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MARKET INSIGHT
July 2019

ECONOMIC NEWS

FED'S POWELL AFFIRMS RATE CUT VIEW; OTHERS SEE U.S. ECONOMY HUMMING

As Federal Reserve Chair Jerome Powell kept the focus Thursday on global risks that could trigger a Fed rate cut in coming weeks, his colleagues from regional Fed districts painted a rosier picture of continued U.S. economic growth and a solid business outlook.

The contrasting remarks show the dilemma the Fed faces as it heads toward an end-of-month monetary policy meeting now broadly expected to end with a rate reduction.

On one hand - emphasized by Powell in Congressional hearings Wednesday and Thursday and seconded by the influential chief of the New York Fed and Fed Governor Lael Brainard — global trade and economic risks have put a dent in investment, inflation is well below the Fed's 2% target, and the U.S. expansion may need a shot in the arm.

But as they polled businesses in their districts, Atlanta Federal Reserve Bank President Raphael Bostic and Richmond Federal Reserve Bank President Thomas Barkin saw an economy still humming, and no clear need for the Fed to ease monetary policy.

"I am not seeing the storm clouds actually generate a storm yet," said Bostic, who described himself as skeptical of the need to cut interest rates right now. "With very few exceptions businesses are telling me the economy is performing as strong as it was. They are not seeing weaknesses in consumer engagement. And they are not materially changing their plans."

"I've been out in the last couple weeks and I'm talking to business people," Barkin said on Thursday. "They are not yet leaning back...They are not cutting jobs, They are not cutting investments that have already been underway. But they are cautious...They haven't stopped, they've just slowed."

More detail about on-the-ground business sentiment may come next week when the Fed releases its latest Beige Book compendium of anecdotal information from the 12 Fed districts.

Powell has pointed to a number of national surveys as evidence business confidence took a hit recently, particularly in May after President Donald Trump threatened to impose tariffs on Mexican imports unless his demands about tougher immigration enforcement were met.

The tariffs were not levied, but "it was a bit of a confidence shock, Powell told the Senate Banking Committee.

In Albany, New York Thursday, New York Fed President John Williams, added his voice in support of a rate cut, citing uncertainties around trade and global growth and soft inflation. "The arguments, for adding policy accommodation have strengthened over time."

Brainard, in a separate appearance in Scranton, Pennsylvania, piled on. "Taking into account the downside risks at a time when inflation is on the soft side would argue for softening the expected path of monetary policy according to basic principles of risk management," she told a community banking group.

Neither Barkin nor Bostic have a vote this year on the Fed's rate-setting committee. But they will participate in the debate when the Fed meets in three weeks in a session widely expected to reduce the Fed's overnight target interest rate by at least a quarter of a percentage point.

Investors expect that cut with near 100% certainty.

Powell, in appearances on Capitol Hill this week, bolstered expectations such a cut is coming, and focused on the need to protect the United States against fallout from a weak global economy.

Read the full story: ***Reuters, 7/11/2019***

US ADDS ROBUST 224,000 JOBS IN JUNE

U.S. job growth rebounded in June as employers added 224,000 jobs, an indication of the economy's durability after more than a decade of expansion.

The Labor Department says the solid gain came after weak job growth of just 72,000 in May. The burst of hiring last month may suggest that employers are shaking off concerns about weaker global growth and the waning benefits from tax cuts. The unemployment rate ticked up to 3.7%, up from 3.6% for the previous two months as more people began searching for work.

The strength of the jobs report could complicate a decision for the Federal Reserve late this month on whether to cut interest rates to help support the economy. Most investors anticipate a rate cut.

Hourly wages rose 3.1% from a year ago.

The June jobs report being released Friday will likely help determine whether the U.S. economy has stabilized or is gradually weakening.

The evidence is conflicting. Consumer spending has solidified. Home sales are rebounding. But America's manufacturing sector is slowing along with construction spending. Growth in the services sector, which includes such varied industries as restaurants, finance and recreation, slowed in June.

Economists have estimated that the government will report that employers added 164,000 jobs in June, according to data provider FactSet. That would roughly match the average monthly gain this year and would mark a healthy rebound from the meager 75,000 jobs that were added in May.

For June, the unemployment rate is expected to hold at 3.6% — the lowest level since 1969 — for a third straight month.

Source: The Associated Press, 7/5/2019

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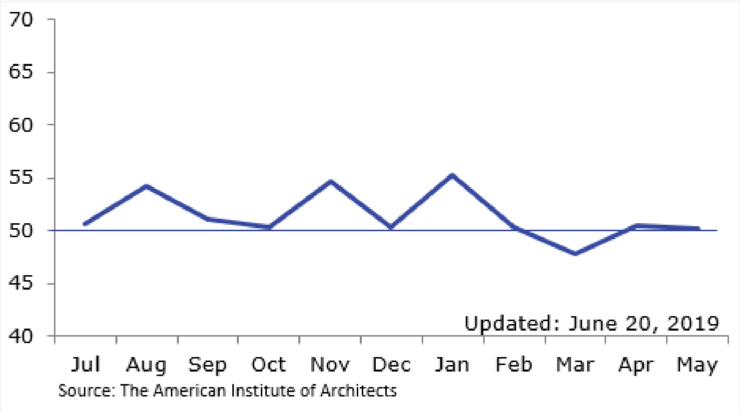
KEY ECONOMIC INDICATORS

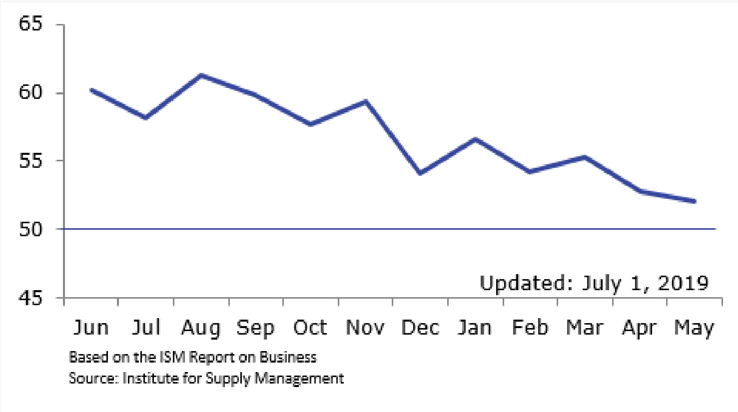
ARCHITECTURE BILLINGS INDEX (ABI)



Although the Architecture Billings Index (ABI) score for May remained above the 50-point threshold indicative of expanding billings, the score of 50.2 for the month means that billings at architecture firms were essentially flat. In fact, for the last four consecutive months, firm billings have either decreased or been flat, the longest period of that level of sustained softness since 2012. In addition, while both inquiries into new projects and the value of new design contracts remained positive, they both softened in May as well, another sign that there the amount of pending work in the pipeline at firms may be starting to shrink.

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, 6/20/2019***

PURCHASING MANAGERS INDEX®



The June PMI® registered 51.7 percent, a decrease of 0.4 percentage point from the May reading of 52.1 percent. The New Orders Index registered 50 percent, a decrease of 2.7 percentage points from the May reading of 52.7 percent. The Production Index registered 54.1 percent, a 2.8-percentage point increase compared to the May reading of 51.3 percent. The Employment Index registered 54.5 percent, an increase of 0.8 percentage point from the May reading of 53.7 percent. The Supplier Deliveries Index registered 50.7 percent, a 1.3-percentage point decrease from the May reading of 52 percent. The Inventories Index registered 49.1 percent, a decrease of 1.8 percentage points from the May reading of 50.9 percent. The Prices Index registered 47.9 percent, a 5.3-percentage point decrease from the May reading of 53.2 percent.

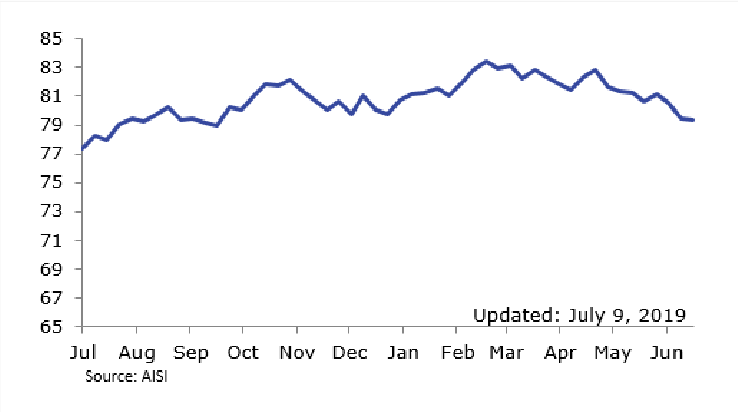
THE PURCHASING MANAGERS INDEX® is based on a monthly survey sent to senior executives at more than 400 companies. A PMI above4 50 represents an expansion when compared to the previous month. The further from 50, the greater the change. ***Source: Institute for Supply Management, 7/1/2019***

In the week ending on July 6, 2019, domestic raw steel production was 1,847,000 net tons while the capability utilization rate was 79.4 percent. Production was 1,815,000 net tons in the week ending July 6, 2018 while the capability utilization then was 77.4 percent. The current week production represents an 1.8 percent increase from the same period in the previous year. Production for the week ending July 6, 2019 is down 0.2 percent from the previous week ending June 29, 2019 when production was 1,851,000 net tons and the rate of capability utilization was 79.5 percent.

Adjusted year-to-date production through July 6, 2019 was 50,458,000 net tons, at a capability utilization rate of 81.2 percent. That is up 5.3 percent from the 47,918,000 net tons during the same period last year, when the capability utilization rate was 76.7 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, 7/9/2019***

RAW STEEL PRODUCTION



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HRC STEADY; DOUBTS RISE ABOUT 2ND MILL HIKE

Hot-rolled coil prices in the United States have remained above $27 per hundredweight ($540 per short ton) while buyers wait to see whether a second round of $2-per-cwt ($40-per-ton) mill increases will stick.

Lead times ranged from two to five weeks, after extending materially at some mills but remaining short at others, market participants said.

Market participants generally agreed that a first round of price increases announced in late June had stuck in part. A second increase announced this month should in theory move prices up to $29-30 per cwt - and some mills have begun making offers in that range, both buyer and producer sources said.

Mills likely will be able to hold the higher prices, given longer lead times at some producers, expectations of higher scrap prices in August, and limited competition from imports, some sources said.

Case in point: The US imported 717,700 tonnes of hot-rolled coil through the first five months of this year, down 28.2% from 1 million tonnes in the same period last year, according to data from the US Department of Commerce's Enforcement and Compliance division.

Fastmarkets received inputs in a range from $26-30 per cwt. Offers were reported as high as $30 per cwt, but no deals were recorded at that level. Transactions were reported between $27 per cwt and $28 per cwt, suggesting the fate of the second increase remains in limbo, sources said.

"This is the playbook: You announce one [increase], and then you announce a second to get the first one to stick," one Midwest service center source said. "'Time will tell,' as the old saying goes."

While some sources thought the second increase was supported by market fundamentals, others expressed concern that uncertainty about the hike's staying power could backfire and keep buyers on the sidelines.

"Prices are unlikely to increase without a material pickup in demand bringing destocking to an end," Morgan Stanley analysts wrote in a research note dated July 11. While construction activity has been steady, demand from the automotive and machinery sectors has slipped. US steel markets, meanwhile, have been weaker than those in much of the rest of the world, they said.

And it's not clear how many tons were being ordered at higher prices. Sources reported paying more for tons they bought recently, but also noted that more tons were ordered at deep discounts around when the first increase was announced.

"There's nothing in the cards to say we're thriving here in the steel business, so you can forget about the second increase," one source in the pipe and tube sector said. ***Source: AMM, 7/12/2019***

US STEEL SHEET TAGS FLAT; MART AWAITS DIRECTION

Steel sheet products prices showed little change in the United States during the week ended July 12, with market participants waiting for clearer cues after a second round of a $40-per-short-ton ($2-per-hundredweight) increases by domestic mills.

While a decent amount of buying activity occurred immediately before and after the first round of a $2-per-cwt mill price increases in late June, market participants agreed that the second round of hikes seemed to come too soon.

"The market is not that robust to support another increase only two weeks apart. The mills are greedy," one Midwest distributor source said.

An East Coast distributor echoed that sentiment. "I do not believe anyone has tried to collect the second increase... tough enough getting the first one out of us."

Most market participants were waiting for a clearer direction on the market before making purchasing decisions.

"You need to let the market settle down a little bit. We [will] make a decision in the next 30-45 days," a distributor in the Southeast said.

Better than expected ferrous scrap buying prices for the July settlement and continued strength in iron ore - key feedstock materials for mini-mills and integrated mills respectively - are positive factors in shoring up higher prices for finished steel products.

But increased uncertainties in the US economy, especially ongoing trade tensions between the US and its trading partners, have kept most buyers on the sidelines of the market.

The Federal Reserve's strong signal of a looming rate cut reflected that concern among investors in the financial markets.

"Scarp is going to have to move north sooner or later. It will only move if and when the mills truly get busy again," the East Coast distributor added. ***Source: AMM, 7/12/2019***

FABRICATED STEEL DUMPED: COMMERCE

The US Commerce Department has issued affirmative preliminary determinations in the countervailing duty investigations of fabricated structural steel imports from China and Mexico and a negative determination for Canada.

For China and Mexico, Commerce found that exporters received countervailable subsidies ranging between 30.3-177.43%, and 0.01 (de minimis) to 74.01% respectively, according to a Monday July 8 statement.

Commerce issued a negative determination in the Canada case, finding de minimis subsidies between 0.12-0.45%.

In 2018, fabricated structural steel imports from China, Canada and Mexico were valued at $897.5 million, $722.5 million and $622.4 million respectively, Commerce said.

The case was initiated by the American Institute of Steel Construction on February 4 of this year, prompting mixed reactions from market participants at the time.

Analysts were bullish on the case's potential outcome. "The absence of China alone would reduce U.S. imports of fabricated steel products by around 460,000 tons on an annualized basis (a 36% reduction in supply) increasing annual domestic fabricated steel shipments by 10-15% assuming im-

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ports from other countries/regions do not fill this gap," Cowen and Co.'s Tyler Kenyon and Matthew Barry said in a July 9 research note.

"Furthermore, stronger domestic fabricated steel production could increase domestic consumption of upstream finished steel products (collectively beam, merchants, plate and sheet steel products) by roughly 560,000 tons assuming typical yield loss in fabrication processes and more normalized historical import market shares of around 20%," they added.

US beam market participants told Fastmarkets that the case could be a boon to steel prices, with Reliance Steel & Aluminum's top executive noting positive results recently.

Fastmarkets latest monthly assessment for domestic W 8- x 8-inch steel beams was $38.25 per hundredweight ($765 per ton), down by 12.1% from the more than six-year high of $43.50 per cwt reached in late June 2018.

Fastmarkets weekly assessment for cut-to-length plate was most recently at $37.50 per cwt, down by 24.2% from a more than seven-year high of $49.50 per cwt in November 2018.

Commerce is scheduled to announce its final countervailing duty determination on or around November 19, 2019, the statement said.

Should Commerce make affirmative final determinations, the US International Trade Commission will make final injury determinations on or about January 2, 2020. ***Source: AMM, 7/9/2019***

A Major American Steelmaker has lost 70% of its market value since Trump slapped steep tariffs on the metal last year

President Donald Trump has sought to make the US steel industry more competitive through protectionism, but tariffs levied last year have accelerated the decline of some of its largest players.

Bloomberg reported Sunday evening that a 25% tariff on imports of the metal has accelerated the decline of some of the mills Trump vowed to protect. The metal titan US Steel has lost $5.5 billion, or roughly 70%, in market value and idled two furnaces since the president announced the move in March 2018 on national security grounds.

US Steel had originally emerged as a rare darling of protectionist policies, with tariffs expected to increase US output and metal industry jobs. Trump last summer visited one mill in Illinois, where US Steel had originally planned to boost production as tariffs restricted foreign access to the market.

"The days of plundering American jobs and wealth — those days are over," he asserted to the Granite City crowd.

But the increase in production came at the same time that demand began to cool, eventually sending steel prices sharply lower. Growth in the US and elsewhere is expected to continue to fall in the coming months, as stimulus measures fade and trade tensions persist.

The divide created a complicated scenario for companies like US Steel, according to Bloomberg. That's because they use older and more costly equipment than companies such

as Nucor, which run cheaper furnaces that can better compete in the new market.

"Are some companies going to suffer? Absolutely," Nucor Chief Executive Officer John Ferriola told Bloomberg in an interview, adding that Trump's actions sped up expected changes in the industry. "We'll see some capacity go away, I'm sure of it."

Bipartisan lawmakers and businesses have coalesced behind the need to address trade practices they say undermine American businesses. Some industry groups have stood by the use of blanket tariffs as a tool to win fairer trade agreements, while others argued they would ultimately risk pain for American businesses and consumers.

US Steel and Nucor did not immediately respond to emails requesting comment. ***Source: Business Insider, July 8, 2019***