



STAINLESS STEEL MARKETING NEWS

The American Metal Market recently reported that a degree of calm is set to return to the stainless steel markets for the remainder of 2007. Alloy surcharges are not expected to move by as much as in previous months. They expect the surcharges may turn slightly upward; however, they go on to predict that the alloy price volatility of the past few months will have long-term effects on the industry.

It is believed that the pricing system of base price and alloy surcharges appears to have broken down in the past few months. Mills are negotiating on price in effect trying to shift expensively-produced material. Pricing mechanisms may be altered to roll some of the alloy surcharge into base prices in the near future.

The recent volatility has encouraged localized markets, with trade flows slowing and not just because of weaker demand from high-volume buyers. Next, production has been reduced severely due to price volatility. Production levels have been cut globally in Europe, Asia and the USA. So, not only are we seeing production cuts by producers, but also reduced investment from financial markets.

Another result of price volatility is encouraged product substitutions by manufacturers. Outokumpu has expanded its production of duplex and lean-duplex grades of stainless steel in an effort to shift to a more price-stable material.

Inventories of stainless steel held by US service centers reported in August '07 hit lows not seen since 2001. Shipments from US service centers dropped by 20% in August indicating that there is a combination of end-use consumers that are also de-stocking and that fundamental demand is weak. Appliances, automotive, and residential construction markets are weak. However, non-residential construction is beginning to pick-up. Refinery expansions and ethanol plants have held up well and these are driving the stainless demand.

With nickel prices moving little since August relative to the previous two months, alloy surcharges on austenitic stainless steel will not fall again in the manner they have done recently. Pricing stability now opens up the possibility that high volume buyers may now feel confident enough to begin placing orders with the knowledge that further price collapses are unlikely. Pricing may soon begin to rise; but prices are not expected to run away again as they did in early 2006.

The fall in nickel prices appears to be over. It is interesting to note that while some metals like zinc and aluminum, have extended their losses amid the fallout from the credit market crisis, nickel has held its ground. Selling pressure toward nickel has subsided. This fourth quarter should be a step toward market recovery.

In 2008, it is likely that surcharges will revert back to a gradual upward movement with raw material costs increasing on the back of renewed production at stainless mills across all regions. An alloy surcharge may soon be adopted by Chinese mills. It is possible that China's major mills may adopt a similar pricing mechanism to producers in Europe and USA as early as January 2008, although discussions are still ongoing. European mill may be set to change to reflect the system of surcharges held in the USA. (See the nickel surcharge graph on page 4)

Barclays Capital reported Average Demand Growth Rates for Base Metals as noted in the chart on page 4. China is listed as being the key driver.

(Continued on page 4)

STAINLESS STEEL PIPE

Pricing ↑ Pricing Manufacturers indicate a 1% - 2% increase in the price of stainless steel pipe due to raw material costs as a result of firming nickel prices

Lead Times – Forecast lead times are 8 – 12 weeks with fill rates running 20% - 40%. Exotic mill deliveries are running 12 – 16 weeks, which are considerably shorter lead times.

Comments – Pipe mills are busy with project orders and not producing much inventory. Pipe mills remain very busy with solid backlogs in project driven work...LNG, FGD, Ethanol, Drilling, Refining, and Power Gen are among the active end user markets. Current spot nickel prices are 36% lower than they were on the first of June, but only 9% lower than they were on the last trading

day of June. Average molybdenum prices have increased a bit more than 20% since June and average chromium prices have increased around 23% since June. Virtually all base metals have been subjected to extreme volatility over the past 12 months. Since September of 2006, price ranges have been as follows: nickel 116%, tin 87%, zinc 71%, copper 49%, aluminum 38%. Molybdenum's range has been around 30% and chromium's range has been a whopping 118% and current prices are more than double of where they were a year ago.

See Surcharge History Graph on page 4

STAINLESS STEEL WELD FITTINGS, 150 & HI-PRESSURE FITTINGS

Pricing → ↓ Some manufacturers forecast a drop of 3% to 5% in pricing, while others are forecasting no change in pricing for the 4th quarter of 2007. Hi-pressure fitting manufacturers indicate no change in their pricing for the quarter.

Lead Times – Fill rates are running 60% to 80% with lead times for standard material of 4 – 8 weeks. Large OD material is forecast for 8 – 12 weeks. Non stock specials are forecast by all manufacturers for 8 – 20 weeks or more.

Comments – Activity continues to be strong with Nickel fluctuating up and down. The domestic stainless continues at

consistent levels with no large fluctuations in the coming month predicted. Petro-chemical work continues to drive the domestic stainless business. Stainless butt weld commodity fittings continue to decrease on the domestic market due to imports. However, project, specials, and made to order items (special alloys, heavier walls and large OD sizes) remain active and should continue for the balance of 2007. One manufacturer notes that we are currently experiencing a soft market for materials, yet an overabundant supply from foreign sources.

STAINLESS STEEL FLANGES

Pricing → ↓ Pricing for stainless steel flanges is forecast to decrease 3% to 5% or possibly no change from other manufacturers. However, if nickel goes above \$35,000 per MT, the decrease will not hold.

Lead Times – Lead time are running 3 - 6 weeks with fill rates

remaining at 60 – 70% for commodity material. Non-stock specials are running 16-20 or more weeks.

Comments: Stainless flange decreases continue to decrease due to imports; however, manufacturers do not see much change thru the end of the 4th quarter.

CARBON STEEL PIPE - SEAMLESS, ERW AND CONTINUOUS WELD

Pricing ↑ Manufacturers forecast a 3% - 5% increase in carbon steel pipe seamless, ERW, and continuous weld thru the 4th quarter.

Lead Times – Commodity carbon steel pipe is forecast 3 - 8 week lead times and fill rates of 60%-80%. Non-stock specials are forecast for 8 - 12 weeks.

Comments – Domestic pricing remains competitive. Business levels remain acceptable, but somewhat lower than anticipated according to manufacturers. There are five important global trends in steel:

- Growing global consumption

- Growing global production
- Growing consolidation
- Changing global trade patterns
- Regionalization

The top 15 steel producers in the world make 35% of world steel. Asia consumes 51% of the steel in the world. China will out pace all other countries in adding capacity and will produce half the world's steel in the next 10 years. The global economy is expected to remain strong over the next 5 years with very strong growth in China and India.

CARBON STEEL WELD FITTINGS AND FLANGES

Pricing ↑ Pricing for carbon steel weld fittings from 14" – 24" is forecast to increase by 10% or more due to cost and availability of raw material. Price increases have varied per manufacturer, primarily reflecting industry wide impact of higher material costs in larger size pipe.

Lead Times – Fill rates are running 80% - 90% with lead times of 2-3 weeks. Non-stock specials are forecast for 6 – 8 weeks.

Comments – Foreign competition continues to increase from Mexico, Malaysia, Italy, China, India, and Romania. Energy costs

continue to exert pressure on the cost of logistics, manufacturing costs and scheduling due to the availability of energy during peak load hours. Offshore products continue to pour into the USA market unabated resulting in depressed pricing of commodity carbon steel weld fittings and forged flanges through 48". In addition, quality and liability issues are increasing for the distributors due to the increased influx of sub-standard materials according to one manufacturer.

FORGED STEEL FITTINGS

Pricing ↑ Manufacturers indicate forged steel pricing to increase by 5% - 6% in the 4th quarter of 2007. The pricing is being fueled by upward raw material pressure coupled with an overall increase in operating expense.

Lead Times – Lead times continue at 2 – 3 weeks for commodity forged steel fittings with fill rates of 80% - 90%.

Comments – Manufacturers continue to see increased

competition from non AML Taiwanese material. The number of “stocking distributors” has increased along with availability. The European competition has virtually disappeared as Italian manufacturers forego American outlets in lieu of Middle Eastern markets. Scrap surcharges on special bar quality product has increased nearly 10% over the previous 60 days.

STAINLESS STEEL GATES, GLOBES, CHECK VALVES

Pricing ↑ Stainless steel valve manufacturers are forecasting an increase of 10% or more due to raw material costs.

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

deliveries.

Comments – Raw material costs are coming down, but the effect of these costs in cast product may not be realized for several months.

BRONZE AND IRON GATES, GLOBES AND CHECK VALVES

Pricing ↑ Indications are that bronze valves will increase 3% - 5% and iron valves will increase 1% - 5% due to raw material costs.

Lead Times – Bronze valve fill rates are 70% - 80% with deliveries of 4 - 6 weeks. Iron valve fill rates are 80% - 90% with deliveries running 4 – 6 weeks.

Comments – Bronze raw material costs have steadied, but are forecasted to continue to increase through 2007. Copper saw quite a fluctuation during August, but the up and down changes were not driven by labor problems. Though some labor problems still persist in the copper market.

CAST STEEL GATES, GLOBE AND CHECK VALVES

Pricing → ↑ Some manufacturers indicate no change for cast steel valves during the fourth quarter of 2007, while others are seeing an increase of 3% - 5% due to labor and raw material costs.

Lead Times – The forecast delivery for cast steel valves is 3 – 6

weeks with fill rates of 70% - 90%. Non-stock specials are forecast to ship in 8 – 12 weeks.

Comments – The market for cast steel valves from China is showing marked increase.

FORGED STEEL GATES, GLOBES AND CHECK VALVES

Pricing ↑ Forged steel valve manufacturers forecast a price increase of 2% - 7% in the fourth quarter of 2007. These price changes are being pushed by raw material cost, demand and competition.

Lead Times – Fill rates remain at 70% - 90% with deliveries of 4 – 6 weeks. Non-stock specials are forecast for 12 – 16 weeks and

more depending on material.

Comments – Molybdenum demand is pressuring prices upward. Forecasted strong demand for year end push could send prices higher. Nickel was up slightly in September, but still below the May high. Strong demand could push prices even higher.

QUARTER TURN VALVES - BALL AND WAFER

Pricing → Manufacturers forecast no change in pricing thru the end of 2007.

Lead Times – Stock deliveries are forecast for 2 – 4 weeks with fill rates of 70% - 80%. Exotic materials and non-stock specials are forecast for 10 – 15 weeks.

Comments – Another good year, but industry experts caution

that a downturn in the economy may be on the horizon. You can read what prognosticators had to say about the domestic and international economies as well as the many end-user industries served by valve manufacturers in the VMA's Valve Magazine Fall 2007 issue.

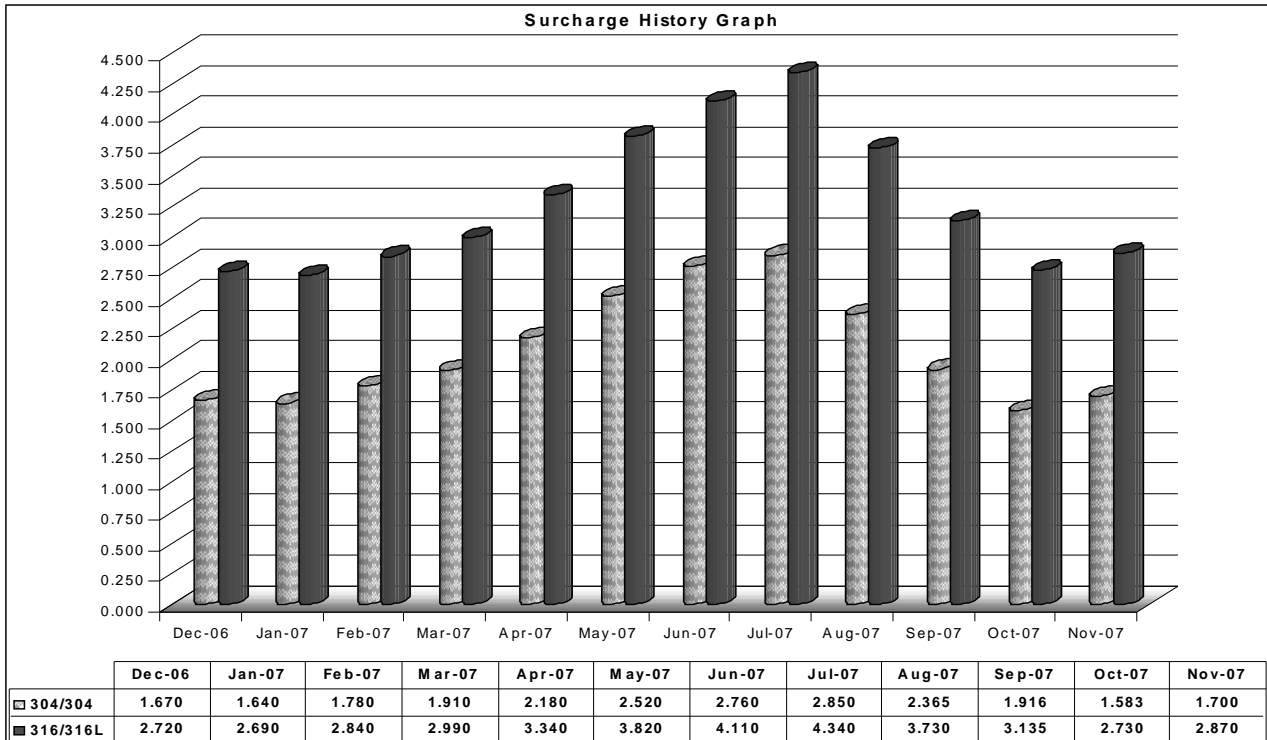
This report is published as a service to the PVF Industry indicating the direction of prices, lead times, and market conditions reported by various domestic and import manufacturers as they believe the direction the market is heading each quarter.

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Average Demand Growth Rates for Base Metals

Global Demand	% 2000-2006	% 2007 YTD	2000-2006	2007 YTD
Aluminum	5.5%	10.0%	1576	3347
Copper	2.5%	4.9%	390	845
Lead	2.6%	4.1%	186	322
Nickel	3.4%	7.0%	42	94
Zinc	3.9%	2.9%	385	313
China Demand				
Aluminum	17.3%	37.8%	904	3105
Copper	13.6%	18.1%	353	709
Lead	21.5%	26.2%	249	537
Nickel	26.1%	38.0%	33	86
Zinc	15.3%	11.6%	303	368

Surcharge History Graph



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