



Your Number One Source for Steel Pipe Valves and Fittings

The PIPE Connection

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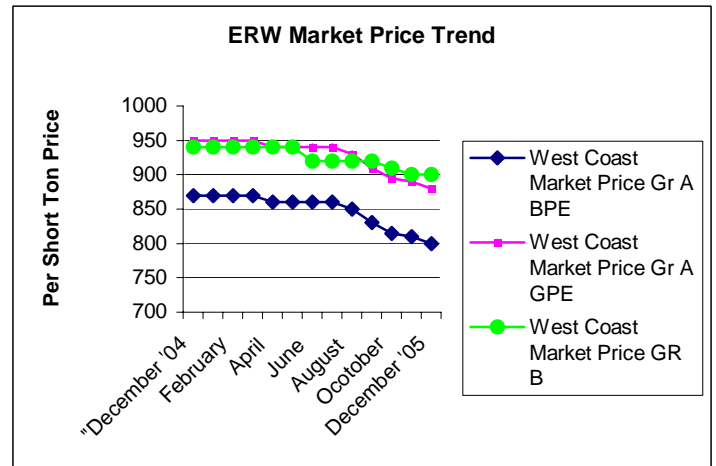
The past several months have brought about much change to the steel market with regard to availability and price. Imports steadily flow into the US and supply constraints for most commercial grade steel products are easing. A53 Grade A pipe is the most readily available carbon steel tubular product here on the west coast, with a majority of tons coming from China (1/2" though 4" Black and Galvanized). A surplus of narrow to medium width strip in China has led to increased availability and cheap pricing of standard pipe. (*note our April 2004 Pipe Connection which detailed the potential problems of some pipe made from narrow width strips.*), while welded pipe prices rolled from full width HR Coil has just recently started to soften.

As imports from orders placed early this year begin to flow into the West, base prices for the first half of 2005 were stable. As of the past few weeks, however, we are beginning to see prices steadily drop for late 3rd quarter delivery due to both lack of demand here in the US and increased production in China as new mills come on line. US service centers continue to work off heavier inventories and are reluctant to place new orders, adding to foreign mills' troubles in locating homes for current production. Cutting production to maintain higher pricing is normally a mill's last option before dropping prices. Although global production has remained steady though consolidations and planned maintenance outings, most mills continue to struggle to keep order books full.

Imports of finished products from China increased 17% in May from April '05, while totals for the first 5 months increased an overwhelming 585.6% (1.03 million tons Jan - May '05 compared to 312 thousand tons in '04). This increase has spurred Domestic manufacturers to initiate legislation to Congress demanding actions against unfair foreign trade-distorting practices. Highlights of the legislation key in on the following issues: Foreign government tariff and non-tariff barriers on imports, foreign government restrictions on exports of raw materials, foreign government currency manipulation, unfair international tax rules and other activities which effectively subsidize the foreign production of steel.

We are anticipating filings against China, welded pipe in particular, in the coming months. We will keep you posted on such events as soon as they occur via a Pipe Connection Bulletin. State Pipe & Supply continues to qualify new mills from several countries on a regular basis, anticipating potential changes which may affect your core business. Contact your local sales representative with

questions about our current sourcing program.



Market prices as seen above are slowly softening due to both limited demand and high inventories. The trend of Black Plain End (BPE), Galvanized Plain End (GPE) Grade A and Black Bevelled End (BBE) Grade B Pipe for the first half of 2005 remained steady. Coming off a high of \$870/ton (Gr A) and \$950 (Gr B) the second half will see a 6 - 7% reduction by December '05. Price movements going into 1st Quarter '06 may firm, however as master distributors and service centers resume their normal buying cycles, filling up mill production capacities once more.

One product group we have continued to see stable (an in some cases increasing) pricing is seamless line pipe and OCTG (Oil Country Tubular Goods). With oil and natural gas prices at record levels, drilling activity is booming. Not since the 1980's has the North American Drilling count been this high (1,897 in total with 1,404 rigs active rigs in the US, as of July 15th 2005). And at current commodity prices (Crude @ well over \$50/barrel / Natural Gas @ 7.555 MMBtu), producers are bullish and confident demand will remain strong for quite some time. Such demand has kept prices for energy related pipe products high, creating a very bright and promising spot for steel pipe producers and distributors in the oil and gas industry.

Thank you to our clients who participated in our survey. We hope this information, as well as the information provided above, will give you a clearer understanding of our ever changing industry.

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