Industry Update

LONGBOW Research
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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:** June closes out one of the weakest and most confusing quarters that we can remember. Feedback collected from various channel checks and other macro events represent cautious leading indicators for steel producers and distributors ahead of the 2Q reports starting in late July. While steel industry shipments and spot pricing should stabilize/improve over the next few months, the market floor is lower than originally anticipated.

- **Price increase letters**: Last week, several steel mills announced price increases across carbon sheet product lines, seeking a +$40/ton adjustment or new floor of $560. Nucor led the charge, but other companies like USS-Posco, NLMK, and US Steel quickly released similar customer letters. We have been discussing a potential reversal in carbon steel market momentum at some point in 2H19, but last week's announcement was described by industry contacts as "early" due to the lack of underlying demand support, very short lead times, and negative raw material cost trends. The HRC quote is sitting near $520-525/ton.

- **The steel plate outlier:** Domestic producer lead times are surprisingly low, falling below three weeks for the first time in many years. The sharp reversal in mill visibility could be an indictment against the bullish end-market demand commentary offered by management teams over the past few weeks. It has been difficult to pinpoint the catalysts behind the order weakness beyond aggressive inventory liquidation, but survey-work points to slowing activity around markets like ag, heavy machinery, energy, and heavy truck (pg. 13).

- **Scrap prices looking down.** Raw material checks indicate lingering upstream channel weakness heading into July. Mill orders remain tepid, and there has been no major change in the export dynamic. Unfavorable weather patterns likely factored into procurement decisions as demand for construction products like rebar/beam has been disappointing. The consensus outlook for carbon scrap pricing is down $8-10/ton, marking a second consecutive negative surprise in relation to the positive outlooks offered by dealers and traders at the start of the month. Should scrap prices drop (later this week), it may trigger incremental push-back against the mill price increase attempts.

- **Other interesting data points:** (1) Steel distributors frequently cite overvalued inventory holding costs and the associated margin risk heading into 3Q19. (2) Rebar prices are falling fast as supply growth (foreign and domestic) has surpassed construction-related demand (weather fall-out?). (3) US Steel management announced production curtailments at Gary and Great Lakes, removing 1.3M tons of annualized production in 2H. We have yet to hear anything significant from Arcelor.

- **Updated Price Forecasts:** We lowered our steel mill assumptions to reflect disappointing demand trends, a negative near-term raw material cost outlook, and depressed June price levels. We are now forecasting a 2H19 HRC price average of $560/ton, with upside to $590-600/ton following other production cut announcements (see page 6).

IMPORTANT DISCLOSURES ARE LOCATED IN THE APPENDIX.

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