



The PIPE Connection Bulletin

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4th Quarter ♦ 2006 Distributed quarterly by State Pipe & Supply Inc www.statepipe.com

2006 has been a year of stable pricing and better availability with regard to standard pipe (A53 Grade A and B). Seamless line pipe and large OD DSAW pipe was available but only in limited tons, however, as energy companies seeking to make use of the billions of dollars in revenue proceeded to replace old transmission lines and drill deeper wells.

While we have seen significant drops in the price of crude from mid July highs of \$78 dollars per barrel down to \$58, in mid October, rapidly expanding economies of China, India, Indonesia and Malaysia will continue to require an increasing percentage of oil production as energy is critical to economic progress. With this in mind, prices for both seamless line pipe will be at 950 to \$1100 per ton for Import Chinese and DSAW pipe expected to near \$1,600 per ST through 2007 on the open market.

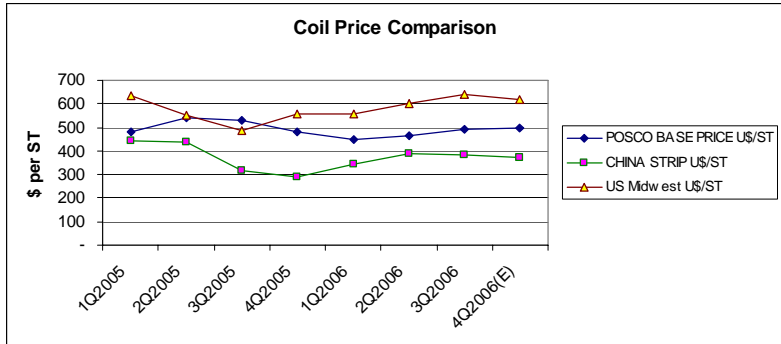
here to stay, so it is imperative that we not only understand the change upon us, but take action in continuing to develop sourcing for all products, current and future.

While Steel production in China for 2006 is estimated at 399 million tons, estimated consumption is 374 million. This leaves an oversupply of 25 million tons, however we should understand that much of the new capacity comes from large blast furnace construction which started in 2003 and 2004. These large mills have capacities exceeding 2 to 3 million tons each and have the ability to produce high grade steel which until recently have been imported from Japan and Korea. As the reported population now well exceeds 1.3 billion people, Chinese consumers' appetite for durable goods and automobiles will continue to increase, necessitating the increase of steel making facilities able to produce steel of higher grade.

Country	Estimated 2006	%
1 China	398,940	33%
2 Japan	113,962	10%
3 USA	100,822	8%
4 Russia	69,846	6%
5 Germany	46,634	4%
6 Korea	47,580	4%
7 Ukraine	39,712	3%
8 Brazil	28,958	2%
9 India	41,724	4%
10 Italy	31,848	3%
11 France	21,292	2%
12 Canada	15,654	1%
13 Taiwan	20,140	2%
14 Spain	18,630	2%
15 Mexico	15,962	1%
16 U.K.	14,232	1%
17 Turkey	22,616	2%
18 Belgium	11,572	1%
19 Poland	9,596	1%
20 Australia	7,722	1%
21 - 62 Others	113,972	10%
		100%

G.Total	1,191,414
Non-China/Total	792,474
No of Countries	62

China continues to add production and, supply will overtake internal demand in the coming year. Per the above table, total estimated tons of steel production for 2006 is 399,000 tons. This is a 14% increase from 2005 tons of 348,000 and 42% increase over 2004 production of 272,000 tons. China accounts for 33% of the 1.2 million tons of world production. It is estimated that by years end of 2008, China will have closed in on the 500 million ton mark well overshadowing the next 10 countries combined for 2006. China is here and they are



In looking at the current Hot Rolled Coil price Ex Works from US Midwest and Korea prices are \$100 to \$200 above the Chinese Strip price. This steel strip is becoming increasingly popular amongst Chinese mills, looking to further their price competitiveness. In fact, prices are so attractive, the use of steel strip is now being considered by other mills throughout Asia. As strip is made from billet, there are concerns, however over quality as welding and consistency in the steel is compromised, whereas HR Coil produced from slabs is predominantly uniform in chemical and mechanical properties. Most recent offers arriving to West Coast customers is pipe made from strip for the 8" and below size ranges for both Grade A and B pipe.

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