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CONTINUED FROM PAGE 1

to expand capacity at its steel works. Stelco, another Canadian flat-rolled steel producer, is reportedly undertaking similar considerations.

As a result, sources have expressed their concerns over a potential supply glut in the near future.

But to some the investment in flat-rolled supply ultimately reflects the kind of faith the steel industry has in the future of the US economy.

“When we look at the investment that steelmakers are making... this is showing how they based their decisions on market fundamentals and how they are also willing to invest capital in good times or bad,” Steel Manufacturers Association (SMA) president Philip Bell said during an interview with Fastmarkets AMM. “And I think this is good to know because the strategy of investing through a variety of business cycles is good for steel customers; it’s good for the steel industry.”

Even though domestic steel production is strong right now, it still has not reached levels seen prior to the Great Recessions, American Iron and Steel Institute (AISI) president Tom Gibson said, which to him indicates that the market still has room to grow.

It’s hard to determine exactly what influence extra steel capacity will have on flat-rolled markets but supply will, nonetheless, be a critical factor for the market in the foreseeable future.

2. BILATERAL AND TRILATERAL TRADING DEALS

After the US-Mexico-Canada Agreement (USMCA) was signed in late November, market participants predicted that it could have a major influence on the dynamics of the North American steel market. Yet its potential impact on HRC pricing is unclear since the US’ 25% Section 232 tariff on steel imports remains in place versus the two neighboring countries.

Canada used to be a major HRC exporter to the US Midwest market, but the country has retained most product in its domestic market since the Section 232 tariff took effect in June. Executives at Canadian mill Stelco, for example, said during a quarterly earnings call in November that the company will concentrate on the Canadian market and aim for “zero” exposure to the US market.

But that could all change if separate bilateral agreements on steel are reached between the US and Canada or Mexico, with talks about country-specific quotas currently taking place, sources said.

But many market participants don’t think the progress of USMCA will have any major effects on the Midwest HRC market in 2019. Freight costs for flat-rolled products shipped from Canada appears to be too high, one Midwest distributor source told Fastmarkets AMM, and so the USMCA isn’t a major concern for his company.

Gibson noted that since the USMCA is a “significant improvement” over the North American Free Trade Agreement (Nafta), he doesn’t expect separate deals to be struck on quotas, since the countries might prefer a trilateral solution within the bounds of the USMCA agreement.

“I think it’s in everyone’s interest to get the USMCA move in place. And adding certainty would be beneficial for all three economies... The [President Donald Trump] administration has completed the negotiation for the USMCA. And the clear preference is the trilateral agreement,” Gibson said.

“We want the remedy to be effective,” he added.

At the same time, ongoing discussions about steel tariffs between the US and the European Union, and other countries such as Japan, will be closely monitored by market participants in 2019.

3. STEEL DEMAND: OIL, AUTOMOTIVE AND CONSTRUCTION

When it comes to price movements, it always comes back to supply and demand. Market participants are already concerned about increased supply but there are also several demand factors to watch out for this year.

First, falling oil prices have added to steel market concerns, with the energy sector a large consumer of steel. Light sweet crude oil futures opened trading at $52.95 per barrel on January 23, down by 30.4% from a peak of $76.03 per barrel on October 3, Yahoo Finance data show.

One southern distributor told Fastmarkets AMM that some of his customers who manufacture equipment for oil and gas applications have expressed concerns about declining energy demand.

Still, the number of active oil and gas rigs in the US stood at 1,050 for the week ended January 18, up by 12.2% from 936 rigs a year earlier, Baker Hughes data show.

Another key end-use market for steel to watch is the automobile industry. In December, news about General Motors’ planned realignment of production at five North American plants – four in the US and one in Canada – left many asking how this could affect the Midwest steel market, in particular. When an automaker such as General Motors closes production at certain plants, this can force certain mills to allocate their contracted steel production elsewhere. This, in turn, can lead to excess supply, one East Coast distributor said at the time of the announcement.

Most recently, ArcelorMittal Tailored Blanks announced plans to shut its Pioneer, Ohio, location due to “a slowdown” in demand for products in the automotive industry. That said, how the auto industry performs in 2019 will be essential to the domestic steel industry.

4. TRUMP AND HIS ADMINISTRATION IN 2019

There is no doubt that Trump has had a big influence on the US steel industry since he came into office. In the past year, his actions have sparked volatility in Midwest

NEW OR RESTARTED US SHEET CAPACITY

<table>
<thead>
<tr>
<th>Company</th>
<th>Location</th>
<th>Type of capacity addition</th>
<th>Cost</th>
<th>Date</th>
<th>Annual Capacity (short tons)</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. Steel</td>
<td>Granite City, Illinois (Blast furnace ‘A’)</td>
<td>Restart of previously idled capacity</td>
<td>$73 million</td>
<td>Oct 18</td>
<td>2.8 million</td>
</tr>
<tr>
<td>U.S. Steel</td>
<td>Granite City, Illinois (Blast furnace ‘B’)</td>
<td>Restart of previously idled capacity</td>
<td>$250 million</td>
<td>June 18</td>
<td>1.65 million</td>
</tr>
<tr>
<td>JSW Steel (USA)</td>
<td>Mingo Junction, Ohio</td>
<td>Restart of previously idled capacity</td>
<td>$250 million</td>
<td>Dec 18</td>
<td>1.65 million</td>
</tr>
<tr>
<td>JSW Steel (USA)</td>
<td>Mingo Junction, Ohio</td>
<td>Addition of second EAF</td>
<td>$250 million</td>
<td>TBD*</td>
<td>1.65 million</td>
</tr>
<tr>
<td>Nucor</td>
<td>Ghent, Kentucky (Nucor Steel Gallatin)</td>
<td>Expansion of existing flat-rolled mill</td>
<td>$650 million</td>
<td>TBD*</td>
<td>1.4 million</td>
</tr>
<tr>
<td>Steel Dynamics Inc</td>
<td>Southwest (site not selected yet)</td>
<td>New flat-rolled mill</td>
<td>$2 billion</td>
<td>second-half 2021</td>
<td>3 million</td>
</tr>
<tr>
<td>North Star BlueScope</td>
<td>Delta, Ohio</td>
<td>Addition of third EAF and second slab caster</td>
<td>$700 million</td>
<td>2020-21</td>
<td>660,000-990,000</td>
</tr>
<tr>
<td>Big River Steel</td>
<td>Osceola, Arkansas</td>
<td>Addition of second EAF</td>
<td>$1.2 billion</td>
<td>fourth quarter 2020</td>
<td>1.65 million</td>
</tr>
<tr>
<td>Big River Steel</td>
<td>Gulf of Mexico (site not selected yet)</td>
<td>New flat-rolled mill</td>
<td>$2.5 billion*</td>
<td>TBD*</td>
<td>3.3 million</td>
</tr>
</tbody>
</table>

*Assuming second mill would cost the same as first mill

TOTAL COST: $7.6 billion
TOTAL TONS: 16.1 million - 16.5 million