

## U.S. Economic News

Employers once again slashed a substantial number of jobs off their payrolls in December, according to a disappointing report from the government Friday. But there was a small glimmer of hope as well.

The payroll number for November was revised to a net gain of 4,000 jobs. That's the first increase in jobs in nearly two years. The government had previously indicated that

11,000 jobs were lost in November.

Still, the government reported a loss of 85,000 jobs in December — much worse than expected. Economists surveyed by Briefing.com had expected no net gain or loss in payrolls in December.

The economy has lost 7.2 million jobs since the start of 2008. Losses for 2009 alone came to 4.2 million jobs, the

most in one year since the government started tracking payrolls in 1939.

But even with the poor end to the year, the pace of job losses has slowed dramatically from the beginning of 2009. Some economists said that this broader trend is more important than the bigger-than-expected losses in December.

*Source: CNNMoney.com 01/08/10*

**Job growth returns -- then fades**

- Manufacturing activity jumped in December, signaling growth in the sector for a fifth consecutive month, a purchasing managers' group said Monday.
- The Tempe, Ariz.-based Institute for Supply Management's index of U.S. manufacturing rose to 55.9 from 53.6 in November. This is the highest level since April 2006 when the index climbed to 56.
- Of the 18 manufacturing divisions reporting, seven posted contraction -- including categories such as wood products, plastics and rubber, and chemical products. Sectors reporting growth included apparel, computer and electronic products, furniture, transportation equipment and paper products.

*Source: CNNMoney.com 01/04/10*

### Manufacturing growth jumps

- The U.S. trade deficit widened more than expected in November, as surging oil prices helped imports to outgain exports.

- The U.S. deficit in international trade of goods and services expanded 9.7% to \$36.40 billion from \$33.19 billion the month before, the Commerce Department said Tuesday. The October trade gap was originally reported as \$32.94 billion.
- While exports have registered seven straight months of gains as economic growth has returned, the rise in oil prices has brought the trade deficit back up. After a temporary dip in October, oil imports rebounded in November.
- U.S. exports in grew 0.9% to \$138.24 billion, the highest level in a year, from \$137.01 billion in October. Imports increased more sharply, meanwhile, rising 2.6% to \$174.64 billion from \$170.20 billion.

*Source: WSJ.com 01/12/10*

### U.S. Trade Gap Widens on Oil Costs

- A key measure of consumer confidence rose for a second straight month in December, a research group said Tuesday, with outlook for the next few months reaching a 2-year high.

- The Conference Board, a New York-based research group, said its Consumer Confidence Index rose to 52.9 in December, from an upwardly revised 50.6 in November.
- Still, the overall index remains at historically low levels and is lower than the it was in August at 54.5. A reading above 90

indicates the economy is stable, and 100 or above indicates strong growth.

Source: CNN Money 12/29/09

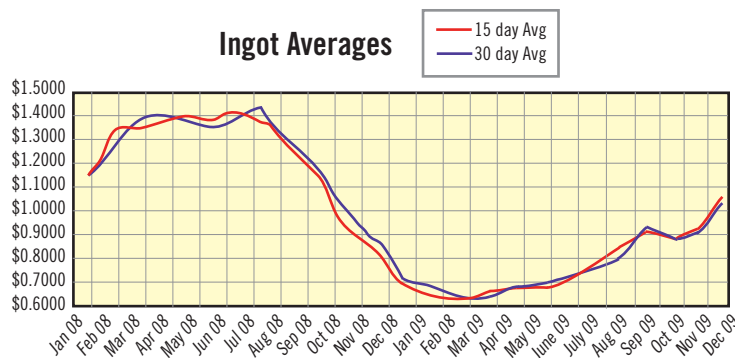
### Consumer confidence in 2nd straight boost

## METAL SUPPLY NEWS

### Aluminum

- Alcoa Inc. has formed a joint venture with Saudi Arabian Mining Co. (Ma'aden) to build a \$10.8-billion fully integrated aluminum complex in the Middle Eastern Kingdom. The initial stage of the complex will include a 740,000-ton per year smelter, 1.8-million ton per year alumina refinery and a 4-million ton per year bauxite mine along with a hot rolling mill. *Source: Platts*
- China is expected to start construction of a new Aluminum Industrial park located in the southwestern city of Chongqing by the 2nd half of 2010 at a cost of 50 billion Yuan (\$7.32 billion) Alumina output capacity of 2.4 million mt/yr, electrolytic aluminum capacity of 1 million mt/yr and value-added production capacity of 2 million mt/yr. *Source: Platts*
- Global unwrought aluminum inventories at the end of November 09 were down 68,000 mt from the end of the previous month, and down 466,000 mt from year-earlier levels, according to figures released by the International Aluminum Institute. Unwrought inventories totaled 1.139 million mt at the end November down from 1.506 million mt at the end of November 08. *Source: Platts*
- Worland daily primary aluminum output averaged 63,600 mt/day in November 09, up from 63,400 mt/day in October 09. *Source: Platts*
- China's primary aluminum production in 2010 is expected to surge 25% from 2009 to reach 17 million mt, up from a projected output of 13.6 million mt in 09.

- US primary aluminum production fell 34.4% in November 09 from a year earlier, but output showed a moderate 2.2% increase from the October rate. *Source: Aluminum Association*
- LME aluminum inventories are near record levels of 4.6 million tons, but about 70 percent of that stock — around 3.15 million tons is tied up in financing deals until May 2010. *Source: Reuters*
- Alcoa, Alcan, Novelis and Aleris have announced a price increase of \$.03/lb for common alloy conversions effective April 1, 2010.
- Alcoa, Alcan and Kaiser have announced a \$.10/lb increase on all 6061 products effective immediately.
- Aluminum lead times
  - o Flat rolled — 12 to 14 weeks depending on the Mill
  - o Extrusions — 4 to 8 weeks depending on press size
- Midwest Aluminum Ingot Averages for the past 24 months.



Source: www.kitco.com

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## Carbon & Alloy Steel – Plate

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- Current mill lead times are generally mid/late February.
- Shredded Auto Scrap has started to move upwards again. Last year this index peaked in December at \$300/ton. The low was \$170/ton last April. The most recent AMM number for January is \$350/ton.
- Nucor surcharge for February moves to \$188/ton.
- Mills have announced a \$65/ton price increase for January. Another increase is in the works. Nucor has announced an increase of \$60/ton on new orders.
- Plate CRU numbers
  - o October \$564/ton
  - o November \$580/ton
  - o December \$580/ton
- Market conditions are improving slightly. Energy markets seem to be the most active with infrastructure close behind. OEM activity is better than service center, with most service centers buying what they need. Not much happening in building inventories.
- Nucor-Hertford has experienced mill outages due to power curtailments due to frigid weather experienced the past several weeks.
- Watch input costs this year as they will be the driver on pricing. This will be much more so than previous years as the mill try to push increases while continuing to be at less than full operating levels.

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## Carbon Steel – Flat

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- Leadtimes are generally into late February/early March. HRPO, CR and Galvanized all remain strong. HR Dry seems to be an exception with most still in early February (some mills still in 1st week). Indicates weakness in structural tube market?
- Demand does not appear to be driving this market. There are signs that there is some improvement. Automotive and appliance orders are improved. 2009 automotive sales were less than 9 million units in the US, a drop of approximately 23% from 2008. This is forecasted to rebound to 11.5 million units.
- An interesting statistic is there were 4 million more cars scrapped in 2009 than were produced. There is some speculation that the US auto demand in 2010 could be 10% less than 2008.
- CRU pricing on carbon flat rolled dropped during the 4th quarter. That will see a strong turn around in the 1st quarter.
- Hot Roll
  - o October \$622
  - o November \$572
  - o December \$552
- Cold Roll
  - o October \$740
  - o November \$691
  - o December \$680
- Galv
  - o October \$816
  - o November \$745
  - o December \$751
- Jumping to 1st quarter expect prices to rise minimum \$90/ton. As plate is being driven by input costs, CFR is even more so. Mills are reportedly running at around 65% of capacity, well below historical levels. In the past we could have expected falling prices, not the increases we are seeing.
- Steel Market Intelligence, Michelle Applebaum, suggests steel pricing set to soar. “The whipsaw of an empty steel supply pipeline-welcome to the new normal”. The net result of lower steel inventories, occasional increases in demand will result in steel price swings far shorter than what we have seen in the past.
- Scrap has started to reverse its direction after dropping during the 4th quarter. Carbon Sheet Mills tend to track #1 Busheling Chicago. Numbers that have driven surcharges are shown below.
  - o October \$340
  - o November \$310
  - o December \$265
  - o January \$345
  - o February \$390

- Iron ore cost have also escalated during December with anticipated increase approaching 30% over 2009 levels.
- Zinc pricing has moved again resulting in new galvanized coating extras. Nucor has announced new numbers for February, after a previous November increase. AK has followed and other mills are expected to get in line.

- ThyssenKrupp's Mobile facility is progressing in it's construction. They are now taking orders for HR coil for June delivery.

## Carbon Tubing

- Due to increases in hot rolled carbon coil there have been two recent HSS (Hollow Structural Sections) price increases. On December 9th a \$50/ton increase on all new orders was announced. At that time there was also an announcement that there would likely be another increase in January. The second increase (\$60/ton) was announced on January 4th. Although there was a surge in purchasing at the end of December anticipating the second increase, there is still adequate finished tube available from the manufacturing mills. The same pricing pressures will impact welded mechanical tubing and structural (ASTM A-500) pipe.
- The V&M Star (seamless OCTG pipe manufacturer) expansion in the Youngstown, Ohio area is expected to be decided sometime during the first quarter of 2010. The expansion is expected to increase the capacity of the existing facility by 570,000 tons. *Source: Steel Business Briefing January 7*
- Allied Tube and Conduit announced that it would spend 30 million dollars to expand its Harvey, Illinois facility by over 500,000 square feet. Anticipated completion date is early 2010. *Source: Steel Business Briefing Nov 2, 2009*
- The assets of Baron Drawn Steel were purchased by Hercules Drawn Steel. SBQ master bar distributor Eaton

Steel Bar Company markets all of Hercules cold drawn bars.  
*Source: Steel Business Briefing Nov 3, 2009*

- The Pension Benefit Guaranty Corporation has taken over responsibility for PTC Alliance's underfunded pension fund. The producer of DOM and ERW tubing filed for bankruptcy on October 1st, 2009. The ownership of the company's assets is still being determined as the original bidding process was challenged by several potential purchasers. Resolution to the dispute is expected in January. *Source: Steel Business Briefing Dec.23 and December 30th*
- The Department of Commerce is scheduled to rule if alleged critical circumstances against Chinese seamless pipe products imported into the United States are warranted. U.S. Steel, V&M Star, TMK Ipsco and the United Steelworkers petitioned with the hopes of having antidumping and countervailing duties levied retroactively. A ruling is expected in February. *Source: Steel Business Briefing January 8th*
- TPCO America Corporation is planning on erecting a pipe mill in Texas starting in mid 2010. The company is a subsidiary of China's Tianjin Pipe Company and is expected to manufacture seamless pipe. *Source: Steel Business Briefing November 24*

## MBQ and SBQ Bar

- Changes in the cost of scrap have impacted the cost of bars for December and January shipments.
- Nucor's December MBQ (Merchant Quality Bar) scrap surcharge was \$3.65 cwt which was a \$1.25 reduction from their November level. However, Nucor raised their base price by the same \$1.25 cwt which resulted in no change in the transactional cost.
- Nucor's January MBQ surcharge was \$6.90 cwt which resulted in a \$3.25 cwt increase in the transactional price on all commodities except beams. All base prices on beams

were reduced by \$1.25 cwt which resulted in a \$2.00 cwt increase in that group.

- The Nucor December SBQ (Special Bar Quality) scrap surcharge was \$4.75 cwt which was a reduction of \$2.25 cwt from their November level.
- Nucor's January SBQ scrap surcharge increased \$4.00 cwt to \$8.75 cwt. Additionally there was a \$1.50 cwt base price increase on all SBQ products resulting in a \$5.50 cwt increase in the commodity for January.

- Nucor's December CF (Cold Finish) scrap surcharge was \$5.00 cwt which was a \$2.25 cwt reduction from the November level.
- For January shipments the scrap surcharge jumped \$4.00 cwt to \$9.00 cwt. Additionally there was a \$2.00 cwt base price increase resulting in a \$6.00 cwt total increase for the product.
- Gerdau Ameristeel announced that after evaluating market conditions and proposals by the city of Sand Springs and the state of Oklahoma they have decided to keep the MBQ mill idled. There had been hope that the mill (idled in October) might be retooled and reopened in 2011. *Source: Steel Business Briefing December 1 and January 7*

- Due to an increase in business ArcelorMittal plans to resume production at the end of the first quarter at its SBQ mill in East Chicago, Indiana. *Source: Steel Business Briefing December 10*
- After seven months of limited production at its Cambridge, Ontario Canada mill, workers voted to accept a new offer from Gerdau Ameristeel. The 3400 ton capacity MBQ mill continued to operate with a limited staff and sourced products from other Gerdau Ameristeel mill locations. *Source: Steel Business Briefing December 17*

## Stainless Steel – Nickel Alloys

- Stainless Flat Surcharges (price per pound)

	<b>Dec-09</b>	<b>Jan-10</b>	<b>Feb-10</b>
304	\$ .7859	\$ .7047	\$ .7321
316L	\$ 1.1440	\$ 1.0203	\$ 1.0562
430	\$ .1659	\$ .1495	\$ .1769

- LME Nickel (price per pound)

	<b>Oct-09</b>	<b>Nov-09</b>	<b>Dec-09</b>
	\$8.4029	\$7.71	\$7.74

- Chrome (price per pound)

	<b>Oct-09</b>	<b>Nov-09</b>	<b>Dec-09</b>
	\$ .8900	\$ .8900	\$ .8900

- Effective with shipments Jan 1, 2010 both North American Stainless and Outokumpu announce an increase on 300 series round bar. The increase both have announced will raise the price by approximately 7%.
- Effective with shipments on or after Dec 28, 2009 Outokumpu has announced an increase on all standard grade and special grades of stainless plate mill plate products. The increase will be realized by reducing the functional discount by 2 percentage points. Effectively this reduction in the discount would result in an increase on the transactional cost of approximately \$.04/lb.
- Nickel observers are predicting its price — and the price of austenitic stainless steels — will rise steadily throughout 2010, though gains are likely to be small at first.
- February surcharges rose uniformly by about \$0.03/lb among North American stainless producers, which should

indicate a similar increase in the transaction price for austenitic sheet, market sources say.

- Austenitic stainless surcharges depend mainly on the price of nickel, with a two-month lag between the spot price of nickel and the stainless surcharge.
- Nickel is currently about \$8.60/lb, according to the London Metal Exchange. Inventories in LME warehouses are at a record high of 158,388 tonnes.
- Some industry observers have said they don't expect nickel's slow rise to end anytime soon, potentially buoying stainless prices upward.
- Prophecy Resource CEO John Lee said he expects nickel to reach \$12-15/lb by June, with speculation driving the bulk of the increase. *Source: SBB January 8, 2010*
- South Africa's Herculon Ferrochrome may cut its output next year if higher electricity prices are implemented by national utility company, Eskom, and also if it sees a significant reduction in demand, Steel Business Briefing learns from the company.
- Herculon CEO Tetsu Kotaki tells SBB: "Whether or not we reduce our production level is obviously a function of more than one factor, which includes changes in cost structure, demand volume and market price levels." He adds that Eskom's tariff movement is one of those factors, but it won't be the determining factor.

- Eskom recently revised down its planned tariff increase from 45% to 35% from 2011-2013, but many in South Africa say this is still too high and will have a negative impact on FeCr producers as well as consumers in general, as SBB previously reported.
- While demand for FeCr could be lower next year, Kotaki says that in fourth quarter 2009 it has already been “rather depressed” and it may not recover in Q1 2010.
- “As of today, we do not have any idea about the specific level and timing of possible cutbacks in production,” he says, only why they could be implemented. *Source: SBB December 11, 2009*
- Looking at 2010 a recent CRU publication estimates the ferrochrome market balance has moved into a surplus in Q4 2009, and they estimates the surplus will continue in Q1 2010. As a result they expect official ferro-chrome contract prices to face downward rather than upward pressure. From the producer perspective expectations of a rollover in prices to a fall of \$.05/lb are the most common result echoed. Real ferro-chrome demand is likely to be reasonably weak as there are still vast stainless stocks in China, and the Chinese New Year period typically results in subdued demand. European and US stainless production is expected to recover from the Q4 subdued rates, but capacity utilization may still not exceed 55-65% as output will have to rely on local demand rather than export opportunities to China. *Source: CRU Monitor Nickel/Chrome/Moly December 2009*
- However there are a few points that would reduce the level of downside risk. Among them are further Rand appreciation against the US Dollar, and in addition South African electricity prices are predicted to rise by 30-35% in April, thereby raising costs on ferro-chrome by about \$.04-\$.07/lb in Q3. Rand appreciation means South African ore miners are operating at close to cost, and Indian ore export availability is set to be limited given the mining disruptions. This if customers take the view that ferro-chrome prices are likely to rise in Q2 and Q3 they may bring forward purchasing into Q1, reducing the degree of any contract price fall. On a positive note one thing is clear: market fundamentals look much healthier than this time last year when it was estimated that ferro-chrome industry stockpiles stood at 2 million tones, representing a sobering 23.2 weeks of consumption at the time. *Source: CRU Monitor Nickel/Chrome/Moly December 2009*
- Domestic Lead-Times:
  - o 200/300 Series 2B 5-8 weeks
  - o 200/300 Series Polished 5-8 weeks
  - o 430 Series 2B 8-9 weeks
  - o 430 Series Polished 8-9 weeks
  - o CMP 6-7 weeks
  - o PMP Plate 3-4 weeks
  - o Discrete Plate 5-8 weeks