

9th China Int'l Metal Recycling Conference 2016

Shangri-La Hotel, Wuhan China

April 26-28, 2016

U.S. Ferrous Scrap Outlook

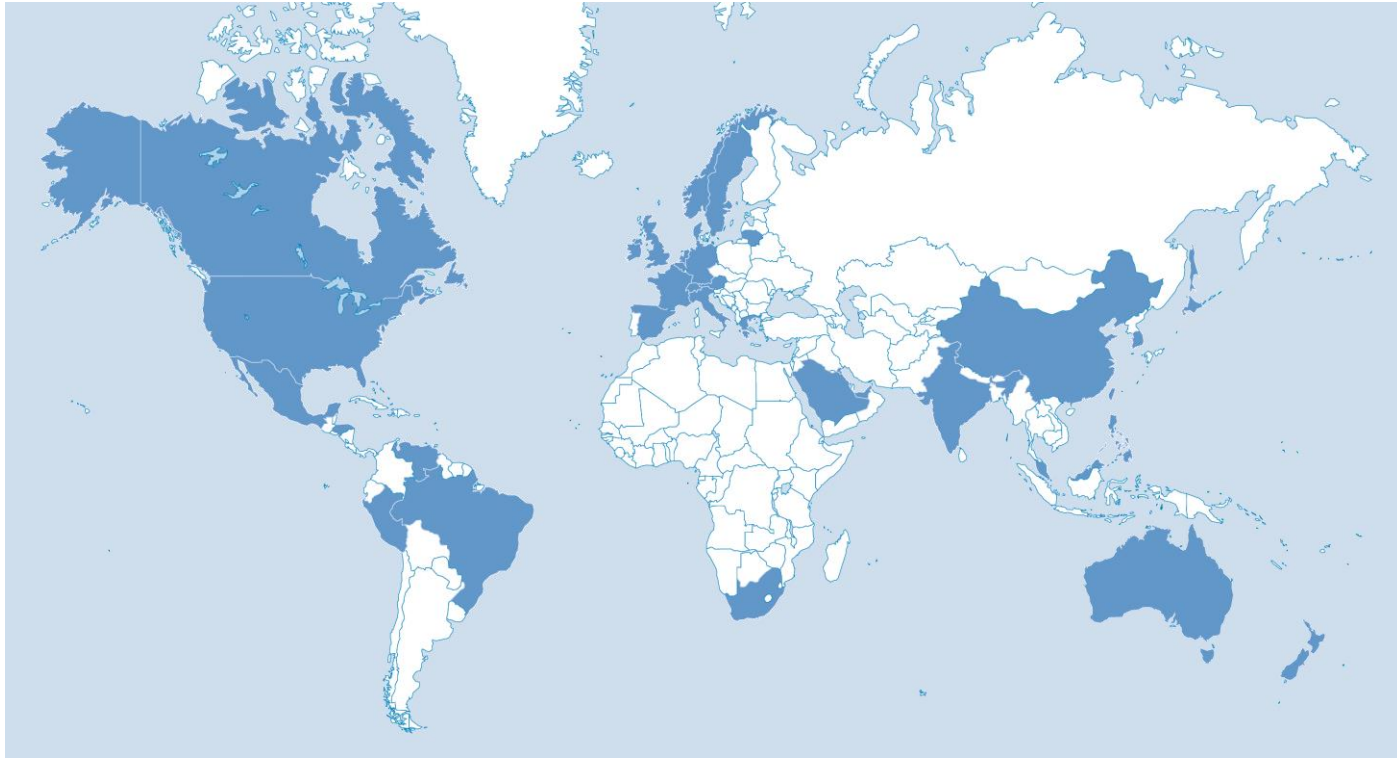
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Institute of Scrap Recycling Industries, Inc.



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Industries, Inc.



1,600+

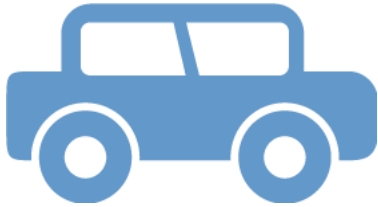
Member companies

7,000+

Recycling facilities
worldwide

39

Countries



**Ferrous &
non-ferrous
metals**



Paper

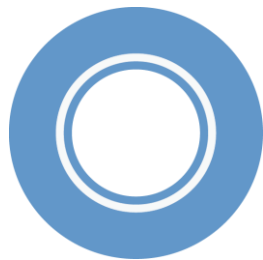


Plastics

Glass



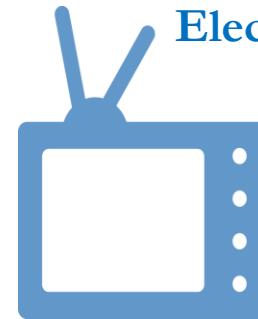
Rubber



Textiles



Electronics



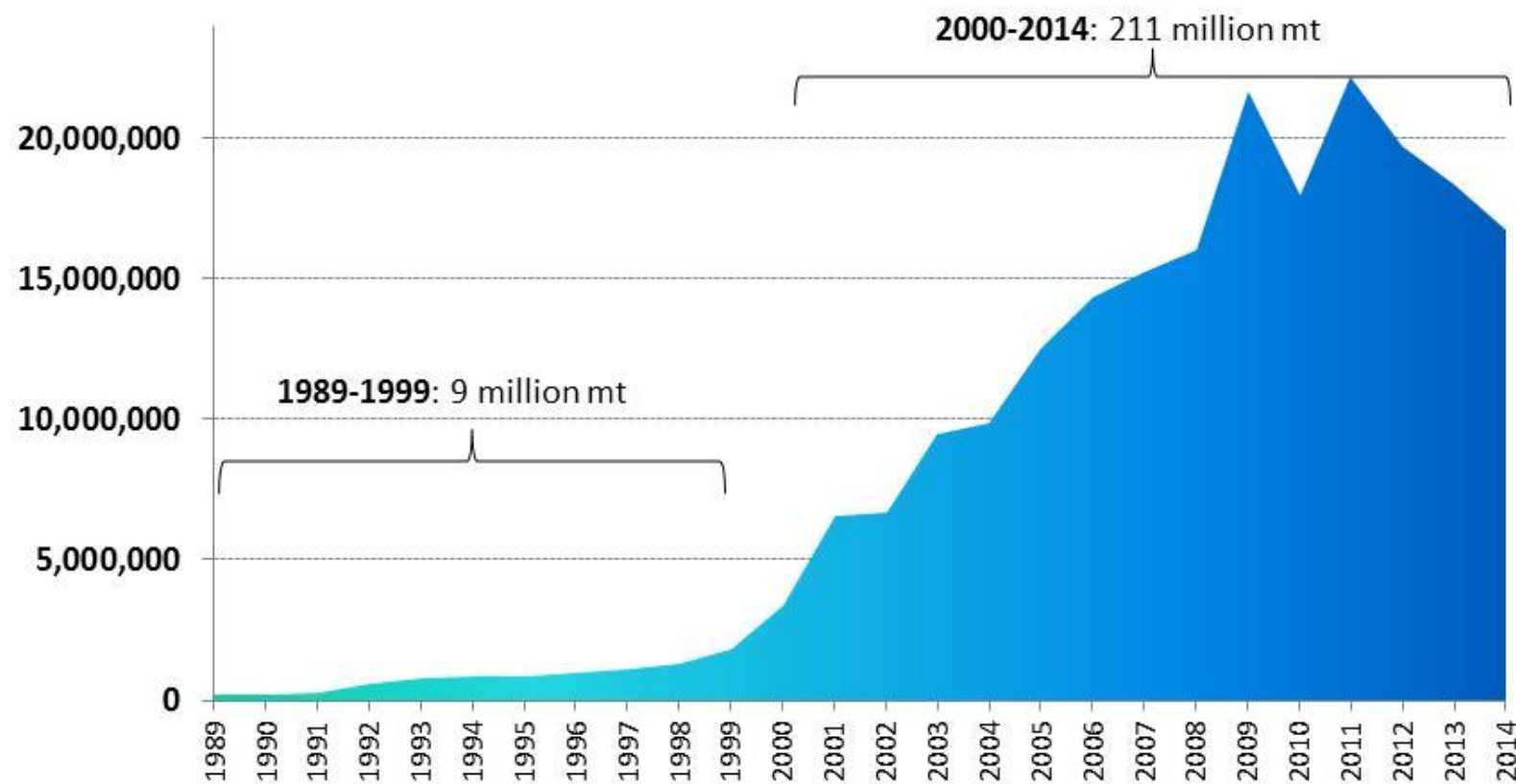
- the largest recycled commodity group processed by U.S. scrap recyclers
- 70-75 million tons of ferrous scrap annually
 - Over 80 percent consumed by the U.S. steel industry
- total value in the United States
 - 2014 \$26.1 billion
 - 2015 \$18.3 billion

- Since 2014, over 100 scrap recycling facilities have closed
- More than 11,000 recycling jobs have been lost since
- lost income of more than \$500 million

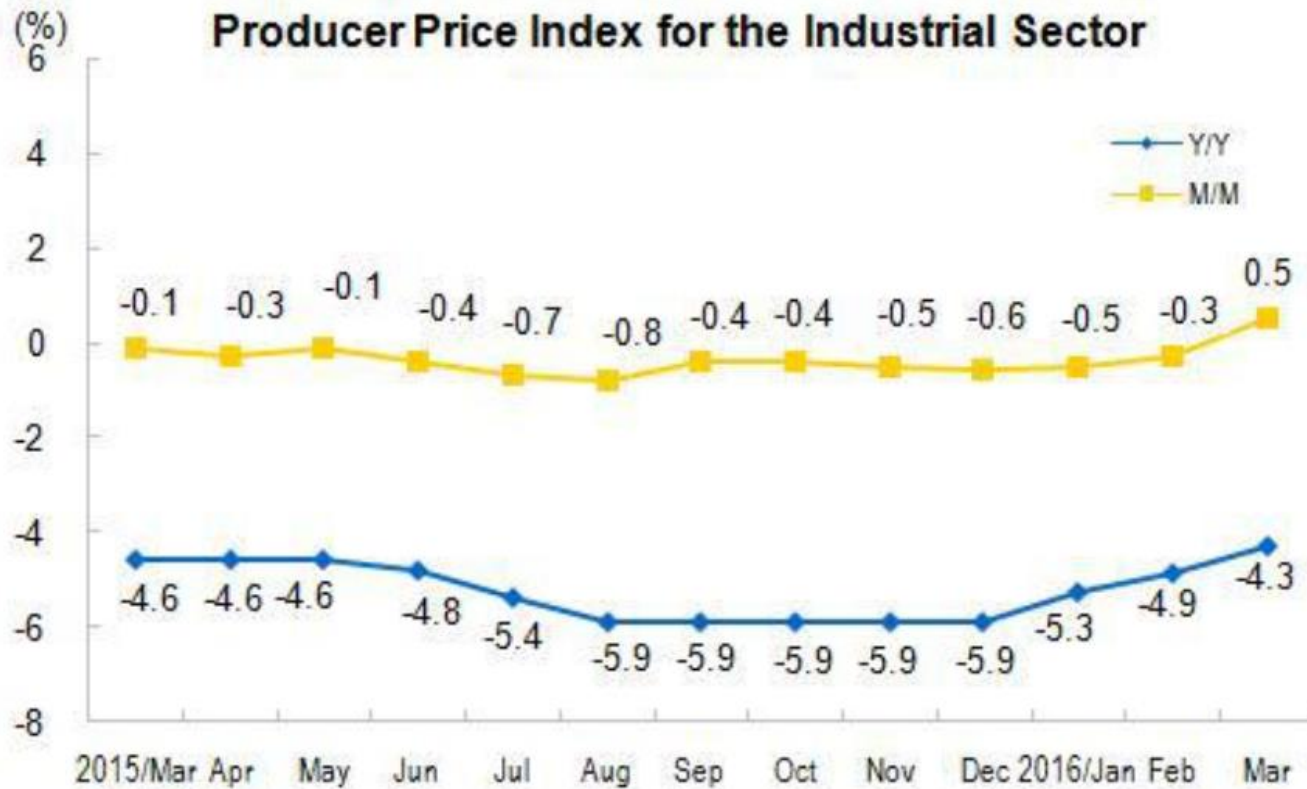
- **Excess global production across a range of commodity markets**, e.g. crude oil, iron ore, etc., weighs on prices as investors turn even more bearish on commodities
- **Stronger dollar** hurting competitiveness of U.S. scrap exports/promoting imports
- **Weaker overseas scrap demand** amid falling primary prices, slowdown in Chinese economic and manufacturing growth and substitution to ore and refined
- China contributing to **global deflationary pressure**
- **Uneven U.S. manufacturing output** across various industries and geographic regions.
- Mostly **positive macroeconomic indicators yet difficult scrap market** conditions widens
- Falling commodity prices + soft manufacturing output + strong dollar + logistical & regulatory issues = **Margins disappear, scrap industry consolidation.**

Volume of Total U.S. Scrap Exports to Mainland China, 1989 - 2014 (metric tons)

Sources: US Census Bureau/US International Trade Commission



Falling Prices in China = Global Deflation Pressure



Producer prices for industrial goods in China have been falling for nearly 4 years due in part to excessive Chinese property market investment and subsequent correction.

Source: China National Bureau of Statistics

Price Performance Since 2007

Monthly Composite No. 1 HMS Prices (\$/gt)

Source: Scrap Price Bulletin



Supportive Factors in March:

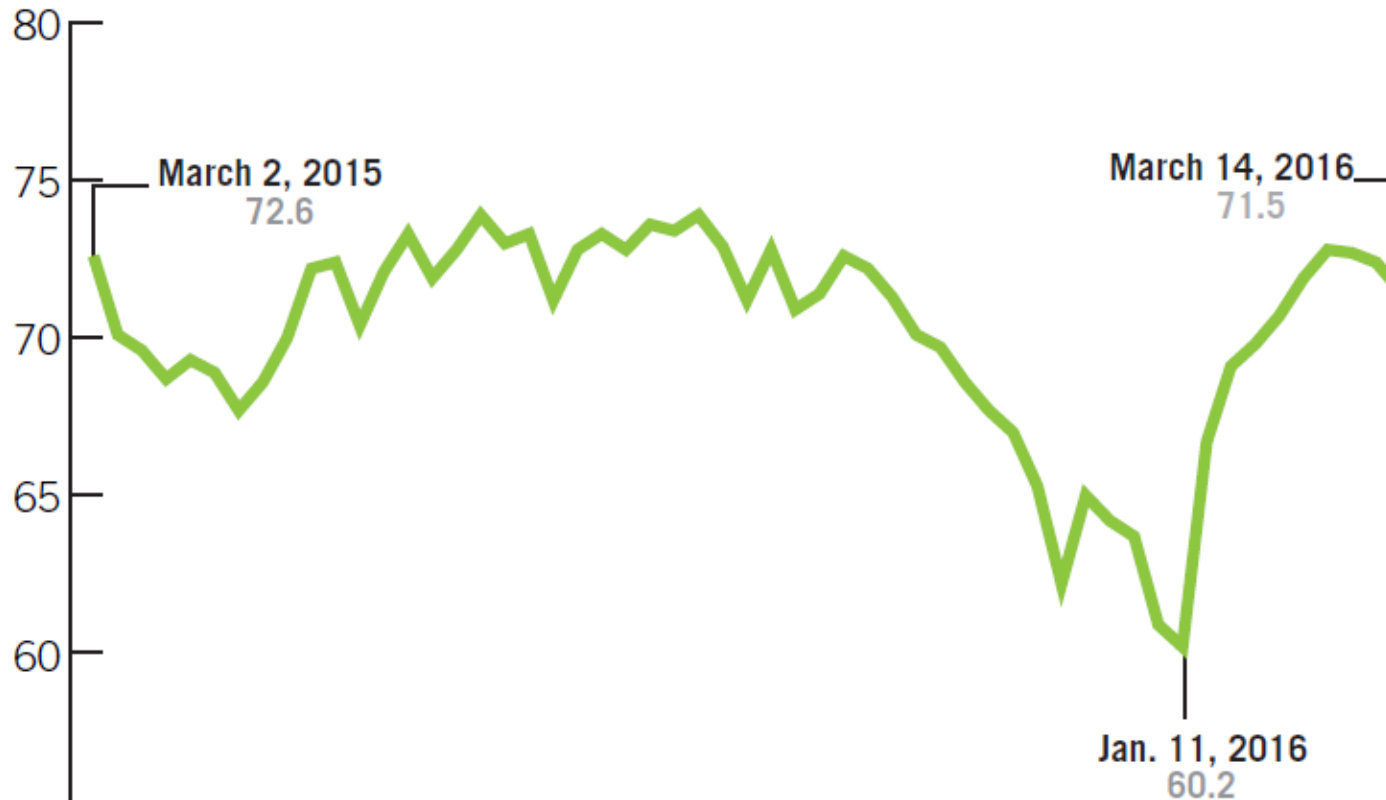
- Diminished obsolete supply
- Improving U.S. steel mill capacity utilization
- Iron ore prices
- Slowing Chinese output
- Trade cases
- Better demand from steel-intensive sectors

U.S. Steel Mill Utilization Rates Recovering



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U.S. Mill Production Capacity Rate: March 2015-2016 (in percentages)

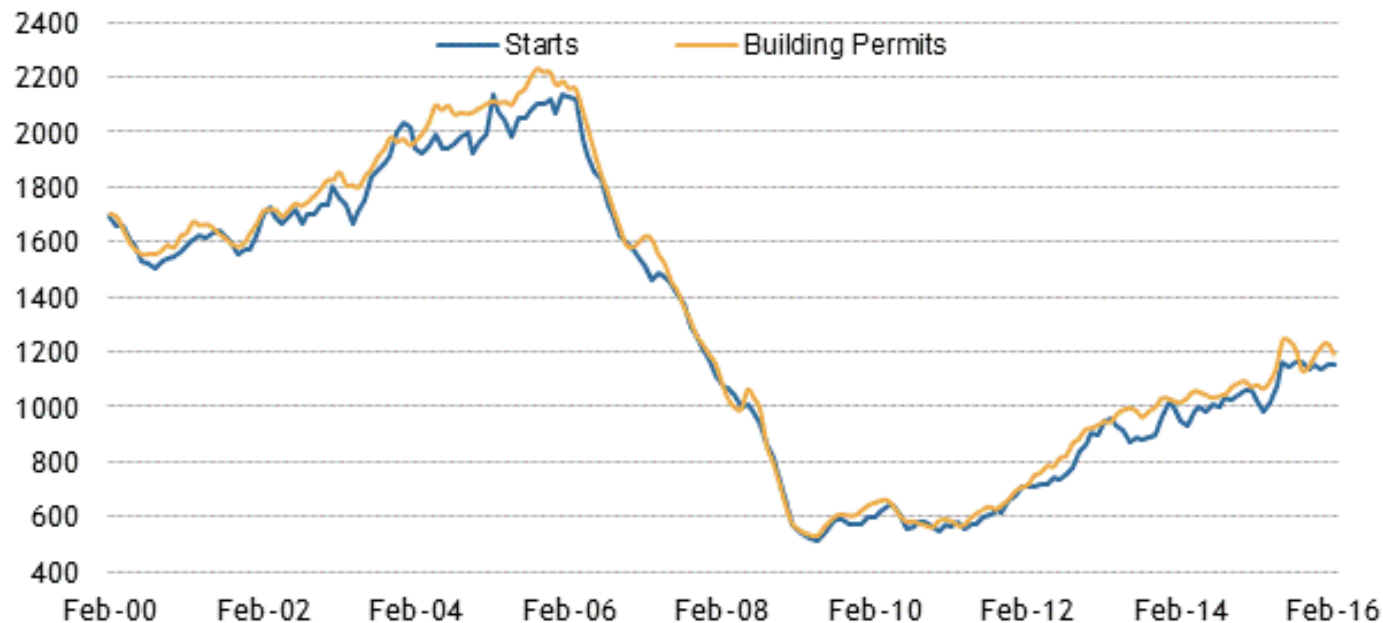


The American Iron and Steel Institute reports that capacity utilization rates in the U.S. have climbed back up over 70% in recent weeks, although **year-to-date U.S. steel production** (through March 26) is still down 3.4% as compared to last year to 21.53 million net tons.

Source: American Iron and Steel Institute

Housing Starts Rising

**Housing Starts and Building Permits 3-Month Moving Average
(thousands, SAAR)**



The Census Bureau reports new housing starts in February increased 5.2% month-on-month to a seasonally adjusted annual rate of 1.178 million units. That is nearly 31% higher than housing starts in February 2015 while building permits posted a 6.3% year-on-year gain.

- **U.S. light vehicle sales** were at a seasonally adjusted annual rate (SAAR) of 17.54 million units in February versus a SAAR of 16.40 million units a year ago. Sales were down slightly from the SAAR of 17.58 million units for January.

Key Factors

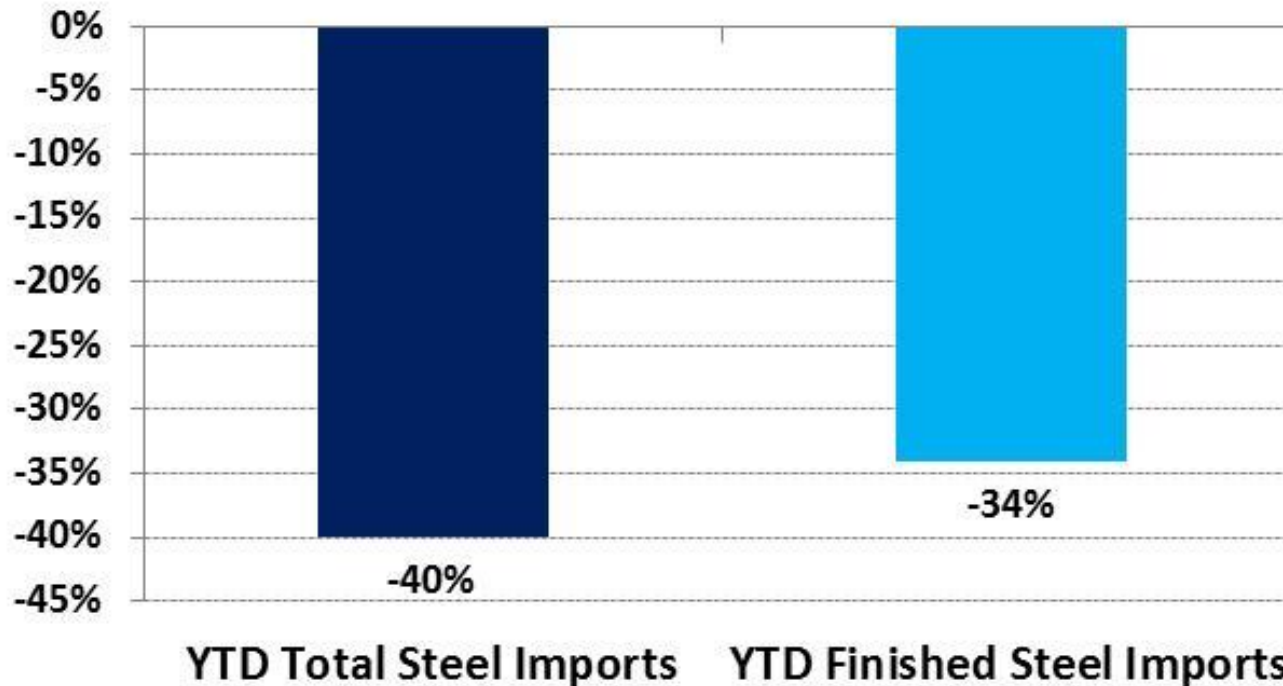
- General Motors sales were down 1.5% year-over-year.
- Ford sales were up 20.2% year-over-year.
- Fiat Chrysler sales were up 11.9% year-over-year.
- BMW Group sales were down 12.3% year-over-year.
- Toyota sales were up 4.1% year-over-year.
- American Honda Motor sales were up 12.8% year-over-year.
- Nissan North America sales were up 10.5% year-over-year.
- Hyundai-Kia sales were up 6.4% year-over-year.
- Subaru sales were up 1.6% year-over-year.
- Volkswagen Group of America saw its sales decline 7.1% year-over-year, hurt by the lingering cloud of its emissions testing scandal.

Source: Briefing.com

Steel Imports Dropping

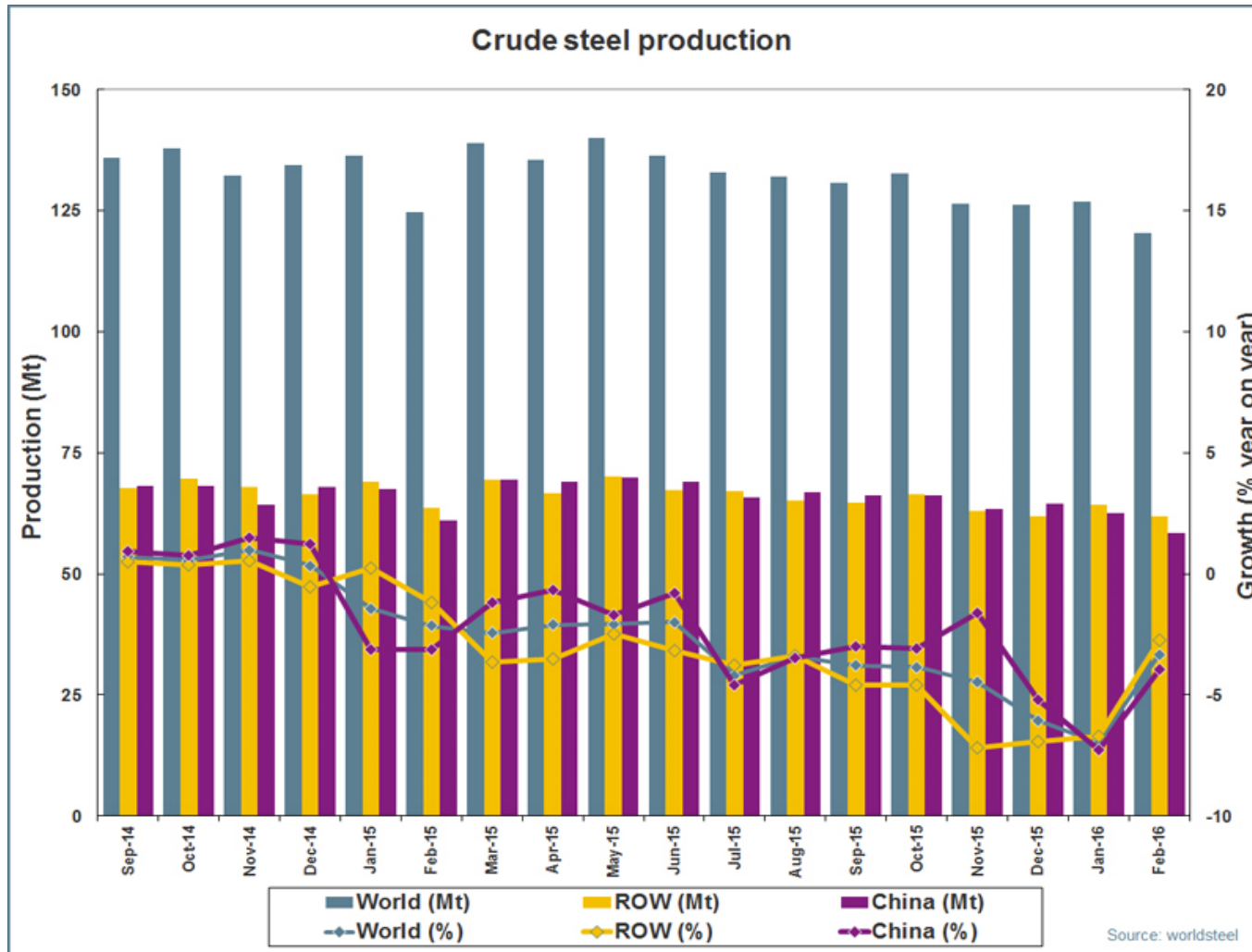
Y-o-Y Change in U.S. Steel Imports, Jan-Feb 2016 (%)

Source: American Iron and Steel Institute



AISI estimates total and finished steel imports into the U.S. during Jan-Feb 2016 totaled 4,860,000 and 4,307,000 net tons, respectively, down 40% and 34% respectively as compared to the first two months of 2015. YTD finished steel imports from China are down 63%.

World Steel Output Falling



The World Steel Association reports world crude steel production declined 3.3% year-on-year in February 2016 to 120 million metric tons as China's steel production declined 4% Y-o-Y to 58.5 million metric tons while Japanese steel production fell 1% to 8.4 million tons

Fe Scrap Exports Off to A Rough Start in 2016

U.S. Ferrous Scrap Exports (ex-stainless steel and alloy steel scrap)

Metric tons

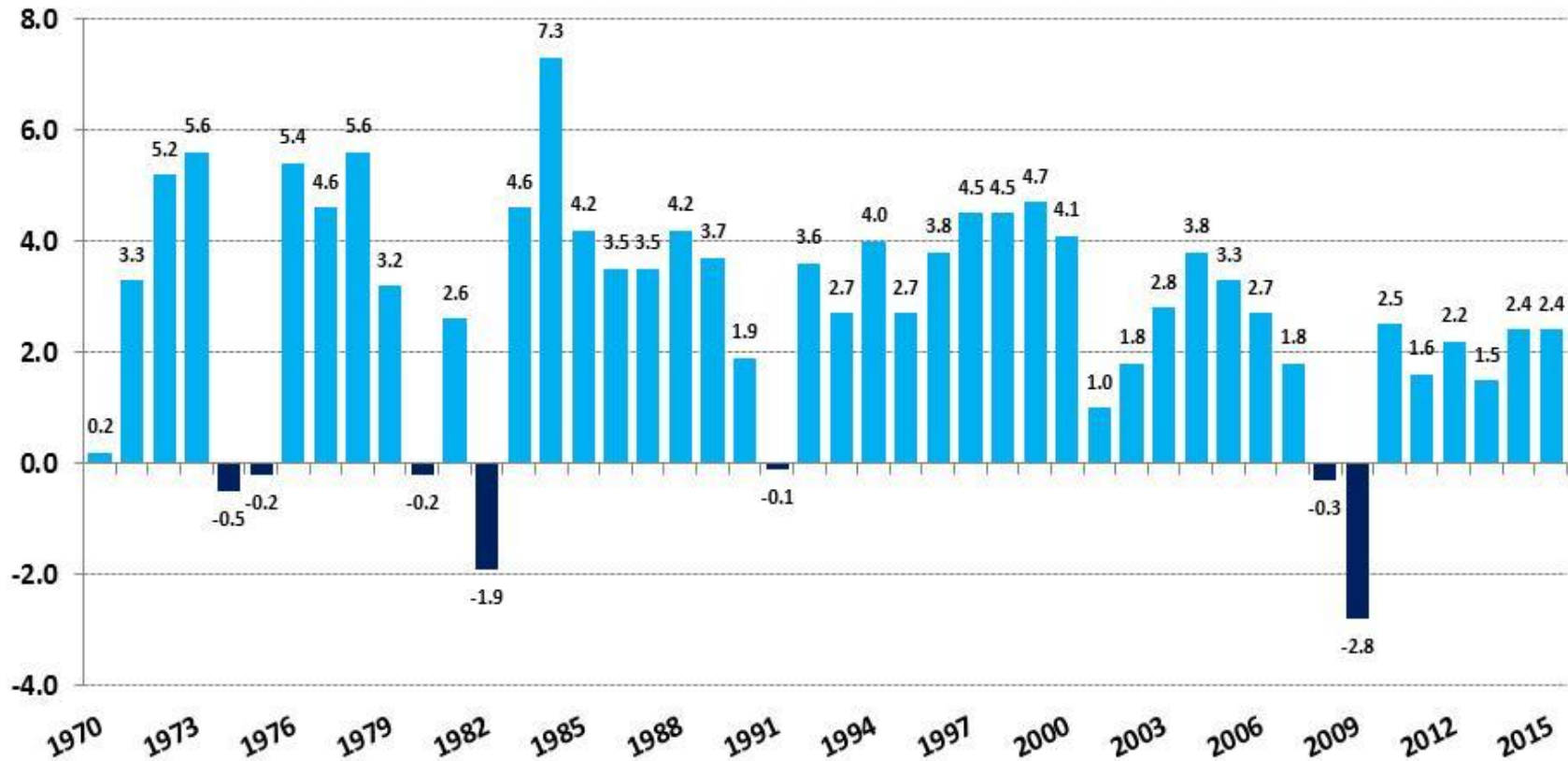
Country	2013	2014	2015	Jan-15	Jan-16	Y-o-Y % CHG
Turkey	5,231,701	3,616,522	3,969,072	334,142	105,399	-69%
India	458,646	503,771	1,014,564	18,229	78,246	329%
Mexico	643,773	689,528	1,068,597	48,805	59,191	21%
Peru	339,313	215,834	335,224	55,898	57,500	3%
Taiwan	2,763,188	2,424,591	1,507,927	160,053	46,942	-71%
Thailand	75,506	477,731	371,938	31,507	35,173	12%
Canada	841,720	849,974	521,077	48,082	18,684	-61%
Pakistan	126,259	226,050	289,025	9,553	17,197	80%
China	1,500,567	497,940	379,180	16,836	14,558	-14%
Bangladesh	41,832	9,993	129,628	978	13,735	1304%
Korea	2,400,444	1,634,749	1,027,519	119,520	12,480	-90%
Vietnam	442,504	310,559	258,516	31,826	2,960	-91%
Hong Kong	41,604	21,851	37,805	1,532	1,393	-9%
UAE	4,214	44,885	10,595	193	1,185	514%
Others	2,385,982	2,715,004	974,049	89,445	3,098	-97%
TOTAL	17,297,253	14,238,982	11,894,716	966,599	467,741	-52%

Sources: U.S. Census Bureau/U.S. International Trade Commission

U.S. Economy Still Growing

Annual U.S. Real GDP Growth, 1970-2015 (%)

Source: Bureau of Economic Analysis



U.S Federal Reserve Forecasts



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Voice of the Recycling Industry

Fed Economic and Federal Funds Rate Projections (March 2016)

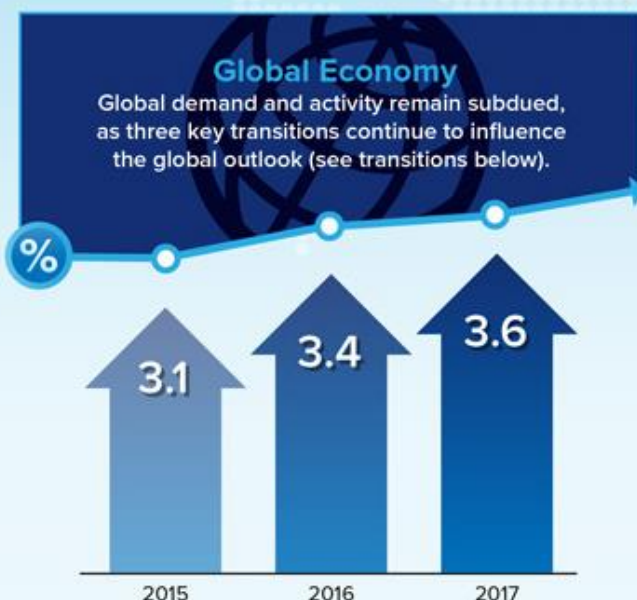
	<i>Central tendency</i>			
	2016	2017	2018	Longer run
Real GDP	2.1%-2.3%	2.0%-2.3%	1.8%-2.1%	1.8%-2.1%
Unemployment Rate	4.6%-4.8%	4.5%-4.7%	4.5%-5.0%	4.7%-5.0%
PCE Inflation	1.0%-1.6%	1.7%-2.0%	1.9%-2.0%	2.0%
Federal Funds Rate	0.9%-1.4%	1.6%-2.4%	2.5%-3.3%	3.0%-3.5%

Source: Board of Governors of the Federal Reserve System

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FUTURE GROWTH RATES

Growth will pick up more gradually than projected in fall 2015, especially in emerging market and developing economies.



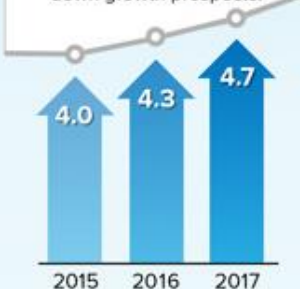
Advanced Economies

A continued modest recovery should gradually close the output gap between real vs. potential GDP.



Emerging Market & Developing Economies

China's slowdown and rebalancing, lower commodity prices, and other strains in some larger emerging market economies are likely to weigh down growth prospects.



	Estimates		Projections	
	2014	2015	2016	2017
World Output	3.4	3.1	3.4	3.6
United States	2.4	2.5	2.6	2.6
Euro Area	0.9	1.5	1.7	1.7
Russia	0.6	-3.7	-1	1
China	7.3	6.9	6.3	6
India	7.3	7.3	7.5	7.5
ASEAN-5	4.6	4.7	4.8	5.1
Brazil	0.1	-3.8	-3.5	0
Mexico	2.3	2.5	2.6	2.9
MENA	2.8	2.5	3.6	3.6
Sub-Saharan Africa	5	3.5	4	4.7
World Trade Volume (goods and services)	3.4	2.6	3.4	4.1

“The premium spread of the **U.S. hot-rolled coil (HRC) price over the Chinese export price has narrowed to the lowest level in three years to \$54/ton** – down from its recent high of \$233/ton in May 2014. During the prior four periods since 2009 when the spread has also narrowed substantially, U.S. **HRC prices have rebounded sharply** thereafter.

Higher Chinese steel prices are an important positive trend

We believe there is still more room to run for steel prices and steel stocks..”

- A global economy contemplates the trade of ferrous scrap across international borders. Such trade must be conducted in a *free and fair manner*
- The global ferrous scrap market is one of the purest examples of supply and demand economics. Any attempt to artificially alter that cycle will, at best, do no good. Instead, history indicates that it can do unanticipated harm
- It is also consistent with ISRI's policy to raise documented unfair or illegal trade practices with the appropriate government agency

- March 15, U.S. Dept. of Commerce announced preliminary margins in the hot-rolled steel anti-dumping case **ranging from as low as 3.97% on imports from Hyundai Steel in Korea to as high as 49.05% for producers in the U.K.**
Preliminary dumping margins were also announced for producers in Australia (23.25%), Brazil (around 34%), Japan (6.79%-11.29%), the Netherlands (5.07%) and Turkey (7.07%)
- March 1, The Commerce Department announced **preliminary duties on cold-rolled steel imports from China, Brazil, India, Japan, Korea, Russia and the U.K., including a 265.79% duty for Chinese steelmakers**
- Preliminary determinations for imports of **corrosion-resistant steel products with rates ranging from 255.8% for Chinese imports to single digits** for other countries including India (6.64-6.92 percent), Korea (2.99-3.51 percent) and Italy (0.0-3.11 percent).

- ISRI and its members are well aware of the state of crisis impacting the U.S. steel industry
- ISRI supports the strongest measures to protect the steel industry from illegal dumping and unfair subsidies that have direct and indirect negative economic impacts throughout the steel manufacturing supply chain
- ISRI calls for vigorous enforcement of trade laws and other efforts by the U.S. and other trade leaders in the OECD to ensure that China remains committed to reign in excess production capacity for crude steel

Searching for Signs of Life...

- Sentiment recently better towards commodities, but most analysts still expect prices to remain lower for longer
- Need for cutbacks in excess global primary commodity capacity and production in order to rebalance commodity markets
- Immediate action is needed to prevent growing trade tensions and recurring crisis
- Cyclical, evolving industry with longer term positive trends



Thank You

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