Commentary:

Excess piles of shredded scrap and on-going concerns about reduced supplies of busheling widened the price spread between industrial steel scrap and shredded this month. Two Detroit area EAF-based mills set the pace on Monday afternoon when they bought busheling and five-foot plate and structural scrap (P&S) at the same prices they paid last month, but cut their offers for shredded scrap by $10 per gross ton. The bundles and busheling prices in Detroit remain at $360-$365 per ton on a delivered to the mill basis, while shredded slumped to $290 per ton, the same price as P&S.

Several eastern EAF-based mills were early buyers as well and matched the pattern set by the Detroit steelmakers. Their offers for heavy melt and P&S were unchanged, but at least one sought to cut its shredded scrap price by $10 per ton. Another paid the prevailing prices from last month, but that mill does not buy much fragmented scrap.

The offers of down $10 per ton for shredded scrap were the common denominator in most regions this month, but most steelmakers are not marching in lockstep with the two Motor City EAF mills. Price changes and buying varied in Detroit and in other regions. For example, the integrated steelmakers in Detroit and other areas in the Midwest also cut their prices for both P&S and No. 1 heavy melt and were seeking reductions of $45 per ton on busheling and bundles.

Some left their bundles and busheling prices unchanged, but that’s because they’re not buying much industrial scrap this month. They’ve been cutting their consumption of this material steadily in the past few months and taking advantage of the busheling/shredded price spread. Shredded and cut grades are fulfilling their scrap needs, which usually are less than what many EAF mills consume.

Southern mills are rebelling against unchanged industrial scrap prices.

But the stable pricing for busheling and bundles may not prevail in the South. At midweek, EAF-based flat-rolled mills in the South were pressing for decreases of as much as $20 per ton on busheling and bundles as well as shredded scrap. Dealers were resisting, but some brokers and traders said that while the local mills probably will get some price relief. It’s not as much as they hope to obtain.
Because of concerns about auto production cutbacks this month and in July, the southern mills have brought ashore thousands of tonnes of imported industrial scrap. Much of this has come from western European nations like the UK and The Netherlands, but there was also an unconfirmed report that one U.S. mill has bought a bulk cargo of shindachi scrap from Japan. Shindachi is sheet steel busheling and bundles generated by Japan’s automotive stampers. That cargo was destined for the port of New Orleans, LA. This may be the first time that a U.S. mill has imported industrial steel scrap from the Far East. Much of that industrial scrap usually is consumed by the Japanese steel industry or exported to steelmakers in South Korea.

Though dealers have been sounding the alarm about potential cutbacks in the auto industry’s output of busheling and bundles, that scrap drought has not occurred yet. The automakers are planning to take a two-week vacation/retooling shutdowns at many of their stamping and assembly plants this summer because of excess inventories of unsold cars. In recent years, because of booming sales, they had only closed these plants for a week. Many of their component suppliers are expected to take extended downtime as well.

What’s uncertain is whether all or much of that downtime will come this month or in July. One Chicago trader said, some may schedule the closures for the last week of June and first week of July to take advantage of the off time for the July 4th holiday. That is expected to include both July 3 and 4. Or they may use the first two weeks of July, he said and still minimize the furlough time and the unemployment costs.

The domestic mills, namely the EAF-based flat-rolled steel producers, may begin to feel the supply squeeze this month. But most have already taken steps to cope with the expected losses. Mills close enough to the ports on the Gulf or Southeast Coasts have tapped offshore suppliers. Some mills in the upper Midwest, on the other hand, have boosted the volume of industrial scrap bought from local dealers in May to offset the reductions.

Mills aren’t having any problems finding enough shredded and heavy melt.

While industrial scrap supplies may shrink, there is plenty of shredded and other obsolete scrap supplies. One reason may be the absence of much export activity. One Turkish mill bought a cargo from a U.S. East Coast exporter late last week, but trimmed the price paid for 80/20 heavy melt to $271 per tonne delivered to a Turkish port. That’s off by about $2 per tonne from the previous U.S. ferrous sales to Turkey two weeks ago. U.S. exporters have been selling an average of one or two 40,000-tonne bulk cargo per week to the Turkish steelmakers for the past two months.

U.S. exporters may be making deals with other overseas steelmakers and not the Turkish mills who are buying most of the imported scrap from European suppliers. One consequence is the U.S. export yards have not been taking in much scrap from local suppliers. Nor have they been offering much material to the inland mills other than the
East Coast mills and those in the southeast that are regular monthly buyers of shredded scrap from the exporters and other coastal shredders.

Their buying prices for export heavy melt are unchanged at $220 per gross ton, said an East Coast industry source, though some of the larger dealers have obtained between $230 and $235 per ton. That’s about $20 per ton below the local mill prices for the higher quality No. 1 heavy melt in the East and as much as $50 per ton under the mill-delivered prices in western Pennsylvania and eastern Ohio.

Another explanation for the excess supply of obsolete scrap may be a delayed but now steady flow of spring scrap into dealers’ yards. Steelmakers and their brokers normally anticipate a huge influx of scrap into dealers’ yards in April when warmer weather arrives. This year, however, dealers said the mild winter that prevailed throughout the Midwest and East Coast for much of the first three months and lack of any significant snowfalls kept scrap flowing into their yards throughout the winter.

One Midwest EAF steelmaker told dealers it would not buy any shredded from outside suppliers this month. The mill’s buyers had said they had plenty of shredded from their own network of scrap yards, several of which are equipped with shredders. But one independent trader said the mill also had production problems at one of its long products mills in May including a continuous caster breakout. These problems halted steel production there and contributed to the shredded backlog, he said.

Steelmakers in the Pittsburgh area and eastern Ohio are another softening spot for shredded scrap suppliers. Many of these mills are pipe and tube makers serving the oil industry. Weaker oil prices and concerns about their impact on drilling activity has preempted some of them to reduce their purchases this month, said a Pittsburgh area broker. The seamless tubing business is not as robust as it has been earlier this year, he said, and they are worried about mill inventories of their finished steel products.

Several of these mills are major shredded scrap consumers. Consequently, he expects shredded scrap prices to be off by about $10 per ton and the cut grades to drop by about $5 per ton. Busheling and bundles prices will likely be unchanged, he said.

Another Eastern broker said availability of railcars remains an on-going problem in that region and several other areas. Dealers have complained that they are having problems getting enough gondola cars from the major rail carriers. Others have said that both the steel mills and the railroads have been slow in returning their (dealer-owned or leased) cars. Several dealers said they ended the month of May still owing scrap to several mills and that discouraged some mills from canceling their unshipped orders.

Scrap prices may be sagging, but flat-rolled steel prices are rising.

Oddly enough, domestic mills may be pushing some scrap prices lower, but they are looking for an across-the-board, $30-per-net-ton increase for their sheet products.
California Steel Industries Inc. posted the first increases for hot-rolled coil, cold-rolled and galvanized sheet last week and Nucor Corp. and NLMK Indiana followed on Monday. Since then, U.S. Steel Corp. USS-POSCA Industries Inc., ArcelorMittal, AK Steel Corp. and Stelco have hopped on the bandwagon.

The prices hikes are aimed at firming up eroding sheet prices. Hot-rolled coil prices have drifted down to an average of $570 per ton, but a few domestic mills have been offering coils as low as $550 per ton. Hot-rolled prices were more than $650 per ton late last year. With scrap prices rising earlier this year, the mills’ profit margins have sagged to half the levels they were at earlier. Thus, the increase if they stick may help them restore those profit margins.

Domestic steelmakers may also be betting they will get a favorable ruling from the U.S. Commerce Department this month on the Section 232 investigation. The federal government probe will determine whether sheet steel imports are weakening domestic steel production and pose a threat to national security. Commerce Secretary Wilbur Ross, former chairman of International Steel Group, now part of ArcelorMittal, has said he hopes to deliver a report delivered to President Trump by the end of this month.

Meanwhile, the American Iron and Steel Institute said domestic raw steel production totaled 1,749,000 net tons last week, down 0.2% from the previous week when the industry produced 1,753,000 net tons. The industry capability utilization rate inched down to 75% from 75.2 percent one week earlier.

**Shredded Scrap Thermometer: Slashing shredded prices.**

This month’s price cuts for obsolete grades, particularly shredded scrap, will spur matching cuts in prices for shredder feedstock. That probably won’t lead to any drastic cutbacks in the scrap flows. It’s almost summer when scrap intake often reaches a seasonal peak. If anything, modest reductions of $10 per ton, matching the drops by the domestic steel mills, will generate a supply surge for a week or two. Auto wreckers, demolition contractors and smaller dealers, fearing another price cut next month, will unload inventories. But a prolonged tailspin in feedstock prices could lead to another scenario. These are:

- Obsolete scrap is price-sensitive. Two or three months of reductions or a steep drop of, say, $50 per ton will reduce intake. Auto wreckers will pile up crushed cars in the back of their yards till buying prices rebound. Greed? Perhaps. Or, they may need to recoup higher prices paid for wrecks when shredded demand was stronger.

- Shredders are creatures of volume. Economies of scale play a leading role. Two years ago, when prices were in a tailspin, some shredders in rural regions operated only one or two days a week because the feedstock flows were so low.
Some shredders have their own feeder yards but realize they cannot depend on those to provide enough feedstock. Those feeder yards are competing against other small dealers and must pay competitive prices as well as the added costs for preparation, waste disposal and transport to the company’s shredder.

Despite the challenges that lower price can impose, there are some shredders who have intrinsic advantages over some of their rivals. These advantages serve as the “wild cards” that give them an edge in a competitive market such as:

- One group include shredders in major cities with a large enough population to produce enough old appliances and other metallic material items from the household trash. Demand for this feedstock is not as intense as the competition for junk cars and scrap from demolition projects.

- Mill-owned shredders have an advantage of operating as a cost center and can pay more for feedstock than independent shredders. Their main goal may be to maintain a steady supply of scrap for the melt shop and not turn a profit.

The Nasdaq Futures Exchange (NFX) expects to start trading in the Midwest US shredded scrap index futures by end of June 2017. The contract will trade in 20-gross ton units with the prices settled on the 11th day of each month against the TSI Midwest US Shredded Scrap Index published by Platts. For additional information about shredded futures trading, contact John Conheeney at WSEM. His phone number is 201-503-0922 and his email is jconheeney@wsemgroup.com.

Note: Each issue, Mike Marley gives his opinion on the one-month steel scrap price outlook. He explains the key reasons for his view and highlights the “wild cards” that might cause him to be wrong.
# NFX US SHREDDED SCRAP STEEL FINANCIAL FUTURES

## NASDAQ FUTURES, INC. (NFX) CONTRACT SPECIFICATIONS

<table>
<thead>
<tr>
<th><strong>CONTRACT NAME</strong></th>
<th>NFX US Shredded Scrap Steel Financial Futures*</th>
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<tr>
<td><strong>DESCRIPTION</strong></td>
<td>USD cash-settled NFX US Shredded Scrap Steel Financial Futures are quoted in terms of USD per Gross ton, and are based on Platts TSI's US Midwest Shredded Steel 10-day Average Price Index.</td>
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<td><strong>DAILY SETTLEMENTS PRICES</strong></td>
<td>Daily settlement prices will be determined by NFX using price data from a number of sources including, spot, forward and derivative markets for both physical and financial products.</td>
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<td><strong>LAST TRADING DAY</strong></td>
<td>Trading shall cease at 5:00 PM EPT on the tenth calendar day of the month or the last business day prior to the 10th calendar day of the month.</td>
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<td><strong>FINAL SETTLEMENT</strong></td>
<td>Final settlement for contracts held to expiration is by cash settlement in U.S. dollars.</td>
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<td><strong>FINAL SETTLEMENT DATE</strong></td>
<td>The Final Settlement Date is the second day on which the Options Clearing Corporation is open for settlement following the Last Trading Day.</td>
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<td><strong>FINAL SETTLEMENT PRICE</strong></td>
<td>The final settlement price will be based on the Platts TSI’s US Midwest Shredded Steel 10-day Average Price Index.</td>
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<td><strong>CLEARINGHOUSE</strong></td>
<td>The Options Clearing Corporation</td>
</tr>
</tbody>
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*Please consult the NFX Rulebook for complete contract specifications.*
MUST ATTEND EVENT FOR THE STEEL INDUSTRY

Steel Survival Strategies XXXII will once again deliver key executives from the steel industry.

John Ferriola
Chairman & CEO
Nucor Corp.

Wilbur Ross
Secretary of Commerce
(Invited)

David Stickler
President & CEO
Big River Steel

Lourenco Goncalves
Chairman, President & CEO
Cliffs Natural Resources

June 26-28, 2017
Marriott Marquis New York

André Gerdau Johannpeter
President & CEO
Gerdau

Yuriy Ryzhenkov
CEO
Metinvest

Leo W. Gerard
International President
USW-United Steelworkers

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AK Steel

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AHMSA

Naveen Jindal
Chairman
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