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EAT, DRINK AND BE MERRY, FOR TOMORROW . . .

Winston Churchill said that “democracy is the worst form of Government except all those other forms that have been tried”. No doubt this observation is correct, but we cannot assume that having a democratic *form* of government will automatically lead to effective or even adequate governance. There are many requirements for a healthy democracy beyond fair elections. One of the most important of these is a citizenry possessed of the facts and capable of holding their elected representatives accountable to those facts.

Today, here in America, the government is making critical economic decisions, apparently without regard to a whole range of facts that should compel contrary policies. And the public seems not to care, preferring today’s gratification to concern over the future.

Consider these facts:

- At the end of fiscal year 2001 (September 30, 2001) the national debt was \$5.8 trillion dollars. In the four and a half years since then, the figure has grown to \$8.3 trillion and Congress has just authorized an increase to \$9 trillion (the fourth time in five years that Congress has been obliged to act). Last year, even with extremely low Treasury rates, the interest on the debt exceeded \$352 billion.
- Our “on budget” deficits (not including surpluses from social security payments) averaged \$533 billion in the last 3 years, and the Congressional Budget Office estimates that they will average \$526 billion over the next three years.
- Congress has called for spending reductions of about \$40 billion, but they also will take up additional tax cuts of over \$60 billion.
- The country’s current account deficit (trade balance deficit, less income from investments) for fiscal 2005 was \$805 billion, up over 20% from the prior year. By the end of 2006, the deficit may be running at an annual rate of \$1 trillion.

- Financing the current account deficit requires inflows of foreign capital of about \$3 billion *per day*. Yet the Congress has embarked on efforts to limit that flow, not only by seeking limits on foreign ownership of U.S. enterprises but actually by proposing limits on foreign ownership of U.S. Treasury obligations! This at a time when the availability of foreign capital may be drying up as a result of efforts by the governments of China and Japan to encourage consumer spending domestically (and thereby reduce savings available for investment).

We face many long term problems in this country – terrorism, global warming and natural disasters, to name a few – but without a thriving economy, our efforts on these challenges will be seriously weakened. Yet, for the attention seemingly devoted to the economy by the Congress and the White House, one despairs of seeing an effective program to cure our ills. As Churchill also said, “The Americans usually do the right thing – after trying everything else”.

Here are this month’s specific data:

- Scrap and Pig Iron. Prices for #1 dealer bundles and #1 busheling (Chicago) remained essentially unchanged from last month. Both were at \$279 per mt. Pig iron (Brazilian spot price at New Orleans) climbed again to \$265 per mt, an increase of \$30 over the last two months. These increases were said to reflect the bounce-back of scrap prices from the January levels.
- Ocean Freight Rates. The Baltic Capesize Index stayed at last month’s 2865, suggesting that, at least for the moment, the tremendous demands on ocean shipping during 2003-2005 have moderated substantially though declining cargoes and increased availability of carriers.
- Natural Gas. The plunge in prices continued last month. The Nymex contract price in March was \$6.54 per mcf, \$1.31 below last month’s level. That is the lowest price in more than a year and is fairly typical of winter prices for the years 2003-2005, before the large run-ups in the last twelve months.
- Exchange Rates. In recent days, the euro and the pound have strengthened to \$1.215 and \$1.755 respectively. The Canadian dollar lost a cent and is now worth 77¢.

We always value your suggestions and comments. This letter will be posted on our website, www.coreysteel.com and on the international site www.steelonthenet.com.