



Steel Storm

**A look at the steel
crisis of 2004**

March 2004



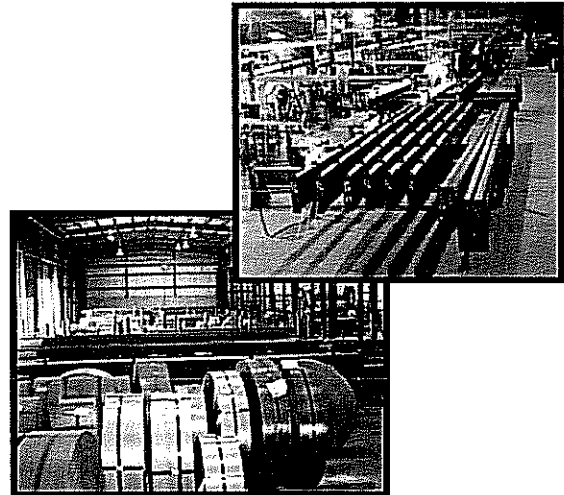
AMERICAN BUILDINGS COMPANY

Global Steel – It's Not Just Us

Steel is an international commodity. Shortage fears are leading to a rapid rise in steel prices. The acute steel meltdown we face in North America is a global phenomenon, with prices up in most international steel markets.

Prices rose 20% in China last year over 2002 and 14% in South Korea during February. Steel import tariffs in India have been reduced by 5% to partly offset skyrocketing steel costs of 40%. Indian steel producers are pressuring the government to abolish tariffs on scrap and to pass legislation completely banning export of high-grade iron ore.

Contracts by many Japanese steel producers selling to China have moved from quarterly to monthly time frames due to price volatility.



"The world's gone mad. I've never seen anything like this" said Mr. Fish of the steel consulting firm Meps International. As one buyer informed World Steel Dynamics "I am not negotiating for steel; I am begging for it no matter what the price." Another said: "Before we had the Internet bubble, now we have the steel bubble."

"Steel prices have been sudden, steep and devastating", said Ken Simonson, Associated General Contractors of America.

"The steel market is a three-ring circus just now," agrees the purchasing manager for a New Jersey-based steel drum manufacturer.



Five Dimensional *Steel Storm*

The "Perfect Storm", a statistically improbable occurrence, takes place when weather conditions line up to produce a truly killer weather phenomenon.

We are facing a similarly implausible condition in steel supply today. World Steel Dynamics sums up the situation in stating this "This is a sellers' market for steel products which may be the most powerful since 1973-74, if not in the history of the industry."

Over the past three months we have received more than fifty price increase notifications for steel products either in the form of surcharges or higher prices. Even with the Section 201 Tariffs, in 2002, we received less than fifteen price increases for the entire year.

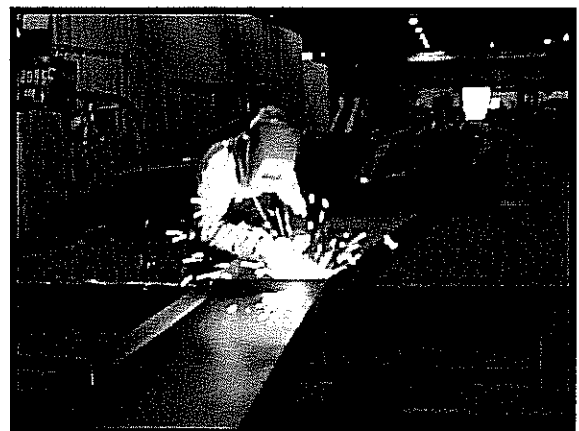
Projections are for hot roll purlin material to be up 49% from January to May this year and plate to jump an unbelievable 87% in the same period. Galvalume and galvanized sheet is up 28%.

Surcharges, once normally identified with energy, are now a way of life in the steel industry and are tied directly to skyrocketing raw material costs. Nucor's surcharge in January was \$30/ton, \$60/ton in February and a mind-boggling \$100/ton in March.

The difficult issue with these surcharges is that they are effective immediately, which makes it extremely difficult for all of us in metal buildings and metal building products to manage our businesses with any sanity. Steel producers are even moving to pricing steel at time of shipment, unheard of in the past twenty- five years.

This Prefect *Steel Storm* is caused by an incredible convergence of all the following negative factors at the same time:

- **Weak U.S. Dollar**
- **China Steel Demand**
- **Record High Steel Scrap Prices**
- **Steelmaking Raw Material Shortages**
- **Shortage of Ocean Shipping Vessels**



Weak U.S. Dollar

World Steel Dynamics cites the weak U.S. dollar has being a major factor in driving up world steel export prices.

A weak U.S. dollar limits the purchasing power of North American steel users in buying foreign steel. The dollar has been falling for months making all imports more expensive.

A key development for European steel producers has been the huge rise in value of the Euro versus the U.S. dollar in the past 20 months. At 1.27 U.S. dollars per Euro the European mills have essentially been taken out of the export business. As a consequence, European mills have suffered more than an \$80/ton increase in costs in U.S. dollar terms versus 2002.

This is especially damaging to North American steel users as we have historically relied on European and Asian mills to augment domestic supply to the tune of 15%-25% in past years.

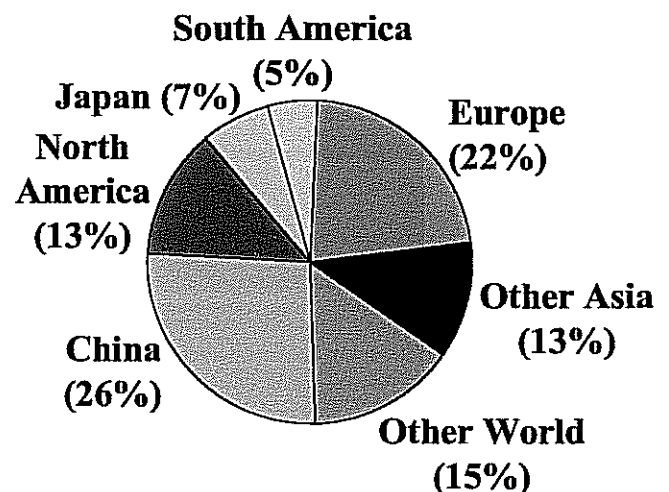
The weak U.S. dollar is also a major factor in scrap prices. Ron Laker, president of Trademark Recycling LLC Tampa points out that "the weaker U.S. dollar is inversely related to scrap prices" driving up the value of international scrap.

China Steel Demand

Demand for steel in China is molten hot. Chinese steel consumption rose a staggering 30% last year over 2002, **consuming one-third of all world steel output.**

The quickly growing nation is now the world's largest steel producer and is driving up global prices for scrap, iron ore and coking coal, which are all used in the production of steel. As mentioned earlier, steel prices rose 20% in China last year and the trend continues in 2004 as demand is projected to continue double digit growth.

World Steel Production - 2003

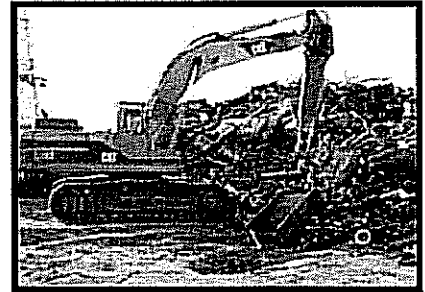


Record High Steel Scrap Prices

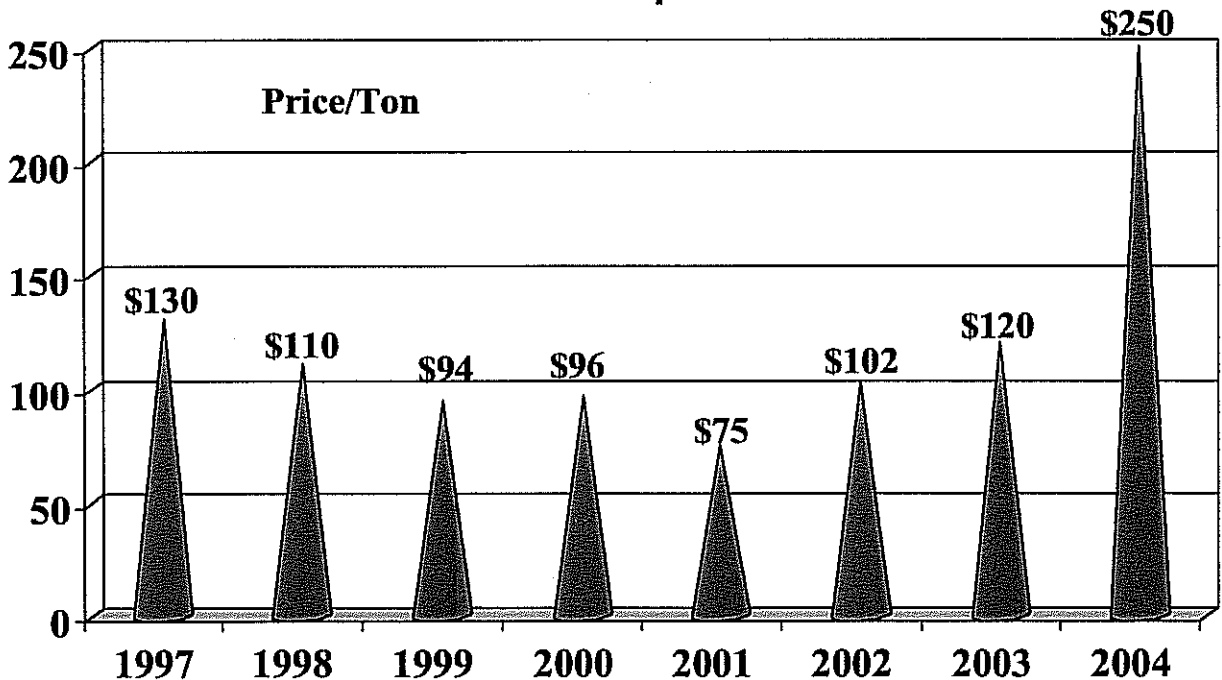
International demand for steel scrap, especially from China, has driven prices to unprecedented levels directly impacting mini-mills and in turn much of the purlin material, plate, barstock, rod and angles we use in metal buildings and metal components.

Lower than normal inventories of scrap at many mills, strong export demand and low levels of scrap at many dealer yards have combined to create what might be the tightest supply situation in the ferrous market in the past 30 years. **Scrap prices are up 145% over 2002**, which is at or above record levels for most regions of the U.S.

Skyrocketing costs of ferrous scrap have turned mini-mills from low-cost producers into high-cost producers behind integrated mills. Mini-mills generally use steel scrap as 100% of their feedstock. A scrap alternative is imported pig iron but there are not enough ships available to carry the quantity required from overseas suppliers.



U.S. Scrap Prices



Raw Material Shortages

Raw materials required in steelmaking are global commodities in short supply. Reduced coke deliveries from China and Japan and production restraints at U.S. Steel's Clairton plant, due to a mine fire at their Pinnacle coal mine in West Virginia last December, are moving coke into the precious mineral category.

In World Steel Dynamics opinion, "it's the most severe and widespread shortage of steelmakers' raw materials in the history of the industry. Products in tight supply include pig iron, iron ore, coking coal and coke." The issue is not steel capacity in North America but rather shortages of raw materials to make steel itself.

Coke supply remains so tight that steel mills in the U.S., Europe and India are forced to cut back production. **In the U.S. at least five mills are production constrained due to coke shortages.**

Spot coking coal prices are now up 75% to over \$70/ton from \$40/ton last August. China, the world's largest supplier of coke is now determined to restrain not only coke exports; but it is also seeking to hold down exports of coking coal. China exports of coke this year are expected to total 9 million tons compared to 14.5 million tons last year, almost a 40% decrease.

One of the reasons for this is China's shortage of electricity, which has forced the government to mandate the delivery of steam coal, over coke, coking coal and iron ore, on its rail system.

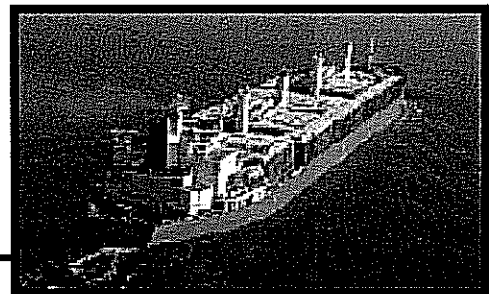
The price of Chinese coke delivered to East Coast U.S. ports has risen to at least \$325/ton versus roughly \$75/ton in early 2002.

Strict U.S. environmental regulations related to coke production make the industry relatively unattractive to new domestic producers.

Ocean Shipping

There are simply not enough vessels to transport iron ore, coking coal, coke and steel products from continent to continent. Ocean shipping, like many industries, cycles and we are in the bottom of the trough of available ships to carry much needed goods and raw materials.

New ore boats will not be available until 2007 so there is no short-term fix for this dilemma in sight. Increased fuel prices are also driving up freight costs.



Metal Building and Components Pricing

Steel Storm's immediate impact will be higher prices for all steel products including Metal Buildings and Components. We are doing everything possible to contain the runaway train but at this point in time, with the global factors involved, all we can do is adapt to conditions as they exist. Even with today's pricing Metal Buildings are an excellent value.

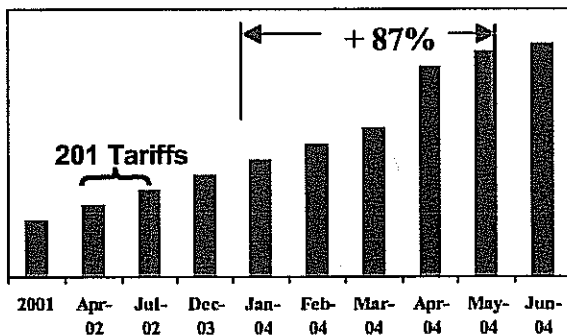
How Long Will This Last?

Nobody has an answer to this question. Estimates range from the end of this year to the end of the decade.

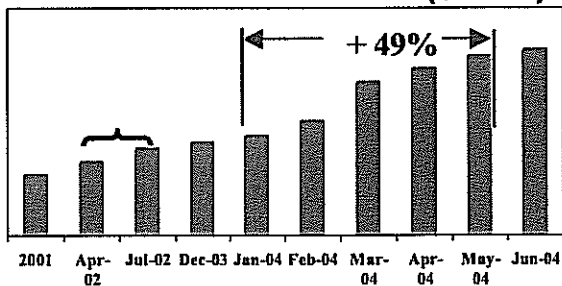
Until the U.S. dollar gains strength and steelmaking raw materials become more available price plateaus we see now will continue.



Plate Cost Increases (\$/Ton)



Purlin Cost Increases (\$/Ton)



Galvalume/Galvanized Sheet Cost Increases (\$/Ton)

