



STEEL INDUSTRY NEWS

Steel analysts have revised their second half outlook for pricing as reported in the ASA Industrial Piping Division's Commodity Reports. They are now expecting prices to remain fairly steady for the rest of 2006. The analysts see a favorable supply/demand balance for 2006, and they think that high oil prices will probably not derail worldwide economic recovery since current high oil prices should coax greater supply out of the industry.

On July 14th nickel closed on the LME at \$11.60 per lb. For the first time in history nickel went over the \$26,000 per metric ton mark on July 12th, before afternoon profit taking drove the price down to a closing of \$11.20 per lb. Nickel has gained 87 percent this year. Taiwan's Yusco and Tang Eng are considering following China's Poxco, Baosteel & Tysco's lead in reducing stainless steel production in an attempt to drive down raw material prices. This attempt could end up hurting users more than the miners, as it could cause shortages. Stockpiles of nickel monitored by the London Metal Exchange fell 486 metric tons, or 5.5 percent, to 8,418 tons. Inventories are down 76 percent this year. Credit Suisse Group said 2006 demand will outpace output by 15,000 tons.

Inco of Canada efforts to acquire all of the outstanding common shares of Falconbridge of Canada is still on going with Phelps Dodge wanting to join forces with Inco. Phelps Dodge got fast tracked US regulatory approval in their bid for Inco/Falconbridge. Both Teche and Xstrata have an interest in this deal that speculation has it will eventually further consolidate the major nickel producers to a select few. A hearing is set for July 21st with the Ontario Securities Commission in reference to Xstrata's request that Inco's clause in its bid for Falconbridge, be set aside to level the playing field for Xstrata's bid.

Ferro chrome prices are driven by the strong demand for stainless steel. There is no substitute for Cr in stainless steels. In April, May, and June prices increased to over 65 ct per lb. For the next few months, further price increases up to 70 cents per lb. are expected. In the long run, additional capacities (for instance Tata's South African FeCr plant) will limit further price increases.

Ferro molybdenum prices bottomed out after a period of weakness early this year. In May the FeMo priced reached almost 60 UAS per kg. In Europe, FeMo was even sold at a price of 62 USD per kg. However, both prices are still lagging 50% behind last year's peak price. Due to strong demand from project business, market participants expect further price increases in the next months. Some companies expect a molybdenum deficit for 2006.

The stainless steel scrap market remains very tight due to high demand from stainless steel mills. In Europe, prices up to 2,000 USD per ton (18-8 scrap) have been reached already in mid-May, which is an increase of about 400 USD in one month. According to stainless steel scrap market insiders, the availability problems of stainless steel scrap have been somewhat exaggerated in the media. Most stainless steel mills intended to lift the scrap ratio on cost of primary nickel this year. Due to availability problems this plan will probably fail.

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Information for this article was provided by Stainless Steel World News, Stainless Steel and Metals News, the Welded Steel Tube & Pipe Monthly, Asia Times, and the Globe and Mail Update of Washington.

STAINLESS STEEL PIPE

Pricing ↑ Stainless steel pipe manufacturers are forecasting a 5% - 7 ½% industry wide increase in the third quarter of 2006 due to raw material costs. This follows a 10% or more increase during the 2nd quarter. Runaway nickel prices are causing havoc among stainless steel manufacturers. Prices remain very firm.

Lead Times - Lead times for commodity material not in stock is forecast 8-26 weeks. Non-stock special are forecast for 20 or more weeks.

Comments - The 2006 alloy surcharges for stainless pipe are as follows:

Stainless	Jan-06	Feb-06	Mar-06	Apr-06	May-06	Jun-06	Jul 06	Aug-06
304/304L	0.599	0.673	0.693	0.717	0.707	0.887	1.070	1.056
316/316L	1.508	1.477	1.481	1.444	1.436	1.659	1.960	1.932

One manufacturer reports a global short supply of large OD pipe that is expected to continue into 2007. This shortage is mostly due to large LNG expansions in the world. Special alloys are also in short supply due to the increase in the scrubber market that is also expected to continue into 2007. There is a sudden surge in

the building of ethanol plants in the US. Demand for stainless pipe and fittings are expected to be strong through the end of 2006 with most experts predicting a robust market for the next 18-24 months as more ethanol, biodiesel and emerging alternative fuel plants are built.

STAINLESS STEEL WELD FITTINGS, 150 # & HI-PRESSURE FITTINGS

Pricing ↑ Manufacturers indicate price increases of 8% - 10% due to raw material issues and energy costs. Domestically the increase is expected to stick across the board. Manufacturers believe the import fittings will increase the same percentage, keeping the price delta consistent.

Lead Times - Forecast lead times are 1-2 weeks with 80% - 90% fill rates. Non-stock specials are shipping in 3-4 weeks.

Comments One manufacturer notes that due to capacity constraints, they are only quoting non-stock specials to key, strategic distributor partners. The fitting industry has not been affected by raw material shortages or long lead times on deliveries. A Review of a dumping case against welded pipe manufacturers from Taiwan and Korea is continuing.

STAINLESS STEEL FLANGES

Pricing → Flange manufacturers reported price increases mid-June of 8% - 10%.

Lead Times Deliveries are forecast for 6-8 weeks for commodity flanges with fill rates running 30% - 40%.

Comments - One Manufacturer comments that shipping and availability problems continue with prices going up monthly with either surcharge increases on stainless or list price increases.

CARBON STEEL PIPE - ERW AND CONTINUOUS WELD

Pricing ↑ - Continuous Weld pipe manufacturers predict an increase of 5% in July following the June increase of approximately 6%. ERW manufacturers announced a \$60 per ton increase for early July following a \$60 per ton increase in May. From February to June U.S. Steel increased pipe prices by \$200 per ton on 2" thru 8" and \$100 per ton on 10.75" O.D. and larger.

Lead Times Fill rates are reported to be 60% - 80% with delivery lead times forecast for 6-8 weeks.

Comments The continued strength of the energy markets make further increases possible. Standard seamless and OCTG have long had pricing disparities, but that seems to be narrowing.

CARBON STEEL WELD FITTINGS AND FLANGES

Pricing ↑ Manufacturers indicate pricing will probably increase from 8% - 10% pending the direction of steel scrap pricing. Pricing is volatile and may be above or below the 8% - 10% noted above. Price increases are sticking due to the increasing costs of carbon steel seamless pipe and carbon steel forgings, as well as world demand for steel and increases in fuel and energy costs.

Lead Times The forecast lead times are 6-8 weeks with fill rates of 80% - 90%.

Comments One manufacturer notes that the costs of energy utilized in production and fuel for transportation are impacting

the delivered price of both carbon steel welding fittings and flanges exacerbating the impact of higher raw material costs. Prices for carbon steel seamless pipe and forgings are escalating due to the increase in offshore demand. Continued upward pressure is expected due to the increasing appetite of China for steel scrap. The exact percentage of a price increase is as of this date undetermined due to the volatility of the raw material markets. Competition from Mexico, Korea, India, Malaysia, Thailand, Brazil, Russia, Romania, and China continues to increase.

FORGED STEEL FITTINGS

Pricing → - **Forged** steel fitting manufacturers indicate no pricing change for the third quarter. The potential of a price increase announcement late third quarter, effective late fourth quarter remains high according to manufacturers.

Lead Times Fill rates for forged steel fittings are 85%. Deliveries are forecast for 2-3 weeks. As demand remains high, it will continue to put pressure on delivery fill rates and lead times.

Comments According to the American Metals Market, AMM, the price per ton of #1 busheling scrap has increased 22% through June. The oil patch and energy related business segments continue to drive the forged steel business. The industry is not experiencing raw material issues. The forged steel issue is converting the raw material into finished product. One manufacturer notes they have increased their work force and continue to run over-time.

STAINLESS STEEL GATE, GLOBE AND CHECK VALVES

Pricing ↑ - Pricing on stainless steel valves is forecast to increase 2% - 5% due to raw material and transportation costs.

Lead Times Forecast lead times remain at 6-8 weeks with

fill rates of 60% - 80%.

Comments Manufacturers forecast the upward trend for the stainless valve business will continue thru 2006.

BRONZE AND IRON GATE, GLOBE AND CHECK VALVES

Pricing ↑ Bronze manufacturers forecast price increase of 3% - 7 ½% due to dramatically increasing raw material costs in bronze materials. Bronze ingot costs have increased 180% over the past 12 months and 200% in the past 5 months. Iron valves will remain stable during the 3rd

quarter of 2006.

Lead Times Forecast lead times are 3-6 weeks with fill rates of 70% - 80%.

Comments Bronze ingot costs are forecast to continue to steadily increase.

CAST STEEL GATE, GLOBE AND CHECK VALVES

Pricing → Cast steel valve manufacturers are forecasting prices to remain stable thru the 3rd quarter.

Lead Times Delivery times are running 6-8 weeks with fill rates of 60% - 80%. Non-stock specials are running 16-20 weeks depending on the materials.

Comments One manufacturer notes that supply is

available; however, as more and more of the global "mega" projects are released, there will be an effect on the cast steel valve business. Competition from China and India is increasing. Another manufacturer comments, "buy now, save later."

FORGED STEEL GATE, GLOBE AND CHECK VALVES

Pricing ↑ Manufacturers of forged steel valves are forecasting a 5% increase in the third quarter due to raw material costs and currency exchange rates.

Lead Times - Forecast lead times are 3-4 weeks with fill

rates of 70% - 80%. Non-stock specials are forecast for 16-20 weeks.

Comments Forged steel valve business is projected to continue on a strong pace.

QUARTER TURN VALVES - BALL AND WAFER

Pricing → Quarter turn ball and wafer valve manufacturers indicate pricing to remain stable thru the 3rd quarter of 2006. However, brass ball valves recently experienced an increase of approximately 25%.

Lead Times Fill rates are running 20% with lead times

running 4-6 weeks. Non-stock specials are forecast for 8 - 12 week deliveries.

Comments Manufacturers lead times are running longer. The lead times depend on the metallurgy. Stainless and carbon is not bad, but the high alloys are seeing longer lead times.

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.

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The International Stainless Steel Forum announced on July 7th that worldwide production of stainless steel was a record for the first quarter of 2006 6.6 million metric tons. The largest growth was not in China, but the America's, which saw an increase of 17.7% over the final quarter of 2005. This was followed by Europe, with an increase of 12.6%, and Asia with 11.1%. China led the world in production, with 50.7%.

Peter Morici, professor at the University of Maryland School of Business and former chief economist at the US International Trade Commission, recently had an article in the Asia Times commenting on politics, protectionism and the trade deficit. Morici said, "Bush's reluctance to tackle currency issues and government incentives that give advantages to Asian industries create strong incentive for large US multinationals, such as Caterpillar, GE, and GM to move production to China, India and other Asian destinations. Now, these companies, profiting from Asian protectionism, systematically oppose strong action by Washington to reverse these practices. They become Beijing's most effective lobbyists in Washington. Similarly, large retailers, such as Wal-Mart, Target, and Staples, importing goods from Asia have sought to stem US government efforts to address these policies."

The following information in a report from Washington by Alan Freeman of the Globe and Mail Update:

The Bush administration vowed Monday to crack down on nickel exports from Cuba, at least half of which are accounted for by Canada's Sherritt International Corp., alleging that the money from the sales is being "diverted to maintain the regime's repressive security apparatus." But Sherritt's chairman, Ian Delaney, immediately labeled the proposed actions as "nothing new" and said that the continuing U.S. embargo on the Communist nation is simply "nonsense."

With an eye on Florida's vote-rich Cuban-American community, President George W. Bush said on Monday, July 10th he would go ahead with recommendations of a special government-appointed group known as the Commission for Assistance for a Free Cuba. The commission called for a range of policies aimed at strangling the regime of President Fidel Castro, including the expenditure of \$80 million (US) to assist political opposition and make it more difficult to provide humanitarian aid and remittances to Cubans. The report specifically calls for a crackdown on nickel exports, with it says now account for "nearly half of the regime's current foreign income." Nickel prices are near all-time highs on world commodity markets, making them an increasingly valuable export. The commission went on to recommend establishment of "an inter-agency Cuban Nickel Targeting Task Force" whose job it will be to reinvigorate the existing nickel import certification and control the regime. State Department officials did not respond to requests for additional information on the task force's role.

Sherritt operates a joint venture with the Cuban government that last year produced 34,000 tons of nickel. An expansion of the facility at Moa Bay is under way, which is expected to increase output by about 50 percent. Sherritt also produces cobalt at the same facility and is involved in oil and gas and soybean operations as well. The nickel is produced as a concentrate in Cuba, shipped by sea to Halifax and by rail to Sherritt's refinery in Fort Saskatchewan, Alta., Canada, where it is refined into metal and then sold internationally, primarily in Europe. It is illegal to sell it to the United States, either in pure form or included in end products. Officers and directors of Sherritt have been banned from entry into the United States under the 1996 Helms-Burton Act.

David Davidson, a mining analyst at Paradigm Capital in Toronto, said he does not believe that the new measures proposed by the Bush administration will hurt Sherritt. He went on to say that tracing Cuban-produced nickel is virtually impossible. He gave as an example Cuban nickel that is turned into stainless steel in Germany and then becomes part of a jet engine made by Rolls Royce. How do you track that? It's impossible. At the Cuban Liberty Council, a Miami-based group that lobbies for the end of the Castro-regime, Ninoska Perez decried Sherritt as a company that is using assets confiscated by the Cuban government from their original owners and is aiding a dictatorial regime. She also said she cannot understand why the Canadian government continues to encourage companies like Sherritt to invest in Cuba.



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