

North American Steel Markets Monthly

Analysis and forecasts for the North American steel industry

Issue 126
 October 2009
 8 October 2009
www.amm.com/research

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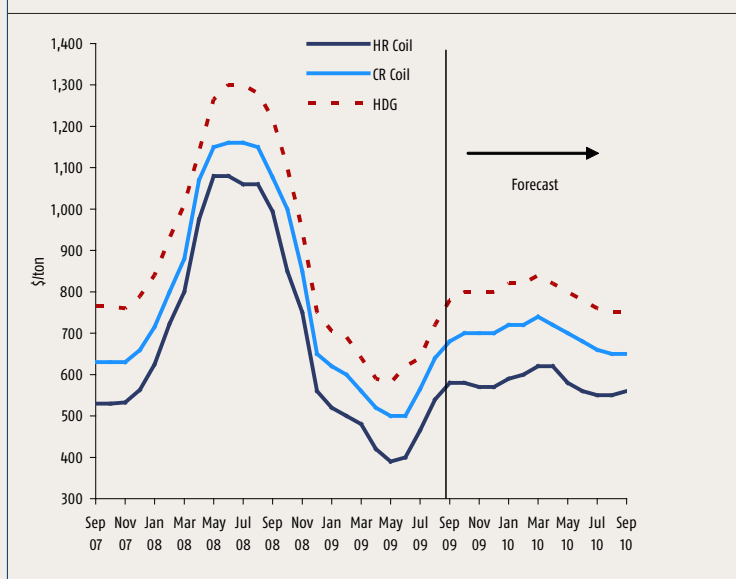
Outlook less promising for North American steel markets

● **We have downgraded our expectations for North American flat product prices for the remainder of 2009 and into 2010.** While extremely low inventories remain an uplifting factor for flat product prices, we are concerned that the supply response will prove too excessive in the face of an absence of a sustainable improvement in steel demand from OEMs. Auto output is on the rise, which will support flat products demand, but the bulk of the auto production increase is to rebuild inventories rather than to meet underlying demand from consumers. Mills are boosting output to meet this restocking demand from both service centers and OEMs, but as imports show signs of rising as well, **it is AMM Research's view that prices will falter once stockbuilding is complete if a fundamental improvement in underlying demand continues to be absent.**

● **With the exception of the wire rod market, long product prices continue to struggle in the absence of a revival in demand from the construction sector. Scrap prices are now sliding as well, and long product prices will surely follow.**

North American steel price forecasts

Flat product prices began to show signs of flattening out in September and into early October, with relatively stable prices forecast for the remainder of 2009



Source: AMM Research

North American Steel Price Summary

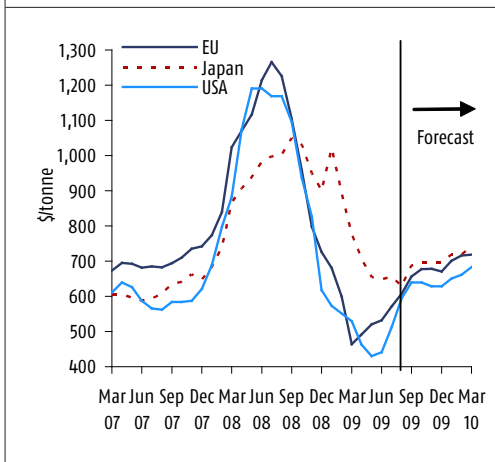
	2007	2008	2009f	2010f	Feb-09	Mar-09	Apr-09	May-09	Jun-09	Jul-09	Aug-09	Sep-09	% Change	
													m-on-m	y-on-y
HR Coil														
Domestic	538	880	501	581	500	480	420	390	400	465	540	580	7.4%	-41.6%
Import	548	870	468	550	470	450	400	375	340	400	500	550	10.0%	-41.5%
CR Coil														
Domestic	627	972	607	693	600	560	520	500	500	565	640	680	6.3%	-36.9%
Import	630	963	573	672	570	540	480	450	425	515	580	670	15.5%	-34.3%
HDG														
Domestic	758	1,090	697	793	690	640	590	580	620	640	720	780	8.3%	-36.1%
Import	758	1,020	635	730	640	600	550	550	520	550	630	710	12.7%	-32.4%
Plate														
Domestic	820	1,212	663	713	780	680	620	580	580	600	620	640	3.2%	-57.3%
Import	815	1,132	596	600	775	710	580	520	510	510	550	550	0.0%	-60.7%
Wire Rod														
Domestic	612	891	626	700	600	600	560	560	595	595	635	645	1.6%	-37.4%
Import	597	794	532	558	610	570	525	500	525	515	515	525	1.9%	-35.2%
Sections														
Domestic	760	963	753	827	875	730	690	690	710	715	755	755	0.0%	-31.4%
Import	698	921	685	741	755	635	665	640	655	645	645	664	2.9%	-34.3%
Rebar														
Domestic	600	776	532	552	675	510	485	485	505	505	545	505	-7.3%	-39.5%
Import	564	795	473	542	455	435	410	400	410	500	500	514	2.8%	-38.1%
Merchant Bars														
Domestic	664	879	702	722	820	700	660	660	680	680	720	680	-5.6%	-27.3%
Import	605	843	586	652	690	670	545	545	535	545	545	555	1.8%	-37.6%

Source: AMM Research

Notes: Domestic Midwest \$/net ton & Gulf Coast Import \$/net ton cfr

Global domestic HR price comparison

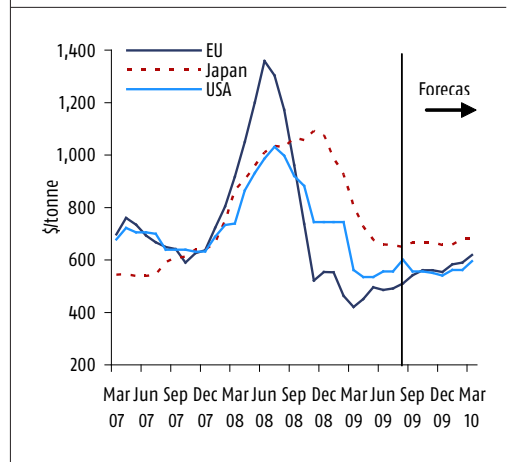
HR prices have improved in the major global markets, but increasing international over-supply will slow upward pricing momentum



Source: AMM Research

Global domestic rebar price comparison

Rebar prices remain subdued globally as construction demand struggles



Source: AMM Research

Flat Product Highlights

- US HR prices appear to have peaked...
- ...while CR and HDG prices may see further improvement
- Inventories remain extremely low, but both domestic and import supply rising

Market Outlook



We have downgraded our price expectations for North American flat products based on developments over the past month. While the inventory position is still extremely favorable for future price performance, other factors are emerging to potentially dampen prices. Scrap prices are in decline, reflecting increased availability and a downturn in scrap demand from overseas. Domestic steelmakers are ramping up output and

bringing idled furnaces back on stream, leading to growing concern that domestic supply will soon outpace sluggish demand. Imports are also poised to rise, particularly for HR. We expect to see flat product prices flatten out at or near current prices for the remainder of the quarter. The outlook for the first quarter is less clear, and will hinge on the supply-demand balance.

US Steel announces November price increase, but stability for December

US Steel announced in September it was increasing HR prices to \$600/ton, CR to \$700/ton, and HDG to \$720/ton for November shipments. After applying a \$60/ton increase across flat products for November, US Steel indicated that prices would be held at this level for December. The move by the producer to come out with December pricing, and to announce it would be holding prices stable, prompted concern in the market that upward pricing momentum had peaked.

US Steel's decision to announce that it would be holding December prices at November levels was surprising to some. While the decision to hold prices steady at the end of the year may be seen as US Steel's concern that prices were plateauing, or poised for decline, it may reflect other options as well. US Steel may have opted to keep prices unchanged for December in an attempt to prevent further hedge-buying against expected price increases, attempting to remove some of the pricing volatility inherent in steel stocking cycles. US Steel may also be positioning itself to fight off imports, similar to Nucor's pricing strategy in long product markets, well aware of the growing concern regarding Chinese HR exports.

HR market weaker than CR and HDG

US HR prices are beginning to flatten out as scrap prices begin to slide, the rapid supply response from domestic mills begins to outpace end-use demand, and growing signs of increasing

US Carbon Steel Market Summary (million tons)

	2007	2008	Q3 07	Q4 07	Q1 08	Q2 08	Q3 08	Q4 08	Q1 09	Q2 09	May-09	Jun-09	Jul-09
Raw Steel Production	105.9	100.7	27.1	27.7	28.1	28.1	27.6	17.0	13.2	13.5	4.5	4.8	5.6
- BOF/OH Production	44.0	42.2	11.2	11.4	11.8	11.7	11.5	7.2	5.1	4.6	1.5	1.5	2.0
- EAF Production	61.9	58.5	15.9	16.3	16.3	16.3	16.1	9.8	8.2	9.0	3.0	3.3	3.5
% Capacity Utilization	87.0	80.6	87.1	88.4	89.7	90.6	87.9	54.0	43.7	43.5	42.8	46.9	52.4
Mill Shipments	99.4	91.2	25.0	24.7	25.8	25.8	24.1	15.5	12.1	12.3	4.0	4.5	5.0
Total Imports	27.2	25.9	6.9	5.6	6.3	6.7	6.9	6.1	4.4	2.4	0.8	0.7	0.8
Semifinished Imports	5.8	5.4	1.6	1.3	1.3	1.7	1.5	0.9	0.4	0.1	0.0	0.0	0.1
Finished Imports	21.4	20.5	5.3	4.3	5.0	5.0	5.4	5.2	4.1	2.3	0.8	0.6	0.7
Exports	8.7	10.6	2.2	2.3	2.3	2.7	3.3	2.3	1.5	1.5	0.5	0.5	0.5
Apparent Consumption	117.9	106.5	29.7	28.1	29.7	29.7	27.7	19.3	15.0	13.3	4.4	4.7	5.2
Service Center Inventories	10.3	8.6	10.6	10.3	10.1	10.8	10.7	8.6	7.8	6.0	6.5	6.0	5.7
HR Coil \$/ton	538	880	518	542	716	1045	1038	720	500	403	390	400	465
Scrap \$/long ton (HMS #1)	258	363	255	266	342	505	421	186	185	171	179	189	226

Source: AMM Research, AISI, MSCI

imports emerge. Demand from the construction sector remains dismal, and HR is not benefiting to the same extent from the improvement in stronger industrial production in the auto and white goods sectors as CR and HDG. HR prices averaged \$580/ton in September, and are around \$570–580/ton in early October. CR prices are holding at September levels in early October, averaging \$680/ton, while HDG prices are also steady from September at \$780/ton. **We would not be surprised to see the margins between CR and HDG and HR substrate widen over the fourth quarter.**

The relative strength of CR and HDG versus HR has also been demonstrated by West Coast producer CSI's recent announcement that it is increasing HR prices by \$15/ton, but CR and HDG by \$30/ton, effective with November 1 shipments.

Imports poised to rise, especially for HR

More evidence of the weakening HR market was apparent in the September survey of importers by the AIIS. Survey respondents indicated that the outlook for HR is worsening, particularly as compared to CR. In both August and September, 41% of HR importers reported that based on orders currently being placed, the trend of imports in the next 3–5 months is expected to be up. None of the importers surveyed have that expectation for CR. In fact, 33% of those surveyed expect a shortage of CR in the next 1–3 months, and no one is expecting over-supply in the near term. In contrast, 31% of importers surveyed are expecting over-supply in the HR market in the next 1–3 months, and none of the importers surveyed are expecting shortage.

Chinese HR mills are preparing to return to the export market, with HR looking particularly weak in international markets. Over-production of HR in China has allowed large stocks to HR to accumulate. Chinese mills are now dropping HR export prices in order to get rid of this excess supply. Commercial-grade Chinese HR is available for \$460/tonne fob China, or \$417/ton fob. This equates to around \$490–495/ton delivered to US port. **We believe this margin between domestic and import prices is wide enough to attract interest from US steel buyers. Not only is Chinese material a potential threat, but as Chinese HR exports hit other markets, more displaced HR will be looking for a home, and HR exports from other producing nations will be directed at the US market.**

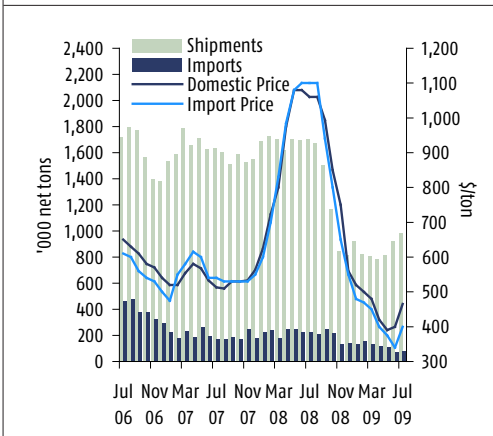
Service center inventories nearing floor

US service center shipments of flat-rolled steel products climbed in August to their highest level this year, spurred by restocking through the supply chain. Outgoing shipments from service centers, however, outpaced steel purchasing by service centers, with flat product inventories sliding again in August, taking the number of month's shipments on hand to just 1.7 months' supply.

We expect to see inventory levels rise in upcoming data releases, reflecting restocking by service centers. However, we believe stocks will remain extremely low for the rest of the year and into

US HR supply vs. prices

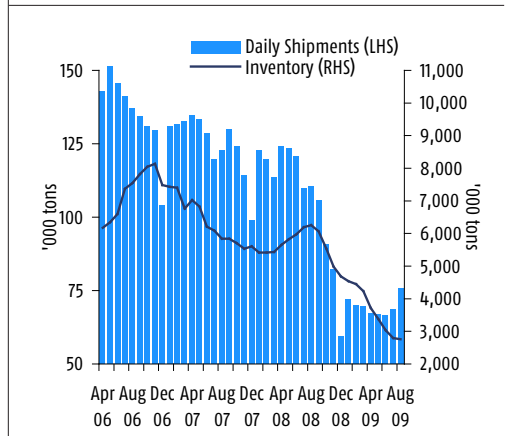
Consecutive months of low shipments and inventories helped propel prices higher, but supply is now poised to rise and will limit prices



Source: AMM Research, AISI

US service center flat-rolled steel shipments and inventories

Shipments are beginning to improve, but stocks still receding



Source: AMM Research, MSCI

early 2010. This low stock position will prevent prices from collapsing in the near term, despite signs of pressure from a number of areas including falling scrap prices, rising domestic and import supply, and a lack of end-user demand. Service centers will need to continue buying steel to supply even modest demand from OEMs, and this persistent buying will help to support prices even in the face of emerging downside pressure.

Restocking reflected in upturn in mill shipments

US mill shipments of HR, CR, and HDG in July rose to their highest levels since October/November 2008, based on the latest data from the AISI. Rising shipments after months of decline reflects the restocking trend that began at mid-year. Mill shipments to the service center and construction sectors showed the greatest improvement, while as of July, auto sector shipments were still depressed. We expect to see improvement in US mill shipments to the auto sector increase with August data, as highlighted in more detail on p.6.

US auto sales dip as expected, but output poised to rise

As expected, US light vehicle sales plunged in September as the cash-for-clunkers government stimulus package came to an end. US automakers, however, continued to run down inventories, and GM is now gearing up fourth-quarter production to both replenish depleted dealer stocks and to improve vehicle availability for customers. By the end of

HR Coil Export Price Comparison \$/tonne job

	Japan	L. America	Europe
Sep-08	1,030	1,125	1,130
Oct-08	1,030	1,125	710
Nov-08	900	850	475
Dec-08	800	680	475
Jan-09	700	600	355
Feb-09	580	450	390
Mar-09	530	400	350
Apr-09	450	380	340
May-09	450	400	365
Jun-09	480	430	450
Jul-09	500	490	515
Aug-09	560	520	560
Sep-09	560	520	555
Q1 07	523	500	605
Q2 07	543	547	620
Q3 07	550	550	568
Q4 07	563	592	583
Q1 08	700	655	713
Q2 08	920	1,056	997
Q3 08	1,043	1,114	1,104
Q4 08	910	885	553
Q1 09	603	483	365
Q2 09	460	403	385
Q3 09	540	510	543
Forecast (average)			
Q4 09	565	520	537
Q1 10	550	520	530

Source: AMM Research

Historical and Forecast US Steel Prices

	Hot-rolled Coil		Cold-rolled Coil		Hot-dipped Galvanized Coil		Electrolytic Galv Sheet	Plate	
	Midwest	Import	Midwest	Import	Midwest	Import	Midwest	Midwest	Import
Sep-08	994	940	1,077	1,020	1,220	1,050	1,140	1,500	1,400
Oct-08	850	800	1,000	880	1,100	1,000	1,050	1,377	1,200
Nov-08	750	650	850	750	950	850	910	1,250	1,100
Dec-08	560	550	650	650	750	700	720	1,100	950
Jan-09	520	480	620	585	705	670	720	870	800
Feb-09	500	470	600	570	690	640	700	780	775
Mar-09	480	450	560	540	640	600	650	680	710
Apr-09	420	400	520	480	590	550	600	620	580
May-09	390	375	500	450	580	550	550	580	520
Jun-09	400	340	500	425	620	520	540	580	510
Jul-09	465	400	565	515	640	550	570	600	510
Aug-09	540	500	640	580	720	630	655	620	550
Sep-09	580	550	680	670	780	710	745	640	550
Oct-09	580	550	700	675	800	715	750	660	550
Nov-09	570	550	700	680	800	730	750	660	550
Dec-09	570	550	700	700	800	750	775	660	550
Jan-10	590	550	720	720	820	770	760	680	600
Feb-10	600	550	720	720	820	780	780	700	600
Mar-10	620	550	740	720	840	780	790	720	600
Apr-10	620	550	720	700	820	780	790	740	600
May-10	580	550	700	680	800	750	780	740	600
Jun-10	560	550	680	680	780	730	760	720	600
Jul-10	550	550	660	630	760	680	740	720	600
Aug-10	550	550	650	600	750	650	720	700	600
Sep-10	560	550	650	600	750	650	720	700	600

Source: AMM Research

Note: All prices in \$/short ton, import prices cif Gulf port excluding tariff, prices reflect median transaction values

September, GM's inventories fell to 424,000 vehicles, down 294,000 vehicles, or 41%, year-on-year. The company's auto stocks also fell 9% month-on-month. GM's third-quarter production of 533,000 vehicles was down 42% year-on-year, but far better than quarterly output in the first half of the year when output failed to reach 400,000 vehicles per quarter. As the company strives to boost inventories, GM is forecasting fourth-quarter output at 655,000 vehicles, again sharply below year-ago levels, but a vast improvement on output in the first half of 2009.

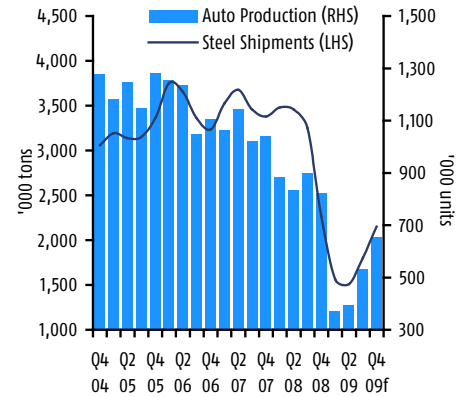
US light vehicle output from all automakers fell 19.7% year-on-year, indicating a slowdown in the pace of decline as year-to-date output plunged 47.2% year-on-year. In a positive development for steelmakers, light truck output fell just 3.2% year-on-year in August, while car output plummeted 35% year-on-year.

Light trucks are regaining market share lost last year amid high fuel prices, highlighting the US consumers' fuel price sensitivity and its effect on purchasing decisions. High prices at the gas pump appear to be a more contributing factor to vehicle purchasing decisions for the average US car buyer as opposed to a fundamental shift in US consumer preferences to lower fuel consuming vehicles prompted by environmental concerns. Thus far in 2009, light truck output comprised 60% of total light vehicle production, compared to 56% in the first eight months of 2008. In August alone, light truck output represented 58% of light vehicle output versus 48% in the year-ago period.

Although rising US steel mill shipments are not yet reflected in available data (only available through July), we expect to see shipments from steel mills to automakers increase with August data and to remain elevated through the fourth quarter. As shown in the accompanying chart, **US mill shipments to the sector will rise as auto production increases, though we do not foresee a return to 2008 levels until well into 2010 at the earliest.** This improvement in auto output is particularly beneficial for auto-grade substrate and galvanized steel demand.

US steel mill shipments to the automotive sector vs. GM auto production

After collapsing in the first half of 2009, auto output is trending higher



Source: AMM Research, AISI, GM

US Shipments of Steel Products by Industry ('000 tons)

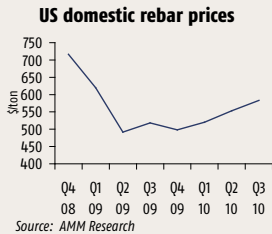
	2006	2007	2008	Q2 07	Q3 07	Q4 07	Q1 08	Q2 08	Q3 08	Q4 08	Q1 09	Q2 09	May-09	Jun-09	Jul-09
Service Centers	23,706	21,661	20,309	5,560	5,252	5,291	5,786	5,902	5,602	3,019	2,611	2,529	885	843	1,062
% Change y-o-y	2.5%	-8.6%	-6.2%	-13.6%	-12.7%	1.9%	4.1%	6.1%	6.7%	-42.9%	-54.9%	-57.1%	-54.8%	-56.7%	-46.2%
Construction	17,544	17,312	15,304	4,363	4,332	4,261	4,303	4,189	4,186	2,625	1,892	2,176	772	766	960
% Change y-o-y	10.2%	-1.3%	-11.6%	-5.6%	-2.7%	4.0%	-1.2%	-4.0%	-3.4%	-38.4%	-56.0%	-48.1%	-46.7%	-46.1%	-39.7%
Automotive	14,003	14,039	12,461	3,676	3,458	3,380	3,481	3,456	3,251	2,272	1,561	1,511	465	538	573
% Change y-o-y	9.0%	0.3%	-11.2%	0.6%	3.0%	4.4%	-1.2%	-6.0%	-6.0%	-32.8%	-55.2%	-56.3%	-59.2%	-53.4%	-43.1%
Oil & Gas	2,459	2,216	2,339	577	562	542	581	583	592	583	300	122	28	41	50
% Change y-o-y	12.0%	-9.9%	5.6%	-6.7%	-6.2%	-14.0%	8.8%	0.9%	5.4%	7.6%	-48.4%	-79.0%	-85.1%	-78.8%	-74.8%
Machinery	1,360	1,348	1,250	343	332	338	346	356	312	236	177	118	36	38	44
% Change y-o-y	4.8%	-0.8%	-7.3%	-3.2%	0.5%	13.2%	3.2%	3.7%	-6.1%	-30.0%	-48.9%	-66.7%	-67.8%	-68.1%	-60.0%
Electrical	1,227	935	1,038	237	222	233	281	282	278	197	123	133	44	43	45
% Change y-o-y	13.1%	-23.9%	11.0%	-29.0%	-28.7%	-14.3%	15.8%	19.0%	25.1%	-15.4%	-56.3%	-52.9%	-50.7%	-56.0%	-47.0%
Appliances	1,781	1,829	1,588	489	467	426	436	429	440	284	260	281	102	92	105
% Change y-o-y	-6.3%	2.7%	-13.2%	4.4%	6.2%	4.2%	-2.5%	-12.3%	-5.9%	-33.4%	-40.4%	-34.6%	-29.1%	-35.5%	-27.4%
TOTAL	108,609	106,112	97,956	26,856	26,545	26,416	27,578	27,547	25,955	16,876	13,034	13,122	4,282	4,797	5,271
% Change y-o-y	5.2%	-2.3%	-7.7%	-6.7%	-4.5%	8.6%	4.9%	2.6%	-2.2%	-36.1%	-52.7%	-52.4%	-52.5%	-47.5%	-42.5%

Sources: AISI, AMM Research

Long Product Highlights

- Wire rod mills manage price increase, for now
- Bar and beam prices unchanged in October from September
- Fourth-quarter prices have more downside than upside potential

Market Outlook



Wire rod products are the only carbon steel long products maintaining any strength in pricing in September and October. Producers of other products are hoping to hold on to stable pricing, but there is no promise of stability through the end of the year. Scrap prices fell in early October and look to remain subdued into November as well, which will undermine transaction prices. It is likely that mills will be unable

to make base price gains on raw material price cuts as demand is still too fragile. Construction demand, which has been long on promise, has yet to provide a foothold for steel demand. The gains in steel demand from automotive now appear short-lived given growing car inventories. Long product prices have a better chance to decline in coming months than to increase.

Long products demand remains tenuous...

September ended on a dourer note than it began, in terms of the outlook for steel long products pricing. Economic data illustrated some positive signs for growing finished steel demand, and low steel inventories promised an impending restocking cycle in early 2010. Distributors are wary of the strength of end-user demand and are only stocking what is of immediate need. Mill backlogs are short enough that this strategy is acceptable. **With the end of the calendar year approaching with its tax implications, AMM Research expects that distributor restocking will be delayed until, at least, the first quarter of next year.**

Historical and Forecast US Steel Prices

	Sections		Reinforcing Bars		Merchant Bars		Wire Rod	
	Midwest	Import	Midwest	Import	Midwest	Import	Midwest	Import
Sep-08	1,100	1,010	835	830	935	890	1,030	810
Oct-08	950	850	800	770	900	820	1,030	755
Nov-08	870	750	675	600	820	725	935	660
Dec-08	870	750	675	500	820	700	740	575
Jan-09	905	810	675	480	820	715	730	560
Feb-09	875	755	675	455	820	690	600	610
Mar-09	730	635	510	435	700	670	600	570
Apr-09	690	665	485	410	660	545	560	525
May-09	690	640	485	400	660	545	560	500
Jun-09	710	655	505	410	680	535	595	525
Jul-09	715	645	505	500	680	545	595	515
Aug-09	755	645	545	500	720	545	635	515
Sep-09	755	664	505	514	680	555	645	525
Oct-09	755	670	505	515	680	550	670	520
Nov-09	725	715	500	530	660	565	670	520
Dec-09	725	720	490	525	660	570	655	500
Jan-10	765	680	510	490	645	600	680	500
Feb-10	785	680	510	510	680	600	680	540
Mar-10	810	730	540	540	710	640	700	540
Apr-10	810	730	540	540	710	650	700	560
May-10	830	750	560	540	730	650	700	560
Jun-10	840	750	560	560	730	675	720	560
Jul-10	840	775	580	570	755	680	720	580
Aug-10	880	775	580	570	755	680	700	580
Sep-10	880	800	590	560	785	690	700	600

Source: AMM Research

Note: All prices in \$/short ton, import prices cif Gulf port excluding tariff, transaction prices

...and scrap prices in October could undermine prices further

Further erosion in transaction prices for November, or possibly late-October, is likely to be the result of the unexpected decline in scrap prices in early October. Export demand, which had supported domestic prices for much of the year, is now non-existent. Domestic scrap demand is still not near normal either. Prices fell \$30/long ton, on average, for shipments to domestic mills. **The expectation is for scrap prices to slip again before the end of the year as mills tend to cut back production in the fourth quarter and avoid holding excess scrap over the end of the tax year. Raw material price weakness will weigh on steel prices through that time as well.**

Wire rod prices bucking trend so far

While construction woes are still affecting wire rod demand, automotive applications are helping to support pricing, so far, amid low inventories. Mills announced plans to increase transaction prices for October \$25-50/ton, with the higher-grade material having the best chance to attain increases at the top end of the range. So far, prices for low carbon mesh-quality rod reached \$645/ton for September and \$670/ton for October. **Our expectation is that the October price increase may be the last for the year, given weakening fundamentals.** Automotive demand growth now appears to be unsustainable as car sales have plunged following the end of the CARS program. As soon as automotive inventories are rebuilt, output will be curtailed once again. While domestic rod output is still restrained, imports are on the rise.

Beam prices steady, although deals available

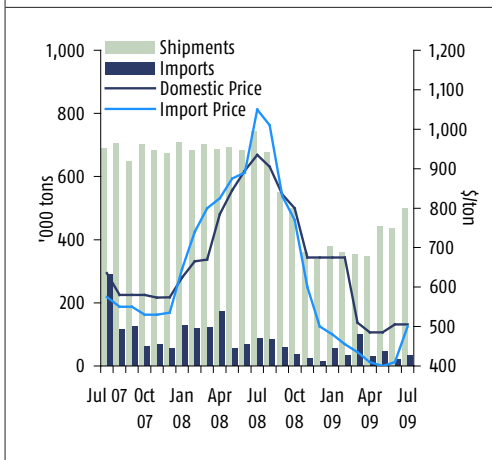
Structurals imports, however, remain subdued, but demand conditions still warrant little support for higher prices. Mills kept prices flat again at \$755/ton for October indicating that demand is still not enough to press for increases. In fact, we are still hearing of volume discounts and price cutting schemes to move material. Inventories are up to 2.6 months on hand through August while daily service center shipments fell to 10,200 tons per day, the lowest level in years. Imports still remain quiet, and it is the lack of available supply on the market that will eventually support prices when demand resumes. But until we see positive demand growth commence, price increases are unlikely. **Given that scrap prices are falling now, AMM Research expects that beam prices have a better chance to decline in the coming month than increase. Our position still stands, though, that once demand resumes, prices are apt to recover quickly as imports are less of a factor in this market.**

Imports a concern for bar producers

Imports remain a concern for domestic rebar producers, however. So far this year, the weak dollar and prevailing market conditions have kept import arrivals at bay. But, Chinese exporters have recently cut offers as much as \$40/tonne due to a need to clear excess steel supplies from the domestic market. If these competitive offers persist, North American bar prices will come under pressure. There is little consolation that poor domestic demand is limiting deals for foreign material at this time. Rebar prices are holding at \$505/ton for both September and October. Merchant bar is around \$680/ton.

US rebar supply vs. prices

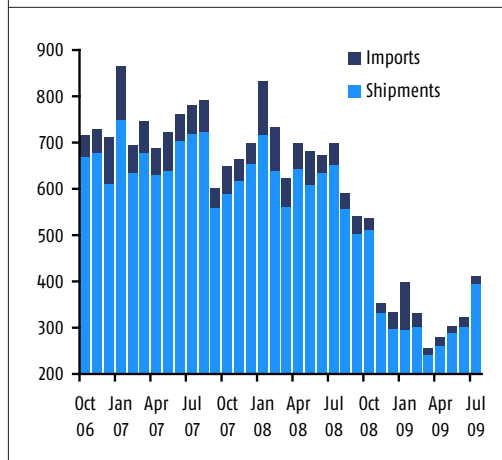
A rise in supply too quickly could undermine prices through the rest of the year



Source: AMM Research, AISI

US structural sections supply

Beam supplies are rising but are still low enough that any demand growth will support rising prices



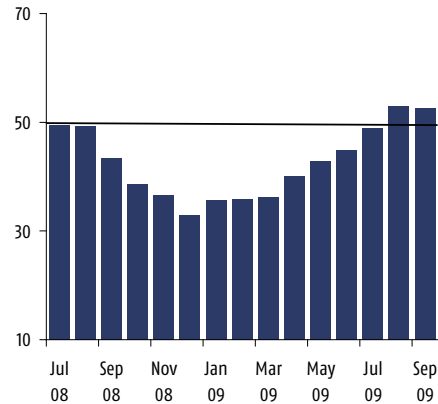
Source: AMM Research, MSCI

North American Economic Indicators

- Motor vehicle assemblies surged in August, but sales slump could slow Q4 output
- ISM index slips, but manufacturing still expanding in September
- Non-residential construction spending falls 5% y-o-y, residential down 26%

ISM Purchasing Managers' Index

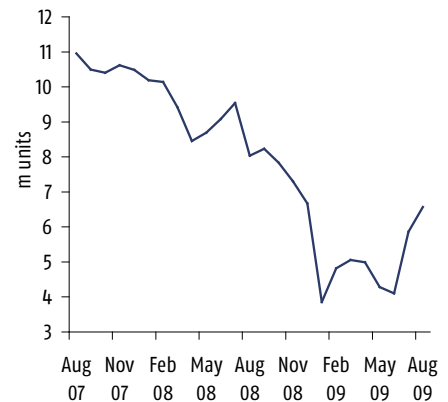
Despite a slight dip to 52.6 from 52.9 in August, the PMI still indicated an expanding manufacturing sector in September



Source: AMM Research, CEIC

US motor vehicle assemblies, SAAR

Automotive production surged in August, but with car sales receding in September, the improvement could be short-lived



Source: AMM Research, CEIC

Selected North American Demand Indicators

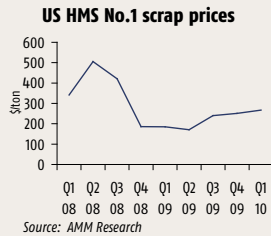
	2007	2008	Historical Q4 2008	Q1 2009	Q2 2009	Jun 09	Jul 09	Aug 09
USA								
GDP \$bn	13,808	14,265	3,550	3,524	-	-	-	-
Industrial Production Index (2002=100)	111	109	104	99	96	98	97	100
Interest rate: federal funds rate (monthly average) %	5.02	1.93	0.5	0.2	0.2	0.21	0.16	0.16
Consumer Price Index	207	215	213	212	214	216	215	216
Automobile: domestic production ('000 unit)	3,924	3,777	820	418	465	164	148	0
Housing starts (m units)	16.10	10.80	2	2	2	0.59	0.59	0.60
Energy production (BTU tn)	71,504	73,714	18,546	18,442	12,111	-	-	-
Canada								
GDP (real) C\$bn	5,264	5,285	1,313	1,295	-	-	-	-
Industrial Production (2000=100) seasonally adjusted	105	106	105	103	69	-	-	-
Mexico								
GDP Mex\$bn	44,824	48,442	12,122	11,163	11,401	11,401	-	-
Industrial Production Index (2003=100)	116	115	111	103	105	105	108	-
Motor vehicle production	2,096,970	2,163,717	523,106	300,657	320,339	105,468	-	-
Construction output: total	207,507	228,252	63,296	50,418	54,062	18,232	-	-
FX								
\$/€	1.37	1.47	1.30	1.33	1.36	1.40	1.41	1.43
\$/Rmb	7.61	6.95	6.83	6.83	6.83	6.83	6.83	6.83
\$/Y	117.76	103.38	96.56	97.81	97.39	96.61	94.37	94.90

Source: AMM Research, CEIC Data

Raw Material Highlights

- Domestic scrap prices strengthened in September...
- ...but fell in early October
- Brazilian pig iron exporters focus on USA

Market Outlook



US scrap prices remained strong in September, managing to gain around 5% thanks to improving domestic demand and continuing strong export demand. This was underpinned by a shortage in material. However, the export market has taken a turn for the worse in the last few weeks, with Asian scrap prices descending due to falling Chinese steel prices and

Turkish purchasing subdued on precarious end-user demand and squeezed margins. The collapse in export buying has imposed downward pressure on US scrap prices, with prices down \$30/l. ton in early October.

US scrap prices strengthen in September...

As AMM Research expected, scrap prices saw further strong performance in September underpinned by improving domestic demand, strong export demand and relatively low availability. On average September scrap prices were around \$8-12/l. ton higher than August for Shredded, HMS1 and HMS2 material.

...but exports under pressure and prices faltering in October

The recent downward momentum seen in Chinese domestic and export prices, however, suggests that there may be a bumpy road ahead for export demand. Chinese steelmakers are always looking for favorable scrap import prices and are looking to push US export prices down. Meanwhile, Turkish mills are seeing steep competition for their finished steel products and are in the scrap export market to make a deal in order to protect margins on their output. US export prices are under pressure, and domestic prices have succumbed as well in early October. Demand from domestic

US Steelmaking Raw Materials Prices

	No. 1 HMS		Shredded		Pig Iron	Merchant	FeSi 75%	Ferro-manganese		SiMn
	Midwest ⁽¹⁾	Export ⁽²⁾	Midwest ⁽¹⁾	Export ⁽²⁾				DRI	HC	
					\$/tonne cif	\$/tonne cif	\$/lb	\$/long ton	\$/lb	\$/lb
Sep-08	298	360	393	370	610	630	1.33	3,150	2.38	1.13
Oct-08	217	210	230	260	425	390	1.23	3,150	2.37	1.10
Nov-08	150	180	235	170	323	248	1.10	2,775	2.00	1.10
Dec-08	190	225	245	210	315	248	0.97	2,220	1.90	0.66
Jan-09	208	265	257	278	350	250	0.83	1,800	1.38	0.50
Feb-09	187	248	225	225	286	250	0.74	1,300	0.95	0.46
Mar-09	159	222	188	226	260	230	0.69	1,300	0.95	0.46
Apr-09	144	220	166	192	245	200	0.61	1,019	0.85	0.40
May-09	179	234	203	224	276	205	0.53	963	0.85	0.40
Jun-09	189	234	213	239	283	205	0.59	928	0.83	0.37
Jul-09	226	247	249	253	310	215	0.63	930	0.81	0.35
Aug-09	241	277	269	285	320	223	0.66	1,008	0.83	0.44
Sep-09	252	283	282	288	320	228	0.78	1,343	0.88	0.70
Q1 07	262	283	293	300	346	276	0.59	895	0.71	0.42
Q2 07	250	283	272	300	351	290	0.63	1,235	0.92	0.81
Q3 07	255	268	280	280	372	309	0.72	1,655	1.09	1.04
Q4 07	266	289	297	302	391	322	0.68	1,702	1.45	0.83
Q1 08	342	395	393	418	498	443	0.79	2,219	1.92	0.97
Q2 08	505	580	565	590	783	690	1.28	3,167	2.36	1.18
Q3 08	421	505	508	518	835	733	1.40	3,150	2.37	1.14
Q4 08	186	205	237	213	354	295	1.10	2,715	2.09	0.95
Q1 09	185	245	223	243	299	243	0.75	1,467	1.09	0.47
Q2 09	171	229	194	218	268	203	0.58	970	0.84	0.39
Q3 09	240	269	267	275	317	222	0.69	1,094	0.84	0.50
Q4 09f	251	278	287	286	332	228	0.79	1,450	1.05	0.72

Source: AMM Research

Note: ⁽¹⁾ \$/long ton ⁽²⁾ East Coast \$/tonne fob

mills boosting capacity utilization to near 60%, has been insufficient to prevent prices from tumbling.

The Asian scrap market is heading downwards thanks to the declining trend in Chinese prices mentioned above and a number of public holidays in the region from late September to mid-October. In the last week, Asian prices have slid downwards, with Japanese domestic and export prices being cut. The Osaka-based Kansai Tetsugen group of ferrous scrap dealers sold 5,000 tonnes of HMS No2 at ¥24,580/tonne (\$274/tonne) for Osaka bay in its export tender held on 2 October. This is ¥6,420/tonne (\$72/tonne) lower than the sale price in the group's previous export tender in late August.

This has placed further downward pressure on US West Coast exports to the region, which since the beginning of September have slipped from \$355/tonne cfr to \$340/tonne cfr. South Korean producers have held out of the market for the last few weeks, with the largest producer Hyundai Steel uninterested in purchasing deep sea cargoes for now due to sufficient supplies and a number of bulk cargoes set to arrive in October/November.

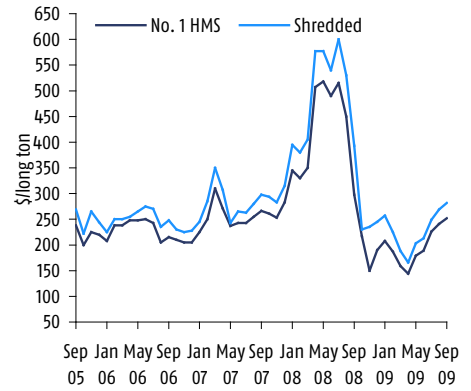
As the other major scrap exporter to the region, Japan's downward trend in prices is likely to have a knock on effect on US prices, pushing them down to a competitive level. And since Japanese exporters have a freight cost advantage over US exporters, we expect to see export prices to Asia soften further in the next month.

USA makes relatively large pig iron bookings in September

Brazilian export prices fob at both Port da Madeira and Vitoria are seeing falls of between \$5-15/tonne to \$315-325/tonne. **We think prices are falling in response to the slowdown in exports to China.** US economic activity is improving, however, and this may mitigate the impact on Brazilian exporters for the coming weeks as Brazilian traders focus more on North America. Indeed where China was the main export market for Brazil, diminishing demand for material has now resulted in the USA as the main market for pig iron. We understand two deals have been closed at around \$350/tonne fob, with freight at \$20/tonne, and each transaction is for 70,000 tonnes to be shipped in October. **We are hesitant to believe that the US buyers will now continue to purchase material and are back in the market for regular shipments of material. These transactions may simply be restocking at mills.**

US domestic scrap prices

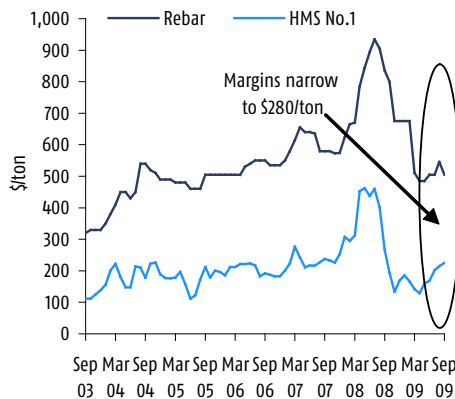
Scrap prices climbed higher in September, but signs of weakness emerged in early October as export demand vanished



Source: AMM Research

Rebar vs. scrap prices – producer margins

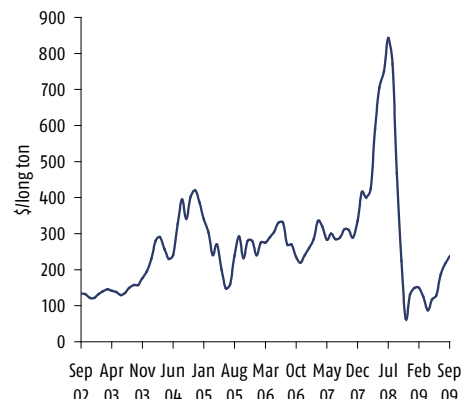
Margins narrowed in September as finished product prices slipped while scrap prices improved



Source: AMM Research

AMM Research No.1 bundles price

Prices for prompt industrial scrap posted further gains, but auto output is rising which will boost supply and may knock prices



Source: AMM Research

Global Steel Market Highlights

- Over-supply hits Chinese steel markets...
- ...with negative implications for flat product prices...
- ...and long product prices

Chinese market loses momentum

The key concern for steelmakers across the world in the last month has been the downward momentum in Chinese steel prices, which threatens to turn Chinese producers' focus from supplying the domestic market to exporting the over-supply of material into other markets.

AMM Research outlook for Chinese flats market

Recent low export offers for HR suggest that the over-supply situation in China is quite bad. Chinese mills are clearly very keen to export more of their material, but we suspect they have dropped their offer prices about as low as they will go in the near term.

Production costs will not permit further export price reductions. While we also anticipate a slow fourth quarter, we do not yet believe coil prices will drop back to the levels they were at in early 2009. Chinese mills will respond to low domestic prices by cutting back output, and this should set the stage for a rally in prices perhaps before the end of the first quarter next year. China is undoubtedly storing up problems for itself in the form of excess steelmaking capacity, but while credit conditions remain loose and the stimulus plan is still encouraging fixed asset investment, coil prices will not crash altogether.

Chinese long product prices stumble

The mid-September rally in the Chinese domestic rebar market quickly spent itself. At first the recovery showed signs of making good the substantial price falls seen during August and early September, but by the third week in most areas prices were either unmoved or moving up by small increments. As a result by late September rebar prices in most areas were still 18-19% below their early August level.

There were hopes that prices would at least be stable at this level; distribution stocks of long products are slightly lower this month (while flat product stocks are higher) and Beijing has put great pressure on provincial governments to kick-start infrastructure programs before the end of the month and speed the first steel orders. However, rebar offers have continued to decline in the last two weeks, suggesting that the market has yet to come into balance.

Production continues to increase, however, apparently regardless of market demand. Flat products have accounted for most of recent production increases, but there are signs that a surplus of long products is building up. China's beam and rebar trade has been close to balance; there was a steep decline in net exports from mid-2007 towards zero in late 2008. ***With lower prices at home and higher prices abroad that trend could quickly be reversed, drawing on the high level of stocks. Asian markets are already targets. As with flat products, the fall in ocean freight costs opens up more distant markets as well.***

Published monthly by Metal Bulletin Ltd
ISSN 1529-4072
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