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## **ARE COSTS MODERATING?**

I have no “theme” for this letter, but there are a few items related to past matters that might interest you.

First, with regard to China:

- In the past, the Chinese government has given a rebate of 13% on exports of billets and slab. Those rebates have now been terminated, which means that exports of those products will probably end. Those products will now be applied to domestic production, resulting in price decreases in domestic products.
- The 16 largest steelmakers in China are combining to resist the 71.5% price increase sought for Brazilian iron ore. No fear of antitrust laws is another advantage that Chinese producers apparently have over their western competitors. (In the first two months of 2005, China imported 39 million tons of iron ore, an increase of 24% over last year.)
- China is planning to divert the use of pig iron from long to flat products, as part of its policy to slow the overheated construction sector. Last year, China produced about half of the world’s output of bar and rod, and it appears that the diversion policy will put a good many smaller producers out of business.
- China’s GDP was 9.5% for the first quarter of 2005, compared with a target 8%. Industrial output was up 16.2%, while inflation was at 2.8%. Wouldn’t we love those numbers?

On another matter I discussed in a previous letter, the U.S. Labor Department has decided to chip in a \$30 million loan guarantee for the SteelCorr new flat rolled facility in Mississippi. This brings the total of government assistance to the project to about \$140 million.

Turning to some specifics, there was a substantial moderation on input costs for steel products:

- Scrap. Prices for #1 dealer bundles and #1 busheling (Chicago) dropped by \$60 and \$65 to their lowest levels in 18 months. Dealer bundles were at \$215 per mt, and busheling at \$210. The May 10 issue of the *American Metal Market* characterized the trading as “panic selling.” In the recent past, scrap prices often reflected demand by offshore purchasers; the current decline may well be due to lower domestic demand, especially for the automotive sector.
- Pig Iron and Iron Ore. The spot price for Brazilian pig iron (CIF New Orleans) declined last month, from \$320 to \$305 per metric ton. Deeper declines might have been prevented by the overhang of the announced increases for Brazilian iron ore. While, as noted, the Chinese are resisting increases in ore prices, Japanese producers have accepted a 71.5% increase from Indian suppliers.
- Ocean Freight. The Baltic Capesize Index declined from 6605 to 5670, the lowest level since last July.
- Natural Gas. The Nymex contract price declined 90¢ to \$6.49 ending a three-month upsurge. It appears that the decline may reflect similar changes in the price of crude oil. What seems clear is that volatility will remain.
- Exchange Rates. The dollar continued to strengthen last month. Recently, the Euro was down to \$1.27 and the pound to \$1.87; although the Canadian dollar was up a penny to 80¢.
- Prices. Given the virtual clean sweep of declines in steel input costs, one might project an easing of steel product prices over the next months. However, there has been a recent decline in inventories, and the president of Arcelor recently predicted a firming of prices for all steel products. The final scorecard will, of course, depend on general economic conditions in the U.S., and there are the usual confusing signals that have become familiar.

All in all, this has been a quiet but somewhat welcome month. Let’s hope that more are to come. As usual, we welcome your comments. We are posting this letter on our website [www.coreysteel.com](http://www.coreysteel.com) and on the international site [www.steelonthenet.com](http://www.steelonthenet.com).