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Market Insight

November 2022

Economy Added 261,000 Jobs Even As Recession Fears, Inflation Rose—Hiring stayed strong in October as employers added 261,000 jobs despite high inflation, rising interest rates and growing recession fears.

The unemployment rate rose from 3.5% to 3.7%, the Labor Department said Friday.

Economists had estimated that 190,000 jobs were added last month. The actual gain was the smallest since December 2020.

In recent months, job growth has downshifted from a robust average monthly pace of more than 400,000 for most of this year to about 290,000 the past three months but stayed resilient. Persistent worker shortages have led companies to avoid layoffs on fears they won't be able to fill openings when the economy bounces back. Full Story
Source: USAToday, 10.07.2022

Inflation Worries Hurt U.S. Consumer Confidence; House Prices Decelerating—U.S. consumer confidence ebbed in October after two straight monthly increases amid rising concerns about inflation and a possible recession next year, but households remained keen to purchase big-ticket items like motor vehicles and appliances. The Conference Board survey on October 25 also showed more consumers planned to buy a home over the next six months, despite soaring borrowing costs. The steady rise in consumers' buying intentions could provide some stability for the economy in the near-term.

But there are signs that the Federal Reserve's aggressive interest rate hikes are starting to cool the labor market, with a decline in the share of consumers viewing jobs as "plentiful" and a rise in those saying employment was "hard to get." "The biggest risk is the unknown lagged effects from the Fed's cumulative tightening and the economy may not feel the full effects until next year when recession risks are high," said Jeffrey Roach, chief economist at LPL Financial in Charlotte, North Carolina. Full Story
Source: Reuters, 10.25.2022

Powell Sees Higher Peak For Rates, Path To Slow Tempo Of Hikes

Federal Reserve Chair Jerome Powell opened a new phase in his campaign to regain control of inflation, saying U.S. interest rates will go higher than earlier projected, but the path may soon involve smaller hikes. Addressing reporters November 3 after the Fed raised rates by 75 basis points for the fourth time in a row, Powell said "incoming data since our last meeting suggests that ultimate level of interest rates will be higher than previously expected."

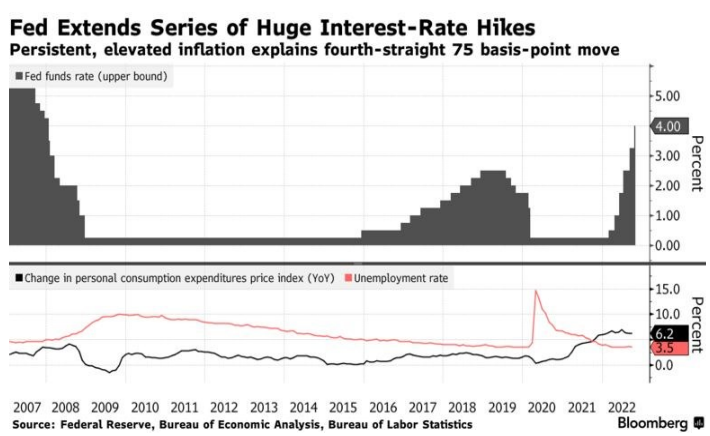
Powell said it would be appropriate to slow the pace of increases "as soon as the next meeting or the one after that. No decision has been made," he said, while stressing that "we still have some ways" before rates were tight enough. "It is very premature to be thinking about pausing," he said.

The Federal Open Market Committee said that "ongoing increases" will still likely be needed to bring rates to a level that are "sufficiently restrictive to return inflation to 2% over time," in fresh language added to their statement after a two-day meeting in Washington. The Fed's unanimous decision lifted the target for the benchmark federal funds rate to a range of 3.75% to 4%, its highest level since 2008.

"Slower for longer," declared JP Morgan Chase & Co, chief U.S. economist Michael Feroli in a note to clients. "The Fed opened the door to dialing down the size of the next hike but did so without easing up financial conditions." Financial markets whipsawed on Powell's message, which mixed a hawkish tilt toward higher rates with a dovish nod to a possible near-term downshift.

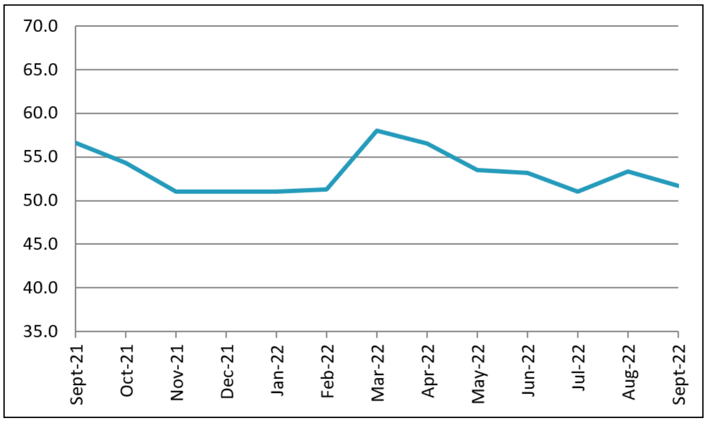
Initially stocks rallied and Treasury yields tumbled with the dollar on the statement, which hinted rate hikes were entering their final phase. Then, as Powell talked about a higher peak rate and said the Fed had a "ways to go" on tightening, yields and the dollar surged and stocks slipped. The S&P 500 suffered its worst rout on a Fed decision day since January 2021.

Officials, fighting to curb inflation running near a 40-year high, gathered days before midterm U.S. congressional elections in which anger over price pressures has been a dominant theme.
Source: Bloomberg, 11.03.2022



Key Economic Indicators

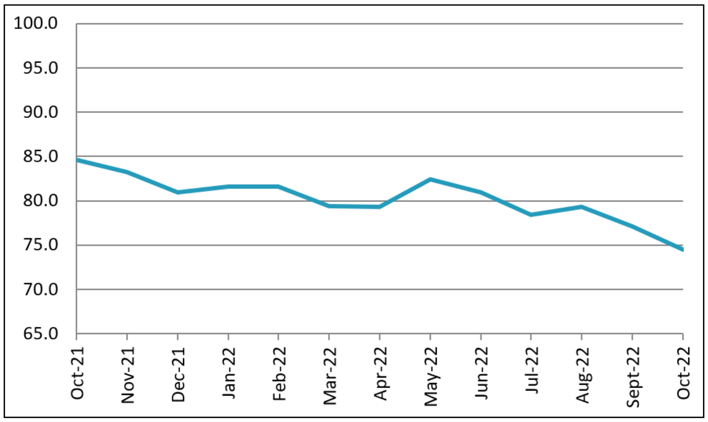
Architecture Billings Index (ABI)



For the twentieth consecutive month architecture firms reported increasing demand for design services in September. The AIA Architecture Billings Index (ABI) score for September was 51.7 down from a score of 53.3 in August, indicating essentially stable business conditions for architecture firms (any score above 50 indicates an increase in billings from the prior month). Also in September, both the new project inquiries and design contracts indexes moderated from August but remained positive with scores of 53.6 and 50.7, respectively.

The **Architecture Billings Index (ABI)** is a diffusion index derived from the monthly Work-on-the-Boards survey, conducted by the AIA Economics & Market Research Group. The ABI serves as a leading economic indicator that leads nonresidential construction activity by approximately 9-12 months. 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 Architects, 10.19.2022

Steel Capability Utilization

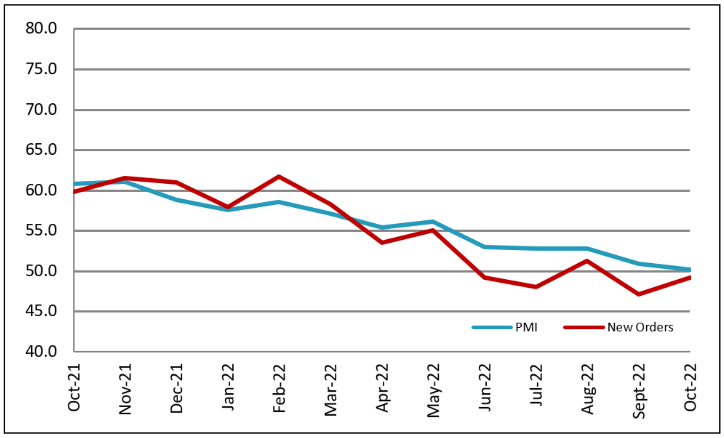


In the week ending on October 29, 2022, domestic raw steel production was 1,663,000 net tons while the capability utilization rate was 74.5%. Production was 1,836,000 net tons in the week ending October 29, 2021 while the capability utilization then was 83.2%. The current week production represents a 9.4% decrease from the same period in the previous year. Production for the week ending October 29, 2022 is down 0.4% from the previous week ending October 22, 2022 when production was 1,669,000 net tons and the rate of capability utilization was 74.8%.

Adjusted year-to-date production through October 29, 2022 was 74,707,000 net tons, at a capability utilization rate of 79.0%. That is down 4.7% from the 78,392,000 net tons during the same period last year, when the capability utilization rate was 81.2%.

Steel Capability Utilization 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, 10.29.2022

Purchasing Managers Index (PMI)®



The October Manufacturing PMI® registered 50.2%, 0.7 percentage point lower than the 50.9% recorded in September. This figure indicates expansion in the overall economy for the 29th month in a row after contraction in April and May 2020. The Manufacturing PMI® figure is the lowest since May 2020, when it registered 43.5%. The New Orders Index remained in contraction territory at 49.2%, 2.1 percentage points higher than the 47.1% recorded in September. The Production Index reading of 52.3% is a 1.7 percentage point increase compared to September's figure of 50.6%. The Prices Index registered 46.6%, down 5.1 percentage points compared to the September figure of 51.7. This is the index's lowest reading since May 2020 (40.8%). The Backlog of Orders Index registered 45.3%, 5.6 percentage points lower than the September reading of 50.9%. After one month of contraction, the Employment Index was unchanged at 50%, 1.3 percentage points higher than the 48.7% recorded in September. The Supplier Deliveries Index reading of 46.8% is 5.6 percentage points lower than the September figure of 52.4%. This reading, the index's lowest since March 2009 (43.2%), ended a streak of 79 months in 'slowing' territory. The Inventories Index registered 52.5%, 3 percentage points lower than the September reading of 55.5%. The New Export Orders Index reading of 46.5% is down 1.3 percentage points compared to September's figure of 47.8%. This is the index's lowest figure since May 2020, when it registered 39.5%. The Imports Index remained in expansion territory at 50.8%, 1.8 percentage points below the September reading of 52.6%.

Eight manufacturing industries reported growth in October, in the following order: Apparel, Leather & Allied Products; Nonmetallic Mineral Products; Machinery; Petroleum & Coal Products; Transportation Equipment; Miscellaneous Manufacturing; Plastics & Rubber Products; and Electrical Equipment, Appliances & Components. The 10 industries reporting contraction in October compared to September, in the following order are: Furniture & Related Products; Wood Products; Paper Products; Textile Mills; Printing & Related Support Activities; Fabricated Metal Products; Chemical Products; Primary Metals; Computer & Electronic Products; and Food, Beverage & Tobacco Products. *Source: Institute for Supply Management, 11.01.2022*

Industry News

Pressure Increases On The LME To Ban Russian Metal

According to the latest metal news, the London Metal Exchange (LME) is in a quandary over how to handle metal supply from "sanctioned" Russia. Their frustrations continue to be enhanced by the fact that some nations, led by China, remain interested in buying up Russian stock.

Following Russia's invasion of Ukraine, formal and voluntary sanctions came into effect. These mainly focused on Russian exports of crude oil, refined fuels, and other goods. However, the world has been a bit slow to impose "punitive" measures against Russia's metal supply.

If there were no demand following all-around protests by importing nations, it would have been easy going for the LME. However, some countries, including Europe-based aluminum consumers, expressed displeasure over the idea of bans. The calls came despite Western producers actively called for restricting supplies by Russia. Meanwhile, such attitudes were made clear during a recent series of meetings at the industry's annual gathering in London.

It's worth noting that Russia produces 6% of the world's aluminum as well as 5% and 7% of its copper and nickel, respectively. ***Source: MetalMiner, 11.02.2022***

LA Port Chief Says Labor Deal Still Likely But Months Away

A labor deal between 22,000 dockworkers at U.S. West Coast ports and their employers may take several months to reach, but service disruptions while negotiations continue are unlikely, according to the chief of the Port of Los Angeles. "It's not going to get solved in the next few weeks—it will probably take some several months and there is no hard deadline on this," Executive Director Gene Seroka, whose port is the nation's busiest, said in an interview at Bloomberg's New York headquarters October 24. He added that his view doesn't represent those of employers or the union negotiating on behalf of the workers.

The International Longshore and Warehouse Union and the more than 70 employees represented by the Pacific Maritime Association began negotiating a new contract for 22,000 West Coast dockworkers in May, and have continued to do so after their previous deal expired July 1. The parties have said they're committed to avoiding a repeat of the nine months of disruptions and shipping delays that ensued when they last negotiated a full contract in 2014 and 2015. Those snarls only ended after the Obama administration intervened.

Seroka said he isn't worried about the chance the parties will fail to reach a deal. "I think the probability of work disruption is extremely low," he said.

The talks take place as the world's 11 biggest container lines are on course to post $256 billion in profit in 2022, which would exceed last year's record by 73%, according to industry veteran John McCown, the founder of Blue Alpha Capital. Logistics and labor strains that are squeezing capacity amid sustained U.S. demand for imports have buoyed the windfall.

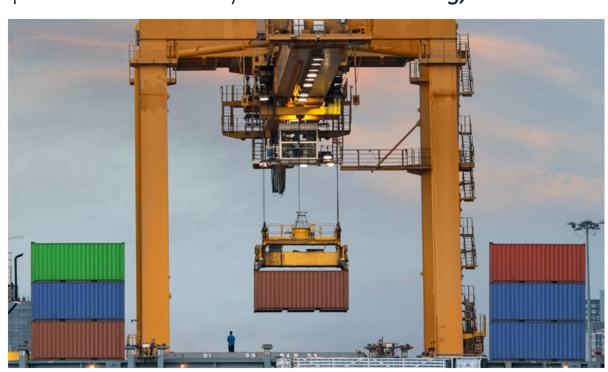
"These dockworkers have real issues on the table and worked through the pandemic like many others did," Seroka said. "The industry has made a tremendous amount of money over the last three years -- that money should be shared." He said worker protections need to be put in place based on lessons from the pandemic, and that automation and robotics on the ports—which will keep being rolled out—are polarizing industrial-relations issues. "We're going to continue to move faster with technology development -- we just cannot leave the worker behind," Seroka said. "If we keep those postulates together, we'll get through this in good order."

Los Angeles is the biggest gateway for containerized trade with Asia and handles about 40% of all U.S. imports together with the neighboring Port of Long Beach.

While both operations handled record volumes throughout the pandemic as homebound consumers shifted spending to goods from services, the numbers have eased both as Americans allocate more resources to services and as importers divert cargo to East and Gulf Coast ports to avoid a repeat of Covid-era supply-chain logjams while the labor talks unfold.

Southern California ports haven't seen any service degradation while the talks have been ongoing, but East and Gulf Coast maritime hubs are seeing more cargo "based on the perception of this contract negotiation," Seroka said.

"We've got to give people confidence that their cargo is not going to get snarled up, and they will have some consistency in their supply chain," the LA port chief said. "I'd love to see this contract done," he said, adding, "I get no satisfaction whatsoever by seeing ships and anchor in Houston and Charleston, in New York, because that's making our country less competitive economically." ***Source: Bloomberg, 10.25.2022***



Source: Adobe Stock

Industry News

The Diesel Market Is In A Perfect Storm As Prices Surge, Supply Dwindles Ahead Of Winter

A perfect storm is taking place in the diesel market, with dwindling diesel reserves, a drought on the Mississippi River pushing more product to rail and truck, and a possible rail strike leading to a surge in prices that is expected to continue. Diesel prices have increased by 33% for November deliveries. "The national average price for diesel today is $5.30 per gallon and is expected to go up 15 to 20 cents in the next few weeks," said Andy Lipow, president of Lipow Oil Associates, LLC.

Reserves for diesel this time of year have not been this low since 1951, with the greatest shortfall in the Northeast region including New York and New England. "This is not only constricting the ability of farmers to export the soybeans and grain they grow but also to receive the fuel and fertilizer they need to operate," said Mike Steenhoek executive director of the Soy Transportation Coalition of the low water conditions that have turned the Mississippi River from a multi-lane interstate to a two-lane highway.

"Now adding insult to injury is the increased uncertainty that railroads will be able to provide an effective lifeline during this critical time. It's a vivid reminder that it is not enough to produce a crop or have demand for that crop. Having a reliable supply chain that connects supply with demand is also essential for farmers to be successful," Steenhoek said.

Two rail unions recently voted down a labor deal needed to avert a national strike in the coming months.

Diesel inventories in the New York/New England markets are facing an acute crisis, down over 50% since last year and at the lowest level since 1990, according to Lipow. Lipow said East Coast refineries are making as much diesel as they can and dependent on tankers and barges for supply, any weather delay causes a terminal to run out of product. According to the EIA, East Coast refineries operated at 100% capacity in June and July. "Last week, they operated at 102% of capacity," Lipow said. "No more supply is forthcoming from the four East Coast refineries." New England's diesel supply issues were made worse when a Canadian refinery in Newfoundland shut down in 2020 as the pandemic impacted on demand. The Midwest is also seeing supply constraints, pushing up costs for farmers.

"In visiting with a number of farmers, the consensus, of course, is that diesel costs are one more incursion into profitability," Steenhoek said. "As far as getting supplies, it looks like those areas most dependent upon the river are experiencing the biggest challenge. A couple of farmers told me diesel supply via their local vendor is day to day."
In order for the Northeast to receive more diesel, the fuel needs to be imported from another country or a tanker from the Gulf Coast, but that is not allowed because of the Jones Act, also known as the Merchant Marine Act of 1920, which prohibits a foreign vessel from transporting all goods between two U.S. ports. "The Jones Act requires all cargo transported between U.S. ports be carried on ships that are U.S. flagged and built, and mostly owned and crewed by Americans," said Captain Adil Ashiq, United States Western region executive for Marine Traffic.

According to MarineTraffic, the 55 Jones Act tankers are being used. One way to add more supply quickly is for the Department of Homeland Security to temporarily waive the act for foreign vessels to move the fuel.
Source: CNBC, 10.30.2022

Ferrochrome Stabilized, But Supply Secured?

Ferrochrome prices have stabilized recently and have increased by more than 16.5% since mid-September. Among other things, this could be related to a supply problem with chrome ores. After nickel had already risen by more than 3% in October, it opened November with a drastic upward price jump. Ferrochrome prices had stabilized recently, hinting at a positive recovery. From mid-September to early November 2022, for example, ferrochrome prices in China had risen by more than 16.5%.

Most recently, the long strike by South African dockworkers meant that, according to the Minerals Council South Africa, about 360,000 MT of iron ore, coal, chrome and ferrochrome could not be transported every day. Working through this backlog is likely to take time, and is not the first event that has put South African ports behind schedule in 2022. Such challenges in the major industries of the major economies highlight the central role that logistics plays, and not only in the mining sector. The events in South Africa are therefore likely to have an impact on the ferrochrome price for some time to come. And they will also drive it up further.

The conglomerate of current events surrounding nickel has already catapulted the price on the London Metal Exchange back above the 23,000 dollar per ton mark November 1. A gain of more than 6.3%. The Asian SHFE had already closed with significant gains in nickel on November 1. In reaction to the significantly higher nickel prices in Europe, the futures in Asia continued their upward movement today and closed with a plus of up to 5%, depending on the contract.
Source: Steel News, 11.02.2022

Special Section: Trade

U.S. Strengthens Metals Relationship With EU While Considering Russia Sanctions

U.S. Trade Representative Katherine Tai met with European Commission Executive Vice President Valdis Dombrovskis on October 13 to discuss opportunities to strengthen the U.S.-EU trade and economic relationship. Ambassador Tai also touted the successful first meeting of the Trade and Labor Dialogue last month, during which U.S. and EU government, labor, and business representatives, discussed concerns related to the future of work and the impacts of the digital economy on workers, as well as advancing cooperation to benefit workers in the global economy.

The two also agreed to increase the pace of discussions about the global steel arrangement and they agreed to stay in close contact on these, and other topics, in the weeks ahead.

As a reminder, last October the United States and European Union took steps to re-establish historical transatlantic trade flows in steel and aluminum and to strengthen their partnership and address shared challenges in the steel and aluminum sector. As a part of that partnership, they intend to negotiate for the first time, a global arrangement to address carbon intensity and global overcapacity.

Click here to read the White House fact sheet on that agreement.

In other metals trade news, according to *Bloomberg*, the Biden administration is considering a ban on Russian aluminum imports as an additional economic sanction in response to Russia's unprovoked invasion of Ukraine.

According to the Aluminum Association, previous sanctions in 2018 significantly reduced U.S. reliance on Russian metal from nearly 15 percent of primary aluminum supply in 2016 and 2017 to around five percent today.
Source: MSCI, 10.17.2022

U.S. International Trade Commission Rules On Hot-Rolled Steel Penalties From Several Countries

On October 21, the U.S. International Trade Commission (USITC) announced that it had determined that revoking an existing countervailing duty order on imports of hot-rolled steel from South Korea and antidumping duty orders hot-rolled steel imports from Australia, Japan, Netherlands, Russia, South Korea, Turkey, and the United Kingdom would be likely to lead to material injury for U.S. firms.

As a result, all of those existing orders will remain in place.

There will be a change when it comes from hot-rolled steel imports from one country, however. The same day, the ITC also announced that it had determined that revoking existing antidumping duty and countervailing duty orders on imports of hot-rolled steel from Brazil would not lead to the continuation or recurrence of material injury for U.S. firms.

Those orders, therefore, are revoked. The ITC's determination was necessary because of the five-year sunset review process required by the Uruguay Round Agreements Act.
Source: MSCI, 10.24.2022

Source: Adobe Stock