the Gauge

MONTHLY MARKET REPORT

July 2019

MARKET INTELLIGENCE POWERED BY

RYERSON

Slowed, but Expanding

As we reach the mid-point of the year, one thing seems to appear certain in manufacturing: Business conditions continued to expand, but at a slower pace as of late.

Let's take a look at the Purchasing Managers' Index (PM) from the Institute for Supply Management as one reference point. The June reading was 51.7 percent. While that number remains above 50, the benchmark that signals growth in the economy, it represents the third straight month of slowing expansion for PMI.

One of the contributing factors, according to ISM, was The New Orders Index, which showed zero expansion in the month. Many respondents cited growing anxiety over escalated trade tensions and uncertainty in the global economy as reasons for declining expansion.

But PMI is merely one data point in the big picture. Let's look at crude oil over that same three-month stretch, which is a raw input into the production of metal.

At the end of April, the crude oil price was $63.97 before dropping to $53.64 at the end of May. In June, the price spiked to $58.47, avoiding the same three-month decline as the PMI. However, the June price hovered around $51 before increasing in the final two weeks of the month, which according to some, was a reaction to the announcement from OPEC (Organization of the Petroleum Exporting Countries) to extend daily output cuts into 2020.

51.7

The PMI is down for the third consecutive month, driven in part by zero expansion in The New Orders Index

$58.47

The price of crude oil avoided a three-month decline with a spike in the final weeks of June.

These two data points reinforce the importance of tracking multiple indicators when determining the strength of the market overall. In fact, three of the five economic indicators tracked in this report are up when compared to the previous period. While some indicators point to slower expansion, it's the complete picture that ultimately matters.

	Latest Period	Prior Period	MoM Change	Prior Year	YoY Change
U.S. GDP	1.50	1.17	Up	3.83	Down
Durable Goods Orders	243,367	246,694	Down	250,389	Down
ISM Manufacturing Index	51.7	52.1	Down	60	Down
Crude Oil	58.5	53.5	Up	74.2	Down
U.S. Auto Sales	17.3	16.4	Up	16.8	Up

· Atlanta Fed GDP Now is a running estimate of real GDP growth based on available data for current measured quarter. (Source: Atlanta Fed)

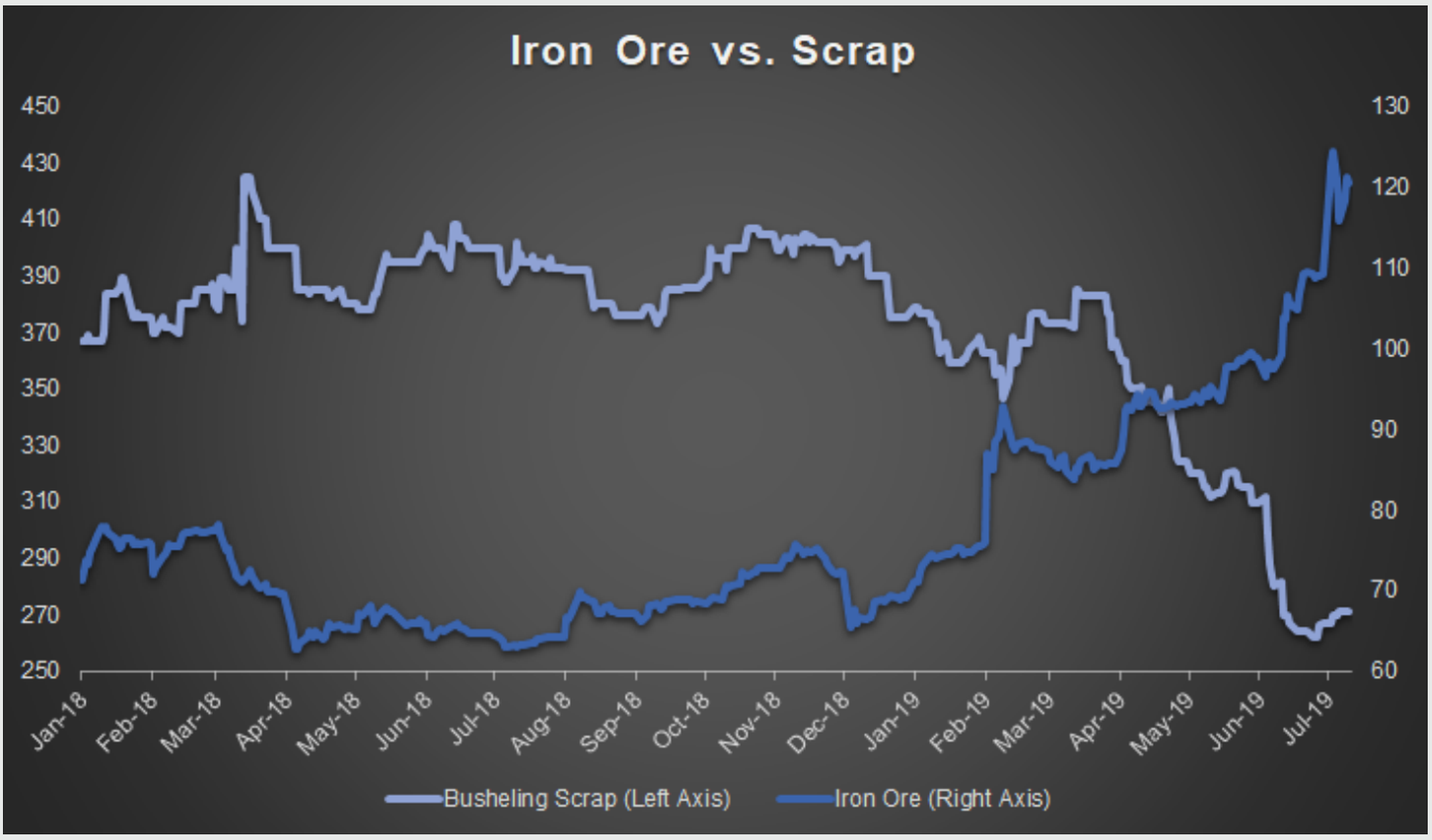
· Durable goods orders is measured in billions of USD. (Source: U.S. Census Bureau)

· A data point above 50 for the ISM Manufacturing Index typically reflects growth. (Source: The Institute for Supply Management)

· Crude oil is measured in USD per barrel of oil. (Source: Bloomberg)

· U.S. auto sales is measured in millions of vehicles sold. (Source: Bloomberg)

A Separation in Scrap



Source: Bloomberg

A price deviation between busheling scrap (light blue) and iron ore (dark blue) has occurred over the past few months, which isn't typical for these two points.

In the May Monthly Market Report we looked at the potential impact that the summer season could have on the price of busheling scrap. Some believe summer is typically the time of year when prices for busheling scrap can soften due to easier transport of metal from scrap yards to mills. In the latest period, busheling scrap is $271 per ton. This is lower than the average monthly price for busheling scrap thus far in 2019 ($366).

Busheling scrap and iron ore are typically correlated since they both go into steel production. However, we are witnessing a deviation in the two as of late with iron ore at $122 vs. busheling scrap at $271. Some point to a dam disaster at an iron ore facility in Brazil for the deviation.

The impact to a specific mill is dependent upon how it is set up to produce steel. While mills have the ability to shift their raw ingredient mixes, for the most part, they are either Electric Arc Furnaces (EAFs), which use scrap, or Basic Oxygen Furnaces (BOFs), which use iron ore. Price deviations in iron ore to busheling scrap mean that cost structures are vastly different between the two types of mills, with margins tighter at BOFs as opposed to cost potential cost reductions at EAFs.

Lead Times

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

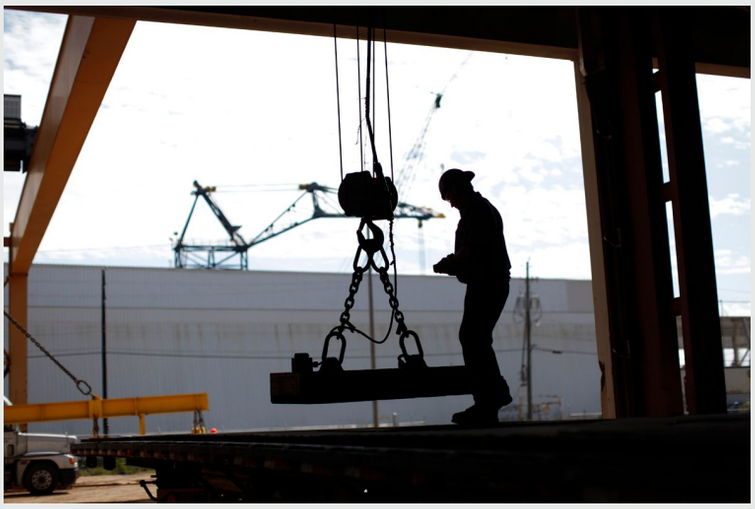
Carbon:
Hot rolled: 3-5 weeks
Cold rolled: 5-6 weeks

Coated: 6-8 week
Plate: 2-4 weeks

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

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.



Aluminum	Latest Period	Prior Periond	Change	Prior Year	YoY change
LME Aluminum	0.8165	0.8140	Up	0.9675	Down
Midwest Aluminum Premium	0.1873	0.1906	Down	0.2169	Down
Midwest Aluminum Ingot	1.0037	1.0045	Down	1.1844	Down

- **Ingot** (MW spot) was at $0.9963/lb. as of 7/12/19 vs. $0.9895/lb. on 6/28/19
- **Alumina** spot prices fell to $323 per metric ton on 6/30/19, which is a 24-month low

Carbon	Latest Period	Prior Periond	Change	Prior Year	YoY change
Busheling Scrap	271	310	Down	400	Down
Iron Ore	112.6	98.7	Up	60.4	Up
Capacity Utilization	80.5	81.3	Down	77.4	Up

- **Carbon plate** prices are $754/ton, down $224/ton from 2019 high.
- **Hot rolled** was at $528/ton as of the week of 7/10/19, which is the low for the year and down from its 52-week high of $918/ton (July 2018).
- **Cold rolled** was at $704/ton as of the week of 7/10/19, which is the low for the year and down from its 52-week high of $1,016/ton (July 2018).

Stainless Steel	Latest Period	Prior Periond	Change	Prior Year	YoY change
LME Nickel	5.7561	5.4508	Up	6.7585	Down
304 Surcharge	0.5229	0.5759	Down	0.7698	Down
316 Surcharge	0.8064	0.8583	Down	1.0581	Down

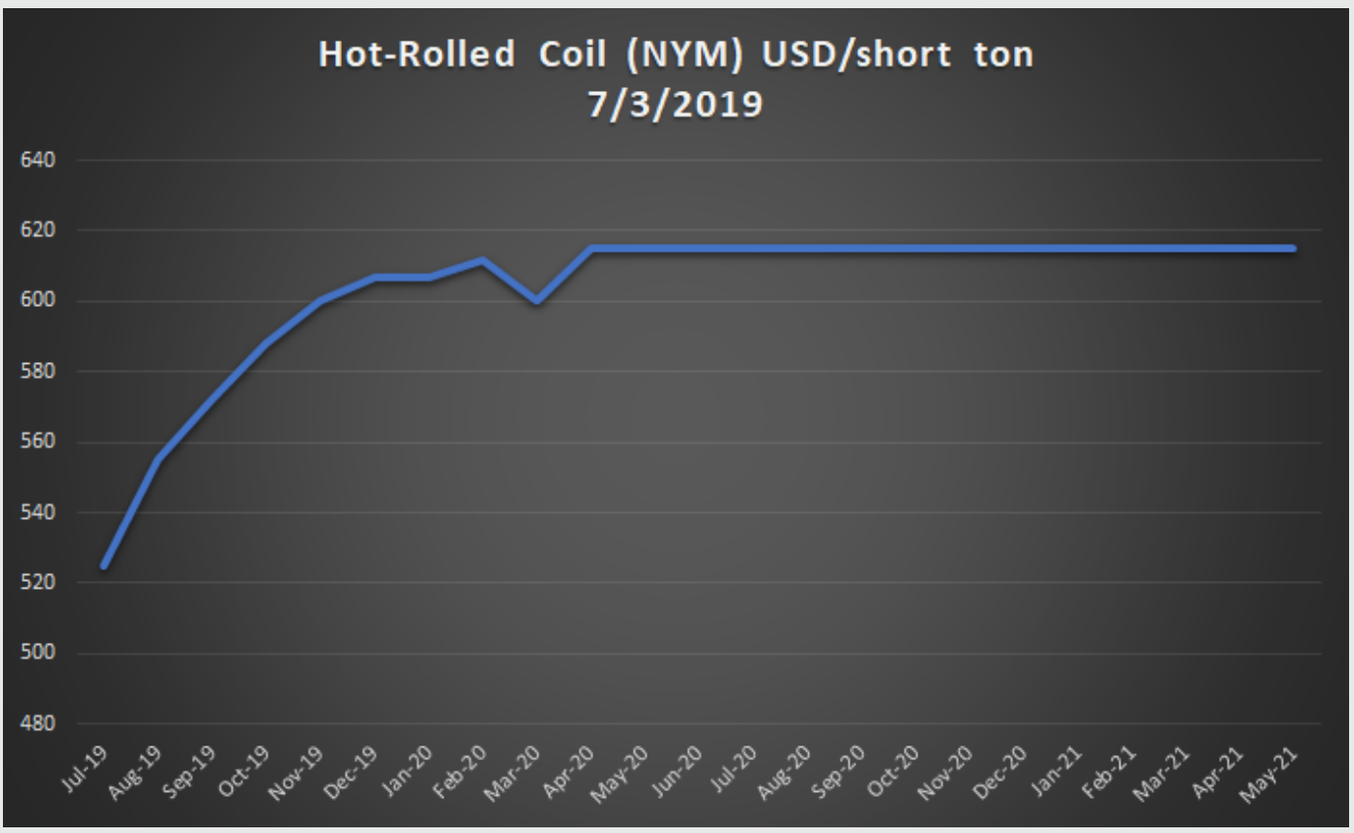
- **Chrome** settled at $1.04 for Q3, which is down by 16 cents from $1.20 in Q2. The net effect on surcharges is a reduction of 3.2 cents / lb for chrome alone

Data on this page is sourced from the following; Bloomberg, CME, American Iron and Steel Institute, LME, NAS.

Market Watch

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

The chart below is a snapshot of the U.S. hot rolled coil steel futures curve, which settles against the monthly averages of the CRU Midwest HRC Index. Looking out 36 months, each month has its own contract and thus its own pricing—the line connecting each month's price comprises the "curve."



Source: Bloomberg

Why it matters: Futures are the market's 'best efforts guess' for where prices will be in future months. If the futures price dips too low, buyers could purchase futures contracts, thus pushing the price up, with sellers doing the opposite in elevated pricing environments. The futures curve represents the equilibrium of buyers and sellers in the financial steel market at any point in time. It also represents the price at which buyers and sellers can hedge their own material costs to reduce volatility.

This chart is a snapshot of futures as of 7/3/2019, and here is what it is suggesting: The spot price for steel is currently $505/ton, and if we reference the chart, the futures price just four months out is at $600/ton. This suggests that market participants believe the price of steel will rise by ~$100 in just a few months.

But what could cause such a move? One potential factor came during the first week of July when multiple U.S. mills announced a $40/ton price increase. Another could be the fact that iron ore has rallied by 65% YTD, which is a key ingredient for steel making, particularly in China, which represents over 50% of global capacity. Whatever the reason, there is an expectation currently built into the futures market that suggests that materially higher prices could be on their way.