Industry Update

LONGBOW Research
Tactical advantage through independent research

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Industry: **MARKET INTELLIGENCE**
Sub-Sector: **MI -- TI MONTHLY**

The Monthly Titanium Review

A Premium LBR Market Intelligence Report

- **Longbow's Call:** There was no "smoking gun" uncovered during recent checks on the titanium market to suggest imminent channel weakness or downside risk versus current expectations. However, the medium-term indicators turned less bullish. Some of the red flags we are tracking include: a 2-3 week contraction in producer lead times, the negative inventory outlook conveyed by an increasing number of distribution contacts, and the reversal in spot market prices.

- **Demand Update:** Titanium shipments look stronger-than-expected to kick off 3Q19, driven by robust activity at the distribution level. We estimate current channel growth at +9-10% y/y, up from the +8-9% comp in 2Q. Interestingly, the demand reads are starting to decouple, with the initial group of distributors reporting +18-19%, while volume growth slowed to +2-3% y/y for the global mills and upstream suppliers. The strongest four end-markets were jet engine, offshore drilling, military/commercial aftermarket and the Airbus supply chain.

- **Mill Prices:** We highlight four consecutive months of negative momentum for the proprietary LBR Titanium Price Index. The August reading of 107 is down modestly from the peak reading of 109 in May. A small sequential downtick in upstream pricing has been the main factor, including a new 6'4 Ti ingot reading of $10.60-10.70/lb., down 2% versus July. On the raw material side, vanadium pentoxide has finally recovered from the June lows (now at $9.60) while Japanese sponge import prices are flat-to-down (see page 5 for details).

- **Other Survey Data Points:** (1) Titanium mill lead times have been falling since March/April. Ingot lead times were reported at 14-15 weeks, down from the early 2Q peak of 18-19 weeks. Ti bar and sheet lead times also fell. (2) The inventory outlook is still negative. On average, distribution managers are looking to cut warehouse holding levels by 3-4% over the next 2-3 months (see page 7).

- **Notable Change:** (1) Imports of titanium ingot from Russia were reported down 50-55% y/y in late 2Q19. This may be an indirect negative aerospace demand read. For review, VSMPO is a main Boeing supplier, representing nearly 30-35% of annual consumption (see page 14).

- **Aerospace:** (1) Boeing told key suppliers to reduce 737-related production and align with the master schedule of 42 units/month. The OEM also released its new 18-month production schedule which indicates a plan to return to rate-52 by March followed by an immediate ramp to 57/month by July/Aug. (2) Spirit Aero CEO Tom Gentile communicated his strategy to hold 737 shipset production at 52/month heading into 2020. This implies a considerable inventory overbuild in 2H19. He also said the next ramp to 57/month may not occur before 2021.

IMPORTANT DISCLOSURES ARE LOCATED IN THE APPENDIX.