

U.S. Economic News

The Institute for Supply Management's manufacturing index for June is a classic glass-half-full, glass-half-empty statistic. The optimists will point to the fact that the U.S. manufacturing sector continued to expand in June – its 11th straight month of growth. The pes-

simists will argue that the June index's plunge to 56.2 from 59.7 in May represents another sign of a slowing economic recovery in the world's largest economy.

A Bloomberg survey had expected the manufacturing index to dip to 59 in June. The index was at 60.4

in April. Readings above 50 indicate an expansion; under 50, a contraction. In June 2009, the index was at 45.3.

Source: DailyFinance 07/01/10

U.S. Manufacturing: Still Expanding but at a Slower Pace

- Job growth will sustain the U.S. economic recovery even as government fiscal stimulus ends, according to David Greenlaw, Morgan Stanley's chief fixed-income economist in New York.
- About 200,000 jobs will be added to the U.S. economy each month during the second half of the year, increasing real disposable income and spending by about 3 percent, enough to generate a sustained recovery, Greenlaw said today during a radio interview with Tom Keene on Bloomberg Surveillance.

Source: Bloomberg 07/06/10

Job Growth Will Provide a Boost as Stimulus Ends, Greenlaw Says: Tom Keene

- Steel prices in the U.S. are declining after holding firm for months, potentially a bad omen for the nation's economy as manufacturing activity slows and consumers grow more cautious about big-ticket purchases, such as cars and appliances.
- Steel prices tumbled in June, and U.S. steel mills are responding by cutting production. Earlier this year they were ramping up capacity to meet the growth in demand they hoped would emerge from the economic recovery. Instead, demand has been spotty.

- Another wild card for the industry is China. While the rest of the world was reducing steel production and consumption during the recession, China's voracious appetite for building bridges, autos and appliances, helped support global steel prices.

Source: Wall Street Journal 07/06/10

Industry Cuts Back as Steel Prices Fall

- New U.S. claims for jobless benefits fell last week to their lowest level in two months, offering cautious hope for an economic recovery that had shown signs of fatigue.
- The bigger-than-expected decline in jobless claims on Thursday was a relief after a slew of weak reports had left investors fearing the economy could slip back into recession.
- Initial claims for state unemployment benefits dropped 21,000 to 454,000 last week, and the number of people continuing to receive benefits in the final week of June was the lowest in seven months, the Labor Department said.
- Economists had expected first-time claims to decline to just 460,000.

Source: Reuters 07/08/10

Jobless claims drop offering hope for recovery

- The International Monetary Fund upgraded its 2010 global growth forecast on Thursday, citing robust expansion in Asia and renewed U.S. private demand, but warned the euro area's debt crisis posed a big risk to recovery.

- The fund raised its 2010 global output forecast to 4.6 percent from 4.2 percent in April's review of the global economy, but kept its 2011 view unchanged at 4.3 percent.

Source: Reuters 07/08/10

IMF lifts world growth forecast

METAL SUPPLY NEWS

Aluminum

- The European Commission has reviewed its 3% duty on imports of unwrought aluminum into the European Union and decided to maintain the duty in its current form. "It was decided to maintain the status quo as in general, the justification from the balanced decision in 2007 are still present today" from the EC's press office. *Source: Platts*
- Alcan Rolled Products has announced a increase on wide roof coil products effective with new order placed on or after June 15, 2010 of \$.18/lb.
- Aluminum Bahrain plans to boost its annual production capacity to 1.4 million mt by 2014 from 870,000 mt/year currently, by expanding two of its five potlines and adding a sixth one.
- The Chinese aluminum market is facing a 1.26 million mt surplus in 2010 that should lead to production cutbacks in the second half of 2010, according to China Minmetals. *Source: Platts*
- Aluminum Corp of China has completed an 800,000 mt/year alumina project in the southern Guizhou province and started operations. The Yuan 4.78 billion (\$703 million) project, situated in Guizhou's Zhunyi City, has an associated 1.7 million mt/year bauxite mine. The startup of the Zhunyi project comes amid a nationwide crackdown on small and obsolete aluminum plants launched by the central government in the name of energy, conservation and industry consolidation. *Source: Platts*
- The United Steelworkers union ratified a new four-year labor agreement June 24th with Alcoa, the largest aluminum producer in the US. *Source: Platts*
- Rio Tinto Alcan said the \$1.9 billion expansion of the Yarwun alumina refinery in the Australian state of Queensland was on track for commissioning in the second quarter of 2012. The expansion will add 2 million mt/year of

capacity to the company's wholly owned and operated alumina refinery, increasing the projects total capacity to 3.4 million mt/year. *Source: Platts*

- JP Morgan Securities will become a London Metal Exchange category one ring dealing member following its purchase of the global metals business of RBS Sempra Commodities, a joint venture between the Royal Bank of Scotland and the Sempra Energy. Meanwhile, RBS Sempra will be downgraded from its ring dealing status to a category four associated broker non-clearing member. *Source: Platts*
- Global unwrought aluminum inventories at the end of May were up 40,000 mt from the end of the previous month, but down 151,000 mt from year earlier levels, according to figures released by the International Aluminum Institute. Unwrought inventories totaled 1.25 million mt at the end of May, up from 1.21 million mt a month earlier, but down from 1.401 million mt at the end of May 2009. *Source: Platts*
- Aleris International Inc, has contacted former employees of its shuttered Richmond, VA aluminum rolling mill about rehiring them for a September reopening. The Richmond plant which has been dormant since late 2008, was part of Aleris' 2005 purchase of AlSCO Metal Co., which supplies construction goods. *Source: AMM*
- U.S. and Canadian aluminum producers' shipments climbed to 1.53 billion pounds in May, the second-strongest shipping month so far this year according to statistics from the Aluminum Association. May shipments were up 1.8 percent from 1.5 billion pounds in April but were well off the 1.62 billion pounds in March, the highest shipment month thus far this year. *Source: AMM*
- Flat Rolled Lead Times – 10 to 12 weeks ARO
- Extrusion Lead Times – 4 to 6 weeks ARO depending on press size

Carbon & Alloy Steel – Plate

- The demand for plate has dropped significantly since April; the anticipated rise in demand from pipeline jobs, wind towers, and heavy construction simply has not materialized.
- There are many projects ready to be let but the current economic distress and the Gulf Coast Oil Spill is preventing them.
- Plate inventories are growing at all levels ie OEMs, Service Centers and mills.
- Mill operating capacity is approximately 75%.
- Excluding heat treated products, the mill lead times are August; heat treated is into late September 2010.
- Raw material increases pushed several price increases into the market; the June-July announcements did not get fully implemented due to the scrap decline and demand fall off.
- CRU data confirms the down-trend:

Plate (2000 lbs)	
Jan 10	\$630
Feb 10	\$685
Mar 10	\$730
Apr 10	\$830
May 10	\$825
Jun 10	\$815
- The pricing has eased but raw material costs and/or demand from major projects can change the plate market very quickly.

Carbon Steel – Flat

- Thyssen Krupp, Mobile, AL will start converting slabs this month; they should be shipping hot coil in September.
- Sherman International is preparing the site of the former Youngstown Sheet & Tube mill in Campbell, OH for construction of a six high cold rolling mill and galvanizing line to be operational by early 2011.
- The approximate mill capacity utilization is 72%; this is down from May's 75%.
- Second half 2010 forecasted demand is weak in spite of healthy first half 2010 "white goods" and automotive sales.
- Mills are selectively taking maintenance outages and banking furnaces in an effort to balance supply and demand; few of these are official announcements but are rather word of mouth.
- Severstal has delayed the shutdown of Sparrows Point due to a caster fire at their Dearborn facility.
- USS has had a fire at their Clarion, PA coke plant; no details available at this time nor the impact on their steel making capacity.
- The general lead times are late August but there are some products such as A242 decarb CR which are September.
- The CRU numbers below reflect the imbalance between demand and mill capacity utilization which started in May.
- 2010 CRU data – Midwest Coil (\$/ton)

	HR	CR	HD
Jan 10	\$555	\$677	\$745
Feb 10	\$592	\$714	\$782
Mar 10	\$629	\$754	\$812
Apr 10	\$680	\$792	\$854
May 10	\$699	\$816	\$868
Jun 10	\$667	\$768	\$821
Jul 10	\$605	\$730	\$776
- The scrap numbers for #1 Bushelings reflect the same (\$/ton)

Jan 10	\$345
Feb 10	\$390
Mar 10	\$400
Apr 10	\$470
May 10	\$480
Jun 10	\$465
Jul 10	
- Retail and wholesale prices are starting to reflect the same downward trend but low inventories have prevented a collapse.
- Raw material costs have been the driving force of the radical price rises in the years 2006 thru 2008. The world prices of these commodities continue to be very volatile but show distinct signs of rising again in 4th quarter 2010. Once again the pricing pendulum will swing upward.

Carbon Tubing

- We have experienced a relative calm in structural tubing pricing. The last official increase was announced on April 5th. Since then the market has softened and discounting is occurring. Expect the tubing prices to mirror HR sheet pricing trends. Most items can be purchased from mill depots or from standard rolling cycles within four weeks.
- DOM pricing has also stabilized since the last increase that was also announced in April. Lead times have stretched out and most items can be received in 12 to 16 weeks.
- Mexican seamless tube manufacturer Tamsa will increase its capacity to support the demand from the petrochemical market. The Tenaris owned mill anticipates the expansion will be completed in 2011. *Source: Steel Business Briefing May 21*
- Vallourec & Mannesmann Seamless Steel Tube announced an expansion at their subsidiary V&M Changzhou in China. Their large diameter, heavy wall tube capacity will increase from 15,000 to 60,000 metric tons. The roughly 300 million dollar project is expected to be completed in 2013. *Source: Steel Business Briefing June 24*
- Skyline Steel, an ArcelorMittal subsidiary, announced plans for a welded pipe mill in Longview, Washington. IDM Longview has been contracted to build the facility. *Source: Steel Business Briefing June 29*
- U.S. Steel's Loraine, Ohio seamless pipe mill may be expanded to support the demand generated by the Marcellus Shale gas formation. *Source: Steel Business Briefing June 29*
- Hoffman Industries will expand capacity in their Eau Clair, Michigan welded tubing mill. The company produces tubing with outside diameters from .375 inches to 2.500 inches.
- Additionally Hoffman Industries will increase their fabrication and powder coating capabilities. *Source: Steel Business Briefing July 8*

MBQ and SBQ Bar

- Nucor announced their Raw Materials Surcharge for the month of August on July 12th. They implemented their adjustment effective with shipments on July 13th.
- Their beam, merchant bar and structural products scrap surcharge will be \$7.40 cwt. This is a \$2.00 cwt reduction from the July surcharge. Nucor also increase their base price for all of their products by \$1.00 cwt so there will be a net \$1.00 cwt reduction in transaction cost. Additionally there was another announcement that a group of 15 beam sizes that had a \$2.00 cwt base price increase which resulted in no change in the transaction prices of those beams.
- Generally speaking inventory is readily available or with short lead times.
- Nucor's HR SBQ surcharge change will take effect on August 1st and will be \$12.00 cwt. This is a \$2.25 cwt reduction from the July level. There were no adjustments made to base prices so the transaction cost for HR SBQ decreased by \$2.25 cwt. Lead time for the commodity are still extended with promised deliveries ranging from late October to January.
- The CF SBQ surcharge for August will be \$12.50 cwt which will be implemented on August 1st. It will be a reduction of \$2.25 cwt from July's charge. Standard sizes, lengths and grades of CF bars are generally available from stock or with a short lead time. Non-standard items are impacted by the HR extended lead time.
- Sluggish demand for steel products in China has prompted many major mills to restrict production and close for maintenance work during the month of July. The reduced production may extend into August and will not alleviate the extended deliveries experienced for some products in the United States. *Source: American Metal Market July 1*
- Lucchini SpA based in Brescia, Italy has been sold to a Russian steelmaking group. The prior owner, Severstal, had announced that they had been trying to sell Lucchini since the end of March. Their product line includes HR and CF bars. *Source: American Metal Market July 2*
- Nucor announced that James R. Darsey will assume the position of Executive Vice President of bar products at the end of August when the current Executive Vice President, D. Michael Parrish, retires. *Source: American Metal Market July 2*

- Nucor announced it will build a 10,000 square foot testing facility at its Memphis, Tennessee HR SBQ bar mill to better ensure a quality product is produced at their mill. *Source: American Metal Market May 31*
- Production and shipping at two Nucor facilities in Nebraska was negatively impacted by flooding during the month of June. *Source: American Metal Market June 17*

- China's Echeng Iron and Steel began construction of a third bar mill with a diameter capacity of at least 9.84 inches (250 MM). The bars are targeted to automotive and machinery products. *Source: Steel Business Briefing July 8*

Stainless Steel – Nickel Alloys

- Allegheny Technologies announced on June 21, 2010 that it has selected Siemens VAI Metals Technologies to design, engineer and supply the hot-rolling mill for ATI Allegheny Ludlum's Brackenridge, PA new specialty metals hot rolling and processing facility. As was previously announced this new investment will take approximately four years to complete at an anticipated \$1.16 billion. Currently Allegheny continues with the site preparation at the facility. This new facility is not expected to be operational until late 2013 or early 2014.
- Allegheny has a planned maintenance shutdown scheduled for late July which will result in a temporary idling of their melt-shop.
- North American Stainless recently re-started melt operations in early July after reducing melt operations for approximately two weeks.

- Stainless Flat Surcharges (price per pound)

	June-10	July-10	Aug-10
304	\$1.2748	\$1.0838	\$.9612
316L	\$1.8330	\$1.5794	\$1.3769
430	\$.3261	\$.3075	\$.2995

- LME Nickel (price per pound)

April-10	May-10	June-10
\$11.81	\$9.98	\$8.79

- Chrome (price per pound)

April-10	May-10	June-10
\$1.34	\$1.35	\$1.32

- The settlement has been reached in the nearly year long strike at Vale's Sudbury nickel operations this month. The operations will need several months to re-start and ramp up production. The settlement brings back approximately 8-10% of worldwide refined nickel production capacity.

- Despite the announcement of the strike settlement nickel prices remained little changed though many analysts remain bearish on nickel prices for the 3rd and 4th quarter.
- Seasonal slowdowns in Europe and the USA combined with Chinese stainless mills cutting production in the 3rd quarter mean nickel prices will likely remain under pressure for the time being.
- Nickel prices may however be finding some support at current price levels as LME stock levels continue to fall.
- It is being reported that more than half of China's low-grade nickel pig producers have shut down recently due to falling nickel prices and lower Chinese stainless production.
- Nickel prices for July MTD are averaging almost 30% less than the peak price reached on April 16th of \$12.51/lb.
- The Chinese government is also embarking on a drive to eliminate small inefficient furnaces which may also be contributing to the fall in nickel pig production.
- Chrome prices have weakened slightly in June and look to fall further in July – off from their most recent peak in May.
- Chrome producers are getting ready to set the 3rd quarter charge chrome benchmark price and few are now talking as optimistically as they were back in May.
- Chrome producers were anticipating a price roll-over from the 2nd quarter benchmark, but with the worldwide stainless production cuts there is less certainty.
- Producers argue that the chrome market is balanced and that on a long-term basis they need prices in excess of \$1.30-\$1.50/lb in order to allow re-investment and expansion.

- Many cite that a decline in the price will lead South African producers to widespread production cuts as they are continuing to struggle with rising production costs.
- Domestic Lead Times:
 - o 200/300 Series 2B 5-6 weeks
 - o 200/300 Series Polished 5-6 weeks
 - o 430 Series 2B 5-8 weeks
 - o 430 Series Polished 5-8 weeks
 - o CMP 5-6 weeks
 - o PMP Plate 3-4 weeks
 - o Discrete Plate 5-6 weeks
- At a recent conference in Moscow, Markus Moll, managing director of Steel & Metals Market Research, predicted that the global stainless steel market will grow following two years of year-over-year declines.
- He predicts that global stainless markets will reach 97% of pre-crisis levels.
- In addition, he forecast the biggest percentage improvements in the Americas and Europe where he predicts demand will increase in 2010 by 12% and 6% respectively after declining in 2009 by 25% over 2008 levels.