ASA MATERIALS MARKET DIGEST
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MARKET OVERVIEW

Carbon Steel. Demand for flat-rolled steel eased considerably in early September. As a result, raw steel output from U.S. mills declined slowly. Erosion of flat-rolled prices ensued quickly with hot-rolled sheet falling from $1,100 per ton to $960-970. Scrap prices also caved. Major mills seeking to forestall a steel glut, have scheduled planned maintenance outages for earlier dates.

Tubular Goods. Oil and gas drilling in the U.S. remains in high gear, and implementation of offshore drilling legislation will add to the activity. The current boom in hydrocarbon generation has sharply increased demand for oil country tubular goods (OCTG), and prices have risen accordingly.

Stainless Steel. Nickel prices were in steady decline throughout September, initially reflecting weaker demand. But a major push downward for nickel was given by all those news reports of the credit crisis. First-half imports of finished stainless steel products fell slightly from the comparable 2007 period. But incoming shipments of stainless sheet and strip increased by 13.4%, and these flat-rolled products account for 63% of all stainless imports at the latest count. Reflecting lower nickel prices, all three of the Stainless Steel Big Three reduced surcharges on a wide range of flat-rolled types.

Copper. Prices of refined copper skidded throughout September, and ongoing price declines are predicted for 2009 and 2010. Some well-regarded analysts perceive the current trend in copper prices to be a “correction” rather than a full-scale bear market. Copper and brass scrap remains in strong demand, but supplies are limited not only by low operating rates at brass mills but also the absence of building demolitions as a copper scrap source.

Resins. Recent Hurricanes Gustav and Ike resulted in major damage to several resin plants operating in the Gulf Region. The storms came at a time when heavy pressure was being exerted on resin prices, and reductions of 20 cents per pound or more are being reported.

CARBON STEEL

SUPPLY, DEMAND & PRICING. *Production.* The tally of raw steel production in U.S. mills declined slowly but steadily throughout September. As month-end approached, weekly output was down to 2.025 million tons, the lowest production level thus far in 2008.

Demand. Steel demand was less than robust in August, a situation market observers attributed to the steel industry's usual midsummer slowdown. But the rebound that usually comes in September has not materialized as expected. By late September it was clear that demand for flat-rolled was in a cyclical decline. Additionally, the dearth of new orders was worsened by the credit crisis which continues to monopolize news headlines.

Further evidence of waning steel demand comes from the latest report on steel service center activities in August. According to the Metal Service Center Institute, warehouse shipments for August were down 5.1% from July and off 16.8% from August 2007. Warehouse managers report that flat-rolled products have been especially hard hit by the slow pace of business.

Pricing. The combination of weakening demand and economic uncertainty has taken a heavy toll on the flat-rolled steel market. Both service centers and steel consumers have responded to the current business climate by pruning inventories and limiting purchases.

In this climate, flat-rolled prices have come under heavy pressure. For example, at its peak hot-rolled sheet was tagged at about $1,100 per ton. By the end of September prices had fallen below $1,000, and various sources put the market at $960-970 with some sales as low as $940. Sources also put the going price for cold-rolled sheet at $1,060 and galvanized at $1,180-1,200.

Maintaining "Discipline." Steelmaking in the U.S.—and elsewhere—has long been regarded as a cyclical industry. Traditionally, the mills' response to anemic demand has been to maintain production rates and trim prices enough to keep their order books active. Such policies have frequently been disastrous, leading to runaway price-cutting, paper-thin margins, and in a few cases, corporate bankruptcy.

Currently, the industry is attempting to maintain market discipline to avoid the errors of the past. Leading the way in this effort are two steelmaking giants, Arcelor and U.S. Steel. Both firms have scheduled their annual maintenance shutdowns earlier than usual. The effect of these outages will be to take an estimated 900,000 tons of flat-rolled steel out of the market. Other mills are likely to follow suit, reducing the market by another 500,000 tons or more.

RAW MATERIALS. *Ferrous Scrap.* After several weeks of eroding scrap prices, the market appears to nearing a bottom. That's the view of Sims Metal Management, the world's largest ferrous scrap dealer. This forecast is based on price declines of $300 per long ton for intermediate grade scrap and as much as $350 for premium grades such as factory bundles.. Additionally, market optimists point to the resumption of scrap buying after the Olympics as well as the completion of scrap destocking by integrated mills.

But others disagree. According to a report by *AMM*, growing weakness in demand for steel may force prices even lower, some say to the point where the cost of industrial scrap grades will fall to as little as $200 per ton.

TUBULAR GOODS

Drilling Now. North American rig counts remained at near-record levels throughout September. In the U.S., the number of active drilling sites fluctuated between a high of 2,031 and a low of 2,031. For the first time in recent history, the U.S. rig count remained above 2,000 for an entire month.

In Canada activity was not quite as spectacular, but rig counts ranged from 418 to 436. Moreover, these counts topped the comparable 2007 figures every month, with margins ranging from 19% to 43%.

Recent Congressional passage of legislation permitting offshore drilling for oil and gas will, if anything, raise U.S. rig counts significantly. But when? In Congressional debate over authorization of offshore drilling, opponents were fond of asserting that it would be "at least ten years" before the first barrel of crude was produced by U.S. rigs drilling offshore. This will prove to be an utterly irresponsible claim. To be sure, a lot of time and money are required to build and install a new drilling platform. But with crude still at $90-100 per barrel, there is abundant incentive for crews to get the job done as quickly as possible. And in our view, the first new rig flying the American flag will be operating within two years.

Notwithstanding the promise of offshore drilling, the enabling legislation is far from perfect. For one thing, the ANWR preserve, largest remaining source of crude in the Western hemisphere, continues to be off limits despite the almost non-existent threat to flora and fauna in the preserve. Additionally, permissible drilling under the legislation covers only a small fraction of the region's crude potential.

Suppliers. Yet another overseas-owned line pipe producer has announced plan to build a plant in the Western Hemisphere, specifically in Mexico. The facility will produce small--up to 7-inch diameter—piping, primarily for the oil and gas markets. The plant will be owned and operated by Tenaris, a Luxembourg manufacturer of tubular goods and related products. When complete the facility will have 450,000 tonnes of capacity.

STAINLESS STEEL

The Nickel Market. As shown in the following table, nickel prices declined significantly during September. Shown here are the closing prices per tonne on the London Metals Exchange:

Open (August 29)	$20,200.00
High (August 29)	$20,200.00
Low (September 29)	$16,700.00
Close (September 29)	$16,700.00

The sharp September decline is not unique to nickel, but as shown on the following page, is mirrored in the September copper market and indeed in most other base metals and other commodities. These declines were initially driven by slowing demand. But the price drops were given a major push by the unfolding story of the current credit crunch/crash. Despite these difficulties, many knowledgeable analysts see the current pattern as a correction in what is a bull market long term.

Operations and Pricing. In the first six months of 2008, stainless steel imports fell 0.8% from the comparable 2008 total. Incoming stainless shipments declined in every product category except sheet and strip. Imports in this category rose 13.4% in the six-month period and accounted for 63% of all incoming stainless products.

The decline in imports reflects primarily weak demand. In the first half of the current year, U.S. stainless consumption totaled 1,078,000 tons, according to the International Stainless Steel Forum. The figure represents a drop of 10.4% from the first half of 2007.

Weak demand has also put pressure on the price of ferrochrome, the major alloy used in most types of stainless steel. This issue was discussed at a recent meeting of the Nickel and Stainless Roundtable. Speaking to this group was Josephine Ward, a respected trader. At the session she predicted that the price of high carbon ferrochrome could fall from a current $2.20-2.28 to as little as $1.60-1.70 per pound.

With nickel prices down and ferrochrome headed that way it's not surprising that stainless steel prices have dropped another notch. Early in September Allegheny Technologies reduced surcharges on most of its flat-rolled stainless products. Representative new prices include Type 304, down 12.49 cents to $1.295 per pound; Type 316, $2.1414, off 12.72 cents; and Type 201, 64.9 cents, down 6.57 cents. These price cuts represent the fifth reduction in as many months.

Almost immediately, the other Stainless Steel Big Three companies, AK Steel and North American Stainless, weighed in with new surcharges closely paralleling those announced earlier by Allegheny.

COPPER

Pricing and Demand. Prices of refined copper continued to decline in September. Following are the pertinent prices for the red metal (per tonne) as traded on the London Metals Exchange.

Open (August 29)	$7,550.00
High (August 29)	$7,550.00
Low (September 29)	$6,555.00
Close (September 29)	$6,555.00

Copper's sharp September decline reflects several factors: the lack of demand and ongoing weakness in the home building and automotive industries; a widespread decline in commodity prices; and, exacerbating these factors, the current credit crisis.

No quick fix is available for any of these difficulties, according to Macquarie Research, a leading analyst firm in commodity markets. According to Macquarie, metals are coming under intense pressure in the light of current economic problems. Anticipating ongoing weakness in the copper market, Macquarie projects a 7% decline in copper prices in 2008 and additional 8% declines in 2009 and 2010. And the firm now sees global demand rising 2.3% for 2009, less than its previous growth estimate of 4%.

On the plus side, Macquarie remains bullish on copper for the long run and expects the next up leg in the copper market to be even stronger than the one recently ended.

Copper Scrap. Unlike refined copper, the market for copper and brass scrap continues to be strong. Scrap prices are currently supported not only by overseas demand—especially from China—and a growing scarcity of high grade scrap. This latter factor reflects weakness in two sources of high-grade scrap, demolition scrap and scrap resulting from brass mill operations. Until the home building industry gets back on its feet, scrap from both of these sources will remain in short supply.

Other News. Bill O'Hagan, the longtime CEO of Mueller Industries, is stepping down from this post effective December 31. O'Hagan was diagnosed with lung cancer a year ago and is undergoing treatment. After his resignation becomes effective, O'Hagan will continue as an advisor, consultant, and director emeritus for the company.

In a statement, Mueller Chairman Harvey Karp said, "The Board and I are grateful for Bill O'Hagan's sixteen years of service to our company. During his tenure net income increased at a compound rate of 12.7% and the company was regularly included in *Forbes'* Platinum List of the best big companies in America."

RESINS

Since our last resin report, the industry has been hit by a double whammy—Hurricane Ike which did extensive damage to a number of feedstock producers and/or polymerizes—and the emergence of a bear market that developed with unexpected speed. As a result of these developments, the resin pricing data from *Plastics Technology* is less complete than we would have preferred. Items:

Polyethylene. Toward the end of September, PE prices dropped like an anvil. First to go was a 7-cent price hike that was in force for July and August. Subsequently, monomer prices continued to ease, and the advice of one market analyst is to forget any expectation of a new price boost for at least half a year.

Polypropylene. Prices slipped 2 cents or more mid-summer and there was no prospect of a pending increase taking effect. Additionally, some market watchers expect another price cut of as much as 20 cents and a "big correction in PP prices in September and October."

Polyvinyl Chloride. Hurricanes Gustav and Ike did considerable damage to PVC plants in the Gulf region, and several were still down in early October. One supplier tried to take advantage of the numerous outages in PVC plants to push through a 4-cent increase, but the effort failed.

Polystyrene. PS producers in the path of the hurricanes experienced severe outages after the storms. No price information was available at press time.

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 08/08	Previous 07/08	Year Ago 08/07	2 Yrs Ago 08/06
PIPE, VALVES & FITTINGS:				
Copper & copper-alloy tube	319.1	333.6	323.7	362.2
Steel pipe & tube	227.6	228.5	168.1	165.7
Plastic pipe and fittings	184.9	185.0	175.2	160.8
Industrial valves – metal	227.9	224.9	199.1	215.9
PLUMBING FIXTURES:				
Vitreous china fixtures	97.0	97.7	103.6	101.4
Fixture fittings & trim	237.4	239.6	226.7	212.3
HVAC EQUIPMENT:				
Warm air furnaces	130.7	130.2	125.7	117.8
Unitary air conditioners	151.9	150.0	140.3	136.3
Cast iron heating boilers	145.3	146.7	135.3	126.4

NOTES: 1) Sources: Bureau of Labor Statistics, US Department of Labor; compiled for the American Supply Association. 2) Data for 2007 are subject to revision.

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