



## Stainless Steel Market News

David Phelps, President, American Institute for International Steel recently reported that US steel producers lack the capacity to supply the American steel-consuming sector with all the steel it needs. Without imports, US manufacturers and contractors would suffer costly shortages and non-competitive prices for steel. The vitality of the US consuming base and the new strength of steel producers are evidenced by the ongoing construction of new steel mills on US soil.

On January 4<sup>th</sup>, nickel headed for its biggest weekly gain in almost 18 years in London on speculation investment demand will increase as commodity indexes increase the metal's weighting. Copper also rose. A key feature of markets this week is the re-weighting of commodities indices, commonly-used investment tools. This process could see some of the better-performing metals sold, and contracts that have lost value bought in the expectation prices will rise. In fact, as of January 8<sup>th</sup>, copper rose to a seven week high and nickel gained the most in three days as index funds increased purchases of industrial metals. Aluminum and zinc also advanced. Nickel's advance relates to index rebalancing according to Michael Jansen, an analyst at JPMorgan Securities Ltd. In London. the official LME nickel closing price was \$13.52 / lb (13.5% higher than 12/31/2007).

The metal index rebounded as part of a commodity surge after the US dollar weakened, boosting demand for metals from buyers holding other currencies. For the most part, physical inventories were unchanged at the LME. A weaker dollar gives holders of other currencies more purchasing power for metals, which are dollar-denominated.

Fundamentals for the nickel market are set to tighten during 2008 against renewed stainless steel demand, particularly in Europe and North America according to the Deutsche Bank. But overall fundamentals remain weak due to large supply. The year 2007 saw China taking center stage on several fronts – industrial, political and economical. For 2008, the Chinese government has said it will change its monetary policy for “moderately tight” to “tight”, while still expected to remain “prudent”. A study commissioned by the Alliance for American Manufacturing finds that China has supported its steel industry with energy subsidies, in an apparent violation of World Trade Organization rules.

Usha C.V. Haley, professor of international business and director of the Global Business Center at the University of New Haven, who conducted the research, estimates that China's 2007 subsidies amounted to \$15.7 billion. "Chinese subsidies exist, they are enormous and they are shaping the global steel market," Haley said. China is considered the largest steel exporter in the world. It joined the WTO in 2001. The AAM called the practice "trade-distorting," in a release. Director Scott Paul said China's energy subsidies have "given Beijing an unfair competitive advantage while harming American businesses and workers."

Industrial production in the US is up with a high level of capacity utilization in contrast with credit market turmoil and fall in the residential sector. Non-residential construction conserves a positive trend. Steel intensive non-residential construction keeps growing. A weaker US dollar will support exports that will sustain machinery and industrial goods production in 2008.

*(Continued on page 4)*

## STAINLESS STEEL PIPE

Pricing ↑ Manufacturers predict an increase of 8% - 10% due to raw material costs and earnings. Price changes are industry wide. Lead Times – Forecast lead times are 6 – 8 weeks with fill rates of 70% - 80% for commodity stainless pipe. Non-stock specials are forecast for 16 – 20 week deliveries.

Comments – Manufacturers expect surcharges to be more stable in 2008 compared to 2007, and they also expect sales for 2008 to exceed 2007 results. Globalization has diluted the impact of a U.S. recession on commodity prices according to Duke

University professor Cam Harvey. He further states that the strong correlation between the commodity prices and the U.S. business cycle has been diminished by the rise of key emerging markets. A manufacturer has commented on the rumors regarding the likely initiation of a dumping suit against stainless steel welded pipe producers from China. If a dumping suit is initiated, it will have short term effects on pricing and availability of pipe and will undoubtedly affect fittings as well.

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

Pricing ⇔ Manufacturers of stainless fitting expect pricing to remain stable during the first quarter of 2008.

Lead Times – Fill rates for commodity fittings is running 70% - 80%. Lead times for commodity material not shipping from stock is 4 – 6 weeks; however, large OD fittings can go out as far as 12 weeks. Non-stock specialty items depending on material grades can go out as far as 16 – 20 weeks.

Comments – Business should remain stable. One manufacturer indicates they are attempting to address one of their shortcomings and respond to opportunities to produce specialty

items more expeditiously. One manufacturer indicates that foreign competition is taking 10% - 12% of the market. A manufacturer has commented on the rumors regarding the likely initiation of a dumping suit against stainless steel welded pipe producers from China. If a dumping suit is initiated, it will have short term effects on pricing and availability of pipe and will undoubtedly affect fittings as well. Another manufacturer states that the domestic stainless steel market has made a slight comeback due to petro-chemical work occurring last year and forecast for 2008.

## STAINLESS STEEL FLANGES

Pricing ⇔ Manufacturers indicate no price change for stainless flanges this quarter.

Lead Times – Fill rates are just 30% - 40% with lead times of 4 - 6

weeks. Non-stock specials are forecast for 16 – 20 week delivery. Comments – Manufacturers indicate business for stainless and alloy pipe flanges also remains stable.

## CARBON STEEL PIPE - ERW AND CONTINUOUS WELD

Pricing ↑ Manufacturers have presented price increases for carbon steel pipe from 3% to 5% for the 1<sup>st</sup> quarter of 2008 due to escalating costs of energy, transportation and steelmaking materials. Indications are that the price increases will meet little resistance.

Lead Times – Inventory is shipping from stock at fill rates of 80% - 90%. Commodity material not in stock, lead times are 3 - 4 weeks. Non-stock specials and large OD material is forecast for 4 – 6 week deliveries.

Comments – Industry comments from Arcelor Mittal, the world's biggest steel producer, are pricing of American mills is below prevailing global market levels. Rumors are also running rampant about Beijing's intention of increasing export taxes on steel and numerous other products. It is said that China's plan is to reduce exports of strategic materials by adding to their cost via the export tax. Some see these rumors as an attempt to mollify

the complaints of numerous governments regarding Chinese industrial subsidies and currency manipulation, both illegal under World Trade Association rules. U.S. Trade Representative Susan Schwab reports that Beijing has agreed with the U.S. to stop subsidizing certain export products including steel. A partner at one of the law firms representing the pipe markets said this is only the second time the U.S. Department of Commerce has imposed countervailing duties on Chinese exports and is the first case covering Chinese steel products. After the Department makes final determinations in both the countervailing duty and antidumping duty investigations, the ITC is scheduled to complete its final investigation in the spring of 2008. Also, U.S. Steel announced their intention to challenge the U.S. International Trade Commission's plan to revoke anti-dumping duties on Mexican line pipe.

## CARBON STEEL WELD FITTINGS AND FLANGES

Pricing ↑ Manufacturers indicate price increases of 5% - 7% due to metal prices, energy costs, labor charges and increased fuel / freight expenses.

Lead Times – Fill rates are 90% - 100% for carbon steel fittings and flanges. Lead times for commodity items are running 4 – 6 weeks if not available from inventory. Specialty items are also forecast 4 – 6 weeks.

Comments – Inventories of carbon steel pipe and tubing in September '07 reached levels not seen since March of 2006. This is a decline of nearly 23,000 tons and is indicative of a de-stocking cycle in full swing. Distributor demand has been limited as buyers make purchases as necessary.

## FORGED STEEL FITTINGS

Pricing ⇒ Manufacturers indicate no price change for the first quarter of 2008 following the 5 ½% increase of November 2007. The November increase was a result of price increases in special bar quality steel, the raw material used to manufacture the forgings. At this time, manufacturers indicate pricing to remain at this level thru the third quarter of 2008.

Lead Times – Deliveries are forecast for 2 - 3 weeks for commodity material not in stock. Fill rates of 80% - 90% are

slightly lower than last quarter. Specials are forecast for 3 – 4 weeks.

Comments – The forged steel market continues to be driven by the energy markets – oil patch and petro-chemical business segments. The OEM markets have experienced an uptick with the low dollar and exports rising as a result. The non AML import material from Taiwan continues to filter throughout the industrial business segments of the industry.

## STAINLESS STEEL GATES, GLOBES, CHECK VALVES

Pricing ⇒ Pricing for stainless steel gate, globe and check valves will remain stable thru this first quarter of 2008

Lead Times – Fill rates are running at 70% - 80% with 4 – 8 week deliveries for commodity items. Non-stock specials are forecast

for 8 – 20 weeks.

Comments - Raw material costs are coming down slowly, but manufacturers comment that the effect of these costs in cast production may not be realized for several months.

## BRONZE AND IRON GATES, GLOBES AND CHECK VALVES

Pricing ⇒ This quarter shows no indication of pricing changes for bronze and iron valves.

Lead Times – Deliveries are forecast for 3 – 6 weeks for bronze valves and the same for iron valves. Non-stock specials are

forecast for 8 – 16 weeks for iron valves and 6 – 12 weeks for bronze valves.

Comments – Raw materials cost have steadied for bronze valves.

## CAST STEEL GATES, GLOBE AND CHECK VALVES

Pricing ↑ Manufacturers forecast a 5% - 7% increase for cast steel gate, globe, and check valves due to raw material costs, supply, demand and capacity.

Lead Times – Fill rates are at 80% - 90% for commodity cast steel valves. Deliveries are forecast at 6 – 16 weeks on commodity cast steel with specialty cast steel valves running 12 – 20 weeks or

more.

Comments – Foreign competition is increasing from the Far East. Manufacturers continue to further increase their stock levels to meet the market demand. Counterfit product and non-approved producing facilities overseas have continued to be a concern for manufacturers of cast steel valves and end-users.

## FORGED STEEL GATES, GLOBES AND CHECK VALVES

Pricing ↑ Forged steel valve manufacturers have increased pricing from 5% to 7% most effective 1/1/08. A combination of labor, fuel costs, demand, raw material, and competition has pushed this industry wide change.

Lead Times – Standard commodity forged steel valves are shipping in 3 – 6 weeks. Fill rates are 40% - 60%. Specials and exotics are forecast for 8 – 16 weeks depending on raw material availability.

Comments – Manufacturers expect to continue to see demand for specials and exotic material valves thru 2008. Molybdenum prices have been steady since October '07. Nickel for immediate delivery is expected to average 21% below the 2007 average. Carbon steel is expected to increase 25% in 2008. Chrome increased 25% during November and December '07. Cobalt has increased by 30% since the first of November '07.

## QUARTER TURN VALVES - BALL AND WAFER

Pricing ⇒ Manufacturers of quarter turn valves expect no noticeable change in pricing for the first few months of 2008. Demand from Asia in particular has the most impact from what the manufacturers see on pricing.

Lead Times – Fill rates are 30% - 50% for quarter turn valves. Deliveries are forecast for 8 – 12 weeks. Specialty items are forecast for 8 – 16 weeks. Manufacturers indicate they see

deliveries improving this year.

Comments – One manufacturer comments that so long as surcharges remain in check, stability should be what we see for a while in this market. Business has slowed from the 2006 – 2007 peak levels. Foreign competition is seen as increasing from Asia and India.

*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.*

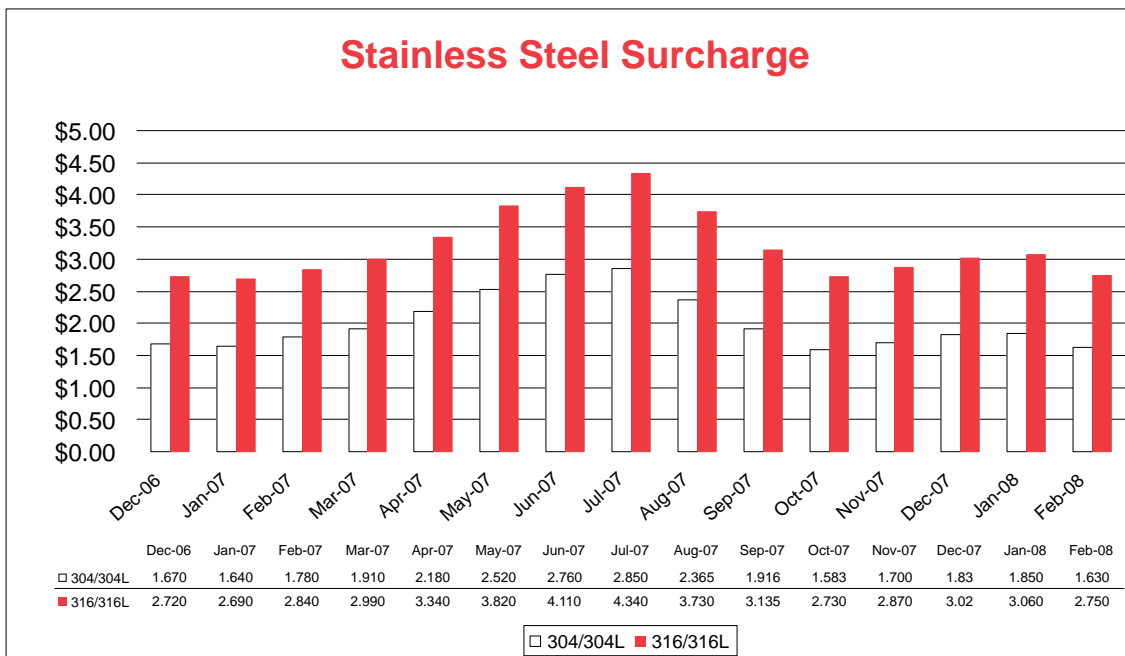
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(Continued from page 1)

China imported three times more ferrochrome last year than in 2006 as it used more of the metal in stainless steel making. China imported 1.24 million metric tons in the 11 months ending November 2007 compared with 449,385 tons last year according to Danko Konchar, chairman of Johannesburg-based Samancor. Ferrochrome demand climbed last year as stainless-steel makers substituted the metal for nickel, which rose to a record \$51,800 a ton in London on May 9<sup>th</sup>. Chrome and nickel are used to protect steel from corrosion. Ferrochrome in the European Union traded at \$1.21 a pound on Jan 4, according to Metal Bulletin. That is 55 percent more than the average of 78 cents a pound last year. Ferrochrome may climb to a record \$1.50 a pound this year in the face of rising demand from China, increasing costs, low stocks and the absence of new production capacity according to Samancor.

Following the introduction of ThyssenKrupp Nirosta's (TKN) new alloy surcharge mechanism in November, prices of austenitic stainless steel for December delivery across Europe have diverged in their direction dependent on the producer. Given that nickel prices rose at a steady pace over September and October, alloy surcharges at Outokumpu have increased this month. TKN now bases its surcharge values on more recent alloy price movements. This differing movement of prices should come to an end by January; however, by which time Outokumpu will move to an alloy surcharge mechanism like that of TKN.

Under the old surcharge system, the January price level would have been predictable and based on alloy prices over October and November. Under the new system, January pricing will be unknown until mid-December and requires more guesswork on the behalf of buyers with regard to alloy price movements over the coming weeks. The new pricing system will ultimately take some time for buyers to adapt to and hence it is unlikely that they will dive straight back in to the market to replenish their stocks over the coming months. Any purchases are instead likely to be those judged to be the minimal amount required and indeed this may become a long-term phenomenon given the extra pricing risk that buyers now face. In this regard, Stainless Steel Monthly does not envision base prices surging upward during early 2008.



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