

PRODUCTION ISSUES ARE UPSETTING INVENTORIES

Due to declines in domestic steel production and import licenses available steel remains tight. This is impacting production throughout the supply chain. Current light vehicle inventories are at down 58.6% from last year and with the current sales pace only equate to 24 days of supply.

INPUT COSTS

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

September prime scrap pricing dropped, falling for the first time in thirteen months.

- Chicago #1 busheling pricing came in at \$580/gt, down from \$630/cwt previously.
 - This is the lowest level for prime scrap pricing since May.
- Shredded scrap pricing fared much better, slipping only \$10/gt during the September buy week.

Pacific basin met coal pricing continued to push higher this week, continuing the recent four-month rally.

- Pricing increased to \$279/mt; up 27.1% m/m and up 161.7% since the beginning of May.
 - Pricing is now at its highest level since April 2017.
- 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 a softening scrap market.

- Pig iron imports into the Gulf were \$530/mt, down 11.7% from last week.

SUPPLY

After climbing three weeks ago, domestic raw steel production utilization slipped for the second straight week.

- U.S. steelmakers produced 1.866 million tons at an 84.5% 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 20.1% 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 August declined 16.7% from July.

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

DEMAND

U.S. light vehicle sales continued to decline in August, sliding to 1.090 million units.

- This was down 14.6% from July and down 17.3% from August 2020.
 - This was the first y/y decline in sales since February and was the lowest monthly total since June 2020.
- Despite the recent declines, YTD sales are still up 18.9% from the same timeframe last year.

The current production issues affecting automotive production continued to severely impact inventories.

- Light vehicle inventory totaled 1.065 million units, down 5.2% from July and down 58.6% from August 2020.
 - Light vehicle inventory has now declined, on a m/m basis, for seven consecutive months.
- The current inventory, when compared to August's sales pace, equates to 24 days of supply, flat from July and well below normal levels of 65 days.

PRICE

Steel pricing continued to set new all-time highs, as both cold rolled and base galvanized pricing climbed above the \$2150/t (\$107.50/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.

PRICE

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.

Aluminum prices hit their highest level (\$1.25/lb) in 10 years following a military coup in Guinea.

- The West African nation is the world's largest exporter of bauxite, the raw material needed to produce alumina, which is used to make aluminum, striking fears of potential supply shortages.