ISRI WEEKLY MARKET REPORT

ECONOMIC, COMMODITY & SCRAP MARKET HIGHLIGHTS

March 21, 2020

In this Issue:

Next Week's Podcast

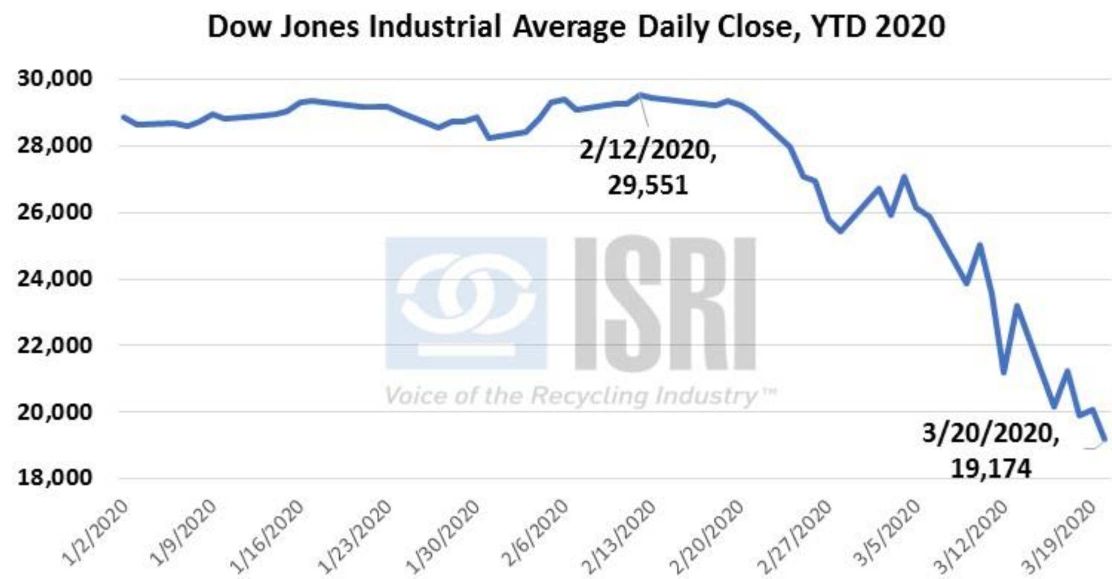
As part of our efforts to keep you informed on the latest economic, commodity, trade, transportation, and insurance market developments, we'll be releasing a new podcast next week when ISRI Chief Economist and Director of Commodities **Joe Pickard** speaks with **Edward Meir** from the Commodity Research Group at ED&F Man Capital, ISRI's Assistant Vice President, International Affairs **Adina Renee Adler**, and a representative from **Atradius Trade Credit Insurance** on Thursday, March 26, 2020.

For more information, please contact jpickard@isri.org or mcarpenter@isri.org.

Market Recap

Equities

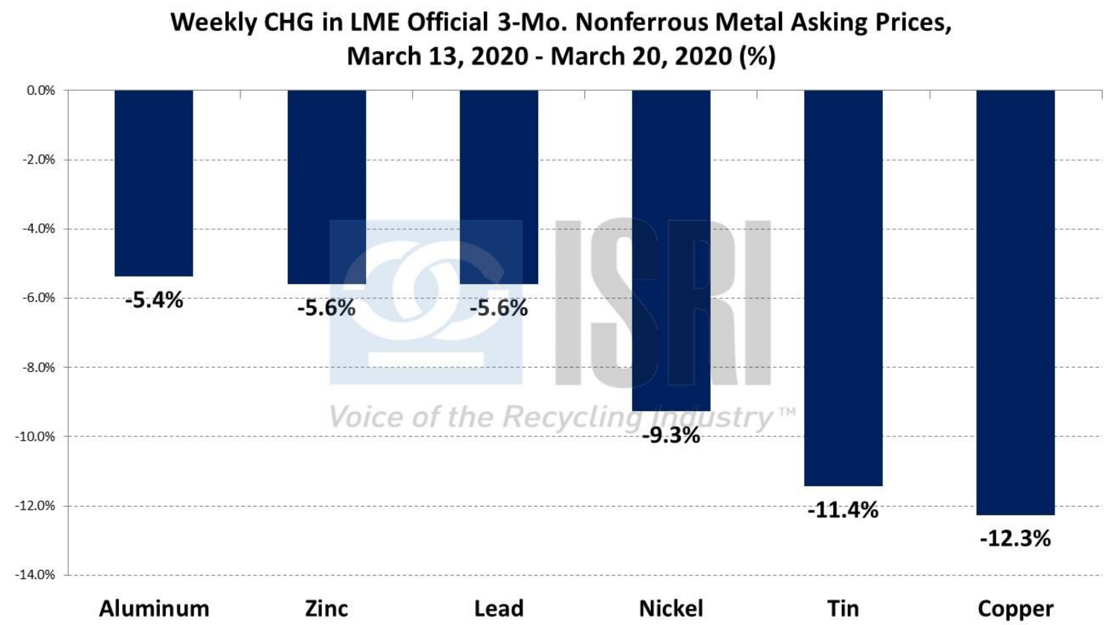
Since last week's ISRI Market Report, the Dow Jones Industrial Average plummeted 20 percent lower to close at 19,173.98 on Friday, March 20th. Since its peak on February 12, 2020, the DJIA has plunged by more than 10,000 points, or roughly 35 percent. On Monday, March 16th alone, the DJIA closed 2,997.1 points lower, its largest single-day point drop in history.



Commodities

Crude oil futures in New York, which were trading above $60 per barrel early in the year, approached $20 per barrel this week, the lowest level since 2002. As oil prices have plummeted, concerns about inflation have practically vanished. (See the report on producer price inflation in the economic data section.)

Base metal prices, which had experienced less volatility than other asset classes early in this sell-off, capitulated this past week. In New York, COMEX copper futures started the trading week at $2.51 per pound. By Thursday, most-actively traded May COMEX copper futures hit an intra-day low of $1.9725/lb., according to CME data. At the London Metal Exchange, over the course of the last week the LME official 3-mo. asking price for copper declined 12.3% to $4,868 per metric ton as of Friday.

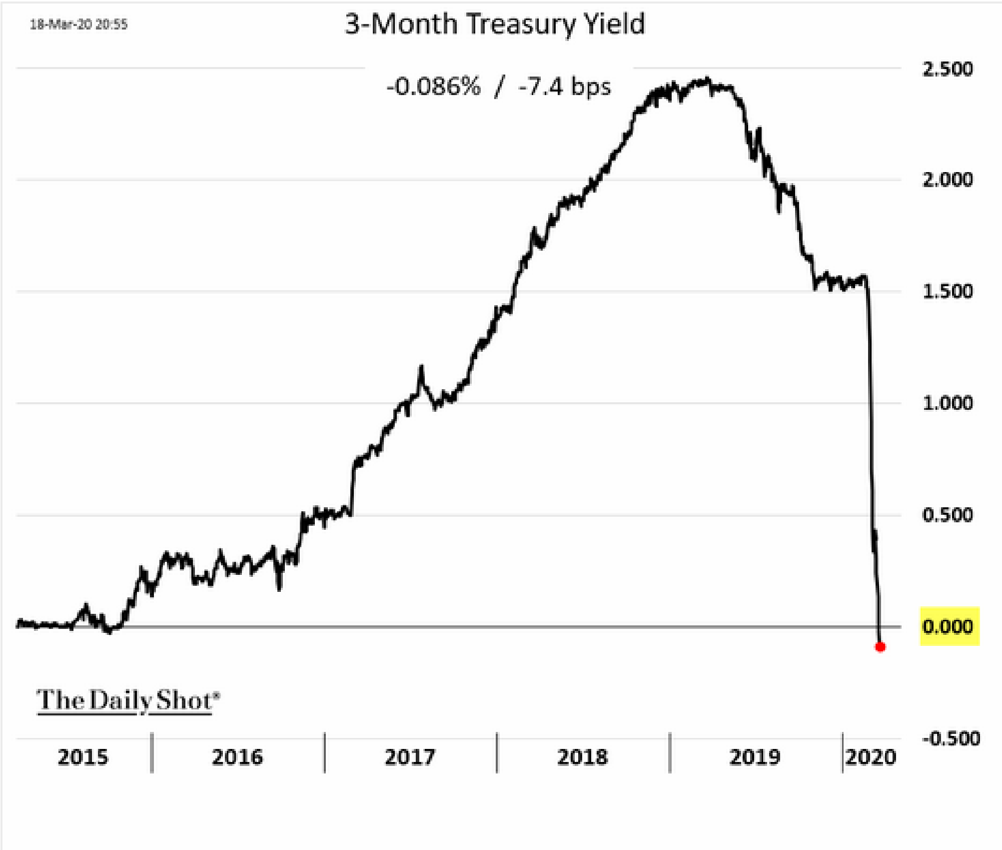


Foreign Exchange Trading

There's been a divergence in the performance of safe-haven assets lately. COMEX gold futures, for example, spiked around $1,700 per troy ounce two weeks ago, but subsequently dropped to less than $1,500/to. But the flight to U.S. dollars has been dramatic. As of Friday, the euro was only buying $1.076 while the British pound was trading around $1.165. For comparison's sake, the British pound was trading above $2 prior to the last recession…

Bonds

As the WSJ's Daily Shot reports, "Investors are flooding into Treasury bills, rapidly shrinking their portfolio durations. T-Bill yields have turned negative." As with other markets, coronavirus worries, along with recent monetary and fiscal stimulus actions, are driving bond market developments. More on that below.



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Policy Initiatives

Monetary Policy

Keeping up with monetary policy measures announced by the Fed and other central banks around the world is no small task. Here are some of the major recent announcements, but this list is far from exhaustive and doesn't include a growing number of rate cuts by central banks around the world:

March 20th: Coordinated central bank action to further enhance the provision of U.S. dollar liquidity
"The Bank of Canada, the Bank of England, the Bank of Japan, the European Central Bank, the Federal Reserve, and the Swiss National Bank are today announcing a coordinated action to further enhance the provision of liquidity via the standing U.S. dollar liquidity swap line arrangements."

March 20th: Federal Reserve Board expands its program of support for flow of credit to the economy by taking steps to enhance liquidity and functioning of crucial state and municipal money markets
"The Federal Reserve Board on Friday expanded its program of support for the flow of credit to the economy by taking steps to enhance the liquidity and functioning of crucial state and municipal money markets. Through the Money Market Mutual Fund Liquidity Facility, or MMLF, the Federal Reserve Bank of Boston will now be able to make loans available to eligible financial institutions secured by certain high-quality assets purchased from single state and other tax-exempt municipal money market mutual funds."

March 19th: Asset Purchase Facility (APF): Asset Purchases and TFSME - Market Notice 19 March 2020
"At its special meeting on 19 March, the MPC judged that a further package of measures was warranted to meet its statutory objectives. It therefore voted unanimously to increase the Bank of England's holdings of UK government bonds and sterling non-financial investment-grade corporate bonds by £200 billion to a total of £645 billion, financed by the issuance of central bank reserves; and to reduce Bank Rate by 15 basis points to 0.1%. The Committee also voted unanimously that the Bank of England should enlarge the Term Funding Scheme with additional incentives for SMEs (TFSME)."

March 18th: ECB announces €750 billion Pandemic Emergency Purchase Programme (PEPP)
"This new Pandemic Emergency Purchase Programme (PEPP) will have an overall envelope of €750 billion. Purchases will be conducted until the end of 2020 and will include all the asset categories eligible under the existing asset purchase programme (APP)."

March 17th: Federal Reserve Board announces establishment of a Primary Dealer Credit Facility (PDCF) to support the credit needs of households and businesses
"To support the credit needs of American households and businesses, the Federal Reserve Board on Tuesday announced that it will establish a Primary Dealer Credit Facility, or PDCF. The facility will allow primary dealers to support smooth market functioning and facilitate the availability of credit to businesses and households."

March 17th: HM Treasury and the Bank of England launch a Covid Corporate Financing Facility (CCFF)
"The CCFF will provide funding to businesses by purchasing commercial paper of up to one-year maturity, issued by firms making a material contribution to the UK economy. It will help businesses across a range of sectors to pay wages and suppliers, even while experiencing severe disruption to cashflows."

March 15th: FOMC: "The effects of the coronavirus will weigh on economic activity in the near term and pose risks to the economic outlook. In light of these developments, the Committee decided to lower the target range for the federal funds rate to 0 to 1/4 percent. The Committee expects to maintain this target range until it is confident that the economy has weathered recent events and is on track to achieve its maximum employment and price stability goals."

Additionally, the Fed announced a new round of QE on March 15th: "To support the smooth functioning of markets for Treasury securities and agency mortgage-backed securities that are central to the flow of credit to households and businesses, over coming months the Committee will increase its holdings of Treasury securities by at least $500 billion and its holdings of agency mortgage-backed securities by at least $200 billion."

Related note: Bloomberg reports that “Since announcing the move, the central bank bought $272 billion of Treasuries and $68 billion of mortgage-backed securities this week, according to New York Fed data compiled by Bloomberg Intelligence and Bloomberg News.”

Fiscal Policy

There’s been no shortage of activity on the fiscal stimulus side of the equation either. Some of the implemented and proposed policy developments include:

March 20th: Wall Street Journal: “Negotiations on a massive economic stimulus package hit snags on how to provide assistance to Americans during the coronavirus pandemic as a target to reach a bipartisan agreement by Friday slipped. Among the chief remaining obstacles to an agreement on the legislation, which could ultimately cost more $1 trillion, was deciding on whether to give cash payments directly to some Americans, expand unemployment insurance or some combination of the two.”

March 20th: Treasury, IRS, and Labor Announce Plan to Implement Coronavirus-Related Paid Leave for Workers and Tax Credits for Small and Midsize Businesses to Swiftly Recover the Cost of Providing Coronavirus-Related Leave
“Today the U.S. Treasury Department, Internal Revenue Service (IRS), and the U.S. Department of Labor (Labor) announced that small and midsize employers can begin taking advantage of two new refundable payroll tax credits, designed to immediately and fully reimburse them, dollar-for-dollar, for the cost of providing Coronavirus-related leave to their employees. This relief to employees and small and midsize businesses is provided under the Families First Coronavirus Response Act (Act), signed by President Trump on March 18, 2020.”

March 18th: Bill Announcement
“On Wednesday, March 18, 2020, the President signed into law: H.R. 6201, the “Families First Coronavirus Response Act,” which provides for supplemental appropriations related to the COVID-19 public health emergency, as well as waivers and modifications of Federal nutrition programs, employment-related protections and benefits, health programs and insurance coverage requirements, and related tax credits during the COVID-19 public health emergency.”

March 12th: SBA to Provide Disaster Assistance Loans for Small Businesses Impacted by Coronavirus (COVID-19)
“SBA’s Economic Injury Disaster Loans offer up to $2 million in assistance for a small business. These loans can provide vital economic support to small businesses to help overcome the temporary loss of revenue they are experiencing.”

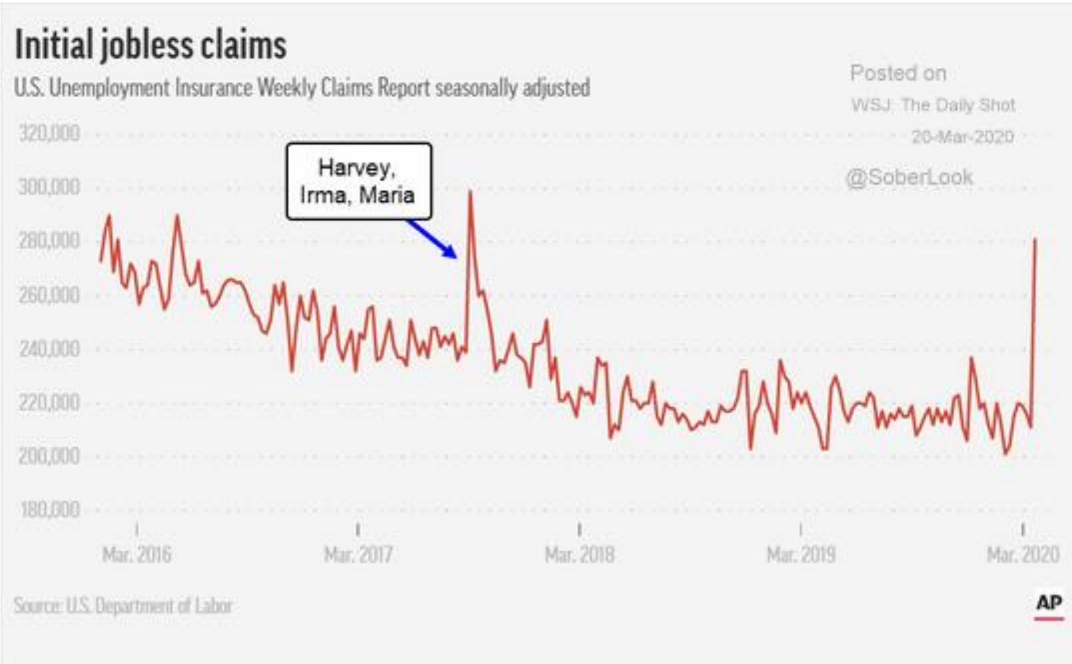
March 6th: President Trump Signs Coronavirus Spending Bill
“President Trump signed into law an $8.3 billion bill for fighting the coronavirus outbreak, funding efforts to develop a vaccine and assisting local and state governments’ responses, as officials said they were also weighing steps to bolster the U.S. economy.”

For more information about economic stimulus measures and ISRI’s actions on behalf of recyclers, please see the ISRI Member Alert released on March 18, 2020.

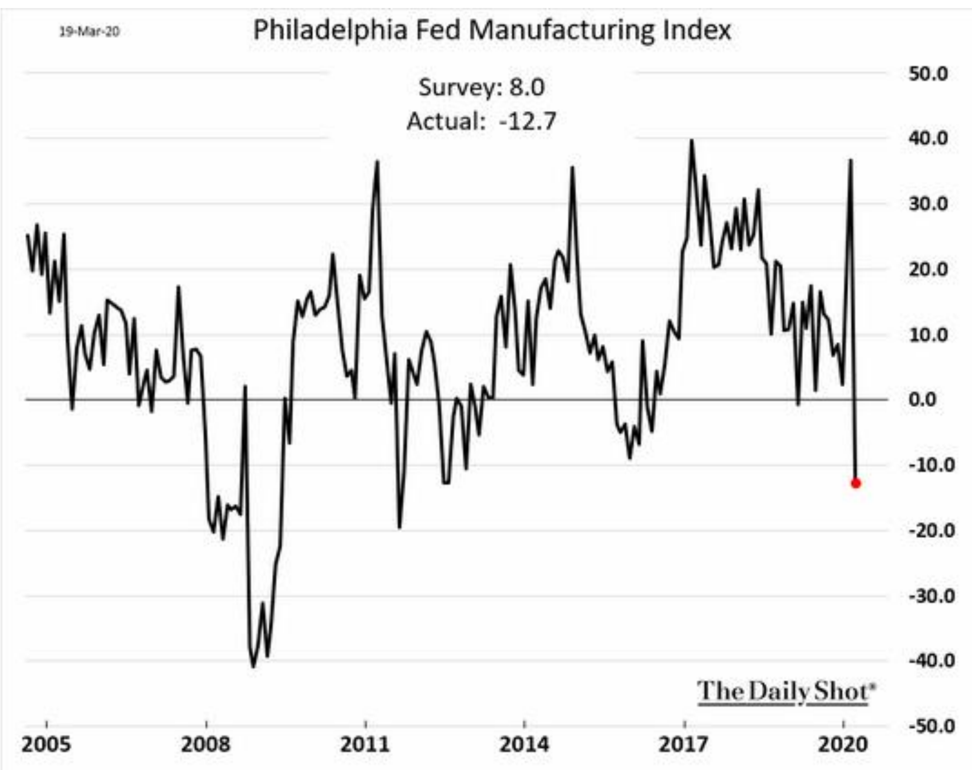
Economic Data

In light of the extremely rapid changes in economic developments as of late, and the often significant lag between official economic data releases and current business conditions, here are some of the key economic reports that we're monitoring.

Initial jobless claims in the United States are surging, and are likely to continue to climb:



Regional manufacturing reports are coming in well below expectations, which is not surprising:



China's industrial production figures are illustrative (source CME Group): "Chinese industrial production fell 13.5 percent on the year for January and February combined, down sharply from growth of 6.9 percent in December. Production in the first two months of the year fell an unprecedented 26.63 percent compared with December levels after increasing 0.58 percent previously. Separate year-on-year data for January and February are not published because of the impact of differences in the timing of lunar new year holidays."

Chinese Industrial Production for Jan-Feb 2020

	Consensus	Actual	Previous
Yr/Yr % change	1.5%	-13.5%	6.9%
M/M % Change	NA	-26.63%	0.58%

U.S. PPI Declines in February Nationwide and in Scrap Materials

The producer price index for final demand declined 0.6 percent in February 2020, on a seasonally adjusted basis, according to the Bureau of Labor's latest PPI release. This basically reverses the 0.5 percent increase the previous month and 0.2 percent increase in December 2019. Most of February's decrease is attributable to final demand for goods which fell 0.9 percent. Final demand for services dropped 0.3 percent.

Producer prices for iron and steel scrap and corrugated/paper scrap, reflected in Stage 1 intermediate demand, fell by a combined 1.6 percent in February 2020 following a 0.2 percent increase the previous month. The producer price index for Stage 1 intermediated demand goods decreased 2.5 percent in February 2020. From February 2019, this index declined 4.6 percent. See the table below for comparative scrap numbers.

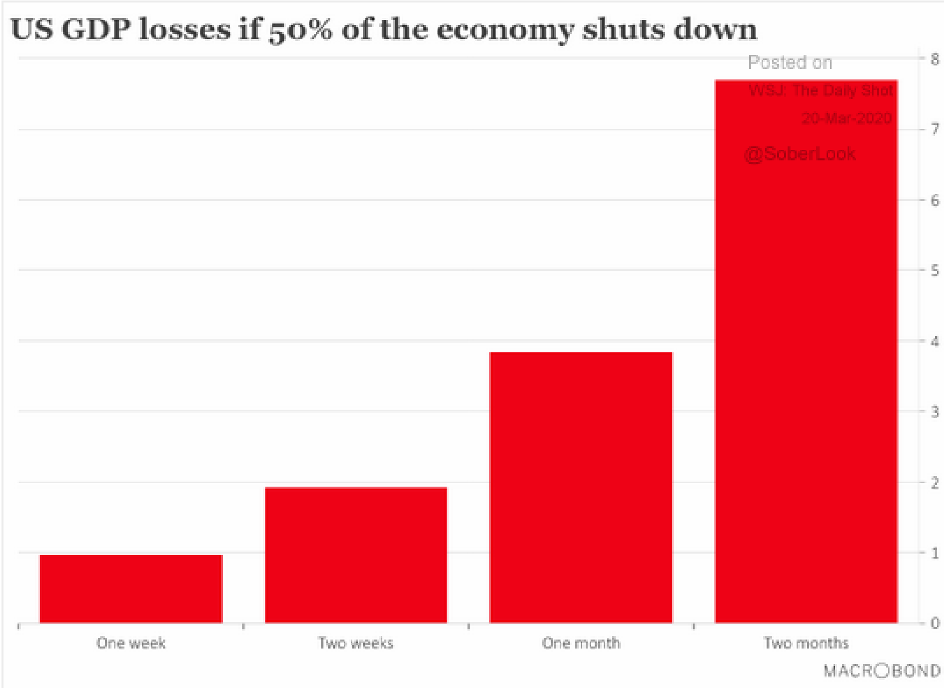
Producer Prices, February 2020				
Stage 1 intermediated demand				
Percent changes				
	% Chg from previous month			% Chg
	20-Feb	20-Jan	19-Dec	Feb 19/Feb 20
Goods	-2.5%	0.5%	1.1%	-4.6%
Scrap paper	4.7%	7.1%	-3.0%	-34.7%
Iron and steel scrap	-7.1%	13.9%	11.3%	-16.0%
Nonferrous scrap	-0.3%	7.6%	5.1%	7.9%
Source: Bureau of Labor Statistics				

Consumers' Sentiment Down – University of Michigan

The University of Michigan's Consumer Sentiment Index has one of the most recent measures of consumers' reactions to the coronavirus, and it is not favorable. March's index of consumer sentiment fell 5 percent from February to 95.9. The index of consumer expectations fell 7.4 percent to 85.3.

The current business conditions index also fell, by 2.0 percent to 112.5. According to Richard Curtin, Survey of Consumers Chief Economist: "Consumer sentiment fell in early March due to the spreading coronavirus and the steep declines in stock prices. Importantly, the initial response to the pandemic has not generated the type of economic panic among consumers that was present in the runup to the Great Recession. Nonetheless, the data suggest that additional declines in confidence are still likely to occur as the spread of the virus continues to accelerate."

Looking forward, the length of the curtailment of economic activity due to the coronavirus, along with the stimulus measures in response to the crisis, are two critical factors that will determine the depth of the downturn and speed of the recovery. Here's the outlook from MacroBond on the expected impact on GDP under different time scenarios:



Transportation News

[Coronavirus brings famine before feast for trans-Pacific container volumes]

JOC.com reports, "Just as the coronavirus disease 2019 (COVID-19) spreads from China to North America, the disruptive impact of the pandemic will shift from worries about securing goods to intensified volume pressures on the containerized supply chain.

While Chinese manufacturing and trucking capacity is recovering as workers return from quarantine, the surge of containerized exports being produced threaten to overwhelm some North American ports and inland networks. And with trans-Pacific carriers having aggressively slashed capacity, canceling more than 80 vessels to the West Coast from early February to early April, cargo owners could find that freight contracted at rates below the current spot rate pricing is being rolled — i.e., pushed to a later sailing than was booked.

"Volumes are low now for everybody, but come May, it will be just the opposite," Scott Weiss, vice president of business development at Port Logistics Group, told JOC.com. "I'm telling all of our customers, 'Don't be fooled because volumes now are low.'"

ISRI Convention

As per ISRI Chairman Brian Shine's email on March 12, 2020:

"ISRI has been monitoring the spread of COVID19 and its impacts on national and world events for nearly two months, with one key factor in mind: the health and safety of our members, meeting attendees, exhibitors, and staff.

Given that the World Health Organization (WHO) officially deemed this a pandemic, and in light of the many states declaring an emergency along with associated closures and curtailments of normal daily life, it is impossible for ISRI to hold the convention as planned. Therefore, for the safety of all involved, we cannot move forward with the ISRI2020 convention in April of this year.

We are in the process of reviewing all options for alternative dates or venues, different methods of information delivery, and much more. We recognize that the annual ISRI convention has become one of the most important events in the recycling industry each year and will seek to find ways to continue to provide as much of that experience as we can under the circumstances.

We will continue efforts to communicate with you regularly and openly as we forge the path forward and ask your patience in that process. More information about the impact of this cancellation will be sent to our preregistered attendees and exhibitors in the coming days.

Thank you to all of you who have communicated with us to express your support and thoughts. Every conversation has been helpful and deeply appreciated. Let's continue to work together through this pandemic and into even greater success in the future.

Sincerely,
Brian Shine
ISRI Chair"

For more information, please visit: https://isri2020.org/

This Week's Quote

"Being Irish, he had an abiding sense of tragedy, which sustained him through temporary periods of joy."

-- William Butler Yeats