

June 3, 2019

In this Issue:

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

This Morning

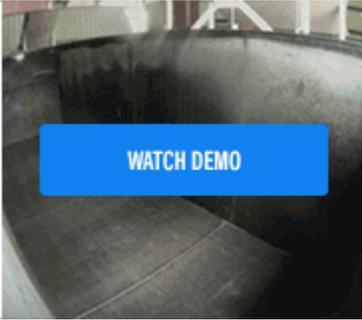
Earlier today, Caixin and Markit Economics reported their reading on Chinese manufacturing PMI was unchanged at 50.2 in May, as compared to last week's "official" reading on Chinese manufacturing PMI which came in lower than expected at 49.4. The market reaction was underwhelming as most of the major exchanges in Asia and Europe started the week in negative territory in light of the escalating trade disputes. In Shanghai, SHFE nickel and zinc prices settled 0.7% and 0.8% lower today, respectively, and most of the base metals got off to a lackluster start in London as well. LME 3-mo. aluminum and nickel dipped as low as \$1,781/mt and \$11,910/mt in early trading, while LME 3-mo. copper was recently trading around \$5,825/mt. Crude oil prices were trending lower in New York this morning as NYMEX light sweet crude futures approached \$52 per barrel. Reuters reports that "Oil prices plunged by more than 1.5%... on Monday, extending last week's heavy losses as deepening U.S. trade wars fanned fears of a global economic slowdown." But the flight to safety provided a boost to precious metal prices as COMEX gold futures touched \$1,320 per troy ounce. In foreign exchange trading, the euro was little changed around \$1.118 in early trading while the British pound edged up to \$1.264 ahead of President Trump's meetings in Europe this week.

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Selected Primary Commodity Prices: June 3, 2019

	Last	CHG	% CHG	Prior	Open	High	Low
COMEX Copper Jul (\$/lb.)	2.6325	-0.008	-0.3%	2.640	2.63	2.646	2.611
COMEX Gold Aug (\$/to)	1,319.8	8.7	0.7%	1,311.1	1312.5	1,320.7	1,310.9
COMEX Silver Jul (\$/to)	14.65	0.1	0.6%	14.57	14.58	14.67	14.6
NYMEX Light Sweet Crude Jul (\$/bbl)	52.99	-0.5	-1.0%	53.50	53.42	53.43	52.11
SHFE Aluminum Jul (RMB/mt)	14,145	-5	0.0%	14,150	14,165	14,220	14,100
SHFE Copper Jul (RMB/mt)	46,180	-180	-0.4%	46,360	46,150	46,390	46,060
SHFE Nickel Jul (RMB/mt)	97,880	-660	-0.7%	98,540	98,250	98,960	96,900
SHFE Zinc Jul (RMB/mt)	20,555	-170	-0.8%	20,725	20,490	20,680	20,460

The Week Ahead

There are no shortage of interesting market, trade, and economic developments in store for us this week. The Wall Street Journal reports that China and Mexico are signaling an increased willingness to negotiate with the U.S. on the trade front: "Beijing released on Sunday a government policy paper on trade issues, accusing Washington of scuttling the negotiations, which broke down in all but name in May. It said the Trump administration's 'America First' program and use of tariffs are harming the global economy and that China wouldn't shy away from a trade war if need be. But throughout the document and at a briefing, the government suggested a willingness to return to negotiations. 'We're willing to adopt a cooperative approach to find a solution,' Vice Commerce Secretary Wang Shouwen said in Beijing on Sunday. Mexico, meanwhile, rushed a delegation to the U.S. to discuss immigration issues, following the Trump administration's threat last week to impose tariffs on all Mexican goods entering the U.S. if the Mexican government fails to take aggressive measures to stem the flow of immigrants through Mexico." President Trump travels to Europe this week which will include visits with Queen Elisabeth II, UK Prime Minister Theresa May, and Irish Prime Minister Leo Varadkar, before the president heads to France for a D-Day commemoration, the Financial Times report. Another key development in Europe this week will be the meeting of the European Central Bank, which is expected to keep rates on hold but provide additional details on its latest round of cheap loans to banks, aka Targeted Longer-Term Refinancing Operations. In the United States the major economic report out this week will be the Employment Situation Report for May. The consensus forecast is that nonfarm payrolls rose by around 180,000 last month. Other U.S. economic reports to keep an eye on this week will cover manufacturing PMI, construction spending, light vehicle sales, factory orders, labor productivity, and trade. Have a great week!

U.S. Economic Calendar: June 3-7, 2019

Date	Time	Release	Period	Consensus	Prior
Jun 03	10:00	ISM Manufacturing Index	May	52.6	52.8
Jun 03	10:00	Construction Spending	Apr	0.4%	-0.9%
Jun 03	14:00	Auto Sales	May	NA	3.59M
Jun 03	14:00	Truck Sales	May	NA	9.13M

Jun 04	10:00	Factory Orders	Apr	-0.9%	1.9%
Jun 05	07:00	MBA Mortgage Index	06/01	NA	-3.3%
Jun 05	08:15	ADP Employment Change	May	170K	275K
Jun 05	10:00	ISM Non-Manufacturing Index	May	55.4	55.5
Jun 05	14:00	Fed's Beige Book	Jun	NA	NA
Jun 06	08:30	Initial Claims	06/01	220K	215K
Jun 06	08:30	Continuing Claims	05/24	NA	1657K
Jun 06	08:30	Trade Balance	Apr	-\$51.0B	-\$50.0B
Jun 06	08:30	Productivity-Rev.	Q1	3.4%	3.6%
Jun 06	08:30	Unit Labor Costs - Rev.	Q1	-0.8%	-0.9%
Jun 07	08:30	Nonfarm Payrolls	May	180K	263K
Jun 07	08:30	Nonfarm Private Payrolls	May	170K	236K
Jun 07	08:30	Avg. Hourly Earnings	May	0.3%	0.2%
Jun 07	08:30	Unemployment Rate	May	3.7%	3.6%
Jun 07	08:30	Average Workweek	May	34.5	34.4
Jun 07	10:00	Wholesale Inventories	Apr	0.7%	-0.1%
Jun 07	15:00	Consumer Credit	Apr	\$13.0B	\$10.3B

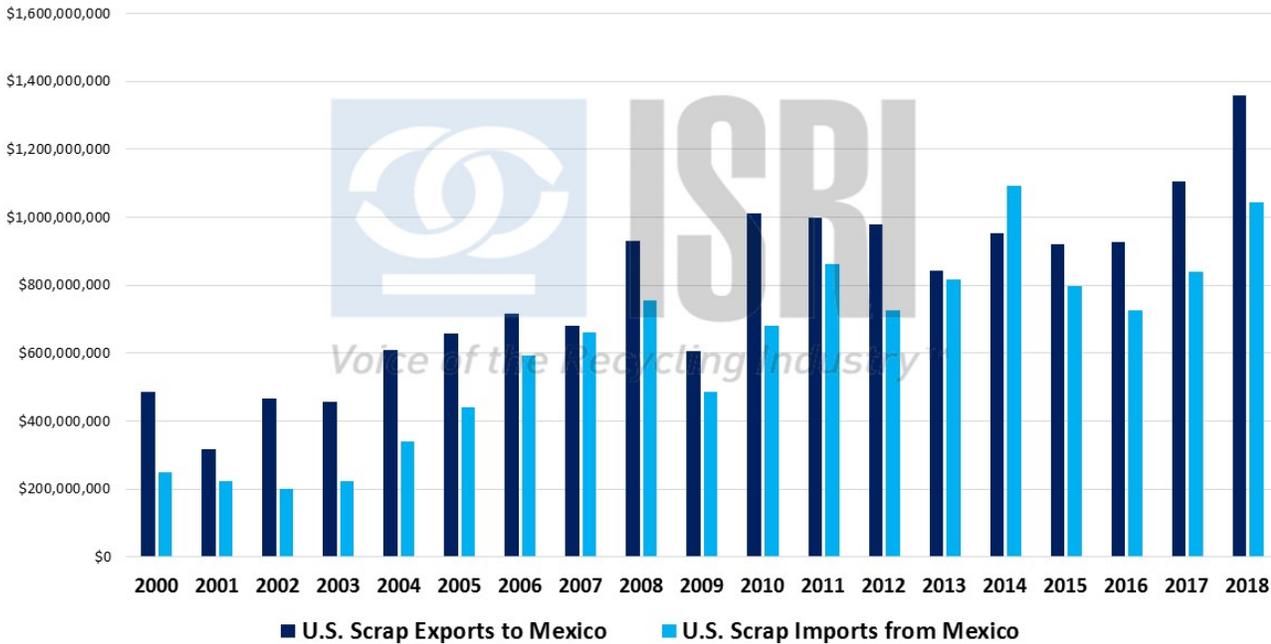
Economic Week in Review

In a surprise move last week, President Trump announced that new tariffs on imports from Mexico will go into effect starting on June 10th unless Mexico acts to stem the tide of illegal immigration into the U.S. According to the President's statement issued on May 30th, "To address the emergency at the Southern Border, I am invoking the authorities granted to me by the International Emergency Economic Powers Act. Accordingly, starting on June 10, 2019, the United States will impose a 5 percent Tariff on all goods imported from Mexico. If the illegal migration crisis is alleviated through effective actions taken by Mexico, to be determined in our sole discretion and judgment, the Tariffs will be removed. If the crisis persists, however, the Tariffs will be raised to 10 percent on July 1, 2019. Similarly, if Mexico still has not taken action to dramatically reduce or eliminate the number of illegal aliens crossing its territory into the United States, Tariffs will be increased to 15 percent on August 1, 2019, to 20 percent on September 1, 2019, and to 25 percent on October 1, 2019. Tariffs will permanently remain at the 25 percent level unless and until Mexico substantially stops the illegal inflow of aliens coming through its territory. Workers who come to our country through the legal admissions process, including those working on farms, ranches, and in other businesses, will be allowed easy passage."

It would be fair to say that markets were rattled by the announcement. The Dow Industrials plunged nearly 355 points lower on Friday to finish the week at 24,815.04, the sixth consecutive losing week, while the yield on 10-year Treasury notes fell to 2.139%, the lowest close since September 2017. Commodities were not immune from the flight to safety as NYMEX crude oil futures declined 5.5 percent to close at \$53.50 per barrel on Friday, a six-month low. For scrap market participants, trading with Mexico has taken on greater importance in recent years as the cross-border trade in scrap between the U.S. and Mexico reached just over \$2.4 billion in 2018, with the U.S. enjoying a scrap trade surplus of \$314 million:

Scrap Trade Flows Between the United States and Mexico, 2000-2018 (FAS Value, US\$)

Sources: U.S. Census Bureau/U.S. International Trade Commission

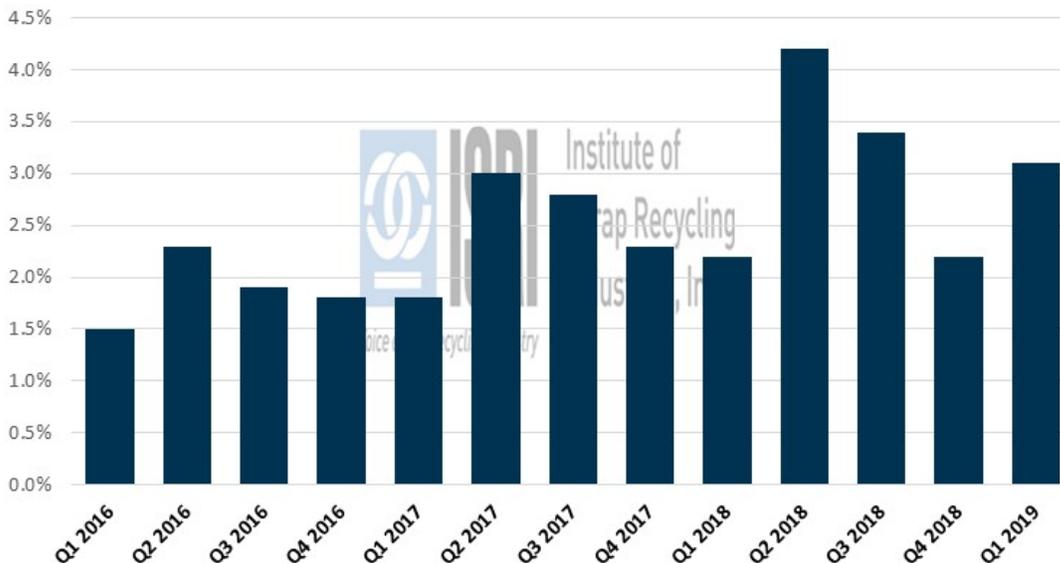


The elevated trade tensions with China and Mexico – our 1st and 4th largest scrap export markets last year, respectively – complicates the outlook for the U.S. economy, which by most measures continues to exhibit signs of growth even at this late stage in the economic expansion. Here’s recap of some of the key U.S. economic reports that have come out recently:

Real Gross Domestic Product. According to the latest estimates from the Bureau of Economic Analysis, real (adjusted for inflation) GDP increased at an annual rate of 3.1 percent in the first quarter of 2019. This is up from the previous quarter’s growth rate of 2.2 percent, but down slightly from the initial Q1 2019 estimate of 3.2 percent growth as downward revisions to nonresidential fixed investment and private inventory investment pulled the estimation lower. However, U.S. exports and personal consumption expenditures were revised upward, along with imports.

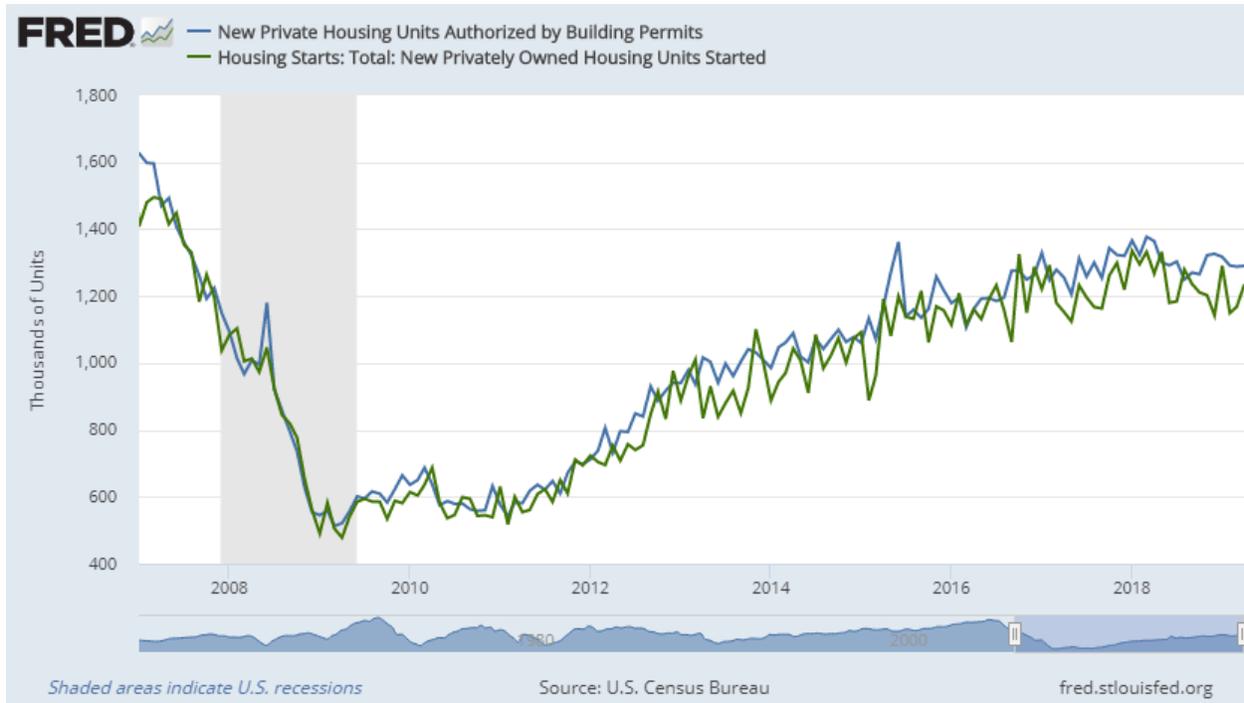
U.S. Real GDP Growth, Q1 2016 - Q1 2019

*Bureau of Economic Analysis / St. Louis Federal Reserve Economic Database (FRED)



Income and Spending. According to the BEA, personal income in the United States increased by a better than expected \$92.8 billion (0.5 percent) in April while personal spending was up \$40.8 billion, or 0.3 percent. The WSJ reports that “U.S. households spent at a slower but still solid pace in April, suggesting consumers can help extend an already decade-long expansion amid signs economic momentum is easing.”

Housing Market. Both the Case-Shiller and the FHFA home price indexes came in below expectations in March. The year-on-year growth in the Case-Shiller index fell to 2.7 percent, which is a 7-year low. For the month of April new home sales declined 6.9% month-on-month to 673,000 SAAR, while pending home sales reportedly declined 1.5 percent. Here’s the recent trend in U.S. building permits and housing starts:



International Trade. The advanced reading on U.S. trade in goods and services shows the U.S. trade deficit widened from \$71.9 billion in March to \$72.1 billion in April. Capital goods, the largest category of U.S. exports, fell 6.5 percent from the previous month and are down 3.7 percent compared to the previous year. Automobile exports were down even further with a 7.2 percent month-to-month decline and 6.7 percent drop year-on-year. As Bloomberg reports, “The {April} figures precede this month’s escalation of the U.S.-China trade {war} as President Donald Trump increased tariffs on goods from the Asian nation. The U.S. is also threatening to add levies on most remaining imports from China. In prior rounds of tariffs, companies had front-loaded purchases and bulked up inventories, which helped buoy growth in prior quarters but may drag on the economy later in the year.”

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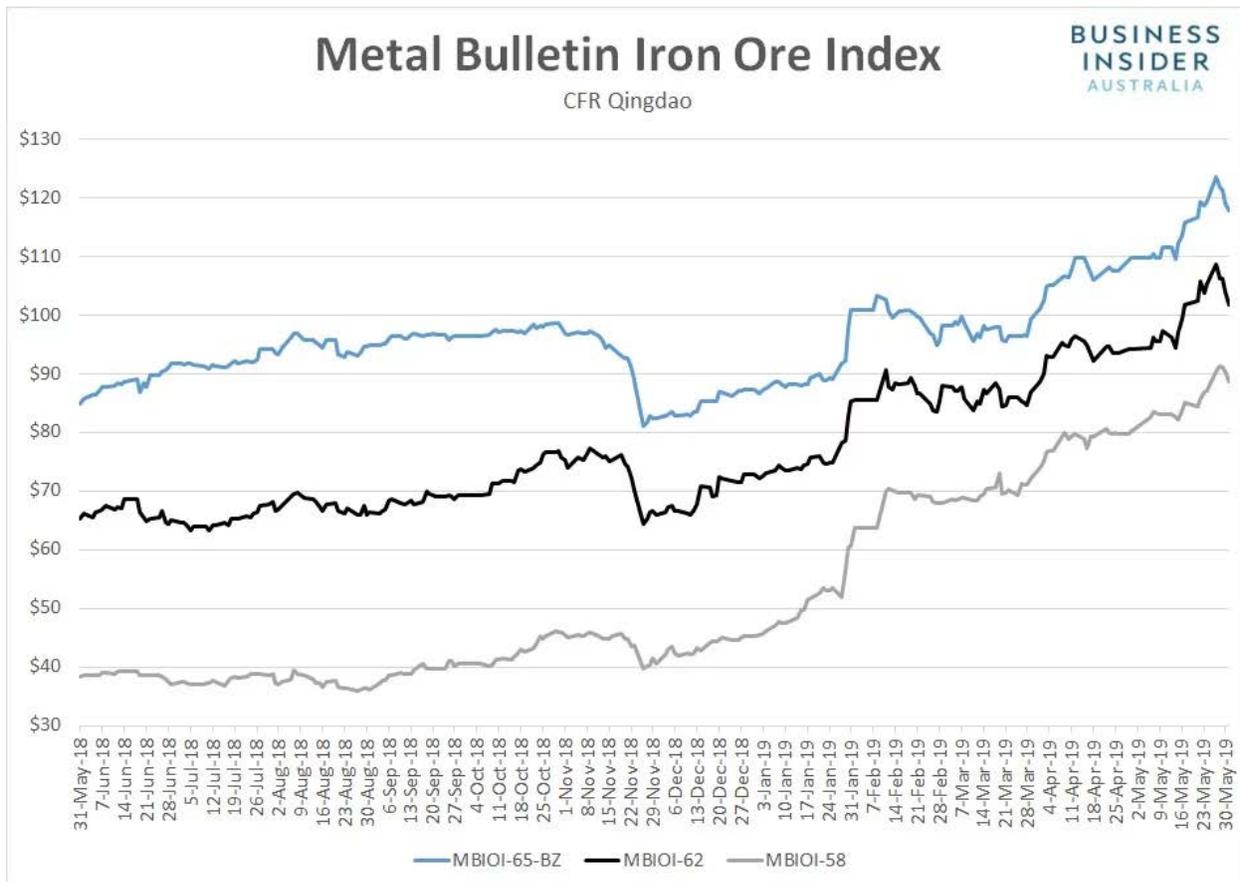
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Commodity News

Ferrous –

The surge in iron ore prices reportedly cooled late last week in China. According to Business Insider Australia, “Iron ore prices fell heavily for a second consecutive session on Friday, adding to losses seen earlier in the week. With recent gains in Chinese futures continuing to unwind on Friday evening, there may well be further weakness to come on Monday. According to Metal Bulletin, the spot price for benchmark 62% iron ore fines slumped 2.2% to \$101.60 a tonne, extending its drop from the five-year high of \$108.62 a tonne set earlier in the week to 6.5%.”



But iron ore prices still remain elevated by historical standards and concerns about increased steel imports from Canada and Mexico, signs of slower demand from the automotive sector, and softening

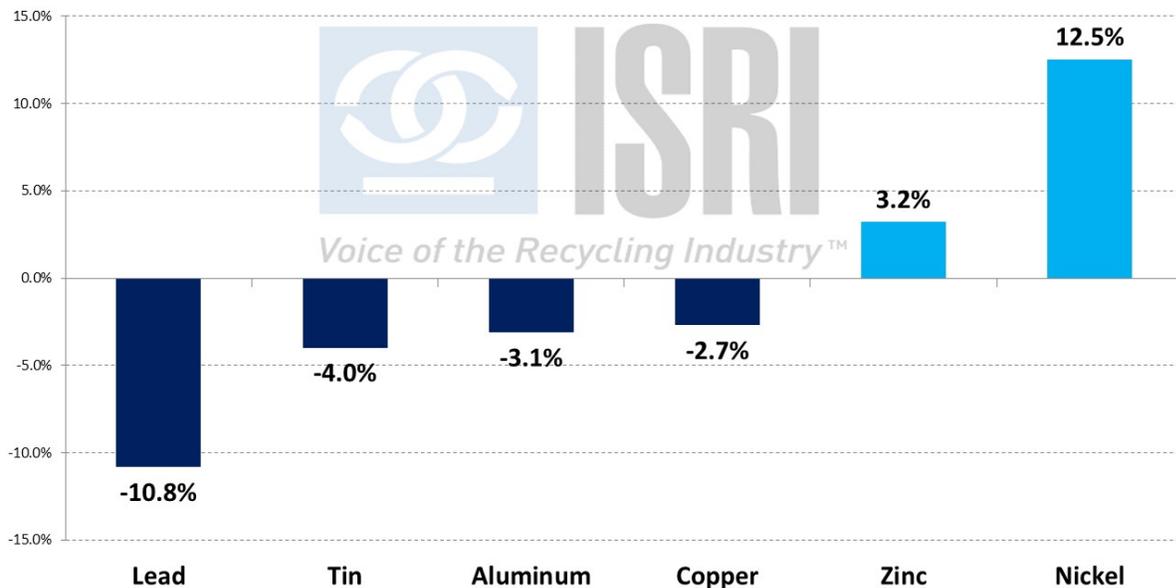
domestic hot-rolled coil prices have raised concerns for investors. Bloomberg reported last week that share prices for AK Steel declined "...as much as 12% {on Tuesday} after the price for hot-rolled coil steel dipped below \$600 a short ton for the first time since October 2017. The product traded at \$920 in July. 'Lots of negative sentiment out there,' said Richard Bourke, an analyst for Bloomberg Intelligence, who compared the \$600 mark to a round number like 10,000 for the Dow Jones Industrial Average. 'There are growing concerns about a slowing global market.' The steel industry is facing a double whammy of falling prices and rising costs for iron ore. There are also concerns about the strength of the global economy, especially demand for cars and trucks -- AK's largest market -- and the U.S. lifted 25% tariffs on steel imports from Canada and Mexico earlier this month." As of Monday morning, the front month U.S. Midwest Domestic Hot-Rolled Coil Steel (CRU) Index Futures contract was indicated at \$584 per ton.

Nonferrous –

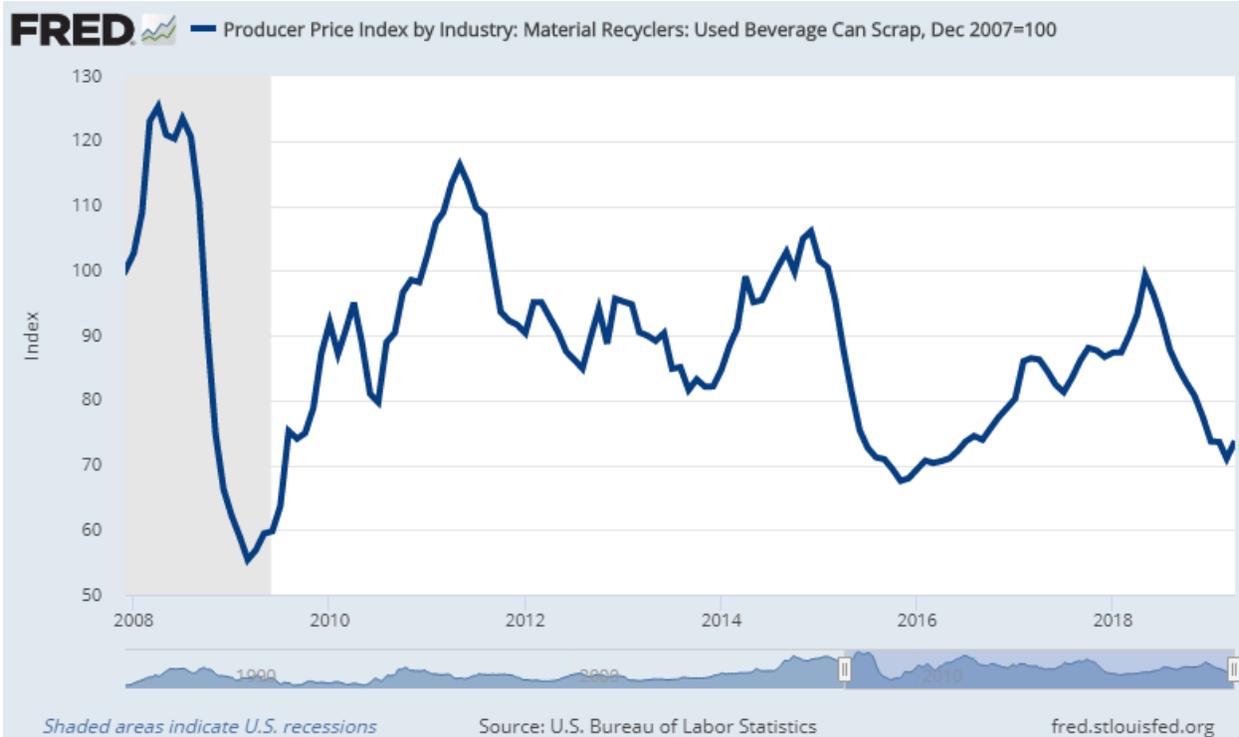
Trade worries and lackluster Chinese manufacturing data continue to weigh on a range of nonferrous metal prices. Last week, the official reading on Chinese manufacturing PMI for May came in lower than expected at 49.4, down from 50.1 in April and well below the Reuters consensus forecast (49.9). Lead metal prices at the London Metal Exchange continue to underperform the other base metals, declining 10.8% YTD through the end of May due in part to slower global auto sales, but aluminum (-3.1%) and copper (-2.7%) prices have also been pressured lower this year, despite copper supply disruptions.

Reuters reports that "Chile's state-owned miner Codelco, the world's largest copper producer, said on Sunday it partially halted work at its El Teniente mine following a fatal accident." But Codelco is also lowering its copper price expectations this year due in part to the ongoing trade dispute between the U.S. and China: "We had hopes that these conversations between the Chinese and US authorities would be resolved relatively quickly but it looks like that won't be the case," Codelco CEO Nelson Pizarro told reporters in Santiago on Friday.

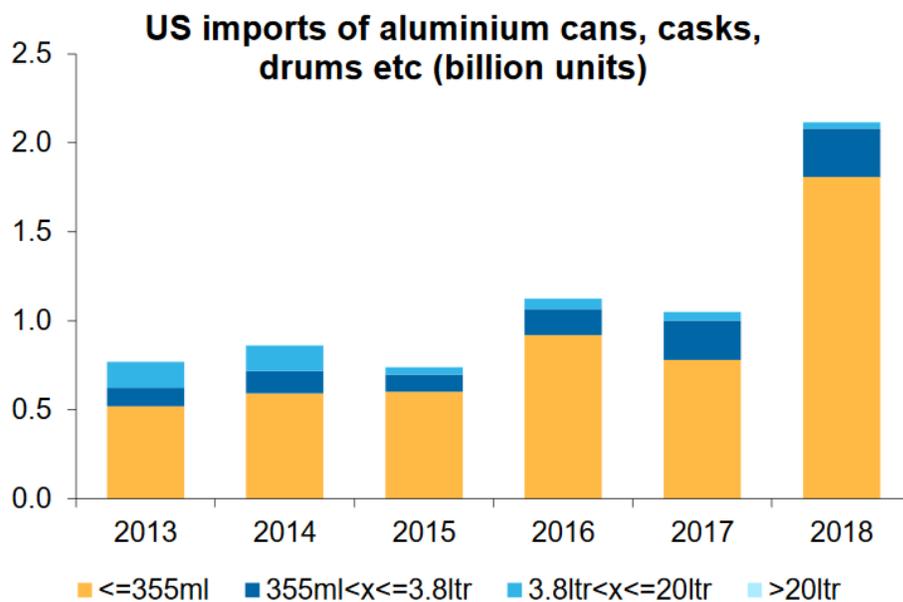
YTD 2019 Percentage CHG in LME Official 3-Mo. Nonferrous Metal Asking Prices through May 31, 2019 (%)



The shifting global trade landscape has also had outsized impacts for the U.S. aluminum can and UBC markets. Here's the trend in Used Beverage Can scrap prices going back to the last recession:



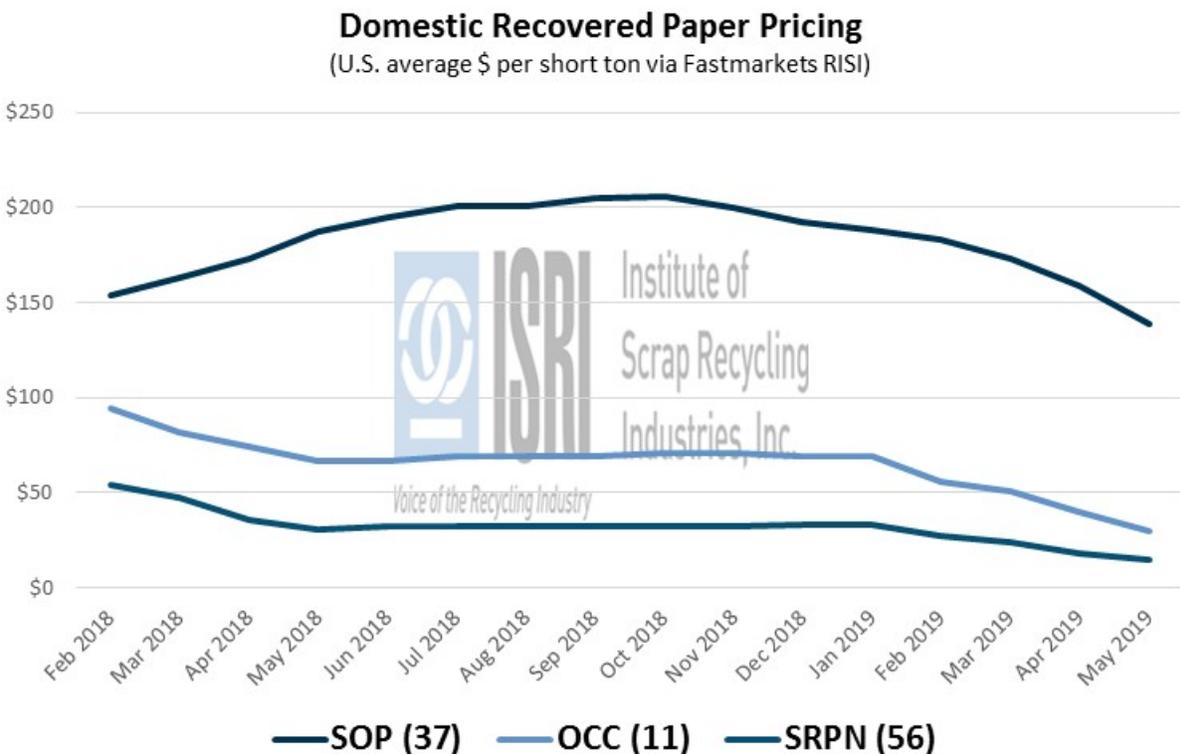
As the [Wall Street Journal](#) reported earlier this year, “Used cans are piling up at scrapyards because U.S. aluminum companies are turning fewer of them into new metal, another indication of the economic challenges facing recycling. Arconic Inc. and other aluminum rollers are producing less sheet for beverage cans and more higher-margin, flat-rolled aluminum for automotive and industrial components. Prices for used aluminum cans in the U.S. have fallen about 30% since last summer. Old cans are less versatile than other scrap. The makers of airplane and car parts prefer not to use aluminum made from recycled cans. More new cans in the U.S. are made from imported aluminum.”



Source: USITC, Macquarie Strategy, May 2019

Paper and Plastic –

Recovered paper prices have been steadily dropping since the beginning of 2019. Regional price differentials from RecyclingMarkets.net seem to show that the Midwest prices are starting to blend in with the East Coast and Gulf Region. The West Coast and Pacific Northwest saw sharp price declines that may be remedied with improved transport costs across the U.S. rather than racking up demurrage costs and truck traffic congestion for export. Fastmarkets RISI's viewpoint article points out that [North American packaging market foundations are trending rather differently than in Europe and Asia](#). The supply glut of recyclable paper would prompt people to assume that packaging producers in the U.S. would be able to lower prices. Mill systems outside of North America are competing for finished board products because their domestic sources are supply scarce as they are much more recycled content dependent than the North American mills. As many mills in the U.S. are integrated with pulp production, European and Chinese paper producing industries are likely to consolidate in order to recapture market competitiveness. A canary in the coal mine for this shift may be Long Chen Paper's move to only open one recycled containerboard unit at a greenfield site in Songzi, Hubei, China.



Since the Chinese ban on imports of plastic scrap and contamination restrictions, there's been a lot of market reshuffling. The price movements for HDPE Bottles and PET have mostly had little effect on mixed #1-7 or #3-7 bales. Mixed plastics are seeing a divergence as sorting for quality has become a necessity to meet what demand is available. During the fall of 2017, prices for HDPE began to rise and exports declined. Commingled #1-7 bales and colored HDPE bales had a relatively high price difference considering other major residential recyclables were falling in value. It made economic sense to add the labor cost inputs to sort out more. This secondary processing niche grew more over 2018 as the value of #3-7 bales went down in value. The consistently lower value of #3-7 to #1-7 bales over this time coincided with HDPE and PET scrap prices being consistently higher than during the latter half of 2017. The flight to quality polymers that can be procured in high volumes is pushing down the quality in lower grade bales.

This Week's Story

A married couple in their early 60s were out celebrating their 35th wedding anniversary in a quiet, romantic little restaurant.

Suddenly, a tiny yet beautiful fairy appeared on their table and said, "For being such an exemplary married couple and for being faithful to each other for all this time, I will grant you each a wish."

"Ooh, I want to travel around the world with my darling husband," said the wife. The fairy moved her magic wand and – abracadabra! – two tickets for a luxury cruise around the world appeared in her hands.

Now it was the husband's turn. He thought for a moment and said: "Well, this is all very romantic, but an opportunity like this only occurs once in a lifetime, so, I'm sorry my love, but my wish is to have a wife 30 years younger than me."

The wife and the fairy were deeply disappointed, but a wish is a wish...

So the fairy made a circle with her magic wand and - abracadabra! - the husband was 92 years old!

This Week's Quote

"It is not God's will merely that we should be happy, but that we should make ourselves happy."

-- Immanuel Kant

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The advertisement is a rectangular banner with a yellow vertical bar on the left containing the text "PUBLIC AUCTION" in black. The main content is divided into several sections: a black bar at the top with white text "3,000+ TONS SCRAP STEEL ON 20+ ACRES"; a white section with "BAYSHORE CONCRETE PRODUCTS" in bold black letters; a red section with white text "2-DAYS WED. 6/19 & THURS. 6/20 STARTING AT 10AM EDT"; a yellow section with black text "LIVE AUCTION & WEBCAST"; and a small black box at the bottom left with white text "Cape Charles, VA". On the right side, there are two images: a large aerial view of a scrap steel yard and a smaller image of concrete forms and rebar. A red box above the smaller image contains white text: "• CONCRETE FORMS • REBAR • ELECTRICAL • STRUCTURES". At the bottom right, there is a logo for "MYRON BOWLING AUCTIONEERS, INC." with the phone number "513-736-3311" and the website "www.myronbowling.com".

<https://www.myronbowling.com/Auctions/Bayshore-Concrete-Products-Corporation-1083C50.html?LayoutID=23>