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April 2022

Monthly Market Intelligence for Customers of O'Neal Steel

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U.S. ECONOMIC NEWS

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March Jobs Report: Payrolls Rise By 431,000 As Unemployment Rate Falls To 3.6%—The U.S. economy notched another sizable payroll gain in March as the labor market extended a strong and speedy recovery to bring employment closer to pre-pandemic levels.

March's closely-watched jobs report saw payrolls come in lower than expected but still marked a fifteenth consecutive month of expansion for the U.S. workforce. Economists surveyed by Bloomberg had anticipated payrolls to rise by 490,000, according to consensus data. At 678,000, last month's employment report reflected a stunning upside surprise to investors, with payrolls rising 255,000 more than consensus estimates projected at the time. Full Story ***Source: Yahoo Finance, 04.01.2022***

Federal Reserve Approves First Interest Rate Hike In More Than Three Years—The Federal Reserve on March 16 approved its first interest rate increase in more than three years, an incremental salvo to address spiraling inflation without torpedoing economic growth. After keeping its benchmark interest rate anchored near zero since the beginning of the Covid pandemic, the policymaking Federal Open Market Committee said it will raise rates by a quarter percentage point, or 25 basis points. That will bring the rate now into a range of 0.25%-0.5%. The move will correspond with a hike in the prime rate and immediately send financing costs higher for many forms of consumer borrowing and credit. Fed officials indicated the rate increases will come with slower economic growth this year.

Along with the rate hikes, the committee also penciled in increases at each of the six remaining meetings this year, pointing to a consensus funds rate of 1.9% by year's end. That is a full percentage point higher than indicated in December. The committee sees three more hikes in 2023 then none the following year. The rate rise was approved with only one dissent. St. Louis Fed President James Bullard wanted a 50-basis point increase. The committee last raised rates in December 2018, then had to backtrack the following July and begin cutting. Full Story
Source: CNBC, 03.16.2022

Fed Factory Surveys Show Pickup In Inflation Expectations—Manufacturers from Texas to the East Coast signal they'll be paying more for raw materials in the next six months, and they also see room to pass some of those costs on to customers. Survey results from the Federal Reserve Bank of Dallas on March 28 showed a net 59.2% of Texas manufacturers in March expect to receive higher prices for their products six months from now.

Moreover, a gauge of current wages and benefits climbed to the highest in data back to 2004, underscoring a tight job market that's contributing to inflationary pressures throughout the country. Full Story ***Source: Bloomberg, 03.28.2022***

U.S. Goods Trade Deficit Narrows; Retail Inventory Accumulation Slows

The U.S. trade deficit in goods narrowed in February after setting a record high in the prior month as exports rebounded, but any lift to economic growth this quarter could be offset by businesses slowing their pace of inventory accumulation. The deficit fell 0.9% to $106.6 billion, the Commerce Department said on March 28. Exports increased 1.2% to $157.2 billion. The rebound in exports was led by a 6.3% surge in shipments of consumer goods.

Food exports accelerated 3.6%, while industrial supplies increased 2.6%. But motor vehicle exports dropped 3.4% as production continued to be hampered by a global semiconductor shortage. There were also substantial declines in exports of capital goods and other goods.

Imports of goods gained 0.3% to $263.7 billion. They were curbed by a 9.9% decline in imports of motor vehicles as well as a 3.0% drop in food imports. But there were strong increases in imports of industrial supplies and other goods.

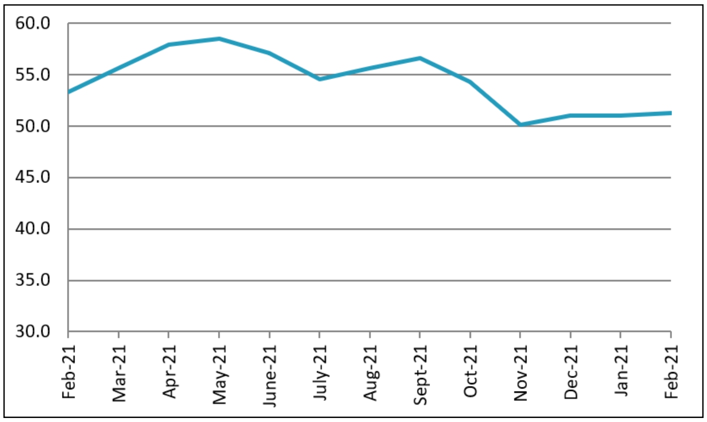
Capital goods imports also rose as did consumer goods—Trade has subtracted from gross domestic product growth for six straight quarters and could still remain a drag this quarter. While businesses continued to replenish inventories in February, the pace was less frantic than in the last months of 2021. Wholesale stocks increased 2.1% after climbing 1.1% in January. Retail inventories rose 1.1% in February following a 1.9% advance in January.

Motor vehicle inventories gained 0.9% after surging 2.5% in January. Excluding motor vehicles, retail inventories increased 1.2% after accelerating 1.7% in January. This component goes into the calculation of GDP growth.

Inventory investment accelerated at a robust seasonally adjusted annualized rate of $171.2 billion in the fourth quarter, contributing 4.90 percentage points to the quarter's 7.0% growth pace. Despite February's rise, inventories are likely to be neutral to GDP growth this quarter as they would need to increase at a similarly fast rate as the fourth quarter to contribute to growth. First-quarter GDP growth estimates are mostly below a 1.0% pace. ***Source: Reuters, 03.28.2022***

KEY ECONOMIC INDICATORS

Architecture Billings Index (ABI)

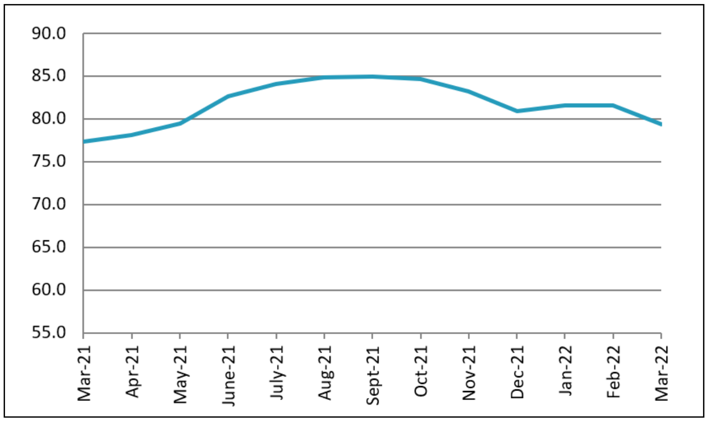


Demand for design services in February grew slightly since January, according to a new report today from The American Institute of Architects (AIA).

AIA's Architecture Billings Index (ABI) score for February was 51.3, up from a score of 51.0 in January. Any score above 50 indicates an increase in billings. Firms reported both project inquiries and design contracts remaining positive in February, but while project inquiries increased to 62.5 from 61.9 in January, design contracts decreased to 55.2 from 56.1.

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, 03.23.2022

Steel Capability Utilization

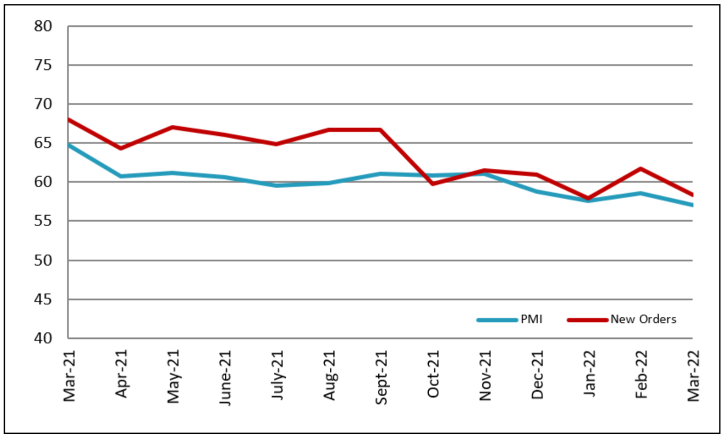


In the week ending on March 26, 2022, domestic raw steel production was 1,726,000 net tons while the capability utilization rate was 79.4%. Production was 1,768,000 net tons in the week ending March 26, 2021 while the capability utilization then was 78.0%. The current week production represents a 2.4% decrease from the same period in the previous year. Production for the week ending March 26, 2022 is down 0.9% from the previous week ending March 19, 2022 when production was 1,742,000 net tons and the rate of capability utilization was 80.2%.

Adjusted year-to-date production through March 26, 2022 was 21,225,000 net tons, at a capability utilization rate of 80.4%. That is unchanged from the 21,218,000 net tons during the same period last year, when the capability utilization rate was 77.1%.

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, 03.28.2022

Purchasing Managers Index (PMI)®



The March Manufacturing PMI® registered 57.1%, a decrease of 1.5 percentage points from the February reading of 58.6%. This figure indicates expansion in the overall economy for the 22nd month in a row after a contraction in April and May 2020. This is the lowest reading since September 2020 (55.4%). The New Orders Index registered 53.8%, down 7.9 percentage points compared to the February reading of 61.7%. The Production Index reading of 54.5% is a 4 percentage point decrease compared to February's figure of 58.5%. The Prices Index registered 87.1%, up 11.5 percentage points compared to the February figure of 75.6%. The Backlog of Orders Index registered 60%, 5 percentage points lower than the February reading of 65%. The Employment Index figure of 56.3% is 3.4 percentage points higher than the 52.9% recorded in February. The Supplier Deliveries Index registered 65.4%, a decrease of 0.7 percentage point compared to the February figure of 66.1%. The Inventories Index registered 55.5%, 1.9 percentage points higher than the February reading of 53.6%. The New Export Orders Index reading of 53.2% is down 3.9 percentage points compared to February's figure of 57.1%. The Imports Index registered 51.8%, a 3.6 percentage point decrease from the February reading of 55.4%.

Fifteen manufacturing industries reported growth in March, in the following order: Apparel, Leather & Allied Products; Furniture & Related Products; Food, Beverage & Tobacco Products; Electrical Equipment, Appliances & Components; Miscellaneous Manufacturing; Machinery; Textile Mills; Transportation Equipment; Fabricated Metal Products; Paper Products; Chemical Products; Computer & Electronic Products; Nonmetallic Mineral Products; Primary Metals; and Plastics & Rubber Products. The two industries reporting a decrease in March compared to February are: Wood Products; and Petroleum & Coal Products. *Source: Institute for Supply Management, 04.01.2022*

Nickel Goes For Turbulent Ride On LME

A little over a year ago, GameStop was at the center of the meme stock craze, where retail investors upended the Wall Street order. Over the three two weeks, it was the LME's time to get shaken up.

Nickel prices skyrocketed more than 250% over the course of two days. The LME responded by canceling billions in trades, pushing the price back down. Finally, software glitches prevented trading on the exchange. It is a mess, one that not only the speculators and traders have to contend with.

The Nickel Institute, which represents those companies who use the vital metal for manufacturing, was pleased that partial reopening of trading had resumed, but has questions how the LME will repair the damage done.

"A well-functioning LME is a critical part of enabling nickel's efficient use, globally," said Dr. Hudson Bates, president of the institute. "Producers and users alike depend on an efficient, transparent, equitable and effective LME. Following the recent disruption to nickel trading, the Nickel Institute is highly concerned about the negative impacts throughout the nickel value chain and on downstream users. There is still a lack of information regarding the outlook for resumption of normal trading on a regular and consistent basis. The current situation is causing major reputational damage for both the nickel industry and the LME with the potential for a loss of confidence and demand destruction for nickel growing by the day."

The Nickel Institute hopes the incident results in a stronger, more transparent system with a reliable set of safeguards to protect the market and its participants.
Source: MCN, 03.22.2022

Intel CEO Says Semiconductors Are Like Oil—Making More In U.S. Can Avoid Global Crises

On Intel CEO Pat Gelsinger on March 23 likened semiconductors to oil, suggesting that computer chips will play a central role in international relations in the decades ahead. "Oil reserves have defined geopolitics for the last five decades. Where the fabs [factories] are for a digital future is more important," Gelsinger said in an interview on CNBC's "Squawk Box." "Let's build them where we want them, and define the world that we want to be part of in the U.S. and Europe."

Fabs is shorthand for fabrication plants, which are the factories where semiconductors are manufactured. The vast majority of chips are currently made in Asia, especially in Taiwan. That concentration has raised natural security concerns, particularly as China has scaled up its military presence near the democratically ruled island that Beijing claims as its own.

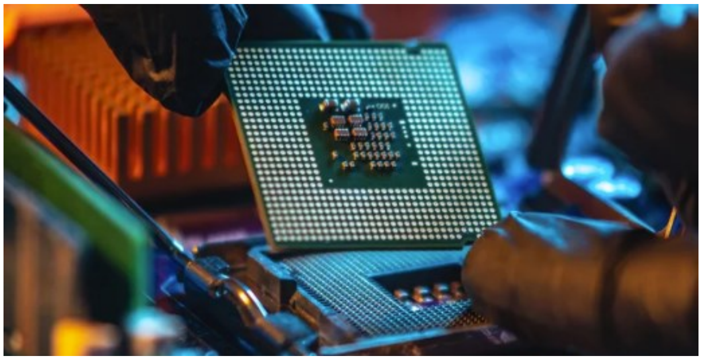
Semiconductors also have been in short supply during the Covid pandemic, as production disruptions clashed with surging demand for the chips that are used in electronics, ranging from smartphones to cars to washing machines. Under Gelsinger's leadership, Intel has made an aggressive push to geographically diversify chip manufacturing. In recent months, Intel has announced massive investments to build new fabs in the U.S. and Europe. Intel also started work last year on two chip factories in Arizona.

The Santa Clara, California-based company—an influential firm in the early days of Silicon Valley—also has been pushing officials in both Washington and Brussels to support legislation that would include government money to assist in semiconductor production. Gelsinger's comments March 23 came ahead of his testimony before the U.S. Senate in support of a $52 billion subsidy plan. The former chief of cloud computing company VMWare, Geslinger, is not the first person to compare semiconductors to oil. But his remarks take on increased salience because crude oil prices jumped this year due, in part, to the Russia-Ukraine war and fears of supply disruptions.

It's the latest instance of geopolitical tensions leading to elevated fuel prices and, in turn, concerns about their impact on American consumers. It's happened before, such as in the energy crisis of the 1970s. Geslinger expressed concern for the humanitarian consequences of Russia's attack on Ukraine, while also pointing to economic implications.

"While the Russia-Ukraine situation isn't central to any of the supply chains for semiconductors, it just reinforces the geopolitical instability and the urgency around building supply chains that are geographically balanced—U.S., Europe and Asia—and far more resilient for the digital future," he said.

"Everything digital runs on semiconductors, and it is just essential that we build these fabs where we want them.
Source: CNBC, 03.23.2022



Source: Adobe Stock

U.S. Government Explores Impact Of Adoption Of Low-Carbon Steelmaking In Other Companies

The U.S. Energy Information Administration (EIA) recently issued a report that explores the likely outcomes if the global steel industry became an early adopter of renewable hydrogen and increased its share of steel produced using electric arc furnaces. The EIA estimated outcomes for four countries or regions: China, Europe, Japan, and South Korea. The report assumed that renewable-sourced hydrogen reached cost parity with fossil fuel-based hydrogen by 2030.

The report found the largest decrease in carbon intensity would be in Europe where, by 2050, carbon intensity would be cut by 31%. Europe represents less than one-tenth of world steelmaking, however. China is the largest global producer of steel. The EIA found the carbon intensity of crude steel production would fall 14% in China by 2050. South Korea's carbon intensity would decline 22% while Japan's would drop 24%.

The EIA noted steelmaking is one of the most energy-intensive industries, accounting for around 7% of global carbon dioxide emissions in 2020. About two-thirds of the world's steel is produced by a coal-based and carbon-intensive process. The remaining one-third of steel is produced through alternative processes, including the recycling scrap of steel. Producing a larger share of steel with electric arc furnaces, using renewable hydrogen instead of coal, and increasing the share of recycled steel used in production are potential ways to decarbonize the industry, the report concluded.

Read the EIA's analysis here.
Source: MSCI, 03.21.2022

SEC Proposes Publicly Traded Companies Disclose Emissions, Climate Risk

Publicly traded companies, required to reveal their intake and output of money, may soon have to disclose the same for carbon dioxide. The Securities and Exchange Commission proposed a new rule March 21, that would require large businesses to issue regular reports on greenhouse gas emissions caused by their operations and possible climate-related financial risks.

The rule is currently being made available for public comment. If taken up, it could take effect between 2024 and 2026, according to information published on the SEC's website. The French news agency AFP noted that the emissions-reporting proposal is similar to efforts taken by regulators in Japan and Europe.

The proposed rule would require relevant businesses to disclose three different "scopes" of greenhouse gas emissions. Scope 1 emissions are those caused directly by a company's own operations—carbon dioxide from a steel mill, for example. Scope 2 emissions are those indirectly caused by purchasing energy from a greenhouse gas-producing source, like electricity from a coal-powered energy plant, and Scope 3 emissions are those caused indirectly in a company's value chain, including energy sold to another business.

The SEC noted that the current proposal would provide an exemption from Scope 3 emissions disclosure for smaller companies. SEC Chair Gary Gensler, in a statement accompanying the proposal, said the new rule would be in line with the SEC's mandate to protect investors from risky investments. "Investors representing literally tens of trillions of dollars support climate-related disclosures because they recognize that climate risks can pose significant financial risks to companies, and investors need reliable information about climate risks to make informed investment decisions," said Gensler.

The proposal was criticized by Hester Pierce, the only Republican on the SEC, who voted against the proposal and argued that it privileges the perspective of "stakeholders for whom a company's climate reputation is of equal or greater importance" than its financial performance.

In a statement, National Association of Manufacturers President Jay Timmons tentatively agreed with Gensler on the utility of climate-risk disclosures but stepped well short of an endorsement. He also said his organization would work with the SEC to make sure the disclosures are useful information.

"Manufacturers support key disclosures related to publicly traded companies' climate strategies, as this information can help shareholders make informed decisions," said Timmons. "However, broad, sweeping disclosures could be counterproductive—requiring manufacturers to waste time and resources reporting irrelevant information that will not be decision-useful for shareholders," he added.
Source: Industry Week, 03.23.2022

Biden Administration Releases Updated Trade Agenda

Earlier this month, the Office of the U.S. Trade Representative released the Biden administration's 2022 Trade Policy Agenda and 2021 Annual Report, which is required by law and which outlines the current administration's trade priorities for the coming months and year.

The report also provides an overview of the measures the administration already has taken to address unfair trading practices, including when it comes to unfair trade of industrial metals.

In terms of future trade policy, the administration pledged to:

- agreements, with a particular focus on the U.S.-Mexico-Canada Agreement rapid response labor mechanism and supporting U.S. agriculture exports.
- Enhance U.S. engagement with trading partners, including deepening economic ties in the Indo-Pacific region, supporting a reform agenda at the World Trade Organization, defending U.S. economic interests at the Organization for Economic Cooperation and Development and leveraging trade policy as a tool to address irritants and common challenges with U.S. trading partners.
- Ensure fair competition with China, engaging with partners and allies on China-related challenges and using economic tools to defend U.S. interests.
- Broaden engagement with partners, stakeholders and Members of Congress on trade policy policies.
- Combat climate change and promoting sustainable environmental practices, while pursuing new trade policies that can address environmental concerns.
- Continue to strengthen supply chains and identifying supply chain vulnerabilities.
- Review and strengthen existing U.S. trade tools.

Source: MSCI, 03.14.2022

U.S. Will End Section 232 Metals Tariffs On British Products

On March 23, U.S. Commerce Secretary Gina Raimondo and U.S. Trade Representative Katherine Tai announced the U.S. will end Section 232 steel and aluminum tariffs on products from the United Kingdom (UK) and replace them with a system of tariff-rate quotas, or TRQs.

The new regime takes effect June 1, 2022. The agreement:

- Establishes a TRQ that will allow certain volumes of British steel and aluminum to enter the U.S. duty-free. Once shipments reach more than 500,000 metric tons for steel and 900,000 metric tons for aluminum, they would be subject to current Section 232 penalties, which are 25% for steel and 10% for aluminum.
  - In order to be eligible for duty-free treatment, steel imports generally must be "melted and poured" in the UK and have a UK country of origin.
  - Aluminum imports are subject to "smelt and cast" provisions where producers must prove products contain no aluminum from China, Russia, or Belarus.
- Requires attestations in cases where a known UK steel producer is owned or controlled by a company registered in China or a Chinese entity and exports steel to the U.S. government.
- Requires a UK steel company owned by a Chinese entity to audit their financial records to assess influence from the Chinese government. The results of the audit must be shared with the U.S. government.
- Requires the U.S. and UK to confer on non-market excess capacity and on the situation in global steel and aluminum markets, including market trends, domestic industry conditions, and analysis on import and export data. The two governments also will monitor steel and aluminum trade between the two countries and will share publicly available information and best practices on topics including fraud detection, evasion, and circumvention of duties.
- Requires the UK to terminate the retaliatory tariffs it imposed on approximately $500 million worth of annual imports from the U.S., including distilled spirits, various agriculture products, and consumer goods.

Read the full joint statement here. Another detailed explanation of the new regime is here. According to Reuters, the UK is a relatively small supplier of steel to the U.S. In fact, the new quota for finished steel exceeds average UK shipments to the U.S. in 2018 and 2019. ***Source: MSCI, 03.23.2022***