

DEMAND & PRICING SET NEW RECORD HIGHS

U.S. homebuilders' confidence remains strong despite facing shortages of materials, buildable lots, and skilled labor; while light vehicle production increased for the first time in two months. Both of these helped push carbon flat rolled consumption to its highest levels since February 2020. Which set new all time highs for steel pricing and kept prices in the current upward super-cycle for the twelfth month.

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 of 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 \$1.33/lb-\$1.34/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 1.859 million tons at an 84.1% utilization rate.
 - For reference, an 84.1% utilization rate in October 2008 equated to 2.005 million tons produced.
 - The same utilization rate today produces ~7% less tonnage.
- Year-to-date production is 17.8% above the total from the same period last year but is still 6.5% below the same timeframe in 2019.

SUPPLY

Based on preliminary import licenses, the daily average import level for the first 19 days of July is down 4.0% from June, but still up 11.5% from July 2020.

- Excluding Brazilian slab imports, imports are down 14.9% compared to June on a daily average basis.

DEMAND

Confidence among U.S. homebuilders remained very strong in July, now in growth mode for the fourteenth consecutive month.

- The Housing Market Index came in at 80 in July, down slightly from 81 in June but up sharply from 72 in July 2020.
- Builders are contending with shortages of building materials, buildable lots, and skilled labor, as well as a challenging regulatory environment.
 - This is putting upward pressure on home prices and sidelining many prospective homebuyers even as demand remains strong in a low-inventory environment.

New housing starts continued to rebound in June and is now up for the second consecutive month.

- New housing starts came in at a 1.643 million-unit rate, up 6.3% from May and up 29.1% from June 2020.
- Year-to-date actual new housing starts are up 25.2% from the same timeframe last year and are up 27.9% from the first half of 2019.

May carbon flat rolled consumption came in at a rate of 154.2 thousand tons/day, down slightly from April and but remained near its highest level since February 2020.

- May flat rolled consumption was 47% above year-ago levels.
- Average carbon flat rolled per/day consumption for 2021 is up 9% over the same period in 2020.
 - Carbon coated flat rolled consumption, on a per/day basis, slipped slightly in May but has now a total greater than 60,000 tons/day for the second consecutive month for the first time since Sept/Oct 2014.

U.S. light vehicle production increased in June after sliding the previous two months.

- U.S. auto producers produced 743,550 vehicles in June, up 3.5% from May and up slightly from June 2020.
- While car production continued to lag, light truck production more than made up for the decline.
 - YTD light vehicle production is now up 36.4% from the same timeframe last year but still down 15.9% from the first six months of 2019.

PRICE

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

- This current upward super-cycle for flat product pricing has now entered its twelfth 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.

To put the current U.S. spot HRC price rally in perspective, comparing this rally to prior increases; since 2000, there have been 38 periods in which HRC prices have increased for more than 2 weeks.

- On average, those rallies have lasted 92 days with prices increasing by an average of 25% from trough to peak.
- This rally has lasted 352 days, making it the longest duration rally since 2004 (longest being Aug. '03 to Sept. '04). Prices have increased 316% since the trough, making it the largest trough to peak price move. The next closest was 181% from Aug. '03 to Sept. '04 (source: BMO).

Foreign pricing rebounded slightly this week despite the CCP's continued effort 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 increased slightly this week to \$912/mt (\$41.37/cwt).
- Chinese HRC pricing is up 0.7% from last week and up 34.7% YTD.

ECONOMY

The National Bureau of Economic Research announced this week that the trough in monthly economic activity occurred in the U.S. in April 2020.

- This makes the total length of the pandemic-induced recession two months; which makes it's the shortest U.S. recession on record.

Despite peaking in late-May and easing continually sense, the current national Flatbed Load-to-Truck Ratio remains elevated.

- The current Load-to-Truck Ratio is at 41.76, down from 43.66 last week but well above the 24.79 level from the same week last year.

U.S. Democrats introduced border carbon adjustment (BCA) legislation on imports this week.

- A BCA is designed to be a trade tool aimed at leveling the field for domestic manufacturers by imposing a fee on carbon-intensive imports, including steel and aluminum.
- The BCA is expected to be included in the legislative text of the Democrats-only infrastructure bill that would move through the reconciliation process.