

October 28, 2019

In this Issue:

- **This Morning**
- **The Week Ahead**
- **Economic Week in Review**
- **Commodity News**
- **Transportation**
- **This Week's Story**
- **This Week's Quote**

This Morning

U.S. stocks posted healthy gains this morning amid rising expectations for a U.S.-China trade deal. Bloomberg reports "The S&P 500 took out its July record after President Donald Trump said the U.S. is ahead of schedule to sign part of the trade deal." Commodities weren't faring nearly as well, with the major commodity indexes up around 0.1% this morning following reports of falling profits at Chinese industrial companies and weaker Chinese producer prices, Reuters reports. In London, LME 3-mo. copper and aluminum were holding on to modest gains around \$5,910/mt and \$1,736/mt, respectively, while 3-mo. nickel dropped to around \$16,720/mt. In New York, COMEX copper futures were little changed around \$2.68 per pound while NYMEX crude oil futures rebounded to \$56.70 per barrel. In foreign exchange trading, the euro was buying \$1.088 while the British pound edged up to \$1.286 as the EU reportedly extended the Brexit deadline until Jan. 31.

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Selected Primary Commodity Prices: October 28, 2019

	Last	CHG	% CHG	Prior	Open	High	Low
COMEX Copper Dec (\$/lb.)	2.6840	0.009	0.3%	2.676	2.69	2.687	2.674
COMEX Gold Dec (\$/to)	1,506.0	0.7	0.0%	1,505.3	1507.4	1,510.8	1,504.7
COMEX Silver Dec (\$/to)	18.04	0.1	0.6%	17.93	18.07	18.15	18.0
NYMEX Light Sweet Crude Dec (\$/bbl)	56.69	0.0	0.1%	56.66	56.65	56.85	56.24
SHFE Aluminum Dec (RMB/mt)	13,825	10	0.1%	13,815	13,810	13,855	13,805
SHFE Copper Dec (RMB/mt)	47,480	120	0.3%	47,360	47,440	47,670	47,330
SHFE Nickel Dec (RMB/mt)	132,870	-320	-0.2%	133,190	133,430	134,390	131,230
SHFE Zinc Dec (RMB/mt)	18,965	170	0.9%	18,795	18,705	19,165	18,690

The Week Ahead

Unlike last week's light economic calendar, this week's calendar is packed with key economic readings and announcements covering everything from jobs to GDP growth, personal spending and income, manufacturing, construction spending, light vehicle sales, consumer confidence, and, last but not least, the Federal Reserve's latest monetary policy statement. What should you keep an eye on and why should scrap recyclers care? If the consensus forecasts hold, a couple of themes should emerge this week:

- Job growth is slowing but labor markets remain tight: according to the consensus forecast, U.S. nonfarm payrolls only grew by around 80,000 in October, down from 136,000 in September. But the unemployment rate is expected to remain very low at around 3.6 percent and a separate report on initial unemployment claims is expected to have only edged up slightly, which means hiring and retaining new employees should remain challenging for recyclers for some time to come.
- Growth is slowing: the forecast for real GDP growth in the 3rd quarter is around 1.5%, down from 2.0% growth in the 2nd quarter. In addition, manufacturing PMI is expected to come in at 48.7 in October – up from 47.8 in September but still below the 50-level separating expansion from contraction. All other things being equal, slower U.S. economic and manufacturing output tend to weigh on scrap demand and prices as 70% of the scrap processed in the U.S. is sold to U.S. manufacturers.
- The Fed is widely expected to cut rates again this week: markets have already priced in a quarter point cut but should the Fed's monetary policy stance become even more accommodative, investor sentiment could improve and dollar appreciation could ease, making U.S. exports somewhat more competitive. The problem is that other major central banks are also loosening their policies and heightened global economic uncertainty makes the dollar (and Japanese yen) attractive options.

Overseas, the Financial Times reports "There are also central bank decisions in Japan, Canada, Brazil and Colombia. Brexit will continue to dominate UK politics, as the country waits to see how long an

extension the EU will grant while Boris Johnson tries to force a general election. The Central Committee of China's ruling Communist party begins a four-day meeting on Monday, amid speculation some of the younger generation of leaders may be promoted to the Politburo Standing Committee." We'll take a look at how the week's key economic, trade, and other developments line up with expectations in next week's ISRI Market Report. Have a great week!

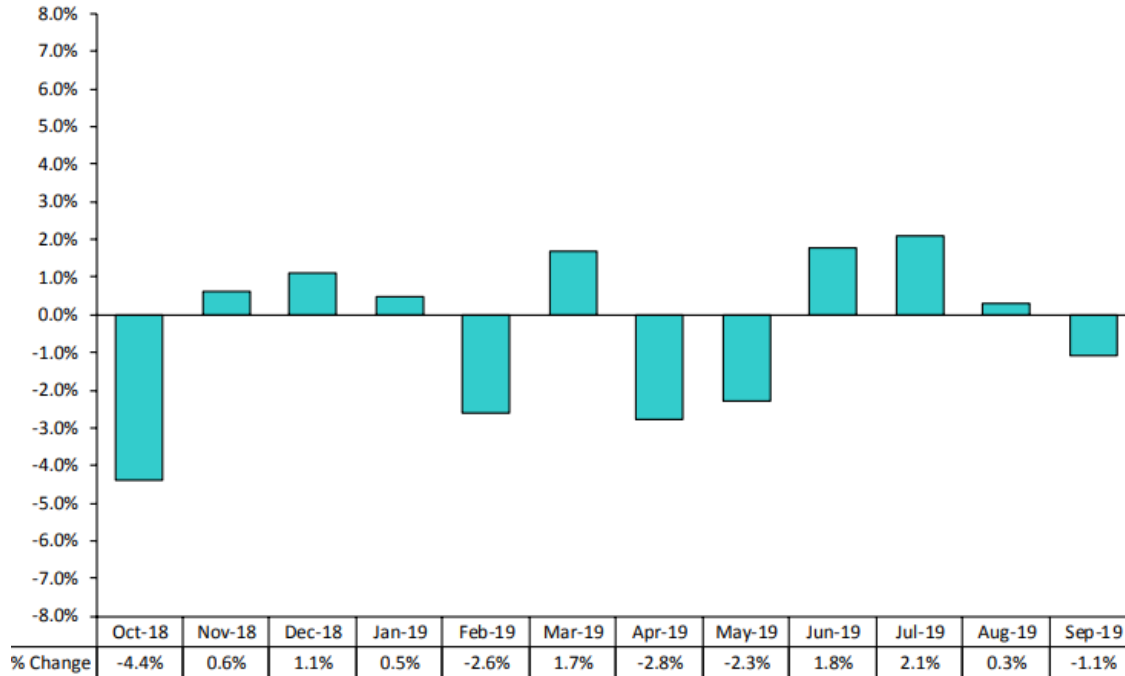
U.S. Economic Calendar: Oct 28 – Nov 1, 2019

Date	Time	Release	Period	Consensus Forecast	Prior
28-Oct	08:30 ET	Adv. Intl. Trade in Goods	Sep	NA	-\$72.8B
28-Oct	08:30 ET	Adv. Retail Inventories	Sep	NA	0.0%
28-Oct	08:30 ET	Adv. Wholesale Inventories	Sep	NA	0.4%
29-Oct	09:00 ET	S&P Case-Shiller Home Price Index	Aug	2.5%	2.0%
29-Oct	10:00 ET	Consumer Confidence	Oct	127.5	125.1
29-Oct	10:00 ET	Pending Home Sales	Sep	0.7%	1.6%
30-Oct	08:15 ET	ADP Employment Change	Oct	95K	135K
30-Oct	08:30 ET	GDP - Adv.	Q3	1.5%	2.0%
30-Oct	08:30 ET	GDP Price Deflator – Adv	Q3	2.0%	2.4%
30-Oct	14:00 ET	FOMC Rate Decision	Oct	1.6%	1.9%
31-Oct	08:30 ET	Initial Claims	26-Oct	216K	212K
31-Oct	08:30 ET	Employment Cost Index	Q3	0.7%	0.6%
31-Oct	08:30 ET	Personal Income	Sep	0.3%	0.4%
31-Oct	08:30 ET	Personal Spending	Sep	0.3%	0.1%
31-Oct	08:30 ET	PCE Price Index	Sep	0.1%	0.0%
31-Oct	09:45 ET	Chicago PMI	Oct	48.2	47.1
1-Nov	08:30 ET	Nonfarm Payrolls	Oct	80K	136K
1-Nov	08:30 ET	Nonfarm Private Payrolls	Oct	90K	114K
1-Nov	08:30 ET	Avg. Hourly Earnings	Oct	0.2%	0.0%
1-Nov	08:30 ET	Unemployment Rate	Oct	3.6%	3.5%
1-Nov	08:30 ET	Average Workweek	Oct	34.4	34.4
1-Nov	10:00 ET	Construction Spending	Sep	0.1%	0.1%
1-Nov	10:00 ET	ISM Manufacturing Index	Oct	48.7	47.8
1-Nov	14:00 ET	Auto Sales	Oct	NA	3.55M
1-Nov	14:00 ET	Truck Sales	Oct	NA	9.89M

Economic Week in Review

New orders for U.S. manufactured durable goods declined 1.1 percent in September to \$248.2 billion, slightly worse than the consensus forecast for a 1.0% drop. The Census Bureau reports: "Excluding transportation, new orders decreased 0.3 percent. Excluding defense, new orders decreased 1.2 percent. Transportation equipment, also down following three consecutive monthly increases, led the decrease, {down} \$2.3 billion or 2.7 percent to \$84.5 billion."

DURABLE GOODS NEW ORDERS 2018-2019
Seasonally Adjusted, Month-To-Month Percentage Change



Source: U.S. Census Bureau, Manufacturers' Shipments, Inventories, and Orders, October 24, 2019.

New home sales also came in slightly lower than expected at a seasonally adjusted annual rate of 701,000 units in September, down 0.7% from August. Briefing.com reports "The key takeaway from the report is the weaker activity seen in sales of higher-priced homes, as that speaks to the affordability pressures presented by mortgage rates that went up in September. Remember, new home sales are recorded when a contract is signed not when the sale closes (as is the case for existing home sales)."

New Home Sales (thousands, SAAR)

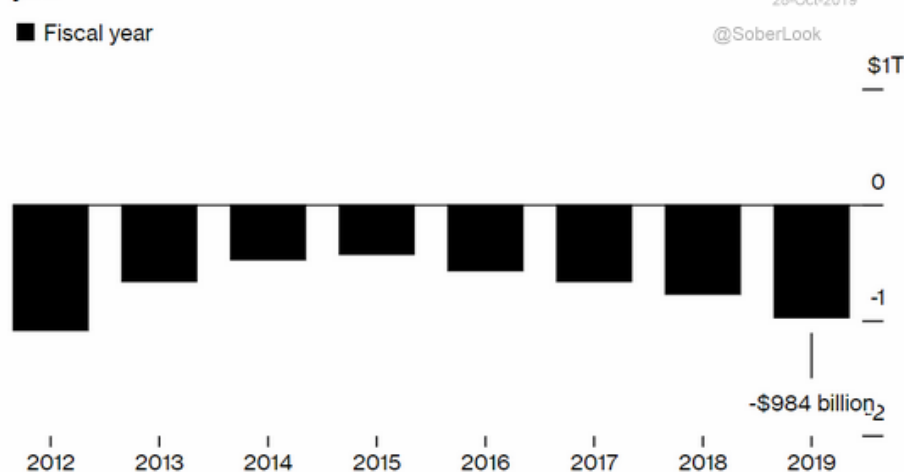


Source: Census Bureau; updated 10/24/19

In other economic news last week, the U.S. budget deficit reportedly widened to -\$984 billion for fiscal year 2019, the largest deficit since 2012. CNBC reports: "The gap between revenues and spending was the widest it's been in seven years as expenditures on defense, Medicare and interest payments on the national debt ballooned the shortfall. The government said corporate tax revenues totaled \$230 billion, up 12%, thanks to a rebound in the second half of the year. Individual tax revenues rose 2% to \$1.7 trillion."

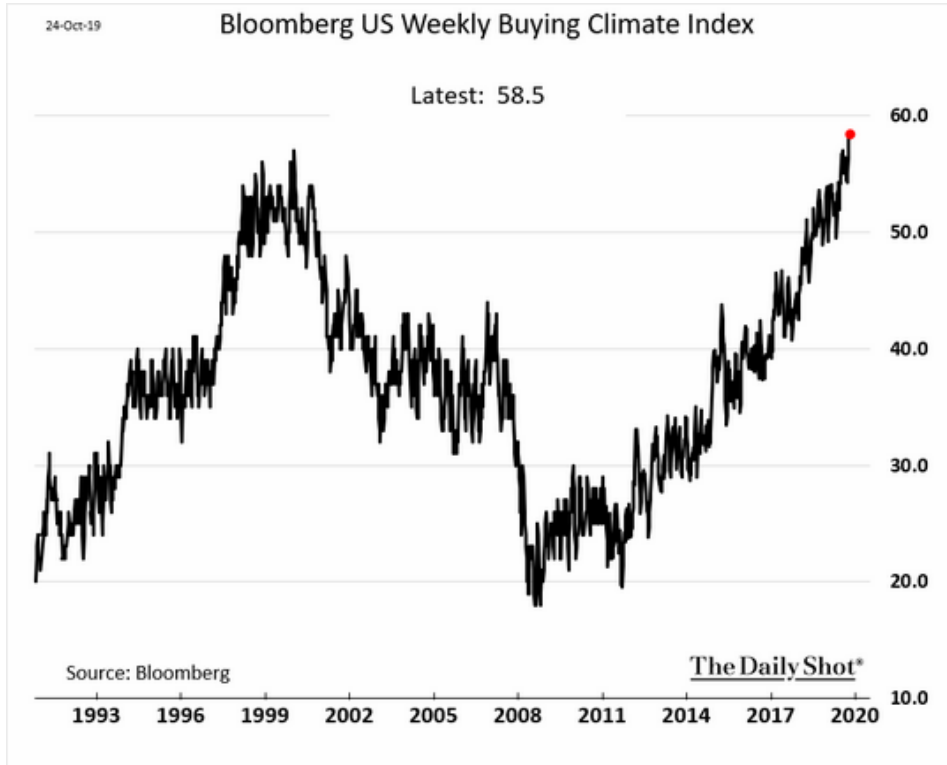
Bulging Deficit

America's budget gap widened to almost \$1 trillion in latest fiscal year



Source: Treasury Department, data compiled by Bloomberg

On a more positive note, consumer confidence levels remain elevated and the WSJ's Daily Shot reports that "Buying climate is hitting record highs. Based on this signal, it should be a good holiday season for retailers."



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Commodity News

Ferrous –

On Friday, the United Auto Workers union announced it has a new labor agreement with General Motors, ending its 40 day strike. According to the Wall Street Journal, "The car company will schedule overtime to

make up for lost production, giving workers who have been without a paycheck for six weeks a way to recoup their finances. Among the auto maker's first priorities is to fill back-ordered parts at dealerships, which have had to delay repairs. GM plans to have its plants running full-tilt again early next week, the spokesman said... The strike, the company's longest nationwide walkout in nearly a half century, crippled GM's U.S. manufacturing operations and rippled through the broader economy, resulting in temporary layoffs for thousands of non-UAW workers. The financial toll on GM and the Midwest economy will continue to linger well after the strike ends. Analysts estimate the disruption to GM's U.S. factories, as well as those in Mexico and Canada that were idled because of parts shortages, has cost GM roughly 300,000 units of lost vehicle production that it will now have to make up. The damage to GM's bottom line is likely to exceed \$3 billion with most of the hit to be reported in the fourth quarter, according to Bank of America. On top of that, the new union agreement is expected to tack on \$100 million or more a year in higher labor costs, industry analysts estimate."

Meanwhile, U.S. steelmakers are reportedly pushing for \$40 per ton price hikes for flat-rolled products. According to our friends at UBS:

- "Several US steel mills, including ArcelorMittal, NLMK, Nucor, and US Steel, have announced US\$40/st HRC price increases in the last two days.
- Mills were reportedly selling at ~US\$480/st (vs. US\$470/st spot), and are initially targeting prices closer to US\$520/st, according to SMU.
- The timing is not surprising with scrap prices at depressed levels and blast furnace producers likely close to cost breakeven.
- Steel prices are down 20% from August 2019. Service centers will likely support higher prices in the short term to avoid inventory devaluation, in our view.
- As for the equities impact, we expect some short-covering and repositioning as short-term focused investors reposition for a possible change in steel price momentum.
- Steel stock prices are roughly 80% correlated to steel prices historically. When steel prices rise, blast furnace operators (X and AKS) tend to outperform electric arc furnace peers (NUE and STLD) given the formers' relatively high fixed costs and operating leverage."

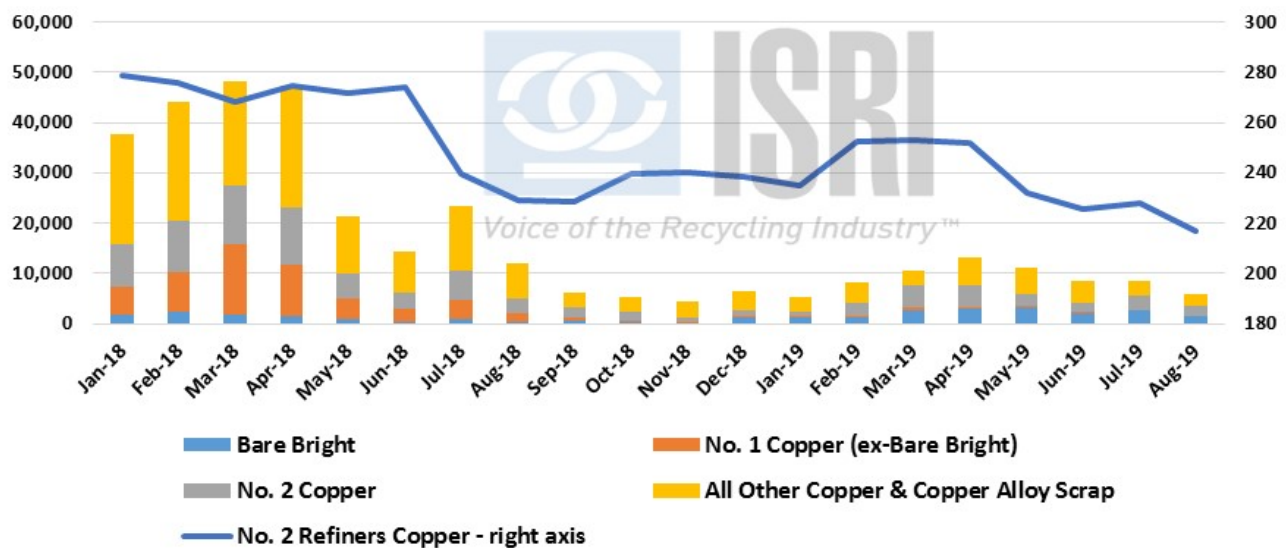
Of note, the World Steel Association came out with its latest global crude steel production statistics last week showing "North America's crude steel production in the first nine months of 2019 was 90.6 Mt, an increase of 0.3% compared to the same period of 2018." In comparison, China reportedly produced 747.8 million tons of steel during Jan-Sep 2019, an increase of 8.4% year-on-year, while Vietnamese steel production surged nearly 54% higher to 15.5 million tons during the first nine months of 2019.

Nonferrous –

Macquarie Research is extremely cautious on their base metals outlook for the near term: "The fundamental outlook for Base Metals is subdued: sufficient supply + stable trade. Our survey of China's copper industry revealed active fabricators/traders, while the big trade shift has been rising conc. imports to offset scrap import bans. Zinc's price is capped at lows by a persistent surplus (improving supply vs. moderating demand, buoying TCs). China's aluminium output rate's up again (+4% to 35Mtpa, Jan-Sep), on an input cost-collapse (power/alumina), with exports rising again. Nickel's price tracked the general plight of the other base metals until July, when the first news of a possible ban on Indonesia's Ni-bearing ore exports emerged."

As for the copper scrap situation in China, Macquarie reports “Scrap imports of Sep are 150kt (+55%MoM; -25%YoY); ytd total imports was 1.2Mt (-31%YoY). In the last week, China released the 5th batch of cat. 6 scrap copper imports quota, totalled 57kt for Q4, ~12% of that for Q3 and more will be released soon. Local scrap copper consumption was limited in 2H because the quotas are assigned directly to end-users and fabricators, and imported scrap cannot be traded in the local market. Market expects local scrap copper supply to tighten in Q4, and everyone awaits details on the trade policy for 2020. Supply may improve in 2020, if policy allows certain category of scrap to be re-classified as ‘resources’ rather than ‘waste’.”

U.S. Exports of Copper & Copper Alloy Scrap to Mainland China (metric tons) and Avg. Monthly No. 2 Copper Scrap Prices (cents/lb.)



Plastic –

According to the BIR’s press release regarding its recent Plastics Committee meeting, “The alarm bells are ringing louder and louder’ for plastics recyclers amid worrying economic developments and wider uncertainties, warned BIR Plastics Committee Chairman Henk Alsema of Netherlands-based Vita Plastics in his introductory remarks to the body’s latest meeting in Budapest on October 14.

But while many companies are currently beset by problems such as high stock levels, Mr Alsema insisted that he is ‘more positive’ about longer-term prospects for the plastics recycling sector. Many major companies are now incorporating larger quantities of recycled plastic into their products, he pointed out. At the same time, progress has continued to be made in plastics recycling technology and particularly in chemical recycling.

Guest speaker Rob de Ruiter, Senior Business Developer at TNO in the Netherlands, shed more light on some of these latest technological advances. Having insisted that there is still an important role to be played by mechanical recycling, he focused on other options such as solvent-based dissolution and thermochemical conversion. Based on current circumstances, he expected pyrolysis to be ‘a big factor in the future.’

Mr de Ruiter highlighted the growing involvement of major companies in the recycling sphere, as evidenced by the recent announcement of a Dow/Fuenix partnership covering the supply of pyrolysis oil feedstock made from recycled plastic waste, to be used to make new polymers. While some of the

emerging recycling technologies may take many years to achieve commercialization, Mr de Ruiter assured delegates: 'It needs time but it's unavoidable that we go in this direction'."

Transportation

Fastmarkets AMM reports transportation woes heading into 2020 are an on-going source of concern for meeting participants at their conference in New Orleans last week: "After a year of challenges on the United State' rail, road and river networks, delegates at Fastmarkets' Steel Scrap, DRI and Mini-Mills Conference, held in New Orleans October 23-25, were warned of further difficulties in 2020. An extended closure of the Illinois River is scheduled for July through to the end of October next year as the US Army Corps of Engineers carries out a major revamp of the river's locks and dams to alleviate some of the issues experienced this year due to high water levels. 'You're looking at a four-month closure. But from a barge standpoint you're closer to six months because we have to have enough time to get barges into the Chicago area and Indiana Harbor, unload them and get them back out,' Chad Sutter, sales and logistics manager for Cooper Consolidated, told delegates... Trade sources noted that an extended closure of the Illinois River will hinder the movement of scrap in the Chicago area. Large quantities of material could remain unshipped for weeks, causing inventories to build rapidly. Pig iron shipments from the Gulf up to that region's mills and foundries could be severely hampered as well. Sutter noted that customers were already making plans for the closure, with warehouse space along the river being snapped up quickly... And the trucking industry already faces a shortage of around 60,000 drivers in the United States, according to Daniel Titus, owner of Page Transportation. He warned of a coming capacity crunch in light of the Illinois River shutdown. 'Meet with your logistics folks, hold their hand and kiss them in the ear and find a solution that works for both of you,' Titus suggested."

FIGURE A

Black and Hispanic men make up a growing share of those employed in truck-driving occupations

Racial/ethnic and gender composition of truck-driving occupations, 1979–2018

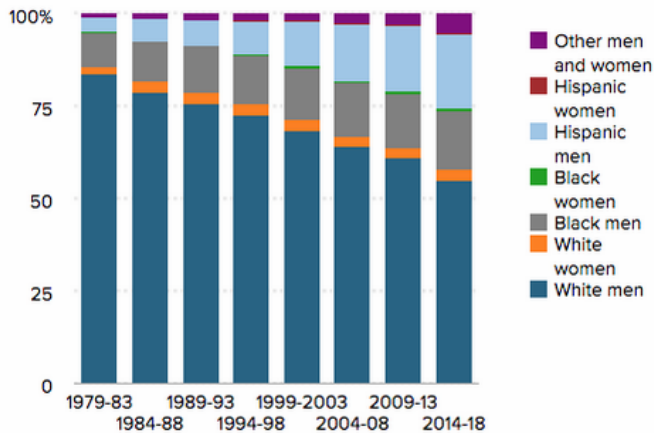


Chart Data

Note: Analysis based on sample of full-time workers, defined as employed and working more than 30 hours per week at their main job. Data are pooled over five-year intervals in order to create a large enough sample to disaggregate by race, ethnicity, and gender.

Source: Author's analysis of Current Population Survey Outgoing Rotation Group microdata from the U.S. Census Bureau



Weekly Market Report

This Week's Story

Two kids are in a hospital each lying on a stretcher next to each other outside the operating room. The first kid leans over and asks, "What are you in here for?"

The second kid says, "I'm getting my tonsils out. I'm a little nervous."

The first kid says, "You've got nothing to worry about. I had that done when I was four. They put you to sleep and when you wake up, they give you lots of jello and ice cream. It's a breeze."

The second kid then asked, "What are you in here for?"

The first kid says, "a circumcision."

The second kid replies, "Whoa, good luck buddy! I had that done when I was born and I couldn't walk for a year."

This Week's Quote

"People who live in a society, enjoy looking into each other's eyes, who share their troubles, who focus their efforts on what is important to them and find this joyful – these people lead a full life."

-- Albert Einstein

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