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The PIPE Connection

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Recent hurricanes Katrina and Rita have left most of the gulf coast in short supply of raw materials and energy required to make steel. Recent price hikes set by Domestic mills for both energy and scrap lead us to believe that the price increases announced (from \$40 to \$80 depending on product) will remain in effect through this year and into the first half of 2006. Lead times for all steel products coming from the Midwest and East are in upwards of 4-5 months, with "Price in Effect at Time of Shipment".

The high demand for oil and natural gas has not only plagued the domestic steel industry. World wide refining capacities fall short of current world demand, with China still hungry for more oil and natural gas to keep in line with their annual 7 percent growth plan. Because of this, we expect prices to remain at high levels for ERW line pipe above API 5L X42 and Seamless A106B pipe. Prices should hold firm through end 2005, remaining steady going into first quarter 2006. API 5L and especially A106B seamless pipe are less susceptible to price decreases as there are fewer domestic and import sources compared with that of Grade A and B ERW Standard Pipe.

Standard Pipe:

As predicted, the steel market in North America turned around in Mid-Summer & price trends for most products are up. Across the Pacific in Asia, however, markets are moving toward a different direction for Standard Pipe (A53A/B). CSC (China Steel Corp/Taiwan), Baoshan Iron & Steel Co.,Ltd/China and POSCO (Pohang Iron & Steel Co., Ltd./Korea) all announced 4th qtr delivery price cuts for all products with exception of tinplate. This major price deduction is the 1st of its kind in nearly two years. The reason for such cuts... China.

China Impact:

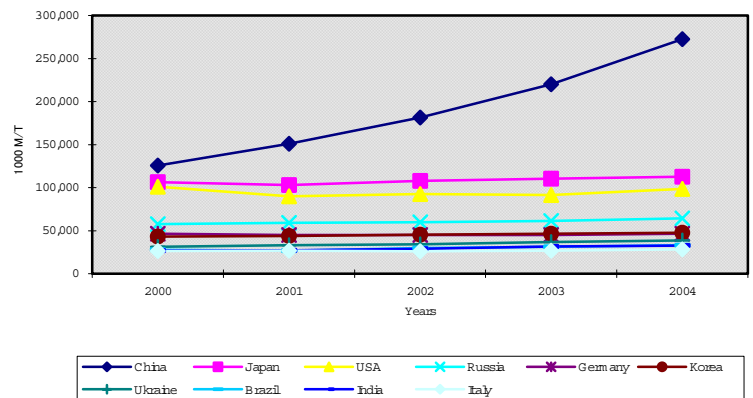
At the end of July 2005, China's crude steel production was 193.7 million metric tons & total world production 636.2MM/T. China's share was 30.5% of total production. CISA (China Iron & Steel Association) predicts China's crude steel production in this year to be 322.45 million M/T, an 18.3% increase or about 50 million M/T increase over 2004. CISA is predicting output to continue to rise to 400 million or even 500 million M/T in the near future. With so much additional production capacity coming online, and with global demand soft outside of China, Chinese mills have

looked to aggressively market this additional production to markets including the US. Price decreases from other Asian mills come not because of lower costs, but out of a necessity to compete with such low Chinese prices. We expect both Grade A and B pricing from Asian mills to drop 5-7 per cent for shipments arriving year's end to early 2006.

Section 421.

While the global steel industry has called for inefficient mills to consolidate or shut down to alleviate potential long term over supply, China has continued to add capacity. Because of this move, several legislators backed by US steel mills have introduced a policy known as Section 421. US Mills are asking President Bush to enact legislation, which would effectively shut out tons exceeding 90,000 per year from China for Non Alloy Circular Welded Pipe. (this includes ERW A53A, B and galvanized fence pipe) On October 3rd, the ITC affirmed certain steel pipe from China is being imported into the US in such large quantities as to cause market disruption to domestic steel mills. A recommendation will be forwarded to the President by October 21, 2005 as to the extent of the remedy. The President will make a final decision based on the ITC report.

Crude Steel Production in 1999-2004



State Pipe & Supply Inc. stocks import pipe representing mills throughout the world. You may rest assured our inventories will not be compromised should Section 421 be enacted.

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