Market Insights

MARCH 2022
EDITION

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METALS MARKET OVERVIEW

After observing a brief phase of downward price trend in the first half of the Q1, we are seeing the Metals Market prices go soaring again. The primary driver, as we all know, is the ongoing conflict between Ukraine & Russia. The region as we know contributes significantly to metals, agriculture and other key supplies of the world. Both Russia and Ukraine are major players in steel industry, with 100 million tons of crude steel output per year and more than 40 million tons of steel export, mainly to Europe and Asia. The supply chains are disrupted in part due to the direct damaging effect of war in the affected regions shutting down entire production and also due to the sanctions on the conflict countries. Metals market in Europe is severely impacted due to this impact.

The second key driver is the new Covid wave in China, which caused strict lockdowns and severe restrictions in many Chinese cities, provinces, and ports. Chinese steel inventory levels are reversing, stock levels had started to decline as demand recovered but are now seeing levels rise again due to mass shutdown of construction sites, and factories. Traders are trying to increase their export volumes to compensate for the loss of domestic shipments by offering competitively in the global steel market however buyers in Europe and North America are reluctant towards Chinese offers due to high transportation costs and delays in the arrival of material. The detailed report is as follows:

- In March US HRC soared to $72.61/cwt, 42% up from last month.
  - North America Region: Buyers are returning to the market, trying to secure high levels in the future and they indicate that the change in market conditions was rapid. Demand is strong, especially in the construction, residential building and OCTG (Oil Country Tubular Goods) sectors. Prices in the Canadian market reflected a strong increase similar that observed in the United States. Lead times for hot-rolled coil range from four to eight weeks. In the case of cold-rolled coil, demand from the automotive sector is weak and an increase is not expected in the short term. The volatility of nickel prices creates uncertainty in the region's market. [MEPS, 2022]
- Europe. Raw material costs have skyrocketed due to the current situation. Purchasing managers are now trying to source from a smaller pool of suppliers, which is driving sheet prices to extremely high levels and are concerned about potential supply shortages. Stockholders and service centers are restricting sales as their inventories are depleted. [MEPS, 2022]
- 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

- Baosteel Zhanjiang Iron & Steel has ordered the construction of a DRI plant with a capacity of one million tons per year in Guangdong province. [MEPS]
- Polish steelmaker Cognor plans to increase its production of merchant bars with the construction of a new rolling mill at a site near Katowice, which will have an annual production capacity of up to 450,000 tons. [MEPS]
- US Steel has announced that it will build a new pig iron casting mill with an annual capacity of 500,000 short tons; the company will invest $60 million in the project. [MEPS]
- Nippon Steel has confirmed that it has begun lining blast furnace No. 3 at its Nagoya steel mill in Japan. The company has committed more than $400 million to the project, which will raise the unit's interior volume to 4,425 cubic meters, an increase of about 3%. [MEPS]
- CSC announced to raise the prices by 5.83% in average for April-shipment and the second-quarter shipment products of domestic sales in 2022.
- Baosteel (China) and FHS (China) both raised prices for April to May shipment. NSC & Toyota also settled negotiations to raise prices for Steel Products starting from first half of fiscal year 2022.

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.

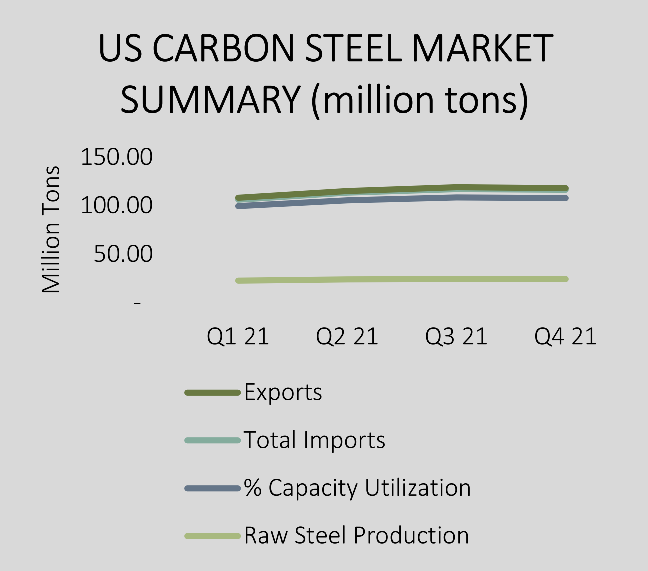
Base Metal- Clink on the links below for each index.	% Change prior 3 Years, same period	% Chg. V from last year, same period	% Chg from prior month
Steel Coil Hot Rolled	110.04%	10.33%	42.85%
Import - Steel HR Coil	100.00%	22.73%	31.07%
Steel Coil Cold Rolled	164.15%	21.33%	19.74%
Scrap-Midest Index #1 Heavymelt'	72.24%	28.46%	29.36%
Scrap #1 Busheling	82.67%	24.55%	38.38%
Steel wire rod (mesh)-China	54.78%	14.88%	4.40%
Copper	60.32%	18.18%	5.91%
Aluminum 6061	89.45%	75.00%	8.81%
Import - Steel Medium Plate	76.79%	44.17%	0.68%
Silver Engelhard United States	64.47%	3.52%	1.83%
Steel Rod - High Carbon	78.05%	46.00%	0.00%
Import LC Wire Rod	73.97%	50.57%	13.91%
Nickel	156.58%	104.49%	32.31%
Wire Rod, Cold Heading Quality	63.04%	47.78%	13.91%
Cobalt	174.56%	73.19%	10.06%
Aluminum	48.28%	31.08%	3.74%
316L Stainless Steel	81.21%	44.79%	4.18%
304 Stainless	77.87%	37.34%	4.33%
Ferromolybdenum	74.58%	74.85%	11.23%
Gold Engelhard United States	48.90%	14.68%	1.10%
Chromium-AluminoThermic	95.16%	165.07%	54.43%
Titanium	2.08%	0.00%	0.00%
Special Quality Steel Bar 4100 Series (Round Bar High Carbon)	58.42%	35.54%	2.50%
Rubber	19.94%	20.64%	-1.82%
Fluorocarbon-PPI	37.35%	32.90%	0.00%
Nylon	5.74%	25.24%	1.98%
Molybdenum	59.19%	63.94%	2.83%
Steel Reinforcing Bar	67.16%	25.37%	7.35%
China Steel C1022		25.23%	5.24%

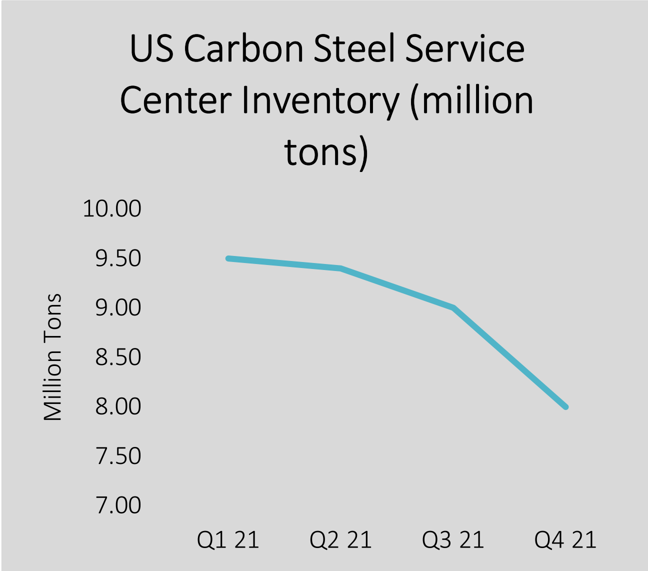
METALS MARKET OVERVIEW

US CARBON STEEL MARKET SUMMARY

- The raw Steel production showed an upward trend during the last two quarters of 2021, which leads to the increase in the percentage of capacity Utilization.

- Service centers have maintained their approach of not to restocking due to the fear of keeping large inventories at a high price, postponing their purchases and being very cautious in their inventory levels.

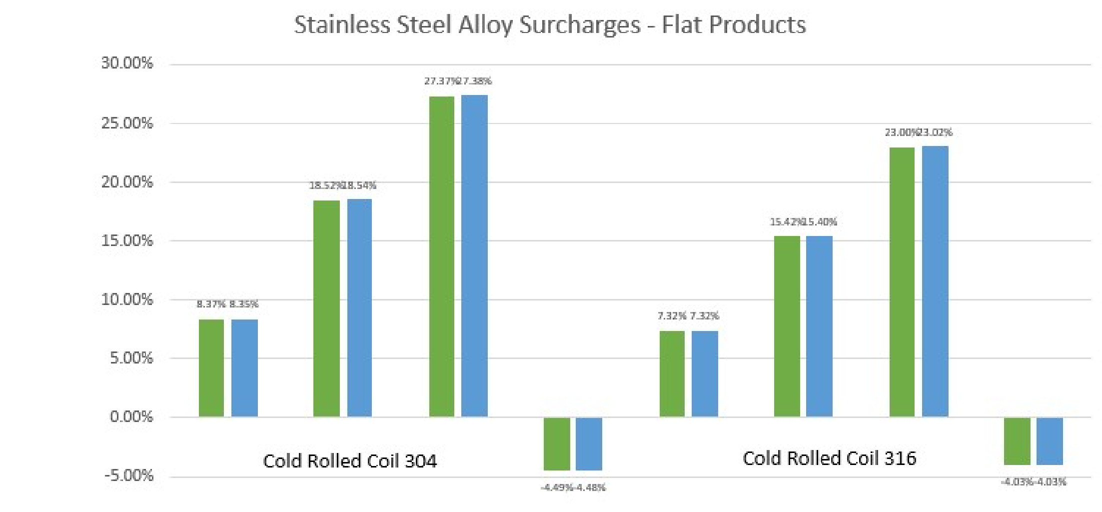




Mexico and Canada

- Although the numbers have improved compared to 2020, they have not yet reached pre-pandemic levels, showing an opposite difference between long and flat **output.**
- Flats production grew by 17% year-on-year, but appears to be 13% below the 2016-2019 average, while longs production grew by 5% in both 2020 and the 2016-2020 average.
- Another sector that has been affected is the automotive industry due to the shortage of semiconductors, according to the CEIC, the production of light vehicles fell 1% compared to 2020 and 20.7% compared to the 2016-2019 average.

In the stainless-steel market, mills have withdrawn offers and stopped accepting new orders. Asian export offers to European buyers were also suspended. The recent turmoil with the price of nickel on the London Metal Exchange has led to questioning the relevance of nickel and the calculation of its surcharges. Rising raw material and energy costs are adding to the upward pressure on steel transaction values. European hot-rolled steel plate mills are restructuring their pricing method to include surcharges for energy and scrap



	Actual		Estimate		Actual		Estimate	
	March	April	May	Jun	March	April	May	Jun
USA $/short ton	8.37%	18.52%	27.37%	-4.49%	7.32%	15.42%	23.00%	-4.03%
USA $/metric ton	8.35%	18.54%	27.38%	-4.48%	7.32%	15.40%	23.02%	-4.03%

USA $/short ton USA $/metric ton

NEAR TERM FORECAST

Nickel is currently trading at $33K/MT, a historical high mark, in last several decades. 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.

- Prices of heavy scrap will continue to be affected by the new outbreaks of COVID-19 and the lockdown in China, impacting the supply chain of heavy scrap. Additionally, scrap consuming electric arc furnace (EAF) are working at a capacity of 74%, 10% less compared to the same period of the previous year. This is due to the increase in scrap prices and low demand, affecting the profits of the EAF leading to their future operating rates being kept low.

The forecast for ferrous scrap prices for at least the next 4 months is to continue increasing compared to February 2022 with a slight decrease in the months of June and July 2022 but remaining well above the prices of February this year.

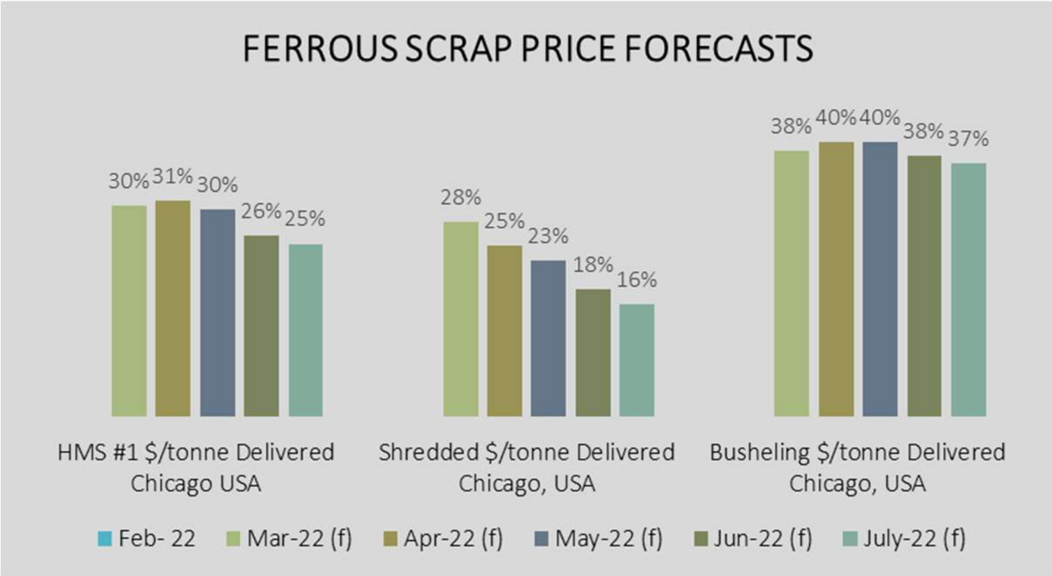
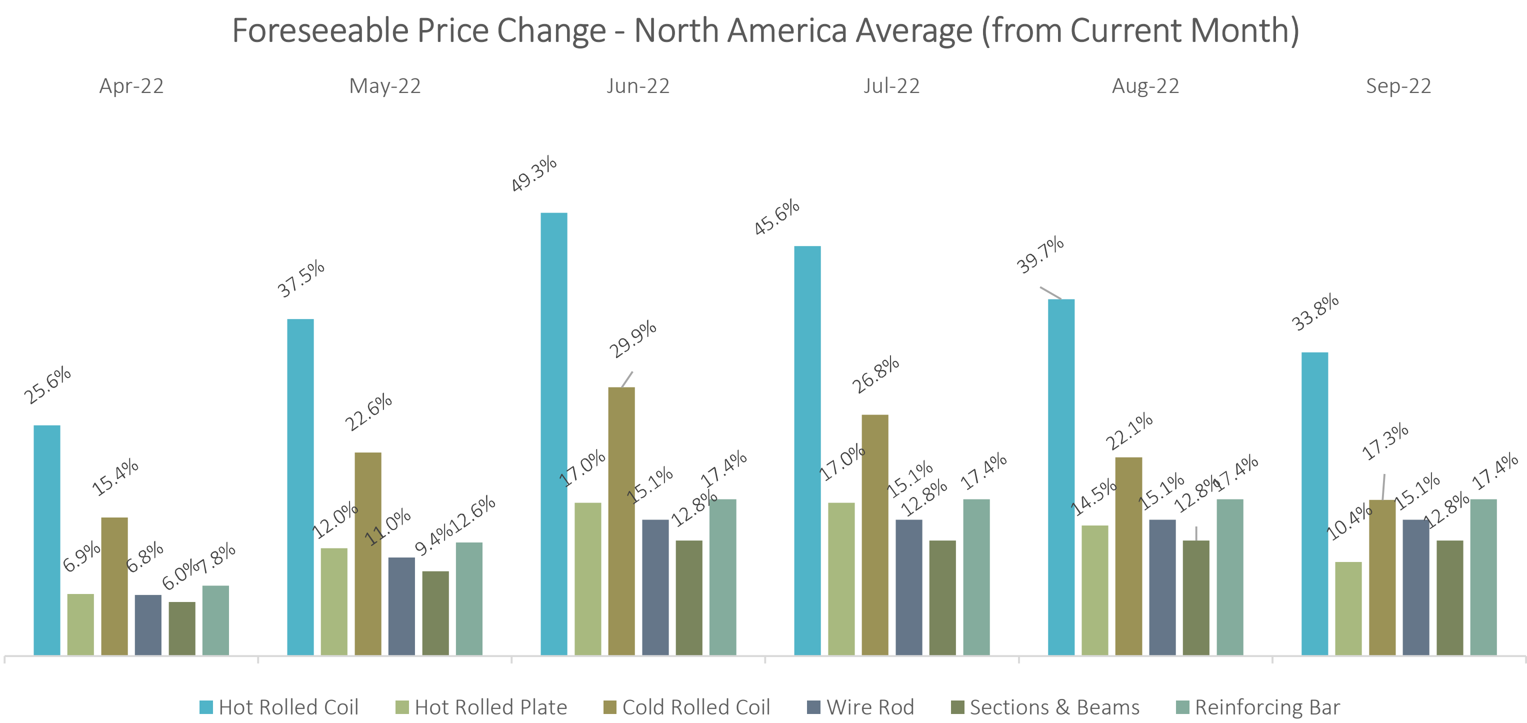


Exhibit 3

Costumers are expected to bear higher prices for US long steel products. The chart below provides the forecast for the next 5 months showing an upward trend for the prices of both flat and long steel products compared to the month of March 2022.

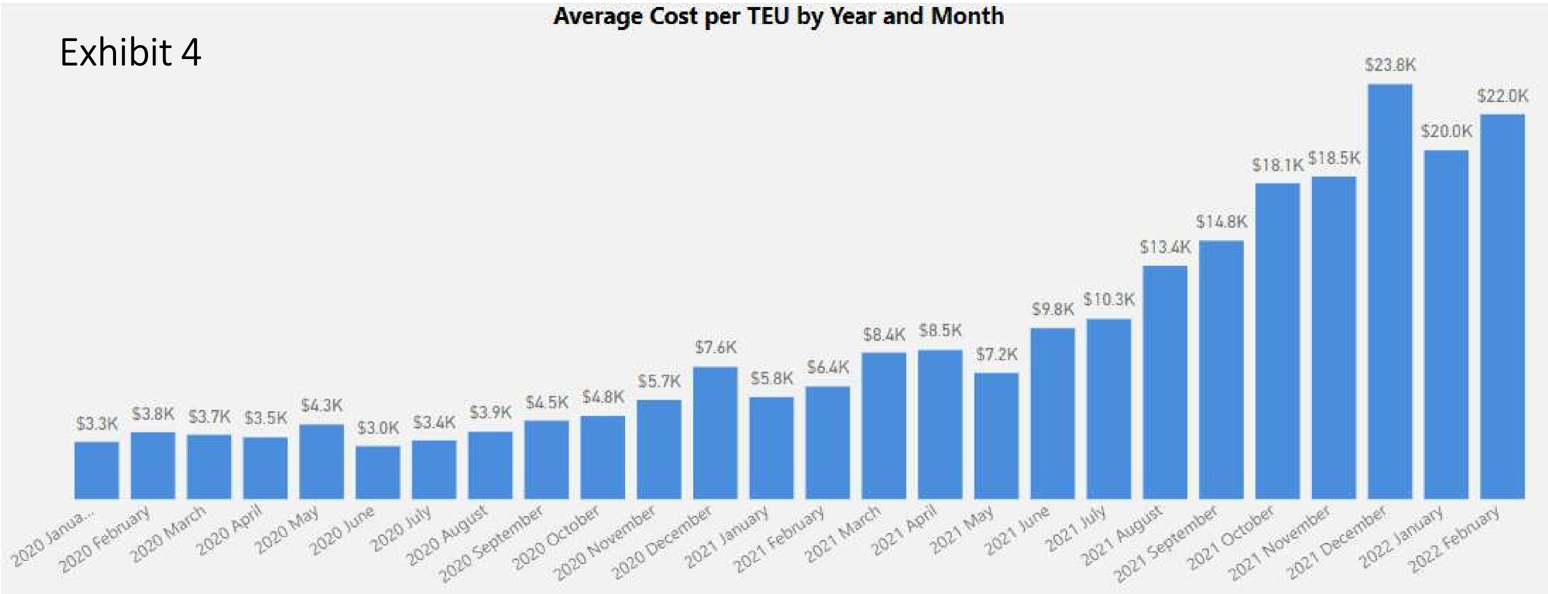


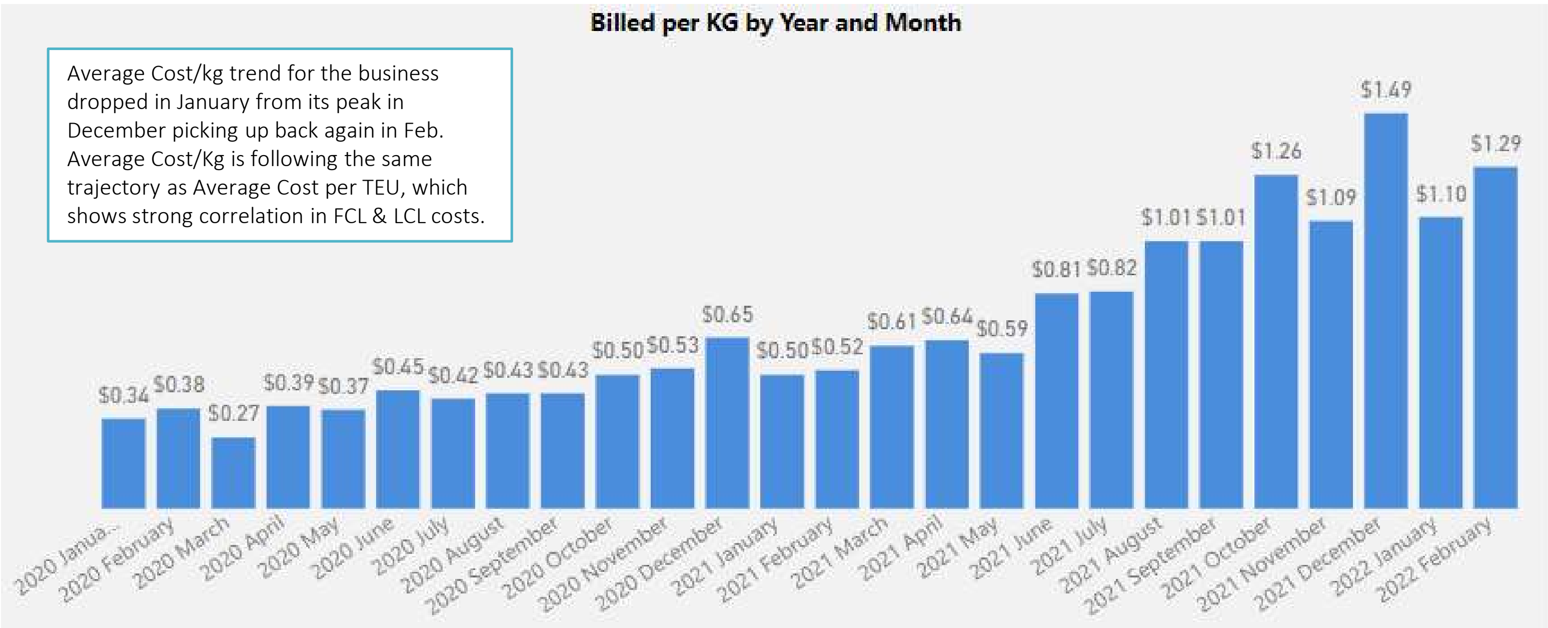
Business Update

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 February was $22K which is 6x from Feb 20 and 3x 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.

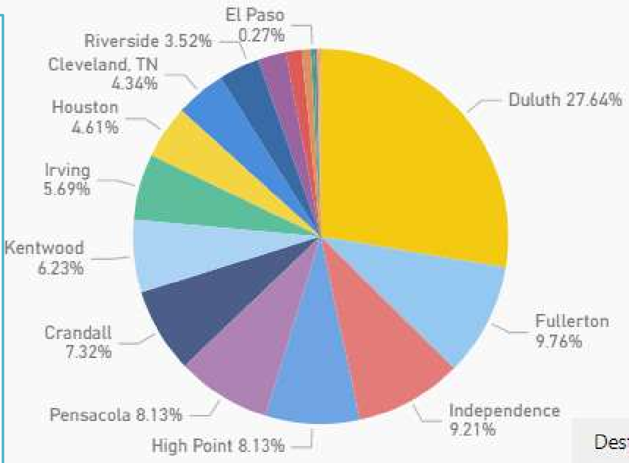
Exhibit 4

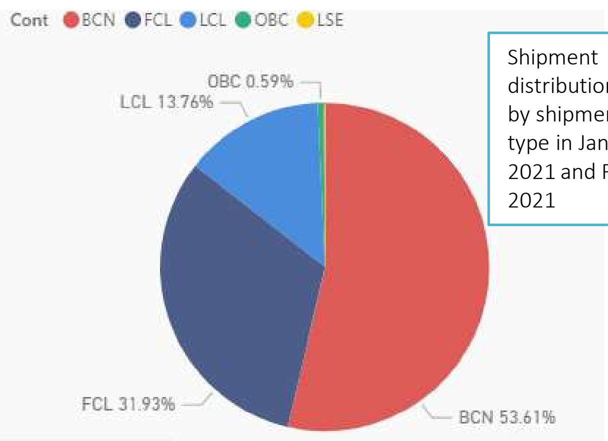




Average Cost/kg trend for the business dropped in January from its peak in December picking up back again in Feb. Average Cost/Kg is following the same trajectory as Average Cost per TEU, which shows strong correlation in FCL & LCL costs.

Shipment distribution for Jan 2021 and Feb 2021 showing Duluth receiving the most shipments (by counts). These includes LCL, FCL, BCN, OBC shipment counts





Dest ETA

1/1/2022 2/28/2022

Shipment distribution by shipment type in Jan 2021 and Feb 2021

CURRENCY OVERVIEW

USD rose sharply against Taiwanese Dollar, Korean Won, Euro & Vietnamese Dong in the last few months, and fell by 3.1% and 2.3% against neighboring Mexican Peso and CAD since last month.

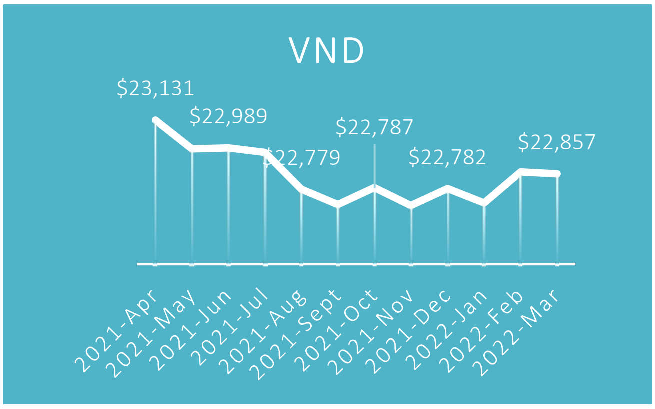
The trailing 12 months record show that the USD has strengthened by:

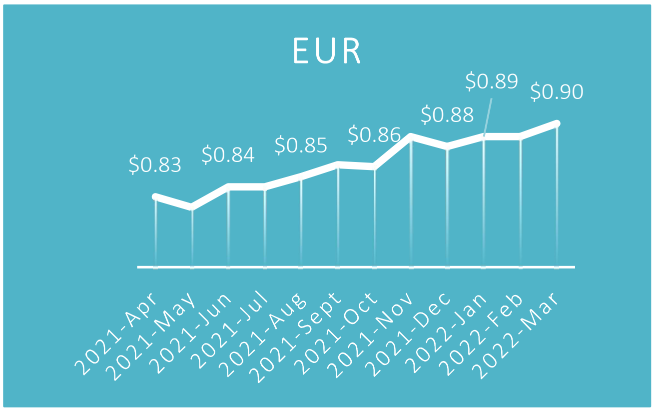
1. 0.59% against Taiwanese Dollar
2. 7.14% against Korean Won
3. 6.66% against Thai Baht
4. 6.24% against Euro

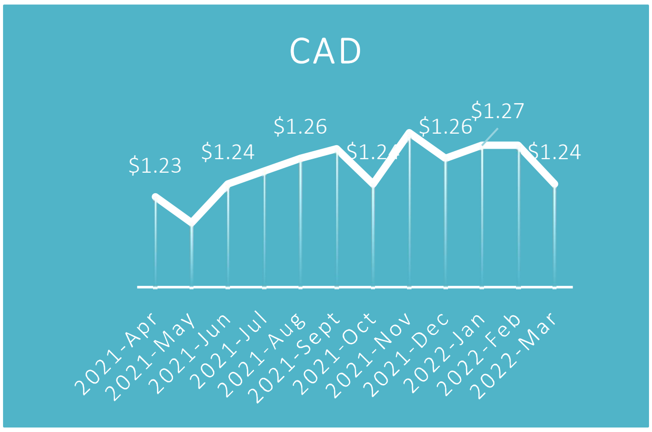
And weakened by:

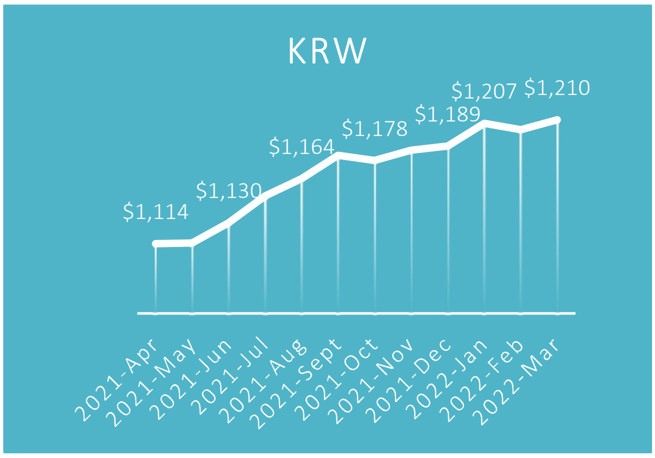
1. 3.05% against Chinese Yuan
2. 2.98% against Mexican Peso
3. 1.59% against Canadian Dollar
4. 1.04% against Vietnamese Dong

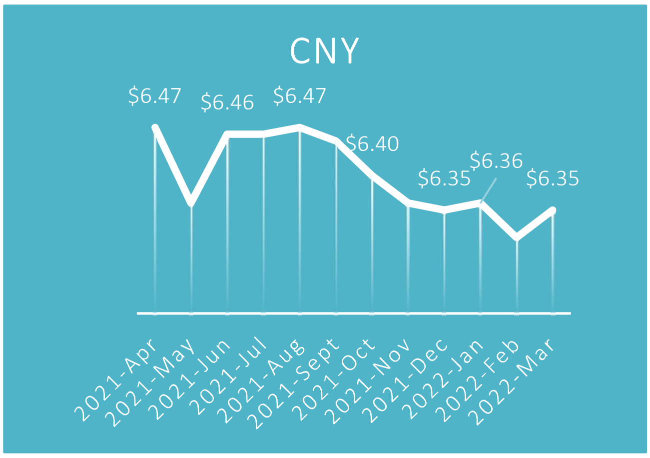
Exhibit 5











Freight Update

Topic of the month – How does the Ukraine conflict impact Ocean Freight?

• All Ukrainian sea ports on the Black Sea are closed.
• Many major ocean carriers (e.g. Maersk, Hapag-Lloyd, CMA CGM, Evergreen, ONE, Yang Ming Line) have suspended their services to Russian ports. Cargo is diverted to ports in Romania, Turkey, Greece and Italy, potentially leading to port congestions in that region.
• Current rail operations between Asia and Europe are running smoothly without disruptions. On the North corridor bookings are accepted against signed DHL's LOI. On the South corridor a connection via Caspian Sea is due to start in early April. Connection Guiyang – Duisburg is expect to travel to Europe in 30-35 days. No LOI is required via the Southern corridor.

https://www.dhl.com/content/dam/dhl/global/dhl-global-forwarding/documents/pdf/glo-dgf-ocean-market-update.pdf

Ocean freight highlights Asia

•**Asia → North America (TPEB)**
•Additional disruptions due to increase in Covid cases in Shanghai are impacting suppliers and causing headaches for shippers and importers. Ocean carriers continue to assess impacts to bookings and have not yet announced any blank sailings, but expect that there will be changes to bookings. There is uncertainty around whether softening currently being seen in the market is expected to last, as post-CNY lulls in demand are traditional and inventory replenishment efforts remain for importers and retailers. Severe congestion, equipment imbalances, sliding vessel schedules, port omissions, blank sailings, and increased fuel charges continue to create challenges.
•Rates Rate levels remain elevated and the premium market is strong.
•Space Undercapacity, except in pockets
•Capacity/Equipment Critical/Severe Undercapacity
•Recommendation: Book at least 3-4 weeks prior to CRD. Consider premium options. Be flexible in regard to equipment and routings. Check closely with suppliers to understand any Covid-related impacts or changes to production outputs and forecasts.

Customs and Compliance News

USTR Reinstates a Multitude of Section 301 Exclusion Extensions
The Office of the US Trade Representative (USTR) has reinstated 352 Section 301 exclusion extensions, reopening the process for importers to obtain duty refunds on entries with eligible products. The exclusion extension is applicable for subject entries from October 12, 2021, through December 31, 2022. The specific exclusion code is not yet active in ACE, but now is the time to reach out to your broker to get started.

Sanctions on Russia levied by the United States and global allies

The Russia/Ukraine war remains a very fluid situation, with measures enacted against Russia by the United States and numerous other global allies. The United States has implemented financial sanctions, which will have an immediate impact on Russia. Export controls of technology and physical goods have been imposed, the effects of which will take longer to have a global impact.

https://www.flexport.com/market-updates/freight-market-update-march-29-2022/

Freight Update

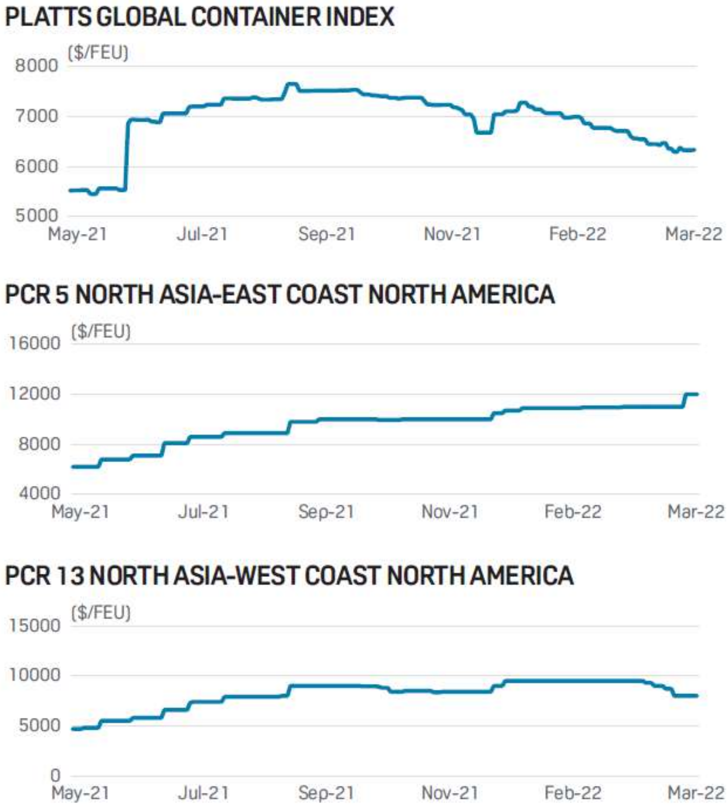
Exhibit 7

SINGAPORE, March 16 (Reuters) - The queues of container ships outside major Chinese ports are lengthening by the day as COVID-19 outbreaks in manufacturing export hubs threaten to unleash a fresh wave of global supply chain shocks, ship owners, logistics firms and analysts say.

The spread of the highly-infectious Omicron variant this month has led to movement controls across China, including in key manufacturing hubs of Shenzhen and Dongguan, paralyzing factories making goods from flash drives to car parts.

While China's in ports remain open and vessels are continuing to dock, congestion is building up and some container ships are re-routing to avoid expected delays, according to ship owners, analysts and supply chain managers.

Ocean freight Platts Indices



Most container freight rates were assessed lower during the month amid a bearish demand outlook in the short term, compounded by widespread uncertainty across the market over the Russia-Ukraine conflict.

S&P Platts container update

Exhibit 8

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

Freight Update

Vessel waiting time indicator

Exhibit 9

Area	Less than 1 day	1-3 days	More than 3 days
Asia-Pacific	Nansha, Xiamen, Dalian, Shanghai, Busan, Singapore, Port Klang, Tanjung Pelepas	Qingdao, Ningbo, Hong Kong, Lyttelton, Tauranga	Yantian, Shekou, Auckland, Sydney
Rest of World	Santos, Balboa, Buenaventura, Tin Can	Bremerhaven, Durban, Newark, Savannah, Baltimore, Tema	Antwerp, Long Beach, Los Angeles, Oakland, Vancouver, Seattle, Prince Rupert, Charleston, Houston, Miami, Norfolk, Apapa, Cotonou, Cape Town, Dar Es Salaam

Did You Know? Carrier Financial results 2020–2021 (US$ million) Carrier's Operating Profit Margin more than doubled.

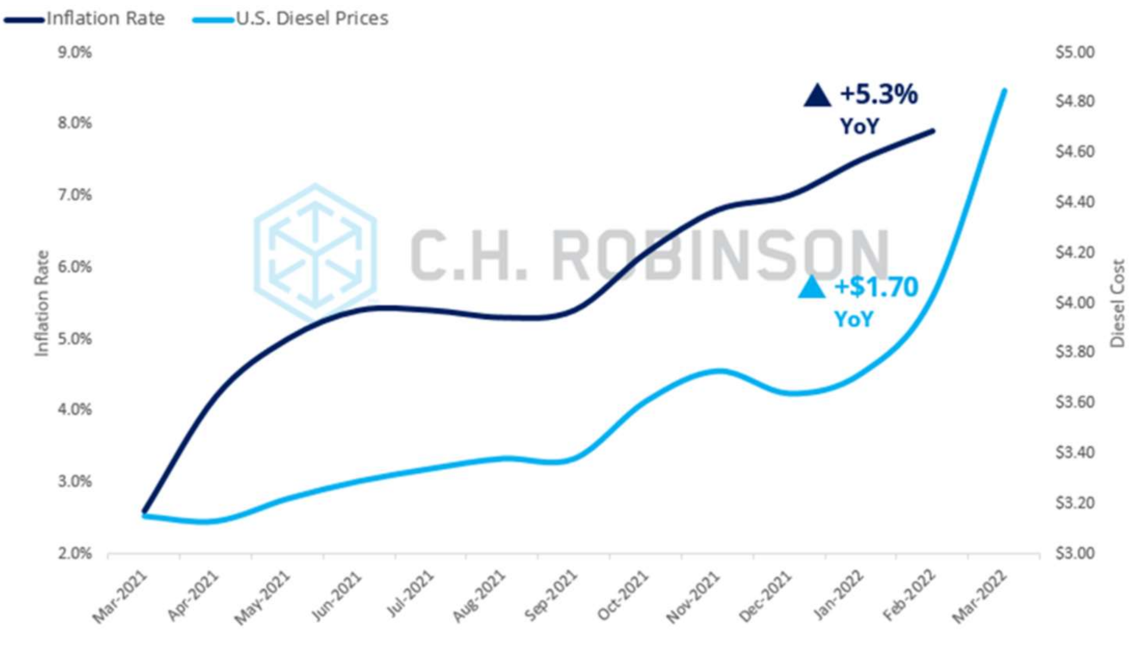
Exhibit 10

	Revenue			Operating Profit			Operating Profit Margin		Net Profit		
Carrier	**2020**	**2021**	**%**	**2020**	**2021**	**%**	**2020**	**2021**	**2020**	**2021**	**%**
CMA CGM [2), 5)]	24'006	45'290	89%	5'232	22'069	322%	21.8%	48.7%	1'755	17'894	920%
Maersk Group [8), 10)]	24'920	42'734	71%	6'545	21'432	227%	26.3%	50.2%	2'900	18'033	522%
Hapag-Lloyd [5), 10)]	14'577	26'356	81%	1'501	11'111	640%	10.3%	42.2%	1'068	10'750	907%
ONE [3), 10)]	9'674	21'665	124%	2'635	12'782	385%	27.2%	59.0%	1'626	11'648	616%
Evergreen Marine Corp. [1), 7)]	7'370	17'643	139%	1'234	10'269	732%	16.7%	58.2%	1'024	9'485	826%
Yang Ming	5'400	11'610	115%	830	6'210	648%	15.4%	53.5%	100	4'480	4380%
HMM	5'384	12'029	123%	693	7'332	958%	12.9%	61.0%	434	5'970	1276%
Zim	3'992	10'729	169%	1'036	6'596	537%	26.0%	61.5%	524	5'900	1026%
Wan Hai	2'914	8'220	182%	455	4'603	912%	15.6%	56.0%	404	3'728	823%
Average [3)]			**95%**			**401%**	**20.3%**	**52.3%**			**815%**

Source: Alphaliner

U.S. inflation rate and diesel prices

Exhibit 11



Source: © tradingeconomics.com and eia.gov/petroleum/gasdiesel

Crude oil prices reached record levels, prompting higher gas prices throughout the United States. The national average in the United States for a gallon of diesel was $4.85 in the first week of March, the highest price since summer 2008. Carriers have introduced an additional 40–50% fuel surcharge to offset the cost of diesel.

Freight Forecast

Container freight rates will remain elevated throughout most of 2022, says McKinsey, while the containerized logistics disruption persists.

> "it is almost impossible to predict exactly when supply chains will normalize. Efforts are being put in place to remedy the situation, however, massive uncertainty remains"

added McKinsey, which developed four possible scenarios of rate outcomes. The scenarios were developed by considering drivers of container demand and containerized logistics capacity that form the basis of the current industry and market dynamics.

Exhibit 12

Rapid market recovery to 2019 levels

Full normalization of capacity and rates return to 2019 levels by Q3 2022

Successful interventions from regulators, improved labor availability, and coordination between stakeholders along the logistics value chain come together to unlock ocean and landside logistics capacity

Demand returns to prepandemic trends

There are no significant external shocks or interruptions that disrupt operations

Market economics play out

Full normalization of capacity by Q3 2023 with rates remaining ~25 percent above 2019 levels

Interventions from regulators, ports and railroads create some improvement and release additional ocean capacity back into the system. This is supplemented by new vessel deliveries entering the industry in 2023

Demand continues to show modest, stable growth

Congestion at terminals and inland facilities is gradually resolved with only minor, short-term disruptions to port and railroad operations from possible weather events and labor challenges

Slower capacity recover

Full normalization of capacity by Q1 2024 with rates remaining ~50 percent above 2019 levels

Interventions from regulators, ports and railroads create marginal congestion relief. New vessel deliveries have little effect on improving the effective capacity in the system

Demand for Asian imports to North America and Europe from Asia continues to demonstrate modest growth, with some materialization of pent up demand (notably auto parts)

Congestion at terminals and inland facilities is gradually resolved with only minor, short-term disruptions to port and railroad operations from possible weather events and labor challenges

Failed recovery with elevated rates

Full capacity recovery does not return, and rates remain elevated through 2024

Interventions intended to improve logistics fluidity are ineffective. Ports are unable to improve yard capacity and hinterland logistics systems continue to face setbacks, restricting vessel and equipment turnover (box and chassis)

Demand for Asian imports to North America and Europe from Asia continues to demonstrate modest growth, with materialization of pent up demand from several currently underperforming sectors

Chronic congestion becomes the norm as carriers optimize for lower terminal productivity and emission regulations by scrapping or slowing steaming vessels. External shocks from weather or labor challenges continue to interrupt operations

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