
ASA MATERIALS MARKET DIGEST

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CARBON STEEL

OPERATIONS AND PRICING. *Production.* Raw steel production in the week ending October 17 resumed its growth pattern after a one-week hiatus. In the latest reporting week output was 1,557,000 tons, an increase of 0.8% from the preceding week. Year-to-date production was 55,773,000 tons at an average operating rate of 49.6% of rated capacity. Figures for both production and capacity utilization were the highest logged so far in 2009.

September shipments of U.S. steel mills totaled 4% higher than August. A key factor in the month's strong showing was a 24% increase in volume of hot dip galvanized sheet and strip, products used extensively in automotive manufacturing.

Other factors indicating strength in the steel sector include the following:

- Steel service center shipments in October rose for the fifth consecutive month with volume of 2.62 million tons, an increase of 2.3% over the preceding month. Service center inventories also rose to a recent of 5.93 million tons.
- In its most recent survey of steel buyers, the Institute for Supply Management reveals that more *than ninety per cent* of the buyers polled have inventories insufficient to meet their customers' normal requirements. To make matters worse, some 43% of the buyers surveyed have less than a one-month stock of salable steel on hand.
- Applications for steel import licenses in October totaled 1,491,000 tons, an increase of 16% from the September level. Actual steel imports for October were 1,187,000 tons, also an increase from the preceding month.
- Reports from the West Coast home building market suggest that demand for flat-rolled steel may be headed for better times in 2010. Leading indicators show that home construction in the Pacific Region will create demand for 750,000 tons of cold-rolled and galvanized sheet as well as lesser volumes of tinplate.

Despite these bullish tea leaves, the near-term prospect for steel demand is still decidedly a debatable issue. Two conflicting views of the outlook were presented recently as follows:

The Bull. Pat McCormick, managing partner at World Steel Dynamics, contends that steelmaking is still a cyclical business, that the huge Chinese steel market precedes the U.S. industry, and that Chinese flat-rolled prices have just begun to escalate. He asserts that the Chinese price pattern points to comparable action in the U.S. within a six-week interval.

The Bear. A contrarian view is offered by Chuck Bradford, partner of a prominent market analysis organization. He maintains that the near-term future will not be symbolized by the form of a letter, be it L-shaped, V-shapes, or W-shaped. In Bradford's view, the appropriate symbol is a bathtub. Says he: "I think we are on the bottom of the bathtub and we're going to be there for some time. It's not going to be very pretty." Regarding the current weak commercial building market Bradford adds: "When it goes down it stays down for three or four years."

Pricing. Whatever else Messrs. McCormick and Bradford argue, it would appear that flat-rolled prices are definitely on the rise. Earlier in November, AK Steel announced a broad range of rehires at a number of its facilities including Mansfield, Middletown, Coshocton and West Chester in Ohio as well as West Rockport, Indiana and Butler. PA. Following these restarts, AK Steel announced \$20 to \$30 per ton price increases on a broad range of flat-rolled products. There have also been unconfirmed reports that U.S. Steel is planning a round of price hikes, possibly patterned after the AK boosts. If these various increases are implemented, the going spot market for flat-rolled products will include \$560-580 for hot-rolled sheet, \$620 for cold-rolled, and \$750 for galvanized.

RAW MATERIALS. At a recent meeting of *American Metal Market's* Scrap and Raw Materials Conference, speakers commented that the U.S. continues to be the world's largest scrap exporter and that exports are the largest component of the ferrous scrap market. Additionally, one speaker noted that six corporate consumers in the export market account for no less than three-quarters of all the scrap consumed in and/or exported from the U.S.

In any case, demand for ferrous scrap, especially from offshore buyers, continues to gather strength. Midway through November, for example, Turkish steelmakers entered orders for no fewer than eight shiploads, including most recently three from the U.S. And not to be outdone, Chinese buyers have entered orders for 500,000 tonnes and 600,000 tonnes. Between these offshore buys and some domestic demand, the amount of ferrous scrap in the hands of U.S. dealers is declining to a point approaching sellout. Notwithstanding thinning inventories, U.S. scrap dealers are submitting shipment quotes as high as \$330-340 per ton, a price level rarely seen in open-market scrap trading.

TUBULAR GOODS

Operations. Oil and gas drilling in the U.S. and Canada showed increased vitality in the week ending November 14. In the U.S. oil patch, the rig count rose to 1,101 active drilling sites, the highest in several months. Drilling in Canada declined 6.4% to 233 operating units.

An analyst for the Canadian petroleum market noted that any recent decline in drilling in Canada reflects an abundance of natural gas already stored in the Canadian Oil Patch. Moreover, some drilling north of the border is postponed until the weather turns colder and the ground

freezes. This precaution is taken by Canadian drillers routinely to provide firm ground for the use of rigs and ancillary equipment.

Trade Issues. After extensive investigation and negotiation, the U.S. Commerce Department has decided to levy preliminary anti-dumping duties on imported oil country tubular goods (OCTG) of Chinese origin. The Department's determination "will have a dramatic effect on OCTG sales to the U.S." according to Paul Vivian, a noted expert on OCTG pricing and related trade issues.

These sanctions were intended to keep illegal Chinese OCTG out of U.S. markets as retaliation for dumping and improper Chinese government subsidies. But notwithstanding these U.S. constraints, Chinese-made OCTG products are still making their way through devious trade channels and intermediaries. According to market sources, such products from China are still reaching U.S. shores via channeling through Mexico. Additionally, OCTG products of questionable origin are landing on U.S. markets from various countries of origin including India, Taiwan, Russia, South Korea and perhaps other originating sources.

In addition to these pending cases, the U.S. International Trade Commission (ITC) has voted 6 to 0 to continue its investigation of Chinese and Mexican dumping of seamless copper tubular products. In a preliminary finding the ITC commissioners have found that estimated dumping margin for China's part of the illegal actions is 60.5% and for Mexico the dumping margin is 76.5% to 85.7%.

Not surprisingly, copper tube producers from China and Mexico have petitioned the U.S. International Trade Commission and its affiliates in the Commerce Department to suspend their anti-dumping investigations. In a characteristic "Who, Me?" plea, the offshore producers deny any damage or wrongdoing and claim that alleged market damage sustained by copper producers are merely the result of plastic pipe competition and a weakened housing market in the U.S.

A compilation of China's unceasing and flagrant violations of international trade practice rules has been issued in a scathing Department of Commerce white paper titled *U.S.-China Economic and Security Review Commission Report to Congress*. Space permits only the following small sampling of the charges levied against the Beijing government in this bill of particulars:

- "China's enormous trade surplus stems from subsidies it grants to favored industries—such as steel—which includes tax rebates, low-interest loans, as well as land and energy discounts
- "The yuan is pegged to the U.S. dollar at artificial rates and has appreciated 21% over the U.S. dollar since 2005.
- "Export-led growth policies pursued by China have inevitably led to excess in many manufactured products including steel.

- “By providing these benefits along with a cheap labor force without the ability to bargain collectively or join independent unions, the Chinese government has created a low-cost haven for foreign and domestic manufacturers.
- “Stepped-up efforts by China to penetrate U.S. computer networks, *particularly those of the U.S. government* and contractors *by increasingly sophisticated espionage methods.*”

COPPER

Price Trends. Copper prices, which had a number of spectacular price jumps in 2009, will continue to gain ground in 2010, albeit it at a slower pace. Such is the expert opinion of Catherine Virga, senior analyst for the CPM group. Ms. Virga’s forecast is based in part on improving demand for the red metal, especially from the construction and automotive industries. In addition, Ms. Virga asserts that copper’s price escalation is a *continuing phenomenon* because its pricing reflects a “market premium” during times of strike-related supply disruptions. She adds that prices will remain strong throughout next year on increasingly positive fundamentals.

An instance of what Ms. Virga calls “market premium” was demonstrated in the week ending November 20 when copper trading on the London Metals Exchange neared the \$7,000 per tonne level and the three-month contract for the New York Comex hit an intraday price of \$3.172 per pound.

This startling surge in copper prompted one trader to comment that, “The commodities cycle is definitely on an uptrend and headed higher”. Said another with regard to copper’s hectic buy-sell pace: “The market has, to a certain extent, detached itself from reality.”

With or without reality, the copper market continued to forge ahead. On one particularly busy weekend day the three-month futures contract jumped 4.4% on the New York Comex and hit a 13-month peak of \$3.1035 per pound. Simultaneously, the LME 3-month contract rose 3% to close at a near record of \$6,906. Both transactions took place on the same date—Friday the 13th!

On a broader basis, the World Bureau of Metal Statistics reported that in the first nine months of 2009, global copper supplies had developed a deficit of 58,000 tonnes. In the same period of 2008, the worldwide inventory resulted in a copper surplus of 28,000 tonnes.

Copper scrap. Early in November, the front cover of an edition of *American Metal Market* pictured a panda bear fast asleep. The picture was symbolic of the state of Chinese buying of scrap copper, i.e. dormant. It was an unusual circumstance in that for the past several years Chinese importers have accounted for at least two-thirds of all U.S. scrap copper shipped abroad.

But whatever accounted for the short-lived somnolence of AMM’s *Ailuropoda melanoleuca*, the absence of Chinese scrap buyers was a welcome development to U.S. dealers and ingot makers. In the ten months ending October 31, imports of scrap copper to China hit a

total of 3.25 million tonnes. In the process the Chinese buyers roiled the U.S. scrap market, bidding up prices and severely limiting the availability of top grade scrap.

By mid-November demand for copper scrap was up again, but with little or no help from the Chinese. Indeed, the late-November surge in copper scrap was driven largely by higher ingot prices in the metals exchanges. Then, in an odd reversal, pressure from the booming scrap market helped to drive ingot prices skyward.

STAINLESS STEEL

Pricing. Early in November, two of the Stainless Steel Big Three producers announced new surcharge prices for stainless steel shipments. On the AK Steel price sheet the December tags will incorporate the following price changes: For Type 304 the new surcharge will be 78.59 cents per pound, an increase of just under 4%. Other changes in the AK pricing includes Type 316, down 1.1% to \$1,1441 per pound; Type 201, up 2.1% to 50.44 cents; and a decrease of 9.2% for Type 430 to a new surcharge of 16.59 centers per pound.

North American Stainless, also one of the Stainless Steel Big Three, has indicated its intention of raising prices in January. However, *AMM* reports that the market is divided as to whether the NAS move is in response to stronger demand or if it is intended to *create* demand before a price boost is implemented.

More price action came when, toward the end of November, stainless steel kingpin and Big Three member Allegheny Ludlum announced its broad-based increase in stainless steel prices. Products affected by the boost include cold- and hot-rolled sheet and strip, tubular quality sheet and strip, and continuous mill plate. Prices of all of these will be raised at least 6% on deliveries starting on January 4. Not surprisingly, Ludlum's increases closely parallel price hikes previously announced by AK Steel and North American Stainless.

Elsewhere on the stainless steel front, the strike at Vale Inco's complex at Sudbury, Ontario, is being felt in the nickel market. Early in November spot nickel premiums hit a two-month high, and plating-grade nickel premiums in truckload quantities were up to 90 to 95 cents per pound above the LME price. This current nickel premium is the highest seen since August 2007 when it briefly hit \$1.00 per pound. Meanwhile, the Sudbury walkout involving 3,500 striking members of the United Steelworkers Union, continues with no negotiations in sight

While nickel premiums continue to rise, ferrochrome, another stainless ingredient, is in what *American Metal Market* calls "a holding pattern." Demand for this alloying agent is flat and prices are more or less steady at 86 to 90 cents per pound for the high carbon ferrochrome grade.

According to the International Nickel Study Group, the global nickel deficit fell from 13,900 tonnes in August to 9,400 tonnes as of mid-September. And even with labor problems in Sudbury, worldwide nickel production in September was logged at 103,800 tonnes, an increase of 4.2% over the preceding month.

RESINS

According to *Plastics Technology(PT)*, demand for the major commodity resins range from weak to moderate and producer operating rates vary from 75% of capacity to 90%. Following are highlights provided by *PT*.

Polyethylene. Producer prices for PE added 4 cents per pound in October, bringing the year-to-date increase to 17 cents. Exports are in decline but producer operating rates remain in the mid-90% range.

Polypropylene. Monomer supplies are still tight, exports are weak, and production facilities are operating at 80-85%.

Polystyrene. This resin has been under heavy price pressure because of weakness in benzene prices. At the latest report from *PT*, the resin's price fell by 5 cents in September and another 3 to 5% in October. Plant operating rates are in the 75-79% range and demand is down 16%.

Polyvinyl Chloride. Price increments in this resin tend to continue in a very narrow range—1 to 2 cents per pound at best. PVC producers' operating rates were running at 83-85% at the latest count and demand was no more than 70% of normal.

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 09/09	Previous 08/09	Year Ago 09/08	² Yrs Ago 09/07
PIPE, VALVES & FITTINGS:				
Copper & copper-alloy tube	299.7	276.9	298.6	311.7
Steel pipe & tube	231.2	222.8	325.6	238.4
Plastic pipe and fittings	206.7	194.6	235.5	196.1
Industrial valves – metal	187.8	187.7	184.7	175.4
PLUMBING FIXTURES:				
Vitreous china fixtures	99.4	99.4	97.0	103.6
Fixture fittings & trim	235.6	236.6	237.5	227.2
HVAC EQUIPMENT:				
Warm air furnaces	131.4	131.8	129.7	127.0
Unitary air conditioners	152.4	154.2	151.1	140.3
Cast iron heating boilers	148.9	147.6	146.8	135.3

NOTES: 1) Sources: Bureau of Labor Statistics and the US Department of Labor; compiled for the American Supply Association. 2) Data for 2009 are subject to revision.

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