ASA MATERIALS MARKET DIGEST
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MARKET OVERVIEW

Carbon Steel. With mill operations near 90%, steel prices continue to escalate. Ongoing price hikes are supported by strong global demand and necessitated by soaring costs of, among other things, ferrous scrap, pig iron and ferroalloys. The industry mood is decidedly upbeat and most steelmakers see the current boom extending at least into 2009.

Stainless Steel. The price of nickel has nosedived, with the LME quote falling from $29,025 per metric ton to $22,105. After a steep rise in early May, chrome has steadied, at least for a while. Flat-rolled stainless prices are being adjusted to reflect higher chrome and lower nickel costs.

Tubular Products. After monthly price changes in the low single digits, oil country tubular goods have become full-scale parts of the steel industry's inflationary pattern. In the most recent reporting month, U.S.-made OCTG prices rose an average of 15.1%. Driving the increases are strong demand from the oil and gas drilling market as well as the rapidly rising costs of raw materials and energy.

Copper. Over the latest reporting period, April 30-May 29, the LME price of three-month refined copper fell from $8,500 per metric ton to $7,981. The decline followed reports of a developing global copper surplus estimated to be 85,000 tonnes this year and 439,000 tonnes in 2009. Also contributing to the slumping price was a Federal Reserve official's warning that commodity prices, including those of copper, are reaching bubble status where a sharp selloff is likely.

Resins. The normal seasonal buildup of demand for resins has thus far fallen short of market expectations. But prices of feedstocks and monomers continue to rise, leading many resin producers to announce price increases for June. For most polymers, the higher tags will be implemented eventually, but the chances of a price increase for PVC are slim to none.

CARBON STEEL

OPERATIONS & PRICING. *Production.* As has been the case now for several months, raw steel operations in U.S. mills remains at a high level. During May, weekly operating rates varied slightly from a low of 88.0% to a high of 88.9%. Year-to-date output at month-end amounted to 47.876 million tons, 3.2% ahead of 2007.

Price Trends. Steel prices continued to rise throughout the current reporting month. Early in May, a major West Coast mill, USS-Posco, made the first announcement of higher prices for the second half of 2008. This in itself was unusual because California's two major mills normally make their pricing moves after the market direction has been set in other regions. For spot deliveries beginning in July, Posco added $150 per ton to the tags on cold-rolled and galvanized sheet. Toward the end of May Posco came back with its August pricing, a further boost of $70 for cold-rolled and $60 for galvanized. California Steel kept pace with Posco's price escalation, and when the dust settled, the two West Coast firms were quoting spot prices of about $1,200 for cold-rolled and proportional quotes for galvanized and hot-rolled.

Mills east of the Rockies were by no means silent while their western counterparts traded price increases. Early in July AK Steel was the first to respond when a factory bundles auction yielded an eye-popping $135 jump in scrap prices. It did so with an additional $75 boost effective as of the announcement date. This move brought the hot-rolled spot market to about $1,125 per ton, cold-rolled to $1,225 and galvanized to $1,245.

Market Conditions. A recent issue *American Metal Market (AMM)* hinted at a possible slowdown in the breakneck pace of flat-rolled price increases over the past several months. No one expects price *reductions* any time soon. But the publication noted that in the latest round of price increase announcements, some mills have shown unexpected restraint. For example, when Nucor posted its latest boost of $60-90 per ton on flat-rolled, AK's response displayed no effort to top Nucor's hike. ArcelorMittal was even more cautious, answering Nucor with a mere $10 increase.

Market Outlook. Notwithstanding some restraint in price increases, the mood of the American steel industry remains decidedly bullish. A recent joint meeting of steel executives and service center operators was markedly upbeat. In reporting on the meeting, *AMM* noted strong optimism among both attendee groups. The consensus is that the current steel boom will endure at least until the end of 2008. Supporting this view is the sharp decline in steel imports, brisk global demand, and low inventories at both the mill and the warehouse levels.

Regarding service center stocks, inventories as of April 30 were 15.1% below the year-ago level. Sales for the first four months of 2008 were off 2.8%, but April showed significant improvement with a 3.3% gain. Moreover, the Metal Service Center Institute reports that member warehouses are feeling a modest improvement in incoming orders. Interestingly, these same sources also express concern over steel availability in the current tight market.

At another recent meeting of steelmakers, panelists opined that the surge in steel prices represents a long-term market trend rather than a short-lived economic bubble. Speakers cited such factors as ongoing demand from emerging economies, the weak dollar, and fundamental reforms in the industry's production and pricing practices.

RAW MATERIALS. *Ferrous Scrap.* As noted above, a major factor in soaring steel prices has been the steady and sometimes dramatic surge in scrap prices. Factory bundles, for example, continued to yield triple-digit gains at recent auctions. In April a new record was set when the winning bids averaged a plus $155 per long ton. The May offerings were not far behind when the gavel fell on bids up another $135 from April. *AMM* reports that by mid-May some mills were paying a record $720-735 for large orders of bundles and busheling.

Scrap exports from U.S. yards have also been booming. Outgoing shipments in the first three months of 2008 totaled 4.42 million tons, 8.5% higher than in the comparable 2007 quarter. The principal buyers, in order, have been Turkey, Taiwan, China and South Korea.

Ferrous scrap is by no means the only steelmaking material riding an up-only escalator. Recent delivery prices for Brazilian pig iron f.o.b. dockside New Orleans are in the $850-860 per tonne range, with upriver barging adding another $30 or so. But even at this lofty level, U.S. pig purchases are cheap compared with the European spot market tagged at $940 or more.

Ferroalloys. In recent weeks the price of ferrosilicon (FeSi), a key alloy in many steel formulations, has risen sharply. For several months the spot price had been steady at $1.09 to $1.14 per pound. But the recent Chinese earthquake impaired production at some plants and curtailed the supply of electric power to others. Additionally, the government ordered partial shutdown of some alloy plants in an attempt to remediate the mephitic air pollution of the Beijing area in time for the Olympics. As a result of these Chinese shutdowns, the spot price of FeSi has jumped to $1.38-1.42 per pound, and there is some talk of the alloy "testing" a $2.00 spot price.

STAINLESS STEEL. Market conditions in the stainless steel sector were uncommonly quiet during May. The principal development of the month was an ongoing and sharp decline in the price of nickel. Following are closing May quotes on the London Metals Exchange:

Open (Apr 30)	$29,025.00
High (April 30)	$29,025.00
Low (May 29)	$22,105.00
Close (May 29)	$22,105.00

Prices for ferrochrome, another key alloy in many stainless formulations, were unchanged throughout May, with the high-carbon grade quoted at $2.46-2.51 per pound and the lowest carbon content grade remaining at $5.05-5.15.

The month's only major price announcements came from AK Steel, often a price leader in alloy as well as carbon steel. Affected were surcharge reductions in 300 Series alloys and increases in certain formulations in the 400 Series. Following are representative adjustments on AK's price sheet:

Type 304	-	Down 1.85 cents to $1.6701
Type 316	-	Down 6.34 cents to $2.5978
Type 430	-	Up 9.29 cents to $0.5999

TUBULAR PRODUCTS

Operations. Oil and gas drilling activity remains extremely strong in the U.S. and increasingly so in Canada. During May the U.S. rig count ran at the near record range of 1,839-1,899 operating sites, 6% ahead of the comparable weeks in 2007. In Canada, the count rose from 95 to 152 sites during May, closing out the month 33.3% ahead of the 2007 pace.

With drill rigs humming and materials costs surging, the double-digit inflation experienced with flat-rolled steel has now spread to oil country tubular goods (OCTG). According to Pipe Logix, Inc., an arm of the Santa Fe-based Spears & Associates consulting firm, prices for U.S.-made OCTG rose 15.5% during May, finishing the month with an average price of $2,041 per ton. Increases for individual items varied widely according to a Spears spokesman, with some products up only 10% while others jumped as much as 25%.

The table below shows the May price increases for eight benchmark OCTG items, costs of which are closely tracked by Pipe Logix:

Representative OCTG Prices (per ton)

Product	May 2008	Apr 2006	Apr-May % Chug
Tubing: Carbon ERW	$1,837	$1,521	**+20.8%**
Tubing: Carbon Seamless	$2,012	$1,672	**+20.5%**
Tubing: Alloy ERW	$2,154	$1,900	**+11.2%**
Tubing: Alloy Seamless	$2,391	$2.081	**+14.9%**
Casing: Carbon ERW	$1,695	$1,356	**+25.0%**
Casing: Carbon Seamless	$1,767	$1,548	**+14.1%**
Casing: Alloy ERW	$2,035	$1,812	**+12.3%**
Casing: Alloy Seamless	$2,219	$1,955	**+13.5%**

Source: Pipe Logix, Inc., Houston TX

Tubular Miscellany

- Ipsco Tubular, a major U.S. producer of line pipe and other tubular goods, has announced price increases on ERW products ranging from $250 to $350 per ton. The boosts include a $250 hike for diameters in the 2-6-in. range, $350 for 8-in. pipe, and $320 for diameters of 10 to 16 in.

- Wolverine Tube, recently financially troubled, returned to profitability in the first quarter of the current year. Revenues for the period were down 3.1% to $256 million. But earnings of $3.8 million contrasted with a loss of $2.2 million in the first quarter of 2007.

COPPER

Pricing and Supply. The price of copper eroded significantly during the month of May. Following are the closing quotes per tonne for three-month futures as traded on the London Metals Exchange:

Open (Apr 30)	$8,500.00
High (May 1)	$8,540.00
Low (May 29)	$7,981.00
Close (May 29)	$7,982.00

Several factors contributed to copper's price decline last month. For one thing, a forecast by the highly respected International Copper Study Group sees the red metal entering an extended period of global surplus. According to ICSG, supply in 2008 will exceed demand by a predicted 85,000 metric tons in 2008, and in 2009 the surplus will jump to 439,000 tonnes. The forecasters see copper production increasing 6% and 9% in 2008 and 2009, while demand will rise just 2% in the current year and 5% in 2009.

Also putting pressure on the red metal's price was a presentation to the American Copper Council by a high official of the Federal Reserve Bank of Dallas. The speaker warned that commodity speculation is currently a major factor in the price of copper and that, "some of these prices have gotten ahead of the fundamentals." Another speaker at the session sees copper prices fluctuating through 2010, with the average Comex price in 2009 falling to $3.30 per pound, compared with an estimated average of $3.60 for the current year.

Labor Relations. These predicted price declines presuppose a reasonable level of labor peace in copper mining. Some recent labor developments point in this direction, other don't. On the plus side, a three-week walkout at some key mines of Codelco, the world's largest copper producer, were quickly settled when the Chilean government (which owns Codelco) stepped in. The new labor pact reinstates all strikers fired during the stoppage, provides full payment of wages lost while on strike, and awards all workers a one-time bonus of $1,073.

By contrast, the strike at Grupo Mexico's Cananea mine seems endless. Now in its tenth month, the walkout has reached an impasse point where the two sides can't even agree as to what the strike is really about. The union asserts that the issues are provisions in the collective bargaining agreement and unsafe working conditions. But management says the union's real grievance is the company's failure to reinstate their recently re-elected leader, Napoleon Gomez. Senor Gomez is currently a fugitive in Canada to avoid prosecution for alleged fraud. Fiercely loyal to Gomez, the rank and file continue to demand that charges against him be dropped.

Scrap. During May, the market for copper and brass scrap topped out early in the month and then fluctuated with a downward bias. The premium grade, No. 1 ingot maker's copper, peaked at $3.64-3.65 per pound. Thereafter the export market weakened as Chinese buyers, who account for two-thirds of all U.S. copper scrap exports, went to the sidelines. Additionally, a seasonal increase in scrap availability put pressure on prices. Yet another factor was the decline in cathode copper prices to which premium-grade scrap tags are normally geared.

INTERNATIONAL TRADE DEVELOPMENTS

May was an especially busy month for U.S. international trade interests. Following are some developments:

- *Buy American Legislation.* The Congressional Steel Caucus has aired another grievance regarding imported Chinese steel. The legislators' complaint charges that much of the pipe and tube landing on U.S. soil is substandard and potentially dangerous. The group claims that many Chinese mills are not equipped to test finished steel products and that they regularly use "false documentation." Accordingly, the Caucus is introducing legislation that would require the use of domestic steel in projects involving the Departments of Defense, Homeland Security, and Transportation.

- *Cut-Rate Line Pipe.* The U.S. International Trade Commission has found that low-priced circular carbon steel welded line pipe from China and South Korea has injured or threatened to injure U.S. producers of comparable products. The complaint, lodged by three domestic pipe producers and the steel workers union, now goes to the Commerce Department where the imposition of duties will be considered.

- *Pussyfooting by Treasury*. In a report to Congress, the Secretary of the Treasury, Henry Paulson, gave kid-gloved treatment to Chinese currency manipulation, much to the dismay of the Congressional Steel Caucus and numerous industry groups. Secretary Paulson's walk on eggs gently "advised" China to "intensify its efforts to rebalance its currency." In response NAM's president declared that "by declining to cite China for currency manipulation, [Paulson] again missed an important opportunity to apply leverage."

RESINS

In its latest price bulletin, *Plastics Technology (PT)* reports that demand for most commodity resins has weakened. But feedstock and monomer prices continue to rise, forcing producers to seek price increases. The following summaries are based on information from *PT* and other reliable sources.

Polyethylene. Ethylene monomer prices recently rose 3 cents to 61.5 cents per pound and offshore resin demand is strong enough to sustain producer operating rates near 90%. The result is likely to be another price increase by midyear.

Polypropylene. Monomer prices are expected to reach 69 cents per pound in the current quarter, making another price increase in PP almost inevitable.

Polyesters. An expected 5-6% pickup in this year's demand has yet to materialize, but some improvement is expected after midyear. In the meantime prices are likely to remain flat, despite recent feedstock increases.

Polyvinyl Chloride. With home building still in the doldrums, the PVC demand curve remains no better than flat. Based on escalating feedstock costs, all producers announced a 4-cent price increase for June, but chances of it taking effect seem slim to none at all.

Polystyrene. With the contract price for benzene up to a near-record $3.87 per gallon, producers announced June 1 increases in the 4 to 6-cent range. Tight supplies heighten the likelihood that these increases will be implemented before long.

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 04/08	Previous 03/08	Year Ago 04/07	2 Yrs Ago 04/06
PIPE, VALVES & FITTINGS:				
Copper & copper-alloy tube	338.9	341.2	311.6	246.2
Steel pipe & tube	194.7	189.3	169.8	160.0
Plastic pipe and fittings	198.1	201.0	196.0	214.5
Industrial valves – metal	181.0	178.3	170.0	153.5
PLUMBING FIXTURES:				
Vitreous china fixtures	95.4	95.4	103.5	101.3
Fixture fittings & trim	233.9	231.0	222.8	206.2
HVAC EQUIPMENT:				
Warm air furnaces	127.8	127.8	127.5	116.8
Unitary air conditioners	142.8	141.7	138.7	134.4
Cast iron heating boilers	136.4	135.7	131.2	124.4

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.

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