Office and Plant:
2800 South 61st Court
Cicero, Illinois 60804-3091

(708) 735-8000
(800) 323-2750

STEEL COMPANY

Mailing Address:
P.O. Box 5137
Chicago, Illinois 60680-5137

Facsimile:
(708) 735-8100

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LATEST ON MARKET CONDITIONS

Last month I wrote you to give Corey's perspective on conditions in the world and domestic steel markets. Because much of the information I was providing was not good news, I was frankly hesitant about becoming a messenger of bad tidings. In this respect, your reactions have been extremely reassuring. A number of you have sent kind words and asked for news of more recent developments.

This letter gives you our latest intelligence on market conditions. Unfortunately, many of the adverse trends have continued and there are some new problems on the horizon.

China. China's demand for steel continues to be the number one destabilizing factor in world steel trade. Recently, their transportation system has bogged down. Overtaxed railroads have been unable to supply adequate coal to power plants, causing brownouts and factory shutdowns. Ports are jammed with incoming cargoes because trucks and rail cars are in short supply. Ships wait to unload, and demurrage of one month or more has become common. Given the size of China's imports, these bottlenecks have had an effect on ocean freight rates, which continue their steep climb.

Scrap. Driven by the factors I mentioned last month (China's demand, shortages of coking coal and hot metal), scrap prices continue to shoot up. The price for #1 Dealer Bundles in Chicago, which was at $265 on February 1 climbed to $296 by the beginning of March. Number 1 Busheling also went up $30 in that period. At the end of February, Ford Motor refused to auction any if its Chicago area bundles for the first time in decades. No reasons were given, but this move could be the result of expectations of even higher prices or a desire to use scrap as a bargaining tool in negotiations with steel suppliers over surcharges. On another front, the new Emergency Steel Scrap Coalition is asking the government to impose controls on scrap exports.

There may be some easing of demand pressure on scrap supplies due to resistance from some price-sensitive buyers in Taiwan and Korea and the inability of Chinese buyers to get the scrap they previously bought off the ships and out of the ports. These factors have not yet, however, been reflected in the U.S. scrap sales mentioned above.

Pig Iron. The price of this other critical steel-making product has simply exploded. The New Orleans fob price went from $225 in January to $305 in March.

Surcharges. *World Steel Dynamics* says that surcharges to offset increased raw material costs are “sprouting like weeds.” Nucor and SDI have raised their current $100 per ton surcharge on sheet products to $125 for April deliveries. Buyers, particularly in the automotive sector, are resisting through a variety of means, but the economic pressures are undoubtedly getting stronger. In some cases, the disputes over surcharges have become nasty – Delphi reportedly sought injunctions against suppliers NSS and Republic to prevent them from raising prices.

Shortages. *Fortune* reported that ISG and USS were placing customers on allocation or severely limiting orders. Nucor recently announced that it was closing SBQ and MBQ orders from its Nebraska plant for the second and third quarters. *World Steel Dynamics* says that coking coal and other shortages are causing cutbacks in production in Japan, Korea and Western Europe. Prices, of course, reflect these shortages. As an example, *WSD* cites the international price of slab, which went from $320 to $375-395 in a single month. It also reports that U.S. hot band prices are at $510-590 per net ton, including a $100 surcharge that appears to be going up. The price last June was $255 per net ton.

Steel shortage seems to be a world-wide phenomenon. Container manufacturers in the Far East are unable to get the steel they need to answer the need for containers caused by the unprecedented boom in sea cargoes.

Natural Gas. Here, the news is “better.” While still ahead of last year’s prices, the current Nymex NGH4 rate has declined from $6.90 per mcf in January to $5.80 at the end of February.

Exchange rates. The dollar against the Canadian dollar and the Euro has stabilized somewhat, running at about 75¢ and $1.25, respectively. The British pound, which reached $1.85 last month, has recently declined a bit to $1.80.

U.S Economy. I would not presume to offer analyses or predictions of where the nation’s economy is headed. You can read oceans of print about those issues every day. However, I would point out that many of the uncertainties in our steel markets exist on a larger scale for the entire national market. There are good signs – increased revenues, productivity and stock prices. But, then again, serious concerns remain, like the huge budget deficits and anemic job growth. The national economy seems to be teetering, and the slightest push either way, like the terrorist attacks in Spain, could be very important. I believe that we must keep our eyes on yet another ball, one that is well beyond our ability to affect.

I close this letter by again urging you to let us know your views on all these matters. We can learn a good deal from one another, so let us have any opinions, information or projections that you want to share. Again, we shall post these letters on our web site, www.coreysteel.com.