

LOGISTICS ISSUES CHALLENGE SUPPLY & DEMAND SITUATION

The current supply and demand situation is now facing increased transportation logistics issues. Suppliers are struggling to find reliable transportation for their ready to ship orders, stressing buyers looking to get their steel on time. Freight pricing continues to reach record breaking highs adding more tension, despite recent slowdowns for shipments of finished goods.

INPUT COSTS

After a sharp \$60/gt increase in June, Chicago #1 busheling scrap pricing continued its upward momentum in July.

- July prime scrap pricing settled at \$630/gt, up \$20/gt from June.
 - This sets a new post-Great Recession high.

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

- Zinc pricing held around \$1.33/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 mid-May 2019.

- Pricing increased to \$210/mt; up 5.0% w/w and up 85.0% y/y.
- Increasing demand from India, easing of China/Australia export ban, and higher finished steel pricing have all helped push pricing higher.

SUPPLY

Domestic raw steel production increased last week, climbing to its highest utilization rate since October 2008.

- U.S. steelmakers produced 1.852 million tons at an 83.2% utilization rate.
 - For reference, an 83.2% utilization rate in October 2008 equated to 1.986 million tons produced.
 - The same utilization rate today produces 6.7% less tonnage.
- Year-to-date production is 16.7% above the total from the same period last year but is still 6.8% below the same timeframe in 2019.

SUPPLY

The carbon coated flat rolled sector continued to see strong shipment demand; combined with a lean inventory situation continues to stress the supply chain.

Coated flat rolled shipments totaled 724.5 thousand tons (32.9 thousand tons/day) in June; this is up from 651.2 thousand tons (32.6 thousand tons/day) in May and is up from 583.0 thousand tons (26.5 thousand tons/day) in June 2020.

- Over the last twelve months, U.S. service centers have shipped out 300,200 tons more coated flat rolled product than they have received.

The increase to coated flat rolled shipments, combined with the extended lead times, helped to push coated flat rolled inventory even lower in June.

- Coated flat rolled inventory came in at 919.2 thousand tons, down from 933.0 thousand tons in May and is down 24.6% from 1.207 million tons in June 2020.
 - The 24.6% year-over-year decline in inventories was the largest y/y decline since June 2013.
- The current months of supply came in at 1.27 months, down from 1.43 months in May and is the second lowest level on record, behind March's 1.19 months.
- The days of supply declined to 27.94 days in June, only up slightly from the all-time low of 27.46 days in May.

DEMAND

Heating and cooling equipment shipments were up on both a month-over-month and year-over-year basis in May.

- HVAC equipment shipments totaled 2.158 million units, up 1.4% from April and up 30.9% from May 2020.
 - Furnace shipments had the largest increase on a year-over-year basis, but both A/C & heat pump and water heater shipments were up as well.
- YTD shipments are up 24.5% from the same timeframe in 2020 and up 15.0% from the first five months in 2019.

Tractor and combine shipments slipped in June, sliding on both a month-over-month and year-over-year basis.

- Looking on a year-over-year basis, to help smooth seasonality, both tractors (-11.8%) and combines (-1.6%) saw declines.
- Despite the recent decline, YTD shipments are still up 17.9% from the first half of last year.

PRICE

Steel pricing continued to set new all-time highs, as both cold rolled and base galvanized pricing hit the \$2,000/t (\$100/cwt) level.

- This current upward super-cycle for flat product pricing has now entered its eleventh month, with no signs of turning in the near future.
 - There are indications that there is potential for the rally to gain momentum as automotive and oil & gas end-related demand are both expected to improve near-term.

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 \$881/mt (\$39.96/cwt).
- Chinese HRC pricing is down 0.2% from last week but still up 30.1% YTD.

ECONOMY

One of the biggest factors that is affecting both the supply and demand sides of the equation is logistics (transportation) as buyers are struggling to secure timely steel due to delayed deliveries and sellers are struggling to find reliable means of transportation for orders they have ready to ship.

- The June Logistics Managers Index continued to increase, climbing to 75.0.
 - This is up from 71.3 in May and is at the second highest level in history.
 - The index has now been over 70 for the fifth consecutive month, the longest streak in the history of the index.
- Increasing inventory levels and inventory costs combined with declining transportation capacity and warehouse space have helped to push the index higher.

Despite a slowdown in shipments in June, the acceleration seen in freight rates hardly skipped a beat.

- While the Cass Freight Shipment Index slipped 3.0% from May, the Cass Freight Expenditures Index increased 11.0% from May and was up a sharp 56.4% from June 2020.
- A simple calculation of expenditures divided by shipments produces an implied freight rate.
 - The implied freight rate in June was 3.03, up from 2.65 in May and was at its highest level in recent history.

Inflation continued to increase in June as the Consumer Price Index saw its largest, y/y, increase (5.39%) since July 2008.

- The CORE-CPI (ex. Food and Energy) increased 4.47% on a y/y basis in June.
- The index for used cars and trucks increased 45.2% since last June, the largest 12-month increase ever recorded.
 - The index for new vehicles increased 5.3% over the last twelve months, the largest 12-month increase since January 1987.
 - Rental car prices increased 87.7% over the same period.
- The index for medical care increased 0.4% over the last twelve months, the smallest 12-month increase since March 1941.