



# Price Driver #4

## *Danger Will Robinson Danger*

**Pat McCormick's rationale for why a USA market price recovery may be 60-90 days away**

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Perspectives from WSD's steel pricing forensic scientist

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The robot's warning to Will Robinson, the precocious son of the captain of the spaceship, in the sixties TV series "Lost in Space" is an appropriate reminder to steel buyers and sellers that price volatility is looming.

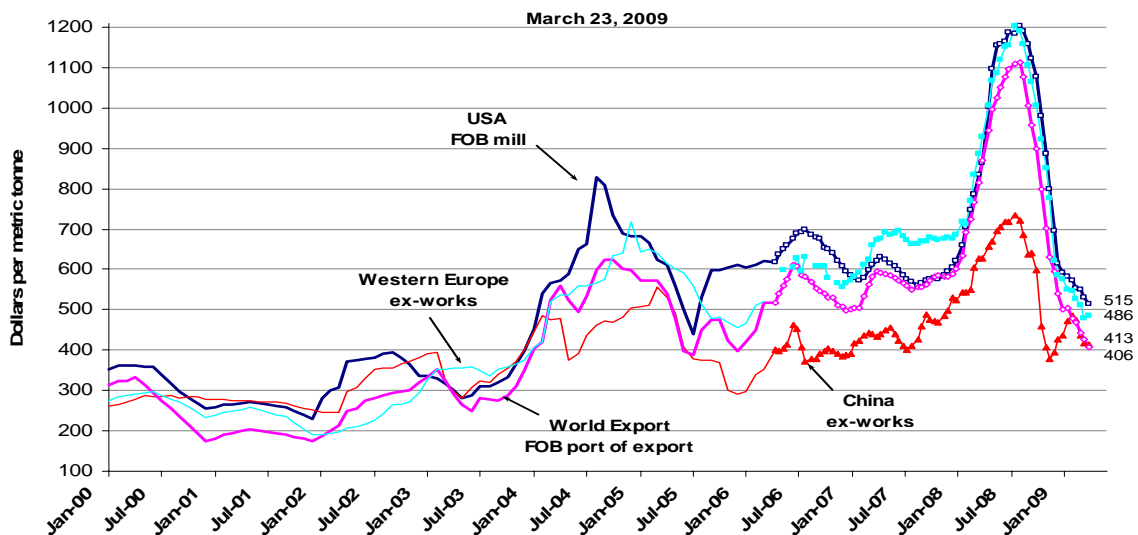
- Will buyers be prepared for a reversal of fortune as market prices rise?
- Will sellers be prepared if the expected market price rise falters?

Even though the rate of steel price decline has recently re-accelerated, a number of price drivers indicate a steel price recovery isn't too far away.

### *SteelBenchmarker*<sup>TM</sup> HRB Price

**USA, China, Western Europe and World Export**

(WSD's PriceTrack data, Jan. 2000 - March 2006; SteelBenchmarker data begins April 2006)




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Please consider the following:

## 1. Apparent steel demand is below real demand.

Mill orders and production have been significantly reduced as inventories are adjusted downward throughout the supply chain.

- Steel buyers have been reducing finished goods, work-in-process and raw inventory levels.
- Some companies may be dropping inventory levels too far as a means to conserve cash
- Mills have downsized production to an apparent demand level that is below real demand (however it appears that mill inventories are still at excessive levels).
- The time required to bring back production levels is moving out as more permanent facility idling and plant closures are implemented.

2008	Q1	Q2	Q3	Q4	Total
<b>USA Mill Shipments</b>	27.6	27.9	26.0	16.9	98.4
% Cur Qtr/Prev Qtr Change	4.1%	1.3%	-7.1%	-35.0%	
<b>Inv change estimate</b>	(1.3)	2.0	1.4	(6.0)	(4.0)
<b>Import (semis)</b>	1.4	1.8	1.6	1.0	5.8
<b>Import (finished)</b>	6.3	6.4	6.8	6.6	26.1
<b>Exports</b>	3.0	3.5	4.1	2.9	13.5
<b>Total Consumption</b>	32.2	29.0	27.3	26.6	115.0
Cur Qtr/Prev Qtr % Change	21.4%	-9.9%	-5.7%	-2.7%	

*Data source*

AISI

WSD estimate

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WSD Estimate

2009	Q1	Q2	Q3	Q4	Total
<b>USA Mill Shipments</b>	13.4	14.4	15.6	16.8	60.1
% Cur Qtr/Prev Qtr Change	-20.9%	7.5%	8.7%	7.7%	
<b>Inv change estimate</b>	(3.6)	(2.5)	(1.0)	0.0	(7.1)
<b>Import (semis)</b>	0.5	0.6	0.9	1.1	3.0
<b>Import (finished)</b>	5.0	4.5	5.0	5.5	20.0
<b>Exports</b>	1.5	1.3	1.4	1.5	5.7
<b>Total Consumption</b>	20.0	19.5	19.3	19.7	78.5
Cur Qtr/Prev Qtr % Change	-24.8%	-2.5%	-1.0%	2.1%	
Qtr/Qtr % Change	-37.8%	-32.7%	-29.4%	-25.9%	

WSD Estimate

WSD estimate

WSD Estimate

WSD Estimate

WSD Estimate

WSD Estimate

The above table is a WSD analysis of quarterly USA mill shipments and inventory change estimates. Total USA steel consumption is expected to decline of 31.7%. It should be noted the decline in total consumption in 2009 for Q2 and Q3 is quite small on the assumption that the negative spending pattern of consumers is starting to stabilize.

A key takeaway from the analysis is the expectation that USA mill shipments will increase sometime in Q2, 2009. The key driver is the expectation that inventory reductions slow down more than the additional declines in total steel consumption.

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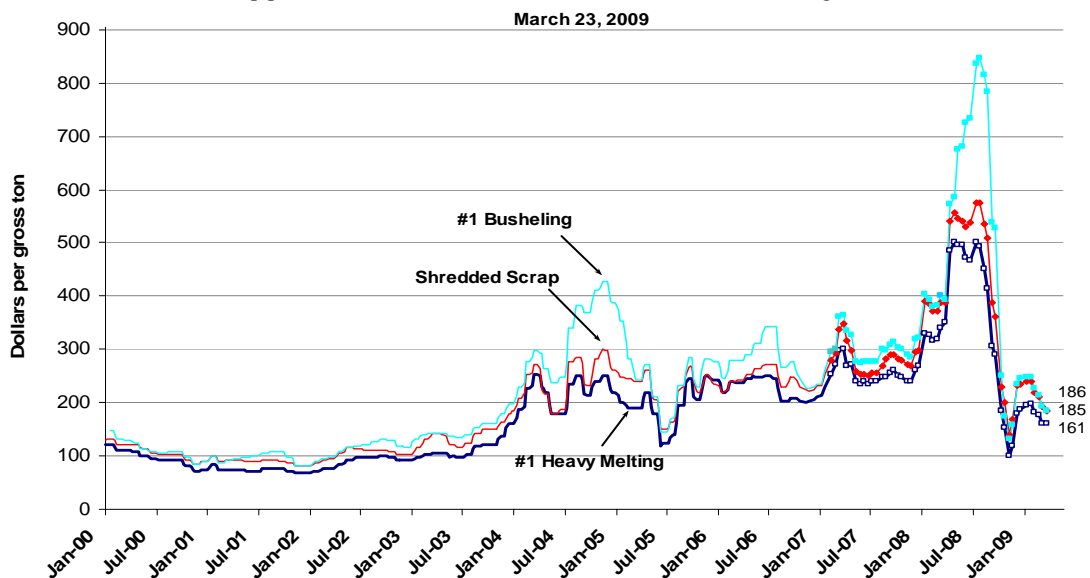
## 2. Scrap is believed to be at non-sustainable low price levels.

The miniscule mill demand for scrap continues to put downward pressure on scrap prices despite a very low rate of scrap collection and falling scrap yard inventories. When mill production and scrap purchases resume, a quick rise in USA scrap prices is expected.

### *SteelBenchmarker*<sup>TM</sup> Scrap Price

#### USA, delivered to steel plant

(AMM scrap price data, Jan. 2000 - Jan. 2007; SteelBenchmarker data begins Feb. 2007)

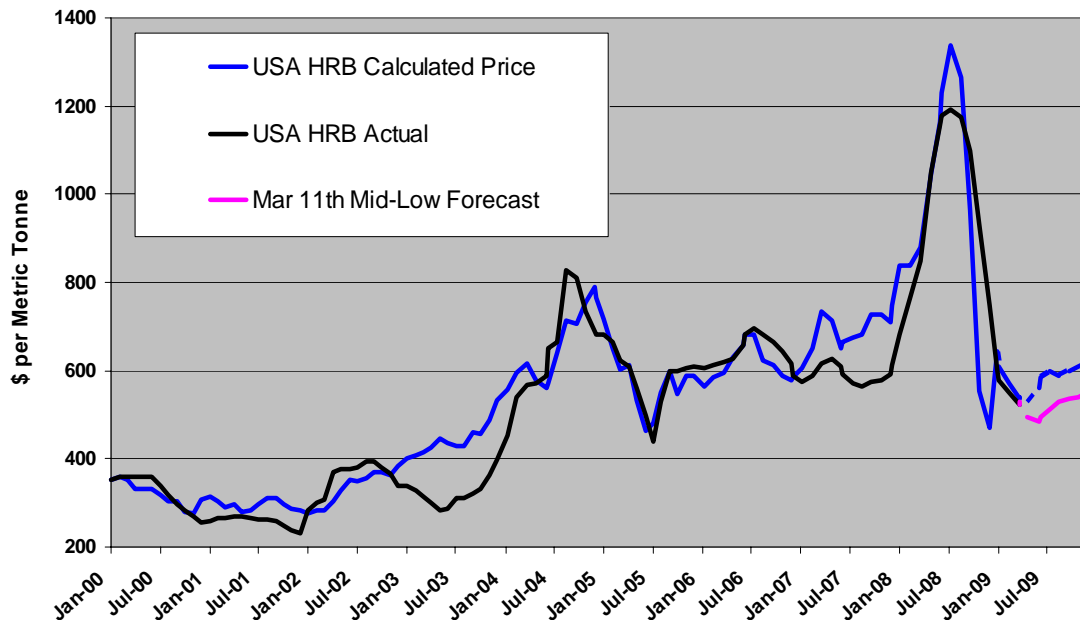


**It is interesting to note that mill efforts to add support to market prices by cutting production has actually inadvertently weakened market price sentiment.** Production cuts targeted at balancing supply to very weak levels of demand have triggered falling scrap prices due to declining mill orders for scrap. Movements of scrap inventories between mill facilities for cash conservation have further reduced demand for scrap.

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### 3. WSD's proprietary USA HRB pricing model is indicating upside price risk.

WSD's Proprietary Pricing Model  
USA Hot Rolled Band Spot Market Prices



WSD's proprietary USA HRB pricing model uses currency change (US dollar Vs the Euro) and scrap price change (#1 Chicago Busheling) to calculate spot market prices. When the actual spot market price is above or below the calculated price the model indicates the future direction of market prices.

The recent Federal Reserve action to inject a Trillion dollars into the money supply has recently weakened the US dollar. The US dollar exchange value on March 19<sup>th</sup> was trading at 1.366 versus 1.277 on March 11<sup>th</sup>. A 7.0% change in one week. The exchange value of the dollar has recovered 4% to 1.316 as of March 30<sup>th</sup>.

Chicago busheling prices are likely to fall further in April, perhaps even substantially, due to poor mill demand. However we are monitoring a trend toward increased scrap exporting supported by the declining USA scrap prices and the weaker US dollar valuation.

The April calculated price in the following table shows the impact of falling scrap prices is no longer offset by the weaker US dollar due to its recent

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4% recovery against the Euro. The table is based on Pat's monthly busheling price forecast as of March 19<sup>th</sup>. The March 30<sup>th</sup> currency exchange value is held constant April through December.

	\$ per Metric Tonne						
	\$ per Euro	Pat's Mar 19th Bush FC	Calculated Price	Actual Spot	Mid-Low Mar 11th HRB FC	Forecast Versus Calculated	
Mar-09	1.2777	195	540	523	523	17	
Apr-09	1.3158	170	529		496	33	
May-09	1.3158	200	559		485	74	
Jun-09	1.3158	225	584		496	88	
Jul-09	1.3158	240	599		513	87	
Aug-09	1.3158	230	589		529	60	
Sep-09	1.3158	240	599		535	65	
Oct-09	1.3158	250	609		540	69	
Nov-09	1.3158	260	619		551	68	
Dec-09	1.3158	265	624		551	73	
Average	1.3075	227	585	523	522	63	
			\$/Short ton	531	474	473	58

The positive price difference between the calculated price and the mid-low forecast prices strongly suggest there is significant upside potential to today's USA spot market price. This conclusion is qualified on the expectation that scrap prices will have a moderate rebound as mills increase scrap purchases as inventories are worked down and mill production rates increase to cover the return of true steel demand.

In summary, even though steel price volatility is inherently substantial, a number of effective price risk management strategies can be implemented to improve steel buying or selling performance.

Pat McCormick and the WSD's staff are actively engaged helping clients achieve improved performance. Please feel free to contact Pat directly at 201-503-0920.

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