



Market Condition & Activity Bulletin

Piping & Equipment, Inc.— A Member of AD & supplyFORCE.com

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AN OPEN LETTER CONCERNING THE STATE OF THE STEEL INDUSTRY

Wheatland Tube Company, in particular, and the Steel Community in general, are under unprecedented **supply and pricing** pressures. What makes this time unique is that there is no one component part driving the current condition. Below you will find a number of significant issues driving our products to their current and future levels:

RAW MATERIALS – The basic building blocks of steel used in the manufacturing of pipe and tubular products are:

- Iron Ore – World demand is forcing pricing upward.
- Coking Coal – Very restricted availability due to a coal mine fire in West Virginia that produces this high-grade product. Coke imports are experiencing restricted availability due to increased world steel consumption. For example, China typically exports 4½ million tons of Coke annually; it is now being consumed internally. This product impacts integrated producers (ISG, US Steel, Weirton and Inland Steel).
- Scrap Steel – Tight supply due to a 33% increase in scrap exports and less scrap on the market due to seasonal issues (weather and demolition schedules). Steel scrap is also experiencing record high pricing as well. This product impacts mini mills more severely (Nucor, SDI, Gallatin, etc.).
- Direct Reduced Iron or Hot Briquette Iron Pellets – Acceptable substitute for scrap is in sporadic supply due to political turmoil in Venezuela, its primary source.
- Limestone and Dolomite are readily available.

THE CHINA FACTOR – The surge in economic activity in China has been compared to America's industrial revolution. Think of the United States' appetite for goods and services during that expansive time; now translate a similar appetite for 1,400,000,000 people! Also, consider that the 2008 Olympic Games are scheduled for China, more than likely they will use this event to demonstrate to the rest of the world the progress they are making toward modernization.

SHIPPING ISSUES – Doubling of international shipping rates coupled with a shortage of vessels that carry raw as well as finished steel products.

FUEL – Continuing higher prices for natural gas and oil.

WORLD GROWTH – Recovering world economies are dramatically increasing steel consumption.

ECONOMICS – A weak U. S. dollar promotes exports (scrap) from the United States and conversely discourages imports (coke, finished steel products) to the U.S.

COMPARISONS – Some have compared this time to the 1973 – 1975 steel market upheaval, this is far more serious since it is being played out in a world, rather than national marketplace.

OUTLOOK – Continued tight supplies and higher prices for the foreseeable future. With all the above factors in play, it is exceptionally difficult to put a definite time frame to a solution.

We hope this provides you with some additional insight to the current difficulties we are all faced with. All of us at Wheatland value your business and truly regret the upset this is causing your businesses. Thank you for your patience and continued support.

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STAINLESS STEEL PIPE

Pricing ↑ The price of welded stainless steel pipe is predicted to raise 2% – 10% and manufacturers indicate further price increases are expected. Surcharges are volatile given molybdenum pricing. Price increases are expected to stick because it is raw material related. Manufacturers comment that demand is strong. The first quarter closed with increases of 10% or more.

Lead Times – Commodity material fill rates are 20% – 50% with lead times out to 16 – 20 weeks. Non-stock special lead times are 20 weeks or more. Flat-rolled mill lead times have extended significantly this past quarter.

Comments – With the movements in moly and chrome, surcharges have become very unpredictable. Nickel remains high, with forecasts in the \$6 – \$7 range covering most of the industry; however, nickel has leveled off slightly. Molybdenum is up from \$11/lb. to \$17/lb. Even

chrome is up 5%. The surcharge situation is therefore, very difficult. Mills are holding back quotes on moly based alloys. Quote validity by our raw material suppliers range from one to two calendar days as reported by numerous manufacturers. It is now impossible for manufacturers to hold pricing for any length of time to meet project timelines. Even firm orders to raw materials suppliers are price-in-effect at time of shipment according to one manufacturer. On a global basis, demand is still strong with shortages on 316L material. For stainless grades, nothing is firm. Overall demand is up over the same period last year, but not as much as one would think due to the pricing increases compared to this time last year according to one manufacturer. Dollars booked are much higher, but overall tons have not increased by the same increments.

STAINLESS STEEL WELD FITTINGS

Pricing ↑ Stainless steel weld fitting manufacturers are indicating price increases of 5% to 10%. Raw material costs and shortages, along with nickel and moly surcharges are driving these changes. Last quarter closed with increases of 10% or more.

Lead Times – Lead times for commodity stainless steel weld fittings are running 4 – 6 weeks with fill rates of 70% – 80%. Lead times for non-stock special items are 6 – 12 weeks.

Lead times on “specials” will extend this quarter and will only be getting worse according to one manufacturer.

Comments – Inquiries are at an all-time high according to one manufacturer’s comment. Manufacturers are seeing a slight increase in activity, primarily material that can be shipped from stock. Distributor inventories of domestic fittings are low and relying on manufacturer’s inventory. Import fittings are less available and increasing in price.

STAINLESS 150 AND HI-PRESSURE FITTINGS

Pricing ↑ Stainless steel pressure fitting manufacturers are predicting increases of 10% or more this quarter following the first quarter increases of 10% or more.

Lead Times – Longer lead times of 4 – 6 weeks with

70% – 80% fill rates. Manufacturers indicate longer lead times and some shortages.

Comments – Manufacturers indicate they see continued volatility thru 2004.

STAINLESS STEEL FLANGES

Pricing ↑ Manufacturers indicate price increases of 10% or more due to raw material costs.

Lead Times – Manufacturers are quoting fill rates of 50% – 80% and lead times from 3 – 6 weeks. Non-stock specials are running 6 – 8 weeks and this will continue to get longer. Some exotics are already out to 12 – 14 weeks.

Comments – Manufacturers feel that commodity stock is going to be affected by shortages of raw material. Also, lack of business has caused manufacturers not to stock

like in the past. World manufacturers will be affected by nickel and moly shortages. Due to the number of projects outside of the U.S., manufacturers feel that foreign material coming in to the U.S. will be shrinking. Foreign manufacturers can make more by staying out of the U.S. Nickel prices are expected to continue rising. Moly mines are on strike. All manufacturers (U. S. and foreign) will be forced to continue with these rising prices according to several manufacturers expectations.

CARBON STEEL PIPE (CONTINUOUS WELD, ERW & SEAMLESS)

Pricing ↑ Manufacturers are predicting price increases of 3% to 10% and more. One manufacturer notes that we are starting to see import mills follow domestic increases. Increasing raw material costs are necessitating the need for higher prices.

Lead Times – Lead times are currently 3 to 4 weeks. Fill rates are 60% to 90%.

Comments – One manufacturer indicates that the market is slowly picking up. More jobs that are domestic are being quoted. One manufacturer indicates rising steel prices, shortage of steel, higher energy costs, and rising scrap prices with shrinking availability of scrap are driving the price increases. Increases are not demand driven.

Please note that arrows inserted after pricing is only a “Best Guess” of pricing direction after compiling information from select suppliers. It does not reflect input from all mgfs. nor does it include study of national economic indicators.

CARBON STEEL WELD FITTINGS AND FLANGES

Pricing ↑ The prices for carbon steel fittings and flanges are predicted to increase 5% – 7½%.

Lead Times – Fitting and flange manufacturers indicate lead times of 2 – 4 weeks. Fill rates are running about 90%.

Comments – Scrap prices up sharply. The scrap prices are affecting mill pipe costs to fitting manufacturers. More increases are expected. Manufacturers are also indicating heavy demand in China, as well as the Euro / Dollar currency valuation effecting U.S. imports. One manufacturer indicates that manufacturing is becoming

increasingly difficult. It is harder for manufacturers to purchase raw material, pipe and forgings, and harder for them to predict prices. We are not alone in this worldwide problem caused by the insatiable demand for scrap steel by China. April and May has seen some drops in scrap; however, June and July scrap prices are expected to rise again when Turkey and China have indicated they will be back in the market. There is some indication that Malaysian manufacturers are having extreme difficulty getting pipe, forgings, and plate.

FORGED STEEL FITTINGS

Pricing ↑ Manufacturers indicate forged steel fittings to increase this quarter by 8% due to raw material costs. Last quarter increases were 5% – 7½%.

Lead Times – Fill rates are 80% – 90% with forecast lead times of 2 – 3 weeks. Non-stock specials are forecast for 3 – 4 weeks. The lead times have increased slightly as

manufacturers have some holes with forging availability. **Comments** – One domestic forged steel company has begun selling import forged steel. Foreign competition is seen as decreasing as the weak dollar is affecting the Italian manufacturers.

STAINLESS GATES, GLOBES, CHECKS

Pricing ↑ Manufacturers predict price increases from 8% – 10%.

Lead Times – Forecast lead times remain at 8 – 12 weeks with 60% – 70% fill rates. Non-stock specials are

forecast for 14 – 18 weeks. **Comments** – One manufacturer comments that price increases should hold for another six months. Business has been brisk for stainless steel from all industries.

BRONZE AND IRON GATES, GLOBES, CHECKS

Pricing ↑ Manufacturers predict price increases this quarter of 6% – 7% and should hold throughout the end of the year.

Lead Times – Lead times are quoted at 3 – 4 weeks. Non-stock specials are forecast for 4 – 6 weeks.

Comments – Ingot price increases for bronze have jumped in the last 90 days by 20%. On bronze valves, this equals a change in shortening discount by 7%; a price increase of 7%; or a surcharge of 7%.

CAST STEEL GATES, GLOBES, CHECKS

Pricing ↑ Manufacturers indicate price increases of 3% – 5%. **Lead Times** – Fill rates are 80% – 90% with lead times of 6 – 8 weeks for cast steel valves and 16 – 20 weeks for high-pressure cast steel valves.

Comments – One manufacturer notes that many companies are over inventoried due to the past business slow down in the U.S. All manufacturers are feeling the bite due to China and nickel prices. All special metal prices

have affected the valve market 10% to 20% depending on the nickel content due to the mine strike, shortage, and labor reports one manufacturer. One manufacturer notes that we should expect to see prices of carbon steels to increase approximately 5% to 10% by the first quarter of 2005. About half of the increases will be driven by raw material and labor, and the other half will be driven by the exchange rate appreciations.

FORGED STEEL GATES, GLOBES, CHECKS

Pricing ↑ Manufacturers indicate price increases this quarter of 3% – 5%

Lead Times – Forged steel commodity valves are shipping

in 3 – 6 weeks, and non-stock specials are forecast for 8 – 16 weeks.

QUARTER TURN VALVES – BALL AND WAFER

Pricing ↑ Manufacturers have announced price increases for quarter turn valves from 3% – 5%. Manufacturer's state increased raw material costs account for the rise in prices.

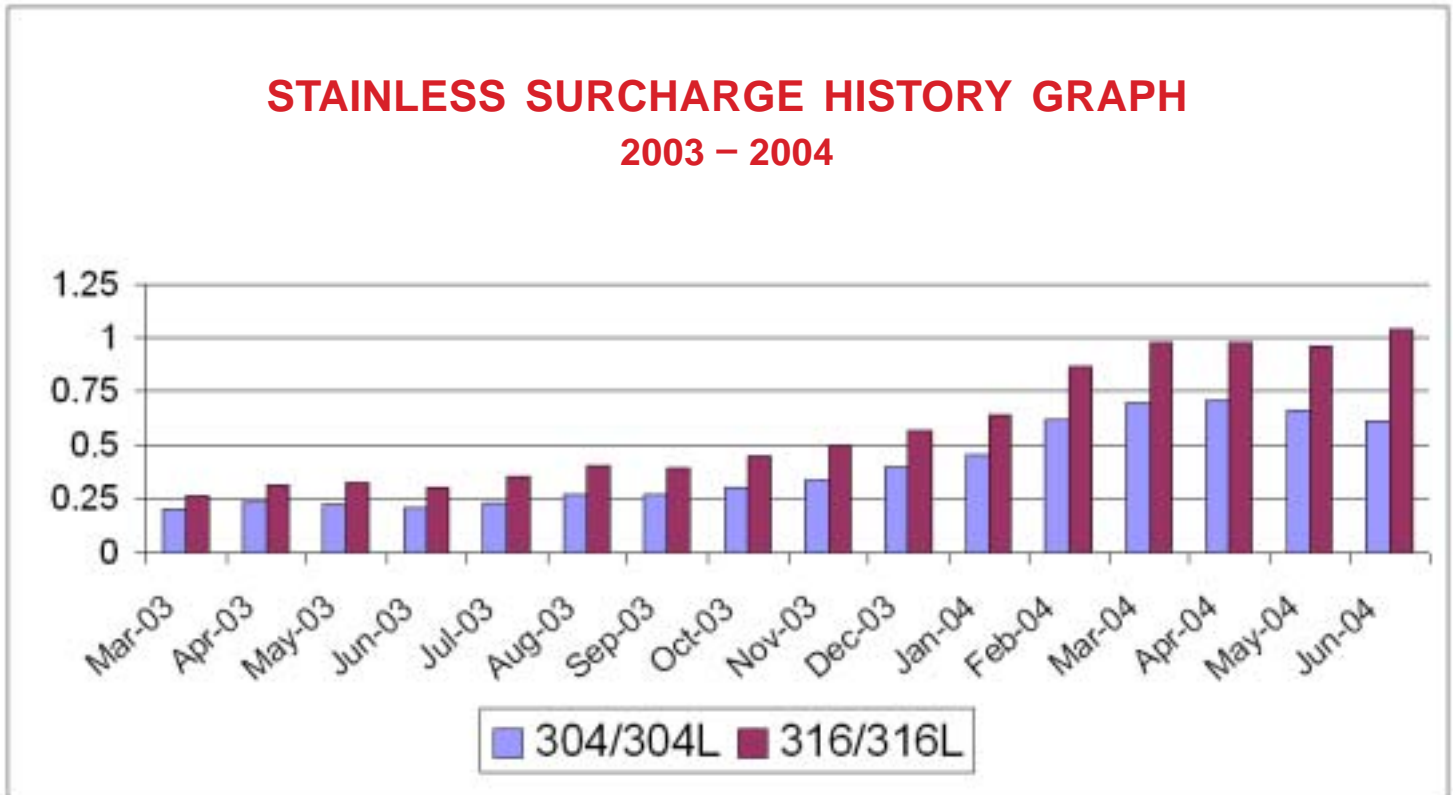
Lead Times – Material lead times are 8 – 12 weeks with fill rates only 50% – 60%. Commodity lead times are

slipping significantly. **Comments** – One manufacturer indicates that the market remains very competitive. Pricing pressure remains intense.

MARKET VOLATILITY CONTINUES

It seems as if every industry magazine we pick-up today has several articles on surcharges, price increases, scrap, nickel, molybdenum, chrome, iron shortages, etc. Then we read article after article on China and what is happening in their metals market. We read all the reasons for the price increases usually expressed as cost per pound or cost per ton. Just when we think we know what is happening, we are told that molybdenum has increased from \$5.36/lb. to \$15.75/lb. or 66% over the past 12 months. Expectations are that it will level off around \$20 per pound by the end of June. There are so many changes going on in the metals market that manufacturers, distributors, and end-users are all uncomfortable. Even with monthly price increase announcements this year, stainless steel prices remain well below the 1998 level. The Metal Center News magazine says that stainless steel demand will continue to shine this decade, but future excess capacity—particularly from Asia—may lead to trouble. The chart below shows the surcharges on 304L and 316L over the past 16 months.

STAINLESS SURCHARGE HISTORY GRAPH 2003 – 2004



	Mar. '03	Apr. '03	May '03	June '03	July '03	Aug. '03	Sep. '03	Oct. '03	Nov. '03	Dec. '03	Jan. '04	Feb. '04	Mar. '04	Apr. '04	May '04	June '04
304/304L	0.197	0.233	0.226	0.203	0.231	0.269	0.269	0.301	0.335	0.396	0.453	0.618	0.692	0.709	0.665	.610
316/316L	0.262	0.315	0.326	0.297	0.350	0.399	0.388	0.444	0.496	0.565	0.638	0.868	0.977	0.974	0.962	1.04



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