

U.S. imports of steel and aluminum increased during 2017 in anticipation of tariffs or quotas, yet the Trump Administration pushed its decision into 2018, further boosting imports. Despite this, overall steel, aluminum, and copper prices have increased over the past year amid healthy demand and a tightening of global supply, including cuts to China's production capacity.

## KICKING THE CAN DOWN THE ROAD

In mid-January 2018, the U.S. Commerce Department completed its Section 232 probes into steel and aluminum imports, and President Trump has 90 days to decide whether to impose new tariffs and/or quotas.

Sources: American Iron and Steel Institute



### TARIFF BENEFITS

- Levels the playing field for U.S. steel and aluminum producers
- Protects domestic jobs



### TARIFF RISKS

- Significantly increased metal costs
- Reduced competitiveness for downstream U.S. markets
- Trade war with China
- Disruption to U.S. allies
- Damage to global growth prospects

## COMING ASHORE



▲ 15.5%  
TOTAL U.S. STEEL IMPORTS  
2017, YOY



▲ 12.3%  
UNWROUGHT ALUMINUM IMPORTS  
JANUARY TO NOVEMBER 2017,  
COMPARED TO ALL OF 2016

An 88% increase from the same period in 2015

### FINISHED STEEL IMPORTS (PERCENT OF U.S. STEEL MARKET):



30%  
JUNE 2017



22%  
DECEMBER 2017



27%  
OVERALL 2017

Sources: American Iron and Steel Institute, U.S. International Trade Commission

## IMPORTS UNDERCUT, EVEN AS PRICES RISE

With import prices lower than their U.S. counterparts, ammunition is in place in favor of tariffs. However, steel prices generally increased in 2017, amid strong demand and China's production cuts, which have put the country on track to use 88% of its capacity in 2018—but will that be enough?

Source: Steel Business Briefing



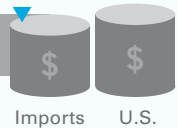
5-10 PERCENTAGE POINTS HIGHER  
GLOBAL CAPACITY UTILIZATION REQUIRED  
TO SUSTAIN STEEL MILLS' PRICING POWER

Source: Bank of America Merrill Lynch

### IMPORT PRICES BELOW U.S. PRICES: (YOY December 2017)

#### HOT ROLLED COIL:

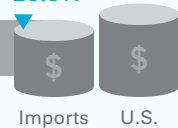
13.1%



Imports U.S.

#### COLD ROLLED COIL:

20.5%



Imports U.S.

#### PLATE:

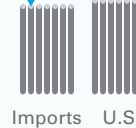
20.0%



Imports U.S.

#### REBAR:

4.3%



Imports U.S.

### U.S. IMPORTS, CIF HOUSTON PRICE PER NET TON: (YOY December 2017)



▲ 6.4%  
\$530 to \$564,  
monthly average



▲ 6.7%  
\$641 to \$684,  
monthly average



▲ 21.5%  
\$466 to \$566,  
monthly average



▲ 29.7%  
\$414 to \$537,  
monthly average



## CRUSHING IT: ALUMINUM PRICES RISE



▲ 19%  
LME CASH OFFICIAL PRICE PER POUND  
YOY DECEMBER 2017

Averaged \$1.00 in January 2018 (up 6.4% MOM), hovering near a six-year high



▲ 13.3%  
ALUMINUM P1020 U.S. MIDWEST  
PREMIUM PER POUND  
YOY DECEMBER 2017

Averaged \$0.11 in January 2018 (up 14.8% MOM)

Sources: London Metal Exchange (LME), Reuters



### PRICE INCREASE FACTORS:

▲ 56% Alumina Prices  
August–October 2017  
After China cut back production

-1.6 Million Metric Tons  
Global Primary Aluminum Deficit  
Through November 2017  
Due to production capacity reductions in  
China and strong demand

▲ 2.6% Global Aluminum Demand  
January–November 2017, versus the  
same period in 2016

Almost a 3-Year High Premium  
U.S. Midwest P1020 Aluminum  
January 2018  
Driven by speculations about  
potential tariffs

Source: World Bureau of  
Metals Statistics

## COPPER: WIRED FOR GROWTH



▲ 20%  
LME CASH OFFICIAL PRICE PER POUND  
YOY DECEMBER 2017

Averaged \$3.21 in January 2018 (up 3.9% MOM)

Source: LME



### PRICE INCREASE FACTORS:

-150,000 Tons Global Refined Copper Deficit  
2017 Estimate

However, China's all-time high refined copper production of 865,000 metric tons in December, poses supply uncertainty for 2018

▲ 51% Global EV Sales  
2017

Improved demand, especially from the electric vehicle sector

Sources: International Copper Study Group, Macquarie Bank

## FORGING TRADE-OFFS

Although fundamentals for steel, aluminum, and copper appear healthy, supply-related price considerations were built into last year's price increases. And while the looming tariff decision may buoy prices near-term, imports will remain an issue until a decision is made. Yes, tariffs would help U.S. steel and aluminum mills, but they could also risk straining profits for downstream players. And it remains to be seen whether China's aluminum and copper capacity cuts will be enough to support global prices.

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