ASA MATERIALS MARKET DIGEST
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MARKET OVERVIEW

Carbon Steel. The steel industry continues to falter, both domestically and overseas. Raw steel production at U.S, mills has fallen to less than half of the weekly output in 2008. Flat-rolled prices have more or less stabilized, with recent quotes including hot-rolled at $510-520 in the East and $580-600 in the Pacific region. Cold-rolled prices are in the $600-620 range and galvanized is generally quoted at about $700.

Tubular Goods. Oil and gas drilling activity has declined both because of seasonal factors and lower prices for hydrocarbon production. As a result, the market for oil country tubular goods (OCTG) has softened, and in the past month distributor prices have declined by 5-10%.

Copper. Exchange prices for the red metal showed strength early in February, then weakened. Demand for refined copper continues to be extremely slack. Conditions in the scrap copper market, both domestic and offshore, are depressed almost to the point of paralysis. Contributing to the scrap market's weakness has been a severe slowdown in Chinese buying of U.S. scrap exports, especially during the recent Chinese New Year celebrations.

Stainless Steel. As has been the case for several months, demand for stainless steel is lackluster and recently bordering on the non-existent. Little improvement is expected by market watchers until the home building industry experiences stronger demand.

CARBON STEEL

State of the Industry. Decades ago the atmosphere of Pittsburgh, PA was daily choked by a steady effluent from the major mills—Big Steel, Little Steel, J&L *et al.* Despite the noisome air pollution, steel men gloried in Pittsburgh's status as capital of the steelmaking world. Indeed there was a popular mantra of the era proudly proclaiming that "As steel goes, so goes the nation!"

If steelmaking were the today's paradigm for the nation's welfare, we'd all be in big trouble—or big*ger* trouble. In the early weeks of 2009 raw steel production by U.S. mills ranged from 1.083 million tons at best to a low of less than a million tons. To put this performance in perspective, production for the first eight weeks of 2009 was a mere 7.6 million tons, less than half of the comparable 2008 period. Moreover, this year's operating rate has yet to top 45% of capacity while last year American mills routinely functioned at 90% of nameplate or better.

Not surprisingly, the steel industry’s current laggard production is taking a toll in terms of employee payrolls and plant operations. Among mill operations, none has been hit harder than ArcelorMittal. This company’s recent financials are a riches-to-rags tale. In the final quarter of 2007 Arcelor brought no less than $2.4 billion down to the bottom line. The same report for 2008 is splattered with red ink reflecting a loss of $2.362 billion. The company’s fourth-quarter revenues fell from $28 billion in 2007 to last year’s $23 billion.

Inevitably, the market conditions that triggered these figures also compel cutbacks in plant operations and payroll. But despite numerous austerity measures, Standard and Poor retained Arcelor’s long-term credit rating of BBB+. And the firm’s management reiterated its view that better market conditions lie ahead. Said one spokesman, “The operating climate is likely to remain challenging for the first quarter [but] we are starting to see some signs of improvement.”

Pricing. After some false starts on the West Coast, flat-rolled steel pricing has become something of a “Tale of Two Regions” with geographic markets moving in decidedly different directions. One sector consists of steel mills operating in the East and Midwest. Here there has thus far been little active buying that might help move pricing in one direction or another. Hot-rolled sheet in these Heartland mills is currently quoted at $510-520 for such “normal” business as may be available. Cold-rolled sheet is nominally at $620 per ton, but a larger order—if there is such a thing—will pare the price to $600 or possibly a little less. Hot-dip galvanized is generally quoted at $700.

West Coast pricing is somewhat more dynamic. In recent transactions California mills quoted hot-rolled sheet priced in January at $580-600 per ton. But one of these mills apparently sharpened its pencils and trimmed the going price to $540-560. Other flat-rolled prices are being adjusted accordingly as demand arises.

Steel Service Centers. Operations in the nation’s steel service centers continue in what appears to be an endless tailspin. Their shipments for January fell a catastrophic 42.7% from the same month a year earlier, a plunge that the Metal Service Center Institute described as “unprecedented.” Slack demand was a major factor in the centers’ slump. But also contributing was the absence of bank financing, a deficiency that affects both parties—sellers who need bank loans to support inventories, and buyers whose purchases are supported by bank lending. Absent a reliable source of financing, January service center shipments nosedived from 4.5 million tons in 2007 to a paltry 2.6 million a year later.

Among warehouse managers, the outlook remains grim. In a recent poll, service center operators see the market remaining flat in terms of both demand and price level for at least the next three to six months. One survey respondent predicted that there will be no improvement in the market “until the banks start acting like banks.”

“Buy America.” The “Buy America” theme, avidly tub-thumped by President Obama, is starting to look like a lead balloon. The slogan has raised hackles among some of our best and most valued trading partners, especially Canada and Mexico. In these and other mercantile

venues, “Buy America” has needlessly reawakened the ghost of Yankee Imperialism and has encouraged talk of a tariff war and a union-sponsored “Buy Canada” counterpunch.

Prospective tit-for-tat campaigns by U.S. trading partners in or out of NAFTA are all too reminiscent of the Smoot-Hawley tariffs that triggered the Great Depression. Far more to the point, and apparently news to the White House, the *“ Buy America” concept has been a legal component on the books of U.S. trade laws since 1933!*

Raw Materials. Even as steel mills have pruned production to avert a glut of finished product, the zinc industry is bracing for similar austerity measures. Already output at major zinc mines is being curtailed and several shutdowns are looming. All told, planned and completed zinc mine closures are likely to account for 100,000 tonnes by the end of this year.

These cutbacks have been triggered by widespread price erosion of the white metal. After reaching a high of about $4,500 per metric ton toward the end of 2006, zinc pricing has declined steadily to the point where in trading on the London Metals Exchange (LME) zinc has been priced in the neighborhood of $1,100 per tonne. Following is the record for February of the current year:

LME Zinc Prices per Metric Ton, February 2009:

Opening Price	$1,098.00
High for Month	$1,185.00
Low for Month	$1,089.00
Closing Price	$1,145.00

To make matters worse, zinc inventories in the metals exchanges have reached runaway proportions characteristic of a classic glut. In the LME warehouses, zinc stocks have ballooned to 352,000 tonnes, roughly three times that exchange’s holdings a year earlier.

With commercial building slowing down and demand for galvanized sheet limited, it will take some time for the current overhang of zinc supplies to be worked off. In the meantime efforts to support or even increase the exchange prices will continue, but with unpredictable results.

TUBULAR GOODS

Production. Oil and gas drilling operations continued to wilt in the latter half of February. In the latest reporting week the U.S. rig count declined by 60 units to a total of 1,339 active drilling sites, 24.5% below the comparable year-ago count. In Canada the rig count was essentially flat and remained about 30% ahead of the year-ago operating level.

Contributing to the decline in U.S. drilling operations was pricing weakness in both crude oil and natural gas. Toward the end of February there appeared to be some firming in the hydrocarbon quotes, but definitive price trends have not yet emerged.

OCTG Pricing. A slowdown in drilling operations in the U.S. Oil Patch has put renewed pressure on the price of oil country tubular goods (OCTG). As reported in our preceding issue, OCTG prices had declined as much as 10%, the result of slack demand coupled with an ongoing stream of imported OCTG, especially from China. Price weakness has continued into the current month as shown by reports from Pipe Logix, the leading authority on OCTG pricing and summarized in the table below. All figures represent average prices per ton reported by distributors in the Houston area.

Representative OCTG Prices (per ton)

Product	Feb 2009	Jan 2009	Feb-Jan % Chng
Tubing: Carbon ERW	$2,160	$2,358	-8.4%
Tubing: Carbon seaml's	$2,272	$2,462	-7.7%
Tubing: Alloy ERW	$2,738	$2,902	-5.6%
Tubing: Alloy seamless	$2,775	$2,999	-7.4%
Casing: Carbon ERW	$1,837	$1,991	-7.7%
Casing: Carbon seaml's	$1,773	$1,997	-11.2%
Casing: Alloy ERW	$2,420	$2,533	-4.5%
Casing: Alloy seamless	$2,611	$2,695	-3.1%

Source: Pipe Logix, Inc., Houston TX

Pipe Suppliers. In yet another steelmaker retrenchment, U.S. Steel has padlocked its Lone Star Steel plant in Texas. This facility, acquired not long ago by Big Steel, will be laying off 892 union employees and about 400 salaried workers. A company spokesman characterized the shutdown as temporary but declined to estimate the duration of the shutdown, saying only that operations will resume “when we have orders.”

The Lone Star shutdown cast a pall over the tubular goods market, and little has changed to brighten the outlook. Indeed, the mood was exacerbated when a noted securities analyst downgraded U.S.S. stock from “buy” to “neutral.” Then, to make matters worse, TMK Ipsco announced significant cutbacks in its two OCTG plants in western Pennsylvania, and shortly thereafter Tenaris Agloma Tubes trimmed its seamless pipe operations to 65-70% of capacity

Imports. The Department of Commerce International Trade Commission, for the fourth time in a year, unanimously found that Chinese pipe imports were injuring domestic producers of comparable products. Previously the ITC had made similar determinations involving circular welded steel pipe, small diameter line pipe, light-walled rectangular tubing and most recently, stainless steel pipe. The ITC findings pave the way for the imposition of anti-dumping and countervailing duties on future imports of the sanctioned tubular products.

COPPER

Prices. Early in February copper prices were rising on the metals exchanges. With no visible increase in demand for the red metal, analysts attributed the price upturn to commodity traders and speculators. Whatever the cause, the red metal's price showed a 2.7% increase in the first week of February. Soon thereafter the price hit a peak of $3,500 per tonne on the LME with little to drive it. But the surge was short-lived. An unending flood of bad economic news hammered the price back down to $3,300.00, and with little good news to trigger a rally, copper prices again turned bearish. Following is a summary for the month:

LME Copper Prices per Metric Ton, February 2009:

Opening Price	$3,150.00
High for Month	$3,500.00
Low for Month	$3,172.00
Closing Price	$3,466.00

Scrap Copper & Brass. With little solid demand for refined copper, the market's interest has turned to copper and brass scrap. But even in these product sectors, the market action was almost as sparse as with the red metal itself. In *AMM's* reportage, interviewees vie with one another in describing the bleak market outlook. Said one, "The market is moving—at a snail's pace." Another called the current scrap market "a devastating contraction." Yet another summarized the picture thusly: "I no longer see a light at the end of the tunnel. I don't even see a tunnel any more."

Reflecting the scrap market's somber mood, prices continued to give up ground. Toward the end of February No. 1 copper scrap traded at $1.35 per pound, off 14-15 cents per pound in a single week. No. 2 scrap followed suit, closing at $1.25 per pound after falling roughly 10% or 10-12 cents per pound.

Miscellany. Like a bad penny—or peso—the saga of Mexican labor leader Napoleon Gomez keeps popping up. The controversial miners' union chief has been in self-imposed exile in Canada for well over a year. Recently the Mexican government initiated an action to have Gomez extradited to answer long-standing charges of embezzlement of union funds. But under Mexican law, the crimes for which Gomez is charged may be classified as political, a criminal category which protects the accused from extradition. Meanwhile, Gomez remains at least nominally the head of the Mexican copper miners' union.

STAINLESS STEEL

Prices. Nickel, the basic alloying agent in most grades of stainless steel, came under heavy price pressure in February, as the following figures show.

LME Nickel Prices per Metric Ton, February 2009:

Opening Price	$11,000.00
High for Month	$11,610.00
Low for Month	$ 9,585.00
Closing Price	$10,225.00

With price tags on nickel all over the lot, surcharge changes for stainless steel have become an expected routine for sellers and buyers alike. In its most recent move, Allegheny Ludlum chopped its surcharges for grain-oriented electric steel products from $321 per ton to $299. While electrical steel is a specialty item not widely used in the p-h-c-p industry, the surcharge reductions reflect the dearth of current demand all across the stainless steel product spectrum.

Even as Ludlum was pruning its surcharge schedule, prices on some ferroalloys were firming up. One notable instance involves ferrovanadium, which for some time had traded on the New York market at $10-$11 per pound. Recent reports tell of truckload sales changing hands at $13.00 or even more. This upturn has led some market watchers to conclude that not only FeV has hit bottom but that prices of other ferroalloys may also be strengthening.

Plant Expansion. Surcharge adjustments are not the only reason Allegheny Technologies is currently a newsmaker. The company has also announced a major plant remodeling project for flat-rolled products. Ludlum has earmarked $1.16 billion for plant upgrades which constitute “a new production model for standard-grade stainless with hot-rolled stainless coils that are wider, thinner, flatter and faster,” according to a company statement. The various phases of the ambitious project are expected to be completed in 2012.

Fixed-Price Stainless Contracts. News that some European stainless steel producers are now offering customers fixed-price contracts has got U.S. stainless buyers salivating. Historically, of course, flat-rolled stainless steel pricing has been a two-tiered affair with a base price plus a surcharge geared to the current price of raw materials, energy, etc. The fixed-price alternative has thus far been offered by European-based producers including ArcelorMittal SA, Luxembourg Steel and Outukumpo Oyj.

When word of the European steelmakers’ pricing innovations reached stainless buyers on this side of the Atlantic, many signaled their readiness for the same kind of pricing. Not surprisingly, U.S. buyers’ clamor for fixed-price quotes coincided with the start of another up cycle in stainless steel surcharges. As of press time, there has been no definitive report of any U.S. stainless producer offering the fixed-price alternative to customers.

RESINS

Up-to-date data on resin prices was not available at press time. Generally, resin prices are rising as the result of more costly monomer and feedstock. Additionally, some producers have raised prices in an effort to recapture revenues lost during the summer and autumn when resin prices were exceptionally low.

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 01/09	Previous 12/08	Year Ago 01/08	2 Yrs Ago 01/07
PIPE, VALVES & FITTINGS:				
Copper & copper-alloy tube	191.3	203.2	289.0	257.5
Steel pipe & tube	184.9	203.9	170.2	169.4
Plastic pipe and fittings	206.0	212.2	203.2	194.1
Industrial valves – metal	186.4	186.4	177.3	166.8
PLUMBING FIXTURES:				
Vitreous china fixtures	97.0	97.0	96.6	101.6
Fixture fittings & trim	237.5	236.5	228.4	218.2
HVAC EQUIPMENT:				
Warm air furnaces	131.6	130.2	127.8	120.3
Unitary air conditioners	153.7	151.3	138.9	139.2
Cast iron heating boilers	146.8	146.8	135.7	128.2

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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Editor

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