



Market Condition & Activity Bulletin

PIPING & EQUIPMENT, INC. — Affiliated Distributors Member

July • August • September 2005

STEEL COMMODITY COMMENTS

Steel is a global commodity, but it is not traded on any exchanges like the base metals. As a result, it is not uncommon to see steel prices vary dramatically from one region to another for the same product. However, trade flows will normally shift to arbitrage the price back down or back up. Just as imports were attracted to the high priced U.S. market during the second half of 2004, they should move away from the U.S. in 2005, as the local steel price level is no longer attractive. American Iron and Steel Institute says the import surge means Washington trade authorities need to monitor a situation that poses a threat to “this industry” and the entire U.S. manufacturing Base. The AISI is lobbying for continued tariffs on imports, government subsidies and restrictions on exports of key raw materials, as well as lobbying against what it considers “unfair tax rules.”

Prices were higher in the U.S., in 2004, than in the rest of the world but they are now higher in Western Europe and East Asia. Differentials should close rapidly as import / export flows send steel to countries with the highest profit potential. The future of the steel industry will see higher prices than those in the past six years. It took one year (2004) for prices to double. It will take two years for prices to decline fully - and they will bottom out well above where they started. The forecast by John Anton at Global Insight Washington’s office assumes that China will continue to grow strong, but at a lower rate than in recent years. We have seen various countries in Asia go through the cycle of perceived quality as Japan, then Taiwan, then Korea matured as manufacturing locations for industrial valves and gained acceptance in the market. But the maturation process is accelerating.

In the PVF markets, the demand for raw materials and finished products and the resulting dramatic impact on pricing over the last two years has captured our attention. But in valves, quality and reliability of the product occupies center stage as carbon, stainless, and alloy valves make inroads to the major end user customers. There are a number of major North American and European valve companies that have moved quickly from sourcing castings and parts through branded products to the opening of modern well-equipped factories in China to joint ventures and wholly owned subsidiaries. Manufacturers face a tough choice - stay domestic relying on machining investment, worker productivity and flexibility or move some or all to the new manufacturing hotbed. Some maintain they can remain competitive without moving offshore, and others have moved all of their production and every variation in-between. The key to success is controlling the process of manufacturing from start to finish. Distributors have to manage the same issues, they have to provide their product to the customer base with knowledge and trust that they know who designs the valve, they know who manages the casting and part manufacturing and how they ensure quality throughout. What will happen when there is an issue in the field? Who will provide the technical application and problem solving? Who will work through the approval process at the end users and ensure inclusion in the AML? What about product liability? In an increasingly litigious society, you need to know who will stand with you if the going gets tough. So you need trust in your supply chain.

Craig Copetas at Bloomberg.net reports the following: *China last week ended its currency’s decade-old peg to the U.S. dollar, allowing the yuan, also known as the renminbi, to strengthen 2.1 percent from its previously fixed rate of about 8.3, marking the first step toward a more flexible exchange rate regime. The U.S., European Union and Japan have pressed China to de-peg the yuan and allow it to strengthen to curb what they say is an unfair advantage for Chinese exporters. Li, who is also commissioner of China’s National Bureau of Statistics, said the state of the country’s banks is a key reason why the government won’t allow the yuan, also known as the renminbi, to become a fully tradable currency anytime soon. “Over the next five years, I do not foresee the renminbi becoming fully convertible,” Li said in Beijing on July 22. “Our banks are not good enough and the monetary system is not quite up to international standards.”*

(continued on page 4)

Information for this article was gathered from various articles by Martin Crutsinger - Associated Press, Washington; The Cal Trade Report - Washington, DC; Steve Mertl - Vancouver; Greg Rushford’s The Rushford Report; the website of ebearing.com; Center for Trade Policy Studies, Cato Institute; and Yahoo News Australia and NZ.

STAINLESS STEEL PIPE

Pricing ↓ – Several manufacturers indicate prices dropping from 1% - 2 1/2% during this quarter; however, many special grades are still higher. This drop is a reflection of foreign pressure, raw material costs, and supply. Commodity pipe prices are expected to be weak during this third quarter of 2005. These anticipated seasonal third quarter slowdowns are nudging prices slightly lower, but domestic pipe mills are booked to capacity.

Lead Times – Fill rates for commodity stainless pipe are reported to be from 60% to 70% depending on size. Lead-times are running 6 - 8 weeks on 12" and lower commodity pipe. Stainless

16" and larger pipe is running 12 - 16 weeks. Forecast lead-times for non-stock specials are forecast for 8-20 weeks and more.

Comments – The nickel average is down in June and moly is up. Surcharges were down in June, back up in July, and down again in August. Additional supplemental surcharges on exotic alloys remain in effect. Domestic pipe mills remain very busy with considerable project activity in refining and petro-chem, LNG, and air purification markets. No let up is seen thru the rest of 2005 according to manufacturers. They anticipate longer lead times and stable pricing from pipe producers.

STAINLESS STEEL WELD FITTINGS

Pricing ↓ – One manufacturer indicates a drop of 3% - 5% on stainless weld fittings, and another indicates no change for the 3rd quarter of 2005. This follows increases of 10% - 15% in June of '05.

Lead Times – Lead-times on fittings are running 4 - 8 weeks for commodity items with fill rates of 80% - 90%. Non-stock specials are forecast for 6 - 12 weeks. These deliveries are expected to continue to stretch out due to lack of raw materials.

Comments – One manufacturer indicates that foreign competition is always there, but their market share has not increased significantly for some time. They go on to say that raw material pricing will become a "supply and demand" issue, if it has not already. A manufacturer comments that there will be no justifi-

cation for raw material increases in the future. Nickel prices averaged \$7.20 per pound in the first half of 05 on the LME, compared with \$6.18 in the same time period in 2004. It averaged 75% more in the first quarter of '05 as compared to the first quarter of '04. Molybdenum is a byproduct metal used in steel alloys to add strength, as well as corrosion-and heat-resistance. After dropping to the \$26.00 lever at the end of the first quarter, prices spiked over \$39.00 in June and 316 material prices and surcharges have continued to rage out of control. Analysts have been calling for a major correction for nearly a year. Major suppliers expect 316 prices to remain firm through at least the end of this year.

STAINLESS 150 AND HI-PRESSURE FITTINGS

Pricing → – Manufacturers indicate 150 and Hi-Pressure fitting prices will remain stable this quarter following an increase of 10% - 15% at the end of June 2005. The continued increase in nickel and molybdenum pushed the past increase.

Lead Times – Lead times for commodity material are 1 - 2 weeks with fill rates of 80% - 90%. Demand has slowed allowing inventory of domestic material to increase.

Comments – One manufacturer notes that there remains a tremendous amount of import material on the ground in the U.S.

The pricing has increased, but the large price delta remains between import and domestic. When the U.S. increases prices, the import manufacturer's follow; however while the price delta has closed slightly, it remain extremely large. There are rumors that even master distributors are not able to get replacement costs with the glut of material in the U.S. The pricing for molybdenum is causing greater increases on 316 versus 304 stainless materials.

STAINLESS STEEL FLANGES

Pricing ↗ – Several manufacturers indicate that pricing is forecast to increase from 5% to 10% before the end of the third quarter of 2005.

Lead Times – Stainless steel flange lead times are running 8 - 12 weeks for commodity items with fill rates of 20% - 30%.

Non-stock special items are forecast for 16 - 20 weeks.

Comments – Manufacturers are watching rising raw material costs, and they are trying to hold pricing. Moly is very unstable as supply concerns remain unanswered.

CARBON STEEL PIPE – SEAMLESS, ERW AND CONTINUOUS WELD

Pricing → – Manufacturers of seamless and continuous weld pipe are indicating no price change for domestic pipe this quarter. Prices are dropping slightly from 1% to 5% on import only due to more supply and lower raw material costs.

Lead Times – Lead times are forecast for 2 - 3 weeks. Commodity fill rates are 70% - 80%.

Comments – Domestic pricing is holding due to continued strong demand for oil country tubular and lack of competition from approved import mills. Foreign competition is increasing from China, Russia, Ukraine, Romania, Czech Republic, and Spain. Because of the competition between these countries the pricing is dropping. One manufacturer indicated that some of the major industrial jobs scheduled are still to come this year.

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 ↗ – Carbon steel weld fittings are forecast to increase 5% - 7 1/2% during the third quarter '05. However, this increase is on hold for the present, and we will watch the market to see if the increase goes through by the end of this quarter, as one manufacturer announced an increase and pulled it back. Raw material costs are pushing this industry wide increase. Another manufacturer indicates no change on carbon steel flanges.

Lead Times – Fill rates for commodity material is running 70% - 95% with lead times forecast for 2 -3 weeks. Non stock specials are forecast for 4 - 8 weeks.

Comments – Manufacturers comment that carbon steel seamless pipe remains in high demand and production capacity

remains restricted. If demand continues to increase another round of price increases can be expected. Carbon steel flange prices are expected to increase during this quarter due to cost pressure on raw forgings. Seamless pipe is still driven by oil country tubular goods. The ITC Sunset Review dumping suite is in effect for China and Thailand. Foreign competition remains strong from China, Thailand, Mexico, Malaysia, India, Italy, Romania, and Taiwan. The reason for so many dramatic increases in carbon over the past 12 months is due to the consumption of material in China, huge increases in scrap metal pricing, high price of coke, the currency exchange rate, and significant increases in base material for fittings (seamless pipe).

FORGED STEEL FITTINGS

Pricing → – Manufacturers report no change in forged steel fittings this quarter.

Lead Times – Forecast lead times for commodity materials is 1 - 2 weeks. Fill rates are approximately 90%.

Comments – One manufacturer comments that the increase of import material continues in the US. The Bothwell, Taiwan fitting

line has been taken on by numerous master distributors, and a domestic manufacturer is private labeling this fitting. European forged steel is not a factor since it has slowed in the US because of the currency exchange prohibiting price effectiveness. For the first time forging bar is being hit with a surcharge on Vanadium - an element used in steel production.

STAINLESS GATES, GLOBE, CHECKS

Pricing → – Manufacturers indicate no change in pricing this quarter for stainless gate, globe, and check valves following last quarter's increase of 5% - 10%.

Lead Times – Commodity valves are shipping in 6 - 8 weeks with fill rates of 60% - 70%. Non-stock specialty stainless valves are forecast for 16 - 20 weeks.

BRONZE AND IRON GATE, GLOBES, CHECKS

Pricing ↗ – Bronze valve are not expected to change this quarter. Iron valves are forecast to increase 1% - 2 1/2%.

Lead Times – Lead times are 4 - 6 weeks for commodity bronze and iron. Fill rates of 60% - 70% on the bronze and 80% - 90% on the iron valves. Non-stock specials are forecast for 8 - 12

weeks.

Comments – The increasing raw material costs for bronze materials are real, and will lead to more increases by the fourth quarter according to one manufacturer.

CAST STEEL GATES, GLOBE, CHECKS

Pricing ↗ – One manufacturer indicates an increase of 5% - 7 1/2% by the end of this quarter, while another indicates no change this quarter.

Lead Times – Fill rates are running at 50% - 70% with lead times of 8 - 16 weeks for cast steel valves. Lead-time for spe-

cial cast steel valves is forecast for 16 -20 weeks.

Comments – One manufacturer expects price increases to continue throughout 2005 as raw material costs and foundry capacity increases. There are many non-approved and non-credible producing facilities in third world countries.

FORGED STEEL GATES, GLOBE, CHECKS

Pricing ↗ – One manufacturer forecasts no change for the third quarter, while another manufacturer forecasts an increase of 1% - 2 1/2% on forged steel valves due to raw material costs and demand.

Lead Times – Commodity forged steel valves are shipping in 4

- 8 weeks, with fill rates for stock items at 70% - 80%. Non-stock specials are forecast for lead times of 10 - 20 weeks.

Comments – One manufacturer comments that the forged steel valve business is up, and they are providing a wide range of products to the MRO and capital project sectors.

QUARTER TURN VALVES – BALL AND WAFER

Pricing ↗ – One manufacturer indicates no change this quarter, and another indicates a 5% increase due to raw material costs.

Lead Times – Commodity material is forecast for 3 - 4 week lead times with special engineered products forecast for 12 - 20

weeks depending on the alloy.

Comments – Instability in the market continues, although it appears to be a little less volatile at this time. The market place remains very competitive on commodity based items. Foreign competition is increasing from India and China.

Steel Commodity Comments *(continued from page 1)*

Economists and institutions including the International Monetary Fund have urged the world's third-largest trading nation to gradually make the yuan convertible on the so-called capital account, which would allow money to flow freely in and out of the country for investment purposes. The currency is already convertible on the current account for trade in goods.

China's new yuan policy will have a minimal economic impact. The long-awaited decision to let its currency float modestly won't mean much unless China shows more flexibility in coming months. The move will make U.S. goods only slightly more competitive, though low wages still allow Chinese firms to charge rock-bottom prices. Politically, it will end a push to put a tariff on Chinese goods, but congressional rhetoric will remain.

The forecast for global stainless steel production in 2005 is 25.3 million tons. This represents an increase of 3.7 percent, year on year, and is below the long term average for the industry. It still remains very clear that most of the growth will occur in the developing nations of the world. Production in the industrialized countries is stagnating.

China remains the power house for stainless demand. New capacity is being installed at a rapid pace to meet expanding requirements. However, the government has recognized that current output increases are not sustainable. Stainless steel has been included in a list of energy and resource investment industries which will be given less support from the government in future. EU production is expected to increase marginally in 2005 to 8.9 million tons. Currently, the steam has gone out of the market due to poor economic activity in the region and a slowdown of export potential. Japanese demand is reasonable - particularly from the automotive segment. However, as in the EU, exports are much more difficult to find and output cuts have been put in place.

The US market suffers from high levels of imports. The mills find it difficult to compete in many product categories. Production in 2005 will be similar to the previous twelve months. South Korean stainless steelmaking should level off at near to 2.4 million tons per annum after Posco's considerable investment over the past two years. Taiwanese supply should also settle down at around 1.6 million tons in the medium term. The mills in both countries have indicated production curbs in the third quarter. China, South Africa and India are the countries exhibiting continuous growth tendencies. Brazil is also likely to contribute more over the next few years. There are increasing fears that China will become a net exporter of cold rolled coil in the short term and have a surplus of stainless steelmaking before the end of the decade.

Although the growth and demand for metals has been less dramatic than China's, India is presently the world's eighth largest economy and is on pace to surpass Japan and become number three within the next 25 years. Analysts are projecting consistent GDP growth of around 7% (it is 8% year to date) for the next several years and its population is expected to exceed China's by the end of this decade. India is also expected to become one of the world's most important suppliers of stainless steel and brass PVF products. While Europe remains largely in a state of economic malaise, the sustenance of the U.S. and Japanese recoveries will also be vital to maintaining current price levels of non-ferrous metals. In the U.S., general economic conditions remain healthy, 1st Quarter GDP was recently adjusted to 3.8% and unemployment is around 5% - the lowest rate since September 2001. Based on continuing shortages and significantly increased material and foundry expenses, price levels for products produced from scrap (150 lb cast fittings, valves) are not expected to be reduced at all in price and should actually undergo another round of increases.



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 Phillippe 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

The information contained herein is that gathered from major USA manufacturers and not necessarily the opinion of Piping & Equipment, Inc.