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“TRADE TALKS COLLAPSE – WHERE DO WE GO FROM HERE?”

It's hard to say that anything is impossible after American Floyd Landis made an amazing comeback to win this year's Tour de France, but it looks as if even that kind of miracle would not bring the World Trade Organization talks back to life.

Launched almost five years ago in Doha, Qatar, these talks had (among other objectives) the very ambitious goal of ending or substantially curbing national subsidies provided to farmer and exporters of agricultural products. Farm products have long benefited from exemptions to many of the rules that apply to trade in other goods. These exemptions were generally justified as protection for family farmers, but as farming has grown to resemble industrial manufacturing, developing countries complained that their food producers were being subverted by subsidized exports from the U.S. and the EU. Those complaints were endorsed by other agricultural powerhouses, like Brazil and Australia, who had to compete in the world market with those subsidized products.

From the start, it was clear that the negotiations would be difficult. Deadlines were missed, meetings produced no results and domestic politics, here and abroad, made compromise more difficult. A “last ditch” effort in Geneva collapsed last weekend as negotiators clung tenaciously to their positions.

Missing this opportunity to mitigate world subsidization of agriculture will be a shame. Developing countries desperately need to have viable food production for survival. The subsidizers, certainly the U.S., have other compelling needs for the moneys now paid over to mostly large, factory-like businesses. (Over the 10 year period 1995-2004, subsidies to farmers totaled over \$140 billion, and they have been rising. Only about 40% of all farmers get any subsidy, and 10% of them got over 70% of the total.)

Equally important, a failure of these trade talks will be the first ever since multilateral trade negotiations were started after World War II under the auspices of the General Agreement on Tariffs and Trade, the predecessor of the WTO. Freeing up international trade is often likened to riding a bicycle – if you stop, you fall off. Particularly in the present environment of uncertainty in international markets (*e.g.*, high imbalances in the U.S. trade picture, very large outstanding dollar obligations, the weakened dollar) a failure of the trade talks could be very unsettling.

Regarding another subject we have discussed recently, the Chief Economist for Morgan Stanley recently wrote an open letter to Fed Chairman Ben Bernanke criticizing the Fed's "back-and-forth waffling" on rate policy. That criticism has not been unique, and there is some opinion that Bernanke is making an effort to assure that the Fed delivers a consistent message with fewer spokespersons. If so, all that needs to be done is to figure out what the message should be.

Turning to the specifics:

- Scrap and Pig Iron. Number 1 dealer bundles and #1 busheling (Chicago) were at \$345 per mt in July. This represents a \$5 decline from the prior month for the former and no change for the latter. The spot price for Brazilian pig iron (cif New Orleans) was down \$15 to \$320 per mt.
- Ocean Freight. Things have stabilized over the last six months, and the current Baltic Capesize Index remains at 3176, the same as last month.
- Natural Gas. The Nymex contract price continued to fall for the third month in a row and now stands at \$5.51 per mcf. This is the lowest price since September, 2004. However, as we move into the fall and winter, this price should increase, unless we have another mild winter.
- Exchange Rates. As of this writing, the dollar is unchanged against the euro at \$1.26. It weakened slightly against the pound, which is worth a penny more at \$1.85. The Canadian dollar declined 2¢ to 87¢.

The heat wave over the U.S. makes us already yearn for the cooler days of the fall, but we hope that you are having a pleasant summer and get some time to relax and vacation. Continue to let us have your comments and suggestions. As usual, we are posting this letter on our web site, www.coreysteel.com and on the international site www.steelonthenet.com.