Market Insights

OCT 2023
EDITION

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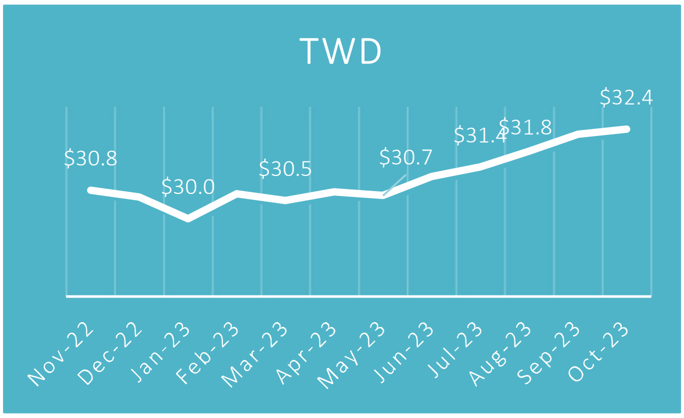
Content

CURRENCY OVERVIEW

Most key currencies have stayed within +/-3% band in the last month showing a stabilization in greenback against other currencies. The exchange rate volatility will likely continue to persist throughout the rest of 2023 and early 2024 due to ongoing risk of recession, chances of elevated interest rates for longer periods of time, and a potential additional rate hike for December of 2023. The USD index which comprises of EUR, JPY, GBP, CAD, CHF and SEK is expected to further strengthen in the next one year.



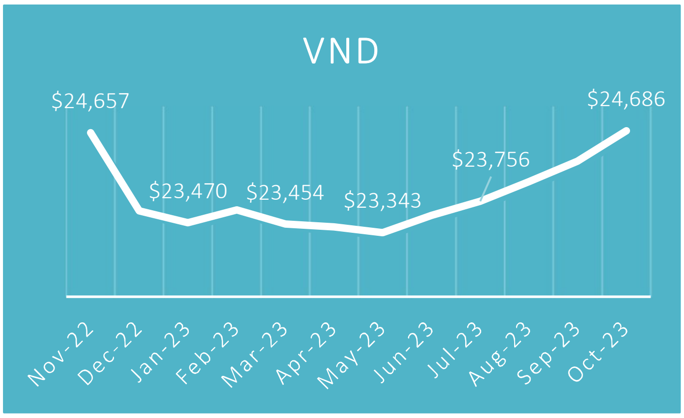
The trailing 12 months record show that the USD has strengthened by:

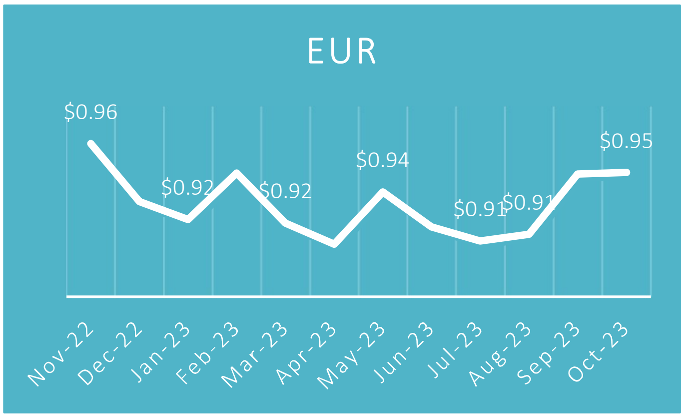
1. 2.19% against Canadian Dollar

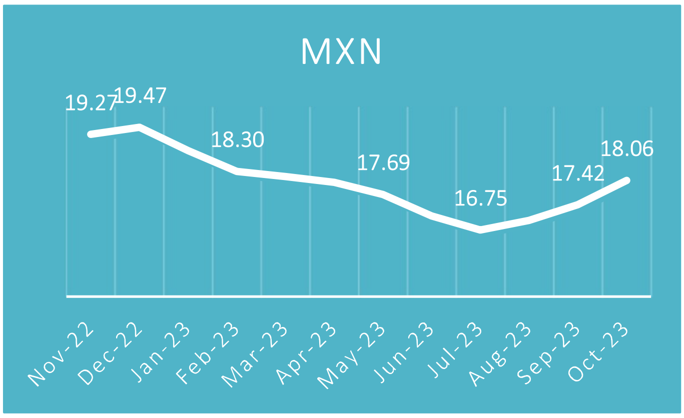
The USD has weakened by:

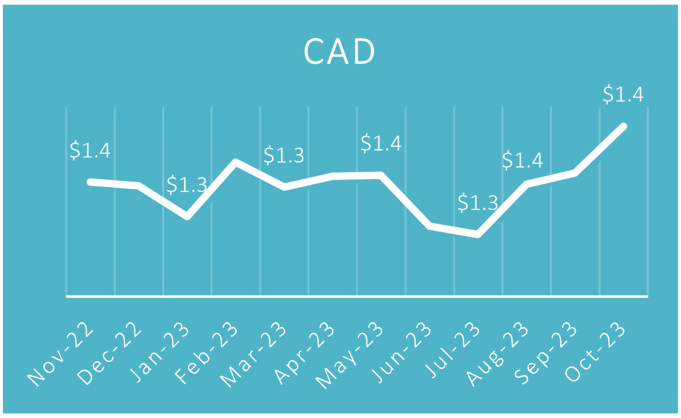
1. 8.7% against Mexican Peso
2. 6.35% against Euro
3. 4.78% against South Korean Won
4. 4.83% against Thai Baht

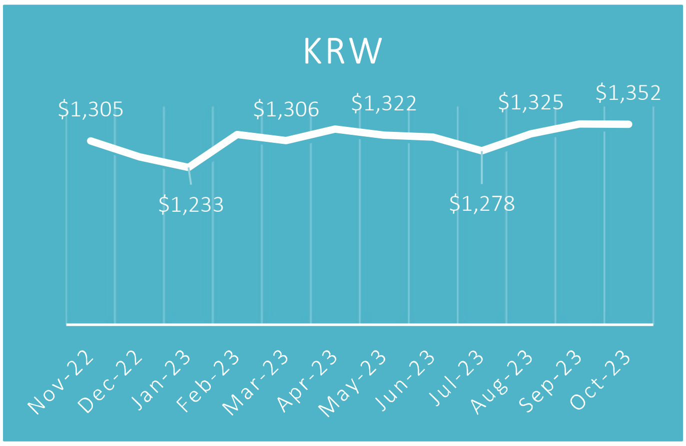
Exhibit 1

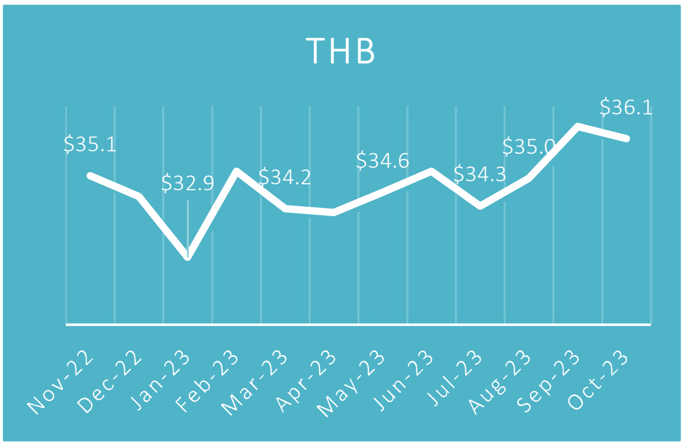










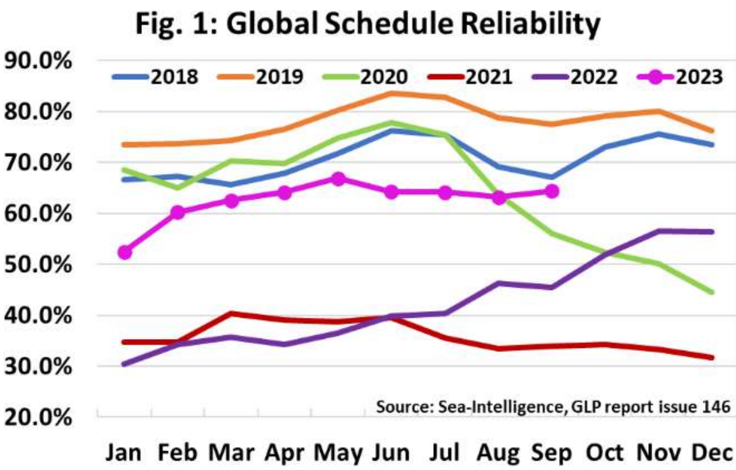


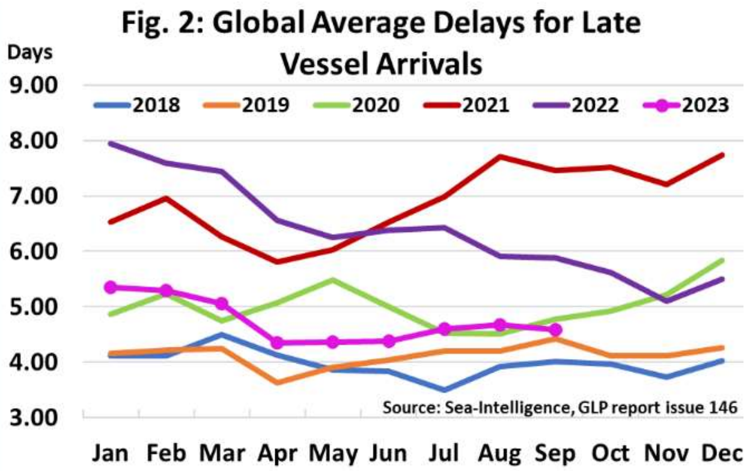
Freight Update

Ocean freight schedule reliability improves to 64.4%

Global schedule reliability increased by 1.2 percentage points M/M in September 2023 to 64.4%. Barring the increase in May, schedule reliability has been ranging within 2 percentage points since March 2023. On a Y/Y level, schedule reliability was 19.0 percentage points higher. The average delay for LATE vessel arrivals decreased by 0.09 days M/M to 4.58 days. With the M/M decrease, the average delay for LATE vessel arrivals is now -1.30 days better off than at the same point last year.

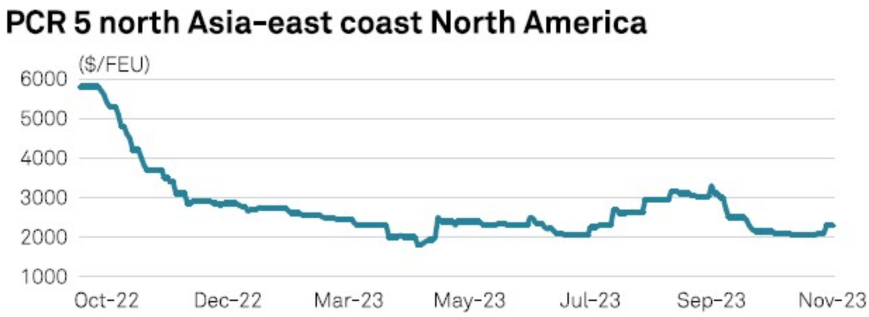
Exhibit 2

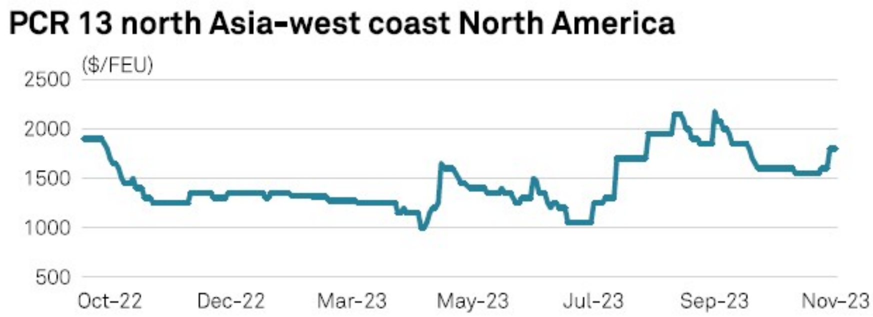




https://www.sea-intelligence.com/

Exhibit 3





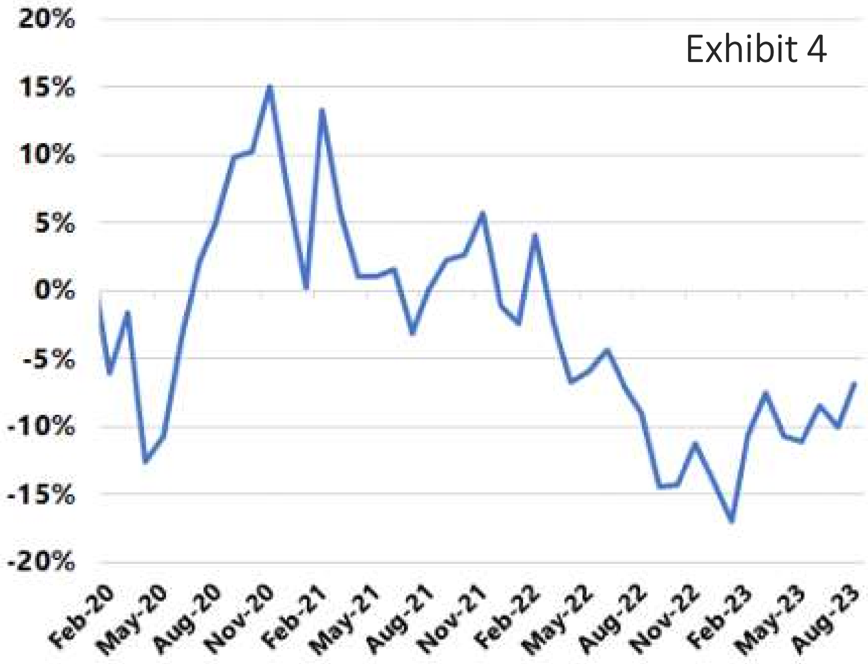
Platts Containers update

Global rates rebound as carriers push through GRIs. Expectation rife that November will see softening once more Carriers demonstrated a level of fightback in October, as continued imposed blank sailings, repositioning of capacity and removal of entire service loops helped reinforce proposed General Rate Increases at the start of the month. Despite doubts that some would follow through, carriers earmarked their intentions early in the month with the announcements of some GRIs to be imposed at the commencement of November.

Freight Update

Global demand 6-7% below GDP since 2019

TEU*Miles growth in excess of GDP parity



Since we know the global GDP growth in 2020-2022 (and using the current estimate for 2023), we can calculate how much global TEUs should have grown versus 2019 if they had followed the GDP development. Knowing the actual TEU growth versus 2019, this in turn allows us to calculate how much global TEUs grow in excess of what the global GDP would otherwise indicate. What we see is that compared to the growth rate one would expect based on global GDP, the container markets are -5.9% below.

Road Freight Update

Long-time LTL carrier, Yellow, announced bankruptcy and the halt of all operations on July 30th, 2023. Saddled with debt after mismanaging large loans paid out by the federal government during the pandemic and struggling to come to agreements with employee unions, Yellow Corporation was forced to shut down.

LTL carriers on average were already operating with 15-25% excess capacity. This means that LTL carriers across the market have the available capacity to absorb the volume made available when Yellow shut down. Beyond the occasional company pushing the limits of its available trucks, the market has managed to keep capacity relatively stable and avoid massive price hikes as a result.

Source: https://ziplinelogistics.com/

Air Freight Update

The U.S. export market is expected to remain stable in the coming months as demand remains low relative to capacity in most lanes.

For U.S. imports, there has been increased demand out of Asia that has caused the spot market to increase. No additional significant capacity increases have led to increased transit times in some lanes. Expect that trend to continue through November.

Out of Europe, there are no significant changes expected, even with some passenger flight capacity trending down. A surge in demand could lead to challenges, but that is not anticipated at this time.

Source: www.docshipper.com

Freight Update

The global freight recession will continue in 2024

•Soft pricing in the shipping sector will continue in 2024 and could linger into 2025, according to Alan Baer, CEO of OL USA, as capacity in the logistics sector continues to outstrip weaker demand.

•The trucking sector, already facing extreme financial stress, expects lower freight orders and revenue this holiday season.

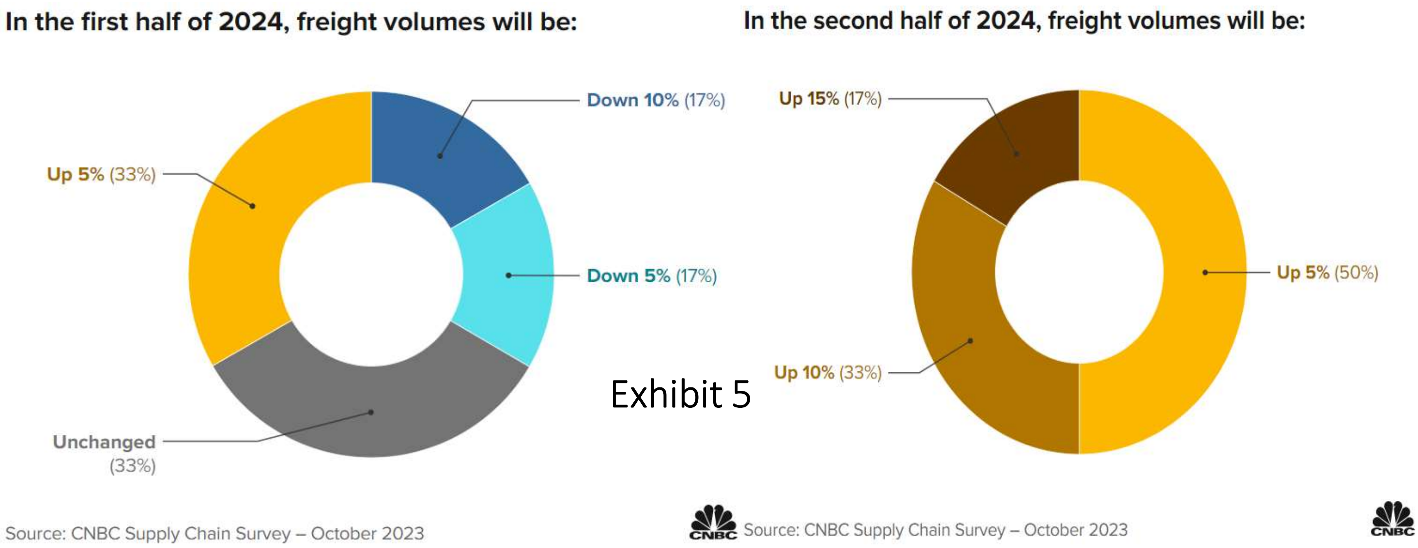


Exhibit 5

A new CNBC Supply Chain Survey indicates no growth for the first half of 2024, and at best a mildly positive turn in the second half of the year.

Source: https://www.cnbc.com/

The EU has imposed massive and unprecedented sanctions against Russia in response to the war of aggression against Ukraine.

What goods cannot be imported from Russia to the EU?
The list of sanctioned products includes among others:
•**crude oil** (from December 2022) **and refined petroleum products** (from February 2023), with limited exceptions
•**coal** and other solid fossil fuels
•**steel**, steel products and iron
•**gold**, including jewelry
•cement, asphalt, wood, paper, synthetic rubber and plastics
•seafood and liquor (e.g. caviar, vodka)
•cigarettes and cosmetics

The biggest impact on our business is the sanctions imposed on iron & steel products. In order to be able to import product made by these raw materials, our partners needs to verify and state the following:

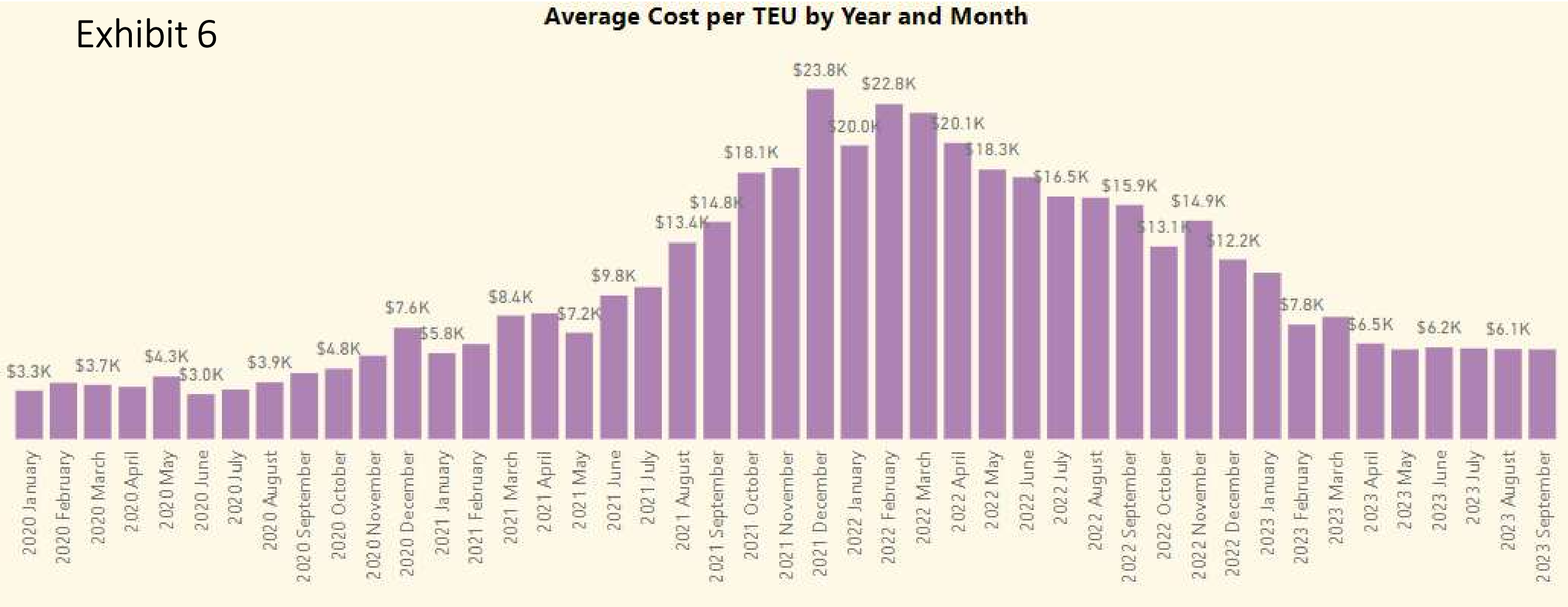
"Hereby declare that our iron & steel products as defined in annex XVII of Regulation 833/2014 (No. Articles 3g and 3i) and amended by Regulation 2022/2474 do not contain raw material of Russian or Belarusian origin."

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. Freight rates reflected a very stable performance over the last 6 months. There has been almost no significant change in the average TEU Cost for the business since May 23, but we have seen a 61% drop since the same time last year. The Average Cost/TEU is still 84.8% higher compared to Jan20 (Pre-Covid era).

(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 November 2023 to October 2023 showing the most billed shipments are discharged at Savannah Port. These includes LCL, FCL, BCN, OBC shipment counts

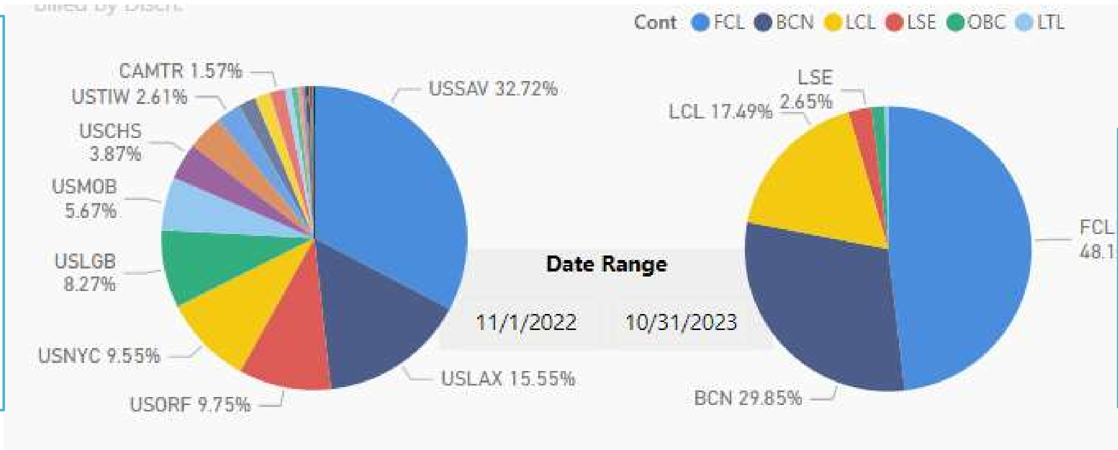
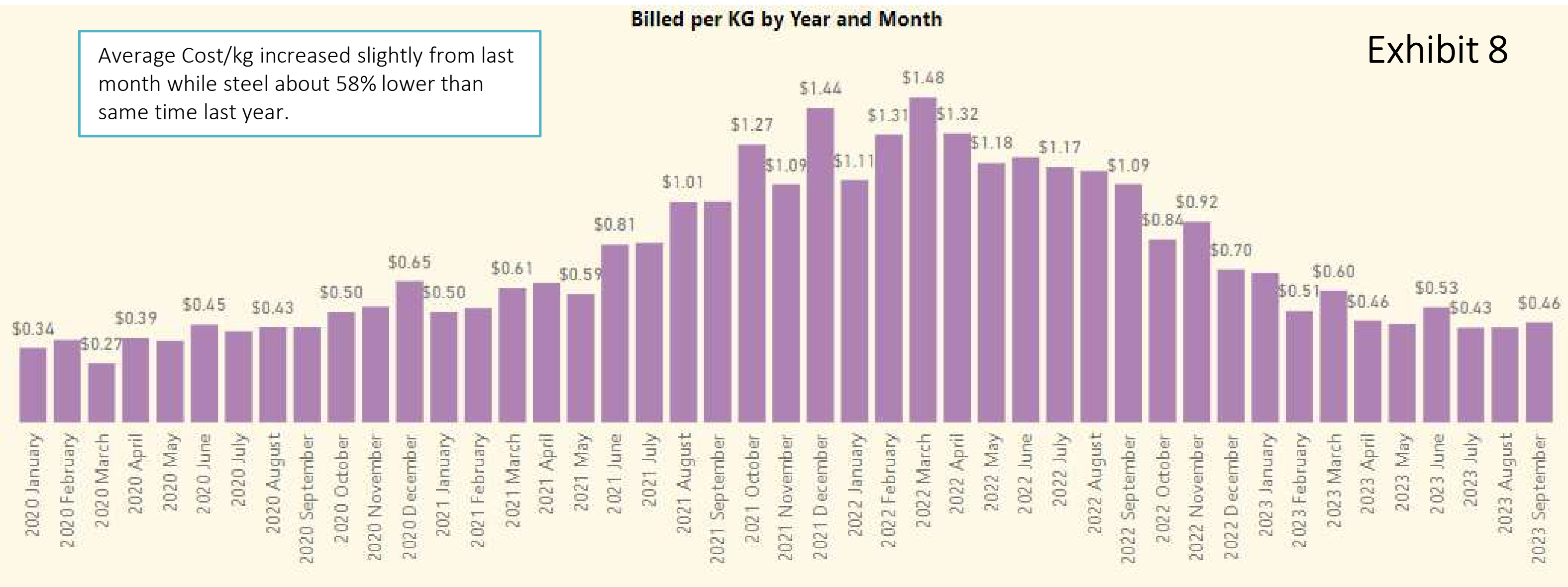


Exhibit 7

Shipment distribution by Shipment Type from November 2022 to October 2023

Exhibit 8

Average Cost/kg increased slightly from last month while steel about 58% lower than same time last year.



FROM AROUND THE WORLD

US-EU Trade Summit

On October 20th the US President Joe Biden, EU President Charels Michel, and European Commission chief Ursula con der Leyen, and their respective trade negotiators met in Washington and Brussels to try and reach an agreement to end Trump-era tariff section 232 on steel and aluminum. Due to the ongoing Israel-Hamas conflict, this fell through pushing the deadline from the end of October to the end of the year. Section 232 is a 25% tariff on most foreign steels and an additional 10% on most foreign aluminums that President Trump signed into effect on March 8th, 2018. The idea of the tariff was to help support the American Steel industry but has mostly hindered trade relations with the EU.

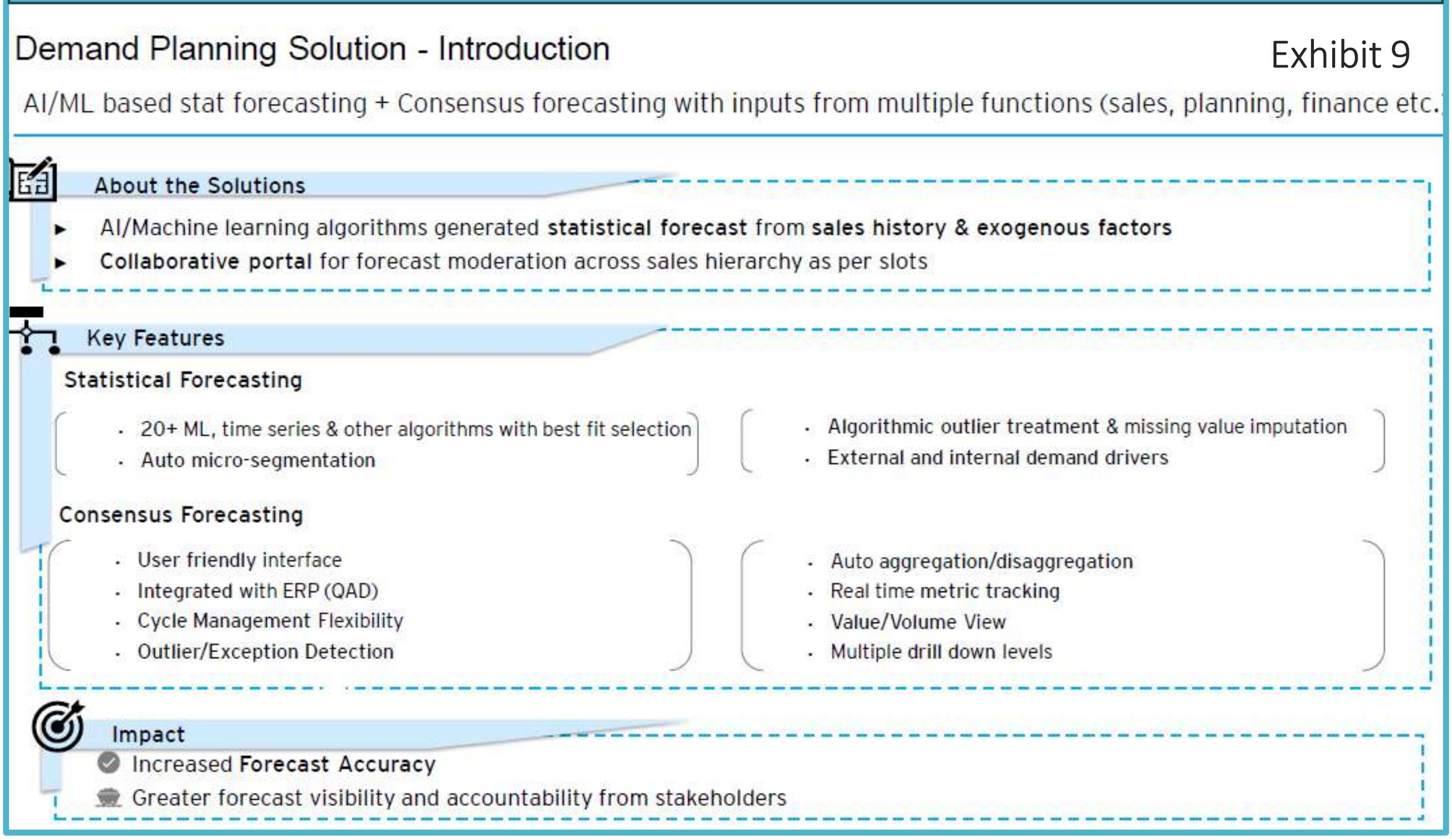
China's economic condition and steel production

Currently China's largest market for steel, its real estate/construction market, is facing some major head winds. In September year-over-year property investments in China have dropped 18.7% slightly improving from a 19.1% year-over-year drop in August. This drop in new investments will further lead to the low demand situation within Asia apply more downward pressure on steel prices. It is unclear how much China's central government will step in to correct these issues.

AI entering the mining industry

According to S&P Global the copper mining industry has entered somewhat of a drought of new accessible copper depots to mine. Between 1990 and 2021 over 220 copper deposits were discovered, but only 12 of those were found post 2021. The recent ChatGPT craze has captured the industries imaginations and has made business leaders realize that AI is able to see some connections that would otherwise be missed by most people. AI could help the Industry find more copper reserves during a time where more and more products are demanding copper.

To stay ahead in the industry, Gexpro Services is also upgrading its demanding planning process with latest AI/ML based technology. The cutting-edge technology will improve forecasting accuracy, maintain forecasting accountability, and reduce manual efforts/errors, thus providing more efficient & reliable supply chain solutions to our customers.



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 56.1602% chance of a recession in the US sometime in the next 12 months. Down from 68.2% earlier this year, but still some of the highest readings recorded in the last 4 decades. 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.

One event that could lead to a full out global recession is the current conflict between Israel and Hamas. As you probably know on October 7th, 2023, Palestinian backed militant groups led by Hamas launched a surprise offensive strike on Israel from the Gaza stip. This attack has increased tensions in the Middle East higher than they already were. Counties all over the world have already been discussing sending aid to both sides of the conflict. There is currently some believe that militia groups in both Lebanon and Syria could enter the conflict on Hamas's side. If this does happen there are worries that the increased escalation could bring Iran into the conflict as well. Although Iran announced on Nov 15 they would not get directly involved in the war this does not exclude any economic warfare. According to Bloomberg Economics, if Iran did decide to take economic action in support of Hamas, we would potentially see the price of soil sore from its current $88.08/barrel to ~$150/barrel and a global growth rate drop of 1.7%. This event alone would take out about $1.7 trillion of output and we would likely see inflation rates rise across the board. With raw material prices already rising in Europe and Asia we would likely see a sharp increase in prices as the rising prices would only be exacerbated due to the cost of oil increasing so sharply.

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 a year. The industrial steel PPI has dropped on an average 15.4%, 15.3% and 5.3% from same time last year across, European, North American and Asian markets respectively. [Exhibit 11]

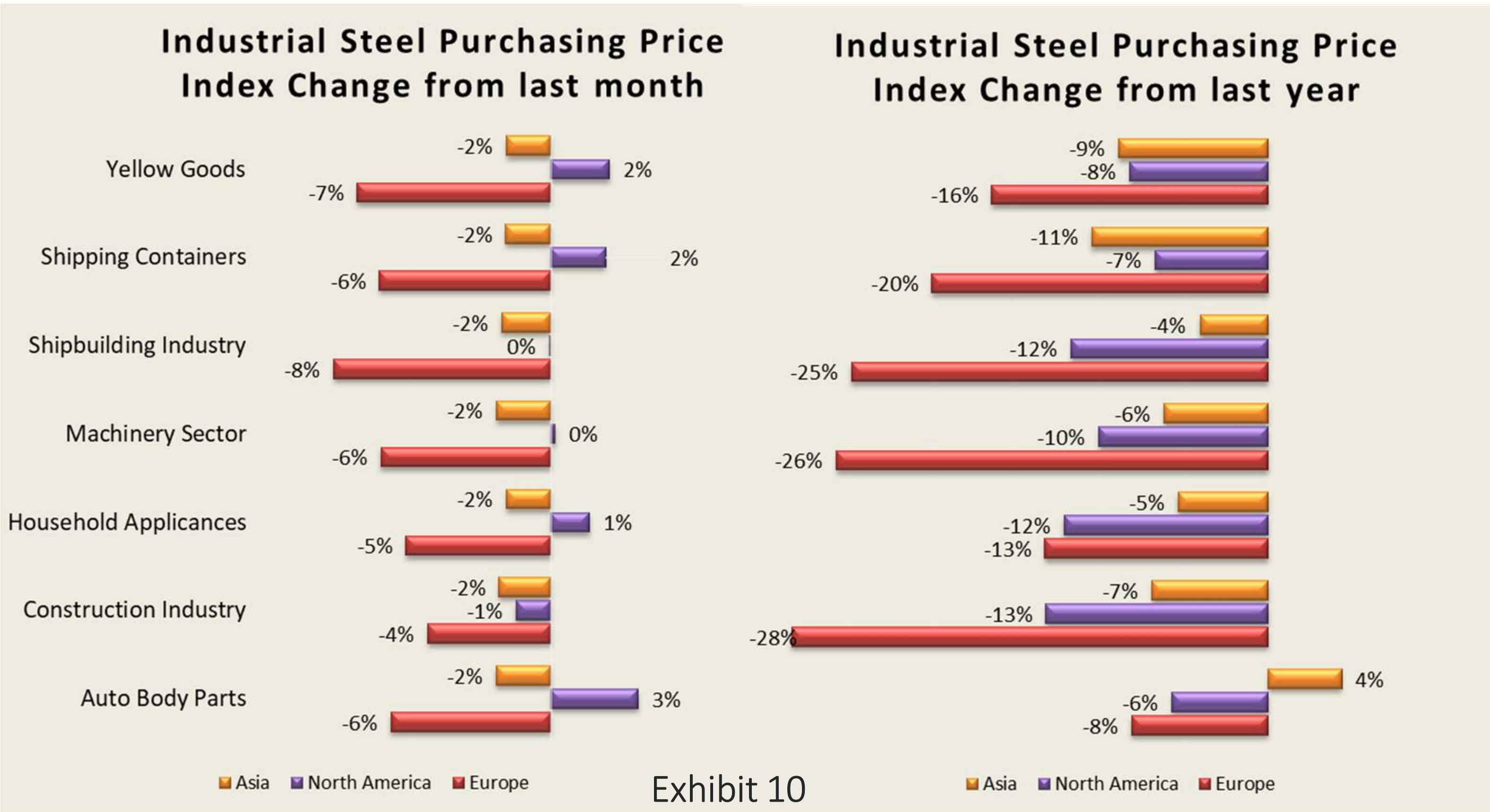


Exhibit 10

METALS MARKET OVERVIEW

Exhibit 11

Base Metal- Click 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	22.09%	20.33%	24.50%
Import - Steel HR Coil	9.68%	-1.45%	-0.73%
Steel Coil Cold Rolled	11.90%	-4.08%	6.82%
Scrap-Midest Index #1 Heavymelt'	35.73%	9.07%	-1.14%
Scrap # 1 Busheling	37.93%	12.68%	0.00%
Steel wire rod (mesh)-China	8.29%	-2.20%	-0.45%
Copper	19.65%	6.68%	-2.27%
Aluminum 6061	34.83%	-12.41%	-0.83%
Import - Steel Medium Plate	96.67%	-13.55%	-5.60%
Silver Engelhard United States	-2.32%	21.15%	-1.90%
Steel Rod - High Carbon	62.76%	-8.53%	0.00%
Import LC Wire Rod	53.45%	-12.75%	-2.20%
Nickel	23.83%	-18.03%	-3.76%
Wire Rod, Cold Heading Quality	67.57%	-0.80%	0.00%
Cobalt	12.88%	-32.38%	7.58%
Aluminum	-13.33%	-2.95%	1.24%
316L Stainless Steel	67.77%	-0.89%	-1.59%
304 Stainless	45.28%	-10.00%	-2.38%
Ferromolybdenum	129.80%	3.98%	-10.61%
Gold Engelhard United States	5.88%	22.20%	6.45%
Chromium-AluminoThermic	86.67%	-12.23%	0.00%
Special Quality Steel Bar 4100 Series (Round Bar High Carbon)	75.93%	-2.40%	-2.06%
Nylon PA6/6	-9.71%	-28.18%	-2.47%
Molybdenum	102.86%	-7.21%	-20.40%
Steel Reinforcing Bar	15.59%	-4.44%	0.00%
China Steel C1022	37.97%	-2.65%	0.00%
Cotton N. America	39.93%	1.72%	0.79%
Plastic products - PPI -WPU072	31.25%	-4.14%	-0.37%
Steel bar cold-finished 1-inch round 4140 (alloy), fob mill US, $/cwt	53.96%	1.90%	0.00%
316 MEPS China Steel		-11.20%	-7.23%

Flat Products:

- Service centers across US are still focusing on destocking their inventories amid the anticipation of further price reductions to avoid holding the inventory at higher cost. Purchasing managers have adopted a "wait and watch" attitude when it comes to purchasing. This has further degraded mills inbound order books, increased supply, and shrunk lead times.
- Surprisingly, demand in the US has either risen or remained flat. This has allowed manufactures to hold pricing. Most mills are still considering cutting production to put additional upward pressure on price. However, we are still seeing lower than normal prices, shrinking lead times and a pro-customer environment.
- Europe is still seeing downward pressure on price due to the destocking strategy from service c enters causing an over saturated supply and cheaper imports.
- Asia is seeing this opposite, in terms of price movements, where rising raw material prices are applying some upward price pressure. How ever with the recent developments in the construction segment of the economy these price increase have not been able to withstand the downward price pressure.

Long Products:

- A similar, but tamer, market environment in the US has affected long products as we have seen either prices stagnate or dip over the last few months. Going forward we are likely going to see some upward price pressure due to scrap shortages.
- Much like with short products, long products are seeing an increase in price due to rising material costs, but only in China. The rest of Asia is still seeing subdued demands and elevated inventory levels.
- Europe is also seeing a similar environment as the US with long products, however, they are also seeing upward price pressures from increasing raw material costs. Unlike China, they have been unsuccessful in pass these price increases to their customers.

NEAR TERM FORECAST

[Exhibit 12] In the US demand has been higher than expected allowing foundries to either raise or at least hold their pricing. Globally, however, we are not seeing this same trend. In Europe demand is still weak and with high interest rates still in play foundries are having to push prices down to match import prices. Where they can't many buyers are looking overseas to buy their product, but it is believed that the new CBAM emissions reporting will help since it will limit the amount of import suppliers' buyers are allowed to source from.

[Exhibit 13] Steel foundries in Asia are currently facing even more downward price pressures despite attempts to raise pricing. Most of this is being driven by the degrading Chinese construction sector creating an environment of particularly low demand, even for this time of year. This coupled with the increasing cost of raw materials has started to squeeze Asian Foundries margins. However, experts believe that we are at the bottom of this business cycle. Demand is expected to pick back up, in turn raising prices, as early as Q1 2024 due to Chinese Government Stimulus measures.

Production cuts are planned by both US mills and manufacturers across the world to help with lowering the supply of steel in the market. This is expected to help apply upward pricing pressures in early 2024.

Exhibit 12

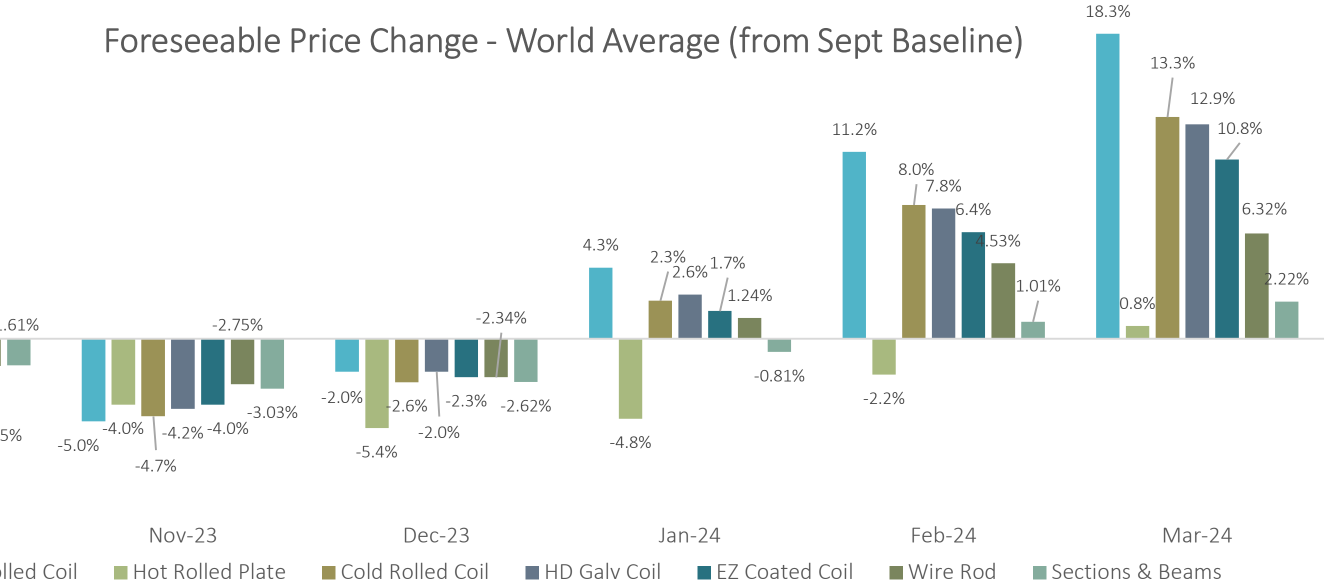
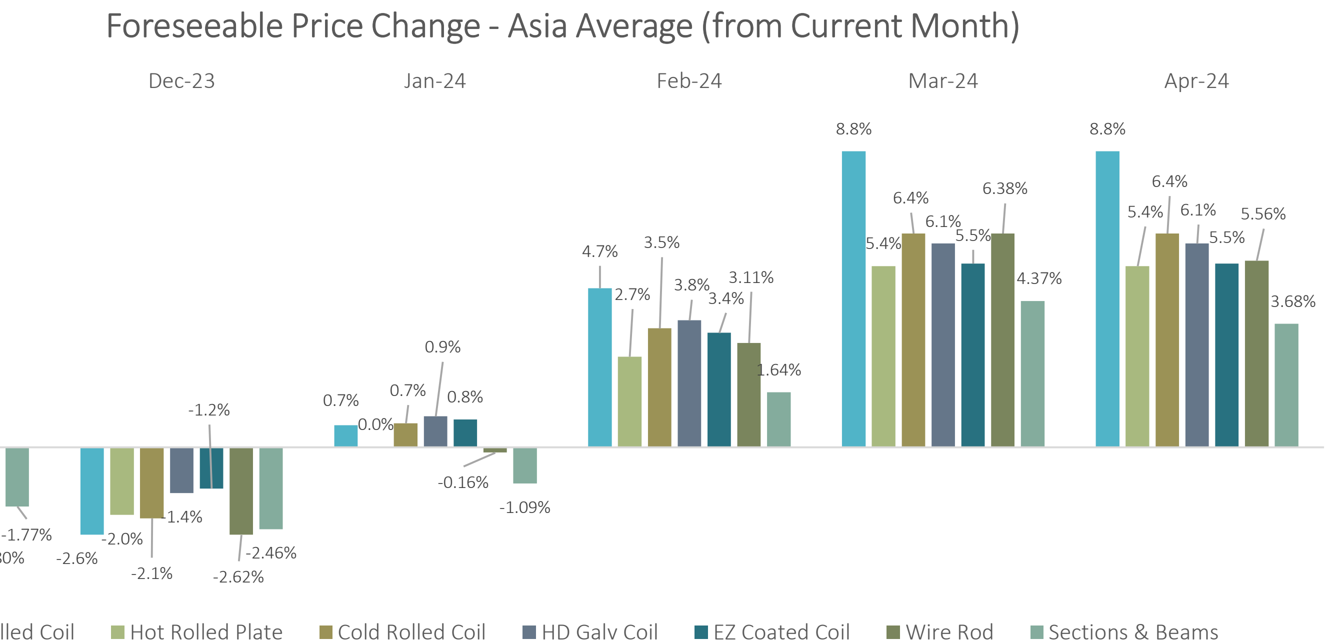


Exhibit 13



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