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Industry: **MARKET INTELLIGENCE**Sub-Sector: **MI - STEEL**

## Steel: The Rust and Rolled Report

### A Monthly Update on Pricing, Demand & Other Events

- Longbow's Call:** Unexpected August steel survey weakness and an increasingly conservative carbon scrap outlook are tipping points behind new carbon steel pricing forecasts for 2H19/2020. We now expect domestic flat rolled sheet price momentum to reverse, ending a two-month period of strength. We lowered our carbon sheet plate and long product forecasts by \$10-15/ton for 4Q and \$25-30/ton for 2020, implying sub-\$600/ton HRC for the next 4-6 quarters.
- Latest Channel Insights:** (1) Unit volume growth, sentiment, and customer visibility turned negative in mid-August. While the 3Q carbon steel comp is only down 1-2% y/y, the August data points are much weaker and estimated to be down MSD. (2) Automotive weakness seems to be the biggest negative driver. August volumes were said to be below plan, with some contact comps trending in the down 3-5% range. (3) We are already seeing some price slippage and resistance to the \$590-600 listing on HRC. Bearish distributors now expect a reversal to \$550/ton over the next 1-2 months. (4) Current data points imply a slowing domestic steel consumption growth environment in 2H. (5) Mills are getting aggressive, with reports of MW-produced coil being offered to West Coast buyers at competitive levels despite the high transport costs. This is a reaction to negative demand trends and oversupply.
- Scrap Preview:** The carbon scrap price outlook turned somewhat cautious. Dealers are now projecting a flat-to-slightly-down price adjustment on September deliveries, revised from a +\$10-12/ton outlook offered last month. Export demand weakness is the main driver behind the updated channel outlook, in addition to other macro uncertainties. The blended scrap price average for August is \$245-250/ton.
- Visibility:** Domestic steel producer lead times are essentially unchanged for HRC, CRC, and carbon plate. HDG mill lead times ticked up to 7.3 weeks, versus the 5.5-6.0 average reported throughout the summer months. We would be inclined to bet the under on recent plate price increasing given current lead times and the weakening energy/ag/machinery demand backdrop.
- Five Things We Are Looking At:** (1) We are interested to hear from the Reliance Steel management team at next week's investor event in NYC. Will their macro optimism hold? (2) In mid-September, investors are likely to get an early look at the expected impact from the pending commercial truck down-cycle. Navistar is holding an analyst event in Chicago and management may provide preliminary thoughts on class-8 production in 2020. (3) Oil & gas suppliers are reacting to slower upstream demand trends and building inventory as the rig count ticks even lower. (4) Global steel prices are down \$20-25/ton versus last month and we point to the massive overproduction in China as the problem. (5) Lower domestic light vehicle production could remove 500-600K tons of carbon sheet consumption over the next 12-18 months.

**IMPORTANT DISCLOSURES ARE LOCATED IN THE APPENDIX.**