NIM GROUP

MARKET INSIGHT

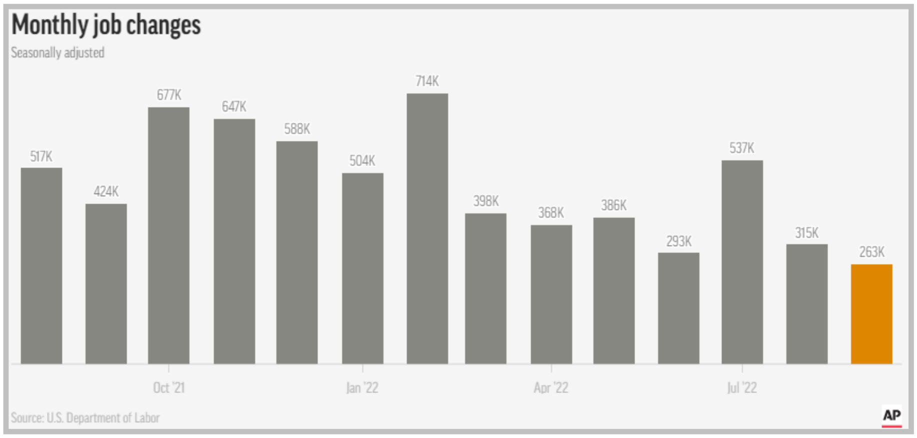
October 2022

ECONOMIC NEWS

U.S. Hiring Stayed Solid In September As Employers Add 263,000 Jobs

America's employers slowed their hiring in September but still added a solid 263,000 jobs — potentially hopeful news that may mean the Federal Reserve's drive to cool the job market and ease inflation is starting to make progress.

Friday's government report showed that last month's job growth was down from 315,000 in August and that the unemployment rate fell from 3.7% to 3.5%, matching a half-century low. Last month's job gain was the smallest since April 2021.



September's slightly more moderate pace of hiring may be welcomed by the Fed, which is trying to restrain the economy enough to tame the worst inflation in four decades without causing a recession. Slower job growth would mean less pressure on employers to raise pay and pass those costs on to their customers through price increases — a recipe for high inflation.

Still, the Fed would need to see more sustained evidence that hiring and pay gains are slowing before it would moderate its interest rate hikes as it fights inflation. In September, hourly wages rose 5% from a year earlier — the slowest year-over-year pace since December but still hotter than the Fed would want. The proportion of Americans who either have a job or are looking for one slipped slightly, a disappointment for those hoping that more people would enter the labor force and help ease worker shortages and upward pressure on wages.

Leisure and hospitality companies, including hotels, restaurants and bars, added 83,000 jobs last month. Health care and social assistance employers gained 75,000 jobs, factories 22,000. But governments cut jobs. Retailers, transportation and warehouse companies reduced employment modestly.

The public anxiety that has arisen over high prices and the prospect of a recession is carrying political consequences as President Joe Biden's Democratic Party struggles to maintain control of Congress in November's midterm elections.

In its epic battle to rein in inflation, the Fed has raised its benchmark interest rate five times this year. It is aiming to slow economic growth enough to reduce annual price increases back toward its 2% target.

It has a long way to go. In August, one key measure of year-over-year inflation, the consumer price index, amounted to 8.3%. And for now, consumer spending — the primary driver of the U.S. economy — is showing resilience. In August, consumers spent a bit more than in July, a sign that the economy was holding up despite rising borrowing rates, violent swings in the stock market and inflated prices for food, rent and other essentials.

Fed Chair Jerome Powell has warned bluntly that the inflation fight will "bring some pain," notably in the form of layoffs and higher unemployment. Some economists remain hopeful that despite the persistent inflation pressures, the Fed will still manage to achieve a so-called soft landing: Slowing growth enough to tame inflation, without going so far as to tip the economy into recession.

It's a notoriously difficult task. And the Fed is trying to accomplish it at a perilous time. The global economy, weakened by food shortages and surging energy prices resulting from Russia's war against Ukraine, may be on the brink of recession. Kristalina Georgieva, managing director of the International Monetary Fund, warned Thursday that the IMF is downgrading its estimates for world economic growth by $4 trillion through 2026 and that "things are more likely to get worse before it gets better.''

Powell and his colleagues on the Fed's policymaking committee want to see signs that the abundance of available jobs — there's currently an average of 1.7 openings for every unemployed American — will steadily decline. Some encouraging news came this week, when the Labor Department reported that job openings fell by 1.1 million in August to 10.1 million, the fewest since June 2021.

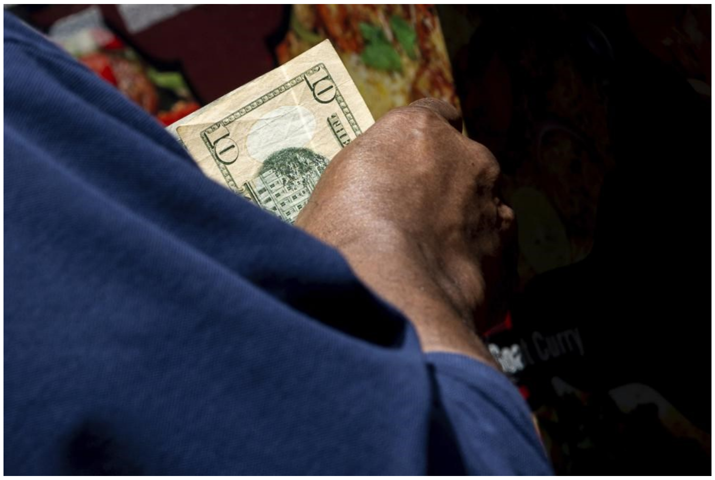
Nick Bunker, head of economic research at the Indeed Hiring Lab, suggested that among the items on "the soft-landing flight checklist'' is "a decline in job openings without a spike in the unemployment rate, and that's what we've seen the last few months."

On the other hand, by any standard of history, openings remain extraordinarily high: In records dating to 2000, they had never topped 10 million in a month until last year.

Economist Daniel Zhao of the jobs website Glassdoor argued that a single-minded focus on the job market might be overdone. Regardless of what happens with jobs and wages, Zhao suggested, the Fed's policymakers won't likely let up on their rate-hike campaign until they see proof that they're actually hitting their target.

"They want to see inflation slowing down," he said. ***Source: Associated Press, 10/7/2022***

US ECONOMY DROPS AT 0.6% ANNUAL RATE FROM APRIL THROUGH JUNE



Battered by surging consumer prices and rising interest rates, the U.S. economy shrank at a 0.6% annual rate from April through June, the government announced Thursday, unchanged from its previous second-quarter estimate.

It marked the second consecutive quarter of economic contraction, one informal rule of thumb for a recession. Most economists, citing a strong and resilient American job market, believe the world's biggest economy is not yet in a downturn. But they worry that it might be headed for one as the Federal Reserve ratchets up interest rates to combat inflation.

Consumer spending grew at a 2% annual rate, but that gain was offset by a drop in business inventories and housing investment.

The U.S. economy has been sending out mixed signals this year. Gross domestic product, or GDP, went backward in the first half of 2022. But the job market has stayed strong. Employers are adding an average 438,000 jobs a month this year, on pace to be the second-best year for hiring (behind 2021) in government records going back to 1940. Unemployment is at 3.7%, low by historic standards. There are currently about two jobs for every unemployed American.

But the Fed has raised interest rates five times this year — most recently Sept. 21 — to rein in consumer prices, which were up 8.3% in August from a year earlier despite plummeting gasoline prices. Higher borrowing costs raise the risk of a recession and higher unemployment. "We have got to get inflation behind us," Fed Chair Jerome Powell said last week. "I wish there was a painless way to do that. There isn't."

The risk of recession -- along with persistently and painfully high prices -- poses an obstacle to President Joe Biden's Democrats as they try to retain control of Congress in November's midterm elections. However, drops in gasoline prices have improved consumers' spirits in the past two months.

Thursday's report was the Commerce Department's third and final take on second-quarter growth. The first look at the economy's July-September performance comes out Oct. 27. Economists, on average, expect that GDP returned to growth in the third quarter, expanding at a modest 1.5% annual pace, according to a survey by the data firm FactSet.

Commerce also on Thursday released revised numbers for past years' GDP. The update showed that the economy performed slightly better in 2020 and 2021 than previously reported. GDP rose 5.9% last year, up from the previously reported 5.7%; and, pounded by the coronavirus pandemic, it shrank 2.8% in 2020, not as bad as the 3.4% previously on record.

GDP remained unchanged for 2018 (2.9%) and 2019 (2.3%). Growth for 2017 was downgraded slightly -- to 2.2% from 2.3%. ***Source: Associated Press, 9/29/2022***

OVER-AGGRESSIVE FED IS BIGGEST RISK TO US EXPANSION: NABE SURVEY

More than half of professional forecasters say that the greatest downside risk to the US economy through next year is too tight monetary policy, a National Association for Business Economics survey showed Monday.

Respondents were split about whether the economy will tip into recession by the end of next year. About one in eight respondents said the probability of a recession occurring this year were over 50%, but 41% said the odds were greater than 50-50 in 2023.

That said, most respondents said economic risks are skewed to the downside. The survey of 45 professional forecasters was conducted Sept. 13-23.

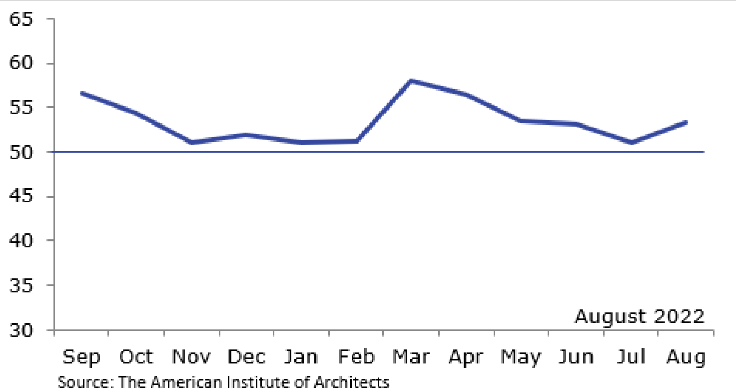
The panelists also downgraded their projections for gross domestic product in 2022 and 2023. Real GDP is now seen growing just 0.1% in the fourth quarter from a year ago. The survey, however, was conducted prior to the government's annual GDP revisions.

Respondents continued to ratchet up their inflation expectations for both this year and next, but they were split on whether a significant rise in unemployment would be needed to normalize underlying inflation.

A third of respondents said a substantial rise in unemployment resulting from Fed tightening would be required, while about the same share said a reduction in labor demand through fewer job openings would be enough. ***Source: Bloomberg, 10/9/2022***

KEY ECONOMIC INDICATORS

Architecture Billings Index (ABI)



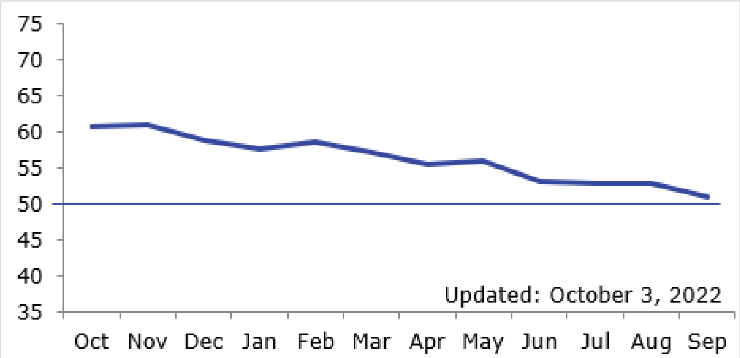
Source: The American Institute of Architects

Business conditions remained generally strong at architecture firms in August. The Architecture Billings Index (ABI) score for the month ticked back up to 53.3 from 51.0 in July, as more firms reported an increase in billings. Inquiries into new projects also increased modestly in August from July, while the value of new design contracts held steady at the same rate of growth it has been at for the last two months. Many firms are still struggling to find enough employees to meet the amount of work they have coming in.

However, business conditions remain mixed by region of the country. Billings softened for the third consecutive month at firms located in the Northeast in August, and have declined for all but two months of the year so far. And while billings continued to rise at firms located in the West, fewer firms reported billings growth in August than they have in several months, and the pace of growth also declined slightly at firms located in the Midwest. Business conditions held steady at firms located in the South, where they were strongest overall for the second month in a row. In addition, firms of all specializations reported an increase in billings in August, with the strongest conditions reported by firms with multifamily residential and institutional specializations.

The **Architecture Billings Index (ABI)** is an economic indicator for nonresidential construction activity. An index score above 50 indicates an increase in firm billings, and a score below 50 indicates a decline in firm billings. ***Source: American Institute for AIA, 9/21/2022***

Purchasing Managers Index®

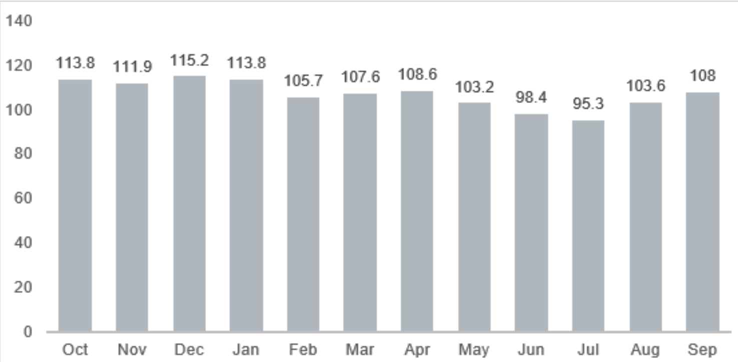


Based on the ISM Report on Business
Source: Institute for Supply Management

The September Manufacturing PMI® registered 50.9 percent, 1.9 percentage points lower than the 52.8 percent recorded in August. This figure indicates expansion in the overall economy for the 28th month in a row after contraction in April and May 2020. The Manufacturing PMI® figure is the lowest since May 2020, when it registered 43.5 percent. The New Orders Index returned to contraction territory at 47.1 percent, 4.2 percentage points lower than the 51.3 percent recorded in August. The Production Index reading of 50.6 percent is a 0.2-percentage point increase compared to August's figure of 50.4 percent. The Prices Index registered 51.7 percent, down 0.8 percentage point compared to the August figure of 52.5 percent. This is the index's lowest reading since June 2020 (51.3 percent). The Backlog of Orders Index registered 50.9 percent, 2.1 percentage points lower than the August reading of 53 percent. After a single month of expansion, the Employment Index contracted at 48.7 percent, 5.5 percentage points lower than the 54.2 percent recorded in August. The Supplier Deliveries Index reading of 52.4 percent is 2.7 percentage points lower than the August figure of 55.1 percent. This is the index's lowest reading since before the coronavirus pandemic (52.2 percent in December 2019). The Inventories Index registered 55.5 percent, 2.4 percentage points higher than the August reading of 53.1 percent.

The Purchasing Managers Index® is based on a monthly survey sent to senior executives at more than 400 companies. A PMI above 50 represents an expansion when compared to the previous month. The further from 50, the greater the change. ***Source: Institute for Supply Management, 10/3/2022.***

Consumer Confidence



Updated: September 27, 2022
The Conference Board

The Conference Board Consumer Confidence Index® increased in September for the second consecutive month. The Index now stands at 108.0 (1985=100), up from 103.6 in August. The Present Situation Index—based on consumers' assessment of current business and labor market conditions—rose to 149.6 from 145.3 last month. The Expectations Index—based on consumers' short-term outlook for income, business, and labor market conditions—increased to 80.3 from 75.8.

The monthly **Consumer Confidence Survey®**, based on a probability-design random sample, is conducted for The Conference Board by Nielsen, a leading global provider of information and analytics around what consumers buy and watch. ***Source: The Conference Board, 9/27/2022***

INDUSTRY NEWS

Aluminum Prices, Physical Delivery Premiums Decline

After substantial declines throughout September, this month's aluminum prices appear strong compared to other metals. Aluminum prices hit a bottom in late September, but rebounded during the first week of October. Should prices continue to break out of range upward, it would indicate a halt of the downtrend amid building bullish sentiment. Despite the recent bounces, however, the momentum of the long-term macro downtrend will continue to add pressure to the index.

The Aluminum Monthly Metals Index (MMI) dropped 8.04% from September to October, with all components declining.

Global Physical Delivery Premiums in Descent

Global physical delivery premiums continue to slide from their respective peaks. Such premiums remain accurate measurements of primary aluminum supply with respect to demand. Therefore, falling premiums suggest waning demand.

According to a report from Reuters, aluminum buyers in Japan recently agreed to pay a premium of $99 per ton for October through December shipments. This is lower than the initial offers from producers in relation to aluminum prices, which ranged between $115 and $133 per ton. This will mark the fourth consecutive quarter of decline. Indeed, current figures sit 33% beneath the $148 per ton paid between July and September. They are also 55% lower than the $220 per ton peak hit during the fourth quarter of 2021. As Asia's largest aluminum importer, premiums negotiated by Japan will become the benchmark for the entire region. Lately, Asian demand has appeared more resilient than that of Western Europe. Still, the continued decline of the Japanese Port quarterly premium suggests demand is also falling there.

Meanwhile, the European Duty Unpaid premium peaked later than Japan's, reaching $505 per ton in May. Nonetheless, that premium has since fallen by 50% and currently stands at over $250 per ton.

The Midwest Premium has also been in decline since late March. After it peaked at over $865 per metric ton, the premium experienced a mostly-steady descent to where it now sits, down 44%. At just over $480 per metric ton, this represents its lowest level since May 2021.

Chinese Production Continues to Buoy Global Supply

As demand appears to soften, global primary aluminum production remains in growth. According to the International Aluminum Institute, August production saw the third consecutive month of increase as global production rose to 5,888,000 metric tons. China alone represented almost 60% of that total. Indeed, continued boosts from China have helped buoy supply as production in regions like Western and Central Europe face increasing constraints.

Beyond Aluminum Prices, Global Manufacturing Looks Increasingly Grim

Meanwhile, global manufacturing paints an increasingly grim picture. In China, COVID restrictions saw the Caixin Manufacturing PMI further entrenched in contractionary territory, falling to 48.1 in September. At 48.4, the Eurozone Manufacturing PMI also marked its seventh consecutive month of decline and third straight month in contraction. Meanwhile, both the U.S. ISM Manufacturing PMI and Japanese Manufacturing PMI remain in growth at 50.9 and 50.8, respectively. September marked the sixth consecutive decline for both Japan and the U.S. as growth continues to slow. Each region saw factory activity pressured downward due to falling demand.

Demand continues to fall due, in part, to increasingly weak manufacturing sectors. Meanwhile, the market is now increasingly oversupplied. The collective impact will likely mean the macro downtrends for both prices and premiums will continue in the coming months. If the U.S. and Japan can maintain growth and China shifts away from its zero-COVID approach, it could add a strong counterbalance to the other bearish trends. **Source: MetalMiner, 10/7/2022.**

HRC and CRC Steel Prices Stagnate Amid Energy Crisis

Hot rolled coil steel prices in Western Europe remain largely unchanged since early September. However, as various market participants told MetalMiner, this is despite attempts by at least one steelmaker to increase them

According to our sources, multiple factors continue to suppress demand for flat rolled products. These include a slowdown of public works programs throughout Europe. Another culprit being rapidly-rising energy prices and lower consumer purchases in the face of economic uncertainty. Recently, high stock levels joined that list as well.

One trader reported that the most recent transactions for flat rolled product occurred at €740-750 ($740-750) per metric ton EXW for October rolling / November delivery. Deals for hot rolled coil also occurred at about €750 ($750) earlier in September for the same rolling and delivery times. It's worth noting this went against the official offer prices of €800 ($800).

Sources added that earlier in September, ArcelorMittal attempted to increase its offer price for flat rolled product to €850 ($850). However, poor demand prompted the Luxembourg-based group to retreat €810 ($810) in the last week.

INDUSTRY NEWS

Imports from Southeast Asia have also impacted the market, as transactions of HRC from Vietnam have occurred at €680-685 ($680-685) per metric ton CIF Bilbao and Antwerp, January delivery.

Applications for HRC include construction and welded pipe production. It is also used as feed stock to produce cold rolled coil, which remains integral to the white good and auto sectors. Typically, CRC carries an average premium of €100 ($100) per metric ton over HRC.

Steel Prices and Energy Prices Continue Their Dance

One trader told us they believe prices would continue declining, reaching around €620 ($620) towards year's end. This is despite the fact that prices normally rise at this time as buyers try to hedge against January mill price hikes. "The key word here is 'normal'," the trader said, referring to Europe's unique economic situation.

In response to market conditions, producers throughout Europe have announced plans to curb crude steel production, either on a temporary or indefinite basis. Flats demand in Spain currently sits at just 40% of normal demand levels, which is about 8 million metric tons.

Fortunately, information from Trading Economics showed energy prices in Europe have substantially decreased, with benchmark Dutch TTF gas hitting €189.78 ($187.61) per kilowatt hour late on Sept. 21. That's a decrease of almost 14% from the €220.54 ($218.03) seen on Sept. 8.

This drop is largely due to action by European governments to curb rising prices and avoid shortages. The European Commission also planes to raise €140 billion ($138 billion) from energy companies' profits and mandatory cuts on energy use.

Trading Economics added that European gas stocks are also above the five-year average at 86%, though Gazprom has indefinitely cut flows via its Nord Stream pipeline. That line runs under the Baltic Sea from Vyborg in northwestern Russia to Lubmin in eastern Germany. **Source: MetalMiner, 9/23/2022.**

US STAINLESS SURCHARGES MIXED IN OCTOBER

Flat-rolled stainless steel raw material and alloy surcharges in the United States are mixed in October after a three-month decline, according to notices posted by North American Stainless (NAS), Outokumpu Stainless USA and Cleveland-Cliffs.

Alloy costs

Surcharges for alloy costs diverged, with nickel and molybdenum rising, iron and manganese falling and chrome unchanged from September.

October surcharges for Type 201 products fell by 1.18-6.48 cents per lb. For Type 304, the price decreased by 0.16-5.84 cents per lb.

For Type 316, the surcharges rose by 3.10-3.11 cents per lb for NAS and Outokumpu but fell by 2.10 cents per lb for Cleveland Cliffs. Surcharges for Type 430 material are dropped by 0.80-5.73 cents per lb.

The London Metal Exchange's three-month nickel contract closed the official session at $21,600 per tonne ($9.80 per lb) on Monday October 3, down 1.42% from $21,910 per tonne ($9.94 per lb) on August 22, and down 0.35% from $21,675 per tonne ($9.83 per lb) on July 22.

Fastmarkets' monthly assessment for stainless steel 304 cold-rolled sheet, fob mill US was $205 per hundredweight ($4,100 per short ton) on September 12, down 1.44% from $208 per cwt on August 10 and down 15.64% from $243 per cwt on July 11. **Source: Fastmarkets, 10/4/2022.**

US DRILL RIG COUNT CREEPS HIGHER

The number of drill rigs operating in the United States increased slightly for the third consecutive week and continued to gradually erase recent declines.

The US oil and gas rig count was reported at 765 last week, up one from 764 the previous week, according to data released by Baker Hughes on Friday September 30.

US oil rigs were at 604, up two from 602 the previous week. Gas rigs decreased by one, falling to 159 from 160, and miscellaneous rigs remained unchanged at two.

Total US rigs in operation have increased by 44.89% year on year from 528 in the comparable week of 2021.

West Texas Intermediate (WTI) crude oil prices were at $79.49 per barrel on Friday September 30, up slightly from $78.74 per barrel on Friday September 23. As of mid-morning Monday October 3, the WTI price had rallied further to $83.76 per barrel.

In Canada, the total operational rig count was 213 last week, down two from 215 the previous week. The total Canadian count is up by 29.09% from 165 rigs at the same time in 2021.

Canadian oil rigs in operation last week totaled 144, down four from 148 the previous week. The gas rig count was reported at 69, up two week on week.

Market participants within the US oil country tubular goods (OCTG) and line pipe segments have been more upbeat than in recent years and expect an improved demand outlook within a limited supply scenario to continue into 2023.

Fastmarkets' assessment for steel seamless OCTG API 5CT – Casing P110, fob mill US was $3,600-3,700 per ton on September 13, up by 5.80% from $3,400-3,500 per ton in August and at its highest level since hitting $3,750 per ton in November 2008.

Fastmarkets' assessment for steel ERW line pipe (X52), fob mill US was at $2,125-2,175 per ton on September 13, down by 4.44% month on month due to falling hot-rolled coil prices. **Source: Fastmarkets, 10/3/2022.**