Market Insights

AUG 2022
EDITION

EDITORS
KARTIK DUBEY
BOTOND LAPIS

ADDITIONAL CONTRIBUTIONS
AMBER FORD

Gexpro Services
Powerful Supply Chain Solutions

Content

METALS MARKET OVERVIEW

The Fed raised the interest rates by another 75bps during its September meeting, pushing the borrowing rate to highest since 2008. The increase in the interest rates to keep control over inflation is impacting the market (adversely!). Locally, this has repressed the spending capability, slowing the pace of economy. Tech heavy Nasdaq looks like entering the bear grip. Strong demand with capped supply is making it worse for the equity markets. Internationally, investors have also turned cautious over the steady fall of the market. Dollar has increased 5-20% against major other currencies compared to same time last year, impacting the purchasing power from outside.

In the Metals Market world, according to the data from World Steel, the global steel production fell by 5.6% M-o-M in July. Widespread reduction in the output is observed from European Steel manufacturers, due low demand, fuel scarcity and inflated energy cost.

- At the time of writing this report the US HRC dropped to $39.7/cwt, 59% down from same time last year and a 21- month low spot. The index, however, remains 36% higher than pre-pandemic levels.
  - North America Region: Prices continues to decline in the US market and are expected to continue the trend for the next couple of months but with much reduced rates. Elevated inventory levels are widespread across the country. Canadian prices also reduced this month, following the US trend.
  - China: Due to low purchasing activity level a drop in pricing is observed. Declining stock levels and increased production cost may help recover the prices to some extent.
  - Europe: A drop in flat and long product prices is observed in August, due to low demand and high inventory. Widespread production cut is implemented by several steel manufacturers putting a break on further reductions possibilities.
- Steel Wire rod (mesh) China prices remained at $602/tonne not moving much from last month's level. The prices are 28% lower than same time last year but still 20% higher than pre-pandemic levels.
- The US and Canadian wire-rod market demand remains slow, capacity remains high at local producers.
- Prices for Steel Medium Plate (Houston Port Import) dropped 11% from last month. The prices are at par with same time last year, however, still about 93% above pre-pandemic levels.
- Nickel is currently trading at $21K/MT, at the plateau of the peak. Considering the weakening economic conditions, nickel is expected to continue in the same band +/- 10%.

- 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, has dropped further from last month showing signs of cooling inflation to some extent. [Exhibit 1]

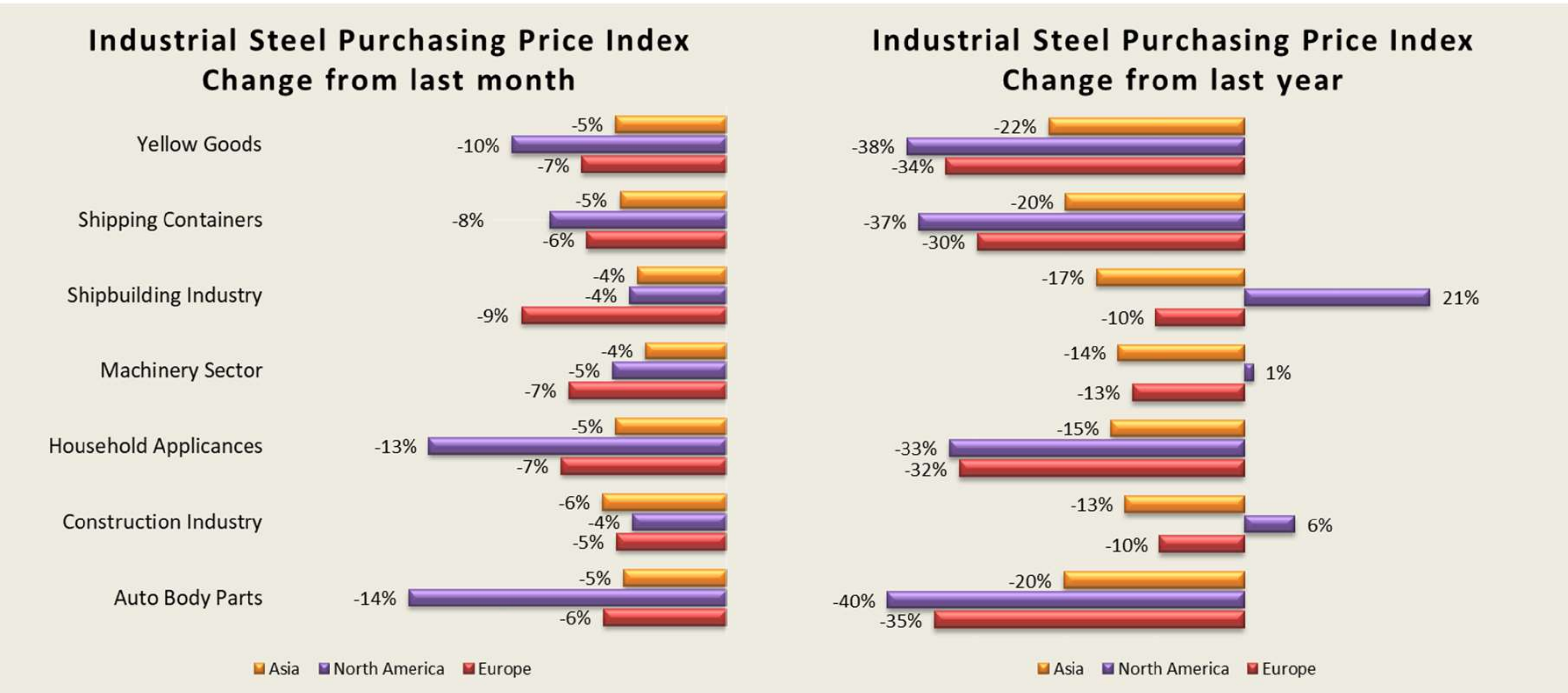


Exhibit 1

METALS MARKET OVERVIEW

Exhibit 2

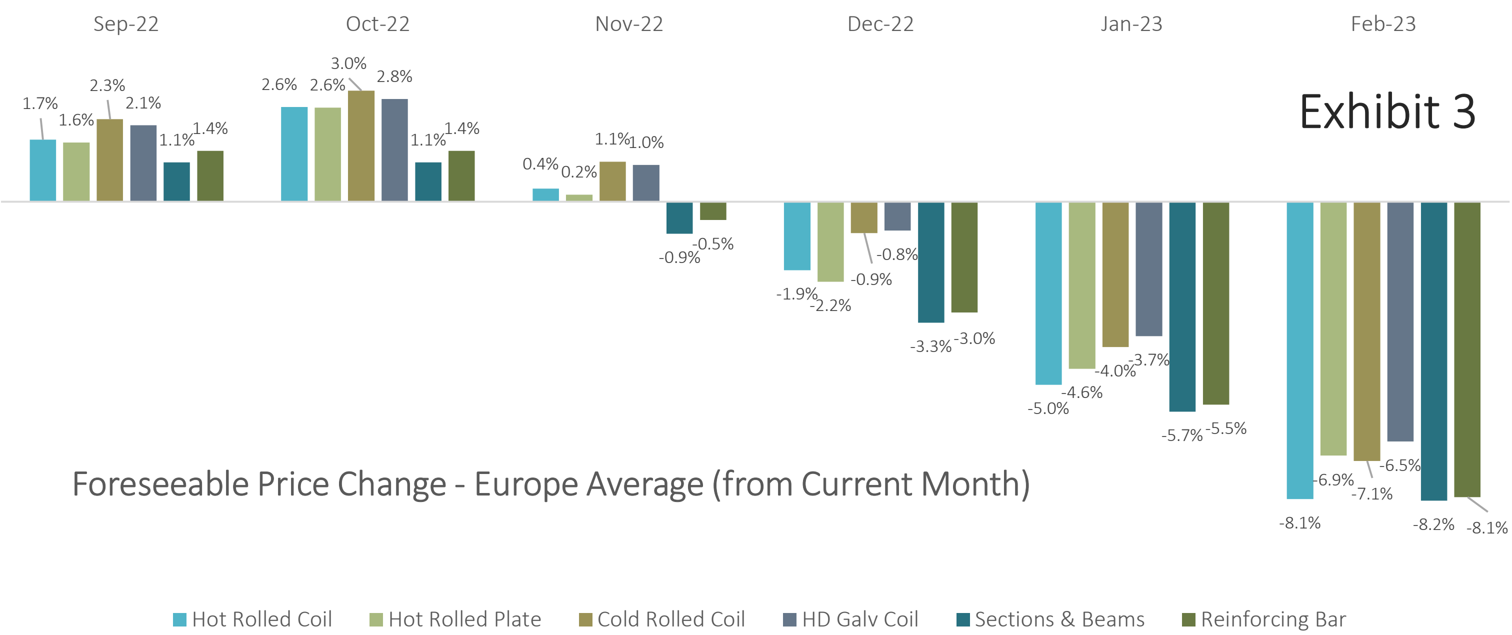
Majority of the indices trended downwards, as projected in previous reports. The metals market is stabilizing after series of disruptions. The market is still away from pre-pandemic level due to the global fuel shortage and inflation.

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	36.20%	-59.07%	-2.31%
Import - Steel HR Coil	35.71%	-50.65%	-6.17%
Steel Coil Cold Rolled	52.00%	-46.98%	-10.24%
Scrap-Midest Index #1 Heavymelt'	39.10%	-25.77%	-6.40%
Scrap # 1 Busheling	35.00%	-35.71%	-14.74%
Steel wire rod (mesh)-China	20.35%	-28.70%	-0.41%
Copper	38.91%	-19.30%	-1.83%
Aluminum 6061	56.78%	-3.41%	-7.69%
Import - Steel Medium Plate	93.29%	1.05%	-11.11%
Silver Engelhard United States	-0.82%	-23.96%	-9.20%
Steel Rod - High Carbon	75.68%	2.36%	-10.96%
Import LC Wire Rod	67.19%	-6.96%	-5.31%
Nickel	48.02%	8.91%	-3.61%
Wire Rod, Cold Heading Quality	67.90%	7.09%	-5.31%
Cobalt	64.42%	7.66%	-0.70%
Aluminum	2.50%	-22.69%	0.00%
316L Stainless Steel	74.07%	15.10%	-12.69%
304 Stainless	71.90%	16.20%	-14.40%
Ferromolybdenum	40.87%	-18.01%	-7.46%
Gold Engelhard United States	12.43%	-4.77%	-2.28%
Chromium-AluminoThermic	95.82%	52.28%	0.00%
Titanium	18.75%	16.33%	4.59%
Special Quality Steel Bar 4100 Series (	69.47%	-1.27%	-8.82%
Rubber	41.06%	13.05%	-5.42%
Fluorocarbon-PPI	29.80%	38.59%	0.00%
Nylon	9.09%	-3.23%	-15.19%
Molybdenum	34.44%	-13.92%	7.28%
Steel Reinforcing Bar	22.63%	-21.23%	-5.28%
China Steel C1022		8.96%	-6.22%
Cotton N. America		28.00%	-2.18%
Plastic products - PPI -WPU072		17.50%	0.72%
Steel bar cold-finished 1-inch round 4140 (alloy), fob r		0.92%	-6.78%

Note from a key supplier :
Tsingshan in China has officially opened their Stainless Steel (S/S) material prices on Sept. 21 to raise USD190/ton for 304 (A2) S/S about 8% up and USD415/ton for 316 (A4) about 12% comparing to early Sept. One of the main reason is to respond the nickel cost up, which currently has been more than USD24,000/ton comparing to Aug. average at USD22,092/ton. The other one is that they are the leader S/S material mill in the world and they have determined to increase the S/S material prices indeed. Then you could imagine how the other mills will act and would be have no choice but to follow the suit.

NEAR TERM FORECAST

The chart below provides the European Steel forecast for the next 5 months showing an increase for the next three months and then drop towards the end of the year for the both flat and long steel products compared to August 2022. European steel is going through a tough time due fuel shortage causing capacity drop. [MEPS]

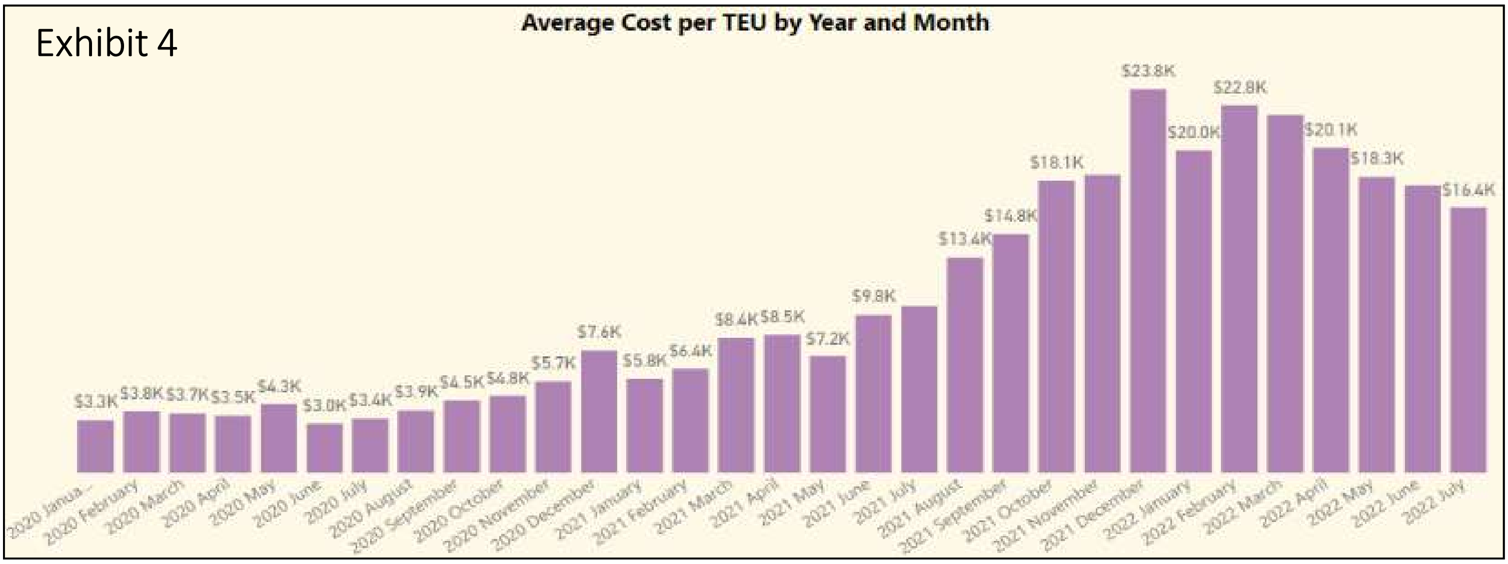


Business Update

Exhibit 4 presents the Average Cost per TEU (Twenty foot Equivalent) for FCL (Full-Container Load) and BCN (Buyers Consolidation) shipments for the business. A general downward trend is observed for the business wide freight. Overall, a drop of $1.3K from last month was observed in average cost of a TEU container. The drop shows signs of normalcy but is nowhere close to pre-pandemic levels. The Average Cost/TEU for July was $16.4K which is 5x from July20 and 1.6x from April21.

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 4



Shipment distribution for Jan 2022 to Aug 2022 showing highest receiving the most billed shipments are discharged by Savannah Port. These includes LCL, FCL, BCN, OBC shipment counts

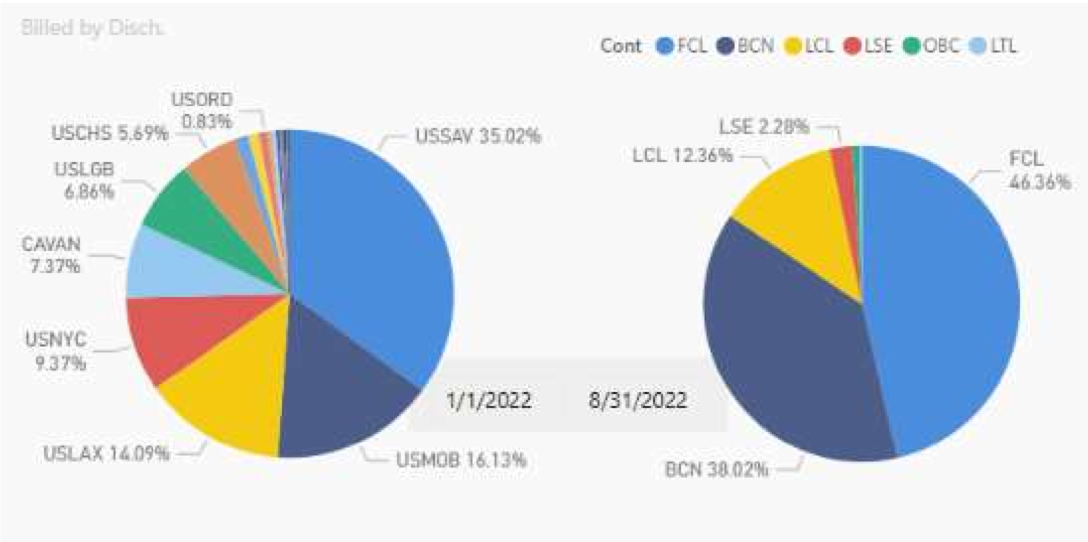
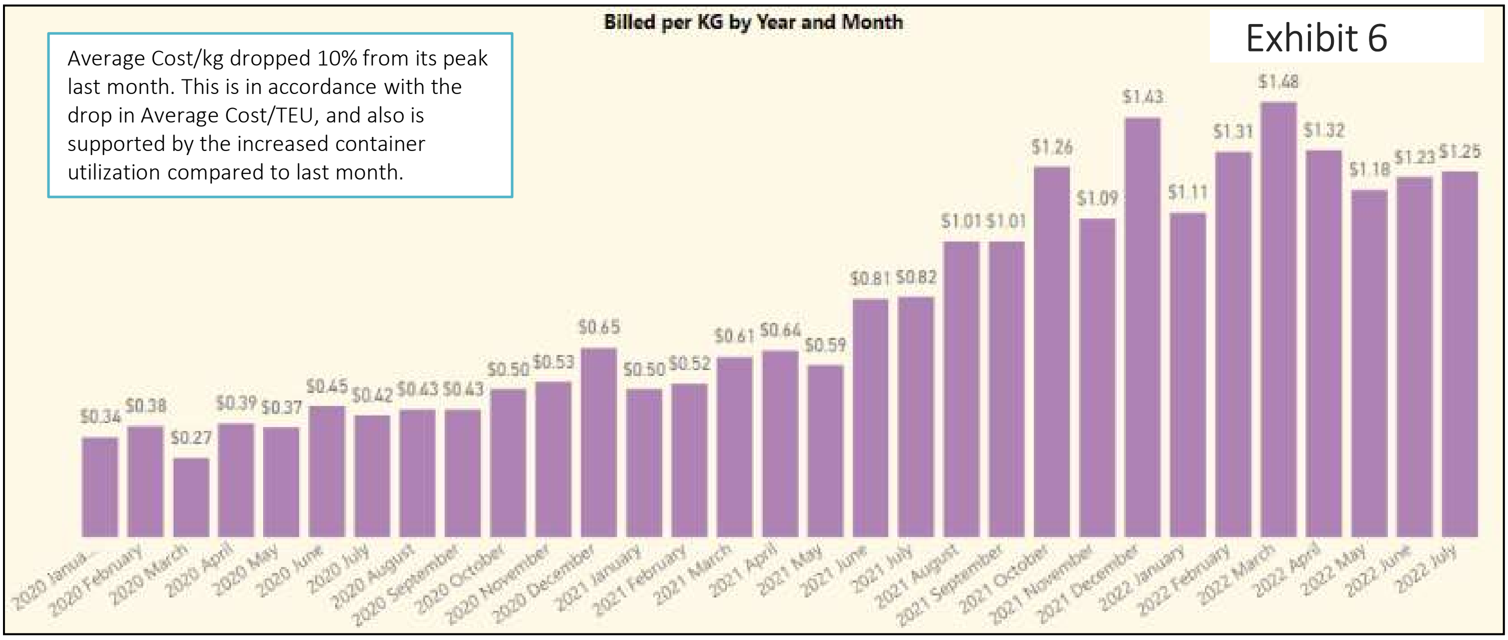


Exhibit 5

Shipment distribution by shipment type from Jan 2022 to Aug 2022

Average Cost/kg dropped 10% from its peak last month. This is in accordance with the drop in Average Cost/TEU, and also is supported by the increased container utilization compared to last month.

Exhibit 6



CURRENCY OVERVIEW

The USD has been climbing up over last few months and is about 10% higher than same time last year against major currencies of our interest. The primary reason is interest rate hike in 3 installments over the course of last few months beginning from June. Industry experts hint furthermore interest hikes up to 1.25% by the end of year.

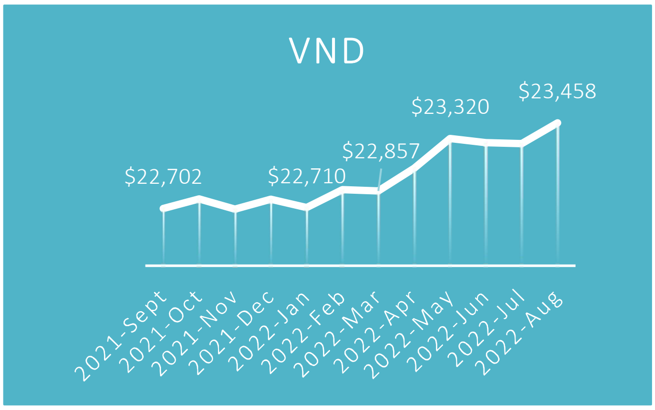
The trailing 12 months record show that the USD has strengthened by:

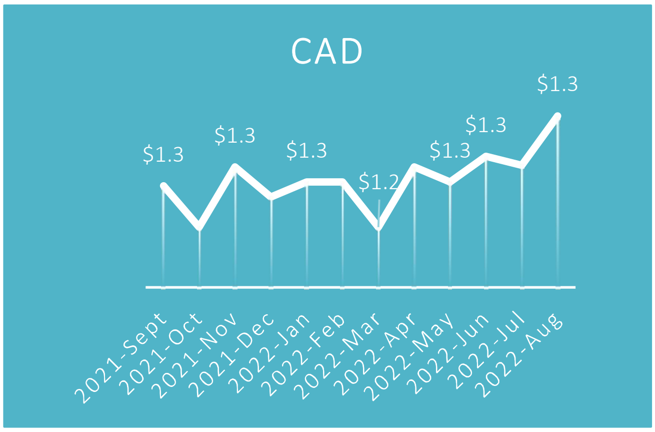
1. 8.83% against Taiwanese Dollar
2. 6.50% against Yuan
3. 15.27 % against Korean Won
4. 12.13% against Thai Baht
5. 17.05% against Euro
6. 4.28% against Canadian Dollar
7. 2.98% against Vietnamese Dong

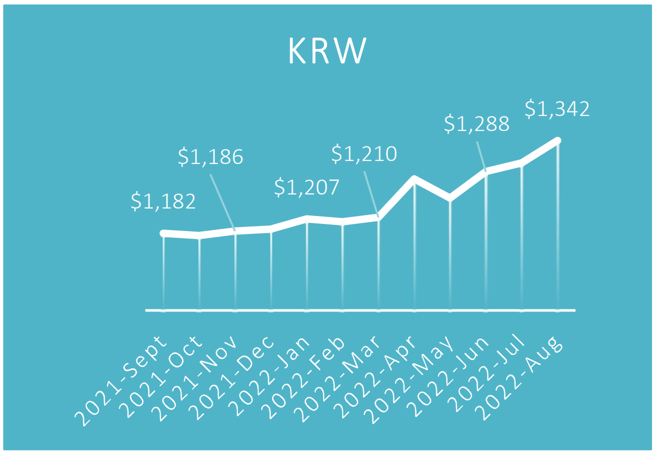
Over the last 1 month the USD has strengthened by:

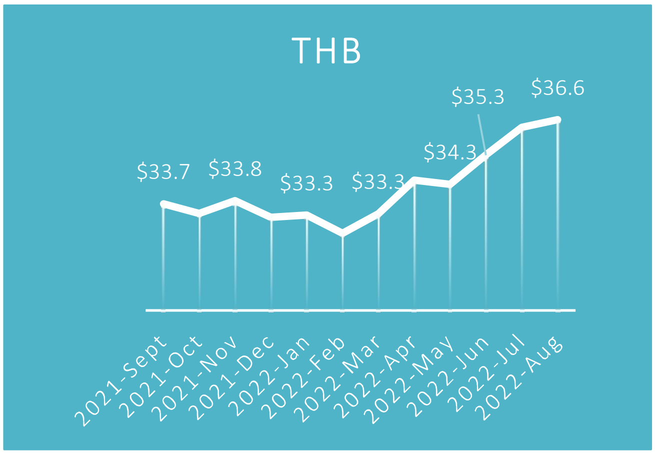
1. 1.11% against Taiwanese Dollar
2. 2.17% against Yuan
3. 2.98 % against Korean Won
4. 0.75% against Thai Baht
5. 1.64% against Euro
6. 2.56% against Canadian Dollar
7. 0.80% against Vietnamese Dong

Exhibit 7









Freight Trend from Specific Routes

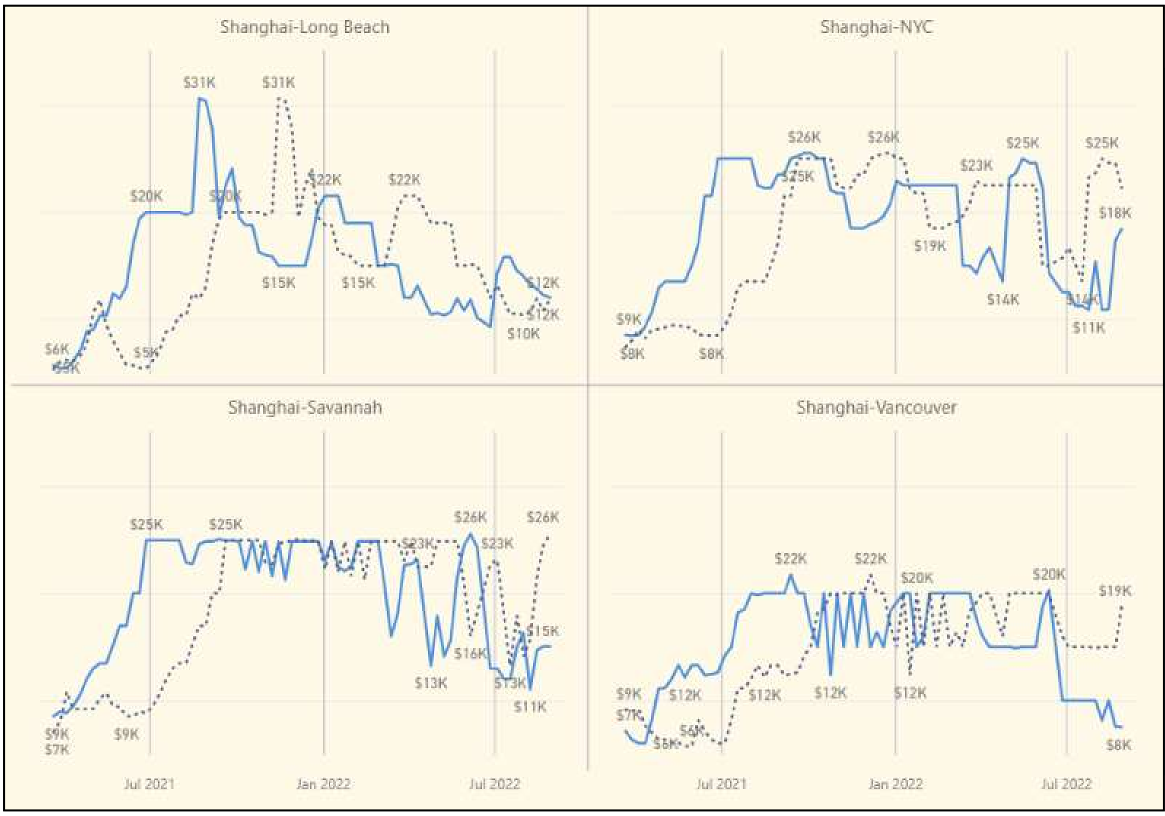


Exhibit 8

The freight indices for major routes have dropped since last quarter, consecutively the freight cost has also dropped. Gexpro is seeing a 12-week delay in the drop.

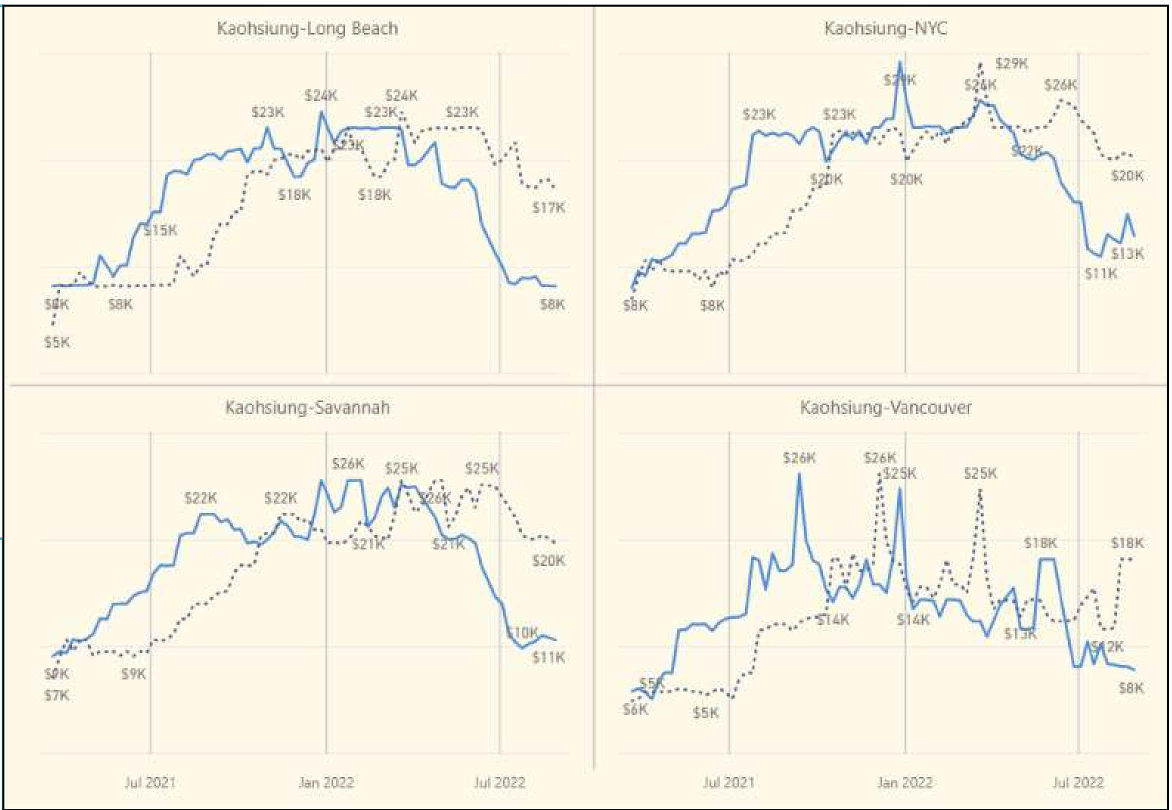
The Solid Blue line represents the current freight index value whereas the dotted line represent the 3-month shifted index value, this is because for most of the Asian shipments we are billed after 12 weeks and hence the actual impact is felt after 3 months.

Freight indices from most Asian routes to North American ports have shown a steady decline over last few months. Port of Savannah has remained highly congested over the last few weeks, pushing the rates higher.

Taiwan to North American spot freight rates are also dropping but the business is still feeling the lingering effect of previous shipments.

Freight rates from European region has seen sharp increase due to the ongoing energy crisis from war.

Freight from India to US has also started dropping since last two months.



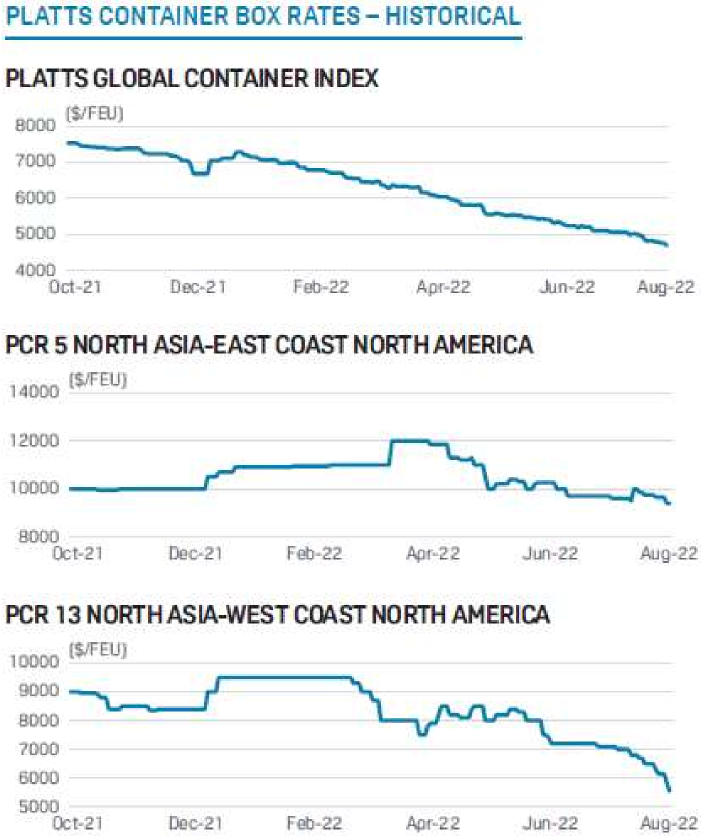
Freight Update

Port of Los Angeles marks best July on record, anticipate cargo downturn from August

- Strong inventory levels point to sliding imports
- Port of Oakland volumes drop 28% on year
- PCR13 retreats nearly 18% amid waning demand

Supply chain issues continued to weigh on the container market in August, with severe congestion at ports along the transatlantic trade lane remaining a major concern to global trade flow. While sustained weak demand for Asian goods continued to chip off freight rates on most trade lanes, congestion, and a backlog of idle containers on the North American east coast, supported higher box rates on those routes during the month. European ports also remained plagued with congestion due to backlogs caused by industrial actions and pandemic related supply chain issues. Void sailing was still a method of choice for carriers to tighten supplies and prevent steeper drops in rates. https://www.chrobinson.com/en/resources/insights-and-advisories/global-forwarding-insights/

Exhibit 9



Platts Container Rate Index, or PCTRI00 - a weighted average of S&P Global Commodity Insights' key container rate assessments – was assessed Aug. 22 at $4,596.69/FEU, down 9.1% month-on-month and off nearly 40% from the record high of $7,645.37/FEU on Sept. 3, 2021.

Platts August Monthly update

Exhibit 10

The International Longshore Warehouse Union (ILWU) contract expired July 1, 2022. The dockworkers and ports are still negotiating to find an agreement but are still working together to keep freight moving without work slowdowns.

What are the topics being negotiated?

- Work disruptions
- Employee benefits
- Safety protocols
- Technology and automation

Port congestion is causing serious delays to ocean vessels sitting at anchor and waiting to berth. It is important to consider the estimated average delays in vessel schedules:

The US Federal Maritime Commission (FMC) is seeking public comments in response to a notice of proposed rulemaking (NPRM) issued yesterday implementing a requirement of the Ocean Shipping Reform Act of 2022 (OSRA) to define "unreasonable refusal to deal or negotiate" with respect to vessel space accommodation provided by an ocean common carrier.
One provision of OSRA requires that an ocean common carrier shall not unreasonably refuse to deal or negotiate with respect to vessel space accommodation. The NPRM outlines the elements that would be necessary to establish a violation and the criteria the FMC would consider in assessing reasonableness. The new rule would apply to both import and export shipments.

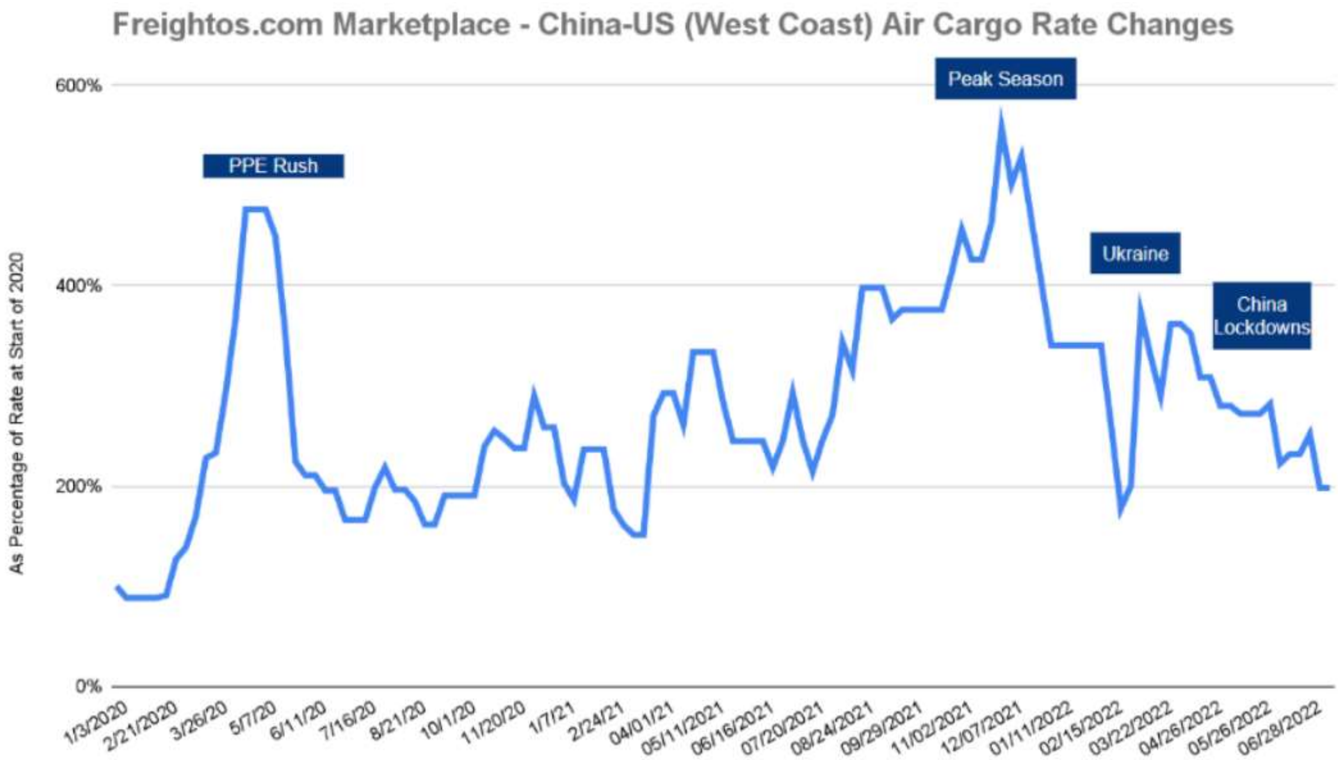
https://dfreight.org/blog/freight-market-updates/

Air freight market update

Ripples from the war in Ukraine and ongoing coronavirus outbreaks are disrupting air cargo – especially Asia-Europe operations – and putting pressure on air cargo rates. Ex-Asia air cargo typically experiences a lull in the summer months before the air peak season in the fall.

Freightos.com marketplace rates show China – US West Coast prices have fallen 15% in the last month, though rates are still about twice the pre-pandemic norm. With the return of transatlantic passenger travel the Freightos Air Index shows Europe – US East Coast prices are 28% lower than a year ago, but with added fuel costs and labor shortages are still about 50% higher than normal.

Exhibit 11



Trucking delays and cost increases

Climbing oil prices translate directly to higher diesel prices. U.S. diesel prices are up significantly from last year and are likely to go higher. These costs could be passed down to shippers, making international shipping even more expensive. The conflict is impacting ground transport in Europe, with trucking logjams reported throughout the region. In the US, warehouse space remains scarce and renewed rail backlogs are becoming a growing problem. Plus, looming labor disputes may further disrupt ground transport.

Exhibit 12

Freight Forecast

China Public Holidays:
Oct. 1–7: Another ‘golden week’ for tourism

Customs user fee changes coming soon

Effective October 1, 2022, U.S. Customs & Border Protection (CBP) will adjust certain customs user fees and corresponding limitations. The 18.629% increase comes as a result of CBP’s annual determination as to whether the fees and limitations must be adjusted to reflect inflation.
As outlined in the General Notice, some of the fees that will be changing include:

•**Merchandise Processing Fee (MPF)**: For formal entries, the minimum will change from $27.75 to $29.66, the maximum will change from $538.40 to $575.35. The ad valorem rate of 0.3464% will not change.

•**Informal Entry/Release Fee**: Automated and not prepared by CBP personnel (class code 311a) will change to $2.37.

•**Customs Broker Permit User Fee**: Will change to $163.71.

“Although we expect some seasonal improvements in the dry bulk market in coming months, volatile path to lower rates is expected in the near term due to slower-than-expected economic growth with continued weakness in mainland China’s real estate sector as well as the absence of high congestion,” said Daejin Lee, lead shipping analyst at S&P Global Market Intelligence.

Consequently, any changes in China’s Covid-zero policy or ceasefire agreements in the Russia-Ukraine war could lift dry bulker freight rates again, but any further slowing in the demand for goods and consumption would push rates lower, S&P said.

Additional considerations to remember:

•Forecast 6–8 weeks minimum
•Prioritization
•Variability in SKUs/parts
•Smooth volumes week to week
•Routing flexibility