



Community Chat With Wolfe Research Managing Director Timna Tanners

July 12, 2023 | Michael Cowden, Managing Editor



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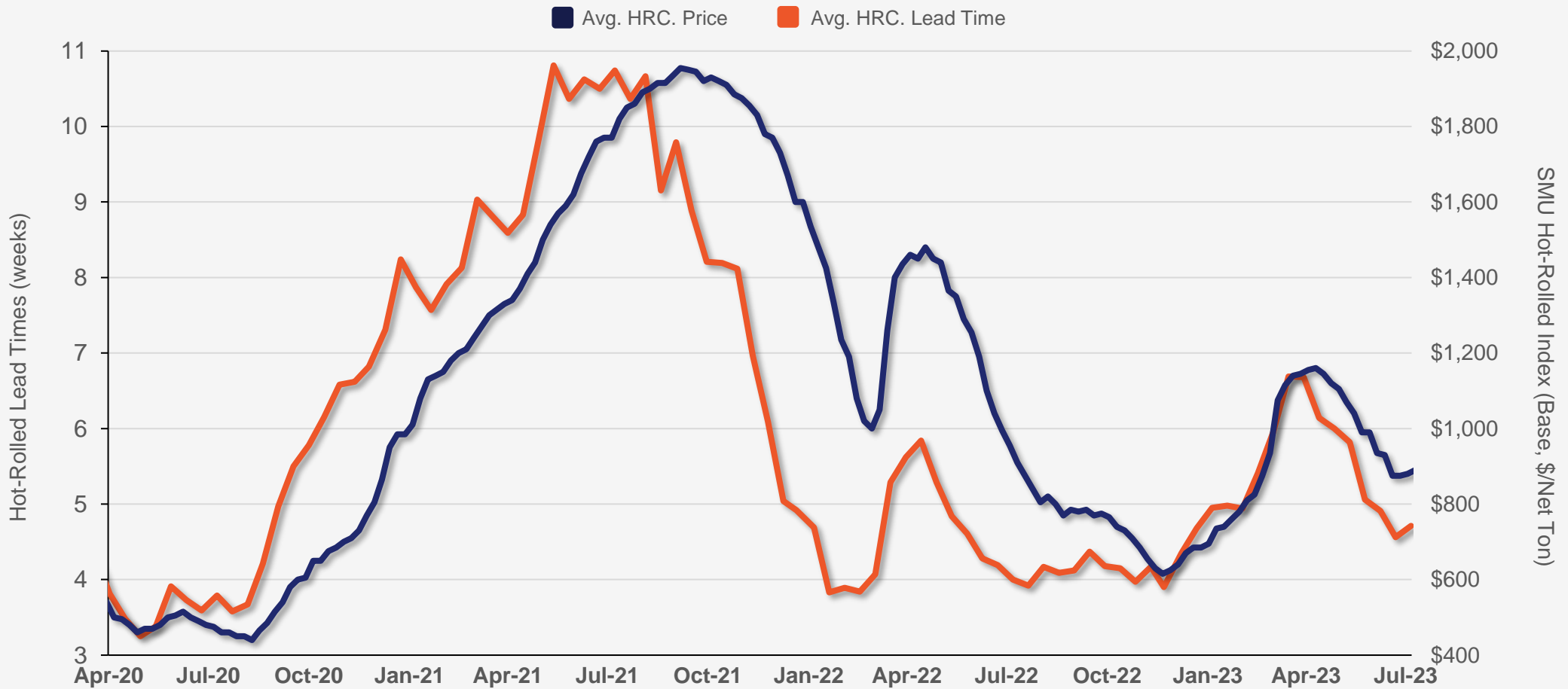
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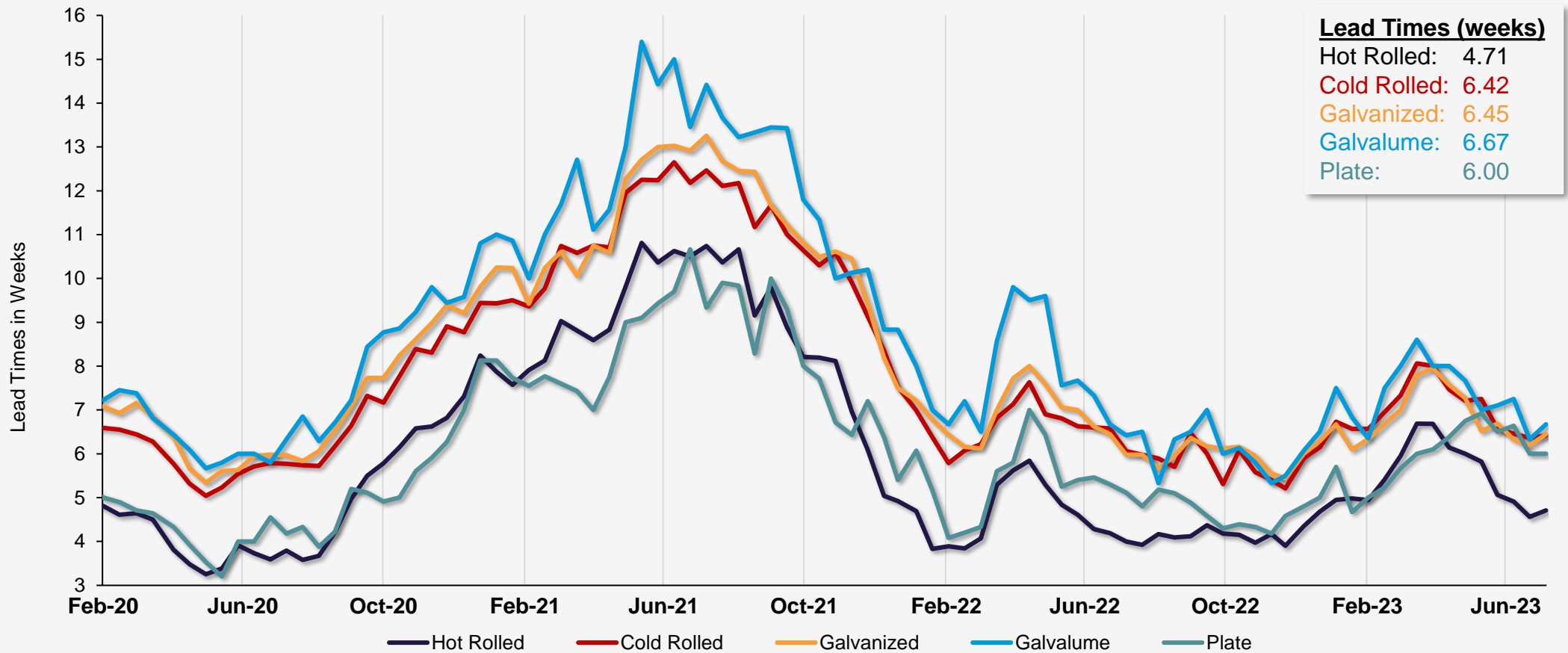
Hot-Rolled Steel Prices vs Lead Times

SMU's hot-rolled steel prices and lead times, with data through July 12, 2023.



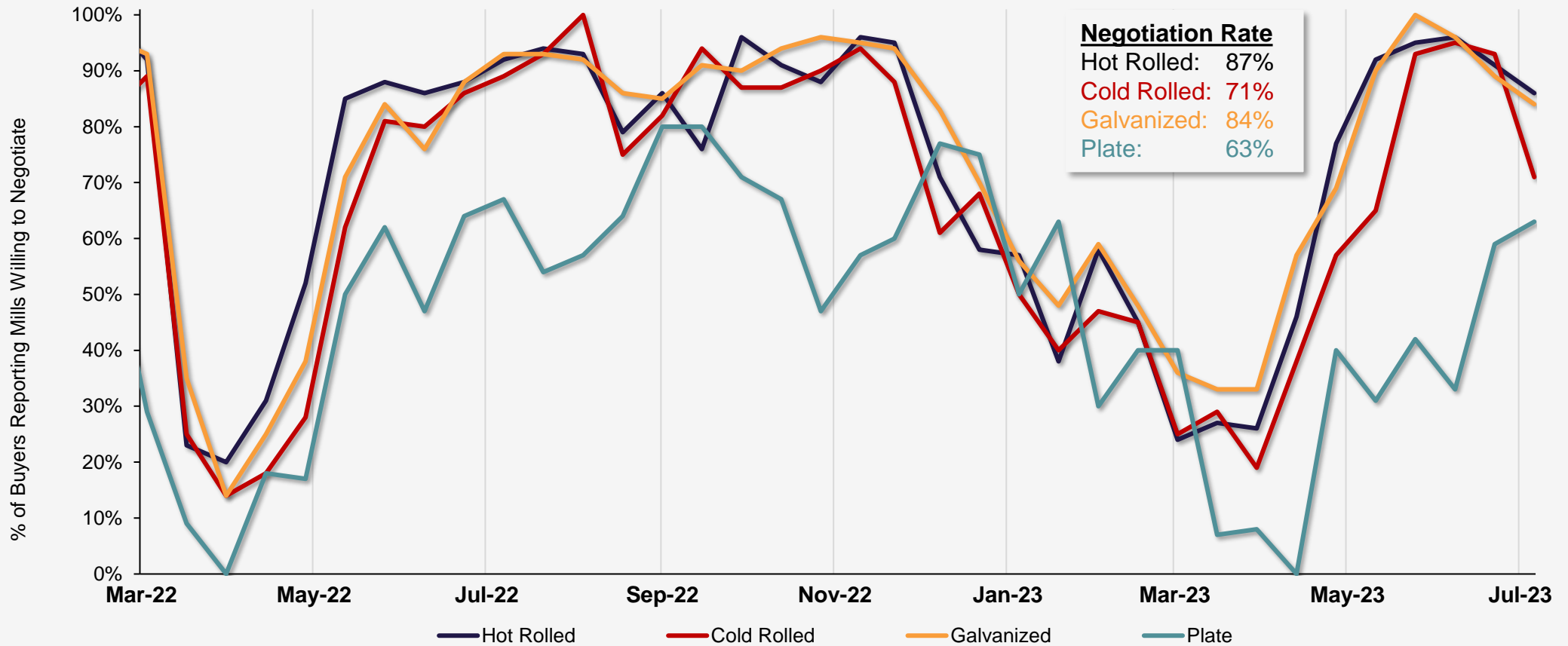
Steel Mill Lead Times by Product

SMU lead times on new steel orders by product through July 5, 2023.



Steel Mill Negotiations

SMU's price negotiations on new steel orders by product through July 5, 2023.



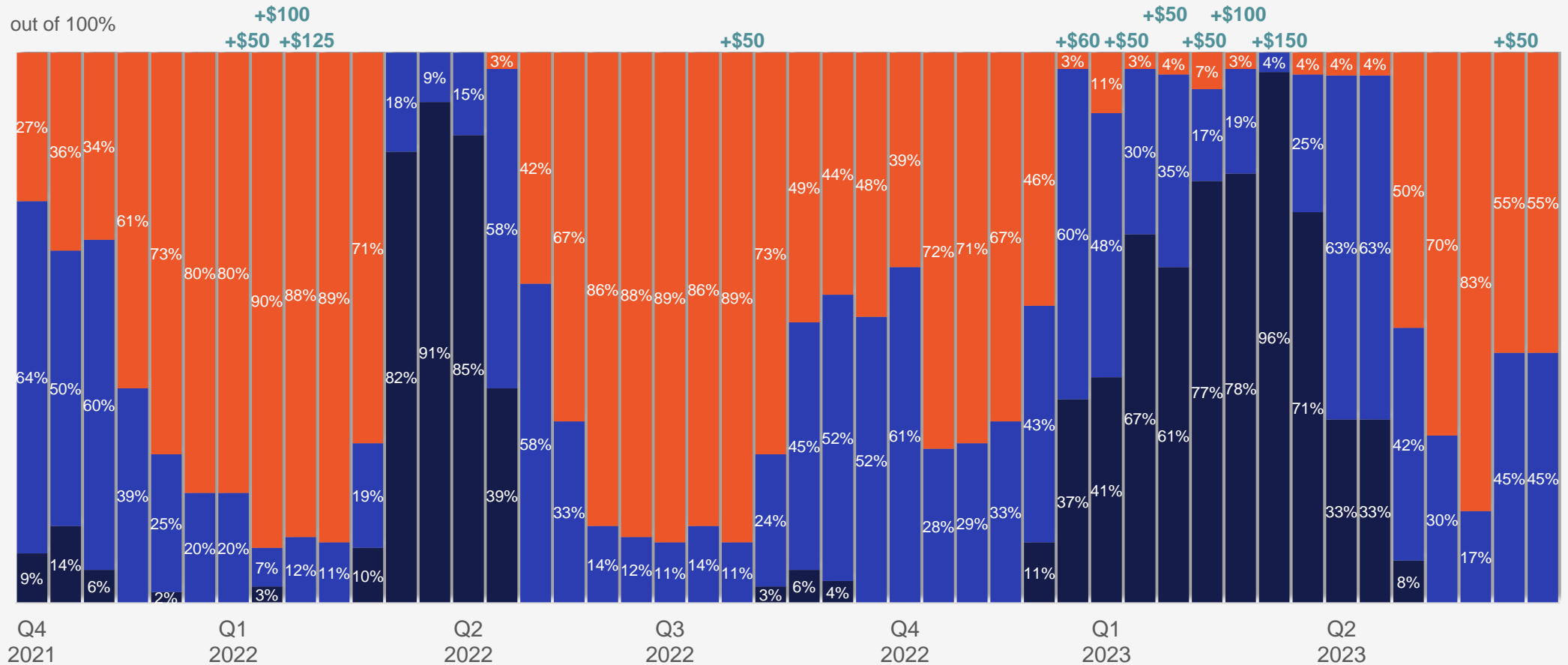
Service Center View of Selling Prices

Service Centers

Compared to two weeks ago, how is your company handling spot pricing to your customers?

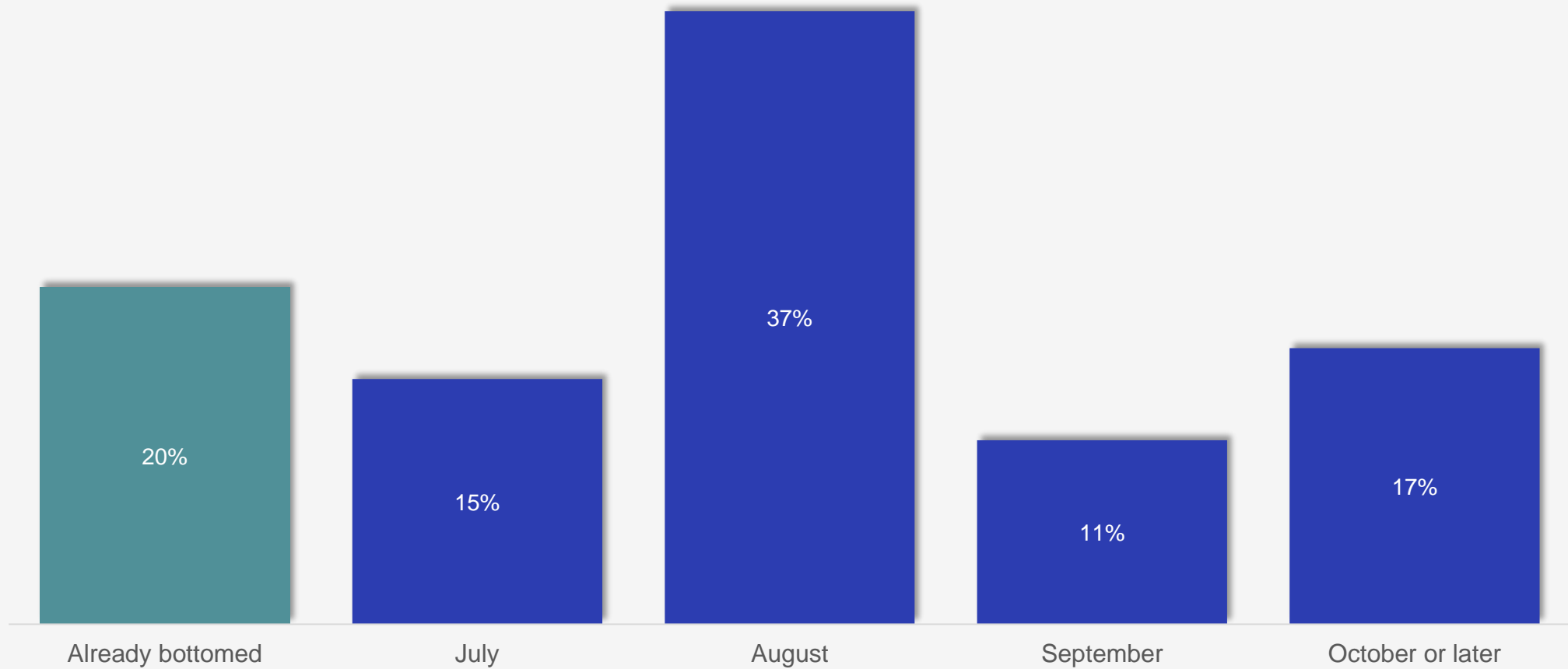
Historical Nucor flat rolled price increase announcements

■ We are raising prices
 ■ We are keeping prices the same
 ■ We are lowering prices



Hot Rolled Inflection Point

When do you think steel prices will bottom?

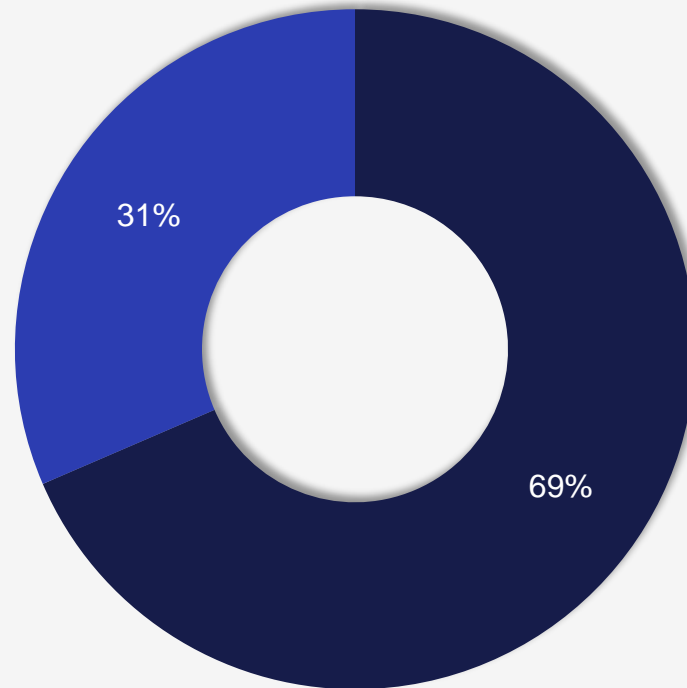


Staying on the Sidelines?

Are you an active buyer or on the sidelines?

■ Active buyer ■ On the sidelines

July 5, 2023

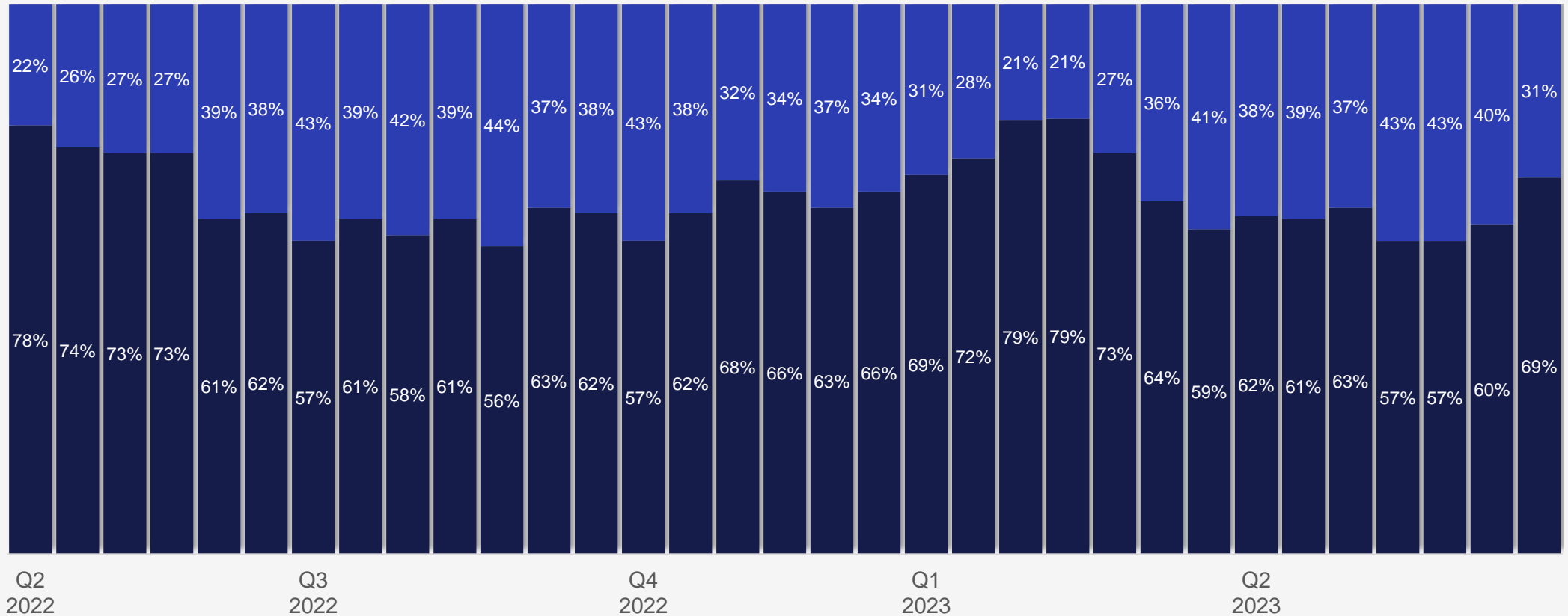


Staying on the Sidelines?

Are you an active buyer or on the sidelines?

■ Active buyer
 ■ On the sidelines

out of 100%

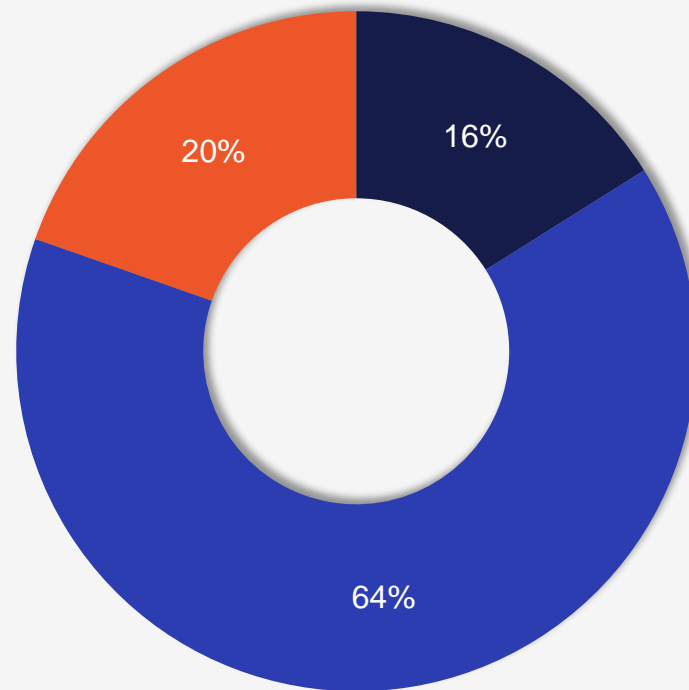


Overall Demand

How is demand for your products?

■ Improving ■ Stable ■ Declining

July 5, 2023

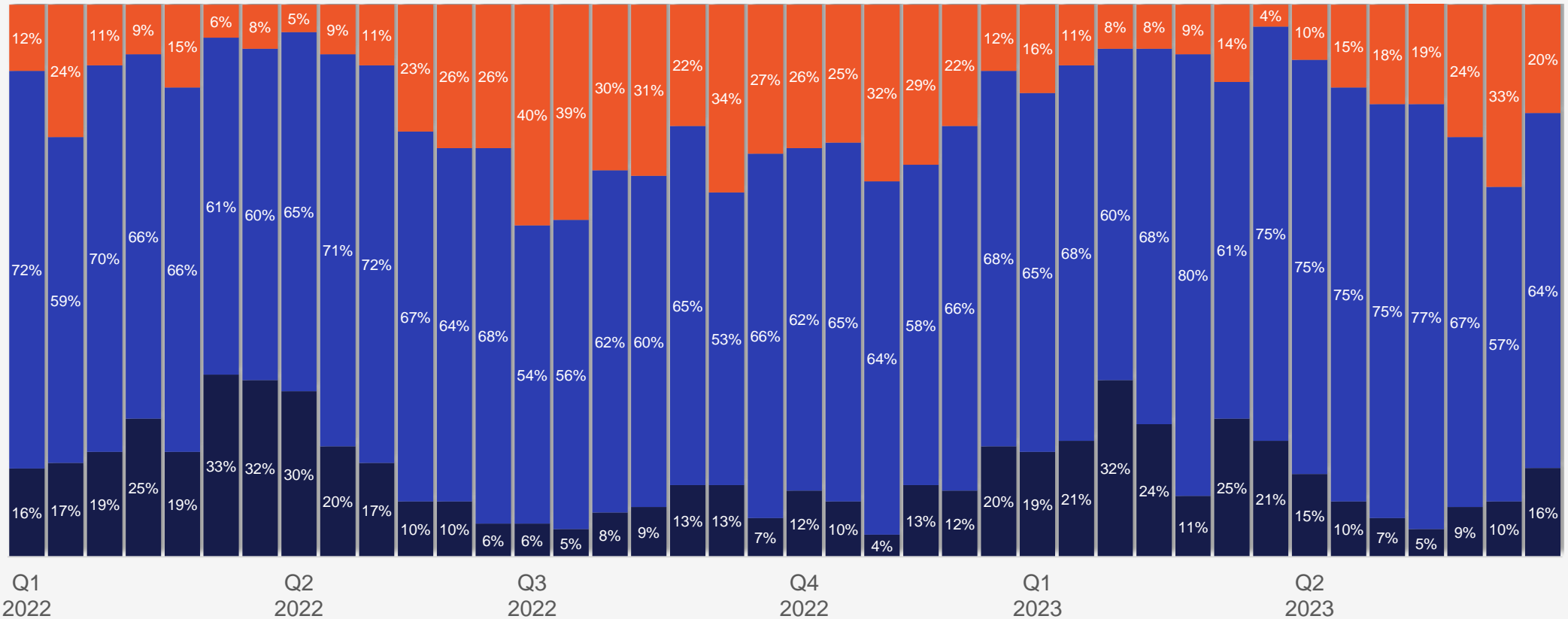


Overall Demand History

How is demand for your products?

■ Improving
 ■ Stable
 ■ Declining

out of 100%

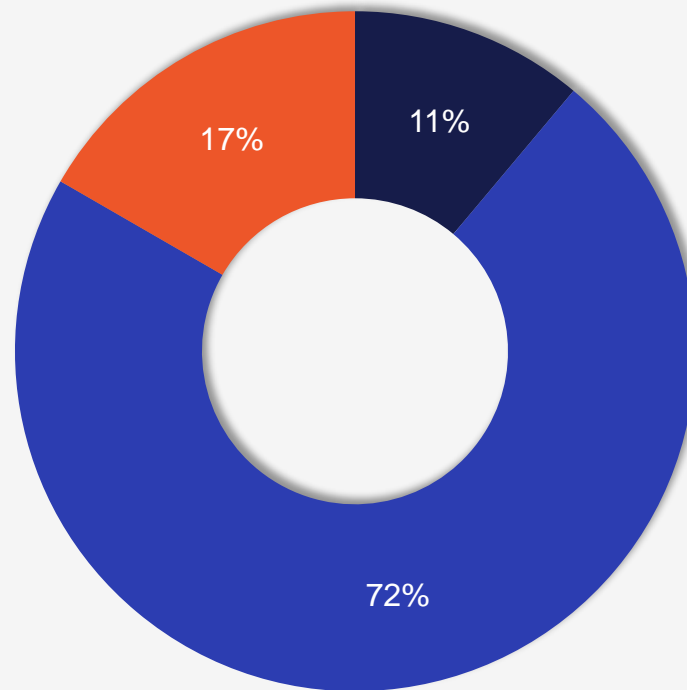


Direction of Steel Mill Lead Times

Two months from now, will lead times be extending, flat, or contracting?

■ Extending ■ Flat ■ Contracting

July 5, 2023

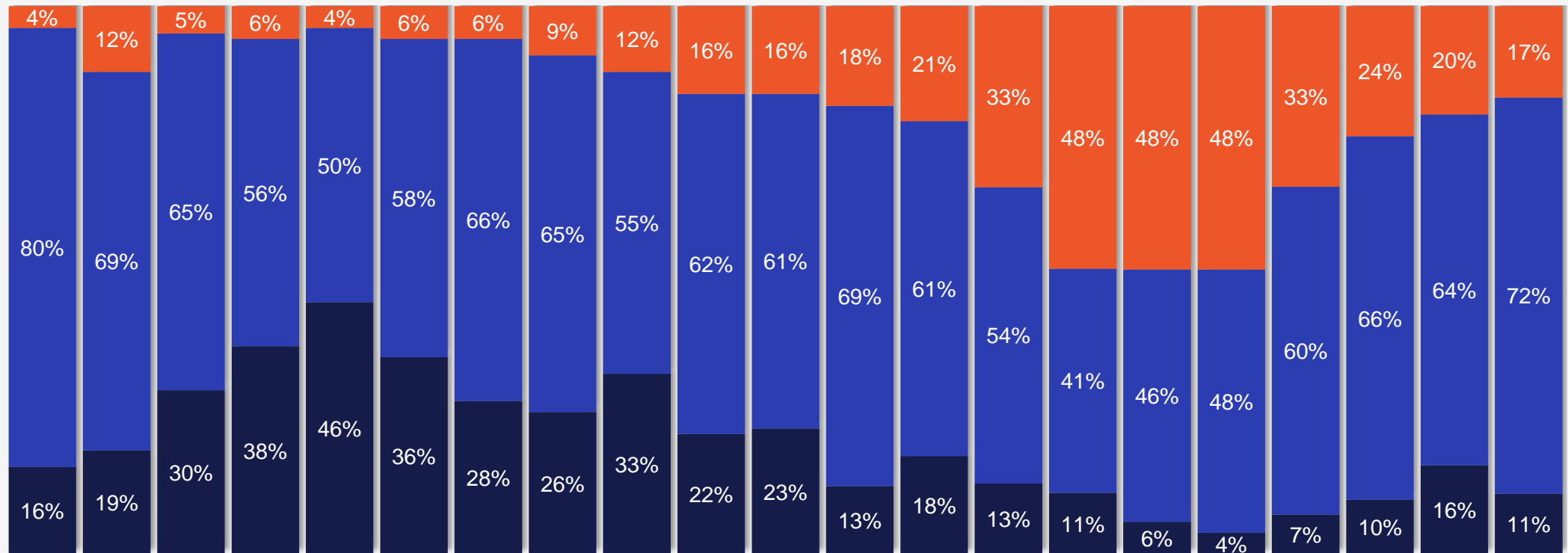


Direction of Steel Mill Lead Times

Two months from now, will lead times be extending, flat, or contracting?

■ Extending
 ■ Flat
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Sep 28 Oct 12 Oct 26 Nov 09 Nov 23 Dec 07 Dec 21 Jan 04 Jan 18 Feb 01 Feb 15 Mar 01 Mar 15 Mar 29 Apr 12 Apr 26 May 10 May 24 Jun 08 Jun 21 Jul 05

Timna Tanners



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.

Mythbusting

Steel Market Update Community Chat

July 12, 2023

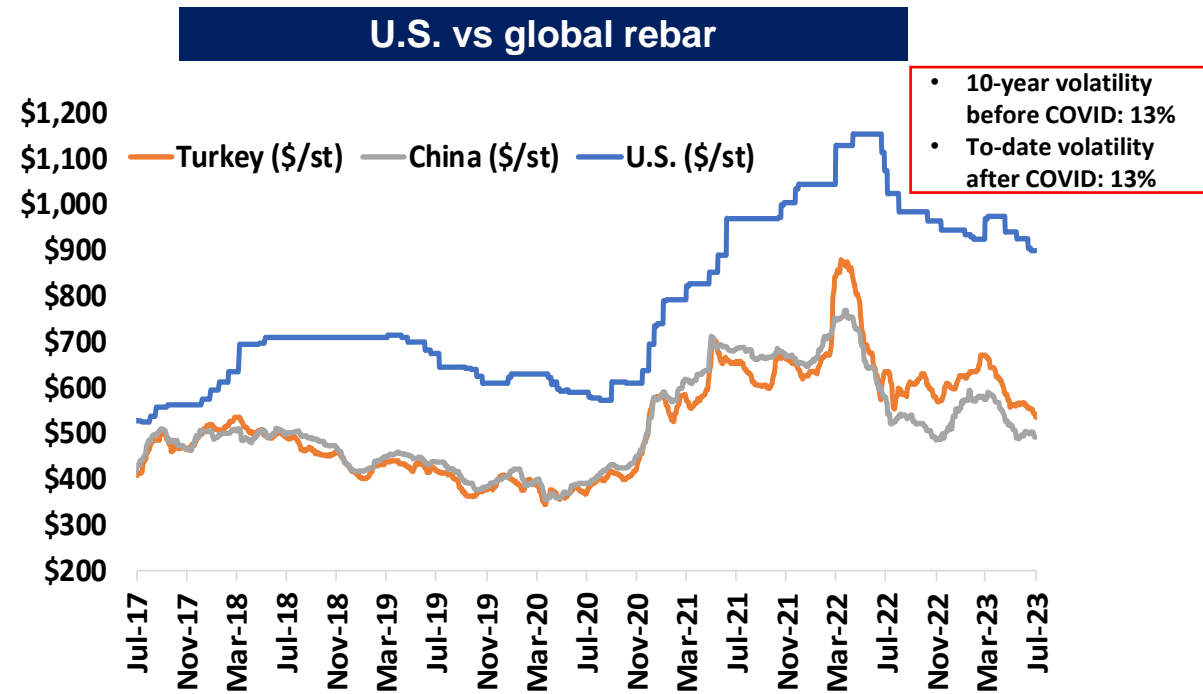
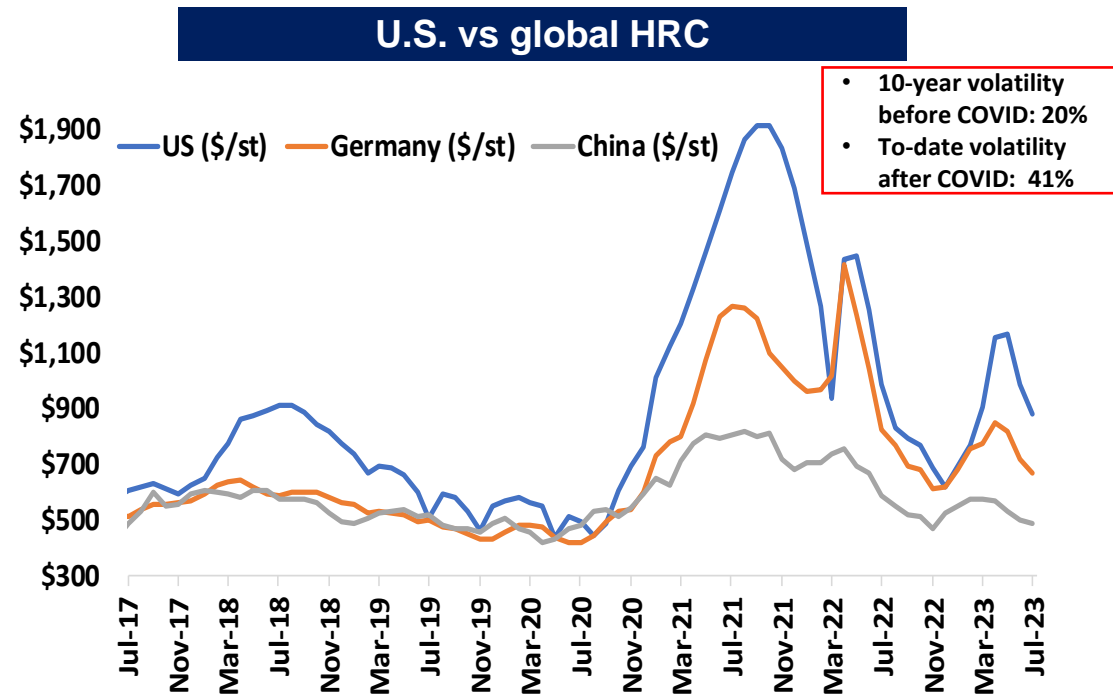
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Thrill seekers rejoice

Sheet price volatility

- Boom/bust sheet markets – one mill out there reportedly has the highest and lower prices on offer at once.
- U.S. is not an island. Lower freight costs and fading PTSD from COVID-era delays can invite more foreign tons.
- Take a lesson from rebar - Rebar mills “manage” the margin.



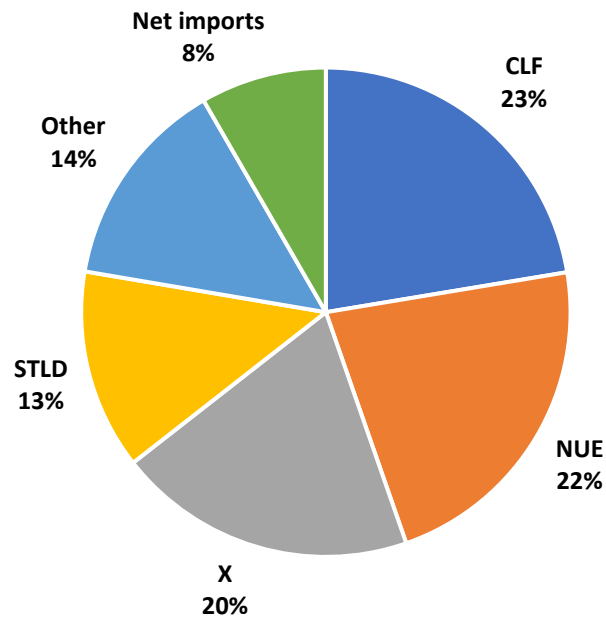
Source: Wolfe Research, CRU, Platts; Volatility is annualized based on weekly prices; “COVID” cut off was 3/13/2020 when CLF closed its acquisition of AK Steel

Mythbusting mill discipline

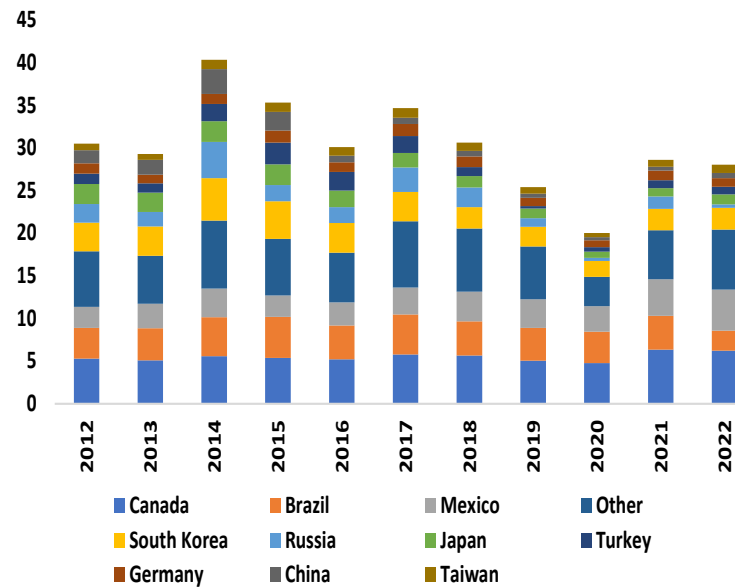
Don't confuse timing for discipline

- The market isn't much more disciplined than a few years ago. A dozen mills in NA, most want to run 100%.
- Any mill "discipline" seems to have broken down. CLF removed value-over-volume language, new eqpt wants to run.
- As Sinton, Gallatin, North Star ramp up, AHMSA restart looming, extra tons from Algoma/ArcelorMittal USA.

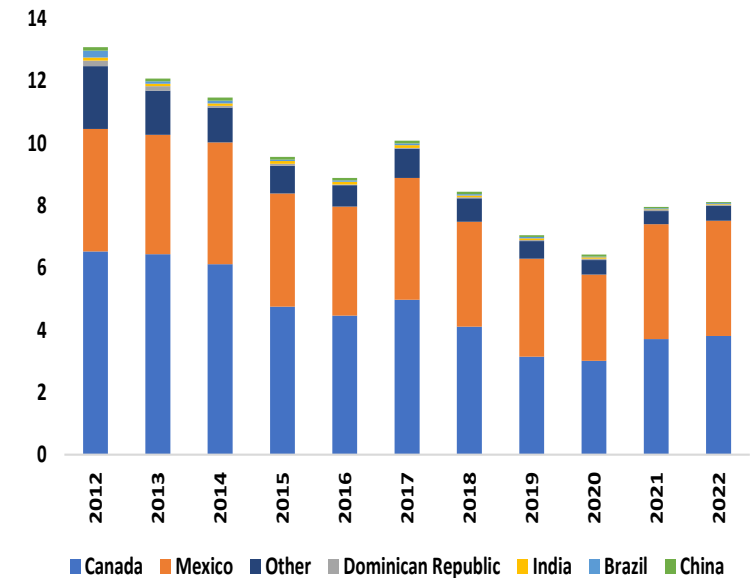
U.S. sheet market share (2021)*



U.S. steel imports (Mmt)



U.S. steel exports (Mmt)



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

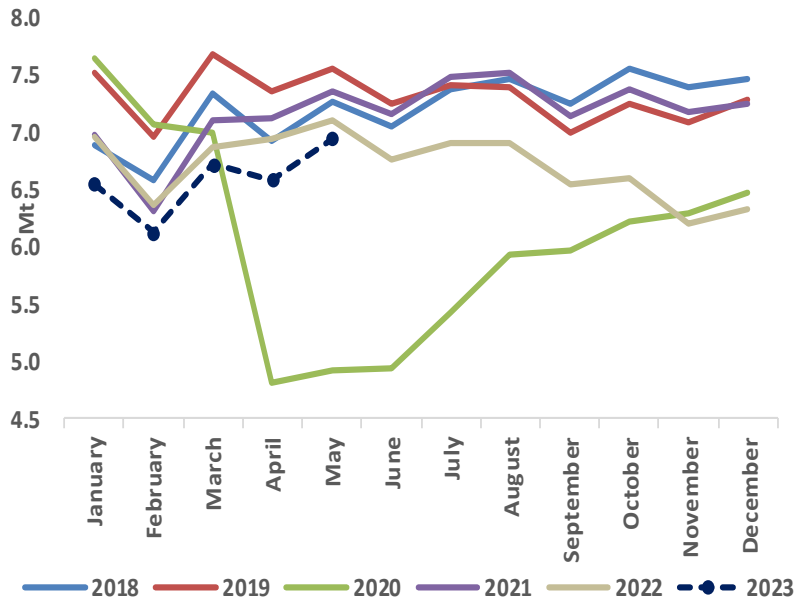
*Note: Assumes total U.S. sheet shipments were 55% of total 2021 U.S. steel shipments; CMC fiscal year-end is August 31

Sheet Storm warnings

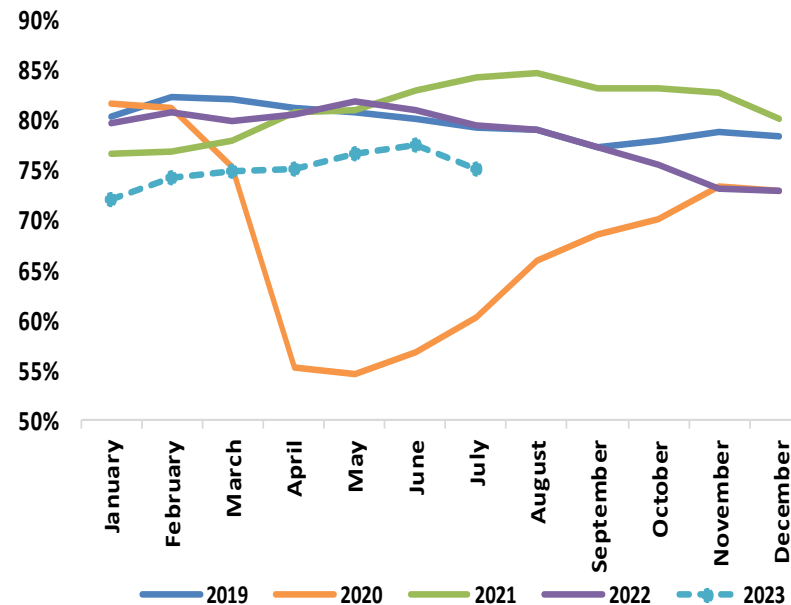
Mill production on the rise

- AISI data doesn't align with public mill production
- Domestic mills replaced imports in H1, that could reverse in H2
- Look at volumes, not just utilization

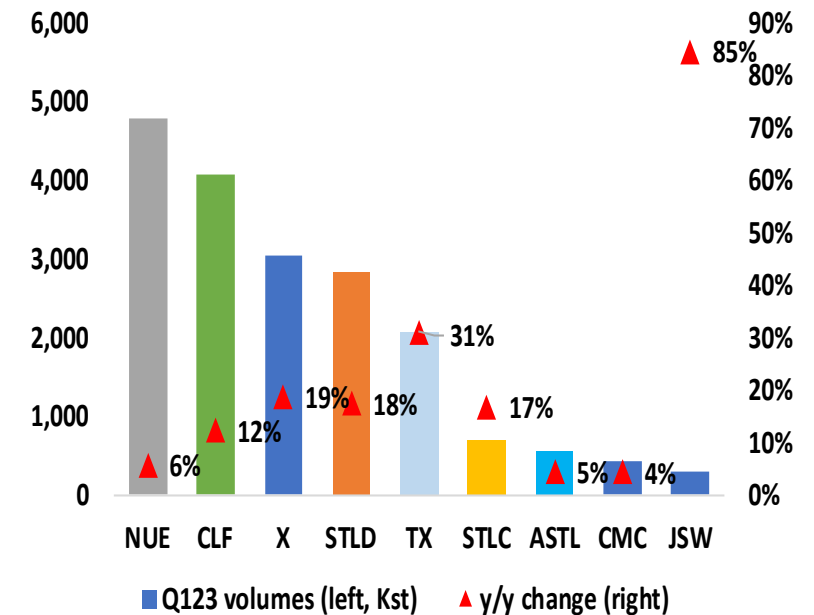
U.S. steel volumes



U.S. historical steel capacity utilization



NA mill production Q123 vs Q122 (Kst)

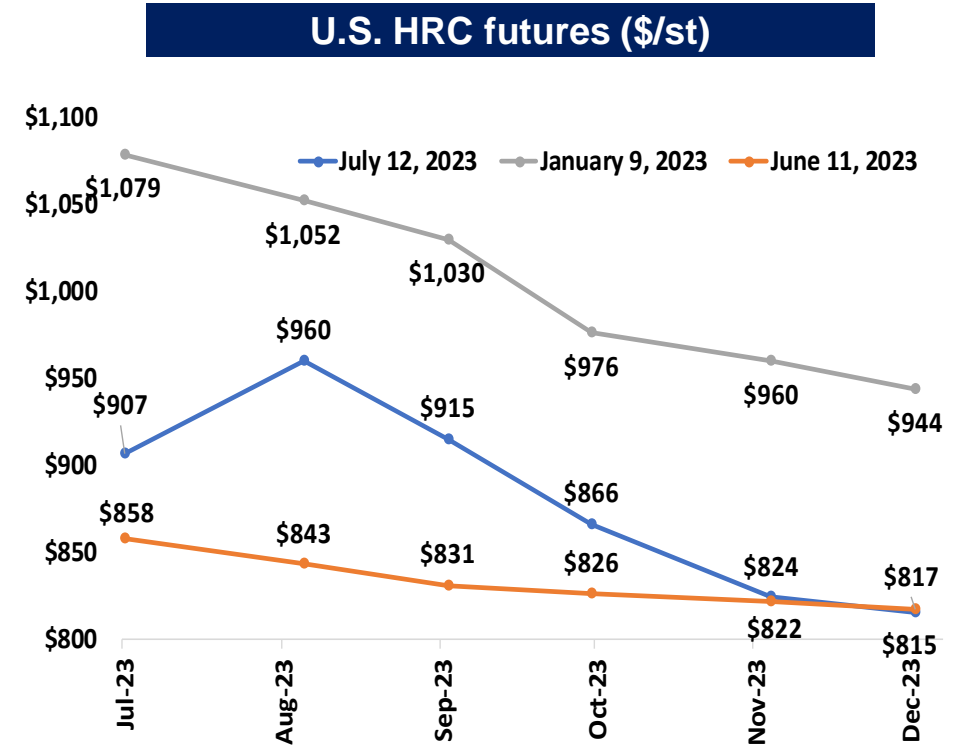
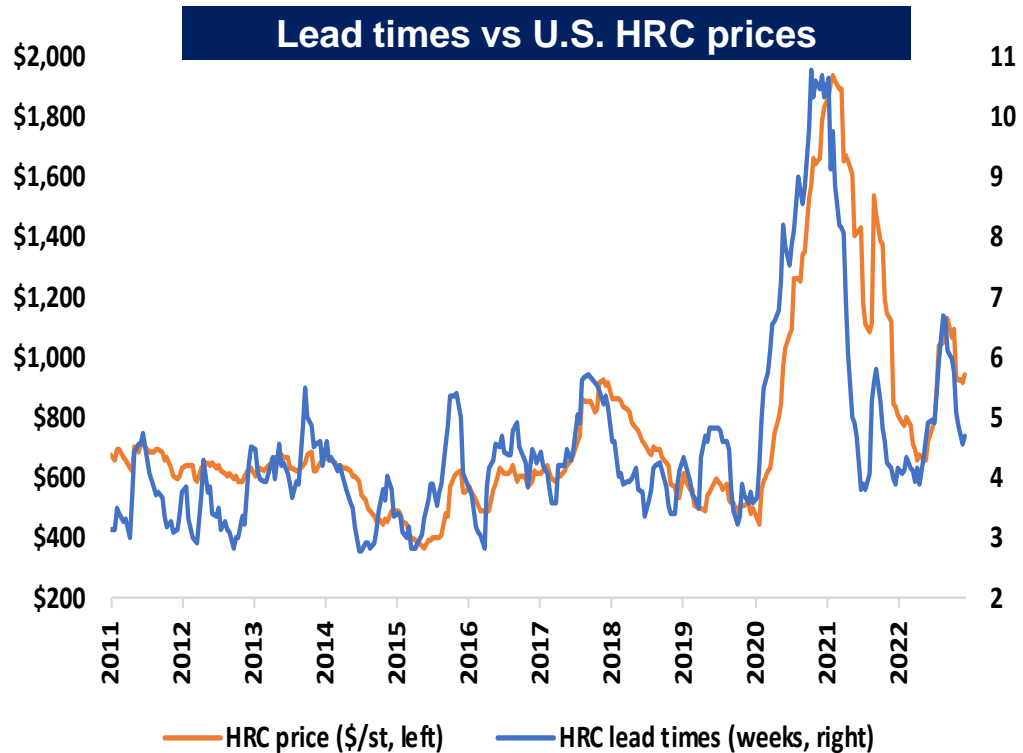


Source: American Iron and Steel Institute (AISI), Wolfe Research, company reports

*Note: Assumes total U.S. sheet shipments were 55% of total 2021 U.S. steel shipments; CMC fiscal year-end is August 31

Surge pricing and other shenanigans

- When we last caught up in November, sentiment got too bearish, inventories too lean as demand exceeded expectations.
- In contrast, mills in Q2 got overly exuberant. The reality is in between.
- Lately big discounts to large customers before price hikes to other customers can frustrate smaller buyers into consolidating.
- These games can only prop up the market for so long...

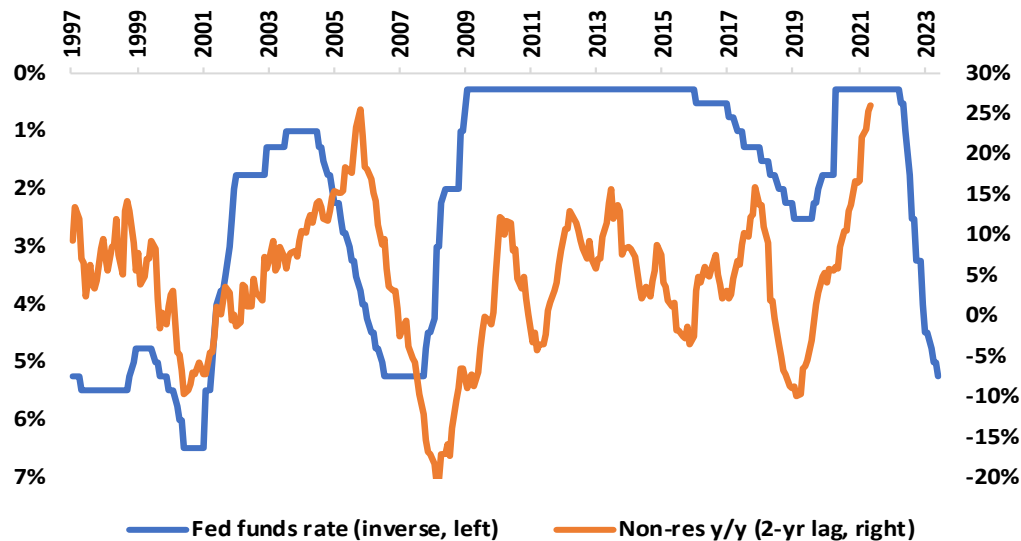


Source: CRU, FactSet, SMU

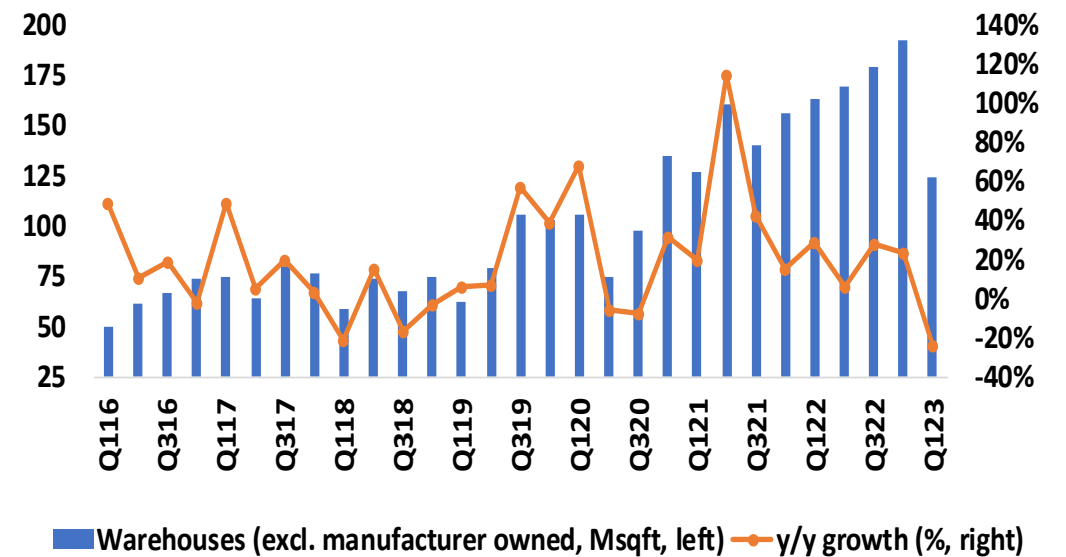
Lean inventories a new normal?

- Mills argue customer inventories got too lean...
 - BUT higher interest rates encourage lighter inventories
 - Volatile and/or falling prices can also encourage hand-to-mouth buying
- Tin example shows support for steel industry may have its limits as lawmakers contemplate impact to the consumer

Interest rates vs non-res construction spending



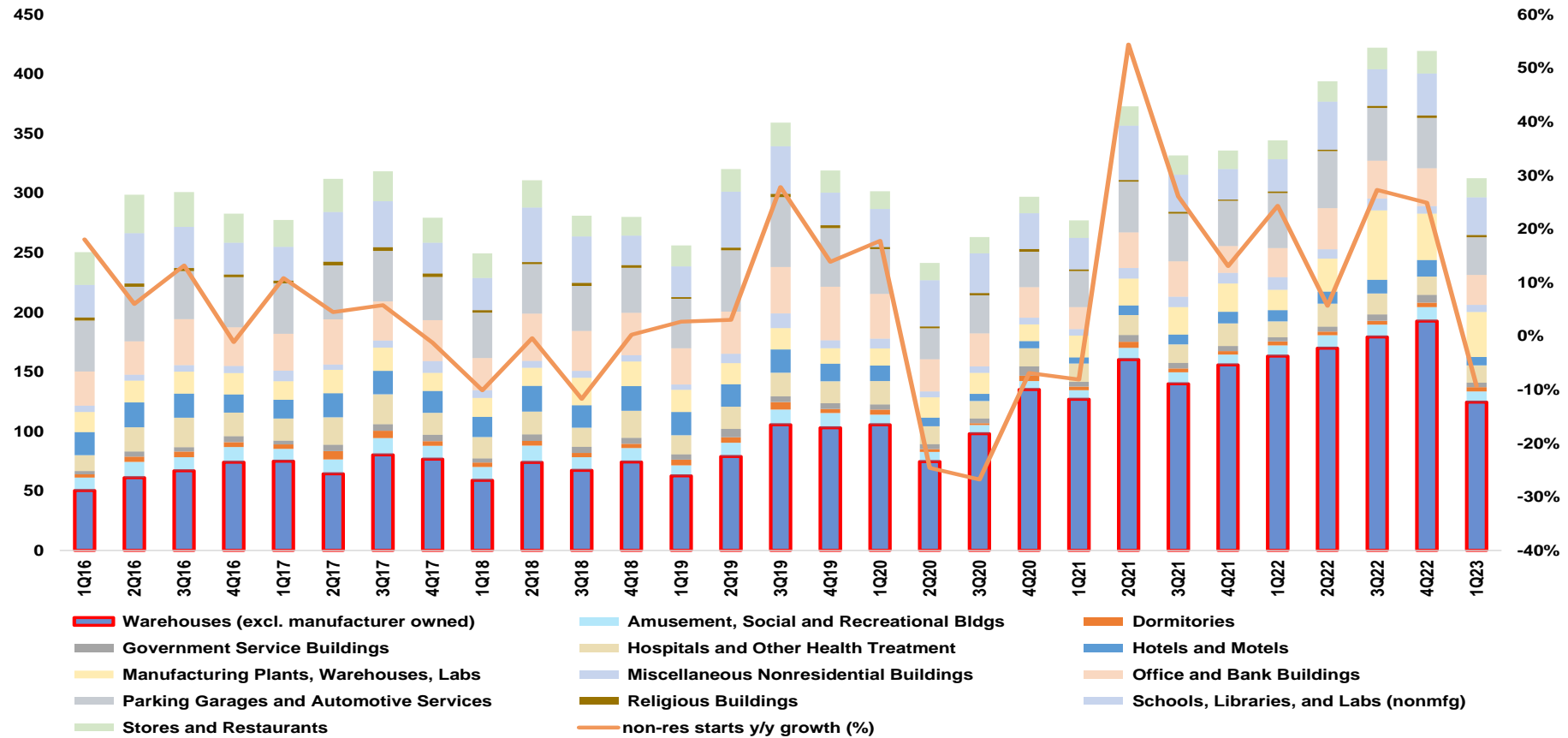
Warehouse start trends (M sqft)



Source: Wolfe Research, FactSet, U.S. Census Bureau, Dodge Construction Network

Warehouses have been crucial to non-res starts

Non-res construction starts (M sqft)



Source: Wolfe Research, Dodge Construction Network

Ignore new supply and higher rate dual punch at your own risk

- The NA market faces an unprecedented excess of sheet capacity, soon to be followed by a galvanized glut.
- Non-res construction looks poised to roll over in H2/2024, no way they escape the wrath of the Fed.

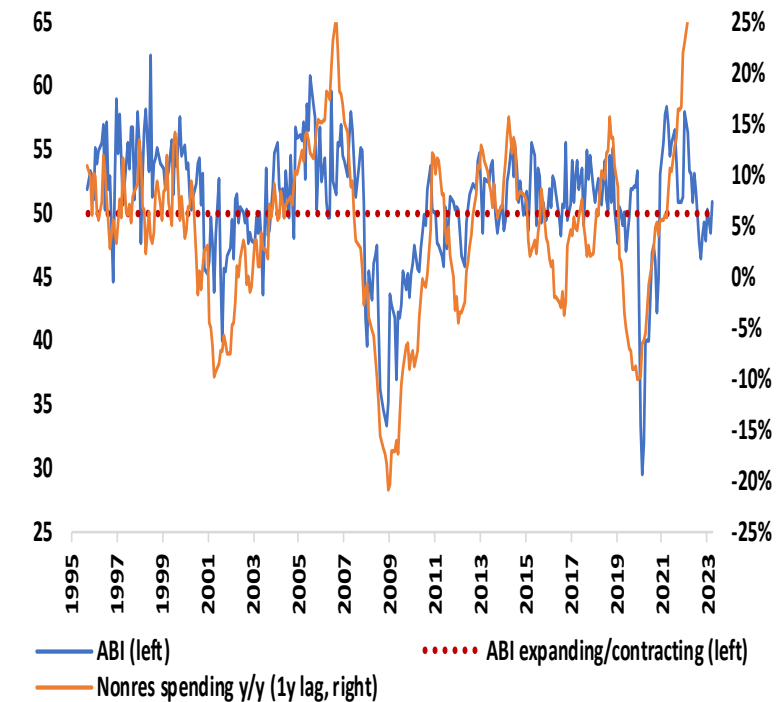
New NA sheet steel capacity (2020-2025E)

Target ramp-up completion	Company	Capacity (Mst/yr)
Q4 2020	Stelco - Lake Erie Works	0.30
Q4 2020	U.S. Steel - Big River Steel (BRS) expansion	1.65
Q4 2022	North Star BlueScope	0.85
Q1 2023E	Steel Dynamics Inc. (Sinton)	3.00
2023E	ArcelorMittal Mexico	2.75
2023E	Ternium	4.40
H1 2023E	AM/NS (Calvert)	1.50
2023E	Nucor (Brandenburg)	1.20
2023E	Nucor (Gallatin)	1.40
2024E	Algoma	3.70
2024E	U.S. Steel (BRS)	3.00
2024E/2025E	Nucor (Apple Grove)	3.00
Total new capacity:		26.75
2024E	U.S. Steel	1.60
2024E	U.S. Steel	1.40
H1 2023E	AM/NS Calvert	1.50
2022E/2023E	Ternium	0.90
2024E	Algoma	2.80
Net new capacity:		18.55

New NA galvanized capacity (2020-2025E)

Target ramp-up completion	Company	Capacity (Kst/yr)
H121	Nucor (Hickman)	500
H123E	Steel Dynamics Inc (Sinton)	550
H223E	Steel Dynamics Inc (Sinton)	300
H223E	Steel Dynamics Inc (Terre Haute)	300
2023E/2024E	U.S. Steel - Big River Steel (BRS)	325
H124E	Nucor (Crawfordsville)	300
2024E	U.S. Steel (BRS)	1,000
2024E	Ternium (Pesquería)	300
2024E/2025E	Nucor (Apple Grove)	1,000
H225E	Nucor (Berkeley)	500
TBD	Nucor (western U.S. - TBD)	TBD
H225E	Nucor (California Steel)	400
Total new capacity:		5,475
2023E	U.S. Steel-POSCO (UPI)	400
Net new capacity:		5,075

ABI vs non-res spending (1-yr lag)



Source: Wolfe Research, USGS, AIA, Dodge, company reports

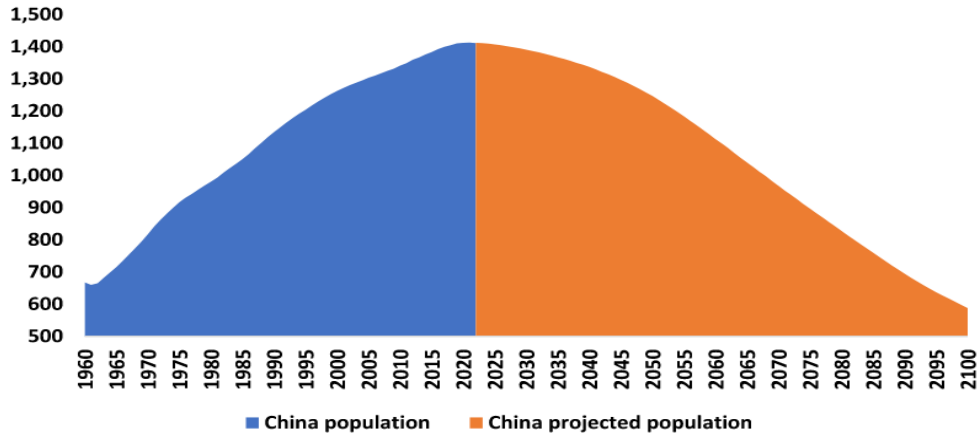
Less scrap support contemplated on global pig import potential

Wolfe price forecasts

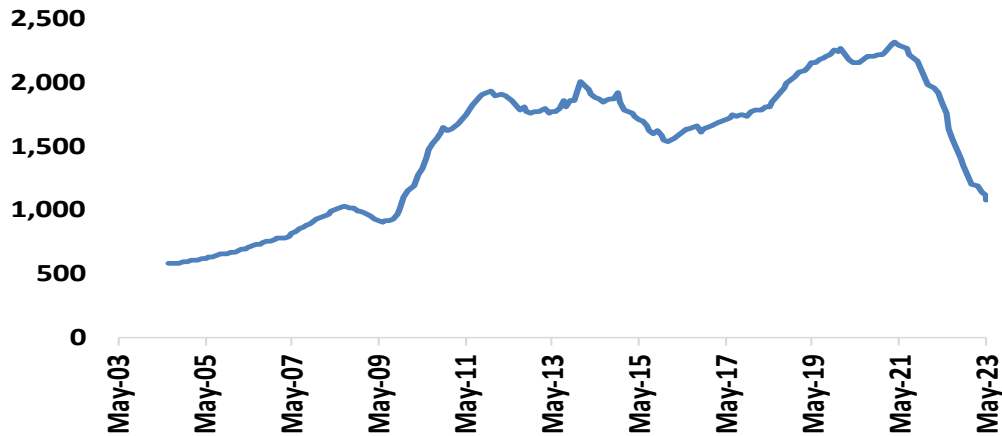
	2017	2018	2019	2020	2021	2022	Q123	Q223	Q323E	Q423E	2023E	2024E	2025E
Carbon steel													
HRC (\$/st)	\$623	\$835	\$601	\$587	\$1,605	\$1,007	\$875	\$1,070	\$800	\$725	\$867	\$745	\$775
CRC (\$/st)	\$815	\$952	\$755	\$755	\$1,839	\$1,414	\$1,092	\$1,263	\$950	\$875	\$1,045	\$895	\$925
HDG(\$/st)	\$889	\$1,033	\$839	\$830	\$1,923	\$1,456	\$1,162	\$1,321	\$1,000	\$925	\$1,102	\$945	\$975
Plate (\$/st)	\$684	\$941	\$811	\$638	\$1,478	\$1,803	\$1,530	\$1,610	\$1,300	\$1,225	\$1,416	\$1,120	\$1,075
Rebar (\$/st)	\$549	\$687	\$669	\$615	\$911	\$1,046	\$941	\$938	\$885	\$880	\$911	\$900	\$865
Scrap													
Scrap (HMS 1/2) (\$/lt)	\$278	\$329	\$258	\$250	\$426	\$368	\$383	\$361	\$310	\$320	\$344	\$340	\$340
Scrap (Shredded) (\$/lt)	\$302	\$355	\$285	\$276	\$473	\$468	\$462	\$470	\$410	\$420	\$440	\$440	\$430
Scrap (Busheling) (\$/lt)	\$365	\$398	\$320	\$312	\$582	\$529	\$483	\$534	\$460	\$470	\$487	\$490	\$480

Source: Wolfe Research, Platts, CRU

China population forecast (M)

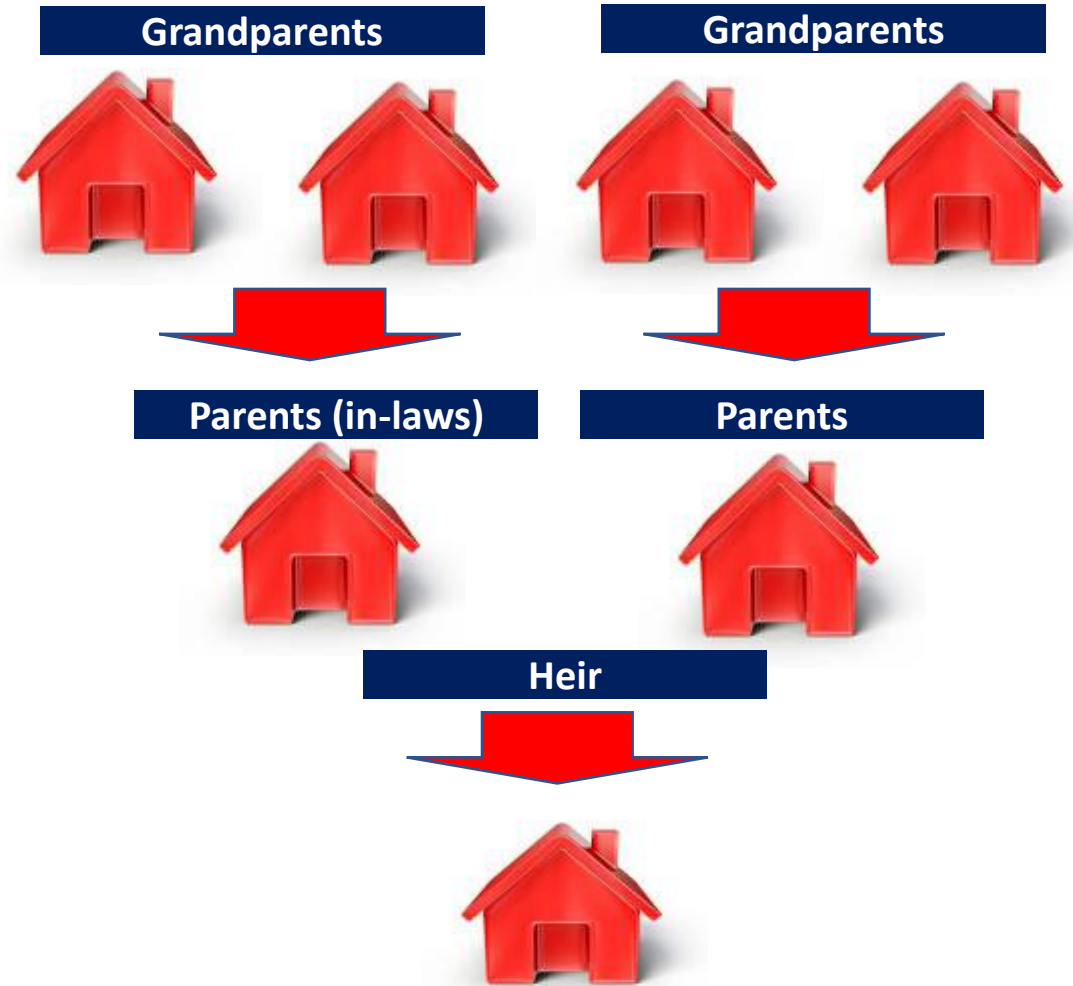


TTM China property starts (M sqm)



Source: Wolfe Research, China's National Statistics Bureau, The Shanghai Academy of Social Sciences

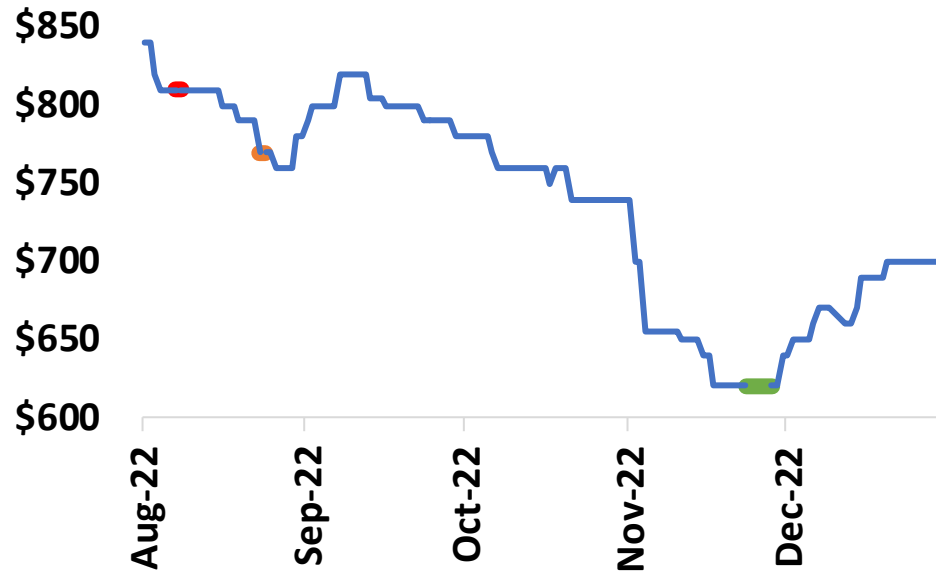
One child policy means one kid inherits seven houses...



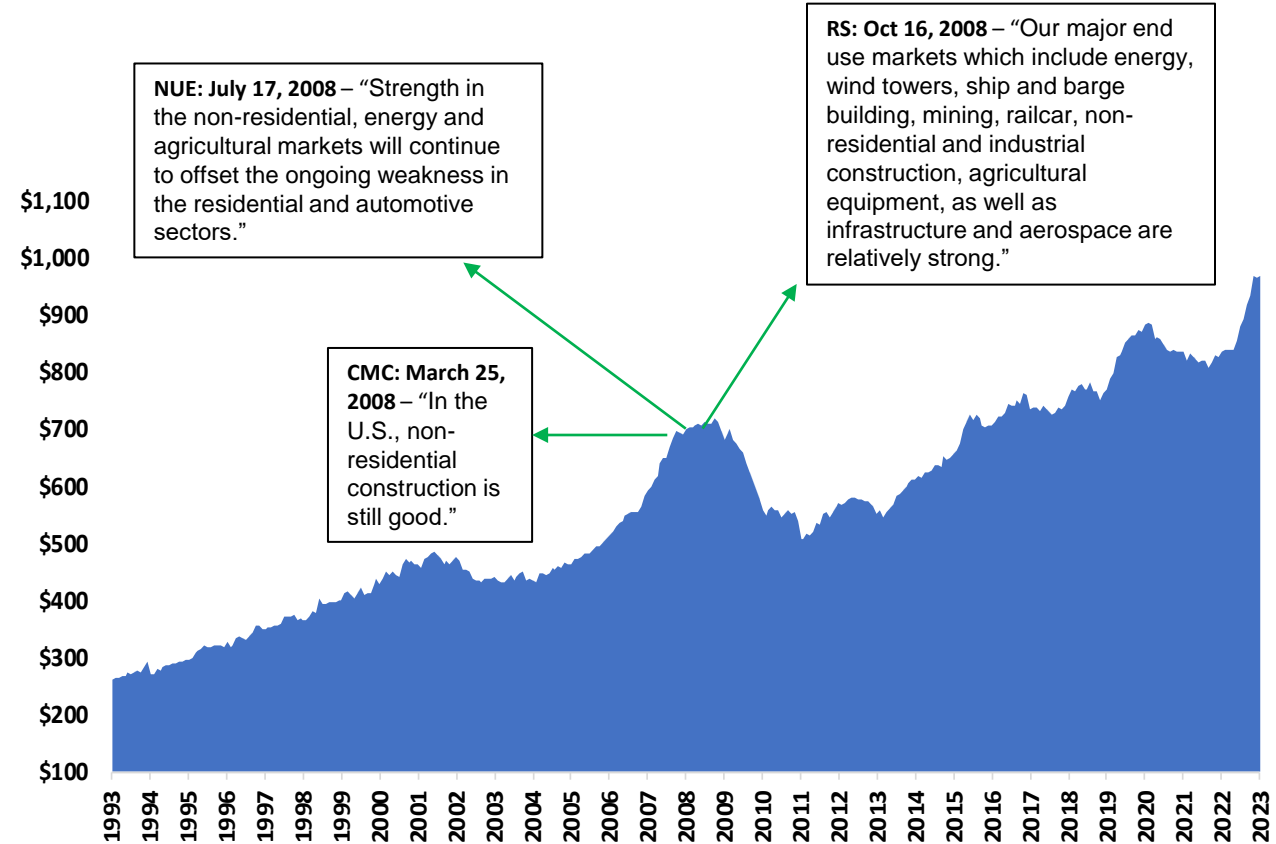
Mill hikes don't always stick

- Red dot = NUE attempted \$50/st price hike Aug 8, 2022.
- Orange dot = CLF attempted \$75/st price hike Aug 24, 2022.
- Green dot = CLF's successful \$60/st price hike Nov 28, 2022.

U.S. HRC (\$/st) vs mill price hikes Aug-Oct 2022



2007 commentaries vs non-res spending (\$B)



Source: Wolfe Research, Platts, CRU

Mill CEOs last month dispelled recession concerns

- This reminds us of 2007!
- Their visibility is limited

Infrastructure demand can offset construction weakness

- We have been too early in warning of lower construction demand, but it will happen
- Infrastructure will be more long-product heavy

Scrap panic overblown – good news/bad news

- We see scrap squeezed, but last year's pig iron imports showed a cap to prices
- Even more scrap demand is lurking into 2024 with ArcelorMittal starting up Calvert, Algoma ramping up EAF

China population shrinking but steelmaking resilient

- The property sector is structurally impaired as the population looks set to halve by the end of the century
- Steel production hasn't slowed down much, and the domestic price <\$500/st makes regional exports compelling

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Q & A

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To contact Michael Cowden: michael@steelmarketupdate.com

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Next Community Chat With Zekelman Industries Chairman and CEO Barry Zekelman

Tune in on July 26 at 11 am ET!