



Essex Trading Company
Tel. 847.205.5100
Fax. 847.205.1018
tonsandtons.com
900 Skokie Blvd., Ste. 111
Northbrook, IL 60062 USA

STEEL MARKET ANALYSIS – FEBRUARY, 2008

Essex Trading Company's January market analysis and forecast proved accurate. Steel supplies shrunk and prices surged last month. The supply and demand fundamentals continue into February, most notably ...

- Distributor stocks remain at very low levels, although some rebuilding is now occurring.
- Very little secondary inventory is on the mills' floors and secondary prices are up \$100-\$140 per ton since last month.
- Foreign steel is practically nonexistent (especially in the Midwest) and almost none will be arriving before the 2nd half of 2008. For 2007, U.S. steel imports were down about 26% from 2006. Contributing factors include: the continuing fall in the value of the U.S. dollar; higher prices in most world markets (i.e., Europe, Asia and the Middle East); a shortage of available ocean vessels and higher ocean freight rates; China (the world's largest steel producing country) has hiked its export tariffs and committed to ending certain subsidies to its steel mills. It's important to note that foreign steel typically represents about 20% of U.S. consumption. The absence of offshore material portends tight supply and higher prices domestically.
- Global consumption is dramatically increasing (approx. 7% in 2007 versus 2006), especially outside of North America. Areas of greatest growth include China/Asia, the former USSR, Brazil and Africa. Middle East demand is skyrocketing as higher oil revenues are financing dramatic infrastructure and capital growth in the Arabian Gulf Coast (i.e., Dubai, Qatar). In response, countries such as India, Turkey, Iran and Egypt are building their steel production while becoming a magnet for the world's scrap, pig iron and other industrial raw materials. The industrial expansion in many of the world markets is decreasing American's relative roles in steel production and raw materials consumption. From a macro steel standpoint, the U.S. doesn't carry the weight it once did.
- With strong global consumption and supply tightness, mill input costs are surging in terms of scrap, coal, pig iron, energy, etc. For example, scrap (factory bundles) rose from \$298/gross ton last December to \$393/gross ton in January (though the February price receded by \$10/ton).
- Mill prime prices continue to rise. Beyond the \$80-\$90 per ton increases announced/imposed between last October and this past month, the domestic mills have announced further \$50-\$90 per ton hikes for March/April shipments. These increases are being accepted in the market.
- Despite recent talk about a U.S. recession, domestic consumption appears on the upswing. The U.S. Commerce Department reported that December's durable goods orders rose 5%. The Institute for Supply Management's January index moved up to 50.7 from 48.4 in December (a reading above 50 signals growth).
- Domestic supply is stymied by last month's unexpected blast furnace outages reported at Severstal (formerly Rouge in Dearborn MI) and Arcelor-Mittal (Cleveland).



Essex Trading Company
Tel. 847.205.5100
Fax. 847.205.1018
tonsandtons.com
900 Skokie Blvd., Ste. 111
Northbrook, IL 60062 USA

- While U.S. industrial activity has been lackluster for the past several quarters, the domestic mills have carefully calibrated output in conjunction with demand. Producers no longer recognize any strategic advantage in production increases and/or price cuts as a defensive measure against demand downturns.
- Mill lead-times are lengthening as distributors and end-users have to rebuild their stocks.
- With the US dollar's weakness, together with high global demand and prices, American mills are boosting their export activity.
- Investment advisory firms are bullish on the domestic steel sector. Goldman Sachs, KeyBanc Capital Markets and others have upgraded their buy ratings on several steel stocks.

Given the foregoing dynamics, Essex Trading Company expects flat-rolled steel to continue in very short supply with further increases in market price this month. The many clients who heeded our advice and took inventory positions late last year have realized significant savings and avoided material shortfalls. Essex is making every effort to support our valued customers and assist new ones during the current steel-deficit environment. We appreciate your understanding, trust and patronage.