

May 29, 2019

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This Morning

Copper prices continued to tumble in early trading this morning with COMEX Jul copper dipping as low as \$2.66 per pound, down from around \$2.70 per pound before the Memorial holiday break. Base metal prices lost ground in London and Shanghai earlier today, as most-actively traded SHFE nickel futures settled nearly 2 percent lower. At the LME, 3-mo. aluminum was holding around \$1,800 per ton this morning while 3-mo. copper dipped below \$5,900/mt. A stronger dollar, weaker crude oil prices, and continued anxiety about the U.S.-China trade war were all cited as sources of concern. Reuters reports that "oil prices fell more than 2% on Wednesday as China signaled it would use the rare earths card in its trade war with the United States, stoking concerns that an ongoing stand-off could hurt crude demand." In New York, NYMEX crude oil futures were down to around \$58 per barrel in early trading. In forex trading, the euro and British pound eased to around \$1.115 and \$1.264, respectively, while the dollar was buying 109.33 Japanese yen.

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Selected Primary Commodity Prices: May 29, 2019

| | Last | CHG | % CHG | Prior | Open | High | Low |
|--------------------------------------|---------|--------|-------|---------|--------|---------|---------|
| COMEX Copper Jul (\$/lb.) | 2.6645 | -0.032 | -1.2% | 2.696 | 2.70 | 2.698 | 2.661 |
| COMEX Gold Aug (\$/to) | 1,288.4 | 5.9 | 0.5% | 1,282.5 | 1284.3 | 1,290.3 | 1,283.8 |
| COMEX Silver Jul (\$/to) | 14.35 | 0.0 | 0.2% | 14.32 | 14.33 | 14.40 | 14.3 |
| NYMEX Light Sweet Crude Jul (\$/bbl) | 57.94 | -1.2 | -2.0% | 59.14 | 59.07 | 59.09 | 57.66 |
| SHFE Aluminum Jul (RMB/mt) | 14,220 | -45 | -0.3% | 14,265 | 14,245 | 14,300 | 14,165 |
| SHFE Copper Jul (RMB/mt) | 46,990 | -240 | -0.5% | 47,230 | 47,160 | 47,230 | 46,780 |
| SHFE Nickel Jul (RMB/mt) | 98,880 | -1,880 | -1.9% | 100,760 | 99,870 | 99,960 | 98,310 |
| SHFE Zinc Jul (RMB/mt) | 20,650 | -35 | -0.2% | 20,685 | 20,690 | 20,790 | 20,520 |

This Week

In this holiday-shortened week in the U.S., trade concerns remain squarely in focus both with respect to China and the United States-Mexico-Canada Agreement (USMCA). The Financial Times reports “U.S. vice-president Mike Pence will travel to Ottawa to meet Canada’s prime minister Justin Trudeau about accelerating the ratification of the new {USMCA} trade agreement.” Investors will also be paying close attention to the latest data on Chinese manufacturing PMI, Japanese unemployment, retail sales, and industrial production, along with German inflation and unemployment figures. In the United States, updated releases are due out on international trade, 1Q real GDP, pending home sales, personal income & spending, inflation, and consumer sentiment. The consensus forecasts are for a slight downward revision in first quarter GDP growth (3.1%) and slower personal spending in April (0.2%), but elevated consumer sentiment at 101.5 in May. Enjoy the rest of your 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: May 29-31, 2019

| Date | Time | Release | Period | Consensus | Prior |
|--------|-------|--------------------------------------|--------|-----------|----------|
| May 29 | 07:00 | MBA Mortgage Index | 05/25 | NA | 2.4% |
| May 30 | 08:30 | Adv. Intl. Trade in Goods | Apr | -\$72.0B | -\$71.4B |
| May 30 | 08:30 | Adv. Retail Inventories | Apr | NA | -0.3% |
| May 30 | 08:30 | Adv. Wholesale Inventories | Apr | 0.1% | 0.0% |
| May 30 | 08:30 | Initial Claims | 05/25 | 217K | 211K |
| May 30 | 08:30 | Continuing Claims | 05/18 | NA | 1676K |
| May 30 | 08:30 | GDP - Second Estimate | Q1 | 3.1% | 3.2% |
| May 30 | 08:30 | GDP Deflator - Second Estimate | Q1 | 0.9% | 0.9% |
| May 30 | 10:00 | Pending Home Sales | Apr | 1.0% | 3.8% |
| May 30 | 11:00 | EIA Natural Gas Inventories | 05/25 | NA | +100 bcf |
| May 31 | 08:30 | Personal Income | Apr | 0.3% | 0.1% |
| May 31 | 08:30 | Personal Spending | Apr | 0.2% | 0.9% |
| May 31 | 08:30 | PCE Price Index | Apr | 0.3% | 0.2% |
| May 31 | 08:30 | Core PCE Price Index | Apr | 0.2% | 0.0% |
| May 31 | 10:00 | Univ. of Michigan Consumer Sentiment | May | 101.5 | 97.2 |

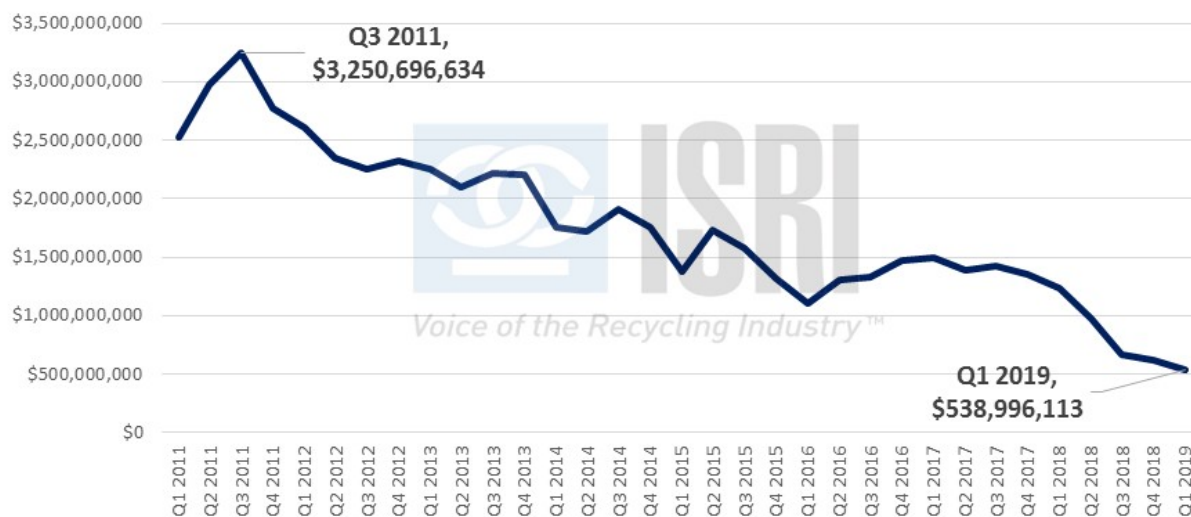
Economic News

The unfolding U.S.-China trade dispute remains the key question for the global economy right now. Forbes reports that both sides are preparing for a prolonged conflict as “Nomura Securities gave 65% odds that 25% tariffs on an additional \$300 billion worth of Chinese goods will go into place by the third quarter. As it stands, the U.S. Trade Representative is reviewing the legalities of those tariffs and will hold public hearings on them in early June.”

U.S. scrap processors, exporters, and recycling equipment manufacturers remain caught in the middle of the current trade hostilities. On the scrap commodities front, the official U.S. trade statistics show that, as compared to the peak period in 2011 when quarterly U.S. scrap exports to China exceeded \$3 billion, by the first quarter of 2019 that figure had dropped to less than \$540 million. Put another way, U.S. scrap exports to mainland China exceeded \$11.5 billion in 2011 and are currently on course to come in at less than \$2 billion in 2019, according to ISRI estimates.

Quarterly Value of Total U.S. Scrap Exports to Mainland China, Q1 2011 - Q1 2019 (US\$)

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



Of course, trade worries are also a major concern for monetary policymakers and financial markets. Federal Reserve officials say they are committed to a “patient” policy stance and are holding rates steady for now. Despite an escalation in trade war rhetoric from both the U.S. and Chinese leadership, the FOMC members saw global risks and uncertainties having moderated. Of note, amid the raising of tariffs, China also holds \$1.2 trillion in U.S. Treasuries (nearly 20% of the total foreign owned debt). Business Insider recently reported [that the Chinese government ran a small scale test by selling \\$20 billion of U.S. Treasuries](#) in March. Meanwhile, the Wall Street Journal reports that “the yield on the benchmark 10-year U.S. Treasury note settled Tuesday at 2.268%, its lowest close since Sept. 2017.”

On the manufacturing front, Chinese industrial production decelerated to 5.4 percent growth in April, which was off nearly one percent from consensus expectations. The decline in growth was primarily attributed to manufacturing output falling from 9.0% to 5.3%. Automobile production was the main factor in China’s manufacturing output decline. In comparison, U.S. industrial production in April fell 0.5%, a drop that was unexpectedly matched in U.S. manufacturing output. However, quarterly e-commerce sales rose 3.6% for a year-on-year increase of 12.4% as e-commerce sales continue to capture a bigger slice of the overall retail market.

| Category | APR | MAR | FEB | JAN | DEC |
|------------------------------|-------|-------|-------|-------|-------|
| Industrial Production | | | | | |
| Total Index | -0.5% | 0.2% | -0.5% | -0.4% | 0.0% |
| Manufacturing | -0.5% | 0.0% | -0.5% | -0.6% | 0.6% |
| Utilities | -3.5% | 2.2% | 0.7% | 0.8% | -6.8% |
| Mining | 1.6% | -0.4% | -1.0% | -0.2% | 2.1% |
| Capacity Utilization | | | | | |
| Total Industry | 77.9% | 78.5% | 78.5% | 79.0% | 79.5% |
| Manufacturing | 75.7% | 76.2% | 76.2% | 76.7% | 77.3% |

Notwithstanding the trade worries, U.S. consumer sentiment reportedly remains healthy. Briefing.com reports “The Conference Board's Consumer Confidence Index increased to 134.1 in May... The key takeaway from the report is that it shows consumer confidence has not been impacted yet by the increased trade tension between the U.S. and China, which includes an escalation in tariff rates on Chinese imports that could ultimately be passed along to the consumer.”

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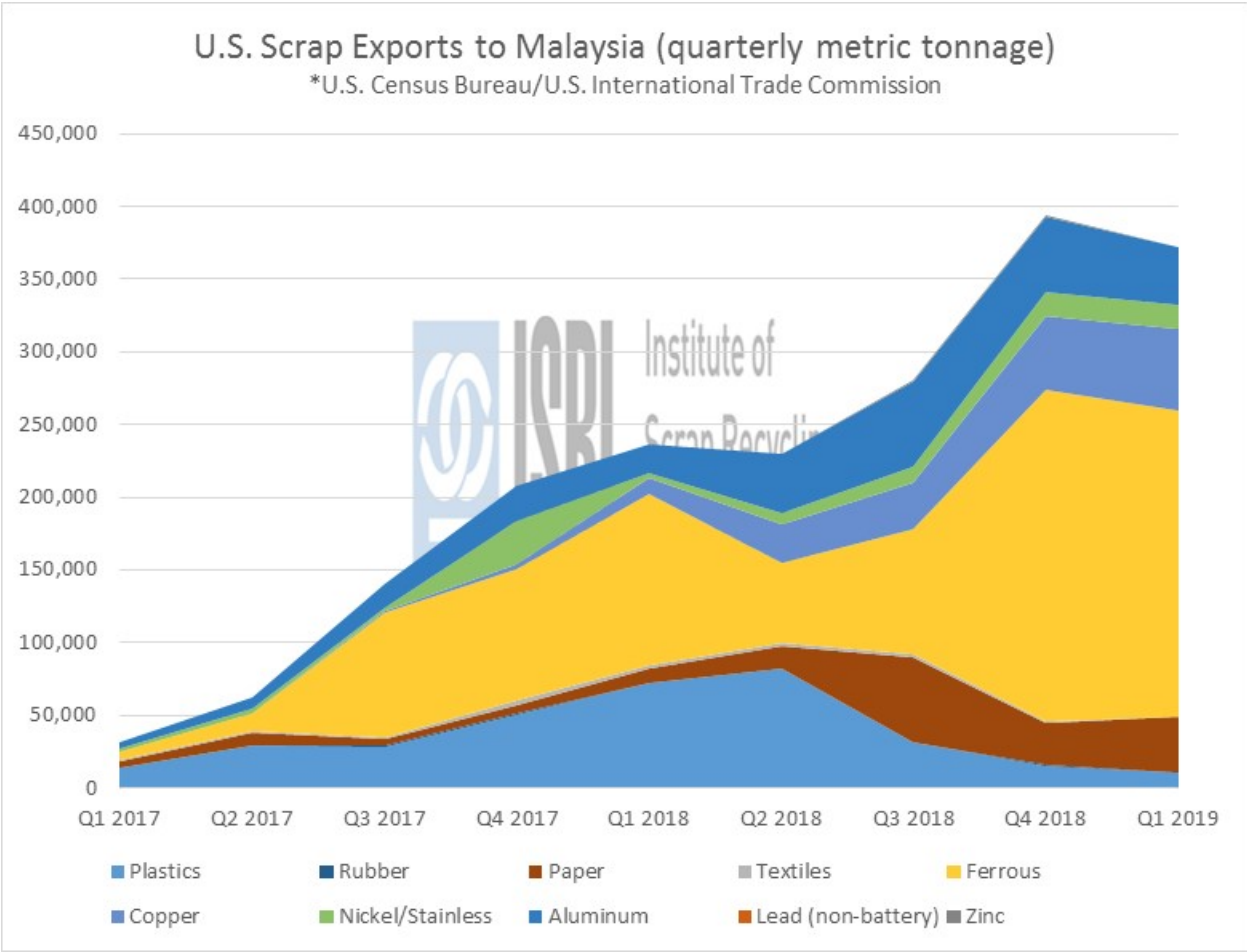
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Commodity News

The American Iron and Steel Institute reports that “adjusted year-to-date {domestic raw steel} production through May 25, 2019 was 39,417,000 net tons, at a capability utilization rate of 81.8 percent. That is up 6.4 percent from the 37,033,000 net tons during the same period last year, when the capability utilization rate was 76.6 percent.” But steel production in China has reportedly been rising even faster than in the US. According to the World Steel Association, China produced just over 85 million tons of steel in April 2019 alone, an increase of 12.7 percent as compared to April 2018. (For comparison's sake, worldsteel reports that the United States produced 86.7 million tons of steel in all of 2018.)

China's import ban and reduced contamination thresholds are creating significant demand voids in global trade that have raised the importance of exploring alternative markets. One of those growth markets has been Malaysia.

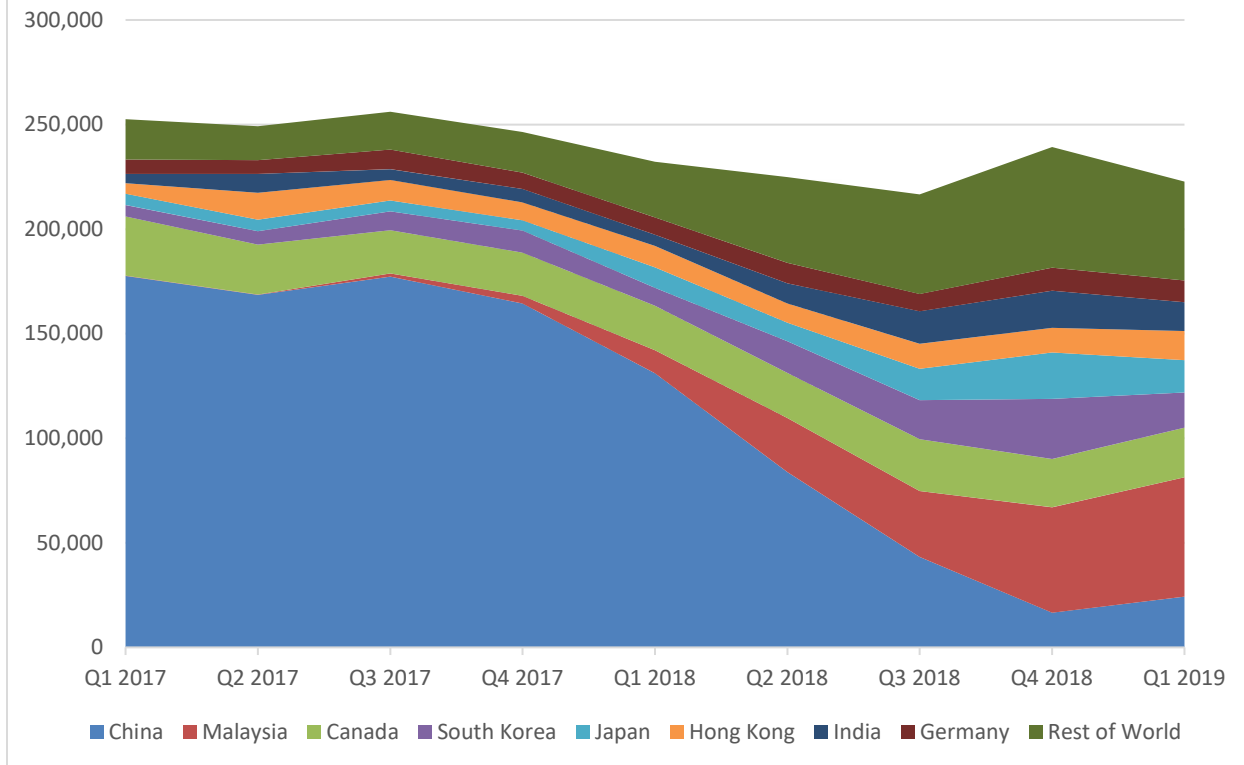


In purchasing power parity, Malaysia ranks 26th in the world according to 2017 USD valuation and approximately 55% of their GDP is through household consumption. Over half of their economic output is service related and their import/export ratio with the U.S. is fairly balanced. The chart above shows that, during the spring of 2017, U.S. ferrous and plastic scrap exports to Malaysia began a dramatic rise. Anticipation of China’s Blue Sky initiative prompted many paper mills to begin investing heavily in or exporting their production infrastructure to alternative markets. The increase in recovered paper exports to Malaysia starting in Q2 2018 is indicative of that mill infrastructure coming online.

Meanwhile, by the end of 2018, the dramatic fall in copper scrap exports to China resulted in **Malaysia taking the top spot for U.S. copper scrap exports:**

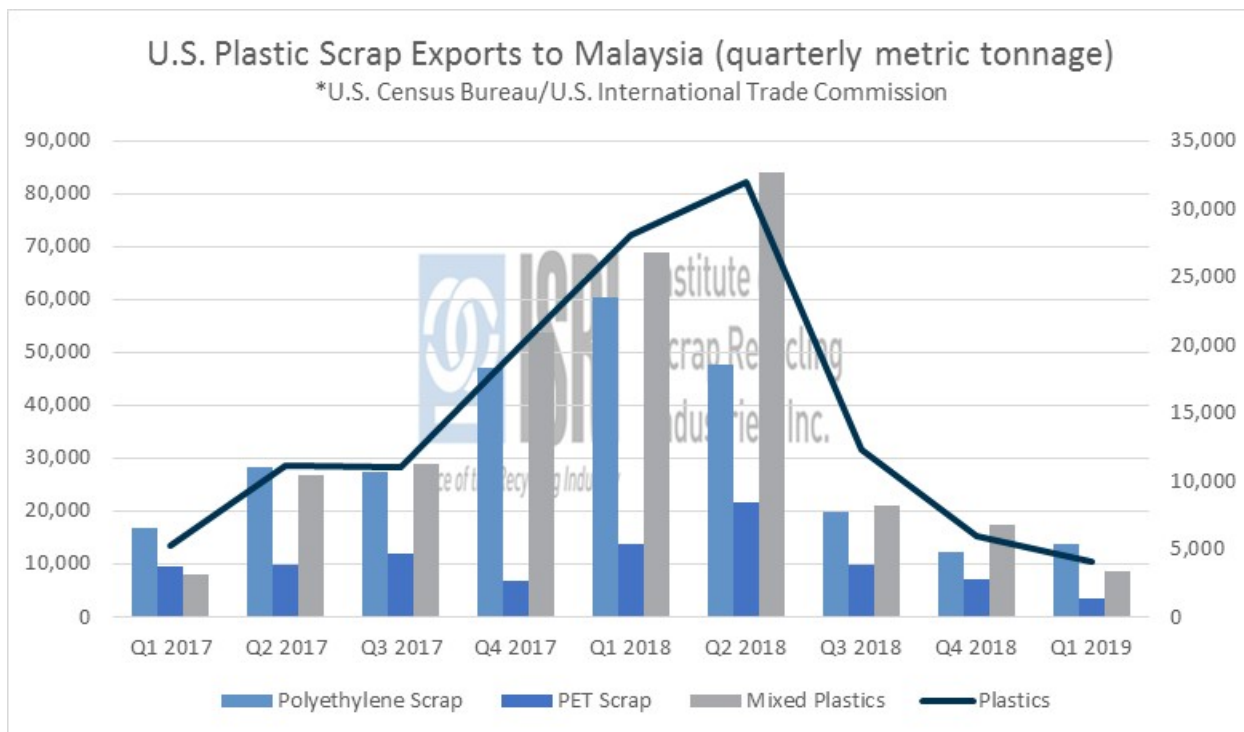
U.S. Copper Scrap Exports (quarterly metric tonnage)

*U.S. Census Bureau/U.S. International Trade Commission



Malaysia's position along the Strait of Malacca provides a prime pass-through position between India and Pacific Rim countries. With ambitions to transition into higher level electronics manufacturing, Malaysia's growth in U.S. copper scrap demand may not be a short-term reaction to changing market conditions.

The massive influx of scrap commodities to Malaysia has prompted policy responses as their infrastructure wasn't prepared to handle such a shift in global market dynamics. Plastic scrap has been under increased scrutiny due to environmental concerns. This prompted the Malaysian government to take steps in [limiting plastic scrap imports](#). Here's the trend in U.S. plastic scrap exports to Malaysia going back to the first quarter of 2017:



Transportation

As per ISRI’s press release last week, “The nation’s recycling industry is calling on the Surface Transportation Board (STB) to address unreasonable railroad practices related to railcar supply and storage fees. Members of the Institute of Scrap Recycling Industries (ISRI) testified before an STB hearing that rail is a critical mode for transporting ferrous and nonferrous scrap metal, particularly for distances greater than 200 miles. Since many recycling facilities are served by only one major freight railroad, there are rarely alternative modes of transportation – which means scrap metal and other recycling companies are too often suffering poor rail service and seeing skyrocketing fees.

“It’s time for the STB to evaluate the commercial fairness of railroad demurrage tariffs and practices, which in many cases are the result of delays across the broader rail network,” said ISRI President Robin Wiener.

Since major Class 1 freight railroads implemented “precision rail scheduling” at the beginning of 2019, scrap metal recycling companies have seen astronomical increases in shipping costs. Unreasonable rail practices under this new system also include: (1) reductions in available time for rail car loading, unloading and storage; (2) service inconsistencies which precipitate demurrage and storage charges and impact facility operations (e.g. bunched cars, or missed switches); (3) the introduction of “not prepared for service” charges and, (4) congestion charges.

A survey of ISRI members found additional examples of unfair rail practices:

- One member reported an increase in demurrage/storage charges of 669% in the first two months of 2019 compared to the 2018 average;
- Another member paid 1000% more in demurrage/storage charges per month in 2019 compared to 2017; and
- The bunching of rail cars resulting in increased demurrage/storage charges. To mitigate the expense, scrap facilities must employ a second crew or require employees to work overtime driving up operating costs despite having no control over bunched deliveries.

- One ISRI member explained their facility can only accommodate an 18-car switch but the railroad will pool cars at various stations along the route and deliver 30-40 cars regardless of how they were ordered.

ISRI is asking the STB to apply the following principles in its evaluation of reasonableness of railroad demurrage practices:

- Demurrage practices must serve their underlying purpose of incentivizing an efficient rail network and must not be designed to generate additional revenue for the railroads;
- Railroad customers should not be penalized for railroad service failures; and
- Railroad customers should be given sufficient notice to allow for adjustment of their operations.

ISRI also supports the STB's collection and analysis of rail data on demurrage and accessorial charges in order to help ensure these fees properly and fairly incentivize rail network efficiencies, rather than simply drive profits. ISRI's entire testimony can be viewed on the STB website. Testimonies of two ISRI members testifying in person are also available: Ben Abrams, president and CEO of Consolidated Scrap Resources, Inc. and Bobby Triesch, vice president and regional general manager of SA Recycling.

This Week's Story

Two old men had been best friends for years, and they both live to their early 90's, when one of them suddenly falls deathly ill.

His friend comes to visit him on his deathbed, and they're reminiscing about their long friendship. The friend says, "Listen, when you die, do me a favor. I want to know if there's baseball in heaven."

The dying man responds, "We've been friends for a lifetime, so yes, I'll do this for you." And then he dies.

A few days later, the surviving friend is sleeping, when he hears his friend's voice. "I've got some good news and some bad news," it says. "The good news is: there's baseball in heaven."

"What's the bad news?"

"You're pitching on Wednesday."

This Week's Quote

"Life would be infinitely happier if we could only be born at the age of eighty and gradually approach eighteen."

-- Mark Twain

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