

June 8, 2020

## In this Issue:

- **This Morning**
- **The Week Ahead**
- **Economic Ween in Review**
- **Commodity Market Developments**
- **Transportation Costs: Diesel Fuel**
- **This Week's Quote**

## This Morning

- **The Bloomberg Commodity Index** was little changed in early trading this morning (+0.07%) as weaker crude oil futures were offset by firmer precious and industrial metal prices.
- In London, **LME 3-mo. copper** and **aluminum** traded as high as \$5,708.50/mt and \$1,612/mt, respectively, while 3-mo. **nickel** was recently trading up around \$13,080/mt.
- In New York, **NYMEX crude oil futures** dipped below \$39 per barrel while **COMEX copper** was trading around \$2.57/lb. at the time of this writing.
- Reuters reports, "Oil slipped on Monday after Saudi Arabia said an extension of output cuts by OPEC+ nations would not include extra voluntary cuts by a trio of Gulf producers."
- On Wall Street, the major stock indexes opened higher following modest gains at most of the Asian and European exchanges despite the reported **18% drop in German industrial production in April**.
- In **foreign exchange trading**, the dollar eased against most major trading rivals as the euro firmed to \$1.1308 while the British pound was buying \$1.269.

**This Week's ISRI Market Report Sponsored By:**



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## Selected Primary Commodity Prices: June 8, 2020

	Last	CHG	% CHG	Prior	Open	High	Low
COMEX Copper Jul (\$/lb.)	2.569	0.013	0.5%	2.556	2.543	2.573	2.531
COMEX Gold Aug (\$/to)	1,693.8	10.8	0.6%	1,683.0	1686.7	1,701.5	1,680.7
COMEX Silver Jul (\$/to)	17.77	0.3	1.6%	17.48	17.55	17.94	17.5
NYMEX Light Sweet Crude Jul (\$/bbl)	38.90	-0.7	-1.6%	39.55	39.41	40.44	38.50
SHFE Aluminum Jul (RMB/mt)	13,335	180	1.4%	13,155	13,225	13,450	13,200
SHFE Copper Jul (RMB/mt)	45,710	710	1.6%	45,000	45,520	45,960	45,430
SHFE Nickel Aug (RMB/mt)	103,840	560	0.5%	103,280	104,000	104,500	103,230
SHFE Zinc Jul (RMB/mt)	16,530	-80	-0.5%	16,610	16,730	16,805	16,250

## The Week Ahead

- Investors will be paying close attention to the latest monetary policy statement from the FOMC this week.
- No change in target interest rates or major policy initiatives are expected, although Fed Chair Jay Powell did say last month that "...the Fed is strongly committed to using our tools to do whatever we can for as long as it takes."
- Reopening measures and the easing of coronavirus-related lockdown restrictions will again be in focus this week. The Financial Times reports "New York City will enter the first of four reopening phases. Construction, manufacturing, wholesale and curbside retail businesses can resume activity, enabling up to 400,000 people to return to work."
- On the U.S. economic calendar, we'll get new releases on job openings, initial unemployment claims, consumer and producer price inflation, and the preliminary reading on consumer sentiment for June.
- In Asia, China reports on CPI and PPI, Japan releases new figures on machine orders and producer prices, and India reports on industrial production.
- In Europe, new Euro zone figures are due out on first quarter GDP and industrial production in April following industrial production reports from Germany, Italy, and France. One estimate projects that French industrial production declined 24 percent in April.
- Please be safe and have a great week!

## U.S. Economic Calendar: June 8-12, 2020

Date	Time (ET)	Release	Period	Consensus	Prior
9-Jun	6:00	NFIB Small Business Optimism Index	May	NA	90.9
9-Jun	10:00	JOLTS - Job Openings	Apr	NA	6.191M

9-Jun	10:00	Wholesale Inventories	Apr	0.4%	-0.8%
10-Jun	8:30	CPI	May	0.0%	-0.8%
10-Jun	14:00	FOMC Rate Decision	Jun	0.125%	0.125%
11-Jun	8:30	Initial Claims	6-Jun	1.525M	1.877M
11-Jun	8:30	Continuing Claims	30-May	NA	21.487M
11-Jun	8:30	PPI	May	0.1%	-1.3%
12-Jun	8:30	Export Prices	May	NA	-3.3%
12-Jun	8:30	Import Prices	May	NA	-2.6%
12-Jun	10:00	Univ. of Michigan Consumer Sentiment – Prelim	Jun	75.8	72.3

## Economic Week in Review

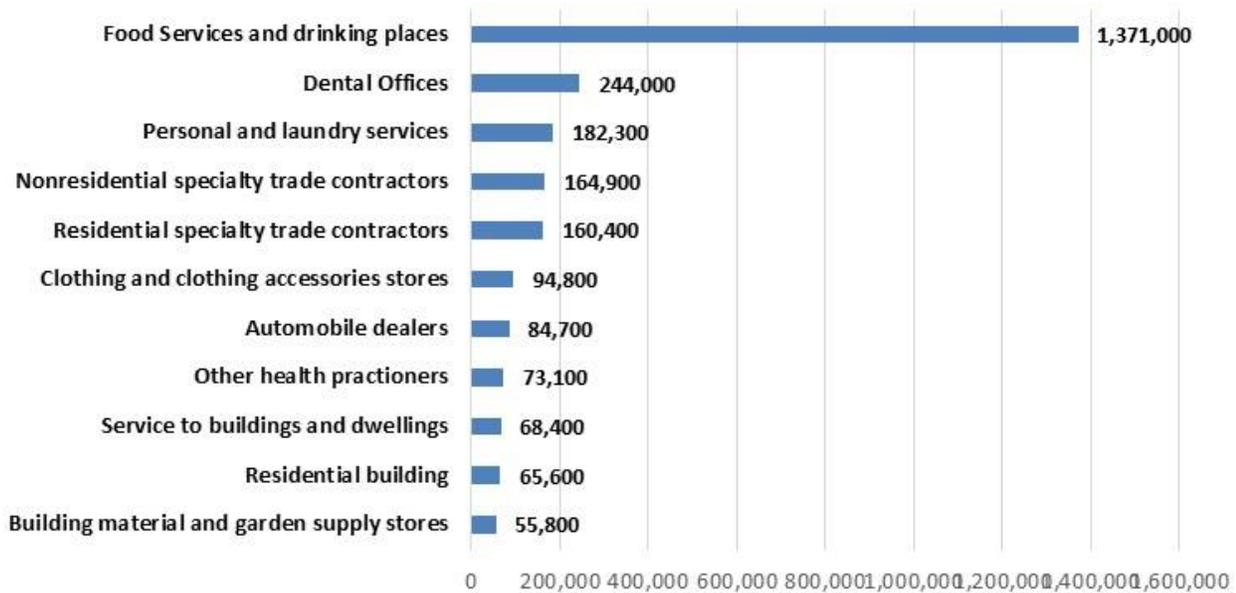
### May 2020 Employment Situation Report

- Last week's jobs report came in remarkably better than expected. Against a consensus forecast for a loss of more than 8 million jobs, the Bureau of Labor Statistics reported nonfarm payrolls increased by 2.5 million in May while the unemployment rate declined from 14.7% in April to 13.3% last month.
- The latest report emphasizes the massive shifts in the monthly (and weekly) numbers. For example, BLS reports "...the number of unemployed persons who were **jobless less than 5 weeks decreased by 10.4 million** to 3.9 million" while "...the number of **unemployed persons who were jobless 5 to 14 weeks rose by 7.8 million** to 14.8 million, accounting for about 70.8 percent of the unemployed."
- Those figures reflect the fact those who only recently lost their jobs due to the pandemic are coming back into the workforce quickly as the economic restrictions are relaxed, while those who have been out of work for a longer period of time are going to have a harder time rejoining the workforce.
- There's **significant variation by worker group** as well: BLS reports unemployment rates for adult men at 11.6%, adult women at 13.9%, and Whites at 12.4%, while the unemployment rates were 15.0% for Asians, 16.8% for Blacks, 17.6% for Hispanics, and 29.9% for teenagers.

- Job growth was led by some of the same service- sector industries that were most effected by the coronavirus pandemic: leisure and hospitality (+1.239 million), education and health services (+424 thousand), and retail trade (+367.8 thousand). Manufacturing added 225,000 jobs and the construction industry added 464,000 jobs in May.

## Top Job Growth Industries, May 2020

Source: Bureau of Labor Statistics



## Manufacturing PMI

Last week's manufacturing PMI report also showed signs of improving (or at least less bad) manufacturing sector conditions. The Institute for Supply Management reports their Purchasing Managers Index increased by 1.6 points to 43.1 in May. Timothy R. Fiore, Chair of the ISM's Manufacturing Business Survey Committee, reports "The coronavirus pandemic impacted all manufacturing sectors for the third straight month. May appears to be a transition month, as many panelists and their suppliers returned to work late in the month. However, demand remains uncertain, likely impacting inventories, customer inventories, employment, imports and backlog of orders.

Category	MAY	APR	MAR	FEB	JAN
<b>Total Index</b>	43.1	41.5	49.1	50.1	50.9
Orders	31.8	27.1	42.2	49.8	52.0
Production	33.2	27.5	47.7	50.3	54.3
Employment	32.1	27.5	43.8	46.9	46.6
Deliveries	68.0	76.0	65.0	57.3	52.9
Inventories	50.4	49.7	46.9	46.5	48.8
Export Orders	39.5	35.3	46.6	51.2	53.3
Prices paid (not seas adj.)	40.8	35.3	37.4	45.9	53.3

Here's what some of the ISM survey respondents had to say:

- "Despite the COVID-19 issues, we are seeing an increase of quoting activity. This has not turned into orders yet, but it is a positive sign." (Computer & Electronic Products)
- "Current conditions in the automotive, construction, oil and gas, agriculture equipment, and tube/pipe markets are all adversely impacting our business results." (Chemical Products)
- "We see an issue with suppliers that are affecting production. At the same time, social distancing measures in [the] manufacturing plant and customer demand are impacting the rate of production." (Transportation Equipment)
- "Fuel sales demand are beginning to rebound in May as stay-at-home orders are lifted across the country." (Petroleum & Coal Products)
- "Returning to full production for automotive, ramp-up will still depend on speed of automotive start-ups. We have built up inventory to stock. Ready to ship." (Fabricated Metal Products)
- "Business activity remains strong for consumable applications and very weak in durable segments." (Plastics & Rubber Products)
- "We have been fortunate that most of our customer base is considered to be a part of the critical workforce, so we have been running at around 80 percent of our normal production volume." (Primary Metals)
- "Getting out from under several suppliers being closed worldwide. Also, looking at what really needs to be in China." (Machinery)

## Light Vehicle Sales

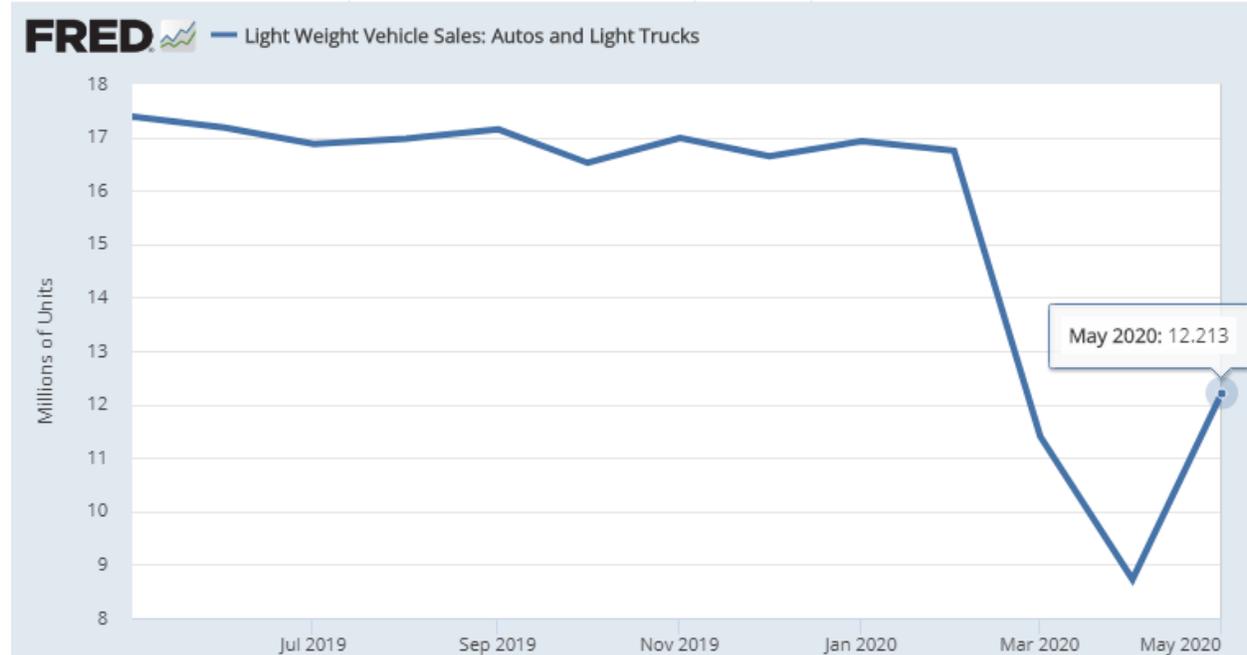
- Following dismal sales in April and a nearly two-month shutdown in vehicle manufacturing, light-vehicle sales in May 2020 rose nearly 42 percent to 12.21 million units on a seasonally adjusted (SA) basis. However, they remain down nearly 30 percent from May 2019.
- This is a substantial rebound from April's coronavirus-related plunge of nearly 50 percent.
- The light-truck segment accounted for over 78 percent of sales or 9.56 million units.
- Year-to-date, both car and light truck sales are down from a year ago:



# Weekly Market Report

- Car sales are at a SA rate through May 2020 of 3.15 million units.
- Light truck sales are at a SA rate through May 2020 of 9.85 million units.

## Light Vehicle Sales, May 2015 to May 2020



## U.S. Trade Balance

- **U.S exports decreased** in April to \$151.3 billion, down \$38.9 billion from March.
- **U.S. imports decreased** in April to \$200.7 billion, down \$31.8 billion from March.
- The **U.S. trade deficit increased** in April to \$49.4 billion, up nearly 17 percent from March.
- Exports of goods decreased \$32.2 billion in April to \$95.5 billion.
- Automotive vehicles, parts, and engines exports decreased \$7.4 billion in April.
- Civilian aircraft and aircraft engines exports decreased \$4.3 billion in April.
- Exports of services decreased \$6.7 billion in April to \$55.8 billion. Travel decreased \$3.4 billion and transport decreased \$2.3 billion.



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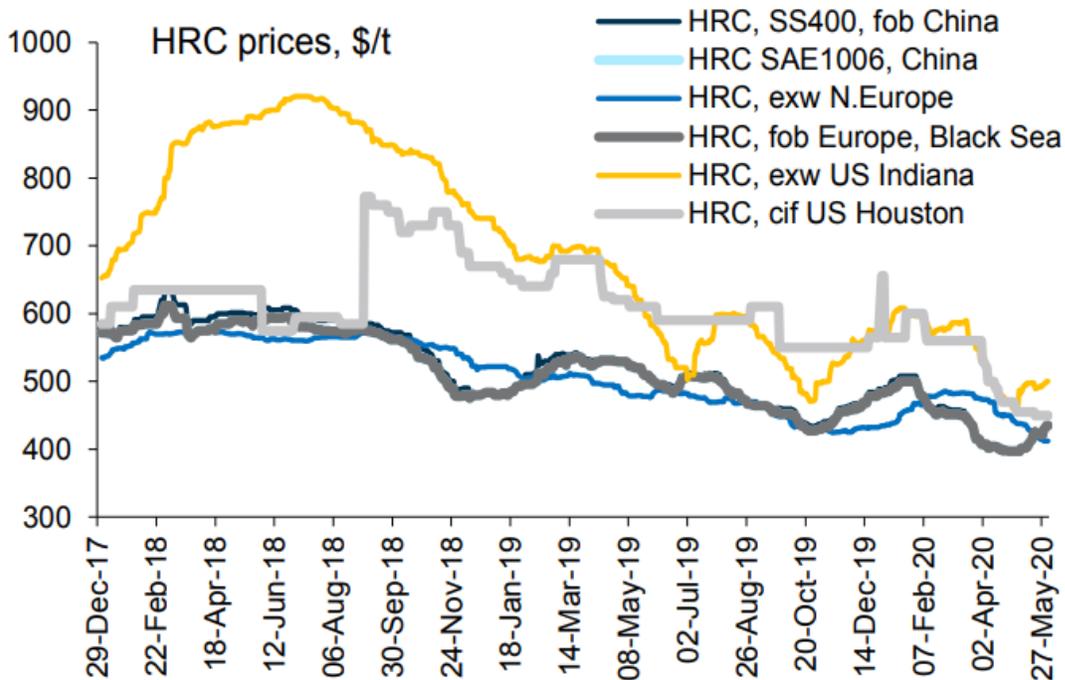
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## Commodity Market Developments

Ferrous

- Macquarie reports that steel prices around the world ex-China appear to have bottomed out: “As the “Great Unlocking” of major economies gains pace, we can see a slow recovery in steel demand too, from the very low base reported in Feb-Apr. A wave of capacity closures in Mar-Apr ushered in a short, quiet period for steel makers worldwide. The pause appears to be ending.”

## Steel prices have already bottomed in most regions



Source: Platts, Macquarie Commodity Strategy, June 2020

- In the United States, AISI reports that for the week ending May 30, 2020, domestic raw steel production edged up 1.3% from the previous week (but was still down 35.9% year-on-year) to 1.206 million net tons while the capability utilization rate was 53.8% – up slightly from 53.2% the prior week but still down sharply from the 80.8% utilization rate one year ago.
- Fastmarkets AMM reported last week that trading in most regions of the U.S. saw prime scrap price increases of around \$10 per ton while shredded scrap prices were mostly \$10 per ton lower, reflecting the disparity between prime and obsolete scrap availability.
- Fastmarkets AMM also reports Turkey booked at least five deep-sea cargoes from all origins last week totaling 150,000 tons as U.S. export prices advanced on improving demand from Taiwan, India, and Vietnam as well.

### Nonferrous

- Last week, our friend Edward Meir at ED&F Man Capital reported “We are seeing more impressive upside action in a number of complexes right now. In the LME space, **copper** is leading the group higher, now edging past \$5600 basis 3-months and at a fresh high. **Lead** also looks like it has staged a tentative breakout on the charts after languishing in a sideways range for weeks. **Aluminum** is grinding higher, ignoring a steady stock build on the LME and taking comfort instead that Shanghai stocks are falling (down another 25,000 tons this week). **Nickel** is looking perkier as well, but it has yet to break out on the charts although it is close.”

## YTD Daily LME 3-mo. copper asking prices (\$/mt)



- Macquarie reports “The LME announced that it is planning to facilitate the trading of low carbon or so-called ‘**green**’ **aluminum brands**. The FT quoted CEO Matt Chamberlain today as saying that the platform will go live next year, allowing consumers to distinguish aluminum that has been produced with a lower carbon footprint.”
- Reuters’ Andy Home warns that a **metals glut looms in the shadows** and while those “shadow stocks” haven’t shown up in the LME data, that’s going to change next month: “Surplus stocks are accumulating in the statistical shadows and more is on its way. Unfortunately, there is no way of seeing this metal since the LME only counts what is on warrant. That is about to change. The exchange has for several months been collating statistics on what it calls its shadow warehousing network with the aim of boosting transparency.”
- In New York, COMEX Jul copper ended the week at \$2.555 per pound on Friday, up from \$2.43/lb. at the open on Monday, according to CME Group data.
- **Fastmarkets AMM** reports that rising COMEX pricing has helped to improve the flow of copper scrap, recently listing brass ingot maker prices at 247-249 for Bare Bright, 240-242 for No. 1 copper, 226-228 for No. 2 copper, and 221-223 cents for light copper.

## Recovered Paper and Fiber

- Last week, ISRI continued to provide commodity-specific webinars through its **Spotlight on Paper**. Two professionals Jose Gonzalez and Sanna Sosa, from AFRY presented their research on the effects of COVID-19 on the paper industry. Their research predicated itself on the U.S. GDP decreasing 4.8 percent for the year, based upon more than a dozen forecasts they reviewed.

- Consumer habits have changed as working from home and business travel has nearly gone to zero. The continuing of these trends creates opportunities.

## Tissue

- The at-home (AH) bleach kraft paper pulp market will be an opportunity for both big brands – bringing in more recycled paper content to tissue, and for private labels to make inroads into the market.
- The away-from-home market (AFH), which uses the most recycled paper, was severely effect by the pandemic as the restaurants closed or only offered take out, universities went to online learning, and hospitals' regular activity dramatically decreased.
- AFRY expects total tissue demand to grow over the long term.
- They found that mid-sized companies are leading the growth, especially in the private label sector.

## Packaging – Container board

- The largest companies still hold nearly three quarters of the containerboard industry and mainly use virgin fiber.
- The rest of industry players use a lot of recycled fiber and there is room for expanded RCP capacity.
- Currently, 60 percent of the 5.6 million short tons of expansion announced focuses on recycled.
- The main driver of containerboard is the manufacturing sector. Depending on the assumptions made, AFRY's model forecast a wide range of change: ranging from a 1.5 percent growth to a negative growth of 13 percent.
- 53 percent of containerboard is used for food and beverage. Consumption has been down from a loss of disposable household income.

## Fiber Market

- Negative growth products have been: envelopes, filter grades, and wall paper
- Positive growth products have been: labels and e-commerce.

## Recovered Paper (RCP)

- Price volatility will continue for the remainder of the year and supply shortages will continue.
- Five million tons of RCP expansion in the US and 2.5 million tons of expansion – primarily in Southeast Asia. Projects like these are expected to continue this year.

## Recycled Pulp

- AFRY stated that there are five OCC pulp expansion of capacity projects currently in the US.

## **Plastics**

Don't miss this week's **Spotlight on Plastics & Briefing on Basel Convention** to be held on Thursday, June 11, at 1:00 p.m. ET. The global plastics and petrochemical markets continue to be negatively impacted by the productivity and economic downturn caused by COVID-19, especially in the oil and gas sector. The continued public attention on plastic consumption and concerns raised at international forums about EOL plastic trade has also become an issue. This two-panel virtual event will feature leading experts providing an outlook on the primary plastic and plastic scrap markets, as well as U.S. Government officials sharing details on compliance requirements for the Basel Convention's new plastic scrap trade regime that will be implemented in 2021. This is a must attend event for any one processing, brokering, or consuming plastic scrap or considering getting into the business.

## Transportation Costs: Diesel Fuel

### U.S. On-Highway Diesel Fuel Prices\*(dollars per gallon)

	05/18/20	05/25/20	06/01/20	Change from	
				week ago	year ago
U.S.	2.386	2.390	2.386	↓ -0.004	↓ -0.750
East Coast (PADD1)	2.491	2.498	2.492	↓ -0.006	↓ -0.661
New England (PADD1A)	2.620	2.624	2.615	↓ -0.009	↓ -0.604
Central Atlantic (PADD1B)	2.667	2.666	2.666	0.000	↓ -0.678
Lower Atlantic (PADD1C)	2.345	2.359	2.349	↓ -0.010	↓ -0.662
Midwest (PADD2)	2.229	2.230	2.226	↓ -0.004	↓ -0.800
Gulf Coast (PADD3)	2.175	2.175	2.171	↓ -0.004	↓ -0.704
Rocky Mountain (PADD4)	2.338	2.348	2.340	↓ -0.008	↓ -0.823
West Coast (PADD5)	2.887	2.902	2.900	↓ -0.002	↓ -0.860
West Coast less California	2.543	2.561	2.560	↓ -0.001	↓ -0.760
California	3.171	3.182	3.181	↓ -0.001	↓ -0.928

\*prices include all taxes

### This Week's Quote

"Without freedom of thought, there can be no such thing as wisdom - and no such thing as public liberty without freedom of speech."

-- Benjamin Franklin

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