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3Q17

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About this Report

Published by the American Supply Association (ASA) and distributed in February and August exclusively to members of the association's Industrial Piping Division (IPD), this report provides comprehensive insight and leading information compiled from primary sources by knowledgeable industry leaders. It contains the most current and qualified market data for more than a half-dozen commodities, including recent and anticipated changes in pricing or price-influencing action(s) as well as factors affecting supply and demand, etc. LEARN MORE

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CARBON STEEL

Domestic Pipe

The market for seamless is very tight with limited tons available. Prices reflect the availability from mills and distributors inventories. This is due to the high demand in the OCTG segment, which commands a higher profit for the mills.

The mills are quoting September-October availability for welded. There have been slight increases due to the cost of HRC as well as the Trump Administration's pending Section 232 investigation. As the case now seems to be on the back burner, it's likely we can expect a softening in the market for 4Q17.

Import Pipe

Distributor inventories are running low in anticipation of the now-delayed rulings from the U.S. Department of Commerce on its Section 232 investigation, which were to have been delivered by June 30th. Even though the case now seems to be on the back burner, foreign mills are quoting, *"Subject to tariffs at time of shipment – prices may be adjusted or orders cancelled."* Look for slightly lower prices by year's end as the mills have a window to ship pipe into the U.S.

Weld Fittings & Flanges

Market conditions remain as they have in the previous quarter. Price increases earlier in 2017 have only risen slightly on approved fittings, while import fittings have remained flat. Availability remains acceptable for current demand levels with some lead times stretching.

The Baker Hughes Rotary Rig Count on July 28, 2017, reflects the year over year improvement in operating rigs. The current rig count in North America is 1,178 oil and gas rigs compared to 582 at the same time in 2016. Oil rigs stand at 766 versus 374 a year ago, and gas rigs are 192 compared to 86 last year. The top three areas for change are in Permian, which is up from 207 to 379 versus 172 a year ago, Eagle Ford is at 76 versus 33 a year ago, and Cana Woodford is at 63 versus 29 at same time last year.

At the time of this writing, WTI crude is $48.88 per barrel. Oil has traded in a narrow band for the last 12 months. Excess supply versus demand has kept prices stable. OPEC production reductions have remained in place, while US shale production has increased. The July, 2017, report from the U.S. Energy Information Administration (EIA) forecasts WTI Crude at $47.80 per BBL.

At the time of this writing, natural gas on the New York Mercantile Exchange is $2.76 MMBtu. The July, 2017, report from the EIA forecasts industrial natural gas demand to rise 1.4 percent for all of 2017 and 2.6 percent in 2018. The increase in demand is being driven by new chemical projects coming online. Natural gas is a feedstock in ammonia production for nitrogenous fertilizer and methanol manufacturers.

The lack of significant policy changes by the Trump Administration continues to be a drag on the energy markets. Hype surrounding deregulation, healthcare reform, corporate tax reductions and changes to immigration rules has turned into disappointment as little progress has been made in Washington, D.C.

Forged Steel Fittings

The outlook for forged steel fittings in 3Q17 is one of stability. Pricing has remained consistent with a sufficient supply of both import and domestic fittings in the market. Lead times range from one to five weeks with ample availability. The energy segment continues to improve and is the true driver of the market. Expect competition to remain brisk for the foreseeable future.

STAINLESS STEEL PIPE, FITTINGS & FLANGES

Raw material prices used in the manufacture of stainless steel have fallen over the last few months causing the major U.S. manufacturers to lower surcharges on stainless steel. Nickel prices hit a low of $8,780 per ton in mid-June but have recovered to $10,400 per ton in early August. Stainless steel pricing has remained steady, even through the volatility of raw materials. Some speculation exists that prices may have been supported by the U.S. Department of Commerce's Section 232 investigation; however, there is no definitive information that stainless steel products are part of the investigations.

Demand for stainless steel products in the U.S. has been increasing, as reported by Argus Metal Prices. Stainless steel scrap prices have also risen by 11.5 percent over the past month indicating higher producer demand. This may be a more powerful indicator as to why stainless pricing has held relative to lower raw materials.

Global nickel production is still expected to increase, primarily in response to the weakened Indonesian export ban as well as announcements by Australian producers of new high nickel content ore concentrates.

Outlook for Some Key Stainless Steel Products

Pipe

Decreased surcharges In July-August will affect producer prices, but this may be offset by higher market demand for stainless pipe. Expect prices to maintain current levels. Lead times are stable with no shortages reported in the market.

150LB. Fittings

Fitting prices continue at current levels. Slight increases may be on the horizon as manufacturers test the market to improve returns as we have seen with carbon manufacturers. Lead times should continue to be stable.

ANSI Flanges

Flanges continued to see price stability, while at the same time, the market noticed slight increases in demand. Expectations for 3Q17 are for pricing and availability to remain stable.

Butt-Weld Fittings

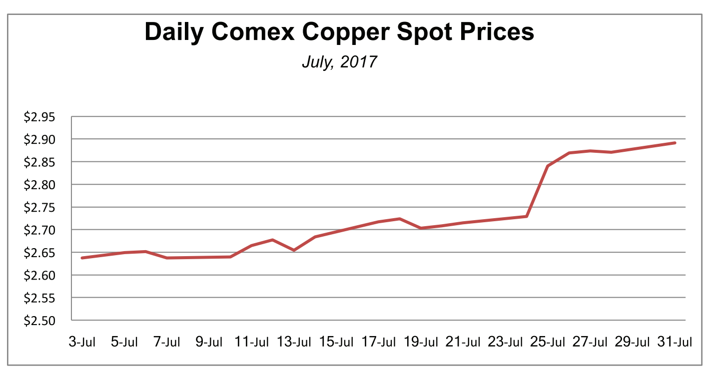
Butt-weld products are expected to continue to see moderate demand in 3Q17. Market pricing has been stable, but higher demand may push prices higher in the near term. Steady production continues to provide consistent and predictable lead times.

3000LB. Fittings

The recovery in the oil and gas industry seems to have stabilized pricing in high-temperature pressure fittings. Increasing oil prices could lead to increased project activity toward the close of 2017. Hopes of rebounding material cost lead some to expect minimal price increases to trickle in during 4Q17. Supply remains consistent.

COPPER TUBE & FITTINGS

Copper has steadily decreased from a high of $4.6495 in 2012 to a low of $1.9355 in January, 2016. But since July 14th, there has been a surge in copper pricing that later stalled, and then picked up some steam on July 25th in response to positive job growth in the U.S. However, it's reasonable to anticipate further stalling in the market as U.S. stockpiles are at their highest in more ten years. If and when the Trump Administration's infrastructure spending appears, then expect copper pricing to rise.



Worth noting is output from Freeman's Indonesia mines is short of expectations, and Indonesian government agreements on these troubled mines expire in October.

Comex copper continues to increase, partially due to a weak dollar and adjustments in China's short term forecast. In addition, uncertainty and unrest suggest continued upward trend on the Comex.

PLASTICS, RESINS & HDPE

PVC

PVC resin prices seem to be stabilizing after dropping in the previous months. Demand appears to be soft with plenty of production. Although there may be some potential for a small decline in pricing, major moves in one direction or another continue to seem unlikely, at least for the time being. Any major disruptions in the price of oil and natural gas could continue to be a factor going forward.

HDPE

The HDPE piping market has been red-hot all year, and pricing finally stabilized over the past two months. This doesn't mean that production has slowed because, in fact, production lines across the country remain full and running at 100.0 percent capacity 24 hours a day.

Lead times remain six-eight weeks for most standard sizes and SDR's. Any impact tonnage orders that have hit the lines in the last few weeks are pushing some extruders to twelve-sixteen weeks. It goes without saying that HDPE is becoming scarce, and this has caused end users to search unorthodox avenues, such as searching for surplus or even used pipe left over from the water transfer contractors.

The effect of the current long lead times is almost certainly going to push pricing up again in August, likely anywhere between three to four cents per pound. If there is an increase, and it sticks, consumers should anticipate another price hike in September of at least three to four cents per pound. The current prevailing attitude is no one believes that both of these price increases will hold until the end of this year. In fact, it seems distributors anticipate a price correction in 4Q17. In the meantime, however, if the manufacturers know they are going to give back some value, then they'll want to get the price value while they can.

VALVES

According to R. W. Baird's *Industrial Review*, both quotation and order activity improved in 2Q17, but at a slower pace than in the previous two quarters. Today, the industry mood would best be described as "guardedly optimistic" in contrast to the post-election euphoria that our industry experienced at the end of 2016 and in 1Q17.

Growth expectations continue to remain very healthy with 85.0 percent of the Baird survey respondents still predicting positive growth for 2017. However, that is still below last quarter when ALL respondents expected positive organic growth for the year. Typically, these expectations move lower through the year, but actually, all indications are that the overall industrial PVF market is getting stronger. In fact, the American Supply Association's industrial PVF distributors recently reported a solid 6.5 percent increase on average in year over year sales results through June.

Globally, Europe remains fairly stagnant, Asia is quite strong with India and China leading the way, and the Middle East and South America will continue to struggle until there is a firm pricing recovery in the global oil and gas markets.

Oil and Gas

Currently, the market is improving at a rapid pace, though sustainability remains uncertain due to the recent volatility in oil prices.

Chemical

These markets are continuing at healthy levels and are predicted to remain stable and positive for 2017.

General Industrial

These markets are by no means booming, but they are holding steady, and the outlook is for continued improvement thru 2017, according to the aforementioned Baird survey respondents.

Commercial Construction

Commercial building construction is up 4.0 percent on a year over year basis through May, 2017. Architectural firms saw a strong increase in billings in the first half of 2017. Increased activity in this area presages actual construction by 9-12 months and points to healthy levels of construction activity for the second half of this year as well as into 2018.

Power

There is still a fair amount of activity in the combined cycle area of this market, which has virtually eliminated any expansion activity in both the "other fossil" and/or nuclear markets. All indications are that natural gas is the clear winner as the fuel/energy source of choice in this country, and this decision requires our government to approve considerable new gas pipeline construction in order for the U.S. to return to a really robust power market.

Municipal Water Infrastructure

There is certainly a tremendous pent-up demand for repair and replacement in this market, but nothing of significance will happen until a focused and funded commitment comes out of Congress.

Industrial Valve Pricing

According to the Producer Price Index, industrial valve pricing is only up an average of 2.0 percent since June, 2016, but that may change in the near future. There was considerable price volatility in the month of July with copper rising 8.0 percent and nickel rising 10.0 percent. Due to these material increases and other cost drivers, a price increase could be in the cards as early as the August-September timeframe. It is anticipated that this increase would definitely affect brass, bronze and iron valves as well as affecting carbon and stainless valves, too.

GROOVED PRODUCT

Grooved products experienced a 6.0-7.0 percent increase this summer due principally to significant increases in scrap costs. Demand for grooved product remains quite strong due, in large part, to the surge in commercial building in the major urban markets. Nationally, the healthcare sector continues to be very strong with hospital construction leading the way. College campus construction also continues to drive significant demand for grooved product across the country, while K-12 school building has continued to see some very strong regional activity. The oil & gas sector has strengthened considerably from 2016 due to the sizeable increase in rig activity this year, although the increases have leveled out in recent weeks. Data center building has also remained strong and is showing no indication of slowing down.

Of significant note, Anvil announced that it had acquired Grinnell's North American Mechanical Grooved Division on August 1st, an event that will change the grooved product landscape in yet to be determined ways.

MALLEABLE IRON FITTINGS

Domestic

Pricing on domestic malleable products recently experienced a 6.0 percent increase, principally driven by rising scrap costs. The domestic market is stable and witnessing a higher level of requests for "Made in the U.S.A." products. The manufacturers have ample capacity to meet this uptick as well as any potential acceleration of these requests.

Import

Import malleable products also saw a price increase also due to the same rising scrap costs as well as higher costs to transport the product from overseas.