

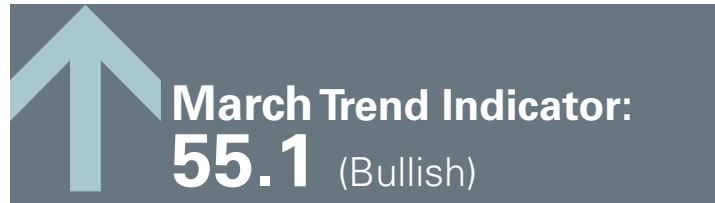
scrap trends outlook

Vol. 1, No. 2 • February 22, 2010 • Industry Surveys of Factors Affecting the Upcoming March Market

Stronger mill demand may trigger higher March prices

A stronger demand from steel producers across the country is expected to lead to price increases in the March scrap market, respondents to the Scrap Trends Outlook monthly survey say.

Leading the way is an expected increase in the price of prime industrial grades, although respondents also expect that cut grades and frag should be stronger. It is also possible – if a few market factors shift in the coming days – that March could be sideways, some say, but even then expectations are for a “strong sideways,” to quote one respondent, meaning that tonnage figures and seller margins would be healthier than in February. Other key factors cited as reasons to expect price hikes in March include a slightly resurgent export market, somewhat diminished dealer inventories, stronger scrap broker demand and historical factors from the past decade which show that March pricing often rebounds from lackluster February markets.



Top 5 Bullish Indicators for March

60.2 (Overall demand) All buyers are expected to seek more scrap

59.9 (Overall prices) Respondents are bullish on next month

59.6 (Dealer inventory) Weather, economy have limited reserves

58.4 (Mill orders) With increasing capacity rates and new orders coming, consumers are expected to go on the hunt for more materials

56.9 (Historical) March has been a good month for prices in recent years

Methodology: A numerical value is given to the overall trend for the upcoming month after all the survey results of a series of 15 indexes (please see pages 4 and 5) are calculated based on a weighted average. A number close to 50 will give a 'sideways' or 'unchanged' reading, while numbers above 50 will give a reading for a bullish trend. The closer to 100, the more likely it is that prices will trend upward. Conversely, a number below 50 will give a reading for a bearish trend. The closer to 0, the more likely it is that prices will trend downward. N/A means there were too few survey responses to publish a reliable figure.

Numbers & Letters

A quick look at key points expected to affect next month's markets

48 Nearly half – 48 percent – of the respondents to this month's survey expect prices to go up (see chart, page 4). That's above the 42 percent who expect prices could be sideways. Taken together, the percentages point to a bullish outlook when it comes to the March market. Only about 9 percent of respondents expect a decrease.

60 Last month's STO Trend Indicator number. It showed an expectation of relatively strong gains for February. But during the waning days of January, China and Turkey pulled back from the U.S. export market, and although pricing overall went up slightly, it did not perform up to the expectations of the survey, pointing out the volatility in today's market climate.

63 That's the Trend Indicator number for prime grades in this month's survey (see page 2). Perceptions are strongest on these grades in March. No. 1 busheling is expected to lead the way, with No. 1 dealer bundles following closely. Other prime grades also are expected to do well, but not quite at the levels of these two.

Historical Trends by Select Grades

(How the market has performed in the recent past at this time of year, and what it may say about the coming month. Source: **Scrap Price Bulletin**)

Date	No. 1 heavy melting	No. 1 dealer bundles	Shredded	No. 1 busheling
Feb. 2007	\$244.33	\$274.50	\$285.83	\$289.08
March 2007	\$289.17	\$347.00	\$361.83	\$362.83
Feb. 2008	\$322.50	\$373.00	\$386.83	\$396.67
March 2008	\$351.17	\$393.00	\$404.17	\$416.46
Feb. 2009	\$184.17	\$220.83	\$219.17	\$231.08
March. 2009	\$157.50	\$191.83	\$187.83	\$199.17
Feb. 2010	\$301.50	\$388.50	\$334.83	\$391.28
March Outlook	Bullish	Bullish	Bullish	Bullish

March Outlook by Scrap Categories

Trends & News

(Scrap Trends Outlook's quick take on views, attitudes and patterns that affect the most traded families of scrap)

PRIME GRADES

(includes Busheling, Bundles, No. 2 Bundles, Clips)

These grades far and away are the ones considered most likely to increase in March, according to the survey. No. 1 busheling is perceived as having the most strength, followed by No. 1 dealer bundles. Buyers feel more certain than sellers about this trend. Expectations are that increased mill demand will drive this category.

CUT GRADES

(includes No. 1 and No. 2 Heavy Melting, P & S)

No. 1 and No. 2 heavy melting are both expected to increase in March, with heavy dense and the P&S grades just about keeping pace. But it's a close call. Buyers say they expect this grade category to be sideways, although they believe heavy melting may rise slightly. Sellers, in contrast, are comfortably bullish on the category.

FRAG GRADES

(includes Shredded, Other Fragmented Materials)

Like the cut and foundry grades, shredded scrap is expected to increase somewhat, but may perform well behind the prime grades. This will be partially dependent on how the export market takes hold. Unlike the situation in the cut grades category, buyers are the ones who are most certain about increases in frag in March.

FOUNDRY GRADES & MISCELLANEOUS

(includes Cast Iron, Machinery Casts, Unstripped Motor Blocks)

For the second straight month, foundry grades have the lowest expectations. While survey respondents (especially sellers) across the board say they believe this category will see increases in March, there is little overall enthusiasm for this view. And with some foundries in trouble, that could mean a market closer to sideways.

By the Numbers

(The Scrap Trends Outlook Index numbers for March broken out by category of scrap. Numbers above 50 are bullish; below 50 bearish)

PRIME GRADES March Preview

Sellers' perceptions:
Bullish (63.1)

Buyers' perceptions:
Bullish (66.2)

Others' perceptions:
Bullish (60.2)

Overall March trend outlook:
Bullish (63.1)

CUT GRADES March Preview

Sellers' perceptions:
Bullish (59.2)

Buyers' perceptions:
Unchanged (50.6)

Others' perceptions:
Bullish (54.1)

Overall March Trend Outlook:
Bullish (56.8)

FRAG GRADES March Preview

Sellers' perceptions:
Bullish (55.8)

Buyers' perceptions:
Bullish (58.2)

Others' perceptions:
Bullish (57.0)

Overall March trend outlook:
Bullish (56.4)

FOUNDRY GRADES March Preview

Sellers' perceptions:
Bullish (57.5)

Buyers' perceptions:
Bullish (54.2)

Others' perceptions:
Bullish (51.7)

Overall March trend outlook:
Bullish (56.0)

Taking Account

(A look at how Scrap Trends Outlook Index numbers for February stacked up against actual changes in last month's market. Source: Scrap Price Bulletin)

PRIME GRADES February Review

February outlook:
Bullish (66.3)

February's Actual Change:
Busheling: +\$7/2%
Bundles: +\$2/0.5%

CUT GRADES February Review

February outlook:
Bullish (64.1)

February's Actual Change:
No. 1 HM: -\$3/1%
P&S: -\$10/3%

FRAG GRADES February Review

February outlook:
Bullish (63.9)

February's Actual Change:
Shred: -\$12/4%

FOUNDRY GRADES February Review

February outlook:
Bullish (60.7)

February's Actual Change:
Punchings: +\$10/2%
Misc. Foundry: -\$1/0.3%

10 Things to Watch in March

- ↑ The bad winter could contribute further to a lack of availability in the scrap market.
- ↑ Scrap dealer inventories are shrinking in many areas.
- ↑ A stagnant export market in February may give way to a more active one in March, as Chinese New Year celebration ends.
- ↑ Mill productivity and orders are expected to increase.
- ↓ Despite lower dealer inventories, more local scrap could begin to flood the market.
- ↑ Inventories are being replenished at mills, creating a higher demand even if orders are still lagging.
- ↓ Imported HBI and pig iron remain popular, and domestic alternative irons also may be used more.
- ↑ Domestic buying is improving even as exports are volatile.
- ↑ Stimulus spending is expected to increase steel demand.
- ↑ March is historically a good month for scrap prices.

Notable Quotes about Next Month

(Selected comments from participants in this month's market survey)

“(Mill) inventories are being refilled, thus demand is getting higher ... whereas offers are practically unchanged. RR wheels, axles and truck frames are being strongly requested.”

“Pricing will continue to be impacted by flows. Weather disruptions have negatively affected inbound scrap flows in February. March should see better generations of both prime and secondary grades.”

“Scrap inventories appear to be low at regional scrap yards. Steel service centers are not rebuilding inventory of new steel yet.”

“Scrap on the retail side is not being sold due to the snow. Weather will be a unknown factor to keep the market a strong sideways going into March.”

“Improved industrial growth patterns in (some) regions could lead to increases (in demand).”

“If automotive (demand) remains strong, good things can only happen.”

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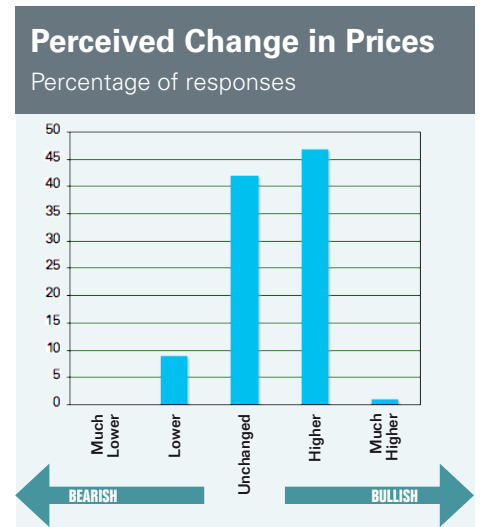
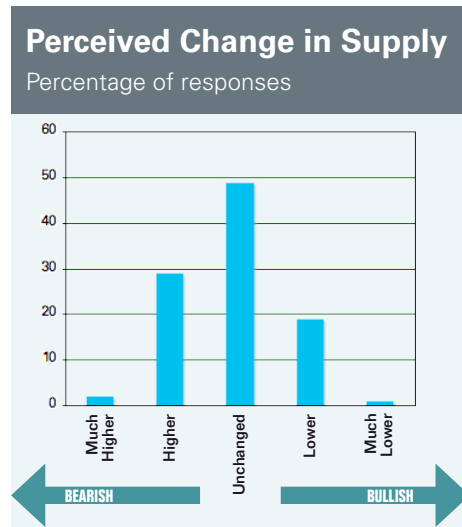
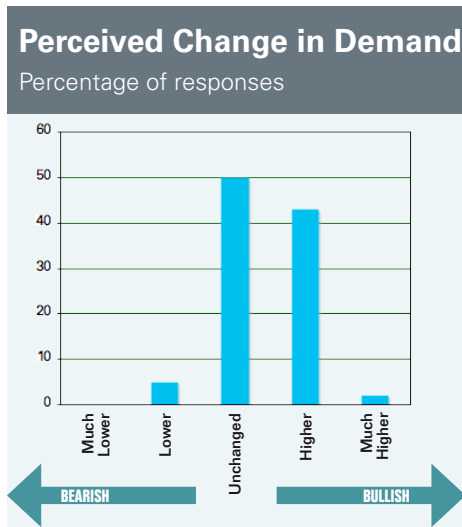
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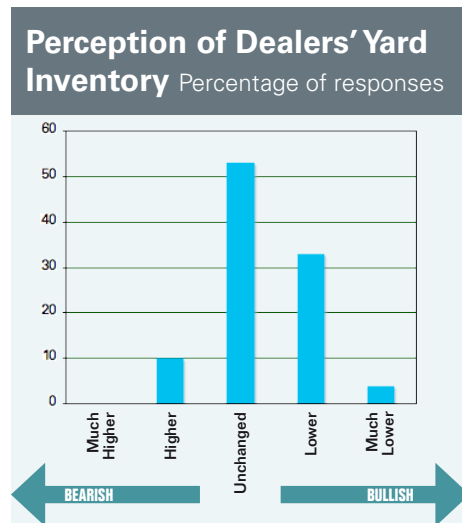
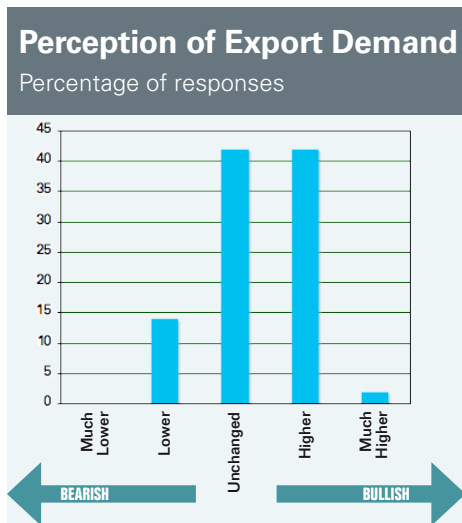
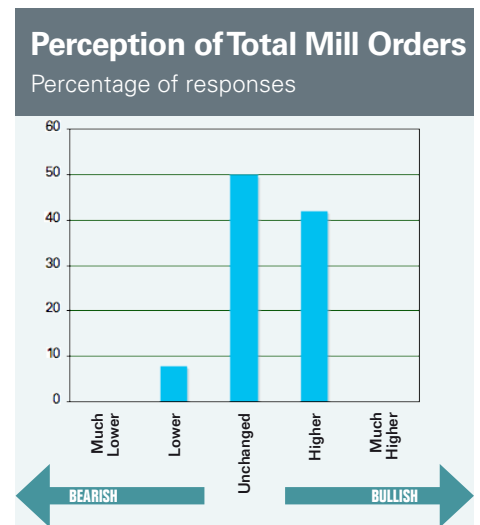
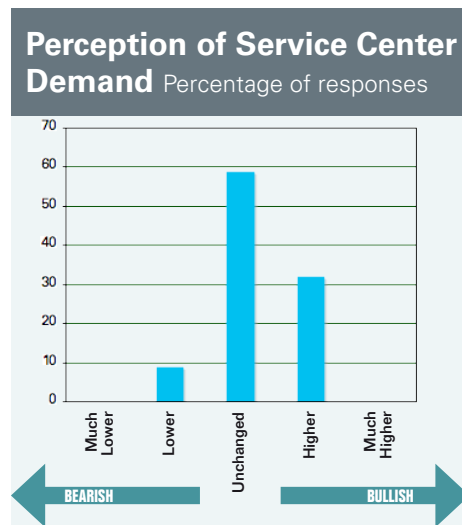
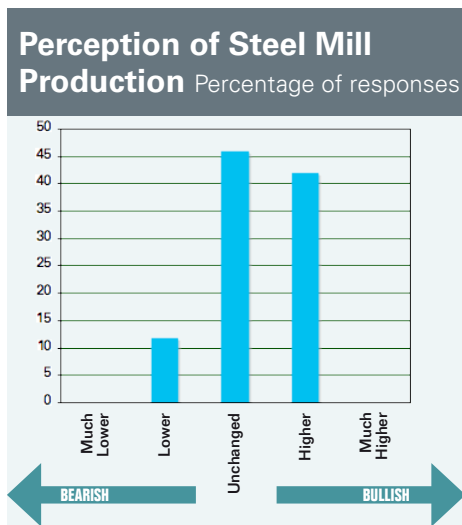
Perceived March Market Changes

(Scrap Trends Outlook Index indicating perceived changes in market direction. All perceptions are measured against February levels)



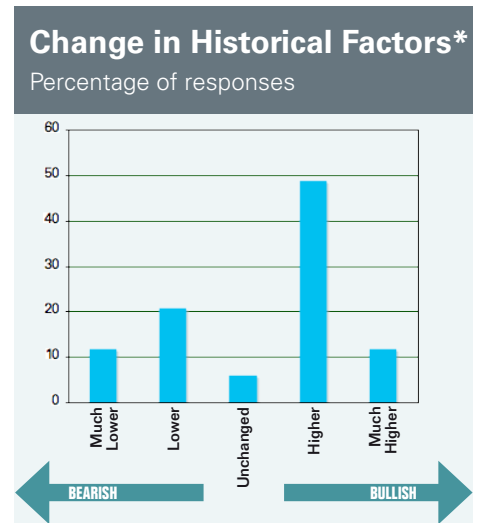
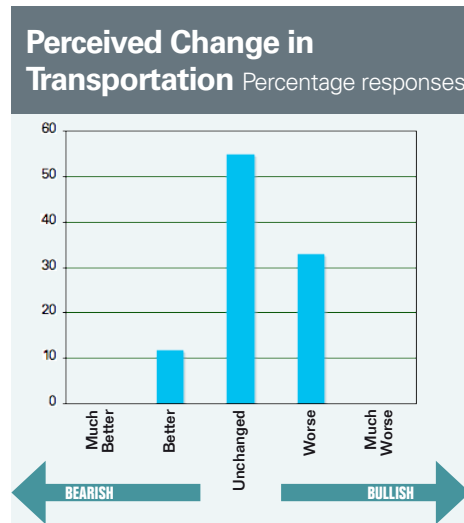
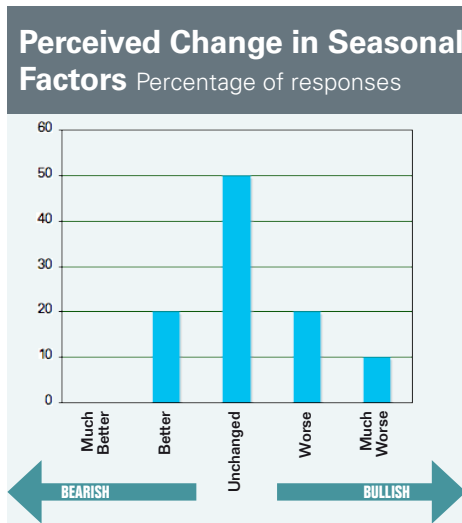
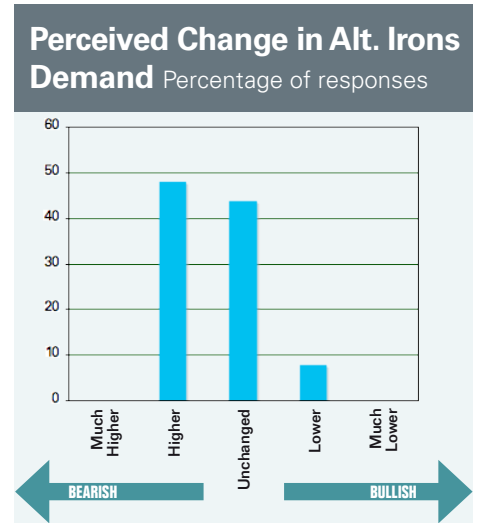
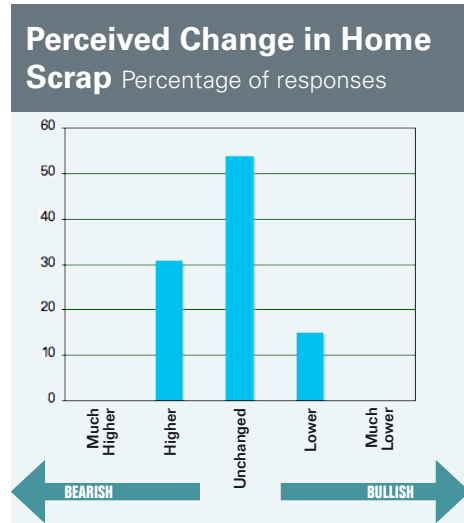
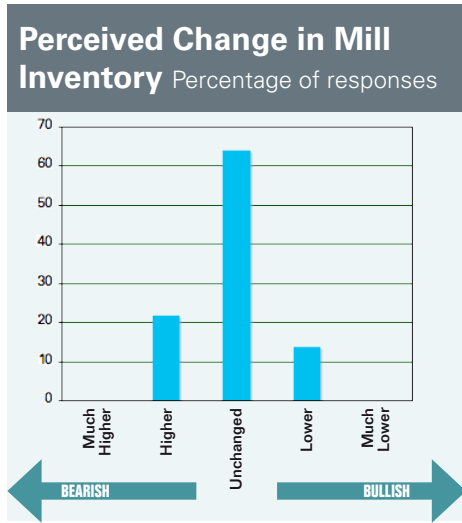
Index of March Market Factors

(Scrap Trends Outlook Index indicating perceptions of market factors. All perceptions are measured against February levels/situations)



Index of March Market Factors

(Scrap Trends Outlook Index indicating perceptions of market factors. All perceptions are measured against February levels/situations)



* Changes in price & tonnages for each February to March market period over the past 10 years.

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To participate in next month's online survey and receive a complimentary copy of *Scrap Trends Outlook*, email subscriptions@scraptrendsoutlook.com

Outlook by Region (based on weighted averages of survey responses)

	Northeast	Midwest	South Atlantic	South	West	All Regions
Mill Factors	62.7	57.7	64.1	51.6	61.0	59.4
Service centers	68.8	52.4	50.0	NA	50.0	55.3
Exports	64.3	53.2	62.5	54.2	75.0	61.8
Dealer inventory	62.5	59.5	62.6	54.2	60.0	59.8
Brokers	62.5	59.0	54.2	51.9	56.3	56.8
Overall Market	62.7*	55.4*	56.8*	51.4*	60.3*	55.1*

* Includes weighted averages of survey factors not included on this table

Outlook by Scrap Purchaser* (based on weighted averages of survey responses)

Consumer	Demand	Inventory	Home Scrap	Orders	Production	Overall Trend
Integrated Mills	62.5	50.0	62.5	58.4	58.4	58.4
Mini-Mills	75.0	43.8	37.5	68.8	68.8	58.8
Foundries	62.5	50.0	46.5	62.5	62.5	56.8
Export Yards	58.4	58.3	NA	62.5	NA	59.7
Brokers	68.8	58.4	NA	57.2	NA	61.5
Overall Market	65.4	52.1	48.8	61.9	63.2	59.0

* Weighted averages of the survey factors included only on this table

Outlook by Scrap Seller* (based on weighted averages of survey responses)

Seller	Mill Demand	Inventory	Local Scrap	Exports	Mill Production	Overall Trend
Generator	58.7	47.6	51.7	57.5	61.3	55.4
Processor	61.8	50.0	44.1	59.1	55.1	54.0
Dealer	60.4	57.0	53.7	55.3	60.7	57.4
Export Yards	58.4	58.3	50.0	62.5	56.4	57.1
Brokers	68.8	58.4	58.4	64.2	64.2	62.8
Overall Market	61.6	54.3	51.6	59.7	59.5	59.3

* Weighted averages of the survey factors included only on this table

Methodology: For the above tables, a numerical value is given to the overall trends in each category for the upcoming month after all the survey results of a series of 15 indexes are calculated based on a weighted average and then broken down by region, consumer or seller. A number close to 50 will give a 'sideways' or 'unchanged' reading, while numbers above 50 will give a reading for a bullish trend. The closer to 100, the more likely it is that prices will trend upward. Conversely, a number below 50 will give a reading for a bearish trend. The closer to 0, the more likely it is that prices will trend downward. N/A means there were too few survey responses to publish a reliable figure, or that the category did not apply to the type of business being surveyed.

Regional Views

Different factors in markets across North America

Northeast: There is more certainty here than in any other region of the country that the market will be stronger in March. The belief is that both mill demand and exports will go up.

South Atlantic: Survey respondents in this region are less hopeful than their counterparts along the northern part of the East Coast that the market will be noticeably stronger. The one exception is that inventories may be lower here.

Midwest: Midwest survey respondents are taking a more conservative outlook toward March. They believe that exports and mill demand will not be as high as in other regions.

South: This region of the country has the least optimistic attitude toward March. The region looks for most market factors to remain unchanged, except perhaps for increased exports.

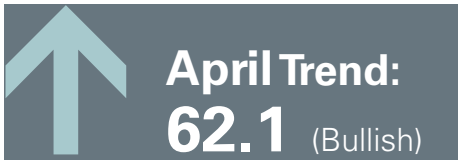
West: The view from this area is that March will be bullish, led by a steep climb in export demand.

Canada: The view to the north is that prices will be strong in March, led by export demand and mill production.

Mexico: Survey respondents believe scrap prices are less likely to go up than their U.S. counterparts have stated.

Long-Range Outlook

(Scrap Trends Outlook Index numbers for the next half-year, at intervals of 2, 3 and 6 months)



Key Indicators for April

Export orders are expected to continue to grow

Mill inventories may be in balance

Service center demand may fall

Local scrap will be low in some areas, high in others, creating an uneven market terrain

Mill productivity is expected to continue its rise, forcing demand for scrap up



Key Indicators for May

Demand is expected to remain strong

2nd Quarter may see a steel glut, forcing some prices down for finished product

Construction may grow, requiring more steel

Economic factors could continue to pick up, creating a stronger overall environment

Alternative irons may be in greater demand, pushing downward on scrap prices



Key Indicators Over 6 Months

Less inventory may begin to push prices up further

Chinese demand is not expected to diminish

A weak dollar could help boost exports

3rd quarter prices should be strong as economic confidence slowly builds

Supply and demand could reach a balance, stabilizing the markets and pricing

Top Issues Over Next 3 Months

- ↑ **Mill production may increase, exports also may increase, but supply will not increase proportionately.**
- ↓ **Summer vacations at mills will cut the need for more production.**
- ↑ **Demand for new steel for construction season will create demand for product.**
- ↑ **Offshore demand for scrap and attempts to consolidate Chinese steel mills may push export orders up.**
- ↑ **The dollar is weakening.**
- ↑ **As mill operating rates increase so will scrap demand.**
- ↑ **Demand may increase for foundry products, although this growth may happen gradually.**

Viewpoints on the Next 6 Months

- “ **Certain scrap shortages due to low product flow, (will) combine to create spot shortages, forcing spot price rises and associate product upward pressure.**
- “ **Hope, faith and crystal ball ... lol.**
- “ **The demand cycle will be pushing inventories up while demand continues to grow as we come out of the recession.**
- “ **Expect economic recovery to put pressure on commodities.**

The next issue of **Scrap Trends Outlook** will appear March 22 and look at perceived April trends.

We would like to thank all those in the industry who took the time to complete our "Scrap Trends Survey". You will receive a request to be part of the survey no more than once every four weeks. We encourage you to participate so we can continue to offer this reporting.

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