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SEPTEMBER 2005 – A SAD MONTH

Nothing can fairly be written about our country this month without reference to Hurricane Katrina. The havoc caused by this act of God shocked our nation. Natural feelings of concern and sympathy triggered the generosity of the American people, who rallied to support the victims with cash, goods and prayers.

It is not surprising that those in the steel industry are pondering the effects of Katrina on demand and on input costs. While much about the recovery remains to be seen, there is little doubt that there will be extraordinary needs in the construction sector and plenty of money to meet those needs. On the other hand, it appears equally certain that the costs of steel making will go up, as energy, transportation and raw materials become more expensive. Added into this mix will be the higher interest rates that are sure to be imposed as the price of the recovery program is added to the already staggering deficits we now incur.

Last month's data, not yet feeling the full impact of Katrina, were ominous on the cost side:

- **Scrap.** The prices for #1 dealer bundles and #1 busheling (Chicago) soared again last month to over \$290 per mt. The prices were actually higher for a time, but eased off a bit as it appeared that export sales might be curbed because of hurricane related transportation problems. Even so, over the last two months these prices have increased by \$130, or more than 80%. China seems to be coming back as a purchaser of U.S. scrap; although they have been very big even when not so active. After taking about 30-35% of steel scrap exports in recent months, China's share went up to 42% in July. India jumped into second place.
- **Pig Iron.** Brazilian pig iron (CIF New Orleans) also jumped by \$23 to \$263 per mt; it seems likely that the prices will jump again as the shipping problems caused by Katrina limit availability.

- Ocean Freight. The Baltic Capesize Index, which had been declining for the last five months, rose in August to 3572, an increase of just under 40%. Again, Karina will have an effect on these costs, as lack of access to the New Orleans freight hub may produce an excess of bulk carriage on other routes.
- Natural Gas. The gas pump woes were, as expected, duplicated for buyers of natural gas. The Nymex contract price (Henry Hub, LA) shot up again to a record \$10.93 mcf. This was an increase of \$2.23 from the previous month and \$4.23 from June. There has been no suggestion that prices will ease to anything like what we call “normal”, if such a term can continue to be used in the energy sector.
- Foreign Exchange. The dollar sank last month against just about every other currency. The euro increased by 4¢ to \$1.25, but then eased to \$1.23. The .pound is up by 5¢ to \$1.81, and the Canadian dollar stands at 85¢.

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