

January 22, 2020

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This Morning

The Bloomberg Commodity Index was down around 0.5% this morning amid falling crude oil and gasoline prices. S&P Global reports "Crude oil futures were lower in mid-morning trade in Asia Wednesday, extending the overnight downtrend, as selling pressure started to kick in amid heightened fears of the recent flu virus in China, which could have an indirect impact on oil demand, analysts said." In New York, NYMEX crude oil futures were down 2% to \$57 per barrel in late morning trading, while COMEX copper futures dipped below \$2.78 per pound. In London, LME 3-mo. copper and aluminum eased to around \$6,110 and \$1,810 per mt, respectively, while 3-mo. nickel traded as low as \$13,505 per metric ton. Fastmarkets Metal Bulletin reports "Volatility has been a key feature of the LME nickel complex in recent months, with fresh inflows, fresh cancelations and strong price swings persisting into January." In foreign exchange trading, the dollar was little changed this morning, with the euro buying \$1.1085 and the British pound was trading around \$1.313.

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Selected Primary Commodity Prices: January 22, 2020

	Last	CHG	% CHG	Prior	Open	High	Low
COMEX Copper Mar (\$/lb.)	2.776	-0.018	-0.6%	2.794	2.788	2.805	2.775
COMEX Gold Feb (\$/to)	1,557.8	-0.1	0.0%	1,557.9	1558.9	1,559.8	1,550.0
COMEX Silver Mar (\$/to)	17.90	0.1	0.5%	17.81	17.79	17.90	17.7
NYMEX Light Sweet Crude Mar (\$/bbl)	57.35	-1.0	-1.8%	58.38	58.26	58.38	57.27
SHFE Aluminum Mar (RMB/mt)	14,130	-40	-0.3%	14,170	14,130	14,175	14,090
SHFE Copper Mar (RMB/mt)	48,480	-150	-0.3%	48,630	48,450	48,650	48,280
SHFE Nickel Mar (RMB/mt)	107,890	-880	-0.8%	108,770	108,090	109,170	106,310
SHFE Zinc Mar (RMB/mt)	18,285	0	0.0%	18,285	18,285	18,375	18,175

The Week Ahead

World leaders are meeting at the World Economic Forum in Davos, Switzerland this week and as the Financial Times reports, "The event has earned a reputation in its first 49 years for high-altitude pontificating as the global elite gather to pitch their takes on lofty topics picked by WEF founder Klaus Schwab, from de-globalization to the fourth industrial revolution. This year, as the WEF marks its 50th anniversary, a new urgency hangs over the Alpine town. The prospects for global economic growth, the tech companies that were feted at previous meetings, the multilateralism that the WEF espouses and capitalism itself are all in question." In other overseas developments, the European Central Bank meets this week and Japan reports on trade, consumer prices, and flash manufacturing PMI. Following the Martin Luther King, Jr. holiday on Monday, the U.S. economic calendar is relatively light this week, with new releases due out on existing home sales, initial unemployment claims, and the Conference Board's index of leading economic indicators. The consensus forecast is that the Leading Economic Index declined 0.2% in December following a flat (0.0%) reading in November. We'll have a recap of the week's key economic, commodity, and scrap market highlights in next week's ISRI Market Report.

U.S. Economic Calendar, January 20 - 24, 2020

Date	Time	Release	Period	Consensus	Prior
22-Jan	07:00 ET	MBA Mortgage Applications Index	18-Jan	NA	30.2%
22-Jan	09:00 ET	FHFA Housing Price Index	Jan	NA	0.2%
22-Jan	10:00 ET	Existing Home Sales	Dec	5.42M	5.35M
23-Jan	08:30 ET	Initial Claims	18-Jan	215K	204K
23-Jan	08:30 ET	Continuing Claims	11-Jan	NA	1767K
23-Jan	10:00 ET	Leading Indicators	Dec	-0.2%	0.0%
23-Jan	10:30 ET	EIA Natural Gas Inventories	18-Jan	NA	-109 bcf

23-Jan	11:00 ET	EIA Crude Oil Inventories	18-Jan	NA	-2.5M
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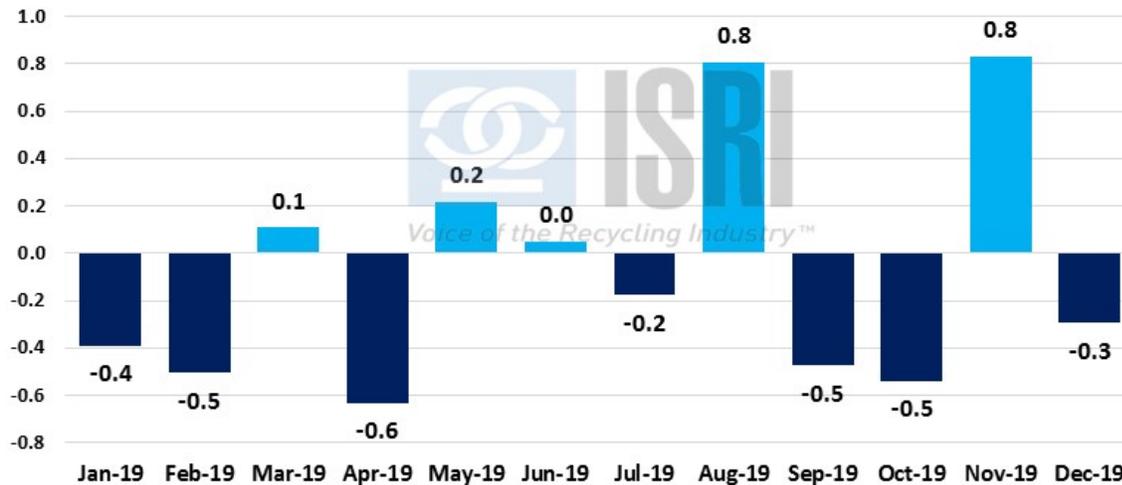
Economic Week in Review

Last week, the Federal Reserve reported U.S. industrial production decreased 0.3% in December, marking the third monthly drop in the last 4 months. In December, a 0.2% uptick in manufacturing production and 1.3% increase in mining was more than offset by a 5.6% drop in utilities output. The Fed notes “The drop for utilities resulted from a large decrease in demand for heating, as unseasonably warm weather in December followed unseasonably cold weather in November. For the fourth quarter as a whole, total industrial production moved down at an annual rate of 0.5 percent.”

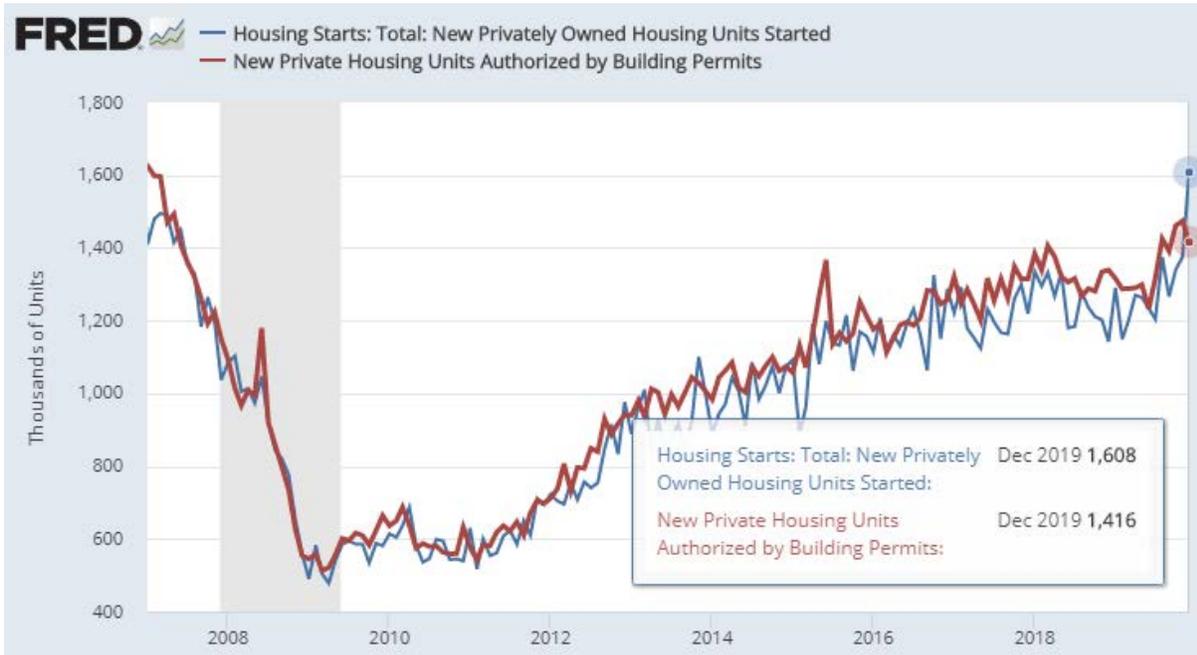
U.S. Industrial Production in 2019

Percent Change, Monthly, Seasonally Adjusted

Source: Federal Reserve



On a more positive note, the Census Bureau reported last week that new housing starts in the United States surged to a seasonally adjusted annual rate of 1.608 million units in December, up nearly 17 percent from November and the highest level in 13 years. The increase was driven by an 11.2% increase in single-unit housing starts and a 30% spike in multi-unit starts. New building permits eased slightly to 1.416 million units SAAR.



Another key economic release from last week showed U.S. retail sales increased 0.3% in December, largely in line with expectations and reflecting broad based gains including building materials (+1.4%), gas stations (+2.8%), clothing (+1.6%), and general merchandise (+0.6%). Sales of motor vehicles and parts were the exception, declining 1.3% last month. Excluding autos, retail sales were up 0.7% in Dec.

Category	DEC	NOV	OCT	SEP	AUG
Retail Sales	0.3%	0.3%	0.3%	-0.4%	0.6%
Excluding Autos	0.7%	0.0%	0.2%	-0.2%	0.2%
Durable goods					
Building Materials	1.4%	0.1%	0.0%	-1.7%	2.3%
Autos/parts	-1.3%	1.5%	1.1%	-1.1%	2.0%
Furniture	0.1%	0.3%	-0.7%	1.1%	0.1%
Nondurable goods					
General Merchandise	0.6%	0.1%	0.4%	-0.9%	-0.2%
Food	0.4%	0.4%	0.1%	-0.8%	0.0%
Gasoline stations	2.8%	1.0%	2.0%	-0.1%	-1.2%
Clothing	1.6%	-0.5%	-0.2%	0.1%	-1.2%
e*retailing/non-store	0.2%	0.0%	-0.7%	-0.1%	1.4%



Weekly Market Report

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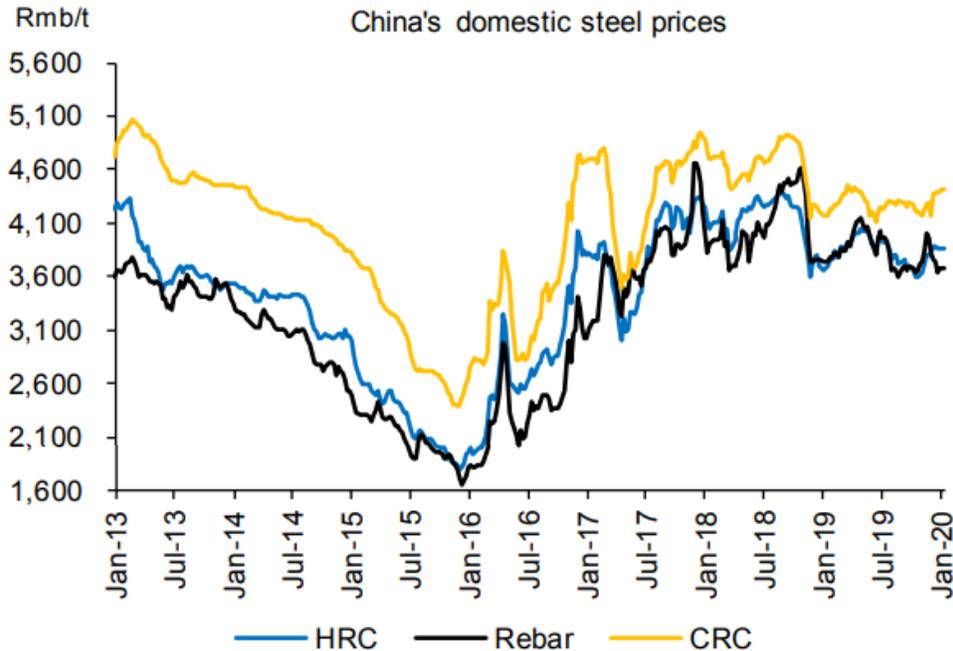
Ferrous

Last week's trade developments have important implications for the domestic iron and steel market, including the U.S-China phase-one trade deal signed on January 15th that includes Chinese commitments to buy U.S. manufactured goods, including iron and steel products. According to the USTR press release, "China's imports of U.S. manufactured goods, such as industrial machinery, electrical equipment, pharmaceutical products, aircraft, vehicles, optical and medical instruments, iron and steel, solar-grade polysilicon, hardwood lumber, and chemical products, among other goods, will total at least \$120.0 billion in 2020 and at least \$131.9 billion in 2021."

Ahead of the Lunar New Year holidays, Macquarie reports "Our latest China survey shows no big change in sentiment on steel while iron ore traders have turned more positive on the post-holiday market. Steel mills have restocked iron ore but expressed an appetite in buying more after being neutral last survey, partly because they worry prices may rise further in Q2 due to a relatively constrained supply picture. A similar restocking trend is also seen for coking coal/coke.

{Chinese} steel mills' orders continue to beat normal seasonality helped in part by a milder winter and stronger demand from the infrastructure sector. Mills' capacity utilization improved further, while plant's steel inventory dropped slightly, partly due to a transfer of steel stocks to traders."

Steel prices little moved over the past month



Source: Macquarie Commodities Strategy, January 2020

Here in the U.S., Fastmarkets AMM reports that hot-rolled coil prices have peaked as expectations for the February scrap market remain muted: "Hot-rolled coil prices in the United States might have peaked on high output and market predictions that ferrous scrap prices might weaken in February, some sources warned. Fastmarkets' daily steel hot-rolled coil index, fob mill US was calculated at \$29.69 per hundredweight (\$593.80 per short ton) on Tuesday January 21, down by 0.8% from \$29.94 per cwt on Friday January 17 and down by 2.7% from \$30.52 per cwt a week earlier on January 14. The index was not calculated on Monday January 20 due to the national Martin Luther King Jr holiday. Inputs were received in a wide range from approximately \$27.50-32.50 per cwt."

As for U.S. steel production, the American Iron and Steel Institute reports for the week ending Jan 18, "domestic raw steel production was 1,928,000 net tons while the capability utilization rate was 82.7 percent. Production was 1,871,000 net tons in the week ending January 18, 2019 while the capability utilization then was 80.4 percent. **The current week production represents a 3.0 percent increase from the same period in the previous year.** Production for the week ending January 18, 2020 is up 0.3 percent from the previous week ending January 11, 2020 when production was 1,923,000 net tons and the rate of capability utilization was 82.5 percent."

Nonferrous

As per ISRI's Member Alert, "*The Chinese Government has announced the intent to implement a new standards regime for imports of copper, brass, and aluminum derived from recycling, and the new standards were posted over the weekend. Although the system does not completely reopen the Chinese market to scrap trade, it is a major indication that the Chinese Government finally acknowledges that scrap commodities are valuable products and imports, and should not be managed under the same guidelines for "solid waste."* This is a major achievement after two decades of ISRI advocating that **Scrap is Not Waste.**

Our partners at the China Nonferrous Metals Association Recycling Branch (CMRA) published charts indicating the required metal recovery content and contamination limits, but we are told that more detailed rules to accompany these standards will soon be published by the Standardization Administration of China. As we await the detailed regulation, we are making available the [charts provided by CMRA](#) as well as [charts published in Fastmarkets](#) on January 20.

The required metal content and limitations on contamination are not set at one level for all grades, another indication that the Chinese Government acknowledges that a one-sized-fits-all approach is not in line with market conditions. It is our understanding that Zorba will be categorized as "aluminum pieces" under the new standards.

We have not yet heard if the Chinese Government will impose import quotas on materials that meet these new standards. However, we do know that materials originating from the United States will continue to be levied 25 percent import tariffs under the U.S.-China trade war. Nevertheless, we strongly recommend that our members take every step to ensure that the materials are processed responsibly and meets the criteria set out by the new rules. We also encourage our members to know your customers to ensure that the material is handled and consumed responsibly upon receipt.

We will provide additional information and guidance once we receive the full regulation.

Statement:

"ISRI has been advocating to the Chinese Government for nearly 20 years that scrap should be pulled out of the "solid waste" import regime and recognized as a valuable raw material. It appears China is doing just that with selected grades of scrap, for which we salute China for setting this important precedent. We continue to urge the Chinese Government to take steps to recognize all recyclable commodities as valuable products and call on other governments around the world to follow their lead in recognizing scrap is not waste but a necessary ingredient for achieving a green economy." **Adina Renee Adler, Assistant Vice President, International Affairs**

Here's the trend in U.S. copper and aluminum scrap exports to China going back to 2016:

Monthly U.S. Copper and Aluminum Scrap Exports to Mainland China, Jan 2016 - Nov 2019 (metric tons)

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



Paper and Plastic

The paper and the plastic domestic export markets saw declines through November of 2019 from a year earlier according to data from the US International Trade Commission. Canada, India, Hong Kong and Malaysia receive the most combined U.S. exports of plastic and paper.

Plastic Exports

U.S. exports of plastic scrap, by weight, realized significant reductions of nearly 39% YTD November 2019 versus the same time a year ago.

The top twelve countries receiving US plastic scrap exports accounted for nearly 89% of all plastic scrap exports for the first eleven months of 2019, down from their 94% market share a year earlier. Meanwhile, all other countries market share nearly doubled to over 11%. This shows that many U.S. companies are exporting more and more to less dominate plastic importing countries. Only three of these top twelve countries saw increases in the quantities received: Canada, Turkey and Indonesia. The country in the top 12 with the greatest percentage decline of nearly 75% was Malaysia.

Canada's share of all US plastic scrap exports nearly doubled in the first eleven months of 2019 to 22.5%, up from 12.3 percent the previous year. Malaysia's market share went to 8.2% in the 2019 timeframe from 19.9% a year ago.

Canada continues to be the number one country for U.S. plastic scrap exports. Canada received 138,658 metric tons of plastic scrap exports YTD November 2019, a 12% increase from the same time the year before. U.S. plastic scrap exports to Malaysia decreased about 150,000 metric tons YTD November 2019 or nearly 75%. (Table 1)

U.S. Plastic Scrap Exports

Metric tons			
Country	2018 YTD	2019 YTD	YTD % chg
Canada	123,806	138,658	12.0%
India	122,039	83,809	-31.3%
Hong Kong	113,545	67,795	-40.3%
Malaysia	200,101	50,676	-74.7%
Mexico	42,752	32,925	-23.0%
Taiwan	49,097	32,467	-33.9%
South Korea	31,527	28,721	-8.9%
Turkey	20,292	27,195	34.0%
Thailand	98,963	25,514	-74.2%
Indonesia	23,641	24,141	2.1%
Vietnam	73,647	18,455	-74.9%
China	44,593	16,524	-62.9%
All other countries	62,560	70,057	12.0%
Total Plastic Exports	1,006,564	616,936	-38.7%

top 12	944,003.97	546,878.98	-42.1%
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By type of plastic scrap, styrene plastic scrap was the only type to see a gain in YTD November 2019, increasing by nearly 43% to 35,518 mt. All other types realized double digit decreases, ranging between 28% and 69%. However, ethylene plastic scrap continues to be the most exported type, closely followed by "Other" plastic scrap.

U.S. Plastic Scrap Exports by Commodity Type

Metric tons					
Commodity Type	2017	2018	2018 YTD	2019 YTD	YTD % Chg
Vinyl Chloride plastic scrap	160,401	140,986	137,346	43,071	-68.6%
Ethylene plastic scrap	635,741	414,074	379,947	246,898	-35.0%
Styrene plastic scrap	44,577	26,610	24,909	35,518	42.6%
Polyethylene plastic scrap	223,176	116,899	109,172	79,087	-27.6%
Other plastic scrap (non pet)	603,947	374,621	355,191	212,362	-40.2%
Total Plastic Exports	1,667,842	1,073,191	1,006,564	616,936	-38.7%

Paper

U.S. exports of recovered paper, paperboard and pulp (paper scrap exports) decreased nearly 11% in the first eleven months of 2019 compared to the same time a year ago. The top countries accounted for over 90% of paper scrap exports in YTD November 2019, down from nearly 93% from a year ago. This indicates U.S. exporters are beginning to find new countries to export to as many of the top countries add restrictions on imports.

U.S. Recovered Paper and Fiber Exports, by Country

YTD November 2018 and 2019			
(In 1000 metric tons*)			
Country	2018 YTD	2019 YTD	YTD % Chg
China	7,047	5,179	-26.5%
India	3,109	2,754	-11.4%
Mexico	1,536	1,256	-18.2%
Vietnam	722	938	30.0%
South Korea	984	896	-9.0%
Indonesia	999	893	-10.6%
Taiwan	628	829	31.9%
Canada	782	845	8.1%
Thailand	401	469	17.0%
All others	1,259	1,511	20.0%
Top 9 Countries	16,207	14,058	-13.3%



Weekly Market Report

Total Exports	17,466	15,569	-10.9%
Top 9 share of overall total	92.8%	90.3%	
* Numbers include component tons (1.6% of exports).			

This Week's Quote

"The arc of the moral universe is long, but it bends toward justice."

-- Martin Luther King, Jr.