

The logo for Platts, featuring the word "platts" in a white, lowercase, sans-serif font with a horizontal line underneath. The logo is set against a blue background with a grid pattern and a faint silhouette of a person's head.

Using Leading Indicators to Anticipate Price Trends

May 12, 2011

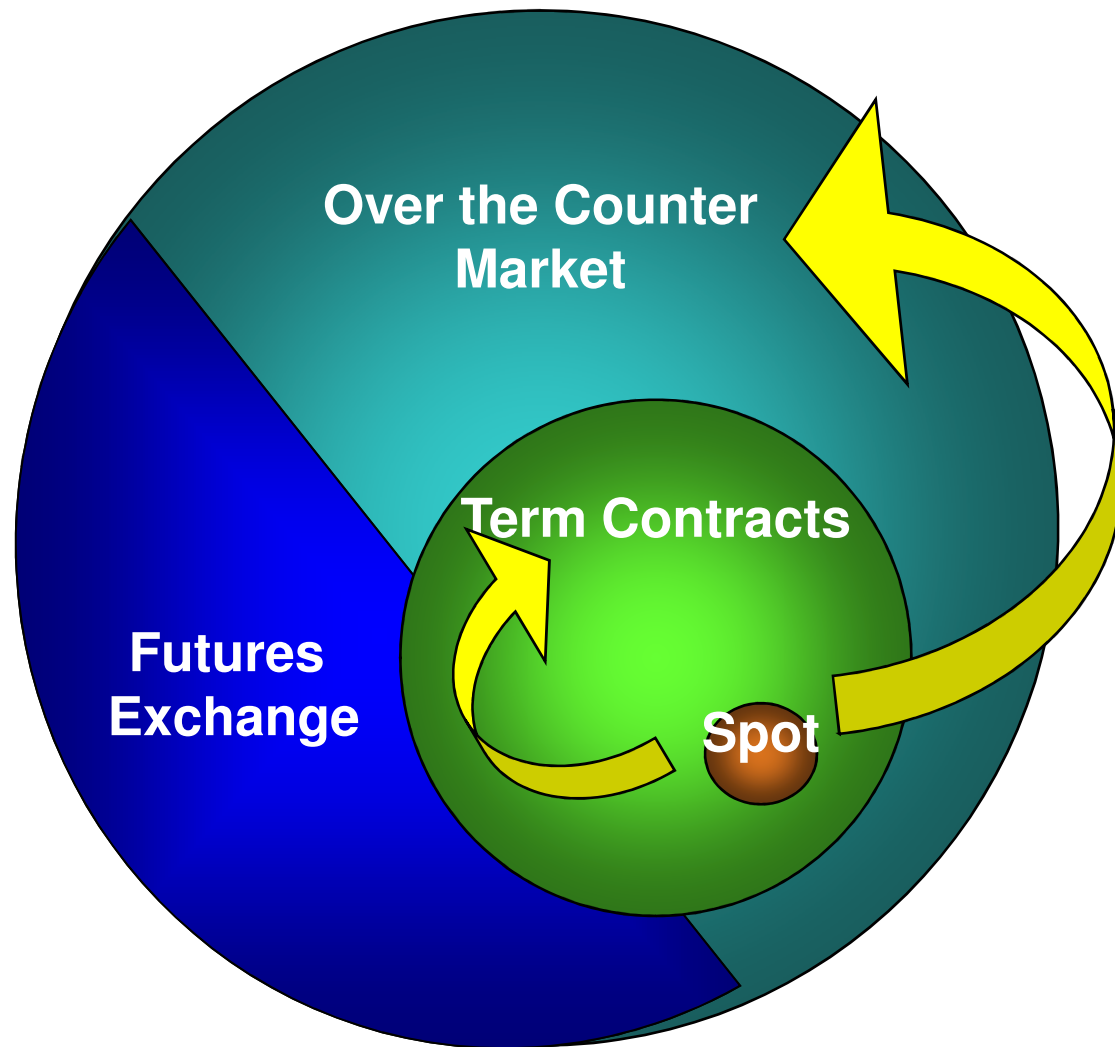
Joe Innace, Chief Steel Editor
Karen McBeth, Editorial Director
Platts Metals Group

Advanced Purchasing Dynamics'
2011 Motor Vehicle Metals &
Resins Conference, Troy, MI

Agenda

- Creating benchmark spot pricing
- How spot prices are used to formulate contracts
- Analyzing bids, offers and deals to assess spot prices
- Pricing and other data as leading indicators

Commodity markets are structured around a spot price



- Spot prices are established at the margin
- 'Floating' term contracts reference off spot prices
- Over-the-counter paper swaps settle off or "price out" against averages of spot price assessments

Role of Benchmarks

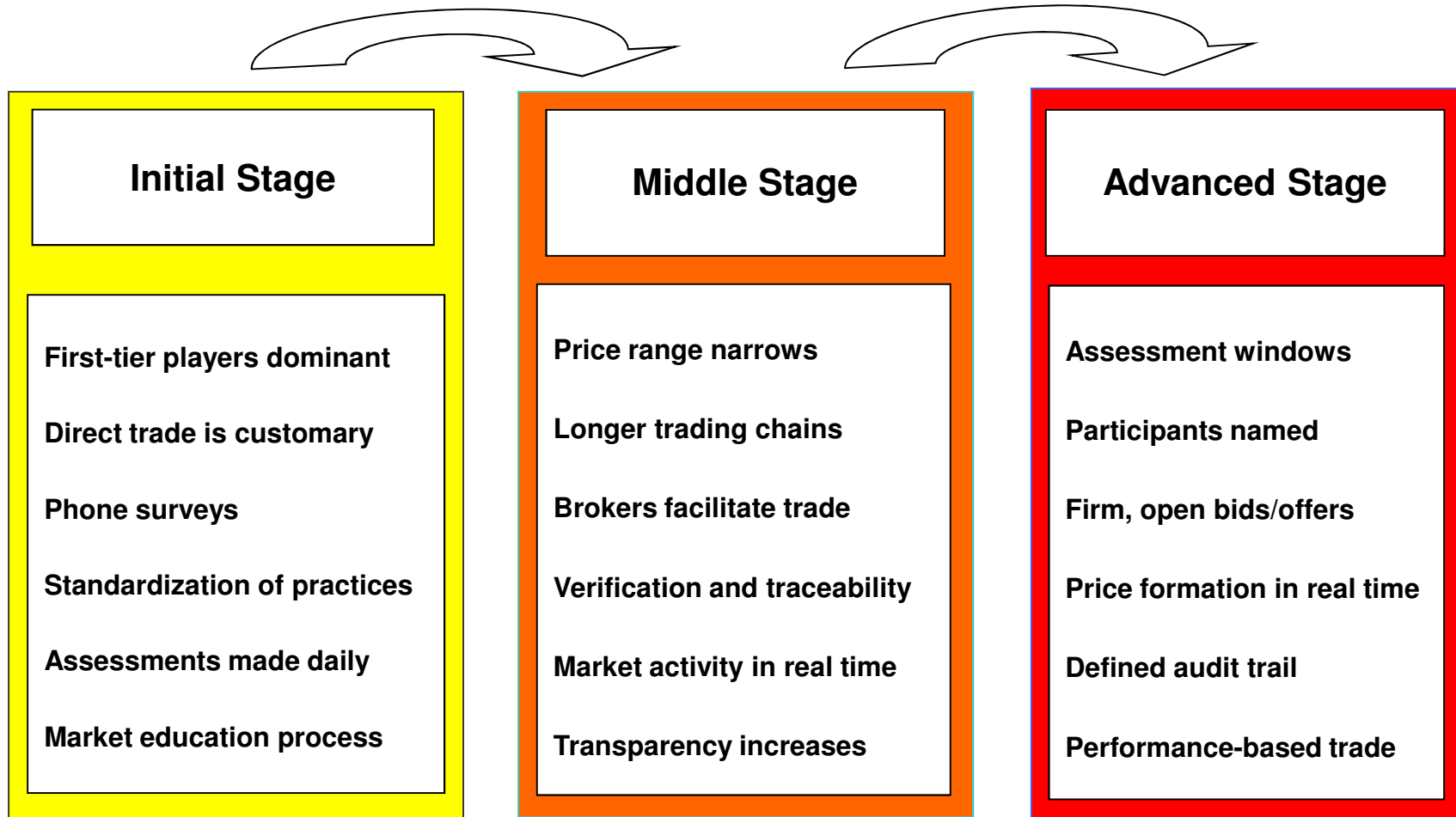
A benchmark is used as reference point in commodity trading – and to derive related commodity prices

Benchmark is a proxy for valuing related commodities

Benchmark Pricing: What the Market Expects

- ✔ Convergence between market values and published values
- ✔ Independence
- ✔ Clear methodology based on industry input
- ✔ Full transparency

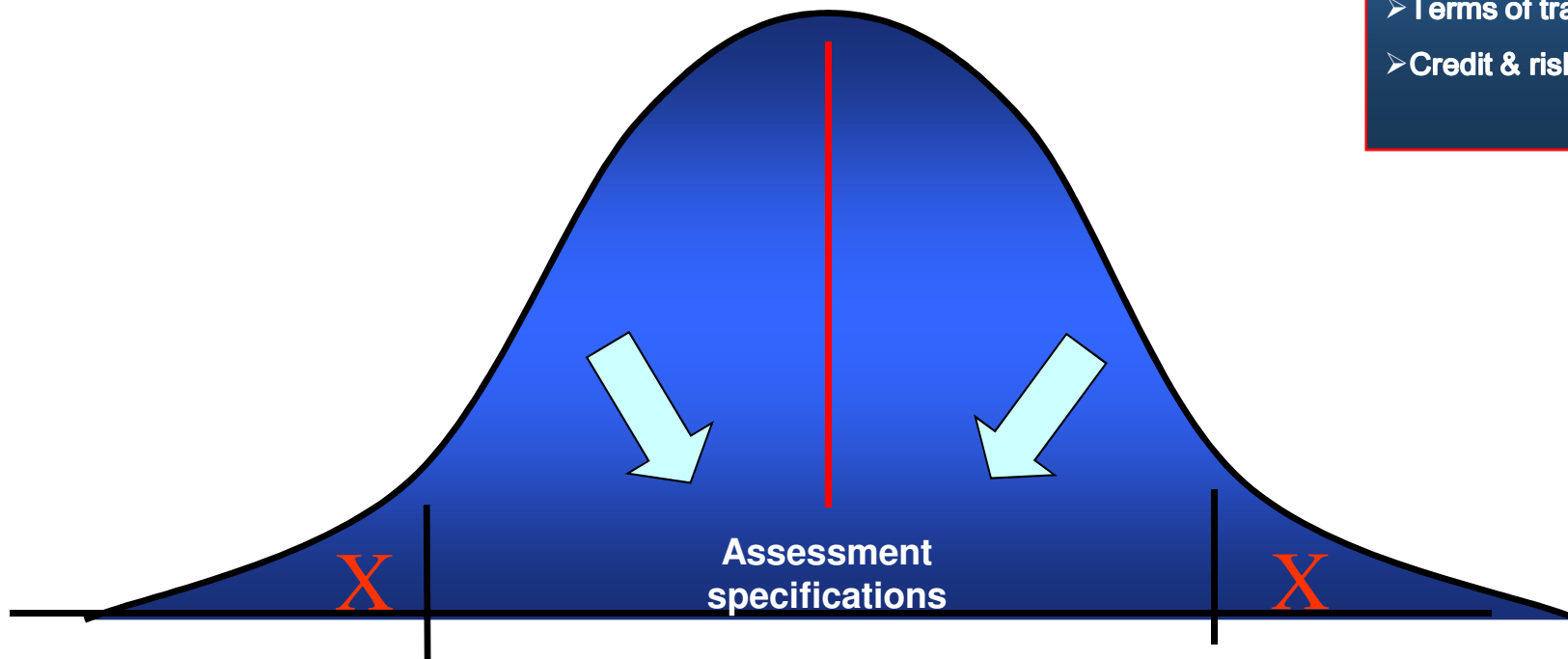
Benchmarks evolve with greater transparency, standards



Benchmarking is about defining consistent standards

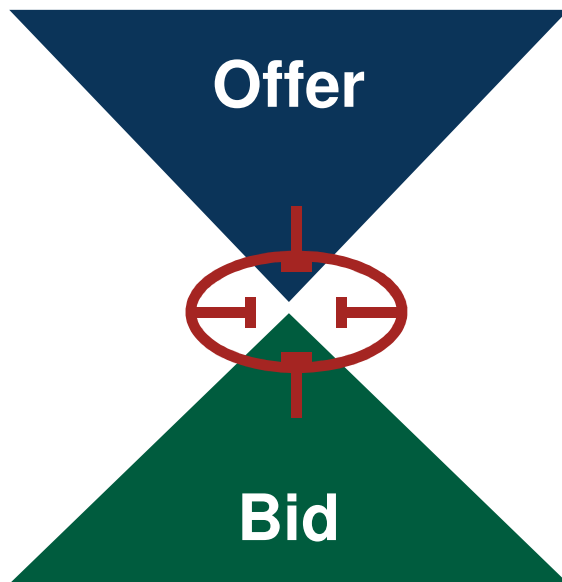
Normalization: the art and science of converting all the dimensions of each unique transaction to a common standard, for price comparison.

- Time of trade
- Delivery timing
- Quality
- Volume
- Location
- Terms of trade
- Credit & risk



Firm bids and offers help price discovery

A Platts assessment is an exclusive process, zeroing in on the tradable value



- Platts does not average high-ball or low-ball reported deals, or subjectively selected deals, or volume weight deals
- Platts only uses bid, offer and deal information tested openly in the active marketplace
- Deals must be repeatable, verifiable and arms length
- Market-on-close philosophy takes a snapshot at time of assessment

'Heard in the markets' data formulates price in real-time

700--Heard in the markets 46: Al, 99.7% P1020--LME cash + 6.5 cents/lb, MW, quote
21SepSep/1158 am EDT/1558 GMT
--Washington 1558 GMT: Al, 99.7% P1020--US remelter was quoted
at 6.5 cents/lb plus LME cash, delivered Midwest; no buying
--Washington 1558 GMT: Al, 99.7% P1020--US trader selling small
tonnages at 6.5 cents/lb plus LME cash, delivered Midwest
--Washington 1555 GMT: Al, A380 secondary alloy--US diecaster
hearing \$1.02-1.03/lb, delivered Midwest
--Singapore 1101 GMT: Iron ore -- 63.5/63%-Fe Indian fines
Mumbai-based mining source says unable to find buyer for the
past two weeks, 45,000mt.
--Singapore 1058 GMT: iron ore -- 61/60%-Fe Indian fines
Beijing-based trader says received offer at \$135/dmt CFR North
China, without specifying volume and delivery period
--Singapore 1011 GMT: iron ore -- 63%-Fe Australian fines miner
says sold Tues at \$145.10/dmt CFR Qingdao at least 45,000 mt
loading Sep 25-Oct 4, Al 2.2%, Si 4.3%, P 0.08%, S, 0.02%,
moisture 6.4%
--Singapore 1011 GMT: iron ore -- 61.2%-Fe Australian fines
miner says sold Tues at \$141.20/dmt CFR Qingdao at least 45,000
mt loading Sep 25-Oct 4, Al 2.2%, Si 3.5%, P 0.07%, S, 0.02%,
moisture 8.2%
--Singapore 0934 GMT: coking coal -- Chine coke 12.5% ash
offered \$430-450/mt FOB, Tianjin trader said. 10-30mm at \$430
FOB, 30-90mm at \$450 FOB
--Singapore 0930 GMT: coking coal -- China coke offered to India
\$450/mt CFR Mumbai, India mill said
--Singapore 0919 GMT: FeSi, 75% Si/Chinese--Chinese
Shaanxi-based trader heard domestic offers around Yuan 8,000/mt
ex-plant.
--Singapore 0917 GMT: Mg, ingot/Chinese--Chinese Shaanxi-based
trader heard offers around Yuan 18,000/mt ex-plant.

--Platts Metals Alert--

[0700] [MI] [DLS]

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Prices as leading indicators for other pricing

- Freights, bulk alloys, scrap are upstream leading indicators for downstream metals
- Daily or weekly spot prices are indicators for monthly averages
- Spot prices often foreshadow contract prices just prior to negotiations - for example, magnesium officials have said contracts are negotiated at autumn spot levels
- Platts publishes some “running monthly averages” for key assessments used in monthly contracts, watched daily by market players to adjust hedging

MW0412

MW US Transaction aluminum prices

New York (Platts)--9May2011/613 pm EDT/2213 GMT

Date	US Trans (cts/lb)	LME Sett	Trans Prem	Cash Prem
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*May 2	HOL	HOL	HOL	HOL
May 3	133.307	124.307	9.000	8.500
May 4	133.897	124.897	9.000	8.500
May 5	130.608	121.608	9.000	8.500
May 6	127.365	118.365	9.000	8.500
Weekly Avg	131.294	122.294	9.000	8.500
May 9	127.691	118.841	8.850	8.350

Running average May Transaction price = 130.574

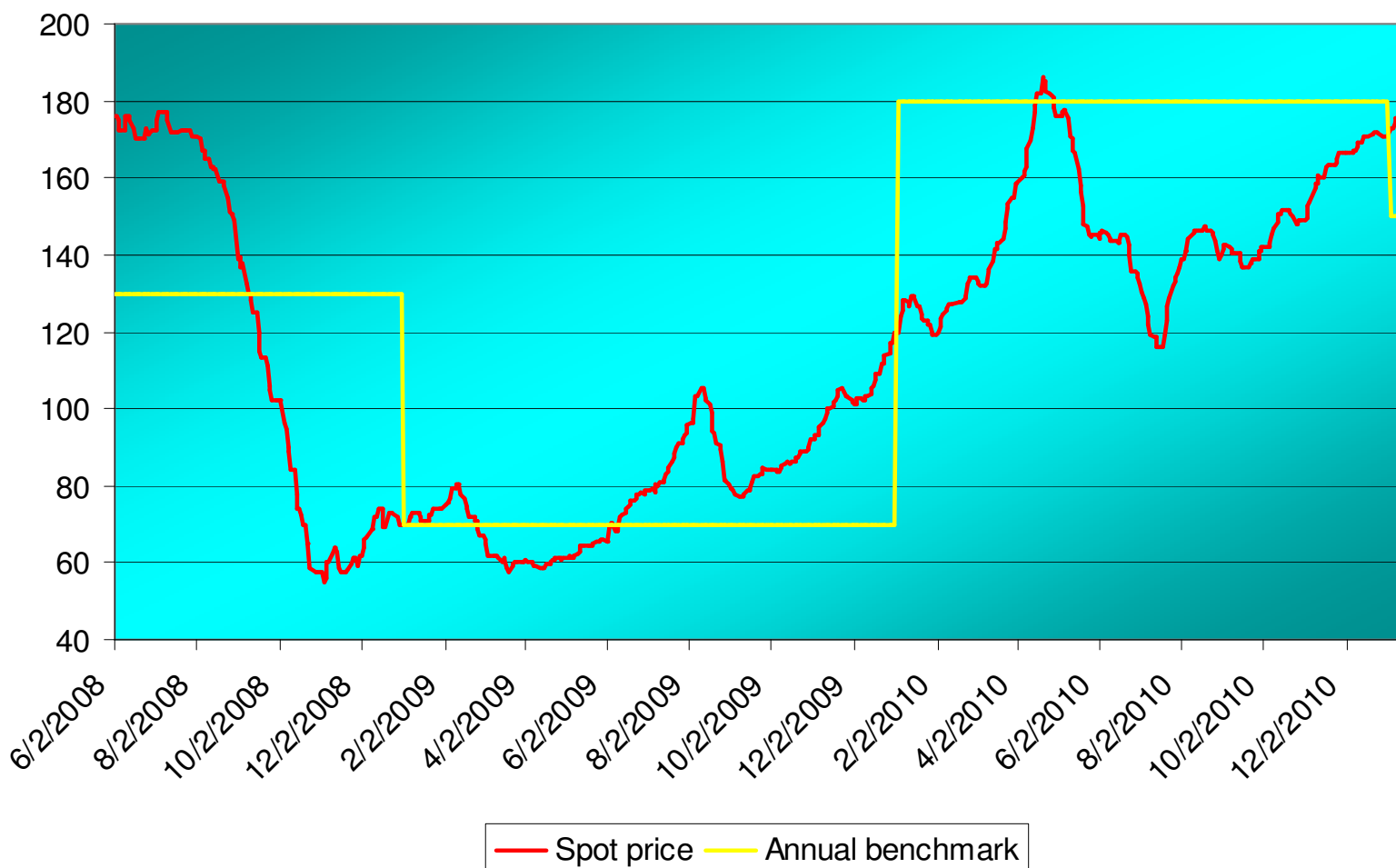
Monthly May LME Sett = 121.604; Monthly May Premium = 8.970

*NO P1020 assessment due to LME holiday



Platts' iron ore spot price benchmark: IODEX

Divergence between annual and spot prices causes conflicts



Leading indicator data can move exchange pricing



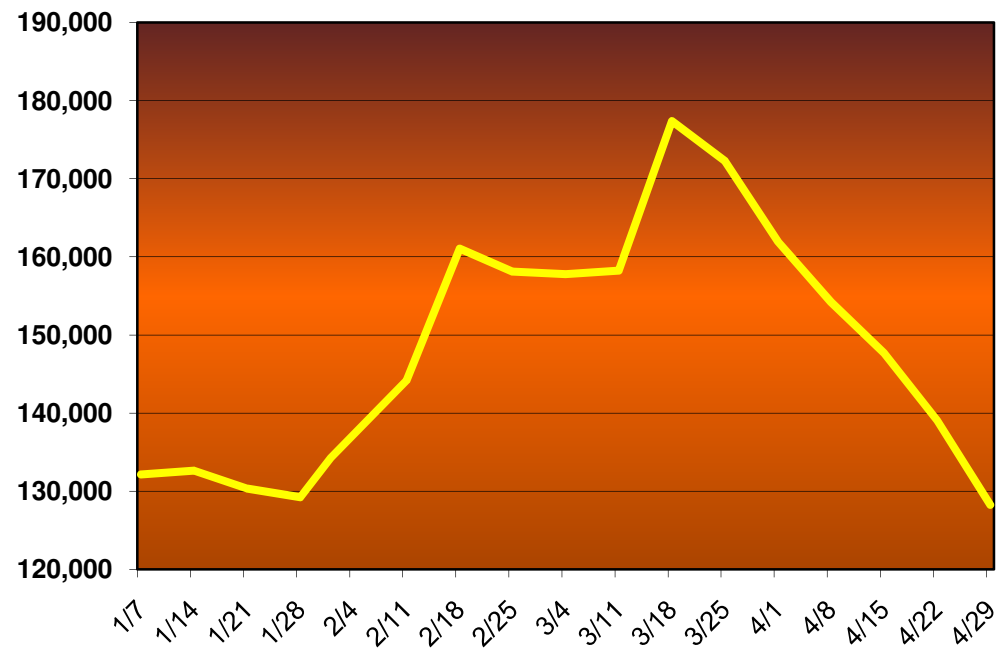
- The release of the US Labor Department's April non-farm payrolls/employment data at 8:30am on May 6 reversed the downward slide for COMEX copper, which was following all commodities.

Data indicates price trends or direction

- When there is an increase in the **Federal Reserve monthly industrial production**, copper prices tend to rise – analysts say this data has one of the strongest correlations with the copper price
- The 1.50 **dollar/euro exchange rate** level is being eyed as a key technical level where commodities (and particularly copper) start to rise in price
- Several million housing units must be built to resume the long-term housing starts trend line, and projections for **housing starts** to stay at 1.5 million units until 2014 mean that starting in 2013 the market could see pent-up demand for housing and therefore aluminum (Nichols Aluminum)

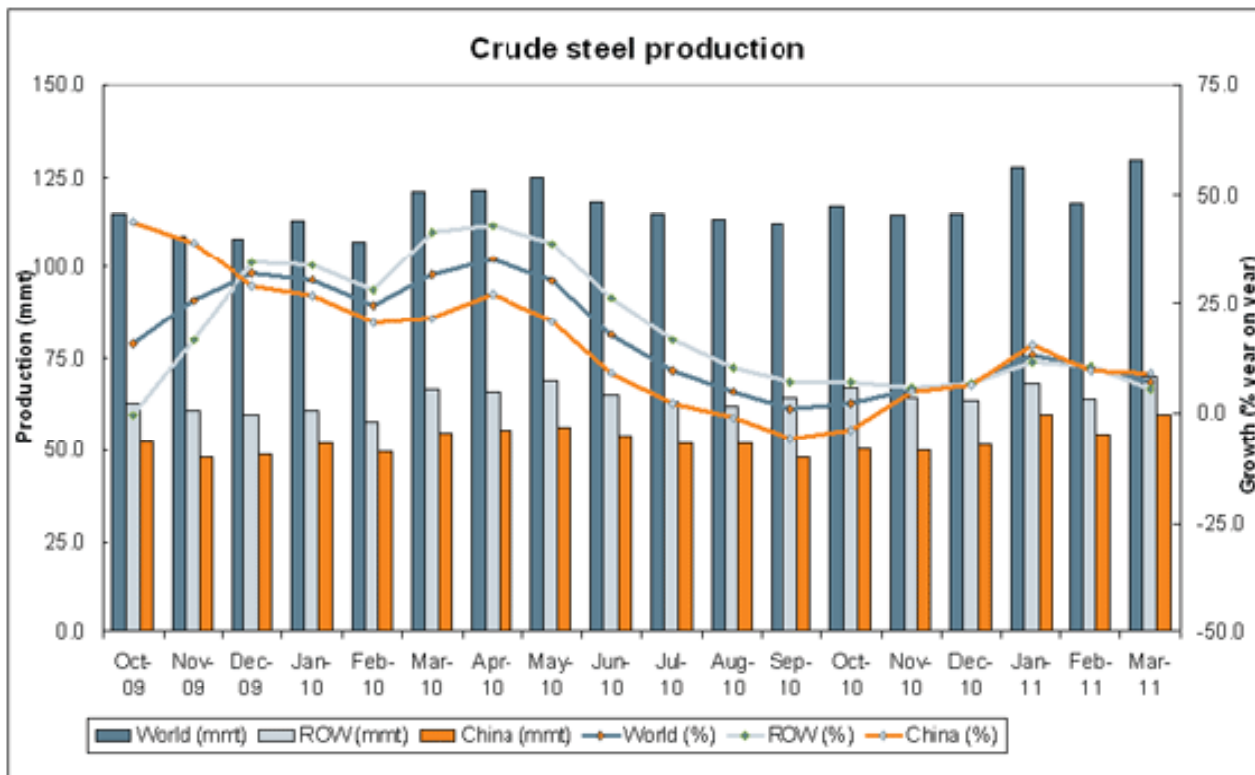
Shanghai stocks watched to indicate copper direction

Shanghai stocks in mt



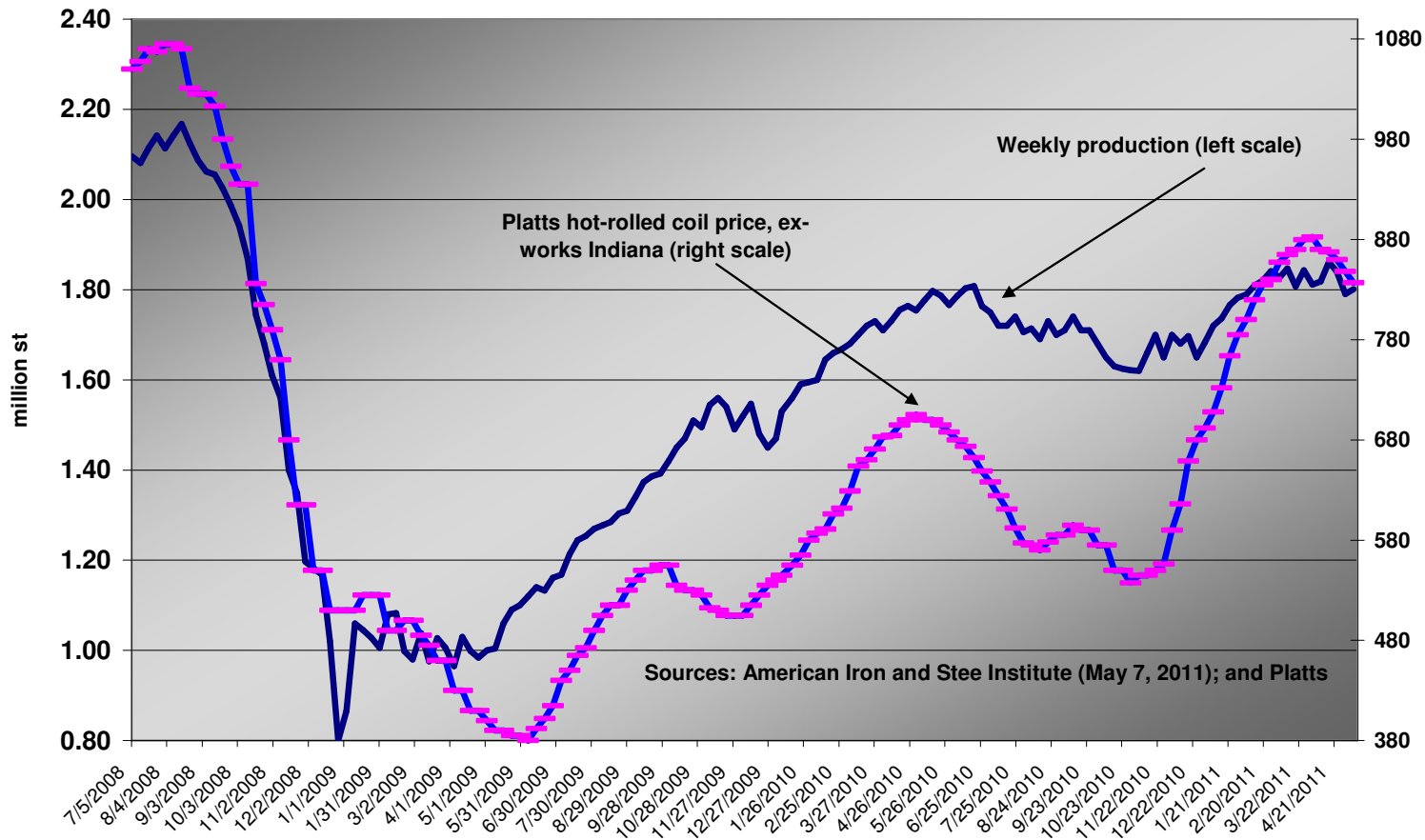
- Rapid fall in Shanghai copper stocks seen as an indicator by analysts that China will need to buy copper once off-exchange stocks are depleted

Steel production: Global (source: Worldsteel.org)



World crude steel production for the 64 countries reporting to the World Steel Association (worldsteel) was 129 million metric tons (mmt) in March 2011 and 372 mmt for the first quarter 2011. This is 7% higher than March 2010 and 8.8% higher than Q1 2010.

Hot-rolled coil in the US and production

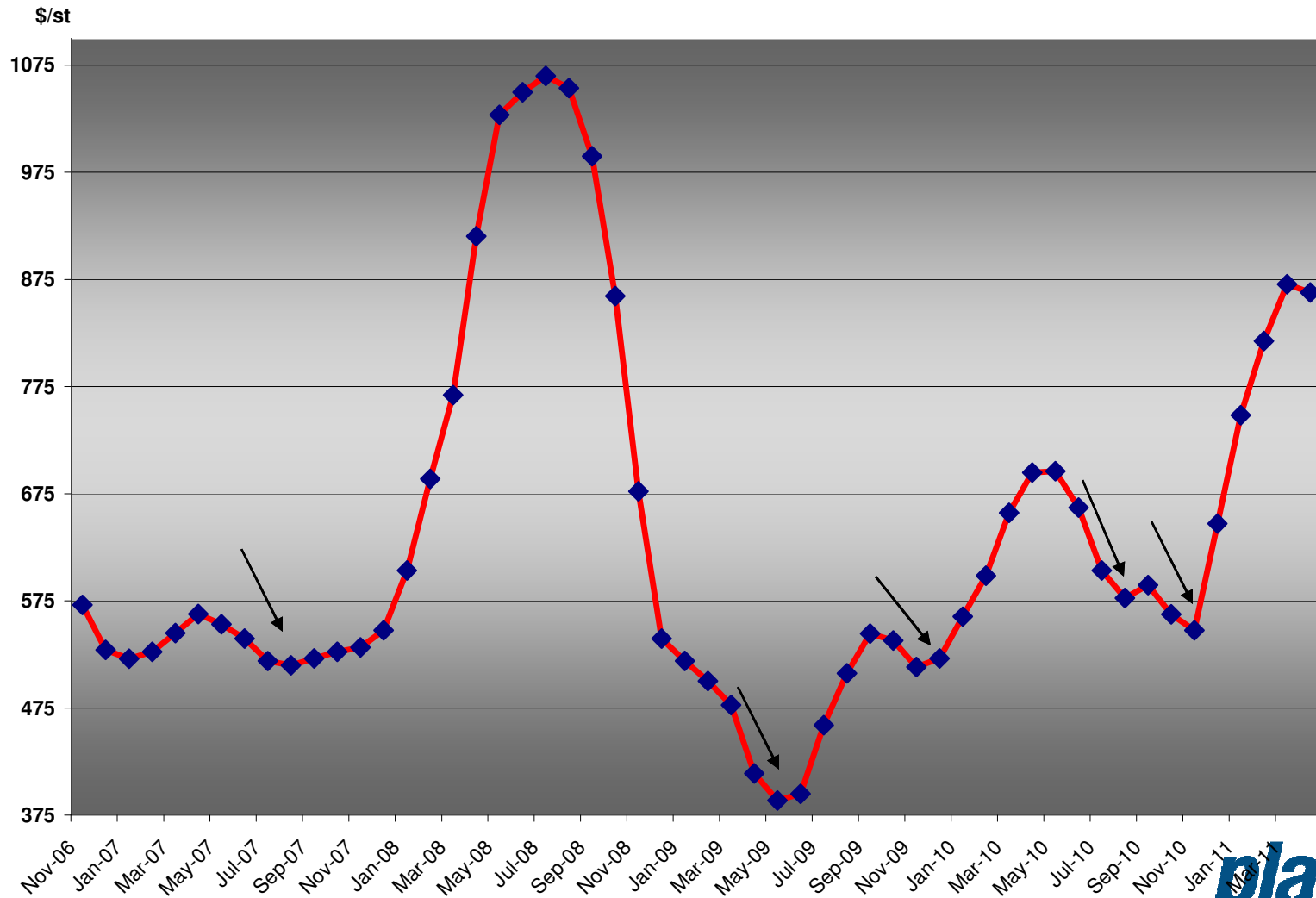


With weekly output hovering around 1.8 million st, HRC price has averaged about \$850/st ex-works Indiana

Source: Platts, ex-works Indiana, \$/st



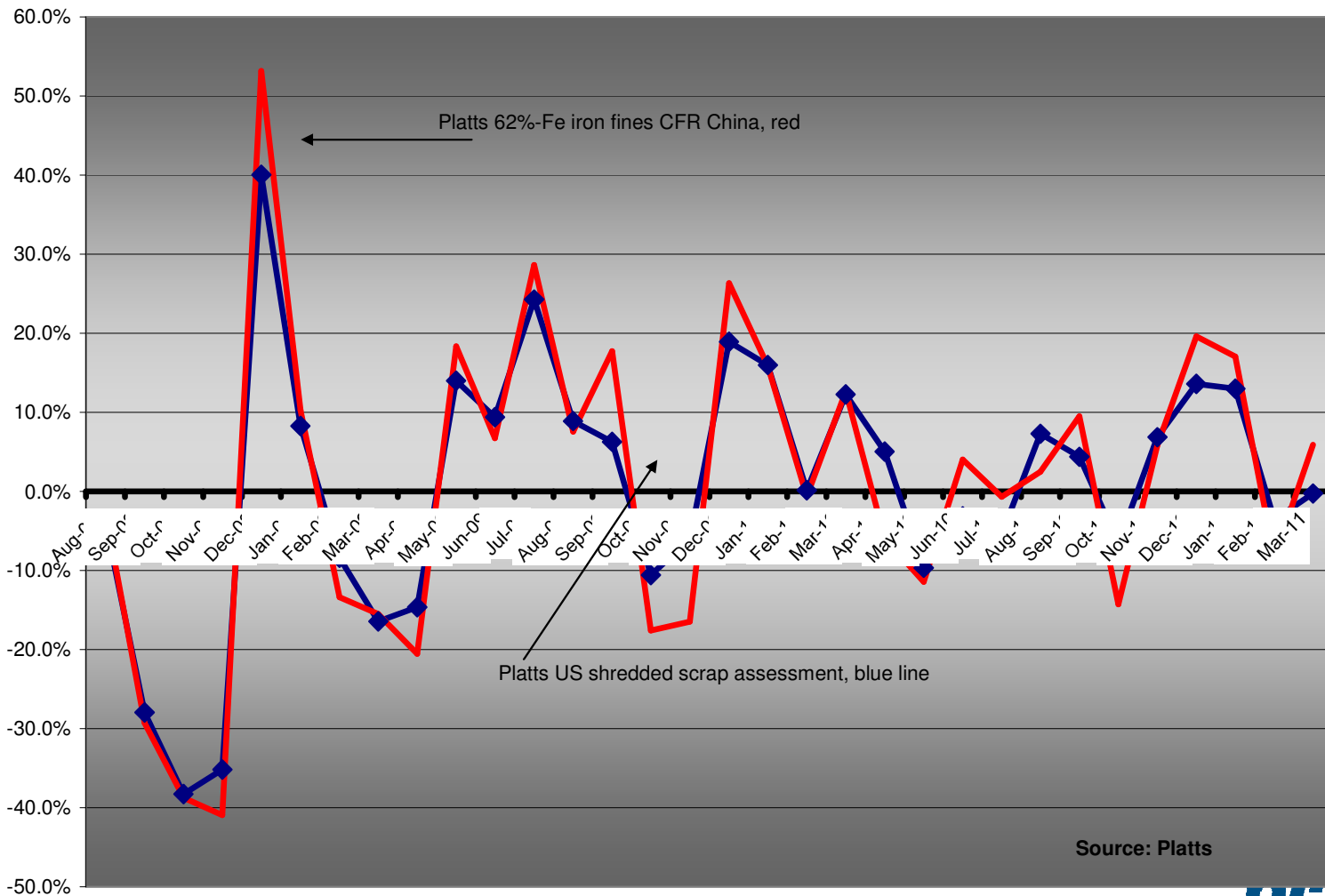
US hot-rolled coil pricing and seasonality



Source: Platts, ex-works Indiana, \$/st



US scrap and Asian iron ore: Volatility trends



Source: Platts



North American Inventory data



Metals Service Center Institute

ROLLING MEADOWS, Illinois, April 20, 2011 – Shipments of steel and aluminum products from metals service centers in the United States and Canada showed continued steady growth from the previous year in March, the Metals Activity Report from the Metals Service Center Institute indicates.

North American Inventory data



Metals Service Center Institute

Steel Product Activity

March steel shipments from U.S. metals service centers totaled **3.82 million tons, or 19.0% more than shipments in April 2010**. Shipments for the first quarter of the year of 10.43 million tons were 23.5% ahead of the 2010 quarter. Steel product inventories at the end of March were nearly 8.02 million tons, 23.5% larger than a year ago and, at current shipping rates, **equal to a 2.1-month supply**.

...Canadian steel product inventories at the end of March of 1.53 million tons were 13.1% larger than at the same time in 2010 and, at current shipping rates, equal to a 2.5-month supply.

North American Inventory data



Metals Service Center Institute

Aluminum Product Activity

March shipments of aluminum products from U.S. metals service centers totaled 141,300 tons, or 30.9% more than shipments in March 2010. First-quarter shipments totaled 376,000 tons, a 29% rise from the year-ago quarter. Month-end inventories of aluminum totaled 356,000 tons, or 30.1% more of the metal than at the same time last year. **At current shipping rates, this was equal to a 2.5-month supply.**

Shipments of aluminum from Canadian metal centers in March totaled 13,700 tons, or 9.1% more than during March 2010. First-quarter Canadian shipments totaled 36,700 tons of aluminum, or 9.4% more than a year ago. Aluminum inventories at the end of March of 29,400 tons were 4.2% below amounts at the same time last year. At current shipping rates, this equaled a 2.1-month supply.

Other indicators that affect and reflect metals pricing

- **Lead times:** As part of our surveys, Platts asks market participants about order lead times for mills, or lead times to get LME metal out of warehouses (which have caused spot aluminum and zinc premiums to soar)
- The **Institute for Supply Management's** Monthly **Manufacturing report** (includes supplier deliveries, imports, production, inventories, new orders, new export orders, order backlogs, prices and employment)
- US **Labor Department's** monthly Consumer Price Index, Producer Price index
- US **Commerce Department's** monthly construction spending, factory orders, new home starts and building permits
- The **Aluminum Association's** monthly shipments and net new orders reports
- The **Federal Reserve's** Philadelphia Federal Index (manufacturing), Empire State Manufacturing Survey and monthly industrial production and capacity utilization

Questions?

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