ISRI Weekly Market Report

March 9, 2020

In this Issue:

- **This Morning**
- **The Week Ahead**
- **Economic Week in Review**
- **Commodities: Ferrous in Focus**
- **Transportation Costs: Diesel Fuel**
- **This Week's Story**
- **This Week's Quote**

This Morning

Reuters reports this morning that "**Oil prices plummeted around 30% on Monday**, with U.S. oil heading for its biggest loss on record, after Saudi Arabia slashed prices and set plans for a dramatic increase in crude production in April." In New York, NYMEX crude oil futures plunged below $30 per barrel in early trading, pulling the Bloomberg Commodity Index 6% lower. Compounding commodity market concerns, the Financial Times reports this morning that "Chinese data over the weekend showed exports fell far more than expected in the first two months of the year as the coronavirus outbreak disrupted global supply chains, damped business activity and blocked transport across the world's second-largest economy." COMEX copper prices fell below $2.50 per pound in early trading this morning and base metal prices were lower across the board at the London Metal Exchange. In foreign exchange trading, the dollar was down nearly 0.9% in early trading as the euro advanced to $1.14 while the greenback was only buying around 102.6 Japanese yen. In equities trading the Nikkei was down more than 5% this morning while most of the major European bourses were off 3-4%. Good luck.

ISRI Weekly Market Report

The Week Ahead

Coronavirus, trade, inflation, and political concerns are expected to shape investor sentiment this week. On the U.S. economic calendar this week, we'll get key readings on inflation (CPI and PPI), unemployment claims, the Treasury budget, and consumer sentiment. The consensus forecasts are that the core consumer and producer price index increases were modest in February, while U.S. consumer sentiment is starting to soften. Overseas, we'll get industrial production numbers from Germany, Italy, France, Great Britain, and the Euro zone, along with inflation data from China, Japan, and some of the major European economies. Investors will also be paying close attention to the latest monetary policy statement from the European Central Bank and the UK's budget plan. The Financial Times reports, "On Wednesday UK chancellor Rishi Sinek will, after being in the job just 27 days, deliver his first Budget, the first since 2018 and also the first big financial statement of Boris Johnson's government, which is seeking to implement large scale stimulus and introduce a new set of fiscal rules." As a reminder, the comment period for U.S. tariff waiver extensions for wear parts closes this week on March 15. For more information, please contact Adina Renee Adler. Many thanks and have a great week!

U.S. Economic Calendar: Mar 9-13, 2020

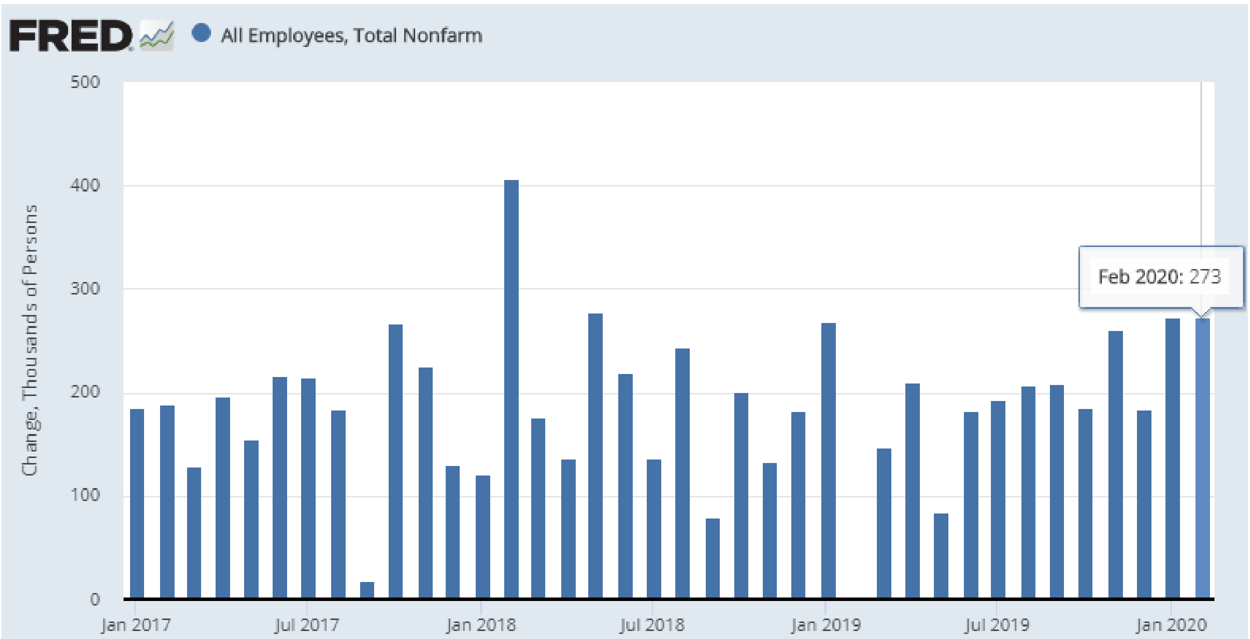
Date	Time (EST)	Release	Period	Consensus	Prior
10-Mar	6:00	NFIB Small Business Optimism Index	Feb	NA	104.3
11-Mar	8:30	CPI	Feb	0.0%	0.1%
11-Mar	8:30	Core CPI	Feb	0.2%	0.2%
11-Mar	13:00	Treasury Budget	Feb	NA	-$233.98B
12-Mar	8:30	Initial Unemployment Claims	3-Mar	218K	216K
12-Mar	8:30	PPI	Feb	-0.2%	0.5%
12-Mar	8:30	Core PPI	Feb	0.1%	0.5%
13-Mar	10:00	Univ. of Michigan Consumer Sentiment - Prelim	Mar	96.0	101.1

Economic Week in Review

The Federal Reserve's half point rate cut took center stage last week 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." Prior to the Fed's largely unexpected half-point rate cut on Tuesday, the week's major scheduled economic announcement was going to be the U.S. jobs report, which actually came in better than expected. Here's a recap of the week's key U.S. economic reports from last week.

The Employment Situation

The Bureau of Labor Statistics released their month Employment Situation last Friday. Overall, most indicators stayed about the same as the prior month. For the second consecutive month, nonfarm payrolls rose by 273,000. This is the highest jobs added Since February 2018 (406,000).



The unemployment rate edged back down to 3.5 percent in February, down 0.1 percent from the previous month. A year ago, unemployment stood at 3.8 percent. In February, the private sector added 228,000 jobs and the government sector added the remaining 45,000 jobs. Manufacturers added 15,000 jobs, a positive sign after dropping by 22,000 combined in December and January.

The top five sectors with nonfarm employment gains in February 2020 were: education and health services, leisure and hospitality, construction, professionals and business services, and financial activities. Three main sectors that lost jobs in February 2020 were retail trade, transportation and warehousing, and wholesale trade.

Not only is employment up, but there are more companies adding jobs than reducing employment. The BLS measures this through their Diffusion Index. In February, the Total Private index number, looking at 258 industries, rose to 58.7, meaning more companies were adding jobs than cutting them (an index number of 50 would show an equal amount of companies were adding and reducing employment). The Diffusion index for 76 manufacturing industries in February was 54.6, up from 47.4 the previous month. Average employee earnings rose in February to $28.52 per hour, up 3 percent from a year ago. The average weekly hours worked edged back to 34.4 hours per week, the same number from a year ago.

Selected Employment Metrics

	Feb-20	Jan-20	Feb-19
Total nonfarm jobs added	273,000	273,000	1,000
Manufacturing jobs added	15,000	-20,000	5,000
Unemployment rate	3.5%	3.6%	3.8%
Average Hourly Earnings	$28.52	$28.43	$27.69

Average weekly hours	34.4	34.3	34.4
Diffusion Indexes			
Total Private	58.7	57.0	58.3
Manufacturing	54.6	47.4	57.2
Source: Bureau of Labor Statistics			

Manufacturing PMI

The Institute for Supply Management reported last week that the manufacturing sector, for the 130th consecutive month, continues to grow. The PMI index for February 2020 was 50.1, down from 50.9 the month before. Index numbers above 50 show a growing sector. Their survey shows some slowing of new orders, as this index decreased to 49.8 in February from 52.0 the previous month. With this slowing, manufactures were able to address their backlogged orders. The backlog orders indexed rose to 50.3 in February from 45.7 the previous month. New export orders index shows a slowing of growth at 51.2 in February, down slightly from 53.3 the previous month. Here's what some of the ISM survey respondents had to say:

- "There are always supply chain challenges with Lunar New Year shutdowns, and this year is no different. Coronavirus is wreaking havoc on the electronics industry. Companies are delayed in starting up production, which is resulting in longer lead times, constraints and increased pricing. It's a mad dash to dual source stateside in case China isn't back online soon." (Computer & Electronic Products)
- "Layoffs are here." (Transportation Equipment)
- "Energy markets seem to be responding to a potential drop in demand that may be related to responses [to] the coronavirus." (Petroleum & Coal Products)
- "Coronavirus continues to be front and center as a major supply chain risk to our company. Access to information in China — from our supply base and customers — is slow to come by." (Fabricated Metal Products)
- "Sales continue to be strong, with the supply base able to support as required. The major concern is the China virus and what that crisis could affect in getting parts. The company is putting plans in place to source out locations, especially in the U.S., for parts." (Machinery)
- "Business continues to be strong. We had a little January slowdown, but February has been fantastic." (Plastics & Rubber Products)
- "We have seen an increase of sales for our products." (Furniture & Related Products)
- "Current favorable forecast to budget for first-quarter sales." (Primary Metals)

Construction Spending

Total U.S. construction spending in January 2020 increased 1.8 percent from December to $1.369 billion at a seasonally adjusted annual rate. Year over year, total construction spending was up 6.8 percent.

Total private construction accounted for three quarters of total construction spending, or $1.023 billion SAAR, up 1.5 percent from the month before. Year over year, private construction was up 4.9 percent. Total public construction, accounting for one quarter of total spending, increased 2.6 percent in January 2020, to $346 million. Year over year, public construction was up 12.6 percent.

Trade Data

According to trade data released last week from the Census Bureau, the U.S. trade deficit decreased 6.7 percent in January 2020 to $45.3 billion. A year ago the deficit was $58.3 billion. Exports were $208.6 billion in January 2020, down $1.0 billion from December 2019. Imports also declined in January 2020 to $253.9 billion, down $4.2 billion from December 2019.

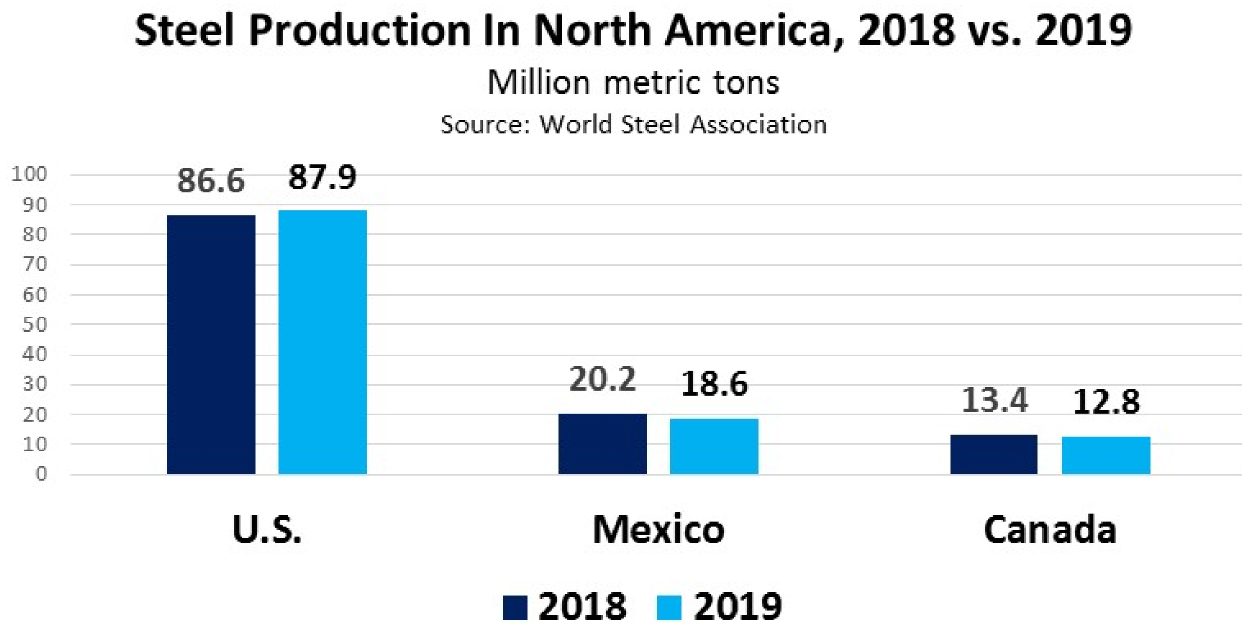
U.S. INTERNATIONAL TRADE IN GOODS AND SERVICES DEFICIT January 2020		
Deficit:	**$45.3 Billion**	**-6.7%°**
Exports:	$208.6 Billion	-0.4%°
Imports:	$253.9 Billion	-1.6%°

(°) Statistical significance is not applicable or not measurable.
Data adjusted for seasonality but not price changes
Source: U.S. Census Bureau, U.S. Bureau of Economic Analysis; U.S. International Trade in Goods and Services, March 6, 2020.

Commodities: Focus on Ferrous

Heading into 2020, ferrous scrap recyclers in North America had ample reason to be optimistic. Following a very difficult 2019 that saw benchmark prices for No. 1 Heavy Melt fall from more than US$300 per gross ton in January 2019 to nearly $180 per ton at the start of the 4th quarter, market sentiment improved significantly in the first quarter of 2020. The trade outlook improved considerably with the coming passage of the United States-Mexico-Canada Agreement (USMCA) and phase one of the U.S.-China trade deal early in the year, along with China's expected reclassification of certain scrap metal grades from waste to raw materials. U.S. monetary policy was more accommodative late in 2019 and became even more so in early 2020 with the half point rate cut announced in mid-February 2020 (followed by a commensurate Canadian rate cut), which could help revive North American business investment levels.

Additionally, the economic fundamentals in North America remain mostly solid with continued healthy U.S. nonfarm job gains in February (+273,000), low unemployment rates, and signs of improved factory orders and construction spending. The World Steel Association reports crude steel production the United States increased 2.5 percent year-on-year in January 2020 to more than 7.7 million metric tons, helping to offset the struggling steel production trends in Canada and Mexico.



Weekly Market Report

Trade Flows in Focus

U.S. ferrous scrap exports, excluding stainless steel and alloy steel, grew by a modest 1.2% in 2019 to nearly 15.9 million metric tons as improved shipments to Turkey, Malaysia, Saudi Arabia, Vietnam, Bangladesh, and others more than offset weaker business with Egypt, China, and Mexico. Turkey not only retained its place as the largest export destination for U.S. ferrous scrap, but also posted the largest net volume gain (+524,000 mt to more than 3.9 million tons) last year. Improved Turkish buys early in 2020 helped to underpin domestic ferrous scrap prices, although obsolete scrap tags were only seen as holding steady late in the first quarter.

On the import side of the equation, the American Iron and Steel Institute reports the "U.S. imported a total of 3,135,000 net tons of steel in January 2020, including 1,633,000 net tons of finished steel (down 9.9% and 33.4%, respectively, vs. January 2019)." According to AISI, the largest volume of U.S. finished steel imports came from South Korea, Brazil, Japan, and Turkey. Meanwhile, Argus Media reports that "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."

Steel Mill Product	Jan. 2020 Prelim.	Dec. 2019 Final	% var Jan. vs. Dec.	YTD 2020 (1 mo.)	YTD 2019 (1 mo.)	% var '20 vs. '19
Ingots and Billets and Slabs	1,500,092	226,942	561.0%	1,500,092	1,027,278	46.0%
Sheets & Strip Galv Hot Dipped	247,029	158,013	56.3%	247,029	271,718	-9.1%
Sheets Hot Rolled	173,623	164,991	5.2%	173,623	205,860	-15.7%
Sheets Cold Rolled	142,146	142,136	0.0%	142,146	174,650	-18.6%
Oil Country Goods	126,307	116,210	8.7%	126,307	333,495	-62.1%
Bars - Reinforcing	106,623	45,613	133.8%	106,623	128,278	-16.9%
Plates in Coils	85,476	96,801	-11.7%	85,476	124,855	-31.5%
Wire Rods	73,024	43,902	66.3%	73,024	134,779	-45.8%
Line Pipe	71,848	69,540	3.3%	71,848	327,542	-78.1%
Sheets & Strip All Other Metalic	70,564	31,256	125.8%	70,564	79,924	-11.7%
Bars - Hot Rolled	65,418	66,794	-2.1%	65,418	90,929	-28.1%
Mechanical Tubing	64,400	45,027	43.0%	64,400	61,798	4.2%
Wire Drawn	60,562	45,544	33.0%	60,562	67,275	-10.0%
Standard Pipe	59,925	53,065	12.9%	59,925	70,294	-14.8%
Tin Plate	41,962	45,222	-7.2%	41,962	64,541	-35.0%
Structural Shapes Heavy	40,764	20,557	98.3%	40,764	60,426	-32.5%
Structural Pipe & Tubing	33,007	33,811	-2.4%	33,007	41,537	-20.5%
All Other	172,271	180,134	-4.4%	172,271	214,953	-19.9%
TOTAL	**3,135,043**	**1,585,558**	**97.7%**	**3,135,043**	**3,480,132**	**-9.9%**
SUBTOTAL Finished Imports	**1,633,092**	**1,356,594**	**20.4%**	**1,633,092**	**2,451,290**	**-33.4%**

Coronavirus and Other Concerns Cloud the Outlook

Heading into 2020, a number of North American steel manufacturers had announced major capacity expansion plans, with accompanying gains expected in ferrous scrap consumption. But concerns about end-market demand and recent coronavirus worries may be having a dampening effect on investment plans, despite the recent Fed rate cuts. For example, Fastmarkets AMM reports "Executives at BlueScope warned that the escalating spread of the novel coronavirus (2019-nCoV) could delay the $700-million expansion of its electric-arc furnace (EAF) operations in Ohio, due to supply chain disruptions. The potential interruption would not be 'significant,' Mark Vassella, chief executive officer of the Australian steel producer, said during the company's half-year earnings call on Monday February 24." In addition, Argus reports "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."

Ferrous Market Forecasts

Looking forward, the World Steel Association projects Chinese steel demand will only grow 1.0 percent in 2020 while steel demand in the rest of the world will increase 2.5 percent, driven by 4.1 percent growth in emerging and developing economies excluding China. As a result, global steel demand is forecast to grow 1.7 percent to 1,805.7 million metric tons in 2020, down from the 3.9 percent growth rate in 2019. But as with other commodities, any improvement in global trade relations could have outsized implications for the global steel and ferrous scrap markets. According to the U.S. Trade Representative's press release earlier this year, China has agreed to import at least $120 billion of U.S. manufactured goods in 2020, including iron and steel products. Improved trade deals with major trading partners including the U.S., China, Canada, and Mexico will play an important role for the North American iron and steel industries, along with ferrous scrap availability, pricing, and steel capacity expansion plans.

Transportation Costs: Diesel Fuel

For the week ending March 2, 2020, average on-highway diesel fuel prices in the United States declined 3.1 cent per gallon (and were down 22.5 cents a gallon from a year ago) to $2.851/gallon. Diesel fuel prices in California remained the highest in the nation at $3.728/gallon and were lowest in the Gulf Coast at $2.627 per gallon. Diesel fuel prices in the Midwest have had the sharpest drop since last year, declining nearly 29 cents per gallon.

U.S. On-Highway Diesel Fuel Prices*(dollars per gallon)					
				Change from	
	02/17/20	02/24/20	03/02/20	week ago	year ago
U.S.	2.890	2.882	2.851	-0.031	-0.225
East Coast	2.940	2.931	2.898	-0.033	-0.221
New England	3.070	3.061	3.023	-0.038	-0.154
Central Atlantic	3.123	3.117	3.081	-0.036	-0.220
Lower Atlantic	2.793	2.779	2.748	-0.031	-0.237
Midwest	2.757	2.756	2.725	-0.031	-0.289
Gulf Coast	2.658	2.654	2.627	-0.027	-0.243
Rocky Mountain	2.858	2.849	2.826	-0.023	-0.113
West Coast	3.468	3.459	3.424	-0.035	-0.079
West Coast less California	3.081	3.072	3.054	-0.018	-0.101
California	3.774	3.778	3.728	-0.050	-0.051

**prices include all taxes*

This Week's Story

A man walks into a bar in America and orders three beers.

The bartender brings him the three beers, and the man proceeds to alternately sip one, then the other, then the third, until they're gone.

He then orders three more and the bartender says, "Sir, I know you like them cold, so you can start with one, and I'll bring you a fresh one as soon as you're low."

The man says, "You don't understand. I have two brothers, one in Australia and one in the Ireland. We made a vow to each other that every Saturday night, we'd still drink together. So right now, my brothers have three beers, too, and we're drinking together."

The bartender thinks it's a wonderful tradition, and every week he sets up the guy's three beers. Then one week, the man comes in and orders only two. He drinks them and then orders two more.

The bartender says sadly, "Knowing your tradition, I'd just like to just say that I'm sorry you've lost a brother."

The man replies, "Oh, my brothers are fine. I just quit drinking."

This Week's Quote

"Do not wait to strike till the iron is hot; but make it hot by striking."

-- William Butler Yeats