Market Condition & Activity Bulletin

PIPING & EQUIPMENT, INC. - Affiliated Distributors Member

January - February - March 2010

Steel - 2010 Point of View

The Kiplinger Letter from Washington, DC published the following forecast for 2010:

Global GDP (Gross Domestic Product) forecast 2010

World	USA	Euro	China	Japan	UK	Brazil	Canada	India	Russia	Mexico	South Korea
3.3%	3.0%	1.2%	9.5%	1.5%	1.3%	5.0%	2.5%	7.7%	3.4%	3.6%	5.1%

The past year has been one of major upheaval for the steel industry due to declines in construction, oil and gas prices and exploration, plant maintenance, automobile making, and manufacturing. The US Federal Reserve officials are more confident the economy is moving toward self-sustaining growth. Production in the US rose for the fifth time in the past six-months. Inventories for both manufacturers and distributors are down and in need of replenishment while the same folks are still trying to recover from holding inventories that lost their values.

The Dow Jones forecast Nickel (primarily used to make stainless steel) to average $20,000 a metric ton in 2010 due to a forecast recovery in demand. They forecast demand to rise by 7% in 2010 after 3 consecutive years of decline. Michigan officials have given final OK for the nation's only mine where nickel will be the primary mineral - Michigan regulators have given final approval for construction and operation of a bitterly contested nickel and copper mine in the Upper Peninsula. Molybdenum (a base metal used to make stainless) is on a sustainable upswing according to J P Morgan. Their analysts forecast molybdenum to rise 55% in the next two years. The price for Molybdenum is currently about $15.50 a pound, which is up from $10.70 in November.

U. S. carbon steel pipe suppliers expect higher seamless pipe prices in the second quarter of 2010. ERW and CW pipe prices are already announcing price increases. Dumping duties have been placed on OCTG pipe from Chinese pipe mills. Another action has been started for line pipe. Baosteel Group Corp., China's biggest steelmaker forecasts prices may surge as much as 50% in 2010. According to News agencies, major steel giants are talking for another price revision as they need to keep the prices in tandem to the raw material.

In the energy sector, declining retail sales and rising unemployment numbers in the US has dampened expectations of a rebound in oil demand in the world's largest oil consuming country. However, recent weather conditions may see an increase in oil demand. The IEA

STAINLESS STEEL PIPE

Pricing:↑ Stainless Steel Pipe manufacturers indicate pricing increases of 3% - 5% for the first quarter 2010. Manufacturers indicate no reliable fundamentals or demand driving the increases. Surcharges continue to keep some prices high and most mills have announced base price increases. Commodity prices are starting to climb again despite any change in real demand.

Lead Times: Deliveries are forecast for 6 - 8 weeks with fill rates dropping. Mills have not re-built their inventories due to conflicting market signals. Specialty materials are forecast for delivery in 8 - 12 weeks.

Comments - Welded tube and pipe make up the largest individual segment in the stainless steel market. One domestic manufacturer indicates that more import product from Asia, South America and Europe seems destined for the U S market since foreign home markets continue to struggle. Steel Market Intelligence in a research note reported that China's top steel maker Baosteel has raised benchmark flat rolled steel prices for February delivery by 5%. Morgan Stanley reports that metal prices may average 32% higher in 2010 because of strengthening industrial production, driven by growth in China.

The following data for the Stainless Steel Price Index was published by MEPS covering the period December 2008 thru December 2009:

304 SS	12/08	01/09	02/09	03/09	04/09	05/09	06/09	07/09	08/09	09/09	10/09	11/09	12/09
Global Price / Ton	3053	3043	3076	2949	2793	2489	2348	2110	2091	2098	2291	2499	2686
Global SS Index	162.7	162.1	163.9	157.1	148.9	132.6	125.1	112.5	111.4	111.8	122.1	133.2	143.1
USA Price / Ton	3290	3214	3320	2945	2760	2428	2223	2040	1998	2107	2171	2442	2825
USA SS Index	158.2	154.6	159.6	141.6	132.7	116.7	106.9	98.1	96.1	101.3	104.4	117.4	135.9

STAINLESS STEEL WELD FITTINGS, 150 & HI-PRESSURE FITTINGS

Pricing **??** Manufacturers indicate mixed signals with one reporting 3% - 5% down, 1% - 2 1/2% up, and no change. One manufacturer comments that pricing is at the bottom and they do not see commodity fittings going up, but they believe that exotic specialty items will probably go up 8% - 10%. Raw material pricing is showing signs of increasing. One manufacturer comments that this year will see rising costs in nearly every category.

Lead Times: Deliveries are forecast for 2 - 4 weeks for commodity material and large OD fittings out 4 - 6 weeks. Fill rates remain at 80% - 90%. Some exotic grades are available and others are not.

Comments: One manufacturer notes that demand and the economy is still a big question mark, but with supplier inventories so low, they expect to see some activity. Another manufacturer comments that Quality is back in focus. There are reports that there has been an alarming increase in the number of non-conforming materials, especially in the area of specialty materials where specifications are not being followed in both domestic and import material. It seems that product quality is important and end-users are checking material and test reports! These reports are coming from end users and distributors. One stainless steel fitting manufacturer comments, "even for nickel, spot, cash prices have exhibited extraordinary volatility since October. This is in start contrast to stainless steel's other primary inputs, chromium and molybdenum which both remained relatively stable throughout the same time period. Both inputs are exhibiting signs of strength within the first couple of weeks of 2010, while nickel's current trend line seems anything but clear." The actual pace of demand recovery, re-stocking is the most important key to determining nickel's and by extension - stainless steel's 2010 price direction. LME inventories of nickel are at record highs and continue to climb, weighing heavily on the exchange's most thinly traded metals' fundamentals. When re-stocking re-emerges in earnest, it could serve to rapidly cut stocks and increase prices.

Additional key factors that will influence nickel's near-term price direction will include:

- The US Dollar - if the USD continues to weaken, prices of nickel, other base metals and virtually all commodities traded in US dollars will strengthen (obviously, the reverse also holds true.)
- Higher oil prices will increase demand, and in turn, price levels for nickel and stainless steel.
- The pace at which credit restrictions ease and banks become less adverse to risk will go a considerable way toward driving general consumption of metals.
- Continuation of government stimulus packages in developing countries - particularly China and India.

Major coil and bar mills have returned to profitability and apparently are attempting to offset reduced demand by raising mill base prices. It will be very interesting to see if the recent increases imposed will stick or whether they will succumb to continued demand weakness. That issue will come into sharper focus just after the Chinese New Year holidays come to a close at the end of February.

CARBON STEEL PIPE - SEAMLESS, ERW AND CONTINUOUS WELD

Pricing: ? Carbon Steel Pipe manufacturers indicate pricing increases of 1% - 2 1/2% and welded pipe up as much as 5% due to raw material costs, supply, and demand. OCTG bookings have increased.

Lead Times: Manufacturers indicate deliveries of 6 - 8 weeks for commodity material.

Comments: One manufacturer indicates that OCTG prices going up could affect line pipe deliveries (the type of pipe used for making welding fittings). There are some signs of recovery as U.S.Steel, Cliffs, and Arcelor-Mittal have made plans to reopen major ore operations in Minnesota as a joint venture. Thomas Danjcek, president of the Steel Manufacturers Association in Washington D.C., had some strong comments concerning the climate change accord developed in Copenhagen meetings. He said, "It is difficult to understand Copenhagen when there are such serious and obvious flaws. Copenhagen never addressed emission reduction, only capital redistribution." He also predicted that if Copenhagen is implemented, U.S. industries would experience a GDP loss of $3.1 trillion, raise electric energy costs 50% and cost U.S. industries 2.4 million jobs.

Domestic producer of OCTG along with the United Steelworkers recently appeared before a six-member U.S. International Trade Commission panel to appeal for countervailing duties on dumped and subsidized OCTG imports from China. USW International President Leo W. Gerard says the future of 6,000 workers from seven OCTG pipe producers are at stake in an industry where nearly half of the domestic workforce has been laid off. This case is the largest in U.S. history with the imports valued at $2.6 billion in 2008. The seven producers are U.S. Steel - Pittsburgh, PA; Maverick Tube Corp. - Hickman, AK; Evraz Rocky Mountain Steel - Pueblo, CO; TMK IPSCO - Downers Grove, IL; V&M Star LLP - Houston, TX; V&M TCA - Houston, TX; and Wheatland Tube Corp - Beachwood, OH. Members of both congressional houses signed onto letters to ITC Chairman Shara L. Aranoff supporting the petitioners' position, including 41 House members and 13 Senators.

CARBON STEEL WELD FITTINGS AND FLANGES

Pricing: → Pricing for carbon steel weld fittings and flanges is expected to remain stable at current levels through the end of the first quarter of 2010. Pricing for raw material remain relatively stable (seamless pipe and raw forgings) are expected to be stable through the first quarter.

Lead Times: Deliveries for commodity material is 2 - 3 weeks, with fill rates of 80% - 90%.

Comments: Market conditions for commodity carbon steel butt welding fittings and forged carbon steel flanges are expected to continue to remain steady with some slight increases due to inventory replenishment. Softness is being experienced in various markets hardest hit by the recession. The backlog of funded projects continues to support demand although they are declining and should be depleted by mid 2010. Government spending on the BRAC Program and government buildings continues to support demand in certain areas of the country and should continue through 2010. Recovery and Reinvestment Act Funds have not made any noticeable impact on the market. Key issues that directly effect the PVF market in 2010 are:

- availability of funding in the private sector
- "cap and trade" taxation
- card check legislation and the application of the remaining 60% of the Recovery and Reinvestment Act Funding

Manufacturers indicate that inventories for both manufacturers and supply houses have been allowed to run down below their minimum levels, and the need to replenish material is becoming more and more apparent.

FORGED STEEL FITTINGS

Pricing: ↑→ One manufacturer forecasts price increases of 5% - 7% during the first quarter of 2010 due to raw material increases and the cost of doing business, while another does not anticipate an increase until probably the second quarter 2010.

Lead Times: With fill rates of 80% - 90%, the balance of material is shipping in 6 - 8 weeks.

Comments: Oil prices up and natural gas prices up, there seems to be indications of the market improving. Scrap prices are up 30% in January and expected to continue at the same level increasing in February. Scrap prices are up due to a shortage of scrap. Carbon Bills on hot rolled steel bars increased their base price the first of January and rumors are circulating another base price increase by the end of the first quarter. Also, scrap prices are going up in February and possibly March.

STAINLESS STEEL GATES, GLOBES, CHECK VALVES

Pricing : →No price change forecast for stainless steel gate, globe and check valves.

Lead Times: Fill rates are running 80% - 90%. Shipments are running 8 - 12 weeks for commodity valves not in stock. Specialty material is forecast for shipment in 16 - 20 weeks.

Comments: Valve manufacturers indicate their raw material costs are increasing slightly, but they expect them to stabilize through 2010. Manufacturers are expecting very strong growth opportunities beginning in 2010 through 2015. Manufacturing plants have scaled back capacity by 10% - 20%.

BRONZE AND IRON GATES, GLOBES AND CHECK VALVES

Pricing: →Bronze and Iron valve manufacturers forecast no price change during the first quarter 2010.

Lead Times: Valves are shipping in 6 - 8 weeks with fill rates of 70% - 80%.

Comments: Manufacturers comment that overall demand for bronze and iron valves is down. Pulp and paper business is stable. Chemical plant opportunities are increasing. Export business is strong. Mechanical construction continues to remain at lower levels. MRO activity is high. The raw material costs of bronze ingots are expected to remain stable thru early 2010, then the market will probably see increases.

CAST STEEL GATES, GLOBE AND CHECK VALVES

Pricing: → No price change is forecast for cast steel valves through the first quarter 2010.

Lead Times: Forecast lead times are 12 - 16 weeks with fill rates of 80% - 90%.

Comments: Raw material costs are increasing. Very strong growth is expected starting mid-point 2010. Overall there is a lot of high priced inventory of commodity product in the USA with overall demand down.

FORGED STEEL GATES, GLOBES AND CHECK VALVES

Pricing: → Forged steel valve manufacturers indicate no price change through the first quarter of 2010.

Lead Times: Deliveries are forecast for 6 - 8 weeks with fill rates of 60% - 70%.

Comments: Forged steel valve demand was down 8% - 9% in 2009 versus 2008.

QUARTER TURN VALVES - BALL AND WAFER

Pricing: ↑Quarter Turn valve manufacturers forecast an increase of 1% - 2 1/2% first quarter 2010 due to raw material costs. Costs appear to be stabilizing and showing less volatility.

Lead Times: Deliveries are forecast for 6 - 8 weeks with fill rates of 60% - 70%. Specialty items are forecast for 12 - 16 weeks.

Comments: The lag in home building and auto sales has directly effected the petro-chemical and chemical industries. Fifteen percent (15%) of refining capacity has been taken off line by major oil producers resulting in cuts in Capital Projects and spending. Ball valve manufacturers comment that project backlogs for North America are at low points and recovery may not be seen until 2011.

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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(International Energy Agency - a consortium of 24 countries revised down its projection for global oil demand to an increase of 1.4m barrels per day. The US Department of Energy forecasts the demand increase to be 1.08m barrels per day for 2010. Oil has been under pressure after government data showed that U.S. inventories of crude, total distillate and gasoline all rose last week. The global emerging economies will still be the motivating factor, while the demand in industrialized countries will continue to be weak.

Recent Commodity Movements in the Metals and Energy Sector as of January 14, 2010

Commodity	Exchange	Contract	Unit	Closing	% Change
Copper	LME	3 Months	USD/Ton	7486.00	0.89
Aluminum	LME	3 Months	USD/Ton	2327.00	1.93
Zinc	LME	3 Months	USD/Ton	2518.00	0.38
Lead	LME	3 Months	USD/Ton	2475.00	0.61
Nickel	LME	3 Months	USD/Ton	18400.00	3.37
Tin	LME	3 Months	USD/Ton	18290.00	3.04
Crude Oil	NYMEX	Feb	USD/Barrel	79.39	-0.33
Natural Gas	NYMEX	Feb	USD/MMBTU	5.588	-2.53

The Purchasing Managers Index (PMI) is an indicator for economic activity. It reflects the percentage of purchasing managers in a certain economic sector that reported better business conditions than in the previous month. A PMI index over 50 indicates that the economy is expanding while anything below 50 means that the economy is contracting. The original PMI has been issued since 1948 by the Institute for Supply Management in Tempe, AZ. The PMI is often used to help predict the Producer Price Index which is released later in the month. It is considered the best indicator of factory production.

The worldwide Purchasing Manager Index (PMI) for manufacturing released the following for 2009:

Worldwide PMI	China	Euro-zone	Japan	USA
December 2009	*56.6*	*51.6*	*53.8*	*55.9*
November 2009	55.2	51.2	52.3	53.6
October 2009	55.2	50.7	54.3	55.7
September 2009	54.3	49.3	54.5	52.6
August 2009	54.0	48.2	53.6	52.9
July 2009	53.3	46.3	50.4	48.9
June 2009	53.2	42.6	48.2	44.8
May 2009	53.1	40.7	46.6	42.8
April 2009	53.5	36.8	41.4	40.1
March 2009	52.4	33.9	33.8	36.3
February 2009	49.0	33.5	31.6	35.8
January 2009	45.3	34.4	29.6	35.6

PIPING & EQUIPMENT, INC. WAREHOUSES

www.pipingequipment.com

ALABAMA .... 1015 McEntire Lane Decatur, Alabama 35601 (256) 340-2081 Fax (866) 647-3750

4210 Halls Mill Rd. Mobile, AL 36693 (251) 666-6770 Fax (866) 647-4397

FLORIDA .... 3448 E. Business 98 Panama City, FL 32401 (850) 785-7733 Fax (866) 647-4398

LOUISIANA .... 2030 South Phillipe Ave. Gonzales, LA 70737 (225) 644-5330 Fax (866) 647-4383

TEXAS .... 110 N. 13th St. Beaumont, TX 77702 (409) 838-6775 Fax (866) 646-9987

9100 Canniff St. Houston, TX 77017 (713) 947-9393 Fax (866) 647-4384 or (866) 706-8904

2730 FM 523 Oyster Creek, TX 77541 (979) 233-6500 Fax (866) 647-3785

TEXAS AUTOMATION GROUP .... 9100 Canniff St. Houston, TX 77017 (800) 364-9384 (713)947-9393 (713) 947-9393 Fax (866) 556-7817

TRANSPORTATION PRODUCTS GROUP .... 9100 Canniff St. Houston, TX 77017 (800) 364-9384 (713)947-9393 (713) 947-9393 Fax (866) 647-4401

IT& FINANCE .... 8781 Paul Starr Dr. Ellyson Industrial Park Pensacola, FL 32514 (850) 484-3994 Fax (866) 647-4399

FOR COMMENTS CONTACT .... Gary J. Cartright, President gcartright@pipingequipment.com

9100 Canniff St. Houston, TX 77017 (713) 947-9393 Fax (866) 706-8904