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MARKET INSIGHT
July 2021

ECONOMIC NEWS

US ECONOMY GROWS 6.4% IN Q1, AND IT'S LIKELY JUST THE START

The U.S. economy grew at a solid 6.4% rate in the first three months of the year, setting the stage for what economists believe may be the strongest year for the economy in about seven decades.

Growth in the gross domestic product, the country's total output of goods and services, was unchanged from two previous estimates, the Commerce Department said Thursday, an acceleration from the 4.3% pace Q4.

Economists believe that economic growth has continued to accelerate in the current quarter, which ends this month, as vaccinations become widespread and Americans eager to get outside are being welcomed by newly re-opened businesses. Surging activity from consumers is being fueled in part by nearly $3 trillion in financial support that the government has approved since December.

Additional economic data that emerged Thursday also points to a nation that has regained its footing quickly after being thwacked by a global pandemic, though jobless claims remain stubbornly above 400,000.

"This summer will be hot for the U.S. economy," said Lydia Boussour, lead U.S. economist for Oxford Economics. "As the health situation continues to improve, consumers sitting on piles of savings will give into the urge to splurge on services and experiences they felt deprived of during the pandemic."

Boussour forecast that GDP growth in the current April-June quarter will surge to an annual rate of 12% and growth for the entire year will come in at 7.5%. That would be the best annual performance since 1951.

Even economists whose forecasts for 2021 growth range from 6% to 7% believe growth this year will be the best since a 7.2% gain in 1984, when the U.S. was emerging from an extended and painful recession.

Economists believe growth this quarter will be enough to push GDP output above the previous peak reached at the end of 2019 before the pandemic struck and cut off the longest economic expansion in U.S. history.

The data released Thursday was government's third and final look at first-quarter GDP, and arrived along side a separate report from the Commerce Department that showed May orders from U.S. factories for big-ticket manufactured goods rose for the 12th time in the last 13 months.

Orders for durable goods — meant to last at least three years — climbed 2.3% in May, reversing a 0.8% drop in April. That heated activity is taking place despite a backlogged supply chain and a shortage of workers. ***Continue reading at: Associated Press, 6/24/2021***

ECONOMY ADDS BACK 850,000 PAYROLLS, UNEMPLOYMENT RATE TICKS UP TO 5.9%

The U.S. economy added back jobs for a sixth straight month in June, with job growth picking up speed alongside the reopening economy.

"This is historic progress, pulling our economy out of the worst crisis in 100 years, driven in part by our dramatic progress in vaccinating our nation and beating back the pandemic," President Joe Biden said in remarks to the public Friday morning. "Today, the U.S. is the only major advanced economy where the OECD projections of future output are higher today than they were in January 2020 before the pandemic hit."

The biggest payroll gains in June were again in the leisure and hospitality industries, which were the hardest hit in the earlier stages of the pandemic. These added back 343,000 jobs in June after a rise of 306,000 in May. However, the labor deficit across these industries — with leisure and hospitality still down by 2.4 million jobs compared to February 2020 levels — comprises the plurality of the nearly 6.8 million total jobs the economy still has left to recover from before the pandemic.

Other industries also saw strong job gains in June. In the services sector, retail trade added back 67,100 jobs, or more than double the May gain, and professional and business services job gains also doubled month-on-month to 72,000. In the goods-producing sector, manufacturing job growth slowed more than expected, with payrolls rising by 15,000 after a gain of 39,000 in May. Public-sector jobs soared in June, with government payrolls up by 188,000.

"In both public and private education, staffing fluctuations due to the pandemic, in part reflecting the return to in-person learning and other school-related activities, have distorted the normal seasonal buildup and layoff patterns, likely contributing to the job gains in June," the Labor Department noted in its release on Friday.

Non-farm payroll gains have been choppy over the past several months as worker supply shortages capped the pace of the recovery across numerous industries. Other economic data have underscored these challenges, with the Institute for Supply Management's June manufacturing employment index dipping into contractionary territory for the first time since November, mentions of "shortages" more than doubling in the Federal Reserve's June Beige Book.

These supply constraints have also pushed up wages. Average hourly earnings increased to a 3.6% year-over-year rate, up from the 1.9% registered in May, to reach the fastest pace since March. But wage gains also decelerated on a month-over-month basis, slowing to 0.3% in June from 0.4% in May. That said, in leisure and hospitality, average hourly earnings jumped by an outsized 2.3% month-on-month, underscoring employers' efforts to bring back workers to meet rising demand.

"There's no doubt that some employers are having to do more to attract workers. And retention will also be a challenge for business in the coming months," Mark Hamrick, senior economist analyst for Bankrate, wrote in an email Friday morning. "The longer-term key question is whether inflation will run hotter and remain more persistent beyond the current supply and labor squeezes. This part of the story will be closely watched, including by the Federal Reserve, here in the second half of the year."

Some economists and public officials have pointed to the federal enhanced unemployment benefits as one factor weighing on the pace of labor force reentry. ***Continue reading at: Yahoo! Finance, 7/2/2021***

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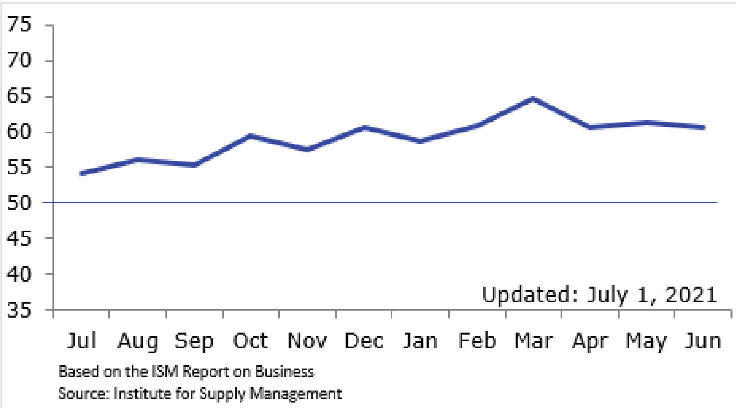
KEY ECONOMIC INDICATORS

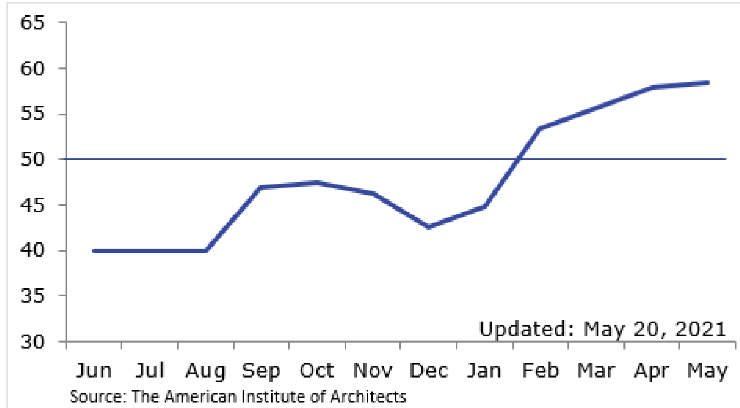
Purchasing Managers Index®



The June Manufacturing PMI® registered 60.6 percent, a decrease of 0.6 percentage point from the May reading of 61.2 percent. This figure indicates expansion in the overall economy for the 13th month in a row after contraction in April 2020. The New Orders Index registered 66 percent, decreasing 1 percentage point from the May reading of 67 percent. The Production Index registered 60.8 percent, an increase of 2.3 percentage points compared to the May reading of 58.5 percent. The Prices Index registered 92.1 percent, up 4.1 percentage points compared to the May figure of 88 percent and the index's highest reading since July 1979 (93.1 percent). The Backlog of Orders Index registered 64.5 percent, 6.1 percentage points lower than the May reading of 70.6 percent. The Employment Index registered 49.9 percent; 1 percentage point lower compared to the May reading of 50.9 percent. The Supplier Deliveries Index registered 75.1 percent, down 3.7 percentage points from the May figure of 78.8 percent. The Inventories Index registered 51.1 percent, 0.3 percentage point higher than the May reading of 50.8 percent. The New Export Orders Index registered 56.2 percent, an increase of 0.8 percentage point compared to the May reading of 55.4 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, 7/1/2021***

Architecture Billings Index (ABI)

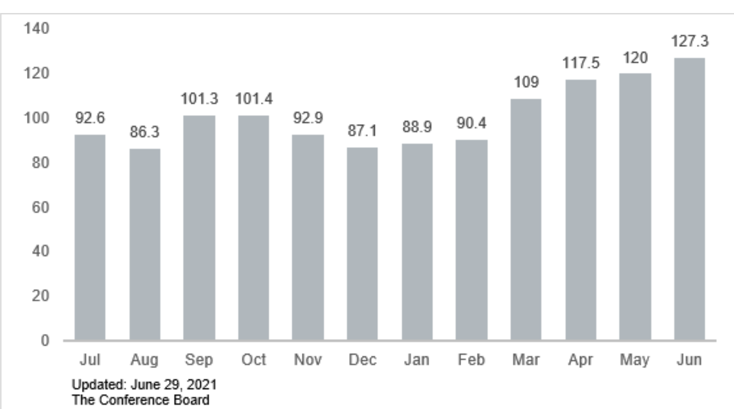


Business conditions remained robust at architecture firms in May, as the Architecture Billings Index (ABI) score climbed even higher. The score of 58.5 for the month (any score over 50 indicates billings growth) is one of the highest ever reported, and indicates that even more firms reported an increase in their billings in May than in April. In addition, significant work remains in the pipeline, with inquiries into new projects remaining very high, and the value of new design contracts rising further to a new all-time high in the 11-year history of that index. Although comments from survey respondents indicate some concern about the impact of inflation on building costs, those fears have not yet impacted the frenetic post-pandemic pace of work at most firms.

Architecture firm billings continued to expand at firms across the country in May as well, with all regions seeing billings growth for the third consecutive month. Conditions remained strongest at firms located in the Midwest, but were also robust at firms located in the sunbelt regions of the South and West. By firm specialization, firms that concentrate on commercial/industrial projects reported the strongest business conditions for the third consecutive month. Billings are also growing rapidly at firms with a multifamily residential specialization once again, following a modest decline early last winter.

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, 6/23/2021***

Consumer Confidence



The Conference Board Consumer Confidence Index® improved further in June, following gains in each of the previous four months. The Index now stands at 127.3 (1985=100), up from 120.0 (an upward revision) in May. The Present Situation Index—based on consumers' assessment of current business and labor market conditions—rose from 148.7 to 157.7. The Expectations Index—based on consumers' short-term outlook for income, business, and labor market conditions—improved to 107.0, up from 100.9 last 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, 6/29/2021***

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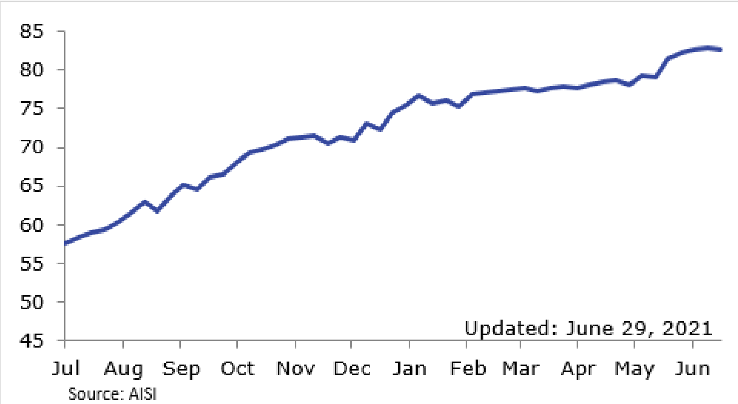
KEY ECONOMIC INDICATORS

Raw Steel Production



Source: AISI

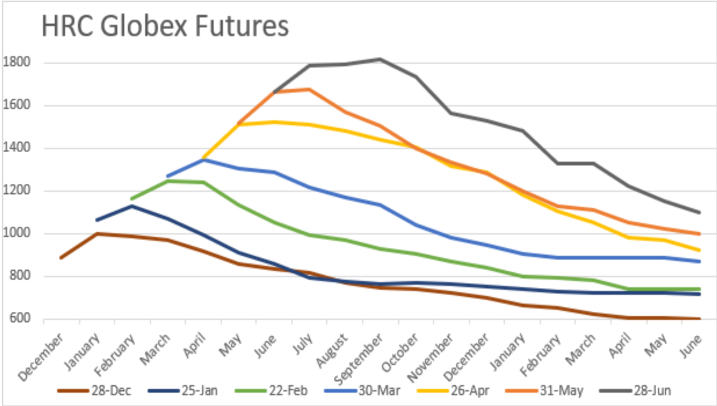
In the week ending on June 26, 2021, domestic raw steel production was 1,835,000 net tons while the capability utilization rate was 82.7 percent. Production was 1,272,000 net tons in the week ending June 26, 2020 while the capability utilization then was 56.8 percent. The current week production represents a 44.3 percent increase from the same period in the previous year. Production for the week ending June 26, 2021 is down 0.2 percent from the previous week ending June 19, 2021 when production was 1,839,000 net tons and the rate of capability utilization was 82.9 percent.

Adjusted year-to-date production through June 26, 2021 was 45,054,000 net tons, at a capability utilization rate of 78.8 percent. That is up 15.2 percent from the 39,109,000 net tons during the same period last year, when the capability utilization rate was 67.8 percent.

Broken down by districts, here's production for the week ending June 26, 2021 in thousands of net tons: North East: 136; Great Lakes: 645; Midwest: 196; Southern: 785 and Western: 73 for a total of 1835.

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, 6/29/2021***

HRC Futures



This month the disciples of Steelmageddon were standing on street corners proclaiming, "The End is Near."

Timna Tanners, of Bank of America, coined the term several years ago in describing the influx of new steel capacity coming online. She recently predicted that by December of 2021, steel prices would collapse to $600 by December. Josh Spoores, with the CRU, was a bit more optimistic calling for December pricing to be $744, and Phil Gibbs, the Keybanc steel analyst forecast 2H 2021 prices to average $1100 to $1200.

Yet, here we are rolling into July with pricing around $1700.

In the meantime, CSI just opened their September book at $1850. And mills with August availability left are quoting in the mid-$1700's. So, for Timna to be correct, the price must drop over a thousand dollars in just a few short months.

All the while, the Automobile Companies Inventory to Sales ratio is almost 1 to 1, meaning they will be scrambling in 2H2021 to build inventory. Construction and Industrial production have already gobbled up all available spot tons through August, and scrap is postured to increase again in July.

Global demand remains strong, and the tariffs stay in place, so imports will not come flooding in. Right now, we see the market peaking over the next couple of months and either plateauing or gliding down slowly. Doomsday is postponed again. At least until 2022. ***Source: John Davis, Executive VP Supply Chain NIM Group, 6/29/2021***

INDUSTRY NEWS

Aluminum deficit may swing to surplus later this year

However you slice and dice the statistics — and there are numerous ways stats can be sliced and diced — the global aluminum market is tight.

Whether we look at primary ingot, extrusion billet or rolling slab intermediates, or semi-finished sheets/plates, tubes and extrusions mill lead times are long and conversion premiums are high. Meanwhile, the global economy has bounced back from the pandemic. Local distortions, such as tariff barriers, to traditional supply chains have added to bottlenecks and robust restocking.

Aluminum deficit to surplus

According to the International Aluminum Institute (IAI), total global aluminum production rose to 5.74 million metric tons in May. The total marked its highest level and a rise of just under 6% compared to this time last year.

Admittedly, last year was distorted by the pandemic. However, from January through May, global smelters operated normally around the world. The pandemic hit consumption badly, but output remained resilient.

Not surprisingly, therefore, this year to date swung to a 588,000-ton deficit compared to over a 1-million-ton (1,074 kt) surplus, as reported by the World Bureau of Metal Statistics for the whole of last year.

Output gains could cap prices

We wrote last week about peak coal/peak aluminum in China and speculated about the knock-on effect for prices.

But rising global output alone could be enough to cap further global aluminum price rises this year as many of the major economies get close to pre-pandemic levels of consumption.

In the short term, the rising dollar will add to deflationary price pressures, not just for aluminum but across the commodities sector.

As our recent annual price outlook advised, the downside support level is therefore positioned a lot lower than the upside resistance level. From a fundamental perspective, rising supply looks like it may outstrip rising demand.

This year's primary metal deficit could reverse towards the year's end. **Source: MetalMiner, 6/21/2021**

Don't trust stock levels to reflect metal demand

Analysis, specifically what's termed fundamental analysis of metal supply and demand, and its impact in driving metal prices, is often a blunt tool.

That is particularly true since the financial crisis. Then, traders and hedge funds discovered the wheeze of buying spot and selling far forward (typically from 18-month to a few years) when the market is in a strong contango (when the higher forward price is sufficiently above spot to more than cover the cost of storage, insurance and finance, leaving a profit for the company).

Metal stock levels don't match price movements

As we all know, this has at times driven the creation of off-market inventory, sometimes termed shadow stocks, in non-exchange warehouses (because rents are cheaper).

For some metals, like zinc and copper, this has, at times, been hundreds of thousands of tons. For aluminum, it has been in the millions, dwarfing the exchange stocks on the LME and SHFE.

Trying to take these stocks into consideration is a nightmare. The LME's increased reporting regime has helped. However, even so so-called shadow stocks are in their entirety at best an estimate.

So, when commentators say LME stocks have fallen as a justification supporting increased demand — or, vice versa, rising LME stocks are proof of weak demand — take such comments with a pinch of salt.

Copper, aluminum stocks

Over the last six months, we have seen copper prices surge. However, so too have stock levels on the LME and SHFE.

Over the last month, copper prices have fallen back as Beijing sought to pour cold water on the speculators' party with threats of stockpile sales and a clampdown on "illegal activities." Yet, while LME stock levels have risen as might be expected, SHFE stocks have fallen in equal measure. Total exchange stocks have remained fairly level.

Capital Economics, however, estimates unreported copper stocks have fallen sharply during the period. In short, that's counter to what the price tells us should be happening.

It is a similar story with aluminum. Exchange stocks rose strongly even while the price increased this year. Stocks only eased back as the market went into a sideways range over the last month or so.

Off-exchange stocks, however, have fallen. The further out backwardation on the LME prevented any financial stocking activity and pulled off-market metal back into circulation to take advantage of rising physical delivery premiums over the LME price. That is particularly true in the U.S., where the Midwest premium has been running at or near $500 per metric ton since late Q1.

In short, exchange inventory levels are at best an indicator of activity. However, they are far from a reliable indicator of true demand.

The relationship between exchange and shadow stocks, the impact of a contango or backwardation between spot and forward prices, and the draw of physical delivery premiums which at times can move in opposite directions to headline exchange prices, all have a distorting effect on exchange inventory levels.

As such, all of the above makes metal stock levels an unreliable indicator of underlying demand. **Source: MetalMiner, 6/30/2021**