ASA MATERIALS MARKET DIGEST
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ED SCOTT, EDITOR

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CARBON STEEL

PRODUCTION AND PRICING. *Steel Production.* Raw steel output in U.S. mills continues to rise, with weekly tonnage ahead for the twelfth consecutive week. In the most recent reporting week the pour was 1,311,000 tons at a capacity utilization rate of 54.9%, the highest so far in the current year.

The steady rise in steel production is reflected in service center activity. In the latest report from the Metal Service Center Institute, inventories declined for the twelfth consecutive month. Additionally, the most recent edition of the Federal Reserve Board's prestigious "Beige Book" reports that prices of commodity metals, especially steel, have risen in most of the Fed's reporting regions.

The current edition of the Beige Book has decidedly bullish tone, especially with regard to the automotive market. After languishing for several months during the peak of the recession, auto output—and with it steel orders—have gathered steam, largely as the result of the recently ended "Cash for Clunkers" offering. This immensely popular program appealed to both dealers and car buyers, but of late there has been some concern regarding the sustainability of the auto boomlet now that there is no longer any cash for the clunkers.

With the steel industry in a recovery of sorts, some concern has developed on the issue of overproduction. In past periods when steel output has outpaced demand by a large margin there were twofold results: (1) a glut of unsold and unsalable carbon steel; and (2) heavy pressure on steel prices as producers sought to get rid of their unsold product at any cost.

In the current period there has been some concern that this history is about to repeat itself. Given this unspoken worry, welcome assurance came recently from market analyst Chuck Bradford of Affiliated Research Group LLC. In Bradford's opinion the recent restarts of steelmaking capacity is just adequate to maintain stock levels. Declares Bradford, "Even though we are not seeing full economic recovery, we are seeing increased steel orders."

Not everyone sees the market this way. In a recent statement Nucor CEO Daniel DeMicco cautioned that, "There has been little improvement in real demand, and the uncertainty in our economy is still very high." Real demand, says DeMicco "is in for a long, slow recovery."

Raw Materials. According to a recent report by *American Metal Market,* ferrous scrap prices are expected to decline in much or all of October. Tags on the most widely used grades are likely to be off $15 per long ton or more as the result of slack overseas demand and unsold scrap on sellers' yards.

Shipments of steelmaking supplies—coal, iron ore, and limestone-- on the Great Lakes got off to a slow start this year with the decline in shipments well below preceding years. But in mid-August volume picked up sharply as water levels on the lakes remained high and Corps of Engineers dredging in harbors and on waterways permitted heavier lading of the lakeboats.

After several months of slack demand and low prices, the zinc market came alive to a modest degree. On the London Metals Exchange trading in the white metal hovered between $1,862.50 and $1,882.50 per tonne, well ahead of the early days of 2009 when zinc was priced at $1,250.00 per tonne.

Prices. Confirming the somewhat brighter outlook for carbon steel is a continuation of price increases announced by various firms. As happens frequently, ArcelorMittal led the charge with a $60 per ton boost for all flat-rolled goods. The increase brings hot-rolled sheet to $600 per ton, $700 for cold-rolled and $720 for hot dip galvanized. Arcelor's move triggered price increases by other mills, but mostly for amounts $20 less than Arcelor's latest price sheet.

U.S. Steel is applying its own pricing strategy to the market. Its latest increase closely mirrors the announced November increases of ArcelorMittal effective in November *but with December prices unchanged.* Commenting on the U.S. price pattern, *AMM* noted that "some sources [are] wondering if the flat-rolled market has reached its peak." The publication also quoted one distributor musing that "the order books are softening up."

TUBULAR GOODS

Drilling Activity. In the week ending September 19, the U.S. rig count was 1010 operating units. This was an increase from the preceding week's count of 999 and the strongest showing since much earlier in the current year.

OCTG Market. Notwithstanding a slightly higher rig count, the mood among oil and gas drilling contractors—and their suppliers—is anything but cheerful. In a late-September report, *American Metal Market* (*AMM)* issued a gloomy synopsis on the current state of the market for oil country tubular goods (OCTG). The analysis quoted a speaker at a recent industry meeting as "going from distressing to disconsolate." Another characterized the OCTG market as “dismal” and noted that the final quarter is the weakest of the year and that “2009 will be no exception this year.”

Natural Gas Supply. Acting as a drag on drilling operations and the OCTG market is a huge amount of natural gas in storage at a multitude of sites over much of the country. Additionally one source indicates that there are about 3.6 million tons of OCTG products, “on the ground,” i.e., in the hands of drilling contractors and the distributors who supply them. This unsold backlog accounts for a 12 to 14-month supply. The report also notes that line pipe is another product category where usage is being impaired by the enormous unused supply of natural gas in storage.

In a more positive tone, *AMM* concedes that natural gas is currently troubled by over supply. But citing another authority on the subject, the publication quotes another expert as declaring that “In slightly longer terms, there are lots of bullish things [in prospect] prospect for natural gas.

Trade Issues. U.S. steelmakers aren’t the only ones fed up with China’s incessant violation of international trade rules covering tubular goods. Most recently the European Union has responded to China’s selling of seamless steel pipe at below cost. According to the reports from *AMM* and other sources the EU’s investigation of Chinese dumping was initiated in July 2008, and duties of 39.2% were assessed as of October 8, 2009. Chinese trade authorities asserted that the duties that the duties would hurt the EU consumers as much as the sellers of the pipe involved.

<u>COPPER</u>

Prices and Prospects. After several quarters of booming copper sales and rising prices, Chinese buying of the red metal faltered somewhat in August and September. Not surprisingly, the Chinese hiatus significantly impacted pricing of copper and its derivatives. For example, in early fall three-month copper traded on the New York Comex at $2.826 per pound. This was down more than 3% from the preceding week. In the same time frame trading on the London Metals Exchange (LME) slipped 2.85 % from $6,261 per tonne to $6,085.

While these price declines are not earth-shattering, they did create concern regarding the future copper buying plans of China. Indeed, in late September market analysts were predicting decline in LME prices, some seeing a drop in price to as little as $5,000.

The above noted forecast of $5,000 copper on the LME did little more than demonstrate the volatility of the red metal. No more than a week after the copper market twitched, two new developments brightened the picture markedly:

1) China’s production of new passenger cars in August surged to 858,300 vehicles, an increase of 90.2%. This unexpectedly high volume gave copper trading a major shot in the arm, and the red metal’s exchange prices jumped to $2.956 per pound on the Comex and $6,450 per tonne on the LME.

2) To sweeten the market, the U.S. dollar continued to weaken, creating an even more hospitable climate for U.S. exports, including copper.

Copper Scrap. Compared to 2008, U.S. exports of scrap copper declined 13.4% in the first seven months of 2009. Despite a sharp decrease in Chinese buying for the period, China continued to account for fully two-thirds of U.S. copper exports worldwide.

On the home front, copper scrap prices remained steady for most of September. End-user demand remained soft and U.S. supplies of the better grades of copper scrap were hard to come by. According to *AMM*, the domestic supply of copper scrap is so limited that any increase in domestic demand will send prices up sharply. But as of the fourth quarter of the year, no such price escalation has developed.

Copper’s Future. According to a statement issued by copper-producing giant BHP Billiton, the market for the red metal could reach a deficit level of 10 million tonnes by the year 2020. The company’s forecast is based on the assumption that the global copper supply will top out in 2013 with a global of 17 million tonnes. By 2020 global demand is forecast to hit 27 million tonnes.

Billiton’s predictions are based on strong consumption by China, especially in the areas of power generation and automobile production. The company estimates that China has already stockpiled reserves as much as 600,000 tonnes.

STAINLESS STEEL

Global Output. Worldwide production of stainless steel in the first half of 2009 fell 26.7% from 14,798,000 tonnnes last year to 10,848,000 tonnes in 2009. With the exception of China, all major producers of stainless shared in the decline. The steepest regional production drops occurred in the Americas, down 40.5%, Western Europe and Africa, down 40.3%, and Asia excluding China, 34%.

Supplies. The ongoing strike at Vale Inco’s Sudbury (Ont.) facility is having a significant impact on the nickel market. Early in September, nickel prices had eased somewhat from a recent LME high of $21,155 per tonne on the 17th. But as the walkout continues, nickel supplies may be more seriously affected. Already Vale Inco has declared a *force majeure* while continuing to make deliveries to some customers.

Prices. Early in September, all three of the stainless steel Big Three producers announced surcharges for October deliveries. Surcharges posted by North American Stainless include the following:

Type 304	- 83.34 cents, up 25.65% from 66.27 cents
Type 316	- $1.331, up 31.9% from $1.0092
Type 201	- 50.54 cents, up 22.8% from 41.17 cents
Type 430	-16.53 cents, up 6.9% from 15.47 cents.

Big Three members Allegheny Technologies and AK Steel issued price sheets similar to the North American Steel prices listed above.

RESINS

Overview. After brisk action earlier in the year, resin prices have largely leveled off. According to a report from *Plastics Technology (PT)*, feedstock and monomer prices are easing. Domestic demand for resins is so-so and the export market has lost some of its steam Following are some particulars:

Polyethylene. .*PT* reports that prices were little changed during the summer months and implementation of announced increases is unlikely. Additionally, a number of refineries have scheduled maintenance outages, making any near-term price changes unlikely.

Polypropylene. According to *PT*, polypropylene monomer is in short supply as the result of maintenance outages on refinery systems. Some producers apparently took advantage of high PP prices to announce increases ranging up to as 12 cents per pound.

Polyvinyl Chloride. This resin, widely used in the home building industry, has shown little market strength in the past two years. Several producers recently announced increases of 3 cents per pound, but so far the best any supplier can get is two cents.

Polystyrene. Husky price increases were announced in August by several producers. But when the cost of benzene tanked in September, the increases went thataway**.**

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 07/09	Previous 06/09	Year Ago 07/08	2 Yrs Ago 07/07
PIPE, VALVES & FITTINGS:				
Copper & copper-alloy tube	276.9	250.4	309.2	323.7
Steel pipe & tube	155.9	150.9	223.1	168.8
Plastic pipe and fittings	194.6	199.5	227.3	199.1
Industrial valves – metal	187.7	187.7	184.1	175.2
PLUMBING FIXTURES:				
Vitreous china fixtures	99.4	99.4	97.0	103.6
Fixture fittings & trim	236.6	236.4	236.1	226.7
HVAC EQUIPMENT:				
Warm air furnaces	131.8	132.1	130.0	125.7
Unitary air conditioners	152.4	151.9	151.1	140.3
Cast iron heating boilers	147.6	147.6	145.6	135.3

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.

Ed Scott
Editor