

January 7, 2020

## In this Issue:

- **This Morning**
- **This Week**
- **Economic Week in Review**
- **Commodity News**
- **Transportation Costs: Diesel Fuel**
- **This Week's Story**
- **This Week's Quote**

## This Morning

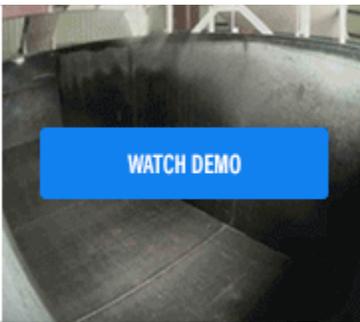
Investors sent crude oil and precious metal prices soaring on Monday on the news from the Middle East. In New York, NYMEX crude oil and gold futures traded as high as \$64.72/bbl and \$1,590/to yesterday, respectively, but have settled back in early trading this morning. Reuters reports "Oil prices on Tuesday surrendered some of the gains of recent days as investors reconsidered the likelihood of immediate supply disruptions in the Middle East after the United States killed a top Iranian military commander." As a result, the major commodity price indexes were down around 0.2% in early trading this morning. After having traded as high as \$2.85 per pound in late December, COMEX copper prices have mostly been trading in the \$2.78-\$2.80 range so far this week. In London, LME 3-mo. aluminum eased to around \$1,820 per ton earlier today while LME 3-mo. nickel edged up to around \$13,875/mt. In foreign exchange trading the dollar gained ground against most major rivals as the euro softened to around \$1.113 while the British pound dipped to \$1.311.

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## Selected Primary Commodity Prices: January 7, 2020

	Last	CHG	% CHG	Prior	Open	High	Low
COMEX Copper Mar (\$/lb.)	2.787	-0.003	-0.1%	2.790	2.789	2.804	2.785
COMEX Gold Feb (\$/to)	1,572.2	3.4	0.2%	1,568.8	1567.4	1,573.5	1,557.0
COMEX Silver Mar (\$/to)	18.27	0.1	0.5%	18.18	18.19	18.29	18.0
NYMEX Light Sweet Crude Feb (\$/bbl)	62.68	-0.6	-0.9%	63.27	62.91	63.15	62.30
SHFE Aluminum Feb (RMB/mt)	14,080	-20	-0.1%	14,100	14,110	14,130	14,035
SHFE Copper Mar (RMB/mt)	48,880	70	0.1%	48,810	48,710	49,020	48,710
SHFE Nickel Mar (RMB/mt)	108,130	50	0.0%	108,080	108,070	109,480	107,010
SHFE Zinc Mar (RMB/mt)	18,090	175	1.0%	17,915	18,080	18,185	18,010

## This Week

On the U.S. economic calendar this week the December jobs report due out on Friday is the major release of the week, with the consensus forecast for a slowdown in nonfarm payroll growth (~160,000, down from +266,000 in November) and a steady unemployment rate at 3.5 percent. Other U.S. releases on the calendar this week will cover trade, factory orders, consumer credit, and wholesale inventories. Overseas, the Middle East remains in focus amid escalating tensions between the U.S. and Iran that has prompted a shift in investor risk appetites. In Europe, Germany reports on retail sales, trade, manufacturing orders, and industrial production. Last but not least, the Financial Times reports “The UK parliament kicks off three days of debate on Prime Minister Boris Johnson’s Brexit deal... With the Tories’ 80-seat majority, the bill’s passage is a near certainty.” Have a great week and don’t miss next week’s Market Report for a recap of the week’s key economic, trade, commodity, and scrap market highlights.

## U.S. Economic Calendar, January 6 - 10, 2020

Date	Time	Release	Period	Consensus	Prior
7-Jan	08:30 ET	Trade Balance	Nov	-\$43.5B	-\$47.2B
7-Jan	10:00 ET	Factory Orders	Nov	-0.8%	0.3%
7-Jan	10:00 ET	ISM Non-Manufacturing Index	Dec	54.3	53.9
8-Jan	07:00 ET	MBA Mortgage Applications Index	4-Jan	NA	NA
8-Jan	08:15 ET	ADP Employment Change	Dec	155K	67K
8-Jan	15:00 ET	Consumer Credit	Nov	\$17.5B	\$18.9B
9-Jan	08:30 ET	Initial Claims	4-Jan	225K	222K
10-Jan	08:30 ET	Nonfarm Payrolls	Dec	160K	266K
10-Jan	08:30 ET	Nonfarm Private Payrolls	Dec	157K	254K
10-Jan	08:30 ET	Avg. Hourly Earnings	Dec	0.3%	0.2%

10-Jan	08:30 ET	Unemployment Rate	Dec	3.5%	3.5%
10-Jan	08:30 ET	Average Workweek	Dec	34.4	34.4
10-Jan	10:00 ET	Wholesale Inventories	Nov	0.2%	0.1%

## Economic Week in Review

Last week, the Institute for Supply Management reported their manufacturing Purchasing Managers Index (PMI) fell from 48.1 in November to 47.2 in December, the fifth consecutive month of sub-50 readings signaling contraction in the manufacturing sector. The indexes for orders (46.8), employment (45.1), and production (43.2) were particularly weak, contributing to the lowest overall reading since June 2009.

## ISM Purchasing Managers Index

Category	DEC	NOV	OCT	SEP	AUG
<b>Total Index</b>	47.2	48.1	48.3	47.8	49.1
Orders	46.8	47.2	49.1	47.3	47.2
Production	43.2	49.1	46.2	47.3	49.5
Employment	45.1	46.6	47.7	46.3	47.4
Deliveries	54.6	52.0	49.5	51.1	51.4
Inventories	46.5	45.5	48.9	46.9	49.9
Export Orders	47.3	47.9	50.4	41.0	43.3
Prices paid (not seas adj)	51.7	46.7	45.5	49.7	46.0

Here's what some of the ISM survey respondents had to say about business conditions in December:

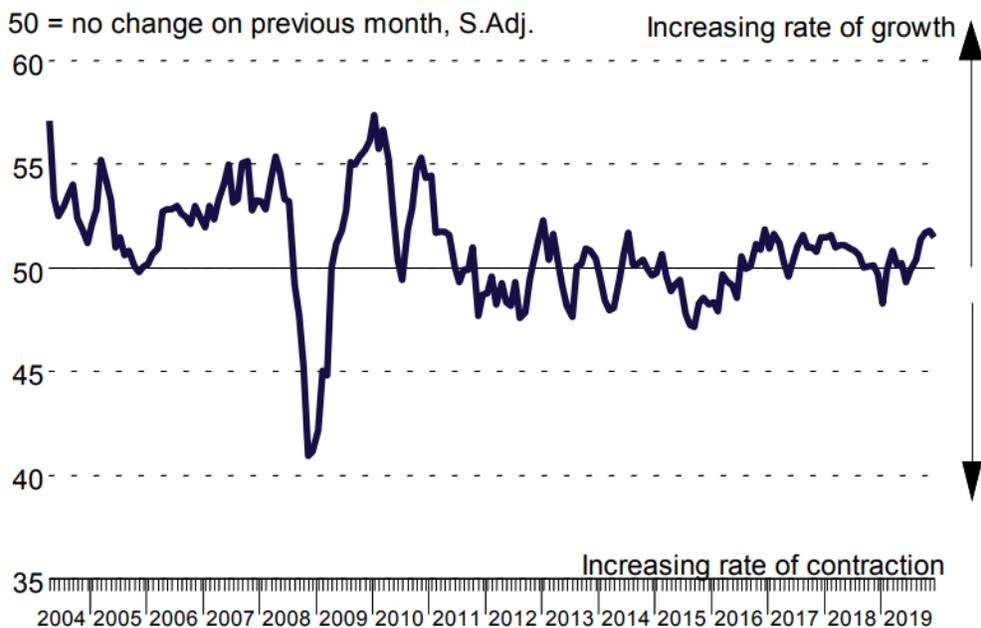
- "Backlog of orders is shrinking due to new order pace continuing to fall." (Computer & Electronic Products)
- "Due to sluggish sales, we have introduced promotions to generate increased sales." (Chemical Products)
- "Cautiously optimistic is the rule these days. Sales are decent, but we're wondering what 2020 will bring. Still hedging that it will be successful — but maybe not as much as this year." (Transportation Equipment)
- "Starting to see suppliers try to pass on costs associated with tariffs. Uncertainty on the trade front continues to keep agricultural markets on the defensive." (Food, Beverage & Tobacco Products)
- "Down month-to-month, but up over last year." (Miscellaneous Manufacturing)
- "Anticipated large export orders did not materialize. As a result, expected U.S. production has decreased." (Fabricated Metal Products)
- "Dealer inventories have rebounded, and overall customer market has softened, resulting in corrections to near-term production schedules and a tentative forecast outlook." (Machinery)
- "Export markets continue to weaken for plastic resins — Mexican producers are actually trying to sell product back into the U.S. due to weak in-country demand." (Plastics & Rubber Products)
- "Our outlook for the first quarter of 2020 is positive. We have secured contracts from a number of former customers and expect sales growth of about 5 percent over Q4 of 2019." (Textile Mills)
- "The construction market seems to have slowed for end of year. Overall, it's marginally up." (Nonmetallic Mineral Products)

(On a related note, the Census Bureau reported last week that **U.S. construction spending** improved 0.6% month-on-month in November but during the first 11 months of 2019 construction spending was down 0.8% as compared to the corresponding period in 2018.) According to Timothy R. Fiore, Chair of the ISM's Manufacturing Business Survey Committee, "Global trade remains the most significant cross-

industry issue, but there are signs that several industry sectors will improve as a result of the phase-one trade agreement between the U.S. and China.” As reported by CNBC and other news outlets, the Trump Administration announced it expects to sign a “phase one” trade deal with China on January 15th, “...in which China agreed to make ‘substantial purchases’ of U.S. manufacturing, agricultural and energy products, along with services,” although China has yet to confirm the scale of those purchases.

The Caixin manufacturing PMI reading for China softened from 51.8 in November to 51.5 in December while remaining in expansionary territory as a rise in output was offset by a slower rate of new order growth.

## Caixin China General Manufacturing PMI



Sources: IHS Markit. Caixin.

Looking forward, additional Chinese monetary stimulus is expected to give a boost to Chinese growth. According to the Wall Street Journal’s reporting last week, “Chinese officials kicked off the new year—one that is expected to present new challenges for the world’s second-largest economy—by signaling a tilt toward easier money. The People’s Bank of China said Wednesday it would reduce the portion of deposits that commercial banks are required to set aside as reserves by half a percentage point, a move that essentially releases 800 billion yuan (\$115 billion) into the financial system. The widely-expected decision, which takes effect on Monday, comes as liquidity conditions are expected to be tight ahead of the Lunar New Year celebrations, which fall in late January this year, said Liu Xuezhi, a Shanghai-based economist at Bank of Communications. By freeing up bank liquidity on the first day of 2020, China’s central bank is ‘sending a clear message that policy stance won’t be tight this year,’ Mr. Liu said.”

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## Commodity News

### Ferrous

Steel production in the United States got off to a somewhat better start in early 2020 according to the latest figures from the American Iron and Steel Institute. For the week ending January 4, 2020, AISI reports domestic raw steel production increased 2% year-on-year to 1.898 million net tons while the capacity utilization rate improved to 82% (up from 79.4% this time last year). Amid improved steel output, on-going shipments to Turkey, and limited scrap availability, Fastmarkets AMM reports early trading in Detroit up around \$30 per ton: "The January ferrous scrap trade in the United States has officially begun, with mills in Detroit entering the market and successfully securing prime scrap and secondary scrap at a \$30-per-gross-ton increase from December levels. Prices for No1 busheling and shredded scrap in Detroit will increase to \$290 per ton and \$285 per ton respectively in January. It is still unclear where prices for steel turnings are headed."

Jefferies research team was projecting higher scrap tags in January, with knock-on impacts for domestic steel pricing: "Should January US scrap prices move higher as market participants expect, this would translate to greater steel input cost support. This likely prompts steel producers to introduce further price hikes for both flat and long steel prices in January. Thus far the current steel price recovery has largely been characterized by a raw material input cost push rather than a more robust supply-demand driven market wherein metal spreads expand. Domestic HRC prices have improved ~\$125/t (short ton) from \$450-460 in October to \$570-590 at year end. Since October, US mills have announced four price hikes equating to \$150/t. Long product steel price hikes have been more mixed of late either ceding margins or only partly offsetting higher scrap costs. Looking into 1Q20 we see opportunity for domestic mills to raise steel prices further during a seasonally stronger demand period coupled with low import volumes that could equate to more meaningful metal spread expansion."



# Weekly Market Report

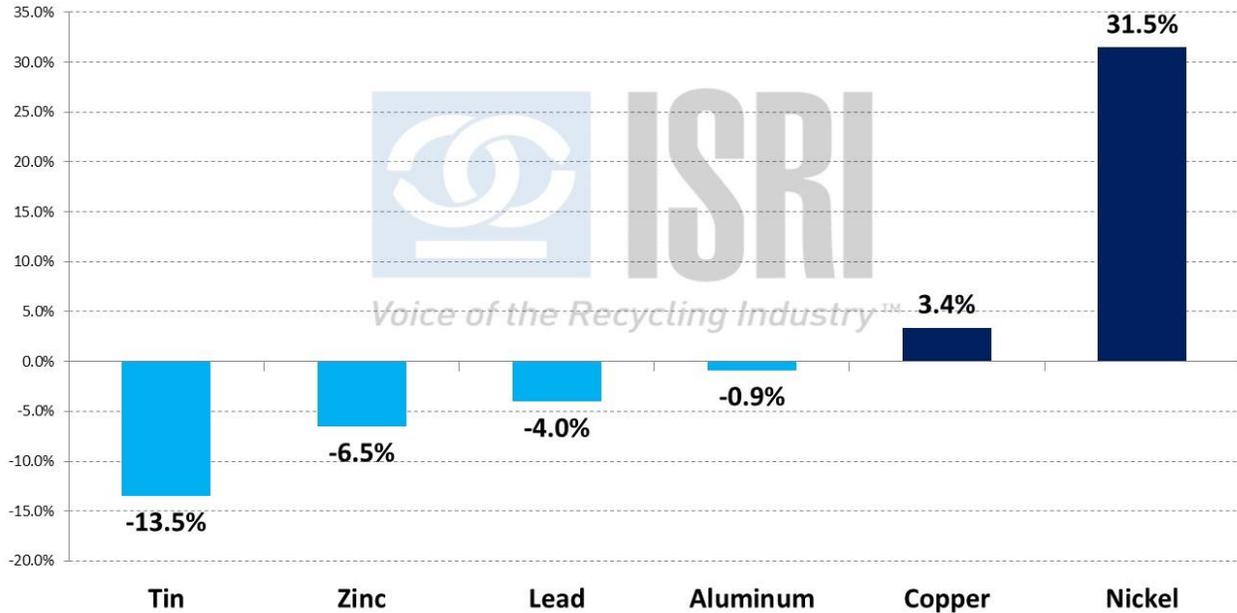
Total steel imports into the U.S. during the first 11 months were down 17.3% as compared to 2018 and finished steel imports were down 18.1% year-on-year according to preliminary figures from the Census Bureau and AISI:

Steel Mill Product	Nov. 2019 Prelim.	Oct. 2019 Final	% var Nov. vs. Oct.	YTD 2019 (11 mo.)	YTD 2018 (11 mo.)	% var '19 vs. '18	2019 Ann.	2018 12 mo.	% var vs 2018
Ingots and Billets and Slabs	229,085	697,732	-67.2%	6,642,095	7,791,167	-14.7%	7,245,922	8,007,909	-9.5%
Sheets & Strip Galv. Hot Dipped	161,299	221,711	-27.2%	2,279,196	2,841,053	-19.8%	2,486,396	3,037,149	-18.1%
Oil Country Goods	125,968	121,207	3.9%	2,235,512	2,667,306	-16.2%	2,438,741	2,801,554	-13.0%
Line Pipe	84,701	75,800	11.7%	1,750,853	1,992,064	-12.1%	1,910,022	2,195,926	-13.0%
Sheets Hot Rolled	129,754	160,902	-19.4%	1,717,604	2,417,505	-29.0%	1,873,750	2,601,208	-28.0%
Sheets Cold Rolled	114,215	122,452	-6.7%	1,555,702	2,087,870	-25.5%	1,697,129	2,242,872	-24.3%
Plates in Coils	68,768	91,107	-24.5%	1,058,853	1,464,470	-27.7%	1,155,113	1,566,183	-26.2%
Bars - Reinforcing	61,506	61,469	0.1%	1,057,619	1,130,458	-6.4%	1,153,766	1,168,101	-1.2%
Wire Rods	43,117	76,604	-43.7%	899,959	1,047,361	-14.1%	981,774	1,153,493	-14.9%
Bars - Hot Rolled	78,427	63,234	24.0%	834,620	1,150,446	-27.5%	910,495	1,225,618	-25.7%
Tin Plate	44,080	51,820	-14.9%	710,733	716,542	-0.8%	775,346	769,213	0.8%
Sheets & Strip All Other Metallic	41,758	47,451	-12.0%	661,444	880,702	-24.9%	721,575	933,323	-22.7%
Standard Pipe	61,098	53,836	13.5%	654,699	840,162	-22.1%	714,218	884,528	-19.3%
Wire Drawn	45,205	50,541	-10.6%	640,070	714,359	-10.4%	698,258	767,330	-9.0%
Plates Cut Lengths	39,888	27,322	46.0%	538,846	626,442	-14.0%	587,832	659,767	-10.9%
Mechanical Tubing	50,023	50,108	-0.2%	538,003	613,839	-12.4%	586,912	656,438	-10.6%
Structural Shapes Heavy	23,811	46,411	-48.7%	529,616	533,872	-0.8%	577,763	569,337	1.5%
All Other	138,669	177,681	-22.0%	2,026,145	2,318,090	-12.6%	2,210,340	2,491,311	-11.3%
<b>TOTAL</b>	<b>1,541,371</b>	<b>2,197,389</b>	<b>-29.9%</b>	<b>26,331,569</b>	<b>31,833,708</b>	<b>-17.3%</b>	<b>28,725,352</b>	<b>33,731,257</b>	<b>-14.8%</b>
<b>SUBTOTAL Finished Imports</b>	<b>1,311,332</b>	<b>1,498,683</b>	<b>-12.5%</b>	<b>19,674,732</b>	<b>24,015,767</b>	<b>-18.1%</b>	<b>21,463,343</b>	<b>25,694,317</b>	<b>-16.5%</b>

## Nonferrous

Over the course of 2019, tin (-13.5%), zinc (-6.5%), and lead (-4.0%) prices had the worst performances among the major base metals at the London Metal Exchange. Despite continued nickel price volatility which saw LME 3-mo. nickel trade from as low as \$10,530 per ton in January to as high as \$18,850 per ton in September, nickel prices outperformed the other base metals last year, ending the year 31.5% higher than at the end of 2018:

**2019 Percentage Change in LME Official 3-Mo. Nonferrous Metal Asking Prices through December 31, 2019 (%)**

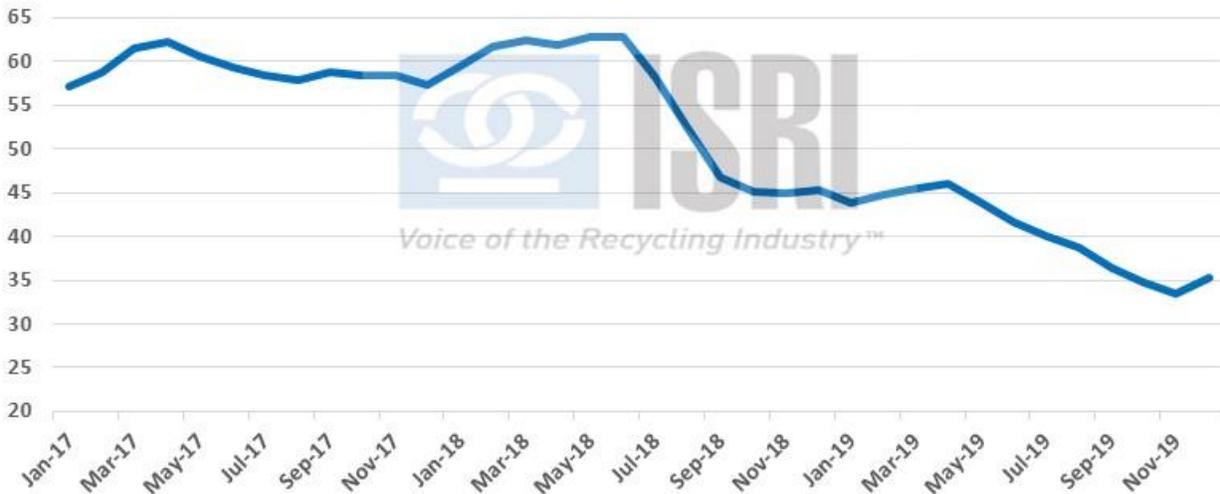


As has been the case, scrap prices for industrial metals have had a hard time keeping up with primary prices at the exchanges. For example, aluminum prices at the LME ended the year down less than one percent while old aluminum cast & sheet prices in the U.S. finished the year down more than 22%:

## Aluminum Scrap

Avg. Old Sheet & Cast cents/lb., del. MW secondary smelter

Source: Fastmarkets AMM



Diminished Chinese demand for base metal scrap imports has been one of the drivers for the disconnect between primary and secondary metal prices. As you may have seen since our last report, China announced the first batch of import quotas for 2020, which were actually better than many were expecting. Reuters reports, “The China Solid Waste and Chemicals Management Bureau, which is part of the ministry, published import allowances for 270,885 tonnes of high-grade copper scrap and 275,465 tonnes of aluminum scrap in the first batch of quotas for use next year. By the end of 2020, China aims to have a system in place to ensure there are no more imports of scrap metal classified as waste. The quotas are being closely tracked by traders amid concerns top metals consumer China, which tightened restrictions on scrap metal imports for environmental reasons from July, is leaving itself short of a key source of supplies. China now classes scrap metal as a solid waste. But changes will be introduced by the second quarter of 2020 at the latest, so high-grade copper and aluminum scrap meeting new standards will no longer be classed as waste and can be imported in unlimited amounts. But, for now, companies will need to secure quota allowances from the Ministry of Ecology and Environment to import scrap.”

### Recovered Paper

According to Fastmarkets RISI, healthier demand from China and other Asian destinations helped to underpin OCC prices on the West Coast early in the new year. According to their latest report, RISI notes “After a year of volatile recovered paper prices in the USA, 2020 started this week with steady demand for bulk grades and some high deinking grades, helping to hold domestic pricing for most recovered paper prices, and pushing up pricing on export for old corrugated containers (OCC), new double-lined kraft cuttings (DLK), and sorted office paper (SOP), according to Fastmarkets RISI’s Jan. 6 pricing survey. OCC No. 11 increased \$5/ton FOB on the West Coast, and held in every other US region as mills are running OK after several took downtime during the holidays, and have “healthy” inventories, as one mill contact in the East noted. This was a turn from yearend 2018, when mills had high inventories. Other mills marched through the holidays and suppliers secured orders for January, citing more movement than in recent months. Mills in the Pacific Northwest “are running low on material,” one trader said. Firm export demand from China, India, and Indonesia saw prices increase for No. 11 OCC – up \$15/ton FAS to \$67-70 out of the New York/New Jersey ports, \$72-75 out of Los Angeles/Long Beach in California, and \$67-

70 out of the Oakland, CA, port. No. 12 double-sorted OCC increased \$15/ton to \$85-88 out of New York, \$92-95 out of Los Angeles, and \$87-90 out of Oakland. Steady demand for DLK to China increased pricing by \$10/ton on export. Indonesia has resumed buying recovered fiber after putting a stop to pre-inspections, and was welcomed demand for US sellers as India has expressed its move to focus more on quality, therefore limiting its mixed paper imports.”

## Transportation Costs: Diesel Fuel

The latest U.S. On-Highway Diesel Fuel Prices.

U.S. On-Highway Diesel Fuel Prices* (dollars per gallon)					
	12/23/19	12/30/19	01/06/20	Change from	
				week ago	year ago
<b>U.S.</b>	3.041	3.069	3.079	↑ 0.010	↑ 0.066
<b>East Coast (PADD1)</b>	3.052	3.096	3.120	↑ 0.024	↑ 0.051
<b>New England (PADD1A)</b>	3.098	3.114	3.127	↑ 0.013	↓ -0.089
<b>Central Atlantic (PADD1B)</b>	3.245	3.271	3.294	↑ 0.023	↑ 0.052
<b>Lower Atlantic (PADD1C)</b>	2.913	2.975	3.000	↑ 0.025	↑ 0.079
<b>Midwest (PADD2)</b>	2.968	2.978	2.977	↓ -0.001	↑ 0.108
<b>Gulf Coast (PADD3)</b>	2.763	2.808	2.828	↑ 0.020	↑ 0.007
<b>Rocky Mountain (PADD4)</b>	3.127	3.113	3.100	↓ -0.013	↑ 0.074
<b>West Coast (PADD5)</b>	3.594	3.623	3.616	↓ -0.007	↑ 0.088
<b>West Coast less California</b>	3.252	3.274	3.264	↓ -0.010	↑ 0.084
<b>California</b>	3.866	3.899	3.895	↓ -0.004	↑ 0.090

\*prices include all taxes

## This Week's Story

A guy goes to the movies and notices that sitting right in front of him is a man with his dog. The theater is too crowded to change seats, so the guy is understandably upset.

"This dog is going to ruin the movie," he thinks to himself. It's not long, though, that he notices it's actually quite the opposite.

The dog starts crying at the sad parts of the movie. He covers his eyes with his paws for the scary parts, and he laughs at all the funny parts! When the movie ends, the dog jumps onto his hind legs and claps his front paws together with delight. The man is amazed and later approaches the man with the dog in the lobby.

"Hey man," he says, "that was really something. Your dog really seemed to enjoy that movie! I've never seen anything like that before!"

"Listen, I'm as surprised as you are," the guy replies, "he hated the book."

## This Week's Quote



# Weekly Market Report

“Life is like riding a bicycle. To keep your balance, you must keep moving.”

-- Albert Einstein

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