

POSITIVITY SURROUNDING THE BACK HALF OF 2021

GDP projections are continuing to grow higher this month. As global steel production, demand, and availability to COVID vaccinations increase so does the overall outlook on 2021.

INPUT COSTS

Zinc pricing pushed higher this week, closing in on \$1.30/lb for the first time in a month.

- With the price of the metal now trading well above the 20 and 50 DMAs, the short-term price action should remain sideways with an upside bias.

After the sharp jump in March, early expectations are for a quieter April scrap buying week.

- Prime scrap availability remains tight and a continued chip shortage is restraining flows but the mills are trying to keep prices flat in order to maximize margins.

SUPPLY

Domestic raw steel production declined last week, sliding for the first time since early February.

- U.S. steelmakers produced 1.753 million tons at a 77.3% utilization rate.
- Production was up 0.7% from the same week last year but is still down 6.2% on an YTD basis.

Global steel production totaled 150.2 million metric tons in February, a 4.1% increase compared to February 2020.

- Chinese production increased to 83.0 million metric tons, a 10.9% increase over last February.
- Production from India, Japan, the U.S., and Russia saw y/y declines of 3.1%, 5.6%, 10.9%, and 1.3%, respectively.

DEMAND

A tightening inventory environment, combined with rising prices and a weeklong deep freeze, all played a factor in pushing February existing home sales lower.

- February existing home sales came in at a 6.220 million unit adjusted rate.
 - This was the highest sales rate for February since 2006, and the second highest sales for February on record.
- Inventory of unsold existing homes dropped again in February, sliding to 1.030 million units.
 - The 29.5% year-over-year drop in inventory was the largest annual drop on record.

It was a very similar story when it came to new home sales in February.

- Sales were down 18.2% from January but were up nearly 10% from February 2020.
 - This marked the tenth consecutive month in which sales were up on a year-over-year basis.

The latest US Chamber of Commerce's Commercial Construction Index revealed optimism among contractors in the U.S.

- The CCI increased by 3 points to 62 in Q1, up from 59 in Q4; but was still below the score of 74 in Q1 2020.
- As vaccines roll out, contractors are expecting to hire more workers and are anticipating good times in the back half of 2021.

Physical improvements to roads, bridges, rail lines, ports, and the electric grid alone could account for nearly \$1 trillion of Biden's forthcoming (\$3-\$4 trillion) Build Back Better infrastructure program.

- Every \$100 billion in spending equates to roughly 4 million tons of added steel consumption (1 million ton of sheet/3 million tons of bar/plate).
 - This new infrastructure plan could boost sheet consumption by 10 million tons (~20% increase from current levels).

PRICE

After dropping a few weeks ago on unwarranted fears of a Section 232 dismissal, HRC futures prices continued to climb higher this week.

- Current HRC futures have prices at or north of \$1300/t through July and prices above \$1000/t through November.
- Current April settlement pricing of \$1349/t is the highest we have seen this cycle.
 - After being in backwardation for multiple weeks, the forward curve is now in contango through July.

Steel pricing continued to set new all-time highs, as the upward momentum continued this week.

- This current upward super-cycle for flat product pricing has now entered its eighth month, with no signs of turning in the near future.

ECONOMIC

The U.S. economy continues to rebound from its COVID-induced recession and with that recovery came an updated 2021 GDP forecast from that Fed.

- The Fed projects GDP will grow 6.5% this year, a big jump from its previous estimate (December) of 4.2% growth.