COMMODITY PRICE WATCH

JULY 2010

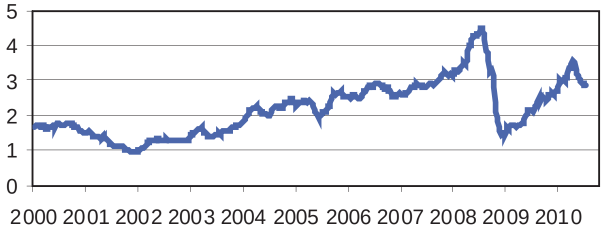
As the western recovery loses steam moving into the third quarter, diminishing Chinese demand will push commodity prices lower during the summer months. Bearish investor sentiment and heightened risk aversion will continue to plague markets and increase near term price volatility.

A Slower Second Half

- The recent spate of poor macroeconomic indicators, combined with market uncertainty and the seasonal manufacturing slowdown will undercut the momentum of western recovery. Slower growth and weaker demand will be manifest in lower commodity prices for the remainder of the year.
- Slowing Chinese apparent consumption in the second half of the year will dictate the severity of price corrections for steel, chemicals, and nonferrous metals. Excess productive capacity will restrain upward price movements over the next six months.
- Heightened risk aversion in response to the European financial crisis as well as the looming potential of future austerity packages will keep investor sentiment bearish in the immediate near term. Continued depreciation of the euro against the dollar will keep dollar denominated commodity contracts artificially weak through 2010.
- The Gulf of Mexico disaster and the potential severity of weather related events this summer will roil uneasy energy markets. Policy decisions and regulatory reforms will bolster bullish price moves in the immediate near term despite the persistent supply overhang.

Broad Based Commodity Correction

(IHS Global Insight Industrial Materials Price Index, 2002=1.00)



A Slower Second Half of 2010

(Percent change, real U.S. GDP)

Energy

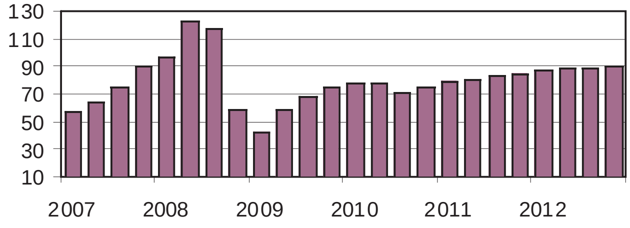
Market anxiety remains high this month as the effects of the Gulf of Mexico disaster and worse than expected tropical storm forecasts have fostered renewed bullish sentiment. **West Texas Intermediate** (WTI) has broken above $76/barrel in early July, reflecting current uncertainty. Even with temporarily diminished production from the Gulf region, resulting from the offshore moratorium, upward price movements will be constrained by the residual overhang of inventory. Barring a weather-related supply shock, we expect prices will trend lower during the third quarter, averaging $71.67/barrel before stabilizing and pushing higher on gradually improving global demand.

Natural gas prices are expected to decline through the summer as onshore shale development and combo plays (simultaneous production of gas and liquids) displace the loss of offshore supply. The moratorium will help to curb excess capacity but will be undermined by the size of standing inventory, which remains at historic levels. Higher cooling degree-days (CDDs) than usual in May and June has pushed U.S. energy demand higher but high inventories and coal displacement should insulate natural gas prices in the near term.

Potential inclement weather will pose the greatest risk to our forecast as the Energy Information Administration released expectations of "significantly higher" tropical storm activity compared to last year. Even with the assumption of higher shut-in production levels, pipeline imports will act to offset the adverse effects of gulf storms. If the frequency and violence of storm surges exceed baseline assumptions, temporary price spikes should be expected.

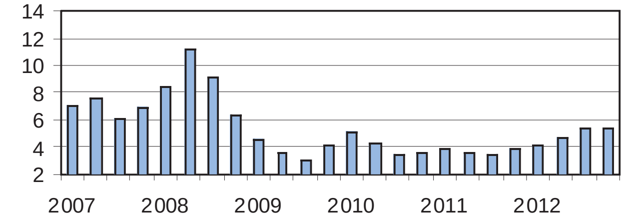
Oil Prices Dropping This Quarter

(West Texas Intermediate, dollars/barrel)



Supply Overhang Weighs on Natural Gas Prices

(Henry Hub Spot Price, dollars/mmBtu)



Chemicals

Ethylene prices have dropped precipitously in recent months, with contracts losing 16 cents over the April-June period, a total drop of almost 30%. **Propylene** prices have tumbled as well, with contracts declining a combined 20 cents in May and June-July remained flat. Similar price declines have been recorded downstream for **polyethylene** and **polypropylene** resins. Oil prices have weakened, which has put pressure on olefin and resin tags. Additionally, the reopening of all previously downed steam crackers in the U.S. Gulf has ticked utilization rates in the region above 96 percent and removed the tight supply situation that existed earlier in the year. Two crackers have shut down recently due to operational problems, but we expect them to be back online soon. The re-opening of Eastman Chemical ethylene cracker in Longview Texas, scheduled for early next year, will further increase material availability.

Our forecast is virtually unchanged from last month's. Barring any supply problems or external shocks to the market, we expect olefin and polyolefin prices will remain weak in the third quarter along with oil. Prices begin to strengthen in the fall and gain additional ground next year as market fundamentals slowly improve.

Steel

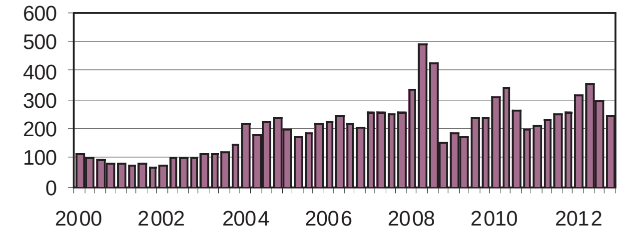
As we forecasted all year, steel prices hit a peak and are now falling. Third quarter prices will reflect some of the weakness, but most will show through in the fourth quarter and early 2011. We believe our basic profile of boom/bust is correct but we are advancing the timing of the trough. Historically, steel prices have peaked every even numbered year since 1994, and troughed each odd numbered year. The peak normally occurs around July of the even year and the trough in the second quarter of the odd year. Prices started falling in May rather than July, so the new forecast shows the trough over the winter rather than in the second quarter of 2011.

This year, things are happening more quickly for two reasons: prices were much too high and demand was and still is much too weak. Additionally the upside panic from the new **ore** contract is turning to downside panic as ore falls from $186 in March to $118 in July. To be fair, ore should never have gone over $120, and so it is best viewed as a return to sanity. **Scrap** prices have declined but not by the same amount as ore. We expect scrap to capitulate by late August, with slow gradual declines giving way to a sharp downside correction. There was little fundamental reason for scrap ever to rise, and by the end of 2010 it should be back to the same rough level as at the beginning of the year.

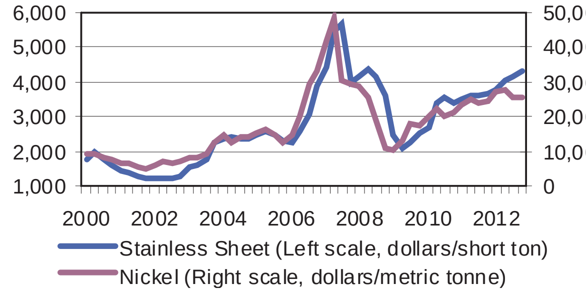
In sum, the price increases of the first half of 2010 were almost entirely just a cyclical spike, and cyclical spikes always unwind. Recovery from the excessively low recessionary levels of mid-2009 was justified, but all the rest was simply fluff.

Scrap Prices Will Fall Through 2010

(Dollars/long ton)



Nickel Leads Stainless Price Correction



Nonferrous Metals

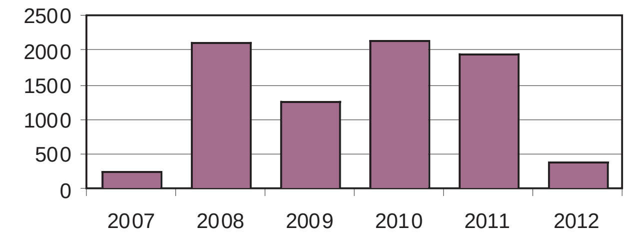
Nonferrous metal prices will remain soft through the summer with slower global industrial production growth creating significant head-winds. In addition, lingering uncertainty over European austerity measures and the degree of China's slowdown will sap investor confidence will undercut markets. Demand should improve near the end of the fourth quarter as revitalized industrial production digs into bloated inventories and tightens oversupplied markets.

With the expected decline of Chinese consumption growth, **aluminum** markets will post a sizeable surplus in 2010 as western demand lags behind swelling Chinese exports. Overall, excess aluminum supply will dampen price movements over the next two quarters, even as fundamental market conditions are improving. Chinese overproduction of aluminum has long posed a problem for global markets, indicated by the red metal's perennial surplus condition, starting in 2007. Now that Chinese demand is falling, the material is being exported, flooding domestic markets with a glut of material. The reversion of China towards its historic net export position will place downward pressure on prices through the remainder of the year and should keep the market in surplus through 2012. Quarterly average prices bottom out near $2,000/mt in the third and fourth quarters of 2010 before starting to come up. Prices are still forecasted to be under $2,220/mt by the end of 2011 and under $2,400/mt by the end of 2012.

The broad based commodity correction, capped by the Greek debt crisis, has kept **nickel** prices soft since their peak in mid April. Spots have come up slightly since bottoming out at $17955/MT in early June, but with the resolution of Vale's Sudbury strike and the impending tightening of Chinese fiscal policy, prices will remain weak through the remainder of the third quarter. In addition, the seasonal slowdown in stainless steel production will impede price recovery in the near term. The resolution of the Vale strike (totaling nearly a year in duration) will bring welcome relief to North American nickel consumers, plagued by inflated regional premiums for cut cathodes, powders, and briquettes. We expect premiums will deflate slowly over the next two months as Vale restarts idled capacity and begins to deliver material. Prices should recover through the fourth quarter as the global recovery gains traction and western stainless steel production stabilizes.

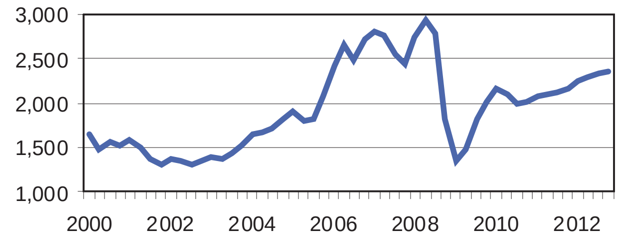
Aluminum Market is Oversupplied…

(Aluminum Market Balance, thousands of metric tonnes)



...Meaning Prices Will Fall

(Dollars/metric tonne)



Commodity Price Watch, July 2010

	2010:4	2011:1	2011:2	2011:3	2011:4	2012:1	2012:2	2012:3	2012:4	Forecast Change* 2010	Forecast Change* 2011
Energy Prices											
Natural Gas, Henry Hub, $/mBTU	3.59	3.86	3.69	3.47	3.95	4.15	4.71	5.43	5.48		
Crude Oil, WTI, $/barrel	75.00	79.50	81.17	84.00	85.67	87.67	88.66	89.66	90.66		
Average Price of Gasoline, cents/gallon	273.49	281.04	319.65	307.31	298.76	300.82	340.34	322.65	311.99	▼	
Global Insight Estimated Prices, cents/lb											
Ethylene	42.0	45.0	47.0	49.0	51.0	53.0	54.5	55.0	56.0		
High Density Polyethylene	63.0	65.5	66.5	68.0	69.0	70.0	71.0	71.5	72.0		
Propylene	57.5	59.5	61.0	62.0	63.0	63.5	64.0	64.5	65.0		
Polypropylene	77.0	78.8	80.3	81.3	82.3	82.8	83.3	83.8	84.3		
Spot Prices, $/short ton											
Heavy Melt Scrap ($/long ton)	202	215	234	249	258	315	355	300	243		
# 1 Busheling Scrap ($/long ton)	251	260	287	300	312	395	425	360	310	▲	
Hot-rolled Sheet	550	515	540	575	610	623	673	712	649	▼	
Cold-rolled Sheet	625	588	625	665	700	710	760	800	740	▼	
Galvanized Sheet	655	628	670	718	751	760	820	865	800		
Merchant Bar	630	585	611	630	650	680	717	782	763		
Rebar	540	550	559	569	575	587	647	683	653		
Special Quality Bar	800	750	769	773	797	826	891	971	936		
Coiled Plate	618	653	694	740	800	829	855	800	772		
Discrete Plate	700	720	747	775	830	865	890	830	797		
Structurals	669	651	677	691	700	717	753	801	768		
Wire Rod	615	570	560	576	593	615	702	746	768	▼	
Stainless Sheet, grade 304	3,410	3,515	3,600	3,600	3,686	3,765	4,036	4,163	4,323	▲	▲
LME Prices, $/metric ton											
Aluminum	2,003	2,068	2,100	2,130	2,169	2,238	2,291	2,328	2,345		
Copper	6,400	6,536	6,626	6,906	7,125	7,327	7,489	7,740	7,845		
Nickel	21,250	23,280	24,782	23,671	24,214	27,015	27,648	25,692	25,572	▼	
Zinc	1,813	1,856	1,929	2,057	2,160	2,252	2,322	2,362	2,373		

* Up and down arrow signals if the price forecast is more than 5% higher or lower than the June forecast.
Please note that the forecast is available for download in the spreadsheet table section of MyInsight and DataInsightWeb. Data presented in the Commodity Price Watch are often interim updates to our forecast, and as such may differ from the forecast in the spreadsheet tables.

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