

Payrolls Grew By 336K Jobs in September

U.S. employers stepped up hiring sharply in September, adding a booming 336,000 jobs despite high interest rates and inflation.

The unemployment rate held steady at 3.8%, the Labor Department said Friday.

Economists had estimated that 170,000 jobs were added last month, according to a Bloomberg survey.

Job gains for July and August were revised up by a combined 119,000, pushing the advances for each month over 200,000 and painting a more robust picture of summer hiring than previously thought.

While strong job gains are normally welcomed, the report likely raises the odds that the Federal Reserve will raise interest rates again next month to tamp down job and wage growth that could be fueling inflation, says economist Rubeela Farooqi of High Frequency Economics. [Full Story](#)
Source: USA Today, 10.06.2023

Federal Reserve Pauses Rate Hikes As Inflation Slows Down

The Federal Reserve left the main U.S. interest rate unchanged on September 20, waiting to see if its historic series of rate hikes over the last 18 months gets inflation under control. The central bank kept its main policy rate in the range of 5.25% to 5.50%, citing an easing of economic conditions while also acknowledging that inflation is still higher than its 2% target. In a statement, the Fed said the economy is in solid shape, with job gains slowing and tighter credit conditions likely to slow economic activity and stem inflation.

The Fed had raised interest rates at a historically fast pace in the last 18 months, as it increased its main rate at 11 consecutive meetings from March last year until its meeting in July. It did that to try to get inflation under control, as U.S. consumer prices began to spike in late 2021 and hit 40-year highs last summer.

In August, the Bureau of Labor Statistics said prices for consumers were up 3.7% from the same period last year. That's above the 2% annual level the Fed says it wants to see, but is a big change from last year's peak of 9.1%.

The Fed concluded that the situation had improved enough for it to take a wait-and-see approach, at least for another month. The central bank had cut interest rates to a range of zero percent to 0.25% after the start of the Covid pandemic. Rates were also at that rock-bottom level for years after the global financial crisis of 2007-08. The string of large rate hikes took interest rates from a historic low of almost zero to their highest level in more than 20 years. That meant interest rates on credit cards and mortgages also rose to long-time highs, while payments from Treasury bonds and interest rates on checking accounts are the strongest they've been in years.

It's a double-edged sword of economic intervention. The rate increases were designed to reduce inflation by slowing the economy, which is a direct result of making it more expensive for businesses and individuals to borrow money. There are signs that the rate hikes have had their intended effect, and even some optimism the Fed could achieve its goal without tipping the economy into a recession. The job market, for instance, remains strong, with wages rising and

the unemployment rate near historic lows. A recession, by contrast, might get inflation to a lower level, but with widespread job losses.

Investors had long feared that possibility, which meant that some of the Fed's more hawkish moves led to stock market sell-offs.

The Federal Open Market Committee is scheduled to meet again on October 31 and will announce its next interest rate decision on November 1. That means consumer price data for the month of September, expected to be released on October 12, is going to be extra important in determining what the central bank does next. "This does not assure that we won't see another interest rate increase in the months ahead. Inflation pressures are easing, broadly speaking, but remain well above desired levels with the risk of further increases in oil prices, so the Fed cannot yet declare victory," Greg McBride, chief financial analyst for Bankrate, wrote on September 18. **Source: NBC News, 09.20.2023**

U.S. Durable-Goods Orders Climb On Higher Military Spending

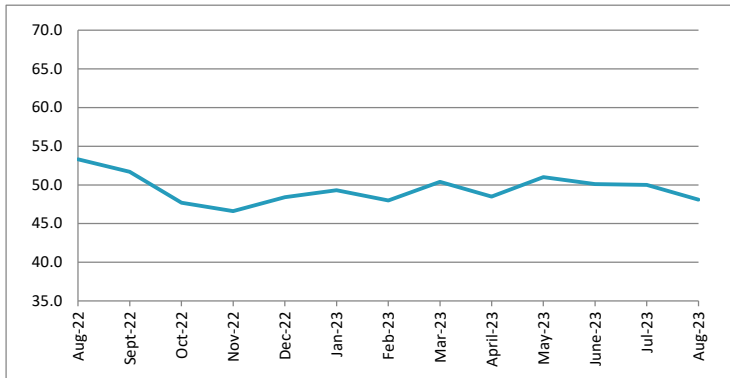
Durable-goods orders minus defense actually fell 0.7% last month, the government said. In a more positive sign, so-called core orders jumped 0.9%. That figure omits defense and transportation and is a proxy for broader business investment. Yet overall business investment remains weak, and conditions aren't expected to improve much any time soon. Companies have curtailed investment since last year in response to rising interest rates and higher odds of recession.

Orders for commercial planes sank 16% in August. Auto dealers reported a 0.3% increase. Omitting those two dominant industries, orders minus transportation rose a modest 0.4%. Bookings increased for metal parts, machinery, computers, and electrical equipment.

The big uptick in core orders was somewhat of a surprise, but it remains to see if the increase is sustained. These orders give a better idea of the true condition of U.S. manufacturing since demand for planes and autos can zig-zag month to month.
Source: MarketWatch, 09.27.2023

Key Economic Indicators

Architecture Billings Index (ABI)



The AIA/Deltek Architecture Billings Index (ABI) eased modestly in August, with a score of 48.1, marking the eleventh consecutive month of essentially flat billings at architecture firms. Any score below 50.0 indicates decreasing business conditions. This follows a period of robust growth in 2021 and 2022. While inquiries into new projects remained relatively strong in August, the value of newly signed design contracts declined for the first time since April, indicating that fewer clients signed contracts for new projects than in the prior three months.

“Business conditions at architecture firms continue to be sluggish,” said Kermit Baker, PhD, AIA Chief Economist. “New project work coming into architecture firms as well ongoing project activity remain stalled in a relatively narrow range and exhibit very little month-to-month variation. Through this pause has taken pressure off tight staffing conditions across the profession, there is considerable uncertainty over the direction of future activity.”

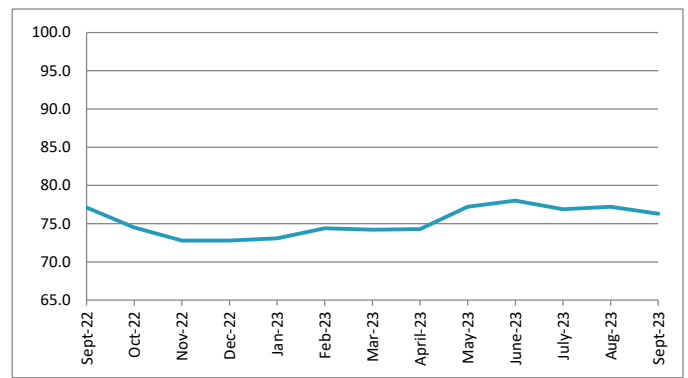
Business conditions also remained soft at firms with a multifamily residential specialization and declined modestly at firms with an institutional specialization. However, firms with a commercial/industrial specialization reported billings growth for the third month in a row in August. **Source: ABI, 09.20.2023**

Purchasing Managers Index (PMI)®

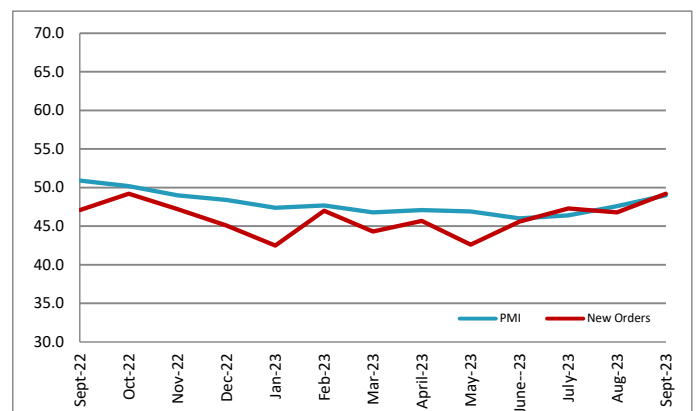
The Manufacturing PMI® registered 49 percent in September, 1.4 percentage points higher than the 47.6 percent recorded in August. The overall economy expanded weakly after nine months of contraction following a 30-month period of expansion. (A Manufacturing PMI® above 48.7 percent, over a period of time, generally indicates an expansion of the overall economy.) The New Orders Index remained in contraction territory at 49.2 percent, 2.4 percentage points higher than the figure of 46.8 percent recorded in August. The Production Index reading of 52.5 percent is a 2.5-percentage point increase compared to August’s figure of 50 percent. The Prices Index registered 43.8 percent, down 4.6 percentage points compared to the reading of 48.4 percent in August. The Backlog of Orders Index registered 42.4 percent, 1.7 percentage points lower than the August reading of 44.1 percent. The Employment Index registered 51.2 percent, up 2.7 percentage points from the 48.5 percent reported in August.

“The Supplier Deliveries Index figure of 46.4 percent is 2.2 percentage points lower than the 48.6 percent recorded in August. (Supplier Deliveries is the only ISM® Report On Business® index that is inverted; a reading of above 50 percent indicates slower deliveries, which is typical as the economy improves and customer demand increases, “The Inventories Index increased by 1.8 percentage points to 45.8 percent; the August reading was 44 percent. The New Export Orders Index reading of 47.4 percent is 0.9 percentage point higher than August’s figure of 46.5 percent. The Imports Index remained in contraction territory, registering 48.2 percent, 0.2 percentage point higher than the 48 percent reported in August.” The five manufacturing industries that reported growth in September are: Nonmetallic Mineral Products; Food, Beverage & Tobacco Products; Textile Mills; Primary Metals; and Petroleum & Coal Products. The 11 industries reporting contraction in September — in the following order — are: Printing & Related Support Activities; Furniture & Related Products; Plastics & Rubber Products; Paper Products; Fabricated Metal Products; Wood Products; Computer & Electronic Products; Machinery; Electrical Equipment, Appliances & Components; Chemical Products; and Transportation Equipment. **Source: ISM, 10.01.2023**

Steel Capability Utilization



In the week ending on September 23, 2023, domestic raw steel production was 1,735,000 net tons while the capability utilization rate was 76.3 percent. Production was 1,684,000 net tons in the week ending September 23, 2022 while the capability utilization then was 76.4 percent. The current week production represents a 3.0 percent increase from the same period in the previous year. Production for the week ending September 23, 2023 is up 0.1 percent from the previous week ending September 16, 2023 when production was 1,733,000 net tons and the rate of capability utilization was 76.2 percent. Adjusted year-to-date production through September 23, 2023 was 65,033,000 net tons, at a capability utilization rate of 76.0 percent. That is down 1.5 percent from the 65,999,000 net tons during the same period last year, when the capability utilization rate was 79.4 percent. The raw steel production tonnage provided in this report is estimated. The figures are compiled from weekly production tonnage provided by approximately 50% of the domestic production capacity combined with the most recent monthly production data for the remainder. production based on data supplied by companies representing 75% of U.S. Production capacity. **Source: AISI, 09.23.2023**



U.S. Industrial Production Continues Expansion In August



The August reading for manufacturing was up just 0.1%, “held back” by a 5% decline in motor vehicles and parts, the Fed said. It kept expanding in August, the Federal Reserve said September 15,

beating expectations even though the pace of the increase slowed due to sluggish manufacturing growth.

Overall industrial production rose by 0.4%, up from a revised 0.7% a month earlier, the Federal Reserve announced in a statement. This was above the median expectation of economists surveyed by MarketWatch.

The August reading for manufacturing was up just 0.1%, “held

back” by a 5% decline in motor vehicles and parts, the Fed said. This marked a sharp turnaround from July, when a jump in motor vehicle production helped spur a 0.4% increase in manufacturing, pushing industrial production back into positive territory. “Overall industrial production rose more than expected in August but manufacturing output matched consensus expectations,” High Frequency Economics Chief U.S. Economist Rubeela Farooqi wrote in a note to clients. “Higher borrowing costs and weaker demand for goods are headwinds for manufacturing,” she added.

Factory output rose by 0.6%, while the index for mining was up 1.4% from a month earlier. Year-on-year, overall industrial production expanded by 0.2%.

The figures will give the Fed additional information ahead of its interest rate decision next week, as it weighs another hike to its key lending rate to cool above-target inflation. **Source: Agence-France Press, 09.18.2023**

China Powers Global Aluminum Output To Record High

Global production of primary aluminum hit an all-time high in August, with the world’s smelters running at an annualized rate of 71.2 million metric tons. It was the second consecutive month that run-rates were above the 70-million metric ton mark. Prior to July the level had been exceeded only once, in August 2022.

The International Aluminum Institute (IAI) made some significant revisions to its primary production numbers in its latest monthly update, lifting previous assessments of output in both China and the rest of the world. It’s now clear that China, the world’s largest producer, is experiencing a production surge thanks to improved power supply in previously drought-hit parts of the country’s hydro-electric system. What’s not clear is whether Chinese demand can absorb the new wave of production.

Non-Chinese aluminum production has been running higher than previously assumed. The IAI has revised upwards its estimates from the start of last year, adding around 577,000 metric tons of annualized output to its “unreported” category. Most of the increase is down to previously uncounted production in Malaysia and Iran, neither of which reports output numbers directly to the Institute. China’s production through the first half of the year has also been revised significantly higher.

The IAI had previously estimated Chinese production fell by an annualized 118,000

metric tons in the first seven months of 2023. It now estimates national output rose by 1.3 million metric tons. Global production in August came in at 6.0 million metric tons, up 1.6% on August last year, while cumulative production of 46.5 million metric tons was up 1.7% on the year-ago period.

China registered growth of 2.5% in January-August, while the rest of the world lagged with more modest growth of 0.5%.

Chinese primary metal output fell in the first three months of 2023 due to power curtailments in hydro-powered provinces such as Yunnan and Sichuan. However, the country’s energy-hungry smelters are now benefiting from improved electricity supply thanks to the rainy season in southern provinces. The country’s annualized run-rate has increased by 2.1 million metric tons since March and registered a fresh all-time high of 42.4 million tons in August. Production rates are now closing in on the 45-million-metric-ton level, which marks the capacity cap placed on the sector several years ago.

It’s unclear how hard that cap will be enforced. It’s possible it won’t be fully tested if China’s power generation problems recur. Everything depends on rainfall levels in Yunnan, which has emerged as a major aluminum production hub due to its “green”, low-carbon credentials. China’s consumers appear

to be absorbing the extra metal being generated. There has been no build in visible inventories registered with the Shanghai Futures Exchange (ShFE). Indeed, at a current 90,293 metric tons, exchange stocks are historically low. This time last year ShFE warehouses held 210,000 metric tons of aluminum.

Domestic supply is rising in tandem with higher imports of primary unwrought metal. Import volumes of 602,000 metric tons in the first seven months were more than double last year’s equivalent tally. So far at least there has been no spill-over into higher exports of semi-fabricated products, which has in the past been the result of domestic market surplus. Full Exports of aluminum in primary, alloy and product form were down by 20% over the first half of the year.

The inference is that Chinese off-take has been surprisingly strong given the well-flagged weakness both in the property sector and the broader manufacturing sector. It’s possible that energy transition sectors such as electric vehicles and power transmission lines have been sufficiently robust to offset sluggish activity in other parts of the downstream user base. However, with domestic production still rising and an import-positive arbitrage with the London Metal Exchange pointing to more inflows over the coming months, the strength of China’s aluminum appetite is going to be tested. **Source: Reuters, 09.26.2023**

Major Steel Users Band Together To Place First Big 'Green Steel' Order

Companies that use huge amounts of steel to construct buildings or clean-energy equipment are banding together to push North American steelmakers to adopt greener manufacturing methods. On September 20, corporations including tech giant Microsoft, major U.S. real estate developer Trammell Crow and solar-hardware-maker NextTracker announced a plan to jointly request a total of 2 million metric tons of "near-zero emissions" steel from producers. The broadly defined category can include steel that's produced using renewable electricity, clean hydrogen or potentially with carbon-capture technology.

The initiative, named the Sustainable Steel Buyers Platform, was convened by the clean energy think tank RMI and unveiled at Microsoft's Times Square office during Climate Week NYC. Representatives from global steel giant ArcelorMittal, Swedish startup H2 Green Steel and the automaker Volvo Group also attended the event. (Canary Media is an independent affiliate of RMI.) The platform is an attempt to close the gap between the buyers that want to purchase green steel — and are willing to pay a premium for the product — and the manufacturers that are faced with making multibillion-dollar investments to retrofit old facilities or build new ones.

"What we're finding in the market is that the buyers are trying to initiate these [green-steel] deals, but it's not enough to shift the investment case for a producer," Chathu Gamage, a principal in RMI's Climate-Aligned Industries Program, told Canary Media. Globally, steel production is responsible for between 7 and 9% of human-caused carbon dioxide emissions every year.

Existing efforts to jump-start a U.S. green-steel industry include the First Movers Coalition — organized by the U.S. State Department and the World Economic Forum — and SteelZero, an initiative led by Climate Week NYC's organizer Climate Group. In both of these consortia, companies have pledged to buy a certain portion of green steel by 2030 and to source only green steel by 2050. The new platform "is a way to aggregate this demand, because no one steel buyer can do this alone," Gamage said.

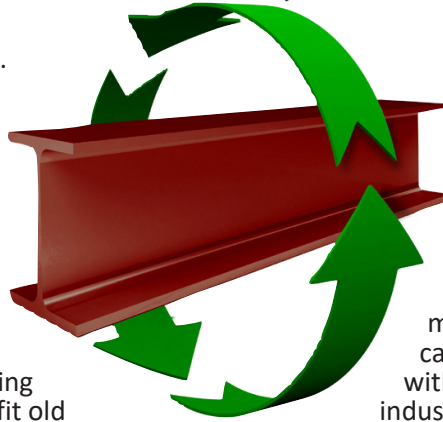
In a related announcement, the First Movers Coalition on September 20 launched the Near-Zero Steel 2030 Challenge, a global initiative to identify ways for steel producers, buyers and technology providers to partner on boosting the supply of near-zero steel in the coming years. A recent example of such a collaboration is the long-term supply agreement that Volvo just signed with H2 Green Steel. The startup says it

expects to start delivering the high-strength material starting in mid-2026.

"Steel is a big contributor to the footprint of our products," Andrea Fuder, chief purchasing officer of Volvo Group, said in a statement last week. "Working together with both established and new players for developing decarbonized materials is key to advancing our progress in sustainable transport and infrastructure solutions." The 2-million-metric-ton order from the Sustainable Steel Buyers Platform represents a sizable volume for steelmakers, equal to the annual production of an average-size steel plant. It's also only a tiny fraction — about 0.1% — of the nearly 2 billion metric tons of high-strength material that global steelmakers produce each year to build everything from bridges, roads and buildings to cars, ships, wind turbines and solar-panel racks. Traditional steelmaking processes use copious amounts of fossil fuels to transform raw iron ore into gleaming coils of finished steel. About 70% of the world's primary steel is made in "integrated mills" that use extremely hot, coal-hungry blast furnaces and basic oxygen furnaces. Most of the remaining 30% is made by melting scrap metal in electric arc furnaces — a process that can dramatically reduce the emissions associated with steelmaking but doesn't entirely replace the industry's need for nonrecycled steel. Automakers in particular need primary material to make a car's chassis and body.

In the U.S., the story plays out in reverse: About 70% of steel is made using scrap and electric arc furnaces, while roughly 30% is produced in the nation's eight remaining integrated mills. The industry hasn't yet adopted a concrete definition of what counts as "green steel." The term can be used loosely today to describe scrap-based steel made in electric furnaces — even those powered by nonrenewable electricity — and it can sometimes include coal or gas-using facilities that install equipment to capture carbon dioxide from the facilities' flue streams. For many clean-energy advocates, an ideal setup for primary steelmaking involves replacing blast furnaces with a hydrogen-fueled technology that processes iron ore into what's known as direct reduced iron, or DRI. Ideally, the hydrogen is made only by using renewable-powered electrolyzers, which split water into hydrogen and oxygen. The DRI is then converted into steel using electric arc furnaces that are also powered entirely by renewables. Alternately, iron can be converted directly into steel using novel methods like "molten oxide electrolysis," which the startup Boston Metal is attempting to scale up and commercialize. [Full Story](#) **Source: Canary Media, 09.20.2023**

The Sustainability of Steel



Special Section: Trade

United States Proposes Changes To Section 232 Exclusion Process

On August 28, the Bureau of Industry and Security (BIS) at the U.S. Department of Commerce proposed a new regulation that, if implemented, would make significant changes to determining exclusions from the country's Section 232 penalties for, and quotas on, imports of aluminum and steel. As lawyers at Clark Hill explained, BIS proposed four specific changes. They are to:

Change Criteria For General Approved Exclusions, Or GAEs.

In general, the GAE process allows steel and aluminum products classified under a specific Harmonized Tariff Schedule of the United States ("HTSUS") subheading to be excluded from the Section 232 tariffs. Under the proposed changes, GAEs would be granted to HTSUS classification codes, or subproducts, with very low rates of successful objections. The BIS said this change would allow it to focus on meritorious objections and would decrease the incentive for parties to file objections lacking in merit.

Create A General Denied Exclusions (GDEs) Process.

Under the proposal, GDEs would be implemented if the HTSUS classification code, or subproducts, have very high rates of successful, substantiated objections. The BIS said this change would increase efficiency while having impact on which products are ultimately subjected to or exempted from the Section 232 tariffs.

Put In Place Certification Requirements For Exclusion Requests.

The proposal would add a step before filing for an exclusion. Specifically, requesters would first need to certify they made reasonable efforts to source their product from the U.S. and then, if unsuccessful, that they made reasonable efforts to source their product from a country with which the U.S. has arrived at a satisfactory means to address the threat to national security. Eligible markets for sourcing would include Argentina, Australia, Brazil, Canada, the European Union, Japan, Mexico, South Korea, and

the United Kingdom. Requesters also would need to provide evidence of their sourcing attempts within the 12 months preceding the date of submission of the exclusion request.

Implement New Certification Requirements On Objection Forms.

Objectors would need to satisfy similar certification requirements detailed in the third proposed change. This revision would ensure objectors can supply a comparable quality and quantity of steel or aluminum and make it "immediately available" to requestors. Objectors also would be required to file evidence that they have commercially sold the same product as that which is being requested within the last 12 months, offer or evidence that they have engaged in sales discussions with the requesting company or another company requesting the same product within the last 12 months.

The BIS will take comments from the public until Oct. 12, 2023. *Source: MSCI, 09.05.2023*

Mexico Agrees To Enhance Monitoring Of Metals Imports

In July, U.S. Trade Representative Katherine Tai asked Mexican Secretary of Economy Raquel Buenrostro to address surges in imports of steel and aluminum products coming into the U.S. from Mexico. (Mexican exports of steel had increased 72% in 2022 compared with the 2015-2017 historical average while exports of aluminum rose significantly as well.)

Ambassador Tai's request came after U.S Congressional Steel Caucus Chair Rick Crawford (R-Ark.) and Vice Chair Frank Mrvan (D-Ind.) sent a letter to President Joe Biden's administration requesting immediate consultations to address the uptick in imports. That letter alleged the Mexican steel industry "appears to be taking advantage of its status" as a preferred trading partner by exporting steel to the U.S. that was produced in countries that remain subject to Section 232 tariffs — including Brazil, South Korea, and Russia — and is allowing this steel to enter the U.S. through Mexico duty free.

Regarding these claims, on September 29, Ambassador Tai announced the Mexican government had agreed to work toward "the reinstatement of Mexico's export monitoring regime." No information was provided about timing or how the Mexican government would fulfill this promise.

As a reminder, under a 2019 agreement whereby the U.S. agreed to remove its Section 232 tariffs on Mexican steel and aluminum products, Mexico was to ensure greater

transparency regarding steel and aluminum imports from third-party countries. Under that agreement, if imports surged "meaningfully beyond historic volumes of trade over a period of time," the U.S. could request consultations. Following those consultations, the U.S. could then decide whether to reimpose duties on individual products where the surge took place.

Source: MSCI, 10.02.2023



U.S., EU Plan New Chinese Steel Tariffs In Bid To End Trump-Era Trade Conflict

The U.S. and European Union are working on an agreement that would introduce new tariffs aimed at excess steel production from China and other countries, as well as put behind them a Trump-era trade conflict. The levies would primarily be focused on imports from China that benefit from non-market practices, according to people familiar with the discussions, who said talks were ongoing. The scope of the measures, including other countries that could be targeted and the level of the tariffs, are still being discussed. It's also expected to provide a framework for other nations to join in the future.

The agreement would be part of the so-called Global Arrangement on Sustainable Steel and Aluminum that the EU and the Biden administration have been negotiating since 2021. The talks are aimed at settling a dispute that started when President Donald Trump slapped tariffs on metals imports from Europe, citing risks to national security. The U.S. has imposed a 25% tariff on the imports since 2018 and the EU applies about the same level of duty on an array of steel imports under its own safeguard measures.

In 2021, the two sides agreed to pause punitive measures on each other's goods and set a deadline of Oct. 31 this year for finding a permanent solution to the dispute. After that, Trump-era tariffs and EU retaliatory measures would automatically return on more than \$10 billion of exports unless the two sides extend the current truce. The deal under discussion would likely be an interim one, according to one of the people, because it won't address all the outstanding matters in the overall arrangement, including taxing carbon-intensive imports.

The Office of the U.S. Trade Representative declined to comment. A spokeswoman for the European Commission said both sides are committed to finding a solution before the deadline. Any agreement must be in compliance with the two sides' international obligations, including World Trade Organization rules, the spokeswoman added. EU trade chief Valdis Dombrovskis said Wednesday that the commission is in "intense engagement with the U.S. both at political and experts level, working on conclusion of this global sustainable agreement." An agreement "is still within reach" by the deadline, he added.

Talks remain far apart on other aspects of the GSA, meaning that a comprehensive and legally binding deal is unlikely to be finalized this year. The aim is to have agreement on a path forward in time for a U.S.-EU summit between President Joe Biden and European Commission President Ursula von der Leyen planned for late October, said the people, who asked not to be identified because the negotiations are private. While talks on the broader arrangement are ongoing, existing quota deals that target European metal imports will remain in place, the people said, despite a plea from Brussels to remove the restrictions.

As part of the steel and aluminum accords, the US had



proposed joint tariffs to hit steel produced with high carbon emissions and global steel overcapacity, while allowing for preferential access for participants of the arrangement that meet its standards. Any new tariffs would deal a blow to Chinese steelmakers, which have been shipping increasing volumes this year due to weak demand at home. The depreciation of the yuan has bolstered the attractiveness of Chinese steel exports, putting volumes on track for the highest since 2016. Any additional tariffs would increase the cost of those exports and hurt overseas demand. China is by far the world's largest producer of steel, accounting for more than half of global crude steel making, according to data from the Organization for Economic Cooperation and Development.

Because a technical deal on taxing dirty steel is not likely soon, one option is that the two sides reach a political agreement on key principles to be implemented at a later date, said the people. One challenge is that the U.S. doesn't yet have a methodology to price carbon emissions, nor does it have a system it applies domestically on its own firms, one of the people said. The EU worries that any joint action could be deemed arbitrary and go against international trade rules, which is a red line for Brussels. The EU already has such tools in place, through an internal trading system and its carbon border adjustment mechanism, which levies an equivalent price on carbon intensive goods produced outside the bloc.

The U.S. is currently running an investigation into the intensity of emissions in its steel and aluminum industries while the EU is working to determine which third-country systems could be deemed equivalent to its own. The two processes could potentially lead to greater harmonization between the two partners' measures as part of the GSA in the longer term but neither exercise will be completed by the fall.

Separately, the two sides are also trying to conclude a critical minerals agreement in time for an EU-U.S. summit and those talks have hit a snag following a series of U.S. demands, including on the legal basis of the accords, two of the people said. The minerals deal is needed to allow European companies to access some of the benefits introduced by the subsidies in Biden's Inflation Reduction Act. **Source: Bloomberg, 09.07.2023**