MAJESTIC STEEL USA

MARKET 09.01.21 UPDATE

TRANSPORTATION ISSUES CONTINUE TO IMPACT THE MARKET

Retailers and manufacturers are facing supply difficulties due to transportation issues. Holiday shopping inventory has brought more shipping containers to California ports, increasing waits for a berth to 7.6 days. Additionally, order backlogs are increasing in manufacturing due to transportation issues, martial shortages, and low labor rates.

INPUT COSTS

After a mixed result in August that saw prime prices stay flat and obsolete grades slip, early expectations are for both to see a decline in September.

- Weaker scrap substitute prices, increased supply, and upcoming mill outages have all helped contribute to lower buying activity for September.

Zinc pricing has remained in a relatively tight range of late, even after receiving a boost from the reaffirmation from the Fed 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, continuing the recent four-month rally.

- Pricing increased to $258/mt; up 19.7% m/m and up 142.2% since the beginning of May.
  - Pricing is now at its highest level since January 2018.
- Increasing demand from India, easing of China/Australia export ban, and higher finished steel pricing have all helped push pricing higher.

Import pig iron prices, into the U.S., weakened last week due to low demand and softening scrap market.

- Pig iron imports into the Gulf were $548/mt, down 4% from last week.

Crude oil prices pushed higher this week, climbing near $70/barrel for the first time in a month.

Oil prices began to climb after Hurricane Ida knocked out at least 94% of offshore Gulf of Mexico oil and gas production.

SUPPLY

After climbing last week, domestic raw steel production utilization slipped slightly this week.

- U.S. steelmakers produced 1.873 million tons at an 84.9% 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 20% above the total from the same period last year but is still 5.4% below the same timeframe in 2019.

Based on preliminary import licenses, the daily average for August declined 16.7% from July.

- Ex. Brazilian slab imports were down 13.8% from July on a daily avg. basis.

The only thing worse than LA road traffic is LA marine traffic, as 44 container ships were waiting for a berth at the twin ports of Los Angeles and Long Beach on Friday.

- This is the highest number since the pandemic began, topping the 40 container ship backlog in February.
  - The average wait rose to 7.6 days, from 6.2 in mid-August, according to L.A. port data.
- Supply chains remain discombobulated as U.S. retailers rush to bring in goods from Asia ahead of the holiday shopping season.

Russia's Industry and Trade deputy minister reportedly stated the 15% tax on ferrous and major base metals exports for Aug. 1-Dec. 31 will not be extended to 2022 as the result of declining prices.

- As a reminder, the 15% tax was set as a base, with Russia also enacting fixed metal-specific minimum tariffs on steel products ($115-$150/mt), aluminum ($254/mt), copper ($1,226/mt), and nickel ($2,321/mt).

DEMAND

The August Chicago PMI came in at 66.8, down from 73.4 in July but up from 51.2 in August 2020.

- Any reading over 50 indicates expansion, while any reading below 50 denotes contraction.
- Among the five main components, order backlogs continued to see the largest increase, climbing to its highest level since 1951.
  - Shortages of materials, transportation issues, and low labor rates continued to compound the problem.
  - Both the production and new order components slipped in August, sliding to 61 and 67.8, respectively.

DEMAND

After a flat reading in June, total construction spending regained its upward momentum in July.

- July total construction spending came in at a $1.569 trillion rate, up 0.3% from June and up 9.0% from a $1.440 trillion rate in July 2020.
  - Spending for both residential and non-residential projects increased in July, climbing 0.5% and 0.1%, respectively.
  - This was the first month-over-month increase for non-residential construction spending since January.
  - Residential construction spending has now increased for five consecutive months.
- The current ratio of non-residential to residential spending is 50.1:49.9, a far change from the 57.1:42.9 ratio in July 2020.

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 slipped slightly this week to $901/mt ($40.87/cwt).
- Chinese HRC pricing are down 0.4% from last week but up 36% YTD.

ECONOMY

The Chemical Activity Barometer slipped slightly in August, sliding for the first time since April 2020.

- The 3MA slipped as well after climbing to an all-time in August.
- The diffusion index slipped to 82% in August.
  - The diffusion index marks the number of positive contributors relative to the total number of indicators measured.
- Despite the slight decline in August, the index remains near all-time highs and is a key indicator as it typically leads Industrial Production.