



## **CAL-SIERRA PIPE, LLC.**

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To: Valued Customers

Re: Steel Price and Availability through 2021

Date: June 16, 2021

Dear Valued Customers,

Back in March, we issued a general statement on price increases that described several real market conditions driving high prices and shortages throughout the pipe industry. Those conditions have not changed, and some new factors have come along that push prices even higher. Below are a few anecdotal examples of the current situation. Given what we know, we expect that prices will remain extremely high through the end of 2021, and it would take a huge shift in market conditions to move it meaningfully after that. It is likely that high prices on steel will hold well into 2022.

Since the beginning of the year, our import manufacturers have raised pricing a total of 29%. Material arriving in December is booked at an additional 55% higher than that. The lead time for unloading at port has increased from an average of 2 weeks to as much as 8 weeks. Some Korean mills were delayed by a worker strike, so we have seen delays of 60-90 days on the production side. Some Korean producers have met their quota, so they will not be able to ship any more pipe in 2021.

Our top domestic manufacturer announced price increases in January (9%), April (12%), June (17%), and they have announced another increase in July (7%) for a total of 45%. Our number 2 domestic supplier increased a total of 51% and our number 3 domestic supplier increased a total of 53% YTD. I have asked each of them to predict the pricing trend for the rest of the year and none of them expect to roll back any of those increases. All three of them have extended lead times from a couple of weeks to as much as 8 weeks.

In times of shortage, we often reach out to dealers in other regions to find pipe. Houston has been a great source for hard to find sizes, but there is a trucker shortage. Truckers are refusing loads for difficult shipping lanes, and they have raised prices on all lanes. Our rate from Houston to Stockton was \$4350 to start the year and the last load I booked was \$6450. We used to book loads for next day pickup, but now the average wait time for a pickup is 5 days.

Here are a few other notable events from around the industry:

- The National Association of Steel Pipe Distributors (NASPD) reports prices up 4.9% for May, marking 11 consecutive months of increases and a 74% increase since June 2020. Each month they poll distributors. Last month 90% of distributors reported that they expect prices to continue to increase. They also report that steel scrap and hot rolled coil pricing trends continue upward. This drives the cost of pipe in future periods.

- The Pipe Brothers Podcast episode for June was just released. The brothers, Jonathan and Jake Yentzen work primarily in the new and used OCTG market, but the market conditions on the supply side are the same for water well and structural. The episodes run from 10-20 minutes and give a pretty educated explanation of what is going on in the global market. It is worth a listen. Their episode for June is titled “Steel Prices to the moon still” and May was titled “Prices keep going up and there seems to be no end in sight”. If you don’t bother to listen, the titles pretty much tell you what you need to know. They theorize that shortages usually come to an end when importers load up on inventory, but with prices this high, importers are scared to buy too much and shortages will persist. That is in line with the consensus I’m hearing from my competitors.
  
- The Wall Street Journal reports:
  - *“As Drought Grips California, Farmers Are Feeling the Pain” – On May 10, Gov. Gavin Newsom expanded a drought emergency to 41 of the state’s 58 counties.*  
This is definitely going to increase demand in the casing sizes and keep prices high well into next year.
  
  - *“China’s Manufacturing Prices Skyrocket” – Iron ore and steel are among the commodities whose prices have soared in China.*  
They attribute the increases to higher consumption as we come out of Covid as well as a push by the Chinese government to reduce pollution. China has ordered seven major steel producers to cut production by 50%. We don’t import much steel from China, but this affects the global steel supply and increases prices of all import steel.
  
  - *“Steel Plants Idle Amid Prices Surge” – US Steel Corp and Cleveland-Cliffs Inc are keeping about 7 Million tons of production capacity out of service. That is roughly a tenth of domestic consumption in 2019. Steel prices have climbed more than 60% since the start of the year to more than \$1600 a ton.*  
They attribute this to the age of the mills and the high cost of modernization. This is likely to stress the remaining manufacturers and cause longer lead times and higher prices.

Given these circumstances and what we are hearing from our suppliers, customers, and competitors; we still predict price increases and shortages through the end of this year, even if demand softens. We recommend that you continue to bid carefully and secure your materials early. Quote validity is short with most suppliers, and everything is subject to prior sale. Good luck out there. Feel free to reach out to any of us at Cal-Sierra if we can be of assistance.

Sincerely,

John Peery  
 President  
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