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NORFOLK IRON & METAL

MARKET INSIGHT

February 2021

ECONOMIC NEWS

US ECONOMY SHRANK 3.5% IN 2020 AFTER GROWING 4% LAST QUARTER

Stuck in the grip of a viral pandemic, the U.S. economy grew at a 4% annual rate in the final three months of 2020 and shrank last year by the largest amount in 74 years.

For 2020 as a whole, a year when the coronavirus inflicted the worst economic freeze since the end of World War II, the economy contracted 3.5% and clouded the outlook for the coming year. The economic damage followed the eruption of the pandemic 10 months ago and the deep recession it triggered, with tens of millions of Americans left jobless.

Thursday's report from the government estimated that the nation's gross domestic product — its total output of goods and services — slowed sharply in the October-December quarter from a record 33.4% surge in the July-September quarter. That gain had followed a record-shattering 31.4% annual plunge in the April-June quarter, when the economy sank into a free-fall.

The outlook for 2021 remains hazy. Economists warn that a sustained recovery won't likely take hold until vaccines are distributed and administered nationwide and government-enacted rescue aid spreads through the economy — a process likely to take months. In the meantime, millions of Americans continue to struggle.

On Thursday, for example, the government reported that while applications for unemployment benefits declined last week, they remained at a historically high 847,000, evidence that companies keep cutting jobs as the pandemic continues to rage. Before the virus erupted in the United States in March, weekly applications for jobless aid had never topped 700,000, even during the Great Recession.

Even as the economy shrank last year, the stock market managed to rise sharply, with the S&P 500 index gaining 16%. The disparity between the two reflected a time-tested adage: The stock market is a forward-looking indicator, with investors focused on prospects for future corporate profits and economic health rather than on the current state of the economy. So even as the economy was sinking last year, investors looked ahead to hopes for vaccines and government aid and to solid company profits, especially among tech companies, which drove last year's gains.

The pandemic's blow to the economy early last spring ended the longest U.S. economic expansion on record — nearly 11 years. The damage from the virus caused GDP to contract at a 5% annual rate in last year's January-March quarter. Since then, thousands of businesses have closed, nearly 10 million people remain out of work and more than 400,000 Americans have died from the virus.

The government's report Thursday was its first of three estimates of growth last quarter; the figure will be revised twice in the coming weeks. The report showed that consumer spending, which accounts for about 70% of the economy, slowed sharply last quarter to a 2.5% annual gain from a 41% surge in the July-September quarter.

Last quarter's economy was instead driven in part by business investment and housing, which has been a star performer during the past year, reflecting record-low mortgage rates and a demand for more household space. Housing grew at a sizzling 33.5% annual rate, business investment at a 13.8% rate. Government spending, though, shrank at a 1.2% rate last quarter. State and local governments have started to resort to layoffs in response to falling tax revenue.

The estimated drop in GDP for 2020 was the first such decline since a 2.5% fall in 2009, during the recession that followed the 2008 financial crisis. That was the deepest annual setback since the economy shrank 11.6% in 1946, when the economy was demobilizing after World War II.

The GDP report showed that former President Donald Trump ended his presidency with GDP averaging annual gains of 1% during his four years. That was lower than the 1.6% annual GDP gains during the Obama administration, a period that also included a recession.

In the coming months, as vaccines become widely distributed and administered, growth is expected to revive. But until then, many Americans will struggle as consumers and businesses hunker down and hold back on spending even though the economy will likely keep growing. Gregory Daco, chief economist at Oxford Economics, said he expects growth to weaken in the current quarter to a roughly 2% annual rate.

But Daco foresees a brightening outlook for the rest of this year. His view assumes a widespread use of vaccines, increased government aid from Congress' approval of at least part of President Joe Biden's $1.9 trillion relief package and pent-up spending from a savings buildup among higher-income families during the pandemic. A $900 billion rescue aid package that the government enacted late last year is also providing some support.

"The vaccine rollout is essential," Daco said. "Without an improving health situation, we are not going to get any improvement in the economic situation."

Daco said he thinks an economic rebound will produce annual growth this year of 5%. Earlier this week, the International Monetary Fund forecast that the U.S. economy will grow 5.1% this year and 2.5% in 2022.

On Wednesday, the Federal Reserve took note of the economic threats. It kept its benchmark interest rate at a record low near zero and stressed that it would keep pursuing its low-rate policies until a recovery is well underway. The Fed acknowledged that the economy has faltered in recent months, with hiring weakening especially in industries affected by the raging pandemic, notably restaurants, bars, hotels and others involved in face-to-face public contact.

Hiring in the United States has slowed for six straight months, and employers shed jobs in December for the first time since April. And many economists warn that without further government financial support, the economy risks succumbing to another recession. They note that much of the aid for individuals from the $900 billion package that was enacted late last year is set to expire in mid-March. **Source: Associated Press, January 28, 2021**

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A MEAGER GAIN IN US JOBS LAST MONTH HIGHLIGHTS VIRUS' DAMAGE

America's employers barely added jobs last month, underscoring the viral pandemic's ongoing grip on the economy and likely adding momentum to the Biden administration's push for a bold rescue aid package.

The increase of just 49,000 positions in January made scarcely any dent in the nearly 10 million jobs that remain lost since the virus intensified nearly a year ago. The tepid increase followed a decline of 227,000 jobs in December, the first loss since April.

The unemployment rate fell sharply in January from 6.7% to 6.3%, the Labor Department said Friday. Most of the drop in unemployment occurred because some people out of work found jobs, but others stopped looking for work and were no longer counted as unemployed.

Even last month's small job gain benefited from a technical adjustment to the government's data. And without an increase of 80,000 temporary jobs, the economy would have posted a net loss for January.

"What you have is a lousy report that shows a stalling recovery," said Nela Richardson, chief economist at the payroll processor ADP.

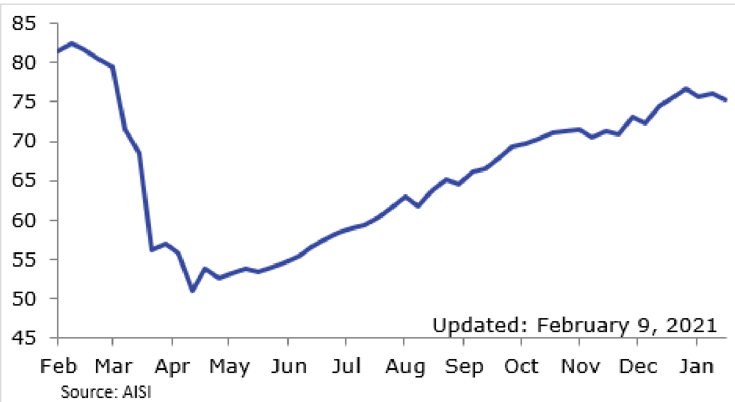
Soaring new virus infections in late fall had forced tighter business restrictions in California, New York, Virginia and other states, thereby reducing the need for workers. Consumers have also been less willing to dine out, travel or go to concert halls and other venues as the pandemic has persisted. Some business closures, notably in California, have since been eased or lifted, but in many cases too late to affect last month's jobs data.

President Joe Biden on Friday pointed to the discouraging jobs report as evidence that much more government aid for the economy is needed, and he said he would continue to push his $1.9 trillion plan through Congress — if necessary, without Republican support. The proposal includes $160 billion to support vaccination efforts.

Continue reading at: Associated Press, February 9, 2021

KEY ECONOMIC INDICATORS

RAW STEEL PRODUCTION

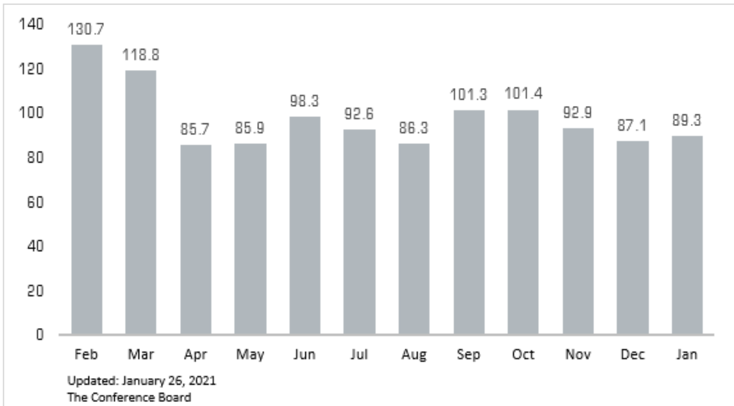


In the week ending on February 6, 2021, domestic raw steel production was 1,705,000 net tons while the capability utilization rate was 75.2 percent. Production was 1,844,000 net tons in the week ending February 6, 2020 while the capability utilization then was 81.5 percent. The current week production represents a 7.5 percent decrease from the same period in the previous year. Production for the week ending February 6, 2021 is down 1.2 percent from the previous week ending January 30, 2021 when production was 1,725,000 net tons and the rate of capability utilization was 76.1 percent.

Adjusted year-to-date production through February 6, 2021 was 9,065,000 net tons, at a capability utilization rate of 75.8 percent. That is down 9.3 percent from the 9,993,000 net tons during the same period last year, when the capability utilization rate was 82.2 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, 2/9/2021***

CONSUMER CONFIDENCE



The Conference Board Consumer Confidence Index® improved moderately in January, after decreasing in December. The Index now stands at 89.3 (1985=100), up from 87.1 in December. However, the Present Situation Index – based on consumers' assessment of current business and labor market conditions – decreased from 87.2 to 84.4. The Expectations Index – based on consumers' short-term outlook for income, business, and labor market conditions – increased from 87.0 in December to 92.5 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, 1/26/2021***

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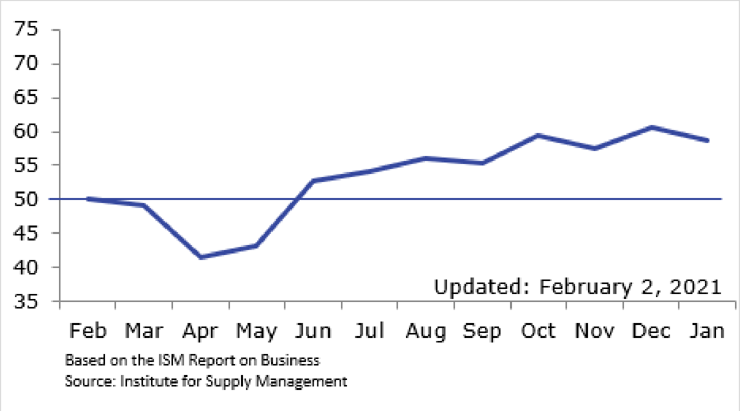
KEY ECONOMIC INDICATORS

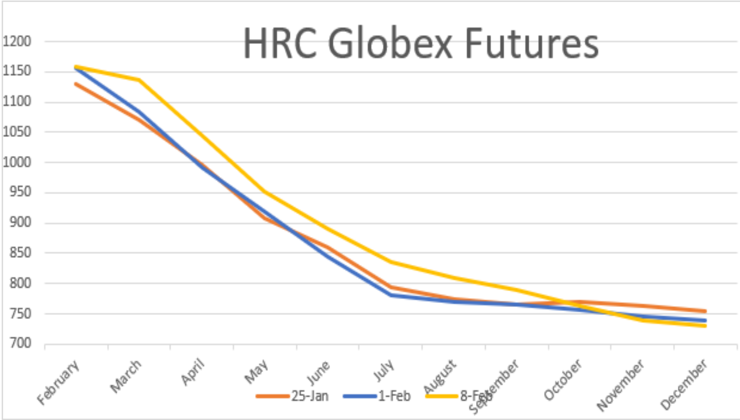
Purchasing Managers Index®



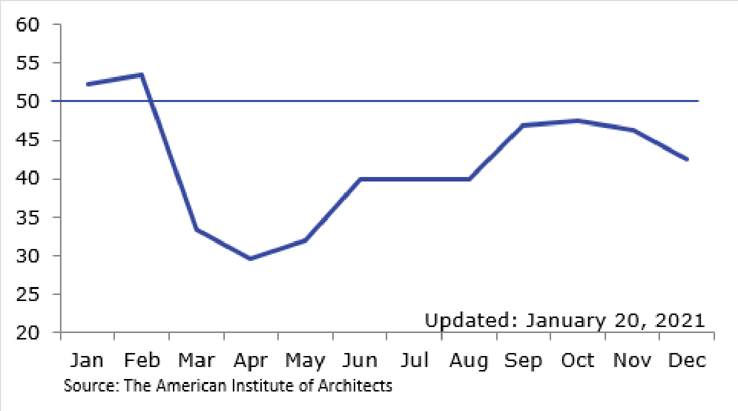
The January Manufacturing PMI® registered 58.7 percent, down 1.8 percentage points from the seasonally adjusted December reading of 60.5 percent. This figure indicates expansion in the overall economy for the eighth month in a row after contraction in March, April, and May. The New Orders Index registered 61.1 percent, down 6.4 percentage points from the seasonally adjusted December reading of 67.5 percent. The Production Index registered 60.7 percent, a decrease of 4 percentage points compared to the seasonally adjusted December reading of 64.7 percent. The Backlog of Orders Index registered 59.7 percent, 0.6 percentage point above the December reading of 59.1 percent. The Employment Index registered 52.6 percent, 0.9 percentage point higher from the seasonally adjusted December reading of 51.7 percent. The Supplier Deliveries Index registered 68.2 percent, up 0.5 percentage point from the December figure of 67.7 percent. The Inventories Index registered 50.8 percent, 0.2 percentage point lower than the seasonally adjusted December reading of 51 percent. The Prices Index registered 82.1 percent, up 4.5 percentage points compared to the December reading of 77.6 percent. The New Export Orders Index registered 54.9 percent, a decrease of 2.6 percentage points compared to the December reading of 57.5 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, 2/2/2021***

HRC Futures



Architecture Billings Index (ABI)



Business conditions at architecture firms backslid in December, ending a tough year on a disappointing note. The AIA's Architecture Billings Index (ABI) score declined to 42.6 for the month, indicating that more firms saw declining billings in December than in November. Although some year-end softness is to be expected at many firms, the ABI analysis takes these seasonal factors into account, so it is unlikely the decline is due to just the typical December slowdown. Instead, ongoing uncertainty with an increase in COVID-19 cases and delays on the new stimulus package until late in the month are more likely contributors to the decline.

However, firms do remain relatively optimistic about 2021, and the indicators of future work tend to support that. Inquiries into new projects at firms increased for the fifth month in a row in December, and while the pace of growth was slower than in September and October, it still means that most firms are having project discussions with potential clients.

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, 1/20/2021***

It seems like the historic run up in Hot Rolled Coil pricing is about to crest. Why can we say this? First, import availability at pricing slightly under $1,000/ton has persuaded steel buyers to start considering foreign offerings for April delivery. The mills will have to react to these offerings, particularly if enough imported product is booked to affect domestic lead times. Also, it appears inevitable that some of the 232 tariffs, particularly on allied countries to the US, will be relaxed. And while demand is good, no one is buying beyond their immediate needs. Obsolete scrap lost about half of its January gains so there is no real raw material pressure for the mills to hold to record setting prices.

By summer, additional capacity will be coming online at Sinton, TX and Ghent, KY and prior to that JSW will be restarting Mingo Junction in March, and Cliffs must be mulling bringing some additional capacity on-line, lest they lose out.

Our forecast is for HRC to peak somewhere between $1150 and $1200 in February. Domestic supply chains have been resilient in their recovery from COVID induced Coma they were put in last spring, but residual effects of it are still causing auto and durable goods manufacturers outages, which in the long run will flatten the demand curve and keep the market's slope of pricing descent flatter than one would expect.

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INDUSTRY NEWS

US reinstates tariff on aluminum imported from UAE

On Feb. 1, President Joe Biden reinstated the 10% aluminum tariff on imports from the United Arab Emirates.

Former President Donald Trump had lifted the aluminum tariff on his last day in office. The reinstated aluminum tariff went into effect Feb. 3.

The reinstatement suggests that it is unlikely the Biden administration will remove the aluminum tariffs imposed by the previous administration. However, as of today, no further decisions were announced on aluminum tariffs.

In addition, Biden's "Buy American" plans could impact the U.S. domestic aluminum market. The plan will likely promote the manufacturing of essential components in construction, appliances and electronics in the US.

These measures are welcomed at the primary production level. However, not all end-product manufacturers are on board, as they claim these government interventions will artificially inflate the Midwest Premium.

The new administration also announced the delay of the effective date of the Aluminum Import Monitoring and Analysis (AIM) system that the U.S. Department of Commerce created. The Department of Commerce originally said the system would be available Jan. 25. However, it is delaying the launch until March 29. Licenses will not be required for covered aluminum imports until the new effective date. ***Source: MetalMiner, February 8, 2021.***

USCIT dismisses Section 232 steel tariff challenge

In early 2018, former President Donald Trump imposed tariffs on imported steel and aluminum. Using Section 232 of the Trade Expansion Act of 1962, Trump imposed tariffs of 25% for steel and 10% for aluminum.

It is unclear if the new Biden administration will ultimately rescind the tariffs in a blanket sense (more on that shortly).

However, a trade court has shot down a legal challenge from domestic businesses.

Universal Steel Products, Inc., PSK Steel Corporation, The Jordan International Company, Dayton Parts, LLC, and Borusan Mannesman Pipe U.S. Inc. challenged the steel tariff, claiming injury from the duty.

The plaintiffs argued procedural deficiency behind the Section 232 implementation process. In addition, they claimed the president and then-Secretary of Commerce Wilbur Ross did not identify an "impending threat" when imposing the tariffs. They also claimed Trump violated provisions of Section 232 by not setting a duration for the action.

However, the three-judge panel on the United States Court of International Trade opted to dismiss the plaintiffs' cross-motion for partial summary judgment.

"There have been proposals put forward suggesting greater Congressional oversight, including hearings, or statutory amendments which would expand Congress's role in the implementation and review of tariffs," Judge Gary S. Katzmann said in his opinion. "Ultimately, of course, these are policy matters that fall within the province of the legislative branch; it is not the role of the court to opine about them." ***Source: MetalMiner, February 4, 2021.***

American Oil & Gas Drillers Add Rigs for 11 Successive Weeks

In its weekly release, Baker Hughes Company BKR reported an increase in the U.S. rig count.

The count of rigs engaged in exploration and production of oil and natural gas in the United States was 392 for the week through Feb 5 versus the prior-week count of 384. Thus, the tally has increased for 11 successive weeks, indicating that oil and gas drillers are gradually returning to domestic shale plays since the commodity pricing scenario is improving. Importantly, the 11 weeks of rising rig tally is the longest since June 2017. However, the current national rig count is below the year-ago level of 790.

The number of onshore rigs for the week ending Feb 5 totaled 375 compared with the prior-week count of 365. Notably, the count of rigs operating in inland waters was one, lower than the prior-week tally of three. However, in offshore resources, 16 rigs were operating, flat with the prior-week count.

US Adds 4 Oil Rigs: The oil rig count was 299 for the week through Feb 5 compared with 295 in the week ended Jan 29. Investors should also note that the current tally of oil rigs — far from the peak of 1,609 attained in October 2014 — is, however, below the year-ago 676.

Outlook

The price of West Texas Intermediate crude, which is trading above $55 per barrel, has improved significantly since April 2020, when oil was in the negative territory. The momentum is likely to continue since the coronavirus vaccine rollout will possibly help the economy recover strongly this year, aiding fuel demand. Thus, oil and gas drillers are likely to continue adding rigs to shale plays since the pricing environment is improving rapidly. ***Source: Zacks Equity Research, February 9, 2021.***