

# PEERLESS STEEL NEWSLETTER

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## Market Information

- Domestic raw steel production rose for the seventh consecutive week (through mid June).
- J.P. Morgan analyst predicts North American automotive production will be up 46% in second half of 2009.
- Chrysler reopened seven plants the week of June 29. Two of these plants are in Michigan (Sterling Heights & Warren).

## Peerless Quick Hits

- Peerless Steel now carrying 1144 CD rounds (3/4" thru 6").
- Molybdenum prices continue to rise (over 40% since April) due to strong Asian demand.
- Arcelor Mittal, Nucor, and SSAB North America all announcing carbon plate price increases (\$40/ton).
- Nickel prices continue to inch upward based on speculation of higher July and August prices.
- Scrap prices expected to fall \$20 to \$30 per ton in June, defied expectations and stayed level.
- Manganese fall has hit bottom, July non-ledged surcharge eliminated.

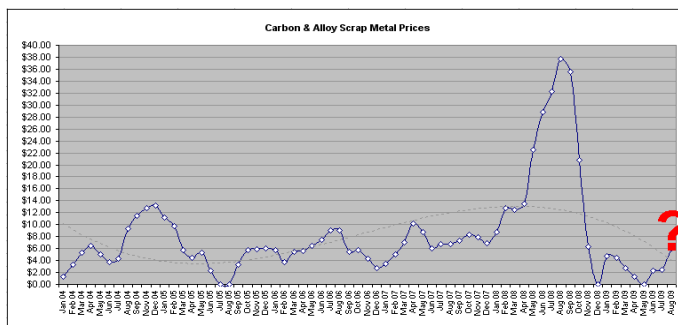
## THE PERFECT STORM AGAIN?

U.S. service centers continue to destock their inventories (currently under 6.5M tons and at the lowest levels since 1987). This total represents only 2.9 months of stock. Keep in mind that shipments this year are down 49% versus last year, so current inventory levels would support less than a 1.5 months of shipments based on 2008 volume.

What do scarce raw material availability, historically low finished good inventory, and drawn out mill rolling schedules mean? If you couple those factors with the upward trend of recent shipments, it means that steel is going to become very difficult to find and that prices will soon be on the rise.

Arcelor Mittal is announcing 12% to 18% price increases on flat steel on top of the \$30/ton announcement in the beginning of June. Nucor and SSAB have made similar announcements.

Scrap prices are widely expected to make their larg-



est jump in a year when the August numbers are released. Scrap dealers are sitting pat and refusing to cut any deals right now. They are holding out for an additional \$40 to \$80 per ton to offset higher replacement costs they are incurring. It is expected that the mills will have no choice but to pay the higher prices since most of them are sitting on dangerously low scrap levels themselves.

As soon as there is any spike in demand (June was stronger than May), there will be a scramble for steel in the market and it will take the mills at least a few months to

catch up and begin adequately supplying service centers again. An increase in actual demand and the expectation of price hikes are two very strong influences that, when working together, have the potential to drive prices up substantially and do so very quickly.

Will the increases look anything like the turmoil that took over the steel market at this time last year? No, that is probably impossible and unlikely to ever happen again; but the rise will still be significant enough to make production planning and the timing of orders very critical again.

## U.S. INVENTORIES STILL DROPPING

Despite stagnant shipments, US service center inventories have dipped to under 6.5M tons, almost a 10% decrease from last month and a 40% decrease from this point last year. Inventories at service centers are at their lowest points in decades and have

been described by industry spokespeople as "absurdly low".

Most service centers are not placing orders with mills unless they have locked in orders with their customers. There still remains a very

strong uncertainty in the market about where things are headed even though it is widely speculated that prices have stabilized and even begun to rise. Canadian service centers have seen similar drops in both orders and inventory levels.