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July 2022

Monthly Market Intelligence for Customers of O'Neal Steel

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U.S. ECONOMIC NEWS

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The Economy Added 372,000 Jobs In June, Outpacing Expectations—An unexpected boost in hiring and a signal that the labor market remains robust despite recession fears, according to the monthly jobs report from the Bureau of Labor Statistics released July 8.

The unemployment rate held steady at 3.6%, still close to the 52-year low last reached in the months before the pandemic hit. Wages in June were still on the rise, but continue to be outpaced by the highest inflation in 40 years.

Average hourly earnings were up 5.1% during the past 12 months. The labor force participation rate, at 62.2%, changed little from the previous month but remains below the pre-pandemic level of 63.4%.

The June job total, slightly down from May's revised 384,000 jobs added, far surpassed expectations. Economists polled by Refinitiv projected 272,700 jobs would be added in June, amid a period of economic unease and growing fears that a recession is brewing.

Following the latest monthly gains, the labor market is now 524,000 jobs shy of its pre-pandemic level, BLS data shows. The strongest job gains for June came from the professional and business services, leisure and hospitality and health care industries, with notable increases in areas such as food services and warehousing and storage. Full Story
Source: CNN Business, 07.08.2022

Dollar Boosted By Safety Bid On Rising Recession Fears—Pessimism about the global economic outlook boosted demand for the safe-haven U.S. dollar on July 1 while the Australian dollar, a proxy for global growth, tumbled to a two-year low.

Rampant inflation and a rush by central banks to raise rates and stem the flow of cheap money has fueled sell-offs across markets and lifted assets seen as safer bets.

"When people get worried they still buy dollar assets," said Joseph Trevisani, senior analyst at FXStreet.com in New York.

The dollar gained on July 1 even as concerns about an economic downturn sent benchmark 10-year U.S. Treasury yields to one-month lows.

The greenback is being swayed between concerns that the Federal Reserve will continue to hike rates aggressively to blunt soaring price pressures, and the likelihood that this will hurt the economy.

"You have weakening rates against the dollar competing against fear of a global recession and enormous amounts of debt and all sorts of other problems," Trevisani said. *Source: Reuters, 07.01.2022*

Powell Vows To Prevent Inflation From Taking Hold In The U.S. For The Long Run

Federal Reserve Chair Jerome Powell vowed June 29 that policymakers would not allow inflation to take hold of the U.S. economy over the longer term. "The risk is that because of the multiplicity of shocks you start to transition to a higher inflation regime. Our job is literally to prevent that from happening, and we will prevent that from happening," the central bank leader said. "We will not allow a transition from a low-inflation environment into a high-inflation environment."

Speaking to a European Central Bank forum along with three of his global counterparts, Powell continued his tough talk on inflation in the U.S. that is currently running at its highest level in more than 40 years. In the near term, the Fed has instituted multiple rate hikes to try to subdue the rapid price increases. But Powell said that it's also important to arrest inflation expectations over the longer term, so they don't become entrenched and create a self-fulfilling cycle. "There's a clock running here, where we have inflation running now for more than a year," he said. "It would be bad risk management to just assume those longer-term inflation expectations would remain anchored indefinitely in the face of persistent high inflation. So we're not doing that."

Since the Fed started raising rates in March, market indicators of inflation expectations have fallen considerably. A measure of the outlook over the next five years that compares inflation-indexed government bonds to standard Treasuries fell from nearly 3.6% in late March to 2.73% last week. However, other surveys show that consumers expect prices to continue to climb. One such measure, from the University of Michigan, helped pressure the Fed into raising its benchmark interest rate 0.75 percentage point at its meeting earlier this month.

The Fed now is charged with bringing down those expectations while not crashing the economy. Powell said he's confident that will happen, though he acknowledged the risks ahead.

"We're strongly committed to using our tools to get inflation to come down. The way to do that is to slow down growth, ideally keeping it positive," he said. "Is there a risk that would go too far? Certainly, there's a risk. I wouldn't agree that it's the biggest risk to the economy. The bigger mistake to make ... would be to fail to restore price stability." *Source: CNBC, 07.29.2022*

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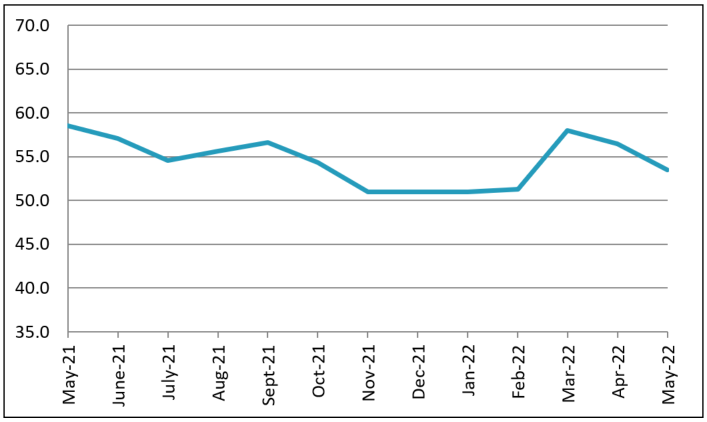
KEY ECONOMIC INDICATORS

Architecture Billings Index (ABI)

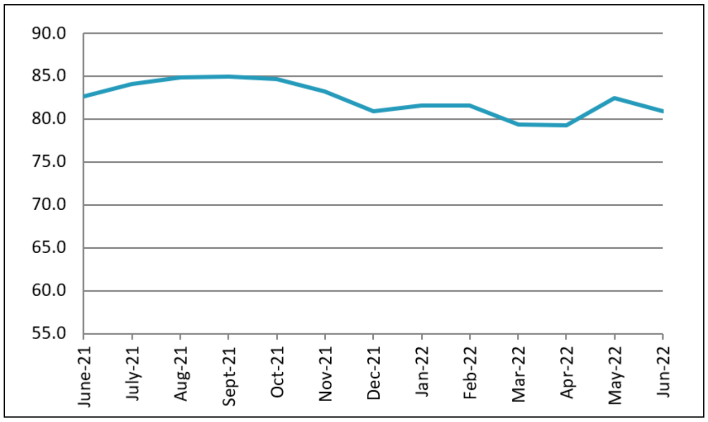


Architecture firms reported increasing demand for design services in May, according to a new report today from The American Institute of Architects (AIA).

The ABI score for May was 53.5. While this score is down from April's score of 56.5, it still indicates very strong business conditions overall (any score above 50 indicates an increase in billings from the prior month). Also in May, both the new project inquiries and design contracts indexes expanded, posting scores of 63.9 and 56.9 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, 06.22.2022

Steel Capability Utilization



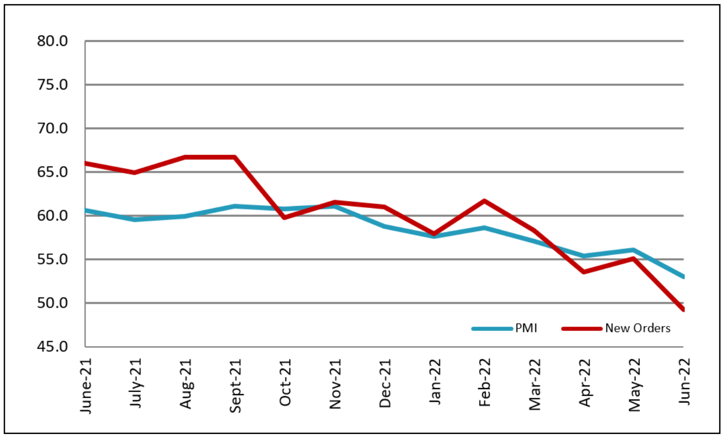
In the week ending on July 2, 2022, domestic raw steel production was 1,767,000 net tons while the capability utilization rate was 80.9%. Production was 1,849,000 net tons in the week ending July 2, 2021, while the capability utilization then was 83.4%. The current week production represents a 4.4% decrease from the same period in the previous year. Production for the week ending July 2, 2022, is up 1.0% from the previous week ending June 25, 2022, when production was 1,750,000 net tons and the rate of capability utilization was 80.2%.

Adjusted year-to-date production through July 2, 2022, was 45,868,000 net tons, at a capability utilization rate of 80.5%. That is down 2.2% from the 46,900,000 net tons during the same period last year when the capability utilization rate was 79.4%.

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, 07.02.2022

Purchasing Managers Index (PMI)®

.The June Manufacturing PMI® registered 53%, down 3.1 percentage points from the reading of 56.1% in May. This figure indicates expansion in the overall economy for the 25th month in a row after a contraction in April and May 2020. This is the lowest Manufacturing PMI® reading since June 2020, when it registered 52.4%. The New Orders Index reading of 49.2% is 5.9 percentage points lower than the 55.1% recorded in May. The Production Index reading of 54.9% is a 0.7 percentage point increase compared to May's figure of 54.2%. The Prices Index registered 78.5%, down 3.7 percentage points compared to the May figure of 82.2%. The Backlog of Orders Index registered 53.2%, 5.5 percentage points below the May reading of 58.7%. The Employment Index contracted for a second straight month at 47.3%, 2.3 percentage points lower than the 49.6% recorded in May. The Supplier Deliveries Index reading of 57.3% is 8.4 percentage points lower than the May figure of 65.7%. The Inventories Index registered 56%, 0.1 percentage point higher than the May reading of 55.9%. The New Export Orders Index reading of 50.7% is down 2.2 percentage points compared to May's figure of 52.9%. The Imports Index climbed into expansion territory, up 2 percentage points to 50.7% from 48.7% in May.



Fifteen manufacturing industries reported growth in June, in the following order: Apparel, Leather & Allied Products; Textile Mills; Printing & Related Support Activities; Computer & Electronic Products; Machinery; Electrical Equipment, Appliances & Components; Primary Metals; Nonmetallic Mineral Products; Plastics & Rubber Products; Transportation Equipment; Fabricated Metal Products; Miscellaneous Manufacturing; Petroleum & Coal Products; Food, Beverage & Tobacco Products; and Chemical Products. The three industries reporting contraction in June compared to May are: Paper Products; Wood Products; and Furniture & Related Products. *Source: Institute for Supply Management, 07.01.2022*

Orders For Durable Goods Remain Durable Despite Rising Prices

Demand for manufactured industrial goods remains strong despite record-high inflation—at least, as of May. On June 27, the U.S. Census Bureau released its regular report on durable goods orders for May 2022, showing that new orders for durable goods increased that month by $1.9 billion, or 0.7%, up from a 0.4% increase in April. In total, manufacturers received $267.2 billion in orders in May.

The data also show that shipments, unfilled orders, inventories and capital goods orders all grew alongside new orders of durable goods. The results indicate that demand persists despite record-high inflation: Economists polled by AFP had predicted a much weaker report for the month.

Transportation led the growth in new orders, notching 0.8 point growth from April to May, but other industries also performed well: Excluding transportation equipment from the numbers entirely, other durable goods businesses would have still managed 0.7 point growth.

In transportation equipment, which saw a total of $87.5 million in orders, demand for military aircraft and motor vehicles made up for lagging civilian aircraft orders. Defense aircraft orders grew by 8.1 points while motor vehicles orders grew by half a point, offsetting the 1.1 fall in other planes and parts.

Outside transportation equipment, growth in primary metals orders was strongest with an increase of 3.1 points. Machinery orders increased by 1.1 points, and fabricated metal product orders were flat from April. New orders of computers fell by 0.7 points, but elsewhere in electronics, communications equipment orders rose 2.0 points.
Source: IndustryWeek, 06.27.2022

Steel Imports Increase In May

The U.S. imported 2.7 million tons of steel in May, including 2.3 million finished tons, up 0.2% and 3.1%, respectively, compared with the prior month. Total and finished steel imports are up 18.4% and 40.8% in 2022 compared with the previous year, the American Iron and Steel Institute reported.

Finished steel import market share in May was 25%, slightly ahead of the 24% for the first five months of 2022.

Key steel products with a significant import increase in May compared with April are rebar, up 120%; standard pipe, up 46%; mechanical tubing, up 23%; and hot-rolled cars, up 20%. For the year to date, the biggest increases have been seen in OCTG products, up 135%; wire rods, up 120%; cold-rolled sheets, up 79%; and plates in coils, up 74%.

In May, the largest suppliers were Canada at 632,000 net tons, up 3% vs. April; Mexico at 482,000 tons, up 23%; South Korea at 233,000 tons, down 7%; and Turkey at 155,0, up 70%. For the past 12 months, the leading suppliers were Canada at 7 million tons, up 19% compared with the previous 12-month span; Mexico at 5.5 million tons, up 63%; Brazil at 3.5 million tons, down 6%; and South Korea at 2.8 million tons, up 35%. ***Source: MetalCenterNews, 06.27.2022***

Hedging Booms To Protect Against Even Higher Oil Prices

A growing number of companies are rushing to protect themselves against another surge in oil prices, with traders and brokers reporting the busiest spell of consumer hedging in years. Over the past few weeks, there has been a renewed appetite from airlines—a mainstay of demand before the pandemic—to protect against an upswing. There's also been an influx of first-timers, including new-to-hedging trucking and manufacturing firms. Walt Disney Co. disclosed last month that it's hedging again for the first time since the virus.

The activity is a sign that companies using a lot of fuel are fretting over another potentially paralyzing move higher in prices. Economies the world over are struggling with the fastest rate of inflation in years and energy costs are feeding that.

Disney's Chief Financial Officer Christine McCarthy said during a conference call with analysts last month that the company had reinstated its fuel-hedging program for Walt Disney World after halting it during the pandemic.

"We have had more inquiries about fuel hedging in the last few weeks and months than we have had in the past few years," said Patrick McCrann, director of business development at AEGIS Hedging Solutions, which helps companies with their hedging strategies.

Among airlines, one of the clearest public examples this month has been that of European budget airline Wizz Air Holdings Plc. While the company cancelled its hedging policy after losing money during the pandemic, it recently resumed activity in the face of sustained commodity volatility. That's in a price environment where Brent crude is up about 20% since Russia invaded Ukraine, and end-user fuel prices have gained even more.

To be sure, hedging in a high market can be expensive because demand for protection against a further surge is red hot. In recent months, those higher hedging costs have been accentuated by a lack of liquidity, after prices saw giant swings following the invasion. That makes it harder to find counterparties and agree on prices. Some airlines have been lucky enough to already lock in prices well into next year.

"We're also very fortunate that for the next 12 months, we're very well hedged on fuel," Ryanair Holdings Plc CEO Michael O'Leary said during an earnings call last month. "I would ascribe that more to dumb luck than supremely intelligent management. But nevertheless, we have 80% of our fuel purchased forward out to March 2023 at less than $70 per barrel."

Much of the recent deal flows in consumer hedging have been in over-the-counter markets, several participants in the activity said, adding that there have also been signs of consumer hedging in U.S. heating oil and ICE gasoil contracts. For retail prices, companies also use an EIA-linked diesel swap, according to Jay Stevens vice president of market analytics at AEGIS.

Many businesses have been taking advantage of any dips in prices—such as those seen last week—to buy additional protection against surging prices, traders said.

As war drags on and supply-demand imbalances get more pronounced, they're looking to protect against what some analysts see as a period of higher prices in the coming months.

"We have a very robust fuel-hedging program at Walt Disney World and that reduces risk and minimizes volatility, reduces volatility in the cost of fuel," McCarthy said during the call last month. "We have re-opened that program and we are doing what we can to minimize the impact on that particular cost."

Source: Bloomberg, 06.29.2022

Construction Climbs, But Slowdown May Loom

Construction starts have remained robust this year but certain sectors could soon begin to see a slowdown. Total construction starts rose 4% in May to a seasonally adjusted annual rate of $979.5 billion, according to data released the week of June 13 by Dodge Data and Analytics LLC. But among the major categories tracked by Dodge, nonresidential building starts was the only one that increased, by 20%, while residential starts fell by 4% and nonbuilding starts (think infrastructure) dropped 2% during the month.

The Business Journals' Ashley Fahey reports it's a signal homebuilders are starting to pull back on what had been an active construction pipeline through the pandemic, as demand for housing wanes amid a rising-interest-rate environment.

- Year-to-date: Total construction is 6% higher compared to the same period in 2021. In that period, residential starts have actually grown 3%, suggesting the tide is only starting to change on the homebuilding front.
- Likely to bolster the nonbuilding sector: The federal $1.2 trillion Infrastructure Investment and Jobs Act, where projects will likely start in late 2022 or early 2023
- Another signal of slackening demand: Amazon.com Inc.'s disclosure this spring that it had excessive warehouse capacity
- Sector likely to boom: Manufacturing

Source: NationalObserver, 06.23.2022

Survey: 70% Of Companies Planning Reshoring Or Nearshoring Projects

Seven out of ten U.S. based manufacturing companies are planning to invest in new production capacity closer to their home bases as a result of the global upheavals of recent years, a new survey has found. The robotics and automation arm of global conglomerate ABB recently polled 1,610 executives in the U.S. and Europe about their capital spending plans in the wake of the COVID-19 pandemic's arrival, the resulting supply chain chaos and Russia's invasion of Ukraine. Of the respondents, 37% said they plan to return production to U.S. shores while a third said they will look to nearshore new operations.

Those new facilities will include more investments in automation than in the past, ABB's survey shows. More than 40% of business leaders said they will use automation and robotics to make their supply chain more resilient. That will add to an upswing that grew the U.S.' robot density–defined by the International Federation of Robotics as the number of industrial robots per 10,000 employees—from 176 units in 2015 to 255 in 2020.

"Business leaders are responding to unprecedented supply chain disruptions by putting into place measures to make operations more resilient and adaptable," Sami Atiya, president of ABB's Robotics & Discrete Automation Business, said in a statement. "While investment in automation plays a key role in flexibility in operations, equally important is investment in education, vocational training and apprenticeship programs."

The ABB survey adds some details to the scope of a reshoring trend that Ingersoll Rand Chairman, President and CEO Vicente Reynal last month said has gathered speed since COVID and the resulting supply chain shocks. Speaking at a Wolfe Research conference, Reynal said a lot of Ingersoll Rand's customers–as well as the maker of pumps and compressors itself—are shortening their supply chains and building new plants in or near the U.S.

Data from the Federal Reserve System and elsewhere also look to be reflecting that push: After returning to pre-pandemic levels in the third quarter of last year, total capital expenditures by nonfinancial businesses have surged since then. Annualized, spending during the fourth and first quarters was nearly 23% greater than in 2019. The Reshoring Initiative, meanwhile, recently reported that last year saw 261,000 reshoring and foreign direct investment announcements, up 46% from 2020.
Source: IndustryWeek, 06.28.2022

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SPECIAL SECTION: TRADE

Biden's Move To Lift Some China Tariffs Will Likely Be 'Modest' In Short Term

President Joe Biden could decide "pretty soon" on a modest relief package to roll back some U.S. tariffs imposed on China in an effort to tamp down inflation, said Clete Willems, who previously served as deputy director at the National Economic Council.

Key Points:

- President Joe Biden could soon introduce a modest relief package to roll back some U.S. tariffs imposed on China in a bid to tamp down inflation, said Clete Willems, a former top White House trade negotiator.
- "I think we're going to see something relatively modest in the short term. But over the long term, what I'm hopeful is that this will lead to a process that tries to rationalize things more broadly and link them more closely to their supply chain objectives," Willems, currently a partner at Akin Group, told CNBC's "Squawk Box Asia" on July 6.
- In May, Biden said he could drop some of the tariffs imposed against Chinese imports to help control rising consumer prices in the U.S.

"What we are expecting that the president is deciding on is a relatively modest list of potential tariff suspensions in order to fight inflation. Some of the reports indicate that it's on the order of magnitude of about $10 billion out of over $360 billion that are currently being imposed on China," Willems, currently a partner at Akin Group, told CNBC's "Squawk Box Asia" on July 6.

Willems, who was a top White House trade negotiator during the Trump administration, noted the move is likely to come together with other actions "that are perceived as tough on China" like a "potential new investigation into China's industrial subsidies."

"That's really important for the Biden administration to manage things at home, so that they don't get criticized by the China hawks for being weak," said Willems, adding, "I do think we're going to see some movement pretty soon."

In May, Biden said he could drop some of the tariffs imposed against Chinese imports to help control rising consumer prices in the U.S.

The White House is currently reviewing the penalties imposed under former President Donald Trump — which raised prices on everything from diapers to clothing and furniture. The process was triggered by legal provisions, rather than a U.S. political willingness for a reset in relations. ***Source: CNBC, 07.06.2022***

U.S. President Launches New Partnership With Latin American Trading Partners

Week of June 6 in Los Angeles, the U.S. hosted the Ninth Summit of the Americas where leaders focused on building a "sustainable, resilient and equitable future" for the hemisphere.

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During the proceedings, President Joe Biden announced the Americas Partnership for Economic Prosperity (APEP), a new initiative that promises to drive economic recovery and growth in the region by:

- Ensuring sustainable and inclusive trade, including through better cooperation on customs facilitation, transparency and good regulatory practices, high standards on the digital economy, supporting emerging technologies, building resilience in our energy and food supply chains, and strong labor and environment standards;
- Ensuring other important supply chains are more resilient against unexpected shocks;
- Fostering innovation by increasing investments in public tax and anti-corruption measures and building infrastructure in areas like migration, education, health, unemployment and retirement, childcare, and women's economic empowerment.
- Reinvigorating the hemisphere's regional economic institutions, including the Inter-American Development Bank; and
- Finding new ways to address climate change.

No countries other than the U.S. have yet publicly agreed to participate in the initiative, but Biden administration officials hope to have a ministerial meeting of governments in early fall 2022. A senior administration official told the media that the U.S. "most like-minded economic partners" would be invited to join those talks, but that official did not name any countries in particular.

The new framework is modeled after the Biden Administration's Indo-Pacific Economic Framework (IPEF) plan. Like IPEF, the APEP is not intended to lead to the negotiation of new free trade agreements and will be divided into policy "pillars" that participating governments will negotiate and join depending on their interests and ability to meet the agreement's standards. *Source: MSCI, 06.13.2022*