

## The Kingsland Report

... Sorting Through the Market Noise to Stay Ahead of the Curve!

*Sunday, July 8, 2007*

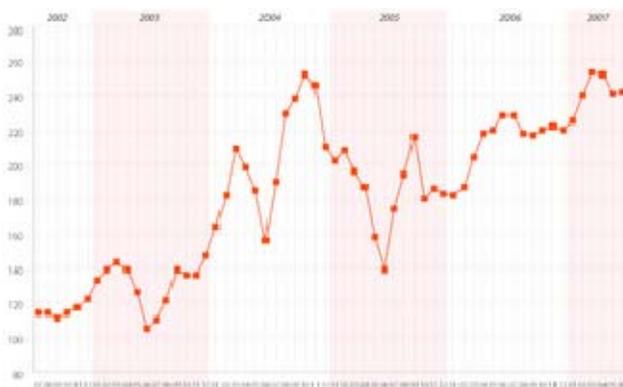
### Nothing Scrapy About Scrap Metal

There are a variety of media reports this weekend exploring the issue of thieves who are absconding with beer kegs and taking them to scrap metal yards where they can receive upwards of \$50 for an empty keg. One report discussed how some manhole covers have even disappeared. Manhole covers fetch around \$20. Thefts of kegs, which go undetected by brewers for up to a year because of complicated distribution infrastructure, are costing the beer industry about \$50 mln a year and in particular hurts the smaller craft beer industry which does more business via keg than an Anheuser Busch (BUD).

Why the thefts? Scrap metal prices have been in a bull market phase with the most popular scrap items being bronze, stainless steel, copper and aluminum. Theft of scrap metal is a problem worldwide.

Reports a newspaper in Canada: "Last December, a two-tonne bronze statue of Ukrainian poet Taras Shevchenko was pulled from its park perch in Oakville, Ont. It's believed to have been shipped to China to be melted down. Only its head was found." Poor guy.

Just Google: 'Scrap Metal Wanted' and you'll find pages of dealers and industrious individuals who want your scrap metal. As the chart below from Eurofer.org indicates, even with a recent decline in prices, demolition scrap prices are not far from recent highs.



While the theft angle is interesting especially when stupid thieves electrocute themselves as they try to filch copper that's connected to say 50,000 volts, the real story here has been one of inflation. While the crooks are having a heyday stealing kegs and spools of copper wiring, the criminal demand for that scrap points to why the price of everything from kumquats to Kaopectate has gone up.

Big Al Greenspan was an avid watcher of scrap metals prices telling an Iron Group (fun bunch) meeting a decade ago, "Every day, I still look for the price of No. 1 heavy melt steel scrap." The rise in scrap metal prices has evolved from being a gauge of U.S. economic health to a key indicator of industrialization activity in developing places like China. The scrap price rally is a stark reminder that prices for finite world resources are being forced higher because the commodities demand monopoly no longer encompasses only the Western Hemisphere and Europe. The developing world has become a consuming force to be reckoned with - causing both faster inflation globally and creating a cottage industry of scrap metal thefts.

I'm going to be keeping a close eye on scrap prices. Steel stocks have recently bounced as a group as well with names like Schnitzer (SCHN- big in scrap) and U.S. Steel (X) and Steel Dynamics (STLD) all climbing out of June holes following Nucor's (NUE) warning.