

Commodities / steel

Steel prices pressures hit pre-Lehman levels

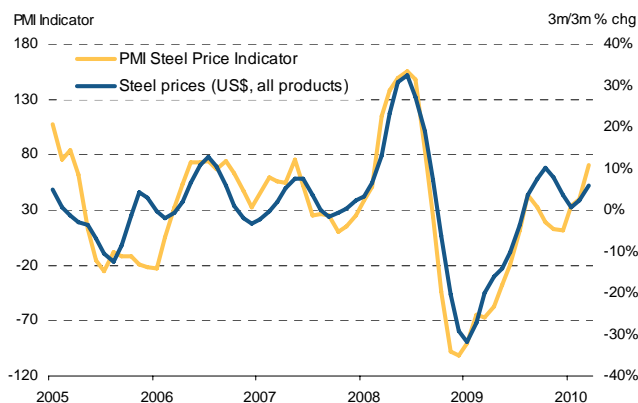
- **Steel prices pressures highest since August 2008.**
- **Rising demand likely to help steel-users pass costs on to customers.**

Steel prices look set to rise as the cost of iron ore (used in the manufacture of steel) is expected to surge higher as a result of new pricing arrangements between steelmakers and ore miners. With steel-using manufacturers reporting that supply chains are also tightening in response to strengthening demand for steel, steelmakers look well positioned to pass these increases on to manufacturers. This points to further upward pressure on prices paid by consumers for finished goods which use steel as a key input.

Steel prices jump higher in March

The average quoted price of steel products rose 3.3% in March, taking it 24% above the low reached last May according to data provided by MEPS International. An indicator based on data supplied by steel-using companies that participate in Markit's world-wide PMI surveys shows that these higher prices are feeding through to factories, with the incidence of increased steel prices rising sharply to reach the highest since August 2008, just prior to the collapse of Lehmans.

Steel prices



Sources: Markit, MEPS International Ltd.

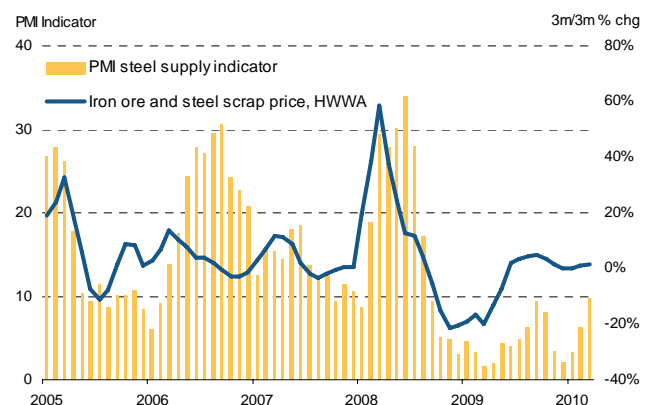
Supply chains tighten

The increase in prices reflects a shift in pricing power down the supply chain. In the first instance, the move from annual to quarterly contracts in the supply of iron ore to steelmakers is expected to result in substantially higher ore prices. Having fallen 35% from its pre-crisis high, the price of iron ore and steel scrap is estimated to have recovered almost 10% in the year to March according to HWWA and therefore looks likely to rise further in coming months.

Second, a PMI survey-derived 'Supply Shortage Indicator' for steel shows that steel buyers are reporting increased shortages of supply (these indicators reflect the proportion of purchasing managers across Markit's world-wide PMI panels that reported a specific commodity to have been in short supply each month).

Although the incidence of steel supply shortages currently remains well below that seen prior to the financial crisis, shortages in March were the highest reported since August 2008.

Iron ore prices and steel shortages

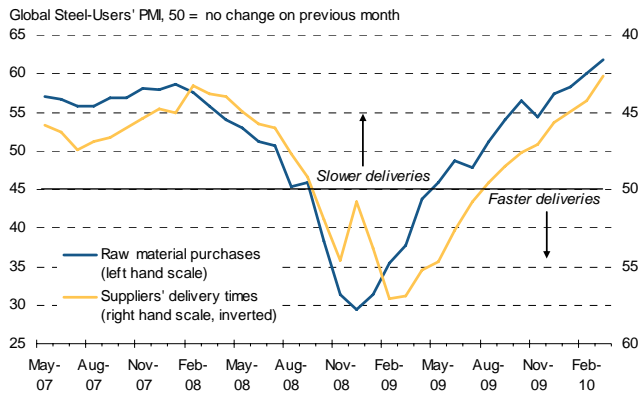


Sources: Markit, HWWA.

The supply shortages are linked to strong growth in demand for steel as an input by manufacturers of vehicles, construction industry materials, consumer goods and other products. Globally, steel-using companies are boosting their purchasing of inputs at a

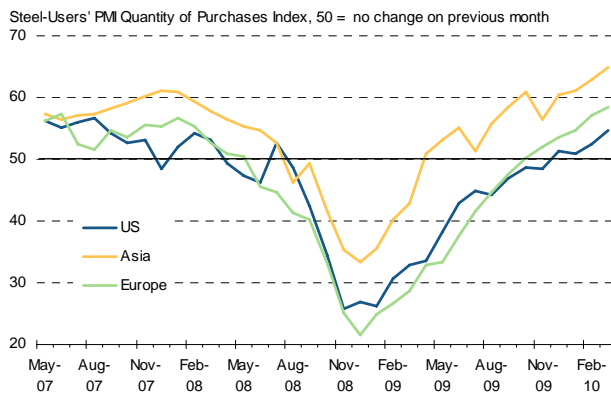
faster pace than seen even in the peak of growth before the downturn as companies seek to fulfil rising order books and restock their warehouses, which had been deliberately depleted to cut costs during the financial crisis.

Slower deliveries linked to greater purchasing



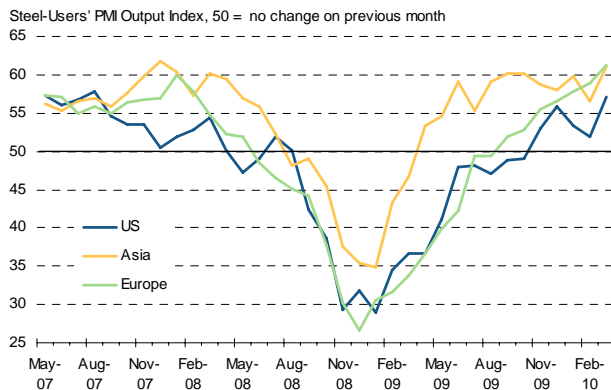
Source: Markit.

Steel-users' purchasing by region



Source: Markit.

Steel-users' manufacturing output



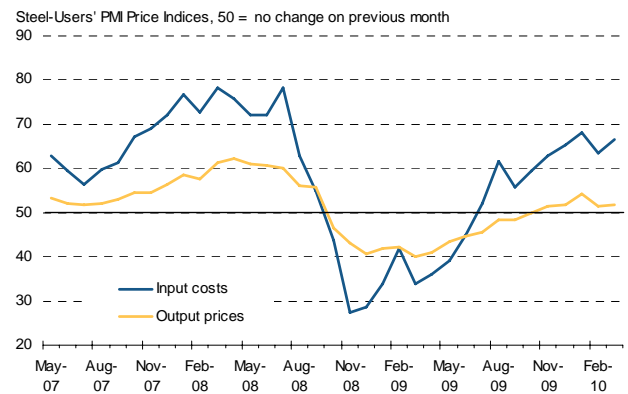
Source: Markit.

Price outlook

At the moment, steel-using goods producers are only reporting limited success in raising their prices, despite seeing their input prices rise sharply higher. Globally, output prices rose for the fifth successive month in March, but increased at only a modest pace and well below the rate seen prior to the recession.

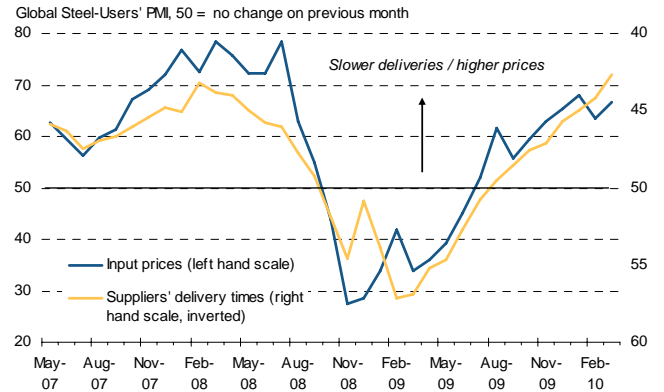
However, supply shortages invariably result in higher prices, reflecting a shift from a buyers' to a sellers' market, and the recent lengthening of lead-times therefore suggests that rising demand will help steelmakers push through raw material price rises on to manufacturers of goods containing steel.

Global PMI steel-users' input and output prices



Source: Markit.

Global PMI steel-users' prices and delivery delays



Source: Markit.

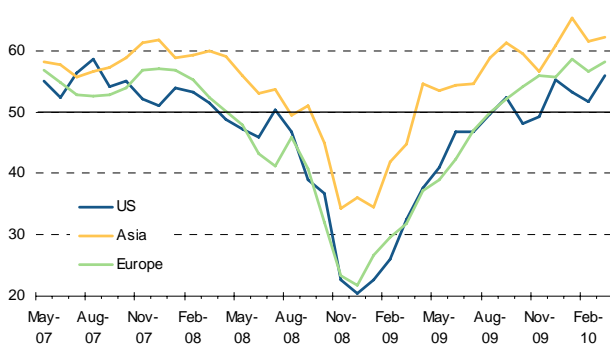
The tightening of supply chains is apparent in all main regions of the world, with stronger growth of both manufacturing output and purchasing of inputs recorded at steel-using industries in the US, Asia and Europe alike in March. Purchasing rose at the fastest pace since September 2007 in the US, February 2007 in Europe and at a series record pace in Asia (where data were first collected in 2004).

PMI survey of steel-using manufacturers

The following charts are based on PMI survey data compiled by Markit which reflect business conditions exclusively at companies that use steel as a key input to their production process.

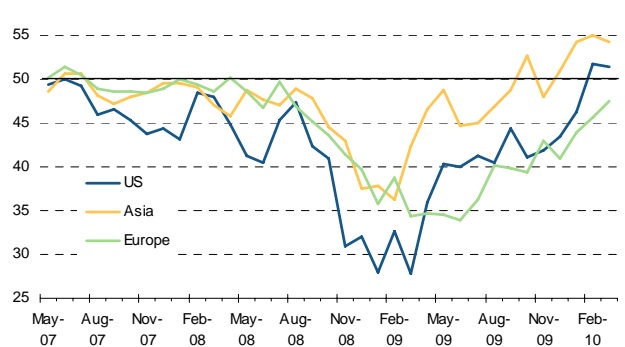
New orders at steel-using manufacturers

Steel-Users' PMI New Orders Index, 50 = no change on previous month



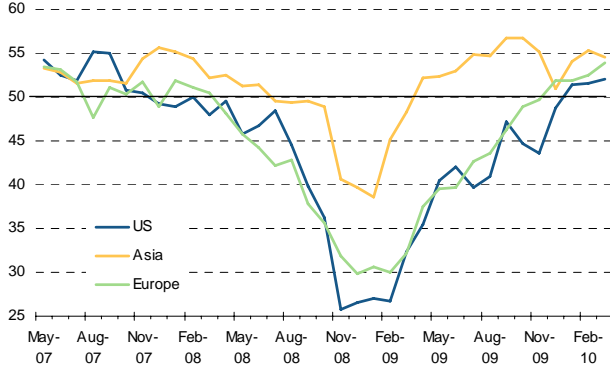
Steel-users' inventories of raw materials/inputs

Steel-Users' PMI Stocks of Purchases Index, 50 = no change on previous month



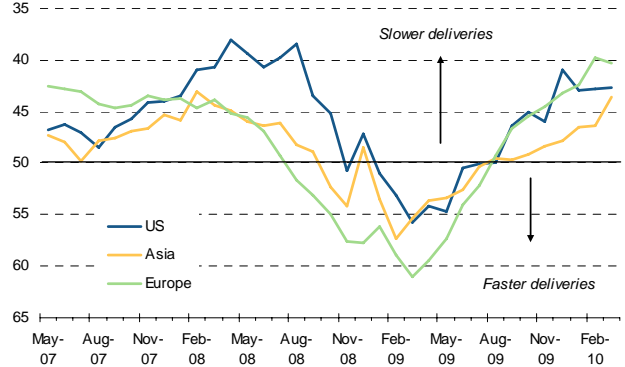
Steel-users' backlogs of uncompleted orders

Steel-Users' PMI Backlogs of Orders Index, 50 = no change on previous month



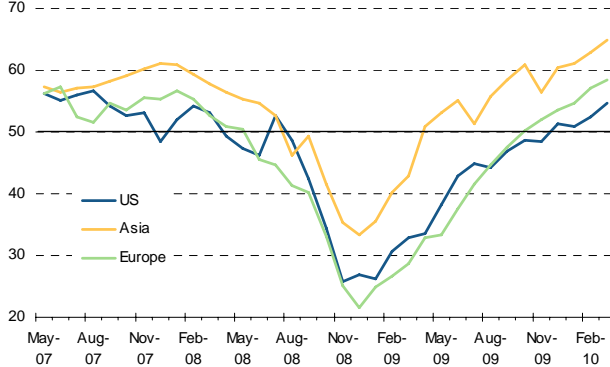
Delivery delays by region

Steel-Users' PMI Suppliers' Delivery Times Index, 50 = no change on previous month



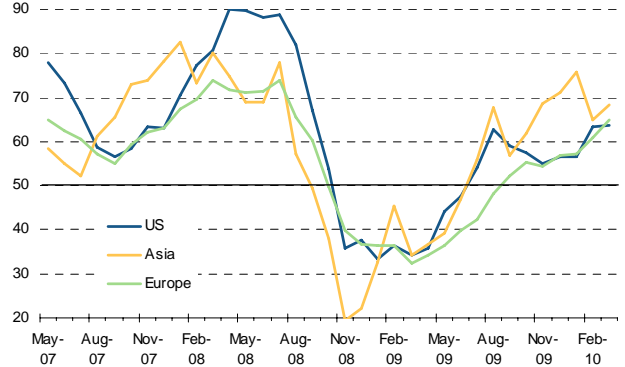
Input purchasing by region

Steel-Users' PMI Quantity of Purchases Index, 50 = no change on previous month



Steel-users' average input prices (all purchases)

Steel-Users' PMI Input Prices Index, 50 = no change on previous month



All data based on Markit's PMI survey respondents that use steel as an input to their company's production process. Surveys cover the US, China, UK, Germany, France, Italy, Spain, South Korea, Taiwan, Russia, Brazil, Turkey, Czech Republic, Austria, the Netherlands, Greece, Ireland. Data are weighted according to national steel consumption.

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