MAJESTIC STEEL USA
MARKET UPDATE 11.24.21

PRICING & PRODUCTION CONTINUES TO RISE & FALL

Raw material pricing has experienced a mix of up and down movements in recent months. This week zinc, spot iron ore, and the scrap market all showed signs of strength while pacific basin met coal pricing continued to decline. Due to skyrocketing energy pricing, the U.S. announced they will release 50 million barrels from the Strategic Petroleum Reserves. Steel production is also seeing similar movements. As domestic steel production increases, global production is down because of sharp drops in Chinese outputs.

INPUT COSTS

Zinc pricing held steady this week, remaining above the 100-day average.

- Zinc pricing is back over $1.50/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.
- After SDI and NLMK recently increased coating extras, USS announced higher extras this week.

Spot iron ore pricing jumped this week, climbing to $99.45/dmt.

- The increase came on expectations of higher steel production in China after government mandated controls the past few months.
- Spot iron ore pricing is up 10% w/w but is still down 17% m/m.

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

- Pricing slipped to $318/mt, the lowest level since early-September; however, it is still up +193% since the beginning of May.

Early indications are for a continued strong scrap pricing environment when it comes to the December buys.

- The market is currently expecting shredded scrap to remain the strongest, climbing $30-$40/gt, while prime scrap is poised to see its second straight increase (+$10-$20/g).

After energy pricing has skyrocketed over the las few months to its highest level in seven years, the U.S. announced this week that they would release 50 million barrels from the Strategic Petroleum Reserve (SPR).

- The move is a coordinated effort between large energy consuming nations to combat the recent rise in prices.

SUPPLY

After sliding for three consecutive weeks, domestic raw steel production has now seen a slight increase in back to back weeks.

- U.S. steelmakers produced 1.861 million tons at an 84.3% 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 19.9% above the total from the same period last year but is still 5.4% below the same timeframe in 2019.

October global steel production continued to slide, now down for the sixth consecutive month.

- October global steel production came in at a 4.699 million tons/day rate, down 2.9% from September and down 10.6% from a 5.256 million tons/day rate in October 2020.
  - This is the lowest daily rate since January 2018.
- The sharp drop in Chinese production helped to outweigh a slight uptick in production everywhere else.
  - Chinese production came in at a 2.309 million ton/day rate, down 6.1% from September and down 23.3% from October 2020.
  - Steel producers in Tangshan, have been ordered to comply with emergency restrictions to combat an increase in pollution.
  - The new measures took effect Wednesday and were announced just days after the mills had emerged from the last round of curbs on Sunday.

Based on preliminary import licenses, the daily average for November is up 17% compared to the first 15 days of October.

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

DEMAND

October existing home sales were up 0.8% from September but still lagged behind year-ago levels.

- October sales came in at a 6.34 million rate, marking the second consecutive monthly increase.
  - While down on a y/y basis in October, the October 2020 numbers were an anomaly as the delay in the 2020 buying season pushed the seasonally adjusted number higher later in the year.
- Total housing inventory totaled 1.25 million units, down 0.8% from September and down 12.0% from 1.42 million units in October 2020.
  - Current inventory, when combined with October's sales pace, equates to 2.4 months of supply.

New orders for durable goods slipped in October, now down for the second consecutive month.

- New orders slipped 0.5% in October after a 0.4% decline in September.
- Excluding the volatile transportation sector, new orders were up 0.5% after a 0.7% increase previously.

ECONOMY

The October Chicago Fed National Activity Index (CFNAI) increased to 0.76, up from a -0.18 reading in September.

- Since economic activity tends toward trend growth, a positive index reading indicates growth above trend and a negative reading denotes growth below trend.
    - This was the highest the index has been since July.

The second estimate of Q3 GDP showed growth of 2.1% on an annual basis.

- This is up from the initial estimate of 2.0% growth.
    - Growth of 2.0% or more typically leads to an increase in steel consumption.

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