

**BLUESCOPE
STEEL**

18th May 2004

Global Steel Industry Trends:
Is the perception the reality?

Investors have perceived the steel industry negatively

“Poor returns over the long term,

high volatility,

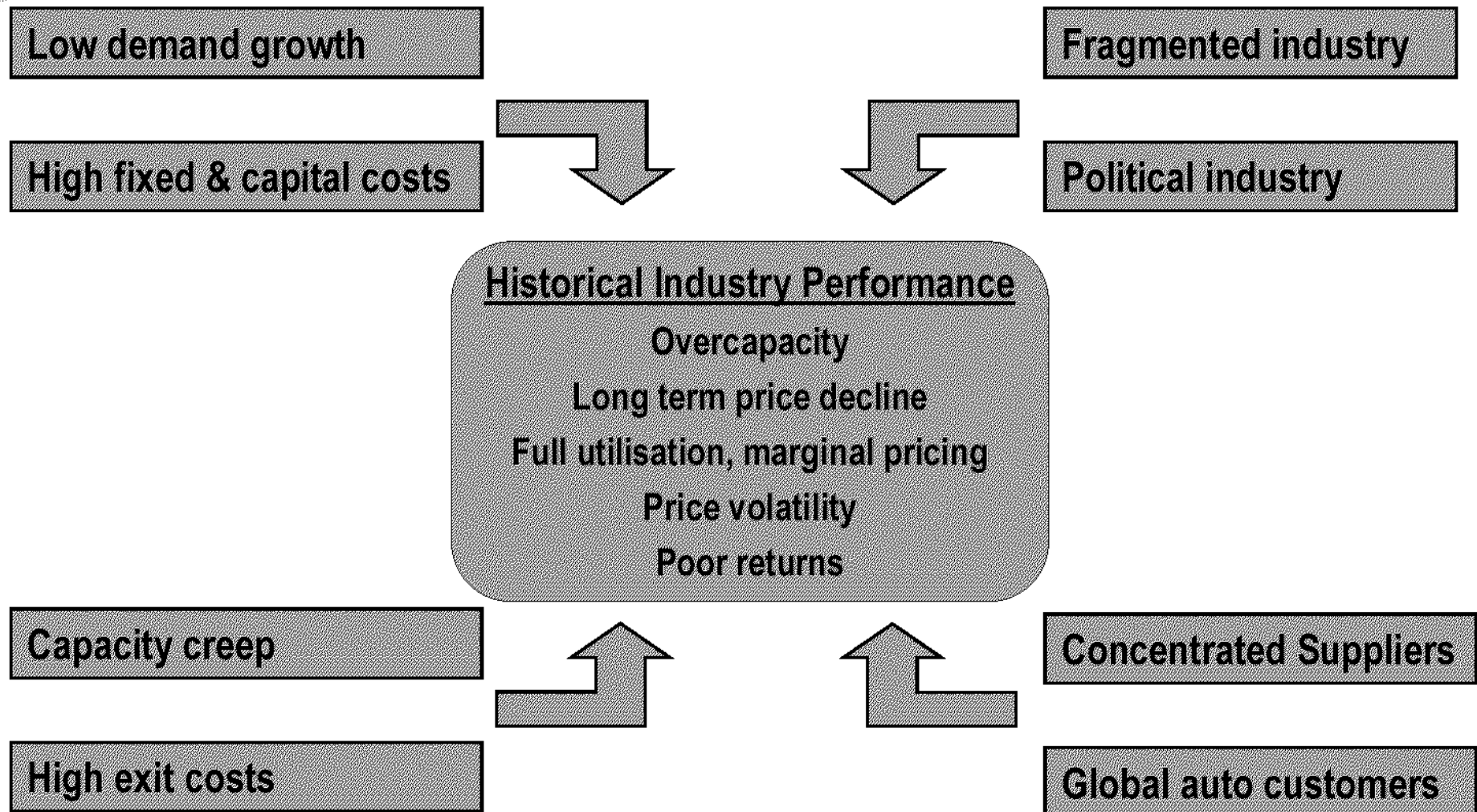
relatively small size and constrained liquidity

has moved the steel sector

to the fringe of the equity investment universe”

ABN Amro (early this decade)

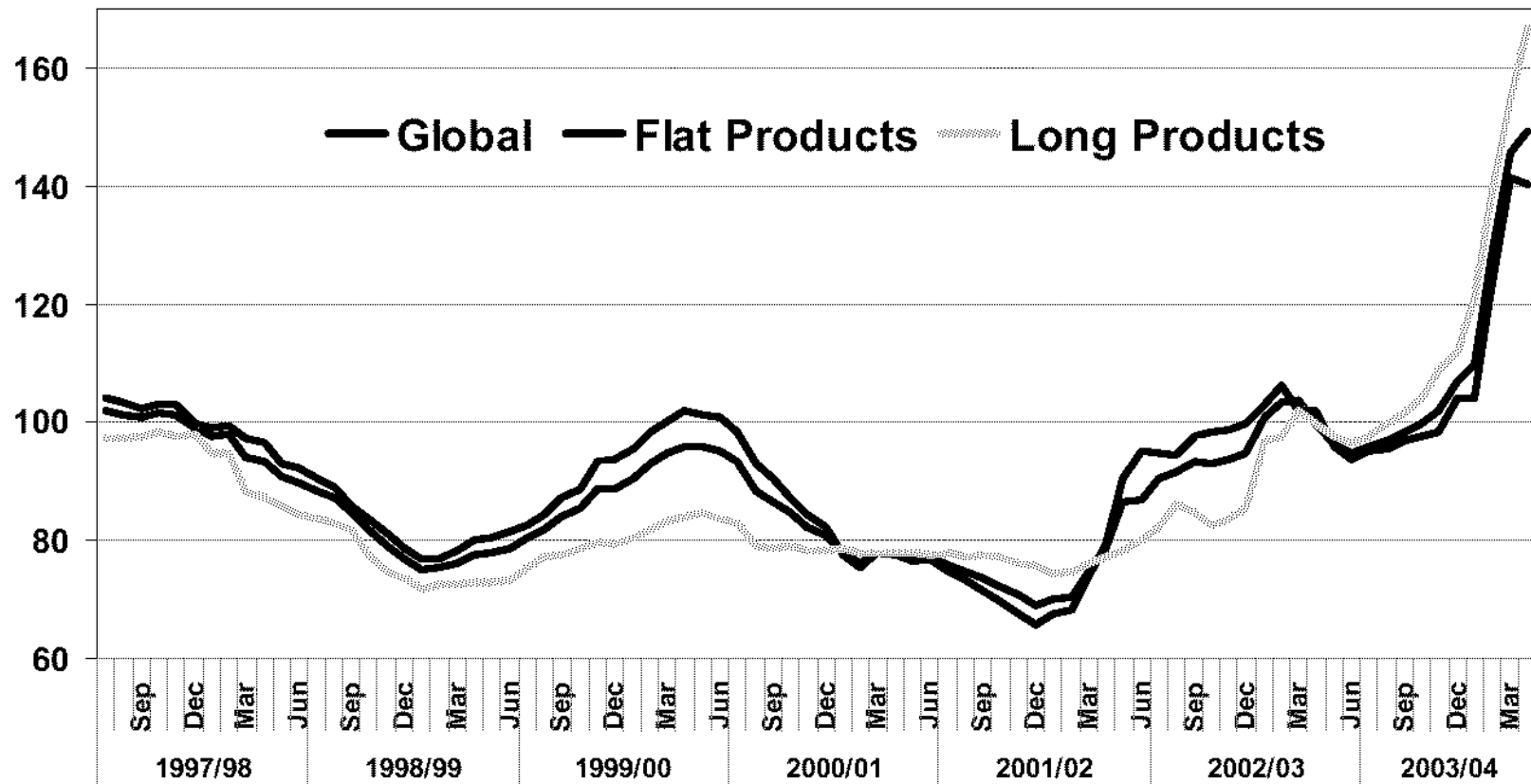
Structural issues have caused poor steel industry returns



However, recent dramatic rises in global steel prices may suggest structural improvement

CRU Global Steel Price Index

(Index April 1994 = 100)



What is changing?

Global economic growth – synchronised

Global steel demand, especially China

Supply/demand gap in China

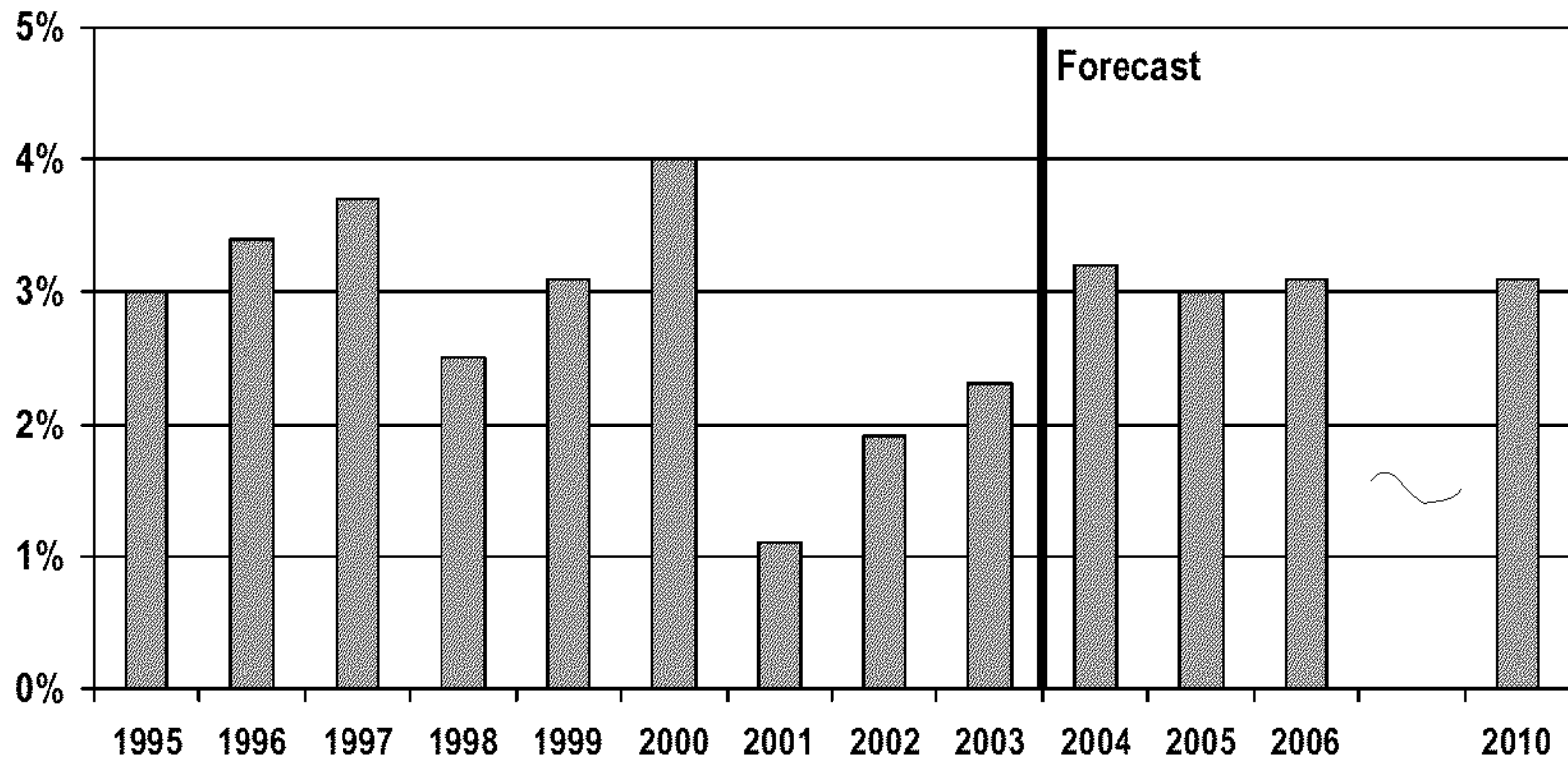
Industry behaviour in OECD/privatisations

Input costs

Different pattern for capacity additions

Strong global economic growth outlook

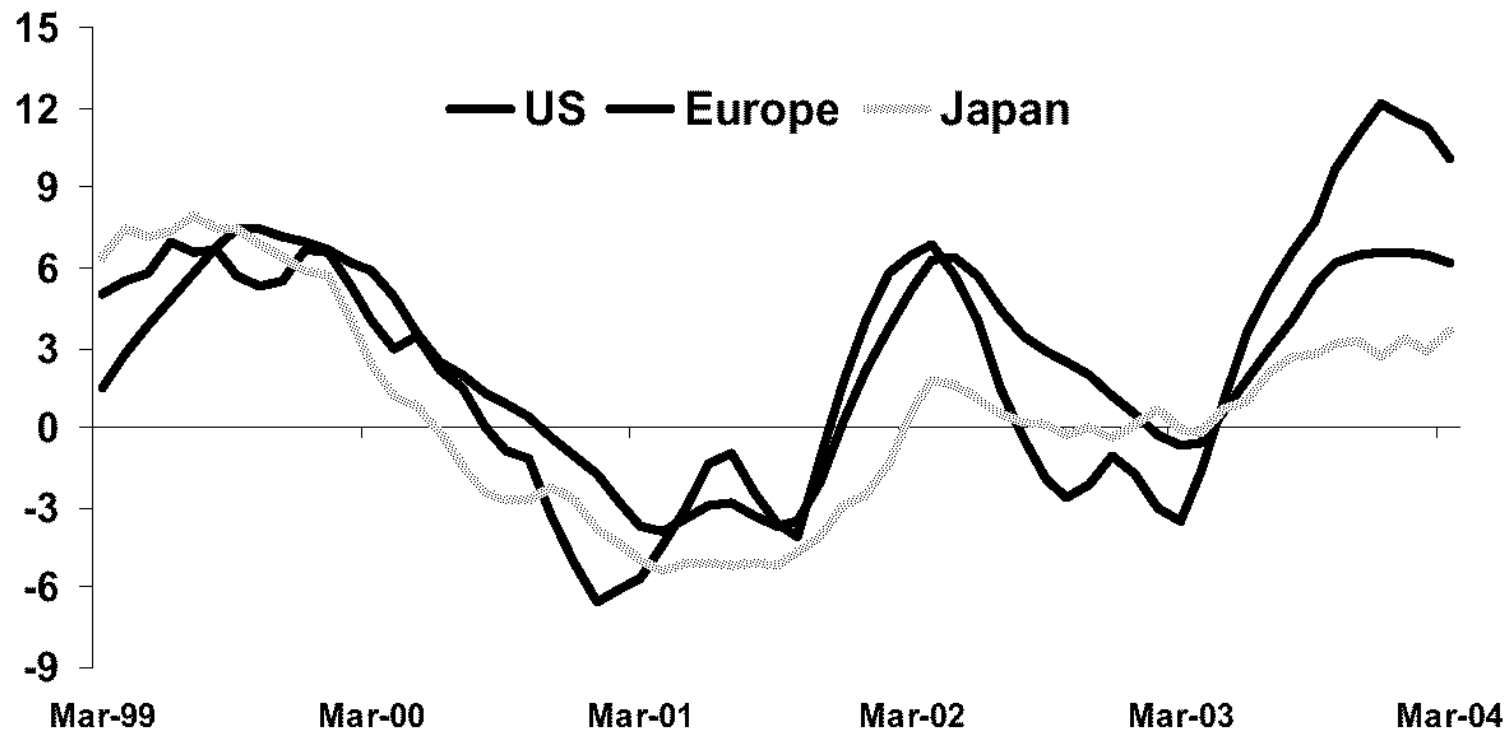
Real Global GDP % Growth



Likely to be synchronised growth in OECD

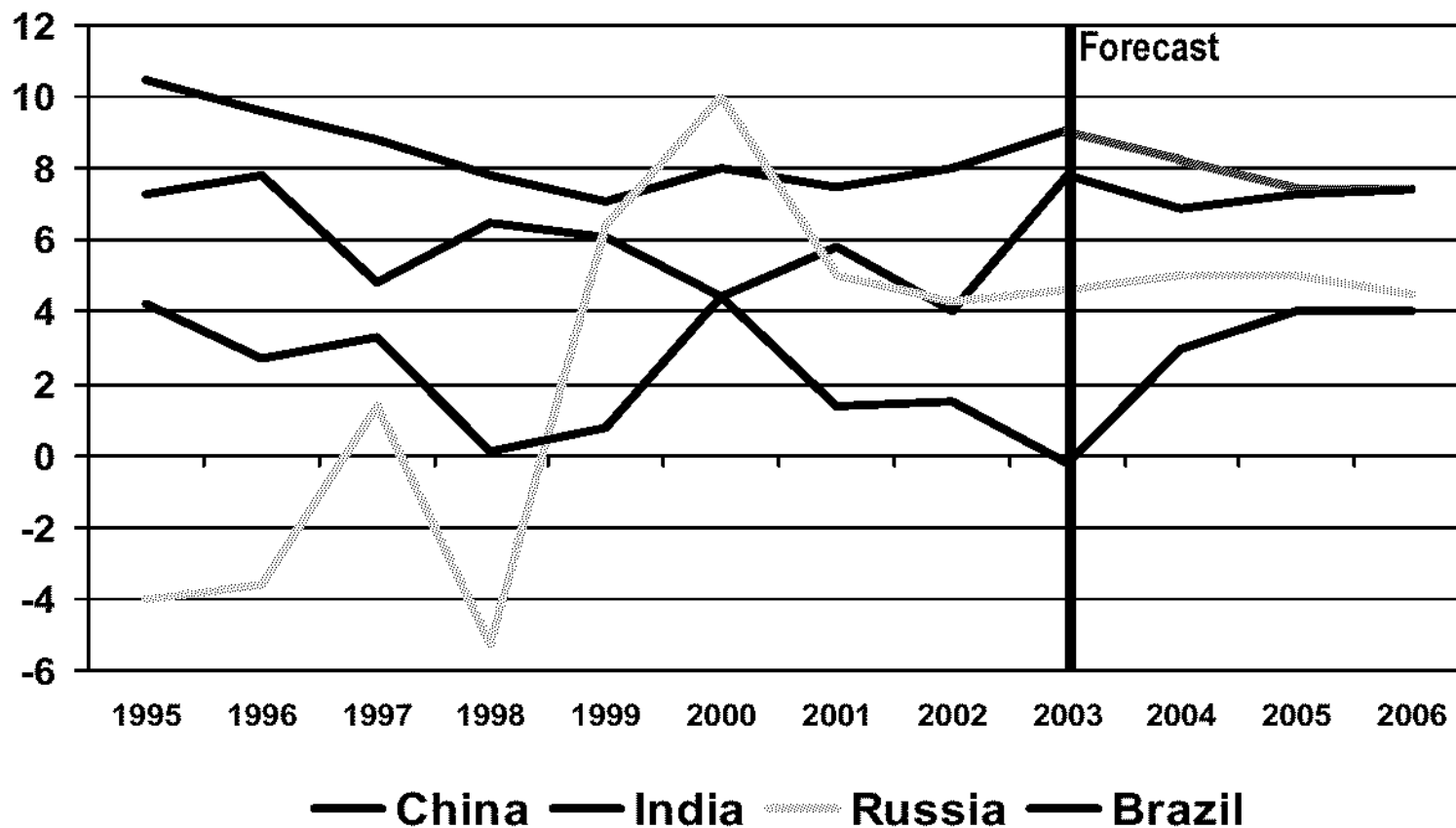
OECD Leading Indicators

6 Month Annualised
% Change



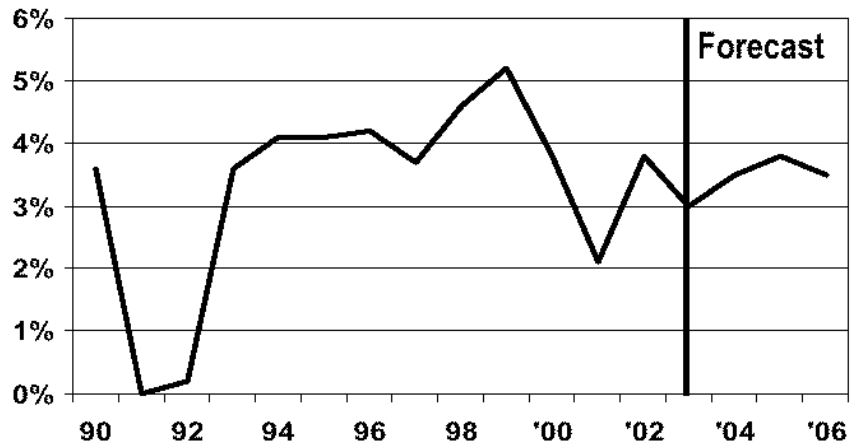
Also, strong growth in large emerging economies

GDP % Growth - Emerging Economies

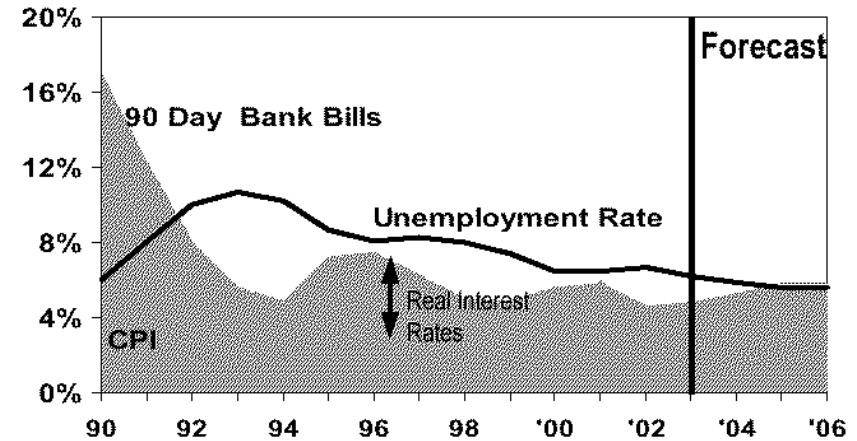


Australia performing strongly – including steel using sectors

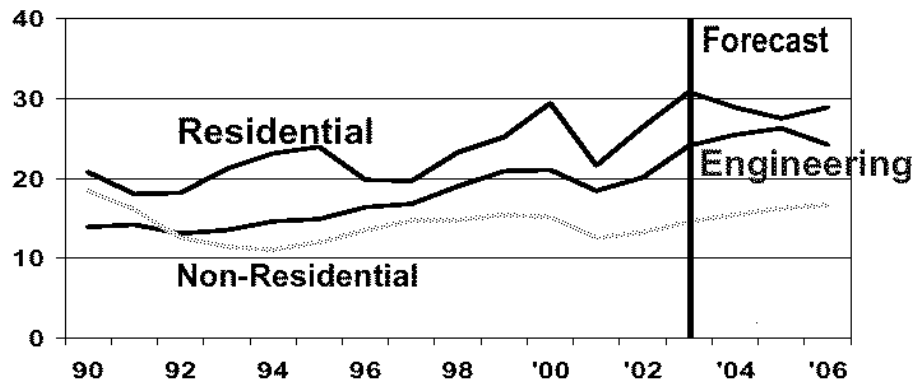
Australian GDP Growth (% , pa)



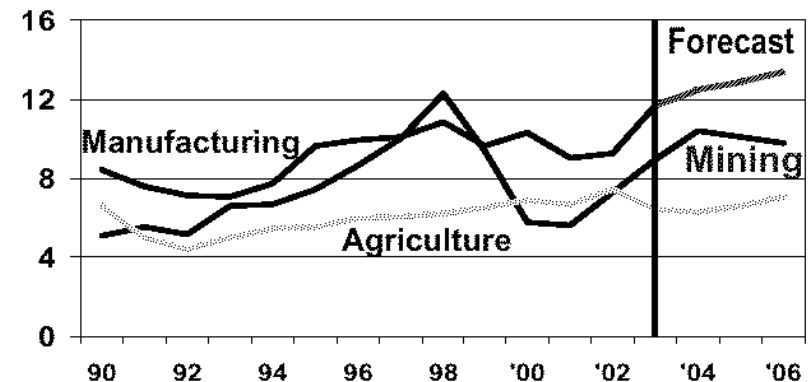
Inflation, Interest Rates & Unemployment (% , pa)



Construction Value (Constant A\$bn)



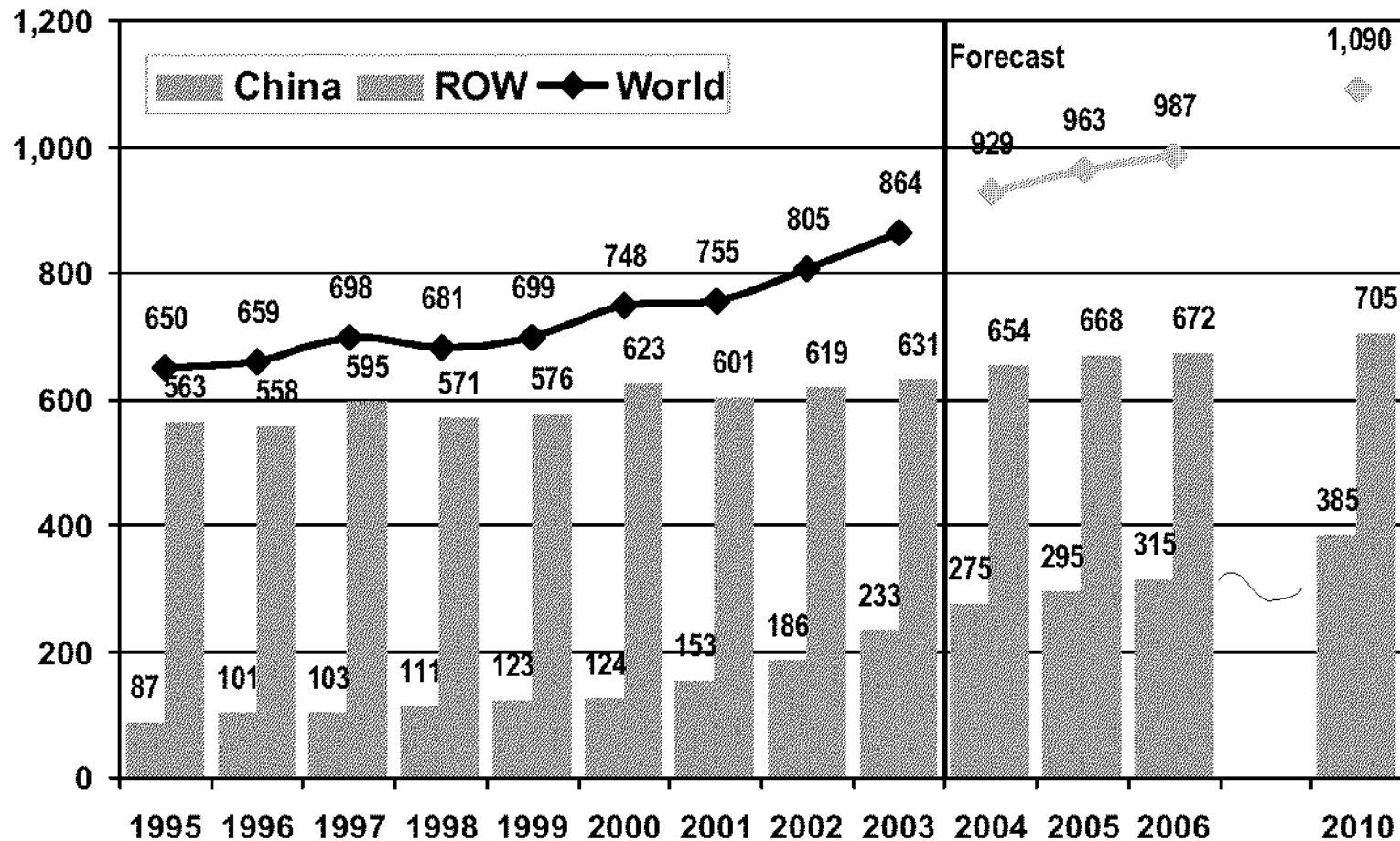
Sectoral Investment (Constant A\$bn)



Global steel demand growing strongly – largely driven by China

Global Steel Demand – IISI Base Case

(million tonnes)

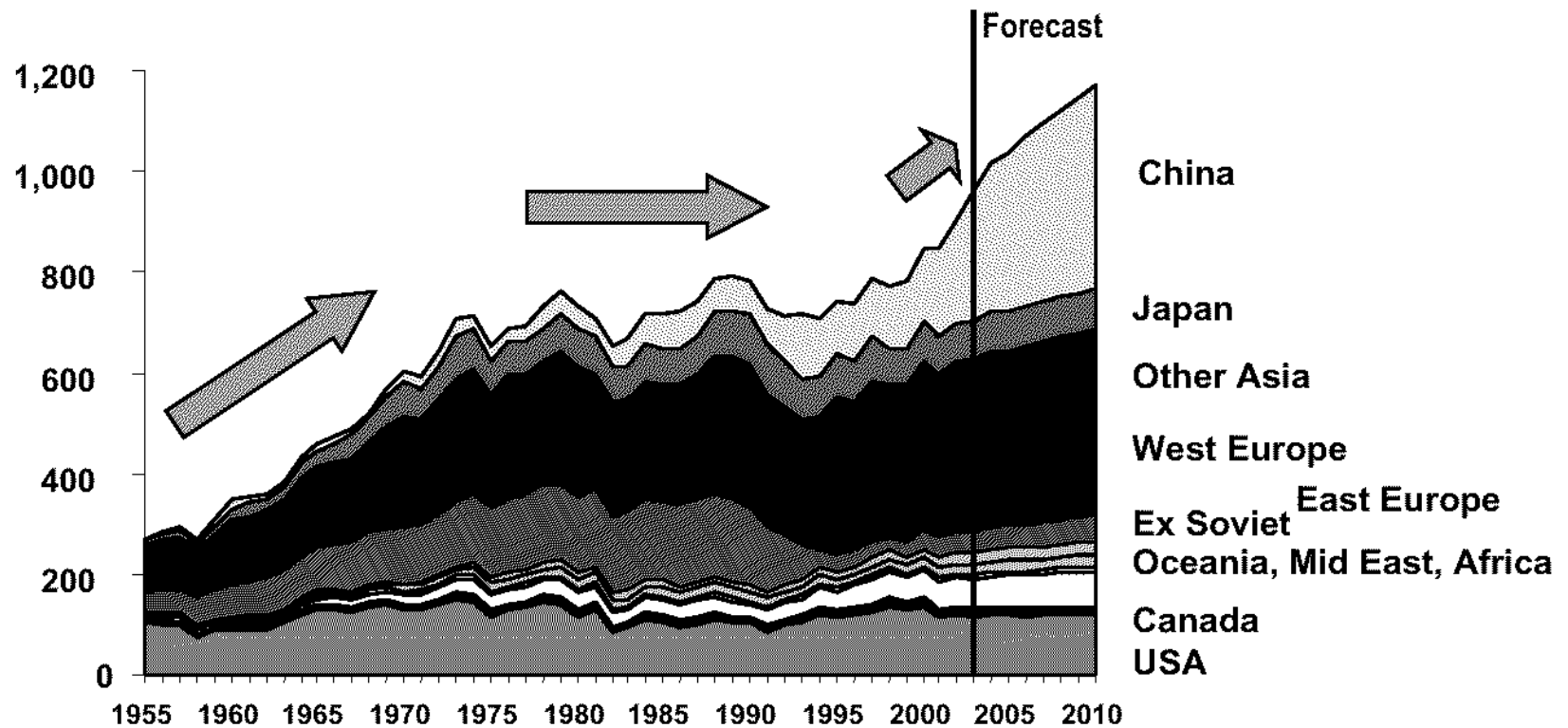


By 2010, China may be 35% of global demand, vs 27% in 2003

Has the steel industry returned to the demand growth seen before the 1973 oil crash?

World Steel Consumption by Region

(million tonnes crude steel)



There is currently a large Supply / Demand gap in China

"Let China sleep, for when she wakes she will shake the world" - Napoleon

Total Chinese Steel Imports

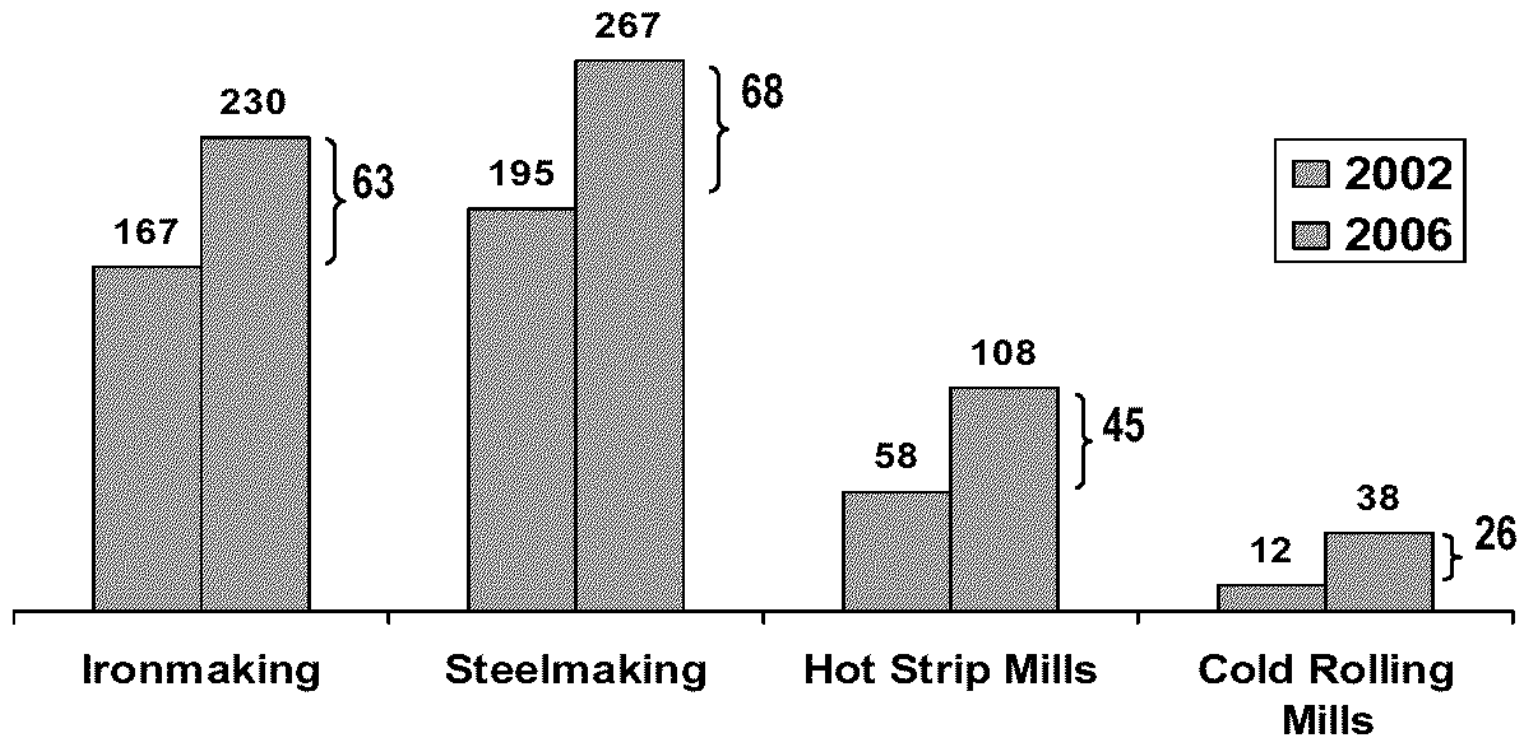
(million tonnes)



China is experiencing massive capacity growth

Estimated Chinese Industry Capacity Expansion from 2002 vs 2006

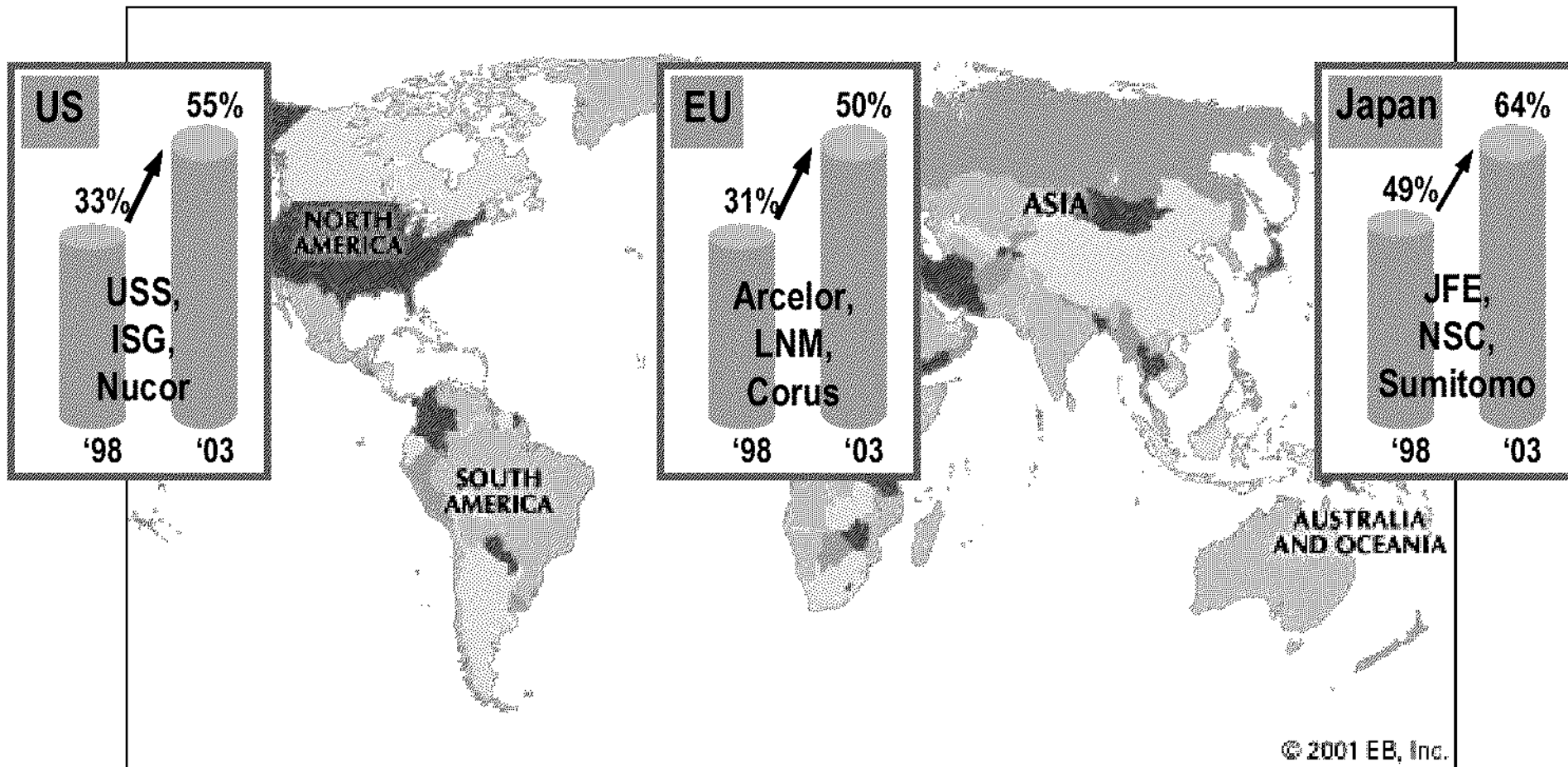
(million tonnes)



Consolidation in OECD

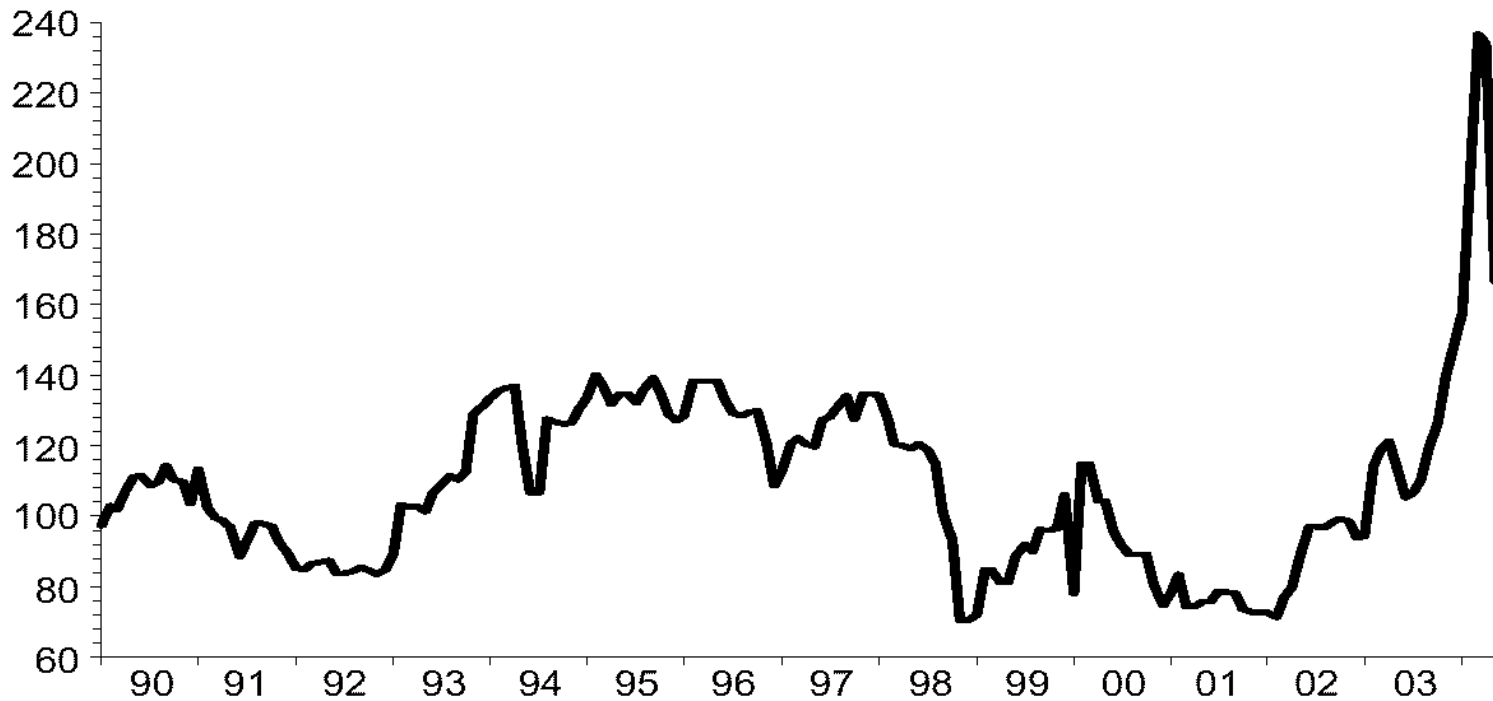
Production Share of Top 3 Steelmakers in Each Region

(%, 1998 vs 2003)



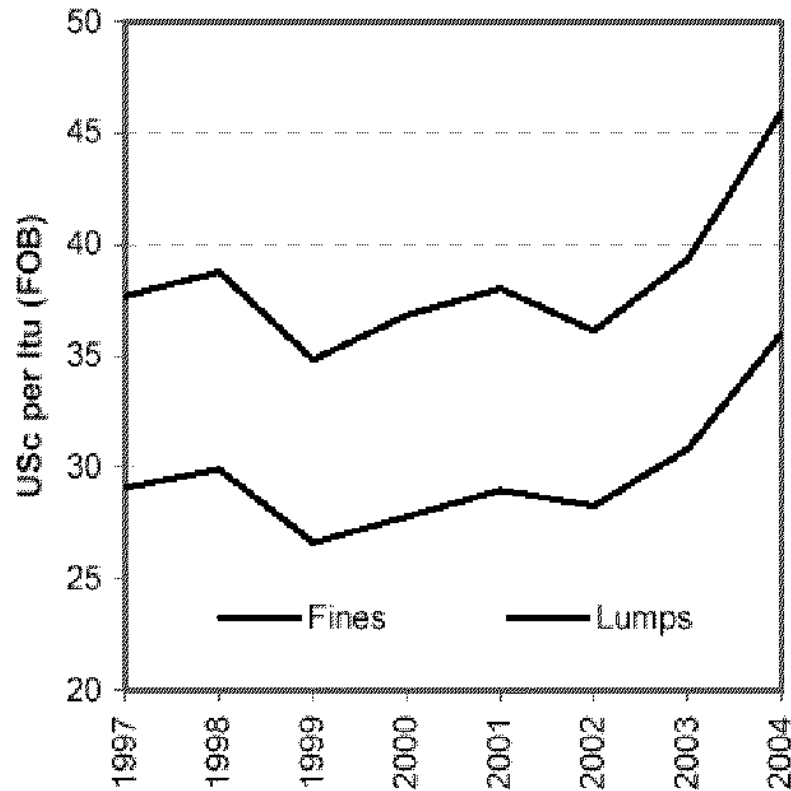
Input costs are rising - Scrap

US #1 Heavy Melting Scrap (US\$/ mt)

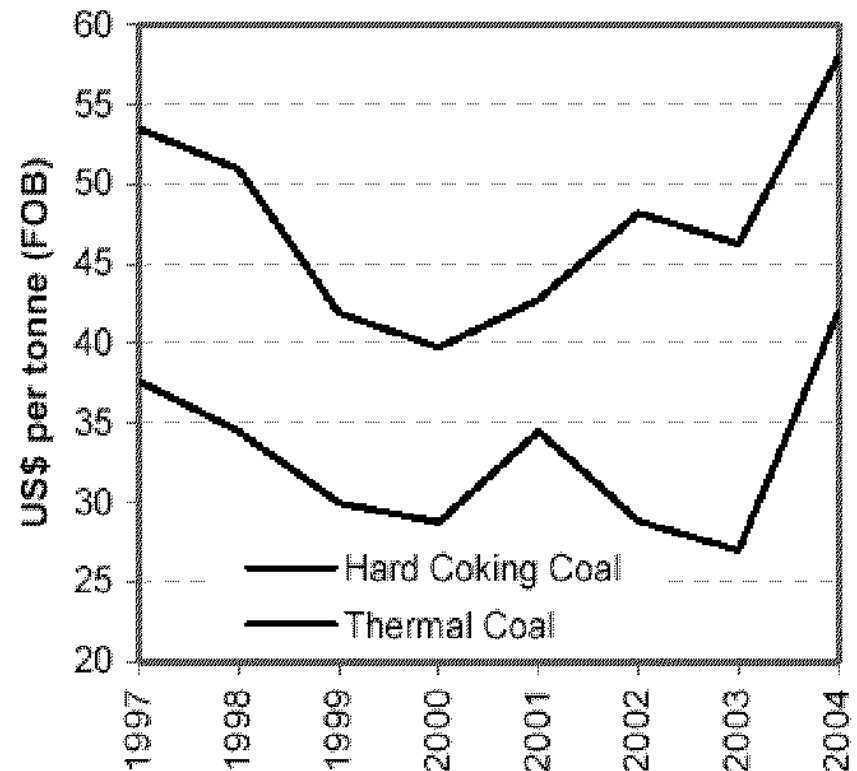


Input costs are rising – Steelmaking raw materials

Aus-Japan Iron Ore Reference Prices



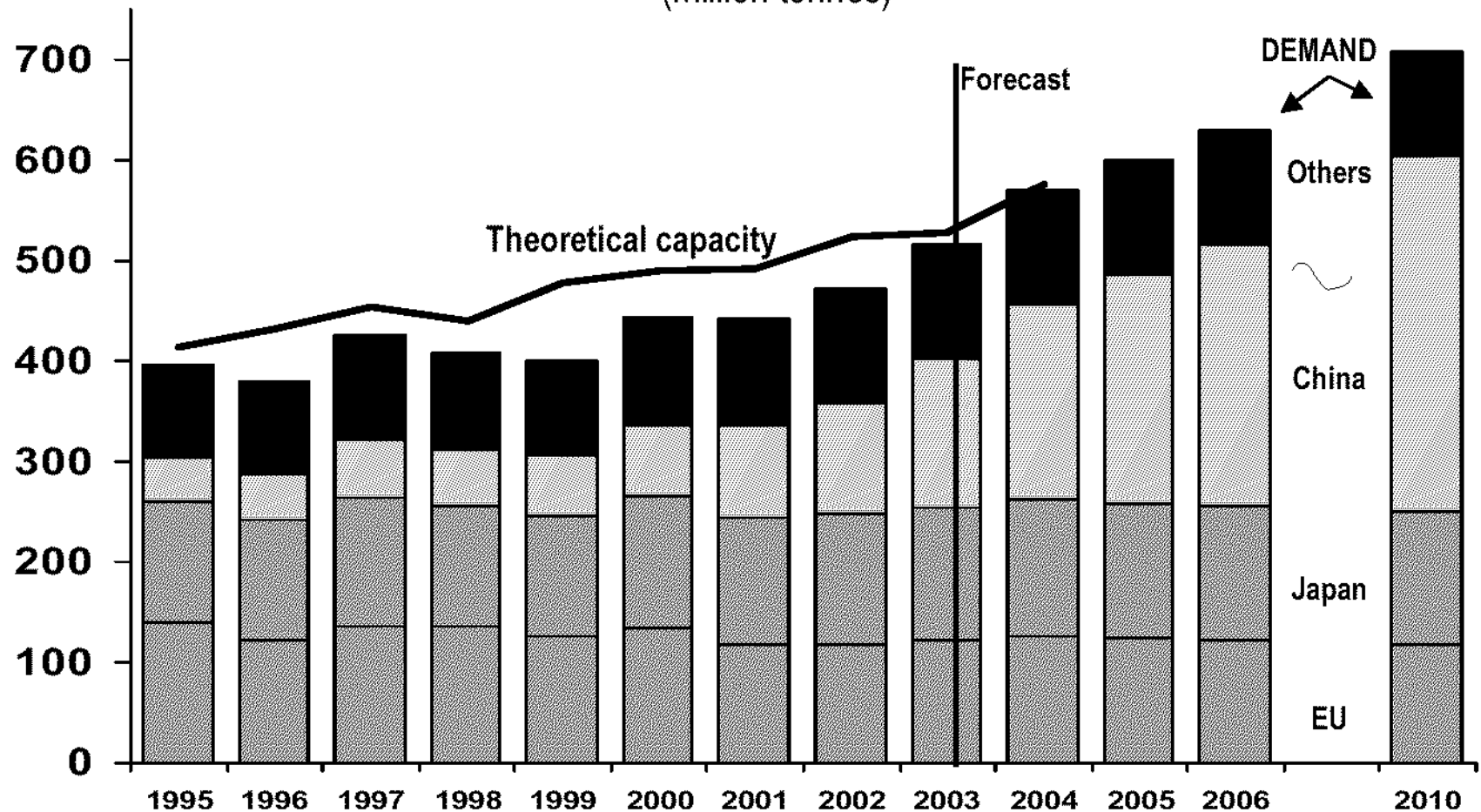
Aus-Japan Coal Reference Prices



Increased Chinese demand is causing rise in input costs.
Currently no excess seaborne iron ore capacity

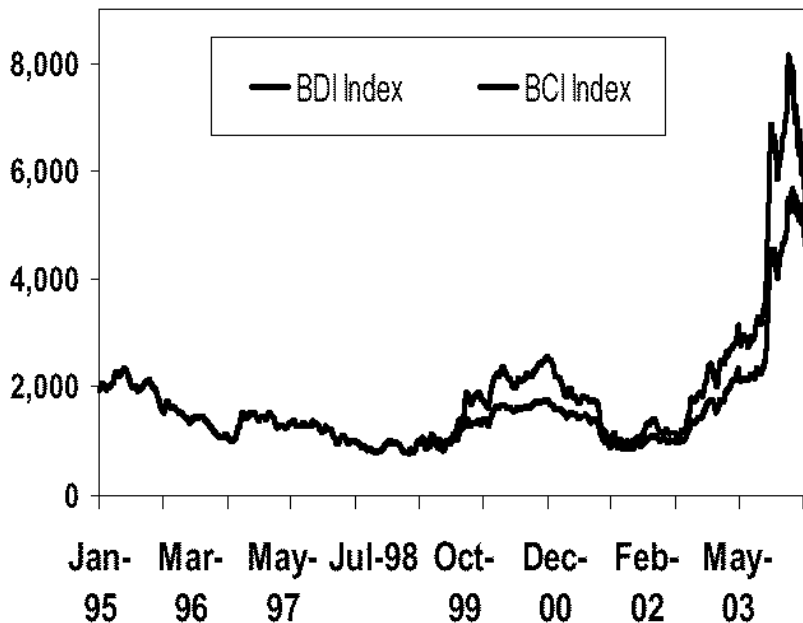
Seaborne Iron Ore Demand Vs Theoretical Capacity

(million tonnes)

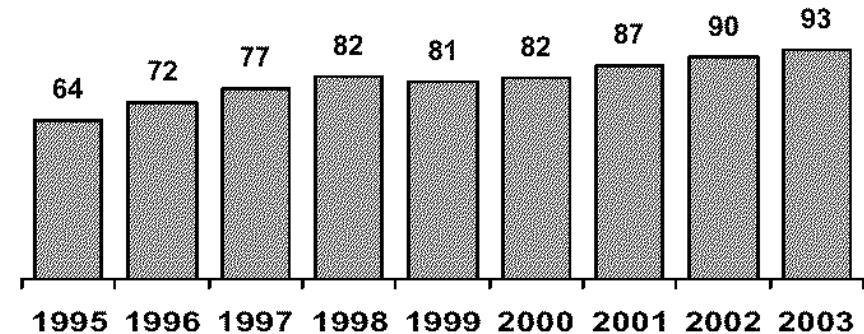


Shipping costs have risen dramatically: Global fleet cannot meet demand – exacerbated by port congestion

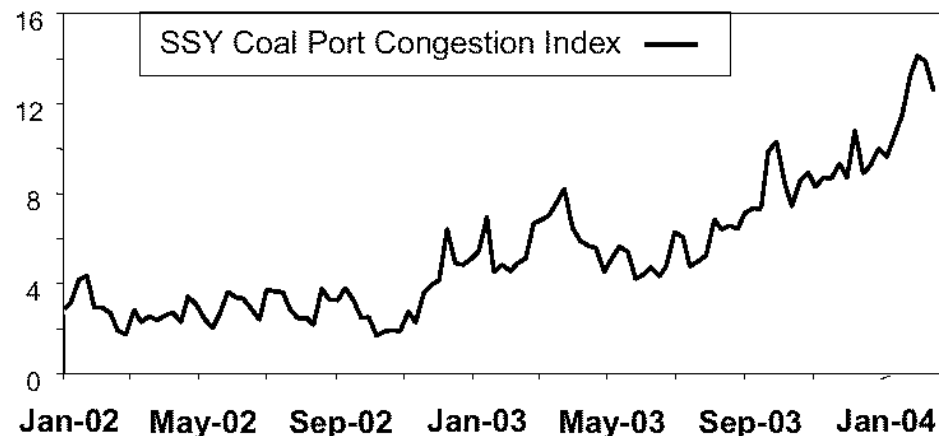
Shipping rates (Index)



Capesize Fleet Capacity (Million DWT)

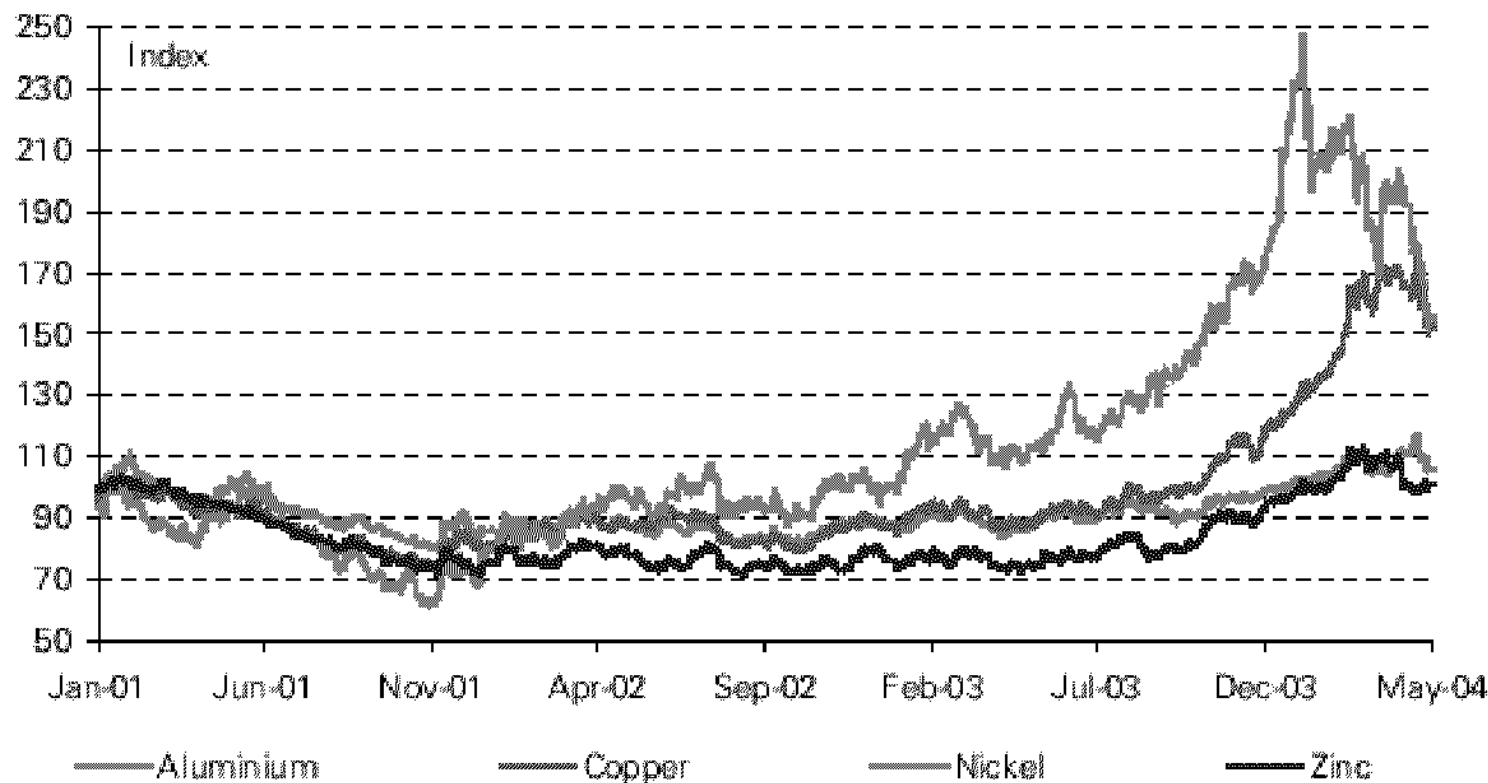


Port Congestion Index – Aust Coal Ports



Other raw material costs also increasing

Figure 30: Base metal prices (rebased January 2001), 2001-2004



Source: Datastream

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Implications

Don't expect a weak Chinese economy any time soon

Steel prices are likely to remain high for some time

Pressure for structural change in finished products pricing

An inflationary phase?