

PRESS RELEASE

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For immediate release

China Stainless Steel

Aiming for Total Dominance of the Global Stainless Steel Market Capacity will exceed 20 million t by 2012

The Chinese Stainless Steel melt production will reach 11 million tonnes in 2009, up 30 % from 2008. 200 series accounts for 25 % and 300 and 400 series for 52 % and 23 % respectively. Around 30 % of the Stainless production is made up by sub-standard products that do not meet international quality standards. Some people argue that these products are not 'real' Stainless Steel, but still these producers are using the same raw materials, driving the Ferroalloy and Scrap demand to record levels. The rapid expansion of production will definitely not stop after 2009 as many expansion projects are unstopably in progress. By 2012, the Chinese melt capacity is expected to exceed 20 million tonnes up from 12.5 million tonnes in 2008. As domestic demand cannot match this enormous capacity increase, Chinese producers will have to penetrate export markets in order to keep the capacity utilization on reasonable levels.

SMI GmbH just completed an in-depth study about the Chinese Stainless Steel market, by visiting around 50 integrated stainless steel producers. Some of the key results are shown below:

The Stainless melt production will reach 11 million tonnes in 2009 (+ 30 % compared to 2008) and the output of finished products will climb to 9.9 million tonnes. Out of this flat products will grow to 7.8 million tonnes (+ 37 %) and long products to 2.1 million tonnes (+ 10 %). Not only the output of the major mills like TISCO or Baosteel increased, also many new companies are entering the market like Fujian Deshang Nickel, Shandong Taishan, Southwest Stainless or Shanxi Huanxinyuan, to name just a few.

There are many types of Chinese steel producers. For example, the furnaces range from 1 t Chinese made induction furnaces to 160 t state-of-the-art electric arc furnaces. The slab width ranges from just 450 mm to 2,100 mm and the width of hot rolled coils from 400 mm narrow strip (mostly 200 series) to 2,000 mm wide coils. Cold rolled products are produced on Chinese made 4-high mills as well as on imported 20-high Sendzimir mills.

There are around 50 producers with own meltshops which in total operate 50 induction furnaces (12 % of Chinese STS production in 2009) and 90 EAF (88 % of Chinese STS production). Whilst the equipment and product range is different as described before, these companies still have a common denominator. They use the same raw materials: Ferroalloys, Nickel Pig Iron and Scrap. In 2009, the Chrome input is expected to reach 1.8 million tonnes (+ 35 % compared to 2008), Nickel input 540,000 t (+ 32 %) and Manganese input 240,000 t (+ 47 %). By 2015, the Chrome input could increase by more than 1 million tonnes to around 2.9 million tonnes and Nickel input by 300,000 t to 840,000 t.

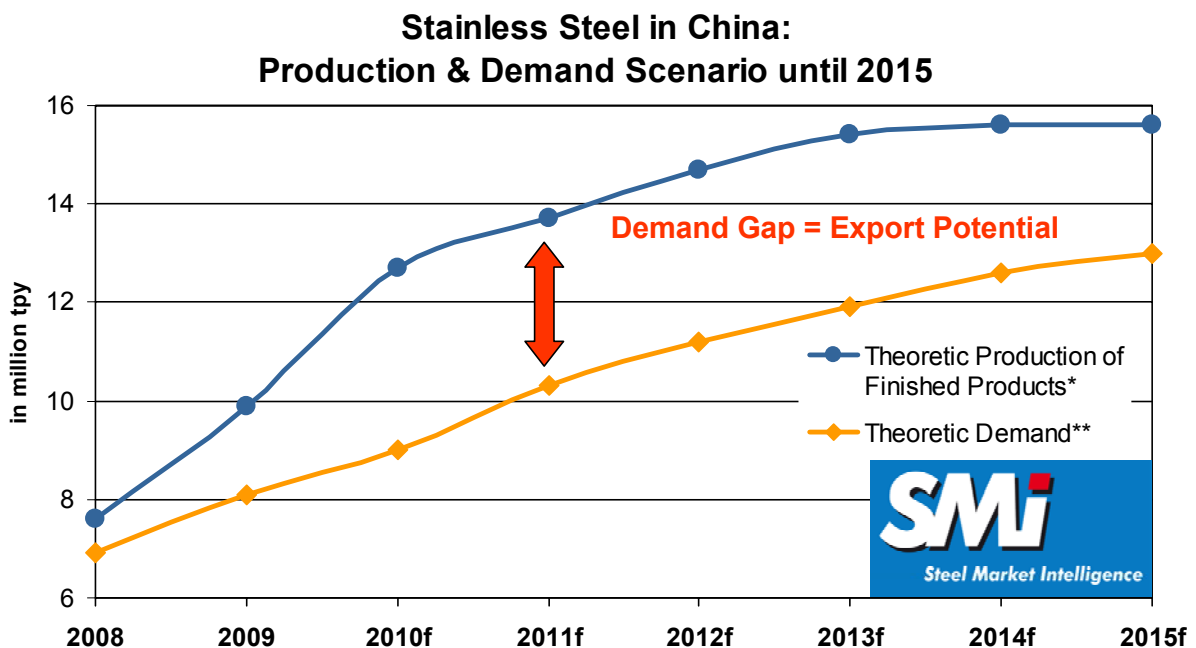
The installed melting capacity in 2008 was 12,5 million tonnes. With a melt production of 8.4 million, the capacity utilization was 67 %. In 2009, the capacity utilization will, contrary to the rest of the world, increase to 76 % (melt capacity 14.5 million tonnes, melt production 11 million tonnes).

The Chinese demand will grow by 15 % in 2009, which is significantly below the increase in production (+30 %). This resulted in heavy up-stocking of around 1 million tonnes throughout 2009. Thus, 2010 will be a challenging year in China. Stock levels are very high, 1.8 million tonnes of fresh melting capacity will come on stream and demand is expected to grow by less than 10 %. The capacity utilization will definitely drop in 2010.

Further expansion projects are still in progress. **By 2015**, the melt capacity is expected to reach **21.7 million tonnes**, which is 72 % higher than in 2008. With this capacity, theoretically, China would be able to supply almost **65 % (!)** of the world Stainless demand.

However, the real output will depend on the capacity utilization, potential closures and the amount of carbon steels produced by Stainless Steel producers, which is a common practice in China. Taking this into account, the Chinese melt production could rise to between 16 – 18 million tonnes by 2015 (+7.6 – 9.6 million t compared to 2008).

In the same period of time, the domestic Chinese demand is only expected to grow by between 5.5 – 6.5 million tonnes. This inevitable leads to only two possible scenarios: either the capacity utilization will be much lower or Chinese producers have to increase their export volumes drastically in order to keep the capacity utilization on reasonable levels.



*installed melting capacity x 80 % capacity utilization minus 10 % yield to finished products

** Chinese Stainless Steel demand minus Imports



SMI – Steel Market Intelligence GmbH was established in January 2008 as an associate company of SMR – Steel & Metals Market Research GmbH with the purpose of providing the special steel industry with continuously updated off-the-shelf market reports. SMI just completed an in-depth market report about the Chinese Stainless Steel industry. For more details, please visit the website www.steel-intelligence.com.

SMR – Steel & Metals Market Research GmbH is an independent market research company founded by Mr. Markus Moll in 1994. Its mission is to provide market intelligence for the Stainless and Speciality Steel industries. SMR is today a leading and well respected consultant of the Specialty Steel industry on all market related issues, having completed projects for most major Stainless and Special Steel producers worldwide. For more details, please visit the website www.smr.at.

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For more information please contact:

SMI – Steel Market Intelligence GmbH

Contact: Mr. Wolfgang Lipp, Managing Director

Website: www.steel-intelligence.com

E-mail: w.lipp@steel-intelligence.com

Telephone: +43 5672 64262

Address: Kohlplatz 7, 6600 Reutte, Austria