

## U.S. Economic News

U.S. retail sales rose in May for the first time in three months and the number of workers filing new claims for jobless benefits last week hit a January low, fostering hope the recession was abating.

The Commerce Department said on Thursday that sales at U.S. retailers rose 0.5 percent last month, lifted by strong gasoline and building material receipts, after falling by 0.2 percent in April.

A separate report from the Labor Department showed the number of U.S. workers filing new claims for unemployment

benefits fell by 24,000 to 601,000 last week, the lowest since the week of January 24.

"The data are less bad. We are on track for growth in the third quarter," said Stephen Gallagher, chief U.S. economist at Societe Generale in New York.

Treasury debt prices rose strongly, pulling benchmark yields back from eight-month highs above 4 percent, while the U.S. dollar fell broadly as the economy's improving prospects eroded some of the currency's safe-haven appeal.

The data were the latest in a series to bolster the argument that the economy's severe recession was close to hitting a bottom, with the sales report raising optimism that consumer spending would probably be flat to only modestly lower in the second quarter.

But with confidence picking up and the pace of job losses showing signs of abating, analysts expect consumers to loosen their purse strings in the second half of the year.

*Source: Reuters 06/11/09*

**Retail sales, drop in jobless claims fuel hope**

- The stock market has rallied since hitting 12-year lows in early March, with the S&P rising 39.7 percent. However, stocks have failed to substantially build on those gains since mid-May, while an expected correction has yet to materialize.
- Rising energy costs are now being viewed in a positive light by investors as a signal of renewed demand. Recent concerns about large debt auctions have been shrugged off, with a big rally in the bond market on Thursday as the Treasury sold \$11 billion of 30-year bonds.

*Source: Reuters 06/11/09*

### **Oil's spike, retail and jobless data lift Wall Street**

- On Wednesday, the Treasury Department said that seven companies receiving government bailout money will be subject to strict oversight on pay for their top executives and other highly paid employees. Treasury also said it wants new laws to empower the U.S. Securities and Exchange

Commission to ensure that shareholders have more say in setting pay.

- "While the financial sector has been at the center of this issue, we believe that compensation practices must be better aligned with long-term value and prudent risk management at all firms," Treasury Counselor Gene Sperling told the House of Representatives Committee on Financial Services.
- Both President Barack Obama and Treasury Secretary Timothy Geithner have said that Wall Street compensation practices encouraged excessive risk-taking, sowing the seeds of the financial crisis that has driven the United States and many other countries around the globe into recession.

*Source: Reuters 06/11/09*

### **Obama administration steps up push to oversee pay**

- Mortgage rates leaped with bond yields in the past week to the highest since November, erasing strides made by a massive government program to help revive U.S. housing.
- In late November, the government announced Federal Reserve programs to buy enormous amounts of mortgage-related debt to reduce loan rates and stabilize the hardest-hit housing market since the Great Depression.
- Average 30-year fixed mortgages jumped 0.30 point to 5.59 percent, the highest since the week ended November 26, Freddie Mac said on Thursday.
- After falling sharply, bond yields soared over the past few weeks on economic reports that were not as weak as expected. The promise of record Treasuries issuance to fund various federal rescue programs has also pressured yields higher.
- Mortgage rates, in response, swung swiftly from record lows back to rates seen prior to the federal interventions.
- Home purchase activity has been fairly stagnant during this period, based on data from the Mortgage Bankers Association.
- But refinancing, which is highly sensitive to rate shifts, has fallen to the lowest levels since November.

Source: Reuters 06/11/09

**Mortgage rates erase Fed's handiwork**

- Fiat SpA closed its acquisition of Chrysler's strongest assets on Wednesday, a key step in the Italian carmaker's ambitious plan to create a global player to ride out the worldwide auto sales downturn.
- The Fiat and Chrysler announced deal revives the 84-year old U.S. automaker that had been down to its last dollars before government intervention in late 2008 and completes an Obama administration-directed fast-track reorganization for Chrysler.
- The White House welcomed the completion of the deal and said the new alliance was "poised to emerge as a competitive, viable automaker."
- The Canadian government said a restructured Chrysler is good for the Canadian auto parts supply chain and for Canadian consumers.
- The completion of the Chrysler sale in roughly the time frame planned has been seen by analysts as a good omen for the prospects of completing a similar process for General Motors Corp, which filed for bankruptcy on June 1.
- The GM sale is expected to take longer due to the size and complexity of the No. 1 U.S. based automaker. GM will be majority owned by the U.S. government when its sale is completed.

Source: Reuters 06/11/09

**Fiat closes Chrysler deal; new management team named**

## METAL SUPPLY NEWS

### Aluminum

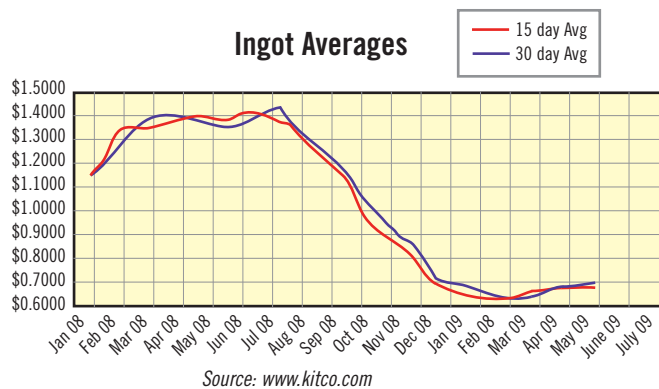
- Aluminum producer Novelis recycled an estimated 39 billion beverage cans in the past year, a new company record. Novelis is the world's leading recycler of used beverage cans. *Source: Platts*
- Novelis' North American organization has established its greenhouse gas reduction goal with the US Environmental Protection Agency's Climate Leaders program, committing the company to voluntary 5% reduction in GHG emissions over five years with 2007 as its baseline. *Source: Platts*
- China has restarted about 1.7 million mt/year of aluminum smelting capacity to date in 2000 following numerous shut-downs and cutbacks in late 2008 due to the global financial crisis. *Source: Platts*

- Comparative Performance of Base Metals ending May 2009 (see chart below)

Cash Price	29 May	30 April	30 May (2008)	% Month on Month	% Year on Year
Nickel	\$13,770	\$11,505	\$22,130	19.7	(37.8)
Lead	\$1,530	\$1,355	\$1,940	12.9	(21.1)
Zinc	\$1,509	\$1,408	\$1,979.50	7.2	(23.8)
Copper	\$4,776	\$4,515	\$8,105	5.8	(41)
Aluminum	\$1,384	\$1,430.50	\$2,883	(3.3)	(52)

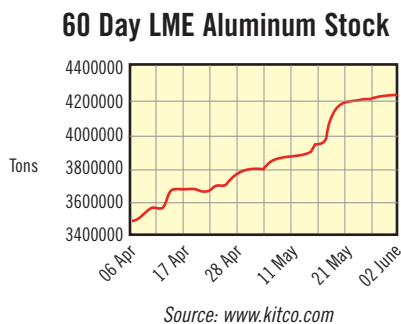
Source: LME

- Midwest monthly ingot averages.



- Common Alloy lead times still remain in the 6 to 8 week range.

- LME inventories continue to grow over the last 60 days (see chart below)



- Extrusions still remain in the 2 to 8 week range depending on press size

## Carbon & Alloy Steel – Plate

- Evraz –Oregon Steel has indicated the possibility that after the first week of June it may idle the mill for two weeks or possibly longer. Plans will become clearer based on order entry levels.
- On May 20th Nucor announced a monthly June surcharge of 2.15cwt. They reported Shredded Auto Scrap to be \$205/ton compared to their baseline of \$162/ton. This represented an increase of 2.15cwt compared to May.
- On May 20th Nucor also announced a \$20/ton plate increase to be effective June 6th 2009.
- Cru May numbers for plate were 27.50cwt. This is down from April's CRU forecast of 30.50cwt.

- MSCI reported carbon plate inventory had grown to 4.3 months of supply. This is up from 3.7 months in March.
- MSCI reported carbon plate monthly shipments to be down 52.8% year over year. March was reported to be down 37.9%
- Buy American- There continues to be confusion as to the actual parameters in the American Recovery and Reinvestment Act. The major issue is whether the steel supplied needs to be melted and produced in the United States or just produced in the United States. Some slab dependent mills plus Canadian suppliers have voiced their concerns. More to come.....

Sources: AMM, SBB, CRU, MSCI and PM.

## Carbon Steel – Flat

- Thyssen Krupp – The American Metal Market has reported Thyssen Krupp might delay construction of their carbon steel mill in Alabama. The original game plan was to have the mill operational for the spring of 2010. The possible delay is based on global market conditions
- AK, along with many other flat rolled mills, continues to reduce capacity. Ak is looking at idling their Ashland Kentucky mill which was heavily driven by automotive.
- USS is planning to idle their Fairfield Alabama mill. If the mill is idled USS will be running just their Gary and Mon

Valley operations. Earlier this month, USS re-started their number 14 furnace, which had been down as a result of a “burn-through” which left a 3 foot hole on the furnace.

- Severstalna did make it official that they plan to idle indefinitely their Wheeling (old Wheeling Pitt) plant. At this point they are currently running three facilities; Sparrows Point Md., Dearborn Michigan and Columbus Mississippi.
- Arcelor-Mittal has idled all operations at their Cleveland facility. The Cleveland facility has an annual capacity of five million tons. The Cleveland facility produced hot rolled, cold rolled and coated products.

- Nucor has purchased 890 acres in Louisiana for a proposed iron and steel making plant. The game plan would be to start up making pig iron and in a latter stage add a steel plant.
- SBB reported in late April that AK was looking at the assets of Severstalna's Warren facility (formerly Warren Consolidate Inc.)
- On June 1st Ak formally announced a July increase on all carbon flat rolled products of \$20/ton.
- As expected most mills formally or informally followed.
- On June 3rd Nucor formally announced a July increase on all carbon flat rolled products of \$30/ton.
- Severstalna announced plans to increase all carbon flat rolled products, in July, by 6%. The reasoning was increased raw material costs.
- Overall the price increases are being justified based on raw material costs and increased mill bookings which is most likely a result of depleted inventories.
- June 3rd Midwest CRU "shadow" was 18.50cwt for hot rolled and 22.25cwt for cold rolled.
- June Midwest CRU was reported to be 18.65cwt for hot rolled, 22.60cwt for cold rolled and 24.60cwt for .060-G90 Galvanized.
- As of June 9th- lead-times were extending and were out to mid July.
- MSCI reported April carbon flat rolled inventories to be 2.5 month's of supply. March was reported to be 2.8 months of supply.
- MSCI reported April carbon flat rolled monthly shipments to be down 45.9% year over year. March was reported to be down 38.9%.
- Estimated mill carbon flat rolled capacities are about 40%. The expectation is even with extending lead-times the mills will not immediately bring back capacities.
- On June 2nd General Motors Corporation filed for Chapter 11 bankruptcy protection with the United States. They have indicated the intent to emerge in 60 to 90 days as a leaner

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Sources:- SBB, AMM, MSCI, CRU and PM

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## Carbon Tubing

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- On June 11th a \$30 dollar a ton increase was announced on HSS by the major mills. The increase stopped \$40.50 in accumulated decreases since June 30, 2008. The increase announcement followed price increases by the major flat roll carbon steel mills.
- Mechanical tubing, structural tubing and structural pipe have been impacted by these cost changes over the past twelve months.
- Inventories remain in satisfactory supply, although recently the availability of smaller diameter mechanical tubing has tightened up.
- Lead times remain short with most items available from the mills either from their finished inventories to 4 weeks if the tubing needed to be manufactured.
- Expect continued ample supply and stable to slightly raising prices.
- Drawn Over Mandrel tubing (DOM) was also impacted by the decrease in flat roll steel pricing, although to a lesser extent than HSS. Price decreases of approximately 25% have been instituted by the manufacturers during the past six months. Anticipate a period of stable pricing until demand of the product allows the mills to increase their production over 50% of their capacity.
- Reflective of the industry wide decrease in demand and lower scrap and alloy scrap surcharges seamless tubing and bar producer Timken announced a first quarter loss. Like most of the manufacturers in the industry the company had already begun to reduce their operating expenses and capital expenditures. *Source: Steel Business Briefing April 28, 2009*

- As a result of an overall decrease in demand and a tighter credit market there has been an increase in litigation as users and suppliers have sued each other delivery and payment issues of steel products.

*Source: Steel Business Briefing June 8, 2009 and American Metal Market May 15, 2009*

- The requirement of totally American manufactured steel products as part of the economic stimulus program is causing historical supply chains to be altered. Earlier this year DOM and ERW carbon tube manufacturer Wheatland Tube severed its relationship with Duferco Farrell of Farrell, Pennsylvania. Although the flat roll steel previously supplied by the company in coils was manufactured in the United States, the steel slabs used to produce the coils was

manufactured outside of America. A similar situation has also impacted California Steel Industries because they utilized foreign slabs to manufacture their carbon tubing in California.

*Source: American Metal Market May 19, 2009*

Indicative of the dramatic change in product costs due to decreased demand and increased supply, Oil Country Tubular Goods (OCTG) pricing which reached a peak in September 2008 has dropped over 40% in the last eight months. Further discounting is possible until the demand for the product increases and supply becomes tighter.

*Source: American Metal Market May 29, 2009*

## MBQ and SBQ Bar

- SBQ bar manufacturer Gerdau Macsteel previously announced in January that due to weak demand for their bars the workers at their Jackson, Michigan mill would be laid off until market conditions improved. In June they announced they would winterize the mill realistically delaying any production until 2010. *Source: Steel Business Briefing June 5 2009*
- Additional bad news was received by employees at three other Gerdau mills. The company announced the idling of their Sayreville and closure of their Perth Amboy locations, both in New Jersey. They have opened discussions concerning the possible closure of their mill in Sand Springs, Oklahoma.
- Financial results for Gerdau Ameristeel's first quarter explain the reason they decided to close or idle four mills. After earning over 160 million dollars the first quarter of 2008 the company announced it lost over 30 million dollars the first quarter of 2009.

- Not all news from the industry was depressing; through the end of May the industry completed five straight weeks of increased domestic steel production. Although the industry utilization rate was still below 50% of capacity, the trend is a bright spot in an otherwise dark year.
- Scrap surcharges rebounded from May's level. Nucor announced their June scrap surcharge for SBQ products would be \$2.25 CWT for HR and \$2.50 for CF. Neither of these groups had a scrap surcharge during May. The MBQ surcharge (May also had no surcharge) for June was announced as \$2.15 cwt which was a net increase of \$2.15 cwt. Additionally Nucor reduced their base price by \$1.15 cwt for the month resulting in a \$1.00 cwt transactional decrease.
- Supply of bar products is still ample and demand is still soft. Anticipate stable pricing the next few months.

## Stainless Steel – Nickel Alloys

- Stainless Flat Surcharges (price per pound) 2009

	May	June	July
304	\$.3370	\$.3766	\$.4695
316L	\$.5145	\$.5623	\$.7051
430	\$.1001	\$.0749	\$.1057

- LME Nickel (price per pound)

March	April	May
\$4.40	\$5.07	\$5.73

- Chrome (price per pound)

March	April	May
\$.7475	\$.7020	\$.7388.

- Nickel prices have moved up off of their recent lows, however despite the improvement in price tags idled nickel mines worldwide are not expected to restart in the near future. In fact, it is quite possible there may be further closures due to

the low levels of demand from the stainless steel sector. Most producers are waiting to see if higher prices can be sustained before re-starting idled capacity. Some industry observers are still forecasting a full year nickel price below \$5.00/lb, meaning with current prices above that threshold they will have to move down later on. The nickel market currently stands in a substantial overcapacity mode and has large surpluses with LME stocks at 14 year highs in late May at over 100,000 Metric Tons. With few signs of substantial recovery yet on the horizon many feel the recent rebound in nickel prices is really the result of speculation and brought about by price increase seen in oil and other commodities and other metals. Observers believe that nickel prices would have to recover to around \$7-8.00/ lb before any widespread capacity restarts would or could occur, and at this point in the cycle that could take several years. Another potential inhibitor for rising nickel prices is the Chinese nickel pig variable. It is believed that nearly 40% of Chinese nickel pig producers have or may be about to restart operations. A revival in nickel pig production is a problem for nickel prices, especially since end user demand is still extremely soft. Chinese stainless production has seen a very strong rebound- reportedly the Chinese producers are operating at over 90% of capacity, however many believe that this is out of proportion given the limited revival in demand for stainless steel. Some of this increase in Chinese production rates is no doubt helping to fuel the recent rally in nickel prices. However it has also helped fuel the restart in nickel pigs which will act as a cap on just how far the rally will go.

- Spot prices for Ferro-chrome prices also appear to have bottomed out as well. Chrome, which like nickel, finds most of its market demand coming from the Stainless Steel market has seen prices stabilize recently and start to edge up. The pace of further increases will be challenged by the likelihood of capacity restarts. With much of the worlds furnace's idle it can be assumed that a more general world-wide economic recovery will be needed before the price of chrome can rise substantially. Recent increases owe more to a weakening US Dollar, rising production costs and some increased activity in China.

- One thing is fairly certain- it appears as if prices for stainless steel have probably bottomed out here and in the rest of the world in the 1st quarter of 2009. How quickly prices rebound from their recent lows remain to be seen. However mills have idled vast amounts of capacity and are still operating at below 50% utilization rates here and in Europe. Given these low operating levels, and the associated higher unit costs that come with them, US mills have announced a series of further increases on Cold Rolled sheet and Continuous mill plate (CMP) products in early June 2009. These announced increase are only on mill stocks, and orders entered from production lead-time so far are unaffected. With customers playing it very close to the vest on inventory, mills have seen keen interest in their floor stocks. As a result the mills have announced further increases on Cold Rolled material purchased from stock which range in the 5-7% area, while increasing the price of Hot Rolled products any where from \$.06 to \$.10 cents per pound depending on the grade. These increases are similar to ones made by US producers starting in late March.
- Stainless bar prices have not been immune either with US producers North American Stainless in Ghent Ky, as well as Outokumpu in Richburg SC announcing increases effective with July production orders of 7% on all 300 series round bar.
- Domestic Lead-Times:
  - o Cold Rolled: 4-5 weeks
  - o Polished: 4-5 weeks
  - o Plate: 2-3 weeks