ASA MATERIALS MARKET DIGEST
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MARKET OVERVIEW

Carbon Steel. What started out as the usual summer slump has become more of a slowdown for U.S. steelmakers. By late August most major mills had either rescinded or postponed price increases scheduled for September. Prices of ferroalloys have slipped and ferrous scrap is in a major price reversal.

Tubular Goods. North American rig counts in August are: U.S.-- 1,998, Canada-- 451. With drill rigs operating at a near-record pace, demand for oil country tubular goods (OCTG) is unceasing, especially for widely used 4.5- and 5.5-in. casing. The clamor for drillers' supplies has doubled the price of many OCTG items since last summer, and monthly price tags on some items are still increasing by double-digit percentages.

Stainless Steel. During the month of August, LME closing quotes for refined nickel ranged from $17,705 to $21,200 per tonne. Nickel demand for stainless steel was sluggish as U.S. mills trimmed production quotas, user demand waned, and imports escalated. Early in August the Stainless Steel Big Three announced surcharge reductions, trimming flat-rolled stainless add-ons by 4.7%.

Copper. The red metal traded in a narrow band during the month of August with a spread of $7,226 to $8,075. Demand for finished copper continues to be weakened by low vehicle production and the ongoing housing slump. During the month now ended, the focus was heavily on copper scrap, particularly with regard to Chinese buying. There was little action on this front early in August as Chinese industry was largely distracted by the Olympics. But toward month-end, there were signs that Chinese buyers were moving back into the scrap market.

CARBON STEEL

DEMAND AND PRICING. *Demand.* After a strong first half, the market for flat-rolled steel showed signs of softening in August. Initially these indications were charged off to the steel industry's normal summer slump. But when demand continued to slacken, there were plenty of other "explanations": The Olympics had ground Chinese steel operations to a halt; in the U.S. extreme summer heat slowed construction projects under way; etc., etc., etc.

Pricing. During the last week of August reality raised its ugly face: Almost simultaneously two of the industry's giants—U.S. Steel and ArcelorMittal—rescinded previously announced price increases. One day later Nucor cancelled a recent $60 per ton increase in flat rolled. This move was quickly followed by a number of other mills. And when the dust settled, the spot price for hot-rolled sheet was $1,060-1,070 per ton and $1,140 for cold-rolled and galvanized sheet. Even on the West Coast, where the region's two major mills didn't announce any price cuts or rescissions, buyers resisted paying the September increases.

While some market watchers continued to view the price action as the summer slump's last hurrah, it has become clear that the "slump" was morphing into something more serious. To be sure, U.S. mills continued to pour out the steel with operating rates at or near 90% and year-to-date tonnages ahead of 2007. But as of press time, none of the industry's cancelled price increases have been reinstated. Equally significant, the downward price pressure on steel is now spreading to steelmaking raw materials (below).

VARIOUS MARKETS. *Ferrous Scrap.* After several months of explosive price increases, ferrous scrap did an unexpected about face in early August. Following a few days of utter confusion in scrap markets, it became clear that a major price reversal was under way. By mid-month medium-grade scrap, which had peaked at about $700 per tonne, was being quoted by East Coast traders at as little as $310. Now the prevailing view in this market is that these sharp price declines will not be reversed quickly.

Ferroalloys. U.S. market quotes for ferrosilicon weakened in late July as the result of low-cost prices offered by Chinese mills. Contributing to the weakness was slack demand from U.S. steel mills and an increased supply globally. The net result has been a drop in the U.S. price of FeSi from $1.40-1.48 to $1.30-1.38.

Additionally, ferrochrome prices softened toward the end of August. One factor was scant demand from U.S. stainless mills, but the price was also nudged down by an influx of low-grade, low-chrome product from India.

Imports. Ironically, the past year's unprecedented rise in scrap and finished steel prices came at a time when steel imports to the U.S. had become a negligible issue. But in the last two months, imports have once again become a substantial factor in the American steel market. As shown in the table below, the latest Census Bureau figures indicate July export tonnages nearing or actually exceeding their volume a year ago.

U.S. Steel Imports – July 08 & July 07 (tonnes)

Product	July 08	July 07	(Jul 08 /Jul 07) %
Blooms, billets, slabs	600,430	731,663	82.1%
Oil country tubular goods	283,248	150,473	188.2%
Hot-rolled sheet	217,531	183,725	118.4%
Line pipe > 16 in. o.d.	149,431	179,223	83.4%
Galvanized sheet and strip	140,901	143,984	97.9%

Source: U.S. Census Bureau

Of particular interest is the above near-doubling of OCTG imports. As noted below, these products are currently in tight supply, and most newly arrived shipments are quickly snapped up by distributors.

Steel Service Centers. The Metal Service Center Institute, in its latest report, continues to paint a bleak picture for steel service centers. July figures, adding to a growing string of negative reports, saw warehouse shipments fall 3.3% below June volume.

Near-term future prospects for service centers are not bright, according to a new survey by Longbow Research, an Ohio think tank. When polled by the firm's analysts, warehouse operators talked primarily of weakness in demand and pricing for the balance of this year. Even so, few if any of those polled see future price cuts exceeding $80 per ton any time soon.

Bottom Line: In past economic cycles, weak demand such as currently experienced by U.S. mills was the harbinger of a prolonged period of unbridled overproduction and fire-sale price-cutting that demoralized the entire industry. In our view no such grim scenario is likely to reappear in the foreseeable future. Most U.S. steelmakers have learned from past mistakes and are likely to exercise a great deal more restraint in production and pricing than in the past. Moreover, the U.S. steel industry is no longer a stand-alone business as in earlier years, but part of a global industry. To be sure, this factor multiplies competition, but it also multiplies business opportunities.

TUBULAR GOODS

Oil and gas drilling in the U.S. and Canada continues apace. South of the border, American drillers reached a near-record 1,998 active drilling sites. To the North, Canadian rigs started August with 461 rigs turning and maintained essentially that same pace throughout the month.

Not surprisingly, the current drilling boom has generated huge demand for oil country tubular goods (OCTG) and has affected prices proportionally. Early in August U.S. Steel's CEO allowed as how his company "sees potential to enhance its pipe and tubing holdings." This rather Delphic statement suggested to some that Big Steel was about to buy John Maneely Co., best known for its Wheatland Tube operation. But speculation to this effect proved bootless when Maneely was sold to NMLK, a Russian steelmaker, for a whopping $3.5 billion. The price was characterized by one observer as "incredibly high."

U.S. Steel was heard from again when it announced a $200 per ton price increase for its extensive line of oil country goods. With the OCTG market functioning like a Middle Eastern bazaar, Big Steel had no difficulty making this price hike stick. Indeed, with the scramble going on for drillers' supplies, it might have successfully asked for more.

In any case, OCTG pricing is now in the throes of demand-pull inflation. The uptrend started, albeit slowly, close to a year ago. Confirmation of the rising price spiral is illustrated by Pipe Logix, a prominent consulting firm headquartered in Santa Fe. According to this source, a basket of selected OCTG items that sold for $1,367 per ton a year ago would now be priced at double that figure.

The market activity peaked in June and July when many OCTG prices were rising by double-digit percentages. Demand for 4.5- and 5.5-in casing was especially strong and even in August, when buying usually slows seasonally, monthly price increases continued. The following table, based on figures provided by Pipe Logix, shows recent price trends for selected OCTG types.

Representative OCTG Prices, Per Ton

Product	Aug 2008	July 2008	Jul-Aug % Chug
Tubing: Carbon ERW	$2,979	$2,864	**4.0%**
Tubing: Carbon seaml's	$3,250	$2,992	**8.6%**
Tubing: Alloy ERW	$3,310	$3,115	**6.3%**
Tubing: Alloy seamless	$3,547	$3,403	**4.2%**
Casing: Carbon ERW	$2,843	$2,535	**12.1%**
Casing: Carbon seaml's	$2,359	$2,134	**10.6%**
Casing: Alloy ERW	$3,461	$3,123	**10.8%**
Casing: Alloy seamless	$3,435	$3,374	**1.8%**

Source: Pipe Logix, Inc., Santa Fe NM

STAINLESS STEEL

Price Patterns. As shown in the table below, nickel prices varied significantly during August. In the following summary, the figures represent closing LME prices per tonne for refined nickel.

Open	(July 30)	$18,800.00
High	(August 21)	$21,200.00
Low	(August 13)	$17,705.00
Close	(August 28)	$20,430.00

As shown, nickel prices see-sawed a bit during July, but the variations were more the result of commodity trading than strong demand from stainless steel producers. For most of the summer, buying of finished stainless from U.S. mills was light because of the housing slump and muted demand for appliances. With nickel on the skids, a cut in September stainless steel surcharge levels was inevitable. The price cuts came early in August when all of the Stainless

Steel Big Three announced surcharge reductions for Type 304 flat-rolled sheet that averaged 6.33 cents per pound, about 4.7% of the prevailing surcharges.

Imports. U.S. Imports of stainless steel in the first five months of this year totaled 342,700 tons, 8.6% less than in the same 2007 period. With the exception of sheet and strip, shipments of all import categories were down. The sharpest drop was in plate, where incoming shipments fell 30.1%, followed by wire, off 8.7%, rod and bar down 8.6% and 4.5% respectively. On the plus side, flat-rolled products accounted for two-thirds of the incoming finished product and topped 2007 comparable shipments by 18.2%. In the first five months of 2008, U.S. consumption of foreign and domestic stainless steel amounted to 914,900 tons, 8.6% less than in the preceding year.

COPPER

Demand for copper remains lackluster as the automotive sector continues to be in a no-growth mode, and scant progress has been made toward a home building recovery. As a result August trading in the red metal was dull and lacked a consistent price trend up or down. Following is a summary:

Open (July 31)	$8,075.00
High (July 31)	$8,075.00
Low (August 13)	$7,226.00
Close (August 28)	$7,560.00

With no major development in end-use copper markets, attention turned to scrap. The month started with demand largely curtailed by China's 100% focus on the Olympics. Absent Chinese purchases, which usually represent two-thirds of all U.S. scrap copper exports, prices came under pressure. For example, No. 1 ingot maker's copper scrap was quoted in early August at $3.25-3.30 per pound. By the19th the price was down to $3.09-3.11. The reduction was just what Chinese buyers had been waiting for, and when it materialized, they started to nibble. As of the current date there are growing signs that sustained buying by China will accelerate as the summer winds down.

RESINS

Because of the Labor Day holiday, data on current resin prices and future price trends ware not available at press time. New information on the resin market will be provided as soon as it becomes available.

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 07/08	Previous 06/08	Year Ago 07/07	2 Yrs Ago 07/06
PIPE, VALVES & FITTINGS:				
Copper & copper-alloy tube	333.6	314.7	327.5	349.8
Steel pipe & tube	228.5	222.0	168.8	166.0
Plastic pipe and fittings	224,9	212.6	199.2	214.5
Industrial valves – metal	185.0	183.3.	174.4.	160.1
PLUMBING FIXTURES:				
Vitreous china fixtures	97.7	96.4	103.6	101.4
Fixture fittings & trim	239.6	235.5	226.2	212.3
HVAC EQUIPMENT:				
Warm air furnaces	130.2	128.9	126.4	117.2
Unitary air conditioners	150.0	149.1	140.3	136.4
Cast iron heating boilers	146.7	137.2	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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