
ASA MATERIALS MARKET DIGEST

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MARKET OVERVIEW

Carbon Steel. While there are some signs of prices leveling off, increases on carbon steel flat rolled and other products continue to be announced. Imports have fallen sharply as quotes for foreign-made steel products rise faster than those of their U.S. counterparts. In the scrap market, the price gap between premium grades, e.g. factory bundles, and the lower grades is increasing to an unprecedented level of \$200-250 per long ton.

Stainless Steel. After a steep drop in May, June nickel prices on the LME have leveled off in the \$21,500-22,500 range. Demand for stainless steel is slack and as a result, mills have reduced surcharges for July deliveries by 5 to 6 per cent. But the price cuts have done little to stimulate demand.

Tubular Goods. Oil and gas drilling in the U.S. remains at or very near capacity. As a result, prices of oil country tubular goods (OCTG) have risen 24-32% in most product categories. In the line pipe sector, the U.S. Dept. of Commerce has lowered the boom on illegal Chinese trade practices. New dumping duties on Chinese pipe have been levied at ad valorem rates ranging from 69% to 86%, and countervailing duties at an unprecedented 29.57% to 615.02%.

Copper. During June the red metal's LME price jumped from \$7,955 per tonne to \$8,500.00. Despite this sharp increase, there is no unanimity concerning copper's future price action, even among knowledgeable and respected forecasters. MF Global sees a decline in the Comex price from a current \$3.60 per pound to \$3.13 by 2010. But Barclay's Capital thinks that the red metal will reach an LME record price of \$9,000 before the current year ends.

Resins. Feedstock and monomer prices have risen rapidly as the result of soaring crude oil costs. The increases are being passed along to resin buyers, where price increases are announced monthly or more frequently. Even PVC, which has been hard hit by the housing slump, has been forced by raw materials costs to increase its prices.

CARBON STEEL

OPERATIONS AND PRICING. *Operations.* During June, raw steel production in the U.S. remained at a high level, with operating rates continuing to fluctuate between 88.1% and 89.6% of nameplate capacity. Through the end of June, output totaled 52.301 million tons, 2.6% ahead of the same period in 2007.

Operations at steel service centers continued below year-ago levels as shipments in May fell 7.2% from last year and the five-month total was off 3.7%. Warehouse inventories as of May 31 were down 10.8%. At midyear service center operators continued to report slack demand.

Pricing. Notwithstanding the slow pace of service center orders, steel prices rose inexorably throughout the first half of 2008. While there are some indications of a leveling, new boosts continue to be announced, such as:

- Nucor, often a price leader in the steel industry, has announced a \$30 increase in flat-rolled products. The hike brings to \$1,120 the going rate for hot-rolled, \$1,180 for cold-rolled and \$1,335 for the benchmark grade of galvanized.
- California Steel has advised customers of a \$30 increase for cold- and hot-rolled sheet and \$50 for hot-dip. California's main rival, USS Posco, indicated in late May that its August shipments of cold-rolled sheet would be up by \$70 and its galvanized by \$60.
- Other semi-finished steel prices also continue to escalate. In the tubular sector, Ipsco and ArcelorMittal are boosting spot prices for cut-to-length and coiled plate by \$100 per ton, raising the prices \$1,420-1,430.

As has been the case throughout the current runup in flat-rolled prices, almost all increases have been driven by higher mill costs—raw materials, energy and transportation. But despite a near-doubling of most steel prices, U.S. mills haven't priced themselves out of the market. Quite the contrary—former sources of U.S. imports are no longer competitive because their prices have risen even faster than those of U.S. mills. Additionally, the cost of ocean transport is up explosively, impelling former exporters to the U.S. to seek markets elsewhere.

RAW MATERIALS. *Ferrous Scrap.* An unusually large gap has developed between prices of such premium grade scrap varieties as factory bundles and busheling on the one hand, and secondary scrap forms including shredded metal, No. 1 heavy melt, etc. In early June *AMM* reported that factory bundles and the like were poised for another price increase of \$75 per long ton. But quotes for the lesser grades are expected to slip \$15-20 per ton. If and when these forecasts materialize, the spread between the top and lower grades will expand to as much as \$200-250, according to *AMM*.

Chrysler Corp., a major supplier of factory bundles, is considering a new mode of pricing for this premium scrap grade. Historically, bundles have been offered by auto companies in the form of monthly auctions. Now there are persistent reports that Chrysler will fix bundles prices in closed offerings rather than open bid. The intent, according to some sources, is to develop a corps of regular customers and do away altogether with the auction process. Thus far Chrysler has remained close-mouthed, neither denying nor confirming the rumored scheme.

Ferroalloys. Early in June the ferrochrome market tightened as a result of stronger demand and limited supplies. FeCr is an essential ingredient in many stainless steel formulations, and as a shortage loomed, prices rose accordingly. The problem was exacerbated when the Chinese government ordered closure of several ferroalloy plants in the Beijing area. This was done to

provide more breathable air for Olympic athletes, many of whom could not or would not compete in the putrid air pollution that normally prevails around Chinese industrial cities.

Toward the end of June the supply picture brightened considerably as the result of an influx of FeCr and other ferroalloys from India. Prices fell accordingly, and demand also slowed because of cutbacks in stainless steel production.

Elsewhere on the ferroalloy front, ferromanganese prices stabilized after a sharp runup extending into mid-June. But ferrosilicon prices continued to inch up as Beijing ordered more plants to close as part of its attempts at greening up the region's fetid atmosphere.

STAINLESS STEEL. The sharp drop in nickel prices that ended in May showed little change in subsequent London Metals Exchange (LME) trading. Following are the key statistics for June:

Open (May 31)	\$22,245.00
High (June 16)	\$24,535.00
Low (June 26)	\$21,705.00
Close (June 30)	\$21,850.00

In the opinion of most analysts, the net price decline in stainless steel resulted more from slack demand than from any market actions by speculators. After the last quarter's precipitous plunge in nickel prices, speculators' ardor for the metal appears to have cooled considerably.

With demand slack and the price of a major raw material on the skids, stainless steelmakers had little choice but to reduce prices. The cuts, in effect with July deliveries, take the form of surcharge reductions. As usual, price action was initiated by one of the Big Three stainless producers and quickly followed by the other two. Typical surcharge cuts are as follows: Type 304, down 5% to \$1.5895 per pound, Type 316 down 4.7% to \$2.4785, and Type 321 off 5.6% to \$1.6816.

Interestingly, the price cuts did little to stimulate demand. This was because, according to *AMM*, many buyers played a waiting game, reasoning that if the mills made one surcharge reduction, they might well follow with another round of cuts.

Notwithstanding lackluster demand for stainless steel, first quarter imports of alloy and specialty steels rose 4.7%. The bulk of this gain was in sheet and strip, incoming shipments of which rose 19.2%. Not surprisingly, the biggest source of these stainless products is China.

TUBULAR GOODS

Operations. Throughout June, oil and gas drilling in the U.S. maintained its blistering pace and indeed accelerated it a bit. Perhaps motivated by the thought of \$135 crude, drillers kept rigs turning at a near-record rate, with the weekly rig counts in June at 1,877, 1,886, 1,901 and 1,906.

Canadian drillers also picked up the pace, with a succession of weekly counts at 176, 218, 230 and 259.

Pricing. As might be expected with the current pace of drilling, prices of oil country tubular goods continue to escalate. According the consulting firm Pipe Logix, Inc., an affiliate of Spears & Associates, the average price per ton of OCTG in June was \$2,563, a 25.6% increase from May and 80% above the level last December. In specific product categories, the May-to-June gains were 30.9% for ERW items and 21% for seamless.

Contributing recently to the rapid rise in OCTG prices were moves by two high-profile steel companies: U.S. Steel Tubular announced an across-the-board \$800 increase per ton for all of its products, effective July 1. But it softened the blow (slightly) by foregoing a separate \$250 per ton surcharge for July invoices, netting out the July 1 increase at \$550 per ton. Taking a more direct route, Vallorec & Mannesman Tubes Corp. reportedly advised customers of a price increase in the same \$550 amount. According to *AMM*, these increases will result in a rise of the OCTG spot price from \$2,400 to \$2,950.

Even before these latest increases take effect, June OCTG prices are showing double-digit gains from May to June. Figures for representative products are shown in the table below.

Representative OCTG Prices (per ton)

<i>Product</i>	Jun 2008	May 2006	May-Jun % Chng
Tubing: Carbon ERW	\$2,405	\$1,837	+30.9%
Tubing: Carbon Seamless	\$2,640	\$2,012	+31.1%
Tubing: Alloy ERW	\$2,769	\$2,154	+28.6%
Tubing: Alloy Seamless	\$2,951	\$2,391	+23.5%
Casing: Carbon ERW	\$2,175	\$1,695	+28.3%
Casing: Carbon Seamless	\$1,940	\$1,767	+ 9.8%
Casing: Alloy ERW	\$2,687	\$2,035	+32.0%
Casing: Alloy Seamless	\$2,759	\$2,219	+24.4%

Source: Pipe Logix, Inc., Houston TX

Trade Issues. In an unexpectedly hawkish action, the U.S. Department of Commerce lowered the boom on no fewer than 33 Chinese producers and/or exporters of circular welded steel pipe. This product is widely used in long-distance line installations for the transmission of oil, natural gas and water. For the last several years Chinese sources have been flooding the U.S. market with such pipe, typically sold at prices with which U.S. pipe mills are unable to compete.

Repeated investigations have demonstrated that the pipe incoming from China has been the recipient of lavish government subsidies which provide an insurmountable competitive edge.

U.S. pipe makers, their labor unions, and the Congressional Steel Caucus have repeatedly complained about the unfair and illegal government support by which the Chinese pipe makers have secured a strong position in the U.S. market. But until very recently, the Commerce Department's only response has been to tut-tut China's competitive tactics. But under heavy Congressional pressure, the Department acted and imposed anti-dumping duties on the incoming pipe in amounts of 69.2% to 85.55% ad valorem. Additionally, to compensate for the government subsidies, the Department slapped the offending firms with countervailing duties ranging from 29.57% to 615.02%.

Predictably, the Department's actions evoked howls of protest from Beijing, which claimed that "our operation is completely market-oriented" and that the duties would "make it impossible to ship any pipe to the U.S. market." In response, a Commerce spokesman let it be known that any additional dumping of *standard* steel pipe, which to date has been flagrant, will be treated with equal harshness.

COPPER

Prices. Through the first half of June, the LME price of copper held below the 8,000 mark. But in the second half of the month the red metal rose steadily. Following are the key statistics:

Open (June 2)	7,955.00
High (June30)	8,500.00
Low (June 13)	7,815.00
Close (June 30)	8,500.00

Two recent analyses of future copper prices give contrasting estimates of the market for years ahead. One view, held by Fred Demler a leading metals analyst at MF Global, sees copper prices under pressure as supplies increase and demand, especially in the U.S. grows more slowly than usual. His forecast is for a decline in the Comex price from the current \$3.60 per pound more or less to \$3.53 later this year and as little as \$3.13 in 2010.

Demler's estimates are based on data from the International Copper Study Group which projects a copper surplus of 85,000 tonnes in 2008 and as much as 430,000 tonnes next year. Despite these looming surpluses, Demler sees ongoing inflation in base metal prices, as well as an ongoing stream of purchase orders from China. Noting that China is now self-sufficient in aluminum, lead and some other metals, Demler reasons that "China still has a way to go" before it is self sufficient in the red metal.

A more bullish view is taken by Barclay's Capital, an arm of Barclay's of London, one of the most venerable and well-regarded financial houses on the globe. The firm's copper forecast for the second half sees a real possibility that the red metal's London Metals Exchange price will reach \$9,000 per tonne, the highest ever.

This view is based on several factors, *viz.*, (a) China's demand for copper will continue to grow; (b) China will maintain its dependence on copper raw materials, e.g., scrap and concentrate; (c) Supplies of such material are tight and likely to remain so; and (d) In order to meet its needs for finished copper, China will have to go directly to the metals exchanges where inventories are anything but abundant.

Scrap. Early in June copper scrap prices wilted as Chinese buying dried up. As has been the case with numerous other industrial products, many of China's copper smelters have been banked in an effort to reduce the pollutants which normally poison the Chinese atmosphere.

As noted above, copper prices started to rise in mid-June, and by the 10th of the month cathode was up 8 cents on the strength of weaker dollars. Notwithstanding the higher cost, Chinese scrap buyers returned to the game about Jun 20. With the Comex cathode price moving up to \$3.83, No. 1 ingot maker's scrap jumped from \$3.38 to \$3.53.

Any lingering doubts about Chinese scrap buying faded when the Commerce Department completed its tally of April cuprous scrap exports. Some 85,000 tons of such scrap left U.S. shores, and 66.4% of it went straight to China.

Labor Relations. The Cananea soap opera entered a new phase when the Mexican Labor Ministry refused to recognize Napoleon Gomez as the legitimately re-elected president of the miner's union. The rejection was expected according to a union spokesman, but until it came down, the union was powerless to take the case to appeal. Next will be a review by the Labor Ministry, expected to take about 60 days. If the current decision is upheld, the union's next stop will be the Mexican courts, where it will take an extended period for the case to work its way through Mexico's Byzantine judicial system.

Cananea is by no means the only labor dispute roiling Latin American copper production. Elsewhere:

- Government-owned Codelco, the world's largest copper miner, has been buying copper concentrate to meet customer commitments stymied by a long strike of contract workers
- Miners at Southern Copper's Cuajone facility walked out early in June and stayed off the job about two weeks pending a negotiated settlement.
- Midway through June, workers hit the bricks at the Peruvian Cerro Verde mine, demanding health insurance and better working conditions. The government quickly called the strike illegal, but the strikers held out for about a week, and then picked up the tools.

RESINS

With feedstocks derived from crude oil and related products, resin prices have been rising at an accelerated pace. Following are key developments reported by *Plastics Technology*, the leading publication serving the resin market

Polyethylene. After several months of pricing paralysis, PE producers have been successful in implementing two successive 3-cent increases and are now watching a July 1 boost of 7 cents work its way through the system. Market sources are confident that this latest increase will in fact take effect.

Polypropylene. After the market accepted a 4-cent increase in early June, trading on the LME jumped PP another 5 cents. This move was readily accepted by buyers.

Polyesters. Feedstock price increases have added 12 cents per pound of cost to the monomer. Raw materials costs continue to be passed along to buyers and the price of polyesters rose as much as 15 cents a pound.

Polyvinyl Chloride. Following a net 4-cent price hike in May and June, another 4-cent boost is scheduled for July. Given a recent 5-cent jump in ethylene monomer, acceptance of the latest resin price increase is taken for granted.

Polystyrene. Demand remains weak for this resin. But with benzene up 44 cents, increases in the 5-7-cent range are in the offing and are very likely to be accepted.

Other Resins: Nylons. Effective July 1 DuPont will add 20 cents per pound to all Nylon prices. The company also added 10 cents to the per pound price of its acetals.

Information on Producer Prices is shown on the following page

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 processed.

	Latest 05/08	Previous 04/08	Year Ago 05/07	2 Yrs Ago 05/06
PIPE, VALVES & FITTINGS:				
Copper & copper-alloy tube	341.8	338.9	319.5	279.3
Steel pipe & tube	209.4	194.7	170.1	161.8
Plastic pipe and fittings	207.7	198.1	199.1	208.7
Industrial valves – metal	181.6	181.0	171.5	154.6
PLUMBING FIXTURES:				
Vitreous china fixtures	95.4	95.4	103.5	101.3
Fixture fittings & trim	235.3	233.9	226.2	207.1
HVAC EQUIPMENT:				
Warm air furnaces	127.9	127.8	127.6	116.8
Unitary air conditioners	149.3	142.8	138.9	134.4
Cast iron heating boilers	137.2	136.4	131.2	124.4

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