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July 09

U.S. Economic News

Federal Reserve Chairman Ben Bernanke told lawmakers Tuesday that the economy has started to show signs of stabilization, although he cautioned that improvement is uncertain and likely to be gradual going forward.

Bernanke said the unemployment rate would be higher than preferred levels until at least 2012. But he added that steps taken by the Fed to pump money into the economy have started to pay benefits.

"The pace of decline appears to have slowed significantly, and final demand and production have shown tentative signs of stabilization," he said.

But at the same time he cautioned that even with improvements, "financial conditions remain stressed, and many households and businesses are finding credit difficult to obtain."

Source: CNNMoney.com 07/21/09

Bernanke: Economy better, but ...

- President Barack Obama said on Tuesday U.S. healthcare reform was "closer than ever" but there was still work to do as his top policy initiative, already rejected by Republicans, ran into trouble with his own Democrats.
- Just before he was to meet with a group of Democratic lawmakers concerned over the roughly $1 trillion pricetag for the reform plan, Obama told reporters the country was close to revamping its $2.5 trillion healthcare industry.
- But on Capitol Hill, House of Representatives Democratic leader Steny Hoyer said the complex plan had encountered problems from all directions, not just the fiscal conservatives known as "Blue Dog" Democrats.
- But he said he was confident the final legislation would drive down spiraling healthcare costs over time – fulfilling his repeated promises to come to grips with a problem which has flummoxed generations of U.S. politicians.
- The plan now working its way through Congress seeks to set up a government-run health insurance program to compete with private insurers, expand coverage to most of the 46 million uninsured, and hold down soaring healthcare costs.

Source: Reuters 07/21/09

Obama concedes health plan needs work

- Business lender CIT Group's troubles are raising questions about the Federal Reserve's ability to pinpoint a firm's problems and put it back on the right track.
- Less than seven months ago, the Fed approved a request by CIT, a lender to nearly 1 million small and mid-sized businesses, to become a bank holding company, giving it access to taxpayer funds under the Treasury's Troubled Asset Relief Program, known as TARP. The approval also made CIT subject to more regulation by the central bank.
- Last week, the New York Federal Reserve Bank completed a preliminary stress test of CIT, concluding the lender needs $4 billion of regulatory capital, CIT said on Tuesday.
- "This again shows that the Fed is really not good at identifying risk. That is basic level regulation: you look at what's coming due. That is what the FDIC did."
- Faced with frozen markets after the failure of Lehman Brothers, the Fed expedited CIT's request to seek safety as a bank holding company. American Express and GMAC also found shelter under the government umbrella.

- "Given where we were in fall 2008 and given that the market was essentially stalling, there was no alternative," said Christian Weller, a senior fellow at the liberal Washington think-tank Center for American Progress. "You had to accept the notion that there would be some lost investments."

Source: Reuters 07/21/09

CIT's troubles raise Fed supervision questions

- Oil touched a two-week high above $65 a barrel on Tuesday as a slew of rosy corporate earnings reports fed into hopes for an economic recovery that could revive global energy demand.

- U.S. crude gained 22 cents to $64.20 a barrel by 1:00 p.m. EDT, after climbing to a two-week high of $65.53. London Brent rose 32 cents to $66.76.

- The rise in the oil market came as a raft of major companies, including Caterpillar Inc (CAT.N), reported stronger-than-expected results in the second quarter that many analysts took as a sign of economic improvement.

- A recovery in the economy could bode well for world energy consumption, which shrank for the first time in a quarter century under the weight of the recession.

Source: Reuters 07/21/09

Oil rises as earnings boost economic outlook

- The bankruptcy restructurings of General Motors Corp and Chrysler LLC have improved credit market access for auto suppliers, but the sector is far from healthy and requires close government monitoring, an Obama administration official said on Tuesday.

- Ron Bloom, a leader of the administration's autos task force, also told a House of Representatives hearing that the task force has ended the government-backed consumer warranty program for GM GM.UL and Chrysler CCMLPC.UL and returned $641 million of funds from that initiative to the Treasury.

- "With the successful emergence of the new companies, consumers can now feel assured that the companies have the financial wherewithal to meet their warranty commitments on a continuing basis," Bloom told a Judiciary subcommittee.

Source: Reuters 07/21/09

U.S. says auto suppliers still need close monitoring

METAL SUPPLY NEWS

Aluminum

- Alcoa Inc. kicked off the earnings season by posting a net loss of $454 million in the second quarter of 2009 due to continuing weak conditions in the aluminum market.

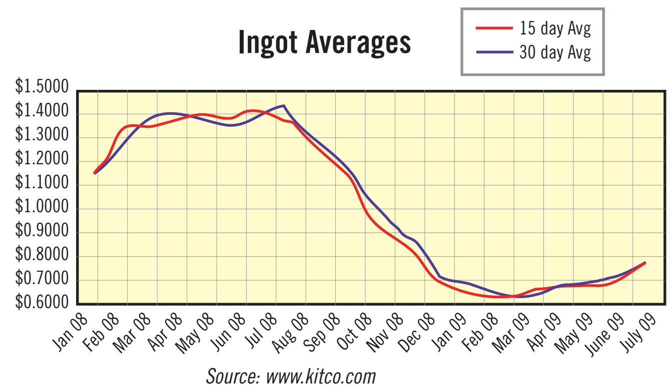
- On June 17, 2009 SAPA enter into an asset purchase agreement for the purchase of Indalex Aluminum. The purchase is for substantially all of the assets of Indalex in the U.S. and Canada.

- Novelis said its Q4 shipments of flat-rolled products in the three months to March 31 decreased 20%versus the year earlier period to 605,000/mt from 754,000/mt. *Source: Platts*

- Hulamin has reached an agreement with BHP Billiton whereby BHP Billiton will continue to supply extrusion billet until September 2009 and rolling slab until December 2010, the South African aluminum fabricator said. *Source: Platts*

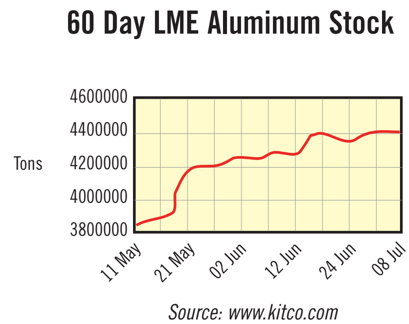
- World daily primary aluminum output averaged 63,000 mt/day in May, down from 64,000 mt/day in April and from 70,600 mt/day in May 2008 according to figures released by the International Aluminum Institute. *Source: Platts*

- Aluminum Ingot continues to recover from its low mark.



- Mill lead times have pushed out in the 30 days
  - o **Flat rolled** – 6 to 7 weeks
  - o **Extrusions** – 4 to 5 weeks depending on press size

- LME inventories have seemed to level out (Kitco)



Carbon & Alloy Steel – Plate

- Evraz (Oregon Steel Works) plans to resume slab buying in 2010. It is expected the slabs will come mainly from other Evraz (Russian based) operations.

- A price increase was announced by all major plate mills. The increase to be effective in July/August was 2.00cwt minimum. The increase according to the mills is due to rising material costs and demand improvements.

- On July 15th and 16th Mittal, Nucor and SSAB announced an additional plate increase of $40/ton to be effective with orders dated July 16th and beyond.

- CRU Plate numbers came out for June at 27.00cwt. This is down from 27.50cwt in May. With the announced increases expectations are that the trend will move upward.

- Nucor announced their plate surcharge for August to be 5.15cwt. This is based on a price for Shredded Auto Scrap of $265/ton. The surcharge for July was 2.15cwt.

- MSCI reported plate inventories months of supply to be 3.6 in May. This is down from 4.3 months of supply in April.

- MSCI reported plate shipments in May to be down 55.4% year over year and year to date shipments to be down 53% year over year.

- Plate lead-times
  - o **As Rolled** 5 weeks
  - o **Normalized** 5 weeks
  - o **Heat Treat** 5/6 weeks

- Plate demand may get some needed boosts coming from the Federal Highway Administration's emergency relief program. There is a total of 205 million dollars going to a number of states for damage repair due to storms and other disaster related issues.

Sources: AMM, SBB, CRU, MSCI and PM

Carbon Steel – Flat

- USS has announced plans to re-start one of their blast furnaces at their Granite City mill. It was idled in December. They are also planning to re-start coke making operations at their Hamilton Works in Ontario. Apparently USS was running behind on orders, believed to be caused by production issues at the Gary facility. Rather than have extended lead-times they decided to bring the mill back into production.

- Severstalna has plans to sell their Wheeling Pittsburgh Allenport, Pa. Sheet finishing mill to North American Trading Co. Apparently this same company has their sights on Arcelor Mittal's Hennepin facility too. Mittal had idled this facility in February.

- Mittal Steel has announced plans to re-start their idled Number 5 blast furnace at its Indiana Harbor Works in July.

- Nucor has announced their intent to start up their new galvanizing line in Decatur Alabama. The new mill has the capacity to produce 500,000 tons per year.

- There have been a number of mill increase announcements which would affect pricing in July, August and September. For example, Mittal formally announced new base pricing on June 3rd(Hot rolled 20.50cwt, Cold Rolled 24.50cwt and Coated 24.50cwt) to be effective July 1st through July 30th. On June 15th Mittal formally announced another base change (Hot Rolled 23.00cwt, Cold Rolled 28.00cwt and Coated to 29.00cwt) effective immediately.

- On July 15th Nucor formally announced an increase to be effective immediately of $60/ton on all products.

- Most major mills have followed in similar fashion.

- Nucor announced their August carbon flat rolled surcharge. The amount was 6.75cwt. This is based on a Chicago number 1 busheling price of $305/ton. This is an increase of 4.50cwt compared to July 2009.

- CRU carbon flat rolled numbers came out for July. The Midwest numbers were as follows:
    - **Hot Rolled** 22.30cwt up from 18.65cwt in June
    - **Cold Rolled** 26.75cwt up from 22.60cwt in June
    - **Coated** 29.75cwt up from 24.60cwt in June

  Expect an upward trend.

- Scrap prices are beginning to rebound. According to SBB, they reported that "US scrap prices will show the biggest price jump in about a year". The partial reasoning is the increased mill demand coupled with their depleted scrap inventories.

- Mills are reporting strong bookings (automotive and service center inventory replacement). This coupled with the drastically reduced capacity has lead to extended lead-times and price increases.
    - **Hot Rolled** 5-6 weeks
    - **Cold Rolled** 6-7 weeks
    - **Coated** 7-8 weeks

- Automotive news- Fiat has purchased a minority stake in the old Chrysler Corporation. Fiat will own 20% of the new Chrysler Corporation. The Italian automaker combined with the new Chrysler Corporation will be the sixth largest automaker.

  Chrysler had plans to re-start seven of their assembly plants in June.

- General Motors bankruptcy filing- at least 4 steel makers are owed about 35 million dollars; USS 9.5 million, Mittal 9.5 million, AK 9.1 million and Severstalna 6.7 million.

- Cash for Clunkers program is being supported by automakers. The program provides a monetary incentive to consumers to trade their older model low gas mileage vehicles for newer more fuel efficient models.

- MSCI reported May carbon flat rolled inventories to be down 42.1% year over year. They also reported that service centers had 2.5 months of supply.

- MSCI reported carbon flat rolled monthly shipments to be down 48.4% in May year over year and year to date down 45.9% year over year.

Sources: SBB, AMM, MSCI, CRU and PM

Carbon Tubing

- DOM producers ArcelorMittal, PTC Alliance and Wheatland Tube announced increases of 7% for orders shipping week of August 3rd. The price change is attributed to raw material price increases.

- In addition to the $1.50 cwt increase announced on June 11th another $3.00/$3.50 cwt increase was announced by Atlas Tube, Southland Tube and Leavitt Tube for both structural and mechanical tubing products on June 25th. The mills cited raw material increases for the announced price increase.

- Welded Tube –Berkeley a subsidiary of Welded Tube of Canada is expanding its operations located in Charleston, South Carolina. Welded Tube will add 20-30 new positions over the course of the next 9 months by expanding their product lines to include higher performance pipe products.

- PTC Alliance workers previously layed off earlier this year will remain on layoff indefinitely. The layoff will remain indefinite due to the low number of tubing orders.

- Lead-times remain 3-4 weeks for most tubing items while current inventories remain very low due to announced increases taking affect.

MBQ and SBQ Bar

- Gerdau Ameristeel's Cambridge facility in Ontario, Canada remains on strike. United Steel Workers have been on strike since the middle of May and the mill continues to ship product even though the mill is not fully operational. The Cambridge facility produces MBQ bar and light structurals.

- Timken has commissioned the expansion of their Harrison Steel Mill jointly with SMS Meer. Timken will be able to increase its capacity and improve the quality of their SBQ bars ranging from 25 mm to 127 mm round.

- Nucor is expecting to lose $170-200m in the second quarter compared to the $190m loss incurred for the 1st Qtr of 2009. The loss is attributed to shipments being down significantly compared to last year and continuing to consume higher costed raw materials.

- Merchant bar pricing remains flat for the month of July as there was no change in the scrap surcharge of $2.15 cwt from the month of June. The scrap surcharge is based on Shredded Auto Scrap.

- Special bar quality (SBQ) also remains flat for the month of July as there was no change in the scrap surcharge of $2.50 cwt from the month of June. The scrap surcharge is based on #1 Busheling.

- Lead-times continue to remain short as SBQ lead-times are typically 4- 8 weeks for rolling heat treating is typically 2-4 weeks. MBQ inventory is readily available and unless a special size mills are rolling items on a regular basis.

Stainless Steel – Nickel Alloys

- Construction is moving ahead on Allegheny Technologies Inc's $1.2 billion expansion at its Brackenridge Pa, facility. Reports are that construction crews and local government officials are cooperating on a new layout for a road that runs near the site to be expanded. This expansion is an upgrade to hot rolling facilities at the specialty steel maker that will include high-end specialty steels, including nickel, titanium electrical steels and stainless steels.

- US Mills have increased their production levels in July from an estimated 40% utilization rate to something believed closer to 50%. However it remains uncertain as to how much more mills will raise their production capacity until a sustainable trend can de established. However supply has gotten tighter and mill lead-times have moved out modestly on some products- especially cold rolled 2B and polished products. Most mills reported an uptick in their order books in the July timeframe.

- Stainless Flat Surcharges (price per pound)-2009

	June	**July**	**August**
304	$.3766	$.4695	$.5799
316L	$.5623	$.7051	$.8597
430	$.0749	$.1057	$.1139

- LME Nickel (price per pound)

April	**May**	**June**
$5.07	$5.73	$6.79

- Chrome (price per pound)

April	**May**	**June**
$.7020	$.7388	$.7810

- Nickel prices continued to move higher in June- ending the month at $ 6.79/lb. After bottoming out earlier this year nickel has rebounded by over 30% since reaching its March low. While most stainless markets are expected to remain weak in the short-term, the situation in China has seen a remarkable turnaround in a very short time frame. Chinese stainless mills have continued to increase their production rates and in June most were reportedly at close if not at full capacity. Most of them also indicated that they expect to remain at full capacity for July as well. Some officials at the Chinese producers however indicate that they believe that the pick-up in demand is largely being driven by rising raw material prices and describe real demand as "stable or just alright." Others appear a bit more optimistic that the increased production rates can be maintained observing that there is more optimism now than in the 1st quarter. Regardless there is no disputing the fact that prices for stainless steel in China itself, and for that matter other Asian countries have risen substantially over the past 12 weeks or so and are now amongst the highest in the world.

- Perhaps as a result of these developments, or just the fact that many observers believe the worst of the global economic downturn is behind us and a gradual recovery might be forming, commodity price estimates are being revised upward. Recently BMO Capital markets increased their estimate in their mid-term nickel price forecast by 26% to $5.80/lb for 2009, and by 36% to $7.50/lb for 2010. Their research unit has upgraded the outlook for the second half of 2009, 2010, 2011, and 2012. They have maintained their long-term forecast of $8.50/lb. Barclays recently upgraded their forecast for 2009 to $5.39/lb from a previous estimate of $ 5.04/lb, while Natixis sees an average of $5.10/lb in 2009.

- Chrome prices are expected to climb as well. Xstrata-Merafe one of South Africa's largest ferro-chrome producers has increased the price in Europe by about 29% for the third quarter. Four main reasons are cited for the increase- The Rand- South Africa's currency is strengthening against the US Dollar, a 31% increase in the price of electricity year-over-year, stronger demand coming from Asia, and the extensive cutbacks in production that began in late 2008 and continued into 2009. At the end of the 1st quarter the company reported it had cut back its production by nearly 1.4 million metric toss.

- On the back of stronger order books and continued reduction in the levels of imported stainless shipments to the US market US Stainless producers announced another price increase effective with shipments beginning on or around July 1, 2009. North American Stainless led the way – announcing a price increase of approximately 6-9% depending on the grade and size- while also increasing hot rolled base prices by $.02/lb as well as automotive grades such as T-409 and T-439 also by $.02/lb. This move was followed in quick succession by all other producers such as Allegheny, AK Steel and TKNA-Mexinox.

- Mills have been successful in raising base prices in both the May and now July timeframe not due to any increase in real demand but rather as a result of service centers slowing the rate at which they are de-stocking as well as uncompetitive import prices which have greatly reduced their amounts. Another contributing factor has been the amount of orders that were placed from the service center market in June and July in anticipation of higher surcharges month over month. However with the US economy still grappling with rising unemployment and falling consumer sentiment and rising consumer savings rates, end users look to still be de-stocking finished goods. However there have been some reports recently of the big box stores beginning to re-order depleted goods in anticipation of some recovery expected to begin later this year.

- Figures released in late June by the US Government show stainless imports to the US Market have dropped to the lowest levels in more than 15 months. Imports in May 2009 dropped by more than half versus the same period last year.

- US Mills can be expected to remain cautious about increasing output as the year draws on, and further price increases can not be ruled out as supply remains constrained, imports are low and from a global perspective the US market price fro stainless is now reportedly the lowest in the world. Based on the current and anticipated conditions US producers can be expected to try and continue to reach equilibrium with world prices.

- Domestic Lead-Times:
  - **Cold Rolled**: 5- 6weeks
  - **Polished**: 5-6 weeks
  - **Plate**: 2-3 weeks