

*Upbeat demand offsets a steady decline in the price of copper.*

# Will Prices Fall

**C**opper prices have been on a seven-month downtrend, but don't seem to reflect a big dip in demand, as distributors and mills remain mostly confident about their prospects for red metals sales in 2015.

Since mid-2014, the price of copper has lost almost 20 percent of its value, dropping to around \$2.60 per pound on COMEX. The decline was a gradual affair rather than a sudden drop, which gave service centers time to react. Experts say the downtrend is at least partly the result of a 7 percent increase in low-priced copper and brass imports in 2014.

In most markets a price drop indicates weak demand, but for a globally traded and much speculated commodity like copper the economics are not that simple. Service center executives say order activity remains fairly robust, even though some customers are hesitant to buy metal today when the trend suggests it might be cheaper tomorrow. Many distributors are hedging their bets. "If you don't hedge, it makes your inventory value worth much less. We hedge a portion of our inventory, and we try to keep our turns as high as possible," says Lance Shelton, vice president of sales for Christy Metal Supply, Northbrook, Ill.

The measured nature of the price erosion has softened the blow, say distributors. "It truly is not affecting us," says Steve Buzash, president of Standard Metals, Hartford, Conn. "Right now, any kind of replacement material is just lowering the cost of our inventory."

A 20 percent price decline with a corresponding drop in demand could have been disastrous, but the healthy U.S. economy is working in the market's favor. "It helps the service centers that there's still business underneath it. When we've had these price drops and we were in recession, it's been a different story," says



# Further?



*Producers of copper products remain optimistic about the market's prospects this year, despite the price of copper declining by 20 percent since mid-2014. (Photo courtesy Concast Metals)*

Al Barbour, president of Concast Metals, Mars, Pa.

With demand from most end markets remaining fairly stable, distributors have been able to keep material moving through the warehouse, rather than having higher-priced metal sitting on the shelf. Moreover, service center operators expect business to remain at or above levels of 2014. “We see things moving along at a similar clip to last year,” says Mark Wolma, president of ICB Advanced Alloys Copper Division, Franklin, Ind.

The past year started slowly for most distributors, but picked up steam in the fourth quarter. Service center copper and brass shipments ran behind 2013 for most of the year, but finished 2014 up 1.6 percent, reported the Copper and Brass Servicenter Association, Overland Park, Kan. The news was not good for all products, however. Copper shipments improved by 7.5 percent over 2013, but alloys shipments were down by 3.8 percent.

Lee Seeger, vice president of Seeger Metals and Plastics, Toledo, Ohio, anticipates a repeat of 2014. “Last year was decent, with the first half slow. I think this year will be a lot like last year,” he says. “And we talk to people all over the place, other

*(Photo ©iStockphoto.com)*

(Photo of cast bars courtesy Concast Metals)

**“We see things moving along at a similar clip to last year.”** *Mark Wolma, ICB*

distributors and mills, and they seem to be in the same boat. So we know Toledo isn't an outlier.”

Also helping matters is a domestic production base that is increasingly adept at getting material to its customers. Lead times from most of the domestic mills have been quite short, allowing distributors to stock less but still meet their customers' just-in-time needs.

Mueller Brass Co. Vice President of Sales Joe Napolitan says his company has targeted service centers for growth using just this philosophy, hoping to grab market share from foreign suppliers by offering one-week lead times. The company's sales to service centers increased by 14 percent in 2014.

Lou Nordt, vice president of marketing for Unimet Metal Supply, Parsippany, N.J. “The short delivery times make it a lot easier for us.”

It also helps that most major end markets for copper products are operating at reasonably high levels, at least for the moment. Electronics, construction and general industrial have been on the uptick, report executives.

Perhaps the most encouraging market is nonresidential construction. “I don't know if there's more funding out there, but the calls from the architects are more significant. They are much closer to when they need the products than we've seen in the last couple of years. We're finally seeing some big projects being released,” says Amy Hill, marketing

manager for Revere Copper Products, Rome, N.Y.

The munitions market took a dip toward the end of 2014, but a rebound is expected. There's far less optimism, however, regarding the oil and gas industry as oil prices have followed the same downward path as copper. That's a particular concern to Dick Farmer, co-president of Farmer's Copper, Galveston, Texas. Not only does his company sell directly to the energy industry, but many of its other customers have businesses tied to the success of oil and gas.

“There have been some announcements of layoffs and cutbacks, and we've seen some of the big OEMs

requesting price reductions. It's applying pressure downstream,” says Farmer, who also serves as president of CBSA.

Barbour says his company hasn't felt the effects of the lower oil prices yet, but Concast is bracing for it in the back half of this year.

While that segment of the energy market is suffering, the industry as a whole stands to benefit from other developments in the eternal search for cheap power. Officials at the Copper Development Association in Washington believe copper is poised to enjoy great gains from the complemen-

**Manufacturing uniquely engineered alloys protects mills such as PMX Industries from major threats from imported material, the company claims.**

(Photo courtesy PMX Industries)



PMX Industries, Cedar Rapids, Iowa, also has worked on shaving its lead times, which has resulted in greater sales to both service centers and end users. “Every single customer is trying to reduce their inventory burden. That's the No. 1 issue across all market segments. Where it makes sense, we set up consignment or short lead-time systems, and that has helped a lot,” says Tom Bobish, senior vice president of sales and marketing.

Service centers are appreciative. “We don't have to go out 3-4 months; we can plan our inventories tighter,” says

**“When you buy import, it takes 6-8 weeks for the containers to land.**

**In a falling market, if you’re buying today and getting the product eight weeks later, you have a problem on your hands.”** Joe Napolitan, Mueller Brass Co.

tary aims of energy efficiency and sustainability.

“The opportunities in these [alternative energy] markets are bountiful for the copper industry,” says Zolaikha Strong, CDA director of sustainable electrical energy. She is leading the association’s efforts to sell the merits of the material to policymakers and energy executives. “Our main goal is to show the conductivity and reliability benefits of copper.”

The industry stands to benefit from any switch to more alternative energy sources. Six times as much copper is used in the infrastructure for renewable energy, compared to fossil fuels. Moreover, the absence of a strong infrastructure for such renewables as wind and solar, and the issue of their intermittency, supports construction of a new energy storage grid, CDA contends.

This energy push comes on top of the association’s efforts to promote copper’s natural antimicrobial properties.

Used in such high-touch surfaces as door pulls and bed rails, copper can kill nearly all of the bacteria that come in contact. CDA’s campaign to increase copper use has had mixed results so far, however. Copper has yet to become fully embraced by its target market, the healthcare community. “We’re still feeling there’s huge potential out there, but it just hasn’t turned yet. That’s the big effort the industry is spending the most time on,” says Hill. It may take prodding from insurance companies or government agencies such as the CDC to get healthcare facilities to absorb the larger upfront costs in exchange for the long-term benefits that come with copper, she adds.

On the other hand, there has been some headway among commercial enterprises, CDA reports. The Los Angeles Kings hockey team, and chain restaurants Chick-fil-A and Jason’s Deli have installed the material in their facilities because of its bacteria-killing attributes.

Of course, the flip side to these new opportunities is the ever-present threat of substitution by competing materials. The 2014 Drinking Water Act prohibiting lead in materials that touch water has resulted in some gains for the lead-free brass products sold by Mueller and Concast. It also has prompted some builders to seek alternatives due to the difficulty of machining some no-lead and low-lead products. “Brass rod has lost some markets to plastics, composites, aluminum and stainless steel,” Napolitan says of the new law.

Aluminum has made gains in other applications that have been copper strongholds. “Aluminum



**Good demand has enabled producers and distributors to gradually adjust their inventories, even as prices declined. (Photo courtesy Concast Metals)**

is our main threat on the substitution side,” says Todd Heusner, vice president of marketing and sales for Aurubis AG, Buffalo, N.Y. “It has worse conductivity, but it can sit in on some applications in heating, cooling or electrical.” Fortunately, he adds, most substitutions have such long developmental curves that designing away from copper is problematic.

To the domestic copper industry, threats don't just come from alternative materials, but from overseas producers. The Copper and Brass Fabricators Council reported that imports of red metals products increased 7 percent in 2014, with weakness around the globe and the strong dollar making the U.S. the most attractive market for foreign mills. The lower price, however, eventually works against imports.

“When you buy import, it takes 6-8 weeks for the containers to land. In a falling market, if you're buying today and getting the product eight weeks later, you have a problem on your hands,” says Napolitan.

Domestic producers and distributors will keep a close eye on import levels as the year unfolds. “Import penetration wasn't a big issue for us in 2014, but we are concerned with what could happen in 2015,” says Heusner.

Another factor that has hampered commerce this year is the unrelenting weather in the Northeast, a region that much of the red metals industry calls home. “We've had a few problems with customers coming to us asking if we can ship to them because they're having some problems with snow and cold temperatures,” says Napolitan.

Buzash, whose company is located in hard-hit New England, has had difficulty getting material from the ports in Boston and New York.

But Nordt at Unimet believes the wintry conditions will just push demand further out into spring. “We're probably the largest copper roofing distributor, and in this weather nobody can work on a roof. But come March or April, we expect it be gangbusters,” he says. ■

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