
ASA MATERIALS MARKET DIGEST

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MARKET OVERVIEW

Carbon Steel. Flat-rolled mills announced modest price increases for January and February deliveries. But stronger demand and inexorably rising costs impelled the producers to raise prices again for March and April shipments

Tubular Goods. No end is in sight for the North American energy boom, and oil and gas drilling in both the U.S. and Canada continues at near-record levels. A major by-product of this activity has been an upturn in prices of oil country tubular goods.

Stainless Steel. Reflecting moderate price weakness in nickel, major stainless producers reduced materials surcharges for February deliveries. Then, with buying continuing to be sluggish, some stainless mills fudged on the February 1 start date and in mid-month began to offer January deliveries at the lower February prices.

Copper. The red metal traded in a fairly narrow band in January as the spread between the month's high and low was less than \$700. The cathode market was lackluster, but demand for high-grade scrap, especially from China, remained strong and persistent.

Resins. Driven by rising feedstock and monomer prices, plus a strong flow of export orders, resin prices are firm to rising. PVC is the major exception, primarily as a result of ongoing weakness in the home building sector.

CARBON STEEL

OPERATIONS & PRICING. *Production.* After some slowing in December, U.S. steel mills picked up the pace in January, showing successive gains through the first four weeks of 2008. Production totaled 8.262 million tons, 10% ahead of the comparable period in 2007.

Pricing. When a \$30-40 increase for January deliveries of flat-rolled products met little resistance, three of the major mills announced February increases also in the \$30-40 range. Soon thereafter two leading mills announced a hike for March flat-rolled prices, initially of \$50 per ton, but then raised to \$80 by one mill. Finally, as press time neared, word came that West Coast producers had notified customers of an additional \$85-90 on prices, effective with April 1 shipments.

Driving this rapid price escalation are three factors: (1) Very thin steel inventories in the warehouses and yards of producers and service centers; (2) Rising costs of virtually all raw materials as well as energy and transportation; (3) A sharp decline of steel imports, especially from Asian sources.

RAW MATERIALS. On January 4, Chrysler held its first auction of factory bundles of the new year. Most market watchers expected successful bids to be perhaps \$40-50 higher than in December. No one was prepared for the actual outcome—a jump from the prior auction of \$95 per long ton. The unprecedented surge resulted from tight scrap supplies in U.S. yards, plus exceptionally strong export activity

Normally, prices of iron ore and ferrous scrap move up and down in tandem, and this pattern applies to the current period. Thus, midway through 2007 the going market for iron ore fines was \$70 per ton. In barely half a year the price has doubled to a current \$136-140. With a view toward cashing in on a good thing, India's Steel Ministry has asked the government's OK to boost its export tax on iron ore to 15%, half again the current rate.

India isn't the only materials supplier out to make an extra buck on the steel industry's growth. China is the world's largest supplier of ferromanganese, an alloying agent widely used in steelmaking. In January, Beijing hiked the export tax of FeMn, first to 15% and then later in the month to 20%. The result was quickly reflected in the alloy's prices, which rose from \$1,800-\$1,850 to \$2,050-2,150 almost overnight.

Ferrochrome, another critical steelmaking material, is getting scarcer and more costly. In this instance the problem isn't price gouging for more *yuan* or *rupees*, but a lack of electric power to produce this alloy. South Africa is a key source of ferrochrome, and at present it is enduring a crisis-level shortage of electric energy, without which most ferroalloys can't be produced. The problem has forced some ferroalloy plants to shut down or curtail operations sharply for an indefinite period.

About the only pertinent raw material *not* going up in price is zinc. Government officials in Australia, a major source for the white metal, forecast a global zinc surplus for 2008, in contrast to the deficits experienced in recent years. According to this source, the price will fall in the next year or two from a current \$2,300-2,500 per tonne to about \$1,780.

International Trade. In the first eleven months of 2007, U.S. imports of finished steel fell 26% from the 2006 level. Then in the closing weeks of last year incoming shipments of foreign steel essentially dried up. The drop-off was especially notable in flat-rolled products. But despite the aggressive price increases levied by U.S. mills, foreign flat-rolled steel producers are no longer competitive with U.S. sources.

Notwithstanding the recent decline in imports, the steel industry continues to press its complaints concerning unfair trade practices by China. The latest group to be heard from is the Alliance for American Manufacturing. A scathing report by this organization accuses the

Chinese, among other things, of “massive, trade-distorting subsidies” which benefited Chinese steel mills to the tune of \$27.1 billion over the past seven years.

As usual, Beijing feigned big-time offense at the criticism and issued its customary Who Me? disclaimer. This said in part that the Alliance report “shows little understanding of the Chinese economy” and explained that “some steel mills may be able to secure lower prices because of their strategic relationships, but this ...has little to do with the government.”

TUBULAR GOODS

Drilling. The U.S. rig count eased a bit during January, falling from 1,782 to 1,747 sites. The modest decline was for the most part weather-related. In Canada, where even the coldest temperatures are taken in stride, the rig count surged from 260 active sites to 582, the highest Canadian level since early 2007.

Prices. Quotes for oil country tubular goods rose briskly during January. Representative prices as reported by the Pipe Logix, Inc. consulting firm appear in the table below. As shown, none of the eight tubular categories declined in price during the latest reporting month, something not seen in the Pipe Logix figures since early 2007.

<i>Product</i>	Jan 2008	Dec 2008	Dec-Jan % Chng
Tubing: Carbon ERW	\$1,091	\$1,073	+1.7%
Tubing: Carbon seaml's	\$1,478	\$1,459	+1.3%
Tubing: Alloy ERW	\$1,653	\$1,636	+1.1%
Tubing: Alloy seamless	\$1,793	\$1,760	+1.9%
Casing: Carbon ERW	\$1,065	\$1,065	0.0%
Casing: Carbon seaml's	\$1,208	\$1,202	+0.5%
Casing: Alloy ERW	\$1,390	\$1,378	+0.8%
Casing: Alloy seamless	\$1,565	\$1,536	+1.9%

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

Imports. January saw the U.S. Department of Commerce toughen its posture with respect to government-subsidized imports of tubular goods, notably from China. Early in the month the Department announced that it is levying anti-dumping duties on large-diameter welded steel pipe

produced in Chinese mills. The latest tariffs are in addition to countervailing duties imposed on the same products in November. These moves came at the behest of a number of U.S. tubular steel producers and the United Steel Workers union. As requested by these complainants, the charges have been given “critical circumstances” status. This authorizes collection of the new duties retroactively for 90 days and requires importers to post bonds for the full amount of the dumping penalties.

Washington’s unexpected get-tough attitude generated the usual howls from Beijing, with one spokesman terming it “definitely unreasonable.” The Chinese even threatened to cut off all line pipe shipments to the U.S., a move that seems unlikely.

In yet another tubular case, a coalition of stainless steel pipe producers has filed a complaint against China on the familiar grounds of dumping and manufacturing subsidies. The complaint cites figures showing stainless pipe imports jumping from 14,000 tons in 2005 to 32,000 last year. It estimates that in this product category Chinese pipe has 30% of the U.S. market.

Meanwhile, north of the border the Canadians are also taking up the cudgels on welded line pipe dumping. Responding to a complaint by ArcelorMittal, the Canada Border Service Agency is launching an investigation which could well lead to duties and/or other trade sanctions. And with its customary *chutzpah*, Beijing responded by blustering that the mere investigation “could have a negative impact on sustainable bilateral trading between China and Canada.”

STAINLESS STEEL

Nickel. After slumping badly in December, nickel-prices staged a mini-recovery in January. But it was short-lived, with the month’s peak coming in the first week of the new year. Thereafter there was on-and-off slippage which depended largely on the sentiment of traders rather than the demand of stainless steel producers. Following is a summary of price action (per metric ton) on the London Metals Exchange for the month:

Open (Dec. 31)	\$26,050.00
High (Jan. 4)	\$29,825.00
Low (Dec. 31)	\$26,050.00
Close (Jan. 30)	\$27,706.00

Meanwhile, efforts to increase the global nickel supply are experiencing heavy weather. In Michigan the Department of Natural Resources (DNR) has delayed start-up of construction for a proposed new nickel mine in the Upper Peninsula (UP) near Marquette. The mine, a project of Kennecott Eagle Minerals, is expected to produce at least 16,000 tonnes of refined nickel if and when it starts operations. Currently the project is being delayed by DNR even though another Michigan bureaucracy, the Department of Environmental Quality, has already issued the necessary permits. In a classic display of bureaucratic foot-dragging, DNR keeps submitting a new laundry list of questions each time its prior queries have been answered. In the UP, where Michigan’s chronic and drastic unemployment is particularly severe, DNR’s arrogantly stated policy is, “When we are ready to move forward, we will move forward.”

Elsewhere, Inco Vale's troubled nickel mine in New Caledonia seems to be morphing into a bottomless money pit. Cost overruns on the project have become routine, and recently a provincial leader asked the French government for another \$191 million handout to help move the project along. The current cost estimate for the completed mine is now over \$3.2 billion, up from \$2.15 billion in 2006.

Stainless Steel Pricing. As expected, the major stainless mills cut the materials surcharges on flat-rolled product for February deliveries. AK Steel took the lead, trimming the surcharge on Type 304 by 17.93 cents per pound, on Type 316 by 24.5 cents and Type 321 by 20.57 cents. Other mills quickly followed suit, generally staying within a few hundredth of a cent of AK's reductions.

Soon after these price cuts were announced, some stainless producers started offering January flat-rolled purchases at the lower February prices. This fudging on the effective date was by no means universal, and some sources withdrew their offers before February 1. Market watchers interpreted the producers' gun-jumping as being evidence of stiffer mill competition in the stainless market.

COPPER

Prices. In trading on the London Metals Exchange, copper started near the bottom of its recent pricing range. Then it climbed to the January peak on the 14th and gradually eased . Over all, the price range for the month was less than \$700, a fairly narrow band for the often volatile red metal. Following is a summary:

Open (Dec. 31)	\$6,715.00
High (Jan. 14)	\$7,391.00
Low (Jan. 2)	\$6,706.00
Close (Jan. 30)	\$7,185.00

Operations. No relief is in sight for the housing slump and the damper it has put on the market for finished copper products. There has been some modest and sporadic improvement in cathode sales, mainly the consequence of drawdown of existing user and warehouse inventories. No one knows for sure, but there is some talk of a modest pickup in home building in the second half of this year, but whether this turns out to be another false dawn or the genuine start of a rebound remains to be seen.

In the meantime, there has been something of a departure from the normal buying pattern of copper consumers and service centers. Instead of relying on supply contracts with smelters, more buyers are increasingly using the spot market. This change reflects uncertainties concerning the future price of copper. Using the spot market, buyers avoid the not uncommon experience of stocking up heavily only to see the price drop and the value of inventories erode.

In any case, copper and brass service centers fared reasonably well in December, even without much of a housing market. Warehouse shipments for the month came to 25.6 million pounds, off just 4.6% from December 2006. For all of last year, copper service center shipments were down only 5.5%.

Labor Relations. Now well into its sixth month, the marathon strike at Grupo Mexico's huge Cananea Mine seems headed toward a climax. The walkout has been costly to the company and profits dropped 54.3% in last year's final quarter. Several weeks ago the Mexican Labor Ministry declared the strike illegal, but the union promptly appealed the ruling. The court handling that appeal expects to reach a decision by mid-February, and if favorable to the company the ruling would presumably end the labor action. Pending this decision, about 400 miners have returned to work under an injunction forbidding their dismissal until the strike's legality has been decided.

Scrap. China and the U.S. may be at odds regarding issues like subsidized manufacturing and dumping, but the Chinese remain avid buyers of American copper and brass scrap. Indeed, as the Lunar New Year holiday approaches, the influx of scrap orders has accelerated. One market observer quoted by *AMM* characterized this buying as "rampant" while another was heard to say that the resultant level of unsold scrap supplies was "as tight as I've ever seen it."

Not surprisingly, surging Chinese demand has pushed scrap prices skyward. Midway through January, No. 1 ingot maker's scrap—the highest grade—jumped 11 cents to \$3.10 a pound. Even at that rarely seen level, Chinese scrap buyers didn't bat an eye but kept on writing orders. They are so hungry for high-grade copper scrap in China that the government is considering a 17% VAT on domestic scrap dealers, a move intended to drive smaller independent dealers out of business.

RESINS

The bias in resin prices is still to the upside, driven by a weak dollar supporting persistent export demand, especially from Europe and China. Additionally, feedstock and monomer prices continue to rise as crude oil remains in the \$90-100/bbl range. The following resin-specific price trends are based on published reports from *Plastics Technology (PT)*.

Polyethylene. Current prices are near the all-time high, and announced end-of-year price increases have been postponed. But higher prices are still expected, especially with Chinese production down because of short feedstock supplies.

Polypropylene. Record high prices of propylene monomer are expected to continue, supporting the current lofty price of PP. The resin price is expected to be stable for much of the current quarter, but the next price change will likely be to the upside.

Polyvinyl Chloride. With home building still in the doldrums, PVC prices continue to be under pressure. *PT* indicates that first-quarter price changes for exports and contract buyers will probably be to the downside.

Polystyrene. After a number of petroleum-driven hikes in 2007, polystyrene prices are expected to be stable for the current quarter.

Other Resins. At press time, *PT* had not published any price information on other resins such as epoxys, nylons, gel coats, etc. But these plastics are subject to the same pricing factors as those discussed above. Hence, the outlook is generally for more costly monomer and feedstock prices and stable or rising prices for the finished resins.

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 12/07	Previous 11/07	Year Ago 12/06	² Yrs Ago 12/05
PIPE, VALVES & FITTINGS:				
Copper & copper-alloy tube	284.4	301.3	269.4	197.8
Steel pipe & tube	167.1	165.7	170.0	157.5
Plastic pipe and fittings	203.6	198.2	200.1	224.0
Industrial valves – metal	176.7	176.6	164.2	147.8
PLUMBING FIXTURES:				
Vitreous china fixtures	96.5	96.5	101.4	101.2
Fixture fittings & trim	227.7	227.7	215.1	202.5
HVAC EQUIPMENT:				
Warm air furnaces	125.7	125.7	119.8	116.5
Unitary air conditioners	140.3	140.3	139.2	137.5
Cast iron heating boilers	135.7	135.3	128.2	122.4

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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