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PREDICTIONS AND PROJECTIONS

This is the twelfth month for our letters to you presenting our thoughts on the state of the American and world steel markets and giving you some factual information that may assist you in making your own plans for the future. We hope that you have found these communications helpful.

It is common to begin the New Year with predictions and projections. Judging from the many surprises we experienced in 2004, we might be better off refraining from that endeavor, at least with any attempts at precision. Nonetheless, a few factors that will affect the steel market in 2005 seem to be apparent, at least from our vantage point:

- The U.S. Economy. Here, the certainty looks to be uncertainty. The economy, measured by increases in profits and GDP, is growing steadily, but not spectacularly. Job growth still seems to be a problem, which is probably a combination of increased productivity (and just plain working harder) and continuing concern about where we are headed. The budget deficit overhangs any economic progress, and possible borrowing for Social Security reform plus proposed tax reductions may cause things to get out of hand. The other key deficit – trade – seems equally intractable; even the weakened dollar has not produced much benefit on the export or import sides. Of course, a weak dollar also heightens the risk of inflation, the reluctance by foreigners to continue to finance our twin deficits and the possibility of much higher interest rates. Balancing these factors will be tricky, and we can only hope that reason will prevail in Washington.

- China. It now looks as if China's insatiable domestic demand for steel may be easing. In each of the last four months of 2004, China was a net exporter of steel, both finished and semi-finished products. For the year, however, imports continued to outstrip exports; imports of finished products were 29.3 million mt, while exports were 14.2 million mt. Still, the demand in China seems strong, as prices for flat rolled have recently climbed by as much as $30 per mt. In addition, the reconstruction of tsunami battered countries in Southeast Asia will require huge amounts of steel, a new market that China, along with India, Japan and Korea will be eyeing. It thus seems unlikely that China's role as the major influence on world steel prices will diminish significantly in 2005.

- The U.S. Steel Industry. In our letters during 2004, we characterized the domestic steel market as "turbulent", in "turmoil", and an "enigma". Well, things haven't changed much in this regard. We are able to see, however, that input costs are unlikely to moderate much over the next year, that consolidation will be continuing (thus enhancing the pricing leverage of large producers, particularly in dealing with large customers) and that steel demand should remain at least at current levels. Thus, we are anticipating a continuation of current market conditions, without significant price or cost increases. Of course, the uncertain world conditions, coupled with the many open questions about the U.S. economy could throw all our thinking into a cocked hat. The watchword continues to be keep your eyes open and powder dry.

Turning to some specifics:

- Scrap. Number 1 Bundles and #1Busheling (Chicago) continued their recent decline to $370 per mt early this month. This is the lowest price since last July and could be the result of self rationing by buyers hoping for further price relief.

- Pig Iron. The Brazilian Spot Price (cif New Orleans) continued to hang around $350 per mt, the level since last July. It appears that pig iron prices, while very high compared to 2003, are less volatile than scrap. It does appear that Brazil's domestic steel requirements will increase in 2005, possibly causing a curtailment of pig iron for export.

- Coke. Coke supplies continue to be tight. US Steel recently declared *force majeure* on its coke supply contracts, due to flooding on the rivers, and other producers have had to cut back production as well.

- Ocean Freight Rates. These have remained at the very high levels of last month as measured by the Baltic Capesize Index. In other words, they are about eight times the level of October, 2001.

- Natural Gas. The Nymex contract price continued its plunge from November 2004's record of $8.75 mcf. This month's price is $5.79 mcf, about in the middle of the prices for the first half of 2003.

- Exchange Rates. After hitting an all-time record of $1.36, the euro has declined a bit in recent days to the $1.31-$1.33 range. The British pound has also declined lately to $1.86, and the Canadian dollar has stayed at about 83¢.

- Pricing. An exception to recent trends occurred on the West Coast, when CSI and USS Posco announced price cuts on flat rolled products of $30 per ton and up. The reductions were attributed to competition from producers in the Midwest, where prices are traditionally lower than on the West Coast. Apparently, import competition did not play the usual role in the decision to cut prices, as the domestic prices remain below those for offshore product.

The temptation is to put all our projections in this letter into a desk drawer, so that we won't be embarrassed when 2006 rolls around. But we wanted you to have our thinking to keep the lines of communication flowing. Please feel free to give us your reactions and suggestions. As usual, we are posting this letter on our website – www.coreysteel.com. (You also might be interested in knowing that our letters have been selected to become part of the British international information base www.steelonthenet.com – click on "Perspectives".)