The World Marketplace for Steel

Preface:

The steel market today is truly a global one. At the same time it is highly volatile. The price for scrap and the availability of scrap and DRI in one country have a direct bearing on steel prices and availability around the world.

While the demand for steel in North American has been flat, the demand in many places of the world has grown dramatically. This situation has a direct bearing on steel prices in North America.

World Steel News:

Steel making and steel price increases are in the papers on a daily basis. The Wall Steel Journal published an article on April 26, 2008 which included the following, “Citing high raw-materials costs, the world’s largest steel producer ArcelorMittal sent a letter to U.S. auto makers and other US contract customers that it would apply a rare $250 a ton surcharge to the price negotiated in existing contracts. The price jump comes amid continuing escalating costs for nearly all raw materials. Big mining companies such as Rio Tinto PLC, BHP Billiton and Companhia Vale do Rio Doce have each raised spot prices for iron ore, coal, manganese and other essential steelmaking ingredients.”

An earlier article stated “Surging iron-ore prices could hit the bottom lines of automotive companies, appliance manufacturers and other consumer-goods makers in the competitive China market whose products require large amounts of steel.”

In a Kiplinger letter, “A huge wave of price bumps-ups for steel products is on the way. Machinery, auto, construction and tool manufacturing firms, among others, will pay 25% more in April and they did in January.”

Iron Ore Producers:

These suppliers account for more than 75% of foreign trade in iron ore (2006)

Companhia Vale do Rio Doce (Brazil)
Rio Tinto (Anglo-Australian)
BHP Billiton

Spring Steel:

Leaf springs are normally made from 5160 alloy steel. The steel is made using electric arc furnaces which are charged with scrap steel or DRI. Alloys are added during the melting operation so that the chemical composition of the steel is correct. These alloys give spring steel the mechanical properties needed for strength, flexibility and long life.

There is a very limited number of leaf spring steel producers in North America. These manufacturers must balance their production among a number of products such as rebar, beams and columns for construction, sheet steel for the automotive and appliance industries to name only a few. In addition, they must balance their output on a global basis where multiple factors influence the decision of what they produce.

Steel Scrap:

Steel scrap is the basic ingredient in the manufacture of leaf spring steel. At the present time there is a world shortage of scrap steel at a time when world demand for steel is growing. Some countries are refusing to allow scrap steel to be exported. This situation seriously hampers steel production and the scrap shortage has caused a huge increase in the price of scrap used in the production of leaf spring steel.

Some countries are willing to buy scrap regardless of the price. Major construction in China and many other countries has put pricing pressure on all type of steel products. In Dubai for example, construction is growing at an unprecedented rate.

Alloys:

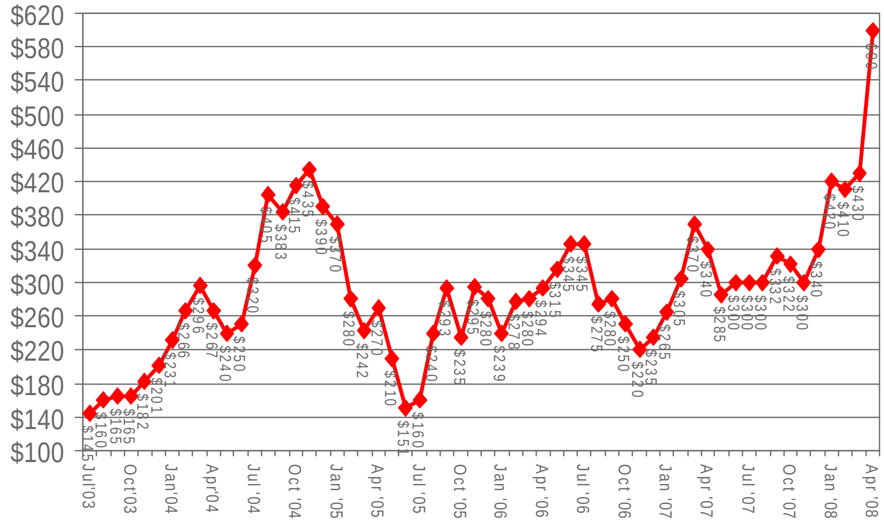
At the same time that steel scrap is increasing in price, the cost of alloys is growing at about the same rate as scrap. This fact is important as alloys cost much more than basic scrap.

Used Leaf Spring:

The springs that suspension shops replace are valuable as a source of scrap. Shops should retain the scrap springs for sale rather than throwing them away.

Graphs and Market Outlook:

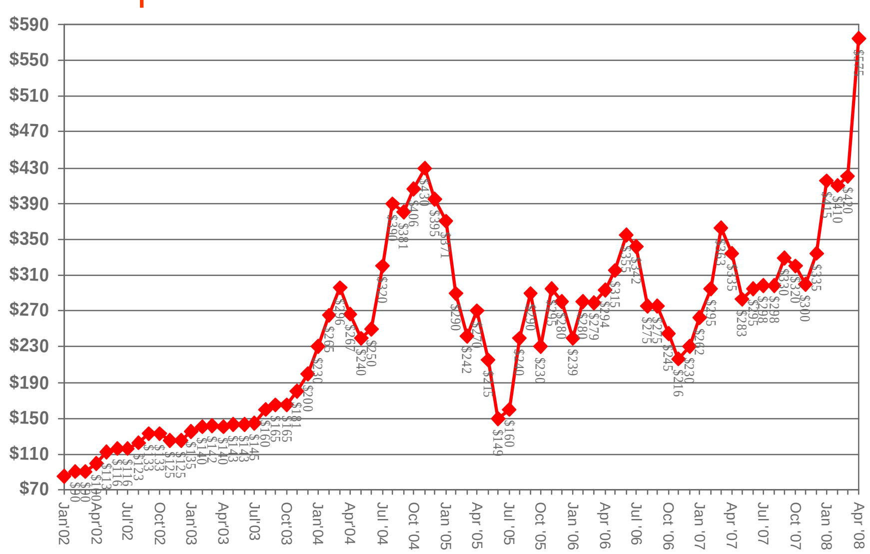
Scrap Price #1 Busheling Chicago



Source: American Metal Market, US$/gross ton

0

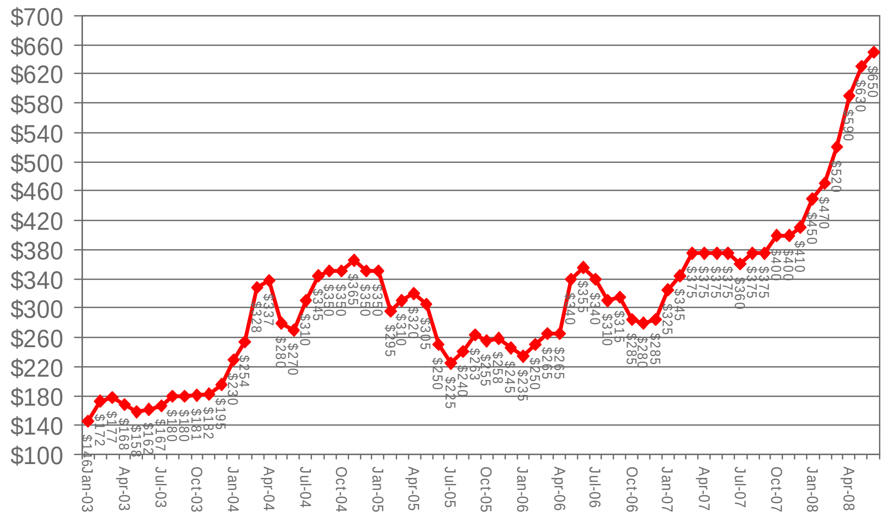
Scrap Price #1 Dealer Bundle



Source: American Metal Market, US $/gross ton

1

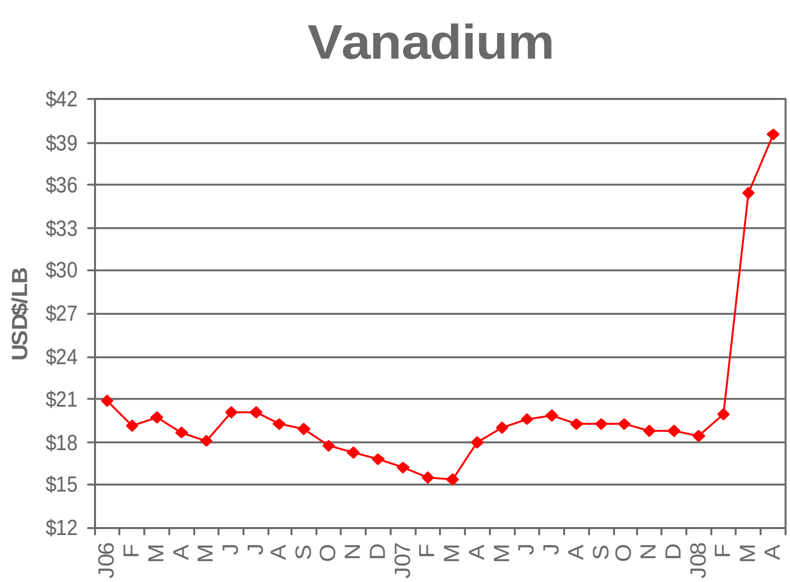
Pig Iron



Brazilian Spot Pig Iron Pricing CIF NOLA, per metric tonne

2

Ryan’s Notes Monthly Alloy Value



Expectations for 2008 and on…

- **Expectations for 2008 :**

1. Strong pricing for the rest of 2008 = all steel products
2. Tight supply market for the next 2 to 5 years
3. World Steel market at Capacity = Spare Capacity close to ZERO
4. World Utilization rate is extremely high at 95% to 99%. Even in NA, into a slow down market, it runs at 90%. (Theoretical level is at 95%)