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PEERLESS STEEL NEWSLETTER

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Market Information

- **Domestic scrap surcharge is $14.75/cwt**
- Global steel production up 29.1% in May over 2009
- Yuan revaluation expected to boost U.S. steel exports
- Truck availability expected to improve this month
- U.S. Steel import permits decrease 14.9% in June
- U.S. steel capacity at 72.4% (week ending July 3)
- Heat wave puts steel producers on “alert” - may have to curtail production
- Severstal sells majority of Lucchini to Mordashov

SBQ Lead Times Grow; Demand Still Strong

Domestic mill lead times for hot rolled and cold finished bar products have extended again, up to seven weeks longer than they were a few months ago. The growth in lead times is due to strong demand in most sectors, particularly automotive and heavy machinery. Buyers are weary that the market is nearing a tipping point that will lead to widespread availability shortages. Despite the half cent decrease in scrap surcharge for July, base prices have remained unchanged since May for the most part – but rumors are circulating that base price increases may be on the horizon to offset the dip in scrap. Currently the Turkish and Chinese buying is slow. Overall, pricing is much more stable than it was in the previous two years.

Mills continue to be filled despite them opening up their capacity. Some mills are even limiting commodity grades and boosting specialty carbon grades to meet vehicle and oilfield demand. Commodity bar orders placed today are quoted as November and December delivery in Great Lakes Region. Some specialty orders are being quoted as far out as February of 2011. Any increase in orders will create large gaps in the market – filing holes to cover 5-6 month gaps in lead times would be difficult. The likelihood of a steel shortage is amplified by many automakers curtailing their traditional summer shutdowns and working full schedules. This is typically a time for steel inventories to replenish themselves. The sentiment in the Midwest is that the uptick in demand is real and sustainable because it has been gradual, not rapid as it has been in the past. (AMM July 1, 2010)

Product Group	Lead Time	Comment
Hot Roll Rounds	16-20 weeks	Even longer on bearing or aircraft quality
Cold Drawn Rounds	16-20 weeks	Possibly longer depending on hot roll availability
Cold Drawn Flats	Up to 12 weeks	Foreign sources up to 24 weeks
Tool Steel Rounds	20 to 30 weeks	Mill prices increasing due to increased raw material prices
Tool Steel Plate	30-40 weeks	International prices still strong, despite domestic surcharges dipping
Alloy Plate	14-16 weeks	Prices up over past six months
Carbon Plate	12 weeks	Prices up over past six months

Steel Market Hoping Destocking Boosts Prices

The Chinese market has kicked off a two month round of destocking to combat growing inventories stemming from an 11.9% 1st quarter economic growth and high iron ore prices. The move is also expected to combat the dip in scrap prices. Crude steel output hit record highs in four of the first five months of 2010 - it was widely known that these levels of production were not sustainable. As Chinese inventories shrink, prices will slowly creep up. Hot rolled inventories in 26 major cities fell to 4.6M tons, down 1% from the previous month. The destocking could be hindered by the European debt crisis that has been plaguing the global economy. (AMM July 1, 2010)

GM Adjusts Production Forecast; Trucks Set To Grow

GM year to date automotive sales are up 16% to 4.73M units from 2009. GM Sales Executives expects the economic recovery to remain sluggish after the government’s revision of the 1st quarter GDP from 3.0% to 2.7%. There is expected to be some volatility as the market shifts from stimulus related growth to actual consumption related growth - but there are no indications of another downturn. Based on first half sales, GM is forecasting a 2010 seasonally adjusted annual sales rate of 11.2M vehicles.

GM’s truck sales have shown double digit increases year over year, as “pent up” demand for full sizes trucks is being released into the market. Ford saw an increase of 13.3% in June of 2010 vs. June of 2009 and also reported strong truck sales, led by a 29% increase in their F-Series. Overall, Ford has been able to increase market share despite reduced incentive plans and higher transaction prices. The reduced incentive plans have enabled Ford to avoid stockpiling inventory and keep it at a level almost equal to sales (406,000 vehicles in inventory compared to 404,000 sales in June). (AMM July 5, 2010)