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Market Intelligence

Global Insight

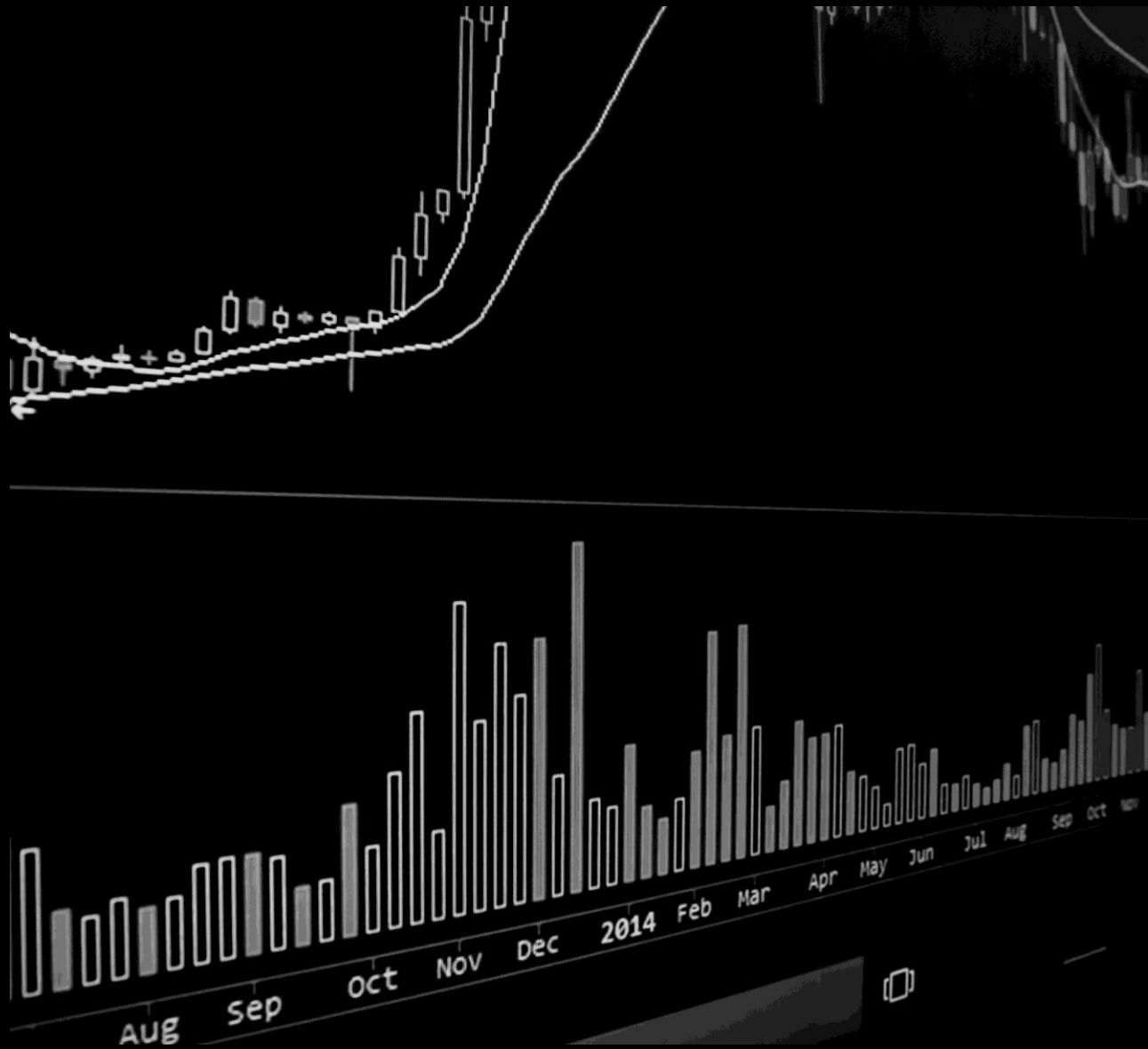
Budgeting for 2026 in times of uncertainty

Forecasting commodity process in an era of tariffs

John Anton, Economics Director, Steel

October 2025

Macro overview and tariff assumptions



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From a buyer's POV 2026 looks a lot like 2025, so not strong

Generally, a buyer's market

- Demand improves only marginally for goods producing. Interest rate cuts stimulate a bit, but more create a floor than raise a ceiling
  - The three biggest economies in the world barely grow goods and construction
  - Services a bit stronger but mostly below-trend

- Excess manufacturing capacity is rampant, so supply side creates no organic price pressure

- Prices should be subdued, particularly at the commodity level
  - Midstream pressure should come through, although the story is tricky
  - Many fabrications and machineries should have declined but often tariffs turned them flat

Purchasing Managers' Index™ (PMI®) data show contrasting price trends

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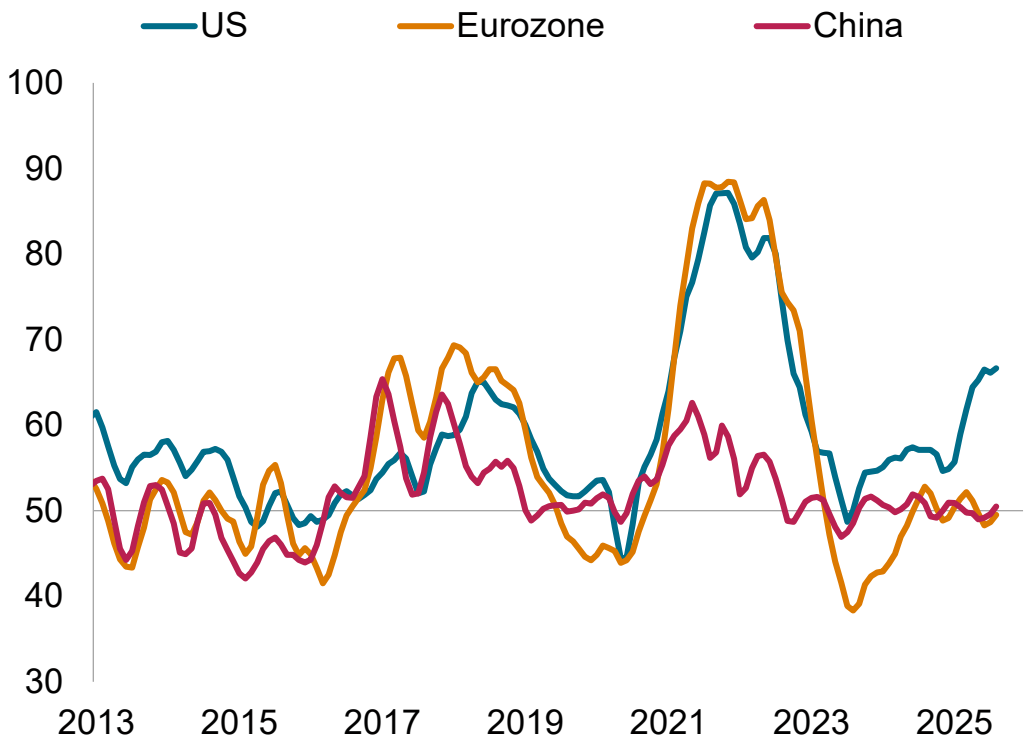
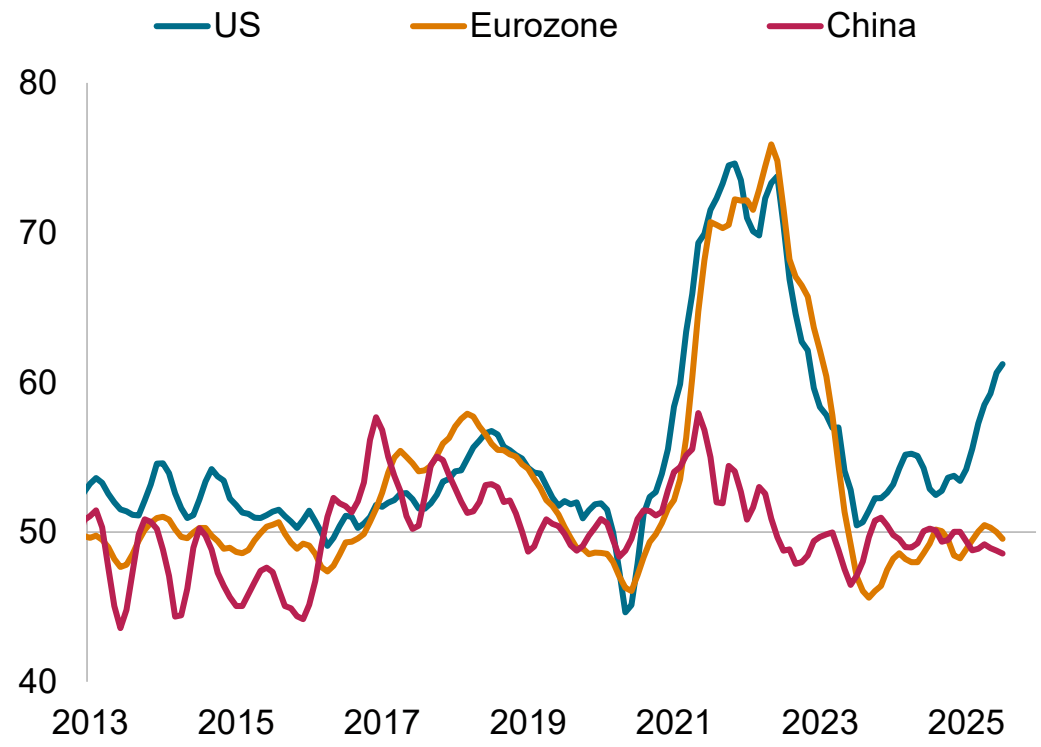
Manufacturing input price indexes

3-month moving averages



Manufacturing output price indexes

3-month moving averages

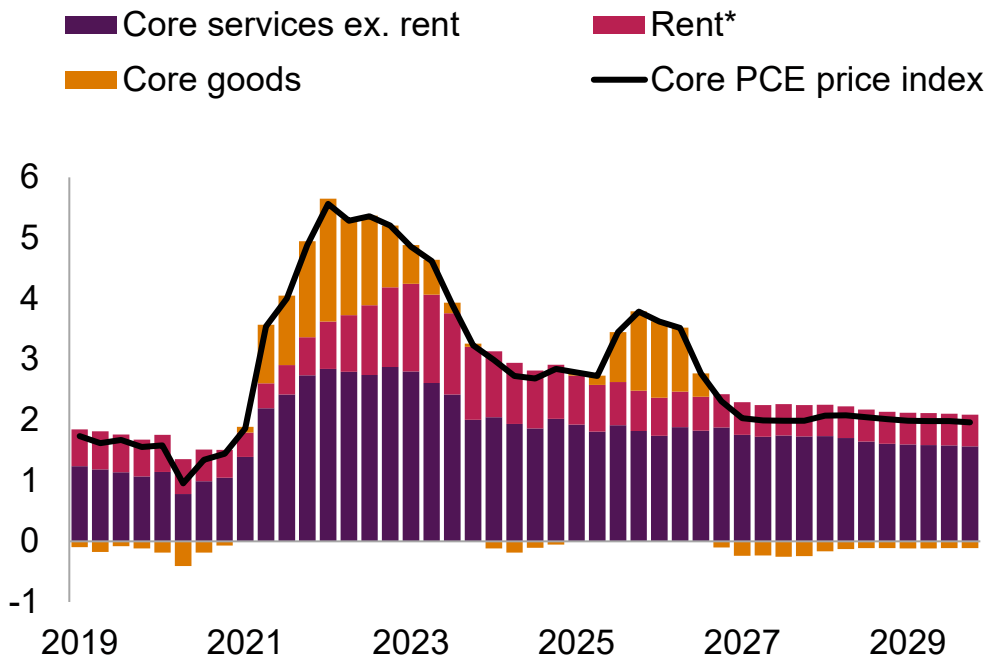


As of September 2025
Source: S&P Global PMI

Inflation surges to pay for tariffs then subsides IF expectations don’t reset upward

Contributions to core PCE inflation

4-quarter % change



As of Aug. 6, 2025.
* Rent includes both owner- and tenant-occupied nonfarm housing.
PCE = personal consumption expenditures.
Sources: S&P Global Market Intelligence; BEA.

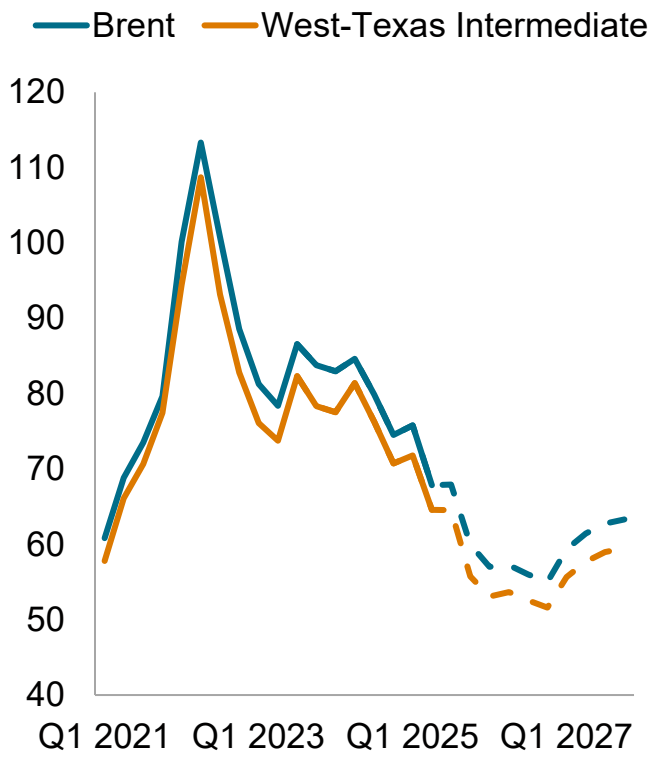
Next quarters are key

- Tariffs are a one-time increase, not inflation
  - A step, not a ramp
- But they can be turned into inflation if reality is denied
  - Oil prices in 1970’s meant higher prices and less stuff
  - Refusal to accept led to ill-advised monetary and fiscal stimulus
- Our forecast assumes careful policy so inflation does not become embedded

Energy costs

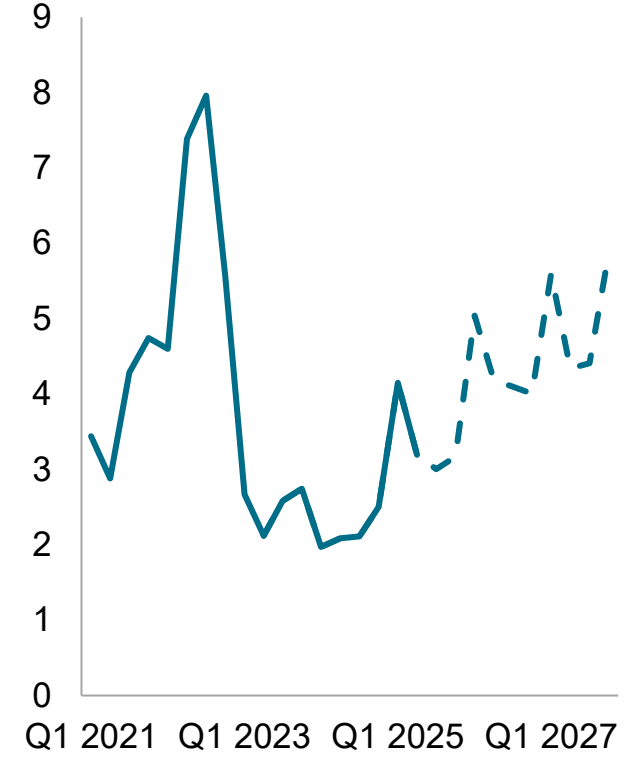
Oil is cheap until 2027, natural gas starts heading to Europe, data centers start to bite electricity rates. Hard.

Crude Oil ($/Barrel)



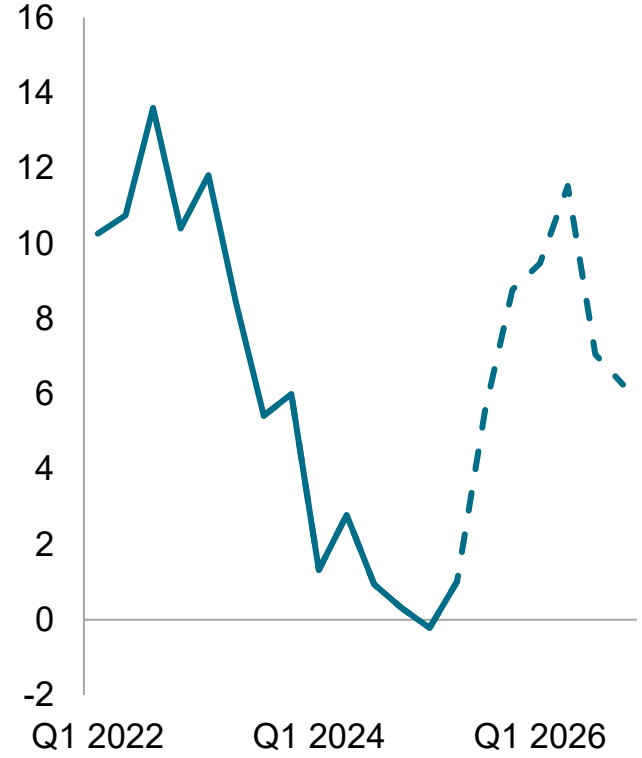
Data compiled September 2025.
Source: S&P Global Market Intelligence.

US natural gas ($/MMBTu)



Data compiled September 2025.
Source: S&P Global Market Intelligence,

US Industrial Electric Power

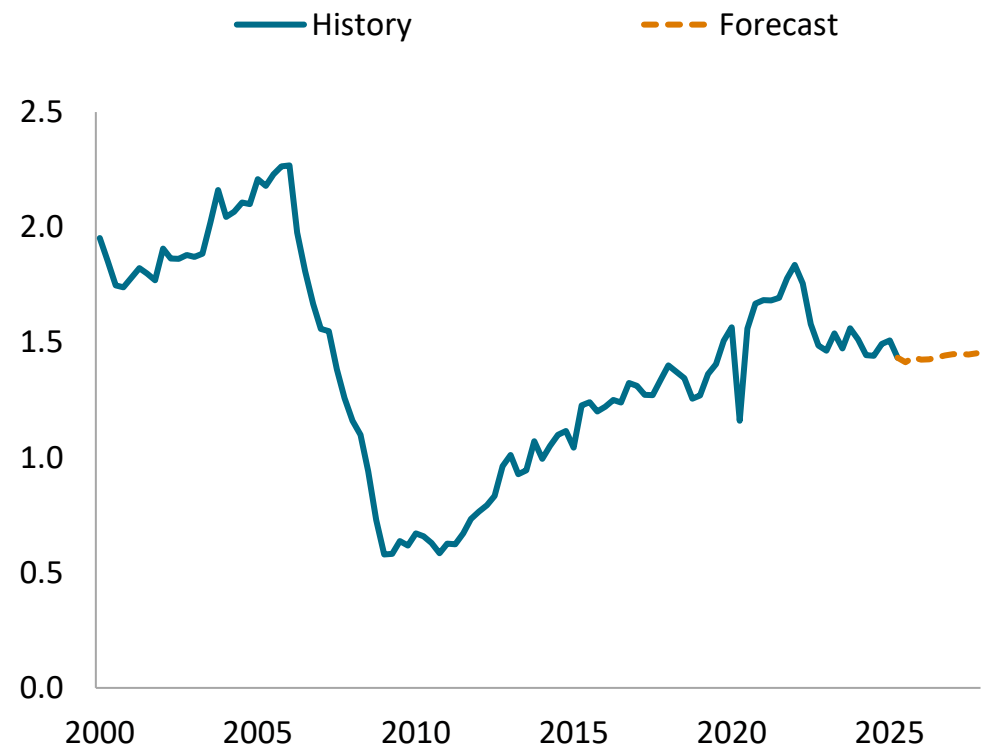


Data compiled September 2025.
Source: S&P Global Market Intelligence.

End market

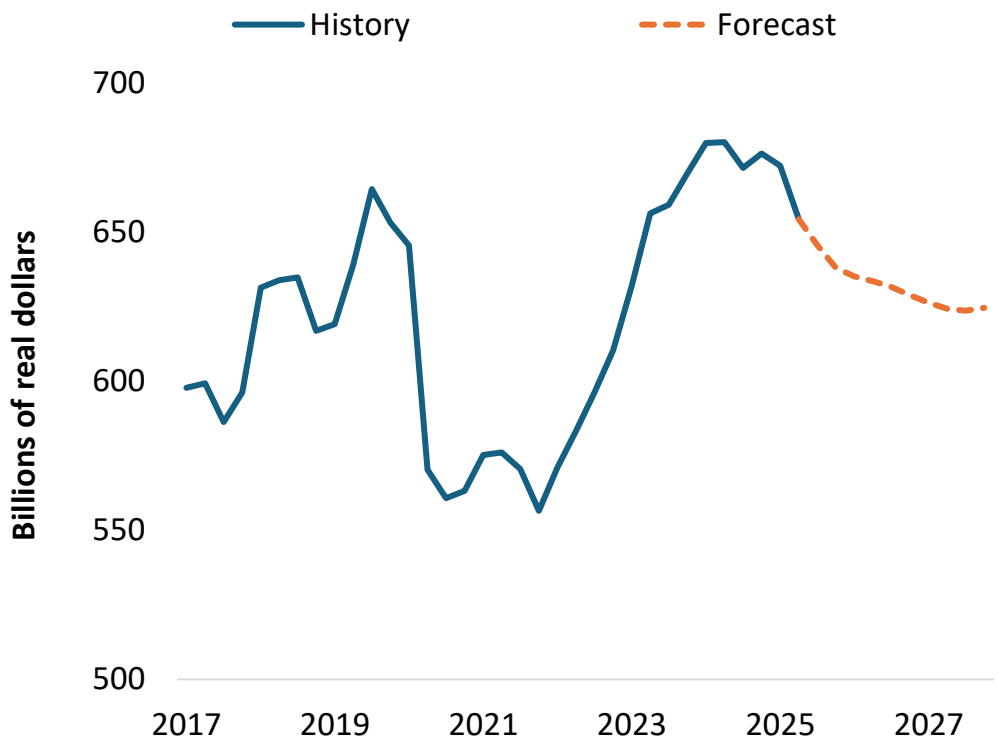
Construction

Housing starts, in millions



Data compiled August 7, 2025.
Source: S&P Global Market Intelligence.

Nonresidential construction investment

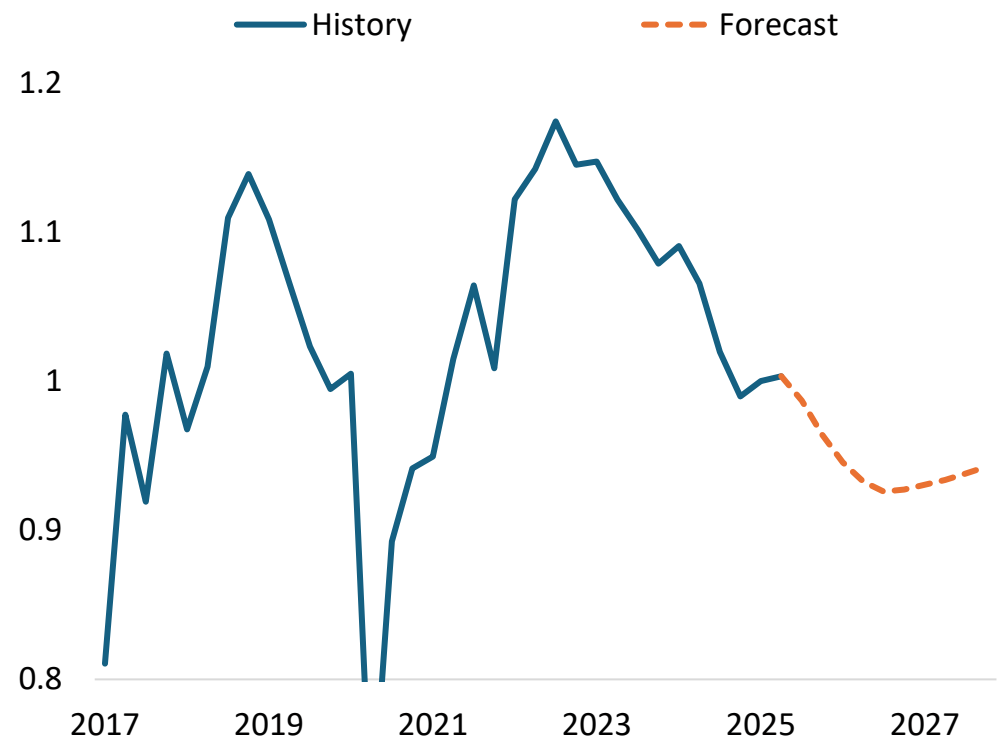


Data compiled August 7, 2025.
Source: S&P Global Market Intelligence.

End market production

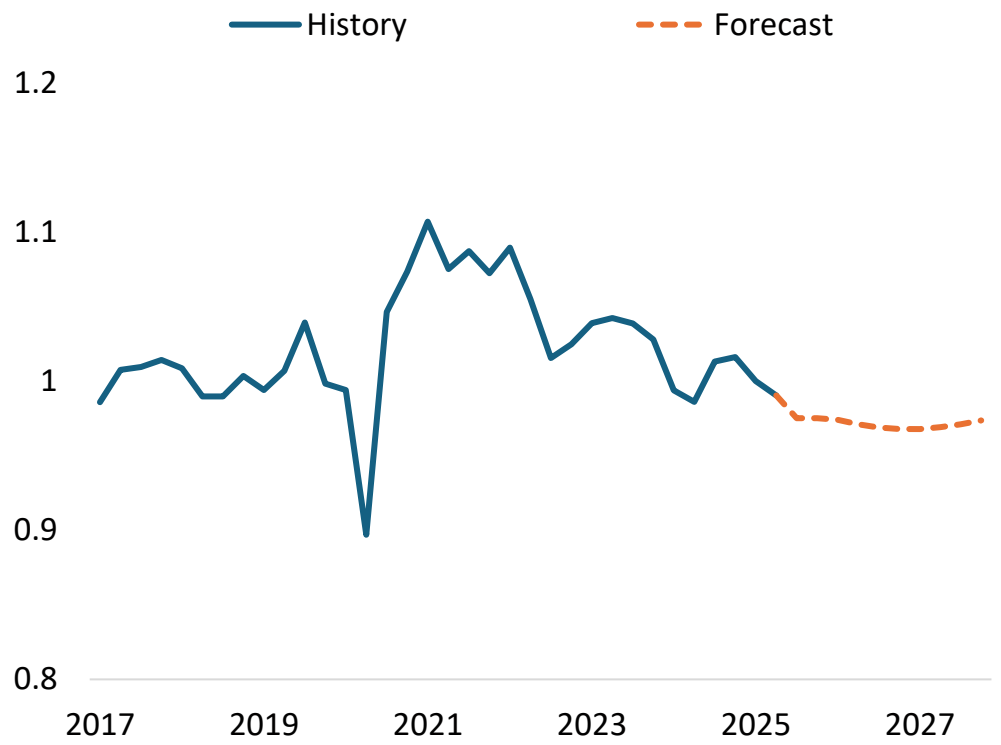
Inflation adjusted, 2025Q1 = 1.000

Heavy machinery



Data compiled August 7, 2025.
Source: S&P Global Market Intelligence.

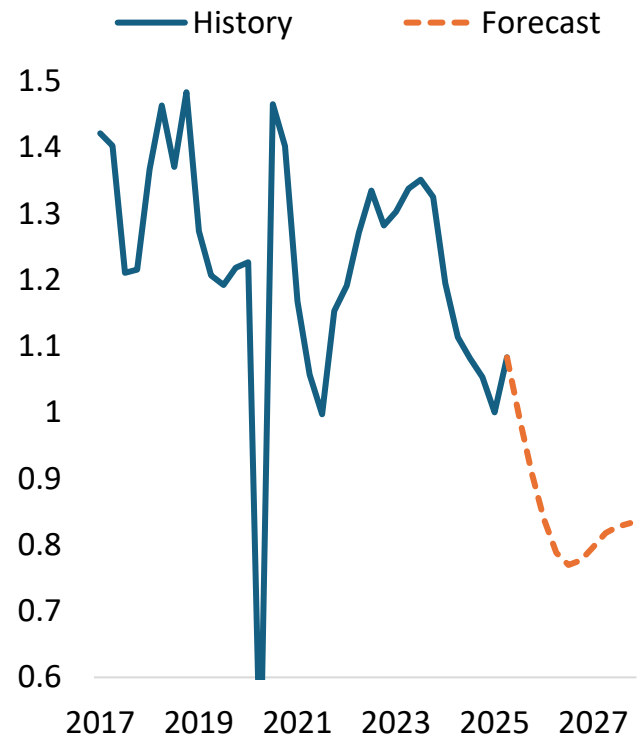
Appliances



Data compiled August 7, 2025.
Source: S&P Global Market Intelligence.

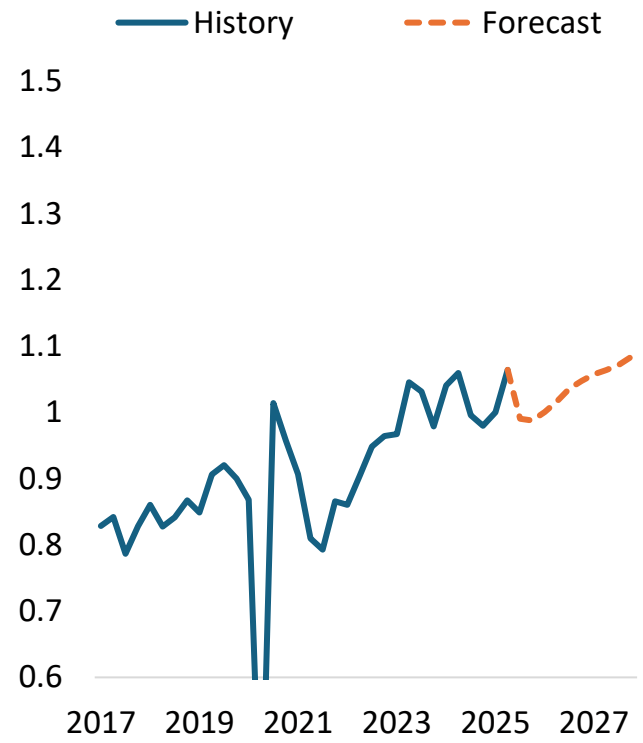
Light trucks cannot fully offset autos and parts

Automobiles



Data compiled August 7, 2025.
Source: S&P Global Market Intelligence.

Light trucks and SUVs



Data compiled August 7, 2025.
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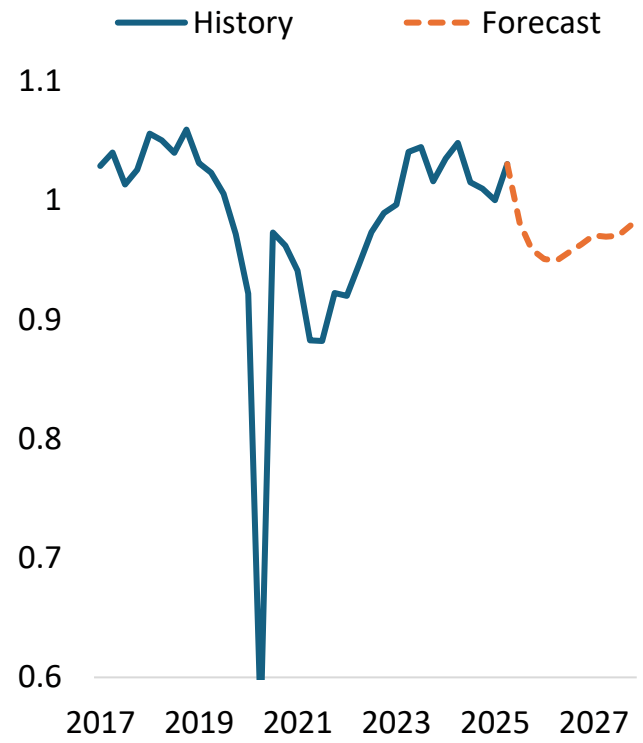
Motor vehicle parts

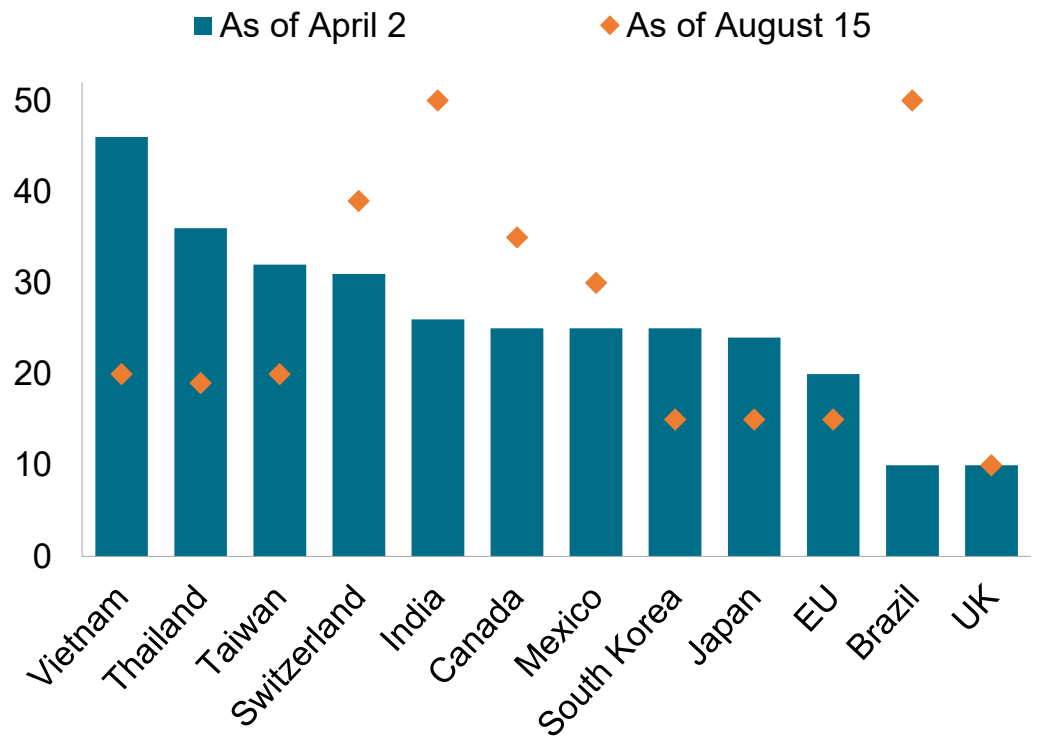


Data compiled August 7, 2025.
Source: S&P Global Market Intelligence.

Tariffs

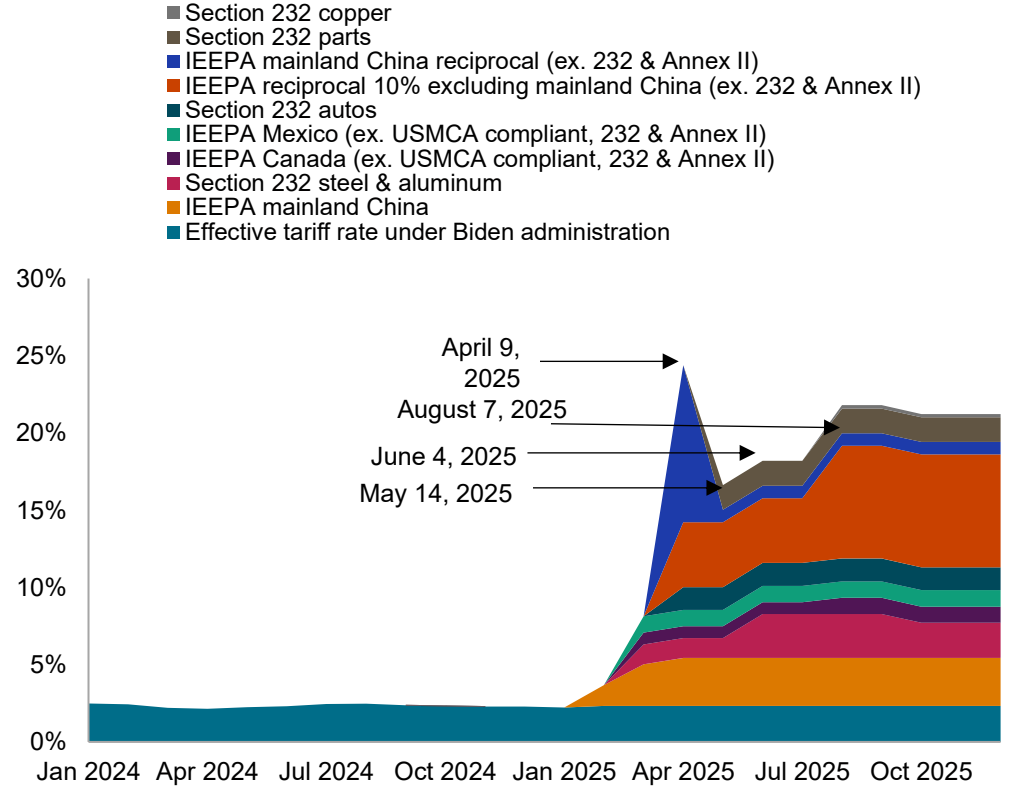
Headline tariff rates reduced but list expanded to include downstream goods

Recent changes to US tariffs (%)



As of August 2025.
Includes additional 40% tariff for Brazil and additional 10% tariff for India.
Source: S&P Global Market Intelligence.

US tariff actions create trade wall (based on 2024 trade values)



Data compiled August 14, 2025.
Source: S&P Global Market Intelligence.

Where do we stand

Our working assumptions

Section 232 on steel is here to stay

- 50% indefinitely
- USMCA renegotiation in mid-2026 opens the door for some walkback with Canada and Mexico but highly speculative
- If all USA mills ran at 100%, there might be just enough capacity to meet domestic needs

- Section 232 on aluminum is 50% *may* get some relief
  - If all USA capacity ran at 100%, aluminum would still be in deep shortage. Imports are a literal necessity.
- A large list of derivative products is now subject to 50% tariffs on the steel and aluminum content
  - Cannot dodge metal tariffs by importing metal-bearing fabrications and parts.
  - 50% on steel/aluminum content, country rate on the balance of cost
  - You must also know where you metal came from. Mexico dinged if they use steel imported from CHN
- Country tariffs are assumed to gradually ease as deals are reached but details are simply not known
  - Very political so it would be daring to lower tariff rates when preparing your 2026 budget

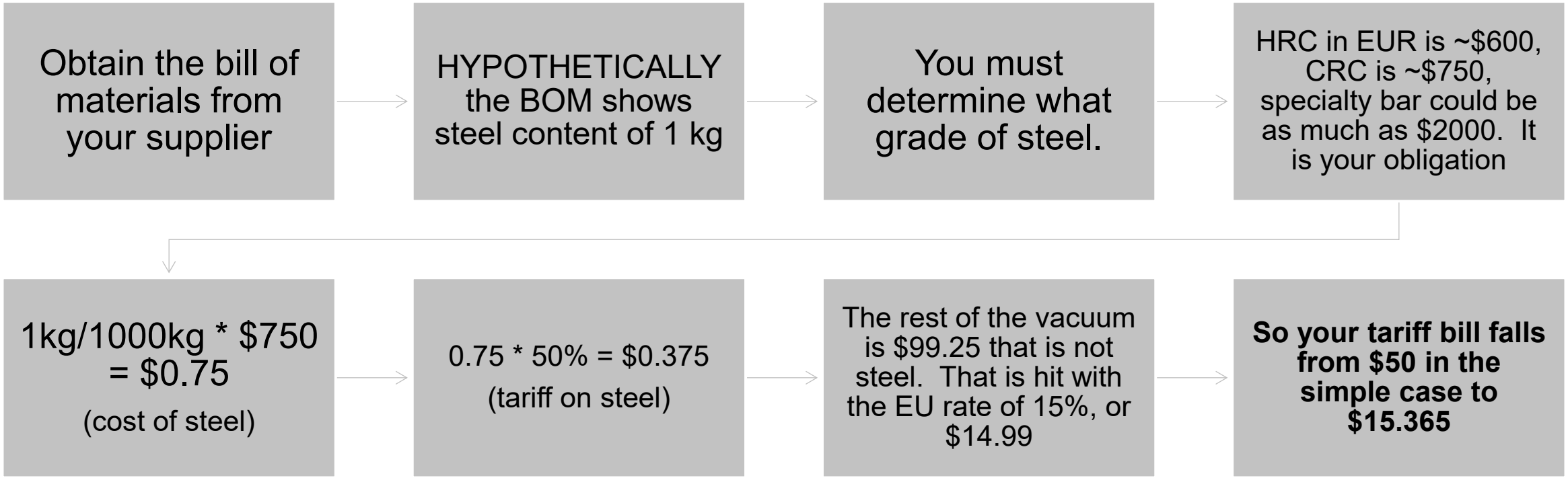
How do you deal with Section 232 on derivative products?

Hypothetical situation, simplified solution

- Assume you are importing a vacuum cleaner from Europe, paying $100 to the European seller
  - Tariffs will then be paid by you not the seller and paid to the US government. Tariffs are a sales tax.
- You know the vacuum contains some steel
- **You can pay 50% tariff on the entire $100, so your total cost is $150**
- This is badly overpaying
  - Your buyer may not accept the simple version
- Note that many parts also require such analysis.
  - Exceptions for Canada and Mexico if fully USMCA compliant
  - And exclusion if on Annex II although be careful to verify it is not covered somewhere else

How do you deal with Section 232 on derivative products?

Hypothetical situation, more complex but smarter solution



This is a bit of a strawman. If the part is 90% steel, the difference will be pretty minimal.

Labor

John Anton, Director, Steel

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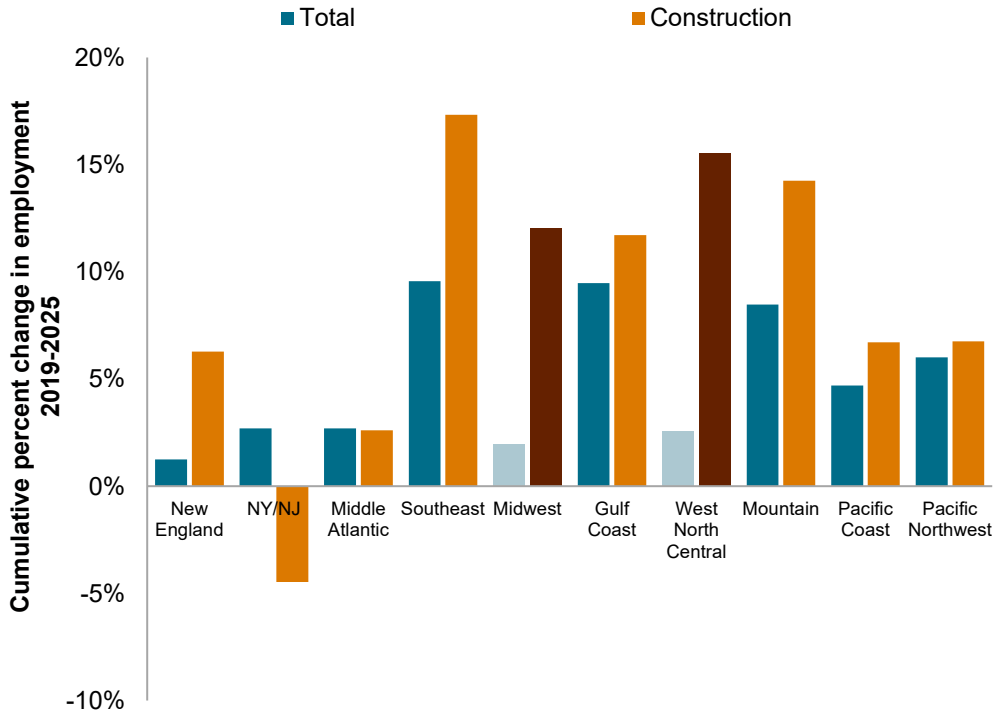
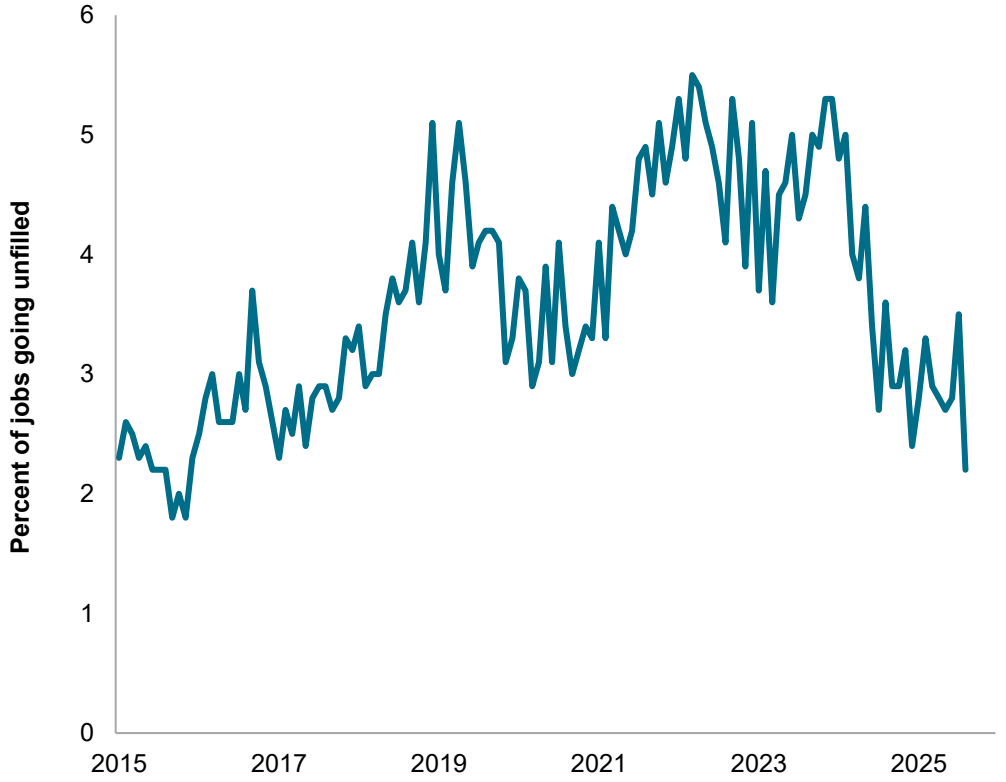
After robust growth coming out of the pandemic, construction labor demand has collapsed

Recovery in construction employment has outpaced other sectors across most regions



As of Sept. 30, 2025.
Source: S&P Global Market Intelligence.

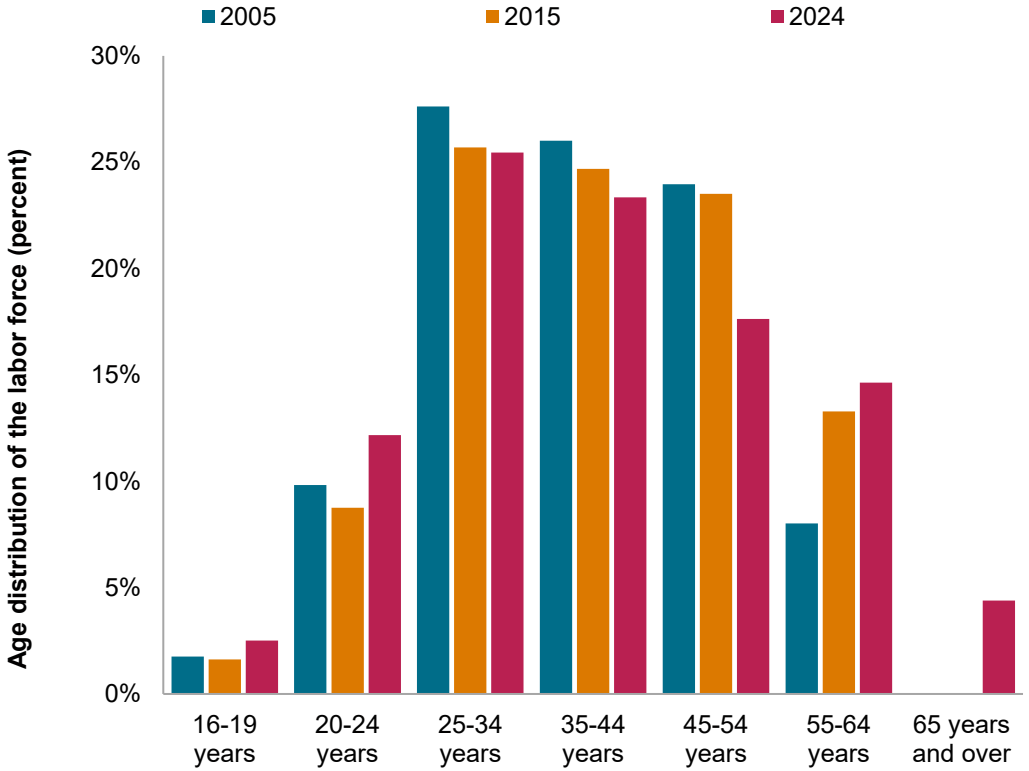
Job openings rate, construction



As of Sept. 30, 2025.
Source: S&P Global Market Intelligence.

Skilled construction trades are building the pipeline of new workers, but risk is to the upside due to challenging demographics and tighter immigration policies

Age distribution in skilled construction employment



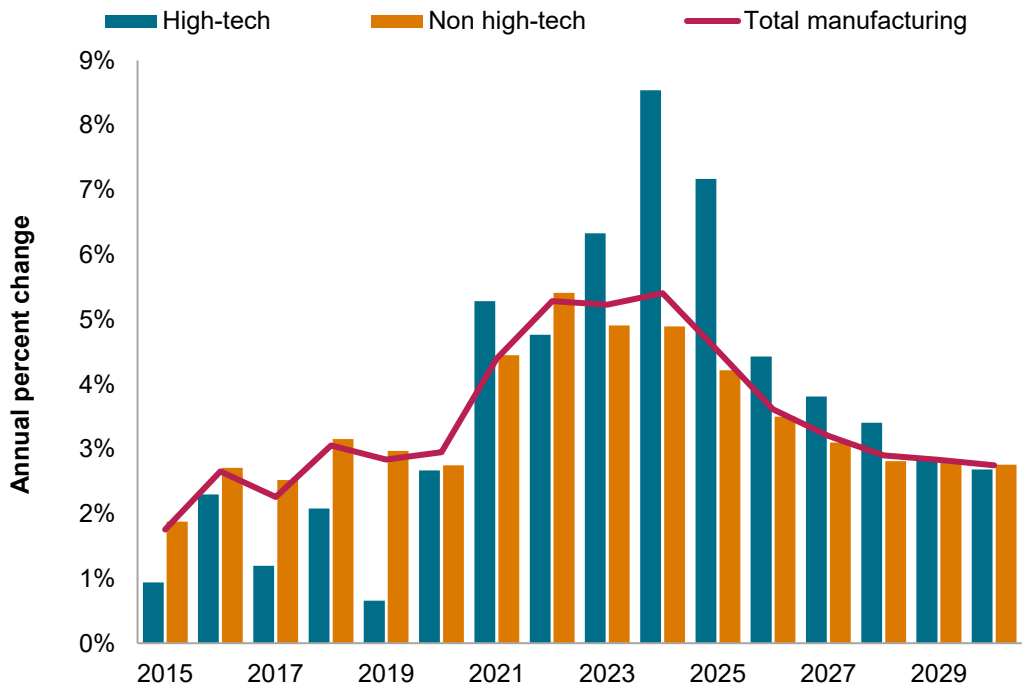
As of Sept. 30, 2025.
Source: S&P Global Market Intelligence.

Wage growth for skilled construction workers has been robust, but will soften as activity slows

As of Sept. 30, 2025.
Source: S&P Global Market Intelligence.

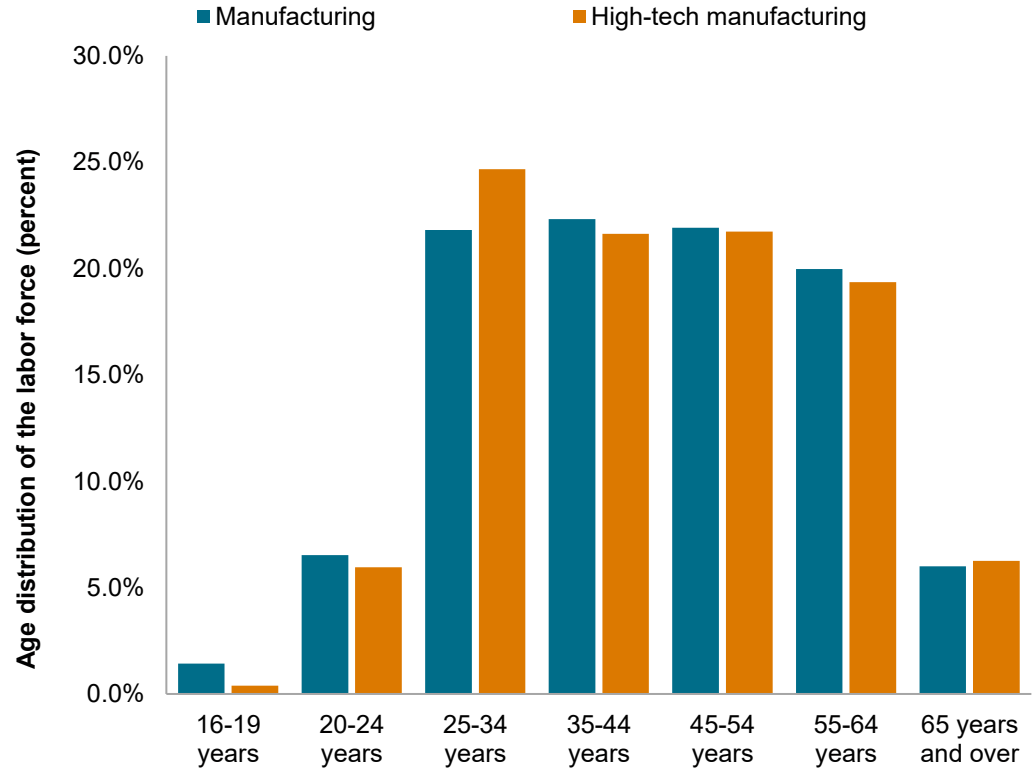
Manufacturing growth will be concentrated in the high-tech sector, wages will need to maintain a premium to attract new workers

High-tech manufacturing will outpace manufacturing wage growth through 2028



As of Sept. 30, 2025.
High-tech manufacturing includes computer, electronics, and aerospace products and parts manufacturing.
Source: S&P Global Market Intelligence.

Demographics remain a challenge across all manufacturing sectors



As of Sept. 30, 2025.
Source: S&P Global Market Intelligence.

Carbon steel

John Anton, Director, Steel

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Steel overview

Buyers market although regional price trends vary

- Prices will remain soft for the remainder of this year. USA falls because so darn high

- Expect higher global prices for 2026 but based on mean reversion more than stronger fundamentals.
  - BIG upside risk to Asia and Europe
  - Low odds/high impact

- Demand is lackluster from construction and durable goods. Slightly better for 2026

- Capacity has been idled yet supply easily meets consumption
  - Effectively reduces risk that any spike will persist
  - Idle capacity would be restarted and undercut the price hikes

Steel tariffs

The math of “This far but no further.”

- United States about $950/metric ton for HRC

- Section 232 at 50%
  - 25% drove up prices but imports still flowed. $600 + 25% = $750, while USA was $900 to $1000
  - 50% will hit volumes harder. $600 + 50% = $900, parity with USA
- Europe, Brazil, Mexico, and Canada are effectively priced out

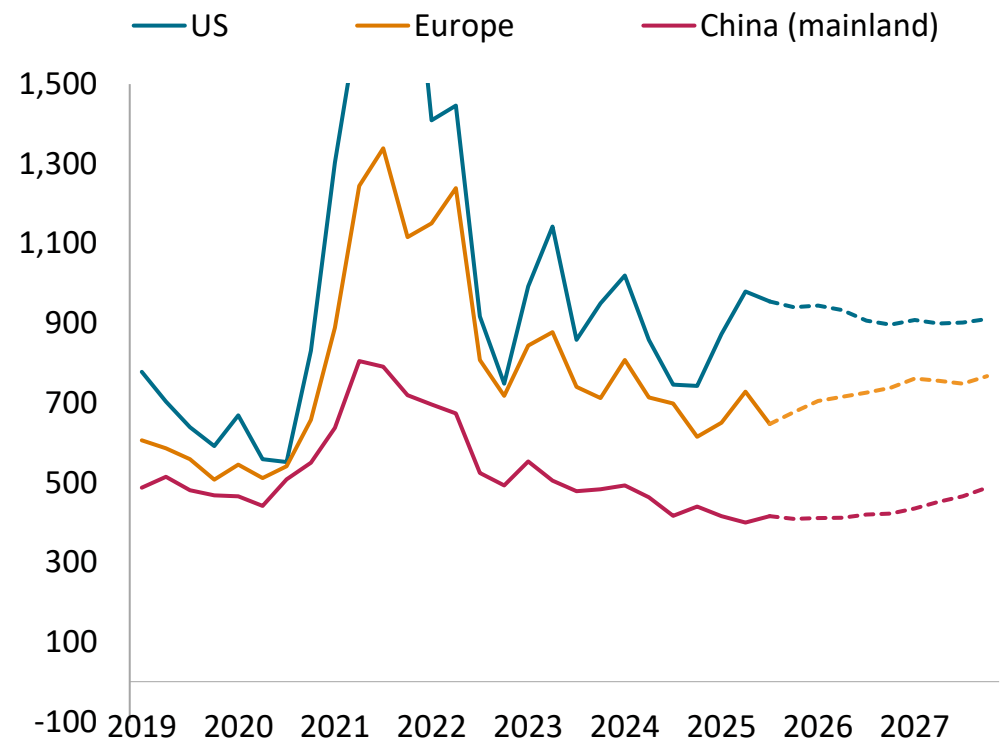
- Asia is still competitive, and imports create a ceiling on US prices
  - Prices around $500
  - Tariffed price around $750

- Note that landed prices are higher than tariffed because of shipping

Carbon flat steel

Weakness is deep-seated

Hot-rolled sheet prices, US dollars per ton



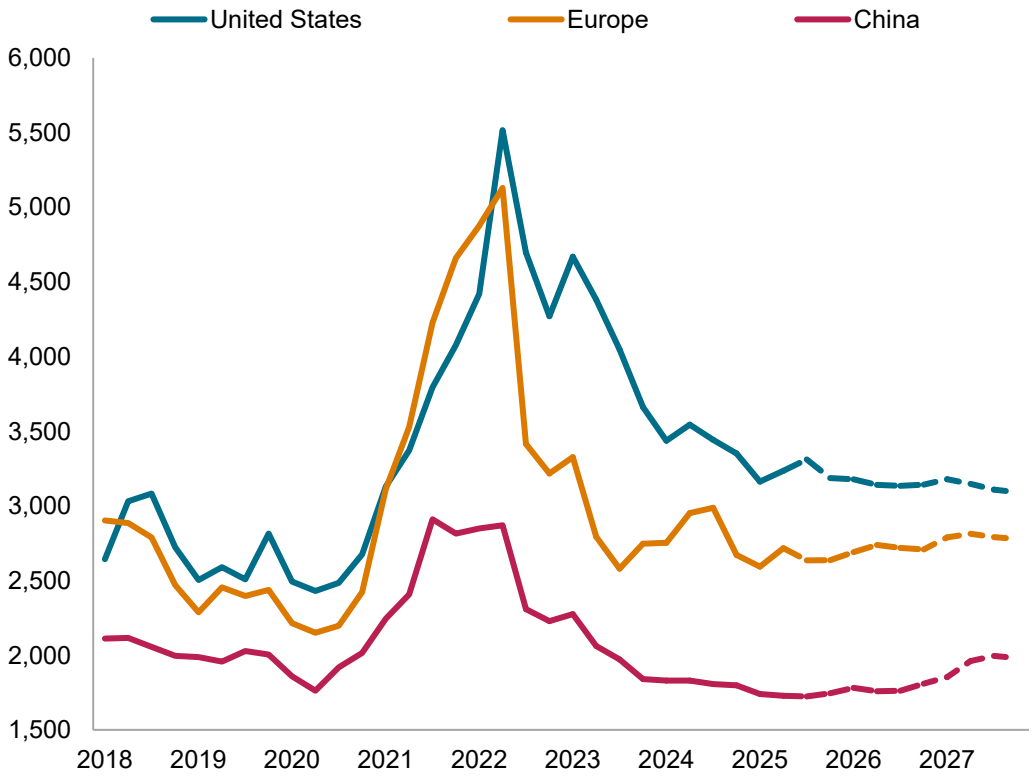
Data compiled Sept 02, 2025.
Source: S&P Global Market Intelligence.

- United States high but drifting downward
  - Tariff impact is now priced in, no more to come
  - $850/short ton, easing to low $800/st by mid 2026
- Mainland China and other Asia very low
  - Mainland China prices – flat and long – now show almost no increase in 2025
  - Anti-dumping will slightly boost non-mainland China, suppress mainland China even more.
- The outlook for European steel markets is weak but muddled
  - Demand is very soft
  - Production cuts and increased protectionism support prices
  - CBAM estimated at €50/metric ton, so expect pre-buying

Stainless steel

Asia is an incredible buy for US, even with a 50% tariff

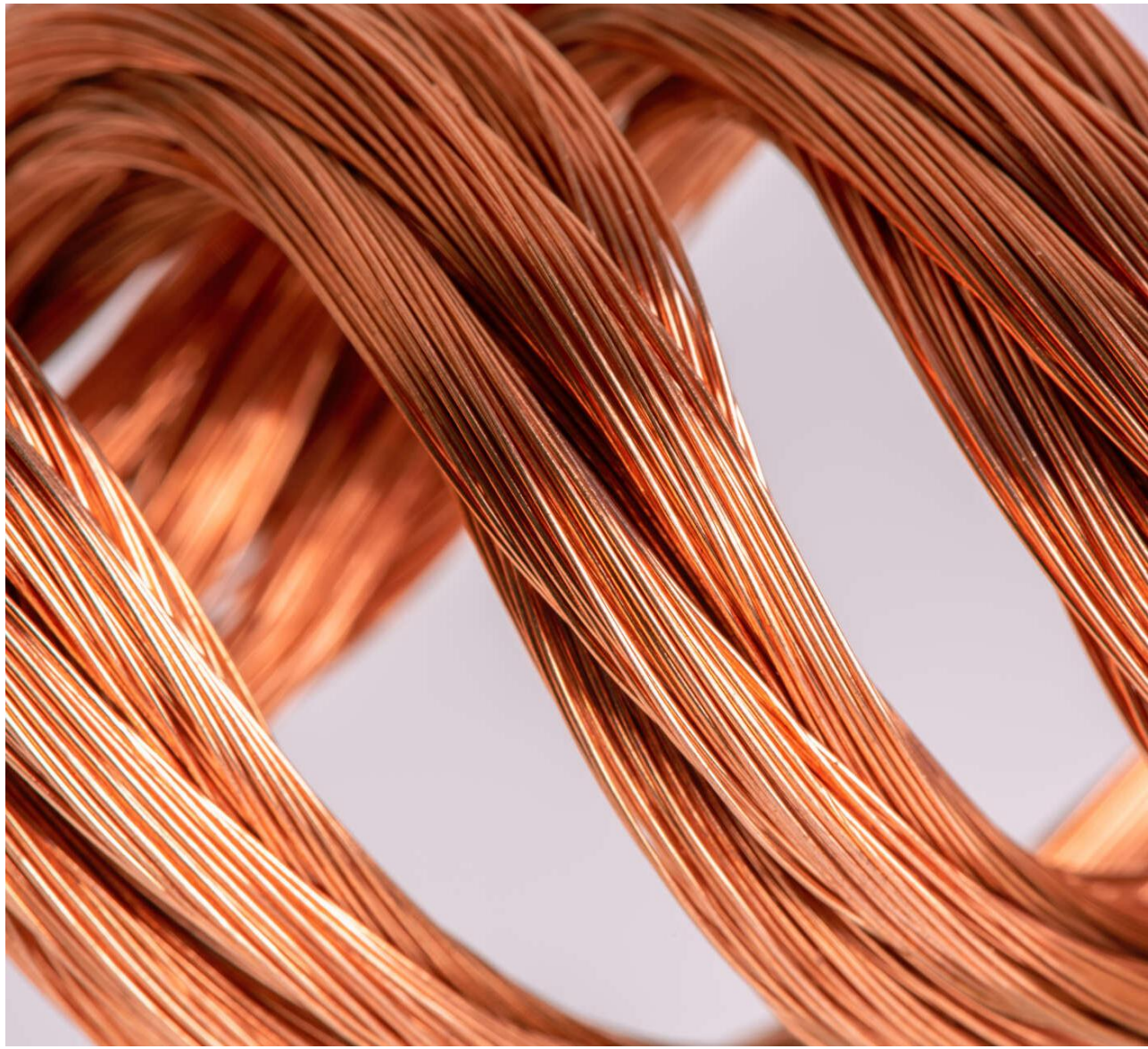
Stainless 304 cold rolled sheet, US dollars per metric ton



Data compiled Sept. 02, 2025.
Source: S&P Global Market Intelligence.

- US prices for grade 304 are more than 80% above Asia
  - Even more of a gap for 316 and 430
- Mainland China is not relevant because of existing anti-dumping/countervailing duties (AD/CVD)
- But Indonesia, Taiwan, almost anywhere else is a huge saving
- Trend is slightly down in US because of above analysis
- China desperately needs higher prices but excess capacity prevents
  - Mill closures occurring but not enough to turn market until 2027
- Europe lies in the middle. Profits bad, capacity idled, but little price increase

Copper and Aluminum

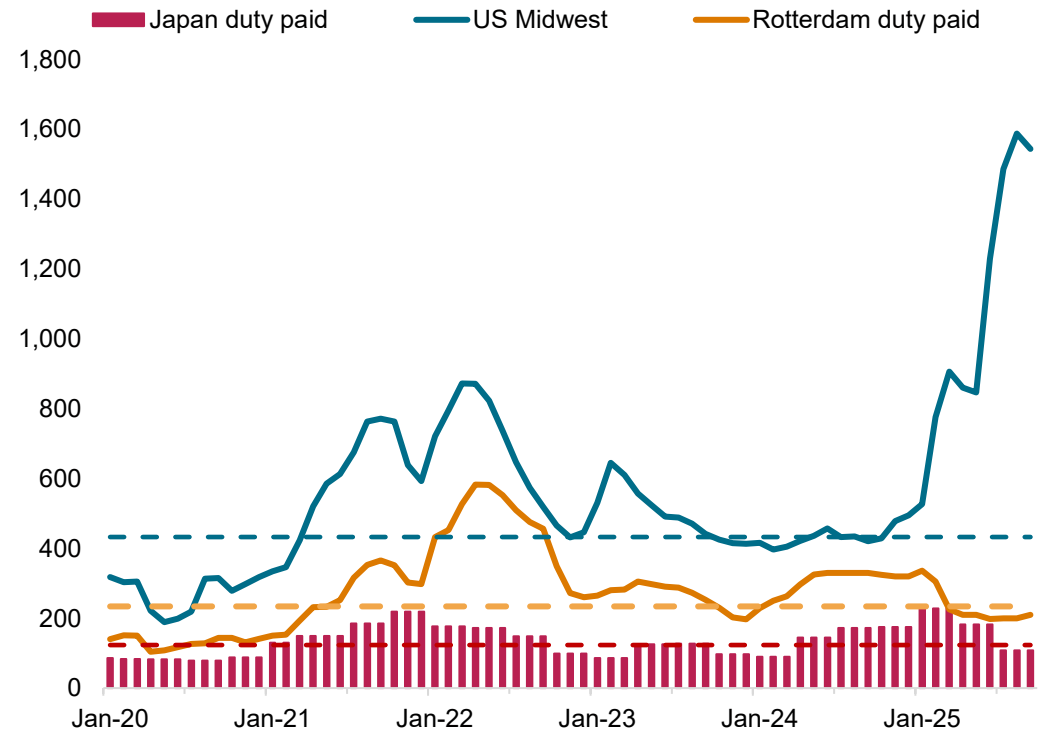


Aluminum premiums capture costs beyond the LME price

The imposition of Section 232 tariffs are clear

Aluminum P1020 regional price premiums (Dollars/metric ton)

2017-2024 averages shown dotted



As of Sept. 10, 2025

Sources: Argus Media, S&P Global Market Intelligence

- Aluminum premiums capture the difference between LME prices and the typical costs a buyer pays
  - Logistics and warehousing costs typically add 10.5-11% in both the United States and Europe
- US buyers have to content with the marked increase in the Midwest Premium due to Section 232 tariffs.
  - Until recently Midwest premium did not fully account for increase in Section 232 tariff related costs.
- The Midwest premium rose to 61% – in line with the full 50% + 11% = 61%.
  - A problem: Canadians contracts tie to the MW premium but they don't pay tariff.

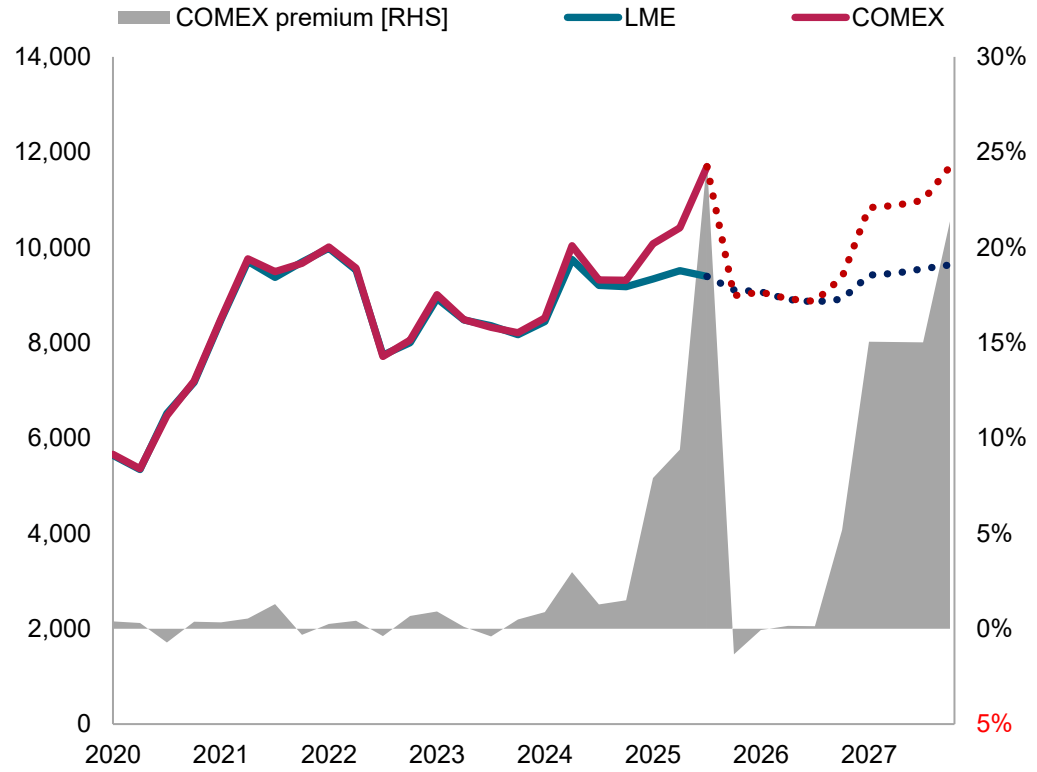
Copper: Death of ‘tariff trade’ and market uncertainty have seen US premium collapse, with some downward pressure on global LME price

- Wait to buy: Prices are edging down on weaker dollar, strong production and weaker economic demand.

- Current supply mildly in excess with high inventories.
  - US cathode imports Jan-May 2025: 673,000 metric tons, compared to 293,000 metric tons Jan-May 2024

- Supply issues, especially post-2028, a concern.
  - We agree with the bull case, but not yet
  - Market is in surplus through 2026, balance 2027, deficit 2028 and beyond
    - Speculation may cause 2027 prices to start rising
  - Miners are not finding new copper deposits

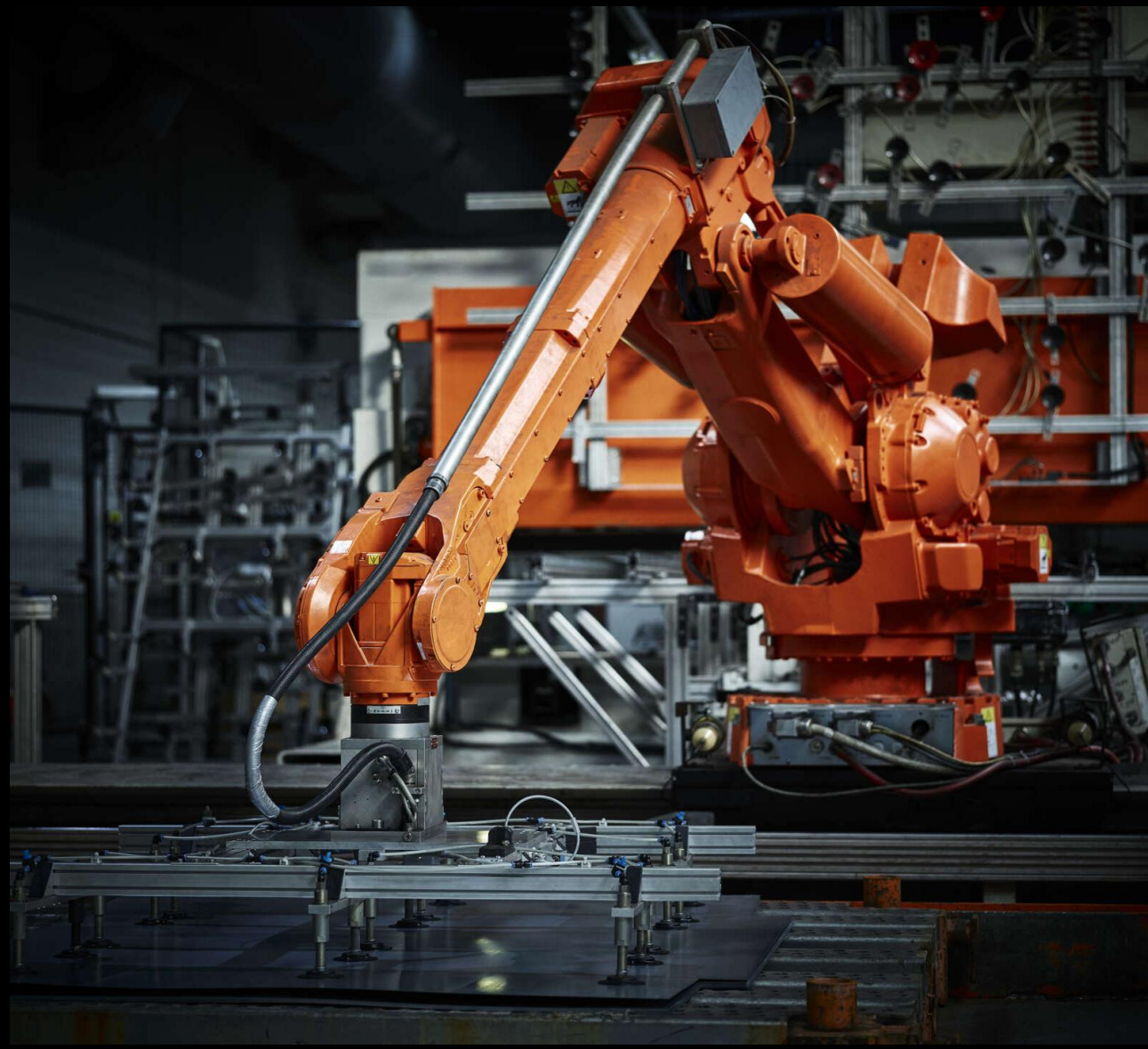
Exchange copper prices ($/metric ton, %)



As of Aug., 2025.
Sources: LME, CME, S&P Global Market Intelligence

US refined copper sourcing – 2024 (2023 figures):
- Import reliance 2024: 45% (46%)
- Sources: Chile: 65% (64%), Canada: 17% (18%), Mexico: 9% (11%)

Machinery and Equipment



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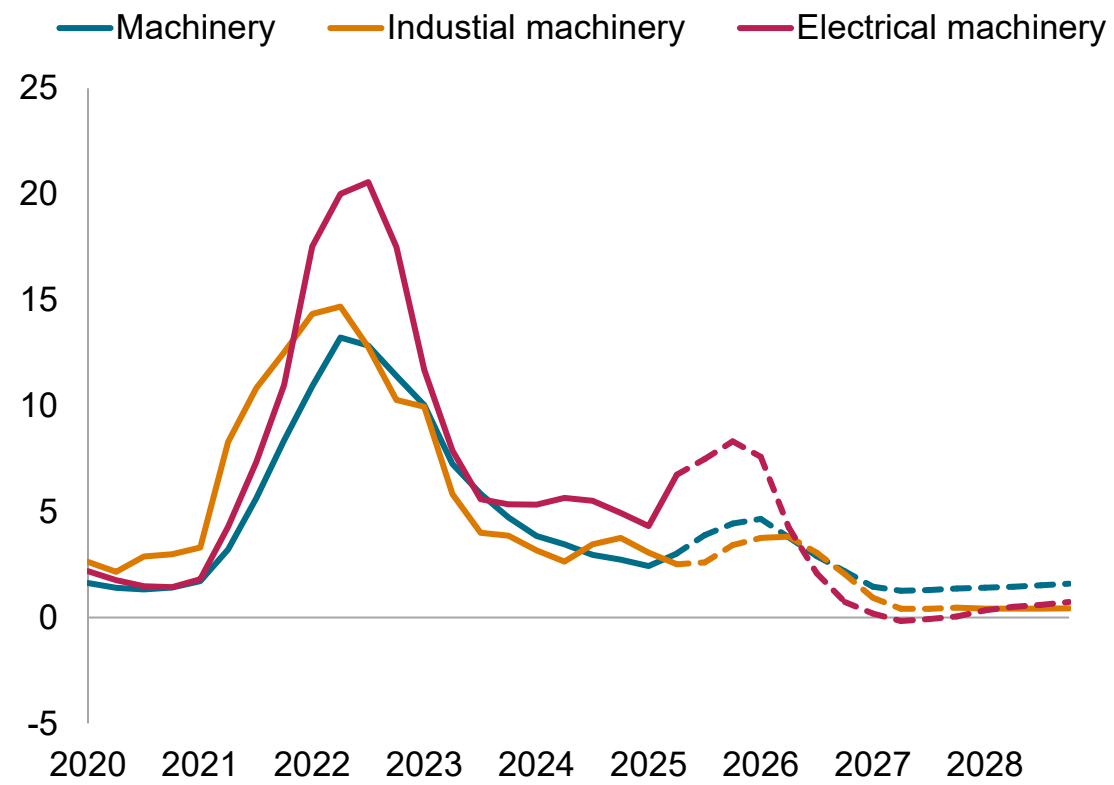
Machinery prices moving higher in the near-term but expect deceleration to resume over 2026

US Machinery prices, Percent change YOY



Data compiled September 2025.
YOY = year over year.
Source: S&P Global Market Intelligence.

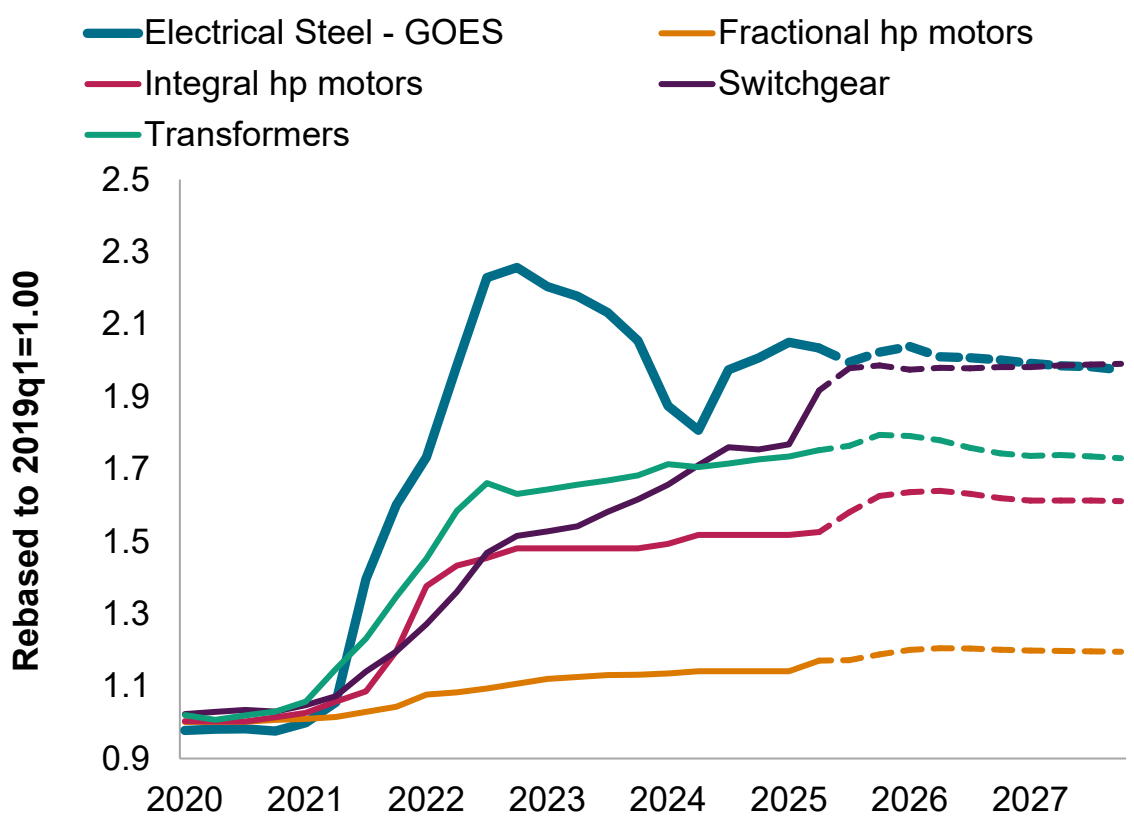
- Buy now, due largely to tariffs.
- Greatest exposure to further pricing increases seen in electrical machinery.

- Core material cost pressures are receiving support via trade policy.
- Ample supply will limit pricing pressure with inventories holding near record.

- Unfilled orders have decreased since 2023, alongside slower demand.
- There is not much to suggest this dynamic will change any time soon

Supply shortages continue to keep electrical machinery prices elevated

Electrical equipment producer price indexes



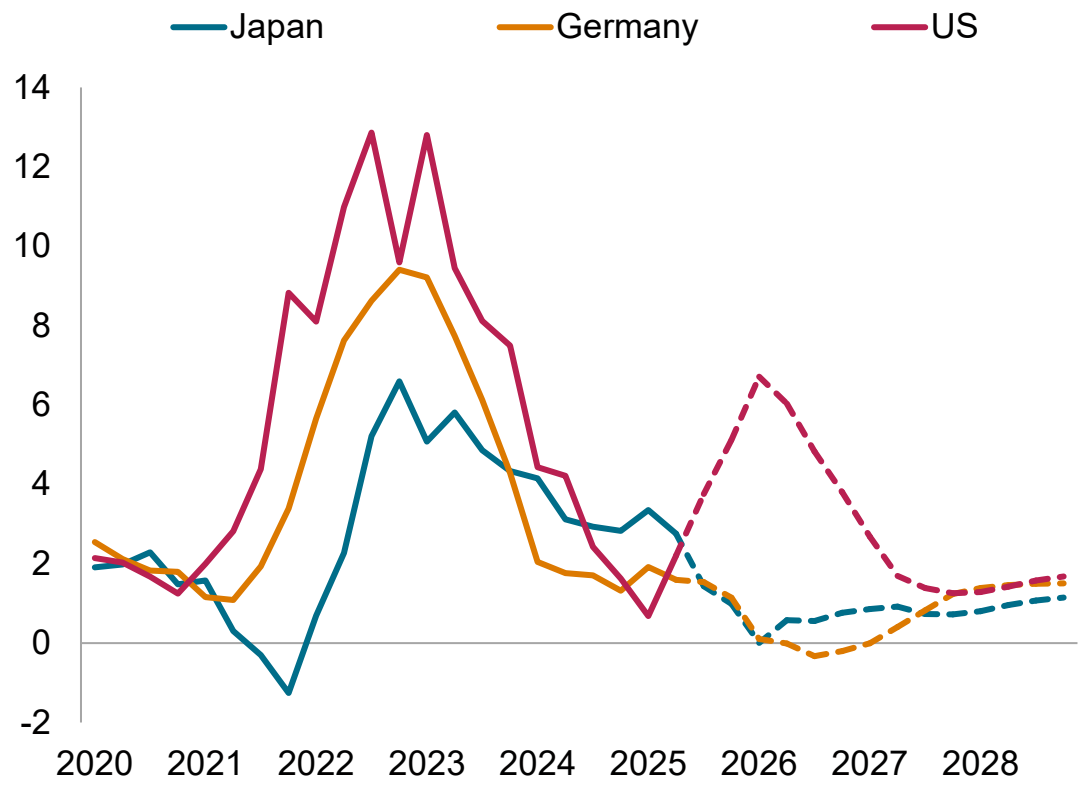
Data compiled September 2025.

Source: S&P Global Market Intelligence.

- **Transformers**: Prices expected to move higher into 2026 alongside GOES shortages, strong demand.
  - Lead time range 2-4 years, with no short-term relief. Electrical steel manufacturing constraints remain.
- **Motors/Generators**: NOES supply constraints and new tariffs on imports will push prices higher into 2026.
  - EV growth slowing, but still upwards, with energy transition sustains demand, while lead times (1.0-1.5 years) remain a bottleneck.
- **Circuit Breakers**: Continued movement higher; elevated prices will remain throughout 2026.
  - Material costs and production limits continue to impact supply. Infrastructure spending keeps demand strong.
- **Market Outlook**: Tariffs provide continued cost pressure, but do not shift the dynamic for this category greatly.
  - Strong demand from digitalization and wider infrastructure with low supply keeps prices elevated across all categories.

On a larger scale, industrial machinery reflects broader dynamics with definitive risks in the pipeline

Construction machinery, Percent change YOY



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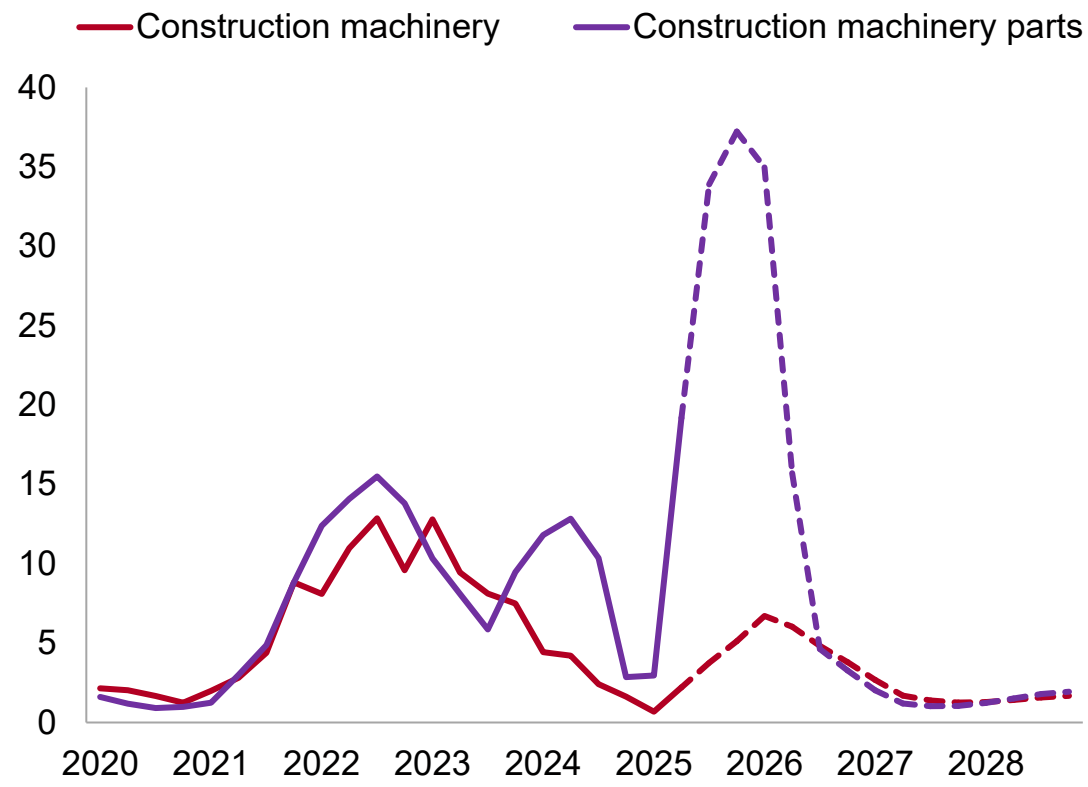
US Construction machinery, Percent change YOY



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