

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 11-K

ANNUAL REPORT

ANNUAL REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 1998

OR

TRANSITION REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934

Commission file number 1-5725

A. Full title of the Plan and the address of the Plan, if different from
that of the issuer named below:

Nichols-Homeshield 401(k) Savings Plan - Davenport

B. Name of issuer of the securities held pursuant to the Plan and the
address of the principal executive office:

Quanex Corporation
1900 West Loop South, Suite 1500
Houston, Texas 77027
(713) 961-4600

INDEPENDENT AUDITORS' REPORT

The Benefits Committee
Quanex Corporation
Houston, Texas

Re: Nichols Homeshield 401(k) Savings Plan

We have audited the accompanying statements of net assets available for benefits of the Nichols Homeshield 401(k) Savings Plan (the "Plan") as of December 31, 1998 and 1997 and the related statements of changes in net assets available for benefits for the years then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the net assets available for benefits of the Plan as of December 31, 1998 and 1997 and the changes in net assets available for benefits for the years then ended in conformity with generally accepted accounting principles.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying supplemental schedules of (1) investments as of December 31, 1998 and (2) 5% reportable transactions for the year ended December 31, 1998 are presented for the purpose of additional analysis and are not a required part of the basic financial statements but are supplementary information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. The supplemental information by fund in the statements on net assets available for benefits is presented for the purpose of additional analysis rather than to present the net assets available for benefits of the individual funds. The supplemental schedules and the supplemental information by fund is the responsibility of the Plan's management. Such supplemental schedules and supplemental information by fund have been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, are fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole.

/s/ DELOITTE & TOUCHE LLP

DELOITTE & TOUCHE LLP

June 1, 1999

QUANEX CORPORATION
NICHOLS-HOMESHIELD 401(K) SAVINGS PLAN

STATEMENTS OF NET ASSETS AVAILABLE FOR BENEFITS

		December 31,	
		1998	1997
		-----	-----
Assets:			
	Investments at fair value Mutual fund assets:		
	Fidelity Puritan Fund	\$ 446,080	\$ 397,572
	Fidelity Magellan Fund	8,491,981	6,336,645
	Fidelity Contrafund	5,061,757	4,445,215
	Fidelity Growth and Income Fund	10,278,570	8,237,910
	Fidelity Retirement Growth Fund	75,555	--
	Fidelity Overseas Fund	511,026	935,104
	Fidelity Balanced Fund	2,331,697	1,951,329
	Fidelity Blue Chip Fund	170,690	--
	Fidelity Asset Manager Fund	19,368	--
	Fidelity Low Priced Stock Fund	12,177	--
	Fidelity Government Money Market Fund	6,824,432	6,234,283
	Templeton Foreign Fund	184,526	237,963
	Neuberger & Berman Partners Trust Fund	9,241	--
	Quanex Corporation common stock	1,785,718	708,813
	Common/commingled trust	1,823,429	682,073
		-----	-----
		38,026,247	30,166,907
	Participant loans	1,229,915	1,311,591
		-----	-----
	Total	39,256,162	31,478,498
		-----	-----
	Employee contributions receivable	234,379	170,839
	Employer contributions receivable	164,861	107,102
		-----	-----
	Total	399,240	277,941
		-----	-----
	Net assets available for benefits	\$ 39,655,402	\$ 31,756,439
		=====	=====

See notes to financial statements.

QUANEX CORPORATION
 NICHOLS-HOMESHIELD 401(k) SAVINGS PLAN
 STATEMENTS OF CHANGES IN NET ASSETS AVAILABLE
 FOR BENEFITS

	December 31,	
	1998	1997
	-----	-----
Investment income:		
Interest and dividends	\$ 2,080,681	\$ 1,924,289
Net appreciation in fair value of investments	4,948,885	3,025,902
	-----	-----
Total income	7,029,566	4,950,191
	-----	-----
Contributions:		
Employer	1,488,307	1,375,887
Less forfeitures	71,552	36,396
	-----	-----
Total contributions	1,416,755	1,339,491
	-----	-----
Employee	1,811,540	1,766,898
	-----	-----
Total contributions	3,228,295	3,106,389
	-----	-----
Interest on participant loans	101,302	90,456
	-----	-----
Total additions	10,359,163	8,147,036
	-----	-----
Benefit payments	2,454,009	1,524,355
Loan processing fees	6,191	6,478
	-----	-----
Total deductions	2,460,200	1,530,833
	-----	-----
Increase in net assets available for benefits	7,898,963	6,616,203
Net assets available for benefits:		
Beginning of year	31,756,439	25,140,236
	-----	-----
End of year	\$ 39,655,402	\$ 31,756,439
	=====	=====

See notes to financial statements

QUANEX CORPORATION
NICHOLS-HOMESHIELD 401(k) SAVINGS PLAN

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 1998 AND 1997

A. DESCRIPTION OF THE PLAN

The following description of the Nichols-Homesield 401(k) Savings Plan (the "Plan") is provided for general informational purposes only. Participants should refer to the Plan document for more complete information.

- (1) General. The Plan was established on October 1, 1987, and was amended and restated effective January 1, 1989, as a defined contribution plan under Section 401(k) of the Internal Revenue Code ("Code") which covers substantially all salaried and non-union hourly employees at the Nichols-Homesield division of Quanex Corporation (the "Company") and bargaining unit employees at the Lincolnshire, Illinois plant. The Plan is subject to the provisions of the Employee Retirement Income Security Act of 1974 ("ERISA"). The assets of the Plan are held in trust by Fidelity Management Trust Company ("Fidelity" or the "Trustee"). The Benefits Committee (the "Committee"), appointed by the Company's Board of Directors, serves as the Plan administrator.
- (2) Contributions. Employees are eligible to make salary deferral contributions to the Plan on the entry date next following the date that the employee completes one month of service. Participants may elect salary deferrals between 1% and 15% of compensation as defined by the Plan agreement. The Company makes contributions on behalf of employees who have at least one year of service. The Company contribution is based on Company profits and is calculated based on a percentage of the employee's compensation.
- (3) Participant Accounts. Each participant's account is credited with the participant's contribution, the employer's contribution, and an allocation of investment income. Investment income allocations are based on individual participant account balances as of the end of the period in which the income is earned.
- (4) Investment Options. Participants may direct allocation of their contributions to the following funds:
 - Fidelity Puritan Fund - invests in domestic and foreign common stocks, preferred stocks and bonds.
 - Fidelity Magellan Fund - invests in equity and debt securities of foreign and domestic companies.
 - Fidelity Contrafund - invests in equities of foreign and domestic companies.
 - Fidelity Growth and Income Fund - invests in equity and debt securities of foreign and domestic companies.
 - Fidelity Retirement Growth Fund - invests in common stocks and other securities.
 - Fidelity Overseas Fund - invests in foreign equity and debt securities.
 - Fidelity Balanced Fund - invests in common and preferred stocks and bonds.
 - Fidelity Blue Chip Fund - invests in domestic and foreign common stocks.

Fidelity Asset Manager Fund - invests in domestic and foreign stocks, bonds and short-term obligations.

Fidelity Low-Priced Stock Fund - invests in domestic and foreign stocks.

Fidelity Government Money Market Fund - composed of short-term U.S. government obligations.

Templeton Foreign Fund - invests in foreign securities.

Neuberger & Berman Partner Trust Fund - invests in common stocks.

Quanex Corporation Common Stock - invests exclusively in the common stock of Quanex Corporation.

Common/Commingled Trust - invests in investment contracts issued by insurance companies, banks and other financial institutions.

- (5) Vesting. Participants are immediately vested in their voluntary contributions and earnings thereon. Vesting in the employer contribution is based on years of credited service. A participant is 20% vested for each year of credited service and fully vested after five years. If a participant terminates employment prior to becoming fully vested, the nonvested portion of the employer contributions are immediately forfeited by the participant and utilized to reduce future employer contributions.
- (6) Payment of Benefits. The Plan is intended for long-term savings but provides for early withdrawals and loan arrangements under certain conditions. Upon termination of service, a participant may elect to receive a cash lump-sum distribution equal to the amount of vested benefits in his or her account. As of December 31, 1998 and 1997, net assets available for benefits included benefits of \$321,162 and \$3,479, respectively, due to participants who had withdrawn from participation in the Plan.
- (7) Loans. Loans may be granted to a participant of the Plan at the Committee's discretion. Loan terms range up to five years or seven years if used for the purchase of a primary residence. The loans bear a reasonable rate of interest established by the Committee. Interest on the loan is allocated to the borrower's participant account. The participant pays loan set-up fees and carrying fees to Fidelity.

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- (1) Accounting Basis. The financial statements of the Plan are prepared on the accrual basis of accounting in accordance with generally accepted accounting principles.
- (2) Administrative Expenses. The Company pays the administrative expenses of the Plan.
- (3) Investment Valuation. The Plan recognizes net appreciation or depreciation in the fair value of its investments. Investments are reflected at fair value in the financial statements. Fair value of mutual fund assets is determined using a quoted net asset value. Fair value for Quanex Corporation common stock, which is listed on the New York Stock Exchange, is determined by using the last recorded sales price. The fair value of the common/commingled trust is at face value.
- (4) Use of Estimates. The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of changes in the net assets available for benefits during the reporting period. The Plan's financial statements include amounts that are based on management's best estimates and judgments. Actual results could differ from these estimates.
- (5) Payment of Benefits. Benefit payments are recorded when paid.

C. PLAN TERMINATION

Although it has not expressed any intention to do so, the Company has the right under the Plan to terminate the Plan at any time subject to the provisions set forth in ERISA. In the event of plan termination, the assets held by the Trustee under the Plan will be valued and fully vested, and each participant will be entitled to distributions respecting his or her account.

D. FEDERAL INCOME TAX STATUS

The Plan is subject to specific rules and regulations related to employee benefit plans under the Department of Labor and the Internal Revenue Service ("IRS"). The Plan is a qualified trust under Sections 401(a) and 401(k) of the Code and, as a result, is exempt from taxation under Section 501(a) of the Code. The Plan received a favorable determination letter dated December 22, 1994 from the IRS. The Company believes that the Plan is currently designed and being operated in compliance with the applicable requirements of the Code. Therefore, it believes the Plan was qualified and the related trust was tax-exempt as of the financial statement dates.

E. RELATED PARTY TRANSACTIONS

During the years ended December 31, 1998 and 1997, the Plan purchased and sold shares of Quanex Corporation common stock, as shown below:

	1998			1997		
	Shares	Cost	Sales Price	Shares	Cost	Sales Price
	-----	----	-----	-----	----	-----
Purchases	62,027	\$ 1,262,916		11,896	\$ 334,213	
Sales	8,086	190,640	\$ 238,257	5,620	138,365	\$ 175,262

During the years ended December 31, 1998 and 1997, the Plan purchased and sold shares of Fidelity mutual funds, as shown below:

	1998			1997		
	Shares	Cost	Sales Price	Shares	Cost	Sales Price
	-----	----	-----	-----	----	-----
Purchases	3,016,797	\$ 42,968,889		2,068,366	\$ 27,387,956	
Sales	2,410,436	40,918,790	\$ 42,206,577	2,308,384	23,537,694	\$ 24,173,502

During the years ended December 31, 1998 and 1997, the Plan purchased and sold shares of Fidelity Common/Commingled Trust, as shown below:

	1998			1997		
	Shares	Cost	Sales Price	Shares	Cost	Sales Price
	-----	----	-----	-----	----	-----
Purchases	34,826,675	\$ 34,826,675		17,350,916	\$ 17,350,916	
Sales	33,685,319	33,685,319	\$ 33,685,319	17,433,012	17,433,012	\$ 17,433,012

F. SUPPLEMENTAL FUND INFORMATION

Contributions, benefit payments and investment income by fund were as follows for the years ended December 31:

	1998	1997
	-----	-----
Employer Contributions:		
Fidelity Puritan Fund	\$ 35,282	\$ 24,300
Fidelity Magellan Fund	328,759	287,744
Fidelity Contrafund	204,725	205,277
Fidelity Growth and Income Fund	303,491	274,829
Fidelity Retirement Growth Fund	2,797	--
Fidelity Overseas Fund	26,434	26,937
Fidelity Balanced Fund	125,467	126,436
Fidelity Blue Chip Fund	7,473	--
Fidelity Asset Manager Fund	1,220	--
Fidelity Low-Priced Stock Fund	1,788	--
Fidelity Government Money Market Fund	295,714	322,674
Templeton Foreign Fund	13,161	11,331
Neuberger & Berman Partners Trust Fund	1,210	--
Quanex Corporation common stock	32,658	28,513
Common/commingled trust	36,576	31,450
	-----	-----
	\$ 1,416,755	\$ 1,339,491
	=====	=====

	1998	1997
	-----	-----
Employee Contributions:		
Fidelity Puritan Fund	\$ 44,212	\$ 48,109
Fidelity Magellan Fund	393,153	366,386
Fidelity Contrafund	286,530	293,331
Fidelity Growth and Income Fund	427,033	404,124
Fidelity Retirement Growth Fund	5,705	--
Fidelity Overseas Fund	46,670	50,026
Fidelity Balanced Fund	140,135	161,137
Fidelity Blue Chip Fund	32,934	--
Fidelity Asset Manager Fund	4,738	--
Fidelity Low-Priced Stock Fund	8,656	--
Fidelity Government Money Market Fund	288,720	301,382
Templeton Foreign Fund	25,348	30,357
Neuberger & Berman Partners Trust Fund	3,938	--
Quanex Corporation common stock	52,661	37,702
Common/commingled trust	51,107	74,344
	-----	-----
	\$ 1,811,540	\$ 1,766,898
	=====	=====

	1998	1997
	-----	-----
Benefit payments:		
Fidelity Puritan Fund	\$ 16,974	\$ 27,309
Fidelity Magellan Fund	494,247	265,735
Fidelity Contrafund	455,611	173,081
Fidelity Growth and Income Fund	473,940	362,756
Fidelity Retirement Growth Fund	162	--
Fidelity Overseas Fund	101,398	21,351
Fidelity Balanced Fund	110,637	75,691
Fidelity Blue Chip Fund	2,157	--
Fidelity Asset Manager Fund	220	--
Fidelity Low-Priced Stock Fund	--	--
Fidelity Government Money Market Fund	550,151	547,972
Templeton Foreign Fund	5,714	842
Neuberger & Berman Partners Trust Fund	--	--
Quanex Corporation common stock	70,806	2,853
Common/commingled trust	171,992	46,765
	-----	-----
	\$ 2,454,009	\$ 1,524,355
	=====	=====

	1998	1997
	-----	-----
Investment income:		
Fidelity Puritan Fund	\$ 62,780	\$ 69,603
Fidelity Magellan Fund	2,145,849	1,263,804
Fidelity Contrafund	1,288,892	784,366
Fidelity Growth and Income Fund	2,301,995	1,835,146
Fidelity Retirement Growth Fund	7,889	--
Fidelity Overseas Fund	338,220	207,707
Fidelity Balanced Fund	393,028	358,885
Fidelity Blue Chip Fund	23,861	--
Fidelity Asset Manager Fund	2,539	--
Fidelity Low-Priced Stock Fund	(100)	--
Fidelity Government Money Market Fund	336,310	336,082
Templeton Foreign Fund	(6,592)	3,587
Neuberger & Berman Partners Trust Fund	2	--
Quanex Corporation common stock	75,842	44,145
Common/commingled trust	59,051	46,866
	-----	-----
	\$ 7,029,566	\$ 4,950,191
	=====	=====

ITEM 27-A SCHEDULE OF ASSETS HELD FOR INVESTMENTS PURPOSES
 EIN: 38-1872178; PN 017

QUANEX CORPORATION
 NICHOLS-HOMESHIELD 401(k) SAVINGS PLAN

SUPPLEMENTAL SCHEDULE OF INVESTMENTS
 DECEMBER 31, 1998

	Shares/ Par Value	Cost	Current Value
	-----	-----	-----
Fidelity Mutual Fund Assets:			
Puritan Fund*	22,226	\$ 404,723	\$ 446,080
Magellan*	70,286	5,743,954	8,491,981
Contrafund*	89,131	3,633,160	5,061,757
Growth and Income Fund*	224,227	6,381,217	10,278,570
Retirement Growth Fund *	3,684	75,142	75,555
Overseas Fund*	14,203	458,399	511,026
Balanced Fund*	142,524	2,013,907	2,331,697
Blue Chip Fund*	3,387	151,837	170,690
Asset Manager Fund*	1,114	20,175	19,368
Low-Priced Stock Fund*	533	13,092	12,177
Government Money Market Fund*	6,824,432	6,824,432	6,824,432
Templeton Foreign Fund	21,994	230,033	184,526
Neuberger & Berman Partners Trust Fund	511	9,468	9,241
		-----	-----
Total Mutual Fund Assets		\$ 25,959,539	\$ 34,417,100
Quanex Corporation Common Stock*	79,144	1,690,723	1,785,718
Common/Commingled Trust*	1,823,429	1,823,429	1,823,429
Participant loans (bearing interest rates from 7.85% to 11%)		1,229,915	1,229,915
		-----	-----
Total Investments		\$ 30,703,606	\$ 39,256,162
		=====	=====

ITEM 27-D - SCHEDULE OF REPORTABLE (5%) TRANSACTIONS EIN 38-1872178; PN 017

NICHOLS-HOMESHIELD 401(k)SAVINGS PLAN

SUPPLEMENTAL SCHEDULE OF 5% REPORTABLE TRANSACTIONS
DECEMBER 31, 1998

Description	Total Number of Purchases During the Plan Year	Series of Transactions			Cost of Asset	Current Value on Transaction Date	Net Gain (Loss)
		Purchase Price	Total Number of Sales During the Plan Year	Selling Price			
Magellan*	104	\$ 1,572,487	69	\$ 1,162,852	\$ 974,084	\$ 1,162,852	\$ 188,768
Contrafund*	97	1,715,401	63	2,013,205	1,980,680	2,013,205	32,525
Growth & Income*	135	4,709,800	85	4,402,232	3,977,551	4,402,232	424,681
Overseas*	137	31,972,258	73	32,727,270	32,415,244	32,727,270	312,026
Commingled Fund*	155	34,826,675	91	33,685,319	33,685,319	33,685,319	--
Gov't Money Mkt*	90	1,882,259	76	1,292,110	1,292,110	1,292,110	--

* Party-in-Interest

SIGNATURES

The Plan. Pursuant to the requirements of the Securities Exchange Act of 1934, the trustees (or other persons who administer the employee benefit plan) have duly caused this annual report to be signed on its behalf by the undersigned hereunto duly authorized.

Nichols-Homeshield 401 (k) Savings Plan

Date: June 28, 1999

/s/ Viren M. Parikh

Viren M. Parikh, Benefits Committee

INDEX TO EXHIBITS

Exhibit No. -----	Description -----
23.1	Independents Auditor's Consent

INDEPENDENT AUDITOR'S CONSENT

We consent to the incorporation by reference in Registration Statement No. 33-54081 of Quanex Corporation on Form S-8 of our report dated June 1, 1999, appearing in the Annual Report of Form 11-K of the Nichols-Homeshield 401 (k) Savings Plan for the year ended December 31, 1998.

/s/ DELOITTE & TOUCHE LLP

DELOITTE & TOUCHE LLP

Houston, Texas
June 28, 1999