



## RAW MATERIAL PRICES IMPACT STEEL INDUSTRY

In the August 2006 Outokumpu Stainless Bulletin, comments were as follows:

“The price of nickel has been hitting record highs almost on a daily basis, recently surging 56% in one month. While stabilizing somewhat, the cost of molybdenum also remains high. These fluctuating prices are a concern to Outokumpu and their service center customers, as both elements (nickel and molybdenum) are used in the melting of most stainless steels. Molybdenum, which is a by-product of copper mining, is especially effective in improving pitting and crevice corrosion resistance in chloride-containing environments, and it also increases the elevated temperature strength and creep resistance of stainless steels. Nickel increases both strength and corrosion resistance of stainless steels. Other industries are also driving up demand for and consumption of nickel and moly. While demand and prices keep rising, inventories for both raw materials are below normal. Mike Stateczny, Outokumpu's Senior Vice President of Plate Products, said that nickel is traded on exchanges and very often has been a speculative metal, but this time the industry senses that it is a lack of supply and there is a real lack of supply on the moly side.”

“In the case of molybdenum, the inconsistencies of price fluctuation and the high costs of mining disrupted the investment and production capital needed to start new mines and re-open idled ones. Over the past five years, molybdenum has fluctuated from \$2.36 to over \$45 a pound before recently settling somewhat in the mid-\$20s. Nickel supply is trying to revive from a mid-1990s production decline caused by economic and political issues that delayed the re-opening of Canadian mines.”

“While supply for nickel and moly has stalled, demand has surged. There has been an annual double-digit demand from China for domestic consumption of molybdenum, and from 2000 to 2005 the Chinese demand for nickel more than tripled. This increased demand was reflected around the world as demand for moly and nickel rose in the steel, chemical and aerospace industries and in oil and gas drilling. The increased demand for nickel and moly, along with new technologies that could reduce costs in mining, could stimulate greater production in the next few years as mines are scheduled to go on-stream or expand production in Canada, Australia, China, Chile and the U.S. But many industry analysts still doubt whether the increase in supply will be big enough to satisfy the world's continued demand for nickel and molybdenum over the next few years.”

*(Continued on page 4)*

*Information for this article was provided by Of Mutual Interest, a newsletter by Outokumpu Stainless, August 2006; Stainless Steel and Metal News October 2006; MEPS International; Platts Metals Daily Comex Report, and the Supply House Times July 2006*

## STAINLESS STEEL PIPE

**Pricing** ↑ Stainless Steel pipe manufacturers are posting increases by 5% - 7 ½% for the fourth quarter of 2006. Price increases are due to supply, capacity, and demand. Most welded capacity in the U.S. is booked up thru the end of the year on large project volume. The alloy surcharges for stainless pipe are as follows:

**Lead Times** – Commodity stainless pipe is shipping with 10% - 20% fill rates. Commodity pipe not in stock is being reported to have lead times of 20 or more weeks. Non-stock specialty stainless is also scheduled for delivery in 20 weeks or more.

**Comments** – Imports from China are increasing according to manufacturers. Large projects in many different end use markets have filled up all of the welded mills. Capacity is generally sold out well into 2007. Most mills are sold out of inventory and are essentially booked up for the year. RathGibson, a stainless welded tube manufacturer, has acquired Greenville Tube Company. Greenville produces seamless, welded and drawn, and welded tubing in stainless and nickel alloys in both straight lengths and coils to markets such as oil and gas, chemical and petrochemical, transportation, medical, and food/beverage.

Stainless	6-Jan	6-Feb	6-Mar	6-Apr	6-May	6-Jun	6-Jul	6-Aug	6-Sep	6-Oct	6-Nov
304/304L	0.599	0.673	0.693	0.717	0.707	0.887	1.070	1.056	1.369	1.571	1.540
316/316L	1.508	1.477	1.481	1.444	1.436	1.659	1.960	1.932	2.309	2.635	2.600

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

**Pricing** ↑ → Manufacturers of stainless weld fittings are forecasting 5% - 10% increases for the fourth quarter of 2006 due to raw material costs, supply, and demand. Raw material supplies remain tight. Manufacturers of stainless pressure fitting predict no change for their pricing during the fourth quarter of 2006 following third quarter increases of 8% - 10%.

**Lead Times** – Fitting manufacturers indicate fill rates of 70% - 80% with forecast lead times of 6 - 10 weeks for commodity items not in stock. Pressure fittings are shipping with 90% - 100% fill rates and 2 - 4 week delivery. Manufacturers are carrying higher inventory to help offset the longer lead times. Non-stock specialty items are forecast out to 20 weeks or more. Depending on OD and material, deliveries could extend even further than 24 weeks. This material availability probably will not get any better for awhile.

**Comments** – Nickel remains very high and unstable. Raw material costs continue to climb in addition to alloy surcharges, energy, and fuel costs. One manufacturer comments they are close to capacity

on some of their presses. Sales of commodity fittings have remained stable in the last year; however, with increases in non-commodity products being produced, stock percentages have dropped. One manufacturer notes that demand for their products has increased in the last 8 months keeping price levels up. With the increased demand comes the threat of supply shortages. This demand is also evident in world markets as they see export opportunities increase. Canada's Inco Ltd. said in a statement on September 20 that extremely strong demand for nickel, especially from the stainless steel industry, has left major producers struggling to supply their customers and has driven prices to record highs. An Inco executive, Peter Goudie, said, "Inventories throughout the supply chain are at the lowest levels we have ever seen. Our customers are looking for more nickel, and we are doing all we can to supply them, but it is difficult to meet all demands." Production problems at a number of nickel producers were another factor behind the tight market.

## STAINLESS STEEL FLANGES

**Pricing** ↑ Flange manufacturers indicate price increases of 3% - 5%.

**Lead Times** – Deliveries are forecast for 8 - 12 weeks for commodity flanges with fill rates running 30% - 40%.

**Comments** – Raw material price increases impact the price of

stainless; however changes in pricing will not be entirely caused by nickel or moly. Supply and demand for raw material is the major factor currently and will be for at least another six months according to one manufacturer.

## CARBON STEEL PIPE - ERW AND CONTINUOUS WELD

**Pricing** ↑ → Manufacturers are predicting price increases on continuous weld pipe products of approximately 5% and ERW is increasing an average of \$50 per ton in the fourth quarter of 2006. Seamless pipe manufacturers are predicting no price change this quarter.

**Lead Times** – With fill rates of 60% - 70%, delivery lead times remain at 6 - 8 weeks.

**Comments** Unprecedented increases in energy and transportation costs as well as the resumption of raw steel costs increases are driving increases. Continued growing worldwide demand for energy and raw materials continues to keep significant pressure on carbon steel pipe. According to the ASA Materials Market Digest for October 4, 2006, U. S. steel mills continue to report output well ahead of last year.

## CARBON STEEL WELD FITTINGS AND FLANGES

**Pricing** → - Manufacturers are forecasting no change for carbon steel weld fittings and flanges during the fourth quarter.

**Lead Times** The forecast lead times remain at 2 - 3 weeks with fill rates of 80% - 90%. Non-stock specials are forecast for 6 - 8 weeks.

**Comments** Manufacturers believe that pricing for both carbon steel fittings and flanges will remain firm until the first quarter of 2007. All pending litigation with Mexico, Korea, India, Malaysia, Thailand, Brazil, Russia, Romania and China has been placed on hold until 2007. Foreign competition has been noted as increasing from these same countries. Manufacturers comment that pricing 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 coming price increases is as of this date undetermined due to the volatility of the raw material markets. It is expected by first quarter of 2007, price escalations will follow. The costs of energy utilized in production and for transportation are impacting the delivered price of both carbon steel welding fittings and flanges exacerbating the impact of higher raw materials. In many areas electric power will be deregulated in January 2007 adversely impacting induction heating costs incurred in the production process of both carbon steel fittings and flanges.

## FORGED STEEL FITTINGS

**Pricing** → Forged steel fittings are not forecast to change thru the fourth quarter of 2006.

**Lead Times** Fill rates for forged steel fittings are 80% - 90% with lead times of 1 - 2 weeks.

**Comments** Manufacturers comment that the European

forged steel material has decreased in the U.S., but the Taiwan material has increased. SBQ material used to manufacture forged steel remains consistent from the third quarter of 2006. Demand continues at robust levels with not only the energy business segments, but industrial business has increased as well.

## STAINLESS STEEL GATES, GLOBES, CHECK VALVES

**Pricing** ↑ Pricing on stainless steel valves is forecast to increase 5% - 7 ½% due to raw material costs.

**Lead Times** Lead times are forecast for 6 - 8 weeks with fill rates of 60% - 70%. Fill rates for non stock specials is 20 weeks or more.

**Comments** Valve manufacturers believe that 2006 will end on a positive note. Moderate acceleration in the manufacturing sector in 2006 will likely be followed by

pronounced slowing in 2007, according to the Manufacturers Alliance/ MAPI Quarterly Industrial Outlook Second Quarter 2006, a report that analyzes 27 major industries. Top industry performers in the second quarter, recording year-over-year double-digit growth, iron and steel products showed a 19% increase as published in the Valve Manufacturers Association of America news updates.

## BRONZE AND IRON GATES, GLOBES AND CHECK VALVES

**Pricing** ↑ - Bronze manufacturers forecast price another increase of 1% - 2 ½% due to increasing raw material costs in bronze materials. Iron valves are predicted to remain stable during the 4th quarter of 2006.

**Lead Times** Forecast lead times are running 4 - 6 weeks with fill rates of 70% - 80% for bronze valves. Iron valves are running

4 - 6 weeks also, but fill rates are 80% - 90%. Non-stock specials are forecast for 16 - 20 weeks.

**Comments** China and Italy are noted as the major import competition. Bronze ingot has steadied, but at a new plateau according to manufacturers. Raw material costs will continue to affect market pricing for bronze valves.

## CAST STEEL GATES, GLOBE AND CHECK VALVES

**Pricing** ↑ → One manufacturer predicts 3% - 5% increase in pricing during 4<sup>th</sup> quarter of 2006, while another manufacturer forecasts no price changes during the 4th quarter of 2006. The increase is being pushed by supply, demand, and raw material costs. The manufacturer predicting the increase feels that it will stick, if non-quality manufacturers are kept out of the picture.

**Lead Times** Forecast lead times are 8 - 12 weeks with fill rates of 70% - 80% on commodity valves. Non-stock specials are forecast for 20 weeks or more.

**Comments** One manufacturer is especially concerned over the unqualified product from third world countries entering our market.

## FORGED STEEL GATES, GLOBES AND CHECK VALVES

**Pricing** ↑ Forged steel valve manufacturers forecast a 4% - 6% increase in forged steel valves during the fourth quarter of 2006. One manufacturer announced an increase in September.

**Lead Times** - Forecast lead times are 6 - 8 weeks with fill

rates of 70% - 90% on commodity valves. Non-stock specials are forecast for 16 - 20 weeks or more.

**Comments** Pricing is being watched due to rising energy, benefit, labor and transportation costs.

## QUARTER TURN VALVES - BALL AND WAFER

**Pricing** ↑ Quarter turn ball and wafer valve manufacturers indicate an increase of 3% - 5% price change for the 4th quarter of 2006 due to supply, foreign pressure, capacity, and raw material costs.

**Lead Times** Lead times are stretching out to 6 - 8 weeks with fill rates of 30% - 50%. Non-stock specials are forecast for

12 - 16 week deliveries. Business conditions are driving lead time increases.

**Comments** Foreign competition is increasing from Korea and the European community. Surcharges on nickel and base material increases are increasing notes manufacturers.

*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.*

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On October 9<sup>th</sup>, Bloomberg reports that nickel hit a new record high in early trading. Forbes reports \$13.73 / lb over a 3 month period with \$30,250 per ton. The \$30,000 / ton barrier had been breached for the first time in history on August 24<sup>th</sup> of this year. Friday's official closing (cash) \$14.38 / lb 3 month buyer \$13.29 / lb. The LME nickel inventory as of October 9<sup>th</sup> went down 396 tons = 4,458 tons. Daily reports on LME Nickel are available at [www.estainlesssteel.com](http://www.estainlesssteel.com) on the Stainless Steel & Metals News. Nickel is responsible for up to 60% of the cost of stainless steel. Molybdenum pricing is an ingredient and major price factor in 316 stainless steel.

In a September 22<sup>nd</sup> article in Platts Metals Daily Comex Report, Derek Benham explained to the Recycling Industries Nickel Stainless Roundtable last week why he feels fund speculation has driven LME nickel prices so high. Benham argued that there was no shortage of physical nickel on the US and European markets, but he said that if nickel demand remained as strong in 2007 and continued rising, then nickel prices next year could make "the prices of 2006 look like child's play."

MEPS (International) Ltd has upgraded its previous forecast for global crude steel production in 2010. Finished steel consumption is expected to be well over 1 billion tonnes. The oxygen process is predicted to provide around 65 percent of all steel making in 2010 more than double the amount from electric melting. The desire for self sufficiency in steel making is driving producers in many parts of the world to invest in new plant and equipment. The International Stainless Steel Forum (ISSF) expects stainless steel production to reach 26.4 million metric tons in 2006, an increase of 8.6% on 2005, as reported by Jim Olszynski in the Supply House Times PVF News section in July 2006. The ISSF expects a slight flattening in 2007 for the general economy that should lead to a long-term average increase in stainless steel demand provided the price and supply of alloying materials is secure and reasonable.

Standard Bank, of South Africa forecast further gains in base metal prices underpinned by the success of exchange-traded funds and commodity indices as reported by Chris Flood in The Financial Times Limited on October 11, 2006. He went on to say that increased LME trading volumes were a testament to increased investor appetite for exposure to metals. Francisco Blanch, a commodity strategist at Merrill Lynch, said "Base metals markets have become overly concerned about a slowdown in global economic growth, but momentum in the world economy continues to be very supportive, fed by a strong global investment cycle, positive employment growth and still relatively accommodative financial conditions." Mr. Blanch said China alone accounted for about 92% of last year's consumption growth for the four major base metals - aluminum, copper, nickel and zinc - and as Chinese economic growth was likely to remain high in 2007, this would lend support to industrial metals.



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