

October 9, 2019

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## This Morning

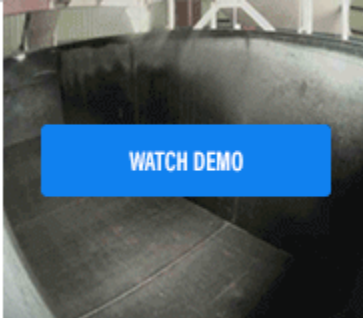
Copper prices in China have remained under pressure following the holiday break. In Shanghai earlier today, most actively traded SHFE copper futures settled 0.5% lower following losses on Tuesday. But copper prices were faring better in London early today, with LME 3-mo. copper back up over \$5,700 per mt while LME 3-mo. nickel reportedly traded as high as \$17,640/mt this morning. In New York, crude oil futures were back up around \$53 per barrel and gold futures traded as high as \$1,516.9 per troy ounce this morning, helping to pull the Bloomberg Commodity Index 0.2% higher in early trading. Reuters reports that "Attacks on Saudi oil facilities have had no impact on Saudi Aramco's position ahead of a planned partial stock market listing, its Chief Executive Amin Nasser told an Oil & Money conference on Wednesday." On Wall Street, stock futures were pointing higher this morning following gains at most of the major European bourses. In foreign exchange trading the euro advanced to \$1.0984 while the greenback was buying 107.33 Japanese yen.

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## Selected Primary Commodity Prices: October 9, 2019

	Last	CHG	% CHG	Prior	Open	High	Low
COMEX Copper Dec (\$/lb.)	2.5705	0.002	0.1%	2.569	2.57	2.580	2.561
COMEX Gold Dec (\$/to)	1,508.4	4.5	0.3%	1,503.9	1510.9	1,516.9	1,507.6
COMEX Silver Dec (\$/to)	17.82	0.1	0.6%	17.70	17.78	18.00	17.7
NYMEX Light Sweet Crude Nov (\$/bbl)	53.09	0.5	0.9%	52.63	52.57	53.14	52.31
SHFE Aluminum Nov (RMB/mt)	13,970	-10	-0.1%	13,980	13,970	14,040	13,920
SHFE Copper Nov (RMB/mt)	46,650	-230	-0.5%	46,880	46,650	46,750	46,520
SHFE Nickel Nov (RMB/mt)	136,890	170	0.1%	136,720	137,060	137,330	136,230
SHFE Zinc Nov (RMB/mt)	18,690	-15	-0.1%	18,705	18,625	18,765	18,620

## The Week Ahead

Investors will be paying close attention to the release of the minutes from the last Federal Open Market Committee meeting later today along with the minutes of the European Central Bank meeting due to be released tomorrow. On the U.S. economic calendar, new releases are still due out on consumer price inflation, initial unemployment claims, and consumer sentiment this week. The consensus forecast is that consumer prices were up just 0.1% in September, although the producer price index for final demand that was released earlier in the week came in well below expectations (-0.3%). The U.S.-China trade talks are scheduled to re-start on Thursday, with the Financial Times reporting “Liu He, China’s vice-premier, is due in Washington this week for discussions with Steven Mnuchin, the US Treasury secretary, and Robert Lighthizer, the US trade representative, in an attempt to reach a truce after tariff escalations over recent months. **If no agreement is reached, levies on \$250bn of Chinese imports will rise from 25 per cent to 30 per cent on October 15, dealing a new jab to both economies.**” The trade wars, global manufacturing slowdown, and Brexit concerns continue to weigh on the economic outlook. Earlier this week, the Wall Street Journal reported “the new leaders of the International Monetary Fund and World Bank warned in twin speeches of a deteriorating global economic outlook, just a week before they will lead the annual meetings of their institutions for the first time. ‘The global economy is now in a synchronized slowdown,’ said Kristalina Georgieva of Bulgaria, the former No. 2 official at the World Bank, who took the helm of the IMF a week ago.” We’ll have a look at the key economic, commodity, and scrap market developments and outlook in next week’s ISRI Market Report. Best wishes for a blessed holiday for all those observing Yom Kippur!

## U.S. Economic Calendar: October 7 – 11, 2019

Date	Time	Release	Period	Consensus	Prior
7-Oct	15:00 ET	Consumer Credit	Aug	\$13.3B	\$23.0B
8-Oct	06:00 ET	NFIB Small Business Optimism Index	Sep	NA	103.1

8-Oct	08:30 ET	PPI	Sep	0.1%	0.1%
8-Oct	08:30 ET	Core PPI	Sep	0.2%	0.3%
9-Oct	10:00 ET	Wholesale Inventories	Aug	0.4%	0.2%
9-Oct	10:00 ET	JOLTS - Job Openings	Aug	NA	7.217M
9-Oct	14:00 ET	FOMC Minutes	Sep. 17-18	NA	NA
10-Oct	08:30 ET	CPI	Sep	0.1%	0.1%
10-Oct	08:30 ET	Core CPI	Sep	0.2%	0.3%
10-Oct	08:30 ET	Initial Claims	5-Oct	218K	219K
10-Oct	08:30 ET	Continuing Claims	28-Sep	NA	1651K
11-Oct	08:30 ET	Export Prices	Sep	NA	-0.6%
11-Oct	08:30 ET	Import Prices	Sep	NA	-0.5%
11-Oct	10:00 ET	Univ. of Michigan Consumer Sentiment (p)	Oct	89.9	93.2

## Economic Week in Review

Signs of deteriorating U.S. manufacturing conditions are not helping scrap market sentiment. Last week, the Institute for Supply Management reported their U.S. manufacturing PMI dropped from 49.1 in August to 47.8 in September as the total index fell deeper into contraction territory and was the lowest reading since 2009. Of note, while the ISM reports that prices for natural gas and precious metals were up in September, the following commodities experienced price declines: Aluminum; Base Oil; Corrugated Boxes; High-Density Polyethylene; Nylon; Pulp; Scrap; Steel; Steel – Hot Rolled; and Steel Products.

## U.S. Manufacturing Purchasing Managers Index

Category	SEP	AUG	JUL	JUN	MAY
Total Index	47.8	49.1	51.2	51.7	52.1
Orders	47.3	47.2	50.8	50	52.7
Production	47.3	49.5	50.8	54.1	51.3
Employment	46.3	47.4	51.7	54.5	53.7
Deliveries	51.1	51.4	53.3	50.7	52.0
Inventories	46.9	49.9	49.5	49.1	50.9
Export Orders	41.0	43.3	48.1	50.5	51.0
Prices paid (not seas adj)	49.7	46	45.1	47.9	53.2

Source: Institute for Supply Management

Here's what some of the ISM's survey respondents had to say:

- "Second month in a row in which shipments have outpaced new orders." (Computer & Electronic Products)
- "Continued softening in the global automotive market. Trade-war impacts also have localized effects, particularly in select export markets. Seeing warehouses filling again after what appeared to be a short reduction of demand." (Chemical Products)
- "Business outlook remains cautious. Orders seem to be decreasing, but luckily not as sharp of a decrease as we were expecting." (Transportation Equipment)

- “General market is slowing even more than a normal fourth-quarter slowdown.” (Fabricated Metal Products)
- “Demand softening on some product lines, backlogs have reduced, and dealer inventories are growing.” (Machinery)
- “Business has been flat for us. Year-over-year growth has slowed dramatically.” (Miscellaneous Manufacturing)
- “We have seen a reduction in sales orders and, therefore, a lower demand for products we order. We have also reduced our workforce by 10 percent.” (Plastics & Rubber Products)

Take note of that last comment on workforce reduction in the plastics and rubber products sector, as the U.S. Labor Department reported last week that manufacturers cut their payrolls by 2,000 jobs last month:



Overall, the September jobs report was largely positive as total nonfarm payrolls increased by 136,000 and the unemployment rate declined to 3.5 percent (a 50-year low), although wage growth is slowing.

Deteriorating manufacturing conditions in Germany have also been widely cited as a source of concern. Earlier this week, the latest report in German industrial production came in slightly better than expected, although the year-on-year figures are still very much in negative territory. Bloomberg reports: “A jump in manufacturing fueled a surprise improvement in German industrial production following two months of decline. While good news, the development will do little to alleviate concerns about intensifying trade tensions and waning business confidence. Output rose 0.3% from July, despite a big drop in energy, compared with economist estimates for no change. Investment and basic goods production helped, while motor vehicle manufacturing also grew. But the outlook remains uncertain, with **production down 4% on the year and shrinking factory orders signaling that no real turning point is in sight.**”



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## Commodity News

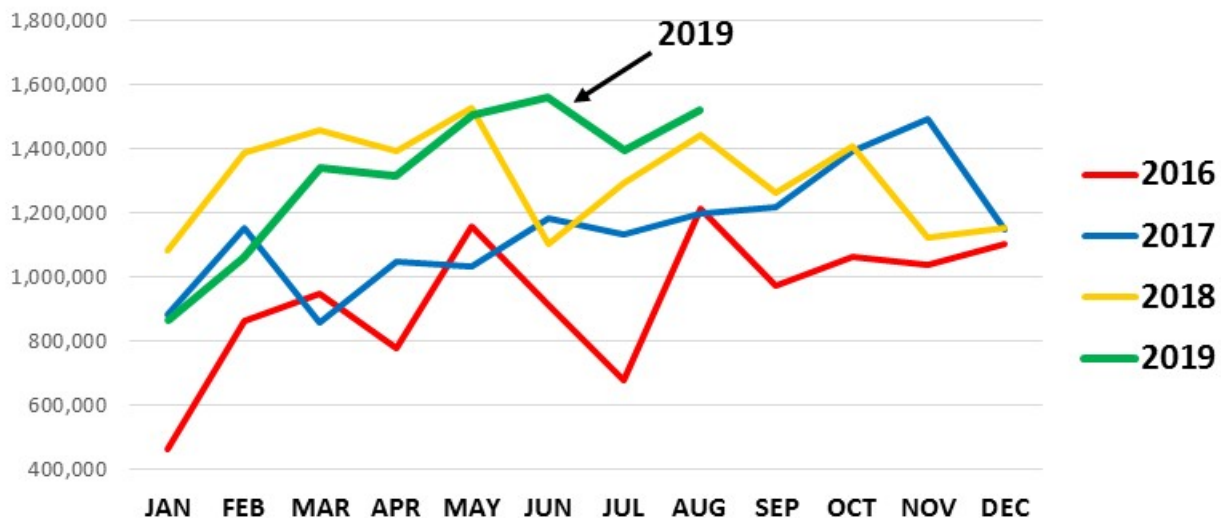
### Ferrous –

Fastmarkets AMM reports this week that most of the major U.S. ferrous scrap grades are down \$35-\$40 per ton this month as prime scrap tags fared worse than obsolete grades. The latest price drop comes amid reports of declining steel mill capacity utilization rates, rising inventories, softer sheet prices, and uncertain overseas demand for ferrous scrap. The American Iron and Steel Institute reports that for the week ending October 5<sup>th</sup>, "...domestic raw steel production was 1,804,000 net tons while the **capability utilization rate was 78.0 percent**. Production was 1,877,000 net tons in the week ending October 5, 2018 while the capability utilization then was 80.1 percent. The current week production represents a 3.9 percent decrease from the same period in the previous year. Production for the week ending October 5, 2019 is down 1.2 percent from the previous week ending September 28, 2019 when production was 1,825,000 net tons and the rate of capability utilization was 78.4 percent."

U.S. ferrous scrap exports (excluding stainless steel and alloy steel scrap) reportedly improved in August on heavier loadings for Vietnam, Saudi Arabia, South Korea, Taiwan, Turkey, Malaysia, Mexico, and other destinations. The Census Bureau trade data show August ferrous scrap exports were up 9% from July to 1.52 million metric tons in August.

## Monthly U.S. Ferrous Scrap Exports (ex-stainless steel and alloy steel scrap), 2016-2019, metric tons

Sources: U.S. Census Bureau/U.S. International Trade Commission



But after getting off to a slower start in 2019, year-to-date U.S. ferrous scrap exports are still down just over 1% as compared to the first 8 months of 2018 as YTD demand has contracted in Mexico, China, India, Egypt, Thailand, Indonesia, and other markets.

## U.S. Ferrous Scrap Exports (ex-stainless and alloy steel scrap) By Major Destination

Metric tons

Country	2017	2018	Jan-Aug 2018	Jan-Aug 2019	YTD % CHG
Turkey	3,635,585	3,391,709	2,295,533	2,426,908	5.7%
Taiwan	1,256,025	1,833,189	1,172,905	1,073,477	-8.5%
Vietnam	656,409	1,009,601	587,659	1,067,980	81.7%
Mexico	1,544,051	1,722,864	1,332,757	849,255	-36.3%
South Korea	523,367	885,485	424,193	791,961	86.7%
India	655,413	831,950	640,816	554,530	-13.5%
Bangladesh	647,026	837,963	533,119	553,099	3.7%
Malaysia	193,861	470,397	223,694	506,892	126.6%
Canada	610,051	638,922	420,725	437,762	4.0%
Egypt	400,273	805,028	563,420	352,119	-37.5%
Pakistan	629,003	373,561	254,744	306,010	20.1%
Peru	444,086	379,136	250,705	256,297	2.2%

<b>Kuwait</b>	426,332	387,143	352,143	235,791	-33.0%
<b>Saudi Arabia</b>	42,892	44,038	44,018	222,081	404.5%
<b>Thailand</b>	537,647	496,423	355,766	212,591	-40.2%
<b>Indonesia</b>	85,791	450,349	322,007	196,051	-39.1%
<b>China</b>	691,984	416,370	391,776	44,411	-88.7%
<b>Others</b>	779,591	678,079	534,104	487,103	-8.8%
<b>Total:</b>	<b>13,759,387</b>	<b>15,652,207</b>	<b>10,700,084</b>	<b>10,574,318</b>	<b>-1.2%</b>

Sources: U.S. Census Bureau/U.S. International Trade Commission

## Nonferrous –

U.S. nonferrous scrap metal exports reportedly improved in August as well, with aluminum and copper scrap exports up 9% and 8%, respectively, as compared to the July volumes. For U.S. copper scrap exporters, Malaysia continues to be the major export destination this year, with Jan-Aug 2019 shipments up nearly 165 percent year-on-year to more than 148,000 metric tons, eclipsing the 71,000 tons of copper scrap shipped directly to mainland China.

### U.S. Copper & Copper Alloy Scrap Exports by Major Destination, Jan-Aug 2019

Metric tons

Country	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	TOTAL
Malaysia	16,171	19,050	21,796	22,067	18,509	14,307	15,982	20,350	<b>148,232</b>
China	5,318	8,374	10,633	13,104	11,050	8,538	8,439	5,874	<b>71,330</b>
Canada	7,367	7,144	9,132	10,455	9,200	6,943	8,357	7,360	<b>65,959</b>
South Korea	5,845	5,540	5,596	4,773	4,531	4,098	5,492	6,331	<b>42,205</b>
India	3,582	4,464	5,628	4,613	4,602	4,859	5,987	6,409	<b>40,143</b>
Hong Kong	3,684	5,015	5,276	5,610	4,469	5,766	5,080	4,986	<b>39,886</b>
Japan	5,783	5,311	4,272	3,123	2,779	3,105	3,644	3,311	<b>31,327</b>
Germany	3,651	2,568	4,285	3,723	3,885	3,808	3,236	4,619	<b>29,775</b>
Taiwan	2,726	2,940	3,909	3,055	3,781	2,536	2,237	2,729	<b>23,912</b>
Belgium	2,953	2,509	2,273	3,357	3,433	3,138	2,636	3,153	<b>23,452</b>
Pakistan	1,013	884	1,188	1,419	3,169	1,111	1,436	2,629	<b>12,850</b>
Thailand	1,268	2,419	1,942	926	891	1,613	2,221	1,403	<b>12,683</b>
Others	6,799	7,667	6,674	6,665	6,907	6,574	5,917	6,848	<b>54,051</b>
<b>Total:</b>	<b>66,162</b>	<b>73,885</b>	<b>82,602</b>	<b>82,891</b>	<b>77,206</b>	<b>66,394</b>	<b>70,664</b>	<b>76,002</b>	<b>595,806</b>

Sources: U.S. Census Bureau/U.S. International Trade Commission

In contrast, mainland China remains the largest reported destination for U.S. aluminum scrap exports this year, with more than 280,000 tons of aluminum scrap shipped to China through August. Other major markets for U.S. aluminum scrap this year include South Korea (180,000 mt), India (175,000 mt), Malaysia (145,000 mt), Mexico (124,000 mt) and Hong Kong (75,000 mt). For the year-to-date, U.S. aluminum scrap exports of just over 1.26 million mt through August were up 13% as compared to the corresponding period last year, according to Census Bureau trade data.

### U.S. Aluminum\* Scrap Exports by Major Destination, Jan-Aug 2019

Metric tons

Country	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	TOTAL
China	36,423	37,368	38,732	44,843	33,945	31,783	31,294	26,454	<b>280,842</b>
S. Korea	20,298	23,577	24,878	24,599	21,094	22,465	19,640	23,174	<b>179,724</b>
India	17,964	17,579	26,112	21,378	24,196	21,856	21,384	24,642	<b>175,111</b>
Malaysia	9,869	14,072	15,176	18,288	20,161	21,385	19,811	25,840	<b>144,602</b>
Mexico	17,498	16,162	14,705	14,478	16,409	13,832	14,944	15,690	<b>123,718</b>
Hong Kong	3,805	6,355	6,539	12,384	11,209	13,174	9,426	12,089	<b>74,982</b>
Indonesia	8,596	8,535	10,010	9,281	8,755	6,985	8,013	9,436	<b>69,610</b>
Canada	8,130	7,271	8,287	8,339	6,773	7,984	7,303	8,359	<b>62,446</b>
Taiwan	7,899	6,647	5,988	4,297	5,422	4,650	3,615	4,946	<b>43,463</b>
Thailand	652	811	878	1,302	2,418	2,932	4,580	3,514	<b>17,087</b>
Brazil	1,480	2,040	2,668	1,419	1,782	1,547	2,343	2,047	<b>15,327</b>
Japan	1,089	1,218	1,263	999	1,220	1,853	1,274	1,113	<b>10,028</b>
Pakistan	563	1,099	2,046	1,060	1,559	1,369	1,433	505	<b>9,634</b>
Philippines	892	777	1,150	871	862	1,066	952	1,175	<b>7,745</b>
Germany	1,317	834	721	741	504	370	691	469	<b>5,646</b>
Belgium	431	940	646	747	668	741	556	316	<b>5,046</b>
Singapore	517	468	630	884	921	981	179	117	<b>4,698</b>
Others	2,989	3,065	2,800	4,294	4,016	4,066	4,616	5,521	<b>31,366</b>
<b>Total:</b>	<b>140,410</b>	<b>148,819</b>	<b>163,229</b>	<b>170,204</b>	<b>161,914</b>	<b>159,039</b>	<b>152,054</b>	<b>165,407</b>	<b>1,261,076</b>

Sources: U.S. Census Bureau/U.S. International Trade Commission

\*Includes UBCs and RSI

## Recovered Paper –

PPI Asia reported last week that “Indonesian mills are stepping up purchases of recovered paper (RCP) imports as the implementation of a new import regime gets underway there. Buyers in the country are restocking especially on brown grades after holding back purchases for the past several months as the Indonesian government put the new rules in place. Under the regime, inbound RCP cargoes are required to have pre-shipment inspections in their countries of origin, carried out by surveyors assigned by the Indonesian authorities. Meanwhile, the contamination level in RCP imports needs to be below 0.5%.”

According to Census Bureau trade data, U.S. exports of recovered paper and fiber to Indonesia were already down 2% year-to-date through August to around 677,000 metric tons. Diminished trade flows this year to China (-18%), India (-9%) and Mexico (-12%) have been partially offset by improved demand from Vietnam (+22%), Canada (+18%), Taiwan (+34%), Thailand (+47%), and Malaysia (+112%). Of note, a growing volume of business is taking place with Latin American countries this year including Colombia, Ecuador, Argentina, Guatemala, Chile, and others.

## U.S. Recovered Paper and Fiber Exports by Major Destination

Metric tons

Country	2017	2018	Jan-Aug 2018	Jan-Aug 2019	YTD % CHG
China	10,884,149	7,575,699	4,865,501	3,973,433	<b>-18.3%</b>
India	1,926,170	3,338,662	2,296,448	2,087,683	<b>-9.1%</b>
Mexico	1,566,959	1,669,351	1,127,078	989,298	<b>-12.2%</b>



Indonesia	440,318	1,162,667	691,399	677,369	-2.0%
Vietnam	399,652	765,880	554,622	674,513	21.6%
South Korea	885,142	1,118,936	656,320	666,998	1.6%
Canada	737,571	866,973	541,142	638,801	18.0%
Taiwan	280,927	692,491	449,569	601,116	33.7%
Thailand	282,551	468,766	243,785	357,295	46.6%
Malaysia	23,569	111,767	68,762	145,804	112.0%
Italy	97,097	262,791	141,889	118,650	-16.4%
Netherlands	113,219	132,419	88,093	100,029	13.5%
Saudi Arabia	61,463	87,499	60,367	74,478	23.4%
Colombia	62,348	80,222	56,309	68,905	22.4%
United Arab Em	8,958	31,250	20,453	63,628	211.1%
Germany	63,588	73,000	50,926	49,839	-2.1%
Japan	94,147	97,774	62,779	49,184	-21.7%
Ecuador	43,545	70,237	43,424	45,662	5.2%
Argentina	2,792	12,934	843	40,520	4706.6%
Guatemala	25,482	39,289	22,303	30,658	37.5%
El Salvador	43,122	44,608	31,208	30,289	-2.9%
Chile	38,461	30,812	17,939	28,809	60.6%
Others	232,633	318,525	206,037	231,050	12.1%
<b>TOTAL</b>	<b>18,313,863</b>	<b>19,052,552</b>	<b>12,297,196</b>	<b>11,744,011</b>	<b>-4.5%</b>

Sources: U.S. Census Bureau/U.S. International Trade Commission

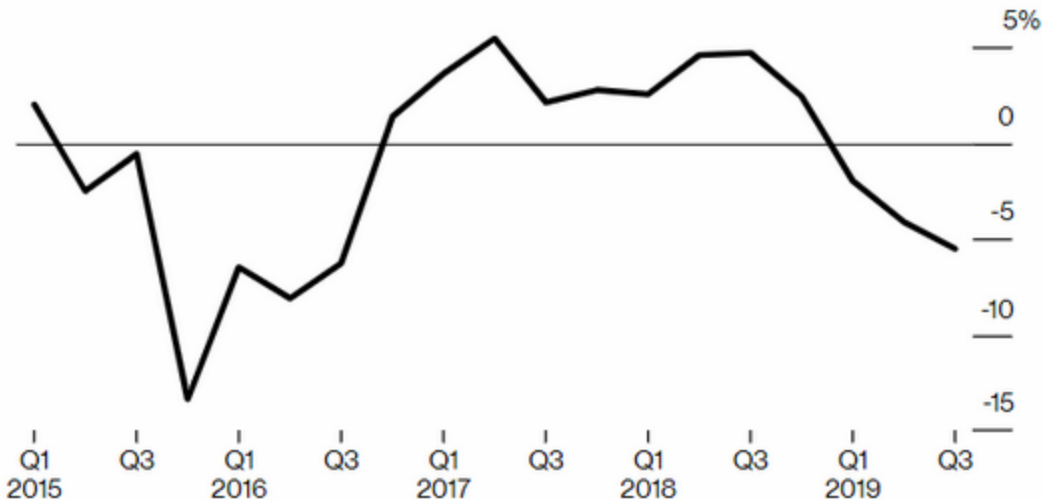
## Transportation: Railroad Recession?

Bloomberg reports that “This year’s railroad slump is getting worse as a slowdown in manufacturing threatens broader weakness in the U.S. economy. There’s no bottom in sight as the decline in carloads for large U.S. railroads widened to 5.5% in the third quarter, the biggest drop in three years, according to weekly reports from the Association of American Railroads. Shipments are down for autos, coal, grain, chemicals and consumer goods, with crude oil the only bright spot.”

## Railroad Recession

U.S. rail carloads have declined from a year earlier for last three quarters

WSJ: The Daily Shot  
08-Oct-2019  
@SoberLook



Source: Bloomberg Intelligence

The Bloomberg article notes that “The rail downturn underscores the damage from the U.S.-China trade war, which is making shippers more cautious and crimping freight -- validating earlier warnings from railroad executives. Companies that stocked up on inventory last year amid President Donald Trump’s tariff threats are now working it off. Adding to the cargo drop, a brief rise in coal exports has fizzled and bad weather has delayed crop harvests and dragged down grain carloads.”

## This Week’s Story

Two Prime ministers were sitting in a room discussing affairs of state. Suddenly a man bursts in, apoplectic with fury, shouting and stamping and banging his fist on the desk. The resident prime minister admonishes him: “Peter,” he says, “kindly remember Rule Number 6,” whereupon Peter is instantly restored to complete calm, apologizes, and withdraws.

The politicians return to their conversation, only to be interrupted yet again twenty minutes later by a hysterical woman gesticulating wildly, her hair flying. Again the intruder is greeted with the words: “Marie, please remember Rule Number 6.” Complete calm descends once more, and she too withdraws with a bow and an apology.

When the scene is repeated for a third time, the visiting prime minister addresses his colleague: “My dear friend, I’ve seen many things in my life, but never anything as remarkable as this. Would you be willing to share with me the secret of this Rule Number 6?”

“Very simple,” replies the resident prime minister. “Rule Number 6 is ‘Don’t take yourself so seriously.’”

“Ah,” says his visitor, “that is a fine rule.”

After a moment of pondering, he inquires, “And what, may I ask, are the other rules?”

“There aren’t any.”

## This Week's Quote

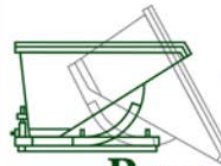
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