



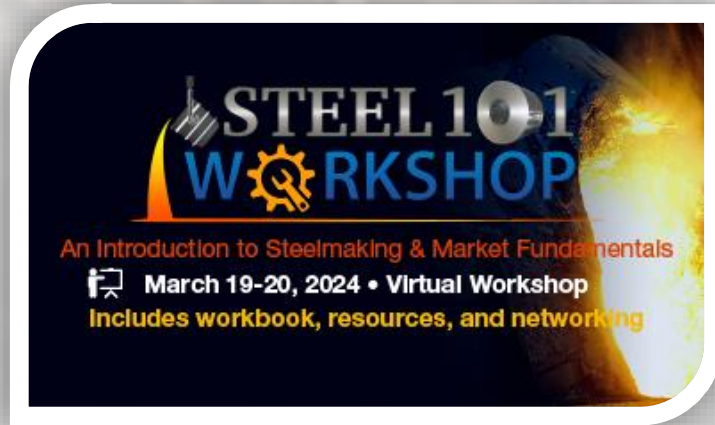
Steel Market Update

CRU

Community Chat with Timna Tanners of Wolfe Research

Feb. 7, 2024 | Michael Cowden, Managing Editor

Upcoming events



Virtual Steel 101 Workshop
March 19-20, 2024



SMU Steel Summit 2024
August 26-28, 2024 | Atlanta
Georgia International Convention Center

For more information about our workshops and conferences visit:
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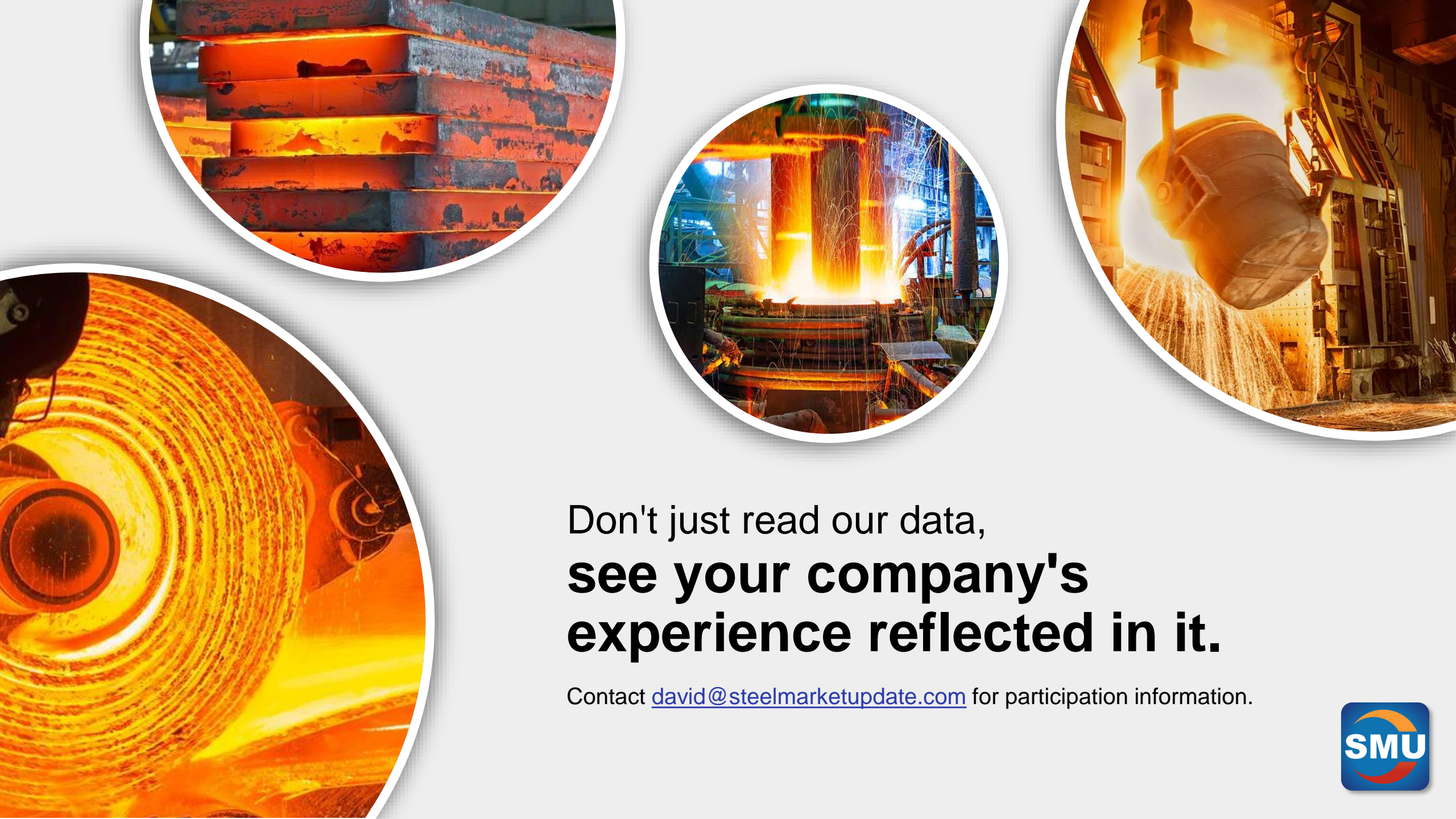


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The SMU newsletter was developed for active buyers and sellers of flat-rolled steel.

Prices | Momentum | Sentiment | Trends | Analysis

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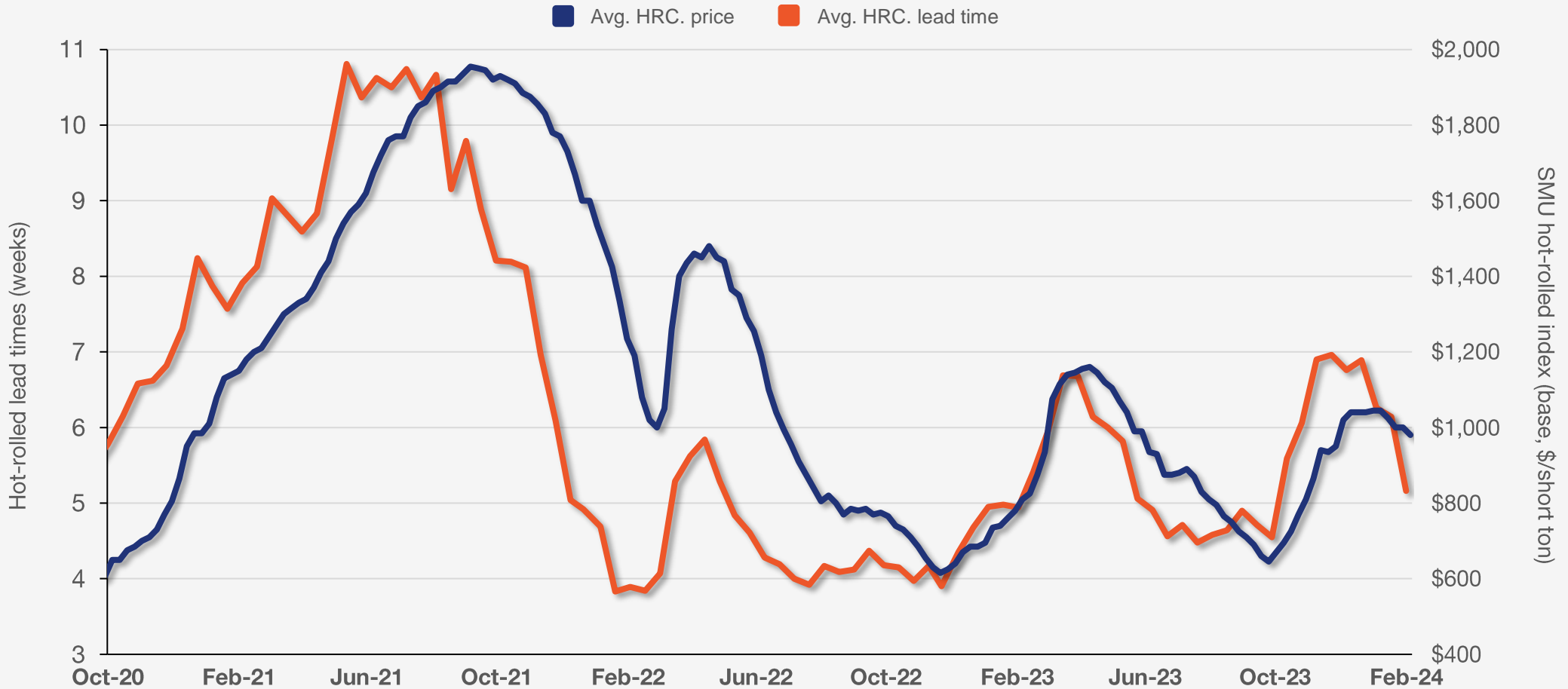
Don't just read our data,
**see your company's
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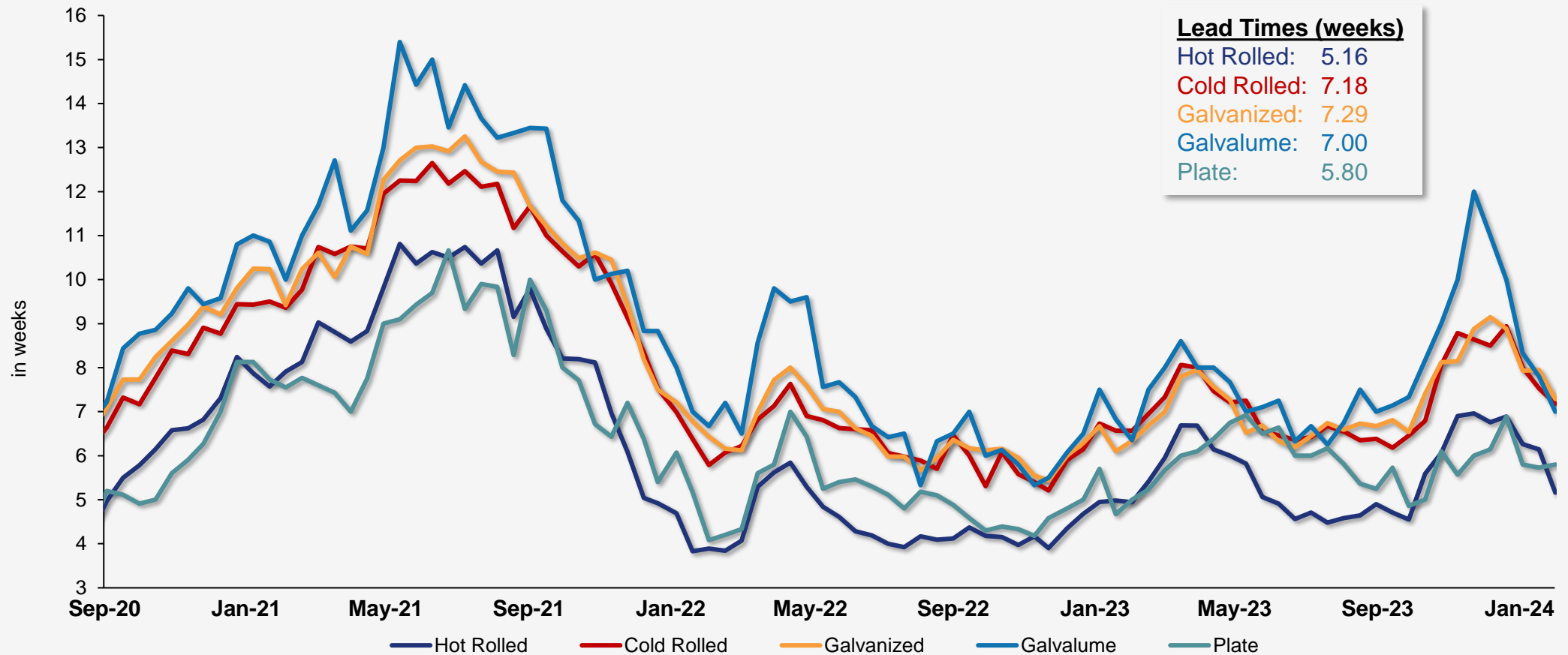
Hot-rolled steel prices vs. lead times

SMU's hot-rolled steel prices and lead times, with data through Feb. 6, 2024.



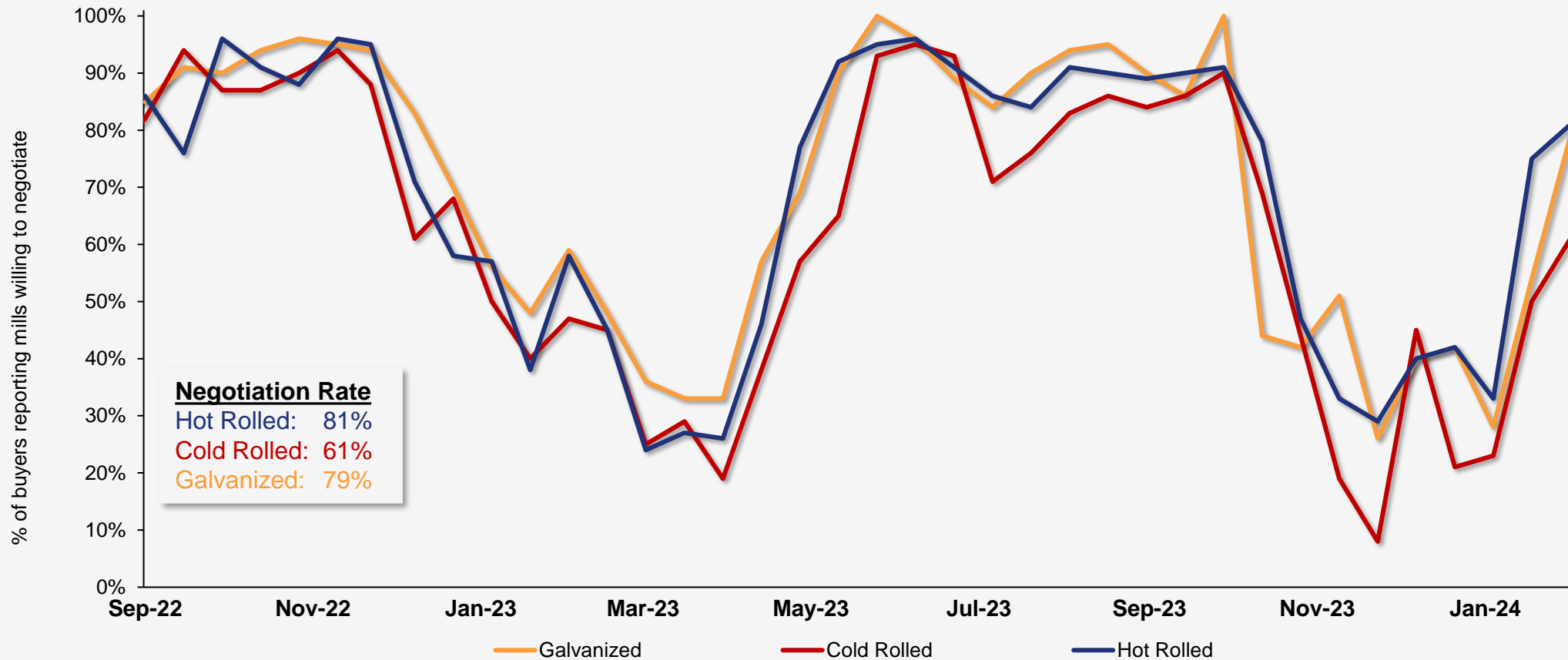
Steel mill lead times by product

SMU lead times on new steel orders by product through Jan. 31, 2024.



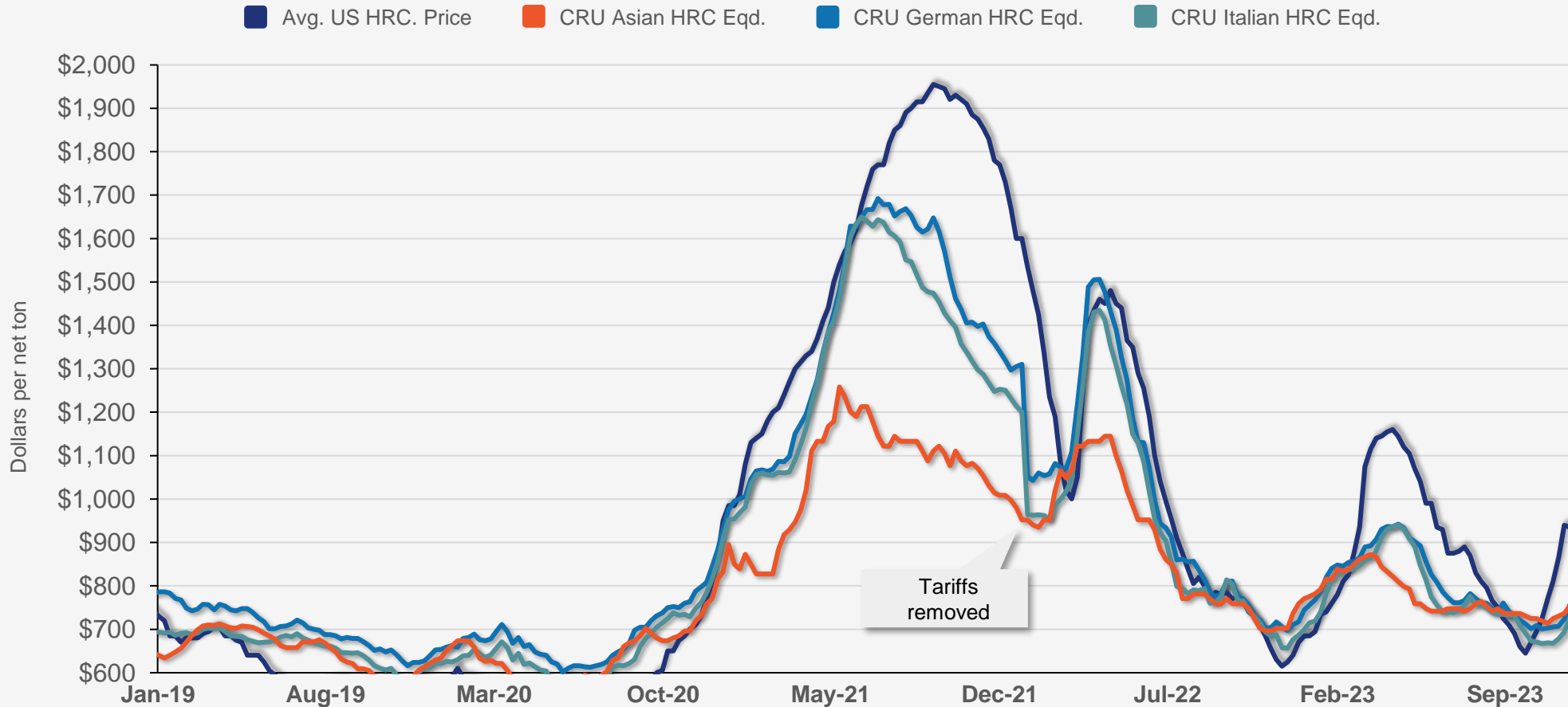
Steel mill negotiations

SMU's price negotiations on new steel orders by product through Jan. 31, 2024.



US Hot-Rolled Steel vs. Foreign Hot-Rolled Steel Import

SMU's hot-rolled steel prices vs. foreign hot-rolled import prices



Source: SMU and CRU Group

Foreign vs domestic HR prices

US vs. foreign hot-rolled steel prices

Foreign prices include \$90/st in importing costs,
Asian prices include a 25% tariff

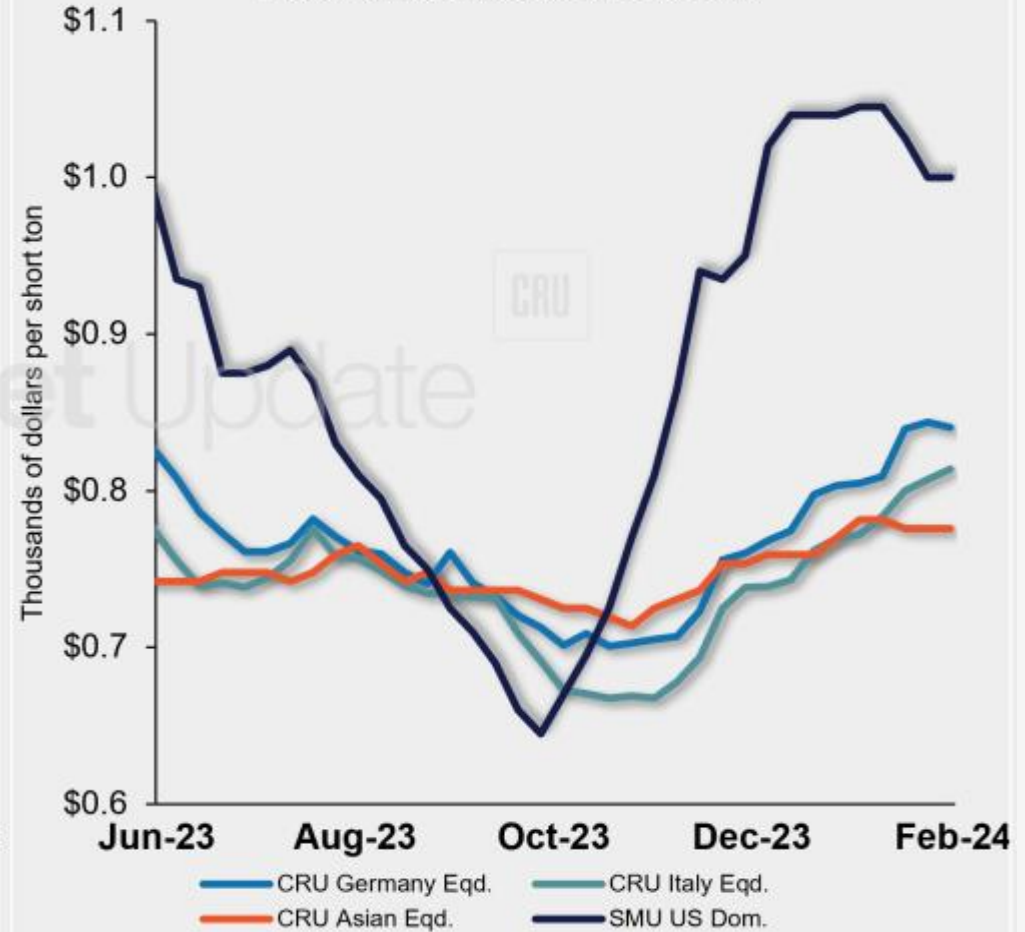


Source: SMU and CRU Group

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US vs. foreign hot-rolled steel prices

Foreign prices include \$90/st in importing costs,
Asian prices include a 25% tariff

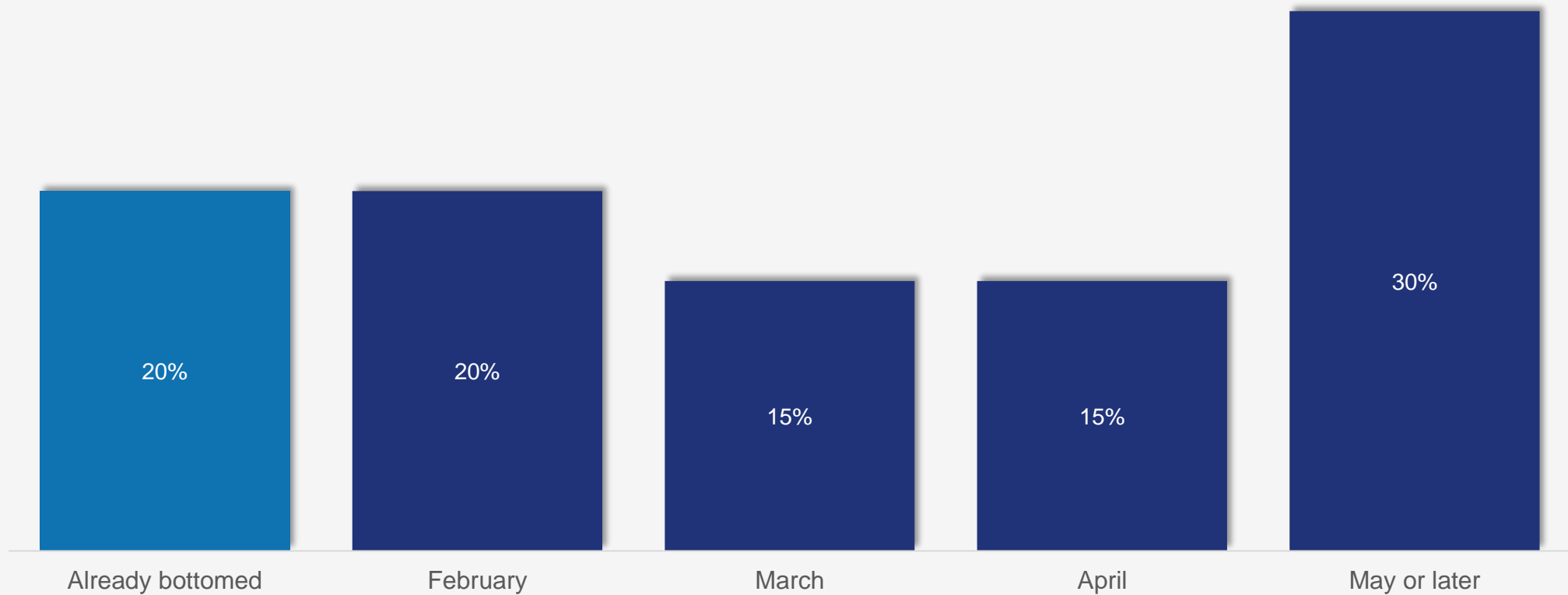


Source: SMU and CRU Group

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Hot rolled inflection point

When do you think steel prices will bottom?

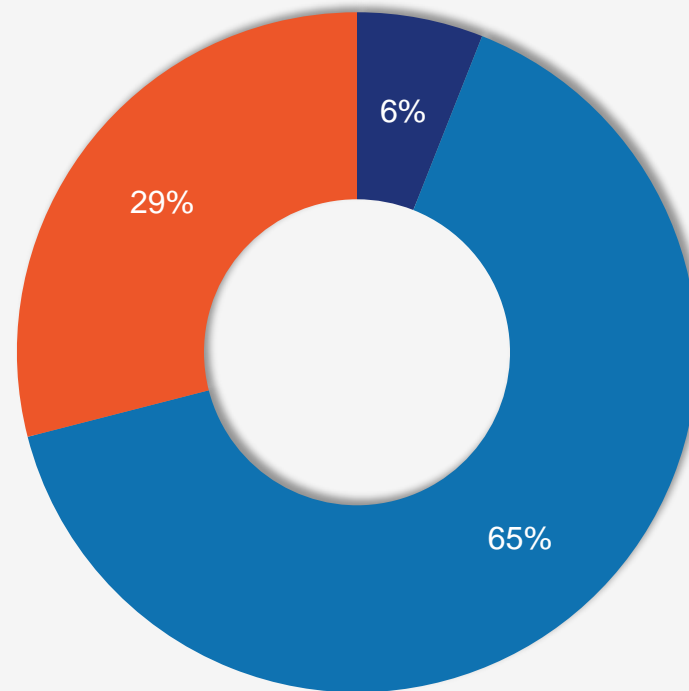


February scrap

Prime scrap prices in February will be:

■ Up ■ Sideways ■ Down

Jan. 31, 2024



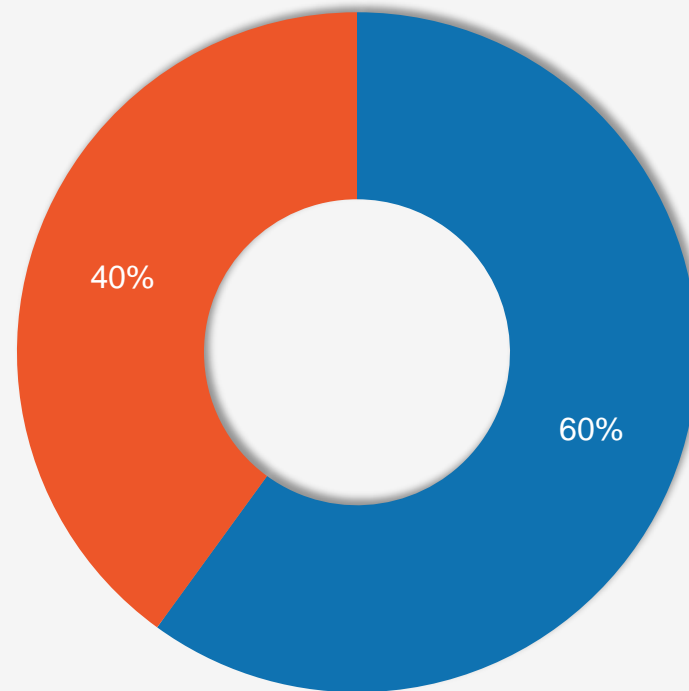
Service center view of selling prices

Service centers

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

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

Jan. 31, 2024



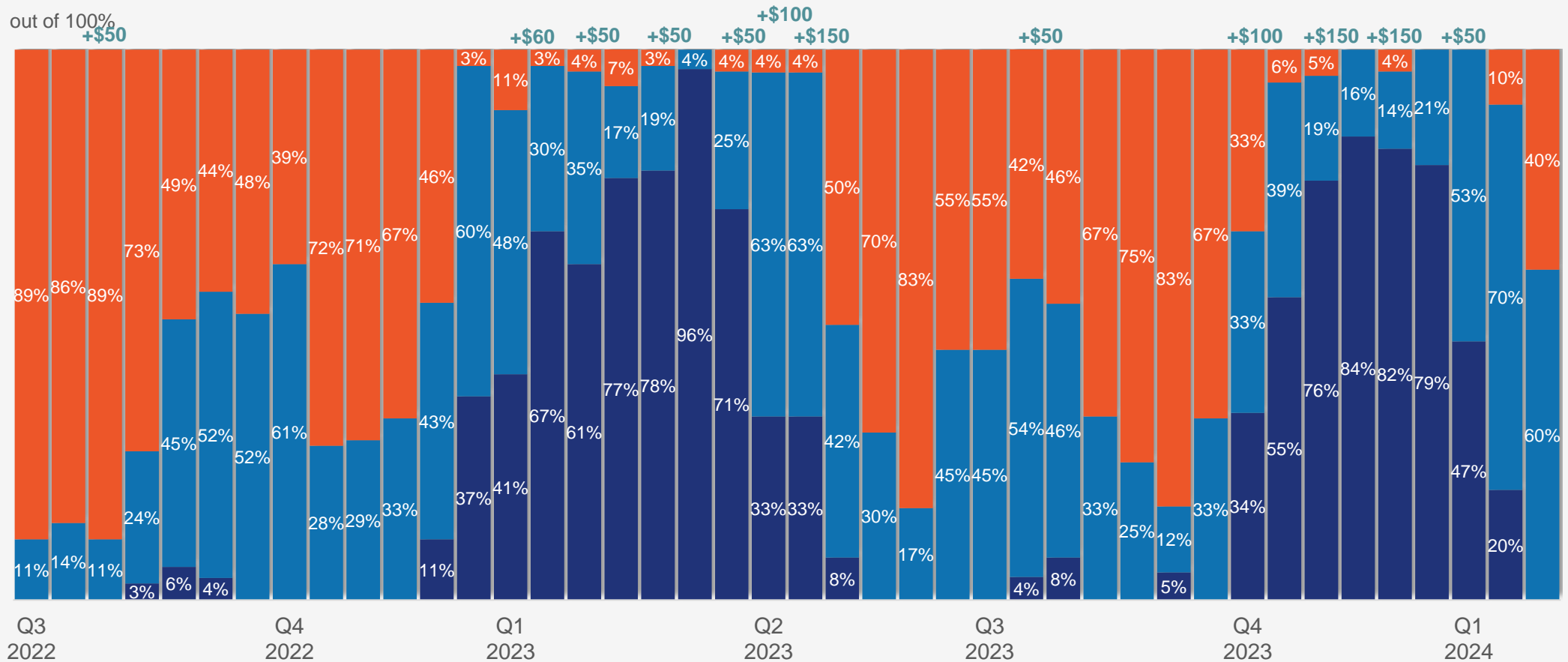
Service center view of selling prices

Service centers

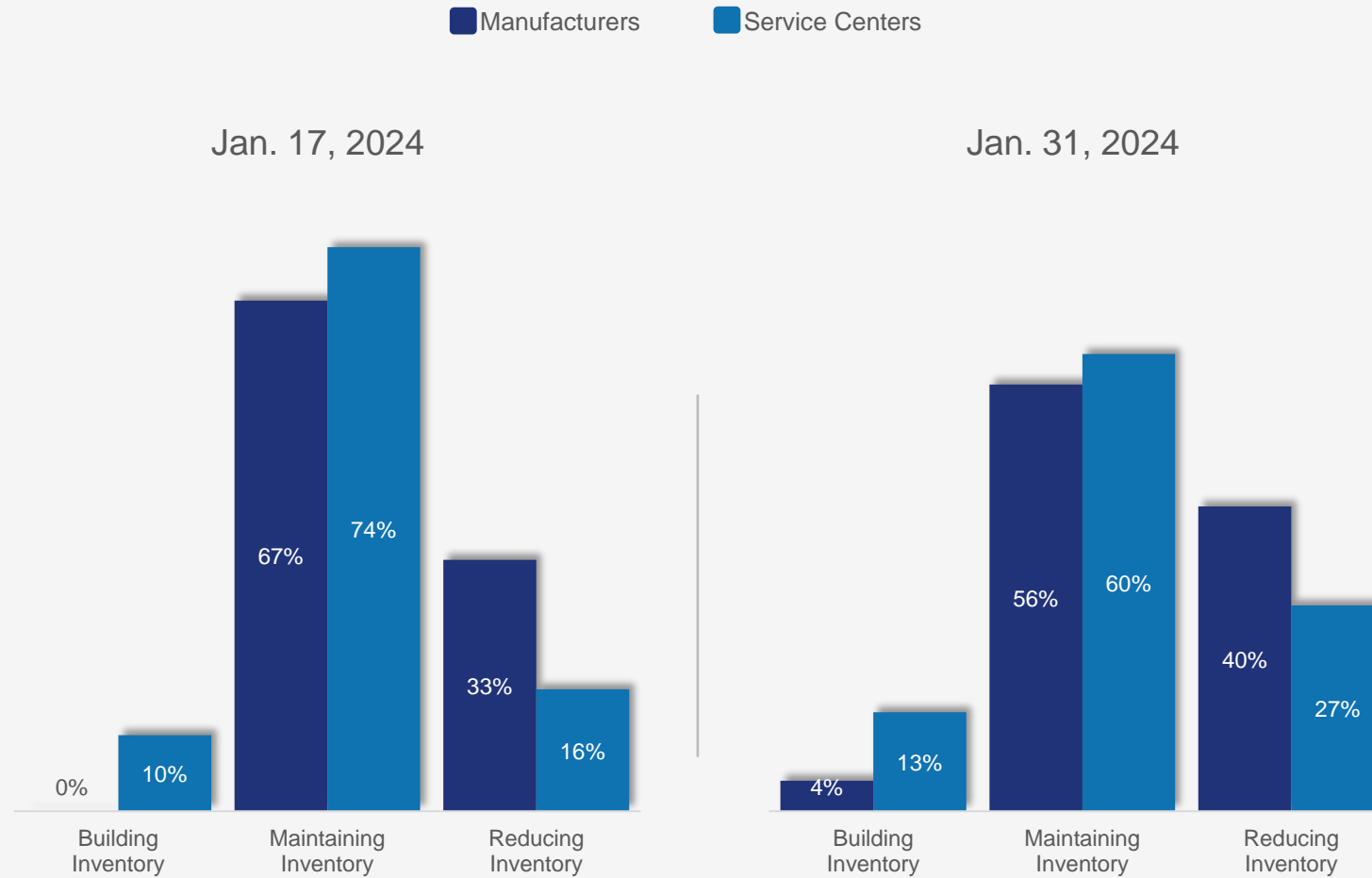
Compared to two weeks ago, how is your company handling spot pricing to your customers?

Historical leading flat rolled price increase announcements

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



Manufacturer and service center inventory buying patterns

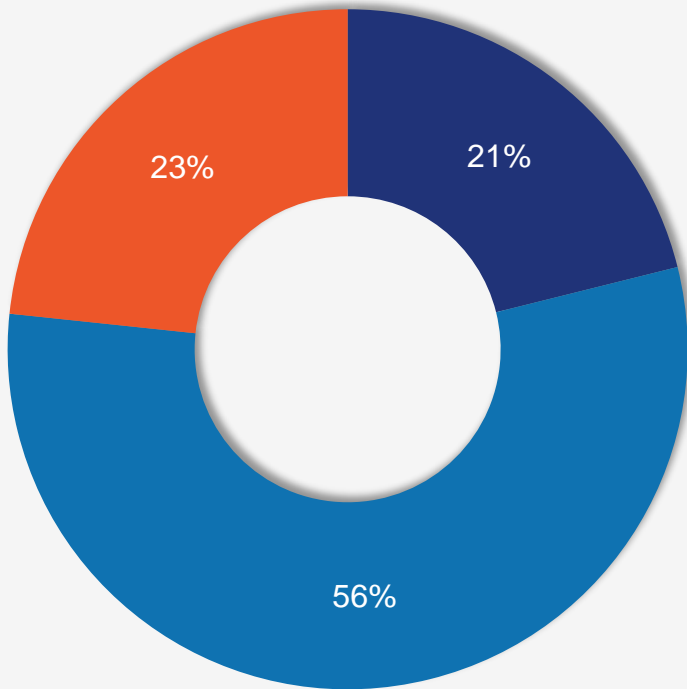


Business forecasts

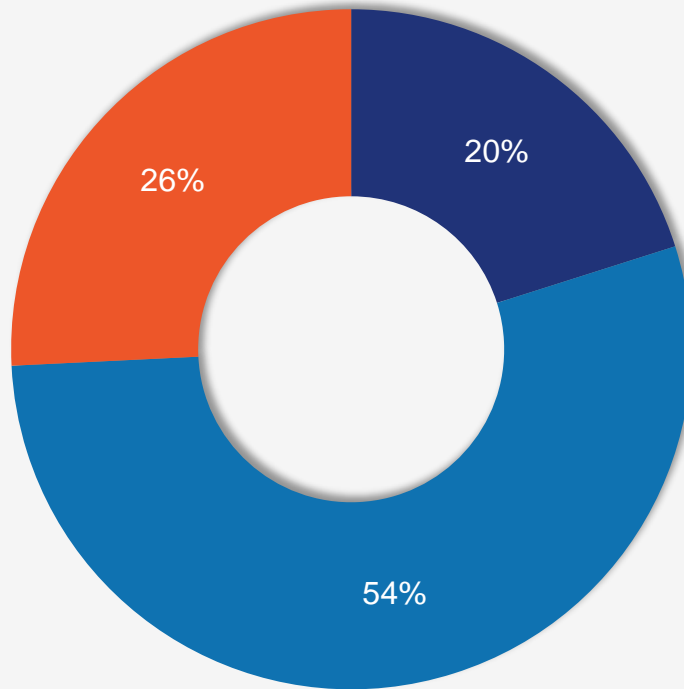
How will your company perform this month compared to your forecast?

■ We will exceed forecast
 ■ We will meet forecast
 ■ We will not meet forecast

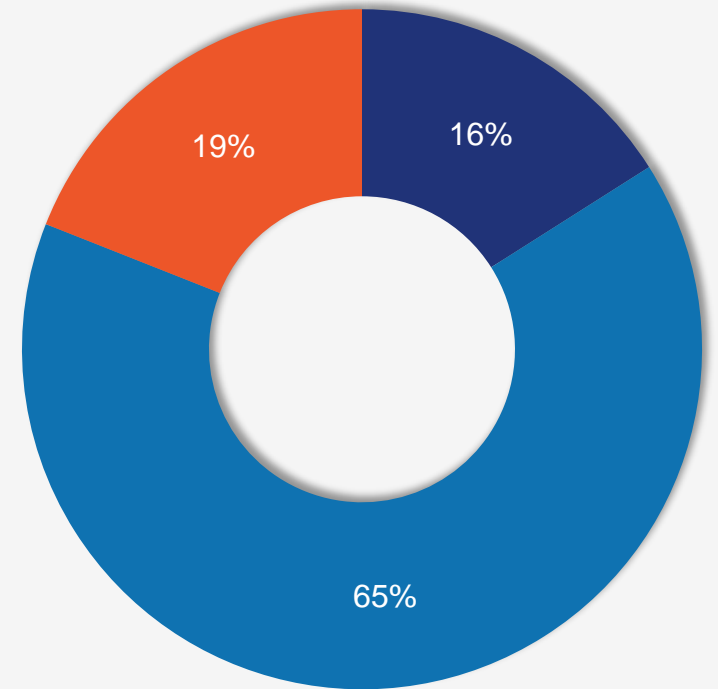
Dec. 6, 2023



Jan. 3, 2024



Jan. 31, 2024

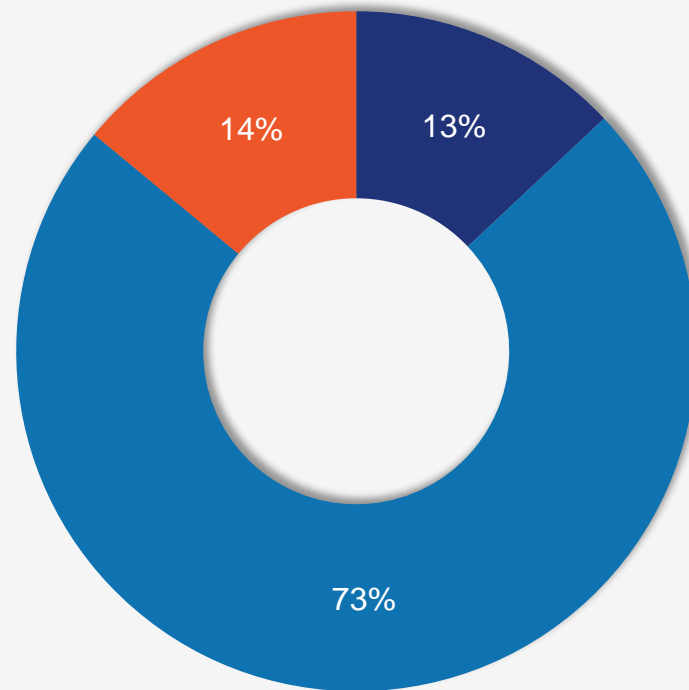


Overall demand

How is demand for your products?

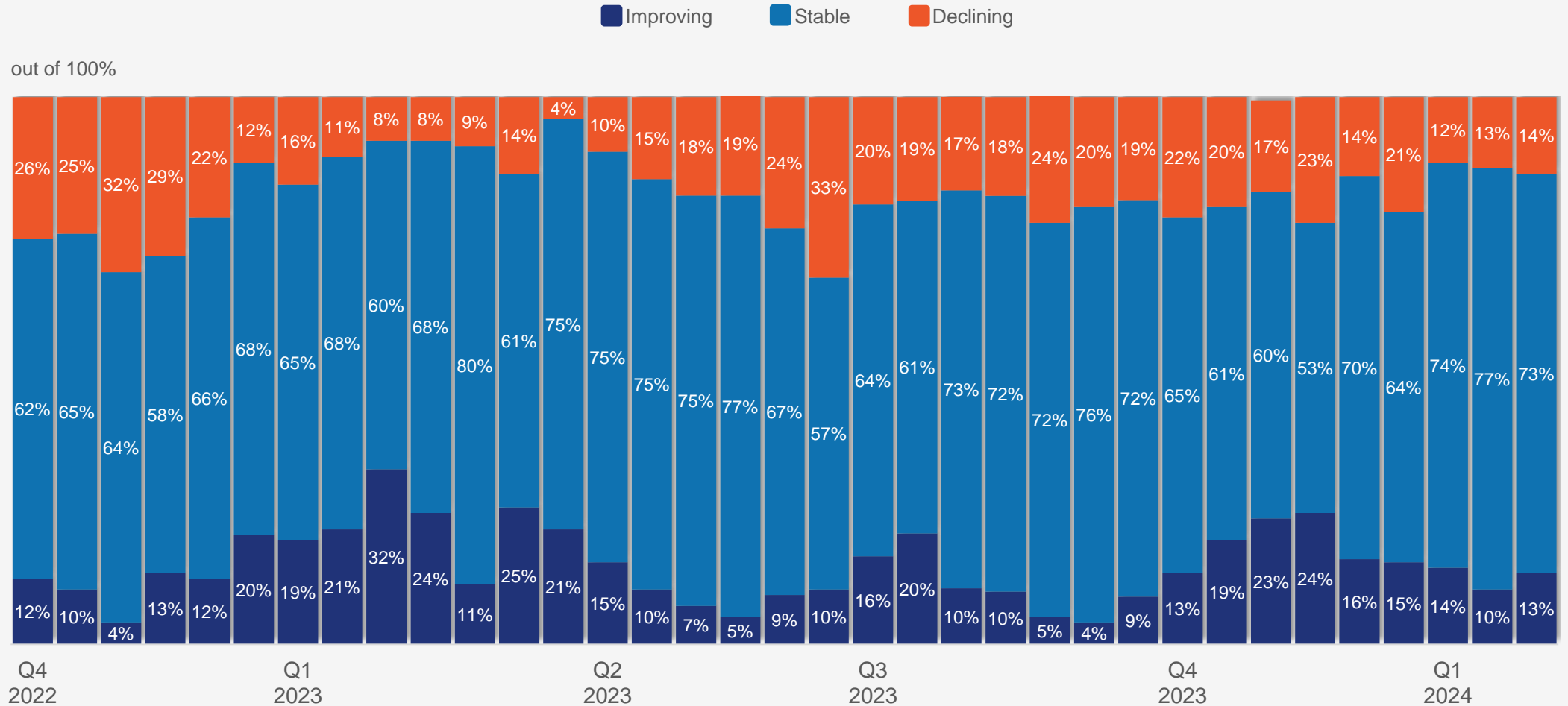
■ Improving ■ Stable ■ Declining

Jan. 31, 2024



Overall demand history

How is demand for your products?

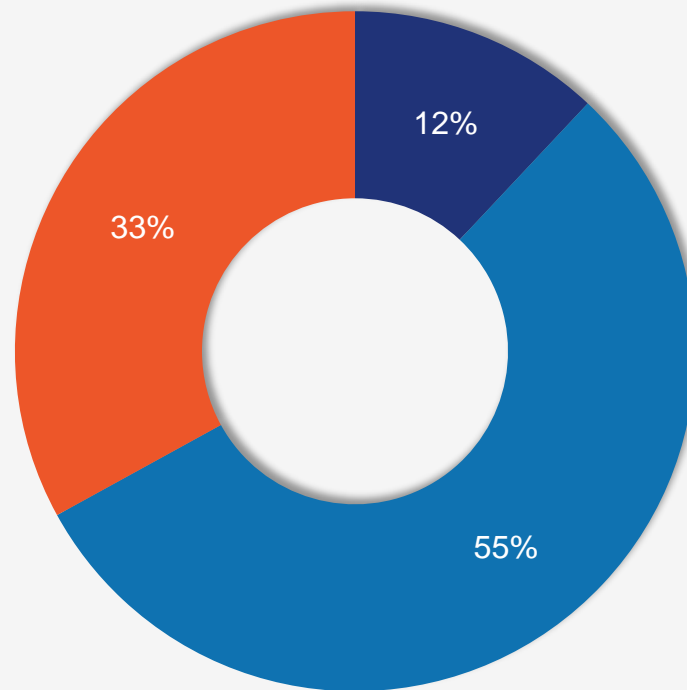


Direction of steel mill lead times

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

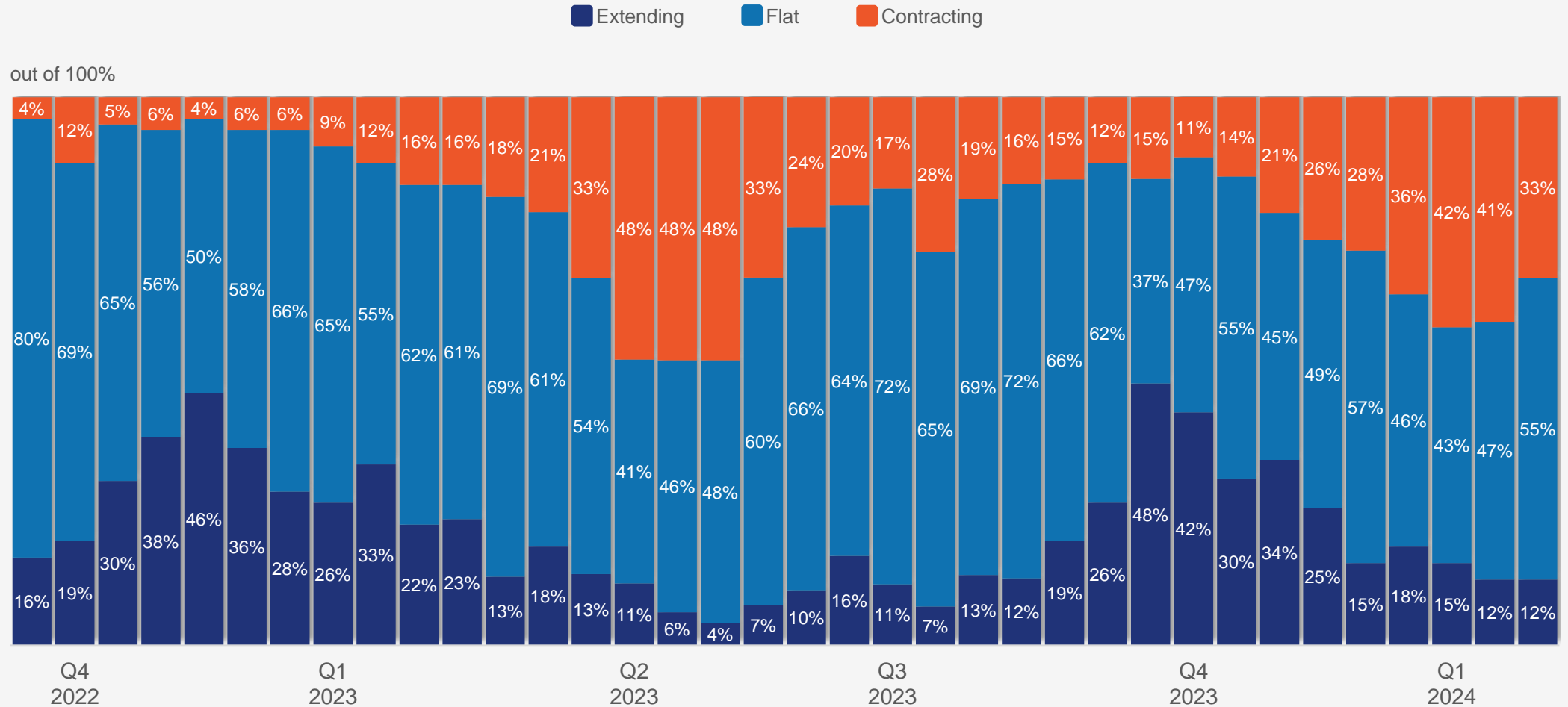
■ Extending ■ Flat ■ Contracting

Jan. 31, 2024



Direction of steel mill lead times

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



Timna Tanners



Timna Tanners is a managing director at Wolfe Research. She has covered the metals and mining sector since 2002. She was ranked No. 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 also in Latin America.

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.

SMU Community Chat: Testing “discipline”

Feb 7, 2024

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Key themes for 2024 – More sheet supply, flat demand...

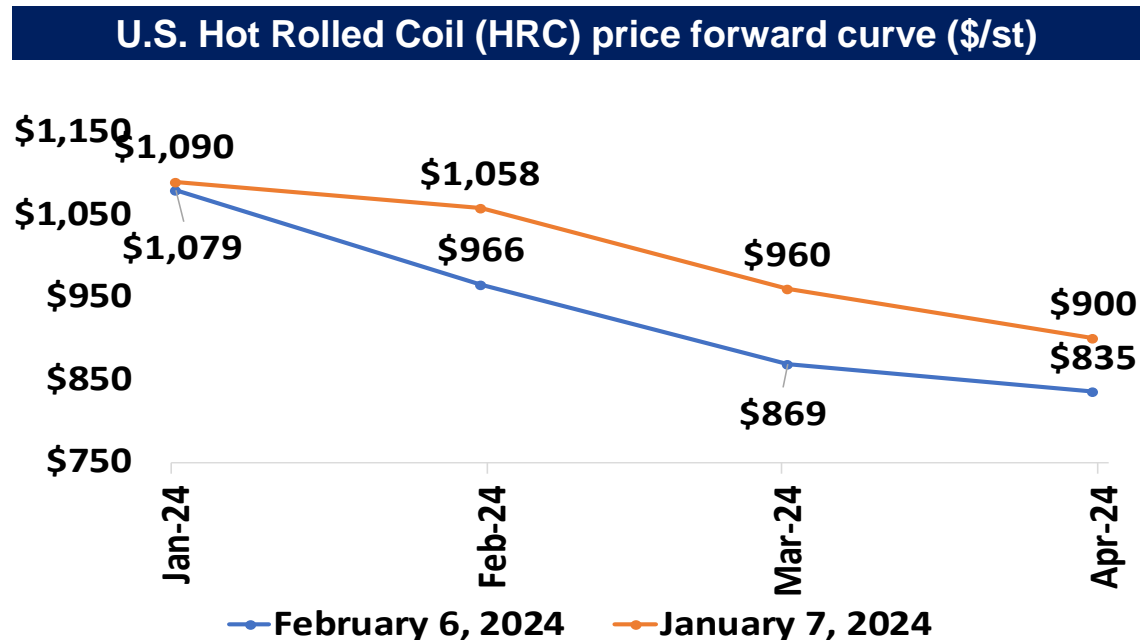
Demand looking flat, with unusual destocking to start the year.

Prices should decline to at least where transactions happening from index reported values.

BRS2 supply and Sinton ramping up should drive oversupply, H1 again > H2.

Scrap demand set to surge through 2025E, real risk higher costs can't be passed through.

Yes, futures and imports still matter and affect buyer sentiment. Futures are gaining prominence.

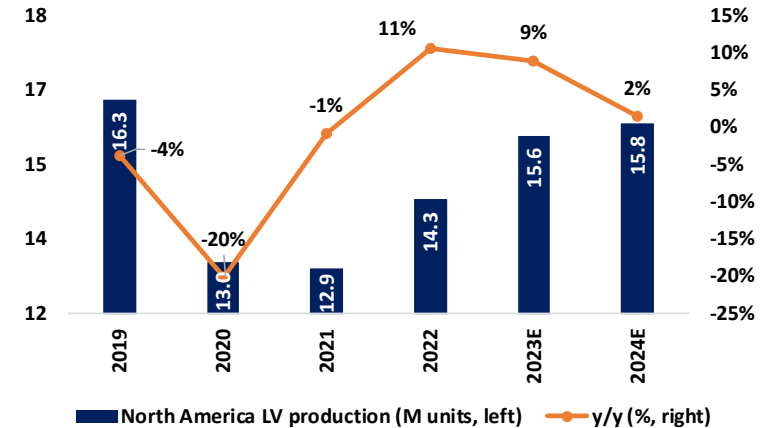


Another year of flattish auto, construction mixed

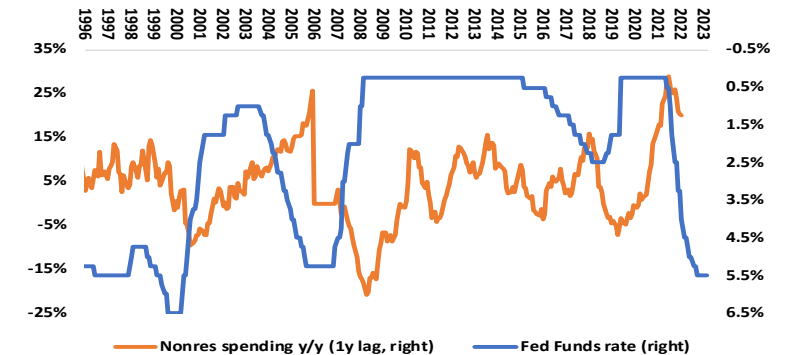
2024E/25E construction growth forecast

y/y growth (Dec 2023)	Consensus		2024E range		Dodge Data		S&P		FMI		Construct-Connect		Associated Builders & Contractors		Portland Cement Association	
	2024E	2025E	Low	High	2024E	2025E	2024E	2025E	2024E	2025E	2024E	2025E	2024E	2025E	2024E	2025E
Non-residential total	4%	1%	-1%	11%	11%	4%	3%	-4%	8%	0%	-1%	1%	8%	7%	3%	1%
Commercial	-1%	0%	-5%	6%	-3%	1%	-5%	-3%	2%	-2%	0%	2%	6%	6%	N/A	N/A
Office	-2%	-1%	-6%	7%	1%	-70%	-1%	2%	-2%	-5%	-6%	-2%	7%	7%	-3%	-3%
Retail / other commercial	-1%	0%	-12%	4%	-7%	-2%	-12%	-13%	2%	0%	3%	3%	4%	4%	3%	2%
Hotel	7%	6%	4%	17%	7%	19%	17%	12%	12%	-4%	7%	7%	10%	8%	4%	3%
Industrial total	9%	-1%	-7%	31%	31%	5%	9%	-15%	18%	-2%	-7%	-3%	15%	13%	7%	3%
Institutional total	5%	3%	3%	9%	9%	6%	5%	3%	9%	4%	3%	2%	5%	4%	3%	3%
Health	4%	4%	1%	8%	4%	5%	5%	3%	8%	4%	2%	3%	8%	5%	1%	2%
Education	6%	4%	2%	10%	10%	5%	6%	5%	10%	5%	3%	2%	4%	4%	2%	2%
Religious	1%	1%	-9%	8%	8%	14%	-9%	-3%	5%	-2%	-3%	0%	2%	50%	0%	0%
Public safety	10%	4%	-1%	22%	22%	5%	N/A	N/A	13%	6%	11%	3%	5%	3%	-1%	1%
Amusement/recreation	4%	3%	1%	7%	4%	8%	1%	2%	7%	0%	2%	3%	6%	5%	N/A	N/A

North America light vehicle production forecast



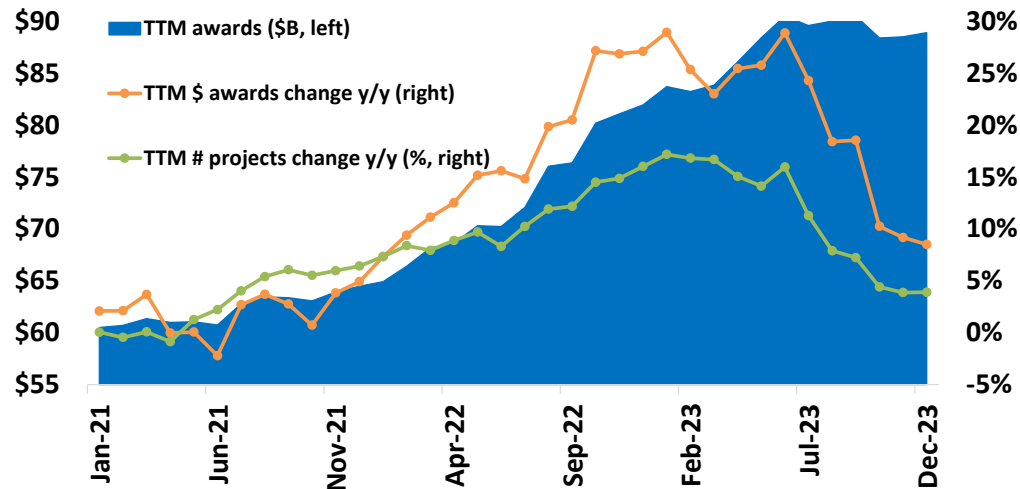
Non-res construction spend vs Fed target rate



Source: Wolfe Research, IHS, American Institute of Architects (AIA); Note: consensus also includes forecasts from Moody's, Wells Fargo, Markstein Advisors, and Piedmont Crescent Capital

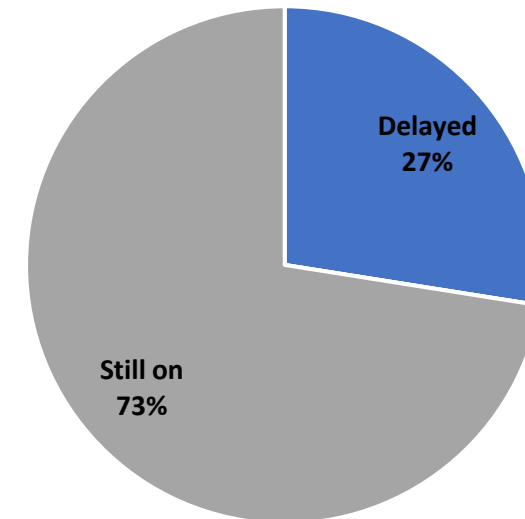
Dollars are finally flowing, long products benefit most;
 BUT >25% of large IRA projects are delayed, govt spending has leveled off

Highway awards



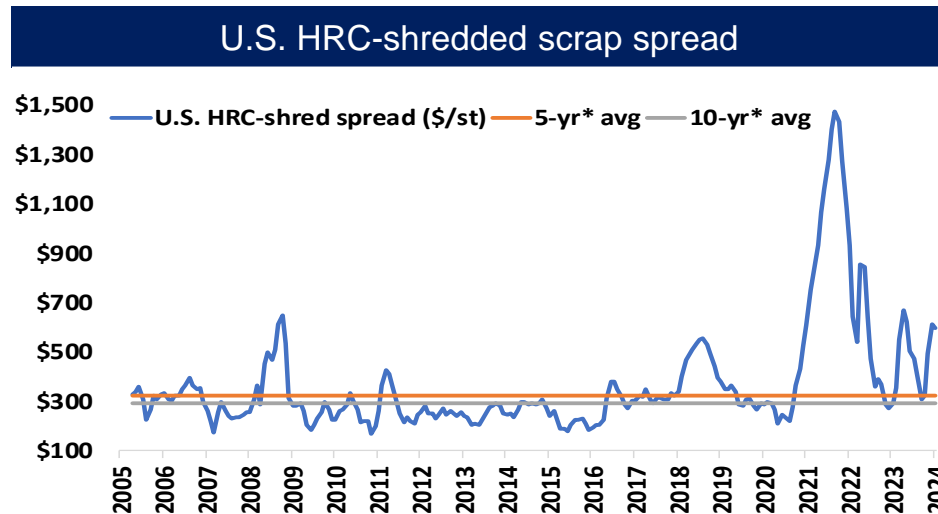
Project cancellation detail

Reshoring	Projects	Investment (\$B)
Delayed	11	\$44.6
Canceled	0	\$0.0
Still on	29	\$265.1
Total	40	\$309.7



Source: U.S. Census Bureau, American Road and Transportation Builders Association (ARTBA), Portland Cement Association

- Large new electric arc furnaces will demand a spike in scrap supply in 2024-26E.
- The U.S. has been a net exporter of 7-8Mt/yr of scrap in recent years.
- Where will the added scrap come from?
- We see no guarantee scrap price cost inflation can drive higher steel prices...



Scrap demand from new EAF capacity

Company	Mill	Ramp year	Ramping capacity (st)	Scrap demand (80%)
STLD	Sinton	H124E	1.00	0.80
NUE	*Brandenburg	H124E	0.60	0.48
NUE	*Gallatin	H124E	0.75	0.60
BSL	*North Star	H124E	0.85	0.68
AM/NS	Calvert	H124E	1.65	1.32
X	BRS2	H224E	1.00	0.80
X	BRS2	H125E	2.00	1.60
ASTL	EAF transition	H125E	3.70	2.96
NUE	Apple Grove	H126E	3.00	2.40
New scrap demand (lt)				11.64

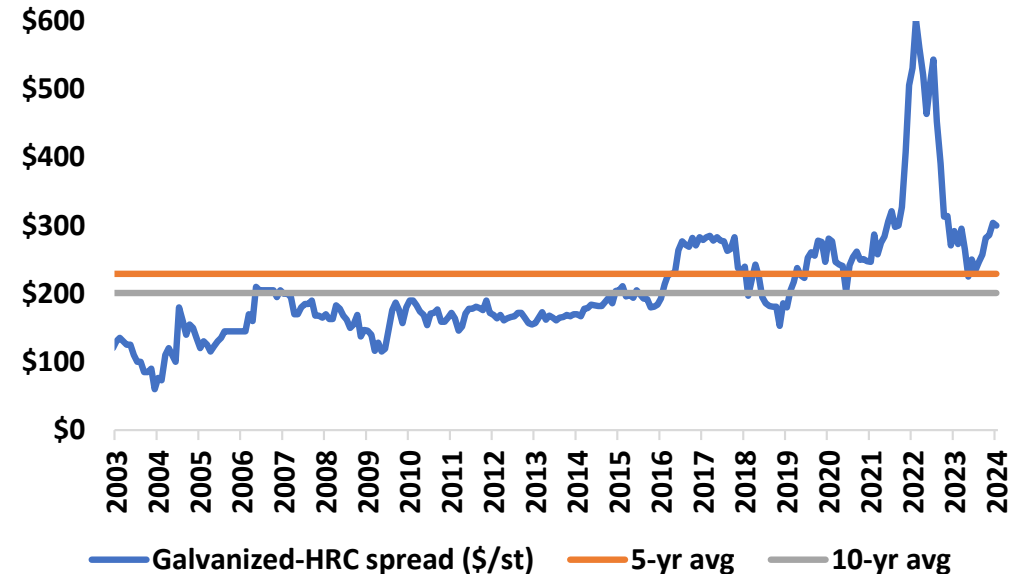
Source: Wolfe Research, company documents, FactSet, SMU, CRU, Platts; *Historical averages through December 2019; *Could be additional capacity ramping

Galvanized mkts have been tight, and premia relatively high...
 ... yet we see a spate of new galvanized capacity dampening outsized prices.

North America galvanizing capacity additions (2024E-2026E)

Target ramp-up completion	Company	Capacity (Kst/yr)
H124E	Steel Dynamics Inc (Sinton)	300
H124E	Steel Dynamics Inc (Terre Haute)	300
H124E	Nucor (Crawfordsville)	300
2024E	U.S. Steel - Big River Steel (BRS)	325
2024E	U.S. Steel (BRS)	1,000
2024E	Ternium (Pesquería)	300
2026E	Nucor (Apple Grove)	1,000
H225E	Nucor (Berkeley)	500
H225E	Nucor (California Steel)	400
Total new capacity:		4,425
2024E	U.S. Steel-POSCO (UPI)	400
Net new capacity:		4,025

U.S. galvanized - HRC spread should correct



Source: Wolfe Research, company documents

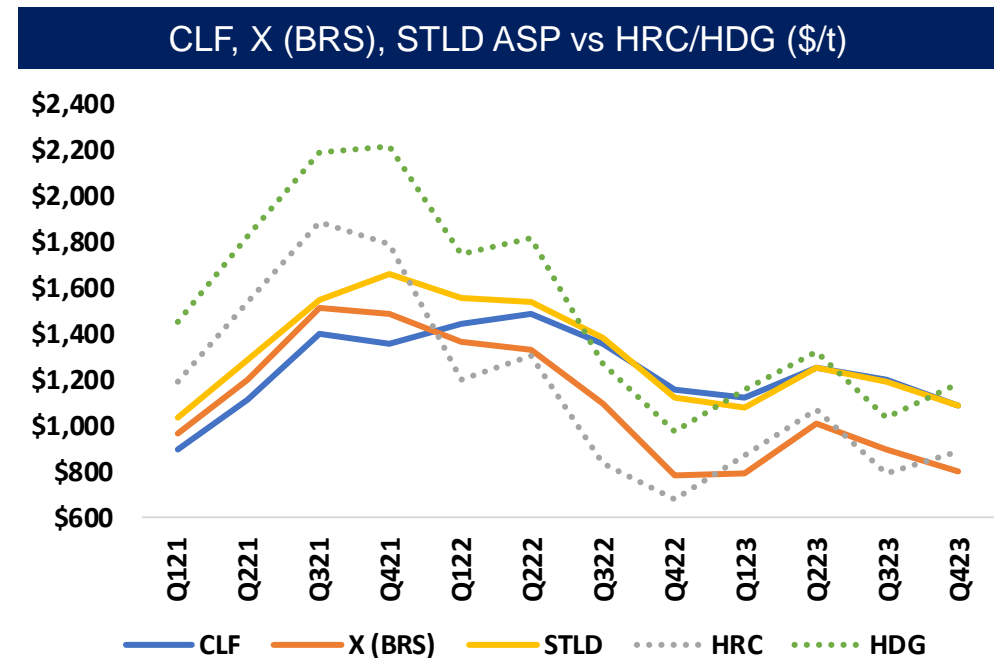
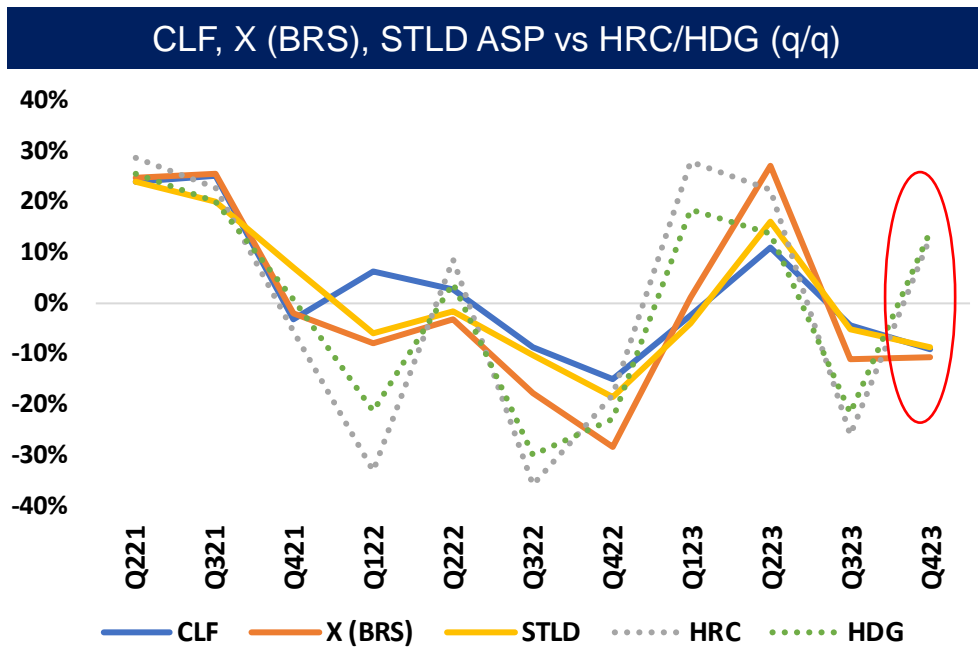
- At the risk of being chicken little or the girl who cried wolf, we stick to our oversupply caution.
- Ramp-up delays at Sinton, Gallatin, and Northstar kept 2023 steel output similar to 2022.
- Nucor may be content to run mills at 50%, but we think SDI is not.
- U.S. Steel shut Granite City, but is no longer pledging to idle capacity to make way for BRS2.
- Cliffs has guided to 2024>2023 volumes, and has reiterated commitment to operating BFs.
- Who shuts to make room for new BRS2, Algoma, and Nucor WV capacity?

New North America sheet steel capacity (2023-2026E)

Target ramp-up completion	Company	Capacity (Mst/yr)
2023	Steel Dynamics Inc. (Sinton)	3.00
2023	North Star BlueScope	0.85
2023	Nucor (Brandenburg)	1.20
2023	Nucor (Gallatin)	1.50
2024E	U.S. Steel (BRS)	3.00
2024E	AM/NS (Calvert)	1.50
2025E	Algoma	3.70
2026E	Nucor (Apple Grove)	3.00
2026E	Ternium	2.60
Total new capacity:		20.35
2024E	AM/NS Calvert	1.50
2025E	Algoma	2.80
2026E	Ternium	2.60
Net new capacity:		13.45

Posted prices vs transacted price – Where’s the beef?

There is a growing disconnect between reported index prices and averaged realized value.



Source: Wolfe Research, CRU, company documents

	2017	2018	2019	2020	2021	2022	2023	Q124E	Q224E	Q324E	Q424E	2024E	2025E
Carbon steel													
HRC (\$/st)	\$623	\$835	\$601	\$587	\$1,605	\$1,007	\$907	\$930	\$775	\$750	\$750	\$801	\$800
CRC (\$/st)	\$815	\$952	\$755	\$755	\$1,839	\$1,414	\$1,119	\$1,155	\$975	\$925	\$905	\$990	\$960
HDG (\$/st)	\$889	\$1,033	\$839	\$830	\$1,923	\$1,456	\$1,176	\$1,220	\$1,030	\$975	\$955	\$1,045	\$1,010
Plate (\$/st)	\$684	\$941	\$811	\$638	\$1,478	\$1,803	\$1,554	\$1,530	\$1,275	\$1,150	\$1,150	\$1,276	\$1,100
Rebar (\$/st)	\$549	\$687	\$669	\$615	\$911	\$1,046	\$904	\$875	\$900	\$900	\$885	\$890	\$875
Scrap													
Scrap (HMS 1/2) (\$/lt)	\$278	\$329	\$258	\$250	\$426	\$368	\$358	\$375	\$350	\$350	\$365	\$360	\$350
Scrap (Shredded) (\$/lt)	\$302	\$355	\$285	\$276	\$473	\$468	\$435	\$460	\$450	\$460	\$480	\$463	\$460
Scrap (Busheling) (\$/lt)	\$365	\$398	\$320	\$312	\$582	\$529	\$472	\$490	\$480	\$495	\$520	\$496	\$495

- Global political tension keeping transportation costs/risks high can dissuade imports.
- Nippon bid for X can keep more volume in the U.S. market to appease unions.
- We don't think overpaying for steel mills is contagious, but more M&A elsewhere is likely.
- Politics in play – IRA partial repeal, closed borders impact on labor, more tariffs?
- More domestic supply, how does the market respond this time?

Thanks for your attention and questions!

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

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