
ASA MATERIALS MARKET DIGEST

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CARBON STEEL

Operations and Pricing. In the latest reporting week, ending on January 23, U.S. steelmakers poured 1,587,000 tons of raw steel. The operating rate for the month was 65.6% of mill capacity, the highest rate thus far in 2010.

As steel production continues to inch up, prices are also on the move. As often happens, AK Steel is among the pricing leaders for flat-rolled products. Midway through January the company announced an immediate increase of carbon steel spot prices of \$60 per ton. Nucor Corp. followed suit, announcing a \$50 surcharge per ton. This boost will be part of an over-all hike that will yield an increase of \$60 per ton for all Nucor transaction prices. Nucor attributes the increases to rising costs in raw materials, energy, etc.

Not to be outdone, the two major West Coast steel mills have announced price increases on flat-rolled products. Leading the charge, California Steel Industries (CSI) is increasing hot- and cold-rolled sheet by a minimum of \$40 per ton and galvanized sheet by “at least” \$50 per ton effective March 1. Also on the bandwagon, USS-Posco has told buyers that its cold-rolled sheet will be going up by \$40 per ton and galvanized by \$50. The net effect of these boosts will be an increase in hot-rolled spot prices to \$610-630 per ton.

Service Centers. Final 2009 figures on steel service centers’ sales and inventories were disappointing. According to data from the Metal Service Center Institute, unsold December inventories were up 47% from the preceding month. Additionally, the Institute reports that shipments from service centers in December fell to 2.24 million tons, a decrease of 3.5% from the preceding month. Moreover, market sources indicate that any intended increases in centers’ inventories reflect prospective price hikes rather than an increase in demand.

Ferrous Scrap. Early in the fourth quarter of 2009 there were some indications of stepped-up demand for ferrous scrap. But according to *AMM*, “scrap markets are involved mostly with haggling” and that price changes appear to be limited to \$30 per ton.

Not long after *AMM*’s assessment in the preceding paragraph, the publication reported that Midwestern steel mills are now involved in a “full-blown buying binge.” With brisker demand, premium-grade scrap prices have risen dramatically: Factory bundles and busheling are up to \$400 per ton and even obsolete grades such as No. 1 heavy melt and shredded scrap have posted increases in the \$50-70 range.

TUBULAR GOODS

Oil Country Tubular Goods. For most of the past year, the market for oil country tubular goods was distressed. Oil and gas production was sharply curtailed by a lack of demand, distributor inventories were excessive, and the market was roiled by an ongoing flood of imported OCTG products.

Despite these difficulties industry sources had been predicting a turnaround for some months. But it was not until the end of 2009 that any real improvement developed. In the week of January 23 the U.S. rig count reached a twelve-month peak of 1,282 operating units. This proved to be the catalyst that triggered recovery in the Oil Patch. By late in the 2009 fourth quarter OCTG prices were headed up for the second consecutive month, a development that prompted a well-known OCTG market specialist to declare that, "In the second month of an improvement, we can feel more confident... There's pretty good drilling activity picking up, so even on the demand side, things are looking better."

Compelling evidence to this effect is provided by the accompanying table (below) showing December and January prices for eight major OCTG products. The prices in this table are supplied by Pipe Logix, Inc., a prominent consultancy notable for its expertise in OCTG and related topics. As shown in the table, five of the eight January prices exceed the preceding totals for December.

Representative Prices of Oil Country Tubular Goods December 2009 & January 2010 (\$ per ton)

| <i>Product</i> | Jan 2009 | Dec 2009 | Jan-Dec % Chng |
|------------------------|---------------------|---------------------|---------------------------|
| Tubing: Carbon ERW | \$1,480 | \$1,420 | 3.6% |
| Tubing: Carbon seaml's | \$1,569 | \$1,509 | -0.9% |
| Tubing: Alloy ERW | \$1,986 | \$1,840 | 1.9% |
| Tubing: Alloy seamless | \$1,963 | \$1,960 | 0.0% |
| Casing: Carbon ERW | \$1,194 | \$1,160 | 2.8% |
| Casing: Carbon seaml's | \$1,214 | \$1,118 | 3.5% |
| Casing: Alloy ERW | \$1,549 | \$1,515 | -1.9% |
| Casing: Alloy seamless | \$1,625 | \$1,619 | -2.7% |

Source: Pipe Logix, Inc.

Other OCTG Developments Apart from price recovery for OCTG products, accessory equipment for oil and gas drilling continues to make news. Items:

- The U.S. Department of Commerce announced on January 21 that its International Trade Commission (ITC) has launched an investigation regarding imported drill pipe from China. The action is the most recent in a chain of tubular-goods investigations by the U.S. government to combat Chinese violations of established trade rules. In previous actions ITC has filed charges against China for trade violations covering a broad spectrum of tubular goods including, in addition to drill pipe, line pipe, OCTG, etc. The latest ITC action involves possible anti-dumping and countervailing duty charges related to the drill pipe imports.
- Tenaris SA has announced \$75 per ton price increases for OCTG casing and tubing effective immediately. A letter to the firm's customers explained the increase as attributable to "substantial cost increases associated with raw materials such as scrap and hot-rolled coil."
- Laguna Tubular Products has indicated plans to construct a mill for finishing OCTG products. The new facility is planned for location on 26.5 acres in Channelview, Texas. Completion of the plant is scheduled for the late third or early fourth quarter of 2010.

COPPER

Prices Up and Down. Copper celebrated the Christmas holidays with a blaze of bullish activity. In early January trading on the London Metals Exchange (LME) the three-month contract hit a 16-year peak of \$7,536 per tonne and then settled at \$7,504. Similarly, on the New York Comex: In the first week of January the three-month copper contract settled at \$3.406 per pound, up from the prevailing quote of \$3.3465.

Early in the latest bull market for copper, the government's Bureau of Labor Statistics(BLS) announced a major glitch in the monthly employment figures. As initially reported, the addition/reduction count for non-farm payroll totals came out as a *minus (!)* 85,000 jobs in December. This dismal report cast a pall of gloom over not only the copper market but most if not all of the other base metals in trading.

Not surprisingly, the BLS jobs report triggered an avalanche of selling by long traders rushing to nail down profits. They need not have worried. Soon after the selling landslide began, a red-faced BLS official confessed that the Bureau's figures were flawed, and that the correct jobs total was not minus 85,000 but *plus* 4,000 new jobs.

By the time this BLS fiasco had run its course, China was cranking up its on-again off-again copper buying interest, especially with regard to scrap. In a single January month, Chinese scrap purchases totaled 69,060 tons, an increase of 12.8% over any preceding month. This purchase accounted for no less than 81.4% of all U.S. scrap copper exports shipped in January.

China's Monetary Shenanigans. Chinese dependence on American copper and scrap, and the U.S. reliance on China as a buyer of its copper products, may both be in significant jeopardy. As numerous media reports have indicated, the Chinese government is involved in a strenuous and extensive financial belt-tightening. For reasons not entirely clear to analysts, Beijing has imposed severe restrictions on its monetary system, and these currency controls are seriously curtailing imports, especially in the copper market where China has long been predominant.

The news of China's currency controls had a significant and immediate impact on the copper market. On the New York Comex, the overnight price fell 2.6%, to \$3.3570 from \$3.447. On the LME the reaction was milder—from \$7,475 to \$7,460 per tonne, a modest loss of 0.2%. However, through most of January copper prices eroded steadily and by the end of January the LME price was down to \$7,065 per tonne and the comparable Comex quote was \$3.098 per pound.

STAINLESS STEEL

Markets and Prices. A mini-boom in stainless steel buying developed in January and continues to the present date. Currently, the principal driver in stainless demand is the automotive market. At this writing auto analysts are predicting a build rate of 10.6 million vehicles for year 2010, up from 8.5 million last year. *AMM* reports that most stainless buyers remain bullish about the auto market despite weak sales in the first three quarters of 2009.

Also reflecting the bullish outlook for stainless, AK Steel and North American Stainless have announced higher surcharges for February deliveries. Following are representative surcharge revisions on AK Steel's latest stainless steel price sheet:

Type 304 will be increased 4.1% to \$73.37 per pound;
Type 316 will go up 3.7% to \$1.0578 per pound;
Type 201 will be 5% to 47.94 per pound

North American Stainless and Allegheny Ludlum have announced surcharge increases generally similar to those previously announced by AK Steel.

Unlike stainless steel sheet, demand for stainless plate has softened considerably, in some cases to the point where mills have *reduced* plate surcharges. Following are two examples:

Type 304 from \$1.53 to \$1.43 (effective December)
Type 304 unclad plate or plate mill plate from \$2.16 to \$2.05.

Labor Relations. Currently looming over the stainless steel market is a major strike by the United Steel Workers at the vast Vale Inco nickel production complex in Sudbury, Ontario. As of current date, the walkout is in its seventh month and no settlement is in sight. Indeed, neither side has attempted to initiate talks or even consider them and appear to be locked in what many observers see as an intractable impasse.

In the absence of negotiations, the union has filed a bad faith complaint against the company, though observers of the dispute see little prospect of either side making a move toward

negotiation. According to *American Metal Market*, there is too much distance between the opposing sides to warrant resumption of talks at this time.

(Toward the end of January, some tentative negotiations were entered into by both parties, but they were short-lived. After three fruitless days, the discussions were terminated. As one observer put it, the parties were “miles apart.”)

As the Vale Inco labor dispute drags on, both parties seem more bent on adding fuel to the fire than attempting to resolve it. On the labor side, the walkout has been joined by Inco workers from Voisey’s Bay, Newfoundland and Labrador. In addition, members of the Canadian Auto Workers Union have struck the Xstrata plc operations at Sudbury, Ontario. With a second union and a second operating venue in the conflict, some observers see the current status as an all-or-nothing situation in which the two current “nickel strikes” will settle together or continue their walkouts in tandem.

Irrespective of what the strikers and the companies do next, the price of nickel is already being affected. Both of the struck companies, Xstrata and Vale Inco, have been able to maintain operations and meet customers’ needs from alternate nickel sources available to these companies or by buying nickel from alternate outside sources. Nonetheless the market price of nickel has risen substantially since the strike began. With a \$1.00 premium per pound on LME purchases. Additionally, the market price for refined nickel has risen from \$9,650.00 per tonne in April, 2009 to a current \$17,000-\$18,500.

RESINS

Prices of most of the major resins increased in the opening weeks of 2010. Driving the increases were a number of factors: rising crude oil prices and concurrently the cost of various monomers and feedstocks. Additionally, resins in some categories are in tight supply and demand from the export market appears to be on the rise. Following are specifics on some of the major resins:

Polyethylene. In the early months of the current year PE prices have risen with a 3% price increase in January and an additional boost of 5% in February. In addition, some producers have restricted production to avoid an excess supply on the market.

Polypropylene. A one-time price increase of 3% was announced in January as supplies decreased and demand remained strong.

Polystyrene. After a 5-cent price increase in January, a second 5-cent increase was announced. Additionally, production costs were increased by a 10-cent per pound increase in monomer.

Polyvinyl Chloride. As usual, incremental price increases have been minimal, with boosts of 1 cent and 3 cents in the early months of the year. More recently, an increase in ethylene feedstock has affected producers’ margins and may result in additional price increases.

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 <u>11/09</u> | Previous <u>10/09</u> | Year Ago <u>11/08</u> | 2 Yrs Ago <u>11/07</u> |
|-------------------------------------|------------------------|--------------------------|--------------------------|---------------------------|
| PIPE, VALVES & FITTINGS: | | | | |
| Copper and copper-alloy tube | 310.5 | 282.3 | 217.5 | 286.0 |
| Steel pipe & tube | 166.3 | 165.5 | 203.0 | 166.7 |
| Plastic pipe & fittings | 202.3 | 201.3 | 213.0 | 202.0 |
| Industrial valves – metal | 187.3 | 187.3 | 186.0 | 177.3 |
| PLUMBING FIXTURES: | | | | |
| Vitreous china fixtures | 99.4 | 99.4 | 97.0 | 96.5 |
| Fixture fittings and trim | 236.2 | 236.0 | 236.5 | 227.7 |
| HVAC EQUIPMENT: | | | | |
| Warm air furnaces | 130.5 | 130.5 | 130.2 | 127.0 |
| Unitary air conditioners | 152.4 | 152.4 | 151.3 | 140.9 |
| Cast iron heating boilers | 150.7 | 150.7 | 146.8 | 135.7 |

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.

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