



The PIPE Connection

Your Number One Source for Steel Pipe, Valves and Fittings

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The steel market has changed considerably since the last release of The Pipe Connection in January. Buyers coming back from the holiday were quick to find the price drop announced just weeks earlier had been rescinded and replaced with talk of tightening supply and stronger demand. Prices increases of \$20 - \$100 per ton, depending on product, have created some panic overseas, where local traders in Asia have been seen scurrying for allocation. Here in the U.S. we have recently found that prices for A53A and A53B standard pipe will increase by \$40/ST for July/August shipment. This increase follows a \$35 increase for April/ May shipments and a \$20 increase for February/ March. In total, from January 2006 shipment base Ex-Asia we have seen a \$95 per ton increase in total from Late 2005. Producers of Welded and Seamless Line Pipe and OCTG, especially higher grades of X52/X56 and P110 also continue to increase prices as they struggle to meet demand from natural gas and drilling companies. While we at State Pipe & Supply Inc. have yet to hear of allocations, we feel there may be some tonnage restrictions coming in the months ahead.

2004 all over again? That's what many buyers are thinking as they start to book orders for June through August '06 shipments. Word of raw material shortages and high energy costs plaguing steel mills throughout the world has captivated the attention of the entire steel supply chain, leading to a booking "frenzy" to domestic and off shore mills alike. Oil prices are expected to remain at the \$60 per barrel plus range through 2006, an average increase of 36% from early 2005. Iron ore will continue to be in short supply as China's largest steel integrated mill Bao Steel Group continues unsuccessfully to negotiate prices with Rio Tinto, BHP and CVRD of Brazil. Iron Ore prices are expected to increase by 12% in 2006, following a record increase by mining companies of 71.5% in 2005.

As energy and raw material costs continue at record levels and with no relief in near sight, flat roll and pipe producers here in the U.S. are finding no other option but to increase their base price while keeping surcharges intact. California Steel Industries (Fontana, Ca.) recently announced a \$60 per ton increase on its Hot Rolled and Galvanized sheet products and an \$80 per ton increase on its Cold Rolled Sheet. High slab costs and strong demand from both Flat Rolled and Tubular customers are cited as the key factor to the increases. CSI's recent booking of large natural gas

pipeline expansion projects has pushed their production out through July. Additional large orders are pending for late 3rd quarter production, allowing for CSI to run only 3 cycles in 2006.

As pipe producers shift their production to high grade line pipe and OCTG, and with steel makers short of raw materials, there is less commercial grade flat rolled steel available to standard pipe mills. Mills with the ability to make both standard and high grade pipe are electing to utilize their limited coil supply to making those products which produce the greatest profit. Thus, standard pipe producers are currently finding less supply and higher prices for commercial grade steel. Much of this commercial steel used in Asia to produce A53A and A53B standard pipe comes from CIS (Commonwealth of Independent States) nations such as Russia, Ukraine and Kazakhstan. Export quantities from the CIS have been extremely limited due to internal consumption within member countries. Standard Pipe producers are therefore forced to decide whether to 1) locate coils from non-traditional sources (if available), 2) use traditional coil sources and limit quantities offered to customers, or 3) lengthen lead times by pushing back rolling schedules to accommodate late inbound shipment of coil. Although most pipe mills would elect to use their current coil suppliers, many are now forced to look to alternative sources in order to maintain both competitiveness and timely rollings.

The recent price increases are not limited to tubular and flat products. Higher material costs and stronger demand have also affected butt weld fittings and forged steel flanges. With orders placed late April, import fittings and flanges are poised to increase by 6%, with flanges in excess of 10%. Lead times normally 3 to 4 months are now in excess of 5 months. It is rumored some Large Diameter fitting manufacturers' capacities are committed for the next 12 months and no new orders are being accepted.

During this uncertain time, State Pipe & Supply Inc. will continue to meet all your steel pipe, tubing, fitting and flange needs. We are strongly committed to stocking a well balanced inventory with controlled and competitive prices, closely monitoring both import and domestic pricing fluctuations and availability. Please look for Pipe Connection Bulletins for the latest breaking news affecting our industry and your business.

We welcome your comments. Please address your comments to statepipe@statepipe.com