Market Insights

MAY 2023
EDITION

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Content

METALS MARKET OVERVIEW

Economists have been predicting a recession since mid-2022, but most economies fared a good job in dodging the situation to a great extent so far. The inflation levels have been reduced to half from its peak in US, thanks to the government policies and other preventive measures. Current data on rising interest rates, high inflation, and inverted yield curve point, however, still point to a recession. The New York Fed recession probability indicator suggests there is a 68.2% chance of a recession in the US sometime in the next 12 months. In the last four decades, that's the highest reading recorded. Despite all these factors at play, the US labor market is still strong, and there has been mixed opinions among economists about whether a recession is inevitable. If the US were to go into a recession the affects would be large but would happen gradually.

One event that could have led to an immediate recession and significant disruptions to financial markets was US breaching the debt ceiling.

The figure shows the alarmingly fast rate of insuring the US debt (the insurance premiums that must be paid to ensure debt), which is at an all-time high. However, with just two days to spare, on June 3rd, Joe Biden signed a bill that would raise the debt ceiling, which in turn has averted the US from defaulting on its $31.4T debt ceiling. In order to raise the debt ceiling and compromise between Republicans & Democrats, the bill will cut federal spending by $1.5T over a decade, impose stricter work requirements for food stamps, and cut back on approximately $27B on spending for federal agencies dedicated to fighting coronavirus. While both sides compromised greatly to get the debt ceiling raised, a major economic crisis was avoided.

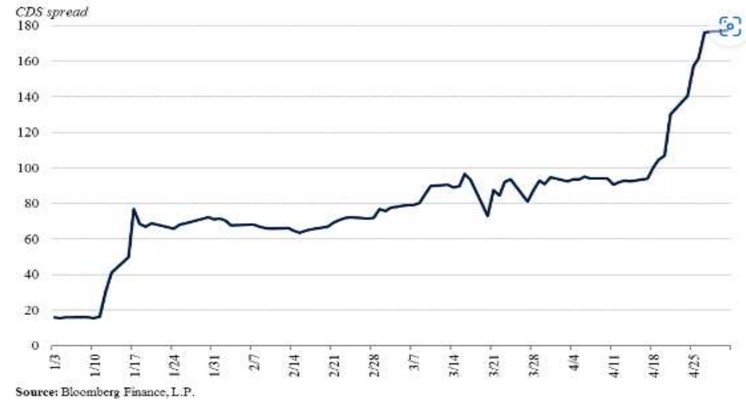


Figure 2: One-year U.S. government bond insurance premiums

Exhibit 1

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 been dropping for North American, Europe & Asian Market for almost an year. The industrial steel PPI has dropped on an average 32%, 23% and 17% from same time last year across, European, North American and Asian markets respectively. [Exhibit 2]

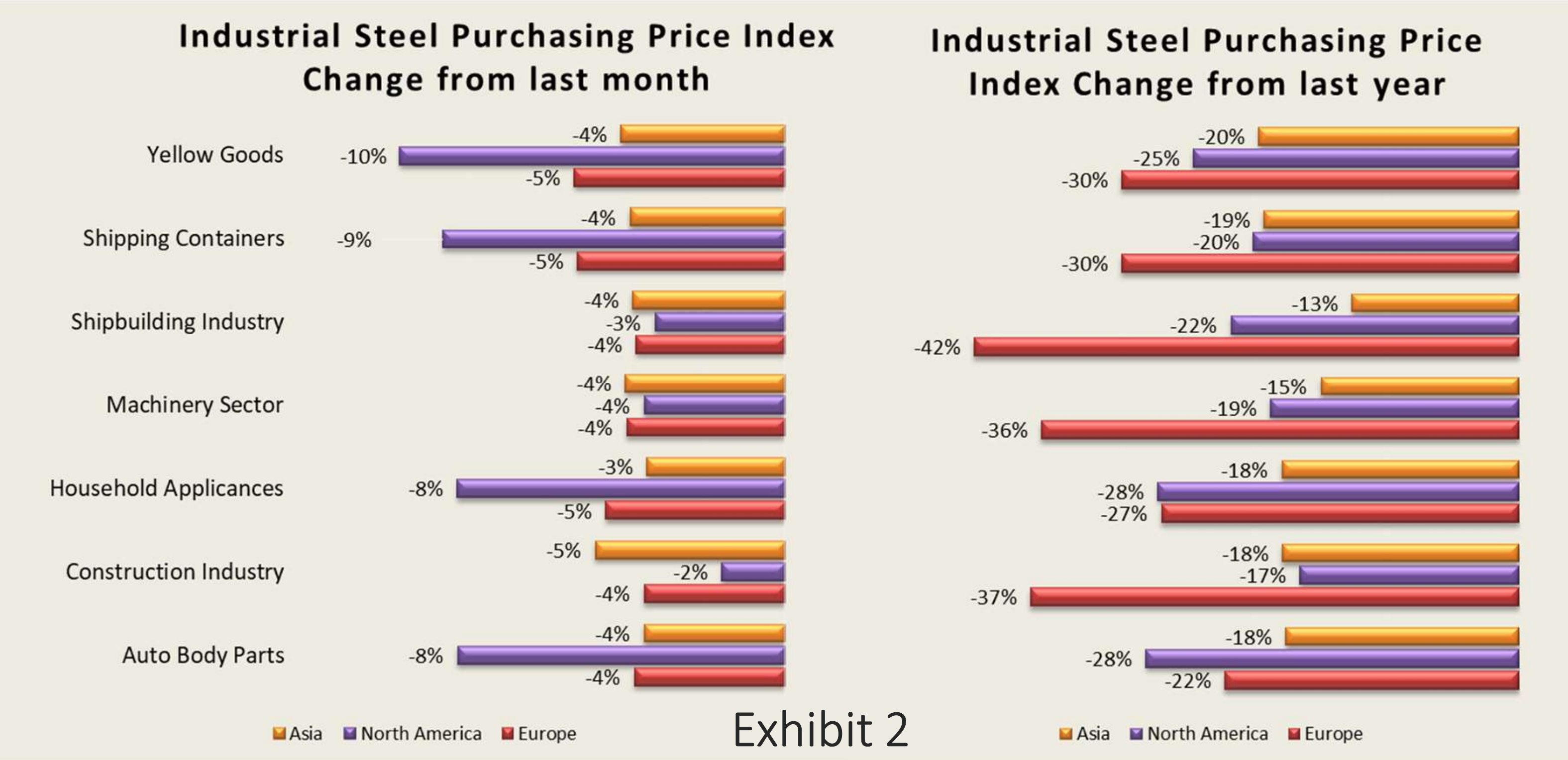


Exhibit 2

METALS MARKET OVERVIEW

Exhibit 3

Base Metal-	% Change prior 3 Years, same period	% Chg. V from last year, same period	% Chg from prior month
Steel Coil Hot Rolled	100.16%	-17.71%	-11.17%
Import - Steel HR Coil	72.92%	-25.89%	-11.23%
Steel Coil Cold Rolled	85.29%	-27.59%	-8.03%
Scrap-Midest Index #1 Heavymelt'	59.79%	-21.05%	-6.06%
Scrap # 1 Busheling	72.58%	-21.90%	-1.83%
Steel wire rod (mesh)-China	25.11%	-26.85%	-11.38%
Copper	46.74%	-15.46%	-6.18%
Aluminum 6061	88.97%	-36.28%	0.00%
Import - Steel Medium Plate	129.03%	-17.44%	0.00%
Silver Engelhard United States	31.74%	6.83%	-5.82%
Steel Rod - High Carbon	85.71%	-16.67%	-2.62%
Import LC Wire Rod	60.34%	-24.39%	-2.11%
Nickel	72.32%	-28.77%	-14.05%
Wire Rod, Cold Heading Quality	78.95%	-16.05%	0.00%
Cobalt	-0.50%	-61.81%	-6.03%
Aluminum	28.38%	-0.51%	0.00%
316L Stainless Steel	105.48%	-17.58%	-7.98%
304 Stainless	84.82%	-24.45%	0.98%
Ferromolybdenum	174.19%	18.60%	-3.77%
Gold Engelhard United States	13.53%	5.99%	-1.01%
Chromium-AluminoThermic	68.42%	-33.17%	-2.61%
Special Quality Steel Bar 4100 Series (Round Bar High Carbon)	101.23%	-11.41%	-3.55%
Nylon PA6/6	0.00%	-35.90%	0.00%
Molybdenum	163.56%	23.82%	5.18%
Steel Reinforcing Bar	38.75%	-23.45%	-5.13%
China Steel C1022		-4.98%	0.00%
Cotton N. America	46.42%	-44.99%	-4.27%
Plastic products - PPI -WPU072	33.16%	1.85%	0.18%
Steel bar cold-finished 1-inch round 4140 (alloy), fob mill US, $/cwt	64.03%	-8.80%	-2.98%
316 MEPS China Steel			2.37%

Flat Products:

➢Most service centers across US are keen to destocking their inventories amid the anticipation of further price reductions so as not to hold the inventory at higher cost. Purchasing managers are willing to wait and watch the market before making additional purchases. The demand remain slow, while the supply is ample for most steel products.

➢In US mill capacity utilization remains low at about 75%. The demand is expected to remain at present levels in near future. New capacity addition will remain slow to prevent oversupply, while further production cuts are also planned. The current lead times remain low due to sufficient capacity at present.

➢Similar situation as US is observed in Europe and China, where because of ample supply and less demand price reductions have been observed. New purchases are kept at a minimum level, and service centers are working towards reducing inventories. Extended production cuts are planned to prevent the oversupply situation by mills in Europe and China.

Long Products:

➢Similar negative pressure has been observed in the Long Product range, however, the impact is relative less. Price remained stable in US and European market but fell in Chinese market.

Global outlook on Artificial Intelligence (A.I.)

According to Forbes "artificial intelligence (AI) revolution is upon us, and companies must prepare to adapt to this change". The future of artificial intelligence appears bright with continued advancements in technology. Investment in artificial intelligence reached $93.5 billion in 2021, according to Statista. The current trend for neural networks to grow larger will likely continue into the near future as more functionality is required.

Generative A.I.s (meaning algorithms that can be used to create new content) can already answer questions, write poetry, generate computer code and carry on conversations. As "chatbot" suggests, they are first being rolled out in conversational formats like ChatGPT and Bing. But that's not going to last long. Microsoft and Google have already announced plans to incorporate these A.I. technologies into their products. You'll be able to use them to write a rough draft of an email, automatically summarize a meeting and pull off many other cool tricks.

NEAR TERM FORECAST

We are seeing a negative pressure building up on the prices of most steel indices in US and across the world. In US [Exhibit 4], steel prices reached their peak in Q3-Q4 2021 due to pandemic related disruptions, protectionist measures like implementation of section 232, and limited availability of options for buyers to negotiate price decreases from the mills. However, now the situation is different, and most Service Centers are keen on destocking the access inventory they have on-hand, building a low demand situation. This will force US mills to offer concessions to maintain their order books.

Exhibit [5] Steel prices globally are also expected to follow similar suite. In fact, US is market is influenced by the global steel market and the increase the available capacity.

Production cuts are planned by both US mills and manufacturers across the world to prevent oversupply which might support the prices to some extent. New infrastructure locally, may also support the prices in the local market, which are otherwise set to go down for the rest of the year.

Exhibit 4

Foreseeable Price Change - North America Average (from April Baseline)

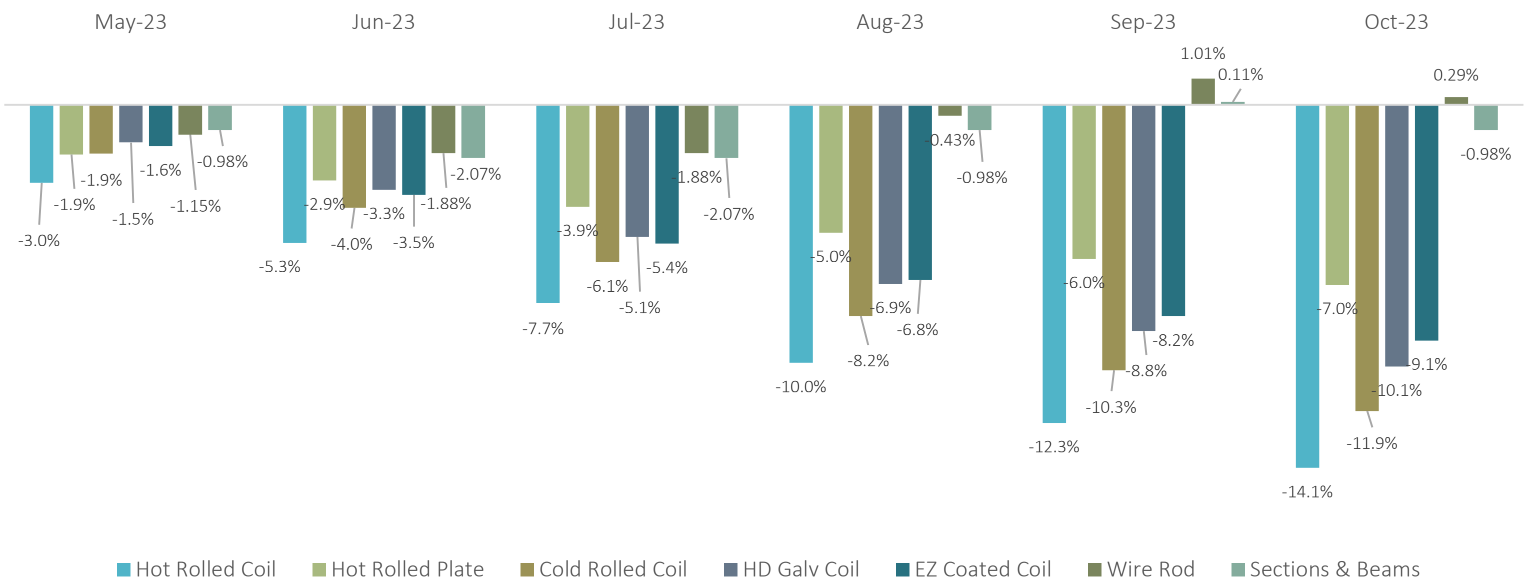
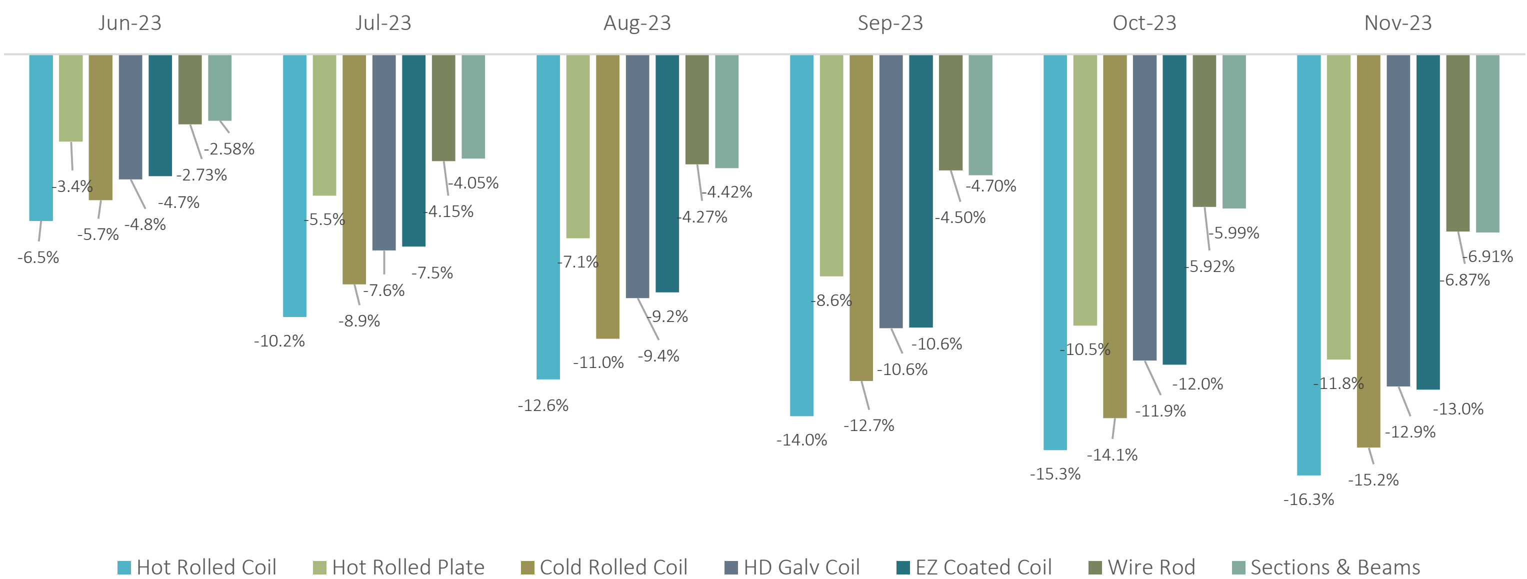


Exhibit 5

Foreseeable Price Change – World Average (from Current Month)



FROM AROUND THE WORLD

An update from China Steel Corporation

According to statistics released by the World Steel Association, global steel consumption in 2023 is projected to reach 1.822 billion tons, with a year-on-year growth of 2.3%. Meanwhile, Taiwan automotive market has shown excellent sales figures, and the advancements in AI and high-performance computing will drive related demands. Additionally, the Taiwan government has allocated a budget of 680 billion for public infrastructure projects, which will contribute to steel demand in the second half of the year.

The Chinese steel market haunted by oversupply problems, causing surging steel export volumes with dumping doubts. The supply side has started to adjust through capacity reduction and maintenance plans to reduce production. The National Development and Reform Commission of China has emphasized its efforts to control the production of energy-consuming industries. As a result, a total of 18 blast furnaces have been shut down for maintenance. China's crude steel production decrease to 90.12 million tons in May, representing a 6% reduction compared to the peak production of 95.76 million tons in March. At the same time, China's steel inventory has been steadily depleting, indicating an accelerated decline in inventory levels, nearing to the bottom point.

Since April, overproduction in Chinese mills has led to a successive downward revision of international steel prices. The excessive decline in steel prices has shaken market's confidence. To avoid further losses, Chinese mills have adjusted their export prices, and as the result, the prevailing market conditions stabilized and rebounded. Both Baowu Steel Group and Ansteel Group keep the prices flat for their domestic steel products of July shipment, sending a clear signal of price stabilization and strengthening the confidence of the market. When the market refocuses on the fundamental supply-demand dynamics, it indicates indication that the speculative activity of coal and iron prices is decreasing. The prices of ore and coal are fluctuating around $110-120 per ton and $220-240 per ton, respectively, indicating a potential stabilization or reaching a bottom in prices.

CBAM will enter into force in its transitional phase in October this year. To achieve the long-term goal of carbon neutrality by 2050, Taiwan will establish sub-laws related to climate change. With the imminent issue of carbon neutrality, CSC must collaborate with downstream customers to seize the green development opportunities.

For adjustment and competitiveness of downstream customers, CSC is implementing a gradual and cautious price adjustment strategy to ensure that its prices are aligned with the main steel price trend. The pricing for July and the third quarter will be determined based on the expectations of downstream customers and aligned with market trend. Steel prices are expected to rebound in July, as there is an anticipated recovery in demand. CSC expects that downstream customers can seize the opportunity to replenish their inventories at the low point and get ready for the next market rebound.

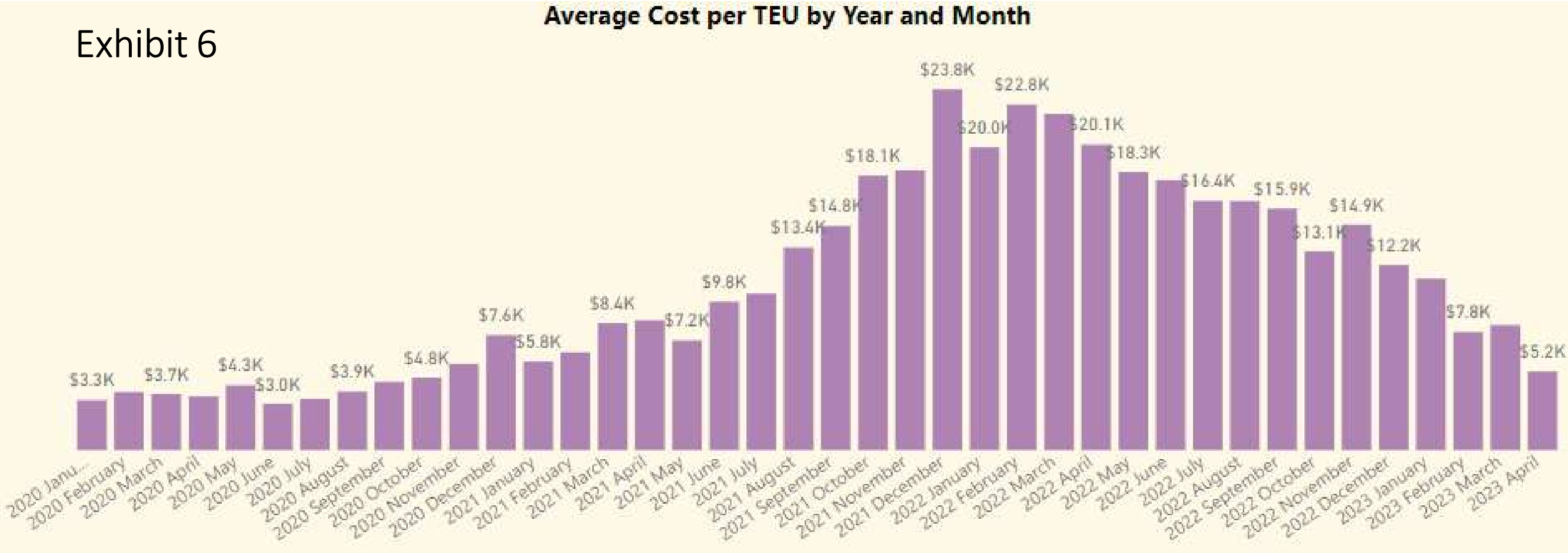
CSC hereby announces the price adjustments of domestic steel sales for the third-quarter of 2023/July 2023 shipments are listed as follows：

Offer Basis	Products	Adjusted Amounts (NTD/MT)
July shipments	HR Plate	-1,200
	HR	-1,200
	CR	-1,500
	EG	-1,000
	GI (Constructing)	-1,200
	GI (Appliances)	-1,000
	ES	-1,000
Third-quarter shipments	Plate	-2,000
	HR Plate	-2,000
	Bar and wire rod	-2,000
	HR	-2,000
	CR	-1,500
	Automotive usage	-1,500

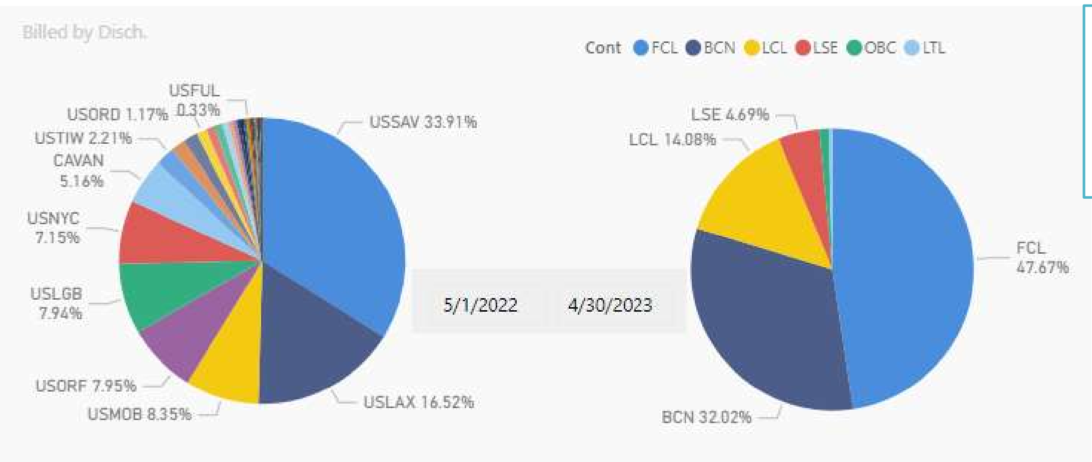
Business Update

Exhibit 6 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. The average TEU Cost for the business dropped 36% from last month currently at $5.2k/TEU and 74% same time last year. The Average Cost/TEU is still 46% higher compared to Apr20.**
(Note: 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 6

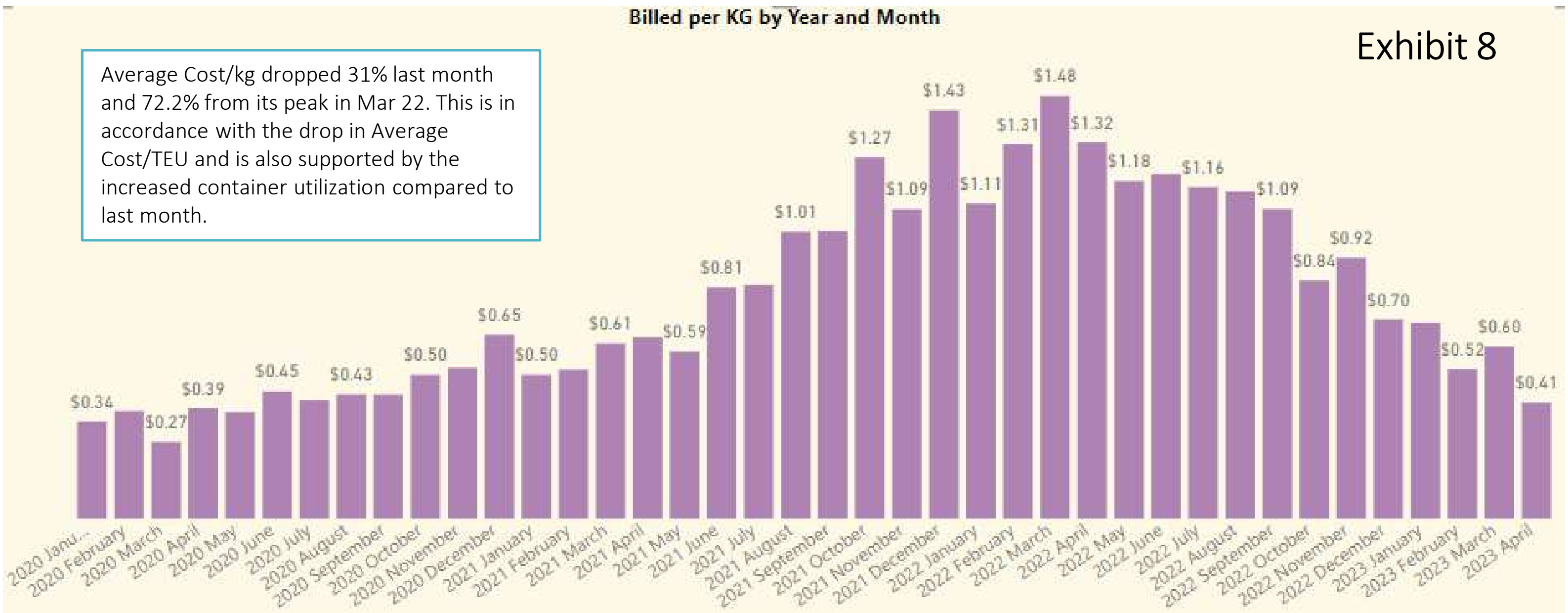


Shipment distribution for May 2022 to April 2023 showing the most billed shipments are discharged at Savannah Port. These includes LCL, FCL, BCN, OBC shipment counts



Shipment distribution by Shipment Type from May 2022 to Apr 2023

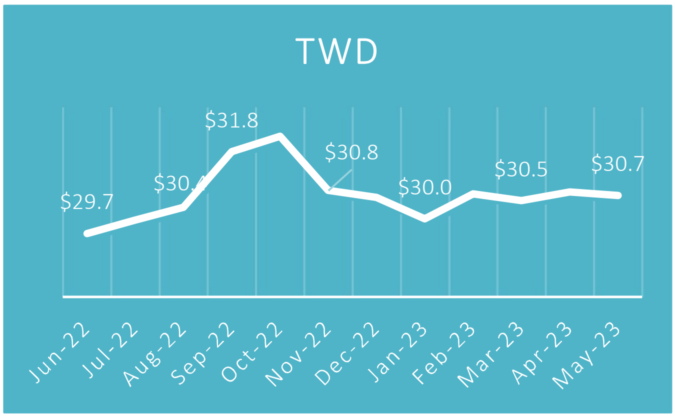
Exhibit 7



Average Cost/kg dropped 31% last month and 72.2% from its peak in Mar 22. This is in accordance with the drop in Average Cost/TEU and is also supported by the increased container utilization compared to last month.

CURRENCY OVERVIEW

Most key currencies have stayed within +/-3% band in the last couple months showing a stabilization in greenback against other currencies. The exchange rate volatility will persist throughout 2023 due to ongoing risk of recession and chances of elevated interest rates for longer periods of time. The USD index which comprises of EUR, JPY, GBP, CAD, CHF and SEK is expected to further strengthen in the next one year.



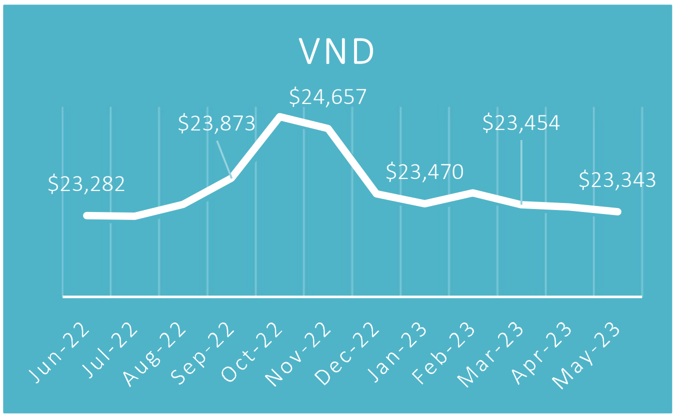
The trailing 12 months record show that the USD has strengthened by:

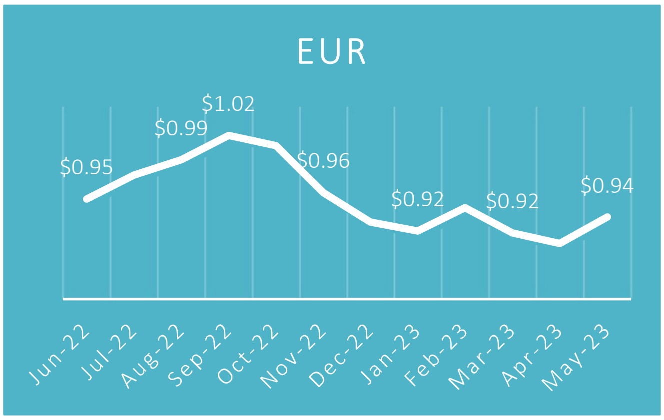
1. 5.6% against Taiwanese Dollar
2. 6.57% against Yuan
3. 6.4 % against Korean Won
4. 6.83% against Canadian Dollar

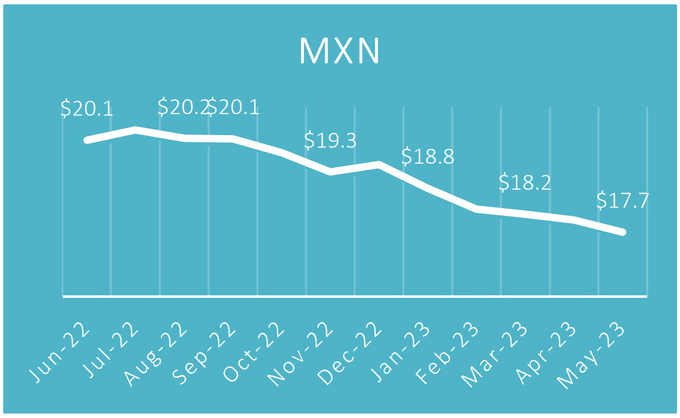
Exhibit 9

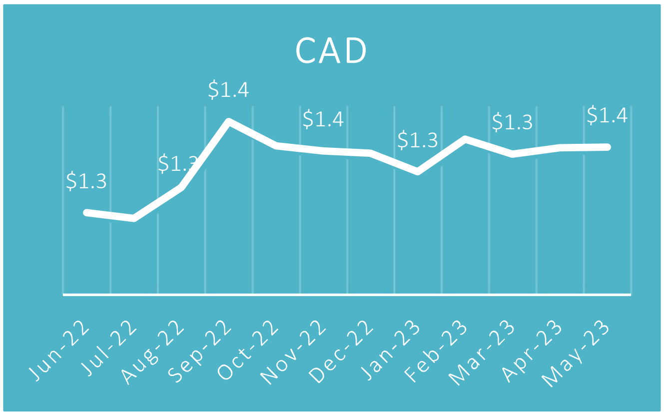
The USD has weakened by:

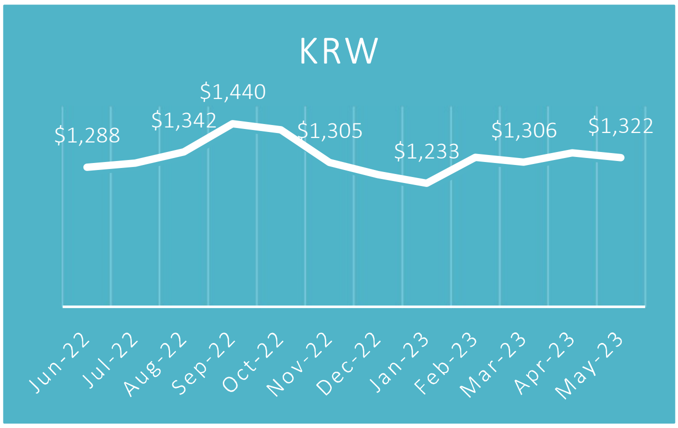
1. 9.88% against Mexican Peso

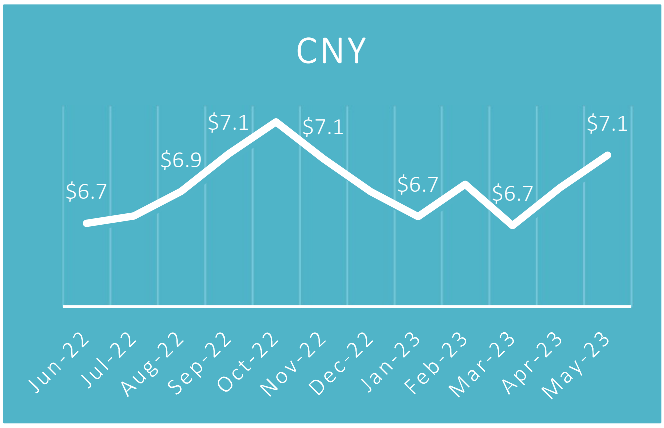










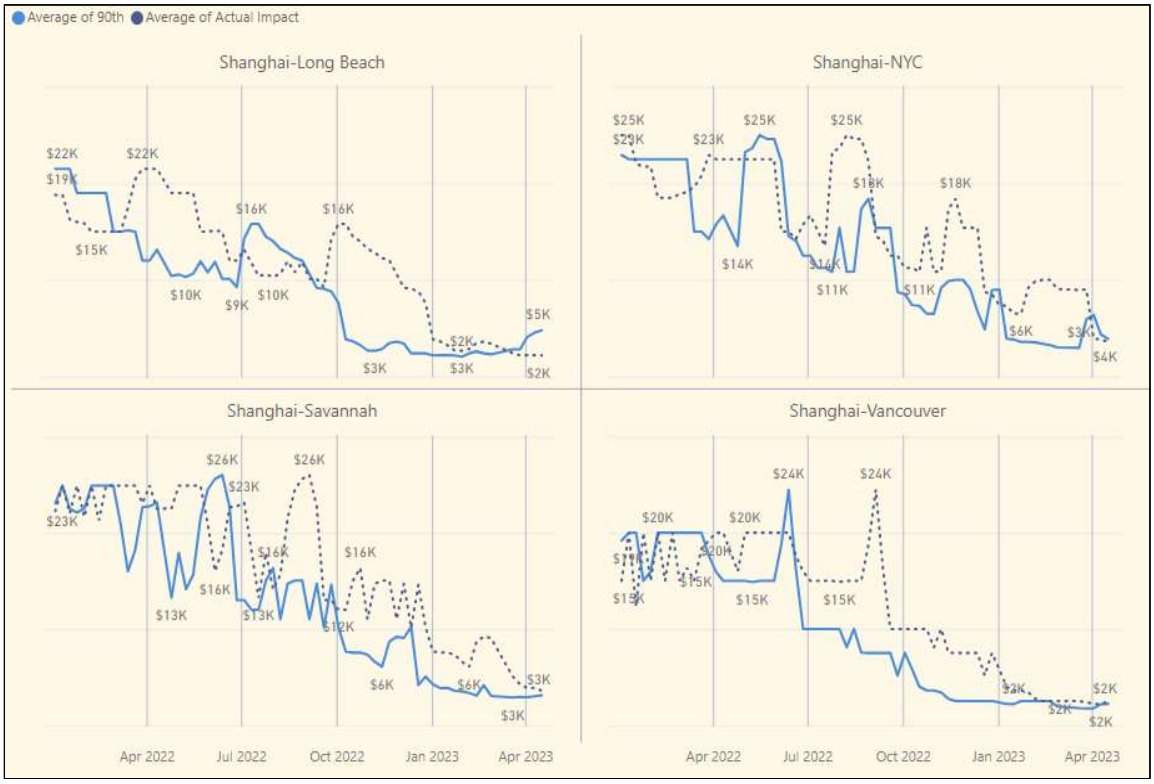


Freight Trend from Specific Routes

Exhibit 10

The freight indices for major routes have been dropping since last 12 months, consecutively the freight cost has also dropped. Gexpro is seeing a 12-week delay in the drop due to procedural lag in the invoicing.

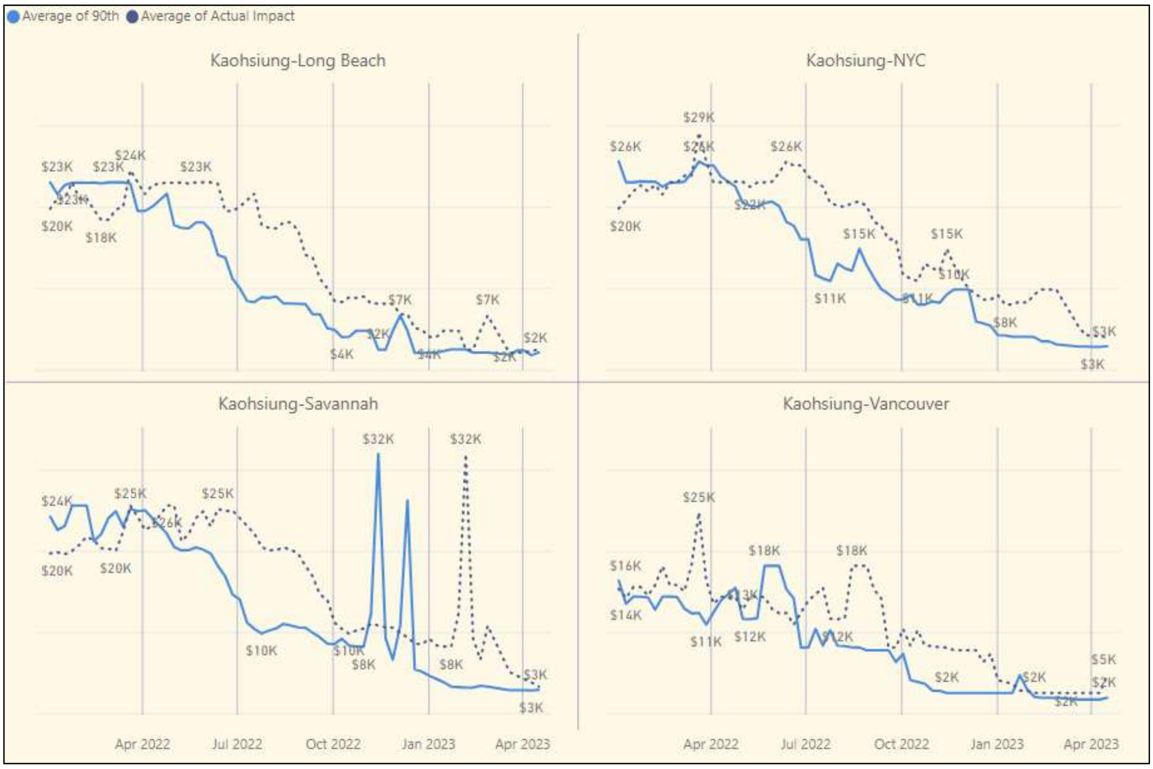
The Solid Blue line represents the current freight index value whereas the dotted line represent the 3-month shifted index value, this is because for most of the Asian shipments we are billed after 12 weeks and hence the actual impact is felt after 3 months.

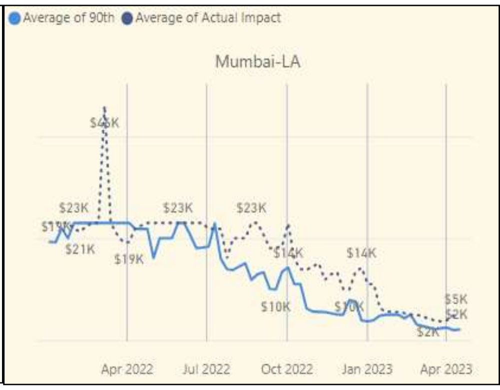


Freight indices from most Asian routes to North American ports have shown a steady decline in last 12 months, reaching at or below pre-pandemic levels.

Taiwan to North American spot freight rates are also dropping.

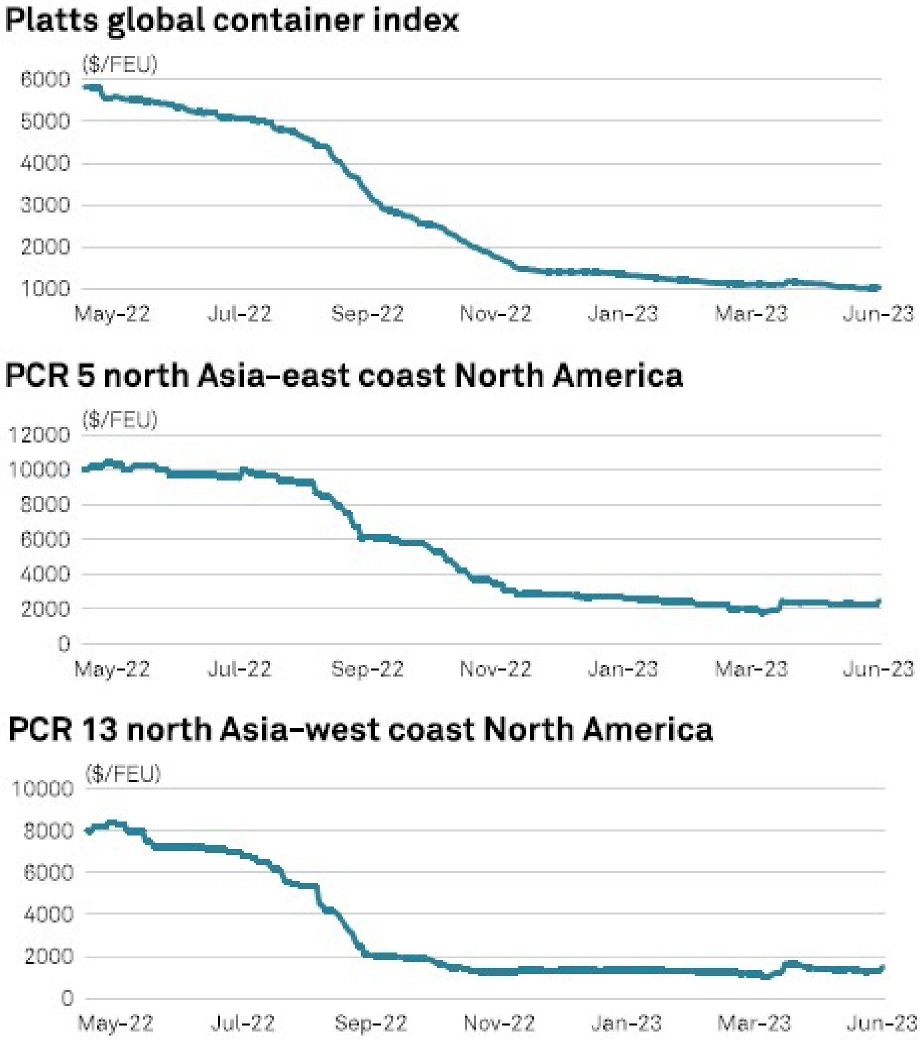
Freight rates from European region has not yet reached the pre-pandemic levels comparing with other routes due to the ongoing energy crisis, but they are also declining since last 10 months straight. Freight from India to US is following similar trend as Europe.





Freight Update

Exhibit 11



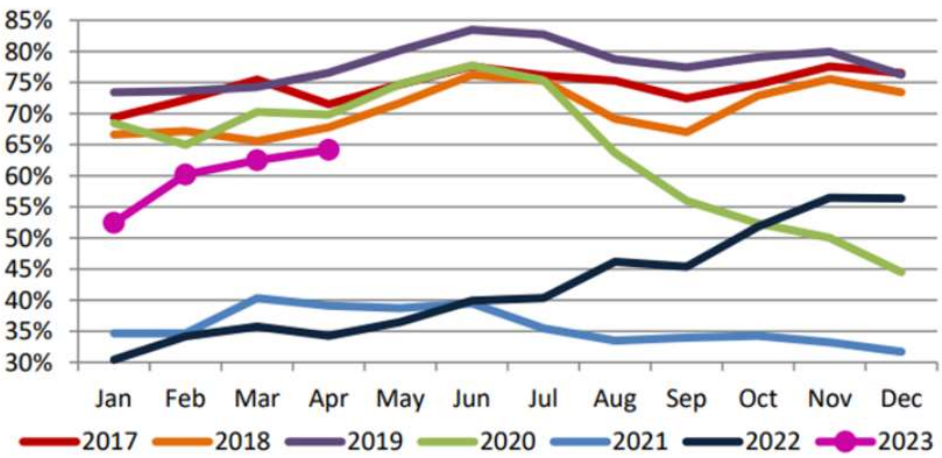
Source: Platts container updates

The container market staged a steady decline in May following a recovery in prices in April, with most of the major global trade lanes seeing discounted spot rates on offer from carriers and operators, sources said. According to sources, amid ample demand and overcapacity of vessels, most cargo shipping companies decided against the imposition of general rate increases during the month and to gradually lower the spot rates to compete for volumes.

With lower than anticipated recovery in demand for goods and bearish market fundamentals continuing to put downward pressure on the overall market in May, spot rates on most East-West trade lanes lost their gains after touching multi-month highs in mid-April, which stemmed from the first successful general rate increases of the year. In the Americas container market, stymied by limited purchase orders, as many importers were still focused on clearing their existing excess inventories, Platts assessments for cargoes headed from North Asia to both the US Pacific and Atlantic coasts fell $100/FEU during May.

Global schedule reliability

Exhibit 12



Source: © Sea—Intelligence

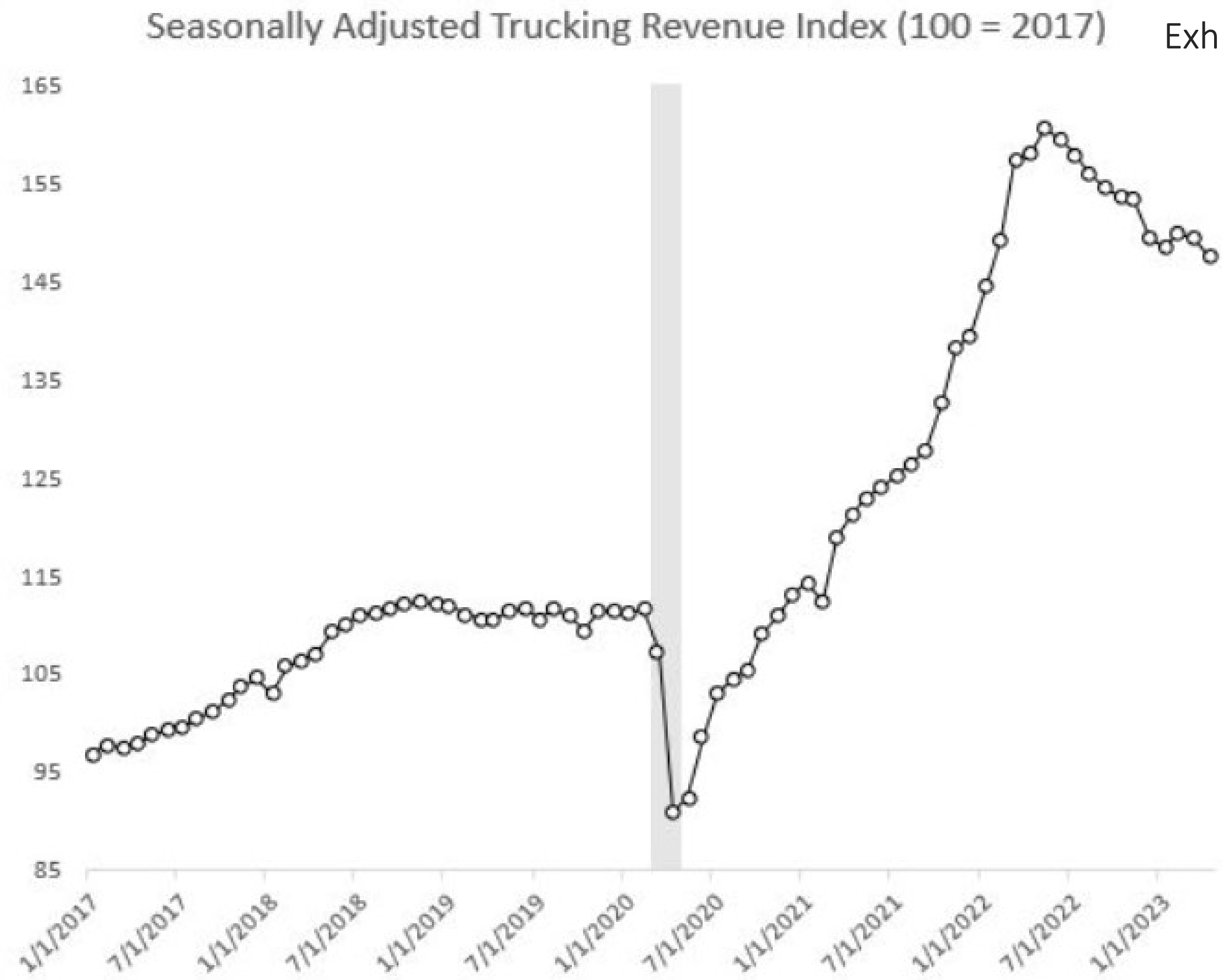
Global schedule reliability continues to improve. The main east-west trade lanes (Trans-Pacific, Asia-Europe, Trans-Atlantic) all show positive trends. Yet a lot of attention is currently targeted to the U.S. West Coast, as the negotiations between the Pacific Maritime Association and the ILWU cause tensions and operational slowdowns. Should the West Coast become congested, vessel and rail capacity into North America would contract, leading to transit delays and rate increases on the related lanes.

Freight Update

Trucking Industry May Be Nearing End of Freight Recession

Signs point to the trucking industry nearing the end of the current freight recession, with trucking revenue still high despite reduced demand. A market turnaround, however, is yet to be seen.

Exhibit 13



Source: Jason Miller, LinkedIn

Air Freight Update

- Compared to the same period in 2019, direct passenger flights between the United States and China have decreased by 73% so far this year. U.S.-based airlines are currently allowed a total of 12 round-trip flights per week, while China-based airlines had been permitted 8—this number was increased to 12 in early May.
- The most efficient flight path between China and the United States passes through Russian airspace, which U.S.-based airlines are not allowed to enter, but China-based airlines can. This gives them a significant cost advantage. As a result, ticket prices on China-based airlines are approximately 40% cheaper than those offered by their U.S. counterparts.
- Demand for air freight between the two countries remains relatively low and manageable with current capacity. However, when additional capacity does return, it is expected to lead to further air rate declines, although it is unclear when this will occur.
- The global Air Freight market size was valued at USD 299,729.53 million in 2022 and is expected to expand at a CAGR(Compound annual growth rate) of 6.95% during the forecast period, reaching USD 448,511.29 million by 2028. (Marketwatch.com)

Source: CH Robinson

Freight Update

Market stabilization

- Q3 should look similar to the second quarter of 2023
- Prices are expected to reach a more stable level with increased capacity and more stable demand expected throughout 2023
- Market rates continue to decline but remain higher than pre-pandemic levels
- Capacity continues to increase while demand remains relatively soft, pointing to a continuation of rate decline with busy summer passenger schedules arriving soon
- Jet Fuel prices continue to soften but remain elevated vs. pre-pandemic levels, both crude oil prices and the jet crack have lessened but remain higher than historical

Commenting on the outlook for the rest of the year, Christian Roeloffs shared further, “Despite avoiding a global financial and economic recession for now, the shipping industry is experiencing a freight recession due to the postponement of inventory replenishment cycles by retailers who overstocked. As we look ahead, we anticipate a subdued rebound in demand as retailers begin to deplete their excess stock in the coming months, leading up to the peak season.”

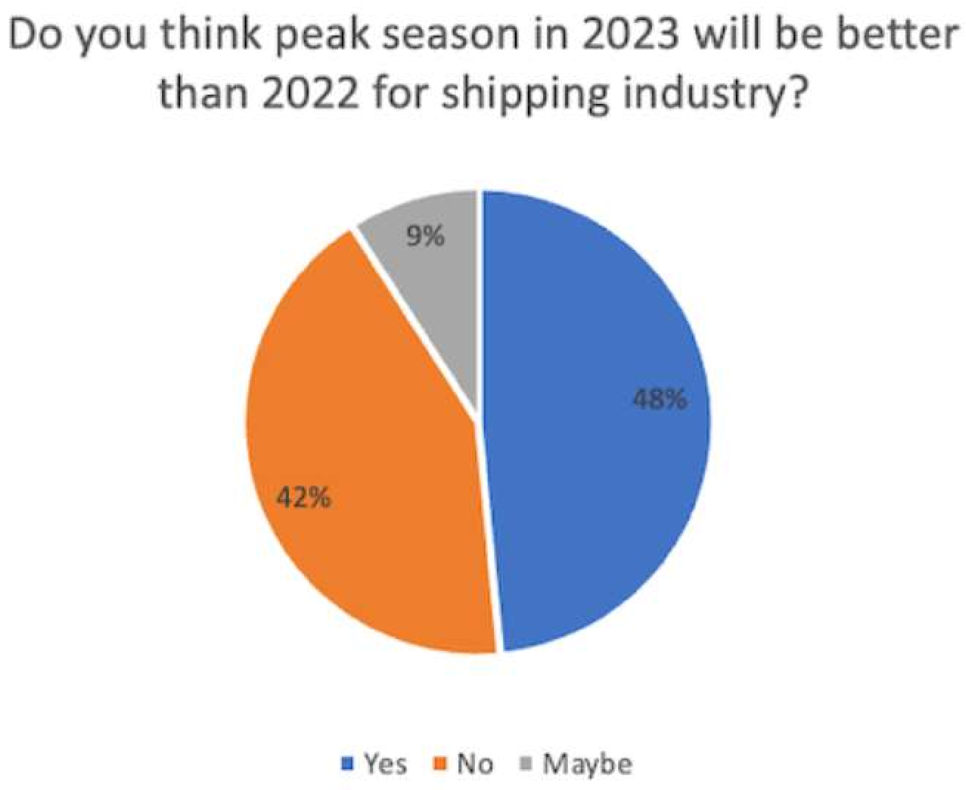


Exhibit 14

A survey was conducted recently (April 2023) with close to 664 supply chain professionals by Container xChange and asked how they perceived the peak season to develop this year in 2023 as compared to the last year.
The industry is hopeful that the pent-up freight demand will be propelled by the beginning of the retail inventory replenishment cycles in the quarter after a slump in demand and overstocking by retailers.

https://www.ajot.com/news/shipping-industry-professionals-anticipate-market-improvements-already-in-q2-2023