

July 23, 2010

LME Inventories (metric tons)	End-2009	July 23 rd
NASAAC	180,120	156,220
Aluminum Alloy	84,520	68,020
Aluminum	4,628,900	4,409,975
Copper	502,325	419,650
Copper(Comex)	89,975	91,794(7/22)
Nickel	158,010	116,814
Zinc	488,050	620,775
Lead	146,500	183,225

LME Prices(3-mos.ask)	June 2010 Averages	July 23 rd Officials
NASAAC	\$1,903.50 = 86.34 cts.	\$1,990.0 = 90.26 cts.
Aluminum Alloy	\$1,853.18 = 84.06	\$2,020.0 = 91.63
Aluminum	\$1,960.95 = 88.95	\$2,024.0 = 91.81
Copper	\$6,530.00 = 296.20	\$7,021.0 = 318.47
Nickel	\$19,464.09 = 882.88	\$20,500.0 = 929.87
Zinc	\$1,775.95 = 80.56	\$1,921.0 = 87.14
Lead	\$1,729.05 = 78.43	\$1,953.5 = 88.61
Tin	\$17,360.68 = 787.47	\$18,700.0 = 848.22

For the week ending **Friday, July 23rd**

Monday's base metal action was largely non-existent with most metals little changed from last Friday's close...gold, however, traded at a two-month low...in New York, Comex September copper added 85 points, closing @ \$2.9380/lb. On Wall Street, stocks finished the session off their best levels, but still modestly higher with the DJIA adding close to 57 points, finishing at 10,154.

Midweek base metal markets moved higher, taking an early cue from firmer global equity markets and reports of fresh Chinese buying. Copper looked especially strong with Sept Comex copper closing at a multi-week high (\$3.0930/lb.) Equities, however, headed south following carefully crafted remarks on the economy by Fed Chair Bernanke...by day's end, the Dow was down 109 points at 10,121.

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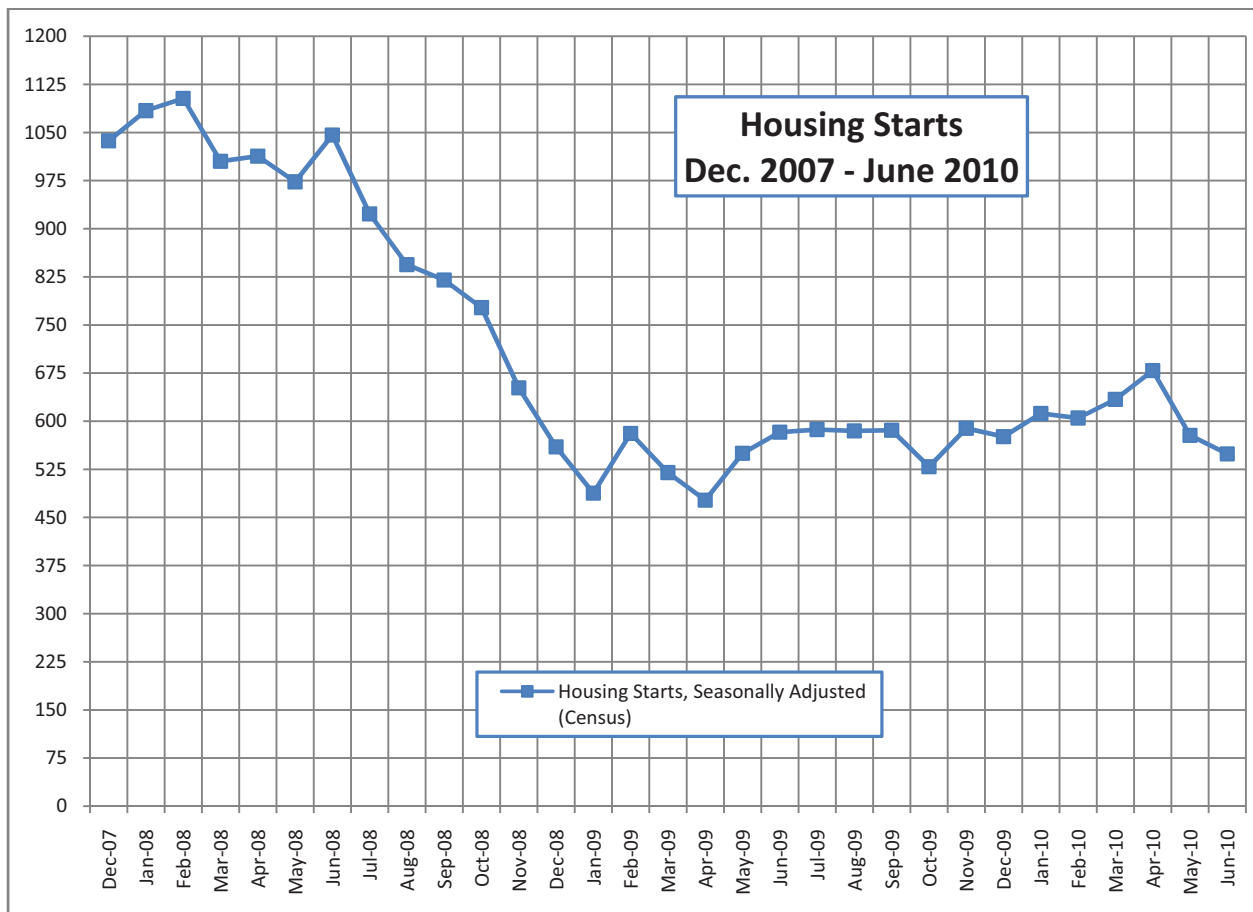
Thursday's weak dollar-inspired rally helped the LME complex along with some short covering that has spilled over into today...copper was trading at a two-month high while others were showing multi-week gains before hitting resistance, closing lower compared with late-Thursday. Along with the weaker dollar and supportive LME inventory trends, traders also see a bit less risk aversion towards base metals despite on-going concerns over near term economic growth. Traders are looking for Comex copper to open higher this a.m.

Market watchers will be paying attention to today's Stress Test results affecting some 91 European lenders who have been asked for detailed information on their government bond holdings...

Macro...

Here's a look at domestic residential housing starts since the recession began back in December 2007, with a "start" defined as the beginning of excavation of the foundation for the building...housing starts are a volatile leading indicator of real GDP with residential investment representing about 4% of GDP.

New construction suffered another setback last month as housing starts fell from 578,000 in May to 549,000 in June, a drop of 5%. Housing declined in every major region of the country with almost all the decline due to multi-family starts. Single-family starts declined 0.7% in June.



Along with a lower-than-expected housing start number was a higher-than-expected housing permits figure – up 2.1% over May...that was enough to pimp up Tuesday's copper market: the Sept. Comex contract gained more than 6 cents on the day, closing @ \$3.0015.

Yesterday's existing home sales for June were again lower (-5%) but at 5.37 million units sold, the number easily beat expectations that called for sales closer to 5.18 million – news that Wall Street seemed to like. At the same, however, the month's supply of home increased to 8.9 from 8.3 with little in the way of encouraging news.

And as if the housing news isn't bad enough, as reported last week, May's new home sales dropped 33 percent to the slowest pace in the 47 years records have been kept. The drop-off came immediately after the tax incentives to sign a contract on a home ended on April 30th. It's no wonder home-builder sentiment fell more than expected in July to the lowest in more than a year as builders face reluctant home buyers in a weak jobs market with tight credit conditions

Ferrous...

The big picture first. Latest from the WSA has global crude steel output up 28% for the first six months of 2010 vs. Jan-June 2009, and up 7% over the record high set in 2007. China's production was placed at 323.2 mmt, up 21 % compared with last year at this time. U.S. output, meanwhile, was figured at 41.0 mmt, up 69% vs. comparable 2009 production. Although global production appears to be moderating, this year's total is expected to surpass the 1.346 billion tons of steel poured in 2007.

Last week's range for spot HR coil was figured at \$600/net ton to \$614/ton...and this week, published sources such as *Platts* has its Midwest f.o.b. HR reference price @ \$590/ton while *SBB's* "Steel Index" is reporting a range of \$580-\$600/ton with their sources hinting that the bottom is near...

Steel Market Update is less convinced about that bottom believing that the trend for finished steel prices is to move lower over the next 30-60 days. *SMU's* current price range for HR is \$550-\$620/ton with an average of \$585/ton. After commenting on Steel Dynamics' second quarter financials and lowering their year-end EPS targets, Dahlman Rose remains "comfortable" with their July forecast that calls for HR to average \$650-\$700/ton...

Turning to scrap, MEPS continues to report firmer export prices, specifically citing Turkey for "...invigorating global ferrous scrap markets." Latest indications place the f.o.b. Rotterdam market at \$310-\$315/mt for HMS 1 & 2, with shredded material @ \$315-320/mt. Turkey was figured @ \$340-\$350/mt cfr and \$345-\$355/ton respectively for HMS and shredded steel scrap.

This week's *Scrap Price Bulletin* is showing its HMS composite price at \$295.17/gross ton, up less than \$2.00 from a week ago with shredded material at \$317.17/ton, up almost \$7.00/ton but still down \$25 from mid-June. Most sources reckon that July ferrous scrap price fell anywhere from \$20 - \$50/ton, depending on grade and region...

Finally, RMDAS is showing No.1 HMS at \$298/ton as an average for the month of July with shredded scrap @ \$319/ton and prompt material pegged @ \$421/ton. And next month?

Last week we noted that we may see a sideways August market before scrap prices move higher in September...the vibe this week is a little more encouraging for August, hinting that "sideways" may be on the conservative side although there's really not much in the way of convincing evidence to support higher tags next month....but ya never know.

Nonferrous...

Bullish on copper fundamentals but (interestingly) less so about price. Barclays Capital latest commodity review placed copper among its favorites based on global market fundamentals that "...offer an increasingly constructive picture for prices." The firm cites an underperforming mining sector, match against a projected 6.7% increase in global demand resulting in a 132,000 metric ton statistical shortfall in 2010. As an average price for this year, they have LME cash at \$3.06/lb, well *below* where LME cash has averaged year-to-date so far (around \$3.21/lb.) For 2011, they're now looking at a \$3.52/lb average.

Our friends at Harbor Intelligence share a similar conviction based on what they see as "...improving macro sentiment and supportive industry fundamentals." Harbor is forecasting a 125,000 ton deficit this year along with an average of \$3.28/lb, climbing to \$3.70/lb next year.

Both Barclays Capital and Harbor Intelligence view on this year's copper's supply/demand balance differs from the semi-annual *Reuters* survey of commodity analysts where the median forecast called for a 41,000 ton *surplus* for 2010 (through May of this year, WBMS has copper in by 73,000 tons.) The survey,

released this past Tuesday, also came up with a forecasted 2010 copper average of \$3.13/lb, increasing to \$3.35/lb in 2011.

And then there's the latest from the ICSG whose recent analysis of global copper demand placed the supply/demand balance in a shortfall position through April (67,000 tons, not seasonally adjusted) thereby suggesting to Macquarie Research, for one, that copper's "...supply and demand fundamentals are very strong going into the latter part of 2010."

Meanwhile, on the domestic scrap side, we're seeing buying patterns termed "selective" suggesting that demand is there but no one is chasing the market...prices for certain grades have firmed reflecting the higher Comex prices we're seeing this week but spreads have not widened to any extent...anyway, at mid-week we had No.2 at around -25 to -30 cents under Sept with -30½ cents quoted for December as f.a.s. numbers...for burnt No.1 for domestic consumption we were at -15 to -18 cents under Sept...delivered copper radiators were quoted at in the mid-\$1.80/lb range in the Midwest with a push reported from those looking to export the stuff...red brass was figured in the low \$2.30/lb range delivered to ingotmakers...

Copper is just one of the metals covered at this year's best-ever **Commodities Forum** set for September 13-15 in Chicago. Our Copper Roundtable, for example, will feature, Danny Gascoyne, Gascoyne Metals Recycling; Bart Melek, BMO Nesbitt Burns; and Chris Greenfield, Federal Metal Company. Matt Heitmeier, Louis Padnos Iron & Metal will moderate this interactive session set for Tuesday, Sept. 14th. Visit: www.isri.org/commodities for more information and registration details.

Getting back to that July 2010 *Reuters* survey of a bunch drug-crazed commodity analysts, here's a quick and dirty summary of their base metal predictions for 2010:

\$/lb	Aluminum	Copper	Lead	Nickel	Tin	Zinc
Mean	\$0.94	\$3.13	\$0.90½	\$9.21	\$7.91	\$0.93
Median	\$0.95	\$3.12	\$0.91	\$9.17	\$7.95	\$0.93

And for 2011:

\$/lb	Aluminum	Copper	Lead	Nickel	Tin	Zinc
Mean	\$1.01	\$3.35	\$0.99	\$14.40	\$8.51	\$1.03
Median	\$0.98	\$3.40	\$0.99	\$9.71	\$8.41	\$1.00

We'll also be looking at aluminum to wrap up our fabulous September **Commodities Forum** on 9/15...speakers at the Aluminum Roundtable include: Dr. Mo Ahmadzede, Southold Capital; Toshiya Fukui, Toyota Tsusho America; Joseph Sasso, JAS Consulting; and David Wilson, Societe Generale (UK). Gary Curtis, Wise Metals Group, is the program Moderator that's designed along a Q & A format meant to engage the panel and the audience. It looks like fun! Check out the ISRI website for program details.

In other aluminum-related news, Midwest secondary aluminum smelters are currently looking at old sheet and cast in a \$0.62 - \$0.64/lb range delivered, with painted siding around \$0.66-\$0.67, and MLC's at just over \$0.70/lb delivered...UBCs said to be fetching either side of \$0.70/lb...as for 380 alloy going out the door, figure that market at either side of \$1.00/lb delivered...

Pulp and Recovered Fiber...

After nearly 1½ years of rising prices for NBSK, lifting prices to an all-time high of \$1,020/mt for July, it now looks like we'll see lower list prices next month. Canfor Pulp announced a \$30/mt decrease set for August 1st thus bringing prices back to \$990/ton. This decrease follows this month's \$10-\$15/ton decline for hardwood. Mills, however, insist that demand remains steady despite lower Chinese buying and that pulp inventories remain relatively low.

Recovered prices expected to feel some negative seasonality in the fourth quarter and for now, we're showing \$5-\$10 drops in most bulk grades...we're reminded that OCC's national average was figured at \$142/ton so far this year thus exceeding the record high set back in 1995. June averaged \$133.27/ton for the month of June, noted *DowJones*. Not surprising, China was the catalyst with prices soaring in the first quarter of the year. Prices have subsequently scaled back with the current market for OCC, as reported in the *OBM*, at \$100-\$110/ton picked up, Chicago market. Other sources, however, currently see higher numbers for Midwest OCC.

Regarding paperstock heading offshore, our friends at *The Brown Sheet* report that the Asian market for OCC was figured at \$180-\$185/ton delivered to the pier (Long Beach,) down from the \$190/ton mark earlier...others, however, place West coast OCC closer to \$170 - \$180/ton...still, the push for OCC has firmed the mixed paper market despite what they describe as "midmonth quietness."

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Financial Regulatory Reform—Good, Evil, or To Be Determined?

Congress has approved a massive document, spanning some 2,300 pages intended to reform America's financial system. Two primary motives drove the legislation: (1) An attempt to avoid the recurrence of financial crises and subsequent taxpayer liability and (2) To strengthen protection for consumer borrowers. What will be the effects?

The bill represents the single largest delegation of power to regulators in U.S. history. Some 350 mandates for rule-making, studies, and reports are given to the ten regulatory agencies that will have financial jurisdiction. Many of these powers have been handed to the Federal Reserve.

An oversight council will be established to monitor risks to financial markets. Regulators will have the authority to break up banks deemed "too big to fail" and to dissolve non-bank institutions that have become insolvent. Much of the trading of derivatives (financial instruments whose characteristics and values depend on an underlying asset, such as a bond, commodity, stock, or currency) would be directed to central clearing housing to make such transactions more transparent. Banks would lose some of their derivatives business.

The reliance on regulators to prevent the next financial crisis is questionable. After all, there were plenty of regulators on site prior to the 2008-09 financial meltdown. It appears that banks will still be able to conduct a sizable amount of derivatives trading; other less-regulated financial firms will take up the slack. The ability of regulators to break up or dissolve troubled financial firms should cause investors to be more cautious, but for market discipline to work, it will be critical to know which investors will be at risk for what losses.

The new consumer protection agency will be housed within the Federal Reserve. This body will have the authority to write and enforce a broad range of rules covering such products as credit cards, payday loans, and mortgages. Some consumers may be protected from "abusive" practices, but many may face higher bank fees and a reduced access to credit.

International rules (Basel III) are now being crafted to determine new capital and liquidity standards that financial institutions will ultimately need to meet. These could have a significant effect—perhaps more important than the new U.S. legislation—on the future growth of bank lending. Concerns about the global economy are likely to dampen any move to make such standards overly stringent.

In the meantime, frankly speaking, Congress has put into place a huge bureaucracy to safeguard America's financial system and consumers. While well intended, these efforts are unlikely to prevent another "bubble" down the road and ripple effects on financial markets. Rather than relying totally on our regulators' wisdom and effectiveness, it will be important for individuals, businesses, and investors to remain alert and informed as they perform their own due diligence.

Wall Street Report: At the close on Thursday, the major averages were sharply higher despite advancing issues lagging declining issues by 0.5:1 on the NYSE. The Dow Industrials added 201.77 points, to 10,322.30. The Nasdaq Composite gained 58.56 points, to 2245.89, and the S&P 500 jumped 24.08 points, to 1,093.67. Turning to the bond market, the two-year note's yield rose from the record low of 0.545% hit overnight while the benchmark 10-year note's yield bounced up off a 15-month low. In other market action, the euro advanced sharply against the dollar, as better-than-expected euro-zone data and a less-dire reading on the U.S. housing market propelled investors into growth-sensitive assets.

ISRI's Eye on Equities...

Company	Symbol	Close	52-Week Range		Previous
ALCOA, INC.	AA	10.8200	17.6000	9.8100	10.5900
CATERPILLAR INC.	CAT	68.0000	72.8300	38.1000	66.8700
COMMERCIAL METALS CO.	CMC	13.8700	21.2900	12.3200	13.4200
CARPENTER TECHNOLOGY CORP.	CRS	35.8000	43.2400	16.6200	34.1700
FREEMONT-MCMORAN	FCX	68.7800	90.5500	54.4500	66.0600
GREIF INC	GEF	58.5600	61.0200	46.0100	56.4200
GERDAU S A	GGB	14.7100	17.9900	10.9800	14.0200
GERDAU AMERISTEEL CORP	GNA	11.0100	11.2300	6.4100	10.9500
INDUSTRIAL SERVICES OF AMERICA, INC.	IDSA	13.9500	15.2600	4.5400	13.1900
LKQ CORPORATION	LKQX	20.8200	22.0000	16.5000	20.2300
METALICO, INC	MEA	4.0700	7.0900	3.5100	3.7400
ARCELOR MITTAL	MT	32.2400	49.4100	26.2800	30.2000
NUCOR CORP.	NUE	39.6700	51.0800	36.9500	39.1100
QUANEX BLDG PRODS	NX	18.2300	21.1900	11.4900	17.4400
ETF SECURITIES	PPLT	151.9700	174.9200	145.1400	151.4800
ROCKTENN	RKT	53.0800	55.9000	37.2500	51.4200
SCHNITZER STEEL INDUSTRIES, INC.	SCHN	47.2400	60.1200	37.0000	45.9200
SIMS GROUP LTD	SMS	15.4500	23.7400	13.5800	14.4800
SONOCO PRODUCTS CO.	SON	32.3000	35.8700	24.8000	32.5400
STEEL DYNAMICS, INC.	STLD	14.6200	20.4700	12.8900	14.1100
TIMKEN CO	TKR	29.5500	35.9000	17.7800	29.3600
UNIVERSAL STAINLESS & ALLOY PRODUCTS	USAP	21.2300	25.3700	14.4800	19.5700
UNITED STATES STEEL CORP.	X	46.7200	70.9500	33.2500	44.7900

This Week's News Story: I'm sure by now you have heard about the earthquake we had here in the Northern Virginia/Maryland Metro area last week. Although we were fortunate not to have had any damage at our house, this picture was taken right after the quake of my neighbors' back yard. As you can see, it appears really bad.

Now I know how those folks in California feel after a shaker! WOW!

http://www.scrap.org/maryland_earthquake_damage.gif

This Week's Thought: Every problem has in it the seeds of its own solution. If you don't have any problems, you don't get any seeds.

This Week's Story: Some 40-year-old girlfriends discuss where they should meet for dinner. Finally, they agree to meet at the Ocean View Restaurant, because the waiters there are cute and buff...

10 years later, at 50 years of age, the women once again discuss where they should meet for dinner. Finally, they agree to meet at the Ocean View Restaurant, because the food is very good and the wine selection is excellent.

10 years later, at 60 years of age, the girls once again discuss where they should meet for dinner. Finally, they agree to meet at the Ocean View Restaurant, because they can eat there in peace and quiet, and the restaurant has a beautiful view of the ocean.

10 years later, at 70 years of age, the women once again discuss where they should meet for dinner. Finally, they agree to meet at the Ocean View Restaurant, because the restaurant is wheelchair accessible, and it even has an elevator.

10 years later, at 80 years of age, the girls once again discuss where they should meet for dinner. Finally, they agree to meet at the Ocean View Restaurant, because they have never been there before.

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