

North American Steel

Tampa Steel Conference: constructive US economic outlook but HRC prices stretched

Industry Overview

Many see an imminent cyclical peak but long-term support

Last week we attended the 35th annual Steel Market Update (SMU) Tampa Steel Conference. A key theme was the continued resilience of the U.S. economy. Despite this, many think U.S. hot-rolled coil (HRC) prices have risen too high and should correct in the coming months. Supporting this view was Service Center (SC) representatives indicating they were out of the market. In the longer-term, most see U.S. steel prices generally well-supported by demand, slightly tempered by an expected increase in supply.

SC demand pulled-forward, sheet pricing under pressure

A majority of conference participants saw U.S. sheet pricing at a cyclical peak and under pressure from limited spot ordering. Per CRU Group, SC material-on-order increased 31% year-over-year in Q4'23, indicating a pull-forward of Q1'24 demand. With end of December SC inventories the 2023 peak, and more material on its way, several SC's are on the sidelines, driving lower lead times. Views on the pace of a price correction were more divergent given varying views on domestic supply discipline (i.e. Sinton/NorthStar ramping, and the Big River 2 startup in H2'24), scrap pricing (February pricing under pressure with some cancellation notices for Busheling), infrastructure demand (tailwind or continued delays?), and importantly, imports (enticing arbitrage versus higher freight).

Infrastructure to boost rebar demand; Hybar mill on track

Industry veteran and CEO of Hybar LLC, David Stickler, expects demand for North American 'produced' steel rebar to increase over the next 10 years, driven by significant government infrastructure spending and Buy America provisions. Hybar's \$680 million (m), 630 thousand ton (kt)-capacity rebar mill in Arkansas is on track for a May 2025 start-up. The mill has contracted 24% of its capacity for the next 10 years and is to benefit from 1) a labor efficient production process, 2) being an independent supplier to fabricators, and 3) a low carbon offering (with potential for 100% powered by a co-located solar farm). Hybar plans to build 2 more mills but has not yet finalized locations.

Other themes: demand, labor, scrap, green premia, imports

1) **Construction:** Per an Associated General Contractors (AGC) 2024 survey, a majority of construction markets are set to grow, particularly, transportation and bridge/highway; 2) **Energy:** Per Preston Pipe, steel consumption in power generation is expected to grow by double digits in 2024/25, led by solar; 3) **Labor shortages** continue to be a key issue with AGC noting Buy America provisions/rules are slowing project construction timelines; 4) **Green premium:** While U.S. customers prefer low carbon products, mills have seen limited success in realizing green premiums; 5) **Scrap:** Demand for prime scrap is set to increase with new EAF capacity, but mills appear less concerned given improved scrap processing (low-copper shred), mix optimization, potential imports (from Mexico), and iron substitutes; 6) **Imports:** Red Sea events have led to 2-3 week longer transit times and 3x higher containers rates, potentially delaying steel imports and limiting orders (per an SMU survey: 50-60% of buyers are not ordering imports, despite a huge arbitrage).

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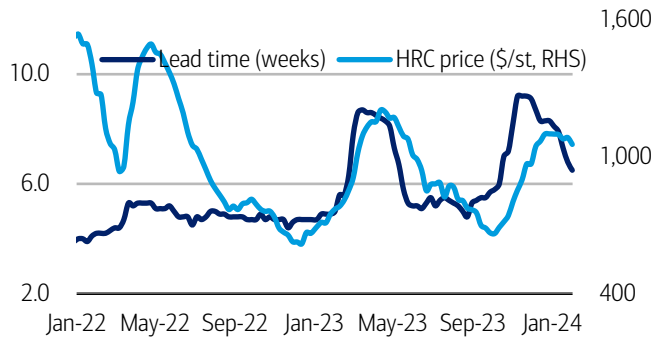
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EAF = Electric Arc Furnace

Key US steel industry charts

Exhibit 1: U.S. HRC lead times vs. price

Lead times have corrected from 8-9 weeks in Nov '23 to 6.5 weeks

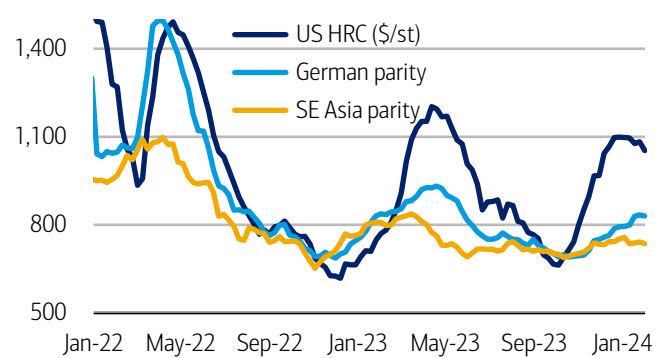


Source: BofA Global Research, CRU, Platts

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Exhibit 2: U.S. HRC vs regional import parity price

Import arbitrage currently at \$200-300/short ton

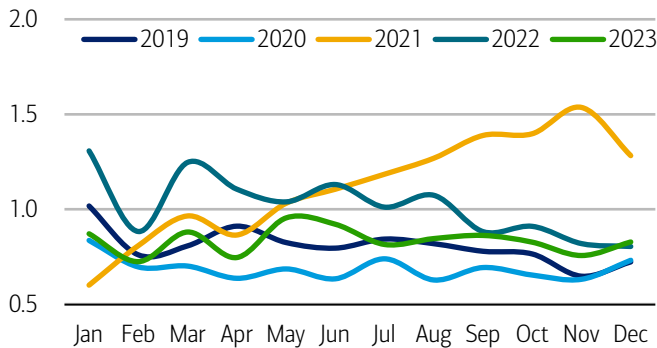


Source: BofA Global Research, CRU, Platts

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Exhibit 3: U.S. carbon flat-rolled steel imports (m st)

Import arrivals could see some uptick given a wide arbitrage

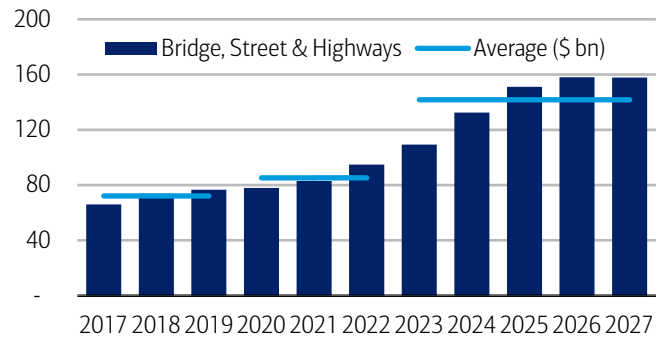


Source: BofA Global Research, US Census Bureau

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Exhibit 4: Bridges, Streets & Highways spends inflecting

Road transport = 30-40% of rebar demand, to grow strongly with IIJA

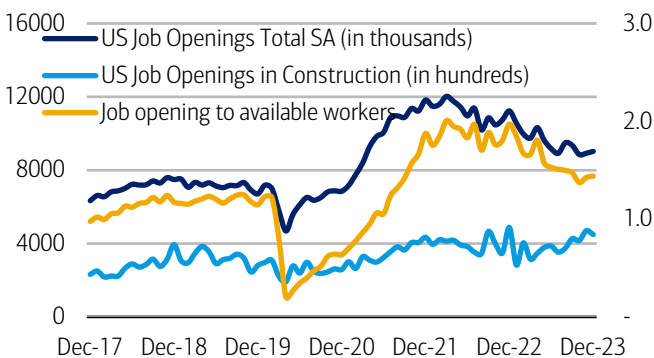


Source: BofA Global Research, Dodge

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Exhibit 5: U.S. job openings vs available workers

Job openings exceed the # of unemployed people seeking work

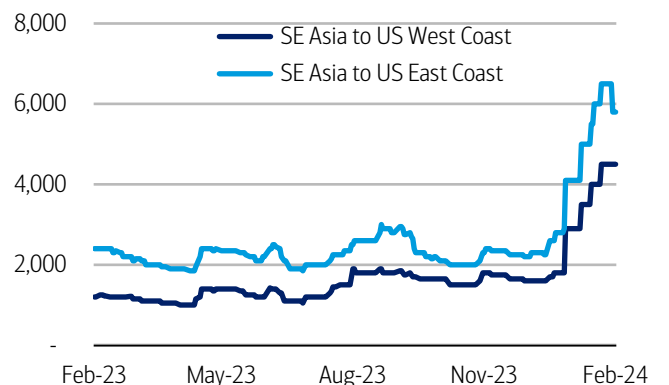


Source: BofA Global Research, Bloomberg Finance LP

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Exhibit 6: U.S. container rates

Container rates have tripled following the Red Sea disruption.



Source: BofA Global Research, Bloomberg Finance LP

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