the Gauge

MONTHLY MARKET REPORT

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MARKET INTELLIGENCE POWERED BY

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Entering a New Normal?

Is it safe to say that a 2 percent growth rate in GDP (Gross Domestic Product) is slow? That answer depends on what you consider to be normal these days.

Historically speaking, the 2 percent growth reported by the U.S. Bureau of Economic Analysis for the period between April and June can indeed be considered slow. As illustrated by the chart below, the average quarter-over-quarter (QoQ) growth from 2016 to 2018 was 2.44 percent.

Source: Bloomberg

However, analysts from the Federal Reserve Bank of San Francisco (FRBSF) have a different perspective on GDP growth going forward. In a report released this past June, FRBSF introduced the idea of GDP growth between 1.5 percent and 1.75 percent as being the “new normal”.

Demographic trends that have slowed labor force growth are one contributing factor, says FRBSF, along with uncertainty about productivity growth. According to FRBSF, achieving GDP growth consistently above 1.75 percent will require much faster productivity growth than the U.S. has typically experienced since the 1970s. Technological innovation tends to positively impact productivity, and it will be interesting to see if advances like artificial intelligence could provide a long-term boost to improve growth rates in manufacturing.

	Latest Period	Prior Period	MoM Change	Prior Year	YoY Change
U.S. GDP	2.11	2.04	↑	3.63	↓
Durable Goods Orders	250,670	250,216	↑	262,205	↓
ISM Manufacturing Index	47.8	49.1	↓	59.5	↓
Crude Oil	54.1	55.1	↓	73.3	↓
U.S. Auto Sales	17.0	16.8	↑	17.4	↓

Checking In: Midwest Premium

When the U.S. lifted tariffs on steel imports from Canada this past May, many believed this could have a positive impact on the Midwest Premium. Canada produces a significant amount of primary aluminum, ingot, and billet and therefore a lift of the tariff had the potential to reduce the premium.

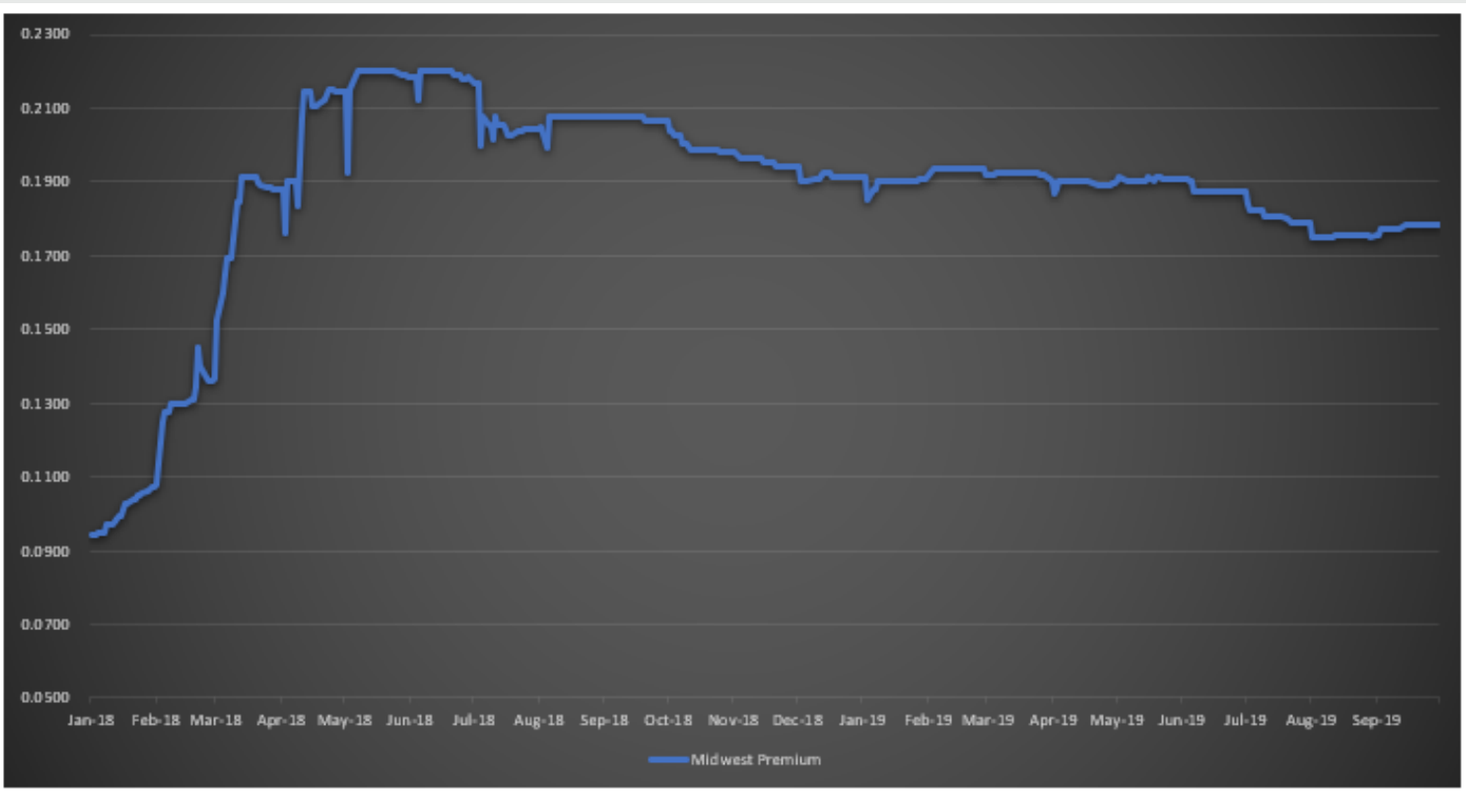
Up to that point, the cost hovered around $0.19 per pound, due partially to the tariffs. The price finally dipped to $0.18 in mid-June, and then to $0.17 in mid-July, where it has been through September.

The beginning of October has seen the price hit $0.18 once again. Where the price ultimately shakes out for the balance of 2019 is uncertain, but worth watching due to the impact it has on the price of aluminum.

The S&P Global Platts Midwest Premium is a regional differential to the global price of aluminum. The differential reflects, in part, the regional cost of logistics, but it also reflects regionally specific supply and demand conditions in the U.S.

As such, regional price differences are commonplace in commodities pricing. Accordingly, tariff news affecting specific regions may have an impact on the Midwest Premium.

Where Will the Premium Go?



Source: Bloomberg

Material Movers

The monthly snapshot into some of the factors impacting the price of aluminum, carbon, and stainless steel, as well as our dashboard of key indicators for each.

Check out the 'What's Trending' page on The Gauge for daily updates on some of the key material movers noted here.

Aluminum	Latest Period	Prior Period	Change	Prior Year	YoY change
LME Aluminum	0.7809	0.7951	↓	0.9353	↓
Midwest Aluminum Premium	0.1783	0.1758	↑	0.2064	↓
Midwest Aluminum Ingot	0.9591	0.9709	↓	1.1417	↓

Sources: LME, CME, Calculated

Lead times:

- Domestic sheet: 5-12 weeks
- Domestic plate: 13-18 weeks
- Off-shore sheet/plate: 15-22 weeks
- Extrusions: 3-20 weeks

Carbon	Latest Period	Prior Period	Change	Prior Year	YoY change
Busheling Scrap	225	274	↓	386	↓
Iron Ore	92.5	87.8	↑	66.0	↑
Capacity Utilization	78.4	80.6	↓	79.6	↓

Sources: Bloomberg, CME, American Iron & Steel Institute

Lead Times:

- Hot rolled: 3-5 weeks
- Cold rolled: 5-6 weeks
- Coated: 7-9 weeks
- Plate: 2-4 weeks

Stainless Steel	Latest Period	Prior Period	Change	Prior Year	YoY change
LME Nickel	7.7337	8.1193	↓	5.7153	↑
304 Surcharge	0.6608	0.5620	↑	0.7026	↓
316 Surcharge	0.9715	0.8473	↑	0.9942	↓

Sources: LME, NAS

Lead Times:

- CR: 4-6 weeks
- CMP: 3-5 weeks
- PMP: 4-12 weeks
- Long: 5-9 weeks

Ryerson risk managers weigh in on some of the trends they are keeping an eye on this month.

Getting Scrappy

The ongoing trade war between the U.S. and China has commanded many headlines with regard to its impact on the metals markets. But did you know there is another story developing in China that could impact steel?

For the first time in over 20 years, Chinese imports of ferrous scrap have dropped to zero. That is, at least in part, due to the restrictions being placed by the Chinese government on the importation of ferrous scrap, copper, and aluminum.

Source: Bloomberg

So why is this noteworthy? In the first half of 2019, China consumed 101 million tons of ferrous scrap, which is nearly double the entire finished steel industry in the United States. That figure is also about six times larger than the Turkish scrap market, which has widely been considered the global hub for scrap exports. If China is making a concerted effort to drop its reliance on foreign scrap, then what impact will that have on the supplies in the rest of the world?

What's more, China's scrap generation in the first half of 2019 came in at a staggering 116 million tons, up 13% year-over-year. This means that for the first time, the nation is actually a net scrap generator. Many traders now are wondering if or when they might see these excess tons hit the export market.

There are a number of moving parts to this equation including environmental policies, trade war negotiations, and steel fundamentals, but this is arguably a topic that warrants close monitoring in the coming months and years. With more and more steel production going the way of the electric arc furnace, where scrap prices go, so too goes steel.