ASA MATERIALS MARKET DIGEST
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CARBON STEEL

PRODUCTION, PRICES & PROSPECTS. The carbon steel market has been among the hardest hit victims of the current recession. Following are summaries of the American steel industry's recent performance and future outlook.

Production. In the latest reporting month, raw steel production by American mills averaged slightly over one million tons per week. The average operating rate for this period was 41.8% of the mills' rated capacity. Total 2009 production through April 30 was 16,678,000 tons, just 47% of the comparable year-ago output.

Prices. As demand for flat-rolled steel remains flaccid, prices continue to erode. At the latest tally in April, the going price for hot-rolled sheet at U.S. mills was $430-440 per ton, down from $470-480 a month earlier. Cold-rolled coil, $550-560 a month earlier, was most recently tagged at $530-540, and hot-dip galvanized remains unchanged at $600 per ton.

As reported previously, mills in Brazil and elsewhere in Latin America had until recently been offering cold-rolled coil f.o.b. U.S. ports at $420-430 per ton. But early in April Brazilian mills started pulling in their horns, citing softness in flat-rolled pricing in the international market. By the end of April flat-rolled steel from Brazil was nowhere to be found on U.S. shores. Currently it is uncertain as to when, if ever, Brazilian mills will again be catering to the U.S. market.

Prospects. In describing the current market for carbon steel, actions *and* words are speaking loudly. In the action category, AK Steel announced 100-plus additional layoffs at two of its Ohio steelmaking venues, Zanesville and Coshocton. The company also furloughed 116 hourly workers at its Rockford, Indiana plant. About the same time, Severstal International started idling a number of key facilities, including its 80-inch hot strip mill, an electric arc furnace in Steubenville, OH and a blast furnace. About a thousand additional employees were laid off in this company's most recent shutdowns.

In the "words" department, the news was scarcely better. Items:

- At the recent *AMM*-sponsored Steel Tube and Pipe Conference, economist John Anton warned that recovery in steel will take time—nonresidential construction won't peak until 2015; fabricated metals will take until 2013-2014; and appliances will probably never get back to their prior peak level.

- At a steelmakers meeting in Greece, industry executive John Foster said it would take another nine months before the government's stimulus program did any stimulating of the steel industry. He sees the program extending for 18-24 months.

- In its current forecast, the World Steel Association (WSA) expects global steel output this year to be down 14.9% from 2008. WSA also predicts that U.S. steel consumption in 2009 will be down 36.6% from 2008, and that a "mild recovery" will get under way in 2010.

- In a battle of steelmaking giants, two top executives offered conflicting views of the industry outlook. With a bullish viewpoint, Steel Dynamics' Keith Busse sees the market nearing a bottom. He bases this view on "extremely busy" leading indicators such as steel fabricators and top-level commercial architects. New construction on such projects, Busse noted, will start as soon as financing is in place.

- A decidedly contrary viewpoint is maintained by Daniel DeMico, Nucor's CEO. In his perspective, market conditions in steelmaking have got progressively worse, with "lower shipments and lower selling prices." He characterizes steel conditions "as the most challenging in history. It is entirely ugly out there."

SUPPORT SERVICES. *Steel Service Centers.* Recovery of the flat-rolled market has been inhibited by credit issues. *AMM* reports that there has been a growing reluctance of credit insurers to write or continue policies protecting service centers from payables defaults by their customers. The epidemic of negative policy actions by insurers includes cancellations, coverage reductions, and downright refusals to write policies. Such actions have been particularly noticeable in the insuring of payables of service firms supplying automotive manufacturers. Even complaints by long-standing clients have been spurned by underwriters and insurance brokers.

Despite these obstacles, steel service center shipments actually rose in March, the latest reporting month. According to the Metal Service Center Institute, distributor shipments for the month came to 2.59 million tons, an increase from February of 7.9%. Contributing to this gain was an increased amount of destocking by service managers intent on raising cash.

Ferrous Scrap. Early in April, with steelmaking in the doldrums, ferrous scrap prices weakened by $15-30 per long ton. Weeks later, further erosion of $25-50 per ton developed, reducing the price of shredded scrap to $140-170 per ton. Not long afterward, scrap prices took yet another hit as demand continued to tank. Midway through April, premium scrap such as factory bundles was selling for the giveaway price of $160 delivered to the customer.

Midway through April the market turned as Turkish buying came alive and prices rose sharply. A single mini-mill booked orders for no less than 100,000 metric tons of high-grade scrap and the quote for 80-20 heavy melting steel rose to $228 per ton.

Zinc. Despite a looming global surplus and slack demand for galvanized sheet, zinc prices rose sharply through April. Following is a summary, based on London Metals Exchange closing prices in U.S. dollars for one metric ton (tonne):

Open	**$1,037.00**	**(Mar 31)**
High	**$1,642.00**	**(Apr 17)**
Low	**$1,037.00**	**(Mar 31)**
Close	**$1,425.00**	**(Apr 30)**

According to the Lead and Zinc Study Group, a global zinc surplus will reach 260,000 tonnes by the end of 2009, up from 200,000 tonnes in 2008. The increased oversupply results from a worldwide decline in usage of the white metal amounting to 4.9%. According to the Study Group, this will be the sharpest decline in zinc usage since 1975.

COPPER

Supply & Demand. Attendees at the recent World Copper Congress were exposed to a broad spectrum of opinion on the copper market, present and future. One of the more bullish presentations was made by Ivanhoe Mines' CEO Robert Friedland, who termed copper "the metal of the future." Friedland predicted "the long awaited boom for the red metal in coming years." Supporting his enthusiasm, the mining executive cited huge demand in China ("over a billion people want an automobile") plus the emergence of hybrid and all-electric autos and the discovery of massive new ore deposits. Friedland also stressed "urbanization and the rush in electrification" as factors buttressing Chinese copper demand.

Supporting the speaker's enthusiasm was Juan Villarzu, former CEO of Chile's mammoth Codelco copper mining and refining complex. In his presentation Villarzu seconded Friedland's emphasis on China's insatiable appetite for the red metal. Also speaking from the Codelco perspective was the firm's current CEO, Jose Arellano. Senor Arellano characterized the U.S. economic stimulus program as being "heavily copper intensive."

The Copper Congress also heard negative opinion regarding the market. One presenter predicted that copper consumption will decline 15-20% in 2009. This, the speaker emphasized, would be the equivalent of two to three million tonnes of demand shortfall, " a gap that no amount of Chinese buying can overcome."

About the time all this was going on, the prestigious International Copper Study Group weighed in with its predictions for the red metal's global supply. According to the Study Group 2009 will end with a copper surplus of 345,000 tonnes, up sharply from the 250,000 surplus recorded in 2008. For 2010 the surplus is expected to rise to 400,000 tonnes.

Prices. Midway through April, copper took one of those baffling price jumps seemingly without cause. As the following table shows, copper's price on the London Metals Exchange remained in the $4,000 per tonne range throughout the month. The April 15 peak prompted *AMM* to quote one market participant saying that "We're in nosebleed territory."

Open	**$4,051.00**	**(Mar 31)**
High	**$4,770.00**	**(Apr 15)**
Low	**$4,005.00**	**(Apr 1)**
Close	**$4,491.00**	**(Apr 30)**

Viewing this pattern, another trader characterized copper's mid-month spike as "ridiculous" and remarked that "people are almost hesitant to sell." A month later, when a similarly inexplicable price peak developed, the asinine explanation proffered by some sources was the Swine Flu. When clearer heads prevailed, it was generally agreed that robust Chinese buying, backed by aggressive commodity trading, accounted for the pricing runup.

Copper Scrap. As has been the case for several months, scrap copper remains in very tight supply. Indeed, the aggressive Chinese buying referred to above has exacerbated the scrap market. Also a factor as has been the ongoing slump in U.S. brass mill fabrication, normally one of the major supply sources for scrap copper.

Contributing to the cost of scrap has been the sharp price rise in refined copper. Typically, the top grades of copper scrap are traded on the New York Comex exchange at prices geared to Comex quotes on finished copper. Early in April, for example, refined copper trading on the NY Comex exchange topped out at $2.0005 per pound, up 5.8% from the preceding day's close of $1.89 per pound. In the same trading session No. 1 copper scrap jumped 8 cents to close at $1.80-1.82 per pound. No. 2 copper scrap—a favorite for Chinese scrap importers—increased by 12 cents to close at $1.72. Toward the end of April, the three-month refined copper price fell 6.7% to $2.04 per pound. Simultaneously, prices for No. 1 and No. 2 copper scrap fell 13-15 cents per pound, closing No. 1 scrap at $1.95-1.97 and the No. 2 grade at $1.85-1.87.

<u>TUBULAR GOODS</u>

Oil and gas drilling in the U.S. continued to falter during March and April. By the end of the latter month, the U.S. rig count was down to 955, 48.2% below the same date in 2008. The picture was almost as grim in Canada, where a rig count of 65 was 26.1% behind the year-ago pace. Low hydrocarbon prices at the wellhead are largely responsible for the sharp decline in rig counts. As one driller put it, "When natural gas is down to $3.37 a million, you don't have much incentive for fielding a rig and crew."

The decline in drilling has had a devastating impact on the market for oil country tubular goods (OCTG). With fewer wells under construction the demand for every variety of OCTG has been sharply curtailed. To make matters worse, the OCTG market has been seriously roiled by an ongoing flood of dirt cheap Chinese imports. In a report by *AMM*, OCTG pricing expert Paul Vivian cited import shipments that are priced anywhere from $500 to $900 per ton *below* the established domestic price.

The result of such competition is shown in the accompanying table. The figures are average monthly OCTG prices offered by distributors in the Houston area. The data were compiled by Pipe Logix, a prestigious consulting firm specializing in OCTG pricing and related oil and gas production economics.

Product	Apr 2009	Mar 2009	Mar-Apr % Chng
Tubing: Carbon ERW	$1,673	$1,974	-15.3%
Tubing: Carbon seaml's	$1,682	$2,046	-17.8%
Tubing: Alloy ERW	$2,449	$2,560	-7.5%
Tubing: Alloy seamless	$2,449	$2,614	-6.3%
Casing: Carbon ERW	$1,520	$1,713	-11.3%
Casing: Carbon seaml's	$1,304	$1,644	-20.7%
Casing: Alloy ERW	$2,031	$2,280	-10.9%
Casing: Alloy seamless	$2,051	$2,407	-14.8%

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

As quoted by *AMM*, consultant Vivian sees no quick fix for the domestic OCTG market. The publication quotes him as saying that "We're hoping that the rig count bottoms out in four to five weeks." He added that "once the rig count stops falling, OCTG prices will take another 60 to 90 days before they stop falling."

Recent developments suggest that U.S. OCTG producers won't wait 60 or 90 days before fighting back against Chinese trade practices. U.S. Steel's CEO John Surma has already been heard from in a recent telephone conference on Chinese trade practices. U.S. Steel's weaker earnings on tubular goods, Surma asserted, were the result of China's unfair trade practices. Said he: "The large amount of pipe and tube being sold unfairly by China has reduced both past profits and current production." Surma added that "the Chinese steel industry is run by a tight-knit central authority. Even though they're called companies, they are really just individual expressions of government policy."

Shortly after Mr. Surma's salvo, a number of leading U.S. OCTG manufacturers and their supporters filed anti-dumping and countervailing duty petitions against welded and seamless pipe imports produced in China. Petitioners include U.S. Steel, TMK Ipsco, Wheatland Tube and five other manufacturers of tubular and OCTG products, plus the United Steelworkers union.

The complaint, filed with the U.S. Department of Commerce, asserts that the incoming OCTG products from China were manufactured under the aegis of massive government subsidies and dumping margins in the 40-90% range. The unfair trade practices detailed in the complaint have been submitted to the Department's International Trade Commission. This latest complaint is the fifth to be lodged against various types of tubular goods produced in China. The first four complaints went through a complex adjudication process, and in all cases the findings were for the American complainants.

STAINLESS STEEL

Demand and Prices. Thus far in 2009 the central fact concerning stainless steel demand has been its virtual nonexistence. With the key market uses for stainless steel—appliances, automotive, food service systems—in the doldrums, there has been little buyer interest in alloy steel products.

Given this dismal business climate, the last thing one would expect from a major stainless producer is a price increase. But that is exactly what Allegheny Technologies has come up with—an across-the-board hike in flat-rolled stainless steel prices. The increase went into effect May 4, amounting to 6 to 9 per cent, and covering hot- and cold-rolled sheet and strip and continuous rolled plate.

Allegheny's bold pricing action came after a quarter in which the firm's revenues fell by 38% from the year-ago level and earnings were down an eye-popping 96%. The increase was noteworthy for other reasons as well:

a) Ludlum's announcement came at a time when steel service centers were receiving an unusual and unexpected surge in telephone inquiries from prospective buyers regarding possible stainless purchases. The spate of telephone calls baffled service center managers, especially because none of the calls had led to actual orders as of Ludlum's May 4 effective date. Initially the inquiries were coming from Pittsburgh and nearby steelmaking venues, but more recently they have also been coming from eastern locales.

b) When prices are raised into a weak market, they are usually accompanied by howls from regular customers. But Allegheny's current pricing move has met with no buyer resistance. Moreover, other stainless steel producers also welcomed their competitor's move, noting that higher tags are essential to maintain profitability in a market where demand is sketchy. Similarly, service centers welcomed higher prices which added to both inventory value and selling prices.

c) Normally when a major stainless producer announces higher prices, the competition follows suit with prices that closely parallel those of the original boost. But in the current instance, there has been little uniformity in the increased terms announced thus far by North American Stainless, AK Steel and ThyssenKrupp.

Nickel. Along with copper and other base metals, nickel prices rose substantially in April as the following table indicates:

Open	**$ 9,525.00**	**(Mar 31)**
High	**$12,555.00**	**(Apr 17)**
Low	**$ 9,525.00**	**(Mar31)**
Close	**$11,650.00**	**(Apr 30)**

Given the lack of demand for stainless steel, the April surge in nickel prices is puzzling. According to attendees at the Stainless Steel Conference sponsored by *American Metal Market (AMM),* nickel's runup is the result of speculative buying rather than user demand. Among market watchers interviewed by *AMM,* lower nickel prices are expected in May for seasonal reasons as well as the weak stainless market.

RESINS

Plastics Technology magazine reports that commodity resin prices had stabilized in April. But the publication cautions that increasing domestic demand, higher export volume, and costlier feedstock could combine to raise prices. Following are specifics:

Polyethylene. Prices remained flat through early spring as domestic demand continued to be sluggish. Export activity has been accelerating and monomer prices have risen 3-4 cents per pound. If monomer costs continues to climb, a price increase could follow.

Polypropylene. Here, too, monomer pricing is on the rise, but higher prices are anything but certain.

Polyvinyl Chloride. Demand has risen modestly for windows, siding and large diameter pipes. But as yet there is no immediate likelihood that prices will rise any time soon.

Polystyrene. Benzene prices have been rising, and some PS prices have been increased. However, increases that were announced recently may not be implemented soon—or at all.

Polycarbonate. Dow Chemical has announced an across-the-board 7-cent hike on all PC products, effective in early May. Prospects for market acceptance are good.

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 03/09	Previous 02/09	Year Ago 03/08	2 Yrs Ago 03/07
PIPE, VALVES & FITTINGS:				
Copper & copper-alloy tube	200.4	202.3	338.8	244.1
Steel pipe & tube	173.3	178.2	186.0	168.6
Plastic pipe and fittings	203.8	204.3	201.3	195.1
Industrial valves – metal	187.2	186.9	179.9	169.2
PLUMBING FIXTURES:				
Vitreous china fixtures	97.2	97.2	95.4	103.5
Fixture fittings & trim	235.9	235.5	232.9	222.8
HVAC EQUIPMENT:				
Warm air furnaces	131.6	131.5	128.8	127.0
Unitary air conditioners	153.7	153.7	138.9	139.9
Cast iron heating boilers	146.8	146.8	135.7	130.1

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 by BLS.

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