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Industry: **BASIC MATERIALS**
 Sub-Sector: **METALS AND MINING**

Steel: The Rust and Rolled Report

A Monthly Update on Prices, Demand Trends and News

Key Takeaways

- Longbow's Call:** Preliminary conversations with our steel industry contacts is showing lingering market weakness and limited visibility through early-May. The negative spot market pricing momentum has extended into 2Q19, with quotes on HRC down to \$650-655/ton (versus \$680-685 last month). It seems increasingly unlikely that the domestic mills can hit full-year expectations or recently-issued guidance. Notably, distributors have started to adjust planning and/or inventory management for a relatively weak 2H19. This includes an expected year-end HRC price point of \$635-640/ton (down 4-5% versus the 2Q19 average).
- Recent Survey Highlights:** (1) Service center shipments were reported down 5-6% y/y for all tracked products (on average), including a down 8-10% carbon plate backdrop. It is still difficult for us to pinpoint the catalyst(s) behind the disappointing volume trends. However, contacts mentioned global trade uncertainties, excess supplies, slowing consumer-related demand, construction-related shortfalls, and difficult comps as key factors. A net-24% of companies are running below plan through mid-2Q. (2) A net-16% of distributors plan to liquidate inventories over the next 2-3 months, which is essentially unchanged since our full 1Q19 update. (3) On the positive side, import pressures have started to abate. Roughly 25% of contacts are sourcing less foreign material as the offshore bids are no longer competitive.
- Scrap Market Update:** We also spoke with a few carbon scrap contacts for an update on pricing/volume dynamics. The current outlook for the scrap price in May is down \$25-30/ton, following the negative update in April. The blended ferrous price is down to \$270-275/ton, off 7% sequentially and 18% y/y. Raw material contacts told us the mills are holding excess inventories and pushing back on all attempts to raise prices. Maintenance downtime is also a factor. Scrap prices are now expected to move flat to up slightly over the summer months. Commercial Metals (CMC) was highlighted as a positive sourcing outlier for some contacts.
- Lead Time Contraction:** The reported producer lead times on HRC and CRC dropped to 4.3 and 6.0 weeks, respectively, down from 4.7 and 6.5. The pullback in carbon plate mill lead times has been more severe, down to 4.6 weeks versus the 5-6 week range in March/April.

Investment Thesis

- There is a growing disconnect between the relatively upbeat outlooks offered by the carbon steel producers in our coverage group (during the 1Q19 updates) and the data points collected from new channel checks (and sentiment).

Model Implications

- We now assume an average HRC price of \$665/ton in our industry and company models. This is down \$15-20/ton since our last update.

IMPORTANT DISCLOSURES ARE LOCATED IN THE APPENDIX.