

July 29, 2019

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This Morning

Commodities were off to a lackluster start this morning as investors gear up for a busy week of trade negotiations, monetary policy announcements, economic releases, and corporate results. In Shanghai, base metal prices were mostly lower this morning although SHFE zinc was a notable exception, settling 0.8% higher for the day. In London, LME 3-mo. copper and aluminum were little changed around \$5,965/mt (= \$2.71/lb.) and \$1,802/mt (= 81.7 cents/lb.), respectively, although 3-mo. nickel briefly dipped below \$14,000 per mt (= \$6.35/lb.) early on. In New York, NYMEX crude oil prices were recently holding up above \$56 per barrel although, as Reuters reports, prices are reacting to shifting sentiment surrounding the U.S.-China trade talks this week. In precious metals trading, COMEX gold futures dipped below \$1,420 per troy ounce in early trading while silver futures were steady at \$16.40/to. In foreign exchange trading the British pound slipped to \$1.233 while the euro was holding steady around \$1.113.

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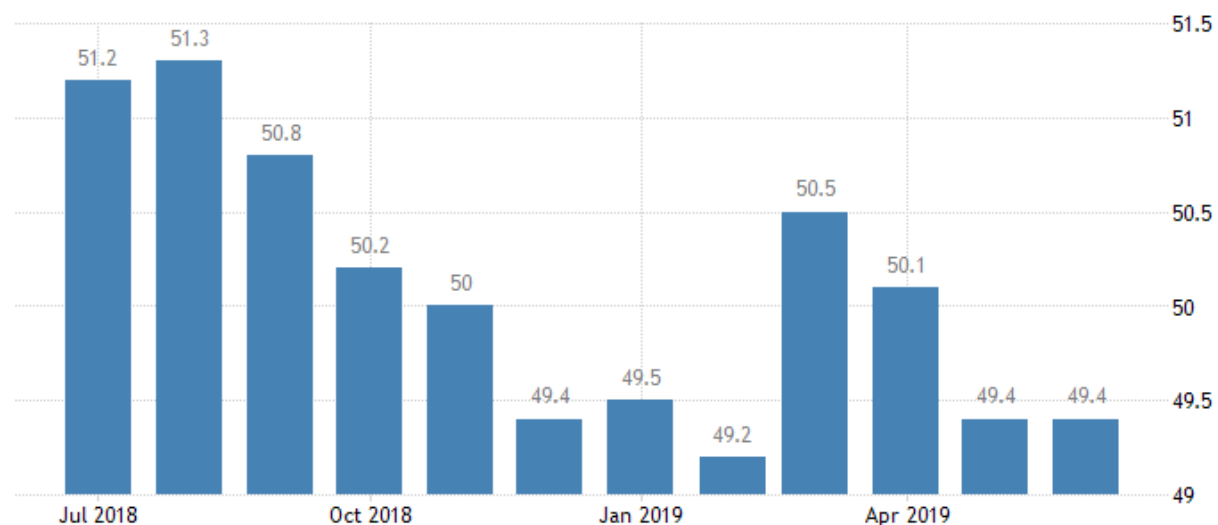
Selected Primary Commodity Prices: July 29, 2019

| | Last | CHG | % CHG | Prior | Open | High | Low |
|--------------------------------------|---------|-------|-------|---------|---------|---------|---------|
| COMEX Copper Sep (\$/lb.) | 2.6890 | 0.004 | 0.1% | 2.685 | 2.69 | 2.697 | 2.682 |
| COMEX Gold Aug (\$/to) | 1,418.4 | -0.9 | -0.1% | 1,419.3 | 1419 | 1,424.1 | 1,417.3 |
| COMEX Silver Sep (\$/to) | 16.40 | 0.0 | 0.0% | 16.40 | 16.42 | 16.49 | 16.4 |
| NYMEX Light Sweet Crude Sep (\$/bbl) | 56.25 | 0.1 | 0.1% | 56.20 | 56.2 | 56.34 | 55.91 |
| SHFE Aluminum Sep (RMB/mt) | 13,870 | -35 | -0.3% | 13,905 | 13,865 | 13,900 | 13,845 |
| SHFE Copper Sep (RMB/mt) | 46,890 | -170 | -0.4% | 47,060 | 46,950 | 46,980 | 46,780 |
| SHFE Nickel Oct (RMB/mt) | 110,300 | -240 | -0.2% | 110,540 | 111,140 | 111,480 | 108,920 |
| SHFE Zinc Sep (RMB/mt) | 19,375 | 150 | 0.8% | 19,225 | 19,205 | 19,545 | 19,200 |

The Week Ahead

We're going to learn a lot about the state of the U.S. and global economy this week, with key announcements due out on everything from trade to monetary policy, jobs, manufacturing output, personal income & spending, corporate results, and much more. On the trade front, the Financial Times reports "Trade talks are set to resume this week when U.S. trade representative Robert Lighthizer and Treasury secretary Steven Mnuchin head to Shanghai to begin negotiations on Tuesday. Vice-premier Liu He is expected to lead the talks for China. Previous discussions collapsed in May when the U.S. accused Beijing of backpedaling on its commitments and resulted in president Donald Trump raising levies on \$200bn of Chinese imports to 25 percent from 10 percent, along with a threat to slap 25 percent tariffs on a further \$300bn worth of products." Sticking with China, the consensus forecast for this week's official Chinese manufacturing PMI report is for a slight uptick in July to 49.5 (from 49.4 in June), which would still fall below the 50 threshold separating expansion from contraction.

China NBS Manufacturing PMI



Monetary policy is the other key economic story this week as the Federal Reserve, Bank of Japan, Bank of England, and other central banks come out with new policy statements. The general consensus is that the Fed will cut rates by a quarter percentage point (with a few brave souls forecasting a half percentage point cut -- don't bet on it), while the Bank of Japan and Bank of England are expected to keep rates on hold. On the U.S. economic calendar, investors will be paying close attention to the monthly jobs report late in the week, with the consensus forecast for an increase of 160,000 nonfarm payrolls in July, down from the 224,000 gain in June. Other key reports to keep an eye on this week will cover U.S. manufacturing PMI, consumer spending, consumer confidence, construction spending, factory orders, and the trade balance for June. On the corporate calendar, we'll get earnings reports from Apple, Verizon, General Motors, General Electric, ExxonMobil, and other big hitters this week. In Europe, Brexit and the new U.K. prime minister Boris Johnson will remain in focus, along with euro zone reports on GDP, unemployment, inflation, and manufacturing PMI. Have a wonderful week!

U.S. Economic Calendar: Jul 29 – Aug 2, 2019

| Date | Time | Release | Period | Consensus | Prior |
|--------|-------|--|--------|-----------|----------|
| Jul 30 | 08:30 | Personal Income | Jun | 0.4% | 0.5% |
| Jul 30 | 08:30 | Personal Spending | Jun | 0.3% | 0.4% |
| Jul 30 | 08:30 | PCE Price Index | Jun | 0.1% | 0.2% |
| Jul 30 | 08:30 | Core PCE Price Index | Jun | 0.2% | 0.2% |
| Jul 30 | 09:00 | S&P Case-Shiller Home Price Index | May | 3.5% | 2.5% |
| Jul 30 | 10:00 | Consumer Confidence | Jul | 125.5 | 121.5 |
| Jul 30 | 10:00 | Pending Home Sales | Jun | 1.0% | 1.1% |
| Jul 31 | 08:15 | ADP Employment Change | Jul | 150K | 102K |
| Jul 31 | 08:30 | Employment Cost Index | Q2 | 0.6% | 0.7% |
| Jul 31 | 09:45 | Chicago PMI | Jul | 50.5 | 49.7 |
| Jul 31 | 14:00 | FOMC Rate Decision | Jul | 2.125% | 2.375% |
| Aug 01 | 08:30 | Initial Claims | 07/27 | 215K | 206K |
| Aug 01 | 08:30 | Continuing Claims | 07/20 | NA | 1676K |
| Aug 01 | 10:00 | Construction Spending | Jun | 0.4% | -0.8% |
| Aug 01 | 10:00 | ISM Manufacturing Index | Jul | 51.9 | 51.7 |
| Aug 02 | 08:30 | Nonfarm Payrolls | Jul | 160K | 224K |
| Aug 02 | 08:30 | Nonfarm Private Payrolls | Jul | 167K | 191K |
| Aug 02 | 08:30 | Avg. Hourly Earnings | Jul | 0.3% | 0.2% |
| Aug 02 | 08:30 | Unemployment Rate | Jul | 3.6% | 3.7% |
| Aug 02 | 08:30 | Average Workweek | Jul | 34.4 | 34.4 |
| Aug 02 | 08:30 | Trade Balance | Jun | -\$54.6B | -\$55.5B |
| Aug 02 | 10:00 | Factory Orders | Jun | 0.8% | -0.7% |
| Aug 02 | 10:00 | Univ. of Michigan Consumer Sentiment - Final | Jul | 98.6 | 98.2 |

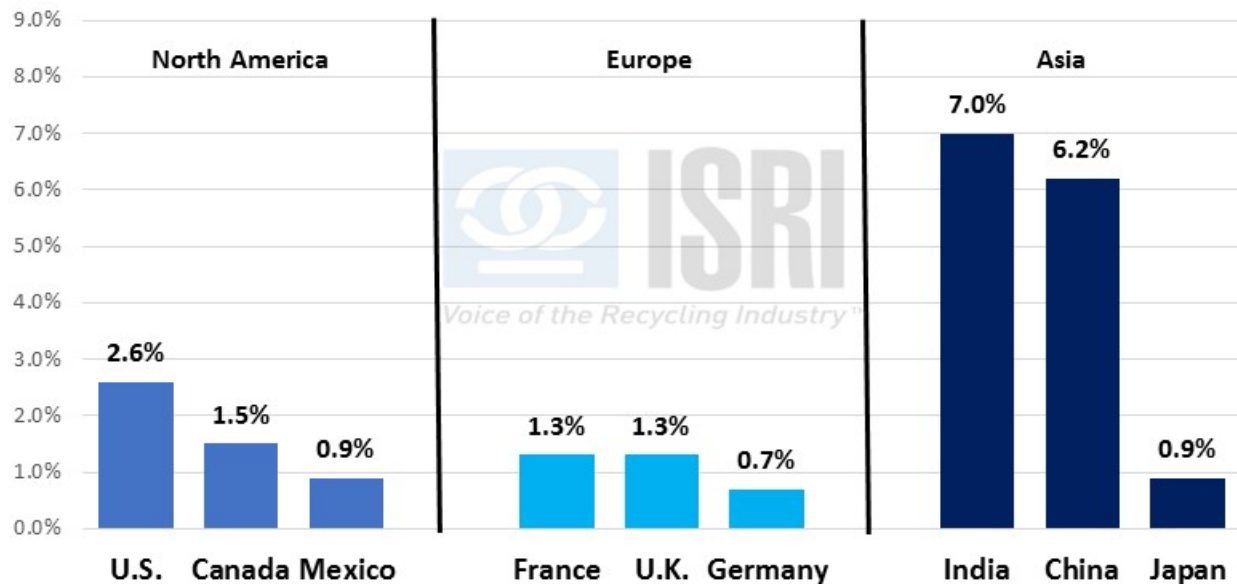
Economic Week in Review

Last week, the International Monetary Fund released its latest world economic outlook projections, which forecast global output will decelerate from 3.6% growth in 2018 to 3.2% growth in 2019, before picking back up to 3.5% growth in 2020. [The report notes that “The projected growth pickup in 2020 is precarious, presuming stabilization in currently stressed emerging market and developing economies and progress toward resolving trade policy differences.]

According to the IMF, “Global growth remains subdued... Global technology supply chains were threatened by the prospect of US sanctions, Brexit-related uncertainty continued, and rising geopolitical tensions roiled energy prices... Investment and demand for consumer durables have been subdued across advanced and emerging market economies as firms and households continue to hold back on long-range spending.”

IMF 2019 Economic Outlook for Selected Countries

Projected Year on Year % Change in Output
Source: IMF World Economic Outlook, July 2019



The latest U.S. GDP report released last week appears to confirm that the U.S. economic expansion slowed in the second quarter, although the numbers are still subject to revision and actually came in somewhat better than expected. According to the Bureau of Economic Analysis, real (adjusted for inflation) GDP in the U.S. rose at an annualized rate of 2.1% in the second quarter, down from 3.1% growth in Q1. According to the BEA, "The deceleration in real GDP in the second quarter reflected downturns in inventory investment, exports, and nonresidential fixed investment. These downturns were partly offset by accelerations in {Personal Consumption Expenditures} and federal government spending." The robust 4.3% growth in personal spending was the most encouraging part of the report, while the sharp reversal (-5.5%) in gross private domestic investment, including a 10.6% drop in investment in structures, reflects a growing concern about weaker business investment this year.

| Category | Q2 '19 | Q1 '19 | Q4 '18 | Q3 '18 | Q2 '18 |
|--|------------------|------------------|------------------|------------------|------------------|
| GDP | 2.1% | 3.1% | 1.1% | 2.9% | 3.5% |
| Inventories (change) | \$71.7B | \$116.0B | \$93.0B | \$87.2B | -\$28.0B |
| Final Sales | 3.0% | 2.6% | 1.0% | 0.8% | 4.8% |
| Personal Consumption Expenditures | 4.3% | 1.1% | 1.4% | 3.5% | 4.0% |
| Gross Private Domestic Investment | -5.5% | 6.2% | 3.0% | 13.7% | -1.8% |
| Nonresidential Inv. | -0.6% | 4.4% | 4.8% | 2.1% | 7.9% |
| Structures | -10.6% | 4.0% | -9.0% | -2.1% | 11.0% |
| Equipment | 0.7% | -0.1% | 7.4% | 2.9% | 3.4% |
| Intellectual Property | 4.7% | 10.8% | 11.7% | 4.1% | 11.9% |
| Residential Inv. | -1.5% | -1.0% | -4.7% | -4.0% | -3.7% |
| Net Exports | -\$978.7B | -\$944.0B | -\$983.0B | -\$962.4B | -\$850.5B |
| Export | -5.2% | 4.1% | 1.5% | -6.2% | 5.8% |
| Imports | 0.1% | -1.5% | 3.5% | 8.6% | 0.3% |
| Government | 5.0% | 2.9% | -0.4% | 2.1% | 2.6% |
| GDP Price Index | 2.4% | 1.1% | 1.6% | 2.0% | 3.2% |

On a more encouraging note, U.S. durable goods orders reportedly rose 2.0% in June, exceeding even the high end of consensus expectations. Econoday analysts point out that new production equipment may be ramping up to meet latent unmet demand. Machinery orders were up 2.4 percent and core capital goods orders were up 1.9%, while transportation orders increased 3.8%. As a result, we may well see some upward revisions to the investment numbers referenced above in the GDP report.

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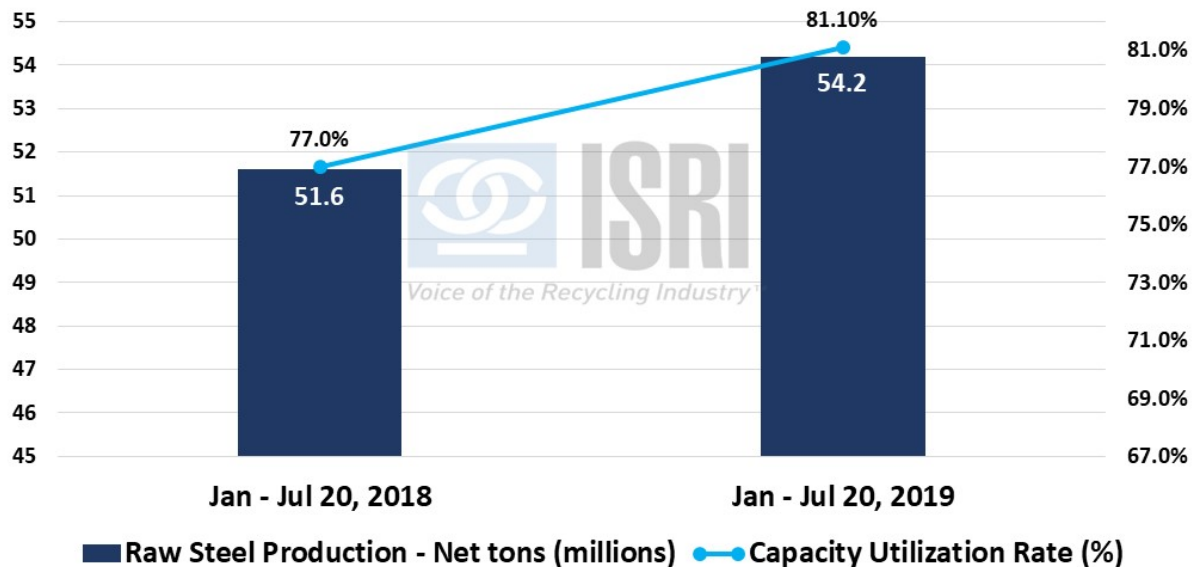
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Commodity News

Ferrous – Steel production in the United States is up 5 percent so far this year according to estimates from the American Iron and Steel Institute. AISI estimates that for the year-to-date through July 20th, U.S. raw steel production rose to 54.2 million net tons, up from 51.6 million net tons during the corresponding period last year, while the capacity utilization rate increased to 81.1 percent.

Year-to-Date U.S. Steel Production and Capacity Utilization Rates
 (million net tons and %)

Source: AISI



While U.S. steel production has been on the rise this year, U.S. imports of total and finished steel products during the first half of 2019 were down nearly 13% and 17%, respectively, as compared to the first half of 2018. U.S. imports of hot rolled sheet are down 27% by volume so far this year, along with diminished imports of hot rolled bars (-31%), standard pipe (-30%), cold rolled sheet (-25%), and plates in coils (-21%). By country, finished steel imports from South Korea are down nearly 17% so far this year and imports from Brazil (-24%), Vietnam (-16%), and China (-9%) are all down significantly, not surprising given the current trade policy landscape.

U.S. IMPORTS OF FINISHED STEEL MILL PRODUCTS
BY COUNTRY OF ORIGIN
(thousands of net tons)

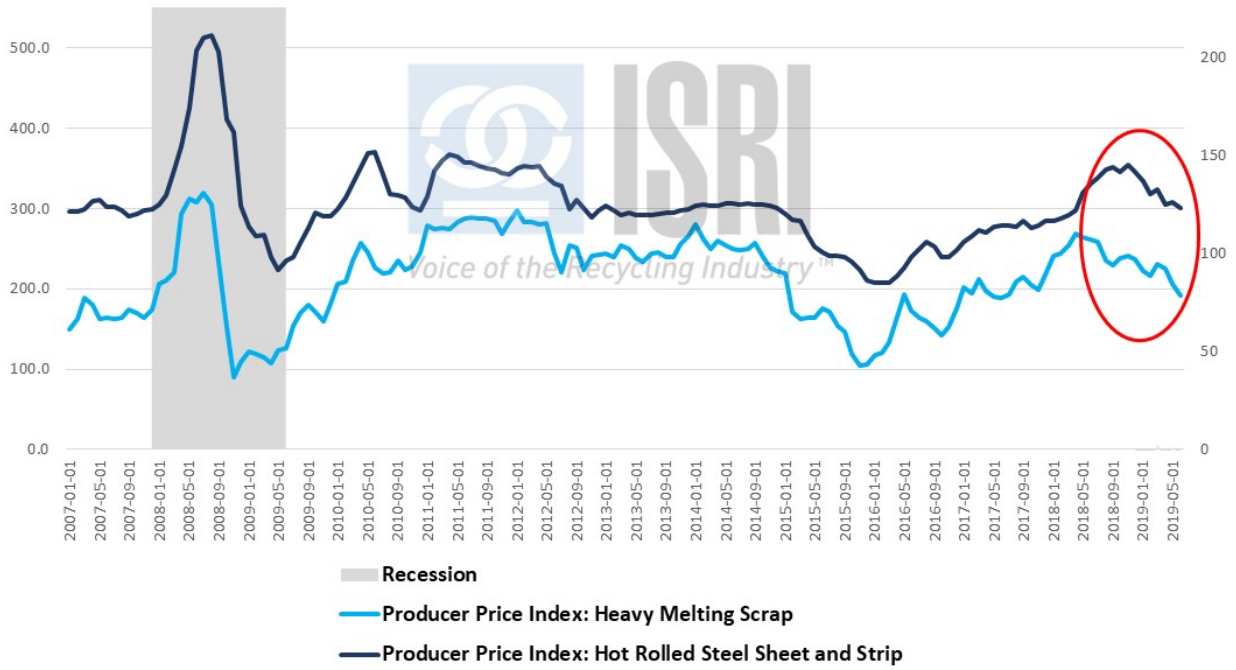
| COUNTRY | June 2019 Prelim. | May 2019 Final | % incr. June vs. May | YTD 2019 (6 mo.) | YTD 2018 (6 mo.) | % incr. '19 vs. '18 | 2019 Ann. | 2018 12 mo. | % incr. 2019 vs. '18 |
|--------------|-------------------------|----------------------|----------------------------|------------------------|------------------------|---------------------------|---------------|----------------|----------------------------|
| South Korea | 163 | 290 | -43.9% | 1,450 | 1,742 | -16.8% | 2,899 | 2,764 | 4.9% |
| Japan | 112 | 124 | -9.2% | 723 | 741 | -2.4% | 1,447 | 1,383 | 4.6% |
| Germany | 100 | 64 | 56.3% | 617 | 660 | -6.6% | 1,233 | 1,339 | -7.9% |
| Taiwan | 86 | 81 | 6.8% | 522 | 560 | -6.7% | 1,045 | 1,069 | -2.2% |
| Vietnam | 59 | 61 | -3.4% | 427 | 509 | -16.0% | 855 | 1,110 | -23.0% |
| China | 56 | 47 | 19.0% | 347 | 381 | -9.0% | 693 | 696 | -0.4% |
| Brazil | 15 | 43 | -64.4% | 317 | 418 | -24.2% | 633 | 479 | 32.1% |
| Italy | 31 | 46 | -32.6% | 314 | 252 | 25.0% | 629 | 605 | 3.9% |
| All Other | 1,089 | 1,111 | -1.9% | 6,959 | 8,749 | -20.5% | 13,917 | 16,249 | -14.4% |
| Total | 1,711 | 1,865 | -8.3% | 11,676 | 14,011 | -16.7% | 23,351 | 25,694 | -9.1% |

Sources: U.S. Commerce Dept./American Iron and Steel Institute

With the U.S. economy still expanding, domestic steel production up, and steel imports down, one might expect that U.S. steel and ferrous scrap prices would be on the rise as well, but that was not the case in the first half of the year, at least. Fastmarkets AMM's U.S. hot rolled coil index was down to around \$514 per short ton, fob U.S. mill, as of late June. For comparison's sake, that index was trading as high as \$917 per short ton in June 2018. However, the major U.S. steel mills have been pushing for rate hikes over the last several weeks, pushing the HRC index closer to \$600 per ton as of late July, according to AMM. Ferrous scrap prices have been faring worse than steel prices so far this year. Heading into July, producer prices for heavy melt scrap declined in 6 out of the preceding 7 months according to figures from the BLS.

U.S. Producer Prices for Hot Rolled Steel and Heavy Melting Scrap (Jan 2003 = 100)

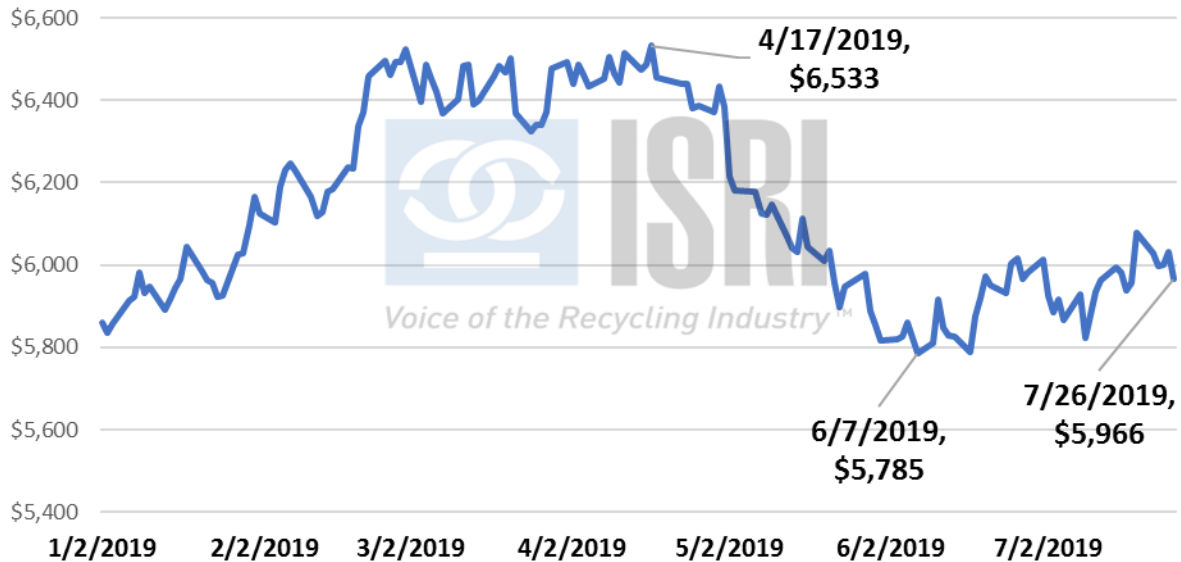
Source: Bureau of Labor Statistics



Nonferrous – Most actively traded COMEX copper futures opened last week at \$2.753 per pound but were down to \$2.685/lb. by the end of the week. LME 3-mo. copper prices were on a similar trajectory, trending lower over the course of the week to close at \$5,966 per metric ton on Friday. So far this year, the LME official 3-mo. copper price has ranged from as high as \$6,533/mt in April to as low as \$5,785/mt in early June.

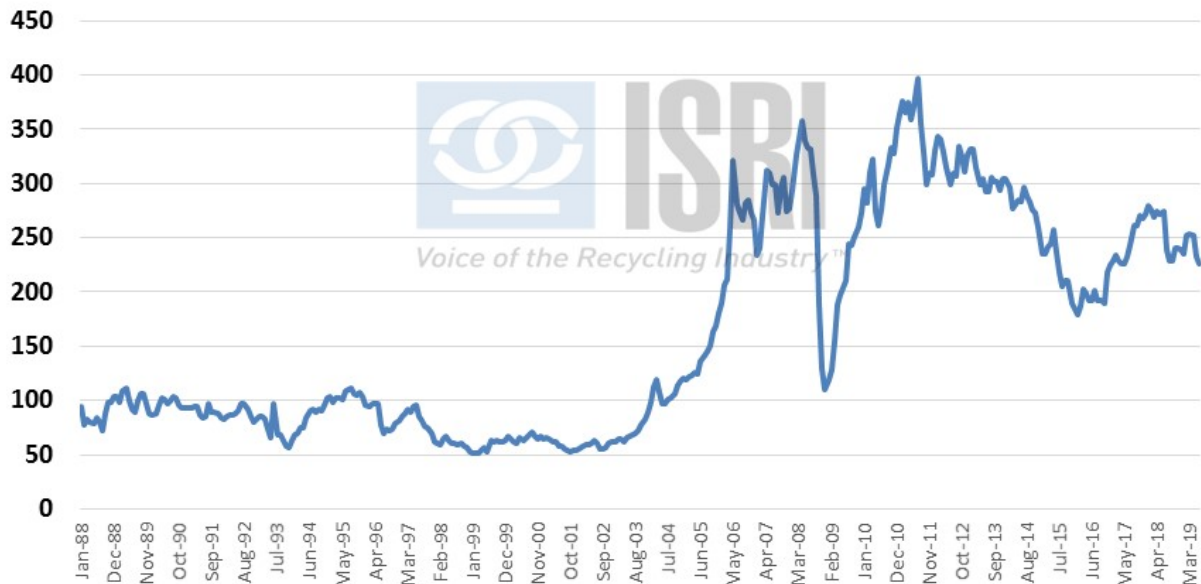
YTD LME Official 3-Mo. Copper Prices (\$/mt)

Sources: LME/Fastmarkets AMM



The trend in domestic copper scrap price has been somewhat less than overwhelming this year, too. According to Fastmarkets AMM, the spread for No. 2 copper delivered to refineries has widened from around 32 cents per pound at the beginning of the year, to around 41 cents per pound recently. The chart below shows the trend in Refiners No. 2 copper going all the way back to 1988, the year I graduated from high school and “Faith” by George Michael was at the top of the Billboard charts.

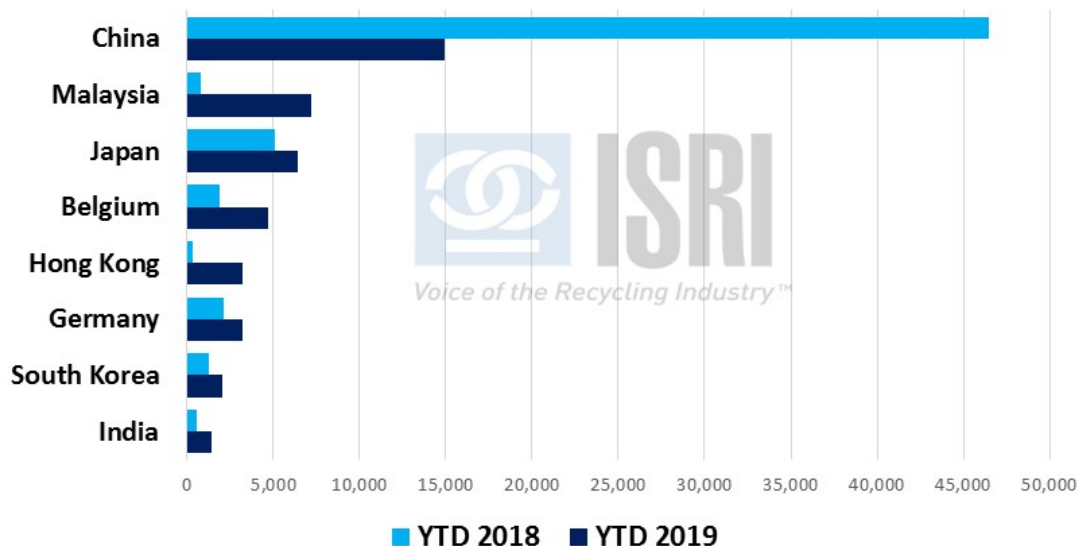
Refiners No. 2 Copper, 1988-2019 cents/lb.



Over the period 1988-2003, No. 2 copper scrap largely traded in a band around 50-100 cents per pound. But in the aftermath of the Great Recession, when Chinese stimulus was in full swing, No. 2 copper soared to around 400 cents per pound in 2011, well above the pre-recession peaks. As copper scrap prices and demand continue to shift -- AMM was recently listing refiners No. 2 copper at around \$2.28/lb., scrap processors continue to develop new markets and add value amid rising quality demands at home and abroad. Here are the biggest shifts in overseas demand for No. 2 copper scrap so far this year.

U.S. Exports of No. 2 Copper Scrap to Leading Destinations, Jan-May 2019 vs. Jan-May 2018 (metric tons)

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



Of note, our friends at the International Copper Study Group reported last week that global secondary refined copper production (from scrap) during Jan-Apr 2019 was up slightly (+0.5%) over the corresponding period last year to 1.362 million metric tons.

Paper and Plastic – The power of brand marketing is sometimes strangely overlooked as alternative materials are becoming more sought after in packaging. Bloomberg recently reported on a new startup using [sawdust as an alternative for crude oil and natural gas in making plastics](#). The notion of sustainable alternatives only works if the marginal cost difference is negligible or overcome by other factors. This isn't the case for plastics right now as drilling and fracking is expected to continue for the foreseeable future.

One concern is that alternative material efforts need to focus on finding solutions that can scale up to handle a growing problem in solid waste management. At Western Michigan University's Fiber Recycling Course last week, Sustana Fiber introduced some of their food grade products being made from 100% post-consumer recycled fibers. However, there was some confusion as to how much of the testing of polycoated bleached fibers was from post-industrial as opposed to post-consumer sources. A key takeaway is that there is increased public interest in seeking out solutions. Brands are positioning themselves to capitalize on this, but recyclers need to be at the table if new solutions are to be viable.

Transportation Costs: Diesel Fuel

| U.S. On-Highway Diesel Fuel Prices* (dollars per gallon) | | | | | |
|--|----------|----------|----------|-------------|----------|
| | | | | Change from | |
| | 07/08/19 | 07/15/19 | 07/22/19 | week ago | year ago |
| U.S. | 3.055 | 3.051 | 3.044 | ↓ -0.007 | ↓ -0.176 |
| East Coast (PADD1) | 3.081 | 3.080 | 3.072 | ↓ -0.008 | ↓ -0.145 |
| New England (PADD1A) | 3.134 | 3.131 | 3.122 | ↓ -0.009 | ↓ -0.147 |

| | | | | | |
|----------------------------|-------|-------|-------|----------|----------|
| Central Atlantic (PADD1B) | 3.275 | 3.272 | 3.259 | ↓ -0.013 | ↓ -0.130 |
| Lower Atlantic (PADD1C) | 2.940 | 2.941 | 2.937 | ↓ -0.004 | ↓ -0.150 |
| Midwest (PADD2) | 2.968 | 2.956 | 2.948 | ↓ -0.008 | ↓ -0.194 |
| Gulf Coast (PADD3) | 2.804 | 2.805 | 2.804 | ↓ -0.001 | ↓ -0.189 |
| Rocky Mountain (PADD4) | 2.980 | 2.975 | 2.978 | ↑ 0.003 | ↓ -0.391 |
| West Coast (PADD5) | 3.624 | 3.624 | 3.611 | ↓ -0.013 | ↓ -0.107 |
| West Coast less California | 3.208 | 3.209 | 3.198 | ↓ -0.011 | ↓ -0.238 |
| California | 3.953 | 3.952 | 3.939 | ↓ -0.013 | ↓ -0.004 |

**prices include all taxes*

This Week's Story

A retirement home thought it would be a good idea to hire a hypnotist for some light entertainment.

When he arrived, they gathered the 150-odd residents together to see the show. Rather than picking out one person from the crowd, the hypnotist tried his luck by hypnotizing all of them at once, and slowly began to swing his pocket watch back and forth in front of the crowd.

"Cluck!" he yelled, and all the seniors started clucking and pecking like chickens.

He swayed his watch faster. "Dance!" he yelled, and all the old folks in the room began to dance as best they could, all to different tunes in their head.

The hypnotist swung the watch even faster! "Bark!" he roared, as the room erupted into howling, barking, yapping, and yipping.

He swung his watch even faster, but just as he did the watch chain snapped, sending the watch plummeting to the ground and breaking into a thousand pieces. "Crap!" He yelled.

It took them 3 days to clean up the retirement home. He wasn't invited back.

This Week's Quote

"O Lord, help me to be pure, but not yet."

-- Saint Augustine

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