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NORFOLK IRON & METAL

MARKET INSIGHT
December 2020

ECONOMIC NEWS

RESILIENT U.S. ECONOMY TO SUPPORT EQUITIES WHILE YIELDS RISE

The U.S. economy is more resilient than many think, giving equities room to rise further while benchmark Treasury yields will likely lift to over 1.25% next year, said Rick Rieder, BlackRock's Chief Investment Officer of Global Fixed Income.

U.S. government stimulus and Federal Reserve monetary policy are helping cushion the economy from the slump during COVID-19 and businesses operating virtually have posted productivity gains, Rieder said at the Reuters Summit. U.S. economic growth rebounded in the third quarter as more than $3 trillion in government COVID-19 relief helped millions of unemployed people cover expenses.

"I try not to be too Pollyanna-ish," said Rieder, who is also Head of BlackRock's Global Allocation Investment Team. "You still have the risks, but when I go through the math and read the economic reports, I'm... confident ... that the economy will be supportive for markets for some time."

While some assets have priced in a strong economy such as agency mortgages and parts of the investment grade market, the U.S. equity market still has some upside, said Rieder. BlackRock manages $2.5 trillion in fixed income assets. Agency mortgage backed securities are guaranteed by Fannie Mae, Freddie Mac or the Government National Mortgage Association, or Ginnie Mae.

He sees potential for gains in parts of tech, consumer, cyclical areas such as industrials, as well as housing and some leisure sectors, with the expectation of a vaccine expected to boost service sectors.

While U.S. equities have been scaling fresh highs, longer-duration bond yields have been rising from record lows, along with inflation expectations, on expectations of extra stimulus.

The Fed's aggressive action to prop up the economy has kept yields historically low, and Rieder said the traditional 60/40 stocks-bonds allocation was over in terms of U.S. Treasury allocations, with investors now thinking about fixed income "completely differently" to pre-pandemic.

"Why would anyone own Treasuries other than as a cash surrogate in the zero-to-five year part of the curve?" Rieder said. "The Fed has made them uninvestible assets."

Owning fixed income outside the United States is an "attractive way to go" with the yield on emerging market debt still attractive, he said.

Rieder does not expect inflation to rise strongly, although he likes Treasury Inflation-Protected Securities (TIPS) to protect against the prospect of a modest rise.

"You hear some crazy stories about how inflation is going to burst higher but it's just not," he said. Rieder thinks benchmark 10-year Treasury yields next year will go over 1.25% but the Fed will push back from yields moving much higher.

With a Fed meeting coming in mid December, Rieder pointed to things the U.S. central bank can do in coming months to keep yields from moving significantly higher such as increasing bond purchases and lengthening the maturity of the Treasuries they buy to increase purchases longer than five years.

While vaccine and stimulus expectations have boosted equities and lifted inflation expectations, they have contributed to a slide in the dollar.

Rieder thinks the dollar will "cheapen from here," but "doomsayers that say it is all over for the dollar have to put some perspective." **Source: Reuters, December 3, 2020**

ECONOMIC NEWS

US HIRING SLOWS SHARPLY TO 245,000 JOBS AS VIRUS INTENSIFIES

America's employers sharply scaled back their hiring last month as the viral pandemic accelerated across the country, adding 245,000 jobs, the fewest since April and the fifth straight monthly slowdown.

At the same time, the unemployment rate fell to a still-high 6.7%, from 6.9% in October as many people stopped looking for work and were no longer counted as unemployed, the Labor Department said. November's job gain was down from 610,000 in October.

Friday's report provided the latest evidence that the job market and economy are faltering in the face of a virus that has been shattering daily records for confirmed infections. Economic activity is likely to slow further with health officials warning against all but essential travel and states and cities limiting gatherings, restricting restaurant dining and reducing the hours and capacity of bars, stores and other businesses.

Most experts say the economy and job market won't be able to fully recover until the virus can be controlled with an effective and widely used vaccine. And the picture could worsen before it improves.

"The recovery is not insulated from the effects of the pandemic," said Daniel Zhao, senior economist at employment website Glassdoor. "This is the calm before the storm. We face a long and difficult winter ahead."

Before the pandemic, last month's job gain would have been considered healthy. But the U.S. economy is still nearly 10 million jobs below its pre-pandemic level, with a rising proportion of the unemployed describing their jobs as gone for good. Faster hiring is needed to ensure that people who were laid off during the pandemic recession can quickly get back to work.

There is also evidence that the pandemic is inflicting long-term damage for millions of workers. People who have been out of work for six months or more — one definition of long-term unemployment — now make up nearly 40% of the jobless, the highest such proportion in nearly seven years. The long-term unemployed typically face a harder time finding work.

And the proportion of Americans who are either working or seeking work fell in November, suggesting that many people soured on their prospects for finding a job and stopped looking. That proportion declined to 61.5%, a level that before the pandemic haven't been seen since the 1970s.

The impacts of the slowdown aren't falling evenly on all Americans. Low-wage industries, like restaurants and bars and retail stores, actually cut jobs last month. And many mothers have been forced to stop working to take care of children that in school online.

The unemployment rates for Black and Latino workers fell much more last month than for whites. Still, the Black unemployment rate was 10.3% and for Latinos 8.4%, compared with 5.9% for whites.

Friday's jobs report also reflects how the coronavirus has transformed the holiday shopping season. Transportation and warehousing firms added 145,000 jobs in November, more than half the total job gain for the month. That trend reflected rapid hiring by shipping and logistics firms that are benefiting from the surge in online purchases by consumers shopping at home. Retailers, by contrast, shed 35,000 jobs — a reflection of fewer consumers shopping in physical stores.

The impact of the pandemic was particularly visible on a category that includes restaurants, bars and hotels. This group added just 31,000 jobs in November. That's only about one-tenth of the gains of the previous two months and suggests that the virus spread, new business restrictions and colder weather are forcing many businesses to closer their doors or limit hours.

Two enhanced federal unemployment benefits programs are set to expire at the end of December — just as viral cases are surging and colder weather is shutting down outdoor dining and many public events. Unless Congress enacts another rescue aid package, more than 9 million unemployed people will be left without any jobless aid, state or federal, beginning after Christmas.

Friday's report coincides with renewed efforts in Congress to reach a deal on a new rescue aid package. A bipartisan group of senators has proposed a $900 billion plan that would include expanded unemployment benefits, more small business loans and aid to state and local governments. But there are no signs of any imminent agreement.

The gravest threat to the economy remains the raging virus, and most experts say any economic recovery depends on how fast an effective vaccine can be widely distributed and used. U.S. deaths from the coronavirus topped 2,800 Wednesday, a new high, with more than 100,000 Americans hospitalized with the disease, also a record, and new daily cases topping 200,000. In response, at least 12 states have imposed new restrictions on businesses in the past month, according to an Associated Press tally.

For now, there are signs that the economic recovery is stumbling. Consumer spending grew in October at the slowest pace in six months. Seated diners at restaurants are declining again, according to data from the reservations website OpenTable. And a Fed report on business conditions found that growth cooled last month in several Midwest regions and in the Fed's Philadelphia district.

Still, the full impact of the worsening pandemic may not be evident in Friday's jobs report, which measures hiring trends in the middle of the month. Some state restrictions weren't imposed until later in November. As a result, some economists say the worst consequences of the pandemic won't appear until the December jobs report is issued in early January. **Source: Associated Press, December 4, 2020**

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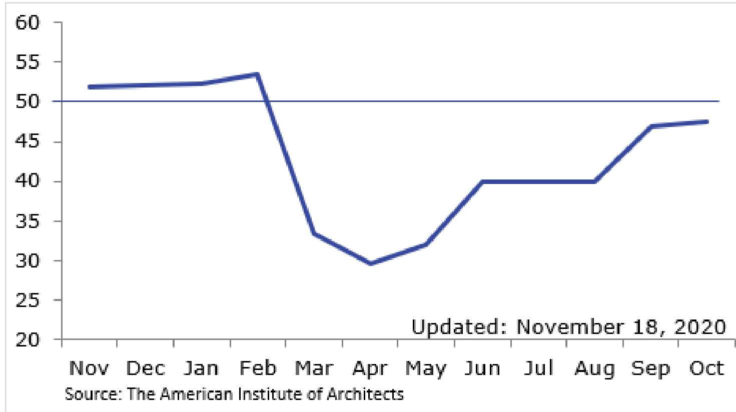
KEY ECONOMIC INDICATORS

ARCHITECTURE BILLINGS INDEX (ABI)

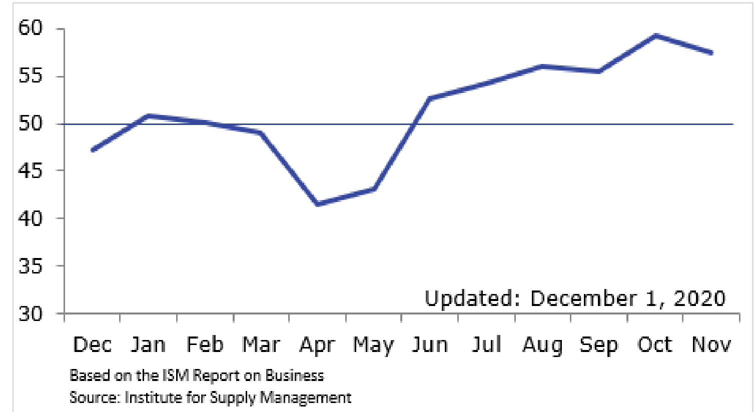


The ABI score rose slightly from September to a score of 47.5 in October, indicating that the share of firms seeing their billings decline shrank further. In addition, indicators of future work strengthened, with inquiries into new projects climbing to their highest level in nearly a year, and the value of new design contracts growing for the first time since February. This means that not only are clients talking to firms about potential projects; they're signing on the dotted line to start those projects. Both of these indicators are encouraging signs that business is slowly, but steadily, returning at many firms.

Despite encouraging numbers overall, firms in many areas of the country are still seeing relatively weak business conditions. However, billings returned to the positive side at firms located in the West for the first time in nine months in October, and conditions approached growth at firms located in the Midwest. By firm specialization, business conditions continued to strengthen at firms with a multifamily residential specialization, reaching their highest level in more than two years. In addition, the pace of the decline in billings has slowed substantially at firms with a commercial/industrial specialization; now firms with an institutional specialization are experiencing the softest conditions.

The **ARCHITECTURE BILLINGS INDEX (ABI)** is an economic indicator for nonresidential construction activity. An index score above 50 indicates an increase in firm billings, and a score below 50 indicates a decline in firm billings. *Source:* ***American Institute for AIA, 11/18/2020***

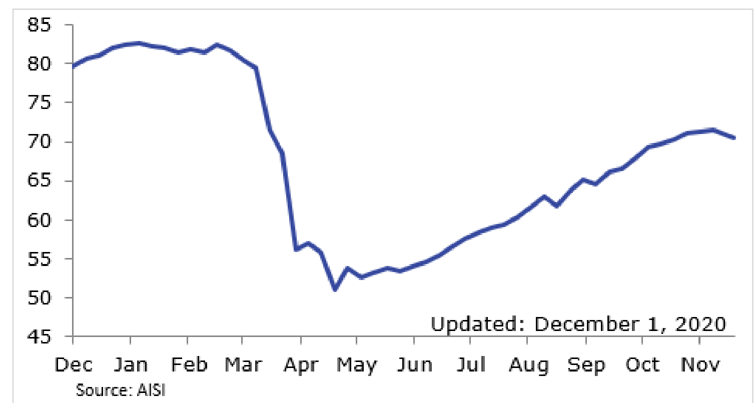
PURCHASING MANAGERS INDEX®



The November Manufacturing PMI® registered 57.5 percent, down 1.8 percentage points from the October reading of 59.3 percent. This figure indicates expansion in the overall economy for the seventh month in a row after a contraction in April, which ended a period of 131 consecutive months of growth. The New Orders Index registered 65.1 percent, down 2.8 percentage points from the October reading of 67.9 percent. The Production Index registered 60.8 percent, a decrease of 2.2 percentage points compared to the October reading of 63 percent. The Backlog of Orders Index registered 56.9 percent, 1.2 percentage points higher compared to the October reading of 55.7 percent. The Employment Index returned to contraction territory at 48.4 percent, 4.8 percentage points down from the October reading of 53.2 percent. The Supplier Deliveries Index registered 61.7 percent, up 1.2 percentage points from the October figure of 60.5 percent. The Inventories Index registered 51.2 percent, 0.7 percentage point lower than the October reading of 51.9 percent. The Prices Index registered 65.4 percent, down 0.1 percentage point compared to the October reading of 65.5 percent. The New Export Orders Index registered 57.8 percent, an increase of 2.1 percentage points compared to the October reading of 55.7 percent.

THE PURCHASING MANAGERS INDEX® is based on a monthly survey sent to senior executives at more than 400 companies. A PMI above 50 represents an expansion when compared to the previous month. The further from 50, the greater the change. ***Source: Institute for Supply Management, 12/1/2020***

RAW STEEL PRODUCTION



In the week ending on November 28, 2020, domestic raw steel production was 1,561,000 net tons while the capability utilization rate was 70.6 percent. Production was 1,823,000 net tons in the week ending November 28, 2019 while the capability utilization then was 78.8 percent. The current week production represents a 14.4 percent decrease from the same period in the previous year. Production for the week ending November 28, 2020 is down 1.3 percent from the previous week ending November 21, 2020 when production was 1,582,000 net tons and the rate of capability utilization was 71.5 percent.

Adjusted year-to-date production through November 28, 2020 was 72,186,000 net tons, at a capability utilization rate of 67.2 percent. That is down 18.4 percent from the 88,446,000 net tons during the same period last year, when the capability utilization rate was 80.0 percent.

RAW STEEL PRODUCTION is a domestic report based on estimates from companies representing approximately 90% of the Industry's Raw Steel Capability as compiled by the American Iron and Steel Institute. ***Source: AISI, 12/1/2020***

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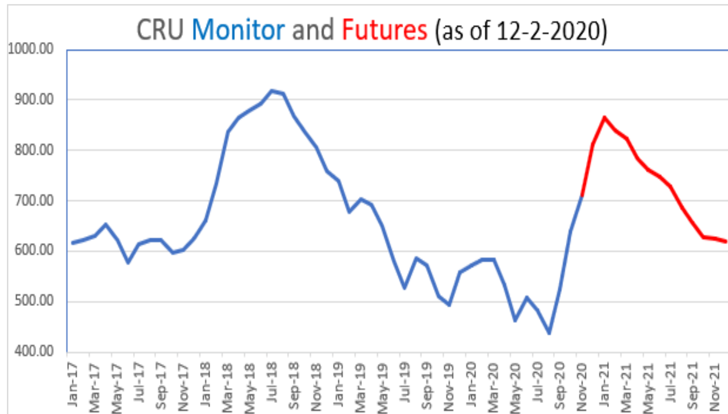
KEY ECONOMIC INDICATORS

Futures



The first week of October the CRU was at $488, and just 12 weeks later it hit $761, a meteoric increase of over 50%. Let's look back at market fundamentals and try to determine what happened.

Supply Side

Capacity utilization was 82% in January 2020 but plummeted to 51% by May. It scratched its way back to the low 70's by November, but there is still a significant amount of idled capacity, especially in the integrated mills. An ongoing strike at NLMK's Pennsylvania mill, and other smaller mills, such as JSW are idled or only running portions of their plants. U S Steel is in the process of restarting Gary No. 4, and it is anticipated that Cleveland Cliffs, once the acquisition of Arcelor is completed will restart Cleveland 6, but that may not add capacity since their other BF, Cleveland 5 is in dire need of repairs and may be shut down to do that. Big River started their new EAF up, and it is slowly ramping up to capacity. Many operating mills are currently running at below optimum operating levels due to COVID-19 outbreaks.

Demand

It seems that all the pent up Covid Demand hit the market in a vengeance in the last 60 days, Auto, Construction and Fabricated metals far outpaced their forecasts, with automotive leading by outrunning the forecast by over 20%.

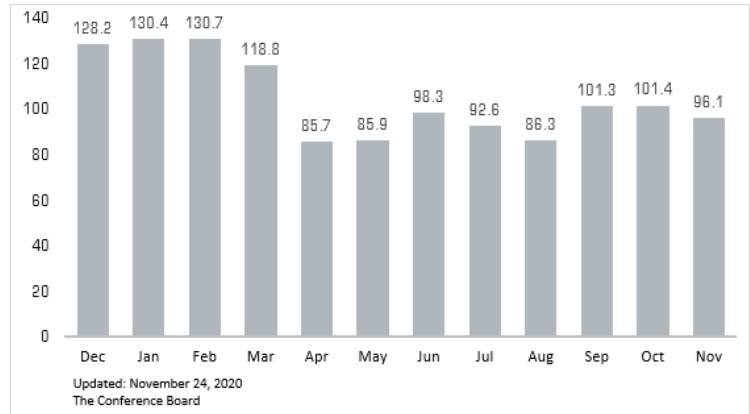
Inventories

Once Covid hit in Q1, OEM's and Service centers began shedding inventory. By May, Service Center shipments were down almost 40% and Service Center mill orders dropped appreciatively as they tried to right size their inventories. In June through September, shipments increased each month but Service Centers continued to shed inventory. By October, demand was back to pre-Covid levels, but Service Center inventories were down close to 25%.

Result

As OEM's and Service Centers fought to fulfill the unexpected demand, Mill lead times shot out and prices shot up. At present, there is no December availability for spot tons, and by the time you read this there will be no January availability for spot tons either. Indeed, the un-forecast strong demand, coupled with low supply chain inventories, and coupled with Covid hampering the mills ability to respond, has resulted in an overheated market that will last well into Q1, and perhaps Q2 of 2021.

Consumer Confidence



The Conference Board Consumer Confidence Index® declined in November, after remaining relatively flat in October. The Index now stands at 96.1 (1985=100), down from 101.4 (an upward revision) in October. The Present Situation Index – based on consumers' assessment of current business and labor market conditions – decreased slightly from 106.2 to 105.9. The Expectations Index – based on consumers' short-term outlook for income, business, and labor market conditions – declined from 98.2 in October to 89.5 this month.

The monthly **Consumer Confidence Survey®**, based on a probability-design random sample, is conducted for The Conference Board by Nielsen, a leading global provider of information and analytics around what consumers buy and watch. ***Source: The Conference Board, 11/24/2020***

INDUSTRY NEWS

U.S. Steel Explosive November Rally Shocked Metal-Bashing Bears

U.S. Steel Corp.'s 47% breakout in November, driven by supply shortages, caught plenty of bears by surprise and signaled a potential shift in investor sentiment for the beaten-down metals sector.

Steel took a hit earlier in the year along with most other commodities on concern that record-setting demand destruction was occurring due to the pandemic and that there'd be a supply glut.

Instead, fortunes have suddenly reversed with progress on the vaccine front, limited supplies pushing up prices, a possible infrastructure stimulus package next year from the Biden administration and the broader rally in the stock market, especially in low-priced value stocks.

Hot-rolled-coil steel futures hit a yearly low of $447 per ton on Aug. 20. The benchmark steel price has since risen more than 80%, boosting equities such as U.S. Steel and Cleveland-Cliffs Inc.

"The surge in hot-rolled coil has been functional around strong recovery in automotive and restocking across the supply chain," Curt Woodworth, an analyst at Credit Suisse, said in an email. "Blast furnace production remains below the previous peak as many blast furnaces are still down."

U.S. Steel said on Dec. 1 that it will restart blast furnace No. 4 in Gary, Indiana, more than eight months after the company idled it as the pandemic spread.

The fundamentals of the sector are so positive that one long-term bear on the sector, Gordon Johnson of GJL Research, upgraded U.S. Steel and Cleveland Cliffs on Nov. 24, saying "the steel market hasn't been this tight since the beginning of 2016/2008." He pointed out that the recent rise in steel prices is "actually less of a bubble" than it was in prior years.

The spike in prices will lead to an inventory restocking and customers buying more steel in 2021, according to Johnson. "We feel these stocks have a lot of room to run," he said.

To be sure, more domestic supply is set to come back online during the first half of 2021, which could take some wind out of the rally's sails, Philip Gibbs, an analyst at KeyBanc Capital Markets, said in a phone interview.

"It's not going to last much past late-first quarter, but it certainly is something that no one was anticipating a few months ago, and it's something that helps drive cash flow for the integrated mills allowing them to reduce leverage on the balance sheet," he said. ***Source: Bloomberg, December 2, 2020***

US HRC: Prices rise as scarcity continues

US hot-rolled coil (HRC) prices continued their march upwards.

The Argus weekly domestic US HRC index rose by $20/short ton (st) to $755/st ex-works Midwest this week, while lead times extended slightly to 8-9 weeks from 7-8 weeks. The spot price is the highest since March 2019.

Lead times grew as HRC availability in January declined, with many buyers pessimistic about their ability to secure tons in the beginning of the new year due to a lack of supply.

Electric arc furnace (EAF) steelmaker Nucor was heard to have leaked pricing of $840/st onto the market for January, although one person said it did not appear there would be tons available to be sold in January from the steelmaker.

Integrated steelmaker ArcelorMittal was said to be suffering production issues at its Burns Harbor mill in Indiana because of a Covid-19 outbreak at the facility, while the local union at its Cleveland mill also confirmed it was dealing with an outbreak. The company did not comment on whether steel production was being reduced from the outbreaks.

The spread between #1 busheling scrap delivered US Midwest mills and HRC selling prices was $491.61/st, 4.2pc higher than the spread of $471.61/st from the week before and 48pc higher than the $331.71/st recorded a year ago.

The domestic US cold-rolled coil (CRC) assessment rose by $3.75/st to $910/st ex-works, and the hot-dipped galvanized (HDG) coil assessment increased by $5/st to $915/st. Lead times for CRC and HDG were flat at 12 weeks.

HRC imports into Houston increased by $20/st to $740/st as global prices continue to rise.

The CME HRC futures market posted massive gains in the last week, with January futures jumping up by $62/st to $820/st and February prices rocketing up by $81/st to $805/st. March prices increased by $97/st to $800/st, while April prices jumped by $76/st to $757/st. May futures prices rose by $63/st to $740/st, while June prices were at $735/st.

Plate

The Argus weekly domestic US plate assessment rose by $11/st to $706.75/st on the week as lead times increased to 8 weeks. ***Source: Argus Media, November 24, 2020***

Aluminum prices rise despite increasing global primary aluminum output

Aluminum prices have continued to rise — this in spite of increasing global aluminum production.

Global aluminum production rises 3.5%

According to the latest data from the International Aluminum Institute, global aluminum production rose 3.5% in October from the previous month.

October output reached 5.59 million metric tons, up from 5.40 million metric tons in September.

Global aluminum production rose 4.5% year over year from 5.35 million metric tons in October 2019.

China output chugs along

Meanwhile, aluminum production in China totaled an estimated 3.23 million metric tons in October, up from 3.13 million metric tons the previous month.

Furthermore, China's production reached 2.98 million metric

tons in October 2019.

Despite gains in output, the aluminum price has continued to rise. Since the LME three-month price's April trough, aluminum is up 37%.

As MetalMiner's Stuart Burns explained last week, China's metals demand has supported prices this year, even as other economies are not quite as far along in their respective economic recoveries.

"Much of that rise has ridden on the back of a resurgent Chinese economic recovery driving such strong domestic demand that the country has switched to becoming a net importer on key metals this year," Burns wrote of the economic recovery's impact on metals prices.

"Ongoing policy stimulus in China has made its way into industrial and construction investment. That should continue to boost investment and industrial output in the coming months.

"Retail sales, while slow to recover in the early summer, are now back to pre-pandemic levels. Auto sales have benefited from pent-up demand earlier in the year supporting the retail sales numbers."

Here and there

Meanwhile, North American output reached 334,000 metric tons, up from 317,000 metric tons the previous month. North American output in October 2019 totaled 316,000 metric tons.

In relevant U.S. aluminum news, a Senate committee recently allocated funding for a new Aluminum Important Monitoring system.

The system would be aluminum's equivalent of the extant Steel Import Monitoring and Analysis system.

In addition, GCC production totaled 490,000 metric tons, up from 469,000 metric tons the previous month.

East and Central European output totaled 351,000 metric tons in October, up from 338,000 metric tons the previous month.

Asian production ex-China totaled 350,000 metric tons, up from 341,000 metric tons in September. ***Source: MetalMiner, November 24, 2020***

Oil price buoyed by coronavirus vaccine reports

It would seem the stock markets are not the only beneficiaries of good news on the results and roll-out of vaccines protecting against the coronavirus. The oil price has been a significant beneficiary too, briefly touching the highest level since March this week, before easing slightly.

According to the FT, Brent crude gained 3.8% to $47.80 a barrel, having earlier briefly topped $48, as traders bet that travel and other energy-intensive industries would pick up in 2021. Tamas Varga, an analyst at Brokerage PVM is quoted saying the rally this month that had been driven by FOMO — or "fear of missing out" — has now become a "fundamentally justifiable price rise." Oil had already risen 25% this month as the vaccine news became progressively more positive.

Oil prices have been further supported by expectations that OPEC and its allies, including Russia, will extend the duration of their production cuts when they meet next week, to offset weak demand over the winter months.

When OPEC+ slashed production by 2 million barrels a day back in April, it was intended as a temporary measure, and the expectation was output would rise again from January.

But the FT reports it is increasingly expected that OPEC will decide to delay the return of output as inventory levels remain elevated, according to Goldman Sachs.

This week's meeting has been postponed, rumored to be because some OPEC members such as Abu Dhabi are irritated by poor compliance by other members and because Russia, in particular, would like to relax the cutbacks slightly, on a month-by-month basis. Saudi Arabia has therefore called a postponement to the conference call while it seeks agreement away from the glare of the media. Some form of agreement is likely because it is in the interests of none of the members for output to rise and prices to crash again.

As context, Brent crude prices fell below $20 a barrel for the first time in almost two decades in April, and they have averaged just $42 a barrel this year. So they are finishing on a high, but compare this to an average of $64 a barrel in 2019 and $71 a barrel in 2018 — and even current November prices remain depressed, suggesting current price levels remain fragile and an OPEC+ agreement is key to maintaining stability.

Indeed OIlPrice.com reports that shale oil producers are still struggling, and prices for WTI will need to get above $45 for completion of drilled-but-uncompleted (DUC) wells and need to see $55 to drill new wells and complete them, quoting Lynn Helms, director of North Dakota's Department of Mineral Resources.

Still, with short delivery Brent contracts, those for January delivery, moving back to parity with longer-dated late 2021 contracts, the market is signaling expectation for an earlier pickup in demand than had previously been the case and with it more potential on the upside for oil, than the downside, in 2021. ***Source: MetalMiner, December 3, 2020***