Market Insights

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EDITION

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Content

METALS MARKET OVERVIEW

The last 3 years have been full of disruptions starting with Covid-19 which lead to supply-demand and freight challenges. As the supply chains tried to restore there came another wave of Covid, then the semi-conductor chip shortage disrupting entire tech sector, especially automotive. After that followed the Ukraine-Russia conflict, creating scarcity of industrial and agriculture products and if that was not enough the Feds increased the interest rate (this one could be helpful in longer turn). The reason why I listed all these events is to emphasize on how these new events are having compounding effect on already tolled supply chains . The Metals Market started showing signs of recovery few months before the Ukraine-Russia conflict but thanks to the conflict, we are again seeing supply-demand challenges and high price rises . Europe region is one of the worst impacted due to the conflict because of fuel and raw material challenges. (UK inflation jumped 9% to a 40-year high last month. The Bank of England's governor warned of an "apocalyptic" rise in global food prices due to the war in Ukraine)

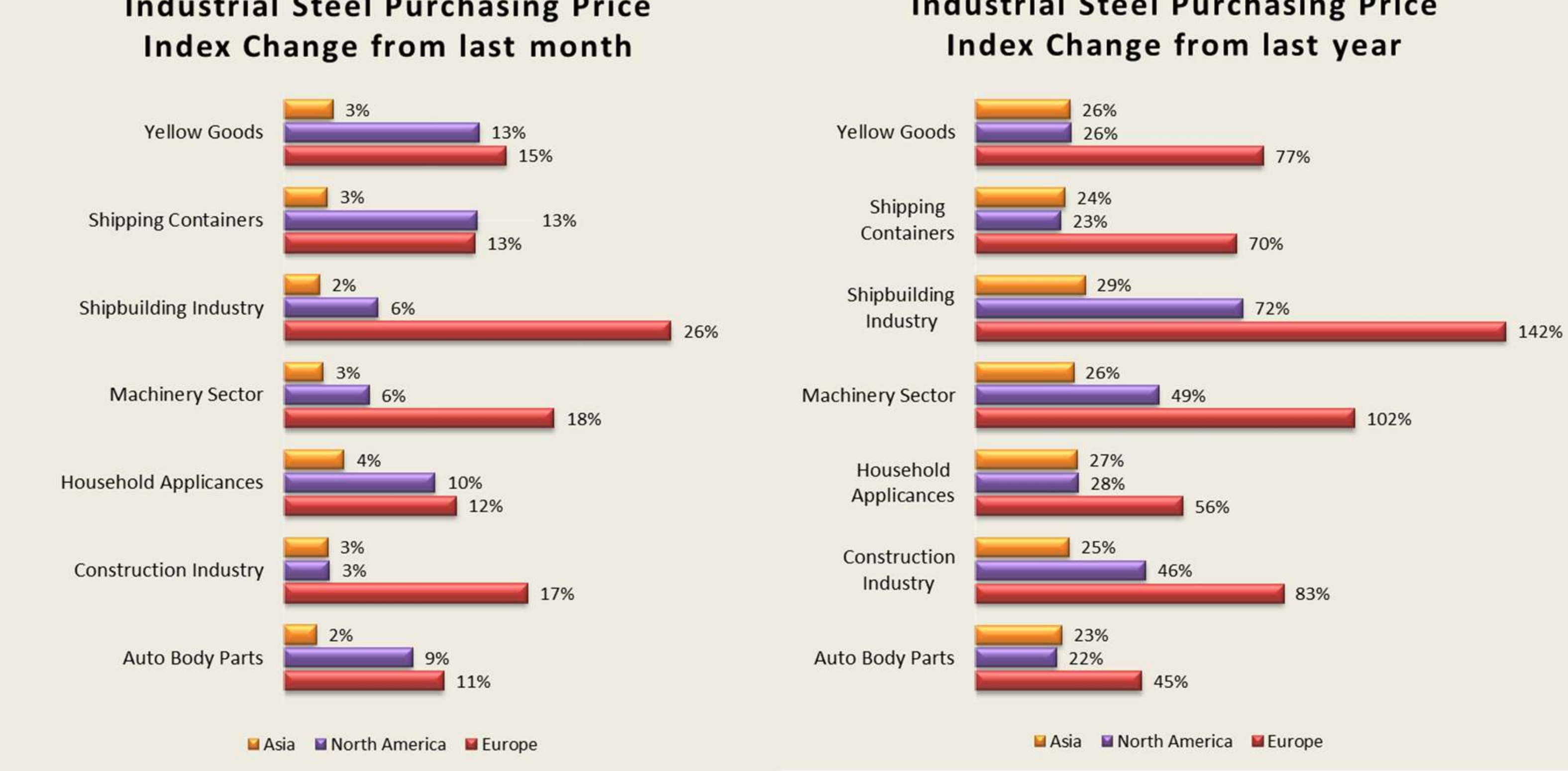
These serial events have also slowed down the recovery of the International Freight sector. We have started to seeing some softening in the freight rates from Asia to US but it would be too early to pin-point the reason if this is because the freight industry is recovering or is due to China's strict lockdown creating low-demand-high-supply situation. The increase in fuel prices will also work against cooling down the freight industry. (Gas prices have risen above $4 a gallon in all 50 US states for the first time ever. Five states are averaging more than $5 a gallon, and one—California—hit a record of $6.02)

The global shortage of semiconductors continues to affect the production of automakers around the world, coupled with the new and ongoing closures of Covid in China that are hampering already strained supply chains. This is negatively affecting both the local and export markets. The military conflict in Ukraine has reduced the supply of components to automakers in Europe. Buyers expect steel demand to improve in the second half of this year. Total car and light truck production reached a 14-month high in March, recording the first year-on-year increase since June 2021.

The detailed report is as follows:

- The *Purchasing Price Index*, which is a measure of the average change in the prices paid by the consumers for a market basket of goods and services, is showing a sharp uptick in European Steel prices, which reflects the inflation due to the ongoing war and other global supply chain disruptions in Europe. [Exhibit 1]

Exhibit 1



METALS MARKET OVERVIEW

Flat Products.

- North America. U.S. core values continued to rise in April. This increase was due to higher prices for scrap, pig iron, ferroalloys and energy. Strong demand from the construction and agriculture sectors continued. Canadian domestic prices increased as a result of a notable lack of import bids. [MEPS]
- In China, buying activity is weakening, amid continued Covid restrictions and transportation problems related to lockdowns. Concerns are growing due to oversupply, mill production is increasing but buyers are buying cautiously. Export volumes are growing. [MEPS]
- In Taiwan, demand from the construction sector has allowed local mills to increase their prices. Domestic buyers have few import options, and component shortages are hampering aftermarket demand. Factory construction is in good shape, but budgets for these projects are being squeezed by rising costs. [MEPS]
- In Europe, prices continued to rise in late March, but this momentum ceased in the first half of April and prices fell slightly. Hot-rolled sheet has been the steel product most affected by the outbreak of war in Ukraine, with prices doubling in the last two months. Many customers now have sufficient stocks for their current needs, but uncertainty about future demand continues to grow. [MEPS]

Long Products

- North America, demand for wire rod remains stable, but there is again a slowdown in sales in the automotive sector. Wire rod buyers suggest that the supply shortage is due to operational difficulties at Liberty Steel's plant; import offers from Mexico appear attractive. In Canada, prices for structural sections increased again this month. Lead times for imported material are increasing. [MEPS]
- In China, merchant inventories are decreasing and buyers continue to buy only for their immediate needs and cautiously, they are not increasing their inventory levels. Factories are reporting financial losses on sales within the local market. The central government has announced aid to the infrastructure and construction sectors which will boost demand in the coming months. [MEPS]
- In Taiwan, domestic factories have managed to pass on the increase in raw material costs to their customers. Shipments to Western consumers are increasing. Steelmakers have managed to raise prices this month. Transaction values for shipments to third countries are increasing, amid lower availability. Prices rose, but parts shortages and weakening end-user demand are causing buyers to adopt cautious purchasing strategies. [MEPS]
- In Europe, scrap and energy cost inflation may lead to further increases in wire rod prices; demand remains strong, but is starting to weaken in several Western European countries, and mill lead times are lengthening. Demand is supported by ongoing construction plans, but the outlook is increasingly uncertain. [MEPS]

Nuggets:

- **U.S. solar industry warns of slowdown due to supply chain disruptions, tariff uncertainty. By end of April, the largest solar trade group said it was cutting its solar installation forecasts for this year and next by 46% due to the threat of new tariffs. More than 315 projects are being canceled or delayed, according to the Solar Energy Industries Association**
- **US government is taking legal action against Russian cargo airline Aviastar for violating the sanctions imposed on Russia by continuing to carry out international flights without obtaining a license**
- **Both Target and Walmart execs said that consumers were spending less on merchandise and big-ticket items like TVs, which is the type of demand slowdown that could cool prices for goods in the future.**

METALS MARKET OVERVIEW

- Zenith Steel has completed work on the first blast furnace at its Nantong steel mill, which can melt two million tons of iron per year. Two other furnaces, with a combined annual output of four million tons, are scheduled to come on stream by the end of 2022. A bar mill with an annual production of 600,000 tons has also recently been commissioned. [MEPS]

- Universal Stainless' first quarter report shows that the company generated $47.6 million in revenue, with shipments totaling nearly seven thousand short tons, resulting in a loss of $1.6 million for the period. The company is currently recovering from a liquid metal spill that occurred earlier this month at its Bridgeville, Pennsylvania EAF plant. It expects to resume operations in four to six weeks.[MEPS]

- Pacific Steel Group announced that it will build a rebar micro-factory in California. The company is investing $350 million in this project, which will be powered by renewable energy sources. The plant will have an annual production capacity of 380,000 short tons when it comes online in early 2025. [MEPS]

- ArcelorMittal plans to install a new heat treatment line at its Dąbrowa Górnicza plant in Poland. The equipment enables the processing of 120-meter-long head-hardened rails that will conform to the latest international standards. Completion of the project is expected in 2023. [MEPS]

Majority of the indices trended up, some sharply. The primary reason as we all know is the Ukraine-Russia conflict. The new Covid wave in China also contributed to the supply-demand gap.

Exhibit 2

The source of Gold Engelhard and Silver Engelhard pricings have been changed from AMM to BASF. The indices follow the same trajectory, however, the values are slightly lower than the ones provided by AMM. Hence, we updated the entire table for Gold and Silver Engelhard pricing.

Base Metal- Clink on the links below for each index.	% Change prior 3 Years, same period	% Chg. V from last year, same period	% Chg from prior month
Steel Coil Hot Rolled	121.59%	-1.72%	-0.79%
Import - Steel HR Coil	96.99%	-1.50%	-2.96%
Steel Coil Cold Rolled	128.05%	14.02%	2.75%
Scrap-Midest Index #1 Heavymelt'	77.06%	28.33%	-4.36%
Scrap # 1 Busheling	117.14%	38.18%	10.95%
Steel wire rod (mesh)-China	53.63%	-4.30%	0.60%
Copper	51.47%	-2.18%	-6.63%
Aluminum 6061	109.22%	70.04%	8.10%
Import - Steel Medium Plate	98.82%	56.48%	13.80%
Silver Engelhard United States	55.68%	-11.64%	-7.40%
Steel Rod - High Carbon	100.00%	50.48%	8.22%
Import LC Wire Rod	107.25%	53.76%	9.16%
Nickel	162.39%	87.08%	-2.88%
Wire Rod, Cold Heading Quality	82.22%	56.19%	9.16%
Cobalt	129.89%	88.24%	1.52%
Aluminum	20.54%	10.18%	-22.09%
316L Stainless Steel	94.05%	58.64%	9.03%
304 Stainless	90.63%	56.41%	12.44%
Ferromolybdenum	74.38%	77.43%	-1.21%
Gold Engelhard United States	48.70%	7.85%	-1.45%
Chromium-AluminoThermic	98.21%	157.39%	0.00%
Titanium	13.54%	11.22%	11.22%
Special Quality Steel Bar 4100 Series (Round Bar High Carbon)	79.37%	37.83%	12.20%
Rubber	34.33%	32.09%	12.90%
Fluorocarbon-PPI	25.66%	35.92%	0.00%
Nylon	7.79%	21.76%	1.94%
Molybdenum	59.17%	71.25%	-0.26%
Steel Reinforcing Bar	64.85%	21.93%	-0.89%
China Steel C1022		16.18%	0.00%

METALS MARKET OVERVIEW – REGIONAL HIGHLIGHTS

European highlights

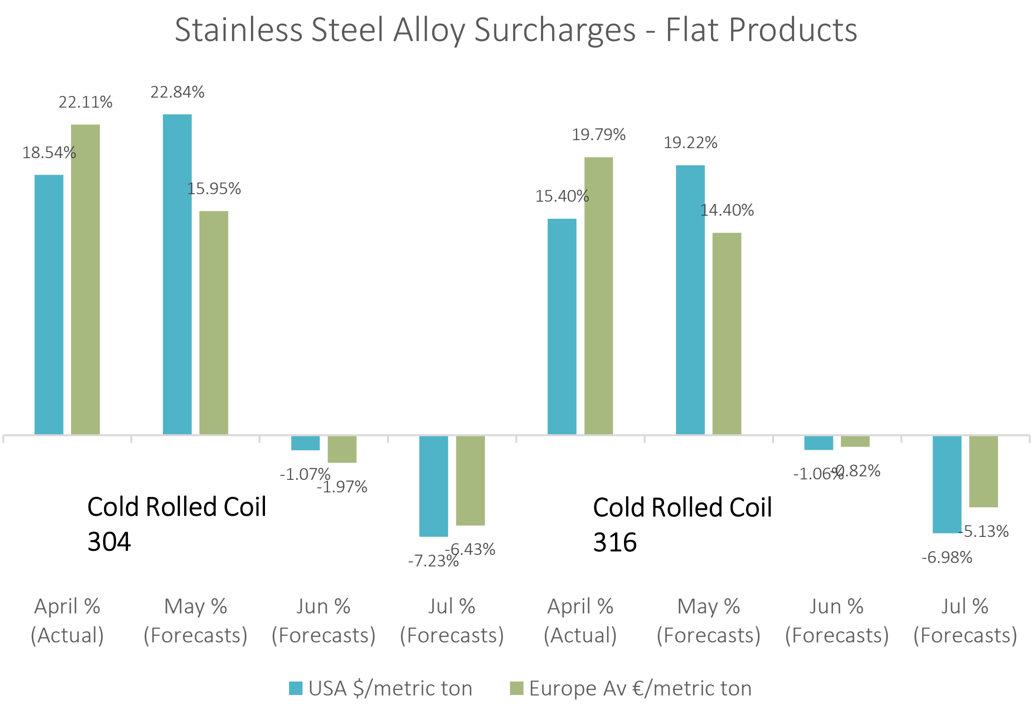
- In the last two months, the European market has increased alloy surcharges on 304 grade steel by 45% and 115% compared to last year, excluding cumulative inflation, which is 7.5% in the euro zone. This has been driven by stainless steel producers requesting payments of €600 per ton for alloy surcharges on 304 grade flat products. [AMM]
- Another important aspect is that the margins of producers of end-use goods comprised of stainless steel have reduced due to considerable increase in the price of stainless steel, whereas the prices of end products have not yet increased in the same proportions and that end consumers would not be able to bear such increases. [AMM]
- In the short term it will be difficult for stainless steel producers to lower prices, considering the rising energy price costs in Europe which are currently 3 to 3.5 times higher than long-term averages due to the Russia-Ukraine war and the deterioration of relations between Europe and Russia in recent months. [AMM]
- An important point is that European stainless-steel producers are still more profitable than in the last 10 years and a drop in prices is likely to occur when the warm season arrives in Europe and overall energy demand decreases, as well as the decline in chrome and nickel prices, which have shown a reduction in the last period. [AMM]

Mexico and Canada

- Mexican finished steel production continues a positive growth trend of 3% compared to the previous month and 23% compared to the previous year, driven by higher imports of finished and semi-finished steel. Although February showed a 2% drop in the apparent consumption of steel this may be influenced by fewer days in February, however the daily consumption showed a growth of 8% and general consumption of 12% with respect to previous year, which could indicate that there is a positive trend. [AMM]
- Other aspect to review in Mexico is the production of vehicles, which fell by 5% compared to the previous month, which could explain the drop in the consumption of flat products, and is probably explained by the fewer days in February. [AMM]
- The Canadian steel industry has a stable utilization of 70% in the month of January according to WAS data. It is estimated that the production of finished steel remains flat, while imports of finished steel grew by 2% and exports fell by 1.5%, showing growth in apparent consumption. [AMM]

Exhibit 3

Stainless steel transaction values continued to increase in April. Europe and North America saw double-digit percentage month-over-month price increases for austenitic coil and plate. Rises in Asia were tempered by Covid-related closures in China and changes in exchange rates. Prices are expected to increase in May, as alloy manufacturing costs are expected to rise again, although prices are expected to decrease in June and July.



NEAR TERM FORECAST

Nickel is currently trading at $26K/MT, a historical high and rare top quartile band. Considering the present state of war causing closure of most production facilities and the sanctions put on place on Russia, nickel prices are not expected to dropdown anytime in the near future (next several weeks). Russia is one of the leading producer of nickel with 11.2% share of global nickel production.

- India's ferrous scrap market saw its prices rise last month as they followed the trend of Turkish ferrous scrap import prices. The increase in Turkish ferrous scrap prices and demand was partly due to the Russian invasion of Ukraine, which limited two competitors in producing steel for Turkey. However, Indian and Turkish ferrous scrap prices are expected to decline in the coming months. [AMM]

Exhibit 4

The price forecast for ferrous scrap for the coming months shows a downward trend compared to March 2022, however, prices are still higher than those experienced in September 2021.

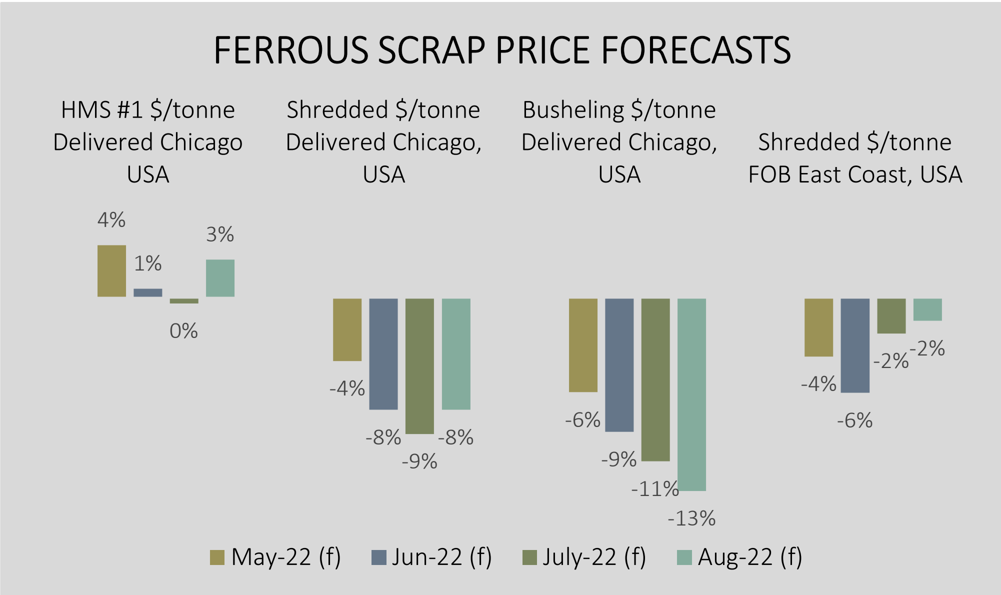
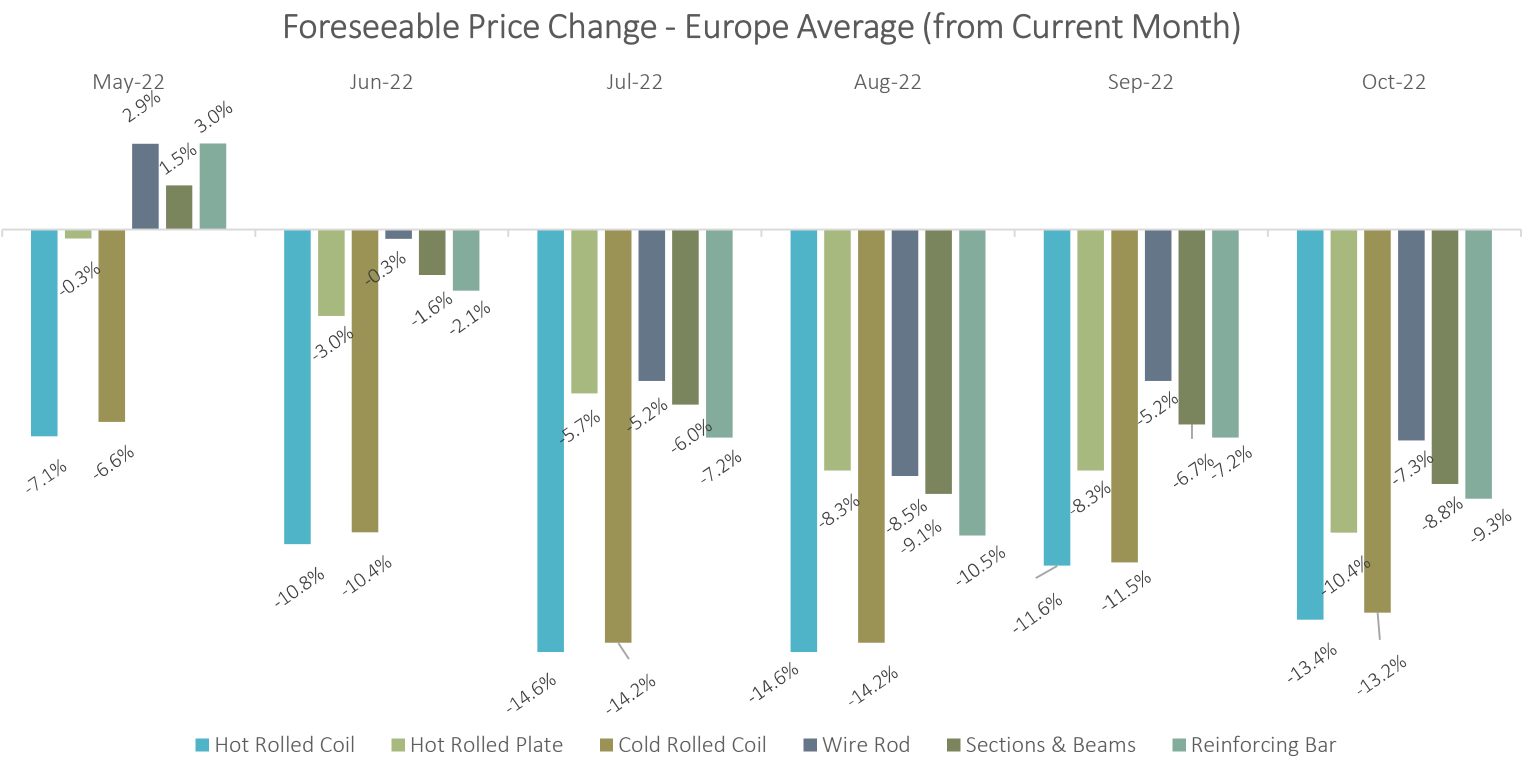


Exhibit 5

European steel industry has some seen some major upheaval firstly due to covid and then because of war. The chart below provides the forecast for the next 5 months showing a downward trend for the prices of both European flat and long steel products compared to the month of April 2022. European HRC prices are expected to drop by up to 14% in the next 3 months [MEPS]



NEAR TERM FORECAST

The prices of flat products will remain at their current levels, at least in the short term, due to the sanctions that has been imposed on Russia. Although these sanctions do not impact flat products companies refrain from doing any type of business with Russia anticipating logistical risks, financial and reputational factors, driving the increase in prices of flat products from Brazil growing close to 11% during the last 4 weeks. [AMM]

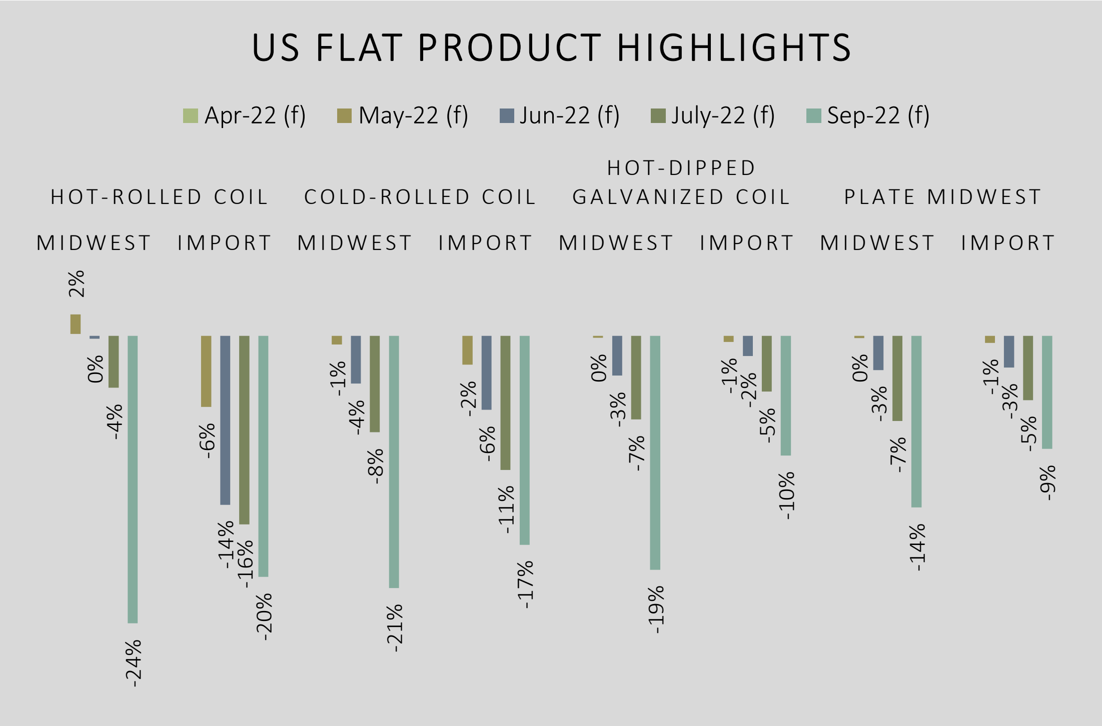


Exhibit 6

The forecast for the coming months shows the prices of flat steel products will remain similar to the current ones. However, there is a downward trend for the third quarter considering a positive outlook with China recovering from covid-19 and resolution conflict between Russia and Ukraine.

During April, long products had a significant increase in the U.S. market, however, they have been gradually receding showing a slight decline, although in the short term they will maintain their high prices pushed by positive demand projections for them. [AMM]

In the longer term, prices will continue to fall, supported by lower demand pressure and a quieter scrap market; however, average prices will remain higher than those experienced in 2021. By 2023, prices are expected to continue to fall due to the acceleration of the automotive sector and the increased availability of premium scrap, although prices will remain above historical levels. [AMM]

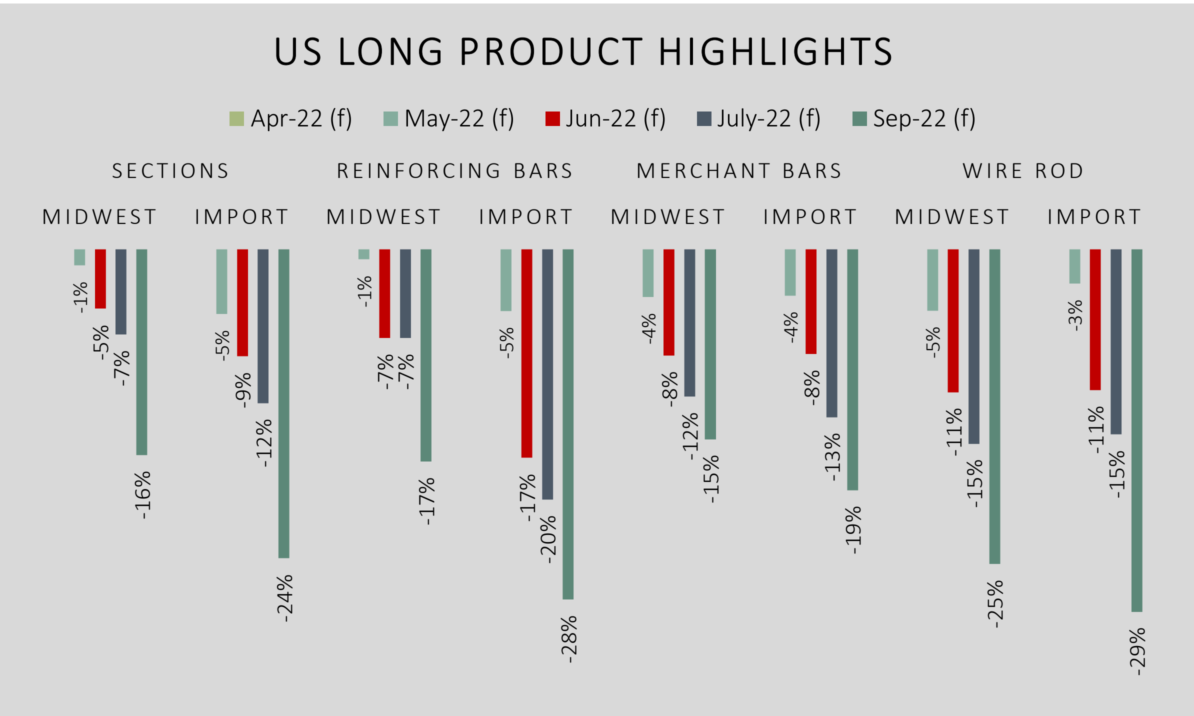


Exhibit 7

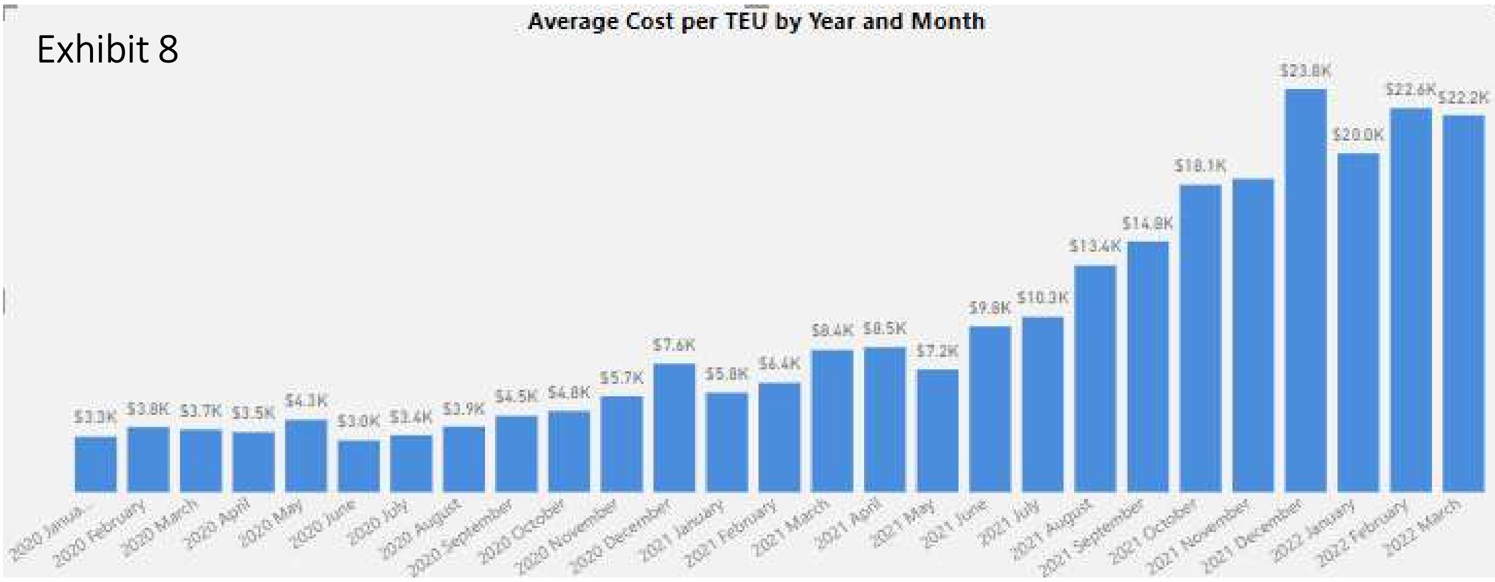
The forecast for US long products shows a downward trend but prices are higher than in 2021.

Business Update

Exhibit 4 presents the Average Cost per TEU (Twenty foot Equivalent) for FCL (Full-Container Load) and BCN (Buyers Consolidation) shipments for the business. **The freight trend went down in January, ticking up back again in Feb at slightly below the pick from December 2021. The Average Cost/TEU for March was $22K which is 6x from Mar 20 and 2.6x from Feb 21.**

Change in the methodology of Cost/TEU calculation: We are now considering both 40' & 20' Container as 1 TEU unit. Previously 40' Container was considered equivalent to 2 TEUs and 20' Container as 1 TEU for calculating Average Cost/TEU.

Exhibit 8



Shipment distribution for Jan 2022 to Mar 2022 showing Duluth receiving the most shipments (by counts). These includes LCL, FCL, BCN, OBC shipment counts

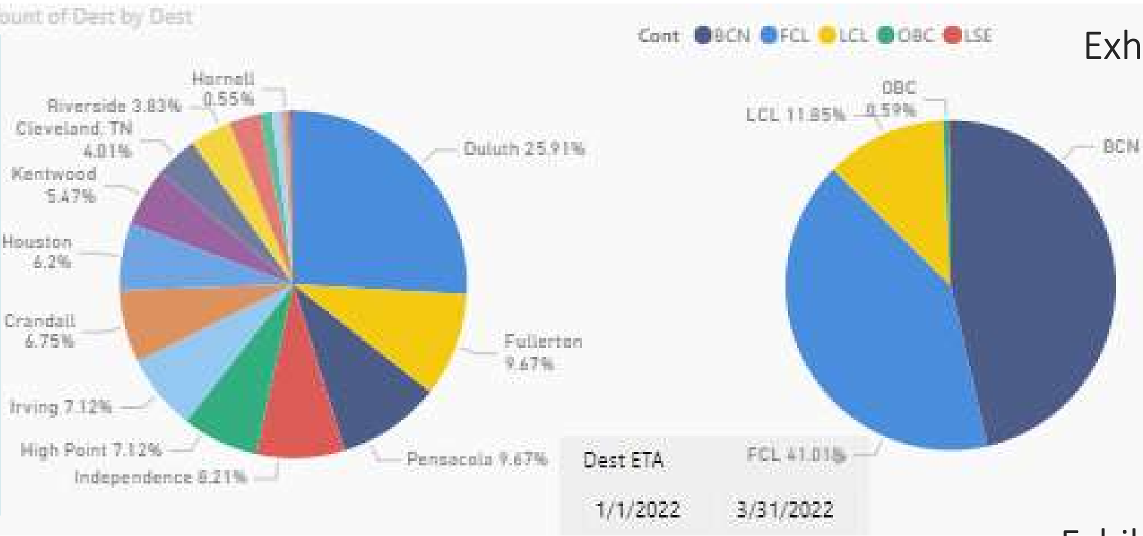
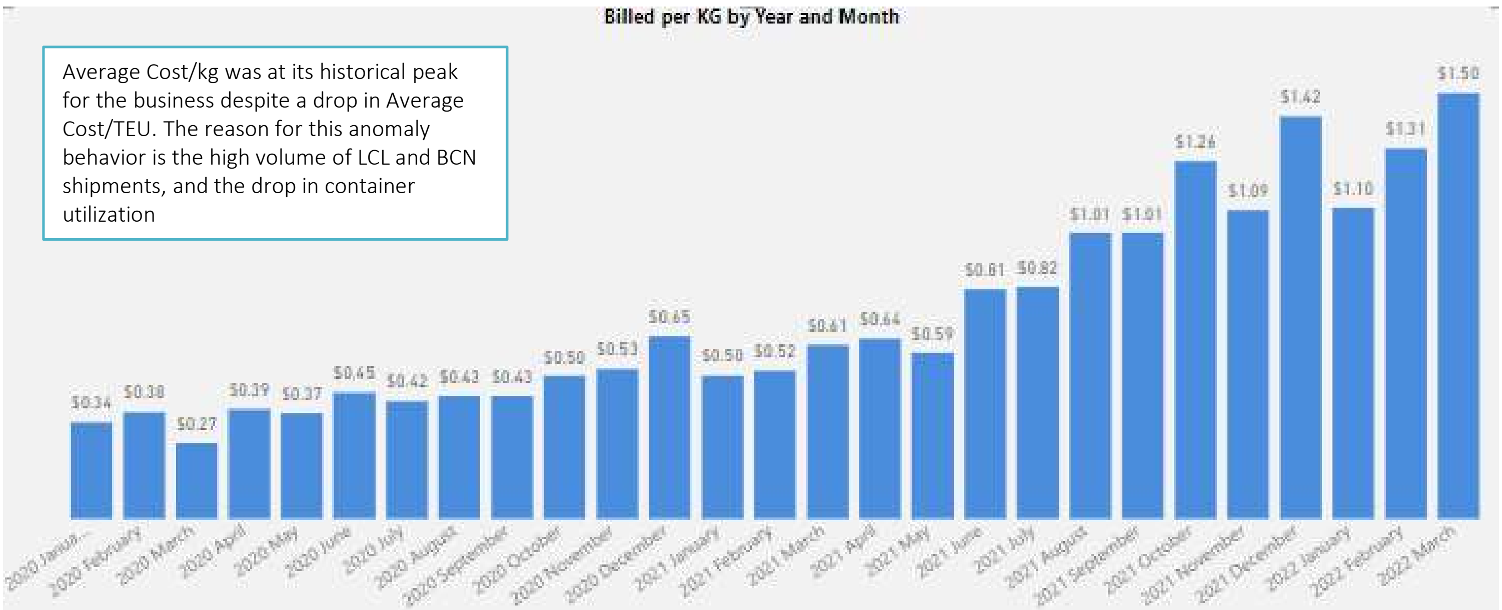


Exhibit 9

Shipment distribution by shipment type from Jan 2022 to Mar 2022

Exhibit 10



Average Cost/kg was at its historical peak for the business despite a drop in Average Cost/TEU. The reason for this anomaly behavior is the high volume of LCL and BCN shipments, and the drop in container utilization

CURRENCY OVERVIEW

With Fed increasing the interest rates, the value of USD increased sharply compared to most currencies since last month. This means it is now more expensive to buy American dollar. **This means the international suppliers who are selling their products to US are enjoying higher returns in local currency.**

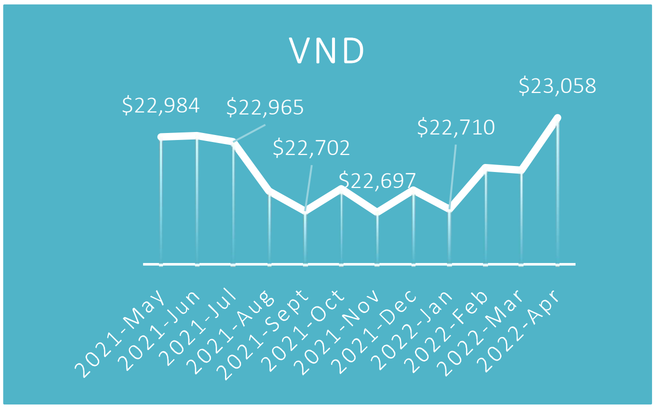
The trailing 12 months record show that the USD has strengthened by:

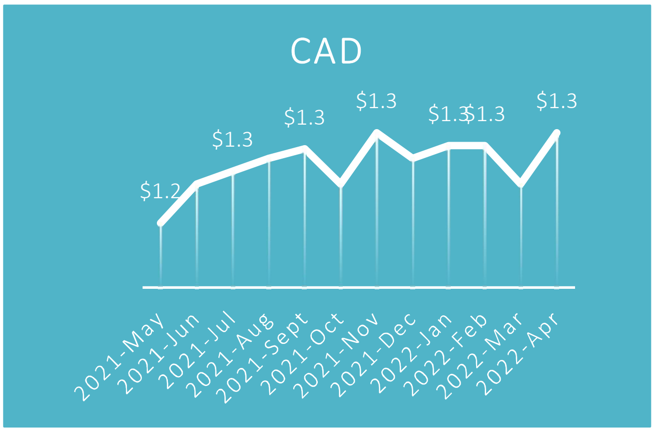
1. 5.55% against Taiwanese Dollar
2. 14.5% against Korean Won
3. 10.62% against Thai Baht
4. 13.25% against Euro
5. 4.07% against Canadian Dollar

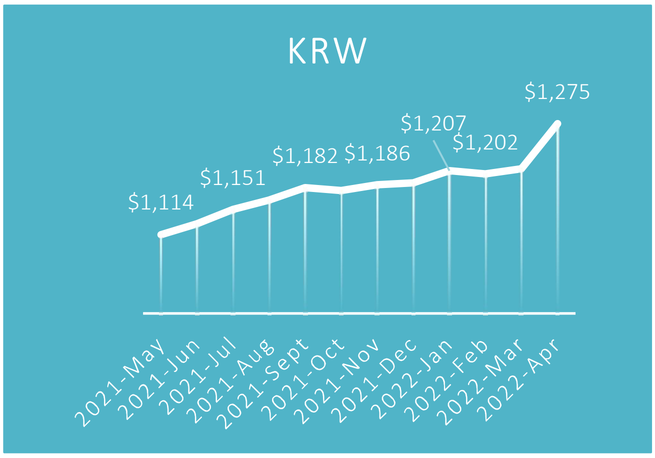
Over the last 1 month the USD has strengthened by:

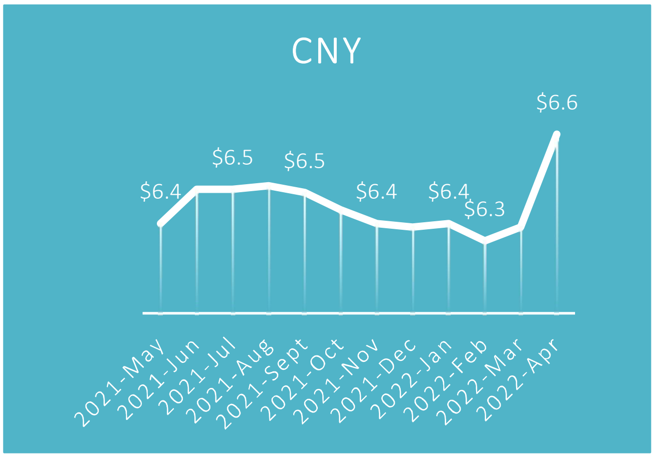
1. 2.94% against Taiwanese Dollar
2. 5.43% against Korean Won
3. 3.45% against Thai Baht
4. 4.10% against Euro
5. 3.23% against Canadian Dollar
6. 4.25% against Yuan

Exhibit 11









Freight Trend from Specific Routes – Freightos

Exhibit 12

A significant drop was observed from China(Shanghai) to US West Coast over the past few months, while shipments to other US ports were also reportedly shipped at lower prices than at the *peak* few months ago. The primary reason was the recent lockdowns in China.

A drop in the freight from Taiwan to US has been observed for all the major US ports. The rates are still several times higher than pre-Covid era.

Freight rates from China to Brazil dropped significantly, primarily due to less-demand-enough-supply situation created by lockdown.

Freight rates from Mumbai to NYC have remained constant over last 6 months.

Freight rates from Europe(Germany) to US has been increasing majorly because of supply chain disruptions caused by war.

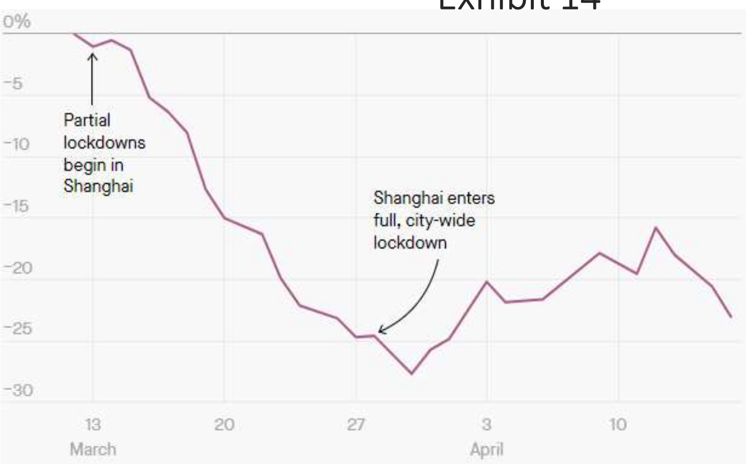
Freight Update

A sea of containers is piled up at the Port of Shanghai.

Shanghai is in the grips of its worst covid outbreak since the start of the pandemic. Authorities have responded by enforcing a city-wide lockdown that has kept most residents confined to their homes, but they have tried to limit disruptions by requiring workers to sleep at the port in a "closed loop" bubble.

Change in Port of Shanghai shipping volume

Exhibit 14



Ships are being loaded and unloaded more slowly. The volume of goods shipped out of Shanghai fell 23% between March 12, the day before partial lockdowns began in Shanghai, and April 16.

Ocean freight Platts Indices

Exhibit 13

S&P Platts container update

North American container freight rates largely remained decoupled during April, as rate differentials fell due to a weaker-than-anticipated demand and looming market uncertainty, with several gateway cities in Asia under pandemic-led lockdowns.

Exhibit 15

Vessels Waiting for Berth

Port	Vessels Waiting		Average Wait for Berth	
LA/LB	43	↓	8 days	→
OAK	4	↓	6 days	→
SEA/TAC	0	↓	1 days	→
Vancouver	10	↓	14 days	→
Prince Rupert	0	↓	0 days	↓
NY/NJ	10	↓	7 days	↓
Norfolk	12	↓	7 days	→
Savannah	4	↓	2 days	→
Charleston	5	↓	4 days	↓
Houston	7	↓	3 days	→

https://splash247.com/no-end-in-sight-for-shanghais-lockdown/

https://www.reuters.com/business/covid-curbs-bite-chinese-ports-threatening-global-supply-chains-2022-03-16/

Freight Update

How well do we know the Incoterms rules?

These specific two terms can be applied to any mode of transport

Ex-Works (EXW)

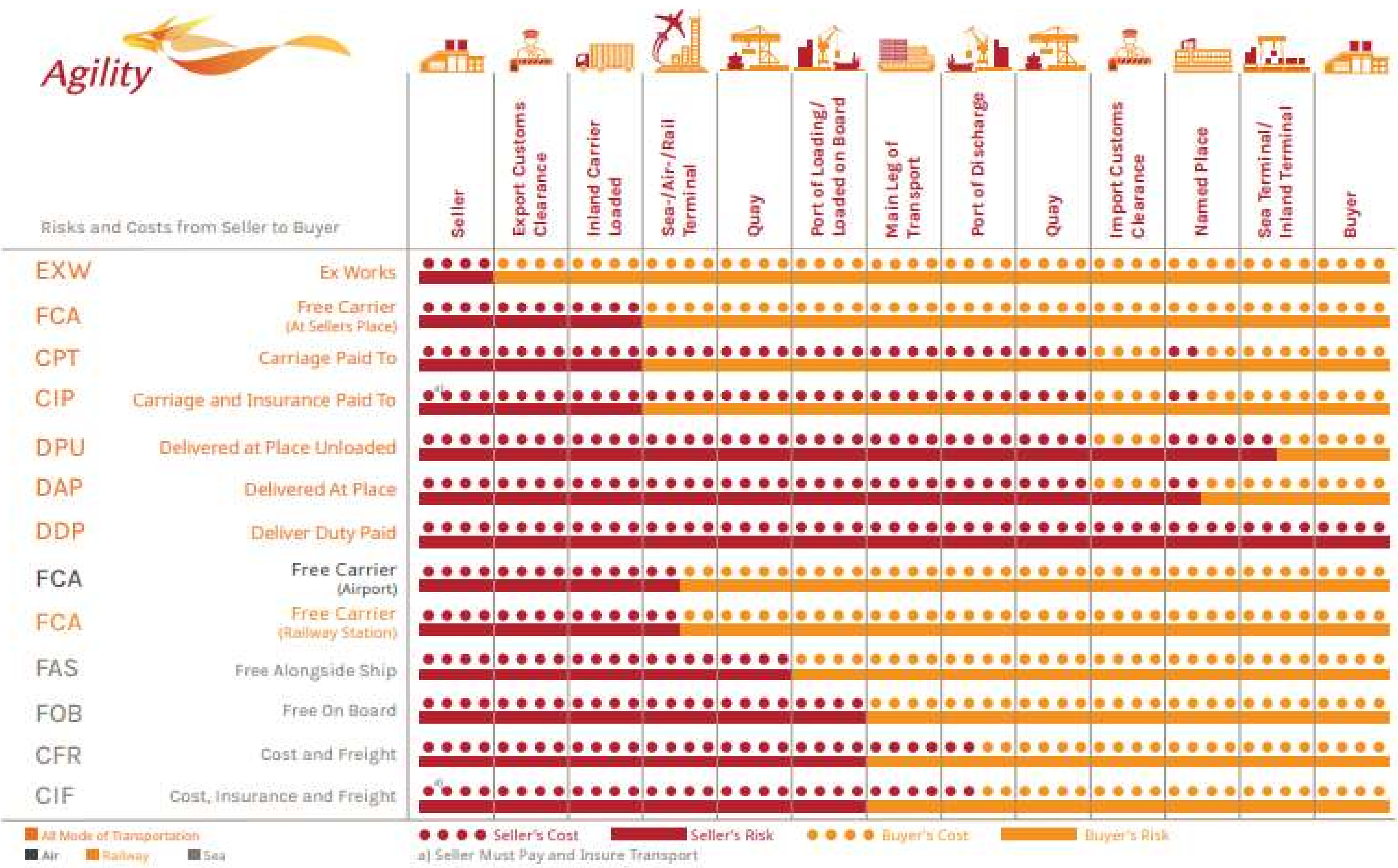
Ex-Works describes when a seller makes a product available at a specific location, and the buyer of the product must cover the transport costs.
When the goods are with the buyer's agent or representative, the buyer is responsible for other risks, such like loading the goods onto trucks, transferring them to a ship or plane, and meeting customs regulations.

Free Carrier (FCA)

For international trade, Free Carrier could be used. It mandates the seller to clear the goods for export at the country of origin and make the goods available at a set location, with the risk of loss or damage during that operation clearly remaining with the seller.

List of various incoterms by responsibilities of the Seller and Buyer

Exhibit 16



Source: Agility

Freight Forecast

After an exceptional financial year in 2021, the shipping companies want and seem to hold all the cards they need to do even better in 2022.

- Truckload Rates Expected to Plateau This Q2 According to SupplyChainDive, market forces are currently driving higher truck rates, but as Q2 progresses, truckload demand is expected to plateau and eventually decline. As spot rates dip, contract rates would likely remain elevated as the demand for produce shipping picks up this summer.

- Blank Sailings Rise To Bolster Spot Rates According to The Loadstar, as export demand from China has declined and container spot rates will likely be impacted, carriers are rolling out more blank sailings. Loadstar has reported that export bookings for coming weeks have fallen by over a third as factories and warehouses remain closed and trucking remains limited.

Demand remains strong amidst limited capacity, with freight rates looking to stabilize much later in 2024

How to navigate the current freight market:

- **Compare at least a few quotes and modes** to make sure you are getting the best cost and most efficient service possible.

- **Buffer your freight budget and transit time** for changes. Costs due to unforeseen delays or limited capacity can arise, so be prepared.

- **Explore warehousing options** to mitigate the effects of lowered demand and business restrictions in the US.

- **Pay attention to the profitability** of your goods and consider if a pivot could be worthwhile. Additionally, remember to factor in freight costs when assessing profitability.

https://safety4sea.com/mckinsey-container-freight-rates-to-remain-high-throughout-2022/

https://www.freightos.com/freight-resources/coronavirus-updates/