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## US metals: Is the worst over?

Mike Hlafka  
9 March 2016

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# Agenda for today

- A bit about us... Who am I and why Argus?
- Ferrous scrap markets in 2015. Not every chart goes up and to the right
- Non-Ferrous scrap in 2015. Reviewing a year many people want to forget
- Outlook for 2016 and beyond: What we are hearing from the market

# Argus Media: global, market-focused, independent

- World's largest independently held PRA, a team of 750 in 20 offices around the world
- Publishing more than 8,000 daily price assessments and market intelligence for world commodities and energy markets
- Recent acquisitions
  - MetalPrices
  - Metal-Pages
- Coverage expansions
  - North American raw materials
  - Global metals
  - Ferro-alloys
- Services
  - Price reporting and indexation
  - Consulting
  - Conferences
- Indexation examples
  - US crude oil
  - US and European refined products
  - US and European natural gas
  - Global NGLs
  - World coal markets



# Argus metals services

Argus publishes indexation-quality data in metals for:

Coking coal	Iron ore	Ferrous scrap
Base metals	Minor metals	Ferro-alloys
Rare earths	Petroleum coke	Freight rates

The collage displays several Argus Media website pages, including:

- Argus Rare Earths**: Global market prices, news and analysis. Thursday 2 October 2014.
- Argus Ferro-Alloys**: Global market prices, news and analysis. Thursday 13 August 2015.
- Argus Minor Metals**: Global market prices, news and analysis. Thursday 13 August 2015.
- Argus Steel Feedstocks**: Coking coal and iron ore market prices, news and analysis. Thursday 17 October 2013.
- Metal-Prices.com**: AN ARGUS MEDIA COMPANY. Features a 'Custom Dashboard - Tab 1' and a 'COMEX' table.

**COMEX Table Data:**

Symbol	Bid	Ask	Last	Change	Trade Time	Settlement	Open	Low	High	Vol	Open Int
COMEX Copper Jan 2016	1.9540	1.9550	1.9600	0.0000	13 Jan 21:01	1.9505y	1.9600	1.9600	1.9600	4	1437
COMEX Copper Mar 2016	1.9600	1.9605	1.9600	0.0040	14 Jan 07:27	1.9560y	1.9560	1.9425	1.9730	21286	144048
COMEX Copper May 2016	1.9680	1.9690	1.9690	0.0070	14 Jan 07:09	1.9645y	1.9620	1.9530	1.9810	1274	27280
COMEX Copper Jul 2016	1.9750	1.9765	1.9720	0.0000	13 Jan 17:43	1.9720y	1.9720	1.9695	1.9855	46	10480
COMEX Gold Feb 2016	1089.50	1089.60	1089.60	-4.00	14 Jan 07:28	1087.10y	1093.60	1087.80	1095.40	40013	224450
COMEX Gold Apr 2016	1089.70	1089.90	1089.90	-3.80	14 Jan 07:27	1087.40y	1093.70	1088.40	1095.30	4804	95068
COMEX Silver Jan 2016	14.035	14.055	14.145	0.000	13 Jan 17:43	14.145y	14.145	13.850	14.145	98	
COMEX Silver Mar 2016	14.060	14.065	14.060	-0.115	14 Jan 07:27	14.156y	14.175	14.050	14.185	10413	124021
COMEX Silver May 2016	14.085	14.095	14.100	-0.100	14 Jan 07:24	14.185y	14.200	14.085	14.210	318	14476

# A look back: 2015 ferrous markets

Did you see this coming?

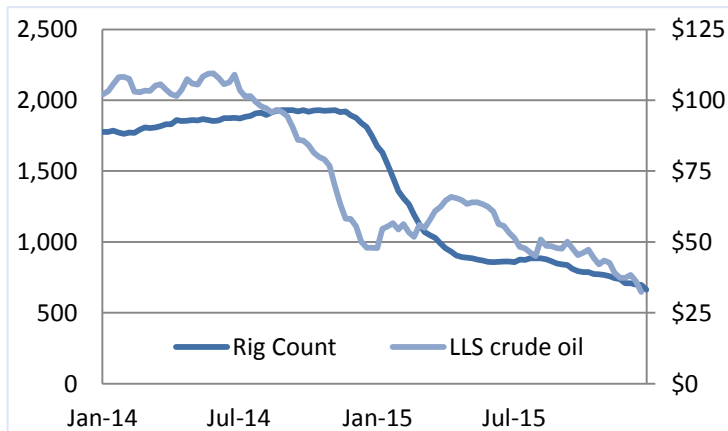
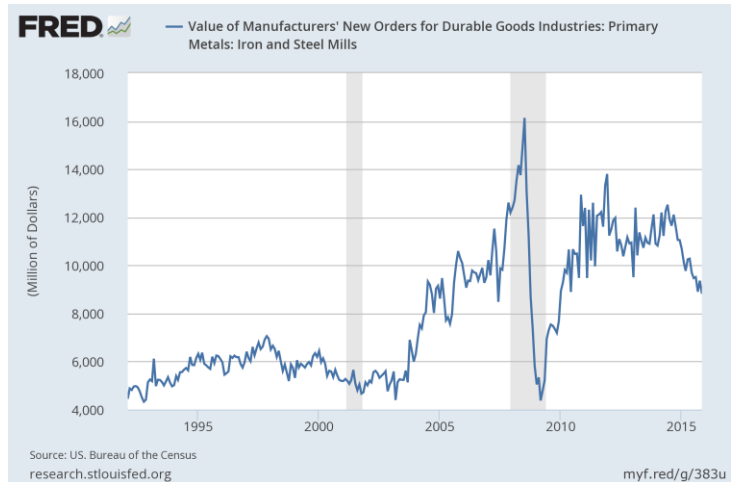
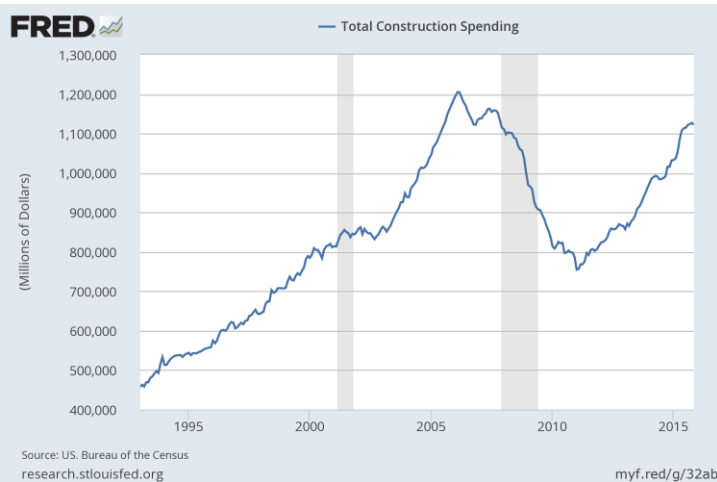
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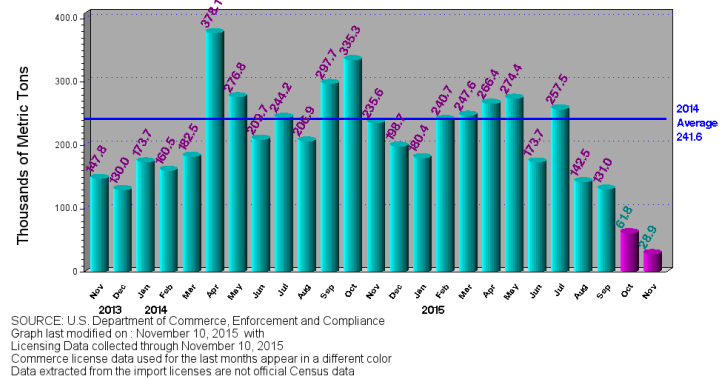
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# Metals consumption: Major end markets



Rig count source: Baker Hughes  
Crude oil source: Argus

## U.S. Imports of All Steel Mill Products From CHINA





# Steel consumption: Major end markets

- Industry estimates of steel consumption:
  - Construction: 40%
  - Auto: 20%
  - Manufacturing, other: 30%
  - Energy: 10%
- Construction spending should increase: steel analysts
- Auto sales are strong and mix skews toward trucks and SUVs
  - Car sales down, light-duty trucks up
- ISM PMI started 2015 strong, but marked consecutive contractions in manufacturing activity from November through February. Although February at 49.5 was a modest improvement from January.
- OCTG producers: most running at 30-40pc capacity utilization due to severe drop in growth of US oil production and surge in imports which are estimated to have a 47pc share of apparent market demand. OCTG/line pipe shipments have tracked US oil rig counts

# Steel consumption: 2016 vs 2015

- US apparent steel consumption is expected to stay unchanged in 2016 from a year earlier at 120mn tons
- Capacity utilization at US mills has improved to around 73pc in February from mid-60s in November and December
- Most market participants blame steel imports which are estimated to be 30pc of apparent consumption in 2015 vs. 28pc in 2014, 23pc in 2013. Imports have led to inventory overhang and reduced capacity utilization.
- Slowing China economy negatively impacts domestic market since it accounted for 48pc of global steel demand in 2014
- Demand decline in China means significant increases in exports. China produced 804mn nt of steel in 2015; down by 2.3pc from 2014.
- Chinese steel did not drop in pace with lost demand so producers looked to export markets for sales
- China exports increased by 20pc to 112.4mn t in 2015. January 2016 shows a drop in exports but 2016 trend unclear.
- Despite trade case actions, US finished steel imports in 2015 were 31.4mn nt, down by 7pc from a year earlier





# A look back: 2015 base metals

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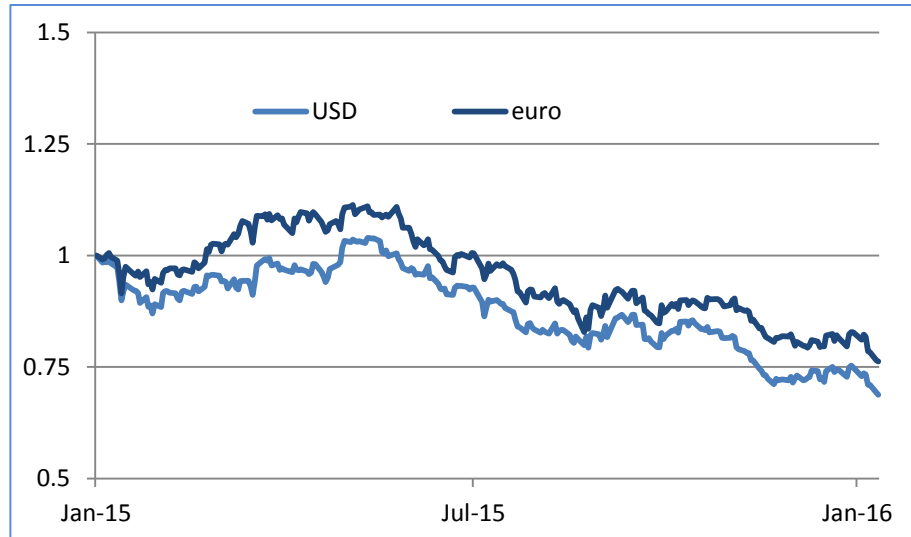
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# Base metals: key points

- China accounted for half the total global demand for most base metals in 2014: OECD, World Bank
- Faster than anticipated slowdown in Chinese economy meant demand was much weaker than previously anticipated.
- Size matters:
  - 10 pc change in copper demand in China = 1.1mt
    - By way of comparison, the WHOLE US copper economy is 1.7mt
  - 10 pc change in aluminum demand in China = 2.5mt
    - And the whole US aluminum economy (apparent consumption) is 5.4mt
- Metals producers have not been able to cut back supply at the same pace. Announced production cuts not close to addressing the total oversupply
- Weak China and other global markets is strengthening the dollar which sends US prices lower

# Market impact: The US dollar

Currency impact on CME copper 2015 indexed to \$ and euro

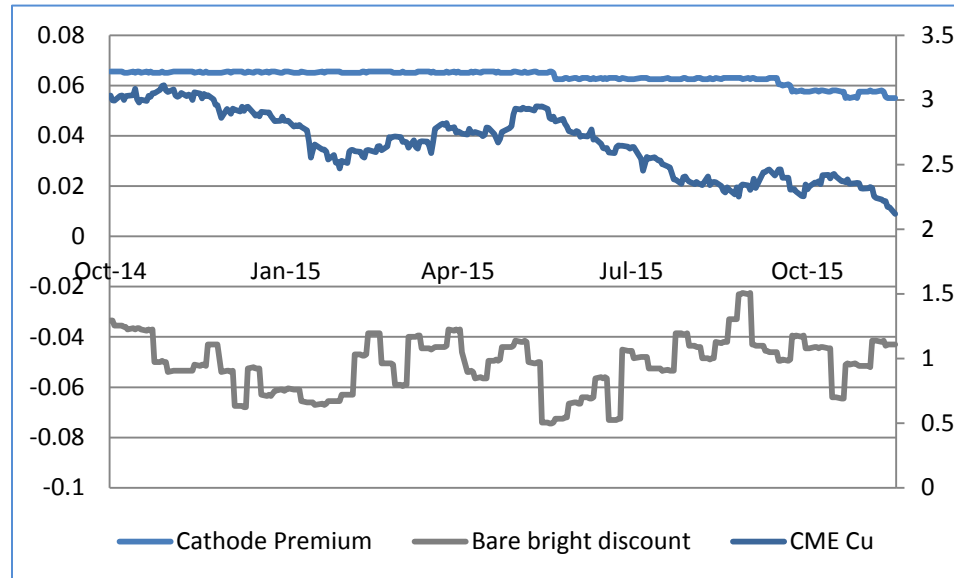


CME copper spot-month prices in US dollars and euros, indexed to January 2015

- Copper prices drop when the dollar is strong – and the US dollar has been on a tear
- But copper in 2014 and 2015 has reacted to China fundamentals and weak demand, more than any currency impact
- Copper futures in US dollar and euro terms have slumped – that delta here is that currency effect
- US\$ copper down 31pc from 2014
- € copper dropped only 24pc in the same period

# Copper: Can spreads hold?

Copper and copper spreads

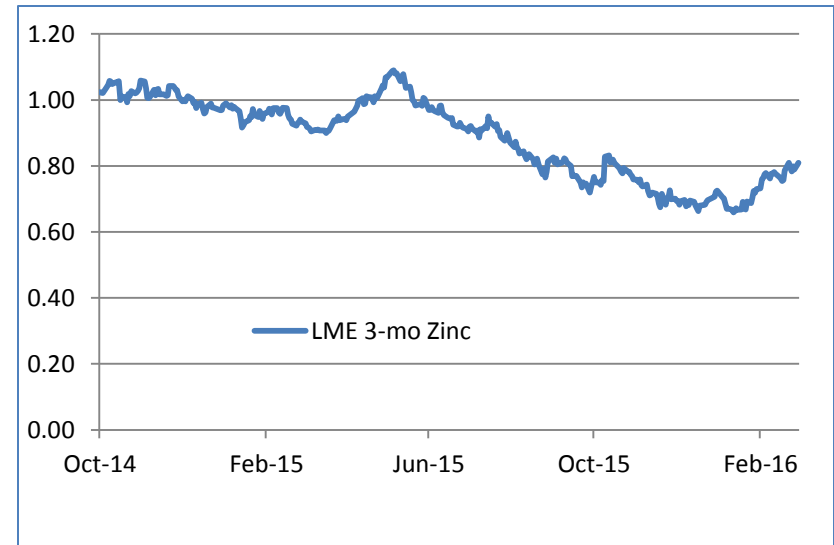


- Spot cathode premiums have stayed relatively steady despite overall weakness in copper prices
- Buyers want 2016 cathode premiums to drop by 1 cent for annual contracts. Sellers willing to concede up to 0.5 cents.
- Bare bright spreads are a much better indicator of US physical demand and supply fundamentals

# That zincing feeling?

- Virgin zinc markets have been under pressure in the US
- Zinc gets a seasonal pop, anticipating the construction season
- Market is expected to be in a 440,000 mt deficit by year end, the biggest deficit in a decade
- Galvanized steel production has been less robust than expected, that is half of zinc demand

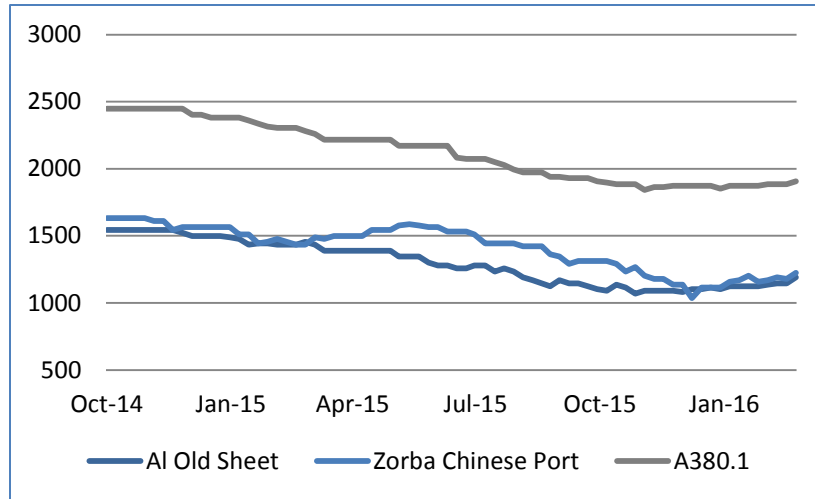
LME 3-month Zinc \$/lb



# Aluminum: Secondary market review

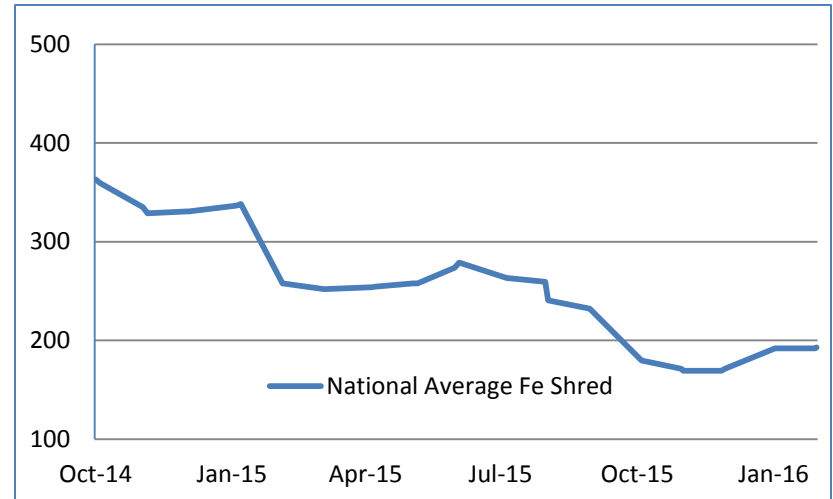
Aluminum scrap prices

\$/mt



National average shredded ferrous scrap

\$/mt

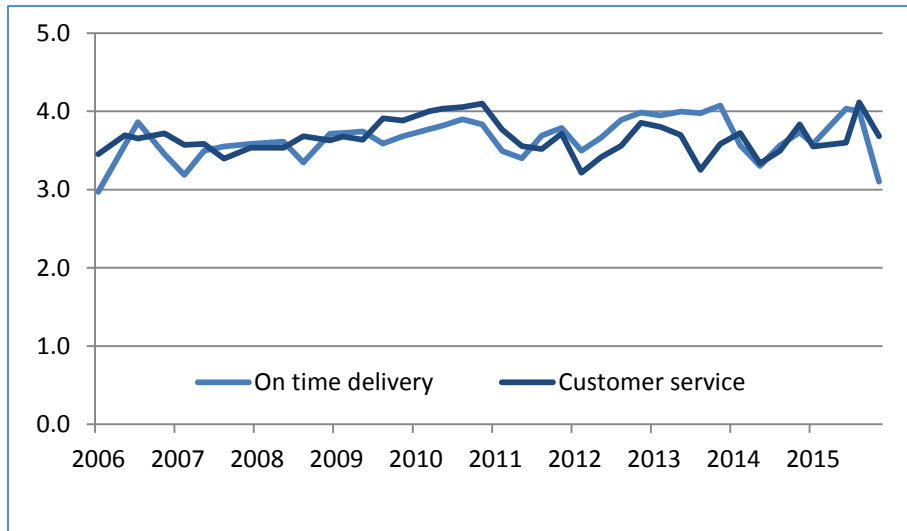


- Zorba prices to China outperformed domestic secondary scrap prices in 2015
- This was driven by many viewing low US prices as a buying opportunity
- Some concerns of tighter supply due to falling ferrous scrap market also triggered some buying
- This has also caused domestic prices to increase a little recently and tightened the spread to zorba

# Rail quality slumped to lowest level since 2012

Argus OTDI Metals survey

1-5, 5 points is best



Argus Rail Business publishes service metrics for US Class I railroads. For survey methodology, please email [transport@argusmedia.com](mailto:transport@argusmedia.com).

- Argus tracks two core metrics for metals transportation on the US rail system: delays and customer service
- Shippers say service quality dropped in the fourth quarter of 2015, despite few delays in rail deliveries
- Local service dominates shipper concerns as railroads reduce headcount
- Point-to-point movements ran fairly well because of lower overall rail shipments freeing up capacity
- Shippers leery of what the future holds given rail rate firmness and weak metals pricing





# Outlook: 2016 and beyond

What do the markets anticipate

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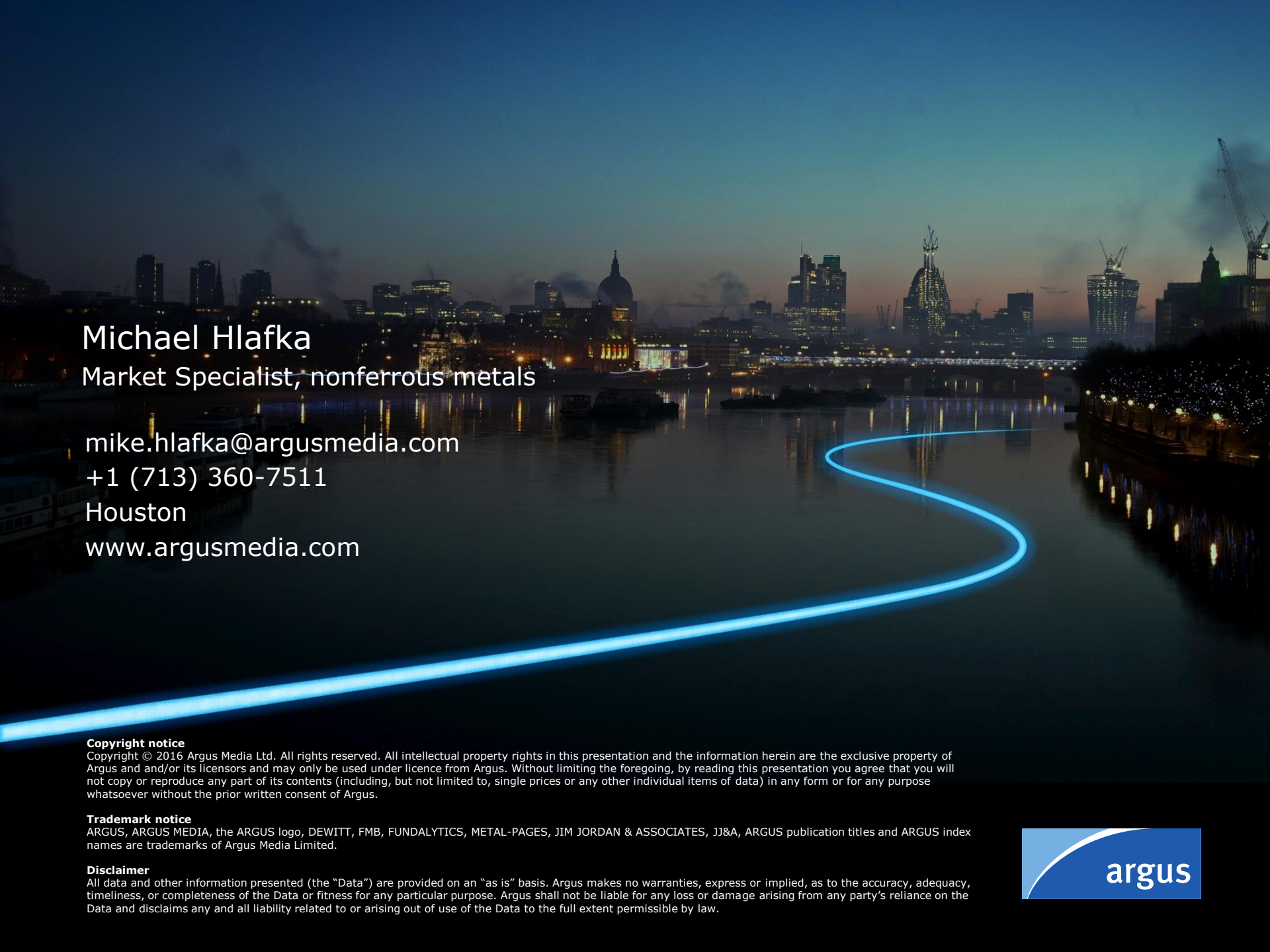
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# Looking ahead: steel

- Headwinds: global overcapacity, slower economic growth in China, low investment in steel industry, turbulent financial markets, weak demand from emerging markets and geopolitical conflict
- US steel producers expect automotive strength to continue along side gradual improvement in nonresidential construction market
- Energy, heavy equipment and agriculture expected to remain weak in current quarter. Steel producers anticipate late 2016 recovery for oil and energy.
- Mining industry expected to remain challenged by low commodity prices, decreased capital spending and destocking actions
- Producers expect any positive impacts from steel trade cases can benefit production only towards the end of Q1 2016 or later
- Portside inventory of already imported products and healthy service center inventories need to be drawn down for domestic production to improve
- Uncertainty on steel price direction has caused slower pace of supply chain inventory rebalance

# Looking ahead: Scrap and base metals

- Base metal producers expected to spend 2016 curtailing supply to find balance with weaker demand: analysts
- Prices will remain under pressure until higher priced supply is removed from the market and low price environment stabilizes: analysts
- Strong dollar expected to lower scrap export volumes
- Strong dollar expected to increase scrap imports which could impact domestic scrap and finished product prices
- Recycling industry under severe financial strain as lower margins in lower volume environment has hurt many players
- Participants feel stability in markets will spur more obsolete/retail scrap collection
- Price stability encourage service centers to increase buying finished product which will boost domestic production and in turn, demand for scrap



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