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# ASA MATERIALS MARKET DIGEST

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#### **MARKET OVERVIEW**

*Copper.* Cathode prices fell 12% to an LME price of \$6,840 during November, driven down by feeble demand. As has been the case for several months, market weakness reflects both the ongoing housing slump and widespread substitution of PEX or CPVC for copper water tube in residential applications. The dearth of orders has impelled one long-time player to padlock its two mills making plumbing tube. But one respected analyst sees an upsurge in demand when users begin to restock badly depleted inventories.

*Carbon Steel.* U.S. mills continue to have operating rates in the high eighty percents. The mood among flat-rolled sheet producers is bullish, and most producers have scheduled \$30-40 per ton price increases effective January 1. Indications are that these price hikes will meet scant resistance, especially among service centers where rock-bottom inventories prevail. On the international trade front, efforts to bring the Chinese to book for export subsidies and currency manipulation are spreading and becoming more effective.

*Stainless Steel.* The nickel market took it on the chin in November, with LME contracts falling 17% to \$28,150 per tonne. Traders blame Fed Chairman Ben Bernanke for predicting pressure on metals prices. Notwithstanding cheaper nickel, two producers of flat-rolled stainless announced 6% increases during the month. But the success of these hikes will depend on how many other producers get on the bandwagon. Meanwhile, stainless plate imports continue to soar, now accounting for 44% of the U.S. market.

*Tubular Products.* After three quarters of slippage, oil country tubular goods have turned the corner and are now on the rise. Prospects are that the increases will strengthen as the U.S. energy industry continues to boom and prices on Chinese OCTG rise. The energy market has also stimulated the construction of a number of new U.S. mills for producing spiral-bound line pipe, currently the hottest product in the OCTG sector.

*Resins.* Prices of polyolefins—PE and PP—are likely to remain flat at least through the first quarter of 2008. Prices are rising on monomers and feedstocks, but there isn't enough domestic demand to support higher quotes. PVC is probably the resin hardest hit by the housing slump and the likelihood of higher prices any times soon is remote to non-existent. Polystyrene pricing is on a downer and likely to remain there for at least the near future.

## **COPPER**

*Prices.* Among the major base metals of interest, copper made the most news in the preceding month. Following are the opening and closing prices per tonne on the London Metals Exchange (LME), as well as the high and low closing prices, for the period October 31-November 29:

Open	\$7,760.00
High (Oct. 31)	\$7,760.00
Low (Nov. 20)	\$6,615.00
Close	\$6,840.00

November's substantial price decline reflects two major market factors: (1) the housing slump is still with us and is expected to continue well into 2008; and (2) in even the fewer homes still being built, plastic has pre-empted copper in much of the residential plumbing market, and is unlikely to surrender it any time soon.

The impact of scant copper demand has already had widespread effects. For example, one major supplier of brass rod trimmed its prices not once but twice in November alone. Similar patterns have started to emerge in fittings and other widely used copper and brass products.

But thus far price cutting has not been the worst of the problem. To the surprise of many, a major tube producer has exited the plumbing market. The company is Wolverine Tube, for half a century or more a key player in the water tube market. But early in November the firm announced a "de-emphasis" of plumbing tube in its product lineup. Less than a week later, de-emphasis was changed to "discontinuation" and Wolverine prepared to close two tube mills and concentrate on higher-tech products for the energy and HVAC markets. These moves cost the jobs of 480 employees—including 40 office workers—and 50 temps. Painful though these retrenchments must have been, they were necessary to stanch the flow of red ink on the company's p&l statements.

Fallout from the nearly moribund copper market even impacted Codelco, the world's largest producer. Normally by now this Chilean giant would be signing up contract buyers in droves. But as of press time there had been very few contract completions despite the firm's reduction of 18% in its offered premiums—the add-ons to cover fixed expenses such as shipping and insurance. Even with the premium cut, prospective buyers worry that demand for the red metal will remain slack making Codelco's proffered supply contract the kind of hot potato that no one wants to hold.

But there is at least one—and a well-placed one—voice semi-favorably crying out in the copper wilderness. At a recent meeting of the American Copper Council, the leading base metals analyst for J.P. Morgan Co. predicted that copper would again be trading at \$8,000 as demand recovers and copper users replenish their inventories. But he also sees some slippage in next year's second half, with copper back down to a still respectable \$7,200-7,400.

*In other Copper News:*

- Midway through November an earthquake measuring 7-plus on the Richter scale hit Chile. The temblor knocked out the power at a number of copper mines in the region, word of which boosted the LME price by \$200. But when it was announced that none of the mines had any serious damage, the one-day price surge was quickly erased.
- Yet another walkout got under way in the strike-prone Peruvian mining industry when the dominant labor union called a nationwide job action. But the government quickly stepped in, declared the strike illegal, and threatened to fire participants who didn't return to work. Interestingly, the price of copper on the metals exchanges actually *fell* after word of the walkout hit the street.
- Beijing announced that Chinese production of copper hit an all-time high in October, with output up 16.5% from September and 42.5% ahead of October 2006. According to *American Metal Market (AMM)*, stepped-up production in China will reduce its imports of the red metal and put heavy pressure on prices. It should be noted, however, that Beijing's Stakhanovite claims are not dissimilar to those constantly emanating from Moscow under Soviet rule. One is always wise to have a grain of salt handy when analyzing such reports.

## **CARBON STEEL**

*Production and Pricing.* Operations of U.S. steel mills during November ran at an average of 87.8% of capacity, slightly ahead of the year-to-date operating rate of 86.1%. For most of November, steel demand was soft. But steelmakers are bullish about the near-term future and have set their pricing policies accordingly.

In the key area of flat-rolled products, for example, a \$20 per ton price increase effective October 1 was initially given little chance of sticking. But after some buyer resistance from both service centers and steel consumers, the increase held.

Now a similar situation exists. Most of the major producers—including Nucor, USS, AK Steel *et al--* have announced another \$30 boost to take effect January 1. Initially this further increase also was given little chance of becoming a reality. But on reflection, most buyers now agree that higher prices are reasonable, considering escalating costs of energy, transportation and steelmaking materials. And indeed, not long after news of the \$30 hike hit the street, Arcelor Mittal—the world's biggest steel producer—upped the ante to \$40, noting that that the pricing by American mills is “below prevailing [global] market levels.” And with this firm's enormous market muscle, it may well get all that it is asking for.

In its discussion of the pending price increase, *AMM* noted that some steelmakers are looking beyond January 1 to yet another price hike—this one of \$40—to be effective early in the second quarter of 2008.

While all this pricing speculation continues, the two major West Coast mills are in a kind of negative price war with their counterparts in the Central and Eastern regions of the U.S. Instead of \$30 per ton on all flat-rolled products, these mills are asking for \$40 on galvanized and hot-rolled sheet. If successful, the California mills would be quoting hot-rolled at \$610-640 per ton after January 1. Their hoped-for \$10 surcharge is based on the need to buy steelmaking materials from outside their region, thereby adding significantly to production costs. Despite the logic of this argument, the issue of that extra \$10 is decidedly in doubt.

Buttressing the case for higher prices flat-rolled prices are the scant current inventories of steel service centers, currently at the lowest level in nine years. According to the Metal Service Center Institute, the centers' stock levels are capable of handling only 2.6 months of normal business.

*Raw Materials.* In the November auctions of automotive factory bundles, successful bids averaged \$25 per long ton below the September level. As might be expected, the bundles auction price dragged down other scrap prices, ranging from a drop of \$30 for busheling to \$5 to \$10 off for No. 1 heavy melt and shredded metal.

The zinc market was largely quiescent during the first half of November but showed some weakness thereafter. The following prices are per-tonne for the three-month LME contract:

Open	\$2,821.00
High (Oct. 31)	\$2,821.00
Low (Nov. 20)	\$2,320.00
Close	\$2,502.00

Additional supplies of domestic zinc will become available as Strategic Research Corp. completes rehabbing of three mines in Tennessee. When back on stream these mills will produce Zn ore at the rate of 7,500 tons per day. Annual output of concentrate will approximate 120,000 tons.

*Trade Issues.* As the 800-pound gorilla of international trade, China is constantly in the news spotlight. Some recent items:

- Once again, rumors are flying about Beijing's intention of increasing export taxes on steel and numerous other products. No solid information is available at press time, but there have been consistent reports about China's plan to reduce exports of strategic materials by adding to their cost via the export tax. But some see the rumors as an attempt to mollify the complaints of several governments regarding Chinese industrial subsidies and currency manipulation, both illegal under World Trade Association (WTO) rules.
- The latest to file a complaint against Chinese dumping is Eurofer, the steelmakers' organization for the European Union (EU). The association's filing with the EU charges widespread dumping of Chinese steel. Beijing's response is that its mills "merely filled a gap in the market" and that Chinese trade policies are "in the best interests of [Eurofer's] members."

- U.S. Trade Representative Susan Schwab reports that Beijing has agreed with the U.S. to stop subsidizing certain export products including steel. The move was in response to a formal complaint to the WTO filed by the U.S. In a “Memorandum of Understanding,” the U.S. is obliged to withdraw its complaint, but if the Chinese renege on the subsidies, it has the right to re-file.
- U.S. Steel has announced its intention to challenge the U.S. International Trade Commission’s plan to revoke anti-dumping duties on Mexican line pipe. If the appeal fails, U.S.S. will take its complaint to a binational forum that would be formed under the NAFTA treaty.

## **STAINLESS STEEL**

*Prices.* Nickel, the key alloying agent in stainless steel, hit a high midway through November. But by month end the price had slumped by more than 17%. The prices below are per tonne for the 3-month LME contract.

Open	\$31,450.00
High (Nov. 14)	\$33,760.00
Low (Nov. 29)	\$28,150.00
Close	\$28,150.00

The sharp drop in nickel prices after mid-month was not altogether a function of the metals market. Many blame what is being called the “Bernanke Bounce,” a statement by Fed Chairman Ben Bernanke that triggered a rise in stock prices but did the exact opposite to metals prices.

On October 11 the Federal Reserve boss predicted that the U.S. economy would soon be entering a period of slower growth. This cheered Wall Street because it hinted at another cut in interest rates. But to the chagrin of metals commodities traders everywhere, Bernanke added that “a period of slower growth should bring metals prices under some pressure.” Needless to say, metals traders did not view this observation as bullish. And to the many speculators who trade nickel on the LME, Bernanke’s comment was a sell signal they couldn’t refuse. Coupled with a modest falloff in stainless steel demand, the Chairman’s predictions were a self-fulfilling prophecy, especially in the case of nickel.

But even with nickel down, stainless steel prices continue to rise. Early in November, Thyssen Krupp, a major player in the stainless sector, announced a 6% boost on cold-rolled sheet in the 200, 300, and 400 alloy series. The firm was quickly joined by AK Steel, a member of the Stainless Big Three and never a laggard in pricing. Included on AK’s new price sheet was a 6% increase on a wide range of flat-rolled product—hot- and cold-rolled sheet and strip, tubular plate and continuous mill plate. According to *AMM*, some in the market saw the price increases as acceptable. But others noted that unless Thyssen and AK were joined by one or both of the other Big Three members—North American and Allegheny—the 6% increases might fail.

*Imports.* Stainless steel imports to the U.S. were a mixed bag through August. The total incoming tonnage was up more than 10%. However, there were sharp variations in volume among stainless products. Imports of sheet and strip, for example were down 12% for the 8-month period while total U.S. consumption of these products was off 17%.

On the other side of the ledger, stainless plate from overseas sources has been pouring into the market. Two-thirds of the way through 2007, plate imports had risen to 112,000 tons, up 66% from 2006. But plate consumption in the U.S., much of it for energy applications, was up just 12%. The imbalance of imports over consumption lifted the market share for overseas suppliers to an unprecedented 44%, a level that alarms some U.S. stainless producers.

## **TUBULAR PRODUCTS**

*Prices.* After three quarters of gradual price decline, spot prices for oil country tubular goods (OCTG) firmed in November, showing modest increases in most categories. According to *AMM* the pricing improvement will continue, with OCTG prices in 2008 moving strongly to the upside. The publication bases this forecast on “increased shipping costs, lower import levels and higher Chinese prices,” all in the face of steady, strong demand.

The following table shows representative OCTG prices for November and October:

<b><i>Product</i></b>	<b>Nov 2007</b>	<b>Oct 2007</b>	<b>Oct-Nov % Chng</b>
Tubing: Carbon ERW	\$1,296	\$1,282	<b>+1.1%</b>
Tubing: Carbon seaml's	\$1,484	\$1,467	<b>+1.1%</b>
Tubing: Alloy ERW	\$1,666	\$1,659	<b>+0.4%</b>
Tubing: Alloy seamless	\$1,799	\$1,794	<b>+0.3%</b>
Casing: Carbon ERW	\$1,064	\$1,065	<b>0.0%</b>
Casing: Carbon seaml's	\$1,200	\$1,197	<b>+0.3%</b>
Casing: Alloy ERW	\$1,391	\$1,402	<b>-0.8%</b>
Casing: Alloy seamless	\$1,516	\$1,527	<b>-0.7%</b>

Source: Pipe Logix, Inc. f.o.b. Houston

*Operations.* During November the U.S. rig count fluctuated in a narrow band, hitting a high of 1,801 operating units and a low of 1,773, the Canadian count ranged from 356 to 391 active drilling sites.

*Energy.* As the U.S. energy industry continues to go full tilt, the demand for large-diameter spiral-wound pipe has accelerated sharply. As has been the case for some time, U.S. pipe mills are increasing their capacity in this tubular sector. Additionally, a number of new spiral-wound mills are either planned or under construction, some with U.S. ownership others owned offshore.

Companies recently announcing new pipe mills include Stupp Corp., PSL North America, Berg Steel Pipe, Ipsco and United Steel Pipe. Just these—and others on the way—will add almost 1.2 million tons of spiral pipe capacity in the U.S. Additionally, spiral pipe imports have soared. Through September incoming shipments total 2,190,000 tons, up 61% from the comparable 2006 period. Even Greece, never known as a powerhouse in steel products, has so far this year shipped 142,900 tons of spiral-wound to the U.S., more than seven times its 2006 shipments.

*Trade Issues.* In a decision handed down last month, the U.S. Department of Commerce ruled that the Chinese government has been illegally subsidizing welded circular pipe. The Department found that the subsidies amount to 16.6% of the product value. Duties will be levied accordingly and will be retroactive. The case was brought by several steel pipe producers including Wheatland, Sharon, Allied and Northwestern as well as the United Steelworkers union, a longtime foe of China's illegal trade manipulations.

In another case, the Congressional Steel Caucus has turned up the heat on the Homeland Security Department regarding the discovery of those Chinese pipe posts—and defective ones at that—installed in the new fence to prevent illegal border crossings from Mexico. The pipe was authorized under a secret permit, the origins of which remained shrouded in mystery. Steel Caucus member Phil English has vowed to determine how and by whom the pipe found its way into the fencing.

## **RESINS**

As 2007 draws to a close, the resin market has two faces. Export shipments continue to boom, or as *Plastics Technology (PT)* puts it, to “roar.” But demand on the domestic side of the fence is lackluster, in large part because of the ongoing drought in home building. Following are some product trends as reported by *PT*.

**Polyethylene.** With petroleum prices in orbit, a broad range of resin feedstocks and monomers have posted price increases. And while producers have attempted to pass along their higher costs, they are encountering stiff buyer resistance which is expected to last into 2008.

**Polypropylene.** *PT* indicates that prices will remain flat despite producer efforts to put through a 3-cent increase. But one slightly bullish indicator is a tiny uptick the October LME contract price.

**Polyvinyl Chloride.** Propped up by exports, PVC prices continue to remain level. On the domestic front, demand will remain throttled by the housing slump until it has run its course.

**Polystyrene.** This past fall has been a downer for PS as the price tumbled 4-cents a pound. Two major producers have attempted to push through a 3-cent increase, but as yet there is no evidence that the effort will succeed.

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**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 10/07	Previous 09/07	Year Ago 10/06	<sup>2</sup> Yrs Ago 10/05
<b>PIPE, VALVES &amp; FITTINGS:</b>				
Copper & copper-alloy tube	321.2	292.1	290.2	182.1
Steel pipe & tube	167.3	166.0	168.8	157.5
Plastic pipe and fittings	194.0	195.9	214.2	195.4
Industrial valves – metal	176.3	175.5	164.8	147.7
<b>PLUMBING FIXTURES:</b>				
Vitreous china fixtures	98.0	103.6	101.4	99.8
Fixture fittings & trim	228.1	227.1	214.6	201.8
<b>HVAC EQUIPMENT:</b>				
Warm air furnaces	125.7	127.5	119.1	116.5
Unitary air conditioners	140.3	140.3	138.1	140.8
Cast iron heating boilers	133.8	131.6	128.2	122.0

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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