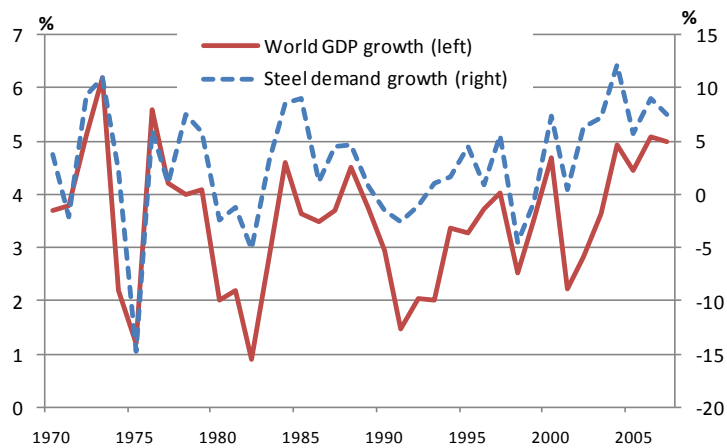


World steel market: what happened and where are we headed?

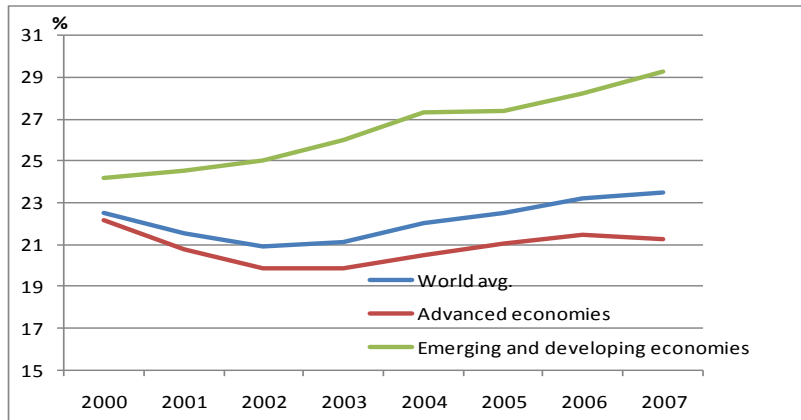


Workshop on Steel and Related Raw Materials
Kuala Lumpur, Malaysia
15-16 December 2008

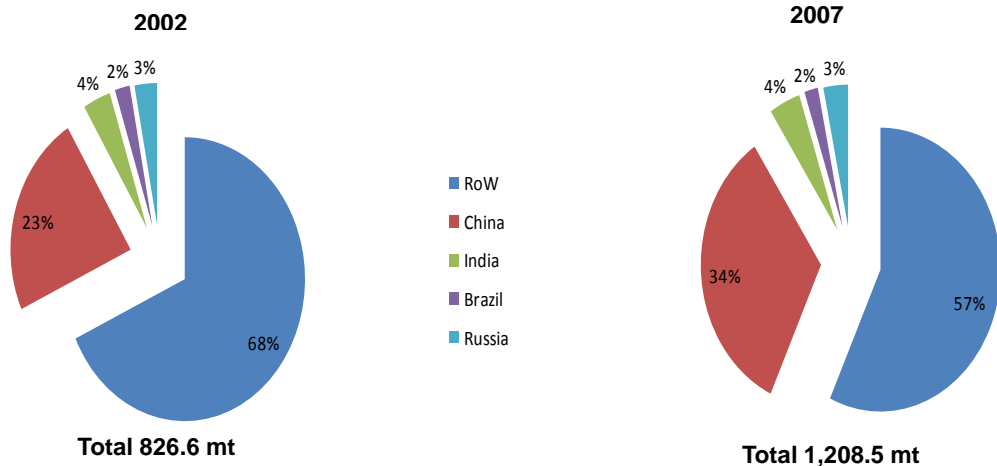
Robust expansion in global economy



Investment rates rose rapidly (investment as a share of GDP, %)



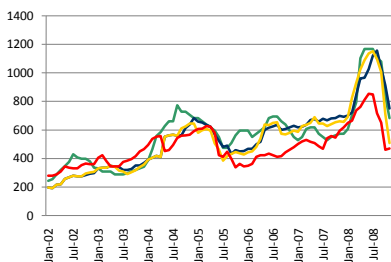
The steel demand boom was led by BRICs Share of world steel consumption, %



Soaring demand led to sharp price gains...

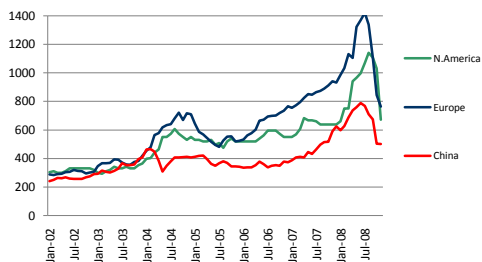


HR Coil US\$/t



Source: Steel Business Briefing

Rebar US\$/t

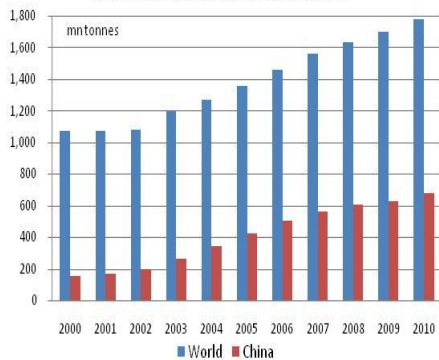


Source: Steel Business Briefing

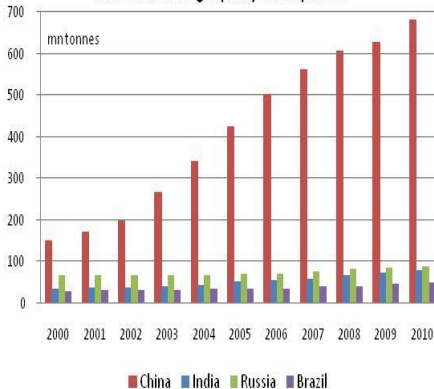
...and strong growth in capacity and production



World steelmaking capacity developments

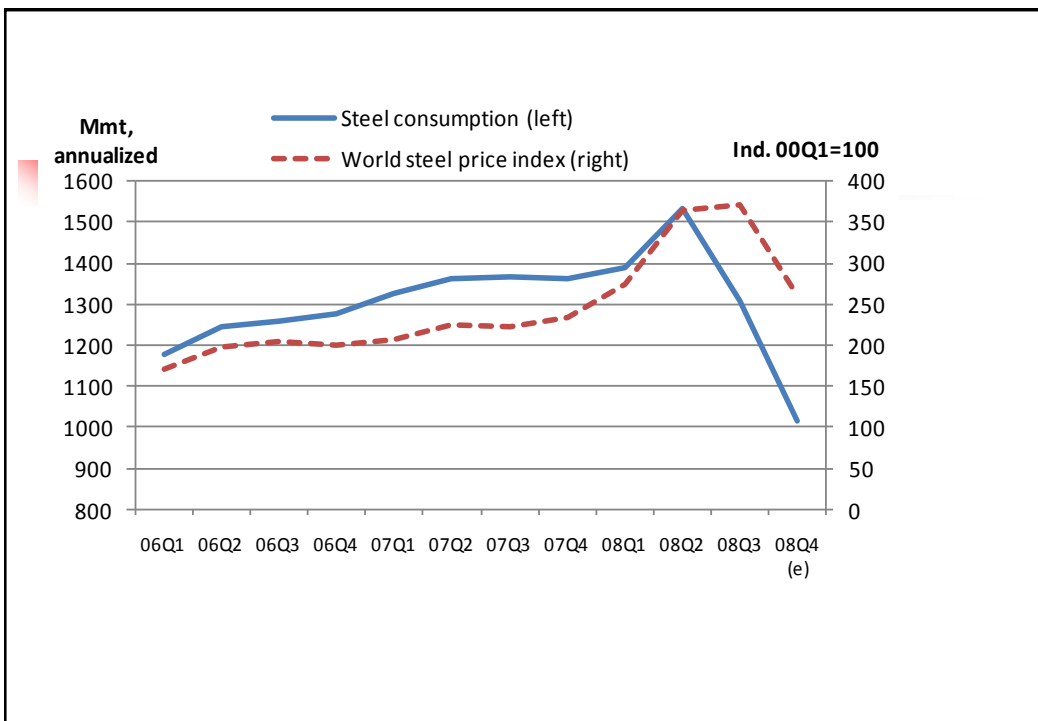


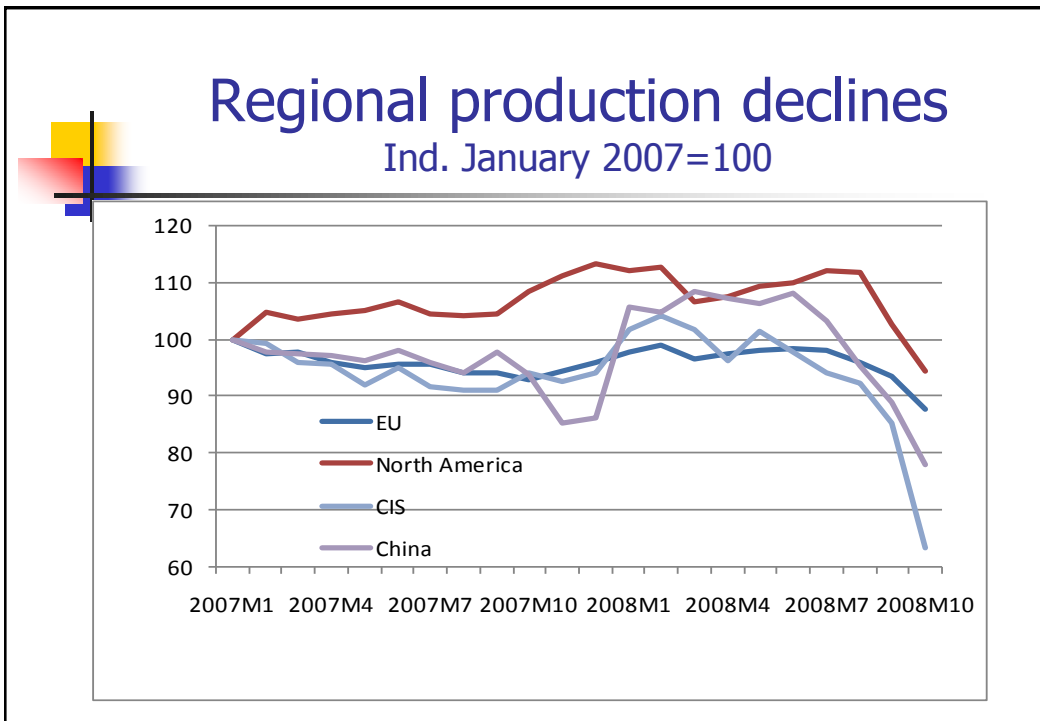
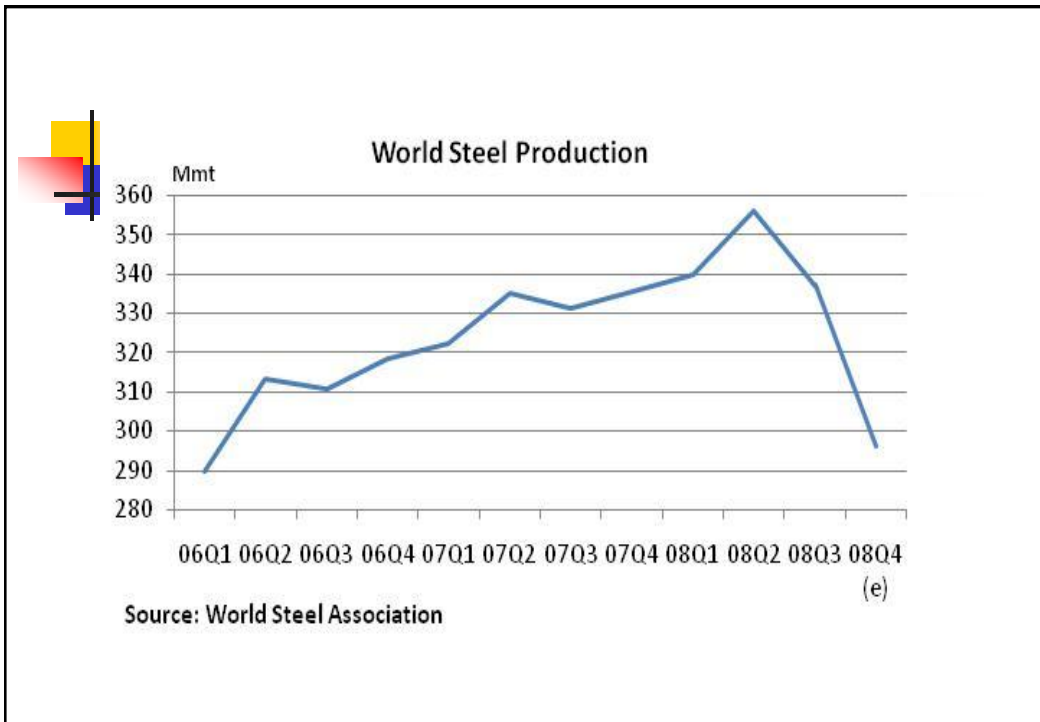
BRICs steelmaking capacity developments



From boom to recession: what has happened in recent months?

- 3 key points:
- The current crisis is being led by economic recession/depression, not inefficient capacity and oversupply
- Incredible speed of market deterioration
- How synchronized the downturn has been across all regions







Production cuts announced for 2008Q4 (⁰⁰⁰ tonnes) **Updated late November

China	-12 817
Other Asian Regions	-3 574
CIS	-6 609
EU and Africa	-8 470
North America	-5 455
South America	-4 202
Worldwide	-41 127



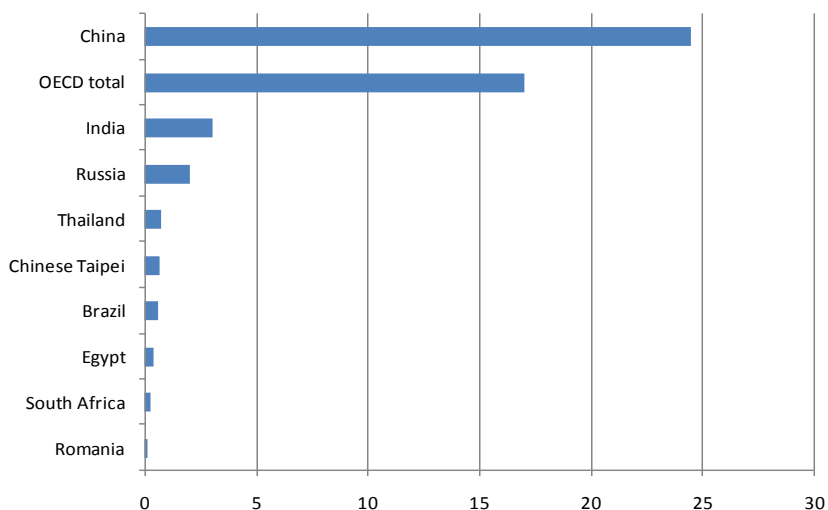
Additional announcements over last couple of weeks

- Dec. 9: NUCOR will “dramatically lower” its rate of production in the fourth quarter; steel mill utilization only slightly above 50%
- Dec. 4: Aceros Arequipa has “halted production for one month” and will move up planned maintenance work
- Dec. 3: Altos Hornos de Mexico is “slashing production and employment” as steel demand falls
- Dec. 2: U.S. Steel will “idle three plants over the next several weeks”
- Nov. 25: Gerdau expects “output to fall by a quarter in last three months of 2008”

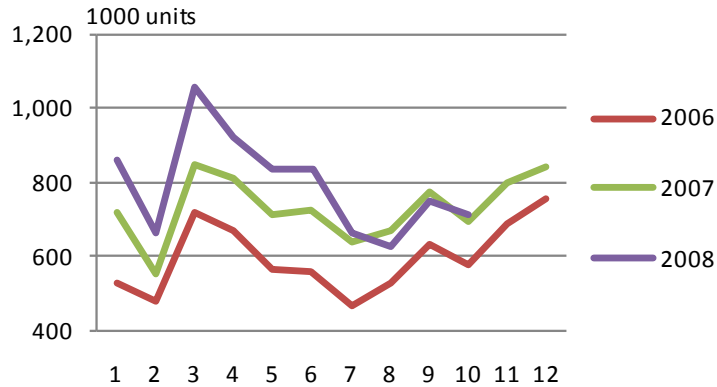
Underlying factors driving the steel demand weakness

- Many major end-using industries are in recession:
 - Housing market recessions in the OECD
 - Growth in residential investment slowing significantly in Russia, China, and other emerging markets
 - Motor vehicle manufacturing in recession in the main advanced economies
 - Growth in car sales in China, Brazil and other emerging economies has slowed sharply

Construction sector's share of global steel consumption



Car sales in China



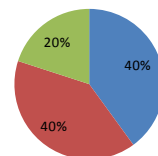
Source: China Association of Automobile Manufactures

The outlook: risks of the financial shock are very high for steel

- Banks will continue to restrict lending activity due to higher risk aversion
 - This will restrain investment
 - in construction
 - and capital equipment
 - Consumer spending on steel-intensive durable goods will be reduced (additional adverse impacts From lower income as unemployment rises)

Global steel consumption (WSD 2005 figures)

■ capital equipment ■ Construction ■ Consumer durables



Effects of the global steel downturn



- Global consumption of steel could decline by a further 3-7% in 2009 as a whole?
 - I.e., demand and production would be 60/70 percent of the peak level seen in mid-2008
- Significant fall in employment in the sector?
- Increase in trade frictions?
 - In some economies policy changes to enhance exports/restrict imports
- However, some negative effects softened by:
 - Fiscal stimulus measures (e.g., China's RMB 4 trillion stimulus, much spent on steel-intensive infrastructure and construction)
 - Greater industry consolidation
 - Steel producers buffered by high profits obtained earlier