

June 22, 2020

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This Morning

- The Bloomberg Commodity Index was up more than 0.4% this morning as energy and precious metal prices advanced, while industrial metal prices were mixed.
- In New York, NYMEX crude oil futures rose above \$40/bbl (+1.2%) this morning while COMEX copper futures advanced 1.5% to \$2.65/lb. Gold futures were also up around 1% to \$1,770/to as of this writing.
- In London, base metal prices were mixed this morning, with LME 3-mo. copper and aluminum trading as high as \$5,902/mt and \$1,604.50/mt, respectively, while lead and nickel prices edged lower.
- Bloomberg reports that “commodity investors face challenging territory in the final full week of June. While anti-virus curbs are being eased in many nations, there’s concern about a resurgence in cases in some locales.”
- On Wall Street, the Dow Industrials and S&P 500 were little changed in early morning trading on Monday following losses at most of the major European bourses.
- In foreign exchange trading, the dollar was weaker against most major trading partners with the euro buying \$1.126 while the greenback dropped to 106.83 Japanese yen.

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Selected Primary Commodity Prices: June 22, 2020

	Last	CHG	% CHG	Prior	Open	High	Low
COMEX Copper Jul (\$/lb.)	2.650	0.039	1.5%	2.611	2.602	2.662	2.595
COMEX Gold Aug (\$/to)	1,770.2	17.2	1.0%	1,753.0	1765.8	1,779.0	1,753.5
COMEX Silver Jul (\$/to)	17.98	0.1	0.7%	17.85	17.92	18.19	17.9
NYMEX Light Sweet Crude Aug (\$/bbl)	40.32	0.5	1.2%	39.83	39.02	40.33	39.00
SHFE Aluminum Aug (RMB/mt)	13,600	50	0.4%	13,550	13,640	13,705	13,515
SHFE Copper Aug (RMB/mt)	47,540	350	0.7%	47,190	47,900	47,930	47,150
SHFE Nickel Aug (RMB/mt)	102,760	-650	-0.6%	103,410	104,190	104,250	101,660
SHFE Zinc Aug (RMB/mt)	16,910	90	0.5%	16,820	17,000	17,015	16,760

The Week Ahead

- Markets will be focused on new flash manufacturing PMI reports due out for key advanced economies this week including Japan, France, Germany, the UK, the euro zone, and the United States.
- Key U.S. economic reports scheduled for this week will cover personal income (consensus -6.0%) personal spending (consensus +7.0%), and durable goods orders (consensus +11.6%), along with new releases on new and existing home sales. No large revisions are expected in the 3rd estimate of Q1 GDP (-5.0%) while initial claims are expected to ease to 1.25 million for the week ending June 20.
- In Europe, markets will also be paying attention to the minutes of the last European Central Bank meeting along with Germany's influential Ifo business climate index.
- Also of note, the International Monetary Fund releases its updated economic forecasts this week.
- Be safe and have a great week!

U.S. Economic Calendar: June 22-26, 2020

Date	Time (ET)	Release	Period	Consensus	Prior
22-Jun	10:00	Existing Home Sales	May	3.98M	4.33M
23-Jun	10:00	New Home Sales	May	635K	623K
24-Jun	9:00	FHFA Housing Price Index	Jun	NA	0.10%
25-Jun	8:30	Initial Claims	20-Jun	1.25M	1.508M
25-Jun	8:30	Continuing Claims	13-Jun	NA	20.544M
25-Jun	8:30	Durable Orders	May	11.6%	-17.7%
25-Jun	8:30	GDP - Third Estimate	Q1	-5.0%	-5.0%
25-Jun	8:30	Adv. Intl. Trade in Goods	May	NA	-\$69.7B

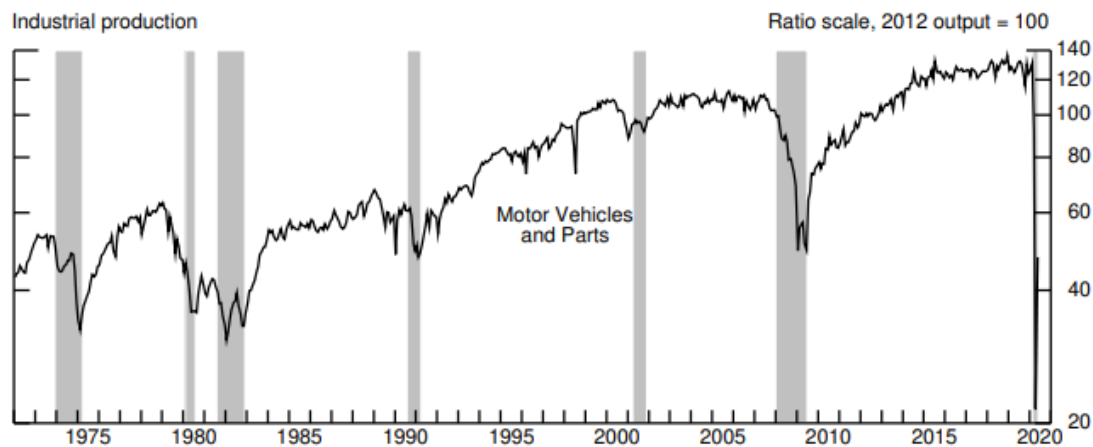
26-Jun	8:30	Personal Income	May	-6.0%	10.5%
26-Jun	8:30	Personal Spending	May	7.0%	-13.6%
26-Jun	8:30	PCE Prices	May	0.0%	-0.5%
26-Jun	10:00	Univ. of Michigan Consumer Sentiment	Jun	78.8	78.9

Economic Week in Review

Industrial Production

- Last week, the Federal Reserve reported that **U.S. industrial production** rebounded 1.4% in May following a downwardly revised 12.5% contraction in April.
- However, the Fed reports that “total industrial production in May was 15.4 percent below its pre-pandemic level in February...”
- Manufacturing output—which fell sharply in March and April—rose 3.8 percent in May; most major industries posted increases, with the **largest gain registered by motor vehicles and parts...** At 92.6 percent of its 2012 average, the level of total industrial production was 15.3 percent lower in May than it was a year earlier.”

Industrial production of selected industries



Regional Manufacturing

The Philadelphia Fed manufacturing index rebounded sharply in June (27.5), easily beating expectations:

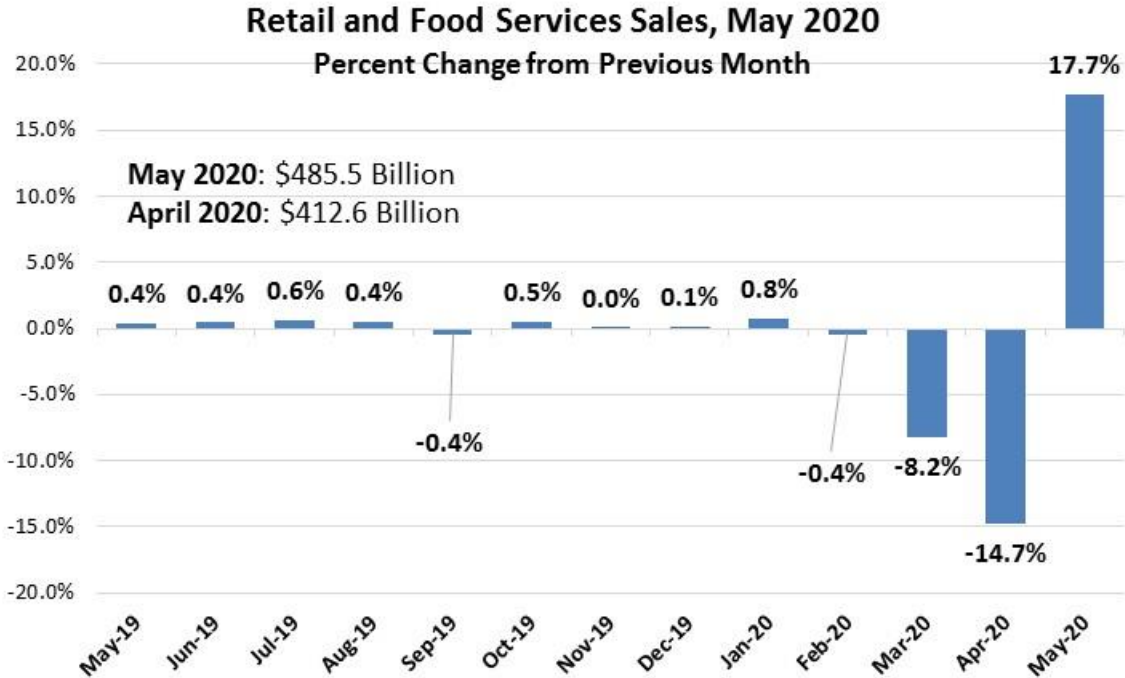


Retail Sales

The Census Bureau released its Advance Monthly Sales for Retail and Food Services, May 2020 last week. It shows an unforeseen and unprecedented bounce back from April, suggesting a “V” shape recovery, at least for retail. However, it is still too early to establish trends, no matter how welcome the bounce. In May 2020, clothing and clothing accessories stores led the way, followed by furniture & home furnishing stores; sporting goods, hobby, musical instrument, and book stores; and motor vehicle & parts dealers.

- Overall retail sales rose 17.7 percent in May 2020, from April to \$485.5 billion, the largest percent change in the retail sales tracking.
- In April 2020, revised overall retail sales fell 14.7 percent from March. This is the largest percentage drop in the retail sales tracking.
- Industry sectors leading the May 2020 retail sales boom, as measured from percent change from April 2020 were:
 - Clothing and clothing accessories stores rose 188.0 percent;
 - Furniture & home furnishing stores increased 89.7 percent;
 - Sporting goods, hobby, musical instrument, and book stores increased 88.2 percent; and

- Motor vehicle & parts dealers increased 44.1 percent.



Sources: U.S. Census Bureau; ISRI

Housing Market Indicators

Contributing to optimism in near-term economic conditions, building permits and housing starts were up in May 2020. Building permits rebounded sharply, while the housing starts bounce back was mild. As an expected effect from the COVID-19 pandemic, housing completions are down, according to U.S. Census Bureau's press release on Monthly New Residential Construction, May 2020.

Building Permits

- Building permits increased 14.4 percent in May 2020 from April to 1.22 million units on a seasonally adjusted basis (SA), but were 8.8 percent below a year ago (May 2019).
- Single-family permits were up 11.9 percent in May 2020 to 745,000 (SA).
- Multi-family permits, seasonally adjusted, were also up in May 2020:
 - 2 to 4-unit structures were up 24.2% to 41,000; and
 - 5 units or more structures were up 18.3 percent to 434,000.
- All regions of the country increased in May 2020, from between 5.6 percent to 18.4 percent.

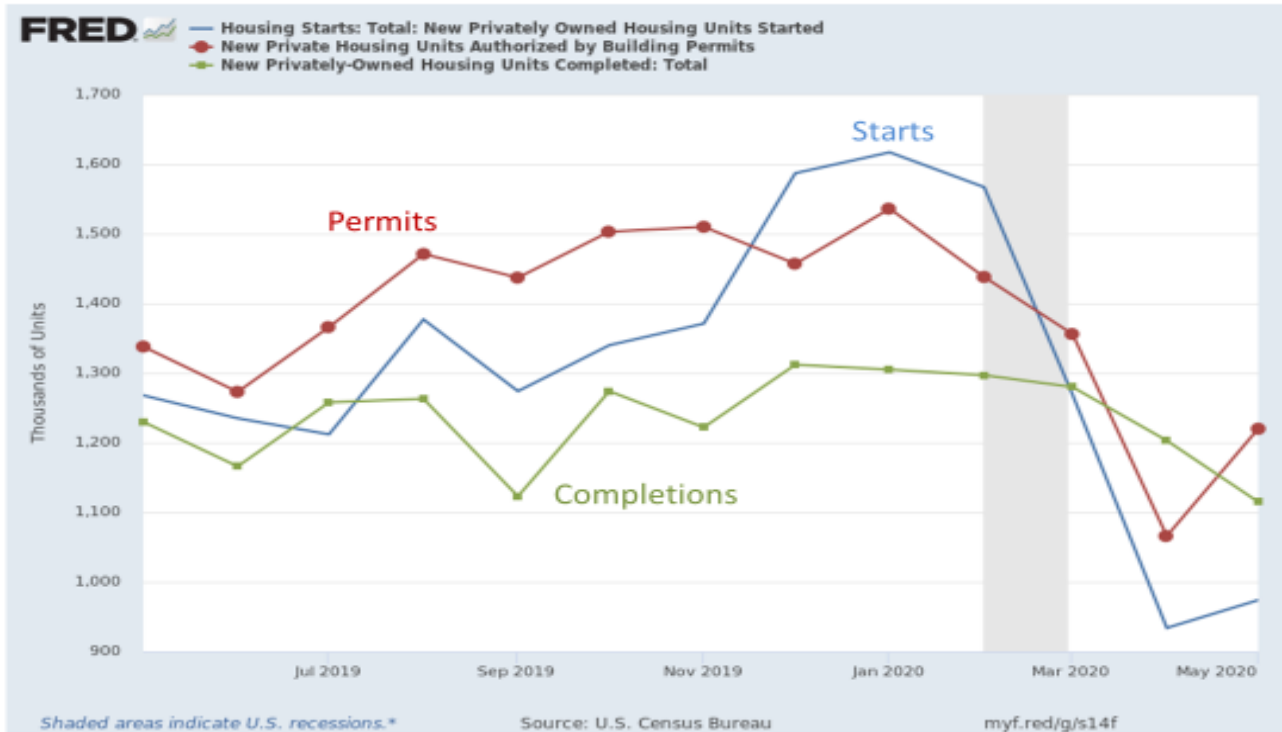
Housing Starts

- Housing starts increased 4.3 percent in May 2020 to 974,000 (SA), but were still 23.2 percent below a year ago (May 2019).
- Single-family starts were virtually flat, rising 0.1 percent in May 2020 to 675,000 (SA).
- Multi-family structures with 5 + units increased 16.9 percent to 291,000 (SA). 2-4-unit structures did not meet publication standards so no numbers were published.
- The only region with growth in May 2020 was the West, up 0.6 percent (SA). All other regions were down, from between 0.6 percent to 4.1 percent (SA).

Housing Completions

- Housing completions fell 7.3 percent in May 2020 to 1.115 million (SA). They were 9.3 percent below a year ago (May 2019).
- Single-family housing completions were down, 9.8 percent in May 2020 to 791,000 (SA).
- Multi-family structures with 5 + units decreased 2.2 percent to 310,000 (SA). 2-4-unit structures did not meet publication standards so no numbers were published.

- The Northeast and Midwest saw housing completions increase nearly 12 percent, the South was down 16.5 percent and housing completions in the West were flat.



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Commodity Market Developments

Ferrous

- The American Iron and Steel Institute reports that for “the week ending on June 13, 2020, domestic **raw steel production** was 1,210,000 net tons while the capability utilization rate was 54.0 percent.”

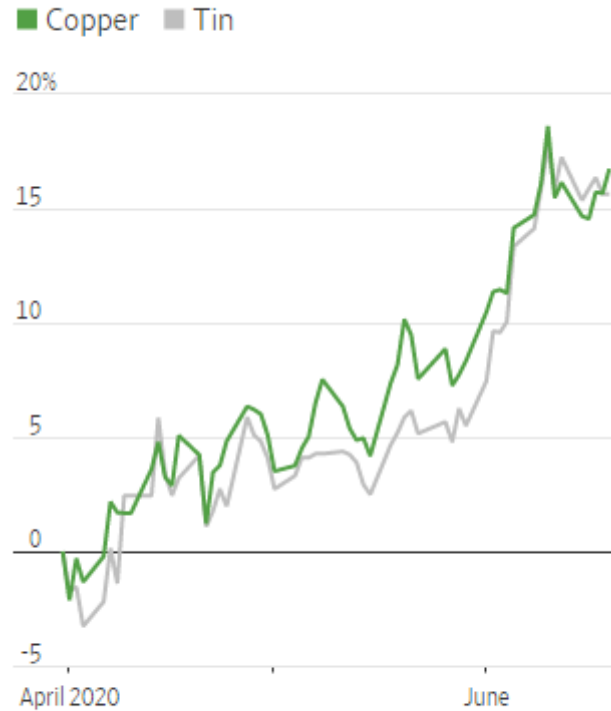
As compared to one year ago, when the capacity utilization rate was 80.1%, U.S. steel production was down 35.1 percent but was up 1.3% as compared to the preceding week.

- Fastmarkets AMM reports **“Hot-rolled coil prices in the United States fell sharply on Friday June 19, with certain mills willing to sell at deeply discounted prices potentially due to weak demand, sources said. Fastmarkets’ daily steel hot-rolled coil index, fob mill US was calculated at \$23.94 per hundredweight (\$478.80 per short ton) on June 19, down by 3.9% from \$24.92 per cwt on Thursday and a drop of 7.8% from \$25.97 per cwt on June 12.**
- In its guidance for 2nd quarter 2020 earnings, **Nucor announced last week that “Second quarter operating performance has been better than expected** and we have estimated our guidance range accordingly. Though overall market conditions are still challenged by the pandemic, demand in nonresidential construction has been resilient during this time. Nucor's downstream steel products segment is having another strong quarter. In our steel mills segment, the impacts of the COVID-19 pandemic have most negatively impacted our sheet and plate mills due to weak oil and gas market activity and customer production disruptions. Although domestic automotive production was halted due to COVID-19 concerns, we are seeing a strong rebound in automotive related steel demand. The automotive industry experienced better than expected sales during their outage period resulting in low inventory levels as we enter the third quarter of 2020. Our raw materials segment has been challenged by decreased pricing for raw materials and the impact of an outage at our DRI facility in Trinidad to comply with that country's stay at home orders.”
- On the **scrap export front**, despite reports of deteriorating global sentiment, AMM reports that “US ferrous export market participants reported higher prices on recent sales from the West and East coasts to Turkey and South Korea.”
- In China, Macquarie reports that **“China’s latest inventory data flags some seasonal weakness for the ferrous trade.** The surprisingly strong May-Jun steel destock by local traders/mills is ending. What’s the seasonality here? CISA mills’ daily output continues to climb, on track for a record-high in June, but they’re super-stretched – typical for this time of year. Elsewhere, flooding rains in China’s south have slowed construction activity.”

Nonferrous

- The Wall Street Journal reports today that **“Prices for raw materials including oil and copper are surging as the world economy reopens for business, a signal to many investors that global growth is returning more quickly than anticipated... Industrial metals have also been on a tear, with copper and tin up more than 15% so far this quarter.”**
- In corporate news, Macquarie reports that **“Freeport McMoran this week announced the closure of its 340ktpa Norwich copper rod mill in Connecticut and its 8ktpa Bayway specialty copper products facility in New Jersey,** to “gain efficiencies with our two other rod mill operations” and due to “continued economic uncertainty resulting from the COVID-19 pandemic” (Fastmarkets). FCX retains its 340ktpa rod mill in El Paso, Texas and a 135ktpa rod mill in Miami, Arizona.”
- **On the aluminum scrap front,** Fastmarkets AMM reports that “Aluminium scrap prices edged up in the United States on Thursday June 18 while smelter capacity continued to improve, albeit slowly, and demand for finished aluminium products seemed on the road to recovery. Industrial scrap supply also appeared to be improving, but peddler-sourced scrap remained tight. ‘I think the big secondaries might get busier in July,’ one trading source said. ‘It’s everybody’s goal to [increase production] by 10% per month.”
- Our friend Edward Meir at ED&F Man Capital cites a Reuters report indicating **“China’s primary aluminum production edged higher** in May from the previous month, as the launch of new smelting capacity lifted supply. The country produced nearly 3 mln tons of metal last month, up .4% from April and just about flat year-over-year. **January-May aluminum output was up 2.1% year-on-year** (at 14.81 million tons).

Second-quarter performance



Note: Front-month Comex copper price and London Metal Exchange for delivery in three months tin price
Sources: CQG (tin); FactSet (copper)

Plastics

Earlier this month, ISRI hosted a Spotlight on Plastics. Presenters for the plastics section were Dr. Kevin Swift, Chief Economist and Managing Director at the American Chemistry Council and Scott Saunders, General Manager of KW Plastics Recycling Division and Vice President of the ISRI Plastics Division. Sunil Bagaria, President of GDB International Inc. and President of the ISRI Plastics Division moderated the panel. Below are some highlights from the plastics portion of the webinar.

Kevin Swift, American Chemistry Council

- Dr. Swift reminded attendees of the importance of plastics, from their use in vehicles, making them lighter and increasing fuel economy. He pointed out that plastic packaging uses 80 percent less energy than alternatives.
- The largest end uses markets for plastics, and subsequently are drivers in their use, are:
 - Retail; Housing and construction; Light vehicles; Appliances; Furniture and furnishings; Machinery and industrial; and exports.
- Thirty percent of resins are exported.
- He provided all with a rule of thumb about the oil-to-natural gas price ratio: When this ratio is above 7, this gives the petrochemicals markets an advantage. When below 7, they are less advantaged and supply constricted.
- Since 2010, there have been 344 projects related to shale gas valued at \$204.4 billion
- Plastic resin projects number 89, valued at \$57.7 billion nearly two-thirds of this amount has been completed or is under construction.
- Producer inventories of basic chemical and synthetic materials are in pretty good shape going into this recession, with about an 18-day supply.
- Production levels in the basic chemical and synthetic materials sector are forecasted to sharply drop about 10-11% this year, and are estimated to take about a year to recover to pre-COVID levels. Capacity is expected to continue to expand.
- Plastic resins production, following the approximate decline of 20 percent, are expected to reach 68.1 million metric tons by 2022. U.S plastic resin production accounts for about 17 percent of worldwide production and this will likely increase in the future as U.S. has a good competitive outlook.

Scott Saunders, KW Plastics

- Scott built on some of the macro area that Dr. Swift presented.
- KW Plastics are recyclers, processing about 250 million pounds of HDPE and 250 million pounds of PP annually. KW container consumes 100 million pounds of PP post-consumer plastics annually in paint pail production.
- In September 2018, China began instituting counter tariffs on plastics from the U.S. and this started to weaken the demand for PP worldwide.
- In late 2019, as tariffs were added and counterbalance by US, scrap plastics market was affected.
- Automotive production uses lots of PP and HDPE and these markets were hurt considerably with automobile production ceasing for six to seven weeks.
- Another factor negatively effecting these markets is the low oil prices, which fell to \$20 per barrel and have since rebounded, but the plastics market continues to be impacted.
- In August and September of 2019, consumer product companies announced that they were going to use a minimal amount of post-consumer resins, this led to an unprecedented run up in value of natural high density, meaning that the unprepared scrap was the same value as the virgin alternative.
- The mixed color bales were not affected by the consumer product company demand, but by market conditions.
- Tub and lid bales from MRFs, used by automotive sector, took a big hit during the cease of automotive production and expect this market to return to somewhat normal in July, but time will tell.

This Week's Quote

"I hated every minute of training, but I said, 'Don't quit. Suffer now and live the rest of your life as a champion.'" -- Muhammad Ali



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