

February 25, 2020

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This Morning

The market sell-off continued today amid coronavirus concerns as the Dow Industrials were down another 800 points in afternoon trading following yesterday's more than 1,000-point drop, the worst one-day point decline since February 2018. The major commodity indexes were down around 1% today amid falling crude oil and precious metal prices. Reuters reports crude oil futures fell for a third day in a row as "...concerns about the spread of the coronavirus and its impact on oil demand outweighed OPEC output cuts and Libyan supply losses." In New York, NYMEX crude oil futures dipped below \$50 per barrel while COMEX copper futures were down around \$2.57 per pound. In London, base metal prices were mixed as LME 3-mo. aluminum traded as low as \$1,697 per metric ton while 3-mo. nickel edged up to \$12,525/mt in late day trading. In foreign exchange trading, the euro was buying \$1.088 while the British pound was trading around \$1.30. Providing timely, pertinent, and solid information, ISRI presents an ISRI Member Webinar: The Coronavirus's Impact on the Scrap Industry -- Wednesday February 26, 2020 at 3 pm EST. Please join ISRI Chief Economist Joe Pickard and guest speakers Catherine Troisi, PhD, epidemiologist at The University of Texas Health Science Center at Houston and Jason Schenker, President of Prestige Economics and Chairman of The Futurist Institute for the latest on the coronavirus' likely economic, trade, and public health impacts and the potential implications for the global scrap recycling industry. Register through ISRI's website, www.isri.org.

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Selected Primary Commodity Prices: February 25, 2020

	Last	CHG	% CHG	Prior	Open	High	Low
COMEX Copper Mar (\$/lb.)	2.567	-0.01	-0.4%	2.577	2.571	2.592	2.566
COMEX Gold Feb (\$/to)	1,648.2	-28.4	-1.7%	1,676.6	1661.8	1,666.7	1,635.1
COMEX Silver Mar (\$/to)	18.18	-0.7	-3.7%	18.88	18.63	18.64	18.1
NYMEX Light Sweet Crude Feb (\$/bbl)	49.84	-1.6	-3.1%	51.43	51.37	52.02	49.78
SHFE Aluminum Apr (RMB/mt)	13,500	-5	0.0%	13,505	13,510	13,555	13,445
SHFE Copper Apr (RMB/mt)	45,870	-10	0.0%	45,880	46,040	46,040	45,670
SHFE Nickel Apr (RMB/mt)	102,240	280	0.3%	101,960	102,040	102,930	101,330
SHFE Zinc Apr (RMB/mt)	16,525	-245	-1.5%	16,770	16,550	16,650	16,440

The Week Ahead

On the U.S. economic calendar this week, we'll get new figures on the housing market, consumer confidence, durable goods orders, and the updated estimate of 4th quarter GDP, along with personal spending & income. The consensus forecasts are that personal income and spending increased 0.4% and 0.2%, respectively, in January while durable goods orders declined 1.6%. In overseas developments, President Trump makes his first visit to India this week while in Europe "EU governments will make a final push this week to toughen the bloc's negotiating position ahead of the opening of trade talks with the UK," the Financial Times reports. In Germany, new figures are due out on business sentiment, GDP, unemployment, and consumer price inflation, while Japan releases a batch of data covering industrial production, retail sales, and unemployment. And on Wednesday, ISRI hosts a members-only [webinar on the potential impacts of the coronavirus](#) on the scrap recycling industry. Have a great week!

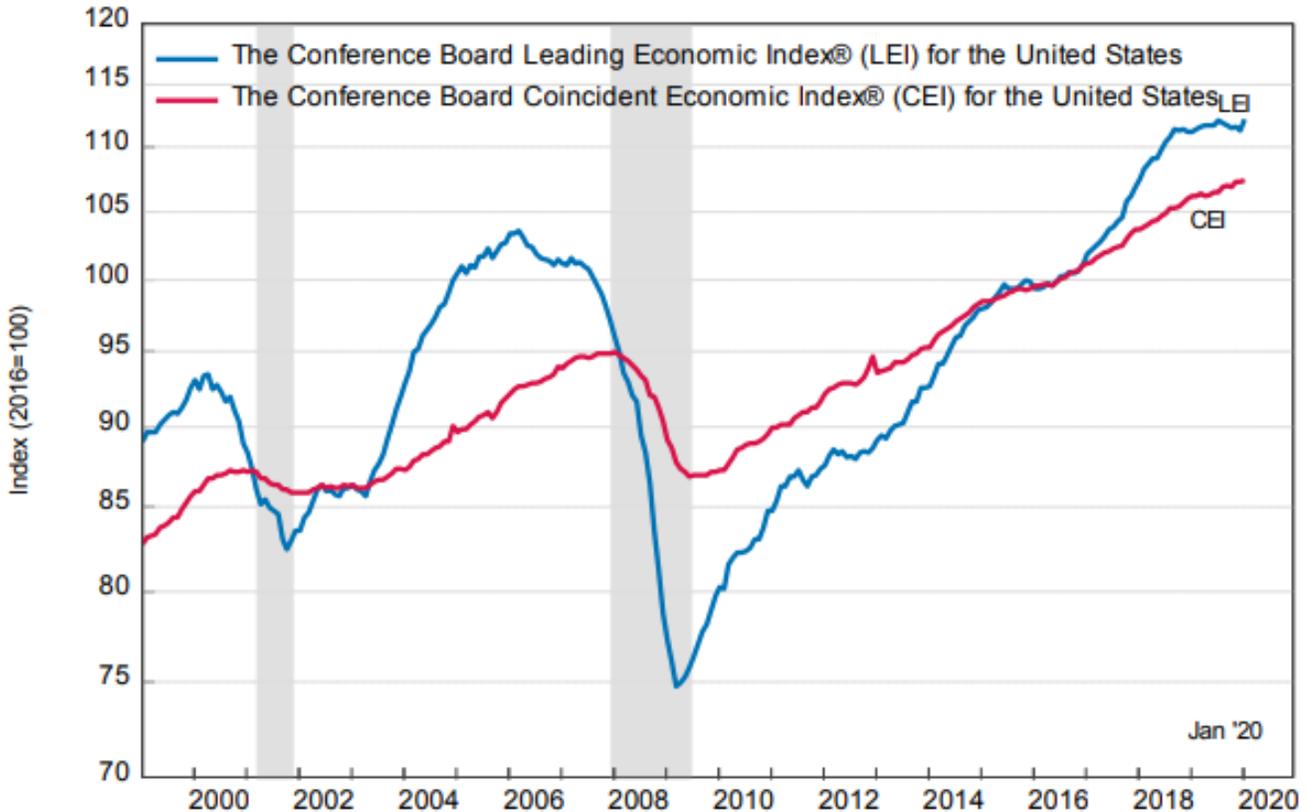
U.S. Economic Calendar, February 25-28, 2020

Date	Time (ET)	Release	Period	Consensus	Prior
25-Feb	9:00	S&P Case-Shiller Home Price Index	Dec	3.2%	2.6%
25-Feb	10:00	Consumer Confidence	Feb	133	131.6
26-Feb	10:00	New Home Sales	Jan	720K	694K
27-Feb	8:30	Durables Orders	Jan	-1.6%	2.4%
27-Feb	8:30	Initial Unemployment Claims	22-Feb	212K	210K
27-Feb	8:30	GDP - Second Estimate	Q4	2.2%	2.1%
27-Feb	10:00	Pending Home Sales	Jan	2.0%	-4.9%
28-Feb	8:30	Personal Income	Jan	0.4%	0.2%
28-Feb	8:30	Personal Spending	Jan	0.3%	0.3%
28-Feb	8:30	PCE Prices	Jan	0.2%	0.3%

28-Feb	8:30	Adv. International Trade in Goods	Jan	NA	-\$68.3B
28-Feb	8:30	Adv. Wholesale Inventories	Jan	NA	-0.1%
28-Feb	10:00	Univ. of Michigan Consumer Sentiment – Final	Feb	100.80	100.90

Economic Week in Review

Last week's U.S. economic reports mostly came in better than expected, including the Conference Board's index of leading economic indicators, which rebounded 0.8% higher in January following a 0.3% decline in December. According to Ataman Ozyildirim, Senior Director of Economic Research at the Conference Board, "The strong pickup in the January US LEI was driven by a sharp drop in initial unemployment insurance claims, increasing housing permits, consumers' outlook on the economy and financial indicators... The LEI's six-month growth rate has returned to positive territory, suggesting that the current economic expansion – at about 2 percent – will continue through early 2020. While weakness in manufacturing appears to show signs of softening, the COVID-19 outbreak may impact manufacturing supply chains in the US in the coming months."



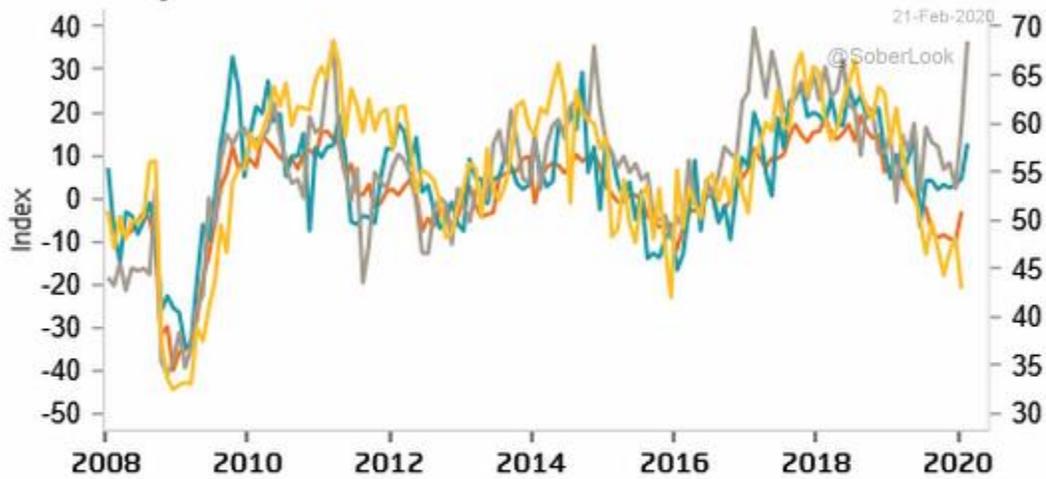
In other positive news, the Philly Fed's Manufacturing Index jumped to 36.7 in February, easily beating the 11.0 consensus forecast and, along with a positive New York regional manufacturing report, is pointing to a rebound in the ISM's manufacturing Purchasing Managers Index.

Philly Fed business survey shows no impact from Corona yet...

Posted on
WSJ, The Daily Shot

21-Feb-2020

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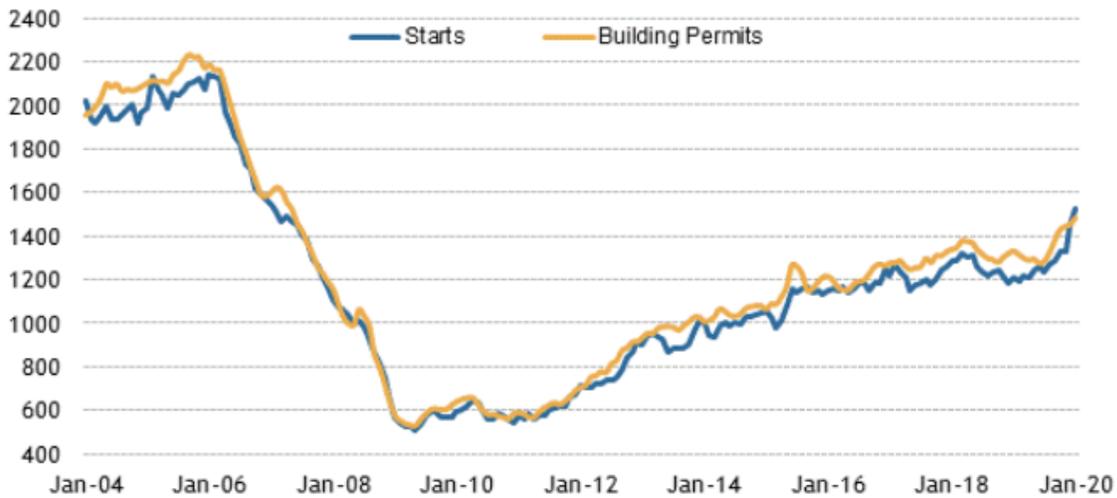


- Market News International Chicago Business Barometer SA, rhs
- Federal Reserve Bank of Philadelphia, Business Outlook Survey, Manufacturing...
- Empire State Manufacturing Survey, lhs
- ISM, Report on Business, Manufacturing, Purchasing Managers' Index, SA, rhs

Source: Swedbank Research & Macrobond

Strong housing market numbers have also bolstered the outlook for the first half of 2020, with the Census Bureau and HUD reporting last week that housing permits were up 17.9% year-on-year in January to 1.55 million units SAAR while housing starts surged 21.4% higher Y-o-Y to nearly 1.63 million units SAAR last month. According to Briefing.com, “The key takeaway from the report is the recognition that the three-month moving average for starts (1.525 mln) is the highest since January 2007.”

**Housing Starts and Building Permits 3-Month Moving Average
(thousands, SAAR)**



Source: Census Bureau; updated 02/19/20

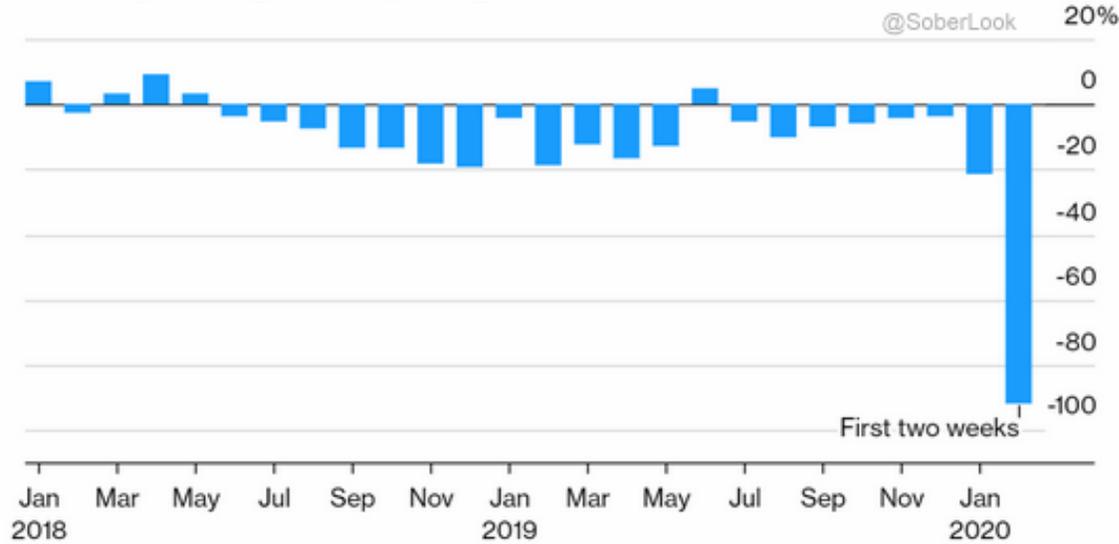
Briefing.com

Of course, the lag in some of the U.S. economic data means that the coronavirus worries haven't been baked in yet. An early indicator from China – Chinese car sales in the first half of February – points to the potential scale of the impact not just for China but for the global manufacturing supply chain:

Car Crunch

China car sales sank 92% during the first two weeks of February amid virus outbreak

■ Year-on-year change in China passenger vehicle sales



Source: China Passenger Car Association

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Commodity News

The coronavirus's (COVID-19) impact hit markets on Monday morning as Italy put part of the country on lockdown because of the virus's spread. The Dow Industrials and NASDAQ plummeted more than three percent by mid-morning and international indexes fell sharply too. The Hang Seng closed 1.8% lower on Monday, the Korean Stock Exchange closed down nearly 4%, and stocks in Italy were down around 6% by the end of their trading day on Monday. Uncertainty surrounding the spread of COVID-19 continues to add volatility to markets worldwide. As investors turned to "safe-havens" in anticipation of further declines, **gold futures** in New York surged as high as \$1,692 per troy ounce on Monday, while **silver futures** approached \$19/to. But crude oil and base metal prices have not fared well, with COMEX **copper futures** trading as low as \$2.5585/lb. on Monday while NYMEX **crude oil futures** were testing support around \$50 per barrel. For comparison's sake, crude oil futures were trading near \$65/bbl earlier in the year.

For U.S. scrap dealers, the fall in primary nonferrous metal prices only compounds the challenges presented by the shifting global landscape for scrap metal. As we presented at the ISRI Board of Directors meeting in Nashville last week, while the overall volume of U.S. nonferrous scrap metal exports was little changed in 2019, the composition of the scrap trade flows has changed dramatically. In 2016, U.S. nonferrous scrap exports (including copper, aluminum, nickel, lead, and zinc scrap) to China totaled more than 1.36 million tons, while shipments to the rest of the world were nearly 1.1 million tons. Fast

U.S. Nonferrous Scrap Exports to Mainland China and Rest of World, 2016-2019 (metric tons)

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

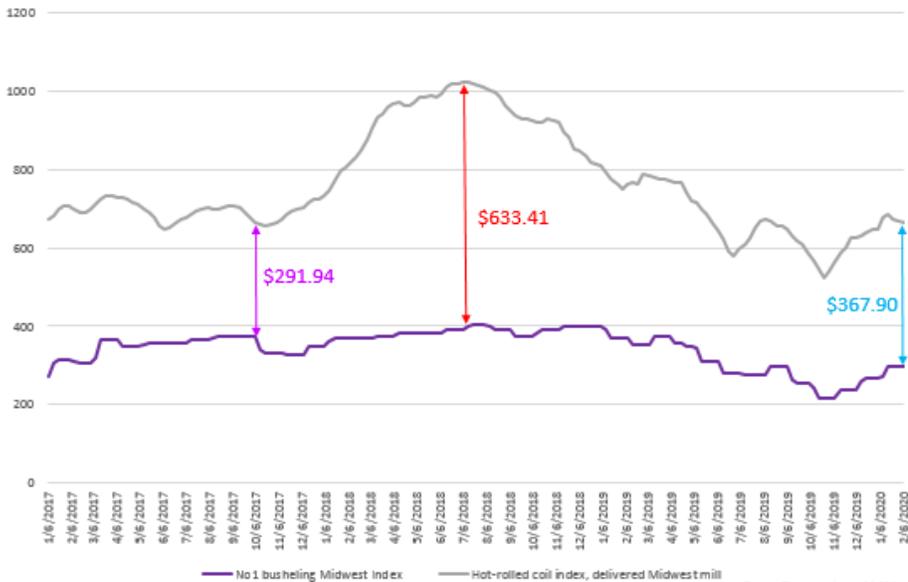


forward to 2019 and the balance has shifted to about 400,000 tons to mainland China and nearly 2.5 million tons to the rest of the world:

And for those of you who may have missed our ferrous webinar with Sean Barry yesterday (please contact JLevy@isri.org for info about how to access the recording of the webinar), here's a slide that pretty clearly illustrates the disconnect between scrap and steel mill prices in recent years:



Spread between busheling and hot-rolled coil prices



- Spread was narrowest at \$291.94 per gross ton in October 2017.
- Steel prices rallied following Section 232 and the spread widened swiftly to \$633.41 per gross ton in July 2018.

Data: [Fastmarkets AMM](#)

Focus on Paper

U.S. recovered paper and fiber exports declined in 2019 both in terms of quantity and value according to data released by the U.S. Census Bureau and the U.S. International Trade Commission. The quantity of RP exported from the United States in 2019 declined by 2,328,830 mt to 16,723,720 mt and the value dropped by \$508.6 million to \$2.8 billion. Generally, quantity and value mirror each other in positive and negative year-to-year changes. One notable difference was 2009, when the quantity of RP exports increased but the value declined. U.S. recovered paper exports peaked both in terms of quantity and value in 2011 at 21.1 million mt and \$3.8 billion, respectively.

U.S. Recoverd Paper and Fiber Exports, by Quantity and Value, 2000-2019

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



Top 15 U.S. Paper Export Markets

Ninety-five percent of all U.S. recovered paper exports in 2019 went to 15 countries. China again topped the list of countries receiving U.S. recovered paper exports (5.5 million mt), even though the amount exported to China was half of the 2017 volume. More than half of the countries in the top fifteen have reached 20 year highs, helping to bridge the reduction in material sent to China. These countries are Vietnam, Taiwan, Thailand, Malaysia, Netherlands, Columbia, Saudi Arabia, and United Arab Emirates. Note that the United Arab Emirates received more than three times the amount in 2019 than in 2018. U.S. exporters are finding new markets as evidenced by the increase in exports outside of the top 15 markets, with shipments to the rest of the world up nearly 22 percent in 2019.

Top 15 Countries for 2019 U.S. Recovered Paper Exports (metric tons)

Country	2017	2018	2019	% CHG
China	10,884,150	7,575,700	5,490,190	-27.5%
India	1,926,170	3,338,660	2,974,360	-10.9%
Mexico	1,566,960	1,669,350	1,329,000	-20.4%
Vietnam	399,650	765,880	1,052,420	37.4%
South Korea	885,140	1,118,940	991,540	-11.4%
Taiwan	280,930	692,490	905,680	30.8%
Canada	737,570	866,970	903,570	4.2%
Indonesia	440,320	1,162,670	898,090	-22.8%
Thailand	282,550	468,760	522,770	11.5%
Malaysia	23,570	111,770	181,820	62.7%
Netherlands	113,220	132,420	141,350	6.7%
Italy	97,100	262,790	141,070	-46.3%
Colombia	62,180	79,910	131,440	64.5%
Saudi Arabia	61,460	87,500	117,580	34.4%
United Arab Emirates	8,950	31,250	105,930	239.0%
Rest of World	543,940	687,490	836,910	21.7%
Total:	18,313,860	19,052,550	16,723,720	-12.2%

U. S. Exports by Grade and Market

- OCC/unbleached kraft exports declined 15 percent in 2019. The top two countries, China and India, accounted for 53 percent of these exports. **Top OCC growth markets last year were Vietnam, Taiwan, and Burma (Myanmar).**
- High-grade deinking paper exports rose nearly 4 percent in 2019. Top countries Mexico and India accounted for nearly 60 percent of these exports. **Top HG De-inking growth markets last year were Mexico, Colombia, and Chile.**
- Pulp substitutes (bleached chemical pulp) exports went down by 5 percent in 2019. The top countries India and Mexico accounted for almost two-thirds of these exports. **Top pulp substitute growth markets last year were India, the UAE, and Canada.**
- Newsprint realized a significant drop in exports, plummeting over 42 percent in 2019. Exports to China were down over 62 percent and they were still the top country to receive this type of recovered paper exports. China, combined with Mexico, accounted for 47 percent of newsprint exports. **Top newsprint growth markets last year were the UK, Germany, and Argentina, although the volumes were modest.**
- Mechanical pulp exports decreased more than 7 percent in 2019, but were eclipsed by the 512% surge in shipments of pulp fiber derived from recovered paper. **As compared to 2018 when the U.S. shipped less than 15,000 tons of recovered pulp fiber to China, in 2019 recovered pulp fiber exports to China rose to more than 216,000 metric tons, making it the top growth market.**
- Mixed/unsorted exports decreased nearly 7 percent in 2019. India and Canada accounted for 52 percent of mixed paper exports. **The top growth export markets for U.S. mixed paper in 2019 were Malaysia, South Korea, and Saudi Arabia.**



Weekly Market Report

U.S. Recovered Paper & Fiber Exports by Grade, 2017-2019

Metric tons

	2017	2018	2019	% CHG
OCC/Unbleached Kraft	8,980,373	11,380,454	9,657,082	-15.1%
Mixed Paper	3,527,241	2,607,073	2,432,841	-6.7%
High Grade De-Inking	906,576	1,022,793	1,060,333	3.7%
Pulp Substitutes (Bleached Chemical Pulp)	751,712	1,113,711	1,056,585	-5.1%
Printed News	1,758,321	1,215,675	702,499	-42.2%
Other (Mechanical Pulp + Pulp Fibers)	2,389,640	1,712,846	1,814,380	5.9%
TOTAL	18,313,863	19,052,552	16,723,720	-12.2%

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

Last but not least, we had two fantastic presentations from Fastmarkets RISI's Greg Rudder and Hannah Zhao at last week's ISRI Board of Directors meetings, which we'll review for you in next week's Market Report. In the meantime, please feel free to contact me at jpickard@isri.org for more information.

This Week's Quote

"The best executive is one who has sense enough to pick good people to do what he wants done, and self-restraint enough to keep from meddling with them while they do it."

-- Theodore Roosevelt

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