



DEMAND IS THE KEY

9 July 2008

The steel sector's fundamentals show that the cycle may still extend a bit further, unless demand falls off sharply. Supply is under control and even allowing for some slowdown in demand, the world demand-supply equation may remain tight next year. Inflationary concerns however call for a close watch on demand. Steel prices need to see some correction, otherwise demand may soon fall back, but this may not happen until late Q4 08 or early 2009.

Steel Prices: Still Firm

- Regional Prices Up 2-5%, Chinese Prices Unchanged
- Only Stainless Steel, Chinese HRC and H-Beams Down 1%

Production: Steady

- Crude Production Growth Steady, 11% y-o-y
- Long Products Growth Picking Up At 9%, Still Single-Digit
- Flat Products Growth Faster, At 24%

Consumption: Slower, But Faster Than Supply

- Crude Steel Consumption Up 16%
- Flat Products Up 31%, Long Products Up 13%

Inventory and Trade: Exports Rebound Continues

- Exports Higher, But Still Down 10% y-o-y
- Flat Product Inventory 3-6 Days
- Long Product Inventory Lower, At 4 Days

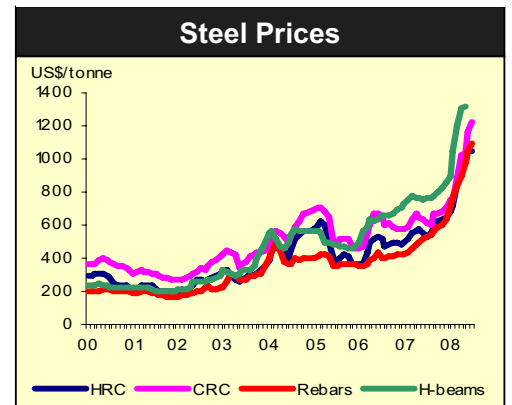
Share Prices: Weaker

- Sumitomo Unchanged, Other Northeast Asians Down 10-18%
- Chinese Shares Down 18-38%
- Indian Shares Down 17-32%

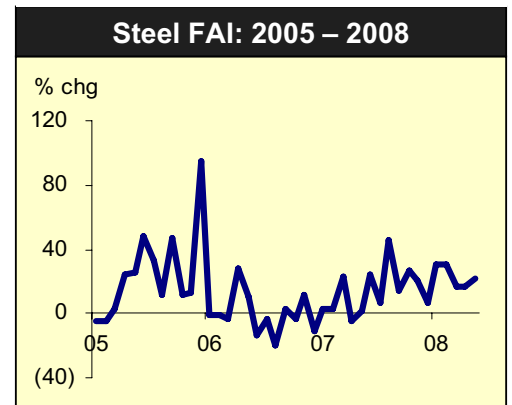
Data To Watch: For Signs of Reversal

- Fixed Asset Investment: Growing Again - Happening
- Crude Steel Production: Growth Below 10%
- Inventory Turnover: Above Seven Days
- Exports: Falling

Expect Strong Summer



Up 21%



Recommendations

- Maanshan
- Baosteel
- POSCO
- CITIC Pacific
- Shanxi Taigang
- Tata Steel

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