

# Metal Bulletin Research

## Seamless Steel Tube and Pipe Market Tracker

Analysis of seamless global tube and pipe markets

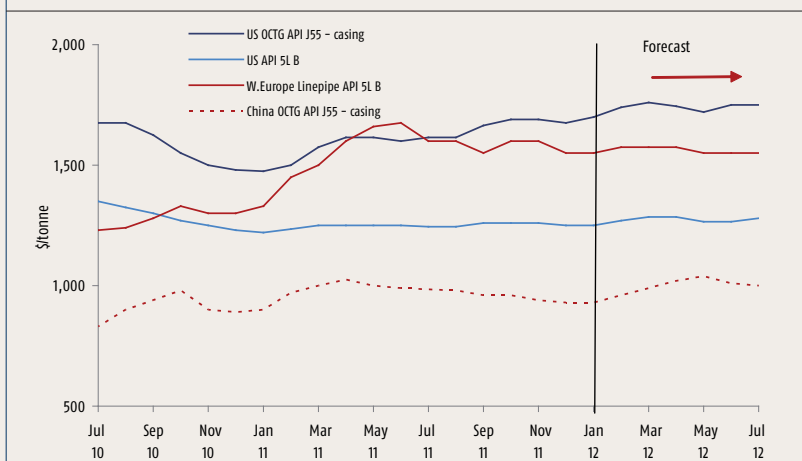
- **Shales brace for aggressive activity: pg 3**
- **Euro decline buoys exports amid downgrade: pg 6**
- **Chinese confidence shaken: pg 9**

### Cautious start to 2012 as markets wait for direction

- Fears of a slowdown in the economic growth across Europe were heightened this month, as rumours of a credit rating downgrade for up to 11 countries in the euro area sent markets down. Nevertheless, seamless tubing prices in Europe are expected to remain relatively stable as the export market strengthens from the depreciation of the euro. Seamless OCTG will get a likely boost, especially with shipments to North America. Strength of economic indicators for the Middle East suggest that business confidence in the UAE and Saudi Arabia is strong, putting upward pressure on the consumption of seamless tube and pipe in the region.
- The Asian markets have been quiet in the run-up to the New Year holiday, suggesting that stocks are plentiful and buying activity will not resume until February. If prices are generally static rather than falling it is only because of the low level of market activity ahead of the holidays. By contrast, the fundamentals at the upper end of the market are tight with buoyant demand and limited processing and specialised production capacity.
- Market participants supplying the North American energy extraction businesses remain optimistic over the prospects of seamless OCTG demand this year in relation to energy developments. Drilling permits in 2011 exceeded 2010 by more than 4,000 units and we are hearing of ambitious plans in the shale regions. The downside to continued price increases in relation to rising costs remains the threat of excess tonnage from domestic as well as foreign mills. For now, these markets remain in balance as strong demand is countered by ample supplies.

### Global seamless tube and pipe price forecast

MBR expects a seasonal uptick early in the year, but prices could moderate by the end of the second quarter



Source: Metal Bulletin Research

### Issue 76

19 January 2012

[www.metalbulletinresearch.com](http://www.metalbulletinresearch.com)

### Contents

North America	3
Europe, Middle East and Africa	6
Asia	9
Energy Markets	11
Seamless Capacity Developments	12

# IMPORTANT NOTICE

## **Metal Bulletin Research subscription rates are charged strictly on a per individual user basis.**

Unauthorised redistribution of the information, including: the printing, scanning or forwarding of the file, sharing login details to the website or saving the file to a server, all constitute a violation of copyright law.

### **The easy solution?**

Our Corporate Access Programme (CAP) offers flexible tailored access to MBR's publications for the number of employees needed by your company.

With instant access, your business will never have to wait for the information that could be critical to your forecasts.

Contact us today to discuss a hassle-free, customised programme that addresses your individual needs and fully complies with copyright guidelines.

### **The programme benefits:**

- A well-informed staff base that can react to the changes and developments affecting its business
- Substantial savings on a corporate subscription over individual subscription rates
- A simplified billing system, saving time as well as valuable resources
- A programme tailored to meet your needs
- Ensured copyright compliance to help you avoid the legal risks of sharing subscriptions

Please contact Richard O'Donoghue at any time on +44 20 7779 8938 or email: [rodonoghue@metalbulletinresearch.com](mailto:rodonoghue@metalbulletinresearch.com) for more information about CAP, and find out today how to expand your firm's subscription account.

## Global seamless tube and pipe prices – January 2012

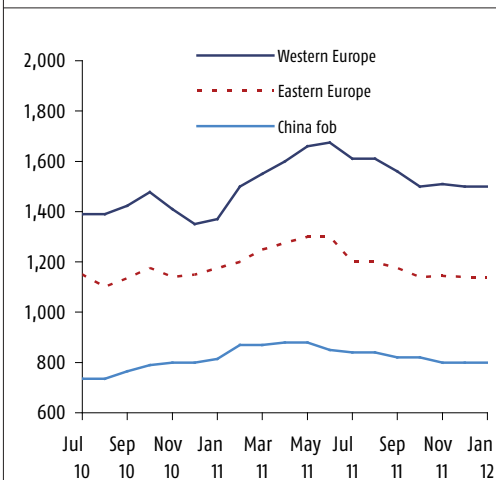
		OCTG API 5CT			Linepipe	Mechanical	Boiler tube	Stainless	Stainless
		Casing J/K55	Casing N80 Q	Casing L80*	API 5L B**	ASTM A519	ASTM A106 b	TP 304	Cr13 (OCTG)
<b>USA</b>	\$/ton	1,543	1,769	-	1,134	1,379	1,429	-	-
	\$/tonne	1,700	1,950	-	1,250	1,520	1,575	-	-
	% monthly change	5%	3%	-	1%	7%	9%	-	-
	% yearly change	17%	18%	-	4%	21%	15%	-	-
<b>Western Europe</b>	€/tonne	1,224	1,366	1,638	1,078	1,043	1,137	-	-
	\$/tonne	1,760	1,965	2,355	1,550	1,500	1,635	-	-
	% monthly change	6%	4%	4%	3%	3%	1%	-	-
	% yearly change	26%	21%	15%	19%	13%	9%	-	-
<b>Eastern Europe</b>	\$/tonne	1,250	1,375	-	1,085	1,140	1,265	5,900	-
	% monthly change	4%	2%	-	3%	4%	4%	4%	-
	% yearly change	14%	7%	-	12%	20%	-	-	-
<b>China export</b>	\$/tonne	930	1,125	1,175	780	800	825	5,600	4,000
	% monthly change	3%	3%	-	1%	0%	0%	-	-
	% yearly change	18%	10%	-	29%	21%	23%	-	-
<b>Japan</b>	\$/tonne	1,850	2,200	2,660	1,550	-	-	-	6,800
	% monthly change	0%	0%	0%	0%	-	-	-	-
	% yearly change	35%	20%	-	28%	-	-	-	-
<b>Middle East</b>	\$/tonne	1,270	1,365	-	110	-	-	-	-
	% monthly change	0%	0%	-	0%	-	-	-	-
	% yearly change	27%	13%	-	20%	-	-	-	-

Source: Metal Bulletin Research, prices FOB basis (except Middle East, which is CFR, and USA OCTG, which is local distributor prices); \* including premium connections, except for China; \*\* Japan euro/dollar rate: 1.44

## Seamless linepipe, precision pipe prices – January 2012

### Global mechanic precision prices (\$/tonne)

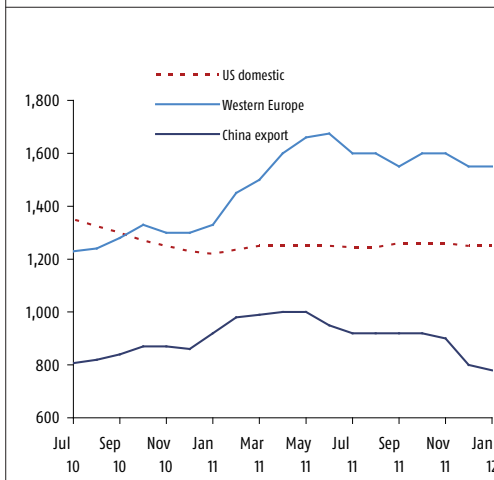
Pricing may get a seasonal boost this quarter as manufacturers restock



Source: Metal Bulletin Research

### Global linepipe prices (\$/tonne)

There is still competitive pressure in this market but rising costs may prompt higher pricing offers this quarter



Source: Metal Bulletin Research

## Americas Market Analysis

- Mills attempt price hikes in response to rising costs, strong demand
- Alloy grades more likely to see a rise than carbon products, however
- Manufacturing sustainability questioned

### Market Outlook

Market participants supporting the energy extraction businesses remain optimistic over the prospects of seamless OCTG demand this year in relation to energy exploration and developments. Drilling permits in 2011 exceeded 2010 by more than 4,000 units and we are hearing of ambitious plans in the shale regions. The downside to continued price increases in relation to rising costs remains that threat of excess tonnage from domestic as well as foreign mills. Again, arrivals in the near past exceed that of the previous year. For now, these market remain in

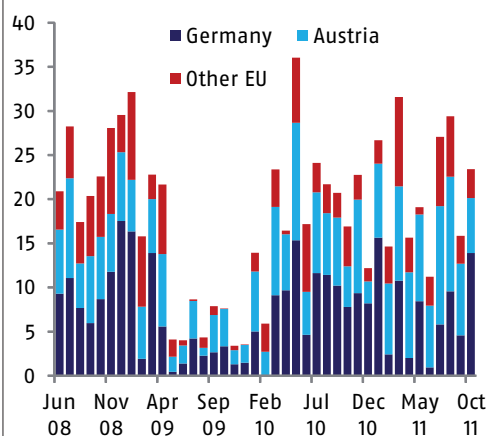
balance as strong demand is countered by ample supplies. We see little chance for price weakness at this time, expect in the carbon steel commodity grades which could lose traction to imports. In manufacturing, this year is starting off in similar fashion as 2011. Inventories are low and manufacturers are building momentum from the seasonal uptick in factory orders. But, we are wary of the sustainability of this activity into the second quarter. Leading indicators suggest a slowdown in expansion plans later in the year.

### Cost increases may prompt further price hikes

Seamless OCTG pricing held relatively steady into January, with prices standing at around \$1,675–1,700/tonne for API 5CT J/K55 material in early January. Mills did announce price increases effective January 1, but these hikes are finding varied success so far. As has been the case over the previous year, higher-grade alloy products, such as API 5CT L80 and API 5CT P110 and higher, are in shorter supply than the carbon products and mills are finding stable footing on which to raise prices. Sales of the carbon steel J, K and N grades are more competitive and vulnerable to discounting.

Meanwhile, scrap prices continued on the rebound that started in December, adding further encouragement for mills to boost prices. Since reaching a short-term trough in November, US domestic scrap prices rebounded in both December and at the start of January, reaching levels not seen since January 2011. The \$65/l.ton increase in prices over the past two months brings prices back close to their 2011 peaks. There has been some talk in the market that scrap prices would moderate into February but strong international pricing as well as a recovery in

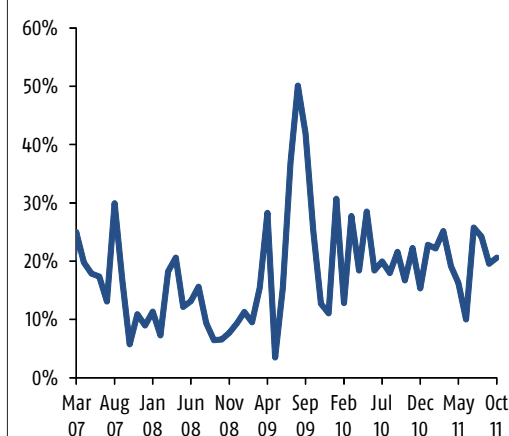
**US imports of EU-origin seamless OCTG ('000 tonnes)**, Euro weakness will likely see EU material compete with that from Asia for US attention



Source: Metal Bulletin Research

**EU share of total US seamless OCTG imports (%)**

Tonnage has been averaging around 20% since the start of 2010



Source: customs statistics, AISI

steelmaking activity at home appear to be supporting domestic prices. MBR believes that February scrap prices will be on a par with January. There will likely be a seasonal slide into the second quarter concurrent with better scrap flows. Seamless mills are expected to attempt to maintain tube and pipe list prices in line with scrap price increases but could attempt to grow margins later in the year if demand remains firm. This may only be possible in the higher-grade products, however.

### Shale drilling provides reason for optimism...

Market players continue to be bullish over the prospects for pipe and tubing demand out of the shale areas. Natural gas demand is poised to rise as the economic recovery takes hold, although slowly, over the coming year or so. Market participants are excited over the prospects of a growing infrastructure of fueling stations for compressed natural gas (CNG)-powered vehicles. Rosetta Resources plans to drill 60 wells by the end of the year in the Eagle Ford area. In the Marcellus area, Clinton County, PA is now home to 15 wells, but that figure is expected to jump to 400 by the end of the year.

Some factors may limit the growth in the shales, particularly the Marcellus, and drilling expectations may not be met, suggesting the growth outlook is too optimistic. The Marcellus region in particular is not located in an area that has had energy exploration or development in the past century, unlike the Eagle Ford or Barnett regions which are closer to already-developed energy regions. Pennsylvania, with minimal taxes and fees on drilling and exploration, has

### US shipments of seamless pipe (ton)

	2009	2010	May 11	Jun 11	Jul 11	Aug 11	Sep 11	Oct 11	year-to-date	y-o-y % chg
Standard pipe	115,111	309,326	16,384	21,713	22,237	24,463	19,178	25,077	197,196	-18%
OCTG	717,371	1,357,318	126,309	152,264	134,662	155,243	157,748	135,949	1,329,302	17%
Linepipe	59,872	47,496	8,738	6,027	10,750	30,368	32,874	8,498	128,930	251%
Mechanical tubing	156,905	243,209	30,309	31,201	28,714	35,560	33,282	29,778	308,656	59%
Structural pipe & tubing	15,145	14,922	1,147	1,187	766	3,455	3,455	1,167	16,757	63%
<b>Total</b>	<b>1,088,126</b>	<b>2,012,242</b>	<b>187,137</b>	<b>218,159</b>	<b>201,133</b>	<b>253,864</b>	<b>250,476</b>	<b>205,209</b>	<b>2,024,048</b>	<b>23%</b>
% for export	8.6%	8.7%	6.4%	4.7%	10.7%	4.7%	6.7%	6.8%	-	-

### Canadian seamless and welded OCTG shipments ('000 tonne)

	2009	2010	May 11	Jun 11	Jul 11	Aug 11	Sep 11	Oct 11	year-to-date	y-o-y % chg
OCTG production*	321	826	63	67	57	61	47	70	642	-5%
OCTG casing inc. coupling*	289	628	43	49	43	42	-	58	460	-10%
OCTG tubing inc. coupling*	33	198	20	18	13	18	-	12	132	-21%

Source: AISI, Statcan, Metal Bulletin Research

\* including welded

### Americas seamless production and trade data ('000 tonne)

	2009	2010	Mar 11	Apr 11	May 11	Jun 11	Jul 11	Aug 11	Sep 11	Oct 11	year-to-date	y-o-y % chg
<b>Argentina production</b>	502	779	66	68	68	69	73	86	87	76	696	8%
Net import	-370	-479	-17	-39	-60	-58	-47	-32	-72	-44	-435	10%
Apparent cons	132	300	49	29	8	11	26	54	15	32	261	5%
<b>Brazil production *e</b>	412	505	48	47	52	47	49	47	44	46	467	10%
Net import	-22	11	1	0	2	5	-2	1	-5	-8	-4	-137%
Apparent cons	390	516	49	47	53	53	47	48	39	37	463	6%
Ecuador production	-	-	-	-	-	-	-	-	-	-	-	-
Net import	104	107	6	7	16	12	24	37	34	10	160	76%
Apparent cons	-	-	-	-	-	-	-	-	-	-	-	-
<b>Canada production *e</b>	66	-	-	-	-	-	-	-	-	-	-	-
Net import	275	375	26	18	40	40	41	47	60	39	392	25%
Apparent cons	341	-	-	-	-	-	-	-	-	-	-	-
<b>Mexico production</b>	586	671	55	52	58	60	67	70	70	-	536	7%
Net import	-186	-269	-29	-24	-22	-20	-30	-37	-31	-	-208	23%
Apparent cons	400	402	26	28	36	40	37	33	39	-	258	-9%
<b>US production</b>	969	1,785	179	159	170	198	182	230	227	-	1,649	26%
Net import	1,015	1,253	166	131	156	201	158	153	120	184	1,528	50%
Apparent cons	1,984	3,037	345	290	326	399	340	383	347	-	2,992	36%

Source: Customs Statistics, Various sources, Metal Bulletin Research

\*e = estimate

many hills and valleys in the productive areas with limited, road, rail, technology and airport infrastructure in place. Meanwhile, we have been told that the potential workforce in place in the area has minimal experience so field services companies are having to rely on an outside workforce or training their own workforce. Moreover, there is limited understanding of the drilling process by area community members as well as officials.

While we believe these limitations will slow the drilling process and this year's activity may not live up to expectations, it may also be beneficial in the longer term as this market is less likely to overheat. MBR understands that there is a modest underlying fear that the US natural gas market, and voracious shale drilling activity, has the makings of a bubble that is overheating. Many we spoke to feel that this is not the case, that natural gas prices have been relatively steady and demand is on the rise. But, we note that the expectation for natural gas demand depends on a continued economic recovery and even an increasing rate of growth. The limiting factors for growth in the more distant shale areas may minimize the risk of an overheated market and actually support a longer-term growth horizon.

**...but imports could undermine pricing in short term**

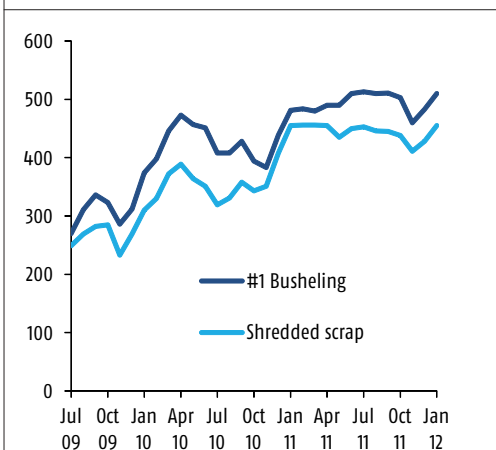
Nevertheless, the consistent undermining factor in the seamless OCTG market, especially in North America, is the tendency for oversupply. Through the recession, distributors and field services companies have found themselves with excess supplies of both seamless and welded OCTG leading to price weakness even while underlying demand is firm. The expansion of domestic capacity was intended to supersede imports, but arrivals outpace year-ago tonnage. Through 2011, total US OCTG imports exceeded prior-year levels by more than 500,000 tonnes. Through October 2011, seamless imports exceeded January–October 2010 imports by 117,000 tonnes. Arrivals from the EU are up 9.3% through October, while Austria accounting for the majority of the tonnage. With the weakness in the euro to the dollar, down 2.3% in the first two weeks of the year, MBR foresees no reversal in this trend with EU mills potentially surpassing the 20% average share of US seamless OCTG imports edging out Asian and Latin American competitors.

**Like last year, manufacturing starting the year with momentum**

Since it is the start of the year, MBR is formulating its 2012 outlook. So far, the year is starting off in similar fashion as 2011. Retailers and distributors kept inventories low at the end of the year so we are again seeing the seasonal uptick in factory orders and manufacturing activity. The momentum in the manufacturing sector has buoyed mechanical tubing producers who are again hinting at raising pricing in response to higher costs. At this point, we believe they will have measured success. But, we are wary of the sustainability of this activity into the second quarter. Most indicators are pointing to expansionary conditions. The Manufacturing Credit Managers' Index (CMI) also displayed expansionary results, but the number of credit applications in the most recent measure decline to negative territory. This suggests that firms are less likely to borrow to expand or increase workforce. While this is only one data point, we caution that the usual second-quarter downturn may be as steep as last year.

**US scrap prices, shredded vs. busheling (\$/l.ton)**

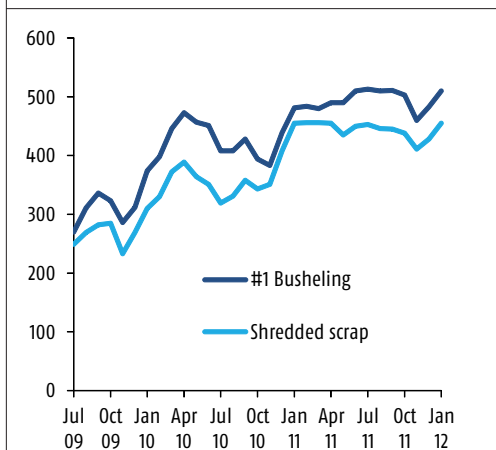
*The fourth-quarter price declines have been recovered and tubing producers will look to pass on these rising costs*



Source: Metal Bulletin Research

**US scrap prices, shredded vs. busheling (\$/l.ton)**

*The fourth-quarter price declines have been recovered and tubing producers will look to pass on these rising costs*



Source: Metal Bulletin Research

## Europe, Middle East and Africa Market Analysis

- Business confidence in the UAE and Saudi Arabia remains strong
- Seamless demand in the CIS region still weak
- Market sentiment strains seamless producers

### Market Outlook

Fears of a slowdown in the economic growth across Europe were heightened this month, as rumours of a credit rating downgrade from Standard & Poor's rating agency for up to 11 countries in the euro area sent markets down. Despite the announcement, seamless tubing prices in Europe are expected to remain relatively stable with the export market strengthening due to the depreciation of the euro. In the CIS region, December seamless pipe demand for standard grades fell significantly and as a result purchasing

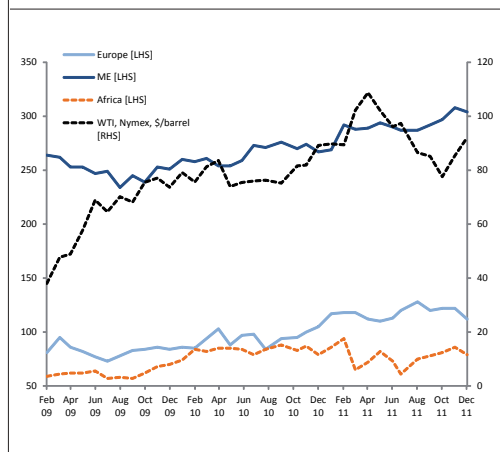
activity from stockists also declined. The robust demand for OCTG seamless pipe is likely to be maintained over the next few months with expected high output from Russian oil and gas companies. Strength of economic indicators for the Middle East suggest that business confidence in the UAE and Saudi Arabia is strong, putting upward pressure on the consumption of seamless tube and pipe in the region.

### Middle East sees a decline in rig counts despite strong WTI crude oil prices

Long term growth of the total rig count for the Middle East is expected to continue to grow with a boost from rising oil prices. Despite the 18.7% price surge for WTI crude between October – December, European, Middle East, and African rig counts fell 8.2%, 1.3%, and 8.1% respectively, according to Baker Hughes. Over the next year we expect the Middle East to see strong demand in small diameter line pipe as a result of increased refining operations. The Purchasing Manager's Indices (PMI) for Saudi Arabia and UAE, according to HSBC, are very robust with Saudi Arabia's PMI leading the way. The strength of this indicator suggests that business confidence in the Middle East is strong, putting upward pressure on the consumption of seamless tube and pipe in the region.

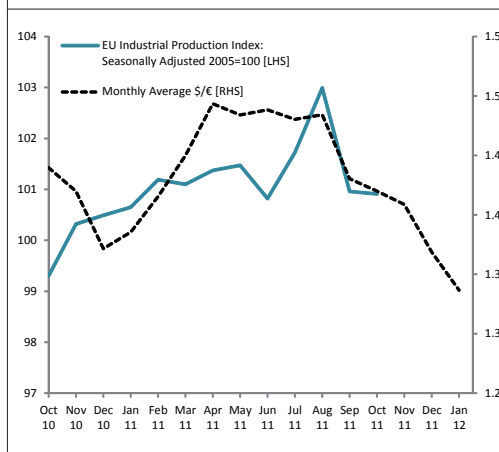
Total seamless exports in Turkey fell .53% between September–October 2011. September marked the beginning of fall's seasonal pick up, which we expect to have lasted until December 2011. At the moment, we anticipate that imports will continue to follow a similar trend with the overall volume of orders and demand for the seamless pipes trailing off over the next few months. Import prices of ASTM grade B seamless pipes have reflected raw material price fluctuations, resulting in minor price increases over the last month.

**Middle Eastern, African, and European rig counts,** Despite rising crude oil prices the last two months, total rig counts in the Middle East, Africa, and Europe have declined.



Sources: MBR, Baker Hughes

**EU Industrial Production & Monthly Average \$/€ Exchange rate,** The European export market continues to be supported by the weak euro, but indications are that IP will decline



Source: Metal Bulletin Research, IMF



**European seamless production and trade data ('000 tonne)**

	2009	2010	Apr 11	May 11	Jun 11	Jul 11	Aug 11	Sep 11	Oct 11	year-to-date	y-o-y % chg
<b>Austria production</b>	345	377	35	37	34	26	28	36	-	296	5%
Net import	-126	-263	-31	-33	-31	-33	-16	-28	-	-246	55%
Apparent cons	219	114	4	4	3	-7	12	8	-	14	-84%
<b>Czech production</b>	254	331	33	37	33	34	29	35	-	296	22%
Net import	-172	-221	-20	-24	-22	-19	-20	-23	-23	-205	10%
Apparent cons	82	110	13	13	11	15	9	12	-	92	18%
<b>France production</b>	549	576	59	63	57	62	21	61	-	483	11%
Net import	-196	-168	-21	-23	-23	-44	-9	-30	-32	-261	112%
Apparent cons	353	408	38	40	34	18	12	31	-	254	-23%
<b>Germany production</b>	1,067	1,187	108	122	117	88	104	116	-	971	8%
Net import	-613	-722	-47	-56	-41	-36	-57	-49	-49	-493	-17%
Apparent cons	454	465	61	66	76	51	47	67	-	527	37%
<b>Greece</b>											
Net import	24	10	1	1	1	1	1	1	-	10	39%
<b>Italy production</b>	564	760	71	73	76	71	22	-	-	507	3%
Net import	-241	-178	-15	-21	-10	-13	-22	10	-	-143	4%
Apparent cons	323	582	55	51	67	58	-	-	-	354	-3%
<b>Norway</b>											
Net import	66	42	4	4	11	6	7	15	7	81	141%
<b>Poland production</b>	103	27	-	-	-	-	-	-	-	-	-
Net import	34	60	6	8	8	4	6	5	-	57	32%
Apparent cons	137	38	-	-	-	-	-	-	-	-	-
<b>Romania production</b>	318	430	43	48	48	-	-	-	-	259	23%
Net import	-184	-337	-39	-35	-37	-34	-23	-29	-	-284	28%
Apparent cons	134	93	4	13	11	-	-	-	-	61	28%
<b>Russia production</b>	2,139	2,649	246	256	242	249	245	228	237	2,436	12%
Net import	-87	6	15	16	-12	7	2	8	10	59	-334%
Apparent cons	2,052	2,655	261	272	229	256	247	236	247	2,495	16%
<b>Spain production</b>	199	292	24	29	27	19	-	-	-	180	4%
Net import	-28	-69	-7	-16	-21	-14	-1	-3	-	-97	206%
Apparent cons	171	223	18	13	6	6	-	-	-	87	-42%
<b>Sweden production</b>	40	-	-	-	-	-	-	-	-	-	-
Net import	-20	-18	-2	-2	-3	-1	1	-2	-	-14	51%
Apparent cons	28	-	-	-	-	-	-	-	-	-	-
<b>Turkey</b>											
Net import	113	178	14	16	12	23	15	19	20	178	22%
<b>Ukraine production</b>	510	782	85	77	78	77	71	64	79	757	18%
Net import	-396	-602	-60	-57	-58	-58	-51	-54	-54	-563	13%
Apparent cons	114	180	25	20	20	19	20	10	25	194	34%
<b>UK production</b>	6	-	-	-	-	-	-	-	-	-	-
Net import	83	89	15	16	14	14	14	10	9	107	51%
Apparent cons	50	-	-	-	-	-	-	-	-	-	-
<b>Slovakia production</b>	44	-	-	-	-	-	-	-	-	-	-

Source: Customs Statistics, Metal Expert, Various sources, Metal Bulletin Research \* Some European figures are MBR estimates



Seamless pipe demand in the CIS region is slow, but expected to pick up over the next few months. In December seamless pipe demand for standard grades fell significantly, and as a result, purchasing activity from stockists also declined. We expect stagnant growth in the CIS region as we move into the first quarter of the year with producers slowly scaling up capacity to meet an anticipated pick up in purchases following seasonal demand trends. In mid-February, buying activity should come back online, during this period we expect standard seamless prices to pick up in Russia following the anticipated surge in demand. The OCTG sector of seamless tube and pipe in Russia continued to be supported by strong oil prices. The robust demand for OCTG seamless pipe is likely to be maintained over the next few months with expected high output from Russian oil and gas companies.

Plants in the CIS region are becoming more efficient at producing billet and as a result, seamless tubing prices are not as heavily influenced by fluctuations seen in billet and semi-finished steel prices in the international market. We expect this to be a growing trend over the next few years because it allows companies to hedge against market fluctuations of semis prices, while allowing companies to increase profits using their own material. In Ukraine, production cost of HR seamless pipe should remain stable for the next three months with export prices for semi-finished products remaining unchanged.

European markets remain stable; however, project slowdowns and cancelations have been noted. Fears of a slowdown in the economic growth across Europe were heightened this month, as rumours of a credit rating downgrade from Standard & Poor's rating agency for up to 11 countries in the euro area sent markets down. France confirmed that their country lost its AAA rating this month. The downgrade is of concern as its impact may negatively affect economic growth rates and consumer confidence, directly reducing the consumption of mechanical tube and pipe. According to the IMF, the euro area industrial production index (seasonally adjusted) declined from September's rate of 2.6% to 1.6% in October. We expect this contraction, along with a decline in the construction production index, to put a strain on tube and pipe producers in the industrial and construction arenas.

Prices in Europe have remained relatively stable this month, despite the lingering sovereign-debt crisis and weakening euro. The European export market remains supported by the depreciation of the euro, so far this month it has fallen to a low of 1.2678 \$/€. Slowdowns and cancelations of project decisions have been noted following the start of the new quarter, mostly attributed to economic sentiment. We expect prices to remain fairly firm with little variance this month. Market sentiment and seamless demand will be vulnerable to further credit rating downgrades, along with equity market and commodity price volatility.

#### CIS & MENA seamless net imports (tonnes)

	2009	2010	Jan 11	Feb 11	Mar 11	Apr 11	May 11	Jun 11	Jul 11	Aug 11	Sep 11	Oct 11	year-to-date	y-o-y % chg
Algeria	934,556	457,844	14,118	20,584	7,021	12,870	8,311	11,533	12,571	22,886	15,558	892	126,344	-69%
Angola	144,261	177,335	13,048	6,431	5,124	7,807	7,238	6,920	6,122	14,635	8,514	5,811	81,650	-49%
Azerbaijan	83,355	104,093	10,049	4,779	8,665	7,185	7,817	11,475	4,137	7,582	10,068	852	72,609	-12%
Cameroon	52,307	28,455	1,451	1,058	876	1,169	1,975	518	1,410	2,819	3,158	1,003	15,437	-31%
Congo	31,704	8,348	626	1,802	834	581	2,406	2,280	458	1,501	1,733	1,639	13,860	130%
Egypt	195,315	227,187	11,765	15,034	11,495	21,610	15,877	19,340	19,282	27,411	18,264	6,979	167,057	-10%
Gabon	25,990	20,244	2,328	712	2,775	1,703	2,920	5,170	1,755	2,172	1,992	794	22,321	17%
Ghana	33,068	22,633	2,253	1,127	3,533	6,574	2,636	2,540	3,637	4,115	9,193	3,186	38,794	110%
Iraq	128,551	155,664	21,995	11,668	13,386	16,416	6,043	17,365	18,374	10,485	18,652	7,352	141,736	25%
Kenya	10,957	23,732	678	345	4,403	537	1,387	1,218	1,297	3,792	890	916	15,463	-32%
Libya	137,508	156,881	16,272	12,371	28	0	72	8,002	32	0	574	0	37,351	-69%
Nigeria	91,954	119,333	14,146	4,638	7,060	6,049	5,849	4,846	8,130	7,804	8,779	1,533	68,834	-37%
Sudan	81,574	68,759	442	2,507	6,473	7,877	12,465	3,604	3,523	1,795	1,729	700	41,115	-35%
Turksia	30,661	17,436	3,972	1,045	1,342	2,319	2,152	657	942	921	635	15	14,000	-13%
Turkmenistan	157,538	79,055	5,972	3,001	4,770	8,893	7,331	16,930	10,028	23,122	1,773	7,736	89,556	60%
Uzbekistan	67,342	64,633	5,444	2,293	1,765	1,675	5,091	6,336	4,156	7,506	6,620	3,655	44,541	-22%

Source: Various sources, Metal Bulletin Research

## Asia Market Analysis

- Chinese structural grade demand still in retreat...
- ...and caution still holds down all orders ahead of holidays
- Buyer pressure to cut prices in structural grade markets

### Market Outlook

The market is likely to remain divided between the energy sectors and the rest of demand. The immediate outlook in most of eastern Asia is for another month of reduced activity; the 2012 market will not open fully until mid-February. The general downward drift in raw materials and steel prices, together with China's continued need to adjust excess stocks, and gloom over the failure of eurozone authorities to find a way to grow out of debt and recession, makes most buyers for general grades of pipe and tube reluctant to order and

leads those that do order insistent on price discounts. By contrast, processing and specialised production facilities limit supply at the upper end of markets, where demand is likely to continue to be buoyant, whether in reviving passenger car and capital goods sectors or the oil and gas industry. A serious setback in the eurozone will have effects around the world, and these markets will not be immune, but self-sustained growth in the Asian economies will ensure some continued growth even in the worst circumstances

### Caution and holidays render markets inactive

November's Chinese IP report saw the country's first monthly decline in manufactured output since the depths of the recession. This dealt a new blow to market confidence already undermined by falling property prices and fear of contagion spreading from the eurozone. Nothing that has happened at home or abroad in the past month has lifted the mood, and the approach of the holiday to celebrate the year of the water dragon has done no more than slow markets further.

No early recovery in construction demand is expected, and demand from manufacturing is expected to be muted. The government has made it clear that it is prepared to see house prices fall further under its onslaught against property speculation and it continues to lecture the steel industry on the need for producers to merge and cut capacity. Although mill stocks and distribution stocks have been reduced, lead times are still short, so there is little incentive for customers to place firm forward orders. If prices are generally static rather than falling it is only because of the low level of market activity ahead of the holidays.

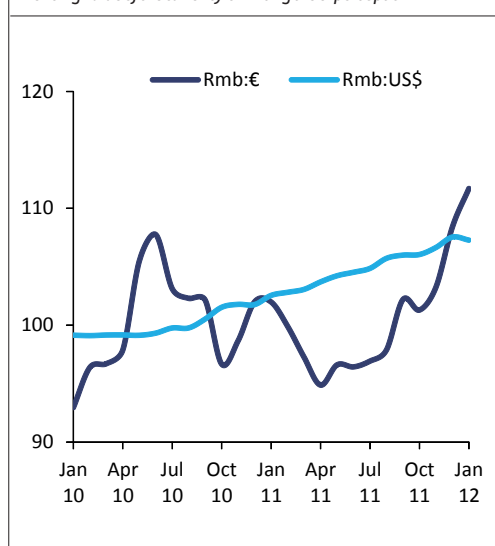
### Prices bottoming?

After watching prices fall and price ranges spread during the final quarter, many producers hoped that they had hit bottom and have tried to hold quotes steady in January. They have had some success in Shanghai; prices of pipe billet and for popular ranges of pipe have sold at December prices, but in Tianjin prices of both pipe billet and 108mm (4.25in) OD pipe have slipped by around Rmb50/tonne (\$8/tonne). Given the much reduced trading time in the days ahead mills will probably succeed in rolling prices over at this level in February. At most, the price range may narrow as business picks up after the holiday; material will not be offered at the very lowest prices, but prices are not likely to rise until later in the quarter, after output and stocks are cut.

Determined export drives by mills – helped by low stocks in some export markets – have

### China's Rmb (US\$ basis 2010 = 100)

The rising value of the currency is limiting the export option



Source: Metal Bulletin Research

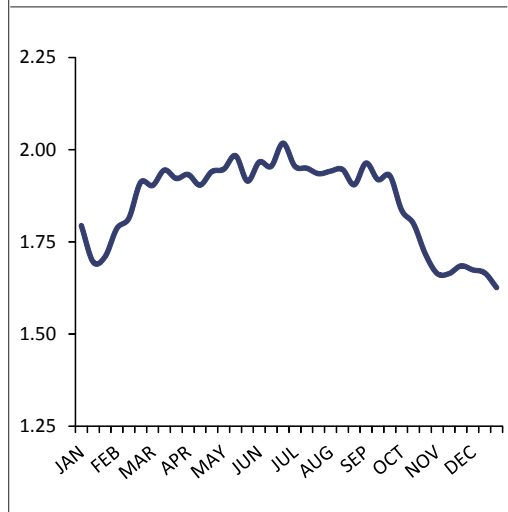
gone some way to cutting excess stocks. However, the rising value of the currency is restricting the export option; it has made overseas sales less profitable and makes it easier for foreign competitors to initiate anti-dumping cases. This danger was highlighted in the final days of December when the European Commission announced final anti-dumping duties of 48.3–71.9% on Chinese stainless steel seamless tubing following an investigation prompted by Eurofer.

#### A good year for Japanese mills

Prices have been depressed in markets among China's smaller neighbours. Japan is an exception, and prices in Japan are reported to be rising as both construction and manufacturing shows signs of recovery after the uncertainties and disruptions of 2011. Distributors are reported to be re-stocking in anticipation of a better than usual spring revival in the building and civil engineering sectors as a large number of post-tsunami reconstruction contracts have been let.

#### Chinese daily crude steel output 2011 (m tonnes)

Output cut too little, too late



Source: CISA

Manufacturing has also benefited; carmakers have finally overcome the supply problems posed by off-shore component makers in Thailand hit by the exceptional floods and the order books of Japanese capital goods makers are overflowing with replacement orders from both Thailand and tsunami-hit areas at home, which augurs well for domestic demand for seamless tube and pipe. China's seamless export volumes are likely to decline because of the difficulty of holding on to market share in price-competitive sectors without provoking anti-dumping actions, but Japanese exporters, selling on quality considerations at the upper end of the market are likely to rein in their export efforts to respond to the needs of their expanded domestic market.

Figures just published by the Japan Iron and Steel Federation (JISF) for the period up to the end of November show that they were exceptionally successful in export markets in 2011, doubling their 2010 tonnages. Exports were higher in all Japan's leading markets, but its exporters have a wide spread of customers around the world; they can ride out setbacks in localised markets or, as is likely to be the case, re-direct tonnage to domestic customers without greatly disrupting business in their main export markets.

#### Asian seamless production and trade data ('000 tonne)

	2009	2010	Mar 11	Apr 11	May 11	Jun 11	Jul 11	Aug 11	Sep 11	Oct 11	year-to-date	y-o-y % chg
<b>China production</b>	21,548	25,159	2,140	2,173	2,231	2,401	2,318	2,326	2,232	2,284	21,864	6%
Net import	-2,822	-3,555	-309	-374	-351	-368	-436	-437	-402	-366	-3,654	26%
Apparent cons	18,727	21,604	1,831	1,799	1,880	2,033	1,882	1,889	1,830	1,918	18,210	3%
<b>India</b>												
Net import	263	-	18	3	-	-	-	-	-	-	83	-3%
<b>Indonesia</b>												
Net import	219	250	44	25	5	-19	23	14	-	-	155	-31%
<b>Japan production</b>	1,658	2,069	196	182	181	170	191	177	189	191	1,851	8%
Ordinary seamless	485	558	56	57	55	49	51	46	54	50	520	12%
Special seamless	857	1,157	107	94	98	90	106	99	100	105	1,000	4%
Stainless*	317	353	33	32	28	31	35	32	34	35	331	16%
Net import, excl stainless	-1,025	-1,216	-149	-83	-102	-108	-102	-113	-98	-109	-1,069	7%
Apparent cons, excl stainless	636	1,350	15	67	50	30	54	32	57	47	452	24%
<b>Malaysia</b>												
Net import	84	120	26	15	13	27	11	12	6	-	139	54%
<b>S. Korea production</b>	16	16	1.4	1.2	1.4	1.5	1.3	1.3	1.4	1.5	14	0%
Net import	320	394	42	41	43	43	45	55	45	45	426	35%
Apparent cons	336	410	43	42	44	44	47	56	47	47	440	33%

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

## Energy Market Analysis

- Oil prices, stable over the last two months, are likely to soar...
- ...amid fears of Tehran's response to the sanctions of the West
- Henry Hub average spot prices fell about 9% in 2011 compared to 2010

### Market Outlook

In the last two months, oil prices fluctuated in a narrow range, but the overheating situation in Iran might disrupt the supply-demand balance. Increased tension regarding Tehran's nuclear programme and combined impact of responsive US sanctions and forthcoming EU embargo on Iran's oil industry could force Tehran to retaliate or cut production, causing oil prices to soar. More than 85% of crude oil exports through Hormuz went to the

Asian market, with largest destinations to Japan, India, S Korea and China. With tight supply, the Far East might not follow embargo completely, however, impact on Iran's economy should be felt and oil prices are very likely to increase if political issues remain unresolved. Moderate winter so far, large amounts of inventories, increased supply and weaker demand continue to hold natural gas prices bearish at \$2.7/mmBtu in mid-January.

### Crude prices could soar if tensions between Tehran and the West go unresolved

Following the test launching of a long-range missile, Iran warned that if an embargo on Iran's oil exports were approved, the Strait of Hormuz would be closed. With this stance, Tehran aims to defend against further international pressure, especially after the USA enacted sanctions to penalise financial institutions for dealing with Iran's central bank. The Strait of Hormuz is the world's most important oil chokepoint due to its daily oil flow of almost 17m bbl/day in 2011. Despite the fact that shutting down strait would harm Iran's economy, it is a hard decision for the EU to sign the embargo without further raising tensions.

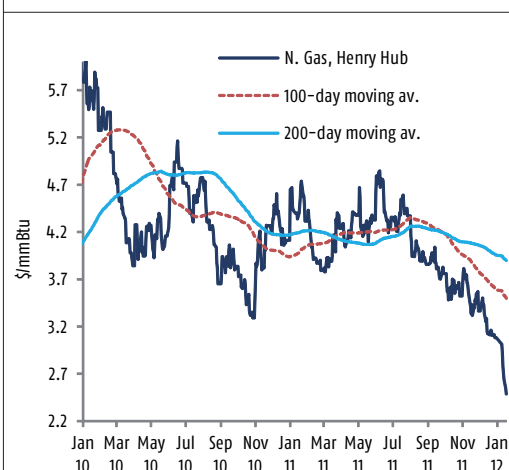
Seaway pipeline reversion plans have quickly narrowed the Brent-WTI spread to about \$10/bbl. However, crude glut fears returned as world pipeline crossroad Oklahoma is about to expand oil storage by 79m bbl by the end of 2012. While there is still disagreement in the industry, the view that demand for storage will grow generally prevails over fears of overcapacity. MBR foresees that oil prices will trend upwards, supported by forthcoming EU and US embargo on Iran, recent strike over fuel prices in Nigeria and better demand on motor fuel.

### Henry Hub prices plummet 9% y/y on warm winter weather and oversupply

The price of natural gas continues to fall with Henry Hub futures price closing at \$2.7/mmBtu. This was mainly caused as working underground storage reached 17% above the 5 years average of 3.377 tr cubic feet. Due to oversupply and warm weather, we foresee Henry Hub prices remaining on a downtrend with small upward corrections caused by chilly weather.

#### Long-term average natural gas prices

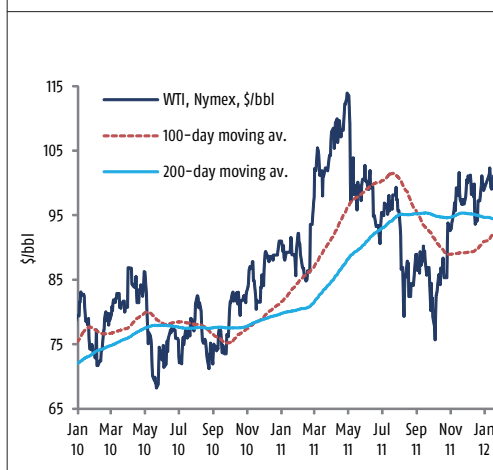
Milder winter temperatures will keep prices under \$4/mmBtu for the coming month



Source: Nymex, Metal Bulletin Research

#### Crude oil 1 month futures prices (WTI)

Prices recovered as supply concerns pushed prices higher



Source: Metal Bulletin Research

## Seamless capacity developments and news

### Evraz Inc. North America to boost steel production in 2014

Evraz Inc. North America has received clearance to expand steel production in their Pueblo, Colorado facility. It is estimated that steel output may increase by 33% at the Colorado mill. Along with this expected expansion of capacity utilization, the plant has also received a permit which will allow them to replace an electric furnace transformer. While the reasons for an increase in output are unknown, media reports quote a senior Evraz executive as saying that Evraz may seek to increase pipe production and expand rail output at the Pueblo facility. At the moment, the mill in Pueblo has an annual capacity of 520,000 tons for rail production. Along with rail output, the mill also produces seamless OCTG, rod, and reinforcing bar.

The Evraz facility in Portland Oregon reported that they plan to add manufacturing capacity for API grade pipe. The proposed plan would raise the annual capacity to 250,000 tons of API pipe and structural products in about 8 months, scheduled in August 2012.

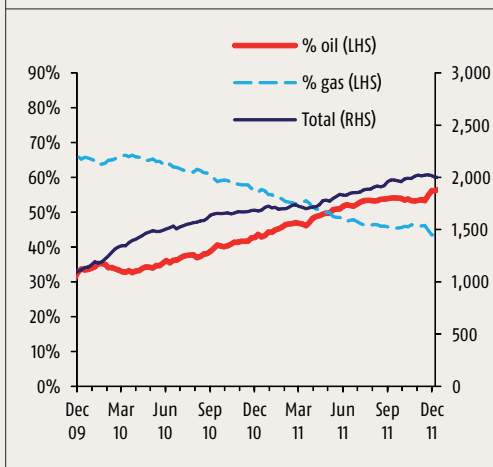
### Schulz Xtruded Products LP (SXP) begins seamless pipe production in Tunica, Mississippi facility

SXP's new facility in Tunica, Mississippi is expected to have an annual capacity of 12,000 ton by 2012 with a 20,000 annual ton increase in 2013. The pipe facility will produce 8-24 inch diameter seamless pipe using a hot-extrusion process with a second phase adding larger diameter pipe production. The second phase of the project would also aim to add 50,000 tons/year of annual capacity. Accompanied with a strong customer base, the company is confident that they will be able to reach their targets.

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

### USA rig counts, split between oil, gas rigs

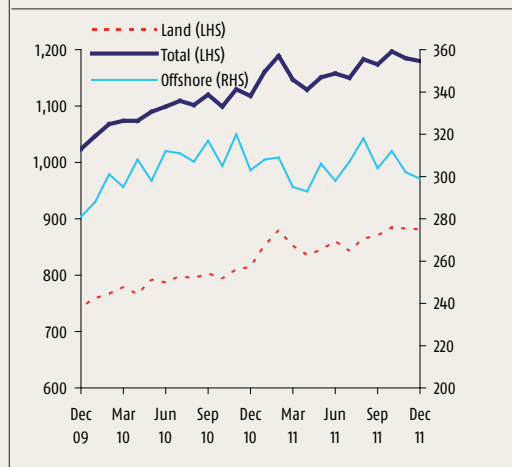
During December 2011, the oil rig count increased by 61 new rigs, while the gas rig count decreased by 47 rigs



Source: Baker Hughes, Metal Bulletin Research

### International rig counts, land/offshore rigs

Despite strong oil prices, the total rig count dropped by 5 rigs between November-December 2011. The rig count however increased 6% year-on-year.



Source: Baker Hughes, Metal Bulletin Research

Published monthly by Metal Bulletin Ltd  
 ISSN 1749-3757  
 Produced by: Laima Alavociute  
 Jasmine Lee  
 Kimberly Leppard  
 Brad MacAulay

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

### Other MBR reports available include:

- Welded Steel Tube and Pipe Market Tracker
- Steel Raw Materials Weekly Market Tracker
- Steel Weekly Market Tracker
- Coated Steels Market Tracker
- Stainless Steels Market Tracker
- Ferro-alloys Market Tracker

To receive a free sample of any one of the above reports, email your details to: marketing@metalbulletinresearch.com

This document is for information purposes only. The information contained in this document has been compiled from sources believed to be reliable. Whilst every effort has been made to ensure that the information is correct and that the views are sound, Metal Bulletin Ltd cannot be made liable for any loss no matter how it may arise.

**Copyright Notice: © Metal Bulletin Ltd 2011.** All rights reserved. No part of this publication (text, data or graphic) may be reproduced, stored in a data retrieval system, or transmitted, in any form whatsoever or by any means (electronic,

mechanical, photocopying, recording or otherwise) without obtaining Metal Bulletin Ltd's prior written consent. Unauthorised and/or unlicensed copying of any part of this publication is in violation of copyright law. Violators may be subject to legal proceedings and liable for substantial monetary damages per infringement as well as costs and legal fees. For information about copyright licenses please contact Sanjana Dayal on COPYWATCH in the UK on +44 (0) 20 7779 8298. Brief extracts may be used for the purposes of publishing commentary or review only provided that the source is acknowledged.