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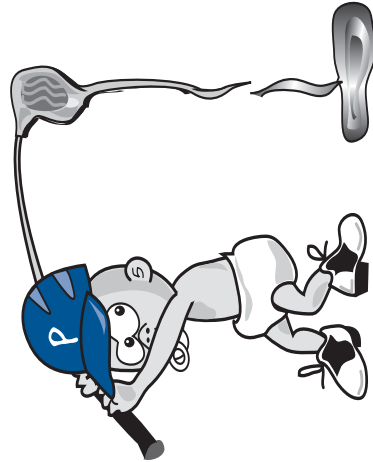
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MAY 2004



## What is a Fair Market Price?

*By Jim Stavis*

Steel buyers are asking themselves today, "What is a fair market price"? Since today's prices seem to have no relation to prices paid last year, we find this question rather perplexing to say the least.

Obviously steel does not cost 50% more to produce than it did a year ago, so what in the world is driving the cost up so much, so quickly?

As a distributor, these market realities have created an environment of uncertainty everywhere where customers haven't a sense of what to expect. After surviving the steel tariffs, the recession and increased world competition, this volatility in pricing may be the last straw for many companies in the manufacturing sector. For many of these customers this new reality can be rather unsettling.

Unfortunately it is not limited only to steel. Virtually every raw material is experiencing increases in pricing putting additional pressure on the manufacturing sector for its survival.

But getting back to our original

*(Continued Inside)*

## What is a Fair Market Price? *(Continued from Front)*

question: what is a fair market price today? Hopefully it is not whatever the market will bear.

The fact is steel is a commodity, but it is not traded on a commodity index or stock market. Red metal consumers are familiar with varying prices that are based on the closing price of the COMEX. Steel, on the other hand, has no daily benchmark, but rather is tied to the producing mills' established prices for steel at a particular point in time.

The marketplace holds them accountable by the demand from customers and from their competitors who make like products. But, it is unreasonable to imagine that customers will buy products from a producer at a price that makes it unviable for them to exist. So if customers are unable to pass along price increases, they will be unable to stay in business.

If there were some sort of benchmark that everyone could look to for pricing, the metals industry would be in a more balanced state. Perhaps a cost-per-

ton average from a group of suppliers across the world could provide a yardstick that the industry could follow.

Instead we have a system of chaos where each distributor is working from a different cost structure in product and overhead with pricing all over the map. We find it hard to believe that the market is changing so rapidly that

prices must be adjusted virtually on a daily basis. Obviously customers and vendors find this process frustrating and hard to digest.

The bottom line is that the supply chain has to accept the fact that steel is a commodity where price fluctuations exist. For that reason it is impossible to establish long-term prices because long-term costs are unknown.

It is for all of these reasons that users of steel should rethink their supply chain, aligning themselves with suppliers that can educate them on pricing trends, and who can speculate with inventory to meet their requirements. What has occurred this year with price volatility should teach us all a lesson for the future: To quote Bob Dylan, "the times they are a-changing".

## Surviving the Twists and Turns of the Steel Market



## Titanium That's Cheap

*By Jim Stavis*

In the world of steel there really are not too many breakthroughs with regards to the composition of metals. There certainly have been advances in the production processes, but the actual metals themselves have basically remained unchanged.

That is why this story caught our eye.

Titanium Metals Corporation of Denver, Colorado is in the process of developing a less expensive grade of titanium that would greatly alter the application of this raw material.

You see titanium cost about 10 times more than basic steel (currently at \$350 per pound). As a result its application has been limited to such things as jet engine parts, golf club heads or mountain bike frames. That could soon change if Titanium Metals is successful in this endeavor.

The auto industry is closely watching this because if cars were made from titanium they would require less gas, spread fewer emissions and never rust.

Last spring the Department of Defense ponied up \$12.3 million in research funding to refine the process. With help from General Electric, United Defense and UC Berkeley, Titanium Metals hopes to have their product available commercially by 2007.

Investors in the company have pushed the stock up four-fold since they acquired the grant last year. Only time will tell if this new material will be a success.

We will keep you posted.

