

August 19, 2019

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## This Morning

Copper prices edged slightly higher this morning with LME 3-mo. copper recently trading around \$5,780 per metric ton while COMEX copper was holding around \$2.60 per pound in New York. Other base metal prices were mixed this morning as the dollar edged up ahead of the release of the minutes from the last FOMC and ECB meetings and speech by Fed Chair Jay Powell in Jackson Hole, Wyo. later in the week. In London, LME 3-mo. nickel and tin prices were pressured below \$15,900/mt and \$16,500/mt, respectively while the other base metals were trading water. In New York, NYMEX crude oil futures rose as high as \$56 per barrel with Reuters reporting "Crude oil prices rose on Monday following a weekend attack on a Saudi oil facility by Yemen's Houthi forces and as traders looked for signs of progress in U.S.-China trade negotiations." On Wall Street, the Dow Industrials started the week in positive territory following gains at the major bourses in Europe and Asia, including the Shanghai stock index, while advanced 2.1 percent for the day. In foreign exchange trading, the euro was buying \$1.1094 while the British pound slipped to \$1.213 this morning.


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## Selected Primary Commodity Prices: August 19, 2019

	Last	CHG	% CHG	Prior	Open	High	Low
COMEX Copper Sep (\$/lb.)	2.6040	0.009	0.3%	2.595	2.60	2.626	2.589
COMEX Gold Dec (\$/to)	1,511.1	-12.5	-0.8%	1,523.6	1523	1,523.6	1,503.3
COMEX Silver Sep (\$/to)	16.96	-0.2	-0.9%	17.12	17.13	17.18	16.8
NYMEX Light Sweet Crude Oct (\$/bbl)	55.57	0.8	1.4%	54.81	54.95	56.03	54.79
SHFE Aluminum Oct (RMB/mt)	14,280	65	0.5%	14,215	14,205	14,395	14,155
SHFE Copper Oct (RMB/mt)	46,470	40	0.1%	46,430	46,390	46,660	46,340
SHFE Nickel Oct (RMB/mt)	125,890	50	0.0%	125,840	125,560	126,800	125,040
SHFE Zinc Oct (RMB/mt)	18,610	-40	-0.2%	18,650	18,660	18,760	18,505

## The Week Ahead

Monetary policy will remain in focus this week with the release of the minutes of the last FOMC and European Central Bank meetings, along with the Kansas City Fed's annual symposium in Jackson Hole, Wyoming. As the Financial Times reports, "The gathering's theme this year is Challenges for Monetary Policy and ...it is a fitting one as central banks keep cutting rates in a bid to stir activity as a mounting pile of negative-yielding debt — adding up to almost \$17tn — indicates profound gloominess over the state of the world economy. A quarter-point interest rate cut is fully priced in for September, but it is not clear what it would take to push officials to restart quantitative easing." On the U.S. economic calendar, we'll get updates on new and existing home sales, initial unemployment claims, and the Conference Board's leading economic indicators index. The consensus forecasts are for modest improvements in home sales and a rebound in leading indicators (+0.2%). Overseas, we'll get new inflation numbers from Japan and Germany, as well as monthly flash PMIs for Germany, France, and the euro zone. Have a great week!

## U.S. Economic Calendar: August 19-23, 2019

Date	Time	Release	Period	Consensus	Prior
21-Aug	7:00	MBA Mortgage Applications Index	17-Aug	NA	21.7%
21-Aug	10:00	Existing Home Sales	Jul	5.40M	5.27M
21-Aug	10:30	EIA Crude Oil Inventories	17-Aug	+1.6M	NA
21-Aug	2:00	FOMC Minutes	Jul 30-31	NA	NA
22-Aug	8:30	Initial Claims	17-Aug	218K	220K
22-Aug	8:30	Continuing Claims	10-Aug	NA	1726K
22-Aug	10:00	Leading Indicators	Jul	0.2%	-0.30%
22-Aug	10:30	EIA Natural Gas Inventories	17-Aug	NA	+49 bcf
23-Aug	10:00	New Home Sales	Jul	645K	646K

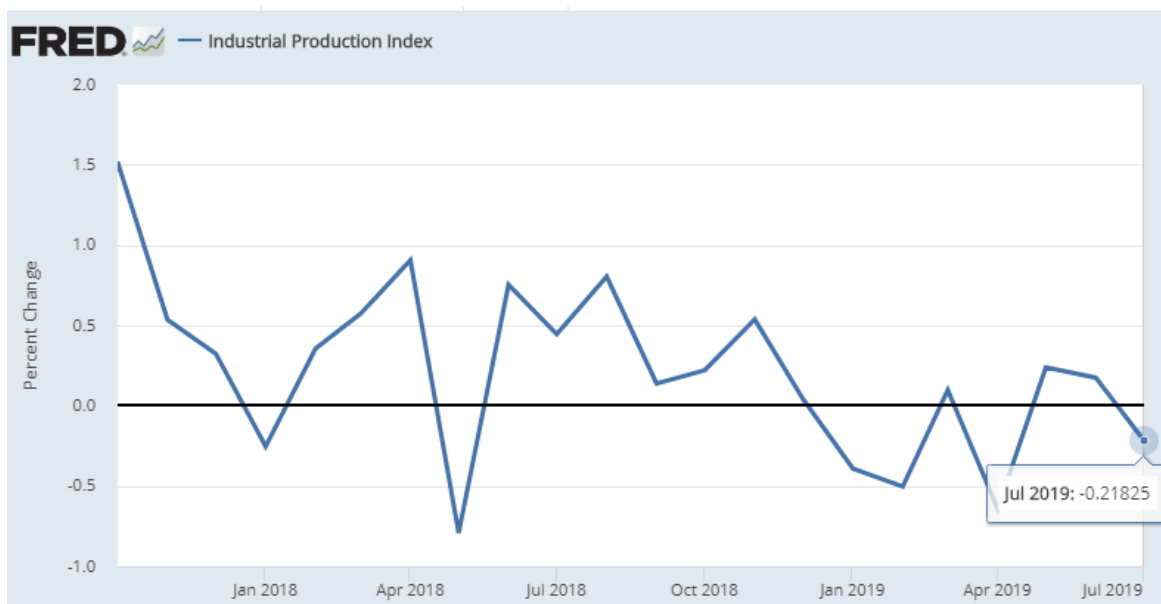
## Economic Week in Review

Markets and the financial press were fixated on the inverted U.S. yield curve last week as the 30-year Treasury yield dipped below 2 percent and the Dow Industrials plunged 800 points lower on Wednesday.



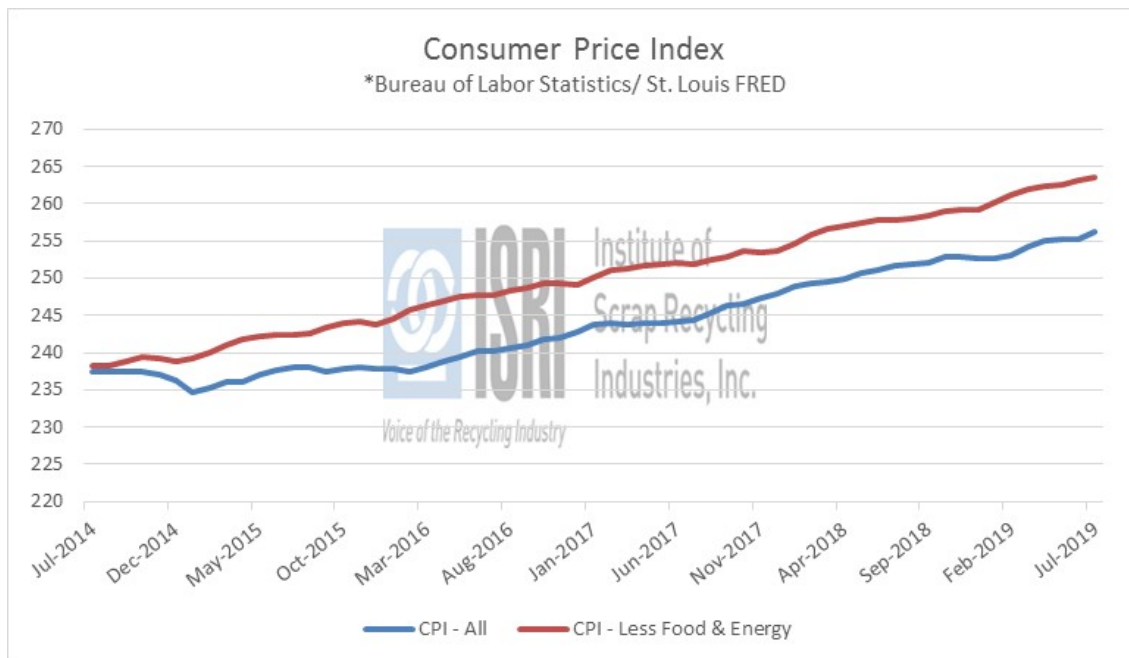
Recent economic reports from Germany and China have done little to calm investor jitters, either. Eurostat reported last week that German GDP in the second quarter declined 0.1% as compared to the preceding quarter. Manufacturing data from Germany have been even more troubling, with German industrial production reportedly down 6.2% year-on-year and off 1.8% month-on-month in June. Official economic reports from China also came in below expectations last week as Chinese industrial production growth slowed to 4.8% in July (from 6.3% in June) while Chinese retail sales growth slowed to 7.6% last month, down from 9.8% growth previously.

U.S. industrial production also came in below expectations in July according to the latest report from the Federal Reserve. Against the consensus forecast for 0.1% growth, the Fed reports that U.S. industrial production declined 0.2% last month, including a 0.4% drop in manufacturing output.



According to the Fed's press release, "Manufacturing output declined 0.4 percent in July, with durables, nondurables, and other manufacturing (publishing and logging) all posting decreases. Production fell for most major durable goods categories. The largest declines were recorded by wood products, machinery, and nonmetallic mineral products, while the only sizable gain was registered by aerospace and miscellaneous transportation equipment. Paper products posted the only increase among nondurables; the indexes for textile and product mills, for printing and support, and for plastics and rubber products each fell 1.0 percent or more."

U.S. housing market data were mixed last week as building permits posted an 8.4% monthly gain to a seasonally adjusted annual rate of 1,336,000 in July, while housing starts came in well below expectations at 1,191,000 SAAR, down 4.0 percent from June. Of note, consumer price inflation ticked up in July due in part to rising prices in the housing and medical sectors. The BLS reports that "the Consumer Price Index for All Urban Consumers (CPI-U) increased 0.3 percent in July on a seasonally adjusted basis after rising 0.1 percent in June, the U.S. Bureau of Labor Statistics reported today. Over the last 12 months, the all items index increased 1.8 percent before seasonal adjustment." That 1.8% increase over the last 12 months remains below the Fed's 2 percent target, leaving room for further cuts.



With so much focus on monetary policy and bond yields, the U.S. inflation readings have taken on even greater significance than usual. But as Bloomberg and other news outlets have been reporting, the Treasury Department's possible issuance of ultra-long dated 50-year and 100-year Treasuries could have a more immediate impact on bond yields: "With interest rates on 30-year U.S. debt hitting all-time lows this week, the government is once again considering whether to start borrowing for even longer. The U.S. Treasury Department said Friday that it wants to know what investors think about the government potentially issuing 50-year or 100-year bonds, going way beyond the current three-decade maximum." Following that announcement, the WSJ's Daily Shot reported "The US curve steepened because the issuance of 50- and 100-year Treasuries will create competition (reduce demand) for the long bond," which in turn could potentially take some of the pressure off of falling global long-term bond yields.

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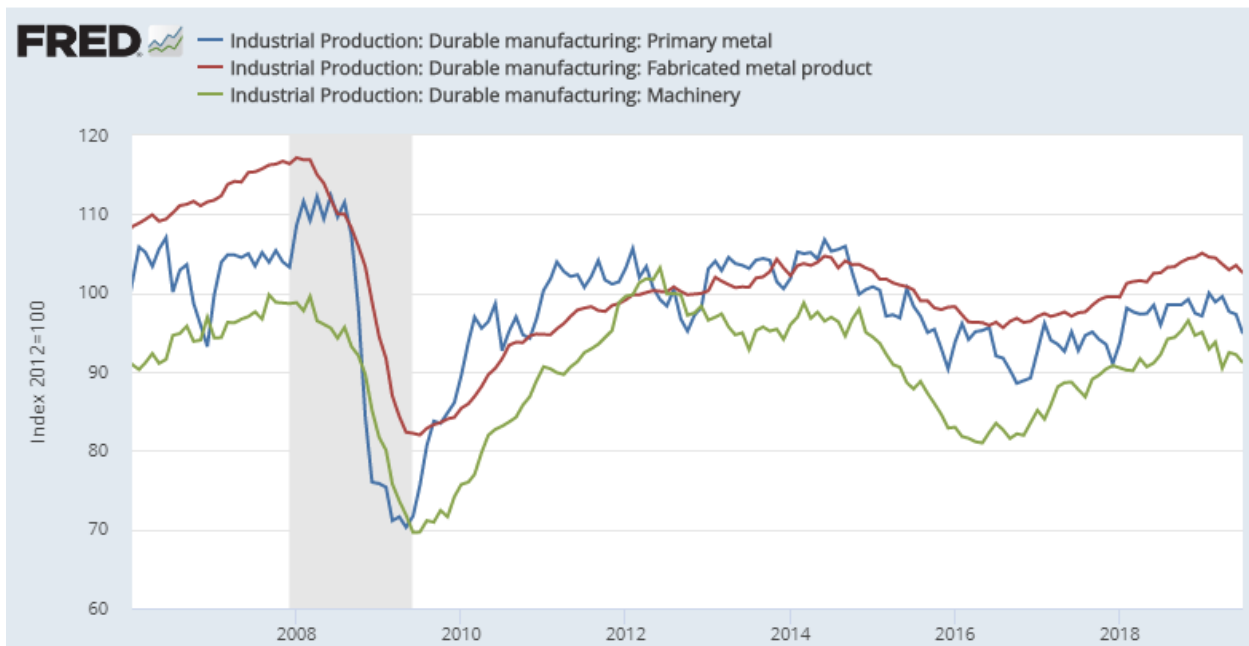
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## Commodity News

### Ferrous –

Fastmarkets AMM reports their "...daily steel hot-rolled coil price, fob US mills, ended Friday August 16 at \$29.30 per hundredweight (\$586 per ton), down 1.8% from \$29.85 per cwt on Thursday and down 2.7% from \$30.11 per cwt a week earlier." The recent softness in steel prices comes amid weakening output in key U.S. metals-related sectors including primary metals, fabricated metal products, and machinery:



As for U.S. crude steel production, the American Iron and Steel Institute reported last week that for the week ending on August 10, 2019, domestic raw steel production was up 0.3% week-on-week but down 1.6% year-on-year to 1.861 million net tons as the capacity utilization rate came in at 80.2 percent. Year-to-date U.S. steel production (through August 10<sup>th</sup>) was still up 4.7% as compared to the corresponding period last year at 59.8 million net tons, according to AISI.

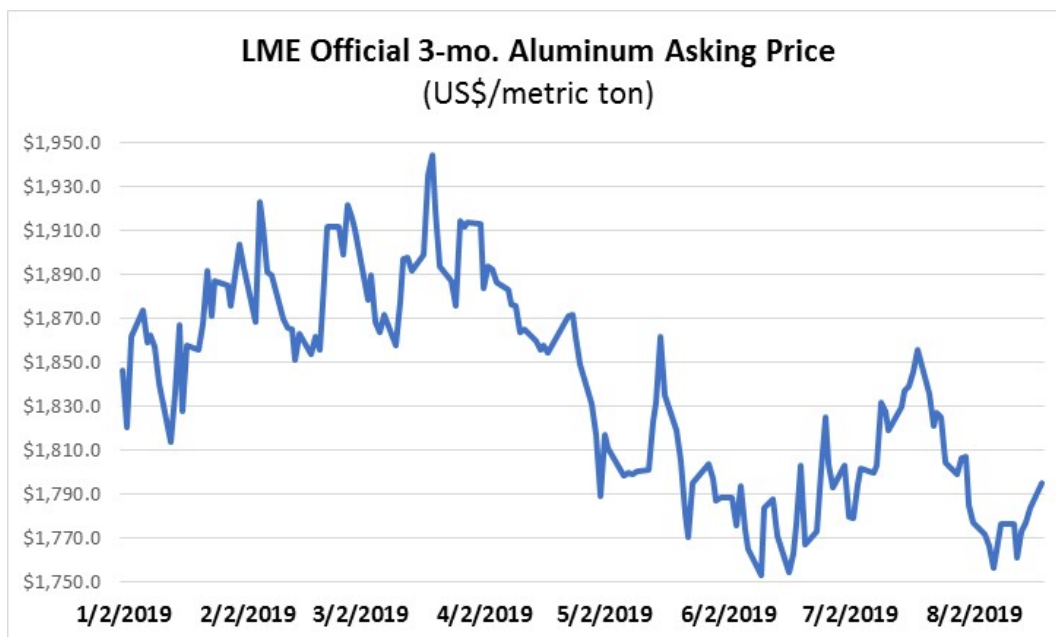
Of note for the U.S. steel market, the Wall Street Journal reports today that "An Australian steelmaker said it will spend roughly US\$700 million to expand its U.S. business, joining American rivals that have outlined plans to add capacity locally in the wake of President Trump's import tariffs. BlueScope Steel Ltd.

said it will be able to produce 850,000 more metric tons of steel each year at its North Star business in Delta, Ohio, once the expansion is completed. That represents a 40% increase on current capacity. The North Star plant sells nearly all its steel to customers in the U.S. Midwest, especially automotive and construction companies. It sells around 95% of its steel within a 300-mile radius of the mill.”

Recent iron ore price volatility has made for more complicated global steel market conditions, with Macquarie reporting the benchmark iron ore index was down 12.6 percent last week to US\$89.55/dmt, the lowest level since April.

### Nonferrous –

Aluminum prices at the London Metal Exchange have come under pressure this year as expectations for capacity expansions, declining global auto production, and the on-going impacts of the U.S.-China trade have contributed to the drop in aluminum prices from around \$1,950 per mt in March to less than \$1,780 per ton recently.



Secondary aluminum prices in the United States have come under even more severe pressure, with Fastmarkets AMM recently list old sheet at 38-40 cents, old cast at 37-40 cents, painted siding at 38-41 cents, and MLC at 44-47 cents per pound. In stark contrast, the U.S. aluminum scrap export data paints a much more encouraging picture, with the latest Census Bureau data showing aluminum scrap exports (including UBCs and RSI) during the first half of 2019 were up 14% year-on-year to nearly 944,000 metric tons. While year-to-date aluminum scrap exports to mainland China have declined 27% this year, that drop has been more than offset by gains to S. Korea (+26%), India (+74%), Malaysia (+40%), Indonesia (+73%), Taiwan (+61%), Brazil (+63%), and other markets.

### U.S. Aluminum Scrap Exports by Major Destination (including UBCs and RSI)

Metric tons

Country	2017	2018	Jan-Jun 2018	Jan-Jun 2019	YTD % CHG
China	830,526	493,772	303,811	223,093	-26.6%
South Korea	180,970	240,073	108,777	136,910	25.9%
India	78,679	215,651	74,353	129,085	73.6%
Malaysia	52,505	182,630	70,600	98,951	40.2%
Mexico	153,385	195,128	90,850	93,085	2.5%
Hong Kong	40,329	42,292	16,814	53,467	218.0%



<b>Indonesia</b>	37,168	76,068	30,233	52,161	72.5%
<b>Canada</b>	105,791	104,312	52,716	46,784	-11.3%
<b>Taiwan</b>	30,171	69,044	21,713	34,902	60.7%
<b>Brazil</b>	293	18,277	6,696	10,937	63.3%
<b>Thailand</b>	3,179	15,028	6,129	8,993	46.7%
<b>Pakistan</b>	6,387	14,743	4,149	7,696	85.5%
<b>Japan</b>	16,663	23,836	10,506	7,641	-27.3%
<b>Philippines</b>	2,157	5,104	1,308	5,618	329.5%
<b>Germany</b>	11,475	7,792	4,414	4,486	1.6%
<b>Singapore</b>	60	2,242	181	4,402	2326.8%
<b>Belgium</b>	2,188	11,759	1,900	4,174	119.7%
<b>Others</b>	15,221	43,417	21,431	21,230	-0.9%
<b>Total:</b>	<b>1,567,149</b>	<b>1,761,166</b>	<b>826,583</b>	<b>943,615</b>	<b>14.2%</b>

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

With so much uncertainty weighing on the domestic and global primary & secondary aluminum industries, you are not going to want to miss our upcoming Aluminum Roundtable to be held on August 13, 2019 from 9:00-10:30 a.m. in Chicago where moderator extraordinaire John Woehlke from JW Consulting will be joined by a fantastic group of speakers including Becky Proler from Southern Core Recycling, Karsten Faak from Trimet Aluminium, and Doug Hilderhoff from the CRU Group. We hope to see you at our fast-approaching [ISRI 2019 Commodity Roundtables Forum](#) next month!

### Recovered Paper –

Paper markets have been dealing with declining OCC pricing which doesn't necessarily track with a severe decline in Chinese demand for OCC. Even with a decline in alternative markets, which doesn't bear out in the export data, there have been several board mill investments coming online to increase domestic demand for brown grades. The Paper Stock Report's August 1 price sheet has OCC holding steady and DLK seeing a slight increase in average price mostly driven with increasing upper range prices outside of the West Coast and Pacific Northwest.

### U.S. Recovered Paper Exports by Grade and Volume (China market share in parentheses)

	2018	Jan-Jun 2018	Jan-Jun 2019	% Change Jan-Jun
Pulp derived from RP	43,611	23,551	96,502	310%
<i>to China</i>	14,538 (33.3%)	8,789 (37.3%)	75,848 (78.6%)	763%
Corrugate/Board	11,380,454	5,156,045	5,154,294	0%
<i>to China</i>	5,517,299 (48.5%)	2,480,611 (48.1%)	2,032,151 (39.4%)	-18%
High Grade Deinking	1,022,793	480,413	509,712	6%
<i>to China</i>	9,380 (0.9%)	7,712 (1.6%)	1,674 (0.3%)	-78%
Pulp Substitutes	1,113,711	517,297	579,300	12%
<i>to China</i>	112,082 (10.1%)	49,630 (9.6%)	23,498 (4.1%)	-53%
News Grades	1,215,675	628,902	433,298	-31%
<i>to China</i>	543,137 (44.7%)	345,695 (55.0%)	149,594 (34.5%)	-57%
Groundwood Grades	1,669,235	1,010,845	831,089	-18%
<i>to China</i>	1,286,293 (77.1%)	848,701 (84%)	641,087 (77.1%)	-24%
Mixed Paper	2,607,073	1,333,710	1,274,358	-4%

<i>to China</i>	92,970 (3.6%)	53,561 (4.0%)	25,482 (2.0%)	-52%
Total Recovered Paper Exports	19,052,552	9,150,763	8,878,553	-3%
<i>to China</i>	7,575,699 (39.8%)	3,794,699 (41.5%)	2,949,334 (33.2%)	-22%

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

## This Week's Story

A woman was out golfing one day when she hit the ball into the woods. She went into the woods to look for it and found a frog in a trap.

The frog said to her, "If you release me from this trap, I will grant you three wishes." The woman freed the frog, and the frog said, "Thank you, but I failed to mention that there was a condition to your wishes.

"Whatever you wish for, your husband will get ten times of it!" The woman said, "That's okay."

For her first wish, she wanted to be the most beautiful woman in the world. The frog warned her, "You do realize that this wish will also make your husband the most handsome man in the world, an Adonis whom women will flock to." The woman replied, "That's okay, because I will be the most beautiful woman and he will have eyes only for me." So, Shazam! -- she's the most beautiful woman in the world!

For her second wish, she wanted to be the richest woman in the world. The frog said, "That will make your husband the richest man in the world. And he will be ten times richer than you." The woman said, "That's okay, because what's mine is his and what's his is mine." So, Shazam! -- she's the richest woman in the world!

The frog then inquired about her third wish, and she answered, "I'd like to have a mild heart attack."

## This Week's Quote

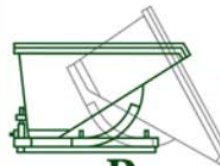
"Next to knowing when to seize an opportunity, the most important thing in life is to know when to forego an advantage."

-- Benjamin Disraeli

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