MAJESTIC STEEL USA

MARKET UPDATE

05.19.21

RECORD BREAKING PRICING SEEN THROUGHOUT SUPPLY CHAIN

Although domestic raw steel production is increasing, demand continues to outpace supply. Coupled with supply chain disruptions and the lack of raw materials, both finished steel products and steel input pricing continue to set new record highs. Even foreign pricing is holding steady and high.

INPUT COSTS

Zinc pricing continues the steady push higher, now closing above $1.30/lb for nearly twenty straight days, hitting a fresh 52-week high this week, and is closing in on $1.40/lb for the first time since June 2018.

- In the first sign that rising zinc pricing is having an impact on the market, CSI announced increased coating extras, effective July 1.
    - Expectations are for others to follow suit in the coming weeks.
- Much like every material, the current supply/demand imbalance is poised to push prices even higher from here.

After a flat reading in May, domestic Midwest prime scrap prices are poised to see further increases in June, with early expectations ranging from up $20-$60/gt.

- Limited supply, rising secondary grade and pig iron pricing, and a strong export market are helping to boost prices.

SUPPLY

Domestic raw steel production increased last week, reaching a post-pandemic high.

- U.S. steelmakers produced 1.799 million tons at a 79.2% utilization rate.
    - This was the highest weekly output in fourteen months.
- Year-to-date production is now 7.3% above the total from the same period last year but is still 7.0% below the same timeframe in 2019.

The EU has agreed to suspend a proposed hike in its retaliatory tariffs that would have added a number of products and double duties to 50% on others.

- The U.S. will maintain its current tariffs of 25% on steel & 10% on aluminum.
- For comparison purposes, using the last full year before Section 232 went into effect (2017), the U.S. imported 98,950 tons of HDG from Europe.
    - Since 232 has been in place (2018, 2019, & 2020), the U.S. has imported 132,045, 96,229, and 66,555 tons, respectively.

DEMAND

The Empire Manufacturing Index continued to show a strong recovery from the manufacturing sector in the New York region.

- The Empire Manufacturing Index came in at 24.3, a slight slowing from 26.3 in April, but is still well above the breakeven level of 0.0.
- The two-month average of 25.3 is at its highest level since Oct/Nov 2009.

New residential construction slowed slightly in April, as new home starts came in at a 1.569 million-unit rate.

- Despite the slowdown, this was the highest April rate since 2006.
- Year-to-date actual starts are up 20.6% from last year and up 31.1% from 2019.
- Permits, an indicator of future construction, increased in April, climbing for the seventh time in the last eight months.

Confidence among U.S. homebuilders remained strong in May, as the HMI held steady at 83.

- Favorable business conditions like low interest rates and increasing demand helped to offset the headwinds from higher material costs.

April light vehicle production was down sharply from March as the current supply chain disruptions affect production levels.

- Light vehicle production totaled 719,982 units, down 21.0% from 911,308 units in March.
    - A slight uptick in car production was not enough to overcome the sharp decline in light truck builds.

PRICE

Steel pricing continued to set new all-time highs, as the upward momentum continued to grow this week.

- This current upward super-cycle for flat product pricing has now entered its eighth month, with no signs of turning in the near future.
- HDG pricing has now increased to $158/t ($7.90/cwt) over the past three weeks; the largest three-week increase of this super cycle.

Foreign pricing held relatively steady this week, as Asian HRC prices remained near a 13-year high (July 2008).

- The Platts index FOB China slipped slightly to $1,012/mt ($45.90/cwt).
- Chinese HRC pricing is still up 49.5% YTD.