
ASA MATERIALS MARKET DIGEST

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MARKET OVERVIEW

Carbon Steel. With service center inventories slim and orders brisk, operations in U.S. mills topped last year's first-quarter steel output by 5.1%. And as the result of a global boom in steelmaking, raw materials demand and prices have risen inexorably. Reflecting this trend, flat-rolled quotes have gone up sharply, ending the month with hot-rolled sheet at as much as \$850 per ton, cold-rolled at \$920 or thereabout, and galvanized at an unprecedented \$1,000. Tubular prices are also on the rise with oil country products leading the charge.

Stainless Steel. U.S. consumption of stainless steel was down 25.7% in the first monthly report of 2008, and imports fell proportionally. The price of refined nickel was a bit more than \$31,000 a metric ton when March began and it finished the month little changed. A major scarcity has developed for ferrochrome, an essential alloying agent for many stainless formulations. Its price started to rise in early March, and no end is in sight for the increases.

Copper. As was the case with nickel, copper's price at the end the month was within a few dollars of where it started on March 1. Copper and brass scrap supplies are extremely tight and continue to be priced accordingly. Contributing to the scrap scarcity are limited operations at many U.S. brass mills, a resumption of heavy Chinese buying after a holiday hiatus, and the lofty price of cathode copper.

Resins. Prices of commodity resins slipped an average of about 3 cents per pound during this year's first quarter. Demand has cooled both domestically and overseas, and in some cases monomer prices are down. Given these conditions, it is unlikely that any boosts in resin prices, excepting for certain engineering products, will be effective any time soon.

CARBON STEEL

OPERATIONS AND PRICING. *Production.* At the end of February, inventories in U.S. steel service centers were at the lowest level since 1997. According to the Metals Service Center Institute, warehouse stocks amounted to just 12.09 million tons, 23.3% less than at the same date last year and a mere 2.8-month supply at current sales levels. The inventory drawdown reflects widespread uncertainties regarding the U.S. economy as well as slack current demand in some U.S. markets.

Notwithstanding current market caution, raw steel production in U.S. mills started to rise in mid-March and hit an operating rate of 88.8% toward month-end. For the year to date, production amounted to 24.707 million tons, 5.1% ahead of the output in the comparable 2007 period.

Prices. Throughout the month just ended, new announcements of flat-rolled price increases continued to arrive. Early on, a widely adopted \$30 per ton jump for April deliveries led to the prevailing prices of \$760 per ton for hot-rolled sheet, \$840 for cold-rolled, and \$970 for hot-dip galvanized. But that was only the beginning. AK Steel leapfrogged that initial April boost and came out with a price sheet putting hot-rolled steel up \$70 per ton. This hike lifted the hot-rolled level to \$800, an all-time high, cold-rolled to \$880, and galvanized to an unprecedented \$1,000 per ton.

Even at those levels, the bidding continued. AK and other mills started telling customers that another \$50 boost was in the works. When word of this hit the street industry giants U.S. Steel and ArcelorMittal promptly increased their hot-rolled spot price to \$850.

The two major mills servicing the West Coast have been anything but bashful in following the pricing leads of their Eastern and Midwestern counterparts. Early in March USS-Posco was reportedly set to announce hikes of \$150 per ton for cold-rolled sheet and \$140 for galvanized. About the same time California Steel was letting its customers know that as of May deliveries, its hot-rolled steel would be priced at \$820-840 per ton with cold-rolled at \$880-920.

Commenting on the non-stop escalation, *American Metal Market (AMM)* reported that there were two schools of thought on future increases. One view is that June will mark the end of flat-rolled price hikes, and that thereafter prices could not possibly rise any more. The other opinion addresses this claim by asking, “Why not?” *AMM* noted that this latter position is “gaining adherents.”

And well it might. For what is driving the surge in steel prices is *cost-push* inflation, wherein the price of virtually everything that goes into making steel—scrap and other charging materials, alloying metals, energy, transportation—is rising incessantly. Some details are provided in the following section.

STEELMAKING COSTS. *Scrap, etc.* Factory bundles, a premium grade of ferrous scrap, rose a modest \$10 per long ton in the last February auction. But early in March the bundles price rose an additional \$25 as did busheling, another premium grade. Then a major automotive parts supplier was hit by a strike which forced closure of some Chrysler and GM plants. This sharply curtailed the supply of bundles, further hiking the price of whatever premium scrap grades remained available.

The scrap market tightened further toward the end of March as overseas demand intensified and weather problems impaired the collection and transportation of ferrous scrap. This led to what *AMM* called a “bidding war” among would-be scrap buyers. When the dust settled, some sources were quoting as much as \$600 a long ton for high-grade ferrous scrap. Steel mills looking for cheaper sources of charging iron had little to choose from. Brazilian smelters were

quoting pig iron at \$595-\$600 per metric ton with an additional \$20 charge for upriver deliveries, essentially matching the price of ferrous scrap pound for pound.

Ferrous alloys. The critical shortage of electric power in South Africa continues to be the No. 1 problem for ferroalloy producers and their steelmaking customers. As the austral winter approaches in that region, consumer demand for electricity is increasing, and the power company has announced a program of rolling blackouts and possible load shedding. This could result in further curtailment of ferroalloy production, with plants operating at considerably less than their current rate of 85-90%.

Not surprisingly, ferroalloy prices are rising rapidly. High carbon ferromanganese, for example, has gone from \$2,295-\$2,395 per tonne in early March to \$2,950-\$3,050. The various grades of ferrochrome, essential parts of many stainless steel formulations, rose at least 10% in March and are likely to continue up at an accelerating rate.

TUBULAR PRODUCTS. *Forecasts.* *AMM* recently sponsored a conference on the subject of steel tubular products. The presentations were decidedly upbeat, especially with regard to oil country tubular goods (OCTG). Among the points made by speakers in this product sector were these:

- There are few signs to indicate that a major drop in crude oil prices will develop any time soon.
- OCTG shipments in 2007 amounted to 2.6 million tons, but that figure will nearly double in 2008.
- The OCTG market is closely linked to the rig count, and in 2008 the U.S. rig count will increase by four to five percent.
- The 2007 trend in consolidation of OCTG producers will continue in the current year and will “result in better [i.e., higher] prices in all markets.”

Rig Count & Prices. During March the U.S. weekly rig counts remained in a narrow band of roughly 1,780-1,800 active sites. Canadian operations fluctuated more widely, from a high of 632 active rigs to a low of 328.

At the *AMM* tubular conference, much of the discussion was about rising OCTG prices. The publication reported that the market “rose dramatically” in response to escalating costs of raw materials, energy, etc. The price uptrend was confirmed by Pipe Logix, Inc., a respected authority on OCTG pricing. According to this Houston-based source, March saw the tags on welded and seamless products rise 5.1% to \$1,463 per ton. In the ERW sector, the March spot price rose 5.5% to \$1,387 per ton. And according to industry sources quoted by Pipe Logix, further boosts may well be in the works.

Even before the March surge, OCTG prices had started to creep up, a trend demonstrated by the following table on January and February price comparisons.

Representative OCTG Prices (per ton)

Product	Feb 2008	Jan 2006	Jan-Feb % Chng
Tubing: Carbon ERW	\$1,309	\$1,311	-0.1%
Tubing: Carbon seaml's	\$1,486	\$1,478	+0.5%
Tubing: Alloy ERW	\$1,668	\$1,653	+0.9%
Tubing: Alloy seamless	\$1,815	\$1,793	-0.2%
Casing: Carbon ERW	\$1,103	\$1,091	+1.2%
Casing: Carbon seaml's	\$1,220	\$1,208	-0.7%
Casing: Alloy ERW	\$1,427	\$1,390	+0.4%
Casing: Alloy seamless	\$1,578	\$1,565	+0.6%

Source: Pipe Logix, Inc., Houston TX

Elsewhere on the tubular pricing scene, U.S. Steel Tubular Products has implemented a \$150 per ton price increase on all transactions effective on April 1. Soon after this move was announced, Vallourec and Mannesmann duplicated the U.S.S. boost. Both firms attributed the increase to higher materials and energy costs.

Meanwhile, Beijing's Commerce Ministry let fly with another fanfaronade of bluster concerning the U.S. Commerce Department's probe of Chinese dumping and government subsidy in exports of stainless steel ERW pipe. The Beijing complaint termed U.S. actions "unwise and wrong," "a mistake," and "an abuse of WTO regulations." The Ministry even claimed that U.S. efforts to enforce the trade rules "hurt the feelings" [!] of the Chinese government.

STAINLESS STEEL

Materials. Nickel prices fluctuated somewhat during March but ended the month little changed. Following are closing prices for the three-month contract on the London Metals Exchange, per tonne (metric ton):

Open (Feb. 29)	\$31,700.00
High (Mar. 6)	\$33,605.00
Low (Mar. 20)	\$28,500.00
Close (Mar. 28)	\$31,150.00

Barclay's Capital, a well-regarded London commodities firm, predicts that the LME price of nickel will average \$29,500 in the second quarter of 2008, up from the first quarter's \$28,000. In the final two quarters, Barclay's sees nickel slipping to an average of \$26,000 in the third period and recovering a bit to \$27,000 in the final three months of the year.

Soon after Barclay's issued its normally accurate forecasts, word came of a development that could change the nickel supply outlook—for the worse. The issue is a strike at the Cerro Matoso mine in Colombia and involves a facility that normally produces 51,000 tonnes of refined nickel annually. Because the labor action has impaired production, the mine's owner, BHP Billiton, declared *force majeure* on nickel deliveries. The walkout, which began in February, is headed toward statutory arbitration, but no one is prepared to say when or if government intervention will end the job action.

Elsewhere on the materials front, the global supply of ferrochrome, essential in many stainless steel formulations, has been struck by a double whammy. For one thing, as noted above (p. 2, *Steelmaking Materials*), South African ferroalloys producers have been coping with a major electric power crisis likely to extend for years. Additionally, one of the key ferrochrome plants in that venue was devastated by an explosion that compelled management to declare *force majeure* on deliveries. The results have been a severe and growing shortage of ferrochrome worldwide and, needless to say, higher prices.

With regard to stainless steel demand, imports to the U.S. of major commodity products fell sharply in January, according to the Commerce Department's latest report. Almost all product categories were down, led by stainless plate where incoming shipments plunged 49.5%. Imports also fell for bar, rod and wire. The one exception was stainless sheet and strip, imports of which inched up a mere 1%. The slump in stainless imports reflects a sharp decline in usage in the U.S., where January consumption dropped 25.7%, the steepest monthly decline in recent years.

COPPER

Prices. As in the case of nickel (see above), copper prices fluctuated somewhat during March but finished the month almost exactly where they started. Following is a summary of the three-month contract price per metric ton on the LME:

Open (Feb. 29)	\$8,460.00
High (Mar. 6)	\$8,810.00
Low (Mar. 20)	\$7,665.00
Close (Mar. 28)	\$8,456.00

The red metal's price gyrations in March resulted from a variety of factors: miners' strikes and settlements thereof; a stevedores' walkout at an important shipping port for copper exports; government reports bearing good—or bad—economic news; a drought in Chile which is impairing hydroelectric power generation for copper refineries, etc.

Where do copper prices go from here? One respected opinion comes from London-based Barclay's Capital, which sees copper supplies tightening toward midyear as demand quickens and the credit crunch fades. In this scenario Barclay's predicts an average LME price of \$7,300 per tonne in the second quarter, \$8,300 in the third period, and \$7,800 in the final three months of 2008.

Scrap. The seller's market that developed early this year continued strongly in March. No. 1 ingot maker's copper scrap started the month at \$3.65-3.66, fell as low as \$3.39-3.40, but then recovered to \$3.61-3.62 toward the end of the month.

There has been no significant change in the factors controlling scrap prices. Preeminent among these is the ongoing scarcity of copper and brass scrap in the U.S. With automotive sales down and housing still in the doldrums, American brass mills continue to operate at well below capacity, and consequently have less scrap to sell. In addition, the housing slump has sharply curtailed teardowns, normally a major source of high-grade "demolition scrap."

Also supporting scrap prices is the lofty level of cathode copper. In most instances, the exchange price of No. 1 scrap is closely geared to the price of cathode copper on the New York Comex. For much of March the red metal was flirting with a \$4.00 per pound price tag, thereby keeping No. 1 copper scrap on high ground.

On the consumption side, China's appetite for scrap exported from the U.S. is as voracious as ever. Its buying was particularly heavy immediately after the Lunar New Year holidays ended. As has been the case for more than three years, China is the destination for at least two-thirds of copper and brass scrap shipments leaving U. S. shores.

RESINS

In its current edition, *Plastics Technology (PT)* quotes this advice from resin industry analysts: "Don't expect prices to move much in either direction right now." This view reflects a weakening resin market with both domestic and overseas demand off somewhat, crude oil at or above \$100/bbl, and producer efforts to raise prices not making much headway. Some specifics:

Polyethylene. Prices fell in the first quarter of 2008 as overseas demand slumped and unsold inventories climbed. With monomer costs down, spot prices for PE have weakened, and recent efforts to boost contract prices are getting nowhere.

Polypropylene. According to the most recent monthly report, PP exports in March were about 300 million pounds, down sharply from last summer's high of 407 million. Monomer prices slipped 3 cents per pound early this year, and plastics industry sources estimate that no more than one cent of this decline can be recovered any time soon.

Polyesters. Most formulations in this sector took a 3-cent per pound hit midway through the first quarter, and thus far producers have been unable to reverse the drop. Feedstock prices

are on the rise and demand is increasing seasonally, possibly enough to move prices up a few cents.

Nylons. Prices of engineering resins in this category continue to rise as demand remains strong. Quotes on selected nylons rose 10-15 cents at the latest report.

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 02/08	Previous 01/08	Year Ago 02/07	² Yrs Ago 02/06
PIPE, VALVES & FITTINGS:				
Copper & copper-alloy tube	313.8	287.4	248.7	214.5
Steel pipe & tube	178.3	170.9	167.2	158.5
Plastic pipe and fittings	203.0	203.6	193.1	222.4
Industrial valves – metal	179.1	177.3	169.0	152.8
PLUMBING FIXTURES:				
Vitreous china fixtures	95.3	96.6	101.6	101.3
Fixture fittings & trim	230.4	229.0	222.8	203.1
HVAC EQUIPMENT:				
Warm air furnaces	127.8	127.6	128.2	116.6
Unitary air conditioners	141.7	141.7	139.9	133.9
Cast iron heating boilers	135.7	135.7	129.0	122.4

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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