

May 6, 2019

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## This Morning

A fresh threat of U.S. tariffs on Chinese imports sent U.S. futures markets tumbling nearly 100 basis points into this morning's trading. Base metals all took a tumble in off-hours trading as China's trade delegation were considering cancelling the resumption of trade talks this week. Expectations of a trade deal by Friday have now been dashed and the historic calm in global markets exploded with a couple of tweets. Volatility soared as the VIX Index jumped 43 points and roiled equity markets.

Energy futures markets are weak with U.S. sanctions, OPEC production output restraint, and disruptions in African crude production are hitting the market simultaneously and raising supply sufficiency questions. U.S. crude markets appear to have corrected a bit over the weekend to open trade from a more neutral position. Exchange markets are still betting on the dollar and yen while pushing the yuan to its worst drop since 2016.

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## Selected Primary Commodity Prices: May 6, 2019

|                                      | Last   | CHG     | % CHG  | Prior  | Open   | High    | Low    |
|--------------------------------------|--------|---------|--------|--------|--------|---------|--------|
| COMEX Copper Jul (\$/lb.)            | 2.8045 | -0.0145 | -0.5%  | 2.8190 | 2.7990 | 2.8065  | 2.7415 |
| COMEX Gold Jun (\$/to)               | 1283.0 | 1.7     | +0.1%  | 1281.3 | 1286.1 | 1289.9  | 1281.8 |
| COMEX Silver Jul (\$/to)             | 14.870 | -0.108  | -0.7%  | 14.978 | 14.960 | 14.990  | 14.855 |
| NYMEX Light Sweet Crude Jun (\$/bbl) | 61.20  | -0.74   | -1.2%  | 61.94  | 61.43  | 61.45   | 60.04  |
| SHFE Aluminum Jun (RMB/mt)           | 13,925 | -255    | -1.8%  | 14,180 | 14,100 | 14,100  | 13,925 |
| SHFE Copper Jul (RMB/mt)             | 47,990 | -960    | -1.96% | 48,950 | 47,690 | 48,130  | 47,420 |
| SHFE Nickel Jun (RMB/mt)             | 95,610 | -2,490  | -2.5%  | 98,100 | 95,900 | 100,120 | 94,890 |
| SHFE Zinc Jun (RMB/mt)               | 21,500 | -295    | -1.4%  | 21,795 | 21,525 | 21,780  | 21,440 |

## The Week Ahead

The United States and China appear to be getting closer to [closing a trade deal](#) that could de-escalate the on-going trade war. Trade officials from both sides have established an understanding of how such a deal would be enforced and they will be meeting this week in Washington on May 8 to work out those details. The general plan would be that the U.S. would remove a 10% tariff on a portion of the \$200 billion worth of Chinese imports that were affected then phase in the rest. The 25% tariffs on chemicals and machine parts will likely be held in reserve as an enforcement measure. What is unclear so far is whether China will lift its retaliatory tariffs, particularly on agricultural products such as soybeans and pork products.

The economic calendar this week will have some important looks at price indexes, energy stockpiles, and trade. The U.S. Census Bureau should be publishing March trade data at the end of this week so stay tuned for new export statistics in next week's edition.

Have a great week and don't miss next week's ISRI Market Report for a recap of the week's key economic, trade, commodity, and scrap market highlights!

## U.S. Economic Calendar: May 6-10, 2019

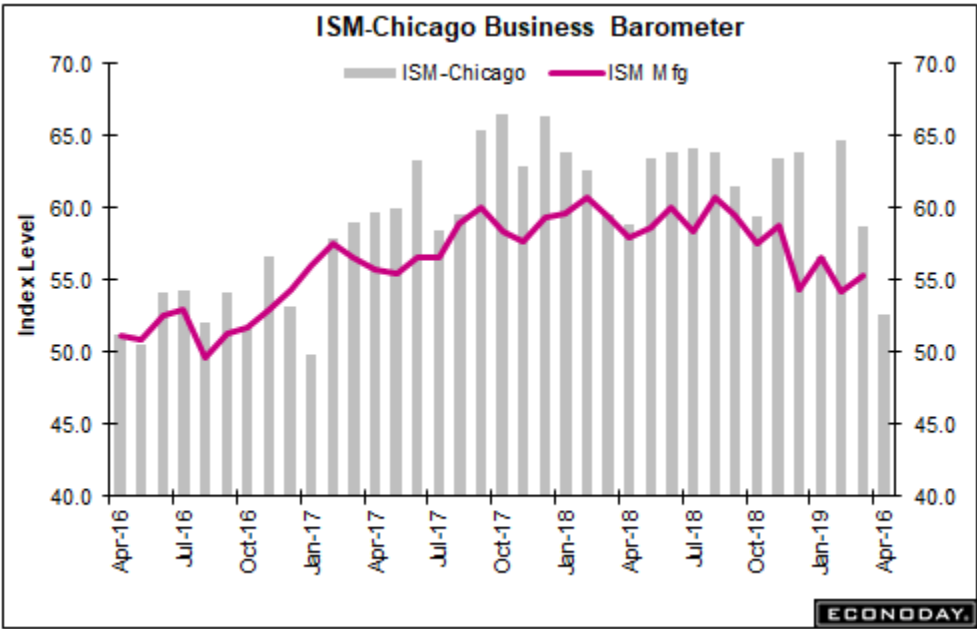
| Date  | Time  | Release                         | Period | Prior   |
|-------|-------|---------------------------------|--------|---------|
| 7-May | 8:30  | Trade Balance                   | Mar    | NA      |
| 7-May | 15:00 | Consumer Credit                 | Mar    | \$15.2B |
| 8-May | 7:00  | MBA Mortgage Applications Index | 4-May  | NA      |
| 8-May | 10:30 | EIA Crude Oil Inventories       | 4-May  | NA      |
| 9-May | 8:30  | Initial Claims                  | 4-May  | NA      |
| 9-May | 8:30  | Continuing Claims               | 27-Apr | NA      |
| 9-May | 8:30  | PPI                             | Apr    | 0.60%   |
| 9-May | 8:30  | Core PPI                        | Apr    | 0.30%   |
| 9-May | 10:00 | Wholesale Inventories           | Mar    | 0.20%   |

|               |       |                             |       |          |
|---------------|-------|-----------------------------|-------|----------|
| <b>9-May</b>  | 10:30 | EIA Natural Gas Inventories | 4-May | NA       |
| <b>10-May</b> | 8:30  | CPI                         | Apr   | 0.40%    |
| <b>10-May</b> | 8:30  | Core CPI                    | Apr   | 0.10%    |
| <b>10-May</b> | 14:00 | Treasury Budget             | Apr   | \$214.3B |

**Economic Week in Review**

The Federal Open Market Committee meeting was hardly a blip on the radar as interest rates remained unchanged accompanied by another call for patience. Trading on the stock markets had been shifting towards higher risk assets leading up to and through the meetings. With core inflation falling short again of the 2 percent goal, the pressure on the Fed to raise rates is growing. The window for attracting capital investments isn't shrinking but rather on a timer waiting to shut.

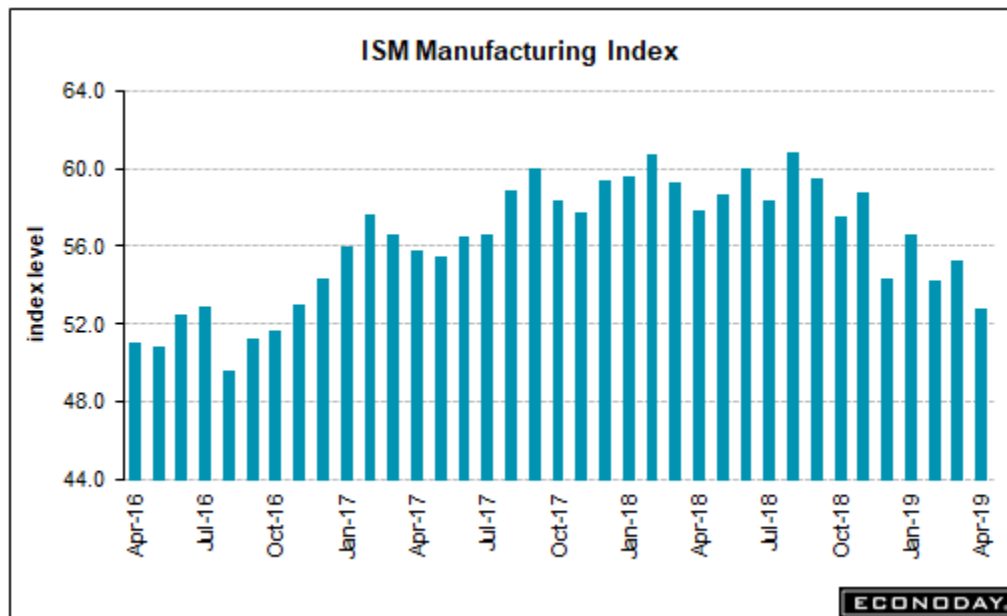
U.S. manufacturing PMI was down to 52.8 in April according to the recent report from the Institute of Supply Management (ISM). Inventories are being drawn down as this is the sharpest monthly fall in prices since December 2008. Analysts attribute part of the drop in part to lower steel costs. New orders were particularly hard hit falling 5.7 points in April. Employment fell 5.3 points to a 52.4 indexed growth rate.



Here's what some of the ISM survey respondents had to say:

- "Business conditions remain largely unchanged. There is growing concern about supply chain product flow through the southern U.S. border. Price pressures remain, and inventories continue to grow in preparation for what is expected to be a growth year." (Electrical Equipment, Appliances & Components)
- "Mexico/U.S. border crossing delays are slowing supplier deliveries. Tariffs are resulting in increased prices on computer components, as well as manufacturers moving out of China to countries not impacted by the tariffs. Brexit expected to result in delays on moving product through the United Kingdom." (Computer & Electronic Products)
- "January and February were strong months. March softened significantly, eroding some of the [previous months'] gains." (Chemical Products)

- "[We are] closely watching the Mexico border situation as well as the tariff situation." (Transportation Equipment)
- "Economy is holding steady, and so are prices. Supply availability is generally OK, yet risk remains in chemicals and some longer lead-time packaging." (Food, Beverage & Tobacco Products)
- "Raw material prices continue to come down, along with logistics costs. Suppliers continue to struggle to get [qualified workers], and the learning curve is leading to quality issues. That is impacting their ability to deliver. Overall, business [is] strong. Monitoring the tariffs and Mexico border issues, which are a potential threat. The China trade agreement getting completed will help with stability with suppliers and costs management." (Machinery)
- "Business is steady. We expect business to grow throughout the second quarter, then level in the third and fourth quarter." (Fabricated Metal Products)
- "Commodity-price uncertainty — partially driven by concerns of an economic slowdown and trade/tariff policies — has led my company to reduce its capital spend in 2019. Our 2019 capital-spend levels will be similar to 2016 levels." (Petroleum & Coal Products)
- "Business seems to keep humming along." (Plastics & Rubber Products)
- "Order book remains strong; future outlook is beginning to soften a little." (Primary Metals)
- "Orders continue to be strong, especially from the steel industry." (Nonmetallic Mineral Products)



Construction spending fell below consensus expectations with a -0.9 percent reading for March according to figures from the U.S. Census Bureau. Single-family homes saw the sharpest decline where spending fell 1.5 percent. U.S. factory orders for March rose by a better than expected 1.9% in March according to latest Census Bureau data. Part of the gains were from car and truck orders. This may be short-lived as MarketWatch reported last week that [layoffs in the auto sector are rising](#) due to decreased demand from higher retail car prices and tougher financing terms. For the scrap metal industry, this will ultimately mean reduced feedstock over the long-term.

Jobless claims spiked in late April and hasn't come down from above consensus expectations but the Bureau of Labor Statistics' Employment Report for April reported total nonfarm payroll employment increased by 263,000 last month. The unemployment rate decreased to 3.6 percent with notable job gains in professional and business services, construction, health care, and social assistance sub-sector industries. Manufacturing employment changed little in April which continues the flat hiring for three months now. In the twelve months before February 2019, the manufacturing sector was averaging 22,000

new jobs per month. With layoffs in the auto sector on the rise, this might be a calm before the storm if a trade deal isn't reached to assuage industry participants.

The Bureau of Labor Statistics released the Employment Cost Index for March 2019. Civilian workers averaged a seasonally adjusted increase of 0.7 percent in wages and salaries as well as benefits from December 2018. On the year, employment costs rose 2.8 percent. Health benefits increased 1.9 percent on the year.

Outside of the U.S., Chinese manufacturing PMI fell to 50.1 in April and German manufacturing PMI rose a bit to 44.4. It appears that major manufacturing competitors to the U.S. are dealing with slowdowns as well. No surprises came out of the Bank of England's Monetary Policy Committee meeting last week as Brexit has more or less frozen monetary policy movement until there are clearer signs on the break up.

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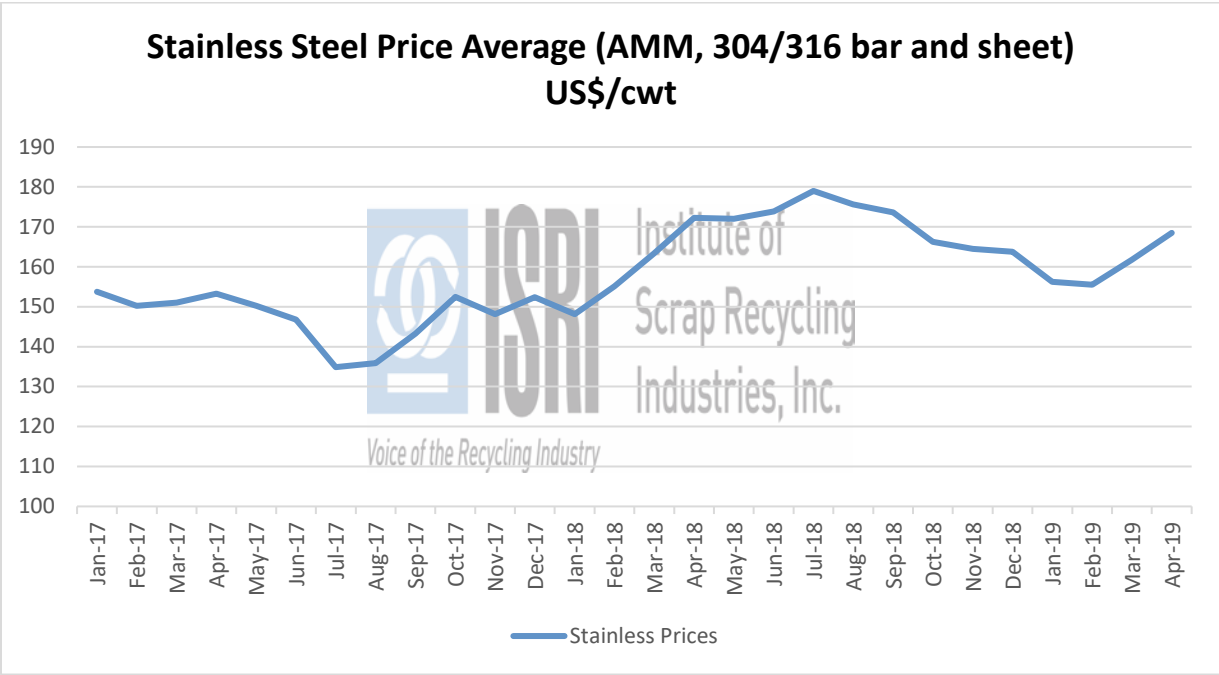
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## Commodity News

**Ferrous** – [Permits for steel product imports to the U.S. rose in April](#) by 0.6 percent, Fastmarkets AMM reports. It appears that much of that increase went to wire rod imports that are up 58.9 percent or 42,447 tons. [Spreads between domestic and imported rebar are at their narrowest margin since 2012](#). AMM analysts attribute this to the 232 tariffs that have boosted demand for domestically produced rebar with the pricing spread at \$1.10 per cwt. Domestic mills may be in the beginning stages of competing with each other as [five steel production companies \(Nucor, Gerdau, Commercial Metals, Gautier, and Steel Dynamics\) have cut their prices for merchant and structural products](#).

As cancellations came flooding in last week, ferrous scrap buy week looks like it will start the week on the quiet side as negotiations push towards lower prices. Despite global currency markets fleeing toward the Nikkei and Japanese yen, the U.S. dollar's strength against the Turkish lira continues to rise. Exchange rates kicked off the year at 5.29 lira to the dollar as compared to 5.98 to the dollar as of late last week.

**Nonferrous** – [Stainless steel scrap prices took another hit this month](#) with 300-series grades dropping and chrome grades on unsteady ground. AMM also reported that many dealers feel that nickel markets have been weak which has contributed to the drop in prices. However, LME nickel prices have firmly established themselves about 25% above 2017 average prices. Light-weighting and other alloy alternatives, along with uncertain raw material input prices, may be contributing to challenging stainless scrap market conditions.



As reported by Reuters last week, the disappointing readings on manufacturing may be starting to take a toll on nonferrous metals: “London Metal Exchange (LME) copper slumped 3 percent on Wednesday and has slid further to a three-month low of \$6,150 per tonne, last trading at \$6,180.

True, the move took place in something of a liquidity black hole with China and much of Europe on holiday this week, leaving the market prey to automated funds, which have been momentum-trading a rapidly deteriorating technical picture.

But copper’s real problem is growing concern about the state of global manufacturing.

It was no coincidence that Doctor Copper, so called for the metal’s ability to predict the way the broader economy is heading, fell out of bed on the day the U.S. Institute for Supply Management (ISM) released its weaker-than-expected purchasing managers index (PMI).

Nor was it just copper. All the LME base metals have been retreating as differing supply dynamics are overwhelmed by demand uncertainty.

Macro clouds are keeping many of the macro funds out of the base metals sector, contributing to the type of liquidity gap that opened up in the middle of this week.”

**Paper and Plastic**

As alternative markets have been an important aspect of adapting to China’s import restrictions, here’s a table of U.S. paper and plastic scrap exports to China and India to reference some of the shifts we’ve seen.

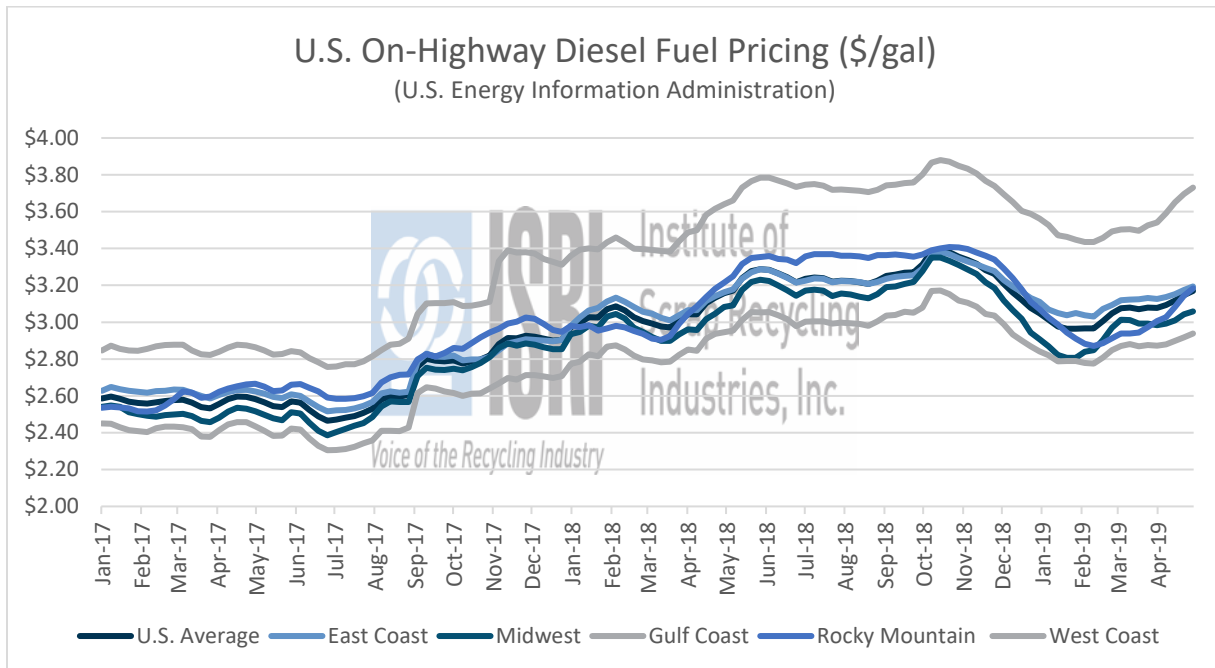
| Country | Hts Num        | Year 2017 | Year 2018 | YTD 2018<br>( Jan - Feb ) | YTD 2019<br>( Jan - Feb ) |
|---------|----------------|-----------|-----------|---------------------------|---------------------------|
| China   | PE Scrap       | 228,462   | 21,131    | 1,512                     | 1,032                     |
|         | PS Scrap       | 16,205    | 1,248     | 265                       | 20                        |
|         | PVC Scrap      | 62,029    | 907       | 78                        | 19                        |
|         | PET Scrap      | 89,830    | 6,391     | 1,482                     | 367                       |
|         | Mixed Plastics | 161,294   | 18,482    | 7,139                     | 677                       |

|              |                       |                   |                  |                  |                |
|--------------|-----------------------|-------------------|------------------|------------------|----------------|
|              | <b>Total Plastics</b> | <b>557,820</b>    | <b>48,160</b>    | <b>10,476</b>    | <b>2,115</b>   |
|              | Pulp derived from RP  | 11,049            | 14,538           | 3,835            | 25,245         |
|              | Corrugated/Board      | 5,521,878         | 5,502,971        | 883,196          | 682,907        |
|              | High Grade Deinking   | 25,231            | 11,765           | 2,238            | 324            |
|              | Pulp Substitutes      | 138,647           | 112,916          | 11,329           | 14,200         |
|              | News Grades           | 1,350,184         | 541,824          | 136,324          | 44,961         |
|              | Groundwood Grades     | 2,023,809         | 1,284,590        | 263,994          | 151,155        |
|              | Mixed Paper           | 1,812,551         | 102,076          | 18,432           | 5,362          |
|              | <b>Total Paper</b>    | <b>10,883,349</b> | <b>7,570,680</b> | <b>1,319,348</b> | <b>924,154</b> |
| <b>India</b> | PE Scrap              | 96,073            | 103,517          | 14,834           | 18,362         |
|              | PS Scrap              | 198               | 68               | 0                | 0              |
|              | PVC Scrap             | 8,448             | 7,356            | 993              | 114            |
|              | PET Scrap             | 5,184             | 6,601            | 547              | 1,440          |
|              | Mixed Plastics        | 13,213            | 15,605           | 2,458            | 3,881          |
|              | <b>Total Plastics</b> | <b>123,116</b>    | <b>133,147</b>   | <b>18,833</b>    | <b>23,797</b>  |
|              | Pulp derived from RP  | 1,182             | 664              | 72               | 419            |
|              | Corrugated/Board      | 1,093,763         | 1,740,778        | 314,172          | 237,206        |
|              | High Grade Deinking   | 132,434           | 152,375          | 29,512           | 17,508         |
|              | Pulp Substitutes      | 74,301            | 239,751          | 18,238           | 35,912         |
|              | News Grades           | 43,060            | 83,289           | 37,440           | 7,119          |
|              | Groundwood Grades     | 55,707            | 23,690           | 8,066            | 3,876          |
|              | Mixed Paper           | 525,555           | 1,091,314        | 179,936          | 131,505        |
|              | <b>Total Paper</b>    | <b>1,926,002</b>  | <b>3,331,861</b> | <b>587,436</b>   | <b>443,545</b> |

For more information, please contact ISRI Research Analyst [Bernie Lee](#).

## Transportation

NYMEX crude oil futures took a tumble at the end of April compared to the rest of the month. However, crude oil prices are still floating above their 52-week range of \$43.80-\$75.65 per barrel. Gasoline and diesel fuel prices are up across the board from the previous week.



With pressure to lower carbon output, many members of the global shipping industry are calling for mandatory slow steaming on all ocean vessels. As travel times for trans-Pacific trade have been already increasing, this slowdown will only exaggerate transit times. A potential benefit may be that this would put pressure on shipping companies to put more boats on the water but the trade-off with launching ships under capacity, port congestion, and labor costs may not make the most economical sense. It would provide a counter-balance to the massive consolidations whose effects are still rippling through the supply-chain.

### This Week's Story

A sales rep, an administration clerk, and the manager are walking to lunch when they find an antique oil lamp. They rub it and a Genie comes out.

The Genie says, "I'll give each of you just one wish" "Me first! Me first!" says the administration clerk. "I want to be in the Bahamas, driving a speedboat, without a care in the world."

Poof! She's gone.

"Me next! Me next!" says the sales rep. "I want to be in Hawaii, relaxing on the beach with my personal masseuse, an endless supply of Pina Colodas and the love of my life."

Poof! He's gone.

"OK, you're up," the Genie says to the manager.

The manager says, "I want those two back in the office after lunch."

Moral of the story:

Always let your boss have the first say.

### This Week's Quote

"Just 'cause you got the monkey off your back doesn't mean the circus has left town." – George Carlin



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