NIM
NORFOLK IRON & METAL

MARKET INSIGHT
December 2019

ECONOMIC NEWS

U.S. TRADE DEFICIT FALLS 7.6% IN OCTOBER TO 16-MONTH LOW ON DECLINE IN CHINESE IMPORTS

The nation's trade deficit dropped almost 8% in October to a 16-month low, largely because of lower imports from China tied to the ongoing U.S. trade dispute with the Asian giant.

The deficit slid to $47.2 billion from a revised $51.1 billion in the prior month, the government said Thursday. If it persists through December, the smaller gap could give a boost to gross domestic product in the fourth quarter.

The U.S. imported fewer drugs, cell phones, electronics, clothing and toys and other goods, much of it from China. Imports of Chinese goods shrank by $1.8 billion to $35.3 billion.

Auto imports also fell, hurt in part by a month-long General Motors GM, -0.31% strike that limited production.

The decline in imports largely reflects a recent up-and-down pattern depending on the timing of new U.S. tariffs on China. Companies rushed to import consumer goods from China in August before scheduled U.S. tariffs went into effect.

Exports dipped a smaller 0.2% to $207.1 billion. Shipments of drugs, airplane engines and autos all decreased.

For the second month in a row the U.S. posted a record surplus in petroleum, showcasing the country's reemergence as an energy superpower.

Still, the U.S. trade deficit added up to $520.1 billion in the first 10 months of this year, compared to $513 billion in the same span in 2018.

Although tariffs have caused a record trade deficit with China to tumble in 2019, the gap has grown with other countries and left the U.S. in no better position.

The U.S. is on track to record the biggest annual trade deficit in 11 years.

The deficit has grown in 2019 partly because the economy is doing better than in most other countries. Americans can afford to buy more imports. Weaker economic performance around the world has also led to softer demand for U.S. exports.

A bigger trade deficit subtracts from gross domestic product, but the U.S. has run large deficits for so long it's had virtually no influence on how consumers and businesses behave.

"The sharp narrowing of the trade deficit, to a 16-month low in October, was partly driven by a GM-strike related drop in auto imports and the unwinding of stockpiling ahead of the September tariffs," said senior economist Michael Pearce of Capital Economics. ***Source: Market Watch, 12/5/2019***

US ECONOMY SMASHES FORECASTS, ADDS 266,000 JOBS IN NOVEMBER

Government data out Friday showed the US added far more jobs than expected in November, relieving concerns that one of the brightest spots in the economy may have started to run out of steam.

The Bureau of Labor Statistics said 266,000 nonfarm payrolls were created last month, pushing the unemployment rate to a historically low 3.5%. The figure was temporarily boosted by the end of a six-week strike at General Motors, which had idled roughly 50,000 workers throughout October.

Economists predicted that would help lift payroll gains to 185,000 in November from 156,000 a month earlier.

"Looking at the high number of jobs that were added in November, you might forget that the story for most of this year was that the economy was slowing down," said Nick Bunker, the research director at Indeed Hiring Lab. "The slowdown did happen, but we can move into 2020 with a bit more optimism."

Wage growth continued to outpace inflation last month but remained stubbornly below what would be expected with an unemployment rate at its lowest level in half a century. Average hourly earnings rose 3.1% year-over-year in November, a slight uptick from a month earlier but short of the peak growth levels seen in early 2019.

November marked the 110th consecutive month of job gains, but the record-long expansion has moderated this year as the effects of tax cuts began to fade and a global slowdown hit. The US has added an average of 180,000 jobs each month this year, compared with an average monthly gain of 223,000 in 2018.

Hiring has held up despite recent escalations in a tit-for-tat trade dispute between the US and China. That could offer the Trump administration more room to negotiate the structural issues it vowed to address in the yearlong impasse, such as intellectual property theft and technology transfers.

"This report has important political implications as we move into an election year—the report today alleviates pressure on the Trump administration to make a trade deal with China, giving negotiators more leverage to push for a harder line," said Daniel Zhao, a senior economist at the career site Glassdoor.

Parts of the manufacturing sector, which slipped into a recession this year, appeared to show signs of stabilizing in November. Factories added 54,000 jobs, with the temporary return of GM workers likely behind the vast majority of those. Still, it isn't clear how long the upswing might last as tariffs raise costs for employers and cast a thick cloud of uncertainty onto hiring plans.

Friday's report was likely to bolster expectations for the Federal Reserve to maintain a wait-and-see approach at a policy meeting next week. After lowering interest rates three times this year, the central bank has signaled it saw little to no immediate need for additional stimulus measures.

"A repeat of this performance in December would be a different story but we think downside correction is more likely. Still, today's print clearly makes a January Fed easing much less likely," said Ian Shepherdson, the chief economist at Pantheon Macroeconomics.

The labor market was slower to pull Americans from the sidelines in November. The labor-force participation rate edged down to 63.2%, a figure that low by historical standards and compared with other countries. ***Source: Business Insider, December 6, 2019***

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MARKET INSIGHT

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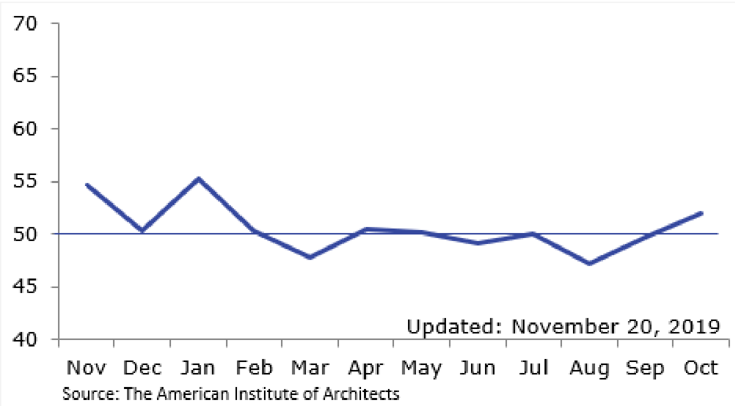
KEY ECONOMIC INDICATORS

Architecture Billings Index (ABI)



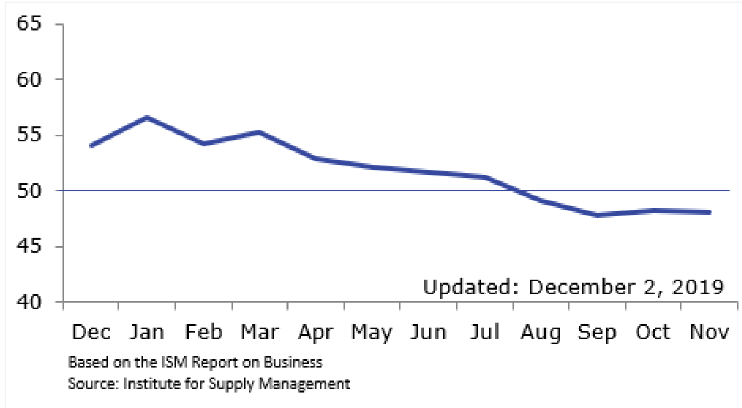
AIA's monthly Architecture Billings Index for October came in at a score of 52, which is a 2.3-point increase from September's contraction.

The scores for regional billings—which, unlike the national score, are calculated as three-month moving averages—rose in three of four regions in October. Billings in the West remaining unchanged at 51.3 while billings in the South rose 3.2 points to a score of 55.5. Though the Midwest and Northeast both continue to experience contractions, billings in each region rose by 4.6 and 0.9 points, respectively, to scores of 49.9 and 47.2.

Billings scores rose in all four individual industry sectors, but two remained below the threshold of 50. The commercial/industrial sector and the institutional sector increased by 4 and 1.4 points, respectively, to scores of 49.3 and 49.9. The multifamily residential score rose by 0.8 points to a score of 54. The mixed practice sector rose by 2.2 points to 55.2.

The **Architecture Billings Index (ABI)** is an economic indicator for nonresidential construction activity, with a lead time of approximately 9–12 months. The index is derived from AIA's Work-on-the-Boards survey, which has gathered data on shifts in billings from architectural firm leaders for over 20 years. An index score of 50 represents no change in firm billings from the previous month, a score above 50 indicates an increase in firm billings from the previous month, and a score below 50 indicates a decline in firm billings from the previous month. *Source:* ***American Institute for AIA, 11/20/2019***

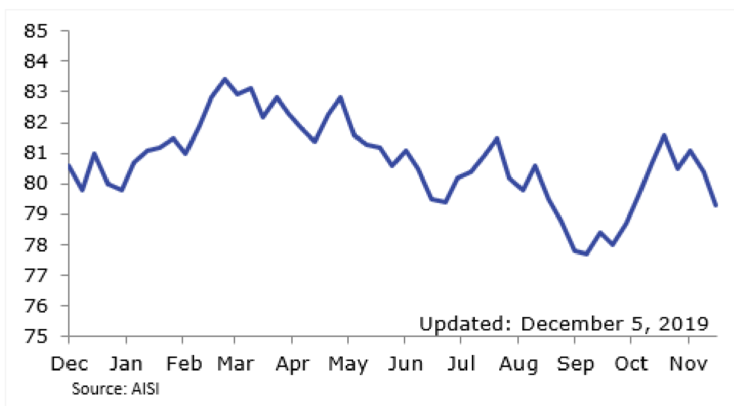
Purchasing Managers Index®



The November PMI® registered 48.1 percent, a decrease of 0.2 percentage point from the October reading of 48.3 percent. The New Orders Index registered 47.2 percent, a decrease of 1.9 percentage points from the October reading of 49.1 percent. The Production Index registered 49.1 percent, up 2.9 percentage points compared to the October reading of 46.2 percent. The Backlog of Orders Index registered 43 percent, down 1.1 percentage points compared to the October reading of 44.1 percent. The Employment Index registered 46.6 percent, a 1.1-percentage point decrease from the October reading of 47.7 percent. The Supplier Deliveries Index registered 52 percent, a 2.5-percentage point increase from the October reading of 49.5 percent. The Inventories Index registered 45.5 percent, a decrease of 3.4 percentage points from the October reading of 48.9 percent. The Prices Index registered 46.7 percent, a 1.2-percentage point increase from the October reading of 45.5 percent. The New Export Orders Index registered 47.9 percent, a 2.5-percentage point decrease from the October reading of 50.4 percent. The Imports Index registered 48.3 percent, a 3-percentage point increase from the October reading of 45.3 percent.

The Purchasing Managers Index® is based on a monthly survey sent to senior executives at more than 400 companies. A PMI above 50 represents an expansion when compared to the previous month. The further from 50, the greater the change. ***Source: Institute for Supply Management, 12/2//2019***

Raw Steel Production



In the week ending on November 30, 2019, domestic raw steel production was 1,835,000 net tons while the capability utilization rate was 79.3 percent. Production was 1,903,000 net tons in the week ending November 30, 2018 while the capability utilization then was 81.2 percent. The current week production represents a 3.6 percent decrease from the same period in the previous year. Production for the week ending November 30, 2019 is down 1.4 percent from the previous week ending November 23, 2019 when production was 1,861,000 net tons and the rate of capability utilization was 80.4 percent.

Adjusted year-to-date production through November 30, 2019 was 88,919,000 net tons, at a capability utilization rate of 80.2 percent. That is up 2.0 percent from the 87,193,000 net tons during the same period last year, when the capability utilization rate was 78.1 percent.

Raw Steel Production is a domestic report based on estimates from companies representing approximately 90% of the Industry's Raw Steel Capability as compiled by the American Iron and Steel Institute. ***Source: AISI, 12/5/2019***

INDUSTRY NEWS

Steel awaiting 232 order vs Brazil, Argentina

The United States' steel industry is waiting to find out whether a tweet from the president always has the power to shape domestic trade policy.

President Donald Trump took to Twitter early on Monday December 2, noting that his administration would restore Section 232 tariffs against steel and aluminum shipments from Brazil and Argentina.

But nothing has happened since then, and exactly when any action might take place - or even whether it will at all - remained unclear as of Wednesday afternoon, sources in Washington with knowledge about trade issues told Fastmarkets.

Trump's tweet did not specify the amount of the tariffs or an effective date for when US Customs and Border Protection (CBP) might begin collecting them.

The result is that the hard quotas to which Brazil and Argentina are subject remain in place and no additional tariff has been collected on top of them or in place of them as of Wednesday afternoon, trade experts said.

For the resumption of tariffs to become official, an executive order - a presidential proclamation or an official announcement from the Commerce Department or the Office of the US Trade Representative (USTR) - is required, sources in Washington told Fastmarkets.

"I think at this point it's fair to say what's in place remains in place. And until there is an executive order, I don't think we can say anything else - it's inappropriate to say anything else," one knowledgeable Washington-based trade attorney said.

Basic details - the potential effective date of the tariffs, their amount and whether they would replace the quotas in place or come on top of them - remain unanswered, he said.

Other sources were less circumspect about whether the tariffs would come into force, indicating that it was only a question of when.

"The Department of Commerce or USTR will have some formal statement on the mechanics of implementing the tariffs on Brazil and Argentina - it's only a matter of time," Samir Kapadia, principal and chief operating officer of Washington-based lobbying and government relations firm Vogel Group, told Fastmarkets. "Those departments work for one person, the president of the United States."

It's also possible that Commerce could send a communication directly to CBP ordering the agency to begin collecting the tariffs in the absence a public announcement, Kapadia added, although he added that the prospect of that happening was remote.

Trump's late-night foray on social media probably caught his own administration off guard, a second Washington-based trade attorney said. "Trump's tweet took everyone by surprise – the White House staff, CBP, the USTR, etc," this source said.

Commerce, the USTR, the CBP and the White House did not respond to Fastmarkets' requests for comment.

Trump's tweet threatening renewed tariffs has already had an impact on trade flows, regardless of whether the tariffs go into effect, market participants said.

"You think customers will buy Brazilian materials right now? I don't think so," one trader source said. "Customers try not to buy Brazilian materials as of today, which creates demand for domestic [product]."

Brazil and Argentina are both important steel suppliers to the US market.

Brazil supplies the US market with coated products, such as galvanized and Galvalume flat-rolled steel, with its primary export to the US being slab - a semi-finished product that is re-rolled into finished steel goods such as hot-rolled coil.

Argentina is a key supplier of the oil country tubular goods (OCTG) used to extract oil and gas from wells.

HRC prices have yet to show much reaction to Trump's tweet, but the impact of the potential tariffs is enormous because Brazil is the second-largest steel supplier to the US.

The South American nation shipped 3.4 million tonnes of steel to the US in the first nine months of 2019, or 16.6% of the nearly 20.48 million tonnes of all US steel imports during the period, according to Census Bureau data.

Only Canada - the US' northern neighbor and a country with which US supply chains are tightly linked - exceeds that level, at nearly 3.65 million tonnes.

The bulk of Brazil's exports through September - 2.99 million tonnes, or 88% of the nation's shipments to the US - were semi-finished goods, a product category that includes slab, the Census data show.

Brazil and Argentina in 2018 agreed to a hard quota on steel shipments to the US in exchange for an exemption from the 25% tariff applied to steel brought into the US from most other nations.

Argentina had shipped a comparatively modest 134,216 tonnes to the US during the January-September period, the vast majority of which - 110,071 tonnes, or 82% of its overall total - was comprised of OCTG material, according to the Census data. ***Source: AMM, December 4, 2019***

Trump restores 232 tariffs on Brazil, Argentina

US President Donald Trump has imposed new tariffs on steel and aluminium imports from Brazil and Argentina, he said on social media platform Twitter on Monday December 2.

"Brazil and Argentina have been presiding over a massive devaluation of their currencies, which is not good for our farmers. Therefore, effective immediately, I will restore the tariffs on all steel and aluminium that is shipped into the US from those countries," Trump tweeted.

"The Federal Reserve should likewise act so that countries, of which there are many, no longer take advantage of our strong dollar by further devaluing their currencies. This makes it very hard for our manufacturers and farmers to fairly export their goods," Trump also said on Twitter.

A third tweet from Trump added: "US markets are up as much as 21% since the announcement of tariffs on 3/1/2018."

Trump's Section 232 tariffs, a 25% tariff on imported steel and 10% on imported aluminium, came into effect on March 23, 2018.

In May 2018, the US government announced that it reached agreements in principle with Argentina, Australia and Brazil with respect to steel and aluminium quotas. Argentina subsequently secured a "permanent exemption" from the tariffs.

Brazil is the second-largest exporter of steel to America, providing the country mainly with semi-finished products. Argentina is among the 10 largest aluminium exporters to the US.

Under the quotas imposed by Section 232, Brazilian mills can supply the US market while not subject to the 25% tariff with up to 4.2 million tonnes of steel per year. Most of this total - some 3.5 million tonnes - is semi-finished goods, mainly slab. ArcelorMittal Tubarão, Companhia Siderúrgica do Pecém (CSP) and Ternium Brazil are the main suppliers.

Imports of Brazilian steel, however, cannot total more than 30% of the annual quota during each quarter. Trump's announcement comes at a time when steelmakers are negotiating second-quarter supply deals to the United States at higher prices.

Fastmarkets' most recent price assessment for steel slab export, fob main port Brazil was $360-380 per tonne on November 29, up from $355-380 per tonne a week earlier and higher than the 2019 bottom of $345-355 per tonne on November 15. Offers to the US and Canada were being made at $380-390 per tonne.

Because Brazil did not agree to a quota system for aluminium, it is therefore charged the 10% tariff for that material.

Argentina, on the other hand, can export almost 181,000 tonnes per year of tariff-exempt aluminium to the US. Aluar is the sole domestic producer.

This quota for Argentinian aluminium represent around 40% of Aluar's capacity of 460,000 tpy of primary aluminium.

The South American country also agreed on an export quota on steel of roughly 180,000 tpy.

Argentina's economic crisis since late in the third quarter of last year has resulted in a significant loss of value for the peso against the dollar. On September 3, 2018, $1 bought 36.91 Argentinian pesos; the dollar was at 59.92 pesos on December 2 this year.

The value of the Brazilian Real value has also plummeted, especially in November amid political turmoil in the country.

Former Brazilian president Luiz Inácio Lula da Silva, who was released from jail following a decision from the Supreme Court, is calling for street demonstrations against

the current administration. Officials, congressmen linked to President Jair Bolsonaro and Bolsonaro himself mentioned a rights-restriction law from the military dictatorship called AI-5 as a possibility if protests escalated.

The dollar was at 4 Reais on October 1 but weakened to 4.24 Reais on December 2. This compares with 3.87 Reais on December 3 last year. ***Source: AMM, December 2, 2019***