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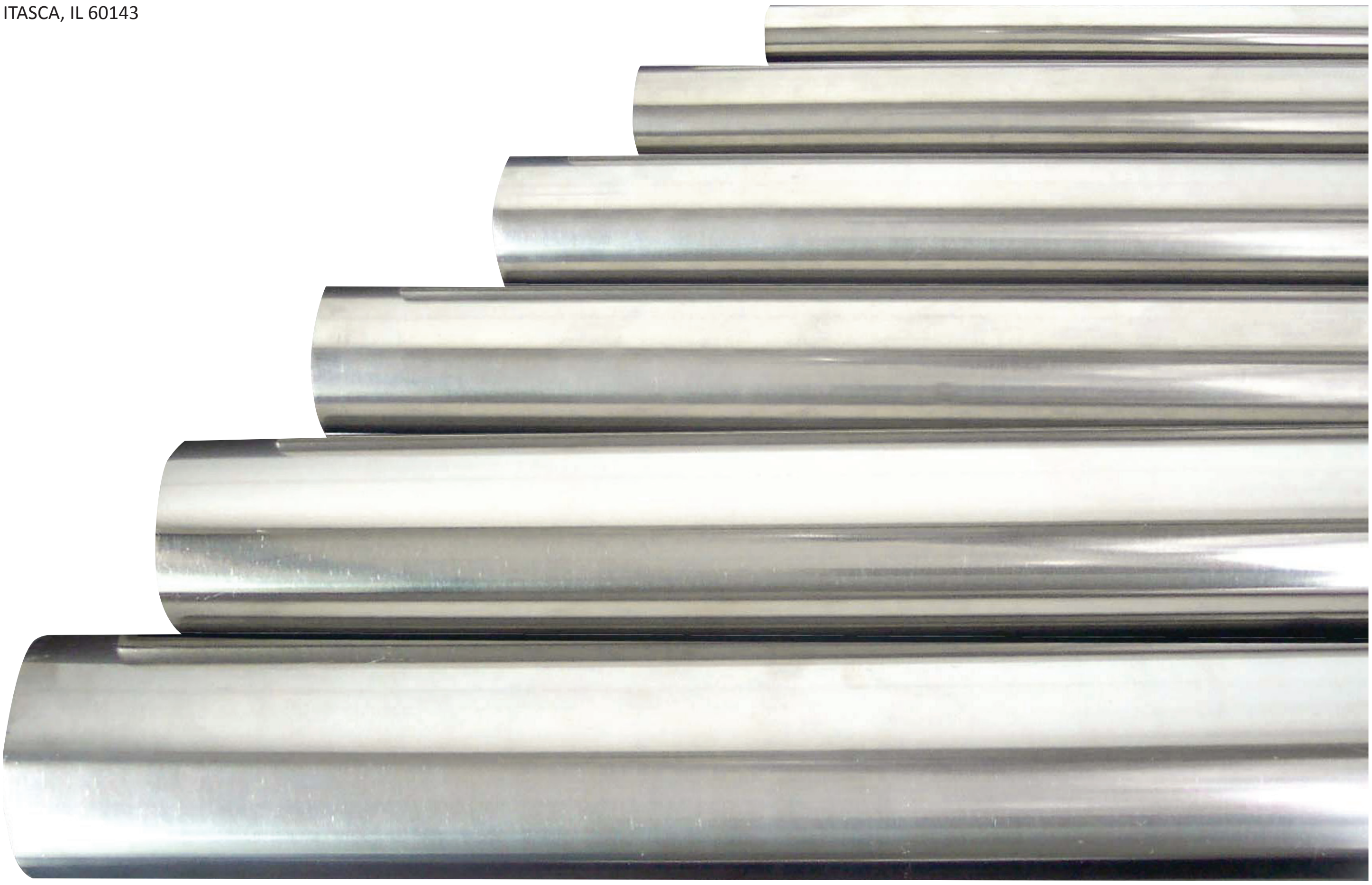

ASA MATERIALS MARKET DIGEST

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ROUTE TO

In the Spotlight

Heading into 2012, the U.S. economic picture looks brighter than it has in quite some time. Employers are hiring a bit more, home prices and home building are inching up, and the Dow seems to be stabilizing above 12,000 after months of hovering below that benchmark. Most economists are predicting GDP growth of around 3.5% for the 4Q11, which would be the highest since 2Q10, although modest in relation to the depth of the preceding recession. Moreover, steel price increases enacted by major steel producers and distributors beginning in late November seem to be taking hold.

In case you missed the December edition of this monthly report, November marked the 19th consecutive month of sales growth for ASA members. Sales were up 9.1% YTD and 8.1% on a rolling 12-month basis. PVF distributors reported a whopping 13.5% increase in November sales compared with a year ago.

So, what's not to like? Well, all those hedge words – "a bit more … seems to be … inching up … still modest." The incremental economic gains just cited do not mark the kind of robust recovery that typically follows a steep recession. Greater growth is required just to get back to where we were in mid-2007. Plus, the EU's interminable crisis continues to haunt the global economy. Geopolitical tinderboxes ranging from Iran to Pakistan to North Korea could ignite at any time. The U.S. federal budget is still way out of whack, and most of our politicians continue to see and hear no evil about it.

But, enough about all that. Let's welcome the New Year by hoping, praying, crossing fingers and choosing to believe we are at the beginning stages of a recovery that will intensify throughout 2012.

Carbon Steel

Driven by rising sales of autos and drilling equipment, U.S. service centers shipped 3.3 million tons of steel products in November 2011, an increase of 10.6% from November 2010, according to the *Metals Service Center Institute*. Year-to-date steel shipments increased 15.0% from the same period in 2010. Steel product inventories were up 11.3% over November a year ago, although dropping 3.3% from October. That may be a sign of growing activity, although some analysts believe it may instead reflect reluctance on the part of steel distributors to place orders until they see whether recently announced price hikes stick. In any case, the week before Christmas saw U.S. steel producers achieve their highest raw steel output in more than three years. Obviously, something good is happening within the U.S. economy.

Cost-driven price hikes of up to $150/ton by certain steel producers are meeting less resistance than many analysts had figured thanks to surging demand. It's believed that many more producers will goose pricing now that the path has been cleared. According to *MEPS*, one school of thought holds that this will entice more foreign imports, which, in the longer run, will tend to drive prices back down.

Steel imports dropped 10% in November, but were up a whopping 19.9% YTD, the *American Iron & Steel Institute* reported. The Commerce Department reported that steel import license applications declined 9.5% in November from the prior month.

Stainless Steel

Price hikes are the way various stainless pipe and tube suppliers are celebrating the New Year. Bristol Metals, RathGibson, Marcegaglia USA, Felker Bros. and Outokumpu Stainless Pipe are among companies that recently sent out notices to customers of cost-driven price increases ranging from 5% to 15% depending on the product.

They may be bucking headwinds from global overcapacity. The price of nickel has plummeted over 28% this year and is expected to be in surplus again in 2012. This has led *MEPS* to predict a wave of global consolidation among stainless producers "sooner rather than later."

The U.S. International Trade Commission has kept duties in place for ASTM A-312 welded stainless steel pipe from South Korea and Taiwan in its third five-year review. Separately, the ITC issued an administrative review of its anti-dumping duties on stainless butt-weld fittings from Italy citing little import activity.

Tubular Products

The boom in shale-driven OCTG has made for a fascinating case study in demand-supply economics. Energy pipe product shipments were up more than 24% during the first 10 months of 2011, and prices generally were on the rise, as one would expect. Yet, this has enticed so many new players into the market that producers are having trouble making recent price hikes of $50-150 a ton stick. Among companies recently announcing price increases for various OCTG products were AK Tube, Hanna Steel, Southland Tube, American Tubular Products, Atlas Tube, Hannibal Industries, Western Tube & Conduit and Mariuchi American. Recent reports from Tulsa's Price Logix Inc. suggest that seamless alloyed pipe products widely used in shale projects are generally on the rise, but welded carbon steel pipe is under downward pressure.

New tubular expansions in the U.S. include:

- **SPX** recently opened a $300 million pipe mill for the oil and gas sector in Tunica, MS. The Tunica plant makes 8-24 in. seamless pipe with a second phase planned to add diameters up to 32 inches.
- A $57 million investment by **Vallourec** is planned for a new threading facility in Youngstown, OH for premium OCTG pipe products used by shale drillers. Operated by its VAM USA subsidiary, the first line is expected to be in operation by mid-2012.

Canada's Lakeside Steel is building a new casing mill as well as end-finishing and heat-treatment facilities in Thomasville, Alabama, and recently opened its U.S. headquarters in Houston. Last June, Lakeside acquired a threading facility in Corpus Christi, TX.

U.S. Pipe & Tube Imports					
Landed duty-paid value (in $1,000s)					
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	6,413,958	8,213,295	28.1%	-0.3%
Carbon Seamless Tubular Products (Other than OCTG)	1,012,488	786,058	1,605,643	104.3%	-18.5%
Carbon Seamless OCTG	2,044,587	1,688,523	2,144,208	27.0%	6.1%
Welded Tubular Products (Other than OCTG)	2,322,697	2,067,172	1,903,389	-7.9%	-24.5%
Welded OCTG	1,133,582	949,219	1,330,470	40.2%	69.5%
Flanges, Fittings & Tool Joints	903,231	721,198	1,008,365	39.8%	17.2%
Stainless Seamless Tubular Products	638,731	516,407	749,656	45.2%	45.2%
Stainless Welded Tubular Products	376,010	309,533	368,202	19.0%	-7.2%
Stainless Flanges, Fittings & Tool Joints	367,963	299,014	444,227	48.6%	6.4%
Source: U.S. International Trade Commission/U.S. Department of Commerce					

Copper

Copper prices will rise by 7% in 2012, according to *The Economist* magazine in its annual "The World in 2012" forecast issue published in December. Further, new pricing levels will set all-time highs driven by the need to make up for supply disruptions in 2011 and a persistent global supply deficit.

In the here and now, copper prices have stabilized in recent weeks trading in a range from $3.35-3.40 a pound, which may be due to holiday season doldrums as much as anything else. The recent uptick in housing construction, if it doesn't prove to be an aberration, could spark a surge in pricing, although nobody expects $4 a pound copper any time soon.

Copper and brass service centers are among those that foresee pretty much the same market behavior in the near future, according to a November survey of members by the *Copper and Brass Servicenter Association (CBSA).* Two-thirds of service center respondents said they expect incoming orders to remain about the same over the next three months, with only 4.8% predicting increases. Suppliers were more optimistic, with 23.1% seeing orders as picking up in the next three months.

Subtract 4.7 million pounds from U.S. copper demand. That's the estimated savings from the Obama Administration's recent decision to do away with production of dollar coins. The coins are about 89% copper with smaller mixtures of zinc, manganese and nickel.

Scrap Markets

Like demand in general, copper scrap markets pretty much were at a standstill in December, various market sources reported. Exports were said to be a little bit better, though the largest buyer, China, also showed signs of slowing down purchases due to rising prices and sluggish demand. Scrap dealers are hopeful of improvement after the traditionally slow month of January, though that might be based as much on wishful thinking as economic trends.

Global ferrous scrap prices were on the upswing in December, according to *MEPS*. The UK-based metals tracking firm cited price growth during December in 12 of the 13 markets surveyed with particularly sharp pricing in the U.S., although varied by region. Exporters on the East and West coasts were said to be doing the best thanks to orders from the Pacific Rim and Turkey.

Seven counties in Georgia have banded together in ***Operation Scrapbuster,*** an initiative aimed at applying existing laws to crack down on metal thieves.

Plastics

Resin prices generally have bottomed out, with the exception of PVC and ABS, reports *Plastics Technology* magazine. But, further price declines are forecast in this first quarter for PVC, nylons and PC driven by slowed global demand, oversupply and reduced feedstock costs.

For the most part, recycled plastics have also dropped in price. Recycled HDPE has held up better than most with increases predicted for the first quarter, if present conditions hold.

News of Note

MRC buys Aussie PVF distributor. McJunkin Red Man Holding Corporation (MRC) announced on Dec. 21 that it has signed an agreement to acquire the operations and assets of OneSteel Piping Systems (OPS), based in Sydney, Australia, for $67.7 million. Effective as of closing, OPS will operate as "MRC Piping Systems Australia." MRC's combined Australia pro forma 2011 revenue will be in excess of $250 million with approximately 365 employees in 20 sites and $70 million in inventory.

Georg Fischer acquires Harvel Plastics. Georg Fischer said it has agreed to acquire industrial plastic pipe maker Harvel Plastics for $50 million. Harvel, with annual sales of around $60 million, makes PVC and CPVC pipes for industrial applications, mainly water treatment and chemical processes. Fischer's GF Piping Systems subsidiary is a global supplier of plastic piping systems for industrial, building technology and utility applications.

Buyer eyes Lakeside Steel. Canada's Lakeside Steel Inc. announced on Dec. 20 that it has executed a non-binding letter of intent with a strategic purchaser regarding an offer to acquire all of the company's common shares at $0.40 cash per common share for a total of some $75 million. The proposed offer is subject to certain conditions, including the completion of due diligence by no later than Jan. 9, 2012.

Construction materials prices edge down. The amount contractors pay for a range of key construction materials edged down 0.1% in November but climbed 6.2% from a year earlier, according to an analysis of producer price index figures by the *Associated General Contractors of America (AGCA)*. Ken Simonson, chief economist for AGCA, said that the index for copper and brass mill shapes, which reached record levels earlier in the year, sank 2.3% in November and 7.7% year-over-year. Steel mill products also dropped in price for the month, by 1.1%, but rose 13% from a year earlier.

Manganese shortage looms. In an exclusive interview with Zig Lambo of *The Critical Metals Report,* J. Peter Zhang, JF Zhang Associates' Principal Consultant and Chief China Strategist, said North America needs to develop a domestic electrolytic manganese metal supply. The U.S. Department of Defense named manganese a strategic metal 30 years ago, but China dominates the global production of electrolytic manganese with 98% of production and may soon enact export restrictions similar to those imposed on other rare earth metals.

Producer Price Index - Key Industry Products					
					% Change
Pipe, Valves & Fittings	**Product Code**	**Oct. 2011**	**Nov. 2011**	**% Change**	**Nov. 2010**
Metal valves, except fluid power	1149-02	268.6	267.4	-0.4	6.9
Gates, globes, angles, and checks	1149-0201	304.9	306.5	0.5	2.5
Ball valves	1149-0202	302.3	300.1	-0.7	21.7
Butterfly valves	1149-0203	198.8	188.1	-1.4	-5.4
Industrial plug valves	1149-0204	212.4	212.4	0.0	8.2
Plumbing and heating valves (low pressure)	1149-0205	266.0	265.5	0.0	6.2
Solenoid valves	1149-0208	280.7	269.1	-4.1	7.1
Other industrial valves, including nuclear	1149-0209	243.7	244.5	0.3	6.7
Automatic valves	1149-0211	155.7	155.6	-0.1	6.2
Steel pipe & tube	1017-06	279.2	279.1	0.0	13.5
OCTG, standard, line pipe, carbon	1017-0671	115.9	117.4	1.3	0.0
Steel pipe & tube, alloy	1017-0673	107.0	107.3	0.3	0.0
Steel pipe & tube, stainless steel	1017-0674	106.8	106.3	-0.5	0.0
Metal pipe fittings, flanges and unions	1149-0301	295.5	287.9	-2.6	3.7
Copper & copper-base alloy pipe and tube	1025-0239	257.9	225.1	-12.7	-10.3
Plastic pipe	0721-0603	101.7	96.3	-5.3	3.3
Plastic pipe fittings & unions	0721-0604	131.6	132.6	0.8	10.1
Plumbing Fixtures, Fittings & Trim	**1054-02**	**276.0**	**276.0**	**0.0**	**3.6**
Vitreous china fixtures	1052	145.3	145.3	0.0	1.6
Bath & shower fittings	1054-0211	224.0	224.0	0.0	4.1
Lavatory & sink fittings	1054-0218	137.1	137.1	0.0	3.9
Miscellaneous brass goods	1054-0223	285.0	285.1	0.0	3.2
Enameled iron & metal sanitary ware	1056	199.9	199.9	-0.3	1.6
Steam & Hot Water Equipment	**1061**	**254.4**	**254.1**	**-0.1**	**4.8**
Cast iron heating boilers, radiators and convectors	1061-0106	161.5	161.5	0.0	6.1
Steel heating boilers, all classes	1061-0112	159.3	158.6	-0.4	1.4
Domestic water heaters	1066-01	324.2	179.3	0.5	2.9
Electric water heaters	1066-0101	308.1	308.1	0.0	1.7
Non-electric water heaters	1066-0114	203.6	203.7	0.0	1.0
Warehousing, Storage, & Related Services	**32**	**100.3**	**100.4**	**0.1**	**0.7**