
ASA MATERIALS MARKET DIGEST

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MARKET OVERVIEW

Carbon Steel. Operating rates in U.S. mills continue in the 89-90% range. Sheet steel prices have escalated to \$1,050 per ton for hot-rolled, \$1,150 for cold-rolled and \$1,250 for galvanized. Prices of oil country tubular goods are rising on strong demand as oil and gas drilling in the U.S. remains at or near capacity. Line pipe demand is also booming, especially in diameters d.>16 in. Ferrous scrap prices in the domestic and export markets are rising to unprecedented levels.

Stainless Steel. Nickel prices have largely stabilized in the \$28,000-31,000 per tonne range. But ferroalloys, especially ferrochrome, are in tight supply because of a severe shortage of electric power in South Africa, a major ferroalloy production venue. Chrome prices inched up during April but larger gains are expected in May. Reflecting materials cost increases, commodity stainless steel producers announced mid-month price hikes on flat-rolled, with additions ranging from 2 cents per pound (Type 430) to 10 cents for Types 314 and 314L.

Copper. Prices of the red metal trended modestly upward in April. January-February service center shipments were ahead by 3.5%. But March shipments were down 10% or so from 2007. The copper and brass scrap market continues to boom at a time when dealers' scrap inventories remain low. Prices are strong, with a mid-month quote of \$3.70 per pound for No. 1 ingot-maker's copper and \$3.55 for the No. 2 grade. Labor relations in Latin American copper mines are as turbulent as ever. The walkout at Grupo Mexico's huge Cananea complex is now in its tenth month and management talks about closing the mine and firing everyone. Codelco, the Chilean giant, has suspended production in three mines because of strike-related violence.

Resins. Commodity resin prices leveled off toward the end of the first quarter, and April. Demand was flat in most product sectors. Feedstock and monomer prices showed little change during the month. Prices for nylons and engineering plastics continued to rise, but elsewhere in the resin sector, few price changes were expected in the current quarter.

CARBON STEEL

OPERATIONS & PRICING. *Production and Trade.* Raw steel production by U.S. mills rose steadily during the first three weeks of April, reaching an operating rate of 90.3%. Then in the last week of the month the rate slipped to 88.8%. Year-to-date output through April amounts to 35.4 million tons, 3.9% ahead of the same period in 2007.

April's brisk production tempo reflected strong demand for steel, irrespective of current uncertainties in the U.S. economy. Also contributing to near-capacity operations was the virtual disappearance of steel imports from American shores.

What the current steel boom does *not* reflect is any significant increase in activity among steel service centers. In this sector, hand-to-mouth buying has become the rule as warehouse managers fret over stocking up on product that might become overpriced. With this caution in mind, managers trimmed center inventories by a whopping 18.6% in the first quarter of 2008.

Most market watchers believe that the current slump in steel imports will continue for some time, but not everyone agrees. Recently, for example, a spokesman for the American Institute for International Steel predicted that imports to the U.S. would increase gradually in the months ahead. But this is definitely a minority view.

Price Trends. To the surprise of almost nobody, the spot price for hot-rolled steel hit \$1,000 a ton in early April. This bit of history was triggered by AK Steel. Initially the firm announced a \$50 boost, bringing the May 1 price to \$850. Just two weeks later the company went back to the well with a \$150 kick. According to *American Metal Market (AMM)*, this king-size boost was all about scrap costs. The publication quoted one observer as saying "Demand doesn't have anything to do with it."

AK wasn't finished when it announced that \$150 price hike. Toward the end of April the company was heard from again with another \$50 increase. This brought the spot price for hot-rolled to \$1,050, cold-rolled to \$1,150 and galvanized to \$1,250. At various times and in various ways, the other major mills got on the bandwagon. The two big West Coast mills, for example, weighed in with such combinations as \$150 followed by \$100-\$150 (USS-Posco) or \$150 plus \$100-\$130 (California Steel).

At a time when \$150 price boosts seem routine, ArcelorMittal came up with a creative new way of recovering the soaring costs of materials, energy and transport. Heretofore, the increases reported above applied largely to the spot market; contract buyers had their own deals with the mills of their choice. But Arcelor took a different tack, apparently reasoning that if formally announced surcharges worked in the spot market, they ought to do just as well with contract buyers. Accordingly, the company has invoked a new policy, imposing on contract customers the same kind of surcharges in effect at the spot market.

The new policy went into effect on May 5, when Arcelor customers were socked with a \$250 per ton surcharge for flat-rolled products. In a letter explaining this new policy, the company indicates that the surcharge will be adjusted monthly consistent with prevailing costs. A few other steelmakers have expressed an interest in the Arcelor approach, but others sniff at the idea, explaining that their contract buyers already have escalator clauses.

FEROUS SCRAP. The latest April auction of automotive factory bundles broke new ground when a single lot offering jumped \$155 per long ton. Such aggressive bidding resulted

from bare-bones scrap inventories in many mill yards, as well as thin stocks on dealers' lots and limited supplies available from Ford and Chrysler plants forced to close because of a major supplier's strike.

The factory bundles market is largely domestic, but demand for U.S. scrap extends far beyond the needs of U.S. mills and scrap yards. Propelled by the cheap dollar and a global steel boom, offshore demand for U.S. scrap has reached what *AMM* describes as a "feverish" level. Heavy buyers of American scrap include not just the usual customers such as Turkey and China, but also Taiwan, Thailand, India, Japan, South Korea and Canada. In none of these countries is scrap being bought on the cheap. No.1 heavy melt and shredded varieties are reported as going for \$650 per metric ton. But even at these prices foreign demand hasn't cooled. Indeed, February exports of U.S. ferrous scrap reached an all-time one-month high of more than 1.5 million tonnes.

TUBULAR PRODUCTS. American oil and gas drill rigs continued humming throughout April. The U.S. rig count remained above 1,800 for the entire month, hitting a high of 1,842 active sites. By contrast, drilling in Canada started April with 171 rigs in operation but finished the month down to 88.

Not to be outdone by flat-rolled price increases, in mid-April U.S. Steel Tubular let fly with a \$250 per ton increase on essentially all tubular products: seamless and ERW pipe and tubing, line pipe, standard pipe, OCTG, and hot-finish and drawn-over-mandrel tubing. Big Steel was quickly joined by Vallourec & Mannesmann and Ipsco Tubulars. The boosts were effective when announced.

Even before major producers came out with these \$250 per ton increases, OCTG prices had started to climb. In January and February of this year trade prices inched up, mostly by less than 1% per month. But in March the increases grew much larger, in a few product categories moving toward double-digit gains. The latest available figures are shown in the table on the following page.

Line pipe, much of which is used for long-distance oil, gas, and water transmission, had a banner year in 2007. But a recent analysis by *AMM* predicts that last year's record will easily be eclipsed in 2008. Most the current year's increase, according to the publication, will be in large-diameter (o.d.>16 in.) products.

In 2007 and prior years, foreign mills had a significant share of the U.S. market for line pipe. But this is expected to change substantially because of (a) more vigorous enforcement of anti-dumping rules by the U.S. International Trade Commission; and (b) rapid expansion of line pipe production in the U.S. In fact, so much new American-made pipe is scheduled to come on stream that domestic prices might come under significant pressure.

Possibly anticipating this development, two new pipe mills recently announced by ArcelorMittal will be sited far from U.S. shores, in OPEC countries Nigeria and Saudi Arabia.

These venues indicate that the new Mittal plants will serve Middle East customers rather than compete in what may become an overpopulated U.S. line pipe market.

Representative OCTG Prices (per ton)

| Product | Mar 2008 | Feb 2006 | Feb-Mar % Chng |
|------------------------|---------------------|---------------------|---------------------------|
| Tubing: Carbon ERW | \$1,344 | \$1,309 | +2.6% |
| Tubing: Carbon seaml's | \$1,533 | \$1,486 | +3/1% |
| Tubing: Alloy ERW | \$1,709 | \$1,668 | +2.5% |
| Tubing: Alloy seamless | \$1,898 | \$1,815 | +4.6% |
| Casing: Carbon ERW | \$1,180 | \$1,103 | +7.0% |
| Casing: Carbon seaml's | \$1,274 | \$1,220 | +4.4% |
| Casing: Alloy ERW | \$1,528 | \$1,427 | +7.1% |
| Casing: Alloy seamless | \$1,718 | \$1,579 | +8.8% |

Source: Pipe Logix, Inc., Houston TX

STAINLESS STEEL

Needless to say, carbon steel is by no means the only mill product where materials, energy and transport costs are rising inexorably. Stainless steel producers have also been taking their lumps for some time. A while back, nickel was commanding an LME price of \$50,000 per tonne or more. Fortunately for the stainless industry, newly developed nickel sources, coupled with better regulated trading on the metals exchanges, has brought nickel down to \$28,000-31,000 per tonne, as shown in the following April LME prices.

| | |
|----------------|-------------|
| Open (Mar 31) | \$30,200.00 |
| High (mar 31)) | \$30,200.00 |
| Low (Apr. 24) | \$26,900.00 |
| Close (Apr 29) | \$28,600.00 |

Even with nickel prices under reasonable control, all is not well in the stainless steel materials market. As reported previously, ferroalloys are in increasingly tight supply as the result of a severe electric power shortage in South Africa, a major site for ferroalloy production.

To make matters worse, one of the large ferrochrome (FeCr) plants in that area was devastated by an explosion that put it out of operation for an indefinite period. FeCr is an

essential ingredient in most stainless steel formulations other than the 400 series. With one plant out and others on short hours from rationed power, FeCr prices are on the rise—up 20% in just the last two months. Even before the South Africa problems analysts were forecasting an FeCr global production shortfall of 300,000 metric tons this year. Now the outlook is for an ever more severe shortage—and higher stainless steel prices as the result.

The predicted price increases have already appeared. First to announce, in early April, were AK Steel and Allegheny Technologies, both members of the stainless steel Big Three. AK's announcement covered flat-rolled products in 200-, 300-, and 400-series formulations. The boosts ranged from 4 to 6 cents a pound and went into effect April 6. Allegheny's increases ranged on a sliding scale from 10 cents a pound for Types 314 and 314L down to 2 cents for chrome-free Type 430. Both companies' announcements blamed higher materials and energy costs for the upcharges. A few days later, North American Steel got on the bandwagon with increases closely paralleling those of the other Big Three firms.

Notwithstanding costlier materials and higher selling prices, two top executives for Big Three stainless producers see bright prospects in their market. In a joint interview with AMM, spokesmen for AK Steel and Allegheny noted that destocking of stainless by service centers has largely run its course and that restocking has not yet begun. They see strong demand when the service centers' buying returns to the normal historic pattern.

COPPER

Price Trends. Copper traded in a fairly narrow range during April, as the following London Metals Exchange figures (prices per metric ton) demonstrate.

| | |
|----------------|------------|
| Open (Mar 31) | \$8,410.00 |
| High (Apr 17)) | \$8,750.00 |
| Low (Apr. 1) | \$8,197.00 |
| Close (Apr 29) | \$8,580.00 |

The red metal's modest gains for April occurred despite any number of labor disputes with a potential of crimping ore supplies seriously. (see below). But the Latin American copper industry has a way of soldiering on, strikes or no strikes.

Copper demand got off to a reasonably good start this year, with January-February service centers posting a 3.5% gain for the refined metal. But reality hit hard in March when warehouse shipments slumped 10.2%. As usual, the culprit in March was slack demand from the housing and automotive industries.

Scrap. While the domestic market for finished copper continues to limp along, the scrap market remains very active. As has been the case all year, this sector is driven by two major factors, the relatively high price of Comex copper—\$3.90-4.00 per pound much of the time—and very tight scrap supplies both overseas and at home. Availability is not likely to change much

until U.S. brass mills spool up operations substantially; and this won't happen until housing and automotive demand firms up.

Typical Comex trading prices for mid-April show cathode at around \$3.90 per pound, No. 1 ingot makers' scrap copper at \$3.70 and the No. 2 copper grade at \$3.55. This lofty price range for copper and brass scrap has persisted for several months now, but the tight market might be easing—somewhat. *AMM* notes that improvement in scrap supplies normally develops as the weather turns warmer. This hasn't happened yet but the publication quotes traders as continuing to expect it.

Labor Relations. The strike at Grupo Mexico's huge Cananea mine, now in its tenth month, drags on. The company claims that the Cananea's concentrate production is now back to 60% of normal and finished cathode to 100%. Chances of an imminent settlement of the walkout seem remote as negotiations have again broken off and attempts at government mediation have fared poorly. Toward the end of April the company announced plans to "close [the mine] and fire its personnel according to law." The union claims that the company has used this threat before and is not taking the latest one seriously. Nor has the copper market been shaken very much by the closure threat. Given that Cananea sits atop one of the world's largest copper deposits, no one in the company, the union, or the copper market at large believes that anything like a permanent or long-term shutdown is a realistic option. This conclusion is supported by the company's recent announcement of plans to invest sufficient funds to double Cananea's output.

A more recent labor development involves three of the mines owned and operated by Codelco, the government-owned Chilean giant. Walkouts at these sites, with some attendant violence, have caused Codelco to shut down the struck facilities. This move impelled the company to ask customers to voluntarily cancel or reduce their existing orders for June delivery. Given slack demand in the current copper market no fewer than half of Codelco's largest customers had snapped at the company's offer by April 30.

Unlike the Cananea marathon which has caused nary a ripple in the copper market, Codelco's labor woes made Comex and LME traders very nervous. The result was the month's high closing price on both exchanges: \$4.02 a pound on the Comex and \$8,750 per metric ton on the LME.

RESINS

(Statistical data for the report that follows is extracted from the May edition of *Plastics Technology*, the leading technical publication in the field of plastics, resins and related products.)

Prices for most major resins stabilized during April in the face of weaker demand and falling monomer costs. In the month ahead, commodity resin prices are expected to show little change as falling monomer prices will be offset by some seasonal strengthening of demand. Following are some specifics:

Polyethylene. Domestic demand remains flat and export growth has been inhibited by the global shortage of containers. The feedstock ethane appears to be no longer linked to the rising price of crude oil, and as a result monomer prices have leveled off. Any significant price move by PE, in either direction, is unlikely.

Polypropylene. Plant operations for PP are currently at about 80-85% of capacity, well below the year-ago pace of 95%. Both export and domestic demand have weakened somewhat but tight monomer supplies are likely to keep the price from falling any time soon.

Polyesters. Feedstocks for this family of resins, ethylene glycol and paraxylene, are rising in price, and the increases are very likely to be passed along to the monomer and then to the finished resin. Demand for polyesters is beginning to increase, and as a result May prices are likely to rise by a few cents per pound.

Polyvinyl Chloride. Monomer prices slipped in the first quarter and this weakness carried over into April. With housing still in the doldrums, prospects for any major recovery in the PVC market are very dim.

Polystyrene. After a flat start to 2008, demand for this resin is starting to pick up seasonally. But a price increase any time soon is unlikely.

Nylons. Steady demand exists for engineering resins and nylons, enabling producers to pass along rising costs of feedstocks and monomers. In the latest producer move, prices of these products have risen 10-12 cents per pound as of May 1.

Latest Producer Price Indices for March 2008 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 03/08 | Previous 02/08 | Year Ago 03/07 | ² Yrs Ago 03/06 |
|-------------------------------------|-----------------|-------------------|-------------------|----------------------------------|
| PIPE, VALVES & FITTINGS: | | | | |
| Copper & copper-alloy tube | 341.2 | 313.8 | 244.1 | 208.7 |
| Steel pipe & tube | 189.3 | 178.3 | 168.6 | 158.7 |
| Plastic pipe and fittings | 201.0 | 203.0 | 195.1 | 217.4 |
| Industrial valves – metal | 178.3 | 179.1 | 169.2 | 152.5 |
| PLUMBING FIXTURES: | | | | |
| Vitreous china fixtures | 95.4 | 95.3 | 103.5 | 101.3 |
| Fixture fittings & trim | 231.0 | 230.4 | 222.8 | 203.5 |
| HVAC EQUIPMENT: | | | | |
| Warm air furnaces | 127.8 | 127.8 | 127.0 | 116.6 |
| Unitary air conditioners | 141.7 | 141.7 | 139.9 | 133.9 |
| Cast iron heating boilers | 135.7 | 135.7 | 130.1 | 124.1 |

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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