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STEEL MARKET ANALYSIS – JANUARY, 2008

A very happy 2008 to our valued clients and colleagues!

Colder weather is upon us and, while we don't want to send a chill down your spine, you'd better "bundle up" for steel shortages and higher prices ...

- As of last November's end, distributor stocks fell to their lowest levels since 1997 according to the Metals Service Center Institute.
- There is now very little secondary (certainly low priced) inventory on the mills' floors and not much availability is expected for the foreseeable future.
- There is very little foreign steel arriving here. The absence of imports is due to the low value of the dollar, higher prices paid in other world markets (i.e., Europe, Asia and the Middle East), higher ocean freight rates and a shortage of available ocean vessels, and the close of navigation season in the Midwest.
- Mill input costs including scrap, coal, pig iron, pellets, energy, etc., are expected to surge in the 1st quarter of 2008. This is due to robust global steel consumption and supply tightness.
- Mill prime prices have been steadily increasing. They rose \$20-\$30 per ton last October, \$30 this month, and another \$30 hike has been announced for February. Buyers seem to be accepting most of the price escalation.
- Mill secondary prices are skyrocketing (on what little is available).
- With the US dollar's weakness, strong global demand and international prices higher than domestic, American mills are boosting their export levels.
- In years past, domestic steel prices typically fell in response to weak demand. But with mill consolidations and globalization, steelmakers have little financial incentive for reducing prices to accommodate regional (i.e., U.S.) demand downturns. Overall global demand and prices remain quite positive; the "world mills" are enjoying solid profits.
- With distributor and end-user stocks at a low-water mark, mill order bookings are poised to surge. Lead times will almost certainly lengthen.
- Many steel and financial analysts agree with this scenario and forecast. According to Goldman Sachs, November 30: "We see lean inventory supply, low imports, and discounted steel prices in a capacity-short US market leading to shortages and higher prices ... Weak demand has slowed price increases but, still, the trajectory is up and should continue so into mid-2008 while supply tightens."

Recognizing these looming market dynamics, since last October Essex urged customers to beef-up their inventory positions. Many of you wisely responded, avoiding today's shortages and much higher costs. But along with the rest of the industry, Essex's large inventories have been declining (especially given our low prices) and we're now facing much higher steel costs. Be assured that we're working very hard to replenish our inventories and provide you, as always, with outstanding steel economies and service.

Thanks for your trust and patronage in 2007 ... we look forward to supporting you in 2008. And may your year be filled with ***tons and tons*** of good health, joy and prosperity.