
ASA MATERIALS MARKET DIGEST

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CARBON STEEL

STATE OF THE INDUSTRY. At a meeting of steel market analysts in early March, the mood was anything but upbeat. *American Metal Market (AMM)* caught the spirit of attendees in quotes:

“Clients vary between denial and despair. Next year will be almost as bad as 2009.”

“The market might recover by 2012 or 2013, but not to previous heights. Commercial work won’t peak until 2014.”

“We won’t get [back] up to 110 million household appliances for years and years.”

Other steelmakers meetings were shrouded in gloom, but a cheerful note was sounded from time to time. For example, A.M Castle boss Michael Goldberg acknowledged the “tremendous uncertainties” of the current steel market but also cited “brighter spots” in the picture, especially the energy market.

Industry giant ArcelorMittal continues to bank its furnaces and furlough workers. Pictured on the front cover of a recent *Forbes* magazine were several billionaires notable for having lost a hatful in the current slump. Among the losers was ArcelorMittal CEO Lakshmi Mittal who has dropped a cool \$25 billion in the current slump but was still smiling in the cover picture. And in his public statements, Mr. Mittal and his associates talked of light in the steelmaking tunnel and predicted that recovery would get under way in June or early in the third quarter. And in a slightly guarded “Amen,” a high official of Citigroup seconded the Mittal forecasts, noting that the manufacturing sector is no longer shrinking and that as of March, “the upside opportunities outweigh the downside risk.” In the same vein an analyst for Standard & Poor’s added that longer term, the industry will benefit from better pricing.

PRODUCTION AND PRICING. *Production.* In the first week of March, U.S mills poured 1,038,000 tons of raw steel, the best production in a month. Total output through the end of the March was 11.692 million tons, less than half of the 2008 production in the same period.

Steel imports to the U.S. are on the decline. In the latest reporting month incoming shipments came to 1,408,000 tons, 34.4% less than in the preceding month. Even shipments of oil country tubular goods (OCTG), which have been strong for several months, fell 47% to 250,000 tons.

Pricing. According to a report from *AMM*, California Steel (CSI) has become a major competitor for flat-rolled products not only on the West Coast but also increasingly among buyers from other regions. The publication also reports that CSI is experiencing strong competition from east-of-the-Rockies mills, but notes that “CSI is determined to defend its market.”

The brisk skirmish between CSI and its easterly competition has put pressure on flat-rolled pricing, at least temporarily. *AMM* reports that as of early March West Coast hot-rolled sheet was priced at \$400 a ton while cold-rolled and galvanized sheet were tagged at \$600.

In a later report, *AMM* quoted market prices of \$470-480 for hot-rolled coil and \$550-560 for cold-rolled. The base price for 1-mm hot-dip galvanized was \$640 “with few takers.” Even lower prices for hot rolled were predicted by market analyst Goldman Sachs: \$430 by July and a “modest” recovery to \$450 by year-end. Latin American mills are also competing briskly for the U.S. flat-rolled market. A major Brazilian exporter is currently shipping cold-rolled coil to the U.S. at a price of \$500 c.f.r. per *metric* ton. The price is the equivalent of \$460-470 f.o.b., certainly lower than the current offer of any U.S. mill. Also from South America, a mill in Venezuela is offering U.S. buyers hot-rolled steel at \$380-390 per ton.

Service Centers. Some of the most dismal statements quoted on page 1 come from owners or managers of steel service centers, and with good reason. In the latest report, covering February operations, service center steel shipments fell 7.3% from January. According to the Metal Service Center Institute, February shipments came to 2.41 million tons, down an unprecedented 40% from February 2008. Combined January-February 2009 shipments were 43% below the same two months in 2008.

Needless to say, the latest service center figures did nothing to improve warehouse managers’ morale. One center operator was quoted by *AMM* as follows: “I don’t believe its coming back. I think you are going to see bankruptcies, companies going out of business, and credit lines pulled.”

Raw Materials. Ferrous scrap prices late in the first quarter fell victim to a harsh winter and slack demand both in the U.S. and offshore. Bargain-basement prices offered by domestic dealers included No. 1 heavy melt at \$150 per long ton and \$200 for No. 1 busheling. The dearth of orders continued until late March when Turkish mills resumed their buying after a considerable hiatus. The Turks’ renewed buying involved 12 to 14 cargoes, enough to boost scrap prices modestly.

With scrap prices near rock bottom, it comes as no surprise that Brazilian pig iron smelters have had a major problem finding buyers for their charging iron: By late March the market for pig was down to \$200 per ton and getting cheaper. Of the 163 extant Brazilian blast furnaces, all but 124 have been banked. Current output from the furnaces still working account for only 21.6% of the region’s total smelting capacity.

Zinc. With automotive sales lagging and commercial building on the skids, demand for galvanized steel has declined measurably. Normally, this would result in price weakness for zinc.

But as the following figures show (in U.S. dollars per metric ton) zinc prices rose strongly during March.

Opening Price (Mar. 3)	\$1,105.00
Month High (Mar. 27)	\$1,338.00
Month Low (Mar. 3)	\$1,105.00
Closing Price (Mar. 30)	\$1,317.00

The white metal's price runup coincided with closure of several zinc mines in the U.S. and elsewhere. Early in March one metals analyst predicted that zinc prices would bottom out at \$1,150.00 per tonne in the near future, with a recovery to \$1,550.00 early in 2010.

TUBULAR GOODS

The decline in oil and gas drilling in the U.S. Oil Patch continued through March. By the end of that month the U.S. rig count had dropped from 1,300 active units to 1,085, less than half of the peak drilling level of 2,200 . The sharp drop in drilling involved seasonal factors as well as lower hydrocarbon prices which discouraged production.

As the rig counts declined, oil country tubular goods (OCTG) prices fell inexorably. According to Pipe Logix, Inc., the leading authority on OCTG pricing, prices of some fittings fell as much as 14%, and the average March drop for all OCTG fittings was close to 8%. High distributor inventories added to the pricing problem and, as one distributor put it, "The supply chain is currently full, end to end." The impact of high inventories and low demand on OCTG prices is summarized in the table on the following page:

OCTG Price Table appears on the following page

OCTG Prices, February-March 2009

	Mar 2009	Feb 2009	Feb-Mar % Chug
Tubing: Carbon ERW	\$1,974	\$2,160	-8.6%
Tubing: Carbon seal's	\$2,046	\$2,272	-9.9%
Tubing: Alloy ERW	\$2,560	\$2,738	-6.5%
Tubing: Alloy seamless	\$2,614	\$2,775	-5.8%
Casing: Carbon ERW	\$1,713	\$1,837	-6.7%
Casing: Carbon seal's	\$1,644	\$1,773	-7.3%
Casing: Alloy ERW	\$2,280	\$2,420	-5.8%
Casing: Alloy seamless	\$2,407	\$2,611	-7.8%

Source: Pipe Logix, Inc., Affiliate, Spears & Assoc., Santa Fe, NM

COPPER

Opening Price	\$3,356.00 (Mar. 3)
Month High	\$4,115.00 (Mar. 27)
Month Low	\$3,356.00 (Mar. 3)
Closing Price	\$3,930.00 (Mar. 31)

Refined Copper. As shown in the tally above, the price of finished copper started strong in March and got stronger as the month progressed. A major factor in the red metal's performance was a prolonged buying spree by Chinese importers. Their purchase volume was unprecedented—a one-month total of 329,311 metric tons, certainly the largest bulk of copper goods ever to land on Chinese shores.

The prodigious Chinese buy aroused speculation regarding its purpose. As usual, the Chinese remained silent on the subject. But market observers attributed the buying orgy to either the need for restocking or fallout from Beijing's \$500 billion economic stimulus program.

Copper Scrap. In their recent explosion of copper buying, Chinese importers did not ignore the red metal in scrap form. Indeed, the copper and brass inventories of numerous U.S. scrap yards were depleted while the buying binge was in progress. Normally, Chinese scrap buying concentrates on No. 2 copper because of its relatively low cost. But in this instance, the buying involved "every grade of copper and every grade of scrap" as one market watcher put it.

Not surprisingly, as Chinese buyers gobbled up every available piece of scrap or cathode, the prices of refined copper and scrap both rose. By the end of March, the Comex price for refined copper had risen from \$1.679 per pound to \$1.836. The higher cathode price led to an increase of No. 1 copper scrap to \$1.72-1.74, up from \$1.58-\$1.60 per pound two weeks earlier. With U.S. scrap yards all but picked clean by Chinese buyers, the cost of copper and brass scrap is likely to remain high for a while.

STAINLESS STEEL

Consumption and Pricing. U.S. consumption of stainless steel in 2008 fell 17.2% from the preceding year's level. The decline followed what the International Stainless Steel Foundation describes as the normal market pattern for stainless, "an excellent first half [and] extremely depressed second half." What makes this pattern worse is that buyers are relying increasingly on imports rather than domestic stainless steel production. In 2007, for example, imports accounted for 34.4% of all U.S. stainless usage. In 2008 the imports market share rose to 39.5% of all U.S. usage.

After a one-month price increase in flat-rolled stainless surcharges, prices are again heading South. Leading the charge on the downgrade was AK Steel with a new price sheet effective April 1. In the revised schedule, the surcharge on Type 304 will decline 12.2% to 38.41 cents per pound; Type 316 will be cut by 11.4% to 57.78 cents; and Type 430 will go down down 11.6% to 11.57cents. Allegheny Technologies has also adjusted flat-rolled surcharges with reductions that closely parallel those of AK Steel.

According to *AMM*, these April price cuts have thus far had little or no effect on April orders or April shipments. The publication reports that buyers are "sitting on their order books." This inaction, *AMM* reports, results from buyer reasoning that if prices have been trimmed this much, further reductions could well be on the way. Notwithstanding buyer inaction, *AMM* reports that some distributors intent on raising cash are selling off inventories "at fire-sale prices."

Raw Materials. Pricing for nickel, the key alloying metal for most stainless steel types, traded in a narrow range throughout March. As shown in the tally below, the LME price hit the \$10,000 per tonne barrier on only two trading days in the month. Keeping a lid on Ni pricing was lackluster market demand for finished stainless plus an abundance of refined nickel in metals exchange warehouses. In the LME alone, warehouse stocks amounted to more than 100,000 tonnes, a hoard far in excess of the market's current needs.

Opening Price	\$9,700.00	(Mar. 3)
Month High	\$10,100.00	(Mar. 17 & 19))
Month Low	\$9,625.00	(Mar.1 3)
Closing Price	\$9,650.00	(Mar. 31)

Nickel isn't the only alloying agent to be squeezed in the current market. The price of ferrochrome also came under pressure, and in early March the price fell from 75-89 cents per

pound to 72-80 cents. According to sources cited by *AMM*, there is little likelihood of a price reversal any time soon.

RESINS

Plastics Technology (PT) reports that resin prices are increasing despite the recession. The boosts result from unexpected increases in monomer prices. Items:

Polyethylene. Producers were able to hike PE prices 7 cents per pound effective in January and February. A second increase was announced for early February but has been postponed. *PT* reports that polymer producers' operating rates are down to less than 70% of capacity.

Polypropylene. A 7 to 8 cent increase was announced in January, but thus far only 2 cents of the boost has been implemented. Demand for this resin is "very low," according to *PT*.

Polyvinyl Chloride. With homebuilding still on the ropes, price increases are hard to implement. In February there was talk of a 5-cent boost, but to date the only announced increase was for 2 to 3 cents.

Polystyrene. Early this year customers were advised of a 5-cent increase. But buyers didn't like the timing and persuaded producers to postpone the increase until March.

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 02/09	Previous 01/09	1 Year Ago 02/08	2 Yrs Ago 03/07
PIPE, VALVES & FITTINGS:				
Copper & copper-alloy tube	202.3	191.3	316.3	248.7
Steel pipe & tube	178.2	184.9	176.1	167.2
Plastic pipe and fittings	204.3	206.0	203.4	193.1
Industrial valves – metal	186.9	186.4	181.1	169.0
PLUMBING FIXTURES:				
Vitreous china fixtures	97.2	97.0	9.54	101.6
Fixture fittings & trim	235.5	237.5	232.7	222.8
HVAC EQUIPMENT:				
Warm air furnaces	131.5	131.6	128.8	128.2
Unitary air conditioners	153.7	153.7	138.9	139.9
Cast iron heating boilers	146.8	146.8	135.7	129.0

NOTES: 1) Sources : Bureau of Labor Statistics, U.S. Department of Labor, compiled for the American Supply Association. 2) Data for 2008 are subject to revision.

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