Industry Update

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Industry: **MARKET INTELLIGENCE**
Sub-Sector: **MI - RUST AND ROLLED**

Steel: The Rust and Rolled Report

A Monthly Update on Pricing, Demand & Other Events

- **Longbow's Call:** We increased our carbon steel price forecasts to better align with the positive data points and contact expectations collected over the past week. Improved carbon sheet demand trends, combined with a net-reduction in US supply, is finally supporting the last two mill increase announcements. We now assume spot HRC prices will retest the $600-610/ton level over the next few months, with upside capped until macro drivers turn much more favorable. We raised estimates on the mini-mills to reflect this near-term pricing strength.

- **New Steel Market Insights**: (1) Distributors reported negative shipment growth versus last year, albeit versus difficult comparisons from 2H18. The average comp collected for July was down 0-1% y/y versus down 2-3% in June. Merchant bar is the strongest category today at +1-2% y/y while carbon plate shipments were characterized as disappointing, with growth reported at down 2%. (2) Contacts are planning for a year-end HRC price point of $625/ton (on average) which is essentially unchanged since our last update. (3) A net-39% of steel buyers reported fewer attractively priced steel imports while nearly 50% of contacts said they are sourcing less material from the foreign mills. (4) At this point, the strongest end-markets are chemical processing, commercial construction and public infrastructure. Conversely, order weakness reported for customers levered to oil exploration, ag machinery and auto.

- **Raw Material Insights:** Scrap industry contacts are slowly turning more optimistic on the ferrous pricing potential (looking out two months). The consensus opinion for August is +$10-15/ton, with some dealers talking about +$30/ton on certain grades. The preliminary view on September is +$10/ton. Interestingly, the overall demand commentary has not changed, holding toward the low-end of expectations. Scrap yards report steady orders from integrated steel producers and the mini-mills. Most of the positive sentiment was attributed to a modest improvement in export demand, inventory rebuilding and constrained supply. A shutdown of DRI production has been the catalyst behind relative channel balance. A +$20-25/ton change versus the July blended average of $255 would represent an 8-9% adjustment.

- **Lead Times:** The average for HRC has moved up to 5.2 weeks, up from 4.5 in late June. Plate mill lead times remain surprisingly low at 2.7 weeks (pg. 13), underscoring the uncertainties around excess inventories and the order weakness around key end-markets like heavy machinery, ag machinery, mining and heavy truck.

- **Industry Model:** The downside risk versus our medium-tern steel demand assumptions revolve around two issues: (1) the pullback in oil prices; and (2) the on-going US/China trade dispute - a situation that seems to be getting worse today. A negative scenario applied to each catalyst resulted in a loss of 1M tons of carbon sheet volume in our model. This would lower the 2020 consumption growth outlook from 0.9% to -0.1%.

IMPORTANT DISCLOSURES ARE LOCATED IN THE APPENDIX.

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