

PERSPECTIVES: STEEL TUBE AND PIPE

2012: A Pipe Odyssey—The Potential for Oversupply in the Domestic OCTG Industry

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What will 2012 bring?



New OCTG capacity—and LOTS of it!!!

New North American Oil Country Tubular Goods Capacity						
Company	Location	New Capacity (tons per year)	Type	Size	Production	Cost
V&M Star (a)	Youngstown, Ohio	550,000	Seamless	5" to 10.75"	4Q 2011	\$650M
TPCO (b)	Gregory, Texas	550,000	Seamless	?	2012-2013	\$1B
Tenaris (c)	Veracruz, Mexico	450,000	Seamless	Up to 7"	Nov. 2010	\$1.6B
Boomerang Tube LLC (d)	Liberty, Texas	360,000	Welded	2.375 to 9.625"	Sep. 2010	\$200M
Northwest Pipe	Bossier City, La.	120,000	Welded	2.375 to 7"	Mid 2010	?
Lakeside Steel (e)	Thomasville, Ala.	192,000	Welded	4.5 to 9.625"	Oct. 31, 2011	\$40M
Total seamless:		1.55M				
Total welded:		672,000				
Combined OCTG total:		2.2M				>\$3.5B
Source: Company releases, <i>Perspectives</i>						
(a) - Will initially produce 385,000 tons per year						
(b) - Will also make material for line pipe and other applications						
(c) - Rolling mill alone costs \$600M to \$800M.						
(d) - Also makes line pipe from grades X42 to X80 in same sizes and carries seamless material from India's OCTL.						
(e) - Will also make X42 line pipe in diameters of 4.5 to 10.75 inches in lengths up to 60 ft.						

Will that new capacity find a home?

Maybe.

But here are some warning signs:

- The rig count: Is it sustainable at current levels?
- Natural gas prices and storage levels
- Import rates and prices
- Stricter rules about offshore and shale drilling
- Potential public resistance to fracking

The rig count looks healthy

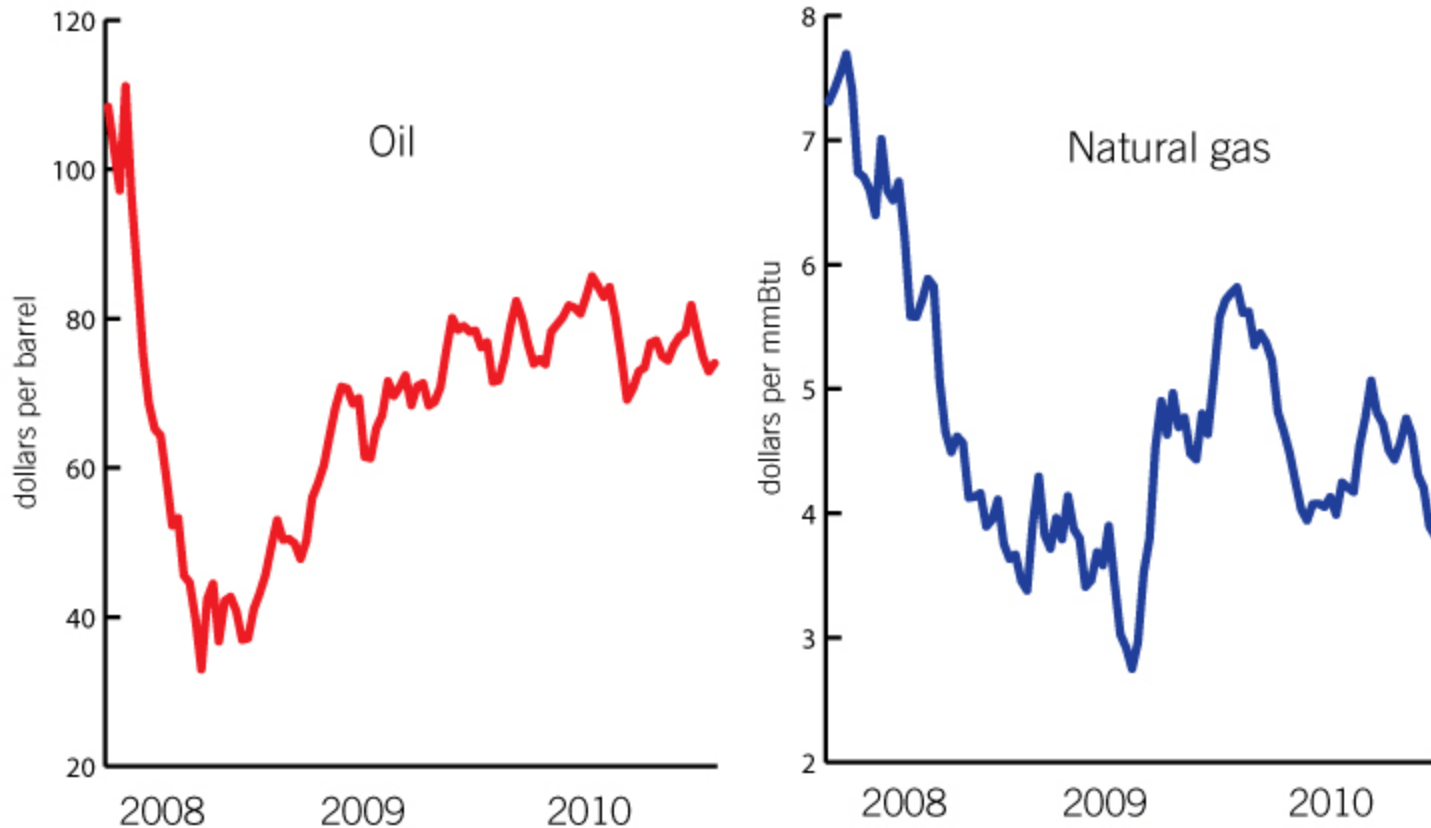
North American Drill Rig Count (Sept. 2008-Sept. 2010)



Source: Baker Hughes

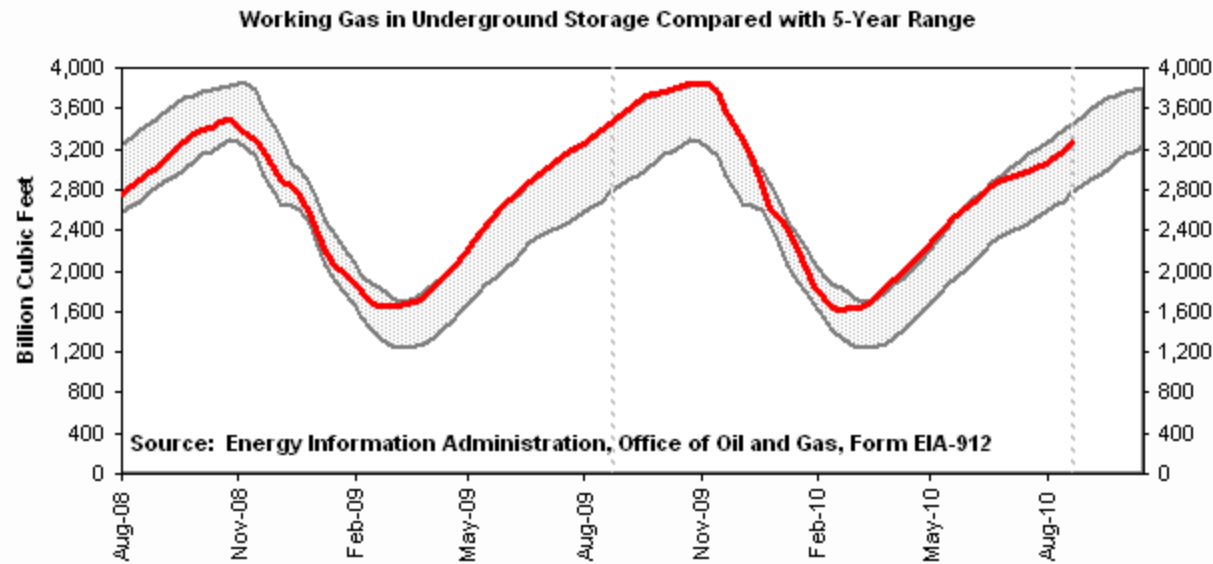
But is it? Nat gas trends aren't promising

Oil and Natural Gas Prices (Sept. 2008-Sept. 2010)



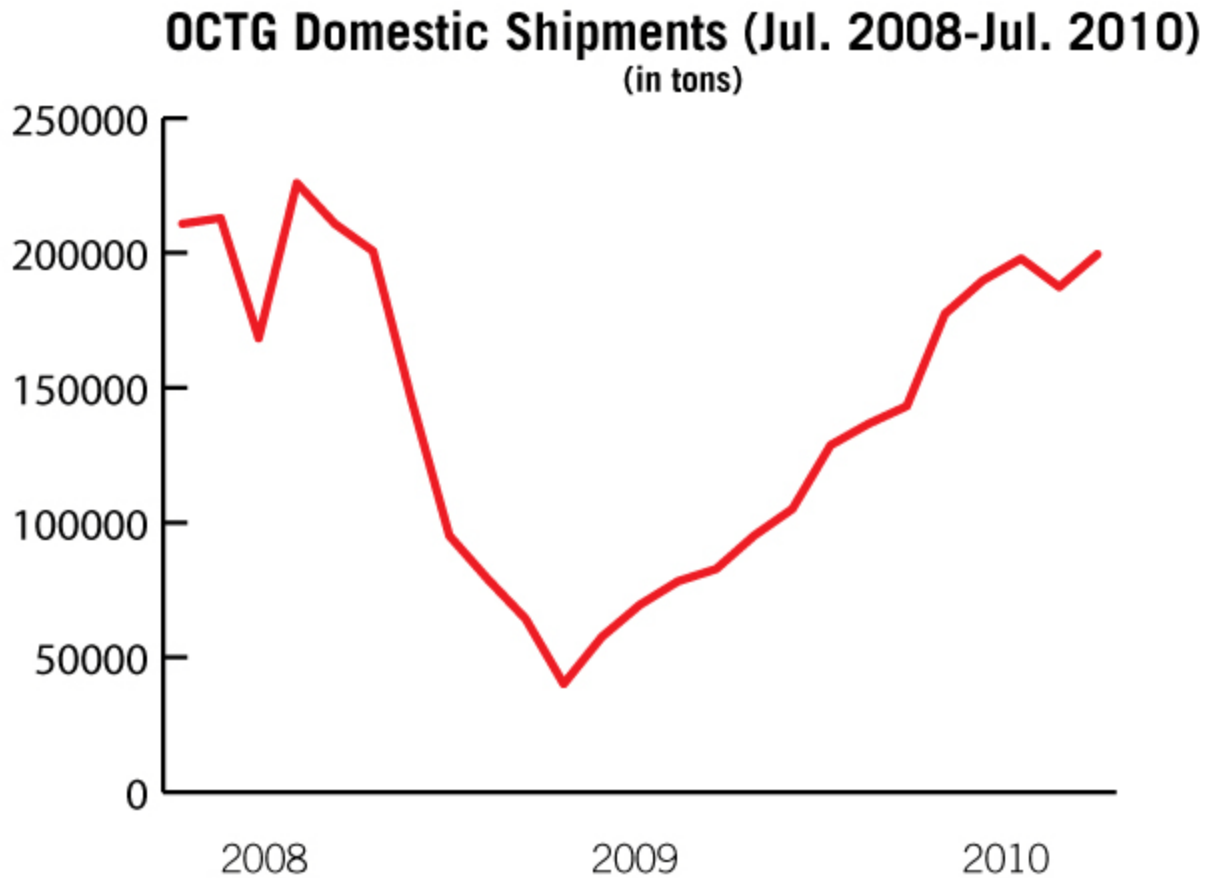
Sources: Energy Information Administration (oil); CME Group (natural gas)

Storage rates are also cause for concern



Source: Energy Information Administration

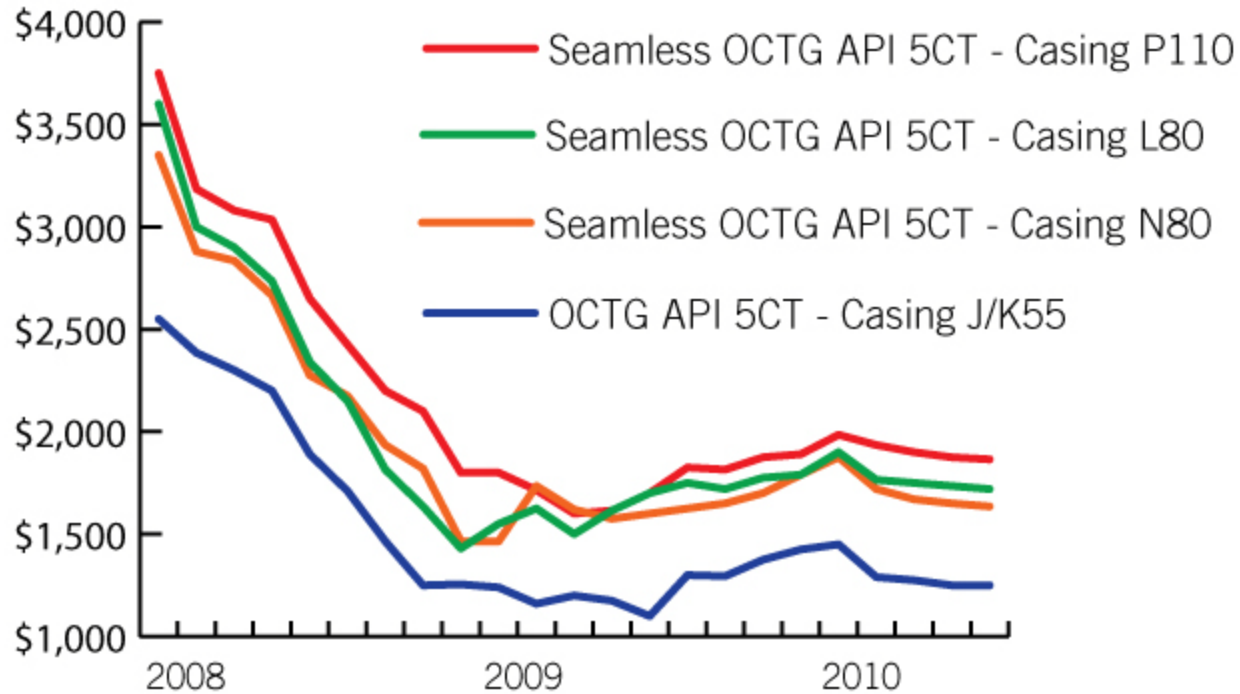
But with China out, U.S. shipments are up



Source: SteelFacts

Domestic prices may have stabilized too

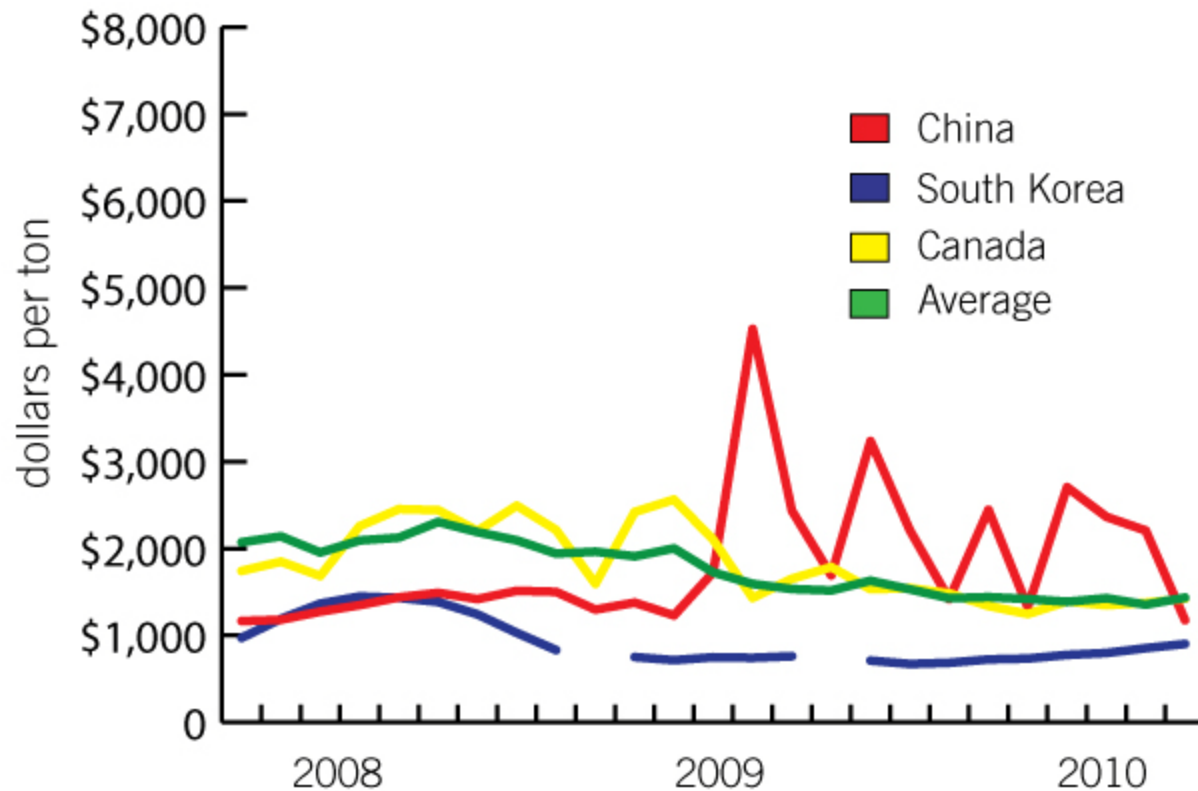
Domestic OCTG Prices, Nov. 2008-Sept. 2010
(in dollars per ton)



Source: *Perspectives: Steel Tube and Pipe*

But prices from other regions remain low

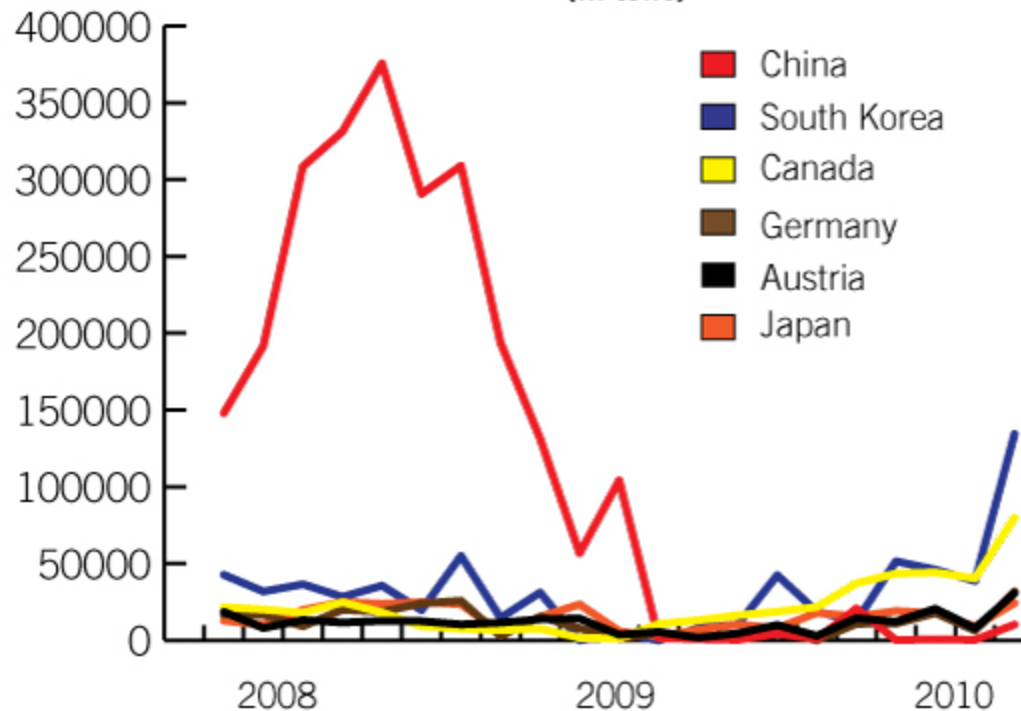
OCTG Import Prices (Jul. 2008-Jul. 2010)



Source: SteelFacts

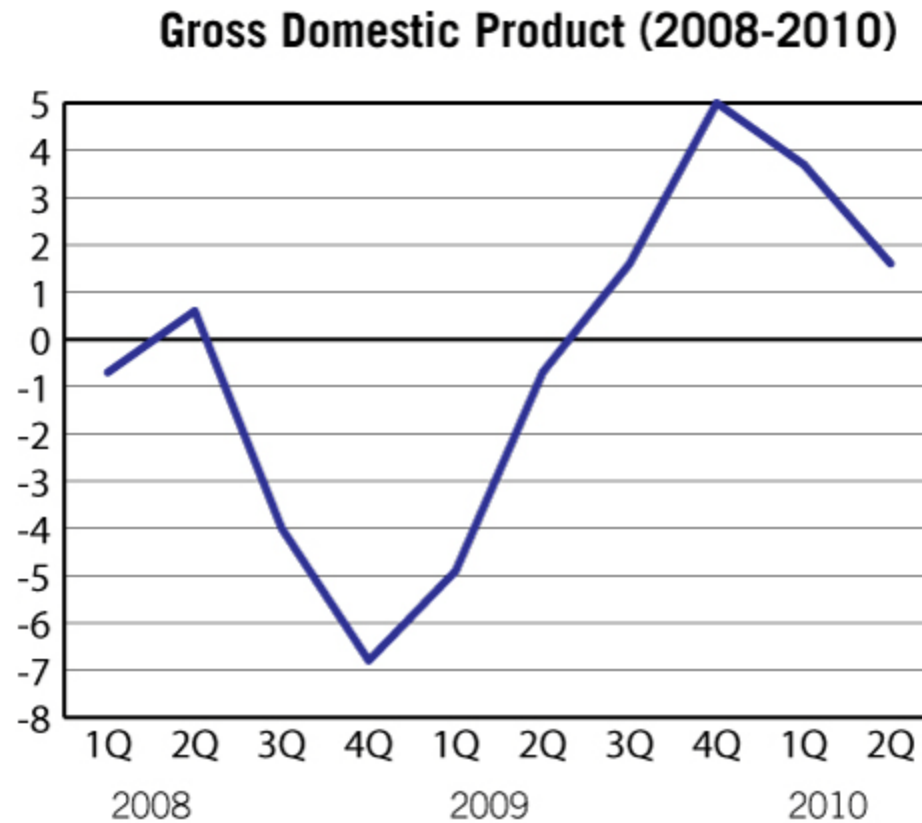
And import volumes remain a concern

OCTG Imports to United States (July 2008-July 2010)
(in tons)



Source: SteelFacts

Then there is the U.S. economy (Yikes!)



Source: US Dept. of Commerce, Bureau of Economic Analysis

No, steel production hasn't fallen of a cliff

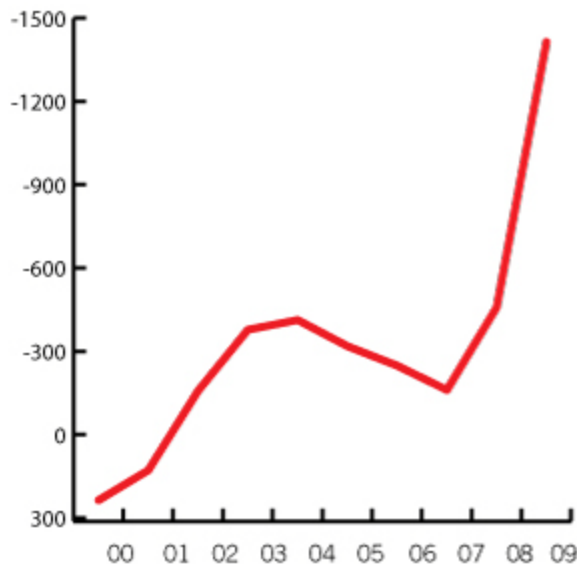
Raw Steel Production, Sept. 2008-Sept. 2010
(in thousands of net tons)



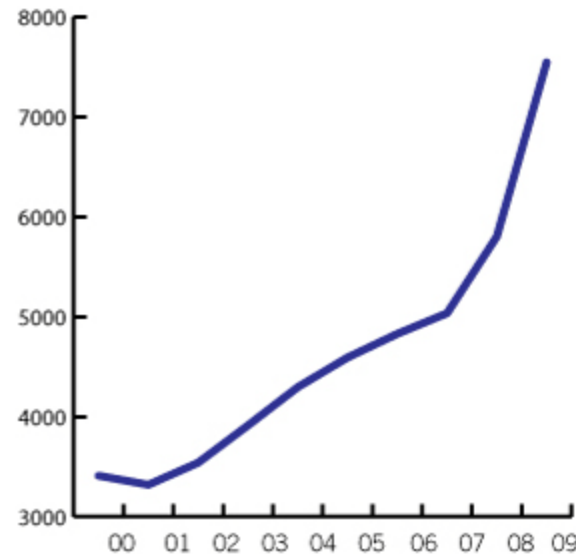
Source: AISI

But it could, especially if this continues

U.S. Deficit or Surplus
(in billions of dollars)

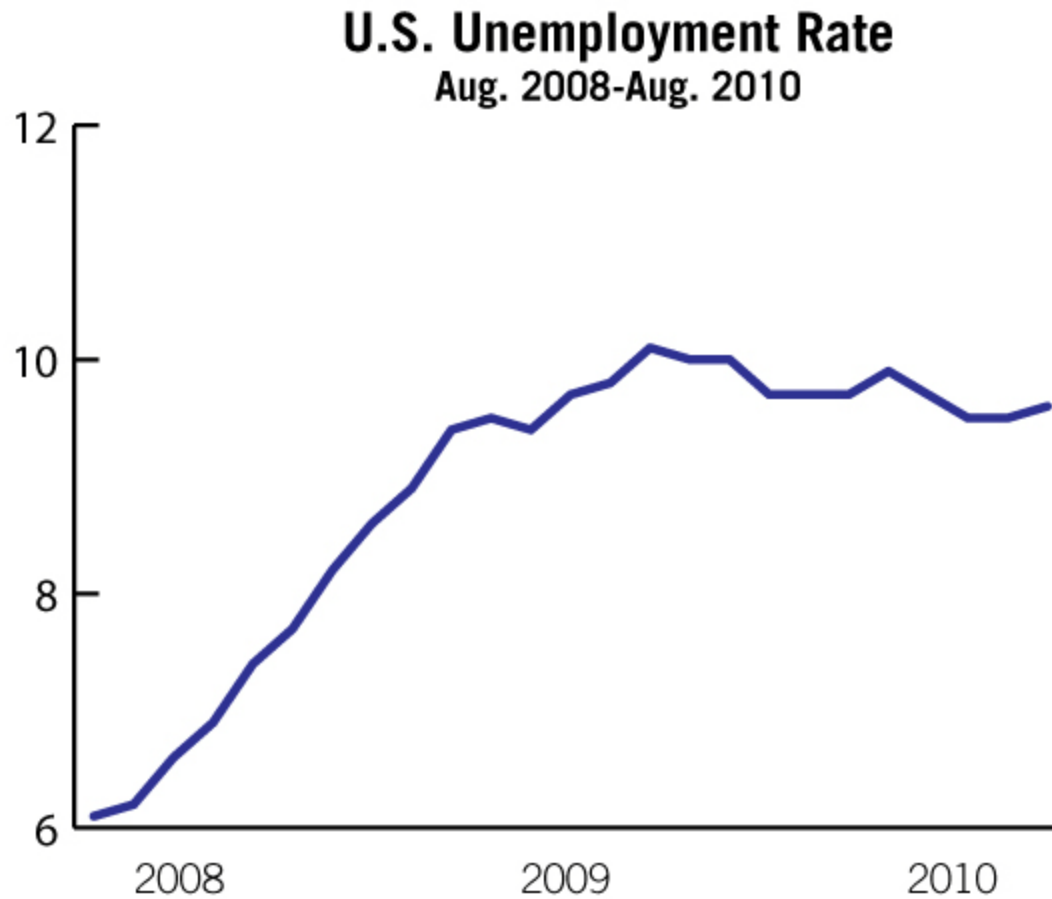


Debt Held by the U.S. Public
(in billions of dollars)



Source: Congressional Budget Office

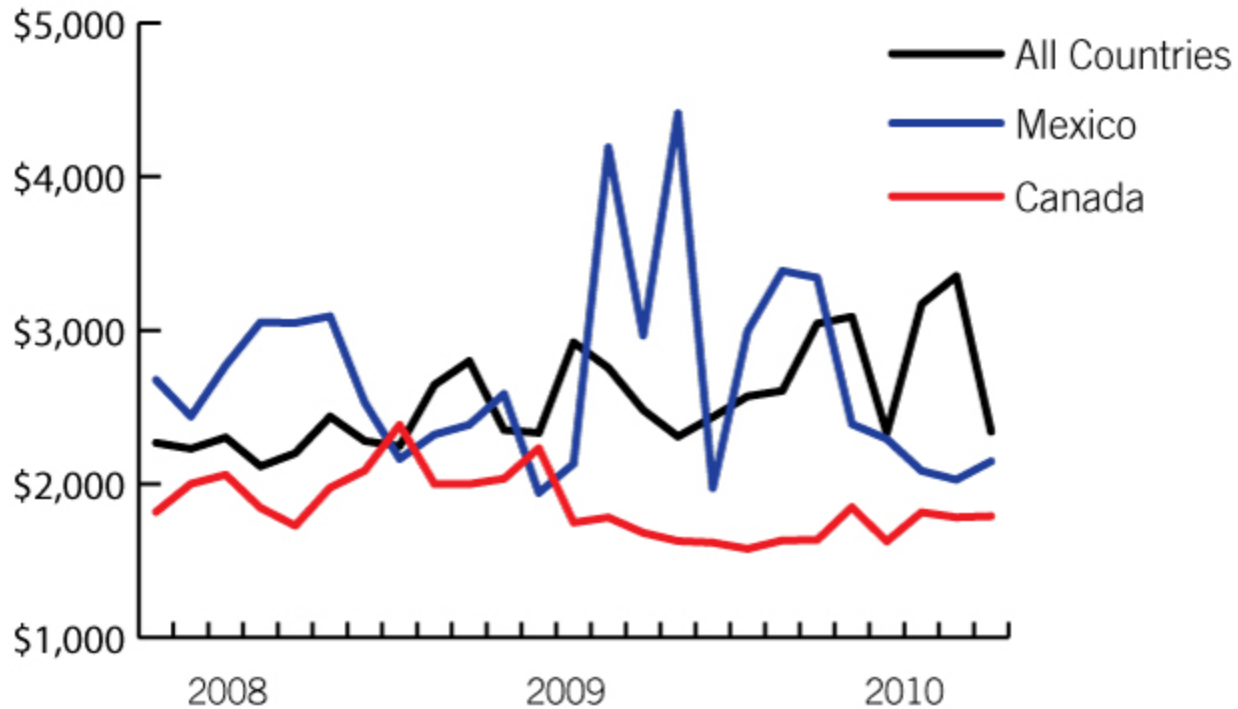
Recovery? What recovery? We need jobs!



Source: US Dept. of Labor, Bureau of Labor Statistics

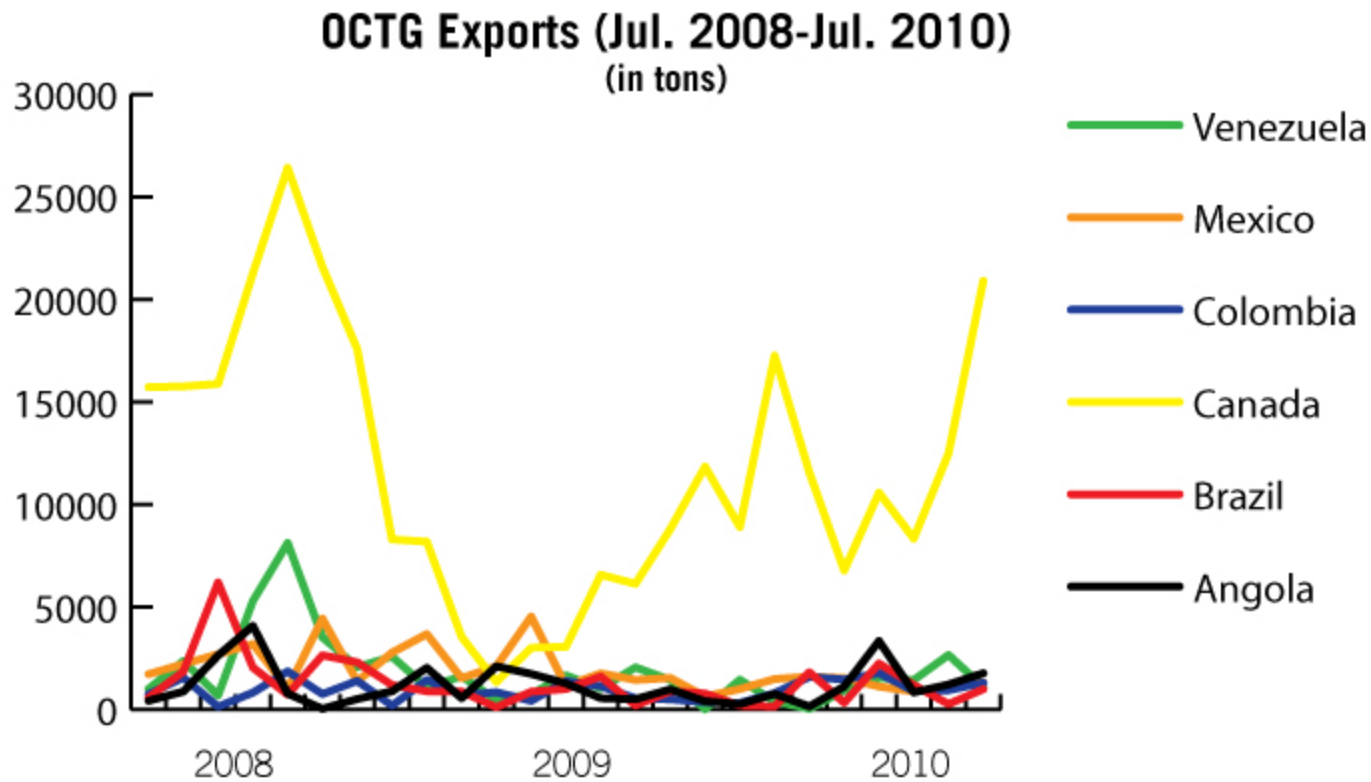
Politicians says exports might help

OCTG Export Prices (Aug. 2008-Aug. 2010)
(in dollars per ton)



Source: Steel Facts

The price is right, but volumes are anemic



Source: Steel Facts

And shale plays might not save the day



Source: Gasland



Other oil and gas incidents don't help



Or do they?

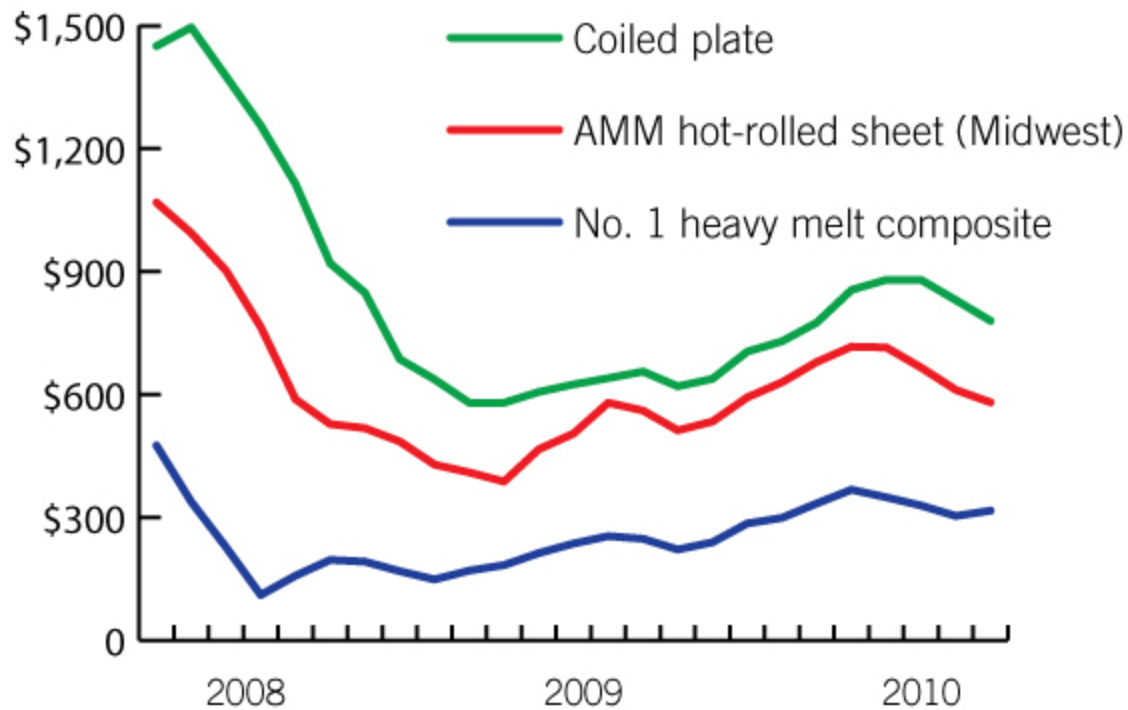
- New legislation seeks stricter pipeline safety rules
- That might make it harder to build new pipelines
- It could boost repair and replacement of older lines
- The cheapest bidder might not always win
- Legislation also mentions stricter standards for carbon sequestration pipelines
- Those lines may not be big business anytime soon—but they remain on the horizon

That is good news for new line pipe mills

New NA spiral-weld linepipe capacity (in '000 short tons)			
Company	Location	Capacity	Diameters
Berg Spiral Pipe	Mobile, Ala.	200	24-56"
PSL-North America LLC	Bay St. Louis, Miss.	300	24-60"
United Spiral Pipe LLC	Pittsburg, Calif.	300	24-64"
Stupp Corp.	Baton Rouge, La.	150-180	24-60"
Welspun Tubular LLC	Little Rock, Ark.	330	24-60"
Total additional capacity:		1,310	
Source: <i>Perspectives: Steel Tube and Pipe</i>			

Straight seam mills could also benefit

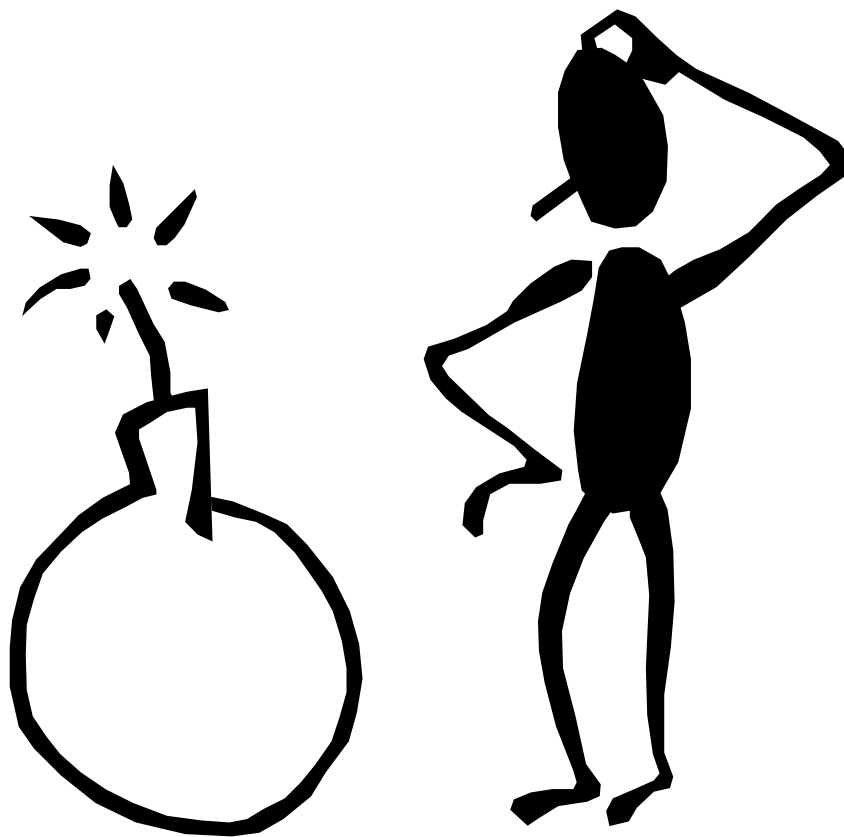
Hot Rolled Sheet, No. 1 Heavy Melt, and Coiled Plate prices
(in dollars per ton)



Source: AMM

But I don't buy pipe or sell pipe...

So what do I know?



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Thanks for your attention!

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