

PEERLESS STEEL NEWSLETTER

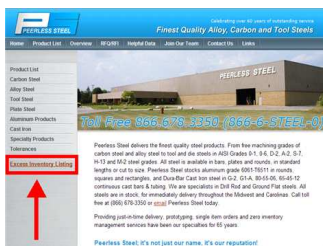
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Tel (800) 482-3947 Fax (248) 528-9144 sales@peerlesssteel.com www.peerlesssteel.com

Market Information

- Domestic scrap surcharge is \$16.25/cwt—highest level since 2008
- PMI at 60.4—fastest rate of growth since June 2004
- U.S. raw steel production slips 0.6% in April
- Steel mill capacity dips 0.4% to 72.5% in April
- April automobile sales down 8.5% from March
- Nucor, Gerdau Ameristeel, and SDI are holding their June transaction prices on par with May's on a variety of products
- Steel recovery to 2008 levels could take until 2014

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MAY SCRAP PRICES VARY FROM REGION TO REGION

Scrap prices are expected to decline slightly in May, but the declines could vary sharply from region to region. Prices in some key steelmaking cities could be off as much as \$60 per ton. Inventories at mills are currently adequate and inventories at the scrap yards are high. Sensing they may have the upper hand, mills are trying to strike aggressive deals in their favor. But things have intensified recently, as one major player conceded and agreed to pay higher prices on April 30, despite several mills noting that they placed recent orders below April's high water mark of \$420/ton. But elements continue to rise rapidly and iron ore costs are up substantially to keep total prices heading upwards. When May numbers are finally established, they will reflect themselves in June's prices. **Transactional prices for May are still up across the board (carbon, alloy, tool steel surcharges all went up on May 1).**

Prices in the Midwest did not see as big a ramp up as other parts of the nation. Scrap suppliers in Chicago, Detroit, and throughout the Midwest saw no increase to a very modest \$10-\$20 increase in April depending on the grade. Prices are not expected to fall as much locally as they are in other regions of the country.

Some sources are convinced that this blip in the scrap market will quickly rebound and that the first mill to order will receive the lowest cost. Although the mills have adequate raw material inventory right now, they cannot afford to sit on the sidelines for too long. (AMM 5/3/10)

CHINA, TURKEY RESURGENCE MAY STEEL DECLINES

China and Turkey have resumed buying U.S. scrap; exporters believe this will prevent any further declines in scrap prices. Both countries have been absent in the U.S. market since February. These buys are following price markdowns by exporting scrap yards in anticipation of a weak May. Before the news of China and Turkey returning to the market broke, prices that were expected to be down \$50 to \$60 per long ton in May are now only expected to be down \$30. (AMM 5/4/10)

IRON ORE SURCHARGE ON THE HORIZON?

In an attempt to recoup margins lost to escalating raw material prices, Severstal North America is implementing a \$125/ton surcharge on all non-indexed steel contracts beginning in June. Although they do not directly call the move an "iron ore surcharge", the intent is clear. There appears to be growing sentiment in the industry to get such a charge in place. It was a hot topic at the AISI and MCSI meetings in Boca Raton, Florida earlier this month. AK Steel Corp and U.S. Steel Corp have already reported success in levying an iron ore surcharge on some of their customers. Severstal stated the surcharge would only partially offset the 120% increase in raw material costs over the past 12 months. (AMM 5/6/10)

STEEL EXECUTIVES VERY CRITICAL OF CAP AND TRADE

Quickly rising raw material costs and a strengthening economy are having an immediate impact on the steel industry, but plodding public policy matters have the potential to change the face of the entire industry. Currency reform, restructuring of trade policies, and energy policies are all presenting new challenges to the steel industry. Many question whether the cap and trade policies will have a positive effect on the environment. The steel sector has made significant strides in reducing its' impact on the environment. The energy required to produce a ton of steel has been reduced by 29% since 1990. Steelmaking contributes to less than 2% of greenhouse gas emissions in the United States. America has some of the cleanest running industrial production plants in the world.

It is widely believed that cap and trade will cripple strategically important industries (including steel production) and will actually increase global carbon dioxide emissions, while driving thousands of Americans out of work by forcing production to countries with much more lax environmental policies. The uncertainty around the proposed changes is reason for concern; infrastructural changes to steel mills are costly and time consuming. Similar policies introduced in Europe have provided no benefit to the environment. (AMM 5/6/10)