

Is Iron Ore the next Copper?

Discussing the iron ore market, indices and derivatives

Webinar - 10:00EST; 1st December, 2010

Guest Speaker: Joseph J. Innace, Platts - Chief Editor, Steel Markets Daily

Host: Paul Shellman

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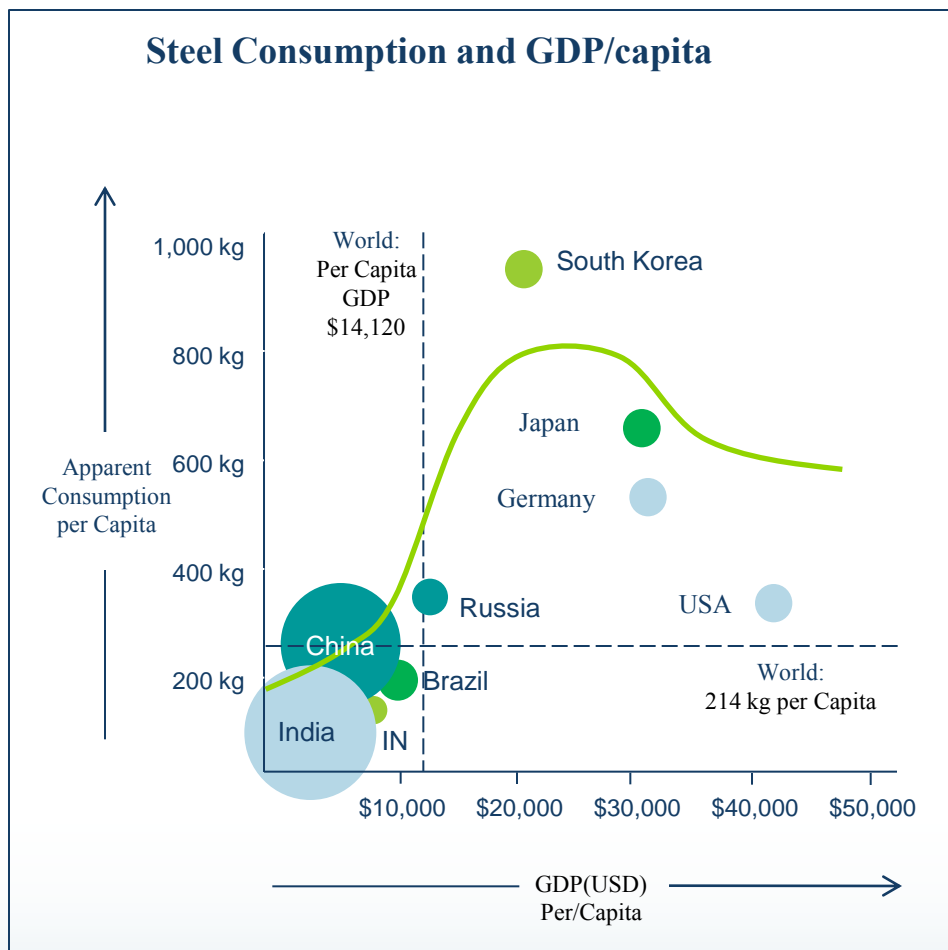
All matters pertaining to rules and specifications herein are made subject to and are superseded by official CME, CBOT, NYMEX and CME Group rules. Current rules should be consulted in all cases concerning contract specifications.

Today's Agenda

- **What's driving the iron ore market? Emerging market economies and their impact on industrial materials**
- **Update on the iron ore prices, and other steel/metallurgical coal pricing**
- **Spot market price assessments, Platts indices**
- **Managing price risk; CME contract review**
- **Q&A, summary and follow up information**

What's Driving Industrial Raw Material Prices

It's all about growth of emerging markets



Source: World Steel Association, Hatch Consulting

- BRIC economies are the demand driver for industrial raw materials.
- Urbanization is the major theme here.
- Steel consumption is closely aligned with a country's rate of fixed asset investment.
- Ferrous metals represent the second largest commodity market by dollar value after oil.
- China is net short many of key ingredients used in steel making - coking coal, metallics, ferro alloys and energy.
- China has contributed to nearly all (95%) of the global growth in steel consumption over past 3 decades.

Market Dichotomy – Economies Operating at Variable Speeds

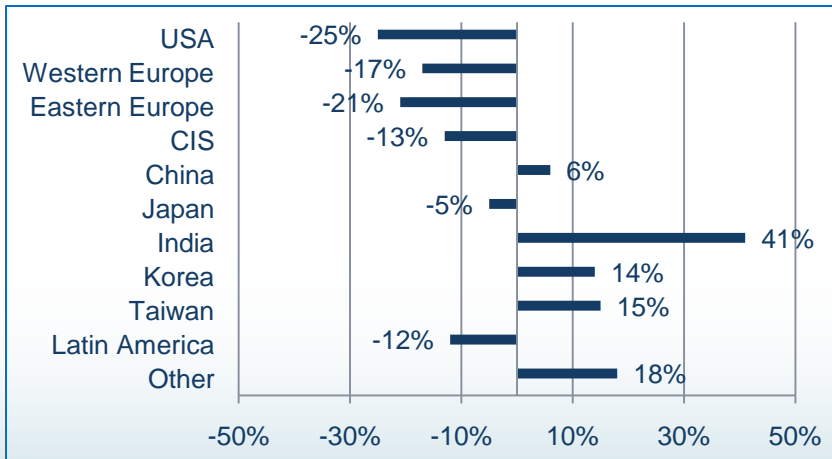
China fighting inflation, while U.S. battles deflation

U.S. and China M1 Growth



Source: Deutsche Bank

% Change in Monthly Steel Output (Oct '10 vs June '08)



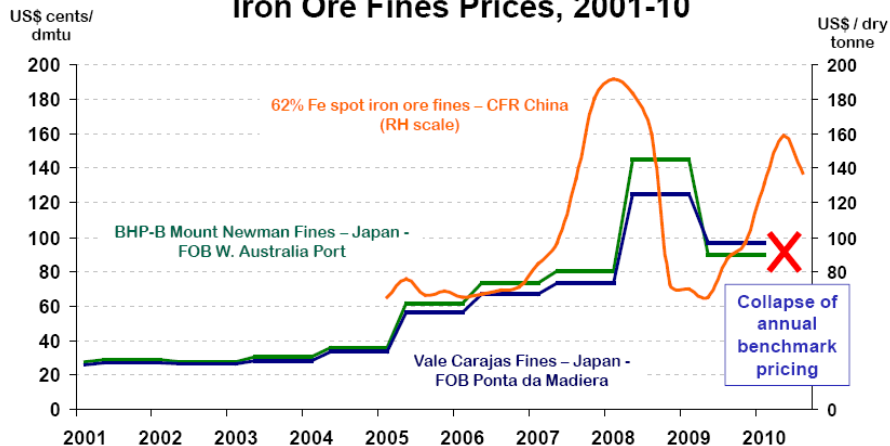
Source: Worldsteel.org

- Leading engines of global growth running at different speeds.
 - China reports 4.4% rate of inflation in October,
 - USA continues to promote expansionary policies (QE2).
- Monetary policy playing a key role to commodity pricing.
- Steel production back to 2008 peak levels – but not at equal levels across all regions.
- NAFTA and EU27 continue to loss ground to emerging markets (production as % of global totals).
 - EU at 12%
 - U.S. at 8%
 - China at 45%
- Tug of war contributes greatly to underlying price volatility.

Iron Ore Pricing Status

Pricing terms for iron ore has ramifications throughout the entire steel industry

Iron Ore Fines Prices, 2001-10



Source: Vale, BHP, SBB,

Iron Ore Spot Sales as % of Total Seaborne Volume

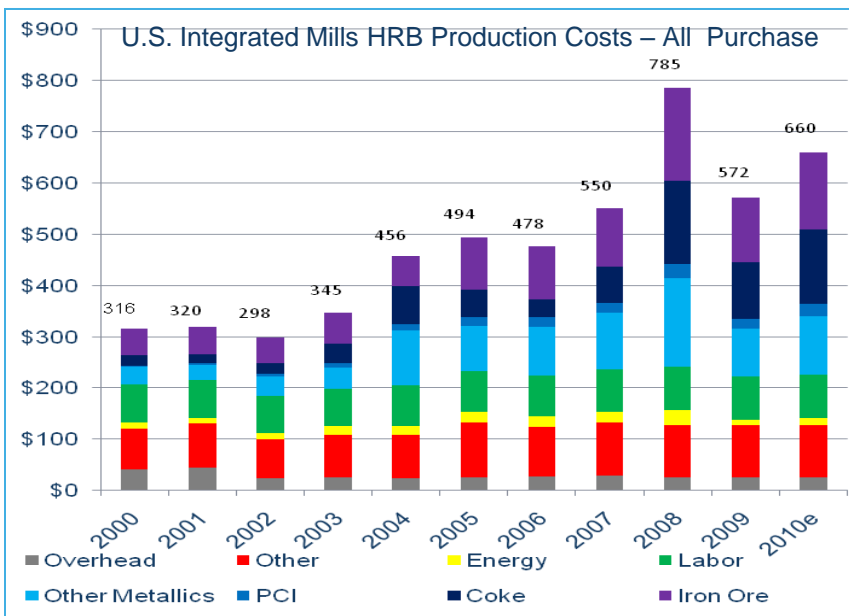


Source: Vale estimates

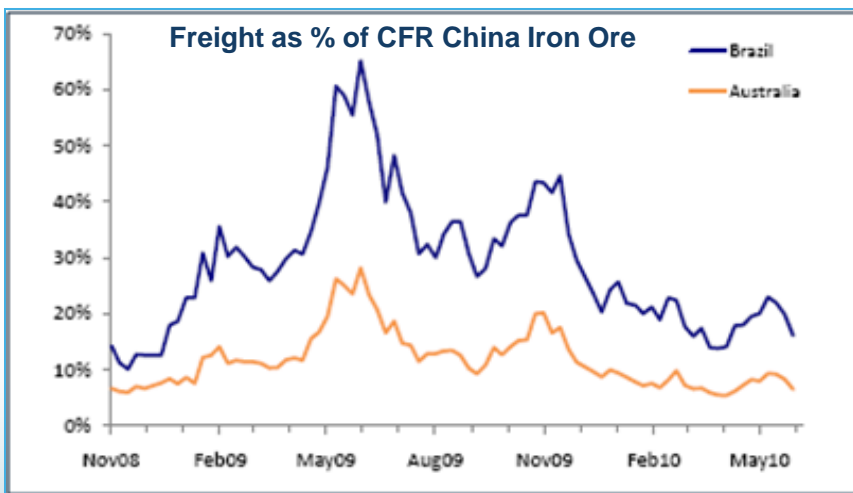
- Breakdown of “the benchmark pricing system” started in 2008 during volatile periods.
- Migration to “market clearing prices” removes annual fixed price contracts and introduces short term price volatility.
- A complete shift to spot pricing requires greater transparency and independent price discovery.
- While shorter term pricing “may currently” favor raw material producers, it does not solve problem of “stabilizing long term prices”, for either party.
- Major miners and mills are advocating using contracts based on a trailing quarterly pricing formula using an average of daily prices.

Steel Prices are not only Contingent on Iron Ore

Dependency on basket of raw materials, seaborne freight and logistics



Source: Applied Value



Source: SSY, Bloomberg, Deutsche Bank

- Iron ore, coking coal, metalics, ferro alloys and energy, contribute to the raw material basket that is used for integrated steel production.
- Steelmaking has a more complex cost structure then that of base metals or energy markets.
- Logistics – especially transport remain critical component to bulk commodity pricing.
- What's the relationship between freight rates and bulk commodity prices?
 - Shipping cost can be proxy for world trade activity
 - Freight rates are impacted by the supply of vessels, and or the demand for cargoes.

Route	Spot (Nov'10)
Brazil – China (\$/Wmt)	\$27.45
W. Aus – China (\$/Wmt)	\$10.96
East India – China (\$/Wmt)	\$16.9

Removal of Annual Benchmarks Creates Pricing Gap

Managing exposure to volatile prices is a core industry objective

- Annual benchmarks for steel making raw materials now being replaced with shorter term pricing contracts.
- Spot pricing removes structural stability previously provided with longer term fixed price contracts.
- Spot benchmarks are conducive for the creation of derivative instruments.
- Derivative markets offer a more flexible and robust system to manage price volatility than what was previously available.

The New Normal for Steel Making Raw Materials

Supply worries in short term, demand worries in the long term



platts



Is Iron Ore the Next Copper?

December 1, 2010

Joe Innace

Chief editor, *Steel Markets Daily*

CME Group webinar

The size of the iron ore spot market

The typical size of a spot market is about 5 - 10% of the global delivery of that commodity.

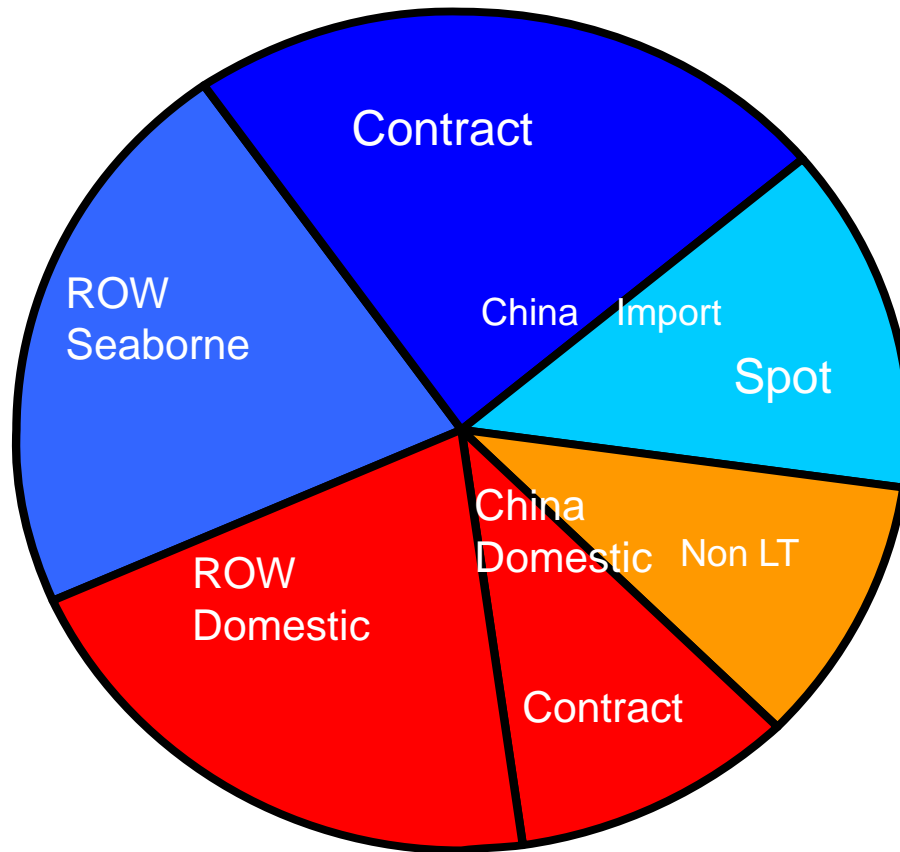
Delivery of **all** iron ore annually is around 1.7 billion tons globally.

1.0 billion is seaborne, of which, around 625 mil mt is imported into China.
Non contract (LT) material is estimated to be around 225 mmt.

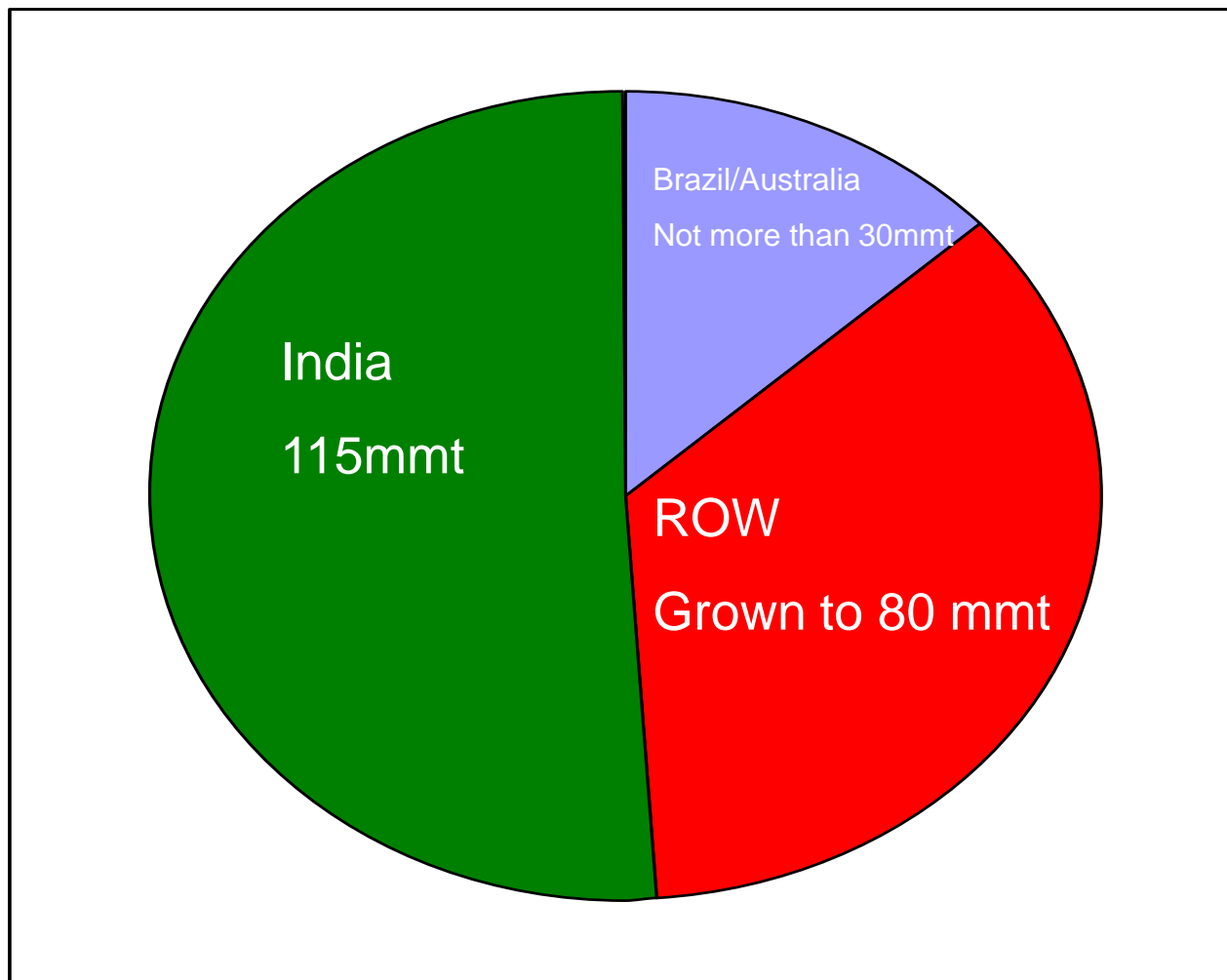
Domestic iron ore production in China is around 350 mil mt with possible half sold outside of LT contracts. This market does not export.

Meaning a freely traded and accessible spot market of around **13%** of the total.

Iron ore market around 1.7 billion metric tons

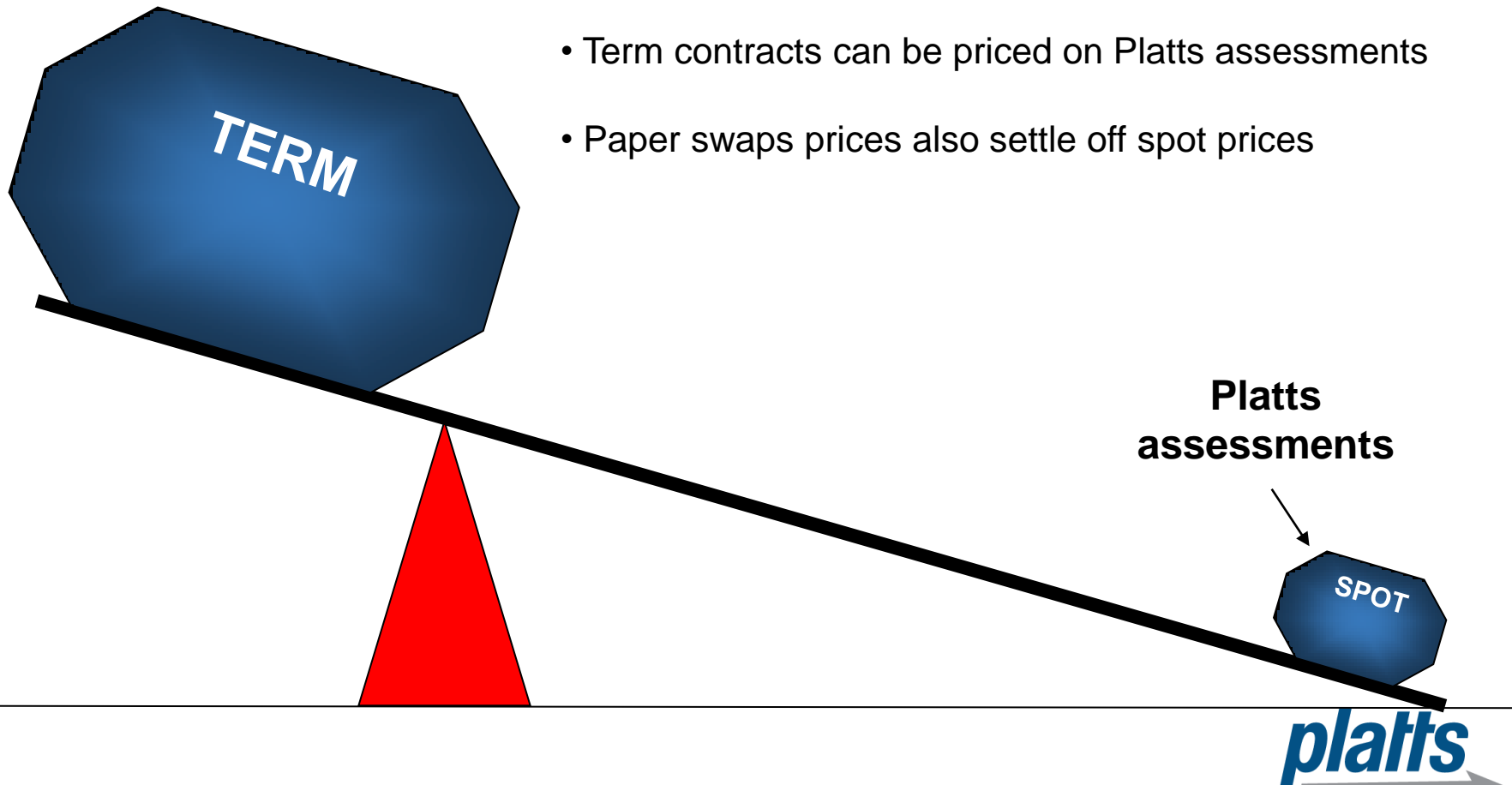


The seaborne spot market could be around 225 million metric tons, 2010 estimate

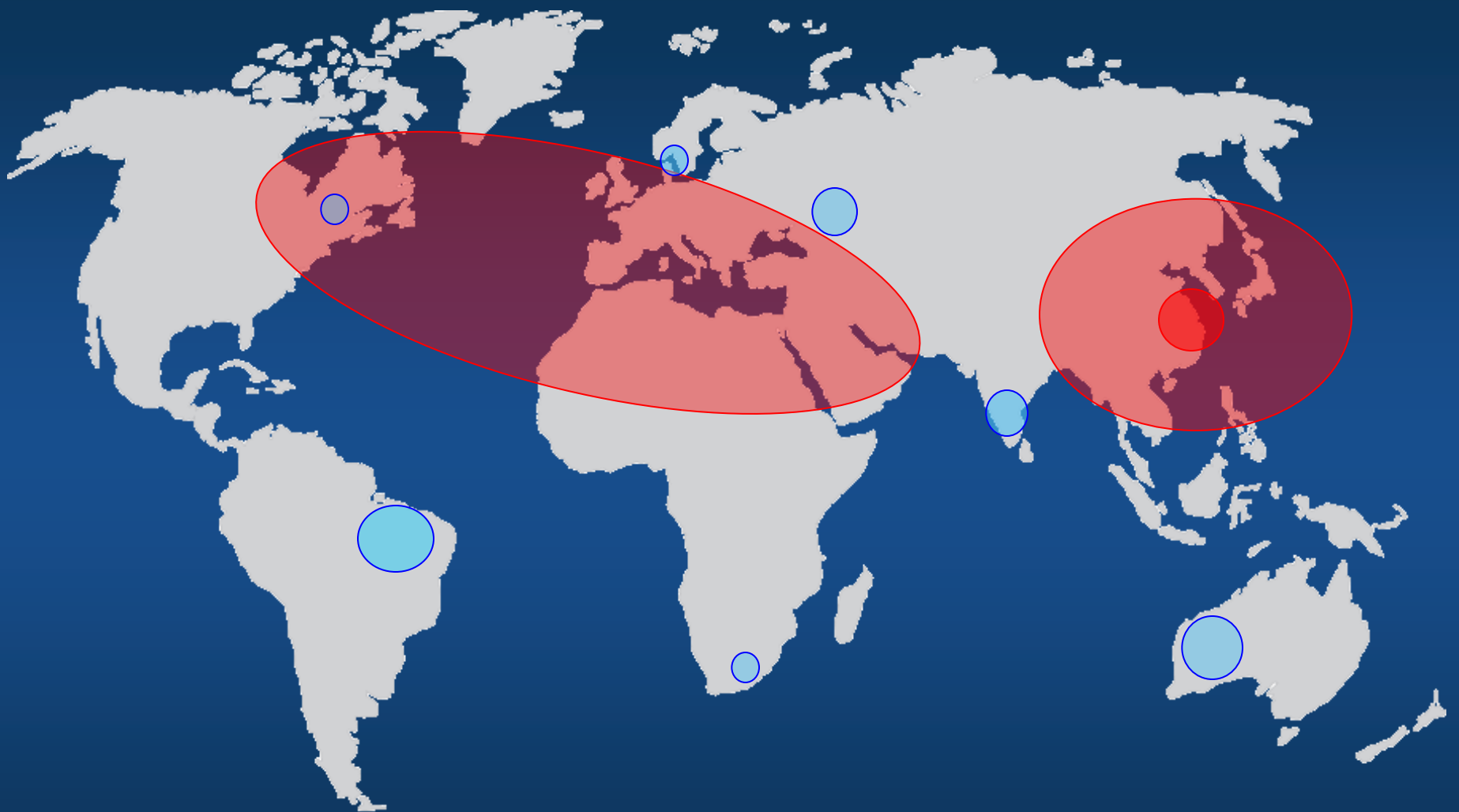


Platts focus is the spot market

- Spot prices are established at the margin
- Term contracts can be priced on Platts assessments
- Paper swaps prices also settle off spot prices



IODEX 62% CFR China is now a global benchmark



Data is market tested

We designed the IODEX iron ore assessments to perform one function, that is to reflect the daily transaction or clearing price of a specification of iron ore fines, in the seaborne spot market into China.

One of the key elements to achieve that function is peer review. This requires information to be tested in the marketplace by consumers, producers, traders or anyone that focuses on markets.

'Heard in the market' alerts go out during the day

Platts on the Net - Powered by RealTick - Energy-NYM-Globex1024 - [Platts Fixed Page News]

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700--Heard in the markets 46: Al, 99.7% P1020--LME cash + 6.5 cents/lb, MW, quote
21SepSep/1158 am EDT/1558 GMT
--Washington 1558 GMT: Al, 99.7% P1020--US remelter was quoted
at 6.5 cents/lb plus LME cash, delivered Midwest; no buying
--Washington 1558 GMT: Al, 99.7% P1020--US trader selling small
tonnages at 6.5 cents/lb plus LME cash, delivered Midwest
--Washington 1555 GMT: Al, A380 secondary alloy--US diecaster
hearing \$1.02-1.03/lb, delivered Midwest
--Singapore 1101 GMT: Iron ore -- 63.5/63%-Fe Indian fines
Mumbai-based mining source says unable to find buyer for the
past two weeks, 45,000mt.
--Singapore 1058 GMT: iron ore -- 61/60%-Fe Indian fines
Beijing-based trader says received offer at \$135/dmt CFR North
China, without specifying volume and delivery period
--Singapore 1011 GMT: iron ore -- 63%-Fe Australian fines miner
says sold Tues at \$145.10/dmt CFR Qingdao at least 45,000 mt
loading Sep 25-Oct 4, Al 2.2%, Si 4.3%, P 0.08%, S, 0.02%,
moisture 6.4%
--Singapore 1011 GMT: iron ore -- 61.2%-Fe Australian fines
miner says sold Tues at \$141.20/dmt CFR Qingdao at least 45,000
mt loading Sep 25-Oct 4, Al 2.2%, Si 3.5%, P 0.07%, S, 0.02%,
moisture 8.2%
--Singapore 0934 GMT: coking coal -- Chine coke 12.5% ash
offered \$430-450/mt FOB, Tianjin trader said. 10-30mm at \$430
FOB, 30-90mm at \$450 FOB
--Singapore 0930 GMT: coking coal -- China coke offered to India
\$450/mt CFR Mumbai, India mill said
--Singapore 0919 GMT: FeSi, 75% Si/Chinese--Chinese
Shaanxi-based trader heard domestic offers around Yuan 8,000/
ex-plant.
--Singapore 0917 GMT: Mg, ingot/Chinese--Chinese Shaanxi-based
trader heard offers around Yuan 18,000/mt ex-plant.
--Platts Metals Alert--
[0700] [MI] [DLS]

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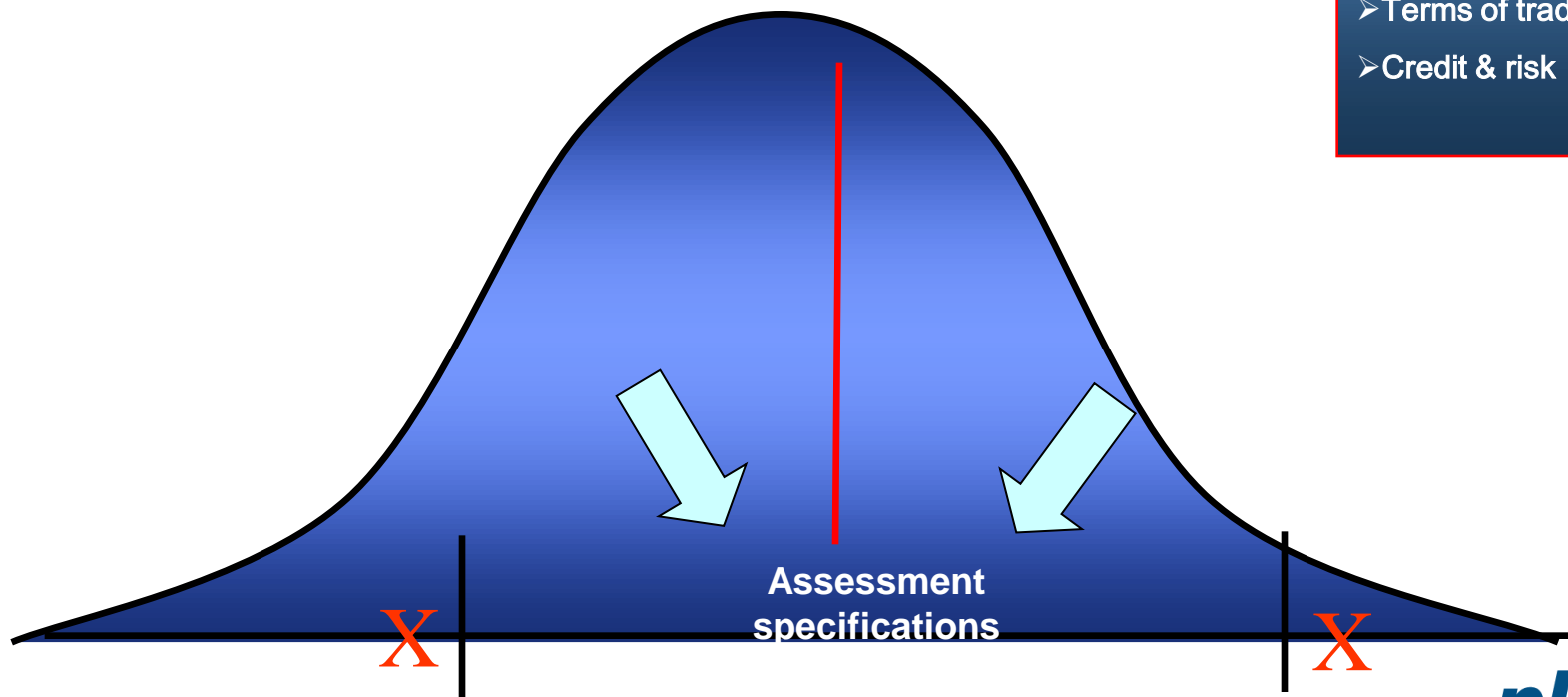
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Benchmarking is about defining consistent standards

Normalization: the art and science of converting all the dimensions of each unique transactions to a common standard, for price comparison.

- Time of trade
- Delivery timing
- Quality
- Volume
- Location
- Terms of trade
- Credit & risk



Platts analysis of Q1 2011 contract prices, Vale

Estimated Vale iron ore product prices for Q1 2011

Platts IODEX average Sep-Nov: \$149.177/dmt CFR North China

Platts 1%-Fe differential (60-63.5%-Fe) Sep-Nov: \$5.710/dmt

Product	Fe Content (%)	Moisture (%)	CFR Price \$/dry mt	Change (%) from Q4	FOB Price \$/dry mt
Sinter Feed Carajas (SFCJ)	66%	8.50%	172.02	7	149.07
Standard Sinter Feed Tubarao (SSFT)	65	6.5	166.31	7	143.85
Sinter Feed Extra Tubarao (SFXT)	65.4	7.5	168.59	7	145.89
Sinter Feed High Silica Tubarao (SFHT)	60	5	137.76	10	115.65
Sinter Feed Ore Tubarao (SFOT)	63.5	7	157.74	8	135.16
Standard Sinter Feed Guaiba (SSFG)	65	7.5	166.31	7	143.60
Sinter Feed Ore Guaiba (SFOG)	63.5	8	157.74	8	134.92
Sinter Feed High Silica Tubarao (SFHG)	60	7	137.76	10	115.18
Pellet Feed Carajas (PFCJ)	65.3	12.5	168.02	7	144.02
Pellet Feed Iron Tubarao (PFIT)	67.8	8	182.30	6	159.47
Pellet Feed Fines Tubarao (PFFT)	66.5	8	174.87	7	152.05
Pellet Feed Guaiba (PFFG)	65.8	10.5	170.88	7	147.41
Lump Ore Blast Furnace Tubarao (LOBT)	64	5.5	191.31	6	169.09
Lump Ore Blast Furnace Guaiba (LOBG)	66	3.5	191.31	6	169.55
Lump Ore Blast Furnace Non-screened Guaiba (LONS)	65	3.5	191.31	6	169.55
Carajas Blast Furnace Pellet (PBFC)	66	2	220.49	5	199.07
Tubarao Blast Furnace Pellet (PBFT)	65.8	2	217.05	6	195.62

Note: Abbreviations for pellets may differ from those actually used by Vale. Sinter feed is also commonly called fines, and pellet feed, concentrate.

Source: Platts



Platts analysis of Q1 2011 contract prices, Rio Tinto

Estimated Rio Tinto iron ore fines prices for Q1 2011

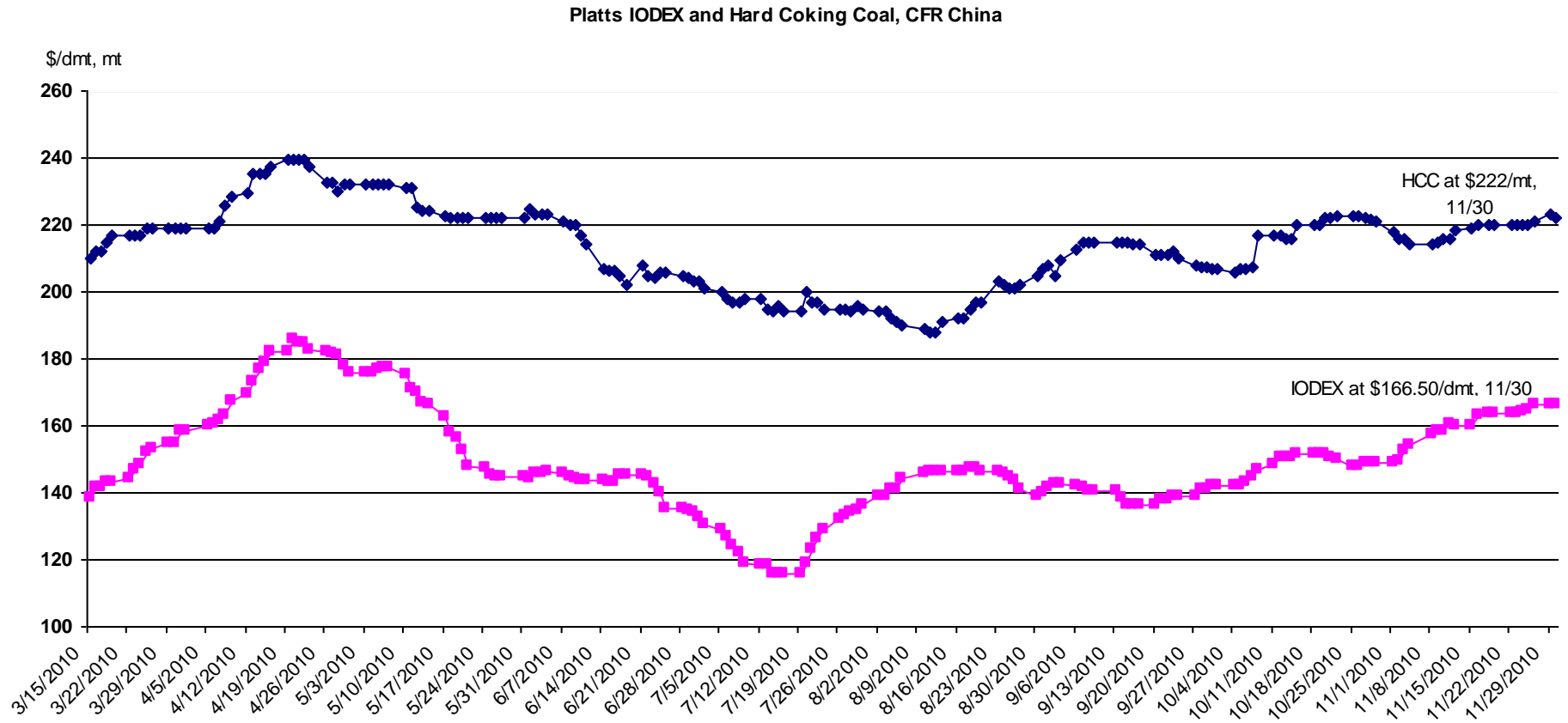
Platts IODEX average Sep-Nov: \$149.177/dmt CFR North China

Platts 1%-Fe differential (60-63.5%-Fe) Sep-Nov: \$5.710/dmt

Product	Fe Content (%) (typical)	Q1 FOB \$/dry mt	Q4 FOB	Q1 DMTU \$	Q4 DMTU
Yandicoogina fines	58%	128.10	118.98	2.209	2.051
Pilbara-blend fines	62%	136.94	127.18	2.209	2.051

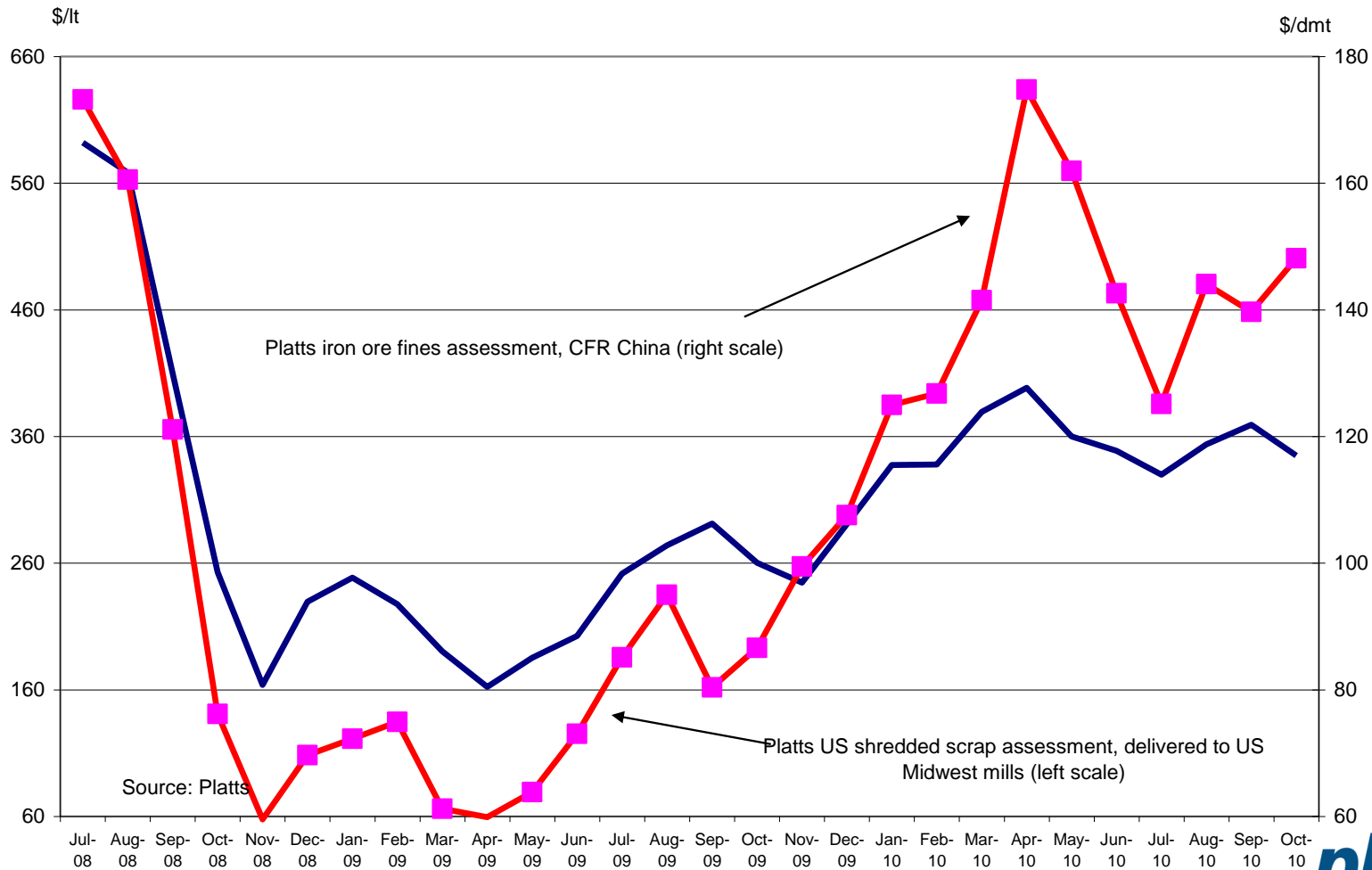
Source: Platts

Platts IODEX and Platts Hard Coking Coal assessments



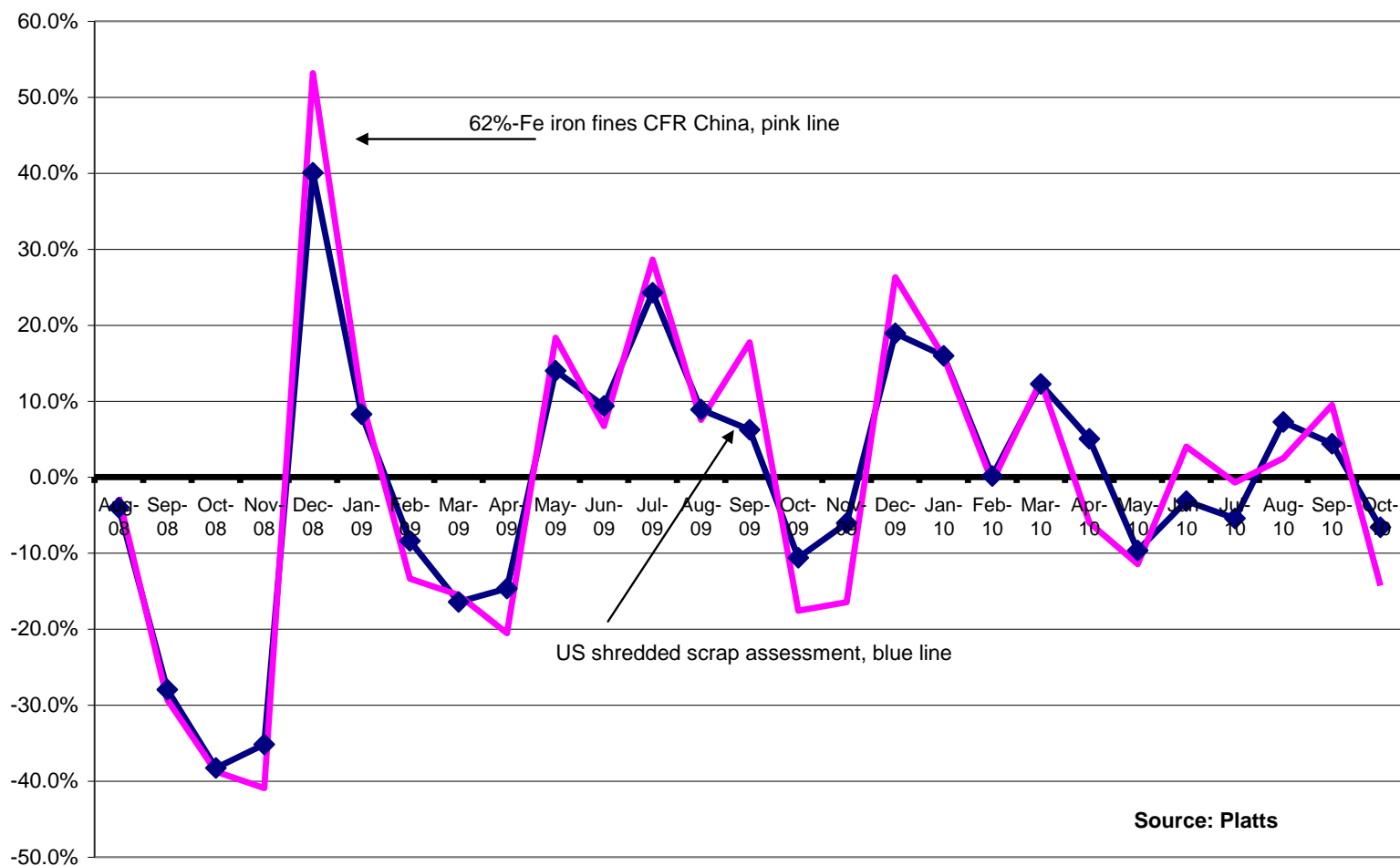
IODEX vs. US Ferrous Scrap

Price comparison: Platts IODEX 62%-Fe fines vs. US shredded scrap



IODEX vs. US Ferrous Scrap

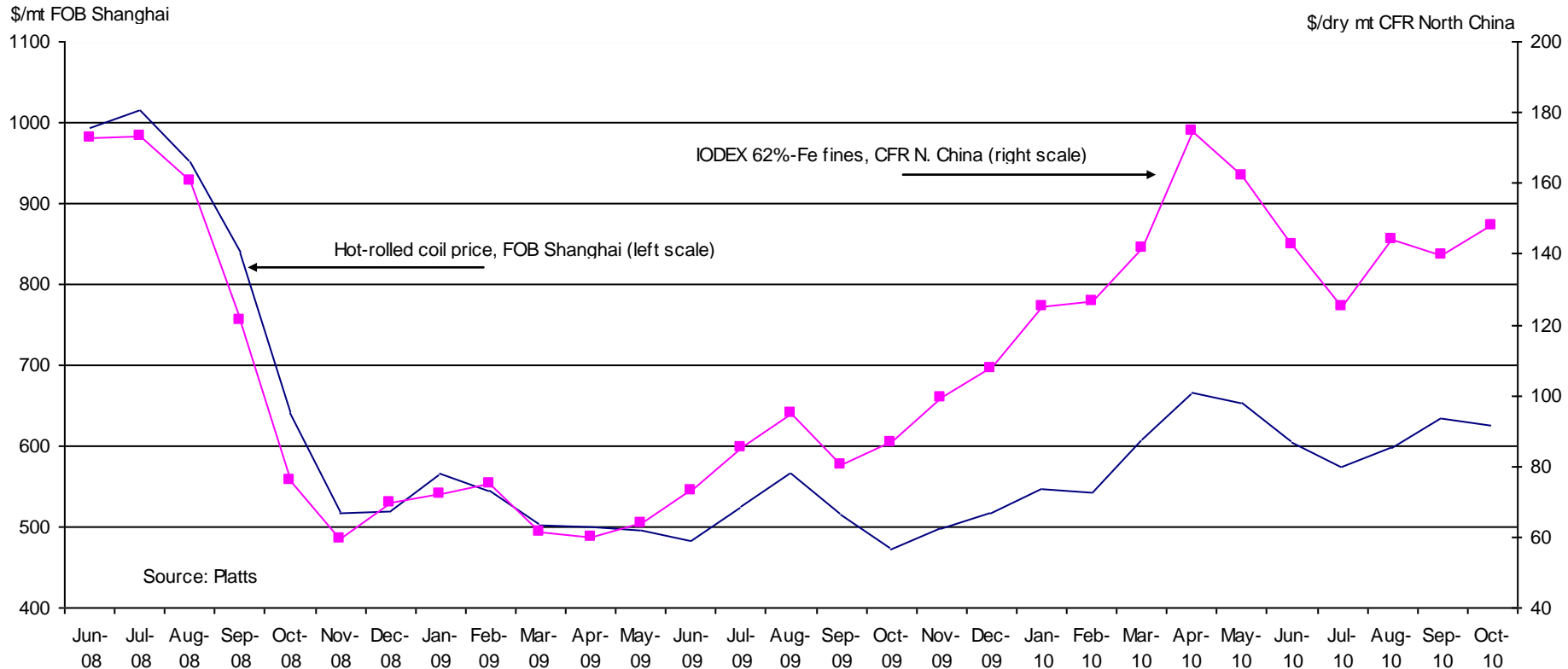
Iron ore and scrap volatility, percent change, month-on-month



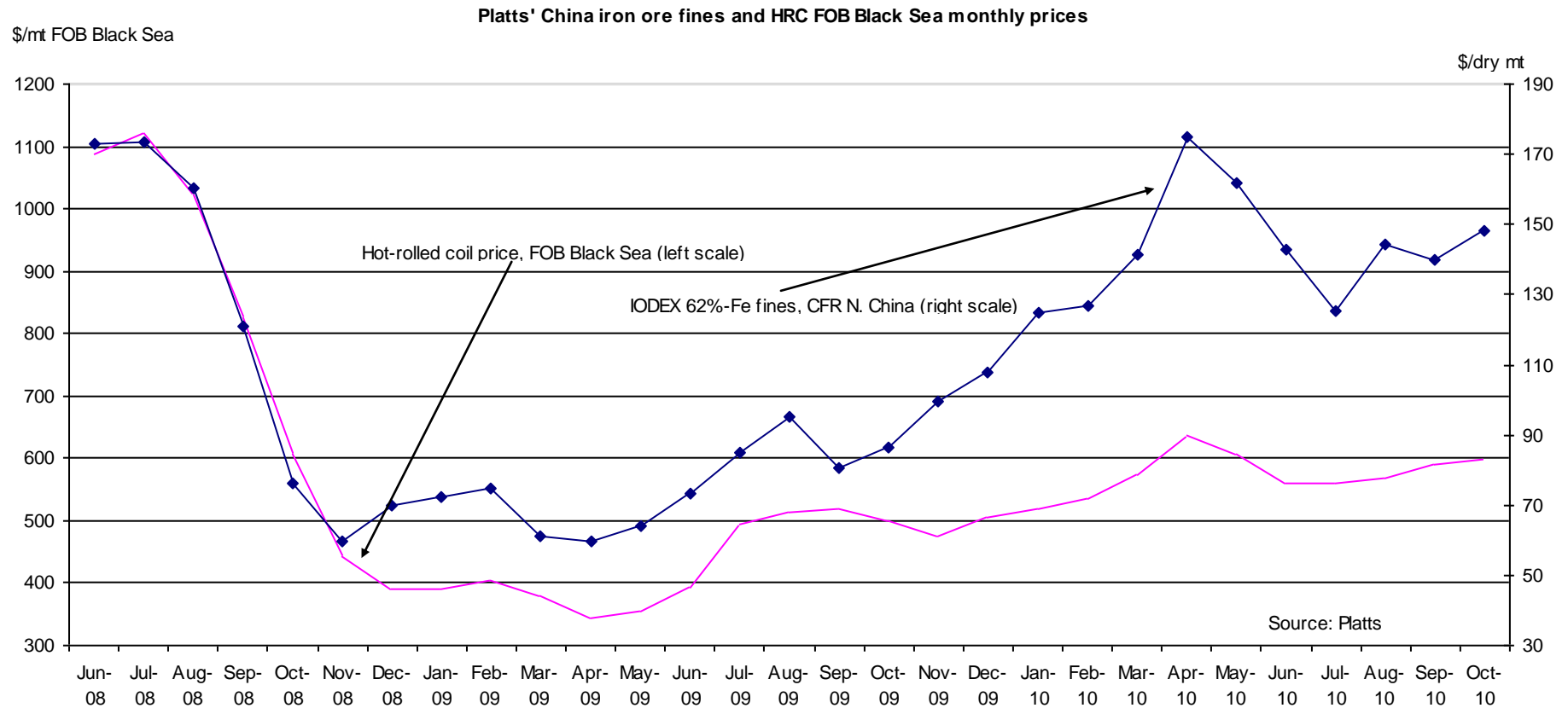
Source: Platts

Platts IODEX and Platts China hot-rolled coil, FOB

Platts' monthly price of China exported HRC vs. Iron Ore fines



Platts IODEX and Platts Black Sea hot-rolled coil, FOB



Our metals portfolio



Metals



Coal



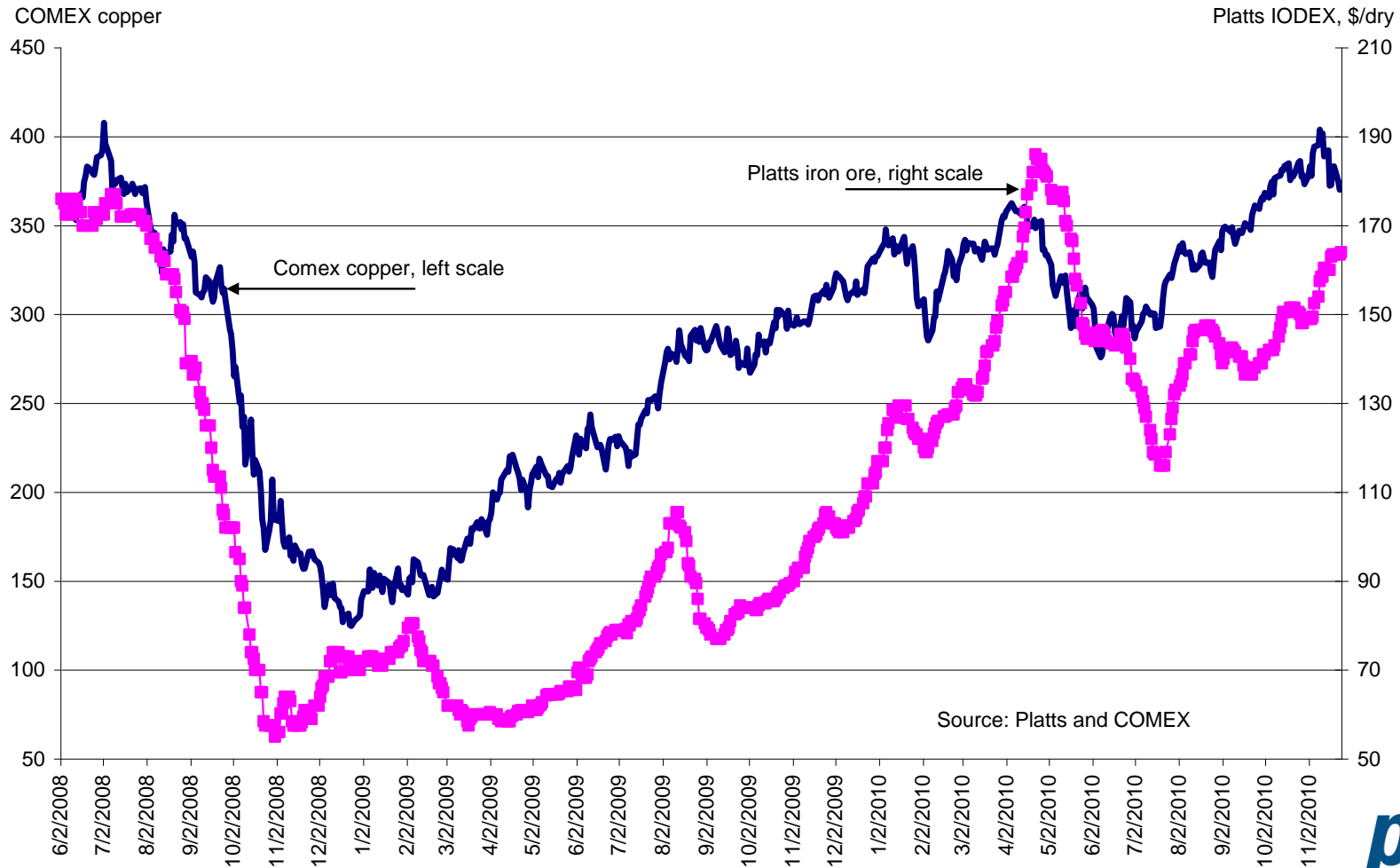
Shipping

Precious
Minor
Base
Ferro Alloys
Stainless
Steel
Iron ore
Coking Coal
Scrap
Bulk Ores

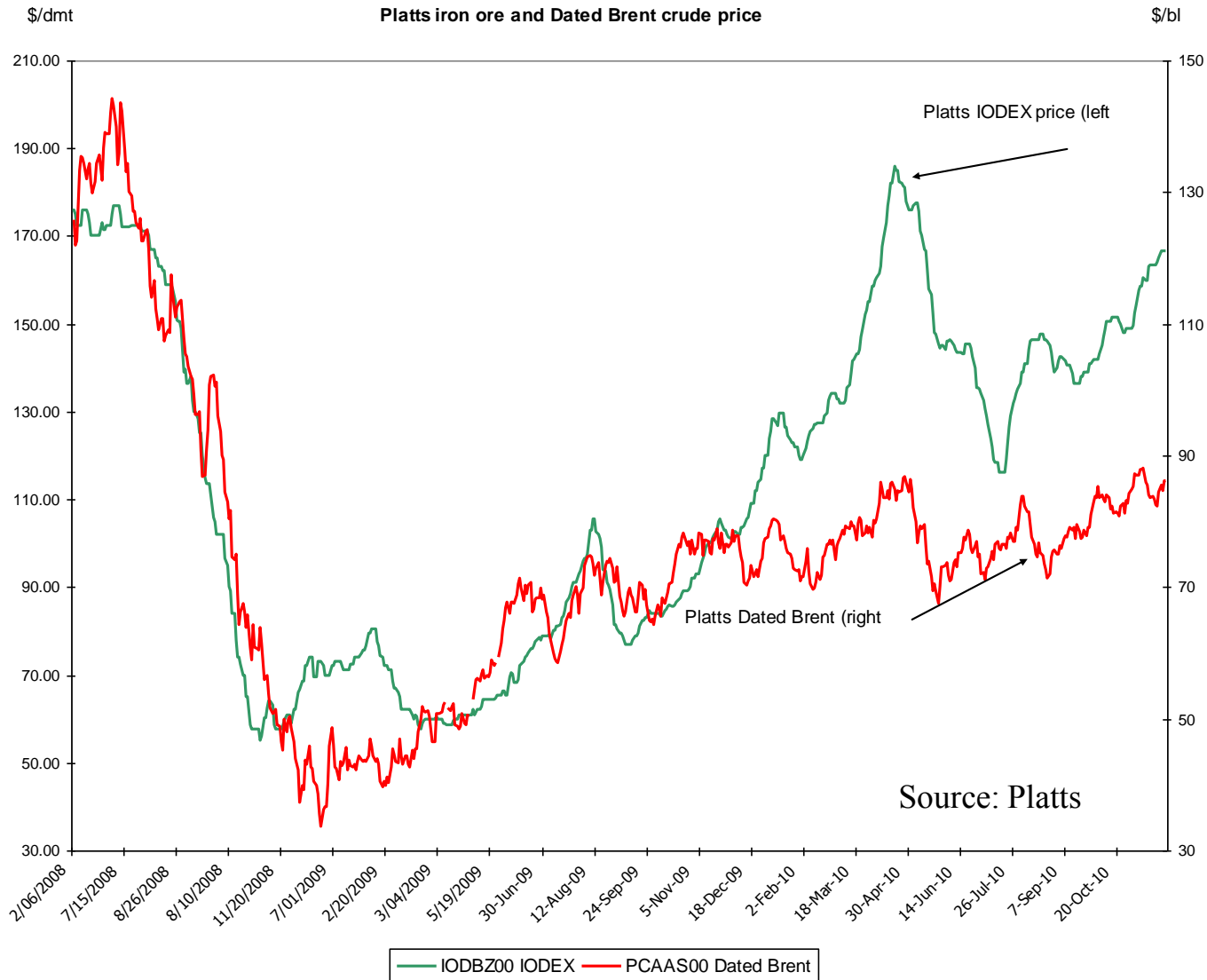
So...is iron ore the
next copper?

Maybe it already is...Platts IODEX and COMEX copper

Platts IODEX 62%-iron ore fines vs. COMEX 1st pos Copper



Platts IODEX and Dated Brent crude oil



Spot price benchmarking requires

Independence

Accuracy

Transparency

Methodology

Information Sources

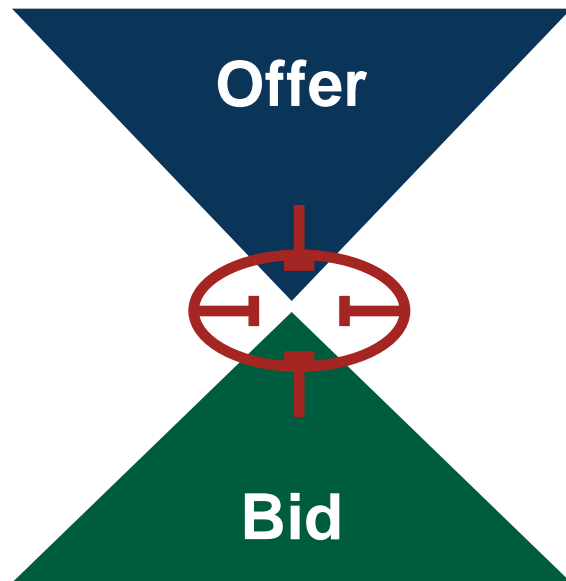
Anyone Active & Reliable in the market

- Producers
- End users
- Traders
- Brokers

- Distributors
- Shippers
- Financial institutions
- Government entities

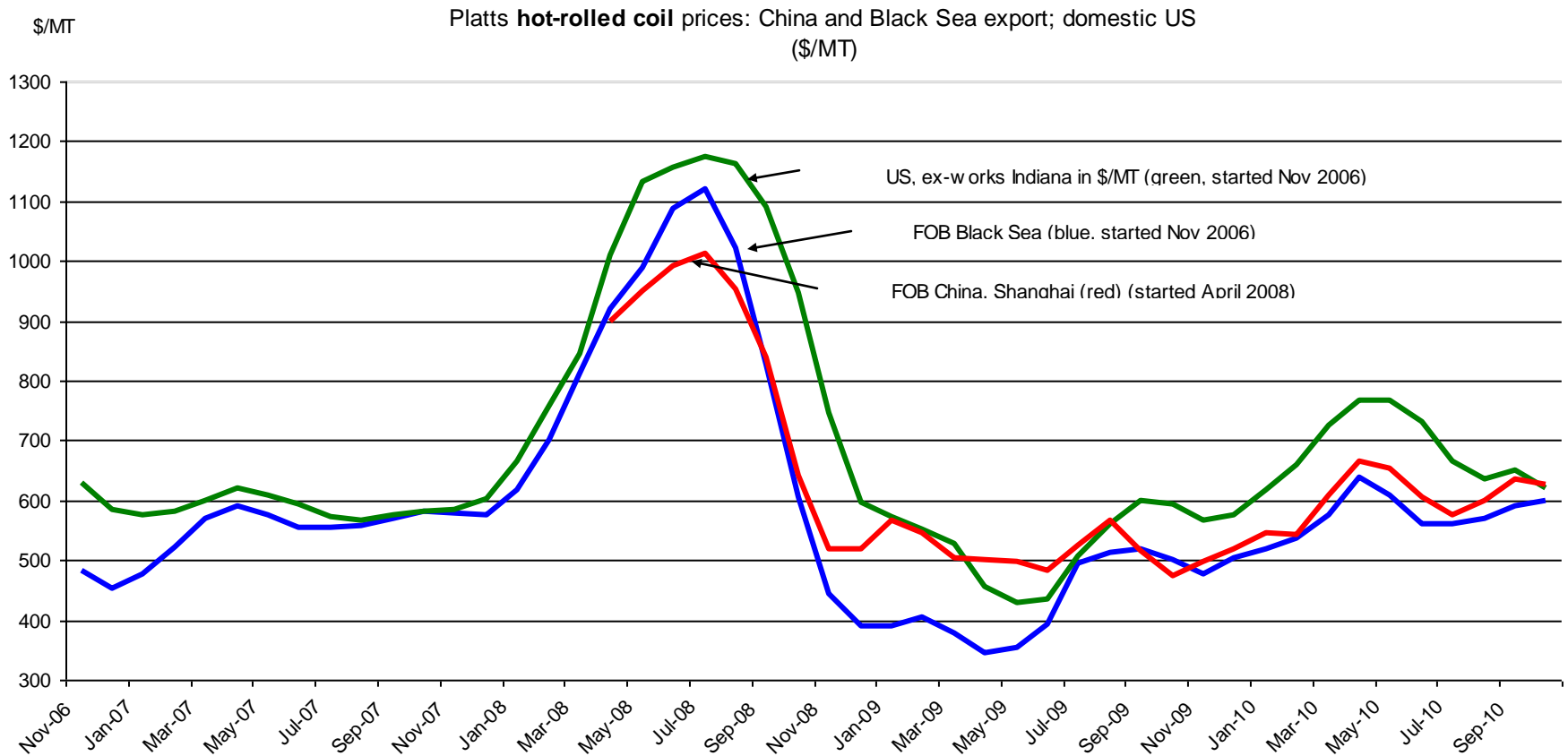
Firm bids and offers help price discovery

Platts has years of experience executing accurate and robust assessments.
Platts does not and will not sign non-disclosure agreements with data providers



- Platts assesses transactable market levels
 - Deals, bids and offers
 - Transparency and consistency
 - Repeatability and incrementability
 - Verification procedures
 - Methodology and accuracy

Platts key hot-rolled coil prices, \$/MT



Steel market news, price assessments and supporting data

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Steel Markets Daily

Volume 4 / Issue 176 / September 14, 2010

Platts steel industry assessments, September 14

Europe

	Eur/mt	Close/ Midpoint	Change	% Chg
Hot-rolled coil				
Ex-works, Ruhr	575.00-585.00	580.00	0.00	0.00
CF Antwerp	535.00-545.00	540.00	0.00	0.00
	\$/mt			
FOB Black Sea	590.00-600.00	595.00	0.00	0.00
Cold-rolled coil				
Ex-works, Ruhr	660.00-670.00	665.00	0.00	0.00
CF Antwerp	620.00-630.00	625.00	0.00	0.00
	\$/mt			
FOB Black Sea	705.00-715.00	710.00	0.00	0.00
Plate				
Ex-works, Ruhr	590.00-610.00	600.00	0.00	0.00
CF Antwerp	565.00-575.00	570.00	0.00	0.00
Reinforcing bar				
Ex-works, NW Eur	480.00-490.00	485.00	0.00	0.00
	\$/mt			
Eastern Mediterranean, basis Turkey	595.00-605.00	600.00	0.00	0.00
Ferrous scrap				
HMS FOB Rotterdam	359.50-360.50	360.00	0.00	0.00
A3, FOB Black Sea	366.50-367.50	367.00	0.00	0.00

North America

	\$/st	Close/ Midpoint	Change	% Chg
Hot-rolled coil				
Ex-works, Indiana	590.00-595.00	592.50	-2.50	-0.42
CF, Houston	590.00-600.00	595.00	0.00	0.00
Cold-rolled coil				
Ex-works, Indiana	695.00-705.00	700.00	5.00	0.72
CF, Houston	675.00-690.00	682.50	7.50	1.11
Plate				
Ex-works, US SE	760.00-780.00	770.00	0.00	0.00
CF, Houston	720.00-730.00	725.00	0.00	0.00
Reinforcing bar				
Ex-works, US SE	590.00-600.00	595.00	0.00	0.00
CF, Houston	550.00-560.00	555.00	0.00	0.00
Ferrous scrap				
Shredded, Del Midwest USA	370.00-380.00	375.00	0.00	0.00

Asia

	\$/dmt	Close/ Midpoint	Change	% Chg
Iron ore fines 62% Fe				
CFR North China	138.00-139.00	138.50	-2.00	-1.42
Please see SMD's complete iron price/netbacks table, p. 3.				
	\$/mt			
Hot-rolled coil				
FOB Shanghai*	635.00-645.00	640.00	15.00	2.40
Reinforcing bar				
FOB China*	610.00-630.00	620.00	30.00	5.08
* Assessed September 09, 2010				

The McGraw-Hill Companies

Flat-rolled market

Cold-rolled price rises,
hot-rolled falls in US market

New York—Buyers of flat-rolled products in the US market said Tuesday they were paying slightly less for hot-rolled coil, but a little more for cold-rolled coil. As a result, the Platts assessment for HRC inched down to a midpoint of \$592.50/st ex-works Indiana since no deals or firm bids were reported higher than \$595/st. The trading range for a typical order size of 1,000 st narrowed to \$590-595/st ex-works.

The Platts cold-rolled coil assessment, however, picked up \$5 to a midpoint of \$700/st ex-works Indiana, based on most deals taking place in a range between \$695-705/st normalized ex-works Indiana. Some buyers also reported considerably longer lead times for CRC and maintained that this was the strongest product in the flat-rolled segment.

Lead times for HRC are considerably shorter. "There are even some mini-mills

Today in steel

Iron ore market

Spot prices fall, but Q4 contracts prevent bigger decline 2

Australia's Fortescue pricing Fe contracts by shipment 3

Coking coal market

Hard coking coal stable, but market feels the pressure 4

Rebar market

Turkish rebar export prices stable, LME billet declines 5

News

Baosteel raises Oct steel prices, HRC up Yuan 300/mt 5

Exchanges

Shanghai rebar prices fall; volume up on economic data 7

Platts daily iron ore assessments, September 14

	\$/dmt	Midpoint	Change	% change
IODEX 62% Fe CFR North China	138.00-139.00	138.50	-2.00	-1.42
63.5/63% Fe CFR North China	146.00-147.00	146.50	-1.50	-1.01
65% Fe CFR North China	155.50-156.50	156.00	-1.50	-0.95
58% Fe* CFR North China	106.50-107.50	107.00	-2.00	-1.83

*AI = 4.0% max

Per 1% Fe differential (Range 60-63.5% Fe), \$/dmt

Range 60-63.5% Fe	5.50	0.00
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FOB netbacks per route / basis IODEX 62% Fe

Route	Vessel Type	Freight rate (\$/wmt)	Molsture (%)	IODEX (\$/dmt)
Australia	Capesize	11.75	8.03	125.72
India West	Panamax	16.00	8.11	121.09
India West	Handymax	19.00	8.11	117.82
India East	Handymax*	19.00	8.00	117.85
Brazil	Capesize	29.25	9.00	106.36
South Africa	Capesize	20.25	3.00	117.62

* Typical two-port co-loadings from Haldia and Paradeep

Freight differentials to major import ports, \$/wmt

From Qingdao on a Free Out basis

To North China: Caofeidian, Tianjin & Xingang	0.50
To East China: Beilun	-1.00
To South China: Zhanjiang & Fangcheng	-1.50

Rolling monthly average, \$/dmt

IODEX 62% Fe	141.11
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IODEX 62% Fe CFR North China OTC swaps assessment, September

IODEX 62%	\$/dmt	Change	% change
Oct 10	130.000	-2.000	-1.52
Nov 10	129.000	-1.000	-0.77
Dec 10	128.000	0.000	0.00
Q4 2010	129.000	0.000	0.00
Q1 2011	126.000	-1.000	-0.79
Calendar 2011	123.500	0.000	0.00

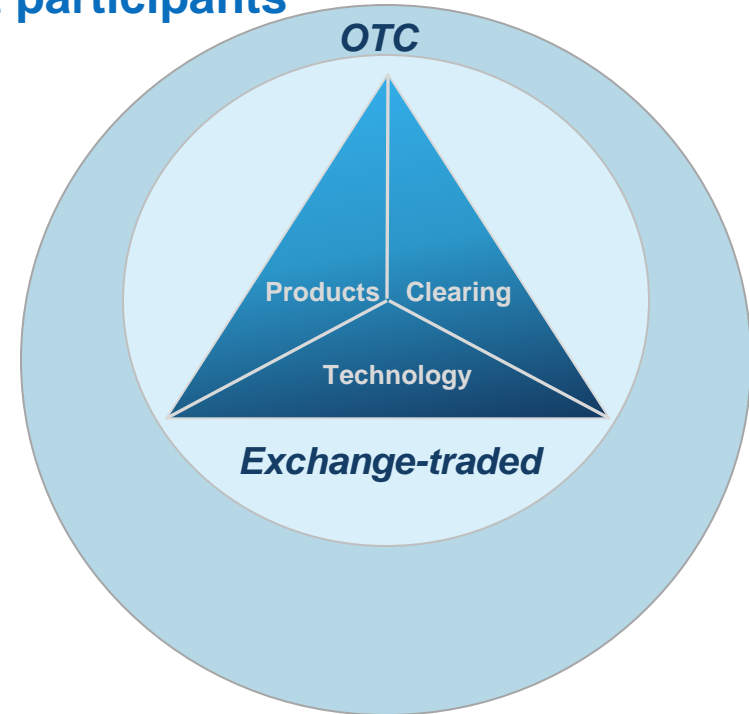
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CME Group Mitigates OTC Derivative Trading Risks

Core Attributes of CME ClearPort: Security, Anonymity & Transparency

Flexible Clearing Services open to OTC market participants

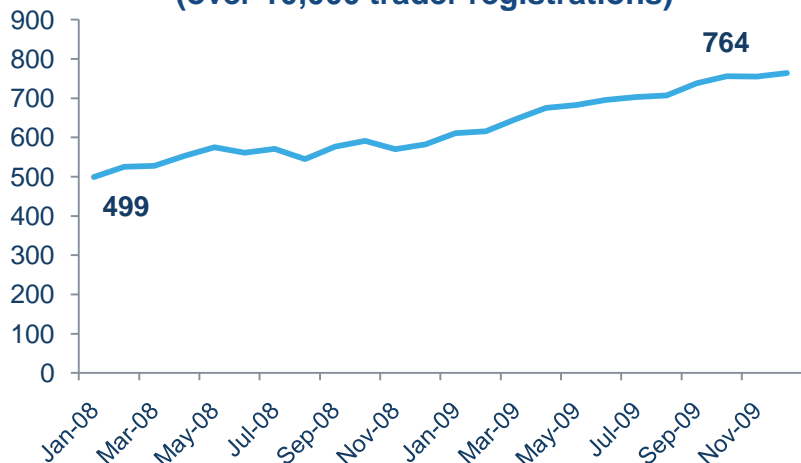
- Clearing is independent of trade execution
 - Significant mitigation of counterparty risk
 - Certainty of independent, neutral settlement prices
 - Efficiencies for capital and operations
 - Complementary to existing OTC trade capture systems
 - 100+ years of risk management experience
-
- More than Energy; expanding across asset classes



CME ClearPort

Proven participation and product growth record

**CME ClearPort Firm Participation
(over 10,000 trader registrations)**



Evolution of CME ClearPort

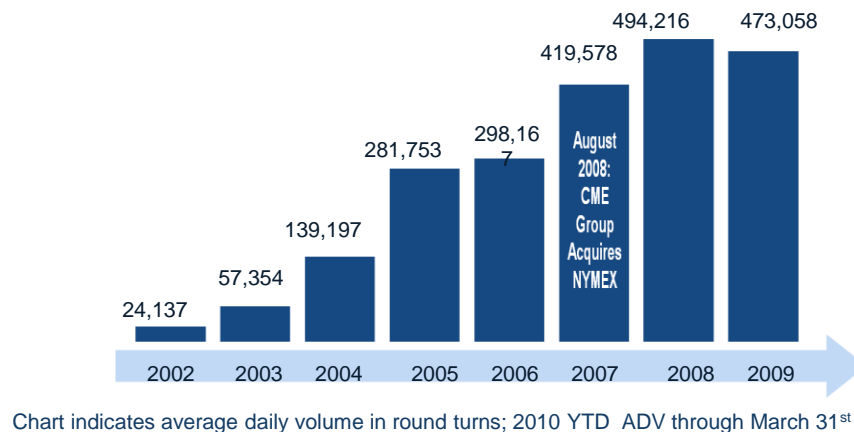


Chart indicates average daily volume in round turns; 2010 YTD ADV through March 31st

	2002	2003	2004	2005	2006	2007	2008	2009	2010TD
# of Launches	57	10	40	77	91	123	141	332	161
Key New Product	Nat Gas	Coal	Nat Gas Crude Oil Refined Products Power	Crude	Crude Refined Products	Crude Nat Gas	Crude Oil Refined Products Power HR Steel	Power Nat Gas Refined Products NGLs	TBD

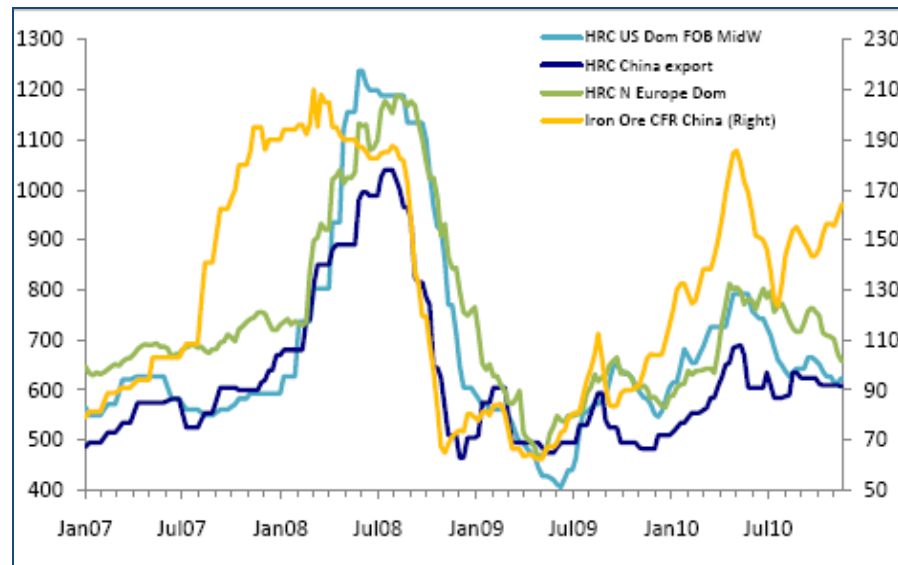
Over 900 contracts currently available



Ferrous Metals Forward Curves

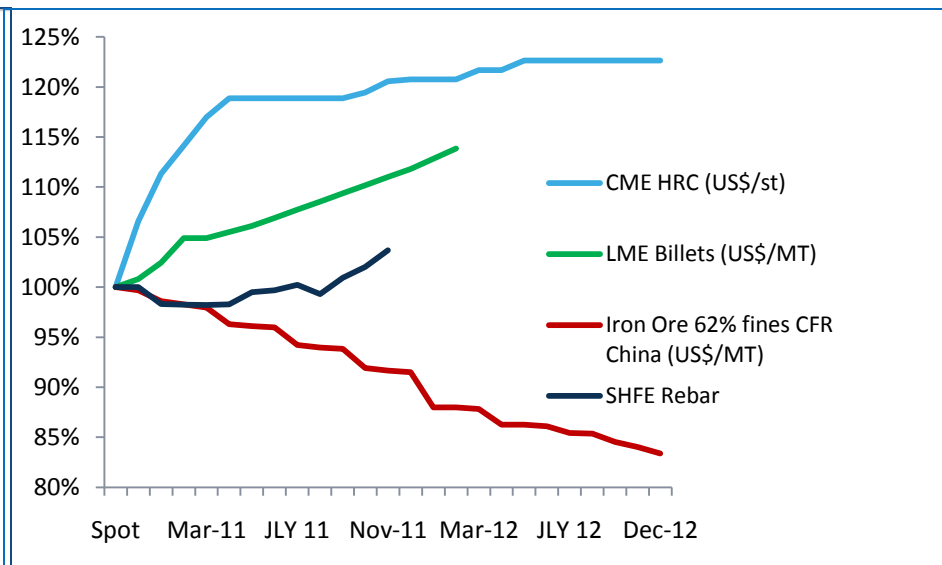
Products display price divergence

Historical HRC Steel and Iron Ore Spot Prices



Source: Deutsche, CRU, CME, SBB

Forward Prices as a % of Spot



Spot Prices: HR - \$530/s.ton, Rebar - 4630/m.ton, Billet - \$491/m.ton, Iron Ore - \$157/m.ton

- No single derivative contract can adequately manage exposure across the entire ferrous metal complex.
- Product specifications, quality issues, and regional locations create “basis risks” throughout supply chain.
- Positive correlations do exist, but rarely allow for physical arbitrage to offset price risks.

Iron Ore 62% Fe, CFR China (Platts) Swap Future

CME Group provides novation to clearing of OTC swaps via CME ClearPort

Product Symbol	PIO
Service Description	Clearing of Iron Ore 62% Fe, CFR China Port (Platts) Swap Futures
Venue	CME ClearPort
Contract Size	1,000 Dry Metric Tons
Clearing Hours	CME ClearPort is available for trade submission 6:00PM Sunday to 5:15PM Friday New York Time, with a 45 minute break from 5:15PM to 6:00PM New York Time, Monday through Thursday
Unit Price	Valued in U.S. Dollars and Cents per dry metric ton
Minimum Price Fluctuations	Minimum increment of \$0.01 per ton (\$10.00 per contract)
Listed Contract Months	Contracts listed for clearing goes out 24 consecutive months
Final Settlement	The final settlement is compiled from the Platts daily prices for “Iron ore fines 62% Fe, CFR China Port”. Each contract month settles against the average price calculated for all available price assessments reported by Platts for that given calendar month.
Settlement Type	Financial

Iron Ore Swap Futures Final Settlement Price Calculation

Financially settled on the monthly average of the daily Platts 62% fe CFR China price

- Platts assesses physical market activity on daily basis
- Physical trades remains the basis for final swap futures settlement price
- Pricing normalization brings pricing data to a 62% fe standard grade parity

	Each month is calculated as its own average							
Platts Daily	Day 1.... Price A Data Point		Day 2 Price B Data Point		Day 3,4,5.... Price C Data Point		Day "i" Price D Data Point	
Reporting Date	└─→	Price A	└─→	Price B	└─→	Price C	└─→	Price D

Settlement Calculation:

$$\text{Final Settlement Price} = \frac{\sum_{i=1}^n [\text{Daily Price}_i]}{n}$$

Trading Time Table:

- Contracts are listed for 24 consecutive months
- Last trading day is last business day of each month

Other Issues:

- Price discovery occurs in the OTC swap market
- CME ClearPort is open to accept trades from Sunday to Friday (6:00pm – 5:15pm EST)
- Daily mark to market forward prices are posted for all contracts with open interest

Conclusion

New pricing paradigm will require changes to how steel industry manages price

	Past	Present	Consequence
Iron Ore Miners	<ul style="list-style-type: none"> Tied into long term supply with fixed prices and predictable volumes Sold material at “cost plus” formula Cap upside earnings potential of miners 	<ul style="list-style-type: none"> Market based pricing terms Demand – supply determines spot price Structural constraints limit capacity expansion 	<ul style="list-style-type: none"> Increased short dated price volatility Miners benefit from tighter supply , but risk lower prices if produce at over capacity
Steel Mills	<ul style="list-style-type: none"> Integrated mills lock into annual pricing contracts for core raw materials Able to provide long term steel contracts to customers 	<ul style="list-style-type: none"> Mills are competing globally to secure supply of raw materials Seek means to limit exposure - vertical integration within supply chain is frequently espoused 	<ul style="list-style-type: none"> Volatile margins between raw materials and finished steel prices Unable to obtain/offer long term fixed price contracts Seek to pass along price exposures to end users
End Users	<ul style="list-style-type: none"> Predictable supply and fixed term contracts via annual pricing Raw material suppliers absorbed price volatility 	<ul style="list-style-type: none"> Exposed to sudden and unexpected price surges Need new means to manage longer term price exposure 	<ul style="list-style-type: none"> Unable to lock into fixed price contracts with suppliers Price volatility adds unpredictability to earnings

- These changes are evolutionary in nature, hence the market will continue to adjust, refine, and improve.
- Industry participants will seek out solutions for reducing exposure to earnings volatility.
- Cash market indices and derivatives instruments are necessary and acceptable tools for risk management.

Questions?

Follow up:

For more information on Platts price assessments: www.steeldaily.platts.com

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