



# Market Condition & Activity Bulletin

PIPING & EQUIPMENT, INC. - Affiliated Distributors Member

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## Steel Market News

"In a word, the stainless steel PFV market is conflicted - which is nothing new for a business characterized by its tendency towards periods of boom and bust. The market has been gripped by fear and panic for most of the first half, as difficult conditions have been further exasperated by widespread, ultra-aggressive attempts to unload excess inventories bought or produced at highly inflated prices. Distributors have taken careful notice, apparently cutting inventories even further than the extent that the weak demand has dictated." These comments were provided by Alan Lip of Merit Brass and published in the IPD Commodity Reports, July 2009 (the Industrial Piping Division of the American Supply Association).

We continue to see some de-stocking at both the distributor and end user level for stainless. The demand is weak but consistent. Domestic production consists of everyday or standard grades and sizes. The economic activity level continues to be weak with capital spending depressed and maintenance spending minimal. The most we can hope for currently is stabilization and improvement in the money markets that would allow positive movement in 2010.

Nickel pricing has stabilized and even headed back up. This is lending overall support to pricing and hopefully enter a pattern of recovery. The following chart shows the 304 / 316 US Stainless Steel Surcharge and monthly history from January 2008 thru August 2009 as reported by Allegheny:

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug
	2008 US Dollars per pound surcharge										2009 US Dollars per pound surcharge.									
<b>304</b>	1.95	1.70	1.85	1.92	2.21	2.17	2.05	1.89	1.81	1.64	1.43	.91	.68	.53	.57	.57	.44	.49	.62	.76
<b>316</b>	2.94	2.65	2.82	3.08	3.20	3.13	2.98	2.97	2.72	2.57	2.33	1.58	.89	.74	.78	.78	.62	.62	.78	.97

The quick recovery in the nickel pricing has not crossed across other commodity demand levels. Overall steel production levels are still too weak.

Japan's largest nickel maker is forecasting a "substantial recovery" in demand on reports that China imported yet another record amount of nickel in June, and inventories falling in the light of the Sudbury strike in Canada. Vale Inco's Sudbury workers rejected the company's offer over bonuses, pensions, and other issues. Workers went on strike Sunday, July 12. The USW's Local 6500 represents about 3,300 workers at the site, which is one of the world's largest nickel mines.

On July 22, the AP news reported that China denied links to the Chinese-born engineer who was convicted in the US in July for stealing trade secrets for China during his 30-year career at Boeing and Rockwell International. The engineer named Chung is 73 years old and could face up to 90 years in prison at his sentencing in November. The case was the first conviction in the U.S. on the economic espionage law passed in 1996 to help the government crack down on the theft of information from private companies that contract with the government to develop the U.S. space and military technologies. The legislation became high on the agenda after the U.S. realized that China and other companies were targeting private businesses as part of their spy strategy.

The recent slight upward trend in stainless commodity pricing and a possible end to the industry wide destocking cycle is bringing a slight prospect that things could be improving. The end of the second quarter has shown a little life in commodity pricing. Some analysts predict a ramp-up in production during the 4th quarter as reported by Markus Moll, Steel & Metal Market Research and reported in the July issue of Metal Center News. The article goes on to say that offshore producers are busier and not as hungry as U.S. mills. Finally while some stainless executives believe the

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## STAINLESS STEEL PIPE

**Pricing** ↑ Manufacturers of stainless steel pipe indicate pricing increases of 6% - 10% due to raw material costs. The changes are industry wide with nickel prices and concurrent surcharges announced and sticking. However, one manufacturer indicates that pricing might be too high for the present economic conditions. Significant price increases on stainless steel welded pipe have the possibility to be substantial depending on future surcharges. According to the American Metal Market, an additional surcharge of approximately 15-cents per pound will be added to current prices of stainless effective in August reflecting the higher prices of nickel, chrome and scrap.

**Lead Times** - Lead times are forecast for 8 - 12 weeks or more with inventory fill rates of 20% - 40%. Exotic lead times are running 12 - 20 weeks.

**Comments** - The mills have very little backlog. Mill inventories are down, as are service center inventories. One manufacturer comments that China has been buying raw materials at low prices, and expectations are they will be able to sell their finished goods at lower prices due to labor costs. The lack of significant project activity is leading to capacity being taken off-line, people and costs are being cut. As a result, it is not a pretty picture right now in the stainless market. One manufacturer noted that there is no strong fundamental reason for raw material costs to be going up...increases are being driven by speculators and the weak U. S. dollar. If demand does not pick-up by mid third quarter, they would expect prices to slide thru the end of the year.

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

**Pricing** ⇔ One manufacturer indicates that pricing will remain flat and others indicate pricing down 3% - 7%. One manufacturer says that raw material increases of 5% - 10% will keep the pricing flat. Others indicate that the business slow down could push some manufacturers to react with pricing drops. However, any pricing decrease would probably be short lived with pipe prices rising.

**Lead Times** - Forecast lead times for commodity items are 3 - 6 weeks with fill rates of 70% - 80%. Specialty items are forecast for 6 - 12 weeks.

**Comments** - Right now master distributors are the biggest culprit in declining prices. They are dumping fittings, flanges and pipe with the primary goal to reduce inventory. Limited demand is still causing a soft market. Too few orders being chased by too many suppliers resulting in an over-aggressive competition. There is limited project work to help consume inventory. One manufacturer said the volatile issue is: "Demand! Are we in the 7th or 8th inning of the financial crisis or earlier in the "game?" If demand picks up soon, then it is likely that we will experience rapid and substantial raw material and finished price increases again."

## STAINLESS STEEL FLANGES

**Pricing** ⇔ Stainless steel flange manufacturers also report pricing in the third quarter to remain stable or drop 5% - 7% due to oversupply, the financial crisis, demand, foreign pressure, and the need to fill the shop.

**Lead Times** - Flange manufacturers are forecasting lead times of 2 - 3 weeks with fill rates of 40% - 60%.

**Comments** - Manufacturers comment that sales continue to be slow, but the volume of quotes are still prominent. It appears that end users are testing prices in the market.

## CARBON STEEL PIPE - SEAMLESS, ERW AND CONTINUOUS WELD

**Pricing** ⇔ Carbon steel pipe pricing is expected to remain stable thru the third quarter. Scrap and raw materials continue to stay low. Over the past few weeks, there has actually been a slight increase. USA steel mills are operating at 42% capacity versus 85% to 95% over the past few years. Some mills are actually shut down while a number of major mill closures are being reversed. For example, U.S. Steel is restarting one of its two Granite City, IL blast furnaces and recalling almost 200 hourly workers to light up the coke ovens at the Hamilton, OH mill. Many distributors are selling below cost to generate cash flow or move inventories.

**Lead Times** - Inventories still remain high in the market and can usually be found on the ground. Non-stock pipe specials are subject to mill

rollings and with capacity so low, the lead times are unknown.

**Comments** - The domestic steel industry has filed a dumping suit on China for OCTG (oil country tubular goods). This is the 4th suit on pipe. This suit involves both CVD (countervailing duties) and AD (antidumping duties) allegations. The other 3 were all successful. There are likely more suits to come for seamless pipe in both carbon and stainless. Seamless pipe production in the USA is virtually non-existent. Due to the rapid fall in demand of OCTG and line pipe and the inventory supply in the market, mills had little option but to shut down or slash production to as little as 10% of capacity.

## CARBON STEEL WELD FITTINGS AND FLANGES

**Pricing** ⇔ Weld fittings and flanges are expected to remain stable thru the third quarter. Demand remains soft due to the recession, yet raw material costs for seamless pipe and raw forgings remain stable enough to hold the current market levels.

**Lead Times** - 85% - 95% of commodity carbon steel weld fittings and flanges are shipping from stock with lead times of 2 - 3 weeks. Non stock specialty items are forecast for a 4 - 6 week lead time.

**Comments** - Korea, China, Taiwan, Japan, Brazil, Thailand, Malaysia, Russia and Mexico are the strongest countries of origin with increasing import competition. Manufacturers note that the market for commodity carbon steel fittings and forged steel flanges continues at a steady pace

with softness in various market places hardest hit by the recession. Backlogs of funded projects continues and government spending continues to support a reasonable demand. The availability of financing will be playing a significant role as to how the commercial construction market will be responding in the fourth quarter of 2009 thru the first quarter of 2010. Government stimulus spending is expected to have some positive impact on the mechanical contractor's market; however, no significant effect has been experienced at this time. The key issue is the ability to obtain adequate funding for projects that have been planned and are ready for implementation according to comments from one manufacturer.

## FORGED STEEL FITTINGS

**Pricing** ⇓ The forged steel fitting industry has experienced a 15% price reduction as a result of raw material deflation. The non-approved import forged steel continues to be a growing factor in the industry. Particularly as end users look for cost savings. One manufacturer comments that they are very cognizant of this fact and continue to reduce the price delta between import and domestic through manufacturing efficiencies.

**Lead Times** - With fill rates of 90% or better, the forecast lead times for commodity forged steel fittings is 1 - 2 weeks. Specialty items are set for 2 - 3 week deliveries.

**Comments** - Manufacturers indicate the current forged steel market condition remains extremely soft, consistent with the second quarter. The

demand is off approximately 40% from the second half of 2008. Some issues responsible for the decrease are a 50% reduction in rig count activity, stoppage or delays in downstream projects, as well as distributors adjusting inventories to meet the current depressed market levels. This market is extremely difficult to predict. We believe the bottom has been reached and expect to operate in this "valley" through the third quarter. The current administration's desire to increase alternative energy, moving away from fossil fuels is adversely affecting the industry. Many end-users sit on the sidelines, delaying projects in the oil and gas industry until a clear energy policy is enacted. These actions continue to keep the forged steel market at depressed volume levels.

## STAINLESS STEEL GATES, GLOBES, CHECK VALVES

**Pricing** ⇓ Manufacturers indicate pricing down 3% - 5% for commodity stainless steel gate, globe and check valves thru the third quarter 2009 due to raw material costs and demand.

**Lead Times** - Fill rates are running 70% - 80% with lead times forecast for 12 - 16 weeks. Exotic items are running 16 - 20 weeks or more.

**Comments** - Manufacturers indicate that overall there is a lot of high priced inventory of commodity product in the USA stock. The overall demand of valve products is down about 8% - 9% versus 2008 levels. Manufacturing plants around the world have scaled back capacity by 10% - 20% or more.

## BRONZE AND IRON GATES, GLOBES AND CHECK VALVES

**Pricing** ⇔ Raw material costs for bronze and iron will keep pricing stable thru the third quarter of this year. The price for copper has remained well above the \$4,000 barrier over the past year. China has continued to be the highest demand user of copper in every form. The raw material costs of bronze ingots are expected to remain stable thru the end of 2009.

**Lead Times** - Forecast lead times for bronze and iron valves are 4 to 8 weeks with fill rates of 70% - 80%.

**Comments** - The two most important uses for copper are construction and automotive products. According to the London Metals Exchange every day this year copper has rallied and slumped, but never closed below the \$4,000 level. Even with residential and automotive markets slumping, the huge amounts of copper going to China has continued. This demand is expected to continue with programs like China recently

appropriating some \$300 million to increase the purchase of household appliances by the populace, with heavy emphasis on air conditioning units. This government program is expected to boost household ownership of AC units by 20% and thereby provide strong demand for copper. The same increase in consumption in China applies to other copper boosting household products like washing machines, refrigerators, TVs, etc.

In January of 2010, California will enact a new "lead free" law AB1953 that will significantly affect valve manufacturers supplying bronze valves for potable water service. This law requires a significant reduction in the lead content of the product that now ranges from 3% - 6% down to only 0.25%. This is a huge endeavor for manufacturers to produce a new "lead free" bronze alloy product that will be very costly and require duplicate inventories for manufacturers. Only a few states outside of California have adopted these requirements.

## CAST STEEL GATES, GLOBE AND CHECK VALVES

**Pricing** ⇓ The manufacturers indicate pricing down by 3% - 5% during the third quarter 2009 due to the lack of demand and raw material costs.

**Lead Times** - Fill rates are 70% - 90% for commodity cast steel valves with lead times of 8 - 12 weeks.

**Comments** - In this weak market demand, the industry has seen some unprecedented low valve project pricing. The valve market for manufacturers is very complex as reported in the IPD Commodity Report for July 2009. Their raw material inventories from the raw

material on the shelf to the castings poured, the machined components, subassemblies and finally the finished assembled valves combine to cover more than six to nine months of inventory before they start shipping orders that are mostly in house at firm pricing. Taking these things into consideration and depressed markets, we do not see valve manufacturers reacting quickly to the market. Their inventory was purchased still at very high levels for the valves shipping out of the factory today. There is still considerable pressure in the market to capture as much business as possible during this period of weak demand.

## FORGED STEEL GATES, GLOBES AND CHECK VALVES

**Pricing** ⇔ Manufacturers of forged steel valves indicate to change in their product pricing thru the third quarter 2009.

**Lead Times** - Commodity valves are forecast to ship in 6 - 8 weeks with fill rates of 60% - 70%. Specialty forged steel valves are forecast to ship in 12 - 20 weeks.

**Comments** - Manufacturers continue to struggle with reduced inventory levels in light of the economic climate. Manufacturers not only have to deal with the overall poor market conditions, but also the reduction in the inventory levels of their distribution partners.

## QUARTER TURN VALVES - BALL AND WAFER

**Pricing** ⇔ Ball and butterfly valve manufacturers expect no price changes during the third quarter of 2009. Commodity prices that effect valves have been more stable, and that takes some pressure off earlier developments pushing price changes according to one major manufacturer.

**Lead Times** - Fill rates are 40% - 60% with lead times of 8 - 12 weeks.

Inventories have increased as sales have gone down over the past months.

**Comments** - The valve market is very soft, but one manufacturer said they have seen a slight "nudge" up in the past few months. The commodity valve market should see a noticeable turn around, but it is still several months down the road according to one manufacturer.

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turnaround has begun, others are taking a more cautious approach saying they have to see three months of back-to-back improvement in order to acknowledge a turnaround.

**Carbon steel pipe production has dropped to historic levels and inventories have risen to historic levels. Demand in the first half of 2009 has dropped off dramatically. The world steel figures published by the World Steel Association are noted below:**

Top 5 Countries	Top Producing Countries	Million Metric Tons
1	China	500.5
2	Japan	118.7
3	United States	91.4
4	Russia	68.5
5	India	55.2
Total	World Production Total 2008	1,326.5

The 2008 production was down from 2007 total of 1,351.3 MMT. 2009 production is down significantly.

The steel output for the USA year to date is 28,899,000 tons versus a year ago to date 59,187,000 tons. Capability utilization year to date is 44.2% compared to a year ago to date of 90.3% as reported by the AISI (American Iron and Steel Institute). According to the American Metals Market the current price of Scrap Iron is \$305/ton as of 7/09/2009 compared to \$255/ton as of 1/08/2009.

With steel demand down in all regions of the world except China, it is clear that the developed world is no longer leading the world steel demand. The global market is now influenced by global forces. Lourenco Goncalves, president and chief executive officer of Metals USA Inc, Houston noted that "regardless of fears of periods of inflation, recession or economic woes, U.S. steel consumption remains the most stable in the world." He went on to say that the U.S. steel industry continues to experience dramatic volatility because they react with emotions rather than logic. "Because of lack of demand and excess inventory, the industry has once again fallen on bad behavior and unnecessarily dropped prices, hoping to affect demand," said Goncalves. John Lichenstein of Accenture, a market research firm, was quoted in an article by Myra Pinkham In the July issue of Metal Center News, "The rules of steel economics remain as true today as 50 years ago. Lower prices don't drive demand".

Worldwide steel prices look to remain depressed for months to come due to overcapacity. Cost reductions will continue to be necessary to lower debt loads. Tex-Tube of Houston boosted base prices for standard pipe products by \$50 per ton, f.o.b. mill effective July 20 due to rising raw material costs. ArcelorMittal Tubular Products of Shelby, Ohio plans to increase non-contract prices by 7% effective shipping August 2. Wheatland Tube of Sharon, Pennsylvania made essentially the same announced increase necessary to recoup higher raw material costs. PTC Alliance of Wexford, Pennsylvania announced a 7% increase on June 24. In view of the current economic realities, we will see if these price increases hold. On a positive note U.S. raw steel output last week was reported at its highest level since mid-November of '08 rising 3.9% to 1,213,000 tons from 1,168,000 tons the previous weeks. The industry's capability utilization rate rose to 50.9% from 49%.



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