

HURRICANE IDA & LOGISTICS CHALLENGE THE SUPPLY CHAIN

Prior to Hurricane Ida, Nucor proactively shutdown their direct-reduced iron plant in Convent, LA at the end of August. The combination of electricity issues and barge shortages on the Mississippi has extended the shutdown. Linehaul trucking is also facing shortages of trucks and drivers which continues to negatively impact the industry.

INPUT COSTS

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 four-month rally.

- Pricing increased to \$352/mt; up 58.4% m/m and up 224.4% since the beginning of May.
 - Pricing is now at its highest level since February 2011.
- Increasing demand from India, easing of China/Australia export ban, and higher finished steel pricing have all helped push pricing higher.

Nucor's direct-reduced iron (DRI) plant in Convent, Louisiana, remains idled after it was proactively shut down prior to Hurricane Ida at the end of August.

- Electricity issues, combined with continued barge shortages on the Mississippi, have contributed to the extended shutdown.

Natural gas pricing has continued its recent sharp move higher this week, climbing to a fresh multi-year high.

- Current natural gas pricing (\$5.26/MMBtu) has been fueled by an unusually hot summer, combined with weather related disruptions such as Hurricane Ida.

SUPPLY

After sliding the previous two weeks, domestic raw steel production utilization rebounded sharply last week.

- U.S. steelmakers produced 1.882 million tons at an 85.3% utilization rate; this was the highest utilization rate since September 2008.
 - 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 20.1% 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 September (13 days) increased 23.3% from August.

- Ex. Brazilian slabs imports were up 9.5%% from August on a daily average basis.

The sharp increase in recent on order activity, combined with the slower than average shipment rate in August, helped to push carbon flat rolled inventory higher.

- Total carbon flat rolled inventory came in at a twelve-month high of 3.973 million tons, up from 3.772 million tons in July but remains down nearly 700,000 tons from the recent peak of 4.692 million tons last April.
- Carbon flat rolled inventory continued to slide on a year-over-year basis however, sliding 0.4% from 3.990 million tons in August 2020.
 - Inventory has now declined, on a year-over-year basis, in sixteen consecutive months and for the thirty-first time in the last thirty-two months.
- When total inventory is combined with August's shipment rate, the current inventory equates to 1.80 months of supply.
 - This is down from 1.86 months in July and is still well below last August's level of 2.07 months.
- However, the days of supply increased again, climbing to 39.6 days of supply.
 - This is up from 39.0 days seen in July, and is at its highest level of the year.

DEMAND

Total domestic carbon steel consumption, on a per/day basis, remains strong in July, climbing to its highest level since April 2019.

- Total carbon steel consumption (steel shipments + imports – exports) came in at a per/day rate of 295.9 thousand tons in July, up from 295.6 thousand tons in June and was up 44% from the 205.6 thousand ton bottom seen in May 2020.
- June carbon flat rolled consumption came in at a rate of 161.9 thousand tons/day, down slightly from June but at its second highest level since April 2018.
 - June flat rolled consumption was 31% above year-ago levels.
- Carbon coated flat rolled consumption, on a per/day basis, increased in July climbing to its highest level since 2008.
 - Per/day coated flat rolled consumption was greater than 60,000 tons/day for four consecutive months for the first time since Q3 2008.

DEMAND

Shipments of North American (Canada/USA) tractor and combines declined in again in August, now down for the fourth consecutive month.

- Shipments totaled 27,641 units in August, down 15.8% from July.
 - The recent month-over-month decline is mostly due to seasonality as shipments continued to climb on a year-over-year basis.
 - August shipments were up 8.5% from August 2020, marking the second consecutive year-over-year increase.
- YTD shipments are now up 14.3% from the same timeframe last year.

After slowing in August, business activity from the manufacturing sector in the New York region expanded sharply in September.

- The Empire Manufacturing Index came in at 34.3, up from 18.3 in August and is up sharply from the 17.0 reading in September 2020.
 - Any reading over 0.0 indicates expansion and the Empire Manufacturing Index has now been in expansion for fifteen consecutive months.
- New orders, shipments, and unfilled orders all increased sharply in September

PRICE

Steel pricing continued to set new all-time highs, as both cold rolled and base galvanized pricing climbed above the \$2150/t (\$108.00/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 \$925/mt (\$41.96/cwt).
- Chinese HRC pricing is down 0.9% from last week but up 36.6% YTD.

ECONOMY

The August Linehaul Index came in at 148.8, up 1.1% from July and up 12.6% from August 2020.

- The index continued to be negatively impacted by the mix issue, which has been caused by truck shortages, driver shortages, and network congestion.
 - The mix issues is noise, not a signal that rates may be coming down.

ECONOMY

Prices paid by U.S. consumers continued to climb in August; however, at a lower rate than the market expected.

- The Consumer Price Index increased 0.21% from July and was up 5.25% from August 2020.
 - This was the lowest year-over-year increase in prices since May.
- The CORE-CPI (excluding volatile prices of food and energy) increased as well, climbing 0.13% from July and 4.00% from August 2020.
 - The largest, month-over-month, increases in prices came from household furnishings, shelter, new vehicles, and recreation.
 - These increases offset declines in lodging, airline fares, and used vehicles