

EUROPEAN FUEL PRICE CONFERENCE

9-10 DECEMBER 2008 • MILLENNIUM GLOUCESTER HOTEL • KENSINGTON, LONDON



Industry Input Costs: Has a New Direction Been Established?

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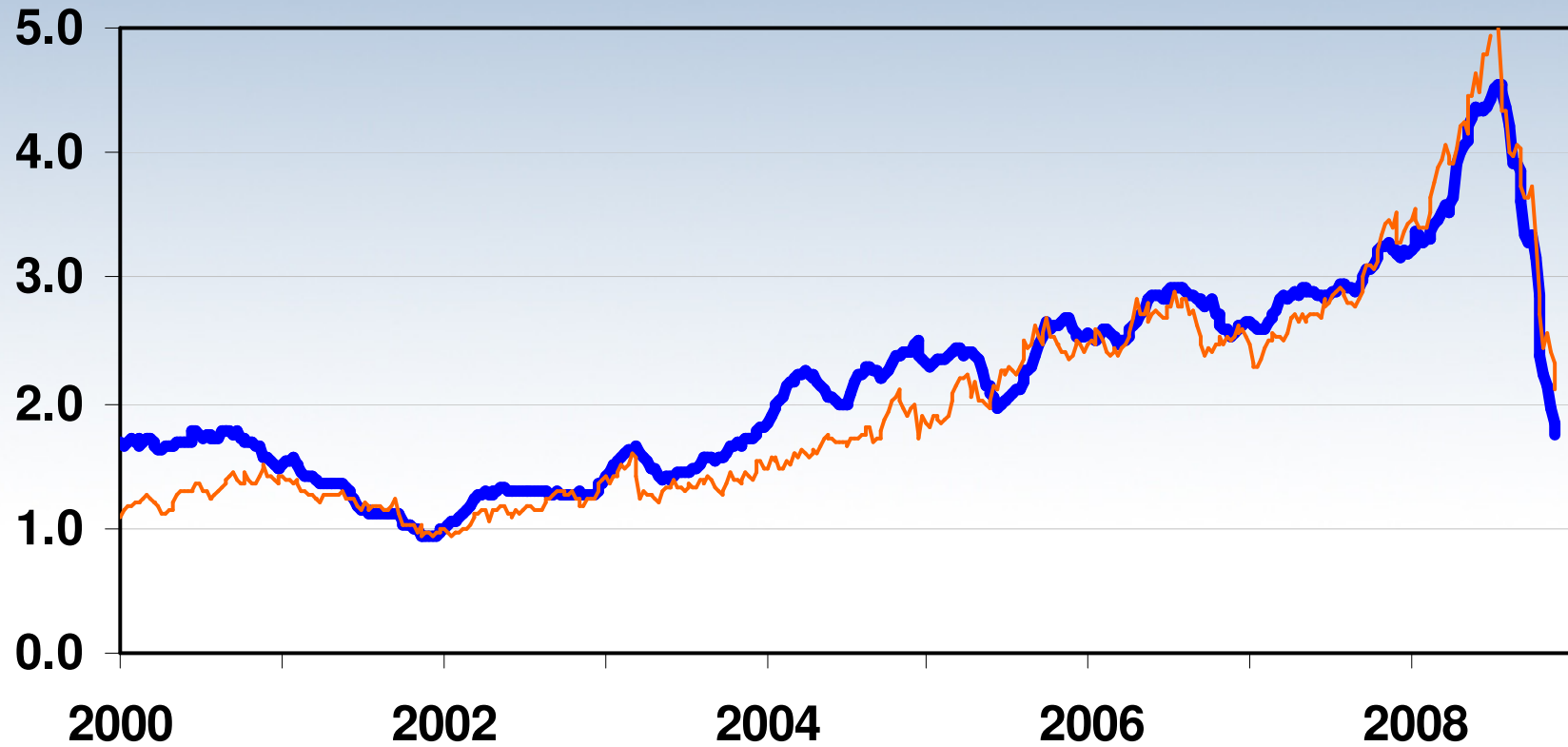
The Financial Crisis Engulfs Commodities

- **Commodities are now feeling the full impact of the financial crisis**
- **Fundamentally, markets had been moving toward a better balance for some time**
 - **Production growth has been building since 2006**
 - **Now consumption growth is being rapidly dialed down**
- **Shift taking place is exactly the kind of swing that has traditionally ended commodity price cycles**
 - **Lower material prices plus cuts in cap ex plans mean not only reduced project cost escalation, but outright cost declines**



End of the Super-Cycle

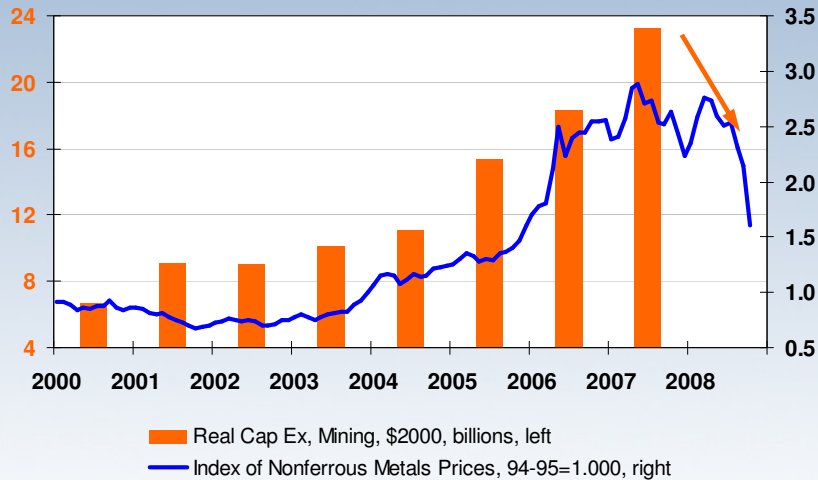
(2002:1 = 1.000)



- Global Insight Industrial Materials Price Index
- S&P Goldman Sachs Commodity Price Index



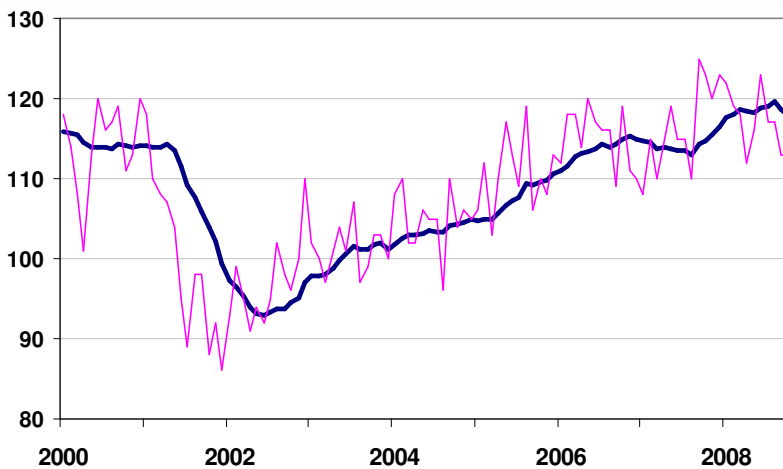
A Changing EPC Environment



- **Lower commodity prices signal a different building environment**

ISM Average Commitment Leadtime, Capital Expenditures

Days, Monthly, 12 Month Moving Average



- **Look for equipment manufacturer backlogs and material leadtimes to soon begin falling**



Forecast in a Nutshell — Steel

- **Prices permanently higher than in 2003 or earlier**
- **2008 was nothing but a one-off spike**
- **2009 was expected to floor at a higher level than 2007, but events have moved past such an outlook**
- **Global economy much softer, consumption is weak**



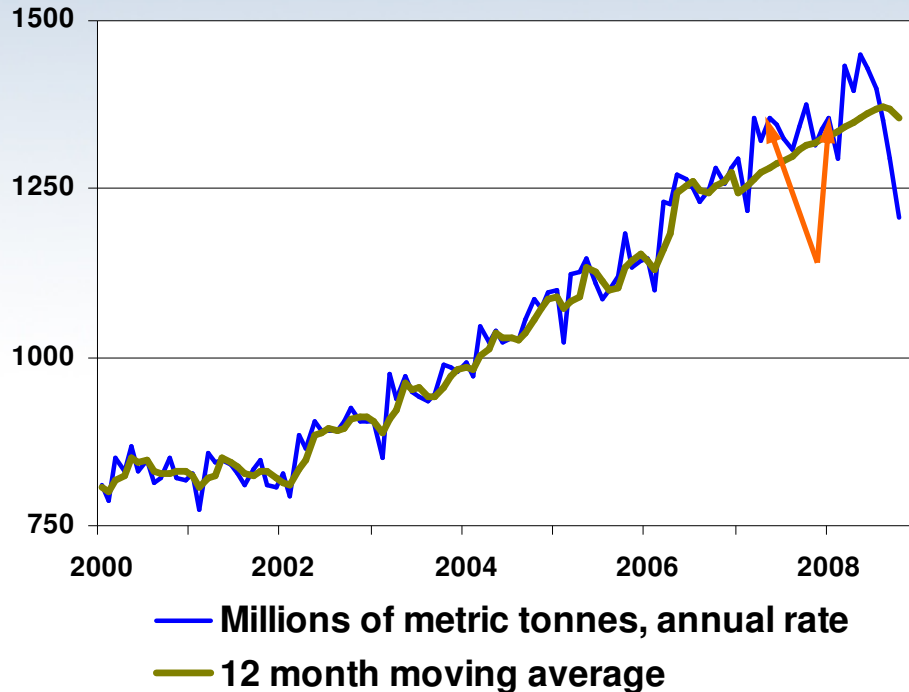
Forecast

- **The spike is over. The fall-back has started**
- **Seller's market through the third quarter of 2008, rapidly becoming a buyer's market**
- **Demand is weakening**
- **Prices were insane but are at or past their peak**
- **2009 prices will bottom out at a level approximately equal to 2007**
 - **Risk modestly to the downside**

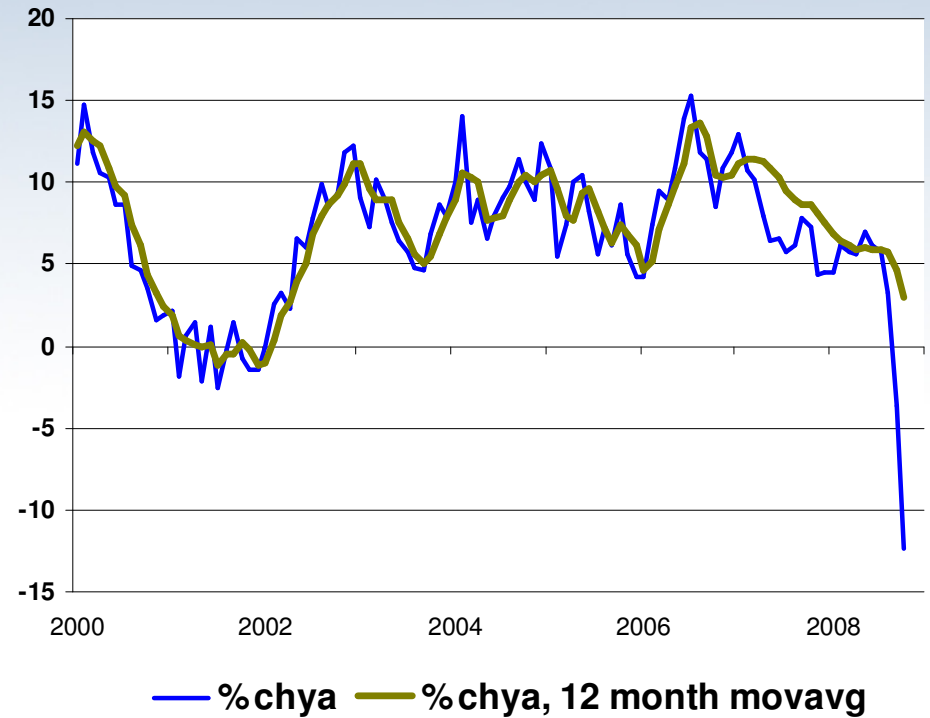


Tight Supply Was a Global Problem

Global Steel Production Was Flat for 2007–early 2008



World Steel Production Growth Is Slowest in Five Years





Tight or Loose?

- **Loose availability/sharply falling prices**
 - Sheet
 - Scrap
 - Rebar
- **Improving availability/falling prices**
 - Merchant bar
 - Wire rod
- **Tight availability/smaller price declines**
 - Plate
 - Structurals
 - Special bar quality



Construction Grades (Structural and Rebar)

- **Supply improving from critical lows**
 - **United States a strong net exporter of structurals**
 - **Turkish rebar in excess supply**
 - **Fear of allocation for 2008, but danger is over**
- **Demand is deteriorating**
 - **Negative in United States, Western Europe**
 - **Will be positive, but slower in developing countries**
- **Prices declines are sharp**
 - **Structural prices fall from near US\$1200/mt to around US\$750**
 - **Rebar is over-supplied**
 - **Falls from US\$1050/mt to US\$560**



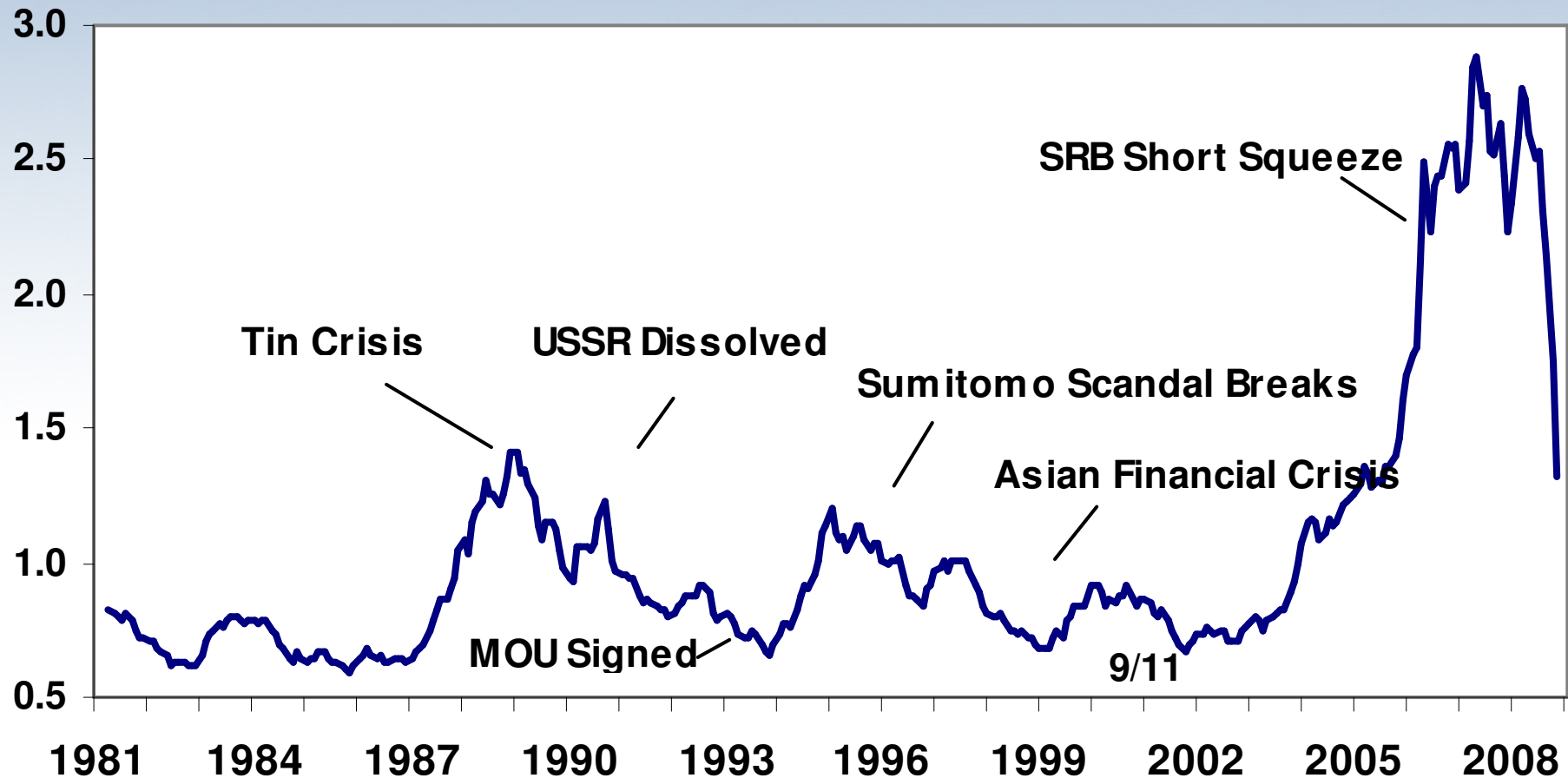
Plate Is the Strongest Carbon Steel Product Line

- **Supply was tight but is rising**
 - Production is good
 - Production struggled to keep up with demand, but lower consumption will end the problem
- **Demand holds up better**
 - Energy keeps requirements strong
 - Other end markets weaken, but less than for other products
- **Prices decline but do not go as low as other carbon products**
 - Peaked near US\$1320/mt, fall to around US\$850/mt



The Collapse In Primary Metal Prices

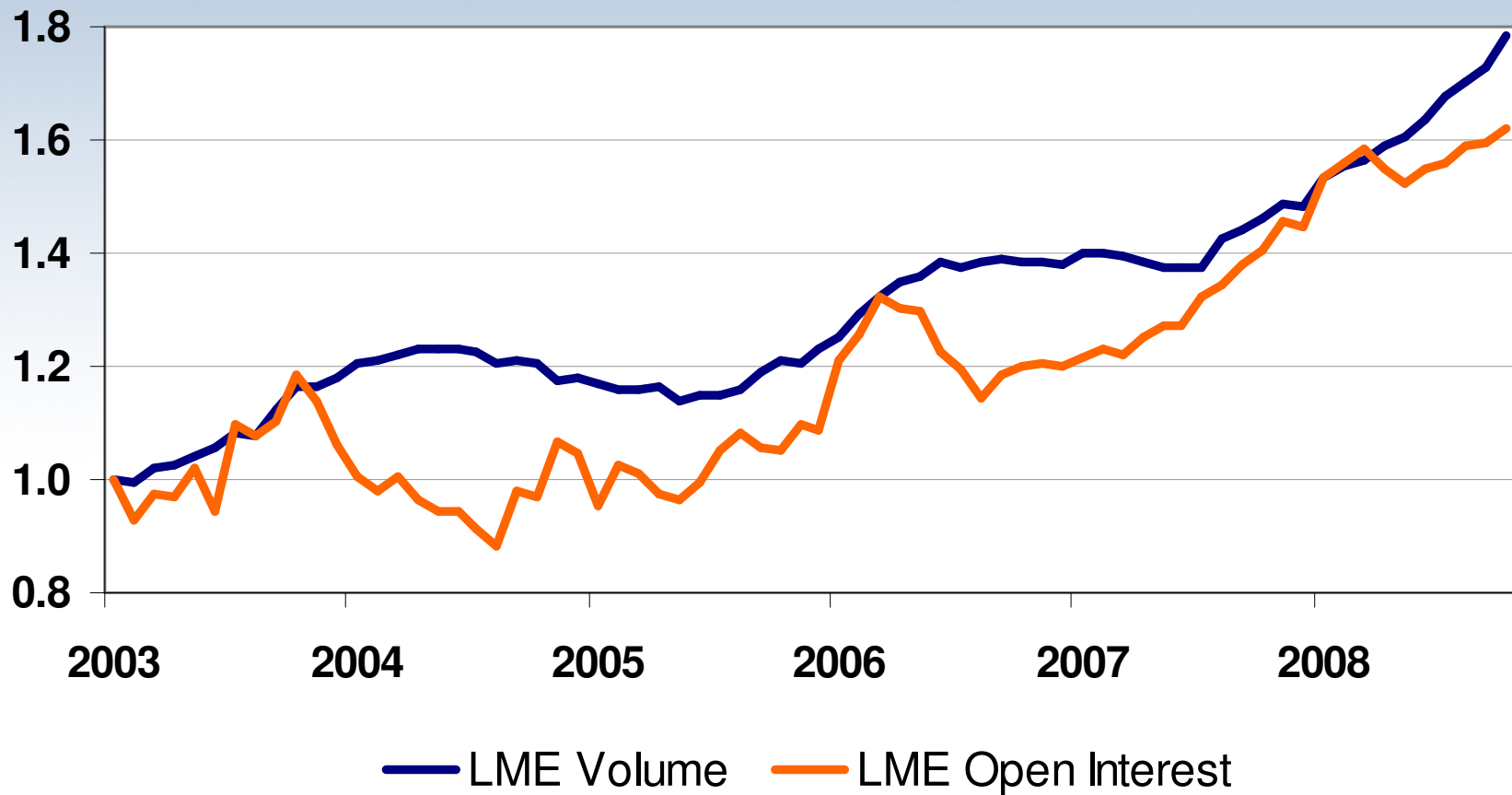
Global Insight Index of Primary Metals Prices (Avg 94-95=1.0)





October's Correction Has Momentum

Data rebased to 2003:1=1.000

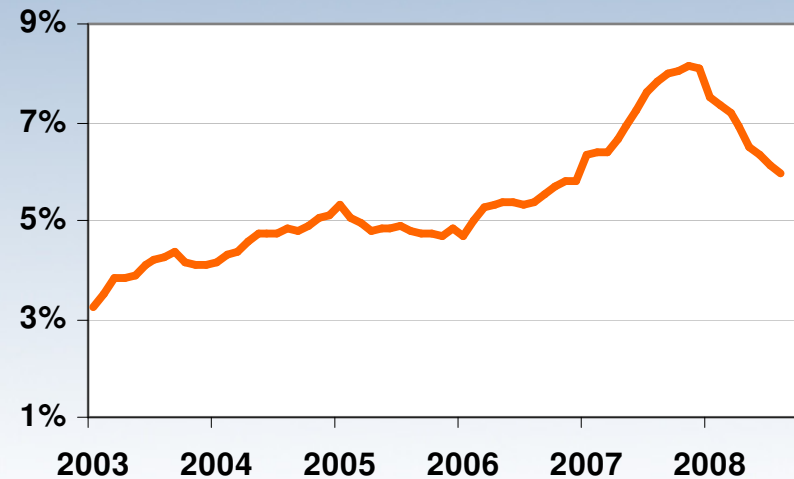




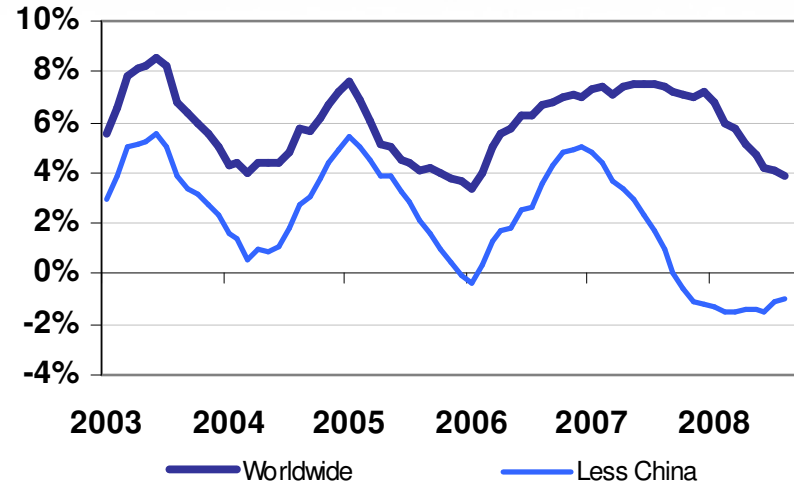
A Better Balance — Even Before October's Meltdown

- **Production growth has accelerated since 2006**
 - And has been running ahead of consumption growth since mid-2007
- **Consumption growth has been slowing**
 - It has been falling outside China since late 2007
 - And is now slowing even in China
 - It's no longer just the Olympics

Global Base Metals Production, year over year change



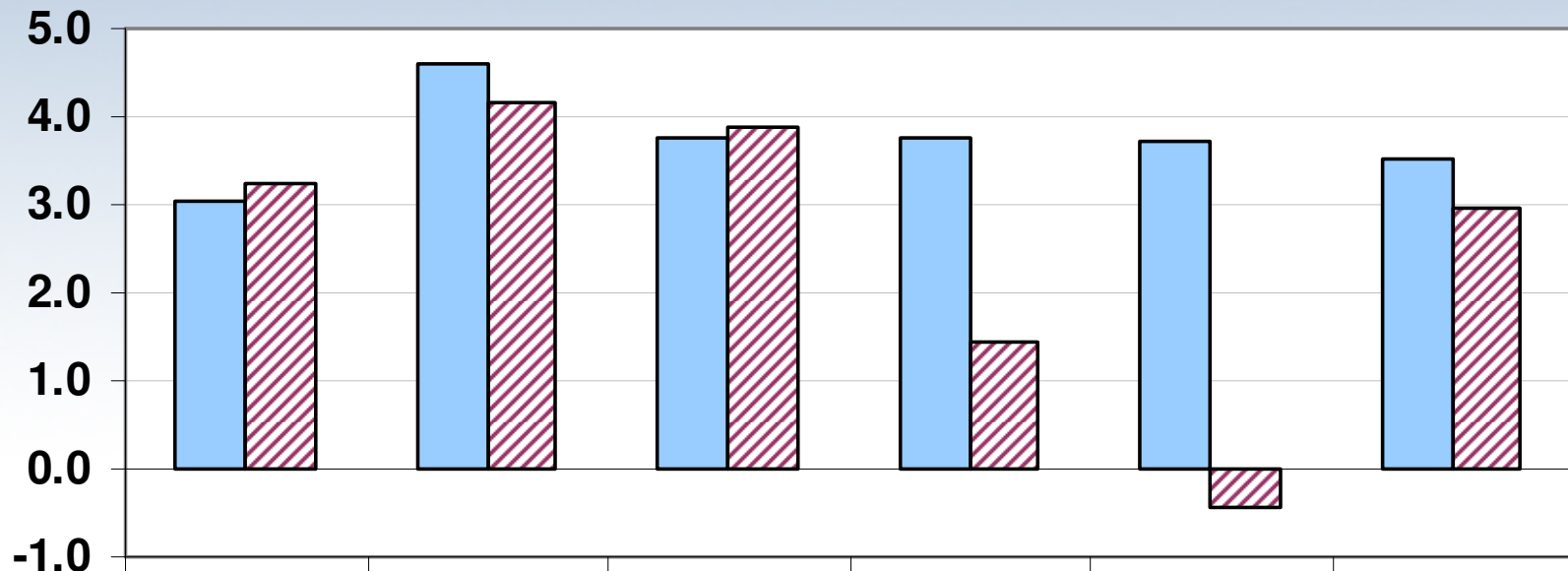
Base Metal consumption, year over year change





What a Difference a Year Makes

Global Industrial Production, percent change

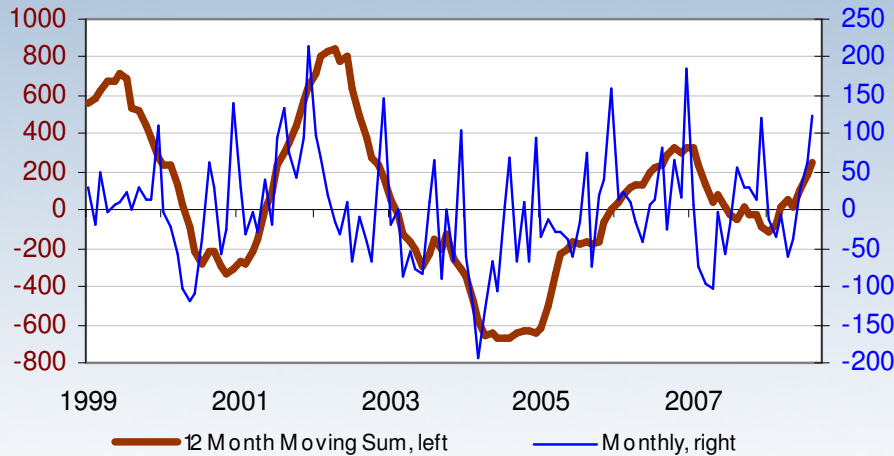


	2005	2006	2007	2008	2009	2010
Aug 07	3.1	4.6	3.8	3.7	3.7	3.5
Nov 08	3.2	4.2	3.9	1.4	-0.4	3.0

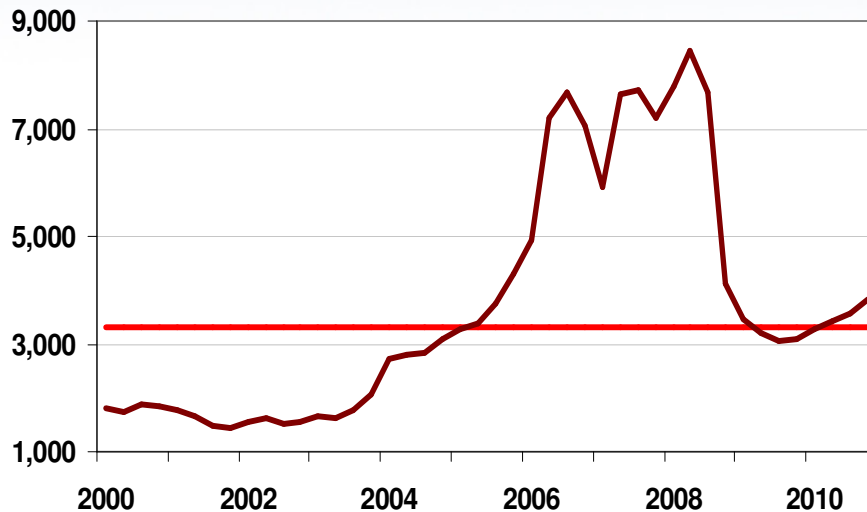


Copper: Still Some Room to Fall

Copper Market Balance, thousands of metric tons



Copper, LME, US\$/metric ton



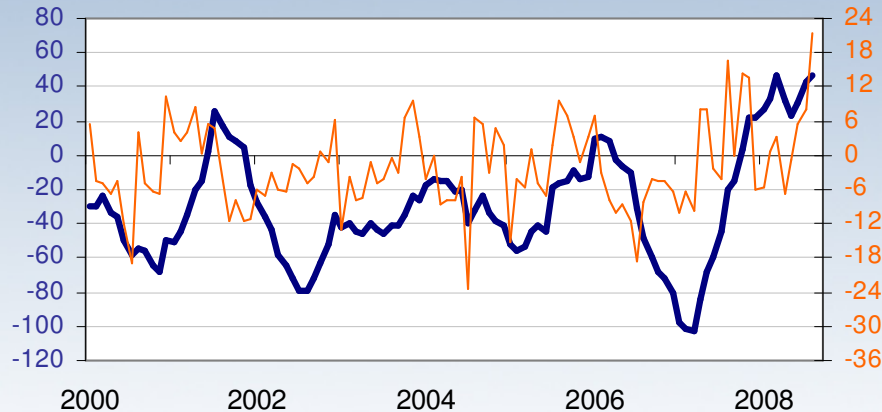
- Market is moving into surplus with inventory building
- We see a modest surplus in 2008 that widens out in 2009
- Prices, now under US\$3,800/mt still have downside potential
- Marginal costs US\$3,000-\$3,500/mt
 - Prices could undershoot for a time — sub US\$3,000/mt



Nickel: Beginning to Encounter Fundamental Resistance

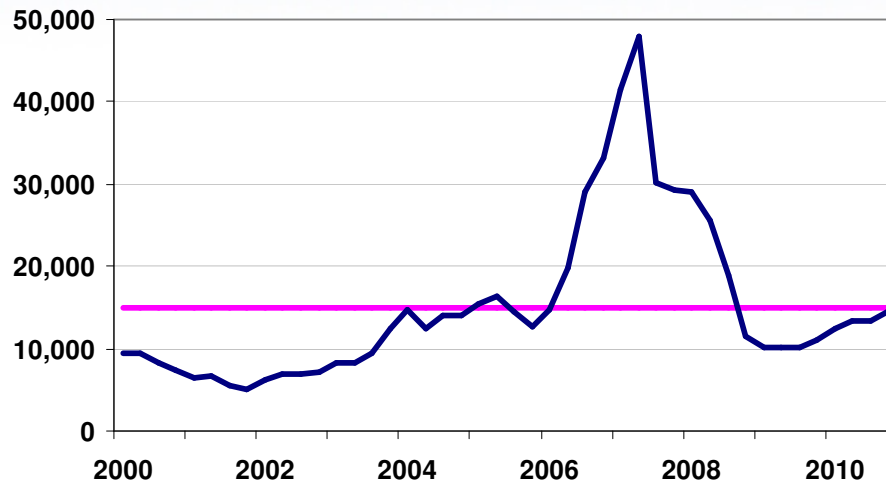
Nickel Market Balance

Thousands of metric tons, monthly and 12 month moving sum



- **Market is in surplus with inventory high and rising**
 - Large number of projects mean mine production could increase by a third over the next three years

Nickel, LME US\$/metric ton

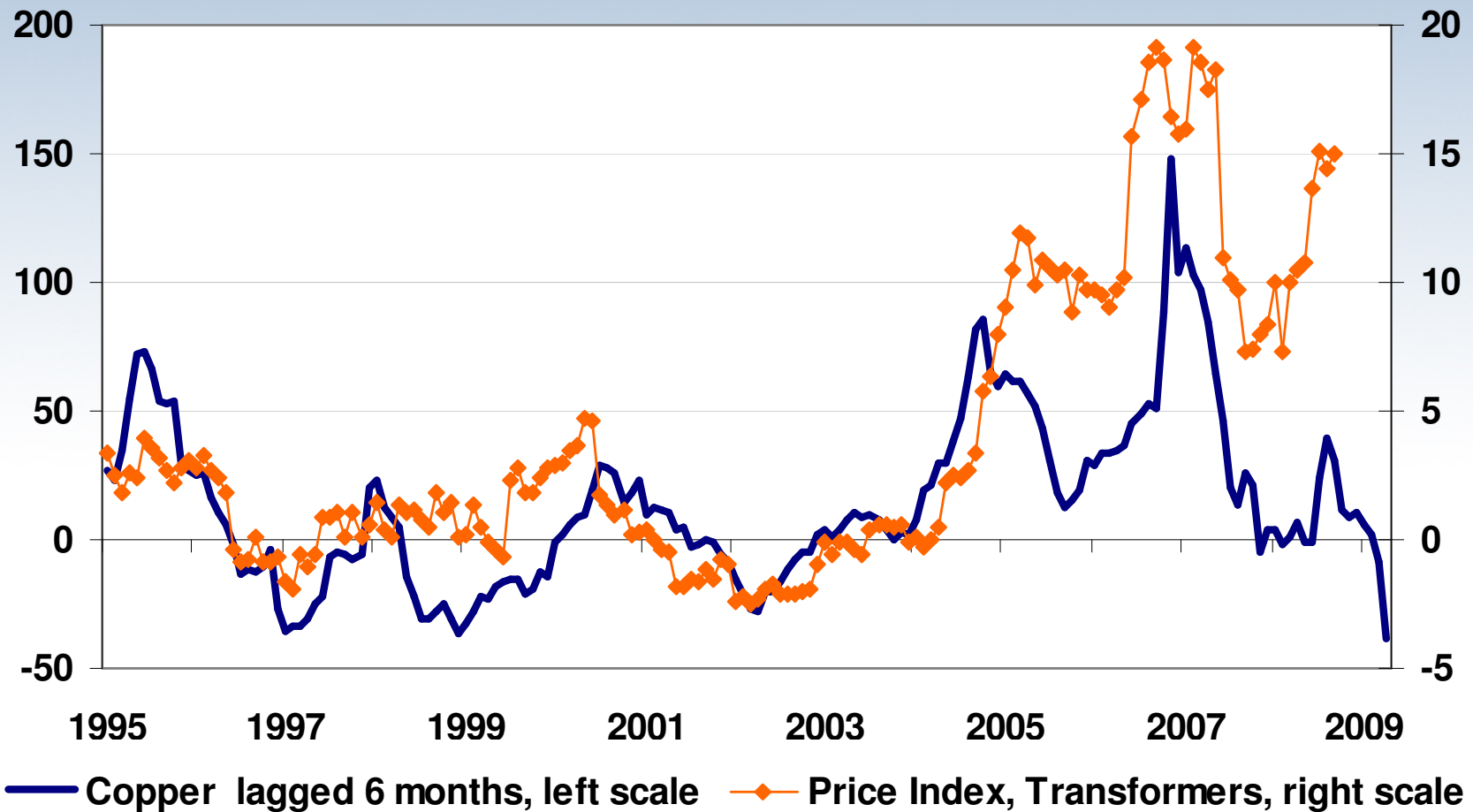


- **Stainless production now looks to remain weak into the fourth quarter**
- **But marginal costs and recent production cuts suggest current prices are not sustainable**



Lower Material Costs Will Soon Be Passed Through

Percent Change Year Ago



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