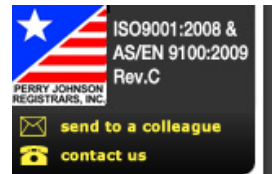




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## MetalsOutlook™ March-April 2000

### Publisher's Statement

Break out the champagne, cut the cake and strike up the band! It's time to celebrate the North American economic miracle. The current expansion in gross domestic product that began in March of 1991, this month is the longest in American history at 108 months - beating the old mark of 106 months set during the 1960s. To quote the experts, the North American economy is cooking, booming, skyrocketing, soaring, ablaze or SMOKIN'. "No matter what descriptor you choose, it will be an understatement," says economist Joel Naroff, of Naroff Economic Advisors.

We'll look at the economy, and discuss why key forecasting gauges still signal that the nation's record economic expansion will continue well into this year. Then, we'll take a look at the sizzling North American steel market - with particular emphasis on the stainless and specialty steel markets. And finally, in Purchasing Focus, we'll explain the reasons for the renaissance in supplier-alliance programs in the metals marketplace.

### Welcome to Metals Outlook™ March-April 2000

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### March-April 2000

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#### **II. Metal Chips: THE NORTH AMERICAN STEEL MARKET**

The North American steel marketplace is sizzling. Domestic mill orders are rising, imports are declining, leadtimes are extending and spot-market prices are rising. "The first half is going gangbusters for local steelmakers," says Roy Platz, marketing director for Ispat Inland Steel. In fact, it is the global consumer, intent on converting robust economic growth into a better lifestyle, that is driving a surge in the demand - and prices of carbon, stainless and specialty steels. "The prospects for all the stainless steel sector

could not be more brilliant," says analyst and consultant Peter Fish at MEPS (UK) Ltd.

For more than a year now, world stainless consumption has remained strong. This can partly be attributed to the modest acceleration in European and Asian economic growth. Although the automotive exhaust systems market may be saturated in the U.S., it is accelerating in Europe and Asia, where automotive production is increasing. And, there is evidence that some end-use products makers are substituting stainless for other materials. And, very importantly, public consumers in developed and developing countries alike, in their quest for products ranging from washing machines to burgers prepared in shining kitchens, have helped push stainless steel demand.

In the developed world, key demand stems from stainless steel's increasing profile in the food processing sector, where sinks, cooking surfaces, containers and even walls are turning stainless because it can be scrubbed up to a hygienic glow. The rapid spread of fast food establishments and catering is spearheading that trend. For sanitary reasons, demand is also high in medical instruments and facilities. Stainless also plays a role in the disposal of solid, liquid and gaseous wastes because it resists the effects of the agents and byproducts used to expunge noxious elements. For developing countries, stainless is found in many of the household goods tied to rising wealth - from cutlery and pots and pans to home washing machines and other appliances. Stainless' resistance to heat and corrosion is also prized in heavy industry, particularly in the petroleum and chemicals sectors, where it can be used in storage tanks and distillation columns. Stainless steel is also used in the automotive, rail and construction sectors.

"There certainly has been an upturn in certain end-uses," says Adam Rowley, metals analyst at Macquarie Equities. "There is definite growth in stainless demand across North America, Europe, and Asia." Significant increases in world production of stainless steel, a major user of nickel, have also contributed to the rebound in nickel prices. In fact, Rowley and other analysts suggest the ever broadening appeal among end users for stainless and specialty grades will push demand growth for nickel by 7% worldwide this year. That's why they see tight supply and high prices ahead for nickel. Some analyst's say world stainless steel production could rise by as much as 10% this year. Most, however, see stainless steel production rising by 7.5% this year. That still would be a global annual record of 18.4 million metric tons. The consensus is that demand for stainless steel will stay so strong this year that the key issue is becoming whether nickel refineries can satisfy demand from the stainless steelmakers. Inco, the western world's largest nickel producer, expects demand to push world nickel sales up 6.5% to one million tonnes. That's even though nickel prices have risen 35% worldwide over the past 12 months, and with some analysts seeing them up yet another 30% to 35% by year-end.

Still, the top stainless producers see boom times ahead for the metal that resists corrosion, high temperatures and cleans up to a shine - no matter what the price. Michael Cook, chief economist for the Finnish metals group Outokumpu, also notes that alloy surcharges imposed by steelmakers to cover higher costs of nickel has failed to deter production growth. That's why analyst Brett Olsher, at J.P. Morgan Securities, sees world cold-rolled stainless steel sheet prices hitting \$2,000 a metric ton at the end of the year, up from \$1,700 to \$1,750 a tonne current. Note that this benchmark steel sheet price was less than \$1,300 tonnes just 12 months ago.

In the U.S., net supply of stainless steel last year was about 2.5 million net tons, with net use of about 2.3 million tons. That's comparable to supply and use in 1998. For stainless and all specialty alloy grades, net supply was about 3.1 million tons, with actual use about 2.9 million tons. This also was comparable to the year before. However, for this year, stainless-steel demand is so healthy that "substantial growth", somewhere around 10% is likely, according to analyst Martin Squires of Carr Metals. And also note that Thomas Corcoran, CEO of North American supply leader Allegheny Technologies, recently told Wall Street analysts that first-half booking for stainless flat-rolled products were much stronger than last year. And, in the company's high performance metals segment, while "difficult conditions continue in the commercial aerospace market," sales of high-performance metals for industrial segments was showing improvement - especially for power-generation turbines and for equipment used in the oil and gas market, which had been a weak sales arena in 1999.

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### III. Purchasing Focus: COMPETITIVE SUPPLY

This edition's Purchasing Focus will explain why, when we asked metal buyers to discuss competitive supply strategies for the 21st Century, they told us they want to cozy up to their top suppliers.

Metals purchasing strategies of the future will center on improving internal measurement systems and creating better relationships with suppliers, according to the results of a recent Purchasing Magazine survey of metals buyers. Having a consistent supply of high-quality metals is critical to metalworking OEMs. Little wonder then that metals buyers are looking to ensure that future metals suppliers are stable. So, the need for new metal-purchasing strategies is based on a widespread corporate belief that competition in the global metalworking arena will intensify this decade as offshore firms target North America as a market of opportunity for expanded production. To remain competitive, North American firms will have to remain or become low-cost producers of high-quality products.

Quality, delivery and price issues continue to roil the metals marketplace. The majority of buyers surveyed by Purchasing say they will develop or refine internal information systems to better collect and analyze data on annual procurement costs, pricing histories for metal commodities and processed parts, and preferred supplier performance. Only then, they say, will they be able to refine supply strategies to help their companies make products that will be competitive globally in the new millennium.

Interestingly, the survey found that many "strategies of the 1990s" centered on the use of total quality management principles within purchasing, the improvement of technical qualifications of purchasing and supply management employees, and improved internal forecasting of material. The purchasing strategies thus will center on cross-functional purchasing teams, strengthened supplier alliances, the development of world-class supplier programs, and the refinement of internal performance metrics for supplier evaluation. In fact, the top five strategies the buyers surveyed say they will use this decade are:

- Strengthened supplier alliances.

- Refined performance metrics for supplier evaluation.
- Intensified world-class supplier programs.
- Involvement of suppliers in new-product development.
- Expanded purchases through e-commerce.

Supplier-alliance programs in the metals marketplace aren't new, but they appear to be undergoing a renaissance because of the increasingly complex nature of the metals supply base. Suppliers include the smelters and producers of basic mill products, specialty processors and distributors of lower-volume metal shapes, traders, and importers.

None of this planned strategic expanded reliance on suppliers comes as a surprise to Robert Monczka, director of the Center for Advanced Purchasing Studies. "Buyers must take strategic actions that are increasingly aggressive to ensure that supplier contribution satisfies current and future competitive requirements," says Dr. Monczka. One of these strategy changes, he says, will involve expanded outsourcing of processed metal products. He says buyers may plan to expand outsourcing a logical next step in the evolution of the purchasing function's support of just-in-time manufacturing systems.

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#### IV. DESIGNER ALLOYS

Have you ever required a particular material and your local service center supplier laughed and said "Are you kidding?" Have you ever called the producing mill for a particular chemistry and they said "Sure, I can melt that, I need a melt quantity of 50,000 lbs." Or how's this one "Oh, that's an obsolete grade. We can't melt that." Or this one, "We can't melt a controlled chemistry. We only melt the 'regulars'." Or, "We don't vacuum melt this grade." We've heard all of these and more!

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- Wire

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- Sheet
- Strip
- Flat Bar

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