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The UPM Market Informer

Monthly Intelligence for Customers of United Performance Metals

Carpenter Prices Increase

Carpenter Technology Corporation (NYSE: CRS) announced that it will increase base prices three percent (3%) to eight percent (8%) on new non-contract orders across all stainless steel product forms. The increase will be effective with new orders placed after September 30, 2017. All applicable surcharges will remain in effect. *Source: Reuters*

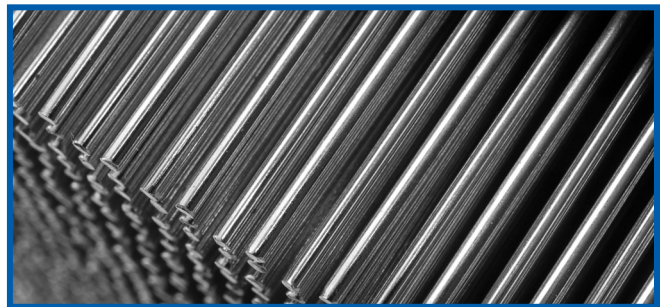
Universal Stainless Increase

Universal Stainless and Alloy Products, Inc. announced a base price increase of 5% on all stainless products manufactured at its Bridgeville, Dunkirk, and North Jackson facilities. The Increase will be effective for all non-contract new orders entered October 1, 2017 forward.

Outokumpu Price Increase

Effective with shipments beginning November 1, 2017, Outokumpu coil Americas will implement the following price increase on all PIE/Non-contract orders:

- Cold Rolled 200, 300 & 400 Series will have their discount reduced by 2 total points
- CMP base pricing will be increase by .02/pound on 3/16" and heavier items
- CMP base pricing will be increased by .04/pound on items less than 3/16" thick



Aluminum Prices Defy Gravity and Maintain \$2,000 Level

Aluminum prices have been strong this year, and rising aluminum prices have boosted the stock prices of producers such as Alcoa and Century Aluminum. The lightweight metal has gained more than 22% so far in 2017. This trend was preceded by a 13.6% rise in 2016.

Aluminum prices have come a long way from Q1 2016 when prices seemed set to breach \$1400 per metric ton. The U.S. dollar has shown weakness, which has provided a positive impact on commodities. Because commodities such as aluminum are priced into the dollar, a weaker dollar bodes well for commodities like aluminum, which is cheaper in other currencies. China's metal demand, including steel and aluminum, has been better than expected in 2017. China's property market has been strong

this year, which has supported metal demand. ArcelorMittal, the leading steelmaker, upwardly revised China's 2017 steel demand growth forecast by 200 base points, primarily due to strong demand from the real estate and construction sectors. China's supply-side reforms, under which it plans to cut down polluting and illegal industrial units have been supporting aluminum and steel. China's overproduction has been flooding international markets for the last few years, pressuring steel and aluminum prices. Because China's supply-side reforms are a key driver of aluminum prices, the country's aluminum production is an important factor in forecasting its prices. *Source: Market Realist*

Aircraft Makers and Suppliers Face Off



Whether United Technologies actually clinches its proposed \$30 billion acquisition of Rockwell Collins remains to be seen. It's likely, but not a slam-dunk, in part because a key customer, Boeing, is wary of it. Speaking at an investor conference recently, Boeing CEO Dennis Muilenberg said, "We remain skeptical whether that's going to add value for us and, in particular, whether it will add value for our customers."

UTC's aggressive expansion strategy illustrated trends unfolding in the industry that investors should heed. For one thing, traditional turf boundaries are shifting. The attempt by UTC to absorb Rockwell is just the latest in a spate of recent M&A deals. This year, Rockwell itself spent \$8.6 billion to acquire B/E Aerospace, whose products include airplane seats and galley systems. And in another proposed multibillion-dollar tie-up, aerospace supplier Safran is trying to buy Zodiac Aerospace, which makes products for aircraft cabins. These actions illustrate a battle between major commercial aircraft manufacturers, namely Boeing and Airbus, and some of their suppliers. For all the talk of suppliers cooperating with manufacturers—and there's still plenty of that—there's also lots of maneuvering to see who will dominate the lucrative business of being an aerospace hardware and service provider.

"Boeing feels that they take a lot of market and development risk, but they don't have the return profile for taking that risk, relative to others in the supply chain," says Jason Adams, an aerospace analyst at T. Rowe Price. The jetliner maker's commercial operating margins are around 10% compared with 15.9% at UTC Aerospace Systems and more than 20% at Rockwell. The industry's sprawling aftermarket operations include providing spare parts and servicing aircraft, very profitable pursuits that typically continue for decades after an airplane has been delivered. Compared to selling a plane, these businesses are much less cyclical and generate plenty of recurring revenue. So, says Nick Heymann, an analyst at William Blair, "the air framers want a bigger part of the action." Boeing has a very ambitious plan to grow its services business, which generates about \$14 billion in annual revenue, to \$50 billion over the next five to ten years, split between commercial and governmental clients. Boeing says it currently has only 75 of the commercial services market. "Our unique (OEM) knowledge gives us an advantage in parts and spares and other areas," Muilenberg asserted at the conference.

No doubt, UTC and other suppliers are closely monitoring Boeing's attempt to further diversify its revenue stream. About one-third of UTC Aerospace Systems' sales of \$14.5 billion last year came from Boeing and Airbus. By acquiring Rockwell, UTC could offer a lot more aircraft content, particularly in important areas like internet connectivity and data analytics that can help with preventative maintenance and other tasks. The deal "gives (UTC) complementary products, especially avionics and information management services," notes Cai von Rumohr, an aerospace analyst at Cowen Equity Research. Nonetheless, he has downgraded UTC's stock to Market Perform, calling proposed transaction's price hefty.

"Rockwell Collins is arguable the industry's leading avionics supplier," says T. Rowe Price's Adams. Avionics includes instruments and display panels used in cockpits. Information-management systems are becoming critical for providing airplanes with everything from more thorough weather forecasts to real-time data that, for example, lets more cargo be loaded shortly before takeoff. In fact, Heymann views all the deal-making as just the latest strategic wave embraced by the airlines over the past decade. One involved "selling tickets at the best pricing," he says. Another was about better seat utilization to improve aircraft capacity. Then came a move to add passenger fees on various items, including extra bags. "That's pretty much reached its limits," Heymann notes. As for suppliers, their goal, for years, was to deliver lighter components. "But now, it's data," he says.

For sure, there's plenty of room for the suppliers and air framers to coexist and prosper, even as the competition gets more heated over who's doing the supplying. "The fundamentals for aerospace are in very good shape," says Rajeev Lalwani, an aerospace and defense analyst at Morgan Stanley. "There are big backlogs out there. Air traffic has been increasing 7%, 8%, 9%, and free cash flow is healthy." Still, Lalwani gives the upper hand to the manufacturers, who "can dictate who's on the aircraft" in terms of suppliers. "Boeing has a lot of runway to increase its aftermarket share," says Adams. "They have the potential to be a real disruptor." But it will take time for the big plane maker to really flex its muscles in that market, and it won't be easy to become a major player in avionics, given the head start companies like Rockwell and Honeywell International have. The market doesn't seem too worried about Boeing's future, however. Its stock has returned 102% over the past 12 months. In the meantime, there could be more M&A as suppliers to try get bigger, make their product portfolios larger and more relevant, and gear up to take on the plane manufacturers. *Source: Baron's Lawrence C. Strauss*

Outokumpu Bar Operations in the US Receives LCS Approval for Aerospace

Outokumpu announced that it has received Pratt & Whitney's LCS (laboratory control at source) approval for its bar products manufactured in its Richburg mill in South Carolina. LCS is the system that validates the testing and control of specified materials and processes used in Pratt & Whitney's aerospace products. Pratt & Whitney is a world leader in the design, manufacture and service of aircraft engines and auxiliary power units.

"We are very pleased that our bar products have been validated by Pratt & Whitney which demonstrates the quality of both our material and its production processes. This approval opens doors for Outokumpu as a supplier of high-performance stainless steel bar in the demanding and growing aerospace market," says Bob Beatty, head of Outokumpu bar operations in Richburg, SC.

Outokumpu has over a century of experience in creating efficient, long-lasting and recyclable stainless steels. Their global offering includes quality-critical long products for equipment, buildings and infrastructure projects. Long product sites are located in the U.S., U.K., and Sweden and are known for their high quality products, flexibility and world-class delivery performance. Source: *Outokumpu*



Surcharge Totals July-December 2017

| Grades | July | Aug | Sep | Oct | Nov | Dec |
|--------------|---------|---------|---------|--------|--------|--------|
| 15-5 | 0.3736 | 0.3811 | 0.4123 | 0.4906 | * | * |
| 15-7 | 0.4705 | 0.4740 | 0.5387 | 0.6427 | * | * |
| 17-4 | 0.3750 | 0.3822 | 0.4118 | 0.4911 | * | * |
| 17-7 | 0.4034 | 0.4142 | 0.4599 | 0.5685 | * | * |
| 201 | 0.3632 | 0.3716 | 0.4015 | 0.4882 | * | * |
| 301 7.0% | 0.4011 | 0.4116 | 0.4561 | 0.5644 | * | * |
| 302/304/304L | 0.4325 | 0.4446 | 0.4948 | 0.6136 | * | * |
| 304-8.5% | 0.4443 | 0.4571 | 0.5103 | 0.6326 | * | * |
| 305 | 0.5308 | 0.5488 | 0.6224 | 0.7711 | * | * |
| 309 | 0.5587 | 0.5767 | 0.6502 | 0.8111 | * | * |
| 310 | 0.7395 | 0.7681 | 0.8823 | 1.0993 | * | * |
| 316/316L | 0.5689 | 0.5777 | 0.6627 | 0.7982 | * | * |
| 316LS/316LVM | 0.7800 | 0.8200 | 0.9800 | * | * | * |
| 317L | 0.6610 | 0.6683 | 0.7703 | 0.9246 | * | * |
| 321 | 0.4478 | 0.4613 | 0.5175 | 0.6399 | * | * |
| 347 | 0.7153 | 0.7288 | 0.7850 | 0.9074 | * | * |
| 409/409 Mod | 0.1861 | 0.1861 | 0.1900 | 0.2274 | * | * |
| 410/410S | 0.1923 | 0.1923 | 0.1962 | 0.2362 | * | * |
| 430 | 0.2282 | 0.2282 | 0.2319 | 0.2876 | * | * |
| 434 | 0.2676 | 0.2653 | 0.2776 | 0.3369 | * | * |
| 439 | 0.2358 | 0.2358 | 0.2394 | 0.2986 | * | * |
| 440A | 0.2282 | 0.2282 | 0.2319 | 0.2876 | * | * |
| 2205 | 0.5632 | 0.5622 | 0.6308 | 0.7588 | * | * |
| 263 | 6.4771 | 6.5417 | 6.3011 | 6.4416 | 6.9385 | 7.2440 |
| 276 | 3.6576 | 3.5368 | 3.2610 | 2.9147 | 3.0924 | 3.7369 |
| A286 | 1.0079 | 0.9355 | 0.8605 | 0.7448 | 0.8173 | 1.0129 |
| 330 | 1.2315 | 1.1241 | 1.0275 | 0.8905 | 0.9940 | 1.2534 |
| 400 | 2.0685 | 1.8568 | 1.6642 | 1.6041 | 1.8355 | 2.3819 |
| 455 | 0.4800 | 0.5000 | 0.6000 | * | * | * |
| 465 | 0.5400 | 0.5700 | 0.6900 | * | * | * |
| 600 | 2.2798 | 2.0593 | 1.8577 | 1.6881 | 1.9040 | 2.4417 |
| 601 | 2.0773 | 1.8962 | 1.7311 | 1.5343 | 1.7112 | 2.1522 |
| 617 | 5.0783 | 5.0335 | 4.7794 | 4.6961 | 5.0551 | 5.5215 |
| 625 | 4.2492 | 4.1002 | 3.8758 | 3.5821 | 3.7601 | 4.3039 |
| 718 | 4.2214 | 4.0784 | 3.9151 | 3.7080 | 3.8595 | 4.2751 |
| X-750 | 2.8433 | 2.6288 | 2.4328 | 2.2612 | 2.4711 | 2.9940 |
| 825 | 1.7143 | 1.6064 | 1.4758 | 1.2810 | 1.3987 | 1.7295 |
| HX | 2.4709 | 2.3634 | 2.1712 | 1.9096 | 2.0604 | 2.5118 |
| 188 | 11.9500 | 12.5300 | 13.1500 | * | * | * |
| CCM | 21.3000 | 21.9800 | 21.7900 | * | * | * |
| L-605 | 14.8600 | 15.5700 | 16.1600 | * | * | * |

*Surcharge currently not available

Tata and Thyssenkrupp Finally Wed



After 18 months of mostly behind-the-scenes negotiations to resolve several potentially “deal-off” stumbling blocks, all the major issues have been resolved. The two firms have signed a memorandum of understanding to create a 50:50 joint venture based in Amsterdam, Netherlands, called Thyssenkrupp Tata Steel (TTS).

The behemoth will rank second to ArcelorMittal with 21 million tons of annual steel capacity generating sales of €15 billion (\$17.8 billion) and employing 48,000 people, *The Telegraph* reported. TTS will focus on three main production hubs: IJmuiden in the Netherlands, Duisburg in Germany and Port Talbot in South Wales, the paper reports. Analysts say improved viability will come from cost savings of between €400 million and €1600 million a year arising after 2,000 redundancies and another 2,000 jobs going out of the combined business as overlapping operations are removed.

Not surprisingly, TTS sees the value proposition as the enhanced opportunity for the combined group to move its businesses up the value chain in cooperation rather than competition with each other. Hans Fischer, Tata Steel Europe’s chief executive, said “We need to focus on higher value products. China has huge overcapacity and there is a risk they will flood the market. The answer is not to compete with them, but try and find a solution where we have products that cannot be produced easily. We need to be a technology leader.”

Tata wriggling out of the old British Steel Pension fund liabilities was the final major hurdle to overcome—albeit to be fair, at considerable cost to the parent—and the willingness of British workers to agree to an end to the final salary scheme and reduced benefits for existing members. This underlines their desperation for a deal, matched by compromises made in Germany by workers fearful of the prospects of foreign competition with the European steel industry.

But therein lies the dilemma. No amount of rationalization will save the European steel industry on its own. Nor will moving up the value chain in the longer term. The problem is global overcapacity and dumping by foreign steel producers in Russia, Ukraine, and yes, China in the relatively open European market. China’s overcapacity is many times the combined total production of TTS. The whole group could be closed and China, or Russia, or Ukraine—or, more likely, a combination of all of them—would promptly fill the gap.

Moving up the value chain won’t last for long, either. As we have seen in aluminum, China is perfectly capable of buying Western technology and moving up the value chain themselves. Where once China only made commodity extrusions and poor quality sheet, they now supply Boeing and Airbus with extrusions, flat rolled and forged aluminum. Moving up the value chain also means moving into more niche areas. For every 10 tons of commodity steel there is only one ton of high-value electrical grade steel or automotive sheet. It yields higher profits, and for a while it gives an edge, but it also may be five years at today’s rates of technological improvement in China.

Nevertheless, shareholders approve of the merger. With their shorter term time frame, they see the benefits far outweighing any disadvantages. In the short term, they are right. The merger gives both companies a chance to improve the fortunes of their European steel operations and safeguard the jobs, for the time being, of many thousands of steel workers. As a panacea for the European steel industry’s woes, however, it still leaves something to be desired. *Source: MetalMiner® Stuart Burns*