

MARKET ADVISORY

Direct Materials Market Q1 2024



EXECUTIVE SUMMARY



Metals

- Most ferrous and non-ferrous metals remain at or near 36-month lows; some producers are shorting supply to prop pricing.
- Hot Rolled Coil Steel prices increased 48% in Q4 2023, most commodity analysts and steel buyers expect pricing to peak in Q1 2024 and then decrease moderately through the remainder of the year.

Resins




- Key resin indices are trading in a flat range over the last 15 months, indicating a bottom from pandemic highs.
- In January, the Polypropylene index increased 8% while the Polyethylene index prices remained flat over the previous month.

Food & Beverage

- PPI for food manufacturers has shown decreases over the past quarter, pointing to potential market stabilization and a slowing of inflation for consumers.
- In Q1, poultry, beef, eggs, and cocoa prices are expected to modestly increase. Pork, butter, most grains, and oils prices are expected to decrease.

METALS MARKET UPDATE

METAL	MARKET STATUS
Steel Scrap	
Aluminum	
Nickel	
Zinc	
Steel Rebar	
Copper	
Hot Rolled Steel	
Cold Rolled Steel	

MARKET STATUS ¹	DESCRIPTION
 Buyer's	Represents commodities with a clear downward price trend in recent months, and supply / demand dynamics and other market pressures indicate the trend should continue
 Hold	Represents commodities with relatively flat or inconsistent trends in recent months, and / or market pressures do not provide a clear indication in either direction
 Seller's	Represents commodities with a clear upward price trend in recent months, and supply / demand dynamics and other market pressures indicate the trend should continue

¹Market status is based on recent price trends and other current market information, but are not a guarantee of future commodity performance. Insight Sourcing is not responsible for any deviations from the communicated market status.

Steel Scrap

Market Status: Buyer's

- Steel Scrap remains unchanged MoM and has decreased 67% YoY.
- Global supply increases and weakening demand have driven the stainless steel scrap prices to their lowest level since 2020.
- Steel scrap prices fell in 2023 largely due to a global pullback in demand, but demand is expected to be strong in the long term as scrap will play a prominent role in sustainability initiatives.
- 75% of market analysts believe that steel scrap will trade at higher prices in H2 2024.
- Procurement should secure pricing and volumes at current rates due to the likelihood of future price increases.

Steel Rebar

Market Status: Buyer's

- Steel Rebar increased 5% MoM and has decreased 5% YoY.
- Steel Rebar remains flat as the construction industry slows due to higher interest rates. Possible future rate decreases may lead to increases in rebar prices.
- Chinese economic stimulus is expected to increase demand for steel rebar as local governments implement infrastructure projects in early 2024.
- Moderate price increases are expected in 2024 due to projected increases in construction activity.
- Procurement should continue to buy as required.

Sources: Fast Markets; London Metal Exchange, International Trade Administration

Aluminum

Market Status: Buyer's

- Aluminum increased 2% MoM and has decreased 15% YoY.
- As of December, Russian aluminum accounted for nearly 90% of LME inventory.
- Some indicators suggest the market may be picking up – monthly LME trading volume and open interest have increased 170%+ in 2023.
- LME Aluminum contracts are trading 2 – 5% higher than current cash prices.
- Procurement should look to consolidate and leverage volumes at current price levels.

Copper

Market Status: Buyer's

- Copper decreased 1% MoM and has decreased 10% YoY.
- Renewable energy industry is likely to bolster future copper demand in applications such as electric vehicles, solar panels, and wind turbines.
- Global copper supply increased when BHP, operator of the largest copper mine, announced an 11% increase in copper production.
- Future supply concerns due to estimates for renewable energy growth outpace copper supply capabilities due to lengthy Chilean mine construction periods.
- Prices are expected to remain stable, futures contracts are trading 1% higher for the first half of 2024. Procurement should buy as required.

Sources: Fast Markets; London Metal Exchange, Wood Mackenzie

Hot + Cold Rolled Steel

Market Status: Hold 

- Hot Rolled Steel increased 5% MoM and has increased 48% YoY.
- Cold Rolled Steel increased 4% MoM and has increased 41% YoY.
- U.S. steel market prices have continued to increase in recent months due to lower production levels and increases in mill lead times.
- Maintenance-related outages saw utilization rates fall to their lowest levels since January, at 73.8% during the third week of October.
- Demand from the automotive and energy sectors has increased due to the conclusion of the UAW strike and leveling interest rates.
- Prices are expected to remain elevated in Q1 2024, but futures contracts are trading 10 – 20% lower for the remainder of the year.

Sources: *Fast Markets; London Metal Exchange, International Trade Administration*



Nickel

Market Status: Buyer's

- Nickel decreased 1% MoM and has decreased 45% YoY.
- Nickel prices continue to decrease, reaching a two-year low because of downward pressure due to production surplus.
- Indonesia expected to increase production levels and plans for a new ore pricing mechanism. Their Nickel ore reserves account for 30% of global supply.
- Chinese economic stimulus and extension of value-added tax exemptions for new energy vehicles have increased demand.
- Future contract prices for the first half of 2024 deviate less than 2% from current prices. Procurement should buy as required.

Zinc

Market Status: Buyer's

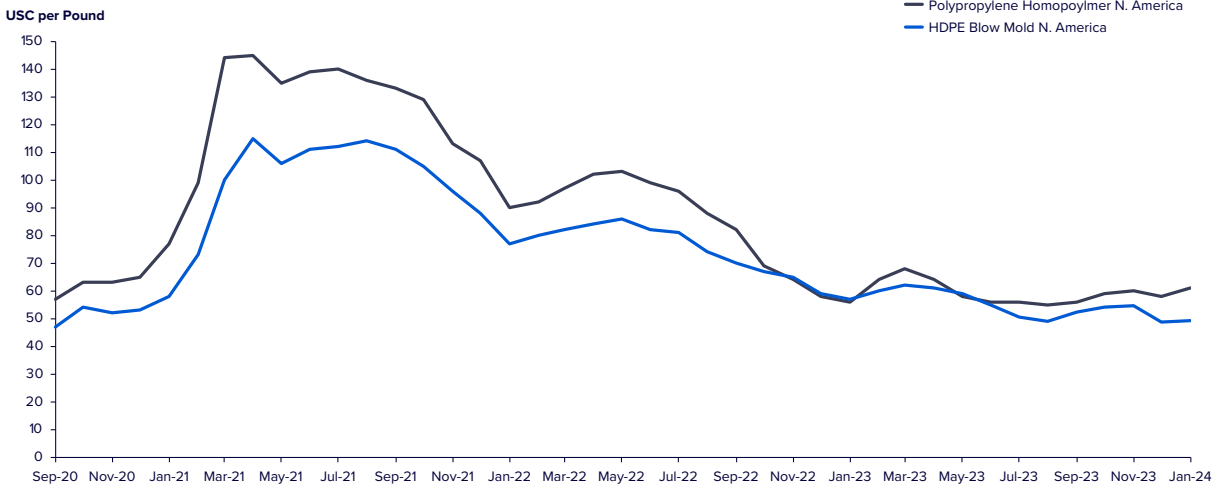
- Zinc decreased 1% MoM and has decreased 28% YoY.
- Zinc prices are decreasing due to weak Chinese demand.
- Chinese refined zinc output continued to increase with strong run rates at Chinese smelters. Increased Chinese manufacturing has offset European manufacturing decreases with increasing energy costs caused by the Russia-Ukraine conflict.
- Market analysts expect zinc prices to increase modestly over 2024. Procurement should buy as required.

Sources: Fast Markets; London Metal Exchange, Wood Mackenzie



RESINS MARKET UPDATE

POLYPROPYLENE AND POLYETHYLENE



Polypropylene (PP)

Market Status: Hold

- Polypropylene increased 5% MoM and has increased 8% YoY.
- While Polypropylene prices are still significantly lower than their pandemic highs, the market has remained essentially flat since Q4 2022.
- North American PP production capacity has increased 18% over the last five years, causing a supply overhang as consumption only increased 7%. More capacity is forecasted in 2024, including a new 250,000 T/yr line by Formosa.
- The conflict in the Red Sea continues to impact Europe's supply as 19% of consumption is imported from the Middle East and Asia, driving up the spot market and increasing US exports to the continent.
- Currently experiencing short-term softening, recycled Polypropylene demand is expected to increase in the coming years with growing brand owners' commitments to circularity, albeit slower than other recycled resins more directly tied to regulatory mandates.

Polyethylene (PE)

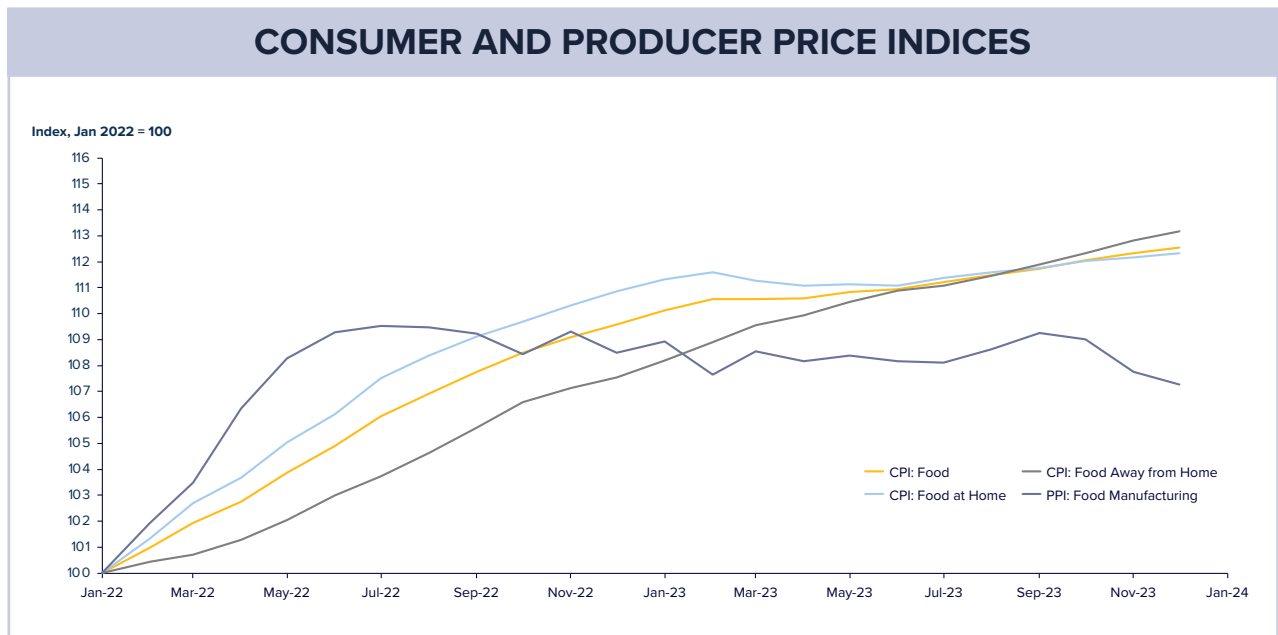
Market Status: Buyer's

- Polyethylene remained flat MoM and has decreased 12% YoY.
- December contracts for Polyethylene settle flat on sufficient supply balance for almost all grades, flattening out the marked downtrend in price from 2021 highs.
- Feedstock markets such as Ethylene are marked by soft demand and long supply, while a winter weather natural gas rally boots spot prices.
- U.S. spot export prices for Polyethylene are beginning to tick higher as the significant cost advantage of U.S. producers is keeping U.S. product attractive in most major export destinations.
- U.S. recycled Polyethylene are trading in a broad range of prices depending on application, with food-grade R-HDPE topping \$1.18/lb and stretch film R-LDPE reaching \$0.70/lb, though non-food grade R-HDPE sold for as low as \$0.65/lb.

Source: ProPurchaser, RBN Energy, Plastics Technology, Plastics Today; Conversations with Market Participants

FOOD & BEVERAGE MARKET UPDATE

Since January 2022, the various CPI food measures have increased over 10%; however, after a brief summer spike, PPI for food manufacturers has shown relief, indicating input cost stability and the potential for cost stabilization to consumers.



Sources: U.S. Bureau of Labor Statistics, retrieved from FRED, Federal Reserve Bank of St. Louis
Notes: CPI reported monthly, seasonally adjusted; PPI reported monthly, not seasonally adjusted



Within the fresh categories, modest price increases are expected in Q1 for all except Pork; Pantry category pricing is expected to be favorable to buyers in Q1, excluding Cocoa.



Fresh: Proteins, Eggs, Dairy

- **Beef:** Expect modest price increases in near-term. Herd sizes are reduced, impacting overall supply. But higher average weight remains above prior year, offsetting some supply pressures. If herd sizes can be rebuilt, some relief will be seen longer term.
- **Poultry:** Projected near-term price increases. Harvest remains down compared to prior year, but bird weight remains elevated, softening some, but not all, supply constraints. Lower supplies, retail features, and traditional demand cycles all point towards near-term price increases.
- **Pork:** This should be a favorable market for buyers in Q1. Production costs remain historically high and overall herd size is decreasing; however, the capital investments made by pork producers as well as the increased efficiencies will provide stable supply despite a reduction in demand.
- **Eggs:** The market faces a tight supply due to recent avian flu outbreaks, leading to reduced flock sizes. However, most do not expect this outbreak to be to the severity or have the pricing impacts we saw in Q4 '22 – Q1 '23. This situation, coupled with consistent consumer demand, is likely to drive egg prices higher in the short term.
- **Dairy:** The near-term futures contracts for milk, cheese, and whey are all up. Butter has shown immediate relief post-holiday baking season, with a projected modest rebound in February – March, but still higher YoY.

Pantry: Grains, Oils, Others

- **Grains:** Stable to lower prices should be expected in Q1. In the U.S., record corn yields have increased production, offset somewhat by higher feed and ethanol use. Soybeans have seen significant yield increases, leading to higher ending stocks. Additionally, wheat production has risen in key regions like Russia and Ukraine, with export projections also increasing for several countries. This abundance in supply, coupled with a challenging export environment, suggests a favorable market for buyers.
- **Oils:** Soybean pricing remains in a slight decline; recent news about declining export numbers coupled with increased production outlooks in international markets (Brazil) continues to provide downward pressure on domestic pricing.
- **Others:** For coffee, after some turbulence due to a drier season in key growing regions in Brazil, recent rainfall has comfortably moved Arabica back into stable territory; Cocoa continues its record setting climb and shows no signs of slowing down despite many thinking “it can’t keep getting higher.”

Sources: U.S. Bureau of Labor Statistics; U.S. Department of Agriculture; CME; ArrowStream; Conversations with Market Participants



ABOUT INSIGHT SOURCING

Insight Sourcing is home to the largest team of dedicated sourcing experts in North America exclusively focused on procurement optimization and Procurement Value Creation™.

Our unique blend of procurement specialization, market leading Category Centers of Excellence, and proprietary digital accelerator, Insight TechAssist, has helped countless corporations and Private Equity firms develop tailored strategies to drive results.

In 2024, Insight Sourcing became part of Accenture. To learn more, visit www.insightsourcing.com



To learn more, visit www.insightsourcing.com
or call (877) 545-5182 for a consultation.
info@insightsourcing.com