

July 23, 2019

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This Morning

Copper prices eased in early trading this morning as COMEX copper slipped to around \$2.71/lb. while LME 3-mo. copper was trading below \$5,995/mt. The other major base metals were mixed this morning amid a firmer dollar and a pullback in crude oil futures. In New York, NYMEX crude prices were back below \$56 per barrel this morning after having traded as high as \$57.04/bbl on Monday. Reuters reports "...that concerns {have} faded for now that rising tensions in the Middle East would escalate and hit oil supplies, compounding the impact of a weaker demand outlook." Reuters also reports that "Canada's exemption from U.S. tariffs on imports of aluminum metal has boosted earnings at the Canadian operations of companies such as Rio Tinto and Alcoa, but has not cut costs for U.S. consumers. In May, the U.S. lifted the Section 232 tariff of 10% imposed on Canadian imports of aluminum, a vital ingredient for auto makers, drinks firms and military equipment companies." LME 3-mo. aluminum was trading above \$1,820/mt this morning. In forex trading the British pound was down to around \$1.244 as Boris Johnson prepares to take over as Prime Minister, while the euro was buying \$1.117. Of note, the FT reports "The IMF is due to issue an update to its World Economic Outlook on Tuesday, providing clues about the state of the world economy after a downbeat assessment of global growth in April."

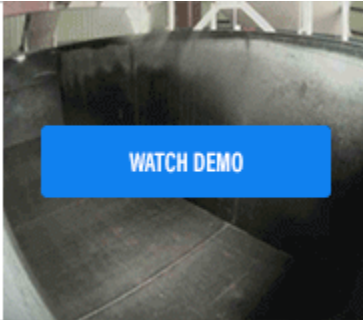
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Selected Primary Commodity Prices: July 23, 2019

	Last	CHG	% CHG	Prior	Open	High	Low
COMEX Copper Sep (\$/lb.)	2.7080	-0.014	-0.5%	2.722	2.72	2.730	2.705
COMEX Gold Aug (\$/to)	1,422.9	-4.0	-0.3%	1,426.9	1426	1,426.3	1,414.6
COMEX Silver Sep (\$/to)	16.41	0.0	0.0%	16.41	16.38	16.49	16.2
NYMEX Light Sweet Crude Sep (\$/bbl)	55.94	-0.3	-0.5%	56.22	56.17	56.56	55.74
SHFE Aluminum Sep (RMB/mt)	13,800	-110	-0.8%	13,910	13,840	13,865	13,750
SHFE Copper Sep (RMB/mt)	47,340	-460	-1.0%	47,800	47,350	47,510	47,220
SHFE Nickel Oct (RMB/mt)	113,130	-2,330	-2.0%	115,460	113,600	114,100	112,060
SHFE Zinc Sep (RMB/mt)	19,280	-30	-0.2%	19,310	19,225	19,350	19,200

The Week Ahead

On the U.S. economic calendar this week, we'll get new reports on new and existing home sales, durable goods orders, initial unemployment claims, and the advanced reading on real (adjusted for inflation) GDP growth in the second quarter. The consensus forecast is the real GDP growth slowed to 1.8% in the second quarter, down from 3.1% annualized growth in the first quarter of 2019. Europe will be in focus this week as the European Central Bank meets on Thursday, with rate cuts generally expected to be kept on hold for now, while in the U.K. Boris Johnson will take over as the next Prime Minister and leader of the Conservative Party. As the Financial Times reports, "Boris Johnson looks set to finally take the keys to 10 Downing Street on Wednesday and begin forming his first government. A united and clear transition plan is seen as vital for Mr. Johnson, who has vowed to deliver Brexit 'do or die' by October 31." Economic reports due out in the Europe this week will cover flash composite PMI for France, Germany, and the euro zone, along with the Ifo Institute's Business Climate Index in Germany. Have a great week and don't forget to register for our upcoming and best-ever [ISRI 2019 Commodity Roundtables Forum](#) to be held in Chicago from September 11-13, 2019!

U.S. Economic Calendar: July 23-26, 2019

Date	Time	Release	Period	Consensus	Prior
Jul 23	09:00	FHFA Housing Price Index	May	NA	+0.4%
Jul 23	10:00	Existing Home Sales	Jun	5.30M	5.34M
Jul 24	10:00	New Home Sales	Jun	660K	626K
Jul 25	08:30	Adv. Intl. Trade in Goods	Jun	NA	-\$74.5B
Jul 25	08:30	Adv. Retail Inventories	Jun	NA	0.5%
Jul 25	08:30	Adv. Wholesale Inventories	Jun	NA	0.4%
Jul 25	08:30	Durable Orders	Jun	1.0%	-1.3%
Jul 25	08:30	Durable Goods –ex transportation	Jun	0.3%	0.3%
Jul 25	08:30	Initial Claims	07/20	215K	216K
Jul 25	08:30	Continuing Claims	07/13	NA	1686K
Jul 26	08:30	GDP - Adv.	Q2	1.8%	3.1%
Jul 26	08:30	GDP Deflator - Adv.	Q2	1.8%	0.6%

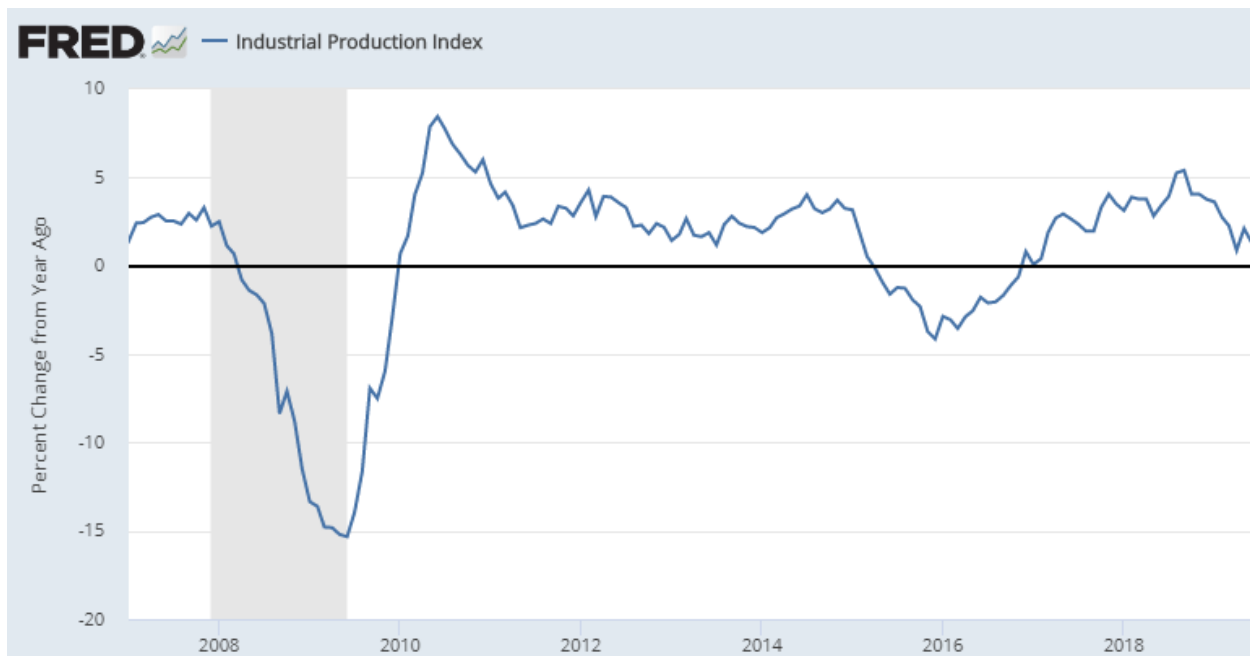
Economic News

The latest economic impact study of the U.S. scrap recycling industry conducted by John Dunham & Associates has been one of the most positive economic reports released recently, confirming that the U.S. recycling industry continues to be an economic leader, job creator, and major exporter. According to the 2019 Dunham & Associates report, "...the people and firms that purchase, process, and broker recycled materials to be manufactured into new products in America provide 531,510 adults with good jobs in the United States and generate approximately \$109.78 billion annually in economic activity."

	Direct	Supplier	Induced	Total
Jobs	164,154	159,681	207,675	531,510
Wages	\$11,979,843,200	\$10,664,067,000	\$10,793,276,400	\$33,437,186,600
Economic Impact	\$41,755,731,500	\$33,735,199,300	\$34,288,057,900	\$109,778,988,700

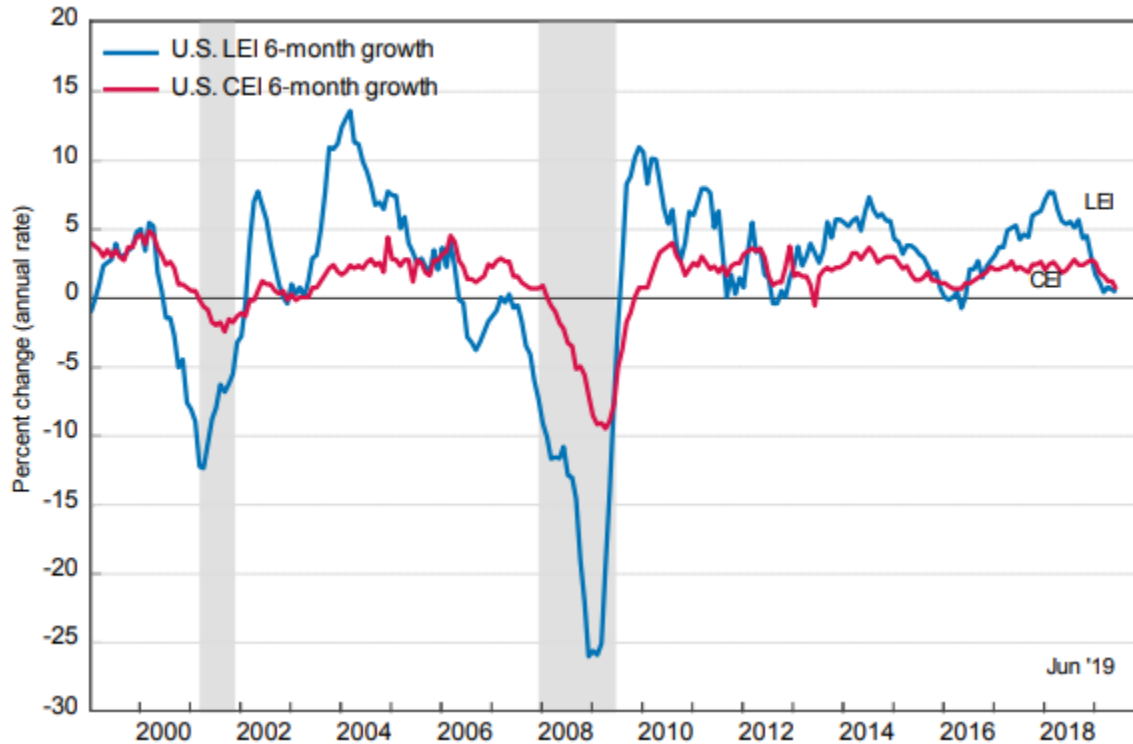
ISRI will be releasing more details about the Dunham study shortly, but in the meantime please visit ISRI.org/economy to learn more about the tremendous economic, employment, trade, and tax contributions generated by recycling at the national, state, Congressional, statehouse, and city levels across the United States!

Other U.S. economic reports out last week were somewhat less positive as new releases on housing starts & building permits, industrial production & capacity utilization, and the Conference Board's index of leading economic indicators all came in below the consensus forecasts. The Federal Reserve reported last week that U.S. industrial production was flat (0.0%) month-on-month last month as the capacity utilization rate slipped from 78.1% in May to 77.9% in June. The consensus forecast was for 0.2% growth and the miss largely reflected a 3.6% drop in utilities output that overshadowed a 0.4% gain in manufacturing output. On a year-over-year basis, the industrial production numbers were better (+1.3% in June Y-o-Y), but the recent trend in U.S. industrial output remains a source of concerns amid signs of decelerating growth and uncertainty on the trade front:

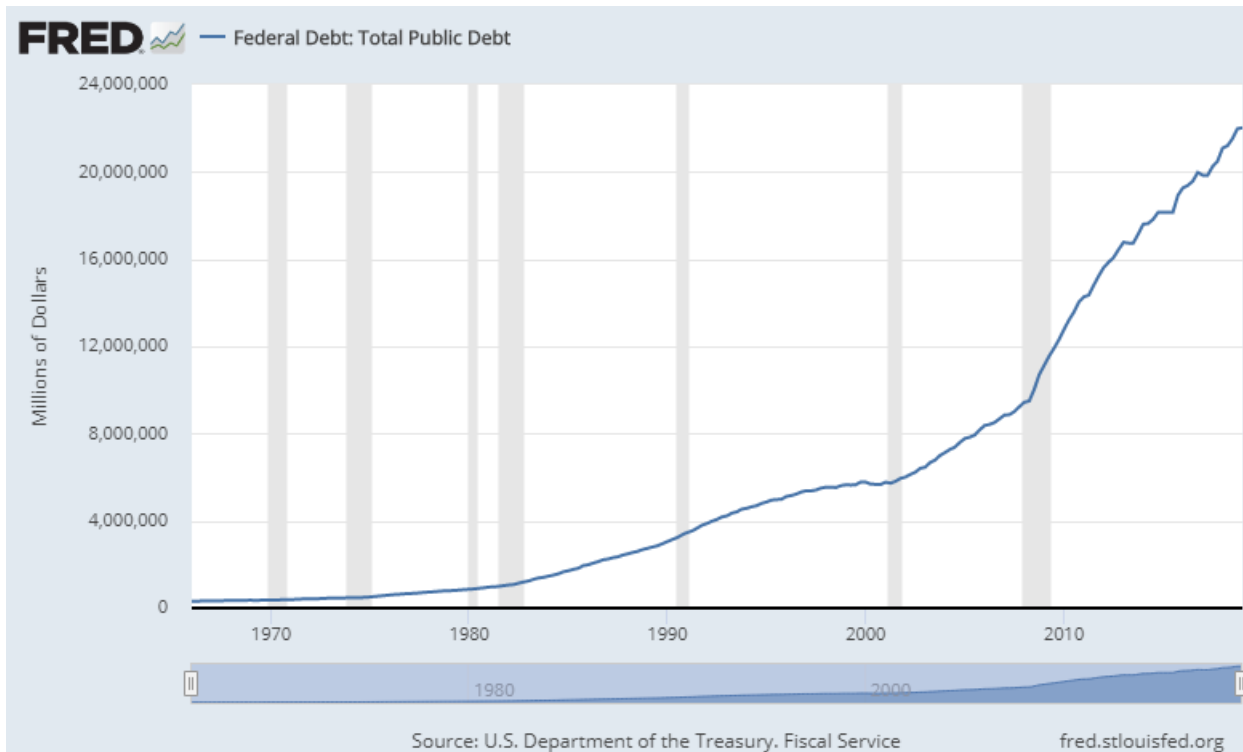


Other economic reports out last week showed U.S. building permits slowed from a seasonally adjusted annual rate of 1.299 million in May to 1.22 million in June, while housing starts dipped to 1.253 million SAAR last month. Against a consensus forecast for an unchanged reading in June, the Conference Board

reported their index of leading economic indicators declined 0.3% last month. According to the Conference Board's press release, "The US LEI fell in June, the first decline since last December, primarily driven by weaknesses in new orders for manufacturing, housing permits, and unemployment insurance claims," said Ataman Ozyildirim, Senior Director of Economic Research at The Conference Board. "For the first time since late 2007, the yield spread made a small negative contribution. As the US economy enters its eleventh year of expansion, the longest in US history, the LEI suggests growth is likely to remain slow in the second half of the year."



Markets were more encouraged by the announcement on Monday that the U.S. debt ceiling crisis appears to have been averted. The Wall Street Journal reports "Congressional and White House negotiators reached a deal to increase federal spending and raise the government's borrowing limit, securing a bipartisan compromise to avoid a looming fiscal crisis and pushing the next budget debate past the 2020 election. The deal for more than \$2.7 trillion in spending over two years, which must still pass both chambers of Congress and needs President Trump's signature, would suspend the debt ceiling until the end of July 2021. It also raises spending by nearly \$50 billion next fiscal year above current levels. The agreement forgoes the steep spending cuts initially sought by the administration, providing for about \$320 billion in spending over two years above limits set in a 2011 budget law that established automatic spending cuts, known as the sequester." Keep in mind that during this period of full employment, positive economic growth, and low inflation levels, the total federal public debt exceeds \$22 trillion (with a T):



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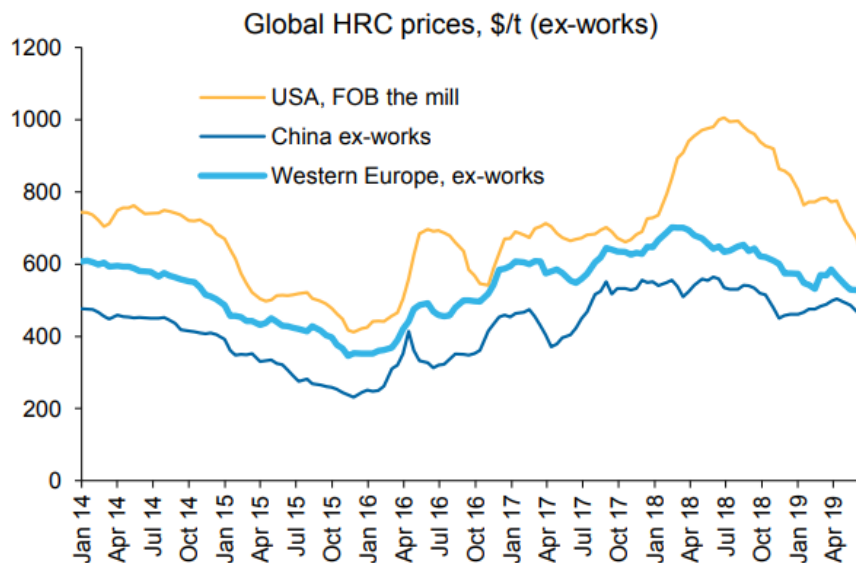
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Commodity News

Ferrous –

Fastmarkets AMM reports that their "...hot-rolled coil index, fob mill US, was calculated at \$28.36 per hundredweight (\$567.20 per short ton) on Friday July 19, little changed from \$28.41 per cwt the previous day and up 4.1% from \$27.25 per cwt a week earlier. Hot band prices were above \$28 per cwt for three consecutive days" amid reports of sheet price hikes from Nucor and ArcelorMittal. This reverses the trend in U.S. and global hot-rolled coil prices that we've seen so far this year. Macquarie analysts attributed much of the downturn in global steel pricing to the decline in auto sales, but shifting infrastructure spending patterns are also playing a role. Deloitte Advisory states that despite over \$400 billion on routine public infrastructure spent in the U.S., [annual infrastructure funding falls short of capital and maintenance requirements](#).

HRC prices are falling everywhere



Source: WSD, Macquarie Commodities Strategy, July 2019

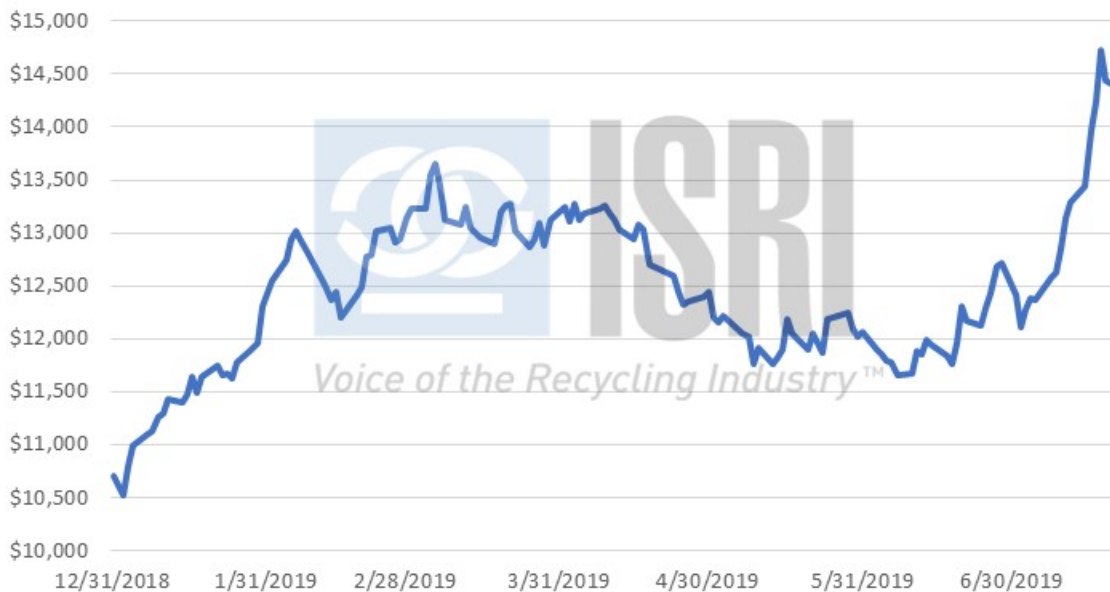
On an auto-related note, [Subaru will be recalling and scrapping over 2,100 new cars](#). The sheet metal welds separating the engine bay and passenger compartments were reportedly compromised and could fail over time. As more automated processes are integrated into industrial production, there's always the possibility that failures in the system can also scale up. The issue at Subaru was attributed to a dirty welding machine, according to press reports.

In the U.S., the American Iron and Steel Institute reported yesterday that for the week ending July 20th "domestic raw steel production was 1,872,000 net tons while the capability utilization rate was 80.4 percent. Production was 1,838,000 net tons in the week ending July 20, 2018 while the capability utilization then was 78.4 percent. The current week production represents a 0.3 percent increase from the same period in the previous year. Production for the week ending July 20, 2019 is up 1.1 percent from the previous week ending July 13, 2019 when production was 1,867,000 net tons and the rate of capability utilization was 80.2 percent."

Nonferrous –

Nickel futures at the London Metal Exchange reportedly traded as high as \$15,115 per metric ton late last week but have subsequently pulled back below \$14,400/mt. But that's still up significantly from the beginning of the year when nickel prices were trading around \$10,500/mt and the best performance among the major base metals so far this year:

LME Official 3-mo. Nickel Price (\$/mt)



The recent rise in nickel prices comes despite reports of lower stainless steel output in China and globally early in the year. According to figures from the International Stainless Steel Forum, global stainless steel melt shop production declined 2.5% year-on-year in the first quarter of 2019 to 12.46 million tons as Chinese production slipped 1.5%, output in the rest of Asia was off 5.7%, and stainless production in the U.S. was reportedly down 2.0% Y-o-Y in the first quarter.

Stainless steel melt shop steel production [000 metric tons]

Region	Quarter			+/- %	+/- %
	1/2018	4/2018	1/2019	q-o-q	y-o-y
Europe	2,014	1,748	1,899	8.7%	-5.7%
USA	718	624	704	12.7%	-2.0%
China	6,533	6,161	6,434	4.4%	-1.5%
Asia w/o China and S. Korea	2,079	1,983	1,961	-1.1%	-5.7%
Others	1,439	1,311	1,467	11.9%	2.0%
Total	12,783	11,827	12,464	5.4%	-2.5%

Looking forward, Macquarie expects "...a stabilization of growth to follow from a Chinese economic stimulus before the end of the year and the normalization of industry stock levels still remains on track to occur over the next 18 months as total market stocks continue to track lower. ... A recovery in the stainless market from 2020 onwards, combined with ongoing strong growth in nickel use in batteries for electric vehicles, should push the market back into deficit during 2020-24, leading to higher nickel prices." They're projecting average nickel prices of \$13,250/mt in 2020, \$15,550/mt in 2021, and \$17,375/mt in 2022.

Paper and Plastic –

Fastmarkets RISI reports that [recycled containerboard and linerboard prices are dropping](#) with downward pressures showing no signs of relenting. BMO Capital Markets reports that [U.S. box demand remains weak but still above expectations](#). Soft board prices in China may not be why box demand has been weakening in the U.S. but they're likely still being driven by weakening consumer demand and U.S.-China

trade relations. Despite weakening demand, containerboard projects continue get the greenlight as [Crossroads Paper announced plans to build a recycled containerboard mill near Salt Lake City, UT](#). This is an interesting project in that containerboard capacity in the Rocky Mountains region is in short supply despite having available recycled feedstock. At 1,000 tons per day capacity, this mill would certainly be able to handle a considerable amount of feedstock and may provide another warehousing hub for last mile delivery services.

Some PET sheet producers are seeking help from the U.S. Government to pursue [anti-dumping cases on PET imports](#) from Oman, South Korea, and Mexico. This may be an uphill climb as the prices of virgin resins are key drivers for price suppression. Plastics News reports that private investment in plastics production is slowing down. [Venture capitalists are looking for strategic purchases to control specific strata of the plastics supply chain](#). As more environmental concerns take hold in the public mind, brands are expected to be pushed to absorb more of the production of plastic packaging into their own operations. Last but not least, in case you were concerned that the U.S. is the only exporter being impacted by the shifting global plastic scrap marketplace, here's the trend in EU plastic scrap exports:

EU EXTRA EU-28 Plastic Scrap Exports by Major Destination

Metric tons

Source: Eurostat

Destination	2016	2017	2018	Jan-May 2018	Jan-May 2019
MALAYSIA	153,610	249,530	404,135	227,496	158,983
TURKEY	33,804	126,964	270,340	126,305	150,712
HONG KONG	765,117	409,763	211,876	78,463	108,479
INDIA	127,913	108,393	158,277	72,945	77,327
INDONESIA	42,752	49,384	190,933	47,852	75,271
SWITZERLAND	39,786	53,140	57,871	20,730	19,673
VIETNAM	134,413	249,898	187,378	166,418	19,370
UKRAINE	14,712	26,181	30,569	12,562	16,918
PAKISTAN	25,799	22,635	33,888	15,302	15,301
UNITED STATES	34,519	37,192	34,835	15,564	12,781
TAIWAN	15,296	22,501	99,072	26,243	11,928
KOREA, REPUBLIC OF (SOUTH KOREA)	8,344	10,665	28,339	10,424	11,375
CHINA (PEOPLE'S REPUBLIC OF)	1,636,282	1,056,888	64,662	33,799	10,217
SERBIA	10,540	11,477	16,629	7,119	7,587
BOSNIA AND HERZEGOVINA	1,396	6,570	17,153	5,966	6,721
NORWAY	1,584	3,099	5,218	1,912	3,784
SAUDI ARABIA	9,333	9,163	5,219	3,275	3,529
THAILAND	4,258	16,344	39,676	24,914	3,485
YEMEN	5,689	9,377	5,073	1,980	3,399
RUSSIAN FEDERATION (RUSSIA)	1,486	1,668	2,133	661	3,255
BELARUS (BELORUSSIA)	718	1,726	886	392	2,412
CANADA	2,248	2,249	4,750	1,756	2,165
AUSTRALIA	3,108	3,425	4,552	1,696	1,866
NEW ZEALAND	3,762	3,577	3,433	1,302	1,658
SINGAPORE	3,023	2,565	2,853	1,555	1,557
BANGLADESH	8,569	3,880	4,715	2,414	1,495
UZBEKISTAN	0	0	271	0	1,487

MOROCCO	4,885	3,040	3,779	1,293	1,376
UNITED ARAB EMIRATES	3,937	6,077	3,329	1,837	1,370
OMAN	3,036	4,022	3,229	1,929	1,042
ISRAEL	2,247	1,390	2,535	1,001	1,039
MEXICO	1,651	3,055	2,765	1,920	921
OTHERS	3,069	4,317	2,762	1,247	1,988
TOTAL	3,119,161	2,546,877	1,927,667	931,850	744,792

This Week's Story

The king wanted to go fishing, so he asked the royal meteorologist for the weather forecast. The royal forecaster assured him that there was no chance of rain.

After hearing the weather forecast, the king decided that He and the Queen would go fishing. On the way, the King met a man with a fishing pole riding on a donkey, and he asked the man if the fish were biting. The fisherman said, "Your Majesty, you should return to the palace! In just a short time, I expect a huge rain storm."

The king replied: "I hold the palace meteorologist in high regard. He is always right!" So the king continued on his way. However, in a short time a torrential rain fell from the sky. The King and Queen were totally soaked. Furious, the king returned to the palace and gave the order to fire the meteorologist.

Then he summoned the fisherman and offered him the prestigious position of royal weather forecaster. The fisherman said, "Your Majesty, I do not know anything about forecasting. I obtain my information from my donkey. If I see my donkey's ears drooping, it means with certainty that it will rain."

So the king hired the donkey. And thus began the practice of hiring dumb asses to work in influential positions of government.

The practice is unbroken to this day.

This Week's Quote

"Safety from external danger is the most powerful director of national conduct. Even the ardent love of liberty will, after a time, give way to its dictates."

-- Alexander Hamilton

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