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Complimentary Report Not Intended for Compensation

SPOT PRICE ACTION MAKES US THINK OF 1987; MANY END MARKETS VERY STRONG AND WILL BENEFIT FROM \$0.5 TRILLION STIMULUS

* As summer draws to a close it appears that metals or wood markets have been robust. A true downturn occurred in nickel, but none of the other metals behaved badly for a summer period. Aluminum inventories were steady, copper inventories rose slightly and lead, zinc and steel inventories fell. Molybdenum, chrome and other ferroalloys were quite strong.

* Financial markets remind us of 1987 in the sense that the post-July 19th stock market or metals price declines involved a “crisis in valuation,” not current fundamentals. In the first nine months of 1987 stock prices rose to records and high P/E levels while the world economy had a “super-boom” after oil prices fell from \$30 to \$10 per barrel in the prior year and world markets rebounded after the 1982-86 slow period.

* In 1987 thirty year bond yields rose from 5% to 7% over the course of the first nine months in a natural reaction to a “too strong” growth period. In 2007 interest rates fell a bit in the U.S., and rose minimally in Europe, Japan or China. The August 2007 injection of \$0.5 trillion in liquidity to remedy fraudulent loan documentation, bad collateral and a credit crunch would appear to be hugely stimulative. The subpar first-quarter 2007 U.S. GDP report of 0.6% real growth reflected inventory destocking, which steel or containerboard data corroborate, and a restocking phase is plausible moving ahead.

* We can only conclude that the evolving climate should improve markedly for precious metals owing to the debasement of the banking system or currency.

* Broadly speaking, we hesitate to be so broadly bullish concerning base metals, which should be evaluated on a case-by-case basis. Global capacity growth or output growth ranges from 3% to 9% by metal, and it is possible that aluminum, steel or iron ore grow output by 6%-9% or a bit faster than demand. Chinese construction after the

Olympic preparations conclude, Chinese export factory construction, the U.S. consumer or U.S. nonresidential construction sector loom as question marks.

* Lead prices rose \$0.17 per pound to \$1.501 last week or 13%, once again leading the pack. My nineteen year old son refused to return his spent battery for a \$12 fee as the booming lead price convinced him to hoard the spent battery and hold out for more.

* The other metals prices rose, but only copper or nickel came close to recovering recent losses. Copper rose \$0.21 to \$3.37 to recover all but \$0.02 of the prior week setback. Nickel rose \$0.81 to \$12.42 per pound, but aluminum, zinc, gold and silver rose just 2%-3% each and steel scrap was steady.

STEEL INDUSTRY - - A CHUCKLE AS THREE RUSSIAN FIRMS AND U.S. STEEL REPORTEDLY LOOK AT STELCO

Reportedly Severstal, MMK Magnitogorsk and the Ukrainian firm Metinvest that owns Azovstal have conducted due diligence and are potential bidders for Canada's Stelco along with U.S. Steel.

Canada's Dofasco, a nonunion firm with a unique culture, has been the most successful Canadian steelmaker now owned by Mittal Steel. Stelco, which has reorganized, had a relatively militant steelworkers union local. Roughly 25 years ago the leaders of the Stelco union local were natives of the U.K. that had worked as "scarfers" in U.K. steel mills, embraced socialism and immigrated to parts of the British commonwealth entering a labor union perhaps as a springboard to a political future.

It is most ironic that three very capitalist firms from the former Soviet Union now lead a pursuit of a North American steel producer with a former socialist labor culture. Change is constant, and ironies abound.

ALUMINUM - - INTERNATIONAL ALUMINUM INSTITUTE SEMIANNUAL CAPACITY SURVEY

The IAI predicted capacity at the end of 2007, 2008 and 2009 at 26.35 mmt, 27.235 mmt and 27.921 mmt versus estimates six months earlier at 26.9, 27.7 and 28.045 mmt, respectively. The IAI update communicated "delays" of 0.6, 0.5 and 0.1 mmt, respectively, for each year. It estimated June 2010 at 28.464 mmt, which does not give effect to prompt construction of two projects in Saudi Arabia, Dubal in Dubai, Qatar or Abu Dhabi or 4.6 mmt in up to two phases each.

The IAI July world output data was as expected at 3.176 mmt.

The world producer inventory including commodities exchange stocks at the end of June was 3.9 mmt, or about 0.1 mmt less than expected. The producer inventory of just 2.799 mmt was the lowest ever recorded since recordkeeping began in 1973. Commodity exchange inventories at 1.105 mmt at the end of June or 1.13 mmt this past weekend are

about the same high levels as recently seen. The decline in inventory and continued strong Chinese output suggests a 9.7% up from previously estimated 9.4% demand growth rate globally.

Aluminum prices rebounded \$0.03 per pound to \$1.13 in sympathy to the broad rally in stock markets and commodities worldwide. The commodity exchange inventory rise of 986 tonnes was immaterial.

We cut our third-quarter LME ingot estimate to \$1.16 from \$1.21, the fourth-quarter to \$1.15 from \$1.20 and the full year 2007 to \$1.15 from \$1.20 to reflect lower market expectations, even though demand growth appears 0.3% more than we estimated previously. We remain at \$1.12 for 2008.

COPPER – WORLD BUREAU OF METALS STATISTICS REPORTS ACCELERATION OF DEMAND GROWTH TO 4.8%

Last week's \$0.21 per pound rise to \$3.37 copper prices reflected the broad rally in world equity and commodity markets following emergency liquidity injections. Inventories on exchanges fell 12,168 tonnes, to which we assign little significance, although it negated most of the prior month's accumulation. LME stocks rose 4,890 tonnes, Comex fell 539 short tonnes and Shanghai stocks fell very sharply to cause the total to fall so much. Shanghai fluctuations result from combinations of market conditions and government releases from the strategic stockpile, and we are reluctant to draw too much from that.

We are much more encouraged that WBMS reported consumption grew about 121,900 tonnes more than refined output and 73,800 tonnes more than mine output in the first-half. This reflects a reasonable seasonal strength in the first-half with demand about 1.5% more than refined output or 0.8% more than mine output, and leaves room for a minor supply buildup in the second-half. We estimate mine outages were in the 125,000-150,000 tonne vicinity in the first-half.

Last week the WBMS published encouraging global copper demand data to June. It reports a 417,900 tonne global demand gain with a 685,400 tonne Chinese gain representing 40.3% Chinese growth and a 267,500 tonne decline for the rest of the world.

The U.S. fell 135,000 tonnes or 11.7%, Canada 45,000 tonnes, Chile 5,100 tonnes, the rest of Latin America 3,500 tonnes, Europe fell 33,000 tonnes, and Asia excluding China fell 57,600 tonnes. Within Europe demand appeared to move from west to east. Bulgaria gained 18,100, Poland 33,500, Germany 16,300 and Romania 11,400 tonnes while France lost 41,100, the UK 64,000 and Italy 26,000 tonnes. Within Asia India grew 11,100 tonnes while Iran lost 12,900 tonnes, Japan lost 16,900, South Korea lost 11,900, Thailand lost 35,000 and Turkey lost 14,600 tonnes.

In general, demand migrates from western to eastern Europe, to China from the rest of Asia and to China from the Americas, Europe or rest of the world. Demand grew 5,500 tonnes in Africa and 6,500 tonnes in Oceania.

World mine output rose 4.7% or 344,100 tonnes in the first-half driven by a 122,500 tonne gain in Chile, 125,800 tonne gain in Indonesia, 30,900 tonne gain in China, 33,900 gain in Brazil, 54,700 tonne gain in Mexico where strike activity was more last year and 43,900 tonnes in Peru.

Collectively, the other major mine producing regions of the world declined about 65,000 tonnes in the first-half. Some of the bigger declines were 17,300 tonnes for Ok Tedi in Papua New Guinea, 12,400 for the U.S. mostly due to Rio Tinto's Utah ore grades, 16,500 tonnes for lower grades at Bajo de la Alumbrera in Argentina and 12,900 tonnes from Russia.

Reported refined output for the first-half grew 296,000 tonnes, or 47,900 tonnes less than mine output. This is a much smaller gap than the WBMS reported earlier in the year, and probably reflects some combination of concentrate inventories rebuilt from super distressed lows last year, perhaps a dropoff in scrap collections (better security to discourage theft perhaps) or a minor statistical error. Heap leach output was a gain or 75,800 tonnes, which implies that conventional mines grew 220,200 tonnes if scrap were unchanged.

STEEL – REPORTED SCRAP STEADY, AND U.S. INVENTORY AND SLOWER CHINESE OUTPUT BODE BETTER

We are very encouraged on a short-term basis that U.S. distributor inventories fell to 13.4 million tons, which erases 3.4 of the 3.9 million ton 2006 inventory build. Any import supply cut or domestic output failure, such as a furnace blowing up or raw materials glitch or transport failure, could trigger some panic rebuilds. The broader question involves the housing decline and credit crunch's impacts on nonresidential construction or capital goods.

We are very encouraged that Chinese output growth appears to be slowing. We do not know exactly why, which matters. Chinese output might be slowing because of "industry consolidation" consistent with government rhetoric, but we are not aware of any industry slowing down in China when the government suggests it. A second theory might be a government desire to clean up the air in advance of the August 2008 Olympics. A third theory might involve the completion of Olympic infrastructure or the fourth the construction of too many export-oriented factories already with increasing bad news emanating from U.S. markets.

In the past the Chinese would have exported excess output. Output cuts without export growth suggests some "constraint" evolving internally, such as pollution.

We could be too optimistic in our interpretation of data. Chinese output per day fell in July to 1.3323 mmt per day from a record 1.3833 in June, or to 41.3 from 41.5 mmt with one more day in July than June. The past three month gain in Chinese output was near 14% on one year ago, and world output growth decelerated to 5.3% in July and 7.9% for

the first seven months. It appears that full year 2007 Chinese output growth may slow towards 12%-15% and world output growth will slow towards 6%-7% full year gains.

It is possible that Chinese output grows under 5% or even falls in 2008 either due to market forces, completion of Olympic preparations or pollution control sensitivities in advance of Olympics.

NICKEL INVENTORY INCREASE COULD HAVE SLOWED

LME nickel inventories rose just 822 tonnes to 21,126, which was the smallest rise in the eight weeks of the current quarter. There were individual days this past week in which inventories actually fell. It appears that the three month bloodbath since nickel prices peaked in mid-May almost at \$25 per pound could be over.

We consider the \$0.81 per pound rebound to \$12.42 per pound as a broad-based reaction to the rebound in world equity markets and other metals.

Our optimism concerning nickel prices after Labor Day stems from the probable inventory drawdowns made by distributors and some end users over the past few months. Many refused to hold inventory as prices rose from \$20 almost to \$25, and bought even less once the \$13 decline took hold expecting ever lower monthly surcharges.

This massive incentive to delay purchases wanes as prices fall. At \$11 per pound, for example, a manufacturer or distributor may consider the maximum remaining downside in relation to "producer costs" to be \$4 or \$5, which ignores the highest cost 5%-10% of the supply function attributed to nickel pig iron producers. The majority of the benefit from conservatism has passed, and manufacturers probably will begin restocking soon.

LEAD PRICES NOT FAR FROM ANOTHER RECORD

Lead prices closing at \$1.501 per pound were very near to the \$1.58 per pound closing price on morning of July 20th (Eastern Standard Time) just as stock markets peaked on July 19th. Another record could be established.

The 2,225 tonne LME inventory drop to 26,025 tonnes leaves just enough for 12 more weeks of declines at this rate. The eight week cumulative decline of 19,050 implies a 2,000 tonne-plus weekly decline, but this could be exaggerated via multiple supply outages. Lead inventories rose a few tonnes in the 2007 first half.

ZINC PRICE RISES AND INVENTORY FELL

Zinc prices rose \$0.05 last week to \$1.43 as inventories fell 2,363 tonnes to 96,063 tonnes. Zinc appears firmer than nickel, aluminum or copper this past summer in terms of steadily declining inventories. The zinc price is very poor in terms of its failure to match the \$2.10

GOLD AND SILVER

We are disappointed that gold rose just \$11.10 to \$668 and silver just \$0.16 to \$11.93 per oz last week. The rebounds were not big in relation to the prior selloffs, and basically ignored the large \$0.5 trillion liquidity injection from the U.S., EU and Japanese central banks. Precious metals shares have more broadly outperformed equity markets, however, suggesting that equity investors are buying gold or silver shares.

Maybe commodities accounts faced with margin liquidation in mortgage bonds, common stocks, nickel, aluminum or other base metals sold some precious metals contracts.

WOOD PRICE CHANGES SMALL BUT MOSTLY A BIT DOWN LAST WEEK

For the week ended August 25th Random Lengths reported OSB up \$3 to \$185 per 000 sq ft, plywood down \$1 to \$384, and the framing lumber composite down \$3 to \$290. It is entering the heart of the seasonally slowest period normally bottoming between Halloween and Christmas, but had been inching up from late-2006 lows. Wood markets reflected home mortgage market woes about three years sooner than Wall Street, bondholders or rating agencies, and wood markets appear oblivious to the past 60 days' financial news.

Lumber orders fell 1% to 295 mm board feet, shipments rose 1% to 300 mm board feet, backlog fell 1% to 456 mm bf and inventory rose 1% to 1,258 mm bf. Lumber consumption fell 17% in the first-half of 2007, which is much more severe than housing alone could explain since new housing is only about 40% of wood use with remodeling at 40% and nonresidential near 20%. Nonresidential markets are believed to have grown and wood retook about 10% of the market from steel studs, and Worthington Industries' warning that its steel framing unit remained in the red in its August quarter reinforces that upward momentum of wood inroads against steel studs. We can only conclude that home remodeling has fallen 15%-25% as well.

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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 Thymin 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.

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