

DOMESTIC PRODUCTION HOLDS DESPITE GLOBAL DIPS

Global raw steel production has seen declines for the last three months, with the largest declines in production coming from China. Despite this, domestic raw steel production utilization has rebounded and carbon steel import levels reached their highest levels since April 2019. Although domestic supply is currently showing growth so is our 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 \$1.37/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, continuing the recent three ½-month rally.

- Pricing increased to \$230/mt; up 7.2% m/m and up 110% since the rally began in May.
 - Pricing is now at its highest level since December 2018.
- Increasing demand from India, easing of China/Australia export ban, and higher finished steel pricing have all helped push pricing higher.

SUPPLY

After slipping the previous two weeks, domestic raw steel production utilization rebounded this week to match the 13 year high seen three weeks ago.

- U.S. steelmakers produced 1.877 million tons at an 85.0% 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 19.8% above the total from the same period last year but is still 5.8% below the same timeframe in 2019.

SUPPLY

Total carbon steel imports continued to climb in July and have now reached their highest monthly total since April 2019.

- Carbon steel imports totaled 2.377 million tons in July, up 4.4% from June and up 6.3% from 2.236 million tons in July 2020.
- Carbon flat rolled imports continued to climb as well, climbing to 748,735 tons in July.
 - This is up 6.4% from June and up a sharp 66.5% from 449,583 tons in July 2020.
- Year-to-date carbon flat rolled imports are now at 4.016 million tons, up 14.0% from the same timeframe last year.

Global raw steel production, on a tons/day basis, continued to slide in July and has now declined for three consecutive months.

- Global raw steel production came in at a 5.216 million tons/day pace in July, down 6.9% from the 5.601 million tons/day pace in June.
 - Production remained above year-ago levels however, coming in 3.3% above the 5.050 million tons/day pace from July 2020.
- The largest declines in July production came from China, which reported a 10.5% month-over-month decline.
 - The sharp decline in July follows declines in both June and May.
 - The July production rate in China was the lowest since April 2020.

DEMAND

After sliding for the majority of the first half of the year, existing home sales increased for the second consecutive month in July.

- July existing home sales came in at a 5.990 million-unit rate, up 2.0% from June and up 1.5% from a 5.900 million-unit rate in July 2020.
- Inventory of unsold existing homes increased for the fifth consecutive month, climbing to 1.320 million units in July.
 - Despite climbing of late, inventory remains 12.0% below year-ago levels.
- Year-to-date actual existing home sales are up 18.5% from the same timeframe last year and up 12.9% from the first seven months of 2019.

After sliding the previous three months, new home sales increased in July.

- July new homes came in at a 708,000-unit rate, up 1.0% from June but well below the 972,000-unit rate in July 2020.
- Inventory of unsold new homes increased for the sixth consecutive month, climbing to its highest level since November 2008.
- Year-to-date actual new home sales are now up 7.2% from the same time last year and up 19.0% 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 was relatively flat 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 \$926/mt (\$42.00/cwt).
- Chinese HRC pricing are up 0.1% from last week and up 36.8% YTD.

ECONOMY

Current Q3 GDP forecasts have ticked lower than where they were last month.

- Continued supply chain issues have slowed consumer spending and lowered projected production figures; which helped to slow growth during the quarter.
- Below are some key Q3 GDP estimates:
 - BofA: 4.5%
 - Goldman: 5.5%
 - NY Fed: 3.5%
 - GDPNow 6.1%