ECONOMIC NEWS

ECONOMY GREW 2.6% IN Q4 AND 2.9% IN 2018

The U.S. economy last year matched its best performance since the Great Recession of 2007-09.

While the economy slowed in in the fourth quarter, it still turned in a solid showing on healthy consumer spending and business investment.

The nation's gross domestic product increased at a seasonally adjusted annual rate of 2.6 percent in the October- December period, the Commerce Department said Thursday. That followed an average 3.7 percent advance the prior two quarters that amounted to the economy's best six-month stretch since 2014. Economists expected a 2.2 percent gain in the fourth quarter.

For the year, the economy grew 2.9 percent, matching its performance since 2015, which was a post-recession high.

Federal tax cuts and spending increases juiced growth in 2018 but those effects are expected to fade later this year. That, combined with a sluggish global economy and lingering U.S. trade tensions with China, are likely to spell slower U.S. growth of 2 percent to 2.5 percent in 2019, economists say. Many analysts predict a recession by 2020.

The warier outlook has prompted the Federal Reserve to retreat from its plan to raise interest rates twice this year to head off inflation. Instead, Fed policymakers have adopted a wait-and-see approach and indicated a rate cut to stimulate growth may be just as likely as a hike.

The labor market is also expected to lose some steam as the 4 percent unemployment rate makes it harder for businesses to find qualified workers.

Consumer spending rises solidly

Consumer spending grew a sturdy 2.8 percent, down from 3.5 percent in the third quarter. The showing was dampened by a surprising 1.2 percent retail sales decline in December that some economists question and expect to be revised higher.

Business investment rebounds

Business investment increased 6.2 percent, up from 2.5 percent in the third quarter, largely because of a big jump in software and research and development. Equipment spending also rose 6.7 percent.

Government spending rises

Government spending edged up 0.4 percent after rising 2.6 percent in the second quarter. Federal spending increased 1.6 percent, bolstered by a 6.9 percent jump in defense outlays, while state and local government spending fell 0.3 percent.

Housing construction drops again

Residential investment fell for the fourth straight month, slipping 3.5 percent. While low housing supplies reflect a need for more construction, builders have faced severe worker shortages and higher material costs that have slowed projects.

Full Story ***Source: USA Today, 2/28/19***

U.S. ECONOMY GAINS PALTRY 20,000 JOBS IN FEBRUARY

U.S. job growth almost stalled in February, with the economy creating only 20,000 jobs as construction and retail payrolls dropped, which could raise concerns about a sharp slowdown in economic activity.

The job growth reported by the Labor Department on Friday was the weakest since September 2017, but it probably understated the health of the labor market as other details of the closely watched employment report were strong.

The unemployment rate fell back to below 4 percent and annual wage growth was the best since 2009. In addition, data for December and January were revised to show 12,000 more jobs created than previously reported.

Still, the economy that in July will mark 10 years of expansion, the longest on record, is slowing and the weakening job gains support the Federal Reserve's "patient" approach toward further interest rate increases this year.

"The sharp slowdown in payroll employment growth in February provides further evidence that economic growth has slowed in the first quarter," said Michael Pearce, senior U.S. economist at Capital Economics in New York. "That adds weight to our view that the Fed will not be raising interest rates this year."

Economists polled by Reuters had forecast non farm payrolls rising by 180,000 jobs last month and the unemployment rate falling to 3.9 percent.

The slowdown likely reflected the fading weather-related boost in the prior two months and workers becoming more scarce. A stock market selloff and jump in U.S. Treasury yields in late 2018, which tightened financial market conditions, were also likely factors.

About 390,000 workers stayed at home in February because of the bad weather, not much different from previous years. The length of the average workweek fell to 34.4 hours from 34.5 hours in January.

U.S. stock index futures extended losses and yields on U.S. Treasuries plummeted after the release of the data. The dollar held earlier losses.

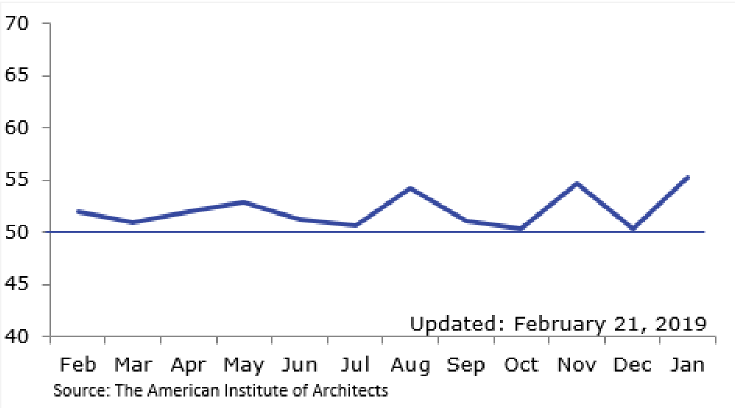
SLOWING ECONOMY

The moderation in hiring was flagged by first-time applications for jobless benefits, which were elevated in February. Also, Institute for Supply Management surveys showed measures of manufacturing and services sectors employment dropped in the month, while the Fed on Wednesday reported "modest-to-moderate gains" in employment in a majority of the U.S. central bank's districts.

Full Story ***Source: Reuters, 3/8/2019***

KEY ECONOMIC INDICATORS

Architecture Billings Index (ABI)

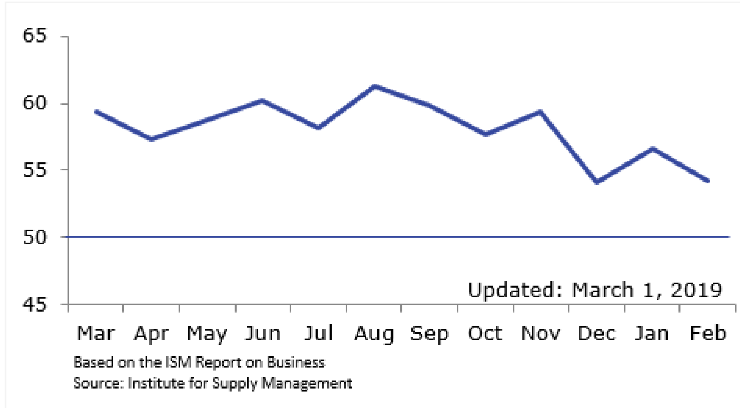


The AIA's Architecture Billings Index (ABI) score climbed to 55.3 in January, the highest score in more than two years and substantially higher than the modest growth seen throughout 2018.

"The government shutdown affected architecture firms but doesn't appear to have created a slowdown in the profession," said AIA Chief Economist Kermit Baker, Hon. AIA, PhD. "While AIA did hear from a few firms that were experiencing significant cash flow issues due to the shutdown, the data suggests that the majority of firms had no long-term impact."

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, 2/21/2019***

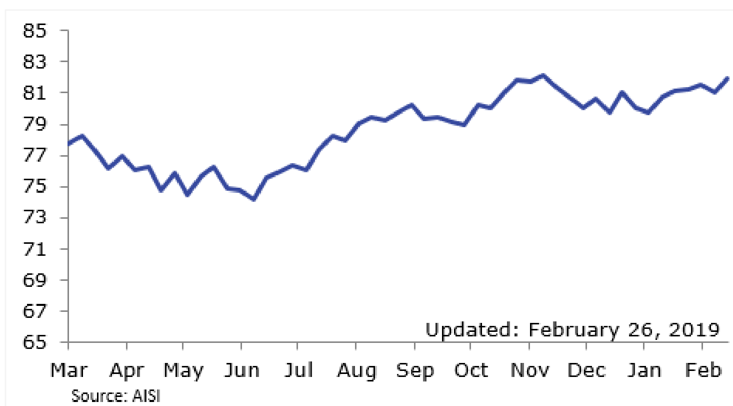
Purchasing Managers Index®



The February PMI® registered 54.2 percent, a decrease of 2.4 percentage points from the January reading of 56.6 percent. The New Orders Index registered 55.5 percent, a decrease of 2.7 percentage points from the January reading of 58.2 percent. The Production Index registered 54.8 percent, 5.7-percentage point decrease compared to the January reading of 60.5 percent. The Employment Index registered 52.3 percent, a decrease of 3.2 percentage points from the January reading of 55.5 percent. The Supplier Deliveries Index registered 54.9 percent, a 1.3 percentage point decrease from the January reading of 56.2 percent. The Inventories Index registered 53.4 percent, an increase of 0.6 percentage point from the January reading of 52.8 percent. The Prices Index registered 49.4 percent, a 0.2-percentage point decrease from the January reading of 49.6 percent, indicating lower raw materials prices for the second straight month after nearly three years of increases.

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, 3/1/2019***

Raw Steel Production



In the week ending on February 23, 2019, domestic raw steel production was 1,907,000 net tons while the capability utilization rate was 81.9 percent. Production was 1,817,000 net tons in the week ending February 23, 2018 while the capability utilization then was 77.9 percent. The current week production represents a 5.0 percent increase from the same period in the previous year. Production for the week ending February 23, 2019 is up 1.1 percent from the previous week ending February 16, 2019 when production was 1,886,000 net tons and the rate of capability utilization was 81.0 percent.

Adjusted year-to-date production through February 23, 2019 was 14,644,000 net tons, at a capability utilization rate of 80.9 percent. That is up 8.0 percent from the 13,564,000 net tons during the same period last year, when the capability utilization rate was 75.7 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, 2/26/2019***

INDUSTRY NEWS

US HRC PRICE DIPS ON DISCOUNTED DEALS

Hot-rolled coil prices in the United States have slipped, with some buyers able to bargain with mills for discounts to post-increase numbers.

Fastmarkets AMM's daily US Midwest hot-rolled coil index was at $35.08 per hundredweight ($701.60 per short ton) on February 27, down by 0.8% from $35.38 per cwt previously.

Lead times have extended to an average of five to six weeks, market participants said.

The previous day's gain in the HRC index was partly due to mills' efforts to enforce their price increases. But some buyers were not convinced that prices above $700 per ton represented the current market.

Compared with last week, buyers this week have been more cautious, waiting for another signal that prices will firm further, one distributor source said.

One mill source said that while mills have increased prices, he wasn't certain that they were booking any orders at that price level yet.

"I am not seeing many inquiries," the mill source said. "Prices are not moving lower but are not going up."

The discounted orders that buyers were able to secure could be attributed to the additional flat-rolled capacity in the US, one end-user source said.

Since there is more capacity in the market, customers now have more options for buying product and in turn more room to negotiate on pricing.

But the discounted deals might not stay long, with many market indicators pointing to a shift upward, market participants said.

For example, prices for slab - the semi-finished material used to make HRC - have risen significantly, the end user noted.

On Wednesday the Nasdaq Futures Exchange's HRC contract settled at $686 per ton for February (up by $3 per ton), $716 per ton for March (down by $2 per ton), $737 per ton for April (unchanged) and $736 per ton for May (down by $2 per ton).

The CME Group's US Midwest busheling futures contract settled at $373 per gross ton for March (down by $1), while the April and May contracts were unchanged at $388 per ton and $386 per ton respectively. ***Source: AMM, 2/28/2019***

HIGHER TCS SAID INEVITABLE AFTER IZA MEETING

At the conclusion of the International Zinc Association (IZA) conference in Scottsdale, Arizona, on Wednesday February 27, it became clear to market participants that zinc treatment charges (TCs) and spot premiums would increase for 2019.

The question now is by how much?

Initial smelter bids were as high as $280 per tonne for annual contracts at the IZA event, which kicked off on February 24. TCs are the fees paid to smelters for processing concentrate into refined metal.

Sources confirmed that was the low-end of the range, with some bids hitting $300 per tonne. That's a major increase from last year's deals, which set a 12-year low of $147 per tonne for zinc TCs.

While it is unlikely that actual deals will be concluded at the high bid levels, with the trading community and miners seeking closer to $200 per tonne, it's a foregone conclusion in the industry that TC's will be higher in 2019 and could rise even further in 2020.

Smelters made the bullish offers after a flood of material from new mines hit the market toward the end of last year and anti-pollution restrictions led to a smelting bottleneck in China.

"I've never seen TC's like this before," a mining source said. "This is once in a lifetime."

Fastmarkets assessed spot zinc concentrate TCs at $215-250 per tonne cif Asia Pacific on Friday February 22, a more than four-year high. Spot TCs stood at just $10-30 per tonne in February 2018.

The overall market deficit has been another major factor fueling global premiums as well as zinc TCs, with the refined zinc metal deficit estimated at 384,000 tonnes in 2018, the International Lead and Zinc Study Group (ILZSG) said in a report dated February 19.

Additionally, increased mine production - put at nearly 12.87 million tonnes in 2018 versus 12.61 million tonnes the previous year - also gives smelters leverage while more tonnage comes online. A sustained deficit is positive for global premiums since it forces consumers to pay a higher amount to access dwindling volumes.

Even with smelters having leverage, the mining and trading community aren't expected to simply accept costlier TCs. The general consensus is that the benchmark won't be settled for a couple of months.

Multiple sources described 2018 as a difficult year for the trading industry, with the lengthy backwardation, falling spot zinc prices and softening demand all contributing to a challenging environment.

"Traders with a small balance sheet are facing extinction," a trading source said, noting that the era of cheap financing has ended and the cost of compliance continues to grow more expensive.

On the mining side, a lower zinc price paired with increased TCs has been squeezing the industry, particularly smaller miners in South America. That could lead to market consolidation if the pricing pressure continues through 2020, which more than one mining source stated as a concern during the conference.

"Small miners are desperate because they lack volumes," an industry source said, adding that quality is the top concern among smelters and miners. ***Source: AMM, 2/28/2019***

INDUSTRY NEWS

Rig Count Falls As US Oil Production Hits All-Time High

The number of active oil and gas rigs fell in the United States this week according to Baker Hughes, despite record-breaking production for the week ending February 15.

The total number of active oil and gas drilling rigs fell by 4 rigs, according to the report, with the number of active oil rigs falling by 4 to reach 853 and the number of gas rigs holding fast at 194.

The oil and gas rig count is now 69 up from this time last year, 54 of which is in oil rigs.

Oil prices were trading up earlier on Friday on lowered OPEC production and hopes that the relentless trade spat between China and the United States might drawing to a close. The strong bearish signal came from the United States on Thursday, with the Energy Information Administration showing that production reached 12 million barrels per day for the week ending February 15—months ahead of what the EIA originally had thought, and 100,000 barrels per day over production from the previous week.

Despite the onslaught of US oil production, prices held, and at 12:21pm, WTI was trading up 0.81% (+$0.46) at $57.42, while Brent was trading up 0.30% (+$0.20) at $67.39—an increase for both benchmarks week on week as well.

Canada's oil and gas rigs saw an even bigger decrease in the number rigs this week. Canada's total oil and gas rig count fell by 12 rigs and is now 212, which is 94 fewer rigs than this time last year. ***Source: Oil Price, 2/22/2019***

U.S. Agriculture Chief Says Trying to Persuade Trump on Steel Quotas

U.S. Agriculture Secretary Sonny Perdue said on Thursday he is working hard to persuade President Donald Trump that the U.S. steel industry can be adequately protected by tariff rate quotas, rather than plain tariffs, on imports from Canada and Mexico.

The three North American countries on Nov. 30 signed the United States-Mexico-Canada Agreement (USMCA) pact to replace the North American Free Trade Agreement (NAFTA), which governs more than $1.2 trillion in trade.

U.S. farmers - hardest hit by Trump's trade wars with China, a key buyer of American agricultural products, as well as Mexico and Canada - have long complained that with tariffs remaining in place, they will not be able to benefit fully from the new trade deal.

The USMCA must be approved by the U.S. Congress and Canadian and Mexican legislators before becoming law.

When asked at a U.S. Senate Agriculture Committee hearing about removal of the "Section 232" steel and aluminum tariffs - and retaliatory tariffs on U.S. farm products - Perdue said: "The president, we're working hard to persuade him that the steel industry here, which is concerned, can be protected through a TRQ program here rather than tariffs and release the retaliatory tariffs."

Tariff rate quotas can allow a specified amount of product to enter the United States duty free, while applying a tariff on quantities above that quota level. South Korea has agreed to a quota equal to about 70 percent of its steel exports to the United States in 2017.

Perdue said he has been advocating for the removal of tariffs since the signing of the USMCA.

"The expectation was that the agreement would be signed and the tariffs would come off and that hasn't happened but its in the best interest of all three countries to do the that," he said.

Chairman of Senate Finance Committee Senator Chuck Grassley has repeatedly called for the removal of tariffs before Congress takes up the USMCA.

Trump had vowed to revamp NAFTA during his 2016 presidential campaign. At times during the USMCA negotiations, he threatened to tear up NAFTA and withdraw the United States from the pact completely, which would have left trade among the three neighbors in disarray.

The U.S. Chamber of Commerce in 2017 said that exiting NAFTA without a new deal could devastate American agriculture, cost hundreds of thousands of jobs and "be an economic, political and national-security disaster." ***Source: Reuters, 2/28/2019***