

## SECTION 232 AGREEMENT SET TO IMPACT IMPORT MARKET

The U.S. and EU came to agreement that would modify Section 232 on Steel and Aluminum imports. The 25% tariff on all products would be eliminated and replaced with tariff rate quota while ensuring that all steel entering the U.S. is entirely produced in Europe. Additionally, annual steel quota limit will be 3.3mt, plus 1.1mt already granted as exclusions to the tariffs.

## INPUT COSTS

Zinc pricing slipped sharply this week, down slightly from the fourteen year high seen last week.

- Zinc pricing slipped to \$1.57/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.

Spot iron ore pricing slipped this week, sliding to \$97/dmt.

- The recent slide has pushed prices down 18% m/m and down 41.4% since the beginning of the year.

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.

U.S. imported pig iron prices continued to climb last week, increasing 1.9% from last week to \$550/mt.

- Import pricing is now up 0.9% from last month and up 44.8% from this time last year.
- Increasing pig iron pricing is allowing domestic prime scrap pricing to find a floor after two consecutive monthly declines.

## SUPPLY

The recent up and down movement for domestic raw steel production continued last week as total production slipped; now down for the second consecutive week and hitting its lowest weekly total in a month.

- US steelmakers produced 1.860 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 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 28.4% compared to September.

- Ex. Brazilian slabs, imports were down 14.0% from September on a daily average basis.

The U.S. and EU came to an agreement that would modify the Section 232 tariffs on Steel and Aluminum imports.

- The agreement would eliminate the flat 25% tariff on all products and replace it with a TRQ (tariff rate quota).
  - The annual steel quota limit will be 3.3mt, plus 1.1mt already granted as exclusions to the tariffs.
  - The quotas are slightly below the average EU imports in 2015-2017 (represented ~15% of total US imports).
- The agreement also ensures that all steel entering the U.S. via Europe is produced entirely in Europe.

## DEMAND

After climbing the previous six months, total construction spending slipped slightly in September.

- Total construction spending came in at a \$1.574 trillion rate, down 0.5% from August.
  - Despite the month-over-month decline, spending continued to climb on a year-over-year basis.
  - Total spending was up 7.8% from a \$1.460 trillion rate in September 2020.
- Spending on both residential and non-residential projects slipped in September, sliding 0.4% and 0.6%, respectively.

Growth from the manufacturing sector slowed slightly in October but remained strong overall.

- The national ISM Manufacturing Index came in at 60.8, down slightly from 61.1 in September but was up from 59.3 in October 2020.
  - This was the seventeenth consecutive month in which the index has shown expansion.
- While the new order component slowed sharply, sliding 6.9 points to 59.8; the production component was virtually flat at 59.3.



After sliding the previous four months, U.S. light vehicle sales increased slightly in October.

- October light vehicle sales totaled 1.046 million units, up 3.6% from September but remained well below year-ago levels.
- While sales of cars slipped slightly in October, light truck sales rebounded 8.4% after sliding the previous six months.
  - Year-to-date light vehicle sales are now up 9.0% from the same timeframe last year.

## PRICE

Domestic flat rolled pricing remained mixed once again this week. While hot-rolled pricing dropped sharply and cold rolled and hot-dipped galvanized pricing were relatively flat.

- 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 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).