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# ASA MATERIALS MARKET DIGEST

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#### MARKET OVERVIEW

**Business Outlook.** The following section, devoted to carbon steel, includes a number of analyses—bearish as well as bullish—regarding the business outlook for the steel industry and related base metals.

**Carbon Steel.** Production of carbon steel in U.S. mills has declined to about 44% of normal capacity. As noted in the following section, opinions vary widely on when—or if—a turnaround will develop.

**Tubular Goods.** Oil and gas drilling has declined to about 75% of the 2008 norm. With oil and natural gas prices in decline, little improvement is expected in rig counts any time soon. Meanwhile prices for oil country tubular goods (OCTG) have weakened in the face of reduced rig counts and an ongoing flood of OCTG imports, especially from China.

**Copper.** Copper prices in early 2009 have been driven largely by commodity trading and speculation. End-user demand for the red metal is minimal and is likely to remain so until improvement develops in the automotive and housing markets. Meanwhile, the copper scrap market is depressed, largely because of a major slowdown in Chinese buying.

**Stainless Steel.** Demand for the finished product remains weak, and little improvement is likely in the near future.

#### CARBON STEEL

To perhaps a greater extent than any other industrial material, carbon steel tends to reflect the current economic climate, be it good or bad. Currently “bad” is the operative word as the following reports from the steel industry make abundantly clear:

*Raw steel production* in the U.S. is barely a patch on what it was a year ago. Weekly operating rates in January averaged 44%, less than half of the 90% operating rates recorded a year ago. The anemic production levels reflect a dearth of incoming orders and have resulted in sharp cutbacks in both operations and employment. Items:

- Steelmaking giant AcelorMittal laid off 500 workers in early December but managed to retain most for on-the-job training and safety instructions. But subsequently the company shut down its electric furnace operations at Hamilton, Ontario. Soon afterward the firm announced another round of layoffs at its vast Indiana Harbor

complex. Industry sources suggest that the Indiana plant could be shuttered for as long as six months.

- Another steelmaking colossus, Ohio-based AK steel, closed its Zanesville, Ohio plant for finishing stainless steel. The company is also reportedly planning to bank its blast furnace in Middletown, Ohio, but it is unclear whether the planned closure reflects weak sales or the need for maintenance outages.
- Financial reports for major steel producers convey a mixed message. For the first three quarters of 2008, Nucor, U.S. Steel and Steel Dynamics posted record earnings sufficient to make 2008 as a whole their best years ever. AK Steel was also headed toward a record year until the firm experienced a non-stop hemorrhage of red ink in the final three months of the year.

Business analyses for 2009 prospects are a mixed bag with projections ranging from dismal to decidedly bullish. Following is a sampler:

They're not exactly dancing on Sunset Boulevard in California, but the mood among steelmakers has brightened. Both of the region's major mills report a pickup in telephone inquiries and even hard orders for flat-rolled product. Current prices quoted by Pacific Coast for hot-rolled sheet is in the \$580-620 range. Elsewhere in the flat-rolled market hot-rolled is quoted at \$510-520, cold-rolled at \$610-620 and galvanized at \$690-700.

Standard & Poor's, one of the financial community's most reliable analysts, sees light at the end of the economic tunnel. In a recent statement the firm said: "We expect the recession to end around midyear with an unemployment rate peaking around 9%. We're expecting sluggish growth for the second half of the year, but still it's growth."

S&P's view was echoed by a number of prominent sources, to wit:

Keyback Capital Markets: "The industry has found the staircase and is starting to ascend it. We sense a fairly solid base at this point."

Goldman Sachs cites "expectations of higher steel prices and improved market sentiment."

CitiGroup, the New York-based financial giant: "Once order rates start to improve, probably in the second quarter, you'll see a modest improvement as operating rates normalize somewhere between 70 and 75 per cent for the year."

## **STEELMAKING RAW MATERIALS**

While crews bank furnaces and mill managers await the promised turnaround, the market for steelmaking raw materials remains active. Items:

*Ferrous Scrap* prices remain fairly strong, thanks to a major buying spree by Turkish mills. Early in the year the Turks placed orders for no less than 600,000 tons of 80/20 heavy melt scrap at the respectable price of \$290-295 per ton. Hardly had the ink been dry on this purchase order than the Turks went back to the market, and when the dust settled Turkish steelmakers had loaded up with 850,000 metric tons of industrial scrap. Not surprisingly, a Commerce Department report shows Turkey to be the No. 1 destination for foreign purchases of ferrous scrap originating in the U.S.

*Zinc.* Global production of zinc, widely used for galvanizing, increased by 3.8% over the first 11 months of 2008. With demand limited, the oversupply has impelled some producers of the white metal to curtail mine production.

*Iron Ore.* Yet another sign of the steel industry's anemia came with the announcement that Great Lakes iron ore shipments fell a startling 80% from the most recent reporting month. The sharp decline reflects the layup of almost all of major ore carriers well ahead of the normal date for winterizing.

## **TUBULAR GOODS**

Prices of oil country tubular goods (OCTG) continued to wilt as December prices fell 7.5% from November. The decline reflects two major issues: a) A slowdown in oil and gas drilling; and b) the ongoing influx of imported OCTG, especially from China. In oil patch activity, the U.S. rig count has now fallen by more than 500 active sites, roughly one quarter of peak activity reached in 2008. Taking some of the steam out of recent rig counts has been a steady decline in hydrocarbon prices. From a peak price well into triple digits, crude oil pricing has slipped to the low- to mid-forties. And as is usually the case, natural gas has followed crude prices downward. The net result, according to Pipe Logix, is an average price for OCTG of \$2,400 per ton, down 10.2% from the preceding month and 22.8% below the all-time high of \$3,107 per ton.

The chances of an OCTG pricing turnaround any time soon are remote, according to Kurt Minnich, CEO of Pipe Logix, Inc., a leading authority on OCTG pricing. In a recent statement Minnich declared that "we're not done yet" in OCTG price declines and that "where the bottom will be is difficult to pinpoint." On the other hand, publisher Paul Vivian indicated guarded optimism when he noted that, "We're still feeling pretty good about the energy sector, but we're not feeling good about it for another year."

The following table shows average monthly price of selected OCTG products as of December 2008 and January 2009. Prices are provided by Pipe Logix, Inc., a leading consultancy in the fields of OCTG markets and pricing.

**OCTG Pricing – December 2008-January 2009**

<b><i>Product</i></b>	<b>Jan 2009</b>	<b>Dec 2008</b>	<b>Dec-Jan % Chng</b>
Tubing: Carbon ERW	\$2,358	\$2,622	<b>-10.1</b>
Tubing:Carbon seaml's	\$2,462	\$2,845	<b>-13.5</b>
Tubing: Alloy ERW	\$2,902	\$3,080	<b>- 5.8</b>
Tubing: Alloy seamless	\$2,999	\$3,214	<b>-6.7</b>
Casing: Carbon ERW	\$1,991	\$2,329	<b>-14.5</b>
Casing:Carbon seaml's	\$1,997	\$2,214	<b>-9.8</b>
Casing: Alloy ERW	\$2,533	\$2,795	<b>-9.4</b>
Casing: Alloy seamless	\$2,695	\$2,994	<b>-10.0</b>

**COPPER**

*Prices.* Despite reservations on the part of market watchers, the price of copper has been on the rise since early January. Through most of January the LME price of the red metal rose steadily. Early in January the three-month LME price reached \$3,433 per tonne, and on the New York Comex the futures price had hit a high of \$1.6225 per pound.

Very little if any of copper's recent price surge resulted from strong demand. Quite the contrary: As 2009 got under way, prospective users were hard to come by. Indeed, one trader remarked in early 2009 that "there isn't a market right now." On the other hand, technical factors were very friendly to investors and speculators in the early days of 2009. This was particularly true for holders of investment funds. During the early weeks of the current year, numerous fund managers "re-weighted" their offerings to add or increase copper in their portfolio mixes. This strategy reflected the widespread investor view that the red metal is likely to outperform many if not most of the other base metals currently included in commodity trading funds.

*Copper Scrap.* In commenting on the scrap copper market in early January, dealers vied with each other to find adjectives sufficiently disparaging. Among contenders were such soubriquets as "bleak," "stale," "unhedgeable" "stagnant" and "fallen into entropy." What generated these gloomy epithets was the nearly total absence of activity in the scrap market. The slump was particularly exacerbated by the absence of Chinese buying, normally the source of fully two-thirds of U.S. copper scrap export sales.

Despite the near despair articulated by some scrap dealers, there does appear to be some stirrings in the heretofore moribund scrap copper market. Whether these suggestions of a resurgent market translate into reality any time soon remains to be seen.

## **STAINLESS STEEL**

Early in January metals market watchers were floored by an unexpected runup in the price of nickel. From the LME price of \$9,900 per tonne, traders watched in awe as the key alloying agent jumped to \$13,000 per tonne in a matter of days. But welcome though it may have been to some traders, the surge had little or nothing to do with supply and demand for the key alloying metal. Instead, the whole episode was the product of commodity trading and speculation.

Nonetheless, with nickel prices all over the lot, some price adjustments at the market level were inevitable. These came first when Allegheny Ludlum trimmed the surcharge on its electrical steel products from \$321 per tonne to \$299. Electrical steel is expected to remain in strong demand if and when the economic recovery program becomes more deeply involved in materials for heavy construction and other infrastructure construction.

Meanwhile, the price of ferrochrome, the key alloying agent for most stainless steel, appears to have hit bottom. The tag for high carbon ferrochrome (FeCr), the least costly grade, has fallen from \$0.90-1.00 to 78-82 cents per pound. Comparable prices have fallen for other grades of ferrochrome, with the top grade, 0.05% carbon falling from \$3.15-3.50 per pound to \$2.35-3.00 per pound.

## **RESINS**

Resin prices appear to be bottoming out according to *Plastics Technology*. Producers of the major resins have been announcing price increases, and according to *PT*, some of these increases will actually go into effect. Items:

**Polyethylene.** After a net loss of 43 cents per pound last year, PE producers are optimistic about 5 to 7 cent price boosts in the near future,

**Polypropylene.** PP's net loss for 2008 was in the range of 68-70 cents per pound, a lot of ground to cover. Thus far efforts to raise prices have been in the single-digit category, and not all of the price increases announced to date are likely to stick.

Elsewhere on the resin front, **PVC** prices remain flat pending some recovery in the home building market. The same is likely to remain true for **Polystyrene** pending some strengthening in the construction and durable goods markets.

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## 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 12/08	Previous 11/08	Year Ago 12/07	<sup>2</sup> Yrs Ago 12/06
<b>PIPE, VALVES &amp; FITTINGS:</b>				
Copper & copper-alloy tube	203.2	243.5	286.0	269.4
Steel pipe & tube	203.9	216.5	166.7	170.0
Plastic pipe and fittings	212.2	223.6	202.0	200.1
Industrial valves – metal	186.4	186.0	177.3	164.2
<b>PLUMBING FIXTURES:</b>				
Vitreous china fixtures	97.0	97.0	96.5	101.4
Fixture fittings & trim	236.5	236.4	227.7	215.1
<b>HVAC EQUIPMENT:</b>				
Warm air furnaces	130.2	129.9	127.0	119.8
Unitary air conditioners	151.3	151.1	140.9	139.2
Cast iron heating boilers	146.8	146.8	135.7	128.2

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.

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