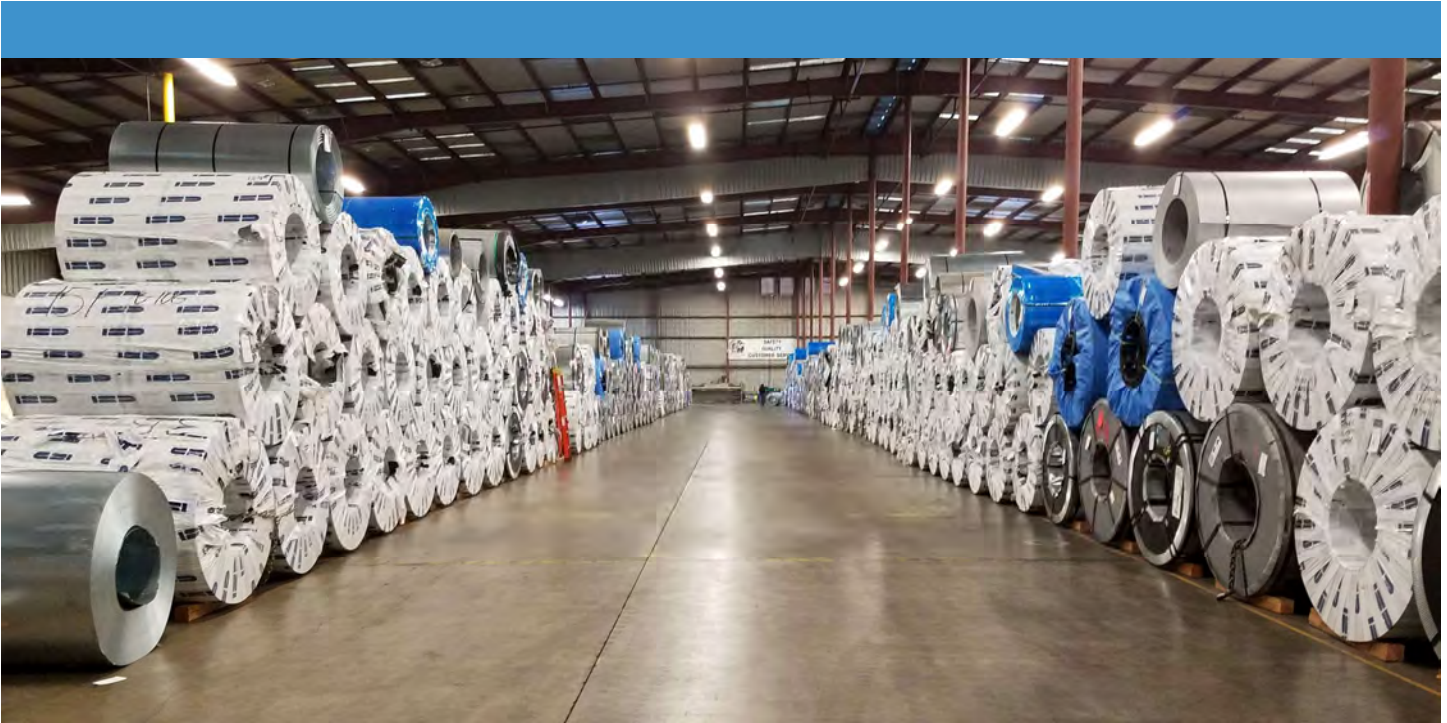


Steel Market News

PROVIDED BY STEELCO USA



DOMESTIC STEEL

U.S. based steel producers will face an uphill climb to produce enough steel to meet domestic demand. While the tariffs will support pricing for domestic suppliers, mills that source their substrate from offshore will also be impacted by the new levies.

It is uncertain when or if domestic mills will be able to increase production levels to a level sufficient to offset the required imported material.

IMPORT TARIFFS

On March 8, 2018, President Trump signed orders imposing 25% tariffs on imported steel and 10% tariffs on imported aluminum. The new levies are to take effect at 12:01am EST on March 23, 2018.

Mexico and Canada have been given exemptions from the levy and President Trump indicated that other nations may as well, though it is unknown at this time what the process will be or which nations will be exempt.

IMPORTED STEEL

Availability of imported steel has been limited due to the uncertainty surrounding the Section 232 investigation. We expect to see some increase in availability in the coming weeks as overseas mills come off the sidelines and start offering product for delivery to the U.S.

It is expected that the tariffs will create a significant disruption to supply, resulting in a very tight market through the third quarter of this year.



HISTORICAL STEEL PRICING

The Department of Commerce investigation under Section 232 and the resulting tariffs that the Trump Administration signed into effect on March 8, 2018 have created supply disruptions and substantial upwards price pressure.

Timeline of Events Impacting Steel Pricing and Availability:

- **May 2016** - US Department of Commerce announced anti-dumping and/or countervailing duties on corrosion-resistant steel products from China, India, Vietnam, Italy, Korea, and Taiwan. (1)
 - In anticipation of these duties the average price of flat-rolled material increased dramatically, with a total increase of over 63% in Q1 and Q2 of 2016.
- **April 20, 2017** - Section 232 Investigation and Tariffs
 - President Trump signed a memorandum instructing Commerce Secretary Ross to investigate the effects of steel imports on US national security. (2)
 - In the months following the investigation announcement, pricing stayed relatively stable until the 4th quarter of 2017. It was at this time that anticipation of tariffs started to create supply disruptions, fueled by overseas mills making less product available for import into the U.S. This, combined with inadequate production capacity of many domestic mills resulted in price increases in excess of 36% from Q4 2017 through Q1 2018.
- **February 16, 2018** - Secretary Ross announces Report on Section 232 investigation (3)
 - Recommendations of Steel Report
 - Tariff of 24% or more on all steel imports or,
 - Tariff of 53% or more on steel from 12 countries, with quota of 100% of 2017 imports or,
 - Quota of 63% of 2017 exports to the US
- **March 1, 2018** - President Trump announces tariffs of 25% on imported steel, and 10% on imported aluminum.
 - Uncertainty as to the specifics of the tariffs result is dramatic price increases and tightening of available supply.
- **March 8, 2018** - President Trump signs orders imposing tariffs of 25% on imported steel and 10% on imported aluminum.
 - Imports from Canada and Mexico are excluded. While this is welcome, it is not anticipated to provide much benefit for the Southwestern Region of the U.S.
 - President Trump has indicated that other nations may receive exclusions as well, but it is unknown at this time which nations or what the impact may be.
 - The tariffs are slated to go into effect at 12:01am EST on March 23, 2018. In most cases, prior orders that are already in transit will be subjected to the new tariffs.

References:

- (1) <https://enforcement.trade.gov/download/factsheets/factsheet-multiple-corrosion-resistant-steel-products-ad-cvd-final-052516.pdf>
- (2) <https://www.commerce.gov/news/press-releases/2017/04/presidential-memorandum-prioritizes-commerce-steel-investigation>
- (3) <https://www.commerce.gov/news/press-releases/2018/02/secretary-ross-releases-steel-and-aluminum-232-reports-coordination>
- (4) <https://www.phcppros.com/articles/7112-hardi-survey-not-enough-domestic-steel-aluminum-capacity-to-meet-domestic-market>

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CURRENT MARKET OUTLOOK

Over the next 3-6 months, it is expected that there will be a very tight domestic market. It is unknown at this time how much material will be made available from overseas mills, or at what price. In addition, there is still uncertainty as to how the exemption process will work and which nations will receive them.

In the meantime, many domestic mills will have issues obtaining enough slab/substrate due to both the spike in demand and the fact that the tariffs as written will also be applied to imported substrate. This has already led to allocation and will likely lead to more, sending prices considerably higher through the end of Q3 of this year.



NOTES REGARDING CANADA & MEXICO

Canada has not historically been active in exporting flat rolled steel products to the Southwestern Region of the United States as their supply typically remains concentrated in the Pacific Northwest and Midwest. As such, it is not expected that Canadian supply will have much impact in the Southwest.

Mexico has not historically been price competitive with other sources of flat rolled steel products. It is expected that U.S. produced steel that in the past would have been exported to Mexico will remain in the U.S. to meet domestic demand. As a result, demand in Mexico will largely have to rely on their own domestic capacity and as such, it is unlikely that Mexican mills will have much material to offer U.S. customers.