



SFSA CASTEEL REPORTER

Steel Founders' Society of America

a monthly publication
serving SFSA steel casting industry Members

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August — 2009

Casteel Commentary

Commodity prices continue to remain at higher levels. With the price of commodities high enough to justify added capital investment, why have producers not ordered any? Why is the steel casting business still painfully slow? Financial uncertainty is certainly a partial explanation. Another factor discussed in the Casteel Commentary is the relatively high inventories of commodities causing producers to be reluctant investing in added capacity.

Annual Meeting

It is not too late to register for this year's SFSA Annual Meeting, featuring "Survival Strategies for the CEO, cost reduction strategies, the market and economic forecast, public policy concerns, future market opportunities, and a roundtable discussion covering current challenges, issues and experiences of steel foundry management professionals. Information is available online at <http://www.sfsa.org/meetings/annmtg09>

Western Division

The Western Division meeting will be held August 13/14 in Salt Lake City, UT. Presentations will be made on strategies regarding electricity and gas usage, drying molds and power supplies, employee retention, Magma software developments and applications, an update on SFSA. A business roundtable discussion will be held. On the 14th a tour of May Foundry will be conducted.

High Alloy Product Group and Eastern Division

The combined Eastern Division and High Alloy Product Group meeting will take place on August 26, with a tour of FOPAT to be held on August 27 in Miamisburg, OH. The meeting program includes Carbon Pickup, Advantages of Dry Vibratory Linings, presentations on heat treatment, welding and impact testing of 6% Mo Superaustenitics, High Strength Steels, Development of Ceramic Shells using Foam Patterns, a presentation on FOPAT, and an update on SFSA.

Midwest Industrial Energy Efficiency Exchange

A notice is attached to the PDF version of this newsletter about the Department of Energy's Midwest Exchange – intended to connect industrial manufacturers seeking to make energy and environment improvements with the wide-ranging finance and technology resources provided by government, private and non-profit entities. It is also possible to watch a portion of the meeting via live webcast. A handbook of financial and technical resources for industrial energy projects in the Midwest region will also be distributed. Information is available online at <http://www.midwestexchange2009.govtools.us>

Innovation

Steel casting grades are normally relatively low strength materials. Designers, especially of moving equipment, wish to reduce weight. One approach that has been used in steel for automobiles is to reduce the weight by using higher strength steels. In fact at the limit of steel properties, steel parts can outperform titanium on a weight basis. SFSA has a couple projects looking at practical ways to develop grades with much higher strength. We are selling ourselves short if we do not improve our product performance with these developing technologies.

Specifications

One common question from customers is what is the definition of a commercial casting? Of course there are industry practices but no clear definition of a commercial grade casting. However, we can for ASTM steel casting grades give an answer. In order to avoid keeping up to date common requirements in each material grade, ASTM A01.18 has consolidated the general technical delivery conditions into two standards, A781 for structural castings and A703 for pressure containing parts. All steel castings made to ASTM grades either require one or the other. These standards impose the common minimum requirements. For commercial castings then the requirements are ASTM A781. This requires for example weld procedure and welder qualification to ASTM A488. It requires a visual examination and forbids cracks. It does not require and RT or other inspections. It is important as producers to know what is required for every ASTM grade in these general standards. It is also useful in communicating with customers what expectations are "normal".

Market News

Shipments for steel castings of all types are off more than 50% based on the SFSA Trend Cards. For all iron and steel castings according to the DOC census numbers, shipments are off 50% from last July. Steel products show more that a 50% decline from last July as well. Bookings in the SFSA trend cards are off more than shipments for the three-month average suggesting further declines after May. One hopeful sign is that backlogs are increasing. The backlog for May exceeds the three month average reflecting some improvement. Orders for iron and steel castings remain below shipments signaling further declines after May. Raw steel shipments have stabilized somewhat but at very low levels of production.

Orders for nondefense capital goods have fallen more than 30% in the past year. This has resulted in the increase of the ratio of inventories to orders to go from 1.6 to over 2.1. Inventories for capital goods have been falling for the four months leading up to May.

It appears that the economy is stabilizing at a low level. Inventories have been aggressively managed to be reduced even with the fall in shipments. This has led to a continued reduction of inventory in the system. This inventory management has resulted in increasing demand for short lead times to replace missing inventory items needed.

Casteel Commentary

Business conditions are brutal. Production is off more than 50% in iron and steel products. Major OEM's have cut back on production, orders and employment. While some indicators have improved, others are only declining slower. Manufacturing is finally seeing some stability with the possibility of improved conditions.

Commodity prices fell sharply from high levels late last year. Deflation was seen as a major financial worry leading to policies lowering the interest rate to stimulate economic activity. The concern was so great that the Federal Reserve use quantitative easing to directly inject money into the financial system. Little sign of inflation emboldened policy makers to continue providing added liquidity to improve market conditions.

Commodity price fell sharply but quickly recovered. Oil that fell from over \$140 per barrel to \$40 has bounced to \$70. Copper fell from over \$3.5 per pound to almost a dollar has rebounded to around \$2.70. These commodity prices would seem to be high enough to trigger new capital equipment investments and stimulate a strong demand for steel casting related products.

Why have these purchases not been coming? There still remains a significant uncertainty

in the future economic condition. Existing producers of commodities are purchasing consumables and maintaining production but are not confident to purchase added equipment for expanded production.

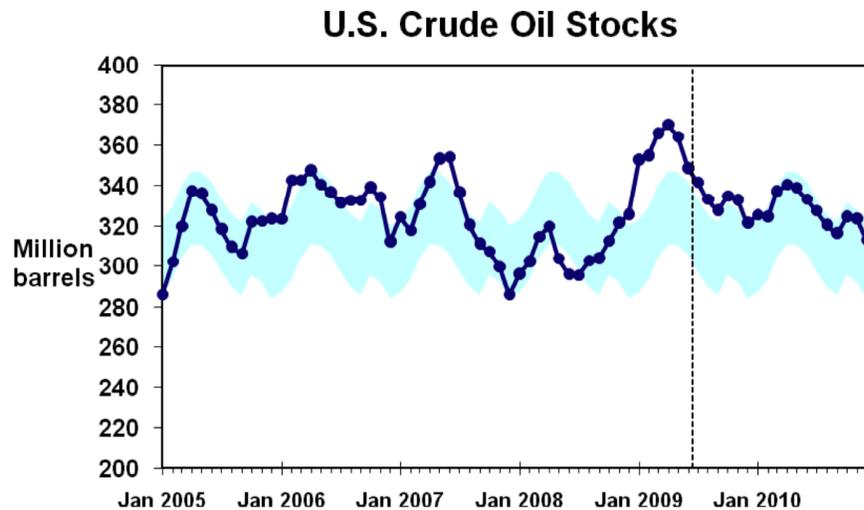
One key concern is the level of inventories. Oil inventories expanded rapidly from mid 2008 to late spring 2009. Since then inventories have fallen but there remains a concern that weak demand will not support added production. Producers are concerned that investments in additional production will lead to inventory buildup and reduced prices. A much larger spike in inventories occurred in copper stock in late 2008 and inventories remain high. The price suggests more investment but the inventory makes this questionable.

One possible reason for the inventory build is the concern over the monetary policy in the US. If the Federal Reserves' efforts to provide liquidity results in an inflationary devaluation of the dollar, foreign investors will be hurt. A way of providing partial protection is to build commodity inventories. If the production of commodities is unable to keep up with demand when the global economy recovers, commodity prices will rise. If the dollar is devalued through inflation, commodity prices will rise. If you hold a large reserve of US dollars and expect rising commodity prices and a declining dollar, current purchases of bulk commodities is a rational financial strategy.

If there are clear signs of a devaluing dollar, or if there is a drawdown of inventories then commodity prices should respond by increasing. If the global or even US economy stabilizes, then investment decisions will contain less uncertainty. It would seem reasonable that business conditions will improve just from economic stability and normal demands.

We are likely to see an much stronger demand for steel castings than a modest recovery through next year. The decades long liquidation of capital equipment coupled with the growing global demand will require significantly more and new capital equipment. Our industry is likely to be busy next year with an extended period of high demand.

Raymond Monroe



STEEL FOUNDERS' SOCIETY OF AMERICA

MEETINGS CALENDAR

2009

August

13-14 Western Division T&O Meeting Salt Lake City, UT
26-27 High Alloy Product Group and Eastern Division Meeting Miamisburg, OH

September

19-22 SFSA Annual Meeting Sunriver, OR

November

10 Specifications Committee Atlanta, GA

December

9-12 National T&O Conference Chicago, IL

**STEEL FOUNDERS' SOCIETY OF AMERICA
BUSINESS REPORT**

SFSA Trend Cards (%-12 mos. Ago)	12 Mo Avg	3 Mo Avg	May	Apr
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Carbon & Low Alloy

Shipments	-8.0	-37.8	-52.0	-64.0
Bookings	-17.3	-56.3	-58.4	-61.7
Backlog (wks)	8.8	3.5	4.0	4.5

High Alloy

Shipments	16.2	-32.9	-78.0	-52.1
Bookings	18.1	-40.8	-28.0	-62.8
Backlog (wks)	8.5	3.2	4.0	3.5

**Department of Commerce
Census Data**

Iron & Steel Foundries (million \$)

Shipments	1,574.9	1,191.3	1,075	1,188
New Orders	1,503.5	1,104.0	1,005	1,088
Inventories	2,674.0	2,499.0	2,411	2,532

Nondefense Capital Goods (billion \$)

Shipments	62.8	56.9	56.0	56.6
New Orders	59.5	51.0	53.5	49.0
Inventories	142.2	142.4	141.4	142.8

**Nondefense Capital Goods
less Aircraft (billion \$)**

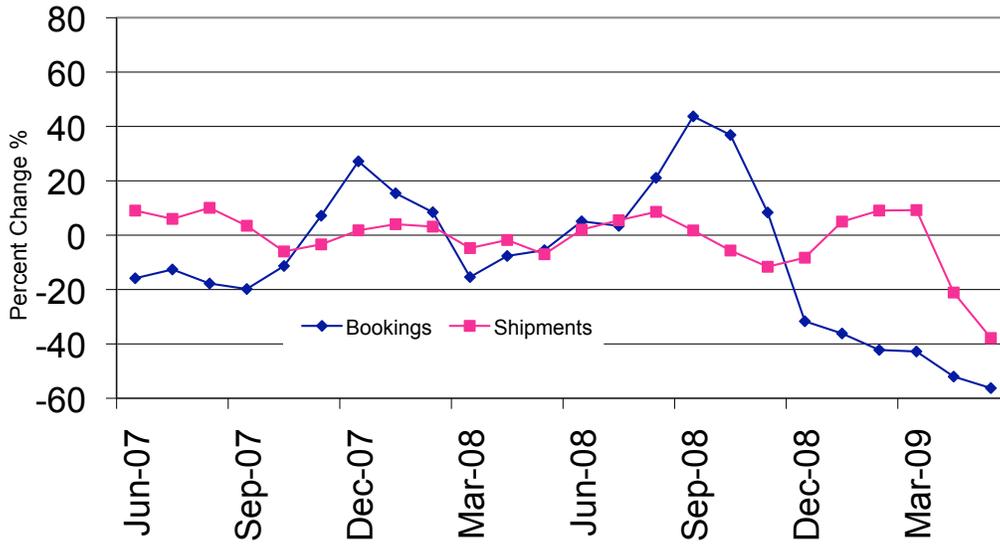
Shipments	59.1	52.8	52.1	52.4
New Orders	57.6	49.8	50.5	48.8
Inventories	107.6	105.1	103.9	105.2

Inventory/Orders		2.11	2.06	2.16
Inventory/Shipments		1.99	2.00	2.01
Orders/Shipments		0.94	0.97	0.93

American Iron and Steel Institute

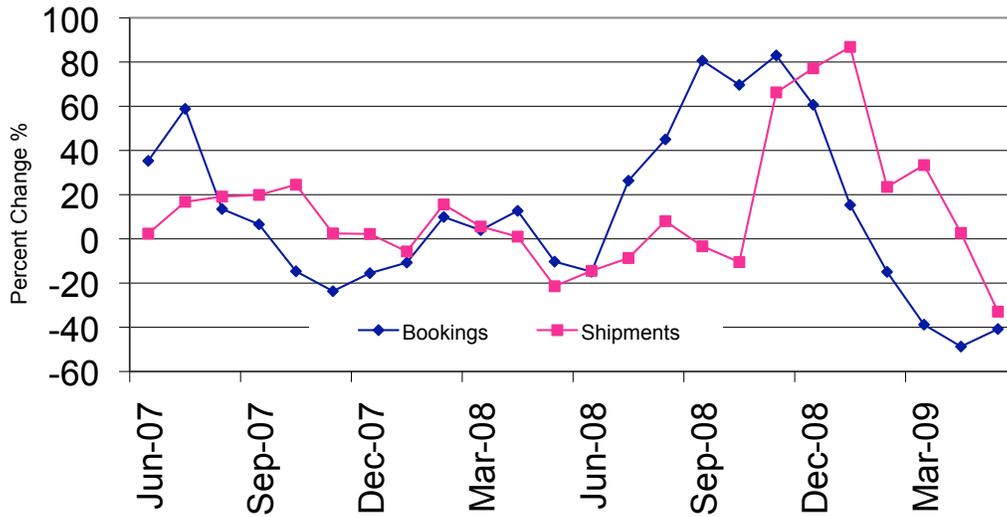
Raw Steel Shipments (million net tons)	6.1	4.2	4.3	4.0
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Carbon & Low Alloy Casting Market Trends



SFSA Postcards

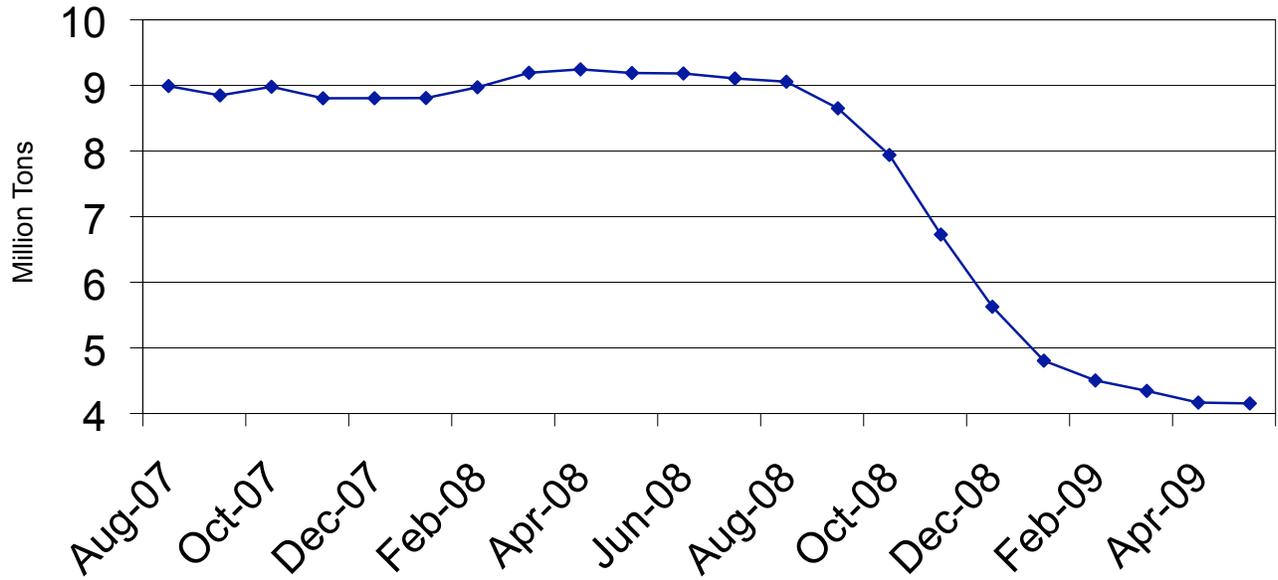
High Alloy Casting Market Trends



SFSA Postcards

Raw Steel Shipments

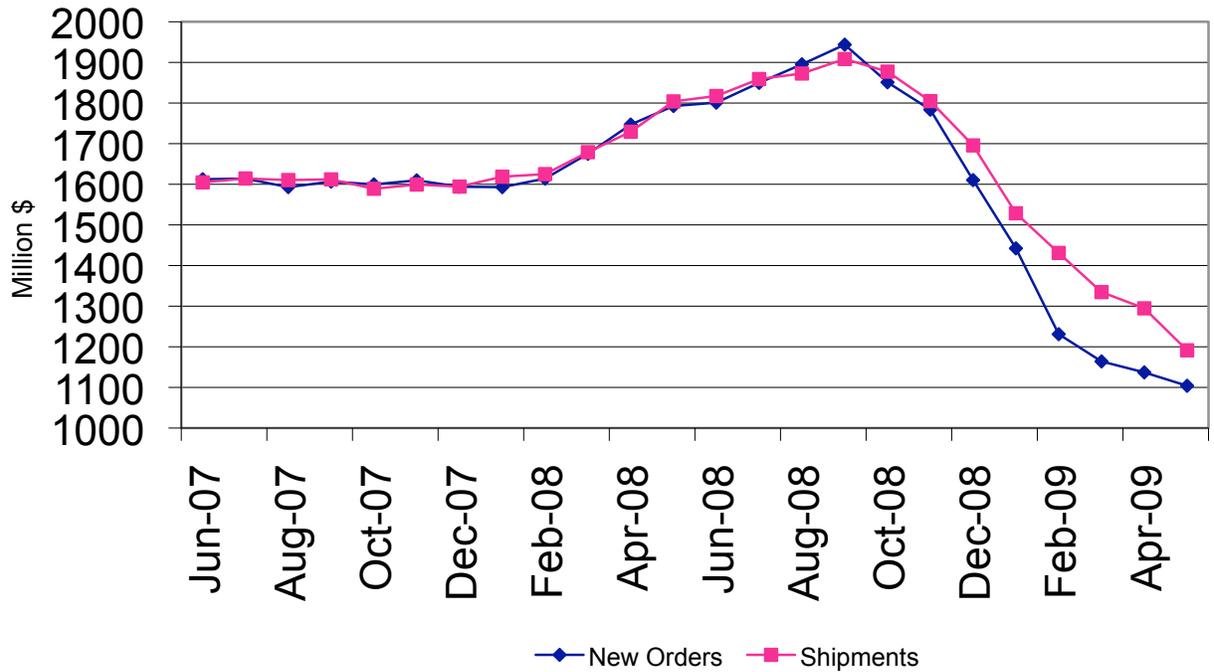
3 month average



AISI Data

Iron and Steel Castings

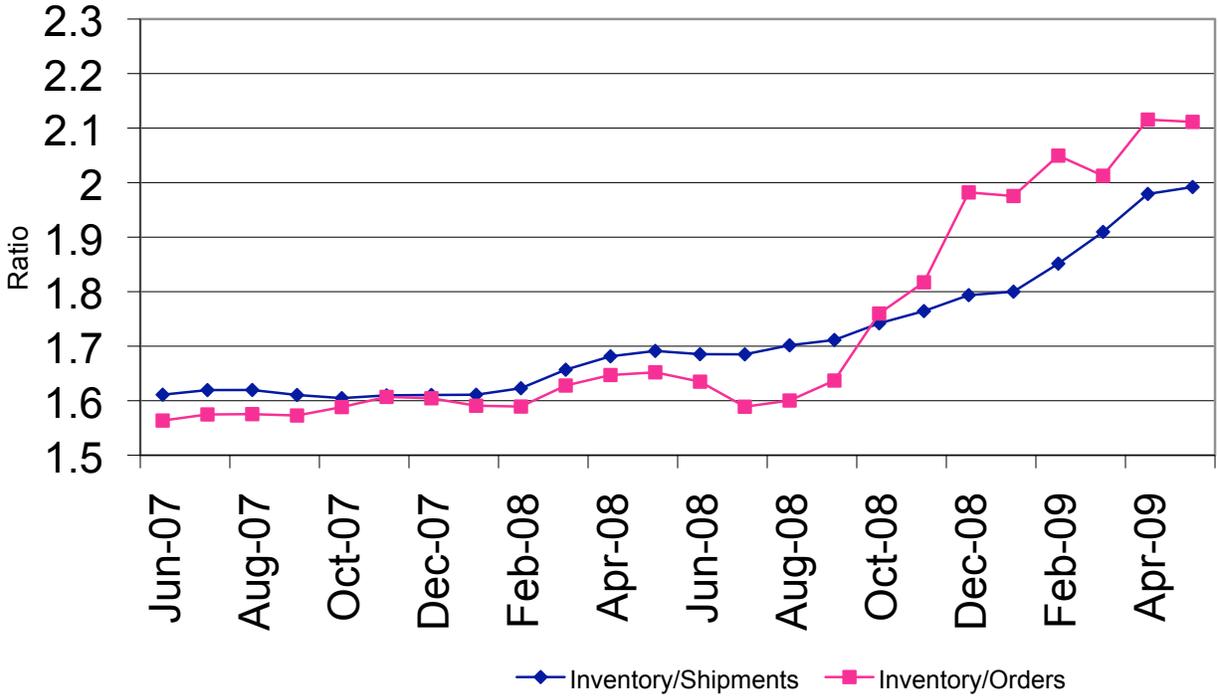
3 month average



SFSA

Nondefense Capital Goods less Aircraft

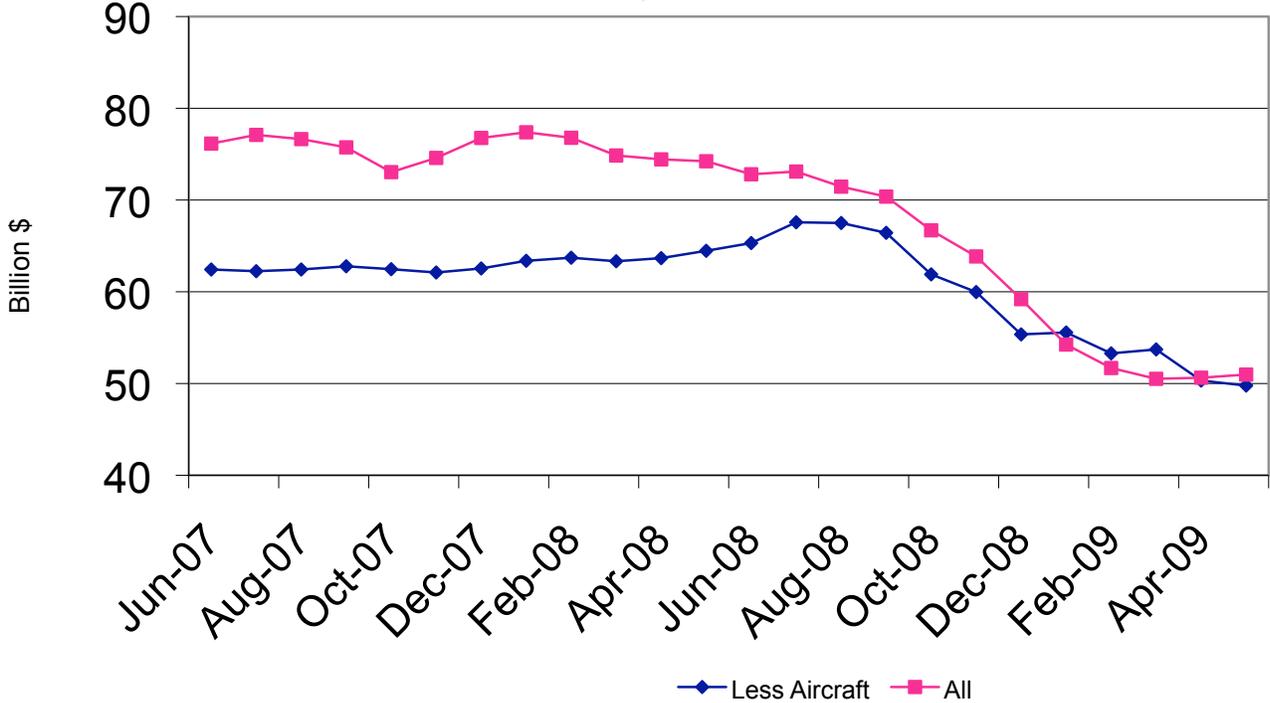
3 month average



Department of Commerce

Nondefense Capital Goods New Orders

3 month average



Department of Commerce

SAVE THE DATE

Midwest Industrial Energy Efficiency Exchange

September 9-10, 2009 | Detroit Marriott at the Renaissance Center

Connecting Industrial Manufacturers with Financial and Technology Resources

The Midwest Exchange will connect industrial manufacturers seeking to make energy and environment improvements with the wide-ranging finance and technology resources, provided by government, private, and non-profit entities. The event will be hosted by the U.S. Department of Energy, Michigan Governor Jennifer L. Granholm, and the National Association of State Energy Officials.

Who Should Attend

- Industrial manufacturers looking for resources to help improve plant operations
- Regional industry association representatives
- State energy officers
- Utilities with industrial energy efficiency programs
- Energy service company representatives
- Representatives from technical assistance organizations
- Federal program representatives
- Representatives from non-profits or foundations

Webcast

Those unable to travel to the event will be able to watch the morning portion via live Webcast and will cover industry needs and challenges, available financial assistance, and available technical assistance. Information for logging onto the Webcast will be e-mailed to participants after they register on the Midwest Exchange's Web site.

Handbook of Regional Resources

A handbook of financial and technical resources for industrial energy efficiency projects in the region will be distributed at the Midwest Exchange. A printable version of the handbook will be available for download at the Midwest Exchange's Web site (<http://www.midwestexchange2009.govtools.us/>) under the 'Regional Resources' tab after the meeting.

For more information, please contact:

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Visit the Midwest Exchange's Web site (<http://www.midwestexchange2009.govtools.us/>) to register and to access up-to-date information, participating companies, and the agenda.



U.S. Department of Energy
Industrial Technologies Program

Bringing you a prosperous future where energy is clean, abundant, reliable, and affordable

