

## U.S. Economic News

The unemployment rate spiked to its highest level since 1983, much worse than expected as employers continue to trim jobs despite other signs of growth.

The nation's unemployment rate rose above 10% for the first time since 1983 in October, a much worse jump than expected as employers continued to trim jobs from payrolls.

The reading, reported by the government Friday, is a sign of the continued weakness in the

labor market even though the economy grew in the third quarter following the longest and deepest downturn since the Great Depression.

The jump in the unemployment rate was driven up by a large drop in the number of people who describe themselves as self-employed, as well as the number of teenagers who have jobs. The unemployment rate for teenagers in the labor force soared to 27.6%, up 1.8 per-

centage points and hitting a third straight record high.

Friday's report comes one day after Congress voted overwhelmingly to extend unemployment benefits by up to 20 weeks. There are now a record 5.6 million people who have been unemployed for six months or longer, as the average time an unemployed person has been out of a job hit 26.9 weeks.

*Source: CNNMoney.com 11/06/09*

**Unemployment hits 10.2%**

- Purchasing managers' index of manufacturing activity shows growth for the third straight month, indicating a 'sustainable recovery.'
- A key index of U.S. manufacturing activity jumped in October, reaching its highest level in three and a-half years, a purchasing managers' group said Monday.
- The Tempe, Ariz.-based Institute for Supply Management's (ISM) manufacturing index rose to a reading of 55.7 in October from 52.6 the month before. It was the highest reading since April 2006 when the index registered 56.
- The monthly report is a national survey of ISM members, who are purchasing managers in the manufacturing field. Index readings above 50 indicate growth, while levels below 50 signal contraction. Readings below 41.2 are associated with a recession in the broader economy.
- Production in the manufacturing sector rose for the fifth month in a row, led by strength in plastics and rubber products, furniture and apparel.

- A government report showed last week that the U.S. economy grew at a 3.5% annual rate in the third quarter, ending a string of declines over four quarters that resulted in the most severe slide since the Great Depression.

*Source: Associated Press 11/02/09*

### **Manufacturing at a 3-1/2 year high**

- Home construction fell sharply in October, an unexpected drop that erased months of gains as uncertainty over renewal of a tax credit for home buyers increased builders' caution.
- Meanwhile, U.S. consumer prices continued to rise at a moderate pace in October, indicating that a slow economic recovery is keeping inflation contained.
- The surprise decline came as an \$8,000 tax credit for first-time buyers approached a Nov. 30 expiration. This month, Congress approved the relief through April, ending months of speculation whether the incentive would be extended.

- The big fall in October starts marks a setback in the housing sector's recovery. New-home sales hit bottom in January but are up 22% since, the latest government data show. Buyers surfaced amid an improving economy and a big government tax incentive. With the sales increase, inventories of unsold homes have gone down, leading some builders to resume construction.

Source: *WSJ.com 11/19/09*

#### Housing Starts Unexpectedly Fall

- The euro advanced on the dollar Wednesday, but failed to reach the \$1.50 mark as investors zeroed in on a Fed official's comment suggesting key interest rates could remain low until 2012.
- Federal Reserve Bank of St. Louis President James Bullard said in a speech in Clayton, Mo. Wednesday the Fed could keep key short-term fed funds rates at near-zero until early 2012. The ultra-low rates weigh on the dollar, as investors use the buck to fund investments in higher-yielding assets.

Source: *Associated Press 11/18/09*

#### Dollar Battered By Fed Official's Rate Comments

- October sales rise 1.4% to \$347.5 billion. Excluding sales of autos, total retail sales edged up only 0.2%.

- Retail sales in October rose more than analysts expected, the government reported Monday.
- The Commerce Department said total retail sales jumped 1.4% last month, compared with September's revised decline of 2.3%. Economists surveyed by Briefing.com had anticipated that October sales would grow 0.9%.
- With Black Friday less than two weeks away, retailers were hoping the report would show consumers signaling a willingness to spend during the all-important holiday sales period.
- Consumer spending accounts for two-thirds of U.S. economic activity, and data are closely watched to determine whether a recovery is underway. With unemployment at a 26-year high of 10.2%, consumers have been cash-strapped for some time.
- But with overall retail sales improving, one analyst said the holiday shopping season may come in stronger than expected.

Source: *CNN Money 11/16/09*

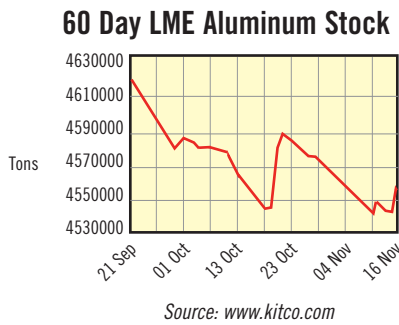
#### Retail sales surge

## METAL SUPPLY NEWS

### Aluminum

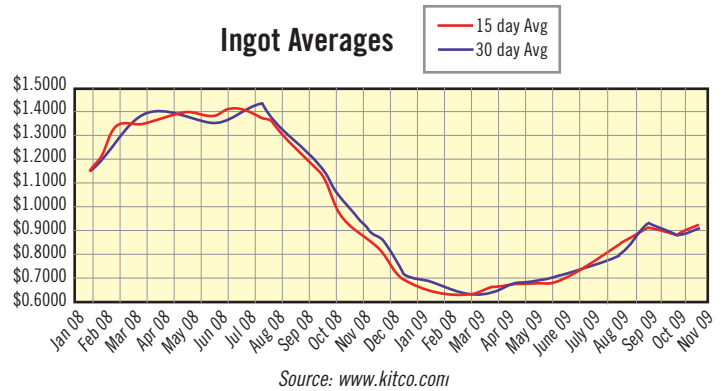
- US primary aluminum production in October fell 37.2% year-on-year, but the monthly output showed a moderate 2.2% increase from September's production. Year-on-year primary aluminum production of 1.746 million mt was down 35.4% from the 2008 annual rate of 2.703 million mt. Actual production from the month of October 2009 totaled 136,560 mt, with the year-to-date total amounting to 1.454 million mt. *Source: Platts*
- Alcoa has approved funding for the complete repair and refurbishment of the 50,000-ton forging press at the company's Cleveland Works. The project will make Cleveland Works "the world's premier producer of large aluminum and titanium forgings for the defense, aerospace and industrial markets." The press project is to be completed by the end of 2011. *Source: Platts*
- Noranda Aluminum Holdings Corp reported net income of \$4.3 million for the third quarter, compared to a \$12.1 million net loss in the second quarter and a \$22.4 million net loss for Q3 2008. *Source: Platts*
- World daily primary aluminum output averaged 63,200 mt/day in September, up from a revised 63,100 mt/day in August but down from 70,300 mt/day in September 2008, according to figures released by the International Aluminum Institute. *Source: Platts*

- LME Aluminum inventories for the past 60 days.



- Mill lead times:
  - o Flat Rolled 14 to 16 week ARO
  - o Extrusion 3 to 8 weeks depending on press size.

- Aluminum ingot averages for the past 22 months.



Source. N. Jackson

## Carbon & Alloy Steel – Plate

- SSAB in early November reported that they are re-organizing along geographic lines next year. There will be three geographic business areas—one for Europe the Middle East and Africa and one for North and Latin America and the other for Asia, Australia and New Zealand. SSAB stated the change will make their offering more clear and will bring together experience and expertise.
- Nucor announced their December surcharge of 3.65cwt. This represents a price of \$235/ton for shredded auto scrap. Last month the surcharge was 4.90cwt.
- Shredded scrap has made the following changes this year (\$/ton):
  - o January 2009 \$232
  - o February 2009 \$240
  - o March 2009 \$210
  - o April 2009 \$185
  - o May 2009 \$170
  - o June 2009 \$205
  - o July 2009 \$205
  - o August 2009 \$265
  - o September 2009 \$268
  - o October 2009 \$290
  - o November 2009 \$260
  - o December 2009 \$235
- CRU reported the October plate number to be 31.50cwt. That is slightly down from 32.00cwt in September. The CRU plate numbers have moved up and down much like carbon flat rolled:
  - o May 27.50cwt
  - o June 27.00cwt
  - o July 28.00cwt

- o August 30.00cwt
- o September 32.00cwt
- o October 31.50cwt

- SSAB reported their Raw material Surcharges.
  - December:
    - o RMS#1 3.18cwt
    - o RMS#2 0
- MSC1 reported October inventory months of supply at 2.8. This is the lowest level this year. The highest month in 2009 was April at 4.3.
- MSC1 also reported as of October carbon plate shipments were down 45.2% year-over-year.
- Lead-times for Plate generally:
  - o As Rolled (i.e. A36) 6 weeks
  - o Heat Treat (i.e. A514) 6-7 weeks
- Buy American Act Update-Canada: An exemption for Canada from “Buy American” regulations on iron and steel products is not a done deal. Apparently a blanket exemption for Canada would violate World Trade Organization rules and likely encourage other countries to press the U.S. trade agency for a similar exemption.
- Caterpillar is projecting some optimism for 2010. They are projecting revenue to be up between 10 and 25 percent from the midpoint of the 2009 outlook range. Their optimism is based on the feeling that it is the end of dealer inventory reductions plus the fast growing Asia and Pacific region.

- The U.S. Construction industry could see an 11% upturn next year. According to McGraw-Hill Cos. Stimulus funds slated for highway construction, public works and residential construction will lead the partial recovery, with public works construction in particular rising about 14%.

Sources: AMM, SBB, CRU, MSCI, Purchasing Magazine and American Wind Energy Association

## Carbon Steel – Flat

- Severstalna is reviewing steel operations and stated they could use their blast furnaces to make pig iron for its electric arc furnaces. Severstalna has blast furnaces at its Dearborn and Sparrows Point facilities while Electric Arc Furnaces at its Columbus, Mississippi and Wheeling facilities.
- Severstalna, as reported by AMM, wants to sell all eight service centers, which it acquired when it purchased the assets of Esmark Inc. Apparently they are preferring a package offer for all eight centers.
- Severstalna: apparently there have been interested parties contemplating the purchase of some of Severstalna's mill facilities. The primary focus seems to be on the former Wheeling Pittsburgh facility and the former Warren Consolidated Inc. (WCI). Severstalna also has facilities at Sparrows Point, Maryland, Columbus Mississippi and Dearborn Michigan.
- CSI (a large slab buyer) does not expect its steel market to regain much demand for some time and will purchase about 800,000 tons of semi-finished steel this year compared to 1.4 million tons in 2008.
- Ahmsa: Mexico has finished maintenance work on a tempering mill at its cold rolling facility in Monclova. Maintenance within the tempering mill will cost about \$460,000.
- US Steel announced plans to idle the Number 14 furnace at its Gary, Indiana Works and one of the two blast furnaces at its Granite City, Illinois Works. US Steel has known for some time that repair work needed to be done to on both furnaces. Market conditions helped reinforce their decision.
- ThyssenKrupp AG is still planning to proceed with construction of its steelmaking and processing plant near Mobile. Regardless of their recent financial losses the mill is still on schedule with production planned to begin in the second quarter 2010.
- Nucor also announced their December 2009 surcharge of \$95/ton or 4.75cwt. November was 7.00cwt.
- Scrap pricing continue to decline. One of the key reasons is the absence of Turkish mills from the U.S. market. Another reason for the slow sales is because the steel mills operate on a calendar-year basis and typically cut their scrap buys and mill inventories to a minimum at year end. Nevertheless as we have reported every month scrap pricing will remain volatile.
- Zinc Coating extras were revised upward by some carbon flat rolled mills. The increase varied by mill. Overall the effect will be more dramatic on lighter gauge material and heavier coated product.
- Overall flat rolled pricing continues to be under pressure on all products. There seems to be mixed pricing strategies as some mills are trying to hold the numbers while others are aggressively pursuing orders by lowering prices.
- CRU reported November Midwest carbon flat rolled numbers:
  - o Hot Rolled 25.95cwt  
down from 28.20cwt in October
  - o Cold Rolled 31.35cwt  
down from 33.55cwt in October
  - o Coated 33.80cwt  
down from 37.00cwt in October
- CRU Coated conversion has changed to cold rolled CRU plus \$49/ton for coating:  $31.35 + 2.45 = 33.80\text{cwt}$ .
- Capacity News: as of the beginning of November the Carbon Flat Rolled mills were running at roughly 64%.
- Mills are reporting that all bookings have slowed. In October cold rolled and coated booking were still strong but in November cold rolled and coated bookings joined hot rolled as being moderate at best. Some mills that are heavily automotive are still delinquent on cold rolled and coated deliveries. Overall lead-times are:
  - o Hot Rolled 5 weeks
  - o Cold Rolled 8 weeks
  - o Coated 10 weeks

- As the carbon flat market changes so does mill capacity. Last reports show that there are 37 blast furnaces of which 24 are currently operating.
- MSCI also reported as of October year-to-date carbon flat rolled shipments are down 38.9% year-over-year. They also reported carbon flat rolled inventories, as of October, were 2.0 months of supply. This is up from September which was 1.9 months of supply.
- Cash for Clunkers program: Studies are being done to judge the success of the program. One report stated “a little more than 690,000 vehicles were exchanged under the program with associated rebates of 2.88 billion.” Many feel this program did help re-start the automobile factories that were idled throughout the summer.
- The Big Three US automakers posted positive sales numbers in October. General Motors saw the biggest year-over-year increase with October sales of 177,603 vehicles. This was up 4% from last October. Ford Motor Company saw a 3% year-over-year increase with 132,483 cars sold in October.
- Housing Start forecasts show a very slow increase starting in 2010, when starts are expected to be 150k-200k units above 2009. Still, 2010 could be the second worst year since 1959 for housing starts. The inventory of unsold homes fell to 3.63million units down from the July 2008 peak of 4.57 million units

Sources: SBB, Auto Beat AMM, MSCI, CRU and PM

## Carbon Tubing

- PTC Alliance Corp. will be up for sale via auction on December 16th. PTC Alliance filed for Chapter 11 protection on October 1st. PTC Alliance and Black Diamond Capital Management LLC entered into an asset purchase agreement. Black Diamond will act as a “stalking horse” bidder for the sale of the company’s assets. The total value of the stalking horse bid is \$112.5 million according to court documents. *Source AMM Nov 10, 2009*
- Wheatland Tube is consolidating operations at one of its two Wheatland, PA plants. The consolidation will take place over the next 4 months and will result in about 40 layoffs. The move will involve the cold-drawn operations for its drawn-over-mandrel product at one of its two Sharon, PA plants into one of its two Wheatland, PA plants. *Source AMM Nov 6, 2009*
- Structural Tubing and ERW tubing pricing is starting to soften as the result of lower carbon flat roll pricing.
- Lead-times remain 3-4 weeks for most structural and mechanical tubing items. DOM lead-times range 4-8 weeks.

## MBQ and SBQ Bar

- Nucor plans to begin commissioning its rod and rebar mill in Kingman, Arizona. Nucor will spend somewhere around \$50 million to refurbish and commission the Arizona facility and will restart the idled mill when market conditions warrant. *Source AMM Oct 26, 2009*
- Macsteel added a 2nd shift at their Jackson, Michigan mill back in October. Macsteel cited increased demand from the automakers the main reason to add production. Macsteel now has 80% of its work force working full time vs. 60% back in June. *Source AMM Oct 26, 2009*
- Timken’s Ohio workers have ratified a new four year labor agreement at several of their Ohio plants. United Steelworkers agreed to the new contract after several weeks of negotiations. *Source AMM Nov 3, 2009*
- Merchant bar pricing is remaining stable for the month of December. The scrap surcharge fell \$1.25cwt for December and the mills increased the base price to stabilize pricing. The scrap surcharge is based on Shredded Auto Scrap.
- Special bar quality (SBQ) decreased for the month of December \$2.25cwt (HR SBQ \$4.75cwt and CF SBQ \$5.00 cwt). The scrap surcharge for SBQ is based on #1 Busheling.
- Nucor announced an increase of \$2.00cwt effective November 9th for 1215 and all leaded products. Nucor announced an additional increase of \$2.00cwt for all products effective January 1st. These increases are due to increase in demand along with inventories at historically low levels. Republic is the only domestic producer of leaded products since Mittal’s Indiana bar mill temporary closure back in February.
- Lead-times have moved out anywhere from 4-12 weeks for SBQ products. MBQ products are generally available with stock and 4 week rolling cycles for most products.

## Stainless Steel – Nickel Alloys

- Production of stainless steel at the Mobile site of ThyssenKrupp is intended to begin in October 2010, initially with a reduced cold rolling capacity of around 100,000 Tonnes/Year. The start-up of the melt shop for stainless steel, which was planned for early 2012, could now be delayed by up to two years. *Source SBB 11/20/09*
- AK Steel announced it had returned to profit in Q3. The Ohio-based company made an operating profit of \$15.3m, 95% lower than Q3 2008 but a considerable improvement on the \$72.5m loss in Q2. Year-to-date loses are currently \$114m. *Source CRU Nov 2009*
- Acerinox announced it had made a net profit of \$29m in Q3 compared to a loss of \$230m in Q2. The company attributed the improvement to cost cutting and a healthier stainless market. The majority of the profit was from Acerinox S.A. in Europe, NAS (North American Stainless) in the USA made \$6m. The company also confirmed it had a loss of \$367m in the nine months to September. *Source CRU Nov 2009*
- Outokumpu registered a loss of \$97.1 m in Q3 which was unchanged year-on-year, while sales slipped 54% from Q3 2008 and 5% from Q2 2009. The company also announced that it has cancelled its investment in increased melting capacity at its Avesta plant in Sweden. The company had planned to increase slab making capacity by 250,000 tonnes next year. *Source CRU Nov 2009*

### Stainless Flat Surcharges ( price per pound)-2009

	<b>October</b>	<b>November</b>	<b>December</b>
304	\$ .8334	\$ .7560	\$ .7859
316L	\$1.3310	\$1.1564	\$1.1440
430	\$ .1653	\$ .1827	\$ .1659

### LME Nickel (price per pound)

<b>August</b>	<b>September</b>	<b>October</b>
\$8.91	\$7.93	\$8.4029

### Chrome (price per pound)

<b>August</b>	<b>September</b>	<b>October</b>
\$ .8775	\$ .9110	\$ .8900

- U.S. Stainless steel producers—North American Stainless, Allegheny Ludlum, and AK Steel—have all announced a price increase effective with shipments beginning in the first week of January 2010 on all 200, 300 and 400 series stainless flat rolled products. These announcements come on the heels of a previous announced increase that

ThyssenKrupp Stainless North America had originally put forward back in September, and which the other producers had not followed until now. The result of these pricing moves will be an increase in base prices of approx 6-9% depending on the grade and whether the product form is cold rolled or HR A/P. This increase will be accomplished by reducing the functional discount by two percentage points, and increasing the base price of HRA/P, and Automotive grades by \$.04/lb.

- To date in 2009 stainless mills have announced the following increases on Cold Rolled Stainless 2B and Polish, and HRAP, CMP and Discrete Plate.
- Effective with Shipments:
  - o May 1, 2009 6-9% depending on grade and product
  - o July 1, 2009 6-9% depending on grade and product
  - o Sept 1, 2009 6-9% depending on grade and product
  - o Jan 1, 2010 6-9% depending on grade and product
- After accounting for the rise in prices announced for January 2010, they will be almost 25% above the March/April lows. While downward pressure has been seen in other external markets, most notably China, in the USA the overall recovery has continued. *Source CRU Nov 2009*
- Nickel inventories in the London Metal Exchange warehouses have reached a new century high of just over 130,000 tonnes, and weak global stainless demand is driving nickel prices downward. Formerly rising due to speculative hedges, nickel prices began to retreat in mid-October. This appears to signal the return of a solid link between stainless demand and nickel prices according to an industry observer. A traditional and seasonally weak 4th quarter will likely keep nickel prices subdued. *Source SBB Nov 12, 2009*
- Prices for ferrochrome appear to be holding firm for the most part going into the final quarter of 2009, and likely will remain steady with only some seasonal dips around the holiday periods according to some traders. Most don't believe prices will slip but slightly. Prices currently are around \$.90/lb for HC Ferrochrome. In August it was forecast that HC might be as high as \$1.00/lb in Q4. *Source SBB Nov 1, 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
  
- A federal incentive designed to stimulate appliance purchases—similar to what “Cash for Clunkers” program did for the automotive industry—is now underway. However stainless steel producers, as well as some industry analysts, are torn on whether the program will provide much

stimulus. The U.S Energy Department in July announced the availability of nearly \$300 million in funding from the American Recovery and Reinvestment Act for state-run rebate programs for consumer purchases of energy efficient appliances. An Energy Department spokesman said that all 50 states filed for participation and are now working to finalize eligibility rules. They expect the official launch by the end of November. This program has been nicknamed “Cash for Crispers” and essentially consumers have to purchase appliances sporting the Energy Star label. Observers note that the plan represents a \$300 million stimulus program in a U.S. industry with \$15-20 billion in annual sales. *Source American Metal Market Oct 30, 2009*