

Will China continue to threaten?

***The outlook for the US
steel tube and pipe markets***

Dr. James Ley

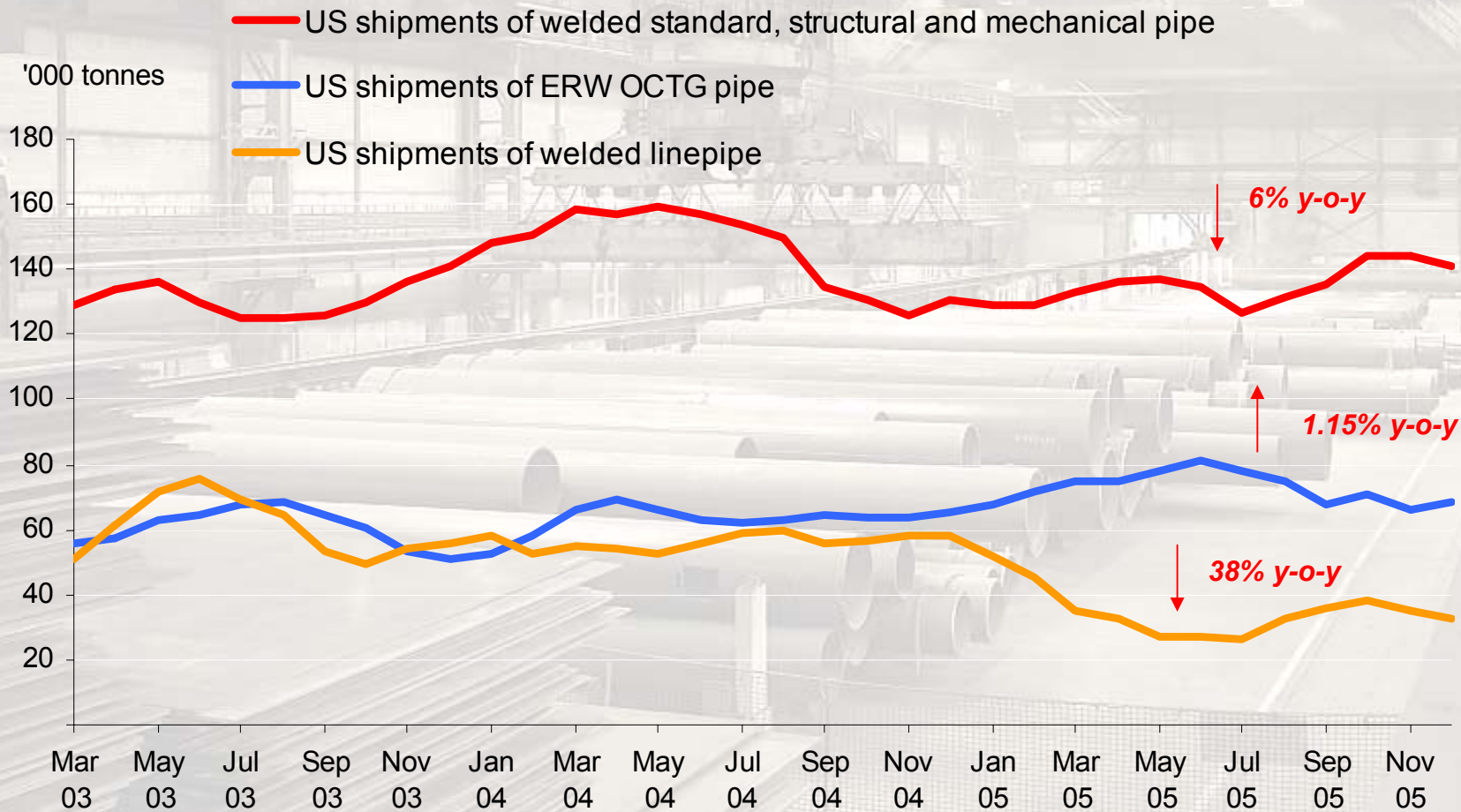
Metal Bulletin Research

Presentation overview

- The US tube and pipe market 2003-2006
 - The welded pipe markets
 - The seamless pipe markets
- Outlook and threats for the US pipe markets

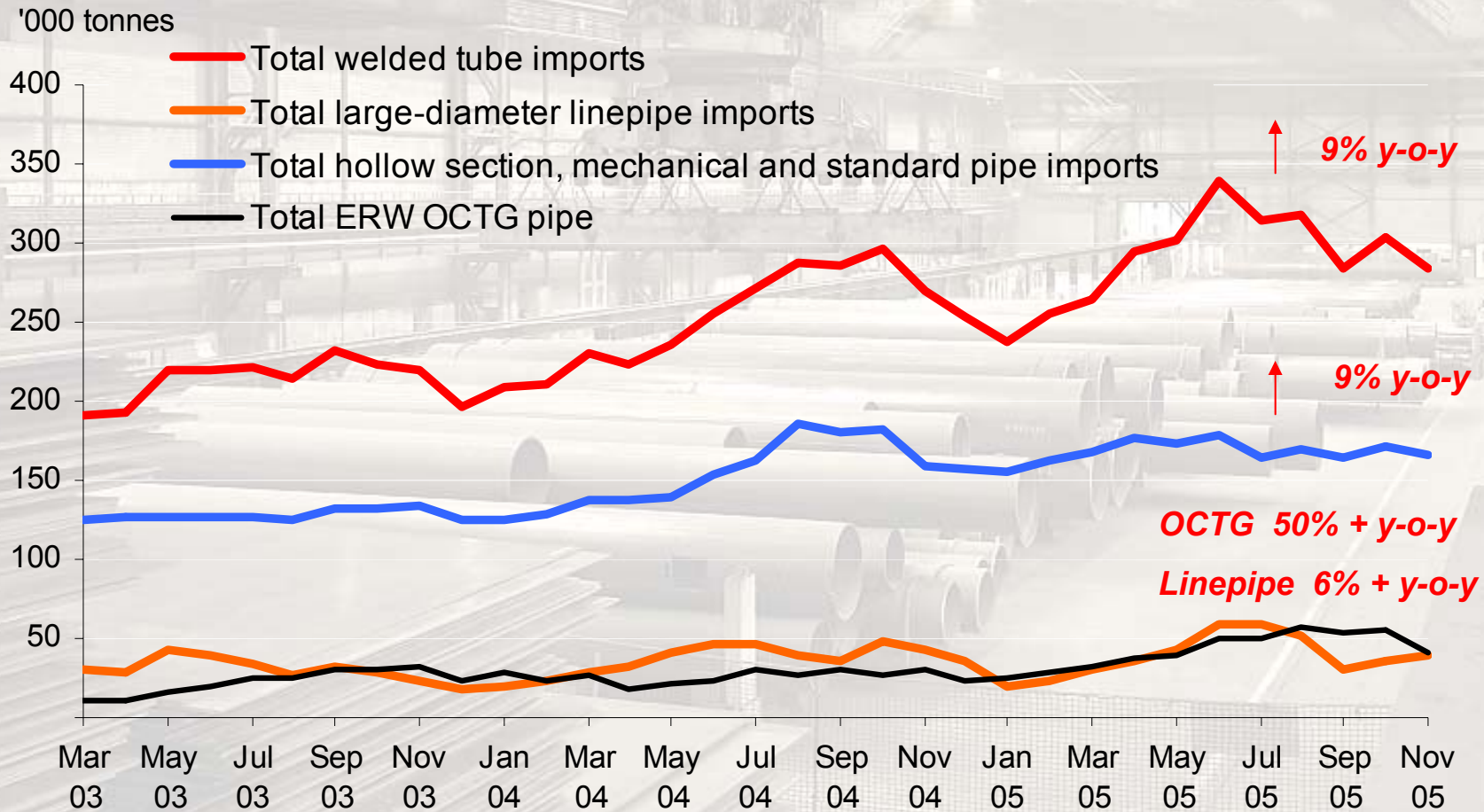
***The US welded pipe markets
2003-2006***

US shipments of welded pipe have not risen considerably in 2005...



Source: MBR, AISI

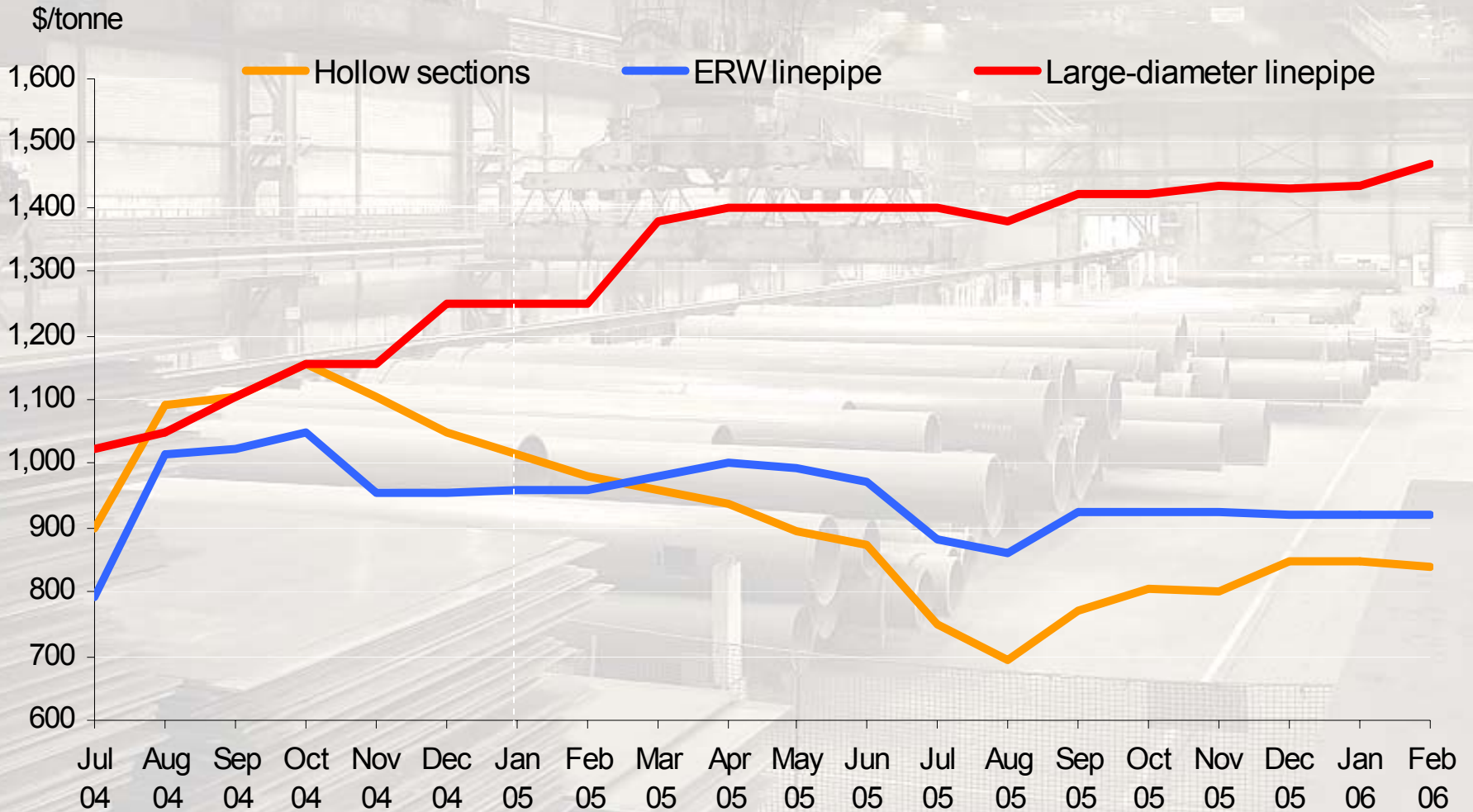
...but imports have increased on the back of strong demand



Source: MBR

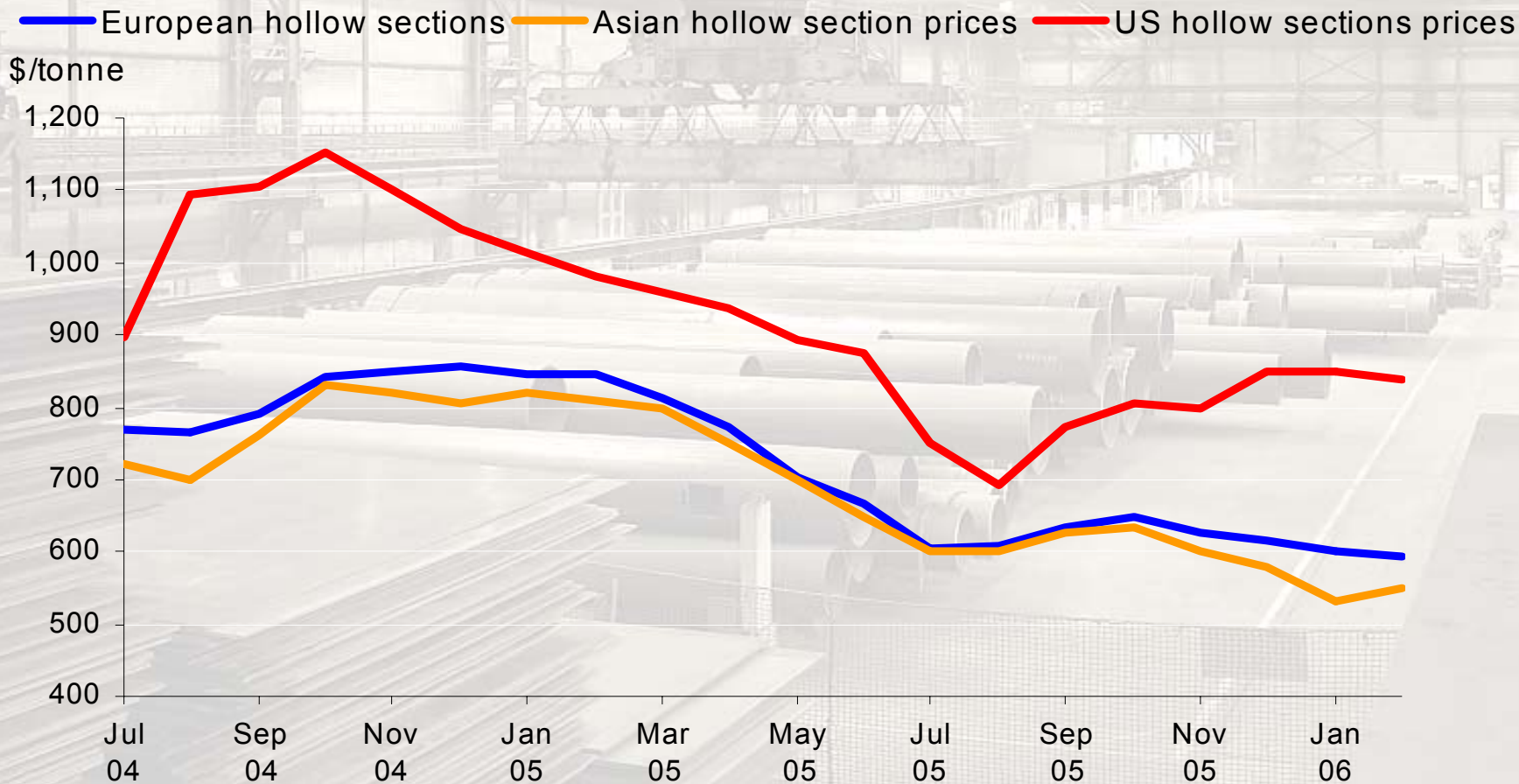
* All data are 3-month moving averages

Welded pipe prices, in the main, have held reasonably firm in 2005



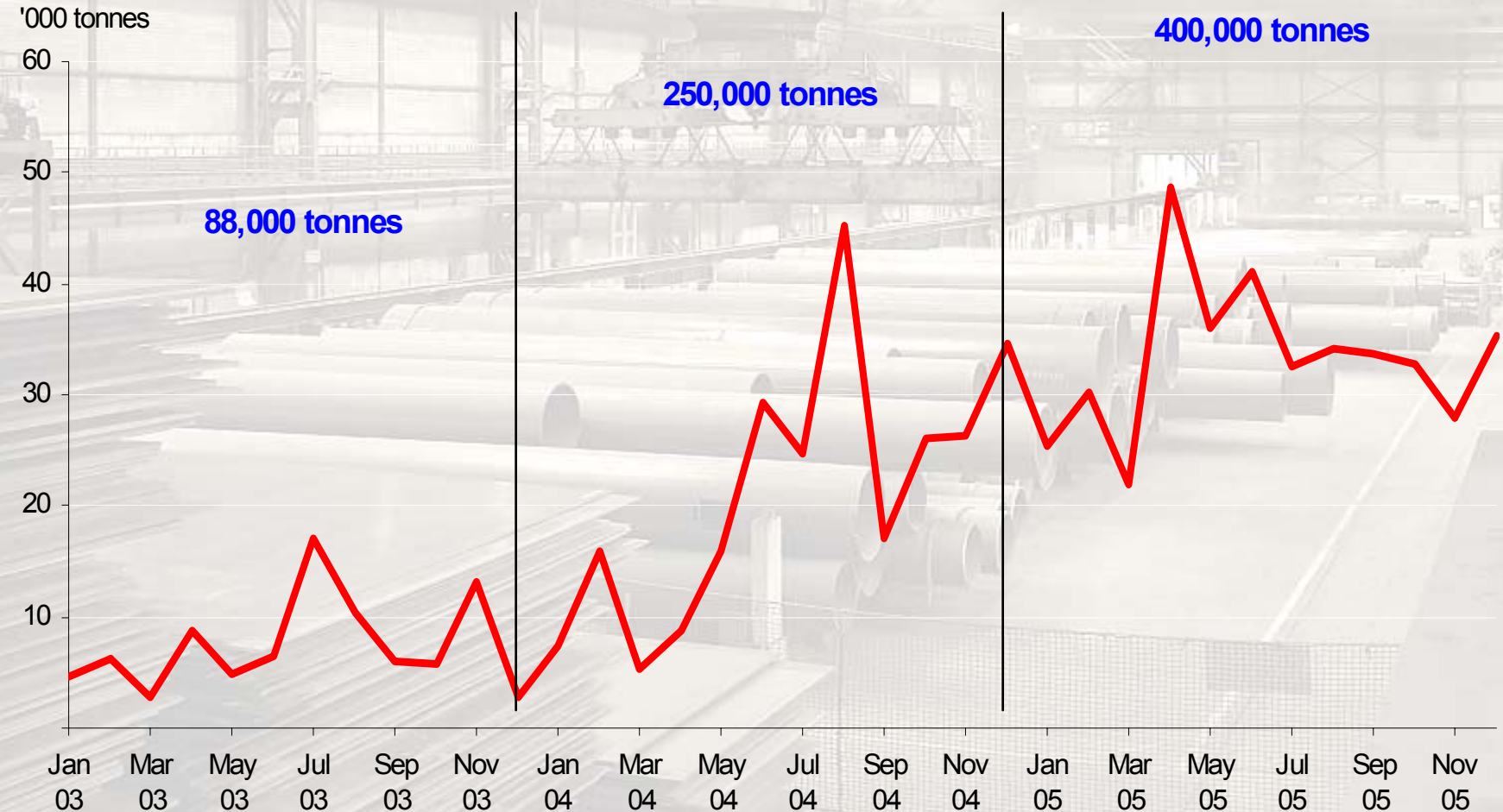
Source: MBR

For products where prices have slipped slightly, like hollow sections, the US still remains the highest priced market in the world...



Source: MBR

...which has led to China increasing its exports of standard welded tube (under 16 inch OD) into the USA



Source: MBR

Summary

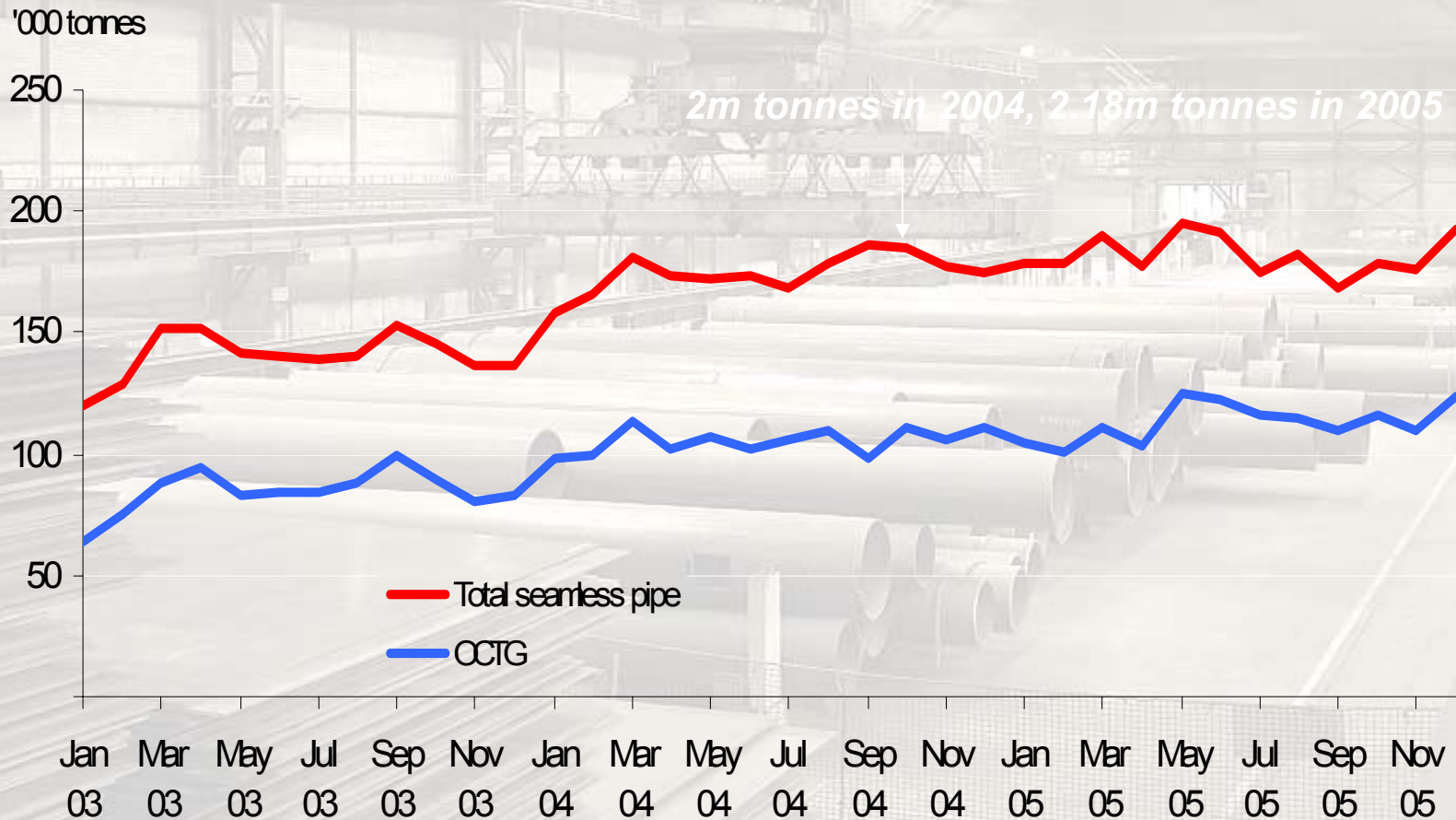
- US ERW manufacturers have a large share of global capacity, around 20%
- They also have the strongest market in the world for ERW OCTG tubing, approximately 66% of global OCTG pipe demand was in the USA in 2005, which has kept prices firm
- China has begun to increase ERW OCTG exports – exporting 25,000 ton in 2005, as opposed to 4,500 ton in 2004
- US large-diameter linepipe producers have a smaller share of the global market, with API plate prices high, prices have stayed firm in 2005

Contd...

- It has been in the standard, structural and mechanical pipe welded markets that the Chinese have been quickest to exploit, as these commodity products are not as technically challenging to manufacture as DSAW and ERW linepipe
- Safeguard 421 action was denied in December 2004 as the President rules it would cause more damage to the US economy

***The US seamless markets
2003-2006***

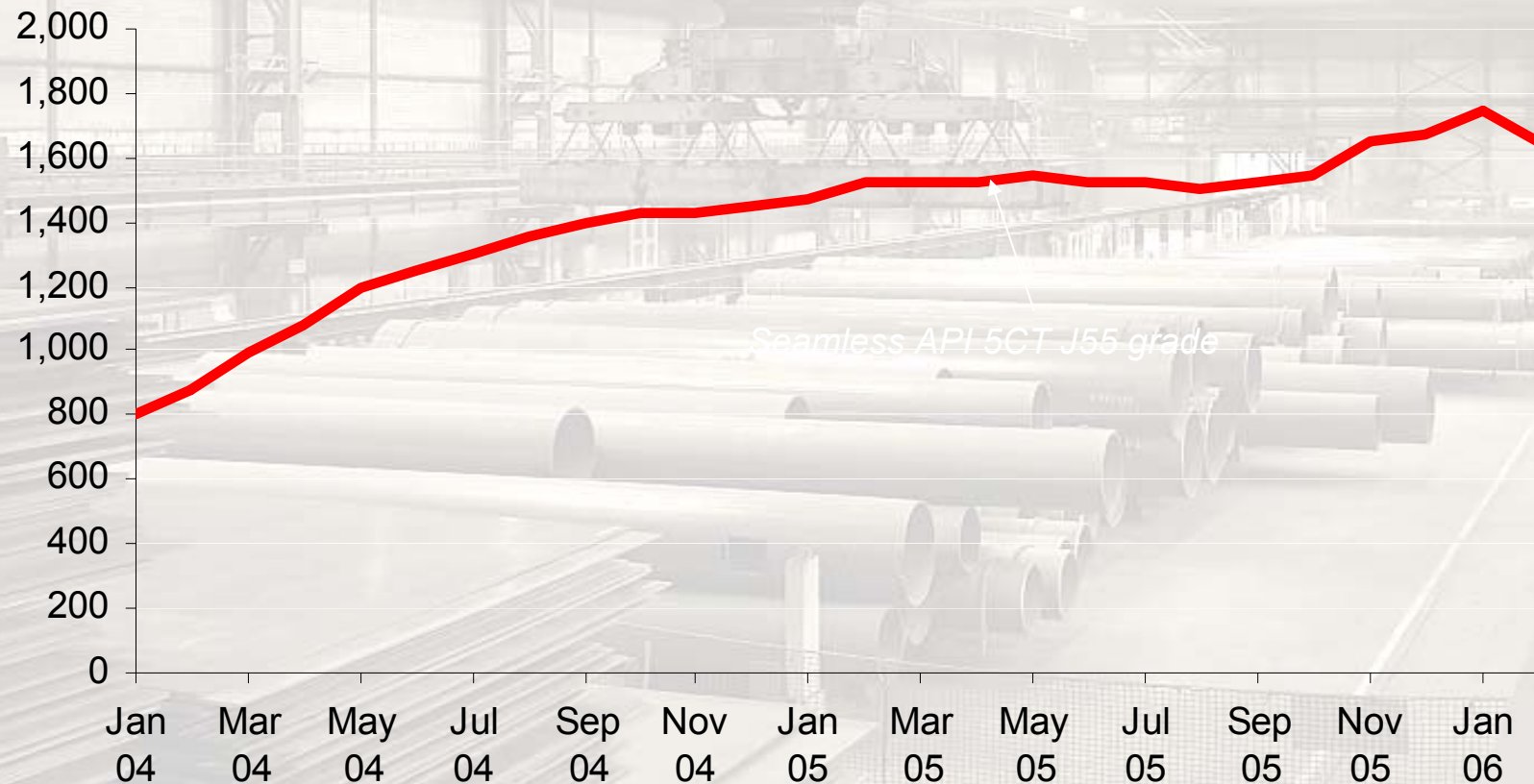
US seamless pipe manufacturers shipments are heavily focused on the OCTG markets



Source: MBR, AISI

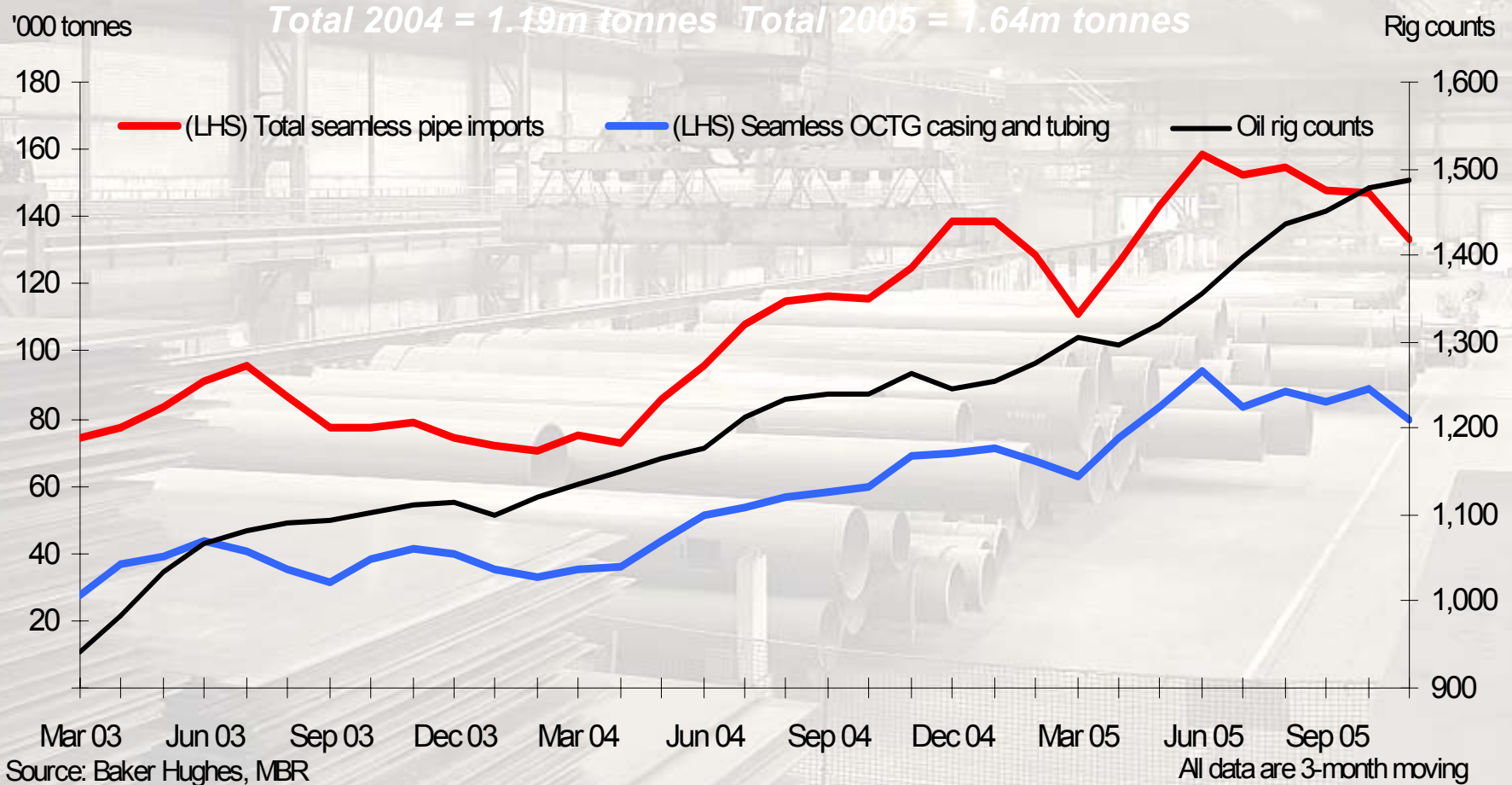
Seamless OCTG prices increased through 2004, 2005 on the back of strong oil and gas prices and high drilling activity

\$/tonne

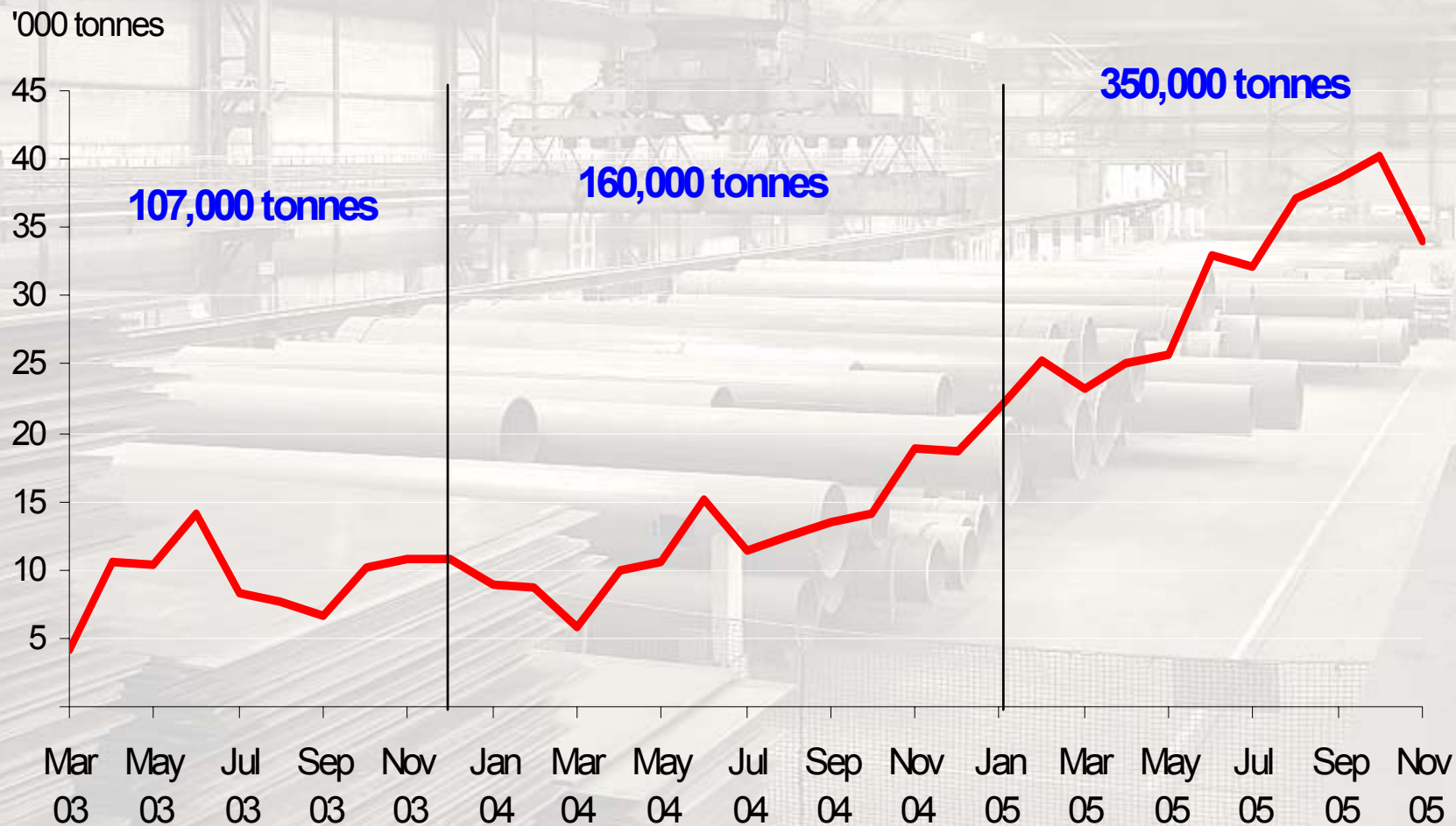


Source: MBR

The boom in US oil and gas drilling has seen a surge in seamless OCTG pipe imports



Once again China has capitalised on this, more than doubling seamless casing/tubing exports in 2005...



Source: MBR

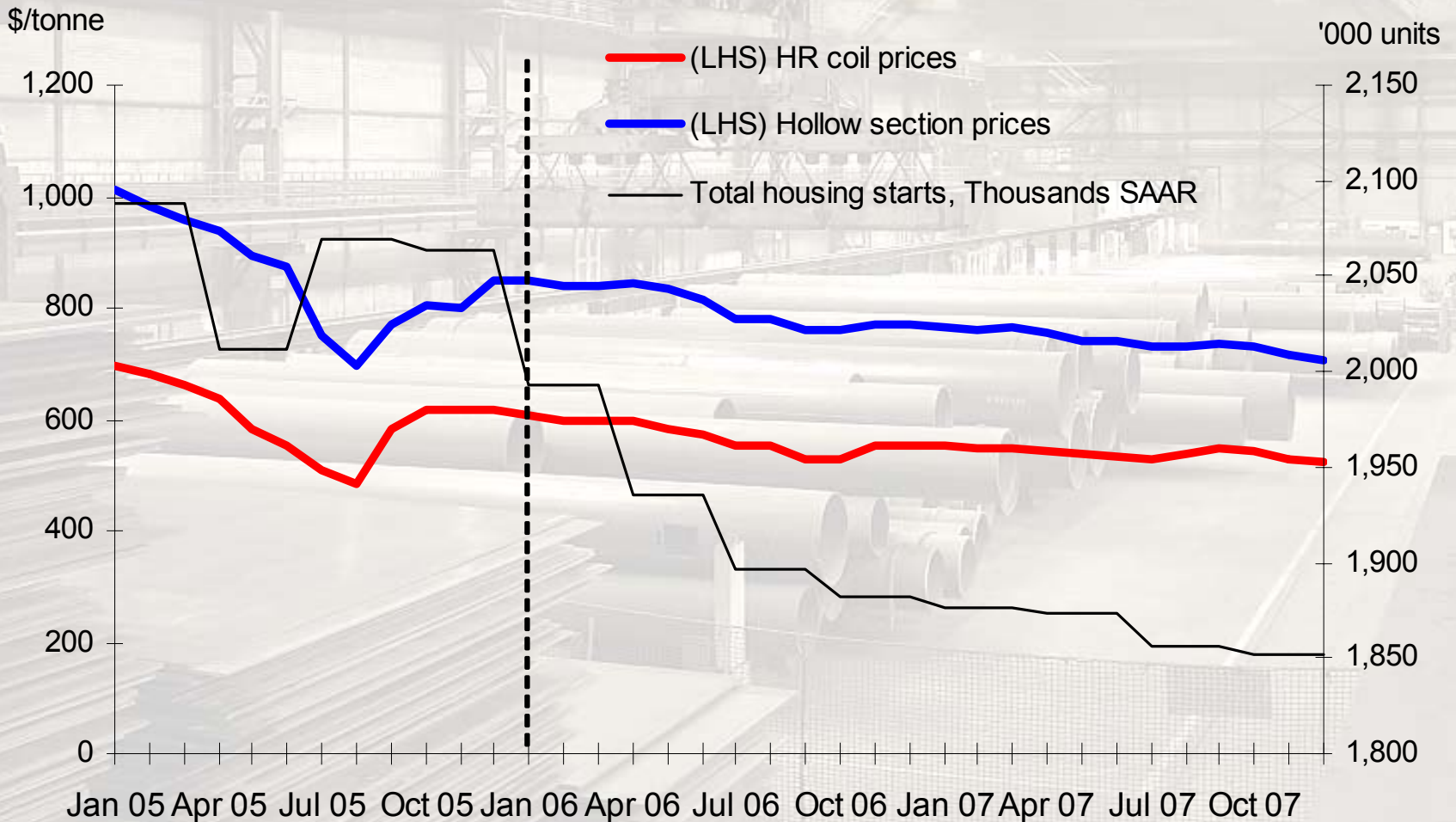
All data are 3-month moving averages

Summary

- US market has the largest demand for seamless OCTG in the world – approx 2.3m tonnes
- Chinese seamless producers have larger capacities than their welded counterparts. Producers such as Baosteel, Tianjin and Chengdu have major seamless pipe capacities – Tianjin 1.5m tonnes
- Tianjin and Baosteel appear to be adopting a constrained approach to exporting seamless pipe to the USA – Tianjin send 40-50,000 tonnes per year each
- Some of the smaller Chinese producers we do not believe have heat treatment facilities
- Prices are softening in the lower API OCTG grades such as J,K where over supply is now occurring
- The limited capabilities of producers in the high-alloy grades – L, P grades – keeping prices strong
- Major players, profits phenomenal. Tenaris just announced margins \$850/ton on all its seamless pipe for Q4 2005 shipments

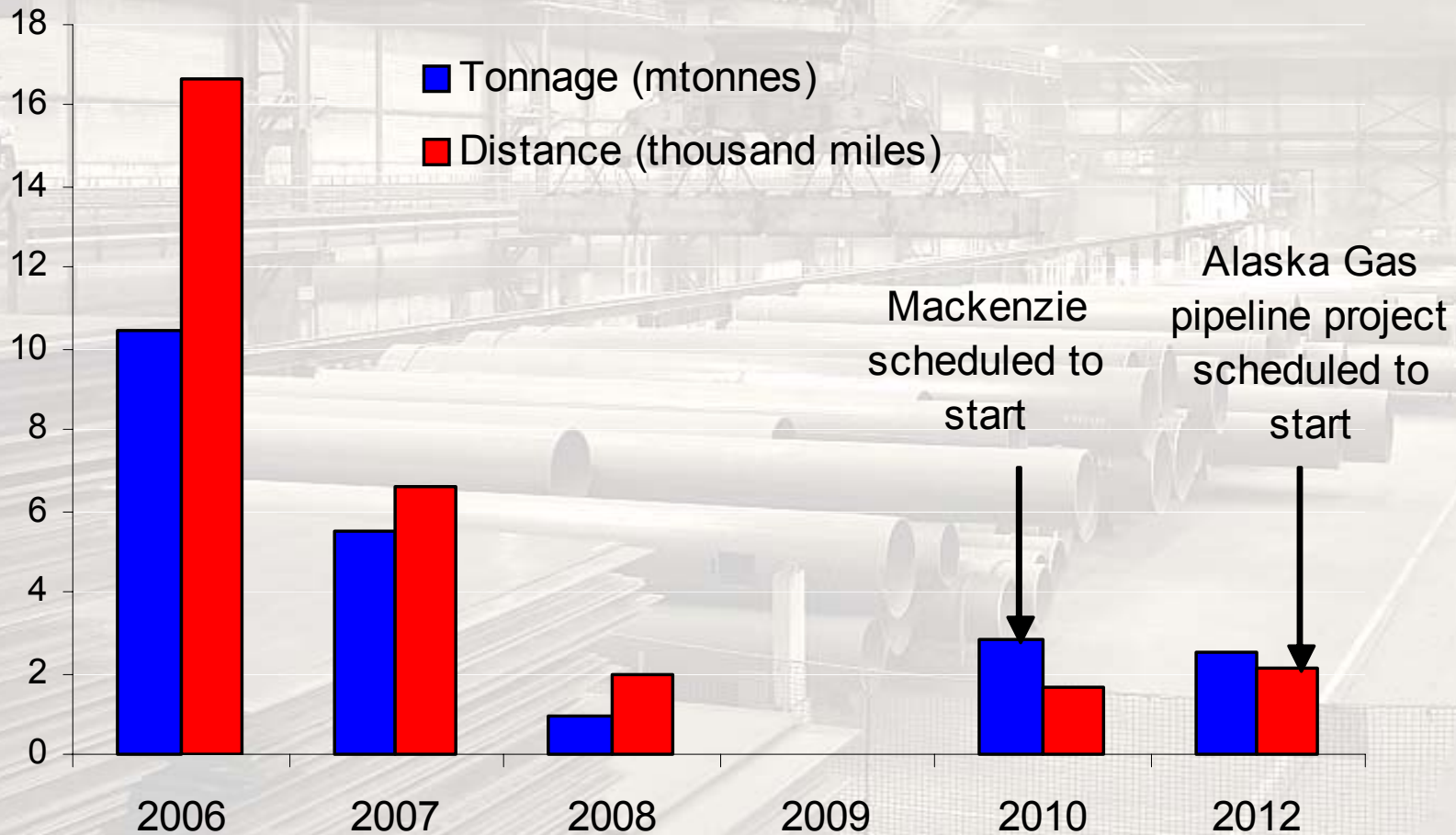
US Pipe Market outlook

Standard pipe and hollow section prices are forecast to soften as US construction demand slows and coil prices fall



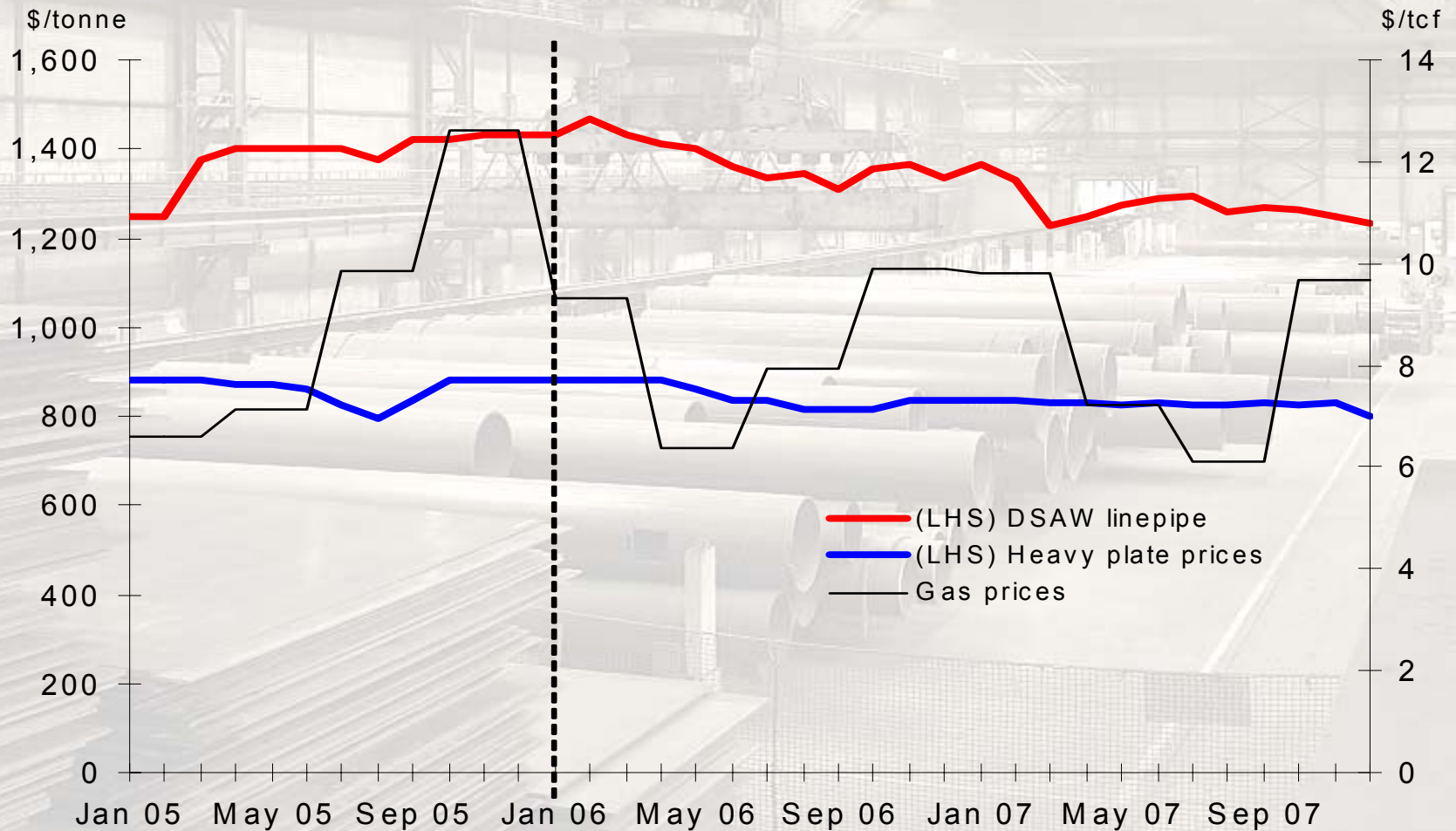
Source: MBR, US Census Bureau

North American forecast demand for linepipe is strong



Source: MBR , Simdex

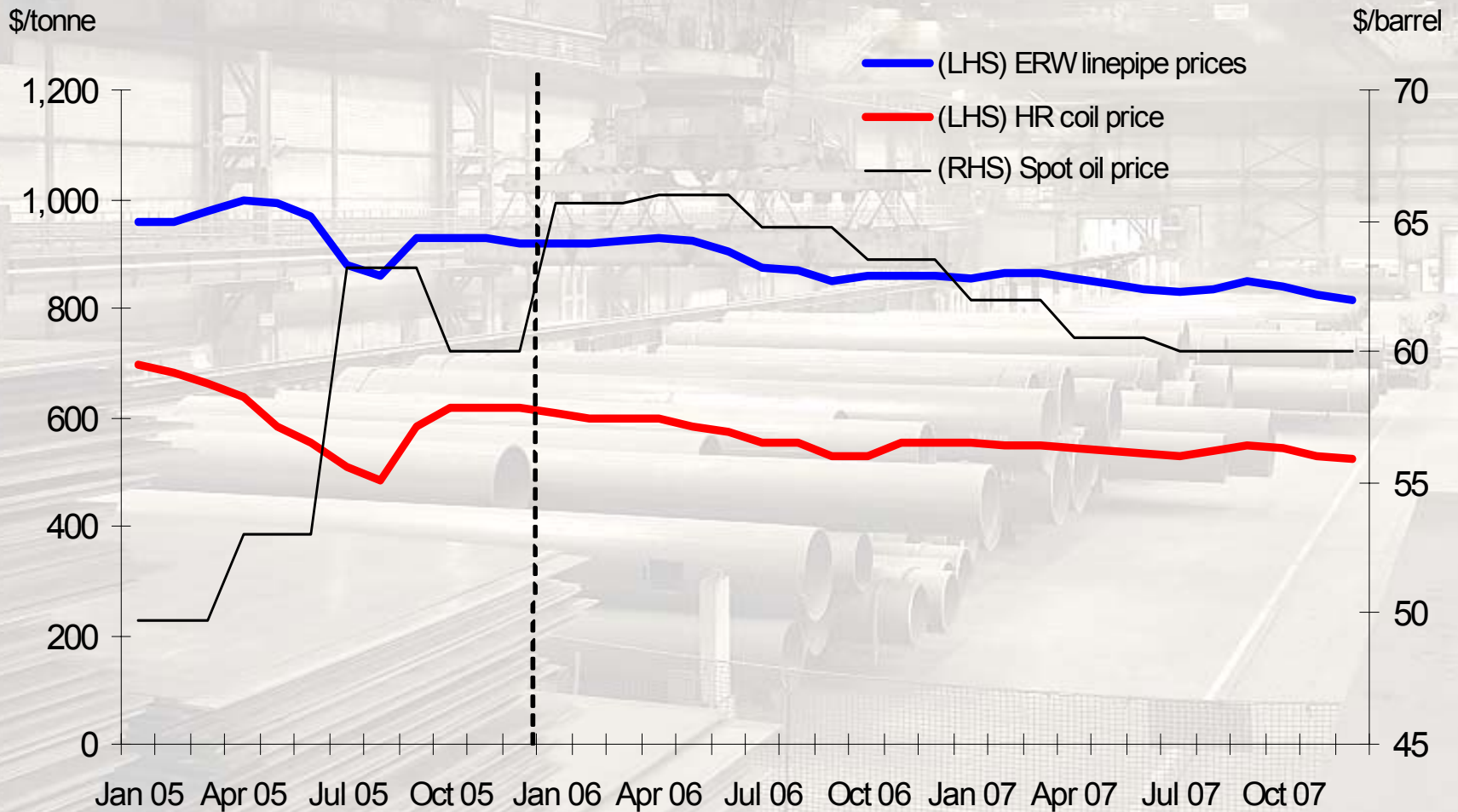
With strong demand forecast for large-diameter linepipe, prices in North America through to 2007, should stay firm...



Source: EIA, MBR

Linepipe prices based on API 5L X65 grades

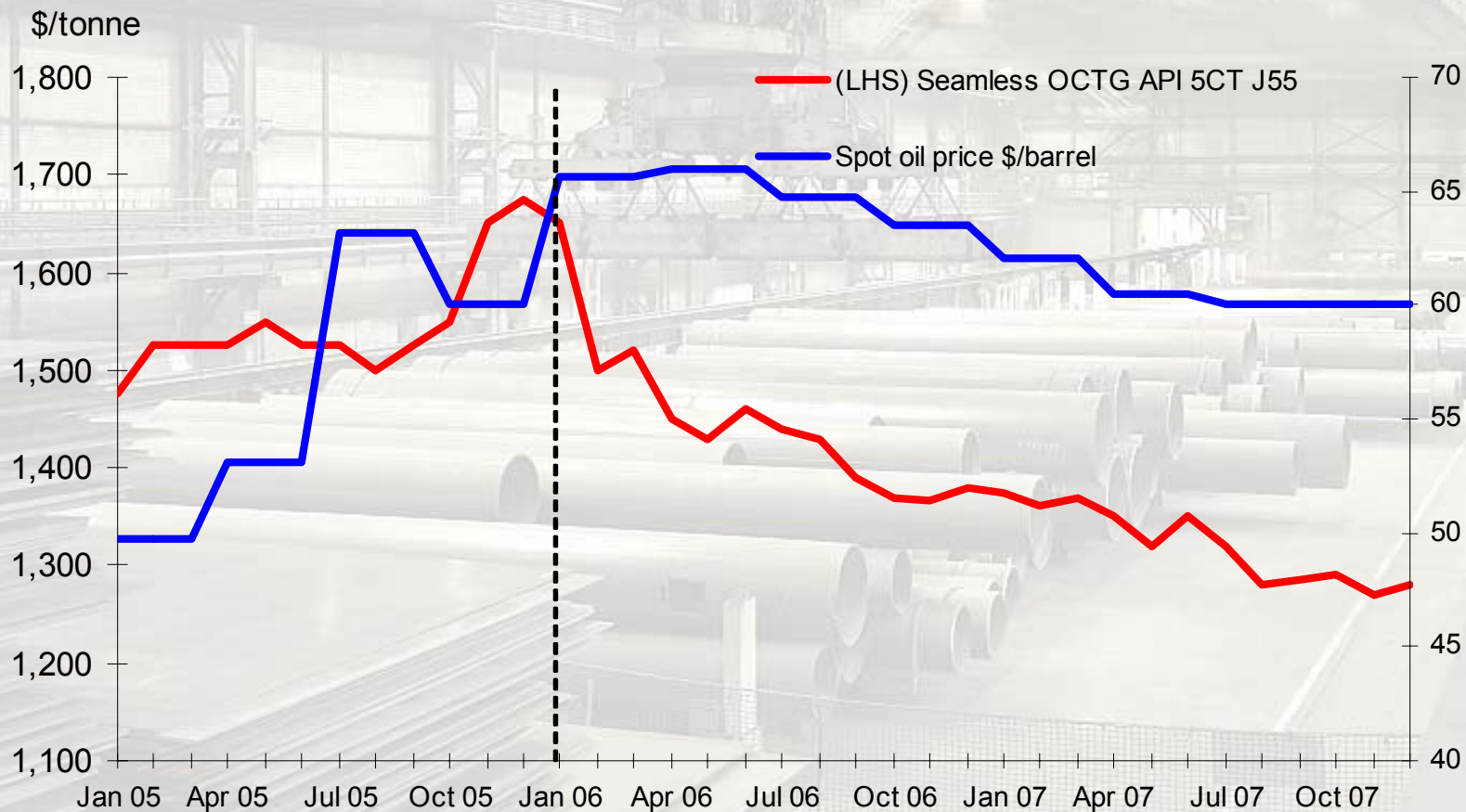
...and with oil and gas prices staying high, ERW linepipe producers should maintain strong prices



Source: EIA, MBR

Linepipe prices based on API 5L X65 grades

Seamless lower-grade OCTG prices forecast to soften due to increased supply, high-alloy grades will remain firm



Source: EIA, MBR

Conclusions

Welded standard/structural tubes and pipes

- US shipments of welded standard/structural pipe slipped 6% in 2005 year-on-year
- This followed an increase in imports of this pipe by 10% year-on-year
- China saw a 60% increase in its exports of these pipes into the USA in 2005
- Forecasts suggests there will be no decline in these imports. Q2 2006 shipments are forecast to be high, and cheap - \$600/ton cfr West Coast
- US government rejection of Section 421 action will not slow imports. Chinese duties on HRC encourage pipe manufacture and export. Total Chinese welded pipe production increased from 10m tonnes in 2003 to just under 20m tonnes in 2005

Welded standard/structural tubes and pipes outlook

- The floating of the Yuan would benefit domestic producers, as Chinese imports would likely rise in price. China has partly moved to float the Yuan fixing it against a basket of currencies (although still heavily dollar weighted)
- Mixed picture for producers – some expanding operations – Atlas \$55m moving of tube mills to Southeast USA. Southland expanded operations in Alabama in 2005 but not running at full capacity due to expensive substrate costs
- Producers such as Wheatland have struggled against surging imports being forced to make redundancies
- Nevertheless, US construction activity is forecast to remain strong this year, on the back of a growing economy, should help to reduce the impact of imports

ERW OCTG/linepipe markets

- US shipments of ERW OCTG pipe increased in 2005 (1.15% year-on-year)
- GOM boom in exploration on the back of high oil-gas prices – forecast 8% annual growth rate in ERW OCTG pipe demand until 2010
- ERW producers focused on OCTG, at the expense of linepipe (decrease 38% year-on-year)
- Producers are undertaking expansions & capacity upgrades – Ipsco investing \$150m in operations in 2006, Maverick doubling OCTG capacity up to 300,000 tons from 140,000 tons at the beginning of 2005

ERW OCTG/linepipe market outlook

- China has picked up ERW OCTG exports to USA (30,000 tonnes 2005 – 6,000 tonnes 2004) – at moment not a major exporter
- ERW OCTG imports relatively low, due to strength of domestic producers
- Producers might see a softening in prices of the lower OCTG casing grades, knocked on from the seamless market and potential increasing exports from China
- Although a smaller market, ERW linepipe demand is likely to rise as the time lag between OCTG drilling and linepipe construction finally kicks in. Production for this pipe should rise in 2006

Large-diameter welded linepipe

- This market has been the slowest of the energy pipe markets in 2005
- Demand is now picking up – Ipsco large-diameter spiral mills expected to operate at full capacity through 2006
- Canadian Oil Sands activity, Rocky mountains gas and oil pipelines, and new LNG terminals in the USA are seeing a pick-up in demand
- Prices remain firm as API plate prices stay strong
- With major Canadian linepipe projects planned in 2010/2012 – forecast outlook very good for this pipe
- China unlikely to be an immediate threat. Technically one of the most challenging welded pipe's to produce. Baosteel have only just announced plans for a UOE pipe in China

Seamless tube and pipe market and outlook

- China already poses a major threat in this market. It is likely that in 2006, domestic producers will be more focused on following sunset reviews against countries where Tenaris based mills are operational
- Strong prices benefiting domestic producers – NS group investing 75% of its \$15-20m spending this year on the company's seamless operations
- Lower API casing and tubing grades are seeing softening in prices now. Expect this to continue in 2006, but prices will not drop significantly due to the high oil and gas prices, and the forecast of drilling activity increasing 6-8% in 2006 year-on-year
- High alloy seamless grades will stay very strong in price, due to limited supply both domestically and internationally

Thank you for your time

If you have any questions regarding this presentation or MBR's research capability in welded and seamless tube and pipe sectors then please do not hesitate to contact myself:

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