

the Gauge



January 2021

Type something

Market Report

Signs of Supply?

As we turn the page to 2021, one could argue that for the steel market it feels more like 2008. That was the last time we steel prices eclipsed \$1,000/ton prior to this year.

The benchmark price for hot-rolled steel hit \$1,078/ton on January 7, according to CME Group, more than double the low prices experienced this past summer. In general, this continued spike in price comes down to a matter of supply and demand.

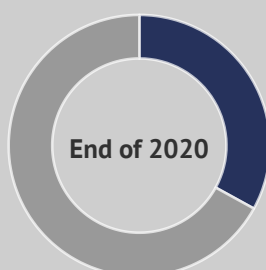
As Peter Brown, Ryerson's Director of Supply Chain, noted in the December Market Report, the expectation is for steel availability to remain very tight through Q1 2021, but it could begin to correct as capacity comes online. Which begs the million-dollar question: When will that capacity come back online?

According to the American Iron and Steel Institute, for the week ending January 2, crude steel production in the United States totaled 1,650,000 net tons, up 3.1% from the previous week, with mills operating at an average capacity utilization rate of 74.6%. This production level is down 10.4% from year-ago levels.

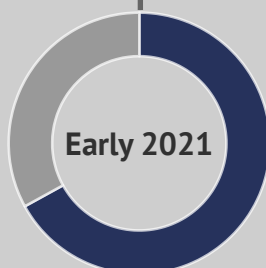
On the Comeback?

Recent announcements indicate more capacity could be coming online.

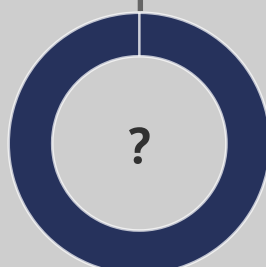
US Steel restarts blast furnace and Cleveland Cliffs acquisition of ArcelorMittal approved.



Big River Steel starts up new electric arc furnace. Talk of new mills starting production this summer.



What will be the next big announcement for capacity coming online?



"I'd say the recovery in capacity utilization data had been somewhat tepid up until this 3.1% jump week-over-week showing in early January," says Nick Webb, Ryerson's Director of Risk Management. "And it gets really interesting when you dig into the numbers to see that high production increases have been coming from the Northeast and the Great Lakes regions of the country, mostly in the form of blast furnace production."

Two points make that noteworthy:

- US Steel restarted a blast furnace that was idled at its Gary Works facility in Indiana earlier than expected due to increased demand, primarily on the automotive front.
- The acquisition of ArcelorMittal USA by Cleveland-Cliffs recently received anti-trust approval. The belief by some was that one of the hinderances to bringing supply back online was Cleveland-Cliffs waiting on the anti-trust ruling. This approval now grants the green light to bring that capacity online.

Also of note is Big River Steel announcing the startup of a new electric arc furnace back in November and the anticipation that new mills will begin production—perhaps as early as the summer.

Could it all be leading towards supply levels returning to normal sooner rather than later?

60.7%

Not only was the December PMI (Purchasing Managers' Index) reading of 60.7% from the ISM (Institute for Supply Management), the highest of 2020, it also beat the 12-month average by 8.2%.

The Production Index, a component of the PMI, hit a 10-year high at 64.8% with five of the top six industries reporting moderate to strong expansion. This is the highest reading for this index since January 2011 (65.3%).

While the report showed that demand, consumption, and input levels registered strong growth compared to November, the possibility exists that labor market difficulties could continue to restrict the manufacturing economy expansion until the COVID-19 crisis is over, according to Timothy R. Fiore, CPSM, C.P.M., Chair of the ISM Manufacturing Business Survey Committee.

Zero

On April 20, the price of WTI Crude crashed below \$0 for the first time ever—closing at -\$37/barrel—before a steady climb to around \$40/barrel in early July. The price of crude oil held steady at that price throughout much of 2020. On January 5, crude oil traded at roughly \$49.51/barrel.

Speaking of zero, for the first time in 35 years, no oil flowed from Saudi Arabia to the United States, according to data from the US Energy Information Assn. Could it be a signal that the U.S. could become less dependent on oil from the Middle East?

	Latest Period	Prior Period	Change	Prior Year	YoY Change
U.S. GDP (%)	8.66	8.61	↑	2.74	↑
Durable Goods Orders (US \$ million)	244,439	242,098	↑	235,237	↑
Crude Oil (US \$/barrel)	52.4	48.5	↑	51.6	↑
U.S. Auto Sales (millions of units)	15.6	16.2	↓	17.1	↓
PMI (Purchasing Managers' Index)	60.7	57.5	↑	47.2	↑

World Watch

A snapshot of global headlines in metal to start the year, via S&P Global Platts.

China's demand for raw materials is on the rise due to expansions in iron and steel-making capacity. As such, the need for more steel-making resources could be on the rise. Historically a large consumer of iron ore (a resource for making steel), China recently lifted a ban to import scrap (another key material) that had been in place since 2018.

At the end of 2020 China had 184 million tons of EAF (electric arc furnace) steelmaking capacity and could have upwards of 197 million tons by end of 2021, up from 175 million mt/year at end 2019.

China sets the global price for seaborne iron ore, and some question whether this move could do the same with the Asian steel scrap market going forward.



In **Brazil**, rising steel prices are forcing the local consumer goods sector to review its production cycles, costs and, inevitably, end-user prices for 2021. Little predictability regarding the volume of steel available by Brazilian steelmakers impacts the ability to plan for goods in the year ahead.

In December, the Brazilian association of automotive vehicle manufacturers voiced concerns of a potential shutdown and lack of cars due to the short supply of inputs, including steel.

With **European** steel mills sold out until the second quarter, this market is set to see higher coil prices early in 2021 with lead times extending as far out as May, according to some sources.

Like the U.S., the supply tightness in the EU is the result of COVID-19-induced production cuts in March, followed by unexpected demand from the automotive market.

Domestic Lead Times

(in weeks)

CARBON

Hot rolled: Inquire
Cold rolled: Inquire
Coated: Inquire
Plate: Inquire

ALUMINUM

Domestic sheet: 10-18
Domestic plate: 8-13
Off-shore sheet/plate: 15-22
Extrusions: 5-20

STAINLESS STEEL

Cold rolled: 9-12
CMP: 7-9
PMP: 8-12
Long: 8-10

Carbon	Latest Period	Prior Period	Change	Prior Year	YoY change
Busheling Scrap	490	472	↑	275	↑
Iron Ore	163.2	152.9	↑	89.3	↑
Capacity Utilization	74.6	72.3	↑	82.3	↓

Sources: Bloomberg, CME, American Iron & Steel Institute

Aluminum	Latest Period	Prior Period	Change	Prior Year	YoY change
LME Aluminum	0.9115	0.8979	↑	0.7811	↑
Midwest Aluminum Premium	0.149	0.1418	↑	0.1403	↑
Midwest Aluminum Ingot	1.0605	1.0396	↑	0.9214	↑

Sources: LME, CME, Calculated

Stainless	Latest Period	Prior Period	Change	Prior Year	YoY change
LME Nickel	7.7501	7.5355	↑	5.8287	↑
304 Surcharge	0.7808	0.708	↑	0.7698	↑
316 Surcharge	1.0398	0.954	↑	1.0581	↓

Sources: LME, NAS



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