# ASA MATERIALS MARKET DIGEST
# MARCH 8, 2010
## ED SCOTT, EDITOR

**Published Monthly by the American Supply Association Web: www.asa.net; Email: info@asa.net**

## CARBON STEEL

*Business Outlook.* In measuring the economic and industrial strength of the U.S., no sector is more reliable than steelmaking. And within that industry, two of the most reliable economic bellwethers are industry giants U.S. Steel and Arcelor-Mittal. Currently both of these firms are sending out strong signals indicating renewed strength for at least the next two or three quarters immediately ahead. Following are the near-term views:

**U.S. Steel:** Initially, U.S.S. had anticipated a first quarter operating loss of $329 million, roughly the same as the firm's dismal final quarter of 2009. But in the light of markedly improved conditions—strengthened demand and stronger pricing (see below)—the usual first-quarter loss will be significantly smaller than initially expected. The improvement resulted primarily from increased demand in such markets as appliances, vehicles, and a wide range of other flat-rolled applications.

**ArcelorMittal:** During the darkest months of the recent recession, Arcelor shut down many if not most of its blast furnaces and other production facilities. Over the past month the company has been bringing these units back on stream. And as in the case of U.S.S., the company's restarts reflect increasing demand from such varied market sectors as automotive, HVAC, appliances and windmill generators.

**Manufacturing:** By way of seconding the steelmakers' growth reports, the Federal Reserve Board of New York recently issued a decidedly upbeat report on manufacturing in the Big Apple and environs. The Board's report makes special notice of increased employment and production.

## PRODUCTION AND PRICING

*Production.* Raw steel production in the U.S. continued to gain toward the end of February. In the week of February 13, output amounted to 1,645 million tons, an increase of 2.5% from the preceding week. In the following week production increased an additional percentage point, bringing the total to 1,660,000 tons and an average operating rate of 68.5% of capacity. Both performance records—poured tonnage and operating rate—are the highest recorded since early 2008.

*Pricing.* In a letter to customers, Wheatland Tube announced price increases in a broad range of its products. The scheduled percentage price increases are as follows:

| | |
|---|---|
| Continuous weld black pipe | - 8 per cent |
| Continuous weld galvanized | - 10 per cent |
| Electric resistance weld | - $75 per ton |
| A100 seamless | - 5 per cent |

In explaining the increases, a spokesman for Wheatland noted that "Carbon flat-rolled steel has been moving up steadily since the first of the year and has impacted the cost of doing business for Wheatland and other tube producers.

Elsewhere on the pricing front:

- AK Steel has announced increased spot market prices on carbon steel products at the rate of $50 per ton effective immediately on all new orders.

- After initial hesitation, the two major West Coast steel mills have separately announced price increases on carbon steel products. California Steel (CSI) initially announced a $25 per ton boost but subsequently backed away from the offer. Later the company re-introduced the $25 charge, applicable on hot- and cold-rolled sheet and galvanized. A CSI spokesman said that it would "monitor the market," presumably to keep an eye on competitors' pricing moves.

- At one point the other West Coast mill, USS-Posco (UPI) appeared ready to do without a price increase, but it reconsidered and matched the increases already announced by CSI.

*Service Centers.* After several months of minimal demand and lackluster ordering, activity in U.S. steel service centers came to life. Following a so-so December, sales in January jumped 14.9% to a volume of 2.58 million tons. January inventories for U.S. centers amounted to 6.26 million tons representing a 2.4-month supply at the current shipping level.

## TUBULAR GOODS

*Drilling Activity.* For most of last year, activity in the U.S. Oil Patch was scant to non-existent. The industry started to see some recovery in the closing months of 2009, and however slowly, that activity carried over to the current year. An inkling of the reinvigorated drilling climate is provided in a recent report by *American Metal Market.* The report quotes a number of executives from major distributors as follows: "In terms of the energy market, drilling activity is up slightly, but energy activity is low compared to where it should be seasonally." Nonetheless, the quoted executives see light in the end of the tunnel. Said one: "Excess inventories of oil field products are starting to ease…but certain products still have 15 to 16 weeks supplies while other products have come more into balance at four weeks' supply."

*Trade Issues.* As has been the case for several years, tubular goods have been the focus of numerous legal battles involving trade issues with China, including the following:

- U.S. producers of drill pipe filed a complaint with the U.S. International Trade Commission (ITC), arguing that imported Chinese-made drill pipe and drill collars are threatening the domestic industry. In a split decision the commissioners found in favor of the domestic industry. Punitive action by the Commission is pending.

- In another complaint, the U.S. steel industry charged that Chinese line pipe producers have been receiving unfair government subsidies. In this case the trade commissioners found unanimously in favor of the U.S. industry. As a result the Chinese pipe producers have been served by preliminary countervailing duty orders.

- In other recent actions, the U.S. trade commissioners found against eleven Chinese producers of oil country tubular goods (OCTG). Subsequently the Chinese have sought to reverse the ITC findings and have retained U.S. counsel to pursue the issue.

*OCTG Pricing.* In the monthly report of representative OCTG product prices, only one of the sampled items (alloy ERW tubing) continued to shows a decline in price from January to February. As the table below shows, all of the other sampled products have produced month-over-month gains ranging from 0.1% to 4.1%.

***Source: Pipe Logix, Inc.***

**Representative Prices of Oil Country Tubular Goods**
**January 2010 & February 2010 ($ per ton)**

| ***Product*** | **Feb 2010** | **Jan 2010** | **Feb-Jan % Chng** |
|---|---|---|---|
| Tubing: Carbon ERW | $1,542 | $1,480 | **4.1%** |
| Tubing: Carbon seaml's | $1,596 | $1,569 | **1.7%** |
| Tubing: Alloy ERW | $1,872 | $1,896 | **1.3%** |
| Tubing: Alloy seamless | $1,988 | $1,963 | **1.3%** |
| Casing: Carbon ERW | $1,238 | $1,194 | **3.6%** |
| Casing: Carbon seaml's | $1,277 | $1,214 | **5.2%** |
| Casing: Alloy ERW | $1,550 | $1,549 | **0.1%** |
| Casing: Alloy seamless | $1,652 | $1,625 | **1.6%** |

## COPPER

*Global Outlook.* According to the International Copper Study Group (ICSG), the aggregate global copper market inventory narrowed by 46,000 tonnes in November 2009. In the first 11 months of last year total surplus stocks of refined copper amounted to 144,000 tonnes. On a seasonally-adjusted basis, the current worldwide surplus figure now comes to roughly 285,000 tonnes.

The ICSG also reports that in the first 11 months of 2009, worldwide demand for refined copper fell less than 1%. In addition, the latest data from ICSG reports that worldwide mine output of copper ore increased 1.6% to 14.35 million tonnes.

*See-saw Markets.* In the three weeks from February 1 to February 24, the copper market went through some unusual gyrations. Following is a log for the period:

**February 1- February 10.** The Commerce Department reported that the U.S. economy grew at a 5.7% rate in the final quarter of 2009 and that the quarterly GDP report came in stronger than expected. On the New York Comex the closing copper price was $3.0525, a decline of 1.5%. On the London Metals Exchange, the three-month contract was down 2.8% to $6,868 per tonne.

**February 11-February 21.** The metals markets were spooked by uncertain news regarding the Grecian economy and its prospective bailout. Additionally, the U.S. dollar has been fluctuating irregularly, adding to the confusion of traders and investors alike. In transactions on the LME, copper recovered somewhat, closing at $6,630 per tonne, an increase of 1.5%. In the same period the New York Comex did less well, with contracts closing at $2.989 per pound, a sparse gain of a mere 0.1%. Subsequently, in stronger trading the LME, three-month copper contract closed at $7,365 per tonne and on the New York Comex, the red metal contract closed at $3.3065 per pound.

**February 22-24.** The gains garnered in February 11-21 turned out to be short-lived. In the final week of February the U.S. dollar rallied and prices of base metals and numerous other commodities weakened. On the metals exchanges the inevitable result was declining metals prices—down 1.4% in LME copper and 2.7% on the New York Comex.

***Copper Scrap.*** At a time when primary copper prices have come under pressure, scrap prices have rallied strongly, primarily as the result of increasing scrap shortages. As reported recently on the New York Comex, No. 1 copper scrap traded up 27 cents per pound to close of $2.98- $3.02 per pound. The No. 2 scrap grade also rallied to a mid-February price range of $2.89-$2.91. With the better grades of copper scrap in tight supply, processors are turning to secondary scrap sources such as No. 1 composition solids (priced at $2.40-2.45 per pound), radiators, etc.

*Copper Scrap Exports.* Toward the end of 2009, U.S. exports of scrap copper eased somewhat because of reduced demand from China as well as rising prices. In December China-bound exports of copper scrap amounted to 82,345 tons, down 2.9% from the November total of

84.803 tons. For last year as a whole, U.S. copper scrap exports amounted to 926,671 tons, 7.4% less than the 2008 total of 1,000,430 tons.

In 2009 China maintained its position as the No. 1 buyer of U.S. export copper scrap. This past year Chinese scrap purchases from the U.S. totaled 668,604 tons representing 72.1% of all U.S. copper scrap exports.

## STAINLESS STEEL

*Labor Relations.* For several months the nickel market, and with it the stainless steel industry, have been under the gun of two major labor issues. The longer-standing of these involves a strike at the operations of mining giant Vale Inco and its nickel producing facilities in Ontario. The walkout has idled some 3,200 Vale employees, and negotiations have been at an impasse almost from the onset. At this writing the strike continues and the company has used alternative sources in to supply its customers.

Not long after the Vale employees hit the bricks, another strike threatened among the workers at Xstrata's nickel operations in Sudbury, Ontario and environs. But after extended negotiations, the Xstrata labor situation was settled without a strike.

No such settlement has emerged in the Vale Inco situation where the United Steel Workers' walkout continues. Nonetheless, in a recent development, a spokesman for Vale Inco reported that the company was starting to gear up for "near-full" operations at two of its other mines. Output from these facilities will be fed into the Vale's Copper Cliff smelter in Sudbury. This operation is already running at 50 per cent of capacity using non-union workers. With a peaceful settlement at Xstrata and alternative mining sources for Vale Inco, the Ontario mining industries appear to be weathering their labor problems effectively.

*Stainless Surcharges.* Stainless steel buyers are again having to deal with escalating surcharges based on the rising costs of such raw materials as nickel, chrome, and molybdenum. For the recent season of alloy surcharges, *AMM* estimates that surcharges amount to:

| | |
|---|---|
| For April surcharges: | $1.36 per pound |
| For March surcharges: | $1.25 per pound |
| For February surcharges: | $1.06 per pound |

*Raw Materials Guidelines.* The principal alloying components of stainless steel are three-fold: nickel, chrome, and molybdenum. These ingredients are often combined with iron to form "ferroalloys" such as ferrochrome and ferromolybdenum. Following are current price ranges for each of the major alloying agents:

**Nickel –** Traded on the London Metals Exchange (LME) and currently priced at about $20,500 per tonne.
**Molybdenum –** Currently priced at $18-20 per pound.
**Chrome -** Typically applied as ferrochrome; prices are geared to carbon content as follows:
High-carbon ferrochrome - $1.05-1.10 per pound
Low-carbon ferrochrome - $2.00-2.37 per pound depending on carbon content.

## RESINS

Current themes in *Plastics Technology's* market summaries include higher feedstock prices, increasing export demand, and tighter raw materials supplies. Following are specifics:

**Polyethylene**. Producers are limiting operating rates, presumably to avoid flooding the market. Current demand rates are 85-92% of operating capacity and are well balanced.

**Polypropylene.** Unplanned outages developed when two cracking units went off stream. Top grade polymer prices rose from 49.9 cents per pound to 58.5 cents. Polypro held inventories at a low level—31-32 days supplies.

**Polystyrene.** Substantial increases are pending in benzene and ethylene. Distributor anticipate price increases in the 3-5 cent range.

**Polyvinyl Chloride.** Demand remains weak in the face of slow home construction and remodeling. Plants are estimated to be operating at 70% of capacity or less. A rebound on PVC and other residential products is expected later on in 2010.

**Producer prices 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 01/10 | Previous 12/09 | Year Ago 01/09 | 2 Yrs Ago 01/08 |
|---|---|---|---|---|
| **PIPE, VALVES & FITTINGS:** | | | | |
| Copper and copper-alloy tube | 329.3 | 310.5 | 203.2 | 289.0 |
| Steel pipe & tube | 170.3 | 166.3 | 182.8 | 170.2 |
| Plastic pipe & fittings | 205.2 | 202.3 | 206.9 | 203.2 |
| Industrial valves – metal | 187.8 | 187.3 | 186.5 | 177.3 |
| **PLUMBING FIXTURES:** | | | | |
| Vitreous china fixtures | 99.4 | 99.4 | 96.6 | 101.6 |
| Fixture fittings and trim | 236.3 | 236.2 | 236.7 | 228.4 |
| **HVAC EQUIPMENT:** | | | | |
| Warm air furnaces | 131.2 | 130.5 | 131.5 | 127.8 |
| Unitary air conditioners | 148.1 | 152.4 | 153.7 | 138.9 |
| Cast iron heating boilers | 150.8 | 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.

Ed Scott
Editor