



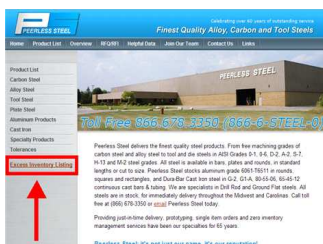
PEERLESS STEEL NEWSLETTER

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Market Information

- Scrap surcharge soars to \$11.50/cwt—highest mark since December of 2004 (excluding 2008)
- Universal tool steel surcharges to skyrocket in March
- Nucor high end plate prices surge to \$780/ton
- U.S. crude steel output in 2009 was 58.1M tons—the largest decline of any major steelmaking nation
- National Purchasing Manager's Index is 58.4 for January—highest reading since August 2004

See our excess inventory at www.peerlesssteel.com



EXECS CONCERNED ABOUT SUPPLY RISK

Although demand for steel products lags behind levels seen prior to the current recession, there is uncertainty as to what will happen to supply and pricing if demand grows beyond current expectations. It is believed by some that there is a substantial risk of a supply shortage, possibly even greater than the shortages in the past few demand cycles.

The inventory pipeline continues to dry up, but the risk of a supply shortage is mitigated by the fact that increases in demand have only been seen in a few core markets. If any sectors other than automotive (construction, consumer durables) strengthen, the supply chain would undergo immense pressure. Many buyers still remain cautiously optimistic and don't want to risk buying steel on speculation 2-3 months out. Consolidation was supposed to prevent the huge market swings we saw in 2004 and 2008, but failed. The longest sustained market we've seen has been six months. There is so much volatility in the market that visibility is limited to 1-2 months with substantial risk existing beyond that timeframe.

Others contest that there are several factors that will insulate from any long-term shortages from a spike in demand. They feel that there is plenty of idle domestic capacity that can be harnessed in as quickly as 30-60 days. In addition, there is currently a very limited amount of foreign steel being imported into the U.S. and this could quickly and adequately fill any shortages that occurred within the market. If demand continues to tighten, it will become advantageous to supplement domestic buys with foreign material. Despite the insulation from any long-term supply crises (unless additional core markets strengthen), prices could soar in the short-term because inventory levels are so low. (AMM 1/26)

ARCELOR MITTAL TO REOPEN BLAST FURNACE

The consensus amongst North American steelmakers is that the market faces a long road to a full recovery, but this hasn't deterred them from restarting idled operations. Arcelor Mittal has announced plans to reopen its No. 4 blast furnace and No. 3 steelmaking shop at their Indiana Harbor Works in East Chicago, Indiana. This follows similar announcements by Severstal North America and U.S. Steel Corp who will both have furnaces up and running again soon. Six of U.S. Steel's seven furnaces will now be in operation. Arcelor Mittal offered few details about the restarted, citing only that it is being done "in response to improving market demand". The move could mean as many as 750 workers could be brought back.

Steel producers and market analysts have credited an improving automotive market as the primary reason for increased demand. Vehicle build projections are significantly higher in 2010 than they were in 2009. Steelmakers are also hoping for a boost from another economic stimulus package and see many service center inventory levels primed for restocking due to their historically low levels. (AMM 2/1)

U.S. STEEL PRODUCTION UP

U.S. raw steel production rose 0.5% to 1.595M tons last week as mills operated at a capacity utilization rate of 66.9%. This is the highest domestic production level since November of 2008 (1.605M tons). During the same week in 2009, mills produced only 1.016M tons and operated at 42.4% capacity. This information comes from the American Iron and Steel Institute in Washington.

Year to date, mills have produced nearly 6.7M tons of steel and have operated at an average capacity of 64.6%. Both these figures are up from 2009, where year to date, mills produced less than 4.4M tons and operated below 43% capacity. (AMM 2/3)

Steel Production By Region (Tons)

Region	Jan 30	Jan 23	Jan 16
Northeast	145	140	131
Pittsburgh-Youngstown	105	108	109
Lake Erie	46	43	43
Detroit	121	117	114
Indiana-Chicago	421	419	404
Midwest	217	214	207
Southern	467	478	486
Western	73	68	70
Total	1,595	1,587	1,564
Source: AISI			