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## **Geithner's Delay on China - - Help or Hurt?**

For most of us, April 15 is a deadline that we can't forget and can't change. It is also a deadline for Secretary of the Treasury Geithner, not one he can forget, but one he can change. For him, April 15 was the date on which Congress had mandated that he had to tell the world which foreign countries are manipulating the value of their currencies. Just the other day, however, he announced that he was postponing his exchange rate report.

Secretary Geithner pointed out that there are two G-20 meetings in the coming months and the bilateral Strategic and Economic Dialogue session in May. He met with the Chinese vice-premier on the way home from India last week. He hopes that these discussions will put some pressure on China to change its ways on the value of the yuan, where, as he termed it, that country has used "increasingly large volumes of currency intervention" to maintain its currency peg.

The postponement has generated, as usual, both positive and negative reactions. Even some who have decried the Chinese tactics say they are receptive to yet another effort to cajole them into acting on this issue. They suggest that a multilateral approach in the G-20 might make the Chinese less likely to dig in their heels at what they call outside interference in their internal policies. There is even some speculation that China might be about to move on its own to raise the yuan's value, although not as much as most would hope.

Others have warned against riling the Chinese at this time, when we are looking for their support for sanctions against Iran and pressure on the North Koreans. But the problem with this approach is twofold: First, when will there ever be a good time in a world where U.S.-Chinese cooperation will likely always be required on one matter or another? Secondly, it would set a very dangerous precedent to allow economic issues of trade to be mixed with matters of national security. In that context, trade will always come in second to what are characterized as geopolitical issues of transcendental importance.

It is hard to know what the Chinese think of Geithner's announcement. There is always the possibility that they will perceive it as evidence of weakness -- America will not go to the mat on this issue with its largest creditor. If that's what they are thinking, even if they wind up rejiggering the value of the yuan, they are unlikely to go far enough to change materially the artificial advantage they have been giving their exports. That could be the worst of outcomes -- China takes action that doesn't make a difference, yet insulates itself from multilateral pressure, at least for a time, and cools the ardor in Congress for proactive steps.

What if Geithner had issued his report and let the chips fall as they may? Certainly, the Chinese would have blustered about "finger pointing", but they might have feared congressional action to impose an offsetting tariff a lot more than they will be concerned about joint action by the G-20 nations. (The threat that the Congress would take action in 2005 is viewed by many as the cause of an increase in the value of the yuan over the following two years.) Nor is the Joint Dialogue of much concern to the Chinese -- currency values were not even discussed at the last one in 2009. It certainly looks as if Geithner has just kicked the can down the road, perhaps gaining some very limited action by the Chinese (some are suggesting a 3% increase in the yuan's value as opposed to the 25-40% required), but making it all the more difficult to address the problem as it continues to exist.

Economists believe that several hundred thousand jobs are at stake on this issue. Not only China, but other countries within its gravitational pull, like Singapore and Malaysia, have pegged their currencies below their true values. In these economic times, competition is tough enough without having to contend with foreign government-sponsored export subsidies. America's manufacturers deserve better.

Here are some cost data for this month:

- Scrap and Pig Iron Scrap prices were up slightly. Number 1 dealer bundles advanced by \$5 to \$465 per mt, and #1 busheling (Chicago) went up by \$10 to \$480 per mt. Spot price Brazilian pig iron (cif New Orleans) jumped by 14% to \$500 per mt. These prices are well above those of the past, except for the huge spike that occurred in mid 2008.
- Natural Gas The Nymex contract price continued to decline to \$4.16 per mmBtu. What looked like a return to much higher prices a few months ago has turned into a revisiting of nine year lows.

- Ocean Freight The Baltic Capesize Index remained virtually unchanged at 3317. The Index has now been steady for four months.
- Exchange Rates The dollar has weakened slightly over the last month. Today, the euro is worth \$1.36, up a penny from March; the pound is at \$1.54, up four cents; and the Canadian dollar is at par with the US dollar, up two cents.

We continue to value and encourage your comments and suggestion. This letter will be posted on our website, [www.coreysteel.com](http://www.coreysteel.com) and on the international site, [www.steelonthenet.com](http://www.steelonthenet.com).