

## U.S. Economic News

- Credit markets are beginning to thaw after months of a deep freeze. In a promising turn that could bolster the economy, companies are selling bonds at a pace not seen since last spring. Global sales of new corporate debt jumped to \$82 billion last week, the highest since \$103 billion last May and nearly double the level seen right before the credit crisis intensified in September, according to data-tracker Dealogic. The thawing means companies such as Cablevision Holdings Corp. can raise money more easily for everything from payrolls to paying down debt, an important shift that ultimately will benefit consumers. If the trend continues, it would be the out-

come that government officials have been seeking for months, as they pumped hundreds of billions of dollars into the financial system. Federal Reserve Chairman Ben Bernanke, in a speech on January 13 at the London School of Economics, indicated additional steps will be taken to stabilize the financial system beyond the \$800 billion stimulus package being crafted by President Barack Obama. "History demonstrates conclusively that a modern economy cannot grow if its financial system is not operating effectively," Bernanke said. Another significant shift in credit markets is showing up in the substantial increase in the issuance of commercial

paper, which companies sell as a low-cost source of cash used to meet short-term financial needs. According to the latest figures by the Fed, commercial paper outstanding increased by \$83.1 billion, or nearly 5 percent, to a seasonally adjusted \$1.76 trillion in the week ended Jan. 7. That puts it close to the \$1.82 trillion that was in the market in September before Lehman's failure. The Fed has also ratcheted down its key interest to hover between zero and 0.25 percent, a record low. In that move last month, the central bank signaled it would hold rates at such levels for some time to help cushion the blows of a recession that has just entered its second year.

- A record plunge in gasoline prices pushed overall consumer prices down for the third straight month in December, closing out a year in which inflation rose at the slowest rate in more than a half-century. The Labor Department said on January 16 that consumer prices dropped 0.7 percent in December, slightly smaller than the 0.9 percent drop economists expected. For the year, consumer prices edged up by just 0.1 percent, down from 4.1 percent in 2007 and the smallest annual change since consumer prices actually fell by 0.7 percent in 1954. The big yearly improvement occurred because of the sizable declines in energy prices in recent months. Excluding volatile food and energy prices, so-called core inflation was unchanged in December. For the year, it rose a moderate 1.8 percent, compared with a 2.4 percent increase for all of 2007.

- Production at the nation's factories, mines and utilities plunged 2 percent in December, capping the worst year for manufacturers since 2001. Last month's drop, double the amount analysts expected, came after a 1.3 percent decline in November, which was even sharper than initially reported. For all of last year, industrial production declined 1.8 percent, a sharp reversal from the 1.7 percent increase logged in 2007. It marked the worst showing since a 3.4 percent decline in 2001, when the country last suffered through a recession.
- In December, gasoline prices fell by 17.2 percent, the largest monthly decline on records that go back 71 years. Overall energy prices also dropped by record 8.3 percent as

home heating oil and natural gas showed declines. For 2008, energy prices fell 21.3 percent, with gas costs tumbling by 43.1 percent. Food costs were unchanged in December, and rose 5.8 percent for all of last year.

- Consumer confidence did rise slightly in January but remained at comparatively depressed levels, with continued expectations of a deep and long recession, a survey showed on Friday. The Reuters/University of Michigan Surveys of Consumers said its preliminary index reading of confidence for January rose to 61.9 from December's 60.1. The index was above economists' expectations of 59.0, according to the median of forecasts in a Reuter's poll. The early January reading was the highest since 70.3 in September.
- New claims for jobless benefits increased more than expected in early January, a trend many economists say is likely to continue for much of this year. The Labor Department reported on January 15 that first-time requests for unemployment insurance jumped to a seasonally adjusted 524,000 in the week ending January 10, from an upwardly revised figure of 470,000 the previous week. Analysts had expected 500,000 new claims. The increase is partly due to a flood of requests from newly-laid off people who delayed filing claims over the holidays, a Labor Department analyst said. But the jump in last week's numbers, combined with a slew of layoffs already announced this week, could signal the resumption of an upward trend in claims that was evident last year. Ian Shepherdson, chief U.S. economist for consulting firm High Frequency Economics, said in a research note that claims could reach 750,000 later this year. "The experience of previous deep recessions suggests claims are nowhere near their peak, and we doubt that peak will be reached before the fall of this year," he said.
- The Labor Department said wholesale prices fell by 1.9 percent in December, closing out a year in which prices dropped by the largest amount in seven years. The decline was led by a huge plunge in energy prices. For the year, the government says wholesale prices fell by 0.9 percent, the first annual decline since prices had fallen by 1.6 percent in 2001. In 2001 the country was also in a recession.
- Under criticism for its oversight of the federal bailout program, the Treasury Department plans to examine more closely whether institutions that receive money use it to boost lending. Neel Kashkari, assistant Treasury secretary in charge of the bailout program, said on January 13 that the department will compare the level of lending by banks that have received government money with lending levels by similar banks that haven't gotten assistance. Kashkari said the government will use regular quarterly reports on lending that banks already submit and also will collect monthly data

from the largest banks that have received government money. The department hopes to begin gathering the data by the end of this month and to publish the results several weeks later, he said. The government has been strongly criticized by lawmakers from both parties for not doing more to track the roughly \$180 billion invested so far in more than 250 banks in an effort to increase consumer credit and lending to businesses. A congressional oversight panel set up to monitor the financial assistance program said last week that "direct measurements" of what individual company recipients have done are necessary to determine whether the program is benefiting the public.

- The trade deficit plunged to the lowest level in five years in November as a deepening recession slashed demand for oil by a record amount. Imports from China also fell by the largest amount on record. The Commerce Department reported on January 13 that the trade deficit narrowed to \$40.4 billion in November, a 28.7 percent decline from October's deficit of \$56.7 billion. The bigger-than-expected decrease left the deficit at its lowest level since November 2003. The trade deficit through November is running at an annual rate of \$688.2 billion, down from the 2007 imbalance of \$700.3 billion. The 2007 deficit had represented the first decline after five years of record highs. Economists expect the trade deficit will fall even more sharply this year as the recession further cuts demand for imported products. For November, exports of goods and services dropped by 5.9 percent to \$142.8 billion, the smallest level in 14 months. This reflected big declines in sales of American farm products, autos and heavy machinery. Imports fell by an even larger 12 percent to \$183.2 billion, the lowest level in two and a half years. The huge decline was led by the largest-ever drop in crude oil, reflecting a record fall in the average price of a barrel of crude. Total petroleum imports were down 36.5 percent to \$23.6 billion. Analysts predicted further declines in the months ahead, since oil is now trading more than \$100 below its all-time high of \$147 per barrel set in July. The politically sensitive deficit with China shrank by 17.5 percent to \$23.1 billion in November, the smallest imbalance since June. The big drop reflected a record decline in imports from China as shipments of consumer goods, from cell phones to toys and clothing, all fell. U.S. exports to China also were down sharply, reflecting smaller shipments of metals, computers and aircraft.
- Bankruptcy filings among publicly traded companies surged 74 percent in 2008, according to data from BankruptcyData.com, a division of New Generation Research Inc. There were 136 bankruptcy filings by publicly traded companies in 2008, compared with 78 in 2007, according to the data. The 2008 results were still short of the record 263 bankruptcy filings in 2001. While the year-

over-year growth in bankruptcies rose quickly, the value of the firms seeking protection grew much faster. The 136 companies seeking bankruptcy protection in 2008 had about \$1.16 trillion in assets, compared with just \$70.5 billion in assets for firms filing for bankruptcy protection in 2007. The key difference is the number of large financial institutions that collapsed in 2008 amid the ongoing housing and credit market turmoil. "Financial companies often have much greater asset totals on their balance sheets compared to companies in other industries," George Putnam of New Generation Research said in a statement. Lehman Brothers Holdings Inc.'s bankruptcy filing was the largest in history

and three of the 10 biggest filings were completed in 2008, each of which was a financial institution. Aside from Lehman, Washington Mutual Inc. and IndyMac Bancorp Inc.'s bankruptcy filings were among the 10 largest on record. Overall, 12 publicly traded financial firms filed for bankruptcy. Those 12 firms had \$1.09 trillion in assets, according to BankruptcyData.com. Putnam said 2008's increase might just be the beginning of even more bankruptcy filings as companies face paying off huge debt amassed earlier in the decade at a time when credit and cash reserves are tight. Bankruptcy filings are likely to reach their peak in late 2009 or 2010, Putnam said.

## METAL SUPPLY NEWS

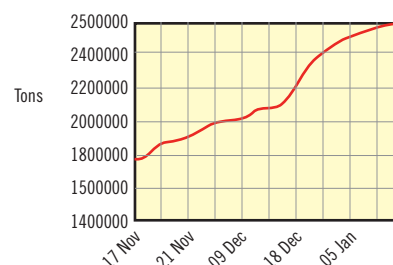
### Aluminum

- Alcoa Inc. posted a net loss of \$1.19 billion in the fourth quarter of 2008 in contrast to net income of \$632 million in the same period a year earlier. Alcoa Inc.'s new efforts to slash costs include additional production cuts, selling four non-core businesses and the layoff of 13 percent of its global work force, 13,500 jobs. Alcoa Inc expects global aluminum consumption to continue to contract in 2009, signaling that additional production cuts might be necessary in order for the Pittsburgh-based aluminum producer to survive the current economic recession.
- Rio Tinto Plc said that Dick Evans, chief executive officer of subsidiary Rio Tinto Alcan, will retire and leave the company's board of directors April 20.
- Aleris International cited the sagging economy for its decision to idle a pair of aluminum recycling plants in Friendly, West Virginia. The Ben's Run recycling facility effectively shut down on December 19, leaving 35 workers at least temporarily out of a job. On December 23, the company furloughed 14 employees at its nearby Friendly recycling plant. The company has also temporarily idled most of its secondary aluminum production at its Coldwater, Michigan, alloy plant for an undisclosed amount of time as demand in the North American automotive industry continued to deteriorate.
- China's Shanxi Guanlu said it was shutting 40,000 tons of aluminum capacity due to low prices and weak demand despite state purchase of metal. The tonnage taken off amounts to 36.4 percent of its aluminum capacity. Guanlu said it would also shut down all of its 6,000 tons of capacity used to produce high-purity aluminum. More importantly, Chalco temporarily closed 720,000 of aluminum smelting

capacity in October 2008. About 4 million tons of existing aluminum capacity in China is estimated to have stopped production since the second half of last year, with another 4 million tons of new capacity not starting production yet, even though it is ready to go. In order to mop up some of the local surplus, the State Reserves Bureau is believed to have bought 290,000 tons of aluminum this month.

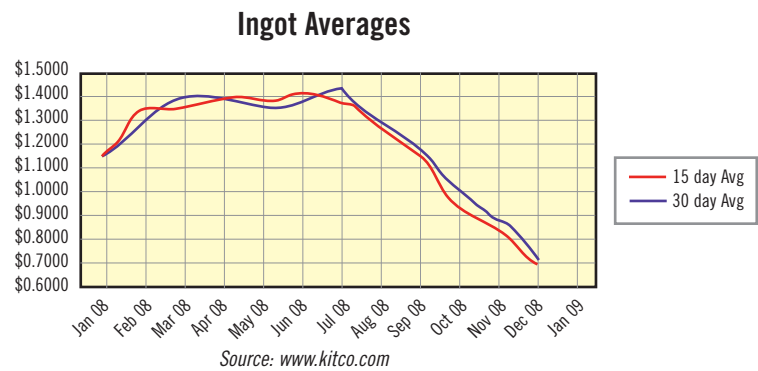
- Aluminum producers are suffering with a lethal combination of plummeting demand and price levels below cash costs. Around 75 percent of global aluminum output is unprofitable today, with the entire Chinese industry under water. Output cut announcements continue almost on a daily basis. Since last August, a little more than 5.8 million tpy of global capacity have been confirmed to be either closed or in the process of being curtailed. This is equivalent to 16 percent of global aluminum output in 2007, which is unprecedented in nominal terms but still falls short of the 25 percent contraction in global aluminum demand.
- The current inventory pile-up, according to data from Bloomberg, is at 2.44 million tons, a level last seen in 1993-94. The inventory position has actually changed dramatically since September 2008.

**60 Day LME Aluminum Stock**



Source: www.kitco.com

- Aluminum ingot pricing continues its roller coaster ride, Midwest Spot as of this writing was \$.6969/lb. See monthly averages below.
- Common Alloy lead times still remain in the 6 to 8 week range.
- Extrusions still remain in the 2 to 8 week range depending on press size.



## Carbon & Alloy Steel – Plate

- Essar Algoma announced plans to layoff 130 hourly employees. The layoff was to be implemented on January 12. Algoma stated the layoffs were due to the absence of steel orders brought on in part by the global economic crisis.
- Nucor Hertford's heat treat line is still on schedule for completion the end of 2009. Production will start the first quarter 2010. Permits have been obtained and equipment is on order. Nucor is planning to initially produce heat treat grades up to 2" thick and eventually move up to 3" thick.
- Overall SSAB, Evraz, Mittal, Algoma and Nucor are reporting weak order books but very few order cancellations
- Plate pricing has begun to follow the deterioration of the carbon flat rolled market. Domestic mills are looking for tons

to fill their weak order books. This includes structural and alloy grades. All products are open for booking.

- On January 14, Nucor reported the February plate surcharge of \$78/ton or 3.90 cwt. The January surcharge was \$70/ton or 3.50 cwt. Nucor monitors the Shredded Auto Scrap index which is \$240/ton for February.
- Lead times for plate continue to shrink but according to some sources there is some positive future news. Some say a turnaround will be felt on or even before the federal approval of the pending infrastructure stimulus package. The estimated \$775 billion in funds, slated for a proposed economic stimulus package, will include roads, bridges, public buildings, locks and dams and energy initiatives.

## Carbon Steel – Flat

- As of January 7, Carbon Flat Rolled mill capacity was 42 percent and quickly moving down. Expectations are that by the end of January, mill capacity will be approximately 35 percent.
- AK steel has recalled workers at both their Ashland and Mansfield operations. Unfortunately the move was not due to improved market conditions but rather to compensate for furnace problems they are having at their Middletown facility.
- Severstal North America announced plans to temporarily layoff as many a 600 workers at their Warren, Ohio mill (previously known Warren Consolidated Inc.)
- Mittal Steel's joint venture galvanizing line under construction has been delayed until business conditions improve.

- Mittal Steel also announced plans to temporarily shut down electric-arc furnace steelmaking operations at its Dofasco unit in Hamilton Ontario. Overall Dofasco has one electric-arc furnace and two blast furnaces. The EAF had an annual capacity to produce 1.4 million tons. The game plan is to shift EAF tons to the two remaining blast furnaces. Overall Dofasco annual capacity is 5 million tons.
- Nucor Decatur will delay start up of their new finishing facility. The mill, when completed, will have the capability of finishing 500,000 tons of galvanized sheet annually
- Nucor reported their February scrap surcharge of \$85/ton or 4.25 cwt. In January the surcharge was \$90/ton or 4.50 cwt. For carbon flat rolled products, Nucor monitors the Chicago number 1 busheling which was \$255/ton for February down slightly from January's \$260/ton. With Scrap starting to stabilize overall prices seem to have stabilized too.

- CRU numbers came out for January- Midwest numbers are:
  - Hot rolled – 26.45cwt down from 27.15cwt in Dec 2007
  - Cold Rolled- 31.25cwt down from 31.50cwt in Dec 2007
  - Coated – 33.75cwt down from 34.50cwt in Dec 2007
- U.S. imports were off in 2008 except for hot rolled coil. In total, and including all sheet products, imports were down 7 percent compared to 2007.
- World export prices have edged up slightly in the last three weeks but overall the trend is downward with the exception of China. Hot band prices in China increased about 8 percent; the fourth consecutive gain.
- Lead times remain short but certain mills that have cut major production are beginning to extend lead times and are in March for delivery. The tendency is for overall lead times to move farther out as more mills take capacity out of the system.
- Scrap prices look set to increase in the near future. According to some market sources scrap may jump as much as \$100/ton. Apparently there is still not a lot of scrap buying but with U.S. manufacturing output at a 28 year low and automakers cutting production, less industrial scrap is being generated, which will put pressure on prime grades
- Automakers reported poor sales results for December along with overall poor results for 2008.
  - General Motors down 31.4 percent in December 2008 versus December 2007 and overall for 2008 down 22.9 percent versus 2007.
  - Ford down 31.7 percent in December 2008 versus December 2007 and overall for 2008 down 20.7 percent versus 2007
  - Chrysler down 53 percent in December 2008 versus December 2007 and overall for 2008 down 30 percent versus 2007
- GM and Chrysler are to receive a total of \$17.4 billion in low cost federal bridge loans from the Federal government.

## Carbon Tubing

- Vallourec & Mannesmann Holdings Inc is evaluating a site in the Girard/Youngstown, Ohio area for the possible expansion of melt shop and rolling mill operations. The company has already applied for an air permit although a final decision has yet to be made on the expansion or the location of any expanded facility. V&M Star of the U.S., which is 80 percent owned by V&M Tubes and 20 percent owned by Sumitomo of Japan, produces hot rolled seamless tubes at its Youngstown electric arc furnace shop, which has 550,000 tons/year of steelmaking and 500,000 tons/year of pipe making capacity.
- The European Union has terminated anti-dumping duties on imports of welded tubes and pipes from Bosnia, Herzegovina and Turkey dating back to September 2002. It has also initiated new measures, submitted earlier this month, against other countries. Imports of welded tubes and pipes from Belarus, China and Russia will now be subject to dumping duties after a complaint was lodged on August 20, 2007 by a body representing EU tube makers. Imports from Thailand and Ukraine will also be hit by dumping duties.
- A decline in U.S. demand and an increase in U.S. imports of lower priced Chinese OCTG could lead to the next major American unfair trade case filing in steel, although nothing is expected in the immediate future. U.S. mills may still adhere to the traditional view that a trade case has the greatest chance of success if the domestic industry has two consecutive loss making quarters, making it easier to pass the critical injury test at the International Trade Commission (ITC). U.S. OCTG producers generally have been profitable, but oilfield pipe prices are falling as demand slumps and imports continue to rise.
- US Steel Tubular Products Inc said it will exit the drawn-over-mandrel (DOM) business and close its DOM lines in Lone Star, Texas. The US Steel subsidiary shipped 50,000 short tons of DOM products in 2008, accounting for less than 3 percent of the company's overall tubular shipments. US Steel Tubular is in the process of notifying customers of the decision and will produce and ship all current booked orders. DOM products are predominantly used by automotive manufacturers, mining operations, fluid power component makers and stockists. US Steel Tubular is expected to continue to produce hot rolled seamless and some welded tubing for the automotive and agricultural markets, but the majority of its capacity will be devoted to the energy segment.
- More information has come to light on the plan by Chinese pipe maker Tianjin Pipe Group Corp (TPCO) to build a mini mill in Gregory, Texas. According to published reports and a press release from local development groups in Texas, TPCO expects to spend at least \$1 billion on the project to produce 500,000 tons per year of seamless casing. Raw steel will be produced in an electric arc furnace fed with scrap and pig iron. The mill, located near Corpus Christi, Texas, is expected to start up in December 2010.

## MBQ and SBQ Bar

- Nucor will maintain prices on rebar and merchant bar delivered in January 2009, despite a sizeable increase in the leading steel maker's raw material surcharge for the month. While the new raw material surcharge on both products will be \$70 a short ton, up from \$0 currently, Nucor is reducing its base price by this amount, with the net effect being no change to transaction prices. The surcharge went up by the same amount on Nucor's wide flange beam production, but in this case the company partially offset the adjustment, resulting in a net transaction price increase for next month's deliveries.
- ArcelorMittal isn't commenting but market sources indicate that it plans to begin making rebar at Bayou Steel's Harriman, Tennessee, facility. Bayou, which has two locations, was purchased by ArcelorMittal for \$475 million in June to strengthen its long products portfolio. The Tennessee location has ordered equipment and will begin making rebar possibly as early as February. The range in sizes and production capacity is still unclear. At present, the Tennessee re-rolling mill can produce 250,000 short tons per year of merchant bar shapes, including angles, channels, flats, rounds and squares.
- Republic Engineered Products (REP) is shutting down two bar rolling mills at its Lorain, Ohio hot rolled bar plant for a few weeks. It is unclear how many employees will be laid off because of the closing, but the mills should be started up again sometime in the beginning of January. The SBQ producer indefinitely shut down its Lorain blast furnace earlier this month, which affected over 300 jobs. When SBB reported this in November, REP had been planning to keep its rolling mills running, but economic conditions appear to have altered those plans.
- U.S. imports of long products fell in November, helping to push overall U.S. imports down more than 25 percent from the previous month. According to preliminary import data released by the U.S. government, hot rolled bar imports dropped 38 percent to just under 100,000 tons, while imports of cold finished bar dropped 38 percent to 18,530 tons. Rebar imports fell drastically, down 42 percent to just 19,980 t in November from 34,290 t in October. These imports peaked at 157,380 t in April and were still over 50,000 t in September.
- Ohio-based special bar quality steel producer Republic Engineered Products will return 175 laid off employees to work early next month. A company spokesman stated that the employees were among "a couple hundred" that had been furloughed as part of a year-end production shutdown at the Lorain plant. However, he stressed that the call back is a "non-event," since the shutdown is an annual occurrence. The spokesman said their return likely garnered more attention this year because many are looking for potentially positive signs at a mostly gloomy time for the industry.
- U.S. imports of most long products were down in 2008 compared to the previous year, with the exception of hot rolled bar imports, which actually increased by 11 percent. HR bar imports totaled over 1.33m tons in 2008 – up from just over 1.2m t in 2007, including November 2008 preliminary data and from December 2008 import license applications. All other long product imports declined, with rebar dropping the most to 880,000 t - about half of 2007 imports. Wire rod imports fell 22 percent to 1.09m t. Cold-finished bar and light-shaped bar imports were down by 13 percent and 32 percent, respectively.

## Red Metals

	Comex Copper	LME Zinc
High	\$1.60	\$0.54
Low	\$1.25	\$0.47
Average	\$1.40	\$0.50

## Stainless Steel – Nickel Alloys

- Stainless Flat Surcharges (price per pound)

	<b>December</b>	<b>January</b>	<b>February</b>
304	\$.7042	\$.5347	\$.4116
316L	\$1.3067	\$.7426	\$.6102
430	\$.3380	\$.2324	\$.1697

- LME Nickel (price per pound)

<b>October</b>	<b>November</b>	<b>December</b>
\$5.51	\$4.8541	\$4.39

- Chrome (price per pound)

<b>October</b>	<b>November</b>	<b>December</b>
\$ 1.83	\$ 1.54	\$ 1.03

- Domestic Lead-Times:

- o Cold Rolled: 4-5 weeks
- o Polished: 4-5 weeks
- o Plate: 2-3 weeks

- In the fourth quarter, North American Stainless significantly reduced its melt rates and is believed to be operating at less than 50 percent of capacity.
- AK Steel closed its Mansfield melt-shop in November and it looks unlikely to re-start until demand improves.
- Allegheny shut down production at its Midland commodity stainless melt-shop for most of the fourth quarter, and no firm date has been announced for when the plant will resume operations.
- Nickel and Chrome prices continued their decline in the month of December as mills in the U.S and around the world reduced production of stainless steel in an attempt to catch up to declining demand. Collapsing U.S. stainless demand has forced producers to sharply curb output. Nickel prices have fallen by \$43,000/metric ton in little more than 18 months. Demand for nickel units is now at levels last recorded in 1999 as the material's largest end use market –the stainless steel sector- faces what is becoming one of the worst market corrections in the industry's history. At current nickel prices it is estimated that 40 percent of all nickel producers are now operating at a loss. With ever growing quantities of surplus nickel throughout the supply chain, and with stainless production curtailed, nickel producers are scrambling to reduce production, though more needs to be done before the market will regain some stability.

- The ferro-chrome market continues to be beset with gloom as well as its largest end use market is also the stainless steel sector. The downturn in the stainless steel market has left demand for chrome at a complete standstill. In a little more than five months the price of chrome has fallen from a peak of \$2.45/lb to a December 2008 price of \$1.03/lb. It can be assumed that the price in January 2009 will fall further. Worldwide stocks of chrome are currently very high, and production cuts have not been sufficient to stem the declining price so far. The severe downturn in demand has prompted a rapid supply response. Many of the swing producers in India and China that came into the market when chrome prices were escalating rapidly in 2007 and the first half of 2008 are now shutting down production as their operations have become unprofitable once spot prices fell below \$1.50/lb. Cutbacks have not been limited to the producers at the high end of the cost curve, as South African producers, at the lowest end of the cost curve in the world, have slashed output until at least February.
- It is clear that the steps taken by the nickel and chrome producers will eventually reduce stocks and stabilize prices. The real question is how long will it take. Much will depend on the volumes of stainless steel production in 2009. It is highly likely that stainless steel production around the world may not pick up until at least the second half of the year, and even then it may well be a modest and slow upturn based on the grim economic forecasts both here and around the world.