May 4, 2020

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This Morning

The Bloomberg Commodity Index was down around 0.5% in early trading this morning as weaker crude oil and industrial metal prices more than offset gains in precious metal prices. Reuters reports, “Oil prices fell on Monday, paring last week’s gains, on worries a global oil glut may persist amid slumping demand and U.S.-China trade tensions that could restrict an economic recovery even as coronavirus pandemic lockdowns start to ease.” In New York, NYMEX crude oil futures were down around 8% early this morning while COMEX copper futures traded as low as $2.284/lb. as gold futures rose above $1,715 per troy ounce. The SHFE in China is closed for the holiday while in London most of the base metals were headed lower this morning, with LME 3-mo. copper and aluminum trading around $5,075/mt and $1,475/mt, respectively. As for equities, the major European exchanges started the week in negative territory this morning as the euro eased to $1.094 while the British pound was buying $1.242.

This Week’s ISRI Market Report Sponsored By:

Selected Primary Commodity Prices: May 4, 2020

<table>
<thead>
<tr>
<th></th>
<th>Last</th>
<th>CHG</th>
<th>% CHG</th>
<th>Prior</th>
<th>Open</th>
<th>High</th>
<th>Low</th>
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<tbody>
<tr>
<td>COMEX Copper Jul ($/lb.)</td>
<td>2.286</td>
<td>-0.027</td>
<td>-1.1%</td>
<td>2.312</td>
<td>2.305</td>
<td>2.305</td>
<td>2.284</td>
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<tr>
<td>COMEX Gold Jun ($/to)</td>
<td>1,715.4</td>
<td>14.5</td>
<td>0.9%</td>
<td>1,700.9</td>
<td>1711.2</td>
<td>1,718.1</td>
<td>1,700.3</td>
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<tr>
<td>COMEX Silver Jul ($/to)</td>
<td>15.07</td>
<td>0.1</td>
<td>0.9%</td>
<td>14.94</td>
<td>15.08</td>
<td>15.23</td>
<td>14.8</td>
</tr>
<tr>
<td>NYMEX Light Sweet Crude Jun ($/bbl)</td>
<td>18.19</td>
<td>-1.6</td>
<td>-8.0%</td>
<td>19.78</td>
<td>19.11</td>
<td>19.53</td>
<td>18.05</td>
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<tr>
<td>SHFE Aluminum* (RMB/mt)</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
</tr>
<tr>
<td>SHFE Copper* (RMB/mt)</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
</tr>
<tr>
<td>SHFE Nickel* (RMB/mt)</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
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<tr>
<td>SHFE Zinc* (RMB/mt)</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
</tr>
</tbody>
</table>

*Shanghai Futures Exchange closed for holiday.

The Week Ahead

There are a number of important economic releases on the U.S. calendar this week, but none more important than the Employment Situation Report for April that comes out on Friday. The consensus forecast is that nonfarm payrolls contracted by 21 million in April and the unemployment rate rose from...
4.4% in March to more than 16% last month. That consensus forecast on unemployment might actually be on the low side, but even still this is what it would look like from a historical perspective:

Other U.S. reports due out this week will cover factory orders (consensus forecast -9.1%), the trade balance (see our report next week for a recap of Q1 U.S. scrap exports), the ISM service sector index, labor productivity, and wholesale inventories. Overseas, we’ll get new reports on German industrial production, Chinese trade, and Japanese consumer spending, along with a number of PMI reports. On the monetary policy front, the Bank of England meets this week while the Financial Times reports “There is a key court ruling on the European Central Bank’s bond-buying plans and economic forecasts due on EU member states that will have a bearing on their eligibility for economic aid.” On the corporate front, ArcelorMittal, the world’s largest steelmaker, is scheduled to release its earnings report this week.

Investors will also be paying attention to the re-opening plans for a number of national economies and U.S. states. We hope you have a great week.

### U.S. Economic Calendar: May 4-8, 2020

<table>
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<tr>
<th>Date</th>
<th>Time (ET)</th>
<th>Release</th>
<th>Period</th>
<th>Consensus</th>
<th>Prior</th>
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<tbody>
<tr>
<td>4-May</td>
<td>10:00</td>
<td>Factory Orders</td>
<td>Mar</td>
<td>-9.1%</td>
<td>0.0%</td>
</tr>
<tr>
<td>5-May</td>
<td>8:30</td>
<td>Trade Balance</td>
<td>Mar</td>
<td>-$44.2B</td>
<td>-$39.9B</td>
</tr>
<tr>
<td>5-May</td>
<td>10:00</td>
<td>ISM Non-Manufacturing Index</td>
<td>Apr</td>
<td>38.5</td>
<td>52.5</td>
</tr>
<tr>
<td>6-May</td>
<td>7:00</td>
<td>MBA Mortgage Applications Index</td>
<td>2-May</td>
<td>NA</td>
<td>-3.3%</td>
</tr>
<tr>
<td>6-May</td>
<td>8:15</td>
<td>ADP Employment Change</td>
<td>Apr</td>
<td>-21.5M</td>
<td>-27K</td>
</tr>
<tr>
<td>7-May</td>
<td>8:30</td>
<td>Initial Claims</td>
<td>2-May</td>
<td>2.9M</td>
<td>3.839M</td>
</tr>
<tr>
<td>7-May</td>
<td>8:30</td>
<td>Productivity - Prel.</td>
<td>Q1</td>
<td>-6.0%</td>
<td>1.2%</td>
</tr>
<tr>
<td>8-May</td>
<td>8:30</td>
<td>Nonfarm Payrolls</td>
<td>Apr</td>
<td>-21.0M</td>
<td>-701K</td>
</tr>
<tr>
<td>8-May</td>
<td>8:30</td>
<td>Unemployment Rate</td>
<td>Apr</td>
<td>16.2%</td>
<td>4.4%</td>
</tr>
<tr>
<td>8-May</td>
<td>8:30</td>
<td>Average Workweek</td>
<td>Apr</td>
<td>33.8</td>
<td>34.2</td>
</tr>
<tr>
<td>8-May</td>
<td>10:00</td>
<td>Wholesale Inventories</td>
<td>Mar</td>
<td>-1.0%</td>
<td>-0.7%</td>
</tr>
</tbody>
</table>

### Economic Week in Review

**Federal Reserve Statement**

Last week the Federal Reserve issued an official statement, followed by a press conference with Fed Chair Jay Powell. From the statement: “The Federal Reserve is committed to using its full range of tools to support the U.S. economy in this challenging time, thereby promoting its maximum employment and price stability goals.” The Federal Reserve is keeping rates near zero for the short to medium term. While the Fed has acted swiftly, Chairman Powell praised Congress for their quick fiscal actions (e.g., the Paycheck program, CARES, and other programs).

Chairman Powell acknowledged the human and economic toll stemming from the coronavirus, along with the expectation of continued negative effects. Powell stated they are monitoring the economic conditions, the health information, global challenges, and the potential for inflationary changes “and will use its tools and act as appropriate to support the economy.” He also stated the U.S. Treasury has additional equity that could be used if and when needed.

The timing of when the economy comes back is anyone’s guess. However, Chairman Powell expressed that the second quarter of 2020 will be worse than the first, and anticipates economic activity will increase in the second half of 2020. And it may take a year or longer to get back to where we were before the
outbreak. He predicated these statements on the containment of the coronavirus, the creation of a vaccine, states lifting economic restrictions, and peoples’ willingness and comfort level to resume activity.

GDP First Quarter 2020

Last week the Bureau of Economic Analysis released the much-anticipated real GDP report for Q1 2020, which showed the economy contracted at an annualized rate of 4.8 percent. The last time GDP was negative was the first quarter 2014 (-1.1%). The BEA attributes the current decline to the response in combating COVID-19 as federal, state, and local governments issued shelter-in-place and various other orders. The BEA also acknowledged that the full effect of GDP could not be captured “because the impacts are generally embedded in source data and cannot be separately identified.”

In the first quarter 2020, personal consumption expenditures dropped 7.6 percent, with goods down 1.2 percent and services down 10.2 percent. Gross private domestic investment was down 5.6 percent; exports were down 8.7 percent and imports down 15.3 percent; government consumption expenditures and gross investment was the only major area showing an increase, up 0.7 percent.

Personal Income and Personal Spending

Personal income dropped 2.0% in March 2020 from the preceding month, mainly from a reduction of employee compensation as millions continue to file for unemployment. That was the biggest percentage decline since January 2013 (-4.7 percent). Disposable personal income also decreased 2.0 percent and personal consumption expenditures (PCE) declined 7.5 percent. The PCE price index decreased 0.3 percent in March 2020. Showing the effect of declining energy prices (which were down 6.1 percent in March), the core PCE price index only decreased 0.1 percent.

Manufacturing PMI
The Institute for Supply Management reported last week that their manufacturing PMI reading fell from 49.1 in March to 41.5 in April, indicating “…the PMI indicates a level of manufacturing-sector contraction not seen since April 2009, with a strongly negative trajectory” given the impacts of the COVID-19 pandemic and recession in the energy sector.

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

- “Thirty-percent decrease for April due to COVID-19 impact on both customers and suppliers.” (Computer & Electronic Products)
- “Production stopped, other than to make hand sanitizer for those in need.” (Chemical Products)
- “COVID-19 has created a wave of activities, including vendors closing, vendors focusing only on the medical industry, employees not coming to work, delayed shipments from overseas, etc.” (Transportation Equipment)
- “Our refinery is losing money making gasoline due to the falling demand.” (Petroleum & Coal Products)
- “We supply the construction industry in various ways, where the slowdown has been a bit slower than most industries. It is, however; beginning to impact our business, and we see more challenges on the horizon.” (Fabricated Metal Products)
- “Our packaging business is starting to see signs of a slowdown in May after two strong months into COVID-19.” (Paper Products)
“COVID-19 has destroyed our market and our company. Without a full recovery very soon, and some assistance, I fear for our ability to continue operations.” (Nonmetallic Mineral Products)

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Commodity Market Developments

Ferrous

The American Iron and Steel Institute reports that for the week ending April 25th, “domestic raw steel production was 1,250,000 net tons while the capability utilization rate was 55.8 percent. Production was 1,892,000 net tons in the week ending April 25, 2019 while the capability utilization then was 81.3 percent. The current week production represents a **33.9 percent decrease from the same period in the previous year**. Production for the week ending April 25, 2020 is down 2.1 percent from the previous week ending April 18, 2020 when production was 1,277,000 net tons and the rate of capability utilization was 57.0 percent.”

**Year-on-Year Change in U.S. Steel Mill Production and Capacity Utilization**

Source: AISI
On the U.S. steel import front, AISI previously reported that “through the first three months of 2020, total and finished steel imports are 6,410,000 and 4,507,000 net tons (NT), down 21.7% and 25.6%, respectively, vs. the same period in 2019.”

Looking into May scrap trading, Argus Media reports “A severe shortage of industrial prime grade ferrous scrap and tighter supplies of obsolete grades are widely expected to drive US prices higher in May, despite weaker demand fundamentals. But dealers and consumers surveyed by Argus expect US ferrous scrap prices will see little uniformity between regions. Mill buyers will likely rely more heavily on remote scrap supplies due to local shortages, particularly for prime grades like #1 busheling. Prime scrap flows have been practically halted over the last 40 days amid stoppages of US auto manufacturing. Finished steel demand and prices have also been severely depressed over the last month from delays in restarting US auto manufacturing, as well as a collapse in oil prices hitting energy sector demand.”

**ISRI Members:** Don’t miss our **Ferrous Spotlight Webinar** to be held on May 14, 2020 at 1 pm Eastern when **Brandi Harleaux** from South Post Oak Recycling Center, **Blake Hurtik** from Argus Metal Pricing, and ISRI’s **Joe Pickard** discuss how recyclers are responding to the COVID-19 crisis and the outlook going forward for the domestic & global steel and ferrous scrap markets.

**Nonferrous**

Our friends at Macquarie reviewed China’s Q1 2020 metal imports last week, reporting that China’s copper scrap imports during Jan-Mar 2020 fell to 210,000 metric tons, down 16% from the previous quarter and off 38% year-on-year as copper ingots are increasingly being used as scrap substitutes:

- Copper concentrate imports dropped 9% MoM to 1.8Mt (+1% YoY); 1Q total imports -1% YoY. Refined imports of 282kt (-6% MoM; -1% YoY), 1Q total imports lifted 5% YoY to 883kt. 1Q scrap copper imports were just 210kt (-16% QoQ), despite the adequate quota available for 1H2020.
- Imports of Cu-contained materials including concentrate, blister and cathodes – all generally flat YoY, except ingots. **Ingot imports have displaced scrap, since the scrap bans were imposed, and have now surged to an historic high in March**, mainly from Pakistan.
As NBS reported, China produced 771kt of copper cathodes (-3% YoY), taking 1Q production to 2.2Mt (flat YoY). Copper semis production rebounded 64% vs the average of Jan and Feb, while the total 1Q production was still ~6% lower YoY. In April, the market has seen continuous destocking. Even acid prices have recovered from their very low levels, implying a demand recovery.

Copper ingots imports: rising, and being used as scrap

Source: China Customs, Macquarie Commodities Strategy, May 2020

Fastmarkets AMM reports that “Aurubis’ attempts to get regulatory approval for its takeover of secondary copper-tin smelter Metallo continue, Europe’s largest copper smelter said, with the decision delayed due to Covid-19 uncertainty. The Germany-based company has been attempting to gain antitrust regulatory approval for a €380-million ($424-million) takeover of Belgian-Spanish recycler Metallo Chimique since May last year, seeking to solidify plans to diversify its product offering. The EU’s final decision had been expected by April this year but will now be given early this month, an Aurubis spokesperson confirmed to Fastmarkets on Thursday April 30…

Although a Reuters report earlier this week suggested that Aurubis is set to secure the EU’s approval, the Aurubis spokesperson said that story is “is based on rumors by unknown sources.” “There is no official decision as of now… the merger control proceeding is ongoing and Aurubis is cooperating with the [European] Commission in a constructive manner,” the Aurubis spokesperson said. “In general, our view on the case has not changed. We still believe that the merger should be cleared unconditionally.”

In the U.S., COMEX July copper futures lost ground late last week, trading as low as $2.286 per pound on Friday after having traded as high as $2.395/lb. on Thursday. AMM was recently listing brass ingot maker prices for copper scrap at 219-221 for Bare Bright, 212-214 for No. 1 copper, 194-196 for No. 2 copper, and 143-144 cents for radiators.

Plastics
With the energy markets way out of equilibrium, we decided to look at percent changes in natural gas prices (as measured by the Henry Hub Natural Gas spot price), the PPI for recyclable plastics, and the PPI for plastics material and resins manufacturing. As you can see, the natural gas price is very volatile, while recycled plastic has some volatility and has followed natural gas price in the last year. Reported virgin plastic materials and resins have been relatively stable in comparison.

Natural Gas, Plastics and Resins, and Recyclable Plastics
Percent changes from Jan 2016 to March 2020

In other plastics news, Resource Recycling reports “The coronavirus has disrupted end markets for KW Plastics, moving demand away from industrial applications and toward packaging for essential products. Troy, Ala.-based KW Plastics, which describes itself as the world’s largest plastics recycling company, has 350 employees directly tied to plastics recycling. KW has not laid off any of those workers during the coronavirus pandemic, said Stephanie Baker, director of market development for KW Plastics.

Baker spoke on a recent webinar hosted by the Southeast Recycling Development Council (SERDC) and provided more details in an interview with Plastics Recycling Update. “We’re doing everything we can to keep business as usual so that we can keep PCR flowing to our customers that need it,” Baker said. But the company has seen fast changes in the numerous end markets it supplies.

The automotive sector has essentially shut down, and “we have seen that business come to all but an abrupt stop,” Baker said. Automotive manufacturers have floated plans to restart their plants in early May, but for the time being, that end market is closed. At the same time, however, KW has seen demand increase for its natural HDPE recycled pellets. This resin goes into packaging for personal care products, household cleaning agents, detergents, soaps and more.

Transportation Costs: Gasoline

For the week ending April 27, 2020, the U.S. Energy Information Administration reports the average U.S. regular gasoline price was down more than $1.11 per gallon year-on-year to $1.773 per gallon. That represents an average drop for the week of nearly 4 cents. The lowest regular gasoline prices by region
were in the Midwest at $1.478/gallon, followed by the Gulf Coast at $1.508/gallon, while the West Coast maintained the highest average price per gallon at $2.454 ($2.216 excluding California).

### U.S. Regular Gasoline Prices *(dollars per gallon)*

<table>
<thead>
<tr>
<th></th>
<th>04/13/20</th>
<th>04/20/20</th>
<th>04/27/20</th>
<th>Change from week ago</th>
<th>year ago</th>
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<tbody>
<tr>
<td><strong>U.S.</strong></td>
<td>1.853</td>
<td>1.812</td>
<td>1.773</td>
<td>↓-0.039</td>
<td>↓-1.114</td>
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<td><strong>East Coast (PADD1)</strong></td>
<td>1.878</td>
<td>1.844</td>
<td>1.810</td>
<td>↓-0.034</td>
<td>↓-0.970</td>
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<tr>
<td><strong>New England (PADD1A)</strong></td>
<td>1.887</td>
<td>1.861</td>
<td>1.833</td>
<td>↓-0.028</td>
<td>↓-0.911</td>
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<tr>
<td><strong>Central Atlantic (PADD1B)</strong></td>
<td>2.080</td>
<td>2.046</td>
<td>1.997</td>
<td>↓-0.049</td>
<td>↓-0.635</td>
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<tr>
<td><strong>Lower Atlantic (PADD1C)</strong></td>
<td>1.745</td>
<td>1.712</td>
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<td>↓-0.028</td>
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<tr>
<td><strong>Midwest (PADD2)</strong></td>
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<td>1.510</td>
<td>1.478</td>
<td>↓-0.032</td>
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<tr>
<td><strong>Gulf Coast (PADD3)</strong></td>
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<td><strong>Rocky Mountain (PADD4)</strong></td>
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<td>1.866</td>
<td>1.809</td>
<td>↓-0.057</td>
<td>↓-1.034</td>
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<tr>
<td><strong>West Coast (PADD5)</strong></td>
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<td>2.515</td>
<td>2.454</td>
<td>↓-0.061</td>
<td>↓-1.217</td>
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<tr>
<td><strong>West Coast less California</strong></td>
<td>2.377</td>
<td>2.296</td>
<td>2.216</td>
<td>↓-0.080</td>
<td>↓-1.079</td>
</tr>
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</table>

**This Week’s Story**

A mathematician, a statistician, and an economist apply for the same government job.

The interviewer calls in the mathematician and asks, "What does two plus two equal?"

The mathematician replies, "Four."

"Always four?", the interviewer asks. "Always four," the mathematician replies.

Then the interviewer calls in the statistician and asks the same question, "What does two plus two equal?"

The statistician says, "On average, four, give or take a standard deviation, but on average four."

Then the interviewer calls in the economist and poses the same question, "What does two plus two equal?"

The economist gets up, locks the door, closes the shades, sits down next to the interviewer and says, "What do you want it to equal?"

**This Week’s Quote**
"For every complex problem there is an answer that is clear, simple, and wrong."

-- H. L. Mencken