Galvanized metal is holding up better than other US steel sheet markets

Although challenged, galvanized metal is holding up better than other US steel sheet markets

By Myra Pinkham

Abstract:
While the galvanized steel market has been performing better than other US sheet sectors over 2020 so far, it is likely to continue battling a lot of crosscurrents, especially if the feared second wave of Covid-19 cases becomes a reality, which could make for an uncomfortable couple of years for market participants.

While United States' galvanized steel has been performing better than other US steel sheet markets and even recently showing at least some slight signs of improved end-use demand, 2020 is expected to continue to be a challenging year for the market.

Cowen & Co. mining and metals analyst, Tyler Kenyon, estimates that apparent consumption of galvanized steel, which represents about 40% of carbon steel sheet production that US manufacturers consume, will decline about 12% year on year in 2020. Kenyon said this a slight improvement from an expected 15% decline for the overall US sheet market, given that, unlike hot-rolled sheet, the galvanized steel market benefits from little exposure to the energy sector.

Although US galvanized steel demand remains good, it has been dampened somewhat with the recent resurgence of Covid-19 cases and with many companies not wanting to hold too much inventory, Keith Shuttlesworth, chief commercial officer for Big River Steel, said.

Shuttlesworth said that while service center inventories have been relatively stable - mostly in line with demand - distributors are not making many speculative purchases and are trying to increase their inventory turns, waiting to see the market direction this year.

"[Service centers] are able to take very short positions with lead times at galvanized-steel mills short," he said, adding that while Big River's galvanizing line continues to run full output, industry wide lead times will average about five to six weeks with some opportunities to receive steel deliveries as quickly as four weeks from certain mills.

Given all the current marketplace uncertainty, including inconsistent galvanized steel demand and certain industrial sectors marching ahead while others are very weak, companies are doing everything to reduce inventories further, Lisa Goldenberg, president of Delaware Steel, said.

"Even if it means walking away from orders, I'm not going to buy more steel just to have it in stock," Goldenberg said. "That's just too risky."

The problem is that the pandemic has turned the world upside down and that there will be a lot of volatility as part of 'the new normal', Goldenberg said.

"Businesses could be opened and then closed again because no one is being given a unified message on what to do and how to do it," Goldenberg added. "So different companies have extremely different views on where things are going."

Robert Cartman, Fastmarkets’ senior metals analyst, agreed that even with some end-use markets seemingly gradually improving, service centers and original equipment manufacturers (OEMs) remain extremely cautious, even while domestic mills attempt to raise their spot base prices.

Cartman noted that after peaking at $685 per short ton at the end of May after two back-to-back price hikes, as of July 23 spot hot-dipped galvanized (HDG) base prices had fallen to a four-year low of $620 per ton. Although, Cartman believes that a combination of the $40-per-ton price hike - led on July 21 by US Steel and its USS-Posco subsidiary and quickly followed by Cleveland-Cliffs’ AK Steel subsidiary and ArcelorMittal USA - and the explosion at ArcelorMittal’s Burns Harbor “D” blast furnace, which has temporarily taken about 2.5 million tons out of the market, that prices could start to stabilize.

It is uncertain if they will actually go up given that none of the US electric-arc furnace (EAF) or mini-mill steel producers have also increased prices, which indicates that even with the pandemic the mini-mills remain profitable, one service center executive said. In fact, during its recent earnings conference call on July 23, Nucor said it would evaluate for itself when it is time to raise sheet prices.

“The integrated mills are reaching out for more because they need it,” the service center executive said. “With iron ore pricing continuing to climb, integrated mills are in a very challenging position where they either need pricing to move up or they will continue to lose money.”

The executive expects that increased efficiencies in EAF production and lower scrap prices will help mini mills to be in control, not just for galvanized steel but for the steel industry overall.

“I was a little perplexed by the latest price hike announcement given the drop in scrap prices and the short lead times prevalent in the industry right now,” Shuttlesworth said. “But I do believe we’re approaching the market bottom. We just need an increase in demand to extend lead times and give the mills some pricing power.”

Kenyon said one impediment to any significant price recovery is HDG supply, which is either ramping up or about to be restarted.

Chris Billman, market research manager for Majestic Steel USA, said there have recently been some positive signs that US galvanized steel demand is slowly improving, especially with automakers ramping up their US production plants after being on lockdown from mid-March to mid-May. Billman, however, said the plants are not at full production yet because there has been disruption to some auto parts’ supply chains.

Kenyon believes that US HDG demand will gradually improve over the second half of the year while automotive consumption begins to improve more aggressively and inventories get back in line with demand.

According to Majestic Steel’s weekly CORE Report, US light vehicle production totaled 743,216 units in June, which was over three times the level in May but still down 17.2% from June 2019.

The auto market is the second largest consumer behind the construction sector, accounting for approximately 30% of HDG use while about 45% goes into construction-related applications, Kenyon said. Kenyon forecasts overall HDG apparent consumption to increase by about 8% in 2021 and another

5% in 2022 while North American automotive output gets closer to a more normal level, but does not expect the market to return to pre-Covid levels until 2023.

The perception that despite the rising number of US Covid-19 cases most galvanized steel end-use markets will continue to gradually improve seems to be supported with some forward-looking indicators. Cartman said the most striking example of this was the Institute for Supply Management's (ISM) June manufacturing purchasing managers index (PMI) returning to positive territory after three consecutive months below the 50% dividing line between expansion and contraction. In fact, the PMI's move to 52.6 from 43.1 in May was its largest month-on-month increase since August 1980.

The US Commerce Department reported that despite the US economy contracting by a record 9.5% quarter on quarter during the second quarter (32.9% on an adjusted annualized rate) US consumer spending increased by 5.6% in June, a second consecutive monthly increase following its steep decline during the widespread pandemic-related lockdowns. According to one industry observer, consumer spending accounts for 70% of US economic activity. Cartman said that the increase in DIY projects were fuelling consumer spending with more consumers working from home, leading to higher appliance and HVAC demand. According to the Association of Home Appliance Manufacturers, domestic shipments of major home appliances were up 5.1% year on year in June.

There is widespread speculation, however, that consumers have since pulled back on their spending with household income falling by 1.1% in June and the Conference Board's Consumer Confidence Index falling to 92.6 points in July from 98.3 points in June.

The construction sector has been holding up better than most other HDG consuming markets this year, Kenyon said, although there was some weakness in certain big metropolitan areas amid the pandemic, resulting in some project delays. There is some uncertainty about how much momentum there will be going forward, however, with Kenyon saying that the increase in virus cases, especially in the south and the west, are breeding concerns about how many new construction projects will come online.

Cartman agreed, saying that while the outlook remains bright for residential construction - with US housing starts increasing by 17.3% - future non-residential construction activity is less certain. While up in the past two months, the American Institute of Architects (AIA) Architecture Billings Index remained negative in June at 40 points. The AIA's mid-year consensus construction forecast indicates that non-residential construction spending will be down 8.1% in 2020 and will fall another 4.8% in 2021.

Shuttlesworth said that demand for new office space is especially questionable with more people working from home. "It looks as if that is going to continue, at least in the near term," Billman agreed, adding that while he does not think the US will enter another full lockdown, people are likely to continue to work from home through the end of 2020. Retail construction has also slowed, but with consumers shopping online more, warehouse construction is strong, Billman said.

Passage of a federal infrastructure investment bill could also bolster demand, Kenyon said, but despite bipartisan support it has stalled in Congress. "I believe 2021 could be the infrastructure year with an extension of the FAST [Fixing America's Surface Transportation] Act, which expires in September, with additional investments to appease both sides of the aisle being possible."

Kenyon said some industrial markets that consume galvanized steel account for about 10-15% of consumption and that even those markets are slowly recovering, some are facing the same impediments to recovery as the auto sector.

Meanwhile, domestic producers' plans to increase their galvanized steel production capacity over the next several years have not slowed amid the pandemic and lower than desired capacity utilization rates.

During its recent earnings conference call, Steel Dynamics (SDI) said it is continuing to expand the capacity at its recently acquired Heartland Steel operation to 800,000 tons, which is already operating at record coating levels. Additionally, SDI's new 400,000 ton-per-year galvanizing line in Columbus, Mississippi has coated its first coil and its greenfield mill in Sinton, Texas, which will include a 550,000-ton galvanizing line, is on target to come online in mid-2021.

Nucor said that despite a couple months delay, the modernization and expansion of its Gallatin, Kentucky facility will step up the galvanized steel production capacity there to 700,000 tpy and should be complete by mid-2021, while its new 500,000-ton Generation 3 (Gen3) Flex galvanizing line in Hickman, Arkansas should start sometime during the second half of 2021.

Shuttlesworth said that Big River is pushing forward with its plan to add a new 550,000-tpy Gen3 galvanizing line in Osceola, Arkansas by 2023. "We're going through the final stages of putting the project plans together and will be obtaining financing for the line later this year," he said.

"Everyone is just rolling up their sleeves to work through the rest of this year," Shuttlesworth said, adding that while he is becoming less optimistic of a significant rebound by year end, demand should start to recover in the first quarter of 2021 and continue through the year. "But if there are pandemic-related closures we could be reliving the second quarter all over again."

Kenyon agreed, predicting that as the market moves into 2021 and 2022 a healthier automotive market will likely help galvanized steel demand and somewhat offset the weakness he expects from the construction sector. "Overall, however, it's likely to continue to battle a lot of crosscurrents, which could result in an uncomfortable couple of years for the US galvanized steel market."

North American trends in production and apparent consumption of coated steel ('000 tonnes)

			2017	2018	2019	Q2 19	Q3 19	Q4 19	Q1 20	Oct 19	Nov 19	Dec 19	Jan 20	Feb 20	Mar 20	Mar 20	m-o-m % change
USA																	
	HDG	Production	13,444	13,685	13,506	3,431	3,504	3,327	3,453	1,155	1,108	1,064	1,202	1,154	1,097	713	-35%
		Apparent consumption	15,535	15,515	14,735	3,768	3,827	3,592	3,805	1,278	1,176	1,138	1,348	1,245	1,212	804	-34%
	ELG	Production	1,434	1,470	1,456	371	378	357	375	123	117	116	131	125	119	77	-35%
		Apparent consumption	1,408	1,413	1,370	352	354	336	359	118	109	109	125	117	117	79	-33%
	Other	Production	1,595	1,737	1,763	462	463	414	482	141	124	148	168	161	153	99	-35%
		Apparent consumption	2,423	2,350	2,168	576	582	475	585	165	147	163	215	195	175	139	-20%
Canada																	
	Galvanized*	Production	2,190	2,297	2,000	477	512	555	611	*192*	*199*	*164*	*208*	*185*	*218*	*224*	3%
		Exports	1,016	1,048	940	222	246	252	277	*93*	*73*	*86*	*96*	*90*	*91*	*92*	2%
		Imports	1,157	1,165	985	261	233	213	235	*78*	*71*	*64*	*89*	*65*	*82*	*65*	-21%
		Apparent consumption	2,331	2,414	2,045	516	499	516	570	*178*	*197*	*142*	*200*	*160*	*209*	*196*	-6%

**Domestic sales plus exports*

Source: AISI, StatsCanada, ISSB, Fastmarkets MB Research. Italicised data is estimated. % y-o-y change means change between latest month's data and previous year the same month. % m-o-m change means between latest month data the previous month.