ASA MATERIALS MARKET DIGEST
JANUARY 6, 2009
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Published Monthly by the American Supply Association Web: www.asa.net; Email: info@asa.net

MARKET OVERVIEW

Market Prospects. In its latest report the Federal Bureau of Economic Analysis served up a combination of bad and good news. In the bad category, the Bureau announced that the U.S. Gross Domestic Product (GDP) fell 0.5% in the third quarter of 2008, and its preliminary GDP estimate for last year's final quarter was a minus 0.3%. Weak consumer spending was the major contributor to the poor showing of last year's two final quarters.

On the semi-good side, the government's analysts see output dropping another 0.9% in 2009. However, the credit crunch is predicted to ease somewhat in the latter half of this year, interest rates should fall, and the housing slump is expected to bottom out. All of this should translate into a plus 1.6% gain for the GDP in 2010.

Carbon Steel. The operating rate of U.S. steel mills hit a 24-year low with capacity utilization just over 50%. The lack of orders has led many firms to make drastic cuts in employment and otherwise limit operations. Raw materials prices have been affected, with a wide array of product tags under pressure.

Tubular Goods. The U.S. rig count has eased, but remains ahead of 2007 in a year-to-year comparison. Prices of oil country tubular goods declined as much as 7.1% in November, and further price weakness is anticipated. The price pressure results from high distributor inventories and an ongoing flood of Chinese OCTG imports.

Copper. Prices declined for the sixth consecutive month as demand remains soft and orders few and far between. A ray of hope for the copper market comes from a report that the Chinese are planning a "massive base metals buying spree" that could involve as much as 400,000 metric tons of the red metal.

Stainless Steel. Despite a very weak demand, nickel prices have remained relatively stable. At least one major nickel producer has cut back operations sharply, and others are expected to follow suit. With demand soft and nickel prices down, a major stainless steel producer has announced drastic surcharge reductions for the first week in 2009.

Resins. In what one market observer calls a "perfect storm," resin prices are falling, demand is slight, and the export market is all but non-existent.

CARBON STEEL

OPERATIONS. *Production.* Raw steel output of U.S. mills hit a 24-year low when the operating rate plunged to a reported 50.2% of capacity in the week of November 29. The aggregate pour for the reporting week was a paltry 1.197 million tons.

The World Steel Association(WSA) has confirmed that U.S. mills are not the only ones hit hard by the current business slump. According to WSA's most recent report, global steel production in November fell from 109.9 million tons in 2007 to 89 million, a drop of 19%.

Commenting on the WSA report, *American Metal Market (AMM)* indicated that at latest count U.S. mills were down to a 49% operating rate, but that this "official" capacity utilization may be inflated. The publication cites some estimates suggesting that "as much as two-thirds of U.S. steelmaking capacity may have been off line by the end of 2008."

Cutbacks. Inevitably the sharp reductions in steel mill operations result in layoffs, and there has been and continues to be no shortage of pink slips involving steel mill workers. For example:

- U.S. Steel is idling three of its major facilities with a normal employee complement of 3,500 workers. Both the United Steel Workers and the company management agree that the force reductions resulted from adverse market conditions and a dearth of incoming orders.

- Republic Engineered Products has shut down its sole blast furnace and laid off about 250 workers at the hot end of its mill at Lorain OH.

- In sharp contrast to these layoffs, steelmaking giant ArcelorMittal actually made a sharp reduction in the number of workers initially furloughed at its Burns Harbor, IN mill. Early on the company announced 2,444 job cuts at the plant. But after negotiation with the USW, the number of employees to be separated came down to 490. In an unrelated action Arcelor suspended operations at its Georgetown, SC rod mill effective December 5.

This list could continue to chronicle layoffs, production cutbacks, plant shutdowns, etc. for pages. But it should be noted that the rank and file are not the only ones being hard hit by the slump. There are also victims aplenty among steel service centers. In November, for example, the Metal Service Center Institute reported member shipments down 32.7% from the year-ago level. Inventories also weakened in what *AMM* describes as "the continuing purge of high-priced stocks to better cope with weak demand."

Nor is the worst over yet, according to Michelle Applebaum, a prominent steel market expert. In a recent statement she declared that "we expect to see [warehouse] inventories drop by an even more significant amount." Nonetheless, Applebaum sees light at the end of the tunnel: "We anticipate an uptick in demand after the New Year…as service centers begin to reach minimum stock levels and prices firm."

Other voices express optimism for the steel industry, such as:

Ameristeel Corp.'s COO Terry Sutter: "The infrastructure needs of developing economies are incredible. Our electricity grid is stretched to the maximum [and] there has not been a petroleum refinery built in North America in 30-35 years."

Investor and market analyst Ralph Openheimer: "For the past six years prices have been firm in January. I don't see why that shouldn't happen this year."

Additionally, the economic recovery program of President-Elect Obama places heavy emphasis on infrastructure work, especially highways and bridges, the construction of which requires prodigious quantities of steel.

RAW MATERIALS.

With steelmaking operations down to 50%, the impact on raw materials suppliers has been serious. Items:

- *Ferrous Scrap.* Prices in early December took what one market watcher called "a little pop." Said "pop" saw scrap prices in the Midwest rise by as much as $100 per long ton. This resulted in a price of $250 for shredded scrap and $190-200 for No. 1 heavy melt. While the increases were welcomed by dealers, no one expects them to last very long.

- *Iron Ore.* Ore shipments on Great Lakes carriers in November fell 11% from the year-ago level as steel mill demand weakened. With Lakes traffic down, 12 of the 63 carriers in the ore trade, including one thousand-footer went into early winter layup. Concurrently, ore supplier Cliffs Natural Resources cut its planned production from 36 million tons to 22 million.

- *Coal.* Financial giant J.P. Morgan Securities has forecast that the price of coking coal would fall in 2009 and 2010 from the current $200 per ton to $135.

- *Molybdenum.* The price of molybdenum, a major alloying agent in carbon steel, has nosedived from a high of $34 per pound to a current $10. The sharp drop has resulted in slowdowns or shutdowns of a number of moly mines.

- *Zinc.* The market for zinc has come under pressure as the result of slowing commercial construction and the consequent decline in demand for galvanized sheet. The following December zinc prices (per tonne) reflect the weakness in demand:

Open	$1,267.00	(Dec. 1)
High	$1,267.00	(Dec. 1)
Low	$1,065.00	(Dec. 12)
Close	$1,145.00	(Dec. 30)

TUBULAR GOODS

Operations. In the final week of November, the U.S. rig count fell from 1,941 active sites to 1,866, a decline of 3.9%. Despite the drop, the count remained 2.4% ahead of the comparable week a year earlier. In Canada the rig count held steady at 406 sites, 6.6% higher than the year earlier.

Prices. Price tags on tubular oil country goods (OCTG) weakened significantly in November. *AMM* reports that a new survey of Houston-area distributors shows a decline of 5 to 10 per cent in OCTG prices. *AMM's* report notes that the average OCTG price per ton fell 6.7% for the month. In the welded fitting category, the price decline was 6.3% while for seamless products the drop was 7.1%. (Source of these and other OCTG economic data is Pipe Logix, Inc., an affiliate of Tulsa-based Spears & Associates). A spokesman for this firm suggested that a major price decline in OCTG may be under way, driven by excess distributor inventories and an ongoing flood of Chinese imports. With respect to the latter, October shipments of incoming OCTG amounted to 451,000 tons, 65% of which originated in China.

The China Trade. After prolonged and essentially fruitless negotiations with Chinese officialdom, the U.S. International Trade Commission finally and unanimously made an affirmative injury determination with respect to several Chinese producers and/or exporters of specific brands of line pipe. At issue were illegal trade practices including dumping and government subsidies which were found to injure U.S. manufacturers of comparable products.

In the final determination, the U.S. Department of Commerce fixed duties of 35.63% for one major exporter, 40.05% for another found to be in violation, and 37.84% for all other Chinese exporters of the type of pipe in question. Soon after the duties were announced, Beijing trade officials lodged a complaint against the U.S. with the World Trade Association (WTO). Similar complaints have been lodged by the Chinese in the past but as yet, WTO has not sustained any such protests.

COPPER

Prices. Copper prices declined for the fifth consecutive month in November, and as shown in the following LME December figures, the downward string continues.

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Open	$3,790.00	(Dec. 1)
High	$3,790.00	(Dec. 1)
Low	$2,820.00	(Dec. 30)
Close	$2,820.00	(Dec. 30)

In what one source described as a "feel good bounce," trading in copper came to life and prices rose after announcement of the Obama infrastructure plan. On the New York Comex, the three-month contract closed in early December at $1.3735 per pound, a one-day increase of

9.1%. On the London Metals Exchange, some up-trading also developed, but only briefly. In less than a full trading day, LME copper slipped 3.7% and closed at $3,192.00.

Futures. According to reliable sources cited by *AMM*, China is getting ready to launch what the publication calls a “massive base metals buying spree. Acting through China’s State Reserve Bureau, the government’s objective is to acquire 200,000 to 400,000 metric tons of the red metal at prices ranging from $2,904 per tonne to $4,356.

The anticipated flood of Chinese buy orders appears to be motivated by two factors: 1) base metal prices are low by historical standards , and the Chinese government has a history of buying copper when the price is right; and 2) Beijing’s $550 billion economic bailout plan includes extensive electrification in the provinces. This program alone will require vast amounts of copper for generation, transmission, and local distribution of electric power.

Chinese metals buyers normally make every effort to avoid unsettling the market. However, sources familiar with copper trading suggest that systematic purchases of up to 400,000 metric tons will inevitably have a global impact on prices.

Copper Scrap. Scrap prices for copper and brass were unchanged just before the holidays, but little market action was evident. Indeed, field reports indicated that activity involving the red metal was nearing a shutdown. Still, the price of No. 1 scrap held steady at $1.18-1.20 per pound and the No. 2 grade remained at $1.02-1.04.

Notwithstanding the current weak scrap prices, some traders remain bullish. Said one: “I feel as if we’re going to bottom out this month. January will be extremely slow, but then we should start to see some improvement.” Another trader noted that scrap supplies are extremely tight and that, “once demand comes back folks are going to have to realize that there are going to be higher prices because the material just isn’t there.

STAINLESS STEEL

Nickel. Market prices for nickel have remained relatively stable, despite slack demand. Following are the December stats:

Open	$10,425.00	(Dec. 1)
High	$10,425.00	(Dec. 1)
Low	$ 9,180.00	(Dec. 30)
Close	$ 9,650.00	(Dec. 30)

In a recent conference call, executives of MMC Norilsk Nickel predicted that the market price of nickel would not fall below $9,400 per tonne. This prediction is based on the expectation that the industry-wide slowdown in nickel mining will continue. Norilsk produces about 20% of all nickel mined globally. The company expects to produce 280,000 tonnes of finished nickel in 2009, significantly less than originally planned.

Stainless Steel Pricing. With demand slack and nickel prices soft, it isn't surprising that stainless steel prices continue to decline. January surcharge pricing announced by Allegheny Technologies puts Type 304 at 53.32 cents per pound, 25.1% below the December surcharge. Other Allegheny surcharges for January include 74.31 cents per pound for Type 316 (down 43.6%), 43.91 cents for Type 201 (down 27.2%) and 23.33 cents for Type 430 (down 33.1%) Others of the Stainless Steel Big Three had not announced January prices at the time this report was being prepared. However, AK Steel and North American Stainless are expected to approximate the January price changes quoted above.

RESINS

What *Plastics Technology* describes as a "perfect storm" of weak demand, falling feedstock prices, and limited exports characterize the current market for commodity resins. There is little difference among the various formulations as to market conditions.

Polyethylene. Price cuts totaling 33 cents per pound were implemented between September and November, and more reductions are expected.

Polypropylene. The picture is even worse than in the case of PE. During 2008 repeated price cuts added up to 57 cents per pound, 32 cents below the January 2008 price.

Polyvinyl Chloride. According to market sources, demand is the weakest in the experience of knowledgeable PVC buyers.

Polystyrene. An indication of PS market conditions is that benzene prices are in near-total collapse, with the market plunging from $4.24 per gallon to $1.60.

Producer Price Indexes Are Shown 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 11/08	Previous 10/08	Year Ago 11/07	2 Yrs Ago 11/06
PIPE, VALVES & FITTINGS:				
Copper & copper-alloy tube	243.5	266.3	298.7	272.5
Steel pipe & tube	216.5	228.4	165.3	170.5
Plastic pipe and fittings	223.6	231.0	199.4	205.5
Industrial valves – metal	186.0	185.4	176.5	164.6
PLUMBING FIXTURES:				
Vitreous china fixtures	97.0	97.0	96.5	101.4
Fixture fittings & trim	236.4	237.7	227.7	214.8
HVAC EQUIPMENT:				
Warm air furnaces	129.9	130.0	127.0	119.2
Unitary air conditioners	151.1	151.9	140.3	139.2
Cast iron heating boilers	146.8	146.4	135.3	128.2

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

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