

April 27, 2020

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This Morning

The Bloomberg Commodity Index was down around 1% this morning as continued price volatility in the energy markets pulled most of the major commodity indexes lower. In New York trading this morning, NYMEX crude oil futures for June delivery were down more than 17 percent to around \$14 per barrel, following last week's unprecedented turbulence that saw the expiring May contract turn sharply negative for the first time in history. Harry Tchilinguirian, global oil strategist at BNP Paribas in London, told the Reuters Global Oil Forum that "the shift of open interest away from June will have negative consequences for the liquidity of the contract, potentially leading to greater volatility in its price." In London, base metal prices were mixed this morning as LME 3-mo. tin jumped as high as \$15,500 per ton while 3-mo. copper and aluminum were little changed around \$5,190/mt (= \$2.354/lb.) and \$1,510/mt (= 68.5 cents/lb.), respectively. In foreign exchange trading the dollar lost ground against most major trading partners this morning, with the euro buying \$1.086 while the greenback was trading at just over 107 Japanese yen. In equities markets, most of the major Asian and European exchanges started the week in positive territory and U.S. stock futures were pointing to a higher open as policymakers look to reopen their economies.

Selected Primary Commodity Prices: April 27, 2020

	Last	CHG	% CHG	Prior	Open	High	Low
COMEX Copper May (\$/lb.)	2.352	0.015	0.6%	2.337	2.355	2.386	2.346
COMEX Gold Jun (\$/to)	1,733.7	-1.9	-0.1%	1,735.6	1745	1,745.8	1,728.8
COMEX Silver May (\$/to)	15.31	0.0	0.3%	15.26	15.32	15.45	15.2
NYMEX Light Sweet Crude Jun (\$/bbl)	14.02	-2.9	-17.2%	16.94	16.84	16.98	13.89
SHFE Aluminum Jun (RMB/mt)	12,370	90	0.7%	12,280	12,420	12,450	12,310
SHFE Copper Jun (RMB/mt)	42,560	750	1.8%	41,810	42,420	42,880	42,240
SHFE Nickel Jul (RMB/mt)	102,330	1,950	1.9%	100,380	102,000	103,750	100,600

SHFE Zinc Jun (RMB/mt)	16,130	365	2.3%	15,765	15,900	16,235	15,900
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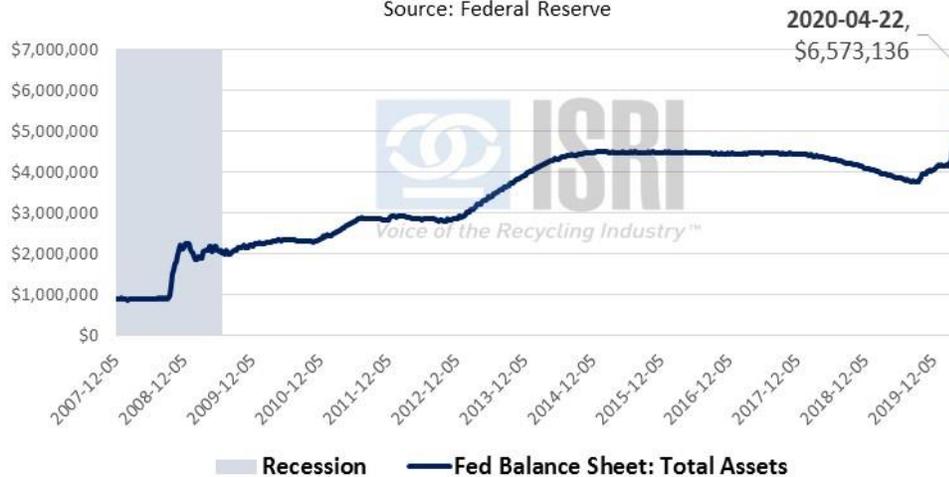
The Week Ahead

The week ahead has plenty in store with new U.S. economic reports due out on first quarter GDP, consumer confidence, personal income & spending, manufacturing PMI, construction spending, and light vehicle sales, among other reports. The consensus forecast for Q1 GDP is a painful 4.3% contraction. Investors will be paying extremely close attention to central bank announcements this week, with statements due out from the Federal Reserve, European Central Bank, and Bank of Japan. The Financial Times reports, "Fed Chair Jay Powell... said projections for the economy or policy rates 'didn't seem to be useful' given the intense uncertainties related to Covid-19 and there is nothing to suggest there will be forecasts at this meeting... Some are eager for the Fed to intervene more aggressively in the \$4tn municipal bond market, where states and cities raise cash. Others see a need for more support to credit markets, specifically for high-yield borrowers." Bear in mind the Fed's balance sheet (total assets less eliminations from consolidation) already exceeds \$6.5 trillion:

Federal Reserve Balance Sheet: Total Assets (Less Eliminations)

Millions of US\$, 2007-2020

Source: Federal Reserve



In Europe, in addition to the ECB announcement, Germany reports on consumer price inflation, retail sales, and the unemployment levels. In Asia, China releases official manufacturing PMI numbers and Japan reports on unemployment, industrial production, and retail sales. Hope you have a great week.

U.S. Economic Calendar: April 27 - May 1, 2020

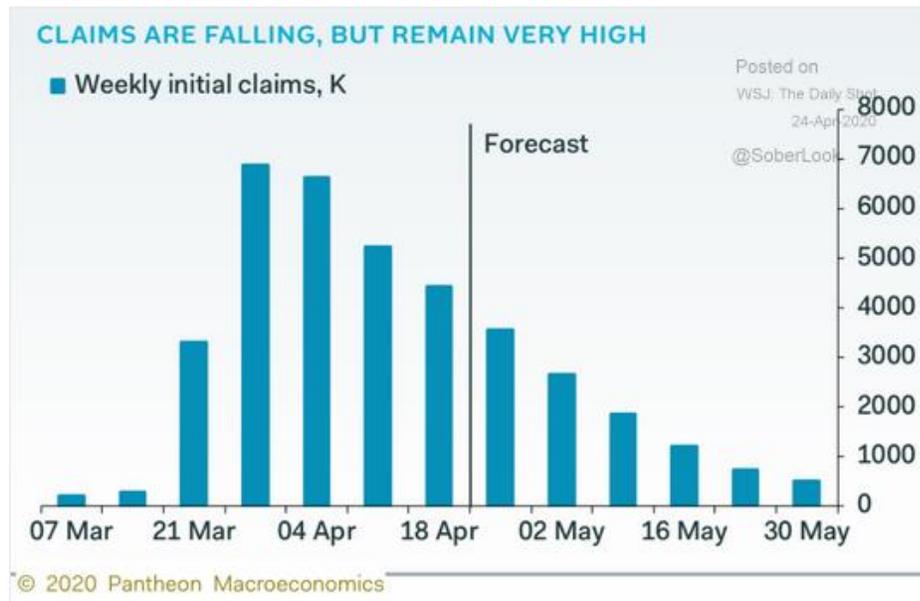
Date	Time (ET)	Release	Period	Consensus	Prior
28-Apr	8:30	Adv. Intl. Trade in Goods	Mar	NA	-\$59B
28-Apr	8:30	Adv. Retail Inventories	Mar	NA	-0.3%
28-Apr	8:30	Adv. Wholesale Inventories	Mar	NA	-0.7%
28-Apr	09:00	S&P Case-Shiller Home Price Index	Feb	3.7%	3.1%
28-Apr	10:00	Consumer Confidence	Apr	86.5	120.0
29-Apr	8:30	GDP-Adv.	Q1	-4.3%	2.1%
29-Apr	8:30	Chain Deflator-Adv.	Q1	1.1%	1.4%
29-Apr	10:00	Pending Home Sales	Mar	NA	2.4%
29-Apr	14:00	FOMC Rate Decision	Apr	0.125%	0.125%
30-Apr	8:30	Initial Claims	25-Apr	3.050M	4.427M
30-Apr	8:30	Personal Income	Mar	-1.5%	0.6%
30-Apr	8:30	Personal Spending	Mar	-3.6%	0.2%
30-Apr	8:30	PCE Prices	Mar	NA	0.1%
30-Apr	9:45	Chicago PMI	Apr	39.2	47.8
1-May	00:00	Auto Sales	Apr	NA	2.24M
1-May	00:00	Truck Sales	Apr	NA	6.83M
1-May	10:00	ISM Manufacturing Index	Apr	39.0	49.1
1-May	10:00	Construction Spending	Mar	-3.5%	-1.3%

Economic Week in Review

Given the global shutdown in response to the COVID-19 pandemic, the U.S. economic figures have been particularly dismal lately and unfortunately will continue to deteriorate in many cases given the lag in economic reporting and on-going impacts of the crisis. In case you missed it, here are some of the depressing economic reports that we've seen in the U.S. and around the world over the last two weeks:

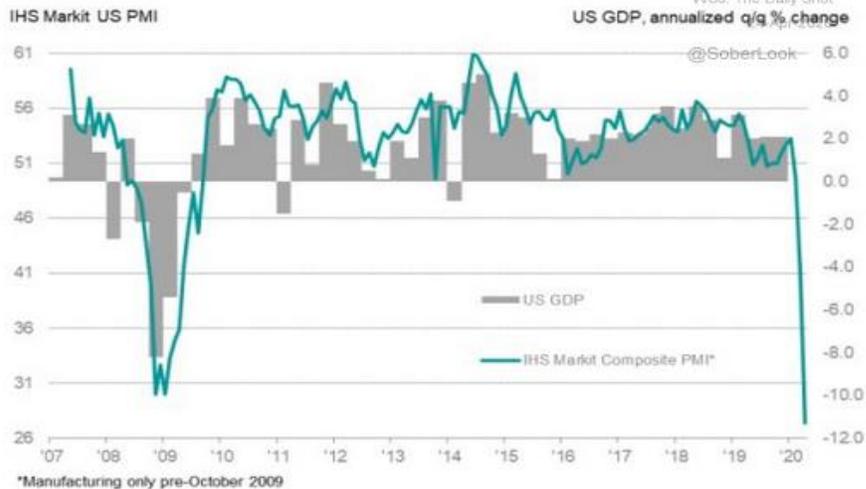
United States

- New orders for U.S. **durable goods** declined 14.4% in March 2020;
- U.S. **initial unemployment claims** came in at 4.4 million for the week ending April 18th, down from 5.2 million the week ending April 11th; the 4-week moving average came in at nearly 5.8 million new claims; the advance seasonally adjusted **insured unemployment rate** rose to 11.0% for the week ending April 11;



- IHS Markit's **U.S. flash manufacturing PMI** fell from 48.5 in March to 36.9 in April, a 133-month low; their **flash U.S. services index** fell from 39.8 in March to 27.0 in April, the lowest level on record;

IHS Markit Composite PMI and U.S. GDP



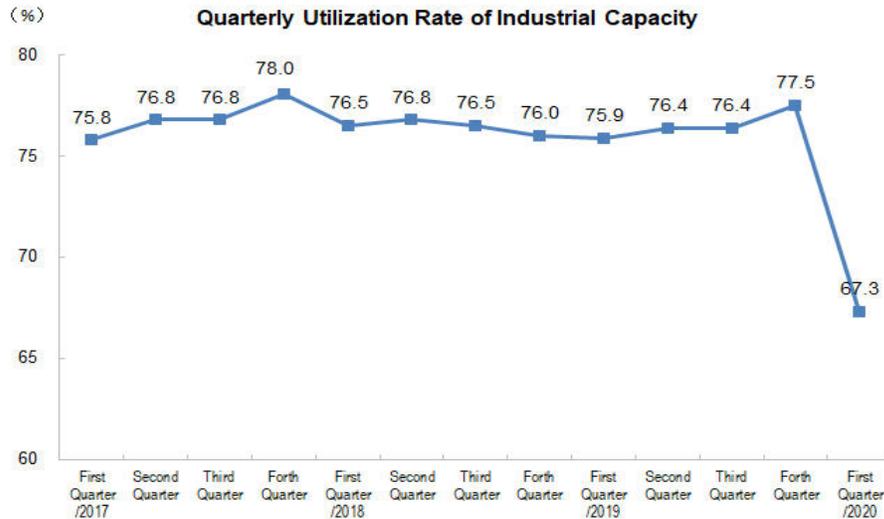
Sources: IHS Markit, U.S. Bureau of Economic Analysis

- The Federal Reserve reported U.S. **industrial production** contracted 5.4% in March, including a 6.3% drop in manufacturing output;
- U.S. **retail sales** contracted 8.7% month-on-month in March, according to the Census Bureau;
- Privately-owned **housing starts** declined 22.3 percent in March as compared to the revised February estimate;
- The Conference Board's **Leading Economic Index** was down 6.7% in March, the largest decline in the index's 60-year history.

China

- Chinese GDP contracted 6.8% year-on-year in the first quarter of 2020, the first reported contraction on record;

- In Q1 2020, China's industrial capacity utilization rate fell by 8.6 percent points to 67.3 percent, according to NBS data;

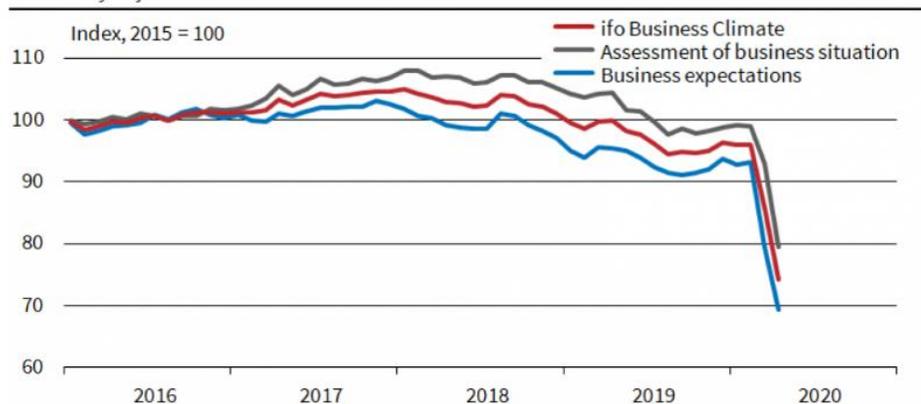


- Chinese fixed asset investment fell 16.1% year-on-year in the first quarter of 2020;
- China's retail sales declined 15.8% in March.

Europe

- IHS Markit reports **“The eurozone economy suffered the steepest falls in business activity and employment ever recorded** during April as a result of measures taken to contain the coronavirus outbreak”;
- The Flash Eurozone PMI Composite Output Index fell to 13.5 in April (from 29.7 in March), while the Flash Eurozone Services PMI Activity Index plummeted to 11.7 in April (from 26.4 in March);
- The ifo Institute in Germany reports “Sentiment at German companies is catastrophic. The ifo Business Climate Index crashed from 85.9 points (seasonally adjusted) in March to 74.3 points in April. This is the lowest value ever recorded, and never before has the index fallen so drastically.”

ifo Business Climate Germany^a
Seasonally adjusted



^a Manufacturing, service sector, trade, and construction.

Source: ifo Business Survey, April 2020.

© ifo Institute



Weekly Market Report

ISRI Town Hall: COVID-19 Impact on Markets and the Economy

April 30, 2020 at 2 p.m. ET: The global COVID-19 pandemic is heavily impacting every segment of the U.S. economy, including the recycling and manufacturing sectors. Amid volatile commodity prices, contracting supply and demand for scrap, and slumping demand from end-use sectors, market conditions have never been more challenging for our industry. Join our conversation with ISRI experts to discuss the current market dynamics, economic outlook, global economic developments, and public policy initiatives that will shape our economy and industry in the coming months and years.

You must register to participate. Register [online](#) and select the ISRI Town Hall event. 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.

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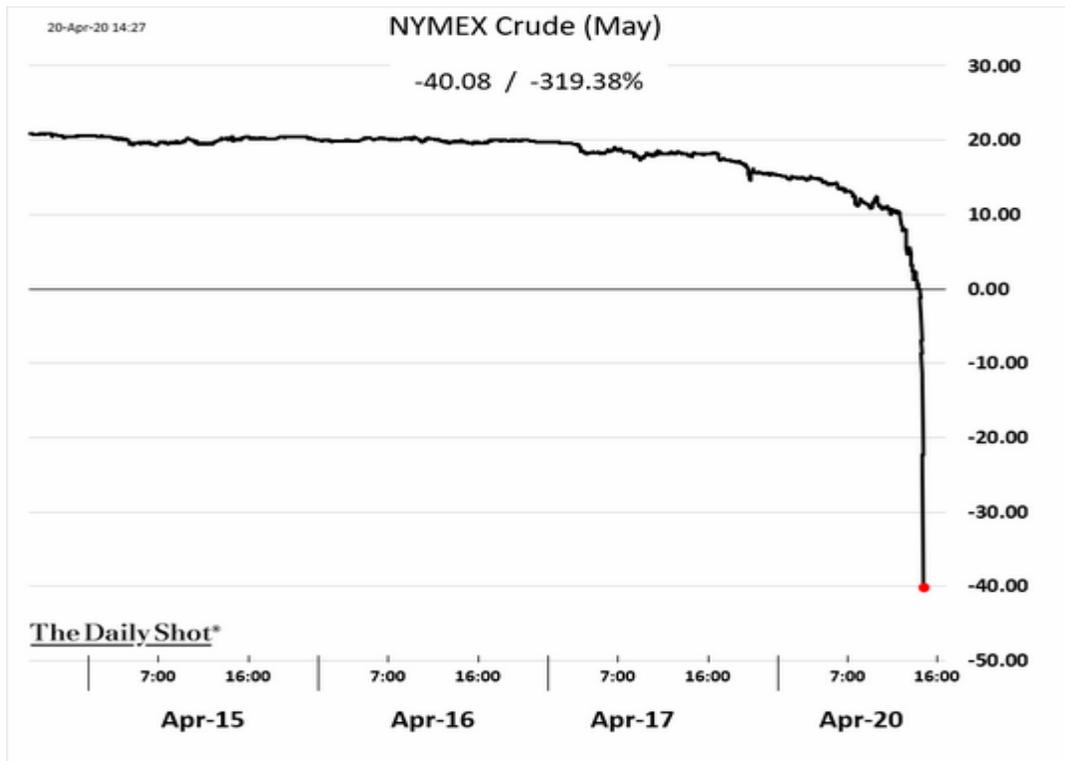
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Commodity Market Developments

Last week’s major commodity market development was the meltdown in the front month NYMEX WTI crude oil futures contract, which turned negative for the first time in history. The U.S. Department of Energy provided this explanation (courtesy of the WSJ’s Daily Shot): “Typically, most market participants close any futures contracts ahead of expiration through cash settlement in order to avoid taking physical delivery, and only about 1% of contracts are physically settled. The extreme market events of April 20 and April 21 were driven by several factors, including the inability of contract holders to find other market participants to sell the futures contracts. In addition, in this case, the scarcity of available crude oil storage meant several market participants could not take physical delivery at expiration and resorted to selling their futures contracts at negative prices, in effect paying a counterparty to take hold of the contracts.”



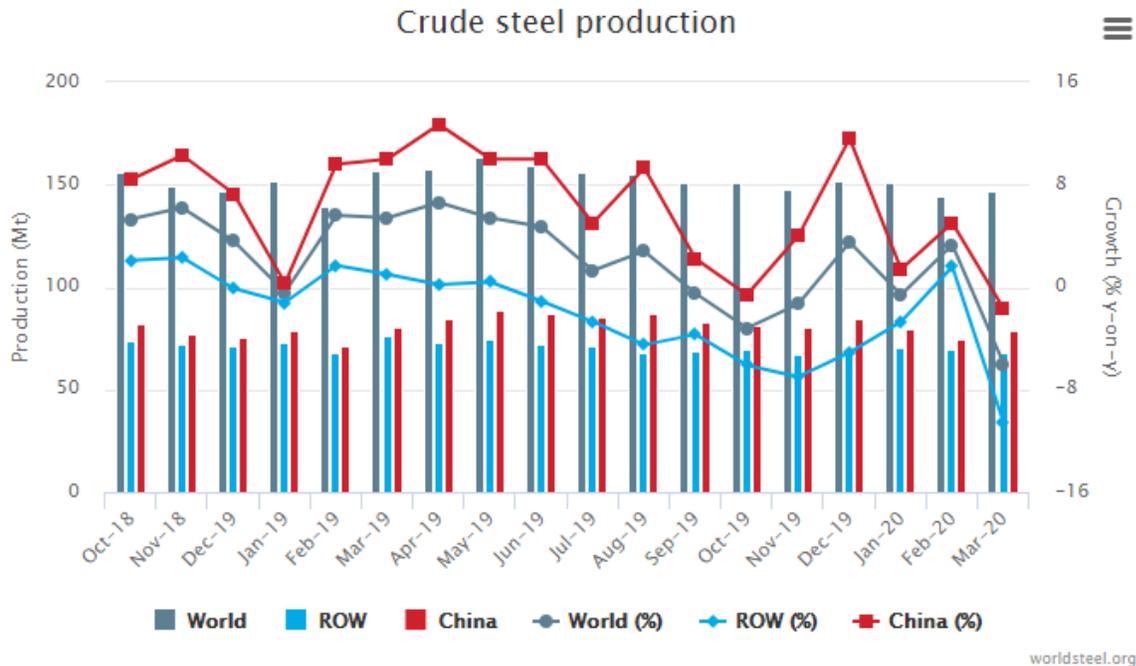
Ferrous

Given the overall economic contraction and slump in commodity prices, a key dynamic for scrap markets has been which side of the equation is contracting more quickly: supply or demand. For ferrous scrap, steel mills and foundries are clearly producing less steel today and are requiring less scrap as a result. The steel mill capacity utilization rate is down to around 56-57% recently, according to AISI data, from over 80% this time last year. But the flow of material into scrapyards also declined sharply as prices dropped, manufacturers have been generating less prime scrap, retail operations have been curtailed, and auto dismantlers and others are supplying less material, meaning scrap yards aren't running anywhere near capacity either. Although the decline in ferrous prices would likely have been even more dramatic if the supply of scrap coming into the yards didn't drop as much as it has, that's cold comfort to our recyclers who are faced not only with falling volumes and prices, but just about every other challenge you could think of from HR, safety, and labor issues to transportation, operations, finance and cash flow, while at the same time trying to navigate the various federal and state relief measures.

On the U.S. steel production front, Argus media reports that "Steel Dynamics said... it will target 80% utilization at its Butler and Columbus flat-rolled mills... ArcelorMittal is taking a planned outage on one of the blast furnaces at Burns Harbor. Liberty Steel will idle the rolling mill at its Georgetown, South Carolina, wire rod operations for three months because of Covid-19 hitting demand. The mill halted melting in September 2019 and shelved plans for a new EAF in February."

As for global steel production, last week the World Steel Association reported a widespread downturn across the major steel producing countries in March. Macquarie analysts commented, "Some shocking

data from worldsteel today are starting to reveal the extent of demand destruction due to the virus. In March, crude steel output tanked by 20% YoY in EU-28, by 14% in India, 10% in Japan, 8% in South Korea and 6% in the US. In China, crude steel fell by 1.7% and for the world, output was down by 6% YoY. As we argue in this report, we suspect the numbers will get worse in the coming months.



Stainless

As with other markets, the global COVID-19 pandemic is heavily impacting every segment of the U.S. stainless scrap, stainless steel, and special alloy markets. From the contracting supply and demand for stainless steel scrap to falling steel mill steel production and slumping demand from end-use sectors including transportation, energy, and household appliances, markets are struggling across the board. The coronavirus crisis impacts come on top of an already difficult start to 2020 as nickel and stainless steel prices were already under pressure, and as stainless steel production continued its migration away from the West and towards Asia.

According to the latest figures from the International Stainless Steel Forum, stainless steel melt shop production in the United States fell 7.6 percent last year to 2.593 million tonnes. On the corporate front, Moody's downgraded the corporate family rating for Outokumpu (owner of the Calvert, AL stainless steel mill) from B2 to B3 in late March, with the credit rating agency foreseeing a significant drop in stainless steel deliveries from Outokumpu over the next few quarters, "pressuring earnings and free cash flow generation, which will likely turn negative this year in Moody's view."

Nonferrous

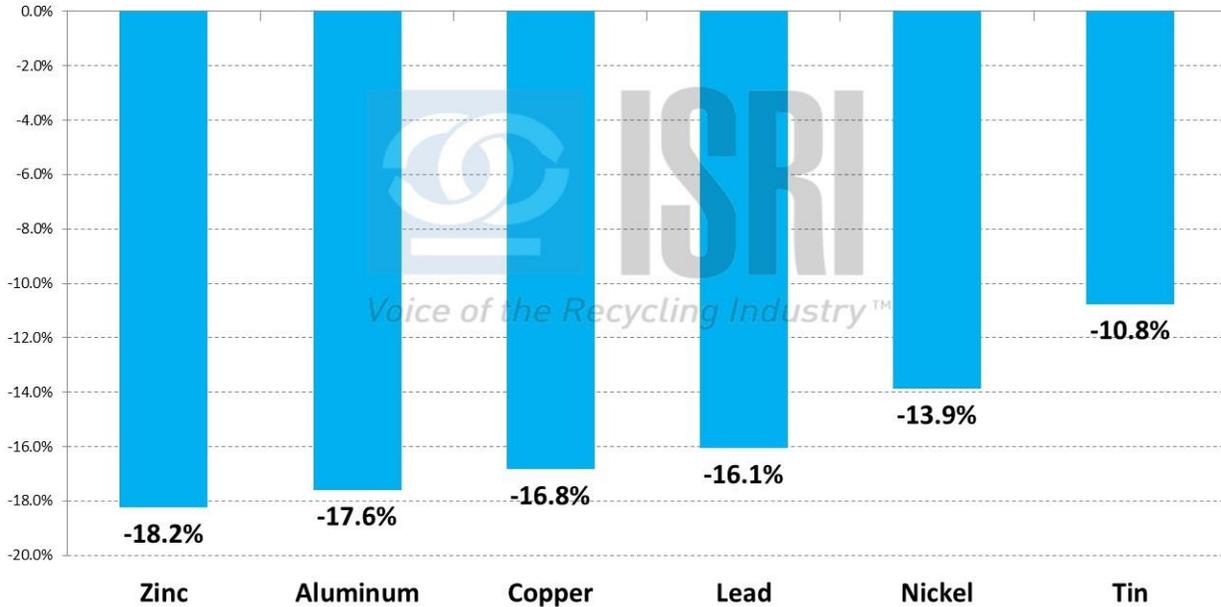
As with the ferrous market, nonferrous scrap metal prices weakened in the face of primary metal price declines as global metal demand decreased due to the economic contraction. But the flow of obsolete base metal scrap, particularly at retail operations, has dropped significantly as well. As a result, scrap spreads haven't widened as much as they otherwise would have. As always, there is a significant amount



Weekly Market Report

of variation in market dynamics by region and commodity, although market participants report the UBC market has been particularly impacted by reduced collections.

YTD 2020 Percentage CHG in LME Official 3-Mo. Nonferrous Metal Asking Prices through April 24, 2020 (%)



Second only to zinc, aluminum prices have had the worst performance at the London Metal Exchange this year, with the LME 3-mo. aluminum asking prices down 17.6% for the year-to-date through April 24. In line with the market downturn, Macquarie reported last week that “Alcoa released Q1 results... including news that its remaining Intalco capacity at 230ktpa the Ferndale aluminum smelter will be shut by the end of July, on declining market conditions. The smelter reported a net-loss of \$24m in Q1.”

Late last week Fastmarkets AMM was listing secondary aluminum prices at 30-33 cents for old sheet, 32-35 cents for old cast, 34-36 cents for painted siding, and 35-38 cents per pound for MLC.

On the Chinese scrap demand front, FM Metal Bulletin reports “China has issued its sixth round of scrap metal import quotas, approving minimal volumes compared with previous rounds. China Solid Waste & Chemicals Management Bureau issued quotas for an additional 2,150 tonnes of copper scrap and 1,030 tonnes of aluminium scrap metal to be imported into China in 2020 on Thursday April 23. This compares with 222,020 tonnes of copper scrap and 191,100 tonnes of aluminium scrap approved in the fifth round on April 10 and comes at a time of copper raw material shortage in China. So far in 2020, Chinese importers have been permitted to buy a maximum 224,170 tonnes of copper scrap in total. But availability of high purity copper scrap is now questionable with a slowdown in scrap processing at Southeast Asian yards due to lockdowns imposed around the world to restrict the spread of the Covid-19 coronavirus. Copper scrap is now well sought after in China because supply of intermediate products such as blister copper is tight due to African logistics disruptions.”

Recovered Paper and Fiber

In the recovered paper and fiber markets, the drop-off in supply thus far seems to be outstripping the softening of demand for a number of major grades. Collections are down due to closed schools, businesses, and other establishments, but demand for boxboard for retail products and shipping has held up relatively well. According to the AF&PA, U.S. boxboard production is only down 1.5% this year, and RP collections (both in the U.S. and overseas) are down significantly more than that, which has supported

prices due to lack of availability. Domestic OCC was trading around \$20-\$25 per short ton at the beginning of the year, but is up over \$75 per ton right now, according to RISI.

RISI also reports "The Chinese government has released a new round of recovered paper (RCP) import licenses for this year with volumes amounting to 124,080 tonnes. The country's Ministry of Ecology and Environment issued the six batch on Thursday to four recycled containerboard producers. Liansheng Paper's sole Longhai mill in Zhangzhou, Fujian province got the largest amount of quotas, receiving 51,430 tonnes. Shanying Huanan Paper, a subsidiary of Shanying International Holdings, was granted 44,070 tonnes for its Changtai mill also in Zhangzhou. Nine Dragon Paper (Holdings)'s Quanzhou plant in Fujian and Long Chen Paper's Wuxi mill in Jiangsu province received 16,210 tonnes and 12,370 tonnes, respectively. The permits the four recipients were granted in this round have been slashed by 29% from the previous batches approved earlier this year."

This Week's Story

A 7-year-old is sitting on a park bench eating a chocolate bar.

The man sitting next to him looks over and says, "Eating that many chocolate bars is bad for you."

The boy looks over and responds, "Well my great grandfather lived to be one hundred and five."

The man replies, "And he ate that much chocolate?"

"No" says the boy, "he minded his own bloody business."

This Week's Quote

"Nobody who ever gave his best regretted it."

-- George Halas



<https://videos.isri.org/category/covid-19-impact-on-recycling-podcast-library>