

Market Condition & Activity Bulletin

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PIPING & EQUIPMENT, INC. - Affiliated Distributors Member

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STAINLESS STEEL PIPE

Pricing → Price levels are expected to be flat over the full third quarter of 2010. One manufacturer reports that general activity seems to be picking up, but overall mill backlogs are not good.

Lead Times - Delivery lead times remain at 6 - 8 weeks, with fill rates down to 10% - 20%. Non-standard material delivery is running 8 - 10 weeks.

Comments - Commodities lately seem to be following the general trend of the Dow. If you can figure out what the stock market is going to do, commodities seem to be on the same track according to comments from one manufacturer. Slower global growth and the resolution of a year-long strike by Vale workers will keep nickel prices on a downward trend until the fourth quarter. Stainless steel is the key consuming industry for nickel. Global stainless steel production is expected to slow in the third quarter compared with the average in the first half of the year.

North American Stainless Steel Price Index (Grade 304)

Grade 304	June 2009	July 2009	Aug 2009	Sept 2009	Oct 2009	Nov 2009	Dec 2009	Jan 2010	Feb 2010	Mar 2010	Apr 2010	May 2010	June 2010
US\$/Ton	2223	2428	2760	2945	3320	3214	3290	3115	3175	3405	3570	3999	4379
Index	106.9	116.7	132.7	141.6	159.6	154.6	158.2	149.8	152.7	163.7	171.7	192.3	210.6

Furnished by MEPS International (Index Base 1997 = 100)

Price Data for 316 Stainless Steel Flatroll Product in USD / LB

316 SS Flatroll	Dec 2009	Jan 2010	Feb 2010	Mar 2010	April 2010	May 2010	Jun 2010	July 2010	Average
Low	1.8279	1.7044	1.7407	1.9316	2.0473	2.3014	2.5169	2.2633	2.04169
High	2.0559	1.9324	1.9687	2.1596	2.2753	2.5294	2.7449	2.4913	2.26969
Avg	1.9419	1.8184	1.8547	2.0456	2.1613	2.4154	2.6309	2.3773	2.15569

STAINLESS STEEL WELD FITTINGS, 150 & HI-PRESSURE FITTINGS

Pricing ↘ (Weld Fitting 150#) ↑ (SS Pressure Fittings) One manufacturer predicts no change in pricing through the 4th quarter; however, several other manufacturers indicate pricing will be down 2% - 5%. If nickel prices rise, which is predicted, it may cancel any decrease. It is predicted that nickel prices will be on the rise. Pressure fitting manufacturers indicate price increases of 5% - 7% due to raw material costs

Lead Times - Material is shipping from stock with a fill rate of 90% or better with lead times of 2 - 4 weeks. Specials are taking a little longer for shipping in 4 - 6 weeks.

Comments - Manufacturers view the fact that nickel and scrap prices have been relatively stable since mid-May as a healthy sign for near future demand prospects. One manufacturer comments that the "boom and bust" cycles can play havoc throughout the entire stainless steel PVF channel as participants are forced to try

and "over-think" procurement plans as opposed to purchasing against real time, actual demand requirements. One manufacturer comments that the formula by which surcharges are implemented has a tendency to "overstate" and "understate" actual demand as market participants tend to over-purchase as raw materials spike and under-purchase as raw materials decline significantly. One manufacturer stated that there is too little demand with projects slowing (BP effect). The most volatile issue affecting the PVF market is the government. End users are nervous about the following: health care, Cap-Trade, and 2011 tax increases. Once they feel more comfortable with the rules, then we may see an improvement in the economy. Another comment from one manufacturer concerning the PVF market, "too many players, too few buying customers...if low demand continues, companies will consolidate more or disappear altogether." Manufacturers indicate that the delivery of forged stainless steel items continue to outpace class 150 fittings.

STAINLESS STEEL FLANGES

Pricing ↓ Manufacturers indicate pricing for stainless steel flanges to be down 5% - 7% for the 3rd Quarter 2010 due to raw material costs (nickel is down), poor economy, demand and the financial crisis. This down trend follows the prior increase during the 2nd quarter.

Lead Times - Fill rates are only 30% - 40% with fill rate of 2 - 3 weeks for stainless and 4 - 6 weeks for nickel alloys.

Comments - Projects continue to be very few. Those that are evident are much smaller than before. Due to the existing economy and high unemployment, the PVF industry is in a concerning mode. The raw material price swings and the current government administration's pessimistic view on fossil fuels are issues currently affecting our market. The economy and government regulations are both negative to the industry.

CARBON STEEL PIPE - SEAMLESS, ERW AND CONTINUOUS WELD

Pricing → Manufacturers predict pricing to remain level thru the 3rd Quarter due to over-supply, and weak demand.

Lead Times - Fill rates are running 20% - 30% with lead times of 6 - 8 weeks.

Comments - Steel mill utilization is currently at 72%, down slightly from 73% three months ago. Through June, global blast furnace iron production is up approximately 27% over 2009 levels and steel mill capacity utilization is currently at 80% in Europe and 84% in China. In the global market, steel demand for the balance of 2010 through 2011 is expected to remain at current levels in Europe and North America due to uncertainty in the global economy. Steel makers painted a gloomy

picture for the short-term prospects of the steel industry during the last week of July, saying global prices had fallen and industrial demand was not recovering as quickly as expected. The negative outlook from Japan to North America sent steel makers' shares tumbling as reported by REUTERS in the New York Times. The United States Steel Corporation said it was seeing slower order rates and the AK Steel Holding Corporation said it was cutting production capacity to match weak demand from big steel buyers like the automobile and construction industries. Steel prices had risen slowly over the past year, but in the last few months they have slipped with lower demand and raw material costs rising.

CARBON STEEL WELD FITTINGS AND FLANGES

Pricing → Manufacturers are not forecasting a price change for carbon steel fittings and flanges for the 3rd Quarter 2010. Manufacturers indicate no significant change in the cost of manufacturing.

Lead Times - Deliveries are forecast for 2- 3 weeks with fill rates of 80% - 90% or more.

Comments - Manufacturers report that the market remains sluggish and uncertainty is stifling demand. One manufacturer reports that uncertainty in the financial markets, the looming "Cap and Trade" legislation and the BP disaster are

causing the industrial and commercial market to take a cautious look at entering into new construction projects along with casting doubts on the continuation of existing projects that are approaching re-financing threshold or drilling authorization. The most volatile issue affecting the PVF market is the current administration's approach to the economy reports a manufacturer. In the near term manufacturers see a return to the requests for domestically produced material due to quality issues, availability, inventory carrying costs and liability considerations.

Price Data for All Carbon Steel Products Composite Price & Index for North America

Carbon Steel	Jul 2009	Aug 2009	Sept 2009	Oct 2009	Nov 2009	Dec 2009	Jan 2010	Feb 2010	Mar 2010	Apr 2010	May 2010	Jun 2010
Price	626	668	680	683	660	659	717	757	775	845	848	790
Index	144.9	154.6	157.4	158.1	152.8	152.5	166.0	175.2	179.4	195.6	196.3	182.9

Furnished by MEPS Steel Prices July 2010

The American Iron & Steel Industries reported that, in the week ending July 17th, 2010, US domestic raw steel production was 1.726 million tons while the capability utilization rate was 71.4%. Production was 1.255 million tons in the week ending July 17, 2009, while the capability utilization rate was 52.4%. The current week production represents a 37.5% year over year increase from the same period in the previous year. Adjusted year to date production through July 17, 2010 was 48.322 million tons, at a capability utilization rate of 70.6%. That is a 62.2% year over year increase from the 29,797 million tons during the same period last year, when the capability rate was 44.6%. This estimate is based on reports from companies representing about 75% of the US's raw steel capability and includes revisions for previous months.

FORGED STEEL FITTINGS

Price → No price change is forecast for forged steel fitting during the third quarter.

Lead Times - Material shipment fill rates are 80% - 90% with lead times for commodity material not in stock running 1 - 2 weeks. The initial shipment percentage has increased 2 - 3% from the second quarter of 2010. New capital investments are aiding the manufacturing process with one manufacturer.

Comments - Import pressure from Asia, is consistent with the first half of 2010. We have seen an increase from Italian manufactures as currency issues have been

reduced. Previously the weakened dollar acted as a barrier to competitiveness. As the dollar strengthened against the Euro, we could begin to see increased pressure. Special bar quality steel, the raw material utilized in forged steel production continues to increase. Beginning the fourth quarter of 2009, we have experienced a 30% increase on raw material costs. The industry is beginning to encounter lower scrap surcharges, but Arcelor Mittal has announced a September 1st \$40 / ton increase nullifying the scrap reductions.

STAINLESS STEEL GATES, GLOBES, CHECK VALVES

Price → Stainless valve manufacturers for gate, globe and check valves indicate no price change due to raw material costs and demand.

Lead Times - Fill rates are running 80% - 90%. Lead times for commodity valves not in stock are forecast for 8 - 12 weeks. Non-stock specials are running 16 - 20 week lead times.

Comments - Manufacturers indicate raw material costs have increased slightly, but they expect more stabilization through the last half of 2010. They also predict very strong growth opportunities beginning now through 2015.

BRONZE AND IRON GATES, GLOBES AND CHECK VALVES

Price ↑ Bronze valves are forecast for a 1% - 2-1/2% increase through the 3rd quarter, while Iron valves are forecast to increase 3% - 5%.

Lead Times - Fill rates for Bronze valves are 80% - 90% and Iron valves are lower at 70% - 80%. Lead times for Bronze and Iron valves are forecast for 4 - 8 weeks.

Comments - Raw materials costs for bronze ingot has increased greatly and are

expected to continue to increase thru 2010. Overall demand for Bronze valves are up 20% versus 2009. The pulp and paper business is stable. Chemical plant opportunities are increasing. Mechanical construction is expected to remain at lower levels. MRO activity is high.

CAST STEEL GATES, GLOBE AND CHECK VALVES

Price → Manufacturers indicate no change in pricing for third quarter 2010.

Lead Times - Lead times are running 4 - 8 weeks with fill rates of 70% - 80%. Specials are shipping in 16 - 20 weeks.

Comments - Raw material costs are increasing somewhat. Overall there is a lot

of inventory of commodity product in the US stocks; however, the inventory is decreasing. Very strong growth is expected in the cast steel market over the balance of 2010 and the next several years.

FORGED STEEL GATES, GLOBES AND CHECK VALVES

Price → ↑ One manufacturer indicates no change this quarter due to supply and demand, and another indicates a 3% - 5% increase due to raw material costs.

Lead Times - Lead times are running slightly longer for forged steel valves at 6 - 12 weeks. Fill rates are also low on this commodity at 50% - 65%.

Comments - One manufacturer comments that forged steel valves sales are up over 2009, but not yet back to the 2008 levels. Foreign competitors for forged steel

valves create downward price pressure. End users are expanding AML's to permit use of these foreign products for cost savings. Manufacturers are looking for lower cost solutions, so more and more production is shifted from the US to lower cost locations. Global supply and integration is the biggest change in the industry. Another manufacturer also notes that plants around the world have scaled back capacity by 10% - 20% compared with 2009 production levels.

QUARTER TURN VALVES - BALL AND WAFER

Price → No significant price changes are forecast for this quarter.

Lead Times - Fill rates for quarter turn valves are running 70% - 80% with lead times of 4 - 6 weeks. One manufacturer indicates they have improved many of the lead time problems they experienced in the first half of 2010.

Comments - Foreign competition for ball valves have increased substantially from China, India and Korea. One manufacturer reports that a source commented that China is a concern, because they have purchased so much scrap metal. The concern is that radio-active material has been found in fittings and flanges from China.

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This report is published as a service to the PVF Industry indicating the direction of prices, lead times, and market conditions reported by various domestic and import manufacturers as they believe the direction the market is heading each quarter.

NAFTA has asked the Trade Promotion Coordinating Committee (TPCC) and NAFTA governments to support the following recommendations to increase North America's Exports of Manufactured Goods in a letter sent on July 26, 2010:

- Innovation, Technology and Human Capital - support more Research and Development within NAFTA including joint and cross-border initiatives.
- Infrastructure Investment - continue efforts to improve border infrastructure to secure efficient and secure movement of people and fairly traded cargo between NAFTA countries.
- More Effective Trade Policies - develop industrial strategies to improve the ability of North American manufacturers to compete with China, India and other emerging market countries, and achieve a truly level international playing field.

ThyssenKrupp Steel USA is about to run their first hot rolled coil from slab produced at their TK mill in Europe. This mill will be the first "fully integrated" mill in the United States since Bethlehem opened Burns Harbor in the 1960's. The SMU (Steel Market Update) considers the project "fully integrated" because TK has built a slab mill in Brazil to feed the USA mill. The TK plant is located on 3600 acres approximately 40 miles north of Mobile on the Tombigbee River. The mill has a total capacity of 5.3 million metric tons (5.84 million short tons) of which 1.0 million will be stainless once the plant is complete and at "steady state" (over the next 2 years). The balance or approximately 4.2 million metric tons (4.6 million short tons) will consist of hot rolled, hot rolled pickled and oiled, cold rolled (FH and fully annealed), galvanized, and aluminized. Export is part of the commercial plan for TK with the focus being on NAFTA countries, not limited to TK's sister trading company. Primary markets are service centers and pipe and tube. Others will be construction and construction equipment as well as the appliance market. TK anticipates 40% of their business will ultimately be in the automotive sector.

The Commerce Department released the SIMA (Steel Import Monitoring and Analysis data) recently showing steel import permit applications for the month of July totaled 2,323,000 net tons. This was a 15% increase from the 2,023,000 permit tons recorded in June. Import permit tonnage for finished steel in July was 1,753,000 net tons, up 14% from the preliminary imports total of 1,543,000 net tons in June. In July, the largest finished steel import applications were from the following offshore countries: Korea (30% over June), India (182% over June), Japan (79% over June), China (21% over June) and Germany (41% over June). Line pipe imports were up 62% over June. Thomas Gibson, president and CEO of the American Iron and Steel Institute, stated, " Our main concerns about the July numbers are the continuing high import market share overall and the spike in imports from China. With domestic steel capacity utilization year-to-date still at only 70% and with a slowing and uncertain economic recovery, the focus must remain on full and strict trade law enforcement against dumped and subsidized imports."



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