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Industry: **STEEL**

Coverage:

Ticker	Rating	Price
AKS	Buy	\$11.03
CMC	Neutral	\$9.48
GNA	Buy	\$5.60
GTI	Neutral	\$7.32
NUE	Buy	\$30.75
RS	Neutral	\$22.28
SCHN	Neutral	\$25.48
STLD	Neutral	\$7.72
WOR	Neutral	\$10.99
X	Buy	\$44.59
ZEUS	Neutral	\$20.34

The Steel Weekly

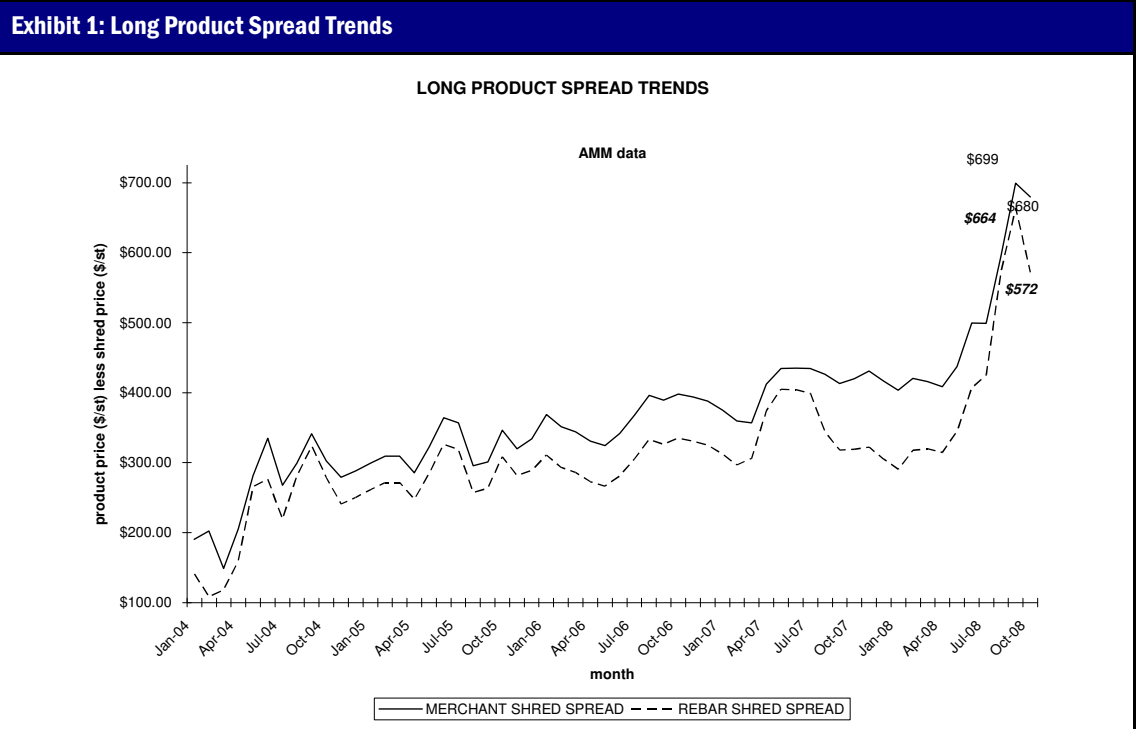
- Long product metal margins maintained strong in October in a sequentially significantly weaker demand environment. For now, pricing discipline has been maintained.
- An analysis of service center inventories during the latest (2004) decline in steel prices is enclosed. In our opinion, a lesser 2008 percentage flat rolled pricing decline should be expected, and a pricing trough can be identified when service center shipments are strong as inventories are liquidated.
- Current price to tangible book valuations are enclosed.
- Through August, scrap export fundamentals, which have since significantly deteriorated, remained strong, and SCHN should post a strong year-end August quarter that will be reported later this month.
- U.S. light vehicle sales declined 23% sequentially in September.

Important Disclosures are found on last page.



Long Product Metal Spread Analysis

Long product pricing leader NUE adjusted surcharges late last week on rebar and merchant products that imply stronger market demand for the latter. List price for rebar fell \$130, directly in line with decreased (shredded) scrap raw material surcharge. Merchant product base price was increased \$50 to partially offset the decreased raw material surcharge, with list prices falling \$80/ton. From the below spread analysis, where margins are compared for each product using that month's sales and market shred price, we see that metal margins per a historic basis are still quite strong, and more so for merchant than rebar.



We do not discount the fact that shipments now are very weak, with levels falling off considerably since mid-September. However, the above pricing adjustments show, in our opinion, some level of confidence from the producers' perspective that conditions will improve, and that some level of pricing firmness is being maintained.

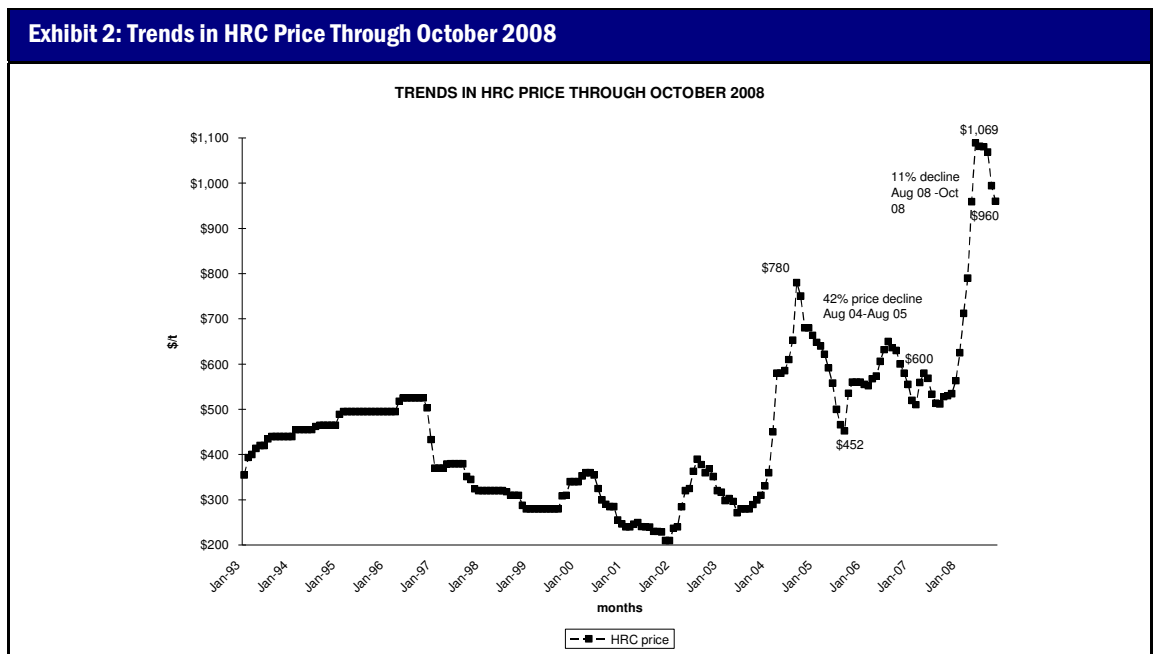
Service Center Behavior During Significant Hot Rolled Price Decline of 2004

From the service center behavior during the price decline of 2004 we highlight the following;

- Although the below implies further downside to flat rolled inventories is possible with the 2008 year-to-date modest increase, there is seemingly much less flat rolled inventory available in the distributor channel to support as significant a price decline as seen in 2004. With service center inventory liquidation now in progress, per our survey work, we should not see as drastic a reduction in flat rolled selling price as we saw in 2004.
- In 2005, a sharp sequential monthly increase in service center flat rolled shipments in the declining price environment was an indication of a price bottom. We look for similar inflections in the current environment.
- Flat rolled service centers do not seem hesitant to allow some margin compression to maintain shipments during a downdraft in finished steel pricing. However, with price declines expected less in this downturn than in 2004, margins should be better protected in 2008.
- Service center demand for steel products, identified as service center shipments plus the change in service center inventories, seems more closely related to steel price than service center shipments are.

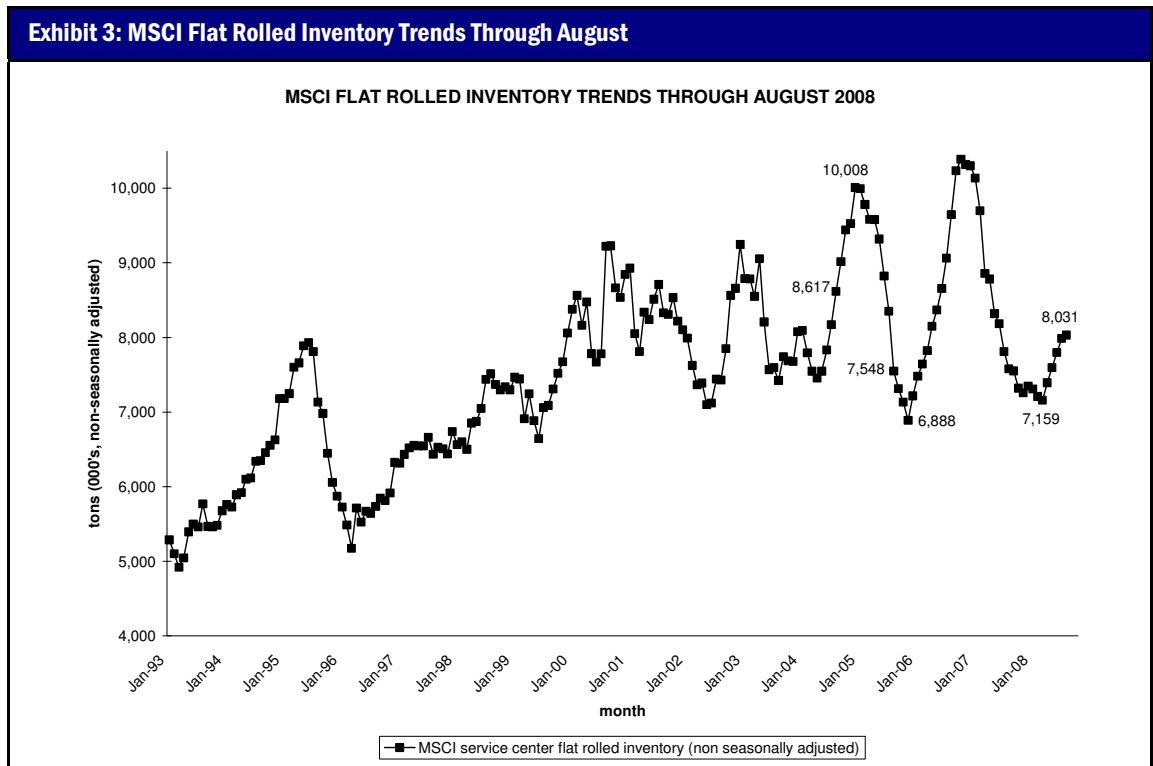
The below is a detailed explanation of our analysis.

The following graph provides hot rolled coil pricing trends since 1993 through October of this year. It highlights the 42% decline of August 2004 through August 2005. From August through October of this year, an 11% depreciation in steel pricing is noted, but we acknowledge further risk to the downside on pricing through the end of 2008.



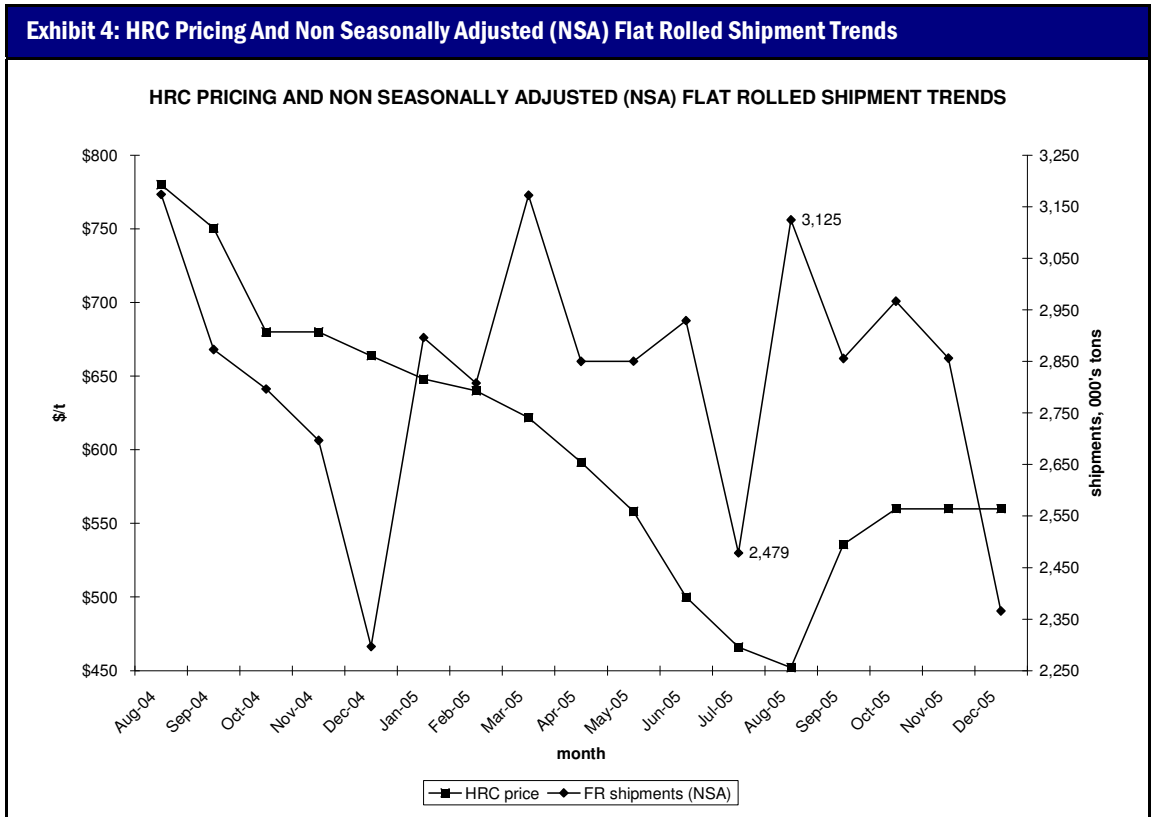


The following presents trends in non-seasonally adjusted MSCI flat rolled inventories since 1993 through August of this year (September 2008's MSCI data will be released later this week). The data show a flat rolled inventory build at the service center level from August (8,617) through December (10,008) 2004, and liquidation from January to August 2005 (7,548). Service center flat rolled inventories seemingly bottomed out in November 2005 (6,888) and, more recently, in March 2008 (7,159).



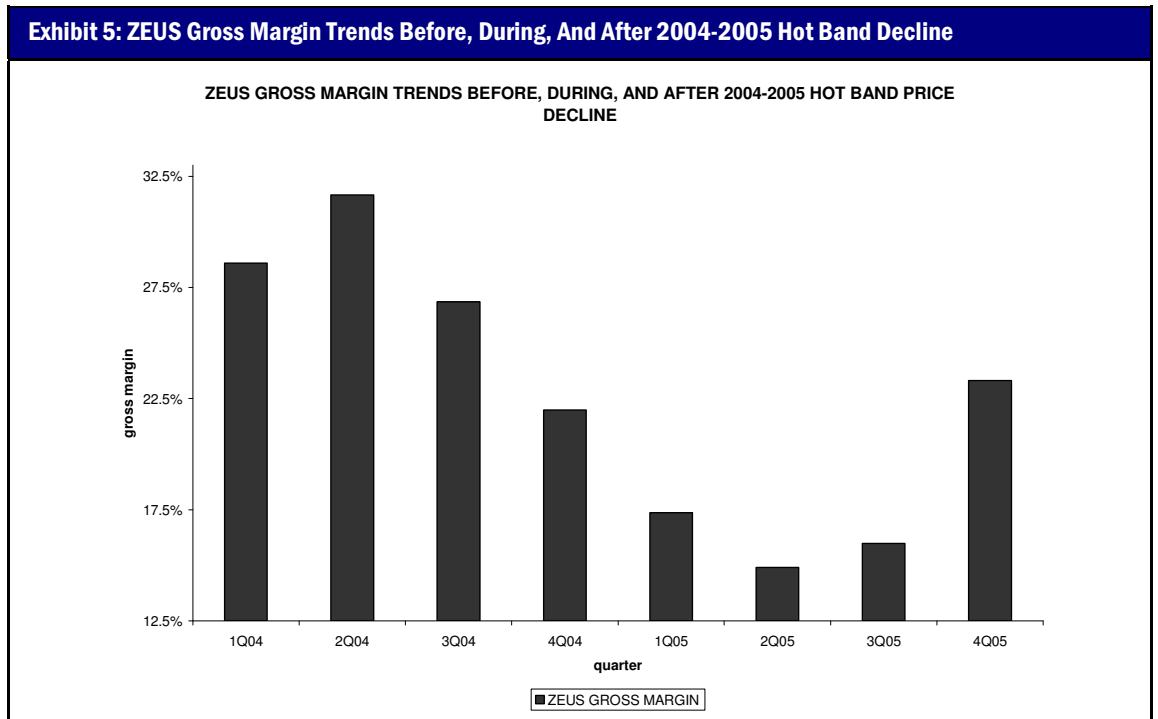


Service centers with high flat rolled exposure during the 2004-2005 price decline suffered erratic shipments. The strong increase in monthly shipments from July to August 2005 (2,479 million to 3,125 million, a 26% increase) was seemingly a pretty good indicator of a price bottom.



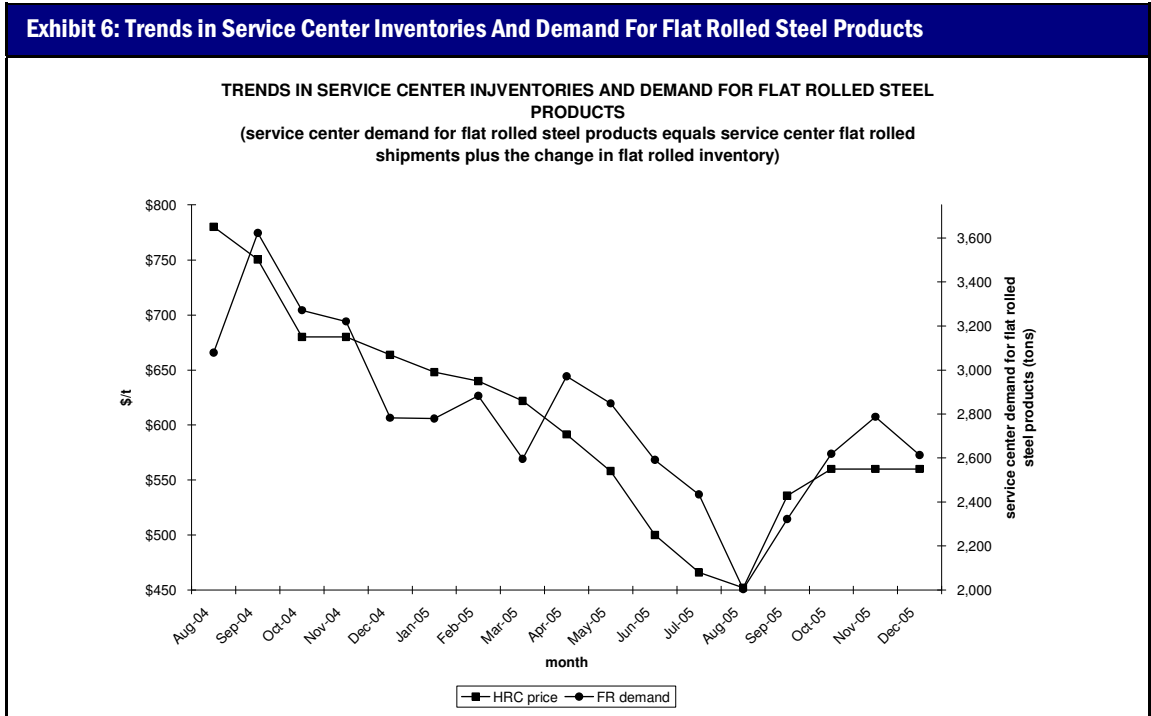


Service centers with high flat rolled exposure (such as ZEUS) suffered declining margins during the August 2004 to August 2005 time period as margins declined on its direct business.





Service center demand for flat rolled steel products trended closely downward with price. In the last pricing downturn, price sharply recovered when demand returned.



Price to Tangible Book Value Analysis for Coverage Group

The following table provides an overview based off last Friday's closing prices of price to tangible book values for our coverage group. We note AKS, CMC, and ZEUS all currently trade below tangible book values. Both GNA and STLD trade at elevated ratios compared to the group. Based solely on historical price to tangible book, AKS, CMC, GTI, and WOR show deepest value.

Exhibit 7: Price to Tangible Book Value for Coverage Group As Of October 10, 2008

Price to Tangible Book Value for Coverage Group As Of October 10, 2008											
	AKS	CMC	GNA	GTI	NUE	RS	SCHN	STLD	WOR	X	ZEUS
Current	0.98x	0.68x	5.81x	1.75x	1.86x	1.79x	1.34x	2.73x	1.20x	1.19x	0.73x
Average	5.85x	1.89x	6.44x	14.73x	2.92x	3.76x	3.10x	3.37x	2.41x	2.41x	1.08x
Median	5.79x	2.00x	1.92x	9.76x	2.43x	3.21x	2.88x	2.12x	2.39x	1.96x	1.15x
Low	0.98x	0.68x	0.96x	1.75x	1.28x	1.45x	0.79x	1.04x	1.20x	0.56x	0.23x
High	15.75x	2.91x	28.58x	38.08x	6.90x	6.56x	5.72x	13.79x	3.10x	5.89x	2.73x
Breakdown of Goodwill & Intangibles (\$, 000)											
Goodwill	37	21	2,520	9	2,205	1,180	323	1,106	187	1,565	7
Patents	0	0	27	0	0	0	0	0	5	0	0
Licenses & Noncompete	0	5	632	0	58	1	9	80	1	75	0
Customer Agreements	0	9	561	0	394	157	2	240	8	326	0
Other	0	7	9	0	18	17	1	0	0	26	0
Total	37	42	3,749	9	2,675	1,355	336	1,426	201	1,992	7
Source: Baseline & LBR											
Note: 3Q02 - Current											
: Goodwill & intangibles data from most recent 10K filing											



Domestic Ferrous Scrap Export Volumes Remain Elevated in August

August's ferrous scrap export volumes totaled 2 million tonnes, a 2% decrease from the previous month, but up 77% on a year-over-year basis. Shredded, 53% of total, increased 13% sequentially. No. 1 heavy melt, 22% of total, decreased 25% from July's volumes. The weighted average export price was \$473 per tonne in August, a 7% decline from the prior month. Overall, volumes and export prices held up reasonably well, and we therefore maintain a level of confidence in SCHN delivering a strong quarter ending in August. We cannot discount, however, the severely deteriorated business.

Exhibit 8: Domestic Ferrous Scrap Exports & Trade Weighted Dollar

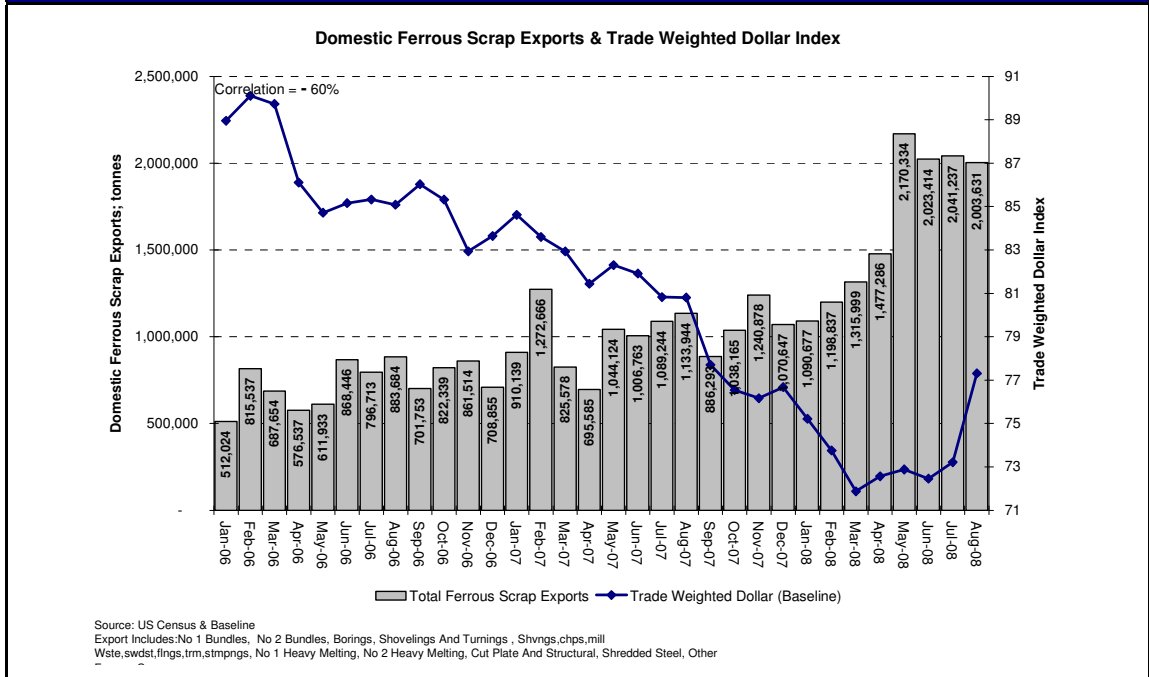


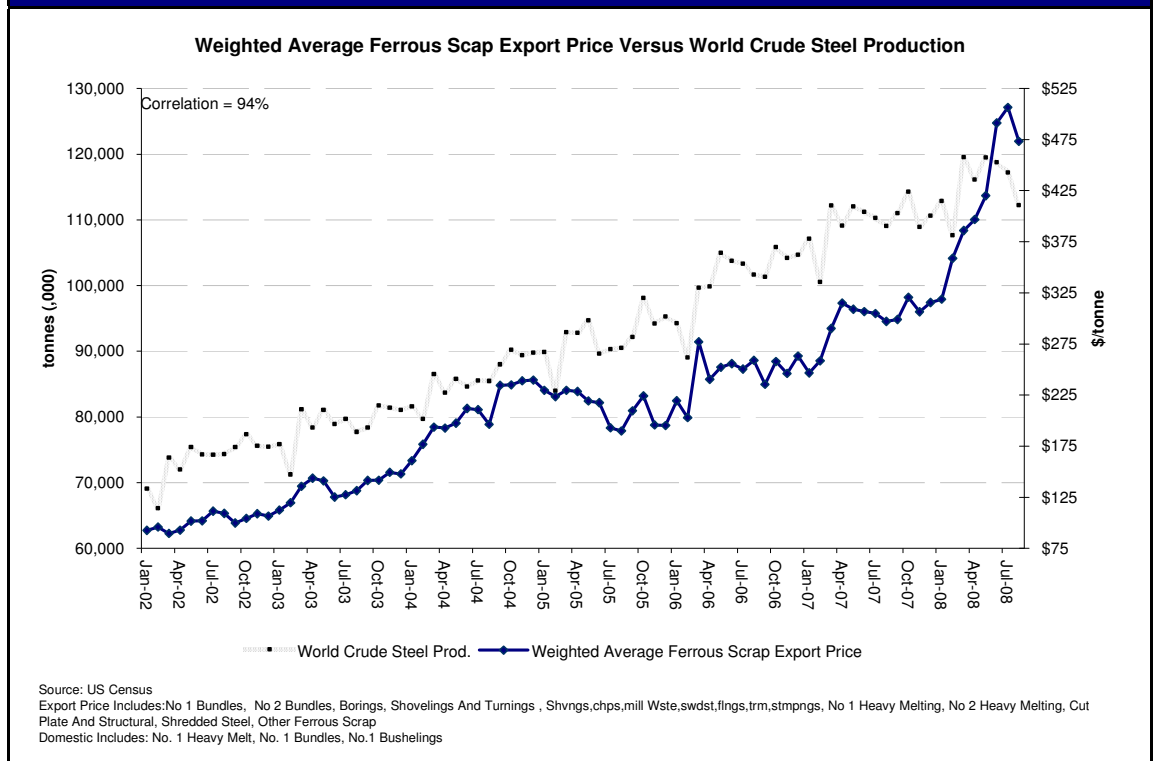
Exhibit 9: August 2008 Ferrous Scrap Exports

August 2008 Ferrous Scrap Exports				
	Avg Price	Metric Tons	m/m Δ	y/y Δ
Borings, Shovelings & Turnings	\$85	48,710	851%	2390%
No 2 Bundles	\$268	991	-53%	-57%
Remelting Scrap Ingots	\$1,267	8,614	-6%	97%
Shavings, Chips & Mill Waste	\$238	41,408	43%	100%
No 1 Bundles	\$238	34,279	24%	377%
No 2 Heavy Melt	\$337	26,412	-13%	-10%
Plate And Structural	\$520	106,810	27%	4%
Other Ferrous Scrap	\$520	240,581	-28%	4%
No 1 Heavy Melt	\$620	432,681	-25%	40%
Shredded Steel	\$430	1,063,145	13%	150%
Total Ferrous Scrap Exports	\$473	2,003,631	-2%	77%

*Note: Weighted average price for Total
 Source: US Census



Exhibit 10: Weighted Average Ferrous Scrap Export Price Versus World Crude Steel Production





United States Light Vehicle Sales Tumble 23% in September Sequentially

Light vehicle sales totaled 963 thousand units in September, a 23% sequential decrease and were down 27% from the comparable period last year. Both light truck and car sales were off. Total North American vehicle production is expected to be 13.42 million units in 2008, a 13% decrease from last year. Fourth quarter production is forecast to increase 6% over the third quarter, but expected off 13% from the prior year.

Exhibit 11: US Light Vehicle Sales

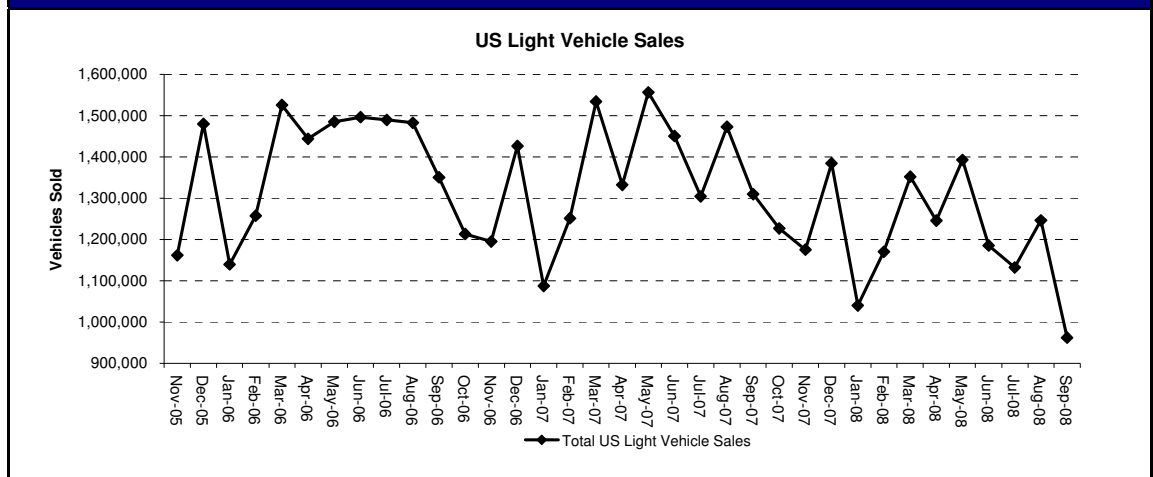




Exhibit 12: Yearly North American Vehicle Production

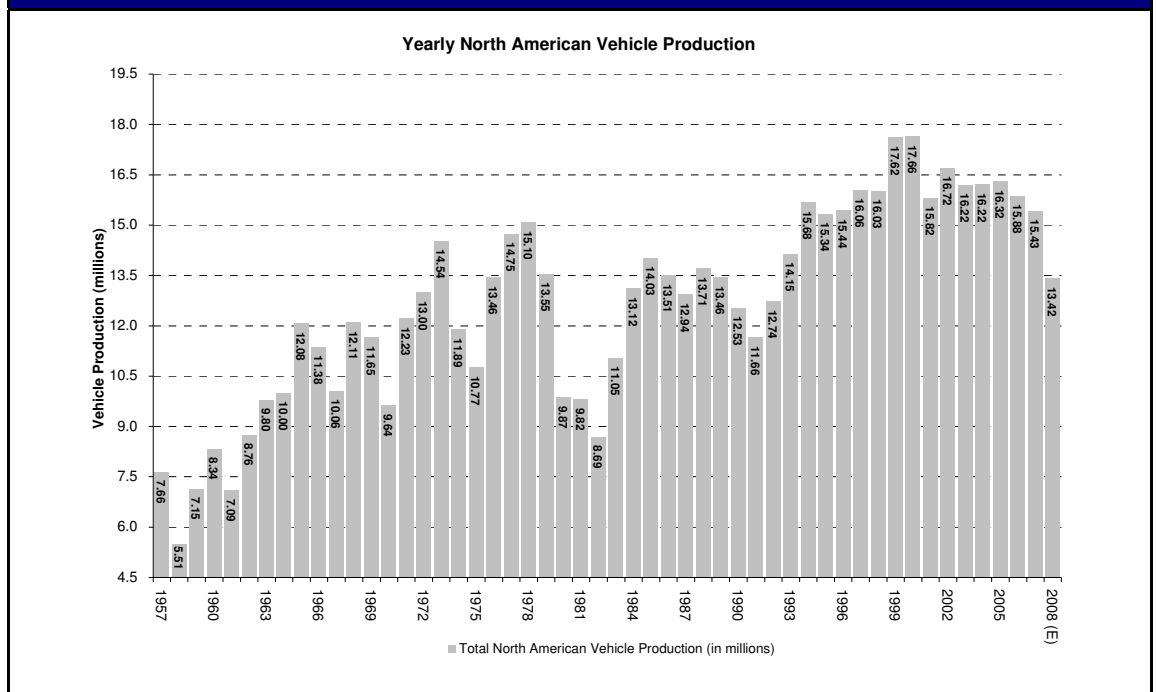
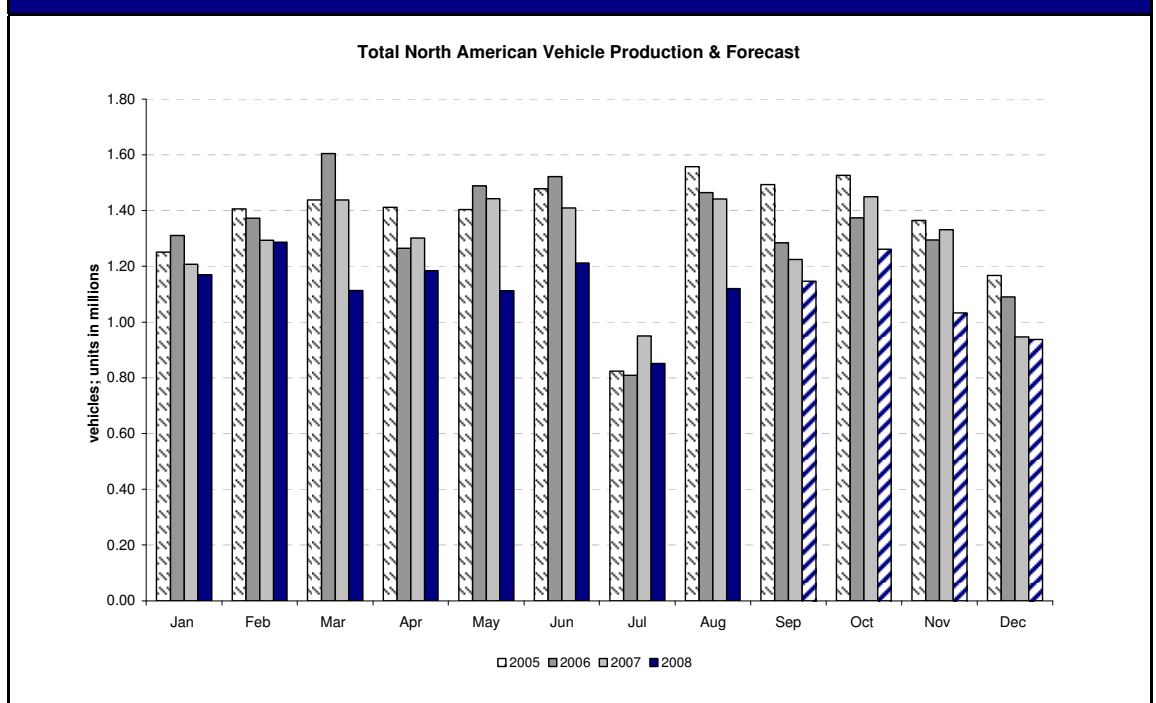


Exhibit 13: Total North American Vehicle Production & Forecast

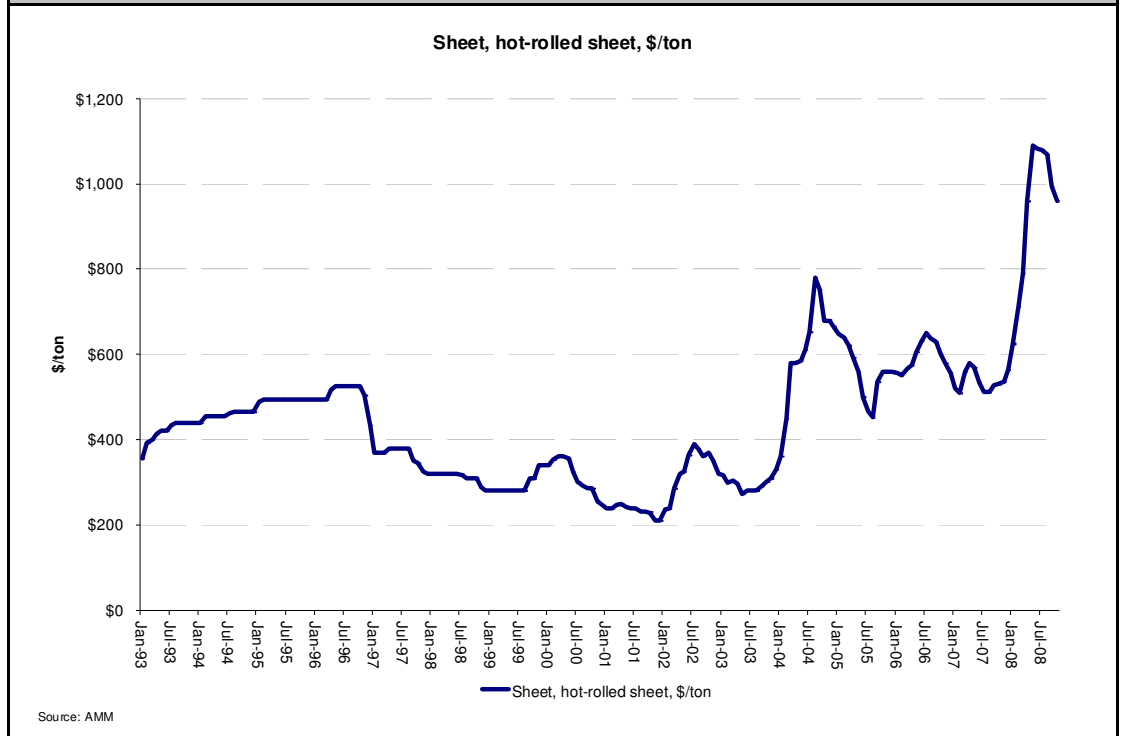




Steel Industry Charts

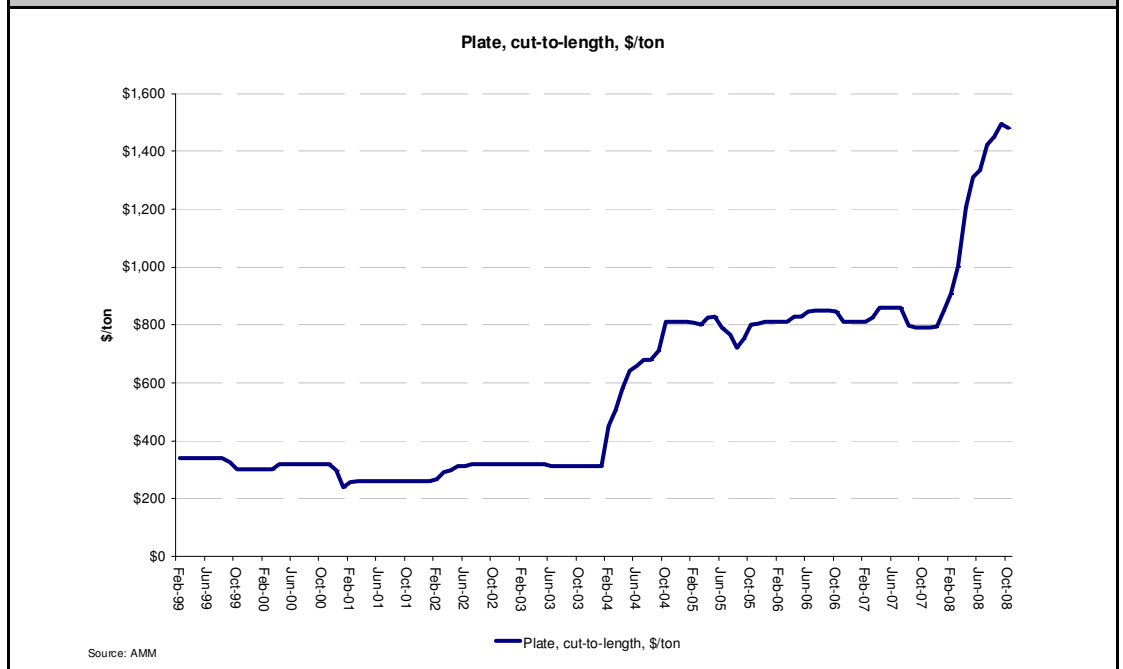
October's hot rolled coil price is \$960 per ton, a 3% sequential decrease.

Graph 1: Sheet, Hot Rolled



October's plate price is \$1,480 per ton, representing a \$16 sequential decrease.

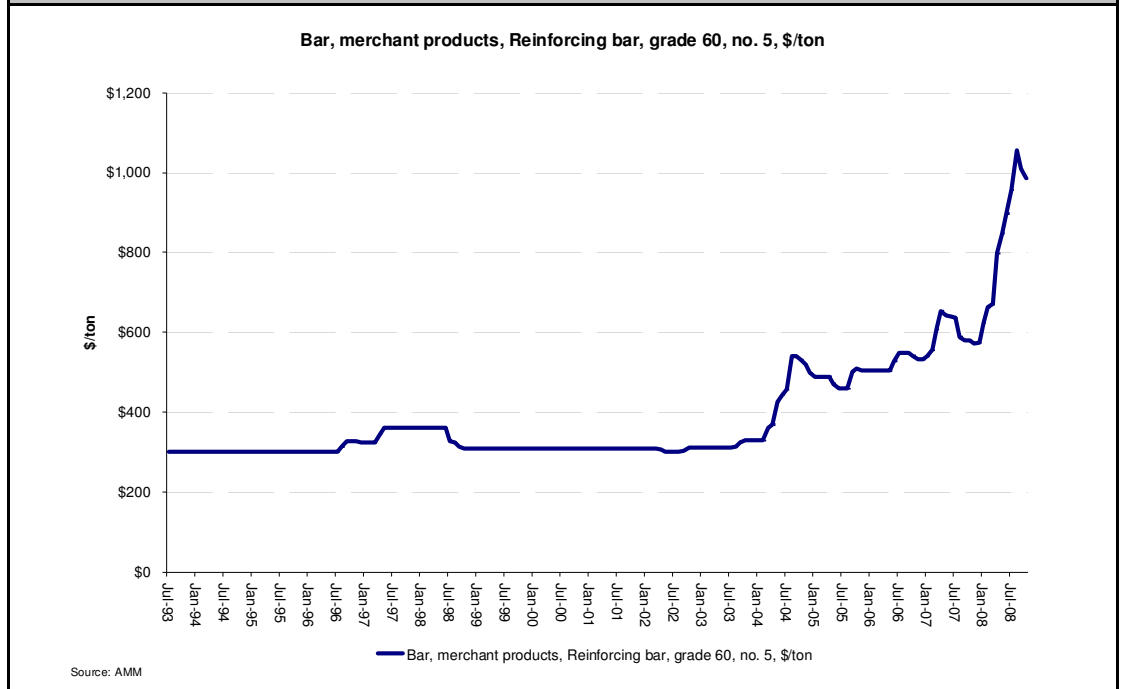
Graph 2: Plate, Cut-to-length





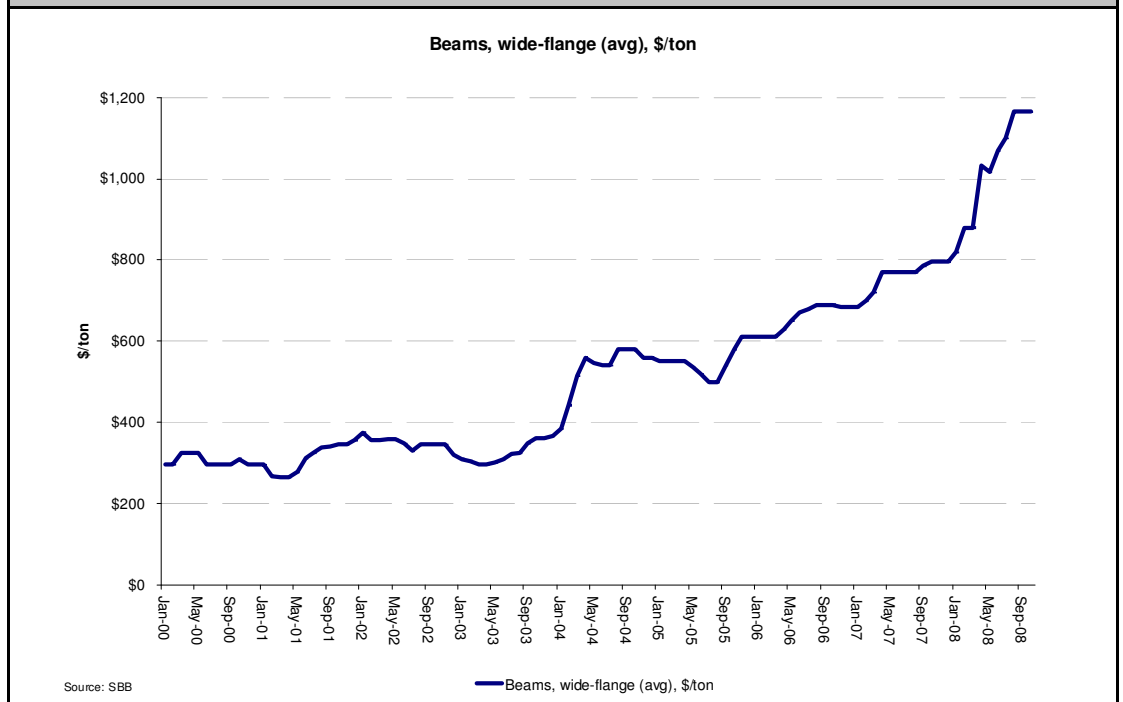
Rebar prices are \$986 per ton in October, a 2% decrease from the previous month. With last week's price adjustment, current rebar prices are \$856.

Graph 3: Bar, Merchant Products, Rebar



According to SBB data, October's beam price is flat at \$1,165 per ton.

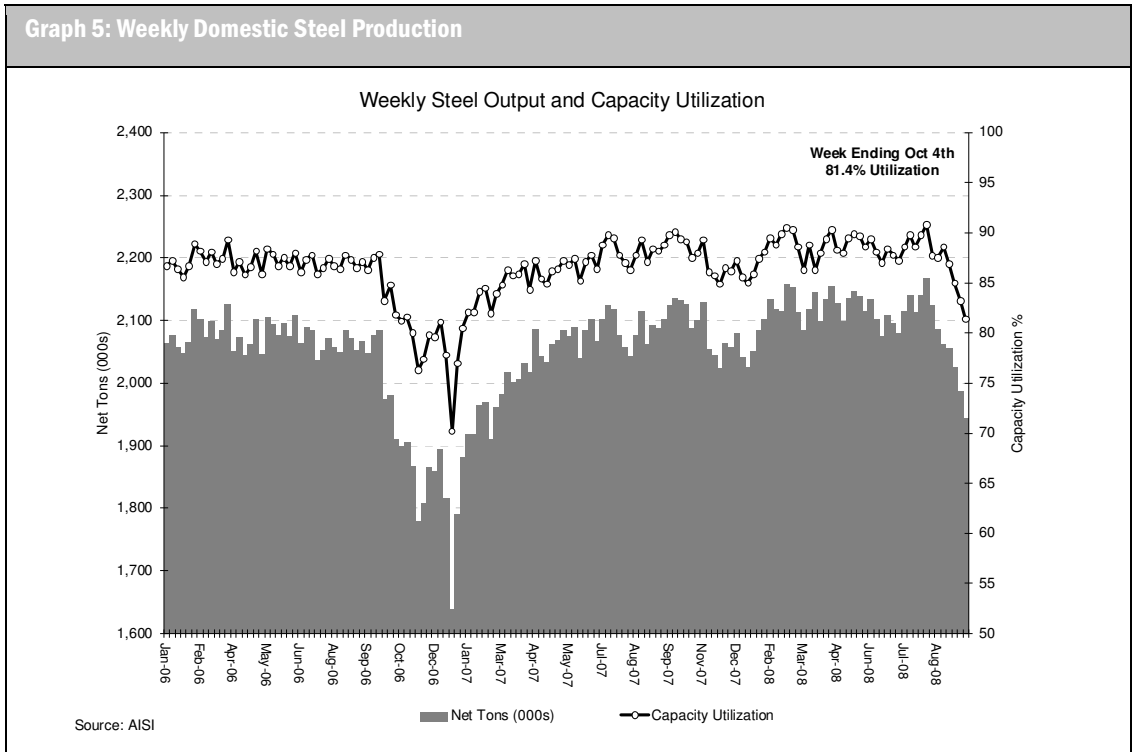
Graph 4: Beams, Wide-flange





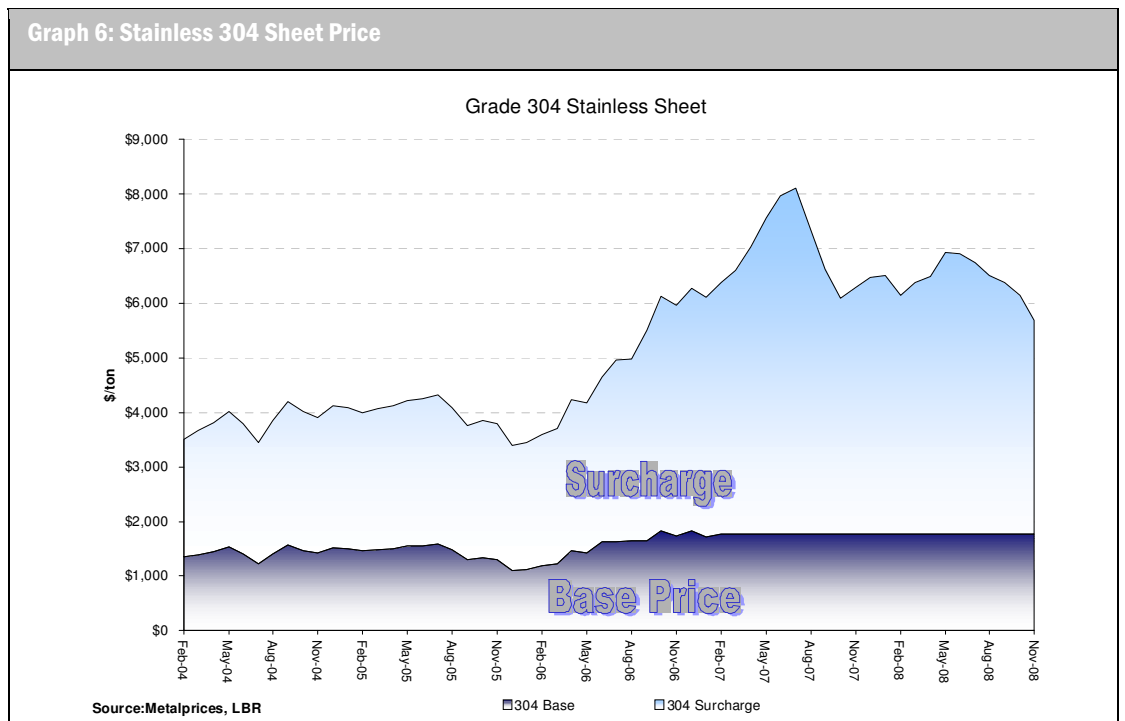
Weekly domestic steel production was 1,943,000 tons and capacity utilization is 81.4%. Year-to-date production is up 1.9%.

Graph 5: Weekly Domestic Steel Production



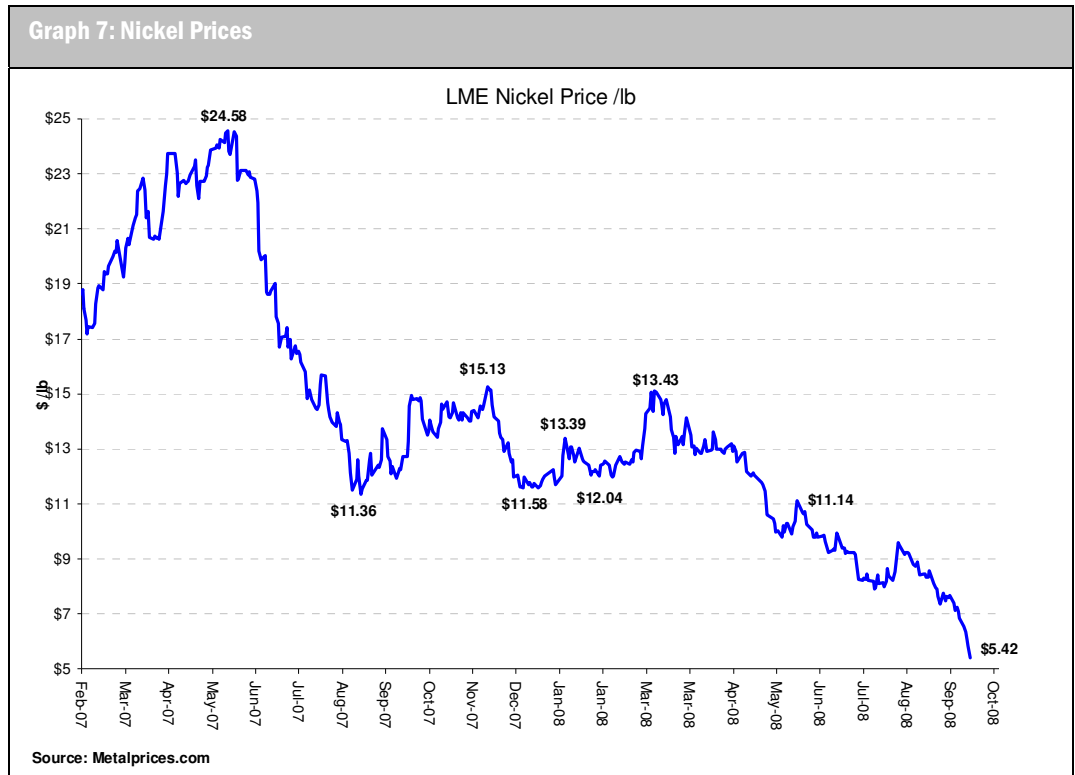
Stainless steel (grade 304) prices will decrease in November (-10% sequentially to \$1.9548/lb). Base prices are unchanged.

Graph 6: Stainless 304 Sheet Price

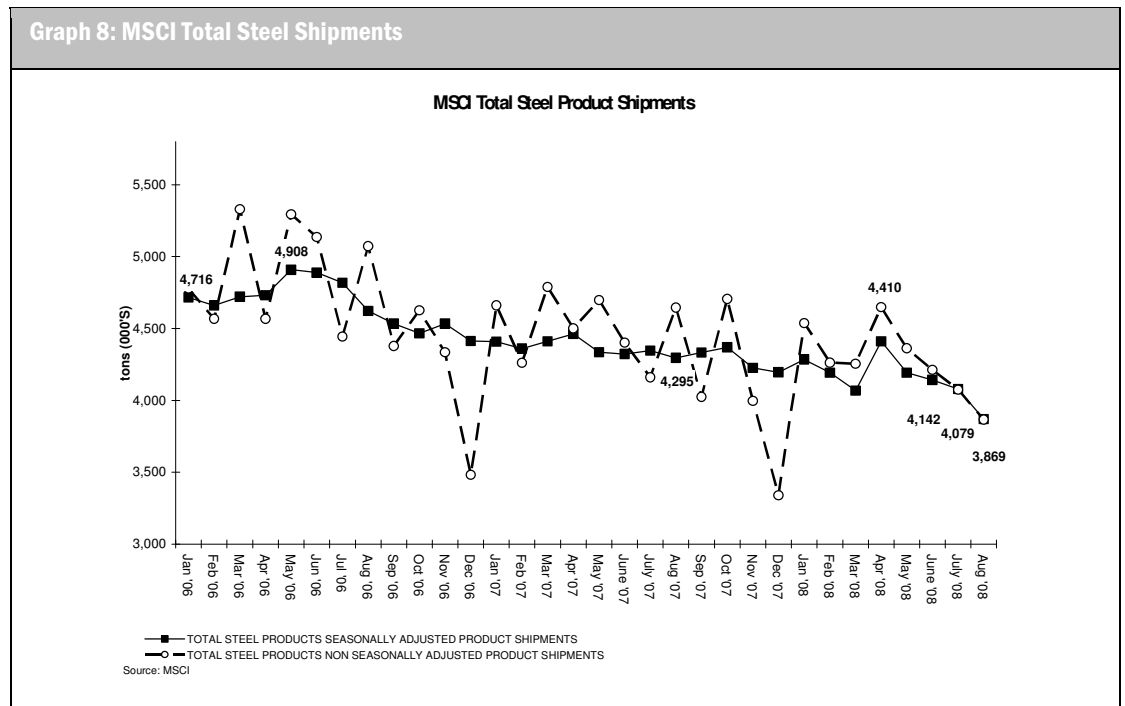




Nickel closed last week trading for \$5.42 /lb.



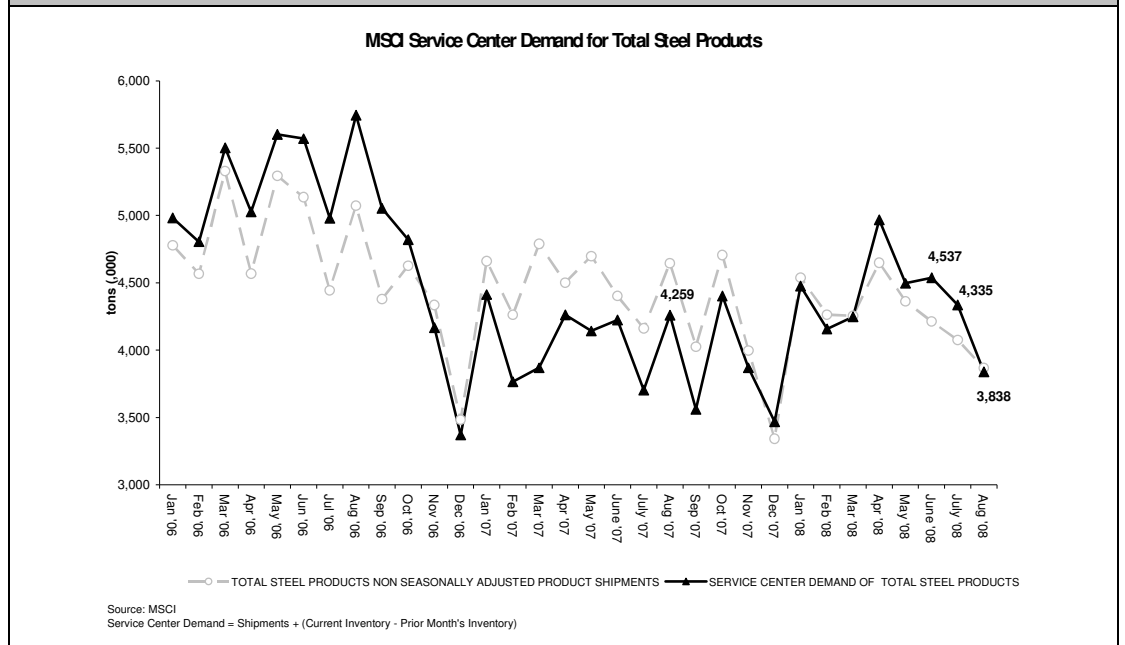
August's seasonally adjusted total steel product shipments decreased 5% sequentially and 10% year over year. Unadjusted total steel product shipments also decreased 5% over last month and were 17% below August of last year.





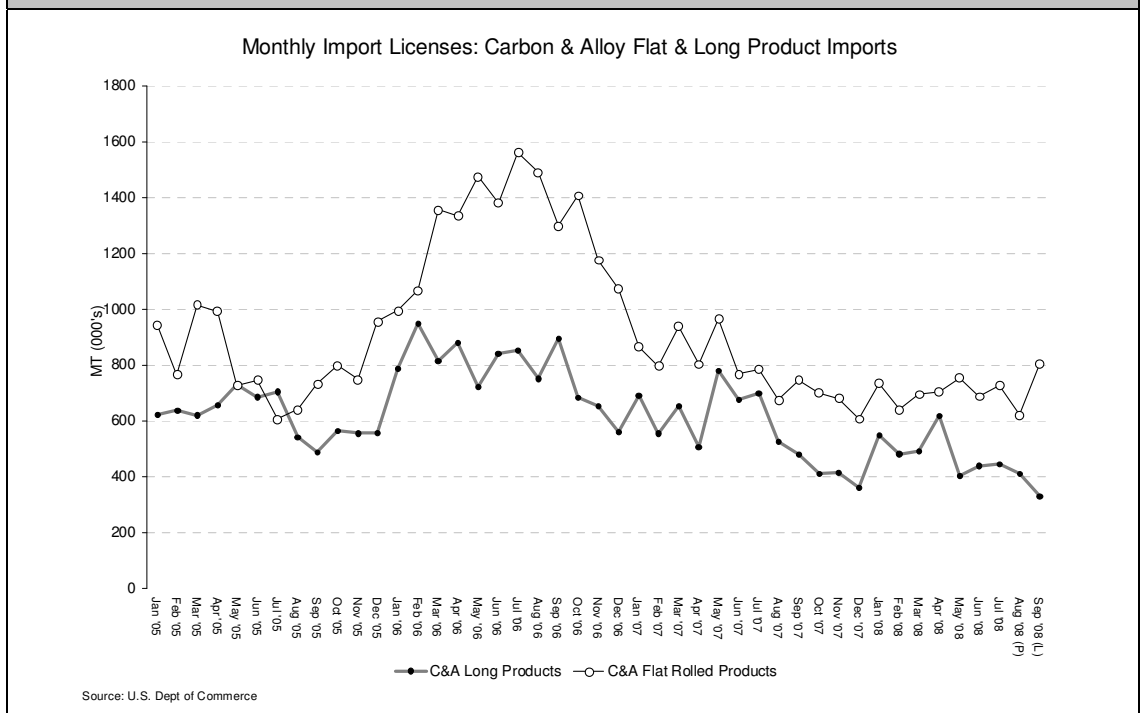
Service center demand for steel products declined 10% year over year in August.

Graph 9: MSCI Service Center Demand for Total Steel Products



Imports licenses for carbon and alloy flat increased 30% sequentially and long products decreased 19% in per preliminary census data.

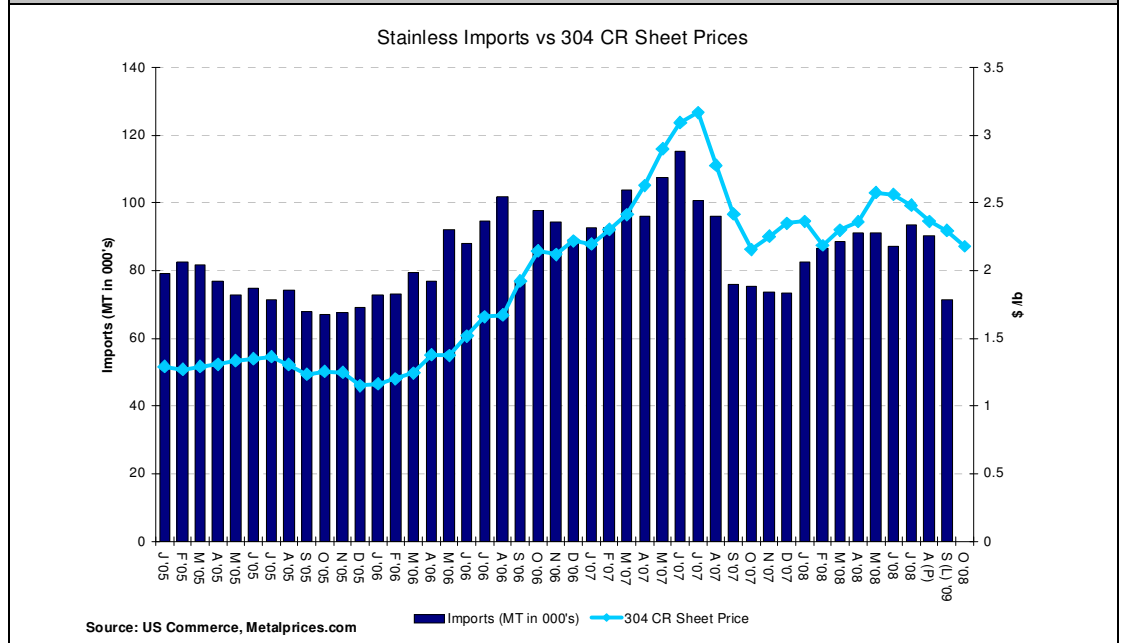
Graph 10: Flat Product Import Licenses



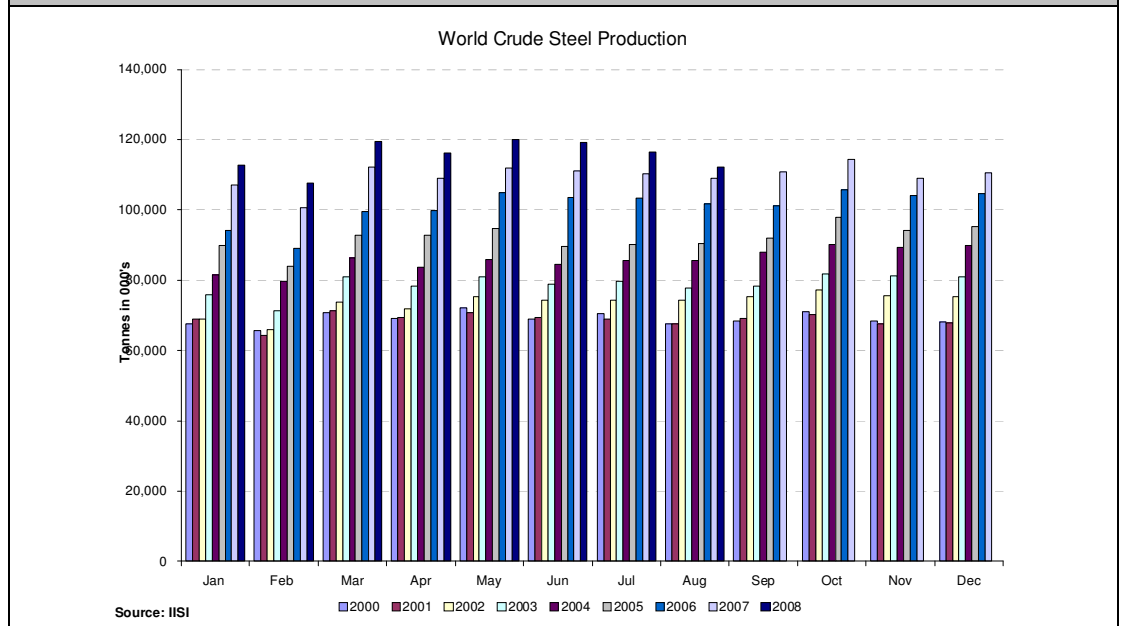


Stainless steel imports, strongly correlated with domestic prices, are likely to decline in October.

Graph 11: Stainless Import Licenses and Prices



Graph 12: World Crude Steel Production

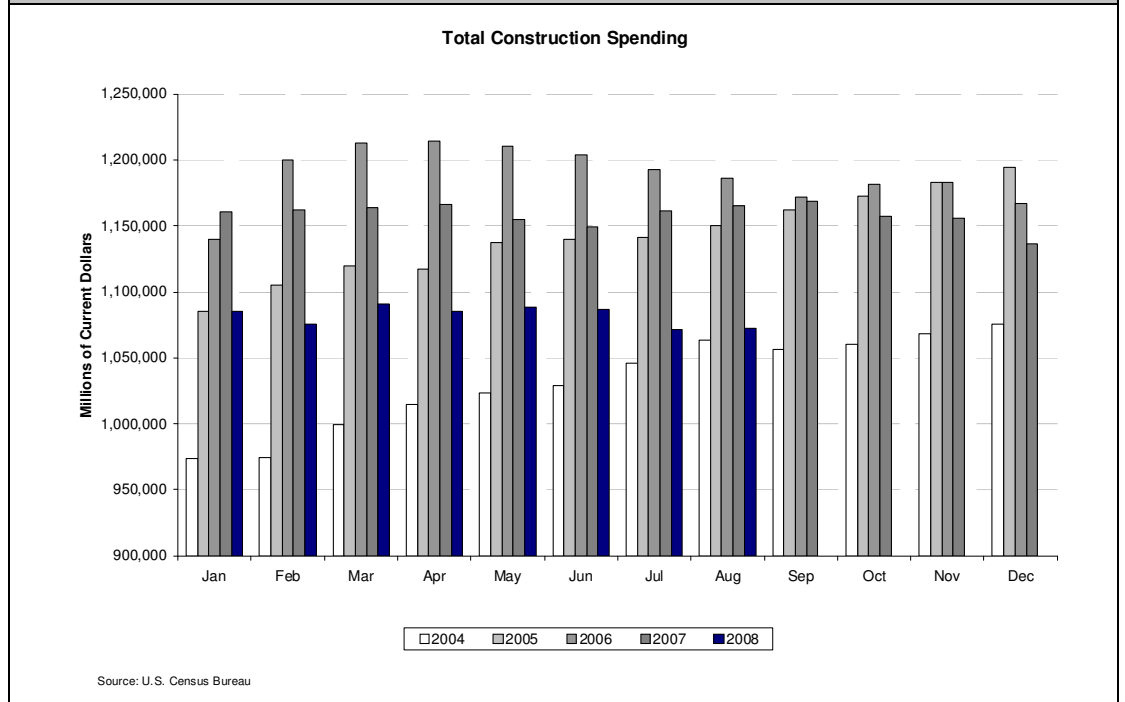


World steel production in August is trending 3% higher than the similar period last year.



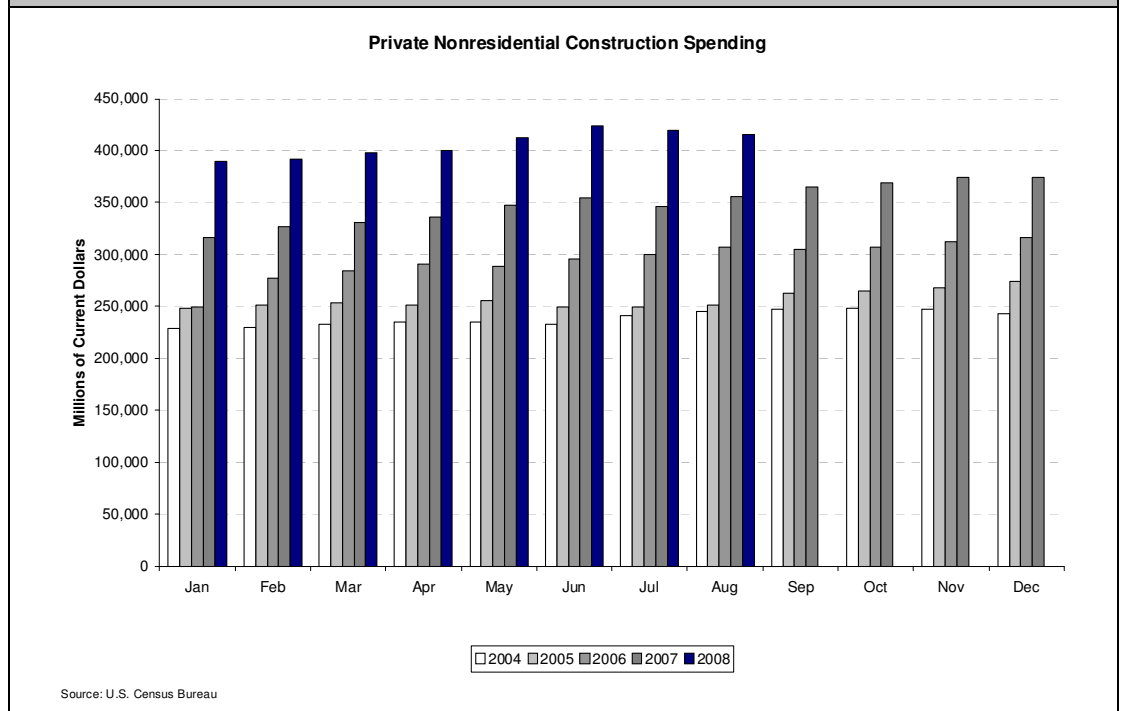
Total U.S. construction spending in August was down 8% compared to the same period last year.

Graph 13: Total U.S. Construction Spending



Private U.S. nonresidential construction spending in August was up 16.9% over the prior year.

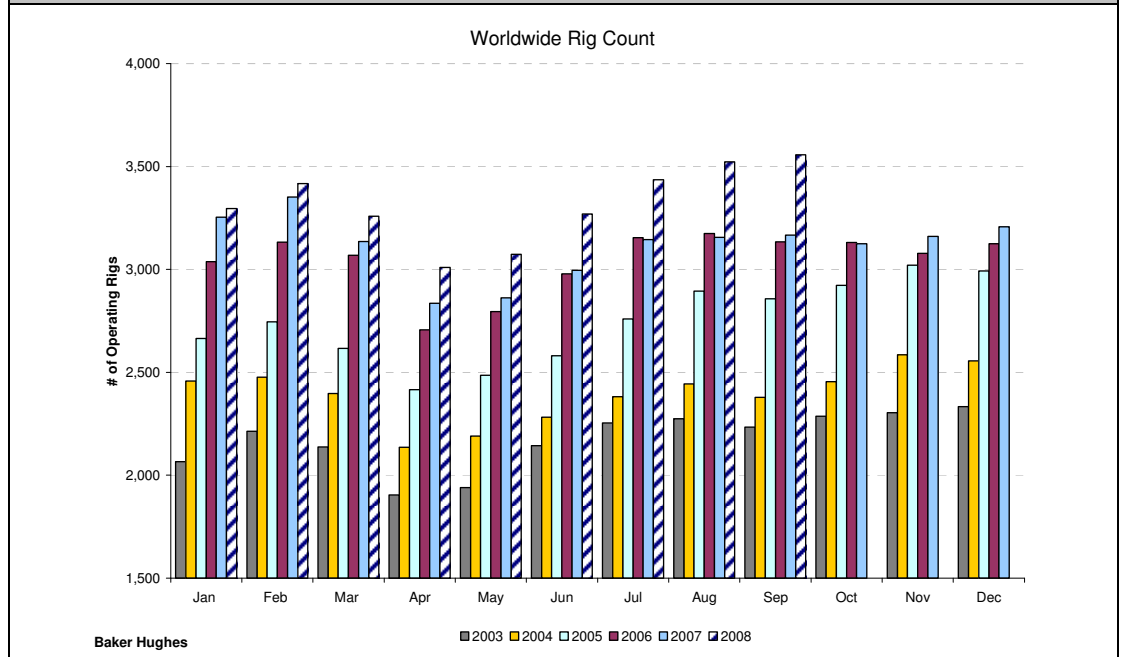
Graph 14: U.S. Private Nonresidential Construction Spending





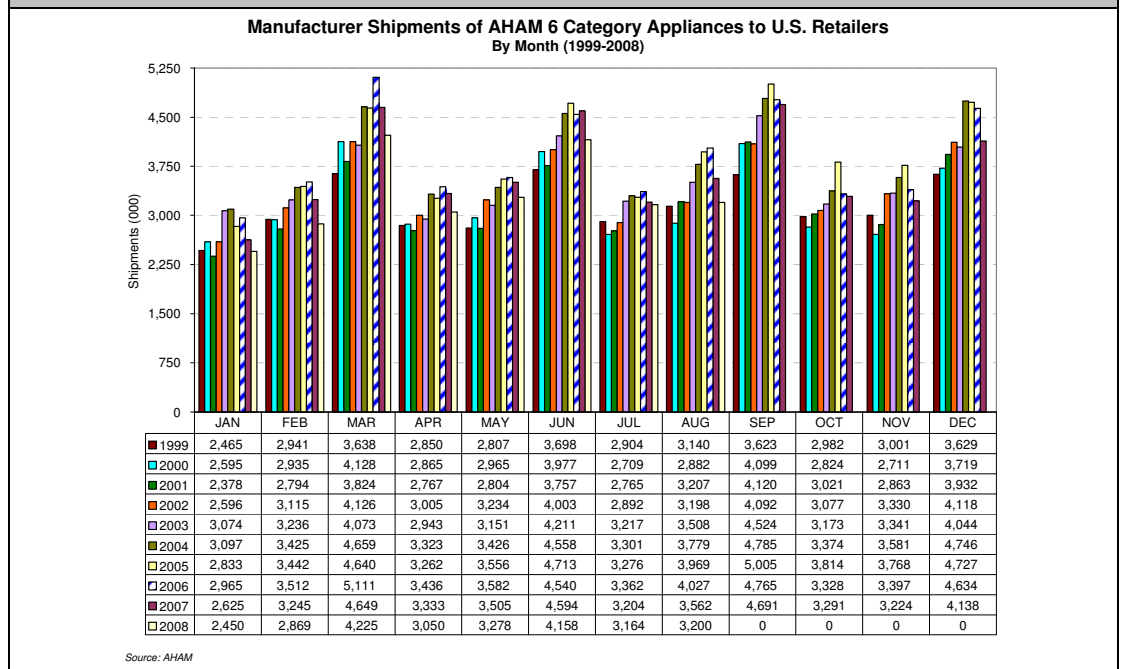
Graph 15: Worldwide Rig Count

Worldwide rig counts were up 12% in September over the prior year.



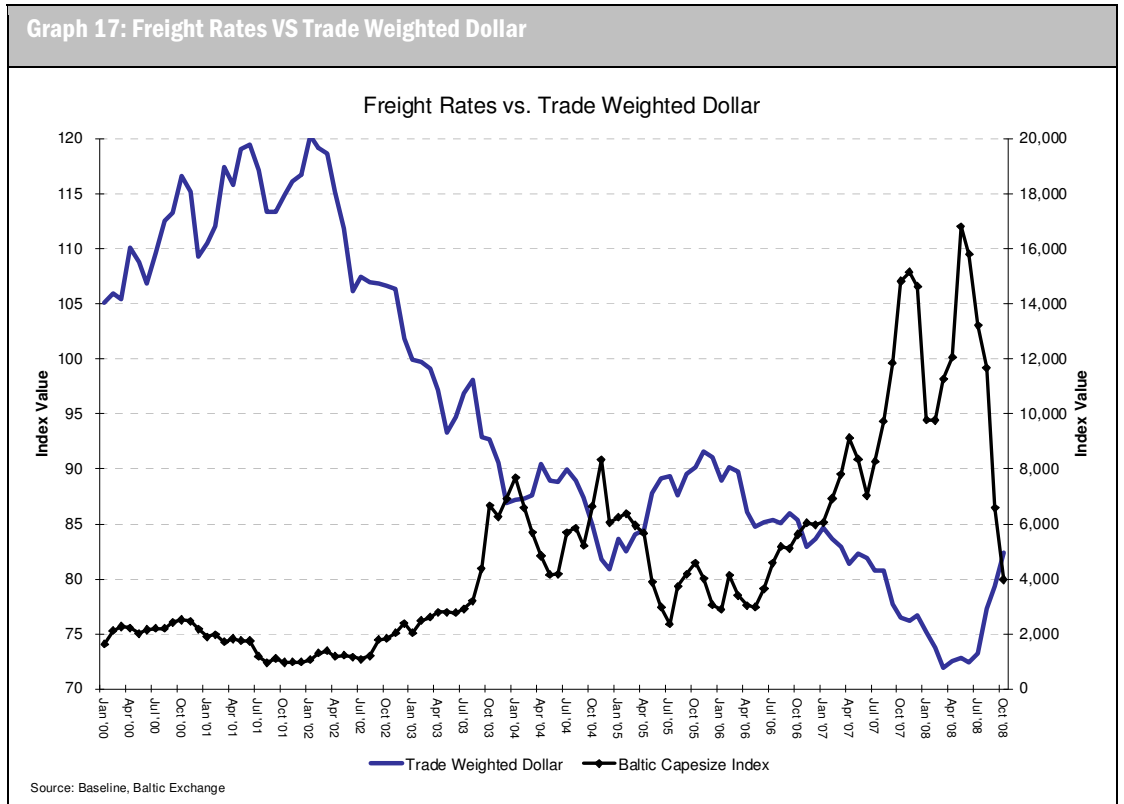
Graph 16: Appliance Shipments to U.S. Retailers

Appliance shipments to retailers in August declined 10% year over year to 3.2 million.



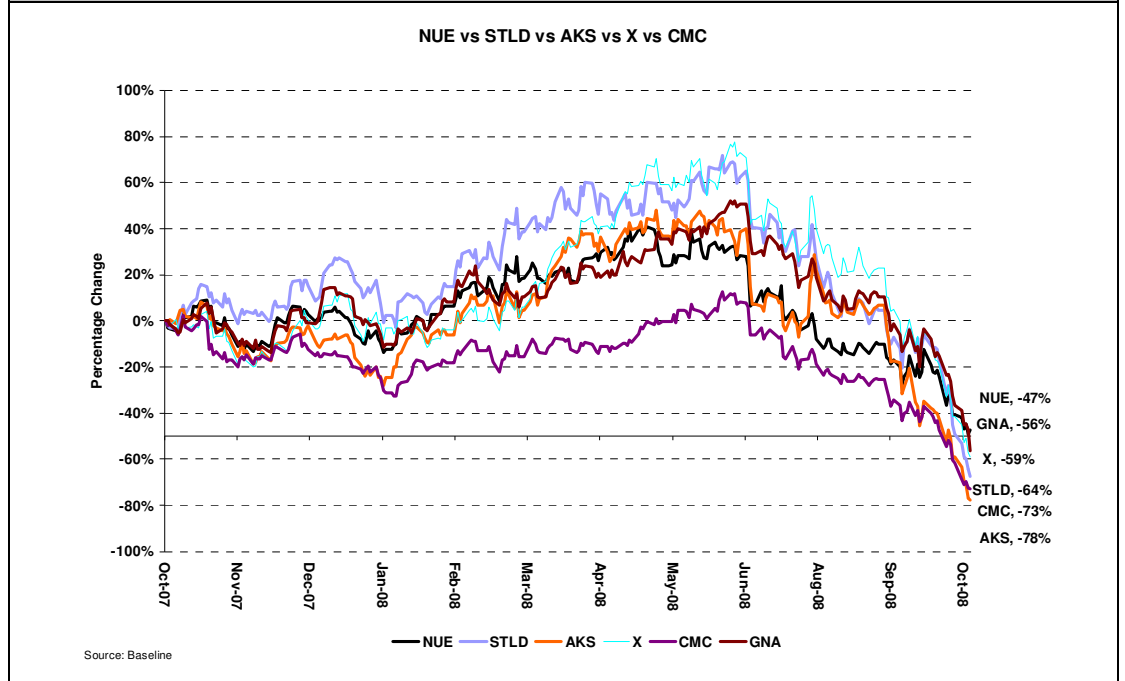


The Baltic Capesize Index is averaging 3,987 in October, a sequential decrease of 39%. The index is down 73% year over year. The trade weighted dollar index is up 4% sequentially to 82.4.

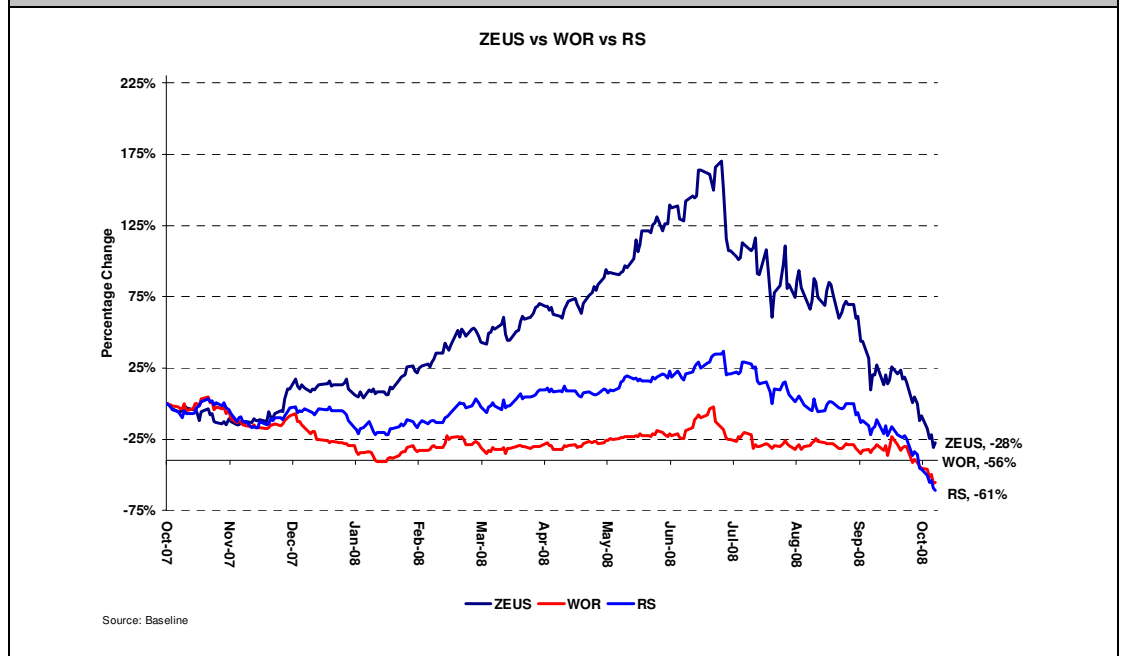




Graph 18: Steel Producers Stock Performance

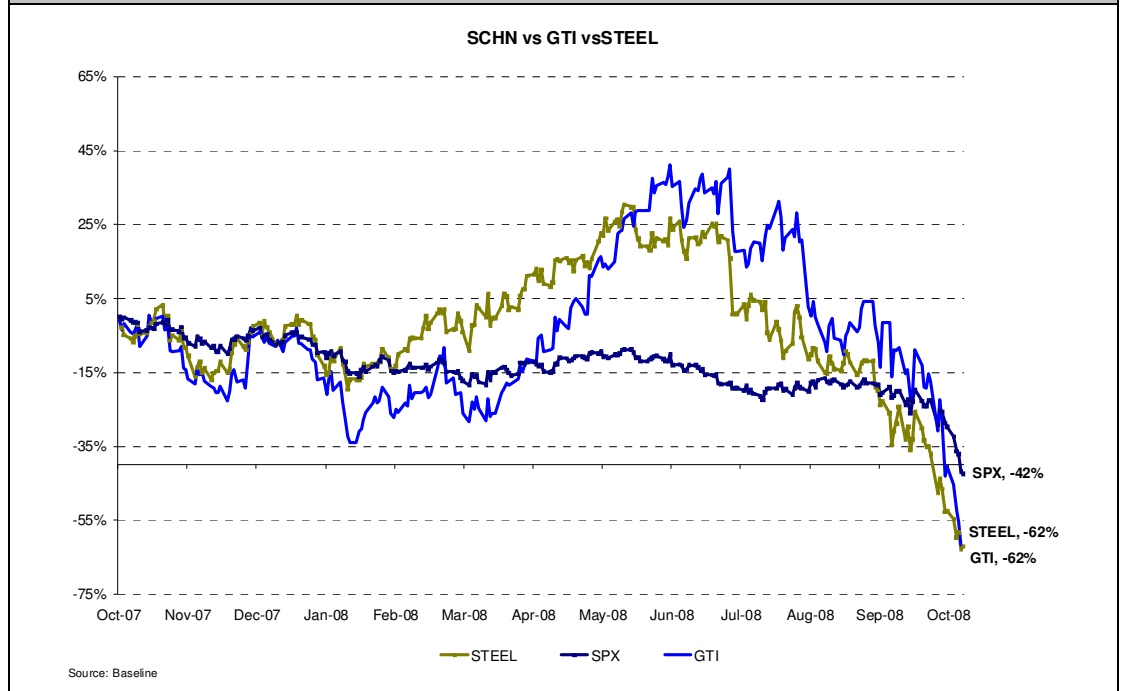


Graph 19: Steel Service Centers Stock Performance





Graph 20: Recyclers Stock Performance



Graph 21: Baseline Steel Index VS S&P 500

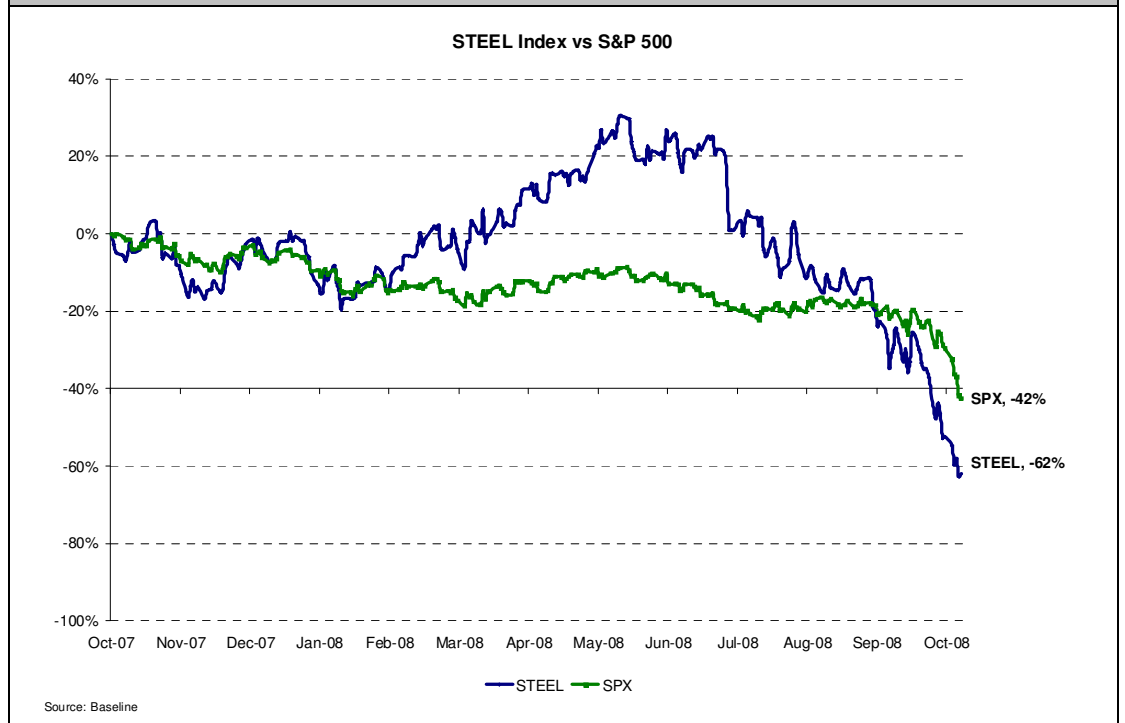




Table 1: Steel Industry Valuation Summary

Steel Industry Valuation Summary													
Classification	Market Cap	Most Recent Year End					Consensus			Valuation			
		Rev. per Share	E.P.S.	EBITDA/Book Val/ Share	Ent Val/ Share	Share	Current Quarter	Current Year	Next Year	Price/ Fwd Earnings	Price/ Sales	EV/ EBITDA	Price/ Book
<i>\$ values in millions</i>													
Mini-mills	3,698	50.32	2.91	6.50	14.76	20.04	1.23	3.98	3.99	3.2	0.28	3.66	0.81
Integrated Mills	6,934	82.07	4.47	10.26	22.90	29.76	2.48	7.71	7.73	2.8	0.25	2.89	0.83
All Steel Producers	5,689	69.86	3.87	8.81	19.77	26.02	2.00	6.28	6.29	2.9	0.26	3.03	0.82
Distributors	704	90.27	3.39	8.25	25.79	25.36	1.41	5.31	5.13	4.0	0.20	3.15	0.69
Recyclers	1,954	18.90	0.54	2.09	4.71	8.96	0.15	0.93	NM	3.2	0.2	4.3	0.6
Fabricators	1,848	41.18	2.70	6.35	19.25	25.45	0.85	3.01	3.28	7.2	0.51	3.89	1.05
Pipe & Tube	4,857	29.79	2.06	4.39	16.98	25.21	0.84	2.48	4.03	9.0	0.76	4.87	1.18
Total Steel Industry	3,801	58.41	3.17	7.33	19.49	25.08	1.45	4.68	4.96	4.7	0.37	3.52	0.90

Table 2: Recent Stock Performance

Recent Stock Performance of Our Steel Coverage Universe						
Company	Ticker	October 12, 2008	Week	YTD	6 months	LTM
U.S. Steel (B)	X	\$44.59	-29.8%	-63.1%	-69.4%	-58.2%
Nucor Corp (B)	NUE	\$30.75	-11.5%	-48.1%	-57.1%	-45.7%
Steel Dynamics (N)	STLD	\$7.72	-36.3%	-74.1%	-78.7%	-66.8%
Commercial Metals (N)	CMC	\$9.48	-29.1%	-67.8%	-70.6%	-72.3%
Gerdau Ameristeel (B)	GNA	\$5.60	-30.9%	-60.6%	-63.6%	-56.4%
A K Steel (B)	AKS	\$11.03	-45.7%	-76.1%	-83.5%	-77.4%
Reliance Steel & Aluminum (N)	RS	\$22.28	-27.5%	-58.9%	-64.7%	-60.1%
Olympic Steel (N)	ZEUS	\$20.34	-20.7%	-35.9%	-56.9%	-26.6%
Worthington Industries (N)	WOR	\$10.99	-18.3%	-38.5%	-36.7%	-55.0%
Schnitzer Steel (N)	SCHN	\$25.48	-22.0%	-63.1%	-68.8%	-64.1%
Graftech (N)	GTI	\$7.32	-37.0%	-58.8%	-60.6%	-61.0%
Cleveland Cliffs (B)	CLF	\$30.00	-21.6%	-40.5%	-57.5%	-39.3%

*(B) - BUY, (N) - Neutral, (S) - Sell, (NR) - Not Rated

Table 3: Steel Peer Group Valuations

LONGBOW Research		Steel Peer Group Valuation																
Company Name	Rating	Ticker	Market Stats			Rev. per Share	Most Recent Year End			Consensus		Valuation						
			Current Price	52 Week High	52 Week Low		Market Cap	E.P.S.	EBITDA/Share	Book Value/Share	Ent Val/Share	Current Quarter	Next Year	Price/Earnings	EV/EBITDA	Price/Book		
Integrated Producers																		
Arcelor Mittal Adr	-	MT	29.17	105	27	27,269	129.61	7.41	16.33	35.18	46.00	3.92	12.73	12.95	2.3	0.2	2.8	0.8
United States Steel	BUY	X	44.59	196	39	5,239	177.29	8.75	20.97	54.51	68.65	7.05	20.46	19.80	2.2	0.3	3.3	0.8
Ak Steel Holdg	BUY	AKS	11.03	73	9	1,238	66.32	3.50	8.50	11.61	13.56	1.46	4.89	5.41	2.3	0.2	1.6	1.0
Mini-mills																		
Nucor	BUY	NUE	30.75	84	26	9,735	65.45	4.95	10.57	25.00	32.25	2.19	7.48	6.66	4.1	0.5	3.1	1.2
Steel Dynamics	NEU	STLD	7.72	41	7	1,548	34.48	2.08	5.84	10.03	19.94	1.12	3.86	3.91	2.0	0.2	3.4	0.8
Commercial Metals	NEU	CMC	9.48	40	8	1,086	83.52	2.91	6.17	14.36	15.98	0.97	2.42	3.34	3.9	0.1	2.6	0.7
Gerdau Ameristeel	BUY	GNA	5.60	20	5	2,425	17.81	1.68	3.43	9.63	11.97	0.63	2.15	2.03	2.6	0.3	3.5	0.6
Pipe & Tube Producers																		
Friedman Industries	-	FRD	4.75	10	5	32	27.63	0.67	1.75	7.12	2.96	-	0.67	-	NM	0.2	1.7	0.7
Northwest Pipe	-	NWPX	34.28	65	30	314	43.22	2.25	5.46	29.71	46.11	0.75	2.90	3.35	11.8	0.8	8.4	1.2
Tenaris Adr	-	TS	24.10	75	22	14,225	18.51	3.26	5.95	14.10	26.55	0.85	3.87	4.70	6.2	1.3	4.5	1.7
Steel Service Center																		
Olympic Steel	NEU	ZEUS	20.34	78	16	221	104.08	2.35	8.76	28.46	22.91	1.76	6.52	5.26	3.1	0.2	2.6	0.7
Castle (A.M.)	-	CAS	11.38	34	10	260	64.03	2.45	4.51	17.97	16.34	0.50	1.96	2.30	5.8	0.2	3.6	0.6
Reliance Steel/Almu	NEU	RS	22.28	78	20	1,632	102.70	5.36	11.48	30.93	36.84	1.98	7.45	7.84	3.0	0.2	3.2	0.7
Steel Fabricators																		
Gibraltar Industries	-	ROCK	13.04	25	10	390	45.29	1.13	4.40	19.80	26.79	0.51	1.63	1.72	8.0	0.3	6.1	0.7
Harsco	-	HSC	22.65	67	20	1,910	47.32	3.02	9.27	20.92	35.28	0.94	3.55	3.95	6.4	0.5	3.8	1.1
Insteel Industries	-	IIN	9.19	20	7	161	18.42	1.33	3.32	9.33	8.19	0.65	2.24	1.36	4.1	0.5	2.5	1.0
Precision Castparts	-	PCP	54.15	155	53	7,546	50.59	6.93	12.22	33.16	53.51	1.90	6.93	8.08	7.8	1.1	4.4	1.6
Worthington Indus	NEU	WOR	10.99	26	10	866	40.90	1.45	4.02	11.93	15.69	0.42	1.45	2.07	7.6	0.3	3.9	0.9
Foster (L.B.)	-	FSTR	20.46	60	20	217	44.53	2.36	4.88	20.37	13.24	0.66	2.24	2.52	9.1	0.5	2.7	1.0
Graphite Electrodes																		
Grahtech Int'l	NEU	GTI	7.32	28	6	875	9.46	1.34	2.95	4.25	8.70	0.45	1.96	2.56	3.7	0.8	2.9	1.7
Metal Recyclers																		
Schmitzer Steel Ind	NEU	SCHN	25.48	119	22	752	104.16	4.32	10.38	28.66	30.89	2.53	6.76	5.46	3.8	0.2	3.0	0.9
Metallco	-	MEA	3.00	19	3	108	18.90	0.54	2.09	4.71	8.96	0.15	0.93	1.00	3.2	0.2	4.3	0.6
TOTALS			18.44	61	16	3801	58.41	3.17	7.33	19.49	25.08	1.45	4.68	4.96	4.7	0.4	3.5	0.9



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