
ASA MATERIALS MARKET DIGEST

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CARBON STEEL

ON THE RECOVERY ROAD? As part of its publishing package, *American Metal Market* issues a monthly bound magazine summarizing important developments in the metals field. The July 2009 Print Edition, which went to press in June, was a *tour de force* of gloom and doom for the steel industry. This edition bannered a front page headline proclaiming that “It’s a Jungle Out There.” The subhead was equally grim: “Survival skills are being tested as never before.”

These crepe-hanging laments were followed by a 6-page chronicle of steel mill layoffs, production cutbacks, plant closures, and other cost-cutting measures. This report, amounting to a steelmaker’s scratch sheet, was captioned, “Steel’s Sudden and Deep Descent.”

Hardly was the ink dry on *AMM*’s jeremiad than a number of mills started to undo all of steelmaking’s bad news so recently lamented in print. Items:

- Industry leader **ArcelorMittal** announced restart of its Cleveland facilities including a blast furnace, a hot mill, and the pickle line, tandem line, zinc galvanizing line, etc.
- Simultaneously, **U.S. Steel** started to fire up its Granite City, IL plant. The company is also reportedly planning startup of its shuttered plants in River Rouge and Ecorse, MI as well as the 5,500-ton blast furnace at its Hamilton, Ontario works.
- **AK Steel** has now recalled all of the 1,620 employees laid off from its plants at Middletown, Zanesville, and Coshocton, Ohio and Butler, PA.
- A major sign of steelmaking recovery is the reawakening of the automotive market. According to the **American Iron & Steel Institute**, auto manufacturers are making a strong dent in the steel market. AISI cites sharp gains in June shipments to the car companies, shipments including galvanized sheet and strip, up 27% from May; hot-rolled sheet, up 23%; and 15% for cold-rolled sheet. And as noted below, increased shipments to the automotive market are encouraging some mills to increase prices.

- Service center shipments, according to the **Metal Service Center Institute**, rose 11% from last year's May and June.
- In late August a number of new indicators were pointing toward stepped-up output at U.S. mills. Developments in this direction include higher prices for finished steel, increased operating rates reportedly as high as 70% at some plants, and strong signals from ferrous scrap distributors.

OPERATIONS AND PRICING. *Raw Steel Production.* In the latest reporting week (ending August 15), U.S. mills poured 1,285,000 tons, up from 1,277,000 tons in the preceding week. The latest total reflects an average operating rate of 53.6%, up from 52.6%. The August production total is the 15th increase in 16 consecutive weeks of stepped-up production.

Prices. In early August steel prices were on the move again. In a bulletin from *American Metal Market (AMM)* the spot market for hot-rolled sheet was quoted at \$500 per ton, with cold-rolled at \$600 and hot-dip galvanized sheet at \$690. A week later Nucor Corp., seeking to match previous increases by U.S.S., Arcelor, and AK Steel, boosted all flat-rolled prices—by “at least” \$30 for hot- and cold-rolled sheet and \$40 for galvanized.

By August 20 there was concern among market participants because steel demand had not justified higher flat-rolled prices. But fears of a steelmaking glut proved to be short-lived, and no less an authority than Morgan Stanley asserted that, “flat-rolled steel fundamentals are not at immediate risk.” Encouraged by statements such as this, a number of producers tacked \$50 to \$60 onto their prices for early fall deliveries.

The next step up in pricing came from the West Coast when California Steel announced that October deliveries would be up by “at least” \$30 for hot-rolled sheet and \$40 for cold-rolled and galvanized. When the dust settled, West Coast prices were \$580-600 per ton for hot-rolled sheet, \$650-680 for cold-rolled, and galvanized at \$20-30 more.

As August was drawing to a close, demand from the automotive and HVAC markets was escalating. Not surprisingly, steel firms such as AK, U.S.S. and ArcelorMittal were busy getting out new price sheets for the East and Central regions as follows: \$480-500 for hot-rolled, cold-rolled at \$580 and galvanized at \$635. Additionally, in a surprise move in late August, ArcelorMittal announced a \$60 per ton increase on all flat-rolled base prices. The increase will take effect with November orders and is likely to be followed by other major mills.

Raw Materials. The above-described succession of steel price increases was initially triggered by the expectation of immediate stronger demand. But as the summer progressed, more mills were factoring in raw materials and energy costs as reasons for increasing prices.

TUBULAR GOODS.

Rig Counts. During August the U.S. rig count fluctuated narrowly between a low of 948 and a high of 966. This stability of current U.S. drilling activity is considered to be a favorable sign, suggesting that no decline is likely to develop at any time in the near future. During the same period, the rig counts in Canada fluctuated between 195 and 200 operating sites, suggesting that stability extends to north of the U.S. border.

After a slow first half of 2009, oilfield services company Baker Hughes predicted improvements in the volume of oil and gas drilling in the U.S. The firm's CEO issued a bullish statement, saying that, "In recent weeks the market has been stabilizing. We believe that the decline in the U.S. rig count is now behind us and we expect a gradual increase in drilling activity beginning in 2010."

OCTG Prices. Despite current stability in the U.S. rig count, prices on oil country tubular goods (OCTG) continue to erode. In July the average price of a ton of OCTG was \$1,682. This figure was down 4.4% from the June price of \$1,760.00. Notwithstanding an ongoing decline in OCTG prices, field reports indicate that distributor inventories in the Oil Patch have declined and imports have eased. Even with these positive developments, prices eased again in the most recent monthly report from Pipe Logix, Inc. Current distributor prices for eight OCTG products are shown in the table on the following page.

Note: The table below reflects the average cost of eight representative OCTG products. The numbers come from OCTG distributors operating in the area of Houston, TX. The figures have been compiled and analyzed by Pipe Logix, Inc., a Santa Fe, NM-based affiliate of the energy consultancy Spears Associates, Inc.

(Current OCTG prices are shown on the following page)

**Representative Prices, Oil Country Tubular Goods,
July & August 2009 (\$ per ton)**

Product	August 2009	July 2009	Aug- July % Chng
Tubing: Carbon ERW	\$1,440	\$1,465	- 1.7%
Tubing: Carbon seaml's	\$1,510	\$1,460	3.4%
Tubing: Alloy ERW	\$1,981	\$2,054	-3.6%
Tubing: Alloy seamless	\$2,130	\$2,133	-0.1%
Casing: Carbon ERW	\$1,207	\$1,248	- 3.3%
Casing: Carbon seaml's	\$1,095	\$1,106	- 1.0%
Casing: Alloy ERW	\$1,722	\$1,738	-1.0%
Casing: Alloy seamless	\$1,741	\$1,823	- 4.5%

COPPER

End-Use Markets. Among the wide range of applications for copper, single-family home building is pre-eminent. In addition to electrical wiring and plumbing water lines, the red metal has a wide variety of other applications in new home construction. In the early months of the now-fading recession, home building virtually ground to a halt and demand for copper declined accordingly.

That decline in copper demand is still with us to a large degree, but currently the home building industry is in recovery and demand for the red metal is likely to follow. In the most recent report on housing starts by the Census Bureau, single-family housing starts rose to 490,000 units annually. This figure represents the fifth consecutive month in which single-family housing starts have increased, and in the near future the recent housing gains will be reflected in copper usage.

Price Escalation . More currently, what *AMM* calls a “trifecta of positive housing news” developed in the final week of August. The factors cited by the publication include a declining U.S. dollar, rising stock prices, and higher oil and gas prices. Together these and other bullish developments have helped to trigger higher copper prices on the New York Comex and the London Metals Exchange. The details of these bullish movements on both exchanges are summarized in the paragraphs which follow.

In early August the red metal’s price jumped 27% in a single week of trading on the Comex, rising from \$2.205 per pound to \$2.7955. Simultaneously, the London Metals

Exchange (LME) tab went from \$5,625 to \$5,923 per metric ton. And as frequently happens, copper scrap prices moved in synch with the refined metal as follows: No. 1 copper scrap rose 15-19 cents per pound; the No. 2 scrap grade went up 14-15 cents; and lesser grades rose proportionally.

Midway through August, traders and investment funds took a breather. In a move geared primarily to profit-taking, trading on the London Exchange slipped from the recent high of \$6,480 to the week's close at \$6,400. But soon after the profit-taking sell-off, copper prices resumed their climb. In the week of August 13, the LME price jumped a whopping 6.5% to \$6,515.50 per tonne, the highest level since the credit crunch of September 2008. And as has been the case for several months, the price of copper has largely been bid up and controlled by investors, speculators and investment funds. End-user demand, on the other hand, has played a very minor role in the copper boom, a situation that one trader characterized as "unnatural."

STAINLESS STEEL

Prices. At the start of August, stainless steel producers were preparing for yet a third price increase in as many months. The first boost had been early in the month when Allegheny Ludlum announced a 6% increase. Later in the month the firm initiated an additional 6% increase taking effect on August 17. This increase applies to cold-rolled sheet and strip, tubular quality sheet and strip, continuous mill plate and a variety of other alloys.

Soon after Ludlum's second announcement, North American Stainless signed on with a price sheet closely patterned after the Allegheny increases. A short time following these increase announcements, AK Steel got on the bandwagon with price sheets similar to those already in effect by North American and Allegheny.

Labor Issues. In early fall union workers at Vale Inco's Ontario nickel mines and refinery went on strike, necessitating the shutdown of the firm's plants at Voisey's Bay and Newfoundland. These facilities were shuttered for more than a month, after which the 120 idled workers at Voisey's Bay and Newfoundland joined the 3200 Ontario strikers.

Unlike some previous Vale Inco strikes, the current walkout of 3,300-plus workers may have a significant and long-standing affect on nickel supplies and prices. Indeed, the company has already declared *force majeure* and notified customers that it is unable to honor some nickel supply contracts. An official of the striking United Steel Workers was quick to start sabre-rattling, declaring that "It could be four or five months before we even return to the [negotiating] table."

In response to the union's negotiating stance, the company's parent, Vale Inco, Ltd., initiated a training program for a small cadre of non-union employees to substitute for strikers. When local union members heard of this, a USW official asserted that the

employment of non-union workers “Would be unacceptable...It’s literally putting lives at risk.”

Given the hardened positions on both sides, there is now a greater likelihood that the strike will impair nickel supplies and increase their cost. Nickel prices have been rising for several months (see table below) and will likely to continue doing so. The price of stainless steel scrap is also increasing from the recent quote of \$1,900 to \$2,000 per tonne.

London Metals Exchange Nickel Prices, July 30-August 28

Open	\$ 5,501.00	(July 30)
High	\$20,495.00	(August 10)
Low	\$ 5,501.00	(July 30)
Close	\$19,555.00	(August 28)

Now in its seventh week, the walkout is escalating. In the latest development, Vale Inco’s affiliate, Xstrata Plc has announced a shutdown of all copper smelting and refining for a 7 to 10-week period beginning in September. Meanwhile, the company, as noted, is considering the use of non-union clerical employees to reopen copper operations. The union has termed this move “an arrogant and provocative act.”

RESINS

Plastics Technology reports that prices on all commodity resins are rising, primarily because of ongoing inflation in feedstock and monomer price tags. Items:

Polyethylene. After sluggish demand in the first and second quarters, PE prices registered 3-cent gains in June and again in July. An additional 4-cent boost is expected in July or August. Higher monomer prices and a resumption of exports to China have encouraged producers to increase prices.

Polypropylene. In the most recent two or three months rising monomer prices have resulted in a net boost of 8.5 cents per pound.

Polystyrene. A surprising spurt in crude oil has driven benzene prices from \$2.92 per pound to as much as \$3.80. As a result, PS prices have risen by 13 cents in the past three months.

Polyvinyl Chloride. With the housing market still shaky, demand for PVC remains moderate at best. As a result, recent PVC price increases have been limited to a few cents per pound.

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 07/09	Previous 06/09	Year Ago 07/08	² Yrs Ago 07/07
PIPE, VALVES & FITTINGS:				
Copper & copper-alloy tube	242.3	200.4	336.6	311.6
Steel pipe & tube	162.2	173.3	197.2	169.8
Plastic pipe and fittings	199.2	203.0	198.4	196.0
Industrial valves – metal	187.3	187.2	180.8	170.0
PLUMBING FIXTURES:				
Vitreous china fixtures	99.4	97.2	95.4	103.5
Fixture fittings & trim	236.4	235.9	233.0	222.8
HVAC EQUIPMENT:				
Warm air furnaces	131.8	131.6	128.8	127.5
Unitary air conditioners	153.7	153.7	139.7	138.7
Cast iron heating boilers	146.8	146.8	136.3	131.2

NOTES: 1) Sources: Bureau of Labor Statistics, US Department of Labor; compiled for the American Supply Association. 2) Data for 2009 are subject to revision.

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