

MARKET ADVISORY

Direct Materials Market Q4 2023



EXECUTIVE SUMMARY



Metals

- Steel prices continue their downward trend in Q3 2023, further decreases could be expected depending on the outcome of the UAW strike.
- Aluminum prices began to increase slightly at the end of Q3 2023, significant increases are not expected due to weak demand and the UAW strike.
- Many steel and aluminum purchasers may look to purchase increased volumes while rates are lower than projections.

Resins




- Resin prices began to stabilize at the end of Q3 2023, September PP and PE prices increased 10% and 6%, respectively, over the previous month.

Food & Beverage

- CPI increases have slowed significantly compared to prior three years, however, PPI for Food Manufacturers has moved upwards at an increasing rate, typically a leading indicator of consumer facing prices.
- Outside of standard volatility and seasonally fresh dynamics (protein, produce, dairy), pricing appears to be stabilizing. Staples and pantry items continue to trend upward with price increases.

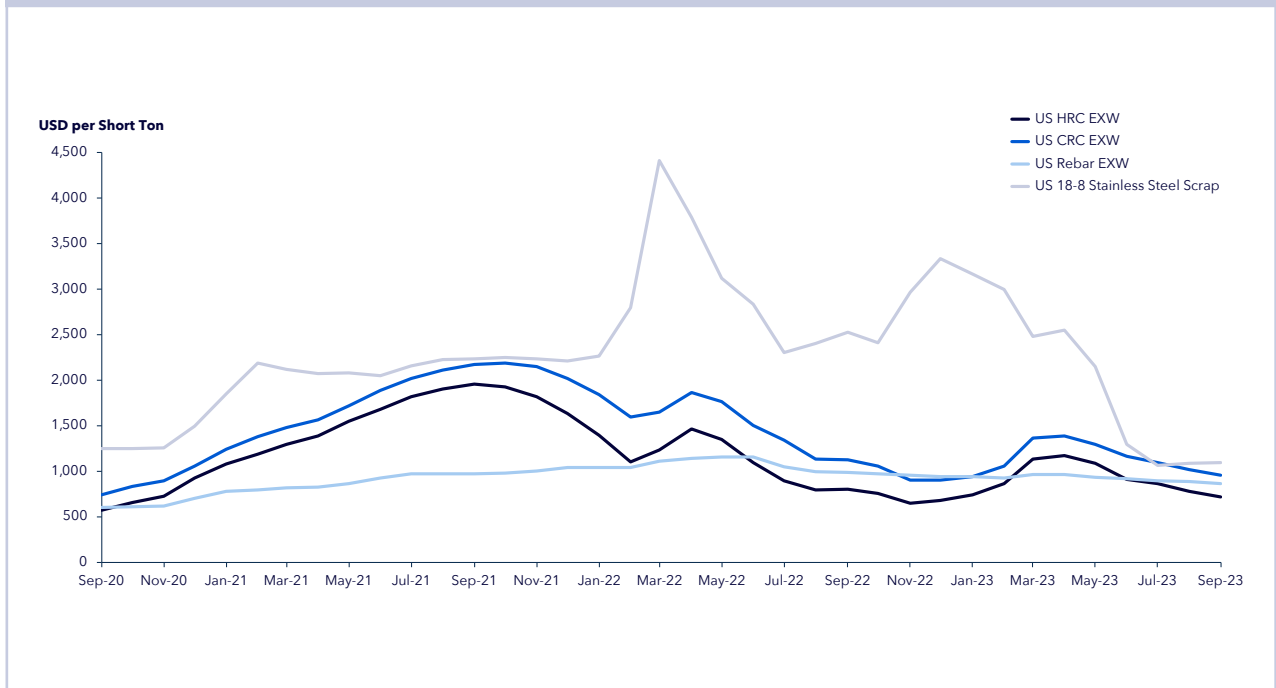
METALS MARKET UPDATE

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

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.

FERROUS METALS



Source: Platts

Steel Scrap

Market Status: Buyer's 

- Steel Scrap increased 1% MoM and has decreased 57% YoY.
- Falling US coil prices and union strikes have offset a modest rise in raw material demand and a resurging export market ahead of October's ferrous scrap trade.
- October's Trend Indicator is at a bearish 45.6, signaling a 3.1% monthly price drop with most respondents attributing this to reduced scrap demand.
- Early 2024 forecasts indicate prime scrap grades expected to outperform other grades moving into the new year.

Steel Rebar

Market Status: Buyer's 

- Steel Rebar prices decreased 3% MoM and has decreased 12% year over year.
- Steel Rebar futures hover near 6-week lows due to financial concerns in China's property development sector.
- Despite challenges, JPMorgan believes China's steel consumption will persist and be driven by their robust infrastructure development plans.
- Steel Rebar's high correlation with the resilient construction industry is the main reason its prices have been less volatile than other steel markets.

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

Hot + Cold Rolled Steel

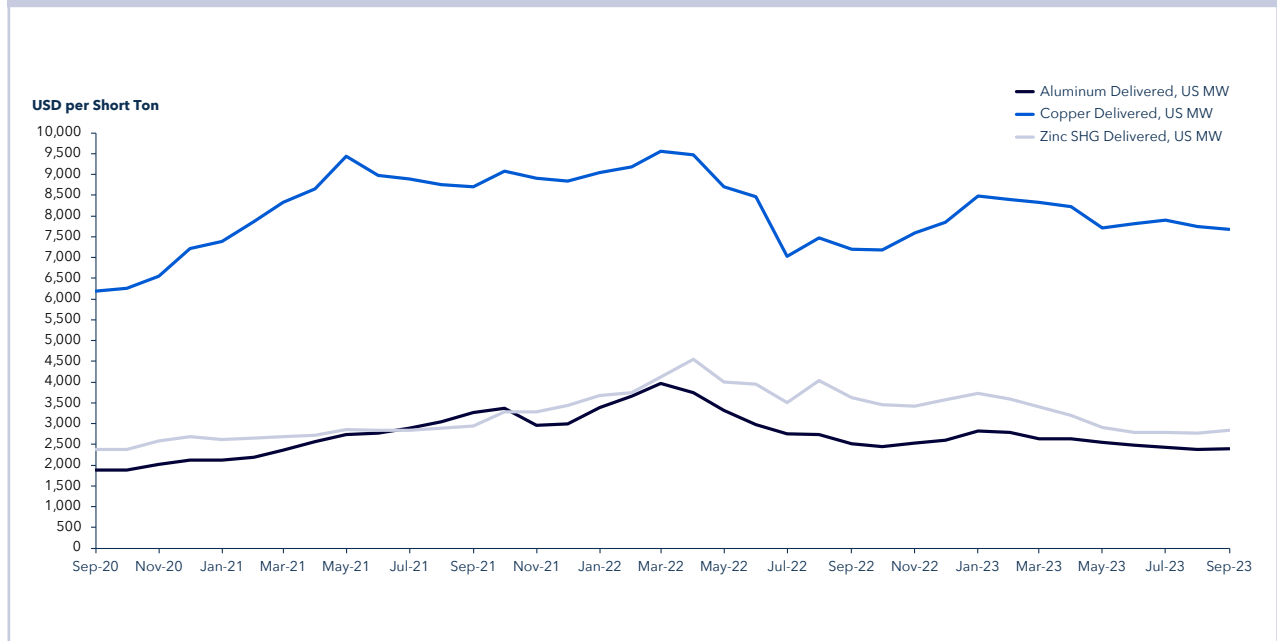
Market Status: Buyer's 

- Hot Rolled Steel decreased 8% MoM and has decreased 11% YoY.
- Cold Rolled Steel decreased 6% MoM and has decreased 15% YoY.
- US steel prices, mill lead times, and foreign steel imports have continued to decline month over month, signaling a broader US steel market decline.
- Elevated interest rates have increased the cost of holding inventory, increasing U.S. companies' reluctance to commit to future steel volumes.
- UAW strike has potential to significantly weaken demand, which is already lower than supply.
- Despite stimulus efforts, stagnant Chinese Steel prices indicate a continuation of the downward trajectory.

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



NON-FERROUS METALS



Source: Platts

Aluminum

Market Status: Buyer's 

- Aluminum increased 1% MoM and has decreased 5% YoY.
- Aluminum is highly sensitive to macroeconomic factors and has been influenced by central banks' interest rate hikes and other contractionary policy.
- UAW strike could decrease aluminum prices further but also holds the potential to increase secondary aluminum prices as the big 3 automakers hold a substantial portion of the recycled aluminum supply market.
- China's recent stimulus and India's focus on infrastructure development has the potential to bolster the Aluminum market in the future.

Copper

Market Status: Hold 

- Copper decreased 1% MoM and has increased 6% YoY.
- Weak demand, high interest rates, and a poor global economic environment have analysts pessimistic about the copper market.
- Copper prices declined 5% during the UAW strike in 2019, prices should be followed closely for the remainder of the year.
- Both Europe and the U.S.'s manufacturing sector has continued to contract and kept demand for copper low.
- Copper's essential role in electrical grids, combined with a rising focus on renewable energy is expected to boost its demand in the long term.

Sources: Fast Markets; Platts; London Metal Exchange, Wood Mackenzie

Nickel

Market Status: Buyer's

- Nickel prices decreased 5% MoM and has decreased 15% YoY.
- Nickel prices have hit a two-year low and are projected to continue their downward trajectory due to a supply surplus.
- Chinese nickel sulphate producers are converting their excess nickel sulphate to nickel metal which will further increase the surplus and drive down Nickel prices.
- Nickel producers are cutting production and negotiating with buyers directly, which increases the likelihood of price volatility over the short-term.
- Declining market, procurement teams should look to test the market and/or negotiate for lower prices with current vendors.

Zinc

Market Status: Buyer's

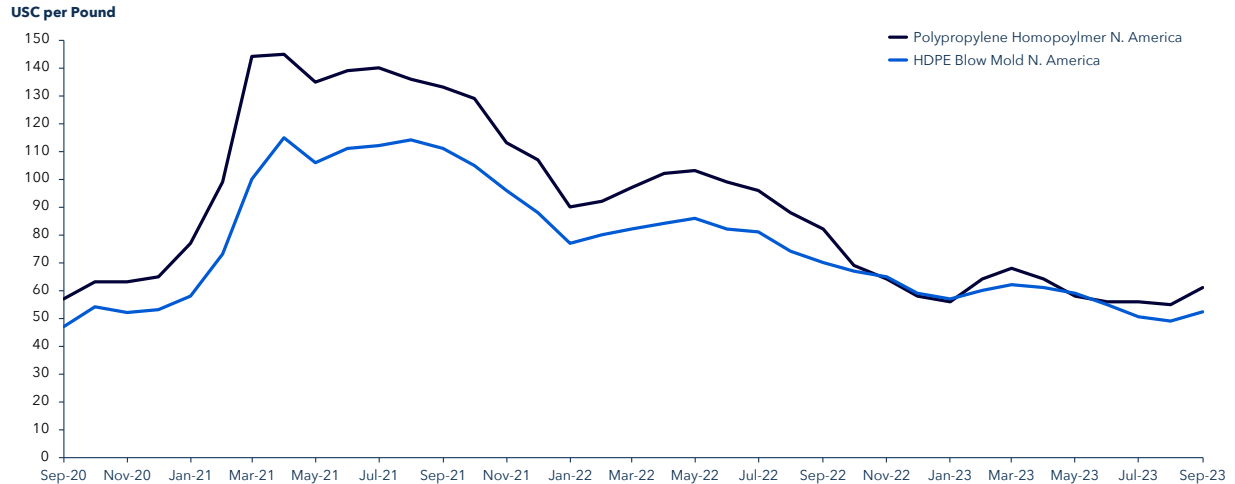
- Zinc prices increased 3% MoM and has decreased 22% YoY.
- Europe's dramatic decrease in demand for Zinc along with China's slow economic recovery post-covid has kept demand low.
- Although Zinc prices have risen slightly this month, there have not been any fundamental changes in the evidence that points towards continued contraction.
- Market remains lower than past few years. Procurement teams should look to test the market and/or negotiate for lower prices with current vendors.

Sources: Fast Markets; Platts; London Metal Exchange, Wood Mackenzie



RESINS MARKET UPDATE

POLYPROPYLENE AND POLYETHYLENE



Polypropylene (PP)

Market Status: Buyer's 

- Polypropylene increased 10% MoM and has decreased 25% YoY.
- While Polypropylene prices increased 10% MoM, market prices are still significantly lower than price levels seen over the last 3 years.
- If the UAW strike continues to impact production at the current rate, it's estimated that the demand for Polypropylene from the big three U.S. automakers could decrease by 26,000 tons, based on H1 2023 volumes.
- Despite achieving peak sales in August for 2023, sales for September have slowed down. Supply remains steady even with industry operating rates remaining below 80% for the last 13 months through August.
- U.S. demand for recycled Polypropylene is experiencing a downturn that is in line with broader macroeconomic shifts and affecting both the Polyethylene and Polypropylene market.

Polyethylene (PE)

Market Status: Buyer's 

- Polyethylene increased 6% MoM and has decreased 25% YoY.
- U.S. Polyethylene contract prices increased in September by \$0.03/lb due to rising integrated production costs and a slight boost in domestic demand.
- Disruptions in Ethylene production and decreases in Polyethylene production capacity are expected to keep prices steady in the near term.
- Bayport Polymers, a dominant plastics producer in the industry, has created a new plant in Bayport, Texas that has the ability to produce 625,000 metric tons per year of Polyethylene.
- U.S. spot export prices for Polyethylene remain stable with only HDPE high molecular weight grade seeing a slight drop due to strong pricing that have led to an influx of this product into the market.

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

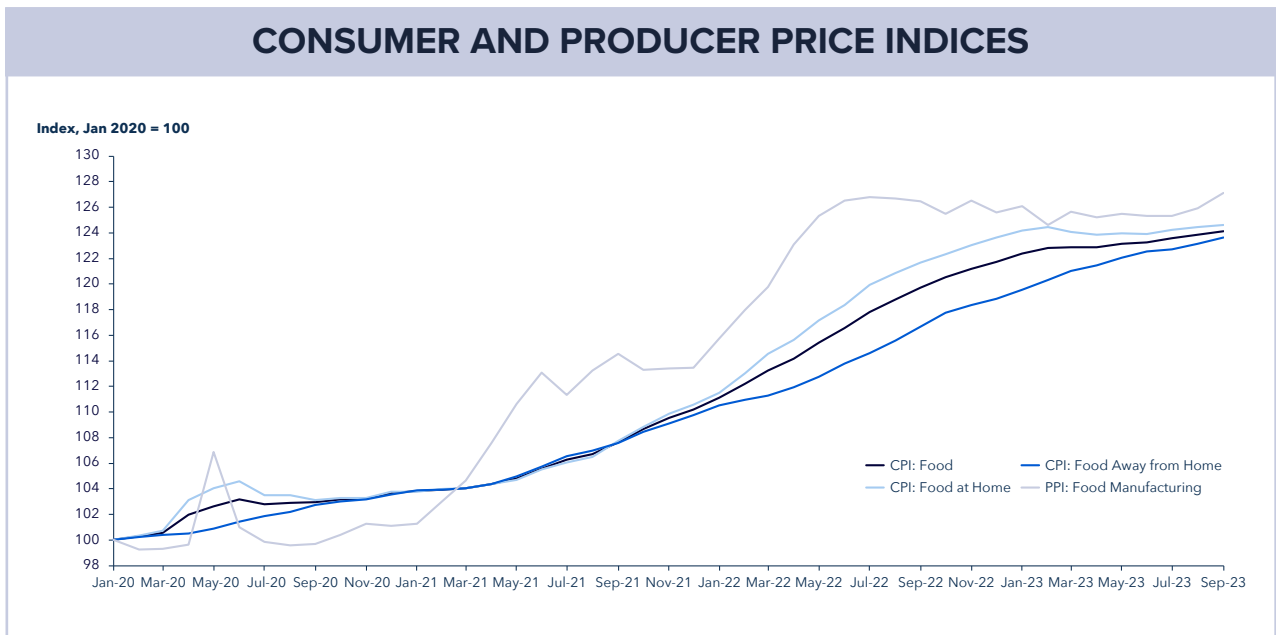
FOOD & BEVERAGE MARKET UPDATE

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Food pricing remains historically elevated; PPI has shown an upward trend since summer, leading to potential consumer facing price increases in coming months.

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CONSUMER AND PRODUCER PRICE INDICES



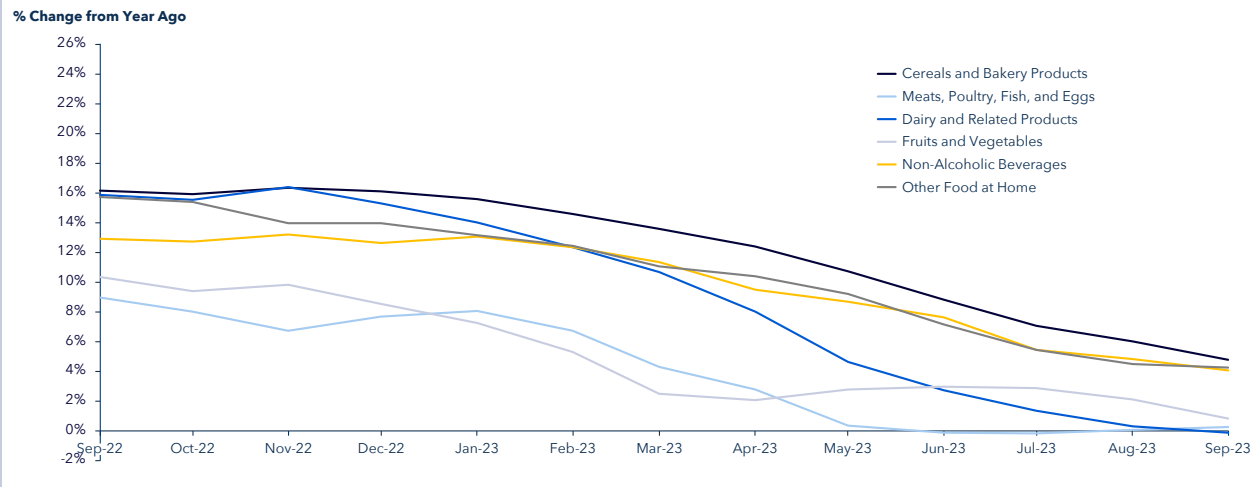
Sources: U.S. Bureau of Labor Statistics, retrieved from FRED, Federal Reserve Bank of St. Louis
Notes: CPI reported monthly, seasonally adjusted; PPI reported monthly, not seasonally adjusted

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Price increases on fresh products have flattened out over the past year, while non-perishable products continue to see prices increase.

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CPI AT HOME, BY CATEGORY



Sources: U.S. Bureau of Labor Statistics, retrieved from FRED, Federal Reserve Bank of St. Louis
 Notes: CPI reported monthly, seasonally adjusted

Fresh: Proteins, Eggs, Dairy

- In beef, live cattle futures and meat cutouts are showing upward trends. As we approach the holidays, expect standard seasonal increases.
- Poultry demand continues to be softer than expected, leading to some price decreases (breasts and tenderloins). Expect demand to bounce back and pricing to stabilize near recent 5-year averages, but still remain lower than pricing we have seen in the past 18 months.
- Pork export sales should pick up, but pricing should remain in line with historical averages and remain below last year's highs.
- Egg prices remain down 75%+ in 2023.
- Butter remains significantly elevated and while we may be near the top of the market, it is expected to hold pricing above 2022 highs, and almost a whole dollar higher than the most recent 5 year average.
- Futures for butter, nonfat milk, and dry whey continue to strengthen.

Pantry: Oils, Grains, Non-Alcoholic Beverages

- In grains, geopolitical conflicts continue to create a sense of unknown in the grain markets; however, the potential challenges of non-U.S. wheat exporters provides some optimism that U.S. wheat prices will rebound from near-three-year lows currently experienced. Concerns about South American production declines due to drought conditions could also support increased wheat prices.
- Soybean oil remains down 10%+ in 2023 and has shown some decreases recently, upcoming reporting should be watched to assess direction of pricing.
- Sugar remains elevated and 2024 bookings should be complete; any coverage still to be acquired runs the risk of paying premiums over significant increases seen this year.
- Arabica coffee prices are near two-year lows; robusta prices have shown moderate strengthening in recent weeks; orange juice pricing remains elevated amidst supply constraints related to disease and weather – domestic output in FL is trending toward the lowest volume seen since 1936-1937.

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



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info@insightsourcing.com