

GLOBAL STEEL MARKET CONTINUES TO ADAPT FOR THE FUTURE

Algoma's Board approved the construction of two EAFs which are expected to replace their current blast furnace operations over time. The project is expected to increase production capacity to 3.7 mt from 2.8 mt and come online in 2024, after a 30 month construction period. Additionally, the U.S. has started talks with Japan about the possibility of resetting the Section 232 trade tariffs. The recent agreement with the EU is likely to set the playbook for future trade agreements.

INPUT COSTS

Zinc pricing continued its recent downturn this week; however, remains above the 100-day average.

- Zinc pricing slipped to \$1.46/lb this week, as longer-term forecasts expect pricing to return to the recent \$1.40/lb-\$1.45/lb average from the last 50 days.

Spot iron ore pricing slipped this week, sliding to \$85.20/dmt.

- The recent slide has pushed prices down 30% m/m and down 45% since the beginning of the year.

Pacific basin met coal pricing saw a continued decline this week on weaker demand from China.

- Pricing slipped to \$372/mt, the lowest level since September; however, is still up +240% since the beginning of May.

U.S. imported pig iron prices slipped slightly last week, sliding 1.7% from last week to \$570/mt.

- Import pricing is flat from last month and up 54% from this time last year.
- Increasing pig iron pricing is allowing domestic prime scrap pricing to find a floor after two consecutive monthly declines.

The Baltic Dry Index, a measure of ocean freight rates, dropped to its lowest level since early June this week.

- The BDI is down to 2,591 from its recent peak of 5,647 in early October.
- Concerns over China's economy and news about iron ore production cuts by Vale negatively impacted large vessel rates.

SUPPLY

After sliding the previous three weeks, domestic raw steel production saw a slight increase this week.

- U.S. steelmakers produced 1.856 million tons at an 84.1% 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 November is up 17% compared to the first 15 days of October.

- Ex. Brazilian slabs imports were up 24% from October on a daily average basis.

Algora's Board approved the previously announced construction of two EAFs expected to replace its current blast furnace operations over time.

- Capital cost is expected to be C\$700m (~US\$556m), with production capacity expected to increase to 3.7mt from 2.8mt currently.
 - Algora expects a 30-month construction phase with the EAF facility initially coming online in 2024, albeit with a subsequent multi-year transition/hybrid period between EAF and BOF production.

U.S. stated plans to start talks with Japan this week on possibly resetting the trade tariffs set by Section 232.

- The recent agreement on a TRQ with the EU will likely set the playbook on how most future trade agreements may look.

DEMAND

Business activity, from the manufacturing sector, continued to grow in the New York region.

- The November Empire Manufacturing Index came in at 30.9, up eleven points from 19.8 in October.
 - The two-month average held relatively steady, coming in at 25.2.
 - The two-month average has now been above 0.0 for seventeen consecutive months.
- The new order and shipment components posted strong gains, with each climbing to 28.8 and 28.2, respectively.

After slipping in September, industrial production increased in October as the lingering effects from Hurricane Ida continued to subside.

- The October Industrial Production Index came in at 101.6, up from 100.0 in September and is at its highest level since December 2019.
 - A 1.2% boost in manufacturing output helped to push the index higher, with the majority of that boost coming from increased production of motor vehicles and parts.
 - The output of utilities was up 1.2%, while the mining output, mainly from increased oil production, was up 4.1%.

Confidence among U.S. homebuilders continued to grow in November, now increasing for the third consecutive month.

- The November Housing Market Index came in at 83, up from 80 in October and is at its highest level since May.
 - Any reading over 50 indicates a positive view of the current situation, while any reading below 50 denotes a negative view.
- All three components continued to show expansion in November, with the present situation component being the strongest.

New housing starts continued to slow in October, now down for the second consecutive month and for the third time in the last four months.

- New housing starts came in at a 1.520 million unit rate, down 0.7% from September but up slightly from the 1.514 million unit rate in October 2020.
 - The slowdown in starts in October came from single-family homes, as multi-family units increased after a sharp drop in September.
- Permits, a leading indicator for starts, increased in October, climbing 4.0% from September to a 1.650 million-unit rate.

PRICE

Domestic flat rolled pricing slipped across the board this week as buyer hesitancy is counteracting firm mill offers.

- Market participants noted that while the bottom end of the pricing range increased slightly, the top end of the range slipped.
- The current HRC: HDG spread of nearly \$17.00/cwt is an all-time high and remains well above the long run average of \$10.00/cwt.
 - It is expected to return to that long-run average as pricing moderates after this long upward cycle.

Foreign pricing declined once again this week, down 6.7% from last week but still up 20% YTD.

- The Platts index FOB China came in at \$807/mt (\$36.60/cwt).

ECONOMY

Retail sales in October, adjusted for seasonality, came in at a \$638.2 billion rate, up 1.7% from September.

- This was the third consecutive month-over-month increase.
- Sales continued to be up sharply on a year-over-year basis as well, climbing 16.3% from a \$548.7 billion rate in October 2020.
 - Total sales for the August through October period were up 15.4% from the same timeframe last year.