METAL FATIGUE

JUNE 2020

Just as the U.S. steel industry showed signs of a tentative recovery after its downturn in 2019, COVID-19 rocked the market. Prices fell as the pandemic eroded steel demand, and with the threat of global overcapacity, prompted domestic steel mills to idle or scale back operations.

MANUFACTURING MELTDOWN

In response to the market downturn, U.S. steel mills have been aggressively reducing production. While remaining at historically low levels, U.S. raw steel production appeared to begin stabilizing by late May amid signs of potential price and demand recovery.

IT’S A STEEL

Hot rolled band pricing serves as a bellwether for overall steel price trends. Since January 2020, hot rolled band prices dropped through April due to softer demand. However, in May, steel mills began raising prices, given resuming auto production and a recent increase in pricing for ferrous scrap, a raw input in new steel production, as scrap supplies fell.

EBBING IMPORTS

U.S. steel imports have also declined, given the reduction in domestic steel demand, continued Section 232 tariffs of 25% on most steel imports, and idled mills in countries such as Turkey and India.

PEDAL TO THE METAL? NOT QUITE.

U.S. steel demand plummeted amid the COVID-19 pandemic, as the economy nearly ground to a halt amid stay-at-home orders and business closures. Reduced activity in major steel-consuming industries, particularly the oil and gas sector, as well as the automotive industry, had a significant impact on the steel market.

OIL & GAS

Crude oil prices have been volatile as oil demand plunged amid the pandemic while supplies climbed. Insufficient production cuts resulted in storage shortages, leading of prices to go negative for the first time in history during a short period in April.

AUTOMOTIVE

After significant shutdowns, the majority of automakers began bringing their plants back online in May; however, they face challenges from supply disruptions and lower market demand.

NERVES OF STEEL NEEDED NOW

As the U.S. economy gradually reopens and more manufacturing operations resume, demand for steel may recover, along with pricing. However, the full economic impact of the pandemic and its aftermath remains to be seen, and any potential resurgence in COVID-19 outbreaks and re-closures of economic segments could trigger further volatility.