

World Steel Dynamics



WSD Steel Strategems



**Steel Futures
What About Scrap
Futures?**

Patrick A. McCormick

Managing partner - WSD

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If

Pig is Beautiful

Quote by Peter F. Marcus – AIIIS Meeting
(referring to Chinese pig production at 50% of global total)

Then

Scrap is Essential

Quote by Patrick A. McCormick – AMM Scrap Conf
(referring to how much scrap is needed to support
global steel growth)

Steel Futures

What About Scrap Futures?

Presentation Agenda



- Scrap Price Volatility
 - USA Price Trends
 - Global Demographics
 - Drivers

- Steel Futures
 - *SteelBenchmarker™*
 - Benefits
 - Next Steps

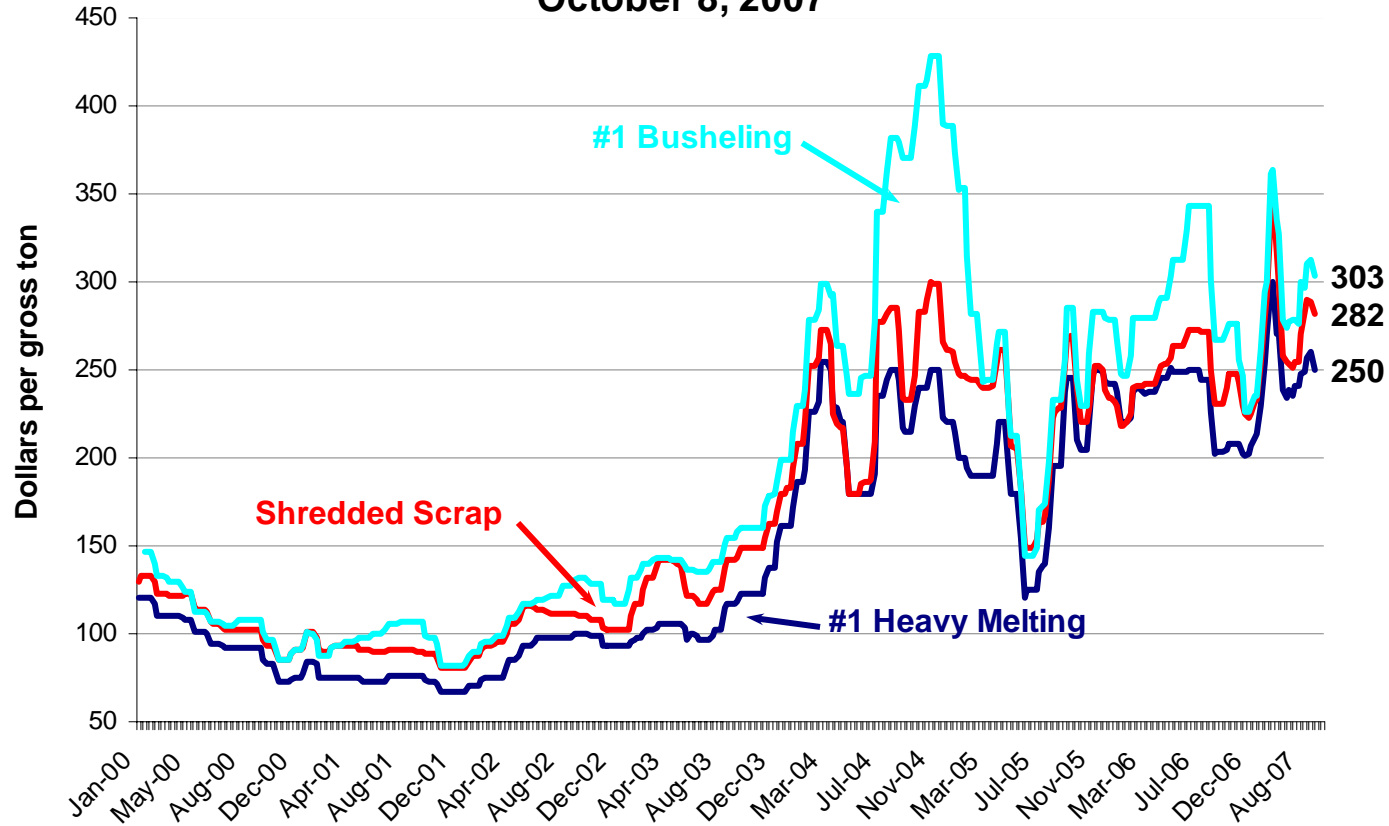


USA Steel Scrap Prices

USA, delivered to steel plant

(AMM scrap price data, Jan. 2000 - Jan. 2007; SteelBenchmarker data begins Feb. 2007)

October 8, 2007



World
Steel
Dynamics

Global Linkage of Markets Impacts USA Prices



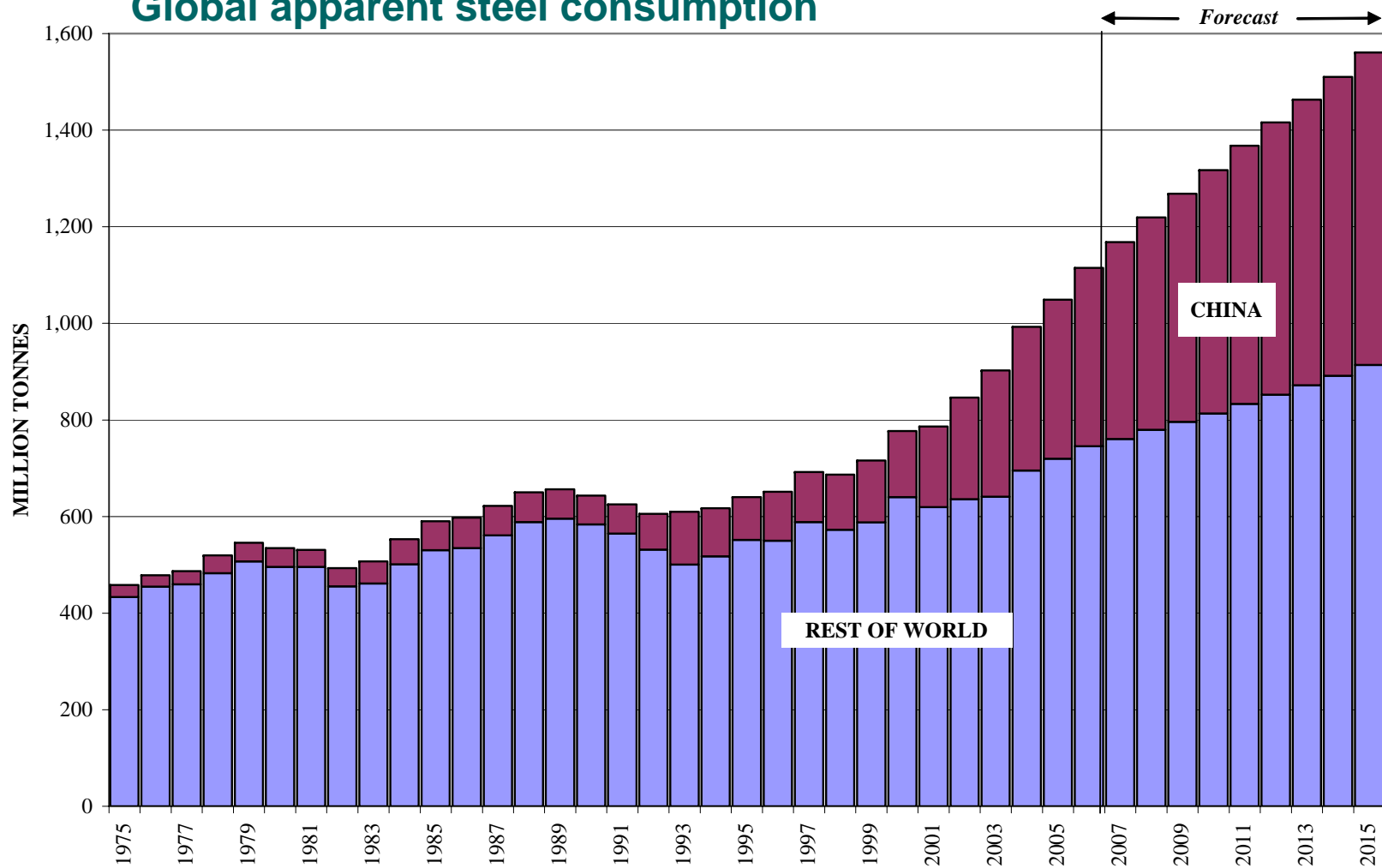
Global Demand and Trade Arbitrage Can Cascade the Dominos



Regional prices Linked by Currency & Freight

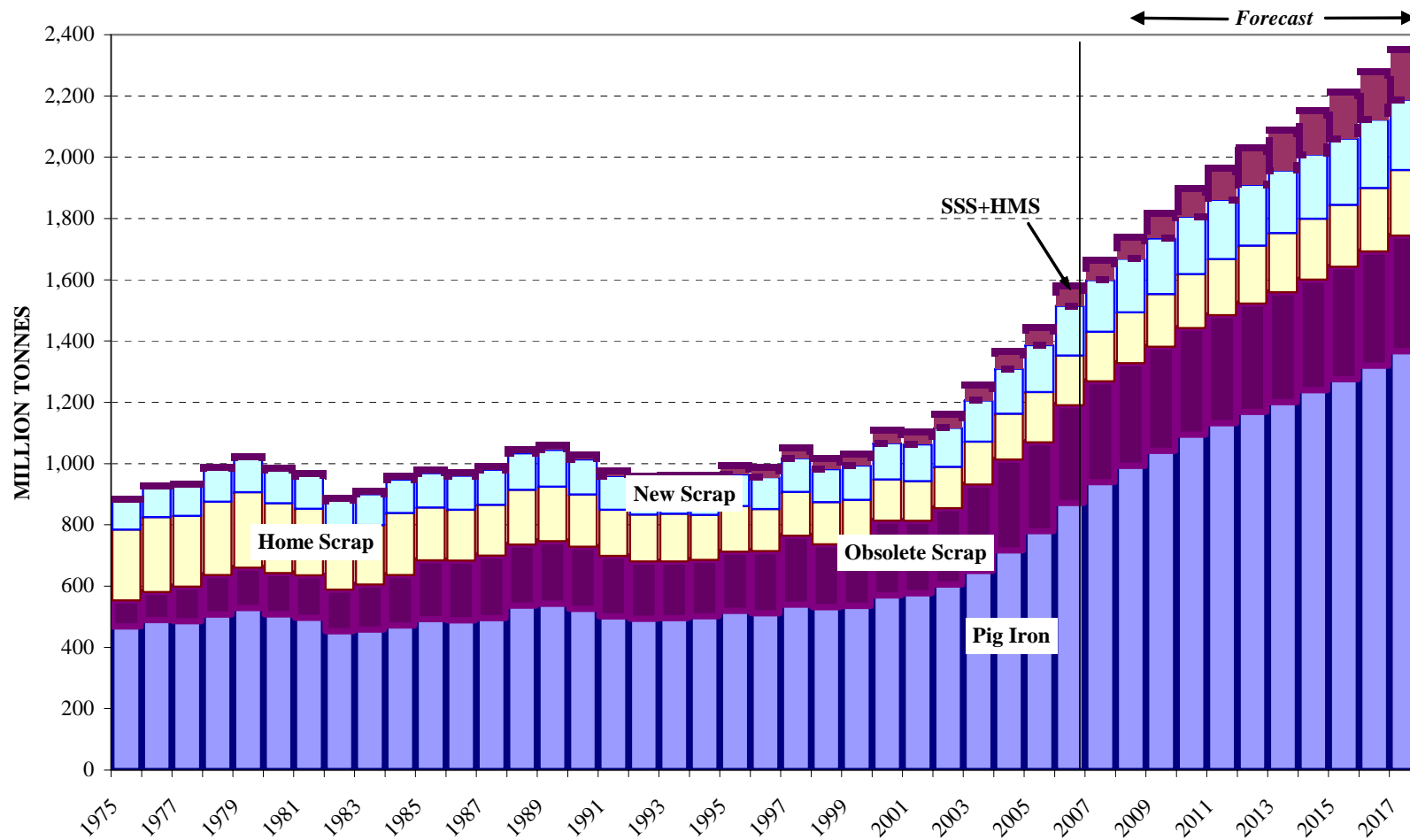


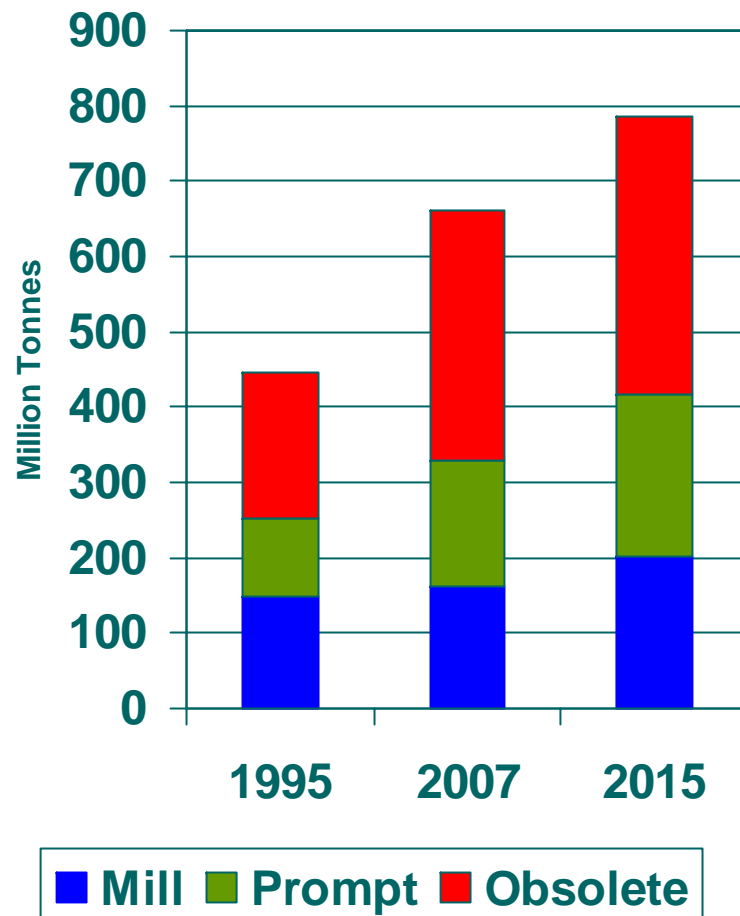
Global apparent steel consumption



World Steel Dynamics

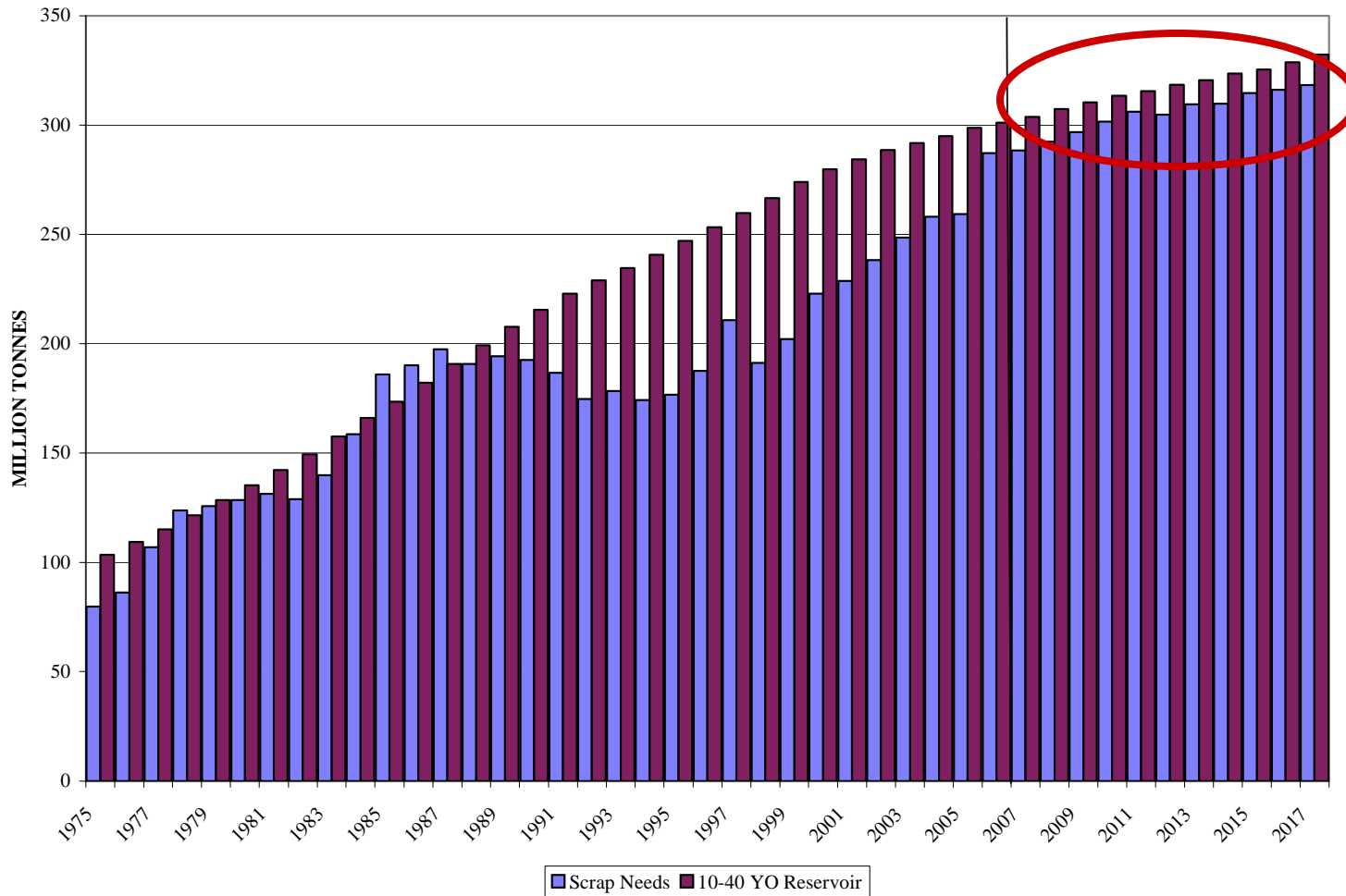
Global Metallics Requirements Will Increase the Demand for Scrap





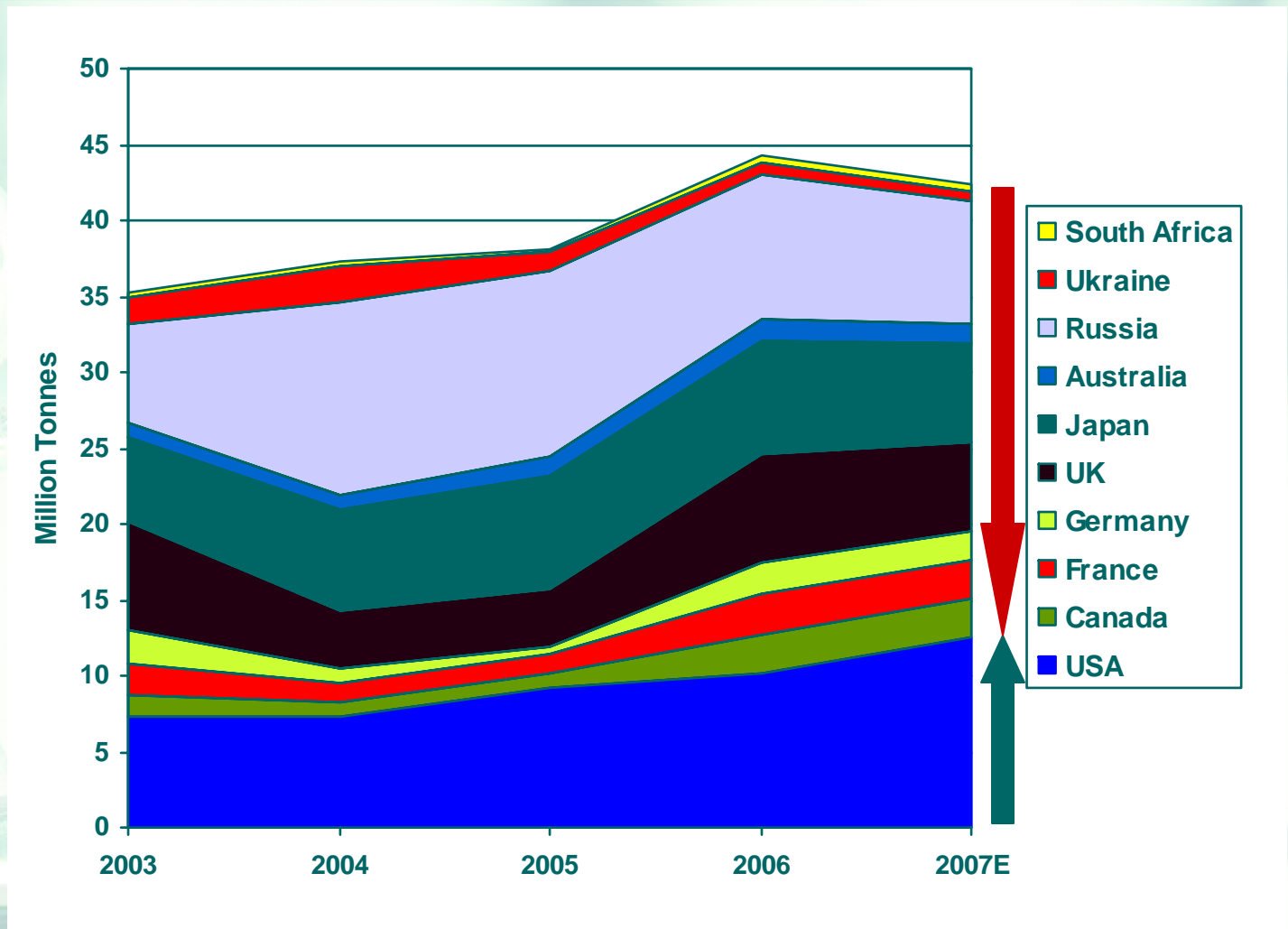
- High steel production growth rates have increased the demand for scrap
- Higher scrap prices have been required to attract additional obsolete scrap collection and processing
- 10-40 year average obsolete scrap reservoir growth is well below the current steel production growth rate

Tight Balance Expected to Continue 10-40 Year Obsolete Scrap Reservoir



Ten Scrap Net Exporters

Study of 16 Major Developed & Developing Countries

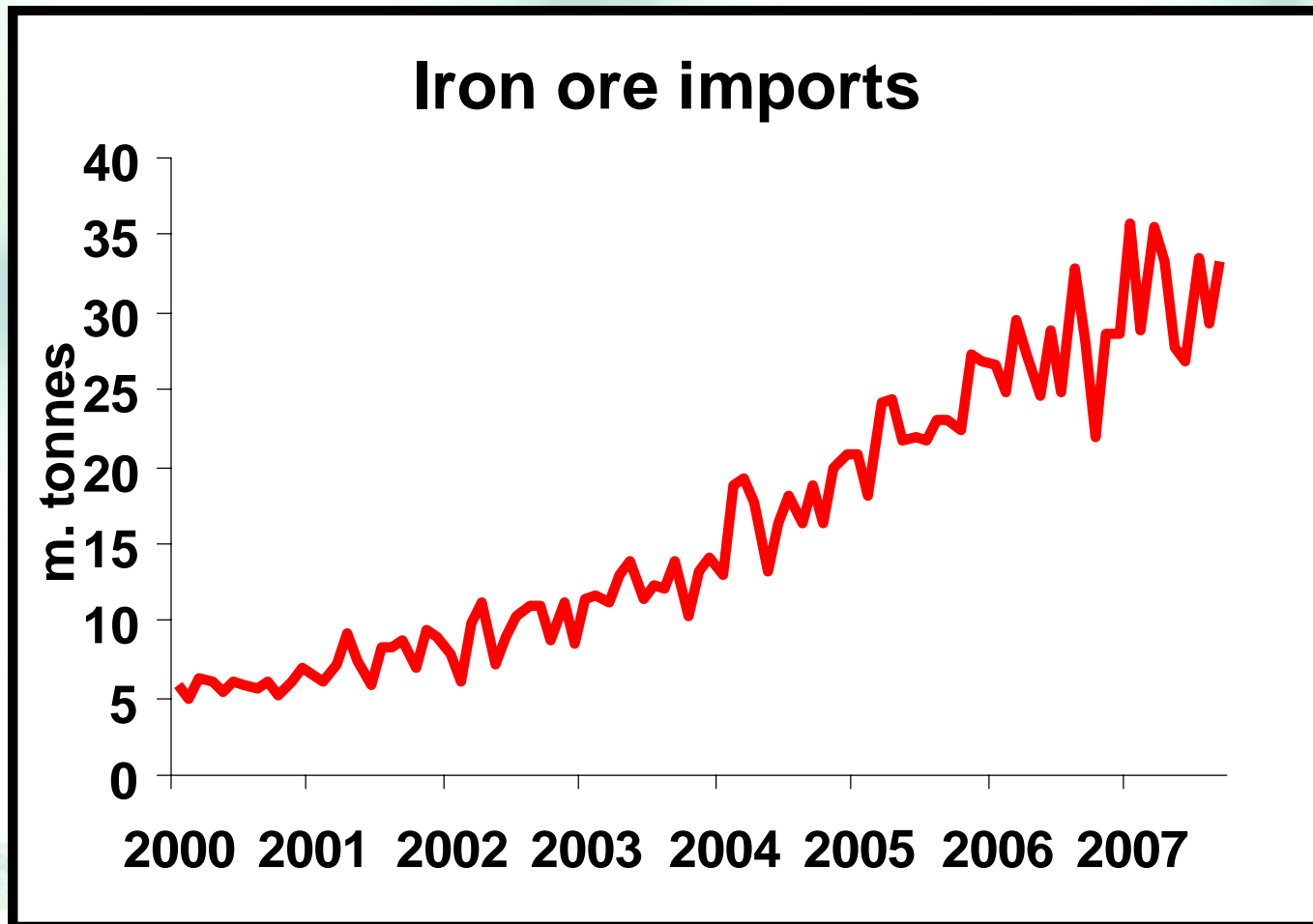


World Steel Dynamics

Weakening US Dollar Attracts International Scrap Buyers to the USA



Chinese Iron Ore Monthly Imports Continue to Surge with More Volatility



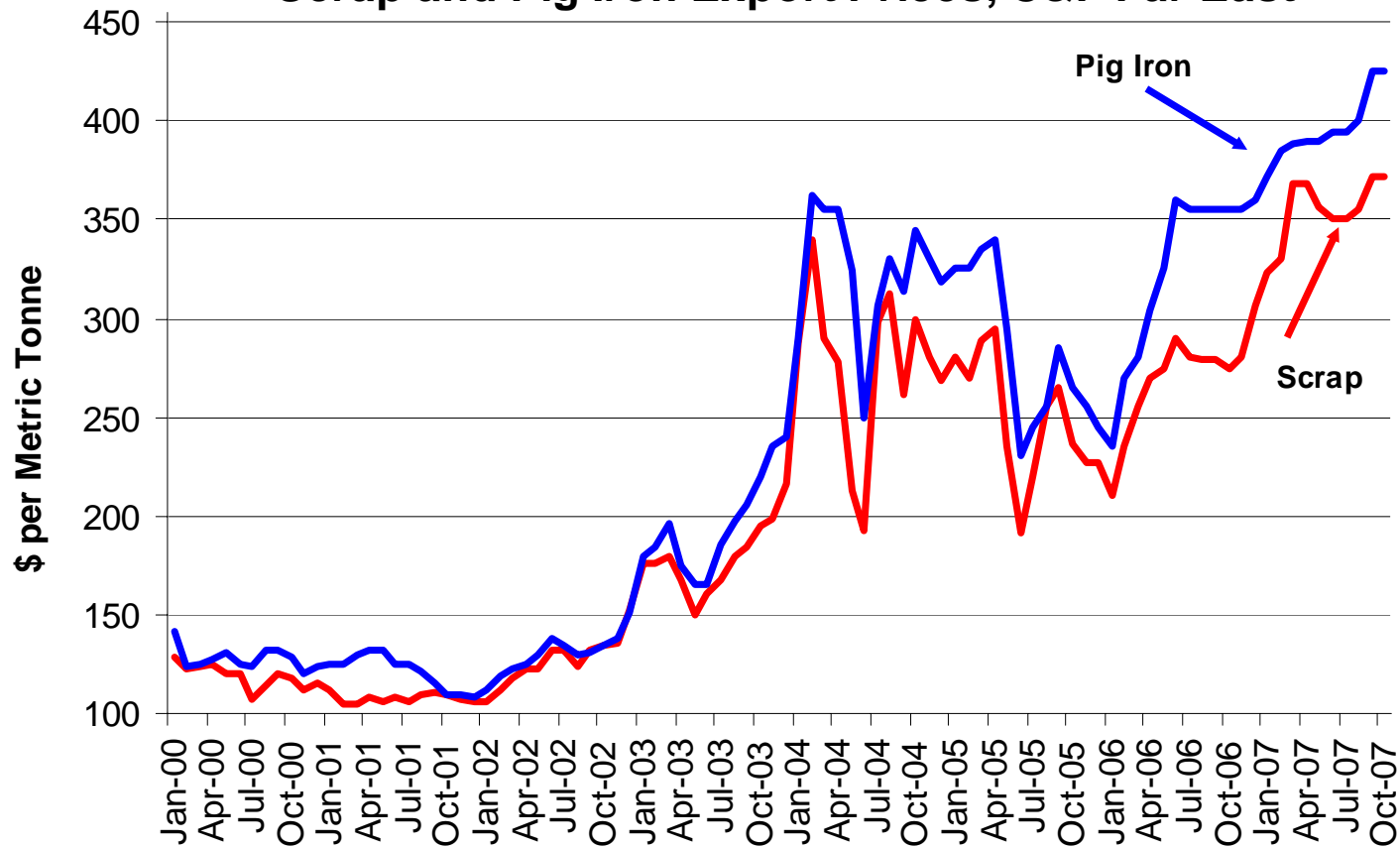
Source: China Metals, Macquarie Research, October 2007

Spot Pig Iron Prices Rising in Asia

Scrap Prices Caught in the Updraft

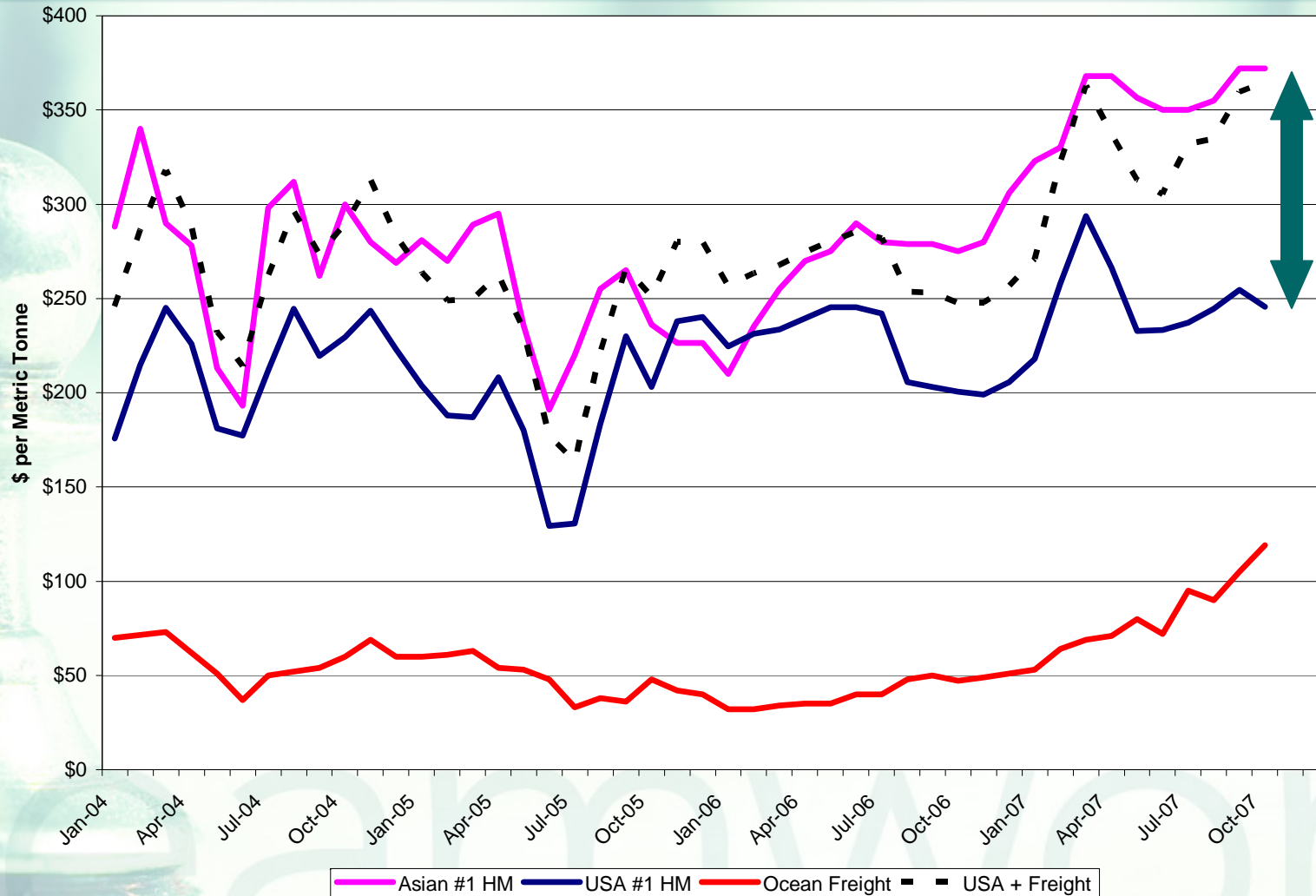


Scrap and Pig Iron Export Prices, C&F Far East



Source: TexReport

Ocean Freight Price Rise is Impacting Regional Scrap Prices

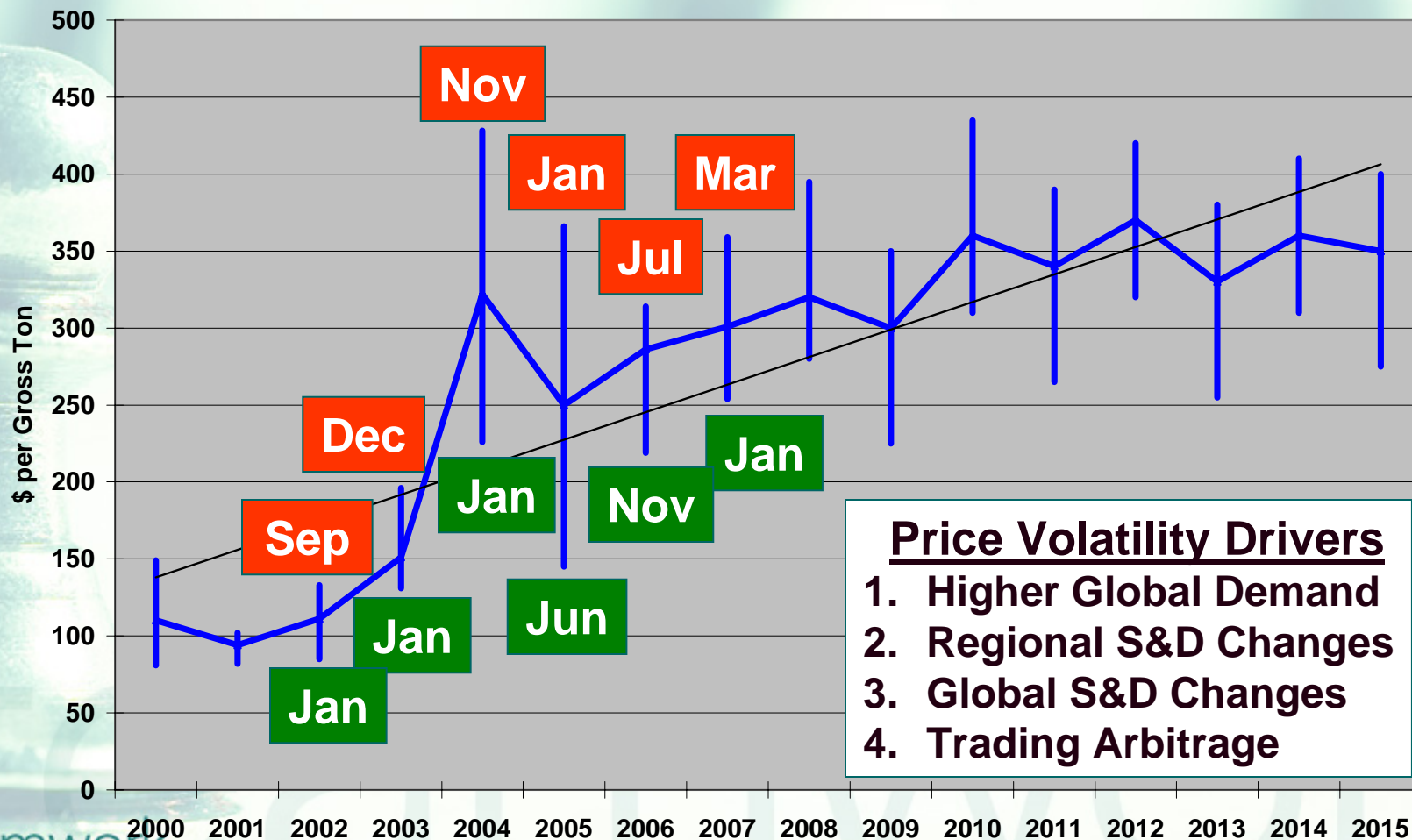


USA Scrap Price Trend & Forecast

Volatility Expected to Continue



USA Ferrous Scrap (#1 Busheling)



Key Scrap Market Takeaways



- High rates of global steel production growth will continue to pressure scrap availability
- Mill additions in the USA such as SeverCorr will likely reduce USA net scrap exports but at what price?
- The weaker US dollar, iron ore, pig iron and ocean freight price increases are raising the international level of scrap prices
- International buyers will likely raise USA scrap prices as they take advantage of a weaker US dollar and the potential for lower ocean freight rates
- WSD expects scrap prices to increase on trend and to remain volatile

Steel Futures

What About Scrap Futures?



- The need for known revenues and costs is still required by many companies
 - Customers have more supply alternatives to surcharge based flat-rolled contracts in today's market
 - Scrap Futures - A recipe is available for providing revenue and cost control via price risk management tools
 - ✓ Establish a robust price index for use in physical and financial contracts – scrap futures
 - ✓ Gain market acceptance that the index is a valid market price indicator
- Next: Gain market acceptance and launch scrap futures contracts - settled using the *SteelBenchmarker*TM price index

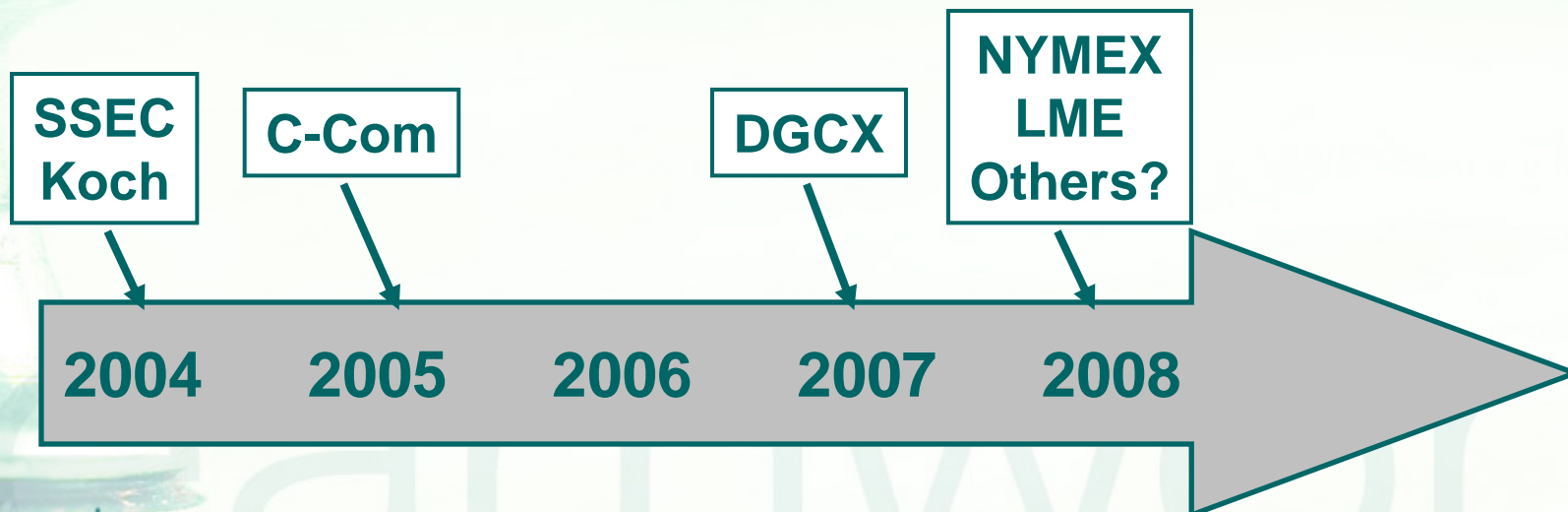
Steel Futures Already Here

Increasing Products and Regions



Products	2004			2005			2006			2007			2008		
	USA	Eur	Asia	USA	Eur	Asia	USA	Eur	Asia	USA	Eur	Asia	USA	Eur	Asia
Hot Rolled Sheet	Green	Cyan	Magenta	Green	Cyan	Magenta	Green	Cyan	Magenta	Green	Cyan	Magenta	Green	Cyan	Magenta
Cold Rolled Sheet	Green	Cyan		Green	Cyan		Green	Cyan		Green	Cyan		Green	Cyan	
Auto Bundles						Magenta			Magenta			Magenta			Magenta
Billet													Yellow	Yellow	
Wire Rod			Magenta			Magenta			Magenta			Magenta			Magenta
Rebar			Magenta			Magenta			Magenta			Magenta			Magenta

Recent Entrants



NYMEX 1st Steel Futures Contract Specifications



Type: Hot-Rolled Band for USA - East of the Mississippi delivery
(.2" thick and between 48-60" wide)

Size: 20 short tons

Trading Hours: 6 PM Sunday-5:15PM Friday

Price Quotes: Dollars and cents/ton

Minimum Tic Size: \$.50

Trading Terminates: First business day before fourth Wednesday
of preceding delivery month

Settlement: 20 x Index Value (*SteelBenchmarker*TM HRB Price)

Expecting mid-late January 2008 launch



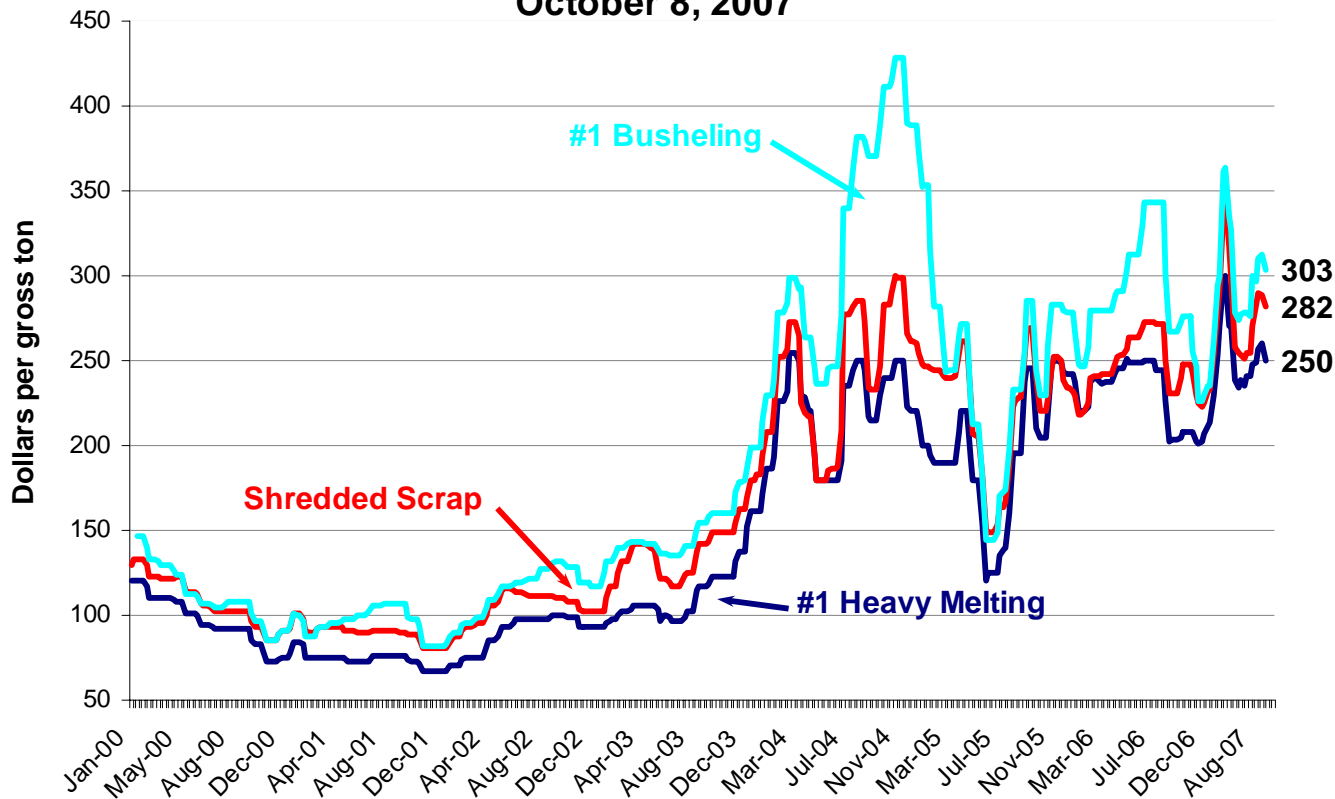
USA Steel Scrap Prices

You Too Can Become A Price Opinion Provider at www.steelbenchmarker.com

USA, delivered to steel plant

(AMM scrap price data, Jan. 2000 - Jan. 2007; SteelBenchmarker data begins Feb. 2007)

October 8, 2007



“Safety In Numbers”



- Easy internet access.
- All qualified market participants can become a price opinion provider at www.steelbenchmarker.com
- Collecting price opinions twice a month from mills, end-users, traders, distributors, scrappies, etc.
- WSD has experience in collecting price opinions:
 - WSD PriceTracker series initiated in 1981
 - **SteelBenchmarkerTM** carried on in April 2006
- Multi regional prices for HRB, CRC, Plate, and Rebar.
 - USA scrap prices for #1 HM, shredded, and #1 busheling added in February 2007

Comparison of *SteelBenchmarker*TM and CRU



Item	SteelBenchmarker	CRU
Price frequency	2 times per month	Once per month
Robustness	Over 60 providers each report 79 last report (HRB)	?
Anti-trust scrutiny	Yes – Covington & Burling memorandum	?
Exchange trading	NYMEX (HRB, Scrap?)	?
Available how	Free	Subscription fee
Partners in the endeavor	Shanghai SteelHome AMM/Metal Bulletin	None

Some FAQ's About Steel Futures



Q: What is the financial speculation impact on prices?

A: Steel/scrap futures contracts that use a final settlement price index such as the *SteelBenchmarkerTM* are insulated in that financial speculators can not provide price opinions. Financial speculators are needed to bridge trading liquidity gaps between buyers and sellers.

Q: What about margin calls?

A: While margin management requires bookkeeping and capital funds the % of margin money required is actually small. There are a number of financial players (banks) that provide margin management services that include accounting support, lines of credit, etc.

Q: Are my prices guaranteed?

A: Yes. A third party (exchange or service provider) guarantees payment. Unlike commercial agreements that can be renegotiated. Steel/Scrap futures contracts are totally secure.

Q: Will people know what my prices are?

A: No. The amount of trades is tallied and reported every day. The trading parties and prices remain confidential. The exchange will provide daily settlement of the forward price curve which provides market participants insight on the prices required to complete trades.

Scrap Futures Who Are the Winners



Everyone in this room!

- Downstream customers that need fixed prices and costs.
 - The USA consumer does not like to buy products with the price volatility of gasoline.
- Scrap processors can lock in forward prices to assure spreads meet the cost of segregation and processing while returning an acceptable rate of return.
- While the current demand growth outlook for scrap is very positive remember that the future always has a few surprises.
 - How much will the sub-prime mortgage meltdown impact global growth?
 - Steel and raw material capacities are rapidly expanding on the assumption high global growth rates continue.
 - Inflation and tighter credit are always risks that can impact growth.