

# Steel Markets Daily

Volume 02 / Issue 238 / December 10, 2008

**Platts steel industry assessments**
**December 10**
**Plate market**
**Europe**

	Eur/mt	Close/ Midpoint	Change	% Chg
<b>Hot-rolled coil</b>				
Ex-works, Ruhr	445.00-455.00	450.00	0.00	0.00
CIF Antwerp	405.00-415.00	410.00	0.00	0.00
	<b>\$/mt</b>			
FOB Black Sea	395.00-405.00	400.00	0.00	0.00
<b>Cold-rolled coil</b>				
Ex-works, Ruhr	545.00-555.00	550.00	0.00	0.00
CIF Antwerp	505.00-515.00	510.00	0.00	0.00
	<b>\$/mt</b>			
FOB Black Sea	455.00-465.00	460.00	0.00	0.00
<b>Plate</b>				
Ex-works, Ruhr	600.00-620.00	610.00	0.00	0.00
CIF Antwerp	535.00-565.00	550.00	0.00	0.00
<b>Reinforcing bar</b>				
Ex-works, NW Eur	420.00-440.00	430.00	0.00	0.00
	<b>\$/mt</b>			
Eastern Mediterranean, basis Turkey	445.00-455.00	450.00	0.00	0.00
<b>Ferrous scrap</b>				
HMS FOB Rotterdam	235.00-245.00	240.00	25.00	11.63
A3, FOB Black Sea	255.00-265.00	260.00	65.00	33.33

**North America**

	\$/st	Close/ Midpoint	Change	% Chg
<b>Hot-rolled coil</b>				
Ex-works, Indiana	540.00-560.00	550.00	0.00	0.00
CIF, Houston	540.00-550.00	545.00	0.00	0.00
<b>Cold-rolled coil</b>				
Ex-works, Indiana	620.00-630.00	625.00	0.00	0.00
CIF, Houston	620.00-630.00	625.00	0.00	0.00
<b>Plate</b>				
Ex-works, US SE	1060.00-1100.00	1080.00	-40.00	-3.57
CIF, Houston	820.00-860.00	840.00	-60.00	-6.67
<b>Reinforcing bar</b>				
Ex-works, US SE	500.00-540.00	520.00	0.00	0.00
CIF, Houston	460.00-500.00	480.00	0.00	0.00
<b>Ferrous scrap</b>				
Shredded, Del Midwest USA	230.00-250.00	240.00	0.00	0.00

**Asia**

	\$/dmt	Close/ Midpoint	Change	% Chg
<b>Iron ore fines 62%Fe</b>				
CFR North China	68.00-69.00	68.50	0.00	0.00
<b>Hot-rolled coil</b>				
FOB Shanghai*	470.00-500.00	485.00	0.00	0.00
<b>Reinforcing bar</b>				
FOB China*	500.00-530.00	515.00	0.00	0.00

\* Assessed December 04, 2008

## Manufacturing slowdown weakens US plate pricing

New York—Steel plate transaction prices in the US remain under pressure, mostly because major distributors are “chasing prices to the bottom” in order to get orders and move expensive inventory out the door before year-end. With mills close to announcing new list price levels for January, most market sources are expecting further price erosion to reflect the current market conditions.

The Platts reference price of US-made carbon steel plate declined another \$40/short ton Wednesday to a midpoint of \$1,080/st (\$54/CWT) ex-works US South, down from the previous level of \$1,120/st (\$56/CWT). The price has dropped a total of \$365/st or 25% over the past four months.

“Plate mill prices are all over the board right now, but I think something like \$54 is more realistic than \$56,” said an East Coast plate distributor. “I think we’ll see

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## Platts steel assessments currency and unit comparisons

December 10

	Eur/mt	\$/mt	\$/st	\$/CWT	\$/mt	Prior assessment	
						\$ change	% change
<b>Hot-rolled coil</b>							
Ex-works, Ruhr*	<b>450.00</b>	585.36	531.04	26.56	580.95	4.41	0.76%
FOB Black Sea*	307.50	<b>400.00</b>	362.88	18.15	400.00	0.00	0.00%
CIF Antwerp*	<b>410.00</b>	533.33	483.84	24.20	529.31	4.02	0.76%
Ex-works, Indiana**	465.61	606.26	<b>550.00</b>	27.50	606.26	0.00	0.00%
CIF, US Gulf states, basis Houston**	461.38	600.75	<b>545.00</b>	27.25	600.75	0.00	0.00%
<b>Cold-rolled coil</b>							
Ex-works, Ruhr*	<b>550.00</b>	715.44	649.05	32.46	710.05	5.39	0.76%
FOB Black Sea*	353.63	<b>460.00</b>	417.31	20.87	460.00	0.00	0.00%
CIF Antwerp*	<b>510.00</b>	663.41	601.84	30.10	658.41	5.00	0.76%
Ex-works, Indiana**	529.10	688.93	<b>625.00</b>	31.25	688.93	0.00	0.00%
CIF, US Gulf states, basis Houston**	529.10	688.93	<b>625.00</b>	31.25	688.93	0.00	0.00%
<b>Plate</b>							
Ex-works, Ruhr*	<b>610.00</b>	793.49	719.85	36.00	787.51	5.98	0.76%
CIF Antwerp*	<b>550.00</b>	715.44	649.05	32.46	710.05	5.39	0.76%
Ex-works, US Southeast**	914.29	1190.48	<b>1080.00</b>	54.00	1234.57	-44.09	-3.57%
CIF, US Gulf states, basis Houston**	711.11	925.93	<b>840.00</b>	42.00	992.06	-66.13	-6.67%
<b>Reinforcing bar</b>							
Ex-works, Northwest Europe*	<b>430.00</b>	559.34	507.44	25.38	555.13	4.21	0.76%
East Mediterranean, basis Turkey*	345.94	<b>450.00</b>	408.24	20.42	450.00	0.00	0.00%
Ex-works, US Southeast**	440.21	573.19	<b>520.00</b>	26.00	573.19	0.00	0.00%
CIF, US Gulf states, basis Houston**	406.35	529.10	<b>480.00</b>	24.00	529.10	0.00	0.00%

\*LN 16:30 Eur/\$ ex rate = 1.3008; \*\*NY 16:30 \$/Eur ex rate = 0.7680. Bold denotes the primary assessments and have not been converted

some more downward pressure on prices over the next few weeks," he added.

Platts previously reported that some domestic plate mills were heard to be selling small quantities around 150 tons at below \$50/CWT (hundred-weight), or \$1,000/st, but could not confirm these sales.

A Houston-based distributor, among others, now supports this report, saying Wednesday that he was losing orders to competitors at \$52.95/CWT, and had even heard jobs bid at \$49.95/CWT. Distributors could only make these bids if they were buying plate at lower prices.

Prices of imported material have also declined over the same period. The Platts

reference price of carbon plate is now pegged at a midpoint of \$840/st CIF Houston, down about \$60 from the previous assessment and more in line with prevailing world prices.

There could be even more erosion in world prices in the next few months, as prices of material discharged in Antwerp have already dropped more than \$200 below US prices. A major US-based distributor said Wednesday that a mill in Brazil was offering standard A36-grade carbon plate at a base price of \$35.75/CWT for discharge in Houston in late March or early April. This offer is equivalent to \$715/st CIF Houston.

—Noel DeKing

## Scrap market

## Ferrous scrap prices up in Black Sea on reduced inflows

London—Ferrous scrap prices in Europe are firming in the face of renewed buying interest by mills in Southern Europe and the effects of very low inflows of material into scrap yards, according to market participants.

The Platts price assessment of A3 scrap from the Black Sea region climbed Wednesday after sales to Italy were confirmed at \$290/mt CFR—bringing the heavy melting GOST grade up \$65/mt to

**platts** Steel Markets Daily

Volume 02 / Issue 238 / December 10, 2008

ISSN: 1935-7354

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\$260/mt FOB Black Sea. Traders were also making similar offers to Turkish mills, which are expected to confirm December purchases this week.

The rally owes as much to a lack of material entering yards, restricting supply, as it does to demand from Europe's steel mills, according to scrap merchants. But with most mills running furnaces and meltshops at reduced capacity, volumes are not expected to be high.

Export prices from Northern Europe have also firmed, with the Platts price assessment for HMS I/II 80/20 rising \$25/mt to \$240/mt FOB Rotterdam. The uptick reflects increased orders for smaller shipments to Southern Europe and expected buying in Turkey, against a backdrop of less material coming into yards and export terminals.

#### Billet prices also climb

Billet prices also rose as new offers stretch out to February shipment. The availability of steel billet from mills exporting via the Black Sea has dried up for new orders, according to traders. February shipments are now being offered for new rollings with prices yet to be discussed, but indications of \$350-370/mt FOB have been heard.

With prompt shipments no longer available, there is doubt among some sellers that took part in last week's Emirates Steel billet supply tender, that the Abu Dhabi-based mill will be able to place an order for the 50,000 mt of billet it requires. The two lead trading houses offered prices above \$377/mt CFR Abu Dhabi, for material conforming to the EISF specification, with the required delivery specified as December. This is now considered unworkable, according one Dubai-based trader, who participated in the tender, as new rollings would be impossible to secure and ship in time.

—Francis Browne

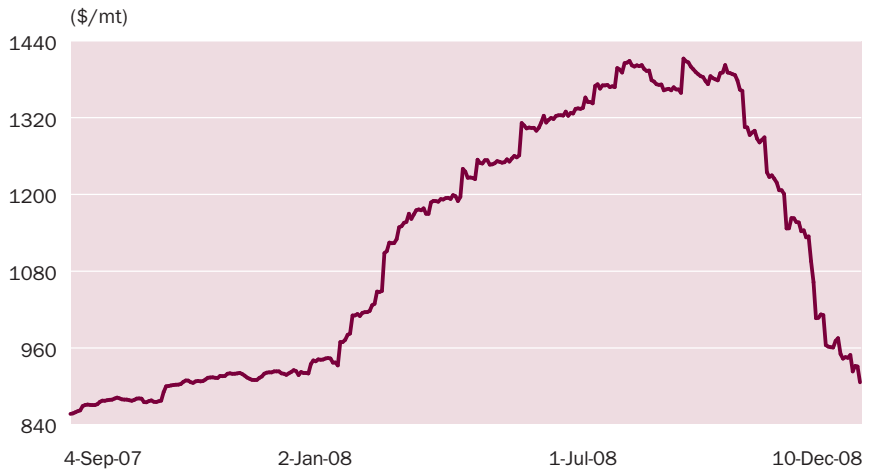
### Higher US scrap prices may be only temporary

*New York*—Prices of prime and cut grades of ferrous scrap in the US market have rebounded since November lows, but the question of sustainability continues to dog the rally as trading remains very light.

Several processors reported selling prime industrial scrap at \$240-245/long ton delivered to mills, an increase of about \$100 from last month.

One mid-Atlantic scrapper said he sold his busheling for \$245/lt delivered to Ohio Valley mills with a \$15 freight component. Like other scrap processors, he noted distinct demand differences in regional markets. "The Midwest—up and down the Ohio and Mississippi Rivers—is the best market," he said. Scrap operations in Detroit and Chicago were shipping material elsewhere, he said. "Detroit, Chicago—

### Composite spot price of plate down 36% to \$906/mt since peak



Source: Platts, average of all assessed regions

they're not getting those prices," he said.

He sold his No. 1 heavy melting scrap for approximately \$200/lt, up substantially from \$110/lt-120/lt just a month ago. Plate and structural cut scrap sold for \$220/lt, showing an increase similar to heavy melt.

A Southeast demolitions contractor with scrap operations posted similar numbers, selling his No. 1 HMS to export docks at \$200/lt, up from \$115/lt-120/lt a month ago. Plate and structural scrap, in shorter supply, sold for \$220/lt, he said, as some mills ran particularly low on this grade.

An Ohio Valley scrap processor sold prime busheling for \$240 delivered with nearby freight, approximately \$10. No. 1 sold for \$195/lt-200/lt, again for nearby delivery, he said.

A Northeast scrap processor reported selling prime busheling, also into the Ohio Valley, at \$245/lt with a \$15 freight component. All three processors took note of the fact that prime scrap was selling for approximately the same price as shredded, as the Platts reference price of shredded scrap remained unchanged Wednesday at a midpoint of \$240/lt delivered to Midwest US mills.

The Ohio Valley processor said the anomaly was strictly driven by supply and demand due to the lack of feedstock for shredded material. "There is difficulty finding car bodies for shredders," he explained. A typical spread for the two grades would put prime at about \$280/lt with shred at \$240/lt. Going forward, he suggested, the spread should resume as prime industrial scrap becomes less abundant, mainly due to the downturn in the auto and other US manufacturing sectors.

#### Weak demand may thwart rally

An East Coast scrap processor, while capitalizing on the price increases, was skep-

tical of a sustained rally. "My personal belief is that the increases won't last—I just don't see the demand. There are still enormous inventories of finished steel all over the world." Such inventories must be worked down before steelmakers will show any sustained interest in acquiring substantial quantities of raw materials, he contended.

That said, the East Coast processor enthusiastically said he was shipping as much material as possible to capture any price increases while they last. He reported selling No. 1 HMS for \$200/lt with nearby freight of \$10/lt-15/lt and plate and structural material for \$210/lt-220/lt.

—Matthew Lerner

### Japan extends subsidy program to ferrous scrappers

*Tokyo*—The Japanese government has extended its raw material subsidy program to ferrous scrap processors effective Wednesday, as well as nonferrous metal and scrap wholesalers, and secondary lead refiners.

The program, launched on October 31, aims to fund small- and medium-sized companies, which have been affected by increases in raw material costs and the recent downturn in the economy. Companies that have seen their procurement costs rise 20% year on year in the last three months—as well as those whose revenues have fallen 3% year on year in the last three months—are eligible for a subsidy of up to Yen 280 billion (\$3 million).

The program initially targeted companies employing less than 300 people in 545 segments including secondary aluminum smelters, diecasters, rolled copper product makers, aluminum rolling mills, extruders, and steel product wholesalers.

The subsidy program aims to help improve

the cash flow of companies with a high debt ratio and limited means to raise funds, sources said. Those in the automotive components industry are said to have a relatively high debt/equity ratio, as they have been financing their capacity expansions with loans.

The Japanese government plans to spend a total of Yen 6 trillion on the subsidy program.

—Mayumi Watanabe

## Hot-rolled coil market

### NYMEX HRC declines, physical market steady

*New York*—The NYMEX US Midwest steel hot-rolled coil December contract closed trading Monday down \$25 to \$545/short ton from Tuesday's \$570/st. The contract, which trades on the CME Group's Globex electronic trading platform, expires December 23.

The Platts reference price of HRC, on the other hand, held steady Wednesday in a range of \$540-560/st ex-works Indiana, or a midpoint of \$550/st. And while NYMEX recalibrated its pricing downward despite the absence of trading, Platts detected more stability in the physical market—and there were even whispers of major mills looking to try to push up flat-rolled prices in Q1 2009.

"You may still find some deals below \$540 per ton," a big Great Lakes-area buyer told Platts Wednesday. "But when you consider that weekly steel output is at a two-decade low, that imports are virtually

non-existent, and that inventories are down, the major mills may be poised to try a price hike," he said, "at least that's what I'm hearing."

Based on the Platts HRC survey Wednesday, no transaction prices in the physical market were verified below \$540/st. An OTC trader closely watching the NYMEX HR contracts also told Platts that "more people are looking to buy steel again."

Other NYMEX near-term contracts closing down for the day were the January 2009 contract, which lost \$25/st to \$550/st; the February 2009 contract, which fell \$20/st to \$580/st; the March 2009 contract, which lost \$20/st to close at \$590/st; and the April 2009 contract, which fell \$20/st to close at \$605/st.

Three contracts in the fourth quarter of 2009 rose. The October 2009 contract gained \$10/st to close at \$685/st; the November 2009 contract rose \$15/st to \$710/st; and the December 2009 contract gained \$5/mt to close at \$725/lt. (See table below)

In the absence of trading, "indicative" prices are established by NYMEX researchers based on bids and offers observed in the OTC market and reflected on CME's ClearPort clearing platform.

Though the December contract shows only one open interest, steel trading desks are largely not yet ready to use the CME Group's Globex platform, according to several traders. Likely participants have speculated that steel-trading activity on the NYMEX will not pick up until after January.

—Matthew Lerner and Joe Innace

### NYMEX US Midwest HRC

	Most Recent Settle \$/st	Change	Open Interest	Estimated Volume
Dec-08	545	-25	1	na
Jan-09	550	-25	na	na
Feb-09	580	-20	na	na
Mar-09	590	-20	na	na
Apr-09	605	-20	na	na
May-09	615	-20	na	na
Jun-09	620	-20	na	na
Jul-09	640	-10	na	na
Aug-09	650	-10	na	na
Sep-09	660	-10	na	na
Oct-09	685	10	na	na
Nov-09	710	15	na	na
Dec-09	725	5	na	na
Jan-10	725	-10	na	na
Feb-10	725	-15	na	na
Mar-10	725	-15	na	na
Apr-10	725	-15	na	na
May-10	725	-15	na	na

na=no activity

Last updated: December 10, 2008; Source: NYMEX

### Iron ore market

#### Continued buying interest for iron ore, prices stable

*Singapore*—Sources reported steady buying interest and stable prices on the Chinese iron ore import market

Wednesday. A large trading house based in India reported deals this week for 63.5% Fe-content iron ore fines concluded between \$69-74/dry metric ton, CFR North China, for prompt deliveries and deliveries within two weeks. Another trader reported offering \$75/dmt CFR North China for 63.5% Fe-content fines this week, but received no bids above \$70/mt.

Meanwhile, prices for 62% Fe-content prices held at \$68-69/dmt CFR North China. The Platts reference price was also unchanged Wednesday at \$68-69/dmt CFR North China. Indian iron ore 62/61% Fe was trading this week between \$56-59/mt CFR North China, for prompt cargoes and for delivery up to December 24, an Indian trader reported.

Several traders reported Indian offer prices for 63.5% Fe at \$77-80/dmt CFR North China, resulting in a large spread between the bids and offers. The bid price for 63.5% Fe from the large mills in China, is below \$70/dmt CFR North China, sources said.

With the export duty for iron ore fines in India dropping from 5% to zero, Chinese buyers are hoping to see lower offer levels. Indian suppliers, however, see reasonable demand for iron ore from small and medium-size mills and have moved offers upward in the last few days. "Many buyers are monitoring the market and hoping to see a drop in offered spot prices from India," a Hong Kong broker commented.

Sources noted that domestic Chinese iron ore prices are close in value to imported iron ore prices. Consequently, Chinese steel mills are reporting that they are not prepared to buy anything above \$70/mt CFR North China for 63.5%. A trader mentioned that the trigger price, which would cause Chinese buyers to switch to purchasing domestic 63.5% Fe iron ore, is \$72/mt CFR North China.

A number of trading sources reported more inquiries from Chinese mills and from the trading community. This coincided with news that iron ore port inventories are decreasing at major Chinese ports.

However, "a warmer market may be only temporary" a source familiar with the domestic market said, "as the mere 3% drop in inventory does not give the whole picture." A large proportion of the iron ore stockpiles in ports belong to large mills, which are not currently purchasing on the spot market, he explained.

Freight rates for cargoes heading to China from India and Australia were also static, said sources. Handysize rates were reported at \$12/wet metric ton for vessels loading from the east and west coasts of India. Panamax rates were pegged at \$9-10/wmt, although one trading source said that \$8/mt could still be achieved.

—Annalisa Jeffries and Jessy Xia

#### China's iron ore stocks drop as small mills restart

*Hunan*—China's iron ore stocks at major sea ports have declined to around 66 million mt, from 74 million mt in mid-November and a high of around 89 million mt in mid-October, according to Bank of America.

The resumption of steel production at more local private mills is believed to have spurred the drop in iron ore inventories, sources said. But sizable shares of the iron ore stockpiles in ports belong to large mills that are not currently purchasing on the spot market, according to sources.

Despite the fall in iron ore stocks, China's iron ore demand has yet to recover, according to Zou Jian, chairman of the

China Mining Association, who spoke at the recent 2009 China Steel Market Outlook Annual Conference in Shanghai.

Given the recent decline in raw material prices, some local private mills have opted to resume production, as reported by Platts. In Tangshan City in northern China's Hebei Province, for instance, only around 28% of the steelmaking plants were still idle as of December 8, according to a December 9 report by Hebei Daily, the province's official newspaper.

—Reggie Le

## News

### China's Oct-Nov steel product exports plunge 36%

*Singapore*—China's exports of steel products in November were 2.95 million metric tons, down 36% from 4.62 million mt in October, preliminary trade figures released Wednesday by the General Administration of Customs showed.

Steel exports over January-November 2008 edged down 3.1% year on year to 56.06 million mt.

"The decrease in exports from October levels was expected, although maybe not to this magnitude, as global steel prices have moved closer to parity with Chinese levels and demand worldwide has all but dried up over the last several months," commented steel analyst Michelle Applebaum in a report issued Wednesday. "Buyers continue to back away from longer-lead time imports, even if at slightly lower prices, due to continued economic uncertainty as well as the lack of available trade credit, which is far more important for globally traded material than domestic purchases," she added.

Applebaum also suggested, "While the reduction of export tariffs may provide some support for Chinese exports in December, we believe the impact will be minor until the global demand environment turns around."

Meanwhile, China's imports of steel products for January-November totaled 14.5 million mt, down 6.7% year on year. Steel imports in November reached 1.03 million mt, down 10.4% from 1.15 million mt in October.

China's imports of iron ore and concentrate, however, rose 17.3% year on year over January-November 2008 to 409.13 million mt. Imports in November were 32.52 million mt, up 6.2% from October.

—Joe Innace

### Anti-monopoly cases initiated against MMK and Oskolsky

*London*—The Russian federal anti-monopoly service said in a statement

Tuesday it has initiated two cases against steelmakers Magnitogorsky Iron and Steel Works and Oskolsky Electrometallurgical Works for allegedly abusing their dominant position by fixing high prices of steel used to manufacture bearings.

In the statement, the FAS said steel prices for manufacturers of bearings were currently decreasing. The FAS added it believed that economic entities must lower prices for metal products pursuant to changes in the market conditions. Failure to ensure that prices were adequate to the market situation constituted the grounds for initiating the anti-monopoly cases, the FAS said.

MMK is one of the largest steelmaking companies in Russia. In the first half of 2008, the company produced 7 million mt of crude steel, and 6.4 million mt of finished product. Based in the Belgorod region in western Russia, Oskolsky Electrometallurgical Works is a producer of carbon and highly alloyed steel. The plant produces mining and metallurgical wear parts, and spares such as wear plates, linings, forgings, forged bars, stampings, and spares to excavating machines, grabs, skips and scrapers. Platts could not reach either company for comment.

### Ukraine forces AM to lower rebar prices

Ukraine's largest steelmaker, ArcelorMittal Kryvy Rih, reduced rebar prices by up to 50% after a ruling by the Anti-Monopoly Committee, the government's anti-cartel agency, reported Wednesday.

ArcelorMittal Kryvy Rih, or AMKR, is the biggest producer of rebar in Ukraine and the price reduction is expected to have a major impact on the sector. AMKR refused to comment on the ruling, and domestic price levels could not be immediately determined. "As demanded by the Anti-Monopoly Committee, ArcelorMittal Kryvy Rih had considerably reduced its reinforcing bar prices," the committee said.

—Julien Hall with Alexander Bor

### ArcelorMittal announces more US layoffs, plant closings

*New York*—ArcelorMittal, the world's largest steelmaker, has widened its job cuts to include several more US plants, as it struggles to reduce overall steel production in North America by 40% in the fourth

quarter in its attempt rebalance supply with demand.

A company spokesman confirmed Tuesday plans to close two steel processing facilities in Lackawanna, New York and Hennepin, Illinois, which together have capacity of 700,000 short tons/year of coated and galvanized sheet products supplied to automakers and other manufacturers.

ArcelorMittal said it has already notified employees, the United Steelworkers union and other required stakeholders that the Lackawanna facility will be closing by April 30, 2009. The closure of the Lackawanna facility will affect approximately 260 full-time employees, said the company.

The steelmaker cited several economic reasons that make the Lackawanna plant uncompetitive in the current economic environment. The upstate New York operation has "inherent disadvantages" including the plant's distance from its main supplier of steel coil and the distances from many of its end-use customers, said a company statement. "All of these disadvantages lead to higher costs, longer customer lead times, and higher inventory levels than other ArcelorMittal finishing facilities in the USA," said the company.

To remain cost competitive, ArcelorMittal said it has also decided to close the Hennepin, Illinois, facility near Chicago and consolidate production at its other facilities in the US. The decision to close the Hennepin plant came after a review of US operations. "Through this review, it has become evident that duplication exists in our pickler, tandem mill, batch anneals, temper mills and coating line operations," said the company.

"Like many businesses, we have been forced to look at ways to ensure the long-term sustainability of the company. It is a matter of great regret to the company and its management that we have had to make this decision," said a company statement.

In the coming days, ArcelorMittal said it would file a Workers Adjustment and Retraining Notification (WARN) concerning the layoff of 285 employees at the Hennepin facility. The exact timing of the layoffs at Hennepin has not been determined, but the company said it is in "discussions with the USW and salaried employees on severance compensation."

### Exchange rate data

December 10

Federal Reserve		LME Rates	
Spot Sterling Rate	1.4830	LME Spot Stg	1.4800
Canadian Rate	0.7966	LME Spot Stg 3-Mo	2.8990
Yen	0.0108	LME Yen	92.6300
Three-Month Sterling	1.4790	ICE Rates	
Three-Month Canadian	0.7954	Euro	1.3008

ArcelorMittal has sharply reduced the number of hourly union workers it plans to place on indefinite layoff at its Burns Harbor integrated steel works in northwest Indiana, following negotiations with the USW. Under an agreement worked out earlier this month with USW Local 6787, ArcelorMittal will also cut 490 jobs at the sprawling Burns Harbor, Indiana, steelmaking complex, which currently employs about 4,000 people. The company originally planned to idle as many as 2,444 workers for an indefinite period of time starting January 25. Most of the 490 job cuts are expected to be achieved through voluntary layoffs.

ArcelorMittal previously said it must target production cuts to rebalance global supply and demand in response to the steel industry's lower growth prospects. The company also launched a \$5 billion cost-cutting program that includes plans to lay off as many as 1,000 production workers each in both France and Poland, and eliminate as many as 9,000 salaried employees worldwide.

—Noel DeKing

## Steel lobby warns against EU emissions trading plan

London—European steelmakers association Eurofer Wednesday urged the European Union not to adopt a proposed carbon-emissions trading scheme, which it argues would “destroy” the viability of the domestic steel industry.

“We again urge the heads of governments and state to secure the competitiveness and continued existence of the steel industry in Europe,” Gordon Moffat, Eurofer director, said in a statement, ahead of Thursday's EU summit in Brussels. The statement cites a study conducted by economic consultancy NERA, which looks at the possible impact of the revised European emissions trading system.

The study examines the emissions costs of two EU countries, the UK and Germany, assuming 100% auctioning of the steel industry's allowances, no cost-pass through ability, and a CO2 price at Eur30/mt. In this scenario, the emissions costs of the UK steel industry amount to 162% of the average short-run profit from 1995 to 2006, and 414% of the average long-run profit over the same period.

In Germany, the industry would fare better, but emissions costs would still amount to 96% of average short-run profit and 203% of average long-run profits in the same period, the study concluded.

In the statement, Eurofer also reiterated what it considers are four crucial issues for the European steel sector. Eurofer argues

## News in Brief

**The Panama Canal Authority has received \$2.3 billion** of loan guarantees to finance the expansion of the 95-year-old waterway. The lenders include the International Finance Corporation, the Inter-American Development Bank, the European Investment Bank, Japan Bank for International Cooperation and Andean Development Corporation. Canal administration head Alberto Aleman signed the loan contracts at a ceremony on Tuesday. The budget to widen the 50-mile (80-kilometer) canal by 2014 and add a third set of locks is \$5.3 billion. Bids for the locks part of the project are due in March 2009.

*[Ed note: RFP conditions set by PCA for bidding this project: Steel reference prices are determined by averaging the prices quoted over a 180-day continuous period from Platts Steel Markets Daily for (a) Reinforcing Bar, Ex-Works US Southeast, Close/Midpoint Price in US \$ per short ton, and (b) Plate, Ex-Works US Southeast Close/Midpoint Price in US \$ per short ton for Lock Gate and Bulkhead Structural Steel Plate Shapes...]*

**Mediterranean steel billet stocks jumped 1,365 mt** Wednesday in London Metal Exchange's designated point of delivery in Tekirdag, Turkey. All the stocks in this batch are grade 3805sp material. With that, Tekirdag has 11,245 mt of 3803sp material, 3,120 mt of 3805S and 18,785 mt of 3805sp, totaling 33,150 mt. UAE's Dubai and Turkey's Kocaelli, which are the two other points of delivery for Mediterranean billet, currently have no stocks. Meanwhile, Far East billet stocks held steady at 1,820 mt in LME's approved warehouses in Incheon, South Korea. All billet at Incheon are grade 3805sp material. The only other LME-approved point of delivery in Asia for the steel billet is Johor, Malaysia, which currently has 2,080 mt of grade 3805sp material. LME Far East billet stocks now total 3,900 mt. LME's global billet stocks amount to 37,180 mt at its five designated points of delivery.

that 100% free allowances for sectors at risk of carbon leakage should be maintained based on achievable benchmarks.

The group is also lobbying for fully free allowances for the recovery of waste gases from the steelmaking process, which Eurofer argued amount to about 50% of CO2 emissions from mills. Eurofer is also demanding compensation for the

**Australia's BlueScope Steel has signed an equity placement** to institutional investors at A\$3.10/share (\$2.04/share) to raise A\$300 million (\$197 million), the company said Wednesday. In a short statement filed with the Australian Stock Exchange, the nation's largest steel producer did not explain how the funds would be used. BlueScope shares were suspended from trading on the ASX Wednesday, until December 11. In October, the company warned that the first half of 2009 will be challenging, and expects to take action to cut costs and tightly manage working capital.

**Siemens VAI Metals Technologies will supply Russia's Maxi Group** with a new melt shop and billet caster for the Vorsino steelmaking plant located near Kaluga, about 120 km southwest of Moscow. The order includes an Ultimate-type electric arc furnace, secondary metallurgical facilities, a de-dusting system and an eight-stand billet caster with annual capacity of 1.5 million mt/year. The launch of the new facility is scheduled for 2011. The industry sector of Siemens AG is the world leading supplier of production, transportation, lighting and building technologies.

**Finnish steelmaker Rautaruukki has signed an agreement** to acquire the entire share capital of the Lithuanian steel constructor Gensina from its private owners, Ruukki said in a statement Wednesday. Gensina produces and assembles steel frames for international and local investors and construction firms in Lithuania. Established in 1997, Gensina has some 82 employees and its net sales in 2007 were Eur9 million. The parties agreed not to disclose the transaction price, Ruukki said. Subject to the approval of the regulatory authorities, the transaction is expected to be finalized by the end of 2008. The news comes a week after the steelmaker announced it would cut up to 1,000 jobs as part of an efficiency drive aimed at cutting costs by Eur60 million (\$78 million).

ETS-related increase of electricity costs, and maintained the reduction target must be based on the Kyoto reference year 1990 and not 2005. Citing data from the European Environment Agency, Eurofer said the EU steel industry reduced its CO2 emissions by more than 20% from 1990 to 2004.

—Julien Hall

## A Platts Special Report

## Carmaking collapse cuts commodities consumption

## Introduction

Chances are when you've visited a car dealership shopping for a new vehicle, you were focused on the overall fit, finish and performance. Not immediately evident were the more than 30 key materials and commodities that went into making it.

Aside from the usual steel-panel exterior, items often going unnoticed might be the injection-molded polypropylene used to make many dashboard knobs; or diecast aluminum and magnesium—vital to under-the-hood components like radiators, engine blocks and the power train. You will admire the tires, but probably not the butadiene used in the making of rubber for the road. Copper wiring is hardly visible, often shrouded in other tube-shaped polymers. Seat cushions are typically made of polyurethane foam, and the dashboard is mostly polyvinyl chloride—probably most responsible for creating that distinctive new car smell.

The problem lately is that consumers in the North American market are hardly even sniffing around for new cars. Sales are down sharply and the production forecasts are dismal. The automotive sector's problems are destined to substantially weaken demand for many of the materials and commodities noted above.

In this special report, Platts begins to quantify the impact on the materials that tend to hitch their wagons to vehicle production. Known and respected widely for its benchmark price assessments, Platts is also uniquely positioned to assess the "demand destruction" of many of the commodities it covers during such troubling economic times. On the automotive front, Platts also has a formidable force riding shotgun—the forecasting experts at JD Power and Associates, which like Platts, is a division of the McGraw-Hill Companies.

For starters, the following focuses only on the North American market fallout. Much of the story is told with the tables and graphs. Other special reports like this may follow. Let us know what you think. (Editorial e-mails below)

*[Ed. Note: This Platts Special Report was written by Benjamin Morse, Benjamin\_morse@platts.com, senior editor-Petrochemicals and Joe Innace, joseph\_innace@platts.com, managing editor-steel. Contributing editors from Platts Metals included: Karen McBeth, Karen\_mcbeth@platts.com; Jacqueline Roche, Jacqueline\_roche@platts.com; Nick Jonson, nick\_jonson@platts.com and Meghann McDonell, Meghann\_mcdonell@platts.com. Contributing editors from Platts Petrochemicals included: Ihsan Rahim, Ihsan\_Rahim@platts.com and Angie Joe, Angie\_Joe@platts.com; design and production by Jessica Zalkin, Jessica\_Zalkin@platts.com.]*

New York—The US Congress is apparently poised to help troubled US carmakers, but it remains to be seen if such assistance can stall the destruction of demand for the major materials and commodities that go into the typical North American light vehicle. From 2008-2009, nearly 4 billion fewer pounds of all metals—most of that steel—and some 409 million pounds less of resins and composites will be required, based on Platts estimates using the latest JD Power and Associates North American production forecast and data from the American Chemistry Council.

Of the ten key materials—by weight—needed to produce the typical light vehicle, five are metals (carbon steel, iron castings, aluminum, stainless steel and copper); two are major resins (polypropylene and polyurethane); and the other three are fluids/lubricants, rubber, and glass.

The full breakdown is based on a 2007 report by Thomas Kevin Swift, PhD and chief economist at the American Chemistry Council, which examined 2006 light-vehicle weights and component materials. The total weight was about 4,040 lbs, with a light vehicle defined as either a car, light truck, van or SUV.

Sources agreed that the average light-vehicle weight is probably a bit less currently and trending down—as SUVs and larger autos are no longer favored given the volatile pricing nature of gasoline. But for the purposes of this article, 2006 serves as the base year.

Carbon steel still accounted for the heaviest share of such a vehicle, at about 52% or 2,122 lbs of total weight. After that, there was a big drop off to iron castings (331 lbs, or 8.2%), aluminum (323 lbs, or 8%), fluid/lubricants (211 lbs, or 5.2%), rubber (174 lbs, or 4.3%), stainless steel (107 lbs, or 2.6%), glass (105 lbs, or 2.6%), polypropylene (81 lbs, or 2%), copper/brass (61 lbs, or 1.5%), and polyurethanes (59 lbs, or 1.5%).

With such 2006 vehicle-material shares as a basis, Platts then considered JD Power and Associates' latest light vehicle production forecast for North America.

As of last month, JD Power was forecasting production of 11.44 million units in 2009, a 9.6% decline from its estimated 12.66 million units produced for 2008. What's more, from 2007 to 2008, JD Power was estimating that light-vehicle production fell by 15.7% to 12.66 million this year from 15.02 million light vehicle made in 2007. Output in 2006 was 15.24 million units, meaning that production will be off about 25% from 2006-2009, if JD Power's 11.44 million unit forecast holds.

## Anatomy of a breakdown

In the tables that follow, Platts has calculated the impact of less vehicle production in North America on the materials and commodities needed to manufacture them. Some of the highlights:

- **Steel** is poised to lose more than 4 million short tons in demand from the auto sector in 2009 compared with 2006. This estimate is in fact conservative, as it's calculated on steel's weight in a finished vehicle. Sources indicate that perhaps 40% more steel is actually needed, for example, to stamp steel sheet into exterior panels. This would up the 4 million st fallout to about 5.6 million st. In such a stamping process, there is a substantial yield loss. The punched-out steel shapes from sheet are known as offal, which ultimately finds its way back to a steelmaking furnace as scrap.

- Also from 2006-2009, **polypropylene** is set to lose some 308 million lbs of demand from carmakers. Industry observers maintain that the yield loss in producing injection-molded PP parts is nowhere near the level of steel stamping—perhaps less than 5%.

- **Aluminum** demand from light-vehicle manufacturers may decline more than 1.23 billion lbs from 2006-2009. According to The Cast Metals Coalition, US Department of Energy, the aluminum and magnesium diecasting processes typically have yields of about

### North American light vehicle production and metals impact 2008-2009\*

Commodity/material	lb/vehicle**	2006	2007	2008-e	2009-f	2008-2009	
		15,244,354	15,023,617	12,654,799	11,437,664	Demand	Destruction
		Light Vehicle Output					
		Metals Impact (short tons)				tons	lbs
Carbon steel	2,122	16,174,260	15,940,058	13,426,741	12,135,360	-1,291,380	-2,582,760,470
Iron casting	331	2,522,941	2,486,409	2,094,369	1,892,933	-201,436	-402,871,685
Aluminum	323	2,461,963	2,426,314	2,043,750	1,847,183	-196,567	-393,134,605
Stainless and other steel	107	815,573	803,764	677,032	611,915	-65,117	-130,233,445
Copper/brass	61	464,953	458,220	385,971	348,849	-37,123	-74,245,235
Powdered metals	42	320,131	315,496	265,751	240,191	-25,560	-51,119,670
Lead	39	297,265	292,961	246,769	223,034	-23,734	-47,468,265
Zinc castings	10	76,222	75,118	63,274	57,188	-6,086	-12,171,350
Magnesium	10	76,222	75,118	63,274	57,188	-6,086	-12,171,350
Other metals	5	38,111	37,559	31,637	28,594	-3,043	-6,085,675

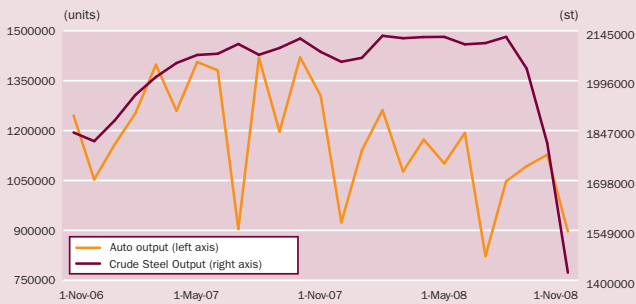
Sources: \* JD Power and Associates; and \*\*American Chemistry Council

### North American light vehicle production and materials impact 2006-2009\*

Commodity/material	lb/vehicle**	2006	2007	2008-e	2009-f	2006-2009	
		15,244,354	15,023,617	12,654,798	11,437,663	Demand	Destruction
		Light Vehicle Output					
		All Materials Impact (lbs)				lbs	tons
<b>Carbon steel</b>	2122	32,348,519,188	31,880,115,274	26,853,481,356	24,270,720,886	-8,077,798,302	-4,038,899
<b>Iron casting</b>	331	5,045,881,174	4,972,817,227	4,188,738,138	3,785,866,453	-1,260,014,721	-630,007
<b>Aluminum</b>	323	4,923,926,342	4,852,628,291	4,087,499,754	3,694,365,149	-1,229,561,193	-614,781
Fluids and lubricants	211	3,216,558,694	3,169,983,187	2,670,162,378	2,413,346,893	-803,211,801	-401,606
Rubber	174	2,652,517,596	2,614,109,358	2,201,934,852	1,990,153,362	-662,364,234	-331,182
<b>Stainless steel and other</b>	107	1,631,145,878	1,607,527,019	1,354,063,386	1,223,829,941	-407,315,937	-203,658
Glass	105	1,600,657,170	1,577,479,785	1,328,753,790	1,200,954,615	-399,702,555	-199,851
Polypropylene	81	1,234,792,674	1,216,912,977	1,025,038,638	926,450,703	-308,341,971	-154,171
<b>Copper/brass</b>	61	929,905,594	916,440,637	771,942,678	697,697,443	-232,208,151	-116,104
Polyurethanes	59	899,416,886	886,393,403	746,633,082	674,822,117	-224,594,769	-112,297
Textiles	48	731,728,992	721,133,616	607,430,304	549,007,824	-182,721,168	-91,361
<b>Powdered metals</b>	42	640,262,868	630,991,914	531,501,516	480,381,846	-159,881,022	-79,941
Nylon	40	609,774,160	600,944,680	506,191,920	457,506,520	-152,267,640	-76,134
<b>Lead</b>	39	594,529,806	585,921,063	493,537,122	446,068,857	-148,460,949	-74,230
Coatings	29	442,086,266	435,684,893	366,989,142	331,692,227	-110,394,039	-55,197
ABS	25	381,108,850	375,590,425	316,369,950	285,941,575	-95,167,275	-47,584
Polyvinyl chloride	24	365,864,496	360,566,808	303,715,152	274,503,912	-91,360,584	-45,680
Thermoplastic polyester	21	320,131,434	315,495,957	265,750,758	240,190,923	-79,940,511	-39,970
Polycarbonate	14	213,420,956	210,330,638	177,167,172	160,127,282	-53,293,674	-26,647
Polyethylene	13	198,176,602	195,307,021	164,512,374	148,689,619	-49,486,983	-24,743
Polyethylene ether	13	198,176,602	195,307,021	164,512,374	148,689,619	-49,486,983	-24,743
Unsaturated polyester	13	198,176,602	195,307,021	164,512,374	148,689,619	-49,486,983	-24,743
Phenolics	10	152,443,540	150,236,170	126,547,980	114,376,630	-38,066,910	-19,033
<b>Zinc castings</b>	10	152,443,540	150,236,170	126,547,980	114,376,630	-38,066,910	-19,033
<b>Magnesium</b>	10	152,443,540	150,236,170	126,547,980	114,376,630	-38,066,910	-19,033
Polyvinyl butyral	7	106,710,478	105,165,319	88,583,586	80,063,641	-26,646,837	-13,323
Polyacetal	6	91,466,124	90,141,702	75,928,788	68,625,978	-22,840,146	-11,420
Acrylics	5	76,221,770	75,118,085	63,273,990	57,188,315	-19,033,455	-9,517
Other resins	5	76,221,770	75,118,085	63,273,990	57,188,315	-19,033,455	-9,517
Other metals	5	76,221,770	75,118,085	63,273,990	57,188,315	-19,033,455	-9,517
Other materials	87	1,326,258,798	1,307,054,679	1,100,967,426	995,076,681	-331,182,117	-165,591

Sources: \* JD Power and Associates; and \*\*American Chemistry Council

### NA light vehicle production vs. US raw steel output



Source: JD Power and Associates; American Iron and Steel Institute

75%, which means roughly 1.54 billion lbs of aluminum (25% more) would be needed to make finished parts weighing a collective 1.23 billion lbs.

- **Copper** consumption in light vehicles may be down 232 million lbs from 2006-2009; and

- **Polyurethane** demand may fall 225 million lbs over the same time-frame.

- Also, a commodities buyer at Ford in the US told Platts that typically about five gallons of **gasoline** are pumped into each tank at the end of the assembly process. In June of this year, according to JD Power and Associates, nearly 1.2 million light vehicles were produced. In November, that output was estimated at just under 900,000 vehicles—a decline of some 300,000 vehicles—meaning 1.5 million less gallons of gasoline required.

### Platts price relationships to vehicle output

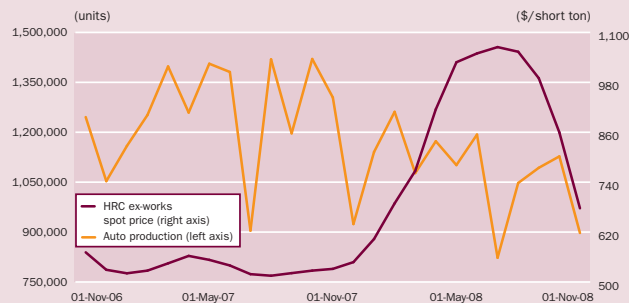
In the following graphs, Platts US monthly prices of steel hot-rolled coil, polypropylene, aluminum A-380, copper cathode, magnesium diecast alloy and butadiene, have been plotted against JD Power's light-vehicle monthly production figures.

Although many vehicle materials are purchased on a contract basis and Platts assesses spot-market prices, the most recent declines are striking against the backdrop of the troubled automotive sector.

From October to November of this year, JD Power's figures show that light vehicle production in North America declined 20.4% to 897,186 units in November of this year from 1,127,456 units in October. Consider:

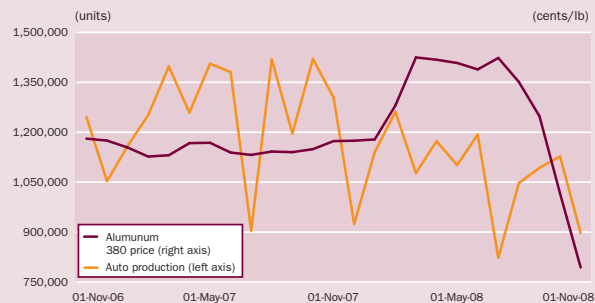
- The Platts price of **butadiene**—used in the production of rubber for replacement tires and those on new vehicles—declined 47.4% to 56.75 cents/lb (CIF US Gulf) in November from 107.90 cents/lb in October;
- The Platts price of **polypropylene** declined 45.3% to 37.5 cents/lb in November from 68.57 cents/lb in October;
- The Platts US price of **copper cathode** declined 22.3% to 174.32 cents/lb in November from 224.39 cents/lb in October;
- The Platts price of **steel hot-rolled coil**—a bellwether product that's further processed into cold-rolled coil, which in turn is then coated/galvanized for exterior auto body applications—dropped 21.2% to \$677.22/short ton (ex-works Indiana) in November from 859.57/st in October;
- The Platts price of US Midwest **aluminum** A-380 declined 18.5% to 78.5 cents/lb in November from 96.28 cents/lb in October;
- The Platts US price of **diecast magnesium** declined 13% to 304.38 cents/lb in November from 350 cents/lb in October.

### Light vehicle output and US hot-rolled coil steel price



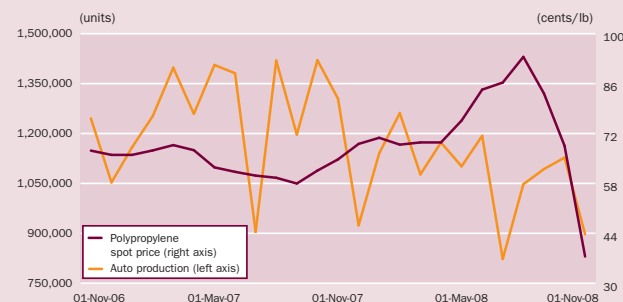
Source: JD Power and Associates and Platts

### Light vehicle output and US Midwest aluminum 380 price



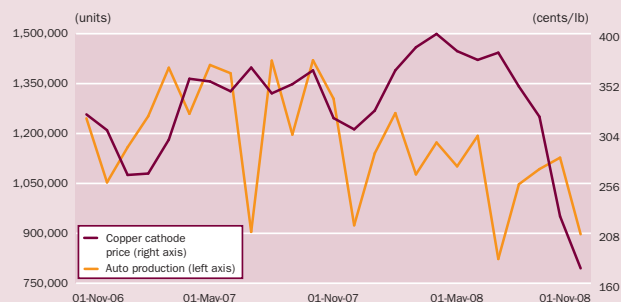
Source: JD Power and Associates and Platts

### Light vehicle output and polypropylene spot price



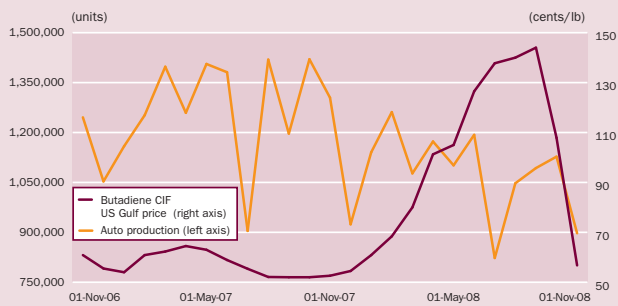
Source: JD Power and Associates and Platts

### Light vehicle production and US copper cathode price



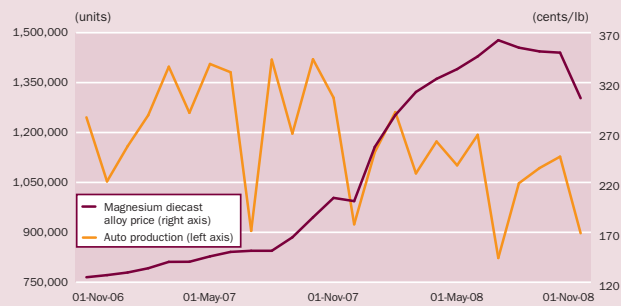
Source: JD Power and Associates and Platts

## Light vehicle production and butadiene price



Source: JD Power and Associates and Platts

## Light vehicle output and US magnesium diecast alloy price



Source: JD Power and Associates and Platts

**GM or Big Three failure would hit thousands of suppliers: EPI**

The bankruptcy of one or more of the US-based automotive manufacturers, and the resulting effects on parts makers, could lead to widespread bankruptcies among thousands of suppliers and cause a ripple effect on automotive transplants and metals companies, according to a briefing paper from the Washington, DC-based Economic Policy Institute.

Between 113,900 and 262,700 jobs in the motor vehicle and parts industries could be lost if either GM collapsed or if all three of the US automakers collapsed, said the EPI paper dated December 3, "When Giants Fall," authored by EPI economist Robert E. Scott.

The paper noted that the Center for Automotive Research "has suggested that the bankruptcy of one or more of the Detroit-based automakers would lead to widespread bankruptcies throughout the thousands of firms that supply parts to domestic and foreign auto producers," warning, "As a result, most or all assembly of cars and light trucks by domestic and foreign automakers in the United States could grind to a halt in relatively short order." Under this even more dire scenario of a shutdown of the entire US light-vehicle industry, up to 412,600 jobs could be lost in the motor vehicles and parts category within a year, the EPI study found, using Bureau of Labor Statistics data.

The study looked at three possible scenarios: the shutdown of GM, the shutdown of the Big Three and the shutdown of the entire automotive chain. The bankruptcy of one or more of the US automakers and a collapse of the domestic auto assembly industry could eliminate up to 3.3 million US jobs within the next year, while the collapse of GM alone would lead to an estimated reduction of 900,000 jobs, the EPI study said. The study looked at the direct effects on those jobs supported in motor vehicle assembly as well as indirect effects including jobs in auto parts, electronics, steel, tires, aluminum, plastics and various manufactured products that are used in vehicle production.

Under the three scenarios, the fabricated-metal products sector could lose 16,700, 38,500 or 60,500 jobs; primary metal could lose 9,300, 21,400 or 33,700 jobs; iron and steel mills/ferroalloy could lose 1,700, 3,900 or 6,100 jobs; mining, 1,000, 2,300 or 3,600; minerals and ores, 800, 1,900 or 2,900; and semiconductor and other electronic components, 3,000, 6,800 or 10,700 jobs.

In addition, the plastics and rubber products industry could lose 6,500, 15,100 or 23,600 jobs under each of the three respective scenarios.

The study's author argued that restructuring the domestic automakers through a normal Chapter 11 bankruptcy or a "pre-packaged" bankruptcy with government support would be likely to end in the failure of one or more auto companies and a liquidation of assets.

The EPI paper noted that the annual rate of light-vehicle sales in the US equated to 10.6 million units in October, a 35% decline from 2007's 16 million. "The collapse in light vehicle sales has hit both import and domestic companies," EPI added, pointing to partial data for November that showed domestic sales down 40% and Asian producers' sales off 35%. GM sales were down 41%, Nissan's even harder hit at 42% down, Ford's sales down 30%, Honda's off 32% and Hyundai's down 40%, EPI pointed out.

Meanwhile, on November 13, 2008, Standard & Poor's Ratings Services placed the ratings on 15 North American auto suppliers on CreditWatch with negative implications as a result of their significant exposure to GM (CCC+/Negative/—), Ford (B-/Watch Neg/—), and Chrysler LLC (CCC+/Negative/—).

Ratings placed on CreditWatch with negative implications included: ArvinMeritor; BorgWarner; Cooper-Standard Automotive; Federal-Mogul; Goodyear Tire & Rubber; Hayes Lemmerz International; Johnson Controls (short-term rating not on CreditWatch); Lear; MetoKote; Shiloh Industries; Stoneridge; Tenneco; and Visteon.

At the same time, S&P also lowered the long-term corporate credit ratings on Dana Holding (to 'B+' from 'BB-') and Magna International Inc. (to 'A' from 'A'). These ratings were among the 15 placed on CreditWatch negative.

Other auto suppliers already on CreditWatch with negative implications, in part because of their exposure to the three automakers, included: American Axle & Manufacturing Holdings, and TRW Automotive.

Standard & Poor's, like Platts and JD Power Associates, is a division of the McGraw-Hill Companies.