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# ASA MATERIALS MARKET DIGEST

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#### CARBON STEEL

**PRODUCTION AND PRICING.** *Production.* Raw steel production in U.S. mills continues to grow, albeit at something less than a frantic pace. In the latest reporting week, domestic producers poured 1,244,000 tons of steel at an average operating rate of 52.1%. In both tonnage and operating rate, these figures marked highs for the current year. Even so, U.S. production so far this year represents only half of what the same mills produced in 2008.

*Service Centers.* After an extended period of inactivity, the service center sector is starting to show signs of life. According to the Metal Service Center Institute, June shipments rose 9.2% to 2.46 million tons. But as in the case of steel mills, the centers' gains represent little more than half of their shipments in the comparable 2008 period. Still, hope springs eternal among distributors, and a new survey shows that 60% of the center operators polled expect steel demand to improve over the next three to six months.

*Pricing.* Early in July word leaked out that two major steel producers were about to raise prices despite a market that was, at best, lukewarm. The rumors turned out to be accurate. And within days U.S. Steel announced new prices for September deliveries as follows: \$500 per ton for hot-rolled sheet, \$600 for cold-rolled sheet, \$620 for galvanized sheet and \$640 for aluminized sheet. Arcelor followed suit with increases at or a little under those of U.S.S. Price hikes by these industry giants triggered a blizzard of new price sheets from other mills, including some quoting as little as \$460 for hot-rolled sheet, \$560 for cold-rolled and \$580 for galvanized.

Toward the end of summer, it became clear that those increases announced in July were sticking and that, even with lackluster demand, additional price hikes would be likely in the months ahead.

**RAW MATERIALS.** *Ferrous Scrap.* Early in July ferrous scrap prices in the U.S. rose sharply. The increase reflected scant supplies in the scrap yards of major mills as well as slender inventories in the hands of domestic scrap dealers in various parts of the U.S. To make matters worse the automotive industry, historically a prime source of high-grade ferrous scrap, was operating at far less than its usual rate. Especially damaging was the prolonged shutdown of General Motors and the absence of its factory bundles. With scrap demand from integrated mills, electric furnace operators, and offshore buyers, the inevitable result was higher scrap prices, with some grades bid up by as much as \$80 per ton.

*Iron Ore.* The Great Lakes iron ore trade continued to falter as the prime shipping season began. Cargoes of iron ore on U.S.-flagged carriers in the first half of 2009 amounted to 7.15 million tons, down 64.8% from the same period in 2008. Lakeboat shipments of other

steelmaking materials in the first half of 2009 included 5.02 million tons of limestone, down 40.5% from 2008 and 7.11 million tons of coal, off 17.5% from last year.

**INDUSTRY COMMENTS.** Following are recent pertinent statements from steel industry leaders and related organizations:

- **Lakshmi Mittal**, CEO of ArcelorMittal: “Real and apparent steel demand is on the rise. The financial crisis made customers stop buying. We believe they are returning to the market.”
- **Daniel DeMicco**, CEO of Nucor: “The steel industry’s gains in the first half of this year are ‘apparent’ rather than real. We’re nowhere near where we need to be as an industry and a company.”
- **John Ferriola**, COO of Nucor, “We see little indication that end-use has improved and don’t see improvement in end-use demand through year end.”
- **Unidentified Service Center Exec.:** “None of these buyers have any buying plans or intentions because the current view of the economy is as clear as mud.”
- **American Metal Market:** “Domestic demand has returned as producers continue to boost their melting schedules. Order books, while weak, are improving.”

**STEEL INDUSTRY OVERVIEW.** Toward the end of July there developed what appears to be a decidedly favorable shift in sentiment among steelmakers. To be sure, the switch is by no means unanimous, as the above quotes from Messrs. DeMicco and Ferriola indicate. But the current preponderance of evidence, in our option, points toward a quickening of business in the steel industry. Among the developments supporting this viewpoint are the following:

- Raw steel production by U.S. mills reached both the highest weekly tonnage and the best operating rate thus far in the current year.
- After many months of destocking, steel service centers have not only shifted to *restocking* but are actually accumulating inventory to serve the demands of existing customers.
- Price increases announced in early summer and earmarked for September deliveries have been taking hold with little or no complaint from customers.
- The most compelling factor supporting price increases is the widening view that higher prices are supportable *because of growing demand* rather than any further efforts at rebuilding inventories.
- *American Metal Market* cites recent conference calls with steel executives indicating that orders are picking up. The publication reports that “domestic demand has returned as producers continue to boost their melting schedules.”
- A number of U.S. mills have announced recalls of employees previously laid off. Additionally, U.S. Steel is restarting a blast furnace and tubular steelmaking lines at its Fairfield Works.
- U.S.S. has also initiated the restart of another pellet line at the company’s Minntac ore processing facilities in Minnesota.

To paraphrase Churchill on the WWII victory in North Africa: “This is not the end of the recession or perhaps not even the beginning of the end. But it is surely the end of the beginning.”

## **TUBULAR GOODS**

*Drilling Activity.* The U.S. rig count rose in early July to 928 operating units. Market observers in the Oil Patch suggest that some rigs have been restarted in response to modest increases in hydrocarbon prices. The Canadian count also rose in the current reporting period, reaching 165 active sites.

Commenting on the recent increases in drilling activity was Kurt Minnich, manager of Pipe Logix, Inc., an affiliate of Oklahoma-based energy consultant Spears & Associates. According to Minnich “We’re not seeing any drastic trend. We’re not seeing the bottom falling out as we have already witnessed.” Another analyst, H. Gene Shiels of equipment producer Baker-Hughes, noted that some drillers jumped at the opportunity to start rigs when crude oil rose to \$62 a barrel. But he added that, “I don’t know whether there will be a trend or not. It depends on where oil settles.”

*Oil Country Tubular Goods (OCTG).* Despite a modest rise in the U.S. rig count, prices on OCTG continue to erode. According to Pipe Logix, Inc., the July average price for OCTG was \$1,682 per ton, down 4.4% from June’s \$1,760. (See the table on the following page comparing June and July prices for eight of the most widely used OCTG products.)

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**Current Prices for Eight Widely Used OCTG Products Are Shown on the  
Following Page**

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**Representative OCTG Prices (per ton)**

<i><b>Product</b></i>	<b>July 2009</b>	<b>June 2009</b>	<b>Jun-Jul % Chng</b>
Tubing: Carbon ERW	\$1,465	\$1,551	<b>-5.6%</b>
Tubing: Carbon Seamless	\$1,460	\$1,466	<b>-0.4%</b>
Tubing: Alloy ERW	\$2,133	\$2,067	<b>-0.6%</b>
Tubing: Alloy Seamless	\$2,133	\$2,067	<b>-4.2%</b>
Casing: Carbon ERW	\$1,248	\$1,387	<b>-10.0%</b>
Casing: Carbon Seamless	\$1,106	\$1,190	<b>-7.1%</b>
Casing: Alloy ERW	\$1,738	\$1,828	<b>-4.9%</b>
Casing: Alloy Seamless	\$1,823	\$1,899	<b>-4.0%</b>

Source: Pipe Logix, Inc., Houston TX

*Other Tubular News.* The deluge of flat-rolled price increases in recent weeks is now being mirrored in the tubular goods sector. On July 13, Houston-based Tex-Tube increased standard pipe prices by \$50 per ton, effective with the announcement date. The firm told customers that the increase was driven by rising raw materials costs.

Producers of tubular stainless steel are also climbing on the price increase bandwagon. On June 23, Outokumpu Stainless Pipe told customers that it would be raising prices on welded stainless pipe by somewhere between 6 and 9 per cent. Also joining the crowd without yet specifying the amounts of increase are stainless pipe producers Marcegaglia USA (Munhall, PA) and Felker Piping Products (Marshfield, WI).

Northwest Pipe, a major line pipe producer, reported that its Tubular Products earnings fell below second quarter expectations, primarily because of average selling prices 30% below first quarter price tags. The firm also reported that its Water Transmission Group closed the quarter “much closer to expectations.”

## **COPPER**

*Prices.* On July 27, copper trading on the London Metals Exchange (LME) hit a 10-month high as the red metal closed at \$5,621 per tonne. The occurrence marked the first time refined copper had penetrated the \$5,500.00 barrier since last October. While the price runup was welcomed by traders, many acknowledged that the strong showings had little or nothing to do with end-use demand. As an *AMM* report observed, “Fund buying and speculation [are] far more

responsible for the price spike than underlying demand.” One market participant noted that, “Copper seems to be caught in a trading affair between buying and selling.” Following is a summary of recent copper trading figures on the LME.

<b>Open</b>	<b>\$5,052</b>	<b>(July 1)</b>
<b>High</b>	<b>\$5,625</b>	<b>(July 28)</b>
<b>Low</b>	<b>\$4,825</b>	<b>(July 9)</b>
<b>Close</b>	<b>\$5,501</b>	<b>(July 30)</b>

Not surprisingly, trading on the New York Comex exchange closely paralleled the LME. On July 21 the Comex hit a three-month high of \$2.451 per pound. And as usual on the Comex and its satellites, the top grades of copper scrap closely paralleled the Comex movement of refined copper, with No. 1 scrap rising by 10-11 cents and No. 2 up by 9 to 10 cents a pound.

*Copper Scrap.* In the first five months of 2009, U.S. exports of copper scrap amounted to 393,283 tons, a slight decline of 3.8%. As usual, China was by far the largest buyer of U.S. copper scrap, accounting for 281,020 tons. For at least five years, China has acquired at least two-thirds of all U.S. exports of copper scrap. In the most recent report, China’s share was a record 71.5%.

In addition to their prodigious purchasing of scrap copper from the U.S., in June alone Chinese importers bought 378,943 tons of the refined metal plus 656,031 tons of copper ore and concentrate. China’s one-month buying splurge of well over a million tons set a new record.

*Global Copper Supply.* The International Copper Study Group reports that for the next five years global production of copper will maintain a 3.8% growth rate. If the Study Group’s estimates are correct, worldwide production of copper in 2013 will total 22.7 million tonnes. The increased mine output is expected to involve a broad spectrum of production venues, ranging from Brazil to Zambia.

According to the Study Group, smelter production is also expected to rise over the five-year period, reaching 19.6 million tonnes by 2013. Comparable growth is expected in smelter production and refinery capacity. Despite the anticipated growth, newly produced copper and copper products are still subject to seasonal supply shortfalls. For example, in April of this year, the Copper Study Group reported that the worldwide copper deficit was 122,000 tonnes; almost triple the shortfall in March. The April deficit came as no surprise as that month saw one of the most intensive periods of Chinese copper buying ever.

## **STAINLESS STEEL**

*Demand.* Top executives of two of the Big Three stainless steel producers have issued bullish statements regarding the current market for flat-rolled stainless. Said L. Patrick Hassey,

CEO of Allegheny Industries, “Stainless demand appears to be in the early stages of recovery.” This view was echoed by Hassey’s counterpart, James Wainscott, CEO of AK Steel. He declared that, “There has been increased buying recently on the part of service centers, and it appears that with rising nickel costs, many service centers have been trying to get a jump on expected higher surcharges in the months ahead.”

*Prices.* “Expected higher surcharges,” as suggested by Allegheny’s Hassey, have indeed become something of a habit among the stainless producers. Within the span of three consecutive months, they have boosted surcharges on no fewer than three occasions: In June the surcharge went up 4 cents a pound on Type 304. Another boost of 9 cents was added in July and 11 cents in August. Why the repetitive increases? One service center manager quoted by *AMM* explained it this way: “People were scurrying to get booked, which caused things that were a little tight to get even tighter.” Other service center officials reported no significant increase in underlying demand, just accelerated purchases in June and July that might normally have been placed in August.

When the dust settled, AK Steel flat-rolled surcharges through August amounted to 35.47 cents per pound for Type 201, up 6.91 cents from July; 57.99 cents for Type 304, an increase of 11.04 cents; 85.98 cents for Type 316, up 15.46 cents; and 11.29 cents for Type 430, up 0.82 cent. Comparable increases were announced by the other Big Three members, Allegheny Technologies and North American Stainless.

*Labor Issues.* Labor relations at Vale Inco Ltd’s nickel operations at Sudbury Ontario have often been on the brink of an impasse. As of early July the friction escalated into a full-blown walkout. Negotiations between the union and the company spanned a broad spectrum of issues, but the principal roadblocks to a settlement appear to be proposed reductions in bonus and pension plan provisions. Retirement benefits for new employees are also a point of contention in the dispute. According to knowledgeable sources, the strike is not expected to have any serious impact on the price or supply of nickel or stainless steel products.

## **RESINS**

As previously predicted by *Plastics Technology* magazine, resin prices rose steadily in May, June and/or July. The increases, driven largely by rising monomer prices, appear to have run their course and little additional pricing action is expected during the dog days of summer. Recent developments include the following:

**Polyethylene.** After several months of flat pricing, PE producers secured a 3-cent increase in May and another 3 cents in June. The hikes were enabled by low resin inventories and a recent 4-cent rise in ethylene monomer.

**Polypropylene.** After a 3-cent resin boost in May, the price of monomer jumped 8.5 cents per pound, leading the way for a 10-cent resin increase in early summer,

**Polyvinyl Chloride.** Price hikes this year haven't come easily to PVC producers, but they managed to get a 1.5-cent increase in May, another 3 cents in June and *maybe* another 3 in midsummer.

**Polystyrene.** PS prices are driven largely by what happens to the cost of benzene, which in turn is governed by the gasoline refineries. After a 2-cent increase in May, polystyrene prices have remained flat.

**Gel Coats.** Five-cent increases went into effect in June and again in July. Additional increases, if any, are probably several months away.

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#### 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 06/09	Previous 05/09	Year Ago 06/08	Yrs Ago 06/07 <sup>2</sup>
<b>PIPE, VALVES &amp; FITTINGS:</b>				
Copper & copper-alloy tube	247.9	229.3	313.8	314.3
Steel pipe & tube	152.8	158.9	218.9	169.1
Plastic pipe and fittings	202.7	201.5	212.1	198.6
Industrial valves – metal	187.9	187.3	183.3	172.6
<b>PLUMBING FIXTURES:</b>				
Vitreous china fixtures	99.4	99.4	96.4	103.5
Fixture fittings & trim	236.5	236.4	235.5	226.3
<b>HVAC EQUIPMENT:</b>				
Warm air furnaces	132.1	131.9	128.9	126.4
Unitary air conditioners	151.9	153.7	145.6	140.3
Cast iron heating boilers	146.8	146.8	138.9	131.2

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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