Market Condition & Activity Bulletin

PIPING & EQUIPMENT, INC. — Affiliated Distributors Member

January • February • March 2005

Piping & Equipment, Inc. is committed to meeting and exceeding our customer's needs and expectations especially in this highly volatile global steel market. We have specialized professionals and offer competitive pricing along with industry leadership, distribution expertise, a customer focus practice, a dedicated account team, strong manufacturer relationships and skilled supply chain management. We are a team who responds promptly and intelligently to our customer's concerns and who is proactive in bringing potential issues or ideas to the attention of our customers. Regular communication between our service team and our customer's is the key to our success. We believe in honesty, integrity, delivering on our promises, and viewing solutions through the eyes of our customers. We offer twenty-four hour on-call service, actively pursue documented cost savings, and solve emergency and complicated situations for our customers. Our team's combined years of experience ensures that we will recognize issues important to our customers and will create customized solutions that balance cost efficiencies while maximizing results. We offer specialized reporting to our customers on activity and performance, and we have a system in place to track historical usage and patterns. We have furnished consigned inventory, automatic replenishments, inventory audits, bar coding, as well as a complete EDI process. Our management team is determined to continue to grow our value in the supply chain for the benefit of our customers.

METALS INDUSTRY UPDATE

- **Nickel** closed at $6.42 / lb on 1/25/2005 on the LME. Moly oxide remains at $34.50 - $35.50 / lb. This time last year, moly was at $8.00/lb.
- Australia's Rio Tinto Ltd., the world's second largest iron ore supplier, plans to raise iron ore prices by 50% for 2005 fiscal year supply to Nippon Steel. Nippon declined Rio Tinto's offer. The current shortage of raw materials may require Nippon Steel to accept price hikes up to 30% - to 40%. Nippon has begun negotiations with BHP Billiton in hopes to lower their production costs. Australia offers more than 60% of iron ore imports to Japan.
- The increasing **molybdenum** price has forced some stainless makers to stop offering prices for grades with high molybdenum content, such as 316, 316L, 317, and 317L. The molybdenum market is changing dramatically compared with the price three years ago which stood at less than US$3 per pound and now it is up to USmid$30s per pound. The biggest impact is on stainless grades 316 and 316L; however, as of yet stainless prices do not seem to reflect the recent raise in moly costs and the stainless market seems to be experiencing some high inventory according to the market sources.

Outokumpu of Helsinki says that its stainless steel delivery volume in the fourth quarter was a record-high 490,000 tonnes. Total stainless steel deliveries in 2004 grew only modestly, it said. Deliveries of finished stainless steel products increased by 12% in 2004 compared with 2003. A 34% increase in total deliveries of fabricated copper products in 2004 was mainly due to the acquisition of the fabrication business from Boliden at the end of 2003 according to Outokumpu.

Patent Enforcement and Royalties Ltd. of Toronto has stuck a deal to take over the Yorke-Hardy molybdenum project near Smithers, B.C. in a move by the company to enter the resources sector. Drilling and underground development have been done on the property, but the project was never brought into production. The company invests in patents and other intellectual property but will seek shareholder approval to enter the mining business, change its name and reorganize its board.

The Stainless Steel Price Forecast for 2005 indicates that every ingredient used to make stainless steel rose in 2004 and will continue to rise in 2005. Every mine in the world is scrambling to produce as much **nickel** and **molybdenum** as they can to take advantage of the higher prices, there is not a whole lot more that the current mines can produce. Two things will happen in May that will cause an interesting market. The world's largest producer of nickel is Norilsk Nickel in Russia typically can not ship as the Yenisei River floods. This year, number two producer Inco has announced it will shut down for repairs during the same month. Typically mines shut down during the slow period of July or August so the timing of this

(continued on page 4)

Portions of this article were reprinted with permission of Brian Teague from the Sandvik Metals Update Jan 2005. Piping & Equipment, Inc. is proud to be a distributor for Sandvik. Sandvik Materials Technology is a world leading producer of high technology stainless steels, special alloy materials and advanced value-added products, developed in close cooperation with customers. Sandvik's five product areas comprise Tube, Strip, Wire, Kanthal resistance materials and Process Systems.

STAINLESS STEEL PIPE

Pricing ↗⇑ – Stainless Steel pricing is forecast for increases of 3% - 5% during the first quarter of 2005 by one manufacturer. Another manufacturer indicates no change in pricing (except for surcharge increases) during the first quarter of 2005 due to low demand and import pressure. Surcharges continue to increase through the posted levels of February at $.709/lb. for 304L and $1.642 /lb. for 316L. Industry specialists predict that stainless steel prices in the 18-8, 304 range have leveled off, which should hold basically steady for awhile. 316 stainless pricing has yet to peak, although molybdenum prices are not expected to maintain their current $34.50/lb. for long. Nickel will stay in the $6 to $7/lb. range for the first half of 2005, and possibly retract to the $5 to $6/lb. range by the latter half of the year. If this prediction proves correct, then we will not see any substantial lowering in stainless steel prices until late 2005 or early 2006.

Lead Times – Fill rates for commodity pipe is running 30% - 40% with deliveries forecast for 8 - 16 weeks. Large OD lead times are 16-18 weeks. Non-stock or exotics are forecast for lead times of 20 weeks and more. Commodity has spot stock-outs.

Comments – One manufacturer indicates that mills are booked, raw material costs are up, and inventories are low. Some raw materials are now on allocation to mills. Additionally, significant premiums are being paid for floor stock due to low inventories and long replacement times. Another manufacturer comments that project activity is strong. Imports are increasing from China and Korea. Industry specialists say stainless steel growth remains positive, with global production up by 6.8% this year. However, this has not translated into a similar figure for nickel (up only 2% this year) given increased substitution and destocking.

During the past 10 years, stainless steel has had the highest growth rate among mainstream metals as reported by BB&T Capital Markets of Richmond, Virginia. They report annual global stainless growth for the past ten years for stainless to be 5%. Aluminum was second at 3.5%, while carbon steel was closer to 1%. The demand for stainless sheet and strip gained 12.3% through July 2004, compared to the same period in 2003 according to Charles Turack, vice president of North American coil products at Outokumpu Stainless, Inc., Schaumburg, Illinois. The increase for plate was 16% and 11% for bar stock. Lloyd O'Carroll, senior vice president and chief economist at BB&T indicates that the long-term potential for stainless steel is in applications that have just begun to develop. One area is pollution control, and another area is the infrastructure for liquefied natural gas. Distribution of LNG requires high-nickel stainless for liquification plants at the sources, gasification plants at the terminals plus fleets of tanker ships.

STAINLESS STEEL WELD FITTINGS

Pricing ⇑ – Stainless steel weld fittings are forecast for price increases of 8% - 10% or more due to escalating raw material costs and demand.

Lead Times – Commodity material fill rates are 70% - 80% with lead times of 6 -8 weeks. Non-stock specialty items are forecast for 12 - 16 weeks.

Comments – Demand in China and Asia continues to consume a large portion of this product line. Moly and nickel continue on an unpredictable price ride with pricing changes daily. Nickel has stabilized somewhat compared to moly that has gone from $7/lb. to over $30/lb in six months having a great effect on 316L. Surcharges on 316L pipe will start to have an even greater effect on 316L pipe fittings in the next several quarters. One manufacturer comments that the billet to forge stub ends is becoming scarce and forging quality is difficult to find. Seamless stub ends are difficult to keep in stock. Foreign competition remains strong from Germany, Austria, and Korea. It is reported that AFI is defunct, and Tube Tec is now allied with Global Stainless.

STAINLESS 150 AND HI-PRESSURE FITTINGS

Pricing ⇑ – One manufacturer indicates no price increases during the first quarter of 2005 following increases of approximately 10% during the fourth quarter 2004. Another manufacturer predicts increases of 3% - 5% on 304 and 10% and more on 316 stainless steel fitting. Manufacturers comment on the unprecedented steel industry environment with increasing costs and potential material shortages being the driving force for price increases in the overall market. Also, manufacturers have reserved the right to limit customer orders based on customer historical sales.

Lead Times – Fill rates are running about 70% - 80% with lead times forecast for 3 - 4 weeks.

Comments – Molybdenum continues to increase. One manufacturer notes that the abundant availability of material from foreign competition continues to be an issue. The dollar devaluation does not prevent European imports.

STAINLESS STEEL FLANGES

Pricing ⇑ – Manufacturers forecast price increases of 10% or more for the first quarter of 2005 due to raw material costs.

Lead Times – 4 - 6 week lead times with fill rates of 40% - 50%. Non stock special lead time are forecast for 6 - 8 weeks. Manufacturers

Comments – Moly pricing is extremely high and the Euro exchange rate is pushing up costs.

CARBON STEEL PIPE – SEAMLESS, ERW AND CONTINUOUS WELD

Pricing ⇑ – Manufacturers indicate continuous weld and ERW pipe is forecast to increase 3% - 5%. Seamless pipe is forecast for 8% - 10% during the first quarter of 2005. Increases are due to raw material costs, lack of foreign pressure, and decreased supply.

Lead Times – Fill rates are running 70% - 80% with lead times of 8 - 12 weeks for commodity carbon steel pipe. Non-stock specials are forecast for 20 or more weeks.

(continued on page 3)

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 PIPE – SEAMLESS, ERW AND CONTINUOUS WELD *(continued from page 2)*

Comments – Most of the domestic and import mills have distributors on allocation; therefore, many distributors have their customers on allocation. This lack of supply has also increased prices, and allocation of pipe will continue at least into the third quarter of 2005. Only when the market demand for scrap in China and oil country goods decrease will we see seamless carbon pipe return to some sort of normalcy. Also, because of the dollar / Euro and world-wide demand, the domestic seamless mills have very little competition from major import mills. Therefore, the domestic mills are able to control both price and supply.

CARBON STEEL WELD FITTINGS AND FLANGES

Pricing ⇑ – Manufacturers are predicting a price increase of 5% - 7% for carbon steel weld fittings and flanges. Pricing changes are being pushed by raw material costs, supply, foreign pressure, and demand. This is a universal problem confronting the industry.

Lead Times – Commodity item fill rates are 90% - 100% with deliveries for out of stock items forecast for 2 - 3 weeks.

Comments – Carbon steel forgings have increased 5% - 10%.

FORGED STEEL FITTINGS

Pricing ⇑ – Manufacturers have announced an increase of 5% - 8%. Forging bar utilized in the production of raw forgings continues to increase over the 4th quarter of 2004. The material remains on allocation to manufacturers.

Lead Times – Fill rates are running at 90% with lead times of 1 - 2 weeks. Non-stock specials are forecast for 2 - 3 weeks.

Comments – The historic devaluation of the dollar versus the Euro has curtailed the European AML forged steel products from entering the USA. The Taiwanese imports have increased. Formerly the forged steel and branch connection manufacturers had distributed two different list price sheets. Effective January 3, 2005, the industry has one price sheet thus lending stability to the forged steel markets. The forged steel market has seen increases of 30% during the calendar year 2004. The forecast is for stability during the first two quarters of 2005, but expect increases in the third and fourth quarters. The industrial activity remains soft, but it is forecast to increase late first quarter. The oil and gas industry remains strong adding to pricing pressure on seamless pipe / swages and bull plugs. The increase announced on January 3rd followed an 8% increase during August 2004. The increases are directly related to supply and demand.

STAINLESS GATES, GLOBE, CHECKS

Pricing ⇑ – Manufacturers have announced price increases on stainless gate, globe and check valves of approximately 10% due to raw material costs.

Lead Times – Fill rates are 60% - 70% with forecast deliveries of 6 - 8 weeks for commodity valves. Non-stock specials are forecast for 16 - 20 weeks.

BRONZE AND IRON GATE, GLOBES, CHECKS

Pricing ⇑ – Bronze valves have increased approximately 5% - 7.5% the first part of January 2005, and iron valves have increased 1% - 2.5%. The dramatically increasing raw material costs for bronze valves are real and will continue throughout 2005 according to one manufacturer.

Lead Times – Fill rates for iron valves are 80% - 90% with lead times forecast 4 -6 weeks. Bronze valve fill rates are 50% - 60% with lead times forecast for 4 - 6 weeks.

Comments – Bronze ingot steadily increased over 26% in 2004. These raw material costs are forecast to continue to steadily increase at a rate of approximately 2% per month according to one manufacturer.

CAST STEEL GATES, GLOBE, CHECKS

Pricing ⇑ – Commodity cast steel valves have increased 5% - 10% at the beginning of January due to raw material costs.

Lead Times – Fill rates are 60% - 70% with lead times of 6 - 8 weeks. Non-stock specials are forecast for 12 - 16 weeks.

Comments – One manufacturer indicates their cast carbon steel business was up 35% in 2004. They also forecast a further 20% increase for carbon steel in 2005.

FORGED STEEL GATES, GLOBE, CHECKS

Pricing ⇑ – Forged steel valves are forecast to increase 8% - 10% during the first quarter of 2005.

Lead Times – Commodity forged steel valves are forecast for 3 - 4 week delivery with fill rates of 70% - 80%. Specials are forecast for 12 - 16 week deliveries.

Comments – Forged steel valve business has seen a 70% jump in 2004 for one leading manufacturer by providing a wide range of products to the MRO and capital project sectors.

QUARTER TURN VALVES – BALL AND WAFER

Pricing ⇑ – Manufacturers have posted 3% - 5% increases for ball and wafer valves effective the first of January 2005 due to raw material costs.

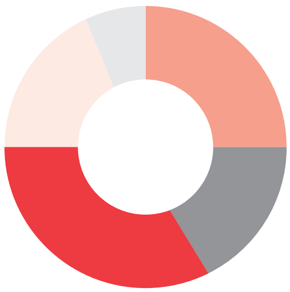
Lead Times – Fill rates are running 40% - 50% with lead times of 3 -4 weeks for standard materials and 8 - 12 week for high alloy.

Comments – One leading manufacturer indicates that the market remains very competitive. They expect pricing pressure to continue despite record profits for many customers in the Chemical and Petro-Chemical sectors. European influence on e-auctions is a growing concern for manufacturers.

METALS UPDATE *(continued from page 1)*

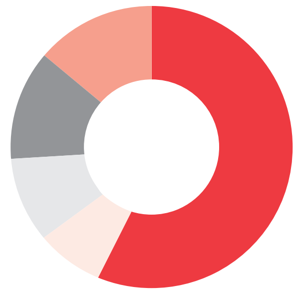
action has raised eyebrows. The CAW (Canadian Auto Workers) has a union contract set to expire in 2005 at Falconbridge's Timmins, Ontario mine. Falconbridge also has a union contract expiring with the USW (United Steelworkers of America) at the Raglan mine and Inco has a union contract expiring at their Thompson, Manitoba mine. If any of these go sour, we could see price hikes. Another factor in 2004 was the US dollar devaluation. This has helped make US exports cheaper to overseas buyers, while making imports more expensive to US buyers.

World Nickel Production



Region	%
America	24
Asia	19
Europe	37
Oceania	15
Africa	5
Total	100

Industrial Consumption



Industry	%
Stainless Steel	65
Non-Ferrous Alloys	12
Other Steel Alloys	10
Electroplating	8
Others Inc. Chemical	5
Total	100

LME nickel inventories dropped another 24 tons Monday totaling 18,012 tons on hand (See Nickel Production and Consumption Usage Graphs). Mineweb.net is quoting Scotiabank that nickel will average approx $6/ lb in 2005, copper will average $1.28/ lb, and zinc will continue to rise over the next two years. They also predict coking coal will hit record high's in 2005. Bloomberg quotes 20 analysts who predict nickel will average $5.90 / lb for 2005. Oil prices continue to rise, closing today at $48.81 / barrel. High oil prices affect metal prices two ways - both by slowing economic growth and affecting the US dollar. Both of these affect the metal prices. BHP Billiton and Anglo American plc, co-owners, have yet to decide who they will sell Samancor Chrome, the world's largest producer of ferrochrome, to. Among the 3 finalist bidders are Japan's Nippon Steel, a UK holding company or a Russian ferrochrome distributor, and an Israeli diamond tycoon. A decision had been expected by the end of last year.

Molybdenum is primarily a by-product of copper mining and has a history of price volatility. Between 1979 - 1982, prices rose to over $30/lb, while 10 years later they had slid to nearly $2/lb. Nearly 2/3 of molybdenum is used in stainless steel, while the majority of the balance is used in catalysts to remove sulfur from crude oil. Chile exported a record US$1.61 billion worth of copper in December - 138% higher than the same month 2003, to end 2004 with an unprecedented US$14.3 billion in copper export revenue, 91.2% higher than 2003, according to press release by Chile's central bank. The unrivaled performance by Chile, the world's largest producer or the red metal, was mainly due to higher copper prices, which averaged some US$1.30/lb last year compared to US$0.807/lb in 2003 on the London Metal Exchange (LME). The result was due to increased copper production, forecasted to rise 9.4% to 5.36Mt in 2004. The increases are due in part to expansions at state copper company Codelco's operations, the giant Escondida copper mine, controlled by Melbourne-based BHP Billiton and Collahuasi copper mine, jointly controlled by UK's Anglo American and Canada's Falconbridge.

PIPING & EQUIPMENT, INC. WAREHOUSES
www.pipingequipment.com

ALABAMA .... 1015 McEntire Lane • Decatur, Alabama 35601 • (256) 340-2081 • Fax (256) 340-2086
4210 Halls Mill Rd. • Mobile, AL 36693 • (251) 666-6770 • Fax (251) 666-7073
FLORIDA .... 3448 E. Business 98 • Panama City, FL 32401 • (850) 785-7733 • Fax (850) 785-9741
LOUISIANA .... 2030 South Phillipe Ave. • Gonzales, LA 70737 • (225) 644-5330 • Fax (225) 647-0282
TEXAS .... 110 N. 13th St. • Beaumont, TX 77702 • (409) 838-6775 • Fax (409) 838-6671
9100 Canniff St. • Houston, TX 77017 • (713) 947-9393 • Fax (713) 947-9202 or 948-9595
2730 FM 523 • Oyster Creek, TX 77541 • (979) 233-6500 • Fax (979) 233-7265
TRANSPORTATION PRODUCTS GROUP .... 9100 Canniff St. • Houston, TX 77017 • 1-800-364-9384 • (713) 947-9393 • Fax (713) 948-9594
IT & FINANCE .... 8781 Paul Starr Dr. • Ellyson Industrial Park • Pensacola, FL 32514 • (850) 484-3994 • Fax (850) 474-0552 or 484-8378
FOR COMMENTS CONTACT .... Gary J. Cartright, President • gcartright@pipingequipment.com
9100 Canniff St. • Houston, TX 77017 • (713) 947-9393 • Fax (713) 948-9559