-	-51.3%	-39.6%
Pipes (welded)	227.9	215.5	10.4	13.6	14.0	15.5	-	-	-	-	-22.5%	-32.1%
Coil	1,836.1	1,917.9	52.5	64.2	109.4	116.2	-	-	-	-	-44.0%	-55.1%
Total	1,880.9	1,961.2	54.8	66.9	112.1	118.1	-	-	-	-	-44.1%	-54.8%
Consumption												
Bar	44.0	43.1	2.3	2.6	2.7	1.8	-0.1	-0.1	-	-	-102.6%	-61.1%
Pipes (welded)	165.7	202.0	7.8	11.1	11.8	13.9	-1.3	-0.8	-	-	-104.9%	-63.1%
HR Coil	905.1	1,852.9	49.3	60.9	103.4	110.1	-8.7	-6.7	-	-	-104.4%	-71.5%
Total	949.0	1,896.1	51.5	63.5	106.0	111.9	-8.8	-6.8	-	-	-104.3%	-71.2%
Japan												
Production												
HR Shapes	43.1	40.2	1.5	1.5	1.5	1.6	1.7	2.3	2.5	2.7	-7.4%	-49.3%
HR Bars	162.0	152.4	5.6	5.7	5.6	6.3	6.5	8.9	9.6	10.5	-19.7%	-45.7%
HR Rounds	330.0	258.9	9.5	9.6	9.5	10.7	11.1	15.1	16.3	17.9	-25.7%	-44.2%
HR Wire rods	249.1	251.5	9.1	9.2	9.1	10.2	10.6	14.4	15.6	17.1	-23.8%	-49.2%
HR Sheets and strips	2,766.1	2,466.2	89.3	90.0	89.3	100.1	104.0	141.3	152.9	167.7	-27.1%	-49.4%
CR Sheets and strips	2,374.8	2,113.4	76.5	77.1	76.5	85.8	89.1	121.0	131.0	143.7	-29.0%	-49.6%
Total	3,550.4	3,169.3	115	116	115	129	134	182	197	216	-26.2%	-48.9%
Consumption												
HR Shapes	37.8	28.0	1.1	1.4	1.3	1.5	1.5	2.0	2.2	2.0	-22.0%	-35.9%
HR Bars	158.1	128.9	4.8	4.9	4.9	5.6	6.4	9.0	9.5	10.7	-7.9%	-38.0%
HR Rounds	322.7	252.8	9.6	9.6	9.4	10.7	10.9	14.7	16.1	17.5	-25.8%	-43.8%
HR Wire rods	189.7	173.3	8.1	7.6	6.1	8.0	7.3	9.6	8.4	9.8	-41.6%	-49.9%
HR Sheets and strips	2,516.6	2,078.6	77.2	73.6	69.0	73.0	81.7	117.5	110.3	124.4	-35.9%	-53.0%
CR Sheets and strips	2,368.2	2,105.8	76.7	76.9	76.6	85.7	88.9	118.6	130.2	143.0	-29.1%	-49.7%
Total	5,593.0	4,767.4	177.5	174.0	167.2	184.6	196.7	271.6	276.7	307.4	-31.7%	-50.5%

Sources: METI, KOSA, TSIA, Customs statistics, Metal Bulletin Research

Note: Total does not include the separate cold-rolled production or consumption data as hot-rolled data is gross.

running at a reduced capacity utilisation at present and continues to expect to for the rest of the year.

...despite increased exports

There has been a notable increase in the level of stainless steel exports from China since the third quarter of 2009 – we estimate this increase to be 18% quarter-on-quarter (see chart).

Moreover, anecdotal evidence suggests that this trend is continuing into the final quarter of this year. MBR understands for instance that Chinese mills are seeing reasonable business going into South Korea, where low domestic inventories and a small margin between Chinese export prices and South Korean domestic prices is encouraging traders to make import purchases.

Japanese economic renaissance eases

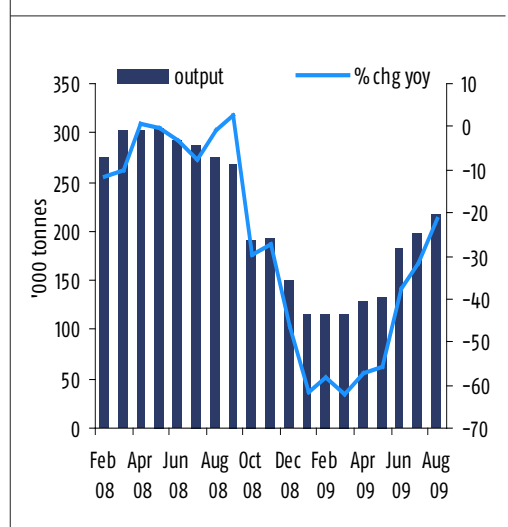
Japanese prices and stainless production have been buoyed in recent months by an uptick in economic and industrial activity domestically. While the situation in Japan is certainly better than it was a year ago, the most recent issue of economic data suggests that this revival is slowing.

The monthly rate of increase in Japanese industrial production eased from 2.1% to 1.8% between July and August. August's growth was driven in large part by the increased production of steel, cars and electronics, all of which have benefited to some degree from tax breaks and subsidies at home and internationally. Growth in automotive production slowed from 6.9% to 2.2%, while shipments of cars were down 3.7%, their first fall in five months. This weakness, combined with a strengthening yen, is likely to weigh on Japanese output and employment during the remainder of the year.

Industrial output soars in India

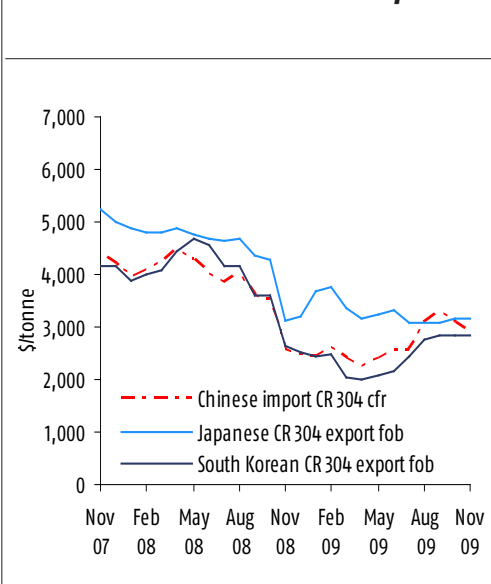
There are more positive signs for end-use demand emitting from India at present. India's industrial production expanded at its fastest rate in almost two years (year-on-year growth of 10.4%) during August. The production of consumer durables, including cars, jumped 22.3%. At 12.9%, growth in mining output was also strong. However, these strong numbers were in large part due to fiscal and monetary stimulus efforts, as well as a low base effect (output grew by just 1.7% during August 2008). Meanwhile, India's monsoon season, which ended last month, was the driest since 1972, which will weigh on GDP somewhat during the third quarter.

Japanese stainless steel production – An improved domestic economic situation had seen demand improve for Japanese mills. This may now be slowing, however



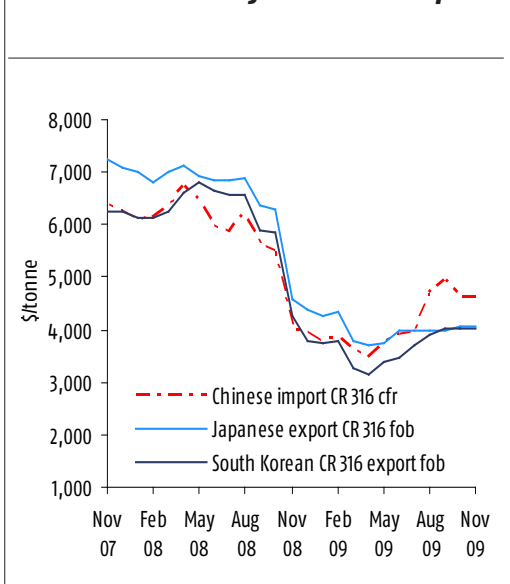
Source: Metal Bulletin Research

Historic Asian CR 304 transaction prices



Source: Metal Bulletin Research

Historic Asian CR 316 job transaction prices



Source: Metal Bulletin Research

Scrap Highlights

- Volatile nickel prices shift upwards from last month
- Underlying demand for stainless steel weak
- Price differential between US and European exports narrows

Market Outlook

The price differential between US and EU stainless scrap solids diminished significantly last month from \$332.5/tonne to \$42.5/tonne. This has been due to the higher prices for nickel, currently at around \$18,531/tonne official LME price. These high raw material prices have seen scrap dealers unwilling to accept lower offers to ensure they can cover their costs and protect margins. MBR believes however, that scrap prices are unlikely to rise much, if

at all, in the next month: end user demand levels for stainless steel are expected to be flat across the board, especially in the US. Strategic stockpiling seems to be over for now as stainless steel mills anticipate holding expensive inventory unexpectedly for November. Furthermore we are now at a time of year that is traditionally slow in terms of demand, an extra downward pressure on prices.

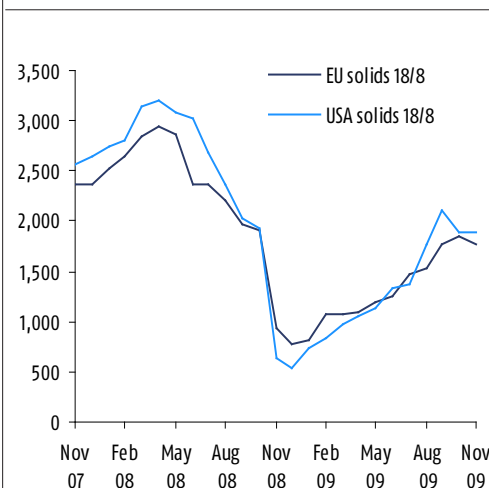
European scrap exporters start to lose their price differential advantage

The rise in raw materials and lowering of end user demand has led to the diminished price differential advantage of European scrap exports. European traders can now only really pin their hopes on the tightness in scrap supply in the US. There will still be some demand for European imports, but **any deals that are done will most likely be for small quantities with shorter lead times, as mills look to fulfill more immediate needs.** There is also slack import demand from Asia, due to these higher scrap prices. For example we understand that even Chinese imports of stainless scrap have declined in October, despite tight supply in the region. This period of wait-and-see over further nickel price volatility will continue to hold scrap prices from big rises next month. **The tightness of supply is expected to still buoy up nickel prices despite this.**

US stainless scrap prices fall as inventory re-stocking halts

US scrap prices fell last month, but are still relatively high at \$1,875–1,900/tonne ex-yard for 18/8 solids in Pittsburgh compared to Europe \$1,820–1,870/tonne. These are being held up somewhat by the higher nickel prices. **But even nickel inventories are at their highest for 2009 at 123,000 tonnes at LME warehouses, showing a slowing demand that will probably mean nickel prices will not climb any higher next month.** Combined with high nickel prices, end-user demand for stainless steel is lower than had been expected last month. Consequently US stainless steel traders are anticipating even further weakening of demand next month, further weakening scrap demand.

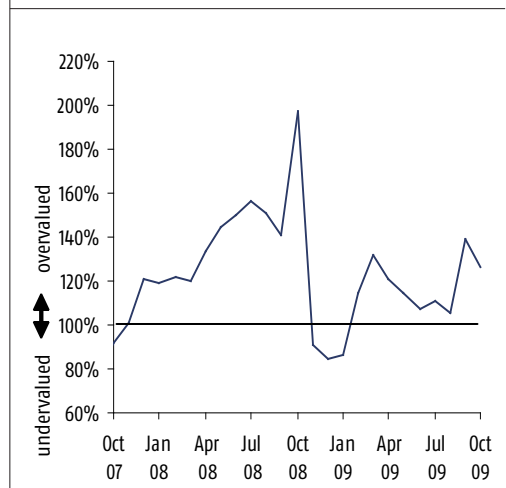
Stainless scrap prices (\$/tonne) – The price differential between European and US solids was slashed in October, leading to limited export sales for European traders



Source: Metal Bulletin Research

Value of scrap relative to nickel

The rising price of nickel in the last month has supported scrap prices but demand weakness has limited these gains



Source: Metal Bulletin Research

Alloy Highlights

- Despite the LME stocks rise, nickel fundamentals are tight
- Ferro-chrome contracts settled higher
- Moly prices fall

Nickel Market Outlook

Nickel prices rallied strongly at the end of October, rising more than 3%, but they fell short of regaining the \$20,000/tonne. The rise was not unexpected, amid dollar weakness and 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 the fact 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.

Ferro-Chrome 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 Heric 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 Heric 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 as there is less dust and heat generated around the furnaces. We believe that 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. In Europe, fourth-quarter price negotiations with South African producers were concluded at \$1.03/lb, representing a 16% increase.

Molybdenum 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 signs of improvement and with Metal Bulletin's International Ferro-Alloys

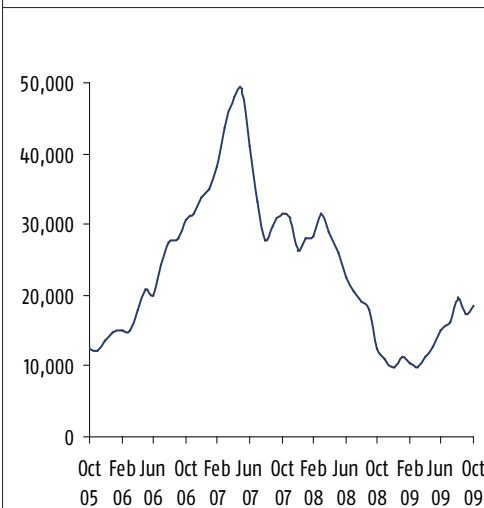
conference in November we expect to see prices move much more next month as trading activity picks up at the event. However should low offers continue to be accepted we think this will support prices and we don't think that prices at the end of November will be below \$26.50/kg.

Prices slip further in November

This month has been a U shaped price curve where the first three weeks in October pretty much 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 mid-October 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 a typical of low volume transactions this month. With yet very little demand for raw materials from the steel industry there is more back to back purchasing of material.

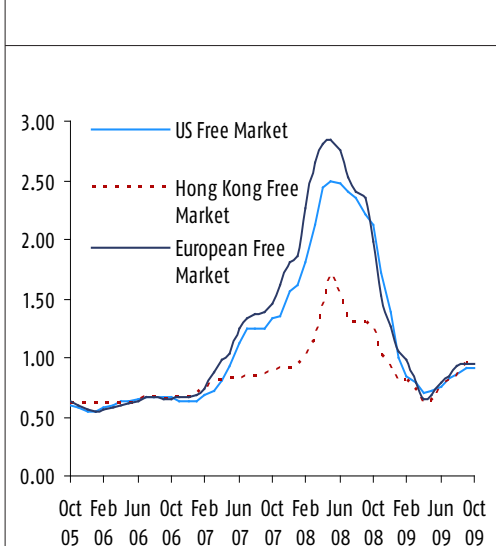
Over the last two weeks in October it has finally looked as though ferro-molybdenum has reached a bottom. Much to the surprise of those market participants we spoke to, who were expecting prices to bottom at \$27/kg, prices fell below \$25/tonne, we were told of a couple of transactions being made at \$24.85-24.95/kg. This is the lowest transaction level we heard of.

LME three-month nickel prices, monthly basis (\$/tonne)



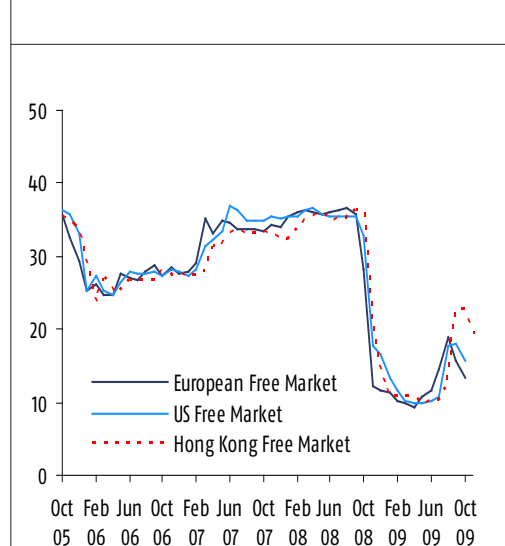
Source: Metal Bulletin Research

High carbon ferro-chrome price (\$/tonne)



Source: Metal Bulletin Research

Ferro-molybdenum prices (\$/tonne)



Source: Metal Bulletin Research

MBR Stainless Steel Raw Material Prices & Premiums

	Nickel Prices		Specialty Alloy Prices				Nickel Premiums		Stainless Steel Scrap				
	LME cash \$/t	LME 3-mth \$/t	EU Charge Cr Contract \$/lb	EU HC Fe-Cr \$/lb	EU 65-70% FeMo \$/kg	EU moly oxide \$/lb	Europe 70% Fe-Ti \$/kg	USA Melting \$/lb	Plating \$/lb	UK Merchants Solids \$/t	Turnings \$/t	European, 18/8 Solids \$/t	Turnings \$/t
Nov-08	10,701	10,910	1.85	1.52	27.09	12.45	4.64	0.42	0.63	525	394	925	694
Dec-08	9,715	9,871	1.85	1.26	25.68	10.11	3.25	0.43	0.63	425	213	780	585
Jan-09	11,308	11,408	0.79	1.05	24.90	9.57	3.24	0.38	0.63	475	238	820	616
Feb-09	10,409	10,481	0.79	0.98	22.31	9.20	3.18	0.38	0.63	675	338	1,075	807
Mar-09	9,698	9,791	0.79	0.78	21.73	8.64	2.77	0.36	0.63	710	355	1,075	807
Apr-09	11,166	11,254	0.69	0.65	20.81	8.18	2.69	0.35	0.63	700	338	1,090	763
May-09	12,635	12,716	0.69	0.69	23.74	9.74	2.62	0.28	0.43	765	383	1,185	889
Jun-09	14,960	15,042	0.74	0.79	25.91	10.34	2.56	0.27	0.42	825	525	1,250	938
Jul-09	15,985	16,057	0.89	0.84	32.28	13.39	2.50	0.28	0.43	890	623	1,520	1,140
Aug-09	19,642	19,662	0.89	0.92	41.72	17.98	2.53	0.45	0.63	920	645	1,540	1,153
Sep-09	17,436	17,480	0.89	0.95	34.54	15.00	2.56	0.63	0.73	1060	742	1,775	1,332
Oct-09	18,525	18,620	1.03	0.95	29.62	12.61	2.60	0.69	0.74	1065	745	1,845	1,346
% change													
over 6 mth	65.9%	65.5%	49.3%	46.2%	42.4%	54.1%	-3.2%	95.7%	17.6%	52.1%	120.6%	69.3%	76.5%
over 12 mth	52.6%	50.7%	-44.3%	-51.9%	-52.2%	-56.5%	-61.5%	61.2%	15.3%	4.9%	-2.2%	-2.9%	-5.5%
Q3 08	18,980	19,154	2.05	2.43	79.95	33.77	8.31	0.46	0.69	1,094	824	2,184	1,638
Q4 08	10,913	11,109	1.85	1.58	38.24	17.17	4.88	0.42	0.63	655	456	1,202	901
Q1 09	10,460	10,549	0.79	0.94	22.98	9.14	3.06	0.37	0.63	620	310	990	743
Q2 09	12,992	13,075	0.69	0.71	23.48	9.42	2.62	0.30	0.49	763	415	1,175	863
Q3 09	17,601	17,648	0.89	0.91	36.18	15.46	0.00	0.45	0.59	957	670	1,612	1,208

Source: Metal Bulletin Research

Alloy Surcharge Highlights

- Ferritics rise on higher ferro-chrome contracts
- Nickel's rise to December austenitic surcharges rise
- Lower molybdenum to weigh on 316 surcharges

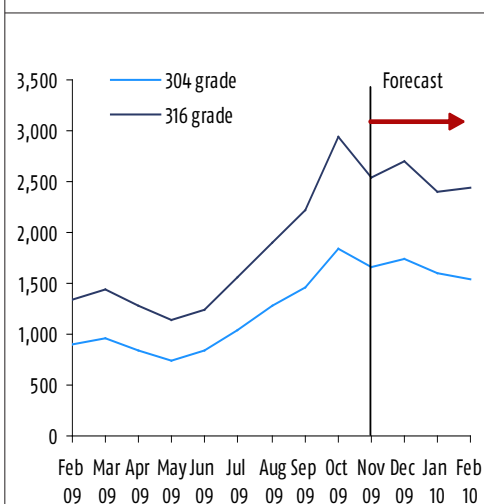
Market Outlook

The sharp rise in nickel in October was not accounted for in the European austenitic surcharges for November. They will certainly rise in December. As expected US austenitic surcharges fell in October by roughly 10% month-on-month. Again this will be short lived, given the rise in nickel, and we also expect an increase in the US surcharge next month. The falling price of molybdenum,

however, will mean that surcharge increases for grades bearing this alloy, such as 316, will see more muted surcharge increases. An increase in quarterly ferro-chrome contracts has seen ferritic surcharges rise sharply this month, by 9-10% month-on-month in both the USA and Europe.

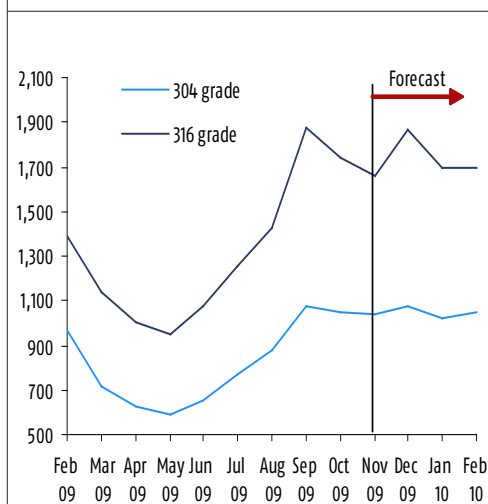
Alloy Surcharges						
	Material	New Surcharges Nov-09	Surcharges last month Oct-09	%change month/month	surcharges last year Nov-08	%chg yr/yr
Average Europe (€/t)	304	1,042	1,044	-0.2%	1,218	-14.5%
	316	1,657	1,741	-4.8%	2,470	-32.9%
Outokumpu (€/t)	304	1,022	1,021	0.1%	1,214	-15.8%
	316	1,630	1,716	-5.0%	2,467	-33.9%
U&A (Arcelor Mittal) (€/tonne)	430	265	234	13.2%	632	-58.1%
	304	1,049	1,041	0.8%	1,199	-12.5%
	316	1,649	1,728	-4.6%	2,418	-31.8%
TKS (AST) (€/tonne)	430 (4016)	297	272	9.2%	645	-54.0%
	304 (4301)	1,055	1,071	-1.5%	1,242	-15.1%
	316 (4401)	1,692	1,779	-4.9%	2,524	-33.0%
Long Products Europe (€/tonne)	EU 304	1,518	1,589	-4.5%	2,081	-27.1%
	EU 316	2,413	2,617	-7.8%	3,976	-39.3%
Average United States (\$/mt)	304	1,667	1,838	-9.3%	2,468	-32.5%
	316	2,550	2,935	-13.1%	4,271	-40.3%
Allegheny Ludlum (\$/tonne)	304	1,667	1,839	-9.4%	2,474	-32.6%
	316	2,550	2,935	-13.1%	4,277	-40.4%
	430	402	366	9.9%	1,138	-64.7%
	409	371	337	10.1%	913	-59.4%
NAS (\$/tonne)	304	1,667	1,837	-9.3%	2,462	-32.3%
	316	2,549	2,934	-13.1%	4,265	-40.2%
Long Products USA (\$/tonne)	USA 304	1,530	1,602	-4.5%	2,227	-31.3%
	USA 316	2,239	2,636	-15.1%	3,995	-44.0%

Historical and forecast US alloy surcharges (\$/tonne)



Source: Metal Bulletin Research

Historical and forecast EU alloy surcharges (€/tonne)



Source: Metal Bulletin Research

Global Stainless Steel Output Statistics

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, TSIA, KISA, Jernkontoret, UKISSB, Eisen Und Stahl, Federacciai, IBS, INSG, Metal Bulletin Research

NB: italics = estimates

Historical and forecast stainless steel production ('000 tonnes)

	2008	2009f	2010f	2011f	2012f	Q1 09	Q2 09	Q3 09f	Q4 09f	Q1 10f	Q2 10f	Q3 10f	Q4 10f
Europe	7,825	5,598	6,800	6,800	7,072	1,251	1,197	1,500	1,650	1,600	1,650	1,750	1,800
% chg yoy	-3.62%	-28.5%	21.5%	0.0%	4.0%	-45.3%	-47.9%	-17.0%	15.2%	27.9%	37.8%	16.7%	9.1%
Americas	2,279	1,608	1,975	2,054	2,136	408	340	400	460	450	475	500	550
% chg yoy	-10.73%	-29.4%	22.8%	4.0%	4.0%	-43.1%	-49.4%	-23.3%	25.0%	10.3%	39.7%	25.0%	19.6%
Asia	15,422	13,973	16,200	17,577	18,983	2,659	3,500	3,900	4,000	3,900	4,000	4,100	4,200
% chg yoy	-6.29%	-9.4%	15.9%	8.5%	8.0%	-39.3%	-18.9%	1.5%	32.1%	51.6%	14.3%	5.1%	5.0%
Total world	26,139	21,619	25,487	25,487	26,691	4,408	5,147	5,920	6,230	6,070	6,247	6,480	6,690
% chg yoy	-5.93%	-17.3%	17.9%	0.0%	4.7%	-41.6%	-30.9%	-6.5%	25.7%	40.4%	21.4%	9.5%	7.4%

Source: Metal Bulletin Research

Source: Metal Bulletin Research

Global Base/Surcharge/Transaction Price Analysis

		Nov 2009	Oct 2009	% Change m/m	y/y	Jan–November 2007	Jan–November 2008	% Change y/y
Base Prices								
CR Coil								
304	Europe ¹	1,293	1,325	-2%	33%	1,508	1,169	-23%
	USA	1,727	1,677	3%	17%	1,660	1,630	-2%
	Asia	2,941	2,982	-1%	7%	4,926	3,976	-19%
HR Plate								
304	Europe ¹	1,697	1,738	-2%	23%	1,694	1,694	0%
	USA	1,811	1,811	0%	4%	1,838	1,804	-2%
	Asia	3,200	3,200	0%	28%	4,456	3,799	-15%
CF Bar								
304	Europe ¹	1,362	1,395	-2%	27%	1,188	1,216	27%
	USA	1,713	1,713	0%	14%	2,310	1,826	14%
	Asia	3,155	3,155	0%	3%	4,856	4,328	3%
HR Bar								
304	Europe ¹	1,185	1,214	-2%	29%	965	1,026	29%
	USA	1,655	1,655	0%	14%	2,036	1,596	14%
	Asia	3,155	3,155	0%	17%	4,510	3,696	17%
Alloy Surcharges								
304 coil	Europe ¹	1,042	1,044	0%	-14%	2,759	1,593	-42%
	USA	1,667	1,838	-9%	-32%	3,945	3,054	-23%
316 coil	Europe ¹	1,657	1,741	-5%	-33%	4,628	2,954	-36%
	USA	2,550	2,935	-13%	-40%	6,124	4,989	-40%
304 bar	Europe ¹	1,518	1,589	-4%	-27%	4,286	2,412	-27%
	USA	1,530	1,602	-4%	-31%	3,714	2,789	-31%
316 bar	Europe ¹	2,413	2,617	-8%	-39%	7,151	4,429	-39%
	USA	2,239	2,636	-15%	-44%	5,957	4,722	-44%
Transaction Prices								
CR 304 coil								
	Europe	3,480	3,483	0%	29%	5,717	4,092	-28%
	USA	3,394	3,515	-3%	-14%	5,605	4,683	-16%
	Asia	2,941	2,982	-1%	7%	4,926	3,976	-19%

Notes: 1. All prices US\$/tonne except¹ €/tonne 2. Surcharges are for flat products 3. All numbers in italics are estimates

4. Latest month transaction prices at the time of writing

Source: Metal Bulletin Research

Key month-on-month trends in regional markets

Key month-on-month trends in regional markets

	Prices	Consumption	Production	Lead times	Inventory
North America	↓	↔	↔	↔	↔
Europe	↓	↔	↔	↔	↔
Asia	↔	↓	↓	↔	↔

• Lower base prices in Europe, coupled with an unchanged surcharge have seen prices fall. In the USA base prices have held while a falling surcharge has dragged down transaction prices. Oversupply continues to harm pricing in Asia.
 • Consumption has continued to retreat in Asia as restocking comes to a close. In Europe and the USA inventories continue to need to be restocked at present, but buying remains limited.
 • Capacity utilisation rates have held month-on-month in Europe and the USA, reportedly standing at 75–80% moving higher towards the end of the year. In Asia utilisation rates stand at 90–95% in China and 80–85% in the rest of the region, but are rumoured to be coming down slightly.
 • Lead times remain broadly steady across regions at present; although they will almost certainly start to shorten in Asia as the imbalance in production and consumption widens. In the USA and Europe continuing restocking at both mills and end-users should see lead times remain stable.
 • Inventory restocking has been limiting over the last month and inventories are no longer growing. We do not believe further significant restocking will take place before the end of the year.

All historical and forecast data contained in this report is available to download from our website: www.metalbulletinresearch.com

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