



PACESETTER
OUR PEOPLE, YOUR ADVANTAGE

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YOUR **EXPECTATION** ADVANTAGE

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PACESETTER 2016

PACESETTER Contributor Jeff Fain, National Accounts

YOUR EXPECTATION ADVANTAGE | 7.26.2016 - 8.1.2016

There's a story that goes something like this.

An 8 year old girl was watching her favorite cartoons on TV when a commercial came on advertising bicycles. The little girl knew her birthday was coming soon and now she knew exactly what she wanted, a brand new shiny bike. On the day of her birthday, she could hardly contain her excitement in anticipation of receiving a beautiful new bike. Present after present came, each opened, and each tossed to the side. With each opened present, she wondered "Where was my bike, who was giving it to me, and why haven't I gotten it yet?"

After all the presents were opened, the little girl sat with her head down, feeling the disappointment from not receiving her new bike. In a flash, her head snapped up, eyes aglow, thinking "Auntie will be here any minute, and she will surely be the one giving me a new bike!" As Auntie's car pulled up to their house, the little girl could not wait to see the new bike, which she had already imagined would be draped in a big pink bow, roll in. However, Auntie came in without a bike, but holding an envelope. Where was the bike?

Auntie was so excited to see the little girl. They hugged, Auntie wished her a "Happy Birthday" and handed the little girl the envelope with excited anticipation. Confused, the little girl opened the envelope to find a birthday card and a \$1,000 bond! The little girl burst into tears and went running to her room.

Expectations are individually created, each based on an individual's personal perception of what will happen. In the case of our story, the little girl had no concept that \$1000 could buy her 10 bicycles, her expectation was of getting a new bicycle for her birthday. Likewise, Auntie thought the little girl would be thrilled to get such a generous gift and had no idea why a \$1000 bond sent her running away in tears. Did Auntie know her sweet girl wanted a bike? Could she have done more to understand exactly what her niece wanted?

We all have internal and external customers who at any given time or situation expect a certain outcome. Our intentions may be to strive to exceed their expectations; however, no matter what extraordinary lengths we may go to, sometimes we fall short. The important question to ask is whether clearly communicated expectations were simply not met or did we just misunderstand what the perceived outcome was supposed to be? This is why it is imperative to find out how they envision the outcome, not how you want them to envision it. I have found that if each of us communicate effectively and understand what outcome is expected, we are able to direct our actions in a way that satisfies all involved.

When customers have a problem, stay involved no matter what it takes, until it is resolved. Strive to exceed expectations and in the case of uncertainty, make sure the other person knows what is going to happen. If we stand behind what we say, tell the truth, and know where the line is drawn between promises, and over promising, we can not only achieve the desired outcome we can exceed it.

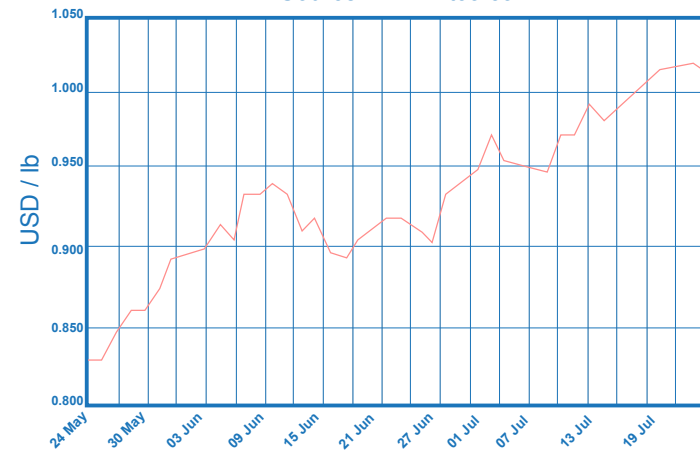


STEEL | 7.26.2016 - 8.1.2016

- + #1 heavy melt scrap fell to \$206 per ton while #1 busheling scrap was steady at \$274 per ton.
- + Raw steel production rose to 74.7% of capacity.
- + Domestic steel lead times for galvanized are averaging 7-1/2 weeks.
- Iron ore FOB Chinese ports is steady at \$55 per dry metric ton.
- Zinc prices are escalating.

60 Day Zinc Spot

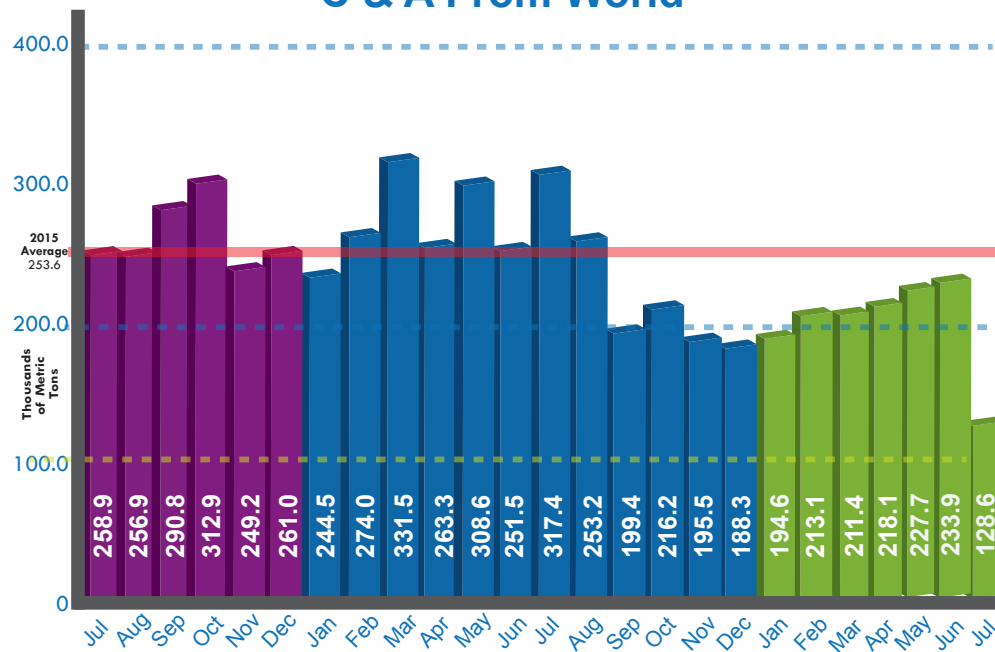
Source: www.kitco.com



STEEL | 7.26.2016 - 8.1.2016

+ Galvanized imports are picking up speed.

U.S. Imports of Sheets & Strip Galv Hot Dipped C & A From World



Source: US Department of Commerce, Enforcement and Compliance | Graph last modified on: July 19, 2016
with Licensing Data collected through July 19, 2016. Commerce license data use for the last month appears in a different color
Data extracted from the import licenses are not official Census data



STEEL | 7.26.2016 - 8.1.2016

+ BHP Billiton is forecasting a 7% increase in iron ore output on the year ahead, adding to a record 257 million metric tons they shipped in the previous 12 months. BHP and the other giant ore producers are trying to expand their margins by finding ways to mine more ore, cheaper instead of cutting back production in hopes of forcing price increases.

- Chinese finished steel production totaled over 100 million metric tons in June. Despite that country's rhetoric about reducing their overcapacity, their June production was a record high.

+ Market comments from service centers according to a recent Bank of America report:

"Flat-rolled imports will be much lower in Q3 but will increase in Q4." – Northeastern service center

"There is not enough import available for prices to erode much from the current market pricing." – Midwestern service center

"It appears everyone is buying what they need and staying domestic to keep short positions for the most part." – Southern service center

"Mills have increased price to the point that imports are heading in." – Midwestern service center

"Mill lead times are compressing as buyers hold off. Yet import options are

limited. Buyers are going to do more damage to themselves by playing the waiting game." – Northeastern service center

"The price delta between world pricing and North American Coated and CR pricing is too large. It will attract more imports late summer/fall." – Canadian service center

"The USA premium is so great that alternatives will be found, trialed, and eventually supply will increase." – Midwestern service center

"Conjoined twins. Increased import levels are a 2017 story. Until solid substitute tons are imminent, domestic mills will retain pricing power." – Midwestern service center

- Service centers in the US shipped 3.39 million tons of steel in June, down 5.1% from last year. Inventories at the end of June totaled 7.64 million tons, 16.5% lower than a year ago, representing 2.3 months' worth. Canadian service centers shipped 374,100 tons in June, down 14.4% from last year. Inventories were 1.12 million tons, down a whopping 26% from last year, representing 3 months' worth of stock.

+ Steel Dynamics Inc. posted a Q2 net profit of almost \$142 million, up over 4 times their profits a year ago. Their net sales were \$2.02 billion, up slightly from last year. Their capacity utilization was 95% of capacity. SDI management predicts pricing to be relatively flat in the near term.



STEEL | 7.26.2016 - 8.1.2016

- According to the U.S. government's determination, antidumping (AD) and countervailing (CVD) duties for cold-rolled steel imports by producers in each country are:

- Brazil --14.35 to 35.43 percent (AD); 11.09-11.31 percent (CVD).
- India -- 7.60 percent (AD); 10.00 percent (CVD).
- Russian -- 13.36 percent (AD); and 6.95 percent (CVD).
- South Korea – 6.32 to 34.33 percent (AD); 3.91 to 58.36 percent (CVD).
- United Kingdom -- 5.40 to 25.56 percent (AD).

- Regarding corrosion resistant steel imports to the US, the final AD margins are as follows:

CHINA

Yieh Phui (China) Technomaterial Co., Ltd.	209.97%
Jiangyin Zongcheng Steel Co., Ltd.	209.97%
Union Steel China	209.97%
All Other Chinese Producers and Exporters	209.97%

INDIA

JSW Steel Limited and JSW Coated Products Limited	4.43%
Uttam Galva Steels, Ltd. and affiliated companies	3.05%
All Other Indian Producers and Exporters	3.86%

ITALY

Acciaieria Arvedia S.p.A.	12.63%
Marcegaglia S.p.A.	92.12%

All Other Italian Producers and Exporters 12.63%

KOREA

Dongkuk Steel Mill Co., Ltd. / Union Steel Manufacturing Co., Ltd.	8.75%
Hyundai Steel Company	47.80%
All Other Korean Producers and Exporters	28.28%

TAIWAN

Prosperity Tieh Enterprise Co., Ltd.	10.34%
Yieh Phui Enterprise Co., Ltd. and Synn Industrial Co., Ltd.	10.34%
All Other Taiwanese Producers and Exporters	10.34%

The final CVD margins for corrosion resistant steel are as follows:

CHINA

Yieh Phui (China) Technomaterial Co., Ltd.	39.05%
Angang Group Hong Kong Co., Ltd.	241.07%
Baoshan Iron & Steel Co., Ltd.	241.07%
Duferco S.A.; Hebei Iron & Steel Group; and Tangshan Iron and Steel Group Co., Ltd.	241.07%
Changshu Everbright Material Technology	241.07%
Handan Iron & Steel Group	241.07%
All Others	39.05%

INDIA

JSW Steel Limited	29.49%
Uttam Galva Steels, Ltd.	8.00%
All Others	18.73%

ITALY

Acciaieria Arvedia S.p.A.	0.48%
Marcegaglia S.p.A.	0.07%
ILVA S.p.A.	38.51%
All Others	13.02%

KOREA

Union Steel Manufacturing Co., Ltd. / Dongkuk Steel Mill Co., Ltd.	0.72%
Dongbu Steel Co., Ltd. / Dongbu Incheon Steel Co., Ltd.	1.19%
All Others	1.19%

TAIWAN: The DOC made a negative final CVD determination with respect to Taiwan, and as a result that investigation was terminated



AUTOMOTIVE | 7.26.2016 - 8.1.2016

+ The state of Michigan purchased part (311 acres) of the historic Willow Run plant in Ypsilanti, Michigan to convert into a state of the art autonomous car development and research facility. Automakers, colleges, and government agencies will be able to develop and test vehicles able to drive on their own and “talk” to each other. Back in WW2, the plant was built by Ford to produce B-24 bombers. Once they got the assembly line running, Ford produced a new bomber, ready to fly to Europe, every 55 minutes. Most recently, the plant was used by GM to produce over 5 million automatic transmissions before the plant was closed a few

- Unionized workers at Kia and Hyundai plants in Korea walked off the job in shifts from last Tuesday through Friday to protest wage and working conditions. Production of around 7,000 vehicles was lost. Negotiations are to resume after August 8.

+ Ford Motor Co. said Monday it will offer Apple CarPlay and Android Auto smartphone connectivity on its full lineup of 2017 vehicles, marking the fastest rollout of the technology so far by an automaker in the U.S. Competitors have been introducing the popular features a few nameplates at a time over several years, but Ford, which offered no 2016 models with Apple or Android integration, is doing it all at once. By the end of this year, all Ford and Lincoln vehicles will have the features built into Sync 3, which is replacing the MyFord Touch system.





GENERAL | 7.26.2016 - 8.1.2016

+ Housing Starts rose 4.8% in June and permits rose 1.5% showing some continued demand.

+ Existing Home Sales rose 1.1% in June as the average price of a used home rose to \$247,700. The inventory of unsold used homes fell to 4.6 months.

+ China's migratory factory workers are heading home. 15 years ago Chinese farmers sent their kids to the cities looking for factory jobs. Now, as China's manufacturing boom deteriorates, the "kids" are coming home as adults and they have some skills they hope can be translated into small business back home. China is hoping these migrant workers can find ways to make an income as independent business owners. In Guizhou Provence alone, 520,000 migrants came back in 2011. Last year the number was 1.2 million. The Chinese government claims they are not keeping tabs on how many migrant workers are going back to rural areas, but I'll bet the government is hoping they find something to do.

- The US economic recovery is now seven years old. So why don't many Americans feel like they've recovered? The current economic expansion, which began after the global financial crisis of 2008, is among the longest in modern US history. Statistics show the jobs market is improving and the unemployment rate has fallen. Fourteen million new jobs have been created in the private sector since 2010. Manufacturing alone has added 900,000 jobs. Car sales hit a record high in 2015. Janet Yellen has said "the economy has made further progress," yet despite her reassuring words and all the encouraging data, the question vexing economists is why the country isn't in better shape. You don't have to look far to see signs of the economy's fragility. Eleven million Americans spent half of their income on rent in 2014, a record high. The rule of thumb is that you shouldn't spend more than 30% of your income on rent but with rents rising faster than wages that's impossible for many. What about the gross domestic product (GDP), which takes into account everything we spend our money on? The US GDP grew just 1.1% from January to March. The country's labor participation rate (the share of the workforce in employment or looking for a job) is low. Currently it stands below 63%, the lowest level since the 1970s. Income inequality between countries has gone down as a result of globalization, but it has gone up within countries. While workers in some parts of the world now have more opportunities, Americans have lost jobs or seen their earning power decrease. According to a recent survey by the Federal Reserve, nearly half of all American adults couldn't scrape together \$400 to cover a financial emergency such as a health problem or a car that needed fixing. To stop the American Dream from being downsized, prosperity must be restored. The challenge for our next president is how.

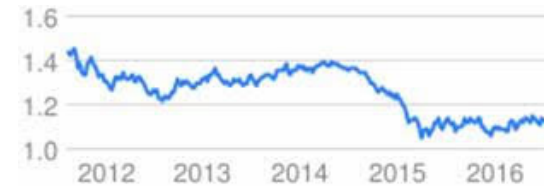
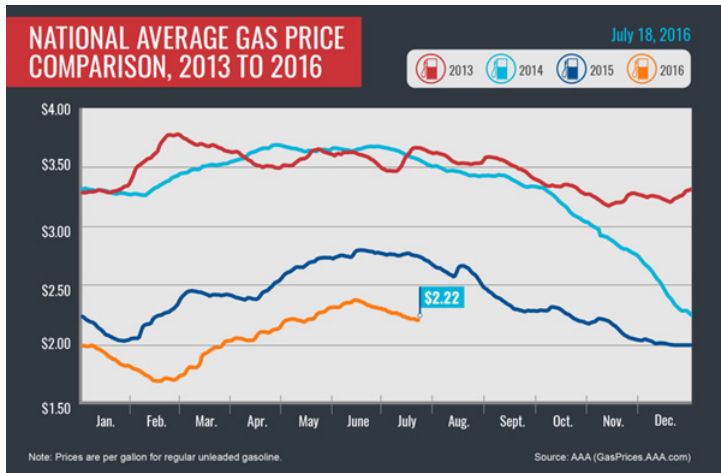




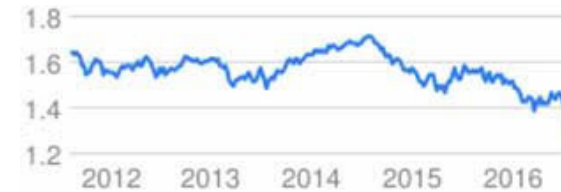
GENERAL | 7.26.2016 - 8.1.2016

+ Gasoline prices are at their lowest level for this time of year since 2004. Crude oil inventory fell as refineries operated at 93.2% of capacity.

+ The value of the US Dollar against the British Pound and Euro has gained strength recently. This makes imports to the US cheaper for us, and the cost of international travel cheaper for us too.



1 Euro equals 1.10 US Dollar



1 British Pound equals 1.31 US Dollar

- The U.S. federal debt moved above \$19,400,000,000,000 for the first time at the close of business on July 19, according to the data released by the U.S. Treasury. When will the spending end? Our country can't keep spending funds it doesn't have.



BILL'S ROUND-UP | 7.26.2016 - 8.1.2016

Housing sales and construction continues to grow, but the state of our economy continues to be fragile. China is having their own economic pains as their manufacturing boom continues to cool off. The value of the US Dollar is gaining strength, proving that while our economy isn't as strong as we would like, it is doing better than others. The price of gasoline continues to fall, giving consumers some breathing room in their budgets. Domestic mill lead times are pulling back. Mills are still producing briskly, but their order books are getting caught up. Steel imports are picking up speed in spite of all the dumping fees being applied. The auto industry continues to invest in high tech systems for future vehicles, but they can't forget to keep their assembly line workers happy.



Bill Feier, World Sourcing Manager

PARTING SHOT:

+ Try to learn something about everything and everything about something.
- Thomas Huxley (1825 to 1895)



'TIL NEXT TIME | 8.2.2016



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