Market Condition & Activity Bulletin

PIPING & EQUIPMENT, INC. — Affiliated Distributors Member   October • November • December 2004

METALS UPDATE

Nickel on the LME took another turn down, ending the day at $5.79/lb on 10/26/2004 while October began over $7/lb. World-wide demand for stainless steel, the industry's largest product category, increased 11% to 1,381,436 tons year-on-year. However, imports spiked 19% to 353,191 tons, pushing seven-month import penetration up two percentage points to 26%. Stainless steel sheet / strip consumption increased 12% to 1,021,377 tons year on year. Imports increased 21% to 215,871 tons. Seven-month import penetration for stainless steel sheet/strip increased one percentage point to 21%. While domestic demand for stainless steel plate rose 8% to 174,803 tons year on year, imports increased 53% to 43,642 tons. Imports took a 25% bite out of the U.S. market, a seven percentage point increase over YTD July 2003. Stainless steel bar consumption in the U.S. rose 5% to 115,414 tons year on year. Imports increased 1% to 44,590 tons, capturing 39% U.S. market share.

Due to increasing market share of imported stainless steel products, US local steelmakers submitted the accusation of anti-dumping. After analysis of data, the US DOC (Department of Commerce) convicted that the anti-dumping was true and thus assess anti-dumping tax of 9.38% toward stainless steel cold rolled products from France. According to data released by SSINA (The Specialty Steel Industry of North America), the total market share of stainless steel and specialty steel reached 26%. The selling prices of the cold rolled products might be lower than their original price and thus caused impact to local steel makers.

A jump in raw material costs has led POSCO (Korean steel maker) to raise the prices of its stainless steel products. The price hike will be effective on products ordered from October 27. It is the 5th time in 2004 the company has increased its prices. Prices of hot-rolled stainless steel in the 300 series will be raised by 5.7% to 2.8 million won (US $2,400) per ton, and those in the 400 series will be increased 5.4% to 1.4 million won (US $1,200) per ton, POSCO said.

The analysts who follow Russian steel and pipe companies closely say that labor accounts for around 10% of the operating costs of these companies. Although the average monthly salaries of the workers are in the range of US $300 – $400, which is fairly low and provides a competitive advantage over Western peers, the number of employees is on average 2-3 times higher. In terms of labor efficiency, Russian steel mills lag western companies by 20 years.

Steel company stocks worldwide fell on 10/20/04 after U.S. firm Steel Dynamics made comment Monday that they thought steel prices would "soften somewhat" in the fourth quarter of 2004. Inco made its case for sustained high nickel prices thru 2006. They forecast their total nickel production for 2004 will be 505 — 510 million tons, the highest annual production since 1974. Inco, the world's second-biggest nickel producer, announced it made $148 million dollar net earnings in the 3rd quarter of 2004, compared to a net loss of $23 million this time last year. Sales were double at $1.03 billion. They have announced a go ahead on the massive Goro project at the New Caledonia mine with initial production set for September 2007. The Goro mine, where Inco halted work in 2002 because of rising costs, will produce a maximum 60,000 metric tons of nickel annually by 2009 in the French overseas territory, the Toronto-based company said. Inco owns 85% of the project. The price of nickel, used in stainless, reached a 14-year high in January as rising metal demand in China eroded global inventories. Inco put Goro on hold almost two years ago as construction estimates surged 45% to $2.1 billion. Inco said the cost estimate may rise by as much as 15%. "All of the critical elements we required to proceed with Goro have all come together through our review process," Chief Executive Scott Hand said in a conference call with analysts. Inco shares fell by 2.6% on the Toronto Stock Exchange. The Goro decision was released following the close of trading. Not everyone is convinced the project, owned 15% by the French government's Bureau de Recherches Geologiques et Minieres, is the best place to invest in a new mine. "There's better places," said Victor Lazarovici, base metals analyst at BMO Nesbitt Burns in New York. Russia's OAO GMK Norilsk Nickel, which produces about a fifth of the world's nickel and is the largest supplier of the metal, is "the best place to invest money, if you're going to add to nickel production," Lazarovici said. "It's got the best ore body. It's got tremendous reserve life." Goro may cost as much as $2.3 billion, including a $191 million cost writedown in July, which is more that it was two years ago, Lazarovici said.

(continued on page 4)

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STAINLESS STEEL PIPE

Pricing ⇑ – Forecast price increase for large OD pipe made from plate 16 inch – 80 inch 3% – 5%. No change in pricing for commodity pipe in smaller sizes 1/2 inch – 14 inch. Moly and nickel pricing should remain on the increase through the fourth quarter of 2004.

Lead Times – Fill rate for commodity pipe is 80% – 90% with lead times of 8 – 12 weeks if not in stock. Non-stock exotic materials are forecast for 16 – 20 weeks or more.

Comments – Foreign imports from China and Korea seem to be increasing according to one manufacturer. Stainless Steel coil is also predicted to increase 3% – 5%.

STAINLESS STEEL WELD FITTINGS

Pricing ⇑ – Manufacturers indicate price increase of 5% – 10% or more due to raw material costs and supply. Raw materials are becoming more difficult to find. Large OD fittings are increasing more than commodity items. One manufacturer comments that stub end prices have increased approximately 15% due to dramatic increases in bar and billet prices. Also, many billet manufacturers are booked to capacity.

Lead Times – Commodity items are shipping anywhere from 4 – 8 weeks depending on the manufacturing cycle. Fill rates are 70% – 80%. One manufacturer comments that stock is still good, but not as in the past. Also, deliveries on "exotic" items are 8 to 20 weeks or more depending on material grades.

Comments – Manufacturers note that commodity demand has not increased throughout the year. Price in the commodity stainless fittings line have remained constant through most of the year after the 1st quarter increase. The large OD fittings have increased significantly because of plate costs. Activity in all areas, except commodity has increased moderately.

STAINLESS 150 AND HI-PRESSURE FITTINGS

Pricing ⇑ – Manufacturers predict 8% – 10% increases for this quarter on stainless steel pressure fittings due to raw material costs.

Lead Times – 1 – 2 week lead times for commodity material with 90% – 100% fill rates.

STAINLESS STEEL FLANGES

Pricing ↗ – One manufacturer predicts an increase of 5% – 7 1/2% for stainless steel flanges during the fourth quarter of 2004. Another manufacturer forecast no price change with reservations?

Lead Times – Commodity flange fill rates are running 50% – 80% with lead times of 3 – 6 weeks. Non-stock specials are forecast for 6 – 8 week delivery.

Comments – One manufacturer indicates foreign competition increasing from Korea, India, Italy, and Mexico. Nickel and moly is high making it difficult to control raw material costs.

CARBON STEEL PIPE – SEAMLESS, ERW AND CONTINUOUS WELD

Pricing ↗ – The forecast for seamless, ERW and continuous weld is mixed from manufacturers indicating no change to a 3% – 5% increase.

Lead Times – Fill rates are running at 70% – 80% with deliveries of 6 – 8 weeks for commodity material.

Comments – One manufacturer indicates that seamless pipe and tube will be less available in 2005 than in 2004. Most major producing mills have some sort of allocation method in process. This is on top of several mills that closed their order book entirely and still are not accepting orders even for 2005. Allocations are difficult for mills to manage, and frustrating to their customers. One manufacturer comments that the steel community is under unprecedented supply and pricing pressures. What makes this time unique is that there is no one component part driving the current conditions. The issues are:

- Raw Materials – Iron Ore world-wide demand is forcing pricing upward. Coking Coal has very restricted availability. Scrap Steel is in 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.
- The China Factor – The surge in economic activity in China has been compared to America's industrial revolution.
- Shipping Issues – Doubling of international shipping rates coupled with a shortage of vessels that carry Raw as well as finished Steel products.
- Fuel – Continuing of high 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.

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 mfgs. nor does it include study of national economic indicators.

CARBON STEEL WELD FITTINGS AND FLANGES

Pricing ⥣ – Manufacturers forecast increasing prices by 5% – 7 1/2% due to raw material costs and demand.
Lead Times – Fill rates of 80% – 90% with 2 – 3 week lead times.
Comments – Carbon steel seamless pipe increased about 11.5% in July and 8% in September with total increases for the year of about 65% noted one manufacturer. They went on to say that they are in unfamiliar territory, but the feeling is that price increases in the near future will moderate.

FORGED STEEL FITTINGS

Pricing ⥣ – Manufacturers have announced an increase of 10% or more for forged steel fittings in October due to increasing raw material costs.
Lead Times – Manufactures are shipping commodities in 2 – 3 weeks with fill rates of 90% – 100%.

STAINLESS GATES, GLOBE, CHECKS

Pricing ⥣ – Manufacturers indicate stainless steel valves increasing 3% – 5% this quarter due to raw material costs.
Lead Times – Commodity valves are shipping in 6 – 8 weeks with projected fill rates of 60% – 70%.
Comments – One manufacturer indicates that demand for stainless and especially high alloys has increased.

BRONZE AND IRON GATE, GLOBES, CHECKS

Pricing ⥣ – Bronze and Iron valve pricing is predicted to increase 5% – 7 1/2% this quarter. Bronze ingot costs have increased 22% since the beginning of 2004.
Lead Times – Forecast lead time are 4 – 6 weeks. Fill rates are running 50% – 60%.
Comments – In fact, bronze ingot pricing is up over 40% from prices one year ago. It is expected to continue to rise due to raw material demands.

CAST STEEL GATES, GLOBE, CHECKS

Pricing ↗ ⥣ – Several manufacturers indicate prices increasing by 3% – 5% this quarter due to raw material costs. Another manufacturer predicts no price change for cast steel valves until the first of the year.
Lead Times – Fill rates are running 60% – 70% with forecast lead times of 6 – 8 weeks.
Comments – One manufacturer comments that sales of this category are up 35% over the prior year. Overall demand for valve products is up as activity has increased in several "key" industries like Industrial Gas, Refining, Pulp and Paper, and Power according to remarks from a leading manufacturer.

FORGED STEEL GATES, GLOBE, CHECKS

Pricing ⇒ Manufacturers indicate forged steel valve pricing to remain stable this quarter.
Lead Times – The deliveries of commodity material remains forecast for shipments in 4 –6 weeks with 60% – 70% fill rates.

QUARTER TURN VALVES – BALL AND WAFER

Pricing ⥣ – Manufacturers indicate price increases from 2% – 7% due to raw material costs. One manufacturer has increased pricing in the form of metal surcharges on base metals that range from 2% on carbon steel to 7% on high alloy (monel, hastalloy) materials. They do expect the surcharges to eventually be rescinded. The surcharge index used to establish the surcharges were: 2% Carbon by Stainless; 3.5% Stainless Steel; 7% Special Alloy Material; and 4.5% on all other combinations of metals.
Lead Times – Fill rates are running 50% – 60% on commodity ball and wafer valves. Deliveries are 2 – 3 weeks on standard commodity. Small projects are quoted 4 – 6 weeks. High alloy products 8 – 12 weeks, and major projects are 16 – 20 weeks.
Comments – Foreign competition is increasing from Asia, India, and South America. Raw material costs continue to increase 2% – 10% depending on the alloy.

METALS UPDATE *(continued from page 1)*

Vancouver, Bristish Columbia (Reuters) - After two years of buoyant nickel prices, there is doubt about how much longer the party for producers can continue. Inco, the world's second-biggest nickel miner after Russia's NOrilsk Nickel, is sounding less festive than it has for some time about the market for this vital stainless steel ingredient, said Canaccord Capital analyst Greg Barnes. And on Friday, world No. 3 producer, Falconbridge, cut its global nickel deficit forecast for this year and next. Since early last year, the earnings, cash flow and share prices of Inco and Falconbridge have surged on the back of the best prices in more than a decade as demand, mostly from booming China, has outstripped supply. Last week, Inco's marketing head, Peter Goudie, has this warning for the market: "Do not mistake today's temporary high prices — due mainly to underinvestment in nickel capacity in the 1990s — for the long-term environment." Canard's analyst Barnes said he "detected a more cautious tone creeping into Inco's outlook for the market as we head into 2005."

Chinese Premier Wenjiabao said recently at a meeting with CAE that China cannot continue over-consuming mineral resources and must find sustainable sources. He said high-consumption projects must be controlled, the development of energy and resource efficient technologies should be promoted and the whole society should establish conservation awareness. He also called on Chinese businesses to work with overseas partners to tap foreign resources. He said institutional reform, improved efficiency and supply regulation can solve resource shortages.

Commodity companies' stocks fall with metal prices:

NEW YORK, Oct 13 (Reuters) — Shares of mining and steel companies fell in the biggest single-day decline in the stocks of commodities companies in more than two years on Wednesday as copper and other metal prices fell from recent highs. The Morgan Stanley commodities-related equity index was down 3.24 percent to its lowest level this month, with most of the 20 stocks in the index down. Among mining companies, Phelps Dodge fell more than 7 percent and Placer Dome Inc. dropped more than 4 percent. Aluminum maker Alcoa also slumped more than 4 percent. United States Steel fell more than 3 percent and Marathon Oil dipped more than 5 percent. COMEX copper futures fell sharply at the opening of trading in New York on Wednesday, with heavy fund and speculative selling causing a free fall in prices. Copper prices plunged dramatically on the London Metal Exchange (LME), as unstoppable speculative selling pushed the market under $3,000 and then $2,900 a ton. Since Monday, copper has slumped well over 7 percent in a retracement from near 16-year highs of $3,177.50.

Copper drop leads steep sell-off of commodities stocks:

NEW YORK (Dow Jones / AP) — Commodities stocks came under heavy pressure Wednesday, led by a steep decline in the price of copper, while gold prices closed at their lowest level in more than two weeks. Meanwhile, a bearish call out of J.P. Morgan's London mining team seemed to set the tone for a pullback in mining shares, with the brokerage expressing concerns about a slowdown in global industrial production — a major support of commodities demand. The sell-off in copper came after heavy buying by funds in recent weeks had pushed copper futures up to levels not seen in 15 years. Wednesday's weakness was a result of those same funds unloading the commodity, analysts said.

Purchasing.com is reporting iron producers face higher prices for coking coal next year, as the worldwide supply shortage continues. Greenspan announced on Friday, October 18, 2004 on oil prices "So far this year, the rise in the value of imported oil -essentially a tax on U.S. residents -has amounted to about three-quarters of one percent of gross domestic product." Yich.com is reporting nickel consumption has increased 2.9% so far this year in China, while stainless steel production has increased 6.9%. The good news for nickel producers is this may reflect a depletion of nickel stockpiles that have been used. The very bad news for nickel producers is this also reflects the increased production of 200 series stainless, which contains less nickel. The International Stainless Steel Forum is predicting a growth rate in stainless steel production worldwide to increase by 6.8% in 2004, 5.9% in 2005 and 5% for 2006. For further details, visit www.worldstainless.org.

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