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# ASA MATERIALS MARKET DIGEST

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#### CARBON STEEL

**STATE OF THE MARKET.** Since our last report, the mood among steelmakers and their distributors has brightened significantly. While steel is not wholly out of the woods, the plusses now appear to outweigh the minuses. In the plus category are a number of new developments, to wit:

- Raw steel production in U.S. mills has risen in six of the seven most recent weeks, topping out at 1,339,000 tons in the week ending June 20.
- A number of major mill closures are being reversed. U.S. Steel, for example, is restarting one of its two Granite City, IL blast furnaces idled earlier this year. Additionally, USS is recalling 175 hourly workers to light up its coke ovens at the Hamilton OH mill. In another restart, ArcelorMittal will activate the No. 5 blast furnace at its Indiana Harbor Works.
- Most observers of the steel market agree that destocking by service centers has now run its course. The prevailing view is that the centers are now adding to inventory largely in response to stepped up demand.
- The outlook for automotive products is brightening, with some forecasters expecting a production rate as high as 14 million units per year in the second half of 2009.

*Another Viewpoint.* Not everyone looking at the steel picture is ready to start dancing in the streets. Pre-eminent among the naysayers is prestigious Moody's Investor Services. This widely followed stock and market analysis firm recently released a new report which takes a decidedly negative view of the steel outlook. According to Moody's assessment, the steel industry suffers from "weak demand fundamentals" as well as "low operating rates." Given these handicaps, Moody's predicts a sluggish recovery in steel extending "well into 2010." The report also characterizes the whole U.S. economy as having "a slow recovery that will extend well beyond a typical cyclical downturn."

**PRICING.** Notwithstanding Moody's lugubrious message, steelmakers of late haven't been bashful in raising prices. The uptrend started modestly, with boosts of \$20 to \$30 for flat-rolled products. Then AK Steel upped the ante, adding new increases of \$60 per ton for hot-rolled sheet, \$70 for cold-rolled and \$80 galvanized and aluminized sheet. The new prices brought hot-rolled sheet to \$460, cold-rolled to \$560 and galvanized to \$580.

Marching as it often does to a different drummer, ArcelorMittal posted a \$30 per ton increase on flat-rolled as of July 1. Two weeks latter the company went back to the well, announcing a second increase, this one of \$50 to \$90 per ton, effective immediately.

**GOVERNMENT RELATIONS.** This month's news includes a number of issues relating to the U.S. and/or other government agencies. Items:

- *Buy American.* The "Buy American" clause of the current recovery program is increasingly becoming a bone in the throat of key interest groups in the U.S. and Canada. In the latter camp, Canadian trade interests view Buy American as a major impediment to amicable trade relations with the U.S. Indeed, there has been talk north of the border regarding outright repeal of NAFTA.
- *China.* In a blatant instance of the pot calling the kettle black, China has announced an investigation of alleged dumping of grain-oriented electrical steel by U.S. exporters. According to market analysts, this Beijing ploy is mere retaliation for U.S. actions regarding repeated instances of dumping and manufacturing subsidies of Chinese tubular products exported to the U.S.
- *Stimulus.* Thus far the government's stimulus package has done nothing to reduce unfairly traded steel, according to a coalition of steel-oriented associations. Included in the group are the American Iron & Steel Institute, NAFTA, the World Trade Association and others. According to the coalition, the stimulus programs have not only done nothing to reduce unfair steel trading, but may in fact have exacerbated it.

## **TUBULAR GOODS**

*Production.* In the week ending June 20, rig counts in both the U.S. and Canada increased. South of the border the U.S. count rose by 23 units to a total of 899 active sites. Canadian drillers added 35 units to bring their total to 153 units.

*Oil Country Tubular Good (OCTG)* prices declined in June, albeit at considerably less than the double-digit pace that prevailed in April and May. In June the average OCTG price fell 2.9% to \$1,760 per ton. For welded products the average price slipped 3.8% to \$1,601, and in the seamless sector, the decline was 2.1% to \$1,918. (All figures are supplied by Pipe Logix, Inc., a Santa Fe, NM energy consultant and pre-eminent source of OCTG pricing data.)

In commenting on the current OCTG market, Pipe Logix executive Kurt Minnich declared that, "I thought we'd see a further fall [in OCTG prices] than we did." Minnich added that the limited price decline resulted from distributors putting more emphasis on domestic products and less on imports. Minnich added that the pricing gap (domestic vs. foreign products) has narrowed from \$700 in March to just \$259 currently. In his opinion the greater use of domestic OCTG accounts for the narrower gap. "It's a market preference," one distributor explained, adding that "the Chinese have such poor quality."

*Note: The table below reflects the average cost of eight representative OCTG products. The numbers come from OCTG distributors operating in the area of Houston, TX. The figures have been compiled and analyzed by Pipe Logix, Inc., a Santa Fe, NM-based affiliate of the energy consultancy Spears Associates, Inc.*

**Representative Prices, Oil Country Tubular Goods,  
June and May 2009  
(\$ per ton)**

<i>Product</i>	<b>Jun 2009</b>	<b>May 2009</b>	<b>Jun Apr % Chng</b>
<b>Tubing: Carbon ERW</b>	<b>\$1,551</b>	<b>\$1,582</b>	<b>- 1.9%</b>
<b>Tubing: Carbon seaml's</b>	<b>\$1,466</b>	<b>\$1,541</b>	<b>-4.9%</b>
<b>Tubing: Alloy ERW</b>	<b>\$2,067</b>	<b>\$2,182</b>	<b>-5.3%</b>
<b>Tubing: Alloy seamless</b>	<b>\$2,226</b>	<b>\$2,290</b>	<b>-2.8%</b>
<b>Casing: Carbon ERW</b>	<b>\$1,387</b>	<b>\$1,408</b>	<b>- 1.5%</b>
<b>Casing: Carbon seaml's</b>	<b>\$1,190</b>	<b>\$1,174</b>	<b>+1.4%</b>
<b>Casing: Alloy ERW</b>	<b>\$1,828</b>	<b>\$1,942</b>	<b>- 5.9%</b>
<b>Casing: Alloy seamless</b>	<b>\$1,899</b>	<b>\$1,930</b>	<b>-1.6%</b>

## **COPPER**

*Prices.* Despite the lack of demand for copper in the U.S., the red metal's price continues to escalate. In early June, three-month futures in trading on the New York Comex closed at \$2.3285 per pound, an overnight gain of 5.5%. The figure was also the highest price for copper futures in seven months of trading on the NY Comex. On the London Metals Exchange, copper continued the record of closing every trading day of 2009 at a price of \$4,000 or more. Key price points for the red metal this year are shown on the following page:

<b>Open</b>	<b>\$4,787</b>	<b>(May 29)</b>
<b>High</b>	<b>\$5,290</b>	<b>(June 11)</b>
<b>Low</b>	<b>\$4,285</b>	<b>(June 23)</b>
<b>Close</b>	<b>\$5,101</b>	<b>(June 29)</b>

The ongoing rise in copper prices is occurring at a time when U.S. demand for the red metal is negligible. Indeed, *American Metal Market* recently quoted one metals trader as declaring that, “Copper demand in the U.S. is still horrible. You can’t give away copper.” The publication also cited an analyst’s view that the weakening dollar has helped to increase investment and speculation in copper. Also contributing to the metal’s speculative attraction: the expectation of recovery by General Motors, and the resultant demand for copper that could materialize as GM emerges from bankruptcy.

*Demand.* China’s voracious appetite for copper took a hit in early June when an investment deal with copper giant Rio Tinto fell through. Under the planned arrangement, an entity of the Chinese government would have received the benefit of two of Rio Tinto’s mines, assuring China of a steady supply of copper resources. After the deal collapsed, the Chinese were expected either to revert to open market buying or find another steady source of the red metal.

One obvious possibility for the Chinese would be a large scrap-processing plant now nearing completion in Guangzhou Province about 100 miles north of Hong Kong. The facility is owned and being developed by Scholz International, the U.S. arm of German-owned Scholz AG. The plant will initially process 3,000-4,000 tonnes of scrap and eventually increase production to 7,000 tonnes monthly.

Meanwhile, U.S. exports of copper scrap in the first four months of 2009 amounted to 307,814 tons, a 3.7% decline from the same period in 2008. As usual, the bulk of these exports went to China and in the first four months of the current year, Chinese purchases accounted for 69.7% of the scrap copper leaving U.S. shores. But toward the end of June Chinese buying cooled sharply. The drop-off was sufficiently steep to prompt one ingot maker quoted by *AMM* to observe that, “Because the Chinese pretty much exited the scrap market, we’re able to buy scrap again at decent quantities and decent prices for the first time this year. But no one knows how long the Chinese hiatus will last.”

## **STAINLESS STEEL**

*Prices.* According to *American Metal Market*, an additional surcharge of about 15 cents per pound will be added to current prices of stainless effective in August. The increase will be added to existing base prices and surcharges. According to sources cited by *AMM*, the 15-cent surcharge addition will reflect higher prices for stainless raw materials—nickel, chrome and scrap.

Even before the anticipated August surcharge takes effect, price increases are being announced by major stainless steel mills. AK Steel, for example, has posted price boosts for the full range of stainless alloys. Increases include: for Type 201 stainless, 5.79 cents to increasing the price to 29.56 cents per pound; for Type 304, 9.29 cents to 46.95 cents; for Type 316, an increase of 14.28 cents to 70.52 cents; and for Type 430, 3.08 cents to 10.57 cents. Comparable surcharge increases were promptly announced by the other two Big Three stainless producers, North American Stainless and Allegheny Ludlum.

*Nickel.* As shown in the boldface figures below, the price of refined nickel rose sharply during the month of June. While the price uptrend was welcome to traders and market watchers, some cautioned that the higher prices are by no means driven only by user demand. *AMM* cited one trader as reporting that orders from stainless steel producers “were still anemic,” but that the pace of inquiries pointed to stronger ordering in the near future.

<b>Open</b>	<b>\$13,800</b>	<b>(May 29)</b>
<b>High</b>	<b>\$15,905</b>	<b>(June 28)</b>
<b>Low</b>	<b>\$13,800</b>	<b>(May 29)</b>
<b>Close</b>	<b>\$15,900</b>	<b>(June 29)</b>

Some of the impetus for higher nickel prices comes from the increase in stainless steel surcharges expected in August. But in the view of many—perhaps most—market watchers, the principal driver of nickel prices at the present time is stepped-up buying by hedge funds and other investors and traders.

## **RESINS**

The price increases that got under way in April and May continued into June and July with rising monomer prices as the principal cause. Following are among the price actions reported by *Plastics Technology (PT)*:

**Polyethylene.** A 3-cent price increase went into effect in May, driven by low monomer inventories. Another 3-cent boost may be announced before midsummer.

**Polypropylene.** The resin rose 2.5 to 3 cents in late spring. Rising monomer costs will likely result in another increase of 3 cents or more.

**Polyvinyl Chloride.** The best any producer has been able to do on PVC pricing is a 1.5-cent increase. Currently there is talk of a 3-cent increase in July, but it is far from a certainty.

**Polystyrene.** A 5-cent increase has been announced by producers, but only a partial increase is expected for July.

**Nylons.** One producer of Nylon 6 has announced a 10-cent price hike, and others are likely to follow suit over the next few months.

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**PRODUCER PRICE INDEXES – KEY INDUSTRY PRODUCTS**

The table below is extracted from the Bureau of Labor Statistics' monthly report on the Producer Price Index or PPI. The Producer Price is defined as the price at which a given commodity or product is sold at its *first* sale after being manufactured, mined, refined or otherwise produced.

	Latest 05/09	Previous 04/09	Year Ago 05/08	<sup>2</sup> Yrs Ago 05/07
<b>PIPE, VALVES &amp; FITTINGS:</b>				
Copper & copper-alloy tube	229.3	242.3	341.6	319.5
Steel pipe & tube	158.9	162.2	207.9	170.1
Plastic pipe and fittings	201.5	199.2	206.7	199.1
Industrial valves – metal	187.3	187.3	181.5	171.5
<b>PLUMBING FIXTURES:</b>				
Vitreous china fixtures	99.4	99.4	95.4	103.5
Fixture fittings & trim	236.4	236.4	235.4	226.2
<b>HVAC EQUIPMENT:</b>				
Warm air furnaces	131.9	131.8	128.9	127.6
Unitary air conditioners	153.7	153.7	145.6	138.9
Cast iron heating boilers	146.8	146.8	137.4	131.2

NOTES: 1) Sources: Bureau of Labor Statistics, US Department of Labor; compiled for the American Supply Association; 2) Data for 2009 are subject to revision by BLS.

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