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## **Focus on Focus**

This is our Thanksgiving time letter, so we certainly want to be as upbeat as possible in this time of troubles. And we shall be. Just give us a moment to set the stage.

You may recall that the Hubble Telescope was sent into orbit with a “spherical aberration” in its primary mirror that left it as astigmatic as a bookkeeper out of Charles Dickens. Given the monumental complexity and exquisite precision of the telescope, many believed that the problem was a design flaw caused by some error in the millions of esoteric, computer driven calculations that had gone into the project. However, the cause turned out to be more mundane: the engineers charged with testing the trueness of the mirror had misused the primary testing device and had simply ignored test results from two other devices that had detected the flaw.

Many observers of the subprime mortgage fiasco have also placed the blame on the ultra sophisticated and complex nature of the financial instruments carrying the poison. Again, the truth is more pedestrian: a toxic mixture of greed and bonehead financial analysis. At the bottom of the subprime pyramid, “salesmen” were hired to round up live bodies who could sign their names to mortgages they could never pay off. At the top, investment geniuses relied on computer models based on historical cadres of mortgagors who, unlike the new clients, could actually make their payments. At each step of the process the recruiters, issuing banks, bundlers, syndicators and re-syndicators each took a piece of the action. (For a gripping introduction to this cast of characters, you might want to listen to a Chicago radio presentation at [http://www.thisamericanlife.org/Radio\\_Episode.aspx?episode=355](http://www.thisamericanlife.org/Radio_Episode.aspx?episode=355).)

In hindsight, it is hardly a surprise that the whole structure collapsed. Nonetheless, Alan Greenspan, who opposed regulating the subprime industry, recently testified, “Those of us who have looked to the self-interest of lending institutions to protect shareholders’ equity, myself included, are in a state of shocked disbelief.” The people in charge of quality control on the Hubble Telescope might sympathize.

So what does the painful recounting of the subprime mess give us to be thankful about? Perhaps the most important silver lining here is that adversity focuses one's attention, and we are certainly in need of that focus.

For at least two decades, our national discourse has frequently been captured by issues that seem pretty trivial in the light of what is going on today. It is probably human nature that brings us to the edge of our seats when the TV reports that a baby whale has gotten stuck in an inland river, while we find stories about the possible extinction of whole species of whales buried in the back pages. A family dispute about a brain dead woman will pit large chunks of the nation against one another, will prompt the Congress to intervene and will send the President flying across the country to sign the law; while the thousands of other patients and their families in the same condition are rarely heard of.

Meanwhile, our budget deficits explode, our infrastructure decays, the cost of our health care system is out of control, we dump the sacrifices of fighting our wars virtually exclusively on our military volunteers and their families, and we leave other critical problems unattended. How well a little focus would have served us in the last quarter century!

The late Studs Terkel did another Chicago radio program interviewing Americans who lived through the Depression. There were plenty of stories of sadness and even misery, but another theme ran through the various accounts. Most of the people spoke of a sense of togetherness they felt with their neighbors and how they pitched in to help those "down on their luck." That spirit of community, the sense that we are all in it together, may again rise out of a new focus on the important that accompanies hard times. If so, it would indeed be something to be thankful for.

Here is some of the data on cost data for this month. Like last month, it is pretty startling.

- Scrap and Pig Iron. Number 1 dealer bundles and #1 busheling (Chicago) both fell by more than half to \$125 per mt. These are the lowest prices in the last six years and are only 15% of what they were only four months ago. The spot price for Brazilian pig iron declined only slightly, to \$400 per mt, but that was due to a decision by the producers to forego sales rather than take less. Thus, the "price" does not reflect market conditions.
- Natural Gas. The Nymex contract price leveled off, declining only 8 cents to \$6.79 per mcf. That price is a little over half what it was four months ago.

- Ocean Freight. The Baltic Capesize Index also fell sharply to 1200, or about 7% of what it was last June. That's right, a 93% decline.
- Exchange Rates. The euro is up from last month by 2 cents to \$1.27, at least at this writing. Two days ago it was at \$1.23, and in these market conditions gyrations will likely be the order of the day. The pound is at \$1.48, a drop of 8 cents, which probably reflects the dismal economic outlook in Britain. Canada is said to be relatively unaffected by the world's financial woes, and its dollar strengthened by 4 cents to \$0.82.

This is the time to give thanks, and we Americans have a great deal to be thankful for, even in these times. While we have had many shocks and disappointments in the last months, we have seen much to be proud of too. We at Corey give special thanks for having a customer base that works with us to meet our common problems and shows us the same loyalty that we endeavor to show you. As we face what is likely to be a painful next few months, we take heart in knowing that you and we believe that "we are all in this together."

We wish you a warm and satisfying Thanksgiving holiday with your families and friends. We are posting this letter on our website, [www.coreysteel.com](http://www.coreysteel.com), and on the international site [www.steelonthenet.com](http://www.steelonthenet.com).