

The UPM Market Informer

Monthly Market Intelligence for Customers of United Performance Metals

November 2015

Aviation and Defense Outlook

The state of the U.S. aerospace and defense industry looks positive as commercial aerospace booms and defense faces continuing budgetary pressures. According to this year's annual Teal Group Study, revenues continued to grow modestly, about 2.1%, but profitability measures showed strong improvement.

Revenues are continuing to increase, reaching a combined \$326 billion for the 13 companies included in the Teal Group's annual survey.

The increase clearly stemmed from the booming market for commercial aircraft. A total of \$874 billion in backlog, a 14% increase over the previous year, bodes well for future sales.

Boeing dominates the backlog, reporting a \$487 billion backlog, more than all of the other 12 companies in the survey combined.

Operative profits for the 13 leading defense and aerospace companies rose in 2014 to \$42.8 billion, an 8% increase.

Many defense companies have dramatically increased their earnings. As usual in recent years, Harris Corp. and Rockwell Collins led the group in operating margins, reporting 10.2% and 17.7% respectively.

Increased profits for the defense industry comes at a time when congressional and Pentagon criticism of industry profits and performance have been growing. That has raised concerns about moves to reduce industry profitability.

Company	Fiscal Year Ending In ...					Change 1 Year
	2010	2011	2012	2013	2014	
1 Textron Inc.	\$10,525	\$11,275	\$12,237	\$12,104	\$13,878	15%
2 Orbital ATK Inc.	\$1,294	\$1,346	\$3,206	\$2,925	\$3,174	9%
3 Rockwell Collins Inc.	\$4,665	\$4,806	\$4,726	\$4,610	\$4,979	8%
4 Boeing Co.	\$64,306	\$68,735	\$81,698	\$86,623	\$90,762	5%
5 United Technologies Corp.	\$54,362	\$55,754	\$57,708	\$62,626	\$65,100	4%
6 Honeywell Int'l Inc.	\$33,370	\$36,500	\$37,665	\$39,055	\$40,306	3%
7 Lockheed Martin Corp.	\$45,803	\$46,499	\$47,182	\$45,358	\$45,600	1%
8 General Dynamics Corp.	\$32,466	\$32,677	\$31,513	\$31,218	\$30,852	-1%
9 Harris Corp.	\$5,206	\$5,925	\$5,451	\$5,112	\$5,012	-2%
10 Northrop Grumman Corp.	\$28,143	\$26,412	\$25,218	\$24,661	\$23,979	-3%
11 CACI Int'l Inc.	\$3,149	\$3,600	\$3,774	\$3,688	\$3,565	-3%
12 Raytheon Co.	\$25,183	\$24,857	\$24,414	\$23,706	\$22,826	-4%
13 Computer Sciences Corp.	\$16,128	\$14,476	\$14,195	\$12,998	\$12,173	-6%

All measures for 2014 including revenues, backlog, operating profits and net profitability continue to be good for the industry as a whole. After years of extremely strong growth and profitability, the industry is in good shape to handle any lean years ahead in defense. *Source: Teal Group*

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Aerospace and defense companies have been increasing their long-term debt as they seek to lock in low interest rates and pay for expensive stock buy-back and dividend programs.

Shareholder's equity increased strongly by 36% in 2013 and 2014.

Clearly, the industry's outlook continued to improve in 2014. The strong commercial market is helping the industry as a whole and companies with large commercial business to weather the pressure on defense spending.

Oil Price Changes

After touching a three-month low of \$38 a barrel in late August, the price of West Texas Intermediate briefly scaled the \$50/bbl mark earlier this month before settling back to around \$47/bbl.

Much of the movement in U.S. oil prices is being driven by readings of domestic stockpiles. A decline in inventories flushes out oil bulls. A rise brings back the bears.

Oil, however, is a truly global commodity and what's happening in international markets can be more important than what's happening at home.

Influential Wall Street trading house Goldman Sachs warned of downside risk for oil prices through spring 2016 as U.S. and European storage utilization for distillates, which include diesel, neared historic highs.

Traders told Reuters that as refined oil product storage tanks fill up, unwanted diesel and jet fuel cargoes were backing up outside Europe's ports and taking longer, slower routes around the southern tip of Africa.

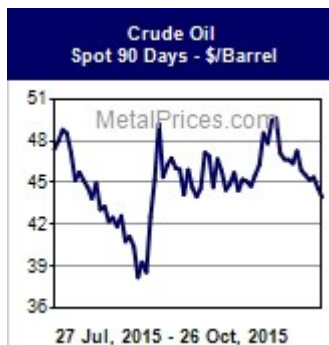
Continued demand growth and falling production should help to end a protracted slump in energy prices in 2016, according to Hess CEO, John Hess.

"Nothing cures a low price like a low price. It takes about two years for the market to rebalance, and

we're out of the first year of that two-year period," commented Hess. Hess noted that global investment in exploration and production has fallen from \$700 billion last year to \$550 billion this year. With U.S. producers, growing to a combined \$100 billion. That leaves producers with little money to spend on reinvestment, which will ultimately drag down production.

U.S. Shale output declines are projected to account for 400,000 barrels per day of an anticipated 500,000 bpd drop in non-OPEC production, reported Hess, citing the International Energy Agency. Still, demand remains "fairly robust," Hess added, noting it is up about 1.8 million bpd this year and should be up 1.2 million bpd in 2016, even accounting for slowdown in some countries and the return of Iranian oil to the international market following the anticipated unwinding of sanctions.

"When you add demand going up next year for a 1,200,000 barrels a day, and non-OPEC going down 500,000 barrels a day, there will be room for Iran, and the markets should recover," he said. *Sources: CNBC, Forbes*



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Contact Mike Binegar 513-860-6505 or mbinegar@upmet.com

Katie Clark 513-860-6344 or kclark@upmet.com

Adam Bland 513-860-6521 or abland@upmet.com

On the West Coast,

Contact Raul Rodriguez 714-249-7425, or rrodriguez@upmet.com

Chris Weber 714-496-3445 or cweber@upmet.com

Kathy Esquerro 714-944-6797 or kesquera@upmet.com

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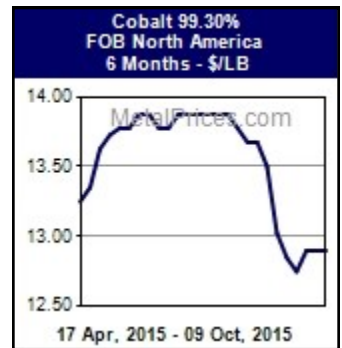
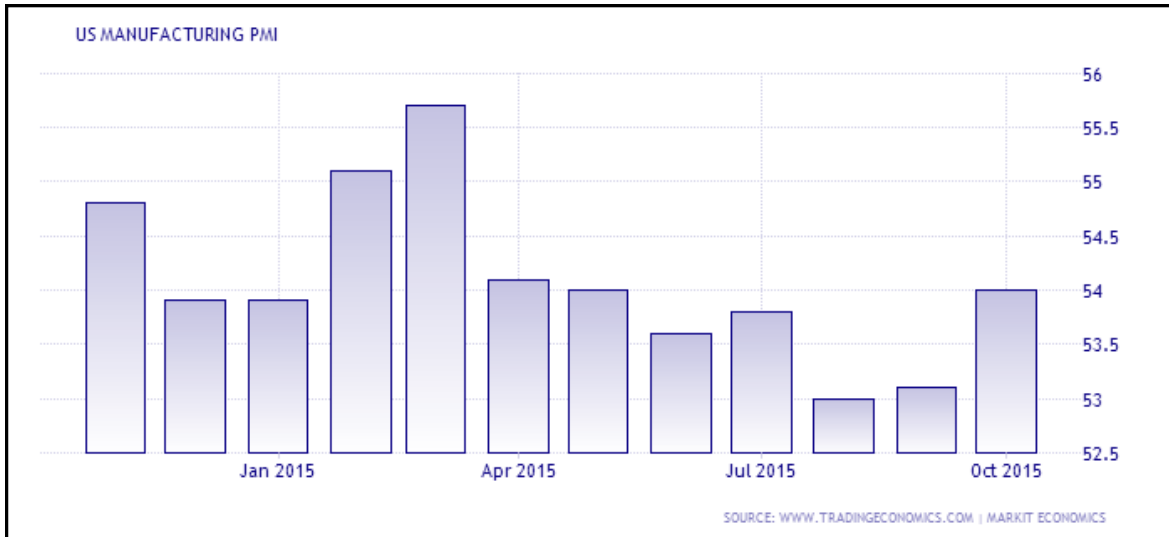
Stainless Steel & Cobalt Alloy Surcharge Totals
August 2015—November 2015
High Temp Surcharge Totals
August 2015—January 2015

Grades	Aug	Sep	Oct	Nov	Dec	Jan
15-5	0.3890	0.3576	0.3339	0.3173	*	*
15-7	0.4994	0.4561	0.4125	0.3864	*	*
17-4	0.3829	0.3532	0.3320	0.3145	*	*
17-7	0.4779	0.4334	0.3902	0.3793	*	*
18SR	0.1950	0.1867	0.1816	0.1589	*	*
201	0.3662	0.3370	0.3084	0.2940	*	*
301 7.0%	0.4782	0.4336	0.3915	0.4017	*	*
302/304/304L	0.5204	0.4720	0.4244	0.4148	*	*
304-8.5%	0.5402	0.4893	0.4391	0.4303	*	*
305	0.6830	0.6145	0.5458	0.5428	*	*
309	0.7118	0.6437	0.5750	0.5717	*	*
310	1.0057	0.9027	0.7967	0.8048	*	*
316/316L	0.6546	0.5939	0.5317	0.5113	*	*
317L	0.7465	0.6800	0.6102	0.5843	*	*
321	0.5515	0.4980	0.4453	0.4374	*	*
347	0.8193	0.7658	0.7132	0.7054	*	*
409/409 Mod	0.1433	0.1344	0.1295	0.1072	*	*
410/410S	0.1497	0.1408	0.1359	0.1135	*	*
430	0.1869	0.1784	0.1734	0.1508	*	*
434	0.2137	0.2045	0.1979	0.1699	*	*
439	0.1949	0.1866	0.1815	0.1589	*	*
440A	0.1869	0.1784	0.1734	0.1508	*	*
2205	0.5532	0.5161	0.4766	0.4412	*	*
2507	0.5980	0.5571	0.5137	*	*	*
20	1.8573	1.9846	1.8358	1.5524	1.3543	1.2687
263	4.0922	4.5332	4.3212	3.8512	3.4848	3.2055
276	4.6452	4.8266	4.1877	3.5258	3.1597	2.9592
A286	1.2230	1.3137	1.2178	1.0202	0.8778	0.8137
330	1.5872	1.7218	1.5914	1.3285	1.1283	1.0404
400	2.9740	3.2645	2.9435	2.4079	1.9937	1.8595
600	3.1898	3.4728	3.1895	2.6439	2.2342	2.0577
601	2.7575	2.9883	2.7582	2.3116	1.9751	1.8284
625	4.8531	5.0576	4.7636	4.2216	3.8891	3.7330
718	4.7645	4.9517	4.7325	4.3148	4.0277	3.8984
X-750	3.7203	3.9954	3.7201	3.1900	2.7915	2.6196
800H/HT	1.4627	1.5791	1.4674	1.2385	1.0634	0.9858
825	2.0825	2.2243	2.0503	1.7198	1.4967	1.3968
HX	2.8589	3.0226	2.7595	2.3048	2.0347	1.9009
188	6.2000	5.9700	5.4200	*	*	
L-605	7.0800	6.9000	6.2700	*	*	*

*Surcharge currently not available

United States Manufacturing PMI

The flash market U.S. Manufacturing PMI came in at 54 on October of 2015, up from 53.1 in September, beating market expectations. New orders went up, boosted by domestic demand, job creation was the strongest since July and input costs fell for the second straight month. *Source: Markit Economics*



Titanium Surcharge Update

Source: ATI Specialty Metals

Titanium Alloy	Standard Surcharge Q4, 2015		
	Bar	Billet	Flat
ATI 6-2-4-2 Alloy	\$6.21	\$5.65	\$6.21
ATI 6-4 Alloy	\$5.10	\$4.64	\$5.10
ATI 6-4 ELI Alloy	\$5.10	\$4.64	\$5.10
ATI CP Grade 1	\$4.94	\$4.50	\$4.94
ATI CP Grade 2	\$3.70	\$3.37	\$3.70
ATI CP Grade 4	\$3.70	\$3.37	\$3.70



Expected Mill Lead Times

Stainless Cold Rolled - 4-6 weeks
Stainless Plate - 6-8 weeks
Nickel Cold Rolled - 20 weeks
Nickel Plate - 14-16 weeks