MAJESTIC STEEL USA

MARKET UPDATE

10.20.21

DISRUPTIONS CONTINUE TO PLAGUE THE SUPPLY CHAIN

U.S. industrial production fell for the second consecutive month in September. A variety of factors have contributed to the decline in production of durable goods. The lingering effects of Hurricane Ida are still affecting mining. While prolonged disruptions in the automobile industry have caused declines in motor vehicle production. Raw material inputs are also feeling the impact of supply disruptions due to natural disasters, increasing demand, and foreign holidays.

INPUT COSTS

Zinc pricing climbed sharply this week, hitting the highest level in fourteen years.

- Zinc pricing climbed as high as $1.72/lb this week; however, longer-term forecasts expect pricing to return to the recent $1.40/lb-$1.45/lb average from the last 30 days.
    - Surging power costs around the world led to cutbacks of output at Nyrstar.
    - Further supply disruptions due to wildfires in British Columbia also helped to push pricing higher.

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 downward momentum after a slight uptick last week.

- Pricing slipped to $399/mt; however, it is still 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.

SUPPLY

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

- U.S. steelmakers produced 1.882 million tons at an 85.3% 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 20.3% 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 21.5% compared to the first 18 days of September.

- Ex. Brazilian slabs imports were down 16.1% from September on a daily average basis.

DEMAND

U.S. industrial production slipped for the second consecutive month, sliding to 100.0 in September.

- This is down 1.3% from August but still up 4.6% from September 2020.
  - This was the largest month-over-month drop since February.
- The issues that have plagued automobile production continue to have an impact as motor vehicle manufacturing was down 7.2% from August.
  - Lingering effects from Hurricane Ida affected mining in September.
- The manufacturing of durable goods index slipped as well, sliding 0.5% after a 0.9% decline in August.

After slowing for the majority of the first half of the year, confidence among U.S. homebuilders has rebounded the last two months.

- The October Housing Market Index came in at 80, up from 76 in September and back to the level last seen in June.
  - Compared to last October, confidence was down slightly from the 85 reading in October 2020.

New residential construction starts slipped in September, now sliding for the second time in the last three months.

- New housing starts came in at a 1.555 million-unit rate, down 1.6% from August but up 7.4% from a 1.448 million-unit rate in September 2020.
  - The drop in overall starts mainly came from multi-family units, which were down 5.0% from August.
- Despite the slowdown in September, YTD actual starts are up 19.5% from the same timeframe last year and up 26.0% from the first nine months of 2019.

September light vehicle production totaled 644,520 units, down 17.3% from August and down 29.2% from 910,907 units in September 2020.

- Both car and light truck production slowed in September, with car production having its lowest monthly total since May 2020.
  - While car production slipped 32.2% from August, light truck production was down 14.3%.
- Despite the continued struggles with production, YTD production remains 9.9% above the total from the first nine months of 2020.

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 declined slightly this week, down 0.5% from last week but still up 36.3% YTD.

- The Platts index FOB China came in at $919/mt ($41.69/cwt).