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THE STEEL MARKET SITUATION - FALL 1999

CANADA

General Economic Overview:

In July 1999, the real Gross Domestic Product (GDP) increased by 0.4% and was 4.6% higher than in July 1998. In 1998, real GDP grew by 2.78% compared to 4.00% in 1997. Private sector forecasts anticipate real GDP growth of 3.6% in 1999 and 2.8% in 2000.

In September 1999, the Consumer Price Index (CPI), a measure of inflation in the economy, was 0.3% higher than in August and 2.6% higher than in September 1998. Higher energy prices in each of the last two months were the main reason for the increase. Excluding energy prices, the CPI rose only 1.6% in September. Private sector forecasters now expect it to rise by 1.7% in 1999 and 2.2% in 2000.

The unemployment rate was 7.5% in September 1999 compared to 8.3% in September 1998. The unemployment rate had been declining from an average of 9.2% for 1997 and 8.3% for 1998. In 1999, this overall trend has continued. Private sector forecasters anticipate it should remain between 7.5% and 8.0% until the end of 2000.

The prime rate charged by banks on loans was 6.25% as of October 27, 1999. The rate has fallen from 7.25% in September 1998, but is still significantly above the 4.75% rate of September 1997 when it stood at its lowest level in decades. Private sector forecasters anticipate the prime rate to average 6.5% in 1999 and 7.00% in 2000.

The average value of the Canadian dollar, expressed in U.S. funds, was $0.6787 as of October 27, 1999. From October 1998, the dollar has appreciated from $0.6472 to $0.6840 in March 1999 before depreciating again to its current level. Private sector forecasters are expecting the exchange rate to continue to average $0.66 in 1999 and $0.69 in 2000.

Canadian Steel Market:

Employment, hourly and salaried, at primary iron and steel producers was 34,190 in the first seven months of 1999, up 0.4% from a year earlier. For all of 1998, industry employment was 34,484, up 3.2% from the 1997 level which is basically unchanged from the 1996 level of 33,484.

As of October 9, 1999, liquid steel production had decreased 1.2% to 12.400 million tonnes (MT) over the same period in 1998. During the eight months of 1999, total shipments increased 4.3% to 9.917 MT with domestic shipments also increasing 4.3% to 8.003 MT compared to a year earlier. In the first eight months of 1999, liquid steel production was 10.748 MT.

Overall steel demand in 1999 is below that for 1998 - at least for the first seven months. Imports of semi-finished steel were 126,900 tonnes, down 72.4% in the first seven months compared to the same period in 1998. For all of 1998, such imports totalled about 835,000 tonnes.

In the first seven months of 1999, apparent domestic consumption (A.D.C.) was down 4.9% over the same period in 1998. However, this decline was entirely due to imports which were down 20.4% in this period. Domestic shipments increased by 5.8%. Consequently, domestic shipments have increased by 11% to 65 7% of A.D.C. while total imports have fallen by 16% to 34.3% of A.D.C. The market share held by imports though remains higher than any year except 1997 and 1998. In the first 7 months of 1999, total imports were 2.952 MT - down 30.1% from the same period in 1998. While import volumes were down from most suppliers (including the U.S., the E.U., the NIS and CEEC region, Russia, Japan and Korea) imports have increased from India (up 299%), Taiwan (up 436%), Thailand (up 1,124%), Malaysia (up 2,171%) and the Philippines (up 3,537%).

Imports from the U.S. declined by 6.9% in the first seven months of 1998 and accounted for 18.2% of A.D.C. down from 18.6% in the same period In 1998. Imports from Central and Eastern Europe and the former USSR have decreased by 82.2% in 1999, with imports from Russia decreasing by 87.1% to 150,000 tons. Russian imports have fallen most noticeably in hot rolled (HR) coils - down 92% to about 21,400 tonnes in 1999. Imports from Japan have fallen most dramatically in cut plate - down 84.8% to about 5,300 tonnes - and HR coils - down 72.2% to about 10,800 tonnes - while imports from Korea are off primarily in HR coils - down 74.9% to about 13, 100 tonnes - and cold rolled (CR) coils - down 31.5% to about 9,900 tonnes.

Steel demand in 1999 remains, overall, very good with demand in Canada off only marginally from 1998 levels. Steel demand is driven by continued strong motor vehicle production and sales (domestic and to the U.S.), and in the construction sector, particularly the residential sector. However, while overall steel demand has decreased in 1999, the industry's total and domestic shipments each increased over 1998 levels.

In the first eight months of 1999, steel shipments increased (6.8% to 2.539 million tonnes)to service centres, (15.9% to 1.957 million tonnes) to the motor vehicle and parts industry, (10.8% to .472 million tonnes) to the steel fabrication industry and (15.8% to .160 million tonnes) to the containers and closures sector while shipments decreased (10.7% to .1[illegible] million tonnes) to the railway car and locomotive industry, (13.5% to 1.131 million tonnes) to the pipe and tube sector, and (2.1% to .550 million tonnes) to the wire and wire products sector.

Overall, the industry's domestic shipments and total shipments each increased by 4.3% in the first eight months of 1999 compared to the same period in 1998.

The economic growth in Canada continues to be export led, and in this regard the (low) value of the Canadian dollar has served to boost exports and make imports less competitive. In fact, some studies indicate that Canada's improvement in cost competitiveness in the 1990's vis-a-vis the U.S. has been mostly due to the depreciating Canadian dollar.

In terms of export performance, the automotive sector is a key one in helping to sustain the economic performance of the Canadian economy. In the first eight months of 1999. Canadian motor vehicle production increased 20.8% over 1998 levels to 1.806 million units with production up for both cars, and trucks and vans. Sales of new vehicle rose in 1999 5.7% to 1.137 million units in the first nine months of 1999.

In the Canadian construction sector, activity, as measured by the value of building permits issued for residential and non-residential construction, increased by 4.5% in the first eight months of 1999 compared to 1998, with the value of non-residential building permits increasing by 0.01% while the value of residential permits increased by 8.4%. In the first nine months of 1999, housing starts averaged 147,400 up from 138,400 units for the same period in 1998. For 1999, the Canadian Mortgage and Housing Corporation now expects housing starts to rise by 6.6% to 146,500 units before rising a further 4.6% to 153,200 units in 2000.

For Canada's three largest steelmakers (primarily integrated producers), the first three quarters of 1999 saw total revenues decrease by 2.0% (to $5.527 billion) while net income decreased by 20.4% (to $187.7 million) compared to the results for these same firms one year earlier. With the lower revenues and increased shipments, price per unit has fallen from 1998 levels. The average revenue per ton shipped for these 3 firms decreased from $696 for the first three quarters of 1998 to $645 for the same period in 1999. If the shipments and revenues for U.S. based operations are excluded so that only shipments and revenues from Canadian facilities are used, the average revenue per ton shipped by these 3 firms decreased from $693 in 1998 to $649 in 1999. These 3 firms account for over 60% of Canada's crude steel production and about 66% of Canada's domestically produced steel shipments in 1999.

To date in 1999, Canadian steelmakers have announced several price increases including (1) $30 per ton for hot rolled sheet, effective April 5, 1999, (2) $20 per ton for hot rolled sheet and $15 per ton for cold rolled sheet, effective August 2, 1999, and (3) $30 per ton for hot and cold rolled sheet and $40 per ton for coated sheet, effective October 4, 1999. It remains to be seen if the last set of price increases are accepted in the marketplace.

Prices for imported product have, generally, fallen in the past 12 months - at least for certain products. For cut plate, prices in

October 1999 from all sources are off $20/tonne with non U.S. suppliers' prices off by $200/tonne. For hot rolled sheet, prices in October 1999 are $30/tonne higher than a year ago while for cold rolled sheet prices in October 1999 are about $120/tonne lower than in October 1998. Prices for galvanized sheet (non automotive) are $20/tonne lower in October 1999 compared to a year earlier with non U.S. suppliers' prices off $60/tonne. It should be noted that the prices referred to here are those declared on import permits required to accompany steel imports into Canada. These prices are the sale price to the Canadian customer, f.o.b. point of direct shipment to Canada.

Outlook for the balance of 1999 and 2000:

The steel market should remain strong for the remainder of 1999 and into 2000. Automotive production, while remaining generally strong, is expected to be down slightly in 2000 from 1999 levels. The recovery of housing starts begun in 1999 is expected to continue in 2000 while non-residential construction is expected to grow about 4% in 2000. Weakness in the oil and gas industry adversely affected production (and shipment) of OCTG in the first half of 1999, but growth in the second half has picked up. Higher oil prices and increased drilling activity are expected to translate into even higher demand from this sector in 2000. The availability of unfairly traded imports remains an ongoing concern for the industry. The presence of such goods depress domestic shipment volumes as well as price levels in the marketplace and has resulted in three unfair trade investigations being initiated by Canadian authorities in 1999. Additional cases may filed by steelmakers if that situation continues.

THE O.C.T.G. MARKET

CANADA

In 1999, drilling activity slowed considerably from the exceptional levels reached in 1997. The Canadian Association of Oilwell Drilling Contractors (CAODC) is forecasting 10,195 wells to be drilled in 1999, down considerably from the 16,484 drilled in 1997 but up from the 9,744 drilled in 1998. For 2000, the CAODC is expecting 14,331 wells to be drilled.

The drill rig utilization rate for 1999 is being estimated at 48%, down from 50% in 1998, and 82% in 1997. The CAODC is estimating that rig utilization will be 60% in 2000.

Higher prices for oil and gas should help sustain increased levels of drilling activity in 2000. The significant increase in oil and natural gas prices in the last several months has boosted the demand for OCTG in Canada and the U.S. In addition, major pipeline projects like the 3,700 kilometer Alliance natural gas pipeline running from Western Canada to Chicago is proceeding and work on that line began in March 1999.

Outlook for the balance of 1999 and 2000:

Drilling levels for 1999 are expected to be above 1998 levels but below those attained in 1997. Higher price levels are expected to dramatically increase drilling activity in 2000. Two Canadian OCTG makers have each announced orders of 76,000 tons of 42 inch diameter gas transmission pipe for the Vector Pipeline running between Chicago and Dawn, Ontario. Production of this material will begin in late 1999 and be complete in May 2000.

At least one Canadian OCTG manufacturer has confirmed that prices for OCTG have been firming in Canada (and the U.S.). In Canada, a temporary price decrease of about nine percent, in effect since April 1st, was rescinded effective October 1st. Higher prices for oil and natural gas and increased demand for OCTG in North America have brought OCTG prices back to more normal levels.

THE SPECIALTY STEEL MARKET

CANADA

In the specialty steel long products market, performance has been uneven. In the oil and gas industry, an earlier downturn in energy prices and consequent reduction in exploration and development activities created a significant inventory overhang of specialty steels. This overhang has now been reduced and an improvement in industry activity levels, fostered by higher prices for oil and gas, will generate increased demand for specialty steels. The automotive industry continues to perform well and the mining industry appears poised for recovery with the improvement in certain commodity prices. The aerospace and related industries also remain strong markets. Overall, the Canadian market for specialty steel long products has experienced modest growth in 1999.

In the flat products specialty market, demand has grown strongly in the automotive sector with more modest growth in the pulp and paper area. Prices have begun to recover in the domestic market with the announcement of a 7% increase in July and another, albeit not as successful, announced in August which involv... ng the nickel base for the calculation of alloy surcharges. The latter increase was one announced by all North American producers to cover increased raw material costs.

Outlook for the balance of 1999 and 2000:

In the long products market, demand is expected to continue grow at a similar pace in 2000. Canadian market demand for such steel is seen remaining at reasonable levels, a situation which is likely to be bolstered by early indications of economic improvements in Asia and Europe.

In the flat products market, the overall good growth experienced in 1999 is expected to continue into 2000, led by the automotive sector and pulp and paper sectors. While prices are moving upwards, achieving the full amount of the increases remains a problem. Offshore imports continue to be offered at prices which undercut those from producers in Canada and elsewhere in North America.

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