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Complimentary Report Not Intended for Compensation

- Long-term confidence in a “commodities supercycle” was not evident on Thursday August 16th as silver fell \$1.053 or 9%, gold \$20.60, platinum \$41.50, copper \$0.2445 and LME base metals declines were a little smaller.
- On Friday August 17th the commodity price rebound was less uniform than the 561 point DJIA closing rebound from August 16th intraday lows that left U.S. stock markets down just 1.2% on the week. We attribute time zone differences to part of the nonferrous metals lag since London was closed during much of the 16th and 17th New York afternoon rallies. The London open on Monday August 20th offers hope for a turnaround.
- The stronger U.S. dollar removes a catalyst for higher metals prices, as much to our surprise and disappointment a combined \$0.5 trillion global central bank money infusion and/or bad bank loans created no gold or silver gains.
- We attribute dollar strength to foreign hopes that a U.S. slowdown reduces the U.S. trade imbalance, an expectation of much less future U.S. credit fraud as past excesses become widely public, maybe some overseas purchases of U.S. stocks as their prices fell, higher tax collections cutting the 2007 budget deficit and a standing expectation that Democrats raise taxes and withdraw from Iraq in 2009 to nearly balance the federal budget.
- Certain metals price declines and cost increases suggest that most metals companies will begin posting year-on-year earnings declines soon. Aluminum and nickel sectors appear particularly poised for declines given the degree of the price drops. Rio Tinto’s 7% decline reported earlier this month appears to be a lead indicator.
- Continued growth in China, Russia, the Mideast, EU or other markets could support reasonably decent global growth even with an unexpected U.S. recession. While things may not get this bad, variable production costs give support for aluminum near \$0.90 per pound, copper near \$1.50, nickel near \$7, hot-rolled sheet steel near \$450 per ton, gold near \$500, molybdenum nearer to \$7 and not necessarily any support above \$5 for silver as so many silver mines benefit from good lead, zinc, copper or gold coproduct prices. Aluminum and nickel could be closer to cost-based bottoming zones than the others. We caution that costs often fall more than imagined as currencies shift or operators innovate and factories often stay open way longer than thought.
- Lead prices bucked the trend to rise \$0.03 per pound and steel scrap rose \$1 per tonne this past week.
- Nonferrous inventories behaved well last week considering it is mid-August. Lead, zinc, aluminum and U.S. steel distributor inventories fell, while copper

inventories rose for the fourth straight week in which the total copper commodity exchange inventory rise has been 1,050 per business day and nickel inventories rose for the seventh straight week in which the average rise was about 320 tonnes daily or 1,600 tonnes weekly.

- Wood markets ironically rose again as financial markets convulsed over the housing sector. We characterize wood products as making a gradual rebound after falling from May 2004 until late 2006. Wood markets bottomed before financial markets seemed to have a clue about mortgage crises or the depth of the housing decline. Last week OSB rose \$10 to \$182 per 000 sq ft, plywood rose \$15 to \$385, and the framing lumber composite (such as 2" x 4" studs) rose \$3 to \$293 per 000 board feet.

PHYSICAL MARKETS STRONG OR CALM AS FINANCIAL MARKETS PANIC

Metals or wood markets are supposed to feel relatively lousy in August. The Spring seasonal boom in each sector has passed, and year-end holidays or Winter slowdowns approach. Physical parameters are supposed to deteriorate in the second-half of the year.

We are encouraged that inventories fell last week for lead, zinc, aluminum and steel distributor stocks with increases isolated to copper and nickel. We are encouraged that lead and steel scrap rose slightly. We are encouraged that wood prices inched up during a "housing crisis."

Data from physical markets suggests little or no panic there. In wood markets the real players knew housing was "in the can" after May 2004. Metals markets benefit from good economic conditions outside the U.S., some supply limits and specific markets like nickel, aluminum or other nonferrous metals each have corrected over 20% from highs.

A CRISIS IN VALUATION

We characterize the "panic" in financial markets as a "crisis in valuation" both for nonferrous metals commodity prices and common stocks. The problem is that takeover buyers, commodities markets and equity markets paid price valuations that "normalized" recent record commodity price and earnings levels, ignoring both cyclical, new capacity additions in aluminum or steel or iron ore, any possible resurrection of antitrust law enforcement in "consolidated" industries or pervasive cost increases such as impacted the June quarter earnings of Alcan or Rio Tinto.

We do not think it is "insightful" to characterize August 17th common stock price lows as some sort of generalized epic buying opportunity. Such optimism repeats the fallacies described in the previous paragraph. Only specific expansion, exploration or discovery situations have a clear opportunity to earn more in 2009 than 2007.

Instead, we characterize August 17th as a period of chaos, and a "phase" on the way down in some selected markets. For example, aluminum or certain steel product earnings look like they are headed down. Yes, Alcoa is cheaper at 13x than 20x our \$2.40 per share

2008 earnings estimate, but we would not encourage anyone to seek a home equity loan to buy it. Large structural beam prices at \$825 per ton or \$277 more than hot-rolled sheet adjusted for cheaper scrap inputs for beams appear “extra normal” just as silicon electrical steel prices near \$3,000 up from \$1,000 two years ago, and both could ease if tighter credit markets moderate commercial construction or the completion of the Gulf Coast rebuild eases demand for transformers. Sure Gerdau Ameristeel paid two or three times replacement cost for Chaparral Steel, but the Chaparral transaction may be irrelevant to the two surviving beam producers Nucor and Steel Dynamics unless those supplies quickly find another buyer drinking the same wine as Gerdau Ameristeel. Cyclical companies traded through July 19th near 15 times the fourth straight year of record earnings assuming “record earnings” were “normal.” Evolving commodity price corrections and cost increases suggest negative earnings comparisons for aluminum, nickel, some diversifieds and maybe most companies across the board. Current valuations now 30% or so lower are improved, but we need to determine whether 2008 earnings will be up, unchanged, down 10% or down 30%.

GOLD AND SILVER

Gold fell \$13.60 or 2% to \$656.90 and silver fell \$1.06 or 8% to \$11.77 per oz. They followed the stronger dollar and fellow nonferrous metals prices down.

Precious metals markets ignored the past two weeks roughly \$0.5 trillion liquidity injections into financial markets from the U.S. Fed, EU central bank and Japan’s ministry of finance. They ignored the poor implications to the U.S. dollar from the acknowledgement of widespread fraud and misjudgment concerning mortgages and mortgage-backed-bonds. While we consider the “airing of dirty linen” a positive in the sense it cleanses future transactions, these are not good things. Government bailouts of fraud or poor competence should not encourage confidence in government issued currency or bonds.

ALUMINUM

The LME spot price fell \$0.050 to \$1.105 as combined commodity exchange inventories fell 4,587 tonnes to 1,129,863 tonnes. World smelter output continues to rise near a 10% rate, and the stronger dollar and falling aluminum price could cut global average direct costs towards \$0.75 from \$0.85 per pound.

As little as a 2% slower demand growth rate than output growth rate could cause 0.8-1.0 mmt of inventory to accumulate. Little world output will idle until prices near \$0.90 per pound or lower. A 4% world demand growth trend would represent a “bear scenario” for aluminum prices, for example. The market may be rationally reacting to the possibility of a fourth-quarter inventory buildup at those rates or larger.

The aluminum price has fallen \$0.21 per pound from end of January 2007 highs of \$1.314 while commodity exchange inventories rose about 94,000 tonnes. The change involves “outlook” or market expectations rather than current data.

COPPER HIT HARDER

Inventories rose for the fourth straight week to 229,633 tonnes continuing a rise of just over 5,000 tonnes per week. Prices fell \$0.23 to \$3.16 per pound in broad sympathy to global financial turmoil, normal copper market summer seasonality and the inventory buildup over the past four weeks that may be characterized as similar to the summer doldrums.

NICKEL CONTINUES DECLINE

Nickel inventories on the LME rose 1,500 tonnes to 21,304 while prices fell another \$0.43 to \$11.61 per pound. These trends were similar to the past three months, and there was no evidence of anything “worsening.”

LEAD VERY STRONG

LME lead inventories fell 4,325 tonnes to 28,250 tonnes, another multiyear low. Lead prices bucked the broad global turmoil in world markets to rise \$0.03 to \$1.33 per pound. Strong demand benefits from Chinese uses and auto batteries depleted prematurely by navigation systems, electronics chargers or luxury devices. Doe Run had production outages in Peru and the U.S.

ZINC INVENTORIES DROP WHILE PRICES FADE

Combined LME and Shanghai inventories fell 1,545 tonnes last week to 98,426 tonnes, dropping for the fourth straight week and continuing a multi-year declining trend. No seasonal buildup has occurred.

Zinc spot prices fell \$0.13 or nearly 9% to \$1.38 per pound in broad sympathy to the global credit crunch-related future uncertainties.

STEEL SCRAP FIRM AT \$254.33

Rising world steel output as indicated by a 5.3% July and 7.9% global increase in ytd steel output benefits scrap steel markets, which have been inching up in the past two months counterseasonally. Normally scrap grows more abundant in the warmer summer while steel mills take August holidays or mid-summer maintenances. The drop to a 13.4 million ton level of U.S. distributor steel inventories also suggests some excess supplies accumulated in 2006 are largely worked off.

WOOD MARKETS RISE SLIGHTLY AS HOME BUILDERS, HOME REMODELLERS OR NONRESIDENTIAL USERS KNEW SINCE MAY 2004 ABOUT HOUSING

Wood prices behaved as though portfolio managers, book buyers and a couple large Wall Street underwriters were the only ones who did not know that housing demand is soft.

Wood markets ironically rose again as financial markets convulsed over the housing sector. We characterize wood products as making a gradual rebound after falling from May 2004 until late 2006. Wood markets bottomed before financial markets seemed to have a clue about mortgage crises or the depth of the housing decline. Last week OSB rose \$10 to \$182 per 000 sq ft, plywood rose \$15 to \$385, and the framing lumber composite (such as 2" x 4" studs) rose \$3 to \$293 per 000 board feet.

CHANGE IN THIS RESEARCH OPERATION

This report reflects an research coverage by JTVIR, LLC. In no way shape or form should it be misconstrued as involving PEG, which shut down on June 6, 2007 as noted. Any continuation of that same quarterly or full year earnings estimate for 2007 as JTVIR, LLC should not be construed or mistaken to involve PEG, which shut down on June 6, 2007. Certain data, such as the logic of the earnings model, are similar owing to the same primary author, but this coverage initiation herein involves a different entity and no employment or affiliation with the former Prudential Equity Group, LLC.

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"John Tumazos Very Independent Research, LLC" (JTVIR) is a Delaware Corporation with pending registration as an investment advisor in the state of New Jersey owing to our place of business in New Jersey.

JTVIR is not a broker-dealer, and conducts no trades. Its primary business is to provide "unbundled" metals and paper industry securities and market research to institutions or corporations in a zero commission, electronic execution, electronic dissemination, unbundled format for a specified annual fee structure.

Our investment rating system for securities recommendations is Overweight, Neutral Weight or Underweight. Overweight or Underweight recommendations are estimated to vary from the relative performance of the S&P 500 by more than 10% annually, and the intended time horizon is up to 24 months. Our securities research is intended for institutional investors that might buy up to 10% of a given company, and as such focuses more towards longer-term dynamics impacting the net present value of future cash flows rather than "day trading" sorts of near-term issues.

Neither JTVIR, its members or its employees own or have a financial interest in any securities discussed in this report. Our policy is full disclosure.

Our policy permits personal trading in the metals or paper industries, though no positions were taken in companies within regular research coverage after July 2001 after joining Prudential Financial and until after one month of completed New Jersey registration of JTVIR. Our policy is that any personal trading must be consistent with our recommendation, made two business days or more AFTER a recommendation or change in recommendation and held for a minimum of 30 days or one month. We believe it is virtuous for a securities analyst to “put his or her money where his mouth is” to invest consistent with the recommendation to clients after such recommendation has been made, and we disagree with some restrictions made upon broker-dealer employees after 2000 era scandals.

Our policy permits up to three directorships and up to five consulting projects, advisory assignments or financial advice to corporations that might supplement, backcheck or substitute for certain services of a large investment banking firm. For example, we would accept an engagement to evaluate investment banking advice on behalf of a manufacturing company concerned whether advice is sincere or intended to maximize fees. Currently no such relationships exist.

Our policy is full disclosure of any advisory relationship or conflict going back three years. None currently exist.

Numerous prior investment banking relationships existed prior to three years history to the pre-1997 time frame under the employment of Donaldson, Lufkin and Jenrette or Oppenheimer & Co., Inc. Some of these we can recollect included 14 different gold mine valuations or sales for Barrick Gold, LAC Minerals (later acquired by Barrick), Addington Resources (gold assets in Montana acquired by Canyon Resources), Westworld Industries (Bolivian assets acquired by Battle Mountain Gold later acquired by Newmont Mining), Coeur d’Alene Mines, Crown Resources (acquired by Kinross Gold), Freeport-McMoRan Gold (acquired by Minorco later AngloGold later Queenstake Resources), FMC Gold (later renamed Meridian Gold) and others. Sole managed initial public offerings included Reliance Steel & Aluminum and Huntco. Lead-managed initial public offerings included American Steel & Wire (later acquired by Birmingham Steel) and lead-managed underwritings included Quanex. Co-managed underwritings included the IPO of Century Aluminum and offerings for AK Steel, Kaiser Aluminum, Agnico-Eagle Mines, Cameco and others. Asset sales or purchase advisories, fairness opinion or trusteeships were done for Thyphn Steel (sold to Ryerson Tull), Cyclops Corp. (sold to Armco later sold to AK Steel), Allegheny Corp., Bethlehem Steel, the U.S. Dept. of Justice pursuant to the June 1984 merger of LTV and Republic Steel to sell the Gadsden, AL integrated flat-rolled mill, Cobre Copper, and others. Typically more than five investment banking assignments were evaluated, partly executed or “due diligenced” for any completed transaction. Some examples we can recall for which a prospectus was either drafted or partly drafted indicating much work included stock underwritings not completed for Wheeling-Pittsburgh Steel, Steel Dynamics, Atlas Corp., Webco, Sharon Steel, IPSCO, Co-Steel Inc., and others.

ANALYST UNIVERSE COVERAGE:

John C. Tumazos, CFA: Rio Tinto, Louisiana-Pacific, Nucor Corp., Newmont Mining, U.S. Steel, International Paper, BHP Billiton, MeadWestvaco Corp., Antofagasta PLC, Allegheny Technologies, Alcoa Inc., Inco Limited, Bowater, Inc., Temple-Inland, Barrick Gold, Abitibi-Consolidated, Weyerhaeuser Co., Alcan Inc., Smurfit-Stone Container, Plum Creek Timber, Worthington Industries, Goldcorp Inc., AngloGold Ashanti, Freeport McMoRan Copper & Gold, Novelis Inc., FNX Mining.

Dynatec is a company not continued in the research coverage of JTVIR, LLC that was previously included in the prior June 6, 2007 Prudential Equities Group universe owing to a pending takeover by Sherritt International.

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There is no intention to “balance” the number of Overweight or Underweight ratings, as instances of broad over- or under-performance among basic industrials may occur. JTVIR makes each investment judgment in a “bottoms up” manner based on the assets of each individual company.

Price Target – Methods/Risks

The methods used to determine the price target generally are based on future earning estimates, product performance expectations, cash flow methodology, historical and/or relative valuation multiples. The risks associated with achieving the price target generally include customer spending, industry competition and overall market conditions.

Additional risk factors as they pertain to the analyst's specific investment thesis can be found within the report.

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