

## INVENTORIES REBOUND AS DEMAND REACHES RECORD HIGHS

Flat rolled inventories reached their highest levels since July 2020. Decade-high surges in material on order, easing of mill order books, and normal seasonal shipment levels all helped increase inventory levels. Even coated service center inventories are back over 1.000 million tons for the first time since December. However, demand is still high as flat rolled consumption grew 31% year-over-year and reached its highest level since 2008.

## INPUT COSTS

Zinc pricing climbed sharply this week, hitting the highest level since Q2 2018.

- Zinc pricing came in around \$1.47/lb this week and longer-term forecasts expect pricing to return to the recent \$1.35/lb-\$1.38/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.

Spot iron ore pricing continued rebounded this week, climbing to \$137/dmt.

- This is up 11.7% m/m but still down 16.7% since the beginning of the year.
- The recent uptick in pricing was due to the restocking efforts from Chinese steel producers ahead of the recent weeklong holiday.

Pacific basin met coal pricing resumed its upward momentum after a slight decline last week.

- Pricing rebounded to \$420/mt; up +270% since the beginning of May.
- Increasing demand from India, easing of China/Australia export ban, and higher finished steel pricing have all helped push pricing higher.

Cleveland-Cliffs announced its intent to acquire Ferrous Processing and Trading Company (FPT), a leading Midwestern U.S. scrap metal processor.

- FPT currently processes 3 million tons of ferrous scrap per year or roughly 15% of the U.S. merchant market. About half of their ferrous scrap is of the prime variety,

## SUPPLY

The recent up and down movement for domestic raw steel production continued last week as total production declined.

- U.S. steelmakers produced 1.860 million tons at an 84.2% utilization rate; this was the lowest weekly production level in two months.
  - 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 20.3% 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 October is down 28.0% compared to the first 11 days of September.

- Ex. Brazilian slabs imports were down 23.0% from September on a daily average basis.

The decade-plus high surge in material on order, easing of mill order books, and just normal seasonal shipment levels, helped to push total flat rolled inventory higher in September.

- The current flat rolled inventory on hand increased to its highest level since July 2020.
  - The higher inventory on hand, combined with a month-over-month decline in shipments, helped to push the flat rolled months of supply higher in September, climbing to 1.99 months from 1.80 months previously.
- September coated service center inventories increased for the third consecutive month and are back over 1.000 million tons for the first time since December.
  - Despite the increase in coated flat rolled inventory in September, current inventory remains 9.4% below year-ago levels.
  - Current inventory, when combined with the September's coated shipment rate, equates to 1.54 months (32.4 days) of supply, still below the current lead times of 9-12 weeks.

## DEMAND

August carbon flat rolled consumption came in at a rate of 169.3 thousand tons/day, up sharply from July and is at its highest level since June 2017.

- August flat rolled consumption was 31% above year-ago levels.
  - Average carbon coated flat rolled per/day consumption for 2021 is up 16% over the same period in 2020.
- Despite the continued drag from weak auto production, carbon coated flat rolled consumption, on a per/day basis, increased in August, climbing to its highest level since 2008.



Shipments of HVAC equipment continued to slip in August, now down for the second consecutive month.

- HVAC equipment shipments totaled 2.030 million units, down 2.5% from July and down 2.0% from 2.071 million units in August 2020.
- Despite the recent decline, year-to-date shipments are now 13.5% above the same timeframe last year and are up 13.6% from the same time in 2019.

Overall carbon flat rolled shipments, from U.S. service centers, slipped on a month-over-month basis and remained above year ago levels.

- Total carbon flat rolled shipments declined to 2.074 million tons, down from 2.204 million tons in August. However, they were up a slight 0.9% from 2.055 million tons in September 2020.
- Shipments, on a tons/day basis, declined in September after climbing in August, sliding to 98.7 thousand tons/day.
  - This is down from 100.2 thousand tons/day in August but remains below the 104.6 thousand tons/day average from the first half of the year.

Tractor and combine shipments totaled 28,875 units, up 4.5% from August and up 3.7% from 27,833 units in September.

- This was the fourth consecutive month with a year-over-year increase in shipments.
  - Year-to-date shipments are up 13.1% from the same timeframe last year.

## PRICE

The sharp upward movement for domestic flat rolled steel pricing stalled this week as pricing remained in a tight range near all-time highs.

- Market participants noted that while the bottom end of the pricing range seemed to decline slightly, the top end of the range remained steady.
- The current HRC: HDG spread of \$12.60 remains well above the long run average of \$10.00.
  - It is expected to return to that long-run average as pricing moderates after this long upward cycle.

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 came in at \$928/mt (\$42.09/cwt).
- Chinese HRC pricing is flat m/m but up 37.1% YTD.

## ECONOMY

September's Logistics Manager Index reading of 72.2 continues the extended run of logistics expansion we have been tracking throughout the year.

- This month's number is driven primarily by cost metrics (including an all-time high reading of 89.3 for Warehousing Prices).
- It is tempered somewhat by a decrease in the rate of growth for Inventory Levels.
  - A decline which is likely due to a combination of inventory moving quickly due to high consumer demand, but also coming in slowly due to logistics delays.

Prices paid by consumers continued to climb in September.

- The Consumer Price Index increased 0.3% from August and was up 5.4% from September 2020.
  - This was the latest year-over-year increase in prices since July 2008.
- Excluding the volatile food and energy sectors, prices were up 0.13% from August and up 4.03% from September 2020.
  - The index for new vehicles increased 8.7% over the last year, the largest 12-month increase since the period ending September 1980.