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STEEL MARKET CONDITIONS

I know that I need not tell you that steel market conditions over the last few years have been turbulent and sometimes chaotic. A number of producers have gone bankrupt, the government for a time imposed special tariffs to prevent further injury from imports and a number of mergers have increased consolidation in the industry.

In these circumstances, it is more important than ever that we at Corey communicate effectively with our customers. With this aim, and to supplement the information we have provided you through our sales force, I am writing to give you our best evaluation of today's market situation and where we think it might be going over the next months.

I should begin by giving you a snapshot of where we stand at Corey. We have just completed a multi-year project to make our production operations the most modern in the world. We have invested a substantial amount to acquire the newest equipment, install cutting edge information technology and train our personnel. We can now give you the best available quality and the support to let you fully enjoy the benefits of that quality.

We made these investments for two reasons. First, we understand the demands of a new world marketplace for steel products and that we will need to compete in that market. Second, we are confident that our customers will demand the highest quality cold finished steel bar because your customers will demand no less of you.

I must admit to you that, despite our ability to produce quality products in an efficient and cost-effective manner, we have not fared well in the market conditions of the recent past. I need not revisit the problems caused by foreign suppliers selling in our market at below-cost prices. And I am sure you are aware of actions of some companies that seek market share or cash flow from any sale, no matter what the price. These market conditions have meant that even Corey, with our sound finances, efficient production and excellent product, has found it most difficult to turn an adequate or any profit. And we are never willing to compromise quality, no matter what price we receive for our products.

I know that many of our customers are in the same place as we. You too face severe competition and customers who want you to hold the line or even reduce prices for the products they buy. No matter how you increase your efficiency, you have great difficulty in swallowing increased costs without some relief on prices. At the same time, you, like we, cannot operate without realizing revenues that allow you to pay your workers, satisfy your creditors and maintain your plant and equipment

So, in the end, we are really in the same boat. For that reason, you are entitled to know what we think about some new market conditions that we all are facing. I am giving you our perspective to allow us mutually to discuss the future with some common awareness of what market forces will be operating. We owe you this as our customers.

Let me begin with some information about the world market for steel. The most important development in world steel is one word – China. That country's demand for steel has become nothing short of amazing. China is now the world's largest producer of steel. It is also the world's largest importer of steel. China's steel requirements have produced enormous changes in steel fundamentals – for example:

- Steel scrap is flying out of the U.S. Foreign demand is so strong that prices have exploded. Number 1 dealer bundles have gone from about $135 per ton in January, 2003 to $265 this month. Number 1 busheling (Chicago) has gone from $133 to $266 in the same period. It is estimated that the price for steel scrap will exceed $400 per ton (delivered) within the next few months. Exports have increased from 8.9 to 12 million metric tons in the last year. The problem has become so severe that some producers are asking the government to introduce export controls on scrap.

- Coke prices are at unprecedented levels because of the shortage of coking coal. Coke shortages mean less hot metal production, and world prices for pig iron reflect that shortage. Imports FOB at New Orleans were $146 a ton in January 2003; today, they are $254. Of course, shortages of hot metal further drive up prices for scrap and other metallic inputs.

Some of you rely, at least in part, on foreign suppliers to meet your needs, especially when domestic producers raise their prices. There is more bad news on that front:

- The US dollar is at its weakest level in years. The Euro was worth about a dollar a year ago; today, it will cost you between $1.25 and $1.30. The Canadian dollar was worth 64 cents a year ago; today, it is 77 cents, a 20% increase. And, unlike the terminated Section 201 tariffs on imported steel, there are no exceptions or exclusions for those increases. Foreign producers who attempt to "eat" these costs will face charges of dumping into our market, possibly initiated by the government itself.

- Ocean shipping rates are also up, again thanks to China's increased demands for commodities. A ton of a commodity could be moved at sea for an average of $38 a year ago; today the average is $56. That is another cost to which there are no exclusions or exceptions. Moreover, the demand may increase to the point where cargo space could be rationed.

How have these factors affected the U.S. market? Again the news is not good:

- As you know, the production of hot rolled bar, the raw material for cold finished steel bar, requires substantial quantities of natural gas. The Nymex Exchange spot price before transmission, for natural gas has zoomed - in January 2003 it was $4.75 per mcf and last month that price was $6.90.

- The increases in scrap prices have obviously had a serious effect on domestic producers using electric furnaces, and these companies (and their foreign competitors) make practically all the hot rolled bar. Integrated mills can substitute pig iron or DRI for some of their scrap, but they will also incur cost increases for these substitutes, as well as for the scrap they must use and for natural gas. Thus, we see surcharges being imposed as the normal finished goods pricing mechanics are no longer able to respond to the frequency and magnitude of cost change.

- As China demand continues, shortages could develop in the U.S. Our prices here are now among the lowest in the world; foreign producers who now sell in our market and even some domestic companies may well look for the higher prices in China. Indeed, one very savvy investor in steel-using companies has been advising them for months to buy steel forward.

I would not presume to ask you to take my word on all these developments. Many of you may already know of them and may know more about them than we. My intent is only to provide a framework for our talking about these conditions with you. For our part, we intend to follow these matters closely in the future, and we shall even post new information on our web site, www.coreysteel.com. We invite you to visit.

Finally, we hope that you will ask our sales representatives to discuss any of these matters further with you and your people. I am convinced that that kind of discussion will help both Corey and the customers we seek to serve.