MAJESTIC STEEL USA

MARKET UPDATE 05.12.21

NEW CHALLENGES PUSH SUPPLY LOWER & DEMAND HIGHER

Input costs and pricing for finished steel are still reaching record highs. While challenges brought on by the recent cyber-attack on Colonial Pipeline, increased demand in the transportation market, and decreased domestic production continue to strain an already tight market.

INPUT COSTS

The continued rise of finished steel prices around the globe helped to push spot iron ore pricing higher.

- Spot iron ore started the week above $210/mt, a new record high.
- The boost comes on the back of re-entry into the market after a near weeklong holiday in China.

Zinc pricing continues the steady push higher, now closing above $1.30/lb for twelve straight days. Hitting a fresh 52-week high this week and closing in on $1.40/lb for the first time since June 2018.

- Much like every material, the current supply/demand imbalance is poised to push prices even higher from here.

US Steel recently announced, along with the cancelation of their Mon Valley project, that they would be idling three coke batteries at the Clairton plant.

- USS will reduce its coke production by 17% over the next year.
- A reduction of coke supply suggests that they may be looking to further cut production of steel produced by BOF methods.

The recent cyber-attack that has shut down one of the largest pipelines (Colonial Pipeline) on the east coast (45% of supply) could push gas prices to their highest level since 2014.

- The current national average for a gallon of gas stood at $2.985, a gain of three more cents would push the national average above $3.00/gallon for the first time in seven years.

After a flat reading in May, domestic Midwest prime scrap prices are poised to see further increases in June.

- Limited supply, rising secondary grade and pig iron pricing, and a strong export market are helping to boost prices.

SUPPLY

Domestic raw steel production slipped last week after reaching a post-pandemic high two weeks ago.

- U.S. steelmakers produced 1.774 million tons at a 78.1% utilization rate.
    - This was the lowest weekly output since the second week of February.
- Year-to-date production is now 5.7% above the total from the same period last year.

DEMAND

The Dodge Momentum Index continued to push higher in April, climbing for the fifth consecutive month.

- The April index came in at 162.4 up from 149.5 in March and is at its highest level in twelve (12) years.
    - The Index continues to be boosted by institutional building planning, with healthcare and laboratory projects dominating the sector.
- Dodge Momentum Index typically leads construction spending for nonresidential building by a year.

PRICE

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

Hot rolled coil futures pricing continues to push higher with the current forward curve moving higher through November.

- The current three month contract (July $1644) is at the highest level we have seen in the cycle.
- The forward curve shows pricing above $1400 through January and above $1200 through May 2022.

Foreign pricing continues to climb, as well, as Asian HRC prices reached a 13-year high (July 2008) this week, as the Platts index FOB China increased to $1,015/mt ($46.04/cwt).

- Chinese HRC pricing is now up 7.4% w/w, 49.9% YTD.

ECONOMIC

According to the DAT Load Board, the current load-to-truck ratio has increased sharply once again, climbing to 95.7 in April; this compares to 83.7 in March and 5.9 in April 2020.

- The index has continued to push higher as we have moved into May, pushing above the 100 mark during the first week.
- The ratio is a real-time indicator of the balance between spot market demand and flatbed capacity; changes in the ratio often signal impending changes in rates.

The Consumer Price Index increased at a 4.2% rate from a year ago, the fastest paced increase in more than 12 years.

- Excluding the volatile food and energy sectors, prices increased 3.0% from the same period last year.
    - The 3.0% increase was the fastest year-over-year increase January 1996.
- The combination of government stimulus and major supply chain disruptions pushed the prices paid by consumers higher.