

INFRASTRUCTURE BILL POISED TO INCREASE DEMAND

The Senate is expected to pass the \$550 billion infrastructure bill this week. The bill will provide funding to make much needed improvements to U.S. roads and transportation, the energy grid, water supply, and broadband expansion. This could add an additional 5 million tons of carbon sheet demand to an already challenging supply and demand situation.

INPUT COSTS

After a \$20/gt increase in July, Chicago #1 busheling scrap pricing is expected to be flat in August.

- 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's reaffirmation that they won't raise rates until 2023.

- Zinc pricing held around \$1.34/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 \$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

Domestic raw steel production increased last week, climbing to its highest utilization rate since October 2008.

- U.S. steelmakers produced 1.876 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 19.1% above the total from the same period last year but is still 6.2% below the same timeframe in 2019.

SUPPLY

July import licenses continue to show a slight slowing of steel import activity compared to June.

- The daily average import level for July were down 7.0% from June.
 - Ex. Brazilian slab imports are down 11.8% from June's pace.

DEMAND

Construction spending rebounded slightly in June after a slight decline in May.

- Total construction spending increased 0.1% from May and was up 8.2% from June 2020.
- Residential spending increased another 1.1% while non-residential spending slipped slightly.
 - Non-residential spending has now declined for five consecutive months and for the sixth time in the last seven months.
- The current ratio of non-residential to residential spending is at its tightest level (50.2% - 49.8%) since 2006.

Manufacturing activity, in the Chicago region, jumped sharply in July, climbing to its second highest level since the start of the pandemic.

- The July Chicago PMI increased to 73.4, up from 66.1 in June and is only slightly below the recent high of 75.2 in May.
 - The three-month average increased to 71.6, the highest three-month average in recent history.

National economic activity from the manufacturing sector continued to grow in July, now up for the fourteenth consecutive month.

- The ISM Manufacturing Index came in at 59.5, slightly slowing from the 60.6 reading in June.
 - Despite the slightly slowing of growth in June, the index remains well above the 52.6 reading from June 2020.

Sales of light vehicles continued to be impacted by the recent production issues that have caused dealer inventories to severely lean out.

- Light vehicle sales totaled 1.288 million units in July, down 0.5% from June but were still up 4.2% from 1.237 million units in July 2020.
- Year-to-date light vehicle sales are still up 25.3% from the same timeframe last year.

DEMAND

The Senate is expected to pass an infrastructure bill this week that will provide a much needed upgrade to the United States' bumpy roads, glitchy internet, and 100-year-old water pipes.

- The deal calls for more than \$550 billion in new spending, including:
 - \$110 billion for roads and bridges
 - \$73 billion to modernize the nation's energy grid
 - \$66 billion for rail and Amtrak
 - \$65 billion for broadband expansion
 - \$55 billion to improve the country's drinking water
- Every \$100B in U.S. non-residential spending could create 4M tons of carbon steel demand, including 1M tons of sheet and 3M tons of bar/plate
 - 5 million tons of added carbon sheet demand would equate to roughly 10% of the current consumption level.

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

The U.S. economy continued its strong growth in the second quarter, climbing at an annual rate of 6.5%.

- This "advanced" estimate was up from the final Q1 2021 growth rate of 6.3%.
- Real GDP is now above its pre-pandemic level, but is still slightly below its long-term trend.