

June 29, 2020

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This Morning

- The Bloomberg Commodity Index jumped 1.75% higher this morning as crude oil and industrial metal prices advanced.
- In New York, NYMEX crude oil futures were up 3% to around \$40 per barrel in late morning trading while COMEX copper futures gained 0.6% to \$2.70 per pound.
- Reuters reports “OPEC has cut oil output in June by 1.25 million barrels per day (bpd) from May levels as it works to implement a supply restraint agreement with Russia and other allies, according to estimates from tanker-tracking company Petro-Logistics.”
- In London, LME 3-mo. copper and aluminum traded as high as \$5,993/mt and \$1,614.50/mt, respectively, earlier today while 3-mo. nickel advanced to around \$12,800 per mt.
- On Wall Street, the major stock indexes started the week in positive territory (Dow Industrials +1.8%) this morning following gains at most of the major European exchanges.
- In foreign exchange trading, the dollar was little changed against the euro (\$1.123) or British pound (\$1.228) this morning but firmed to 107.7 Japanese yen.

This Week's ISRI Market Report Sponsored By:



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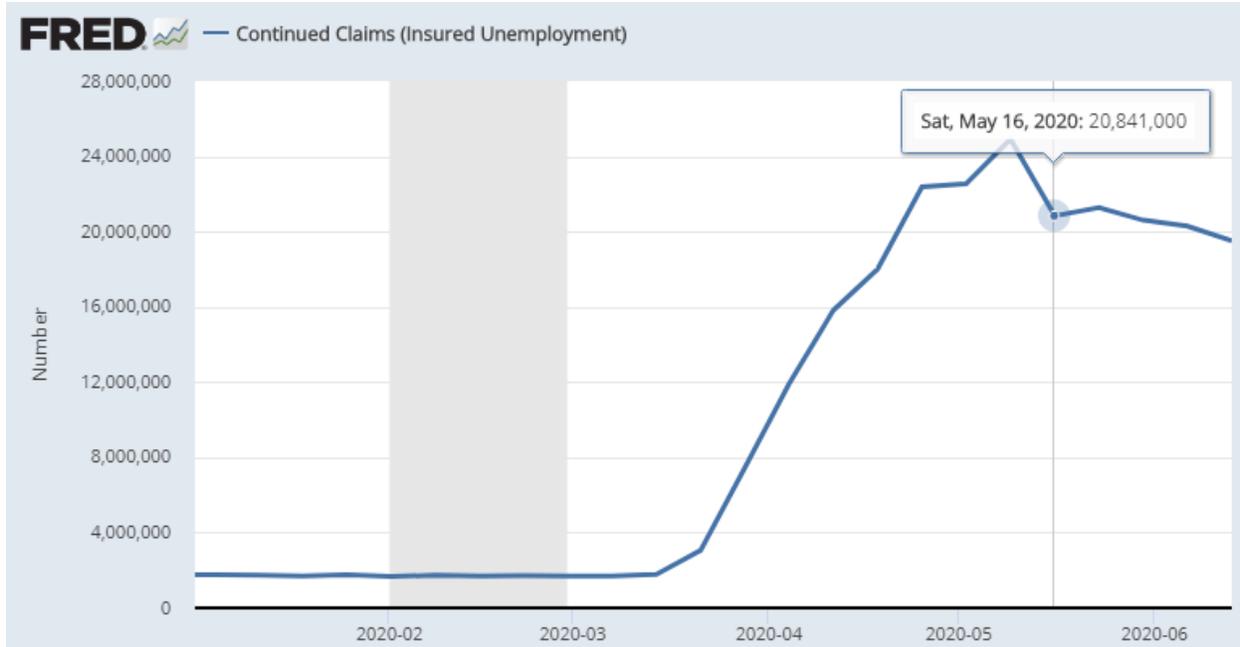
Selected Primary Commodity Prices: June 29, 2020

	Last	CHG	% CHG	Prior	Open	High	Low
COMEX Copper Sep (\$/lb.)	2.695	0.016	0.6%	2.679	2.670	2.706	2.668
COMEX Gold Aug (\$/to)	1,782.4	2.1	0.1%	1,780.3	1789.2	1,790.4	1,776.5
COMEX Silver Sep (\$/to)	18.10	-0.1	-0.4%	18.17	18.11	18.29	17.9
NYMEX Light Sweet Crude Aug (\$/bbl)	39.67	1.2	3.1%	38.49	37.96	39.70	37.50
SHFE Aluminum Aug (RMB/mt)	13,725	100	0.7%	13,625	13,625	13,795	13,600
SHFE Copper Aug (RMB/mt)	48,350	590	1.2%	47,760	48,050	48,590	48,030
SHFE Nickel Oct (RMB/mt)	102,140	40	0.0%	102,100	102,000	103,400	100,930
SHFE Zinc Aug (RMB/mt)	16,645	-90	-0.5%	16,735	16,685	16,765	16,580

The Week Ahead

- This is a holiday-shortened week in the U.S. with the 4th of July holiday to be observed on Friday. As a result, we'll get both the weekly initial unemployment claims numbers and the monthly jobs report at the same time on Thursday morning. Initial claims are forecast at +1.35 million, while the consensus forecast for nonfarm payrolls in June is for a gain of 3.5 million jobs.

- The trend in continuing unemployment claims since mid-May would seem to track with a more modest gain in nonfarm payrolls:



- Other key U.S. economic releases due out this week will cover manufacturing PMI, the minutes of the last Fed meeting, light vehicle sales, construction spending, consumer confidence, and trade.
- On the trade front, USMCA enters into force on Wednesday, replacing the NAFTA agreement. *The Financial Times* reports “The US president criticized the earlier agreement, which came into force in 1994, for harming US jobs; its successor includes a digital chapter, and provisions to favor sourcing from North America, to protect high-wage jobs in the car sector, and to increase US farmers’ access to the Canadian market.”
- Overseas, we’ll get updated manufacturing PMI figures for China, Germany, France, and the euro zone, along with figures on Japanese industrial production and unemployment, German retail sales, euro zone unemployment and producer price inflation.
- Please be safe and have a great week!

U.S. Economic Calendar: June 29-Jul 3, 2020

Date	Time (ET)	Release	Period	Consensus	Prior
29-Jun	10:00	Pending Home Sales	May	18.0%	-21.8%
30-Jun	9:00	S&P Case-Shiller Home Price Index	Apr	4.1%	3.9%
30-Jun	9:45	Chicago PMI	Jun	45.0	32.3
30-Jun	10:00	Consumer Confidence	Jun	92.0	86.6
1-Jul	0:00	Auto Sales	Jun	NA	1.92M
1-Jul	0:00	Truck Sales	Jun	NA	7.18M
1-Jul	8:15	ADP Employment Change	Jun	3.75M	-2.76M
1-Jul	10:00	ISM Manufacturing Index	Jun	49.2	43.1
1-Jul	10:00	Construction Spending	May	1.1%	-2.9%

1-Jul	14:00	FOMC Minutes	Jun 9-10	NA	--
2-Jul	8:30	Nonfarm Payrolls	Jun	3.5M	2.509M
2-Jul	8:30	Unemployment Rate	Jun	12.6%	13.3%
2-Jul	8:30	Trade Balance	May	-\$53.0B	-\$49.4B
2-Jul	8:30	Initial Claims	27-Jun	1.355M	1.480M
2-Jul	8:30	Continuing Claims	20-Jun	NA	19.522M
2-Jul	10:00	Factory Orders	May	7.2%	-13.0%

Economic Week in Review

Downwardly Revised Growth Forecasts

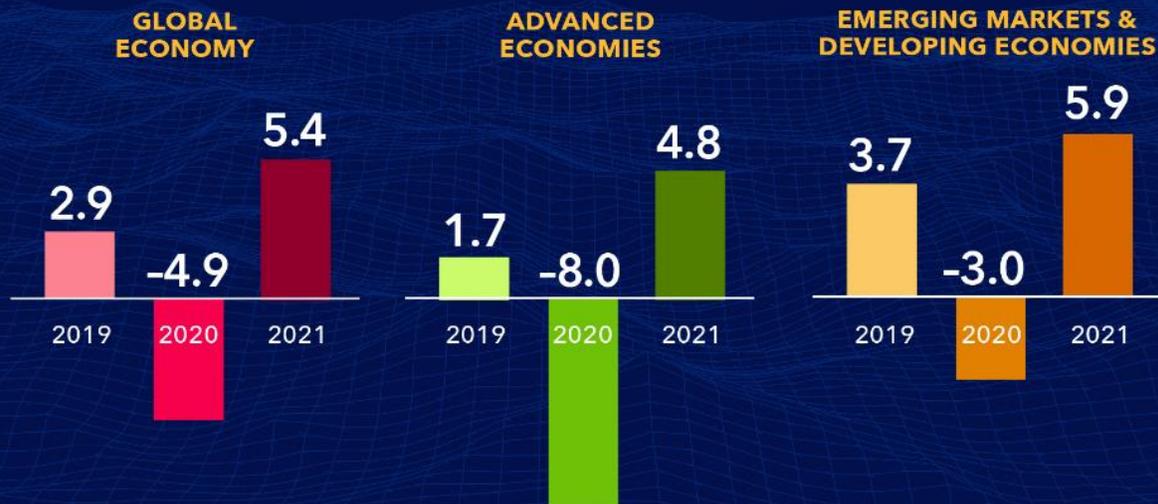
Last week, **The International Monetary Fund** released updated global economic projections as part of their “World Economic Outlook Update, June 2020” report. As compared to their previous forecasts in April when the global economy was projected to contract 3% in 2020, the IMF is now projecting a 4.9% contraction this year. The IMF projects U.S. output will decline 8.0 percent in 2020 and rise in 2021 by 4.5 percent. Advanced economies (-8% in 2020) are expected to be impacted more negatively than emerging markets and developing economies (-3% in 2020) and rebound more slowly.

The IMF reports “Based on downside surprises in the first quarter and the weakness of high-frequency indicators in the second quarter, this updated forecast factors in a larger hit to activity in the first half of 2020 and a slower recovery path in the second half than envisaged in the April 2020 WEO. For economies where infections are declining, the slower recovery path in the updated forecast reflects three key assumptions: persistent social distancing into the second half of 2020, greater scarring from the larger-than-anticipated hit to activity during the lockdown in the first and second quarters, and a negative impact on productivity as surviving businesses enhance workplace safety and hygiene standards. For economies still struggling to control infection rates, the need to continue lockdowns and social distancing will take an additional toll on activity. **An important assumption is that countries where infections have declined will not reinstate stringent lockdowns of the kind seen in the first half of the year, instead relying on alternative methods if needed to contain transmission** (for instance, ramped-up testing, contact tracing, and isolation).

WORLD ECONOMIC OUTLOOK UPDATE JUNE 2020

GROWTH PROJECTIONS

A Crisis Like No Other, An Uncertain Recovery



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U.S. Gross Domestic Product

Real GDP decreased 5.0 percent in the first quarter 2020, according to the third estimate which includes more complete source data, released last week by the Bureau of Economic Analysis. While this is the same decrease as the second estimate, the third estimate shows a positive nonresidential fixed investment increase, offset by downward revisions to private inventory investment, personal consumption expenditures, and exports (mainly of services and travel).

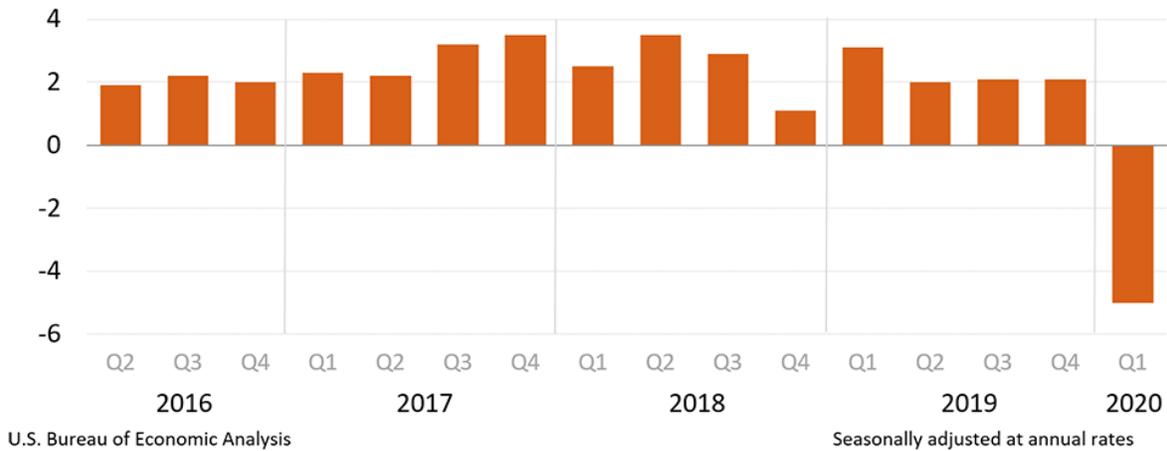
Services were down in the first quarter with the following services leading the decline:

- Healthcare services were down \$100 billion;
- Household consumption expenditures for services were down \$289 billion;
- Food services and accommodations fell \$77.3 billion.

A few sectors added to first quarter growth:

- Residential investment up \$25.8 billion;
- Food and beverages purchased for off-premises consumption up \$68.2 billion;
- Final consumption expenditures of nonprofit institutions serving households up \$65.3 billion;
- Net exports of goods and services up \$84.1 billion.

Real GDP: Percent change from preceding quarter



Durable Goods Orders Up 15.8 Percent

May 2020 showed significant increases for durable goods manufacturers' shipments, new orders and unfilled orders, on a seasonally adjusted basis (SA) reversing two months of declines.

New Orders

- New orders for durable goods in May 2020 increased 15.8 percent to \$194.4 billion, following an 18.1 percent decline in April.
- New orders for durable goods, year to date through May 2020 compared to the same period in 2019, are down 13.6 percent to \$1.043 trillion (not seasonally adjusted NSA).
- Transportation equipment led the May 2020 increase, rising 80.7 percent to \$46.9 billion (SA).
- Motor vehicles and parts rose 27.5 percent to \$28.2 billion (SA).

Shipments

- Manufacturers' shipments of durable goods in May 2020 rose 4.4 percent to \$198.5 billion, following an 18.6 percent decrease in April.
- Year to date through May 2020 compared with the same period in 2019, shipments are down 11.3 percent to \$1.098 trillion (NSA).
- Motor vehicles and parts led the May 2020 increase, rising 26.7 percent to \$28.3 billion (SA).

Unfilled Orders

- Unfilled orders edged up slightly in May 2020 by 0.1 percent to \$1.109 trillion (SA), following a 1.5 percent decline in April.
- Year to date through May 2020 compared with the same period in 2019, are down 4.1 percent to \$1,111 trillion.
- Primary metals led the May 2020 increase, rising 1.0 percent to \$30.6 billion.
- Computer and related products were down in May 2020 by 1.7 percent to \$1.9 billion.

Inventories

- In anticipation of future growth, inventories edged upward by 0.1 percent to \$425.1 billion (SA), following two months of decline.

- Year to date through May 2020 compared with the same period in 2019, inventories are up 2.7 percent to \$427.4 billion (NSA).
- Nondefense aircraft and parts led the May 2020 inventories increasing 1.6 percent to \$74.8 billion.
- Computer and related products inventories increased 1.2 percent in May 2020 to \$3.9 billion (SA).
- Inventories for primary metals fell the most in May 2020, dropping 1.8 percent to \$34.9 billion (SA).

University of Michigan Surveys of Consumers – Preliminary Results

All three indexes, final results for June 2020, released last week by the University of Michigan showed significant gains over May 2020, even though all three indexes were revised downward from their preliminary results published mid-June:

- The Index of Consumer Sentiment was up 8.0 percent, and the index revised downward by 0.8;
- The Current Economic Conditions was up 5.8 percent, and the index revised downward by 0.7;
- The Index of Consumer Expectations was up 9.7 percent, and the index revised downward 0.8.

Final Results for June 2020

	Jun2020	May2020	Jun2019	M-M Change	Y-Y Change
Index of Consumer Sentiment	78.1	72.3	98.2	+8.0%	-20.5%
Current Economic Conditions	87.1	82.3	111.9	+5.8%	-22.2%
Index of Consumer Expectations	73.1	65.9	89.3	+9.7%	-19.0%

Source: University of Michigan

According to a statement released by the Surveys of Consumers chief economist, Richard Curtin: “While most consumers believe that economic conditions could hardly worsen from the recent shutdown of the national economy, prospective growth in the economy is more closely tied to progress against the coronavirus. The early reopening of the economy has undoubtedly restored jobs and incomes, but it has come at the probable cost of an uptick in the spread of the virus...”

The resurgence of the virus will be accompanied by weaker consumer demand among residents of the Southern and Western regions and may even temper the reactions of consumers in the Northeast. As a result, the need for additional fiscal policies to relieve financial hardships has risen. Unfortunately, confidence in government economic policies has fallen in the June survey to its lowest level since Trump entered office. The need for new relief programs is urgent and would best be accomplished before the national elections dominate the debate.”

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Commodity Market Developments

Ferrous

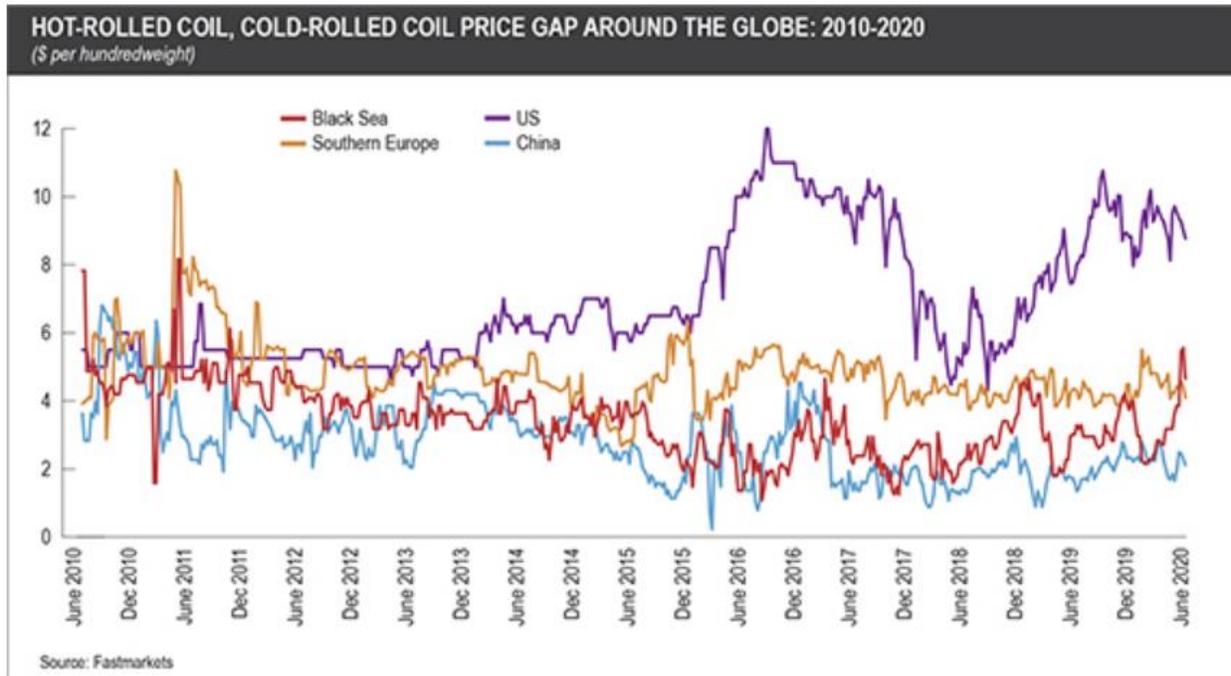
- The World Steel Association reported last week that **World crude steel production** for the 64 countries reporting to worldsteel was 148.8 million tonnes (Mt) in May 2020, an 8.7% decrease compared to May 2019. By country, worldsteel reports:
 - China produced 92.3 Mt of crude steel in May 2020, an increase of 4.2% compared to May 2019.
 - Japan produced 5.9 Mt of crude steel in May 2020, down 31.8% on May 2019.
 - India produced 5.8 Mt of crude steel in May 2020, down 39.1% on May 2019.
 - South Korea's steel production for May 2020 was 5.4 Mt, down by 14.1% on May 2019.
- In the United States, AISI reports that **domestic steel production** for the week ending June 20th "...was 1,224,000 net tons while the capability utilization rate was 54.6 percent. Production was 1,863,000 net tons in the week ending June 20, 2019 while the capability utilization then was 80.1 percent. The current week production represents a 34.3 percent decrease from the same period in

**U.S. IMPORTS OF FINISHED STEEL MILL PRODUCTS
BY COUNTRY OF ORIGIN
(thousands of net tons)**

COUNTRY	May 2020 Prelim.	Apr. 2020 Final	% var May vs. Apr.	YTD 2020 (5 mo.)	YTD 2019 (5 mo.)	% var '20 vs. '19	2020 Ann.	2019 12 mo.	% var 2020 vs. '19
South Korea	229	161	42.2%	937	1,287	-27.2%	2,249	2,576	-12.7%
Japan	103	69	49.6%	373	611	-38.9%	896	1,242	-27.9%
Germany	65	64	1.3%	298	517	-42.4%	715	1,043	-31.5%
Turkey	85	53	61.0%	294	185	58.5%	705	328	115.1%
Taiwan	81	48	69.7%	267	436	-38.9%	640	830	-22.9%
Brazil	44	69	-36.0%	255	301	-15.6%	611	534	14.4%
Spain	20	44	-54.4%	168	202	-16.9%	403	445	-9.4%
Netherlands	54	37	45.6%	153	186	-17.8%	367	550	-33.2%
All Other	804	768	4.8%	4,565	6,239	-26.8%	10,956	13,504	-18.9%
Total	1,486	1,313	13.2%	7,308	9,965	-26.7%	17,540	21,051	-16.7%

the previous year. Production for the week ending June 20, 2020 is up 1.2 percent from the previous week ending June 13, 2020 when production was 1,210,000 net tons and the rate of capability utilization was 54.0 percent.”

- As for **U.S. steel imports**, AISI reports “Through the first five months of 2020, total and finished steel imports are 10,981,000 and 7,308,000 net tons (NT), down 19.2% and 26.7%, respectively, vs. the same period in 2019. Annualized total and finished steel imports in 2020 would be 26.4 and 17.5 million NT, down 5.7% and 16.7%, respectively, vs. 2019.”
- Of note, Fastmarkets AMM reports on the record (\$10/cwt) spread in the United States between HRC and CRC. One explanation presented: “US mills’ sales representatives have been given more pricing power on their value-added products, and the market went along and accepted the more expensive cold-rolled price as normal somewhere along the way.” Here’s their chart comparing spreads globally:



- Last but not least, here’s an excerpt from Friday’s market update provided by our friends at Argus:

- “The Turkish market has cooled as mills filled July requirements and domestic rebar prices fell, putting additional pressure on prices. That has added to some of the negative sentiment for July in the US...
- US steel prices also slid this week, with HRC lead times heard at 3-4 weeks compared to 3-5 weeks the prior week, also adding to scrap headwinds for July...
- Some moves being made on the east coast as Chuck and Eddies/Chase Waste bought a 2,000-horsepower shredder from Rubino Brothers, who is exiting the shredding business. Chuck and Eddies will install the shredder as a replacement of its existing smaller one in New Haven, Connecticut. And in New York, Upstate Shredding is building a new scrap yard and steel service center in Ithaca as it relocates two older facilities.”

Nonferrous

Macquarie just released its updated Commodities Compendium, and here are some excerpts related to copper and aluminum.

Copper

- “Copper’s price has rebounded strongly and steadily from decade-lows briefly seen in March, back up at pre-COVID-19 levels near to \$6,000/t. On fundamentals, it has been aided by China’s recovery and probably the reserve bureaus’ stocking, in addition to around half a million tonnes of mine disruptions and, on the flows side, by broader market buoyancy inspired by vast stimulus measures and rebound expectations. Indeed, we note that copper’s strongest price correlation looking across asset classes is with the S&P500 this year. Demand concerns past and future seem to have been swept aside, at the same time as supply woes have apparently been factored in...
- However, returning demand will be accompanied by returning mine and scrap supply over the next half, and stocking dynamics will begin to work against copper cathode this time as downstream semis destock and, in our view, the SRB and other Chinese stocking bureaus hold back on higher prices. Mines are already returning (Fig 59), with feed pushing back down the pipe and the spot TC/RCs’ slide stabilising. For cathode consumption, returning demand is anticipated but shaky: Freeport McMoran recently decided to close one of its two large rod mills and a specialty copper products plant in the US on concerns about the outlook. Putting it all together, we think copper’s rebound looks to have overshot, and a price pullback is more likely in the next quarter towards the mid-\$5,000s/t.”

Aluminum

- “Despite reporting only a modest supply-side response to the virus lockdown (1% of global market), and evidence that normalised demand growth is the weakest in over a decade, aluminium’s price has recovered sharply from its Apr-lows, >10% in just 6 weeks to over US\$1,550/t-\$0.70/lb – a SHFE-led short-covering rally, helped by a recovery of key input costs of alumina and power...
- It’s basically part of a macro-backed re-rate across industrial metals, on the expectation of a short-term normalisation in activity levels across aluminium’s fundamentals. For aluminium too, it’s mostly China that’s driving the recovery story here (~60% of global S/D): market signals that we track indicate subdued trade persists ex-China, particularly in Europe...
- For 2020, our unchanged aluminium cash price forecast is for an 11%YoY decline to an annual average of US\$1,595/t-\$0.72/lb, recovering post-virus to trade at \$1,700-1,725/t in 2021-22.”

Source: Macquarie Commodities Compendium, June 2020

Paper and Fiber

Last week Fastmarkets RISI & Norexeco hosted a webinar on Global Pulp Markets & Managing Risk. The presenters were David Fortin, Vice President, Economic Analysis of Fastmarkets RISI; Matt Graves, Senior Vice President of Fastmarkets RISI; and Anita Skjong, Director Market of NOREXECO - The Pulp and Paper Exchange. Below are some highlights:

- The proportion of market pulp consumption has increased 50 percent since 2000, going from about 26 percent to about 39 percent in 2018.
- “Supply shocks are getting bigger because assets are getting bigger.” Looking at new greenfield pulp mills since the 1990’s: 560,000 tonnes capacity added by Peace River in the 90’s; 1,300,000 tonnes added by Tres Lagoas in the 2000s; and 2,600,000 tonnes added by OKI in the 2010s.
- Tissue and packaging markets have since big increases and while graphic paper markets have collapsed
- The supply disruptions have been offset by weakened demand, thus keeping inventories from rising.
- The market for pulp that is dried and sold as a commodity is 68 million tons per year.

End uses for pulp:

- Tissue 40%
 - Graphic papers 30%
 - Cartonboard & specialties 25%
 - All other markets 5%
-
- RISI forecasts a 5 percent decline in world paper and board production for 2020. This translates in 20 million tons of board not being, a massive decrease in specialty paper production – around 9-10 million tons. It is important to note that the forecast does not include a second wave of outbreak.
 - The pulp markets are forecasted to decrease 2.5 million tons in 2020 followed by an increase of about the same amount in 2021.
 - Worldwide demand for board production is decreasing across all packaging grades from outsized exposure to industrial segment that is being hammered during the COVID-19 crisis.
 - The swing capacity of the wood pulp markets is very weak. The advantage for pulp is in the paper grade pulp and chemical pulp markets.



Weekly Market Report

Transportation

For everyone interested in transportation safety, and really that should be everybody, you won't want to miss the latest offering from ISRI's ISEC Virtual Spring Conference to be held tomorrow at 2 pm Eastern. Here's the agenda:

Tuesday June 30, 2020

2:00 p.m. ET – Welcome and Attendee Introductions from Host/Moderator and ISEC Chair - 5mins

2:05 p.m.- 3:00 p.m. ET – Transportation Safety - Dan Titus, Page Transportation

3:05 p.m. - 4:00 p.m. ET – OSHA Update on Combustible Dust Hazards - Jeffrey J. Wanko, P.E, CSP, OSHA - 55 mins

If you haven't done so already, you can register [here](#).

This Week's Quote

"What lies behind you and what lies in front of you, pales in comparison to what lies inside of you."

-- Ralph Waldo Emerson

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