O'NEAL STEEL
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MARKETINFORMER
October 2021

Monthly Market Intelligence for Customers of O'Neal Steel

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U.S. ECONOMIC NEWS

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U.S. Employers Added 194,000 Jobs in September—That was down from 366,000 in August and far below the more than one million jobs added in July, before the more contagious Delta variant led to a spike in coronavirus cases across much of the country. The latest COVID-19 wave led to a second straight month of disappointing job growth, as Americans avoided restaurants and travel and were reluctant to rejoin the work force.

The unemployment rate fell to 4.8% percent. That figure doesn't reflect millions of people who have left the labor force and so far have been reluctant or unable to return to work.

The data released on October 8 was collected in mid-September, when the Delta wave was near its peak. Since then, cases and hospitalizations have fallen in much of the country, and more timely data from private-sector sources suggests that economic activity has begun to rebound. If those trends continue, job growth could approach its pre-Delta pace later this fall. Full Story
Source: NYTimes, 10.08.2021

U.S. Core Capital Goods Orders, Shipments Rise Strongly in August—New orders and shipments of key U.S. made capital goods increased solidly in August amid strong demand for computers and electronic products, keeping business spending on equipment on track for another quarter of robust growth. The sustained strength in business investment is expected to limit the hit on economic growth from an anticipated slowdown in consumer spending as the boost from fiscal stimulus fades.

Demand for goods is being driven by businesses desperate to replenish inventories, depleted in the first half of the year.

"The resilience of investment is one reason why we expect overall GDP growth will slow marginally in the third quarter, despite a bigger slump in consumption growth," said Michael Pearce, senior U.S. economist at Capital Economics in New York. Full Story
Source: CNBC, 09.27.2021

UN Says World Economy To Grow At Fastest Pace In Almost 50—The global economy is expected to undergo its fastest recovery in almost five decades this year, but deepening inequities between advanced and developing countries threaten to undermine this, the United Nations warned. Following last year's 3.5% contraction, world gross domestic product will likely surge 5.3% in 2021 due to "radical" policy interventions and a successful, if incomplete, vaccine rollout in advanced economies, the UN Conference on Trade and Development (UNCTD) said in a report September 15.

Expansion may slow to 3.6% next year, taking the estimated cumulative income loss since 2020 to $13 trillion, it said. Many countries in the southern hemisphere have been hit especially hard during the pandemic, and fiscal constraints, a lack of monetary autonomy and poor access to COVID-19 vaccines could escalate economic stress on developing nations, according to the report. Full Story
Source: Bloomberg, 09.15.2021

Fed's Evans Sees Inflation Falling Below Central Bank's 2% Target After Current Rise Subsides

The current spate of inflation won't last and ultimately will fall below the Federal Reserve's target, Chicago Fed President Charles Evans said October 5. While inflation by some measures is running at a 30-year high, Evans told CNBC the supply chain bottlenecks and other issues will subside and price pressures will fade. "I'm comfortable in thinking that these are elevated prices, that they will be coming down as supply bottlenecks are addressed," he told CNBC's Steve Liesman during a "Squawk Box" interview. "I think it could be longer than we were expecting, absolutely, there's no doubt about it. But I think the continuing increase in these prices is unlikely."

Inflation has been at 3.6% year over year in the past couple of months, the highest since the early 1990s, according to the Fed's preferred gauge. Other measures, such as the consumer price index, have inflation running even hotter. Evans acknowledged that the trend is putting pressure on the economy.

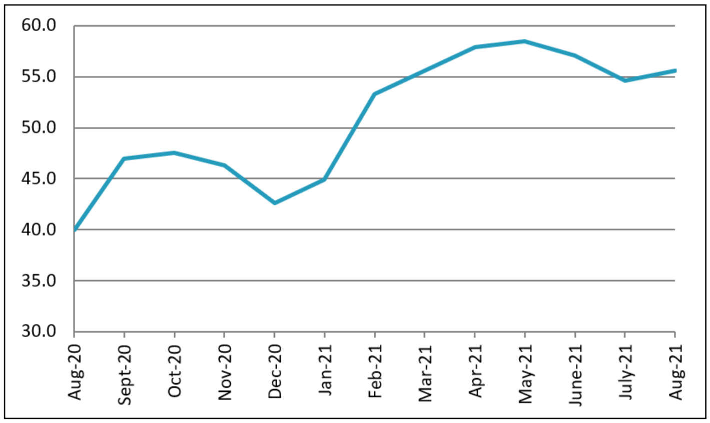
"That definitely is a challenge for households and businesses. I mean, it cuts into income, wages. So that's a problem. We're definitely monitoring that," he said. "It's really not a monetary policy issue, it's an infrastructure supply issue at the moment. So I think inflation will be coming down, and I think once it's come down, we're still going to be in a low interest rate … world."

Nevertheless, the Fed broadly has indicated that it has met the inflation part of its mandate, with the level running well above the 2% goal. Consequently, the central bank is expected to begin slowly pulling back on the unprecedented support it has provided during the pandemic, starting with a tapering of monthly asset purchases.

However, interest rate increases are not expected to being until at least the end of 2022, according to current Federal Open Market Committee projections. Market pricing sees the first hike coming either in November or December of next year, according to the CME's FedWatch tool. Full Story *Source: CNBC, 10.05.2021*

KEY ECONOMIC INDICATORS

Architecture Billings Index (ABI)

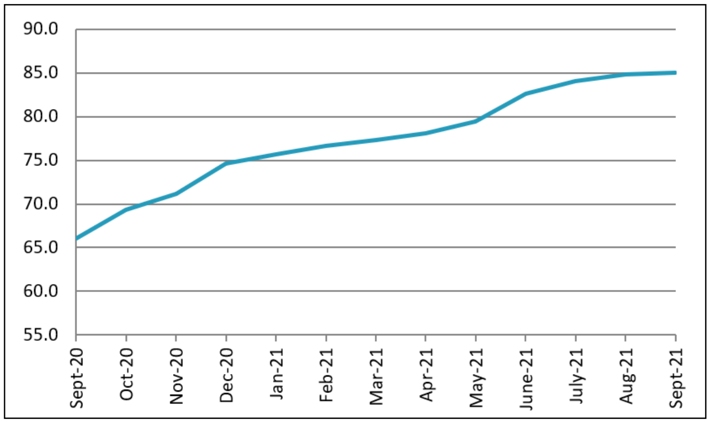


The Architecture Billings Index (ABI) recorded its seventh consecutive positive month, according to a new report today from The American Institute of Architects (AIA).

The ABI score for August was 55.6, up from July's score of 54.6. Any score above 50 indicates an increase in billings from the prior month. During August, scoring for both the new project inquiries and design contracts moderated slightly but remained in positive territory, posting scores of 64.7 and 56.6 respectively.

The **Architecture Billings Index (ABI)** is a diffusion index derived from the monthly Work-on-the-Boards survey, conducted by the AIA Economics & Market Research Group. The ABI serves as a leading economic indicator that leads nonresidential construction activity by approximately 9-12 months. An index score of 50 represents no change in firm billings from the previous month, a score above 50 indicates an increase in firm billings from the previous month, and a score below 50 indicates a decline in firm billings from the previous month.
Source: American Institute for Architects, 09.22.2021

Steel Capability Utilization

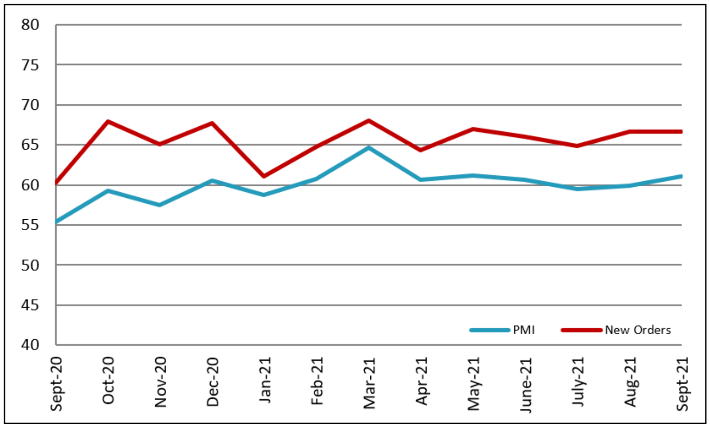


In the week ending on September 25, 2021, domestic raw steel production was 1,880,000 net tons while the capability utilization rate was 85.2%. Production was 1,537,000 net tons in the week ending September 25, 2020 while the capability utilization then was 68.6%. The current week production represents a 22.3% increase from the same period in the previous year. Production for the week ending September 25, 2021 is up 0.3% from the previous week ending September 18, 2021 when production was 1,874,000 net tons and the rate of capability utilization was 84.9%.

Adjusted year-to-date production through September 25, 2021 was 69,540,000 net tons, at a capability utilization rate of 81.0%. That is up 20.2% from the 57,841,000 net tons during the same period last year, when the capability utilization rate was 66.8%.

Steel Capability Utilization is a domestic report based on estimates from companies representing approximately 90% of the Industry's Raw Steel Capability as compiled by the American Iron and Steel Institute.
Source: AISI, 09.25.2021

Purchasing Managers Index (PMI)®



The September Manufacturing PMI® registered 61.1%, an increase of 1.2 percentage points from the August reading of 59.9%. This figure indicates expansion in the overall economy for the 16th month in a row after contraction in April 2020. The New Orders Index registered 66.7%, unchanged from the August reading. The Production Index registered 59.4%, a decrease of 0.6 percentage point compared to the August reading of 60%. The Prices Index registered 81.2%, up 1.8 percentage points compared to the August figure of 79.4 percent. The Backlog of Orders Index registered 64.8%, 3.4 percentage points lower than the August reading of 68.2%. The Employment Index returned to growth with a reading at 50.2%, 1.2 percentage points higher compared to the August reading of 49%. The Supplier Deliveries Index registered 73.4%, up 3.9 percentage points from the August figure of 69.5%. The Inventories Index registered 55.6%, 1.4 percentage points higher than the August reading of 54.2%. The New Export Orders Index registered 53.4%, a decrease of 3.2 percentage points compared to the August reading of 56.6%. The Imports Index registered 54.9%, an 0.6 percentage point increase from the August reading of 54.3%.

The 17 manufacturing industries reporting growth in September, in the following order: Furniture & Related Products; Petroleum & Coal Products; Machinery; Electrical Equipment, Appliances & Components; Computer & Electronic Products; Chemical Products; Apparel, Leather & Allied Products; Textile Mills; Paper Products; Printing & Related Support Activities; Miscellaneous Manufacturing; Food, Beverage & Tobacco Products; Fabricated Metal Products; Transportation Equipment; Primary Metals; Nonmetallic Mineral Products; and Plastics & Rubber Products. The only industry reporting a decrease in September compared to August is Wood Products. *Source: Institute for Supply Management, 10.01.2021*

Supply Chain Bottlenecks Will Persist Unless One Of Two Things Happens, Expert Explains

Although businesses may be struggling with unexpected cargo delays, supply chain bottlenecks may not be resolved in the near term. "I don't see a line of sight where this ends anytime soon," Weston LaBar, head of strategy at Cargomatic, a freight load-matching company, told Yahoo Finance. Some experts even expect the supply chain problems to hit the holiday shopping season. Container ships have been delayed for days at major ports on the West Coast, and trucking routes have been at maximum capacity as a labor shortage plagues the industry.

"One of the big impacts of COVID was the impact of e-commerce and the need for more drivers in the industry, the need for more infrastructure in the form of local delivery centers, to be able to get products to homes, and this continues to impact the supply chain," LaBar explained. And looking at forecasts through 2022, "I don't think you're going to see much of a dip in or reprieve in these bottlenecks," LaBar added, "until you see either consumer spending habits change or a massive investment in both our infrastructure and our workforce."

Stephen Lamar, president and CEO of the American Apparel & Footwear Association, told Yahoo Finance Live on October 1 that the current situation "is a crisis of epic proportion, and it's really just been getting worse."

Due to massive delays at the Los Angeles and Long Beach ports, shipping costs have rapidly risen north. Lamar warned that not only are those hikes likely to be passed on to consumers, but they could also affect the country's economic recovery. "Unfortunately, when you look at these high freight costs, when you look at the delays, customers are going to find empty shelves, they're going to find higher prices," Lamar said. "And ultimately one of the things we're afraid of is that that's going to mean job losses. Because if companies can't get their goods in, if they can't sell their goods, that means they don't have the revenue to keep workers on payroll."

According to LaBar, a unique cause for the labor shortage in the trucking industry, one that his company works closely with, is due to the specialized needs some products require.

"When you have a need for a hazmat driver because you have hazardous materials or you have a need for a driver to have special permits or qualifications, like going in and out of seaports, or going in and out of rail ramps," LaBar explained, "that obviously creates a bigger constraint because we have a massive truck driver shortage." Getting the right type of truck drivers for specialized commodities and products is "where we've seen the biggest delays," he stressed.

Lamar called on the White House to provide additional support during this period, such as suspending the tariffs imposed by the Trump administration and concentrating efforts to address the bottlenecks.
Source: Yahoo Finance, 10.04.2021

Oil Eases As U.S. Mulls Strategic Reserve Sales

Oil prices extended losses from the previous session on October 7, as the U.S. said it was considering selling oil from its strategic reserves and as Russia said it was ready to stabilize the natural gas market. Brent crude prices were down 16 cents, or 0.2%, at $80.92 a barrel by 1306 GMT, after touching a session low of $79.08. WTI crude futures fell 30 cents, or 0.4%, to $77.13 a barrel, having hit a session low of $74.96. Both contracts fell about 2% on October 6.

"The crude market might be less tight should the U.S. tap the strategic crude reserves and if Russia manages to send more natural gas to Europe, this might result in less substitution from natural gas to crude," said UBS analyst Giovanni Staunovo.

U.S. Energy Secretary Jennifer Granholm said on October 6 that the administration is considering tapping the country's Strategic Petroleum Reserve (SPR) to cool a surge in gasoline prices, the Financial Times reported. Granholm also did not rule out a ban on crude exports, which was lifted in 2015.

Goldman Sachs said a likely SPR release, which could be up to 60 million barrels, only posed a $3 downside risk to its $90/bbl year-end Brent price forecast. A larger-than-expected rise in U.S. crude inventories last week also weighed on prices. Stocks rose by 2.3 million barrels, the U.S. Energy Information Administration said, against expectations for a modest dip of 418,000 barrels.

Russian President Vladimir Putin said on October 6 that Russia was boosting gas supplies to Europe, including via Ukraine, in response to the energy crunch and stands ready to stabilize the market amid surging prices. Such a move could help cool off record high gas prices.

Analysts say as winter approaches those gas prices could have an impact on the already market as some users switch to oil. d Earlier this week, the Organization of the Petroleum Exporting Countries and allies (OPEC+) agreed to stick to its plan to raise output by 400,000 bpd in November, sending crude prices to multi-year highs.

OPEC+'s decision was partly driven by concern that demand and prices could weaken, sources close to the group told Reuters.
Source: Reuters,10.07.2021

Aluminum Prices And The Demand Picture

Inventory supply chain restocking is driving demand in North America and Europe. That process has been exacerbated by a nightmare global logistics market hampering deliveries and pushing up costs. But a Reuters article points the finger firmly at a supply-side squeeze, principally in China and to a lesser extent among Western producers. According to the post, China is in the grip of a power crunch. A shortage of coal supplies, toughening emissions standards and strong demand from manufacturers and industry have pushed coal prices to record highs and triggered widespread curbs on usage. As a result, China has implemented rationing during peak hours in many parts of the country. Some residential customers are facing cuts and outages.

As winter approaches, rationing is likely to fall more on industrial uses. Residential consumers would face temperatures below zero in northern provinces, where failure to provide heating would risk social unrest. Against a backdrop of tight coal supplies, toughening emissions standards have forced some provinces to ration coal-fired power production to meet China's pledge to cut energy intensity during this decade. According to Reuters, output curbs have hit steel, aluminum, and cement industries particularly hard. About 7% of aluminum production capacity has been suspended.

A later Reuters post states that some 2.33 million tons per year of smelter capacity has been cut because of energy restrictions linked to Beijing's decarbonization goals. Rather than a planned increase in annualized capacity this year of 1.8 million tons, it could be well into 2022 before that capacity is gradually brought to market. As such, that would prolong the tight market and elevated aluminum prices. A gradual improvement in global shipping constraints and more balanced supply chain inventory levels will gradually ease demand next year. However, it is becoming increasingly clear that the aluminum supply market could remain tight through the middle of next year.

Aluminum prices have potential to not just punch through the LME's $3,000 per metric ton level. Not only that, they could also stay there in coming months. ***Source: MetalMiner, 09.28.2021***

SBA Quadruples EIDL Loan Amount For Pandemic-Impacted Businesses

As the U.S. Chamber of Commerce reported, small businesses are now eligible for additional financial assistance because of several major enhancements that are being implemented as part of the U.S Small Business Administration's (SBA) COVID Economic Injury Disaster Loan (EIDL) program. Effective immediately, businesses can apply for loans of up to $2 million. The previous cap was $500,000. As part of the loan enhancements, repayments can now be deferred for 24 months from the date they were issued. The SBA also announced a 30-day exclusivity period during in which loans of $500,000 or less will be reviewed, approved, and distributed, allowing for easier and more immediate access to a share of the estimated $150 billion in funds available for capital and operating expenses including payroll, equipment purchases, and paying off debt. EIDL funds also now will be approved for pre-paying commercial debt and to alleviate federal business debt.

A detailed outline of the key changes, important dates and guidance on how to apply is available on the SBA website.
Source: MSCI, 09.20.2021

Reshoring On Track To Hit Record Highs In 2021

If present trends hold, we may be in for a boom era of U.S. manufacturing reshoring. The latest report from the Reshoring Initiative projected the U.S. is on track to add a total of 224,213 jobs from abroad in 2021, 38% more than the 161,000 added in 2020 due to reshoring and foreign direct investment (FDI). The Initiative, which publishes semiannual reports on manufacturing jobs returning to the U.S. from other countries, also predicted that 2021 would see more jobs created due to reshoring than federal direct investment for a second year in a row.

According to the data, reshoring is on track to make up 62% of such jobs this year—a smaller percentage than last year, when seven out of ten such jobs were reshored, but a sizeable increase in absolute terms.

Essential products investment is helping drive this year's gains, the Initiative said, including increased funding for domestic semiconductors, electric vehicle batteries and pharmaceuticals. Those products—in addition to PPE and rare earth metals—represent collectively about 28% of returning jobs. As was the case in 2020 and 2019, the transportation equipment industry is expected to rehome more jobs than any other sector, but the chemicals and electronics sectors are catching up.

Transportation equipment is forecast to add 54,961 reshored or foreign-investment-created jobs this year, or 25% of all such jobs. That notably includes electric vehicle battery production.

Chemical companies are expected to add 37,233 jobs or 17% of new jobs from abroad. Full Story
Source: IndustryWeek 09.20.2021

U.S. Trade Chief Tai Seeks Talks With China, Won't Rule Out New Tariff Actions

Top U.S. trade negotiator Katherine Tai on October 4 pledged to exclude some Chinese imports from tariffs imposed by former President Donald Trump while pressing Beijing in "frank" talks over its failure to keep promises made in Trump's trade deal and end harmful industrial policies. Tai said the U.S. would keep all options open as it continues to push China to stop pouring billions of dollars of state subsidies into its semiconductor, steel and other industries that Washington says harm U.S. companies.

Unveiling the results of a months-long "top-to-bottom" review of China trade policy, Tai said she will seek a meeting with Chinese vice premier Liu He in coming days to review China's failure to comply with the "Phase 1" trade deal launched in February 2020, including a shortfall of promised U.S. goods purchases. "Above all else, we must defend–to the hilt–our economic interests," Tai told an event hosted by the Center for Strategic and International Studies think tank. "That means taking all steps necessary to protect ourselves against the waves of damage inflicted over the years through unfair competition."

Washington was "prepared to deploy all tools and explore the development of new ones, including through collaboration with other economies and countries" as it charted a new course to change the trajectory of the U.S.-China trade dynamic, she said. Tai's remarks were broadly welcomed by U.S. trade groups, although they criticized the lack of a clear road map for ending tariffs on U.S. goods that have hit U.S. companies and consumers and expanding trade opportunities for U.S. companies. "Our worry is that these tariffs will remain in place permanently and it will have a negative effect on the U.S. economy," said Doug Barry, spokesman for the U.S.-China Business Council, which speaks for 200 firms doing business in China.

Tai also said she would revive a "targeted" process of approving exclusions for certain Chinese imports from punitive U.S. tariffs, offering a measure of relief to U.S. industry, with additional exclusion processes possible in the future. Most previous tariff exclusions had expired at the end of 2020. However, she did not rule out starting fresh investigations under the Section 301 trade law, which could result in new tariffs, saying that would depend on China's actions. "We have a lot of work to do," Tai said. "For too long, China's lack of adherence to global trading norms has undercut the prosperity of Americans and others around the world."

Tai said she expected to engage in frank conversations with her counterpart about China's performance under the Phase One Agreement, and shortfalls in its purchase commitments, but would also engage directly with Beijing on broader issues. She rejected the idea of separate "Phase 2" talks envisioned by Trump to tackle issues such as massive subsidies to domestic industries, saying they would be discussed in forthcoming talks.

The two-year Phase 1 deal was crafted at the end of 2019, just as the coronavirus outbreak was emerging in China. The subsequent COVID-19 pandemic caused the steepest drop in global GDP since the 1930s Great Depression, wreaking havoc on trade flows and global supply chains, which continue to struggle as demand recovers.

China agreed to purchase $200 billion in additional U.S. farm and manufactured goods, energy and services over 2017 levels over the two years of the agreement, but has hit just 62% of the target, according to estimates by Chad Bown, a senior fellow at the Peterson Institute for International Economics. Tai said she had not spoken with Chinese officials thus far about factors that limited its purchases. Full Story
Source: Reuters, 10.04.2021

U.S. Commerce Department Issues Rule To Improve Trade Enforcement

The U.S. Department of Commerce's International Trade Administration published a final regulation in the Federal Register on September 20 that seeks to improve administration and enforcement of antidumping duty (AD) and countervailing duty (CVD) laws. The regulation will take effect on October 20.

Specifically, the Commerce Department is modifying:

- Submission time for comments regarding industry support in AD, CVD proceedings;
- Rules regarding new shipper reviews;
- The scope matters in AD and CVD proceedings;
- Procedures for importer reimbursement certifications that are filed with U.S. Customs and Border Protection; and
- Rules regarding service lists, entries of appearance, and importer filing requirements for access to business proprietary information in AD and CVD proceedings.

The Commerce Department also is promulgating a new rules concerning:

- The circumvention of AD and CVD orders;
- Covered merchandise referrals received from CBP; and
- Requests for certifications from interested parties to establish whether merchandise that is subject to an AD or CVD order.

A full summary of the final regulation is available here.
Source: MSCI, 09.28.2021

CELEBRATING OUR PAST

1921 100 O'NEAL 2021

FORGING OUR FUTURE

The O'Neal Family of Companies is celebrating an important milestone in 2021 - 100 years in the metals industry, guided by four generations of O'Neal leadership.

With roots tracing back to 1921 with the founding of O'Neal Steel, we have become the nation's largest family-owned network of metals service centers and component manufacturers. Today, we are composed of a parent company, O'Neal Industries, and eight affiliate companies: G&L Tube, Leeco Steel, Locate Supplies, O'Neal Manufacturing Services, O'Neal Steel, Stainless Tubular Products, TW Metals, and United Performance Metals.

To honor and commemorate this achievement, we would like to recognize and thank those whose contributions have made O'Neal's success possible. We thank our employees who have dedicated years of service and carried out our founding principles of integrity and commitment to excellence. We also thank our customers who we are fortunate to serve each and every day.

Our centennial is not only a celebration of the past, but a celebration of what the future holds, as our family of companies, employees, and customers continues to grow for years to come.

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