
ASA MATERIALS MARKET DIGEST

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CARBON STEEL

OPERATIONS AND PRICING. Demand. When the current quarter got under way, the prevailing mood described by *American Metal Market* was “clouded with uncertainty.” The first quarter of 2010 had been dismal, with steelmaking kingpin U.S. Steel reporting an operating loss of \$157 million.

But the bleak outlook did not last for long. In a series of conference calls, leading steel executives told *AMM* that the industry’s steady recovery was continuing, albeit with some obstacles yet to be overcome. Most of the news is on the good side. Items:

- After a poor first quarter, U.S. Steel is forecasting profitable operations for all three of the company’s business segments. The expected improvement results largely from more profitable results in flat-rolled steel operations. Also contributing to the earnings gain was strong demand from the automotive market and extensive restocking by steel service centers.
- In its latest operations report, the American Iron & Steel Institute notes that raw steel production by American mills in the week ending April 17 was 1,755 tons., 1.4% ahead of the preceding week. For the year to date, U.S. mills have produced 27,083,000 tons of raw steel, 64% more than in the comparable period a year earlier.
- In the early months of 2010, the construction industry contributed little to the market for carbon steel. Home building was at a virtual standstill and commercial building was struggling to get off the ground. But the current quarter is proving to be a major improvement for both the residential and the commercial-industrial markets. Home building in particular is well into a recovery. It appears to be headed toward the brisk construction pace that prevailed before the recent recession. And on the commercial-industrial front, the American Institute of Architects is reporting substantial increase in its Architectural Billing Index.
- The World Steel Association, a prestigious analyst of the steel industry, reports that U.S. steel consumption in 2010 will be about 72.7 million tonnes. For 2011 the organization sees U.S. consumption of 78.1 million tonnes, 7.5% higher than in the current year.

Pricing. As April drew to an end, a number of steelmakers in the U.S. tried to get one more price boost—an extra \$40 boost—to finish up the month. But for the most part, the trade was having little or none of it. The prevailing mood among service center operators and other buyers was summarized by a quote printed in *AMM*: “ People eventually throw up their hands and say they can’t pay any more. We’re about at that point now.”

West Coast steel users were stunned recently when USS-Posco Industries(UPI) announced new pricing for flat-rolled products. Effective June 1 or possibly later, the company intended to hike prices \$100 (!) per ton. The measure was to apply to the firm’s principle flat-rolled products, cold-rolled and galvanized.

Soon after UPI announced its eye-popping new prices, its rival California Steel Industries (CSI), announced that it will increase its flat-rolled prices just \$50 to \$60 per ton, thereby undercutting USS-Posco substantially. But the proposed \$100 price tag apparently did not sit well with UPI’s customers. And news of the \$100 price tag “released a squall of protests.” The upshot was cancellation of the \$100 price boost and UPI’s reversion to the CSI alternative of \$60 per ton.

TUBULAR GOODS. *Production.* While offshore oil and gas drilling has been troubled of late, hydrocarbon production in the Oil Patch continues to operate smoothly. In March and April, drill rigs have been humming steadily with rig counts consistently in the 1,450-1,480 operating units. Indeed, difficulties on the offshore rigs have paved the way for continued capacity operation in the onshore sector.

Trade Issues. For the umpteenth time in the past year or two, Chinese exporters have been slapped with penalties arising from illicit trade practices in the tubular goods sector. In China’s most recent flouting of established trade rules, five major producers of seamless line pipe were found guilty of dumping their pipe into U.S. markets. Having identified the Chinese breach of trade rules The U.S. Department of Commerce imposed dumping duties on the producers, with penalty rates ranging from 32.95% to as much as 91.93% of nominal values.

Hardly had the ink dried on the Chinese penalties for dumping seamless line pipe than the U.S. International Trade Commission turned its attention to oil country tubular goods (OCTG). After its usual thorough investigation, the ITC determined that OCTG products originating in China and exported to the U.S. having materially injured, or threatened to injure materially, domestic industry. Prior to the Commission’s final finding, the U.S. Commerce Department determined that OCTG products from China were sold in the U.S. market at less than fair market value.

In addition to selling OCTG products at below cost, the Chinese government has provided producers of the OCTG products with illegal subsidies of 10 to 16 per cent of the value of the subsidized products. A month prior to the final determination in this OCTG case, the U.S. Commerce Department issued final anti-dumping duties on the Chinese OCTG imports of 30 to 90 per cent.

COPPER

Global Supplies. From time to time observers of the copper market have issued Cassandra-like predictions asserting that we're all going to run out of copper any time soon. Typically, such forecasts emerge when there has been some localized interruption in the red metal's supply stream—a walkout at some important copper mine, or an earthquake such as the one which impaired shipments from key locations in Chile, etc. etc.

Typically such mishaps are spurious and/or short-lived. But now and then we hear gloomy market news that has the *bona fide* ring of reality. An instance of this recently crossed our desk and commanded our attention. It read as follows: “For the next year or more [global] copper production could run at a deficit,” which is to say that global copper consumption would outpace usage faster than it could be replaced.

This forecast came from Arubis AG, a German producer of the red metal. The forecaster argued that while smelter capacity has risen over time, other components of copper production—“system utilization” in the phraseology of Arubis—are not keeping pace with the market's needs.

To be sure, some base metals *are* coming into short supply, but they are mostly exotic alloying agents and the rare earths, neither of which category has any significance whatever in copper usage. *By far* the best source of information on the copper market is an organization called the International Copper Study Group. (ICSG). As its name implies, the ICSG maintains meticulous records of production, consumption and growth patterns for the red metal.

In its most recent analysis the ICSG determined that the copper global supply in 2010 will average a strong 580,000 tonnes, the result of weak demand and a growing supply. Heartening though this figure may be, ICSG warns that toward the end of this year the surplus will begin to diminish because of improved economic activity. Toward year-end, according to the ICSG, the existing surplus will decline to about \$340,000.

Regulatory Issues. The recent Securities & Exchange Commission (SEC) actions against financial giant Goldman Sachs, Inc. put heavy pressure on copper and other base metals prices. The declines resulted from general weakness in securities and extended to other assets traded on various public exchanges. As selloffs of other negotiable assets developed, base metals were inevitably caught in the selling mini-panic. In the busiest trading day losses ranged from 2.2% for copper to 4.1% for zinc.

Copper Scrap. Chinese demand for copper scrap from U.S. yards faltered in early spring and by the end of April copper scrap orders were practically non-existent. While U.S. scrap dealers were baffled by the dearth of Chinese buying, brass and bronze ingot makers welcomed the slowdown as a respite from Chinese monopolizing of raw materials for their products.

Additionally, U.S. buyers did not mind at all the absence of the often baffling Chinese regulatory policies. Said one ingot maker: “You never know with the Chinese if their regulations will go into effect for a day or a month or whatever.”

STAINLESS STEEL

Nickel. Since midway through the current quarter, stainless steel prices have been rising steadily. In part the increase has been the result of user demand, but in an equal part the operative factor has been an ongoing increase in the price of nickel. Traded on the London Metals Exchange (LME), nickel is an essential alloying agent in the formulations of almost all stainless steel products. It is also a major trading commodity on the LME and other metals exchanges.

In recent months the nickel market has been unusually active. In one trading session on the LME, nickel hit an intraday high of \$27,188 per tonne (metric ton) before slipping back. But soon after, the price rallied again, prompting one trader to predict that the LME price would soon be “pushing nickel to around \$30,000 per tonne.” By contrast, three years earlier nickel trading rarely exceeded prices in excess \$10,000 per tonne.

Producer Reports. ATI Allegheny Ludlum, one of the “Stainless Big Three,” and often the price leader in stainless products, is reportedly in the process of increasing prices on a broad range of stainless products. Included in the ATI boosts are base prices on hot-rolled and cold-rolled sheet and strip. Additional products in the price increases are mill plate and emission-control products. The planned increases will be in the approximate amount of six per cent and were scheduled to start last month. According to company statements, the increases are intended to support continued growth in the business and investment in the company.

In a recent conference call, AK Steel advised analysts that its stainless steel business is enjoying an increase in orders from the automotive industry. Said the company’s CEO James Wainscott, “Order intake for stainless is robust.” The executive also reported that the firm’s stainless business is “benefiting from surcharges and stainless steel transaction prices.”

In early April, shortly before the Allegheny Ludlum pricing announcement, stainless steel producer ThyssenKrupp announced its intention of increasing base prices on Types 200-, 300-, and 400-Series alloys. The increases will be accomplished by reducing discounts by 2% as of May 3.

New Surcharge Schedules. As demand for stainless steel stiffens, producers are revving up new pricing figures to become effective in June. At press time, surcharge totals had been provided by two of the Big Three, Allegheny Technology and AK Steel. At press time North American Steel, the third Big Three member, had not announced surcharge schedules for June release. Representative surcharge figures for AK and ATI are shown on the following page.

Representative announced surcharges for ATI include the following:

Type 304 -	\$1.2745 per pound for June, up 15.7% from \$1.1013, the preceding week;
Type 316-	\$1.8328 per pound, up 13.3% from \$1.6179;
Type 201-	82.26 cents per pound, up 13.3% from 72.62 cents;
Type 430-	32.55 cents per pound, up 6.1% to 30.69 cents;

Comparable June surcharges for AK Steel include the following:

Type 304- \$1.2748 per pound for June, up 15.8% from \$1.2748 the preceding month;
 Type 316- \$1.833 per pound, up 13.4% from \$1.6179;
 Type 201- 82.55 cents per pound, up 13.4% to 72.81 cents;
 Type 201- 32.6 cents per pound, up 6.4% to 30.63 cents;

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 3/10	Previous 2/10	Year Ago 3/09	2 Yrs Ago 03/08
PIPE, VALVES & FITTINGS:				
Copper & copper-alloy tube	326.7	302.0	201.8	338.8
Steel pipe & tube	181.4	173.7	172.9	186.0
Plastic pipe and fittings	216.1	269.4	204.2	201.3
Industrial valves – metal	188.8	188.4	187.2	179.9
PLUMBING FIXTURES:				
Vitreous china fixtures	99.6	99.6	97.3	95.4
Fixture fittings & trim	237.2	236.4	236.4	232.9
HVAC EQUIPMENT:				
Warm air furnaces	130.2	131.7	131.6	128.8
Unitary air conditioners	150.8	150.9	153.7	138.9
Cast iron heating boilers	150.8	150.8	146.8	135.7

NOTES: 1) Sources: Bureau of Labor Statistics, US Department of Labor; compiled for the American Supply Association. 2) Data for 2006 are subject to revision.

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