ASA MATERIALS MARKET DIGEST
NOVEMBER 6, 2009
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Published Monthly by the American Supply Association Web: www.asa.net; Email: info@asa.net

CARBON STEEL

MIXED MARKET MESSAGES. As 2009 heads into the home stretch, there's still a wide range of opinion regarding the steel industry's near-term prospects. Following is a sampling of some current viewpoints, good and bad:

- After three consecutive quarters of red ink, steelmaking behemoth ArcelorMittal has returned to profitability. The recovery is strong enough to permit restarting a number of facilities that had been shuttered in the dark days of early March. Commenting on the turnaround, CEO Lakshmi Mittal reported that his company would operate at 70% of capacity in the current quarter. Mittal added that "We should continue to see further gradual improvement through 2010."

- Raw steel production in U.S. mills took another jump in the week of October 17, with operations yielding 1,463,000 tons, 1.9% ahead of the preceding week. The latest production report represents the 17th consecutive week of increase as well as the 24th of 25 consecutive production gains.

- Conceding that steel demand in the third quarter had slowed; O'Neal Industries exec Bill Jones predicted a rally in the first two quarters of 2010. He bases this forecast on low finished-goods inventories in service center and mill warehouses.

- After an explosive summer buttressed by the "Cars for Clunkers" program, auto sales nose-dived in September. The result was a 36.4% drop in vehicle sales from the preceding month. Despite the fall-off, most steel mills report that the ordering of steel auto components remains promising.

- Although global demand for carbon steel is currently less than spectacular, the worldwide outlook for steel is indeed promising. So says World Steel Association, the authoritative source tracking developments in steel usage and related economics. In a recent report World Steel predicted a 9.2% increase in global steel production, indicating an aggregate gain by 2010 of 1.2 billion tons of steel usage.

OPERATIONS AND PRICING. *Price Trends.* Recent steel prices announced in October have not fared well in the market place according to reports by *American Metal Markets.* The publication notes that service center managers have been in no hurry to implement the posted boosts and indeed "no material improvement" in pricing has been discerned on the part of either service centers or their customers. A recent survey shows that as of late October, the going rate for hot-rolled coil was unchanged at $500-520 per ton. But not everywhere. In an unusual arrangement, the two major West Coast mills are offering flat-rolled prices that extend for not one but two consecutive months.

In this two-month package, pricing announced for November by California Steel and USS-Posco will apply to December shipments as well as those booked for November. As part of the package, hot-rolled sheet is priced at $580-600 per ton and cold-rolled coil is tagged at $660-690.

Ferrous Scrap. Scrap prices, often mercurial, were under pressure for essentially all of October. Normally that would be an active month for stocking up for wintertime operations, but a slowdown in overseas demand, especially from Turkey and the Far East, has sharply limited demand. By the end of the month, scrap prices were falling “faster and even further” as one dealer put it. By year-end the price of No. 1 heavy melt is expected to be at or below $200 per ton with no recovery in sight.

Zinc. After 18 months of market somnolence, the white metal came alive with a 15.1% price increase to $2,290.50 on the London Metals Exchange. Given the recent rampage of copper purchasing, the zinc surge may have been helped by speculative buying. But additionally, a brief shortage of refined zinc generated some panic buying by end-users. When this mini-boom had run its course, prices quickly reverted to their former level. Nevertheless, increased demand for the white metal *is* developing in such regions as China, Europe, and most recently, the U.S.

China. Once again, the U.S. Treasury Department has ignored the plethora of trade law violations by China and again declared that country not to be a currency manipulator. The declaration dismayed any number of steel industry officials, terming the Treasury move “regrettable,” and “ridiculous” and indicative of the Treasury officials’ “need for corrective eye wear.” In response the Treasury people clucked their “serious concerns” and did nothing else.

Fortunately, other influences took up the cudgels in place of the Treasury cookie-pushers. Trade organizations representing a broad spectrum of products affected by China’s currency shenanigans lobbied hard for Congressional action on the currency issue, and got results: This took the form of a task force of U.S. Senators who leaned heavily on the office of the U.S. Trade Representative, putting much-needed teeth into its regulations.

TUBULAR GOODS

Rig Counts. On-shore oil and gas drilling in the U.S. during the month of October was little changed from one week to the next. Over-all, rig counts ranged from a high of 1,041 operating sites to a minimum of 1,024.

OCTG Pricing. Early in October prices of oil country tubular products continued to erode. According to Pipe Logix, Inc., a prominent source of OCTG pricing intelligence, the average price of OCTG was $1,604 per ton, down 2.7% from the August level.

Representative Prices, Oil Country Tubular Goods
September & October 2009 ($per ton)

	OCT 2009	SEP 2009	Sep-Oct% Chnge
Tubing: Carbon ERW	$1,339	$1,385	**-3.3%**
Tubing: Carbon seaml's	$1,478	$1,461	**1.1%**
Tubing: Alloy ERW	$1,838	$1,924	**-3.5%**
Tubing: Alloy seamless	$2,007	$2,052	**-2.2%**
Casing: Carbon ERW	$1,145	$1,191	**-3.9%**
Casing: Carbon seaml's	$1,105	$1,116	**-1.0%**
Casing: Alloy ERW	$1,569	$1,624	**-3.4%**
Casing: Alloy seamless	$1,735	$1,687	**2.9%**

Source Pipe Logix, Inc.

Commenting on the ongoing price decline, Pipe Logix executive Kurt Minnich characterized the current OCTG market potential as "more pipe on the ground than rigs to consume it." Later he added that "Demand is still off and there is still a lot of pipe on the ground. A lot of existing inventories will have to be worked out over time."

Trade Issues. While OCTG producers are coping with what *AMM* calls a "low-demand, high inventory atmosphere," tubular producers in other product sectors continue to be plagued with China's incessant flouting of established trade laws. In early October, for example, a number of tubular goods producers filed complaints for dumping and the sale of incoming products subsidized by the Chinese manufacturers. The complaints involved copper tube, line pipe, OCTG, and other products. Heretofore such complaints had been directed exclusively toward *Chinese* violations. But recently Mexican sources have acted as intermediaries in shipping tubular goods from Japan through Mexican agencies. Complainants in these issues include executives of U.S. Steel and other manufacturers, as well as the United Steel Workers union.

STAINLESS STEEL

More Mixed Messages. After a bleak first half of 2009, stainless steel producers were heartened by a series of monthly increases in stainless surcharges and, in a few instances, base prices as well. But now, there are signs that the frequent boosts in stainless prices are a decidedly a mixed blessing.

In the light of these rising prices, a great many service centers and other distributors increased their inventories, mainly on the assumption that prices would continue to escalate, thereby providing substantial gains in inventory valuations.

However, matters are not working out quite that way. Starting in September, nickel prices dropped sharply, and with that drop came a *shrinkage* in inventory values. According to *American Metal Market,* the decline in nickel prices will be reflected in stainless surcharges about the time of November deliveries. Anticipating these price decreases, AK Steel has announced reductions in current surcharge levels as follows:

Type 304 - 7.75 cents per pound
Type 316 - 17.45 cents per pound
Type 201 - 2.06 cents per pound
Type 430 - -1.73 cents per pound *increase*

North American Stainless also announced surcharge reductions generally in the range of those of AK Steel's

"Cash for Crispers" In a lame attempt to replicate the "Cash for Clunkers" program of recent success, the U.S. Energy Department is rolling out "Cash for Crispers" as another government handout program. The Department is said to be readying a slush fund of nearly $300 billion to distribute among would-be appliance buyers who want to buy refrigerators, washing machines, etc. on the cheap.

Conceptually, the copycat "Crispers" scheme appears to have all the market appeal of a lead balloon. And hardly had the program been announced than officials for two of the Stainless Big Three endorsed the program, albeit with a singular lack of enthusiasm. To be sure, "Crispers" advocates will argue that, unlike "Clunkers," no trade-ins are required. But unlike the original version, the project will be a state program rather than one operated by the Federal government.

Raw Materials. Ferrochrome (FeCr) is the strategic alloy component in a wide range of stainless steel formulations. In August and September sales were brisk, but in October there was some price erosion with the high-carbon ferrochrome formulation slipping from 89-95 cents per pound to 88-92 cents.

Nickel prices remained steady in October, despite the ongoing strike at the Vale Inco complex in Sudbury, Ont. Vale's mining/refining complex, according to one estimate, accounts for about 8% of the global nickel output. This, notes a spokesman for Barclay's Limited, is enough nickel to easily ride out a strike well into 2010.

COPPER

Prices. Early in October, copper prices fell by about 3.5% with trading on the London Metals Exchange (LME) down to $5,894 per metric ton. But the decline was short-lived as *LME Week* came to town. This is an annual global gathering of the movers and shakers of the metals industries. Participants included producers, traders, consumers and other parties of interest to the business of the London Metals Exchange.

Last year this gathering of the metals clans could hardly have been more dismal. Attendees characterized the meeting's *zeitgeist* with such terms as "appalling," "dire" and "a state of shell-shock." But at the current year's assembly the mood could hardly have been better. As one participant put it, the tone of the meeting was driven by "higher metals prices," "stronger order books" and "more bullish data from around the world."

Hard on the heels of this love fest, the price of copper rose to $6,300 per tonne. Then, soon after LME Week, 3-month copper fell 1.4% to $6,211. But the stumble was of short duration, and within a trading day the price of three-month copper was back up to $6,300. Said one trader, post-LME Week, "You're seeing a big renewed sense of economic optimism, and copper is going along for the ride."

End Users V. Speculators Well into the third week of October, LME copper was back up to $6,460.50, a gain of 2.9% in a single trading day. Not long afterward, the New York Comex Exchange startled the market by reporting a trading range *in excess of* $3.00 per pound. As October neared a close the red metal was trading at $6,650.00 per tonne and at one point the price rose more than 7.3% in a single trading day.

Not everyone involved with copper enthused over the fast-moving market. As some savvy observers pointed out, almost all of the red metal's gains largely if not wholly the result of speculative buying, not end-user demand. As one trader put it, "The wrong people are driving this market—fund managers, investors, speculators—people not tied to consumption or production." Said another, "We're dealing with a very volatile market that's being pushed up for a lot of reasons outside of demand."

Copper Scrap. While all of this had been going on, close attention was being paid by Chinese buyers of copper scrap. On several occasions earlier in the year agents for the Chinese government have gone on frenzied buying sprees for refined copper, concentrate, and scrap. Given China's copper needs for industrial applications and electrification, there is little likelihood that such copper buying sprees have come to an end.

RESINS

Plastics Technology reports that supplies of feedstock and monomer have been impaired as the result of planned and unplanned outages of cracking units and other refinery systems. But with resin demand well below capacity, the impact on pricing and supply has not been substantial.

Items:

Polyethylene. A 5-cent increase was announced for October shipments, but prospects for its implementation are questionable. Local demand is soft but export shipments to China are brisk.

Polypropylene. The market for this resin is completely controlled by monomer prices. Increases of 27 cents per pound are still in effect but not as yet wholly implemented. Supplies of feedstock and monomer have been limited by plant outages in several regions.

Polyvinyl Chloride. With commercial and industrial construction activity under pressure, demand for PVC pipe is almost non-existent, especially in larger diameters. But PVC windows and siding are in demand as the pace of residential construction accelerates. PVC price hikes are unlikely in the near term.

Polystyrene. Price increases in the 10- to 11-cent per pound range were expected in the near future, but the price of benzene took a nosedive, canceling any immediate likelihood of higher resin prices.

PET. No current information is available from production sources.

NOTE TO READERS:

This space is usually devoted to a summary of Producer Price Index data on ten widely used plumbing and HVAC products. Our source for this price information is a monthly report provided by the Bureau of Labor Statistics (BLS).

At the present time BLS is conducting an extensive review of its data bases—the same information that normally appears on this page. But we have identified a number of discrepancies between the "old" BLS data which has appeared on this page and the "new" data developed in the course of the BLS revisions.

We are hopeful that these discrepancies will be resolved before our next edition appears in early December. In the meantime we apologize for any inconvenience the absence of this month's BLS data may cause.

Sincerely

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Editor