Publisher's Statement

Rcession ≠ fact or factoid? Everyone is nervous. The media uses the R word more. But is a recession caused by actual market forces or created by the fear factor. As it reads the tea leaves and uses the R word more these days, is the mainstream media fueling a fear factor in the minds of business executives and consumers that creates a self-fulfilling prophecy. Is this the power of the press?

Negative tends to be the majority of content and context in the news. Good news doesn't sell well. Maybe we should take a lesson from Joe Friday, the police sergeant on the 1960's TV show, Dragnet: "Just stick to the facts." But perception is more the reality than the facts seem to be, and the facts are that the overall economy is doing fine. But consumer fear can be fanned into flames where the economy gets burned because people get nervous and begin to cut back on their consumer spending that drives two-thirds of the economy. Then, a recession sets in and media factoids transform, in retrospect, into facts.

Although we see fluctuations in metal pricing and demand from month to month, we don't see them as the harbinger of recession. Don't get in the lemming line just yet. Just stick to the facts.

Also, check out the September 2007 Manufacturing ISM Report On Business from the Institute of Supply Management (formerly the NAPM, or the National Association of Purchasing Managers Purchasing Manager's Report) based on the latest ISM number of 52%.

Welcome to Metals Outlook™ October 2007

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October 2007

Tom Stundza's Comments

I. Cover Story: Economy's Impact on Pricing
II. Metal Chips: Mills to Start Cutting the Price
III. Purchasing Focus: Supply Risk Programs

Tom Stundza's Comments

Welcome to the October 2007 edition of MetalsWatch! This is Tom Stundza, executive editor of Purchasing Magazine and Purchasing.com.

Demand for industrial metals especially carbon and stainless steels depends on strong global economic growth, including sturdy manufacturing and construction industries. Entering the final quarter, the steel suppliers and buyers alike are anxious as the market has large inventories and weak prices caused by reduced demand in a slow-growth economy. Citigroup metals analyst John Hill points out that low carbon steel prices have come from slack demand amid a slowdown in automotives and the housing markets. Stainless steel prices are starting to slide because an earlier price spike drove many buyers to alternative materials. And now, nickel metal, a key ingredient in stainless steel, is in a pricing freefall because of high inventories and slackening sales. Will these trends continue in the fourth quarter? We'll investigate in this edition's Cover Story on the metalworking economy's impact on pricing of key industrial metals.

Back in May, the International Stainless Steel Forum of Brussels suggested that stainless crude steel
Actually, 2007 steel demand is down 8% from last year and that is what has kept inventories higher than raw material costs. citing limited import through year end, service-center inventories positioning for restocking, and rising UBS Investment Research in New York writes to clients that the mills pushing the higher prices are conditions, says Mazzaferro. So, most major U.S. steel mills are aiming to hike prices by an average $30 per ton for hot-rolled coils, cold-rolled and galvanized sheet. Analyst Timna Tancher at UBS Investment Research in New York writes to clients that the mills pushing the higher prices are citing limited import through year end, service-center inventories positioning for restocking, and rising raw material costs.

Actually, 2007 steel demand is down 8% from last year and that is what has kept inventories higher than expected by analysts and the mills. Also, a growing number of independent economists are forecasting...
that growth in durable goods manufacturing will decelerate in the fourth quarter. And that could keep steel demand depressed and pricing weakness for some time to come. Buyers are in this corner. A majority of the steel buyers polled by Purchasing in August projected continued weak demand trends ahead and reported reduced midsummer need for numerous carbon steel products including all the sheet products, coiled plate, merchant and special quality bars, carbon steel reinforcing bars, pipe and tubing and stainless steel sheet and plate. Looking ahead, buyers obviously don’t reckon the mills will be able to boost transaction prices very much in the months ahead. However, buyers say in various surveys that they aren’t planning to roll over and accept any immediate flat-rolled price hikes in a marketplace where overall demand is lackluster. In that August survey of buyers, less than a third actually only 31% expected steel prices to rise through November.

II. Metal Chips Mills to Start Cutting the Price
A good indicator of imminent demand and pricing chaos could be the stainless steel marketplace. Stainless steel buyers are getting fed up with high-priced metal caused by what they consider exorbitant nickel surcharges especially since demand is off by 7% on an annual basis. With nickel prices setting record high last year, stainless steelmakers have been very vocal about the loss of business to buyers switching to lower-nickel grades.

The stainless mills have been lobbying the nickel industry to lower prices so the mills could reduce the alloy surcharges being passed on to their customers. These surcharges, based mostly on average nickel prices two months prior to delivery and designed to pass to on steelmaking raw material costs, have just started to fall, reversing almost straight-line gains over the past 12 months. Based on information from some buying groups, Type 304 cold-rolled sheet could slide to $5000/ton in September from $5,700 to $5,800 in the past two months. Yet, the year-to-date average price still is 24% higher than the 2006 average.

Mac McAninch, CEO of Universal Stainless & Alloy Products in Bridgeville, Pa., says he expects nickel prices to encourage our service center customers to rebuild their inventories. As for end-use sectors, he believes that aerospace, power generation, petrochemicals and heavy equipment markets hold enormous opportunity for expanded future sales as long as nickel costs keep falling. But, many buyers report they will keep waiting to see how far the surcharge falls before ordering more cold-rolled and plate stainless steel.

Meanwhile, in China, a stainless steel executive recently took the offensive against nickel speculators, claiming that their manipulation on the London Metal Exchange was the real reason stainless steel prices worldwide got so high this spring that many buyers began abandoning the metal. Chai Zhiyong (ZHI-YONG), president of Taigang Stainless Steel Co. told an international stainless steel congress in Shanghai that high and fluctuating nickel prices have led to high profits for speculative funds and nickel suppliers in the short term but have increased costs for stainless steel mills, pushed up stainless steel prices, led to a wave of inferior stainless steel products and prompted the development of stainless steel substitutes. He upset that many stainless steel users have begun to turn to plastic and aluminum products. This has resulted in cutbacks in stainless smelting at several existing plants in Asia and the suspension of some new-technology mill projects.

There has been a lot of activity by purchasing/engineering sourcing teams to adjust specifications to allow more use of reduced-nickel and no-nickel stainless grades. The record high nickel prices have triggered a wave of substitution to non-nickel stainless steels, says analyst Jim Lennon at Macquarie Research in London, who says that the global stainless market has been saturated by too much production, especially in China. We are seeing quite a lot of weakness in the stainless steel production over the next few months with a few extended shutdowns of mills in Europe and elsewhere. Lennon forecasts. And, according to Chai, the Chinese steelmaker, none of these events are healthy signs for the stainless steel industry in the long run.

When we return, in Purchasing Focus, we will discuss why a supplier performance measurement and risk management program can help buyers manage inventory in the event of unforeseen marketplace events that cannot be controlled. But, first this:

III. Purchasing Focus Supply Risk Programs
Supply chain consultants at the Aberdeen Group say purchasing organizations need to take control of their supply risk programs to ensure that they are effectively protected from supply disruptions and that internal customers are buffered from negative supply chain events.

Aberdeen research analyst William Browning says purchasing groups must develop supply risk programs that are capable of measuring as much of their supply base of possible. He points out that standardized measurement processes used by single buyers or buying groups or cross-functional management teams has enabled Best in Class enterprises to capture supply risk information from virtually the entire supply base. And that can keep unwelcome supply issue surprises to a minimum.

Browning writes this summer that Best in Class purchasing organizations not only capture risk data on their supply base, but also expand their measurement beyond traditional supplier performance criteria that is, quality of goods, on-time delivery and price to include such key risk factors as supplier financial viability, credit ratings, supply disruptions and supply concentration. That allows them to develop a comprehensive program for supply risk measurement and mitigation.

Best in Class supply chain groups have not stood pat but have taken steps to expand their supply-risk program coverage to include tracking the root causes of either positive or negative results. Additional energy has also been expended to measure performance and assess risk across all different types of suppliers from Tier One firms downward to subcontracted processors.

Note that Browning’s study discovered that Best in Class companies tend to measure supply risk beyond just suppliers for direct materials used in manufacturing. He says they also address risk issues
Well, that’s all for this Purchasing Focus and this edition of Metals Watch! This is Tom Stundza, executive editor of Purchasing Magazine and Purchasing.COM.

Good day.

Thanks for your time and hope that you have enjoyed reading MetalsOutlook™. Don’t forget to subscribe so that you won’t miss an issue.