



## Steel prices set to rise further in 2008

At the end of year 2007, the new term of iron ore price is under the negotiation in the iron ore meeting between global major suppliers which an anticipated not surprising outcome of price hike in 15 percent to 50 percent has been predicted. The increasing raw material cost will drive steel producers to pull up the prices in 2008.

According to MEPS, the steel prices for global flat products is expected to go upwards continuously throughout the fourth quarter to the beginning of year 2008. It is said that the summer of 2008 will be likely to be "the peak of the price cycle for all flat products". (Platt, MEPS, Nov. 2007).

It is projected that the global flat steel prices, especially it of carbon steel will go up in 2008 as the possible increase of iron ore costs at the beginning of next year will lead to a tight supply in scrap which boosts up the scrap prices in side effect. Rebar and wire rod may become the category with the most value jump following the improving construction industry in Europe and North America. Meanwhile, the higher cost of coking coal and freight charge rate are expected to contribute the soaring of next year's steel prices.

### ▶ The steel sector faces higher production cost

The largest steel producer and exporter, China, imported iron ore around 284 million tons in the first 9 months of 2007 and most noticeable is that 38 percent of ore was supplied from Australian mills. The merger between BHP Billiton and Rio Tinto which has recently attracted much attention would have a great impact towards China's production cost. After this consolidation has been done, China will lose the power to negotiate the

iron ore importing price from Australia. Besides, coking coal price is also climbing in Australia which will push the production costs ever further.

China also imports iron ore from India of which the spot price has increased by more than 40 percent since the beginning of this year and not surprisingly for its further hike in 2008.

### ▶ Global flat steel market trend

The fourth quarter's flat steel prices in the global market seem remaining flat in general. In America, US and Canadian markets are hit by the decline of sales and high inventories. The weak local market demand plus strong currency and oversupply lead a low transaction price in the American market as well as in certain East-European market.

In Asia, China's domestic mills keep expanding the capacity output while the flat steel product prices have been slipping since September. On the other hand, the dumping issues claimed against China's export are expected to drive the country's steel prices up. As mentioned above, the higher material cost and freight charge will weaken the competitiveness of China's exported items in the global market.

In Taiwan, the market consumption remains active since the prices have been climbing from end September. The prices for carbon steel flat products are set to go up in the next first quarter but for coated steel price, it is expected to remain stable. In South Korea, the domestic demand continues to be strong while mills which proceeded production cut has resumed the output with a price offered steadily.

The destocking actions of European stainless steel service centers in recent months seems going to an end with improving order books. Major mills, like Outokumpu and certain producers are catching this opportunity to raise prices. Although the stainless steel demand looks satisfactory and distributors are following this price upward trend, market participators doubt that this market picking-up is a short-term scenario when the stock needs to be replenished.

The low stainless steel prices in the European market and anti-dumping review against Asian imports indeed frustrated Asian mills' exports and prices. However, buyers' looking for alternative sources from Asia will still continue and imports may even to rebound when the European market demand returns.

### ► Price to be raised by mills

Stimulated by a combination of soaring prices of raw materials and an expected stable demand, steelmakers will be very carefully to review their growth in profit under the production costs continue upward trend.

China's top steelmaker Baosteel has forecasted that the steel prices will grow by 35 percent next year in China. Actually, the company has lifted its prices by around RMB200~300/ton for first quarter of 2008, and Baosteel believed that the rise in prices is reasonable.

On the other hand, ArcelorMittal, the world's largest steelmaker, has announced to raise US sheet prices by US\$40/short ton starting from 1 January 2008 shipments, while its prices hike plan in the European market will be deferred until the second quarter of 2008.

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**ISSF lower stainless crude steel production forecast**

The International Stainless Steel Forum (ISSF) has reduced its forecast of global stainless steel output for year 2007 to 1.1 percent from previous 5.1 percent.

The annual production is expected to reach to 28.7 million tons in this year. ISSF indicates the annual production of stainless steel will slow down due to de-stocking

Demand from end users will continue in the next half year. On the other hand, distributors and stainless steel makers are trying to cut their inventories.

Global stainless steel production output rose by 9.1 percent to some 15 million tons in the first half 2007 compared to the same period of last year.

**China may turn to stainless steel net exporter in 2008**

Boshan Iron & Steel Co, the China's second largest producer of stainless, said that China may turn to a net exporter of stainless steel in 2008. So far most Chinese mills have increased their capacity to meet rapid demand growth and they sell overseas more than domestic market.

China has replaced Japan as the world largest stainless steelmaker since last year and it may supply to domestic market substantially until at least 2010, according to the China Special Steel Enterprise Association.

This year Baoshan Steel's full year output is about 1.05 million tons which is down by 5.4 percent from 2006. The company eyes its output unchanged next year.

**Rebar, slab exports climb in Taiwan**

Rebar and slab overseas buyers are seeking suppliers in Taiwan due to an increase export tax policy in China.

Accordingly, Taiwanese rebar and slab producers currently hold about 150,000~20,000 tons orders with February delivery. High export demand may lead the new price upward to US\$650/ton CIF for rebar and US\$610/ton for slab.

Early November, the price for rebar was at US\$610~615/ton while slab was US\$585/ton. From mid-November, the export prices for rebar and slab started soaring to C&F US\$630 and US\$595/ton respectively.

China government plans to increase export tariff by 10 percent. Effective from January 1st 2008, rebar will be imposed total 20 percent tax and 25 percent for slab.

**IISI releases October pig iron production**

The production of pig iron of International Iron and Steel Institute's (IISI) 41 members amounted to 81.18 million tons in October, up by 7.6 percent as compared with the same period of last year.

The total output from January to October was at some 782 million tons, increasing by 8.4 percent year on year. The production of pig iron in EU, North America and Asia in October was 9.77 million tons, 4.3 million tons, and 54 million tons respectively, risen by 2.6 percent, 4 percent, and 10.1 percent accordingly.

As the largest production country of pig iron, China produced 40.84 million tons of pig iron in October.

### **Nippon Steel goes ahead with steel plant investment in Thailand**

Japanese Nippon Steel will give the go-ahead for a project to build a new integrated steel plant in Thailand.

Nippon Steel has received a request from the Thailand government about an investment for a new plant which produces high quality steel and upstream steel products in the country. The company will start a feasibility study for the project.

Thailand's annual demand for steel totals some 12.5 million tons, and it needs to import some 4.5 million tons of good-quality steel from Japan and South Korea for around 4.5 million tons per year.

Besides, Nippon Steel Materials Co. and Nippon Oil Corp. said that they will increase production of carbon fiber at their joint venture by about 2.6 percent to 180 tons by June 2009, for ¥3 billion investments.

### **Auto manufacturers search for substitute materials due to high prices**

Many Chinese and foreign auto manufacturers are trying to use substitutes to replace steel plate because of continuous price hike of steel products and fierce market competition.

Aluminum, magnesium and plastics are becoming the first choices materials to substitute steel plate in auto industry because of their light weight and high strength.

Though the application of steel plate in auto making is decreasing with the proportion of substitutes increasing; however, the industry's demand for steel is still expanding because China's auto market is flourishing.

China's auto making industry will need 12.55 million tons of steel in 2007 and 21.76 million tons until 2015 as expected.

### **China's higher export tax for billet and merchant bars is on the way**

China's export tax for steel billet and merchant bars is likely to be lifted again around the beginning of next year, according to the information from China's market participants.

The speculation of Chinese government's further action in raising steel export tax has lasted since the past few months. It is said that the tax will be increased from current 15 percent to 25 percent for steel billet and for merchant bars, it will be added up by 10 percent to 20 percent.

However, the actual percentage of tax increase has not been confirmed. For steel plates, the export tax rate will remain unchanged.

The current price of Chinese billet has been staying at the high end of US\$610/ton (C&F) comparing to other sources in the global market. However, after the tax raise has been applied in January next year, the sky high price of Chinese billet should difficultly to beat the market shares.

### Oversupply, rising cost to affect China's steel industry in 2008

It is reported by the National Development and Reform Commission (NDRC) that adverse factors including oversupply and rising costs will go on plaguing China's iron and steel industry in 2008.

China's steel production capacity has been rising rapidly in the past few years. According to the daily steel output in September, the total output for a year will reach 520 million tons.

And this situation is made worse because some steel makers are trying to expand their capacities. At the same time, the government is curbing iron and steel export, which will worsen the oversupply situation on domestic market.

The industry is also facing rising production costs, such as soaring prices of iron ore, freight, energy, even the rising environmental costs.

### ISTA urges caution on EU anti-dumping complaints

Recently Eurofer had filed several anti-dumping cases against steel imports from Asia countries including China, South Korea and Taiwan and the involved parties are all holding breath to wait for the conclusion.

Now, the International Steel Trade Association (ISTA) has comment against these cases stating that the impact was outweighed and urged the European Commission to be cautious about these cases.

ISTA thinks that international competition would make the EU manufacturers aware of the market price thus drive up their competitiveness.

Although the steel exported from China is huge, they did not see any profit decline for EU producers; rather the increasing quarter after quarter profit report and further price increases policy are evidences against the AD based hypothesis.



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