

September 3, 2010

LME Inventories (metric tons)	End-2009	September 3 <sup>rd</sup>
NASAAC	180,120	144,100
Aluminum Alloy	84,520	67,120
Aluminum	4,628,900	4,426,825
Copper	502,325	397,675
Copper (Comex)	89,975	86,497 (9/02)
Nickel	158,010	120,354
Zinc	488,050	622,150
Lead	146,500	191,400

LME Prices (3-mos. ask)	August 2010 Averages	Sept. 3rd Officials
NASAAC	\$2,099.31 = 95.22 cts.	\$2,115.0 = 95.93 cts.
Aluminum Alloy	\$2,124.52 = 96.37	\$2,140.0 = 97.07
Aluminum	\$2,121.62 = 96.24	\$2,155.0 = 97.75
Copper	\$7,305.83 = 331.39	\$7,646.0 = 346.82
Nickel	\$21,497.62 = 975.12	\$21,885.0 = 992.69
Zinc	\$2,074.93 = 94.12	\$2,160.5 = 98.00
Lead	\$2,103.17 = 95.40	\$2,162.0 = 98.07
Tin	\$20,718.10 = 939.76	\$21,450.0 = 972.96

For the week ending **Friday, September 3<sup>rd</sup>**

We're baaaa-ack...didja miss us?

And while we were on a hiatus of sorts, commodities and equities struggled with a fair amount of disappointing domestic macro economic news, a firmer dollar (to name a couple,) all of which has reinforced a deep-seated market malaise that's dominating market sentiment. Even so, since our last issue (August 13<sup>th</sup>), the LME Index managed a 46 point gain, September Comex copper added some 16 cents, while the DJIA lost 288 points (it hit a six month low on 8/24.) August was a little weird...

A quiet start to the week with the LME closed on Monday, but sellers were sure out in force over renewed concerns over economic growth. Comex December copper, however, rallied to a 3 ½ month high while on Wall Street, equities were hard hit...the Dow fell 141 points at 10,009.73. This is getting very confusing...

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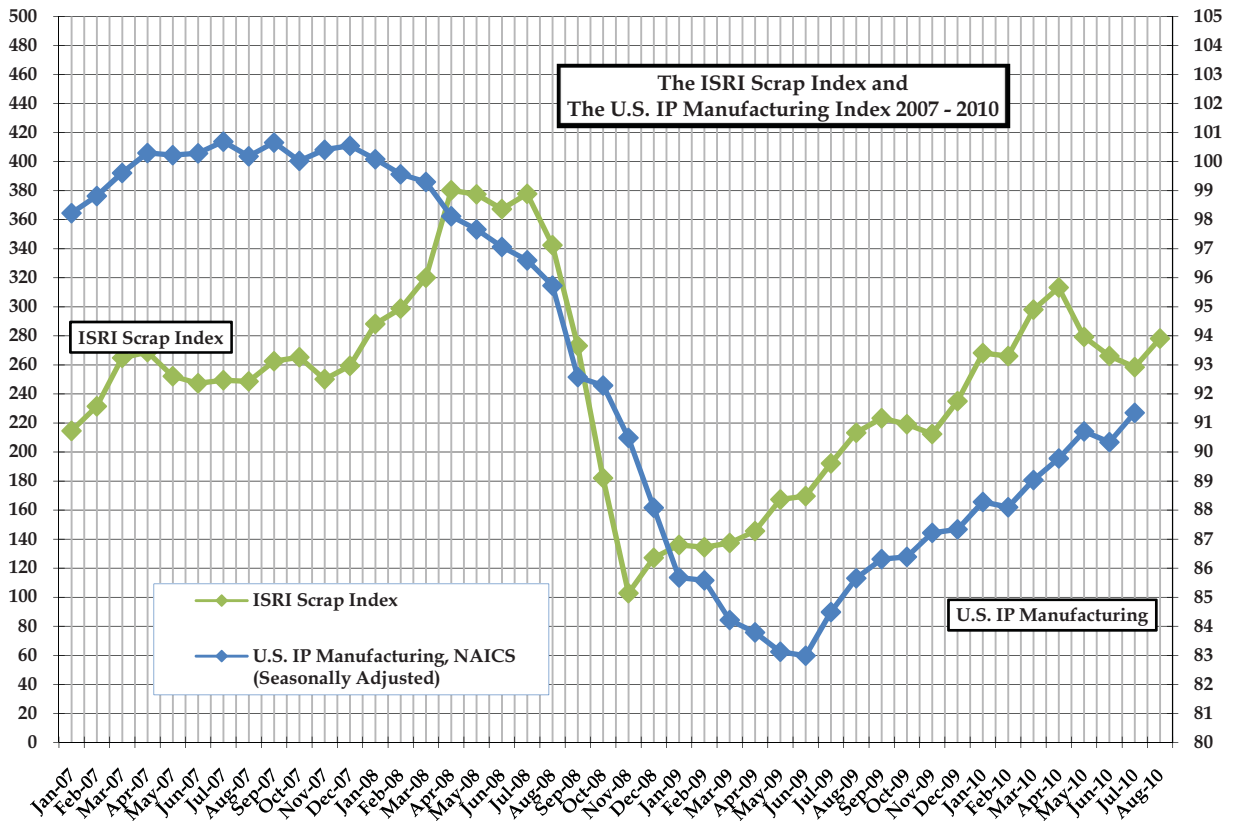
The first day of September saw dramatic across-the-board advances on the major exchanges following some better-than-expected U.S. and Chinese manufacturing reports and helped a bit by a weaker dollar...Comex December copper added 10¾ cents, closing @ \$3.4775/lb., a four-month high...equities also powered ahead with the Dow gaining some 255 points after that dreadful August slide...

This morning's LME trading was quiet but prices were firm early ahead of this three day Labor Day Holiday weekend...London gold was last indicated at \$1,250-\$1,251/to and termed "steady"...yesterday, Dec Comex gold rose to \$1,253.40, nearly matching its June 28<sup>th</sup> record (\$1,256.60). New York this morning, traders are looking for Comex copper to open a bit weaker as London prices drift...yesterday, the December contract ended the day higher @ \$3.4955/lb.

**Macro...**

A week ago we got a second look at QII GDP...the increase came in at 1.6%, higher than expected, but well below QI (3.7%) For all of 2009, GDP was -2.6%. So what does this tell us about the U.S. economy? Well, the data showed that the largest positive contributions to real GDP growth rate were personal consumption and business investment in equipment/software. Drilling a little deeper, corporate profits continued to show rapid growth: profits increased at a 20% annual rate and are up 39% versus a year ago. The weakest component was net exports, but as pointed out by others, rising imports are most associate with an expanding economy not one that's contracting. On balance, it wasn't a great report card but it wasn't all that bad, either. We'll get a third revision to QII GDP September 30<sup>th</sup>.

Keeping with a generally positive theme, it's also worth considering the relationship between U.S. Industrial Production, specifically the manufacturing component of IP, and scrap prices as measured by ISRI's Scrap Price Index. As you can see from the chart, as manufacturing goes, so go scrap prices. The July figure was up 1.1% after a 0.5% decline in June. Industrial output was strong across the board.



As we've been saying, economic recovery is being led by the manufacturing sector, not the consumer, and while we're hopefully out of this recent "soft patch," we're still miles from what some are predicting: the (dreaded) double-dip recession. Ain't gonna happen.

The ISRI Scrap Price Index, by the way, is made up of No.1 HMS, No.2 copper, old sheet & cast aluminum, and an average of ONP, OCC and mixed paper prices. Not surprising, we've gotten similar results when comparing IP with the LME Index or IP and the CRB's Metals Index. The August uptick in our scrap index was credited to higher prices for copper scrap and HMS.

Wednesday's August ISM manufacturing index (purchasing manager's survey) reading of 56.3 easily beat expectations, and while the major measures of activity were mixed, all remained above 50, signaling growth.

We're also encouraged by the June 2010 euro zone report on industrial production. Industrial orders for the 16 countries that use the euro increased 2½% month-on-month for a 22.6% annual gain, well above the consensus estimate. Demand for capital goods rose 5.3% in June. In the wider 27-nation EU, industrial new orders grew 2.4% in June and rose 22.5% annually. Overall GDP also increased 1.0% in the second quarter from Q1 – the fastest paces in four years. Germany led the group, growing 2.2%...

This pace, however, is not expected to continue...we're seeing a slightly slower activity in both the services and manufacturing industries based on the latest survey of euro-zone purchasing managers. The latest gauge of manufacturing in the 16-nation euro region declined to 55.1 from 56.7, but still came out slightly ahead of estimates and remains in expansion mode. Getting back to Germany, German business confidence unexpectedly rose to a three-year high in August...its business climate index increased to 106.7 from 106.2 in July for its third straight monthly increase.

And finally, China's official purchasing managers' index (PMI) rose to 51.7 in August from 51.2 in July. The rise in the new order component to 53.1 from 50.9 was seen as especially supportive.

Today's Nonfarm Payrolls report for August will set the tone for today's trading...folks are expecting to see a net loss of 100,000 jobs and an unemployment rate of 9.6%. The hope is that we won't see a major deviation from the consensus.

### **Ferrous...**

From a global perspective, Goldman Sachs sees "positive momentum" for steel going into September with the market being driven by rising scrap prices, higher iron ore prices and rising steel prices in China. They note that the recent producer HR price increases seem to be sticking...

Looking closer at the U.S., however, steel demand "remains weak" other than what they see as "some seasonal improvement in September-October." They caution that they also do not see any marked change in what they termed the "demand drivers." Consequently, they also see downside risk for steel prices as this year winds down with HR potentially easing "below \$600 in November/December."

Winding down the last full week of August, spot f.o.b. HR coil was figured in a \$570-600/ton range by SMU...WSD's "SteelBenchmarker" placed its reference price at \$581/ton, and *Platts'* midpoint price for HR was figured @ \$585/ton, up \$5/ton...*The Steel Index* currently lists HRC at \$593/ton, up \$8 week-on-week and \$26 over the past four weeks.

And as for ferrous scrap, obsolete grades were firmer in August with No.1 HMS, for example, up some \$37/gross ton compared with July. It looks like shredded scrap ended August at around \$345-\$355/ton delivered. The early buzz in the trenches calls for another \$30+/ton price hike for shredded scrap and equally high for prompt material...it's all about the supply side and export demand; domestic demand is not the driver.

Morgan Stanley, for one, sees continued ferrous scrap export demand and weak collection rates that, they believe, have tightened scrap supply going into September...consequently, "indications," they say, "point to a \$30/t - \$50/ton hike across all grades, including the prime grades "that are particularly supportive of another round of flat-rolled price hikes." *Platts' Steel Market Daily* shredded scrap reference price increased \$20 this week to a new mid-point price of \$375/ton, delivered Midwest.

Assuming higher scrap prices this month, it has been a while since we've seen so much advance telegraphing of an impending price hike for ferrous scrap and a corresponding anticipated increase in HR coil. As widely reported, several domestic mills have announced \$40/ton increases for HR, effective with all new orders. Severstal's HR price, for example, is \$620/ton.

### **Nonferrous...**

With copper trading at a four-month high this week, spreads have widened out...not surprising, we're also hearing some pretty wide ranges for the more popular scrap grades...No.2 Birch/Cliff, for example, said to be anywhere from 34 cents under December to Dec minus 40...Honey recently quoted @ \$2.10 f.a.s. Burnt No.1 for domestic delivery figured around 24-28 cents under, with radiators earmarked for our ingotmaker friends in a \$1.90-\$1.92/lb range...red brass in the upper \$2.40s level. Cathode premiums were figured @ 5 to 6 cents over September Comex.

Compared with copper, aluminum seems very tame in comparison with LME prices showing far less volatility as buyers seem rather nonchalant about the market in general with few seeing little upside price momentum for the rest of the year...LME cash has averaged in the mid \$0.90/lb year-to-date, about where it is now. And just this week, Rusal, the world's largest aluminum producer, came out with several comments with regards to current and future market conditions. The company stated that it expects aluminum prices to remain stable at current levels for the rest of 2010

Domestic aluminum scrap values reflect the above with many prices sounding very familiar...at mid-week, secondary aluminum producers were quoting in the \$0.64 - \$0.66/lb range for old sheet and cast, delivered...painted siding was figured around \$0.68-\$0.69/lb and MLCs in the mid \$0.70s...Twitch was being bought in the low \$0.70s for low grade material to \$0.74 for higher grade stuff...

In other aluminum news, Midwest aluminum premiums have eased a bit and were placed between 6.2 cents and 6.5 cents/lb above LME cash, down from the 6.3 - to 6.7cents/lb range seen in early August and well off the 7 cent/lb level seen in the second quarter...market sources characterize p1020 as "technically tight but fundamentally loose."

Moving on...

Our annual Chicago Commodities Forum is coming up shortly...always a fun program and a must-attend event to meet & greet your customers and competitors. Registrations are expected to exceed 600, representing a host of countries. For more information on our **September Commodities Forum**, visit: [www.isri.org/commodities](http://www.isri.org/commodities)

And speaking of our Roundtables, here's a quick trip down Memory Lane: The February 4<sup>th</sup> **1988 Copper Roundtable** as written by our dear friend, Si Wakesberg... (a much younger) Larry Sax was the program Moderator:

*"With Comex spot copper hovering at the edge of \$1.00 a pound, despite a price drop of nearly 30 percent since the end of 1987, a remarkable optimism about the first half of 1988 prevailed at the ISRI Copper Roundtable...However, speakers also pointed to the pitfalls of the 1988 copper market: a fall-off in demand from the housing and automobile markets; increased volatility in exchange trading; sharp currency fluctuations; the continuing budget deficit; and, above all, fear of an economic recession."*

Yes sir, the more things change, the more they stay the same...this year's **2010 Copper Roundtable** is set for Tuesday, September 14<sup>th</sup> starting at 2:00pm. I hope to see you there!

### **Paper & Recovered Fiber...**

FOEX's PIX index has NBSK @ \$999.78/mt at end-August vs. end-July's, \$1,020/ton...the North American spot market is reported to be in a \$780--\$820/mt range...producer list price hit an all-time high of \$1,020/ton this past June, but was subsequently lowered to \$990/ton in August due to changing fundamentals...

September looks to be a firm month for paperstock based on some early numbers we're hearing from those exporting recovered fiber as well as from domestic mills who have worked down their inventories of

recovered fiber...the latest from *The Brown Sheet*, for example, has OCC at \$190-\$195/ton delivered, California piers...other sources have the Pacific Northwest @ \$172 at the pier vs. a domestic market that's closer to \$125/ton, picked up, \$145/ton delivered. Not surprising, OCC export strength has pulled mixed grades higher as well with California said to be in a \$140-\$150/ton range with the Northwest closer to \$115 thus narrowing the differential between the two grades...ONP prices much less aggressive, especially so in the Northwest, we were informed...

Before we forget: What are you doing November 9-12, 2010? Here's an event to consider:

<http://scrap.org/psi.htm>

Here's a look at the *Scrap* magazine's "Marketrends" column for the Sept/Oct 2010 issue:

**Aluminum:** After aluminum's price uncertainty in the second quarter, the growing global market anxieties took center stage midway through the third quarter, erasing much of the light metal's price gains in July. With domestic and world economic growth being called into question, market conditions are accentuating an already risk-averse trading environment for the entire base metals complex. Global aluminum production and consumption likely will show double-digit growth compared with 2009, but more than ample primary metal supplies are likely to keep this year's LME cash average at or under \$1 a pound.

**Copper:** As it did for aluminum, overall sentiment for the red metal turned decidedly cautious in the third quarter as the major Western economies continued to factor in the potential fallout from the European sovereign debt crisis, the economic slowdown in China, and the Federal Reserve Bank's less-than-optimistic near-term economic outlook for the United States. Though a double-dip recession looks unlikely, market participants have embraced a conservative outlook for copper for the rest of this year. A recent *Reuters* survey revealed a consensus cash copper price forecast of \$3.13 a pound as an average for the full year.

**Iron and Steel:** In contrast with the collective pessimism gripping the nonferrous complex midway through the third quarter, the domestic steel industry was raising its prices in response to higher end-use demand, longer lead times, and higher steelmaking input costs, especially for obsolete ferrous scrap. Prices for key sheet products trended higher in August following reported increases for scrap grades such as No.1 HMS and shredded. Though some analysts view the August/September producer price increases as "premature" given the uncertain domestic economic outlook, most expect that stronger steel demand in the months ahead, higher scrap costs thanks to domestic and offshore buying, and producer discipline will support this latest round of increases.

**Lead:** Lead led the LME base metals complex higher in July, averaging about 84 cents a pound, up 7 percent compared with its June average of 78 cents. Lead benefited from both the downward trend in LME inventories and positive battery demand from the replacement market and, especially, from original equipment manufacturers. Lead values held relatively firm midway through August, supported by a positive demand outlook and concerns about the global supply of lead concentrates. As noted in the last "Marketrends" column, the fundamental picture for this unique base metal suggests that lead prices will remain above zinc for the remainder of the year.

**Nickel and Stainless Steel:** LME nickel saw higher prices midway through the third quarter, thanks to lower LME inventories, robust first-half global stainless steel production, and strong midyear Chinese nickel imports. Market and industry sentiment changed in August, however, due to negative seasonal factors and second thoughts on the potential for global economic expansion for the balance of this year. Thus, the near-term outlook looks far from certain as both the nickel and the stainless steel industries sort through an uncertain macroeconomic environment, destocking along the supply chain, and the global supply implications of the resolution of the yearlong Vale-Inco nickel mine strike in Sudbury, Ontario.

**Pulp and Recovered Fiber:** After nearly 18 months of steadily rising pulp prices, during which time tags reached an all-time high of \$1,020 a mt in July, North American producers succumbed to an influx of new supply and subsequently lowered list prices \$30 a mt to \$990. Mills insist that overall demand remains

steady, however--despite lower Chinese buying--and that pulp inventories are relatively low. Other expected third-quarter capacity additions might further pressure the pulp market in the months ahead. Meanwhile, analysts expect recovered fiber prices to feel some negative seasonal factors in the fourth quarter, but many believe the price direction for bulk grades depends on the export market in general and Chinese buying in particular. At midyear, recovered paper exports were down 2 percent from the same period last year.

**Zinc:** Compared with the other LME-traded base metals, zinc has the distinction of being the laggard in terms of price recovery so far this year, and its global supply and demand balance also looks the least constructive against the other metals. Global zinc consumption is benefiting from increased demand from the steel sector and expectations that China will moderate its refined production this year. Nevertheless, most independent forecasts see a relatively large year-end global zinc surplus, thus they expect only modest price recovery for the balance of 2010.

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**Double Dip and the Fed**

Spending the last three days in Jackson Hole, Wyoming, at a conference of the world's central bankers has given me new perspectives on the challenges and possible solutions facing us during the next decade.

U.S. Federal Reserve Board Chairman, Ben Bernanke, opened the conference on Friday morning, with comments on prospects for the United States in the year ahead. Various press reports appeared to have interpreted his comments in different ways. My reading of his remarks follows.

American economic growth and inflation have slowed but neither a retreat back to recession (the "double-dip" scenario) nor deflation appears as the most likely outcome. The Fed does have tools to deploy to counter these risks if necessary, but the solutions have their own costs and drawbacks.

The Chairman described four solutions. He summarily dismissed one of them—raising the Fed's inflation target. The President of the European Central Bank, Jean-Claude Trichet, also criticized this solution in his remarks at lunch. Moving the inflation anchor away from 1.5% to 2.0% could impose losses on holders of debt and significantly elevate volatility in financial markets. Companies would be faced with new uncertainties regarding wage and price behavior.

One option for monetary policy could involve the additional purchase of Treasury or mortgage-backed securities, increasing the size of the Fed's balance sheet beyond its current \$2.3 trillion. Such purchases could, however, raise inflation fears and could make the Fed's ultimate "exit" strategy and unwinding of its large security holdings even more difficult.

Another option would be to reduce the interest paid on banks' excess reserves held with the Federal Reserve from the current level of 25 basis points (one-quarter percentage point) to zero to 10 basis points. The aim would be encourage banks to put their funds to more productive use than leaving them with no earnings power. The downside of this alternative would be the possible disruption to short-term money markets as interest rates moved to zero.

A third policy alternative would involve changing the language of the Fed's policy intention to be more definitive as to how long the federal funds target might be maintained at its current zero to 25 basis point range. For example, one year could be specified. The downside of this solution is that it could limit the

Fed's ability to respond to changing economic conditions. Specifically, it could prevent monetary authorities from responding to any possible change in economic and inflation signals within that 12-month period.

In summary, it appears that the Federal Reserve will act if necessary to ward off deflation and/or a return to recession. The costs of the solutions, however, mean that such actions will only be taken if the negative evidence on the U.S. economy and its prospects appears convincing and compelling.

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**Wall Street Report:** At the close on Thursday, The Dow Jones Industrial Average gained 50.63 points, or 0.49%, at 10,320.10, and extending its winning streak to three days. The Nasdaq Composite rose 1.06%, while the S&P 500 gained 0.91%. The euro edged up after the European Central Bank kept its key interest rate unchanged, as expected. Bonds were largely unchanged, the yield on the benchmark 10-year Treasury Bond hovering around 2.54%

**ISRI's Eye on Equities...**

Company	Symbol	Close	52-Week Range		Previous
ALCOA, INC.	AA	10.8300	17.6000	9.8100	10.5200
CATERPILLAR INC.	CAT	68.5400	72.8300	43.1900	68.1600
COMMERCIAL METALS CO.	CMC	13.7700	21.2900	12.1200	13.8000
CARPENTER TECHNOLOGY CORP.	CRS	32.6100	43.2400	19.9400	32.6600
FREEMPORT-MCMORAN	FCX	76.9600	90.5500	56.7100	76.1900
GREIF INC	GEF	57.9000	61.0200	46.0100	58.0700
GERDAU S A	GGB	13.9900	17.9900	11.1200	13.9400
INDUSTRIAL SERVICES OF AMERICA, INC.	IDSA	13.9900	21.1800	4.9000	14.0400
LKQ CORPORATION	LKQX	19.5000	22.0000	16.5000	19.3300
METALICO, INC	MEA	3.2600	7.0900	3.0700	3.3400
ARCELOR MITTAL	MT	31.1700	49.4100	26.2800	30.4400
NUCOR CORP.	NUE	38.4400	51.0800	35.7100	37.9600
QUANEX BLDG PRODS	NX	17.1400	21.1900	12.6000	16.3000
ETF SECURITIES	PPLT	154.2300	174.9200	145.1400	152.8700
ROCKTENN	RKT	52.1600	55.9000	37.2500	51.0900
SCHNITZER STEEL INDUSTRIES, INC.	SCHN	47.1300	60.1200	37.0000	46.5300
SIMS GROUP LTD	SMS	15.6200	23.6000	13.0000	15.7300
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STEEL DYNAMICS, INC.	STLD	14.5200	20.4700	12.8900	14.3600
TIMKEN CO	TKR	35.1700	35.9800	20.0800	34.1200
UNIVERSAL STAINLESS & ALLOY PRODUCTS	USAP	22.1100	25.3700	14.4800	21.7800
UNITED STATES STEEL CORP.	X	45.3000	70.9500	33.2500	44.4400

**This Week's Quote:** "Celebrate what you've accomplished, but raise the bar a little higher each time you succeed." -- Mia Hamm

**This Week's Thought (from our pet-owning friends):** Dogs and cats are better than kids because they:  
 (1) eat less,  
 (2) don't ask for money all the time,

- (3) are easier to train,
- (4) normally come when called,
- (5) generally smell better,
- (6) never ask to drive the car,
- (7) don't hang out with drug-using people;
- (8) don't smoke or drink,
- (9) don't want to wear your clothes,
- (10) don't have to buy the latest fashions,
- (11) don't need a gazillion dollars for college and
- (12) if they get pregnant, you can sell their children.

**This Week's Short Story;**

A little boy was attending a wedding of a close relative. After the ceremony, his cousin asked him, "How many women can a man marry?"

"Sixteen," the boy responded. His cousin was amazed that he had an answer so quickly.

"How do you know that?" "Easy," the little boy said. "All you have to do is add it up, like the Minister said: 4 better, 4 worse, 4 richer, 4 poorer."

And, oh yes, before we completely forget: the entire staff of **The Friday Report** wishes our California members and friends a belated **Happy Beverly Hills Day**, which was yesterday. It was, after all, 9/02/10.

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