ISRI

Weekly Market Report

January 27, 2020

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This Morning

While markets are closed in China for the Lunar New Year celebrations, developments in China continued to have significant market impacts as concerns about the spread of the coronavirus weighed on stock and commodity prices this morning. Reuters reports, “Crude prices dropped 3% to three-month lows on Monday as the death toll from China's coronavirus grew and more businesses were forced to shut down, fueling expectations of slowing oil demand.” In New York, NYMEX crude oil futures approached $52 per barrel (after having traded as high as $65/bbl earlier in the month) while COMEX copper futures were down 7 cents to $2.61 per pound in early trading. In London, base metal prices were lower across the board today, with LME 3-mo. aluminum and nickel trading as low as $1,763/mt and $12,560/mt, respectively. The flight to safe-haven assets pushed gold futures above $1,580 per troy ounce as the Japanese yen (109.0 per dollar) and Swiss franc (0.97 per dollar) gained ground. On Wall Street, the Dow Industrials were down more than 300 points in mid-day trading following even larger losses at the major European bourses earlier in the day.

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Selected Primary Commodity Prices: January 27, 2020

	Last	CHG	% CHG	Prior	Open	High	Low
COMEX Copper Mar ($/lb.)	2.611	-0.073	-2.7%	2.684	2.668	2.673	2.600
COMEX Gold Feb ($/to)	1,581.0	9.1	0.6%	1,571.9	1580.5	1,588.4	1,575.3
COMEX Silver Mar ($/to)	18.19	0.1	0.4%	18.11	18.26	18.38	18.1
NYMEX Light Sweet Crude Mar ($/bbl)	52.54	-1.7	-3.0%	54.19	53.7	53.71	52.13
SHFE* Aluminum Mar (RMB/mt)	NA	NA	NA	NA	NA	NA	NA
SHFE* Copper Mar (RMB/mt)	NA	NA	NA	NA	NA	NA	NA
SHFE* Nickel Mar (RMB/mt)	NA	NA	NA	NA	NA	NA	NA
SHFE* Zinc Mar (RMB/mt)	NA	NA	NA	NA	NA	NA	NA

**Shanghai Futures Exchange closed for Lunar New Year holidays.*

This Week

The U.S. economic calendar picks up this week with a wide range of economic reports on the housing market, manufacturing, trade, personal income & spending, and consumer confidence, along with the latest rate decision from the Federal Reserve Open Market Committee. The consensus forecasts are that U.S. personal income & spending rose 0.3% in December, durable goods orders rebounded 0.5% higher last month, and the Fed is expected to keep rates on hold In overseas developments, the U.K. officially leaves the EU on Friday and we'll get new figures on German unemployment and consumer price inflation, Japanese industrial production, retail sales, and unemployment, and the official Chinese reading on manufacturing PMI. Have a great week and don't miss next week's ISRI Market Report for a recap of the week's key economic, commodity, and scrap market highlights.

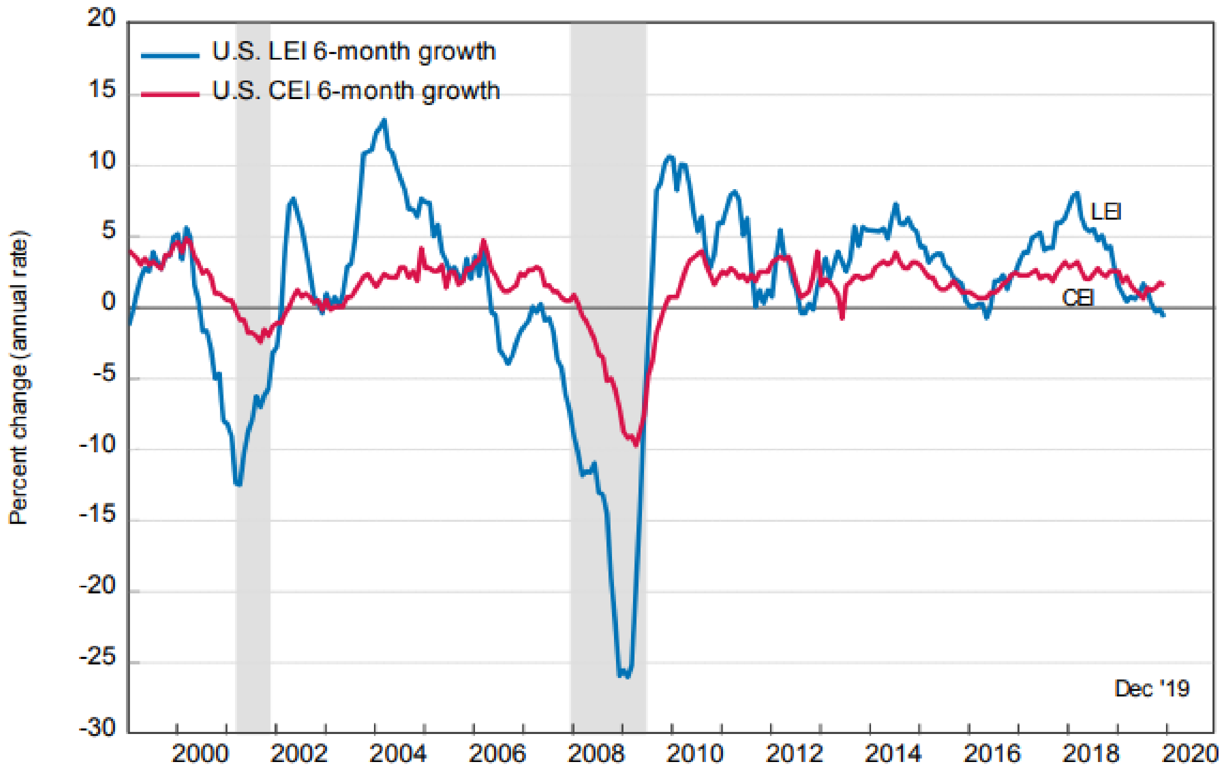
U.S. Economic Calendar, January 27 - 31, 2020

Date	Time	Release	Period	Consensus	Prior
27-Jan	10:00 ET	New Home Sales	Dec	725K	697K
28-Jan	08:30 ET	Durable Orders	Dec	0.5%	-2.0%
28-Jan	08:30 ET	Durable Goods –ex transportation	Dec	0.3%	0.0%
28-Jan	09:00 ET	S&P Case-Shiller Home Price Index	Nov	2.5%	2.2%
28-Jan	10:00 ET	Consumer Confidence	Jan	128	126.5
29-Jan	08:30 ET	Adv. Intl. Trade in Goods	Dec	NA	-$63.2B
29-Jan	08:30 ET	Adv. Wholesale Inventories	Dec	NA	0
29-Jan	08:30 ET	Adv. Retail Inventories	Dec	NA	-0.7%
29-Jan	10:00 ET	Pending Home Sales	Dec	1.0%	1.2%
29-Jan	14:00 ET	FOMC Rate Decision	Jan	1.6%	1.6%

30-Jan	08:30 ET	Initial Claims	25-Jan	215K	211K
30-Jan	08:30 ET	Continuing Claims	18-Jan	NA	1731K
30-Jan	08:30 ET	GDP-Adv.	Q4	1.8%	2.1%
30-Jan	08:30 ET	Chain Deflator-Adv.	Q4	1.8%	1.8%
31-Jan	08:30 ET	Personal Income	Dec	0.3%	0.5%
31-Jan	08:30 ET	Personal Spending	Dec	0.3%	0.4%
31-Jan	08:30 ET	PCE Prices	Dec	0.2%	0.2%
31-Jan	08:30 ET	PCE Prices – Core	Dec	0.2%	0.1%
31-Jan	08:30 ET	Employment Cost Index	Q4	0.7%	0.7%
31-Jan	09:45 ET	Chicago PMI	Jan	48.7	48.9
31-Jan	10:00 ET	Univ. of Michigan Consumer Sentiment - Final	Jan	99.1	99.1

Economic Week in Review

The Conference Board released its Leading Economic Index (LEI) for the United States last week, which registered a decline of 0.3 percent in December, the fourth negative reading in the last five months. According to Ataman Ozyildirim, the Conference Board's Senior Director of Economic Research, the LEI's "…six-month growth rate turned slightly more negative in the final quarter of 2019, with the manufacturing indicators pointing to continued weakness in the sector." That sentiment was reflected in other manufacturing reports, including the Institute for Supply Management's manufacturing PMI reading for December, which fell to 47.2 percent – the lowest reading since June 2019. ISM survey respondents previously indicated slowing export orders, expanding inventories, and rising input costs are clouding the outlook for business conditions in 2020.

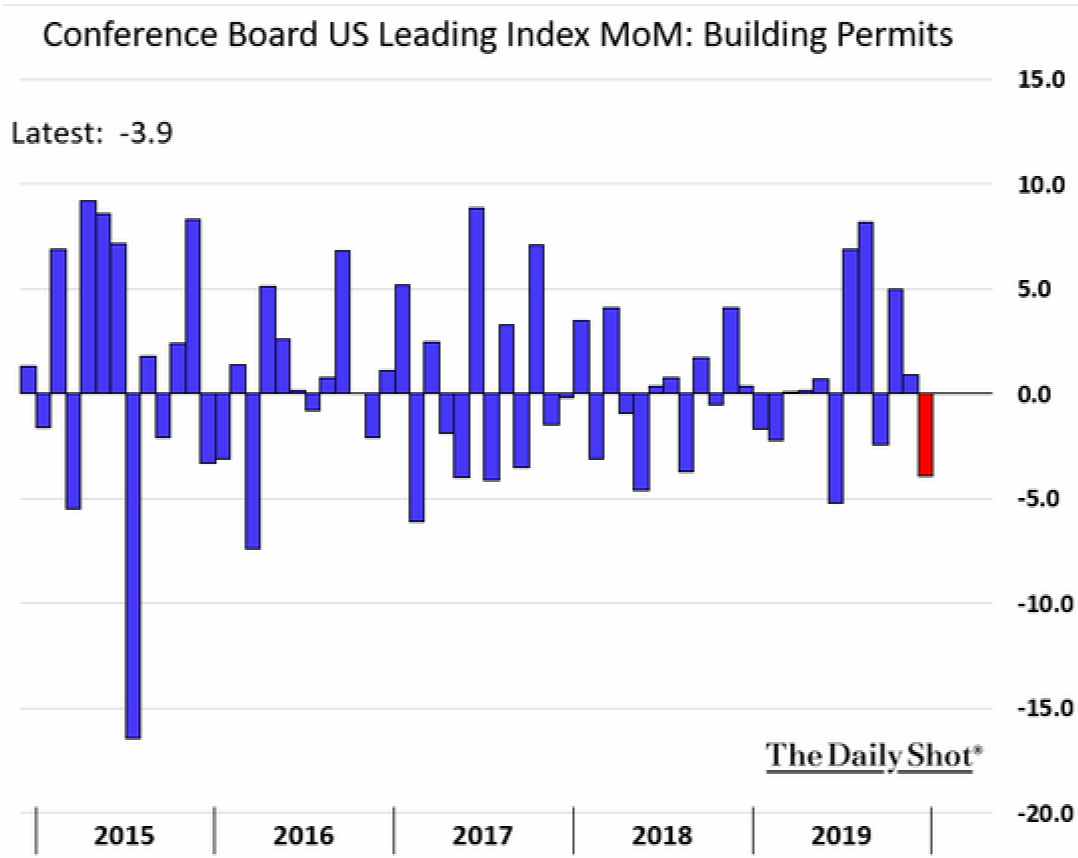


Latest LEI Trough March 2009, Latest CEI Trough June 2009

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

Source: The Conference Board

However, as noted by the WSJ's Daily Shot, the latest decline in the Conference Board's index was driven by building permits (chart below) and jobless claims… The increase in unemployment filings was mostly due to some seasonal adjustment issues… building permits are expected to keep climbing in the months to come. Therefore, the Conference Board's leading index should rebound shortly."



The IMF also released its updated economic projections last week. According to new world forecasts released contained in their *World Economic Outlook Update, An update of the key WEO projections* – world economic output is forecasted to increase 3.3 percent this year and 3.4 percent in 2021. Both of these forecasts are higher than the 2019 increase (2.9 percent).

While continued growth is forecasted for 2020 and 2021, the forecasts were slightly downgraded from the IMF's view from October 2019: 2020 is 0.1 percent less and 2021 is 0.2 percent less. Emerging markets' unforeseen negative economic changes and some political unrest, particularly in India, were the cause for the downward revisions.

However, indications of a bottoming out became apparent in the second half of 2019. Many countries eased monetary policy. As there is a lag effect with this type of action, early on in 2020, the monetary easing economic benefits will be seen. The IMF states that without this easing, growth rates would be 0.5 percent lower. The report points to other signs that a bottoming out is near, or is occurring:

"On the positive side, market sentiment has been boosted by tentative signs that manufacturing activity and global trade are bottoming out, a broad-based shift toward accommodative monetary policy, intermittent favorable news on US-China trade negotiations, and diminished fears of a no-deal Brexit, leading to some retreat from the risk-off environment that had set in at the time of the October WEO. However, few signs of turning points are yet visible in global macroeconomic data."

Emerging Markets

The table below shows some selected countries historical, estimated, and forecasted growth rates. Overall, it appears that the advanced countries are slowing and the emerging countries and developing areas are growing.

IMF Projected Growth rates for selected countries and areas, 2018-2021

		Est.	Forecasted	
	2018	2019	2020	2021
World Output	3.6	2.9	3.3	3.4
Advanced Economies	2.2	1.7	1.6	1.6
United States	2.9	2.3	2.0	1.7
Euro area (Germany, France, Italy, Spain)	1.9	1.2	1.3	1.4
Japan	0.3	1	0.7	0.5
United Kindgdom	1.3	1.3	1.4	1.5
Canada	1.9	1.5	1.8	1.8
Emerging Market and Developing Economies	4.5	3.7	4.4	4.6
Emerging and developing Asia	6.4	5.6	5.8	5.9
India	6.8	4.8	5.8	6.5
China	6.6	6.1	6	5.8
ASEAN-5*	5.2	4.7	4.8	5.1

The five countries of ASEAN-5: Indonesia, Malaysia, Philippines, Thailand, Vietnam.

Source: International Monetary Fund last week in their *World Economic Outlook Update, An update of the key WEO projections January 20, 2020.*

Compiled by the Institute of Scrap Recycling Industries.

Oil Prices

The IMF expects oil prices to decrease over the next couple of years. Using a simple average of prices of UK Brent, Dubai Fateh, and West Texas Intermediate crude oil, shows the average price of oil in US dollars a barrel was $60.62 in 2019; the assumed price, based on futures markets (as of November 12, 2019), is $58.03 in 2020, and $55.31 in 2021.

Commodity Markets Forecasts

Below is an excerpt from our 2020 Market Forecast article in Scrap magazine; please see the Jan-Feb edition of the magazine for the complete article.

“Aluminum

As has been the case, scrap metal prices have had a hard time keeping up with primary metal prices, including for aluminum. Primary aluminum prices at the London Metal Exchange ended 2019 down less than one percent while average old aluminum cast and sheet scrap prices in the United States finished the year down more than 22 percent. Prices for several aluminum scrap grades fell to 30-year lows in 2019, including used beverage containers (UBCs). China’s scrap import restrictions have played a role in the divergence between primary and secondary prices. As compared to late 2017 when U.S.

exports of all aluminum scrap (including UBCs and remelt scrap ingot) to China exceeded 75,000 metric tons per month, those shipments were down to just over 5,000 metric tons in November 2019.

The Chinese government's intention to implement a new standards regime for imports of copper, brass, and aluminum derived from recycling will be a key development in 2020. But aluminum recyclers continue to face a host of other challenges including the low valuation of automotive scrap, competition from scrap imports, weaker aluminum demand, and a potential rebound in global primary aluminum output in 2020 which could result in a supply glut. Absent a sharp rebound in global aluminum demand, forecasters are concerned that aluminum capacity expansion plans will have to be curtailed in order to rebalance the market. Analysts from Morgan Stanley reported in December that "supply cuts in excess of one million tons are needed to prevent a drop to our bear case of $1,657 per ton in early 2020."

Copper

The global refined copper market is widely expected to see a supply surplus in 2020. According to the latest forecasts from the International Copper Study Group, world refined copper production is expected to exceed copper demand by more than 280,000 metric tons in 2020, reversing several years of supply deficits. A return to refined copper supply surpluses would only complicate the outlook for copper recyclers, who have been faced with excess domestic scrap supplies and declining export sales. U.S. exports of copper and copper alloy scrap were down 3 percent year-on-year during Jan-Nov 2019 as copper scrap exports to mainland China plunged from nearly 265,000 tons in Jan-Nov 2018 to just over 85,000 tons during Jan-Nov 2019. But improved trade with Malaysia (now the largest destination for U.S. copper scrap exports), India, Germany, Belgium, and other markets has helped to offset the decline to China.

As with aluminum, China's reclassification of high-quality copper and copper alloy scrap imports could significantly reshape the scrap market in 2020. By late 2019, copper prices had already benefited from the signs of progress on the U.S.-China trade talks. As Reuters reports, "A renewed sense of optimism has been evident in the sharp turnaround in fund positioning on copper, as ever the metallic bellwether for the risk-on-risk-off trade. The money men held a net collective short on the CME copper contract for most of 2019 but turned net long in the last days of the year." A December report from the Goldman Sachs Group pegs the price of copper at $7,000 per ton in 2020.

Iron and Steel

In 2020, the World Steel Association projects Chinese steel demand will only grow 1.0 percent while steel demand in the rest of the world will increase 2.5 percent, driven by 4.1 percent growth in emerging and developing economies excluding China. As a result, global steel demand is forecast to grow 1.7 percent to 1,805.7 million metric tons in 2020, down from the 3.9 percent growth rate in 2019, according to worldsteel. But as with other commodities, any improvement in U.S.-China trade relations could have outsized implications for the global steel and ferrous scrap markets.

According to a press release from the U.S. Trade Representative, China has agreed to import at least $120 billion of U.S. manufactured goods in 2020, including iron and steel products. Improved trade deals with major U.S. trading partners such as China, Canada, and Mexico will play an important role for the iron and steel industries, along with ferrous scrap trade flows and domestic capacity expansion plans. For the first 11 months of 2019, the Census Bureau trade data show total ferrous scrap exports (excluding stainless and alloy steel scrap) from the United States were up 0.7 percent to 14.6 million metric tons on sharply higher exports of No. 1 bundles, cast iron scrap, and other grades that more than offset lighter loadings of shredded, heavy melt, and cut plate and structural. At the same time, total U.S. steel imports during the first 11 months of 2019 were down 17.3 percent as compared to the corresponding period in 2018. Major expansion plans announced by Nucor, U.S. Steel, and other domestic steel producers could significantly ramp up U.S. demand for ferrous scrap in 2020.

Lead and Zinc

Over the course of 2019, zinc and lead prices were among the worst performers at the London Metal Exchange, falling 6.5 percent and 4.0 percent, respectively, last year. The decline in prices for the sister metals came despite a drawdown in LME warehouse stocks, which typically coincide with rising prices. Reuters explains that the disconnect stems from the difficulty in getting mined material transformed into refined metal: “Smelters’ collective capacity to convert raw material into metal was last year hampered by a string of outages, including the fire at the Mooresboro refinery in the United States, the temporary suspension of the Skorpion refinery in Namibia and lower output due to an electrical failure at the Trail plant in Canada. Chinese smelters’ ability to lift run-rates, meanwhile, was constrained by the rolling environmental inspections that have become a feature of the country’s metallic supply chains.”

Looking into 2020, the International Lead Zinc Study Group is forecasting global demand for lead metal will increase 0.8 percent to 11.9 million metric tons while world refined lead supply is expected to increase 1.7 percent in 2020 to 11.96 million tons, leaving a global lead market surplus of 55,000 tons. The Study Group also sees a 0.9 percent increase in world demand for zinc being outstripped by a 3.7 percent increase in global zinc production, resulting in a global zinc supply surplus of 192,000 metric tons. In light of the expected supply surpluses, the World Bank is projecting average prices for lead and zinc at $1,950/mt and $2,450/mt, respectively, in 2020.

Nickel and Stainless Steel

At the London Metal Exchange last year, LME 3-month nickel futures ranged from as low as $10,530 per ton in January to as high as $18,850 per ton in September. At the same time, closing nickel stocks in LME warehouses dwindled from more than 207,000 tons at the end of 2018 to less than 65,000 tons in November 2019. Despite the on-going volatility in nickel prices and warehouse stocks, nickel prices outperformed the other major base metals in 2019, ending the year nearly 32 percent higher in London as compared to the end of 2018. However, prices for stainless steel scrap came under pressure late last year amid reports of excess scrap supplies in the United States and Europe. As a result, the price of 304 stainless steel scrap in the United States declined nearly 2 percent over the course of 2019, despite rising primary nickel prices.

In the short term, despite continued uncertainty regarding nickel and stainless steel demand, Fastmarkets Metal Bulletin reports, “LME nickel's technical configuration has improved and could continue to support its prices to recover higher in the short term.” The International Nickel Study Group is forecasting another global nickel market supply deficit this year, which could also help to underpin prices. Looking further into the future, Macquarie is projecting a recovery in the stainless steel market starting in the second half of 2020 and healthy growth in nickel demand from the electric vehicle battery market. As a result, they project steadily rising global nickel prices that are expected to reach $19,500 per ton in 2024.

Recovered Paper and Scrap Plastics

For paper and plastics recyclers, tighter import restrictions around the world, rising quality demands, and investments in domestic production capacity will remain key themes in 2020. Import restrictions in China have contributed to the restructuring of the global marketplace for recycled paper and plastic, but additional restrictions and stepped up enforcement of existing regulations continue to surface. India, for example, is now reportedly strictly enforcing its regulations that call for zero “putrefiable organic matter” to be contained in paper consignments and outline the tolerance for other “recyclable material” that may be present in each of the 48 categories of recovered paper grades.

U.S. exports of recovered paper, paperboard and pulp decreased nearly 11 percent in the first eleven months of 2019 as compared to the same time a year ago. Over the same time period, U.S. exports of plastic scrap plunged 39 percent lower year-on-year by volume. By type of plastic scrap, polymers of styrene were the only type to see a gain in 2019, while all other polymers realized double-digit decreases ranging between 28 and 69 percent. Looking forward, China’s role in the non-metallic scrap sectors will continue to loom large. RISI reports that ‘recycled pulp has become an alternative way for Chinese paper producers to obtain the recycled fiber they need… Chinese paper companies have plans to invest in significant amounts of recycled pulp capacity to expand recycled pulp production in different regions, mainly the U.S. and non-China Asia, to solve the potential fiber shortage problem caused by the further drop in RCP imports and the potential zero-RCP-imports scenario sometime in the future.'"

This Week's Quote

"Mankind must remember that peace is not God's gift to his creatures; peace is our gift to each other."

-- Elie Wiesel