

FLZ STEEL SUPPLY

METAL MANIA



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VETERAN OWNED BUSINESS

SO WHY ARE PRICES SO HIGH?

In the past several months, we went from historic lows to historic highs in a matter of months. So, what allowed the market to accelerate so rapidly?

Multiple factors have contributed to the current value adjustment. In an effort to balance supply with anticipated lower demand, the domestic steel mills did an admirable job of dramatically reducing capacity during the early stages of the energy price drop and COVID pandemic. This balancing act was difficult to manage as demand response to the pandemic was erratic and unsteady in many industries. Mills, particularly integrated mills, with blast furnace technology, must produce in larger incremental lots in order to run efficiently and thus were hesitant to bring back some of their capacity until volumes steadily dictated the need. Foreign shipments continued to slide in tonnages imported, as pricing in the US dropped along with demand reductions making the US an unattractive destination. This reduced material availability severely.

As the fear and uncertainty of the economy's reaction to COVID continued, mills and service centers hesitated to replenish inventory as concerns over a potential "second wave" or an over response to

demand might lead to unwanted capacity and inventory. Accordingly, the market tightened. Lead times moved out and inventories continued to dissipate as demand stubbornly remained above original forecasts. In addition to the changing balance in supply and demand the costs of producing steel began to rise steadily for the integrated mills as iron ore costs gained momentum. Steel slab costs also increased substantially as did scrap, causing all steel makers margins to be under pressure.



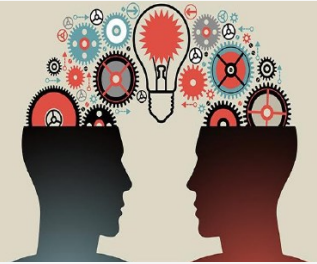
On the demand side, several industrial markets have rebounded quicker than anyone anticipated with residential construction, automotive, heating, ventilating and air conditioning (HVAC) and non-residential construction surprisingly leading the way. We now have a situation where supply is limited, demand is higher than expected, raw material costs up and finished material is being released on a reduced allocation basis. With prices in the US previously at levels below, in many cases, the rest of the world, an adjustment was overdue. Couple all of the above with several unplanned maintenance issues and steel industry ownership consolidation, the market price moved upward quicker than most would have imagined possible in a reaction to filling holes in inventory with lead times further out than expected.

The real concerns now are how high will the pricing go and how long will the up market continue? Stay tuned as we continue to monitor the updated demand/supply equation.



SHARED THOUGHTS:

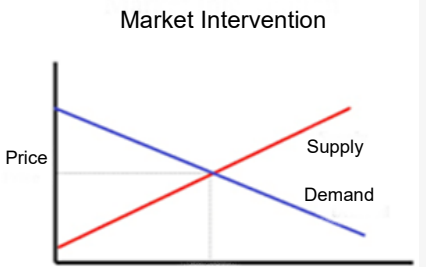
In January, the question was "do you know where the flat rolled market is headed?" A month has passed, so what do you think now?



In our previous newsletter we suggested keeping your seat belt on and focusing on continuity of supply. Well, we still stick by this approach. We know it can be extremely difficult to plan and navigate in this type of market when material is hard to come by and prices are increasing almost daily. That said, no one really knows how long these elevated prices will stay. For the immediate moment it is most important that you have material so that you do not risk disrupting your operation. Due to the domestic consolidation of mills, controlled supply, 232 tariffs, the effects of reduced service center inventories, COVID, and a rebooting economy, conditions differ from past market swings.

From our perspective, prices will remain high and supply will remain short well into Q2. Time will tell if we read this right. With this said, it might be a while until prices show any significant or consistent downward movement. There may minor temporary movement, but at this time, make sure you have material on-hand or on-order - do not get caught short!

Want to lock into future availability? All it takes is an open conversation, trust, and collaboration. Call us, it is always good to talk, and it costs nothing. (832) 300-1030



Hot Dipped Galvanized prices hit another record high.

The US just experienced the 27th consecutive week of gains. The latest assessment extends the streak of all-time highs, with the price now more than double the August trough of \$31 per cwt. "There is a tremendous shortage in the US regarding galvanized," one HDG consumer source said. Market participants said prices could keep rising even if mills have more spot availability in April. "The report from most mills is that they still have more buyers asking for steel than they can supply," a second sheet consumer said. "We are still seeing some mills offer minimum amounts on their contracts as well... Lead times remain extended." Two mill sources confirmed that order entry is more than enough to fill the books for at least two months - longer for galvanized grades. Even if ferrous scrap prices decline, steelmakers will not need to lower their prices, they said. One issue that could reverse the sheet mills' fortunes is the intensifying semiconductor shortage that is causing automakers to pause production. If the lack of chip components persists long enough to pause steel procurement at US plants. Regardless, coil prices are poised to stay high through April based on existing order flow, market participants said.



Biden Administration Under Increased Section 232 Tariff Pressure

Some officials from the European Union said they would lift tariffs on some U.S. products if the Biden administration lifted Section 232 tariffs on steel and aluminum. Gina Raimondo, the US Commerce Secretary under President made no promises in her confirmation hearing. Raimondo spoke about the penalties in relation to China specifically. She argued, "China has clearly behaved in ways that are anticompetitive. They've been dumping cheap steel into America and that hurts our ability to compete." and Gov. Raimondo pledged to "be very aggressive against that," while "listening to stakeholders" and "taking their needs into account."

Meanwhile, in a column published in Industry Week, trade lawyer Cortney Morgan said she expected the Biden administration to slowly phase out the steel and aluminum penalties. Morgan wrote, "Section 232 tariffs may be easier to change in order to deescalate the tensions between the United States and the rest of the world. If the Biden Administration pursues a multilateral approach and seeks cooperation with traditional allies of the United States, as expected, then an easing of such tariffs may be in the works." Regarding the European Union's (EU) decisions, in a recent statement, Stavros Lambrinidis, the EU's ambassador to the United States, urged the Biden administration to lift Section 232 tariffs in order to find a resolution to the U.S.-EU aircraft subsidy dispute. As legal experts of a prominent law firm wrote last week that statement is only the most recent "in a chorus of comments calling for increased transatlantic cooperation."



ENERGY – OIL & GAS MARKETS

Did you know Exxon and Chevron execs reportedly discussed merging last year?

Both companies, along with the rest of the oil and gas industry took a 2020 beating as consumption and demand plummeted. Exxon's shares fell \$120 billion (40%) and Chevron plummeted \$68 billion (30%). The two companies estimate they could save 25 billion in a merger by cutting admin and capital expenditures,



Candy Heart Bark

Ingredients:

6 oz. white chocolate, coarsely chopped
2 oz. pink candy melts
1/4 tsp. canola or vegetable oil
8 oz. semisweet chocolate, coarsely chopped, or chocolate bark
Conversation heart candies and sprinkles, for decorating

Directions:

1. Line a large baking sheet with parchment paper or a silicone baking mat; set aside.
2. With a double boiler or microwave, melt white chocolate and candy melts together. If using a microwave, stir chocolate every 20 seconds. Once melted and smooth, stir in oil, then set aside.
3. Melt semisweet chocolate the same way you melted white chocolate. Pour onto prepared baking sheet and spread out into a large rectangle using a spoon or rubber spatula. Drizzle white chocolate mixture on top, then use a knife or toothpick to swirl layers together. Sprinkle top of bark with conversation hearts and sprinkles.
4. Refrigerate to set, 2 hours. Once hardened, break into pieces as large or as small as you want and serve.



SCARLET'S STORY

by Chances Dogs Rescue and Relocation

Chances Dog Rescue and Relocation tries to focus on the positive. What we CAN do. Those dogs we CAN help. If we don't, we find ourselves overwhelmed by the extent of the homeless / abandoned / suffering dog problem, and that in turn slows down our rescue work. There are some days that we are greeted head on by the sadness and suffering though, and we cannot turn away. That happened with Scarlet.

Scarlet is a one-and-a-half-year-old, white Pittie mix pup who was found running along a highway feeder road in Houston. A good Samaritan stopped, and picked up the terrified little girl. Upon closer inspection, Scarlet had "KILL ME" written across her back in black ink, and visible wounds on her face and body. She cowered and shook in the backseat and did not want to get out. She spent the night with her finder, tucked into the backseat with a soft blanket and some food and water. The next morning, she headed to the vet.

Upon meeting Scarlet and seeing her condition, the vet reached out to rescues for help. We saw Scarlet's soulful eyes and gentle body language, and could not say no.

After a full day at the vet, Scarlet was ready to leave and continue her healing. The vet determined that the wounds on her face were most likely cigarette burns, she had significant abrasions on her legs and stomach from likely being tossed from a car or dragged a short way, she had several infections, was flea and parasite infested, was malnourished, and had severely painful and blistered front paws. During her vet exam and treatments, Scarlet did not make a single peep. She was quiet and shy, and offered the office manager a gentle kiss in exchange for some yummy treats. Fully vaccinated, dewormed, and medicated, Scarlet was exhausted and ready to rest.

Thanks to some TLC at Sonoma's Haven, a rescue boarding partner of ours, and ongoing vet care, Scarlet is doing well today. She is still terrified of men and will cower and refuse treats when approached by a man but is opening up to women. She likes other dogs and children too. In a while, when she is ready, she will leave everything in her painful past behind her and move to Massachusetts, where one of our rescue partners is ready to personally adopt her.

Scarlet's story was a heartbreaking one, full of cruelty, pain, and suffering, but her outcome will be a happy one. If you would like to follow Scarlet's journey, or the work of Chances, you can find us on Facebook at www.facebook.com/chancesrescue.



Barbara Pennington
Senior Account Executive
ACE STEEL SUPPLY
*We can all do something –
Donate / Foster / Sponsor!*



- Quote of the day - "I believe the market remains strong enough to hold pricing for the next four months," an East Coast distributor source said. "And the lack of foreign steel gives the domestic mills all the power to keep prices up." The arrival of imported flat-rolled steel expected in late spring will not be sufficient to ease the current shortfall or pressure domestic prices lower.
- "Supply is very tight. We are only able to purchase about 80% of what we need right now due to allocations."
- "Lead times are out to 12 weeks from one mill and 16 weeks from the other."
- Hot-rolled coil lead times are still generally reported to be at least eight weeks.
- Some market participants expect April availability to be just as tight as March. After that, mills might try to adjust the timing of maintenance outages in whichever direction helps them maintain their pricing advantage. Either they will postpone outages to keep producing while prices are at historic highs, or they might pull forward some maintenance to reduce output to keep prices from retreating too rapidly.







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RIG COUNT OVERVIEW & SUMMARY COUNT

Area	Last Count	Count	Change from Prior Count	Date of Prior Count	Change from Last Year	Date of Last Year's Count
U.S.	5 Feb 2021	392	+8	29 Jan 2021	-398	7 Feb 2020

MATERIAL COSTS FEBRUARY 2021 (prices still increasing)

-  Stainless: Sheet highest since 2012—surcharges up
-  Galvanized sheet: Prices up
-  Domestic 60" Galvanized: Prices continue to increase
-  Hot Rolled: Steady at all-time high
-  Cold Rolled: Stable for the moment but scarce
-  Aluminum: Prices up

DISCLAIMER: The thoughts, views and opinions expressed in this newsletter belong solely to the authors.