ASA MATERIALS MARKET DIGEST
NOVEMBER 5, 2007
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Published Monthly by the American Supply Association Web: www.asa.net; Email: info@asa.net

MARKET OVERVIEW

Carbon Steel. U.S. mills continued production at 87-90% of capacity through October. But despite strong output, inventories of steel users and service centers have remained historically thin. Steel imports are off sharply, especially in flat-rolled products where foreign sources have lost their price advantage. While hot- and cold-rolled sheet have remained in strong demand, prices have held steady. However, toward the end of October there was a growing industry consensus that prices would be up yet in 2007.

Elsewhere on the steel front, the U.S. and some of its trading partners continue to toughen their postures vis-à-vis Chinese trade violations. Adding to the complaint list are widespread reports of grossly defective Chinese structural tubing in U.S. applications. These include a number of California schools as well as the Border Security Fence now under construction.

Stainless Steel. Nickel prices softened somewhat in early October but had fully recovered by month end. The prices of other major alloy materials, especially molybdenum, are on the rise. Reflecting this price trend, the Big Three stainless steel producers have all announced 10-cent per pound increases in flat rolled stainless products effective with November deliveries. The move comes despite some slackness in stainless steel demand.

Copper. During October price changes on the red metal were mainly to the downside. The slippage resulted from ongoing sluggishness in two key copper markets, automotive and home building. Copper has been especially hard hit by the slump in housing starts as well as by widespread materials substitution whereby builders replace copper plumbing with less costly plastic pipe. In the market for copper and brass scrap, Chinese buying remains as voracious as ever. Eight-month U.S. shipments to China amounted to 449,000 tons, a jump of 34.9% from the same period in 2006.

CARBON STEEL

OPERATIONS & PRICING. *Operations.* Raw steel production at U.S. mills hit a high for the year during the last week of September with an operating rate of 89.8%. A week later the mills broke the 90% barrier with production of 2.137 million tons representing 90.1% of nameplate capacity. Over the next three weeks, production slipped slightly, hitting a month-end rate of 87.5%. But the gentle decline represented no discernible weakening of demand, but rather planned maintenance outages at several mills. By month end production for the year was just under 88 million tons, off 4.3% from the preceding year.

Meanwhile, at the user and service center levels, inventories were starting to resemble Mother Hubbard's cupboard. The Institute for Supply Management reported that three-quarters of the steel buyers polled had no more than a two-month supply on hand. And a third of these—25% of all steel buyers—were down to a single month's inventory. Similarly, stocks at steel service centers continued to erode, with September's month-end supplies at the lowest level since July 2005.

Amidst all this destocking, steel imports to the U.S. are plunging. Incoming shipments in September were down 17% from the August level and a huge 54% below September 2006. The sharpest drops were in hot- and cold-rolled sheet, on which foreign sources' price advantage has largely evaporated. But incoming shipments of large diameter line pipe and other oil country tubular goods (OCTG), especially from China, continue to grow.

Pricing. In early and mid October, there was something of a debate-by-news-release among steelmakers regarding the direction of prices for flat-rolled products. It started when the top official of one mill described sheet products as "poised" for a price increase. He noted that "drivers" of higher prices were all in place, namely low service center stocks, the weak U.S. dollar, and a slump in steel imports. This view was more or less echoed by the COO of another major firm. But executives in some pivotal service center chains confessed to having their doubts, especially with new capacity likely to come on stream in the foreseeable future.

However, as October was drawing to an end, *American Metal Market (AMM)* reported a growing consensus among American steelmakers that flat-rolled prices will be up before year end. As an earnest of this view, major players in carbon steel plate announced increases of $20 per ton, to be effective with January shipments. The increases were attributed to both higher costs and stronger demand. Though some buyers disagreed, mills cited such demand sources as OCTG, wind turbines, rail cars and ship-building.

RAW MATERIALS. Ferrous scrap prices held steady in early October as the first Chrysler auction of bundles duplicated the September price of $308 per long ton. But as the month progressed there was some slippage, with bundles and busheling down $10 and No. 1 heavy melt off $5. Then, after a brief hiatus, Turkish mills returned to the market, buying a reported six cargoes of mixed scrap. This boosted the export price by at least $5, but some U.S. export yards have had trouble chartering bulk carriers to handle the Turkish business. Indeed some have switched to containers and actually saved money compared to bulk carrier tariffs.

Elsewhere on the materials front, *AMM* reports that iron ore prices will rise as much as 50% in the year ahead. This forecast is based on strong global demand and price increases in negotiations already under way. *AMM* also reports that silicon prices have jumped 65-75% from year-ago levels. It attributes the surge to strong demand plus U.S. reliance on a single source.

After several quiescent months, October zinc prices slipped a bit near the end of the September 28-October 29 reporting period. Following are the London Metals Exchange (LME) prices for 3-month contracts:

Open	$3,051.00
High (Oct. 15)	$3,170.00
Low (Oct. 25)	$2,858.50
Close	$2,910.00

Market watchers are divided on the meaning of the current pattern. Bears note that both automotive and home building activities, major sources of demand for the white metal, have been weak through much of the year. But bulls point to a statement by Nystar, world's largest zinc producer, that global demand will support the current price throughout 2008.

CHINA CLIPPER. As usual, China continues to make news on the trade front, especially with regard to its steel exports. Items:

- The U.S. International Trade Commission (ITC) voted unanimously to continue anti-dumping and countervailing duties on China and four other Asian exporters of hot-rolled steel. The current duties for China range from 12% to 91%. Duties on four other countries were lifted.

- Chinese steel export figures, frequently doctored by Beijing before publication, reportedly fell 38% in September. But U.S. customs figures indicate that the cutbacks, if real, did not include standard steel pipe or OCTG shipments to the U.S.

- U.S. steelmakers are no longer alone in complaining about Chinese trade rule violations. At a recent meeting of the International Iron & Steel Institute, delegates cited ongoing shenanigans by China and threatened formal action at the World Trade Organization. The issue also arose at the European Group of Seven meeting of finance ministers, several of whom issued statements in effect seconding the U.S. position on Beijing's monetary policy.

- For the past several weeks, rumors have swirled around Beijing concerning its supposed plans for sharp increase in steel export taxes and a limitation on the size of mills allowed to export steel products. But no solid information was available at press time.

- High levels in the U.S. Department of Commerce are once again lobbying to get some Chinese exporters accorded market-economy status. For a long period China has had non-market-economy status, and properly so according to most observers. They argue than any change, in even a single company, would weaken U.S. sanctions against Chinese trade violations,

TUBULAR GOODS. The weekly U.S. rig counts fluctuated in a narrow band during October and finished the month unchanged at 1,760 operating sites. In Canada the same pattern prevailed with the count slipping from 347 to 345 active units during the month. On both sides of the border the counts were almost unchanged from their year-ago October levels.

U.S. and Canadian trade watchdogs were active during October. The U.S. ITC voted to continue anti-dumping duties on shipments of Japanese large-diameter line pipe of the kind used in oil and natural gas pipelines. To the North, Canada’s international Trade Tribunal ruled that imports of Chinese well casing and other OCTG did indeed injure the complaining party, Tenaris Algoma Tubes, Inc. The government agency found that 85% of shipments from one Chinese OCTG source were priced at 9 to 35% below cost and also benefited from a government subsidy of 8.9% of the selling price. The case now goes to the Canada Border Services Agency for determination of penalties.

A major brouhaha has developed over big incoming shipments of grossly defective structural tubing from China. To the fury of the Congressional steel caucus, at least 10% of the tubing being used in the new Border Security Fence is this substandard stuff. What appears to have been a secret waiver was issued to the Department of Homeland Security, but by whom and under what circumstances is still being investigated. The House Ways and Means Committee heard from one purchaser who alleged that “some Chinese producers are providing fictitious mill certificates” along with the faulty tubing. Additionally, California’s Department of General Services has found that some school projects have used Chinese tubing with defective seam welds, some of it revealing evidence of clumsy and futile efforts to conceal and/or repair the flaws.

STAINLESS STEEL

Raw Materials. Nickel prices eased in late September as demand for the key alloy metal in the third quarter fell below expectations, but by mid-month prices recovered only to slip again toward the end of October. Following is the record of LME 3-month contracts for the September 28-October 29 period:

Open	$31,600.00
High (Oct. 19-22)	$32,745.00
Low (Oct.24)	$30,250.00
Close	$31,555.00

According to a recent report by *AMM*, slack demand for stainless steel is likely to leave the nickel market “snoozing through year-end.” But LME traders apparently don’t agree, as nickel prices held steady over the month, strengthened in part by hedge fund buying.

Molybdenum, a key component in some stainless types, was under pressure during the summer months, but currently it is expected to rise in price. At press time it was trading at $34-36 per pound, well ahead of the year-ago price of $27-28. Market watchers have noticed that U.S. Steel has been a heavy buyer of molybdenum in recent weeks. U.S Steel is widely acknowledged among traders as *the* low-price buyer, and they view its recent moly purchases as a bullish sign. Additionally, the latest rumor out of Beijing’s export tax office is that ferromolybdenum exports will soon be taxed at 15%, half again as much as the present rate. Market watchers see such a move as having little impact on supply but a considerable effect on prices.

Supply. CVRD Inco has announced plans to complete its New Caledonia Goro mine and spend an additional $723 million doing so. When finished, this facility will add 50,000 metric tons to the world’s supply of refined nickel. Goro has been plagued by cost overruns, labor difficulties, environmentalist harassment, and ethnic Caledonians seeking a monopoly on hiring at the facility.

Now Xstrata PLC has announced plans for its own nickel mine on New Caledonia. Called the Koniambo project, the new mine will produce 60,000 tonnes when finished and will have a 25-year life after its 2011 start-up.

Demand. Back in May the International Stainless Steel Forum predicted that global production of crude stainless would top 2006 by 5.1%. But as a result of the slow summer, it has pared its forecast to a 1.1% gain amounting to 29.7 million tonnes.

As the result of sluggish stainless demand, Big Three member Allegheny Technologies warned shareholders that its fourth quarter earnings would fall short of earlier expectations. The firm based its statement on weakness in the automotive and housing sectors. But on a brighter note, the company added that the down cycle is nearing bottom as service centers’ stainless inventories had already reached historically low levels by mid-October.

Pricing. As widely anticipated, October has proven to be the bottoming-out month for stainless steel surcharges. By early in the month all of the Big Three had announced boosts of about 10 cents per pound for November deliveries. At the new level the surcharge on Type 304 will average $1.3642 per pound.

Meanwhile October’s 10-cent price cuts for stainless are not all accruing to the purchasers. Instead, a number of major service centers have lifted their stainless prices by a nickel a pound, thereby cutting the buyer’s savings to 5 cents. The centers can get away with this ploy because of scant stainless supplies in many service center warehouses.

COPPER

Prices. Copper prices on the LME were mostly in a downdraft during October. The red metal hit its high for the month on the 3rd and remained on a downhill track, with a brief mid-month rally, nearly to the end of October. Following are the LME prices for the three-month copper contract:

Open	\$8,070.00
High (Oct. 3)	\$8,230.00
Low (Oct.25)	\$7,709.00
Close	\$7,920.00

Pressure remains on copper prices because of the U.S. housing slump and its impact on copper plumbing and wiring. Additionally, by historical standards the price of copper is still lofty, and many builders have switched from copper to plastic plumbing pipes to save money.

But there are also factors at work to boost copper prices. For one thing, the Latin American copper industry is essentially free of labor disputes, a condition that rarely obtains in the volatility endemic to the region’s labor relations. Additionally, the Chinese appetite for copper remains extremely strong. Recently, on this subject, an *AMM* analysis reported strong disagreement between Beijing and several of the provincial governments. The central government wants to restrict investment in copper-refining plants because of energy and air pollution issues. But the provincials encourage such investments because they contribute heavily to local job availability and tax payments.

With respect to future copper prices, a special report prepared by the Standard Bank of London argues that the peak of copper prices hasn’t been reached yet. Noting that copper is “one of the fundamentally strongest” of base metals the bank sees prices trending upward through the first half of 2008, possibly reaching record levels. But it adds that as the red metal becomes more costly, Chinese buyers “might well respond to sustained high prices by destocking.” This said the bank “could again provide a ceiling to copper prices.”

In any case, China remains the No. 1 buyer of U.S. copper and brass scrap exports. Despite occasional buying slowdowns, shipments to China in the first eight months of 2007 came to 449,000 tons, 34.9% more than in the same 2006 period. And through August, Chinese importers accounted for 68.6% of all copper-brass scrap shipments leaving U.S. shores.

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 09/07	Previous 08/07	Year Ago 09/06	2 Yrs Ago 08/05
PIPE, VALVES & FITTINGS:				
Copper & copper-alloy tube	292.1	313.9	316.9	171.5
Steel pipe & tube	166.0	168.2	165.3	154.9
Plastic pipe and fittings	195.9	198.9	217.3	162.3
Industrial valves – metal	175.5	175.8	162.1	147.2
PLUMBING FIXTURES:				
Vitreous china fixtures	103.6	103.6	101.4	99.8
Fixture fittings & trim	227.1	226.3	212.8	201.2
HVAC EQUIPMENT:				
Warm air furnaces	127.5	127.6	119.1	116.5
Unitary air conditioners	140.3	140.3	138.1	137.6
Cast iron heating boilers	131.6	134.1	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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