ISRI Weekly Market Report

March 4, 2020

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Yesterday

The Federal Reserve's half point rate cut took center stage yesterday as the Fed announced "The fundamentals of the U.S. economy remain strong. However, the coronavirus poses evolving risks to economic activity. In light of these risks and in support of achieving its maximum employment and price stability goals, the Federal Open Market Committee decided today to lower the target range for the federal funds rate by 1/2 percentage point, to 1 to 1 1/4 percent. The Committee is closely monitoring developments and their implications for the economic outlook and will use its tools and act as appropriate to support the economy." The market reaction was somewhat less than what was hoped for, with the Dow Industrials down more than 800 points (-3.1%) in late afternoon trading on Tuesday while the US Dollar Index dropped 0.4%. In commodity trading, COMEX copper futures reversed course, dipping below $2.58 per pound. But the Bloomberg Commodity Index was up around 1 percent late in the day yesterday as crude oil futures rose above $47 per barrel and precious metal prices climbed nearly 3 percent higher.

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Selected Primary Commodity Prices: March 3, 2020

	Last	CHG	% CHG	Prior	Open	High	Low
COMEX Copper May ($/lb.)	2.567	-0.028	-1.1%	2.595	2.617	2.625	2.547
COMEX Gold Apr ($/to)	1,644.2	49.4	3.1%	1,594.8	1586	1,650.5	1,585.9
COMEX Silver May ($/to)	17.21	0.5	2.8%	16.74	16.67	17.48	16.7
NYMEX Light Sweet Crude Apr ($/bbl)	46.96	0.2	0.4%	46.75	47.72	48.66	46.63
SHFE Aluminum Apr (RMB/mt)	13,295	80	0.6%	13,215	13,265	13,385	13,260
SHFE Copper Apr (RMB/mt)	45,640	630	1.4%	45,010	45,610	45,990	45,480
SHFE Nickel Jun (RMB/mt)	103,300	1,840	1.8%	101,460	103,310	104,440	102,540
SHFE Zinc Apr (RMB/mt)	16,180	100	0.6%	16,080	16,135	16,245	16,135

The Week Ahead

Prior to the Fed’s unexpected half-point rate cut on Tuesday, the week’s major scheduled economic announcement was going to be the U.S. jobs report due out on Friday. The consensus forecast is that U.S. nonfarm payrolls grew by around 170,000 in February while the unemployment rate held steady at 3.6%. Other U.S. economic reports out this week cover factory orders, the trade balance, light vehicle sales, and consumer credit. On Monday, the Institute for Supply Management reported their manufacturing PMI reading dipped from 50.9 in January to 50.1 in February, slightly below the consensus 50.3 forecast. (We’ll have more on the mfg. PMI numbers in next week’s Market Report.) Overseas, we’ll get the latest figures on German retail sales and manufacturing orders, euro zone retail sales and composite PMI, China’s trade balance, and Japanese household spending, along with a monetary policy statement from the Bank of Canada. Markets will of course continue to pay close attention to political and coronavirus developments. As for the global oil market, the *Financial Times* reports “OPEC and its allies begin a two-day meeting on Thursday as global energy producers scramble to respond to the coronavirus outbreak that has crippled demand. Saudi Arabia is asking producers including Russia to sign up to a collective production cut of an additional 1m barrels a day, a significantly higher amount than provisionally discussed when the so-called OPEC+ group agreed to convene. The plan is designed to show oil producers are able to respond to the sharp reduction in demand created by a virus that has paralyzed global supply chains and stifled international travel.” Have a good week and keep washing your hands!

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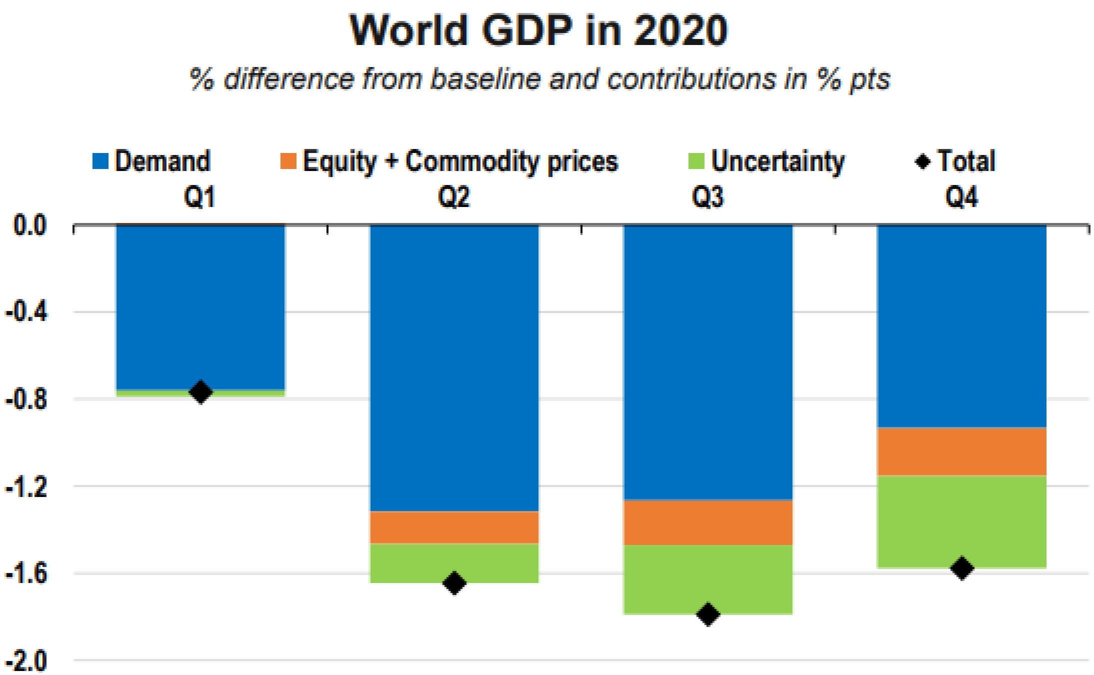
Date	Time (ET)	Release	Period	Consensus	Prior
2-Mar	10:00	Construction Spending	Jan	0.7%	0.2%
2-Mar	10:00	ISM Manufacturing Index	Feb	50.3	50.9
3-Mar	00:00	Auto Sales	Feb	NA	3.12M
3-Mar	00:00	Truck Sales	Feb	NA	9.96M
4-Mar	10:00	ISM Non-Manufacturing Index	Feb	54.8	55.5
4-Mar	14:00	Fed Beige Book	--	NA	--
5-Mar	8:30	Initial Claims	29-Feb	215K	219K
5-Mar	8:30	Productivity-Rev.	Q4	1.3%	1.4%
5-Mar	8:30	Unit Labor Costs - Rev.	Q4	1.4%	1.4%
5-Mar	10:00	Factory Orders	Jan	-0.10%	1.80%
6-Mar	8:30	Nonfarm Payrolls	Feb	170K	225K
6-Mar	8:30	Avg. Hourly Earnings	Feb	0.3%	0.3%
6-Mar	8:30	Unemployment Rate	Feb	3.6%	3.6%
6-Mar	8:30	Trade Balance	Jan	-$46.0B	-$48.9B
6-Mar	10:00	Wholesale Inventories	Jan	-0.2%	-0.3%
6-Mar	15:00	Consumer Credit	Jan	$17.5B	$22.0B

Economic Week in Review

Suffice it to say that last week's equity market sell-off was the major economic event of the week, with the major U.S. stock market indexes having their worst performance since 2008 as coronavirus worries took hold. Here are the relative performances of the Dow Industrials, S&P 500, and the Nasdaq:

In response, the OECD downgraded their economic projections for 2020 on Monday. In their worst case scenario, they see a -1.5% full year impact on world GDP.



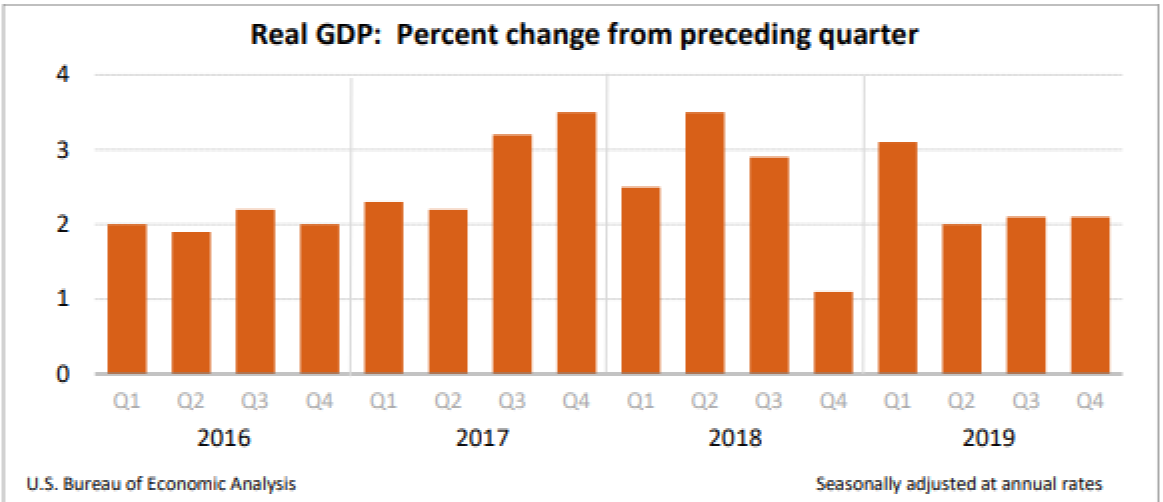
In their base scenario, the OECD sees a less pronounced impact. According their latest report, they see:

- “Severe, short-lived downturn in China, where GDP growth falls below 5% in 2020 after 6.1% in 2019, but recovering to 6.4% in 2021.
- In Japan, Korea, Australia, growth also hit hard then gradual recovery.
- Impact less severe in other economies but still hit by drop in confidence and supply chain disruption.”

Here’s a recap of some of the major economic reports from last week, which the markets largely ignored:

GDP

Real GDP growth for the fourth quarter of 2019 remained at 2.1 percent according to the Bureau of Economic Analysis’ second estimate. The advance estimate a month ago was also 2.1 percent. Coincidentally, real GDP growth for the third quarter was also 2.1 percent.



For the year of 2019, real GDP was 2.3 percent, down from 2.9 percent in 2018. This reduction in growth is consistent with the forecasts by many economists and the National Association of Business Economists. In 2019, positive sources of growth came from personal consumption expenditures on durable and nondurable goods and services, residential fixed investment, exports of services, imports of goods, federal government spending, and state and local government spending. Negative growth pressures came from nonresidential fixed investment, exports of goods, imports of services, and change in private inventories.

Consumer indexes

Consumers reading of the current economy and the expected conditions remain very strong. Last week, two measures of consumer confidence were released, one from the Conference Board and the other from the University of Michigan, both of which include the time frame to account for the coronavirus impact. The Conference Board Index showed a slight increase in consumer confidence in February, rising very slightly to 130.7 from 130.4 in January (1985=100). Their other two indexes provide further context, the Present Situation Index and the Expectations Index. Showing consumers' assessment of current business and labor market conditions, the Present Situation Index decreased in February to 165.1 from 173.9 in January. Consumers' short-term outlook for income, business and labor market conditions, captured in the Expectations Index, improved to 107.8 in February, up from 101.4 in January.

The University of Michigan's consumer sentiment index also rose in February, to 101.1 up from 99.8 in January. This is the highest level in about two years (March 2018). Consumers' view of current conditions increased to 114.8 and consumers' expectations also rose, to 92.6.

Personal Income and Spending

Category	JAN	DEC	NOV	OCT	SEP
Personal Income					
Total Income	0.6%	0.1%	0.5%	0.1%	0.2%
Wage and Salary	0.5%	0.1%	0.4%	0.5%	-0.1%
Disposable Income	0.6%	0.1%	0.4%	0.0%	0.3%
Savings Rate	7.9%	7.5%	7.8%	7.7%	7.8%
Personal Consumption					
Total (Nominal)	0.2%	0.4%	0.3%	0.2%	0.2%
Total (Real, Chain $)	0.1%	0.1%	0.2%	0.0%	0.2%
Core PCE Deflator					
Month/Month	0.1%	0.2%	0.1%	0.1%	0.1%
Year/Year	1.6%	1.5%	1.5%	1.6%	1.7%

According to Briefing.com, “The key takeaway from the report is that it continues to show subdued inflation pressure, which might mean something for the Fed if it is worried about demand destruction in coming months, like the capital markets seem to be, due to the coronavirus.”

Durable Goods Orders

Chad Moutray at the National Association of Manufacturers writes: “New durable goods orders edged down 0.2% in January after jumping by 2.9% in December. The decline was led by a significant drop in sales for defense aircraft and parts, which can be highly volatile from month to month, with motor vehicles and parts orders also lower, down 0.8% in January. Excluding transportation equipment, new orders for durable goods rose 0.9% in January, accelerating from the 0.1% gain seen in December. Looking specifically at the latest data, new orders were higher for computers and electronic products, fabricated metal products, machinery and primary metals in January, but weaker for electrical equipment and appliances.

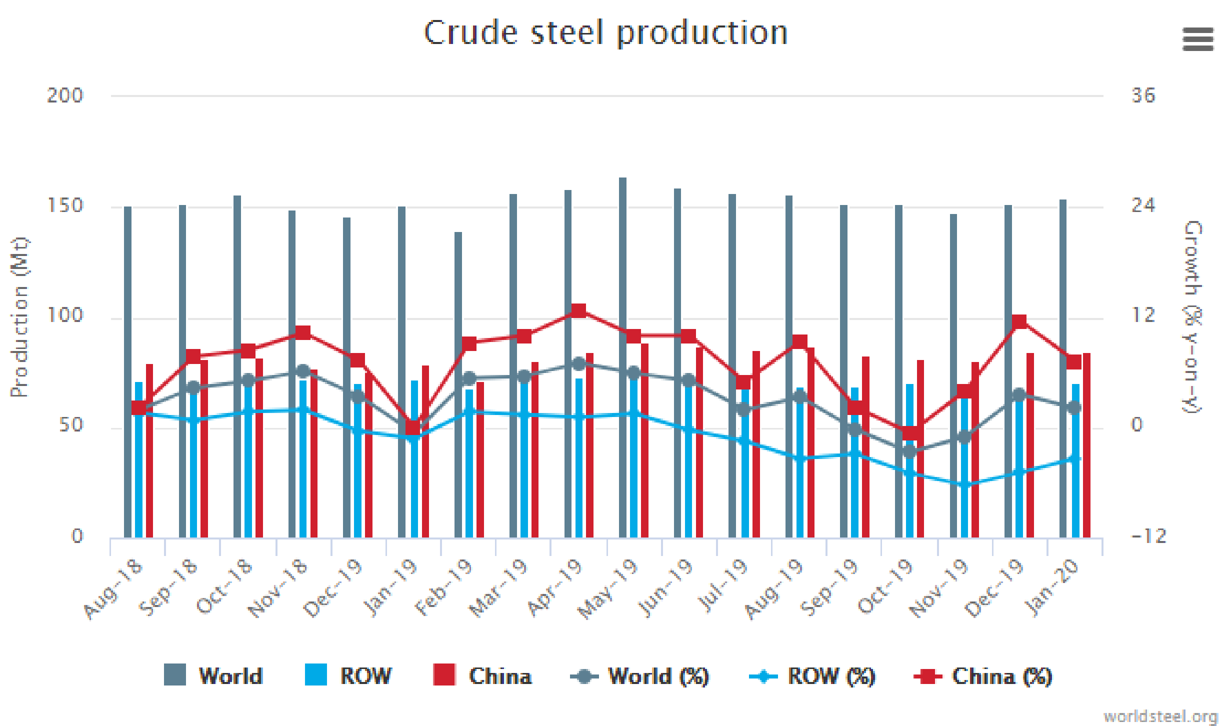
More importantly, new orders for core capital goods (or nondefense capital goods excluding aircraft)—a proxy for capital spending in the U.S. economy—increased 1.1% in January, with 0.9% growth seen over the past 12 months.”

Commodity News

Ferrous

According to the American Iron and Steel Institute, "In the week ending on February 29, 2020, domestic raw steel production was 1,923,000 net tons while the capability utilization rate was 82.5 percent. Production was 1,917,000 net tons in the week ending February 29, 2019 while the capability utilization then was 82.4 percent. The current week production represents a 0.3 percent increase from the same period in the previous year. Production for the week ending February 29, 2020 is up 1.2 percent from the previous week ending February 22, 2020 when production was 1,901,000 net tons and the rate of capability utilization was 81.5 percent."

Global steel production in January "…was 154.4 million tonnes (Mt) in January 2020, a 2.1% increase compared to January 2019. China's crude steel production for January 2020 was 84.3 Mt, an increase of 7.2% compared to January 2019. India produced 9.3 Mt of crude steel in January 2020, down 3.2% on January 2019. Japan produced 8.2 Mt of crude steel in January 2020, down 1.3% on January 2019. South Korea's crude steel production was 5.8 Mt in January 2020, a decrease of 8.0% on January 2019," according to the latest figures from the World Steel Association.



In other news, our friends at Argus media reported last week that:

- $40/st price hike announcements for sheet products by major producers including Nucor and U.S. Steel were announced last week;
- "The US International Trade Commission decided against placing dumping duties on fabricated steel imports from Canada, China and Mexico in a rare trade case win for importers."
- "In project news, Liberty Steel confirmed it has put its new EAF install on hold at its Georgetown, South Carolina, wire rod mill while it revaluates. The existing melt shop was idled in September 2019. Liberty has been supplying the mill with billet from its Illinois mill (ex-Keystone). Also for the record, it closed on its acquisition of bankrupt bar mill Bayou Steel on January 31."

- "North Star Bluescope also flagged the potential for the coronavirus to cause delays to its expansion at the Delta, Ohio, mill because some parts are being sourced in China."

Nonferrous

As reported by Andy Homes at Reuters, "The scale of the coronavirus hit to China's giant manufacturing sector was laid bare by the slump in the country's purchasing managers indexes (PMI) for February. The official PMI imploded from 50.0 to 35.7, while the Caixin index, which captures activity among smaller companies, tumbled from 51.1 to a record low of 40.3. The collapse in manufacturing activity last month was worse than that seen during the global financial crisis.

Base metal prices have fallen but by nowhere near as much as they did in late 2008, suggesting traders are still expecting a fast rebound in activity and metals demand once the virus is contained in China. However, there are ominous signs that a physical demand shock is playing out in China which may generate a second-wave hit to prices. Shanghai Futures Exchange (ShFE) holdings of copper, aluminium and zinc are trending sharply higher. More may be accumulating in the off-exchange shadows.

A call by China's Nonferrous Metals Industry Association (CNIA) for a government stockpiling plan is a clear distress signal from China's producers."

Recovered Paper and Fiber

At ISRI's Winter Meeting in Nashville, TN, two presentations from Fast Markets/RISI informed attendees of the PSI Chapter (Paper Stock Industries) on current paper conditions in the US and worldwide. Hannah Zhao, Senior Economist, Recovered Paper, presented information on the worldwide recovered paper markets (RCP) and the uncertainty within Asia. The prices of OCC dropped in 2018 and have stayed depressed, however, they have seen an early rebound this year because of temporary easing of Indonesia import restrictions and the coronavirus situation. She compared the SARS and coronavirus, and showed data on how China's local supply and demand are being effected.

China RCP import licenses have decreased over 40 percent to 3.2 million tonnes for the first three 2020 issuances versus a year ago. Ms. Zhao questioned whether the import restriction will ease, and when. Chinese imports have decreased from all areas, North America, Western Europe, Japan, and others. By grade, they have also decreased. China paper imports, of all grades, have seen significant reductions since 2017.

With import restrictions in place in 2018, a 7.5 million tonne gap in recycled fiber was created. China has increased imports of recycled and virgin pulp, and increased domestic collection. Paper and board output declined because of lower demand from slower economic growth, low fiber supply, and increasing restrictions. This scenario continued in 2019, but with a lower gap of 5.6 million tonnes.

In 2019, other Asian countries, for the first time, imported more RCP than China. In the other Asian countries, RCP imports nearly doubled from 2016 to 2018, to 13.2 million tonnes. Chinese restrictions, growing demand and a higher supply of low cost RCP fueled this increase. However, many of these countries are implementing import restrictions of their own, generally because of environmental concerns and low quality. Market effects in the US show significant reductions in RCP exports, a push toward higher quality, and in some instances, landfilling of RCP caused by lower demand and lower prices.

Containerboard production is on a growth path worldwide. Significant growth in production is seen in the Asian markets (except China where negative growth is seen), the United States, Italy, Germany, Russia, Turkey, Slovakia, Poland, Mexico, Brazil and Australia. Greg Rudder, Managing Editor for PPI Pulp & Paper Week, focused on box demand, corrugated growth and new board capacity. There are many current and verified near future US containerboard expansions. Between 2019 and 2022, Mr. Rudder reported that 3,522,000 tons capacity expansion plans for RCB, Kraft Paper, OCC, and other types. He showed new projects starting in all areas of the country, including the South, West, Pacific Northwest, Mid-West, and the Northeast. In addition, another nearly 3 million tons of potential expansions are under study. Nine of these expansions are 100 percent recycled content. Some of the pressures creating this demand are sustainability, e-commerce (growth expected 15-18%), colored graphics including digital printing, trade agreements, lightweight recycled demand, and the US presidential election.

Generally, growth of US box shipments and US containerboard follow each other within a percentage point. However, in 2019, while both growth rates curved downward, US containerboard went negative, declining 3.7 percent, while box shipments experienced no growth. Forecasts for US box shipments show an expected 1.1 percent growth for 2020, to 396.8 billion square feet – based on existing factors as of February 5. The average growth rate for the period from 2013 to 2019 was 1.2 percent. Expect more changes to e-commerce packaging. Amazon initiated their frustration free packaging certification in 2019. Fisher-Price also has frustration free packaging. The differences between Fisher-Price frustration free packaging and the traditional e-commerce packaging are: easy to open (less than 42 seconds *versus* up to 11 minutes traditionally; 100% recyclable and less packaging waste *versus* not fully recyclable and more packaging waste; and lab specific tested and design protective packaging *versus* standard packaging not designed specifically for e-commerce.

This Week's Quote

"Profit in business comes from repeat customers, customers that boast about your project or service, and that bring friends with them."

-- W. Edwards Deming

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