

August 13, 2019

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## This Morning

The Bloomberg Commodity Index was little changed this morning as surging gold and precious metal prices were offset by mostly flat to lower energy and industrial metal prices. In early trading in New York this morning, COMEX gold futures surged as high as \$1,546 per troy ounce while NYMEX crude oil futures were little changed around \$54.60 per barrel. Following last week's report that Saudi Arabia plans to restrict oil exports in September to stabilize markets, Reuters reports today that "Oil prices edged higher on Tuesday as expectations for major producers to further curtail output offset lingering concerns over global demand and rising U.S. production." In London, LME 3-mo. nickel was trading around \$15,750 per ton this morning after having spiked as high as \$16,145/mt (= \$7.32/lb.) yesterday, while 3-mo. copper and aluminum futures were down slightly around \$5,720/mt and \$1,764/mt, respectively. In equity markets, the major exchanges in Asia started today in negative territory, with Hong Kong's Hang Seng index down more than 2 percent amid continued protests at the Hong Kong International Airport. In foreign exchange trading, the euro was buying \$1.1216 while the British pound hovered around \$1.208 in early morning trading.

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## Selected Primary Commodity Prices: August 13, 2019

	Last	CHG	% CHG	Prior	Open	High	Low
<b>COMEX Copper Sep (\$/lb.)</b>	2.580	-0.005	-0.2%	2.585	2.58	2.607	2.575
<b>COMEX Gold Aug (\$/to)</b>	1,537.6	20.4	1.3%	1,517.2	1522.3	1,546.1	1,520.8
<b>COMEX Silver Sep (\$/to)</b>	17.40	0.3	1.9%	17.07	17.06	17.49	17.0
<b>NYMEX Light Sweet Crude Sep (\$/bbl)</b>	54.62	-0.3	-0.6%	54.93	54.73	55.30	54.50
<b>SHFE Aluminum Oct (RMB/mt)</b>	14,185	160	1.1%	14,025	14,155	14,285	14,095
<b>SHFE Copper Oct (RMB/mt)</b>	46,610	-90	-0.2%	46,700	46,700	46,730	46,530
<b>SHFE Nickel Oct (RMB/mt)</b>	123,420	120	0.1%	123,300	122,730	124,700	122,240
<b>SHFE Zinc Oct (RMB/mt)</b>	18,690	200	1.1%	18,490	18,620	18,760	18,600

## The Week Ahead

On the U.S. economic calendar this week, we'll get new releases on consumer price inflation, retail sales, housing starts & building permits, and consumer sentiment. We'll also get key industrial production reports for the United States, China, and the euro zone this week. The consensus forecast is that U.S. industrial production edged up just 0.1% in July following a flat (0.0%) reading in June, while core CPI was up around 0.2% last month. Other European reports to keep an eye on this week will cover German economic sentiment and consumer prices, along the flash GDP numbers for Germany and the euro zone. Suffice it to say the economic news out of Germany has been less than encouraging lately as industrial production continues to contract and the German yield curve approaches financial crisis territory. Investors will also be paying attention to new Chinese releases on fixed asset investment and retail sales. 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: August 13-16, 2019

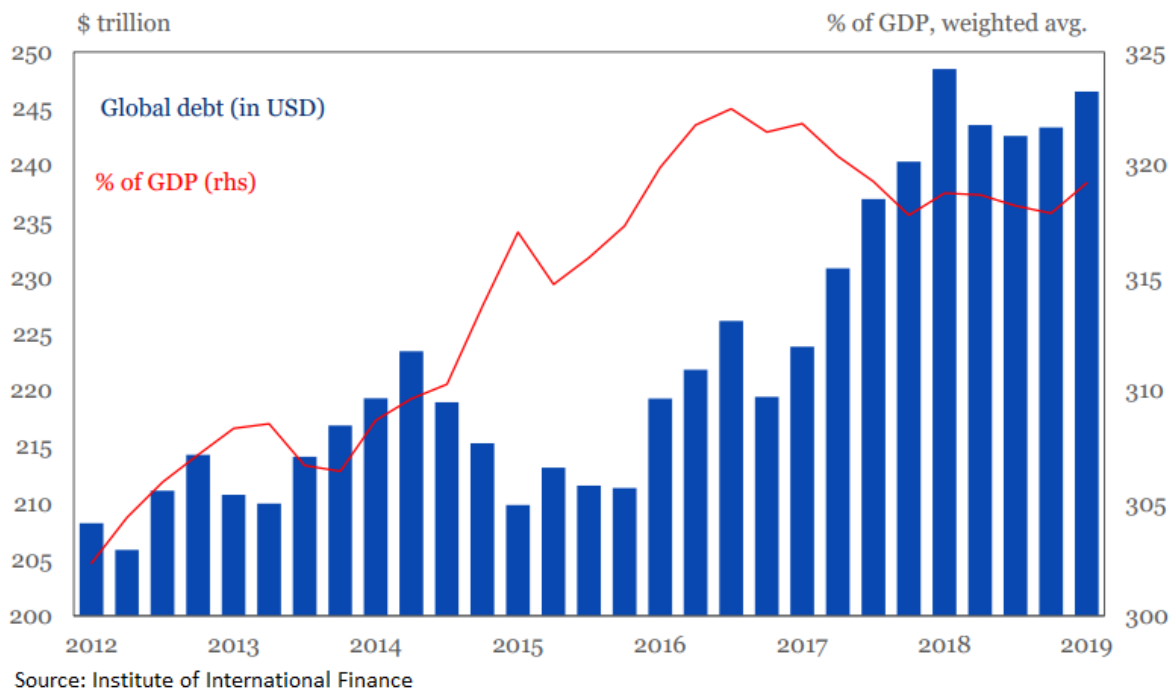
Date	Time	Release	Period	Consensus	Prior
Aug 13	08:30	CPI	Jul	0.3%	0.1%
Aug 13	08:30	Core CPI	Jul	0.2%	0.3%
Aug 14	07:00	MBA Mortgage Applications Index	08/10	NA	5.3%
Aug 14	08:30	Import Prices	Jul	NA	-0.9%
Aug 14	08:30	Export Prices	Jul	NA	-0.7%
Aug 14	08:30	Import Prices ex-oil	Jul	NA	-0.3%
Aug 14	08:30	Export Prices ex-ag.	Jul	NA	-1.1%
Aug 14	10:30	EIA Crude Oil Inventories	08/10	NA	+2.4M
Aug 15	08:30	Initial Claims	08/10	215K	209K
Aug 15	08:30	Continuing Claims	08/03	NA	1684K
Aug 15	08:30	Retail Sales	Jul	0.3%	0.4%
Aug 15	08:30	Retail Sales ex-auto	Jul	0.3%	0.4%
Aug 15	08:30	Empire State Manufacturing	Aug	1.1	4.3
Aug 15	08:30	Philadelphia Fed Index	Aug	10.0	21.8
Aug 15	08:30	Productivity-Prel	Q2	1.3%	3.4%

Aug 15	08:30	Unit Labor Costs - Prel	Q2	1.6%	-1.6%
Aug 15	09:15	Industrial Production	Jul	0.1%	0.0%
Aug 15	09:15	Capacity Utilization	Jul	77.8%	77.9%
Aug 15	10:00	Business Inventories	Jun	0.1%	0.3%
Aug 15	10:30	EIA Natural Gas Inventories	08/10	NA	+55 bcf
Aug 15	16:00	Net Long-Term TIC Flows	Jun	NA	\$3.5B
Aug 16	08:30	Housing Starts	Jul	1245K	1253K
Aug 16	08:30	Building Permits	Jul	1260K	1220K
Aug 16	10:00	Univ. of Michigan Consumer Sentiment - Prelim	Aug	97.7	98.4

## Economic Week in Review

Competitive monetary policy easing, rising debt levels, the escalating U.S.-China trade dispute, and uneven manufacturing data continue to be major sources of concern for future global economic growth. Here's the recent trend in global debt levels from the Institute of International Finance:

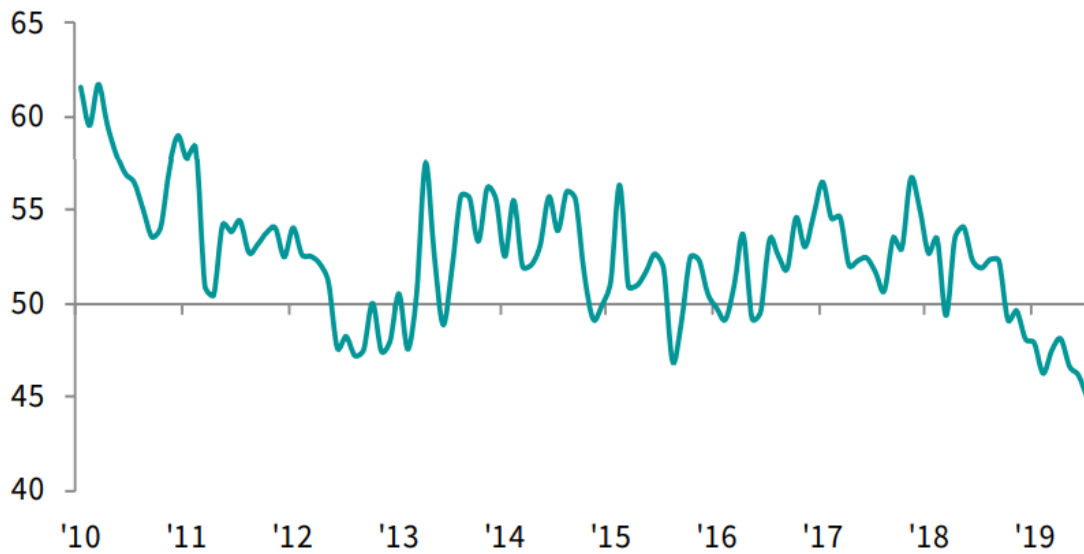
### Big jump in global debt as financial conditions ease



On the global manufacturing front, the slowdown in automobile and auto parts production has deteriorated significantly in recent months. According to IHS Markit, the “latest PMI data signaled a deepening downturn in the global automobiles & auto parts sector at the start of the second half of 2019. Output, new orders and employment all contracted at the fastest rates since the global series began in late-2009. Moreover, indices for new export orders and purchasing activity also hit record lows in July.”

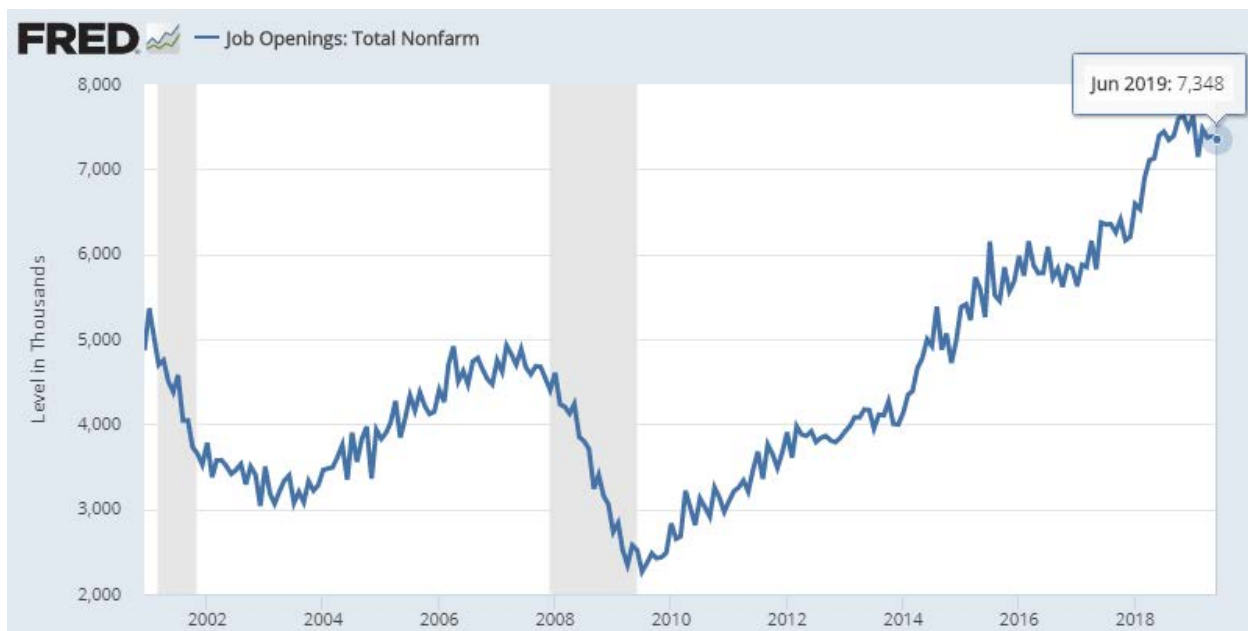
## Global Automobiles & Auto Parts Output Index

sa, >50 = growth since previous month



Source: IHS Markit.

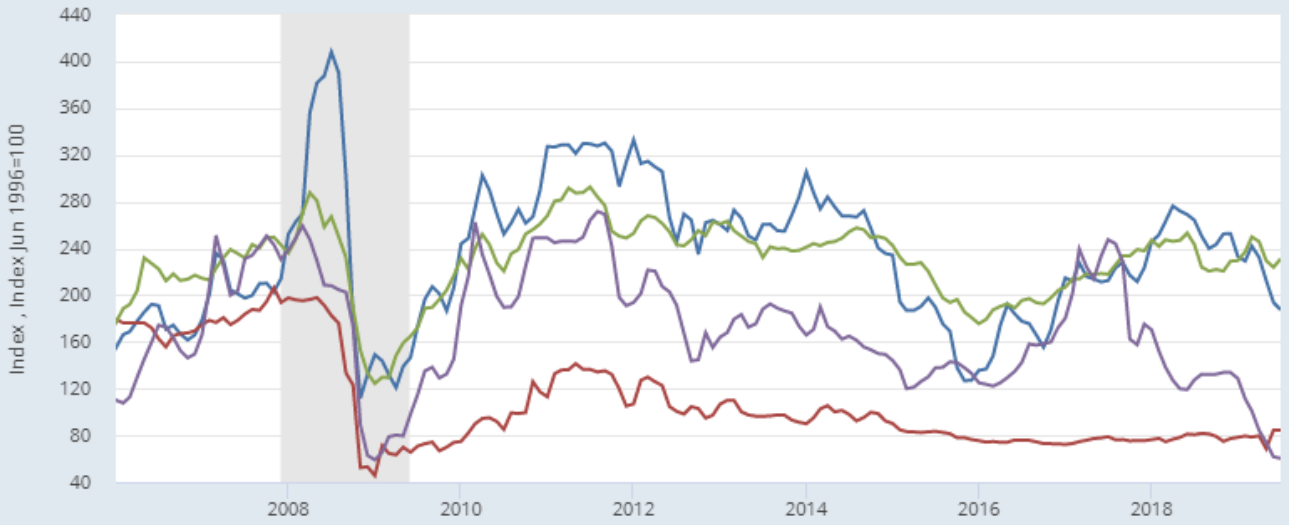
More positively for the U.S. economy, the labor market continues to exhibit strength while inflation levels remain largely in check. Last week, the Bureau of Labor Statistics reported that U.S. job openings remain elevated at more than 7.3 million in June, while initial unemployment claims remained extremely low at 209,000 for the week ending August 3, and the increase in the U.S. producer price index was in-line with expectations at 0.2% in July.



But for scrap recyclers, producer prices for the major scrap commodities have for the most part remained under pressure this year. Here are the producer prices for U.S. ferrous scrap, nonferrous scrap, recyclable plastics, and corrugated (purple line) from Jan 2006 through Jul 2019:

**FRED**

- Producer Price Index by Industry: Material Recyclers: Ferrous Metal Scrap, Jun 1996=100
- Producer Price Index by Industry: Material Recyclers: Recyclable Plastics
- Producer Price Index by Industry: Material Recyclers: Nonferrous Metal Scrap, Jun 1996=100
- Producer Price Index by Industry: Material Recyclers: Corrugated Wastepaper, Jun 1996=100



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## Commodity News

### Ferrous –

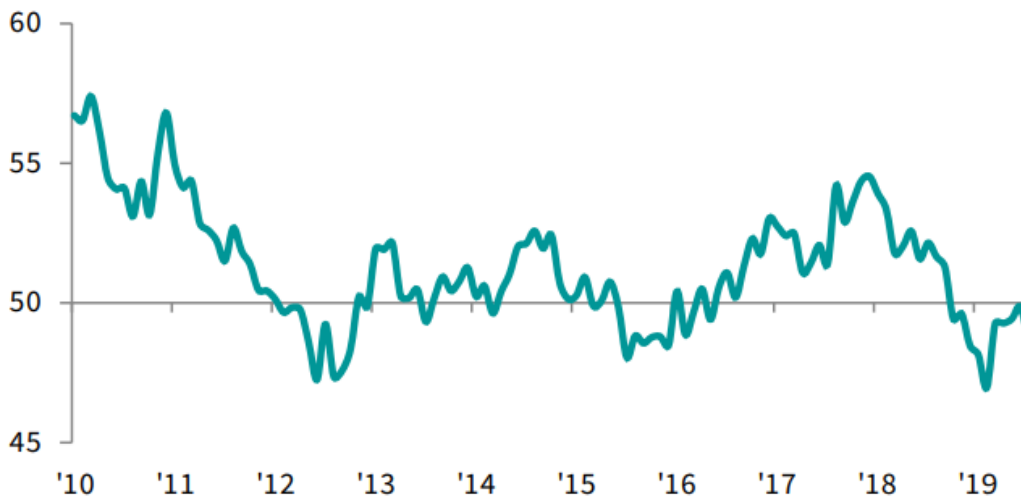
The correction in iron ore futures continues, with the benchmark SGX iron ore 62% contract having plunged from more than \$110 per dmt in July to around \$85/dmt recently:



The sell-off in iron ore prices comes at a time of deteriorating steel users PMI. According to IHS Markit, “The start of the third quarter saw a renewed drop in output levels among global steel-using firms, as the rate of deterioration in overall business conditions accelerated for the first time in five months. Demand fell at a solid pace, leading to weaker input buying and lower stock levels. However, selling charges rose at the quickest rate since last October. 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 from 49.8 in June to 48.7 in July, signaling a quicker deterioration in operating conditions, albeit still modest overall.”

### Global Steel Users PMI

sa, >50 = improvement since previous month



Source: IHS Markit.

On the ferrous scrap front, the U.S. Census Bureau reports ferrous scrap exports from the United States (excluding stainless steel and alloy steel scrap) during the first half of 2019 fell 3.8% to 7.66 million metric tons as compared to the first half of 2018. While ferrous scrap exports to Turkey reportedly rose 6.6% in the first half of the year and demand improved in S. Korea, Bangladesh, Vietnam, Malaysia, and Saudi Arabia, this was more than offset by reduced trade with Taiwan (-15%), Mexico (-36%), India (-28%), China (-92%), and others.

### U.S. Ferrous Scrap Exports by Major Destination (ex-stainless and alloy steel scrap)

Metric tons

Country	2017	2018	Jan-Jun 2018	Jan-Jun 2019	YTD % CHG
Turkey	3,635,585	3,391,709	1,646,539	1,755,097	6.6%
Taiwan	1,256,025	1,833,189	916,587	781,781	-14.7%
South Korea	523,367	885,485	289,797	717,853	147.7%
Mexico	1,544,051	1,722,864	1,032,342	660,988	-36.0%
Vietnam	656,409	1,009,601	425,531	475,300	11.7%
Bangladesh	647,026	837,963	351,856	452,502	28.6%
Malaysia	193,861	470,397	162,848	407,361	150.1%
India	655,413	831,950	564,568	406,727	-28.0%
Canada	610,051	638,922	333,640	343,353	2.9%
Kuwait	426,332	387,143	261,216	235,791	-9.7%
Pakistan	629,003	373,561	208,239	217,298	4.4%
Peru	444,086	379,136	218,205	187,256	-14.2%
Saudi Arabia	42,892	44,038	44,018	174,500	296.4%
Egypt	400,273	805,028	310,692	161,272	-48.1%
Thailand	537,647	496,423	250,151	159,835	-36.1%
Indonesia	85,791	450,349	212,158	132,881	-37.4%
Others	1,471,575	1,094,449	730,748	389,542	-46.7%
<b>Total:</b>	<b>13,759,387</b>	<b>15,652,207</b>	<b>7,959,135</b>	<b>7,659,337</b>	<b>-3.8%</b>

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

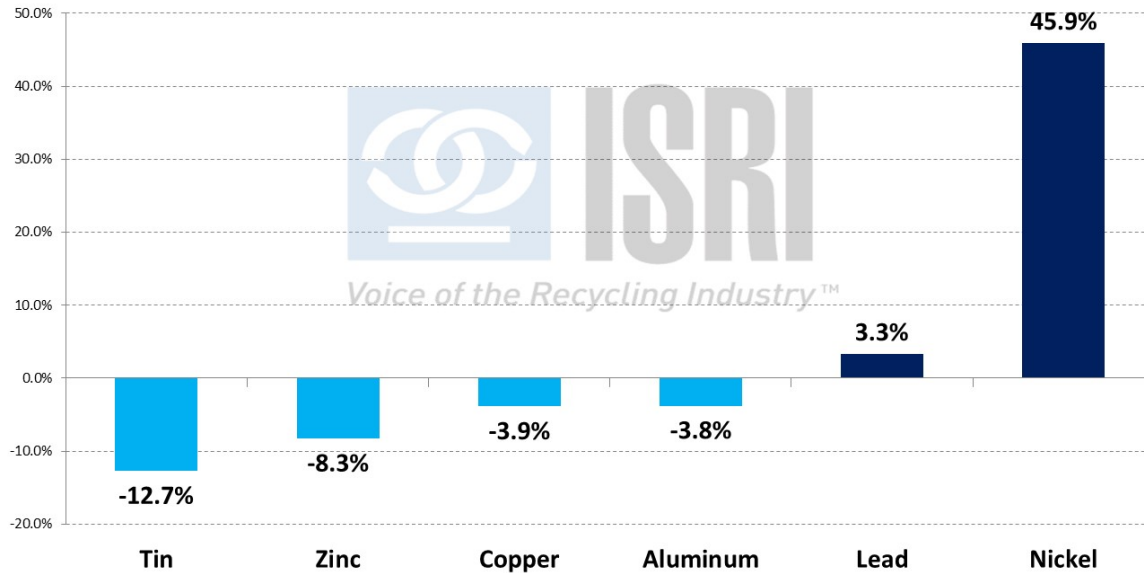
Fastmarkets AMM reports their “assessment for the steel scrap No1 busheling, index, delivered Midwest mill, settled at \$297.25 per gross ton on Monday August 12, up by 8% from \$275.27 per ton in July. The steel scrap shredded, index, delivered Midwest mill, increased by 9.5% to \$277.85 per ton from \$253.67 per ton, and the steel scrap No1 heavy melt, index, delivered Midwest mill, rose by 8.2% to \$242.08 per ton, from \$223.68 per ton in July.”

### Nonferrous –

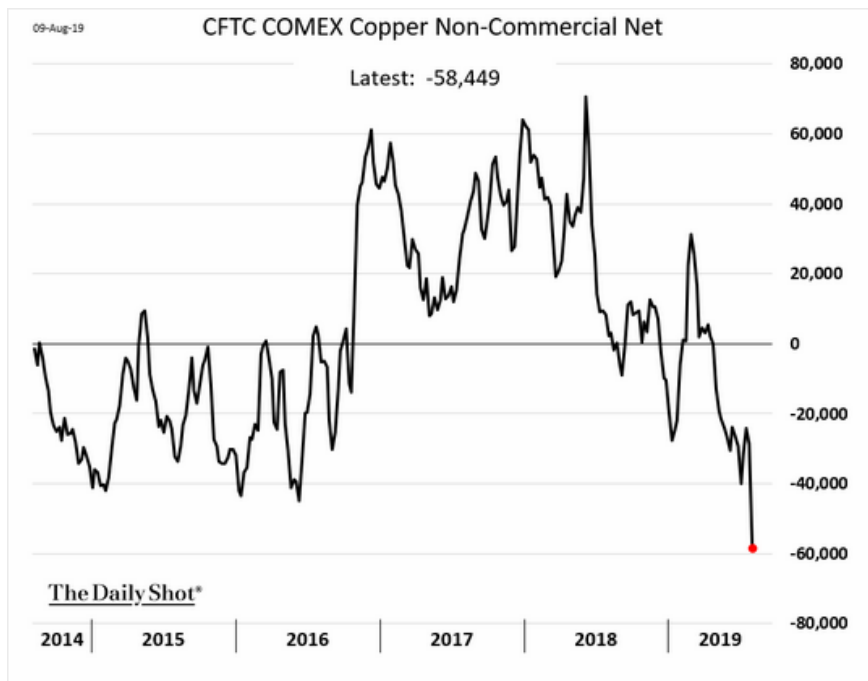
LME 3-mo. nickel prices surged as high as \$16,145 per ton (= \$7.32 per pound) yesterday amid continued concerns about Indonesian nickel ore exports. The AME Group reports that “Indonesian nickel miners have raised concerns regarding the government’s consideration of whether to bring forward from 2022 a planned ban on nickel ore exports. The country’s Ministry of Energy and Mineral Resources is in the process of assessing the impact of banning ore shipments earlier than currently planned. Nickel miners have raised concerns regarding the impact on their development plans based on the current 2022 deadline, with upfront investment in mines to generate export cashflows followed by downstream capacity development and that it may see them with essentially stalled smelter developments if they are not completed before any revised deadline. Indonesia is currently limiting ore shipments to companies who demonstrate active development of domestic downstream capacity to increase the level of value add being undertaken in-country to boost the value of exports. Nickel prices have been rallying on speculation the ban could be brought forward.”

So far at the LME this year, nickel prices have outperformed all of the other major based metals, surging 46% higher through August 12<sup>th</sup>. Of note, the Nickel Institute has estimated that [nickel could end up being as much as 80% of the battery cell substrate](#). In comparison to nickel, tin (-12.7%) and zinc (-8.3%) prices have had the worst performances so far this year, followed by copper (-3.9%) and aluminum (-3.8%).

**YTD 2019 Percentage CHG in LME Official 3-Mo. Nonferrous Metal Asking Prices through Aug 12, 2019 (%)**



The WSJ's Daily Shot reports that copper's subpar performance this year comes amid increasingly bearish net non-commercial length at the COMEX:



Looking forward, Metal Bulletin reports that "German copper refiner Aurubis Group has forecast a continued weakening of the European copper market in its financial statement, reporting a significant drop in earnings as a result of the subdued copper demand across Europe. "Demand for flat-rolled products, especially in the European automotive sector, has been declining since autumn 2018. This is expected to continue for the rest of the fiscal year, [October 1, 2018 to June 30, 2019]," the company said in its half-year earnings statement."



As for the global copper scrap market, the latest Census Bureau data show that the plunge in U.S. exports to mainland China has been largely offset to gains to virtually every other major market this year including Malaysia (+200%), India (+85%), Taiwan (+68%), Belgium (+62%), and Canada (+16%).

### U.S. Copper and Copper Alloy Scrap Exports by Major Destination

Metric tons

Country	2017	2018	Jan-Jun 2018	Jan-Jun 2019	YTD % CHG
Malaysia	5,553	119,573	37,246	111,901	200.4%
China	687,876	271,254	213,233	57,017	-73.3%
Canada	93,501	92,136	43,412	50,241	15.7%
South Korea	31,334	71,726	23,869	30,382	27.3%
Hong Kong	36,345	44,269	19,843	29,820	50.3%
India	24,869	48,260	15,023	27,747	84.7%
Japan	21,145	55,989	18,609	24,372	31.0%
Germany	30,657	37,269	17,962	21,920	22.0%
Taiwan	8,645	35,427	11,292	18,947	67.8%
Belgium	16,435	31,330	10,932	17,663	61.6%
Thailand	677	14,151	11,638	9,059	-22.2%
Pakistan	9,571	17,949	4,486	8,784	95.8%
Spain	7,501	10,824	5,199	6,276	20.7%
Others	30,128	62,690	23,809	35,009	47.0%
<b>Total:</b>	<b>1,004,237</b>	<b>912,848</b>	<b>456,553</b>	<b>449,140</b>	<b>-1.6%</b>

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

### Recycled Plastic –

Rounding out the first half 2019 scrap export data for this week's report, Census Bureau data show U.S. plastic scrap exports plunged 47% lower to just over 350,000 metric tons as shipments to mainland China fell to less than 5,000 tons in Jan-Jun 2019. For comparison's sake, the U.S. shipped nearly 558,000 tons of plastic scrap to China in 2017. Other significant market losses have been to Malaysia, Thailand, and Vietnam, all down around 87% for the year-to-date. As a result, Canada and India are now the largest export markets for U.S. plastic scrap, each taking in more than 70,000 metric tons in 1H 2019.

### U.S. Plastic Scrap Exports by Major Destination

Metric tons

Country	2017	2018	Jan-Jun 2018	Jan-Jun 2019	YTD % CHG
Canada	135,795	133,867	66,012	73,963	12.0%
India	123,116	133,299	69,725	70,777	1.5%
Hong Kong	372,904	121,487	60,392	35,594	-41.1%
Malaysia	121,231	204,120	157,756	20,209	-87.2%
Mexico	46,375	45,712	23,476	19,092	-18.7%
South Korea	9,077	35,403	14,743	18,864	28.0%
Indonesia	29,175	27,385	8,468	17,940	111.9%
Taiwan	33,976	51,447	26,024	16,225	-37.7%
Turkey	14,482	23,666	11,318	13,621	20.3%
Thailand	32,862	106,853	91,438	11,608	-87.3%
Vietnam	137,042	74,396	70,560	9,041	-87.2%

Senegal	0	0	0	6,081	N/A
China	557,820	47,906	29,974	4,878	-83.7%
Philippines	3,617	6,378	2,558	4,355	70.2%
Others	50,370	61,273	32,903	28,187	-14.3%
<b>Total:</b>	<b>1,667,842</b>	<b>1,073,191</b>	<b>665,348</b>	<b>350,436</b>	<b>-47.3%</b>

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

## This Week's Story

A New York attorney representing a wealthy art collector called his client. He says, "John, I have some good news and some bad news."

The art collector replied, "I've had an awful day; let's hear the good news first."

The attorney said, "Well, I met with your wife today, and she informed me that she invested \$5,000 in two pictures that she thinks will bring a minimum of \$15-20 million. And I think she could be right."

John replied enthusiastically, "Well done! My wife is brilliant! You've just made my day. Now that I know that, I can handle the bad news... you mind telling me what it is?"

The attorney replied, "The pictures are of you and your secretary."

## This Week's Quote

"No one heals himself by wounding another."

-- St. Ambrose of Milan

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