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# ASA MATERIALS MARKET DIGEST

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#### **CARBON STEEL**

*Pricing and Production.* Raw steel production in U.S. Mills during the week ending May 22 eased modestly from the preceding period. In the latest tally, the week's pour came in at 1,787,000 tons, off a bit from the 1,797,000 total logged in the preceding week. While the most recent recording week was down a little, the year-to-date total of 34,197,000 tons topped last year by an impressive margin of 20,521,000 tons.

In the week ending May 29, the year-to-date produced 35,963,000 tons at an average operating rate of 69.9% of capacity. In the comparable period a year earlier, the operating rate averaged 42.5%.

*Ferrous Scrap.* According to a report from *AMM*, the U.S. ferrous scrap markets may soon display a degree of schizophrenia in the months ahead. Markets report that ferrous scrap appears to have been going in two directions in June. On the one hand demand and pricing appear to be moving up modestly while exporters, as *AMM* puts it, "may be leaping off their docks." In simpler terms, *AMM* reports that at least three major steel mills have booked major lots at \$360 per long ton. By contrast, the price weakness that developed early in mid-spring did not last long.

In another product sector, prices for U.S.-made hot band declined moderately in the first half of May. Analysts attributed the decline to the onset of a typical summer slowdown, an occurrence that many market watchers expect to be short-lived. However other market sources do not expect the rosy outlook that others are expecting. Among the less sanguine market authorities, the more careful views including such comments as:

- "Demand is getting better but it still in not that great."
- "Scrap prices are coming down, always viewed as a red flag."
- And in a recent report, *American Metal Market* opined that "flat rolled prices could lose some," in the near future because "We're entering that summer slowdown period when things back up a bit."

*Automotive Markets.* Moody's Investor Services, a major rating service for the vehicular industry, recently announced an upgrade of its own rating. The well-regarded assessor of the motor industry upgraded its own evaluation for the auto industry. The revised rating elevates the Moody's rating from "stable" to "positive." The message conveyed by the improved ratings speaks well for the credit conditions in auto firms for the next 12 to 18 weeks.

In another qualification statement, Moody's commented that "rising prices, especially of steel, could be a concern for the auto industry." In a parallel statement, Moody's warned that, "Over all, the [auto] industry will still be at below break-even operating profit levels in 2010."

Elsewhere in the automotive sector, Ford Motors has once again developed an industry position as one of the major buyers of flat-rolled steel and other alloys and shapes. Recently the company announced its plans to invest \$135 million to provide parts for the parent company's latest generation of "green" transportation products. Lately the company is acquiring components for hybrid-electric vehicles. Components being produced in-house include battery packs, electric drivers, transaxles, etc.

*Alloying Components.* As noted in reports from *American Metal Market*, several major alloying agents used in steelmaking tend to price declines from time to time. For example, ferromanganese prices vary from time to time and in accordance with oxygen content. Following are examples:

*Ferromanganese* prices for the high-carbon-content form, the current high-carbon product has fallen from \$1,430 per tonne to \$1,400. For the alloy with medium carbon content the quotes range from \$1.40 per pound to \$1.45.

*Molybdenum.* In other alloying agents, molybdic oxide has slipped from \$16.75-17.00 per pound down to \$15.75-\$16.25. For ferromolybdenum, the price has fallen from \$21.75-21.25 to \$20.00 to \$20.25.

"*Buy American.*" The U.S. Congressional Steel Caucus has been lobbying the U.S. House of Representatives Ways & Means Committee to assure that caucus members will ensure that member firms will receive tax credits for renewable energy products. The letter to Congress is aimed at seeing that when American-made iron and steel products are used in an energy-related job is involved; the producers are compensated as required.

The letter sent by legislators cited an instance in which a Chinese company is developing a wind farm for use in a 36,000 wind tract. Under federal legislation, developers creating energy-saving systems are entitled to economic tax credits. An instance wherein the Chinese developer used tax credit money to purchase Chinese products—made with Chinese metals and Chinese labor—aroused the anger of legislators. Said one member of the Congressional caucus: "The issue of using American taxpayer funds to create Chinese jobs instead of American jobs should not be an issue in the first place."

## **TUBULAR GOODS**

*Operations.* Oil and gas drilling in the week ending May 22 showed a significant increase in North American rig operations. In the U.S. the rig count came to 1,518 operating units, an increase of 12 units and the highest total recorded so far in this year. A week later the rig count rose by 17 more operating units for the highest total for more than a year.

Toward the end of May, soon after those calamitous oil spills, President Obama declared increased constraints on the offshore production sector. The restrictions come at a time when drilling contracts are being negotiated. Ironically, the presidential ban coincides with the sixth consecutive month of higher prices in the Oil Country Tubular Goods (OCTG) market. Indeed, the drilling ban has resulted in a pall of gloom over the OCTG market. The comment of one OCTG distributor is typical:

“There have already been a lot of cancellations and I’m almost reluctant to answer the phone. People are saying they just can’t take the shutdown. It’s going to have a major impact.”

## **COPPER**

*Transportation.* A recent report from *AMM* tells of a serious problem in more costly shipping premiums in copper deliveries. Toward the end of May premiums were being quoted at 4 to 5.5 cents per pound, but traders were getting set to announce higher premium levels. *AMM* quotes one trader who explains why:

“It depends on the quantity and where you’re going. If you give a large quantity to the trucking company, that might lower your premiums. But if you’re doing one or two truckloads, you’re definitely paying the higher rates.” Said another: “There’s copper around, but getting it to the right spot is a problem. There [are] transportations all over the place. It’s worse this year because a lot of trucking companies have gone out of business.”

The seriousness of the trucking scarcity is highlighted by *AMM*. The publication notes that there is increasingly serious competition between growers of produce—vegetables and fruit on the one hand—and metals which require truck capacity movements of ore and finished goods.

Market participants commented to *AMM*: “Produce always outpays anything else because their product is extremely time sensitive and they have to pay up. Said one copper trader: “They win and take more of the trucks. We saw a record number of trucking company failures in 2008—3,065 companies with five or more going out of business and in 2009 we saw 1,700 companies go under.

*China.* According to Chinese customs agents, China’s volume of imports of copper and zinc are expected to diminish in the near future. The problem is tightened customs and tariff regulations and the difficulty traders are finding in providing arbitrage at a time when Beijing is tightening trade restrictions.

## **STAINLESS STEEL**

*Recent Developments.* Delegates attending the recent *AMM*- sponsored 24<sup>th</sup> Stainless and Specialty Metals Conference were told that escalating costs of alloy prices are likely to make the U.S. a major destination for foreign shipments of foreign alloy shipments.

In a presentation at the Conference, a prominent alloy exporter told attendees that “Asia is no longer the lower-priced market;” and “we now only have only one world price. This situation, according to the speaker, “Makes it very hard for traders to buy in China and sell in North America. The U.S., according to the spokesman, in the next months will be the highest price in the market because of alloy surcharges.”

On a brighter side, the global supply of refined nickel rose from a deficit position of 6,200 tonnes early in 2010 to a surplus position of 11,000 later in the first half of the current year.

ThyssenKrupp Stainless USA is currently in the process of building a new plant in Alabama. The company has given hints that this project may be accelerated in the near future. Currently ThyssenKrupp has scheduled a start date for the project’s melt shop at 2014. However, an executive for the firm commented that, “we’re getting positive indications so we may move forward, possibly in 2012 or 2013. On the other hand an observer noted that assembling sufficient scrap for the company “is going to be a rough struggle.”

According to spokesmen for the company, completion of the ThyssenKrupp plant will be a complex affair involving not only a melt shop but also Type 409 stainless for auto exhausts, a complete rolling mill, etc. As the project progresses, it will expand its product mix in terms of alloys and product shapes and functions.

***Stainless Steel.*** A major crisis has developed in the market for carbonyl nickel powder. This product is little known but a very important raw material for automotive products used in powder metallurgy for the manufacture of gear components and other mechanical parts.

In another development, Stainless Steel producer Allegheny Technologies has reached an agreement to provide a new formulation of “superalloy” metals for use in jet engines to be produced by GE Aviation, an arm of the General Electric Co.

Vale Inco produces some 50 to 60 million pounds per year of nickel powder, a market share that accounts for 80-90 per cent of the global supply. With a long-standing strike still in effect, Vale Inco has been hard put to provide adequate supplies in the face of an ongoing strike and the virtual absence of competing suppliers. One market observer expressed the situation to *American Metal Market* as follows: “You just can’t turn a switch on. So if they were to settle the strike tomorrow, there would be four to six weeks of re-training and another eight weeks before they were making good stuff.”

***Stainless Steel Surcharges.*** As usual, the majors are announcing new schedules of surcharges to take effect in June. The prices shown below are based on recently announced prices for Allegheny Technologies products:

For Type 304 stainless, the surcharge for July will be \$1.0384 per pound, down 15% from \$1.2745.

For Type 316 the surcharge will be \$1.579 per pound, down 13.8% from \$1.8328.

For Type 201 the surcharge will be 71.64 cents per pound down 12.9% from 82.26 per pound; and Type 430 will be 30.73 down 5.6% from 32.55 cents.

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