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This Morning

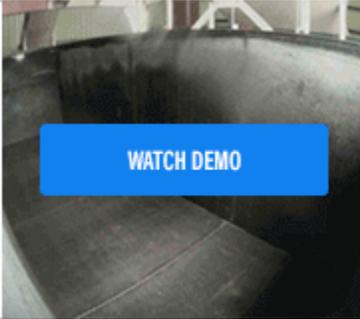
The Bloomberg Commodity Index was little changed (+0.01%) early this morning as firmer crude oil prices were offset by mixed precious and industrial metal prices. In New York, NYMEX crude oil futures were up around \$54 per barrel this morning. Reuters reports "Oil prices largely held steady on Monday, recouping some early losses as investors took stock of global economic pressures that could impact oil demand." With no major U.S. economic releases due out this morning, markets will be paying closer attention to Brexit developments, with the WSJ reporting "Mr. Johnson will try as soon as Monday to secure the votes he needs to win approval, potentially paving the way for the U.K. to leave the EU after more than three years of negotiation and fierce debate. Downing Street would hope to use a win to attempt to race through the final stages of legislative scrutiny in time for an Oct. 31 deadline and make any extension unnecessary." In London, LME 3-mo. aluminum and copper were little changed around \$1,744 and \$5,825 per ton, respectively, while LME 3-mo. nickel briefly dipped as low as \$16,050/mt this morning. In foreign exchange trading the British pound was holding steady around \$1.297 this morning while the euro slipped to around \$1.117.

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Selected Primary Commodity Prices: October 21, 2019

	Last	CHG	% CHG	Prior	Open	High	Low
COMEX Copper Dec (\$/lb.)	2.6440	0.008	0.3%	2.636	2.64	2.647	2.631
COMEX Gold Dec (\$/to)	1,492.3	-1.8	-0.1%	1,494.1	1495.6	1,497.7	1,490.6
COMEX Silver Dec (\$/to)	17.70	0.1	0.7%	17.58	17.62	17.80	17.5
NYMEX Light Sweet Crude Dec (\$/bbl)	54.02	0.2	0.3%	53.87	53.83	54.17	53.45
SHFE Aluminum Dec (RMB/mt)	13,825	-35	-0.3%	13,860	13,880	13,915	13,740
SHFE Copper Dec (RMB/mt)	47,070	360	0.8%	46,710	47,060	47,180	46,960
SHFE Nickel Dec (RMB/mt)	127,500	-1,520	-1.2%	129,020	130,020	130,150	125,330
SHFE Zinc Dec (RMB/mt)	18,975	160	0.9%	18,815	19,005	19,080	18,885

The Week Ahead

The U.S. economic calendar is relatively light this week, although investors will be paying attention to the latest figures on new and existing home sales, durable goods orders, and consumer sentiment. The consensus forecasts are for mixed home sales data and a 1% drop in durable orders in September. Overseas, new German reports are due out on producer price inflation and business sentiment, but Brexit developments will remain in focus as U.K. Prime Minister Boris Johnson seeks approval for his Brexit deal in Parliament. On the monetary policy front, the Financial Times reports “Mario Draghi’s swansong at the ECB on Thursday is the week’s main central bank event, but is unlikely to bring any radical new measures. However, investors will be watching very closely to see what he has to say about the state of the eurozone economy, particularly after warnings by the IMF last week about the precarious nature of the global economy when it cut its forecasts because of the impact of trade wars and Brexit uncertainty.” Have a great week!

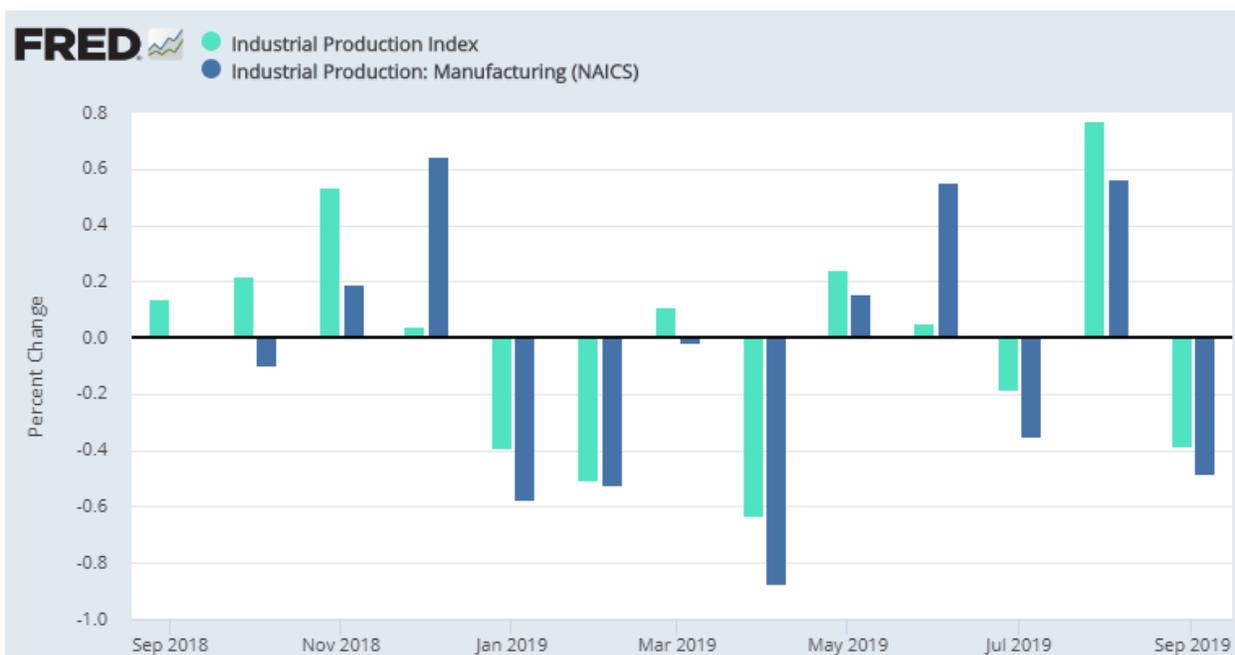
U.S. Economic Calendar: Oct 21-25, 2019

Date	Time	Release	Period	Consensus	Prior
22-Oct	10:00 ET	Existing Home Sales	Sep	5.52M	5.49M
23-Oct	09:00 ET	FHFA Housing Price Index	Aug	NA	0.4%
23-Oct	10:30 ET	EIA Crude Oil Inventories	19-Oct	NA	+8.0M
24-Oct	08:30 ET	Initial Claims	19-Oct	217K	214K
24-Oct	08:30 ET	Durable Orders	Sep	-1.0%	0.2%
24-Oct	08:30 ET	Durable Goods –ex transportation	Sep	-0.3%	0.5%
24-Oct	10:00 ET	New Home Sales	Sep	703K	713K
25-Oct	10:00 ET	Univ. of Michigan Consumer Sentiment - Final	Oct	95.8	96.0

Economic Week in Review

Indicators of U.S. manufacturing and industrial production continue to disappoint amid signs of slowing U.S. economic growth and heightened trade impacts. Last week, the Federal Reserve's Beige Book reported "Manufacturing activity continued to edge lower. Contacts in some Districts suggested that persistent trade tensions and slower global growth weighed on activity... A number of Districts reported that manufacturers reduced their headcounts because orders were soft. However, some firms were more concerned about the longer-term availability of workers and subsequently chose to reduce hours rather than staff levels."

So-called "hard" economic reports are confirming the trend in the survey data. The Fed also reported last week that U.S. industrial production decreased 0.4% in September, including a 0.5% drop in manufacturing output and 1.3% contraction in mining as crude oil production and mine drilling slowed: "The cutback in motor vehicle output in September contributed to a drop of nearly 2 percent for consumer durables and to declines of around 1 percent for transit equipment and for durable goods materials. The indexes for many of the other market groups were relatively little changed."

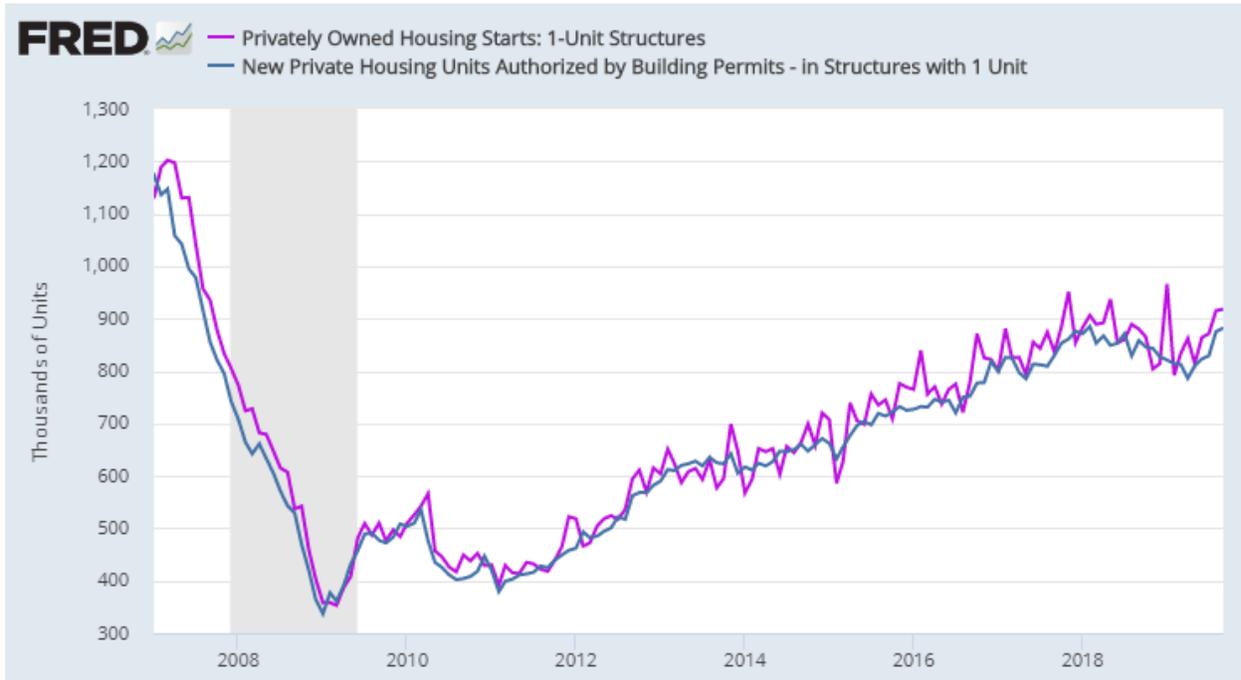


U.S. retail sales also came in below expectations last month, declining 0.3% as compared to August 2019 as sales of autos and auto parts were down 0.9%, although retail sales are still up over 4% as compared to this time last year.

Category	SEP	AUG	JUL	JUN	MAY
Retail Sales	-0.3%	0.6%	0.7%	0.4%	0.5%
Excluding Autos	-0.1%	0.2%	0.9%	0.3%	0.5%
Durable goods					
Building Materials	-1.0%	2.3%	1.0%	0.8%	-1.8%
Autos/parts	-0.9%	1.9%	0.1%	0.7%	0.4%
Furniture	0.6%	0.0%	0.4%	-0.4%	-0.1%
Nondurable goods					
General Merchandise	-0.3%	-0.2%	0.9%	-0.6%	0.2%
Food	-0.1%	0.1%	1.0%	0.8%	0.3%
Gasoline stations	-0.7%	-1.3%	1.7%	-2.5%	-0.2%
Clothing	1.3%	-0.7%	1.2%	0.2%	-0.1%

e*retailing/non-store	-0.3%	1.2%	1.4%	2.1%	2.3%
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Similarly, the headline numbers on U.S. housing starts and building permits appeared to be quite negative, with the Census Bureau reporting building permits were down 2.7% in September as housing starts declined 9.4% as compared to August. But when the volatile figures on multi-unit buildings are factored out, the trend in single-family units is looking better:



So what do all these mixed economic reports mean for the U.S. economy and manufacturing going forward? According to the Conference Board's index of leading economic indicators (-0.1% in Sep), we're still looking at slower growth ahead, but not outright contraction: "The US LEI declined in September because of weaknesses in the manufacturing sector and the interest rate spread which were only partially offset by rising stock prices and a positive contribution from the Leading Credit Index," said Ataman Ozyildirim, Senior Director of Economic Research at The Conference Board. "The LEI reflects uncertainty in the outlook and falling business expectations, brought on by the downturn in the industrial sector and trade disputes. Looking ahead, the LEI is consistent with an economy that is still growing, albeit more slowly, through the end of the year and into 2020."

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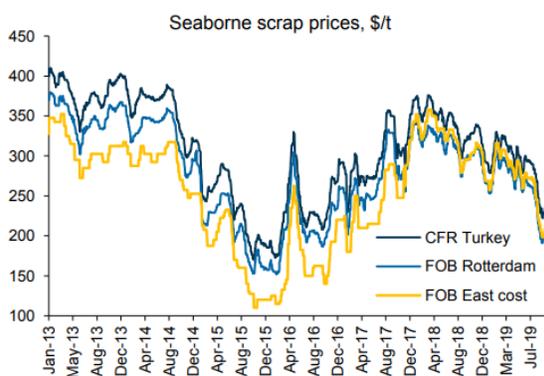
Commodity News

Ferrous –

Fastmarkets AMM reports that the reinstatement of a 50% tariff on Turkish steel imports into the United States appears to be on hold for now: “U.S. President Donald Trump said this past week that he would revive the 50% tariff on imports of Turkish steel in response to the country's military actions in Northeast Syria. But the two countries reached an agreement on Thursday October 17, with the US implying that it will refrain from imposing the steel tariff increase if Turkey halts its offensive. ‘Once Operation Peace Spring is paused, the US agrees not to pursue further imposition of sanctions under the executive order of October 14, 2019,’ the White House said in issuing a joint statement with Turkey. The US Commerce Department and White House press office did not respond to Fastmarkets' request for comment on Friday.”

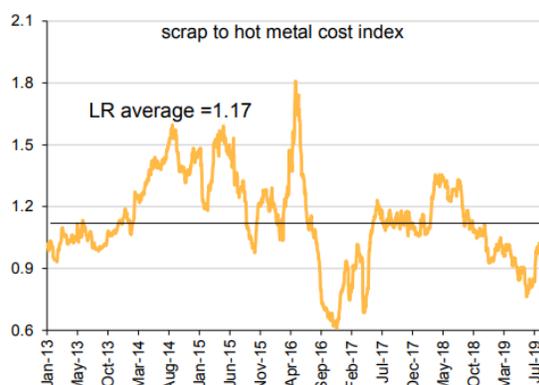
Even if the higher tariff level were imposed, Macquarie Research does not expect much of an impact on ferrous scrap prices given the relative weakness in scrap prices already, the plunge in Turkish steel exports to the U.S., and recent stability of the Turkish lira.

Fig 1 Seaborne scrap prices have fallen...



Source: Platts, Macquarie commodities Strategy, October 2019

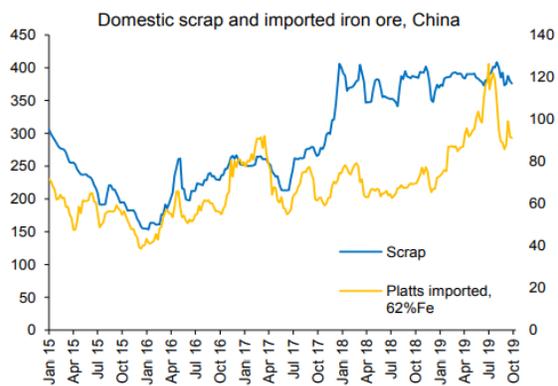
Fig 2 ...underperforming other steel raw materials.



Source: Platts, Macquarie commodities Strategy, October 2019

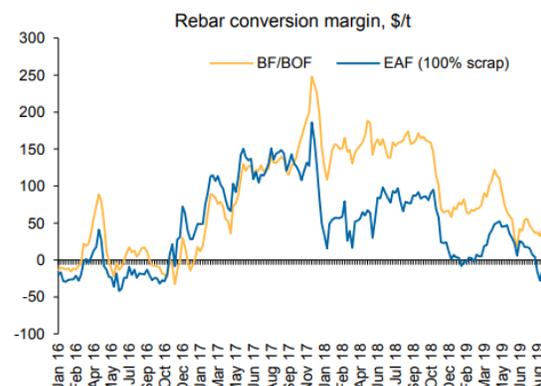
In contrast, Macquarie notes that ferrous scrap prices in China remain elevated compared to other raw material inputs and that Chinese EAFs are now more vulnerable to a downturn in steel prices:

Fig 9 China: expensive scrap relative to iron ore



Source: Mysteel, Platts, Macquarie commodities Strategy, October 2019

Fig 10 EAFs are now losing money

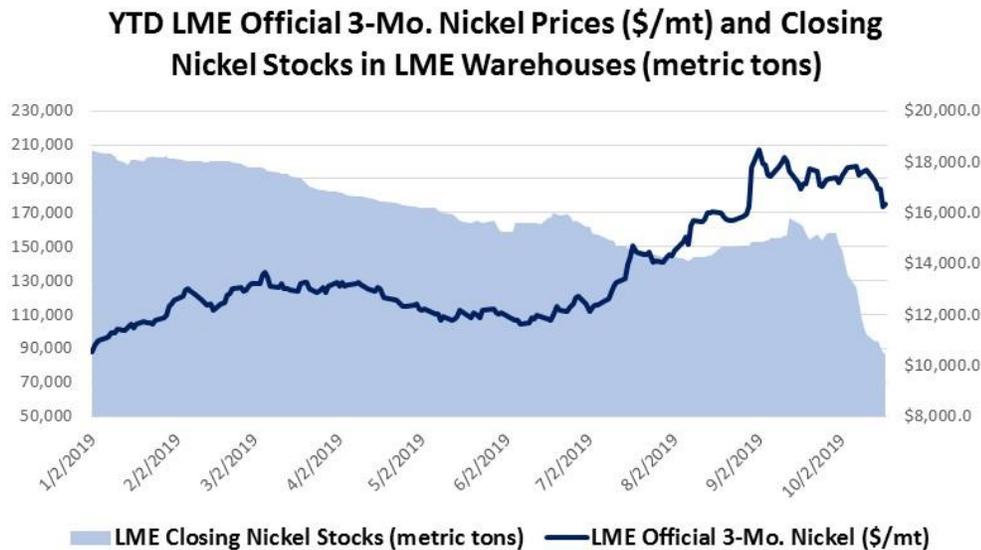


Source: Mysteel, Platts, Macquarie commodities Strategy, October 2019

Here in the U.S., the American Iron and Steel Institute reports that for the week ending October 12th, “...domestic raw steel production was 1,821,000 net tons while the capability utilization rate was 78.7 percent. Production was 1,877,000 net tons in the week ending October 12, 2018 while the capability utilization then was 80.1 percent. The current week production represents a 3.0 percent decrease from the same period in the previous year. Production for the week ending October 12, 2019 is up 0.9 percent from the previous week ending October 5, 2019 when production was 1,804,000 net tons and the rate of capability utilization was 78.0 percent.”

Nonferrous –

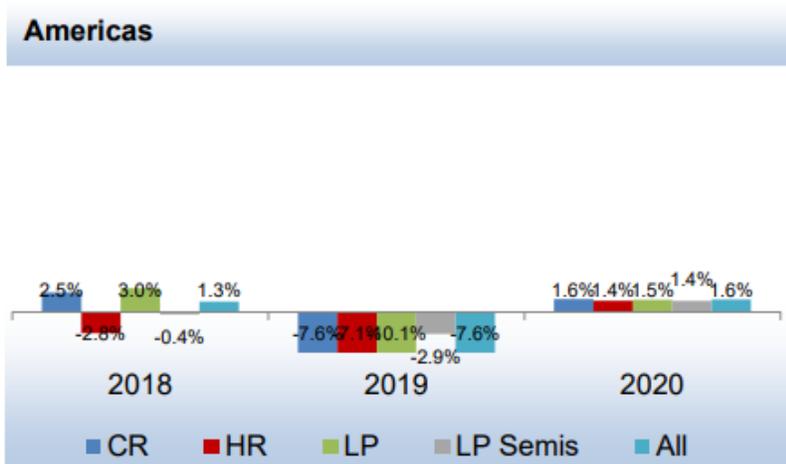
Primary nickel prices were pressured lower at the LME last week even as warehouse stocks continue to be drawn down. On Thursday, LME 3-mo. nickel traded as low as \$16,085/mt, down from more than \$18,000 per ton in mid-September. At the same time, nickel stocks in LME warehouses have plunged by 80,000 tons over the last month and are down by around 120,000 tons since the start of the year. But as Andy Home from Reuters has written, “This LME stocks grab isn’t a reflection of current market dynamics but is rather about potential future market tightness resulting from the cut in the flow of Indonesian ore to China’s mainland stainless steel producers. It is no secret in the nickel market that a Chinese company has been snapping up LME stocks. Tsingshan Holding Group was the driver of falling stocks in July and is the name in the frame again this time. The stainless steel producer sits at the heart of the supply conundrum thrown up by Indonesia’s accelerated ban on ore exports.”



On a related note, the International Stainless Steel Forum reports that global stainless steel production increased 1.9% in the first half of 2019 as an 8.5% increase in Chinese stainless production more than offset weaker production in Europe (-4.9%) and the U.S. (-6.4%). Looking forward, ISSF is projecting a contraction in stainless steel consumption in the Americas in 2019 and only a modest rebound in 2020.

Stainless Steel Consumption Year-on-Year Changes (%)

Source: International Stainless Steel Forum



Recovered Paper –

According to the Bureau of International Recycling’s recent press release, “Over the course of the next three to four years, Turkey could provide a home for a significant proportion of Europe’s recovered fibre surplus, it was indicated at the latest meeting of the BIR Paper Division.

By the year 2023, Turkish paper mills are expected to have developed a combined annual production capacity of between 6 and 7 million tonnes. However, the country’s collection rate of around 40% is well below that achieved by many developed countries and “is not increasing”, explained guest speaker Ercan Yürekli from TÜDAM, the national association of Turkish paper and plastic recyclers and collectors. As a result, he calculated, there will be a need for annual imports into Turkey of perhaps 2 to 3 million tonnes of recovered fibre, meaning that the country could provide “a solution for some of Europe’s surplus”.

Under current waste management regulations in Turkey, only recyclers are allowed to import recovered paper whereas collection companies cannot. The country’s imports have soared from just over 300,000 tonnes in 2015 to more than 725,000 tonnes in 2018, with a figure nearer 1 million tonnes anticipated for 2019.

New capacity is also emerging in Sweden, it was reported by divisional Vice President Martin Leander of Stena Metall International AB. At the same time, the insulation and hygiene sectors have been trialling wider use of recovered fibre in their products.

Earlier in the BIR Paper Division’s meeting in Budapest on October 15, the body’s General Delegate Sébastien Ricard of France-based Paprec explained that Europe’s structural surplus of recovered fibre is currently approaching 8 million tonnes per year, with annual collections of 56.7 million tonnes exceeding consumption of 48.8 million tonnes. “So we need exports in Europe,” he emphasised. “We need new markets.”

Transportation Costs: Diesel Fuel

The U.S. Energy Information Administration reports the average U.S. on-highway diesel fuel price was little changed at \$3.051 per gallon for the week ending October 14th, although as compared to this time last year the average diesel price was down more than 34 cents per gallon. Diesel fuel prices were reportedly unchanged in the Midwest last week, while prices on the West Coast (less California) saw the sharpest increase for the week, rising 2½ cents to \$3.24 per gallon.

U.S. On-Highway Diesel Fuel Prices* (dollars per gallon)						
				Change from		
	09/30/19	10/07/19	10/14/19	week ago	year ago	
U.S.	3.066	3.047	3.051	↑ 0.004	↓ -0.343	
East Coast	3.065	3.041	3.044	↑ 0.003	↓ -0.338	
New England	3.056	3.047	3.042	↓ -0.005	↓ -0.319	
Central Atlantic	3.238	3.224	3.227	↑ 0.003	↓ -0.317	
Lower Atlantic	2.948	2.915	2.920	↑ 0.005	↓ -0.352	
Midwest	2.987	2.967	2.967	0.000	↓ -0.384	
Gulf Coast	2.827	2.804	2.805	↑ 0.001	↓ -0.367	
Rocky Mountain	3.032	3.022	3.041	↑ 0.019	↓ -0.359	
West Coast	3.645	3.642	3.653	↑ 0.011	↓ -0.227	
West Coast less California	3.228	3.215	3.240	↑ 0.025	↓ -0.351	
California	3.976	3.981	3.982	↑ 0.001	↓ -0.127	

*prices include all taxes

This Week's Story

A man is out driving in the country and sees a sign outside an old farmhouse: 'Talking Dog For Sale.' He rings the bell and the owner appears and tells him the dog can be viewed in the back garden.

The man sees a very nice looking Labrador Retriever sitting there. "Do you really talk?" He asks the dog. "Yes!" The Labrador replies. After recovering from the shock of hearing the dog talk, the man asks, "So, tell me your story!"

The Labrador looks up and says, "Well, I discovered that I could talk when I was pretty young. I wanted to help the government, so I joined the CIA. In no time at all they had me jetting from country to country, sitting in rooms with spies and world drug lords, because no one imagined that a dog would be eavesdropping. I was one of their most valuable spies for eight years."

"But the jetting around really tired me out," the dog continued, "and I knew I wasn't getting any younger so I decided to settle down. I signed up for an undercover airport security job, wandering near suspicious characters and listening in. I uncovered some incredible dealings and was awarded several medals. I got married, had a few puppies, and now I've just retired!"

The man is amazed. He goes back into the house and asks the farmer how much he wants for the dog. "Twenty dollars!" The owner says. "\$20? But this dog is absolutely amazing! Why on earth are you selling him so cheaply?" The farmer replies, "Because he's a dirty liar. He's never been out of the garden!"

This Week's Quote

"Wise men speak because they have something to say; Fools because they have to say something."

-- Plato

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An advertisement for Hitachi featuring a worker in a high-visibility vest and hard hat standing in a recycling facility. The background shows large metal drums and a large pipe. The text on the right side of the image reads: "HITACHI Inspire the Next", "Read the metal. Discover its value.", and "See our full range >".

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