MAJESTIC STEEL USA

CORE REPORT

08.20.21

COST 01

- scrap
- iron ore
- energy
- zinc
- coking coal

SUPPLY 03

- lead times
- production
- imports
- inventories

DEMAND 04

- automotive
- construction
- appliance
- manufacturing
- agriculture
- durable goods

ECONOMIC 11

- employment
- confidence
- inflation
- retail sales

SPOT IRON ORE[1]

Spot iron ore pricing continued its rapid freefall this week, sliding for the fourth consecutive week.

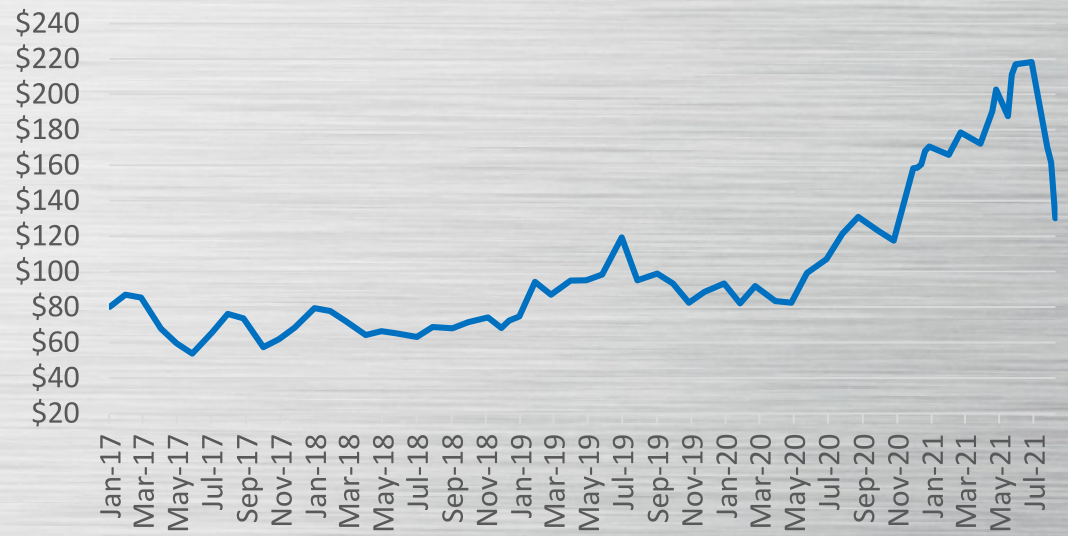
Spot iron ore pricing ended the week at $130.20/mt, down from $161.45/mt a week ago.

- This is the lowest reading since December 2020 when it was $130.81/mt.

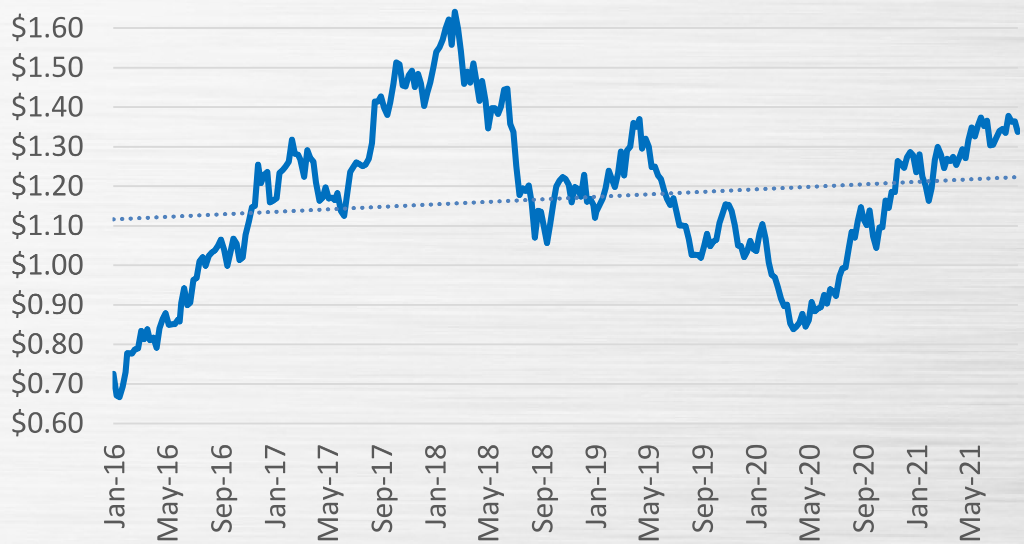
Increased shipments from Brazil and declining steel production in China has boosted inventory days on hand of iron ore in China, and in turn lowered overall demand.

- The bearish demand outlook sent the market into a panic, contributing to the nosedive to end the week.

IRON ORE COST



WEEKLY ZINC PRICING[2]



ZINC

Zinc pricing dropped this week after a flat reading the week prior.

Zinc pricing ended the week at $2,948.50/mt ($1.337/lb), down from $3,007/mt ($1.364/lb) previously.

- Zinc continues to trade in a tight 5-cent window and the ongoing ping-pong price action is a classic sign that it will continue its sideways trading for the foreseeable future.
  - However, economic growth concerns out of China and the U.S. along with rising COVID-19 infections are some of the headwinds dragging down overall sentiment.

Global zinc inventory decreased this again week, now down thirteen out of the last fourteen weeks.

- LME warehouse inventory dropped to 232,600 metric tons, from 239,700 metric tons previously.
- Shanghai warehouse inventory increased again this week, climbing from 45,249 metric tons to 49,790 metric tons.

WEEKLY DOMESTIC STEEL PRODUCTION[3]

Domestic raw steel production ticked down slightly again last week, now down for the second consecutive week after climbing the previous six weeks.

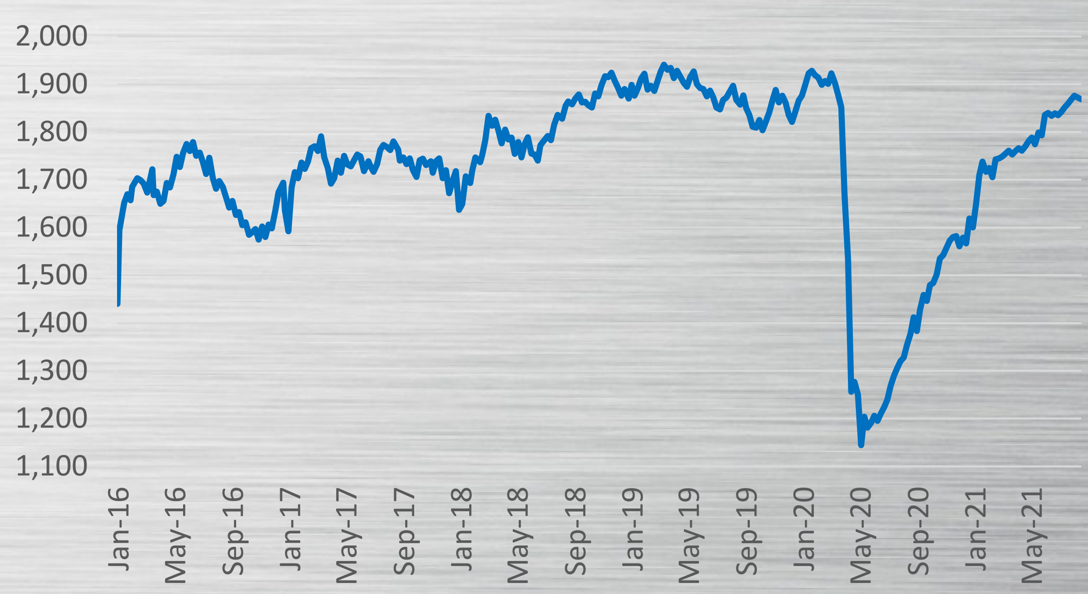
U.S. mills produced an estimated 1,869k tons at an 84.7% utilization rate; this is down from 1,872k tons and an 84.8% rate previously.

Production decreased in four of the five regions, however the largest drop was only 3k tons.

- Production from the Great Lakes and Southern regions dropped from 641k to 638k and 802k to 709k respectively.

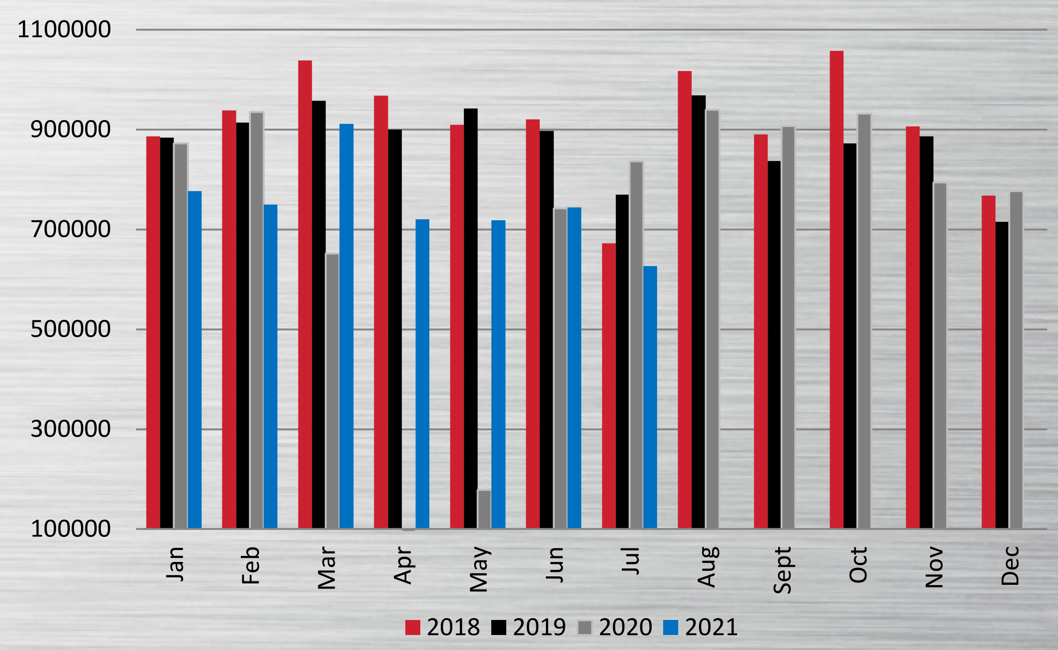
Year-to-date production is now 18.2% above the same timeframe from last year.

WEEKLY DOMESTIC PRODUCTION



LIGHT VEHICLE PRODUCTION[4]

U.S. LIGHT VEHICLE PRODUCTION



The domestic auto industry continued to fight key raw material shortages, which have now impacted production rates for more than a year.

U.S. light vehicle production totaled 626,718 units in July, down from 744,071 in May and down a sharp 25.1% from 836,529 units in July 2020.

- This was the lowest monthly production output since May 2020.

Production of both cars and light trucks declined in July, sliding 14.2% and 16.1%, respectively, from May.

Despite the recent slowdowns in production, year-to-date production of 5.247 million units is up 24.3% from the same period last year.

- Production was down 16.2% from the first seven months of 2019, however.

HOUSING MARKET INDEX[5]

Confidence among U.S. homebuilders continued to expand in August, albeit at a slower rate.

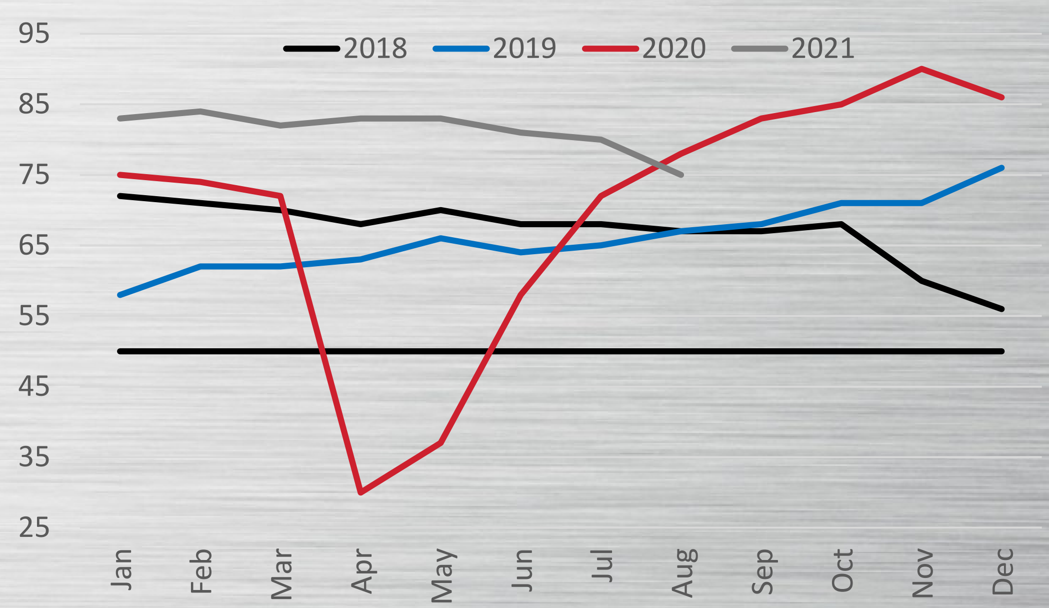
The August Housing Market Index came in at 75, down from 80 in July and down from 78 in August 2020.

- Any reading over 50 indicates growth, while any reading below 50 denotes contraction.

Despite slowing in August, all three components continued to grow, with both the present situation and next six months leading the way.

- While the present situation and next six months components came in at 81, the traffic component came in at 60.

HOUSING MARKET INDEX



HOUSING STARTS & PERMITS[6]

After climbing the previous two months, new residential construction slowed slightly in July.

July new housing starts came in at a 1.543 million unit rate, down 7.0% from a 1.650 million unit rate in June.

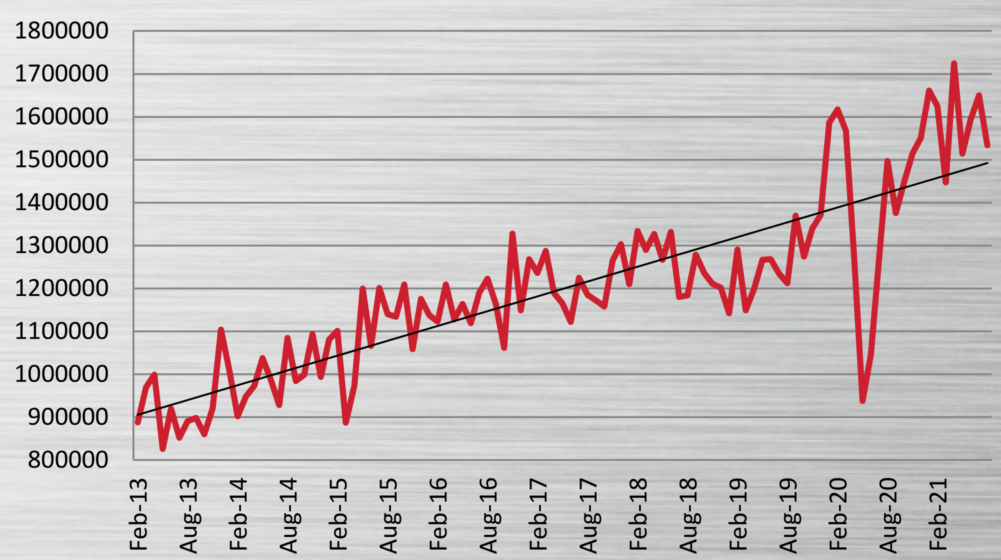
- However, starts continued to climb on a year-over-year basis, climbing 2.5% from a 1.497 million unit rate in July 2020.
- While both single-unit and multi-family starts decline in July, the bigger decline came from multi-family units.

Permits, an indicator for future construction, increased in July after sliding the previous three months.

- Permits came in at a 1.635 million unit rate, up 2.6% from a 1.594 million unit rate in June.

Year-to-date actual starts are up 21.8% from the same timeframe last year and are up 28.1% from the first seven months of 2019.

HOUSING STARTS (SAAR)



ARCHITECTURE BILLINGS INDEX[7]

The Architecture Billings Index continued to show expansion in July by marking its sixth consecutive positive reading.

The July ABI came in at 54.6, down slightly from 57.1 in June but up sharply from the 40.0 reading from July 2020.

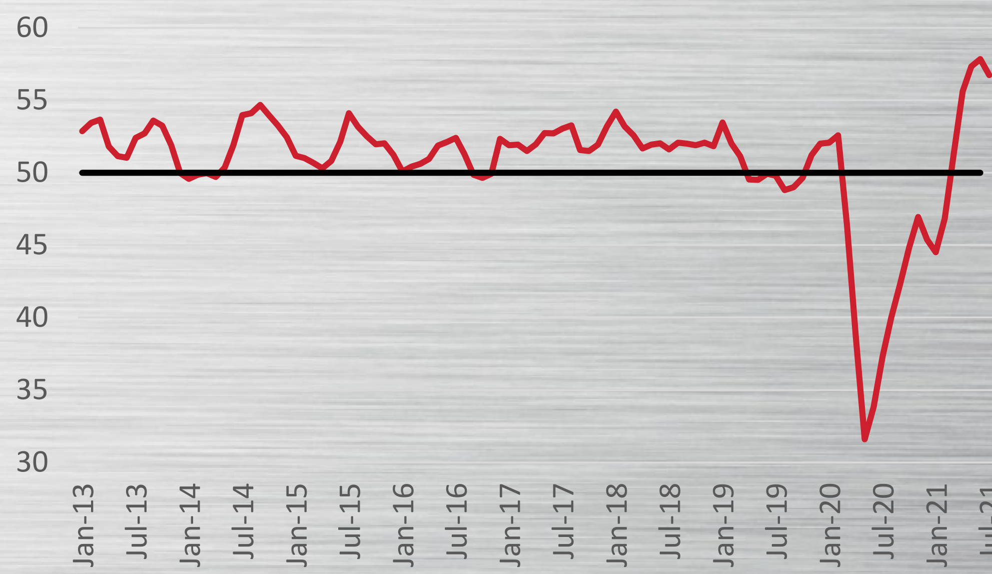
- Any reading over 50 indicates expansion in activity, while any reading below 50 denotes a contraction.

The new project inquiry slowed slightly in July but remained near its all-time high at 65.0.

All four regions continued to show growth in July with the Midwest (58.3) being the strongest.

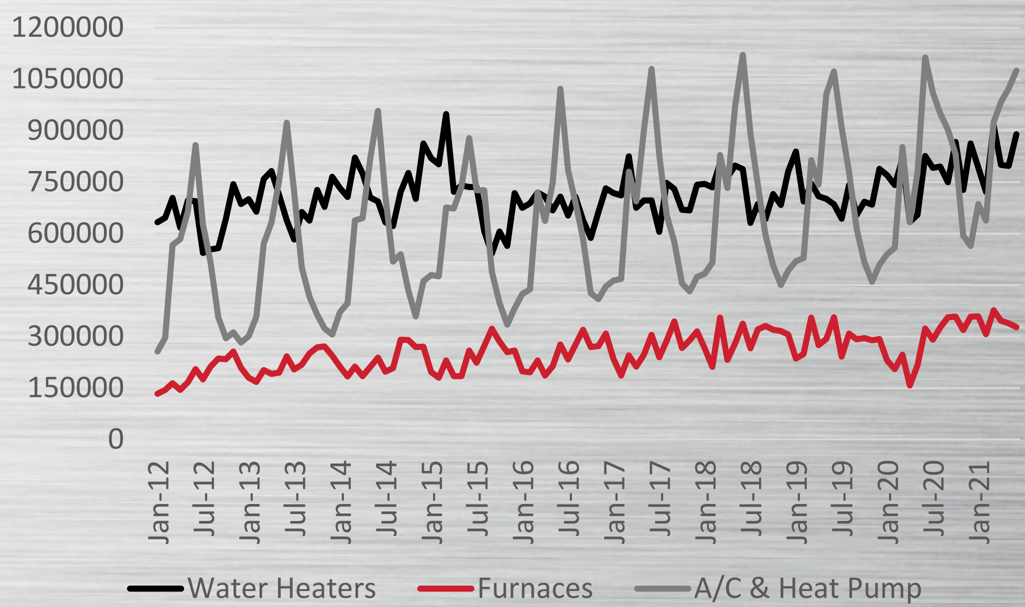
The sector breakdown showed similar strength across the board, with the commercial/industrial (58.4) sector being the strongest.

ARCHITECTURE BILLINGS INDEX (3MMA)



HEATING & COOLING EQUIPMENT[8]

HVAC EQUIPMENT SHIPMENTS



Shipments of heating and cooling equipment continued to increase in June, now up for the second consecutive month and for the third time in the last four months.

Shipments increased to 2.293 million units, up 6.2% from May and up 1.3% from 2.263 million units in June 2020.

- While A/C & heat pump shipments slipped, the increase in both water heater and furnace shipments were enough to overcome the decline.
- When looking on a year-over-year basis (to smooth seasonality) water heater and furnace shipments increased 7.7% and 1.2%, respectively.

Year-to-date shipments are up 19.4% from the first six months of 2020 and are up 13.7% from the same timeframe in 2019.

EMPIRE MANUFACTURING INDEX[9]

EMPIRE MANUFACTURING INDEX (2MMA)

Business activity, from the manufacturing sector, continued to expand in August, albeit at a slower rate than July's record level.

The Empire Manufacturing Index came in at 18.3, down from 43.0 in July, but still well into expansion.

- The two-month average (30.7) set a new all-time high in August, up from 30.2 in July.

All of the major components of the index continued to grow in August, just at a slightly slower rate then in July.

- The new order and shipment components both grew modestly in August, coming in at 14.8 and 4.4, respectively.

The index for future business conditions grew at a faster rate in August, climbing to 46.5.

- This is up from 39.5 in July and continues to point towards ongoing optimism about future market conditions.

INDUSTRIAL PRODUCTION/ CAPACITY UTILIZATION[10]

After dipping February due to the Southern freeze, the Industrial Production Index has continued to rebound through July.

The July Industrial Production Index came in at 101.1, up from 100.2 in June and up from 94.9 in July 2020.

- This is the highest level for the index since February 2020.

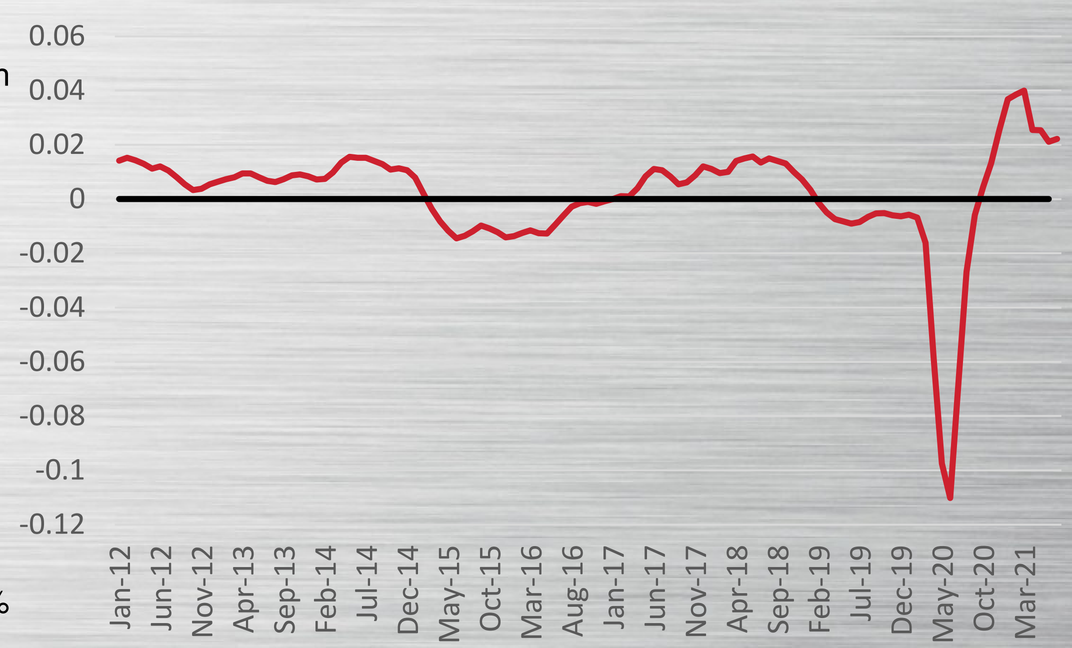
A boost (11.2%) in motor vehicle and part manufacturers helped push output higher.

- The boost in vehicle production came as many vehicle manufacturers eliminated their typical July slowdowns.

Capacity Utilization continued to climb as well, climbing 0.9% in July to 76.1%.

- This is up from 75.4% in June and 71.8% in July 2020.

INDUSTRIAL PRODUCTION MOMENTUM



WEEKLY INITIAL JOBLESS CLAIMS[11]

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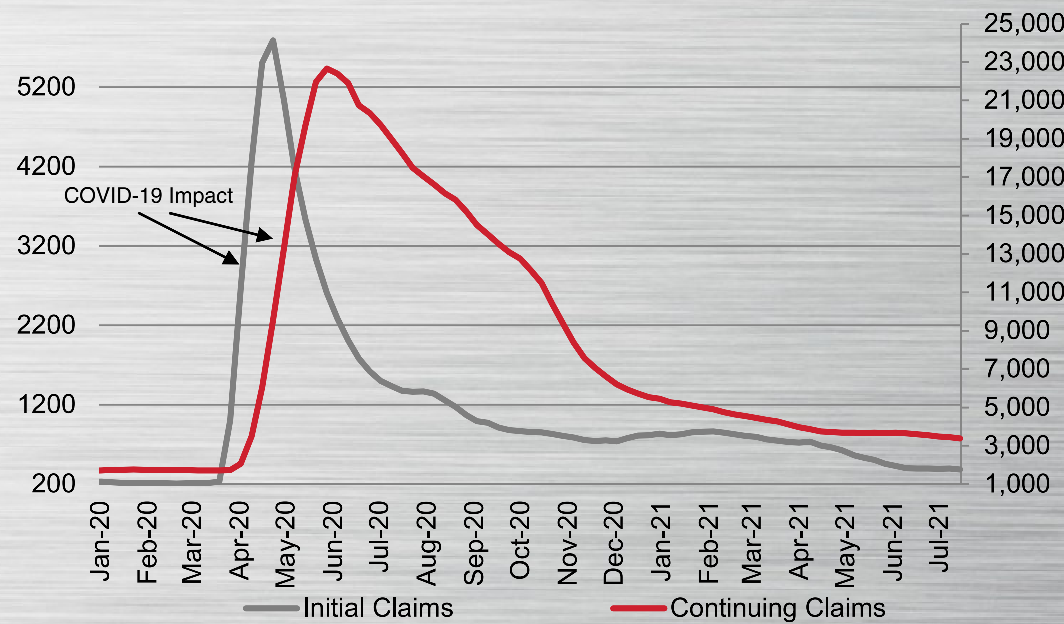


Weekly initial jobless claims declined for the fourth consecutive week and hit a new pandemic-era low.

The Department of Labor's Weekly Initial Jobless Claims report came in at 348,000 claims, down from 377,000 claims previously.

- The four-week moving average, considered a better measure of the labor market as it irons out week-to-week volatility, decreased to 377,750, from 396,750 claims previously.

Continuing claims, or claims lasting longer than one week, dropped again, now at its lowest point since March 2020.

- Continuing claims slid to 2.820 million, down from 2.899 million previously.

At the state level, the largest decline in claims came from Texas, which fell by 8,311, followed by Illinois (3,577), and Michigan (2,188).

RETAIL SALES[12]

RETAIL SALES (SAAR)

After climbing in June, the total July retail sales volume declined slightly in July.

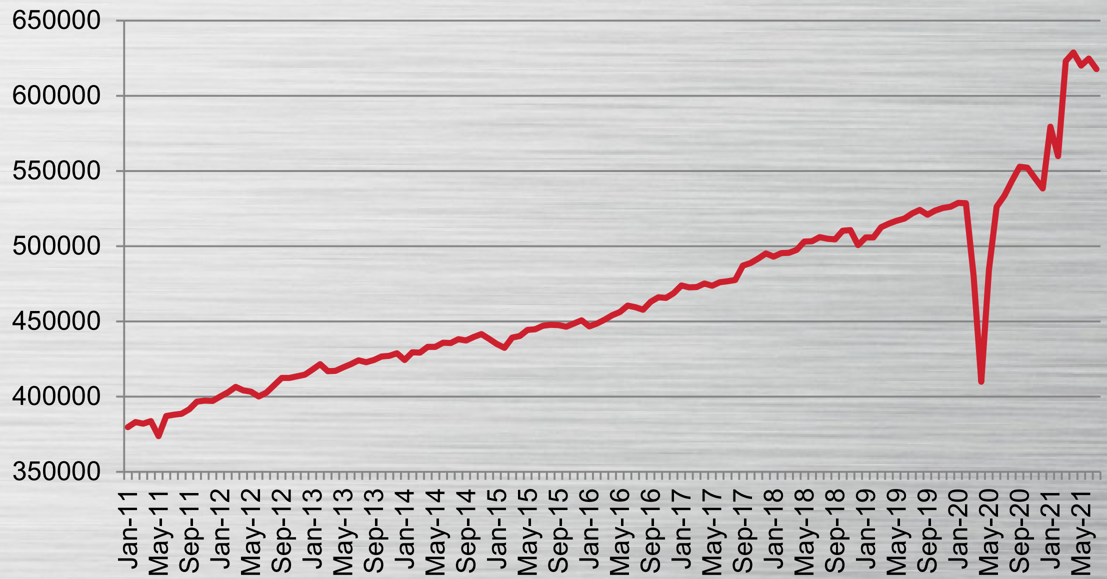
Retail sales came in at a $617.7 billion rate, down 1.1% from June but up 15.8% from a $533.5 billion rate in June 2020.

- This was the fifth consecutive month with a double-digit year-over-year percentage increase.
- Total sales for the May 2021 through July 2021 period were up 20.6% from the same period last year.

The largest declines in sales came from motor vehicle dealers, clothing stores, online retailers, and sporting goods stores.

- These declines more than offset increases in sales from gas stations, bars and restaurants, and electronic/appliance stores.

As we move into an expected stronger back-to-school shopping season, it will be key to watch if the rising COVID variant levels dampen those numbers.



SOURCES

[1] Platts, Spot Iron Ore: August 19, 2021.
[2] London Metal Exchange, Weekly Zinc Price and Inventory Report: August 20, 2021.
[3] Shanghai Futures Exchange, Weekly Zinc Inventory Report: August 20, 2021.
American Iron & Steel Institute, Weekly Domestic Steel Production: August 17, 2021.
[4] WardsAuto, U.S. Light Vehicle Production: July 2021.
[5] National Association of Homebuilders, Housing Market Index: August 2021.
[6] U.S. Census Bureau, New Residential Construction: July 2021.
[7] American Institute of Architects, Architecture Billings Index: July 2021.
[8] A/C, Heating, and Refrigeration Institute, HVAC Equipment Shipments: June 2020.
[9] NY Fed Reserve, Empire Manufacturing Index: August 2021.
[10] Federal Reserve, Industrial Production/Capacity Utilization: July 2021.
[11] Department of Labor, Weekly Initial Jobless Claims: August 19, 2021.
[12] U.S. Census Bureau, Retail Sales: July 2021.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