

February 25, 2019

In this Issue:

- **This Morning**
- **The Week Ahead**
- **Economic Week in Review**
- **Commodity News**
- **Focus on Nickel/Stainless**
- **Transportation: Rail Traffic**
- **This Week's Story**
- **This Week's Quote**

This Morning

Commodities were off to a mixed start on Monday morning as most of the nonferrous metals started the week in positive territory while crude oil prices came under pressure. Interestingly, statements by President Trump were widely cited as the source of both sets of moves. On the one hand, the President announced that the March 1 deadline for the implementation of additional tariffs on Chinese imports will be now delayed. COMEX copper prices in New York briefly traded as high as \$2.9765/lb. early this morning. Base metal prices in London were mostly firmer in early trading as well, with LME 3-mo. copper and nickel having reached as high as \$6,540/mt and \$13,175/mt, respectively, before easing back later in the session. Meanwhile, crude oil futures in New York dipped below \$56.30 per barrel following President Trump's tweet that OPEC needs to "relax." According to Reuters, President Trump tweeted "Oil prices getting too high. OPEC, please relax and take it easy. World cannot take a price hike - fragile!" (And good luck to our friends in the commodity price forecasting business as they attempt to factor presidential tweets into their forecast models.) In foreign exchange trading the dollar was mostly weaker this morning with the euro buying \$1.135 as the British pound firmed to \$1.31 amid on-going Brexit uncertainty.

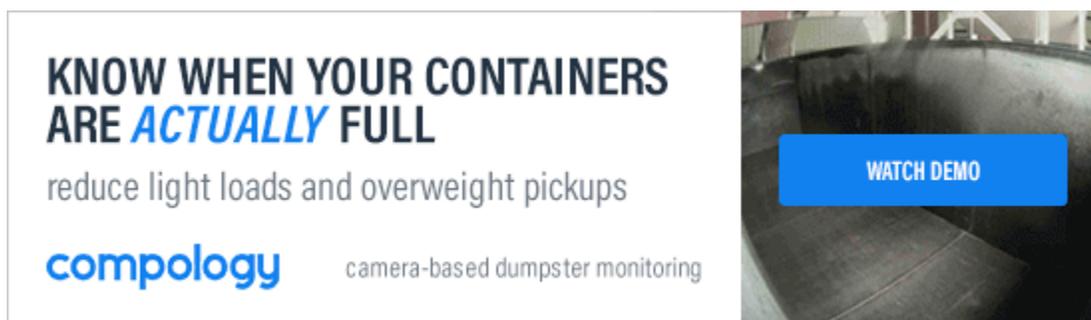
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Selected Primary Commodity Prices: February 25, 2019

	Last/Settle	CHG	% CHG	Prior	Open	High	Low
COMEX Copper Mar (\$/lb.)	2.9585	0.007	0.2%	2.9515	2.95	2.9765	2.942
COMEX Gold Apr (\$/to)	1,332.6	-0.2	0.0%	1,332.8	1,331.9	1,334.1	1,329.3
COMEX Silver Mar (\$/to)	15.92	0.0	0.0%	15.91	15.89	15.96	15.87
NYMEX Light Sweet Crude Apr (\$/bbl)	56.28	-1.0	-1.7%	57.26	57.17	57.53	56.26
SHFE Aluminum Apr (RMB/mt)	13,740	115	0.8%	13,625	13,710	13,805	13,675
SHFE Copper Apr (RMB/mt)	50,300	590	1.2%	49,710	50,310	50,620	50,100
SHFE Nickel May (RMB/mt)	102,670	1,210	1.2%	101,460	102,930	103,400	102,200
SHFE Zinc Apr (RMB/mt)	21,870	285	1.3%	21,585	21,770	22,065	21,665

The Week Ahead

The U.S. economic calendar is busy this week with new reports due out on 4th quarter GDP, housing starts and building permits, consumer confidence, factory orders, personal income & spending, and manufacturing PMI. U.S. manufacturing numbers have underwhelmed lately as the Federal Reserve reported manufacturing output declined 0.9% in January while new orders for core capital goods (nondefense capital goods excluding aircraft) reportedly declined 0.7% in December. The consensus forecasts are that real (adjusted for inflation) GDP growth slowed to 2.3% in the fourth quarter but that manufacturing PMI remains in growth territory at 56.0 in February. Official Chinese manufacturing PMI numbers are also due out this week. Investors will also be paying close attention to Fed Chair Jerome Powell's semi-annual monetary policy testimony this week. Overseas, the second US-North Korea Summit is scheduled to take place in Vietnam this week, with the Financial Times reporting "The second meeting between president Donald Trump and Kim Jong Un to discuss denuclearization of the Korean peninsula follows the historic summit in Singapore last June, which produced a vague agreement. The US says North Korea has yet to take firm steps to give up its nuclear weapons. Meanwhile, North Korea wants the US to ease up on sanctions to reward it for freezing nuclear and missile testing and for the partial dismantling of some of its nuclear facilities." Have a great week and don't miss next week's ISRI Market Report for a recap of the week's key economic, trade, commodity, and scrap market highlights!

U.S. Economic Calendar: February 25-March 1, 2019

Date	Time	Release	Period	Consensus	Prior
Feb 25	10:00	Wholesale Inventories	Dec	0.4%	0.3%
Feb 26	08:00	S&P Case-Shiller Home Price Index	Dec	4.5%	4.7%
Feb 26	08:30	Housing Starts	Dec	1254K	1256K
Feb 26	08:30	Building Permits	Dec	1290K	1328K
Feb 26	09:00	FHFA Housing Price Index	Dec	NA	0.4%
Feb 26	10:00	Consumer Confidence	Feb	125.0	120.2
Feb 27	07:00	MBA Mortgage Applications Index	02/23	NA	3.6%
Feb 27	08:30	Adv. Intl. Trade in Goods	Jan	NA	NA
Feb 27	08:30	Adv. Retail Inventories	Jan	NA	NA
Feb 27	08:30	Adv. Wholesale Inventories	Jan	NA	NA

Date	Time	Release	Period	Consensus	Prior
Feb 27	10:00	Factory Orders	Dec	1.0%	-0.6%
Feb 27	10:00	Fed Chair Powell Semi-Annual Monetary Policy Testimony	Feb	NA	NA
Feb 27	10:00	Pending Home Sales	Jan	-0.4%	-2.2%
Feb 27	10:30	EIA Crude Oil Inventories	02/23	NA	+3.7M
Feb 28	08:30	GDP - Adv.	Q4	2.3%	3.4%
Feb 28	08:30	GDP Deflator - Adv.	Q4	1.7%	1.8%
Feb 28	08:30	Initial Claims	02/23	221K	216K
Feb 28	08:30	Continuing Claims	02/16	NA	1725K
Feb 28	09:45	Chicago PMI	Feb	57.5	56.7
Feb 28	10:30	EIA Natural Gas Inventories	02/23	NA	-177 bcf
Mar 01	08:30	Personal Income	Dec	0.3%	0.2%
Mar 01	08:30	Personal Spending	Dec	-0.2%	0.4%
Mar 01	08:30	Personal Income	Jan	0.3%	NA
Mar 01	10:00	ISM Manufacturing Index	Feb	56.0	56.6
Mar 01	10:00	Univ. of Michigan Consumer Sentiment - Final	Feb	95.6	95.5

Economic Week in Review

U.S. China trade negotiations continued last week with the Wall Street Journal reporting “President Trump, citing progress in U.S.-China trade talks, said he is looking at extending a deadline to raise tariffs and hoping to meet next month with Chinese leader Xi Jinping to complete a broad trade agreement. His comments in the Oval Office followed four days of talks between U.S and Chinese negotiators, which Mr. Trump extended through the weekend. ‘We’re having good talks, and there’s a chance that something very exciting can happen,’ he said. Among the accomplishments that Mr. Trump cited was a pact with Beijing to curb currency manipulation, which Treasury Secretary Steven Mnuchin called ‘one of the strongest agreements ever on currency.’” Over the weekend, Reuters reported that the “Talks were extended through the weekend in a bid to iron out differences on changes to China’s treatment of state-owned enterprises, subsidies, forced technology transfers and cyber theft” as the President tweeted that Saturday’s talks were “very productive.”

Progress on the trade talks was credited with helping push equity and commodity prices higher as the Dow Industrials rose by 181.18 points on Friday to finish the week at 26,031.81 while the Bloomberg Commodity index ended the day 0.42% higher. For those keeping score at home, total U.S. scrap exports (including ferrous and nonferrous metals, paper, plastic, glass, textiles, etc.) during the first 11 months of 2018 (the most recent data available) to China declined to \$3.3 billion, **a loss of \$1.9 billion** as compared to the first 11 months of 2017.

U.S. Exports of All Scrap Commodities to Mainland China, Jan-Nov 2017 vs. Jan-Nov 2018 (\$ billions)

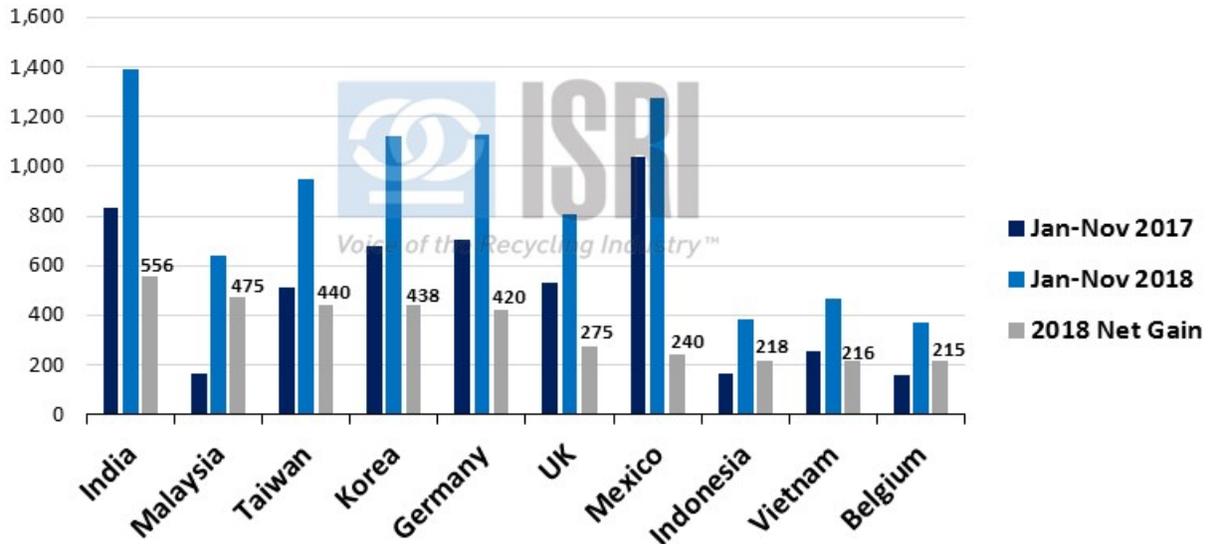
Sources: U.S. Census Bureau/U.S. International Trade Commission



Perhaps of greater interest, though, is how growth in other markets more than offset the drop in Chinese demand last year. According to Census Bureau trade data, U.S. scrap exports to all countries rose from \$16.2 billion during Jan-Nov 2017 to \$18.7 billion during Jan-Nov 2018. In terms of net gains, India led the world, taking in nearly \$1.4 billion in U.S. scrap exports, an increase of \$556 million as compared to the first 11 months of 2017. Here were the top 10 overseas growth markets for U.S. scrap in dollar terms last year (through November):

Top 10 Overseas Growth Markets for U.S. Scrap in 2018 - Numbers in Chart Indicate Net Gains, (US\$ millions)

Sources: U.S. Census Bureau/U.S. International Trade Commission



On the domestic front last week, the National Association of Realtors reported U.S. existing home sales in January decreased 1.2% month-on-month (-8.5% as compared to one year ago) to a seasonally adjusted annual rate of 4.94 million units, below the consensus forecast of around 5.1 million units. The conference board's index of leading economic indicators also came in below expectations, declining 0.1% in January:

Category	JAN	DEC	NOV	OCT	SEP
Total Index	-0.1%	0.0%	0.1%	-0.3%	0.6%
Manufacturing Workweek	-0.07%	0.07%	-0.07%	-0.07%	-0.07%
Initial Claims	-0.09%	0.13%	-0.21%	-0.11%	0.05%
Cons. Goods Orders	0.01%	0.01%	0.03%	-0.19%	0.14%
ISM New Orders	0.05%	-0.09%	0.13%	0.04%	0.13%
Building Permits	0.01%	-0.01%	0.14%	-0.01%	0.05%
Stock Prices	0.06%	-0.23%	-0.09%	-0.16%	0.06%
Leading Credit Index	0.06%	0.07%	0.06%	0.04%	0.08%
Interest Rate Spread	0.04%	0.06%	0.10%	0.11%	0.12%
Consumer Expectations	-0.08%	0.05%	0.10%	0.15%	0.13%

Source: The Conference Board

The minutes of the last FOMC meeting that were released last week confirmed that the Fed will be more patient regarding future interest rate hikes and balance sheet reductions in light of the softer economic data, low inflation expectations, and uncertainty in the financial markets. According to Bloomberg, “Federal Reserve officials widely favored ending the runoff of the central bank’s balance sheet this year while expressing uncertainty over whether they would raise interest rates again in 2019, minutes of their January meeting showed... The shift occurred after the worst December for U.S. stocks since the Great Depression, trade tensions escalated between the U.S. and China, and President Donald Trump berated officials for tightening monetary policy too much. ‘Many participants observed that if uncertainty abated, the Committee would need to reassess the characterization of monetary policy as ‘patient’ and might then use different statement language,’ the minutes noted.”

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Commodity Markets

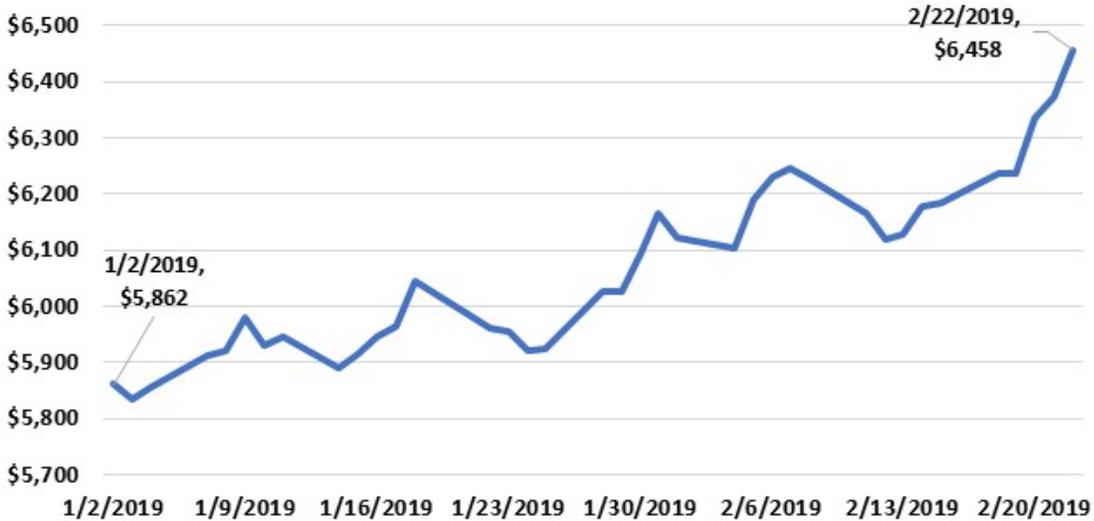
Nonferrous –

Refined copper prices rebounded sharply last week as LME 3-mo. copper traded as high as \$6,485/mt (= \$2.942/lb.) while COMEX Mar copper traded as high as \$2.9545 on Friday. Progress on the US-China trade talks was widely cited as a supportive factor. But as Macquarie notes, “A raft of cancellations in the two stocked US LME warehouse locations led to on-warrant copper inventory falling to the lowest level (39.8kt) since November 2005... The market perceives that the CME/LME arb has opened up again on US investor bullishness (which tends to be expressed more on the American exchange) and believes that the cancelled tonnes on LME are heading for Comex warehouses, just crossing the street in New Orleans

and likely heading for CME Detroit from LME Chicago.” Here’s the trend in LME official 3-mo. copper prices so far in 2019:

YTD Daily LME Official 3-Mo. Copper Prices (\$ per metric ton)

Sources: Fastmarkets/LME

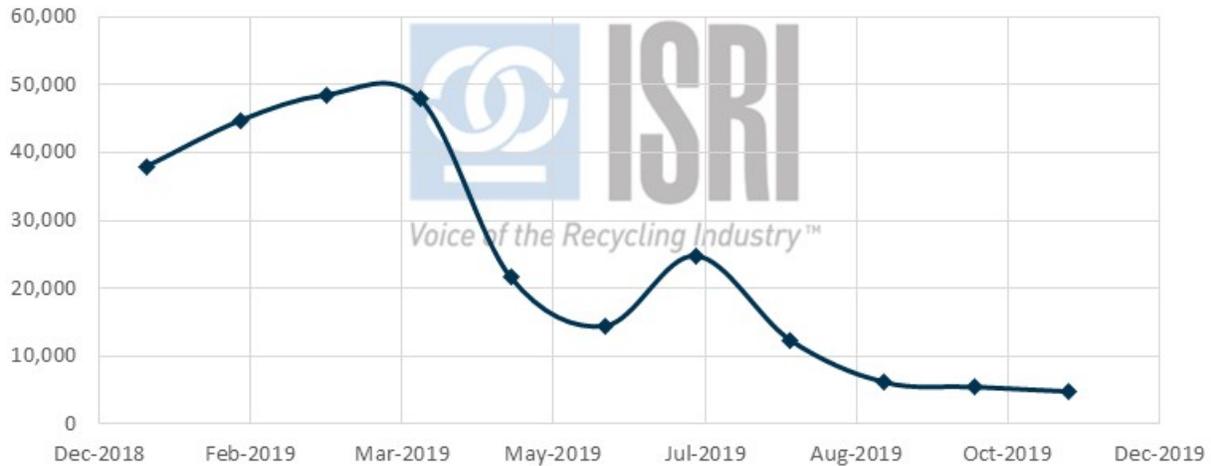


Refined copper market fundamentals have been somewhat more supportive than what many analysts were expecting, with the International Copper Study Group reporting last week that global copper demand exceeded supply by 396,000 metric tons during Jan-Nov 2018. According to ICSG, “World apparent refined usage is estimated to have increased by about 2.2% in the first eleven months of 2018: Chinese apparent usage grew by around 5.5% driven by a 20% increase in net refined copper imports. **It is possible this development was influenced by a tightness in the availability of scrap in China.**”

For nonferrous scrap market participants, what materials China will continue to accept remains a critical question this year, along with what markets will help to fill in the gap in Chinese demand. Here's the trend in U.S. copper and copper alloy scrap exports to mainland China in 2018:

MONTHLY U.S. COPPER SCRAP EXPORTS TO CHINA IN 2018

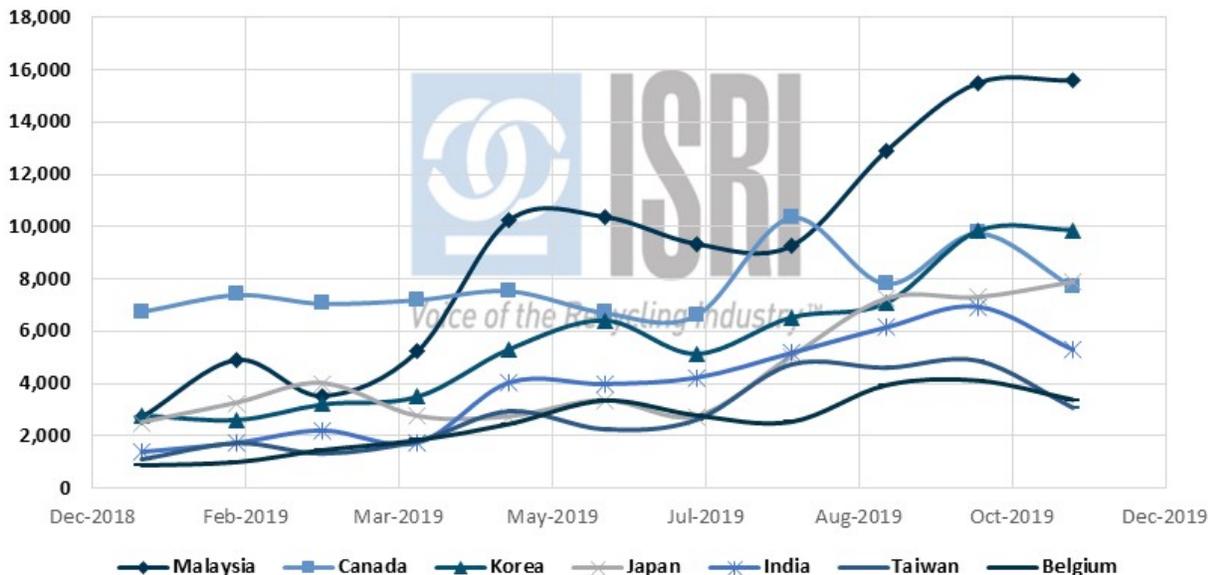
(METRIC TONS, U.S. CENSUS BUREAU/U.S. INTERNATIONAL
TRADE COMMISSION)



By taking China out of the export data, it becomes easier to see how other economies are filling the demand void. Malaysia, South Korea, India, and Japan have the most significant growth in their nonferrous scrap demand and the development in their industrial infrastructure to indicate these increases aren't necessarily temporary.

MONTHLY U.S. COPPER SCRAP EXPORTS BY MAJOR DESTINATION EX. CHINA

(METRIC TONS, U.S. CENSUS BUREAU/U.S. INTERNATIONAL TRADE
COMMISSION)



Shifting global market dynamics are also having significant impacts on stainless steel scrap processors. As BIR Stainless & Special Alloys Committee Chair Joost Van Kleef of Oryx Stainless reports in the latest BIR World Mirror on Stainless, “The global stainless steel industry in general and Europe’s in particular are facing one of the most challenging times in years. Apart from the current trend towards applying tariffs and duties on all kinds of product throughout the world, it is mainly the significant investments in stainless production capacity in Indonesia that are threatening the industry. These investments are based on the use of very cheap raw material units which appear to give significant cost advantages. These cost advantages are used to reduce the price of the final product in order to gain market share... As a result, all stainless producers outside of Indonesia are coming under extreme price pressure. Consequently, the relative price level for stainless scrap throughout the world is also under heavy pressure. Needless to say, this is impacting on the flow of material throughout the complete value chain.”

What can stainless scrap processors in the U.S. expect for the rest of the year, and where are the opportunities for growth? For the answers to those questions and much more, you won’t want to miss our upcoming **ISRI Nickel/Stainless Spotlight** to be held on April 9, 2019 in Los Angeles, where former ISRI Chair **Doug Kramer** of Spectrum Alloys and Kramer Metals will be joined by an outstanding panel of speaking including **Markus Moll** of SMR GmbH, **Mitch Greenberg** of Allied Alloys, and **Barry Jackson** from Anglo American. For more info about our commodity spotlights and our fast-approaching, best-ever 2019 ISRI Convention and Expo, please visit ISRI2019.org!

Ferrous –

According to the latest BIR estimates of world steel recycling, “In the first nine months of 2018, there was a 38.9% increase in steel scrap usage for crude steel production in China to 140.6 million tonnes; this compares to 101.2 million tonnes in the same period of 2017 and underlines China’s position as the world’s largest steel scrap user. As indicated in our previous report, this increase in steel scrap usage is mainly due to the fact that the Chinese government has established stricter environmental quality thresholds and thereby higher pollutant emission standards for the steel industry. To meet these new thresholds and in order to avoid production restrictions, most BOF mills have actively increased their scrap input. It is reported their steel scrap/crude steel ratio is currently around 25-30%. In addition, many new EAFs are being installed or are in the pipeline for the near future, as a result of which further investments in steel scrap processing are planned, especially in shredder capacity. In the first nine months of 2018, steel scrap usage for crude steel production also increased in the EU-28 (+0.7% to 70.2 million tonnes), the USA (+4.4% to 37.8 million tonnes), Japan (+2.6% to 27.249 million tonnes), Turkey (+1.3% to 23.518 million tonnes) and Russia (+6.5% to 23.406 million tonnes). Conversely, there was a decline in steel scrap consumption in the Republic of Korea (-3.3% to 22.391 million tonnes).” Please visit <https://mirrors.bir.org/ferrous/> for the entire report.

Here in the U.S., the American Iron and Steel Institute reports that YTD domestic steel production (through February 16th) increased 8.4 percent from the corresponding period last year to 12.737 million net tons as the capacity utilization rate improved to 80.7%, up from last year’s corresponding utilization rate of 75.7%.

Paper and Plastic –

Import licenses being released by China seem to be shrinking at an alarming rate. With 60,420 metric tons issued at the end of January and 9,720 issued last week, these issuances appear to be little more than supply corrections for producers. The South China Morning Post reported that Chinese Vice-Premier Liu He was being given greater clout to negotiate an end to the trade war. This could be another arrow in Mr. Liu’s quiver or it may be that large batches of licenses will be issued in a quarterly or biannual basis with minor corrections in between.

MRF fires sparked by Li-ion batteries have been and remain an important concern but 2019 has kicked off with notable fires at paper mills. Both [Marcal Paper](#) and the [Kendrick Paper Stock Company](#) dealt with devastating fires at their facilities. [Jamaica Packaging Industries](#) in Kingston, Jamaica also suffered from a fire that destroyed about 25 to 30 percent of their production stock.

A new McKinsey study looked into Denmark’s plastics consumption behaviors and estimates that approximately \$152 million could be captured through recycling plastics rather than diverting them for incineration. Another benefit would be a cut in pollution generated. One of the effects of incinerating plastics for energy is that their markets do not have similar incentives to use recyclable polymers or packaging designs. Neither McKinsey’s [executive summary](#) nor [technical report](#) seem to address what would be the energy source substitute in exchange for diverting their plastics to recycling. However, this report does lay out an interesting blueprint that better equates the environmental impact of recycling in a monetary sense over the direct marginal cost comparison in energy production.

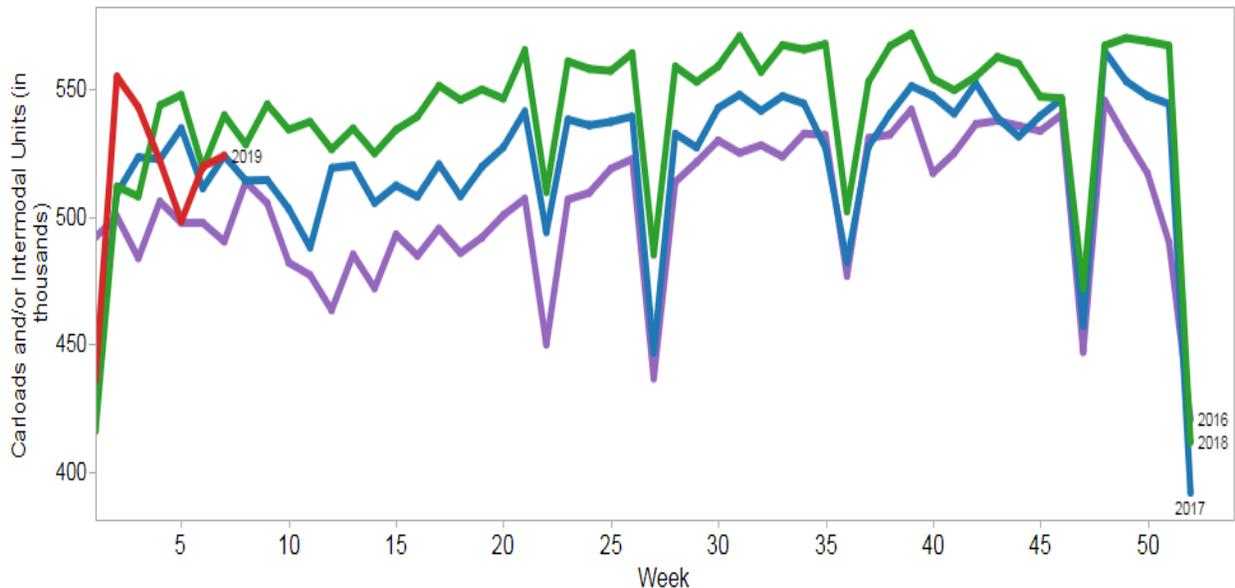
For more information, please contact ISRI Research Analyst [Bernie Lee](#).

Transportation: Rail Traffic

The Association of American Railroads reports that “For the first seven weeks of 2019, U.S. railroads reported cumulative volume of 1,730,989 carloads, up 0.1 percent from the same point last year; and 1,867,360 intermodal units, up 0.5 percent from last year. **Total combined U.S. traffic for the first seven weeks of 2019 was 3,598,349 carloads and intermodal units, an increase of 0.3 percent compared to last year.**” Including Canadian and Mexican railroads, North American rail traffic was also reportedly up 0.3 percent for the year-to-date. But the recent weekly rail data has been somewhat less encouraging. According to AAR, “North American rail volume for the week ending February 16, 2019, on 12 reporting U.S., Canadian and Mexican railroads, totaled 344,274 carloads, **down 2.7 percent compared with the same week last year.**” Here’s the recent weekly trend in U.S. originated rail traffic showing a relatively strong start to 2019 (in red) but subsequent slowdown as coal, chemical, and grain originations have eased:

U.S. Rail Traffic: Total Carloads and Intermodal (combined)

Source: Association of American Railroads



This Week’s Story

A man stumbles upon a magic lamp... He rubs the lamp and out pops a genie!

The genie says that he will grant the man only one wish, and that he has to pick from three choices. He can either be the richest man in the world, the most popular man in the world, or the wisest man in the

world. The man says, "We all know that money doesn't bring happiness, and that popularity just makes you a slave to the whims of others, but wisdom is everlasting... I want to be the wisest man in the world."

The Genie goes "poof" and suddenly the man's face assumes a serene expression. He sits down, rubbing his chin in deep thought. Then he looks at the genie and says, "I should have taken the money."

This Week's Quote

"A pessimist sees the difficulty in every opportunity; an optimist sees the opportunity in every difficulty."

-- Winston Churchill

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