

SMU Community Chat

June 29, 2022

Starting at 11 AM Eastern

Michael Cowden, Steel Market Update

Timna Tanners, Wolfe Research



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



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

Prices – Momentum – Trends – Analysis – with a guarantee

For more information visit www.SteelMarketUpdate.com

Upcoming Events

Date	Event	Status	Venue
July 19-20	SMU Steel 101 Workshop	Virtual	Online
August 22-24	SMU Steel Summit Conference	Live	Georgia International Convention Center, Atlanta, Georgia
August 22-24	SMU NexGen Leadership Award	<u>Link</u>	SMU Steel Summit Conference

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



Steel 101 Workshop, Severstal Dearborn 2012

Our goal is to provide quality information to the flat rolled steel industry.

We invite over 600 companies to participate in our surveys.

All responses are kept confidential and are never attributed to the individual or company responding.

To become a data provider, contact Brett@SteelMarketUpdate.com



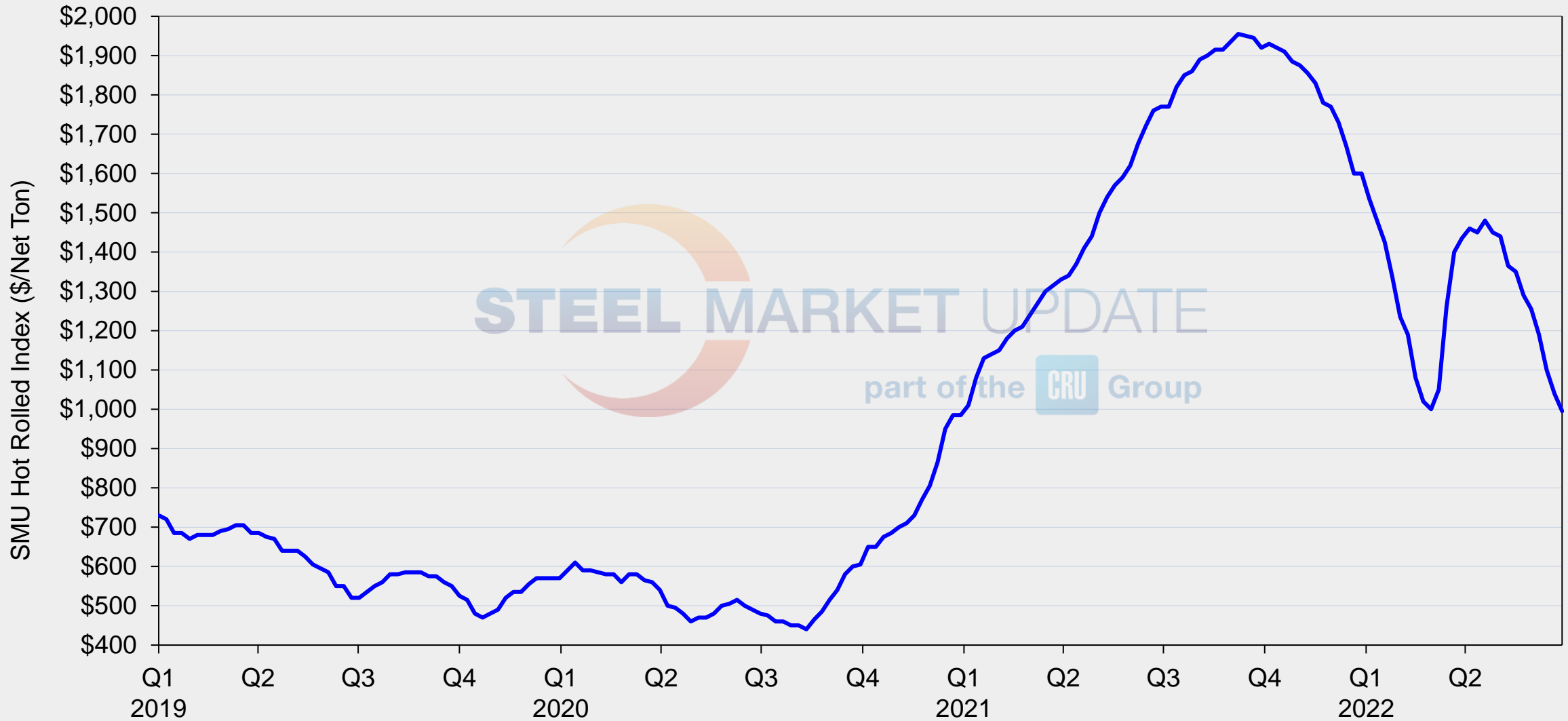
STEEL MARKET UPDATE

part of the  Group

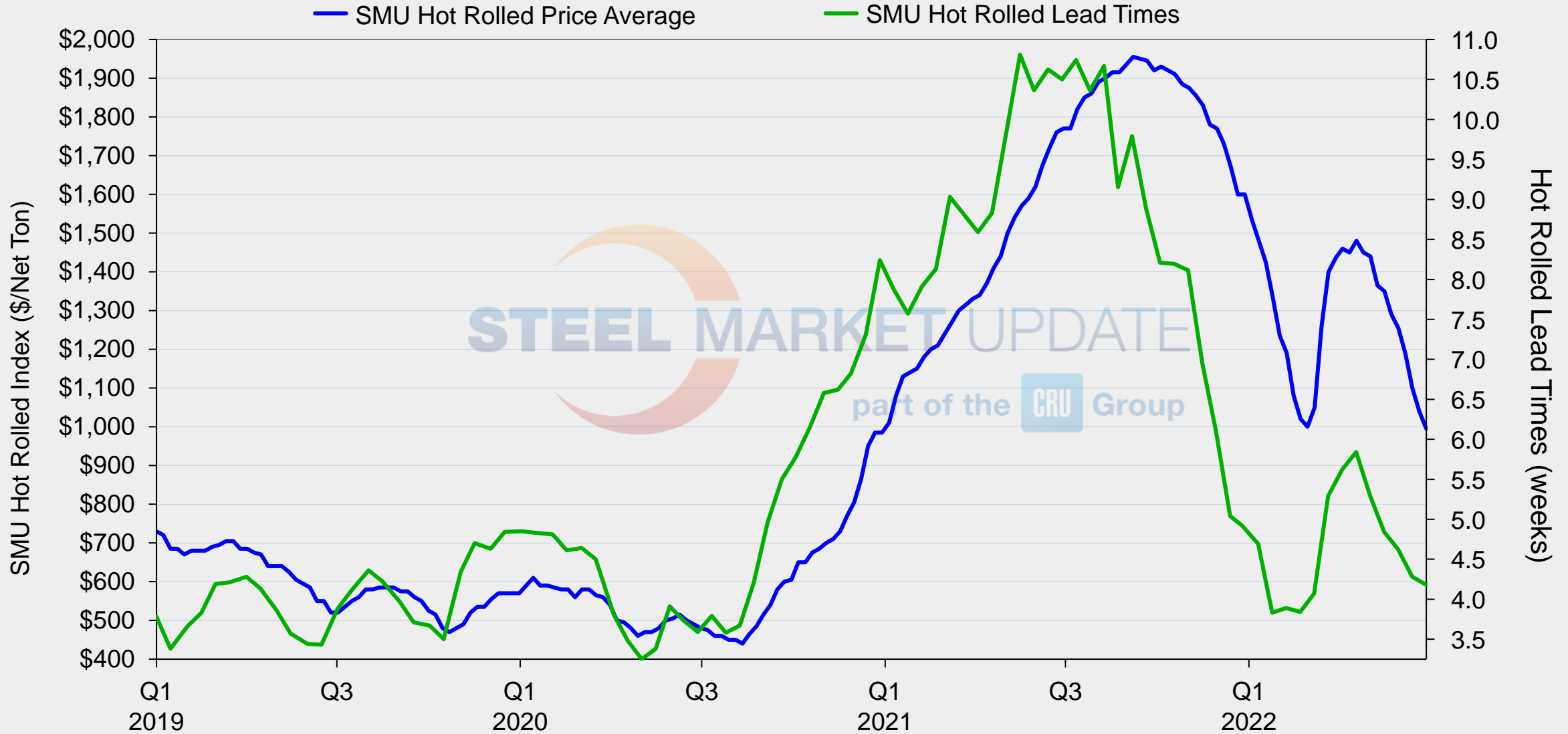
Don't just read our data, see your
company's experience reflected in it.

Contact Brett@SteelMarketUpdate.com
for participation information.

SMU Hot Rolled Steel Prices

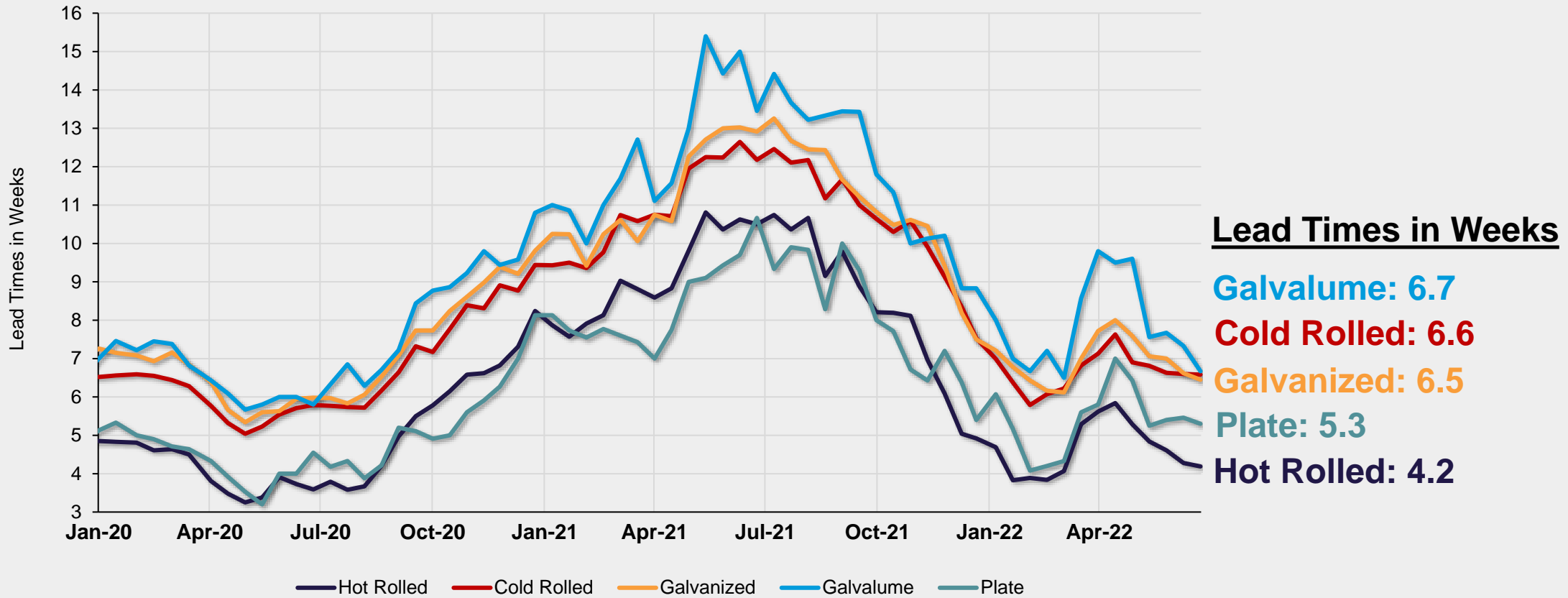


SMU Steel Prices vs Lead Times

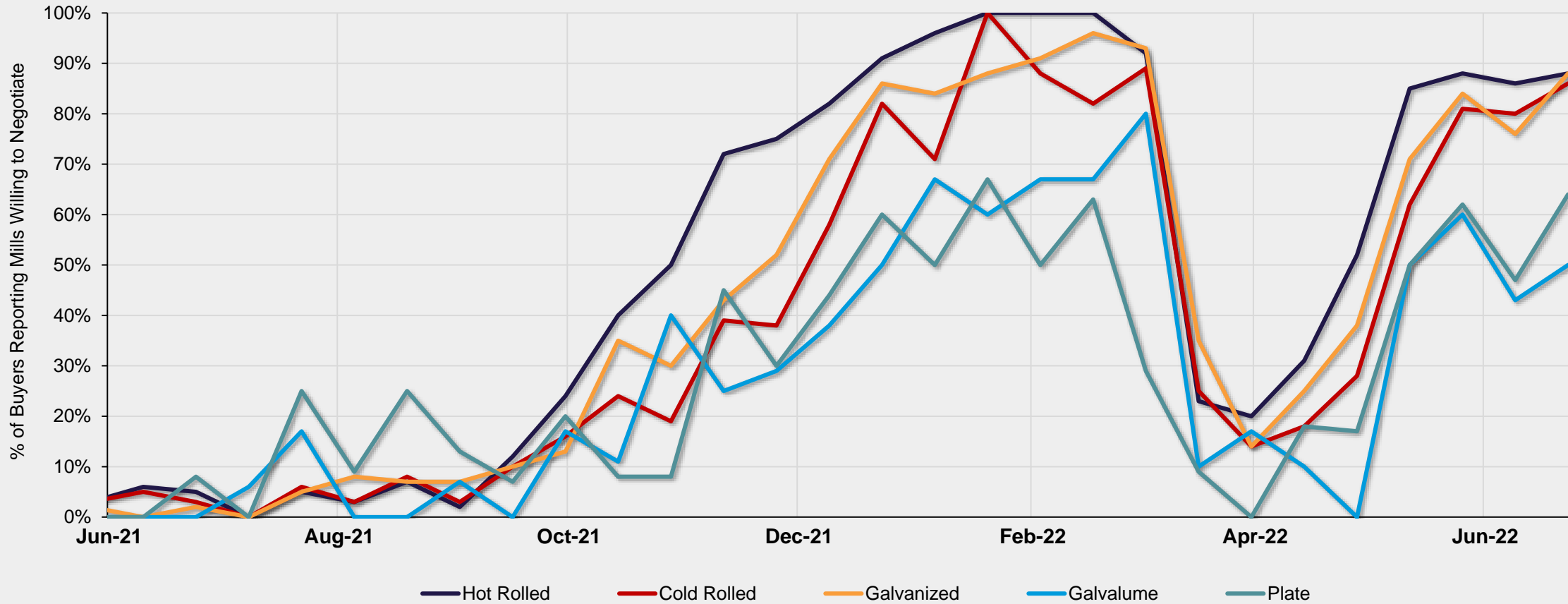


Steel Mill Lead Times by Product

SMU Lead Times Comparison
January 2020 through June 23, 2022

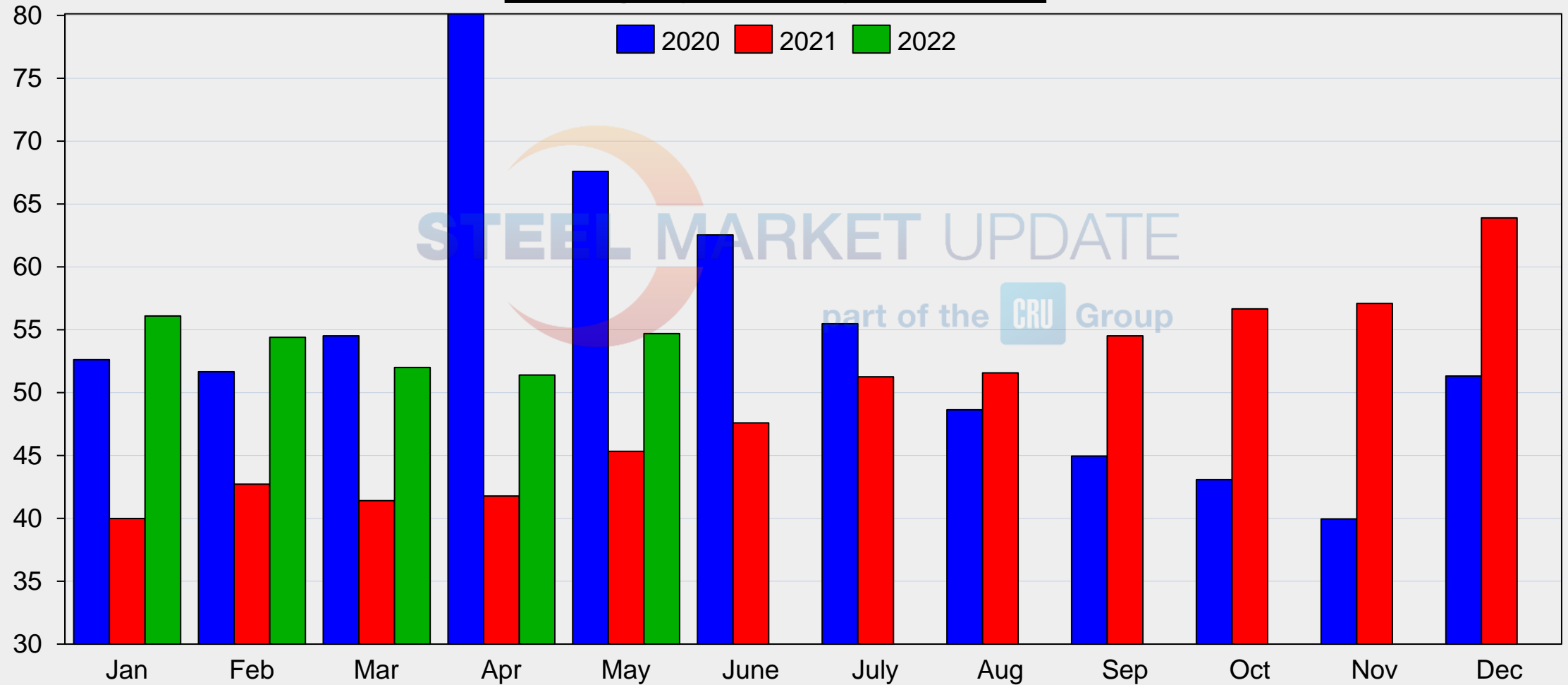


SMU Price Negotiations on New Steel Orders
June 2021 through June 23, 2022



Service Center Inventories

Shipping Days of Supply – Flat Rolled

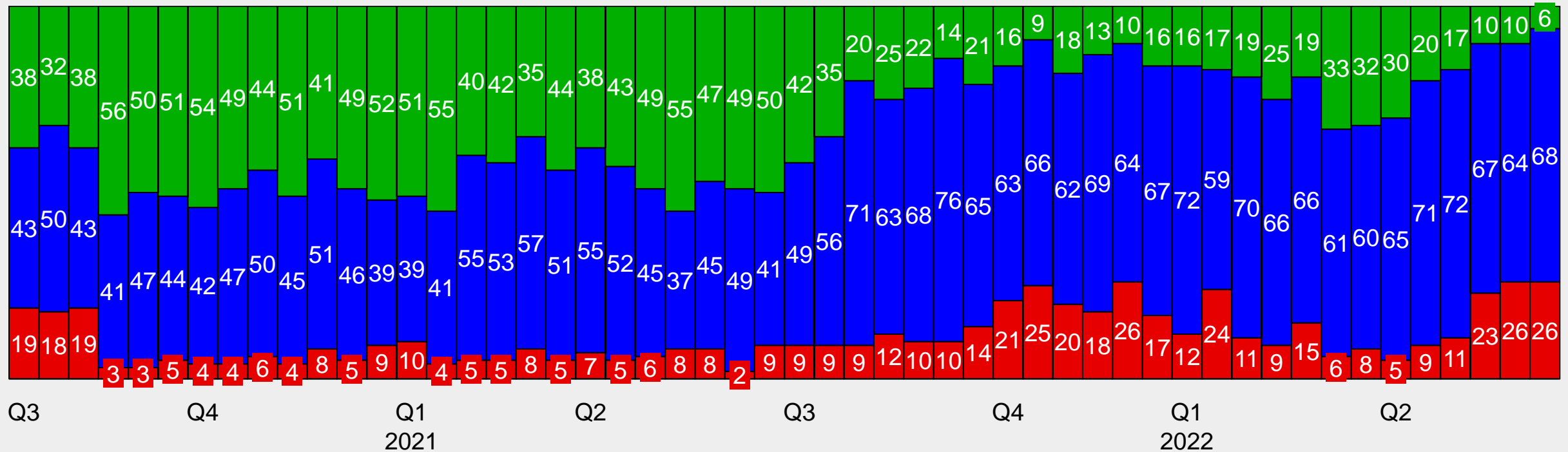


Overall Demand History

How are you seeing demand for your products?

- Demand is improving
- Demand is stable
- Demand is declining

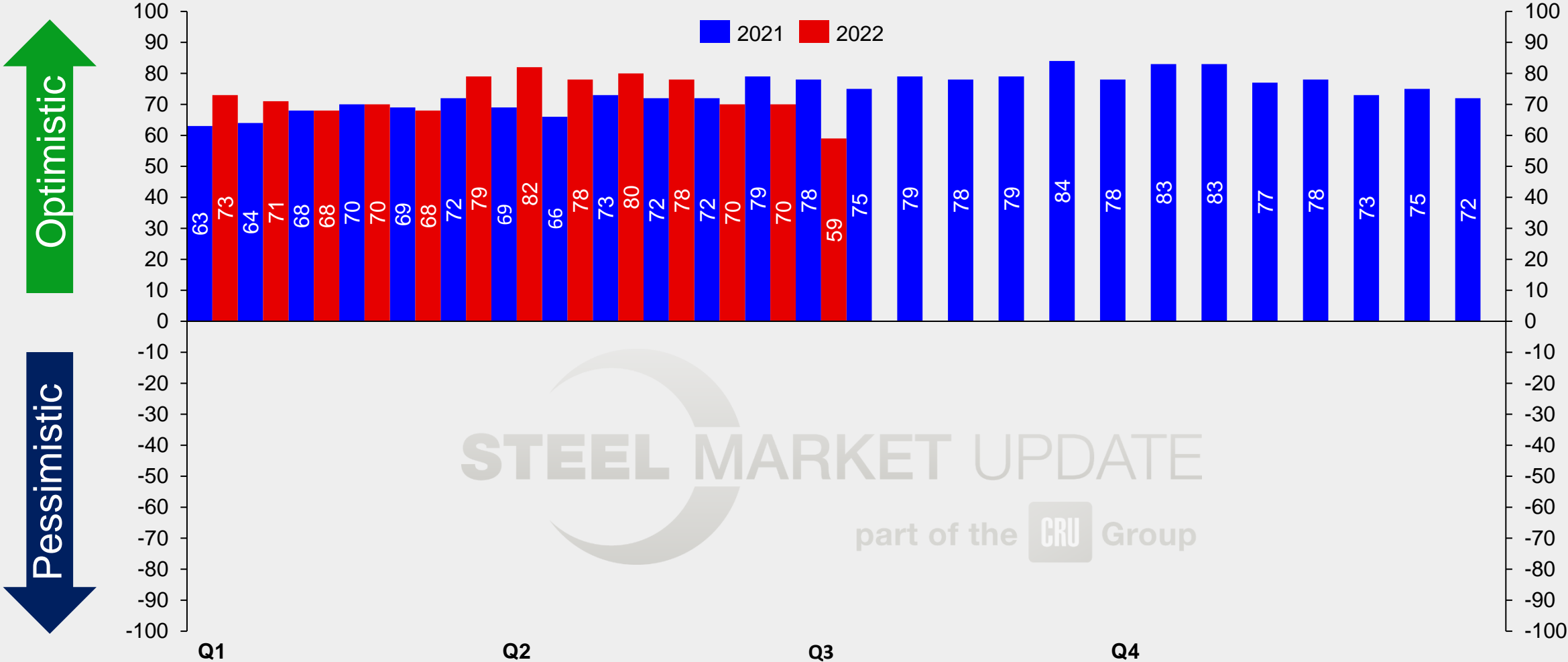
out of 100%



Steel Buyers Sentiment

Down 11 points to +59

Steel Market Update Steel Buyers Sentiment Index

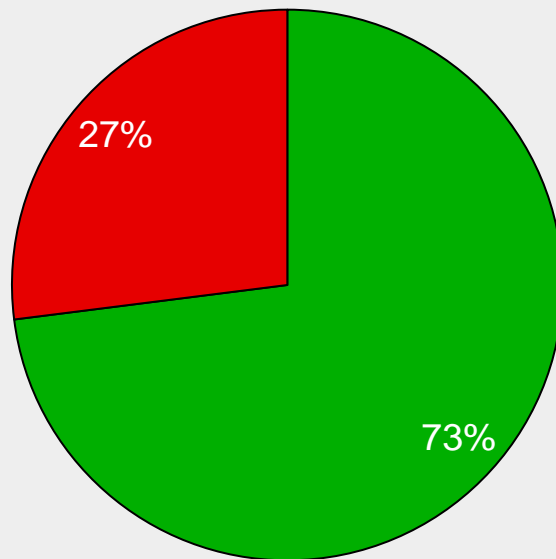


Future Prospects

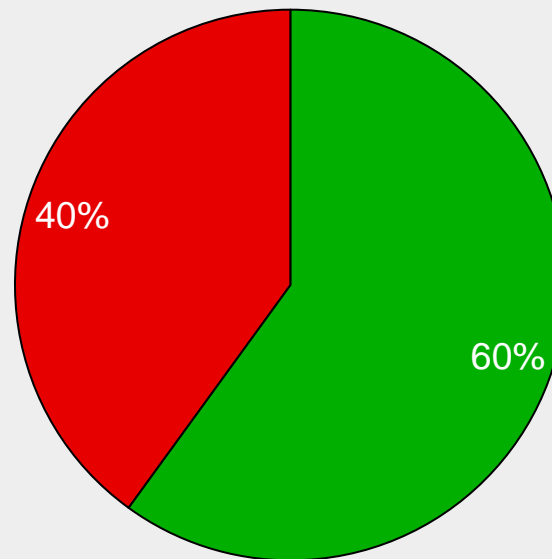
Would you describe yourself as optimistic or pessimistic about your prospects in the second half* of 2022?

■ Optimistic ■ Pessimistic

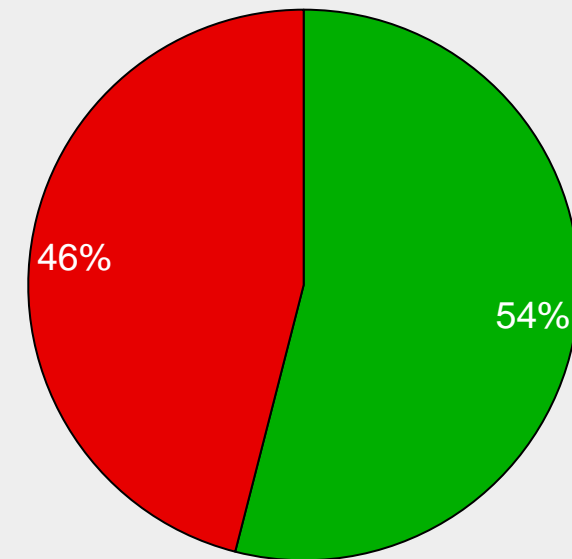
May 26, 2022



June 9, 2022



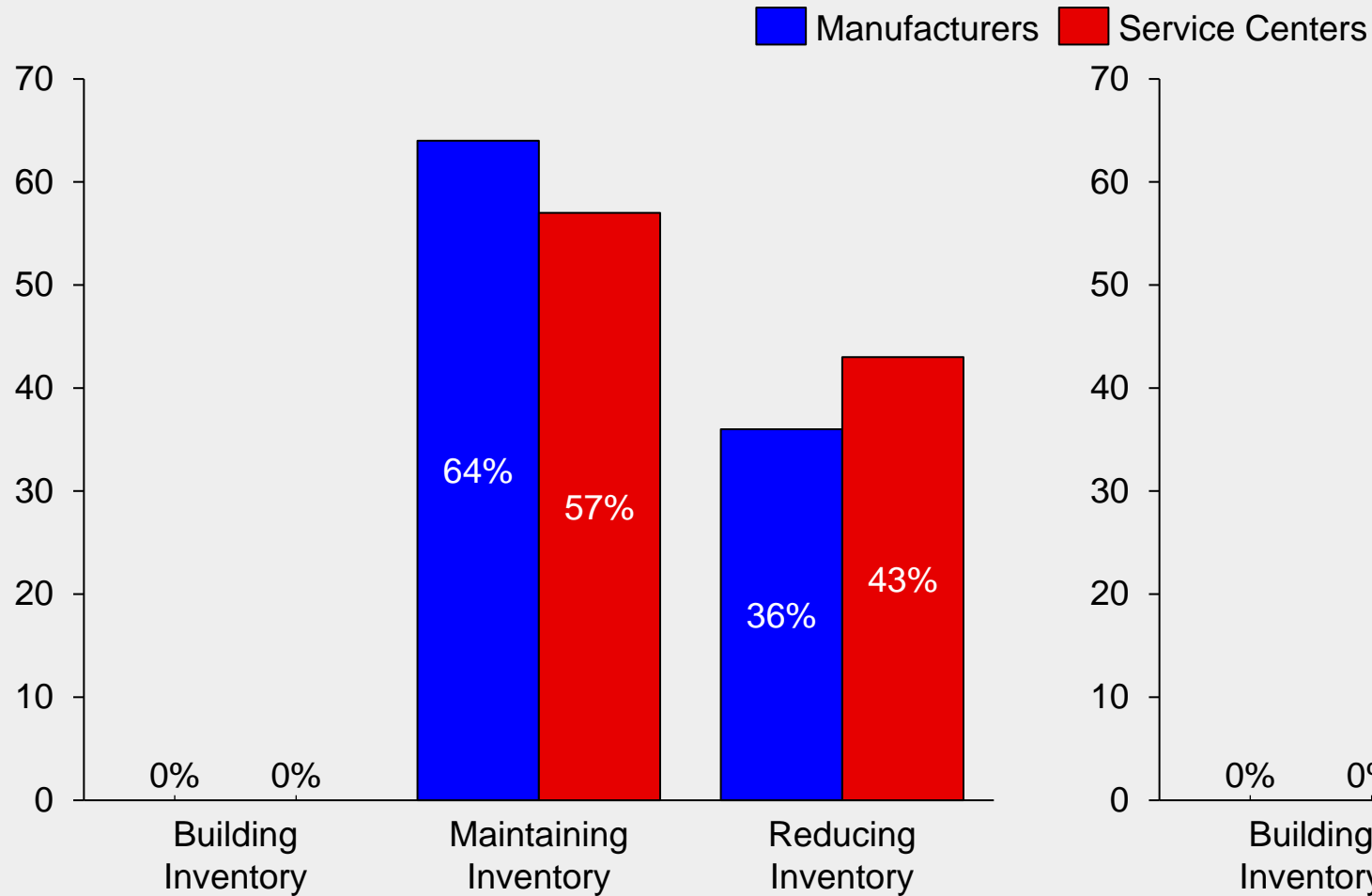
June 23, 2022



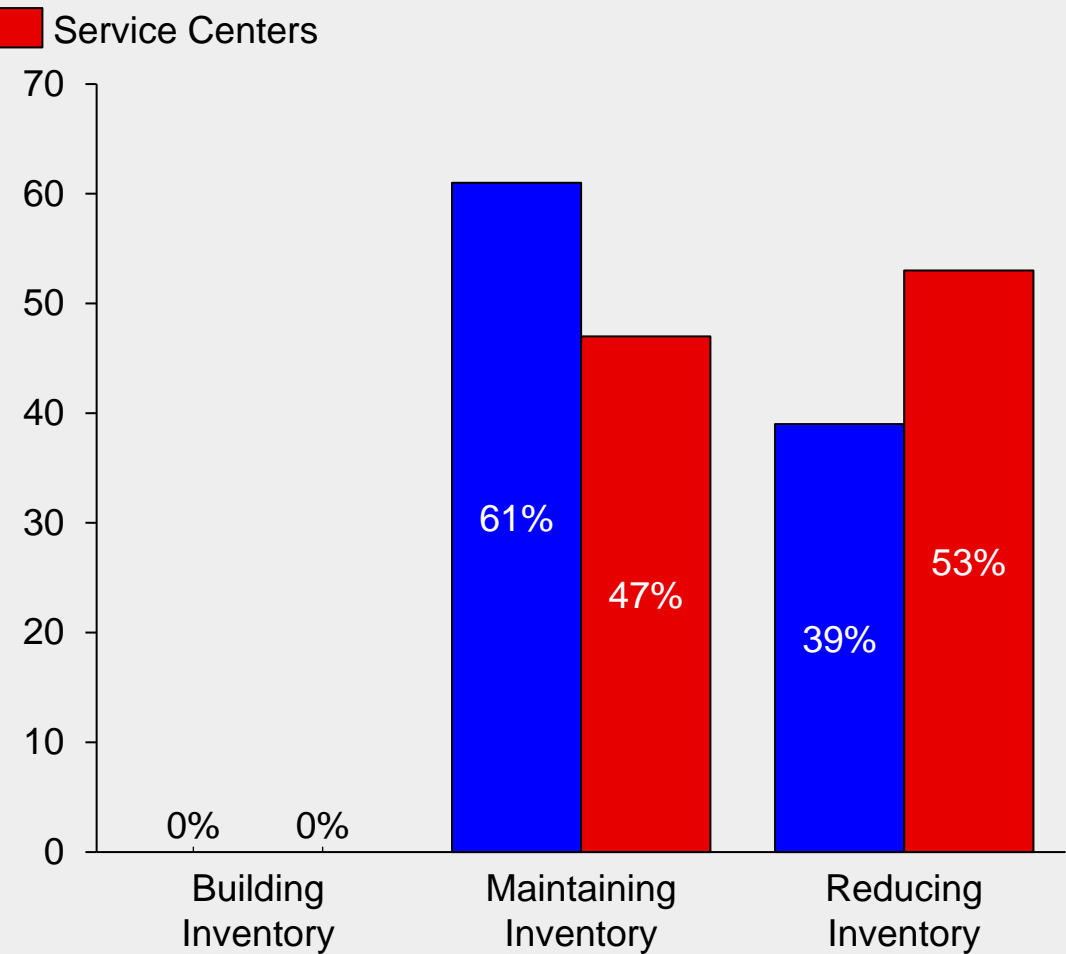
* May survey participants were asked about their Q2 2022 prospects, while June participants were asked about H2 2022.

Manufacturer and Service Center Inventory Buying Patterns

June 9, 2022



June 23, 2022





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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Pricing analysis - bottoms up and top down

Steel Market Update Community Chat

June 29, 2022

Timna Tanners
(646) 582-9290
ttanners@WolfeResearch.com
tannersteam@WolfeResearch.com



Sheet Storm is brewing

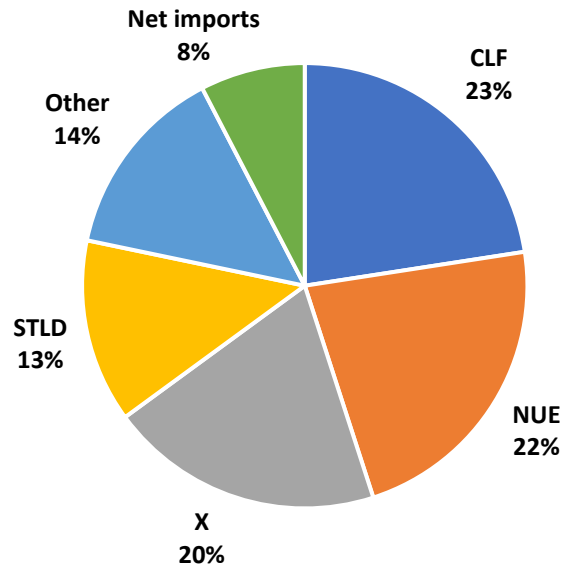
More supply, less demand = tough C-Suite decisions

What a difference two wks make – Mills were excited about record Q2 profits, now investors tell me I’m too bullish.

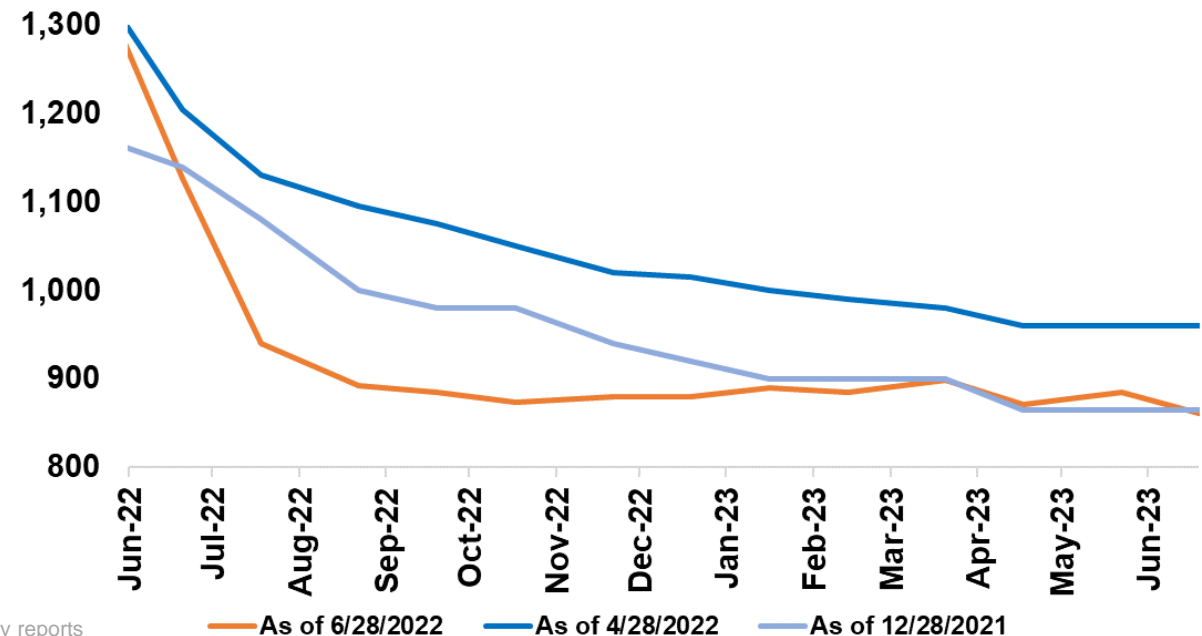
Toughest test yet of supposed new mill discipline... who wants to hand off market share to a new entrant?

Dearth of auto activity forces more tons into the spot market.

U.S. sheet market share (2021)*



U.S. HRC forward curve (\$/st)

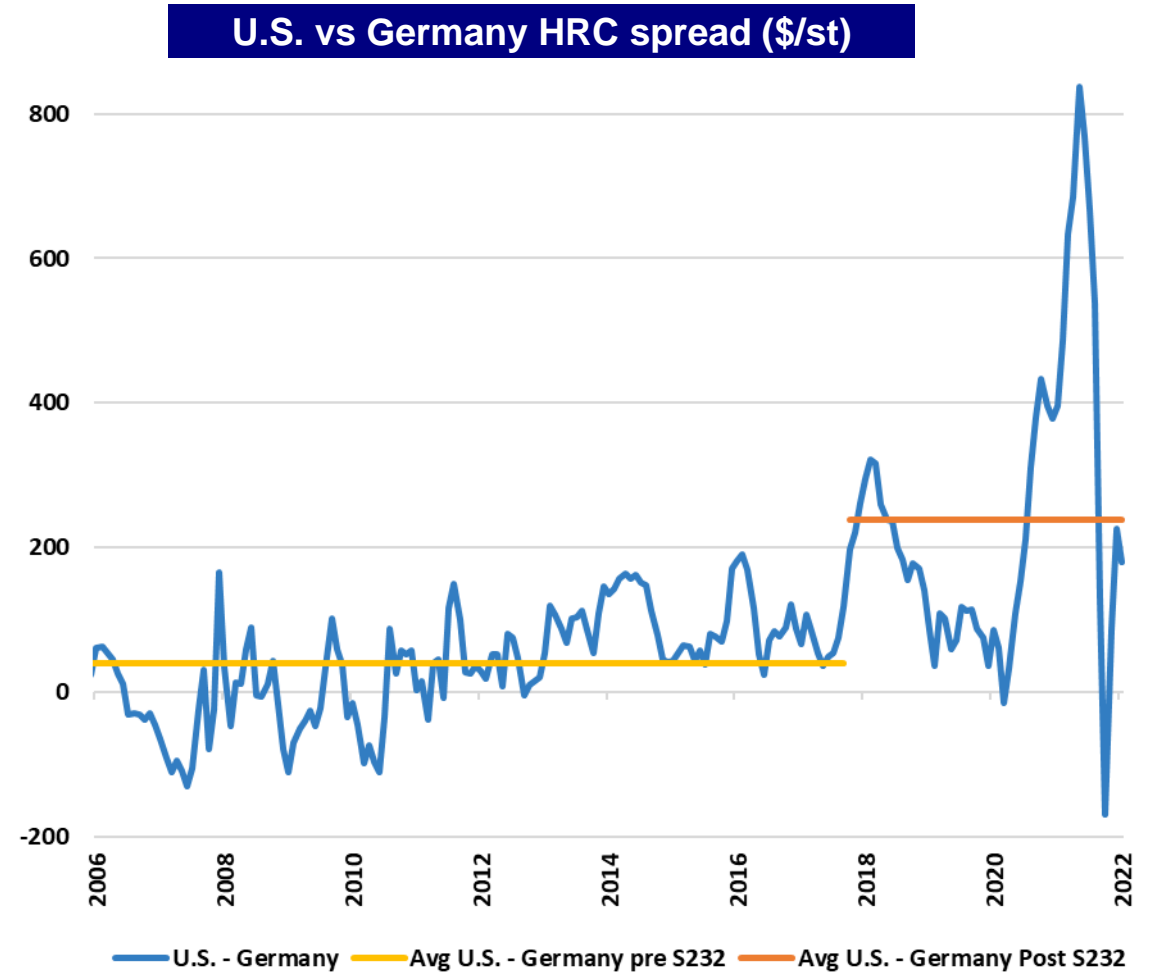
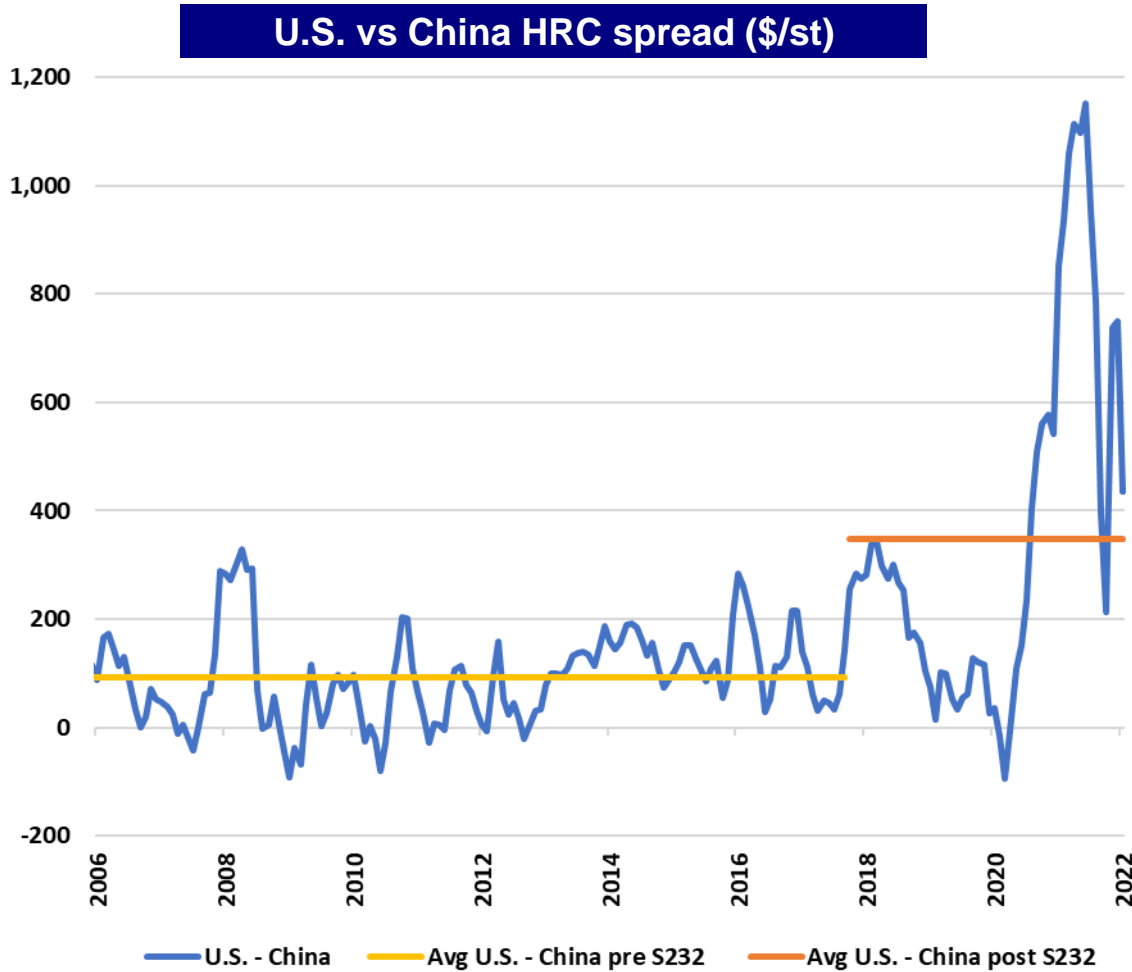


Source: FactSet, American Iron and Steel Institute (AISI), Wolfe Research estimates, U.S. Census Bureau, company reports

*Note: Assumes total U.S. sheet shipments were 55% of total 2021 U.S. steel shipments

U.S. vs global – Premium still too high

Looking globally, U.S. prices can fall ~\$100/t to post S232 premia vs China, and ~\$200/t to pre S232 premiums to Europe



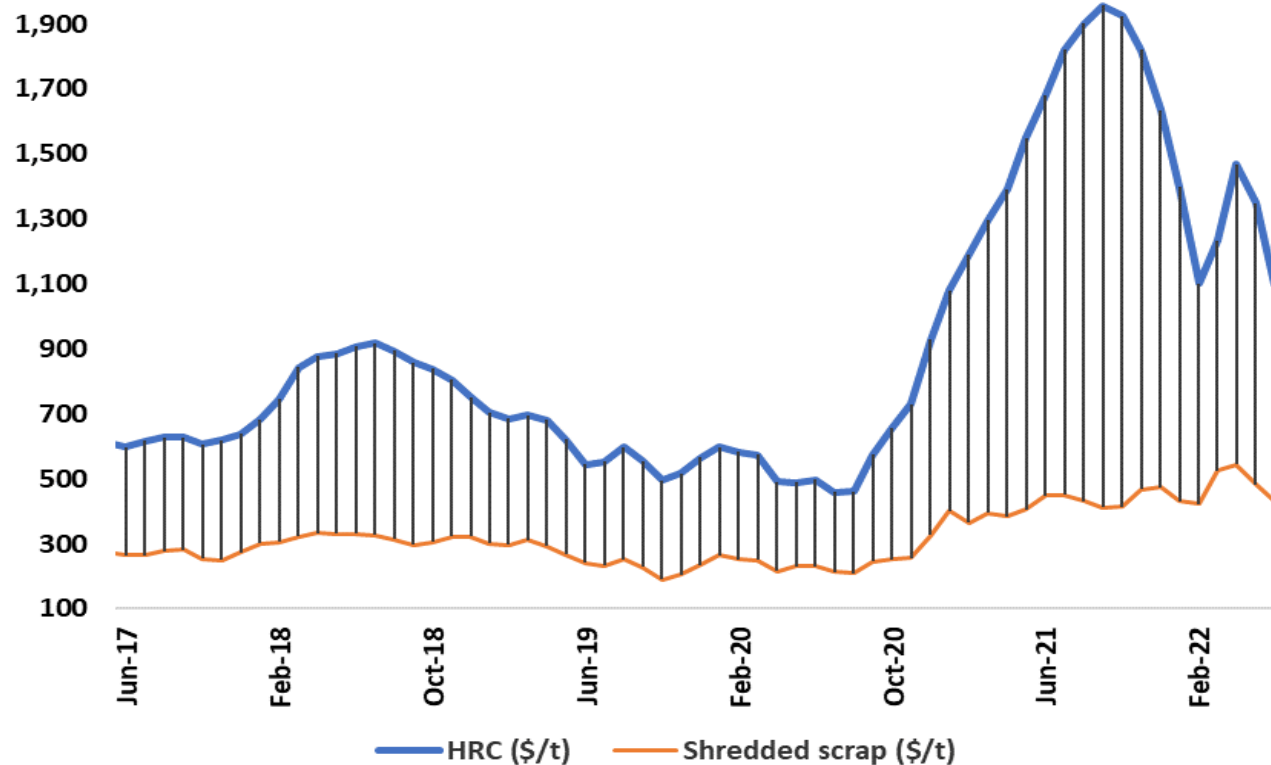
Source: CRU

Bottoms up: Scrap plus

On a bottoms-up basis we expect a wider gap than historical on pig iron tightness for now.

Assuming conversion costs of \$250/t, EAF mills are firmly in the black until ~\$700/t at recent shred prices.

U.S. HRC vs shredded scrap



Near-term iron units remain somewhat scarce without Russia...

However, new pig iron capacity and new DRI/HBI from SDI, others can help ease prime premiums and “stronger-for-longer” sheet price support.

Source: Platts

Conclusions: It was fun while it lasted...

The good

- Demand has resilience in infrastructure, non-res construction (late-cycle), energy, auto; re-shoring can also support the region
- Fewer mills with better balance sheet health can drive greater discipline than in the past
- U.S. mills hold a relative advantage as global mills look to decarbonize
- Chinese stimulus could reduce exports
- Late summer disruptions look possible due to labor negotiations (X, CLF, STLC) that could turn contentious

The bad:

- New capacity is arriving, unfortunately coinciding with some demand weakness
- Sheet prices can continue to slip, with support potentially from import arbitrage at best or marginal cost mill at worst
- Global raw materials prices easing can herald lower global breakevens, and supply chain normalization makes imports easier
- A further wave of capacity additions comes from NUE's new sheet mill and 7Mt of new sheet capacity in Turkey, rebar too...
- Fuel challenges won't abate anytime soon; Europe faces an energy crisis that already seems to be crushing its demand

The ugly:

- The Fed could go overboard and bring on a prolonged recession
- Rising interest rates can stifle activity, and lead service centers to hold less inventory
- Risk Chinese exports stay high, Russia flooding mkt at low prices drives down Asian prices for a while

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Anton Posner is Chief Executive Officer of **Mercury Resources** LLC. Mercury Resources provides full supply chain services to the global metals, steel, and industrial commodity markets. Founded in 2016, Mercury Resources has diverse experience providing total solutions to producers, consumers, trading companies and banks involved in the commodity trade space.

Prior to joining Mercury Resources, Anton was Chief Executive Officer of CWT Commodities USA, the North American unit of the Singapore based global logistics and financial services company CWT Limited. Over his career Anton held positions at supply chain management companies and steamship lines including sales and marine operations.

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Thank You

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

To contact Michael Cowden: Michael@SteelMarketUpdate.com

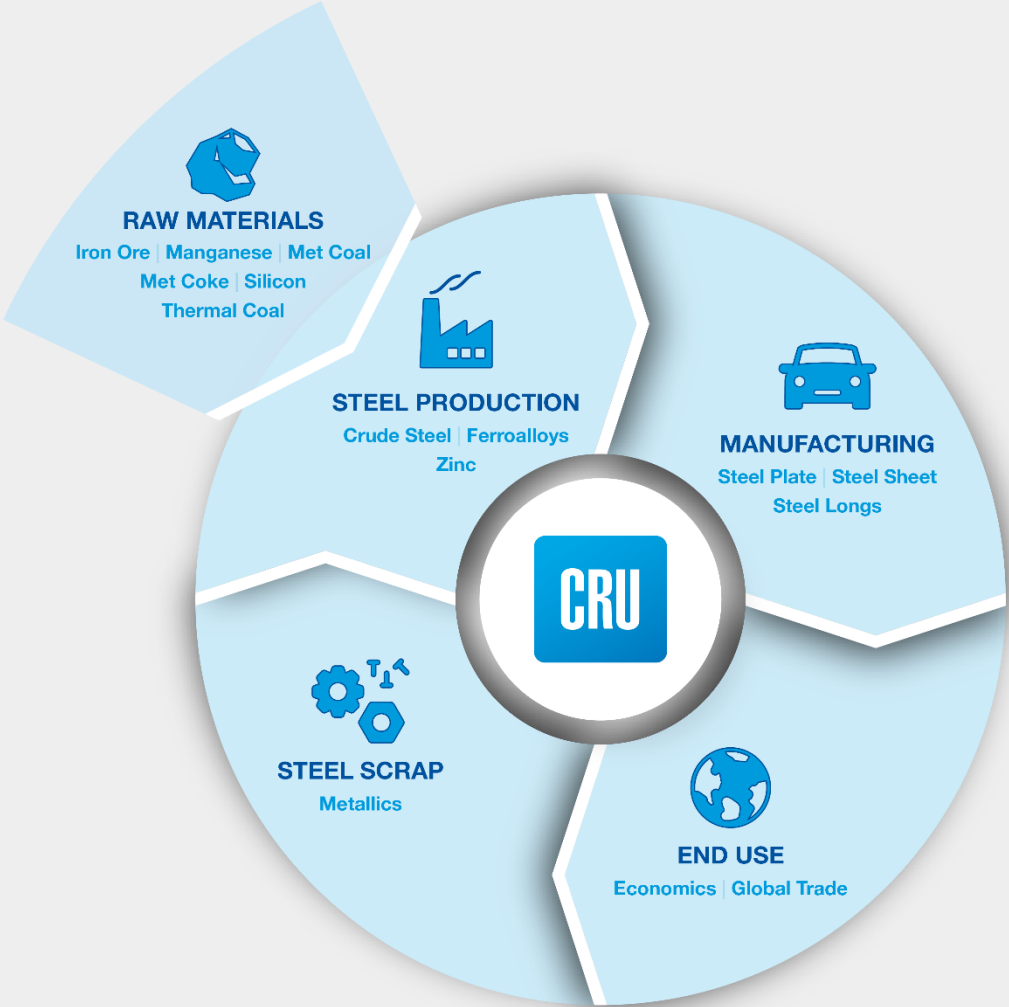
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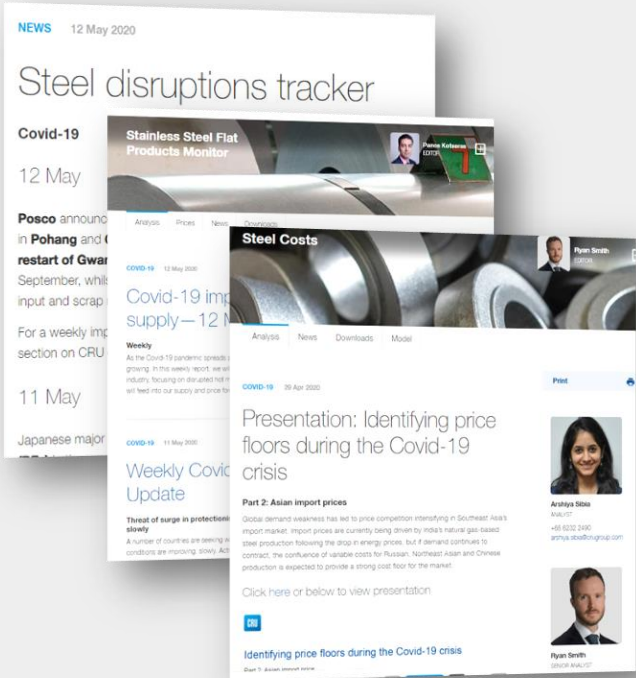
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