MAJESTIC STEEL USA

MARKET 08.11.21 UPDATE

ECONOMIC GROWTH IS INCREASING THE DEMAND FOR STEEL

Carbon flat rolled consumption reached its highest demand levels since April 2018. As demand continues to break records so do the prices for input materials and finished steel. With the growth potential seen from different economic indexes this high level of demand should continue to impact the both the steel industry and overall economy.

INPUT COSTS

After a $20/gt increase in July, Chicago #1 busheling scrap pricing settled flat in August at $630/gt.

- The easing of supply combined with the decline in alternative (pig iron) pricing has kept prime scrap pricing from climbing even higher over the last month.

Zinc pricing has remained in a relatively tight range of late, even after receiving a boost from the Fed reaffirmation that they won't raise rates until 2023.

- Zinc pricing held around $1.36/lb this week and longer-term forecasts expect pricing to return to the recent $1.33/lb-$1.38/lb average from the next 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 $216/mt; up 8.0% m/m and up 101.0% y/y.
- Increasing demand from India, easing of China/Australia export ban, and higher finished steel pricing have all helped push pricing higher.

SUPPLY

After hitting a 12+ year high utilization rate two weeks ago, domestic raw steel production slowed slightly last week.

- U.S. steelmakers produced 1.872 million tons at an 84.8% utilization rate.
  - For reference, an 84.6% utilization rate in October 2008 equated to 2.015 million tons produced.
  - The same utilization rate today produces ~7% less tonnage.
- Year-to-date production is 19.3% above the total from the same period last year but is still 6.2% below the same timeframe in 2019.

SUPPLY

August import licenses showed a rebound of steel import activity compared to July.

- The daily average import level for August was up 7.6% from July.
    - Ex. Brazilian slab imports are down 2.2% from July's pace.

Steel mills in North China's Hebei province are preparing for intensified production curbs in the winter due to the Winter Olympics.

- Local authorities have not yet announced any production cuts, but mills are reportedly curtailing capacity by 30-35%.

DEMAND

Total carbon steel consumption (shipments + imports – exports) came in at a per/day rate of 295.8 thousand tons in June, up from 279.7 thousand tons in May and was up 44% from the bottom seen in May 2020.

- Carbon flat rolled consumption came in at a rate of 162.5 thousand tons/day, up from May and is at its highest level since April 2018.
    - Carbon coated flat rolled consumption increased as well in June after a slight decline in May.
    - Consumption was above 60,000 tons/day for the three consecutive months for the first time since Q3 2008.

PRICE

Steel pricing continued to set new all-time highs, as both cold rolled and base galvanized pricing pushed towards the $2100/t ($105.00/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.

Foreign pricing slipped this week on speculation that the Chinese government mandate on production cuts would not be enforced as stringently.

- The Platts index FOB China increased slightly this week to $932/mt ($42.27/cwt).
- Chinese HRC pricing is up 0.1% from last week and up 37.7% YTD.

ECONOMY

Freight rates for bulk cargoes of steel increased last week, with AMM citing a global shortage of ships, that some expect could be exacerbated by the COVID resurgence in China and Southeast Asia.

- Supramax bulk freight costs for steel scrap shipped from the U.S. East Coast to Turkey were reportedly $48/mt this week, up from $38-$40/mt range last week.

The July Logistics Managers Index came in at 74.5, tied for the third highest of the index.

- The overall index rate has now come in above the 70-point mark in six consecutive months, breaking last month's record as the longest streak in history.
    - The six-month average of 73.2 is the highest in the history of the index.

There were 10.1 million jobs open in the U.S. in June, the highest level on record.

- While the labor shortage is real, hiring is also picking up.
- The retail industry led all others in filling 291,000 positions last month.

Prices paid by consumers continued to climb in July as the CPI increased 0.5%.

- The 0.5% increase in July followed a sharp 0.9% increase in June.
    - Over the last twelve months, the index is up 5.4%.
- CORE-CPI, which measures prices excluding the volatile food and energy sectors, saw a 0.3% increase in July.
    - This was the smallest monthly increase in four months.
    - While prices for motor vehicle insurance and airline fares declined, prices for shelter, lodging, new vehicles, and medical care all continued to climb.