

December 16, 2019

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This Morning

The major commodity price indexes were up around 1% earlier today with better than expected economic data from China and expectations for a preliminary U.S.-China trade deal providing support. Reuters reports that "Industrial production {in China} rose 6.2% year-on-year in November, data from the National Bureau of Statistics showed, beating the median forecast of 5.0% growth in a Reuters poll and quickening from 4.7% in October. It was also the fastest year-on-year growth in five months... Retail sales rose 8.0% year-on-year in November, compared with an expected 7.6%, buoyed by stimulus measures and the November Singles Day shopping extravaganza, the statistics bureau said." In London, LME 3-mo. copper and nickel prices traded as high as \$6,206.50/mt and \$14,255/mt, respectively, today. In New York, COMEX copper futures climbed as high as \$2.819/lb. while NYMEX crude oil futures were little changed around \$60 per barrel. In foreign exchange trading, the resumed its ascent following last week's elections in the UK, with the pound recently trading around \$1.334 while the euro firmed to \$1.115. On Wall Street, the Dow Industrials were up 0.5% today following gains at most of the major European bourses.

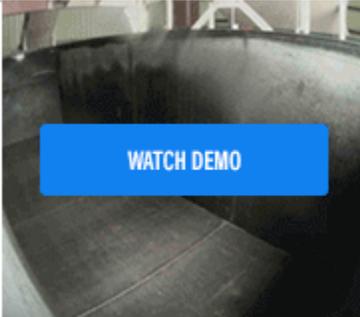
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Selected Primary Commodity Prices: December 16, 2019

	Last	CHG	% CHG	Prior	Open	High	Low
COMEX Copper Mar (\$/lb.)	2.812	0.031	1.1%	2.781	2.787	2.819	2.782
COMEX Gold Feb (\$/to)	1,479.8	-1.4	-0.1%	1,481.2	1480	1,484.5	1,477.4
COMEX Silver Mar (\$/to)	17.11	0.1	0.5%	17.01	17.01	17.14	17.0
NYMEX Light Sweet Crude Jan (\$/bbl)	60.18	0.1	0.2%	60.07	59.87	60.34	59.71
SHFE Aluminum Feb (RMB/mt)	13,920	15	0.1%	13,905	13,945	13,960	13,875
SHFE Copper Feb (RMB/mt)	48,950	-90	-0.2%	49,040	49,040	49,210	48,690
SHFE Nickel Feb (RMB/mt)	111,110	1,200	1.1%	109,910	111,380	112,090	109,600
SHFE Zinc Feb (RMB/mt)	18,080	25	0.1%	18,055	18,080	18,225	17,930

The Week Ahead

Markets will continue to digest the implications of the preliminary “phase one” U.S.-China trade agreement, the deal on USMCA, last week’s U.K. election results, and other political developments this week. On the U.S. economic calendar, we’ll get new figures on industrial production and capacity utilization, housing starts & building permits, existing home sales, personal income and spending, revised 3rd quarter GDP numbers, and the final reading for consumer sentiment in December. The consensus forecasts are that U.S. industrial production rebounded 0.8% in November while personal income and spending both rose 0.3% last month. Following the release of China’s industrial production and retail sales data on Monday, other overseas economic releases will include euro zone composite PMI, trade, and inflation, German producer prices, and Japanese trade, along with the latest monetary policy statements from central banks in Japan, England, Sweden, and Mexico. Have a great week!

U.S. Economic Calendar, December 16-20, 2019

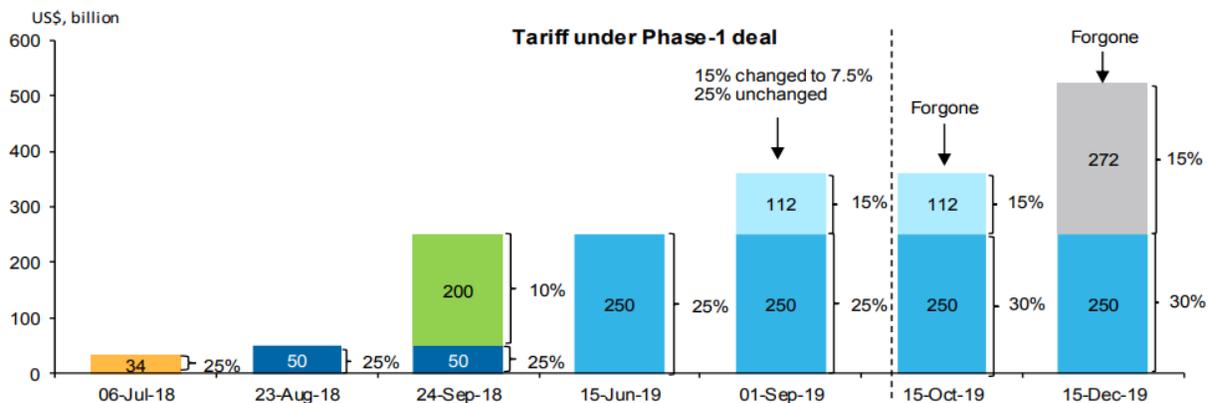
Date	Time	Release	Period	Consensus	Prior
16-Dec	08:30 ET	Empire State Manufacturing	Dec	3.5	2.9
16-Dec	10:00 ET	NAHB Housing Market Index	Dec	69	71
17-Dec	08:30 ET	Housing Starts	Nov	1340K	1314K
17-Dec	08:30 ET	Building Permits	Nov	1400K	1461K
17-Dec	09:15 ET	Industrial Production	Nov	0.8%	-0.8%
17-Dec	09:15 ET	Capacity Utilization	Nov	77.4%	76.7%
17-Dec	10:00 ET	JOLTS - Job Openings	Oct	NA	7.024M
19-Dec	08:30 ET	Initial Claims	14-Dec	226K	252K

19-Dec	08:30 ET	Current Account Balance	Q3	-\$122.0B	-\$128.2B
19-Dec	08:30 ET	Philadelphia Fed Index	Dec	8	10.4
19-Dec	10:00 ET	Existing Home Sales	Nov	5.45M	5.46M
19-Dec	10:00 ET	Leading Indicators	Nov	0.1%	-0.1%
20-Dec	08:30 ET	Personal Income	Nov	0.3%	0.0%
20-Dec	08:30 ET	Personal Spending	Nov	0.3%	0.3%
20-Dec	08:30 ET	PCE Price Index	Nov	0.2%	0.2%
20-Dec	08:30 ET	GDP - Third Estimate	Q3	2.1%	2.0%
20-Dec	08:30 ET	GDP Deflator - Third Estimate	Q3	1.8%	2.6%
20-Dec	10:00 ET	Univ. of Michigan Consumer Sentiment - Final	Dec	99.1	99.2

Economic Week in Review

On Friday, U.S. and Chinese officials held separate press conferences announcing a “phase one” trade deal has been reached, although a number of details reportedly still need to be worked out. While the United States agreed to hold off on the planned December 15 tariff increases, CNBC reports “It’s still unclear how and when the U.S. will roll back other tariffs, a condition for a phase-one deal that the Chinese side has firmly maintained. The Office of the U.S. Trade Representative said in a statement that the United States will keep 25% tariffs on about \$250 billion of Chinese imports, along with 7.5% duties on roughly \$120 billion of Chinese imports. Both sides also still need to sign the text of an agreement, which Chinese officials said requires legal review and translation. {USTR} Lighthizer said both countries hope to sign the deal in Washington in early January, and there would be no new tariffs as long as China negotiates in good faith.”

Tariff under Phase-1 trade deal



Source: Macquarie Macro Strategy, December 2019

Macquarie Capital’s Larry Hu and Irene Wu don’t see the trade deal having much of an impact on Chinese growth in 2020: “We attribute the export slowdown this year to the slowing global economy instead of trade war. True, China’s export growth slowed to 0% yoy in 2019 from 10% in 2018. But the pace of slowdown is not very different from the previous two cycles in 2012 and 2015. It’s also not very different from the export slowdown in the rest of the world, which is not subject to tariff hikes like China. In our view, for trade war, the impact on market sentiment is much larger than the actual impact. Therefore, a trade deal could help on sentiment, but not much on the real economy. That’s why we don’t expect a meaningful pick-up in export growth in 2020. Instead, property would be the key swing factor in 2020.”

Another key trade development last week was the announcement that the House leadership and Trump administration have reached an agreement on the new U.S.-Mexico-Canada Agreement on trade. This morning, the Commerce Department announced that USTR has delivered the USMCA implementing language to Congress, although the Financial Times reported over the weekend that Mexico is objecting to some of the new labor provisions: “A deal to implement the new North American free-trade pact, the USMCA, threatened to unravel after Mexico reacted angrily to details in the law to be debated in the US Congress this week. Mexico’s trade negotiator, Jesús Seade, flew to the US on Sunday for urgent talks over what he said was an attempt to sneak changes into the agreement by the back door, as concern mounted in Mexico that the government had made dangerous concessions to Washington.”

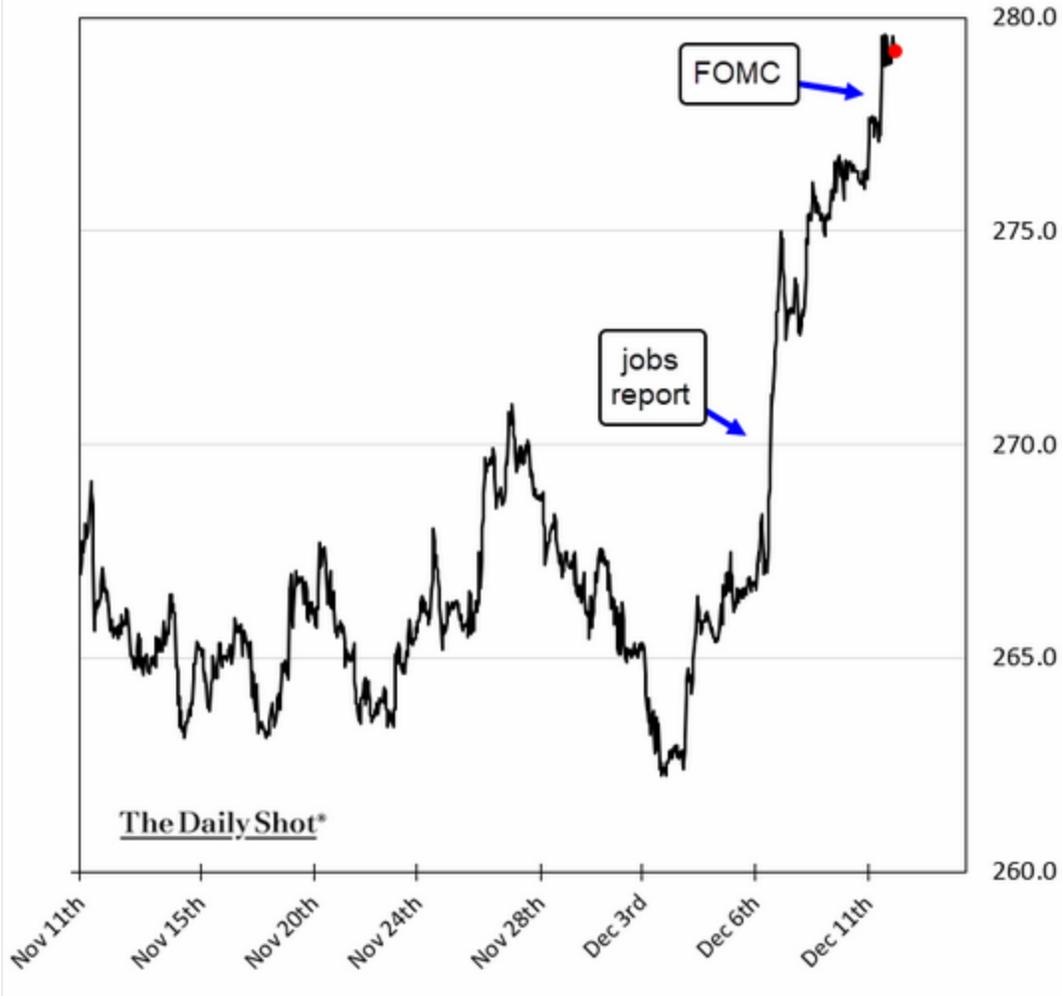
For those who may be interested, here are the USMCA agreement documents on the USTR website:

1. Text of the Agreement: <https://ustr.gov/trade-agreements/free-trade-agreements/united-states-mexico-canada-agreement/agreement-between>
2. Protocol of Amendment to the USMCA: <https://ustr.gov/trade-agreements/free-trade-agreements/united-states-mexico-canada-agreement/protocol-amendments>
3. Updated Fact Sheets: <https://ustr.gov/trade-agreements/free-trade-agreements/united-states-mexico-canada-agreement/fact-sheets>

In other economic news last week, the Federal Reserve left rates unchanged last week, stating “The Committee judges that the current stance of monetary policy is appropriate to support sustained expansion of economic activity, strong labor market conditions, and inflation near the Committee’s symmetric 2 percent objective. The Committee will continue to monitor the implications of incoming information for the economic outlook, including global developments and muted inflation pressures, as it assesses the appropriate path of the target range for the federal funds rate.” As noted by the WSJ’s Daily Shot, “13 of the 17 FOMC members expect rates to remain unchanged in 2020. The median ‘dot plot’ has moved lower for both the 2020 and 2021 forecasts in each of the last five meetings.” The healthy jobs report for November, last week’s FOMC statement, and the announced preliminary U.S.-China trade deal have reportedly provided support for copper prices in New York:

11-Dec-2019 16:30

Since Nov-8th Wednesday Session
COMEX Copper 3.73% 0.96%



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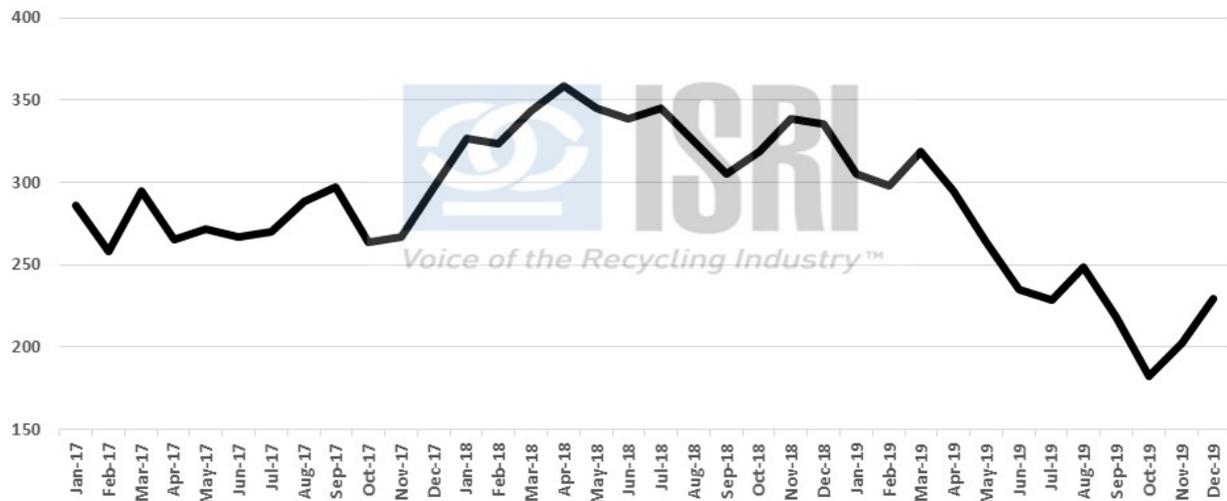
Commodity News

Ferrous

Ferrous scrap prices reportedly rebounded in the fourth quarter of 2019 but benchmark grades are still down around \$100 per gross ton as compared to the end of 2018:

Ferrous Scrap: Composite No. 1 HMS, \$/gt

Source: Fastmarkets AMM



As iron ore and scrap prices advanced late in the year, Fastmarkets AMM reports that U.S. steelmakers continue to push for sheet price hikes: “Nucor intends to raise flat-rolled steel prices by at least \$40 per ton (\$2 per hundredweight) effective immediately. The move applies equally to hot-rolled, cold-rolled and galvanized products, the steelmaker said in a letter to customers dated Monday December 16... The announcement means that North America’s largest electric-arc furnace steelmaker has joined ArcelorMittal, the world’s largest steelmaker, in a fourth round of US flat-rolled price increases. US mills are now officially seeking prices that are \$150 per ton higher than they were in late October... Fastmarkets’ daily steel hot-rolled coil index, fob mill US was calculated at \$28.22 per hundredweight (\$564.40 per ton) on Friday December 13, up 21.9% (\$5.07 per cwt) from a late-October low - the lowest point for HRC prices in three-and-a-half years - of \$23.15 per cwt.”

The latest weekly U.S. steel production numbers from the American Iron and Steel Institute show that for the week ending December 7, 2019, raw steel production in the United States was down 0.8% from the preceding week and down 2.1% from the corresponding week last year to 1.821 million net tons as the capacity utilization rate came in at 78.7 percent. For the year-to-date, AISI estimates U.S. steel production is up 1.9 percent to 90.74 million tons through December 7th with an average capacity utilization rate of 80.1 percent.

Nonferrous

According to trade data from the Census Bureau, the U.S. exported 1.57 million metric tons of aluminum scrap (including UBCs and RSI) during the first 10 months of 2019, up 11% as compared to Jan-Oct 2018 despite a 25% drop in shipments to mainland China. The largest net market gains so far this year by

volume have been to Malaysia (+68.5 kt), Hong Kong (+53 kt), India (+52.5 kt), South Korea (+30.4 kt), and Indonesia (+25 kt).

U.S. Aluminum Scrap Exports by Major Destination (including UBCs and RSI)

Metric tons

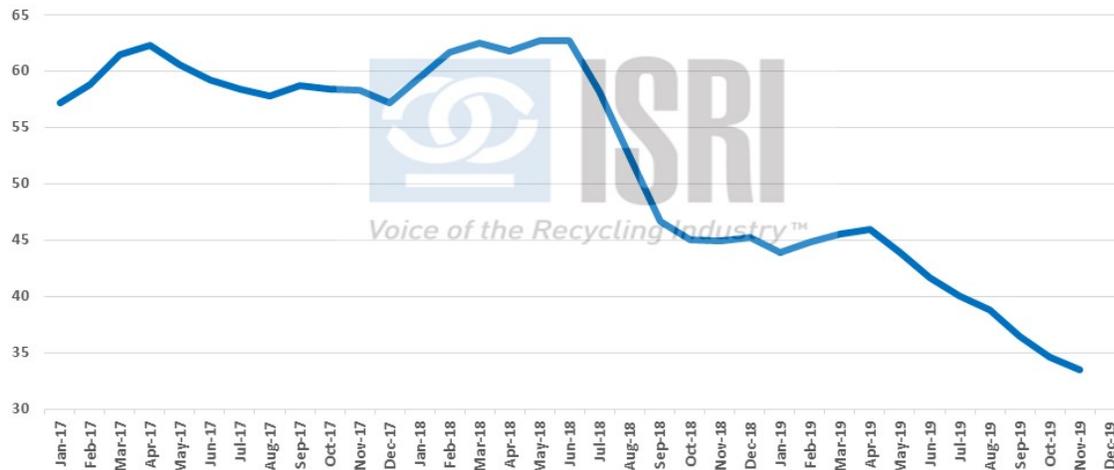
Country	2017	2018	Jan-Oct 2018	Jan-Oct 2019	YTD % CHG
China	830,526	493,772	411,979	307,244	-25.4%
South Korea	180,970	240,073	196,972	227,337	15.4%
India	78,679	215,651	164,153	216,605	32.0%
Malaysia	52,505	182,630	147,082	215,613	46.6%
Mexico	153,385	195,128	160,491	156,044	-2.8%
Hong Kong	40,329	42,292	33,156	86,124	159.8%
Indonesia	37,168	76,068	58,872	83,883	42.5%
Canada	105,791	104,312	87,324	78,882	-9.7%
Taiwan	30,171	69,044	46,003	53,090	15.4%
Thailand	3,179	15,028	11,539	25,110	117.6%
Brazil	293	18,277	14,069	19,430	38.1%
Japan	16,663	23,836	20,320	12,396	-39.0%
Pakistan	6,387	14,743	10,818	11,509	6.4%
Others	31,102	70,313	55,151	80,164	45.4%
Total:	1,567,149	1,761,166	1,417,932	1,573,431	11.0%

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

However, by dollar value YTD U.S. aluminum scrap exports are reportedly down 8% year-on-year to \$1.96 billion as aluminum scrap prices have declined sharply this year. Through November, average old sheet and cast prices were reportedly down 26 percent for the year-to-date:

Aluminum Scrap: Avg. Old Sheet & Cast, delivered MW secondary smelter, cent/lb.

Source: Fastmarkets AMM



Plastic Scrap

Among the major scrap commodities, plastic scrap exports from the United States have had the worst performance this year, declining 40% by volume during Jan-Oct 2019 as compared to the first 10 months of 2018 as shipments to mainland China plunged 62% lower to just over 15,000 tons. Other significant market losses occurred in Malaysia (-79%), Vietnam (-77%), Thailand (-75%), Taiwan (-36%), and Indian (-27%), among others as market participants increasingly turned to demand from domestic consumers.

Country	2017	2018	Jan-Oct 2018	Jan-Oct 2019	YTD % CHG
Canada	135,795	133,867	113,246	126,904	12.1%
India	123,116	133,299	112,098	82,391	-26.5%
Hong Kong	372,904	121,487	103,683	60,714	-41.4%
Malaysia	121,231	204,120	195,513	40,811	-79.1%
Mexico	46,375	45,712	39,310	30,185	-23.2%
Taiwan	33,976	51,447	46,240	29,529	-36.1%
South Korea	9,077	35,403	27,666	26,463	-4.3%
Turkey	14,482	23,666	18,316	24,809	35.4%
Thailand	32,862	106,853	95,938	23,683	-75.3%
Indonesia	29,175	27,385	19,747	22,575	14.3%
Vietnam	137,042	74,396	73,238	16,869	-77.0%
China	557,820	47,906	39,137	15,015	-61.6%
Others	53,987	67,651	56,789	64,509	13.6%
Total:	1,667,842	1,073,191	940,921	564,457	-40.0%

This Week's Story

A family had twin boys whose only resemblance to each other were their looks. Opposite in every way, one was an eternal optimist, the other a doom and gloom pessimist.

Just to see what would happen, on Christmas day their father loaded the pessimist's room with every imaginable toy and game. The optimist's room he loaded with horse manure.

That night the father passed by the pessimist's room and found him sitting amid his new gifts crying bitterly.

"Why are you crying?" the father asked.

"Because my friends will be jealous, I'll have to read all these instructions before I can do anything with this stuff, I'll constantly need batteries, and my toys will eventually get broken." answered the pessimist twin.

Passing the optimist twin's room, the father found him dancing for joy in the pile of manure. "What are you so happy about?" he asked.

To which his optimist twin replied, "There's got to be a pony in here somewhere!"

This Week's Quote

"It is the set of the sails, not the direction of the wind, that determines which way we will go."

-- Jim Rohn

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