

March 4, 2019

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This Morning

This morning, the major commodity price indexes were mixed as firmer crude oil futures were offset by mostly weaker precious and industrial metal prices. But nickel prices bucked the trend among the major base metals, with SHFE nickel settling 1.5% higher in Shanghai today while LME 3-mo. nickel traded as high as \$13,405/mt (= \$6.08/lb.) this morning. In New York, COMEX copper futures slipped to around \$2.90 per pound in early trading after having touched \$2.9775 early last week, while NYMEX crude oil futures rebounded to over \$56 per barrel. Reuters reports that "Oil prices rose on Monday, buoyed by OPEC output cuts and reports that the United States and China are inching closer to a deal on a tariff row that has slowed global economic growth." In foreign exchange trading, the euro slipped to around \$1.134 ahead of European Central Bank meetings this week while the British pound was steady at \$1.320.

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Selected Primary Commodity Prices: March 4, 2019

	Last	CHG	% CHG	Prior	Open	High	Low
COMEX Copper May (\$/lb.)	2.900	-0.032	-1.1%	2.932	2.93	2.955	2.897
COMEX Gold Apr	1,288.5	-10.7	-0.8%	1,299.2	1294.4	1,298.1	1,287.3

(\$/to)							
COMEX Silver May (\$/to)	15.17	-0.1	-0.6%	15.26	15.23	15.30	15.1
NYMEX Light Sweet Crude Apr (\$/bbl)	56.20	0.4	0.7%	55.80	55.83	56.42	55.81
SHFE Aluminum May (RMB/mt)	13,710	60	0.4%	13,650	13,670	13,750	13,660
SHFE Copper Apr (RMB/mt)	50,340	70	0.1%	50,270	50,530	50,810	49,980
SHFE Nickel May (RMB/mt)	104,700	1,540	1.5%	103,160	104,690	105,630	103,920
SHFE Zinc Apr (RMB/mt)	22,185	225	1.0%	21,960	22,305	22,350	22,045

The Week Ahead

On the economic calendar this week, the big monthly jobs report will be in focus and the consensus forecast is that U.S. nonfarm payrolls increased by around 173,000 last month while the unemployment rate dipped to 3.8%. Other key U.S. reports to keep an eye on this week will cover construction spending, trade, labor productivity, and housing starts & building permits. Overseas, China's National People's Congress holds its annual meeting in Beijing this week, with the Financial Times reporting: "China takes center stage this week when premier Li Keqiang announces the government's 2019 economic growth target and five-year development plan at the annual meeting of the National People's Congress in Beijing. Economists expect a growth target of about 6 per cent, down from about 6.5 per cent for 2018." In Europe this week, the European Central Bank meets with no rate changes expected, while data releases will include German factory orders and retail sales, French and Italian industrial production, and Italian GDP. 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: March 4-8, 2019

Date	Time	Release	Period	Consensus	Prior
Mar 04	10:00	Construction Spending	Dec	-0.3%	0.8%
Mar 05	10:00	ISM Non-Manufacturing Index	Feb	57.2	56.7
Mar 05	10:00	New Home Sales	Dec	NA	657K
Mar 05	14:00	Treasury Budget	Jan	NA	\$49.2B
Mar 06	07:00	MBA Mortgage Applications Index	03/02	NA	5.3%
Mar 06	08:15	ADP Employment Change	Feb	175K	213K
Mar 06	08:30	Trade Balance	Dec	-\$57.8B	-\$49.3B
Mar 06	10:30	EIA Crude Oil Inventories	03/02	NA	-8.6M
Mar 06	14:00	Fed's Beige Book	Mar	NA	NA
Mar 07	08:30	Initial Claims	03/02	224K	225K
Mar 07	08:30	Continuing Claims	02/23	NA	1805K
Mar 07	08:30	Unit Labor Costs - Rev.	Q4	1.5%	NA
Mar 07	08:30	Productivity - Rev.	Q4	1.7%	NA
Mar 07	10:30	EIA Natural Gas Inventories	03/02	NA	-166 bcf
Mar 07	15:00	Consumer Credit	Jan	\$17.0B	\$16.6B
Mar 08	08:30	Nonfarm Payrolls	Feb	173K	304K
Mar 08	08:30	Nonfarm Private Payrolls	Feb	165K	296K
Mar 08	08:30	Avg. Hourly Earnings	Feb	0.3%	0.1%

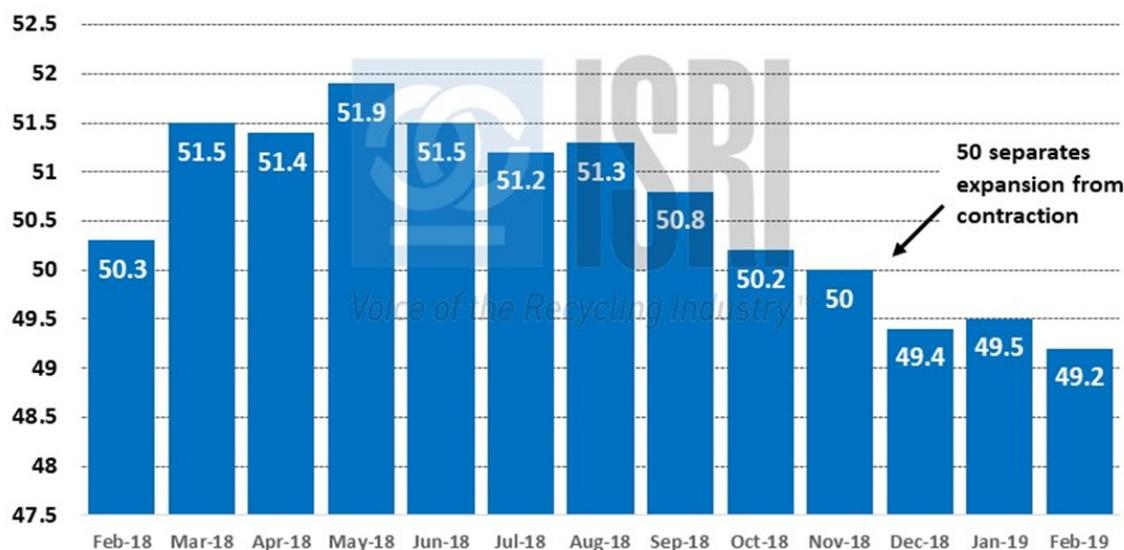
Date	Time	Release	Period	Consensus	Prior
Mar 08	08:30	Unemployment Rate	Feb	3.8%	4.0%
Mar 08	08:30	Average Workweek	Feb	34.5	34.5
Mar 08	08:30	Housing Starts	Jan	1180K	1078K
Mar 08	08:30	Building Permits	Jan	1280K	1326K

Economic Week in Review

According to figures released from China's National Bureau of Statistics, Chinese manufacturing PMI decreased to 49.2 in February, indicating a contraction in Chinese manufacturing for the third month in a row. That's significant because commodity investors pay close attention to the Chinese PMI numbers and because of the close connection between manufacturing output and scrap demand.

China Official Manufacturing PMI

Source: National Bureau of Statistics

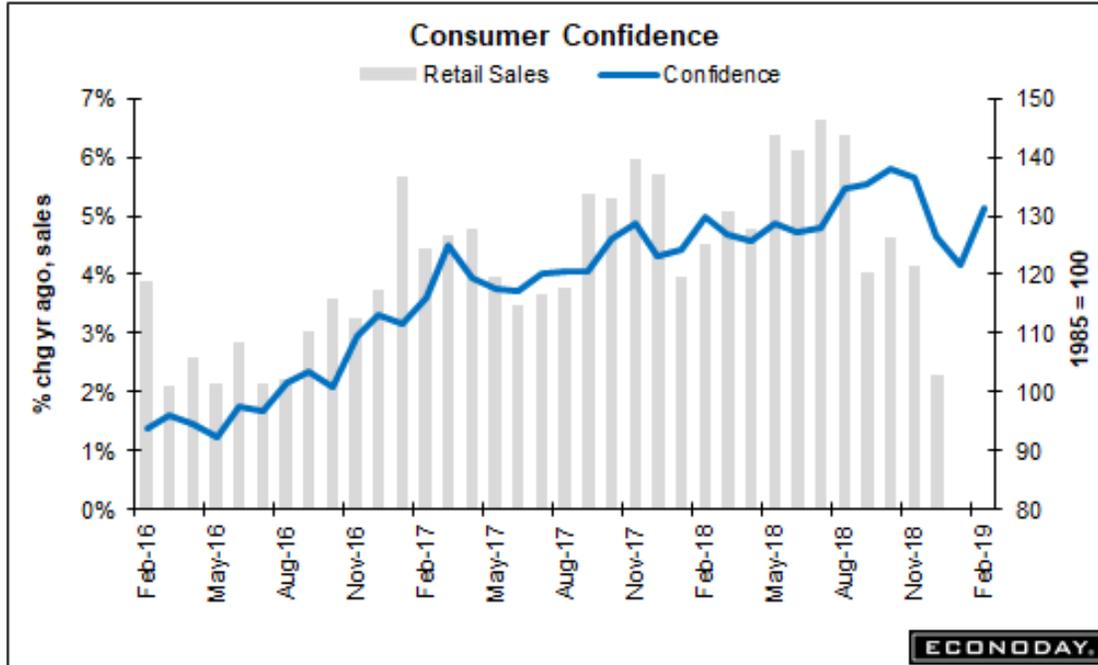


The U.S. economy expanded faster than what most economists were expecting in the fourth quarter of 2018, with the Bureau of Economic Analysis reporting 4th quarter real (adjusted for inflation) grew 2.6%, beating the consensus forecast for 2.3% growth:

Category	Q4	Q3	Q2	Q1	Q4
GDP	2.6%	3.4%	4.2%	2.2%	2.3%
Inventories (change)	\$97.1B	\$89.8B	-\$36.8B	\$30.3B	\$16.1B
Final Sales	2.5%	1.0%	5.4%	1.9%	3.2%
PCE	2.8%	3.5%	3.8%	0.5%	3.9%
Nonresidential Inv.	6.2%	2.5%	8.7%	11.5%	4.8%
Structures	-4.2%	-3.4%	14.5%	13.9%	1.3%
Equipment	6.7%	3.4%	4.6%	8.5%	9.9%
Intellectual Property	13.1%	5.6%	10.5%	14.1%	0.7%
Residential Inv.	-3.5%	-3.6%	-1.3%	-3.4%	11.1%
Net Exports	-\$963.2B	-\$949.7B	-\$841.0B	-\$902.4B	-\$899.2B
Export	1.6%	-4.9%	9.3%	3.6%	6.6%

Imports	2.7%	9.3%	-0.6%	3.0%	11.8%
Government	0.4%	2.6%	2.5%	1.5%	2.4%
GDP Price Index	1.8%	1.8%	3.0%	2.0%	2.5%

Consumer confidence in February soared past expectations after January's decline during the government shutdown. Of note, the advance monthly retail sales report for December 2018 has sales down 1.2 percent from November but up 2.3 percent from December 2017. Overall 2018 sales are predicted to be up 5.0 percent from 2017. CME Group analysts remark that the consumer confidence index has shown more volatility than the consumer sentiment index but both show that the rebound after the shutdown is still relatively low compared to the previous couple of years.



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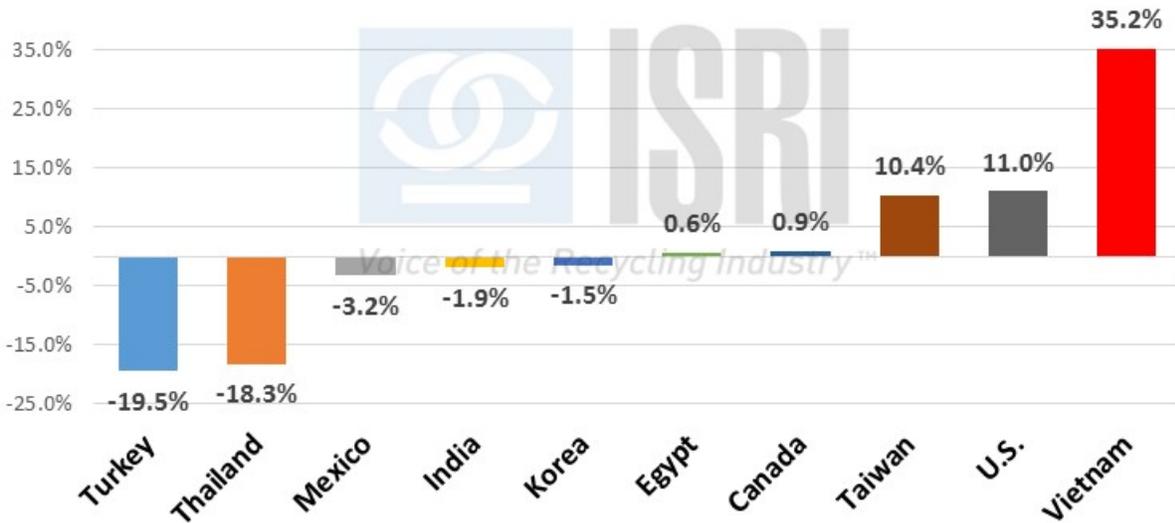
Commodity News

Ferrous – The World Steel Association reported last week that China's steel output increased 4.3 percent year-on-year in January to just over 75 million tons. 75 million tons in one month. For comparison's sake, the U.S. produced about 86 million tons of steel for the entire year last year. Of note, the worldsteel

numbers show a wide disparity in steel production trends among the major consumers of U.S. ferrous scrap. While steel production in the U.S. reportedly increased 11% year-on-year in January 2019 to more than 7.6 million metric tons, worldsteel reports that Turkish steel output plunged 19.5% lower during the corresponding period while output in Vietnam surged 35% higher. Here's the year-on-year trend in steel production for the month of January for the major U.S. ferrous scrap markets:

Change in Steel Production in Major U.S. Ferrous Scrap Markets, Jan 2019 vs. Jan 2018 (%)

Source: World Steel Association

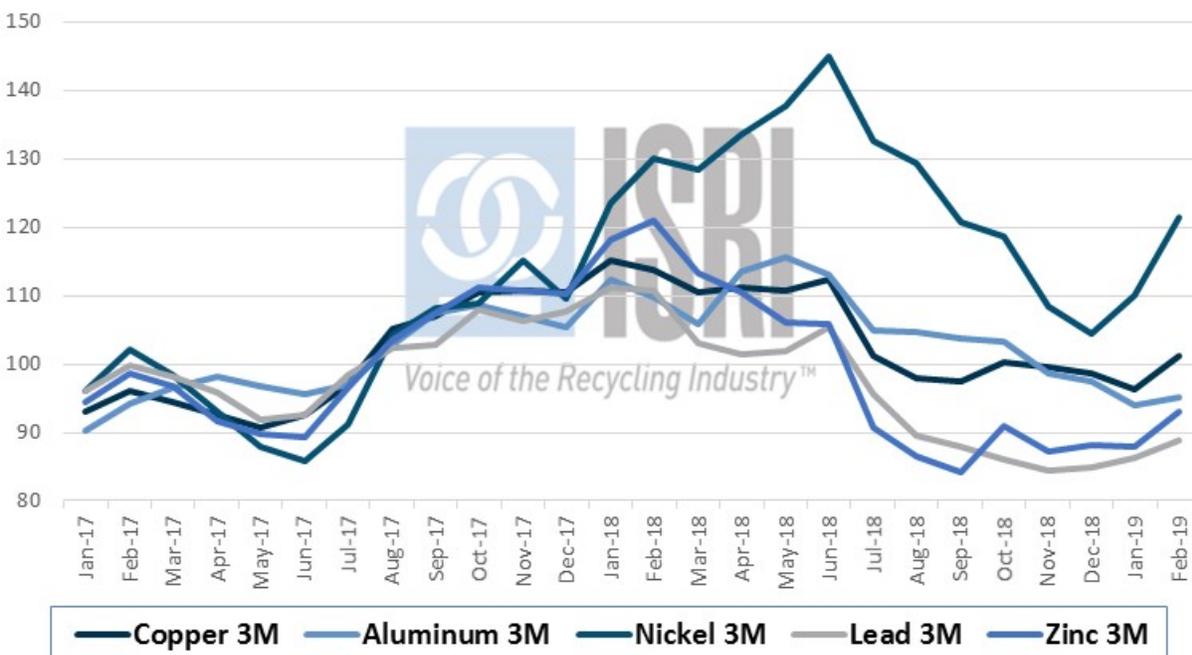


After a slow start to the year, published sources indicate that Turkish demand and pricing have shown signs of improvement lately. Meanwhile, here in the U.S. Fastmarkets AMM reports that “Ferrous scrap market participants... received no order cancellations from mills on outstanding February orders, cementing expectations that all scrap grades will log at least a \$20-per-gross-ton price increase in the March domestic trade.”

Nonferrous – [Falling stockpiles of industrial metals are drawing investors and fueling a rally prices.](#) As statements from the U.S. administration put a Sino-U.S. trade agreement on the horizon, investors have increased their activity on the many base metals. 2018 had been a decoupling year for nonferrous metals. Nickel prices soared and fell quite dramatically during the year while the other major base metals dealt with a tumultuous decline.

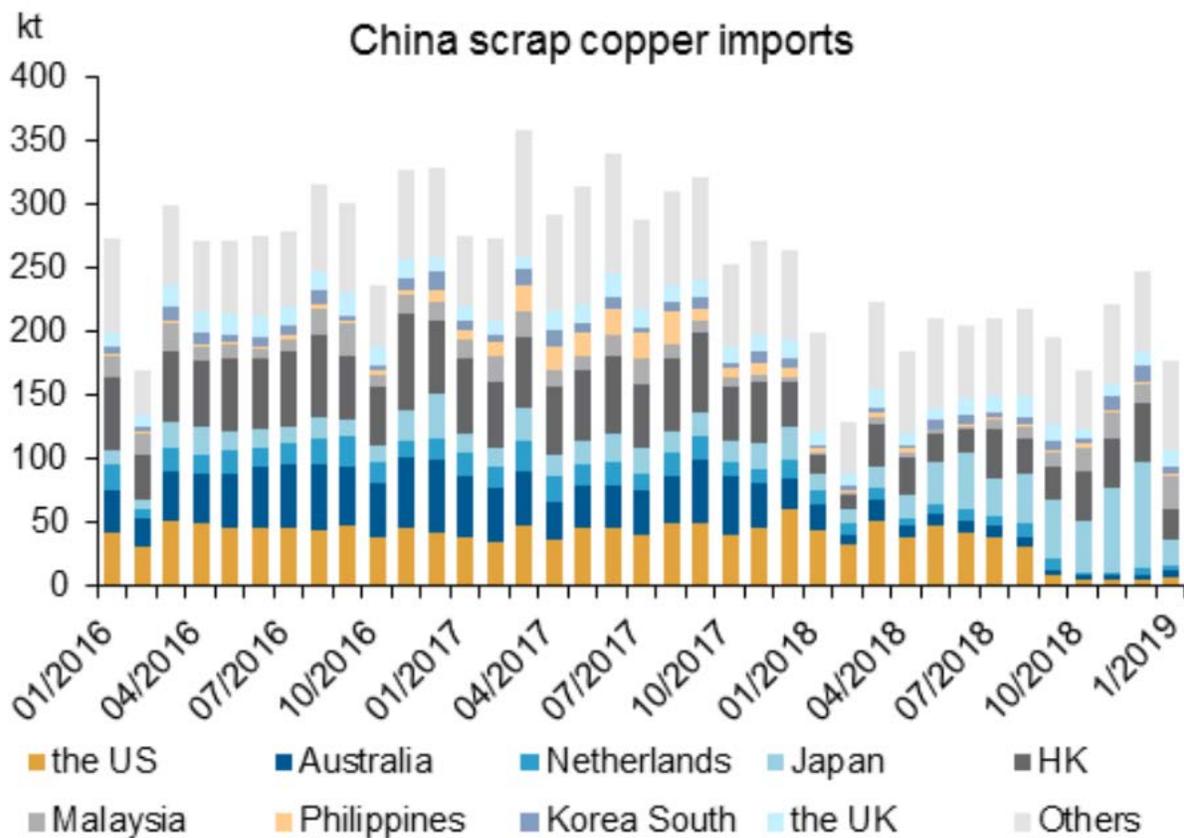
Monthly LME Base Metal Prices from Jan 2017 - Feb 2018 (indexed to 2017 annual average prices)

*Fastmarkets, London Metals Exchange



The boom in electric vehicle and battery development has contributed to nickel price volatility. However, nickel stockpiles have declined nearly 50% since 2018 according to data analysis from Capital Economics. Slowdowns in mining investments have investors seeing diminishing supply potential as well. The [International Stainless Steel Forum's forecast](#) expects that consumption will rise during the first two quarters of 2019, particularly for hot rolled flat and long product. However, if meltshop production numbers continue their upward trajectory, the supply and demand relationship for finished stainless steel should remain relatively healthy with the real drama being in alloying metal prices and scrap availability.

Copper prices have made a turnaround in 2019 as talks of ending the trade war have calmed fears in the market. No. 2 copper scrap prices tumbled in the second half of 2018 with a severe drop in demand from Chinese copper scrap buyers. Macquarie Research reports that total Chinese imports of copper scrap plunged 28 percent month-on-month in January to 177,000 metric tons, while Chinese ferrous scrap imports dwindled to just 28,000 tons in January, down 76 percent from the prior month as China increasingly relies on imports of ores and concentrates to meet its raw material needs.



Sources: China Customs, Macquarie.

Paper and Plastic –

Transportation logistics and artificial pricing mechanisms are filling up the pipeline for paper and plastics processors. Several U.S. states have introduced new or revised legislation on bottle bills with many of the revisions increasing the redemption amount for bottles. Maine has a bill that implements a post-consumer content level that progressively increases over time.

California has [a state bill that's been introduced to promote a shift to dual stream recycling](#). The bill may be heard in committee in late March. California's Department of Resources Recycling and Recovery estimates that two-thirds of their curbside recyclables were exported to foreign markets. Considering the spike in Chinese demand for Japanese recovered news grades, a fundamental shift in residential curbside collections may reopen the gates of a declining market niche. However, transportation costs may throw a wrench in such a cost calculation as the labor shortage in truck drivers doesn't seem to be easing anytime soon.

Many [European economies may be adopting more EPR programs](#) as evidenced by a recent European Parliament event on the PET industry and the circular economy. However, there is also a review on how recycling is measured and that may be an opportunity to make processing output, rather than input, the focal point of diversion rates.

For more information, please contact ISRI Research Analyst [Bernie Lee](#).

Transportation: Container Market Troubles

The Wall Street Journal reports that "...sagging global trade, rising fuel costs and stubbornly low freight rates have shipping lines facing new headwinds in an elusive search for stability." According to the WSJ:

“Shipping executives say uncertainty over the availability of cleaner fuels makes price estimates this year little more than a guessing game. “It has turned the shipping market, the transportation market, into a casino,” said Andreas Hadjiyiannis, president of the Cyprus Union of Shipowners.”

Reliability on trans-Pacific routes has been especially bad this year, according to JOC.com: “Schedule reliability for trans-Pacific ocean freight has plunged to new lows on the eve of crucial annual service contract negotiations that are already facing headwinds from shipper resistance to paying higher fuel costs tied to the International Maritime Organization’s (IMO’s) impending global low-sulfur fuel mandate...

According to two of the primary tracking instruments for carrier on-time performance, trans-Pacific schedule reliability fell below 40 percent in January despite a strengthening of freight rates on the Asia-US West Coast trade that rose above \$2,000 per FEU as front loading ahead of the now postponed tariff increases combined with the pre-Chinese New Year shipping peak kept up demand...

That demand saw terminal operators in Los Angeles-Long Beach struggling with record container dwell times, a doubling of rail dwell times, and near-record truck turn times. LA-Long Beach handled more than 38 percent of US containerized imports in 2018, according to PIERS, a JOC.com sister product within IHS Markit. Volume has now begun to ease, and port sources anticipate full recovery by mid-March.”

This Week’s Story

A man walked into a curio shop and was shopping around. After a while, he chose a brass rat and brought it up to the counter.

"That will be \$10 for the brass rat and \$1,000 for the story behind it," said the store owner.

"Thanks, but I'll just pay the \$10 and pass on the story." He purchased the brass rat and left the store.

As he was walking down the street, he started noticing all sorts of rats following him. The further he walked, the more rats followed. He walked down to the wharf and still more rats came out and followed him. So he decided to walk out into the water. All the rats followed him in and drowned.

He went back to the store right after. "Ah-ha!" said the store owner. "You've come back for the story, right?" "Nope," said the man. "Do you have any brass politicians?"

This Week’s Quote

“If you're not making mistakes, then you're not doing anything. I'm positive that a doer makes mistakes.”

-- John Wooden

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