

February 28th, 2003



Nafta Steel

Market trends and forecasts for the North American steel industry

- **U.S. steel prices continued to fall in February. Price rise announcements for 2Q03 will face strong resistance from consumers.**
- **Mexican consumption will show growth in 2003 while prices will continue to hold better than U.S. prices.**

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U.S. steel producers struggle to rise prices

U.S. steel prices continued to fall in February. Price rise announcements for 2Q03 will face strong resistance from consumers.

- Nucor, US Steel Corp., Bethlehem Steel Corp., Wheeling-Pittsburgh Steel Corp., Gallatin Steel, and Steel Dynamics Inc. announced a \$30 per ton increase for flat-rolled steel products 2Q03 shipments. International Steel Group announced it will also attempt to increase prices by \$20 per ton. from April 1 onwards.
- The increases are supported on the back of higher energy and scrap prices. It is estimated that during 1Q03 scrap costs will be approximately \$2-\$3/ton higher than 4Q02, but for 2Q03 mills are anticipating an increase of up to \$15/ton vs. 1Q03. If the rises take place, it will be the first increase on strip products in the U.S. since last September. High demand in China is boosting steel prices globally, adding export opportunities to U.S. mills.
- In this context, producers hope to rise prices in the second quarter of this year. Nevertheless, consumers will be reluctant to cope with the price rise as they still perceive an oversupplied and weak market. The performance of the market during March will be crucial to determine the future of prices in 2Q03.

U.S. Steel Prices
(in dollars per metric ton., Midwest region)

| | 2000 | 2001 | 2002 | 2003 | |
|--------------------------------------|------|------|------|------|------|
| | Feb | Feb | Feb | Jan | Feb* |
| Hot-rolled steel sheet | 363 | 248 | 253 | 330 | 308 |
| Cold-rolled steel sheet | 484 | 374 | 352 | 451 | 440 |
| HD galvanized steel sheet | 473 | 374 | 363 | 528 | 484 |
| Coiled steel plate | 352 | 264 | 264 | 330 | 341 |
| CF steel bar (grade 1018 carbon) | 506 | 473 | 451 | 506 | 523 |
| Structural beams(A36 W8 wide-flange) | 330 | 330 | 391 | 336 | 330 |
| Low-carbon wire rod | 330 | 308 | 303 | 336 | 319 |
| Concrete reinforcing bar (#6) | 325 | n/a | 280 | 280 | 270 |

* Late January.
Source: Cahners.

U.S. steel imports are being diverted towards Asian markets

U.S. imports grew 8.4% during 2002. Though, in January imports showed a 15.7% decline due to improving prices in Asia (specially China).

- Of all 36 countries from which the U.S. imports steel, only 9 reported a rise in import volume in January. Canada, Mexico, and Spain accounted for the highest tonnage increases (50,083, 40,476 and 15,924 tonnes of increase respectively). We believe the reduction in January preliminary U.S. imports is due to better prices in Asia rather than the effectiveness of Section 201 tariffs.
- Russian and Ukrainian (CIS) flat product prices are continuing to rise. Chinese demand is still strong but now the demand has increased in other areas. Product is moving towards the Middle East, Turkey, Philippines, and Vietnam where there has been a shortage due to the large tonnage going to China in the last six months. Customers restocking is being driven by the threat of a war in Iraq.
- Steel markets in the U.S. continue to suffer from weak demand. The low prices in the U.S. reduced imports (according to January preliminary imports data). In order to see an import rise in the U.S., a price improvement must take place.

U.S. Imports of Steel Products (metric tons., year total)

Section 201 Products

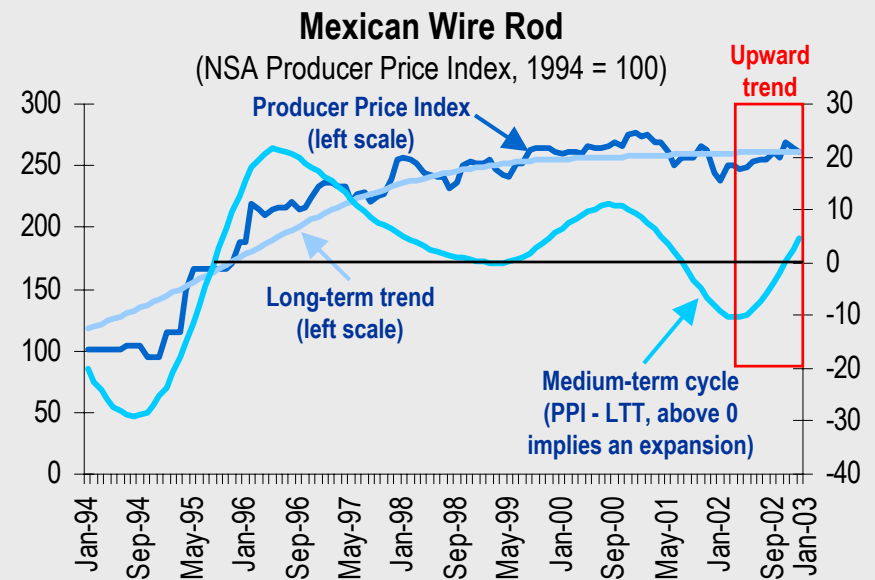
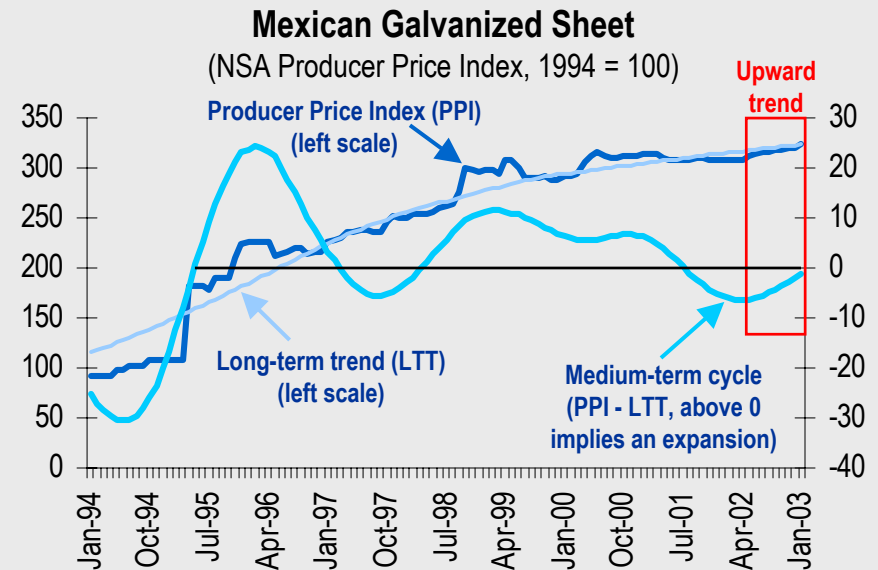
| | 2002 | 2001 | % Change |
|---|-------------------|-------------------|-------------|
| Blooms, Billets And Slabs | 7,981,624 | 5,783,833 | 38.0% |
| Wire Rods | 3,166,452 | 2,733,351 | 15.8% |
| Plates In Coils | 883,706 | 649,104 | 36.1% |
| Bars - Hot Rolled | 1,465,805 | 1,328,468 | 10.3% |
| Bars - Reinforcing | 1,157,753 | 1,595,036 | -27.4% |
| Standard Pipe | 989,239 | 1,041,374 | -5.0% |
| Oil Country Goods | 444,052 | 890,765 | -50.1% |
| Line Pipe > 16 Inches In Diameter | 660,598 | 882,186 | -25.1% |
| Line Pipe <= 16 Inches In Diameter | 237,933 | 257,651 | -7.7% |
| Mechanical Tubing | 488,378 | 451,409 | 8.2% |
| Sheets Hot Rolled | 3,524,844 | 2,186,323 | 61.2% |
| Sheets Cold Rolled | 1,733,945 | 2,786,509 | -37.8% |
| Sheets & Strip Galv Hot Dipped | 1,919,964 | 1,337,960 | 43.5% |
| Sheets & Strip Galv Electrolytic | 166,415 | 159,415 | 4.4% |
| Sheets & Strip All Other Metals Coated | 299,503 | 240,502 | 24.5% |
| TOTAL U.S. Imports for Consumption of Steel Products | 29,652,212 | 27,350,808 | 8.4% |

Source: HARBOR intelligence with U.S. Imports for Steel Consumption Data.
Final data for December 2002 (Census Basis).

Mexican prices continue their upward trend (in peso terms)

Mexican prices continue to improve in peso terms but weak in dollar terms (due to the recent peso's depreciation).

- According to our Producer's Price Index analysis, Mexican steel prices continue on an upward trend. Galvanized sheet producer price index rose 4.9% annually in January 2003 (in peso terms), and wire rod prices increased 10.4% during the same period. Mexican wire rod prices have fully recovered, starting an expansion phase on November. Medium-term cycle (light blue line in graphs) is above zero implying an expansion phase. Nevertheless, once we take into account the peso devaluation vs. the dollar (14% in 2002 and 6% in the first 2 months of the year), steel prices in Mexico show a fall in dollar terms.
- Galvanized sheet medium-term cycle is getting closer to zero (right graph up) implying that prices for galvanized sheet are recovering and will start to expand in 2003. Our model shows that the mid-term outlook for Mexican steel prices is positive. The long term trend of our model also suggest an upward cycle for galvanized steel prices. Similar trends were found in Mexican corrugated rod and tinplate prices (rose annually 21.0 and 5.3% in peso terms, respectively in January this year).



Source: HARBOR intelligence with Banxico data.

Mexican export markets remain the most attractive

Almost all U.S. steel imports from Mexico have risen year-on-year (both in volume and price).

- As shown in the tables at right, practically all Mexican steel products exports to the U.S. market have risen in year-on-year terms (except CR where the negative ITC ruling on imposing higher import tariffs affected their average prices and volume, and wire rod which was also subject to ITC ruling in early October 2002). Mexico is the third country with largest exports to the U.S. Market (in volume terms), only behind Canada and Brazil. From January to October 2002, the U.S. imported 2.88 million tons of steel products from Mexico (11.8% of total U.S. imports during that period).
- The acquisition of VP Buildings in 2001, and Pinole Street and Lightfield in 2002 by IMSA Acero reflect how Mexican mills see the U.S. market as an attractive business opportunity (specially with the recent peso devaluation). On the other hand, Imexsa expects slab demand to increase in East Asia, China and the U.S. in 2003. Once Section 201 tariffs reduce in March, Imexsa expects to export an additional 500,000 tonnes of merchant slab into the U.S. market. Increases in export prices and shipments were made by Mexican mills last year. Hylsamex average export prices rose 4% in 3Q02 from 2Q02 and 9% from 1Q02. Hylsa's export sales increased 61% annually during the Jan-Sep period.



Mexican Export Prices to U.S.

(average dollars per metric ton.)

| | 2001 | 2002 | | 2003 |
|-------------------------------------|------|------|-----|------|
| | Jan | Jan | Dec | Jan* |
| Hot-rolled steel sheet | 254 | 249 | 336 | 374 |
| Cold-rolled steel sheet | 840 | 774 | 624 | 614 |
| HD galvanized steel sheet | 553 | 563 | 679 | 623 |
| Slab | 190 | 228 | 264 | 258 |
| Mechanical Tubing | 573 | 513 | 604 | 630 |
| Line Pipe (≤ 16 inches in diameter) | 503 | 440 | 537 | 559 |
| Wire rod | 238 | 311 | 323 | 355 |
| Reinforcing bar | 264 | 254 | 252 | 245 |

* Preliminary

Mexican Export Volume to U.S.

(metric tons.)

| | 2001 | 2002 | | 2003 |
|-------------------------------------|--------|--------|---------|---------|
| | Jan | Jan | Dec | Jan* |
| Hot-rolled steel sheet | 8,343 | 7,774 | 32,073 | 14,463 |
| Cold-rolled steel sheet | 17,714 | 11,985 | 29,117 | 30,775 |
| HD galvanized steel sheet | 16,286 | 15,990 | 14,836 | 17,150 |
| Slab | 97,402 | 2,088 | 110,388 | 157,912 |
| Mechanical Tubing | 8,735 | 8,303 | 11,083 | 11,003 |
| Line Pipe (≤ 16 inches in diameter) | 4,937 | 3,132 | 1,651 | 4,503 |
| Wire rod | 25,695 | 4,748 | 3,569 | 3,183 |
| Reinforcing bar | 2,896 | 4,637 | 9,248 | 12,060 |

* Preliminary

Source: HARBOR intelligence with Bancomext, SE and USDOC data.

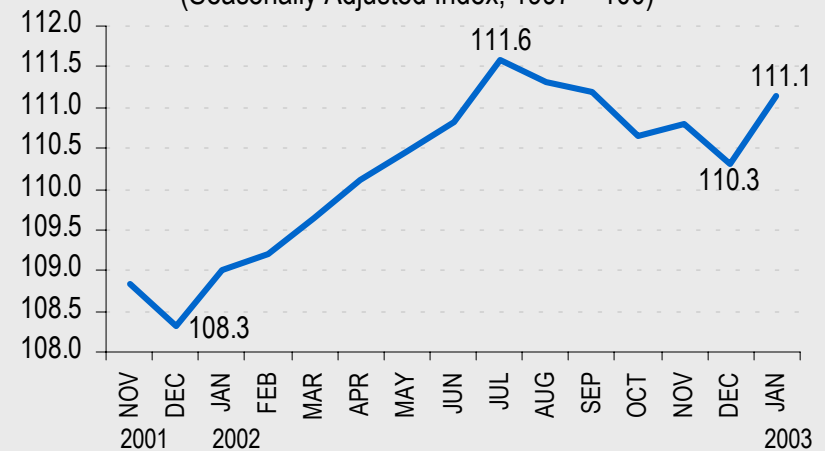
Nafta industrial recovery remains uncertain

U.S. economy still shows mixed signals, while Mexican industrial activity holds on the back of the construction sector.

- The Philadelphia Fed manufacturing survey was weaker than expected in February. The general business activity index fell to 2.3 from 11.2 in January. The components of the survey were more mixed than suggested by the headline index. New orders dropped to 14.1 from 17.3 but the shipments index dropped to 0.0 from 21.3. Unfilled orders dropped to -9.1 from -1.5. Indicators on employment were mixed with the number of employees index rising to -0.9 from -6.1 but the average work week falling to -5.1 from 3.8. The prices paid index rose to 16.2 from 11.6, reflecting higher energy prices.
- In December, Mexico's seasonally adjusted (SA) industrial activity index grew by 0.46% compared to the same month in 2001. Also, Mexican construction showed an annual SA 1.77% growth on the same month due to an increase in infrastructure construction (electricity, petroleum and petrochemical oriented) which increased demand for corrugated rod and steel sheet. There is a growing concern regarding natural gas price in the Mexican steel industry as it consumes 31.5% of Mexican total gas output and for some mills represent around 20% of its costs.

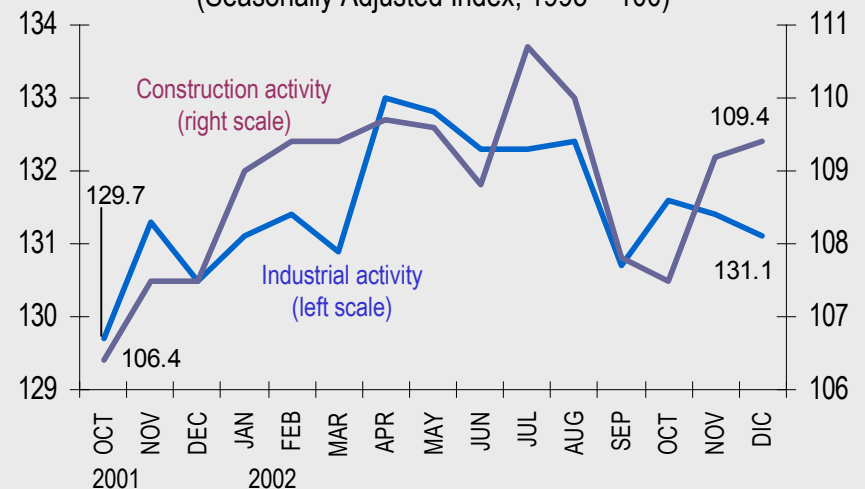


U.S. Industrial Production Index
(Seasonally Adjusted Index, 1997 = 100)



SOURCE: HARBOR intelligence with Federal Reserve Board data.

Mexico's Industrial and Construction Activity Indexes
(Seasonally Adjusted Index, 1993 = 100)



SOURCE: HARBOR intelligence with INEGI data.

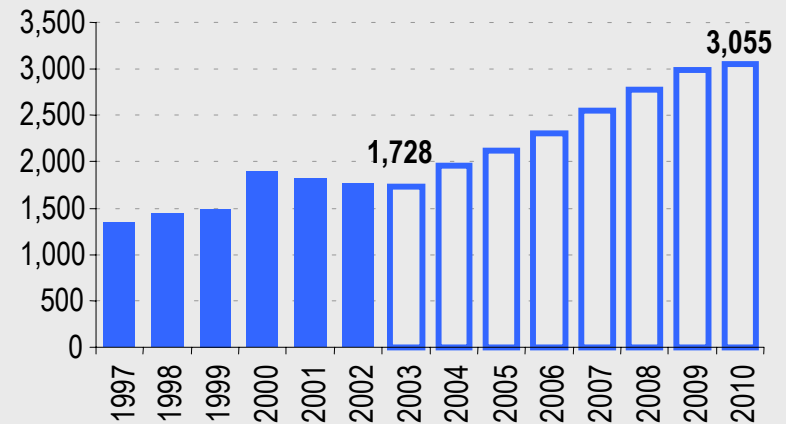
Auto market is very important for steel in Mexico

U.S. industrial production shows no signs of improvement, while Mexican industrial activity holds thanks to the construction sector.

- According to our estimates, production from domestic steel mills destined to the Mexican automotive industry (OEM) in 2002 oscillate around 650,000 tonnes. At the same time, steel imports destined to the auto industry are close to 900,000 tonnes (were close to 650,000 in the first 9 months of 2002). In consequence, the total automotive steel market in Mexico (domestic production + imports) is estimated at 1.55 million tonnes for 2002. Total automotive production in Mexico fell 2.4% in 2002 for the second consecutive year, given the sharp fall in U.S. sales, which accounts for 86% of total Mexican auto exports.
- Our steel import analysis shows mixed signal in import volumes, depending on the type of steel product. For instance, while HR imports fell 31% in the first 9 month of 2002 (latest available data), CR imports rose 30% in the same period. While the Mexican automotive industry (both assembly and auto parts) has boomed in the past 10 years due to increasing assembly facilities installed in Mexico and domestic content of exported cars growing in tandem, certain components such as exterior bodies and high-resistance steels are not produced in Mexico yet due to the lack of technology.



Mexico's Automotive Production Forecast 2003-2010
(Thousands on units)



SOURCE: HARBOR intelligence with AMIA and Mavel historical data.

Mexico's Share of Steel Production destined to Auto Market
(Based on 1999 domestic shipments data)

| | 2001 | 2002 | Of which auto steel as % of total | in metric tons. |
|-----------------------------|-------------------|-------------------|--------------------------------------|-----------------|
| Total steel products | 11,474,105 | 11,942,655 | 5.1% | 612,482 |
| Plate | 1,029,145 | 1,017,575 | 12.9% | 131,226 |
| Hot rolled coil | 2,206,197 | 2,378,526 | 8.8% | 208,161 |
| Cold rolled coil | 1,796,475 | 1,933,520 | 5.1% | 98,490 |
| Galvanized coil | 1,077,831 | 1,179,964 | 5.1% | 59,956 |
| Tinplate | 104,173 | 73,146 | 1.3% | 924 |
| Wire rod | 1,613,294 | 1,809,282 | 0.6% | 10,237 |
| Commercial profiles | 680,961 | 736,883 | 8.3% | 60,890 |
| Bars | 470,744 | 358,393 | 5.1% | 18,124 |
| Seamless tube | 671,337 | 637,542 | 1.3% | 8,287 |
| Welded tube (<115 diameter) | 357,889 | 350,799 | 4.6% | 16,187 |
| Total | 10,008,046 | 10,475,630 | 5.8% | 612,482 |

SOURCE: HARBOR intelligence with CANACERO and domestic mills data.

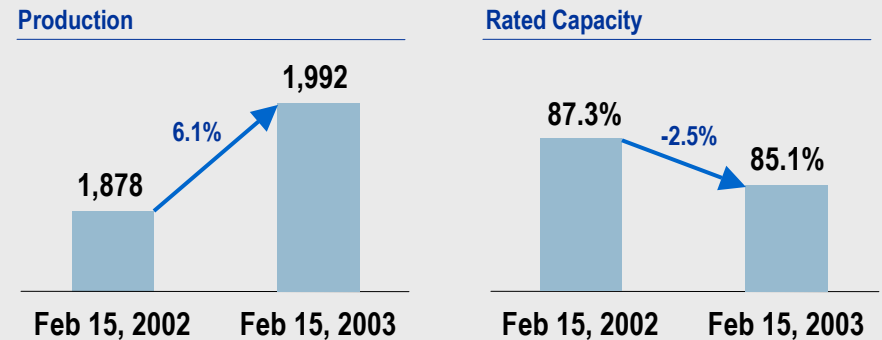
Supply excess gains momentum in the U.S.

U.S. steel capacity has been fluctuating between 80 and 90% during February, U.S. mills try to take control.

- Although U.S. steel mills production remains at year-on-year higher levels (see figures at right), rated capacity was stable during February. Mills have realized that the U.S. economy is just not responding and amid the consolidation wave taking place in the domestic market, they are trying to set control in order to impose higher prices in the near future. The oversupply problem is in the mind of the customers who are reluctant to take any price increases. There remain the issues we pointed out last edition: growing imports due to Section 201 reduced tariffs (starting in March), a weak economy, and high production rates.
- Mexican steel production for 2002 was around 14.05 million tonnes (5.6% up from 2001). Increased production and efficiency on some Mexican plants (specially Hylsamex and IMSA), allowed steel production to grow. Aside from good fundamentals in the construction sector (internally driven) during 2003, the Mexican steel market outlook will be highly dependant on the U.S. recovery (manufacturing related steel demand) as well as on needed reforms in Mexico that could boost steel demand (allow for private investment in electricity and petrochemical sectors, as well to an urgent restructure to the railway system).



Weekly U.S. Steel Production and Rated Capacity
(production in thousand tons., capacity = production as % of total capacity)



SOURCE: HARBOR intelligence with AISI data

Mexican Steel Production in 2002
(total steel monthly production, thousand of metric tons.)



SOURCE: HARBOR intelligence with CANACERO data.

The outlook for Mexican steel consumption is attractive...

Mexico's total steel consumption will grow at an annual average rate of 6.7% between 2003 and 2006.

Mexican Apparent Steel Consumption
(Volume in thousand of metric tons. ; real % annual change)

| | Total Steel Consumption* | | Hot Rolled Sheet | | Cold Rolled Sheet | | Galvanized Sheet | | Wire Rod | | Corrugated Rod | | Seamless Pipe | | Welded Pipe (diameter < 115mm) | |
|--------------------|--------------------------|------------|------------------|------------|-------------------|------------|------------------|-------------|--------------|------------|----------------|-------------|---------------|-------------|-----------------------------------|------------|
| | Volume | % | Volume | % | Volume | % | Volume | % | Volume | % | Volume | % | Volume | % | Volume | % |
| 1999 | 17,623 | 4.7 | 2,162 | 6.8 | 2,296 | -3.8 | 871 | -4.9 | 1,732 | 6.0 | 2,485 | 5.2 | 175 | -33.1 | 243 | -20.1 |
| 2000 | 19,800 | 12.4 | 2,596 | 20.1 | 2,458 | 7.1 | 1,093 | 25.5 | 1,908 | 10.2 | 2,658 | 6.9 | 206 | 18.2 | 242 | -0.4 |
| 2001 | 18,788 | -5.1 | 2,578 | -0.7 | 2,084 | -15.2 | 1,429 | 30.8 | 1,576 | -17.4 | 2,516 | -5.3 | 210 | 1.9 | 303 | 24.9 |
| 2002 | 19,807 | 5.4 | 2,623 | 1.7 | 2,306 | 10.7 | 1,433 | 0.3 | 1,821 | 15.5 | 2,590 | 3.0 | 215 | 2.5 | 262 | -13.4 |
| 2003F | 20,832 | 5.2 | 2,997 | 8.8 | 2,371 | 2.8 | 1,511 | 5.5 | 1,896 | 4.1 | 2,647 | 2.2 | 234 | 8.5 | 276 | 5.1 |
| 2004F | 22,417 | 7.6 | 3,191 | 7.8 | 2,533 | 6.9 | 1,658 | 9.7 | 2,028 | 7.0 | 2,983 | 12.7 | 262 | 12.1 | 285 | 3.3 |
| 2005F | 23,953 | 6.9 | 3,371 | 4.8 | 2,691 | 6.2 | 1,928 | 16.3 | 2,156 | 6.3 | 3,249 | 8.9 | 290 | 10.5 | 293 | 2.9 |
| 2006F | 25,751 | 7.5 | 3,576 | 7.8 | 2,879 | 7.0 | 2,230 | 15.7 | 2,305 | 6.9 | 3,475 | 7.0 | 325 | 12.2 | 303 | 3.3 |
| 1990-2002** | | 9.3 | | 10.7 | | 7.4 | | 15.4 | | 7.6 | | 6.4 | | 10.7 | | 3.3 |
| 2003-2006** | | 6.7 | | 7.1 | | 5.9 | | 11.3 | | 6.4 | | 7.5 | | 10.5 | | 3.0 |

F = Forecast

* As defined by CANACERO. Some market sources take into account only selected non-flat and flat products which in 2001 represented only 68% of total steel consumption reported by CANACERO.

** Annual average rate.



SOURCE: Forecast by HARBOR intelligence with CANACERO historical data.

... under our base scenario economic assumptions

Forecast Assumptions for Mexico

| | Total GDP % annual change | Construction GDP % annual change | Metal products, machinery and equipment GDP % annual change | Manufacturing GDP % annual change | Total Investment % annual change | Total Public Investment % annual change | Consumer Price Index** % annual change |
|-------------------|------------------------------|--|---|---|-------------------------------------|---|--|
| 1999 | 3.7 | 5.0 | 6.9 | 4.2 | 7.7 | 10.7 | 12.3 |
| 2000 | 6.6 | 4.1 | 13.6 | 6.9 | 11.4 | 24.5 | 9.0 |
| 2001 | -0.3 | -5.3 | -6.9 | -3.7 | -5.9 | -9.6 | 4.4 |
| 2002 | 0.9 | 1.7 | -1.7 | -0.6 | -1.2 | -2.5 | 5.7 |
| 2003F | 3.0 | 4.1 | 5.4 | 2.3 | 5.5 | 11.4 | 4.0 |
| 2004F | 4.3 | 6.8 | 10.4 | 5.3 | 9.9 | 19.8 | 3.6 |
| 2005F | 4.0 | 5.5 | 8.7 | 4.9 | 8.6 | 15.7 | 3.4 |
| 2006F | 4.5 | 6.4 | 8.9 | 5.6 | 9.9 | 17.2 | 3.4 |
| 1990-2002* | 3.1 | 2.9 | 6.4 | 3.7 | 5.5 | 2.0 | 17.0 |
| 2003-2006* | 3.9 | 5.7 | 8.3 | 4.5 | 8.5 | 16.0 | 3.6 |

F = Forecast
 * Annual average rate
 ** End of period

SOURCE: Forecast by HARBOR intelligence with INEGI and Banxico historical data.

Mexican Slab

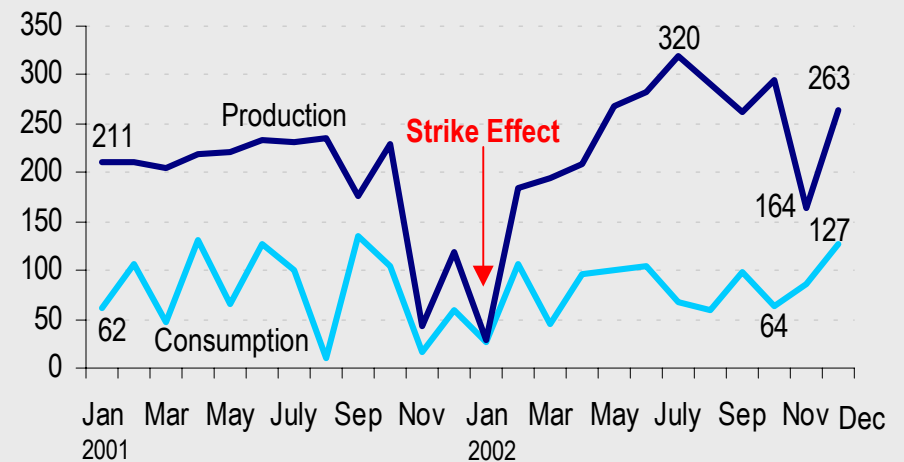
Slab prices to increase during 2003 as demand in Asia will remain strong and the U.S. flat product planned price increase will take place.

- Slab consumption in Mexico increased 1.6% during 2002 (reached 982,488 tonnes). During the current year, Imexsa (only slab producer in Mexico) is planning to raise its slab production to full capacity (close to 4m tonnes, mainly export) with the expectation that prices will rise on the back of strong demand, particularly from East Asia and China. East Asian demand could tighten the slab market and push demand in the U.S. (additional to the announced price rise by U.S. flat steel producers).
- Imexsa became California Steel Industries' largest individual slab supplier in 2002 and is expected to maintain this position this year. Out of 2002 total slab output (2.76 million tonnes), 64.4% headed to the export market (mainly the U.S. market). On the other hand, Section 201 restrictions will be eased from March to allow a further 500,000 tonnes of merchant slab into the U.S. market in the year from that date. Currently, prices are at \$225-230/tonne fob in the U.S. market. We expect these prices to increase in 2Q03 and 3Q03 as U.S. flat products prices begin to rise (as planned by U.S. domestic mills).



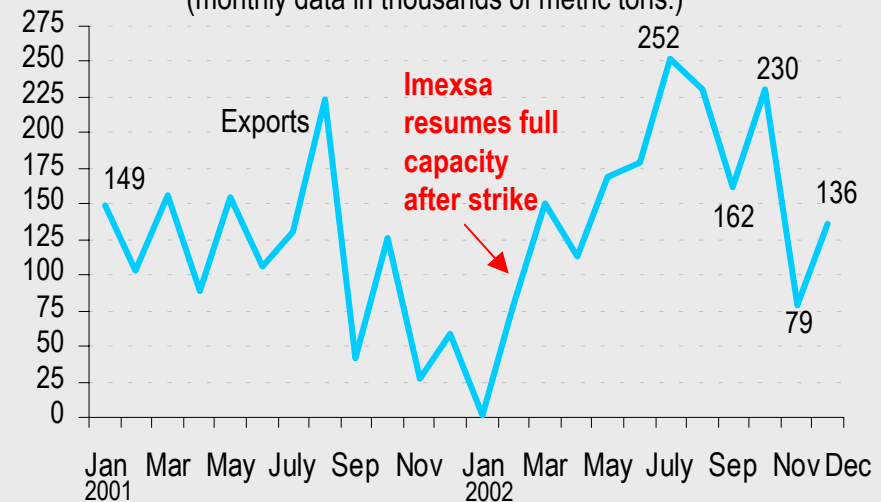
Production and Consumption

(monthly data in thousands of metric tons.)



Exports

(monthly data in thousands of metric tons.)



SOURCE: HARBOR Intelligence with CANACERO data.

Mexican Hot Rolled Sheet

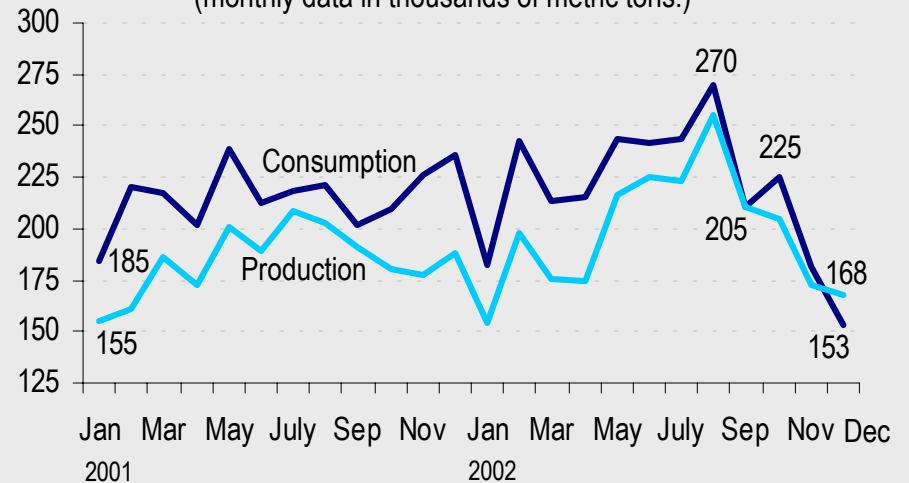
Due to the high demand in Asia, Mexican HR sheet production is being driven by a rise in exports.

- HR sheet volume and price scenario is improving for Mexican mills who are enjoying increased sales in foreign markets. HR exports increased 59.3% year-on-year in 2002 (reached 314,361 tonnes). IMSA's export volume reached 473,000 tonnes in 4Q02 (2.7% higher compared to 4Q01). IMSA Acero will continue its investment program to reach a HR production capacity of 2.2 million tonnes in 2004. At the end of 2002, IMSA had a HR capacity of 1.5 million, they expect to reach 1.9 million by the end of 2003. We know that APM and Hylsa are studying the opportunity to export HR to China.
- Mexican HR consumption reached 2,623,339 tonnes in 2002 (1.7% higher than 2001) and HR production grew 7.8% in the same period (reached 2,378,526 tonnes). As we know, Hylsamex reopened its Mill#1 Flat Products Division in 2002, increasing its production rates from 13,000 tons in 1Q02 to 66,000 tons in 2Q02. Currently, it is producing around 350,000 tonnes per year. Hylsa's HRC lines are located in Monterrey with a combined capacity of 2.11 million tonnes per year.



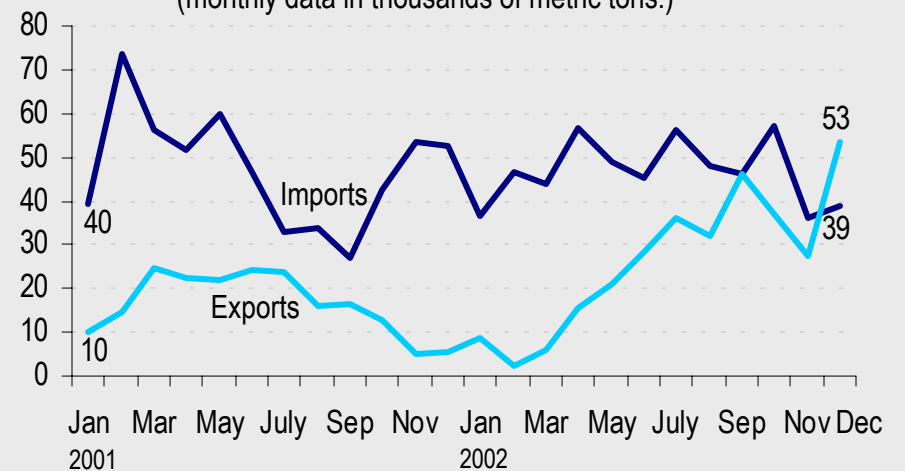
Production and Consumption

(monthly data in thousands of metric tons.)



Imports and Exports

(monthly data in thousands of metric tons.)

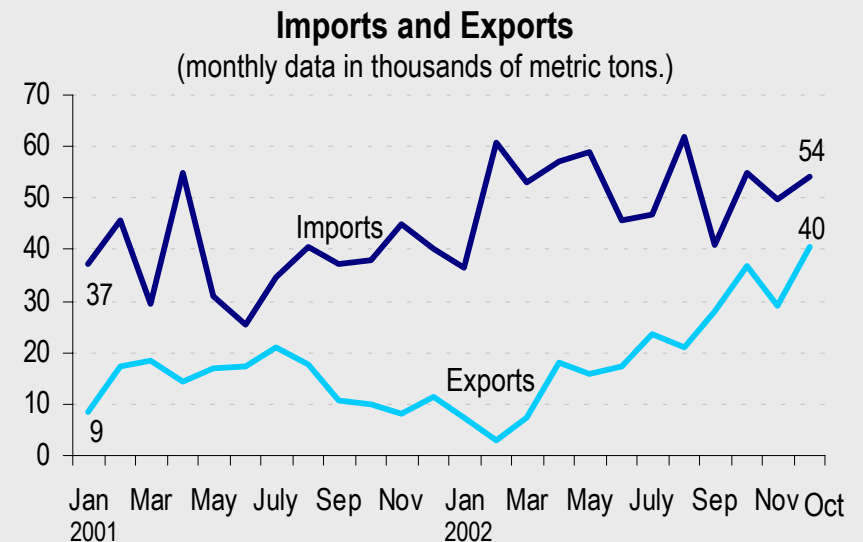
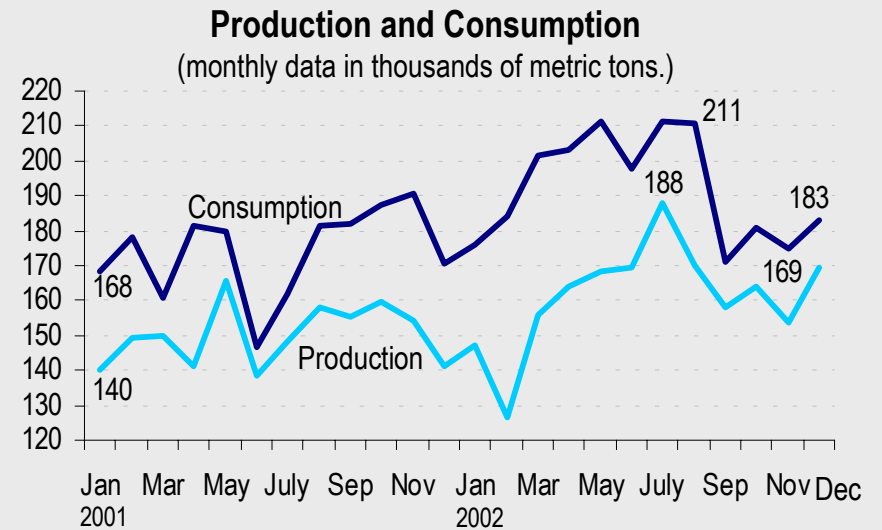


SOURCE: HARBOR Intelligence with CANACERO data.

Mexican Cold Rolled Sheet

Cold rolled sheet production is attractive in Mexico. In 2002, Mexican CR consumption and imports rose 10.7 and 35.2% y-o-y, respectively.

- Domestic consumption of cold rolled steel showed a significant rise during 2002, reaching 2,306,403 tonnes (10.7% y-o-y). CR production increased to 1,933,520 tonnes (7.6% y-o-y) in the same period. CR steel demand and production were mainly driven by a strong heavy appliances demand and auto production (domestic oriented), which rose 4.1 and 4.5%, respectively in 2002. APM (IMSA's flat rolled division) has carried out an investment program to increase production capacity at his Cold Tandem Mill to 1 million tonnes per year.
- Higher consumption fueled imports as well. During 2002, CR imports surged 35.2% annually to 620,967 tonnes. Only in last December, imports rose 34.1% vs December 2001. Close to 70% of the steel used in Mexican produced cars (but not in light or heavy trucks) is estimated to be imported (CR, HDG, and others). Total auto production (cars, light, and heavy trucks) in Mexico (domestic and export oriented) will fall around 2.6% in 2003 until new production lines come into stream (from 2004 onwards) but CR demand will maintain in 2003 driven mainly by the heavy appliances sector which will growth by 4.7% in 2003.



SOURCE: HARBOR Intelligence with CANACERO data.

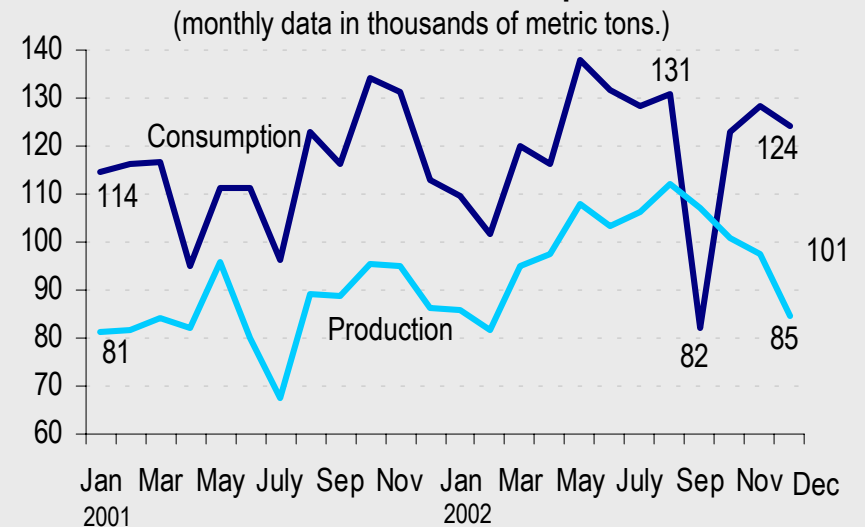
Mexican Galvanized Sheet

Galvanized production continues to grow as Mexican mills are focusing production on high value steel products and import substitution.

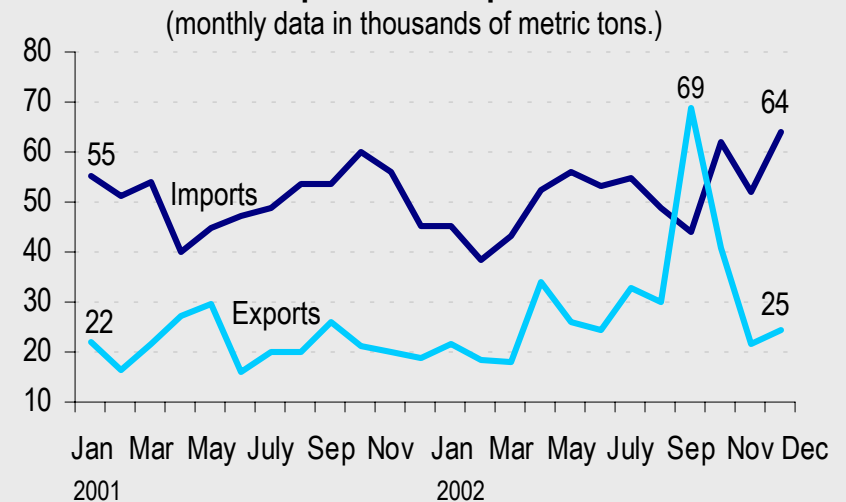
- Mexican integrated mills are focusing on high value steel products. Galvak (Hylsamex) will invest US\$40 million in the expansion of all its production lines within the next 2 years. Currently, Hylsamex has a galvanized sheet producing facility in Monterrey (appliances and auto bodies oriented) with an annual capacity of 420,000 tonnes.
- Galvanized sheet consumption is high in Mexico, specially in construction, heavy appliances and auto industry. Domestic production does not meet domestic consumption so imports account for more than 600,000 tonnes per year. The intended boost in domestic production aims to substitute some of these imports. In 2002, Mexican HDG imports only rose 0.8% annually to 614,535 tonnes while production accumulated an annual increase of 9.5%, representing 1,179,964 tonnes. Consumption accounted for 1,432,706 tonnes.
- Mexican HDG imports did not decrease because domestic mills were also focusing on the export market as export volumes end up 2002 with a 40% annual increase.



Production and Consumption



Imports and Exports

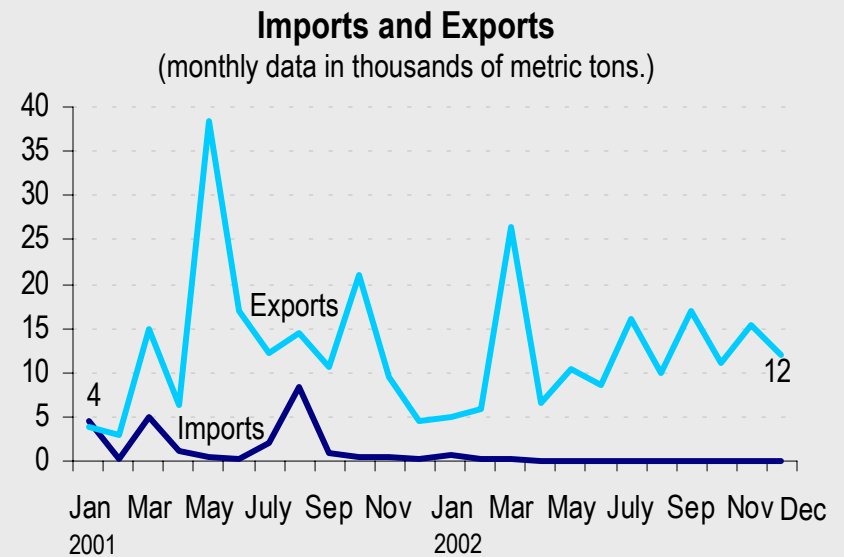
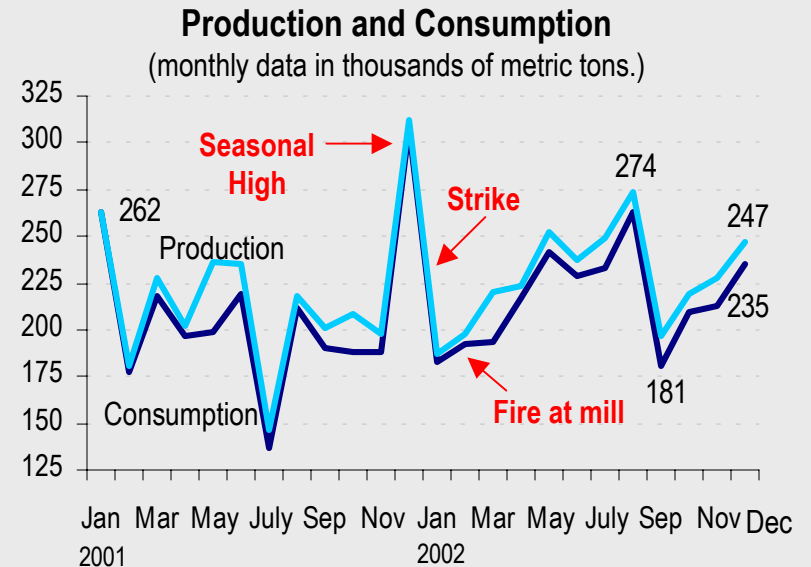


SOURCE: HARBOR Intelligence with CANACERO data.

Mexican Corrugated Rod

Strength in the Mexican construction sector will maintain demand. Corrugated rod export prices are becoming attractive for Mexican mills.

- International prices for corrugated and wire rod rose an average 25% during 4Q02. Currently, Latin American long products prices are set to increase by \$35/tonne with further rises to come. The reason behind this increases are: strong demand in China and other Asian markets, the rises in international raw materials prices, and rising energy prices in Europe. In response to this, AHMSA is bringing back idled capacity (as we will detail in next page).
- Domestically, industrial activity data suggests that construction remains healthy on the back of housing and in anticipation of the mid-term elections, to the benefit of building materials producers among which, long steel products - corrugated and wire rod - producers. Corrugated rod production increased 3.2% in 2002 vs. 2001. Consumption also increased 3.0% in the same period. Corrugated rod production and consumption is more stable as is mainly oriented to the domestic market. As a result, there are no imports of corrugated rod and only the remaining output is sent to foreign markets (last year, only 5.3% of total output).

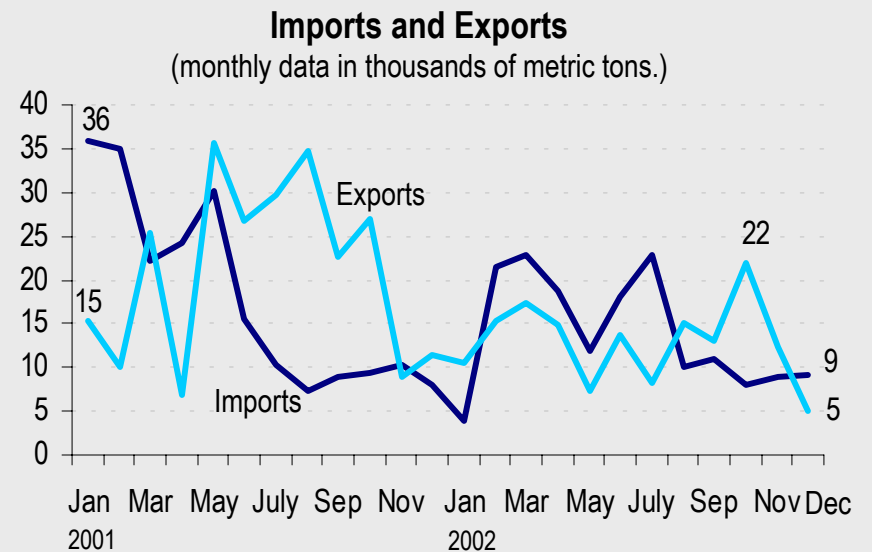
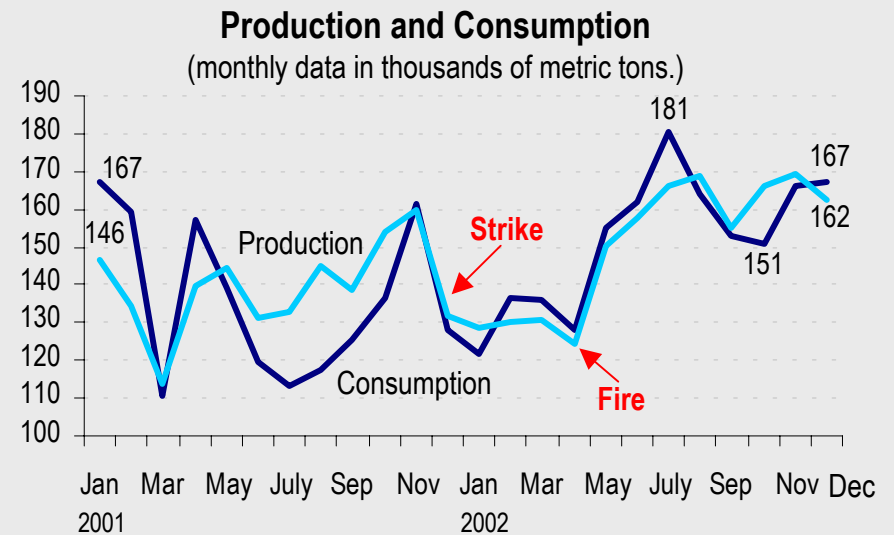


SOURCE: HARBOR Intelligence with CANACERO data.

Mexican Wire Rod

Mexican wire rod industry is operating at full capacity. AHMSA is about to join Sicartsa, Hylsamex and Deacero.

- AHMSA has a combined (corrugated + wire rod) production capacity of 280,000 tonnes per year at its main mill, and has an additional 100,000 tonnes of capacity at a second mill. The mill is set to start in March this year. To “feed” this restart AHMSA is planning to reopen its current furnace “Alto Horno 3”.
- Domestically, just as corrugated rod, wire rod consumption is highly related to the construction sector which has been supported by government spending focused on mid-term elections during 2002 and 2003.
- Wire rod production and consumption grew 12.1 and 15.5%, respectively in the 2002 period compared to 2001. Exports accumulated a 39.1% fall during 2002 so Mexican producers are focusing on the domestic market as demand and prices are improving in the Mexican long products market. Since October 2002, Sicartsa, Hylsa and DeAcero (only producers of wire rod in Mexico) have a 20.11% import tariff on their wire rod products shipped into the U.S. As a result, Mexican wire rod exports to the U.S. dropped in January by an annual 33%.



SOURCE: HARBOR Intelligence with CANACERO data.



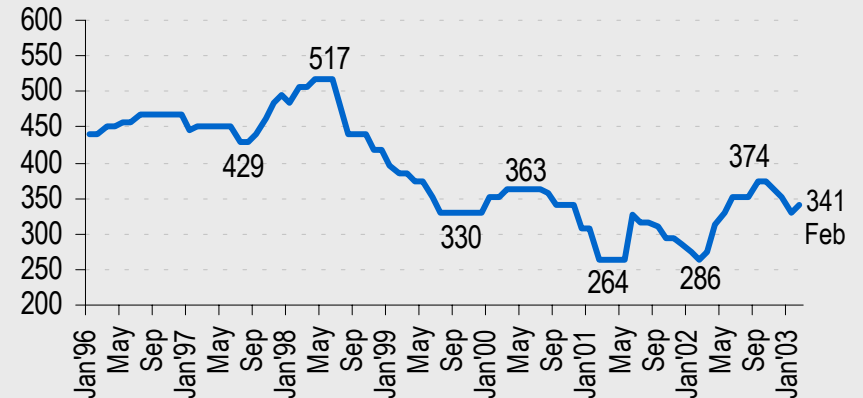
U.S. Coiled Plate and Hot Rolled Sheet

In average, coiled plate increased to US\$341/tonne in February, while HR sheet fell to US\$308/tonne in the same period.

- Steel buyers still believe there is plenty of HR supply in the U.S. steel market even when demand is high in Asia. Perhaps the mixed signals sent by economic indicators are the main factors behind the HR sheet fall. We believe that price increases announced by U.S. flat producers will take place until 2Q03 despite customers reluctance.
- Prices have behaved as we expected, with a weak start in 2003 due to economic reasons mainly and weak demand. We estimate that HR sheet prices will end up at an average transaction price of \$314/tonne during 1Q03 and coiled plate price will average at \$337/tonne during the same period.

Coiled Steel Plate

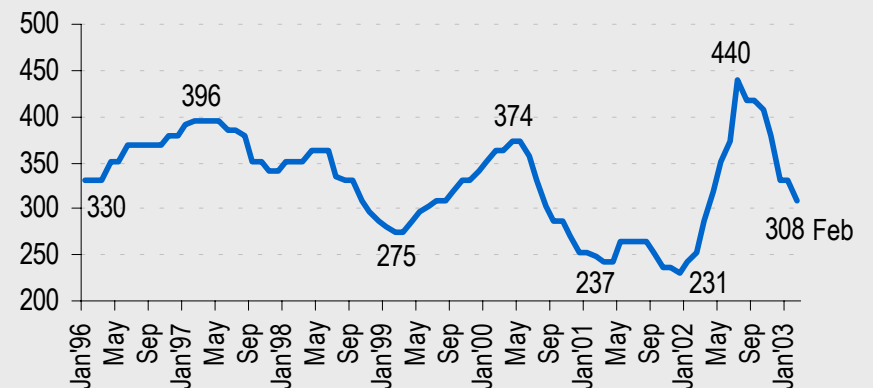
(Midwest Monthly Transaction Price, \$/metric ton.)



SOURCE: HARBOR Intelligence with Cahners data.

Hot Rolled Steel Sheet

(Midwest Monthly Transaction Price, \$/metric ton.)



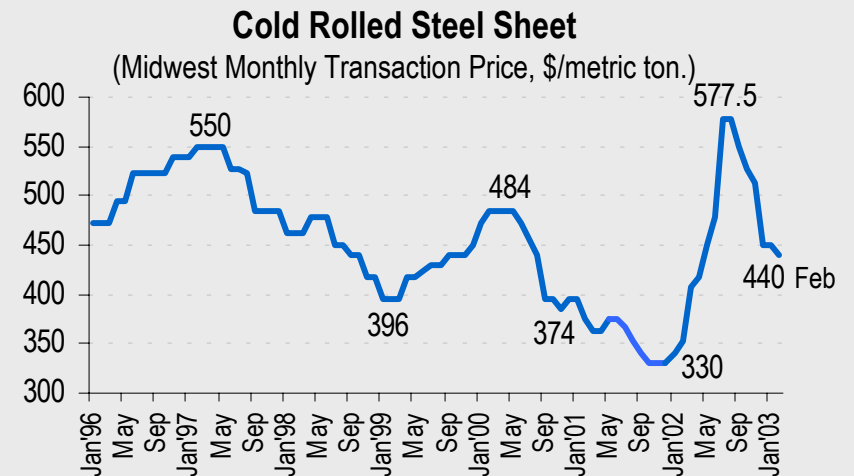
SOURCE: HARBOR Intelligence with Cahners data.



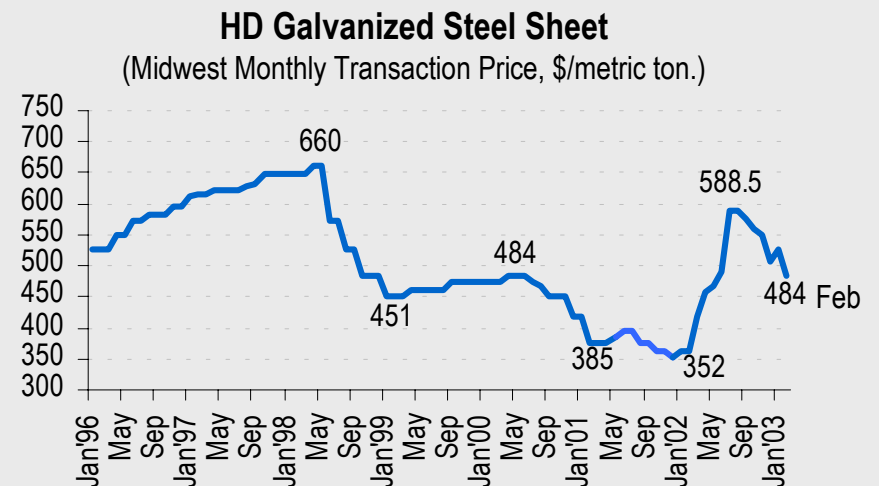
U.S. Cold Rolled and Galvanized Sheet

CR sheet prices fell in February while producers look for price increase. HDG fell as well after monthly increase in January.

- Chinese consumers of plate, cold rolled and galvanized sheet are continuing to build inventories in anticipation of a slump in domestic output, pushing prices to new highs in the process. According to sources there is not enough CR available in China as material is sitting in ports and stocks are not yet too high. All these is diverting material from the U.S. market as tonnage is sent to better priced regions and since prices in the U.S. market remain weak.
- We forecast CR and HDG prices to be around an average of US\$444/tonne and US\$497/tonne, respectively for the first quarter of 2003. Nevertheless, it is likely that CR and HDG prices could weaken further by 3 and 4% during March.



SOURCE: HARBOR Intelligence with Cahners data.



SOURCE: HARBOR Intelligence with Cahners data.



U.S. Reinforcing Bar and Wire Rod

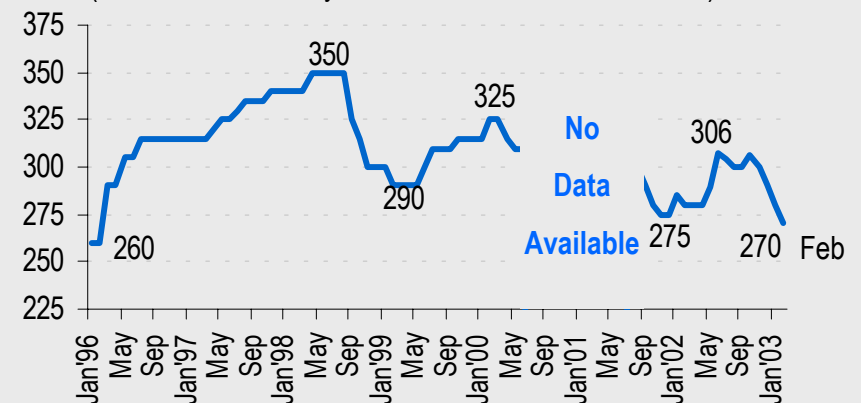
Wire rod producers plan to raise prices in respond to high scrap costs. U.S. rebar outlook will depend on construction spending.

- Total construction put in place during December 2002 was estimated at a seasonally adjusted annual rate of \$692.7 billion of constant (1996) dollars, 0.7% above the revised December estimate of \$687.7 billion. Breaking down total construction, we see that the biggest increases are on public construction (specially military facilities, housing and redevelopment, and hospital segments). Public construction spending has not been enough to increase rebar consumption. Private consumption remains -1.2% in December 2002 vs. December 2001.
- Rising scrap costs have unleashed a series of price moves by wire rod producers. Georgetown kicked off on January 22 with the announcement of a two-phase increase that included a \$15/ton increase effective March 3 and a \$10/ton increase effective May 1. Nucor's Nebraska mill would boost prices by \$15/ton effective March 1 and another \$15/ton effective with April 1 shipments. Ivaco Rollings Mills announced the introduction of a scrap surcharge that goes into effect April 1 to help it recoup margins lost to scrap hikes.



Concrete Reinforcing Bar

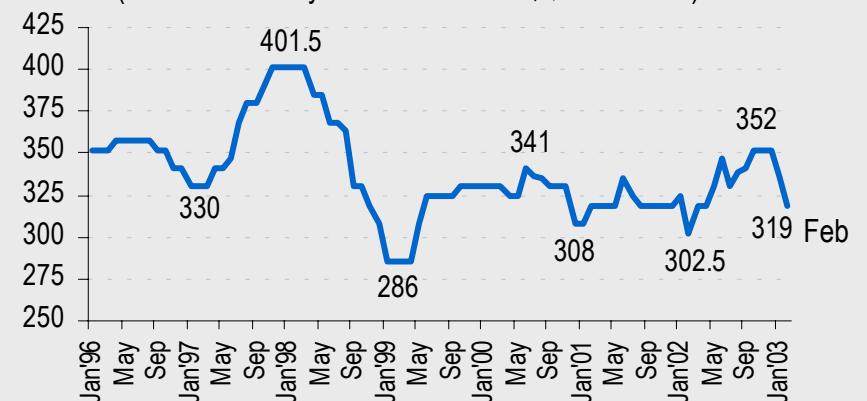
(#6, Midwest Monthly Transaction Price, \$/metric ton.)



SOURCE: HARBOR Intelligence with Cahners data.

Low Carbon Wire Rod

(Midwest Monthly Transaction Price, \$/metric ton.)



SOURCE: HARBOR Intelligence with Cahners data.

U.S. price forecast for 2003

U.S. Steel Prices

(Midwest Quarterly Average Transaction Price)

| | Hot Rolled Sheet U.S./tonne | Cold Rolled Sheet U.S./tonne | HD Galvanized Sheet U.S./tonne | Coiled Plate U.S./tonne | Wire Rod U.S./tonne | Rebar U.S./tonne |
|---------------|--------------------------------|---------------------------------|-----------------------------------|----------------------------|------------------------|---------------------|
| 1Q01 | 248 | 378 | 389 | 279 | 315 | n/a |
| 2Q01 | 257 | 370 | 385 | 285 | 325 | n/a |
| 3Q01 | 260 | 353 | 381 | 315 | 321 | 297 |
| 4Q01 | 235 | 330 | 359 | 295 | 319 | 277 |
| 1Q02 | 260 | 367 | 381 | 271 | 315 | 282 |
| 2Q02 | 348 | 449 | 471 | 332 | 332 | 292 |
| 3Q02 | 425 | 568 | 585 | 359 | 337 | 301 |
| 4Q02 | 372 | 497 | 539 | 363 | 352 | 299 |
| 1Q03F | 314 | 444 | 497 | 337 | 325 | 273 |
| 2Q03F | 325 | 460 | 487 | 340 | 325 | 288 |
| 3Q03F | 340 | 465 | 497 | 345 | 320 | 280 |
| 4Q03F | 340 | 465 | 500 | 345 | 320 | 285 |
| 2001* | 250 | 358 | 379 | 293 | 320 | 143 |
| 2002* | 352 | 470 | 494 | 331 | 334 | 331 |
| 2003F* | 330 | 458 | 495 | 342 | 322 | 282 |

E = Estimate

F = Forecast

* Annual average transaction price

SOURCE: HARBOR intelligence forecast with Cahners historical data.



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