
ASA MATERIALS MARKET DIGEST

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CARBON STEEL

PRICES AND PRODUCTION. *Pricing.* Flat-rolled prices are on the move again, not withstanding what *American Metal Market (AMM)* describes as “spotty” demand levels for both sheet and plate. Leading the latest pricing chart is AK Steel’s customer notification of an intention to raise the price of sheet steel by \$40 per ton effective in early March. The boost is attributable to the combination of increasing demand and the rising cost of steelmaking materials.

Additional price hikes are on the way and will likely have materialized by the time you read this. On the basis of spot price changes, the going prices by early spring will include \$700 per ton for hot-rolled sheet, \$800 for cold-rolled sheet and \$820 for galvanized. AK’s projected increases will bring mill prices to \$680-690 per ton for hot-rolled sheet, \$780-790 for cold-rolled and \$890-900 for hot dip galvanized. Additional prices expected or on the way include:

- Domestic plate prices as of mid-March are in the range of \$37-39 per hundredweight, but the current rate for imports from Russia and Brazil is \$33 per cwt.
- Toward the end of March Nucor announced an additional \$50 increase effective immediately.
- According to *AMM*, rising prices of hot-rolled steel are encouraging vendors to urge buyers to take a second look. As *AMM* put it, “There is nothing like price volatility to get peoples’ attention.” With more interest on the part of buyers, spot Midwest hot-rolled sheet, which was quoted at \$370 per ton in June 2009, has been recently tagged at \$650 for early March 2010.

Production. Raw steel production by U.S. mills in the week ending March 6 set a new high with output of 1,683,000 tons. The year-to-date total of 14,952,000 tons was 56% more than in the comparable total a year earlier. Capacity utilization for the March 6 week was 69.6%. In the week ending March 20 the pour was 1,720,000, another high for the year, and the operating rate set a new 2010 record of 71.1%.

Steel production in the U.S. will accelerate modestly through the remainder of 2010. But a major cyclical recovery in the industry is likely to take longer, perhaps requiring several additional years. Such is the consensus reached by attendees at the recent Steel Markets Conference. Attendees at the conference generally agreed that automotive demand for steel was

up substantially and likely to remain that way. Elsewhere in the transportation sector—rail lines, bridge work, etc., progress will develop more slowly, as will nonresidential construction. Specifically on the transportation sector, opinion at the conference seemed to agree that only 20% of the market remains to be fulfilled.

Future Outlook. Toward the end of March, an elite group of steel executives, a top labor official, and numerous members of Congress gathered in Washington to discuss the “State of the Steel Industry.” Topics covered at this “Congressional Steel Caucus” included climate change, tax policy, and the inevitable issue of Chinese currency manipulation and its impact on the steel industry.

In the State-of-the-Industry discussions Mario Longhi, CEO of Geredau Ameristeel, ticked off the following laundry list of steps that steel producers can and should take to improve the competitive position of U.S. producers:

- Reduce U.S. trade and current account deficits;
- Engage in a concerted drive for greater energy independence;
- Rebuild the obsolescent and deficient U.S. infrastructure;
- Reduce the corporate income tax by adopting a border-adjustable revenue-neutral value added tax.

In a more succinct but no less trenchant suggestion for improving steel’s competitive position is CEO Daniel DeMicco’s call for “jobs, jobs, jobs.” He added that “The jobs crisis continues and we are still applying a Band-Aid to a ruptured artery.”

Raw Materials. Since early March on the U.S. mainland, ferrous scrap supplies have been at the point where No. 1 heavy melt scrap was being routinely offered at \$310 to \$320 per long ton, with some scrap yards getting as much as \$325. Because quality scrap is in short supply, prices this year have escalated in some cases to nearly double the going price a year earlier.

After being asleep at the switch for most of March, Turkish steel producers have reopened their order books wide. Reports from *American Metal Market* indicate that Turkish mills have purchased three cargoes of shredded scrap from U.S. yards and an additional six cargoes from Great Britain and sites in Northern Europe. The U.S. shipments were shredded scrap acquired at a price of \$395 per tonne while the European deliveries consisted largely of No. 1 and No. 2 heavy melt scrap priced in the range of \$380-388 per tonne delivered.

Waterways. After a slump in trade and early weather uncertainties, the Great Lakes waterways are back in business with cargoes of steelmaking raw material. This year the carriers got off to an early start with the locks at Sault Ste. Marie opened by the Corps of Engineers four days ahead of schedule. A speedup of the key waterway was made possible by favorable ice conditions and repeated carrier requests. The shipper-friendly conditions prompted an official of the Lake Carriers Association to label the early lock opening a “Flying Start.” The early cargoes included 2.8 million tons of ore and nearly triple the dry-bulk tonnage in the first week of the year.

TUBULAR GOODS

Rig Counts. In the week ending March 20, the U.S. rig count hit a total of 1,427 operating units, a one-week improvement of 20 additional units. The total was the highest since a recovery in drilling began in early 2010. The tally was 31.5% higher than the rig count in the same week a year ago.

For market watchers in the energy industry, the rig count has long been the nearly universal barometer of oil and gas drilling activity. The weekly tally of active drilling platforms has been watched closely not only by drilling contractors, but also by producers and distributors of drill rigs, oil country tubular goods (OCTG), and others with an interest in hydrocarbon extraction and processing.

Notwithstanding the attention given to the rig count, there are those who question its value as a measure of usefulness in the Oil Patch. This issue came to light at the recent Third Annual Steel Tube and Pipe Conference in Houston. Among the speakers at the session was Gary Varney, V.P. of Devon Energy Corp. and an articulate skeptic regarding the rig count's usefulness. In debunking the count's importance, Varney asserted that some rig counts might be "thrown off" by rig sites with multiple wells per pad. He added that, "There is no typical footage amount for tubulars used in rigs, and the type of tubulars used in rigs may also vary from rig to rig."

Several other attendees at the Houston meeting commented on the accuracy of various methodologies for determining the effective count. However, no consensus on the subject was reached at the Houston meeting.

STAINLESS STEEL

Nickel Supply. Fundamental to the stainless steel market is the supply of nickel, an alloying agent essential to almost all stainless formulations. Also highly desirable in the supply of nickel is a production environment of reasonable labor peace. For the past several months some of the richest nickel sources in the Province of Ontario, Canada, have been threatened by ongoing labor disputes at some times involving as many as 3,000 idled workers. But for the most part, strike-affected production has been replaced by alternative sources. As a result, Nickel prices have remained strong, with the London Metals Exchange pricing a metric ton of refined Nickel at \$22,625 or thereabouts.

Among the operations under strike, one of the largest is the mining giant Vale Inco, and its labor counterpart is the United Steel Workers. It took several months for these two parties to even consider negotiations and when they opened discussions, the conversations went nowhere. A mediator from the Ontario government attempted to bring the two parties together by means of a ballot. But the workers rejected the vote by a margin of 90 to 10.

Xstrata, another major mining company, took a different approach to achieving labor peace. Apparently concerned with the likelihood of intractable labor demands, the company

circumvented union problems with a collective bargaining work force composed *exclusively of non-union employees*. Under the arrangement selected portions of the firm's mining complex is operated by clerical workers, technicians, and other non-unionized personnel. The non-union force is structured to work with a Swiss mining contractor that will operate on portions of the job not interfering with the unionized work force.

Meanwhile, the Vale Inco strike drags on with no resolution in sight. As a result, the company has announced plans to resume nickel mining, but with a work force other than members of the United Steel Workers and mining venues that are not part of the Vale Inco complex.

Some market observers are questioning the company's new nickel mining arrangement and its ability to deliver nickel in adequate volumes and in a timely mode. But others suggest that at least some deliveries can be made as soon as May or June.

Nickel Consumption. In its latest summary, the International Nickel Study Group reported that nickel consumption in January this year amounted to 112,400 tonnes, an increase of 5.5% over December and a 39% increase over consumption of January 2009. With the Vale Inco ongoing strike and other labor issues looming, the pressure on nickel prices has continued. In another recent report the Nickel study Group noted that the going market for three-month nickel closed at \$22,675-22,700 per tonne, an increase from \$22,300-22,305.

Elsewhere in the media, *American Metal Market* reported that spot premiums for truckloads of plating-grade nickel are being quoted at \$1.00-1.10 per pound while the premiums on melting-grade metal are currently at 85-95 cents per pound.

Demand. Yet another sign of increasing demand of base metals came recently when several stainless steel producers asked their suppliers to accelerate availability of April shipments. The pressure on nickel suppliers reflects demand for speeded nickel deliveries rather than any new source of demand. *AMM* quoted one trader as saying, "It seems [as if] demand is very, very strong and these guys are consuming a little quicker than they anticipated." Another mill operator told an interviewer that his plant is operating at a 90% rate [of capacity].

If all goes well for ThyssenKrupp, the Stainless Steel "Big Three"—Allegheny Ludlum, North American Stainless and AK Steel—will become the Big Four. The company reports that ThyssenKrupp's completion of its steelmaking and melt shop will reach completion "as early as 2013" according to a company spokesman.

The plant is being built in Calvert, Alabama. It is scheduled to start production with cold-rolling mills, hot-and-cold rolling mills, pickling lines and other processes.

Ferroalloys. After an improving market in the second quarter, the year looks very promising for ferroalloys according to traders and observers of the ferroalloys market. The consensus was summarized by one trader who said: "That second-quarter demand still looks very strong for most, if not all, of the ferroalloys." (Ferroalloys are used extensively in the formulation of various stainless steels).

COPPER

Prices. Frequent gyrations in the price of copper resulted more from extraneous factors than from user demand for the red metal. A case in point is the recent Chilean earthquake which triggered higher prices in the major metals exchanges, even though the red metal's actual supply was untouched. Nonetheless, trading on the London Metals Exchange opened at \$7,480 per tonne higher than the expected open of \$7,410.50. Similarly, the New York opening price came in at \$3.3777 per pound instead of the expected \$3.368.00.

In a related development, at a recent meeting of the American Copper Council, speculators and investors were busy juggling copper inventories to influence market prices. During the busy trading sessions, the price of three-month copper on the Comex fell to \$3.315 per pound, the lowest price in more than two weeks. At the same session, the price of No. 1 copper scrap lost 4 cents per pound and closed at \$3.01-3.05

The on and off decline in the U.S. dollar's value has periodically served as a catalyst in the rise and fall of the price of copper and relate currencies. For example, toward the end of March a decline in the greenback resulted in a 1.7% increase in the price of copper as the LME close rose from \$7,390.50 to \$7,527. On the same trading day, the Comex price rose 1.6% from \$3.365 to \$3.418.

Copper Supply. In recent reports, the International Copper Study Group (ICSG) and the World Bureau of Metal Statistics (WBMS) announced markedly different assessments of current levels of the global copper supply. According to the ICSG, the global supply of the red metal grew in 2009 to 365,000 tonnes. But WBMS estimated a decline in the supply to 209,300 tonnes. These discrepancies resulted from sharp differences in the methodologies used by the two sources. As of late March, there had been no resolution in the conflicting data submitted by the two "global" sources.

Copper and brass product shipments in February ran well ahead of the year-ago pace according to the Copper and Brass Service Center. Data from this organization indicate that this year's February shipments amounted to 8.8 million pounds, an 11.8% increase over the same month last year.

RESINS

According to one market source, prices for commodity resins may have peaked as prices of feedstocks and monomers appear to have leveled off. Following are reports for specific resins:

Polyethylene. Ethylene prices have risen 8 cents per pound in recent weeks. An additional increase of 5 cents is expected to take effect as of April. 1. Refinery sources have indicated the likelihood of unplanned outages which may put pressure on PE product prices.

Polypropylene. A 5-cent price increase took effect in March following a monomer increase. Subsequent attempts to increase prices are not likely to be accepted.

Polystyrene. Price increases in the first quarter totaled 13 cents per pound, and additional increases are not expected. In fact, some observers expect a “softening” of prices in the current quarter.

Polyvinyl Chloride. With residential construction only starting to gather steam, the domestic market for PVC continues to be weak. However, some improvement is expected in the current quarter.

Producer Price Indexes for Key Industry Products

Appear on the following page

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 02/10	Previous 01/10	Year Ago 02/09	2 Yrs Ago 02/08
PIPE, VALVES & FITTINGS:				
Copper & copper-alloy tube	302.0	329.3	199.7	316.3
Steel pipe & tube	173.7	170.3	177.4	176.1
Plastic pipe and fittings	209.4	205.2	204.6	203.4
Industrial valves – metal	188.4	187.8	186.9	181.1
PLUMBING FIXTURES:				
Vitreous china fixtures	99.6	99.4	97.2	95.4
Fixture fittings & trim	236.4	236.1	235.4	232.7
HVAC EQUIPMENT:				
Warm air furnaces	131.7	131.2	131.5	128.8
Unitary air conditioners	150.9	148.1	153.7	138.9
Cast iron heating boilers	150.8	150.8	146.8	135.7

NOTES: 1) Sources: Bureau of Labor Statistics, US Department of Labor; compiled for the American Supply Association. 2) Data for 2010 are subject to revision.

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