

U.S. Economic News

The Obama administration offered General Motors and Chrysler LLC a huge carrot - the possibility of billions of dollars more in loans if they can win additional concessions from creditors and unions.

It also gave GM and Chrysler a break by not recalling the \$13.4 billion already loaned to GM (GM, Fortune 500) and the \$4 billion already loaned to Chrysler.

But it also unveiled a large stick - the threat of putting the two companies into bankruptcy, and possibly even forcing Chrysler out of business, if they do not reach deals that the government

insists are needed to make the two companies viable for the long-term.

Jessica Caldwell, an industry analyst at Edmunds.com, said the fact the government didn't pull the previous loan suggests just how much the administration is committed to keeping at least GM, if not both companies, out of bankruptcy.

But the administration insisted Monday that it may force a bankruptcy to bring about the restructuring it thinks is necessary, including the shedding of debt and further closings of plants and dealerships.

Even some who think GM and Chrysler should get more government help said the threat of bankruptcy may well be what is needed to convince bondholders and the United Auto Workers union to make more concessions.

Investors own \$27 billion in unsecured bonds at GM. And there are more than \$6 billion in loans to Chrysler backed by that company's assets.

So far, creditors have been unwilling to accept the proposed swap of equity in GM and Chrysler for their debt, even though the bonds are trading at only pennies on the dollar.

- Oil fell below \$49 a barrel after the U.S. government rejected restructuring plans from embattled automakers GM and Chrysler.

Crude prices fell \$3.97, or almost 7.6%, to settle at \$48.41 a barrel.

With supply at a 16-year high and demand continuing to shrink amid rising unemployment, there was no fundamental reason for prices to go from \$35 in February to above \$54 last Thursday, according to Cordier.

In other market news, the greenback rose against the euro and the pound, which put severe pressure on oil prices, Cordier said. Crude is sold in dollars across the world.

Gasoline: The national average price for a gallon of regular

unleaded gasoline increased to \$2.048, up 3 tenths of a cent from the previous day, according to motorist group AAA. That's the thirteenth consecutive increase.

- There's a growing sense among some bankers that Troubled Asset Relief Program known as "TARP" has become toxic. As a result, they want to bail out of the bank bailout program.

"It should be called 'TRAP,' not TARP," said Brian Garrett, chief executive of Bank of the Bay in San Francisco, who is trying to return bailout funding. "Giving it back is harder than getting it."

Garrett and other bank executives complain the Treasury's program to stabilize banks during these turbulent times is actually weighing down their potential for growth.

They're especially concerned the limits on executive compensation - imposed in February, four months after Treasury starting sending out checks - could make it difficult to hold on to star talent who may jump to financial institutions that are not receiving any Government assistance.

That concern is now magnified after the public whipping insurance giant AIG received for granting executive bonuses. No one wants to be the next AIG (AIG, Fortune 500).

Goldman Sachs (GS, Fortune 500), Bank of New York/Mellon (BK, Fortune 500), Wells Fargo (WFC, Fortune 500), JP Morgan Chase (JPM, Fortune 500) and Bank of America (BAC, Fortune 500) - all 'mega-banks' that the government forced to take bailout money - say they want to return taxpayer funds "as soon as practical."

But, they're well aware no one will be permitted to return funds before completion of regulatory "stress-tests" of the major banks to determine how they would withstand a severe recession.

"We want to return the TARP money as soon as possible. We feel more bullish about economic prospects broadly, but we recognize we can't repay the money without the approval of the regulators," said Goldman Sachs spokesman Lucas Van Praag.

The main purpose of TARP is to stabilize the banking system, to prevent a run on any bank that appears to be in trouble. It has done that much.

If Treasury starts taking money back from healthy banks while the economy is still in trouble the weaker banks may appear to be even weaker and the confidence that TARP brought may suddenly disappear.

- The unemployment rate jumped last month in 49 states, with Michigan leading the way, the U.S. government reported on Friday. Nebraska was the only state to escape rising joblessness.

The near-collapse of the auto industry pushed Michigan's unemployment rate up to 12% in February, seasonally adjusted, according to the U.S. Department of Labor.

Sky-high unemployment rates were also reported in South Carolina (11%), Oregon (10.8%), North Carolina (10.7%), California and Rhode Island (10.5% each), and Nevada (10.1%).

The most drastic month-to-month increases in the unemployment rate were reported in North Carolina and Oregon, which each saw an increase of 1%. New Jersey also saw a dramatic surge, climbing 0.9% in February.

John Lonski, chief economist for Moody's Investors Service, said that many of these states - including Michigan, Rhode Island and the Carolinas - are struggling because they are heavily reliant on the sluggish manufacturing industry.

In California and Nevada, he says, jobs are disappearing because the construction industries were hit hard by the housing crisis.

John Cooke, economist for the Oregon Employment Department, said the job market in his state is hit hard by its reliance on the manufacture of durable goods for the housing industry. He said that Oregon is a major producer of construction lumber, such as two-by-fours and window frames, but California, its biggest customer, is staggering from its battered real estate market.

Nebraska was one of the few states with good news in this winter of discontent, with its jobless rate notching down to 4.2% in February from 4.3% in January.

Wyoming, which is rich in resources like oil and gas, has the distinction of possessing the nation's lowest unemployment rate in February: 3.9%. But the rate still rose month-to-month, by 1.1%, as a result of layoffs stemming from the downturn in oil prices.

Regionally, unemployment hit the West the hardest, at 9.2%, the government said. The Northeast was the least affected region, at 7.7%.

Nationwide the unemployment rate rose to the 25-year high of 8.1% in February, from 7.6% the prior month. This is a dramatic change from February 2008, when the unemployment rate was 4.8%.

A dramatic increase in the unemployment rate was seen in New York City, which outpaced the increases seen by any of the states. The city's unemployment rate surged to 8.1% in February from 6.9% in January, according to state figures released Friday. This is the city's highest unemployment rate since October 2003.

Aluminum

- The Australian government said it would take its time before deciding on China's planned \$19.5 billion investment in Rio Tinto. Chinalco agreed last month to pay \$12.3 billion for stakes in Rio Tinto's key iron ore, copper and aluminum assets and \$7.2 billion for convertible notes that could boost its equity interest in Rio to 18%. The deal needs Australian foreign investment approval
- Century Aluminum of Kentucky, a subsidiary of Century Aluminum, said in early March it will curtail one potline at its 249,000 tpy Hawesville, Kentucky smelter. The Hawesville plant has a total of five potlines and the curtailment will be completed over the next several days, affecting 120 employees.
- Alcoa has announced plans to improve its cost structure and liquidity to help reduce its costs by over \$2.4 billion annually. The company intends to reduce its capital expenditure \$1.0 billion in 2010 and improve its working capital by \$800 million in 2009. Alcoa will also reduce its quarterly common stock dividend from \$0.17 to \$0.03 per share, which will save over \$400 million annually.
- Norsk Hydro affiliate Alumina Partners of Jamaica (Alpart) plans to shut production for a year due to the fall in global aluminum markets and drop in demand for alumina, the Norwegian group said. The Jamaica plant, which will be shut down from May 15, is owned 65% by UC Rusal and 35% by Hydro, and has a production capacity of around 1.65 million tonnes of alumina per year.
- Vedanta Resources' plans to boost its primary aluminum capacity at the 500,000tpy Jharsuguda smelter to 1.75million tpy may be delayed due to difficulties in getting pollution control clearances. The proposed expansion is in Jharsuguda/Sambalpur region in Orissa state, which is suffering immense air pollution.
- Century Aluminum said it will suspend new investments plans, including a "preliminary" proposal to build a smelter in Tanzania that would have required around \$3.5 billion investment. Additionally, it has been reported that Sonatrach, the Algerian energy state owned company, has shelved, for the moment, the proposed 600,000tpy aluminum smelter that would have been located in Beni Saf.
- Kaiser Aluminum Corp. posted a \$108.3 million net loss in the forth quarter in contrast to net income of \$24.4 million in the same period a year earlier due to reduced production levels and one-time charges totaling \$192 million.
- Noranda Aluminum posted a net loss of \$72.3 million on revenues of \$261.5 million in the fourth quarter, versus income of \$1.5 million in Q4 2007 on revenues of \$299.2 million in fourth-quarter 2007.
- World daily primary aluminum output averaged 67,900 mt/day in January, down from a production level of 68,700 mt/day in December and from 70,200 mt/day in January 2008, according to figures released by the International Aluminum Institute.
- 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

- Nucor has schedule a "spring" Hertford Plate Mill outage. The outage is scheduled from 3/26 to 4/11. They are also still moving forward with the heat treat project estimated for the end of the first quarter 2010.
- SSAB is moving ahead with their planned month long idling of their Mobile Alabama mill. The mill will go down for maintenance from the second week of March until the second week of April.
- Carbon and Alloy Plate are a now in the same situation as Carbon flat rolled- Mills have very soft order books, lead-times are short and prices continue to decline
- SSAB- March surcharge – RMS#1= 1.61cwt- while March RMS#2 = 0
- Nucor March Plate Surcharge is \$48/ton or 2.40cwt. February surcharge was 3.90cwt.

- MSCI reported, for carbon plate, January unadjusted inventory days of supply to be 4.0. December the adjusted plate inventory was 4.2 days of supply.
- CRU reported February plate to be \$832/tonne or approximately 37.75cwt. January was \$893/tonne or approximately 40.50cwt.
- Stimulus package update- It is not for certain how much steel will be needed for projects funded by the federal

Stimulus Package. Some industry sources estimate it is between 3 million to 4.4 million tons while others believe it will be triple that amount.

- John Deere Co. expects net sales to decline by 9 percent in its fiscal second quarter ending April 30 and 8 percent for the full year. They anticipate that production will be down 17 percent in the quarter and 12 percent in the full year compared with a year earlier.

Carbon Steel – Flat

- USS announced plans to further consolidate production by temporarily idling the finishing and coking operations at the Hamilton Works in Hamilton Ontario and the steelmaking and finishing operations at the Lake Erie Works near Nanticoke Ontario. They plan to concentrate production at the Mon Valley Works, Gary Works and Fairfield Works.
- Severstalna will temporarily idle the hot dipped galvanizing line at its Warren Ohio operation (formerly WCI). The announcement came a day after it was reported that a planned restart of the blast furnace at Warren would be delayed until at least June 1.
- Severstalna will most likely announce plans to idle their Electric Arc Furnace in Wheeling. It is expected that the mill will stop melting after March 26th and the outage will last about two months.
- Mittal USA is considering selling two of their recently shuttered facilities. Hennepin Illinois and Lackawanna New York. The USW has said it has been in contact with 3 parties expressing interest in the Hennepin facility.
- Mittal USA announced the temporary shutdown of its Cleveland facility in May. Mittal will cease operations until market conditions improve.
- Ak Steel plans to idle its Middletown, Ohio blast furnace this month. The furnace is expected to be idled for 45 days. The company is also re-calling workers to the Ashland Kentucky plant in order to prepare that blast furnace for re-starting.
- Overall –estimated major mill rates of capacity
 - USS = 37%
 - Mittal = 41%
 - Nucor = 53%
 - Severstalna = 53%
 - AK Steel = 35%

- CSI plans to start up its new reheat furnace in the third quarter. The mill is emphasizing its impact on efficiency and its back-up role rather than any potential to significantly boost capacity.
- Carbon Flat Rolled mill pricing continues to be weak as mills have very soft order books. Lead-times for hot rolled are 2 - 3 weeks and 4-5 weeks for cold rolled and coated.
- March CRU was reported as follows:
 - Hot rolled 24.35cwt down from 25.50cwt
 - Cold Rolled 28.15cwt down from 30.00cwt
 - Coated 30.15cwt down from 32.50cwt (includes .060 G90 coating)
- Nucor April surcharge is 1.25cwt. Down from 2.50cwt in March.
- MSCI reported, for carbon flat rolled that inventories came down to an unadjusted number of 3.0 months of supply. In December the inventory unadjusted number was 3.6
- Chinese buyers have been buying from various U.S. scrap suppliers. The demand has been attributed to a stronger market for finished products in China. The Chinese have taken the partial place of previous Turkish buyers who have been completely out of the market.
- Overall, in the near future scrap prices are expected to remain under pressure and decline again in March. The major reasoning is the present mill conditions. Less production equals less scrap demand.
- Steel imports into the U.S. were up 13.4% in January 2009 compared to December 2008. Despite the monthly gain steel imports were down 12.2% compared to January 2008.

- Total Steel Import license applications for February 2009 were down 29% compared to January 2009 and down 34.6 percent as compared to February 2008.
- Automotive sales in February continued to be weak. GM reported sales to be down 52.9 percent compared to the same month last year. Ford reported sales to be down 50.1 percent while Chrysler reported a drop of 44%, Toyota a

drop of 39.8 percent, Honda a drop of 38 percent and Nissan a drop of 37.1 percent.

- General Motors and Chrysler in their recovery plans are planning to do a combination of continued layoffs, plant shutdowns, slice brand availability and overall reduce capacity

Carbon Tubing

- Structural tubing (HSS) prices were reduced \$2.00 cwt in March led by decreasing carbon flat rolled pricing. Additional decreases are anticipated before flatroll steel prices stabilize. Since July 30, 2008 HSS prices have fallen \$37.50 cwt.
- Reacting to a continuing decline in demand for steel products Timken Co. in Canton, Ohio announced it would lay off 400 salaried employees by the end of the third quarter.
- Prolamsa USA began production of mechanical tubing (.500" to 2.500" diameter) at their Laredo, Texas location. Delivery delays from their Mexico mill necessitated the investment to insure delivery reliability.
- The lawsuit filed against Russian steelmaker NLMK was settled with DBO Holdings over the cancelled 3.53 billion dollar

acquisition of John Maneely Corp. Under the agreement DBO Holdings will receive \$234 million. John Maneely Corp. includes both Atlas Tube and Wheatland Tube (nee Sharon Tube)

- Citing worldwide economic slowdown for its products, V&M Star LP of Youngstown, Ohio has put on hold the decision to spend \$1 billion on expansion in the Youngstown area. McJunkin Red Man Holding, a national pipe, valve and fitting distributor also announced it would abandon plans for an IPO due to weak market conditions.
- Tube and pipe imports for February were down in all five of the major measured categories. As compared to January, OCTG tons were down 47%, Line Pipe down 50%, Standard Pipe down 59%, Mechanical Tube down 42% and Structural Tube down 16%.

MBQ and SBQ Bar

Led by Nucor Corp. merchant bar quality product (MBQ) pricing was reduced by \$100 per ton due to slumping demand and pressure from imports. Scrap surcharges were also reduced by \$1.25 cwt, but base prices were increased by the same \$1.25 cwt resulting in no net transactional change due to the reduced scrap surcharge.

Special bar quality (SBQ) pricing, both CF and HR, was reduced by \$1.25 cwt for April transactions as a result of declining scrap surcharges. Scrap surcharges have declined monthly since January for MBQ and SBQ products. The May surcharges that will be announced shortly are expected to drop again. There is still a question concerning the impact on transactional pricing; the mills have frequently negated a drop in scrap with a base price increase.

Impacted by low capacity utilization Nucor Corp announced an estimated first quarter loss of between \$.55/.65 per diluted share.

November was the last month that U.S. mills exceeded 50% of their manufacturing capacity. Ending March their utilization rate was slightly over 40%, with little optimism that the rate would increase significantly in the near future. Whereas some required items may have a very quick lead-time, other items may have extended deliveries due to skipped rolling cycles.

Stainless Steel – Nickel Alloys

- Allegheny Ludlum is due to start work in April 2009 on its planned new plant at its Brackenridge Pa works. The facility will include a new stainless hot-strip mill, but will also roll other specialty metals, and is due to be commissioned in 2012. It remains unclear exactly how much capacity will be increased, but the mill should help Allegheny achieve higher efficiencies and lower costs than with its current existing hot mill.
- Outokumpu is set to continue with its plan to raise its USA plate stainless plate mill plate capacity at its New Castle Ind. Facility. The capacity will rise from 50,000 tpy to around 70,000 tpy and is scheduled to be commissioned in 2010.
- ThyssenKrupp AG has announced sweeping management changes and plans to reorganize its five business units into two materials and technologies divisions. The steel, stainless and services businesses will be combined into a single materials division headed by Edwin Eicher CEO of ThyssenKrupp Services AG. Eicher will take control of the group's stainless division from Jurgen Fechter, current chief executive officer. The moves come as ThyssenKrupp issued a gloomy forecast, stating that severe capacity under-utilization and price pressure, as well as anticipated further write-downs on inventories, would likely see the company record a loss in its fiscal second quarter ending March 31. Thyssen is currently constructing a carbon and stainless flat roll mill in Calvert Alabama, and recently announced a delay in the start-up of the stainless operations from 2010 until 2011 due to poor market conditions.

- Stainless Flat Surcharges (price per pound)-2009

	February	March	April
304	\$.4116	\$.4378	\$.3841
316L	\$.6102	\$.6525	\$.5778
430	\$.1697	\$.1315	\$.1157

- LME Nickel (price per pound)

December-08	January-09	February-09
\$4.39	\$5.129	\$ 4.72

- Chrome (price per pound)

December-08	January-09	February-09
\$ 1.03	\$.8125	\$.800

- Macquarie Research recently presented a dismal outlook for demand for stainless raw materials such as nickel and ferrochrome. Their forecast says that quarterly global stainless output will only turn positive year-on-year in the fourth quarter of 2009. As a result they maintain that nickel prices are likely to remain depressed this year at an average of \$4.50/lb and only rise marginally to an average of \$5.00/lb

in 2010. Nickel is in significant oversupply after global stainless output last October thru December. Nickel producers have announced total output cuts of almost 300,000 tons-equivalent to 20% of total world supply- with more cuts possible if second half demand does not recover as expected. Its forecast goes on to say that a considerable overhang of nickel projects in 2009-2012 threatens to keep the market in semi-permanent oversupply.

- Smancor Chrome Ltd., the worlds second-biggest ferrochrome producer, may resume some output of the raw material by July after an improvement in demand from Chinese stainless steel makers. According to the company the first half of 2009 may see "limited" production, which suspended all output last year. The South African based company may restart as many as 3 of its 16 furnaces. Ferrochrome makers have suspended more than two-thirds of capacity as the global economic slowdown erodes demand for stainless steel. First quarter 2009 ferrochrome contract prices plunged 57% from the preceding three months.
- Domestic Lead-Times:
 - o Cold Rolled: 4-5 weeks
 - o Polished: 4-5 weeks
 - o Plate: 2-3 weeks
- World stainless steel production dropped again in 2008, and industry analysts are predicting much of the same for this year. The world economic crisis drove stainless production down to 25.9 million metric tons last year, a 6.9% decline from 2007, according to the International Stainless Steel Foundation. Beyond the normal seasonal factors of the stainless steel industry, 2007 as well as 2008, turned out to have the same pattern: excellent first half, extremely depressed second half. The external raw materials price volatility and the overall worldwide economic situation added to the turmoil. The North American market logged the largest year-on-year decline in stainless crude steel melting, falling 11.1% to 2.3 million metric tons in 2008. The United States represents only about 7-9% of world stainless steel production. Macquarie Research has forecast that worldwide stainless steel production will fall again in 2009, the third successive annual decline in a sector that had got so conditioned to growth. They forecast output will slump to 23.4 million metric tons in 2009. But the projection does see production picking up through 2009. After a very weak Q1, which annualized would result in a global output of less than 20 million metric tons, production is forecast to improve each quarter so that by Q4 2009 there is positive year-on-year growth.