ASA MATERIALS MARKET DIGEST
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MARKET OVERVIEW

Carbon Steel. U.S. mills continue to operate at 88-89% of capacity and, excepting for steel service centers, demand is strong. Steel price increases are still commonplace and meet little or no buyer resistance. Scrap costs continue to escalate, especially in the better grades such as bundles and busheling. U.S. exports of ferrous scrap are at record levels, in large part because of scrap "hoarding" via export taxes in countries that would otherwise be scrap exporters.

Tubular Goods. Stimulated by the still high cost of crude, U.S. rig counts remain at the near-record level of 1,900-plus sites. With the oil and gas industry in high gear, and some hope for offshore drilling, the OCTG market in the U. S. is booming. In the last month alone three new companies have announced construction of OCTG and/or line pipe manufacturing facilities in the U.S. On the international trade frontier, the U.S. Department of Commerce and International Trade Commission have intensified their crackdown against illegally imported OCTG and tubular goods, most of it from China.

Copper. Over the past month the LME price of copper has fallen from a near-record $8,940 per tonne to $7,858. This $1,000 drop reflects weak demand in the U.S. housing market as well as some strengthening of the U.S. dollar. Copper scrap prices also fell during the month, the result of lower cathode tags and a hiatus in Chinese buying during the Olympics.

Stainless Steel. The over-all stainless steel market performed sluggishly during July. The slump in home building has hit the appliance market hard and is particularly damaging to the stainless steel sector. With demand for stainless steel slack, the LME price of nickel has fallen from $21,825 per metric ton to $18,400, roughly one-third of the price in May 2007.

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Resins. Prices have been rising rapidly to what a major plastics publication terms "scary levels." Unlike previous boom times in resins, the current price increases are driven not by demand but by soaring costs of feedstock, energy, transportation, etc. In one product sector, polystyrene, four producers each implemented not one but two rate increases in the same month.

CARBON STEEL

OPERATIONS AND PRICING. *Operations.* Raw steel production in U.S. mills remained at operating rates in the high 88-89%. In one July week, production peaked out at 2.142 million tons, the highest pour since May 17. For the year to date, production was 62.84 million tons, 2.4% ahead of the same period in 1987.

Notwithstanding brisk mill production, steel service centers continue to experience sluggish demand and have trimmed their stock levels accordingly. June shipments for the centers came to 4.2 million tons, 4.3% below volume for the comparable 2007 month. In light of the slow pace of incoming orders, most centers have kept inventory levels down. In July, for example, aggregate warehouse stocks of 12.9 million tons represented a 7.3% decline from the same date last year.

A recent survey of service center operators suggests little inventory build-up any time soon. According to this poll, 82% of the respondents consider their inventories to be adequate and 56% of those answering the survey see their stock levels remaining flat for the near term. Thirty-six percent expect their stock levels to fall.

Pricing. In steelmaking circles there continues to be widespread talk of a leveling-off in steel prices. But the hard evidence points elsewhere, and new price announcements continue to appear regularly. Items:

- Early in July *American Metal Market (AMM)* reported that two major steel firms, U.S.S. and ArcelorMittal were readying flat-rolled price increases in the $40-60 per ton range. The boosts are expected to be announced prior to September 1. When in effect the increases will lift the going rates to $1,160-1,120 for hot-rolled sheet, about $80 more for cold-rolled, and galvanized at $1,300.

- Not waiting for Big Steel to be heard from, AK Steel has led the charge, announcing a $50 increase across-the-board for flat-rolled products. As in the case of most other mills, AK cites soaring scrap costs as necessitating higher flat-rolled charges.

- Also heard from was a senior official of Nucor, confirming rumors of a $40 boost effective August 31 through September 30. The company's spokesman noted that demand is strong in the energy, transportation, heavy equipment and overseas market sectors, and that Nucor has "every assurance" of selling out September production.

- With the flat-rolled market a little softer on the West Coast, the major mills serving that region have been more cautious in pricing. Midway though July, USS-Posco announced that it was trimming previously published price increases by half. This move will reduce the boost for hot- and cold-rolled sheet by $30 and galvanized by $50.

RAW MATERIALS. *Ferroalloys.* As the result of weak demand for stainless steel, ferrochrome prices have fallen a notch. Quotes for high-carbon FeCr fell from $2.36-2.42 per pound to $2.30-2.40, and higher grades of the alloy are down proportionally.

Ferromanganese, a key alloy for carbon steel, has been in tight supply because of severe power shortages in South Africa where much of this material is produced. South Africa's nationwide power blight has forced industrial plants to operate on shortened hours and sometimes to shut down because of rolling blackouts. Now the South African power monopoly has announced plans for a sweeping expansion and update of the power grid to the great benefit of the region's ferroalloys producers.

Ferrous Scrap. The price gap between premium grade ferrous scrap (factory bundles and busheling), and lesser varieties such as No.1 heavy melt and shredded scrap, continues to widen. Currently the differential is $250, but some market sources talk of it going to $300 or perhaps even more.

Whatever the spread, U.S. scrap exporters have enjoyed a banner year in 2008. May shipments hit an all-time record of almost 2.5 million tonnes. And for the first five months of 2008, U.S. exports have totaled 8.64 million tonnes. Major contributors to this outflow are South Korea (407,000T), Turkey (381,000T), Taiwan (365,000T) and China and Canada, (both 200,00T plus).

The recent surge in U.S. scrap exports is largely the result of a growing practice commonly known as "materials hoarding." In this process, governments impose heavy export taxes on ferrous scrap and other raw materials they consider to be strategic. The taxes add heavily to the selling price of the "protected" materials and tend to restrict materials purchases to domestic buyers. According to the American Scrap Coalition, such restrictions are in effect in more than 25 countries including Russia, China, India, Pakistan and Vietnam. Thus far the U.S. government has taken no position on this issue.

TUBULAR GOODS

Throughout July and into August, the U.S. rig count remained above 1,900 and hit a July high of 1,957 active sites. Also in July the Canadian count increased from 356 rigs to 435. It is generally accepted that these counts will remain strong even if and when crude oil prices decline to more rational levels.

Whatever is powering the current drilling boom, it is attracting almost as many pipe makers as tool pushers. Toward the end of July one of China's major producers of oil country tubular goods (OCTG) has announced its intention of building a plant to service the Houston area. In typical oriental reticence, the manufacturer has released no information on the proposed facility's exact location, the number it will employ, or the products to be produced.

Also announcing plans to build a manufacturing facility in the U.S. is a Mexican firm, Prolamsa. While particulars of the project have not yet been released, the market opinion is that the firm will concentrate on line pipe, especially large diameter products suitable for long-distance pipelines for natural gas, water and crude oil. Also in the parade is Northwest Pipe, a long established OCTG producer. This firm plans to move an idled production line now located in Washington State to Texas, currently a red hot market for OCTG and line pipe buyers.

The U.S. Commerce Department's International Trade Commission (ITC) has intensified its crackdown on trade abuses by Chinese exporters to the U.S., especially those involving tubular goods. Imported products under scrutiny range from large-diameter line pipe to OCTG and standard steel pipe used in plumbing, spriklering and other small- to medium diameter applications. Thus far the ITC has levied anti-dumping and anti-subsidy (countervailing) duties on close to 50 exporters from China and elsewhere. But in recent months some Chinese exporters have by-passed U.S. customs by transshipping their exports to an intermediary country such as Mexico. Evidence of this practice is found in sharply reduced Chinese exports to the U.S., and correspondingly more volume shipped from Mexico to the U.S.

Despite such trickery, the ITC's efforts are paying off richly. One expected benefit of the crackdown is a sharp cutback in distributor purchases of imported OCTG and other tubular products. Even though the proffered products may be cheaper, would-be buyers hesitate for fear that they are buying goods liable to duties, an add-on charge that could make for a very costly tubular goods "bargain."

COPPER

Price Patterns. The following table shows the price per tonne of copper on the London Metals Exchange.

Open (July 1)	$8,550.00
High (July 3)	$8,940.00
Low (July 30)	$7,858.00
Low (July 30)	$7,858.00

The peak prices seen in the early part of July reflected several factors—the weak U.S. dollar, speculative buying in light of surging crude oil quotes, and looming labor problems in Latin American copper mines. When the LME price fell more than $1,000 per tonne, the same factors were at work, but in reverse: some strengthening in the dollar, some cooling of speculative ardor and little labor support for the Peruvian strikes (see below).

Labor Relations. As noted above, the threat of multiple strikes in Peruvian mines contributed to fears of tight supplies in copper markets. But as reported by *AMM,* the walkouts have thus far been a fizzle. At the outset of the job action, the union claimed that 30,000 workers had hit the bricks. But according to management tallies, the number of strikers is only 10% of the union's claimed amount. Market sources were already predicting an early settlement by press time for this edition.

If the Peruvian strikes remain as brief as many expect, Grupo Mexico's Cananea strike in Sonora is the flip side. Having started on July 30, 2007, the walkout is now more than a year old. And prospects for a settlement are as dim today as when the miners hit the bricks over issues that have long since given way to other grievances. Over the past year there have been repeated efforts by government mediators and the company to settle the job action, but none has proved effective. The contending parties are at an impasse; no negotiations have been scheduled or are likely. And the only activity addressing the strike involves periodic mass demonstrations by the strikers, efforts by the company to have the strike declared illegal, and a gratuitous presence of the United Steel Workers in support of the strikers.

Copper Scrap. July prices for the copper scrap market closely paralleled the pricing pattern of refined copper over the same period. As trading for the month opened, No. 1 ingot maker's copper scrap was quoted at $3.55-3.60 per pound, a lofty price by historical standards. From that level the price was quickly bid up to $3.66-3.67, but not for long. Two weeks into the month scrap prices started to weaken, initially to $3.40-3.47 but by month-end the price was down to $3.25-3.30.

What caused this sharp drop? The principal factor was the nosedive in metallic copper. Exchange trading in scrap copper is typically geared to the refined metal. Thus, when the LME price for refined copper fell from $8,940 to $7,858, a 12.1% nosedive, it was no surprise that No. 1 scrap was off 11.2% over the same period.

Additionally, Chinese buying of scrap copper was all but non-existent in July. Normally China is the No. 1 buyer of U.S. copper scrap exports. But early in July the U.S. dollar gathered a little strength, and the costlier greenback drove Chinese buyers to the sidelines. To further impair Chinese scrap purchases, Beijing ordered smelter shutdowns in an effort to improve the ghastly air pollution normal to many of this year's Olympic venues.

In other copper news, Mueller Brass appears to be riding out the housing slump with minimal damage to its financials. The company's first-half gross sales totaled $1.257 billion, modestly down from the year-ago total of $1.382 billion. Earnings for the period slipped from $55.3 million to $54.4 million. And as of midyear Mueller had working capital of $661 million, $274 million of it in cash.

STAINLESS STEEL

In July nickel prices continued to slide, as the following figures show. (Amounts shown are dollars per metric ton (tonne) as traded on the London Metals Exchange.)

Open (July 1)	$21,825.00
High (July 2)	$21,950.00
Low (July 28)	$18,355.00
Close (July 30)	$18,400.00

These figures represent roughly one-third of what they were in May 2007. Those peak prices of 14 to 15 months ago reflected heavy speculative buying, a pricing factor that has now essentially vanished. Current nickel prices largely reflect supply and demand. The ongoing decline in nickel prices results primarily from slack demand in the face of the housing slump and especially the appliance and kitchen sink sectors. Interestingly, the plunge in nickel prices occurs at a time when a number of major nickel mines are coming on stream, including those in Russia, New Caledonia, Australia and Guatemala. At none of these sites has there as yet been any move to curtail production.

In addition to lackluster demand, U.S. fabricators are now dealing with quality problems in imported stainless steel sheet shipments, especially those from China. According to a report by *AMM,* some importers have been told by their customers that they will no longer accept Chinese sheet. According to one trader, recipients of Chinese stainless sheet question whether the product was made with illegal Cuban nickel. Others in the import business argue that quality is a common problem with imports from China and that buyers must be selective in the sources with which they deal.

In early July two members of the stainless steel Big Three announced price reductions—and increases—over a broad range of stainless formulations. AK Steel's price reductions, effective for August deliveries, cover Series 200 and 300 flat-rolled products. Typical surcharge changes include: 11.3 cents per pound reduction for Type 304, reducing the price to $1.4742; Type 316 down 13.21 cents to $2.3441 per pound and Type 201 down 4.14 cents to $1.5139. The new price sheets also show a surcharge *boost* on Type 430 of 2.89 cents to 66.24 cents. Concurrent price announcements for North American Stainless Steel are roughly comparable, as are the new prices announced by Allegheny Technologies a day later.

RESINS

At a time where there's talk of a leveling off in base metals pricing, resin price tag increases are reaching what *Plastics Technology* describes at "scary levels." The publication adds that most of the current price hikes have nothing to do with supply or demand, but reflect, to quote PT, "underlying costs of feedstocks, energy, transportation and even packaging." Following are some partyiculars:

Polyethylene. Through June PE resins are up 16 cents per pound, but that seems to be just a warm-up. PT advises that also ready to hit the street are two additional hikes totaling 15 cents.

Polypropylene. Resin prices hit double digits in early July when producers socked it to their customers with a 15-cent boost plus a 2-cent transportation surcharge. The 17-cent price hike comes at a time when demand is weak and some extruders are cutting back production and trimming inventories.

Polyesters. Prices rose 10 cents or so in this year's second quarter, and another 10-cent increase is likely before fall.

Polyvinyl Chloride. At a time when the housing slump has PVC on the ropes and consumption for pipe resin down is 20.7%, suppliers were still able to post increases in the 8-12-cent range.

Polystyrene. During a single month, three PS resin producers each managed to each implement not one but two price increases. The one-two punch raised the resin price by 12-14 cents.

Gel coats. Four major suppliers of gel coats, vinyl esters, and unsaturated polyesters posted increases running from 8 to 12 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 processed.

	Latest 06/08	Previous 05/08	Year Ago 06/07	2 Yrs Ago 06/06
PIPE, VALVES & FITTINGS:				
Copper & copper-alloy tube	314.7	341.8	314.3	368.6
Steel pipe & tube	220.0	209.4	169.1	164.2
Plastic pipe and fittings	212.6	207.7	198.6	209.5
Industrial valves – metal	183.3	181.6	172.6	159.2
PLUMBING FIXTURES:				
Vitreous china fixtures	95.4	95.4	103.5	101.3
Fixture fittings & trim	235.5	235.3	226.3	210.0
HVAC EQUIPMENT:				
Warm air furnaces	128.9	127.9	126.4	117.2
Unitary air conditioners	149.1	149.3	140.3	134.4
Cast iron heating boilers	137.2	137.2	131.2	124.4

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