
ASA MATERIALS MARKET DIGEST

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CARBON STEEL

CARBON STEEL PRODUCTION. In the most recent reporting week, production of raw steel by U.S. mills resulted in 1,726,000 net tons, an increase of 0.9% ahead of the preceding week's output. In the year-ago week output for the comparable period was 1,255,000 tons.

Thus far for the year to date, production of U.S. mills poured 50,064,000 tons at an average operating rate of 70.7% of nameplate capacity. The current production rate compares favorably with the preceding year when production when 31,052,000 tons were produced at an operating rate of 44.6%

Shuttering of Sparrows Point Mill. According to a union source, blast furnace operations at the mammoth steel mill near Baltimore, MD will be shuttered for an interval of a reported total of 80 days. The prospective outage is attributable to the company and the union, both of which cite weak market conditions. Alluding to this situation, one service center executive declared that, "you've got too much steel out there right now. There is not much going on and no one is going to buy anything with prices coming down."

California Steel's Flat-rolled and Tubular Renaissance. California Steel (CSI) one of the "Big Two" West Coast steelmakers continues its brisk recovery after a number of mishaps earlier in the year. Currently the Fontana, CA mill is riding high with a well-received product mix of flat-rolled and tubular carbon steel products. In the first quarter of the current year, CSI posted net income of \$10.4 million, compared with a loss of \$15.3 million in the same period last year.

For the first half of last year, CSI's net income was \$28.9 million vis-à-vis a *net loss* of \$18.2 million in the same period a year ago and despite a doubling in revenue from \$251.3 million to \$534.4.

According to Vincente Wright, CSI's chief executive officer, the company's higher first half shipments were due mainly to "restocking" while average prices also increased. According to Wright, "CSI is not convinced that this is a trend that will continue through the balance of the year.

Exports from U.S. steel mills remained strong through the early months of 2010 but slipped 6.3% from 1.13million tons in April to 1.06 million. But year-to-date exports were 627,935 tons, well above the same period last year.

Canada became a major destination for American steel in May with volume of 614,129 tons, a modest decline of 3.2% from the preceding period. Exports to Mexico in the same

reporting period amounted to 202,110 tons. Commenting on the export data was president David Phelps of the American Institute for International Steel (AAIS). Said he: “U.S. steel exports continue to show strength in 2010 in comparison to the internationally weak markets of 2009. We remain optimistic that exports can continue to be an important part of the collaboration between AAIS trading company members and their steel-producing suppliers.”

FERROUS SCRAP. As of July 21, Turkish steel mills have largely completed their restocking of ferrous scrap with only one cargo remaining to be booked. While some market observers expect current prices to remain as is, others see signs of scrap prices rebounding.

Heavy Melt Trading. *AMM* reports that global demand for No. 1 heavy melting steel scrap is on the rise with exports from the U.S. reaching the highest point in eight months. Following a switch from the scrap market earlier in the U.S., Turkish buying highlights the U.S. export scrap market. In second place is South Korea, frequently a major player in the ferrous scrap market. *AMM* also reports that India has hit a new low note in heavy melt purchases and that global demand for No. 1 heavy melt is showing improvements

Demise(?) of Cap and Trade. As this issue goes to press, legislators and members of the steel industry have welcomed the virtual demise of the cap-and-trade bill that has been worrying countless members of the steel and energy industries.

Cap and trade was a creation of the early Obama administration but never got any real support in the U.S. Senate. The situation was summed up by Tom Danjczek, president of the Steel Manufacturers Association in a recent statement: “The bill was dead on arrival because conservative Republicans won’t cross the aisle to support the Democrats in the Senate.” He added that “It was a bad bill scientifically, economically, environmentally, tax wise [and] job wise.”

United States Steel. U.S. Steel, a major steelmaking icon of long standing has, with many other members of the steel industry, indicated concern regarding the near-term outlook for their industry. According to reports in *American Metal Market*, U.S. Steel expects third quarter operating results to fall short in the preceding quarter. The earnings shortfall, according to the publication, is the result of decreased shipping and production volumes from its flat-rolled business segment.

In a recent telephone conference, U.S.S. CEO John Surma did not mince his words. Concerning Big Steel’s hoped-for recovery, he declared: “It’s going to be a choppy recovery that is going to take some time.” Surma added that, “It’s not clear what is happening, but we expect to do reasonably well with those groups for the third quarter because demand appears to be stable.”

Steel Imports. Imports of steel to the U.S. totaled just under 1.8 million tonnes in June. The month’s tally was 13.6% below the preceding month of 2.08 million tonnes in May. Finished steel imports accounted for a 19% share of the U.S. market in June.

TUBULAR GOODS. *AMM* reports that sales of stainless steel producer Synalloy, “got a boost from a marketing push” during the second quarter of the current quarter. The firm posted a net income of just under \$1.1 million in the three months ending July 3, in contrast to a net loss of \$159,000 in the comparable period a year ago.

A statement from the company also noted that contributing to the improved performance was the result of “more aggressive in commodity pipe sales. Additionally, the company has extended its participation in the water, waste water, and power generation markets.

STAINLESS STEEL.

Nickel et al. In recent years, as the market for stainless steel has expanded, the demand for nickel, as well as other materials, has skyrocketed. Currently, nickel is an essential component of almost all stainless steel formulations. Reflecting the key role nickel now plays is the steady rise in nickel prices, especially in the most recent five to twenty years. Indeed, the commodity three-month contract for nickel has risen from less than \$10,000 per tonne to more than \$20,800 in less than five years.

Related Stainless Steel Metals. Mining and production of stainless steel component minerals often are produced with related metals other than nickel. For example, at the mining operations of BHP Billiton, nickel production is closely related with copper, manganese, and molybdenum. For example, in the week ending June 30 Billiton produced 173,400 tonnes of nickel, a production volume that tops the preceding year by 25%. During the same period, manganese ore production gained 37% to 6.1 million tonnes. On the other hand, in the same interval the company’s output of molybdenum declined almost 50% to 813,000 tonnes. The decline in moly reflected a dip in copper production which often moves in synch with molybdenum ore.

New Construction at ThyssenKrupp. Observers of the stainless steel industry continue to ponder the time table for the newest stainless steel plant under construction; the Thyssen Krupp facility currently under construction in Alabama. Little firm information has emerged from the Thyssen plant, even though some equipment for the melt shop is beginning to arrive at the site. Details of the new plant’s installation remains something of a mystery, in part because the firm’s parent company has become increasingly closed-mouth as the project develops.

According to one source, pilings for the Thyssen melt shop are in place and moving forward. But currently the greatest observer interest is focused on the argon oxygen-decarburization (AOD) converter, a key component of the melt shop equipment. According to the report from an industry observer, “I’m sure that they bought and paid for the AOD a long time ago.” He added that “Those things have very long lead times. You pay a firm [price] and you can’t change when they’re coming; they’re just coming; it may not mean anything.”

Nickel Pricing. Something of a “Nickel Watch” appears to be developing among stainless steel mills according to market watchers cited by *AMM*. The publication reports that some stainless mills are considering stepped-up nickel purchases if the LME price for nickel stays at or about \$20,000 per tonne—roughly the current going price for refined nickel. Said one trader to

AMM: “If nickel stays at or above \$20,000 per tonne, it will bring in mills into the market to place orders by the second week of August instead of waiting until after the Labor Day holiday.”

Chinese Stainless. Chinese exports of stainless sheet and strip showed an 11.1% increase in volume during the June period. The unexpected boom in demand came at a time when most stainless products have been booked.

ArcelorMittal. The world’s largest steel company has indicated that it may split its stainless steel operation from the remainder of the business. In a recent statement, Lakshmi Mittal stated that, “We believe that the creation of a separately focused company will create additional value for all shareholders.” The firm’s CEO added that “an independent stainless company would benefit from better visibility in the markets, allowing it to pursue its own strategy in emerging markets and in niche products such as electrical steels.

COPPER

Copper prices skyrocketed to touch \$6,700 per tonne in recent trading on the London Metals Exchange and continued up to \$6,795 in late trading on the LME. Notwithstanding the mid-autumn, additional gains are expected by some traders. One market observer commented as follows: “There are quite a few people sitting short so there’s probably a few people driving the price higher in the hope that a lot of people will run for cover and they can sell.”

Another comment from a representative of Deutsche Banks: “Our trading desk has noticed increased buying. This and Chinese buying, encouraged by arbitrage in copper and zinc, has allowed the metals complex to resist the weakness that would ordinarily be expected.

Mueller Industries. *Mueller Industries* posted a strong second quarter of 2010, with net income for the period of \$15.6 million, more than double the \$6 million recorded for the comparable quarter a year ago. Net sales for the period rose 46.9% from \$540.4 million. According to the company, \$50 million of the increase could be attributable to increased unit volume.

A breakdown of Mueller’s operations show that in the company’s plumbing and refrigeration component, sales increased \$285.6 million in the second quarter. The company’s original equipment manufacturing reported higher unit shipments, with net sales and equipment manufacturing reported higher unit shipments, with net sales and operating income more than doubled.

Copper. After hitting a recent high a few weeks earlier, copper held above \$7,000 per tonne on the LME. Toward the end of July the three-month contract for the red metal opened at \$7,088 and closed at \$7,029.

Two New Metals Exchanges. Two major metals exchanges have indicated plans to launch mini- futures exchanges by the first quarter of the current year. The exchanges will provide cash-settled contracts for copper and zinc. The mini contracts will be managed by the London Metals Exchange and the Singapore Exchange. According to the new exchange principals will be traded and cleared through the Singapore Exchange. The new contracts will create trading, hedging, and arbitrage at a time of strong interest in metals in Asia.

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 Index is defined as the price at which a given commodity or products is sold at its first sale after being manufactured, mined, refined or otherwise produced. All prices are in US dollars.

	Latest	Previous	1 Yr Ago	2 Yrs Ago
PIPE, VALVES & FITTINGS:				
Copper & copper-alloy tube	323.1	300.5	203.2	289.0
Steel pipe & tube	170.8	174.7	182.8	170.2
Plastic pipe & fittings	204.8	207.8	206.9	203.2
Industrial valves	188.1	188.6	186.5	177.3
PLUMBING FIXTURES:				
Vitreous china fixtures	99.6	99.6	97.2	96.6
Fixture fittings & trim	236.1	236.4	236.7	228.4
HVAC:				
Warm Air Furnaces	131.2	131.7	131.5	127.8
Unitary air conditioners	149.8	149.3	153.7	138.9
Cast iron htg boilers	150.8	150.8	146.8	135.7

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