

scrap trends outlook

Vol. 1, No. 7 • July 21, 2010 • Industry Surveys of Factors Affecting the Upcoming August Market

Economic concerns keep a lid on confidence in August prices

As in so many other sectors of the U.S. economy, the scrap and steel industries seem ready to roar ahead, but are kept idling by uncertainty about where the signs are pointing.

August is a good example. Although supplies are tight and scrap export and broker demand are expected to be higher, concerns about steel mills are keeping a lid on expectations. Overall, the Scrap Trends Outlook survey shows respondents believing that prices will go up next month – but only slightly so.

The numbers show the factors most limiting confidence in an otherwise robust August are all related to mill issues – inventory, production and orders are expected to hurt, while non-mill factors are looking up. In fact, the feeling among respondents is that the market either bottomed in July or will do so in August. Even if prices are not strong next month, many believe scrap prices will wake up in September and the 3rd quarter, unless, of course, a sluggish economy forces the scrap industry to hit the snooze button again.



5 Key Indicators for August

49.5 (Overall price) Up? Down? Sideways? No one seems certain

63.4 (Export demand) Many are certain that foreign demand will rise

63.3 (Historical prices) August has been strong for the past decade

46.2 (Mill orders, Mill production) Respondents believe both of these categories will hold back potentially larger scrap price gains

52.5 (Overall supply) Expected at just below July levels, which also were soft

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

63 The August Trend Indicator number for export demand shows that sellers and buyers in the scrap market have confidence that foreign demand will be up next month, after three consecutive drops and a lackluster summer performance so far. If this confidence is well-placed, it could be the difference maker in August pricing.

72 The percentage of survey respondents who expect No. 1 dealer bundles to either increase or be sideways in August. About the same number expect No. 1 busheling, shredded scrap and cut structurals and plate to do the same. The outlook is slightly weaker for heavy melting and foundry grades, making August's outlook a mixed bag.

8 Prices have risen in eight of the past ten years from July to August, putting history on the side of those predicting increases next month. However, in six of those eight years the increases were modest – gains of less than 10 percent – and prices last month bucked a similar historical trend when they dropped.

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
July 2007	\$239.17	\$271.75	\$265.17	\$287.67
Aug. 2007	\$253.50	\$284.50	\$279.17	\$302.50
July 2008	\$523.16	\$836.75	\$596.83	\$868.33
Aug. 2008	\$449.17	\$798.00	\$533.83	\$835.83
July 2009	\$228.50	\$279.50	\$258.50	\$290.33
Aug. 2009	\$242.83	\$300.17	\$269.83	\$309.50
July 2010	\$295.17	\$395.83	\$317.17	\$399.17
Aug. Outlook	Bearish	Bullish	Bullish	Bullish

August 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	CUT GRADES	FRAG GRADES	FOUNDRY GRADES & MISCELLANEOUS
(includes Busheling, Bundles, No. 2 Bundles, Clips)	(includes No. 1 and No. 2 Heavy Melting, P & S)	(includes Shredded, Other Fragmented Materials)	(includes Cast Iron, Machinery Casts, Unstripped Motor Blocks)
<p>Prime grades are expected to be the strongest scrap performers in August, as mills prepare to replenish inventories. Both No. 1 busheling and No. 1 dealer bundles fell in July, but as they are in somewhat limited supply heading into August, price increases are expected, according to the survey. Integrated mills may be willing to pay the most.</p>	<p>Despite the fact that an overall up market is anticipated, cut grades are not expected to perform strongly. There is even a chance, some survey respondents say, that other grades could go up while the heavy melting grades are stagnant or even down some. This is due to an expected oversupply of heavy melting in the market.</p>	<p>Shredded scrap is expected to be anywhere from sideways to up slightly in August, according to survey respondents. Supplies are adequate to meet mill demand, but there is no longer as big a surplus as seen in the past three months. So in August, more than 70 percent of respondents say prices should not go down.</p>	<p>July marked the second straight month in which foundry grades saw the smallest losses in the market. For August, however, they are expected to be the weakest grades, as respondents anticipate a change in demand from foundry operators. Still, those decreases are expected to perhaps be no worse than last month.</p>

By the Numbers

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

PRIME GRADES August Preview	CUT GRADES August Preview	FRAG GRADES August Preview	FOUNDRY GRADES August Preview
<p>Sellers' perceptions: Bearish (51.5)</p> <p>Buyers' perceptions: Bearish (49.7)</p> <p>Others' perceptions: Bullish (50.1)</p> <p>Overall August trend outlook: Bullish (50.9)</p>	<p>Sellers' perceptions: Bearish (48.6)</p> <p>Buyers' perceptions: Bearish (50.1)</p> <p>Others' perceptions: Bullish (50.8)</p> <p>Overall August trend outlook: Sideways (49.6)</p>	<p>Sellers' perceptions: Bearish (50.7)</p> <p>Buyers' perceptions: Bearish (50.0)</p> <p>Others' perceptions: Bearish (50.9)</p> <p>Overall August trend outlook: Bullish (50.5)</p>	<p>Sellers' perceptions: Bearish (46.9)</p> <p>Buyers' perceptions: Bearish (48.3)</p> <p>Others' perceptions: Bullish (47.5)</p> <p>Overall August trend outlook: Bearish (47.6)</p>

Taking Account

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

PRIME GRADES July Review	CUT GRADES July Review	FRAG GRADES July Review	FOUNDRY GRADES July Review
<p>July outlook: Bearish (42.9)</p> <p>July's Actual Change: Busheling: -\$45/10% Bundles: -\$42/10%</p>	<p>July outlook: Bearish (42.6)</p> <p>July's Actual Change: No. 1 HM: -\$25/8% P&S: -\$30/9%</p>	<p>July outlook: Bearish (40.4)</p> <p>July's Actual Change: Shred: -\$25/7%</p>	<p>July outlook: Bearish (45.0)</p> <p>July's Actual Change: Punchings: -\$18/3% Misc. Foundry: -\$23/4%</p>

10 Things to Watch in August

- ↑ A return to higher export demand could put pressure on the domestic market to increase
- ↑ Scrap inventories are low
- ↑ Summer mill slowdowns should be ending
- ↑ Historically, prices are stronger in August than in July
- ↑ Broker demand is expected to be up solidly
- ↓ Manufacturing levels are down; while this reduces orders, it also generates less scrap
- ↓ Demand for new steel is still weak
- ↓ Service center demand is expected to be flat
- ↓ Sellers who held back scrap in July could swamp August
- ↓ U.S. economic health is still questionable

Notable Quotes about Next Month

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

As long as export demand and pricing hold, you could make the case that there is no way that shredded pricing can go down. On top of that is the factor of reduced inbound flow and the real possibility of unfulfilled July orders. August looks to be in line for a bounce.

Export is returning and manufacturing has been slower than in past months, so scrap should start to tighten back up and prices should rise slightly.

Due to hurricane consequences, transportation is suffering a lack of equipment (hard to move due to congestion), and transportation prices could easily move upwards.

I still can't find any substantial demand for semi-finished and finished steel products. Steel service centers are not re-stocking...this is not a good sign.

Summer shutdowns, a slowdown in manufacturing and no export market...things could have been worse.

August prices will hold even. Dealers will need to move the scrap in August that they could not sell in July.

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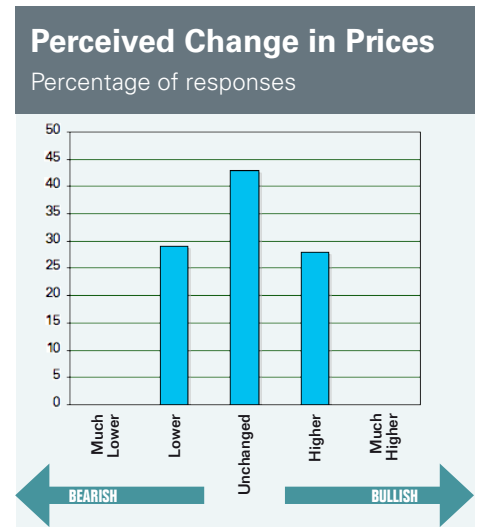
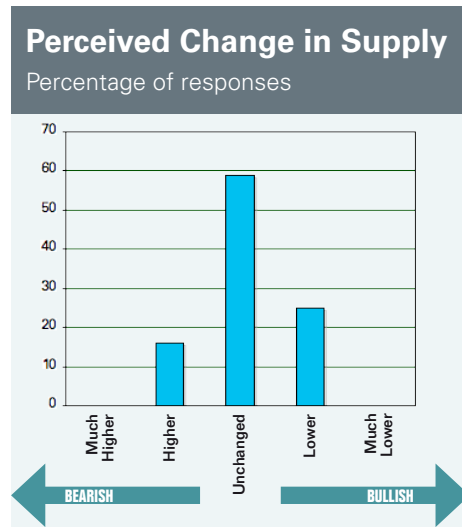
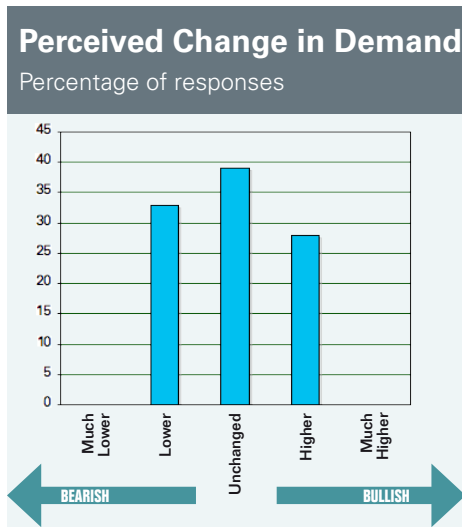
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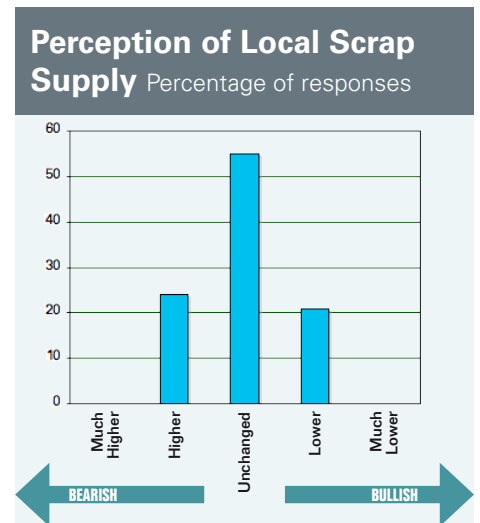
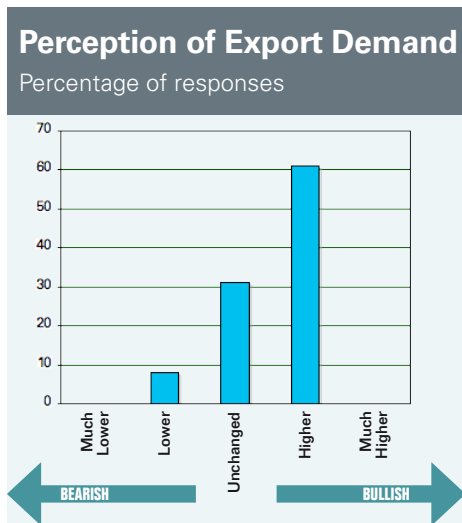
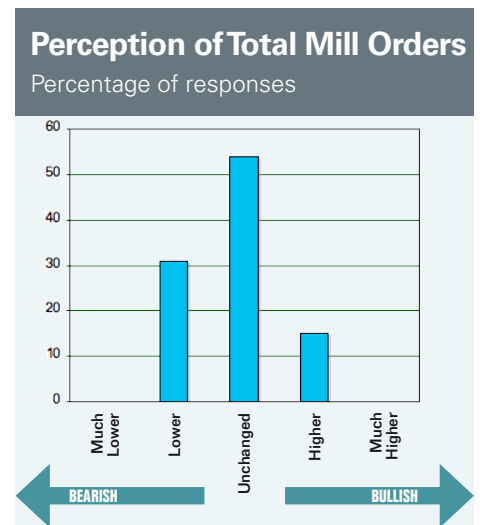
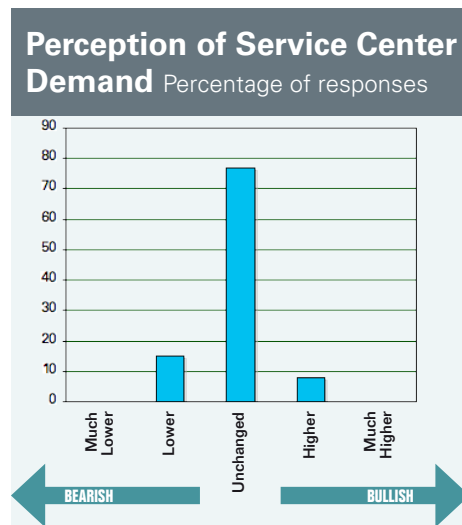
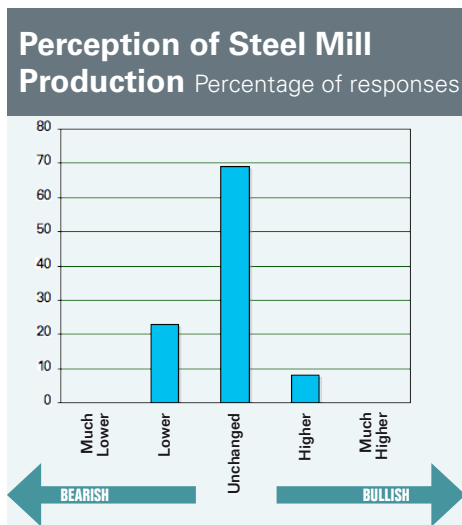
Perceived August Market Changes

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



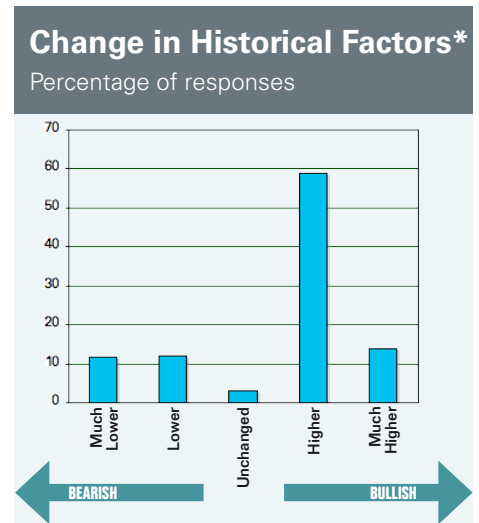
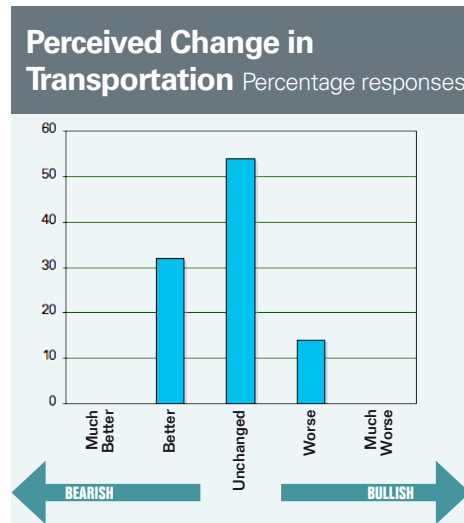
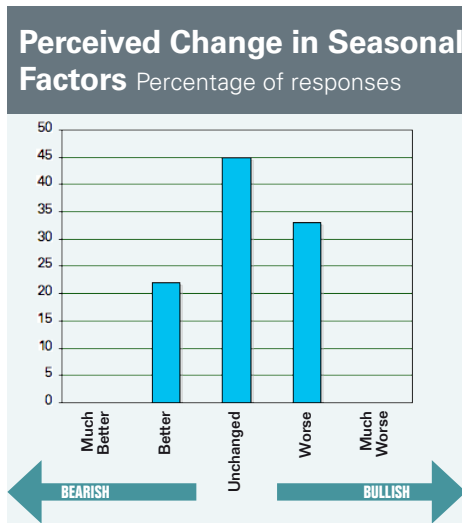
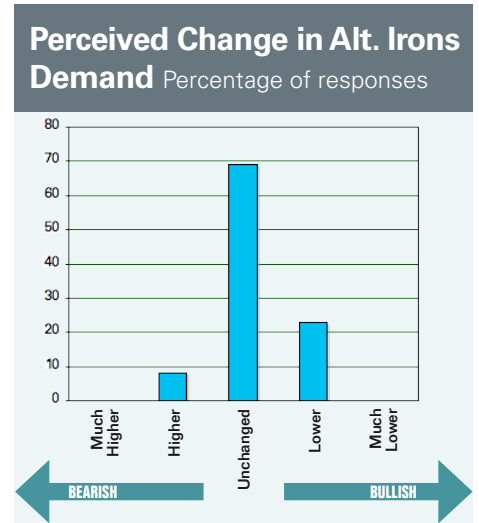
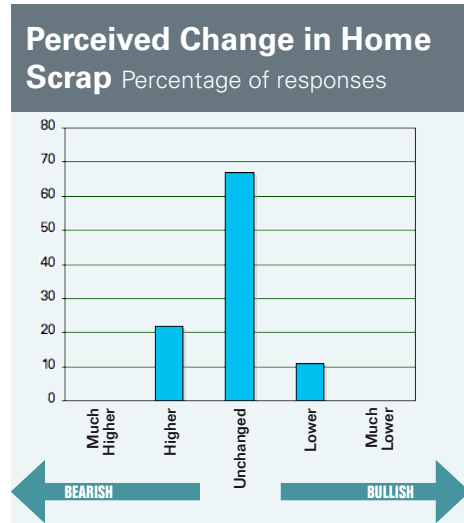
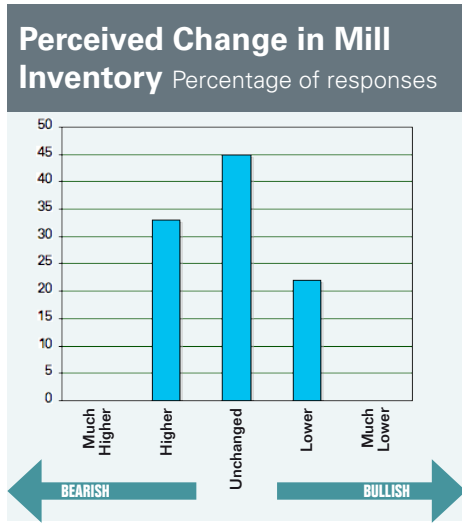
Index of August Market Factors

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



Index of August Market Factors

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



* Changes in price & tonnages for each July-to-August market period over the past ten years. Source: Scrap Price Bulletin

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What are you hearing about the markets?

We're looking for insiders just like you to participate in our monthly market survey.

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	52.4	47.9	50.0	75.0	37.5	52.6
Service centers	50.0	44.5	50.0	75.0	50.0	53.9
Exports	66.7	60.7	50.0	50.0	50.0	55.5
Dealer inventory	58.3	56.7	75.0	50.0	50.0	58.0
Brokers	56.3	59.4	33.4	62.6	37.5	49.8
Overall Market	54.5*	50.4*	48.5*	56.0*	45.7*	51.5*

* 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	50.0	37.5	37.5	62.5	50.0	47.5
Mini-Mills	25.0	56.3	50.0	37.5	43.8	42.5
Foundries	33.4	41.7	50.0	33.4	33.4	38.4
Export Yards	60.0	50.0	NA	57.6	NA	55.9
Brokers	60.0	65.0	NA	56.3	NA	60.4
Overall Market	45.7	50.1	45.8	49.5	42.4	48.9

* 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	46.5	46.2	42.8	50.0	50.0	47.1
Processor	45.6	57.0	57.0	50.0	50.0	51.9
Dealer	59.4	43.8	47.0	65.7	50.0	53.2
Export Yards	50.0	50.0	50.0	60.0	50.0	52.0
Brokers	60.0	65.0	50.0	60.0	50.0	57.0
Overall Market	52.3	52.4	49.4	57.1	50.0	52.2

* 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: Prices are expected to rebound strongly in this region after a lackluster July. Although mill demand is predicted to be somewhat soft, it should be offset by export and broker demand and lower supplies.

South Atlantic: This market is looking at a sideways August at best, respondents say. Although prices on some grades could increase, mill demand is not expected to be good.

Midwest: Something close to the status quo is expected in August, with a slight nod to small price increases. Midwest-ers see mill demand – but also local supply – down.

South: After a weak July, Southerners say they anticipate a nice bounce in August pricing, led by strong mill demand and a shortage of supply.

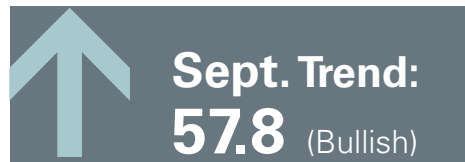
West: This region is expecting to see the least help in August. If prices go up at all, the increases should be small.

Canada: Prices should be higher north of the border, with strong export demand and heavy mill activity.

Mexico: Survey respondents expect prices to be sideways to slightly up next month, with exports leading the way.

Long-Range Outlook

(Scrap Trends Outlook Index numbers for the next 2, 3 and 6 months)



Key Indicators for September

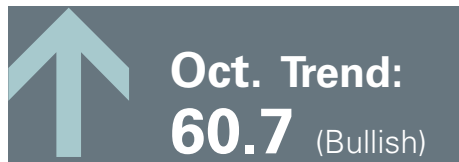
Mill orders may increase slightly as expected economic recovery starts in fall

Mill inventory levels of scrap stabilize

Scrap imports may continue to increase

Mill operating rates should begin to rise again as summer slowdowns end

Survey respondents said September will herald a 4th quarter scrap price recovery



Key Indicators for October

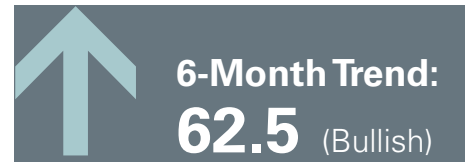
Mill production is expected to rise as steel orders begin to come in again

Service center demand will increase slightly

Alternative irons may be less in demand

U.S. economy will have to show signs of life to spark end-of-year scrap price recovery

Survey respondents believe prices will strengthen as demand outpaces supply



Key Indicators Over 6 Months

Export demand is expected to pick up considerable steam during 2010's second half

2011 is expected to begin strongly

Local scrap levels may be limited

Weather patterns will have an impact on the movement of scrap

Survey respondents expect prices to be significantly higher at the end of 2010

Top Issues Over Next 3 Months

- ↑ **Even if demand for scrap stays steady, scrap inventories will be lower during the second half of 2010**
- ↑ **Export orders are expected to increase, with China and Turkey leading the way again**
- ↑ **Historically, pricing picks up at the end of summer and into the fall**
- ↑ **The psychology of market participants right now is that higher prices are coming; this alone may tip prices up**
- ↓ **A second dip in U.S. economy could push prices down**
- ↓ **Scrap generation could catch up to market demand**
- ↓ **Dealers who have been holding onto inventory waiting for better prices could suddenly flood market with scrap**

Viewpoints on the Next 6 Months

- “ **Eventually, some infrastructure projects will actually get off the drawing boards and into the fields. Once this really starts up, we should see demand for new steel, ergo more demand for scrap which should lead to higher prices.**
- “ **Demand will increase.**
- “ **With domestic mill capacity levelling off in the past two months, consumption has tailed off, so scrap generation will be moderate.**
- “ **I believe we are at the bottom now**

The next issue of **Scrap Trends Outlook** will appear Aug. 20 and look at perceived September 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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