



# Metals & Mining



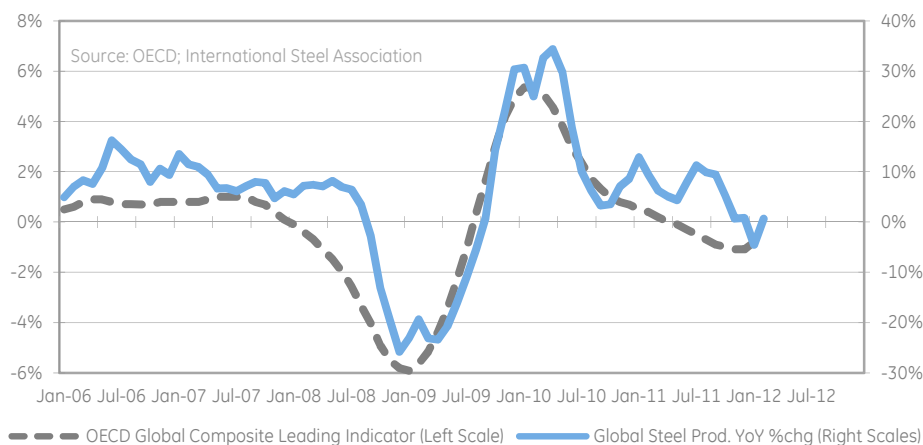
## Key Developments

- The OECD's Global Composite Leading Indicator's contracted 0.6% YoY in February. However, the MoM comparison was positive for the 5<sup>th</sup> month suggesting a momentum upturn.
- Data out of China has been mixed. Official PMI rose to an 11 month high of 53.1 in March but HSBC's PMI reading fell for the 5<sup>th</sup> month to 48.3. 1Q 2012 GDP disappointed at 8.1%, but the OECD CLI's March reading for China suggests improvement ahead.
- The U.S. ISM Purchasing Managers Index (PMI) rose to 53.4 in March vs. 52.4 in Feb., but new orders slowed 0.4 points MoM to 54.5.
- U.S. spot flat rolled steel pricing fell in March by up \$30-50/ton vs. Feb. The mills have recently announced hikes of \$20-50/ton.
- Coal pricing remained soft in March due to warm weather and ever cheaper natural gas.
- Base metals prices slipped about 3% on average in March.

## Key Indicators

Macro indicators have been mixed of late, with worries persisting over a Chinese slowdown and Euro zone recession. Nevertheless, on balance, leading indicators appear to suggest a bottoming of the global growth slowdown.

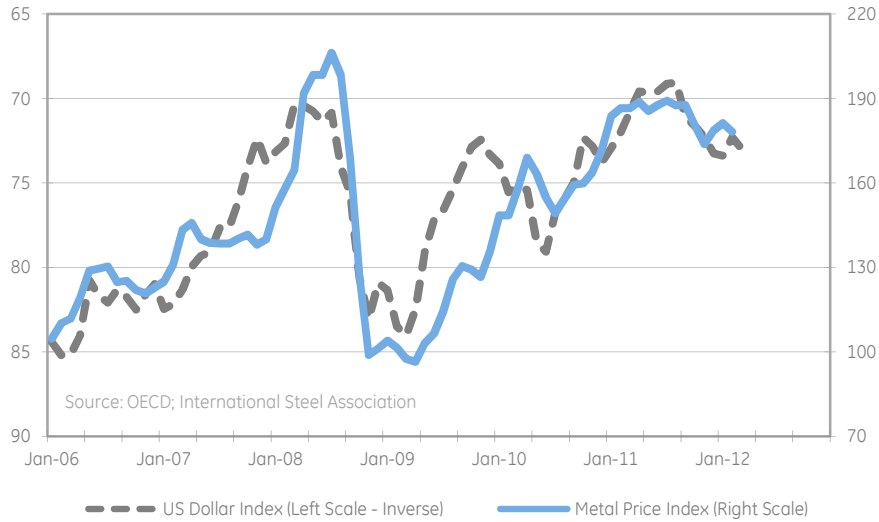
OECD Composite Leading Indicator (YoY %chg) vs. Global Steel Production (YoY %chg)



The OECD's "amplitude adjusted" CLI growth shown at left contracted 0.6% YoY in February (Note: we have switched from "trend restored" data due to change in OECD methodology that has yielded a significant lag in reporting on this basis). However, the CLI continued to show gains MoM in February for the 5<sup>th</sup> month in a row, suggesting momentum may be turning upward. In comparison, global steel production fell 4.6% YoY in January and rose only 0.7% YoY in February.

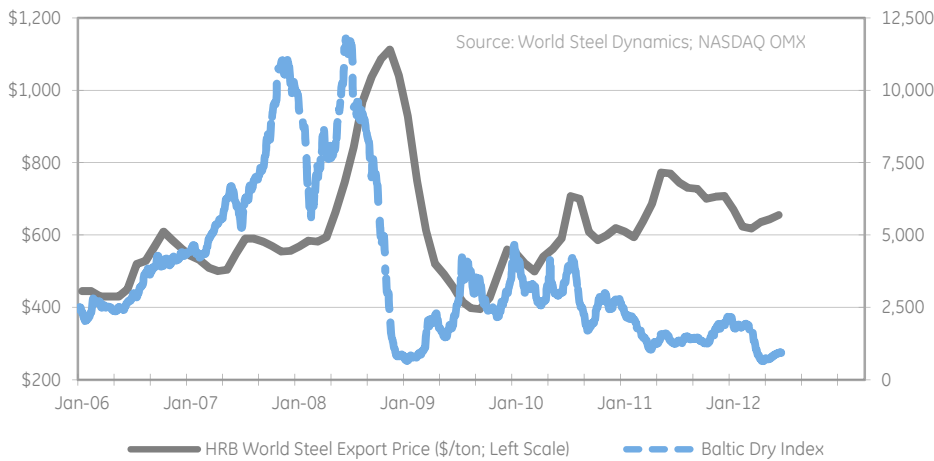
# Key Indicators (continued)

Trade Weighted U.S. Dollar Index (Inverse Scale) vs. Metals Price Index



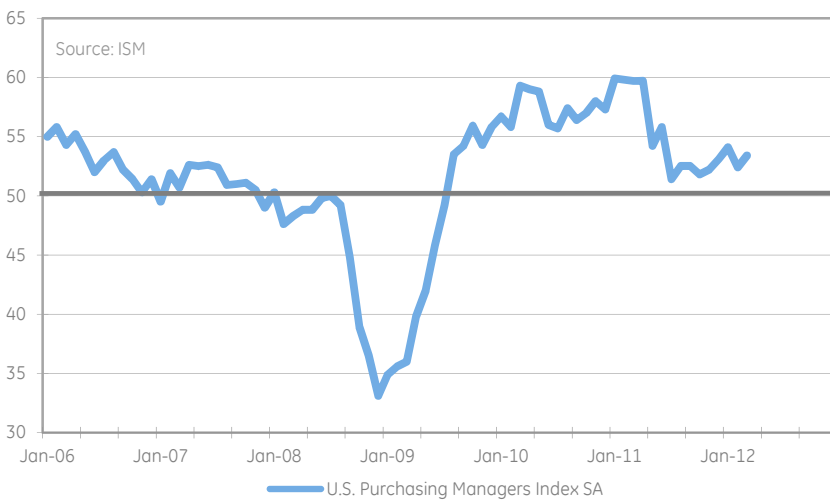
The U.S. trade weighted dollar index strengthened 3% YoY in March 2012 and 1% from the prior month. Recent dollar strengthening over past few months has come, despite the Fed's recently stated aim of holding rates flat through 2014, likely reflecting safe have status and stronger than expected U.S. economic activity. Metals pricing tends to be inversely correlated to the U.S. dollar as show in the graph at left.

Steel Hot-Rolled Band World Export Price vs. Baltic Dry Index



The BDI remains quite depressed owing largely to an oversupply of ships; however, the index has actually been moving up in recent weeks, with early April levels up over 40% from record February lows. Activity has been rising in recent weeks, with iron ore shipments to China picking back up.

U.S. Purchasing Managers Index SA

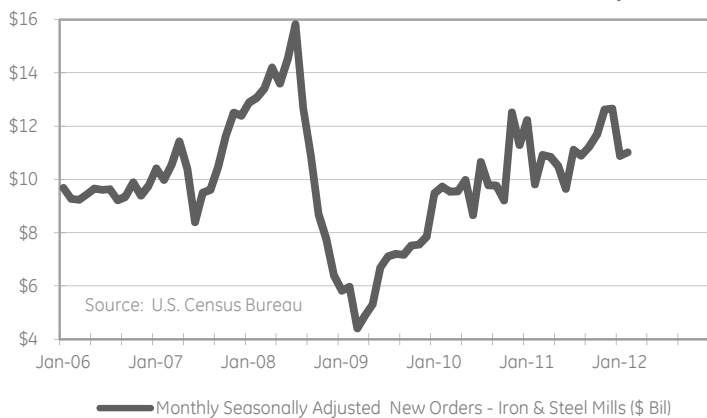


The ISM's PMI came in at 53.4 in March, a 1 percentage point increase from February's reading. ISM's New Orders Index registered 54.5 percent in March, which was a 0.4 percentage point decrease from February, suggesting a slightly slower rate. ISM notes that a New Orders Index above 52.3 percent, over time, is generally consistent with an increase in the Census Bureau's series on manufacturing orders.

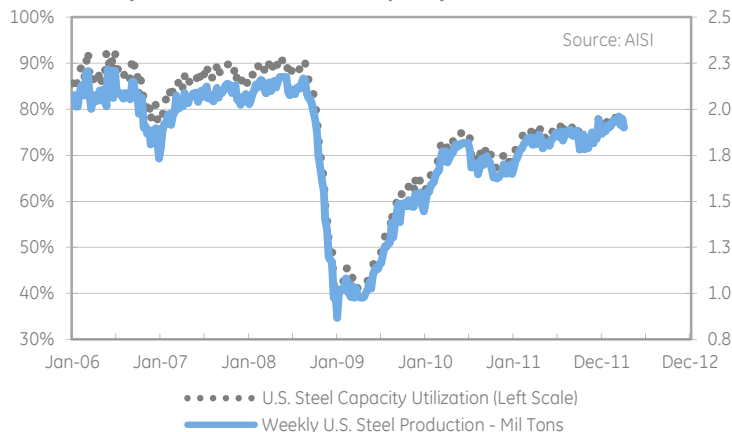
## Steel Supply / Demand Indicators

Orders look fair and inventories modest relative to shipments, but steel supply appears ample with imports and domestic production is rising.

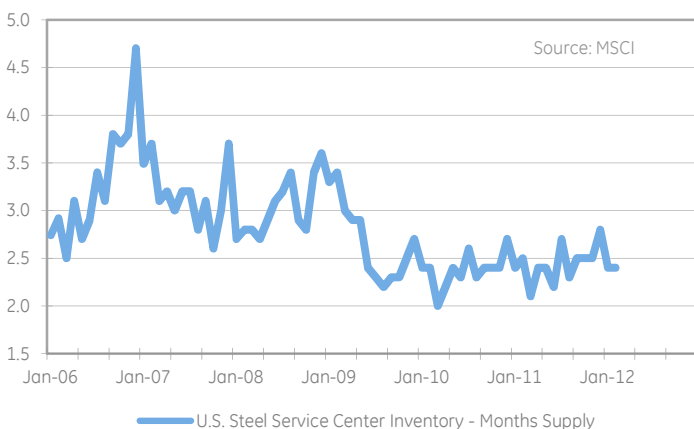
New Orders – U.S. Iron & Steel Mills (Current \$; SA Monthly Rate)



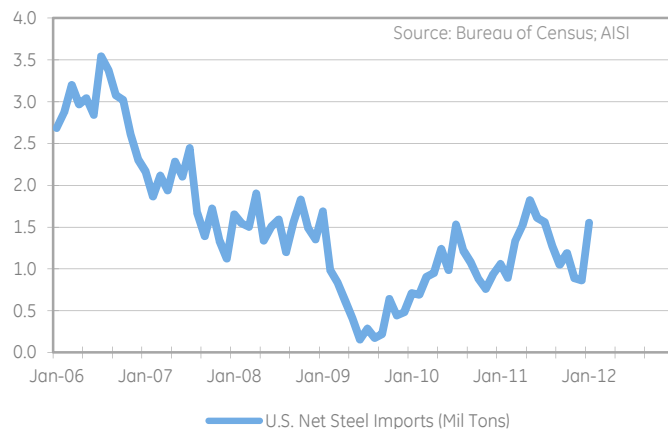
U.S. Weekly Steel Production vs. Capacity Utilization



U.S. Steel Service Center Inventories (Months of Supply)



Monthly Net U.S. Steel Imports

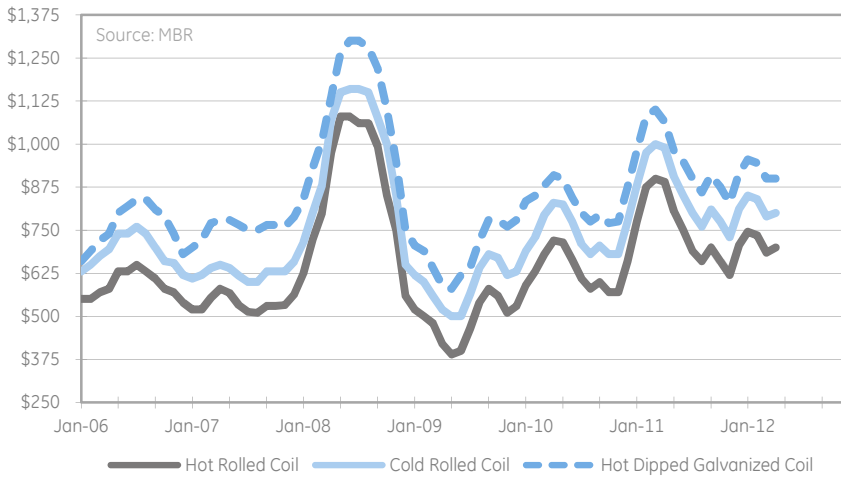


- Seasonally adjusted new orders in dollar terms for U.S. Iron & Steel Mills rose 12% YoY in February and 1.2% from the prior month according to Census Bureau data. **More recently (as of early April), we hear of demand as being steady/fair, with end markets such as auto/durable goods continuing to chug higher.** Mill lead times are still short given ample supply, but recent price hike announcements may stir orders.
- Steel inventories held steady at a modest 2.4 months supply in February which was flat vs. January and down from 2.5 a year ago.** Inventory tonnage increased 2% MoM and 13% YoY to 8.9 million tons. The daily rate of shipments fell 2% MoM but rose 9% YoY.

- U.S. steel capacity utilization has held fairly steady at 78% in March which was about flat vs. February. However, utilization rose in the first week of April to a 79%.** U.S. mills have produced 26.9 million tons in 1Q 2012, with capacity utilization averaging 77.8%, up 6.7% from a year ago.
- U.S. steel imports totaled 2.7 million tons in February including 2.05 million tons of finished steel, down 5% and 7%, respectively vs. the prior month.** Annualized total and finished steel imports YT-Feb 2012 would be 33.0 and 25.5 million tons, respectively, up 16% and 17% respectively vs. full year 2011. Import permit applications for March totaled 3.14 million tons - a 17% increase from the February's total imports. Further out, imports could fall off as the global pricing spread has narrowed.

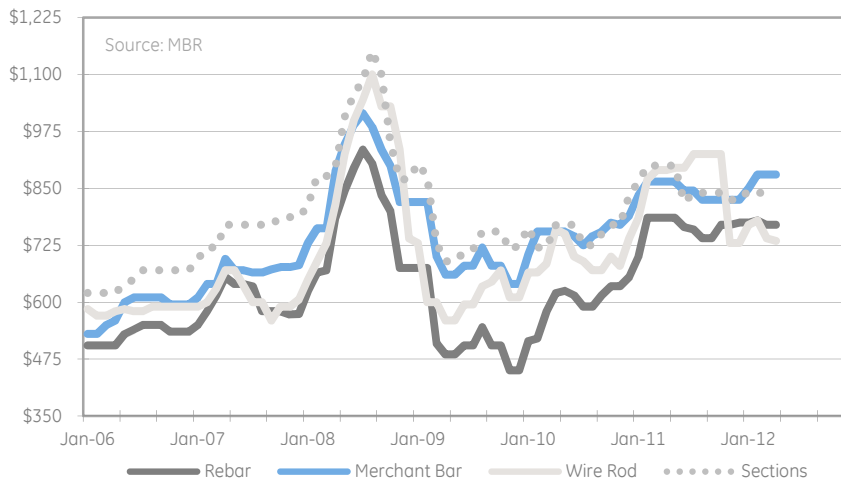
## Steel Pricing Trends

### U.S. Flat-Rolled Steel Prices (\$/ton)



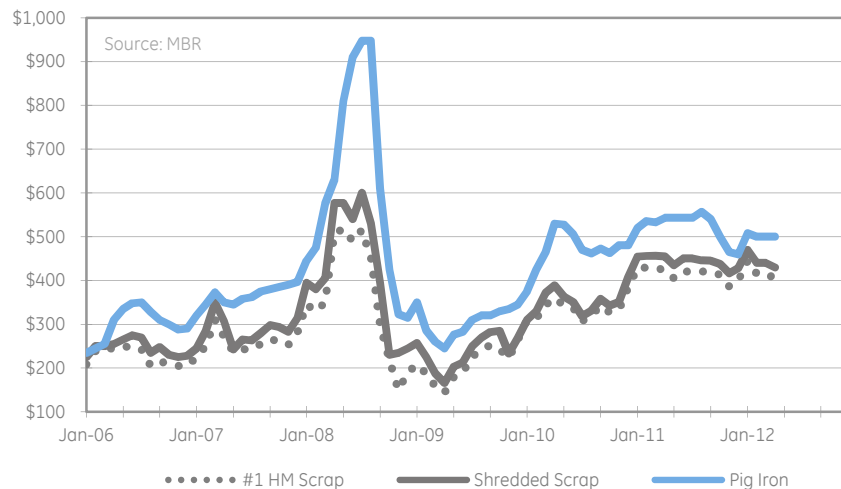
U.S. spot flat rolled steel prices drops about \$30-50 per ton on average in March vs. February, but appear to have stabilized in early April following a round of announced price hikes ranging from \$20-\$50/ton. We expect these hikes to have partial success near term, but rising supply and falling scrap prices remain a headwind, even as demand improves.

### U.S. Steel Long Product Prices (\$/ton)



U.S. steel long product prices were relatively stable in March vs. February despite declining scrap prices. Construction markets remain depressed but there are some tentative signs of improvement (e.g. total construction spending saw growth for the first time since 2006 in February and the Architectural Billings index rose for the 5<sup>th</sup> month in a row.)

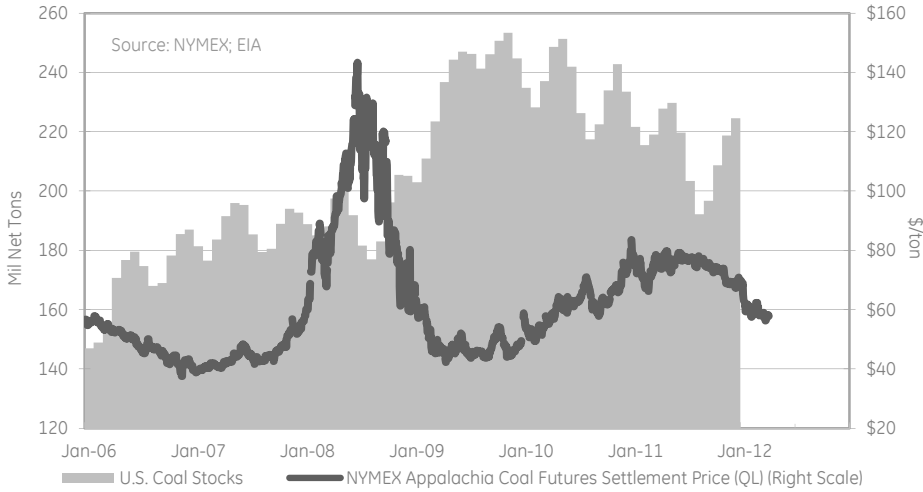
### U.S. Steel Scrap and Pig Iron Pricing (\$/ton)



U.S. steel scrap prices have slipped in recent weeks with Midwest #1 heavy melting scrap and shredded scrap dropping about \$10-20 per ton. The pickup in auto production has led to increased supplies of prompt industrial scrap. On the positive side, export demand appears to be rising.

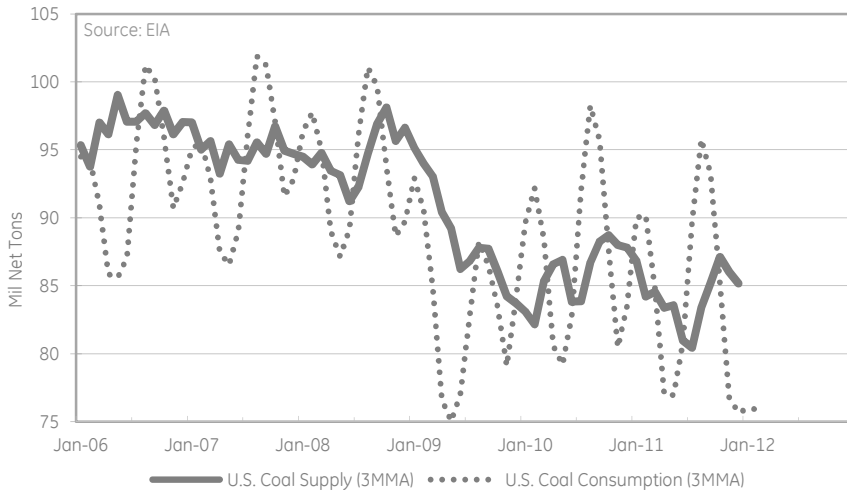
## Coal Trends

**NYMEX Appalachia Coal Futures Price vs. U.S. Coal Inventories**



**U.S. coal prices remained under pressure in March and into early April** with CAPP NYMEX pricing down about \$2.80/ton on average since the end of February. Price weakness reflects warm weather related weak demand and plummeting natural gas pricing. Coal inventories at utilities are projected to rise to 205 million tons in April, up 18% YoY and well above the historical range. As of April 10<sup>th</sup>, **EIA forecasts the average delivered coal price in 2012 will be about 1.0% lower than the 2011 average price followed by a 3.2% decline in 2013.**

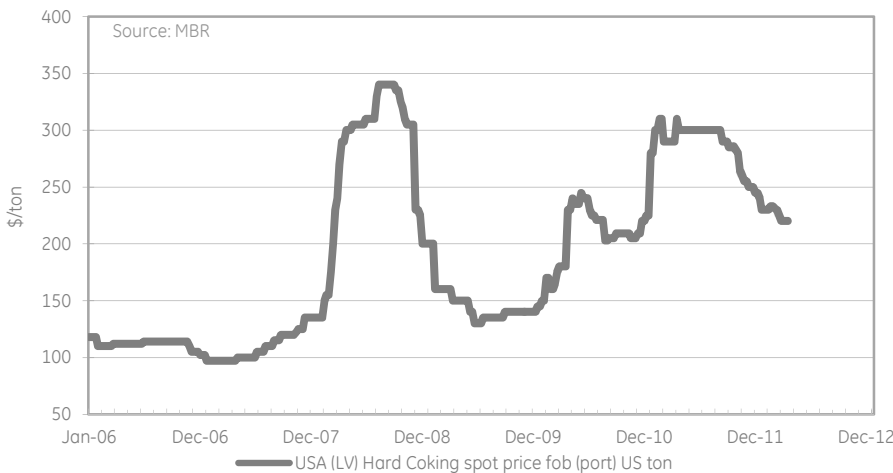
**U.S. Coal Supply vs. Demand (3 Month Moving Average)**



**U.S. coal consumption is expected to have fallen 7% YoY in April and 6% YTD-April.** EIA forecasts that electric power sector coal consumption will be well below 900 million short tons (MMst) in both 2012 and 2013 in large part reflecting increasing share of natural gas-fired generation.

**U.S. coal production is expected to have fallen 13% YTD-April with a full year 2012 decline forecast of 8% according to the EIA** as high cost capacity is shut down.

**U.S. Hard Coking Coal Spot Price**

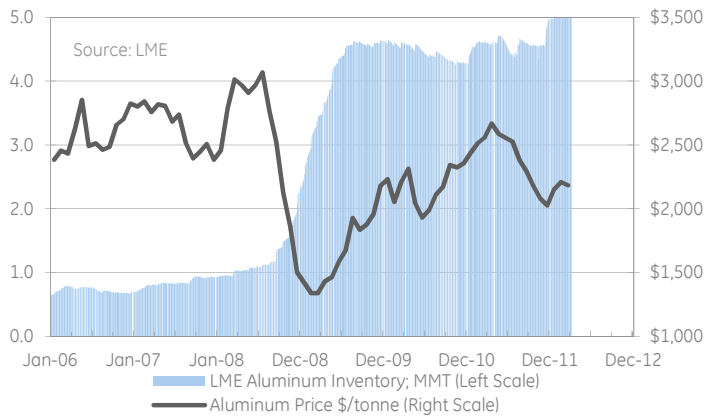


**U.S. hard coking coal spot prices have been under pressure since peaking in the summer of 2011** reflecting reduced steel demand in the face of the Euro crisis, a slow down in China. Looking forward, pricing is expected to remain relatively stable or perhaps modestly firmer. Supply disruptions in Australia (e.g. strikes in Bowen Basin) are somewhat restricting supply into China. This is causing a pick up in U.S. and Canadian export inquiries that is helping to support domestic pricing.

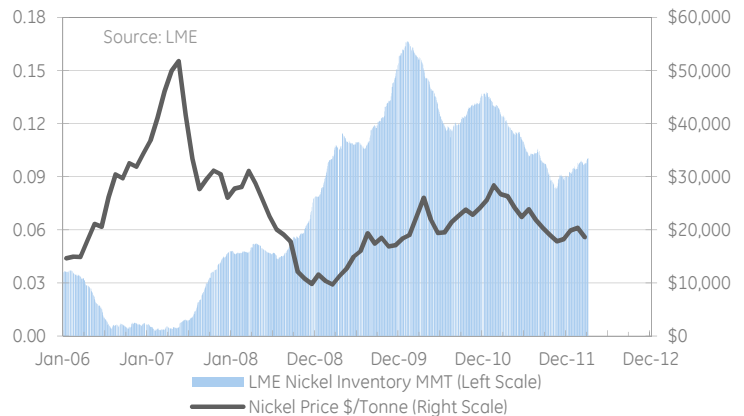
## Base Metal Price Trends

Base metal have been under considerable pressure in recent week under the cloud of the European debt crisis and slowing growth in China. Globally coordinated central bank easing, particularly in China, could prove a catalyst for recovery.

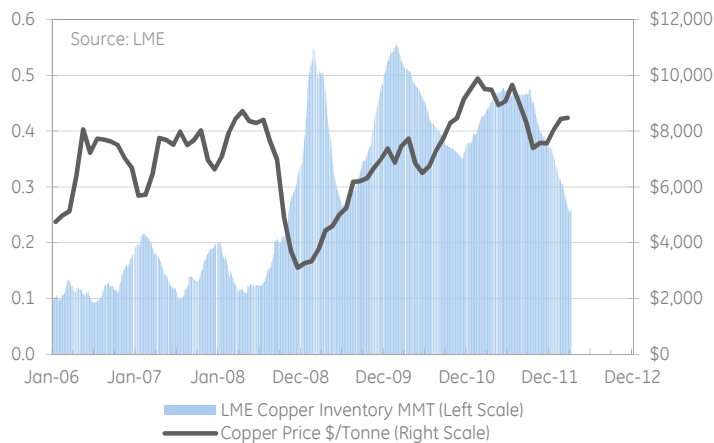
Avg. Monthly Spot LME Aluminum Price vs. LME Inventory



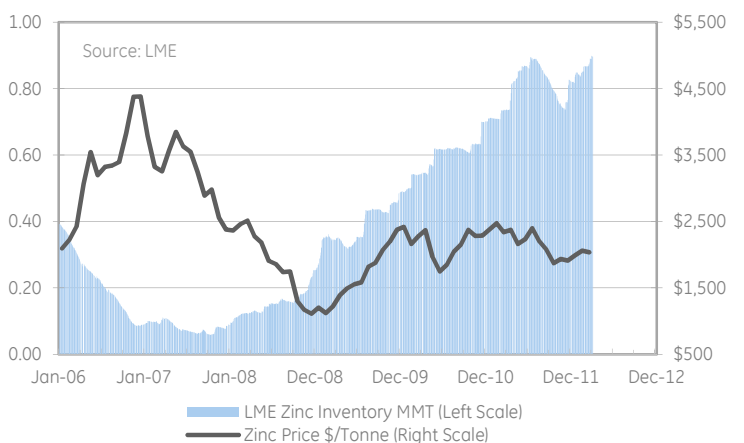
Avg. Monthly Spot LME Nickel Price vs. LME Inventory



Avg. Monthly Spot LME Copper Price vs. LME Inventory



Avg. Monthly Spot LME Zinc Price vs. LME Inventory



- The LME aluminum price fell about 1% on average in March vs. February, and has weakened further in mid April to \$2,070/tonne - a low not seen since very early January 2012. Worries of a Chinese demand slowdown continues to weigh on pricing, with Alcoa recently shaving 1% off its 2012 Chinese demand growth forecast. Meanwhile, while ~800k of smelter production cuts have been announced in the West, China's output has continued to expand (up 18% YT-Feb.) despite losses at many smelters.
- Copper cash prices on the LME held about flat on average in March vs. February but has weakened in mid April to \$8,180/tonne (though this remains 9% above early January levels). Although supply side issues continue to offer support for copper, Chinese demand concerns appear to be weighing on pricing moving into 2Q 2012.

- LME cash nickel pricing fell 9% on average in March vs. February and have weakened further to \$18,200/tonne as of mid April. Slower Chinese stainless steel demand growth is weighing on pricing of late in the face of rising production from new high pressure acid leaching (HPAL) and nickel pig iron (NPI) capacity.
- LME cash zinc pricing fell 1% on average in March vs. February and has held relatively steady into mid April at \$2,020/tonne (up 10% vs. early Jan levels). As with aluminum, financing deals appear to be lending support to pricing by drawing material away from the physical market, despite otherwise relatively lackluster near-term fundamentals. As with aluminum too, the fact that pricing is near production cost may also be lending support on the downside.

## Spotlight Transaction

On March 27, 2012, GE Capital, Corporate Finance announced it was administrative agent for a \$350 million asset-based credit facility to Shale-Inland Holdings, LLC to support the acquisition of HD Supply Industrial PVF, a distributor of specialty pipe, valves and fittings. GE Capital Markets served as sole bookrunner and joint-lead arranger.

Based in Schiller Park, Ill., Shale-Inland is a leading industrial supplier of products used in refining, petrochemical production and the transportation of water, food, energy, and information to its end use. Through 47 locations in North America, Shale-Inland delivers abroad spectrum of metal, pipe, valves, films, or finished parts just-in-time.

"GE Capital has a firm understanding of the steel industry and a demonstrated ability to get deals done," said Craig T. Bouchard, CEO of Shale-Inland. "Certainty of execution allows us to capitalize on growth opportunities and build our global business."

"With a tradition of financing the American steel industry, GE continues its strong support of metals manufacturing and distribution," said Tom Quindlen, President and CEO of GE Capital, Corporate Finance. "We specialize in providing capital to growing mid-size companies to fuel their business plans."



## GE Capital Commitments

### \$3.7 Billion in Investments Across the Value Chain\*

\*GE Capital as of Dec. 2011; Americas only



**\$0.4 Billion**  
Mining



**\$1.0 Billion**  
Smelt & Ref



**\$1.7 Billion**  
Mill Fab & Prod



**\$0.6 Billion**  
Distribution

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