The Americas

- **The unemployment rate** rose in June from an 18-year low, but steady hiring and more job seekers suggest a strong labor market drew in Americans from the sidelines. U.S. nonfarm payrolls rose 213,000, while the unemployment rate increased to 4.0% from 3.8%. U.S. employers have added to payrolls for 93 straight months, extending the longest continuous jobs expansion on record. Wages rose slightly in June and were higher by 2.7% from a year earlier.

- **U.S. import prices** increased 0.6% for the 2nd consecutive month in May. Imported fuel increased 4.9% in May and 28.6% over the past 12 months, driven by a 31.9% rise in petroleum prices. The price index for overall imports increased 4.3% for the year ended in May. Prices for capital goods and motor vehicles each edged down 0.1%. Export prices also rose 0.6% for the 2nd-consecutive month in May.

- **U.S. consumers** only modestly boosted their spending in May despite improved incomes, as year-over-year inflation posted its largest increase in over six years at 2.3%. Personal-consumption expenditures increased 0.2% in May from April, while personal income rose 0.4 percent. The saving rate ticked higher in May to 3.2% from 3% in April as incomes rose more than spending.

- **U.S. consumer prices** in May notched the heftiest annual growth in over six years, a further sign price pressures in the economy are solidifying. The CPI rose 0.2% in May from April and 2.8% from a year ago, the strongest reading since February 2012, when inflation was 2.9%. The average cost for a gallon of regular gasoline was $2.90 in May, up from $2.48 in December. Core prices also rose 0.2%, signaling broader inflation in the economy.

- **The Leading Economic Index** rose 0.2% in May to 109.5, continuing its recent string of increases. The Conference Board’s coincident index also rose 0.2% to 103.7. The lagging economic index was 105.2, up 0.5 percent. It had fallen in March but had risen in February.

- **Consumer confidence** as measured by the Conference Board declined in June to 126.4 from 128.8 in May. The Present Situation Index was relatively flat, 161.1 versus 161.2 in May, while the Expectations Index declined from 107.2 in May to 103.2 in June, suggesting consumers do not foresee the economy gaining much momentum in the months ahead.

- **U.S. Economic growth** was slower at the start of this year than previously reported, as consumers pulled back spending and the housing market weighed down output. GDP expanded at an annual rate of 2% in the 1stQtr, weaker than an earlier estimate of 2.2% growth. The Fed Reserve Bank of Atlanta model’s peak 2ndQtr estimate was 4.8%, which has now been knocked down to 3.8% after disappointing June consumption figures.

- **U.S. industrial production** ended three straight months of growth in May with a 0.1% decline. The decline was led by a 0.7% drop in manufacturing output, largely because truck assemblies were disrupted by a major fire at a Ford parts supplier. Production of autos and light trucks fell to an annual rate of 10.18 million units in May from 11.28 million units in April. Mining output rose 1.8% in May; utilities production climbed 1.1%. Capacity utilization declined by 0.2% in May to 77.9 percent.

- **The U.S. trade deficit in goods and services** fell 6.6% to $43.05 billion in May, the narrowest since December 2016. Exports rose 2.8% from April, while imports increased 0.4%. Soybean exports rose by nearly $2 billion accounting for nearly half of the total increase in exports during the month. Exports and imports of iron and steel mill products declined in May. Imports rose 8.6% in the first five months of this year, while exports climbed 8.8% in the same period.
- **U.S. producer prices** jumped 0.5% in May, boosted by a surge in gasoline prices and continued gains in the cost of services. In the 12 months through May, the PPI increased 3.1%. The core PPI rose 0.1% in May and 2.6% in the 12 months through May. Prices for steel mill products surged 4.3% in May, the largest rise since February 2011, likely reflecting steel and aluminum import tariffs imposed in March. The cost of these products could rise further after the government widened the duties to imports from the EU, Canada and Mexico.

- **U.S. factory orders** increased 0.4% in May amid strong demand for machinery, and data for April was revised up to show orders falling 0.4% instead of the previously reported 0.8% decrease. Orders for transportation equipment fell 1.1% in May but motor vehicle orders rose 0.3%. Orders for machinery increased 1.2%, reflecting an 8.9% jump in orders for industrial machinery. Orders for primary metals and fabricated metal products declined.

- **Orders for durable goods** fell for a 2nd-straight month in May, dropping 0.6% from April to $248.7 billion. Orders YTD were up 9.9% from a year ago, outpacing the recent rise of consumer-price inflation. Orders for motor vehicles and parts declined 4.2% in May. Excluding cars, planes and other transportation products, orders were down 0.3%. Demand for U.S.-made primary metals, including steel and aluminum, decreased 0.4% on the month but was up 15.8% YTD vs. last year.

- **U.S. retail sales** jumped 0.8% in May, the largest increase since November. Sales at home and garden stores jumped 2.4% and 2.0% at gas stations, both partly reflecting higher prices, particularly gasoline sales. Despite rising gasoline prices, Americans spent more at restaurants and bars, as well as at clothing stores, with sales rising 1.3% for both. Department store sales increased 1.5 percent.

- **Consumer debt** rose $24.5 billion in May, the fastest pace in a year and a half, boosted by a big increase in credit card borrowing. The category that includes credit cards climbed $16.3 billion in May after increasing by $5 billion in April. The hefty gain in consumer credit in May pushed borrowing to a total $3.90 trillion on a seasonally-adjusted basis.

- **U.S. construction spending** edged up 0.4% in May to an all-time high of $1.31 trillion, and 4.5% higher than last year. Total private construction rose 0.3% with residential projects up 0.8% in May. New single-family home construction rose 0.6% and the volatile apartment building sector jumped 1.6%. Private, non-residential building fell 0.3%. Public construction projects rose 0.7% to $304.1 billion, the highest since October 2010.

- **The S&P CoreLogic Case-Shiller Index** for home prices for the U.S. rose 6.4% in April, down from a 6.5% year-over-year increase in March. The 10-city index gained 6.2% over the year. The 20-city index gained 6.6%. The biggest price gains are concentrated in the West. Seattle saw a 13.1% annual gain in April, while Las Vegas prices increased 12.7% and San Francisco saw a 10.9% increase vs. a year ago.

- **Existing U.S. home sales** dropped 0.4% in May from the prior month to an annual rate of 5.43 million—the second-consecutive month they declined. Compared with a year earlier, sales in May were down 3%. There was a 4.1-month supply of homes on the market at the end of May. Total housing inventory at the end of May climbed 2.8% but is still 6.1% lower than a year earlier and has fallen year-over-year for 36 consecutive months.

- **U.S. housing starts** rebounded in May to their highest level since 2007, but permits fell sharply. Starts rose 5.0% in May from the prior month to an annual rate of 1.350 million. Residential building permits, which can signal how much construction is in the pipeline, declined 4.6% to an annual pace of 1.301 million. The broader trend shows that starts grew by 11.0% in the first five months of 2018 compared with the same period a year earlier.

- **U.S. new home sales** grew 6.7% to an annual rate of 689,000 in May. From the prior year, sales increased 14.1%. The pace of new-home sales still remains well below the elevated levels seen before the 2007-09 financial crisis and recession. New-home purchases in the South rose 17.9%. Sales in the Northeast and West declined and purchases were flat in the Midwest in May. The average interest rate on a 30-year fixed-rate mortgage in May was 4.59%, up more than half a point from 4.03% in January.
• **U.S. factory activity** accelerated for the second straight month in June, in part because manufacturers were scrambling to move goods ahead of threatened tariffs. The ISM manufacturing index rose to 60.2 from 58.7 in May. The ISM said there was an extreme amount of activity driven by the aluminum and steel tariffs expanding to other industries.

• **The ISM non-manufacturing index** rose to a solid 59.1 in June from 58.6 in May. The index tracking business activity and production rose to 63.9, but the index for materials and services was down to 60.7 in June, signaling prices rose for the 28th-consecutive month; some blaming trade disputes for higher costs.

• **Dockworkers** at East and Gulf Coast seaports reached a tentative 6-year contract agreement with the port operators in June, beating the September expiration of the current pact and setting the stage for several years of labor peace at the country’s trade gateways. Terms of the agreement were unanimously approved by 200 delegates of the ILA’s 65,000 membership.

• **Steel imports** into the U.S. totaled 2.877 million tons in May including 2.418 million tons of finished steel, down 23.2% and 16% respectively vs. April. Through five months of 2018, total and finished steel imports were 15.342 million and 12.132 million tons, down 2.7% and up 0.4% respectively vs. last year. Finished steel import market share was an estimated 25% in May and at 26% year-to-date.

• **California Steel Industries** opened its August flat-rolled steel order book with another warning of tight supplies. West Coast market participants said CSI had unofficially increased prices by $20/ton. The move echoes unofficial increases, already communicated or expected to be promulgated soon, of $30/ton by mills east of the Rocky Mountains. Fears of potential short-term shortages stemming from the Section 232 tariffs are stoking higher prices.

• **U.S. steel market prices** continue to push upward. Hot-rolled coil prices surpassed $900/ton for the first time in nearly 10 years, with reports citing even higher quotes from some steel mills. AMM’s hot-rolled coil index rose to $910/ton in mid-June, a 54.3% gain from a year ago and it marks the highest level since reaching $930/ton in mid-October 2008.

• **U.S. steel mills** shipped 7.798 million tons in April, a 6.0% decrease from March but a 5.0% increase over April 2017. Shipments year-to-date in 2018 were 31.259 million tons, a 4.0% increase vs. 2017 shipments for four months.

• **U.S. raw steel production** for the year-to-date through June 30 was 45.614 million tons, at a capability utilization rate of 75.5%. That output is up 1.7% from the 44.839 million tons made during the same period in 2017, when the capability utilization rate was 74.4 percent.

• **North American Stainless** increased base prices for stainless hot and cold-rolled sheet effective with July 1 shipments. The increases will be achieved by reducing the functional discounts by 1-3 points. American Metal Market’s mid-June assessment for Type 304 cold-rolled sheet was $1.40/lb., up 12% from January.

• **ATI** requested an exclusion from 232 steel tariffs for 300,000 tonnes/year of 60-inch stainless steel slabs imported from Indonesia. ATI’s 50:50 joint venture agreement with an affiliate of China’s Tsingshan Group prevents it from purchasing stainless slab from other sources. The slabs will be hot-rolled into coils and processed at its U.S. mills. The company said the JV mill at Midland, PA, may be forced to close if the exemption is not granted.

• **The Commerce Department** completed its review of a handful of the more than 20,000 requests filed seeking exemptions from its steel and aluminum tariffs, granting exclusions to 42 types of imports, and denying 56 such requests. Commerce Secretary Ross said the approval process for exclusions would be accelerated by granting all requests that were properly submitted and that drew no objections during the comment period. Commerce has received more than 4,000 objections to the requests.

• **Commerce Secretary Ross** accused unnamed industry participants of wrongly “profiteering” from Section 232 tariffs on imported steel. Ross also suggested that the Trump administration would investigate alleged stockpiling that he said has driven steel prices higher than merited by the tariffs of 25% in the case of foreign steel.

• **Big River Steel** announced an expansion at its Arkansas steel mill that will double its hot-rolled steel production capacity to 3.3 million tons.
India's JSW Steel plans to invest $250 million to revamp an existing electric-arc furnace at its recently acquired flat-rolled steel mill in Ohio and may spend another $250 million to add a second EAF. The addition of a second furnace would double capacity at the Acero Junction mill which makes hot-rolled coil to 3 million tonnes/year. All told, the company may invest $1 billion in the U.S., with plans to spend $500 million to modernize the hot end of its steel plate and pipe operations in Baytown, Texas.

ArcelorMittal was recently recognized by three key automakers — Honda, General Motors and Ford Motor — for excellence in developing and providing steel products and solutions for their vehicle brands. Honda R&D Americas presented ArcelorMittal with its Excellence in Innovation Award. General Motors awarded ArcelorMittal's AM/NS Calvert with its Supplier Quality Award and ArcelorMittal with its Supplier Diversity Award, while Ford announced that ArcelorMittal ranked #1 among its five main suppliers for the seventh consecutive year.

Canada's government imposed tariffs on about C$20 billion worth of U.S. imports in response to American levies on Canadian steel and aluminum that went into effect in June. The tariffs range from steel and aluminum to whiskies, mustard, toilet paper, motorboats and maple syrup. The duties will be 25% on steel and 10% on everything else. The government also is preparing tariffs and quotas on steel from China and other countries to prevent a potential flood of steel imports from global producers seeking to avoid U.S. tariffs.

The AISI, a group that includes users of imported steel as well as others connected with trade in steel, joined a distributor of pipeline products and a specialty steel trader in a lawsuit, asking federal judges to declare Section 232 unconstitutional and to void the 25% tariff on imported steel made under that law’s authority. The plaintiffs argue that the law improperly delegates trade powers to the executive branch from the legislative branch in violation of the Constitution. A previous lawsuit challenged the justification of tariffs on national-security grounds but was dismissed earlier this year in the U.S. Court of International Trade.

The AISI 2017 Annual Statistical Report, which provides comprehensive data on the U.S. steel industry, showed that total steel imports increased 15% and finished steel imports rose 12%, garnering a 27% share of apparent steel supply. Steel shipments were 90.9 million tons, up 5% from 2016, but 2% lower than the most recent five-year average. Raw steel output reached 90 million tons, up 4% vs. 2016. The construction and automotive industries continued to be the leading end-use markets.

U.S. auto sales increased by 1.9% in the first half of the year. June sales increased by 5.2%, boosted by an additional selling day compared with last year. This year, as the price of vehicles continues to rise and sales remain strong, consumers are on track to spend $215 billion on new vehicles in the first half of the year, nearly $5 billion more than the first six months of 2017. The average new vehicle transaction price is expected to reach $32,221 for the first half of the year, a record. The SAAR came in at 17.47 million, up sharply from May and June 2017.

General Motors warned that another wave of tariffs from the Trump administration could force the company to scale back its business and cost American jobs. GM said that the tariffs could drive individual vehicle prices up thousands of dollars, stifling demand. Costs would need to be borne either by consumers or the company. Other potential consequences cited included less investment, fewer jobs and lower wages and delays of breakthrough technologies, threatening U.S. leadership in the next generation of automotive technology.

Volkswagen and Ford are exploring a strategic alliance to strengthen their competitiveness and better serve customers globally. The two automakers hope to work on joint development of a range of commercial vehicles, as well as other projects. The companies don’t plan to take equity stakes in each other.

Tesla intends to cut about 9% of its global workforce, or 3,500 workers to reduce costs and achieve profitability. Tesla hasn’t turned an annual profit in its 15-year history and is facing heightened scrutiny from analysts and investors after starting assembly of the Model 3 last July and missing several production milestones that would have enabled it to generate free cash flow.
Europe, Africa and the Middle East

- **Eurozone business activity** picked up in June for the first month in five. IHS Markit composite PMI for the currency area rose to 54.8 in June from 54.1 in May. IHS Markit said the average of the measure over the three months through June points to on-the-quarter growth of 0.5%, up from 0.4% in the 1st Qtr. It warned of continued signs of weakness in the manufacturing sector.

- **Retail sales in Europe** were unchanged in May and up 1.4% on a year-over-year comparison. The highest gains in retail sales were registered in Portugal (+4.7%), Latvia (+3.4%) and Slovenia (+3.1%). Decreases were seen in Germany (-2.1%), Austria (-0.7%), Spain (-0.1%) and Poland (-0.1%).

- **ThyssenKrupp’s supervisory board** approved the company’s steel joint venture with Tata Steel, creating Europe’s 2nd-largest steel producer after ArcelorMittal. ThyssenKrupp Tata Steel, will have 48,000 workers and $17.5 billion in combined sales. The deal will result in about 4,000 job losses but unions welcomed it nonetheless, believing consolidation is needed to cope with overcapacity and American tariffs. ThyssenKrupp Tata Steel will operate as a JV for six years, then there could be an IPO, although TK has the exclusive right to decide on the timing for a potential IPO. Days later, the TK CEO Heinrich Hiesinger resigned.

- **Italy’s government** postponed its planned handover of the Ilva steel plant to ArcelorMittal to mid-September, as it seeks more time to adjust the terms of the deal. ArcelorMittal was due to take over Ilva on July 1, but the Minister of Industry now says the handover will be delayed. MT wanted to cut 5,500 jobs out of 14,000 total at the plant by 2023 but it has not reached an agreement; a delay could help MT find a compromise with the government’s help.

- **ArcelorMittal** started construction on a $176 million installation at its site in Ghent, Belgium, that will convert carbon emissions into bioethanol. The plant is being developed in partnership with Chicago-based carbon recycling specialist LanzaTech. Ghent will be the first installation of its kind on an industrial scale in Europe, with annual bioethanol production to reach ~80 million liters.

- **JSW Steel**, India’s largest steelmaker, plans to make a bid for ArcelorMittal’s Galati plant in Romania, potentially competing against Ukraine’s Metinvest and Italy’s Marcegaglia. ArcelorMittal has offered six European assets for sale to secure approval from EU competition authorities for its purchase of Italy’s giant Ilva plant. Galati, Romania’s biggest steel plant, is the largest of the assets. Analysts estimate the combined value of all the assets up for sale is $752-$940 million.

- **EU steel import volumes** increased more than 8% year-on-year in the 1st Qtr of 2018 as a “direct consequence of the first deflection of imports from the U.S. Section 232 tariffs,” according to Eurofer. Imports of carbon and stainless steel into the EU totaled 7.44 million tonnes in January-March 2018, up 8.12% vs. 2017. “If this level of imports persists, we would be talking about a 15% increase in imports year-on-year in all of 2018,” Eurofer President Geert Van Poelvoorde said.

- **Volkswagen** was fined €1 billion over diesel emissions cheating, one of the highest ever fines imposed by German authorities against a company. The penalty doesn’t address any civil claims or claims by vehicle owners but does end regulatory offense proceedings against VW and may help settle further administrative proceedings in Europe.

- **BMW** warned that it would be forced to leave the U.K. if Brexit leads to its operations becoming uncompetitive. “We always said we can do our best and prepare everything, but if at the end of the day the supply chain will have a stop at the border, then we cannot produce our products in the U.K.,” BMW customs manager declared. Previously, Airbus had issued the same type of warning.

- **German authorities** arrested the head of Audi, the most senior Volkswagen official so far detained over VW’s emissions test cheating scandal. Munich prosecutors said Rupert Stadler was being held due to fears he might hinder their investigation, plunging VW into a leadership crisis. News of the arrest comes as VW group CEO Diess is trying to introduce a new leadership structure, including Stadler, to speed up a shift toward electric vehicles in the wake of its “dieselgate” troubles.
Asia/Pacific, Japan, Australia and India

- **China and the U.S.** slapped levies on $34 billion of each other's exports. U.S. tariffs fell mostly on Chinese aerospace products, information technology, auto parts and medical instruments. Beijing retaliated with tariffs aimed at farm products, cars and crude oil. President Trump has threatened further tariffs on $450 billion worth of Chinese goods if China were to retaliate, which they now have done.

- **China's services industry growth** picked up slightly in June, as the sector extended a run of strong activity. The official non-manufacturing Purchasing Managers' Index rose to 55.0 from 54.9 in May. The services sector accounts for more than half of China's economy, with rising wages giving Chinese consumers more spending power. The composite PMI covering both manufacturing and services activity fell to 54.4 in June, from May's 54.6.

- **China's manufacturing sector growth** slowed in June, with the official PMI falling to 51.5 from 51.9 in May, as escalating trade tensions with the U.S. fueled concerns about a slowdown in the world's 2nd-largest economy.

- **China's trade surplus with the U.S.** jumped in May, rising 11.7% to $24.6 billion, worsening the imbalance at the center of tensions between the world's largest economies. For the first five months of the year, China's surplus with the U.S. crossed the $100 billion mark.

- **World crude steel production** was 154.9 million tonnes (Mt) in May, a 6.6% increase compared to May 2017. China's output was 81.1 Mt, an increase of 8.9% vs. a year ago. The U.S. produced 7.1 Mt of crude steel, an increase of 3.0% compared to May 2017. The crude steel capacity utilization ratio of the 64 reporting countries in May was 77.7%, 4.2% higher than May 2017. Compared to April 2018, it is 1.0 percentage point higher.

- **Japan** called for an early conclusion of the Regional Comprehensive Economic Partnership in the face of an increasingly protectionist U.S. by solving outstanding issues by the end of the year. The trade pact is an alternative to the TPP abandoned by President Trump. RCEP includes ten members in Southeast Asia, as well as Australia, China, India, South Korea and New Zealand.

- **Chinese steel exports** have not been affected too much by the U.S. Section 232 steel tariffs, largely due to the fact that the U.S. is not a key direct export destination for China. China exported 740,126 tonnes of steel to the U.S. in 2017, including 148,144 tonnes of wire, 63,223 tonnes of tinplate, 61,514 tonnes of pipe and 59,607 tonnes of bar products.

- **China** will produce around 26 million tonnes of stainless steel this year, up by 0.9% from 25.77 million tonnes a year ago, the China Ferroalloys Industry Association (CFIA) said. Growth in Chinese stainless steel demand will outpace growth in production this year.

- **Nickel's price performance** in 2ndQtr led the base metals sector with a gain of 12.76% over the three month period. Nickel has posted a 21.75% gain over the first six months of this year as of the close of business on June 29.

- **BYD, China's leading electric car maker**, opened a plant that will become the world's biggest lithium battery factory when construction is completed in 2019. The facility could annually produce enough batteries for over 570,000 of the firm’s vehicles, and some for other carmakers. China is pushing electric cars to cut pollution and boost its high-tech clout.

- **Hyundai workers** in South Korea voted to strike after talks over wage increases stalled. Almost 75% of its workers approved the strike action. Shares of Hyundai fell to a nine-month low amid production and tariff concerns.

- **Toyota** may be posting record profits, but it has begun slashing costs, starting with sales and marketing. Toyota said the savings will be plowed into emerging technology like autonomous vehicles. In June, Toyota invested $1 billion in ride-hailing app Grab, giving the company a huge trip data goldmine.

- **A magnitude 6.1 earthquake** shook Osaka in June, halting factory lines in an important industrial area of central Japan. Daihatsu Motor, a unit of Toyota, and Honda suspended local production as they inspected their factories for damage. Subsequently, rain and flooding battered a widespread area in southwestern Japan, forcing major manufacturers, including automakers Mitsubishi Motors, Mazda and Daihatsu, to suspended production in areas where the flooding disrupted supply chains.
Industry Observations

- **The national USW director in Canada** urged the Canadian government to act quickly to retaliate against the Section 232 tariffs implemented by the U.S. The union, which represents steelworkers in both the U.S. and Canada, noted that USW International President Leo Gerard is opposed to U.S. tariffs against its northern neighbor because the measures will hurt workers on both sides of the border. Canada is the largest supplier of foreign steel to the U.S. market and the biggest destination for U.S. exports of the product.

- **Domestic hot-rolled coil prices in the U.S.** will decline by an estimated $200/tonne by the end of 2018, according to a forecast by World Steel Dynamics. Even so, a price drop of that magnitude would leave fob mill prices well above the cost of production for most U.S. steelmakers. Traders will eventually realize they can bring imported steel into the U.S. on a commercially viable basis, even with the 25% tariff associated with the Section 232 tariffs.

- **Germany’s leading auto makers** threw their support behind the abolition of all import tariffs for cars between the EU and the U.S. in an effort to find a peaceful solution to the brewing trade war. That would mean scrapping the EU’s 10% tax on auto imports from the U.S. and other countries and the 2.5% duty on auto imports in the U.S. As a prerequisite, the Europeans want President Trump’s threat of imposing a 25% border tax on European auto imports off the table.

- **Global concern** is rising about what trade wars mean for metals, according to Nitesh Shah, research director at WisdomTree. “Over the last couple of weeks or so, people have been thinking of the impact as a very negative thing for industrial metals.” Traders are betting that the likelihood of a negotiated solution that avoids tariffs has become more distant, potentially hurting global growth and damping demand for industrial metals.

- **Nucor** is mulling a flat-rolled mill on the West Coast (not California or Washington State) and might consider a second direct-reduced iron (DRI) facility in Louisiana, the company’s top executive John Ferriola said.

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### U.S. Car and Light Truck Sales & Inventories June 2018

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<thead>
<tr>
<th>Company</th>
<th>Sales</th>
<th>Inventory</th>
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<tbody>
<tr>
<td>General Motors</td>
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<tr>
<td>Ford Motor Co.</td>
<td>229,537</td>
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<td>Fiat/Chrysler</td>
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<td>Toyota</td>
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<td>Hyundai/Kia</td>
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<td>Total All Units</td>
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* Not all companies shown. Inventories are shown in days-will-last as of the first day of the month.

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### Currencies in July

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<td>Mexican Peso to USD</td>
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*Global Briefing* is prepared by Chuck Finnegan of the metals consulting firm Rubiconix for the use of Berlin Metals, North America’s highest quality service center provider of Tin Mill Products and Stainless Steel Strip. Contact sales@berlinmetals.com with any questions, comments or inquiries. This issue and previous briefings are archived on Berlin Metals’ web site, http://www.berlinmetals.com/.
World Steel in Figures for 2017, Published May 29, 2018

Berlin July 2018 Brief Appendix
World Steel in Figures 2017 – Crude Output, Top 20 Producing Countries & Apparent Use

Berlin July 2018 Brief Appendix
World Steel in Figures - Production & Use 2007-2017

**Steel Production and Use: Geographical Distribution in 2007 & 2017**

### 2007

**Crude Steel Production**
- **World Total:** 1,350 Million Tonnes
- **China:** 36.3%
- **Europe:** 2.4%
- **North America (NAFTA):** 9.7%
- **Other Asia:** 6.9%
- **Japan:** 8.9%
- **Europe (28):** 15.8%
- **CIS:** 9.2%
- **Others:** 11.0%

**Apparent Steel Use (Finished Steel Products)**
- **World Total:** 1,224 Million Tonnes
- **Europe:** 2.5%
- **North America (NAFTA):** 4.6%
- **Other Asia:** 9.5%
- **Europe (28):** 16.6%
- **CIS:** 11.5%
- **Others:** 14.5%
- **Japan:** 34.2%

**World Total:** 1,689 Million Tonnes

**World Total:** 1,587 Million Tonnes

**Others Comprise:**
- **Africa:** 15.4%
- **Middle East:** 0.2%
- **Central and South America:** 3.7%
- **Australia and New Zealand:** 0.7%

**Others Comprise:**
- **Africa:** 1.9%
- **Central and South America:** 3.4%
- **Middle East:** 3.6%
- **Australia and New Zealand:** 0.7%

### 2017

**Crude Steel Production**
- **World Total:** 1,689 Million Tonnes
- **China:** 49.2%
- **Europe:** 2.5%
- **North America (NAFTA):** 6.8%
- **Other Asia:** 5.5%
- **Japan:** 15.4%
- **Europe (28):** 10.0%
- **CIS:** 6.0%
- **Others:** 13.4%

**Apparent Steel Use (Finished Steel Products)**
- **World Total:** 1,587 Million Tonnes
- **Europe:** 2.7%
- **North America (NAFTA):** 3.3%
- **Other Asia:** 8.6%
- **Europe (28):** 10.2%
- **CIS:** 8.0%
- **Others:** 15.9%
- **Japan:** 46.4%

**World Total:** 1,587 Million Tonnes

**Others Comprise:**
- **Africa:** 2.2%
- **Central and South America:** 2.6%
- **Australia and New Zealand:** 0.4%
- **Middle East:** 2.0%

**Others Comprise:**
- **Africa:** 2.2%
- **Central and South America:** 2.6%
- **Australia and New Zealand:** 0.4%
- **Middle East:** 3.4%

**Innovation is crucial**

In 2016, an average 1.9 tonnes of CO₂ were emitted for every tonne of steel produced. Breakthrough technologies are being developed worldwide to address this challenge.

**Biggest challenge of the industry**

New and innovative steels are continually developed. In 2016, the steel industry invested 13% of revenue in capital investment projects and process improvement.
Manufacturers' Outlook Survey 2nd Qtr 2018—Record Optimism Fueled by Tax Reform

Figure 1: Manufacturing Business Outlook by Quarter, 2016–2018

Figure 2: NAM Manufacturing Outlook Index, 2016–2018

Figure 3: Expected Growth of Manufacturing Activity, 2016–2018

Figure 4: Expected Product Wage and Price Growth for the Next 12 Months, 2011–2018

Note: Percentage of respondents who characterize the current business outlook as somewhat or very positive.

Source: National Association of Manufacturers

Note: Expected growth rates are annual averages.

Berlin July 2018 Brief Appendix
Spot Market Truck Rates Continued to Surge Upward in June

Spot market rates in June showed no signs of slowing their now year-long upward trek, with per-mile rates in all three major segments again reaching historic heights. Van’s per-mile average jumped 21¢ in June from May, to $2.73 a mile, a 69¢ gain from the same month a year ago and a 35¢ gain in the past three months. Flatbed’s average grew 13¢ in June from May, to $2.88 a mile. That’s a 55¢ increase from the same month last year. Flatbed rates have climbed 39¢ a mile since February.

Rio Tinto: Iron Ore Market Outlook-Demand Remains Key Element

Market fairly balanced in 2018. Demand is key

Rio Tinto predicts major supply growth of 39mtpa in 2018, however the supply disruptions and exist will bring the net supply change to only 2Mtpa. Also RIO analyzed the rise in inventories as mainly drive from the lower quality iron ore as the chart shown below.

China is still RIO Tinto’s biggest customer. In 2017, RIO shipped 76% iron ore to China, 16% to Japan, 4% to Korean, 3% to Taiwan and the remaining 1% to the Row. Pilbara blend – RIO Tinto’s flagship product comprises 73% - 47% Pilbara Blend fines and 26% Pilbara Blend Lump of 2017 shipments. Yandicoogina fines 17% and Robe Valley 10%.
Nothing encapsulates and illuminates the thick and entangled global supply chains of multinationals like the global automotive industry. The average vehicle consists of thousands of parts and components, and is typically assembled in stages around the world, including the U.S. As one of the largest vehicle markets in the world, the U.S. sold 17.3 million units in 2017; however, this outsized number deserves an asterisk because the U.S. has received a great deal of assistance on its way to selling near record levels of vehicles last year. The assistance came via two channels: (1) through auto imports of parts/components and (2), via the production of foreign manufacturers operating in the U.S. In aggregate, the $320 billion in manufactured autos and auto parts imports represents roughly 14% of total goods imports, compared to the recently imposed steel and aluminum tariffs of roughly $45 billion (about 2% of total goods U.S. imports).

Foreign direct investment (FDI) in the auto manufacturing industry totaled $110 billion in 2016, more than double the amount at the start of the century. This large and growing foreign investment base reflects the attractiveness of the U.S. as a destination for capital investment given its favorable business conditions, large and wealthy consumer market and open trade channels with Mexico and Canada.

Foreign auto companies are critical supports to the U.S. economy in terms of employment, value added, technological advancements and ultimately America’s productivity and competitiveness. Output of foreign firms’ affiliates in the U.S. last year totaled roughly 6.5 million autos, SUVs and light trucks; however, the contributions of these affiliates expand beyond the output of motor vehicle assembly lines. For instance, Japanese automakers not only operate 24 U.S. manufacturing plants, but also support 43 American research and development (R&D) and design centers, and purchase roughly $70 billion in U.S.-made auto parts annually.

The final production of vehicles in the U.S. is ultimately channeled to the global consumer in one of two ways: through U.S. sales or exports. Roughly 40% of the total U.S. motor vehicles and parts exports were shipped abroad by affiliates of foreign auto manufacturers in 2015, the latest year of available data (Exhibit 2). The underlying risks associated with broad-brush tariffs on autos and auto parts may be hard to see and spot. Thus far, the markets have taken in stride the administration’s bluster over trade and rising threats of trade protectionism. However, it’s too soon to totally discount the threat of U.S. protectionism and the unintended consequences. To the latter point, a key risk lies with retaliatory measures from America’s major trading partners, potentially kick-starting a tit-for-tat cycle likely to unsettle the capital markets in the weeks ahead. Final findings and recommendations on auto national security investigation are not due until mid-February 2019, but Washington’s embrace of trade protectionism will likely remain a staple of market uncertainty and more significantly, a potential catalyst for more global retaliatory measures.

Berlin July 2018 Brief Appendix
Global Stainless Steel Cold-Rolled Flat Consumption Index & Forecast 2018-2019

Global Stainless Steel Use by Sector for 2017 from ISSF

Berlin July 2018 Brief Appendix
ArcelorMittal USA - Understanding the Domestic Steel Industry


Steel production vs. employment in the United States: 2000-2017


Labor statistics

Duration of employment with ArcelorMittal in the U.S.

Percentage of employees by age group

Berlin July 2018 Brief Appendix
ArcelorMittal USA - Understanding the Domestic Steel Industry

Global steel production: 2000-2017
Crude steel production

<table>
<thead>
<tr>
<th>Country</th>
<th>2000</th>
<th>2017</th>
</tr>
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<tbody>
<tr>
<td>U.S.</td>
<td>12%</td>
<td>5%</td>
</tr>
<tr>
<td>China</td>
<td>15%</td>
<td>49%</td>
</tr>
<tr>
<td>Rest of world</td>
<td>73%</td>
<td>46%</td>
</tr>
</tbody>
</table>

Flat-rolled imports and import share: 2008-2017

Average annual employee costs per represented employee at ArcelorMittal USA: 2013-2017

ArcelorMittal sales by market segment, Steel shipments in the United States: 2008-2017

Berlin July 2018 Brief Appendix
Steel & Aluminum Tariffs Start to Ripple Their Way through the U.S. Economy

Steel and aluminum tariffs were announced March 1 and for some countries they went into effect quickly. The EU, Canada and Mexico were given more time to negotiate, but those extensions expired at the beginning of June. Prices for different types of steel and aluminum began to climb almost immediately, posting the biggest three-month price increase that has been recorded in years. While clearly inflationary and unwelcome for metal consumers, the jump in prices isn’t that much larger than typical volatility in the metals. Only a small portion of the metals ends up in consumer goods. Even though a car contains several hundred pounds of aluminum, for example, auto prices haven’t notably increased since the tariffs began. Car sales are down slightly, but that probably owes more to higher interest rates than to any consumer awareness of the impact of aluminum tariffs. In public appearances, Commerce Secretary Wilbur Ross has carried around cans of Campbell Soup, holding them up and saying they have only a few pennies worth of steel in them. But the effects are negative for the soup company—Campbell’s stock has fallen 14% since February, and the company has cited steel tariffs specifically as a hit to its bottom line—but Mr. Ross’s broader point is that most consumers won’t notice. The hit to companies like Campbell’s is why the effects of the tariffs tend, overall, to reduce jobs. Far more U.S. companies consume steel than produce it. By increasing their costs and reducing their profits, the tariffs have the knock-on effect of making firms less likely to hire, economist say.

As of mid-2017, there were 29,288 steel-consuming firms, employing over 900,000 workers who face higher prices versus just 916 steel-producing firms with 80,000 employees who benefit from those higher prices and reduced competition. Those steel and aluminum tariffs are widening now that Canada, Mexico and the European Union are hit. If tariffs expand to $100 billion extra of Chinese imports, as well as to other threatened goods such as autos, then the effect grows, costing the economy over a half million jobs by the end of 2019.

Little to Derail Section 232 Steel & Aluminum Tariffs Near Term, Substitution/Demand Risk

We see increasing likelihood that U.S. steel prices will stay high through year end. Trade expert Edward Alden recently cited little basis for President Trump to dial back Section 232 tariffs, despite potential obstacles: retaliation, cost inflation, WTO opposition and midterm elections. He said: 1) Trump’s administration did not value the WTO, 2) retaliation and cost inflation likely make little dent in a strong U.S. economy, and 3) Trump’s approval ratings have improved since imposing tariffs. However, in a recent survey we conducted of metal buyers, 71% expected Section 232 to hurt demand for steel and aluminum. Anecdotally some consumers note risks of substitution to other materials, i.e. waxed paper, wood, and plastic, plus risk of greater import of finished content with metal. Yet as part of broader trade protection, the administration recently extended dumping cases to finished steel products such as cylinders, and is contemplating auto and auto parts protection. Despite positives for supporting domestic steel production and consumption, escalating tariffs could provide broader damage to the economy. BofA/Merrill Lynch

Berlin July 2018 Brief Appendix
Germany Cites Factories, Jobs, Exports to Coax President Trump from Raising Auto Tariffs

Global auto stocks were pummeled in June after Daimler issued a profit warning that the Mercedes-Benz owner pinned on trade tensions between the U.S. and China. German auto makers build tens of thousands of SUVs in the U.S. for export to China, and it appears new Chinese tariffs could hit them harder than American manufacturers that Beijing explicitly targets. With global supply chains designed for a world of open trade and low tariffs, Germany’s auto giants are being caught in the crossfire with few opportunities to shift sales to more welcoming markets.

In May, China said that as of July 1, it would cut tariffs on vehicle imports to 15% from 25% to quell U.S. complaints of a trade imbalance. But after President Trump went ahead and ordered import duties on billions of dollars of Chinese goods, Beijing said it would maintain its longstanding duty on U.S.-made vehicles and threatened to take it even higher.

German auto makers such as BMW, and Daimler’s Mercedes-Benz, as well as electric-car maker Tesla and Ford, would have benefited from the lowering of Chinese duties. About 267,000 U.S.-built vehicles were sold in China last year, according to research firm LMC Automotive.

Trading policies that threaten auto makers’ bottom lines could have negative ripple effects throughout the U.S. supply chain and across the industry, Global Automakers’ Mr. Bozzella said. “Even if the logic is we’re trying to invite a negotiation, the unfortunate reality is then the U.S. worker becomes a bargaining chip.”
Commodity Prices – Nickel, Tin, Aluminum, Steel Scrap and Iron Ore

1 Year Nickel Prices

1 Year Aluminum Prices

1 Year Tin Prices

IRON ORE Price COMMODITY

IRON ORE Price Chart Options

SteelBenchmarker™ Scrap Price
USA, delivered to steel plant

Berlin July 2018 Brief Appendix
Visualizing the World’s Biggest Exporters in 2017

Growth in Trade Is Already Starting to Slow

For nearly half a year, surveys of purchasing managers in manufacturing have indicated dwindling international demand growth, as major economic regions like the eurozone and China come off the boil. The new-exports portion of JP Morgan’s Global Manufacturing PMI fell to 50.5 in June, the weakest in nearly two years. The figure remains above 50, indicating export orders are still rising, but it has grown weaker every month since hitting its most recent peak at 54.2 in January. The orders data closely mirror year-on-year changes in world trade volumes, suggesting last year’s 4.8% rise in global merchandise trade—the strongest since 2011, and representing an extra $1.13 trillion worth of goods changing hands—is unlikely to be repeated. The volume of global trade is so large that even modest changes in its rate of growth are more consequential than what is directly at stake in the row between the U.S. and China. U.S. tariffs due to be implemented in July cover $34 billion in Chinese goods; China is levying retaliatory tariffs on an equivalent amount of American exports. Even small tariffs can have big effects on business confidence. Imposing tariffs in a world of integrated, multinational supply chains might be self-destructive and would likely pass through to U.S. consumers, according to strategists at Morgan Stanley. “If the trade dispute becomes more complicated, if both sides are not willing to change their stance, you could end up with a much more serious disruption,” said William Yuen, investment director at Invesco. WSJ

Berlin July 2018 Brief Appendix
Platinum Sinks to Near-Decade Low after Threat of Auto Tariffs

Platinum prices tumbled in the first week of July to the lowest level in almost a decade—the latest case of intensifying global trade tensions shaking up the metals market. Most-actively traded futures contracts of the silvery-white material slid 5.2% on 7/2, the steepest one-day drop in nearly seven years, and closed at their lowest level since December 2008. The threat of protectionist policies has fueled bets that slower trade activity will disrupt the global economy, reducing commodity consumption. Prices recovered 4% to $846.30 a troy ounce on 7/3/2018.

Platinum—a precious metal that also has industrial uses in car manufacturing—has fallen 18% from its peak in January. Investors have broadly sold metals lately, with gold and copper also retreating. Analysts say tariffs could hurt demand for platinum more than other metals because roughly 40% of demand is for catalytic converters that scrub emissions in diesel car engines. And with gasoline and hybrid vehicles expected to become more popular in the coming years, investors have soured on platinum.

Economists Try to Model Tariffs’ Impact but Actually Believe It Could Be Much Worse

Unforeseen Tariff Rephrusions

The U.S. raises tariffs on steel and aluminum

Steel prices go up

Other countries retaliate by raising tariffs on U.S. motorcycles

Harley Davidson sells fewer motorcycles in Europe as a result of higher prices

Harley moves production out of the U.S.

Some U.S. jobs are lost

U.S. jobs are lost

Outcomes differ on what the effect of these tariffs on U.S. trade will be. How much trade would subtract from U.S. GDP under four scenarios:

- No tariffs
- Announced tariffs
- All proposed tariffs
- Announced tariffs plus 25% tariff on U.S.-China trade

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