

White Paper Addendum

Creating Certainty in Volatile Metals Markets: The Time is Always Now.

In the prevailing market structure, OEM's have willingly attached themselves to index pricing to secure metals supply. Unknowingly, they have also attached themselves to the most volatile steel price risk in the world.



Buyer Challenges

Challenge #1: Organizational focus on total cost of ownership versus today's price

80% of the total cost of ownership is the steel value itself. Our historical back-test (chart on next page) shows that if you had locked in steel value consistently over time, you would have reduced the volatility of your buy price (orange line) compared to the floating index (white line). **More importantly, you could have saved \$93/ton because the price increases 66% faster than it decreases.**

Challenge #2: Maintaining the right level of inventory

Contract and spot schemes lead buyers to believe they will have available inventory at all prices. In actuality, mills quickly fill orders when demand is low and push out lead times when prices rise. This creates a squeeze that leaves inventory gaps, forcing buyers to look elsewhere to fill current needs. When the steel finally arrives, the price cycle has reversed and buyers are stuck with excess, out-of-market inventory. A key benefit of hedging is that it is a financial obligation only – there is no requirement to take physical material.

Challenge #3: Accurately forecasting steel costs

Contract buyers lock in discounts to the market price index and spot buyers continuously search for competitive market prices, which set the index. Both of these strategies expose buyers to the volatile market price index. Our data shows long-term hedging can **add certainty to your business by reducing the range of buying prices from over \$253/ton to just \$102/ton.**

Why Now?

Because you can't predict the price.

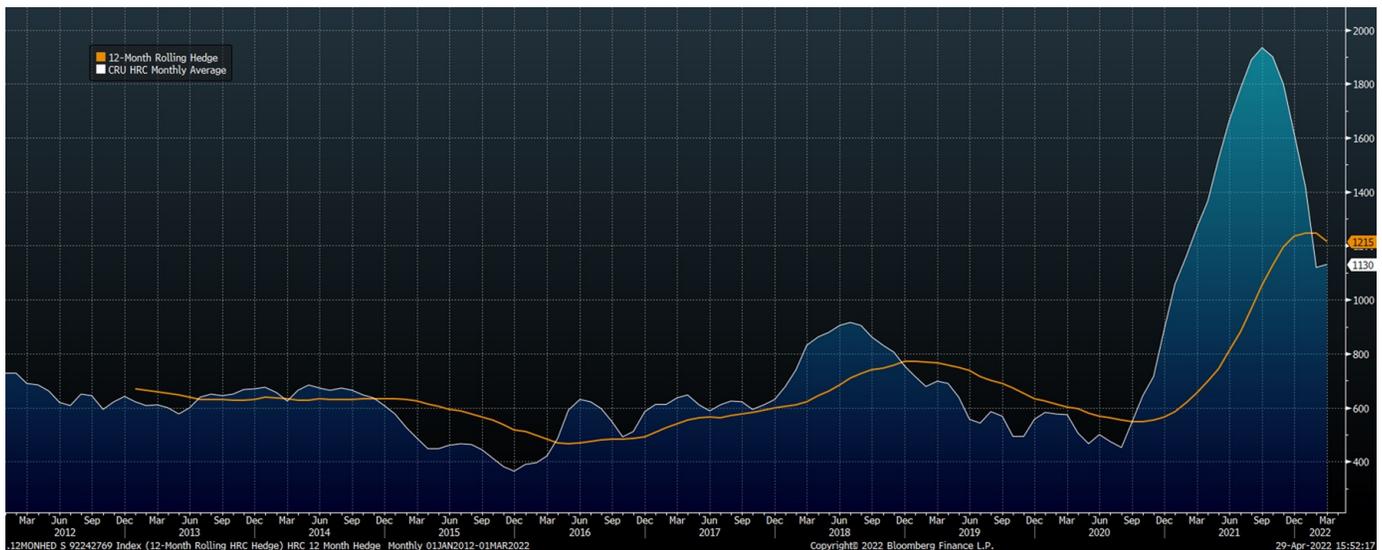
Current Market:

We recommend locking in 2023 pricing with HRC futures near \$900. This represents a discount of over \$200 to the spot price, an unprecedented opportunity.



Historical Price Volatility

ANNUALIZED VOLATILITY	HRC INDEX	12 MONTH HEDGE
8 YEAR HISTORICAL	28.30%	10.19%
7 YEAR HISTORICAL	21.26%	6.01%
6 YEAR HISTORICAL	22.64%	6.40%
5 YEAR HISTORICAL	23.93%	6.99%
4 YEAR HISTORICAL	25.05%	6.74%
3 YEAR HISTORICAL	20.71%	6.82%
2 YEAR HISTORICAL	22.47%	7.70%
1 YEAR HISTORICAL	26.74%	



Updated through March 2022. This back-test is updated annually to show through-cycle reduction in buying price range through hedging.

