March 30, 2020

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This Morning

The Bloomberg Commodity Index was down around 0.7% in early trading this morning as plunging energy prices continue to weigh on the commodities complex. In New York, NYMEX crude oil futures continued to hit multi-year lows, trading as low as $19.92 per barrel this morning according to CME Group data. Base metals largely started the week in negative territory. In China, most-actively traded SHFE copper and aluminum futures both settled 1.1% lower earlier today, although nickel prices edged up in Shanghai. In London, LME 3-mo. copper and aluminum were trading down around $4,780/mt and $1,530/mt, respectively, as of this writing. In equities trading, share prices were down at most of the major exchange in Asia and Europe this morning, and as the WSJ's Daily Shot reports, Mondays have not been good for the S&P 500 this year:
### Selected Primary

**Commodity Prices: March 30, 2020**

<table>
<thead>
<tr>
<th>Commodity</th>
<th>Last</th>
<th>CHG</th>
<th>% CHG</th>
<th>Prior</th>
<th>Open</th>
<th>High</th>
<th>Low</th>
</tr>
</thead>
<tbody>
<tr>
<td>COMEX Copper May ($/lb.)</td>
<td>2.159</td>
<td>-0.014</td>
<td>-0.6%</td>
<td>2.172</td>
<td>2.147</td>
<td>2.175</td>
<td>2.136</td>
</tr>
<tr>
<td>COMEX Gold Jun ($/to)</td>
<td>1,645.6</td>
<td>-8.5</td>
<td>-0.5%</td>
<td>1,654.1</td>
<td>1663.4</td>
<td>1,673.6</td>
<td>1,635.7</td>
</tr>
<tr>
<td>COMEX Silver May ($/to)</td>
<td>14.17</td>
<td>-0.4</td>
<td>-2.5%</td>
<td>14.53</td>
<td>14.70</td>
<td>14.71</td>
<td>13.9</td>
</tr>
<tr>
<td>NYMEX Light Sweet Crude May ($/bbl)</td>
<td>20.42</td>
<td>-1.1</td>
<td>-5.1%</td>
<td>21.51</td>
<td>20.93</td>
<td>20.93</td>
<td>19.92</td>
</tr>
<tr>
<td>SHFE Aluminum May (RMB/mt)</td>
<td>11,560</td>
<td>-125</td>
<td>-1.1%</td>
<td>11,685</td>
<td>11,720</td>
<td>11,720</td>
<td>11,495</td>
</tr>
<tr>
<td>SHFE Copper May (RMB/mt)</td>
<td>38,600</td>
<td>-440</td>
<td>-1.1%</td>
<td>39,040</td>
<td>38,680</td>
<td>38,930</td>
<td>38,310</td>
</tr>
<tr>
<td>SHFE Nickel Jun (RMB/mt)</td>
<td>92,810</td>
<td>210</td>
<td>0.2%</td>
<td>92,600</td>
<td>92,980</td>
<td>94,100</td>
<td>91,520</td>
</tr>
<tr>
<td>SHFE Zinc May (RMB/mt)</td>
<td>15,105</td>
<td>-60</td>
<td>-0.4%</td>
<td>15,165</td>
<td>15,225</td>
<td>15,230</td>
<td>14,955</td>
</tr>
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</table>
Week Ahead

As the Financial Times reports, “Coronavirus death tolls and infection rates continue to rise around the world, leaving governments poised to introduce more measures to stop the spread of the pandemic.” In the United States, the Wall Street Journal reports “Legislators are already roughing out the contours of yet another emergency-spending package to try to keep the crisis from turning into a 21st-century Great Depression.” This week is critical as we enter into April and as rent, mortgage, auto loan, credit card, student loan, and other payments come due, which will test financial market conditions as individual, company, and municipal loan default risks continue to rise.

On the U.S. economic calendar, the consensus forecast is that ISM’s reading on manufacturing PMI dropped from 50.1 in February to 43.3 in March. But the big releases this week will cover the U.S. labor market as Briefing.com forecasts initial unemployment claims will rise to 3.5 million for the week ending March 28th and the Labor Department’s jobs report is expected to show a contraction in nonfarm payrolls of around 150,000 as the unemployment rate is expected to increase sharply. Overseas, investors will be paying close attention to the latest official PMI numbers from China as well as from the European Union, Great Britain, and India. Japan also releases a batch of data this week covering unemployment, industrial production, and retail sales. Good luck and be safe.
Economic Week in Review

Major economic developments continue to unfold rapidly as governments and central banks are pulling out all the stops to confront the economic fallout from the coronavirus. U.S. markets were driven last week by the latest massive fiscal and monetary stimulus measures, along with an unprecedented spike in initial unemployment claims.

Stimulus Measures

For a great review of the latest U.S. fiscal stimulus package and the potential impacts on recyclers, you should listen to second episode of ISRI's podcast/video series dedicated to how COVID-19 is impacting the recycling industry. ISRI Chief Lobbyist Billy Johnson discusses the implications of the CARES Act, the outlook for future Congressional action, and how recyclers can advocate: https://videos.isri.org/covid-19-the-impact-on-recycling-podcast-action-on-capitol-hill.

The signing of the CARES Act comes at a time when most small businesses are reporting they would only be able to operate for three months or less if sales stopped completely:
As for monetary policy, the WSJ outlines the new and expanded set of tools the Fed is implementing to compliment the fiscal stimulus measures, which far exceed the measures taken in 2008:

- **Unlimited QE**: Purchases of "Treasury securities and agency mortgage-backed securities in the amounts needed to support smooth market functioning and effective transmission of monetary policy to broader financial conditions and the economy."

- **Support for commercial real estate**: Including commercial mortgage-backed securities (CMBS) in QE.

- **Support for consumers and businesses**: Credit facility to provide financing to "employers, consumers, and businesses" ($300 billion).

- **Support for corporate bonds**: Two facilities to stabilize primary and secondary corporate bond markets. To support the secondary market, the facility will purchase "corporate bonds issued by investment grade U.S. companies and U.S.-listed exchange-traded funds."

- **Support for consumer credit**: Issuance of debt "backed by student loans, auto loans, credit card loans, loans guaranteed by the Small Business Administration" (TALF 2.0).

- **Support for municipal finance**:
  - Expansion of the Money Market Mutual Fund Liquidity Facility to "include a wider range of securities, including municipal variable rate demand notes and bank certificates of deposit."
  - Including "tax-exempt commercial paper as eligible securities" in the Fed's commercial paper facility.

- **Support for small and medium-sized businesses**: "Main Street Business Lending Program to support lending to eligible small and medium-sized businesses, complementing efforts by the SBA."

**Economic Data**
Many of the official economic, industrial, and manufacturing sector reports have a considerable lag with respect to current market conditions given the extreme day-to-day market fluctuations and on-going investor uncertainty. Here are some of the key releases from last week:

**Initial Unemployment Claims**

During the recent economic recovery, the weekly initial unemployment claims numbers were hovering around 210,000-230,000 on any given week. Two weeks ago that figure shot up to more than 280,000 and forecasters were predicting that figure could rise to a million or even more than 2 million. Last week’s report showed that the figure was more than 3.2 million, the highest number of weekly U.S. initial unemployment claims on record by far. Some forecasters are expected a quick decline in initial unemployment claims, but this week’s numbers are likely to be discouraging.

**Flash Composite PMI Readings**

According to IHS Markit, “U.S. private sector firms indicated a marked contraction in overall business activity in March following the escalation of the coronavirus disease 2019 (COVID-19) outbreak. The overall decline was the steepest recorded since comparable survey data were available in October 2009, and reflected widespread falls in activity across the manufacturing and service sectors.”
Readings from other key economic regions are even less encouraging. In Europe, the latest figures show “The eurozone economy suffered an unprecedented collapse in business activity in March as the coronavirus outbreak intensified, according to provisional PMI survey data. At 31.4 in March, the ‘flash’ IHS Markit Eurozone Composite PMI collapsed from 51.6 in February to register the largest monthly fall in business activity since comparable data were first collected in July 1998,” IHS Markit reports.

**Second Quarter U.S. GDP Forecasts**

Looking ahead, expectations for contraction in the U.S. economy vary widely, with Morgan Stanley projecting a massive 30% contraction, while other forecasters are calling for a less pronounced but still dramatic pullback of less than 10 percent, which would still rival the worst quarterly contractions in history:
Market Developments
Market volatility remains at extremely elevated levels as investors weigh the expected benefits of the recent fiscal and monetary stimulus measures against coronavirus and related economic uncertainties. On Wall Street, stock prices saw remarkable swings again last week as the Dow Industrials surged more than 2,100 points higher on Tuesday and more than 1,350 points higher on Thursday, although those gains were partially offset by losses on Monday (-582 points) and Friday (-915 points). At the same time, the yield on U.S. Treasury notes fell from as high as 0.88% to less than 0.7% late in the week. Here's a look at some of last week's key commodity market developments:
Energy

WTI crude oil futures continued to be pressured lower last week towards $20 per barrel as plunging demand due to the coronavirus is being met with continued excess global supply. Reuters reports, “The price of oil is now so low that it is becoming unprofitable for many oil firms to remain active, analysts said, and higher cost producers will have no choice but to shut production, especially since storage capacities are almost full. “Global oil demand is evaporating on the back of COVID-19-related travel restrictions and social distancing measures,” said UBS oil analyst Giovanni Staunovo. “In the near term, oil prices may need to trade lower into the cash cost curve to trigger production shut-ins to start to prevent tank tops to be reached,” he added.”

Ferrous:

With respect to the global steel industry, the latest IHS report is not encouraging: “The coronavirus outbreak had a dramatic effect on global users of steel in February, latest PMI data showed, with output contracting at the quickest rate in over 11 years, amid much weaker demand and a lack of workers in key Asian markets. Delivery times across the world lengthened to the greatest extent on record, while exports also deteriorated sharply… The seasonally adjusted Global Steel Users Purchasing Managers Index™ (PMI) – a composite indicator designed to give an accurate overview of operating conditions at manufacturers identified as heavy users of steel – fell to a post-financial crisis low of 45.5 in February, from 49.4 in January, signaling a sharp deterioration in operating conditions at steel users worldwide.”
Here in the United States, Argus Media reports the following production developments:

- US Steel will *idle a blast furnace at Gary Works and one at Granite City* in response to the coronavirus. The Gary Works furnace had been slated for a 48-day outage starting in April. The steelmaker also cut its capex by $125 million and increased its borrowing under its revolving credit facility by $800 million. The EAF at Fairfield Works remains untouched and on schedule to begin melting in the second half of this year.
- AK Steel (now owned by Cleveland-Cliffs) will *begin idling its Dearborn Works in Michigan* on Monday in response to the auto sector shut down. There had also been a public push from lawmakers the shut the plant over concerns of virus spread.
- ArcelorMittal also will *idle a blast furnace at Indiana Harbor West. And Gerdau idled its EAF-based special bar mills in Michigan and Arkansas*, but it said it will restart the Arkansas mill late in the week. All told, there won’t be much of a scrap buy in Detroit in April. Gerdau also idled its Georgia merchant bar mill through the end of March.
- Ford said this week it plans to restart some operations by mid-April.
- Caterpillar also shut two foundries this week temporarily.

Nonferrous
Last week Edward Meir from the Commodity Research Group at ED&F Man Capital, ISRI's Assistant Vice President, International Affairs Adina Renee Adler, and Aaron Rutstein from Atradius Trade Credit Insurance were kind enough to share their thoughts with us on what's happening on the commodity, trade, and insurance fronts. You can listen to the podcast here: https://videos.isri.org/special-edition-weekly-market-report.

In New York last week, COMEX copper futures plunged as low as $2.02/lb. in intra-day trading on Monday before stabilizing around $2.15-$2.20/lb. late in the week. Similarly, in London LME 3-mo. copper and aluminum closed last week at $4,815/mt (=$2.184/lb.) and $1,552.50/mt (=$70.4 cents/lb.).

ABN AMRO reports that base metals’ “...supply and demand fundamentals have deteriorated sharply. End users in construction, mechanical engineering and automotive sectors have shut down facilities. This dampened demand, while output remained elevated. This means high availability in the short term and will keep prices relatively low during the second quarter of this year.” Here’s their price outlook going forward:

<table>
<thead>
<tr>
<th></th>
<th>spot prices</th>
<th>- end of period prices -</th>
<th>- averages -</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>25-03-20</td>
<td>Q2-20</td>
<td>Q3-20</td>
</tr>
<tr>
<td>Aluminium (USD/t)</td>
<td>1.503</td>
<td>1.520</td>
<td>1.550</td>
</tr>
<tr>
<td>Copper (USD/t)</td>
<td>4.846</td>
<td>4.912</td>
<td>5.067</td>
</tr>
<tr>
<td>Zinc (USD/t)</td>
<td>1.821</td>
<td>1.849</td>
<td>1.899</td>
</tr>
</tbody>
</table>

Source: ABN AMRO Commodities, March 2020

Recovered Paper & Fiber

Our friends at Fastmakets RISI reports that recovered paper prices in the U.S. are surging across a wide range of grades: “As market players predicted last year, the low pricing and landfilling in 2019 has led to supply concerns and pricing pickups. In first-quarter 2020, demand for US recovered paper has picked up again after slumping demand last year. Recovered paper pricing has increased this first quarter along with demand. Mill demand has been steady so far this year, with one contact in the US Southwest seeing "a scramble for fiber by domestic mills, and export to Mexico, that is unprecedented." Several contacts told of strong old corrugated container (OCC) demand with increased price premiums this week in the USA, especially in the South...

"The scramble is effecting paper grades up and down the entire food chain -- from mixed paper to hard white. OCC is now selling to domestic mills well in excess of $110/ ton FOB in many markets across the country," a contact said."

They go on to report, “If US mills follow China's lead in response to the coronavirus, collections could soon cease, and mills could shut down or slowdown in response. Nine Dragons Paper, one of the largest
paper and board manufacturers globally, was forced to slow its mill machines due to the virus, among many Chinese mills. US mills increased recovered paper consumption by 8% and 185,600 tons in February 2020 vs February 2019, as well as increased OCC consumption by 11% and 174,900 tons, according to the American Forest & Paper Association (AF&PA) statistics.”
India Update

As per ISRI's recently released Member Alert:

“Indian Prime Minister Narendra Modi ordered a national lockdown on March 25 in order to prevent the spread of COVID-19. In a country of 1.3 billion, it is a very consequential directive being immediately felt by the Indian people and made all the more chaotic as it was imposed without many detailed guidelines

The Indian Government's lockdown order has been amended several times to ensure that essential goods and services – including food and medicine – are provided to communities. But it is clear that recycling and many manufacturing industries that consume scrap are not deemed essential, and thus, your Indian customers are closed.

Furthermore, seaports have been directed to stay open to allow for imports of critical goods, but the clearance of these consignments – as well as offloading and clearances of scrap and many other "non-essential" goods that had already been en route to India – is slowed by workers not reporting to work as port operators, truck drivers, and other functions key to the supply chain. We are hearing that ships cannot offload because of this slowdown. An article in India's Business Standard gives a snapshot of the Indian recycling industry's challenges.

Our partners at the Materials Recycling Association of India (MRAI) immediately began daily petitions to the government to seek relief from shipping demurrage and other fees associated with the inability to offload containers or release containers from the ports because their operations were closed. As a result of these efforts, the Directorate General of Shipping of India today issued an order "advising" shipping lines to consider not imposing demurrage charges through April 7. This follows decisions we hear have been made by Maersk, MSC and Safmarine to suspend demurrage charges until that date.

Furthermore, a news report said yesterday Adani Ports, which runs the Ports of Mundra, Tuna and Dhamra, has declared force majeur. We are looking into this as it is not yet understood how this could impact the scrap trade other than to declare the ports "not responsible for any claims, damages, charges etc." arising from the impact on port operations during the national lockdown, according to the article.

ISRI will continue to keep you informed on these developments. Contact Adina Renee Adler at (202) 662-8514 with questions or information gathered from your trade network.

This Week's Thought

In 1665, the University of Cambridge temporarily closed due to the bubonic plague. Isaac Newton had to work from home, and he used this time to develop calculus and the theory of gravity.

This Week's Quote

“First ask yourself: What is the worst that can happen? Then prepare to accept it. Then proceed to improve on the worst.”

-- Dale Carnegie