MONTHLY MARKET REPORT

January 2019

MARKET VIEW: **NEW YEAR'S EXERCISE**

It's time for a little exercise to begin the new year. No, not *that* type of exercise, but rather one in which we examine market performance over the past 12 months to determine patterns we saw.

For example, looking at a sample set of manufacturing data from the past year unveils an interesting pattern, particularly in Q4. Here, an inflection point seemed to emerge in both pricing and pace of growth (see chart below).

It's important to note a data point above 50 from the Institute for Supply Management's PMI (Purchasing Managers' Index) reflects growth. That means while the pace of growth may have moderated at the end of 2018, markets continued to improve on a year-over-year basis.

In this issue:

2018: Examining the Numbers

	Jan. 2018	2018 Peak	Dec. 2018	Jan. '18-Peak	Peak-Dec. '18	Jan. '18-Dec. '18
Hot Roll Steel (USD/st)	636	920	745	45%	-19%	17%
LME Aluminum (USD/lb)	1.01	1.18	0.85	17%	-28%	-16%
Midwest Premiums (USD/lb)	0.095	0.22	0.19	132%	-14%	100%
Midwest Aluminum Ingot	1.105	1.4	1.04	27%	-26%	-6%
LME Nickel (USD/lb)	5.72	7.14	4.81	25%	-33%	-16%
304 surcharge	0.5511	0.7698	0.5953	40%	-23%	8%
ISM PMI Index	52	61.3	54.1	18%	-12%	4%
DXY Index*	91.9	97.5	96.2	6%	-1%	5%
10-year Treasury Yield (%)+	2.45	3.24	2.68	79 bps	-56 bps	23 bps

All prices are spot as of the end of December 2018
**The U.S. Dollar Index (DXY) compares the U.S. dollar to a basket of global currencies*
+Measured in basis points (bps)

To provide some color on the prevailing economic landscape, let's look at the latest Beige Book from the Federal Reserve Board, published on January 3.

The most recent report (included in the appendix of this month’s report) highlights three pervasive themes across nearly all 12 regions of the U.S.:

1. Growth moderated, but it is still growth.
2. Labor conditions remained tight.
3. Wages were on the rise.

Looking specifically at labor conditions, for example, U.S. non-farm payrolls added 312,000 jobs in the month of December, the highest since February 2018 when 324,000 jobs were added. This is one example where employment data continued to indicate a positive economic backdrop.

U.S. NON-FARM PAYROLLS ADDED 312,000 JOBS IN THE MONTH OF DECEMBER, THE HIGHEST SINCE FEBRUARY 2018

Despite the slight softening of market data in Q4 2018, the pervasive themes presented by the Fed painted a positive picture. While it is unclear whether all of these factors will result in inflation or contraction of margins at the corporate level, it provides good food for thought as we kick off 2019.

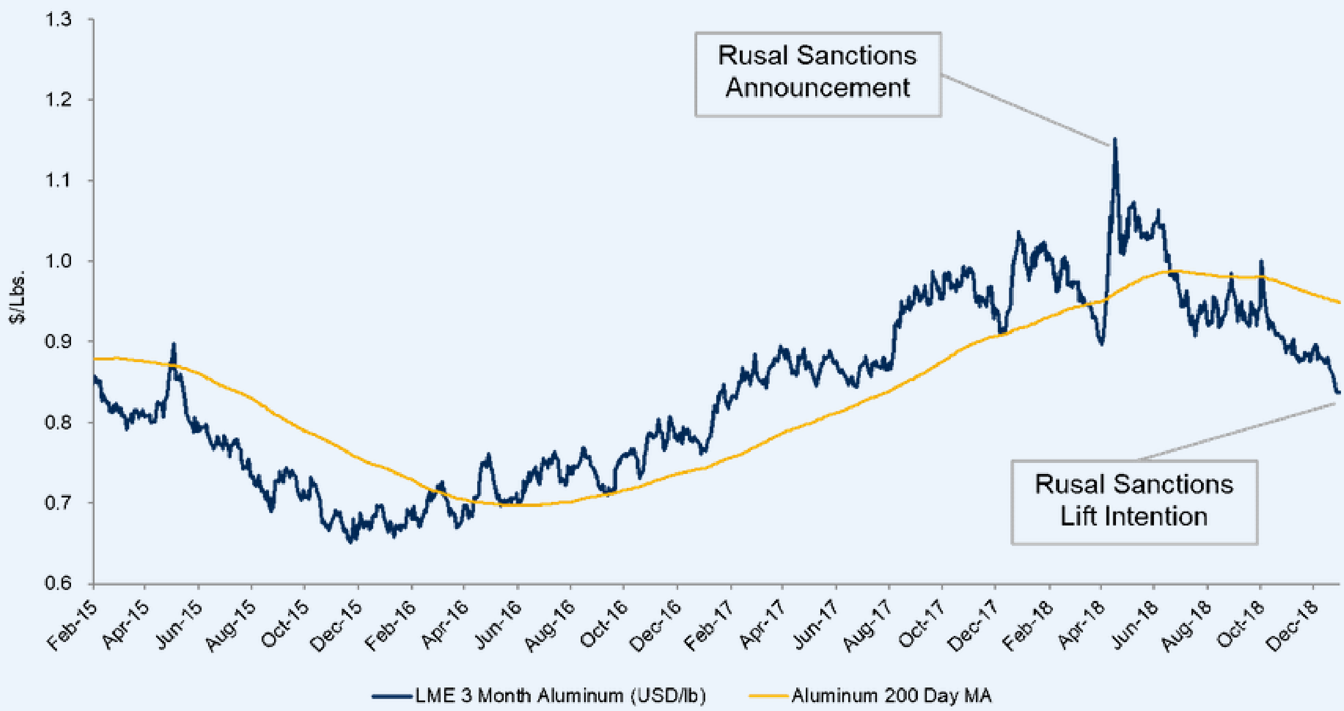
Aluminum: Following a spike due to Rusal sanctions in April 2018, aluminum prices declined 28% overall. On December 19, the U.S. Dept. of Commerce announced the intention to lift Rusal sanctions, which added downward pressure to the London Metal Exchange (LME) price of aluminum.

LME pricing for ingot remained below its 200-day moving average, and was down 6% in December.

DID YOU KNOW?

On December 19, the U.S. Treasury notified Congress of its intentions to terminate the sanctions imposed on UC Rusal, one of the largest alumina and aluminum suppliers in the world, within 30 days.

The Impact of Sanctions



Source: Bloomberg, Platts

Section 232/301 and the Dept. of Commerce's common alloy investigation on Chinese aluminum contributed to tightness in the U.S. aluminum market from a supply-demand perspective. As a result, Midwest aluminum premiums and conversion prices from the mills were elevated. Prices hit $0.188 in December. Compare this to the low of $0.060, reached in September 2016, and the high of $0.243, reached in January 2015.

ALUMINUM LEAD TIMES

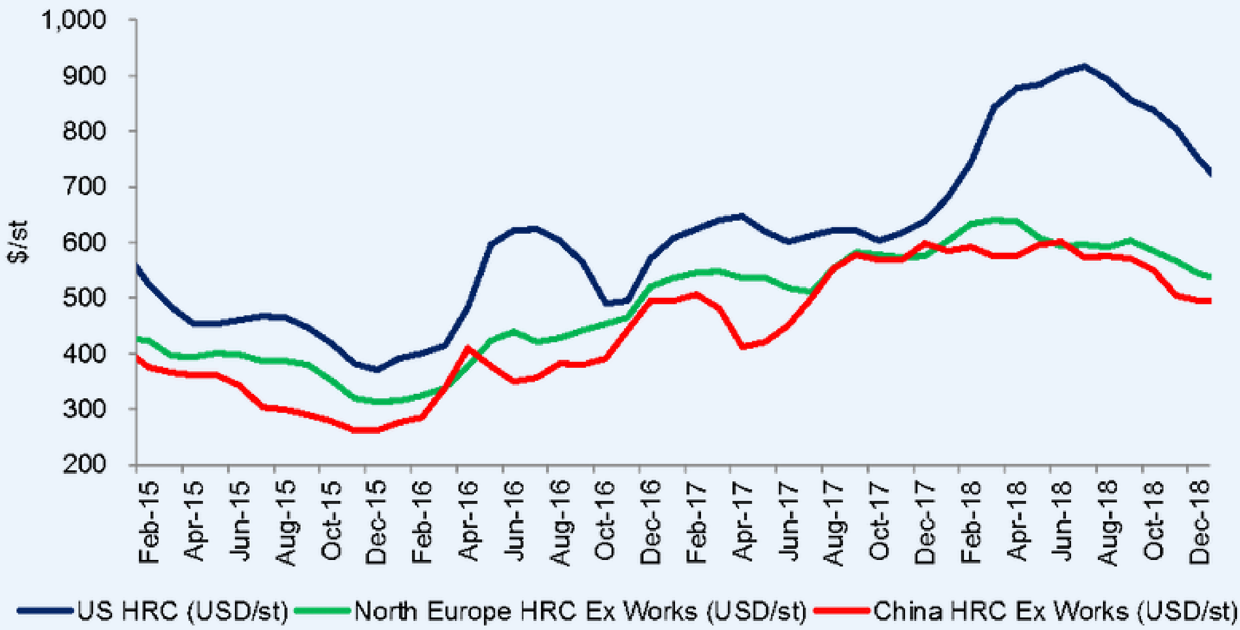
Domestic Sheet: 13-18 weeks (limited open capacity)
Domestic Plate: 13-18 weeks
Off-Shore Sheet/Plate: 15-22 weeks
Extrusions: 3-20 weeks (varies by press)

Carbon: U.S. steel prices rose significantly after 25% tariffs were announced on most foreign sources. However, the premium on U.S. steel has receded in recent months due to seasonal demand weakness in Q4 contributing to shorter mill lead times.

CARBON LEAD TIMES

Hot Roll: 3-5 weeks
Cold Roll and Coated: 5-8 weeks
Plate: 10-12 weeks (allocations remain in place)

Tracking the Tariff Effect



Source: Bloomberg, Platts

Stainless Steel: The price of nickel dipped below $5/lb at the end of 2018. With nickel prices around $5/lb., the cost curves of many mining entities are being challenged. When prices reach this point in the cost curve, some miners are faced with the option to curtail production or continue to produce at a loss.

STAINLESS STEEL LEAD TIMES

Cold rolled: 6-8 weeks
CMP: 4-5 weeks
PMP: 6-8 weeks
Long: 8-10 weeks

$5

When the per pound price of nickel reaches this level, the cost curves of mining entities become challenged.

APPENDIX

Federal Reserve Beige Book: National Summary

Boston: Activity continued expanding at a moderate pace according to business contacts across most sectors. Staffing firms said labor markets were very tight across industries and occupations, while retailers and manufacturers cited shortages only for selected jobs. Increases in selling and input prices were reported to be modest.

New York: The regional economy expanded at a modest pace in the latest reporting period, while labor markets remained exceptionally tight. Widespread escalation in firms' input prices have continued, but wages and selling prices have increased more moderately. Tourism has picked up, while housing markets have softened somewhat. Banks noted widespread improvement in delinquencies.

Philadelphia: Economic activity continued to expand at a modest pace, although it appears to have eased a bit, with downshifts (or declines) in five distinct sectors. Lack of qualified labor has constrained hiring and raised wage pressure. Price increases remained modest. Nevertheless, firms remain generally positive about the six-month outlook.

Cleveland: The District economy grew modestly. Demand was strong in banking, manufacturing, and nonfinancial services. Consumer demand improved slightly, but housing demand softened. Staff levels rose moderately, and wage pressures were widespread. Input costs rose strongly in all industries. Contacts noted that tariffs were lifting prices further down the supply chain. Selling prices rose with less intensity than they did for input costs.

Richmond: The regional economy continued to grow at a moderate rate since our previous report. Labor demand strengthened further while wage growth remained modest. Price growth increased slightly but remained moderate, overall. Manufacturing and services firms saw a sharp increase in input prices, which were attributed to tariffs, shipping costs, and some higher business-to-business and recruitment costs.

Atlanta: Economic conditions moderately improved. Tightness in the labor market persisted and more firms reported increasing wages. Nonlabor costs continued to rise. Retail sales increased across most of the District. Tourism activity was positive. Residential real estate market activity was restrained, and commercial real estate activity remained solid. Manufacturers indicated that activity increased. Credit conditions were stable.

Chicago: Growth in economic activity was modest. Manufacturing production grew moderately; employment, consumer spending, and business spending increased modestly; and construction and real estate activity decreased slightly. Wages and prices rose modestly and financial conditions were little changed. Large yields led agricultural conditions to improve some.

St. Louis: Economic conditions have slightly improved since our previous report. Labor market conditions remain tight, and many firms report raising wages and salaries to attract new workers. The outlook among firms surveyed in mid-November was slightly optimistic, although weaker than the outlook one year ago.

Minneapolis: The Ninth District economy grew moderately. Hiring demand was robust, but a tight labor supply was restraining employment growth. Nevertheless, wage pressures were moderate overall, with exceptions. Some firms reported paying a greater share of workers' health insurance premium costs to attract and retain employees. Price growth was generally modest, though input prices saw more pressure.

Kansas City: Economic activity expanded slightly since the previous survey and remained modestly above year-ago levels. Employment and wages rose further, and about half of respondents expected to increase employment in the next twelve months. Manufacturing, wholesale trade, transportation, energy, and professional and high-tech sectors reported the strongest growth in the District, while the agriculture sector remained weak.

Dallas: Growth in economic activity slowed to a moderate pace. A broad-based softening was seen in manufacturing, retail, and housing. Drilling activity increased. Hiring continued, and widespread labor shortages pushed up wages. Price pressures eased but remained elevated in part due to the tariffs, and outlooks were less optimistic than the previous report.

San Francisco: Economic activity in the Twelfth District continued to expand at a moderate pace. Labor market conditions tightened further, and price inflation increased moderately. Sales of retail goods expanded somewhat, and activity in the consumer and business services sectors was solid. Conditions in the manufacturing sector strengthened. Activity in real estate markets was solid on balance. Lending activity ticked down modestly.

Source: The Federal Reserve