

SMU Community Chat

January 5, 2022

Starting at 11 AM Eastern

Michael Cowden, Steel Market Update

Timna Tanners, Wolfe Research



SteelMarketUpdate.com/Blog/SMU-Community-Chat-Webinars

Steel Market Update



SMU Newsletter developed for active buyers & sellers of flat rolled steel.

Prices – Momentum – Trends – Analysis – with a guarantee

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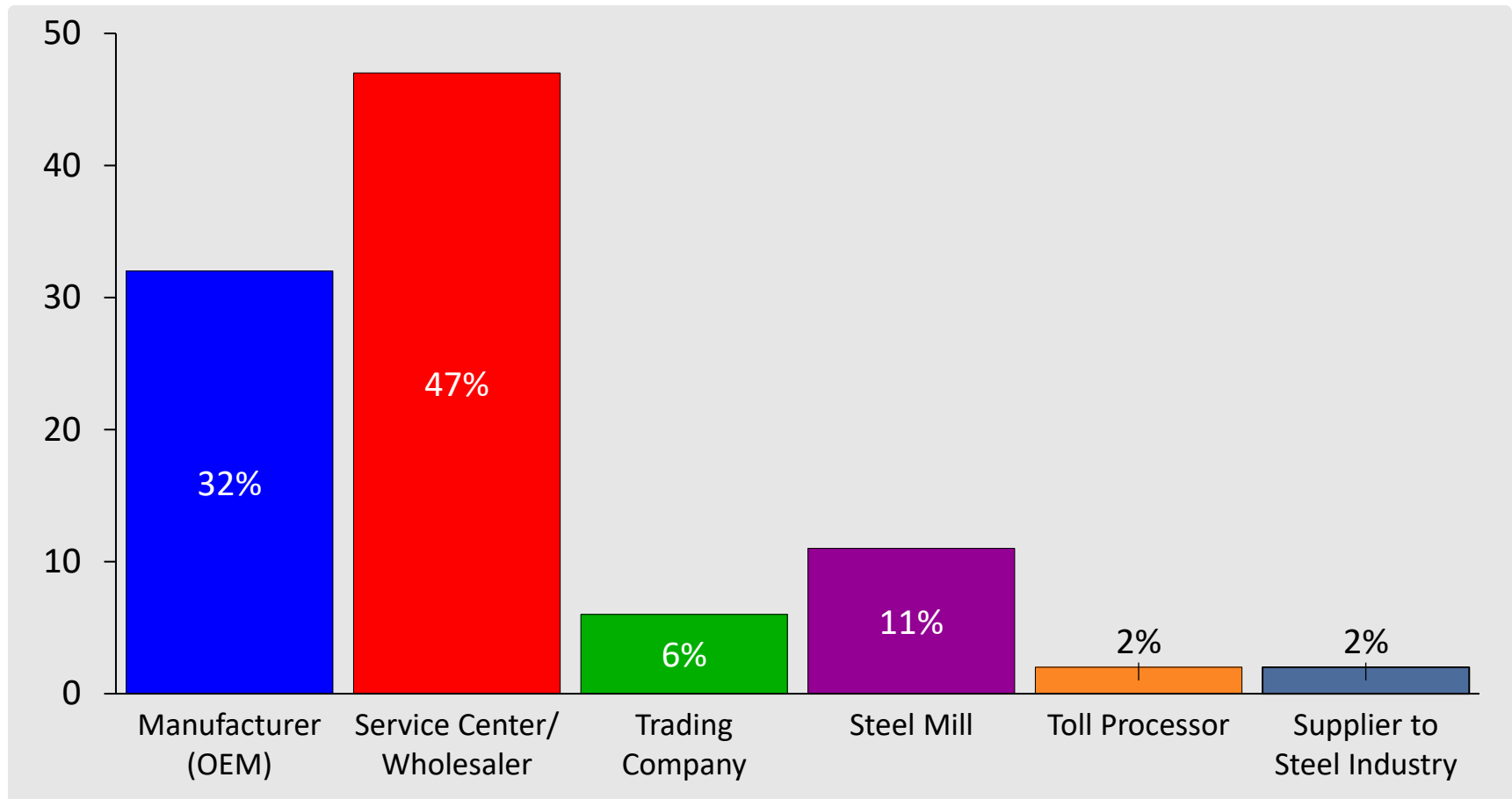
Upcoming SMU Events

Date	Event	Status	Venue
January 11-12	SMU Steel 101 Workshop	Virtual	Online
February 14-15	SMU Introduction to Steel Hedging Workshop	Live	Marriott Waterside Hotel Tampa, Florida
February 14-16	Tampa Steel Conference	Live	Marriott Waterside Hotel Tampa, Florida
April 26-27	SMU Introduction to Steel Hedging Workshop	Virtual	Online
August 22-24	SMU Steel Summit Conference	Live	Georgia International Convention Center, Atlanta, Georgia

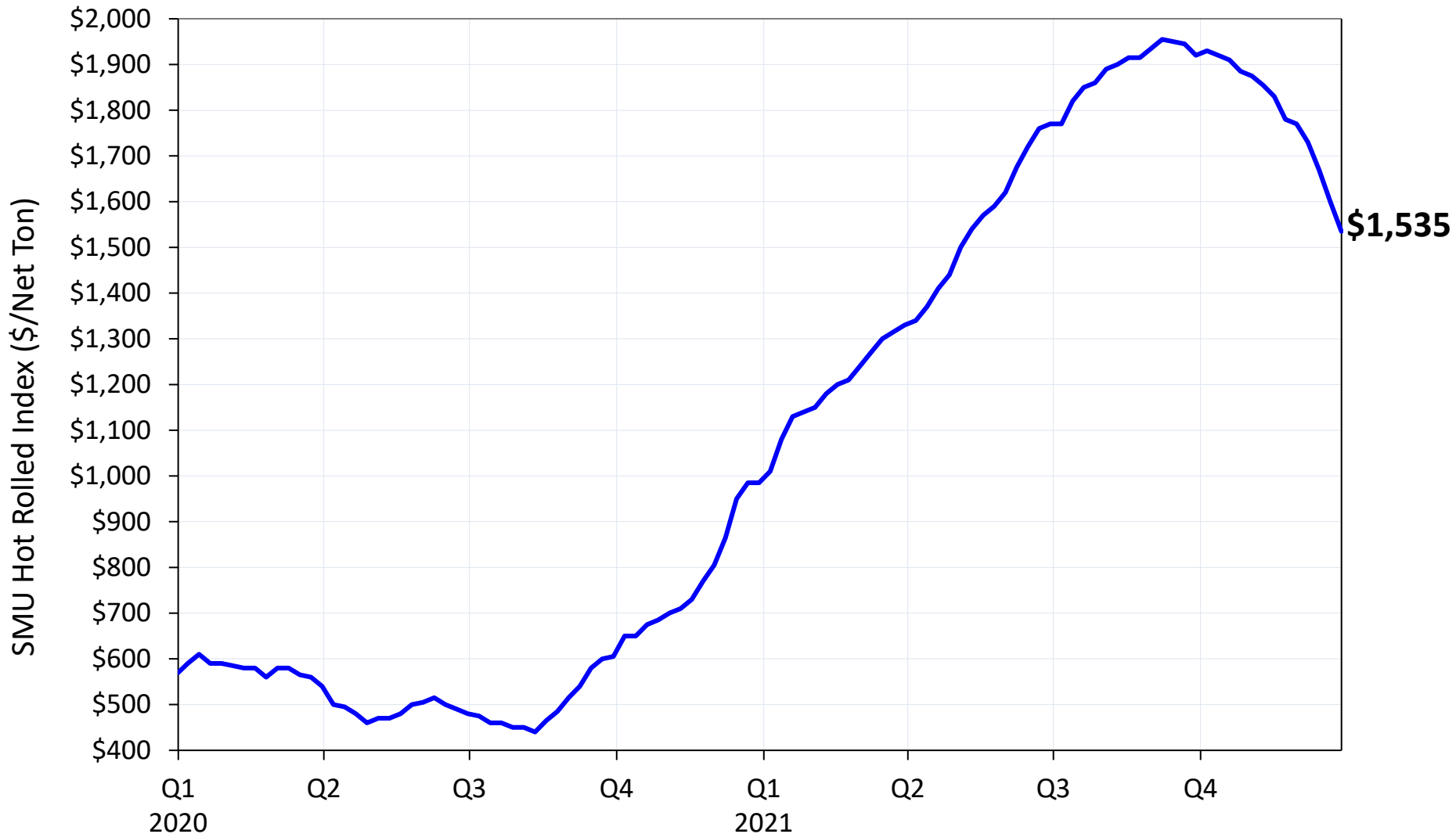
If you would like more information about any of our workshops, you may visit SteelMarketUpdate.com/Events or e-mail our team at Events@SteelMarketUpdate.com

Survey Participants

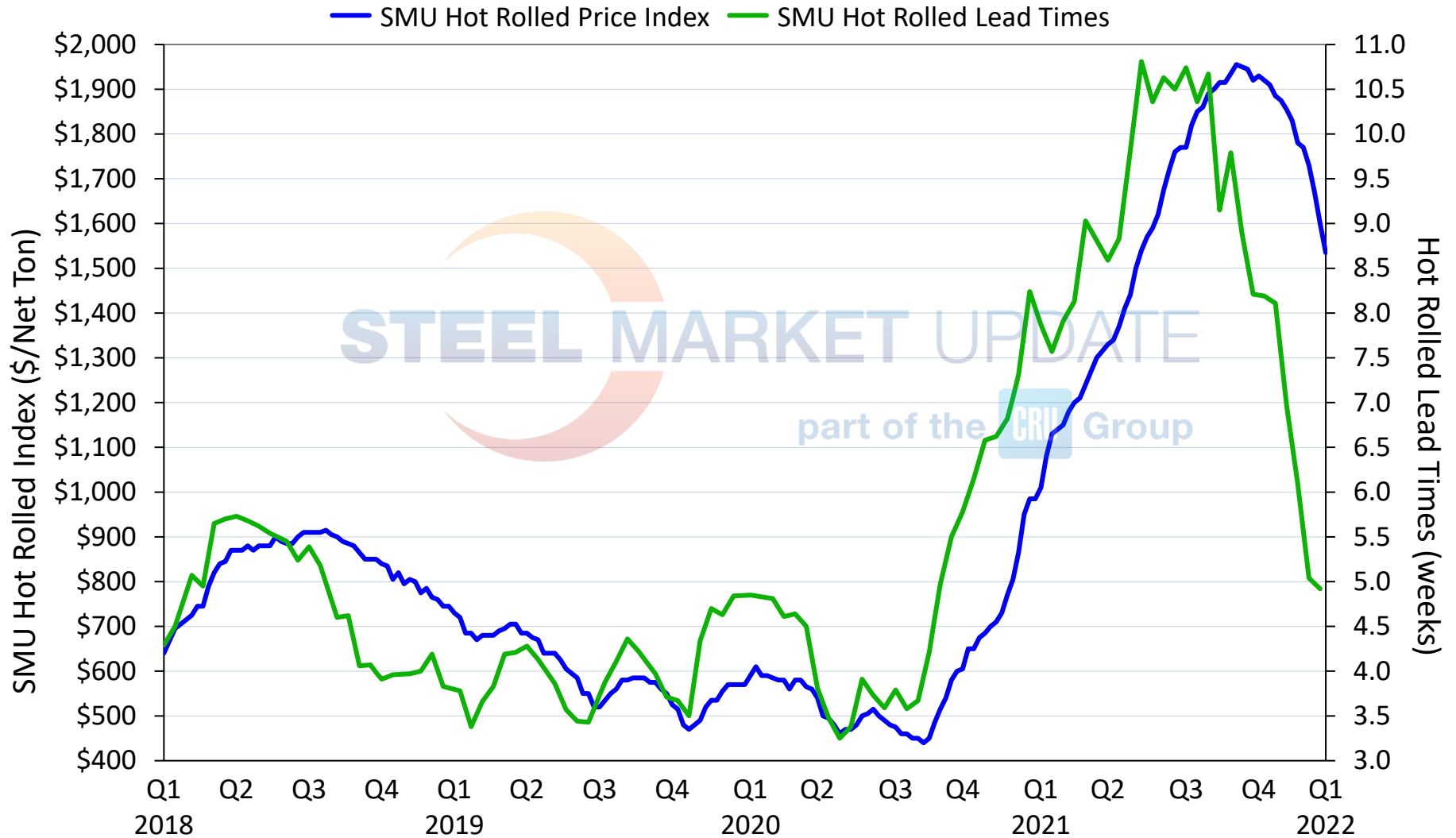
Our survey is by invitation only- Over 500 companies, mostly in the manufacturing or distribution industries, are asked to participate. Here are the percentages of participation in this week's survey by market sector.



SMU Hot Rolled Price Average

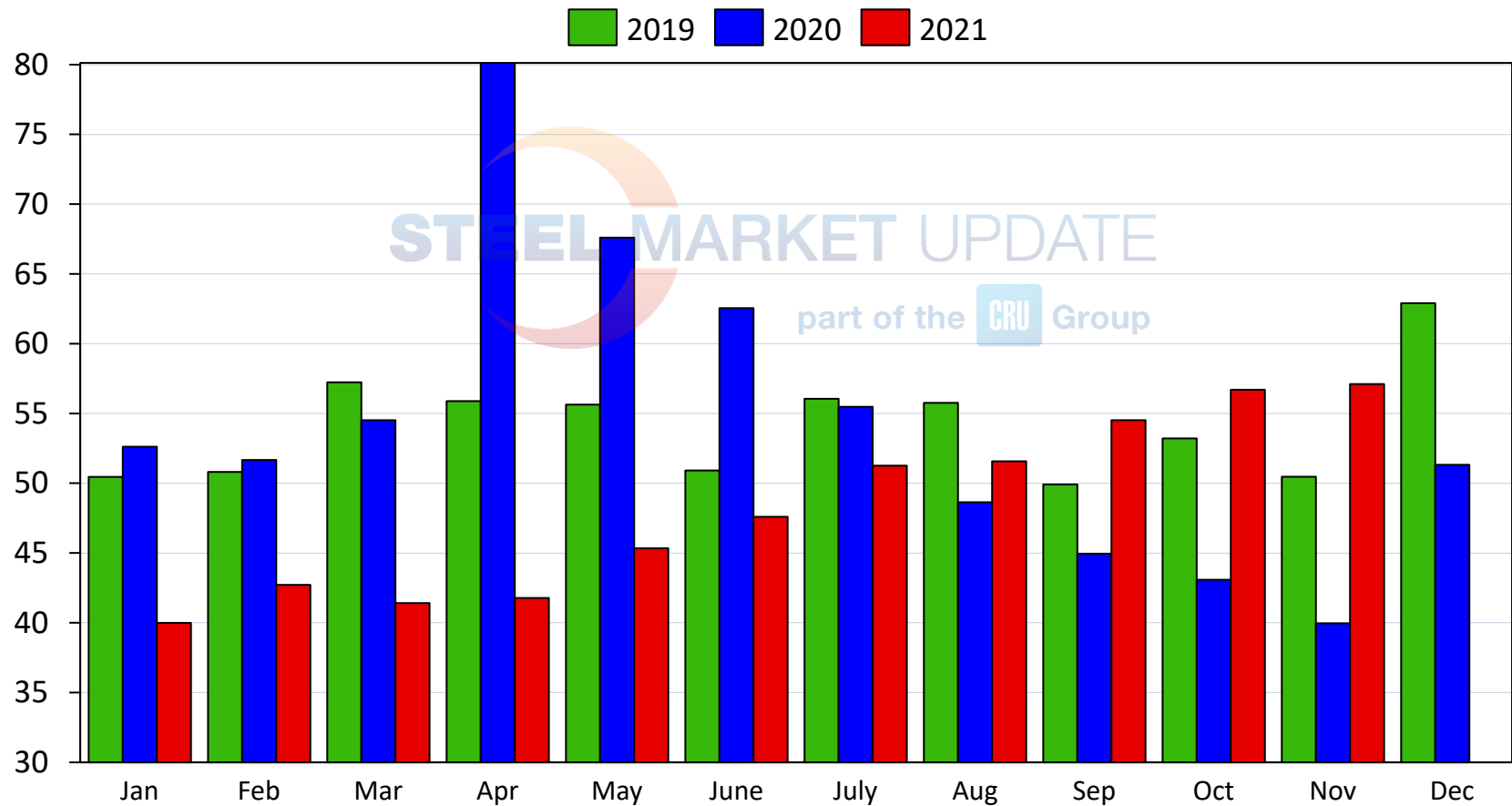


SMU Hot Rolled Index vs Lead Times

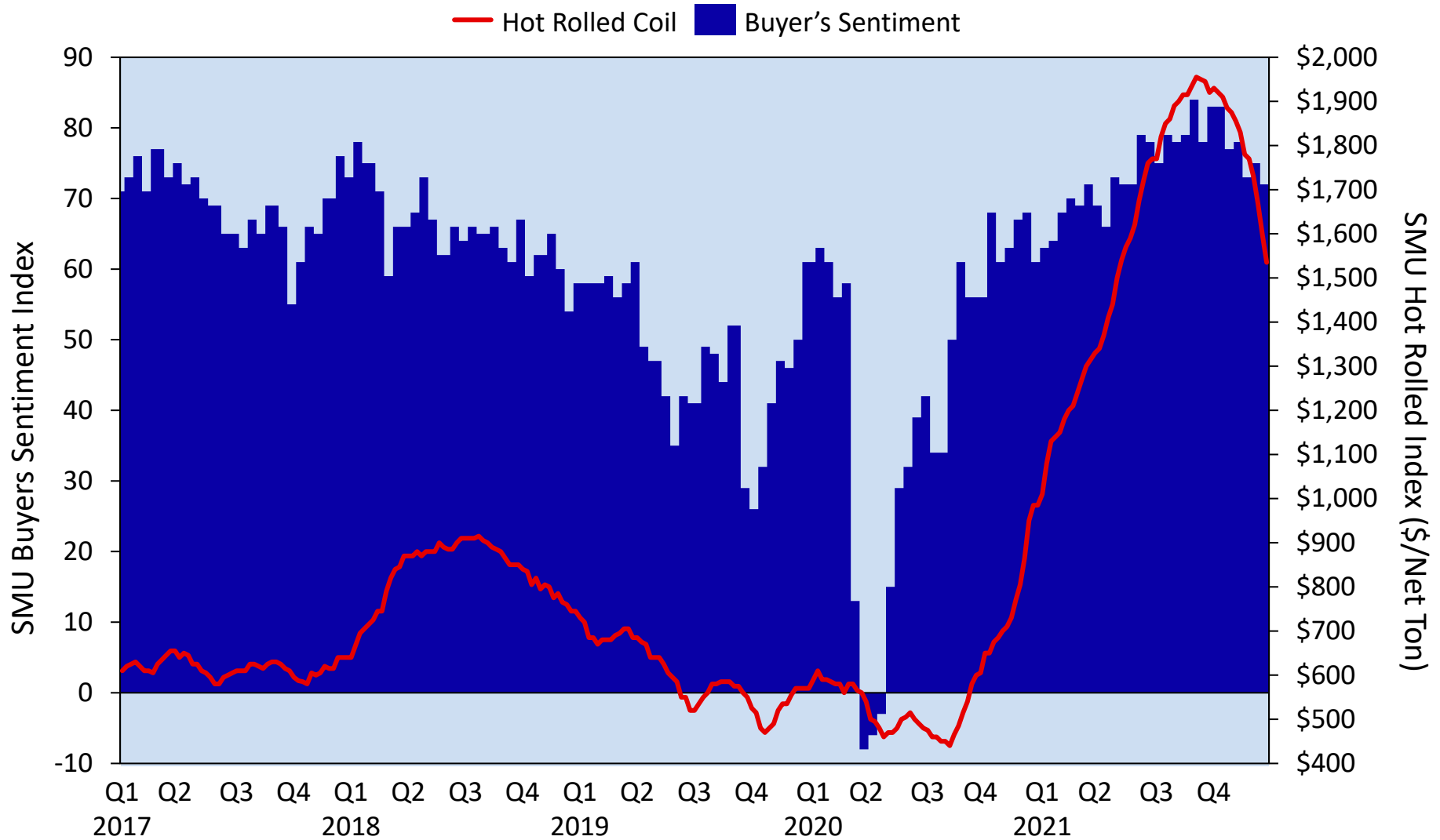


Service Center Inventories

Shipping Days of Supply – Flat Rolled



SMU Hot Rolled Index & Buyers Sentiment Index





Timna Tanners is a Managing Director at **Wolfe Research**. She has covered the Metals and Mining sector since 2002. She was ranked #1 in Metals and Mining in the Institutional Investor All-America Research Poll from 2013 to 2018. Before joining Wolfe Research, Tanners worked as a Managing Director at Bank of America, where she covered metals and mining not only in North America but in Latin America as well. She began her career in 2002 at UBS. Tanners has a BA in politics from Pomona College, an MS in journalism from Northwestern University, and an MBA from UCLA. She is based in New York.

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Steel Market Update (SMU) Community Chat

Jan 5, 2022

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The Great Steel Supply Squeeze of 2021 is over...

... prices rallied for a year and could slide for a year

- The pace of 2022's decline will depend on: 1) **the pace of destocking**; 2) **new capacity ramping up**; and 3) **demand**.

A trifecta of bad news for North American sheet prices

- Service center/broader channel destocking, on top of more imports (++supply/--demand);
- Supply chain/output normalizing means more supply, expect more easing in H2 (++supply/-demand);
- New U.S. + Mexican supply to total ~6Mt + ~6Mt in 2022E or a 15% hike in North America supply

WHAT IF...

China – Production could continue to shrink, driving net imports from exports

China's exports already shrunk in recent years, this isn't new and we don't expect net imports

Europe/Russia – Prices could be supported by high power costs, sanctions due to Ukraine involvement

Power costs could support Europe prices on the margin but small impact, Russia tons will find a way out

Demand – U.S. auto output should improve 2-3M units, energy/construction also solid

Demand up ~4-6Mt eclipsed by 10% more production and 12Mt of new NA sheet in 2022E

Mills have power – Consolidation has limited suppliers for exposed auto

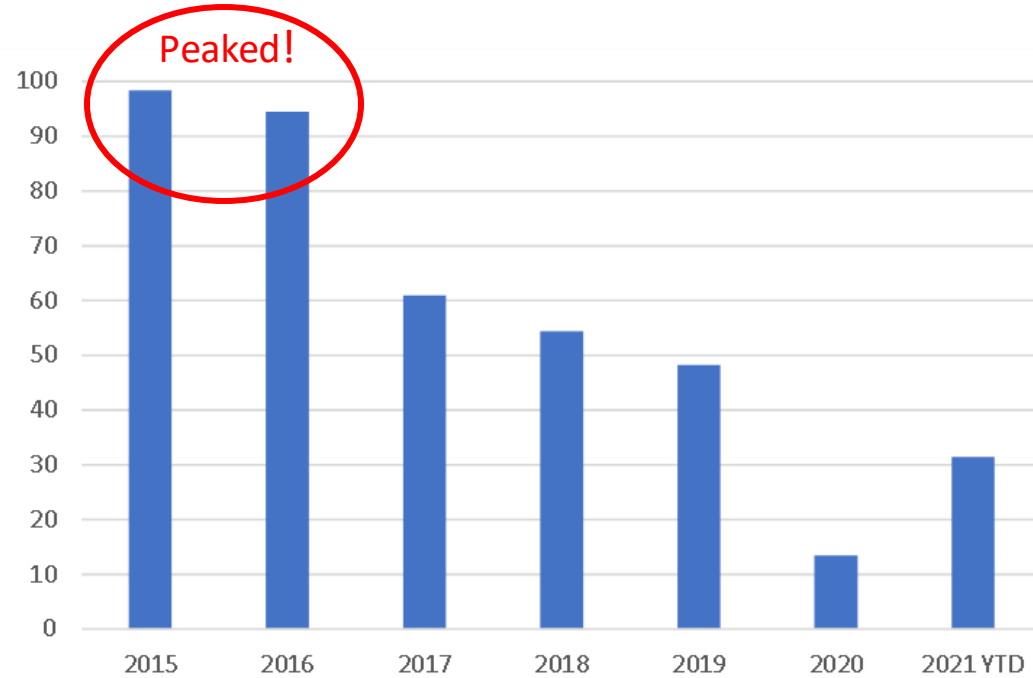
We estimate auto contracts up >50% y/y, but MT USA still around, Bluescope bigger, plenty of independents

Raw material costs – High scrap/coal costs can support selling prices

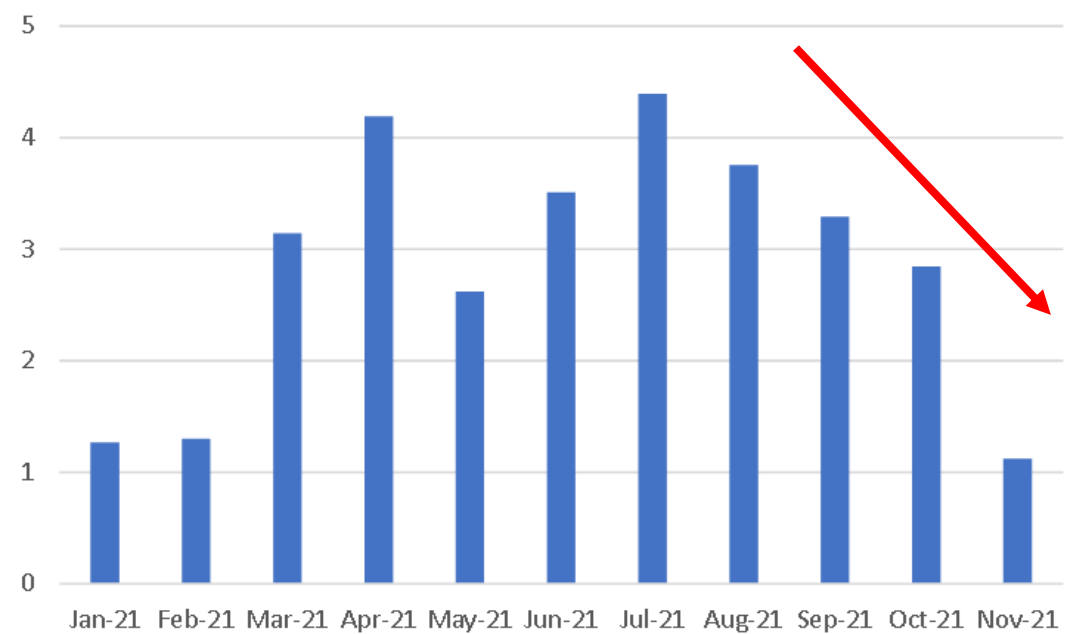
This is why we have \$725/st HRC in 2023E vs historical ~\$625/st but pig iron can fill in gaps and cap upside

What Chinese oversupply?

Annual net Chinese exports (Mt)



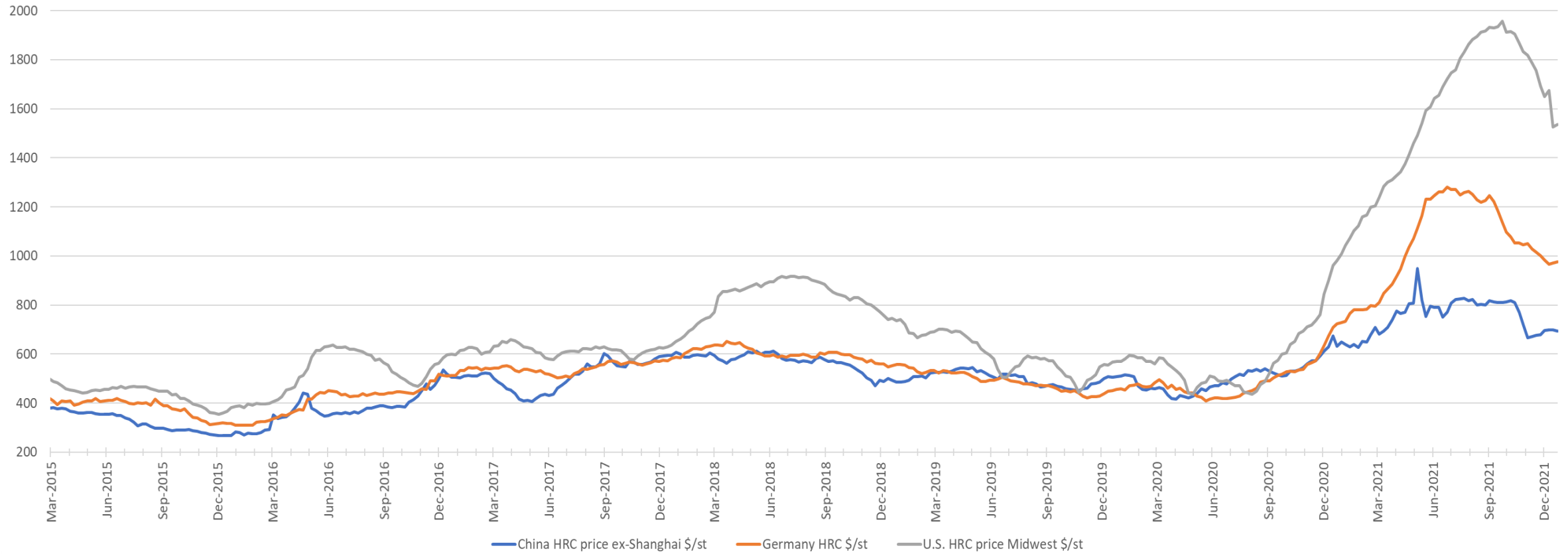
Chinese 2021 monthly net exports (Mt)



Source: General Administration of Chinese Customs; Note: 2021 YTD as of November 2021

That's a steep premium...

Global HRC price comparison



Source: FactSet

Order book holes make for cloudy crystal balls

Who wants to buy into a falling market?

Some buyers have enough steel to cover their needs into April...

State of Steel survey question: "What could be the biggest risk for the steel markets in 2022?"

"So, as you know the year has been one for the ages. Pricing most definitely has come off the highs ... and mills are looking for HRC orders. I will say that on the demand side, all of our customers are busy and look for a good year ahead on all comps."

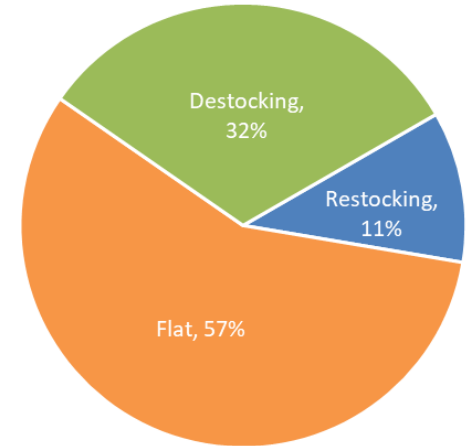
"I am ready for 2021 to be over and to get back to some steel price and inventory stability."

"Too much inventory"

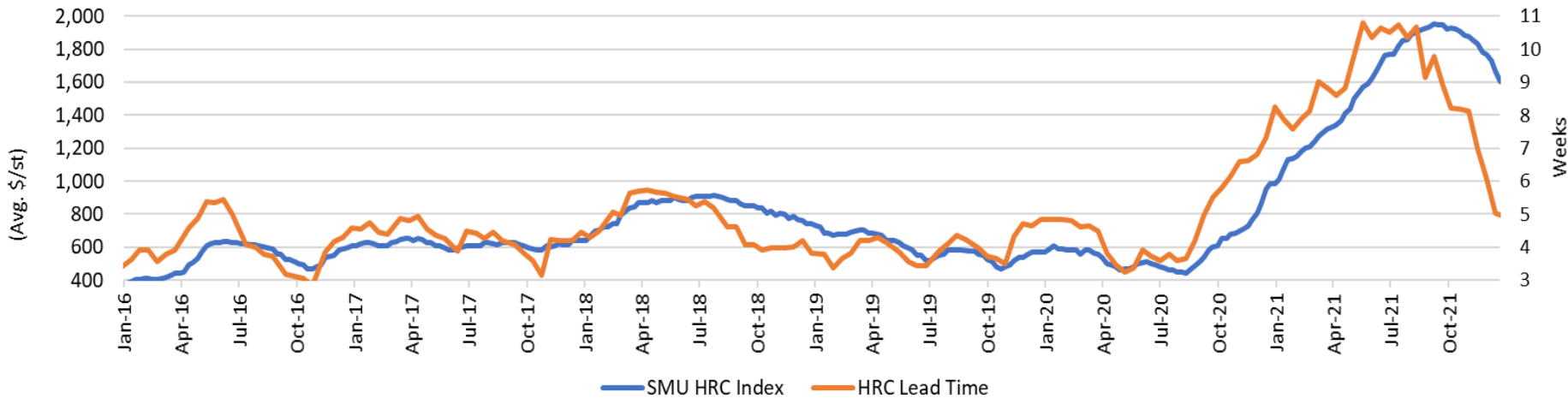
"Elevated inventory risk for those of us operating in higher price regions (such as North America)"

"Inventory devaluation"

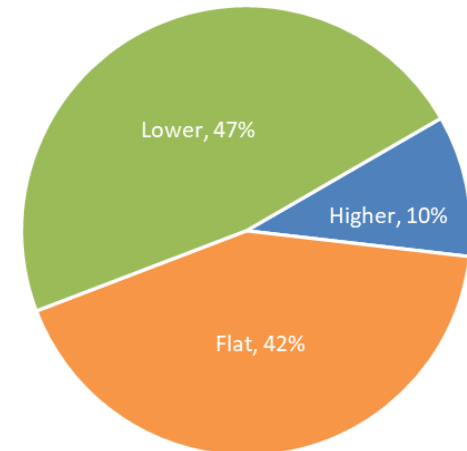
HRC inventory plans into Q122



U.S. HRC price vs lead times



HRC lead time expectations into Q122



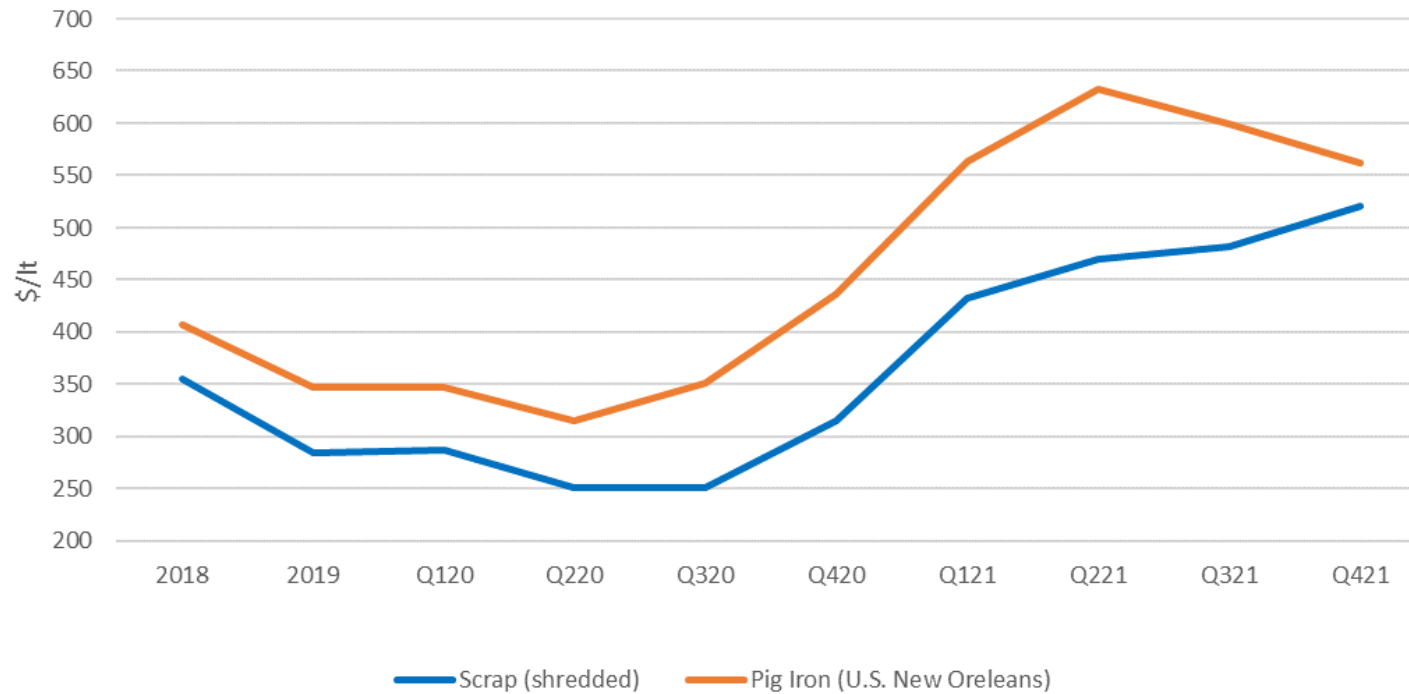
Source: Wolfe Research State of Steel survey, SMU

New North America sheet steel capacity (2020-2025E)

Target Date	Company	Capacity (Mst/yr)	Operations
Q4 2020	Stelco - Lake Erie Works	0.30	Blast furnace upgraded
Q4 2020	U.S. Steel - Big River Steel expansion	1.65	Doubled capacity via 2nd EAF at existing sheet mill
Q2 2021	Ternium	4.40	New hot rolling mill
Q4 2021	ArcelorMittal Mexico	2.76	New hot rolling mill
Q4 2021	Steel Dynamics Inc. (SDI)	3.00	Greenfield EAF sheet mill
Q4 2021	Nucor (Gallatin)	1.40	Expansion of existing EAF sheet mill
H1 2022	North Star BlueScope	0.85	Expansion of existing EAF sheet mill
Q4 2022	Nucor	1.20	Greenfield EAF plate mill
H1 2023	AM/NS Calvert	1.50	Addition of EAF and slab casting capability
2024/2025	Nucor	3.00	Greenfield EAF sheet mill
2024	U.S. Steel	3.00	Greenfield EAF sheet mill
2024	Algoma	3.70	Greenfield EAF sheet mill
	Total new capacity	26.76	
2024	U.S. Steel	1.60	Assumed Gary furnace to offset new EAF capacity
2024	U.S. Steel	1.40	Assumed Granite City B idled to offset new EAF capacity
H1 2023	AM/NS Calvert	1.50	Replacing slab imports
2022/2023	Ternium	0.90	Planned idling of older capacity
2024	Algoma	2.80	Algoma BF replacement
	Net new capacity	18.56	

Approximately
23% new sheet
supply hitting
North America!

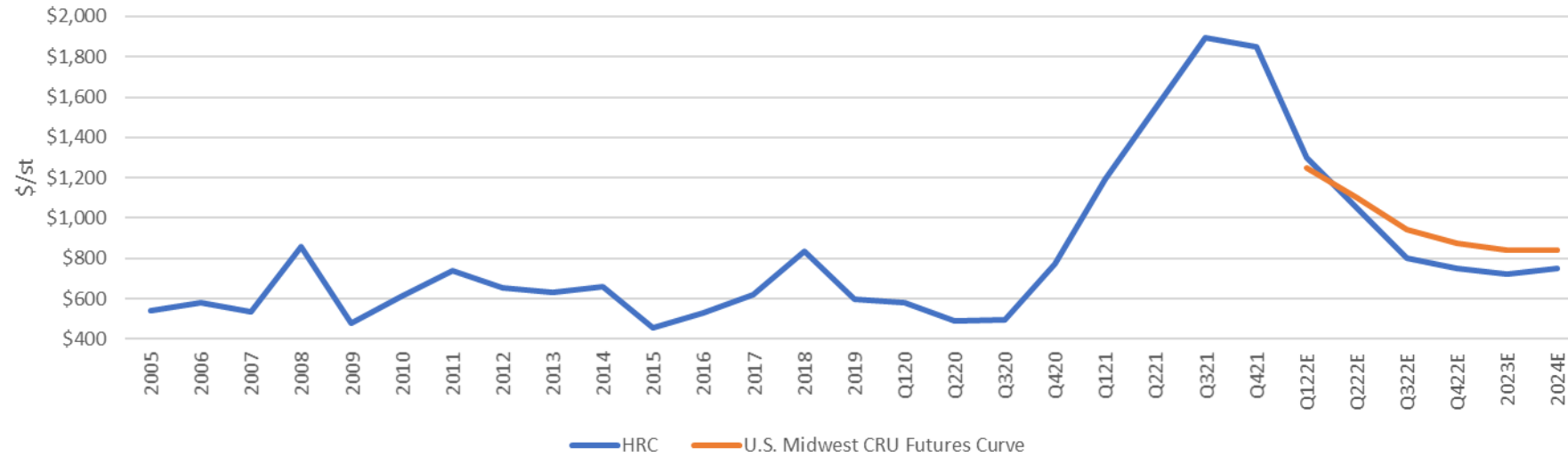
Shredded scrap vs pig iron prices



Est. added scrap/substitute demand

Year	Capacity (Mt/yr)
2022	5.78
2023	2.97
2024	10.67

U.S. Hot Rolled Coil (HRC) price forecast and forward curve



	2017	2018	2019	2020	2021	Q122E	Q222E	Q322E	Q422E	2022E	2023E	2024E
Carbon steel												
HRC (\$/st)	\$623	\$835	\$601	\$587	\$1,620	\$1,300	\$1,050	\$800	\$750	\$975	\$725	\$750
CRC (\$/st)	\$815	\$952	\$755	\$755	\$1,839	\$1,700	\$1,350	\$1,050	\$950	\$1,263	\$875	\$875
HDG(\$/st)	\$889	\$1,033	\$839	\$830	\$1,903	\$1,950	\$1,550	\$1,200	\$1,100	\$1,450	\$975	\$950
Plate (\$/st)	\$684	\$941	\$811	\$638	\$1,474	\$1,750	\$1,500	\$1,200	\$1,000	\$1,363	\$925	\$950
Rebar (\$/st)	\$549	\$687	\$669	\$615	\$904	\$950	\$875	\$825	\$800	\$863	\$775	\$775
Merchant Bar (\$/st)	\$630	\$747	\$754	\$659	\$973	\$1,150	\$1,025	\$975	\$950	\$1,025	\$875	\$875
WF beams (\$/st)	\$678	\$851	\$850	\$714	\$950	\$1,050	\$975	\$975	\$950	\$988	\$925	\$925
Scrap												
Scrap (HMS 1/2) (\$/lt)	\$278	\$329	\$258	\$250	\$426	\$450	\$425	\$425	\$400	\$425	\$425	\$425
Scrap (Shredded) (\$/lt)	\$302	\$355	\$285	\$276	\$472	\$525	\$500	\$500	\$475	\$500	\$500	\$485
Scrap (Bushing) (\$/lt)	\$365	\$398	\$320	\$312	\$584	\$625	\$575	\$550	\$525	\$569	\$550	\$535

Source: Wolfe Research, Platts, CRU

Conclusions:

- Steelmageddon® is now a Sheet Storm, thesis intact
- Mill power is limited, hard to fight gravity
- U.S. may convert to steel exporter, scrap importer by year end

Wild cards?

COVID duration, Russia sanctions, power costs, start-up timing

Wishing you a fantastic 2022 and thanks for your attention and questions!

Please contact me to be part of our quarterly surveys at ttanners@wolferesearch.com

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Peer Perform:	39%	4% Investment Banking Clients
Underperform:	6%	0% Investment Banking Clients

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Thank you for attending our SMU Community Chat. And a special thank you to Timna Tanners for her participation today.

To contact Michael Cowden: Michael@SteelMarketUpdate.com

To contact Timna Tanners: TTanners@WolfeResearch.com

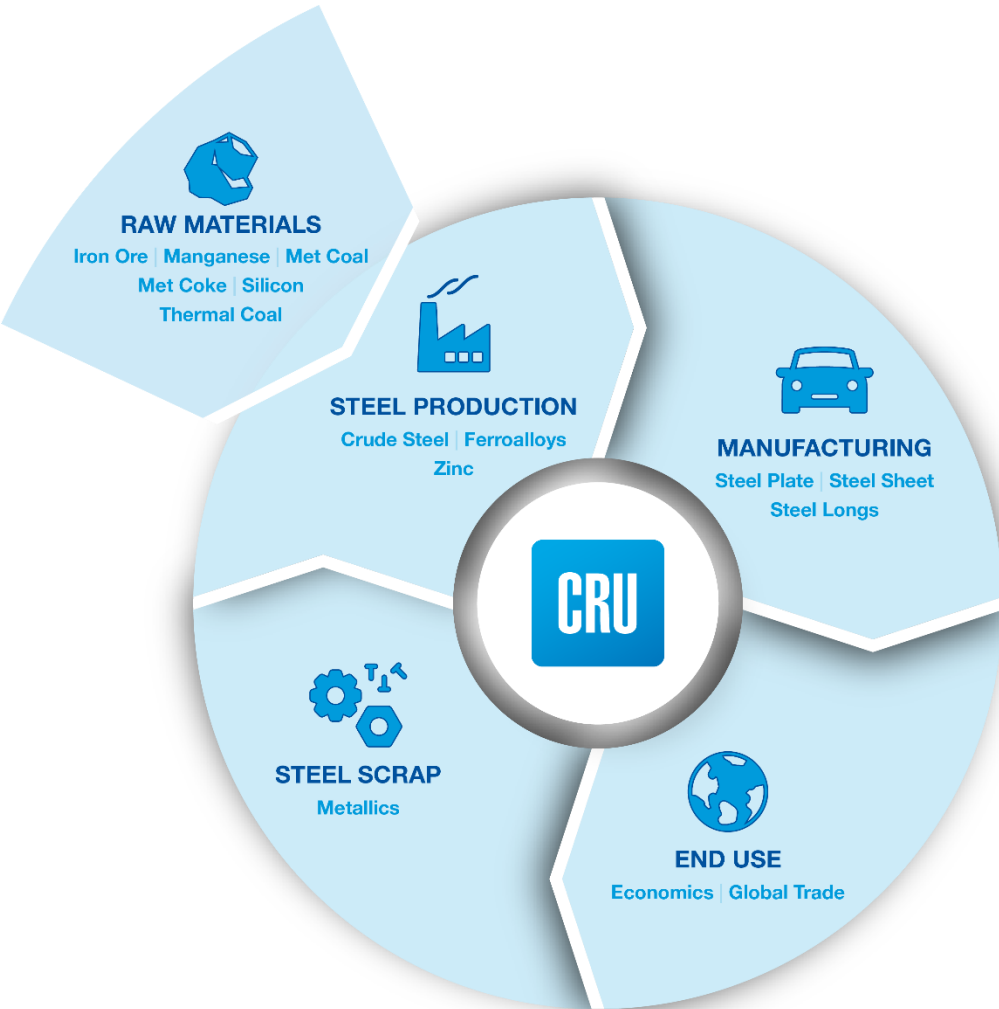
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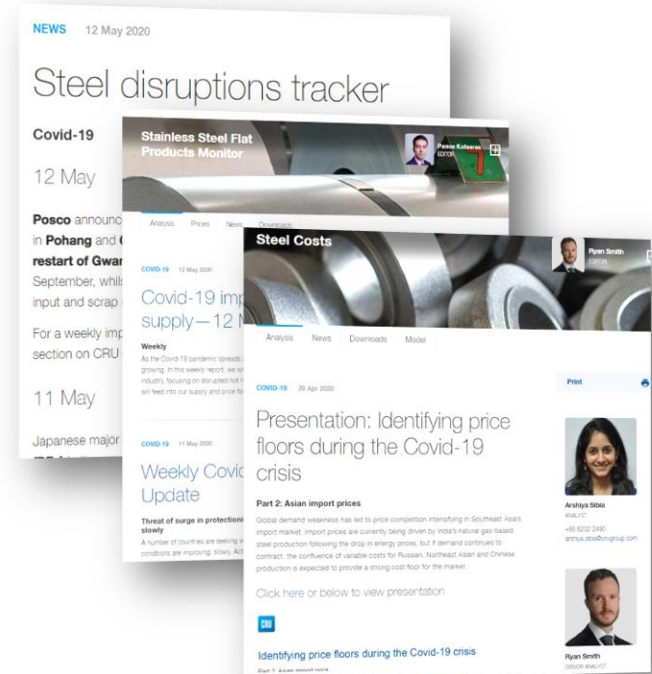
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