MAJESTIC STEEL USA

MARKET 08.18.21 UPDATE

DEMAND SWELLS DESPITE LIMITED SUPPLY

After hitting a 12+ year high utilization rate, domestic raw steel production declined for the second consecutive week. Combined with the slowing of import activity and US Steel's scheduled maintenance for one of their blast furnaces, supply availability could continue to tighten while demand grows. The expansion of industrial production and manufacturing business activity both show signs of increasing demand.

INPUT COSTS

After a mixed result in August, that saw prime prices stay flat and obsolete grades slip, early expectations are for a similar trading environment in September.

- A similar outcome (primes flat and obsolete down \$20-\$30) would create an even bigger spread between the two that might begin to pressure prime prices in October/November.

Zinc pricing has remained in a relatively tight range of late, even after receiving a boost from the Fed's 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 December 2018.

- Pricing increased to \$223/mt; up 5.3% m/m and up 109% 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 three weeks ago, domestic raw steel production declined slightly for the second consecutive week.

- U.S. steelmakers produced 1.869 million tons at an 84.7% 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 19.5% above the total from the same period last year but is still 6.0% below the same timeframe in 2019.

SUPPLY

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

- The daily average import level for August was down 6.8% from July.
  - Ex. Brazilian slab imports are down 7.5% from July's pace; this follows a 7.0% decline reported for July daily avgerage imports.

US Steel announced last week that they are taking the #6 blast furnace at their Gary, IN facility down for maintenance starting September 30.

- The #6 furnace has an annual rated capacity of 1.36 million ton/year.
  - The 38-day outage would equate to roughly 140k-145k tons of melt.

DEMAND

Shipments of HVAC equipment continued to climb in June and are now up for the second consecutive month and the third time in the last four months.

- Shipments were up 6.2% from May and up 1.3% from June 2020.
  - Shipments were led by increases in water heaters and furnaces; these increases helped overcome the slight decline in A/C & heat pump shipments.
- YTD shipments are now up 19.4% from the first six months of 2020 and up 13.7% from the first half of 2019.

After dipping in 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.

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.
- 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.

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.

DEMAND

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

PRICE

Steel pricing continued to set new all-time highs, as both cold rolled and base galvanized pricing climbed above the $2100/t ($105.00/cwt) level.

- This current upward super-cycle for flat product pricing has now entered its thirteenth 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 are up 0.1% from last week and up 37.7% YTD.

ECONOMY

Retail sales slipped slightly in July, sliding 1.1% from June but remained well above (15.8%) from year-ago levels.

- Despite the slightly m/m slowing, total sales for the May through July period were up 20.6% from the same period last year.
- In June, 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/restaurants, and electronic/appliance stores.
- A stronger than expected back-to-school shopping season may be muted as rising COVID variant levels continue to spread.