



# Market Condition & Activity Bulletin

PIPING & EQUIPMENT, INC. - Affiliated Distributors Member

April May June 2008

## THE STATE OF THE STEEL MARKET

The following is a portion of an article presented to distributors by James J. Coulas, Jr. of WELDBEND in March 2008. We feel that this article is very informative and important to help us understand the current state of pricing fluctuations taking place in the steel industry:

“Back in December, 2007, Weldbend received information on the expected fluctuating state of the steel market in 2008. In the past week some of our people have completed a trip around the world to see exactly what was happening in the steel market and specifically in the welding fitting and flange areas. All the countries that were visited were experiencing a boom, with major construction on buildings, roads and infrastructure. Since we returned we have begun to decipher the meaning of all of this, and we will attempt to relay our thoughts about conditions in the steel market.

The market for carbon steel products like pipe, beams, rebar, etc., seems to be in a very frenzied state of fluctuation. One of the first indications of what is happening is a tightening in the scrap metal market which, for the month of March, has been at approximately \$255 for turnings and \$320 for solids. We are told that for the month of April, scrap prices are expected to rise approximately \$50 a ton or more, a huge jump in just 30 days.

We understand that a contract was given last week for scrap metal out of the United States into India / China for approximately \$660 a ton. If you remove the freight charges, these countries are paying more than \$400 a ton for scrap. If they are paying \$400 now, and we understand our price will be approximately \$305 - \$370 in April, we assume that scrap prices could easily be \$400 a ton for us in the not-too-distant future. Remember, in April 2006, turnings were \$125 a ton and \$190 for solids.

In December, I told you that met coal (the type used in the manufacture of steel) had risen from \$90 a metric ton in October of 2007 to about \$145 a metric ton FOB in Europe, with demand far exceeding supply. We are now told that contracts have been taken this month for \$325 a metric ton for coal. We understand that China is in the process of buying a controlling interest in an iron ore mine in Australia. We also understand that a Canadian iron ore mill has just announced a \$500 million expansion of their plant.

We have learned that in Japan a major steel producer has failed in negotiations to secure iron ore contracts for the coming year. We are told that in normal times iron ore contracts run 4-5 years. However, in this latest round, contracts were only offered for one year with a 30% escalation clause in the year, likely one of the major reasons why the negotiations have terminated. Steel companies in Europe that are going through these same negotiations are having the same problems. The biggest concern we have is that the word “allocation” has come up in several conversations, which could put further pressure on prices. I recall a time in the late 1970's when we couldn't keep anything on the shelves. At that time U.S. Steel went to allocation, making it difficult for us to get pipe. We have not seen anything quite like this since we have been in business, because instead of a U.S. driven market, it has become a world-demand market for pipe fittings, flanges and carbon steel products in general.

With the probable sale of Koppel, a U.S. steel pipe mill, to a Russian group, there is a further shrinking of the ownership of steel pipe mills to a handful that would control policy. In addition, one of the major U.S. pipe mills that supply the fitting makers will be shut down from April 12th to May 10th. They will not be back to normal production until the 1st of July. They are also complaining of recent cost increases of 20% - 50% for the manufacture of pipe, with special emphasis on natural gas, diesel fuel, manganese and chrome. For insight on steel for flanges, we have to look to one of our billet suppliers, who advises us that in the month of April, prices could easily go up anywhere from \$65 - \$100 a ton. They also thought that they would have seen signs of a leveling off of prices by this time; but now they say they are not sure where it is going to stop.

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**This insightful article was provided with the permission of James J. Coulas, Jr, President of WELDBEND.**

## STAINLESS STEEL PIPE

**Pricing** ↑ Manufacturers predict an industry wide price increase of 3% - 5% due to raw material costs.

**Lead Times** — Forecast lead times remain at 6 — 8 weeks with fill rates of 60% - 70% for commodity stainless pipe. Non-stock specials are forecast for 12 — 16 week deliveries. Mill backlogs are dropping.

**Comments** — A manufacturer comments that all commodity metals have been rising with the price of oil and investors are moving to base metals in lieu of the stock market. Global stainless steel production is still expected to reach a record level of 29 million tons in 2008. After the heavy downward correction last year, LME nickel prices have been more stable. A stainless revival is delayed, but still expected in the industry.

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

**Pricing** ⇔↑ Manufacturers of stainless fittings are reporting pricing changes in all directions. We have a report that the market continues to be soft due to excess supply from foreign sources and master distributors. Another manufacturer reports that commodity 12" and under may not change; however, if it does it may increase 5%. Seamless and exotics will easily increase 8% - 10% and maybe higher. All fitting increases will be due to material costs as raw materials have risen over the past three months.

**Lead Times** — Fill rates for commodity fittings continues to be 70% - 80%. Lead times for commodity material not shipping from stock is 4 - 8 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. One manufacturer notes that a slow down in ethanol projects is opening some capacity for large OD fittings. Deliveries on exotics have slipped out some.

**Comments** — China is showing signs of price increases in many commodities as the government is proactively combating

worldwide sentiment that accuses the country of flooding world markets with low cost materials. This should make for an interesting 2008 in tubular products in all materials according to manufacturers. Nickel spiked for a short while during a mine strike showing its volatility and chromium prices are soaring and becoming another major factor compared with nickel. The domestic class 150 and pressure fitting market continues to lose ground versus import competition. Unlike the carbon markets, the price delta between domestic and import is great enough to overcome the weak dollar. The market continues to rely on the petro chemical, pulp and paper, and OEM business for the majority of its sales volume. Surcharges are rising again not solely related to nickel as Chrome has begun to rise. The average price of Chrome has increased 20 cents recently.

Camco has a new product in the domestic fitting business. The "X" series union is the only stainless steel forged fitting manufactured to both the MSS SP 83 and AAR 404 specification. It is also on the Exxon Approved Manufacturers List.

## STAINLESS STEEL FLANGES

**Pricing** ⇔ The manufacturers of stainless steel flanges indicate prices may remain stable thru the 2nd quarter.

**Lead Times** — Lead times of 4 - 6 weeks with fill rates of 30 - 40%. Non-stock specials are forecast for 12 - 16 weeks delivery.

**Comments** — The U S dollar has become weaker against the Euro with an approximate 1.58 exchange rate. These levels are possibly affecting USA purchasing activity in the European countries.

## CARBON STEEL PIPE - ERW AND CONTINUOUS WELD

**Pricing** ↑ Prices for carbon steel pipe is increasing 8 - 10% due to raw material costs and demand following an increase the prior quarter of approximately 5%.

**Lead Times** — Fill rates for carbon steel is running 60 - 70%. Commodity material is shipping in 8 - 12 weeks with non-stock specialty items shipping in 8 - 16 weeks.

**Comments** — There has actually been two increases on domestic carbon steel pipe since the first of the year. Import pricing is up an average of 30%. Operations at U.S. mills are at 90%+ capacity, the highest since 2006. Even oil country tubular goods have come to life with increases ranging from \$75 per ton to \$200. Some manufacturers are adding the condition that price is in effect at time of shipment. For the current year, mill output has topped 2007 by approximately 7%. The carbon steel pipe market is extremely tight and continued increases are expected.

## CARBON STEEL WELD FITTINGS AND FLANGES

**Pricing** ↑ Manufacturers indicate price increases of 10% or more due to the costs of raw materials for both fittings and flanges. Prices are being affected by world demand, the sagging dollar, as well as increased fuel costs raising the cost of transportation.

**Lead Times** — Lead times for commodity material is 6 - 8 weeks. Commodity fill rates are 80% - 90% for carbon steel fittings and flanges. Specialty items are forecast for delivery in 6 - 8 weeks.

**Comments** — There is no indication of anti-dumping litigation for carbon steel weld fittings and forged steel flanges at this time. The sagging value of the dollar, increases in the operating cost of

container ships, strong offshore demand, limited capacity of offshore producers and rising costs on the world market for coke and iron ore are impacting the cost and availability of offshore produced carbon steel welding fitting and forged steel flanges. Demand is expected to be the same or slightly higher than 2007. In the ASA commodity report from the Industrial Piping Division, it is noted that the steel industry has changed its dirty image. Producers in the U.S. are modern, hi-tech, clean and globally competitive. Flanges and fitting manufacturers are covered up with orders. Offshore fittings and flanges have increased.

## FORGED STEEL FITTINGS

**Pricing** ⇨ Pricing from manufacturers are forecast to remain stable this quarter for forged steel fittings.

**Lead Times** — Fill rates are running 80 – 90% for forged steel fittings. Deliveries are forecast for 2 - 3 weeks for commodity material not in stock. Specials are forecast for 3 —4 weeks. One manufacturer comments that they have instituted new policies to address their fill rates and have

reduced the days to complete an order an average of 1.5 days

**Comments** — The low U. S. dollar continues to act as a trade barrier, preventing European forged steel from becoming a factor. The material which forged steel fittings and branch connections are produced is special bar quality steel. Mills have announced price escalations.

## STAINLESS STEEL GATES, GLOBES, CHECK VALVES

**Pricing** ↑ Pricing for stainless steel gate, globe and check valves is expected to increase from 3 – 5% due to raw material costs.

**Lead Times** —Deliveries for commodity items is forecast for 6 – 8 weeks with fill rates of 50% - 60%. Non-stock specials are forecast for 16 —20 weeks or more.

**Comments** – Activity within the US stainless steel valve market has picked up. Nickel remains the price driver of 300 series stainless; however, chrome costs are now becoming an issue in the cost of stainless. North American and European stainless mills have chrome supplies secured

for 2008. However, China may experience shortages as supplies are expected to tighten going into the second half of 2008. China is the world's largest producer of stainless steel; a lack of chrome will present a significant challenge for the global stainless market. Surging demand for ferrochrome used in making ferroalloy, which in turn is used in making stainless steel, has led to a severe shortage of chromite. Such supply conditions is driving up prices of chrome ore. Ferrochrome production for metallurgical applications uses up more than 90% of the world's chromite output of about 19M tons.

## BRONZE AND IRON GATES, GLOBES AND CHECK VALVES

**Pricing** ⇨ The second quarter shows no indication of pricing changes for bronze valves. Iron valves had an increase of 10% or more at the end of the first quarter and should remain stable over the second quarter.

**Lead Times** —Deliveries are forecast for 6 – 8 weeks for iron valves and 4 – 6 weeks for bronze valves. Fill rates are running approximately 80% for both bronze and iron

valves. Non-stock specials are forecast for 12 —16 weeks for iron valves and 6 —12 weeks for bronze valves.

**Comments** — Raw material costs have steadied for bronze material. Iron pricing increases are a result of the continuing increases in raw material costs. Pig iron costs are up 37% since October of 2007. Scrap steel during the same period has increased 58%.

## CAST STEEL GATES, GLOBE AND CHECK VALVES

**Pricing** ↑ Manufacturers of cast steel valves have increased prices 8 – 10% at the end of the first quarter and some at the beginning of the second quarter.

**Lead Times** —Fill rates are 60% - 70% for commodity cast

steel valves. Deliveries are forecast for 4 - 6 weeks on commodity cast steel with specialty cast steel valves running 16 —20 weeks or more.

**Comments** — Raw material costs remain unstable.

## FORGED STEEL GATES, GLOBES AND CHECK VALVES

**Pricing** ↑ Price increases of 8 – 10% are forecast for forged steel valves due to raw material costs, supply and demand.

**Lead Times** —Standard commodity forged steel valves

are shipping in 3 — 4 weeks. Fill rates remain at 40% - 60%. Deliveries of special non-stock forged valves are forecast for 6 — 8 weeks depending on raw material availability.

## QUARTER TURN VALVES - BALL AND WAFER

**Pricing** ⇨ Manufacturers of quarter turn valves are forecasting a price change this quarter of 5 – 7% due to raw material costs.

**Lead Times** — Fill rates are 30% - 50% for quarter turn valves. Deliveries are forecast for 6 — 8 weeks. Fill rates

are running 70 – 80%. Specialty items are forecast for 8 —16 weeks.

**Comments** — Manufacturers indicate foreign competition is increasing in China and India in the ball valve market.

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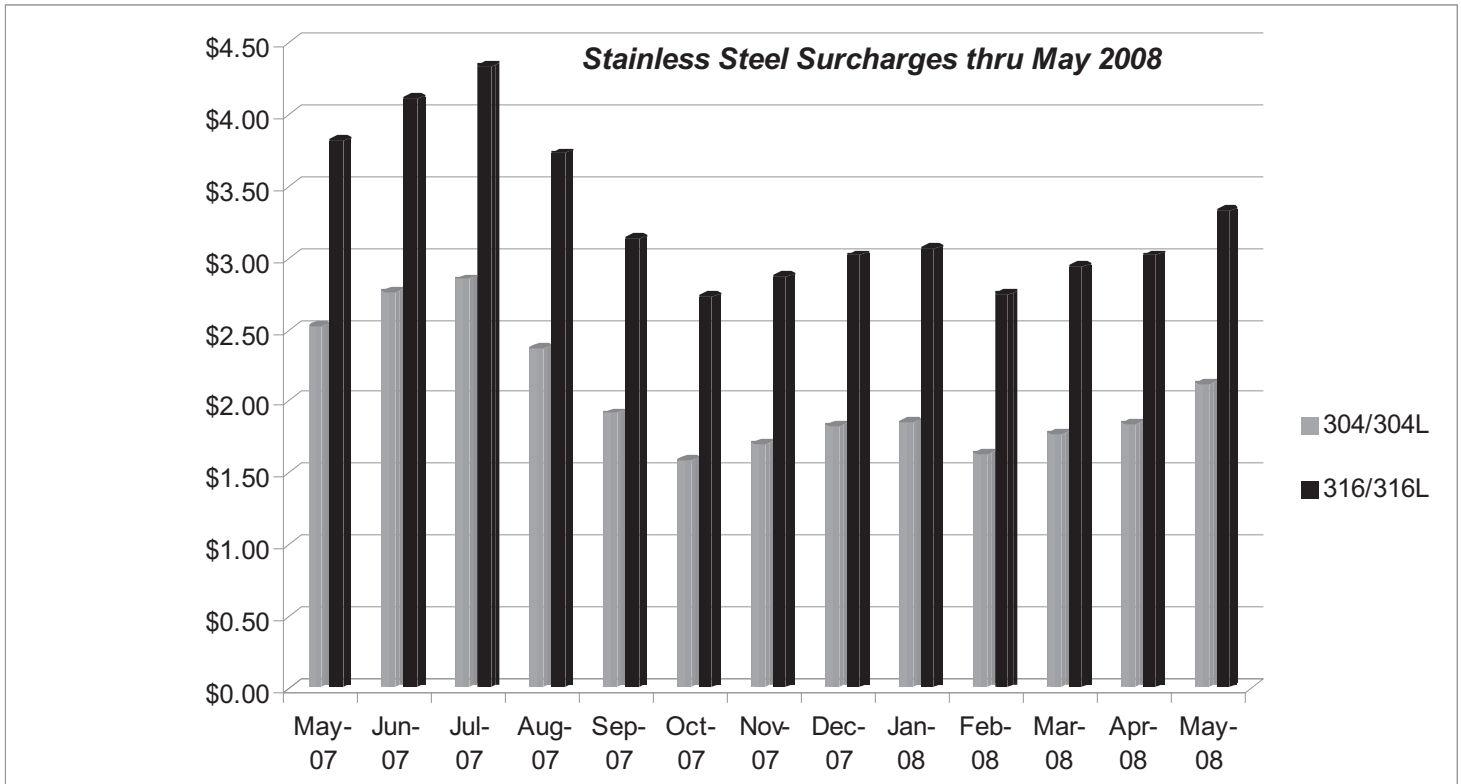
This report is published as a service to the PVF Industry indicating the direction of prices, lead times, and market conditions reported by various domestic and import manufacturers as they believe the direction the market is heading each quarter.

If all of this information wasn't enough pressure on the carbon steel market, on Tuesday, March 25th, India steel makers called a truce by agreeing to stop exports, forgo DEPB (export) benefits and support reducing import duty on the steel. The Indian Steel Alliance President reported that "in order to increase supply in the Indian domestic market and as a temporary disincentive measure on exports, the industry extended support to the government in reducing import duties on steel along with abolition of DEPB benefits on exports. The India Steel Alliance also sought fiscal and physical measures to contain exports of iron ore and asked government to take necessary steps to facilitate the establishment of additional capacity and augment steel supplies in the market."

Barring a major event, I expect prices on carbon steel fittings and flanges to rise in the near future, maybe several times. Besides looking at the price of the product, we will also be reevaluating our terms for prepaid freight, as the cost of transportation has significantly increased since our current freight allowance was put in place. We hope to give you a better outlook shortly. Like you, we are frustrated by this pricing instability in the market. We all know that occasional price increases are healthy; but we have never experienced conditions like these over the past 5-6 years, and particularly the last 3-4 months."

Stainless Steel Surcharges continue to be a major factor in the pricing of stainless. Below is the graph of surcharges over the past 12 months for 304L and 316L.

	May-07	Jun-07	Jul-07	Aug-07	Sep-07	Oct-07	Nov-07	Dec-07	Jan-08	Feb-08	Mar-08	Apr-08	May-08
304/304L	2.52	2.76	2.85	2.365	1.916	1.583	1.700	1.827	1.85	1.63	1.77	1.84	2.12
316/316L	3.82	4.11	4.34	3.73	3.135	2.73	2.87	3.019	3.064	2.75	2.94	3.02	3.33



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