Metal Bulletin Research

Seamless Steel Tube and Pipe Monthly

Analysis of seamless global tube and pipe markets

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Contents

● US to put duties on Chinese linepipe?: page 3
● Scrap, billet prices down in Europe: page 6
● Chinese prices fall again: page 9

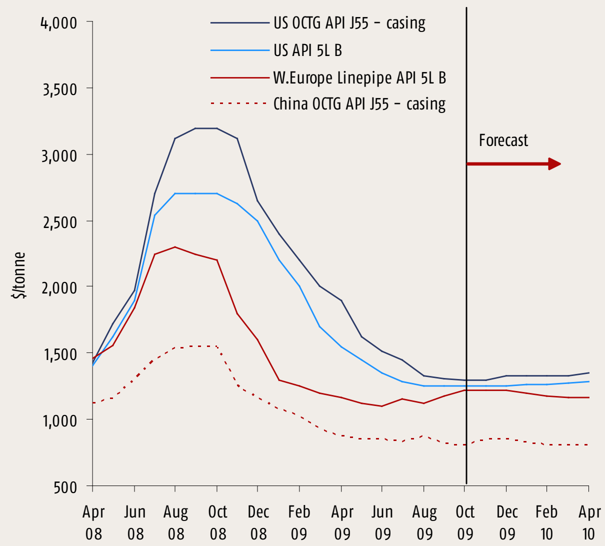
Seamless prices stable as demand shows signs of gradual improvement

● Seamless tube and pipe prices are still trending downwards overall, although the latest decreases have been modest. **MBR forecasts that prices will remain more or less stable until the end of the year, as the headwind and tailwind factors influencing prices are more or less balancing each other out at present.** Demand for energy-related pipes is improving in some export markets, and demand for precision pipes used in automotive manufacturing is also firm. On the other hand, the rise in raw material prices over the summer, which helped support pipe prices, is likely to have come to an end for the time being.

●The US market, which is obviously still struggling to digest the vast stocks it acquired earlier this year, is insulating itself from Chinese exports of seamless pipe. On top of duties on Chinese OCTG, measures look set to be taken against Chinese seamless linepipe. **As a result, once pipe stocks in the USA have been reduced to 'normal' historic levels – a process that will take at least the first six months of 2010 – there is a real prospect that seamless pipe prices will increase quickly and by large amounts.** Seamless pipe producers in both eastern and western Europe will be positioning themselves to benefit from this likely pattern of events next year.

Global seamless tube and pipe prices forecast

Seamless prices are relatively stable in the USA and EU; Chinese export prices are declining



Source: Metal Bulletin Research

Global seamless tube and pipe prices – October 2009

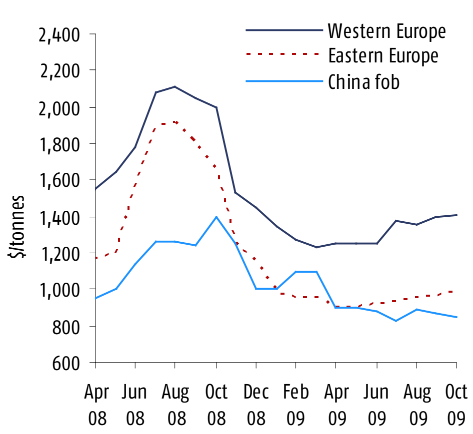
			OCTG API 5CT		Linepipe	Mechanical	Boiler tube
		Casing J/K55	Casing N80 Q	Casing L80*	API 5L B	ASTM A519	
USA	$/ton	1,180	1,361	-	1,134	1,152	1,225
	$/tonne	1,300	1,500	-	1,250	1,270	1,350
% monthly change		-1%	-3%	-	0%	2%	2%
% yearly change		-59%	-60%	-	-54%	-42%	-36%
Western Europe	€/tonne	986	1,122	1,360	829	955	976
	$/tonne	1,450	1,650	2,000	1,220	1,405	1,435
% monthly change		-5%	-7%	-9%	4%	1%	1%
% yearly change		-34%	-39%	-	-45%	-30%	-30%
Eastern Europe	$/tonne	990	1,140	-	890	990	-
% monthly change		3%	3%	-	1%	3%	-
% yearly change		-49%	-47%	-	-48%	-40%	-
China export	$/tonne	805	1,000	1,030	760	845	790
% monthly change		-2%	0%	-	-3%	-3%	-2%
% yearly change		-48%	-51%	-	-50%	-40%	-39%
Japan	$/tonne	1,250	1,750	2,100	1,250	-	-
% monthly change		-4%	-10%	-14%	-7%	-	-
% yearly change		-42%	-36%	-	-43%	-	-
Middle East	$/tonne	940	1,130	-	925	-	-
% monthly change		-2%	-4%	-	-3%	-	-
% yearly change		-42%	-41%	-	-41%	-	-

*Source: Metal Bulletin Research, prices fob basis (except Middle East, which is cfr, and USA, which is local distributor prices); * including premium connections, exce* *euro/dollar rate: 1.47*

Seamless linepipe, precision pipe prices – October 2009

Global mechanic precision prices

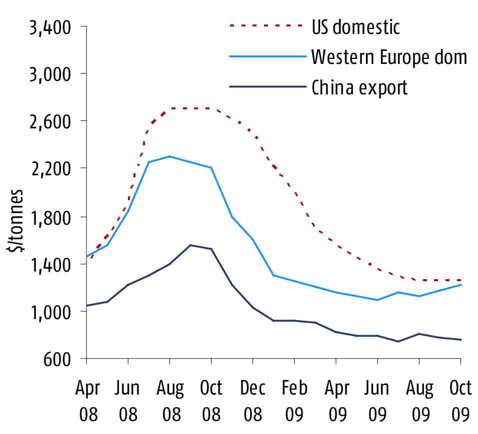
East European and CIS export prices have risen relative to Chinese mills' prices



Source: Metal Bulletin Research

Global linepipe prices

Weakness in the dollar has brought dollar-denominated European export prices close to US distributor price levels



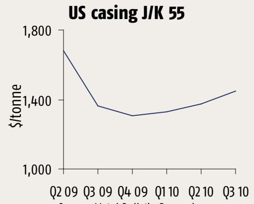
Source: Metal Bulletin Research

Americas Market Analysis

- OCTG prices remain depressed
- Volumes pick up from very low base
- Medium-term outlook more positive

Market Outlook

US casing J/K 55



Source: Metal Bulletin Research

Prices have stabilised, albeit at low levels, in most seamless markets. For now, we see little upward movement in pricing, although as raw material prices continue to move up, there may be some pass-through to finished prices. However, producers are seeing improved volumes. Industrial demand is picking up, driven by the automotive sector, and while the massive inventory overhang remains in energy markets, we expect shipment volumes for the rest of the year to be higher than recent trends as producers increase sales, particularly for specific requirements. In the medium term, the exclusion of Chinese supply from the US market (assuming that they are confirmed in anti-dumping investigations) will remove the primary low-cost supplier to the US market. Once inventory is largely worked off therefore, we see the potential for prices (and margins) to move higher. Rig activity remains constrained in natural gas, but stronger in oil, but we expect natural gas drilling rates to turn up by the end of the first quarter of 2010.

ITC starts investigation

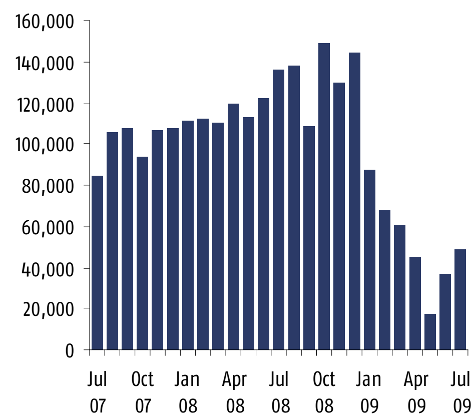
Following a complaint by US seamless pipe manufacturers (US Steel, V&M Star, TMK Ipsco and the USW), the US International Trade Commission (ITC) has commenced an investigation into carbon and alloy seamless linepipe, standard and pressure pipe by up to 16" in diameter. The industry is alleging dumping rates of close to 100%, and a preliminary injury determination is due by early November. The DoC indicated that volumes of such pipe from China rose from 158,130 tonnes in 2006 to 366,100 tonnes in 2008. **As we noted last month, however, linepipe imports have since dropped to around 10,000 tpm from all sources.**

Rig count and energy prices move up

The US rig count continues to move upwards, although at just over 1,000 rigs, this is still just half the level of its peak last year. Much of the increase is in oil rigs given the high oil prices. Natural gas prices have finally moved off lows, although with underground inventories at record levels, there is little requirement to supply additional gas, and this in our view reflects speculative activity. **We do not expect rigs in the natural gas sector to return until the end of the first quarter at the earliest, and that assumes a cold winter and an increase in industrial activity.**

US OCTG shipments (tons)

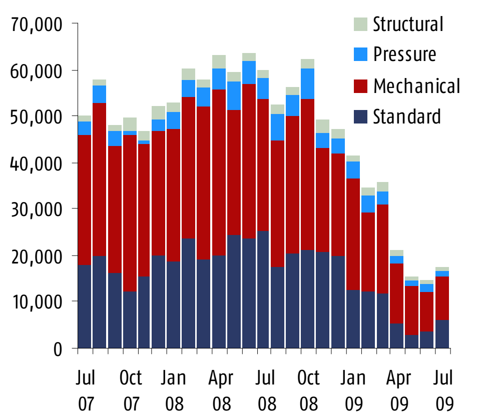
These are coming off the trough seen in May, but remain depressed



Source: Metal Bulletin Research, AISI

US shipments of non-energy seamless pipe by sector (tons)

Mechanical and standard seamless pipe have increased from the low reached in May/June



Source: Metal Bulletin Research, AISI

Tenaris ramping up

Seamless OCTG production levels have remained muted for most of the year, but there are signs that producers are picking up output to respond to improved order levels for specific products. Tenaris, based in Sault-Ste-Marie in northern Ontario, Canada, has recalled workers and plans to increase production levels from its 3,500 tpm (around 20% of capacity) to 50-60% capacity utilisation.

Inventory still a long-term issue

Inventories of commodity OCTG products are still substantial on the ground and remain unlikely in our view to be chewed up until the middle of next year at the earliest and some commodity products are likely to have significant inventories through to the end of 2010 and into 2011. The recent MBR *Five Year Outlook for the Global OCTG Market* estimates that

US shipments of seamless pipe (ton)

	2007	2008	Nov 08	Dec 08	Jan 09	Feb 09	Mar 09	Apr 09	May 09	Jun 09	Jul 09	year-to-date	y-o-y % chg
Standard pipe	228,447	254,328	20,937	20,065	12,681	12,250	11,818	5,195	2,673	3,554	6,162	54,333	-65%
OCTG	1,159,265	1,494,614	129,513	144,499	87,196	67,715	60,525	45,339	17,667	36,482	48,811	363,735	-56%
Linepipe	113,747	125,773	7,060	11,267	5,247	3,149	3,215	570	7,189	11,120	11,846	42,336	-43%
Mechanical tubing	357,736	350,592	22,224	21,913	23,791	16,929	19,276	13,113	10,776	8,652	9,430	101,967	-53%
Structural pipe & tubing	21,621	25,369	2,654	2,155	1,369	1,782	1,871	1,489	695	976	1,054	9,236	-35%
Total	1,912,857	2,305,009	185,715	202,977	133,969	105,493	99,430	67,268	40,364	62,218	78,347	587,089	-55%
% for export	7.3%	7.4%	7.0%	7.4%	5.7%	7.2%	7.1%	5.8%	9.1%	22.9%	17.1%	-	-

Canadian seamless and welded OCTG shipments ('000 tonne)

	2007	2008	Nov 08	Dec 08	Jan 09	Feb 09	Mar 09	Apr 09	May 09	Jun 09	Jul 09		
OCTG production*	495	659	73	60	67	47	40	10	9	9	-	173	-30%
OCTG casing inc. coupling*	423	537	55	45	62	42	35	5	7	9	-	151	-26%
OCTG tubing inc. coupling*	72	122	18	15	5	5	5	5	1	0	-	22	-51%

Source: AISI, Statcan, Metal Bulletin Research

** including welded*

Americas seamless production and trade data ('000 tonne)

	2007	2008	Dec 08	Jan 09	Feb 09	Mar 09	Apr 09	May 09	Jun 09	year-to-date	y-o-y % chg
Argentina production	837	913	63	37	42	35	37	31	36	218	-50%
Net import	-608	-683	-55	-36	-31	-37	-8	-31	-	-143	-37%
Apparent cons	229	230	8	1	11	-2	29	0	-	39	-68%
Brazil production *e	589	509	24	13	25	26	28	-	-	92	-52%
Net import	-105	-51	-6	-4	1	-2	-2	-4	-	-11	-53%
Apparent cons	483	458	18	9	26	23	26	-	-	85	-51%
Canada production *e	106	166	13	14	10	9	2	2	-	37	-52%
Net import	286	370	92	77	43	34	13	11	19	197	119%
Apparent cons	392	511	104	91	53	42	15	13	-	215	68%
Mexico production	650	667	48	40	38	37	45	48	50	258	-29%
Net import	-255	-236	-16	-17	-10	-13	-17	-	-	-56	-39%
Apparent cons	395	431	32	23	28	24	28	-	-	104	-29%
US production	1,735	2,082	184	119	93	88	59	36	-	395	-52%
Net import	1,378	2,987	386	369	182	180	100	102	5	939	2%
Apparent cons	3,113	5,069	570	488	275	268	159	138	-	1,329	-13%
Venezuela production	60	46	3	3	1	-	-	-		4	100%

Source: Customs Statistics, Various sources, Metal Bulletin Research

**e = estimate*

OCTG inventory accumulation in the USA over 2008–2009 was in the region of 1.5–2.0m tons. However, there are some specific products that remain in demand, which is allowing producers some leeway to increase output. We would point to offshore speciality pipe or non-collapsible grades that are used in the shale fields as examples, along with major producers that order for project-specific work directly from mills rather than distributors.

There may also be some speculative activity. **It is our medium-term view that prices will push up from current low levels from the second half of next year. This is based on the economy moving out of recession and rising gas demand prices in particular stimulating higher drilling levels.** As that inventory is used up, and the dominant offshore supplier is excluded from the market, there is likely to be an acceleration in purchasing and pricing. With interest rates low and the prices of seamless OCTG also at low levels, it could make sense for buyers to take material now, finance it at competitive interest rates, and then sell it on profitably next year when prices move up.

Prices stable to up now

For now, commodity 7" K55 casing is sold at $1,300/ton ex-distributor, with some regional variations – only a slight decline from previous months. Some material, however, is sold at a discount to this level. This is still above replacement cost for most distributors, although few are now purchasing anything but back-to-back business.

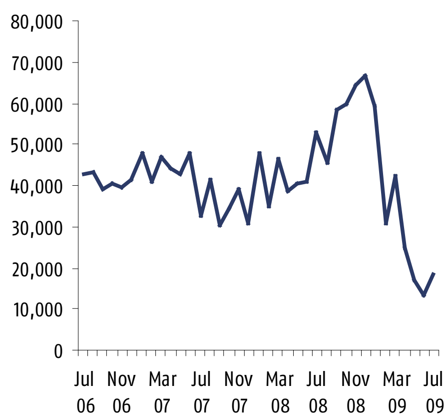
Other sectors remain depressed, but are picking up

Despite a pick-up in automotive production that started in July, historic data illustrates that shipments of non-energy seamless pipe remained at diminished levels through July. Shipments over the three-month period of April-July averaged at less than 16,000 tpm, compared with 61,000 tpm over the same period of 2008. Mills were therefore operating at less than 25% of the rate of the previous year. It is no surprise therefore that some operators in competitive markets, e.g. PTC Alliance in DOM finally entered bankruptcy in the last month or two. Imports have also slowed sharply through 2009, now running at about 25% of the peak.

However, we understand that order books at mechanical operations picked up strongly over August and September (less so in October so far) and lead times have been extended. This was particularly the case for mechanical material and to a lesser extent in standard and pressure markets, where distributors remain reluctant to replace inventory. Prices have already stabilised and we would expect mills to look to secure higher pricing levels through the fourth quarter, although how much they will be able to achieve depends on volumes. **MBR believes that it may take some time for output to come back in these sectors, particularly as we understand that some of the smaller producers are struggling to ramp up output as insufficient working capital becomes a bigger constraint during a period of trying to grow.**

US imports of non-energy carbon and alloy seamless pipe (tons)

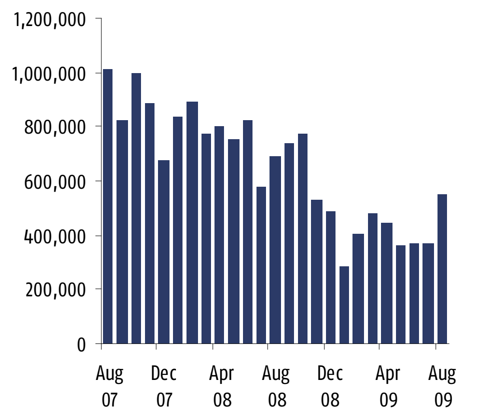
Imports are less than 25% off the peak



Source: Metal Bulletin Research, Customs data

US automobile production (units)

August production was the highest in nine months

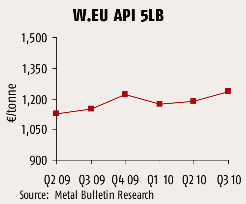


Source: Metal Bulletin Research, Ward's Auto

Europe, Middle East and Africa Market Analysis

- Weak demand in western Europe limits price increase
- CIS mills increase their export offers
- Tentative signs of improving demand appears in major export markets

Market Outlook



Raw material prices have dropped slightly since September and look likely to go on softening in the short-term. Although we don't expect scrap and billet prices to fall much in absolute terms – declines below $400/tonne fob for CIS billet, for example, seem unlikely, this will in turn weight on seamless pipe prices. European pipe makers will resist this pressure to drop prices; instead they will rely on the slow recovery in international export demand and the weak dollar to justify a rollover of recent offer prices through until the end of the year. MBR forecasts prices to remain relatively stable in the short term.

European demand still poor, but some signs of improving export demand emerging

Market conditions remain pretty tough for seamless pipe makers in both eastern and western Europe. Demand in home markets is improving, but only slowly. Likewise, demand from markets in the Middle East and North Africa is starting to strengthen as work begins on new projects and unfinished energy-related projects are restarted. Currency fluctuations (see chart one) have contributed to the CIS tube mills' decision to raise their dollar-denominated export prices again in October. They are also making export sales harder for west European mills.

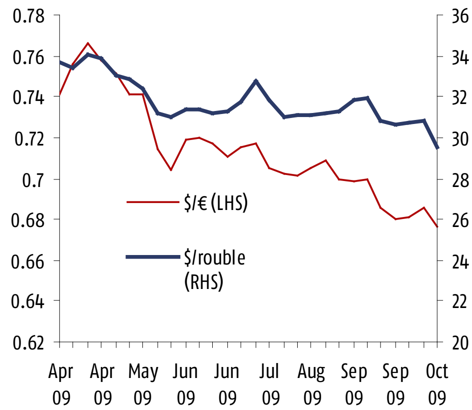
Given the fact that oil prices look increasingly stable at $70/lb mark – even in the light of the latest macroeconomic data that casts doubt on the likelihood of a V-shaped recovery soon – MBR believes there will be more opportunities for pipe mills to export to the Middle East and Africa in coming months. ***Volumes are likely to increase, but the prospects for higher prices will be hampered by competition from China. Chinese export prices are low, and given the restrictions Chinese mills now face in selling into the USA and Europe, they can be expected to be extremely aggressive in chasing export deals elsewhere.***

Anti-dumping rules make US imports the long-term hope of east European pipe makers

With the US market now out of bounds for Chinese OCTG and seamless linepipe (the US authorities have just launched an anti-dumping and countervailing duties investigation into imports of Chinese-origin seamless linepipe, adding to the duties already in place for OCTG), the US market will eventually become a prime target for exports from Europe. For the time being, however, the prospects of this are still some way off: stocks in the USA are still too high and the

International currency fluctuations

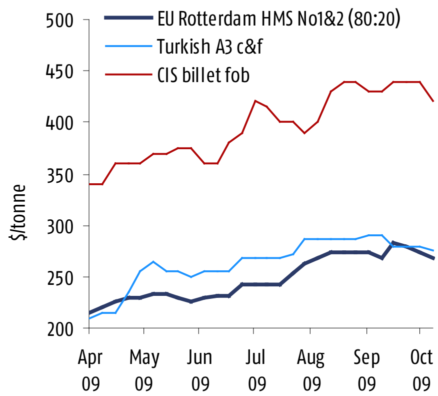
The dollar has depreciated again encouraging CIS mills to increase their dollar-denominated export prices



Source: Metal Bulletin Research

Scrap and billet prices

European scrap, billet prices are starting to soften, and we predict further declines in coming weeks.



Source: Metal Bulletin Research

European seamless production and trade data ('000 tonne)

	2006	2007	2008	Oct 08	Nov 08	Dec 08	Jan 09	Feb 09	Mar 09	Apr 09	May 09	year-to-date	y-o-y % chg
Austria production	429	447	378	29	29	29	24	21	21	15	14	95	-42%
Net import	-333	-281	-292	-26	-25	-22	-20	-17	-17	-12	-11	-79	-38%
Apparent cons	96	166	86	3	4	7	4	4	4	3	3	16	-54%
Czech production	466	455	421	35	32	24	19	18	22	19	21	99	-50%
Net import	-290	-278	-266	-19	-23	-16	-15	-9	-15	-13	-14	-65	-48%
Apparent cons	176	177	155	16	9	8	4	9	7	6	7	34	-53%
France production	786	785	721	47	40	40	38	38	42	-	-	118	-45%
Net import	-413	-434	-347	-21	-15	-35	-25	-28	-22	-24	-10	-109	-46%
Apparent cons	373	351	374	26	25	5	13	10	20	-	-	43	-55%
Germany production	1,782	1,835	1,793	142	142	131	96	102	100	-	-	298	-32%
Net import	-1,056	-939	-1,023	-95	-111	-91	-61	-69	-67	-50	-66	-313	-16%
Apparent cons	726	896	770	47	31	40	35	33	33	-	-	101	-54%
Greece													
Net import	23	26	25	2	2	2	2	2	2	2	1	8	-28%
Italy production	831	855	768	51	45	36	36	40	40	-	-	116	-50%
Net import	-153	14	-132	-13	-27	-34	-10	-16	-32	-38	-29	-125	-
Apparent cons	678	869	636	38	18	2	26	24	8	-	-	58	-75%
Norway													
Net import	67	69	67	3	3	11	20	6	6	13	4	49	45%
Poland production	211	207	162	12	11	10	8	6	6	-	-	20	-51%
Net import	23	90	88	6	8	4	2	4	4	3	4	17	-59%
Apparent cons	233	297	250	18	19	14	10	10	10	-	-	30	-55%
Romania production	554	601	563	46	34	30	35	33	28	29	29	154	-36%
Net import	-320	-381	-344	-32	-16	-32	-22	-13	-20	-15	-11	-81	-47%
Apparent cons	234	220	219	14	18	-2	13	20	8	14	18	73	-19%
Russia production	2,968	3,105	2,791	217	155	182	157	164	192	175	160	848	-33%
Net import	-169	-16	151	16	-22	-2	-15	-2	10	0	-6	-13	-118%
Apparent cons	2,799	3,089	2,942	233	133	180	142	162	202	175	154	835	-37%
Spain production	303	294	276	15	15	12	16	15	11	-	-	42	-52%
Net import	-73	-9	-48	-6	-15	2	-13	-11	-1	-3	2	-24	-
Apparent cons	230	285	228	9	0	14	3	4	10	-	-	18	-80%
Sweden production	108	137	121	8	7	4	4	5	6	-	-	15	-59%
Net import	-44	-23	-9	0	0	2	-1	-2	-2	-1	-2	-8	-7%
Apparent cons	64	114	112	8	7	6	3	3	4	-	-	10	-66%
Turkey													
Net import	125	171	171	10	11	8	5	4	15	3	7	35	-58%
Ukraine production	1,321	1,312	1,147	87	37	37	23	37	37	35	31	162	-71%
Net import	-978	-969	-831	-73	-27	-22	-12	-31	-35	-25	-25	-129	-68%
Apparent cons	344	344	317	14	10	15	11	5	2	9	6	34	-78%
UK production	48	33	32	2	1	1	2	2	2	-	-	6	-50%
Net import	99	143	141	15	13	9	23	9	12	18	3	65	-1%
Apparent cons	147	176	173	17	14	10	25	11	14	-	-	50	-13%

*Source: Customs Statistics, Metal Expert, Various sources, Metal Bulletin Research * Some European figures are MBR estimates* weak dollar does not favour imports. ***Nonetheless, the opening up of the US market to import competition from Europe and CIS mills is one of the trends we will be looking for over the next 6-9 months.***

Stable export offer out of western Europe...

Seamless prices out of west European mills have pretty much remained stable over the last month. Croatian-origin seamless linepipe, API 5L grade b, has been on offer at around $890/tonne fob. This translated to a delivered price for shipments to the Middle East or around $920-930/tonne cfr. MBR understands that the premium for API 5L X52 (PSL2) is likely to be around $60/tonne on top of the basic 5L grade b price.

Standard boiler pipe from ArcelorMittal's Ostrava plant is understood to be on offer for around €820/tonne ($1,230/tonne) fob. Meanwhile, export prices from Tenaris in Italy for seamless linepipe are understood to be closer to €930/tonne ($1,365/tonne) fob.

European seamless tube prices are likely to come under pressure from falling raw material prices in coming weeks. Scrap prices, which have been on the rise in Europe since June, have now declined for two weeks running (see chart two). MBR believes that further declines in scrap prices will occur in October – steel prices are looking weaker then they were one month ago and there should be greater availability of prime-grade scrap after the improvement in industrial production that took place in Europe during the summer.

...currency fluctuation has allowed CIS mills to increase their export prices

Due to changes in currency rates, CIS mills have been able to drop their euro-denominated prices to western Europe, while at the same time increasing their dollar-denominated offers to the Middle East and North Africa. Ukraine's Interpipe is understood to have been offering standard API 5L linepipe at around $890-900/tonne fob. Meanwhile, Russia's TMK has been offering similar material to West European buyers at around €700/tonne cfr ($1,050/tonne, excluding duties). Ordinary hot-rolled seamless pipes are on offer from Russian mills at around $750/tonne fob for November shipments.

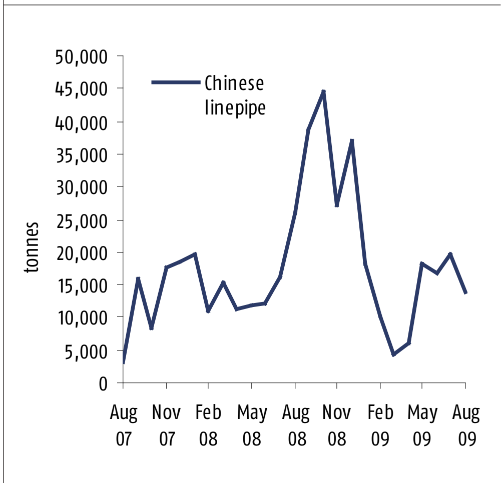
MBR believes that the inventories of old seamless pipe that were being marketed by CIS-mills earlier this year at discount prices have been exhausted. ***This should help buoy prices in coming weeks, although the effect may not be sufficient to counteract the decline in billet prices in early October. Lower billet prices will probably put a hold on CIS mills plans to increase their finished pipe prices in the near future.***

Premium OCTG struggles to maintain margins over standard grades

MBR has dropped some of its OCTG casing prices for premium L80 material, after we heard that margins were not holding up over standard J/K and N80 casing as we had been previously led to believe. We have heard of offers for premium L80 material as low as $1,800/tonne from top producers in Europe and Asia. This price may not reflect the market for premium casing as a whole – we've also heard of prices around the $2,000/tonne mark – but it does seem that weak OCTG demand is forcing top-tier mills to drop their prices by significant amounts in order to obtain sales.

Middle East's imports...

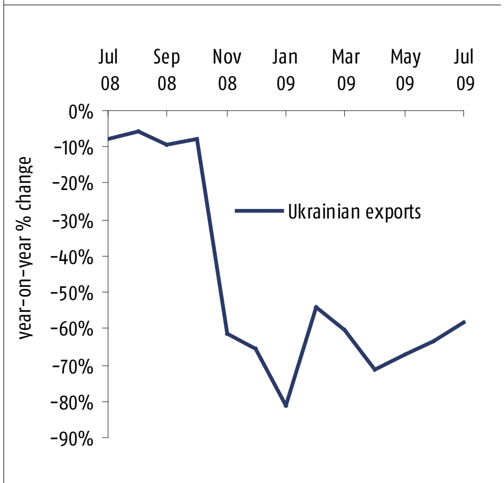
...of seamless linepipe; imports declined in August but Chinese mills are targeting the region



Source: Metal Bulletin Research

Ukrainian seamless exports...

...are still down on last year, but we have seen slight signs of improvement in demand

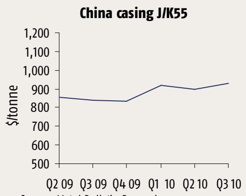


Source: Metal Bulletin Research

Asia Market Analysis

- Prices slip again…
- …with the prospect of further declines
- EU duties further damage Chinese export prospects

Market Outlook



Source: Metal Bulletin Research

Seamless prices continued to slip over the last month, but by significantly smaller amounts than the reductions of the previous month. In line with the downward trend in long steel product prices, we believe there may be further scope for price cuts in the region of $20/tonne over the next month or two. However, while producers of other steel are bringing their prices in line with those competitive on the international market, seamless producers are finding themselves increasingly cut out of key markets, with the EU imposing definitive duties. A reassessment of strategy will be required by producers and in the meantime they will increasingly rely on domestic demand. The key question will be whether this demand can sustain production levels now.

Seamless prices edge down slightly

Pipe prices have reduced further in the last month after the significant drops in August and September, facilitated by the downward trend in steel prices in China. While the recent price falls have been much less severe than those of the previous month, the trend still appears be to tracking that of long steel products in general in the country, with concerns of oversupply and negative sentiment pushing domestic prices down and export offers in turn beginning to match those competitive on the international market. This has already taken place with some commodity long products – Chinese rebar export offers in the last week dropped to match Turkish and CIS offers on the international market at $480/tonne on a fob basis.

However, while producers of other long steel products can look to ease their oversupply concerns through exports, seamless pipe producers are going to find this particularly difficult. In addition to last month's US trade action filed against Chinese seamless linepipe, the EU in late September imposed definitive anti-dumping duties on Chinese seamless pipe imports. This will prompt a critical re-evaluation of producers' strategies and is discussed further below:

– Boiler tube

After decreasing by up to $90/tonne over the course of late August/early September, boiler tube prices have dropped on average by a further $21/tonne, largely as a result of the downward trend in steel long products in the country. Below is a summary of A106 grade b price movements over the last month:

Outside diameter * Width (mm)	Suppliers	RMB/tonne			$/tonne		
		October	September	Change	October	September	August
25*2.5	Wuxi	5400	5,550	-150	789	811	-22
38*3.5	Wuxi	4600	4,750	-150	672	694	-22
48*4	Wuxi	4600	4,750	-150	672	694	-22
57*3.5	Changzhou	4550	4,700	-150	665	687	-22
76*4	Changzhou	4450	4,600	-150	650	672	-22
89*4.5	Wuxi	4400	4,500	-100	643	658	-15
108*4.5	Wuxi	4400	4,500	-100	643	658	-15
133*4.5	Hongdu/Angang	4450	4,500	-50	650	658	-7
159*6	Liao	4350	4,450	-100	636	650	-15
168*8	Xingyu	4350	4,450	-100	636	650	-15
219*6	Zhengda	4550	4,700	-150	665	687	-22
325*8	Wuxi	4850	5,250	-400	709	767	-58

MBR believes that there remains the prospect of further price decreases in pipe prices, due to the downward trend in substrate costs. We believe there could be a further $20/tonne slide in the next month or two in long products, depending on the uptake of Chinese export offers which, at the moment, are not attracting the attention on the international market that producers might have hoped for.

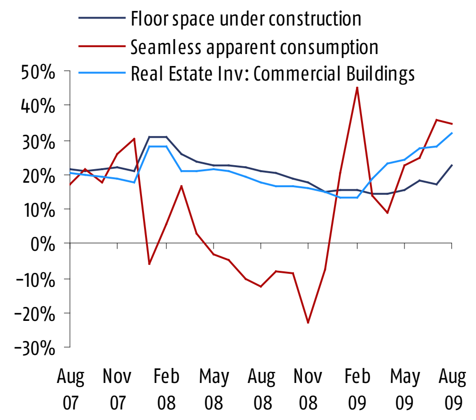
EU imposes anti-dumping duties on Chinese seamless pipe...

On October 6, the Official Journal of the European Union published its definitive duties on Chinese circular seamless pipes of up to 406.4mm outside diameters. Those producers that cooperated in the investigation received relative leniency compared with 39.2% duty applied to imports from those producers that did not. Shandong Luxing Steel, which cooperated, received the lightest duty at 17.7%, while the three remaining cooperating producers – Hubei Xinyegang Steel, Hengyang Valin Steel Tube and Tianjin Pipe, received duties of 27.2%.

While the EU based their threat of injury duties on the fact that the Chinese share of the EU market rose to 17% in the inquiry period (June 2007–June 2008), the Chinese Ministry of Commerce claimed that the increase in exports to the region was based on European demand rather than any attempt to dump their products in the market. In defence of this, the export volumes of Chinese producers reduced significantly once the global financial crisis started to take effect; exports to Europe in January–August 2009 stood at 96,000 tonnes, down by 71% from 327,000 tonnes in the corresponding period of 2008.

Chinese year-on-year growth of seamless apparent consumption/key indicators

The rapid rise in apparent consumption suggests oversupply, although key indicators also show strong growth



Source: Metal Bulletin Research

MBR believes that with two major markets – the EU and US, now effectively ruled out for significant exports, Chinese producers will find it difficult to source alternative outlets for these tonnages and thus will need to reassess their strategies to look at other prospects. These strategies are likely to include more niche products and those above the EU anti-dumping size limit of 406.4mm OD. Producers will also need to look towards setting up new operations within the actual markets they wish to supply – Tianjin Pipe and WSP are already in the process of establishing mills in the USA, while others will look to move export operations to destinations closer to home in southeast Asia.

...but production remains strong despite lower exports

As already mentioned, net exports out of China dropped significantly in 2009, down by 42% at just over 1.8m tonnes in January–August 2009. Despite this, production has held up strongly rising by 8% in the same period. As a result apparent consumption has increased by almost 25%. Considering the oversupply concerns expressed for most steel products in the country and the downward trend in steel prices, which appears to be evidence of this, one might ask the question: is an increase of this magnitude in apparent consumption credible?

MBR believes that with exports at this level, seamless production is likely to be in oversupply. However, there are some positive indications that the increased apparent consumption levels, which in August is up by 35% year-on-year, may be met to some extent by rising demand. As the chart shows, year-on-year growth in investment in commercial buildings is up by 32%, with floor space under construction up by 23% in August.

Asian seamless production and trade data ('000 tonne)

	2007	2008	Jan 09	Feb 09	Mar 09	Apr 09	May 09	Jun 09	Jul 09	Aug 09	year-to-date	y-o-y % chg
China production	18,526	19,798	1,410	1,465	1,826	1,667	1,720	1,892	1,858	1,827	13,666	8%
Net import	-3,421	-5,539	-311	-219	-235	-248	-178	-181	-240	-211	-1,822	-42%
Apparent cons	15,105	14,259	1,099	1,246	1,591	1,419	1,542	1,711	1,618	1,616	11,843	25%
India												
Net import	67	187	10	-	-	-	-	-	-	-	10	-42%
Indonesia												
Net import	53	331	23	-	-	-	-	-	-	-	23	-12%
Japan production	2,560	2,520	181	173	168	138	129	102	130	130	1,151	-31%
Ordinary seamless	706	707	60	48	51	41	34	19	40	40	332	-28%
Special seamless	1,379	1,399	91	94	86	70	70	55	60	60	585	-37%
Stainless*	474	414	30	32	31	27	25	28	31	31	234	-15%
Net import, excl stainless	-1,374	-1,437	-107	-90	-134	-108	-59	-79	-79	-61	-717	-22%
Apparent cons, excl stainless	711	669	44	52	3	3	45	-5	20	38	200	-58%
Malaysia												
Net import	342	184	-	-	-	-	-	-	-	-	184	-46%
South Korea production	20	21	1.7	1.6	1.6	1.2	-	-	-	-	6	-19%
Net import	495	500	39	26	30	33	25	21	-	-	175	-26%
Apparent cons	515	522	41	28	32	-	-	-	-	-	101	-17%

Source: Customs Statistics, METI, KOSA, Various sources, Metal Bulletin Research

Energy Market Analysis

- Oil prices look stable...
- ...despite relatively high inventories
- Gas price rally set to burn out

Market Outlook

Oil prices look set to remain in a range between $65-80/tonne in coming weeks. Despite the fact that inventories are comparatively high by historic standards, the oil futures market is still in contango. Only if governments suddenly bring their fiscal stimulus packages to an end, which is very unlikely, would we expect to see prices drop. Meanwhile, prices for natural gas futures are vulnerable to decline after a technical rally in early October.

Oil prices look set to rise

Oil prices have held their ground with in the last month, despite the release during this period of equivocal – to say the least – economic figures that cast doubt on the sustainability of the improvement in economic activity which occurred in developed economies over summer. Nymex WTI futures have been trading around the $70/barrel-mark, which is more than 100% above the cyclical low that was attained in February.

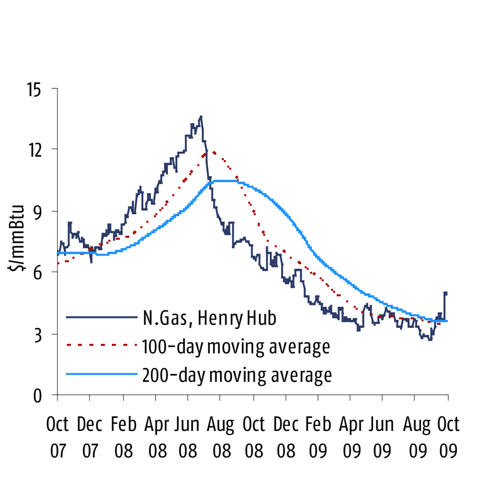
The fact that oil prices remain relatively firm at a time when OECD members' inventories are still well above the range that prevailed between 2000 and 2008 implies that a further increase in prices is likely. ***The futures markets, however, clearly believe that supply will increase – the spread between the three-month and 15-month future prices has shrunk by $10 since earlier this year. This could lead to large volumes of oil that are now stored in tankers being released onto the market in the short term. Nonetheless, MBR believes that oil prices will continue trading between $65-80/bbl for the time being.***

Gas price rally likely to be a flash in the pan

The price of natural gas futures went through a technical rally from late-September into October. Henry Hub gas futures increased from around $3/bbl to around $5/bbl. MBR believes this rally will have run its course by the time this report goes to press, as no real improvement in market fundamentals has occurred. The market expects improving cyclical demand to push prices higher in the long term, but any increase in industrial demand will probably be offset by a weakening in natural gas consumption from the power generating sector. MBR expects the oversupply situation to remain unchanged for several months.

Long-term average natural gas prices

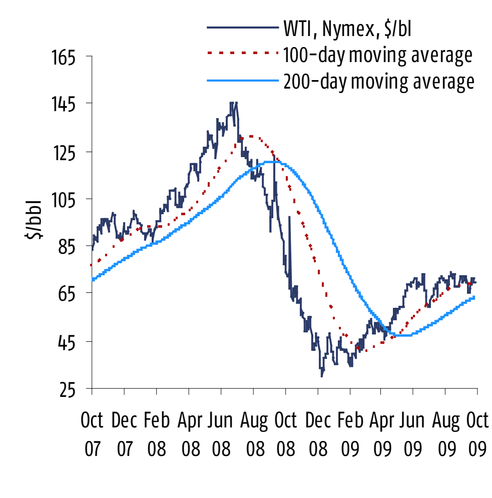
The rally in natural gas futures prices was caused by technical factors rather than an improvement in demand



Source: Metal Bulletin Research, Nymex

Crude oil spot prices (WTI)

Historically large inventories in OECD countries has not stopped oil prices from holding their ground



Source: Metal Bulletin Research, Nymex

Seamless capacity developments

Tenaris to reorganise production

Italian seamless pipe producer Tenaris-Dalmine plans an internal reorganisation that could lead to all of its small-diameter pipe production taking place outside of Italy. Production costs for this type of pipe that is used in mechanical applications, are understood to be higher in Italy than they would be at some of the Tenaris Group's other facilities. Tenaris either owns or has stakes in seamless pipe production facilities in Europe, North America, Asia and South America.

Northwest Pipe to restart OCTG mill in the USA

The anti-dumping measures taken by the USA against Chinese OCTG imports seem to have encouraged plans for the restarting of an OCTG in Louisiana. MBR has heard that renovation work at the Northwest Pipe Company works in Bossier will be completed by 2010, and the mill will be ready to produce by mid-year. The mill will have capacity to produce around 120,000 short ton/year of OCTG.

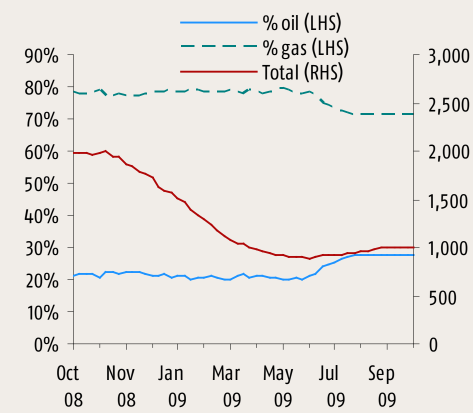
V&M to expand capacity at Ohio plant

V&M has settled a dispute with two municipal authorities in the USA that will allow the company to increase melting capacity at its Ohio plant. V&M has plans to expand capacity from 830,000 short ton/year to 1.4m short ton/year.

International rig counts: split between gas/oil rigs and land/offshore rigs

USA rig counts, split between oil, gas rigs

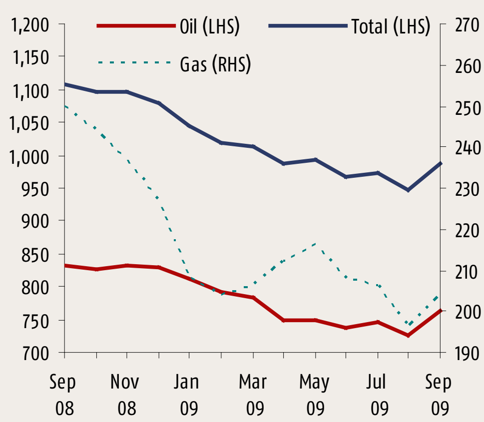
Marginal increases in both oil and gas rig counts occurred by early October



Source: Baker Hughes, Metal Bulletin Research

International rig counts (excl N. America)

Oil rig counts recorded their largest monthly increase in almost two years during September



Source: Baker Hughes, Metal Bulletin Research

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