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ASA MATERIALS MARKET DIGEST

October 1, 2011 • Jim Olsztynski, Editor • Published monthly by the American Supply Association • www.asa.net • info@asa.net • 312-464-0090

ROUTE TO

This Month's Spotlight

The global economic slowdown and "double-dip" chatter led to corresponding sluggishness in metal pricing as summer headed into fall. Many steel producers are trying to impose higher prices for many products, now hovering around $700/ton for most flat-rolled products, but they are having trouble making the higher price tags stick due to slack demand and overcapacity in the U.S. and worldwide.

On Sept. 22, Wheatland Tube and Allied Tube announced price hikes of $40 per ton on ERW pipe, along with 4-5% jumps for sprinkler pipe and continuous weld pipe. They explained the hike to customers as necessitated by increases in flat-rolled steel used to make pipe. Other pipe mills are expected to follow suit, though many industry buyers voiced skepticism about the ability of the mills to make the increases stick.

Carbon Steel Production

Know that feeling you get right after a Thanksgiving dinner? Global economies have the same uncomfortably full bellies thanks to an oversupply of carbon steel.

According to the World Steel Association (WSA), crude steel output in the U.S. totaled 7.54 million tons in August, which is a 13.8% increase over the same month in 2010 and a whopping 35.8% gain over the same month in the moribund year of 2009. It was the fifth straight month of year-over-year gains. Worldwide crude steel production in August for the 64 countries reporting to WSA was 125 million metric tons (mmt), 9.8% higher than August 2010.

WSA's data indicates a slowdown already underway, however, with global steel capacity utilization slipping 2.1 percentage points to 77.5% from July to August. Compared to August 2010, the global utilization rate increased by 3.5 percentage points.

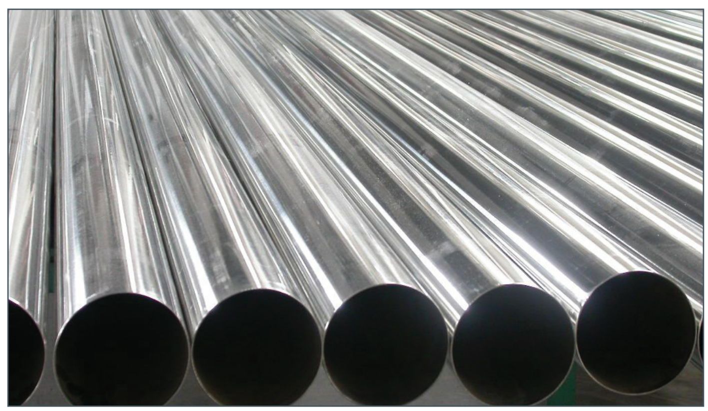
U.S. Steel and some other major domestic producers have begun to shut down some mills for planned fall maintenance. Some analysts think certain mills may extend the shutdown periods in the face of weak demand in hopes that prices will firm up, though the outages are not expected to significantly reduce the steel glut.

Steel Shipments

So far, the production slowdown has not impacted shipments. Steel shipments from service centers in August increased from the same period in 2010 according to the Metals Service Center Institute (MSCI). Inventory levels increased in the U.S. and Canada.

U.S. Service Centers shipped 3.69 million tons of steel products in the month of August 2011. This represents an increase of 15.4% from August 2010. For 2011 year-to-date, steel shipments were 2.77 million tons, an increase of 17.0% from the same period in 2010. Steel product inventories were 8.46 million tons at the end of August 2011, an increase of 13.7% over August a year ago and an increase of 0.5% from the previous month. At the current shipping rate, this represents 2.3 months of supply.

Canadian Service Centers shipped 541,000 tons of steel products in August 2011. This represents an increase of 10.5% from August 2010. The 2011 year-to-date steel shipments were 4.25 million tons, an increase of 12.2% from the same period in 2010. Steel product inventories were 1.63 million tons at the end of August 2011, an increase of 27.2% from August a year ago and an increase of 0.4% from last month. At the current shipping rate, this represents 3.0 months of supply.



Stainless Steel

"A bloodbath" is how one stainless steel scrap trader described the recent plunge in nickel prices on the London Metal Exchange. U.S. prices for melting-grade nickel have fallen to their lowest levels in two years.

This has led producers and distributors, already facing weak demand, to hold off on major purchases while waiting to see where the bottom might be. Buying is still taking place for orders booked and sold, but nobody seems anxious to load up on inventory of products that might be bought cheaper a month or more from now. Lead times have shortened due to slack demand reinforcing the stand pat mentality.

Some nickel producers reportedly are selling below their cost of production. That of course cannot be sustained forever. So cutbacks in production may eventually put supply back

U.S. Pipe & Tube Imports					
Landed duty-paid value (in $1,00s)					
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	4,300,025	5,555,406	29.2%	-0.3%
Carbon Seamless Tubular Products (Other than OCTG)	1,012,488	479,018	1,102,725	130.2%	-18.5%
Carbon Seamless OCTG	2,044,587	1,086,928	1,455,959	34.0%	6.1%
Welded Tubular Products (Other than OCTG)	2,322,697	1,578,126	1,308,072	-17.1%	-24.5%
Welded OCTG	1,133,582	547,994	853,562	55.8%	69.5%
Flanges, Fittings & Tool Joints	903,231	465,222	672,493	44.6%	17.2%
Stainless Seamless Tubular Products	638,731	346,081	523,279	51.2%	45.2%
Stainless Welded Tubular Products	376,010	219,248	249,025	13.6%	-7.2%
Stainless Flanges, Fittings & Tool Joints	367,963	196,050	290,626	48.2%	6.4%
Source: U.S. International Trade Commission/U.S. Department of Commerce					

in balance with demand and thereby shore up pricing. It's anyone's guess how long that might take, however. Many distributors have written off major purchases for September, and some are taking a wait-and-see approach until November or beyond.

Analysts at the London-based steel tracking and consulting firm MEPS predict demand to strengthen and LME nickel prices to go up towards the end of the year, although the next couple of months could still be problematic for sellers. According to MEPS, "Seasonally higher consumption should help to boost sales volumes in the first and second quarters. Consequently, stainless steel selling figures are forecast to rise during the first half of 2012."

Tubular Products

As spotlighted at the beginning of this report, Wheatland Tube and Allied Tube were leading a charge to boost tubular steel prices as this went to press with other producers expected to follow suit. Most observers doubt their chance of whipping markets into shape, however. Side deals on large orders are prevalent.

With construction markets as depressed as a bride left at the altar, OCTG is the place to be. Non-energy tubular prices are hovering flat to down a bit, while OCTG prices tend to be inching up a bit.

On the energy side, the main driver of business is oil and gas drilling activity. The authoritative Baker Hughes Rig Count for the week of Sept. 23 showed a total of 1,991 for the U.S., an increase of 341 from the same period last year. On the Canadian side of the border, rigs in service more than doubled from 223 at this time last year to 505 on Sept. 23. The main driver is burgeoning demand from the Marcellus, Eagle Ford, Bakken and Utica shale plays.

Despite the heavy drilling activity, OCTG prices have been relatively restrained due to abundant domestic capacity coupled with aggressive import pricing. High-strength seamless alloys, the preferred materials for horizontal shale well drilling, are more robust than the plentiful commodity carbon grades used in less demanding vertical wells.

The recent weakening in oil prices may tamper down some of the good fortune enjoyed by OCTG producers and distributors. Oil wells account for more than half of the rigs in service, and if oil prices continue their downward trend of recent weeks, the market could see momentum reversed – especially if natural gas prices don't rise to compensate. The double-dip chatter is taking its toll on virtually all commodities markets.

Copper

Looking for a bright side to the recent dramatic plunge in copper prices? Think of all the thieves who are grieving.

Federal authorities have said that copper thieves have targeted numerous federal sites in recent years, including the Los Alamos National Laboratory in New Mexico and the Pantex nuclear weapons facility near Amarillo, TX. Now that's scary!

As for legal markets, copper distributors and fabricators who bet big when prices were riding high are facing potential megabuck losses of inventory value following recent sell-offs. Copper prices have fallen more than 25% since the end of July. This editor has heard tales of distributors with large copper inventories nonetheless filling new orders with new low-priced purchases despite sitting on large inventories, which they hope will increase in value sitting in the warehouse.

According to the International Copper Study Group, global consumption grew by a modest 1% in the first six months of 2011 - 2% in the U.S. These gains were partially offset by a 6% drop in China's consumption.

Because copper is not easily substituted, the metal is closely watched by many economists who believe it to be a key indicator of economic trends. At this time last year, traders were buoyed by a surge in demand and pricing thanks to emerging markets. Now, things don't look so good in the global economy.

Scrap Markets

Ferrous scrap prices had been holding a steady course in a narrow trading range in recent times, though a recent East Coast sale of 60,000 tons purportedly at $10 per ton below the prevailing market price set dealers' buzzing. Some interpreted it as a panic sale spurred by declining commodity metal prices. Otherwise, short supplies, thanks to slackening industrial output and continued heavy demand from emerging markets, have tended to firm up prices.

U.S. nonferrous scrap exports jumped 15.6% in the first seven months of this year from the same period of 2010. They approached a 3-year monthly high in July boosted mainly by aluminum scrap.

Copper scrap shipments climbed 3.6% in July from the previous month, with China absorbing almost 80% of all U.S. copper scrap exports. Later reports indicate the market has all but ground to a halt due to collapsing copper prices.

U.S. nickel scrap exports dropped 19.7% in July mainly due to large drops in purchases from overloaded buyers in the Netherlands and Britain. Those were partially compensated by a surge in orders from Sweden and Japan.

Lead exports were up 16.2% in July thanks to large orders from India, which accounted for nearly half of the market. Zinc exports in July fell 6% from the prior month.

Plastics

Like most other commodities, plastics resin prices are suffering from the effects of lower feedstock prices and poor demand caused by the moribund U.S. economy and, increasingly, global drop-offs as well. Polyethylene, polypropylene, polystyrene and polyvinyl chloride all headed down in July according to tracking by Plastics Technology magazine. Their analysts did see hopes of rebounding prices in subsequent months except for PVC.

News of Note

Steel market insiders think U.S. Steel Corp. may upgrade furnaces at its Fairfield, AL, and Lorain, OH, tubular steel mills thanks to burgeoning OCTG demand. This information comes from KeyBanc Capital Markets Inc. based on a presentation made by USS top executives at an investor conference.

JMC Steel Group, the parent company of Wheatland Tube and Atlas Tube, plans to move its headquarters from Cleveland to Chicago in October. The company is said to be seeking acquisitions and/or expansions to boost its presence in OCTG energy markets.

Dura-Bond Industries is about to break ground on a new pipe coating plant at the former U.S. Steel Duquesne Works in Pennsylvania. The firm needs new coating capacity to keep up with shale-related demand. The new plant will coat pipe from 4-36 inches and in lengths up to 80 feet. It is expected to be operational by the first quarter of 2012.

Lastly, Sports Illustrated reported that the theft of a brass fitting on the building's sprinkler system caused an estimated $100,000 worth of damage to the College Football Hall of Fame. The magazine then reported a police estimate that the fitting would've gained the thief about $5 at a scrap yard.

Producer Price Index - Key Industry Products				
				% Change
Pipe, Valves & Fittings	**Jul-11**	**Aug. 2011**	**% Change**	**Aug. 2010**
Metal valves, except fluid power	263.6	264.5	0.3	6.6
Gates, globes, angles, and checks	304.5	306.4	0.6	3.1
Ball valves	290.9	290.7	-0.1	18.9
Butterfly valves	197.3	197.8	0.3	6.1
Industrial plug valves	199.6	205.5	3	7.7
Plumbing and heating valves (low pressure)	N/A	266	N/A	10.5
Solenoid valves	271.2	271.2	0	8.9
Other industrial valves, including nuclear	237.3	239.1	0.8	4.5
Automatic valves	151.7	151.7	0	3.5
Steel pipe & tube	276.4	273.9	-0.9	10.8
OCTG, standard, line pipe, carbon	112.5	112.3	-0.2	N/A
Steel pipe & tube, alloy	104.5	106.4	-1.8	N/A
Steel pipe & tube, stainless steel	107.4	106.3	-1	N/A
Metal pipe fittings, flanges and unions	282.8	292.8	3.5	0.7
Copper & copper-base alloy pipe and tube	270.3	263.1	-2.7	24.6
Plastic pipe	104.8	104	-0.8	15.2
Plastic pipe fittings & unions	132.3	131.2	-0.8	12.4
Plumbing Fixtures, Fittings & Trim	**276.1**	**276**	**0**	**3.6**
Vitreous china fixtures	145.3	145.3	0	1.6
Bath & shower fittings	224	224	0	4.1
Lavatory & sink fittings	137.2	137.1	-0.1	3.9
Miscellaneous brass goods	285.1	285	0	3.2
Enameled iron & metal sanitary ware	200.6	199.9	-0.3	1.6
Steam & Hot Water Equipment	**250.1**	**250.1**	**0**	**3.2**
Cast iron heating boilers, radiators and convectors	158.9	158.9	0	4.4
Steel heating boilers, all classes	156.6	156.6	0	0.1
Domestic water heaters	325	325	0	1.9
Electric water heaters	309.4	309.4	0	2.6
Non-electric water heaters	203.8	203.8	0	1.3
Warehousing, Storage, & Related Services	**100.7**	**101.3**	**0.6**	**2.4**