



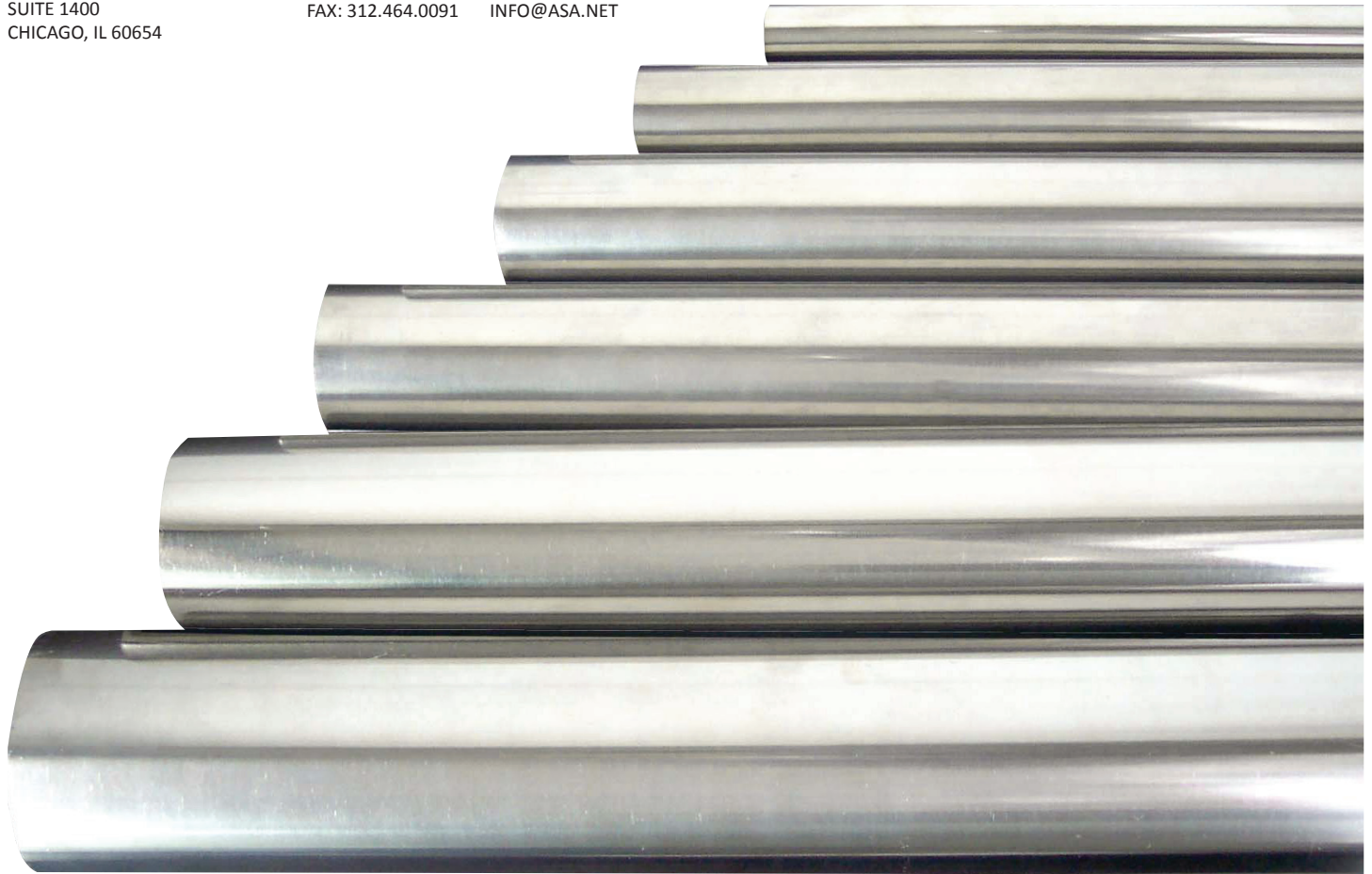
AMERICAN SUPPLY ASSOCIATION

## HEADQUARTERS

222 MERCHANDISE MART PLAZA  
SUITE 1400  
CHICAGO, IL 60654

TEL: 312.464.0090  
FAX: 312.464.0091

WEB: WWW.ASA.NET  
INFO@ASA.NET



# ASA MATERIALS MARKET DIGEST

November 1, 2011 • Jim Olszynski, Editor • Published monthly by the American Supply Association • [www.asa.net](http://www.asa.net) • [info@asa.net](mailto:info@asa.net) • 312-464-0090

## ROUTE TO

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## This Month's Spotlight

The September 24, 2011 edition of *The Economist* magazine includes an 18-page "Special Report on The World Economy" that is worth checking out for a grand overview of trends impacting commodities of every kind. Here are two excerpts:

*"Though it accounts for only one-eighth of global output, China uses up between a third and half of the world's annual production of iron ore, aluminum, lead and other non-precious metals..."*

*"Supply has struggled to keep pace with this burgeoning demand. The world's iron-ore production has doubled over the past decade but prices have risen 13-fold. The metal content of copper ore has been falling since the mid-1990s as existing mines are depleted. This mismatch between demand and supply is an age-old problem in commodity markets."*

An economic slump in China, which many analysts believe is now taking place, is reverberating throughout sluggish global markets.

A separate section of the same issue contained an article, titled "Red Bull," examining copper's unique role as a harbinger of global economic fortunes and speculating about its future price behavior. The verdict: despite short-term plunging prices, a global supply-demand imbalance is shaping due to growing consumption (especially in China) while mines increasingly are tapped out. According to the report in *The Economist*, "Over the long term, the fundamentals have most analysts convinced that high prices are here to stay."

## Carbon Steel

**U.S. service centers are feeling the pain of steel prices** that have dropped between 1-3% in recent weeks due to sluggish demand and continued oversupply, say market sources. It means those distributors are sitting on recent inventory purchases bought during a mini-spurt in market prices.



**Steel shipments by U.S. service centers** fell 7.8% in September vs. August leading into the traditionally slower 4<sup>th</sup> quarter. The 3.4 million tons shipped in September did represent an increase of 7.4% from September 2010. Year-to-date, steel shipments were up 15.9% from the same period in 2010. Steel product inventories increased 12.9% over

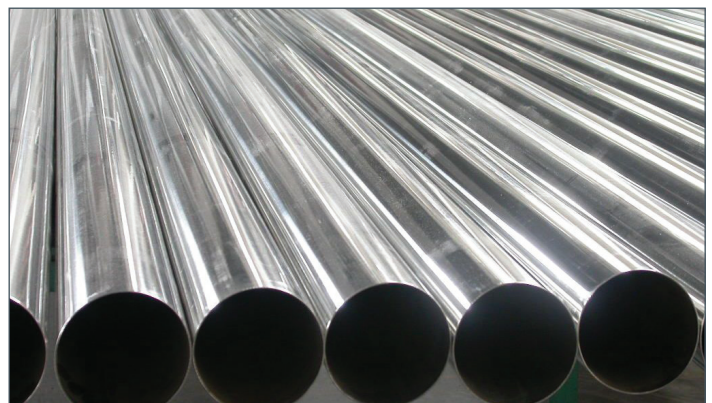
September a year ago and 0.5% over the previous month. At the current shipping rate, this represents 2.5 months of supply, an increase of 5.1% from a year ago.

**Overall steel consumption in the U.S.** is expected to increase 11.6% in 2011 with a further increase of 5.2% in 2012, according to WorldSteel. Even so, the predicted usage of 93.8 million tons would still be about 13% below pre-recession demand that peaked in 2007.

**Dollar's rise is roiling global steel markets.** So says the British steel analyst and tracking firm, MEPS. "If the U.S. dollar remains strong, the pattern of trade in the world could change significantly. Imports could start to flood into North America," said MEPS in an online article posted October 27. "A strong U.S. currency is likely to be a feature of world trade into early 2012," it concluded.

## Stainless Steel

**Nickel prices on the London Metal Exchange** have fallen dramatically in recent weeks leading distributors and manufacturers to hold off on buying stainless materials. The decline is leading to a drop in stainless surcharges that reached an average 91.03 cents per pound at domestic mills for Grade 204 at this writing in late October, according to market insiders. That is the lowest level since September



2010. Continued talk of a double-dip recession also is making buyers cautious. Many nickel traders expect sluggish pricing to extend into 2012 due to continued weak demand and sufficient supplies.

**Global stainless steel production** increased in the first half of 2011 by 3.8% compared to the same period of 2010, according to preliminary figures released by the International Stainless Steel Forum. Total production of 16.4 million metric tons was a new all-time high, although the increase was restricted to China and the Central and Eastern Europe region, compensating for losses in other major areas (see chart below). In The Americas region, stainless crude steel production decreased by 1.6% in the first half of the year.

## Stainless & Heat-Resisting Crude Steel Production (in '000 metric tons)

Region	Quarter		+/- % Q-o-Q	First half year		+/- % Y-o-Y
	1/2011	2/2011		2010	2011	
Western Europe/Africa	2,217	2,078	-6.3	4,303	4,295	-0.2
Central & Eastern Europe	85	114	33.0	163	199	22.3
The Americas	779	598	-23.2	1,399	1,377	-1.6
Asia (excluding China)	2,238	2,134	-4.7	4,513	4,373	-3.1
China	3,076	3,129	1.7	5,469	6,206	13.5
<b>Total</b>	<b>8,396</b>	<b>8,053</b>	<b>-4.1</b>	<b>15,847</b>	<b>16,449</b>	<b>3.8</b>

Source: International Stainless Steel Forum (ISSF)

**Stainless steel price margins have fallen** by as much as 50% over the past 25 years, according to a researcher speaking at the British Stainless Steel Association's 4th International Stainless Steel Symposium in late September. European producers had dominated the global stainless steel market with about a 40% market share going back to the 1960s but have since been surpassed by China, said Gerhard Pariser, director of research at Heinz Pariser Alloy Metals & Steel Market Research. He calculated China's global market share at 41% and said the Chinese now account for 37% of global stainless consumption.

### Tubular Products

**OCTG prices continued to climb** through September, thanks in large measure to booming demand for seamless products in particular from shale plays and increasing offshore drilling activity. Average OCTG prices went up 1.8% in September from the previous month, according to the market tracking firm Pipe Logix. Prices for most grades and sizes rose amid a lot of volatility, according to market sources. Domestic producers are benefitting from the 2009 dumping case against Chinese OCTG, especially for premium grades. Imports of OCTG dropped 3.8% in August from the previous month, according to preliminary data from the U.S. Department of Commerce.

**The Baker Hughes Rig Count**, the main driver of OCTG sales, surpassed the 2,000 plateau in the U.S. Total oil and gas drilling rigs in service as of October 21 totaled 2,013 in the U.S., an increase of 344 over the comparable date in 2010. Canadian rigs in operation totaled 497 for the week, up 78 from the prior year's period.

**Future demand for OCTG could be "insane,"** declared a

speaker at the first AMM Mechanical and Structural Tube Conference held in Chicago in early October. Michelle Applebaum, managing partner at Chicago-based Steel Market Intelligence, noted \$2.2 billion of new investment in OCTG capacity in the U.S. – sparked by the 2009 trade sanctions against China – has not yet led to oversupply due to burgeoning activity in the energy sector. She did acknowledge a risk of overcapacity as more new players come on stream. **Note:** *The "News of Note" section at the end of this report highlights a major OCTG expansion in the U.S. via a joint venture between Vallourec and Sumitomo Corp. of America.*

### Donghae Steel admitted sales of counterfeit Tenaris pipe.

The representative director of Donghae Steel, Young-Ho Kong, issued a formal letter of apology to Tenaris for having sold pipes with a fraudulent application of the Tenaris trademark. The missive was published in the Korean Metal Journal on September 26, 2011. Kong admitted that Donghae Steel, which has since gone out of business due to bankruptcy, promoted and sold counterfeit Tenaris pipes to customers operating in the oil and gas and industrial sectors in Korea as well as throughout Asia.

### Copper

**Copper Market Forecast 2011-2012:** According to preliminary data from the International Copper Study Group, global growth in copper demand for 2011 is expected to exceed global growth in copper production, and a production deficit of about 200,000 metric tons (mt) of refined copper is projected for the full year. For 2012, ICSG data projections indicate a deficit of about 250,000 mt as supply growth will continue to lag behind demand growth. By 2013, however, increased production and lower growth in demand are

## U.S. Pipe & Tube Imports

Landed duty-paid value (in \$1,000s)

Annual & Year-To-Date Data from Jan.-July 2011	2010	YTD 2010	YTD 2011	% Change YTD	% Change 2006-10
Total Carbon and Alloy Pipe & Tube	7,664,857	5,073,575	6,465,344	27.4%	-0.3%
Carbon Seamless Tubular Products (Other than OCTG)	1,012,488	576,714	1,255,951	117.8%	-18.5%
Carbon Seamless OCTG	2,044,587	1,315,270	1,727,043	31.3%	6.1%
Welded Tubular Products (Other than OCTG)	2,322,697	1,778,005	1,503,655	-15.4%	-24.5%
Welded OCTG	1,133,582	686,769	995,212	44.9%	69.5%
Flanges, Fittings & Tool Joints	903,231	551,458	792,549	43.7%	17.2%
Stainless Seamless Tubular Products	638,731	403,002	615,374	52.7%	45.2%
Stainless Welded Tubular Products	376,010	247,676	290,983	17.5%	-7.2%
Stainless Flanges, Fittings & Tool Joints	367,963	230,681	341,323	48.0%	6.4%

Source: U.S. International Trade Commission/U.S. Department of Commerce

expected to yield a nearly balanced market. In the first half of 2011, operational problems, lower head grades, adverse weather conditions and labor unrest combined to constrain mine output, and production for 2011 is now anticipated to grow by only 0.7%. Capacity utilization rates for 2011 are expected to be around 79%, 1% lower than in 2010. Although



producers anticipate a strong growth of 9% in 2012 (mainly due to higher capacity utilization at existing mines as few new projects are expected to start, they anticipate that the actual increase will be significantly lower as production disruptions, which have become the norm in recent years, continue. World refined copper production for 2012 (adjusted for production disruptions) is therefore projected to increase by only about

3.4%. Secondary refined production (from scrap), which is anticipated to increase by around 10% in 2011, is expected to grow by only 5% in 2012.

**The price of copper tube has plunged 12.4%** since the beginning of the year through early October as tracked by a major plumbing distributor in the eastern U.S. that shares data with MMD. Prices for copper fittings inched up by 1% in the same time frame. This distributor announced a decrease in copper tube prices to its customers of more than 10% effective Oct. 1.

**Copper spot premium prices in the U.S.** will likely be in the range of 4-5.5 cents per pound in 2012, according to a survey of London Metal Exchange traders.

**Copper v. Bacteria.** Long-term, the copper market may get a boost from a study by the U.S. Department of Defense that found copper surfaces in intensive-care units reduced the amount of bacteria found on those surfaces by 97% and cut the rate of hospital-acquired infections by 41%. Copper's antimicrobial properties have been hinted at for a long time but are still in the research stage. It will likely be years, if ever, before the metal comes into widespread use in medical facilities. If and when that happens, demand will soar.

**Authorities crack down on copper theft.** The Sarasota County (Fla.) Sheriff's Office recently arrested 18 people on 123 criminal charges related to metal thefts and burglaries, including 935 pounds of copper. A previous sweep by the same authorities in July busted 62 suspected thieves. The sheriff's office said the cases involved many suspects attempting to sell copper stolen from air conditioning, plumbing and electrical contractors for whom they worked. Separately, six men, one an Olin Brass Corp. employee, were arrested and accused of participating in a theft ring that stole an estimated \$200,000 worth of copper from Olin's East Alton, IL copper and brass mill and selling it to scrap dealers. Police believe the thefts may have been going on for as long as three years. In related news, proposed Illinois House Bill 3825 would ban cash payments on copper and other frequently stolen materials, require identification, lengthen record-keeping requirements and make it illegal for recyclers to purchase from convicted felons. Recyclers oppose the legislation.

## Scrap Markets

**Nonferrous scrap exports**, led by copper and aluminum, surged to a three-year high in August, according to the U.S. Commerce Department. Copper and brass scrap shipments climbed 4.3%. Nickel scrap shipments rose 6.8% in August from the previous month. Meanwhile, lead registered the steepest slide, plunging 54.3% from the year-to-date high in July. Weaker demand from China, India and Taiwan cut zinc scrap exports by 15.9% between August and July.

**U.S. ferrous scrap exports hit a record 2.78 million tons** in August, up 48.6% from the prior month. However, since then ferrous scrap exports have been stalled as lagging offshore demand has left iron and steel scrap piling up at some big yards. Scrap dealers also are concerned about weak domestic prices, which reportedly have declined by as much as \$30 a ton. Further price decreases are expected through the remainder of the year, a time when steel mills traditionally cut scrap purchases to the bone.

## Plastics

Prices of PE, PP, PS, and PVC resins were on the way down in October, according to *Plastics Technology* magazine. Soft resin prices are expected to be the rule for the remainder of the year, according to industry experts. They cited growing inventories at resin suppliers and general price erosion of key feed stocks. PVC domestic demand grew 12% in August due to restocking and to modest improvement in construction, but that is not expected to be sustained. Polyethylene prices

were holding up a little better than other resins as supplier increases of about 11 cents/lb. tended to hold. No further price increases are anticipated, however.

## News of Note

**Sumitomo Corp. of America announced** it has acquired a 19.47% interest in Vallourec SA's new small-diameter seamless steel pipe mill in Youngstown, Ohio. The initial investment of the new steel pipe mill is approximately \$650 million. It is scheduled to be completed for operational launch by mid-2012 and planned to go into full commercial operation by the end of that year with an annual output capacity of 350,000 tons. The Youngstown mill is geared to produce seamless steel pipe for the OCTG market in the nearby Marcellus shale. Vallourec and Sumitomo previously collaborated on a \$1.6 billion joint venture in Brazil to produce premium OCTG for deepwater offshore drilling.

**U.S. Steel credited its Tubular segment** as largely responsible for its third quarter net income gain of \$22 million. USS Tubular sales last quarter totaled \$134 million, compared with \$31 million in 2Q and \$113 million in 3Q 2010. 3Q 2011 represented the Tubular segment's most profitable quarter since the fourth quarter of 2008. Average realized prices increased by 9% to \$1,699 per ton, and shipments increased by 13% as demand for energy-related tubular products rose during the quarter, primarily due to the continued strength of horizontal oil-directed drilling. *"Tubular 4Q 2011 results are expected to be in line with the strong performance achieved in the third quarter as the demand for oil country tubular goods (OCTG) remains strong. Average realized prices are expected to be comparable to the third quarter and shipments are expected to be slightly lower as distributors actively control their inventory levels going into year end, particularly for non-OCTG products,"* the company told shareholders and the media.

**Southern California's Consumers Pipe & Supply Co.** has relocated to a new facility at 10927 Jasmine St. in Fontana, Calif. The new facility will gain operational efficiencies and allow for future growth. The company's new contact information is: Consumers Pipe & Supply Co., 13424 Arrow Blvd., Fontana, CA 92335. Phone: (909) 728-4828. Fax: (909) 728-4829.

**IndustrialInfo.com counted 6,953 industrial projects underway in North America** as of September 2011, representing \$256.7 billion in total investment value. That represents a 19.8% increase in projects and 24% increase in project value compared to the same period in 2010.

<b>Producer Price Index - Key Industry Products</b>				
				<b>% Change</b>
<b>Pipe, Valves &amp; Fittings</b>	<b>Aug. 2011</b>	<b>Sept. 2011</b>	<b>% Change</b>	<b>Sept. 2010</b>
Metal valves, except fluid power	264.5	267.3	1.1	7.5
Gates, globes, angles, and checks	306.4	306.3	0.0	3.4
Ball valves	290.7	299.2	2.9	22.4
Butterfly valves	197.8	196.7	-0.6	4.8
Industrial plug valves	205.5	203.6	-0.9	6.7
Plumbing and heating valves (low pressure)	266.0	266.0	0.0	6.5
Solenoid valves	271.2	296.5	9.3	19.0
Other industrial valves, including nuclear	239.1	242.6	1.5	5.9
Automatic valves	151.7	152.5	0.5	4.1
Steel pipe & tube	273.9	274.6	0.3	10.5
OCTG, standard, line pipe, carbon	112.3	113.3	0.0	N/A
Steel pipe & tube, alloy	106.4	107.1	0.7	N/A
Steel pipe & tube, stainless steel	106.3	107.9	1.5	N/A
Metal pipe fittings, flanges and unions	292.8	297.4	1.6	6.1
Copper & copper-base alloy pipe and tube	263.1	262.1	-0.4	15.1
Plastic pipe	104.0	103.4	-0.6	14.9
Plastic pipe fittings & unions	131.2	133.0	1.4	14.7
<b>Plumbing Fixtures, Fittings &amp; Trim</b>	<b>276.0</b>	<b>276.0</b>	<b>0.0</b>	<b>3.6</b>
Vitreous china fixtures	145.3	145.3	0.0	1.6
Bath & shower fittings	224.0	224.0	0.0	4.1
Lavatory & sink fittings	137.1	137.1	0.0	3.9
Miscellaneous brass goods	285.0	285.1	0.0	3.2
Enameled iron & metal sanitary ware	200.6	199.9	-0.3	1.6
<b>Steam &amp; Hot Water Equipment</b>	<b>250.1</b>	<b>252.6</b>	<b>1.0</b>	<b>4.3</b>
Cast iron heating boilers, radiators and convectors	158.9	160.6	1.1	5.5
Steel heating boilers, all classes	156.6	157.6	0.8	0.6
Domestic water heaters	325.0	323.1	-0.6	1.0
Electric water heaters	309.4	306.8	-0.8	1.3
Non-electric water heaters	203.8	203.0	-0.4	0.6
<b>Warehousing, Storage, &amp; Related Services</b>	<b>101.3</b>	<b>101.5</b>	<b>0.2</b>	<b>2.9</b>