

December 10, 2019

In this Issue:

- **This Morning**
- **The Week Ahead**
- **Economic Week in Review**
- **Scrap Trade Flows**
- **This Week's Story**
- **This Week's Quote**

This Morning

The major commodity indexes were up around 0.4% this morning as firmer precious metal prices helped offset range-bound industrial metal prices. But nickel prices remain under pressure with SHFE nickel settling 1% lower in Shanghai this morning while LME 3-mo. nickel traded as low as \$12,900 per ton (= \$5.85 per pound) earlier today. LME data today show a net inflow of 14,244 tons of nickel into LME registered warehouses. In New York this morning, COMEX copper futures were trading around \$2.76 per pound while NYMEX light sweet crude oil futures edged up above \$59 per barrel. Reuters reports that "Refined copper cathode production by major Chinese smelters fell by more than 4% in November from the previous month, a survey of producers by research house Antaike published on Tuesday showed." Meanwhile, following OPEC's announced production cuts last week, Goldman Sachs has raised its 2020 oil price forecasts to \$63 per barrel for Brent and \$58.50 per barrel for WTI. But Bloomberg reports Saudi Arabia is doing everything in its power to make the production cuts stick and is not optimistic they'll be successful. Precious metal prices gained ground this morning with COMEX gold and silver futures trading around \$1,473/to and \$16.75/to, respectively. In foreign exchange trading the euro edged up to \$1.108 while the British pound rose to \$1.318 ahead of this week's UK elections.

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Selected Primary Commodity Prices: December 10, 2019

	Last	CHG	% CHG	Prior	Open	High	Low
COMEX Copper Mar (\$/lb.)	2.765	0.006	0.2%	2.759	2.754	2.770	2.749
COMEX Gold Feb (\$/to)	1,472.7	7.8	0.5%	1,464.9	1466.3	1,473.5	1,464.2
COMEX Silver Mar (\$/to)	16.75	0.10	0.6%	16.64	16.66	16.75	16.6
NYMEX Light Sweet Crude Jan (\$/bbl)	58.99	-0.03	-0.1%	59.02	58.92	59.41	58.52
SHFE Aluminum Feb (RMB/mt)	13,860	80	0.6%	13,780	13,850	13,895	13,830
SHFE Copper Feb (RMB/mt)	48,580	550	1.1%	48,030	48,350	48,800	48,290
SHFE Nickel Feb (RMB/mt)	105,500	-1,100	-1.0%	106,600	104,800	106,470	104,480
SHFE Zinc Feb (RMB/mt)	17,870	-25	-0.1%	17,895	17,845	17,950	17,725

The Week Ahead

On the U.S. economic calendar this week, new releases are due out on retail sales, consumer and producer price inflation, and labor productivity. The consensus forecasts are that U.S. retail sales advanced 0.5% in November while consumer prices rose by a modest 0.2 percent. On the monetary policy front, both the Federal Reserve and the European Central Bank hold their final monetary policy meetings of the year, with no change in rates expected. Key overseas developments include this week's election in the United Kingdom, with the Financial Times reporting "The UK goes to the polls on Thursday when voters will decide whether Boris Johnson's mantra to 'get Brexit done' or the Labour party's most leftwing manifesto in a generation has won them over." Most polls are pointing to a sizeable Conservative party victory, although British polling has come under significant criticism in recent years. In Germany, we'll get the results of the latest ZEW Survey of economic conditions this week, following last week's disappointing report on German industrial production:



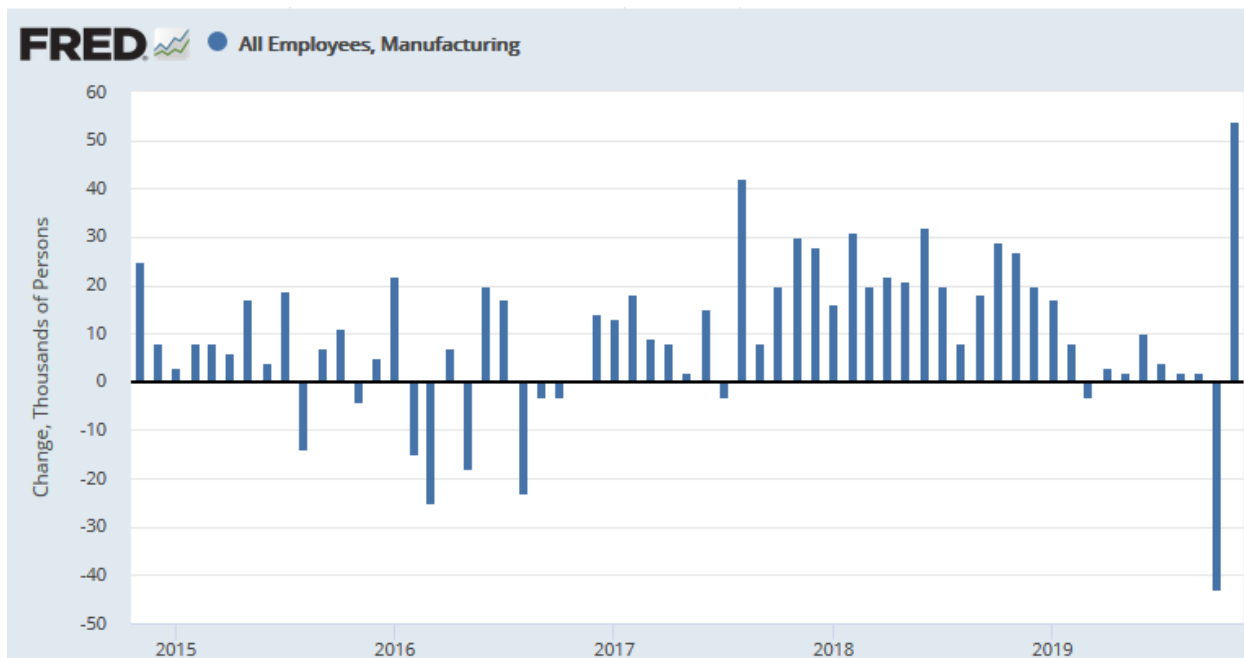
Markets will once again be paying close attention to any signs of progress on U.S.-China trade talks this week as an additional round of U.S. tariffs on Chinese imports could potentially come into place on December 15th. Don't miss next week's ISRI Market Report for a recap of the week's key economic, trade, commodity, and scrap market highlights.

U.S. Economic Calendar, December 10-13, 2019

Date	Time	Release	Period	Consensus	Prior
10-Dec	06:00 ET	NFIB Small Business Optimism Index	Nov	NA	102.4
10-Dec	08:30 ET	Productivity-Rev.	Q3	-0.1%	-0.3%
10-Dec	08:30 ET	Q3 Unit Labor Costs - Rev.	Q3	3.4%	3.6%
11-Dec	08:30 ET	CPI	Nov	0.2%	0.4%
11-Dec	08:30 ET	Core CPI	Nov	0.2%	0.2%
11-Dec	14:00 ET	FOMC Rate Decision	Dec	1.63%	1.63%
11-Dec	14:00 ET	Treasury Budget	Nov	NA	-\$204.9B
12-Dec	08:30 ET	PPI	Nov	0.2%	0.4%
12-Dec	08:30 ET	Core PPI	Nov	0.2%	0.3%
12-Dec	08:30 ET	Initial Claims	7-Dec	212K	203K
13-Dec	08:30 ET	Retail Sales	Nov	0.5%	0.3%
13-Dec	08:30 ET	Retail Sales ex-auto	Nov	0.4%	0.2%
13-Dec	08:30 ET	Export Prices	Nov	NA	-0.1%
13-Dec	08:30 ET	Import Prices	Nov	NA	-0.5%
13-Dec	10:00 ET	Business Inventories	Oct	0.2%	0.0%

Economic Week in Review

Last week's better than expected jobs reports (nonfarm payrolls +266,000 in November, unemployment rate down to 3.5%) gave a boost to equity and commodity markets, pushing the Dow Industrials back over 28,000 as COMEX copper prices jumped from \$2.666/lb. to as high as \$2.7535 on Friday. The positive jobs numbers included gains in health care (+45,000), professional and technical services (+31,000), and manufacturing (+54,000), while "...employment in motor vehicles and parts was up by 41,000 in November, reflecting the return of workers who were on strike in October."



The jump in manufacturing jobs in November stands in contrast to recent reading on the manufacturing front. According to the Institute for Supply Management, their U.S. manufacturing PMI number dropped from 48.3 in October to 48.1 in November, the fourth consecutive month where PMI staying in contraction territory. According to the ISM press release, “Overall, inputs indicate (1) supply chains are meeting demand and (2) companies are less confident that materials received will be consumed in a reasonable time period. Prices decreased for the sixth consecutive month, at a slower rate.”

U.S. Manufacturing Purchasing Managers Index

Category	NOV	OCT	SEP	AUG	JUL
Total Index	48.1	48.3	47.8	49.1	51.2
Orders	47.2	49.1	47.3	47.2	50.8
Production	49.1	46.2	47.3	49.5	50.8
Employment	46.6	47.7	46.3	47.4	51.7
Deliveries	52.0	49.5	51.1	51.4	53.3
Inventories	45.5	48.9	46.9	49.9	49.5
Export Orders	47.9	50.4	41.0	43.3	48.1
Prices paid (not seas adj)	46.7	45.5	49.7	46.0	45.1

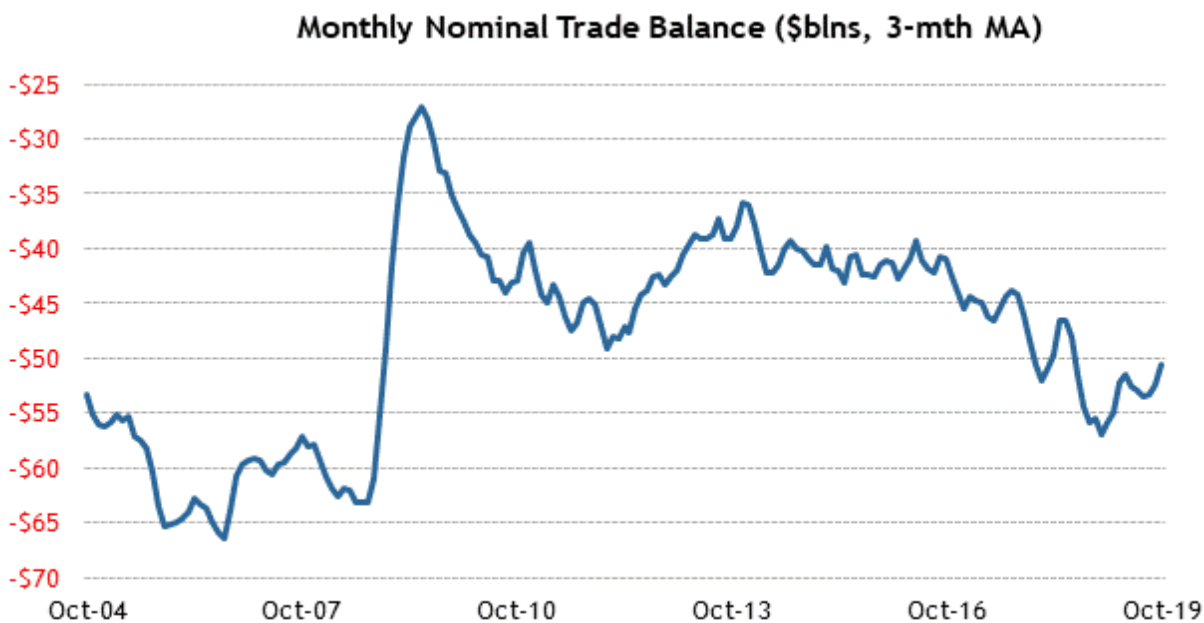
Source: Institute for Supply Management

Here’s what some of their survey respondents had to say:

- “Business level is similar to October.” (Computer & Electronic Products)
- “Chemical industry has been slow globally, but the curve seems to be flattening.” (Chemical Products)
- “Economic uncertainty continues. Our outlook on future business is cautious, yet positive.” (Transportation Equipment)
- “Economy is holding up. Business is staying constant. The same challenges persist — foreign exchange, trade uncertainty and trend changes [for example, sugar reduction].” (Food, Beverage & Tobacco Products)
- “Slowdown in business has us revising our 2020-21 capital spend.” (Petroleum & Coal Products)
- **“The order book continues to shrink below our forecast levels. We’re unsure at this point how much of the slowdown is tied to certain events [like the General Motors strike], year-end inventory reductions by customers, or a worsening economy. We don’t expect clarity on this until early 2020, when we expect to either see restocking orders [a good sign] or not [a bad sign].” (Fabricated Metal Products)**

- “Demand has stabilized for the last half of [the fourth quarter], and production will be stable for the rest of this year.” (Machinery)
- **“Heading into the holiday season, we are seeing the backlog decrease as new orders for 2020 seem lighter than in past years.” (Plastics & Rubber Products)**
- **“Markets have downshifted further. The continued confusion surrounding China trade has kept export markets on edge. Profits are elusive. Cash-flow planning is paramount. The general economy is slowing down.” (Wood Products)**
- “Incoming orders and production have ticked back up. Tariffs are still a question.” (Furniture & Related Products)

Uncertainty on the trade front has been a recurring theme for U.S. manufacturers, and last week the Commerce Department reported the U.S. trade deficit narrowed from \$51.1 billion in September to \$47.2 billion in October as imports slowed more than exports. Trade issues have been a major concern for scrap recyclers as well. Below we take a look at the recent trend in U.S. scrap exports.



Source: Census Bureau; updated 12/05/19

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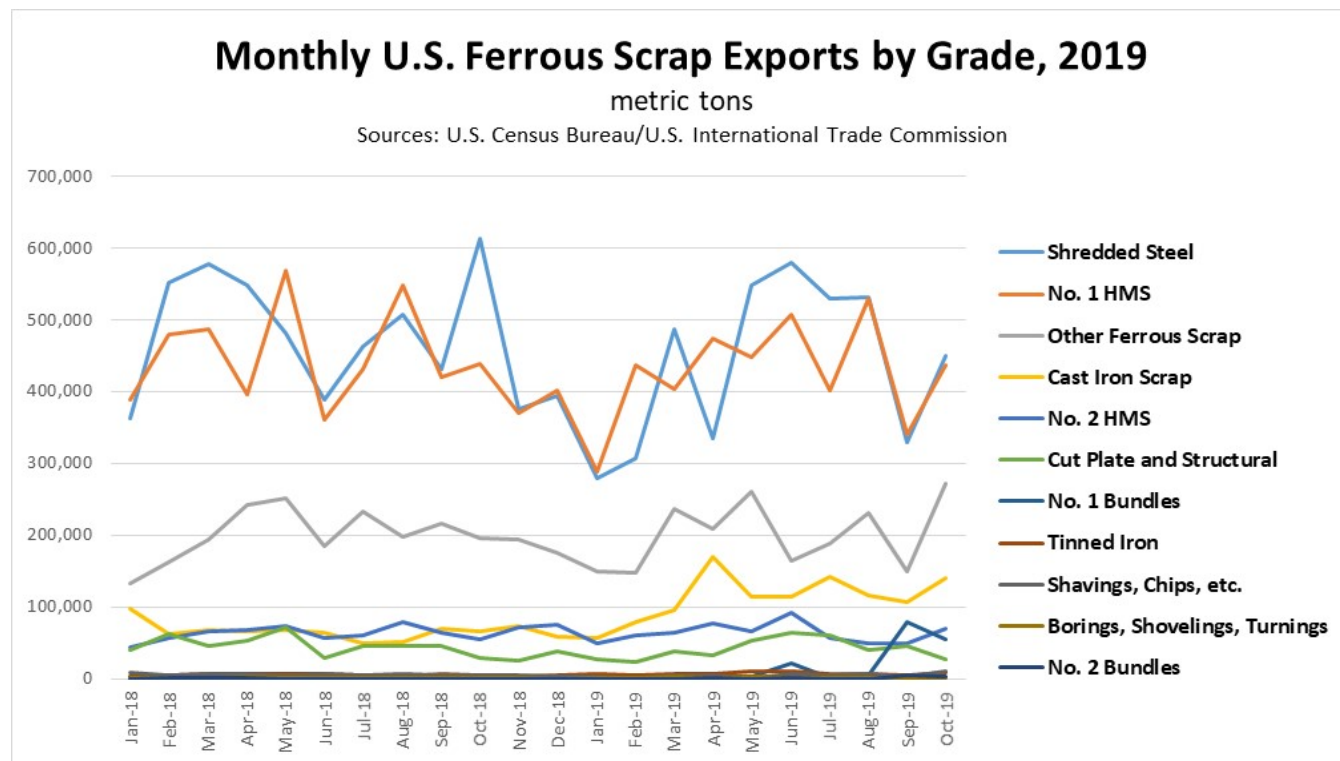
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Scrap Trade Flows

Ferrous

Ferrous scrap exports from the United States (excluding stainless steel and alloy steel scrap) rose from 1.17 million metric tons in September to nearly 1.48 million tons in October thanks to improved overseas demand for shredded, No. 1 heavy melt, cast iron scrap, and other ferrous grades, according to the latest figures from the U.S. Census Bureau.



However, for the year-to-date, U.S. ferrous scrap exports are still down nearly 1.6% as compared to the first 10 months of 2018 as weaker demand from Taiwan, Mexico, India, Egypt and other markets have more than offset improved trade flows with Turkey (+5.7%), Vietnam (+28.3%), South Korea (+28.8%), Bangladesh (+12.1%), Malaysia (+109%), and others.

YTD U.S. Ferrous Scrap Exports (ex-stainless & alloy steel) by Major Destination

Metric tons

Country	2017	2018	2018 YTD	2019 YTD	YTD % CHG
Turkey	3,635,585	3,391,709	2,877,821	3,041,788	5.70%
Taiwan	1,256,025	1,833,189	1,507,981	1,346,128	-10.70%
Mexico	1,544,051	1,722,864	1,536,370	1,194,952	-22.20%
Vietnam	656,409	1,009,601	918,513	1,178,629	28.30%
South Korea	523,367	885,485	726,435	935,599	28.80%
Bangladesh	647,026	837,963	702,250	787,041	12.10%
Malaysia	193,861	470,397	332,598	695,021	109%
India	655,413	831,950	746,890	679,239	-9.10%
Canada	610,138	638,922	512,953	510,333	-0.50%
Egypt	400,273	805,028	644,432	397,139	-38.40%
Pakistan	629,003	373,561	313,390	383,502	22.40%

Peru	444,086	379,136	313,031	321,146	2.60%
Saudi Arabia	42,892	44,038	44,038	298,758	578.40%
Kuwait	426,332	387,143	352,143	283,293	-19.60%
Thailand	537,647	496,423	484,008	251,654	-48%
Indonesia	85,791	450,349	359,602	241,103	-33%
Greece	181,735	125,006	91,094	140,124	53.80%
Ecuador	150,524	139,872	139,382	90,176	-35.30%
All Others	1,139,316	829,571	771,988	391,488	-49.29%
Total:	13,759,474	15,652,207	13,374,919	13,167,113	-1.55%

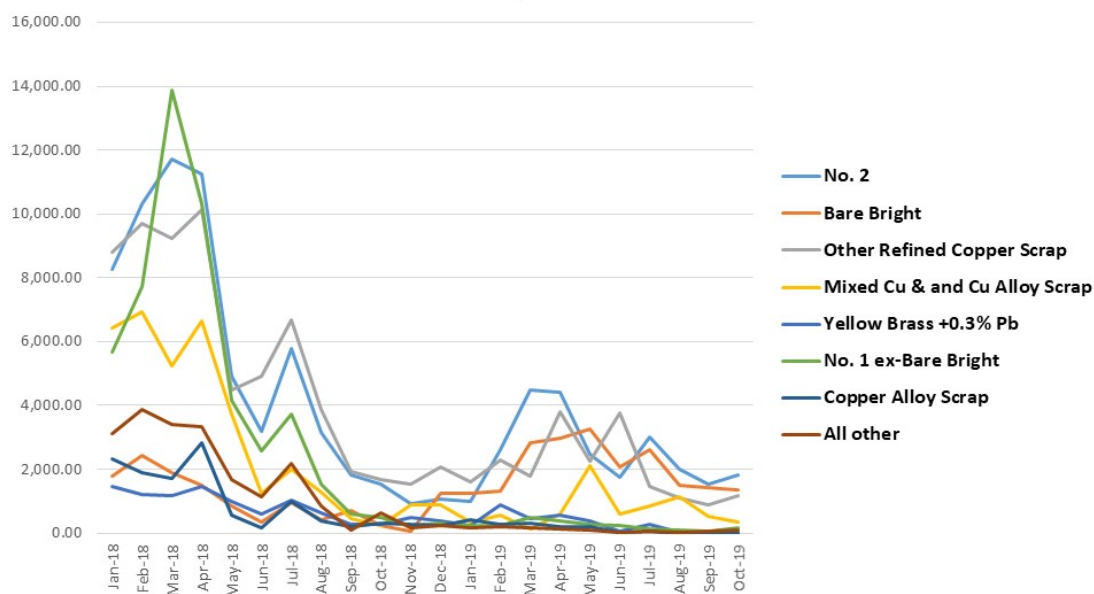
Sources: U.S. Census Bureau/U.S. International Trade Commission

Nonferrous

For the year-to-date, U.S. copper and copper alloy scrap exports to mainland China are down 69% as compared to the first 10 months of 2018 to just over 80.8 kt. For comparison's sake, in March 2018 the U.S. shipped around 48,000 tons of copper scrap to China and in October 2019 those shipments were down to less than 5,000 tons. For the most recent month, the largest shipments to China by grade were for No. 2 copper, Bare Bright, other refined copper scrap, and mixed copper and copper alloy scrap, in that order.

Monthly U.S. Copper and Copper Alloy Scrap Exports to Mainland China by Grade, Jan 2018 - Oct 2019 (metric tons)

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



For the year to date, total copper and copper alloy exports from the U.S. are down 2.8% as the weaker shipments to China have been partially offset by improved demand from Malaysia (+122.5%), India (+33.6%), Germany (+22%), Belgium (+29%), Pakistan (+46.5%), and other markets.

YTD U.S. Copper and Copper Alloy Scrap Exports by Major Destination

Metric tons

	2017	2018	2018 YTD	2019 YTD	YTD % CHG
Malaysia	5,553	119,573	84,386	187,765	122.5%
China	687,876	271,254	260,271	80,848	-68.9%
Canada	93,501	92,136	78,652	79,927	1.6%
South Korea	31,334	71,726	52,878	56,060	6.0%
India	24,869	48,260	37,387	49,935	33.6%
Hong Kong	36,345	44,269	37,110	45,925	23.8%
Japan	21,145	55,989	40,968	37,606	-8.2%
Germany	30,657	37,269	30,060	36,644	21.9%
Belgium	16,435	31,330	24,234	31,285	29.1%
Taiwan	8,645	35,427	28,214	30,737	8.9%
Pakistan	9,571	17,949	11,951	17,502	46.5%
Thailand	677	14,151	13,092	15,312	17.0%
Spain	7,501	10,824	8,580	8,697	1.4%
Greece	251	8,776	5,911	7,494	26.8%
Sweden	2,087	3,828	2,471	5,929	139.9%
Singapore	131	3,152	1,456	5,034	245.8%
Netherlands	8,376	10,310	8,836	4,916	-44.4%
Poland	7	0	0	3,736	N/A
Others	19,276	36,624	30,576	30,328	-0.8%
Total:	1,004,237	912,848	757,034	735,680	-2.8%

Recovered Paper and Fiber

Unlike with most other scrap commodities, China remains the largest market for U.S. export sales of recovered paper and fiber. According to U.S. Census Bureau trade data, the U.S. exported nearly \$808 million of recovered paper to mainland China during Jan-Sep 2019, following by India (\$385 million), Mexico (\$236 million), Canada (\$125 million) and South Korea (\$116 million). Overall, U.S. recovered paper exports during the first 9 months were down 6.5% by value year-on-year to \$2.2 billion and were down 6.7% by volume to 13.0 million metric tons (=14.3 million short tons).

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

Metric tons

Country	Jan-Sep 2017	Jan-Sep 2018	Jan-Sep 2019	YTD % CHG
China	8,858,409	5,542,373	4,438,876	-19.9%
India	1,140,603	2,553,659	2,306,767	-9.7%
Mexico	1,174,870	1,240,791	1,073,604	-13.5%
Indonesia	255,766	801,022	765,878	-4.4%
Vietnam	210,050	611,552	733,710	20.0%
South Korea	627,561	782,370	731,095	-6.6%
Canada	542,868	610,877	707,154	15.8%
Taiwan	134,110	518,298	677,355	30.7%

Thailand	204,661	285,476	389,864	36.6%
Malaysia	17,317	82,716	152,337	84.2%
All others	575,511	919,793	1,042,669	13.4%
TOTAL	13,741,726	13,948,927	13,019,309	-6.7%

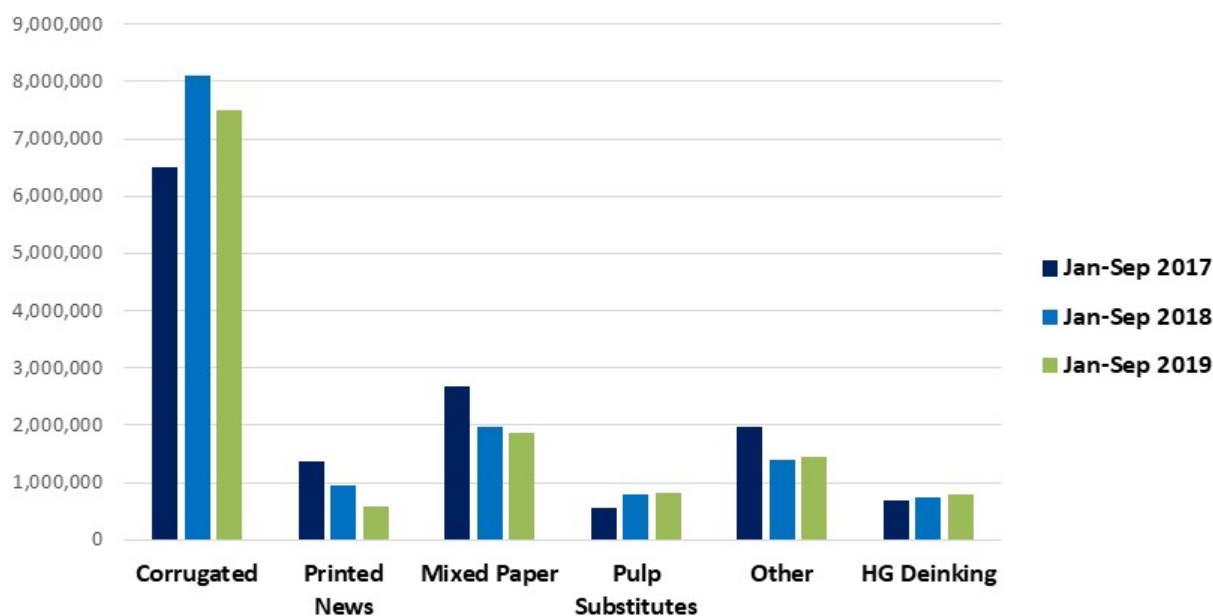
Sources: U.S. Census Bureau/U.S. International Trade Commission

By grade, OCC exports have had the worst performance this year, declining 7% by volume (-593,000 metric tons) to 7.5 million metric tons, followed by printed news (-376,000 mt) and mixed paper (-89,000 mt). In contrast, U.S. exports of pulp substitutes and high-grade deinking grades have posted net gains of 15,000 tons and 63,000 tons, respectively, so far this year.

While corrugated exports are “only” down 7 percent by volume for the year-to-date, the monthly volumes

U.S. Recovered Paper and Fiber Exports by Grade (metric tons)

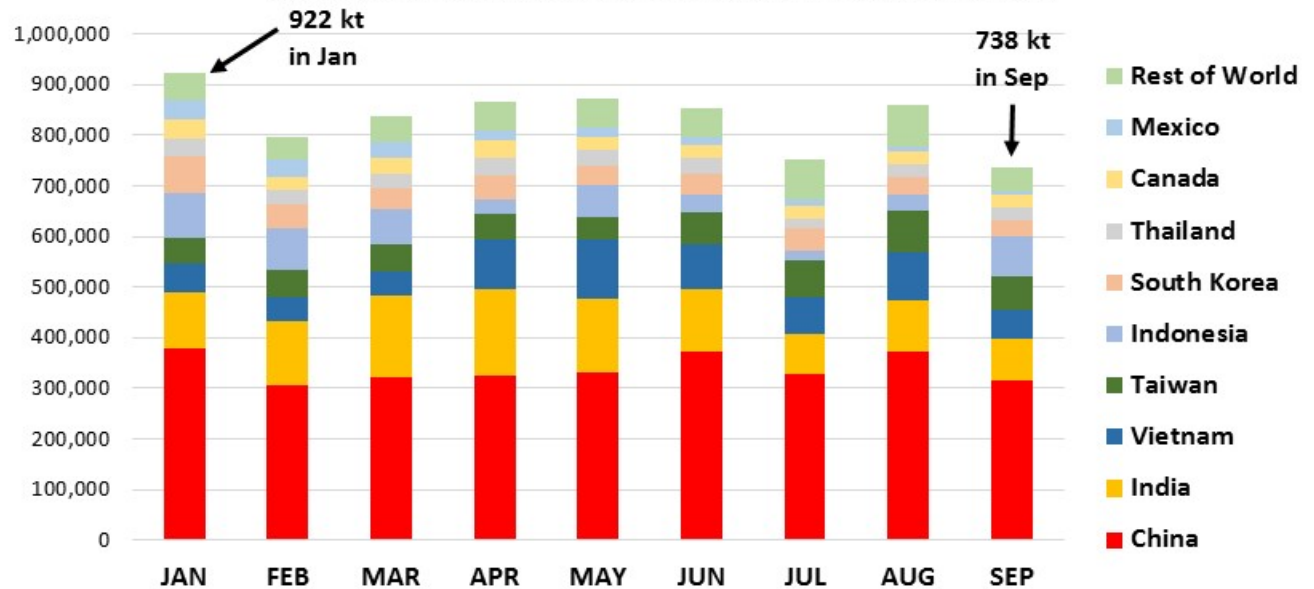
Sources: U.S. Census Bureau/U.S. International Trade Commission



have been slowing over the course of the year. As compared to January 2019, when the U.S. exported 922,000 metric tons of corrugated, by September the volume was down to 738,000 tons amid lighter loadings for China, India, and other key markets. For comparison's sake, the Sep 2019 corrugated exports were down 27% from the more than 1 million tons shipped in Sep 2018.

Monthly U.S. Corrugated Exports in 2019 (metric tons)

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



The slower export shipments were compounded by diminished domestic demand for OCC. The AF&PA estimates U.S. consumption of OCC was down 2% year-on-year in October and off 4% for the year-to-date. In contrast, domestic mixed paper consumption increased 7% Y-o-Y in October. As a result, AF&PA estimates total U.S. recovered paper consumption in October 2019 totaled 2.722 million tons, down 1% as compared to consumption in October 2018. For the year-to-date (Jan-Oct), U.S. recovered paper consumption is down 3% as compared to the corresponding period last year, which has translated into lower prices this year.

This Week's Story

A man walks up to the front desk of a psychiatric facility and strikes up a conversation with the psychiatrist there. The man asks the psychiatrist, "How do you choose who is admitted to your facility?"

The psychiatrist explains, "We fill a bathtub with water and give people a straw, a teaspoon, a glass, and a bucket. Then we tell them to empty the bathtub."

The man chuckles to himself and beams at the psychiatrist. "Naturally, the sane people take the bucket, right?"

The psychiatrist replies, "Actually, the sane people pull the plug and drain the water. Would you like a room with a window view or without?"

This Week's Quote

"The harder I work, the luckier I get."

-- Samuel Goldwyn

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