ISRI Weekly Market Report

January 28, 2019

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This Morning

Base metal prices were mixed in London this morning as LME 3-mo. copper and aluminum eased to $6,040/mt and $1,887/mt, respectively, following the lifting of U.S. sanctions against UC Rusal. Fastmarkets reports, "First imposed on April 6, 2018, the United States' sanctions against the Russian producer spurred uncertainty in both the physical aluminium and alumina markets, with prices and physical premiums surging as a result… In a move that created delays at the LME's warrant depository, last week more than 272,000 tonnes of aluminium were booked for removal from mostly Malaysian warehouses. The removal of sanctions against Rusal could mean around 200,000-300,000 tonnes of material returns to the market." In other commodity markets, crude oil futures in New York dipped below $53 per barrel this morning while gold futures were holding up around $1,300 per troy ounce. Reuters reports that "Oil fell 1 percent on Monday after U.S. companies added rigs for the first time this year, a signal that crude output may rise further, but the price is still on course for its strongest gain in the month of January for 14 years." The major stock market indexes in Europe started the week in negative while in forex trading the euro was little changed at $1.141 as the British pound eased to around $1.315.

Selected Primary Commodity Prices: January 28, 2019

	Last	CHG	% CHG	Prior	Open	High	Low
COMEX Copper Mar ($/lb.)	2.7125	-0.017	-0.6%	2.729	2.73	2.734	2.707
COMEX Gold Feb ($/to)	1,299.5	1.4	0.1%	1,298.1	1302.3	1,303.7	1,298.7
COMEX Silver Mar ($/to)	15.72	0.0	0.1%	15.70	15.76	15.83	15.7
NYMEX Light Sweet Crude Mar ($/bbl)	52.79	-0.9	-1.7%	53.69	53.56	53.64	52.50
SHFE Aluminum Mar (RMB/mt)	13,540	15	0.1%	13,525	13,505	13,610	13,470
SHFE Copper Mar (RMB/mt)	47,620	320	0.7%	47,300	47,210	47,950	47,140
SHFE Nickel May (RMB/mt)	95,240	750	0.8%	94,490	94,800	95,970	94,530
SHFE Zinc Mar (RMB/mt)	21,720	110	0.5%	21,610	21,585	21,915	21,505

The Week Ahead

The Fed's rate decision, monthly U.S. jobs report, manufacturing PMI numbers, and U.S.-China trade negotiations will take center stage this week. The Fed is widely expected to keep rates on hold as Fed Chair Jay Powell's press conferences garner increased scrutiny. On the jobs front, the consensus forecast is that U.S. nonfarm payrolls expanded by 160,000 in January. As for U.S.-China relations, the Financial Times reports: "China's vice premier Liu He visits Washington on Thursday and Friday for a second round of negotiations aimed at resolving the US-China trade war. US negotiators were upbeat after talks in Beijing that the two sides would be able to resolve tariff disputes that have rattled global markets. President Donald Trump and Chinese president Xi Jinping agreed to stop the tit-for-tat tariff battle for 90 days from the turn of the year. If no deal is reached by March, US tariffs on $200bn of Chinese goods will be ratcheted up from 10 to 25 per cent." Manufacturing PMI numbers in China, the U.S., and Europe will also be in focus, along with German data on consumer price inflation, retail sales, and unemployment. The consensus forecast is that U.S. manufacturing PMI eased in January but remained in expansionary territory (53.6). Have a great week and don't miss next week's ISRI Market Report for an update on the latest economic, trade, commodity, and scrap market highlights!

U.S. Economic Calendar: Jan 28 – Feb 1, 2019

Date	Time	Release	Period	Consensus	Prior
Jan 29	08:00	S&P Case-Shiller Home Price Index	Nov	4.9%	5.0%
Jan 29	10:00	Consumer Confidence	Jan	126.1	128.1
Jan 30	07:00	MBA Mortgage Applications Index	01/26	NA	-2.7%
Jan 30	08:15	ADP Employment Change	Jan	170K	271K
Jan 30	08:30	Pending Home Sales	Dec	0.7%	-0.7%
Jan 30	10:30	EIA Crude Oil Inventories	01/26	NA	+8.0M
Jan 30	14:00	FOMC Rate Decision	Jan	2.375%	2.375%
Jan 31	08:30	Personal Income	Dec	0.4%	0.2%
Jan 31	08:30	Personal Spending	Dec	0.3%	0.4%
Jan 31	08:30	Core PCE Price Index	Dec	0.2%	0.1%

Jan 31	08:30	PCE Price Index	Dec	NA	0.1%
Jan 31	08:30	Employment Cost Index	Q4	0.8%	NA
Jan 31	08:30	Initial Claims	01/26	220K	199K
Jan 31	08:30	Continuing Claims	01/19	NA	1713K
Jan 31	09:45	Chicago PMI	Jan	58.0	65.4
Jan 31	10:30	EIA Natural Gas Inventories	01/26	NA	-163 bcf
Feb 01	08:30	Nonfarm Payrolls	Jan	160K	312K
Feb 01	08:30	Nonfarm Private Payrolls	Jan	160K	301K
Feb 01	08:30	Average Hourly Earnings	Jan	0.2%	0.4%
Feb 01	08:30	Unemployment Rate	Jan	3.9%	3.9%
Feb 01	08:30	Average Workweek	Jan	34.4	34.5
Feb 01	10:00	ISM Manufacturing Index	Jan	53.6	54.1
Feb 01	10:00	Univ. of Michigan Consumer Sentiment - Final	Jan	90.7	90.7

Economic Week in Review

The International Monetary Fund has revised its economic projections for 2019 and now expects global economic growth to expand 3.5 percent in 2019, down from 3.7 percent growth in 2018. According to the IMF, "The global expansion has weakened. Global growth for 2018 is estimated at 3.7 percent, as in the October 2018 World Economic Outlook (WEO) forecast, despite weaker performance in some economies, notably Europe and Asia. The global economy is projected to grow at 3.5 percent in 2019 and 3.6 percent in 2020, 0.2 and 0.1 percentage point below last October's projections…

The global growth forecast for 2019 and 2020 had already been revised downward in the last WEO, partly because of the negative effects of tariff increases enacted in the United States and China earlier that year. The further downward revision since October in part reflects carry over from softer momentum in the second half of 2018—including in Germany following the introduction of new automobile fuel emission standards and in Italy where concerns about sovereign and financial risks have weighed on domestic demand—but also weakening financial market sentiment as well as a contraction in Turkey now projected to be deeper than anticipated."

IMF World Economic Outlook Projections

	2017	2018	2019
World Output	**3.8**	**3.7**	**3.5**
Advanced Economies	**2.4**	**2.3**	**2.0**
United States	2.2	2.9	2.5
Euro Area	2.4	1.8	1.6
Germany	2.5	1.5	1.3
France	2.3	1.5	1.5
Italy	1.6	1.0	0.6
Spain	3.0	2.5	2.2
Japan	1.9	0.9	1.1
United Kingdom	1.8	1.4	1.5
Canada	3.0	2.1	1.9
Other Advanced Economies 3/	2.8	2.8	2.5

Of note, the Conference Board's Index of Leading Economic Indicators (LEI) turned negative (-0.1%) in December. According to the Conference Board, ""The US LEI declined slightly in December and the recent moderation in the LEI suggests that the US economic growth rate may slow down this year," said Ataman Ozyildirim, Director of Economic Research at The Conference Board. "While the effects of the government shutdown are not yet reflected here, the LEI suggests that the economy could decelerate towards 2 percent growth by the end of 2019."

Category	DEC	NOV	OCT	SEP	AUG
Total Index	-0.1%	0.2%	-0.3%	0.6%	0.5%
Manufacturing Workweek	0.00%	0.00%	-0.07%	-0.07%	0.00%
Initial Claims	0.13%	-0.21%	-0.11%	0.05%	0.07%
Cons. Gds Orders	0.01%	0.03%	-0.19%	0.14%	0.04%
ISM New Orders	-0.09%	0.13%	0.04%	0.13%	0.20%
Nondef. Cap Gds Orders, exc. Aircraft	0.02%	-0.03%	0.02%	-0.03%	-0.01%
Building Permits	-0.01%	0.14%	-0.01%	0.05%	-0.12%
Stock Prices	-0.23%	-0.09%	-0.16%	0.06%	0.09%
Leading Credit Index	0.07%	0.06%	0.04%	0.08%	0.10%
Interest Rate Spread	0.06%	0.10%	0.11%	0.12%	0.11%
Consumer Expectations	0.06%	0.10%	0.15%	0.13%	0.09%

Commodity News

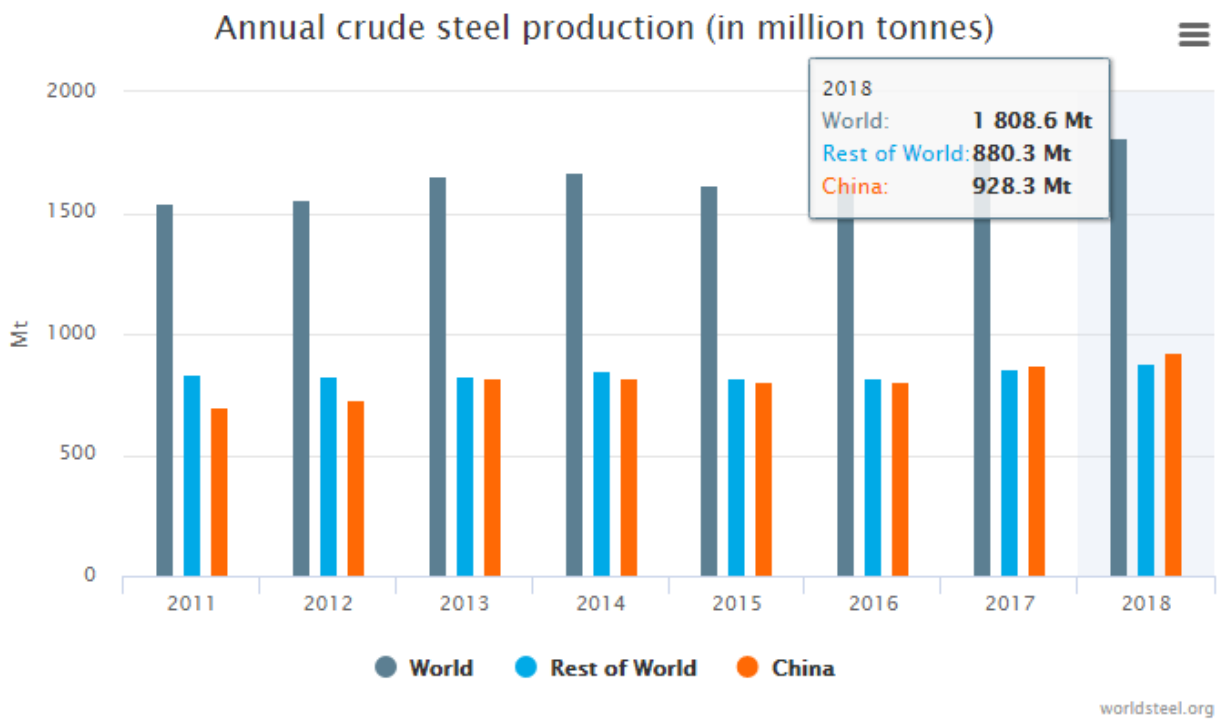
Ferrous –
Fastmarkets AMM reports that their "daily US Midwest hot-rolled coil index was at $34 per hundredweight ($680 per ton) on Thursday, down by 0.1% from $34.04 per cwt one day prior. The last time the HRC price in the United States was this low level was on January 17, 2018, when it hit $33.98 per cwt." One market participant points out that that: "We're in an oversupply situation. Each offer I get is lower than the last one. I don't think people are going to want to buy real big on anything."

Seaborne iron ore prices dropped below $75 per metric ton (CFR) to China on Jan 22. Many offers on the market went unbid. A trader pointed toward Chinese mills being fully stocked in anticipation of the Lunar New Year throwing caution to the wind for potential losses in continuing to ship to China at this point.

Shredded auto scrap prices bumped up in Nov and Dec but with the decline in steel prices, 2019 prices appear to be off to a slower start. The Steel Market Development Institute (SMDI), a unit of AISI, recently

published a series of reports that compared the greenhouse gas (GHG) emissions from Chinese and U.S. steel production. These peer-reviewed reports show that Chinese production of hot-dip galvanized steel coils produced 50% more GHG emissions than U.S. steel. This may push China towards converting more of their steel-making capacity towards EAF steel production and increase their demand for ferrous scrap as they have commitments to the Paris Climate Accords to achieve.

According to the World Steel Association, **China produced 928.3 million tons of crude steel in 2018**, an increase of 6.6% over 2017. Worldsteel also reports that steel production in 2018 increased 6.2% in the U.S. to 86.7 million tons, was up 4.9% in India to 106.5 million tons, was flat in Europe at 311.8 million tons, and decreased 0.6% in Turkey to 37.3 million tons.

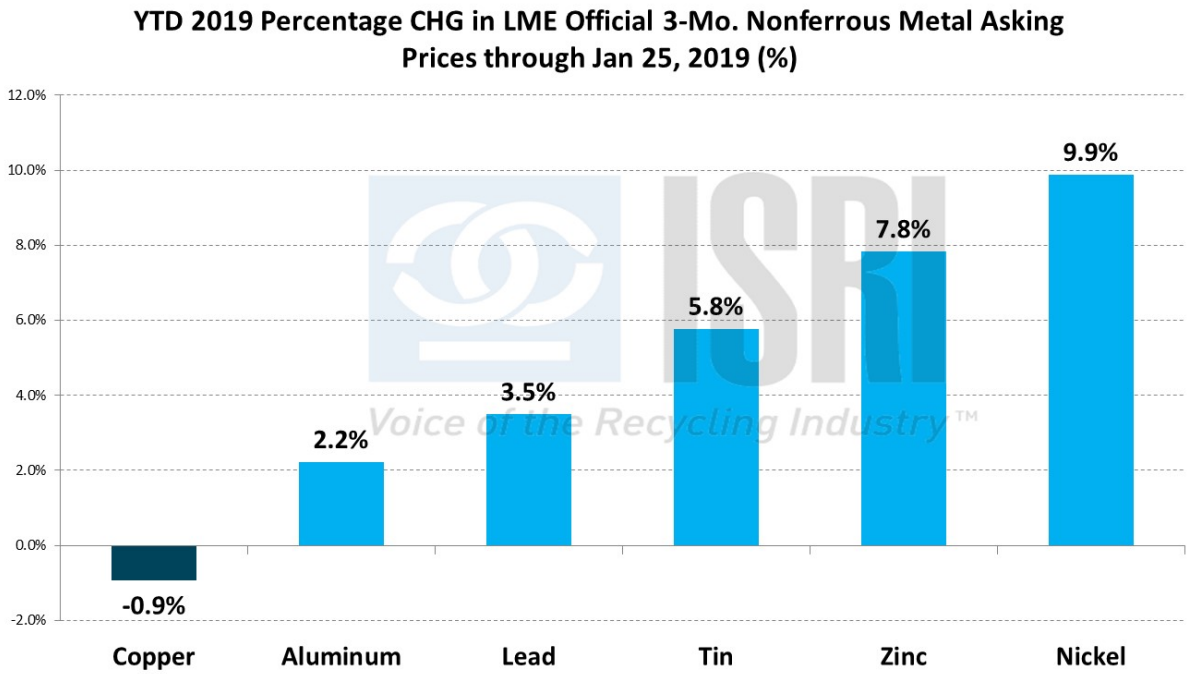


For the week ending January 19, AISI reports that domestic raw steel production was 1,912,000 net tons while the capability utilization rate was 80.7 percent. Production was 1,715,000 net tons in the week ending January 19, 2018 while the capability utilization then was 73.6 percent. The current week production represents an **11.5 percent increase** from the same period in the previous year. Production for the week ending January 19, 2019 is up 1.1 percent from the previous week ending January 12, 2019 when production was 1,891,000 net tons and the rate of capability utilization was 79.8 percent.

Nonferrous –

Last week, Reuters reported "China's December scrap metal imports rose to their highest level since May at 510,000 tonnes, data from the General Administration of Customs showed on Friday, as traders dashed to bring in shipments before China further tightens waste imports in 2019. Arrivals of scrap copper last month rose to 250,000 tonnes, the highest since December 2017, from 220,000 tonnes in November, customs data showed. Scrap aluminum imports also increased in December, up to 150,000 tonnes from 130,000 tonnes in the previous month, the highest since March. For the full year of 2018, China imported a total of 5.34 million tonnes of waste scrap metals, customs data showed."

For the year-to-date, it may surprise some that nickel prices have had the best performance thus far at the London Metal Exchange. As compared to the end of 2018, the LME official 3-mo. asking price for nickel was up nearly 10% to $11,785 per metric ton as of Jan 25, up from $10,725/mt at the end of 2018.



The worst performer among the major base metals so far this year has actually been copper, with the LME official 3-mo. asking price for copper down nearly 1% as compared to the end of 2018 to $5,925.50/mt as of last Friday. Even still, the International Copper Study Group reported last week that the "World refined copper balance for the first ten months of 2018 {including revisions to prior reports} indicates a {copper supply} deficit of about 545,000 tons."

Meanwhile, Macquarie Research reports that "Our latest China copper survey shows continued divergence in industry sentiment on 3M copper market, and a seasonally-driven demand decline among fabricators and traders, led by lower demand from construction and transportation while power grid spending is rebounding strongly. Traders expect slower demand into next month thus their restocking interest has faded, while smelters reported a higher capacity utilisation rate this month. Smelters concentrate inventory slightly picked up, and they still have plans to restock concentrate as inventory is still low compared with history."

Paper and Plastic –

The story this week for paper and plastics appear to be a clash between local and state governments taking aim at what appears to them as an environmental issue and more attempts to prop up a weakened market that could be hammered by new regulations. Washington's state legislature has a new bill in the pipeline to create an extended producer responsibility program for plastic packaging. Producers would have to participate in an approved plastic packaging stewardship organization in order to sell or distribute plastic packaging in WA. The proposed bill puts the onus onto the packaging producers to pay for "all administrative and operational costs" which includes sorting, reprocessing, and marketing. This may create a price floor and ceiling for plastics as their operations will likely see a flattened revenue stream from the program. However, it would incentive consumers to drive down prices. There's an additional component to the bills that would set minimum post-consumer content for packaging products that may counteract such shift in cost burden.

A lawmaker from San Francisco has introduced legislation into the state legislature to forbid automatic paper receipts. As Adam Minter points out in his opinion piece at Bloomberg, this is a low-impact campaign that is diverting attention from more serious issues in environmentally-impactful recycling. There appears to be a data sample being touted on the environmental impact of the production of receipt paper in the U.S. However, the presumptions and estimates in the article are questionable and do not track accurately to the production patterns of the U.S. paper making industry.

For more information, please contact ISRI Research Analyst Bernie Lee.

Transportation Costs: Diesel Fuel

The U.S. Energy Information Administration reports that for the week ending January 21st, the average U.S. on-highway diesel fuel price decreased to $2.965 per gallon, down 1 cent for the week and 6 cents lower than one year ago. Diesel prices were the lowest in the Gulf Coast region at $2.79 per gallon and were highest (shockingly) in California, at $3.739 per gallon. Bucking the national trend, diesel fuel prices on the West Coast are up nearly 7 cents per gallon as compared to this time last year.

U.S. On-Highway Diesel Fuel Prices* (dollars per gallon)						
					Change from	
	01/07/19	01/14/19	01/21/19		week ago	year ago
U.S.	**3.013**	**2.976**	**2.965**		↓ **-0.011**	↓ **-0.060**
East Coast (PADD1)	3.069	3.049	3.037		↓ -0.012	↓ -0.041
New England (PADD1A)	3.216	3.208	3.191		↓ -0.017	↑ 0.055
Central Atlantic (PADD1B)	3.242	3.217	3.215		↓ -0.002	↓ -0.061
Lower Atlantic (PADD1C)	2.921	2.903	2.884		↓ -0.019	↓ -0.045
Midwest (PADD2)	2.869	2.823	2.807		↓ -0.016	↓ -0.164
Gulf Coast (PADD3)	2.821	2.788	2.790		↑ 0.002	↓ -0.025
Rocky Mountain (PADD4)	3.026	2.987	2.944		↓ -0.043	↓ -0.011
West Coast (PADD5)	3.528	3.471	3.463		↓ -0.008	↑ 0.068
West Coast less California	3.180	3.130	3.115		↓ -0.015	↑ 0.032
California	3.805	3.742	3.739		↓ -0.003	↑ 0.096

**prices include all taxes*

This Week's Story

Two little boys, ages 8 and 10, are excessively mischievous. They are always getting into trouble and their parents know if any mischief occurs in their town, the two boys are probably involved.

The boys' mother heard that a preacher in town had been successful in disciplining children, so she asked if he would speak with her boys. The preacher agreed, but he asked to see them individually.

The mother sent the 8-year old in the morning, with the older boy to see the preacher in the afternoon. The preacher, a huge man with a deep booming voice, sat the younger boy down and asked him sternly, "Do you know where God is, son?"

The boy's mouth dropped open, but he made no response, sitting there wide-eyed with his mouth hanging open. So the preacher repeated the question in an even sterner tone, "Where is God?!" Again, the boy made no attempt to answer.

The preacher raised his voice even more and shook his finger in the boy's face and bellowed, "Where is God?!" The boy screamed & bolted from the room, ran directly home and dove into his closet, slamming the door behind him.

When his older brother found him in the closet, he asked "What happened?" The younger brother, gasping for breath, replied, "We are in BIG trouble this time!"

"GOD is missing, and they think WE did it!"

This Week's Quote

"Those who do not remember the past are condemned to repeat it."

-- George Santayana