

May 26, 2020

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This Morning

Following the Memorial Day holiday on Monday, U.S. investors will be paying close attention this week to efforts to re-open economies across the United States and around the world. On Monday, Reuters reported that "Germany's Ifo Institute's closely watched business climate index rebounded more than expected in May, recovering from its most dramatic fall on record the previous month, as a gradual lifting of lockdowns boosted corporate expectations." In the commodity markets, crude oil and base metal prices were trading higher this morning with Bloomberg reporting "Oil rose above \$34 a barrel following a prediction from Russia that the market may rebalance as early as next month due to historic output cuts from global producers. Russia, a key member of the OPEC+ alliance that has pledged to trim supply by almost 10 million barrels a day, expects the market to balance in June or July. Energy Minister Alexander Novak said global output curbs have so far exceeded those agreed by the coalition. Futures in New York were 2.5% higher from Friday's close after there was no settlement Monday due to a holiday. In London, LME 3-mo. copper and aluminum were trading up around \$5,380/mt and \$1,513/mt, respectively, earlier today. In foreign exchange trading the dollar was down against most major trading partners with the euro up around \$1.096 while the British pound was buying \$1.232.

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Selected Primary Commodity Prices: May 26, 2020

	Last	CHG	% CHG	Prior	Open	High	Low
COMEX Copper Jul (\$/lb.)	2.421	0.035	1.4%	2.387	2.405	2.434	2.386
COMEX Gold Jun (\$/to)	1,722.9	-12.6	-0.7%	1,735.5	1727.2	1,737.2	1,718.0
COMEX Silver Jul (\$/to)	17.77	0.1	0.4%	17.69	17.63	18.04	17.4
NYMEX Light Sweet Crude Jul (\$/bbl)	34.09	0.8	2.5%	33.25	33.79	34.54	32.48
SHFE Aluminum Jul (RMB/mt)	12,905	80	0.6%	12,825	12,835	12,965	12,830
SHFE Copper Jul (RMB/mt)	43,800	350	0.8%	43,450	43,780	43,940	43,660
SHFE Nickel Aug (RMB/mt)	101,050	20	0.0%	101,030	101,030	101,900	100,710
SHFE Zinc Jul (RMB/mt)	16,325	-25	-0.2%	16,350	16,370	16,470	16,220

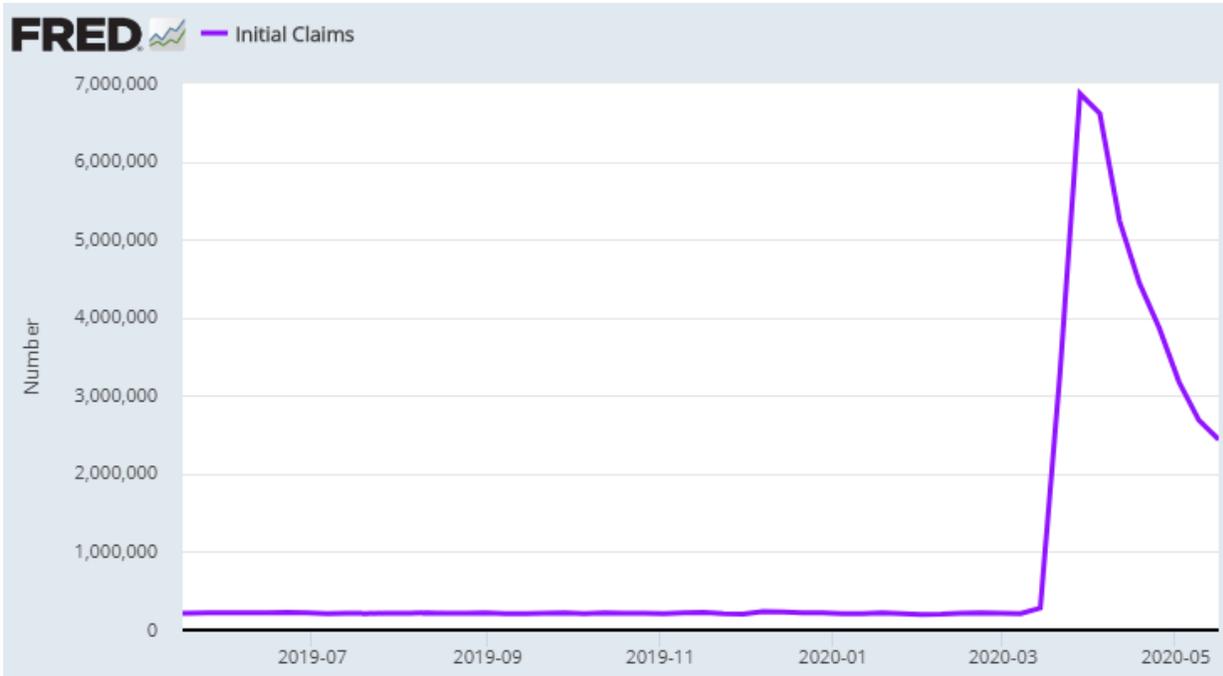
The Week Ahead

On the U.S. economic calendar this week we'll get updated readings on new home sales, consumer confidence, initial unemployment claims, durable goods orders, GDP, and personal income & spending. The consensus forecast is that personal spending plunged 15% lower in April (following a 7.5% contraction in March), while personal income declined 6.5% last month. Durable goods orders are forecast to have dropped 17% in April while initial unemployment claims for the week ending May 23rd are projected at 1.95 million. The level of unemployment claims remains hard to fathom. Back in mid-March, the expectation from a number of economic forecasters was that weekly claims would peak above 3.3 million and would subsequently decline to one million or less by late April:

CLAIMS LIKELY WILL DECLINE, BUT HOW QUICKLY?



It reminds us of the J.K. Galbraith quote that economic forecasts were created to make astrology look respectable. Initial claims peaked at more than 6.8 million in late March and have not declined anywhere near expectations since then, including the most recent report of more than 2.4 million initial claims:



Over in Europe this week, we'll get a number of inflation reports, while the Financial Times reports "The European Commission is this week preparing to table detailed plans for a €500bn recovery fund and upcoming multiannual financial framework (MFF), which runs from 2021-27. All 27 EU member states will need to be on board before any recovery fund plan sees the light of day." In Asia, Japan reports this week on industrial production, retail sales, and the unemployment rate. We hope you have a great week.

U.S. Economic Calendar: May 26-29, 2020

Date	Time (ET)	Release	Period	Consensus	Prior
26-May	9:00	S&P Case-Shiller Home Price Index	Mar	3.8%	3.5%
26-May	10:00	New Home Sales	Apr	485K	627K
26-May	10:00	Consumer Confidence	May	88.5	86.9
27-May	7:00	MBA Mortgage Applications Index	23-May	NA	-2.6%
27-May	14:00	Fed Beige Book	28-May	NA	--
28-May	8:30	Initial Claims	23-May	1.95M	2.438M
28-May	8:30	Durable Orders	Apr	-17.0%	-14.4%
28-May	8:30	GDP - Second Estimate	Q1	-4.8%	-4.8%
28-May	10:00	Pending Home Sales	Apr	-4.8%	-20.8%
29-May	8:30	Personal Income	Apr	-6.5%	-2.0%
29-May	8:30	Personal Spending	Apr	-15.0%	-7.5%
29-May	8:30	PCE Prices	Apr	-0.6%	-0.3%
29-May	8:30	Adv. Intl. Trade in Goods	Apr	NA	-\$64.38B
29-May	9:45	Chicago PMI	May	41.0	35.4
29-May	10:00	Univ. of Michigan Consumer Sentiment – Final	May	73.7	71.8

Economic Week in Review

Last week, Fed Chair Jay Powell and Treasury Secretary Steve Mnuchin testified before the Senate Banking Committee and, as the Wall Street Journal reported, “The nation’s top two economic policy leaders offered contrasting visions about the economic outlook, with Treasury Secretary Steven Mnuchin favoring a wait-and-see approach to more federal aid and Federal Reserve Chairman Jerome Powell suggesting more would be needed. Their positions expressed Tuesday reflected differing views on the prospects for a swift economic rebound from the coronavirus pandemic. Mr. Mnuchin, appearing alongside Mr. Powell at an online congressional hearing, reflected the Trump administration’s belief that the biggest danger to the economy is waiting too long to restart activity after two months in which millions of Americans have sheltered in their homes to slow the spread of infections.”

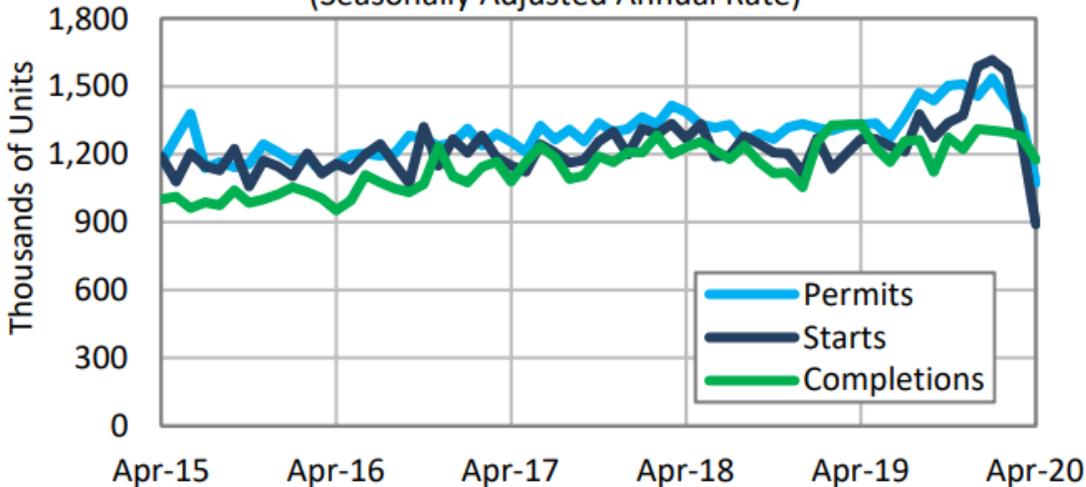
The deteriorating economic conditions were reflected in a number of new releases put out last week, including the latest housing market data and the Conference Board’s leading economic index.

Housing Starts and Permits

According to the Census Bureau and U.S. Department of Housing and Urban Development, new **building permits** in April 2020 were down 20.8% from the preceding month and were down 19.2% year-on-year to a seasonally adjusted annual rate of 1,074,000. **Housing starts** were down 30.2% as compared to March 2020 and were down 29.7% as compared to April 2019 according to last week’s press release. Briefing.com reports “The key takeaway from the report is that... permits for single-family dwellings decreased 24.3% m/m to 669,000, which points to a slowing market.”

New Residential Construction

(Seasonally Adjusted Annual Rate)



Source: U.S. Census Bureau, HUD, May 19, 2020

Existing Home Sales

At the same time, the National Association of Realtors reports that “Existing-home sales dropped in April, continuing what is now a two-month skid in sales brought on by the coronavirus pandemic... Each of the four major regions experienced a decline in month-over-month and year-over-year sales, with the West seeing the greatest dip in both categories. Total existing-home sales, completed transactions that include single-family homes, townhomes, condominiums and co-ops, dropped 17.8% from March to a seasonally-adjusted annual rate of 4.33 million in April. Overall, sales decreased year-over-year, down 17.2% from a year ago (5.23 million in April 2019).

‘The economic lockdowns – occurring from mid-March through April in most states – have temporarily disrupted home sales,’ said Lawrence Yun, NAR’s chief economist. ‘But the listings that are on the market are still attracting buyers and boosting home prices.’ April’s decline in existing-home sales is the largest month-over-month drop since July 2010 (-22.5%).”

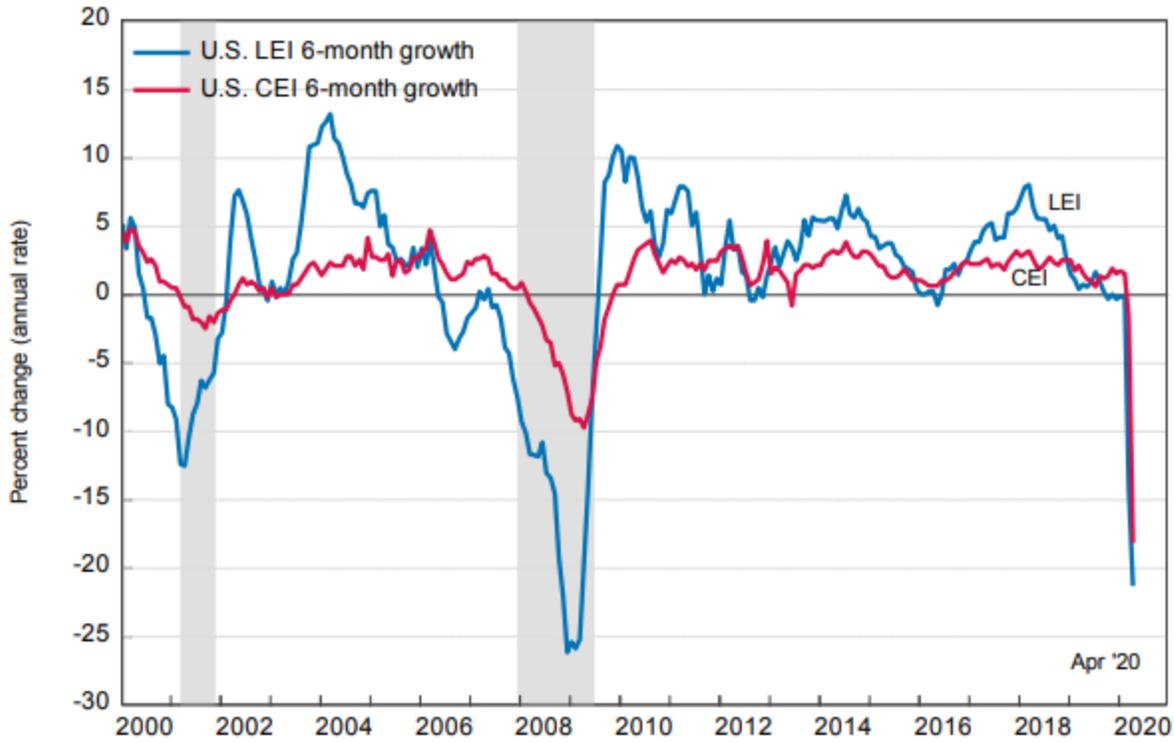
Leading Economic Indicators

Looking forward, the Conference Board reported last week that their U.S leading economic index “...declined 4.4 percent in April to 98.8 (2016 = 100), following a 7.4 percent decline in March, and a 0.2 percent decline in February.

“In April, the US LEI continued on a downward trajectory, after posting the largest decline in its 60-year history in March,” said Ataman Ozyildirim, Senior Director of Economic Research at The Conference Board. “The erosion has been very widespread, except for stock prices and the interest rate spread which partially reflect the rapid and large response of the Federal Reserve to offset the pandemic’s impact and support financial conditions. The sharp declines in the LEI and CEI suggest that the US economy is now in recession territory.”

“Business conditions may recover for some sectors and industries over the next few months,” added Bart van Ark, Chief Economist at The Conference Board, “But, the breadth and depth of the decline in the LEI suggests that an imminent re-opening of some sectors does not imply a fast rebound for the economy at

large.”



Latest LEI Trough March 2009, Latest CEI Trough June 2009

Shaded areas represent recessions as determined by the NBER Business Cycle Dating Committee.

Source: The Conference Board

Last but not least, the WSJ's Daily shot reports that 31 percent of U.S. small business owners have tapped into personal savings in order to keep their businesses afloat, while 41 percent are worried they will have to temporarily shut down and nearly 19% are worried about permanently shutting down.

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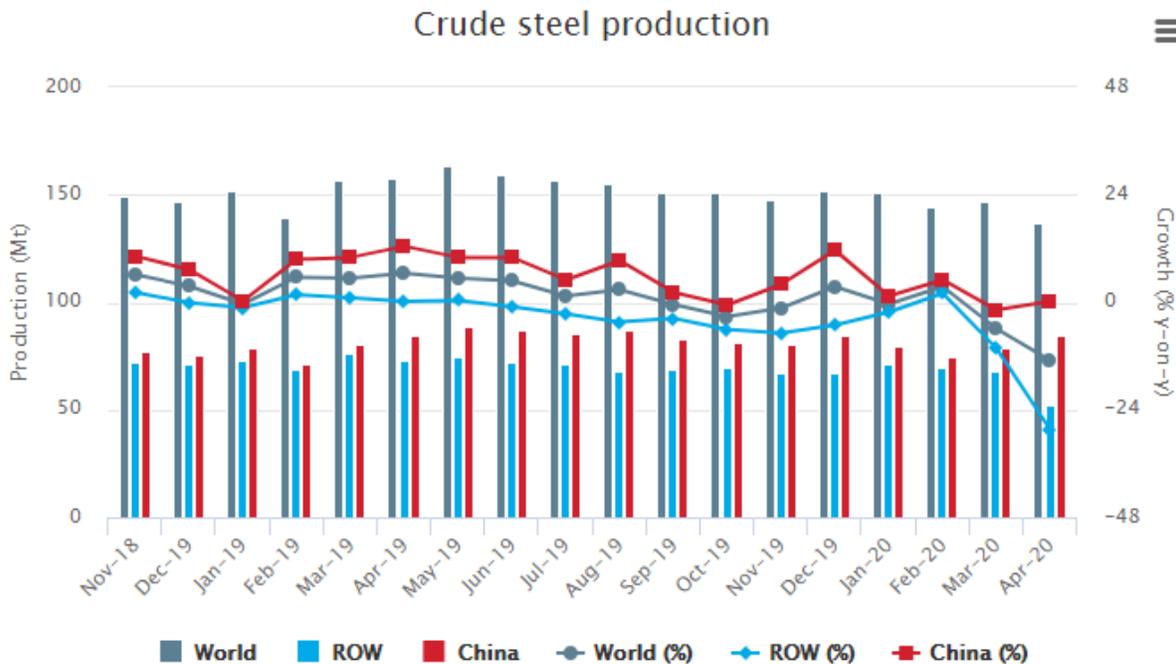
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Commodity Market Developments

Ferrous

The World Steel Association reported last week that “World crude steel production for the 64 countries reporting to the World Steel Association (worldsteel) was 137.1 million tonnes (Mt) in April 2020, a 13.0% decrease compared to April 2019. Due to the ongoing difficulties presented by the COVID-19 pandemic, many of this month’s figures are estimates that may be revised with next month’s production update...

China produced 85.0 Mt of crude steel in April 2020, an increase of 0.2% compared to April 2019. India produced 3.1 Mt of crude steel production in April 2020, down 65.2% on April 2019. Japan produced 6.6 Mt of crude steel in April 2020, down 23.5% on April 2019.”



worldsteel.org

Here in the U.S., the American Iron and Steel Institute reported that for “...the week ending on May 16, 2020, domestic raw steel production was 1,181,000 net tons while the capability utilization rate was 52.7 percent. Production was 1,880,000 net tons in the week ending May 16, 2019 while the capability

utilization then was 80.8 percent. **The current week production represents a 37.2 percent decrease from the same period in the previous year.** Production for the week ending May 16, 2020 is down 1.9 percent from the previous week ending May 9, 2020 when production was 1,204,000 net tons and the rate of capability utilization was 53.7 percent.

Adjusted year-to-date production through May 16, 2020 was 32,040,000 net tons, at a capability utilization rate of 71.2 percent. **That is down 13.6 percent from the 37,098,000 net tons during the same period last year,** when the capability utilization rate was 81.4 percent.”

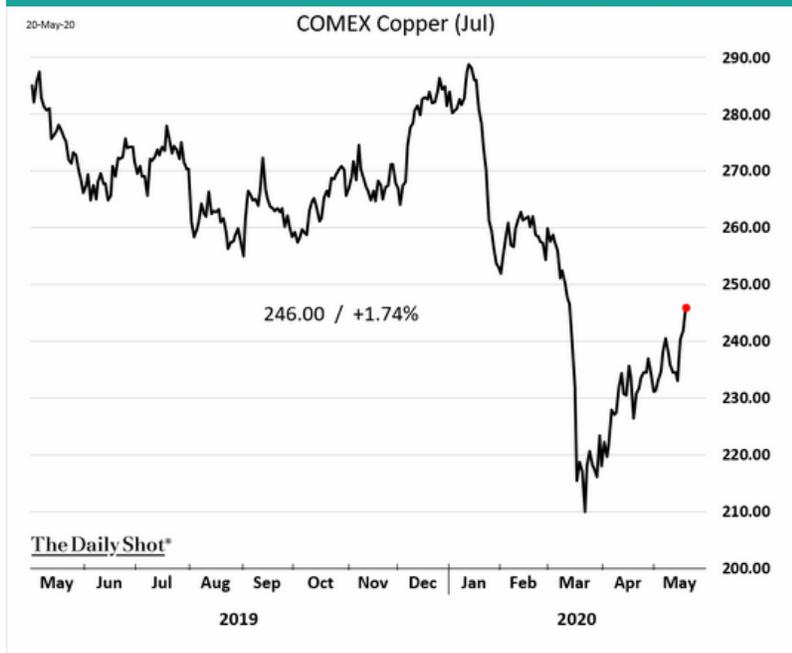
Fastmarkets AMM reported late last week that, “Hot-rolled coil prices in the United States moved lower on Friday May 22 due to last-minute discounts still being offered immediately after mills announced price hikes on Thursday May 21, market participants said, raising the question of how effective the new increases can be. Fastmarkets’ daily steel hot-rolled coil index, fob mill US was calculated at \$24.31 per hundredweight (\$486.20 per short ton) on Friday, down by 2.5% from \$24.93 per cwt on Thursday and down by 1.5% from \$24.69 per cwt a week earlier on May 15.

Nonferrous

FM Metal Bulletin reported last week that “Chinese copper smelters have been expanding blindly over the past decade, leading to extreme competition for overseas copper concentrate and placing the industry in a fragile position with regards to procurement, an Aluminum Corp of China (Chalco) official has said. Yu Dehui, general manager of Chalco, said he would formally raise his proposal for the government to rein in copper smelter expansion plans at the annual sittings of the National People’s Congress of the People’s Republic of China and the Chinese People’s Political Consultative Conference, also known as the “twin sessions” which started on Friday May 22, Shanghai media ThePaper reported.”

“In 2019, China’s copper capacity reached 12.59 million tonnes per year, yet the utilization rate was only 77%, according to Yu. It is a three-fold increase from the country’s copper output level a decade ago, which stood at only 4.1 million tonnes in 2009, according to official data. Despite room to utilize existing capacity, the Chinese copper industry continued to build new smelting facilities. In 2021, refined copper capacity is set to reach 14.22 million tonnes in China, Yu estimates. China Copper, owned by Chalco, itself has undergone rapid expansion in the past few years to now holds the country’s biggest copper smelting capacity. China Copper’s smelting capacity is expected to hit 1.35 million tonnes in 2020, taking into account the new capacity of its Chifeng project scheduled to come online this year, and its Ningde project which commenced in late 2018.”

We hope you enjoyed our ISRI Virtual Copper Spotlight last week, and thanks so much for all who participated. The [recording](#) of last week’s event is now available.



Looking forward to this week, we have an outstanding **ISRI Virtual Event: Spotlight on Aluminum** scheduled for Wednesday, May 27, 2020 1:00 p.m. ET when moderator **Stephen Moss** from Stanton A. Moss Inc. will be joined by presenters **Jason Schenker** from Prestige Economics and **John Woehlke** from JW Metal Consulting for a discussion of the macroeconomic, trade and industry drivers that are reshaping the U.S. and global aluminum and aluminum scrap markets. Register [here](#).

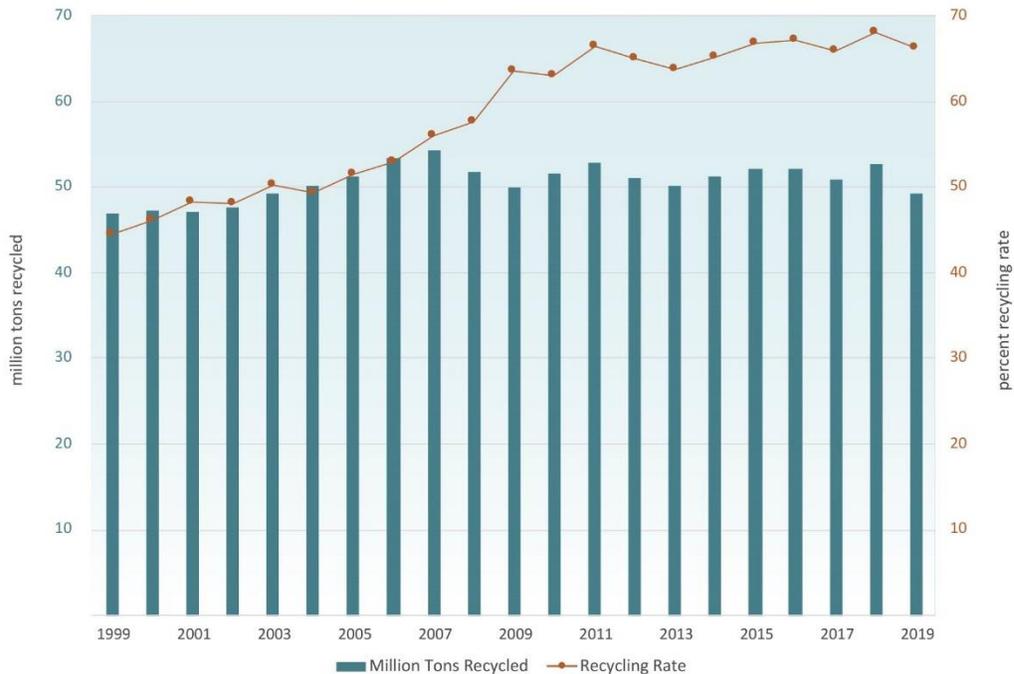
As for lead recycling market developments, Macquarie reports that “US lead-acid battery (LAB) recycler Exide has announced it is filing for chapter 11 bankruptcy proceedings for its North American assets, again, to facilitate their later sale, and will sell its European and Asian assets as part of a restructuring. This follows news that the German battery recycling operations of French-based Recyclex seeks bankruptcy protection, underscoring the pain in the lead-acid battery world as the slump in global autos output/usage has severely curtailed LAB demand.”

Recovered Paper and Fiber

Earlier this month, the AF&PA reported that in the United States, “the 2019 paper recycling rate was 66.2 percent – down from 68.0 percent in 2018 but slightly higher than the 65.9 percent rate in 2017. The decline was largely the result of a sharp drop in recovered paper exports (-13.6 percent) – mainly to China as the result of the country’s import restrictions...”

The paper recycling rate measured 33.5 percent in 1990, which was the base year against which the American Forest & Paper Association (AF&PA) began setting its recycling goals. Every year since 2009 the paper recycling rate has met or exceeded 63 percent.”

U.S. Paper and Paperboard Recycling and Recycling Rate



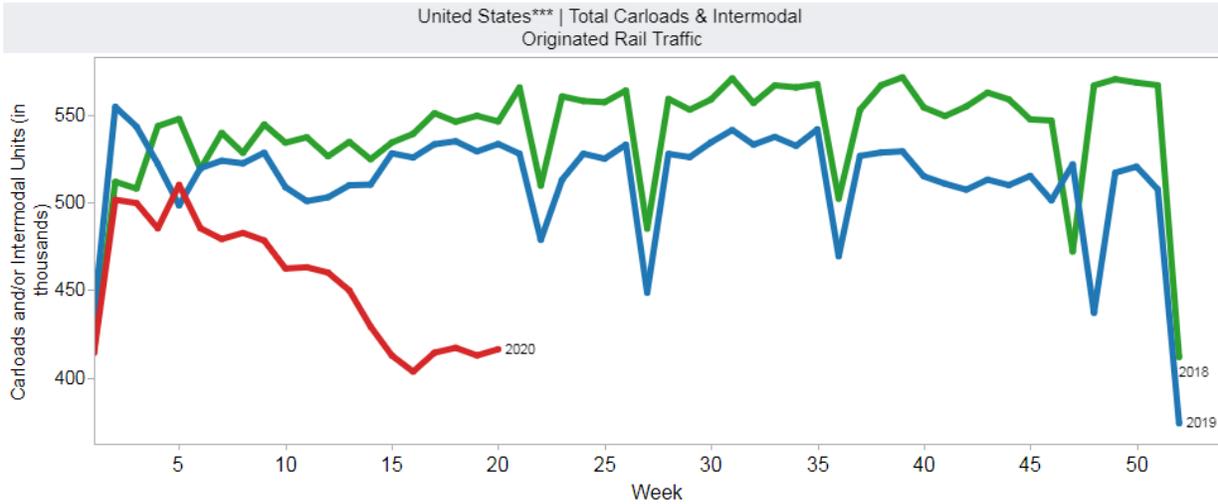
Source: American Forest & Paper Association

Looking forward, you won't want to miss our upcoming **ISRI Virtual Event: Spotlight on Paper** hosted by PSI and ISRI on Wednesday, June 3, 2020 2:00 p.m. ET. This year's Paper Spotlight will provide valuable insights for paper processors, MRF operators, and mills on how shifts in consumer habits will change our relationship with paper and packaging. Attendees will gain a strong understanding of both the short and longer term outlooks for the sector from Jose Gonzalez and Sanna Sosa of AFRY Management Consulting, a leading advisor to the world's energy, forest, and bio-based industries. This will include a deep dive into the effects we have already seen on selected pulp and paper sectors during the COVID-19 pandemic and its impact on selected industry sectors.

You must register online to participate. There is no charge for ISRI members for this event. Once you register, you will receive an email with login instructions. Make sure to save the information in your calendar.

Transportation: Rail Carloads Down 30.2 Percent

The Association of American Railroads reported last week that for the week ending May 16, 2020, "...total U.S. weekly rail traffic was 416,115 carloads and intermodal units, down 22 percent compared with the same week last year. Total carloads for the week ending May 16 were 184,415 carloads, down 30.2 percent compared with the same week in 2019, while U.S. weekly intermodal volume was 231,700 containers and trailers, down 14 percent compared to 2019... The 30.2% decline in total U.S. carloads last week was the **biggest year-over-year weekly decline for total carloads since 1988**, when our data begin. Coal didn't help: last week was the fifth straight week in which coal carloads were down at least 40% from last year," said AAR Senior Vice President John T. Gray."



* Canadian traffic includes the U.S. operations of Canadian railroads.

** Mexican traffic includes the U.S. operations of Mexican railroads. Comparable railroad figures are not available for Weeks 1-26, 2017.



This Week's Story

An elderly Italian gentleman lived alone in New Jersey. He wanted to plant his annual tomato garden, but it was very difficult work, as the ground was hard. His only son, Vincent, who used to help him, was in prison. The old man wrote a letter to his son and described his predicament:

Dear Vincent,

I am feeling pretty sad because it looks like I won't be able to plant my tomato garden this year. I'm just getting too old to be digging up a garden plot. I know if you were here my troubles would be over. I know you would be happy to dig the plot for me, like in the old days.

Love, Papa

A few days later he received a letter from his son.



Weekly Market Report

Dear Pop,

Don't dig up that garden. That's where the bodies are buried.

Love, Vinnie

At 4 a.m. the next morning, FBI agents and local police arrived and dug up the entire area without finding anything. They apologized profusely to the old man and left.

That same day the old man received another letter from his son.

Dear Pop,

Go ahead and plant the tomatoes now. That's the best I could do under the circumstances.

Love you, Vinnie

This Week's Quote

"No one is useless in this world who lightens the burden of it to anyone else."

-- Charles Dickens

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