



# MARKETWATCH

## Steel Market Outlook - 2011

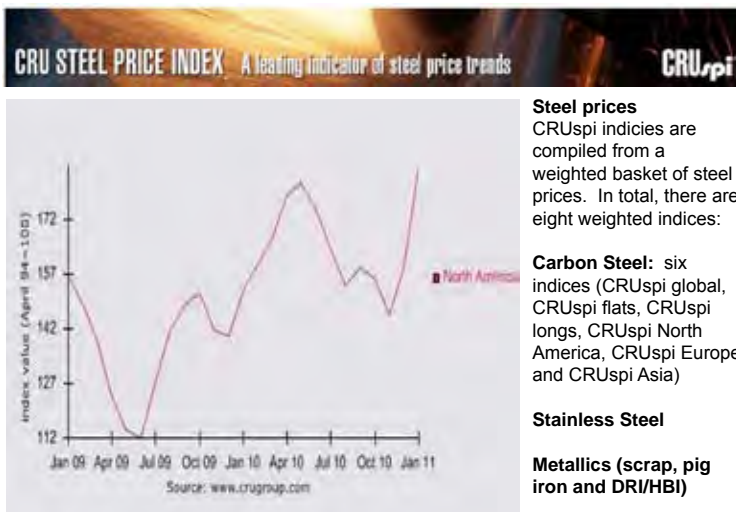
### Scrap Shortage Driving Steel Prices Up

Steel prices are moving relentlessly upwards as steelmakers address their escalating raw material costs. In the U.S. and Canada the pace of flat product price increases is described as “fast and furious”. The shortage of scrap and surging costs of other raw materials have pushed mills to move prices continuously upward.

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. The global shortage in iron ore is driving prices up in Asia will also drive up pricing in North America. Rio Tinto chief executive officer Tom Albanese states “Global iron ore production has been outpaced by rapid growth in China. And despite enormous capital investments in new production capacity, there are still shortfalls in iron ore supply that the industry is trying to close.”

### Rising Steel Prices



As of January 11, 2011

### 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 - March 2011

|                 |     |  |
|-----------------|-----|--|
| Purlin Material | 28% |  |
| Web Plate       | 37% |  |
| Flange          | 20% |  |
| Galvalume Sheet | 22% |  |

### 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

**Steel price increases in 2011 have been driven primarily by:**

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

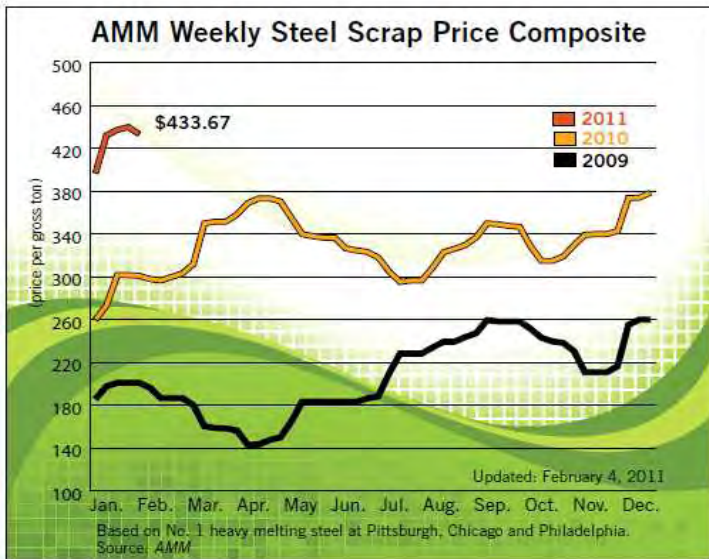
## Steel Scrap Prices on the Rise

- No. 1 Heavy Melt Scrap prices in February 2011 have climbed to \$434/ton - up 44% over the same time in 2010
- No. 1 Busheling Scrap - up 25% over the same period

## Steel Scrap Costs on the Rise

2/7/2011

|                        | Cost/Ton |         |             |            |
|------------------------|----------|---------|-------------|------------|
|                        | Feb. 10  | Feb. 11 | \$ Increase | % Increase |
| Shredded Scrap         | \$ 343   | \$ 468  | \$ 125      | 36%        |
| No. 1 Busheling Scrap  | \$ 395   | \$ 493  | \$ 98       | 25%        |
| No. 1 Heavy Melt Scrap | \$ 301   | \$ 434  | \$ 133      | 44%        |



AMERICAN METAL MARKET

## Steel Scrap Increases - Why?

- Due to the slow U.S. economy, less steel scrap is available
  - U.S. Auto production improving but still down
  - Overall U.S. Industrial production down
- U.S. Manufacturing Capacity Utilization at only 73%
- Weak U.S. \$ (dollar) makes scrap attractive to foreign buyers - driving up U.S. domestic prices
  - \$ .74 to the Euro
  - Steel scrap is an international (global) commodity**
- Increased global steel demand as world economies recover

## 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

## U.S. Manufacturing Capacity Utilization

Manufacturing Capacity Utilization is currently at 73.0%. Although improving it is still below 2002/2003 recession levels.

### 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.**
- Cartels have replaced the 40 year practice of annual contracts with quarterly contracts linked to the iron ore spot market
- 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



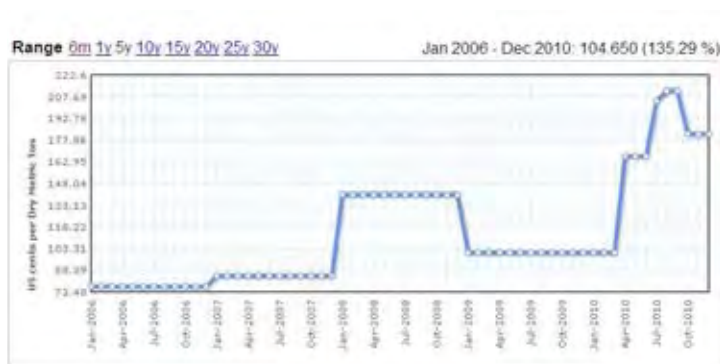
## Iron Ore - What does all this Mean?

- 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 remain high
- Pressure on scrap pricing will continue

## World Economic Outlook

- Recovery continues
  - World GDP to be up 3.3% in 2011
- Advanced economies in 2011 growth is subdued
  - U.S. & Canada - Businesses cautious – Up 2.4 -3.0%
  - Latin America to be up over 4%
- Sales worldwide remain soft but steadily improving
- **As global economies improve...so does steel demand**
- **World steel prices typically rise with steel demand**

## Iron Ore Prices – 2006-2010



## Global GDP Growth

