

## Steel Market Outlook

### Steel on the Move Again

As the world economies improve steel prices are heading up, although we don't foresee as dramatically as "the perfect storm" of 2004 or with the commodities bubble of 2008.

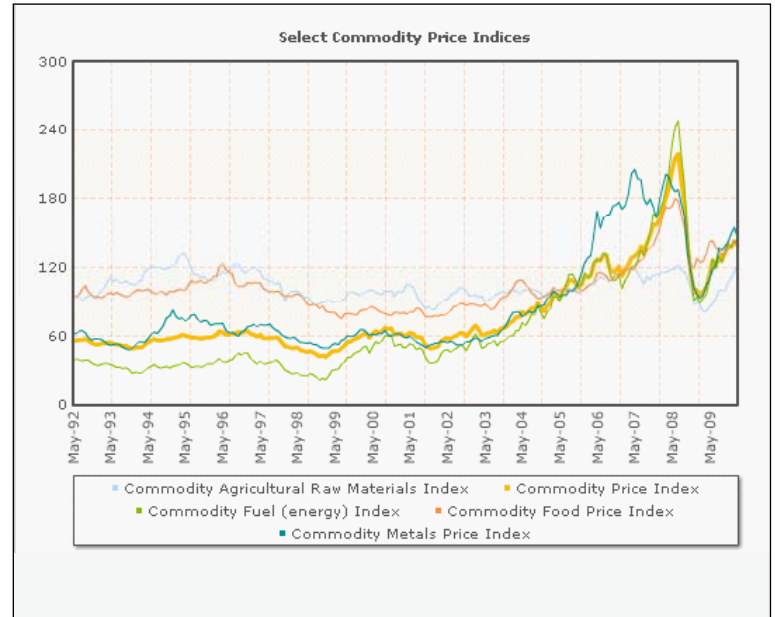
At issue this year is the global tight market for steel scrap, the weak U.S. dollar which makes this scrap more attractive and iron ore which is a key input component for integrated steel producers.

Always keep in mind that steel and the components that go into steel production are global commodities similar to oil. High iron ore prices in Asia will drive up pricing in North America.

### World Economic Outlook

- Making a slow transition from recovery to a self-sustaining economic expansion
  - World GDP to be up 3.9% in 2010 up from -1.1% in 2009
- Advanced economies mainly out of recession
  - Transition has already occurred in South America
  - U.S. lagging - Businesses cautious
  - Canada moves solidly into recovery mode
- Sales worldwide remain soft but improving
- **As global economies improve...so does steel demand**
- **World steel prices typically rise with steel demand**

### Select Commodity Price Indices - U.S.



### Steel Price Drivers

#### Price Impactors

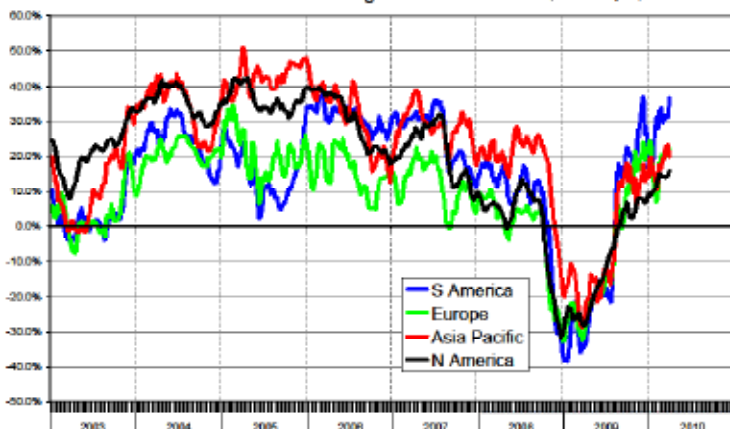
- Raw material input costs
  - ❖ Scrap
  - ❖ Iron ore
- Energy
- Available capacity
- Transportation
- Weak US Dollar
- Global Demand

#### Current Situation

- ❖ UP
- ❖ Up
- Steady
- Capacity available
- Steady
- No significant change expected
- Increasing as world economies recover



Global Business Confidence Regional  
1st Jan 2003 through 26th March 2010 (Source: Econsultancy.com)



Steel price increases in 2010 have been driven primarily by:

- ✓ Raw material cost increases
- ✓ The continued weak US Dollar
- ✓ Global steel demand

## Steel Scrap Usage

### Mini Mills:

- Predominantly use scrap as a raw material to produce material for:
  - Purlins/Girts (Busheling - "new scrap", or prime scrap)
  - Webs of frames (Busheling - "new scrap", or prime scrap)
  - Bar - for flanges of frames (Shredded - "old scrap")
  - Rod, angles - for bracing (Shredded - "old scrap")

### Integrated Mills:

- Use scrap as a component (up to 25%) of their melt in steel production, but significantly more iron ore
  - Same engineered building materials as above, however made using iron ore and a maximum of 25% scrap
  - Galvanized, Galvalume - for roof and wall sheeting, and galvanized purlins/girts

## Steel Scrap Prices on the Rise

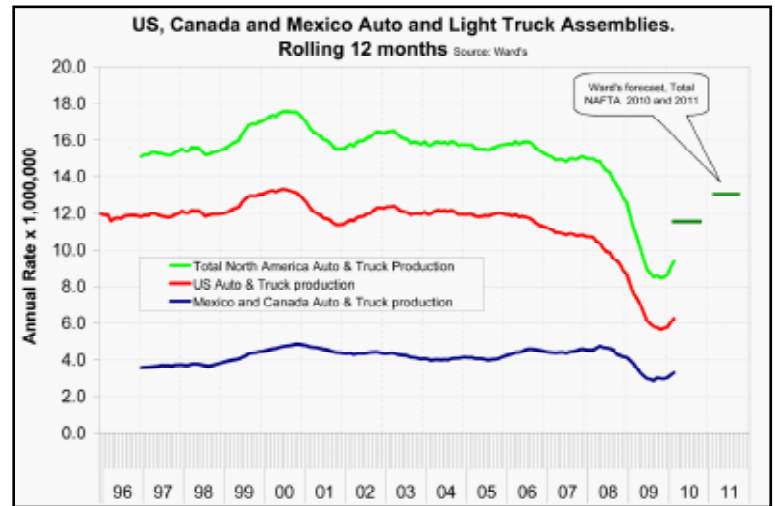
- Steel scrap prices peaked at over \$500/ton in mid-2008
- Then crashed to \$158/ton by March 2009
- No. 1 Heavy Melt Scrap prices in April 2010 have climbed to \$369/ton - up 158% over the same time in 2009
- No. 1 Busheling Scrap - up 202% over the same period

5/12/2010	Cost/Ton			
	April 09	April 10	\$ Increase	% Increase
Shredded Scrap	\$ 171	\$ 397	\$ 226	132%
No. 1 Busheling Scrap	\$ 163	\$ 492	\$ 329	202%
No. 1 Heavy Melt Scrap	\$ 143	\$ 369	\$ 226	158%



## Steel Scrap Increases - Why?

- Due to the U.S. recession, less steel scrap is available
  - U.S. Auto production down
  - Overall U.S. Industrial production down
    - U.S. Manufacturing Capacity Utilization at only 69%
- Weak U.S. \$ (dollar) makes scrap attractive to foreign buyers - driving up U.S. domestic prices
  - \$.75 to the Euro
  - Steel scrap is an international (global) commodity
- Increased global steel demand as world economies recover



## Manufacturing Capacity Utilization

Manufacturing Capacity Utilization is currently at **69.0%** which is more than a 30 year low.

## Manufacturing Capacity Utilization - % Change

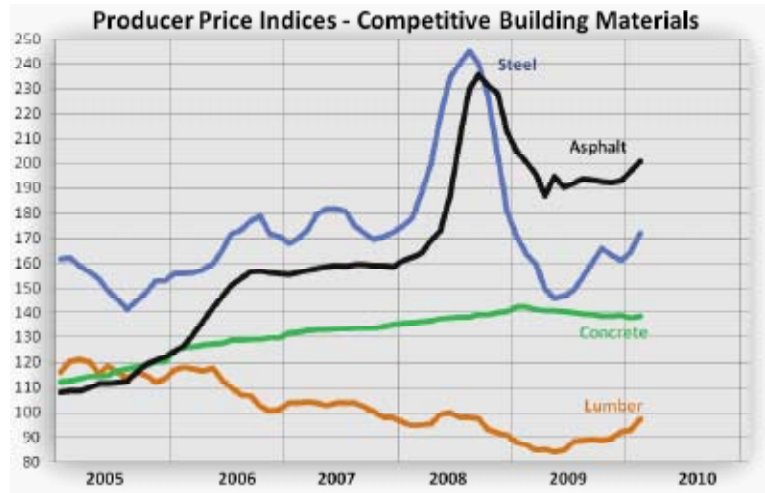


## Iron Ore

- A key input component for integrated steel producers
- **The U.S. is the only steel producing country with self sufficiency in iron ore, coking coal and scrap.**
- The iron ore cartel controls 70% of global sea borne iron ore supply
  - Vale, BHP Billiton & Rio Tinto
    - Vale has a virtual monopoly on the Atlantic basin
    - BHP Billiton & Rio Tinto (Australia) have a virtual monopoly in the Pacific
- In negotiation with Chinese and Japanese mills the cartels have replaced the 40 year practice of annual contracts with **quarterly contracts linked to the iron ore spot market**
- Two Japanese mills have accepted 90% increases
- Chinese domestic steel companies boycotting the cartel
- China is developing its own iron ore supply - but that is in the future
- **Forecasts are for iron ore pricing to rise 40% annually**

## Iron Ore - What does all this Mean?

- There is a close relationship between U.S. steel scrap prices and the spot price of iron ore
- The price of pig iron drives the price of quality scrap
  - No. 1 Busheling Scrap & Shredded Scrap
- High iron ore prices encourage the integrated mills to replace iron ore with scrap
- Which in turn drives up the price of scrap
- Iron ore prices throughout the world are headed higher - possibly to record levels
- Pressure on scrap pricing will continue



## Steel Costs Rising for Buildings

Steel increases for buildings will vary upon the mix of steel types within the structure. Our crystal ball is no better than anyone else's regarding pricing, however, on a more positive note we do not foresee steel shortages as experienced in 2004.

### U.S. Steel Price Increases January - May 2010

Purlin Material	13%
Web Plate	24%
Flange	10%
Galvalume Sheet	18%

