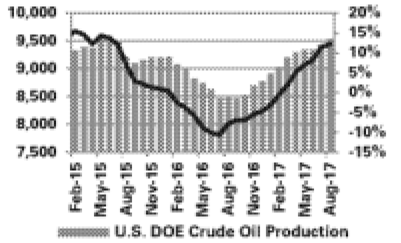
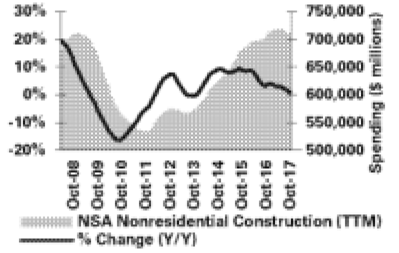
As shown in Figure 12, U.S. crude oil production continued to increase in 2017 following the market correction that took place from the end of 2014 through late 2016. Rig counts have increased steadily throughout 2017. Metal service center Ryerson Holdings (RYI) recently held its earnings call and management reported the following: "Ryerson experienced quarterly YoY growth in nearly all end markets [in 3Q17], most notably in commercial ground transportation, oil & gas and construction equipment sectors..." RYI's management team also noted that the Class A truck vehicle market "looks like it's going to finish up 10%, and 2018 looks like another double-digit increase."

Figure 12: DOE Crude Oil Production



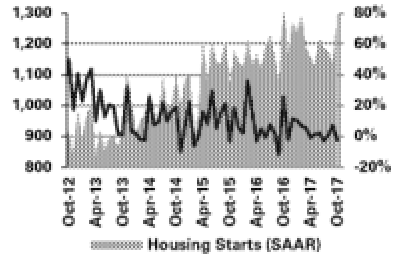
Source: Deutsche Bank, Bloomberg Finance LP

Figure 13: Non-Res Construction



Source: Deutsche Bank, Bloomberg Finance LP

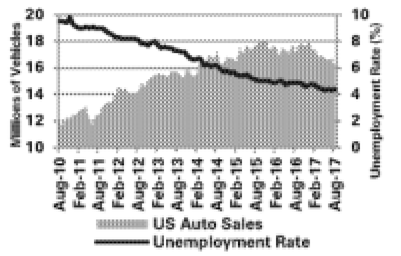
Figure 14: SAAR Housing Starts



Source: Deutsche Bank, Bloomberg Finance LP

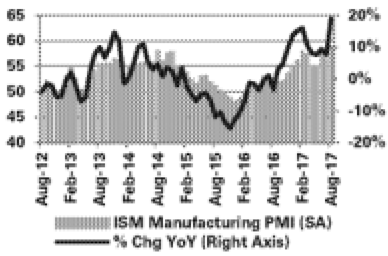
Construction is the largest market for the U.S. steel industry. Looking ahead, trends in nonresidential construction should be stable to down slightly after reaching a new peak level of spend of $718bn (NSA) in May 2017. Meanwhile, residential construction (as measured by SAAR housing starts (Figure 14)) had a slight pullback in October likely somewhat attributable to the devastating storm activity around the Gulf Coast. Even so, SAAR housing starts of 1,290 as of October 2017 are below the 40 year average of 1,324 starts and remain 43% below peak starts of 2,273 in January 2006.

Figure 15: Auto Sales vs Jobs



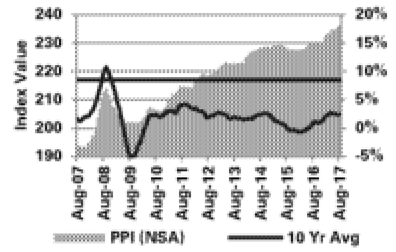
Source: Deutsche Bank, Bloomberg Finance LP

Figure 16: ISM Manufacturing PMI



Source: Deutsche Bank, Bloomberg Finance LP

Figure 17: PPI Materials (NSA)



Source: Deutsche Bank, Bloomberg Finance LP

After years of record sales, the automotive market had its worst year in several in 2017. While we believe autos are likely to absorb additional volume declines in 2018, we anticipate that stronger GDP and tax reform should help with the demand side of the equation. Further, the Institute for Supply Management's PMI, a leading indicator of the economic health of the manufacturing sector, recorded its highest reading in September 2017 (60.8) since 2004 pointing to an optimistic manufacturing environment. As displayed in Figure 17, the PPI for materials and construction components reached new highs in November 2017 as raw material inflation began to creep into manufacturer supply chains. We feel this is a theme that is emerging and will likely continue to play out over the course of 1H-2018. We believe U.S. manufacturers' ability to overcome rising input costs is dependent on having previously announced price increases stick. Hence, while we do not expect substantial market growth for the steel sector in 2018, demand trends appear to be stable, thus supply will likely play a bigger role in the market's performance in 2018.

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