ISRI Weekly Market Report

August 5, 2019

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This Morning

Commodity markets remain under pressure due in part to the disappointing trajectory of U.S.-China trade negotiations, heightened volatility in the oil sector, and competitive monetary policy easing from major central banks. In China this morning, Fastmarkets reports "Base metals prices on the Shanghai Futures Exchange were little changed to down during morning trading on Monday August 5, with the complex coming under pressure from heightened US-China trade tensions and stock inflows at the end of last week. Investors have broadly taken a risk-off approach to trading this morning, awaiting a potential retaliatory response from China." While Reuters reported over the weekend that "Saudi energy minister Khalid Al-Falih discussed oil markets with his Russian counterpart and stressed that Saudi Arabia would continue to comply with production cuts until the end of Q1 2020," continued seizures of oil tankers in the Gulf has only added to market uncertainty. Last week, NYMEX crude oil futures traded as low as $53.39 per barrel while COMEX copper futures plunged to $2.56 per pound. This morning, the Institute for Supply Management will release its U.S. non-manufacturing index for July, and as the WSJ reports: "Activity in the U.S. services sector pulled back in June, suggesting the economy is reverting to a slower but steady pace of growth after a strong 2018. Economists surveyed by The Wall Street Journal expect the nonmanufacturing index logged in at 55.7 in July, up slightly from June." In foreign exchange trading, the British pound traded as low as $1.2079 last week and continued to struggle early on this morning.

The Week Ahead

The U.S. economic calendar is relatively light this first full week of August following last week's key announcements and releases on monetary policy, the U.S.-China trade dispute, and U.S. job growth, among other reports. On the calendar this week we'll get new figures on U.S. service sector PMI, the JOLTS (job openings and labor turnover) report, consumer credit, wholesale inventories, and producer price inflation. Overseas, Germany, France, and Great Britain report on industrial production while new Chinese data are due out on trade, producer prices, and consumer price inflation. Have a great week and don't miss next week's ISRI Market Report for the latest economic, commodity, and scrap market highlights along with a recap of 1H 2019 scrap trade flows by commodity.

U.S. Economic Calendar: Aug 5 – 9, 2019

Date	Time	Release	Period	Consensus	Prior
Aug 05	10:00	ISM Non-Manufacturing Index	Jul	55.4	55.1
Aug 06	10:00	JOLTS - Job Openings	June	NA	7.323M
Aug 07	15:00	Consumer Credit	Jun	$16.5B	$17.1B
Aug 08	08:30	Initial Claims	08/03	213K	215K
Aug 08	08:30	Continuing Claims	07/27	NA	1699K
Aug 08	10:00	Wholesale Inventories	Jun	0.2%	0.4%
Aug 09	08:30	PPI	Jul	0.2%	0.1%
Aug 09	08:30	Core PPI	Jul	0.2%	0.3%

Economic Week in Review

It was a big week on the economic front last week given the latest developments on three areas that are critical to future U.S. economic growth: trade, monetary policy, and jobs. As you may have seen, the latest round of trade negotiations between the U.S. and China didn't go well last week, prompting the President to announce new tariffs on Chinese imports. As the Wall Street Journal reports, "President Trump overruled advisers to ramp up tariffs on China after a heated exchange in which he insisted levies were the best way to make Beijing comply with U.S. demands… Barring a break in the impasse, the U.S. is now poised to impose 10% tariffs on roughly $300 billion in Chinese imports that aren't currently taxed starting Sept. 1. Battle lines are hardening in Beijing as well—raising prospects that a deal may be put off until after the U.S. presidential election next year."

The impacts of higher trade barriers on U.S. and global economic growth has been a major source of concern for central bankers. Last week, the Federal Reserve lowered the target Federal Funds rate by a quarter point, indicating: “In light of the implications of global developments for the economic outlook as well as muted inflation pressures, the Committee decided to lower the target range for the federal funds rate to 2 to 2-1/4 percent. This action supports the Committee’s view that sustained expansion of economic activity, strong labor market conditions, and inflation near the Committee’s symmetric 2 percent objective are the most likely outcomes, but uncertainties about this outlook remain. As the Committee contemplates the future path of the target range for the federal funds rate, it will continue to monitor the implications of incoming information for the economic outlook and will act as appropriate to sustain the expansion, with a strong labor market and inflation near its symmetric 2 percent objective.”

Investors were less than exuberant at the Fed’s announcement as a few brave souls were expecting a half-point rate cut and others were mostly concerned the Fed will not be cutting rates again anytime soon. The Fed is in a bind here. Not only is the Fed’s independence under political assault, but the high degree of uncertainty on the trade front makes for especially difficult economic forecasting. In light of last week’s unsuccessful trade talks and threat of new tariffs, the Fed’s rate cut might appear to be prescient. But absent the global trade uncertainty, it would be much harder to justify why a rate cut is necessary now.

The U.S. Labor Department reported last week that U.S. nonfarm payrolls rose by 164,000 in July while the headline unemployment rate remains extremely low by historical standards at 3.7 percent. Here’s the U.S. civilian unemployment rate going back to 1948, which not only shows how low unemployment is today, but also how consistently recessions (in grey bars) occur following periods such as this:

On the U.S. manufacturing front, the Institute for Supply Management reported last week that their manufacturing PMI reading dipped to 51.2 in July, down from 51.7 in June and the fourth consecutive month of deceleration in manufacturing sector sentiment:

Category	JUL	JUN	MAY	APR	MAR
Total Index	51.2	51.7	52.1	52.8	55.3
Orders	50.8	50.0	52.7	51.7	57.4
Production	50.8	54.1	51.3	52.3	55.8
Employment	51.7	54.5	53.7	52.4	57.5
Deliveries	53.3	50.7	52.0	54.6	54.2
Inventories	49.5	49.1	50.9	52.9	51.8
Export Orders	48.1	50.5	51.0	49.5	51.7

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

- “General business trends are continuing to show signs of weakness resulting from tariffs and cost impacts of importing and exporting.” (Electrical Equipment, Appliances & Components)
- “All aspects of business remain strong, but we’re starting to see the frictional effect of tariffs on exports.” (Plastics & Rubber Products)
- “We are a third-tier supplier to [a major aircraft manufacturer], and it appears its production slowdown of [an aircraft] is having a direct effect on our slowing orders.” (Miscellaneous Manufacturing)
- “Business has slowed, but it is still steady and expected to pick up next month.” (Machinery)
- **“There is a drop in demand for steel products, which has had a major impact on steel prices and the domestic scrap market.”** (Fabricated Metal Products)
- “[Automotive] sales continue to decline, and forecasts have been reduced due to softer predicted demand. Attention to product cost — not sales price — is increasing.” (Transportation Equipment)
- “China tariffs continue to be a concern. The uncertainty of future tariffs involving China, Canada, and Mexico is also a concern. China tariffs for electronic parts are averaging 17 percent.” (Computer & Electronic Products)

Commodity News

Ferrous –

The surge in iron ore prices has been a boon to the major miners this year. CNBC reports that “Anglo-Australian miner Rio Tinto on Thursday reported its biggest first-half profit since 2014, in-line with estimates, and declared a bumper dividend, on red-hot iron ore prices. The results signaled robust earnings for other Australian iron ore miners, which are likely to see a boost to coffers from the surging prices of the steel-making commodity, even as production dipped due to the impact of a cyclone. Prices of iron ore have spiked this year after disruptions caused by a cyclone in Western Australia added to a supply cut from the world’s top iron ore miner Vale. Rio Tinto’s underlying earnings for the six months ended June 30 rose to $4.93 billion from $4.42 billion a year earlier, the company said.”

Iron Ore Futures Price Performance Over the Last Year

But one man’s meat is another man’s poison, as they say, and the rise in iron ore prices has adversely impacted global steelmakers’ bottom lines. The Wall Street Journal reports “ArcelorMittal, the world’s largest steelmaker, swung to a loss in the second quarter and said it plans to shed about $2 billion in assets, as the beleaguered industry suffers a fall in demand in Europe and the U.S. The global steel industry has been hit by overcapacity and gains in the price of iron ore, a central ingredient in production, after the Brumadinho tailings dam disaster curbed mining of the resource in Brazil. Chief Executive Lakshmi Mittal called for tougher protective measures to help Europe-based steelmakers compete against imports, but also said that U.S. tariffs on imports of the metal have pushed domestic production above demand, putting pressure on prices.”

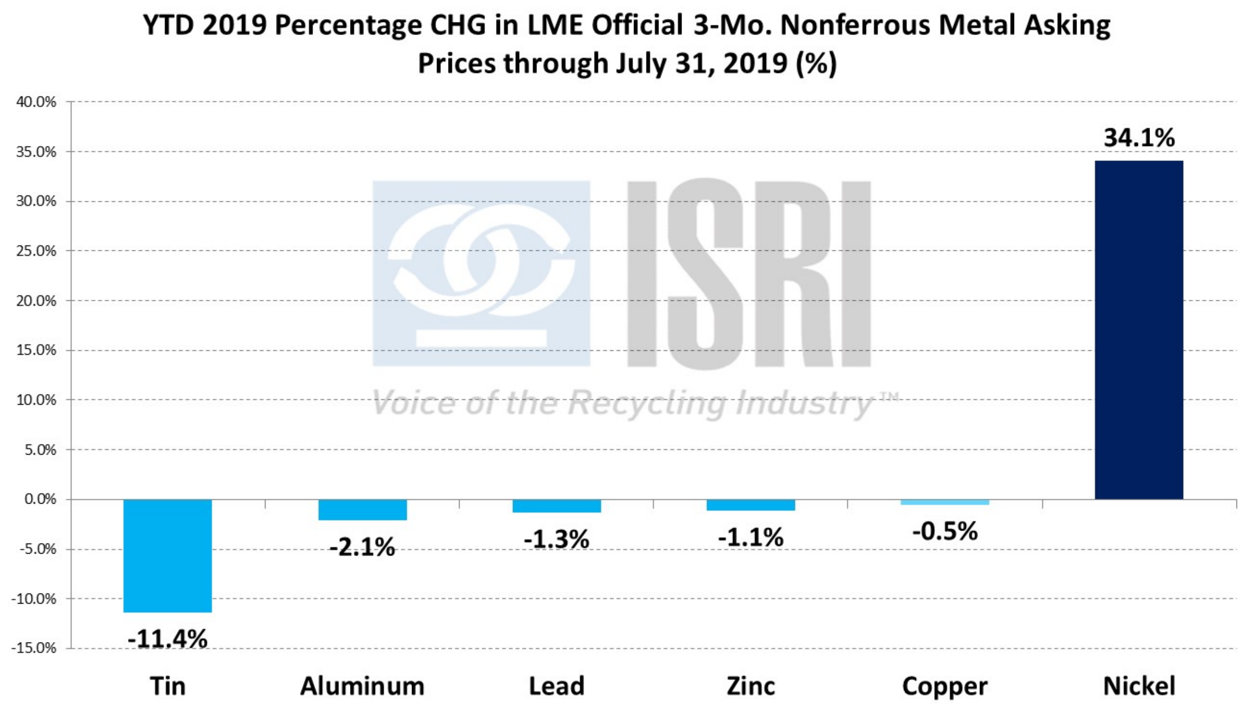
Benchmark prices for hot-rolled coil steel

Source: S&P Global Platts

Of note, the World Steel Association recently reported that Chinese crude steel production during the first half of 2019 reached a remarkable 492.2 million metric tons, up 9.9% from the record output in the corresponding period last year.

Nonferrous –

Reuters reports that China's "refined copper imports fell by 12% to 1.60 million tonnes in January-June with net imports sliding harder by 16% thanks to slightly higher exports relative to 2018. China's net draw on units from the rest of the world dropped by 266,000 tonnes, which helps explain the 155,000-tonne rise in London Metal Exchange (LME) stocks over the same period. Anemic demand is being compounded by another growth spurt in the country's domestic refining capacity. Increased competition for mined concentrates remains the driver of rising raw material imports. They jumped by 10% to 10.6 million tonnes (bulk weight) in the first half of 2019, extending an uptrend that has been running continuously since 2011. *It's possible that falling scrap imports are also forcing more smelters to turn to the concentrates market for raw material. Scrap imports slumped by 32% last year as the Chinese authorities raised purity threshold requirements and imports fell another 25% in the first half of this year as Beijing steadily tightens the quality rules."*



Among the major base metals at the London Metal Exchange, only nickel prices were in positive territory as of the end of July 2019 as compared to the end of 2018. At the end of July, nickel prices were up 34 percent for the YTD, while copper and aluminum prices were off slightly and tin prices declined 11 percent for the year to date. At the LME, 3-month nickel futures traded as high as $15,115 per tonne in July but have subsequently pulled back below $14,400 per tonne. Even still, that's up significantly from the beginning of the year when nickel prices were trading around $10,500 per tonne.

The rise in nickel prices has come despite widespread concerns about the U.S.-China trade war and rising nickel production. According to Macquarie Capital (Europe), global nickel production increased 8.9 percent year-on-year during the first half of 2019. Although primary nickel production has been on the rise, nickel consumption has reportedly outpaced the supply gains. The International Nickel Study Group estimates that global refined nickel demand exceeded supply by 27,000 tonnes during the first four months of 2019, Reuters reports. The global deficit in the nickel market comes at a time of increased stainless steel production in China. Metal Bulletin reports that for the first half of the year, stainless steel mills in China produced 14.35 million tonnes of crude stainless steel, an increase of 8.5 percent from the first half of 2018, based on data from the China Stainless Steel Council.

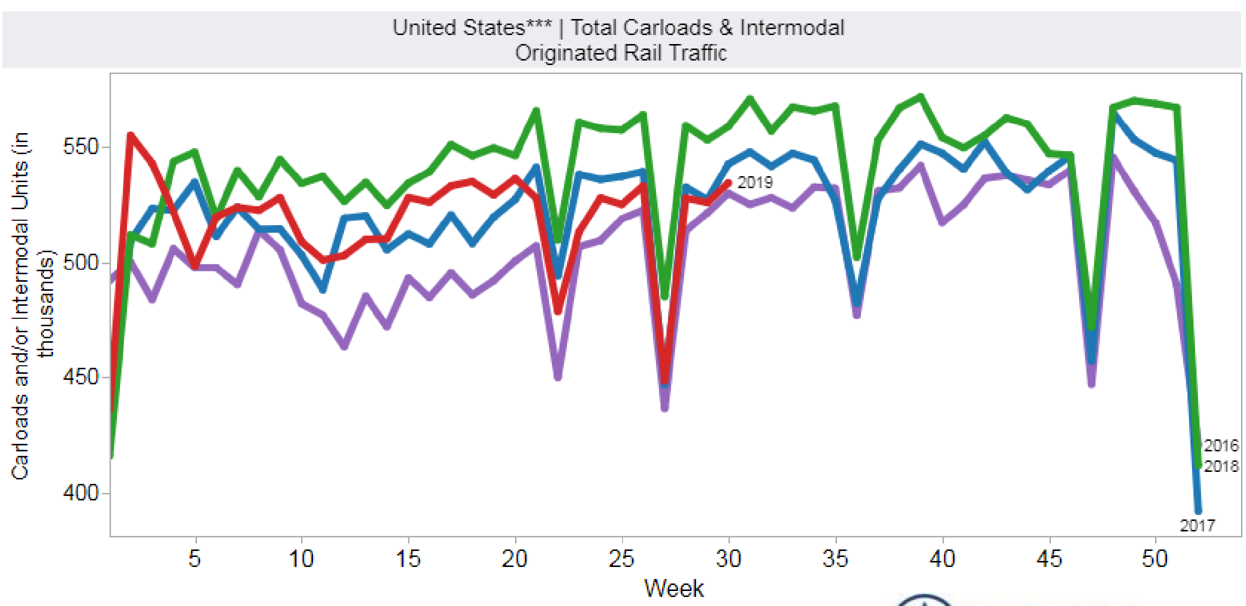
Recovered Paper and Fiber –

PPI Pulp and Paper Week recently reported that "Consumption of total U.S. recovered fiber for much of 2019 has followed suit with the slump industry paper and board producers have seen this year in pricing and demand -- slipping every month so far halfway through the year except for January, according to data from the American Forest & Paper Association (AF&PA). This dramatic decline results from a 911,000-ton reduction in first-half containerboard production, ongoing decreased demand from the U.S.'s No. 1 export market in China since third-quarter 2017, and a resulting and ongoing landfilling and warehousing of extra recovered paper. This has widely opened the demand door for a first decline in years -- that possibly could total as much as a 1.5-million to 2.0-million-tons drop in 2019 vs 2018 in total US recovered paper demand from 52 million to roughly 50 million tons. At 15.172 million tons, consumption of total recovered fiber is down 3.5% in June 2019 year-to-date, according to the AF&PA figures. Like the 3.5% drop in consumption through June, exports of all recovered fiber also are down 3.5% year-to-date through May at 8.04 million tons, according to the most recent US trade statistics (P&PW, July 19, p. 13).

When it comes to specific recovered fiber grades, old corrugated container (OCC) and high deinking grades also saw year-to-date drops in consumption at US mills every month in 2019 after January. Old newspaper (ONP) domestic mill consumption has been curbed every month so far this year, the only recovered fiber grade to see a drop in consumption each month, as North American newsprint mill production and demand for the end grade continues to decline."

Transportation News: Rail

The Association of American Railroads reported last week that, for the week ending July 27th, "total U.S. weekly rail traffic was 534,498 carloads and intermodal units, down 4.4 percent compared with the same week last year. Total carloads for the week ending July 27 were 261,706 carloads, down 3.5 percent compared with the same week in 2018, while U.S. weekly intermodal volume was 272,792 containers and trailers, down 5.3 percent compared to 2018. Three of the 10 carload commodity groups posted an increase compared with the same week in 2018. They were nonmetallic minerals, up 2,381 carloads, to 38,326; miscellaneous carloads, up 880 carloads, to 10,399; and petroleum and petroleum products, up 500 carloads, to 12,642. Commodity groups that posted decreases compared with the same week in 2018 included coal, down 6,517 carloads, to 81,255; grain, down 1,812 carloads, to 22,342; and forest products, down 1,576 carloads, to 9,490."



* Canadian traffic includes the U.S. operations of Canadian railroads.
** Mexican traffic includes the U.S. operations of Mexican railroads. Comparable railroad figures are not available for Weeks 1–26, 2017.

On a related note, WYMT in Eastern Kentucky reports that “A CSX train engine stuck for nearly 48 hours is now on the move. Officials showed up to the site of the stalemate Wednesday afternoon to talk with miners about a compromise. During their talks, miners allowed CSX officials to take the engine but asked them to leave the train cars loaded with coal…There are now about 100 rail cars full of coal just sitting on the tracks. It is said to be worth about $1 million.”

This Week’s Story

A man walks into the doctor’s office and the receptionist asks him what he has.

“Shingles,” he said. The receptionist nodded and took down is name, address, and medical insurance number, then told the man to have a seat.

Fifteen minutes later, a nurse’s aide came out and asked the man what he had.

“Shingles,” he repeated. So she wrote down his height and weight and took a complete medical history, then told him to wait in the exam room.

A half hour later, a nurse came in the exam room and again asked him what he had.

“Shingles,” was again the answer. So she gave him a blood test and an EKG, then told him to take off all his clothes and wait for the doctor.

An hour later, the doctor came in and found the man sitting patiently in the nude. He asked the man what he had.

“Shingles,” the man said once again.

The doctor asked him, “Where?”

“Outside on the truck. Where do you want me to unload ‘em?”

This Week’s Quote

“Intolerance is itself a form of violence and an obstacle to the growth of a true democratic spirit.”

-- Mahatma Gandhi