

# Metal Bulletin Research

## Welded Steel Tube and Pipe Monthly

Analysis of welded tube and pipe markets across the globe

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### Welded tube and pipe markets experience little recovery so far

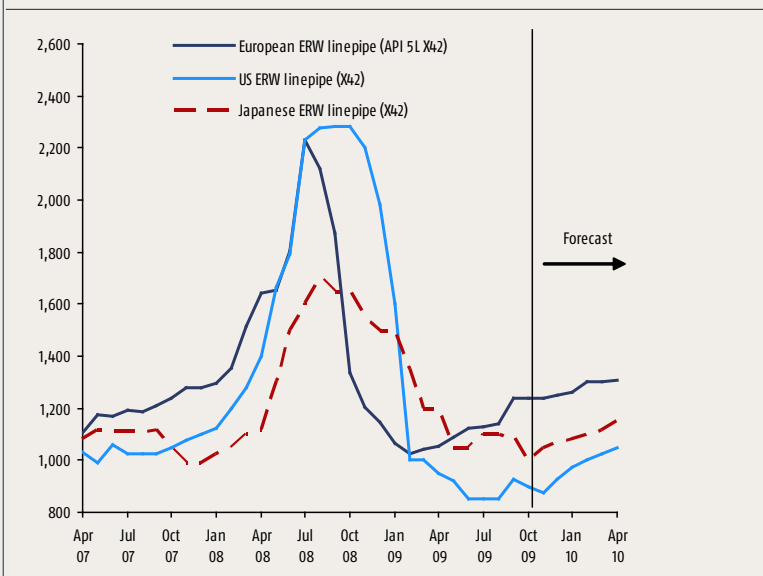
● Following a few weeks of optimism in the regional tubular markets last month, markets are now realising that a recovery has not yet entered the picture. US structural tubing mills reversed plans to hike prices this month; prices could slip again in the absence of any sort of sustainable demand. Some construction sectors could take a year or more to revive and absorb the excess floor space.

● Chinese pipe producers have made more cuts in their offer prices following declines in substrate costs. Recent cuts have been solely substrate cost driven. **MBR expects that there may be further price reductions in the fourth quarter, as Chinese flat products prices continue to display downside weakness. Consequently, we would not be surprised to see another Rmb100/tonne slashed off construction pipe prices in the next month.** Linepipe producers have implemented some of the largest price cuts seen in the last month, some slashing prices by almost \$100/tonne.

● EU and Turkish pipe producers have the opportunity to lower offer prices to compete for sales as their substrate costs also fell. **MBR believes there is more scope for price reductions in the fourth quarter based on substrate costs remaining the key driver of pipe prices, and while sufficient end-user demand is absent.**

### Global historical HSS prices

Falling substrate prices will weigh on ERW prices for the rest of this year, but we believe demand will slowly pick up in the first quarter of 2010



Source: Metal Bulletin Research

**Current and forecast tube and pipe prices**

	Currency	Oct 09		Sep 09		Oct 08		Forecast Q1 10	
		Local	\$/tonne	Local	\$/tonne	Local	\$/tonne	Local	\$/tonne
<b>EU</b>									
Hollow structural sections <sup>(1)</sup> ex-mill	€/tonne	610	899	620	902	890	1,192	700	1,032
ERW linepipe (X42) fob	€/tonne	840	1,238	850	1,236	1,000	1,339	950	1,401
UOE linepipe (X65) <sup>(4)</sup> fob	€/tonne	1,310	1,931	1,320	1,920	1,800	2,410	1,400	2,064
Spiral DSAW (X65) pipe fob	€/tonne	855	1,260	870	1,265	1,200	1,607	900	1,327
Cold-formed precision tube	€/tonne	750	1,106	750	1,091	1,050	1,406	770	1,135
Cold-drawn precision tube	€/tonne	1,100	1,622	1,100	1,600	1,500	2,008	1,150	1,695
<b>Turkey</b>									
Hollow structural sections <sup>(1)</sup> fob	\$/tonne	n/a	640	n/a	670	n/a	875	n/a	690
<b>USA</b>									
Midwest domestic hollow sections <sup>(2)</sup> ex-mill	\$/ton	699	770	762	840	1,225	1,350	839	925
Midwest domestic ERW linepipe (X42) ex-mill	\$/ton	816	900	839	925	2,073	2,285	907	1,000
West Coast ERW linepipe import (X42) c&f	\$/ton	703	775	726	800	1,769	1,950	853	940
UOE linepipe (X65) <sup>(4)</sup> ex-mill	\$/ton	1,315	1,450	1,315	1,450	2,268	2,500	1,406	1,550
Annealed ERW OCTG tubing <sup>(3)</sup> ex-mill	\$/ton	1,315	1,450	1,361	1,500	2,812	3,100	1,451	1,600
Spiral DSAW (X65) pipe ex-mill	\$/ton	1,134	1,250	1,134	1,250	2,132	2,350	1,225	1,350
<b>Japan export</b>									
ERW linepipe (X42) fob	\$/tonne	n/a	1,000	n/a	1,090	n/a	1,650	n/a	1,100
UOE linepipe (X65) <sup>(4)</sup> fob	\$/tonne	n/a	1,750	n/a	1,810	n/a	2,400	n/a	1,800
<b>Chinese export</b>									
ERW linepipe (API 5L grade b) fob	\$/tonne	n/a	640	n/a	690	n/a	910	n/a	640
UOE linepipe (X60) <sup>(4)</sup> fob	\$/tonne	n/a	1,090	n/a	1,140	n/a	1,480	n/a	1,100
<b>Asia region</b>									
Hollow structural sections <sup>(1)</sup> fob	\$/tonne	n/a	700	n/a	720	n/a	850	n/a	750

<sup>(1)</sup> 50mm x 3mm HR <sup>(2)</sup> 2"x1/8" HR <sup>(3)</sup> Source: AMM at Houston distributors <sup>(4)</sup> Sourced from API-quality heavy plate

**Current coil and plate prices**

	Currency	Carbon			Stainless				
		HR coil <sup>(1)</sup>	CR coil	HDG plate	304 CR <sup>(2)</sup>	316 CR <sup>(2)</sup>	304 HR <sup>(2)</sup>	316 HR <sup>(2)</sup>	
EU, ex-mill	€/tonne	425	495	590	440	2,369	4,111	2,782	3,772
EU import, cfr	\$/tonne	370	445	510	n/a	n/a	n/a	n/a	n/a
USA, ex-mill	\$/ton	580	700	800	660	3,189	4,573	3,310	4,813
USA import, cif	\$/ton	550	675	715	550	2,968	4,639	3,268	4,813
Gulf import cif	\$/tonne	520	n/a	740	n/a	n/a	n/a	n/a	n/a
CIS Black Sea fob	\$/tonne	520	630	n/a	500	n/a	n/a	n/a	n/a
Japan domestic	\$/tonne	702	858	1,036	1,080	3,150	4,050	2,550	4,050
South Korea domestic	\$/tonne	n/a	n/a	n/a	n/a	2,850	4,040	3,030	4,238
China export	\$/tonne	n/a	n/a	n/a	n/a	3,079	4,625	3,200	4,940

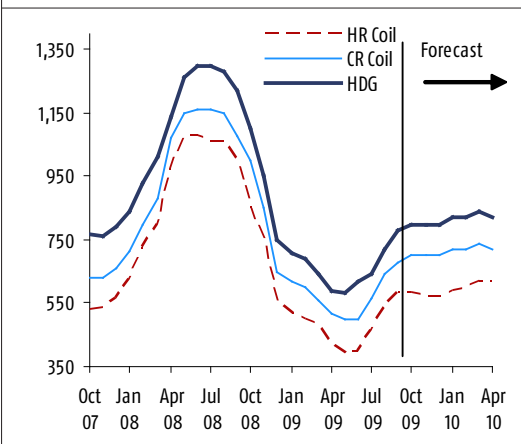
Source: Metal Bulletin Research

<sup>(1)</sup> 3mm base price including scrap surcharges, <sup>(2)</sup> includes alloy surcharge

**Substrate price trends**

**US carbon steel prices (\$/ton)**

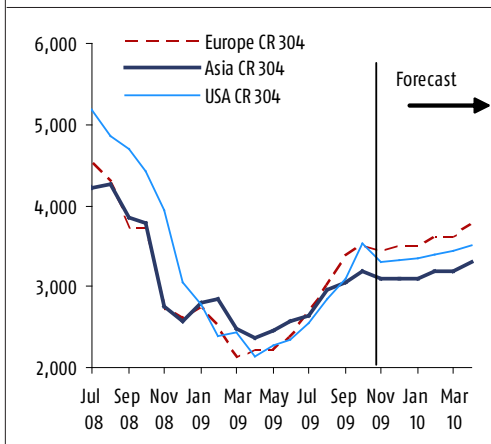
Substrate prices are now falling back again and relieving pressure on welded tube margins



Source: Metal Bulletin Research

**Stainless steel prices (\$/tonne)**

After a small dip in the fourth quarter, stainless steel prices are expected to begin rising once again

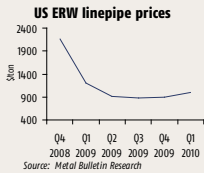


Source: Metal Bulletin Research

# Americas Market Analysis

- HSS mills retract price hikes
- Construction demand still on shaky ground
- OCTG inventory holes still too small to spark a recovery in prices

## Market Outlook



While we have seen a slow recovery in overall US steel output over the past few months, welded tube and pipe output remains in the doldrums. Demand from the energy and construction sectors is just not enough for pricing gains no matter the level of supply. MBR forecasts that construction demand will show a seasonal

improvement late in the first quarter of next year, but the true recovery in demand will be delayed until late in 2010 or even 2011. Energy prices are climbing and drill rates are expected to follow. A sustained recovery is needed to provide confidence in the market. OCTG price increases will then follow as stocks are diminished.

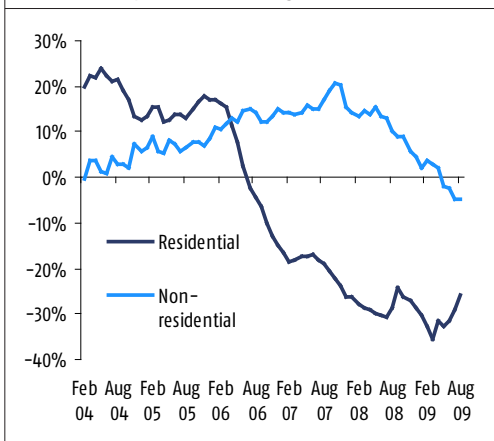
### Reversal in HSS prices

Total welded tube and pipe shipments are down 59% year-over-year for the year-to-date to August. We have been told repeatedly that mills are running only to fill orders, which is in line with the low shipment levels. In the case of structural tube and pipe, the decline in imports, inventories and domestic shipments was still not enough to support the announced October price increases. By mid-month, mills reversed course and retracted the increases and are now hoping to minimise any further price slips. Prices are now at \$770/tonne, having given back the announced price increase.

There was hope that half of the increase, \$20-30/tonne, would be supported by market factors but now there is talk of further slides before the end of the year. Distributors continue to look for opportunities to provide volume discounts which are also undercutting the market. Flat-rolled steel prices have weakened over the past six weeks and have now taken the pressure off tubing mills to raise prices to protect margins.

Demand is still too weak to provide any support for price increases, let alone sustain prices. Construction expenditures, even with the stimulus package, are not enough to spark a sustained demand. Total non-residential construction spending is down 4.7% year-over-year in August, the fourth consecutive month of year-over-year declines. Public spending is up 3.3% from the year before but it has not made up for the 10.5% drop in private non-residential construction spending. **The hardest hit sectors are the office, commercial and those associated with tourism, such as hotels. Those are down nearly one-third in the past year. With the job situation still poor, it will be at least a year before office building would begin in earnest.** First, workers need to return to jobs and then the excess floor

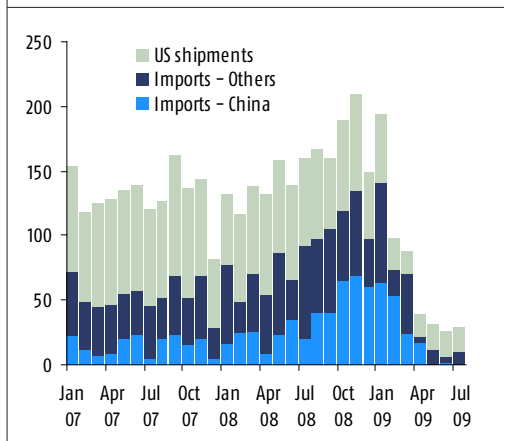
**Residential vs. non-residential construction spending (y/y % change)** – The lack of private construction expenditures is a drag on the sector



Source: Metal Bulletin Research

**US supply of welded OCTG ('000 tonnes)**

It may be a number of quarters of low new supply yet before the market comes into balance



Source: Metal Bulletin Research

space will need to be absorbed by new hires. A leading indicator of construction projects, the Architectural Billings Index, displayed yet another month of weak conditions in the architectural field in September. MBR understands that backlogs are minimal and billable hours are short of staffing. Inquiries are up, but only due to the vast competition for work taking place in the market.

The rundown in HSS supplies, however, will work to eventually support higher pricing when demand emerges. Over the next year, the stage could be set for a rapid price rise with a spark of stronger demand. Inventories are lower than over the past five years, although shipments are so low that inventory on hand is still over 3 months. When shipment levels rebound, distributors will need to replenish stocks at a faster rate.

Meanwhile, US domestic structural tubing shipments in the year through August have been halved from last year's levels. Net imports are down 60% from last year. For now, the supply is coming into balance with the low demand. **We foresee a seasonal pickup in construction demand late in the first quarter of 2010, but further gains are expected later in the year and 2011. At that point, structural price increases will outpace the growth in substrate costs given the low tonnage levels that will be on the ground.**

#### OCTG pricing still declining...

Although word of holes in inventories of OCTG keeps circulating, the tubing and casing markets remain woefully oversupplied and prices are still slipping. MBR's benchmark price for welded API 5CT J55 tubing is now down to \$1,450/tonne for common sizes and wall thickness. The inventory holes are showing up in

<b>North American shipments of welded pipe</b>								<b>% change year-on-year</b>	
	<b>2007</b>	<b>2008</b>	<b>May 09</b>	<b>Jun 09</b>	<b>Jul 09</b>	<b>Aug 09</b>	<b>current month</b>	<b>ytd</b>	
<b>US (ton)</b>									
<b>Continous and ERW pipe</b>									
Standard pipe	847,176	768,197	36,631	35,224	28,598	31,209	-51%	-48%	
Oil country goods	1,025,079	880,332	22,508	21,129	20,729	23,248	-69%	-65%	
Linepipe	493,529	350,728	4,675	5,755	3,825	4,025	-87%	-72%	
Mechanical tubing	643,874	551,826	18,505	18,080	20,375	22,044	-50%	-57%	
Structural tube and piping	127,318	100,046	5,695	3,708	4,647	3,307	-62%	-51%	
Pipe for piling	12,227	8,189	0	0	0	0	-100%	-100%	
Total	3,149,203	2,659,634	88,014	83,896	78,174	83,833	-63%	-59%	
SAW pipe	112,068	107,119	18,705	17,648	17,113	18,525	101%	74%	
<b>Total seamless and welded pipe</b>									
Standard pipe	1,162,851	1,109,215	54,359	53,116	49,098	55,205	-37%	-42%	
Oil country goods	2,184,344	2,374,946	40,175	57,611	69,540	78,251	-63%	-60%	
Linepipe 16" OD and under	508,925	416,321	12,232	17,150	15,671	5,516	-86%	-60%	
Linepipe over 16" OD, under 24" OD	15,027	12,845	3,135	2,940	2,775	3,250	169%	153%	
Linepipe 24" OD and over	108,164	64,982	147	95	0	0	-100%	-90%	
Mechanical tubing	1,001,798	902,418	29,281	26,732	29,805	33,332	-53%	-55%	
Pressure tubing	31,725	54,327	1,364	1,434	1,004	1,045	-82%	-56%	
Structural tube and piping	148,939	125,415	6,390	4,684	5,701	4,427	-59%	-48%	
Pipe for piling	12,543	8,189	0	0	0	0	-100%	-100%	
Stainless tube and piping	14,201	14,260	767	744	776	750	-46%	-29%	
Total	5,188,517	5,082,918	147,850	164,506	174,410	181,776	-58%	-55%	
<b>Mexican production (tonne)</b>									
Welded pipe	529,000	512,000	34,000	43,000	45,000	38,000	3%	0%	
<b>Canadian production (tonne)</b>									
Linepipe up to 4.5" OD	30,475	33,008	0	0	0	-	-100%	-94%	
Linepipe from 4.5" OD - 16" OD	44,670	88,612	424	3,336	4,187	-	-34%	37%	
Linepipe over 16" OD	586,207	511,265	33,056	34,848	22,260	-	-28%	-25%	
Hollow structural sections up to 16" OD	243,220	238,587	10,421	14,127	11,190	-	-52%	-51%	
Hollow structural sections over 16" OD	590,796	573,827	21,793	33,886	24,910	-	-47%	-48%	
Standard pipe up to 4.5" OD	50,462	57,499	1,845	3,179	3,127	-	-7%	-54%	
Standard pipe from 4.5" OD - 16" OD	15,593	13,924	1,288	3,199	2,237	-	-20%	0%	
Mechanical tubing, welded from HR coil	310,211	198,814	7,465	7,559	7,155	-	-54%	-56%	
Mechanical tubing, welded from CR coil	166,899	106,151	3,814	5,742	4,832	-	-26%	-39%	
OCTG, welded and seamless casing	423,292	536,532	7,356	8,879	10,923	-	-65%	-37%	
OCTG, welded and seamless tubing	72,018	121,975	1,320	80	1,668	-	-63%	-56%	
Total	2,533,843	2,480,194	88,782	114,835	92,489	-	-47%	-40%	

Source: AISI, Statcan, various, Metal Bulletin Research

some of the non-common sizes and grades, but much of the need can be met by domestic or regional mills. Welded OCTG shipments in August were the highest in a single month since February 2009, but nevertheless are down 69% from the same month in 2008.

### ...despite the prospect of inventory holes

Houston yards are still understood to be flush with material, given that the swath of imports has been built up in the region. US OCTG imports through August are down by 25% year-over-year, but are up over 8% compared to the first eight months of 2007. Relatively speaking, 2009 welded OCTG imports are still above norm, but in the months since the filing of OCTG trade action against Chinese pipe, tonnage arrivals are dwindling. Total welded carbon steel OCTG imports in the June-August period amounted to less than 20,000 tonnes. Not surprisingly, Chinese material has been nonexistent. Between trade filings, modest demand and high inventories, the USA is an unwelcoming destination for OCTG.

**With limited new supply on the ground, the conditions are set to work through the existing overhang. As economic activity improves in 2010, and energy consumption, as well as prices, rise, OCTG demand will eventually whittle down the tonnage in the market. Conditions could be ripe for a shortage situation in 2011-12, if there is no foreign supplier to pick up the decline in tonnage from Chinese exports. It could take nearly that long, however, to clear out the excess.**

								% change year-to-year	
		2007	2008	Apr 09	May 09	Jun 09	Jul 09	current month	ytd
<b>North American trade balance of welded pipe</b>									
<b>US (ton)</b>									
Linepipe over 16" OD	Shipments	123,191	75,118	3,428	3,282	3,035	2,775	-26%	-58%
	Imports	1,966,744	1,918,350	113,065	89,659	90,681	95,010	-41%	-45%
	Exports	75,491	210,687	3,324	7,416	7,307	26,187	-26%	-52%
	Apparent consumption	2,014,443	1,787,591	113,169	85,525	86,409	71,598	-44%	-45%
Linepipe 16" OD and under	Shipments	508,925	415,467	11,544	12,232	17,150	15,671	-55%	-56%
	Imports	685,943	681,211	16,318	19,790	10,745	10,978	-83%	-38%
	Exports	82,116	173,688	3,618	5,370	5,329	5,514	-62%	-25%
	Apparent consumption	1,112,753	907,411	24,244	26,652	22,566	21,135	-76%	-45%
OCTG casing and tubing	Shipments	1,025,079	883,273	19,018	22,508	21,129	20,729	-72%	-65%
	Imports	704,796	1,159,112	24,176	12,599	6,734	11,196	-89%	-33%
	Exports	129,459	147,844	6,755	3,396	3,038	3,815	-68%	-42%
	Apparent consumption	1,600,417	1,927,834	36,439	31,711	24,825	28,110	-83%	-51%
Hollow structural sections	Shipments	127,318	100,072	2,355	5,695	3,708	4,647	-40%	-50%
	Imports	934,224	615,407	26,431	28,335	32,082	29,931	-48%	-51%
	Exports	183,322	184,592	11,448	11,290	12,980	15,595	-13%	-28%
	Apparent consumption	878,220	530,615	17,337	22,741	22,810	18,983	-60%	-59%
	Shipments of all welded tubing	3,261,271	2,753,254	102,213	106,719	101,544	95,287	-59%	-53%
	Imports of all welded tubing	5,931,296	5,635,975	234,789	199,180	188,060	200,910	-59%	-42%
	Exports of all welded tubing	981,949	1,311,965	54,526	55,548	59,461	85,682	-37%	-38%
	Total apparent consumption	8,210,617	7,058,313	282,477	250,351	230,143	210,516	-64%	-47%
<b>Mexico (tonne)</b>									
	Production of all welded tubing	529,000	507,000	39,000	34,000	43,000	45,000	2%	1%
	Imports of all welded tubing	264,913	257,827	13,502	14,094	-	-	-33%	-37%
	Exports of all welded tubing	345,425	392,697	17,011	19,197	-	-	-39%	-45%
	Total apparent consumption	448,488	373,593	35,491	28,897	-	-	9%	21%
<b>Canada (tonne)</b>									
Linepipe over 16" OD	Total shipments	586,207	504,332	35,232	33,056	34,848	22,260	-28%	-23%
	Imports	165,319	243,274	19,160	5,703	7,208	28,137	-44%	-40%
	Exports	459,255	260,271	37,893	45,297	34,160	37,518	220%	-27%
	Apparent consumption	292,271	474,672	16,499	-6,538	7,896	12,880	-82%	-27%
Linepipe 16" OD and under	Total shipments	75,145	123,021	7,612	424	3,336	4,187	-60%	-6%
	Imports	52,401	92,185	1,544	711	1,412	2,221	-75%	-67%
	Exports	7,013	7,285	16	613	499	204	-55%	35%
	Apparent consumption	120,533	209,328	9,140	522	4,249	6,204	-67%	-38%
Hollow structural sections	Total shipments	834,016	832,212	36,664	32,214	48,013	36,100	-49%	-51%
	Imports	158,278	133,001	7,691	7,761	10,569	11,839	-4%	-29%
	Exports	330,694	311,321	14,518	14,458	17,087	15,349	-52%	-49%
	Apparent consumption	661,600	673,390	29,837	25,517	41,495	32,590	-36%	-49%
	Shipments of all welded tubing*	2,533,843	2,488,066	111,454	88,782	114,835	92,489	-47%	-41%
	Imports of all welded tubing	1,227,401	1,406,792	74,321	57,262	69,939	83,273	-40%	-11%
	Exports of all welded tubing	1,376,631	1,227,404	68,849	75,345	72,844	77,153	-23%	-49%
	Total apparent consumption	2,384,613	2,673,474	116,926	70,699	111,929	98,609	-54%	-20%

Source: AISI, Statcan, Metal Bulletin Research

\*also includes seamless linepipe, OCTG tubing and casing



## Asia Market Analysis

- Chinese prices in continued downward trend
- ...following substrate cost movements
- Is the Japanese market stabilising?

### Market Outlook



After displaying signs of stabilisation in late September, Chinese welded pipe prices have once again start to slip. Since export demand remains weak and the domestic market is suffering from a surplus of material, price movements are purely substrate cost-driven. In this regard MBR expects there to be further price reductions in line with flat

product prices. The Japanese market on the other hand appears to be finding some stability thanks to the disciplined production cuts implemented in order to run down inventories. While we would not expect significant price growth just yet, the Japanese market does appear to be better positioned to benefit from any uptick in end-user demand.

### Further price reductions in China

In the last two weeks Chinese pipe producers have embarked on further price reductions after holding steady towards the end of September. As with the price cuts of late August and early September, these reductions have been purely substrate cost-driven, in the absence of sufficient end-user demand to support the market.

### Prices for linepipe cut sharply

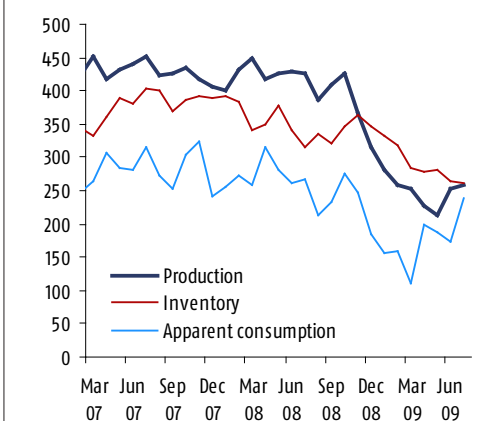
Linepipe producers have implemented some of the largest price cuts seen in the last month, some slashing prices by almost \$100/tonne. In Liaoning, certain producers have found their plate costs reduced by Rmb400/tonne (\$60/tonne) on last month. As a result, API line pipe of 219mm outside diameter, 2-8mm thickness, are now being offered in the region of \$615-625/tonne, down from \$708-715 last month.

### Construction pipe prices expected to decline again this quarter

Since mid-September, when it appeared that flat product prices had stabilised, HR coil in China has decreased by another Rmb280/tonne (\$42/tonne). These substrate cost reductions have allowed producers to cut their pipe prices by up to Rmb100/tonne (\$15/tonne). In Shanghai, for example, A53B tube of 25mm outside diameter, 2.5mm thickness, has in the last month reduced by Rmb100/tonne to Rmb3,950/tonne (\$577/tonne). **MBR expects that there may be further price reductions in the fourth quarter, as Chinese flat products prices continue to display downside weakness. Consequently, we would not be surprised to see another Rmb100/tonne slashed off construction pipe prices in the next month.**

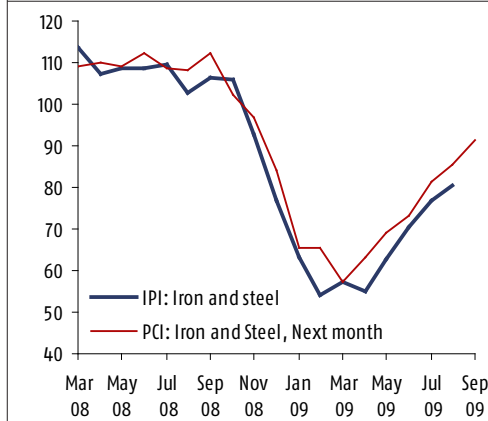
### Japanese ordinary hot-steel welded tube output, inventory and app. consumption

After reaching a bottom in May '09, output appears to be up



### Japan's industrial production (IPI) and production forecast indices (PCI): Iron/Steel

Seen as accurate in the past, PCI predicts improved output



**Production remains stubbornly high**

Last month MBR analysed the prospects for Chinese welded pipe production, stating that the extent to which China was overproducing welded pipes would become clearer through quarter four of this year, as producers attempt to offload material onto the international markets. ***If the continuing price reductions are anything to go by, we can assume that China is sufficiently oversupplied to undermine the market, given the weak end-user demand. We would therefore expect this scenario to continue through the first quarter of 2010, with little prospect of an improvement in prices until at least quarter two.***

**Selected Asian production and trade data (tonne)**

	2007	2008	May 09	Jun 09	Jul 09	Aug 09	% change year-on-year	
							y-o-y	ytd
<b>Japan</b>								
Total production								
Submerged arc welded	1,179,492	1,128,456	52,993	66,771	64,399	-	-29%	-31%
Butt welded	220,538	212,523	6,420	7,659	9,633	-	-47%	-40%
Electric resistance welded	3,744,212	3,541,420	154,012	178,223	184,119	-	-42%	-45%
Stainless and alloy								
Arc welded	1,041,463	1,030,165	44,787	17,705	24,013	-	-77%	-48%
Electric resistance welded	436,468	523,649	15,019	17,253	21,023	-	-57%	-58%
Exports								
ERW, DSAW, Spiral	1,675,994	1,698,616	25,270	78,288	20,361	29,041	-82%	-54%
Others	159,588	183,566	6,054	8,494	8,330	8,399	-48%	-51%
Imports								
ERW, DSAW, Spiral	12,338	3,888	133	860	785	219	476%	12%
Others	78,038	59,795	4,346	6,183	8,144	4,670	-6%	7%
Apparent consumption	4,876,967	4,617,714	246,386	207,872	283,425	-	-32%	-41%
Inventory								
HR tubes and pipes	4,524,993	4,213,200	280,993	262,914	262,697	-	-16%	-19%
Cold drawn tubes and pipes	139,400	130,991	9,092	9,130	9,318	-	-17%	-13%
Metallic coated pipes	605,724	590,971	40,658	40,390	38,260	-	-12%	-11%
HR special pipes	2,917,291	2,887,788	175,743	120,814	134,947	-	-52%	-32%
Cold drawn special pipe	113,508	120,290	7,473	7,805	7,012	-	-19%	3%
<b>South Korea</b>								
Total production								
Spiral welded	348,239	301,143	20,670	26,090	-	-	42%	19%
Longitudinal submerged arc welded	318,182	271,836	29,989	35,876	-	-	56%	59%
Electric resistance welded (<16" OD)	2,870,413	3,086,126	186,040	207,512	-	-	-18%	-26%
Electric resistance welded (>16" OD)	673,750	909,621	41,130	50,369	-	-	-24%	-44%
Stainless and alloy electric welded	176,486	154,125	16,924	14,534	-	-	10%	3%
Exports								
ERW, DSAW, Spiral	951,659	1,229,209	34,507	40,679	36,464	-	-71%	-49%
Others	396,841	1,079,969	34,540	40,697	36,500	-	-71%	-34%
Imports								
ERW, DSAW, Spiral	29,912	27,241	312	752	79	-	-98%	-84%
Others	110,149	51,213	1,906	2,148	4,755	-	12%	-45%
Apparent consumption	3,178,631	2,492,128	227,924	255,906	-	-	13%	-15%
Inventory								
Total welded pipe inventory	4,159,797	4,225,502	526,140	545,222	-	-	56%	54%
Spiral welded	221,739	381,673	23,550	23,037	-	-	-13%	2%
Longitudinal submerged arc welded	514,283	410,319	99,787	112,844	-	-	279%	174%
Electric resistance welded (<16" OD)	2,714,314	2,573,385	281,689	282,471	-	-	33%	38%
Electric resistance welded (>16" OD)	623,827	800,665	113,103	118,764	-	-	60%	73%
Stainless and alloy electric welded	85,599	89,133	8,011	8,106	-	-	13%	2%
<b>China</b>								
Total production	23,255,000	23,614,000	2,512,000	2,758,000	2,603,000	2,831,000	42%	24%
Exports								
ERW, DSAW, Spiral	1,405,703	2,740,614	113,444	132,052	122,595	87,951	-65%	-23%
Others	3,243,989	1,072,737	51,285	59,388	77,261	89,308	-12%	-32%
Imports								
ERW, DSAW, Spiral	31,752	317,526	8,204	2,936	1,496	985	-83%	-18%
Others	205,034	186,544	12,242	13,165	17,080	13,823	-18%	-29%
Apparent consumption	18,842,094	20,304,719	2,367,717	2,582,661	2,421,720	2,668,549	61%	32%

Source: IISI, Customs statistics, KOSA, METI, Metal Bulletin Research

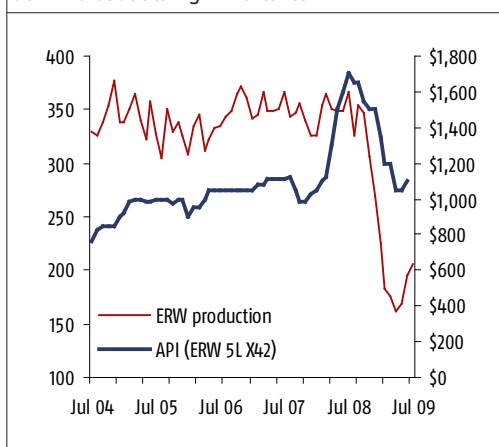
### Japanese market on an even keel

After a challenging 2009, the Japanese tube and pipe market may be starting to show signs of stabilisation. In July, ordinary hot steel tube and pipe inventories stood at 262,697 tonnes and the lowest level of the last five years, while production of ordinary hot steel tubes and pipes reached 258,000 tonnes, the highest since January. **While we would not go as far as to say that the market is now stable enough for significant production and price growth to ensue, there does now at least seem to be signs that the major hindrance to market stability – high inventories – have been brought under control and the foundations for stability have been laid.** This appears to be supported by the Production Forecast Index for Iron and Steel which, as chart two shows, predicts further improvements in iron and steel production in the next two months and has accurately pre-empted major movements in industrial production in the past.

### How will this affect prices?

**Once price growth does commence, MBR would expect the lower grade material to show gains first, given its greater price elasticity; as chart four shows in percentage terms, X42 linepipe experienced greater price growth since 2002 than X65 linepipe and also greater declines during the recent financial crisis.**

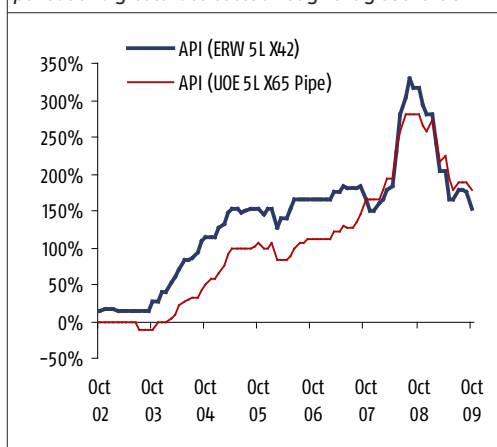
**Japanese ERW X42 prices and ERW production** – prices followed production levels downwards due to high inventories



Source: Metal Bulletin Research

**Linepipe price growth on Feb '02 prices**

X42 linepipe prices saw greater highs than X65 during boom periods and greater decreases through the global crisis



Source: Metal Bulletin Research

### Other Asian trade in welded pipe (tonne)

	2007	2008	Dec 08	Jan 09	Feb 09	Mar 09	Apr 09	May 09	Jun 09	% change y-o-y year to date
<b>Net exports</b>										
<b>India</b>										
Small diameter welded (under 406.4mm)	140,422	152,375	14,713	16,390	30,802	-	-	-	-	2838.43%
Large diameter welded (over 406.4mm OD)	630,544	1,364,464	135,097	95,675	141,436	-	-	-	-	8.22%
Stainless and alloy	-4,824	1,711	-683	9,191	-184	-	-	-	-	-1544.69%
<b>Taiwan</b>										
Small diameter welded (under 406.4mm)	105,770	214,583	13,686	5,680	4,801	9,105	8,222	11,655	10,940	-54.4%
Large diameter welded (over 406.4mm OD)	6,188	-15,728	-8,917	-295	-87	55	-361	26	-169	-109.8%
Stainless and alloy	141,579	136,284	8,274	7,583	7,289	7,185	7,520	8,429	9,386	-33.8%
<b>Thailand</b>										
Small diameter welded (under 406.4mm)	86,571	120,952	340	5,025	11,500	-2,140	2,842	2,990	2,287	-58.3%
Large diameter welded (over 406.4mm OD)	-181,214	6,950	21,025	-882	1,136	-2,396	-2,302	-3,126	-1,646	-49.4%
Stainless and alloy	-2,993	-15,961	-884	-526	322	-707	-971	-150	-426	-67.9%
<b>Malaysia</b>										
Small diameter welded (under 406.4mm)	26,312	185,229	9,372	-	-	-	-	-	-	603.97%
Large diameter welded (over 406.4mm OD)	193,374	-346,869	-36,838	-	-	-	-	-	-	-279.38%
Stainless and alloy	5,313	7,801	772	-	-	-	-	-	-	46.83%

Source: Customs statistics, Metal Bulletin Research



## Europe, Middle East and Africa

- Downside in pipe prices...
- On the back of substrate cost reductions and shaky demand
- Further reductions possible over next month

### Market Outlook



With a disappointing return to business after the summer holiday period, prices in Europe remain shaky. Downward momentum in prices has appeared, underpinned by substrate cost reductions. A rise in Chinese flat product export offers into Europe, as the country attempts to ship excess supply

abroad, has placed downward pressure on regional flat product producers that are vying to remain competitive. These reductions will have provided some breathing space to producers and MBR feels that some may take the opportunity to reduce pipe prices by \$10–20/tonne over the coming month.

### Prices show some downside as substrate costs ease

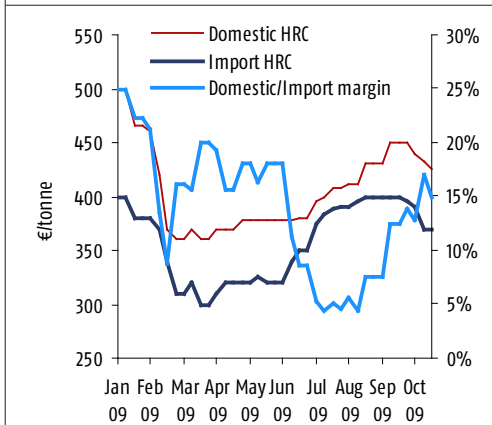
Pipe producers in Europe and Turkey have found some slight relief in the last month as substrate costs have embarked on a downward trend. Flat product prices in the region have been forced down, as has become customary in 2009, on subdued demand levels. However, more importantly has been the threat of imports from China, as the country attempts to ease the pressure on its oversupply issues by shipping excess capacity abroad. As Chinese domestic prices have reduced, the knock-on effect has seen China's export offers come into line with those competitive on the global markets, initiating a price war between major exporters. As chart one shows, since last month EU domestic HRC prices have reduced by around €25/tonne to €425/tonne, while import prices have dropped by €30/tonne to €370/tonne.

Turkish substrate costs have also reduced significantly, partly due to increased competition from Chinese producers of flat products and also due to raw material price reductions. Turkish imports of ferrous scrap have lowered by around \$20/tonne on those prevailing in mid-September. As a result, Turkish pipe producers have been able to lower pipe prices; **Hollow sections have reduced on average by around \$20/tonne, with prices now standing in the region of \$640/tonne fob. Meanwhile, base prices for ERW pipes have dropped by up to \$40/tonne, with 2mm thick 48mm diameter cold-rolled ERW pipe (S2235) now standing in the region of \$670/tonne fob.**

**MBR believes there is more scope for price reductions in the fourth quarter based on substrate costs remaining the key driver of pipe prices, and while sufficient end-user demand is absent. As Chinese mills lead the race to the bottom in export offers of flat products, there is a strong chance of a further drop in coil and plate prices of \$20/tonne in the coming weeks.**

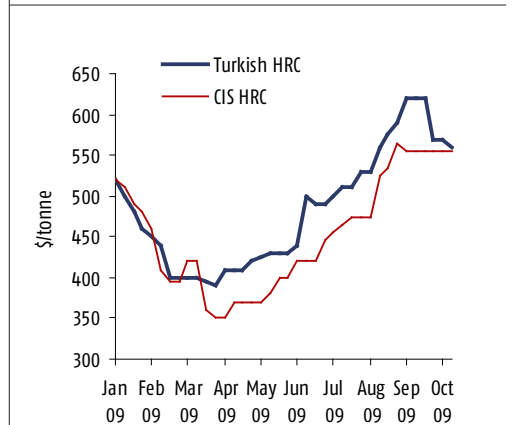
### EU substrate prices

The price decreases in the last month have increased the margin between domestic and import material



### Turkish and CIS substrate prices

Turkish prices have been especially affected by Chinese competition



**Difficult conditions of the summer have eased slightly**

Despite September being largely disappointing for regional producers, as stronger activity was expected after the summer holiday period, the difficult conditions regarding high substrate costs but weak end-user demand has eased. Last month MBR mentioned the difficult scenario that producers found themselves in, as they became squeezed between weak end-user demand (preventing any price increases) and rising production costs. The above mentioned substrate cost reductions will at least give producers some extra breathing space and allow them to adjust prices downwards should they feel it necessary to boost sales. **Given the still precarious demand situation, MBR feels it is likely that producers may now take the opportunity to lower prices slightly to attract interest.**

**Turkish exporters turn their focus to MENA**

The effect of the subdued European market has been particularly felt by Turkish exporters, however they have managed to compensate for the lower tonnages shipped to Europe by increasing their presence in the Middle East and North Africa (MENA). As the pie chart shows, Algeria has been the largest consumer of Turkish welded exports in 2009, taking around 25% of total tonnage. This is quite a significant shift in regional focus for Turkish producers. As chart four shows, the tonnage imported by Algeria was negligible in the first quarter of 2008, but grew to 50,000 tonnes per month in the first half of 2009. At the same time, the tonnage imported by traditional markets such as the USA and Europe dropped. **MBR expects this scenario to continue well into the first half of 2010. An improvement in European demand could tempt Turkish exporters back to the higher value market, however this is unlikely to unfold until the second half of 2010.**

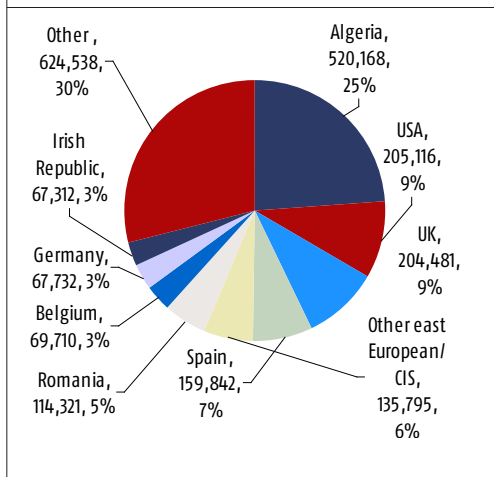
**West European trade and shipment of welded pipe (tonne)**

	2007	2008	Apr 09	May 09	Jun 09	Jul 09	% change	
							m-o-m	y-o-y
<b>Germany</b>								
Shipments	2,160,000	2,130,000	135,000	135,000	135,000	135,000	0%	-27%
Imports	1,716,715	1,388,859	78,389	65,021	80,001	87,752	10%	-38%
Exports	2,053,017	1,650,976	113,045	70,405	74,249	81,514	10%	-30%
Apparent consumption	1,823,698	1,867,884	100,345	129,616	140,752	141,238	0%	-32%
<b>France</b>								
Shipments	693,000	620,000	28,000	28,000	28,000	28,000	0%	-47%
Imports	868,143	691,386	47,552	42,854	43,271	40,157	-7%	-38%
Exports	513,197	546,152	36,166	51,983	28,866	49,622	72%	5%
Apparent consumption	1,047,946	765,234	39,385	18,872	42,406	18,535	-56%	-74%
<b>Italy</b>								
Shipments	3,285,000	3,155,000	240,000	240,000	240,000	240,000	0%	-8%
Imports	460,032	286,098	12,392	12,743	12,176	-	-4%	-43%
Exports	2,313,516	2,080,777	140,261	125,129	144,536	-	16%	-28%
Apparent consumption	1,431,516	1,360,321	112,130	127,613	107,639	-	-16%	18%
<b>UK</b>								
Shipments	960,000	857,000	50,000	50,000	50,000	50,000	0%	-33%
Imports	144,601	208,688	3,217	16,187	7,555	3,345	-56%	-85%
Exports	217,055	138,496	43,805	3,552	4,506	2,329	-48%	-38%
Apparent consumption	887,546	927,191	9,412	62,634	53,049	51,016	-4%	-45%
<b>Spain</b>								
Shipments	1,116,000	936,000	50,000	50,000	50,000	50,000	0%	-38%
Imports	529,252	386,130	22,804	22,987	19,509	-	-15%	-28%
Exports	319,310	323,010	23,758	21,366	23,565	-	10%	-23%
Apparent consumption	1,325,942	999,119	49,046	51,620	45,944	-	-11%	-42%
<b>Greece</b>								
Shipments	603,000	489,000	25,000	25,000	25,000	25,000	0%	-38%
Imports	101,559	86,233	1,842	4,577	5,585	-	22%	-52%
Exports	239,762	353,308	23,373	6,313	9,706	-	54%	-73%
Apparent consumption	464,797	221,925	3,469	23,264	20,879	-	-10%	1%
<b>Netherlands</b>								
Shipments	453,000	525,000	32,000	32,000	32,000	32,000	0%	-29%
Imports	568,401	545,260	25,033	22,901	34,083	-	49%	-31%
Exports	596,923	499,803	37,973	31,388	45,704	-	46%	-13%
Apparent consumption	424,478	570,457	19,061	23,512	20,379	-	-13%	-61%

Source: Customs statistics, Metal Bulletin Research; Italics = estimates

**Turkish welded pipe exports Jan-Jul '09**

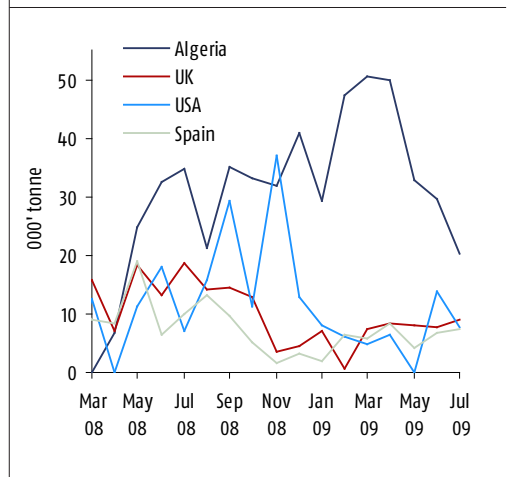
Algeria has increasingly been the dominant outlet for Turkish exports



Source: Metal Bulletin Research

**Turkish welded pipe exports to various countries**

the growth in exports to Algeria has compensated for weakened European and US demand



Source: Metal Bulletin Research

**Central, East European and CIS trade and shipment of welded pipe (tonne)**

	2006	2007	Mar 09	Apr 09	May 09	Jun 09	Jul 09	% change	
								m-o-m	y-o-y
<b>Czech Republic</b>									
Shipments	262,000	259,000	15,000	14,000	14,000	18,000	17,000	-6%	-15%
Imports	259,916	283,301	13,848	11,265	13,564	15,293	-	13%	-40%
Exports	181,483	175,058	12,261	9,062	8,939	10,863	-	22%	-41%
Apparent consumption	340,433	367,243	16,587	16,203	18,625	22,430	-	20%	-28%
<b>Hungary</b>									
Shipments	228,000	144,000	10,000	10,000	10,000	10,000	10,000	0%	-9%
Imports	155,905	179,923	16,246	6,506	6,248	7,070	-	13%	-46%
Exports	117,190	80,178	2,660	3,027	895	6,042	-	575%	299%
Apparent consumption	266,715	243,745	23,586	13,479	15,352	11,027	-	-28%	-49%
<b>Romania</b>									
Shipments	170,000	163,000	3,000	3,000	3,000	3,000	3,000	0%	-77%
Imports	119,333	194,099	8,492	7,574	9,998	10,031	-	0%	-51%
Exports	104,358	103,674	4,061	4,844	2,873	3,378	-	18%	-52%
Apparent consumption	184,975	253,425	7,430	5,730	10,125	9,653	-	-5%	-68%
<b>Slovakia</b>									
Shipments	75,000	96,000	9,000	9,000	9,000	9,000	9,000	0%	-10%
Imports	103,889	107,878	2,896	3,724	4,640	6,591	-	42%	-37%
Exports	155,329	156,846	11,975	8,894	7,729	8,304	-	7%	-49%
Apparent consumption	23,560	47,032	-79	3,830	5,911	7,287	-	23%	35%
<b>Poland</b>									
Shipments	498,000	564,000	28,000	28,000	28,000	28,000	28,000	0%	-20%
Imports	361,220	399,069	18,233	14,665	19,071	19,382	-	2%	-52%
Exports	167,731	181,770	10,905	9,648	11,821	13,284	-	12%	-27%
Apparent consumption	691,489	781,299	35,328	33,016	35,250	34,098	-	-3%	-45%
<b>Russia</b>									
Shipments	4,921,950	9,905,800	387,000	370,200	328,500	366,200	382,600	4%	-22%
Imports	729,654	806,894	15,696	12,155	15,224	19,259	-	27%	-9%
Exports	665,853	614,331	120,626	54,605	121,125	97,696	-	-19%	77%
Apparent consumption	4,985,751	10,098,363	282,069	327,750	222,599	287,763	-	29%	-36%
<b>Ukraine</b>									
Shipments	1,394,734	1,518,200	96,400	97,300	112,300	112,900	132,900	18%	-2%
Imports	45,581	42,060	870	1,812	432	1,141	1,067	-6%	-84%
Exports	1,013,677	991,953	94,424	93,187	87,575	75,635	94,622	25%	30%
Apparent consumption	426,638	568,307	2,846	5,925	25,157	38,406	39,345	2%	-43%

Source: Customs statistics, Metal Expert, Metal Bulletin Research; italics = estimates

## Stainless steel

- US and European transaction prices increase...
- ...but falling surcharges will bring reductions
- Capacity utilisation rates continue to move up

### Transaction prices up in dollar terms

Falling surcharges in Europe have seen transaction prices fall in euro terms this month. The strengthening of the euro has seen European prices rise in dollar terms, however, and we could see greater import competition for domestic mills in the coming months. In the USA, transaction prices have increased as the fall in nickel will not be represented until next month's surcharge when we will see prices fall for the first time in six months. Meanwhile, Asian prices have come down this month as oversupply and an end to restocking dampen the market. Transaction prices for CR 2mm 304 material have risen by 3% to \$3,483/tonne in Europe and 14% to \$3,515/tonne in the USA, while in Asia prices have fallen by 2% to \$2,982/tonne.

Consumption has continued to retreat in Asia. In Europe and the USA, inventories continue to need restocking at present. ***We expect this requirement to continue until the end of the year, despite the falling surcharges in Europe this month and the USA next month disrupting buying patterns.***

### Utilisation rates creep upwards

Capacity utilisation rates continue to increase in Europe and the USA, reportedly standing at 75–80% moving higher towards the end of the year. In Asia, utilisation rates stand at 90–95% in China and 80–85% in the rest of the region. Lead times remain broadly steady across regions at present; although they will almost certainly start to shorten in Asia as the imbalance in production and consumption widens. In the USA, continuing restocking at both mills and end users should see lead times remain stable.

### Selected stainless steel tube and pipe statistics (tonnes)

	2007	2008	Jan 09	Feb 09	Mar 09	Apr 09	May 09	Jun 09	Jul 09	% chg ytd
<b>Argentina</b>										
Net import - welded stainless	5,123	4,004	248	176	201	436	178	-	-	-29.1%
<b>Brazil</b>										
Net import - welded stainless	8,488	9,297	851	374	1,092	1,017	730	1,166	970	-24.9%
<b>Canada</b>										
Net import - welded stainless	11,796	12,513	658	540	402	892	944	546	226	-24.7%
<b>Mexico</b>										
Net import - welded stainless	7,640	8,965	2,340	371	1,084	458	493	-	-	-29.2%
<b>USA (tons)</b>										
Shipments of stainless steel tubing	14,201	13,938	1,078	1,117	957	677	767	744	776	-26.6%
Net import	120,745	115,714	8,061	4,452	5,018	5,671	4,504	4,249	4,577	-32.1%
Apparent consumption	134,946	129,652	9,139	5,569	5,975	6,348	5,271	4,993	5,353	-31.3%

Note: Metal Bulletin Research has utilized the AISI data on shipments in the above table. However, we believe that some tubular companies do not report data to the AISI and therefore caution that the above figures under-represent total shipments and consumption. Source: AISI, Customs statistics, Metal Bulletin Research

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Produced by: Kimberly Leppard,  
Linda Lin, Tom O'Hara  
Head of Research: Brian Levich

Metal Bulletin Research  
Nestor House, Playhouse Yard  
London EC4V 5EX  
Tel: +44 20 7827 6488  
Fax: +44 20 7827 6430

Subscription enquiries:  
Tel: +44 20 7779 7999  
Email: [marketing@metalbulletinresearch.com](mailto:marketing@metalbulletinresearch.com)

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