
ASA MATERIALS MARKET DIGEST

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CARBON STEEL

STATE OF THE MARKET. In the struggling steel industry there is still no consensus as to when—or if—a genuine recovery will get under way. Evidence and opinion are equally divided between the good news and the bad. Following is a sampling:

On the plus side:

- A speaker at the Scrap Recycling Institute meeting sees a V-shaped recession with resurgent consumer spending in the second half of 2009 and the GDP at a very benign 3.0-3.5%.
- One high official at Goldman Sachs reminds us of the highly regarded “Zarnowitz Slingshot Rule” that posits more rapid growth in recovery when the preceding recession has been severe.
- The Purchasing Managers Index compiled by the Institute of Supply Management registered 40.1% in the latest tally, still bearish but a marked improvement from the preceding month and the best one-month improvement since last September. A poll by the Institute shows 41% of steel buyers expect to place orders within the next three months, double this percentage a month earlier.
- A leading analyst, KeyBanc Capital, reports that its steelmaking client, Steel Dynamics, Inc. (SDI), has increased production significantly. According to KeyBanc, SDI is currently running flat-rolled orders at a rate of 40,000 tons per week, up from the preceding month’s 30,000 tons. KeyBanc also reports that SDI’s current operating rate is 50%, and 60% is seen as a “near-term opportunity.”

On the minus side:

- At a meeting of the American Iron & Steel Institute (AISI), several top steel executives agreed that recovery will depend on restructuring of the automotive industry, a process that may take as much as 18 months.
- A number of major steel mills have been shutting down their hot ends (coking and blast furnaces), indicating reduced need for blast furnace charging.
- At another steelmakers’ meeting, seven top executives agreed that American mills will never again be able to pour 130 million tons of steel annually, at one time the norm for the U.S. industry.

- Operations of steel service centers are not yet in recovery. Shipments in April, the latest reporting month, fell 5.1% from the preceding month. Year-to-date shipments for the centers was 43.2% less than in the comparable 2008 period.

OPERATIONS AND PRICING. *Operations.* Raw steel production in U.S. mills hit a three-month high in the week ending May 10. Output for the week was 1.06 million tons, the best since February 14. Despite this one-week improvement, the current year-to-date production is still barely half of last year's comparable total.

Pricing. Toward the end of May there were signs of a considerable increase in flat-rolled order entries. The uptrend was confirmed by reports of heavy drawdowns in April, rising from the normal 200,000 tons monthly to 500,000 in the most recent reporting month. But despite this upsurge, prices remained flat. According to *American Metal Market (AMM)*, at the end of April hot-rolled sheet was priced at \$400 per ton, cold-rolled sheet at \$500 and galvanized at \$580.

In the volatile West Coast market, there was a widespread belief that flat-rolled prices had stabilized as of early May. But the reality was otherwise. Well into the month hot-rolled coil slipped \$10 to \$20 to \$420-440 per ton. Commercial quality cold-rolled coil similarly lost ground to \$460-480 per ton and galvanized sheet was priced slightly higher.

RAW MATERIALS. *Ferrous Scrap.* Although steelmaking activity in the U.S. is anything but brisk, some furnaces *are* still being charged, and this "some" is enough to put upward pressure on scrap prices. According to *AMM*, the price of No. 1 busheling in mid-May was \$220-230 per ton, an increase from the preceding month of \$60 or more. The sharp rise reflects overseas demand and a weakening dollar that encourages American scrap yards to look offshore for customers.

Great Lakes Ore Carriers. In the first four months of this year, the volume of iron ore shipments on the Great Lakes was dismal. Tonnage in April fell 66.4% below the same month in 2008. Moreover, the carrier fleet operated at only 42% of capacity, a drop of 70% from April last year. Additionally, the two thousand-foot ore carriers in the fleet have not yet slipped their moorings this spring.

Part of the problem in the Great Lakes trade is an obsolescing carrier fleet. Legislation is now before Congress providing for: (1) the construction of a new ice breaker for the Coast Guard and (2) keel-to-foretop rehabilitation for aging vessels in the ore trade. The proposed ice breaker would enable ore boats on the Great Lakes to move as much as 20% of the iron ore traffic during the ice season.

GOVERNMENT RELATIONS. Under strong pressure from U.S. industries and labor organizations, the federal government is taking extensive steps to combat China's habitual and egregious violation of existing trade law. Items:

- The U.S. International Trade Commission (ITC), in a landmark finding, came down hard on the side of U.S. complainants seeking redress for China's habitual scoffing of international trade laws. The ITC's determination was unanimous (6 to 0) and paved the way for additional remedial actions. A final ruling, including possible sanctions, is expected by year-end.
- In late May a measure was introduced in Congress for the purpose of curbing Chinese currency manipulation to the detriment of U.S. manufacturers and workers. If enacted, the legislation would require the government to establish "fair and predictable standards for currency misalignment." The House version of this measure has more than 40 co-sponsors from both parties, and a Senate version has also been introduced by members of the Upper House.
- A recent poll of construction contractors suggests that thus far the government's stimulus bill has resulted in a great deal of talk and very little cash. The poll reveals that only 16% of the eligible contractors have benefited by the program, and among those that have qualified, there have been complaints of onerous requirements and a slower-than-normal pace of financing. Said one would-be beneficiary, "So far, what the government has done has hurt our business and in no way has it helped."

TUBULAR GOODS

Production. The U.S. rig count continued to decline through May and ended the month at 900 operating sites. This latest count for U.S. rigs is less than half the tally as of September last year. Drilling in Canada has been even more minimal for the last few months, and its latest rig count was only 74 active units. The sharp decline in drilling operations on both sides of the border result from a near-collapse in natural gas prices, down from \$8-9 per million cubic feet to a mere \$3.00 per MMFt³. Additionally, until recently crude oil was in a comparable skid, but lately there has been significant price recovery in crude.

OCTG Prices. The slowdown in oil and gas drilling has devastated prices on oil country tubular goods. According to Pipe Logix, Inc., a recognized authority on OCTG pricing, the current average distributor price fell from \$1,945 per ton in April to \$1,812 in May. These counts are far below the high of \$3,000 per ton at the price peak in September 2008.

But a slowdown in drilling is not the only factor accounting for the plunge in OCTG prices. Over several months earlier this year the Chinese exported millions of tons of OCTG to the U.S. This flood of dumped and government subsidized products utterly decimated the orderly U.S. market, creating a glut that will take months to normalize. And as shown by the table on the following page, month-to-month price erosion continues to be a major problem in the U.S. OCTG market.

Note: The table below reflects the average cost of eight representative OCTG products. The numbers come from OCTG distributors operating in the area of Houston, TX. The figures have been compiled and analyzed by Pipe Logix, Inc., a Santa Fe, NM-based affiliate of the energy consultancy Spears Associates, Inc.

**Representative Prices, Oil Country Tubular Goods,
May and April 2009
(\$ per ton)**

Product	May 2009	Apr 2009	May-Apr % Chng
Tubing: Carbon ERW	\$1,582	\$1,673	- 5.4%
Tubing: Carbon seaml's	\$1,541	\$1,682	-8.4%
Tubing: Alloy ERW	\$2,182	\$2,368	-7.9%
Tubing: Alloy seamless	\$2,290	\$2,449	-6.5%
Casing: Carbon ERW	\$1,408	\$1,520	- 7.4%
Casing: Carbon seaml's	\$1,174	\$1,304	-10.0%
Casing: Alloy ERW	\$1,942	\$2,031	- 4.4%
Casing: Alloy seamless	\$1,930	\$2,051	- 5.9%

COPPER

Prices. Two of the most important end uses for copper are construction—especially residential work—and automotive products. Both of these markets are currently in the doldrums, yet the price of copper has exceeded \$4,000 per tonne on the London Metals Exchange every day since January 1 of the current year. Indeed, over this period the price of copper has rallied and slumped repeatedly, but never this year has the red metal closed below that \$4,000 level, as the following prices for May 2009 demonstrate:

Open	\$4,491.00	(Apr 30)
High	\$4,955.50	(May 7)
Low	\$4,323.00	(May 14)
Close	\$4,955.50	(May 30)

To many analysts the price movements of copper in an atmosphere of severely reduced demand is puzzling. To be sure, China has continued to be a major buyer of the red metal, conducting not one but several all-out copper buying sprees earlier this year (see below). But even at times when the Chinese shelved their order books, copper prices have steadied and remained well above the \$4,000 barrier.

Among the analysts baffled by copper's price pattern is the prominent market consultant, Neil Buxton. Mr. Buxton characterizes the current copper market condition as "the most severe downturn since World War II." He attributes copper's perdurable pricing strength largely to heavy Chinese buying which, he warns, "may be a one-trick pony." Other viewpoints, including the *Copper Journal*, attribute the pricing conundrum to government stimulus, just now getting under way. The *Copper Journal's* publisher asserts that "It's virtually impossible to reconcile what we've seen (in copper prices) over the last three months with what we know to be true when we look at the global economy."

Demand. As mentioned above, China has conducted not one but several all-out copper buying sprees. In some phases of this effort, the Chinese buyers were snapping up every form of the red metal—refined cathode, No. 1 and 2 scrap, and even on a few occasions old auto radiators and similar low forms of scrap. In the process of accumulating all this metal, Chinese buyers at times seemed to act as if money was no object. *AMM* cited one ingot-maker who complained that, "we're hearing awfully high prices for delivery into China. I can't compete with that."

China's voracious hunger for copper, in whatever form, is nothing new. For the past four or five years China has been the buyer of fully two-thirds of all copper scrap leaving U.S. shores. That pattern continues: In the first three months of this year Chinese purchases of copper scrap totaled 148,000 tons, 67.2% of all such shipments. This volume was slightly less than the 156,000 tons purchased in the comparable 2008 period and represented 66.3% of all U.S. exports of copper scrap.

There is little reason to think that China will abandon its relentless pursuit of the red metal. Indeed, the Beijing government has recently appropriated some \$300 million to increase the purchase of household appliances by the populace, with heavy emphasis on air conditioning units. This government program is expected to boost household ownership of AC units by 20% and thereby provide strong demand for copper.

Another view of copper's future demand was offered recently at the meeting of the American Copper Council. The keynoter was Kelly Cosgrove, sales and marketing V.P. for Kennecott-Utah Copper. She told delegates that in the near future the copper market will be strongly dominated by the Far East. According to Ms. Cosgrove, "it will be Asian nations' emerging middle classes that will salvage the current lackluster copper market. More and more rural Chinese citizens will be heavy buyers of copper-strong consumer products—washing machines, refrigerators, TVs, etc." Demand for these amenities will "go through the roof" the speaker declared, "driving higher demand for the red metal."

STAINLESS STEEL

Demand for stainless steel, and with it *user*-demand for nickel, remain in the doldrums. But as shown in the following table, Ni prices continue to be high by recent standards. This is the result of investors and speculators supporting the metal through trading on the exchanges.

Open	\$11,650.00	(Apr 30)
High	\$13,750.00	(May 29)
Low	\$11,650.00	(Apr 30)
Close	\$13,750.00	(May 29)

With regard to pricing, flat-rolled stainless is expected to rise 5 cents per pound or more in June after a 4.5-cent decline in May. The current month's pending price increase, if it materializes, will reflect higher prices for nickel rather than any spurt in demand. Until the appliance and automotive markets gather some steam, stainless steel demand will remain muted.

RESINS

According to *Plastics Technology (PT)* magazine, the general price trend for commercial resins is gradually upward. Increases, if and when they occur, are being driven by revival in the export market; demand from domestic buyers remains minimal. Items:

Polyethylene. Export volume rose by 25% in early spring but domestic demand remains very soft. Suppliers sharply curtailed production in the early months, but inventories still continue to grow. Prospects for any price increase remain dim for the foreseeable future.

Polypropylene. Recent producer attempts to increase prices got nowhere. According to *PT*, demand in the first quarter was off 15% and prices are expected to remain flat for an extended period.

Polyvinyl Chloride. The market for PVC continues to be the same-old, same-old, limping along until home building gets back on its feet. A 3-cent price per pound increase was announced for June 1, but when that date rolled around the boost was down to a penny a pound or thereabout.

Polystyrene. An expected increase in benzene prices did not wholly materialize, forcing PS producers to settle for half of a 4-cent price hike originally anticipated. According to *PT* and other market sources, the remaining 2-cent boost could disappear if benzene prices weaken.

Other Resins. *PT* reports that price increases for some **engineering resins** "remain in question because of lack of industry support." Honeywell Resins has announced a 10-cent per pound increase in the price of **Nylon 6**. **PET** Prices are expected to rise by 5 cents or more,

notwithstanding the likelihood of as much as 900 million pounds of new production reaching the market this coming summer.

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 04/09	Previous 03/09	Year Ago 04/08	² Yrs Ago 04/07
PIPE, VALVES & FITTINGS:				
Copper & copper-alloy tube	242.3	200.4	336.6	311.6
Steel pipe & tube	162.2	173.3	197.2	169.8
Plastic pipe and fittings	199.2	203.0	198.4	196.0
Industrial valves – metal	187.3	187.2	180.8	170.0
PLUMBING FIXTURES:				
Vitreous china fixtures	99.4	97.2	95.4	103.5
Fixture fittings & trim	236.4	235.9	233.0	222.8
HVAC EQUIPMENT:				
Warm air furnaces	131.8	131.6	128.8	127.5
Unitary air conditioners	153.7	153.7	139.7	138.7
Cast iron heating boilers	146.8	146.8	136.3	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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