
ASA MATERIALS MARKET DIGEST

JANUARY 8, 2010

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Published Monthly by the American Supply Association Web: www.asa.net; Email: info@asa.net

Holiday Notice

Source documents used in the preparation of the *ASA Materials Market Digest* were not published during the Christmas and New Year holidays. As a result, the content of this edition is necessarily limited. Full coverage of the customary markets will continue with the February 2010 edition.

CARBON STEEL

PRODUCTION AND PRICING. *Production.* Raw steel output from U.S. mills eased during December as holiday work schedules went into effect. In the post-Thanksgiving weeks, U.S. raw steel weekly production fell as low as 1,455,000 tons and the U.S. operating rate fell as low as 62.8% of mill capacity. But there were also signs of recovery as a joint venture of U.S. Steel, Cliffs, and Arcelor-Mittal made plans to reopen major ore operations in Minnesota.

Also of interest are reports that U. S. scrap exporters were bracing for another surge of ferrous scrap purchasing by Turkish mills. Market sources indicate that the buying was delayed as Turkish buyers experienced “sticker shock” at higher scrap costs, e.g. \$260 per long ton of heavy melt and an eye-popping \$300 per ton for shredded scrap.

Pricing. After a period of relative quiescence in pricing, AK Steel announced January 1 increases of up to \$30 per ton. Included in the boost was \$20 per ton for hot-rolled sheet and \$30 for cold-rolled and coated flat products.

Notwithstanding the AK increases, *American Metal Market* told subscribers that sluggish demand for steel will persist “well into the first quarter.” But other market sources contend that steel demand will “show signs of improvement in the first quarter of 2010.”

Steel Manufacturers vs. Copenhagen. The climate change accord developing in the recent Copenhagen meetings has gone over like a lead balloon among steelmakers both in the U.S. and abroad. In the domestic industry, Thomas Danjcek, president of Washington-based Steel Manufacturers Association had little good to say about the Copenhagen “agreement.” Said he:

“It is difficult to understand Copenhagen when there are such serious and obvious flaws. Copenhagen never addressed emission reduction , only capital redistribution.” Danjcek predicted that if Copenhagen is implemented, U.S. industries would experience a GDP loss of \$3.1 trillion, raise electric energy costs by 50%, and cost U.S. industries 2.4 million jobs.

TUBULAR GOODS

Operations. Toward the end of 2009, hydrocarbon drilling in the U.S. accelerated. In the week ending December 17 the rig count jumped 32 operating sites to a total of 1,193 units. This was the highest total reached by U.S. drillers since early 2009. Contributing to the count was recently added drilling activity in the Marcellus shale formation in Pennsylvania and environs.

OCTG Pricing. In recent months industry sources in the drilling business have been predicting a turnaround in the dismal state of the market for oil country tubular goods (OCTG). For the better part of this past year OCTG prices have withered under the pressure of overstock by distributors and a lack of demand from out-of-work drilling contractors.

Most recently, however, reports from Pipe Logix, Inc., *the* recognized authority on OCTG pricing, indicate that better times are ahead for the OCTG market. A spokesman for Pipe Logix noted that numerous OCTG products are showing price increases for the first time in more than a year. The brighter prospects were seconded by a distributor who told *American Metal Market* that “these recent price increases are a sign that pricing has pretty much bottomed out.”

Adding to this view was OCTG analyst Michelle Applebaum who commented that: “ A combination of substrate prices—sheet and plate—and falling inventories have finally yielded pricing support.” Applebaum also added that rising rig counts in the Oil Patch have become a factor in improved OCTG pricing.

On the following page is a table showing currently typical OCTG prices for representative items. While some of the prices are still in the minus column, a comparison with previous tables shows a definite uptrend in OCTG pricing.

Table of current OCTG pricing is shown on the following page

<i>Product</i>	Nov 2009	Oct 2009	Nov-Oct % Chng
Tubing: Carbon ERW	\$1,370	\$1,339	2.3%
Tubing: Carbon seaml's	\$1,523	\$1,478	3.1%
Tubing: Alloy ERW	\$1,805	\$1,838	-1.8%
Tubing: Alloy seamless	\$1,960	\$2,007	2.4%
Casing: Carbon ERW	\$1,129	\$1,145	-1.4%
Casing: Carbon seaml's	\$1,080	\$1,105	-2.3%
Casing: Alloy ERW	\$1,569	\$1,569	-1.7%
Casing: Alloy seamless	\$1,665	\$1,735	4.1%

Source: Pipe Logix, Inc.

COPPER

Market Trend. Fabricators of copper and brass appear to be gathering some steam. According to a recent report from *AMM*, market reports indicate that the usual end-of-year slump did not materialize in the closing weeks of December, and reports from fabricators are surprisingly upbeat. Said one market source, "Our business is holding up OK. In the days ahead we're going to be running strong." Asked to explain an absence of the usual seasonal slump, one fabricator remarked that "everybody has depleted their inventories" and a "large majority have come back with stronger buys."

Notwithstanding the pervasive optimism among fabricators, some industry watchers remain cautious concerning the tone of business in early 2010. But generally the mood is decidedly positive. Evidencing an upbeat market mood, copper prices on the metals exchanges got off to the New Year in high style. Early on in LME trading, the red metal hit a 16-year high of \$7,536 per tonne before settling at \$7,504. Similarly strong gains developed on the New York Comex where copper topped out at \$3,4060 per pound.

Labor Relations. As so often happens when the copper market is strong, a major strike threatens one of the largest copper producers in Latin America. Target for the current pending walkout is Codelco, the huge government-owned mining and refining production complex controlled and operated by the Chilean government. The Codelco complex controls about 4% of the world's supply of copper concentrate. At issue in the strike is a wage offer which the prospective strikers consider to be inadequate.

Spokesmen for Codelco have indicated that their production of copper and concentrate is ample, and that a walkout would have only a negligible impact on the global copper supply. Despite these management's assurances, the copper market was roiled by news of the prospective labor action. In copper trading on the London Metals Exchange, for example, the three-month copper contract topped the preceding close by \$300. Prices on the New York Comex also rose briefly, then subsided as profit-taking developed.

The Copper Market vs. Copenhagen. As noted on Page 1 of this issue, the steel industry is strongly opposed to the climate agreements proposed in the Copenhagen talks. Now lining up with the steelmakers is the U.S. brass/bronze ingot industry. According to a report from *AMM*, the pending Copenhagen agreements will likely result in more stringent cap-and-trade regulations for developed countries. Opponents argue that these provisions, if enacted, would give China, as an "undeveloped" country, an unfair advantage. *AMM* quotes one ingot maker as saying that "If China can get away with murder again, we're all going to be less competitive." Said another, "The good guys will take the brunt of the cutbacks. It will be further loss of manufacturing jobs in the U.S."

STAINLESS STEEL

Prices. Two major U.S. steel producers have reduced surcharges on their most widely used alloy types. On Type 304 flat-rolled products, AK Steel reduced its surcharge 10.3% to 70.47 per pound. Other AK price changes include Type 316, down 10.8% to \$1.0203; Type 201 off 9.5% to 45.67 cents; and Type 430, down 9.9% to 14.95 cents. North American Stainless Steel price reductions closely parallel those of AK Steel.

RESINS

Overview. According to a recent report by *Plastics Technology*, the prevailing trend in resin prices is upward. Limited information from the publication ascribes the uptrend to rising crude oil prices and some export opportunities. Items:

Polyethylene. Prices were generally flat through late fall, but indications are that the new year would see price pressure upward as monomer costs are increasing.

Polypropylene. The resin price eased in October on slack demand. But with a 4-cent increase in monomer prices, the resin price recovered and remained strong through the end of 2009.

Polystyrene. As usual, PS pricing is strongly dependent on the ebb and flow of benzene prices. Most recently the trend has been upward as costs of both benzene and styrene rose with the price of crude.

Polyvinyl Chloride. Toward year-end PVC resin pricing inched up one cent of a previously scheduled 3-cent price boost. In general, the PVC market is lackluster except for the pipe-grade resin where export demand has increased.

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 <u>11/09</u>	Previous <u>10/09</u>	Year Ago <u>11/08</u>	Yrs Ago ² <u>11/07</u>
PIPE, VALVES & FITTINGS:				
Copper & copper-alloy tube	282.3	276.9	237.2	298.7
Steel pipe & tube	165.5	155.9	214.1	165.3
Plastic pipe and fittings	201.3	194.6	224.2	199.4
Industrial valves – metal	187.3	157.7	186.0	176.5
PLUMBING FIXTURES:				
Vitreous china fixtures	99.4	99.4	97.0	96.5
Fixture fittings & trim	236.0	235.6	236.5	227.7
HVAC EQUIPMENT:				
Warm air furnaces	130.5	131.4	130.0	127.0
Unitary air conditioners	152.4	152.4	151.3	140.3
Cast iron heating boilers	150.7	148.9	146.8	150.7

NOTES: 1) Sources: Bureau of Labor Statistics, US Department of Labor; compiled for the American Supply Association. 2) Data for 2009 are subject to revision.

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