ISRI **Weekly Market** Report

November 4, 2019

In this Issue:

This Morning

Stocks continued to climb higher this morning with the Dow Industrials up another 0.4% as the Wall Street Journal reported "stocks were lifted by rallying bank and energy shares and optimism on progress on U.S.-China trade negotiations." In New York, NYMEX crude oil futures were up to around $57 per barrel, with Reuters reporting "Oil prices rose more than 1% on Monday, buoyed by an improved outlook for crude demand as better-than-expected U.S. jobs growth added to market hopes a preliminary U.S.-China trade deal would be reached this month." In London, base metal prices were mixed with LME 3-mo. copper and aluminum advancing to around $5,883/mt and $1,810/mt, respectively, while LME 3-mo. nickel dropped by $445 to $16,325/mt. In foreign exchange trading the dollar was firmer against most major rivals as the euro slipped to $1.113 and the British pound eased to $1.288.

Selected Primary Commodity Prices: November 4, 2019

	Last	CHG	% CHG	Prior	Open	High	Low
COMEX Copper Dec ($/lb.)	2.6665	0.014	0.5%	2.653	2.66	2.677	2.654
COMEX Gold Dec ($/to)	1,510.0	-1.4	-0.1%	1,511.4	1516.4	1,517.1	1,506.5
COMEX Silver Dec ($/to)	18.04	0.0	-0.1%	18.05	18.13	18.23	18.0
NYMEX Light Sweet Crude Dec ($/bbl)	56.98	0.8	1.4%	56.20	56.41	57.43	55.83
SHFE Aluminum Dec (RMB/mt)	13,910	70	0.5%	13,840	13,875	13,960	13,840
SHFE Copper Dec (RMB/mt)	47,020	10	0.0%	47,010	47,030	47,120	46,940
SHFE Nickel Dec (RMB/mt)	133,880	540	0.4%	133,340	134,110	134,440	133,260
SHFE Zinc Dec (RMB/mt)	19,015	75	0.4%	18,940	18,955	19,095	18,905

The Week Ahead

On the U.S. economic calendar this week we'll get new releases on trade, job openings, labor productivity & costs, factory orders, consumer sentiment, and consumer credit. The consensus forecasts are that labor productivity growth slowed to 1% in the third quarter, U.S. factory orders declined 0.5% in September, and the trade deficit narrowed to $52.5 billion in September. Overseas, Germany releases new numbers on industrial production and factory orders this week, while new euro zone economic forecasts are due out from the European Commission on Thursday. China releases trade data late in the week and the Financial Times reports that "On Thursday China's commerce ministry will hold a weekly news conference amid worries that a first-stage trade deal with the U.S. might not be ready in time for Mr. Trump and Mr. Xi to sign at an Asia-Pacific Economic Cooperation summit in Chile later in November." Wall Street will be looking out for any new trade talk developments along with quarterly earnings reports from Disney, Under Armour, Ralph Lauren, Qualcomm, Booking Holdings, and TripAdvisor this week. We'll have a recap of the week's key economic, trade, commodity, and scrap market highlights in next week's ISRI Market Report. Have a great week!

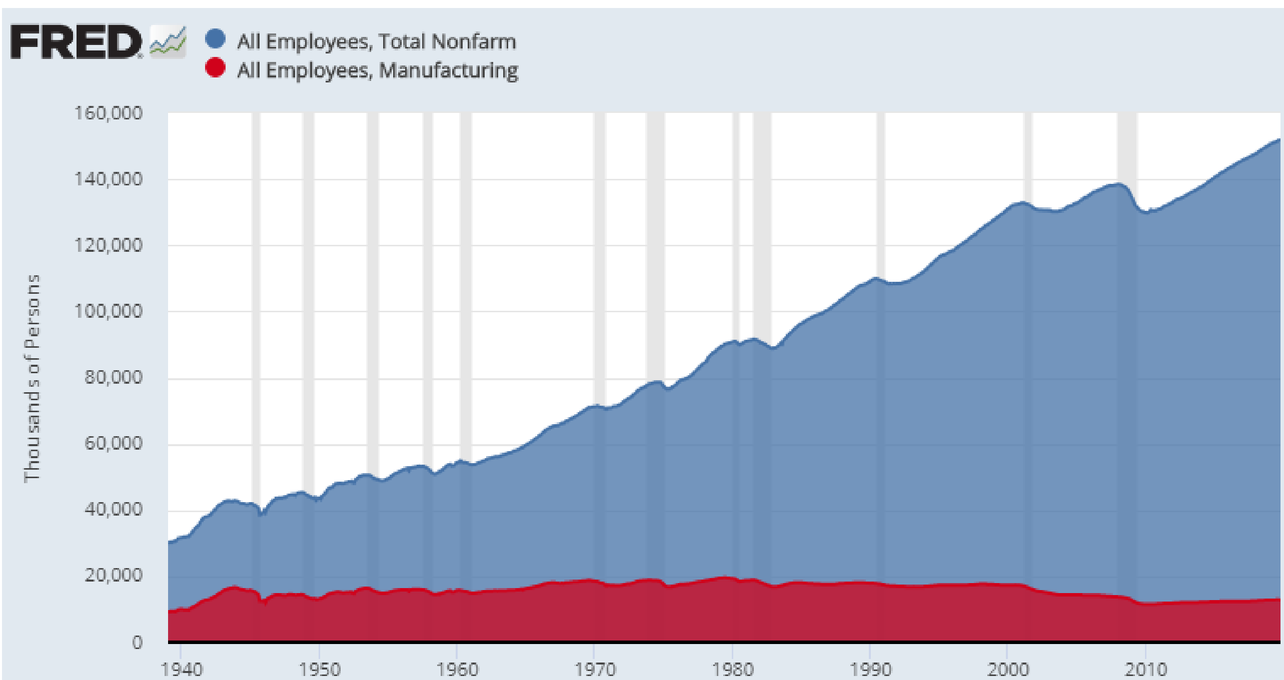
U.S. Economic Calendar: Nov 4 – Nov 8, 2019

Date	Time	Release	Period	Consensus	Prior
4-Nov	10:00 ET	Factory Orders	Sep	-0.5%	-0.1%
5-Nov	08:30 ET	Trade Balance	Sep	-$52.5B	-$54.9B
5-Nov	10:00 ET	ISM Non-Manufacturing Index	Oct	NA	52.6
5-Nov	10:00 ET	JOLTS - Job Openings	Sep	NA	7.051M
6-Nov	08:30 ET	Productivity-Prel	Q3	1.0%	2.3%
6-Nov	08:30 ET	Unit Labor Costs - Prelim.	Q3	2.1%	2.6%
7-Nov	08:30 ET	Initial Claims	2-Nov	217K	218K

7-Nov	15:00 ET	Consumer Credit	Sep	$14.0B	$17.9B
8-Nov	10:00 ET	Univ. of Michigan Consumer Sentiment – Prelim	Nov	95	95.5
8-Nov	10:00 ET	Wholesale Inventories	Sep	-0.1%	0.2%

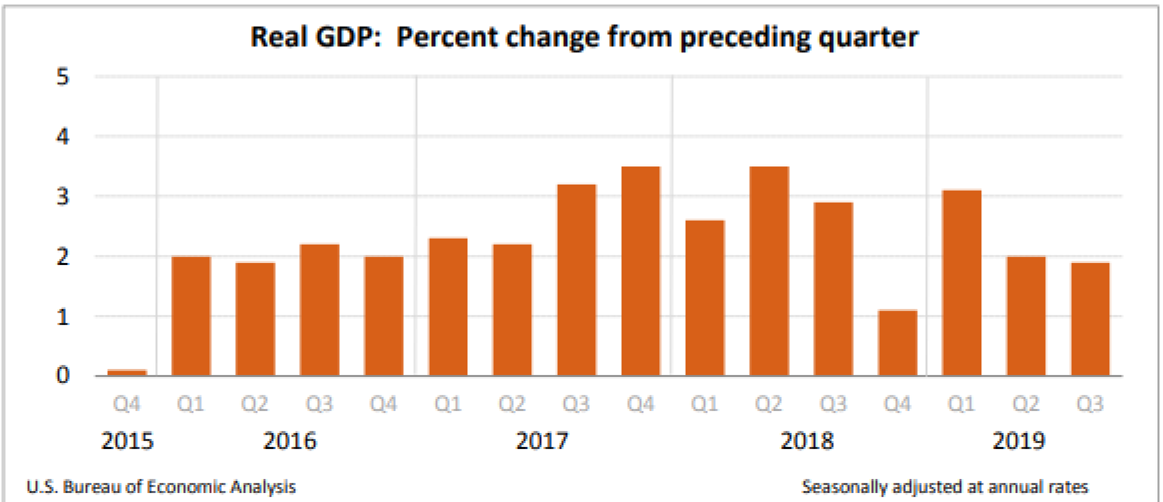
Economic Week in Review

Last week's big jobs report for October came in better than expected, with the Bureau of Labor Statistics reporting total U.S. nonfarm payroll employment rose by 128,000 in October while the unemployment rate was little changed at 3.6%. Investors cheered the news, pushing the Dow Industrial more than 300 points higher on Friday, particularly in light of the effects of the GM strike and drop in temporary Census Bureau employees, without which the October numbers would have been even more impressive. BLS notes that "Manufacturing employment decreased by 36,000 in October. Within manufacturing, employment in motor vehicles and parts declined by 42,000, reflecting strike activity." Here's the long term trend in total nonfarm and manufacturing employment in the United States going back to 1939 (shaded columns indicate recessions):



The jobs report also noted that "In October, average hourly earnings for all employees on private nonfarm payrolls rose by 6 cents to $28.18. **Over the past 12 months, average hourly earnings have increased by 3.0 percent**. In October, average hourly earnings of private-sector production and nonsupervisory employees rose by 4 cents to $23.70." In comparison, the BEA reported last week that U.S. **personal income and spending** rose 0.3% and 0.2%, respectively, in September.

Healthy consumer spending also contributed to a better than expected advanced reading on **3rd quarter GDP**, which rose at a seasonally adjusted annual rate of 1.9%, well ahead of the consensus forecast for growth of around 1.5-1.6%. BEA reports that "The increase in real GDP in the third quarter reflected positive contributions from personal consumption expenditures (PCE), federal government spending, residential fixed investment, state and local government spending, and exports that were partly offset by negative contributions from nonresidential fixed investment and private inventory investment." **Gross private domestic investment** actually contracted 1.5% last quarter as businesses remain cautious about making new investments in the current trade and global economic environment.

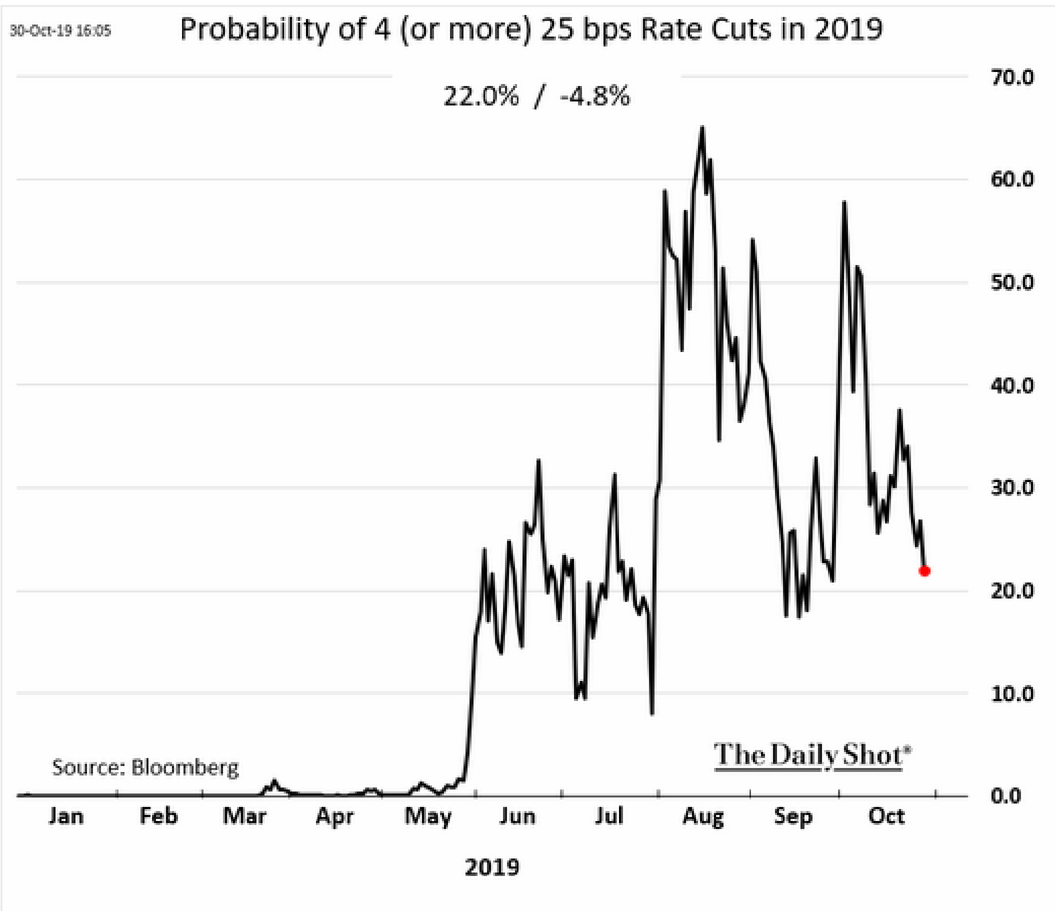


Some of the cautious sentiment in the manufacturing sector was reflected in last week's manufacturing PMI report from the Institute for Supply Management. According to the ISM, "Economic activity in the manufacturing sector contracted in October, and the overall economy grew for the 126th consecutive month… the October PMI registered 48.3 percent, an increase of 0.5 percentage point from the September reading of 47.8 percent" but still below the 50 level separating expansion from contraction. Here's what some of the survey respondents had to say:

- "Customer demand is down, and we are expecting a very soft fourth quarter, without much relief in sight for Q1. Suppliers report the continued rise in labor costs, which are ultimately reflected in the rising product costs." (Computer & Electronic Products)
- "The chemical manufacturing industry is depressed; demand across many markets globally is down, and pricing is as a result." (Chemical Products)
- "Automotive sales continue to decrease; however, trucks and SUVs are still providing decent revenue. Cautiously optimistic for the near term." (Transportation Equipment)
- "Been hearing from lots of my suppliers that their business is down and [they are] looking for more work in the metal processing [and] machining areas. We remain very busy." (Fabricated Metal Products)
- "Production demand is softening; some [of it is] due to seasonality, [but] much [is] due to customer order rate declining and dealer inventory stabilizing." (Machinery)
- "Business for thermoplastic resins is very strong, but margins continue to be under pressure due to tariffs and global economy uncertainty." (Plastics & Rubber Products)
- "Trade cost pressures continue to be a headwind in our business." (Paper Products)
- "Automotive related manufacturing is definitely slowing in the U.S. I think we are seeing the negative impacts of the tariff war with China and the unsigned [U.S.-Mexico-Canada Agreement] deal starting

to hurt consumer confidence, especially on large purchases. Corporations are slowing orders/production accordingly." (Primary Metals)

Given the slower business investment and heightened global market uncertainty, it came as no surprise that the Fed cut rates again last week for the third time this year. But the market does not expect another rate cut this year:



ISRI Weekly Market Report

Commodity News

Ferrous –

The American Iron and Steel Institute reports that “For the week ending October 26, 2019, domestic raw steel production was 1,866,000 net tons while the capability utilization rate was 80.7 percent. Production was 1,877,000 net tons in the week ending October 26, 2018 while the capability utilization then was 80.1 percent. The current week production represents a 0.6 percent decrease from the same period in the previous year. Production for the week ending October 26, 2019 is up 1.4 percent from the previous week ending October 19, 2019 when production was 1,841,000 net tons and the rate of capability utilization was 79.6 percent.”

Looking forward, AMM reports that U.S. steel expects market conditions to improve next year following challenging 4th quarter conditions: “President and chief executive officer David Burritt agreed that "next year, prices could come back," noting that sheet prices are already up about $20 per ton ($1 per hundredweight) after a round of mill price increases a week earlier. "Lead times have extended and our flat-rolled order rates have materially improved," the CEO said.”

Diminished import competition could help. According to AISI, “through the first nine months of 2019, total and finished steel imports are 22,587,000 and 16,860,000 net tons (NT), down 13.7% and 16.1%, respectively, vs. the same period in 2018.”

U.S. Steel Mill Production Imports

Steel Mill Product	Sep. 2019 Prelim.	Aug. 2019 Final	% var Sep. vs. Aug.	YTD 2019 (9 mo.)	YTD 2018 (9 mo.)	% var '19 vs. '18	2019 Ann.	2018 12 mo.	% var 2019 vs 2018
Ingots and Billets and Slabs	367,177	227,075	61.7%	5,713,901	6,055,975	-5.6%	7,618,534	8,007,909	-4.9%
Oil Country Goods	149,832	187,832	-20.2%	1,987,879	2,318,033	-14.2%	2,650,506	2,801,554	-5.4%
Sheets & Strip Galv. Hot Dipped	196,123	204,459	-4.1%	1,896,161	2,349,823	-19.3%	2,528,215	3,037,149	-16.8%
Line Pipe	108,310	145,674	-25.6%	1,590,351	1,614,593	-1.5%	2,120,469	2,195,926	-3.4%
Sheets Hot Rolled	166,812	173,764	-4.0%	1,426,948	1,967,409	-27.5%	1,902,598	2,601,208	-26.9%
Sheets Cold Rolled	137,002	139,667	-1.9%	1,319,034	1,741,621	-24.3%	1,758,712	2,242,872	-21.6%
Bars - Reinforcing	77,300	88,249	-12.4%	934,644	1,026,151	-8.9%	1,246,192	1,168,101	6.7%
Plates in Coils	80,308	80,982	-0.8%	898,978	1,194,851	-24.8%	1,198,638	1,566,183	-23.5%
Wire Rods	55,682	74,189	-24.9%	780,238	859,699	-9.2%	1,040,317	1,153,493	-9.8%
Bars - Hot Rolled	64,212	74,294	-13.6%	692,959	935,413	-25.9%	923,946	1,225,618	-24.6%
Tin Plate	55,359	75,142	-26.3%	614,833	599,982	2.5%	819,778	769,213	6.6%
Sheets & Strip All Other Metalic	60,094	62,748	-4.2%	572,234	723,792	-20.9%	762,979	933,323	-18.3%
Wire Drawn	49,918	56,779	-12.1%	544,325	596,787	-8.8%	725,766	767,330	-5.4%
Standard Pipe	52,515	62,278	-15.7%	539,729	712,442	-24.2%	719,639	884,528	-18.6%
Plates Cut Lengths	37,145	38,636	-3.9%	471,636	503,309	-6.3%	628,848	659,767	-4.7%
Structural Shapes Heavy	41,406	55,538	-25.4%	459,391	486,535	-5.6%	612,522	569,337	7.6%
Mechanical Tubing	44,345	46,025	-3.7%	437,811	509,297	-14.0%	583,748	656,438	-11.1%
All Other	152,653	228,888	-33.3%	1,705,987	1,975,588	-13.6%	2,274,648	2,491,311	-8.7%
TOTAL	**1,896,193**	**2,022,219**	-6.2%	**22,587,039**	**26,171,298**	-13.7%	**30,116,055**	**33,731,257**	-10.7%
SUBTOTAL Finished Imports	**1,527,892**	**1,794,249**	**-14.8%**	**16,860,323**	**20,091,108**	**-16.1%**	**22,480,431**	**25,694,317**	**-12.5%**

Nonferrous –

According to our friends at the International Copper Study Group, the global refined copper market is expected to swing from a 320,000 ton supply deficit this year to a 281,000 ton supply surplus in 2020. Copper mine production next year is expected to increase 2.1 percent next year to more than 20.9 million metric tons, "…mainly resulting from the ramp-up of recently commissioned mines together with a recovery in Indonesian output and improved production in Africa," according to ICSG's latest forecasts.

World Refined Copper Usage and Supply Forecast

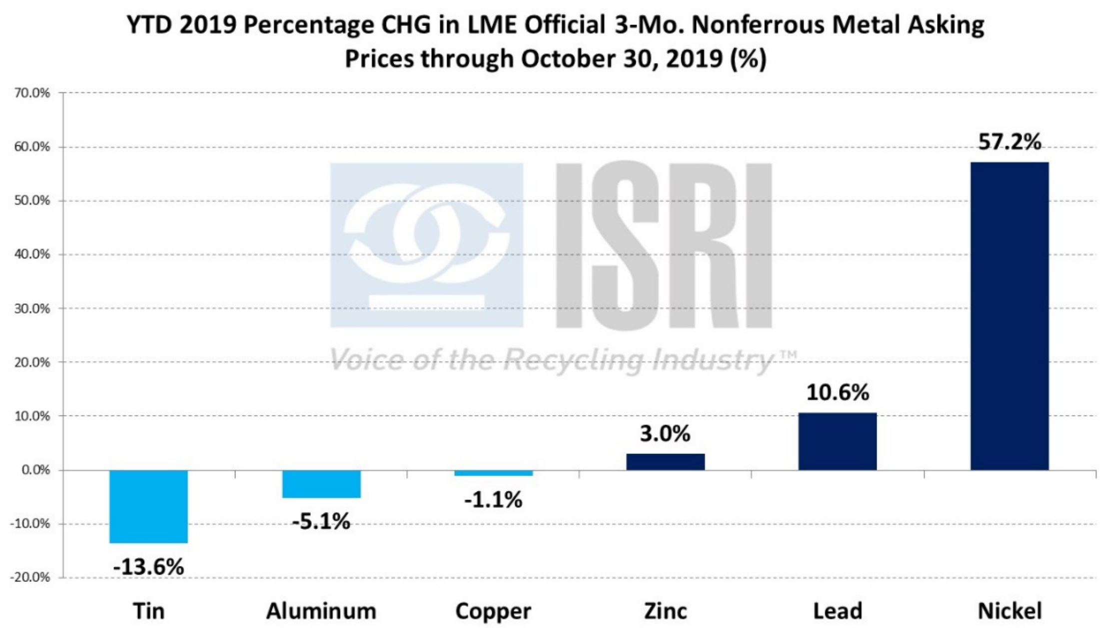
Thousand metric tonnes, copper

FORECAST TO 2020									
REGIONS	MINE PRODUCTION			REFINED PRODUCTION			REFINED USAGE		
('000 t Cu)	2018	2019	2020	2018	2019	2020	2018	2019	2020
Africa	2,223	2,187	2,322	1,436	1,376	1,429	203	189	204
N.America	2,542	2,603	2,650	1,816	1,768	1,865	2,355	2,401	2,416
Latin America	8,694	8,848	9,418	2,975	2,737	3,065	448	452	471
Asean-10 / Oceania	2,047	1,812	1,974	1,068	1,179	1,201	1,192	1,211	1,245
Asia ex Asean/CIS	2,379	2,397	2,474	12,390	12,803	13,507	16,033	16,241	16,487
Asia-CIS	875	869	900	459	453	460	106	106	106
EU	911	867	879	2,699	2,682	2,783	3,279	3,116	3,159
Europe Others	904	920	956	1,255	1,256	1,269	885	855	911
TOTAL	20,575	20,504	21,572	24,098	24,254	25,578	24,502	24,570	25,000
World adjusted 1/ 2/	20,575	20,483	20,921	24,098	24,250	25,281	24,502	24,570	25,000
% change	2.5%	-0.4%	2.1%	2.4%	0.6%	4.2%	3.3%	0.3%	1.7%
World Refined Balance (China apparant usage basis)							**-404**	**-320**	**281**

1/ Based on a formula for the difference between the projected copper availability in concentrates and the projected use in primary electrolytic refined production.
2/ Allowance for supply disruptions based on average ICSG forecast deviations for previous 5 years.

Reporting from LME week last week, Fastmarkets notes that Aurubis sees a more balanced European copper market going forward: "Aurubis, Europe's largest copper producer, sees the domestic copper cathode market balanced, while the company's multi-metal strategy will see it better adjust to the region's changing trade landscape, chairman of the executive board Roland Harings told Fastmarkets in an interview during LME Week. The German-based producer has had a tempestuous year of change, with a leadership restructuring in June ushering in Harings. The producer's Future Complex Metallurgy (FCM) project, which was planned to reduce capacity bottlenecks at its Hamburg plant, was also scrapped. Yet in a market currently characterized by poor demand and fragile premiums, Harings maintained broad stability across the European copper market, with further opportunities for new investment both upstream and downstream still emerging…

"Aurubis' acquisition of Belgian-based metal recycler Metallo-Chimique in May helped sow the seeds for what the producer has now titled its multi-metal strategy - one that it now plans to execute as its key business strategy toward metals. The move, while still awaiting approval from the European Commission in regards to anti-trust and competition laws, will allow Aurubis to now diversify its intake of material and further progress production in line with trying market conditions. For copper, Metallo's production of grade-B copper-nickel anodes is a prime example of this diversification. With grade-B anodes holding 3-4% nickel concentrate, Aurubis previously diluted the nickel to create a cleaner, copper-only product. Yet Metallo's copper anodes have a key consumption base in Asia, allowing Aurubis to further bolster its flow sheet, while the Belgian recycler also produces some of the world's highest quality tin, with lead content below 20 parts per million (ppm). Equally, continued demand for scrap material amid China's category 6 and 7 ban of imports earlier this year has further justified the Metallo acquisition, in which Aurubis paid $424 million."



Recovered Paper –

In corporate news, RISI reports that:

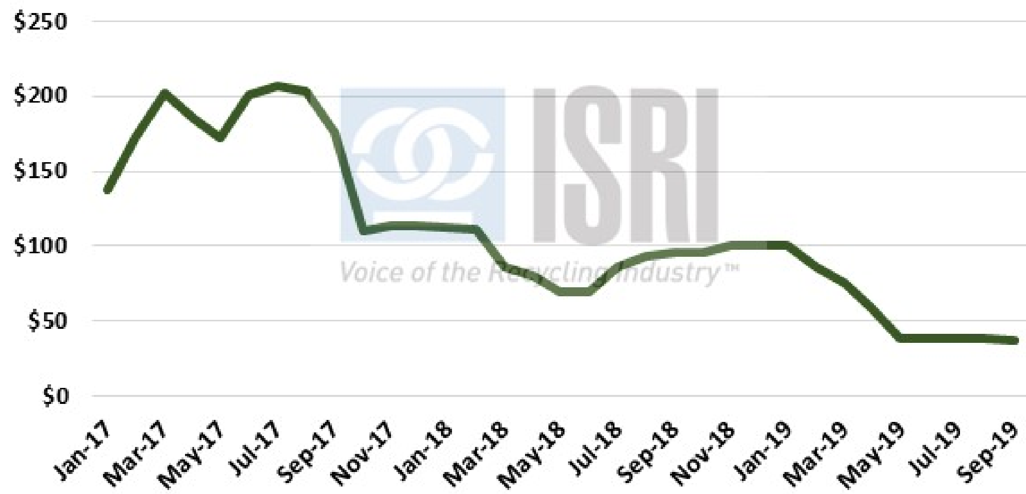
- "WestRock is closing its Newark, NJ, corrugated plant, affecting more than 100 employees, reports in New Jersey said. "We had extra capacity in some of our other facilities, and in order to stay competitive, we are moving production to some of those facilities," a company official told local media. "The decision to close this plant … is a strategic decision based on an analysis of the profitability, capacity, and future potential of the plants in this area," the company was quoted as saying."
- "Pratt Industries' recycling subsidiary is to open its 20th US material recovery facility (MRF) on Nov. 1, a 40,000-ft2 plant in Houston that will work with the converting plant Pratt already has in that Texas city as the company sees continued growth in its corrugated box business in the Southwest, a company official told Fastmarkets RISI's PPI Pulp & Paper Week on Oct. 29. Pratt Industries is the largest 100% recycled packaging company in the USA. The Houston MRF will bale and shred between 2,000-4,000 tons/month of recovered fiber, including old corrugated containers (OCC), mixed paper, and high grades from nearby commercial and industrial

accounts, which will then be sold back to Pratt's Shreveport, LA, paper mill. Pratt Recycling also has a MRF in Shreveport."

- "ND Paper's Fairmont, WV, mill is producing a mixed paper pulp, or recycled pulp, of solely mixed paper, with other North American mills and a waste management company also considering this move, several contacts confirmed in the last week. The West Virginia mill's recycled pulp lines first ran in early 2019 on a considerable amount of mixed paper and old corrugated containers (OCC). The mill had shipped this recycled pulp to China by at least late February. Today, the former Resolute Forest Products market deinked pulp mill has exported the mixed paper pulp to China, contacts said."

Recovered Paper Value: OCC #11, $/short ton

Source: Paper Stock Report



Transportation: Rail Traffic

The Association of American Railroads reported last week that "The Association of American Railroads (AAR) today reported U.S. rail traffic for the week ending October 26, 2019. For this week, total U.S. weekly rail traffic was 513,147 carloads and intermodal units, down 8.8 percent compared with the same week last year. Total carloads for the week ending October 26 were 243,321 carloads, down 9.4 percent compared with the same week in 2018, while U.S. weekly intermodal volume was 269,826 containers and trailers, down 8.3 percent compared to 2018… Commodity groups that posted decreases compared with the same week in 2018 included coal, down 14,797 carloads, to 73,184; grain, down 2,152 carloads, to 21,135; and metallic ores and metals, down 2,064 carloads, to 21,291. For the first 43 weeks of 2019, U.S. railroads reported cumulative volume of 10,843,404 carloads, down 4.2 percent from the same point last year; and 11,457,177 intermodal units, down 4.4 percent from last year. Total combined U.S. traffic for the first 43 weeks of 2019 was 22,300,581 carloads and intermodal units, a decrease of 4.3 percent compared to last year."

U.S. Rail Traffic[1]

Week 43, 2019 – Ended October 26, 2019

	This Week		Year-To-Date		
	Cars	vs 2018	Cumulative	Avg/wk[2]	vs 2018
Total Carloads	**243,321**	**-9.4%**	**10,843,404**	**252,172**	**-4.2%**
Chemicals	30,118	-4.9%	1,383,527	32,175	-0.1%
Coal	73,184	-16.8%	3,358,810	78,112	-7.6%
Farm Products excl. Grain, and Food	16,278	-2.1%	669,779	15,576	-4.1%
Forest Products	9,610	-8.4%	423,960	9,860	-4.3%
Grain	21,135	-9.2%	926,274	21,541	-6.2%
Metallic Ores and Metals	21,291	-8.8%	940,619	21,875	-6.3%
Motor Vehicles and Parts	14,866	-11.8%	691,340	16,078	-3.1%
Nonmetallic Minerals	34,432	-2.5%	1,494,219	34,749	-4.4%
Petroleum and Petroleum Products	12,993	-1.5%	544,120	12,654	15.1%
Other	9,414	-4.7%	410,756	9,552	-1.3%
Total Intermodal Units	**269,826**	**-8.3%**	**11,457,177**	**266,446**	**-4.4%**
Total Traffic	**513,147**	**-8.8%**	**22,300,581**	**518,618**	**-4.3%**

[1] Excludes U.S. operations of Canadian Pacific, CN and GMXT.

[2] Average per week figures may not sum to totals as a result of independent rounding.

This Week's Story

A priest and a rabbi were sitting next to each other on an airplane. After a while, the priest turned to the rabbi and asked, "Is it still a requirement of your faith that you not eat pork?"

The rabbi responded, "Yes, that is still one of our laws."

The priest then asked, "Have you ever eaten pork?"

To which the rabbi replied, "Yes, on one occasion I did succumb to temptation and tasted a ham sandwich."

The priest nodded in understanding and went on with his reading.

A while later, the rabbi spoke up and asked the priest, "Father, is it still a requirement of your church that you remain celibate?"

The priest replied, "Yes, that is still very much a part of our faith."

The rabbi then asked him, "Father, have you ever fallen to the temptations of the flesh?"

The priest replied, "Yes, rabbi, on one occasion I was weak and broke my Faith."

The rabbi nodded understandingly and remained silent, thinking, for about five minutes.

Finally, the rabbi said, "Better than a ham sandwich, don't you think?"

This Week's Quote

ISRI Weekly Market Report

“Fortune favors the audacious.”
-- Desiderius Erasmus