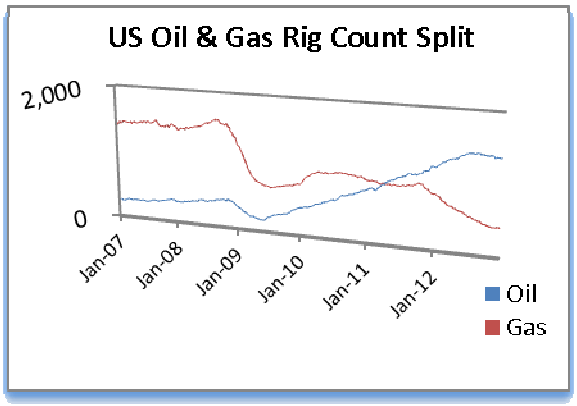
Monthly Market Thoughts - (10-Dec-12)

By Zack Kays

We all know that the development of new drilling technologies has led to the resurgence in the energy industry. However, the question then becomes, what do we do with this new-found abundance of energy resources? Most notably, what is the future of the natural gas business in America and how does it impact corrosion resistant alloys (cras)?

Just to lay some framework to this discussion, a decade ago, we were debating the need to install LNG regasification facilities in order to import large quantities of natural gas into the US. As a matter of fact, in 2007 about 80% of the rigs that were drilling were targeting natural gas. Baker Hughes reported last week that only 24% are now doing so. This is the largest disconnect between gas and oil production, on a price per BTU basis, in recent memory. This is simply due to a lack of gas infrastructure and uncertainty with US future energy policy.

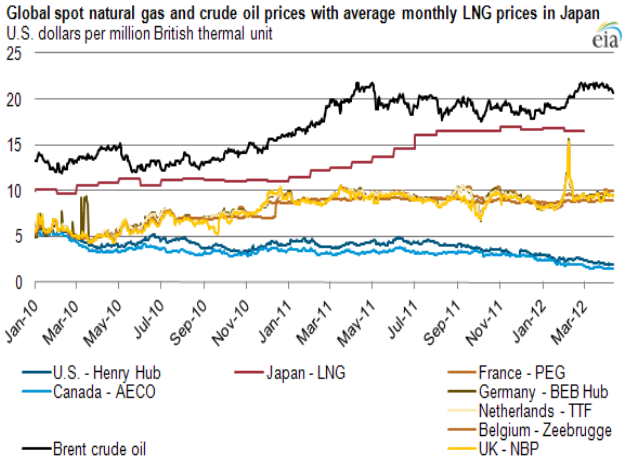
With the emergence of disconnects, we see the rise of opportunities. One of the most glaring opportunities seems to be the exportation of LNG from the US. Cheniere Energy is making a push to be a major player in this market and has plans to open its Sabine Pass facility in 2015. It would be only the second of its kind in the United Sates, the other belonging to Conoco Phillips in Alaska. Other potential new entrants are Shell Oil with a floating processing plant and ExxonMobil who is lobbying for an export terminal.



How does this impact corrosion resistant alloys? If I were to dream, it would go like this: The Cheniere project would initiate a wave of exportation facilities being built, including terminals for all the majors. Hopefully this will force the government to address the regulations surrounding the exportation of LNG, thus removing some of the uncertainties of federal intervention. The construction/expansion of LNG export plants will lead to new demand for stainless material.

Additionally, as LNG exports increase, US gas prices will start to equalize, or rise, to the price level of the rest of the world. This adjustment to a global equilibrium for gas prices will create increased US exploration and development of both shale gas plays as well as Gulf of Mexico fields. We all know how this could positively impact our economy.

As development in the Gulf of Mexico continues, there without a doubt will be strict regulations on material selection. This is an area where the government will intervene and should intervene. In the past two (2) years, we have already seen an increased utilization of super duplex and nickel based oil country tubular goods (OCTG). Should the exportation of LNG become a reality, we will see cra consumption in the US increase to levels never experienced before.



Corrosion resistant alloys are used in refineries, OCTG applications, as well as a vast array of other facets tied to the gas market. There are heavily linked. Unfortunately, cra's aren't something that can be produced over night. Current standard lead times can range from 12-18 months- this is entirely too long to support a market hungry to export gas where timing and delivery is everything. Interestingly enough, there is more long term investment going into US cra production than any point in the past 25 years. This includes some "game changing" projects designed for rapid response production.

The new investment in refineries, export terminals, and cra production is foreshadowing a fundamental long term shift in the energy outlook of America. This change is coming, will take place, and from some perspectives has already happened. The US market is one of the fastest markets in the world in recognizing opportunity and embracing change. Lets all hope that we don't have to wait until 2015 to seize it!

Authors Note: It is my hope that you found the above commentary interesting. I would welcome your feedback. It is my goal to contribute a monthly column on www.tubularmetals.com. If you have any particular subjects you would like addressed, please contact me.

Tubular Metals, Inc.
1310 West Sam Houston Parkway North * Houston, TX 77043
Email: surplus@tubularmetals.com
Zack Kays: 281-928-5147