

August 6, 2010

LME Inventories (metric tons)	End-2009	August 6 th
NASAAC	180,120	151,660
Aluminum Alloy	84,520	67,400
Aluminum	4,628,900	4,397,675
Copper	502,325	412,625
Copper(Comex)	89,975	90,691(8/05)
Nickel	158,010	117,336
Zinc	488,050	618,375
Lead	146,500	187,975

LME Prices(3-mos.ask)	July 2010 Averages	August 6 th Officials
NASAAC	\$1,953.73 = 88.62 cts.	\$2,170.0 = 98.43 cts.
Aluminum Alloy	\$1,974.64 = 89.57	\$2,190.0 = 99.34
Aluminum	\$2,007.00 = 91.04	\$2,217.5 = 100.58
Copper	\$6,760.57 = 306.65	\$7,440.0 = 337.47
Nickel	\$19,588.41 = 888.52	\$22,165.0 = \$10.05
Zinc	\$1,872.57 = 84.94	\$2,134.0 = 96.80
Lead	\$1,857.66 = 84.26	\$2,191.0 = 99.38
Tin	\$18,216.36 = 826.28	\$20,850.0 = 945.74

For the week ending **Friday, August 6th**

Market participants were greeted with a better-than-expected July ISM report as the week began along with an LME complex that registered solid multi-month advances, more than offsetting worries associated with the recent Chinese PMI decline...Comex September contract added nearly 8 cents on the day, closing at \$3.3895...Wall Street joined in: the DJIA closed Monday at 10,674, up 208 points.

Mixed buy/sell signals dominated Wednesday's trading but by day's end, positive macro news won out driving base metals higher on the LME. In New York, Comex Sept copper added 460 points, closing just above \$3.40/lb. Wall Street averages also gained with the Dow finishing Wednesday at 10,680.

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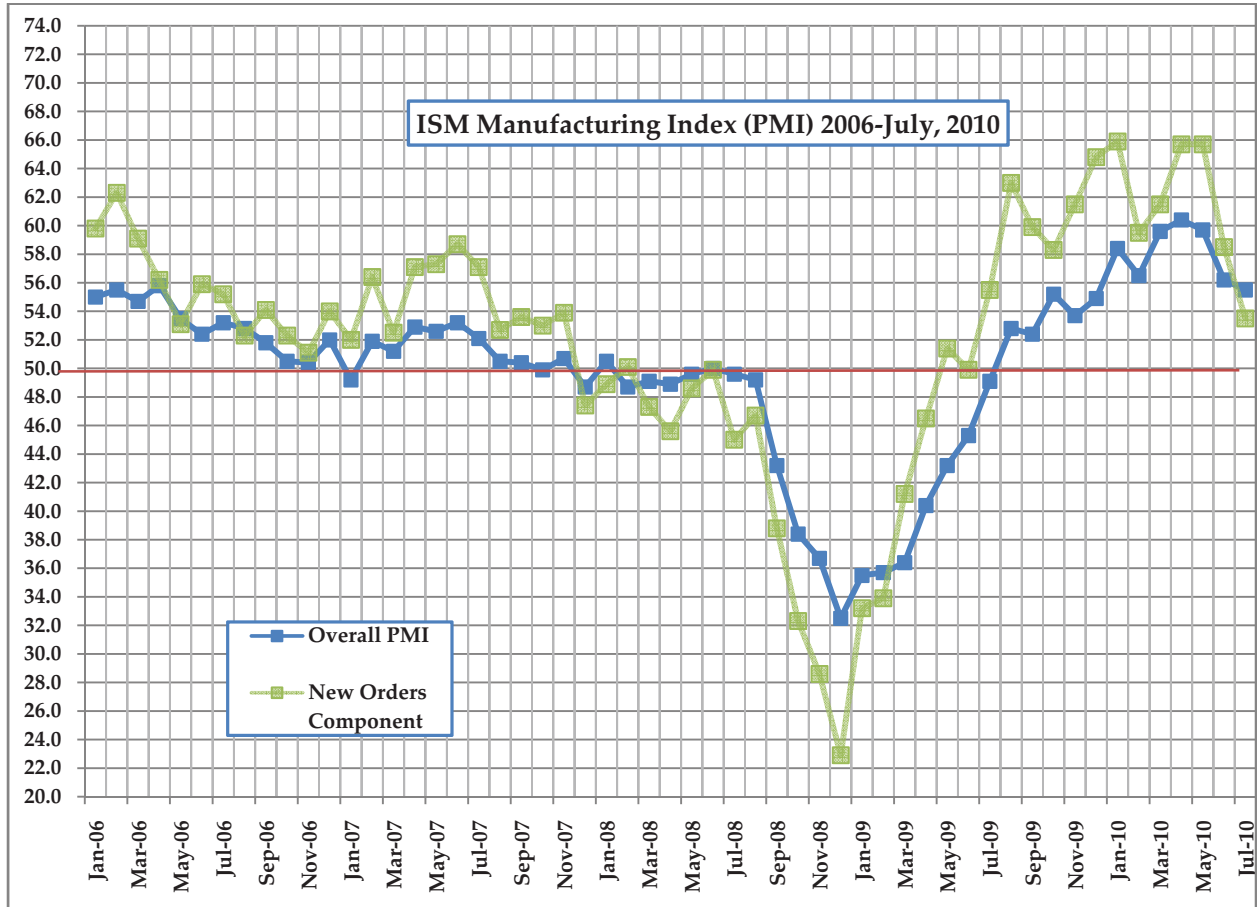
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Following Thursday's across the board selling, this morning's LME is stronger all around and the dollar is weaker as market participants anxiously await today's Nonfarm Payrolls report for fresh direction. London gold was last indicated @ \$1,140/to and termed "steady." Traders are looking for Comex copper to open higher...yesterday, the Sept contract closed lower by a little over 5 cents @ \$3.3535/lb.

Macro...

Monday's anticipated ISM Index for July was a minor disappointment, coming in above expectations at 55.5 for July, but lower than June's 56.2. The consensus expected a 54.5 reading. July's index level is consistent with real GDP growth of 4.5% annually. Our good friend, Dr. Lynn Reaser, (Fermanian Business & Economic Institute) recently noted that second-half '10 GDP growth should match what we saw in the first half (about 3% real growth.)



Also as widely reported, China's PMI was down to 51.2 in July, representing a slight decrease from June's figure of 52.1 – but this was the third monthly decline in a row. "...seasonality and a supply side adjustment drove the result, rather than a material weakening in fundamentals," according to Morgan Stanley's China Economics team. The worry for many was for a sub-50 reading, and since that didn't occur, the market reacted accordingly further assuming that the Chinese government will not be more restrictive towards economic growth...

The ISM non-manufacturing report for the U.S. came out above consensus expectations after a slight decline in June...the composite index rose to 54.3 in July from 53.8 in June. The consensus expected 53.0. This index has been rising steadily since November of '08 when it touched 37.

But not all the news on the U.S. economy is upbeat given what we now know about the second quarter...the latest figures on July spending and incomes, for example, showed no change from June strongly suggesting to some that the economy stalled as QII ended. Others note, however, that adjusting

for inflation, “real” consumption was up 0.1% and should continue to grow as incomes increase and debt levels are lowered. The July income figure, meanwhile, was the weakest showing in nine months...

Speaking of spending, and assumptions about tight-fisted consumers along with the larger and more serious worry about the U.S. drifting towards a deflationary environment, July domestic auto and truck sales were better-than-expected with domestic automakers reporting sales of 8.91 million units annualized...total sales were figured at 11.98 vs. last month's 11.05 figure. Every major automaker except for Ford and Daimler said their July sales topped those in June. Reasons cited included sales incentives, easier credit, and some pent up demand. Still, J.D. Power recently *lowered* its forecast for full-year U.S. sales by 100,000 vehicles to 11.7 million. Looks like our industry will again shred more cars and light trucks than will be sold.

Today's Nonfarm Payrolls Report looms large, setting the tone for today's trading activity. Our contacts at Navellier, for instance, reckon that the overall July payroll number is expected to be negative, due mostly to census layoffs as well as some state and local government layoffs (ongoing budget cuts.) The investment community, however, is more concerned with the private payroll totals. If the private sector created 100,000 or more jobs in July, the firm believes that the stock market should rally. However, if the number is 75,000 or less, fears of a double-dip recession may escalate...the consensus guess, by the way, calls for 91,000 jobs added last month.

Ferrous...

Higher ferrous scrap tags for August? As we noted last week, *Platts* upped its reference price for shredded scrap \$20/gross ton to a new midpoint price of \$345/ton delivered Midwest...this week, the midpoint is now \$352.50/ton, up another \$7.50/ton...higher domestic deliveries, export demand and lower inbound scrap flow said to be supporting the move...other sources such as *Scrap Price Bulletin* has its No.1 HMS composite price at \$303.50/ton, up \$8/ton, with shredded scrap figured at \$335.50, up less than \$20/ton and Chicago bushelings unchanged at \$404.50/ton. We should have clearer picture before the week is out...

And perhaps not too surprising, AK Steel and Severstal announced carbon steel price hikes as the week got underway AK Steel reported that it would raise spot prices by \$40/net ton effective immediately for all new carbon steel product orders, while Severstal said that it will raise HRC and CRC prices by \$30/ton and hot-dipped galvanized and electro-galvanized material by \$40/ton for new orders with a September 6th delivery date or later. Both companies cited raw material prices and favorable demand trends as reasons for the price hikes that would bring HR back to the \$600/ton level given the current mid-point price reference of \$565/ton, as reported by *Steel Market Update*. Nucor has followed but, so far, not US Steel or ArcelorMittal.

Nonferrous...

Updating the latest on our September **Nickel/Stainless Steel Roundtable** that's set for Tuesday, September 14 in Chicago, we've confirmed the following speakers:

Ms. Missy Bilz, North American Stainless;
Dr. Larry Foulke, Director of Nuclear Programs, University of Pittsburgh;
Mr. Christopher Olin, Cleveland Research; and
Mr. Michael Wright, ELG Haniel Metals.

Moderating this interactive Q & A program is Barry Hunter, Hunter Alloys.

For more information on our **September Commodities Forum**, visit: www.isri.org/commodities

Looking next at the domestic market for aluminum scrap, the concern for most secondary smelters as August gets underway has more to do with what has been termed “sluggish and spotty” demand for A-380 alloy than any worry about getting scrap to feed their furnaces -- higher auto sales notwithstanding...as aluminum prices firm, scrap is not moving in lockstep thereby widening spreads a bit although an improving export market is said to be a factor underpinning recent transactions.

Latest indications has old sheet & cast firmly in the mid \$0.60/lb range, delivered Midwest...painted siding in the upper \$0.60s, Twitch @ \$0.73-\$0.74/lb and MLCs @ \$0.75 with mills closer to \$83/lb for like material. Alloy out the door figured @ \$1.06 -\$1.08/lb delivered.

UBCs said to be fetching \$0.72-\$0.73/lb as of yesterday although we're also hearing of more aggressive numbers in the marketplace despite the belief that there's plenty of cans around (but not to dealers)...if there is any tightness out there, sources note that it's confined to Class I and Class III scrap.

And speaking of aluminum cans, unofficially it now looks like the UBC recycling rate for 2009 will post an increase over the 54.2% recorded for 2008...we hope to release the final number in the next week. The annual UBC survey is a joint effort of ISRI, the Aluminum Assn., and the Can Mfrs. Assn.

Moving on...

Spreads on most scrap copper grades remain relatively tight, mostly as a result of a lack of supply and pressure from the export market, specifically Chinese buying...from what we understand, No.2 is quoted at minus 30 cents under September, f.a.s., with Honey @ \$2.05/lb, Ocean @ \$1.96lb, and electric motors at \$0.37-\$0.40 f.a.s....for the domestic market, Midwest copper radiators were figured just over the \$2.00/lb mark, delivered...al/cu radiators closer to \$1.56/lb...burnt No.1 quoted at minus 18 cents under September, and bare bright at minus 6 to 9 cents under Sept, delivered Northeast...

At mid-year, cumulative North American replacement battery shipments placed by the BCI at 49.6 million units, up 5.1% compared with the first six months of 2009...OE shipments were up 51% year-on-year at 7.2 million units – that's a lot of new batteries.

Paper & Recovered Fiber...

North American NBSK list prices are lower this month along with domestic spot prices that are said to be under increasing downward pressure despite some favorable data on pulp inventories...sources cited weak Chinese demand for pulp, capacity restarts, and seasonally slower summer demand. The current trend is not a friend for global pulp producers...

And not a lot of price movement for the bulk grades to report as August gets underway with most major regions reporting little or no change from July price levels...Midwest OCC a bit softer, according to OBM...exports orders also little changed although mixed paper in the Pacific Northwest said to be firmer.

And don't forget, our fabulous **Paper Sock Industries Chapter** is hosting its 49th Annual Fall Conference at the Four Seasons Resort, Palm Beach, FL, November 9-12, 2010. Contact Lisa Seaberg at 910-426-7400, or Nini Krever at 561-627-9191: Visit: www.paperstockindustries.org for more information.

Guest Contributors:

Brian S. Wesbury - Chief Economist
Robert Stein, CFA - Senior Economist
First Trust Advisors L.P.
August 2, 2010

GDP Data - Better Than the Spin Suggests

Think back a month. Remember when first quarter real GDP was downwardly revised from a 3.0% growth rate to 2.7%? The pessimistic punditry had a field day.

Well...guess what? On Friday, when second quarter GDP was released showing a 2.4% growth rate, the celebration was so raucous that the pessimists totally missed a huge upward revision to the first quarter. The Commerce Department raised first quarter growth to 3.7%.

But, rather than back off the negativity a little bit, the pessimists use the faster growth of the first quarter to show how the economy slowed in the second quarter. A talking head on one of the most popular cable

news talk shows told the audience Friday night, “there is absolutely no growth out there.” This was hyperbole, and hopefully she knew that, but we think not. It’s a race to see who sounds most dour.

All of this is nothing new. Back in 2008, Barron’s decided that the GDP deflator was a lousy indicator of inflation. They said the CPI should be used instead. Using the CPI showed that real GDP growth in the second quarter of 2008 would have been negative 1.4%, instead of positive 0.6%. We argued that this was a misuse of the CPI, but Barron’s stuck to its guns.

Now that the tables are turned – the CPI fell 0.7% in the second quarter, while the GDP deflator rose 1.8% - shouldn’t Barron’s be consistent and make the opposite argument. Real GDP would have grown 4.9% at an annual rate in the second quarter of 2010 if the CPI was used - twice as fast as the reported rate of 2.4% using the deflator. Unfortunately, there was no mention of this in Barron’s over the weekend.

Don’t take this in the wrong way. We were disappointed in the GDP report. But our miss was mostly caused by a surge in imports, which are subtracted from GDP growth even though they represent domestic demand. In the second quarter, rising imports reduced real GDP growth by 4%, the largest negative impact on record. Real domestic purchases grew 5.1% at an annual rate in the second quarter – a far cry from a new normal.

Nominal consumer spending and nominal business investment (in information equipment and software) reached all-time record highs in the second quarter. The same is true of total nominal GDP minus government spending. After peaking at \$11.602 trillion in Q2-2008, *private GDP* fell sharply during the panic and now has come all the way back to \$11.604 trillion – a perfect V over eight quarters.

Even though the economy should be growing faster, to say it’s not growing at all is just wrong. Nor is it responsible to be overtly political about it and say it’s all Obama’s fault. We argued against the Bush stimulus, TARP and the Obama stimulus. All of it was wrong. Some are trying to say that the Bush stimulus and TARP were good, but what Democrats have done is bad. What a bunch of partisan malarkey!

We know it’s hard to do, but investors need to separate their politics from their economics. Staying positive is as important as fighting for what you believe in.

Wall Street Report: At the close on Thursday, stocks were lower as the Dow Jones Industrial Average lost 5.45 points, or 0.05%, to close at 10,674.98 The Nasdaq Composite declined 0.5% to 2,293.06, and the Standard & Poor’s 500-stock index dropped 0.1% to 1,125.81. Declining issues led advancing issues on the NYSE by 0.0:1. The benchmark 10-year Treasury Bond was down in price, its yield rising to 2.98%.

ISRI’s Eye on Equities...

Company	Symbol	Close	52-Week Range		Previous
ALCOA, INC.	AA	11.5800	17.6000	9.8100	11.5800
CATERPILLAR INC.	CAT	71.9600	72.8300	43.1900	71.9600
COMMERCIAL METALS CO.	CMC	14.6300	21.2900	12.3200	14.6300
CARPENTER TECHNOLOGY CORP.	CRS	35.5100	43.2400	17.8600	35.5100
FREEMPORT-MCMORAN	FCX	74.0700	90.5500	56.7100	74.0700
GREIF INC	GEF	59.9700	61.0200	46.0100	59.9700
GERDAU S A	GGB	15.5500	17.9900	11.1200	15.5500
GERDAU AMERISTEEL CORP	GNA	10.9800	11.2300	6.6200	10.9800
INDUSTRIAL SERVICES OF AMERICA, INC.	IDSA	19.7600	21.1800	4.5400	19.7600
LKQ CORPORATION	LKQX	20.2700	22.0000	16.5000	20.2700
METALICO, INC	MEA	4.0600	7.0900	3.5100	4.0600

ARCELOR MITTAL	MT	33.4900	49.4100	26.2800	33.4900
NUCOR CORP.	NUE	39.9800	51.0800	36.9500	39.9800
QUANEX BLDG PRODS	NX	16.6600	21.1900	11.6900	16.6600
ETF SECURITIES	PPLT	156.8600	174.9200	145.1400	156.8600
ROCKTENN	RKT	54.1100	55.9000	37.2500	54.1100
SCHNITZER STEEL INDUSTRIES, INC.	SCHN	47.2100	60.1200	37.0000	47.2100
SIMS GROUP LTD	SMS	16.3500	23.6000	13.5800	16.3500
SONOCO PRODUCTS CO.	SON	33.0500	35.8700	24.8000	33.0500
STEEL DYNAMICS, INC.	STLD	14.9400	20.4700	12.8900	14.9400
TIMKEN CO	TKR	35.4600	35.9000	19.2700	35.4600
UNIVERSAL STAINLESS & ALLOY PRODUCTS	USAP	24.6200	25.3700	14.4800	24.6200
UNITED STATES STEEL CORP.	X	47.6700	70.9500	33.2500	47.6700

This Week's Quote: If you don't know what to do with many of the papers piled on your desk, stick a dozen colleagues' initials on 'em, and pass them along. When in doubt, route. – Malcolm Forbes (1919 – 1990)

This Week's Statistic: 50% of all marriages end in divorce, so it's either going to be you or your spouse.

This Week's Short Story: In a dark and hazy room, peering into a crystal ball, the mystic delivered the grave news: "There's no easy way to say this, so I'll just be blunt - prepare yourself to be a widow. Your husband will die a violent and horrible death this year."

Visibly shaken, the lady being given the reading stared at the mystic's lined face, then at the single flickering candle, then down at her hands. She took a few deep breaths to compose herself. She simply had to know...

She met the fortune teller's gaze, steadied her voice, and asked: "Will I be acquitted?"

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