ASA MATERIALS MARKET DIGEST
OCTOBER 4, 2007
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Published Monthly by the American Supply Association Web: www.asa.net; Email: info@asa.net

MARKET OVERVIEW

Carbon Steel. After a sluggish summer, U.S. mills and service centers are experiencing stepped-up demand. Signaling an improved business tempo, ferrous scrap prices rose $25 per ton. Efforts to raise flat-rolled prices early in September were not immediately successful but by mid-month $20-25 per ton increases for flat-rolled products had taken hold. As of late September, hot-rolled sheet was quoted at $530 per ton, cold-rolled at about $630 and galvanized at $760. Meanwhile, prices on oil country tubular goods continued to ease, but September's small 0.4% decline may have signaled a bottoming out of the market.

Stainless Steel. With nickel prices relatively stabilized, the Big Three of stainless steel announced substantial cuts in surcharges for flat-rolled product deliveries in October. These range from 26.4 cents per pound for Type 304 to 32.2 cents for Type 316. Many believe that these cuts will mark the low point in stainless pricing, and that surcharges on November deliveries will be up 10-12 cents per pound. A nickel *surplus* (production minus consumption) in the 20,000-22,000-tonne range is expected for the second half of 2007 as a result of materials substitution and softer demand for stainless.

Copper. The domestic market for copper continues to falter as the U.S. housing slump drags on, probably until mid-2008. But world demand is brisk, and copper prices were on the rise for much of September. As usual, ongoing labor problems in some Latin American venues are threatening to limit copper supplies at least to a modest degree.

Resins. The export market for most resins is booming, but domestic demand continues to be lackluster, especially in products intended for housing. Prices are generally steady, but few if any increases will take hold in the near future.

London Metals Exchange Metals Prices for September

Shown below are final closing prices on the LME for 3-month futures contracts. The dates opposite the High and Low prices represent the trading dates for the figures shown.

Metal	High	Low	Sept Open	Sept Close
Copper	$ 8,071 (09/28)	$ 7,170 (09/06)	$ 7,265	$ 8,070
Nickel	$33,500 (09/20)	$26,625 (09/10)	$28,500	$31,600
Zinc	$ 3,075 (09/28)	$ 2,720 (09/10)	$ 2,946	$ 3,051

CARBON STEEL

OPERATIONS & PRICING. *Operations.* Raw steel production in U.S. mills was little changed during the current reporting period with capacity utilization remaining in the high eighties. Early in the month the operating rate fell to 87.1%, but this decline largely reflected scheduled maintenance. This necessary work is commonly done in the seasonal lull which extends to late summer. Production hit a high of 88.8% of capacity toward month-end and is likely to remain at or about that level for the balance of the current quarter. Through September, U.S. raw steel production totaled 77.3 million tons, 5.2% less than in the comparable 2006 period.

Service centers, after three lackluster quarters this year; appear to be emerging from the doldrums. The latest poll by the Institute for Supply Management shows that just under 60% of the steel buyers polled feel their inventories are well matched to buyer demands. This finding contrasts with earlier surveys showing mills and service centers both overloaded with slow-moving stocks. The recent ISM poll was given a warm welcome at a recent meeting of the Metal Service Center Institute (MSCI) attended by 500-plus members, mostly service center executives. The mood at this gathering was sharply improved from prior Institute meetings in 2007.

Soon after the meeting described above, a new MSCI survey showed service center inventories down to a 2.8-month supply, the lowest level in more than a year. With stocks below the widely recognized a 3-month “safety level” and steel demand strong, service centers are expected to be active buyers in the remaining quarter of 2007.

Also contributing to optimism in the steel market is a $20-25 per ton jump in ferrous scrap prices. With the increases concentrated in premium scrap grades such as busheling and factory bundles, higher scrap costs are seen as a signal of strong steel demand in the near future.

Pricing. Early in September California Steel, one of the two major West Coast mills, announced a $20 per ton increase in flat-rolled products for October deliveries. Initially the boost faced an uncertain future because (a) it was widely viewed as merely an attempt to offset a $20 cut for September shipments; and (b) because the other West Coast major, USS-Posco, did not follow suit.

As late as September 10 a cloud still hovered over attempts to hike flat-rolled prices. Some mills in the East and Midwest had gone along with California’s October increase, but many buyers—especially among service centers—held off on ordering in the hopes that the increases would be withdrawn.

But soon thereafter the market mood changed and service centers, strapped for material, started to buy. The trend was confirmed when another buyer poll showed widespread acceptance of $20-30 increases in October deliveries. At that point *American Metal Market (AMM)* quoted hot-rolled sheet at or near $530 per ton, cold-rolled at about $630 and hot-dip galvanized at

$760. A few days later *AMM* reported “widespread speculation” that the now established hikes in flat-rolled prices would spread to other steel products. This forecast even predicted “an almost immediate increase in pipe and tube prices.” However, as noted in the following section, higher tubular prices have yet to materialize.

By contrast, plate prices show every sign of heading north. Currently the hot products in this sector are coiled plate and cut-to-length plate, both of which are starting points for some tubular products. The going market for both of these is currently $780-820 per ton. However, there are “rumblings” of imminent increases, and one major mill has already announced a $50 boost effective at the end of 2007.

TUBULAR GOODS. Prices of oil country tubular goods (OCTG) eased in September, but some market sources suggest that they have now hit bottom. Supporting this view are several factors: (a) the September decline was only 0.4%, the narrowest drop since OCTG prices began to slip earlier this year; (b) there has been a steady reduction in distributor inventories as excess stocks have been worked down; and (c) it is widely believed that that Chinese OCTG prices will rise because of higher raw materials and shipping costs; and (d) there appears to be a growing number of buyers who are now avoiding Chinese tubular goods because of quality and performance issues.

The modest decline in OCTG prices does not in any way reflect weakening in demand. Drilling activity in the U.S. hit a recent high of 1,829 sites early in September. That activity level represented essentially full capacity for U.S. drillers. Operations would have continued at that level for all of September had not bad weather forced the closing of some sites in Texas and Louisiana. Even with these disruptions, the lowest rig count reported for September was 1,769 operating units.

As shown in the accompanying table, price movement on specific OCTG items is a mixed pattern of gains and losses. These prices, tracked by Spears & Associates, an affiliate of consulting firm Pipe Logix, Inc., are also used to compute a composite price for a “basket” of OCTG products. For September this composite was $1,370 per ton, down 0.4% from $1,376 in August.

Another OCTG expert, newsletter publisher Douglass Radon, suggests that in 2008 there could be a sharp drop in oil country product imports from China. In this scenario, the U.S. resistance to Chinese trade practices would stiffen. Action by Congress, the White House or both could result in countervailing duties or other sanctions being imposed on Chinese tubular products.

(Table of OCTG prices appears on the following page)

Product	Sept 2007	Aug 2007	Sep-Aug % Chng
Tubing: Carbon ERW	$1,270	$1,272	-0.1%
Tubing: Carbon seaml's	$1,454	$1,480	-1.7%
Tubing: Alloy ERW	$1,648	$1,658	-0.6%
Tubing: Alloy seamless	$1,798	$1,799	0.0%
Casing: Carbon ERW	$1,073	$1,079	-0.5%
Casing: Carbon seaml's	$1,210	$1,238	-2.2%
Casing: Alloy ERW	$1,419	$1,428	-0.7%
Casing: Alloy seamless	$1,549	$1,506	2.9%

Source: Pipe Logix, Inc.

STAINLESS STEEL

As nickel prices stabilized after their recent plunge, the Big Three stainless producers—Allegheny, AK Steel and North American Stainless—all trimmed their materials surcharges. The latest cuts, effective with October deliveries, average 26.4 cents per pound for Type 304, 32.2 cents for Type 316, and 29.4 cents for Type 321.

There is a growing consensus among stainless buyers that October will be the low point in materials surcharges. One service manager quoted by *AMM* predicted a new uptrend starting with November deliveries, but added that, "it's not going to be any rocket ride [back] up." Another source agrees and estimates that November surcharges will be up 10 cents for Types 304 and 321 and 12 cents for molybdenum-bearing Type 316.

As reported in our prior editions, a global shortage of molybdenum is threatening as China cuts back on exports and demand rises for high-alloy stainless formulations. But eventually, any such scarcity will be partially allayed by a new moly mine announced recently by Idaho General Mines. This facility will be located in Eureka County, Nevada and is budgeted to cost $850 million. The new mine has proven reserves of 1.31 billion pounds of contained molybdenum and a projected life of 44 years.

Helping to keep a lid on nickel prices is the forecast of a second-half surplus for the key alloying metal. According to one producer cited by *AMM*, nickel production in this year's third quarter will exceed consumption by 20,000 tonnes. In the final three months of the year this figure will rise to 22,000 tonnes. Contributing to the predicted surplus are ongoing materials substitutions by stainless users as well as reduced demand worldwide and curtailed production by stainless producers.

COPPER

Demand & Pricing. As the housing slump wears on, domestic demand for refined copper and copper products continues to falter. One market source characterized U.S. demand for copper wire and water tube as “dead.” Actually, the housing debacle gives the market a double whammy, not only dampening the sale of copper products for new construction but also inhibiting old-house teardowns, normally a rich source of copper scrap.

Despite extreme market softness in the U.S., copper prices rose during the past month. Driving the increase was strong demand globally, as well as increased speculative buying at the metals exchanges. This latter was triggered by the recent Federal Reserve Board cut in interest rates and the consequent weakening of the U.S. dollar. In the trading world it is axiomatic that when the dollar weakens, it’s time to sell investment paper and switch to tangibles. Given copper’s pricing history over the past few years, the red metal has become a juicy target for hot money. The result (see table on Page 1) has been copper prices that are at odds with the slack demand prevailing in the U.S.

Also helping to support copper prices is a recent finding by the International Copper Study Group. This organization reports that in June the worldwide copper deficit—consumption minus production—jumped to 50,000 tonnes. For the first half of this year the organization reported a six-month deficit of 343,000 tonnes, a sharp contrast with the 3,000-tonne deficit posted for the first half of 2006.

Labor Relations. Also contributing to strength in copper prices are that industry’s seemingly endless labor problems. One example is the prolonged strike at Grupo Mexico’s vast Cananea mine in northern Mexico. This facility normally produces about 175,000 tonnes of refined copper annually, roughly half of Grupo Mexico’s total output. With no end in sight, the company has declared a *force majeur*e for some of its customers. Barring a settlement soon, the *force majeure* is expected to extend to all of the firm’s buyers.

Elsewhere on the labor front Codelco, Chile’s mammoth copper mining/refining monopoly, lost 31,000 tonnes of cathode production in July because of a 25-day strike. The walkout involved contract employees, non-union workers employed not by the company but by contractors offering wages far below union scale. This form of labor is widely used by Latin American mining companies, and increasingly, contract workers are demanding wage parity with their union counterparts. This two-tier labor arrangement is well on its way to becoming a major source of labor unrest among copper miners in Latin countries.

Scrap. If demand for cathode and refined copper products remains slack in the U.S., the same is not true of scrap copper and brass. Indeed, a chronic shortage in these supplies has developed because of intense export demand and a shortage of supplies from domestic brass mills currently operating at well below capacity.

The major contributor to tight scrap supplies is China, for several years the lead destination for half to two-thirds of all U.S. copper scrap exports. Chinese buyers took a two-month breather late in the summer but returned to the market with a vengeance in mid-September. Their appetite for copper in all forms—scrap, concentrate, cathode—remains voracious. As a result of the renewed buying, scrap prices have been bid up substantially, with No. 1 copper at $3.32 per pound by the end of September.

RESINS

According to the trade magazine *Plastics Technology (PT)*, there has been little change in resin prices since mid-summer. The publication reports that resin exports remain strong, monomer prices are steady to up slightly, and domestic demand is limited. Following are some of *PT's* observations on specific resins:

Polyethylene. September price increases totaling 9 cents per pound do not appear to be holding in full, but *PT* asserts that at least a part of the nine cents will remain on the price sheet. PE production continues at about 95% of capacity, but a large part of this strong output is headed to foreign destinations.

Polypropylene. A 3-cent boost posted in early September has yet to be honored by many buyers. *PT* sees the boost taking hold, but only several months after its September announcement date.

Polyvinyl Chloride. Nobody in this product sector is talking price increase any time soon. While exports continue to boom, the domestic market is hurting, especially in home building where PVC sales for windows and siding have been decimated. *PT* sees the domestic PVC market getting worse before it starts to get better.

Polystyrene. Two important producers have announced a 3-cent increase effective with October shipments. But a number of other PS producers haven't been heard from, and unless they sign on to the price boost, the three cents per pound will likely remain in buyers' pockets.

(Table of Producer Price Indexes appears 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 08/07	Previous 07/07	Year Ago 08/06	2 Yrs Ago 08/05
PIPE, VALVES & FITTINGS:				
Copper & copper-alloy tube	313.9	320.3	326.2	160.7
Steel pipe & tube	168.2	167.9	165.7	153.1
Plastic pipe and fittings	198.9	200.8	215.9	155.9
Industrial valves – metal	175.8	173.4	160.8	145.9
PLUMBING FIXTURES:				
Vitreous china fixtures	103.6	103.5	101.4	99.8
Fixture fittings & trim	226.3	226.3	212.3	200.2
HVAC EQUIPMENT:				
Warm air furnaces	127.6	127.6	117.8	116.5
Unitary air conditioners	140.3	140.9	136.3	137.6
Cast iron heating boilers	134.1	131.2	126.4	122.0

NOTES: 1) Sources: Bureau of Labor Statistics, US Department of Labor; compiled for the American Supply Association. 2) Data for 2007 are subject to revision.

Special Report: U.S. TRADE TALKS WITH CHINA BECOME "CONTENTIOUS"

For several years now there has been a growing clamor from U.S. industries concerning our trade relations with China. Among the sources of complaint are the Chinese yuan being pegged at a narrow trading range which gives its exporters a decided edge in competitive world markets; heavy government subsidies to selected industries such as steel; and the wholesale dumping in American markets of numerous steel products including especially standard steel pipe and more recently, oil country tubular goods.

Supporting these complaints is the proverbial mountain of evidence so obvious and so compelling that it need not be rehashed here. But for the longest time efforts to secure redress from Chinese trade practices were made only in this country's private sector. The White House, intractably committed to "free" trade, never lifted a finger to help industries distressed by Chinese trade actions. Even when violations of World Trade Organization (WTO) became patent and U.S. trade officials sought to impose sanctions, the White House repeatedly vetoed the duties voted by the Commerce Department's International Trade Commission.

To be sure, there has long been an active Steel Caucus in Congress, but until recently its pleadings for relief were largely met by deaf ears. It was only after control of both houses changed hands that the predicament of numerous U.S. industries received serious legislative interest. With Congress in full cry the Administration finally lodged a complaint with the World Trade Organization (WTO), the membership of which includes both the U.S. and China.

WTO's rulebook specifies that when a complaint is lodged, the complainant and the offending party conduct a "dialogue." This involves a series of face-to-face meetings, stretching over a year or more, at which participants may present their own views and gently criticize those of the opposition. The normal hard-nosed give-and-take of genuine negotiations is not allowed, nor can any non-delegate attend the sessions. The initial Dialogue meeting held in Beijing was characterized as "disappointing" by a spokesman for the U.S. delegation, and the most recent session, in Washington, was termed "contentious."

With the Dialogue sessions getting nowhere, a coalition of U.S. steelmakers and the United Steel Workers union filed a request for immediate relief from Chinese dumping of tubular steel in U.S. markets. Under existing law, complainants can request the U.S. International Trade Commission to impose dumping or countervailing duties on a violator for 90 days under "critical circumstances," and the coalition cited that provision.

About the same time the U.S. steel industry released a blistering white paper accusing—with documentation—the Chinese of cheating on trade rules as well as unfair and illegal trading practices. The steel industry also filed several formal trade complaints against the Chinese and toward the end of October a coalition of U.S. copper and brass producers joined the parade with the encouragement and support of the U.S. House of Representatives. With Congress providing backup, the U.S. International Trade Organization has launched a full scale investigation of Chinese trading practices in the metals industries. The first of three parts of the ITC report is due in Congress just before the current year ends.

These actions by government and industry hardly set well with the Chinese Dialogue delegates. In fact the delegation was thoroughly angered by the stiffened U.S. position and promptly cancelled the next meeting scheduled for November. When that happened, a source close to the talks said, "They thought that if we talked we wouldn't file the cases." He added for the Chinese delegation's benefit, the following advice: "Don't dump. Then we won't file cases."

As matters now stand, the U.S.-China Dialogue is in limbo. Some informal discussions are supposed to take place, but whether they will be productive or not is an open question. And at the earliest, the next formal session of the Dialogue won't take place before January.

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