
ASA MATERIALS MARKET DIGEST

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EDWIN SCOTT, JR., EDITOR

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MARKET OVERVIEW

The Economy. The revised growth figure for the first quarter shows the economy inching up a mere 0.6%, dragged down by the housing slump and heavy inventory liquidation. But growth momentum is building, with strong employment, rising consumer confidence and manufacturing on the increase. These welcome tea leaves point to faster growth ahead. NAM, for example, sees the GDP gaining 2.3% in the current quarter, 2.7% in the third, and 3.2% in the final three months of 2007.

Carbon Steel. Production of U.S. mills rose slightly in May but still trails 2006 by 7%. Flat-rolled prices held steady for the first half of May but then came under pressure, especially on the West Coast. China announced a new series of export taxes affecting 83 steel products but excluding tubular products. This and other Chinese trade practices have aroused Congressional wrath amid charges that the U.S. tubular business has been specifically targeted by Beijing.

Stainless Steel. Flat-rolled prices have been raised again by the Big Three, with materials surcharges climbing in a range of 7.6% to 9.8%. As usual, the boosts were driven by higher materials costs as nickel remains hovering near the \$50,000 per tonne level, and chrome costs continue to increase. A major labor dispute at CVRD Inco's plant in Voisey's Bay, Canada threatens to spread.

Copper. Early in May the red metal's price neared its all-time high, hitting \$8,325 per tonne. But soon afterward Chinese buying slowed to a crawl and the price of copper quickly eroded. Toward the end of May the market hit a low of \$7,272 before closing out the month at \$7,560.

Resins. A moderately good domestic market, strong exports and the rising costs of feedstock and monomer have supported higher prices for a broad spectrum of resins. In most product sectors, increases have been in the range of four to eight cents per pound.

CARBON STEEL

OPERATIONS AND PRICING. *Production.* Weekly output of steel mills in the U.S. rose gradually through most of May. Toward month-end the operating rate was up to 87.2% of capacity, the highest level reached thus far in 2007. But even with this gradual improvement, the year-to-date pour of just under 40 million tons lags 2006 by 7.2%.

Globally, steel output in the first four months of this year topped 2006 by 7.6%. As usual, China led the pack, accounting for 36.2% of the worldwide total of 109 million metric tons. In April, the latest reporting month, Chinese steel production rose 22.8% from 2006.

Price Trends. Toward the end of May, steel service centers reported slacker demand for flat-rolled products. As a result, the month's total steel shipments by the centers fell 1.5% below the total for May 2006. It was the eighth straight month in which shipments trailed the comparable month last year. But despite weaker ordering, flat-rolled prices held steady for the first half of May, with hot-rolled averaging \$560 per ton, cold-rolled quoted at \$650, and hot-dip galvanized selling in the \$780-790 range.

Later in May, flat-rolled prices on the West Coast started to erode. For once the problem was not imports, which had lost their price advantage over U.S.-made steel, but came from mills east of the Rockies. Several of these, with more flat-rolled inventory than they needed, started to lower their quotes to West Coast service centers and consumers. For example, while a California mill was quoting hot rolled at \$630-650 per ton, the same product was being offered at \$540-560 by sources in the East and Midwest, and in some cases less if the order was big enough.

China. On May 1 the Chinese government announced yet another new program of export taxes for selected steel and other metal products. The stated purpose is to encourage the affected products to be retained in China rather than being sold to overseas buyers. But some observers see the announcement as a pre-emptive move in anticipation of difficult upcoming trade negotiations. In any event the new levies cover 83 steel products including flat-rolled, as well as certain ferroalloys and refined nonferrous metals. The rates range from 5% for flat-rolled steel to 15% on ferrochrome and other alloying metals.

TUBULAR GOODS. Oil and gas drilling operations in the U.S. continued at very close to capacity throughout May. Near month-end the U.S. rig count of 1,760 was 6.7% ahead of the comparable week in 2006. Adding to the drilling industry's prospects is a new 5-year program launched by the U.S. Department of the Interior. The plan calls for oil and gas drilling on portions of the Outer Continental Shelf abutting Alaska and in the Gulf of Mexico. These sites are expected to yield as much as 10 billion barrels of crude oil and 45 trillion cubic feet of natural gas over the 40-year life of the areas being opened.

The brisk pace of domestic drilling activity has led most observers to expect firmer pricing in oil country tubular goods. Indeed, earlier this year the consensus was that the modest price declines reported last winter would by now be more than reversed. But as the accompanying table (next page) shows, such has not been the case. For a while the softness was blamed on excessive distributor inventories, and to a moderate degree that situation persists. But most observers now agree that the major factor affecting OCTG prices is an ongoing flood of Chinese exports. Indeed, many now see Chinese pricing in the pipe and tube sector as a trade policy specifically targeted at U.S. producers of tubular goods of every variety.

U.S. pipe mills have repeatedly sought help in dealing with this problem from the Department of Commerce and other sources in the Bush administration. But the White House, steadfastly committed to a policy of free trade, has turned a deaf ear to the pleas of pipe and OCTG producers, their labor unions, and a bipartisan group of 40-50 members of both

Congressional houses organized as the Steel Caucus. In recent weeks this coalition has led the charge against what is now widely regarded as predatory trade policies supported and indeed encouraged by the highest levels of the Chinese government. (A detailed chronicle of efforts by the Steel Caucus and others to level the playing field for steel pipe producers starts on Page 7 of this report.)

<i>Product</i>	Mar 2007	Apr 2007	May 2007	Mar-May % Chng
Tubing: Carbon ERW	\$1,315	\$1,298	\$1,309	-0.5%
Tubing: Carbon seaml's	\$1,485	\$1,473	\$1,469	-1.1%
Tubing: Alloy ERW	\$1,690	\$1,679	\$1,673	-1.0%
Tubing: Alloy seamless	\$1,820	\$1,790	\$1,794	-1.4%
Casing: Carbon ERW	\$1,124	\$1,103	\$1,106	-1.6%
Casing: Carbon seaml's	\$1,291	\$1,290	\$1,286	-0.4%
Casing: Alloy ERW	\$1,463	\$1,475	\$1,466	+0.2%
Casing: Alloy seamless	\$1,575	\$1,559	\$1,552	-1.5%

Source: Pipe Logix, Inc.

RAW MATERIALS. Ferrous Scrap. The ferrous scrap market got off to a weak start in May when, in four separate auctions of factory bundles, winning bids averaged a dismal \$77 per long ton *lower* than the next most recent offerings. The plunge erased most of the rise in factory bundles since the first of this year. Opinions varied on what caused the sharp price tumble, but the majority view was that some major integrated mills took a pass on the early May auctions. And in point of fact, most of the lots auctioned off went to mini-mills.

Unlike other forms of steel scrap, factory bundles are sold almost exclusively to U.S. mills; foreign buyers generally prefer other types such as heavy melt and shredded scrap. And while bundles languished for want of buyer interest, export demand for mixtures of other scrap forms drew Turkish steelmakers into the market for a brief but intense buying binge. In two days' of ordering, buyers from Turkey booked orders for a reported 350,000 metric tons of largely U.S. scrap. The spree boosted prices by \$4-8 per tonne, but the gain was short-lived. Then, after a week or two on the sidelines, Turkish mills again began to nibble. But with one eye on the \$77 nosedive for factory bundles, their price offerings were as much as \$60 below the prior export market, a level at which few U.S. scrap yards showed any interest. For the remainder of May, uncertainty clouded the U.S. scrap market until, in the final week of the month, four late auctions of factory bundles recovered about one-fifth of the earlier \$77 price decline.

Iron Ore. Elsewhere on the materials front, India seems to be having second thoughts about the \$7.30 per tonne export tax on iron ore it started levying three months ago. This unexpected price boost has not set well with buyers in a number of major steel producing countries,

including China. While the Indian government has not yet acknowledged a problem with the tax, some observers see heavily socialized India getting a lesson right out of Adam Smith on the relationship of pricing and demand.

STAINLESS STEEL

Pricing & Production. Biggest non-surprise of the month: flat-rolled stainless steel prices rose again. This time the kickoff came from AK Steel, one of the stainless Big Three. On May 2 the company announced higher surcharges on nickel and chrome content, with the add-on for Type 304 climbing 9.8% to \$2.2072 per pound, Type 316 to \$3.2904 (+7.8%) and Type 321 to \$2.4653 (+9.6%). Four days later North American chimed in and the day after that Allegheny Technology joined the parade, both adhering closely to the AK pattern of percentage increases.

Despite or perhaps because of higher stainless prices, 2007 growth in both consumption and production will likely increase more slowly than they did a year ago. According to the International Stainless Steel Forum, worldwide stainless production will reach 29.8 million tonnes this year, up 5.1% from 2006. By contrast, last year's output topped 2005 by 16.7%. As has been the pattern for several years, Asian mills will account for well over half of the global output with production forecast to rise 11.8% to 16.9 million tonnes. By contrast, U.S. production is expected to slip 3.4% to a modest 2.9 million tonnes.

Raw Materials. Lofty and/or escalating prices of alloying metals continue to push stainless prices higher, with no permanent relief in sight. The three-month nickel contract on the London Metals Exchange closed on May 1 at \$49,300 and finished the month at \$47,700. May saw the usual price fluctuations, with spot nickel on the LME peaking at \$54,000 before settling back. Ferrochrome, widely used in producing some stainless types, has risen from 80-85 cents per pound a few weeks ago to 92-98 cents per pound at mid-May.

Labor Relations. Conditions have improved sharply at CVRD's Goro mining complex in New Caledonia in the South Pacific, so much so that management has announced a start date for operations. According to a recent statement, the company will spend some \$3.2 billion to get the mine on stream, and production is expected to start some time in late 2008. When running at capacity, the plant is scheduled to produce 60,000 metric tonnes of refined nickel annually.

Prospects remain considerably less sanguine for CVRD's huge Inco facility in Voisey's Bay, Newfoundland. The strike that started in late April involves two groups of workers employed not by CVRD Inco, the mine's operator, but by contractors reporting to mine management. Soon after the walkout began, Inco started bringing in replacement workers, as is its right under the contracts. But the strikers haven't seen it that way and scoff at CVRD's claim that the walkout is an issue between the contract workers and their employers, the contractors.

Toward the end of May the dispute turned ugly, and the mine was forced to close for several days. This step was taken after what the company describes only as an "incident" which may or may not have been threatening to the life of one or more strikers. Whatever it was, the episode further soured labor relations, especially when a union official referred to the replacement workers as "scabs" and threatened to not handle "scab ore" delivered to other refining sites.

By the end of May negotiations were continuing, but no settlement was in sight. So far the action has not even slightly dented nickel production either in Canada or North America as a whole. But if the labor action spreads to other plants owned by CVRD or its allies, that might change in a hurry.

COPPER

Prices. To see what's happening in copper prices, one has to ask just two questions: (1) How are labor relations at the mines? and (2) What is China doing? On both counts May started in a very bullish price climate. A national strike of Peruvian mine workers was idling some 22,000 members of 74 unions, and China was gobbling up cathode and copper and brass scrap with its usual voracity. As a result, the price of the red metal, which opened on May 1 at \$7,770 per tonne was moving up fast. By the May 4 the London price had blown through the \$8,200 and \$8,300 resistance levels and was threatening to set an all-time high. But by the 7th all but two of the Peruvian walkouts were settled and the remaining two posed little or no threat to global supplies.

Still, the red metal's bull run might have continued as long as Chinese buying of both scrap and cathode maintained their brisk pace. But then it turned out that at least one cathode buyer was getting too much—way too much—of a good thing. This importer, one of the largest copper buyers in China, has a long term contract with offshore vendors to purchase 20,000 metric tons *per month*, a prodigious quantity even for China. Around ten days into May word leaked out that this firm was acting like a nervous bookie on Derby Day, laying off at least a quarter of its incoming copper to other destinations. This action took the form of transshipments to brass mills in Taiwan and South Korea and also to Korean LME warehouses—all of it *with no markup whatever* on the forwarded goods. When word of this embarrassment leaked out, the spot market quickly lost its appeal as buyers took their business to the up-to-the-ears-in-copper importer. And not surprisingly, other Chinese importers quickly slammed shut their order books.

Soon after all this started, copper prices headed south. From a high of \$8,325 early in the month, the mid-month price fell through the downside “resistance” levels of \$7,600 and \$7,500, and when the dust settled copper was trading at \$7,272. It recovered only to \$7,560 by the end of May.

What comes next? Nothing that happened in May changes the fact that China is going to be a major factor in the copper market for as long as anyone can predict. The government still has very ambitious plans for construction and rural electrification, and both of these depend heavily on copper. Thus, the question isn't whether China will resume its accustomed level of cathode and scrap purchases, but when.

RESINS

Plastics Technology (PT), the leading magazine in the resin field, reports that prices are on the rise in most product sectors. While domestic demand remains moderately strong, exports are

booming. Additionally, higher prices are being driven by rising monomer and feedstock costs which, in turn, reflect a crude oil market consistently in the \$60-plus per barrel range. Items:

Polyolefins. Polyethylene prices went up 4 cents a pound—7 cents for high-density formulations-- in May with little buyer resistance, and another 5-cent hike is expected this month. In addition to monomer prices and exports, the increases are supported by thin inventories in processors' plants. Polypropylene prices went up 4 cents in May and are closely tracking monomer prices, expected to increase again in June.

Polyesters. After a 2-cent price increase in May producers have asked for another 4 cents this month. Processors are running at 90%-plus of capacity, creating a climate favorable to higher charges.

Polyvinyl Chloride. Hard hit by a fall-off in home building, PVC producers have had little success increasing prices. Demand from window frame producers and small-diameter pipe extruders is slack, and even the large-diameter pipe market for infrastructure work appears to be losing traction.

Polystyrene. Both monomers for this resin, ethylene and benzene, have had major price increases recently, and a 5-cent May hike in this resin caused little stir. Producers may test the market with another price announcement before month-end.

Other Thermoplastics. Between May and early June, 8-cent increases went into affect in a broad range of nylons, ABS, and some styrenics. One major supplier boosted its polycarbonate products by 12-cents per pound.

Producer Price Indexes appear 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 produced.

	Latest 04/07	Previous 03/07	Year Ago 04/06	Yrs Ago 2 04/05
PIPE, VALVES & FITTINGS:				
Copper & copper-alloy tube	319.4	264.0	246.2	143.8
Steel pipe & tube	167.6	166.5	160.0	163.8
Plastic pipe and fittings	195.4	194.4	214.5	160.5
Industrial valves – metal	169.4	168.8	153.5	144.7
PLUMBING FIXTURES:				
Vitreous china fixtures	103.6	103.6	101.3	99.0
Fixture fittings & trim	223.8	224.0	206.2	198.7
HVAC EQUIPMENT:				
Warm air furnaces	129.2	128.1	116.8	115.6
Unitary air conditioners	139.0	140.1	134.4	136.4
Cast iron heating boilers	131.3	132.0	124.4	120.5

NOTES: 1) Sources: Bureau of Labor Statistics, US Department of Labor; compiled for the American Supply Association. 2) Data for 2007 are subject to revision.

TUBULAR IMPORTS FLOOD AROUSES CONGRESSIONAL WRATH

As noted above (p.2), prices on oil country tubular goods have continued to erode despite strong demand and near-capacity operations of the U.S. oil and gas drilling industry. Initially the market weakness was attributed to excess distributor inventories. But there is now conclusive evidence that a flood of OCTG imports, especially from China, accounts for the ongoing weakness in what should be a boom market.

Drill pipe and casing are merely the latest tubular products to be impacted by imports from China and elsewhere. For several years U.S. pipe and tube mills have experienced severe competition from their Chinese counterparts, often amid allegations of unfair and/or illegal trade practices. In several instances U.S. producers have sought relief through the U.S. International Trade Commission, an arm of the Department of Commerce. But even when the commissioners have found for the domestic industry, the White House—as is its power under existing law—has vetoed relief in the form of countervailing duties. Such action reflects the president's strong convictions regarding free trade as an engine for global economic growth.

Under the rules of the World Trade Organization, when a bilateral trade dispute cannot be otherwise settled, the two disputant nations are to hold twice yearly discussions to settle their differences. In keeping with its free-trade commitment, the White House dutifully sent a delegation headed by Treasury Secretary Henry Paulson and U.S. Trade Representative Susan Schwab to talk with the Chinese. They got exactly nowhere and were widely criticized for what one source described as “their timid, cookie-pusher approach” to negotiation.

The second round of this so-called Strategic Economic Dialogue took place last month. Just before it opened, 58 members of the Congressional Steel Caucus addressed a stern letter to Ms. Schwab on behalf of the U.S. tubular industry. The Caucus noted that American pipe and tube mills had spent heavily to improve efficiency via reequipping and retooling their plants. But these efforts came to naught when Beijing imposed new and heavy export taxes on no fewer than 83 steel and steel-related products but *exempted pipe and tube exports* from the tax. Additionally the Beijing government kept in place a 13% *export tax rebate* on its outgoing tubular goods, a subsidy which the Caucus characterized as a “direct incentive to the Chinese pipe & tube industry to export its products.” The Caucus letter also accused the Chinese of “explicitly targeting producers and workers of the [U.S.] pipe and tube industry.”

When the second meeting of the Dialogue got under way in Washington, cookie-pushers were in the minority. To be sure the opening statement by NAM president John Engler was conciliatory to the point of apology, but what followed was quite different. Scott Paul, a top executive of the Alliance for American Manufacturing let fly, describing the session as “proving to be nothing but a talkfest” and enumerating his view of the real trade issues: “Illegal dumping and subsidies, currency manipulation, violations of labor rights, and lax or nonexistent environmental enforcement.”

Two spokesmen for the U.S. Business & Industry Council continued in the same tone. The first characterized the talks as a “cynical Bush administration exercise in spin and PR” and called on Congress to take charge and impose “sanctions against China’s predatory trade policies.” A second USBIC spokesman urged scrapping of the Dialogue altogether, calling it an attempt to “fool the American people.”

Just before the Washington meeting got under way, 42 members of the bipartisan Congressional Steel Caucus filed a “Section 301” complaint against China for currency manipulation. The action requires the U.S. Trade Representative (Ms. Schwab) to determine whether China has violated its trade agreement with the U.S. by habitually manipulating the value of the yuan vis-à-vis the U.S. dollar. If her finding is positive, she is required to lodge a case with the World Trade Organization. If an appeal goes to that forum, its adjudication process will most likely require well over a year before any settlement is forthcoming.

Ed Scott, Editor

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