



PEERLESS STEEL NEWSLETTER

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Tel (800) 482-3947

Fax (248) 528-9144

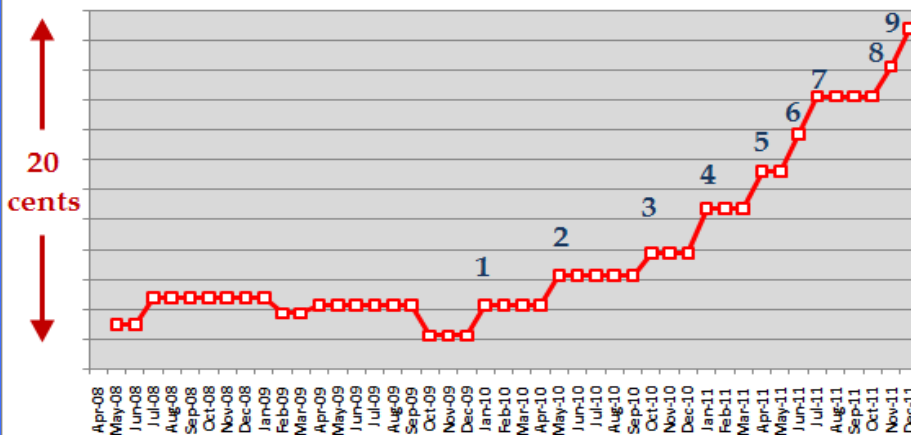
sales@peerlesssteel.com

MULTIPLE PRICE INCREASES OFFSET DIP IN SCRAP PRICES

Domestic scrap prices have been remarkably stable for nearly a full calendar year. The scrap surcharge has remained elevated and has not modulated more than a penny up or down since February of this year when it jumped \$3/cwt. This will change in December, as we are expecting to see a short lived dip in scrap surcharges as a result of weakening export demand. Mill sources indicate that the drop will be in the neighborhood of \$2.50/cwt. But in typical mill fashion, Nucor was quick to announce a base price increase of \$2.50/cwt on all products, effective December 1. Mittal is expected to follow suit, which essentially means the increase will stick in the market. This will result in a "zero" net affect on December acquisition costs. The Nucor & Mittal price increases are in **addition** to the \$2-3/cwt increase on large diameters (over 6-1/2") by Timken that went into effect November 1. Collectively, there have been nine base price increases since January of 2010 as mills have migrated towards issuing price hikes via base price increases rather than surcharges. The mills maintain this control by intentionally limiting production, which keeps lead times extended, which in turn keeps demand high.

If the winter is harsh as expected, scrap prices will rebound quickly to current levels as logistical challenges will make availability tighter. We expect the scrap surcharge to climb in January and February and settle back to November levels. The end result will be a net increase of \$2.50/cwt on sizes below 6-1/2" and \$4.50-\$5.50/cwt on diameters over 6-1/2". In addition to being more integrated into the scrap market (evidenced by the elevated, narrow band in which scrap now operates), domestic steel mills are more astute in how they deliver their prices to market than they were in 2008. The focus is now on premeditated base price manipulation instead of scrap prices.

Carbon CD Round Base Price History



BASE PRICE INCREASES

Domestic mills have been very aggressive in passing base price increases over the past 23 months. They have been able to pad \$0.20/lb of sustained increases into their prices. Depending on the grade, base prices are 55-65% higher than where they were two years ago and they are expected to continue to go up 3-4 times per year. Unlike the scrap surcharge that fluctuates up and down based on actual demand (down nine times, up 11 times, and idle four times over the past 24 months), mills have absolute control over base prices. Increases are rarely repealed after they have been pushed out into the market.

Scrap Surcharge With Base Price Increases



DUAL IMPACT (SC+BASE)

Many people view the surcharge explosion of 2008 as the most volatile and highest priced period in the history of steel. It was the most volatile, but isn't the highest. The chart to the left shows how today's prices (base prices and surcharges) compare to 2008 prices. The average cost of service center inventory is much higher today than it was in 2008 because costs have been elevated for a much longer period than 2008. Most service centers were able to avoid brining in much material in August 2008 (when costs peaked), but it is unavoidable today because there isn't a peak, just a steady climb upwards.