

October 16, 2019

In this Issue:

- **This Morning**
- **The Week Ahead**
- **Economic Week in Review**
- **Commodity News**
- **Transportation: Container Rates**
- **This Week's Story**
- **This Week's Quote**

This Morning

Prospects for a U.S.-China trade deal continue to be a key driver for equity and commodity market sentiment. MarketWatch reported yesterday that "U.S. stocks finished at more-than-three-week highs Tuesday as investors cheered a raft of largely upbeat corporate earnings reports, while considering the implications of a partial U.S.-China trade deal announced last Friday and the possibility of a breakthrough in Brexit negotiations." Sentiment was less upbeat this morning as the major U.S. stock indexes gave up a portion of yesterday's gains in early trading, while the Bloomberg Commodity Index fell 0.26% as industrial metal prices lost ground. In Shanghai, most-actively traded SHFE nickel futures settled 0.8% lower today and in London LME 3-mo. nickel futures traded as low as \$16,430/mt. In New York, COMEX copper futures slipped by around 3 cents to \$2.58/lb. this morning while NYMEX crude oil futures advanced to around \$53/bbl. In foreign exchange trading the dollar eased against most major trading rivals in early trading as the euro firmed to \$1.104 and the British pound edged up to \$1.2805, while the greenback was buying 108.8 Japanese yen.

This Week's ISRI Market Report is Sponsored by:



[https://www.olympus-ims.com/en/vanta-same-day-shipping/?utm_source=Scrap Magazine Oct 2019&utm_medium=Newsletter Sponsorship&utm_campaign=ANI Vanta](https://www.olympus-ims.com/en/vanta-same-day-shipping/?utm_source=Scrap%20Magazine%20Oct%202019&utm_medium=Newsletter%20Sponsorship&utm_campaign=ANI_Vanta)

Selected Primary Commodity Prices: October 16, 2019

| | Last | CHG | % CHG | Prior | Open | High | Low |
|--------------------------------------|---------|--------|-------|---------|---------|---------|---------|
| COMEX Copper Dec (\$/lb.) | 2.5830 | -0.03 | -1.2% | 2.614 | 2.61 | 2.613 | 2.573 |
| COMEX Gold Dec (\$/to) | 1,494.1 | 10.6 | 0.7% | 1,483.5 | 1484.8 | 1,495.1 | 1,480.6 |
| COMEX Silver Dec (\$/to) | 17.45 | 0.1 | 0.4% | 17.38 | 17.43 | 17.49 | 17.2 |
| NYMEX Light Sweet Crude Nov (\$/bbl) | 52.87 | 0.1 | 0.1% | 52.81 | 52.92 | 53.17 | 52.51 |
| SHFE Aluminum Dec (RMB/mt) | 13,800 | 50 | 0.4% | 13,750 | 13,760 | 13,840 | 13,745 |
| SHFE Copper Dec (RMB/mt) | 46,880 | -60 | -0.1% | 46,940 | 46,950 | 46,980 | 46,750 |
| SHFE Nickel Dec (RMB/mt) | 132,690 | -1,090 | -0.8% | 133,780 | 132,530 | 133,310 | 131,750 |
| SHFE Zinc Dec (RMB/mt) | 18,980 | -15 | -0.1% | 18,995 | 19,100 | 19,110 | 18,875 |

The Week Ahead

Third quarter earnings season on Wall Street, new U.S. releases on housing starts & building permits, industrial production, and leading economic indicators, along with new Chinese data releases and fast-approaching Brexit deadlines are keeping investors busy this week. U.S. bank results are in focus this week with JP Morgan Chase, Goldman Sachs, Citigroup, and Wells Fargo having reported results on Tuesday while Bank of America and Morgan Stanley are scheduled to release results on Thursday. Overseas, China comes out with new data on GDP, industrial production, and retail sales later in the week, following the release of mixed inflation and trade numbers earlier in the week (see below for details). As for Brexit, the Financial Times reports “This will be a key week for Brexit because Boris Johnson will need to ask Brussels for an extension on the UK’s withdrawal from the EU under the terms of the Benn Act if parliament has not approved either a deal or no-deal exit by Saturday. The House of Commons is due to hold a special session at the end of the week — dubbed Super Saturday — the first such session to be held on a weekend since 1982, when Falklands crisis was debated.” Don’t miss next week’s Market Report for a recap of the week’s key economic, commodity, and scrap market highlights.

U.S. Economic Calendar: Oct 14-18, 2019

| Date | Time | Release | Period | Consensus | Prior |
|--------|----------|----------------------------|--------|-----------|-------|
| 15-Oct | 08:30 ET | Empire State Manufacturing | Oct | -1.0 | 2.0 |
| 16-Oct | 08:30 ET | Retail Sales | Sep | 0.3% | 0.4% |
| 16-Oct | 08:30 ET | Retail Sales ex-auto | Sep | 0.2% | 0.0% |
| 16-Oct | 10:00 ET | Business Inventories | Aug | 0.2% | 0.4% |
| 16-Oct | 14:00 ET | Fed's Beige Book | Oct | NA | NA |
| 17-Oct | 08:30 ET | Housing Starts | Sep | 1306K | 1364K |
| 17-Oct | 08:30 ET | Building Permits | Sep | 1350K | 1419K |
| 17-Oct | 08:30 ET | Initial Claims | 12-Oct | 215K | 210K |
| 17-Oct | 08:30 ET | Philadelphia Fed Index | Oct | 6.0 | 12.0 |
| 17-Oct | 09:15 ET | Industrial Production | Sep | -0.3% | 0.6% |
| 17-Oct | 09:15 ET | Capacity Utilization | Sep | 77.7% | 77.9% |
| 18-Oct | 10:00 ET | Leading Indicators | Sep | 0.0% | 0.0% |

Economic Week in Review

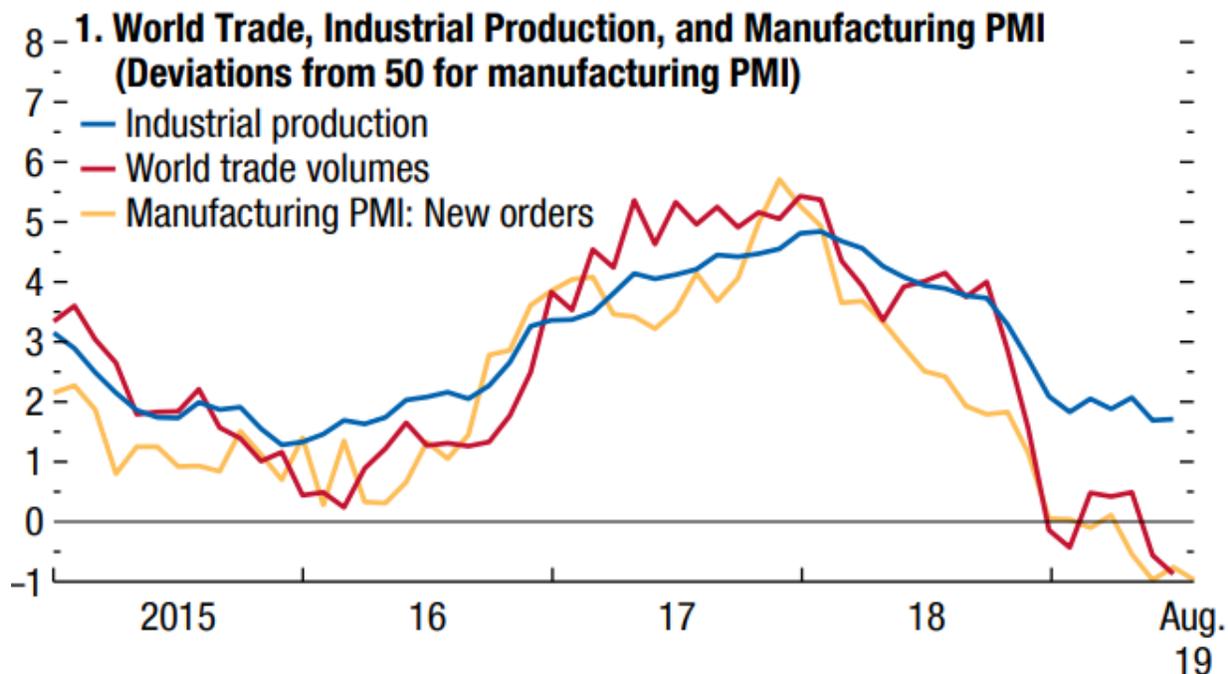
Reuters reports that “China’s factory gate prices declined at their fastest pace in more than three years in September, reinforcing the case for Beijing to unveil further stimulus as manufacturing cools on weak demand and U.S. trade pressures. The producer price index (PPI), considered a key barometer of corporate profitability, dropped 1.2% year-on-year in September, National Bureau of Statistics (NBS) data showed on Tuesday. That marked the steepest decline since July 2016 but matched forecasts in a Reuters survey of analysts.



“In contrast, China’s consumer prices rose at their fastest pace in almost six years, driven mostly by the surge in pork prices as African swine fever ravaged the country’s hog herds. However, core retail inflation pressures remain modest, giving policymakers room to introduce measures to prop up demand. The grim outlook is unlikely to change even as tensions in the year-long trade war between Beijing and Washington have eased somewhat. U.S. President Donald Trump said on Friday the two sides had reached agreement on the first phase of a deal and suspended a tariff hike, but officials said much work still needed to be done.”

As for the latest Chinese trade data, the CME Group reports “{Chinese} exports fell 3.2 percent on the year in September after falling 1.0 percent in August, close to the consensus forecast for a fall of 3.0 percent, while imports fell 8.5 percent on the year, after falling 5.6 percent previously, bigger than the consensus forecast for a fall of 5.0 percent.” As imports dropped faster than exports, China’s trade surplus widened from \$34.83 billion in August to \$39.65 billion in September. Concerns about the impact of the trade war have prompted some analysts to cut their third quarter Chinese GDP growth forecasts below 6 percent.

In its latest World Economic Outlook released today, the International Monetary Fund is now projecting that slower global manufacturing output and international trade flows are weighing on economic growth: “Over the past year, global growth has fallen sharply. Among advanced economies, the weakening has been broad based, affecting major economies (the United States and especially the euro area) and smaller Asian advanced economies. The slowdown in activity has been even more pronounced across emerging market and developing economies, including Brazil, China, India, Mexico, and Russia, as well as a few economies suffering macroeconomic and financial stress.”



Source: International Monetary Fund, WEO, October 2019.

As a result, the IMF has lowered its 2019 projections for economic growth for the euro area (1.2%), the U.S. (1.7%), China (6.1%), and the world (3.0%) – marking the lowest expected level of global growth since 2008/2009. And while global economic output is expected to modestly rebound to 3.4% growth in 2020, that's still down from the IMF's April forecast for 3.6% growth next year.

Table 1.1. Overview of the World Economic Outlook Projections
(Percent change, unless noted otherwise)

| | 2018 | Projections | | Difference from July 2019 WEO Update ¹ | | Difference from April 2019 WEO ¹ | |
|---|------------|-------------|------------|---|-------------|---|-------------|
| | | 2019 | 2020 | 2019 | 2020 | 2019 | 2020 |
| World Output | 3.6 | 3.0 | 3.4 | -0.2 | -0.1 | -0.3 | -0.2 |
| Advanced Economies | 2.3 | 1.7 | 1.7 | -0.2 | 0.0 | -0.1 | 0.0 |
| United States | 2.9 | 2.4 | 2.1 | -0.2 | 0.2 | 0.1 | 0.2 |
| Euro Area | 1.9 | 1.2 | 1.4 | -0.1 | -0.2 | -0.1 | -0.1 |
| Germany ² | 1.5 | 0.5 | 1.2 | -0.2 | -0.5 | -0.3 | -0.2 |
| France | 1.7 | 1.2 | 1.3 | -0.1 | -0.1 | -0.1 | -0.1 |
| Italy | 0.9 | 0.0 | 0.5 | -0.1 | -0.3 | -0.1 | -0.4 |
| Spain | 2.6 | 2.2 | 1.8 | -0.1 | -0.1 | 0.1 | -0.1 |
| Japan | 0.8 | 0.9 | 0.5 | 0.0 | 0.1 | -0.1 | 0.0 |
| United Kingdom | 1.4 | 1.2 | 1.4 | -0.1 | 0.0 | 0.0 | 0.0 |
| Canada | 1.9 | 1.5 | 1.8 | 0.0 | -0.1 | 0.0 | -0.1 |
| Other Advanced Economies ³ | 2.6 | 1.6 | 2.0 | -0.5 | -0.4 | -0.6 | -0.5 |
| Emerging Market and Developing Economies | 4.5 | 3.9 | 4.6 | -0.2 | -0.1 | -0.5 | -0.2 |
| Emerging and Developing Asia | 6.4 | 5.9 | 6.0 | -0.3 | -0.2 | -0.4 | -0.3 |
| China | 6.6 | 6.1 | 5.8 | -0.1 | -0.2 | -0.2 | -0.3 |
| India ⁴ | 6.8 | 6.1 | 7.0 | -0.9 | -0.2 | -1.2 | -0.5 |
| ASEAN-5 ⁵ | 5.2 | 4.8 | 4.9 | -0.2 | -0.2 | -0.3 | -0.3 |
| Emerging and Developing Europe | 3.1 | 1.8 | 2.5 | 0.6 | 0.4 | 0.6 | 0.2 |
| Russia | 2.3 | 1.1 | 1.9 | -0.1 | 0.0 | -0.5 | 0.2 |
| Latin America and the Caribbean | 1.0 | 0.2 | 1.8 | -0.4 | -0.5 | -1.2 | -0.6 |
| Brazil | 1.1 | 0.9 | 2.0 | 0.1 | -0.4 | -1.2 | -0.5 |
| Mexico | 2.0 | 0.4 | 1.3 | -0.5 | -0.6 | -1.2 | -0.6 |

Source: International Monetary Fund, WEO, October 2019.

Also sponsored by:

The New Standard for Metal Sorting Solutions
Proven. Trusted. Committed.

“WENDT’s Technology Center has been a valuable asset to us.”

Jason Grube
President,
Rochester
Iron & Metal

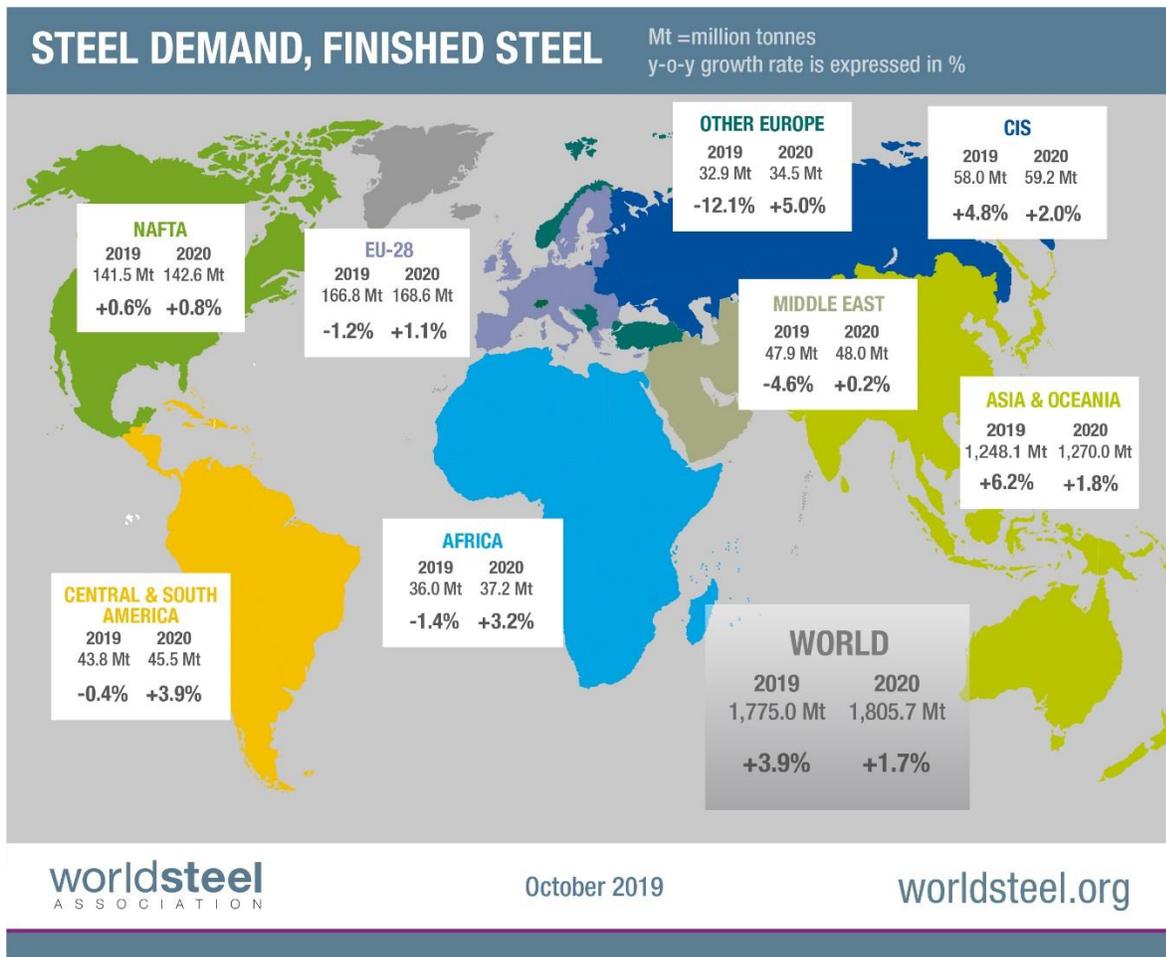
716.391.1200 wendtcorp.com

www.wendtcorp.com

Commodity Markets

Ferrous –

The World Steel Association released its revised short-term demand projections this week, with the association projecting steel demand in the NAFTA region will only increase 0.6% this year, followed by 0.8% growth next year. In contrast, world steel demand is expected to grow 3.9% this year before slowing to 1.7% growth in 2020:



Worldsteel Economics Committee Chair Mr. Al Remeithi was quoted as saying, “The current SRO suggests that global steel demand will continue to grow in 2019, more than we expected in these challenging times, mainly due to China. In the rest of the world, steel demand slowed in 2019 as uncertainty, trade tensions and geopolitical issues weighed on investment and trade. Manufacturing, particularly the auto industry, has performed poorly, contracting in many countries, however in construction, despite some slowing, a positive momentum has been maintained.”

Regarding the automotive sector, worldsteel reports “Global automotive production decelerated in 2018 and is expected to contract in 2019 with the recession deepening and broadening across several major markets including Germany, Turkey, China and South Korea. The automotive market has been hit by more than global economic factors including, market saturation, reduction in purchasing and promotion incentives and most importantly customer hesitancy during the transition of the auto industry from combustion engine-powered via hybrid to fully electric vehicles.”

As for major ferrous scrap importer Turkey, worldsteel reports “Turkey has seen contracting construction activity in line with the overall economy. After a severe decline in 2019, Turkey will see only a moderate rebound in 2020.” This comes on top of President Trump’s announcement earlier in the week that “I will soon be issuing an Executive Order authorizing the imposition of sanctions against current and former officials of the Government of Turkey and any persons contributing to Turkey’s destabilizing actions in northeast Syria. Likewise, the steel tariffs will be increased back up to 50 percent, the level prior to reduction in May. The United States will also immediately stop negotiations, being led by the Department of Commerce, with respect to a \$100 billion trade deal with Turkey.”

On a related note, Fastmarkets AMM reports that “Deep-sea scrap import prices in the Turkish market increased in the latest bookings heard for November shipments.... A steel mill in the Marmara region booked a Baltic Sea cargo on Monday, comprising 40,000 tonnes of HMS 1&2 (80:20) at \$237 per tonne cfr. Another steel mill in the Izmir region also booked a Baltic Sea cargo, comprising 30,000 tonnes of HMS 1&2 (80:20) at \$234.75 per tonne, late on Friday October 11. Those cargoes were the first Baltic Sea deals since September 30, when a steel producer in northern Turkey paid \$222.75 per tonne cfr for HMS 1&2 (80:20). The latest deals also compared with the most recent deep-sea cargo sold from the United States at \$233 per tonne cfr for similar material.”

Nonferrous –

Aluminum prices at the London Metal Exchange continue to underperform (down 7% year-to-date) amid on-going concerns about slower global auto demand and excess Chinese aluminum production.

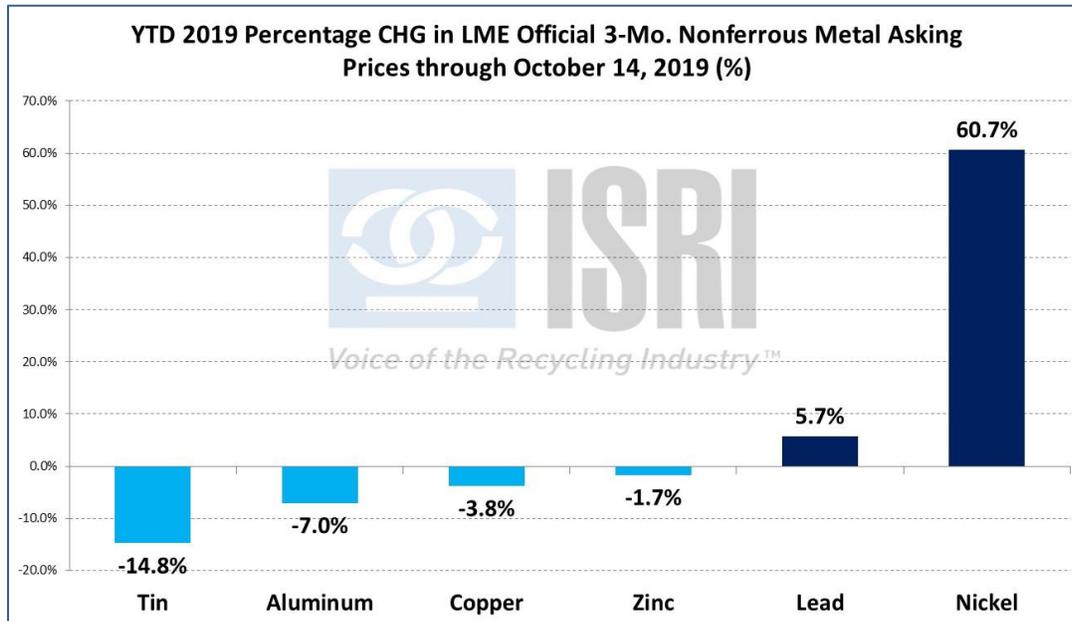
Global Automobiles & Auto Parts Output Index

sa, >50 = growth since previous month

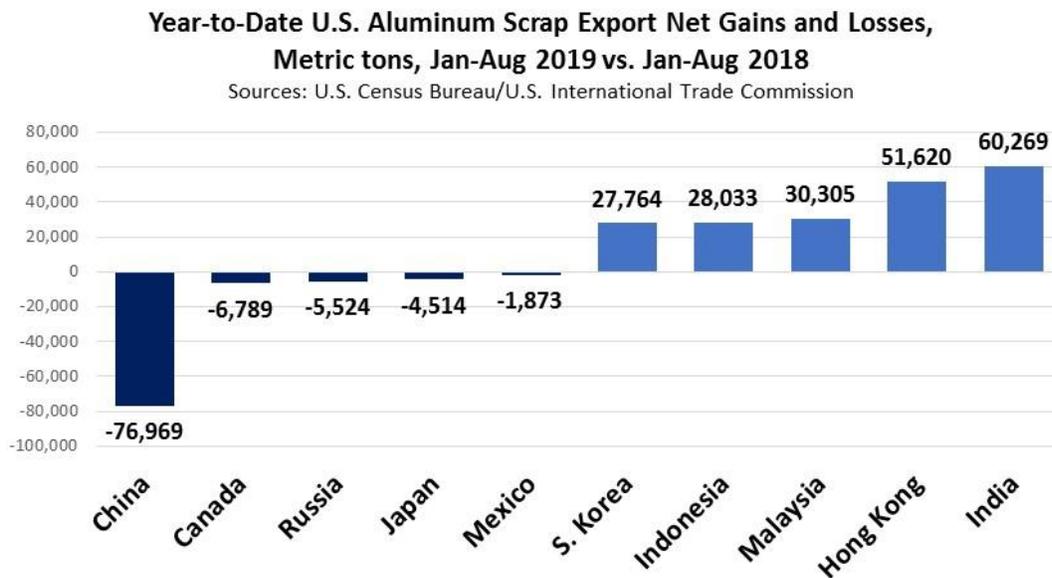


Reuters and Macquarie report this week that major Chinese aluminum producer “...Hongqiao (6.5Mtpa; 18% of China’s 36Mtpa), has engaged the provincial government of Yunnan, seeking to build a smelter there – presumably to benefit from the province’s hydropower capacity, reducing the company’s on-going

environment risk. Industry feedback suggests 2Mtpa capacity is being considered (>30% hike for company), representing its first expansion since it was forced to close almost 3Mtpa of unauthorized capacity in 2017.... The recent collapse in aluminium smelting's key input cost of alumina, together with an apparent easing of constraints on China's industrial activity as a growth offset, may be prompting another round of capacity growth."



As has been reported, aluminum scrap prices have fared even worse than primary prices this year as the market adjusts to restricted Chinese aluminum scrap imports and restructuring of the U.S. market. Although market growth in India, S. Korea, Malaysia, Indonesia, and other markets have more than offset the drop in Chinese aluminum scrap demand, the scrap market remains under significant pressure.



Here's the updated chart of U.S. average aluminum old cast & sheet prices going back to 1990:

Average Monthly Old Aluminum Cast and Sheet Prices, Jan 1990 - Sep 2019
(cents/lb., delivered Midwest Secondary Smelter)

Source: AMM



Plastics –

According to the latest Census Bureau trade data, U.S. plastic scrap exports during Jan-Aug 2019 were down nearly 44 percent as compared to the first 8 months of 2018 to just under 458,000 metric tons. As compared to the nearly 558,000 tons of plastic scrap exported to China in 2017, U.S. plastic scrap shipments to China have totaled less than 6,000 tons so far this year. Other major market declines include Malaysia (-85.6%), Thailand (-81.2%), Vietnam (-81.3%), and India (-13.5%) that have only partially been offset by gains to Canada, S. Korea, Indonesia, Turkey, Senegal, and the Philippines.

U.S. Plastic Scrap Exports by Major Destination

Metric tons

| Country | 2017 | 2018 | Jan-Aug 2018 | Jan-Aug 2019 | YTD % CHG |
|---------------|------------------|------------------|----------------|----------------|---------------|
| Canada | 135,795 | 133,867 | 89,584 | 100,653 | 12.4% |
| India | 123,116 | 133,299 | 92,086 | 79,643 | -13.5% |
| Hong Kong | 372,904 | 121,487 | 80,207 | 48,205 | -39.9% |
| Malaysia | 121,231 | 204,120 | 185,962 | 26,816 | -85.6% |
| Mexico | 46,375 | 45,712 | 31,784 | 24,830 | -21.9% |
| Taiwan | 33,976 | 51,447 | 38,646 | 23,679 | -38.7% |
| South Korea | 9,077 | 35,403 | 20,422 | 22,690 | 11.1% |
| Indonesia | 29,175 | 27,385 | 13,021 | 20,792 | 59.7% |
| Turkey | 14,482 | 23,666 | 14,507 | 19,919 | 37.3% |
| Thailand | 32,862 | 106,853 | 92,589 | 17,373 | -81.2% |
| Vietnam | 137,042 | 74,396 | 72,348 | 13,530 | -81.3% |
| Senegal | 0 | 0 | 0 | 6,081 | N/A |
| China | 557,820 | 47,906 | 34,386 | 5,998 | -82.6% |
| Philippines | 3,617 | 6,378 | 4,443 | 5,529 | 24.4% |
| Others | 50,370 | 61,273 | 40,633 | 41,834 | 3.0% |
| Total: | 1,667,842 | 1,073,191 | 810,617 | 457,573 | -43.6% |

Transportation: Container Rates

The Journal of Commerce reports that "Container lines are blanking at least 37 eastbound trans-Pacific sailings this month and next and canceling a weekly service to the US East Coast as spot rates fell for the fifth straight week and a moderate peak season ends. Carriers have announced 29 blank sailings for October, eight in November, and the cancellation of a weekly service from Asia to the US East Coast from November until March. Carrier and shipper sources told JOC.com they expect that THE Alliance's customer advisory on suspension of the EC3 service from Central and South China to Savannah, Jacksonville, and Norfolk will be followed by announcements from the Ocean and 2M alliances of suspended services. The suspension of services during the slack winter months is standard in the eastbound trans-Pacific... However, capacity reductions will be greater than usual this year because carriers will blank dozens of sailings in addition to suspending weekly vessel strings."

"Carriers this fall have been unable to stop the decline in freight rates in what should be the busiest time of the year. The spot rate to the West Coast on Friday was \$1,313 per FEU — the rate from Shanghai to L.A. has slipped each week since peaking at \$1,615 on Aug. 30. The East Coast rate last week was \$2,335 per FEU, also down five consecutive weeks from \$2,691 on Aug. 30, according to the Shanghai Containerized Freight Index (SCFI) published on the JOC.com Shipping & Logistics Pricing Hub."

This Week's Story

Angela Merkel, Donald Trump, and Boris Johnson were sitting in a sauna. Suddenly there was a beeping sound. The German Chancellor pressed her finger into her forearm and the beeping stopped. The others looked at her questioningly. "Oh, that was my embedded smart watch," she said. "Germany has the smartest engineers in the world and I've had one of their devices placed under the skin of my forearm."

A few minutes later, there was another beeping sound. The American President lifted his palm to his ear, then explained: "That's my new mobile phone telling me it's time to tweet again. The U.S. has the smartest engineers in the world and I've had our best mobile system placed directly in my hand."

The U.K. Prime Minister felt decidedly low tech, but not to be outdone he decided he had to do something just as impressive. He exited to the bathroom stalls and returned a few seconds later with a piece of toilet paper hanging from his posterior. The others raised their eyebrows and stared at him. Boris finally said, "Well, well, well - it appears that SOMEBODY is receiving a fax!"

This Week's Quote

"It is easier to build strong children than to repair broken men."

-- Frederick Douglass

Also sponsored by:

| | | |
|---|--|---------------|
| PUBLIC AUCTION |  | Cameco |
| COPPER WIRE & CABLE | | |
| Sale Date: Tuesday, Oct. 29 • 12 pm EDT | | |
|  | TCL Asset Group Inc. 1.877.825.2435 • www.managingyourassets.com | |

<https://www.bidspotter.com/en-us/auction-catalogues/bscmayt/catalogue-id-maynar2-10003>