

INDUSTRY DRIVEN DEMAND GROWS AS SUPPLY REMAINS UNCERTAIN

Manufacturing and construction industries continue to grow despite the current supply and demand imbalance. Although, talks of increased supply are leading news headlines; scheduled domestic mill maintenance coupled with Russia's new export tariffs could have a large impact on the amount of available steel in the U.S.

INPUT COSTS

After sliding to its lowest level since April last week, zinc pricing shook off the recent increase in the U.S. dollar to climb higher again this week.

- Zinc pricing climbed to \$1.31/lb this week and longer-term forecasts expect pricing to return to the recent \$1.35/lb average from the last 30 days.
 - Much like every material, the current supply/demand imbalance is poised to keep pricing from falling too far.

Pacific basin met coal pricing continued to push higher this week, climbing to its highest level since July 2019.

- Pricing increased to \$186/mt; up 4.2% w/w and up 60.3% y/y.
- Increasing demand from India, easing of China/Australia export ban, and higher finished steel pricing have all helped push pricing higher.

U.S. pig iron pricing slipped slightly this week, sliding to \$647/mt.

- Pricing, however, will be poised to push higher after Russia has instituted a 15% export tax on a wide variety of products/materials, including pig iron.
- Russia is the second largest pig iron exporter to the U.S. behind Brazil.

The increased vaccine rollout has lifted sentiment while a global manufacturing and construction boom is encouraging heavy consumption of crude oil. This has pushed pricing to near three-year highs.

- Demand continues to recover fast despite restrictions still in place on international travel, which has limited jet fuel demand.
 - The increased demand has outpaced supply, which despite the lifting of some production restrictions by OPEC remain limited.
- Crude oil pricing is now (+\$74/barrel) at its highest level since October 2018.

SUPPLY

Domestic raw steel production declined slightly last week, slipping to its lowest level in five weeks.

- U.S. steelmakers produced 1.835 million tons at an 82.7% utilization rate.
 - U.S. raw steel capacity utilization slipped after four consecutive week-over-week increases.
 - The decline this week is mostly likely due to the unexpected 10-day outage at SDI Columbus.
- Year-to-date production is 15.2% above the total from the same period last year but is still 8.0% below the same timeframe in 2019.

Late last week Russia announced that they are considering applying an export tariff to steel, aluminum, copper, nickel, and ferro-alloys starting in August.

- While most of the products covered will incur a 15% tax, steel would start with a minimum tax of \$115/mt and then determine which is higher between the two.
 - This includes all steel grades including slabs, billets, and sheet products.

While the talk of increased supply through climbing imports and new production have led the headlines, a significant amount of planned maintenance during the second half of the year may offset that new supply.

- There is expected to be 1.3-1.4 million tons of sheet production taken offline through the balance of the year.
 - The largest impact is sure to be the 45-day outage at Cleveland Cliffs Indiana Harbor #7 furnace; the largest furnace in North America will be out 600,000-615,000 tons during this outage.

DEMAND

Orders for long-lasting durable goods, such as automobiles and airplanes, rebounded in May and showed U.S. manufacturers are still expanding rapidly.

- New orders for durable goods increased 2.3% in May; this increase follows the slight decline seen in April.
 - Excluding the volatile transportation sector (cars and planes), new business orders rose a more modest 0.3% last month.
- Widespread shortages of supplies and labor are preventing them from growing even faster.

Growth in manufacturing around the Chicago region slowed in June but remained in expansion for the twelfth consecutive month.

- The Chicago PMI came in at 66.1, down from 75.2 in May.
- Despite the slowdown in June, the index surged nearly 8.0 points for the quarter.
 - This was the strongest quarterly growth since Q4 1973.

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 tenth month, with no signs of turning in the near future.

Foreign pricing continued to slide this week as the CCP continues to tighten the screws on the recent price run-up after Asian HRC prices recently hit a 13-year high (July 2008).

- The Platts index FOB China declined slightly this week to \$905/mt (\$41.05/cwt).
- Chinese HRC pricing is down 1.1% from last week but still up 33.7% YTD.

ECONOMY

The Chemical Activity Barometer continued to show strong demand at the earliest stages of industrial activity.

- The CAB slipped slightly from the all-time high seen in May, slipping to 130.71.
 - The three-month average continued to climb however, setting a fresh all-time high.
 - Month-to-month movements can be volatile, so a three-month moving average of the CAB reading is a better indication.

A growing labor market and further reopening helped to push U.S. consumer confidence to an eighteen month high in June.

- The Conference Board's Consumer Confidence Index came in at 127.3, up from 120.0 in May and is at its highest level since February 2020.
- Both the present situation and expectations indices improved as well, climbing to 157.7 and 107.0, respectively.