Metalwest
A NIM Company
MARKET INSIGHT
JANUARY 2019

ECONOMIC NEWS

Trump Suggests Government Shutdown Could Last for Months or Even Years

President Trump threatened on Friday to keep the federal government partly closed for "months or even years" if he did not get $5.6 billion for his wall at the southern border, and he warned that he was considering declaring a national emergency to build it without congressional approval.

Mr. Trump and Democratic leaders emerged from a two-hour meeting in the White House Situation Room without a deal to reopen government agencies that have already been shuttered for two weeks, and the two sides offered sharply contrasting views of where they stood. By day's end, the two sides appeared to be still locked in a stalemate.

Democrats called the meeting "contentious" while the president and Republican leaders in the House called it "productive." And while Mr. Trump announced that he had assigned Vice President Mike Pence to lead a "working group" to negotiate with Democrats over the weekend, Democrats said the phrase "working group" was never discussed.

"We told the president we needed the government open," Senator Chuck Schumer of New York, the Democratic leader, told reporters outside the White House. "He resisted. In fact, he said he'd keep the government closed for a very long period of time, months or even years."

Appearing in the Rose Garden later, Mr. Trump confirmed the remark. "I did say that. Absolutely I said that," he said, flanked by Mr. Pence; Kirstjen Nielsen, the homeland security secretary; and House Republican leaders. "I don't think it will, but I am prepared."

The impasse, heading into its third week, has closed parts of nine federal agencies, including the Interior Department and the Internal Revenue Service, and left 800,000 federal employees either furloughed or working without pay. Mr. Trump expressed little concern for their plight, telling reporters on Friday afternoon that when he hosted members of the Border Patrol union — his political allies — on Thursday at the White House, they told him not to worry about them, and that he was doing "a great thing for our country."

Friday's effort to jump-start talks was an early test of the new political dynamic in Washington, where Democrats have just taken control of the House for the first time in eight years. Mr. Trump, trying to seize control of the narrative, followed the session with his rambling Rose Garden appearance. There, he said he told Democrats he wants $5.6 billion for the wall — a figure that is a nonstarter for Democrats, who insist he will get no funding for the barrier at all.

Ever the real estate developer, Mr. Trump offered his vision for what the wall would look like, saying it would be either solid concrete or solid steel, though "steel is actually more expensive," he said.

The president then boasted that its construction would be a boon for American industry: "All of the border things that we'll be building will be done right here in the good old U.S.A. by steel companies that were practically out of business when I came into office."

Full Story ***Source: The New York Times, 1/4/2019***

December Jobs Report: 312,000 added, easing recession fears amid stock turmoil

Easing fears of a recession, the labor market bounced back resoundingly in December as employers added 312,000 jobs despite stock market turmoil and increasing worker shortages.

The unemployment rate rose from a 50-year low of 3.7 percent to 3.9 percent as an additional 419,000 Americans began working or looking for jobs, many of them drawn in to the labor force by a strong job market, the, the Labor Department said Friday.

Economists expected 181,000 job gains, according to a Bloomberg survey.

Full Story ***Source: USAToday, 1/4/2019***

U.S. payrolls rise 312,000, wages accelerate in jobs blowout

U.S. employers added the most workers in 10 months as wage gains accelerated and labor-force participation jumped, reflecting a robust job market that nevertheless faces mounting risks in 2019.

Nonfarm payrolls increased by 312,000 in December, easily topping all forecasts, after an upwardly revised 176,000 gain the prior month, a Labor Department report showed Friday. Average hourly earnings rose 3.2 percent from a year earlier, more than projected and matching the fastest pace since 2009. Meanwhile, the jobless rate rose from a five-decade low to 3.9 percent, reflecting more people actively seeking work.

Full Story ***Source: Bloomberg, 1/4/2019***

Trump's trade war probably hitting U.S. economy harder than China's

Americans have felt relatively more pain from President Donald Trump's trade war than Chinese consumers and businesses, according to analysts at HSBC.

Studies of trade-war impacts by the International Monetary Fund and the European Central Bank found the "likely impact on the US economy to be significantly more negative than on China," the analysts Janet Henry and James Pomeroy said in a research note. "Whereas China has been benefiting from strong import demand in most of its other trading partners except for the US (and Germany, due to cars)," they said, "the US has not."

After tariffs were placed on hundreds of billions of dollars' worth of products between the US and China, signs of threatened growth have emerged across the global economy. On Thursday, a key gauge of factory activity in the US was fell by its most in more than a decade in December as hiring and new orders slowed sharply.

Full Story ***Source: Business Insider, 1/4/2019***

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MARKET INSIGHT
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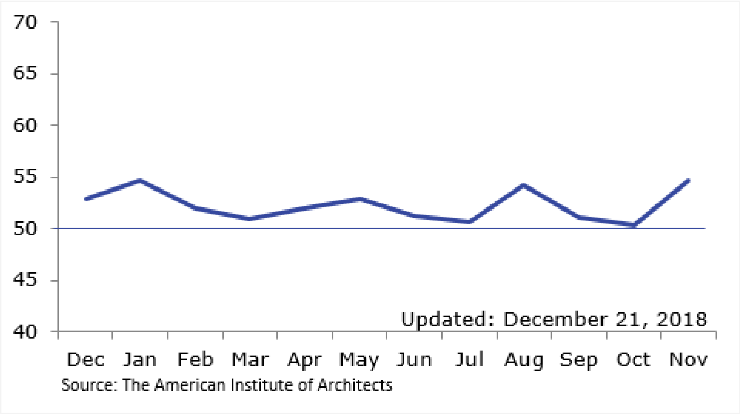
KEY ECONOMIC INDICATORS

Architecture Billings Index (ABI)

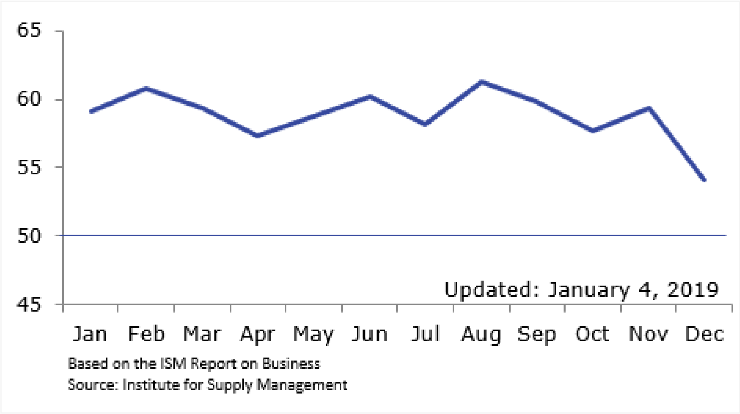


AIA's Architecture Billings Index (ABI) score for November was 54.7 compared to 50.4 in October. With the strongest billings growth figure since January and continued strength in new project inquiries and design contracts, billings are closing the year on a strong note.

"Despite some concerns about a potential economic downturn, architecture firms continue to report strong billings, inquiries, and new design contracts," said AIA Chief Economist Kermit Baker, Hon. AIA, PhD. "For the coming year, concerns about the economy among architecture firm leaders tend to be balanced by their concerns about a lack of qualified employee prospects."

The **Architecture Billings Index (ABI)** is an economic indicator for nonresidential construction activity, with a lead time of approximately 9–12 months. The index is derived from AIA's Work-on-the-Boards survey, which has gathered data on shifts in billings from architectural firm leaders for over 20 years. An index score of 50 represents no change in firm billings from the previous month, a score above 50 indicates an increase in firm billings from the previous month, and a score below 50 indicates a decline in firm billings from the previous month. *Source: **American Institute for AIA, 12/19/2018***

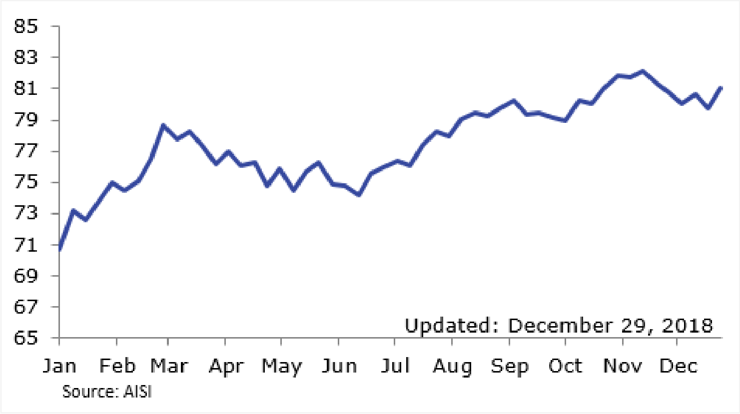
Purchasing Managers Index®



The December PMI® registered 54.1 percent, a decrease of 5.2 percentage points from the November reading of 59.3 percent. The New Orders Index registered 51.1 percent, a decrease of 11 percentage points from the November reading of 62.1 percent. The Production Index registered 54.3 percent, 6.3-percentage point decrease compared to the November reading of 60.6 percent. The Employment Index registered 56.2 percent, a decrease of 2.2 percentage points from the November reading of 58.4 percent. The Supplier Deliveries Index registered 57.5 percent, a 5-percentage point decrease from the November reading of 62.5 percent. The Inventories Index registered 51.2 percent, a decrease of 1.7 percentage points from the November reading of 52.9 percent. The Prices Index registered 54.9 percent, a 5.8-percentage point decrease from the November reading of 60.7 percent, indicating higher raw materials prices for the 34th consecutive month.

The Purchasing Managers Index® is based on a monthly survey sent to senior executives at more than 400 companies. A PMI above4 50 represents an expansion when compared to the previous month. The further from 50, the greater the change. ***Source: Institute for Supply Management, 1/3/2019***

Raw Steel Production



In the week ending on December 29, 2018, domestic raw steel production was 1,899,000 net tons while the capability utilization rate was 81.0 percent. Production was 1,676,000 net tons in the week ending December 29, 2017 while the capability utilization then was 71.9 percent. The current week production represents a 13.3 percent increase from the same period in the previous year. Production for the week ending December 29, 2018 is up 1.6 percent from the previous week ending December 22, 2018 when production was 1,870,000 net tons and the rate of capability utilization was 79.8 percent.

Adjusted year-to-date production through December 29, 2018 was 95,063,000 net tons, at a capability utilization rate of 78.3 percent. That is up 6.2 percent from the 89,483,000 net tons during the same period last year, when the capability utilization rate was 74.0 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, 1/3/2019***

INDUSTRY NEWS

U.S. Stainless Surcharges Continue Slide in January

Stainless steel surcharges in the United States are set to trend lower in January, continuing the previous month's downward trend.

Surcharges for key grades, including Type 201, Type 304, Type 316 and Type 430, from all four major US-based producers were poised to decline for the month, largely due to lower nickel and chrome prices.

The London Metal Exchange's cash nickel contract averaged nearly $4.92 per lb in December, down by 3.7% from $5.10 per lb the previous month.

The fourth-quarter 2018 European benchmark for charge and ferro-chrome dropped to $1.24 lb, down by 14 cents from the prior quarter. The benchmark for the first quarter of 2019 was set at $1.12 per lb, down by a further 12 cents sequentially. ***Source: AMM, 1/2/2019***

Cold-Rolled, Coated Prices Start 2019 Steady

Prices for cold-rolled and coated steel in the United States held steady to start 2019, despite weakening sentiment in the hot-rolled coil market, sources told Fastmarkets AMM.

Fastmarkets AMM assessed both the domestic cold-rolled coil and coated steel base prices again flat week-on-week.

"On [galvanized coil] and cold-roll, mills are holding pretty tight to their prices," one distributor said. "Hot-rolled is where you can wheel and deal."

Prices for cold-rolled and coated coil are "hanging in there," according to this distributor. His prices averaged $43 per cwt for CRC and $42.50 per cwt for coated material, while his offers ranged from $42-44 per cwt for CRC and from $41-44 per cwt for galvanized base prices.

A second distributor noted some weakness in HRC prices, and put his CRC and coated prices at $41-42 per cwt, typically.

"Demand is still reasonably good from customers, but mill lead times are relatively short, and we don't know if the bottom has been reached yet," the second distributor said.

"With a little negotiating, we can get $42-42.50 per cwt," on both CRC and coated base prices, a third distributor said. His prices had been closer to $43.50 per cwt, after negotiations and discounts, at the start of December.

Coated material base prices were also seen as high as $44 per cwt, one other buyer said, indicating potential firmness in that market.

And coated supply is tighter than that of other flat-rolled products, which could provide support for that price, the first distributor said.

On the bearish side, however, a fourth distributor was offered CRC at below $41 per cwt in the last week of December 2018. This source described that as a "foreign fighter" price, meaning the domestic mill offered a discount to combat imports; and that price also came with a lead time of less than a month, potentially signaling market weakness in the South.

"With scrap going down [potentially by as much as] $30 [per gross ton], there will be pressure for mills to work hard to stabilize pricing," the fourth distributor said, echoing widespread concern over lower scrap prices in January.

US cold-rolled sheet imports declined to 1,745,894 tonnes in January-October 2018, down significantly from 2,303,555 tonnes in the same year-earlier period, according to US Census import data. In March 2018, the US imposed tariffs of 25% on steel imports from most countries under Section 232.

Additional import information is not available while the US government remains partially shut down. ***Source: AMM, 1/4/2019***

HRC Steady Despite Fears of January Scrap Drop

Hot-rolled coil prices inched up modestly in the United States on Thursday January 3 despite widespread concerns that domestic ferrous scrap prices might fall in January trading.

Fastmarkets AMM's daily US Midwest hot-rolled coil index stood at $36.32 per hundredweight ($726.40 per short ton) on January 3, up by 0.3% from $36.21 per cwt on January 2 but down by 3.8% from $37.77 per cwt a month earlier.

Lead times averaged three to four weeks, market participants said.

Talk of potential mill price increases in 2019, which had percolated through the market in December, appeared to have dried up on bearish scrap sentiment.

"Demand is still reasonably good from customers but mill lead times are relatively short and we don't know if the bottom has been reached yet," one Midwest service center source said.

Anemic scrap demand abroad means that material usually exported from the East Coast might instead find its way to inland destinations, where is likely to push prices downward, market sources said.

And while US hot-rolled coil prices were largely driven by Section 232 developments last year, they are more likely to follow global metallic trends this year, some sources said. Also dragging on steel prices are low oil prices and a strong US dollar.

Still, producer sources said it was too soon to sound any alarms.

"Pricing is coming down," one mill source said. "That is a problem, [but] I think we need to give it one more week or maybe 10 more days to settle down and then we'll see."

Another mill source said he wasn't worried about scrap declining, especially if steel prices should hold steady - something that would result in better mill profit margins. Other reasons for optimism: Prices remain high by historical standards and mill operating rates remain healthy.

Market opinions might differ, but futures prices were firmly in backwardation on January 3. ***Source: AMM, 1/4/2019***

INDUSTRY NEWS

Shutdown Halts 232 Exclusion Request Reviews

The partial shutdown of the US federal government that began on December 22, 2018, has essentially halted reviews of Section 232 exclusion requests, potentially prolonging a process that already has drawn much criticism from steel market participants.

Three regional offices of the US Department of Commerce's Bureau of Industry and Security (BIS) are closed, and calls made to them were answered with an automated recording stating that the closures were due to "the lapse in government funding."

Companies can still submit their exemption requests online, although those requests will not be reviewed and new requests will not be posted on the government website until sufficient funds are allocated and operations resume.

Commerce in late November announced plans to launch an online portal in late 2018 to early 2019 – to expedite the Section 232 exclusion request procedure, which includes exclusion requests, objections to exclusion requests, rebuttals and surrebuttals.

As of November 21, more than 38,000 steel exclusion requests have been filed, of which about 12,600 have been granted and about 4,400 have been denied, according to data from the Congressional Research Service. Roughly 6,500 aluminum exclusion requests have been filed, with some 830 exclusions granted and 142 denied.

Notably, the website for the Census Bureau has not been updated since the shutdown took effect, while that for the International Trade Administration features a notice stating that, due to the lack of funding, "Trade.gov and Export.gov and all associated online activities will be unavailable until further notice."

In mid-December, Commerce indicated that those offices – among others related to economic and business development – would not be available during a shutdown. ***Source: AMM, 1/4/2019***

Norfolk Iron buys O'Neal Flat Rolled Metals

Norfolk Iron & Metal has expanded its geographic reach with the acquisition of O'Neal Flat Rolled Metals from O'Neal Industries Inc, adding eight locations and enhancing product lines and capabilities for processing flat-rolled carbon, stainless and aluminium products.

"Investment in our business has always been an important part of our commitment to meet the growing needs of our customers," Norfolk Iron president Richard Robinson said in a joint statement issued by Norfolk Iron and O'Neal Industries on Wednesday January 2. "[O'Neal Flat Rolled Metals] is a natural fit with our current operations and brings complementary capabilities with the same reputation for outstanding service."

Looking ahead, Robinson is "optimistic" about 2019. "I don't think we'll have quite the amount of wild swings, due to the tariffs, that we had last year. I just think it's going to be a calmer year," he told Fastmarkets AMM.

O'Neal Flat Rolled Metals, which has returned to its former name of Metalwest, is a processor and distributor of nonferrous and carbon flat-rolled metal products. The company's eight locations have more than 650,000 square feet of processing and warehousing capabilities and its in-house processing solutions include leveling, slitting, blanking, shearing and polishing.

"We primarily deal with heavier carbon on the flat-rolled side where [O'Neal Flat Rolled Metals], on the carbon side, deal with lighter gauges as well as cold-rolled and coated," Robinson added. "They also have a nice presence in the aluminium and stainless markets, which will add to our product line as we go forward. As far as market overlap, there's virtually none."

Norfolk, Nebraska-based Norfolk Iron & Metal is family owned and operates five locations that offer sheet, plate, long products and tubing products. ***Source: AMM, 1/2/2019***

Falling Rig Count Supports Crude Prices

More good news came in today for the oil bulls as Baker Hughes reported a 8-rig decrease for oil and gas in the United States this week.

The total number of active oil and gas drilling rigs now stands at 1,075 according to the report, with the number of active oil rigs decreasing by 8 to reach 877 and the number of gas rigs holding steady at 198.

The oil and gas rig count is now 151 up from this time last year, 135 of which is in oil rigs.

WTI prices were up on Friday following despite a rather bleak EIA report that showed substantial gasoline and distillate inventory builds. The upward price movement for both benchmarks comes on new optimism that the United States and China trade war will simmer down after China said it would hold trade talks with the US.

Canada's oil and gas rigs for the week increased by 6 rigs this week, a figure that pales in comparison to the 100 rigs or so that were lost in the last three weeks as the industry prepared for winter season. Canada's total oil and gas rig count is now 76, which is 98 fewer rigs than this time last year, with a 5-rig increase for oil rigs, and a 1-rig increase for gas rigs for the week.

The EIA's estimates for US production for the week ending December 21 is still keeping a lid on prices, fighting OPEC's production cuts every step of the way. US production averaged 11.7 million bpd for the week. ***Source: Oil Price, 1/4/2019***