Publisher's Statement

This issue highlights a number of interesting, if not unusual, catalysts in the market. One is the mergers and acquisition activity across continents. While the conventional wisdom has been on booming economies driving prices upward as demand collides with supply, there appears to be other business forces at work.

As these consolidations take place, manufacturers, metal suppliers and metalworking companies are playing their cards closer to their vests. They may not be stretching out their arms to embrace the economy as they did in early 2006 as they try to gauge the impact of the auto and home sector adjustments. We'll know more as inventory gluts melt off this summer and fall.

Within companies, a revival in mentor may ward off the lament of employers who say they can't find good employees. While not unusual, mentoring is a throwback to the days before downsizing, right-sizing, reductions in force, mergers, acquisitions, and outsourcing. This may be the early stages of a paradigm shift where early adopters get a jump on the competition.

Toss in the latest ISM number of 55%, which indicates an expanding economy, and you have a nice mixed salad of market forces and workplace trends to ponder over lunch.

Welcome to Metals Outlook™ June 2007

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Tom Stundza's Comments

Welcome to the June 2007 edition of MetalsWatch! This is Tom Stundza, executive editor of Purchasing Magazine and Purchasing.com.

Over the past few months, a number of high-priced acquisitions have taken place in the steel industry. Investors are expecting more mergers or buyouts but service center executives and buyers have been uncharacteristically quiet in voicing their opinions. That's probably because the jury is still out on the supply-side impact of the merger and acquisition frenzy in commodities. However, it's already obvious that the M&A activity has triggered or, at least, bolstered the increases in prices since December for steel, aluminum, nickel, copper and other commodities. In theory, M&A activity could allow producers to curb supplies when necessary to keep prices up in the future. We'll explain in this edition's Cover Story where this latest round of consolidation has gone in steel. This is an extremely active period in the steel industry, says John Amodeo, the chief financial officer at Samuel Manu-Tech in Toronto, a value-added processor of various industrial products made from metals and plastics. He suggests that announced consolidations in the international steel market eventually should support stable-to-increased pricing as metals companies seek the financial heft needed to compete globally. Actually, that's a key reason why investors predict still even more marriages and takeover deals. But, some investors
disagree: Rather than being a sign of the peak for commodity prices, some investors say the corporate deal-making could help put a lid on supply and put even more upward pressure on a host of commodity prices. Only time will tell.

Interestingly, it's that kind of wait-and-see attitude that permeating the manufacturing marketplace even though a new Federal Reserve Board report on industrial production shows an unexpected 0.7% rebound occurred in April by utilities, autos and energy. Capacity utilization at the nation's factories, mines and utilities was a slightly greater than expected 81.6% as manufacturing capacity use picked up. Still, industrial production has been mixed in recent months and April's rise was only the third increase in the last eight months. A key gauge of future economic growth, the Index of Leading Indicators fell 0.5% in April, suggesting a slowdown in the months ahead, says the Conference Board. And, business conditions remain in a slow-growth mode this month, according to the latest Purchasing magazine buyers' survey. Economists and bankers say the 2007 economy remains on track to have the slowest growth since 2002. So, in the Metals Chips segment, we'll discuss why buyers aren't arguing or impressed with the fact that production of consumer durables, goods meant to last longer than 3 years, advanced by 2.1% in April.

In Homer's poem The Odyssey, Odysseus had a tough time finding his way home after the Trojan War, what with all those monsters threatening to derail his journey. But Odysseus at least had left a wise and trusted fellow named Mentor to be the guardian and teacher of his son, Telemachus. Modern buying professionals need mentors as much as Telemachus, especially in these times of supply-base upheaval. In this edition's Purchasing Focus segment, we'll discuss why experts at Wharton and elsewhere say mentoring is just as important as ever for supply-chain organizations.

I. Cover Story ◇ Are Mergers and Acquisitions Driving Prices Upward?
Carbon steel pricing levels in North America have increased slightly in the second quarter to offset high energy and iron costs—but have remained lower than other world markets. This, in turn, has led to a reduction in the level of imports entering North America. These price increases however are thought to be cost-driven, due in part to rising scrap costs, rather than being market-driven. That's because steel purchasing, which showed signs of strengthening in the first quarter, has been flat throughout the second quarter. And it has kept U.S. and Canadian steel inventories higher, by about 4.5%, from where they were a year ago. So, although inventory levels at the service centers are lower than later last year, they remain somewhat in excess when compared to more traditional levels and that has kept inflation from exploding. On the other hand, the issue with stainless steel isn't demand, which is booming, or supply, which is just about in balance, but with the rapid rise in scrap costs, Stainless steel price levels are forecast to remain high setting record highs month after month as nickel and other key alloys are expected to continue to be in short supply throughout 2007.

Some analysts and industry insiders suggest the announced consolidations in the international steel market and softer end-user demand in certain markets of North America should support stable-to-down pricing ahead. But they really don't have any historical markers. Over most of the past 20 years, consolidation in the steel industry has been prompted largely by adverse circumstances. Fusion in the past was seen as the path to the reduction of excess capacity; that is, in concentrating production on the most efficient installations and eliminating loss-making operations. Today, things have changed. What one top executive recently called the revitalization of the steel industry has left many companies cash-rich and able to finance takeovers and acquisitions. Banks are now more willing to fund such deals.

Such is the enthusiasm for consolidation that it is penetrating most corners of the steel world. Dutch-based Mittal Steel (whose U.S. plant is the successor to Inland Steel, Republic Steel, Bethlehem Steel, J&L Steel and others) is finalizing its merger with Arcelor of Luxembourg this summer. This combined company will produce 18% of the world's steel -- making it the third time the size of its closest rival. Ternium is based in Luxembourg but its steel operations are in Argentina, Mexico and Venezuela. In Japan, there's a new company, JFE Steel, formed through the merger of NKK and Kawasaki Steel. The Argentine-Italian Roca family's Techint Group now owns Maverick Tube of Chesterfield, Mo. Russian steel companies have become significant players in the global consolidation of the industry. Severstal has become increasingly active, with acquisitions or major investments in Italy, the Czech Republic, Denmark and the U.S., ranging from the former Rouge Steel in Michigan to the new SteelCorp plant in Mississippi. Earlier, Russian steelmaker Evraz Group bought plate and wide-diameter line pipe maker Oregon Steel Mills and pipe and bar maker Rocky Mountain Steel Mills. Ipsco has acquired NS Group seamless tube-maker and itself is being purchased by SSAB Svenskt Stal of Sweden. And then there are the Indian steelmakers: By acquiring the Anglo-Dutch steel firm Corus, India's Tata Steel is now one of the world's top five steel makers. India's Essar Global is buying Canada's Algoma Steel and is buying into the under-development taconite iron and steelmaking Minnesota Steel project.

II. Metal Chips ◇ Growing, but Going Slow
With all this geo-economic M&A activity muddying the steel marketplace, just remember to mangle a quote from the late Speaker of the House Tip O'Neill that all business is local. Focusing, then, on the North American economy, Moody's Economy.com chief economist Mark Zandi says that the expansion will remain intact, but will be at its weakest this summer and fall. His analysis suggest that real gross domestic product, the measure of economic expansion, has increased 2.1% over the past year, far less than the economy's potential of about 3%.

"I do think that we're going to have a slow period here," Dallas Federal Reserve President Richard Fisher says recently, adding that the inventory correction of the auto sector has worked its way through, but the impact of the housing market has yet to work its way through. Zandi agrees that the weakening in growth so far this year is due to a worsening in trade and reduced federal government spending. The economist adds that housing remains a severe weight on growth.

All that matches anecdotal information from buyers and sellers alike that manufacturing isn't as bad off as had been feared initially but that it's not really robust. And, there is worry among economists that the March dip of 0.1% in business inventories could signal slipping business confidence about future...
III. Purchasing Focus ◊ Purchasing Manager Mentors

One of the most notable shifts in the workplace in recent years has been the rapid disappearance of the prototypical loyal employee who would work 30 or 40 years for the same corporation and then retire with a gold watch and a pension. Many workers today hold positions at multiple companies during their careers, and may feel no particular loyalty to remain at any organization for any great length of time. By the same token, many companies feel no special loyalty to their workers. Despite this sea change in corporate culture -- and in some instances because of it -- mentoring is just as important as it ever has been for younger workers looking to learn the ropes from more experienced employees, according to experts at Wharton and other business schools. Indeed, mentoring may also be more important than ever for organizations themselves, since linking up a mature mentor with a promising protégé is an excellent way to keep valued up-and-comers from jumping ship and taking jobs elsewhere.

Increasingly, management experts view mentoring not just as a one-on-one relationship but as a component of social networking -- a way for protégés to gain valuable knowledge by interacting with many experienced people. These protégés, for example, often look to more experienced co-workers for career guidance and professional advice and use them as sounding boards for ideas and problem-solving. Mentors also help employees learn about, and become acclimated to, an organization’s culture and politics. Yet these days, frequent job changes by younger workers could actually dissuade senior managers from volunteering to be mentors, since they may not wish to spend valuable time with managers from volunteering to be mentors, since they may not wish to spend valuable time with never for organizations themselves, since linking up a mature mentor with a promising protégé is an excellent way to keep valued up-and-comers from jumping ship and taking jobs elsewhere.

Today, effective mentors are experienced people who should possess knowledge of career paths inside, and even outside, the organization, says management professor Katherine Klein. "Mentors also should have an understanding of the organization's values, culture and norms so they can pass these along. The mentor should be sensitive to the employees' needs and wishes, and enhance their career potential, while simultaneously looking for ways their potential can benefit the organization."

Well, that's all for this Purchasing Focus and this edition of Metals Watch! This is Tom Stundza, executive
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Good day.

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