IRONTRAX LLC
Trucking Industry Insight
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This document focuses on a number of topics that pertain to the mining industry as a whole, including President Trump's decision to exit the Paris Climate Agreement, the state of the coal industry under President Trump, the outlook for the oil industry, expectations for world steel production and a brief summary of trends in used equipment values.

Hot Topics

Trump Pulls Out of Paris Climate Agreement:
On June 1, 2017, President Trump announced that his administration will exit the Paris Climate Agreement (PCA), a pact between nearly 200 nations to voluntarily reduce their greenhouse gas emissions in an effort to fight climate change. Under the current agreement, the U.S., which is the

world's second largest emitter of carbon, would be required to reduce fossil fuel emissions by nearly 30% by 2025. Trump also stated that the U.S. will stall all contributions to the United Nations' Green Climate Fund, which he said was "costing the United States a fortune." The President said he was open to re-brokering U.S. carbon reduction commitments, but didn't express any urgency in bringing the U.S. back into the PCA, which he claimed placed "draconian" financial burdens on the American people. Former President Barack Obama used his power as president to join the PCA in 2015 without a vote in the legislature. Similarly, Trump has used his authority to call it quits. Those in favor of exiting the PCA argue it will undermine the economy and put the U.S. at a permanent disadvantage.

Trump's decision fulfills a campaign promise and satisfies strong Republican opposition to the global climate deal but also isolates the U.S. and is certain to bring condemnation from world leaders and critics in the scientific community. Republican National Committee Chairwoman Ronna McDaniel applauded the news and credited Trump with delivering "on his campaign promise to put American workers first." "The president is sending a clear message that we will no longer remain beholden to burdensome international deals at the expense of our taxpayers," she said. "I commend the president for making this decision that will save the U.S. economy from the loss of millions of jobs and trillions in economic output." Those who oppose the action taken by President Trump believe it is an abdication of American leadership and international responsibility.

How has the Coal Industry Faired Under President Trump?

During his campaign for president, Donald Trump rightfully laid the blame for the demise of the U.S. coal industry at feet of President Barack Obama. Under Obama's policies, which were designed specifically to target traditional energy sources, coal production plummeted. According to a report by the U.S. Mine Safety and Health Administration, in 2014, the industry produced 1 billion tons of coal. By 2016, that figure fell to 739 million tons. Over the same period, this resulted in the loss of tens of thousands of jobs.

Just a few months into his first year in office, Trump appears to have made good on his promises to help the flailing industry recover. Spurred by regulatory changes issued by the Trump administration and promises to continue offering a more favorable business climate for coal producers, coal production is trending upward for the first time in many years. According to a report by Bloomberg, in southern West Virginia, coal output through mid-April rose by 9% compared to one year ago, and the value of publicly traded U.S. coal companies, which is now estimated to be $15 billion, has doubled over the past year. Bloomberg also noted that signing bonuses for miners have returned in some areas. Fortune estimates that at least some of the 33,000 employees and contractors laid off between 2014 and 2016 are likely to be rehired. Although the coal industry seems to be stabilizing, some coal regions have yet to see any improvements. For instance, a recent report by the Lexington Herald Leader (Ky.) stated, "Employment at Kentucky coal mines dropped 3.3 percent statewide from January 1 through March 31." It remains to be seen whether coal's good fortunes will continue, but for now, it's clear Trump's policies, coupled with favorable economic conditions, have helped to keep the industry from collapsing.

Oil Outlook Turns Bearish:

On May 25, 2017, major oil producers led by the Organization of the Petroleum Exporting Countries' (OPEC) 14 current members and 10 non-OPEC members agreed to continue their crude oil output cuts of 1.8 million barrels per day (BPD), generally from the October 2016 crude production levels, through the first quarter of 2018. "We do not expect that they will extend the cuts much beyond that," said Martijn Rats, head of the European oil and gas research team at Morgan Stanley. Rats also expressed concerns about what will happen once the deal ends. If that coincides with strong shale-oil growth, the market looks to be oversupplied again, he said. Following the OPEC news, he lowered his West Texas Intermediate price forecast for year-end 2018 to $55 a barrel, from $60, and the year-end 2020 forecast to $60, from a range of $70-$75 a barrel.

When the crude oil production cuts were put in place last November, the International Energy Agency forecast that the demand for crude oil would grow by 1.5 million BPD. At that time, OPEC was confident that the production cuts totaling 1.8 million BPD between OPEC members and certain large non-OPEC members would quickly bring the oil market back into balance. However, OPEC recently released a new forecast in which they now project non-OPEC growth of 950,000 BPD, led by U.S. shale oil production. So, in less than one year, OPEC's view of non-OPEC oil production growth has risen by more than 1.0 million BPD. Similarly, the Energy Information Administration's latest short-term energy outlook has turned more pessimistic about global crude oil inventories. A few months ago, they expected inventories to start dropping in 2017. They now expect supply and demand to be in balance for the remainder of 2017 and for production to again pull ahead of demand in 2018. This is primarily due to U.S. oil production that they project will increase by 1.0 million BPD by next year.

World Steel Production to Flatline for Two Decades:
During the first quarter of 2017, data accumulated by the World Steel Association, the international trade body for the iron and steel industry, showed a 5.7% jump in global steel output to 410.5 million tonnes with robust growth across all regions. Production in China, which is responsible for almost of half the global total, rose approximately 4.6% year over year, but was fairly flat on a month-over-month basis. India, the world's number three producer, recorded the biggest gain of the major producing countries, with a 10.7% increase in year-over-year output to 25.8 million tonnes in the first quarter. India's infrastructure push should keep its blast furnaces humming throughout this decade and the country is set to soon overtake Japan, despite the island nation's growing output. U.S. output also rose during the first quarter, rising 3.8% in year over year terms following an annual decline in 2016. The strong numbers reflect the impact of anti-dumping measures against China that spurred domestic output, optimism about President Donald Trump's infrastructure plans, and the firing up of the new Big River Steel plant in Arkansas at the end of last year. Growth was also exceptional in Europe with a 6.7% jump in March, resulting in first quarter growth of 3.8%. While steel's fortunes look bright in 2017, further out the industry is likely to enter a new period of lower growth. In early May, World Steel Association Director General Edwin Basson said global steel capacity of roughly 2.4 billion tonnes "is already enough to meet supply requirements through 2035". He added, "strong steel demand growth in developing countries will offset stabilizing demand in developed economies, but it means mostly flat overall global demand for likely the next two decades or more". Combine those factors with declining trends in steel use – due in part to increased production of high-strength, lightweight steels and a sharper focus on reuse and recycling – and the outcome is clear. "We believe that steel demand, in terms of volume, has reached an important inflection point," he said. "It will continue to grow, but the growth is going to be much slower than it has been in the past two decades." Iron ore was recently trading at $59.50 a tonne, down 25% so far this year, while coal used in steelmaking has fallen by the same margin.

Trends in Used Equipment Values

The market for most used mining equipment continues to be exceptionally soft, particularly in relation to other used equipment categories. This softness may be attributed to several factors. Over the past few years, an inordinate number of mines have either ceased operations or been acquired by others who generally retain the purchased equipment. Additionally, smaller or less profitable manufacturers of mining equipment have been swallowed up by industry giants such as Caterpillar Inc. and Komatsu Ltd. Finally, the global push to raise emissions standards is having an adverse impact on the market for older non-complying equipment. These developments have brought about an oversupply of used mining equipment, and holders are reluctant to sell in the current market in which prices are depressed. As such, only a small portion of used mining equipment is coming to auction, thus making it difficult to gauge its value with any degree of precision. However, in a survey taken by Thompson Research Group, during the first quarter of 2017 43% of used equipment values in the specialty mining category were flat, while 53% were down. Conversely, the demand for new equipment with current technology and greater efficiencies continues to grow, driven by digital improvements, automation enhancements, the transformation of the workforce, and the coal mining business which is busier now than it has been in many years. While the outlook for the sellers of most used equipment is not as optimistic, the high cost of newer equipment is causing some end users to continue to search for good used rebuilt equipment.

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