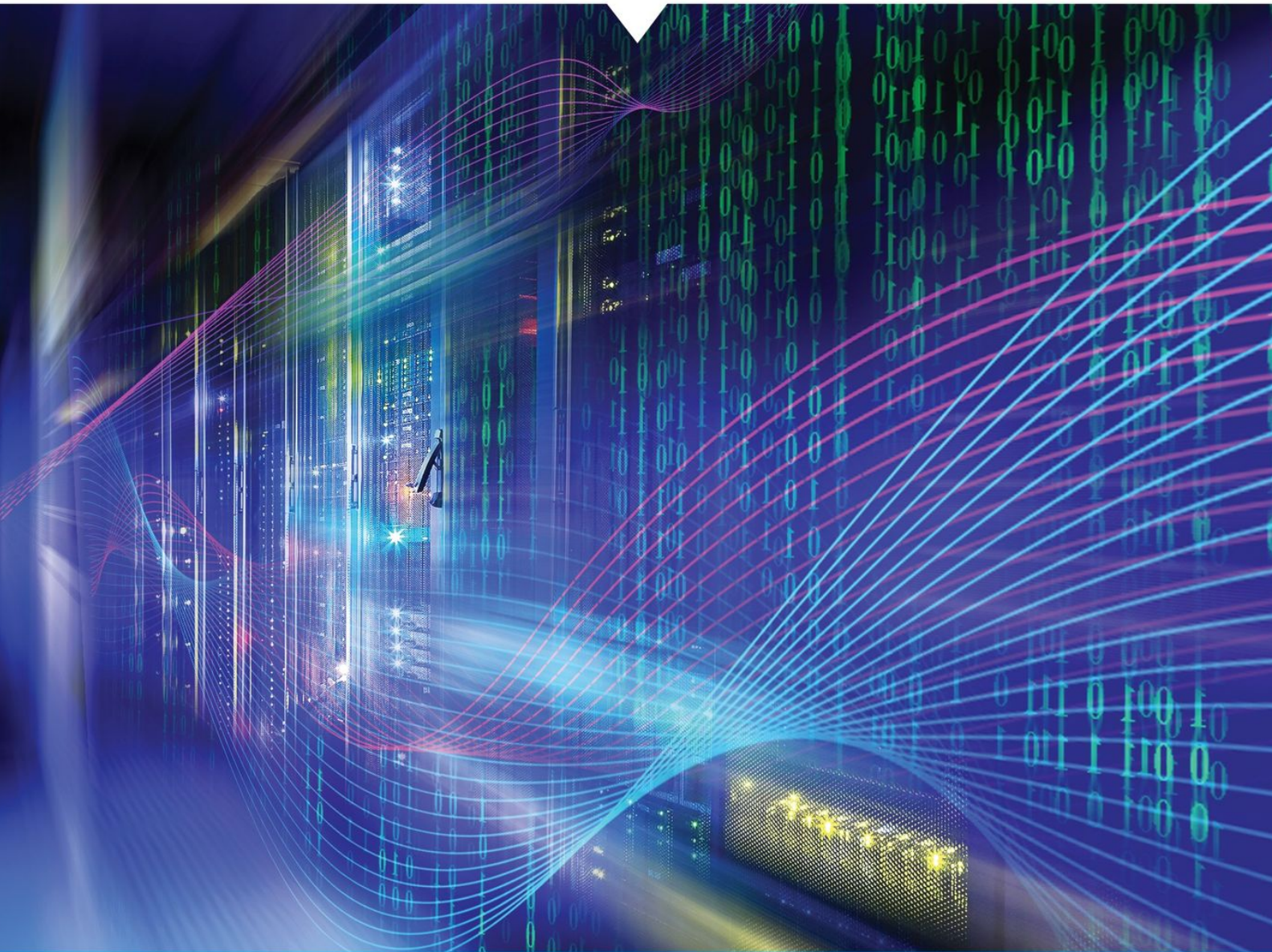


the Gauge



MONTHLY MARKET REPORT

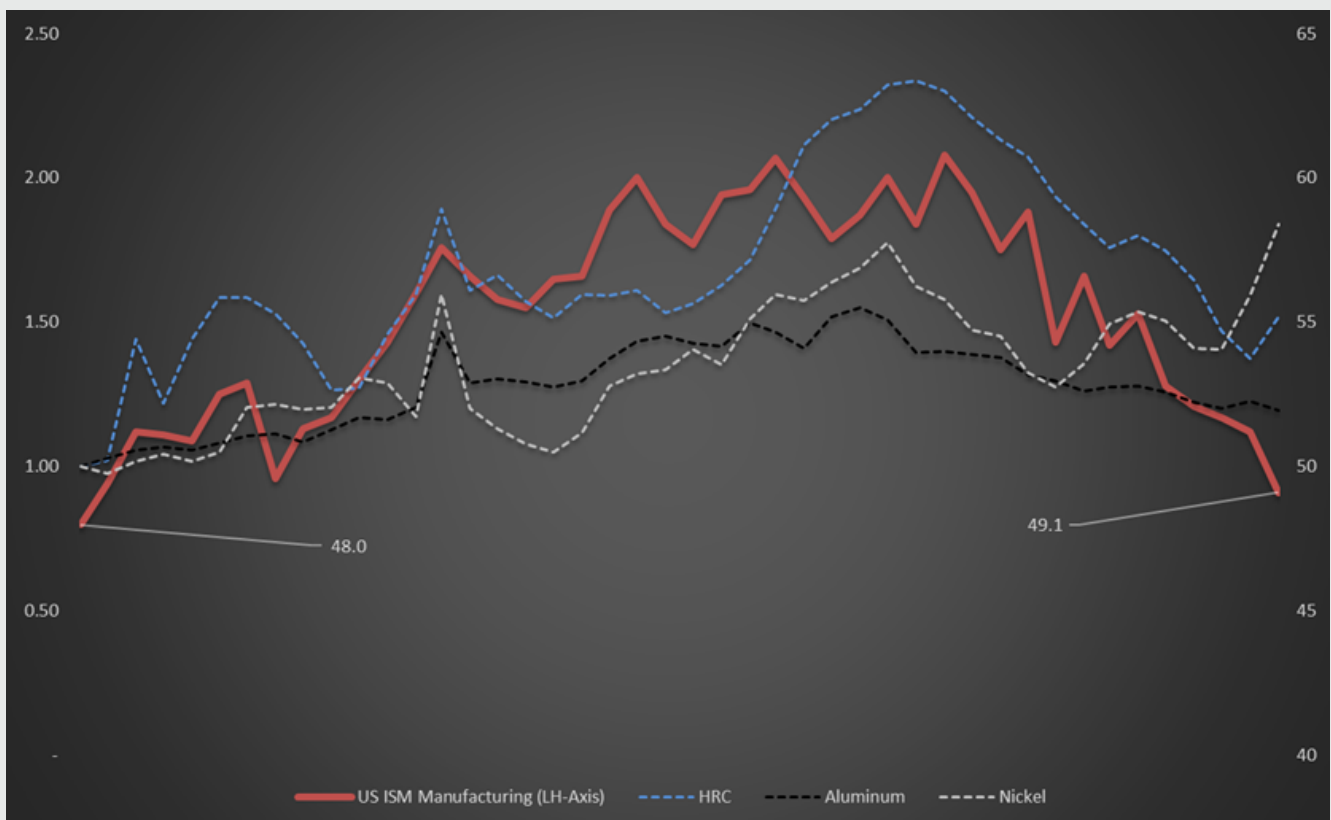
September 2019

MARKET INTELLIGENCE POWERED BY
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An Exercise in Perspective

By now, you've probably heard the news that the manufacturing PMI (Purchasing Managers' Index) from ISM (Institute for Supply Management) hit 49.1 in August. That means you're also aware that this is the first time the reading slipped below 50 (the benchmark for growth in the economy) since January 2016.

What you may not realize, however, is the fact that (while not perfect) there is a relationship over time between PMI and the price of aluminum, carbon, and stainless steel. Nevertheless, a lower PMI reading doesn't necessarily equate to lower prices. (see chart below which tracks the price of these products to PMI, 2016 to present)



Source: Bloomberg

Let's look at this scenario through the lens of 2016—the last year in which PMI slipped below 50. In fact, January and February (48.0 and 49.4, respectively) were the lowest readings. The daily price average of each during those months were as follows:

- LME 3-month aluminum: 0.68/lb.
- HRC index (carbon): 394/metric ton
- LME 3-month nickel: 3.82/lb.

Compare that with two months in which the PMI was highest that year—November and December (53.0 and 54.3, respectively):

- LME 3-month aluminum: 0.78/lb.
- HRC index (carbon): 531/metric ton
- LME 3-month nickel: 5.03/lb.

This can all be taken with a grain of salt given that the correlation isn't perfect. If anything, it's a friendly reminder to keep everything in perspective no matter what the analysts are saying.

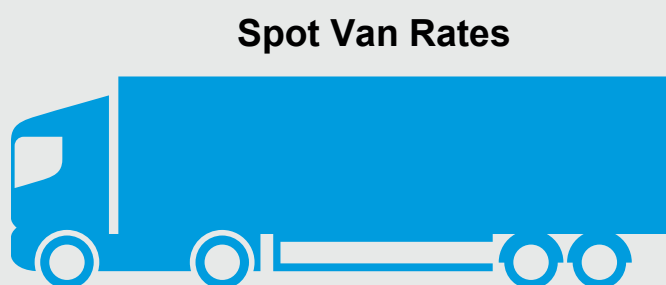
Are Freight Costs Picking Up?

Is freight cost impacting the price of your metal? The short answer is yes.

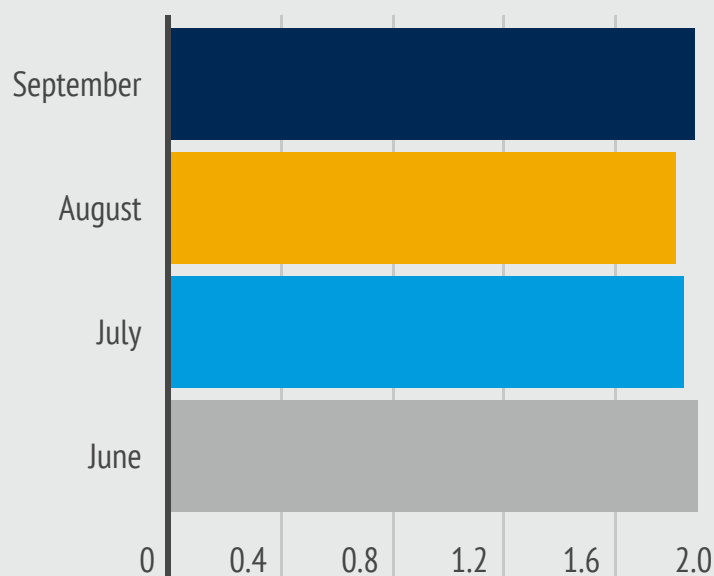
Logistical surcharges, which are applied to deliver metal from warehouses to processing mills, have a definite impact. For example, a common premium assessed on U.S. aluminum is the S&P Global Platts Midwest Premium. This is a differential to the global price of aluminum and the cost reflects various regional factors, including local freight.

Let's focus on spot market rates for vans. According to DAT, which operates the largest truckload freight marketplace in North America, the average spot rate for vans entering September was \$1.88 per mile. This is up seven cents from August, but down more than 15 percent compared to the year-ago period.

DAT says Hurricane Dorian had a disruptive effect on supply chains, which led to tighter capacity and increased prices for vans, reefers, and flatbeds. Rates were already trending up before Dorian and national average van rate rose 3 percent in the final week of August through the first week of September.



Spot Van Rates



Source: DAT
Measured in USD

	Latest Period	Prior Period	MoM Change	Prior Year	YoY Change
U.S. GDP	2.04	1.96	↑	4.08	↓
Durable Goods Orders	250,380	245,349	↑	247,899	↑
ISM Manufacturing Index	49.1	51.2	↓	60.8	↓
Crude Oil	55.1	58.6	↓	69.8	↓
U.S. Auto Sales	16.8	17.3	↓	16.7	↑

- 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)

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	0.7951	0.8160	↓	0.9639	↓
Midwest Aluminum Premium	0.1758	0.1788	↓	0.2075	↓
Midwest Aluminum Ingot	0.9709	0.9948	↓	1.1714	↓

Sources: LME, CME, Calculated

Lead times:

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

Carbon	Latest Period	Prior Period	Change	Prior Year	YoY change
Busheling Scrap	274	293	↓	376	↓
Iron Ore	87.8	117.1	↓	62.0	↑
Capacity Utilization	80.6	80.9	↓	79.4	↑

Sources: Bloomberg, CME, American Iron & Steel Institute

Lead Times:

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

Stainless Steel	Latest Period	Prior Period	Change	Prior Year	YoY change
LME Nickel	8.1193	6.5726	↑	5.8060	↑
304 Surcharge	0.5620	0.5229	↑	0.7349	↓
316 Surcharge	0.8473	0.8064	↑	1.0028	↓

Lead Times:

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

Sources: LME, NAS

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

Nickel: History on the Verge of Repeat?

Have you heard the quote (often linked to Mark Twain) that says, “History may not repeat itself, but it often rhymes.” It’s one that seems fitting to describe the nickel market as of late.

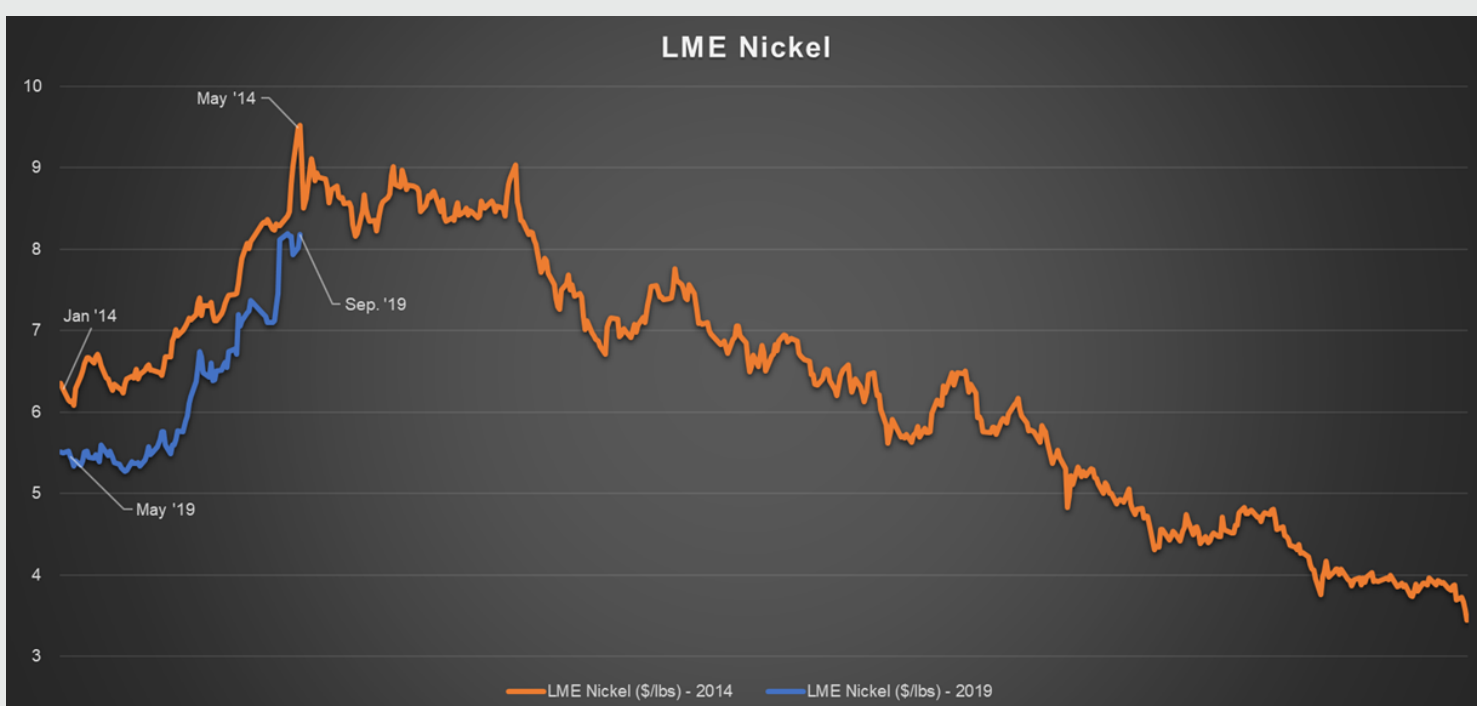
In last month’s report, we touched on a few factors impacting a sharp rise in the price of nickel (46 percent from July 1 to September 1). One such factor was speculation that Indonesia will reaffirm a 2022 ban on nickel ore exports. Indonesia enacted a similar export ban in 2014, subsequently causing a spike in price.

This speculation was confirmed by country officials, announcing that they will bring forward the ban to January 2020. Nickel prices have moved substantially higher on the confirmation, driven by mounting fears of deficits and stockouts (a situation where an item is out of stock).

Analysts are split on the path forward, as some are calling for prices to continue their march higher, while others feel that nickel prices have overshot fundamentals. Perhaps we can use 2014 as a guide. In the chart below, we overlay the 2014 nickel ore export ban with 2019 when the rumors started to bubble up. What we find is a pretty interesting relationship.

Does this mean that history will indeed repeat itself, causing prices to correct in the coming months, or will it “rhyme”?

The price of nickel has risen 46 percent from July 1 to September 1.



Source: Bloomberg