



Weekly Market Report

September 3, 2019

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This Morning

Following the Labor Day holiday in the U.S., stocks on Wall Street started the morning in negative territory amid the imposition of new U.S. tariffs on Chinese imports and a disappointing reading on U.S. manufacturing PMI. As reported by Investor's Business Daily, "Dow Jones futures fell sharply Tuesday morning, along with S&P 500 futures and Nasdaq futures. On Sunday, President Donald Trump went ahead with new China tariffs on \$110 billion worth of imports, including some Apple products for the first time. Beijing retaliated, further escalating the China trade war. China vowed to support growth and liquidity, boosting the Shanghai composite on Monday. However, the U.S. and China reportedly haven't agreed on a date or agenda for new trade talks." In commodity trading, precious metal prices continue to benefit from the risk-off environment with COMEX silver and gold futures surging past \$1,555/to and \$19/to, respectively in New York. In London, nickel prices remain in focus with LME 3-mo. nickel trading as high as \$18,710/mt early in the session before retreating below \$18,000/mt. Base metal prices were generally lower today with LME 3-mo. copper and aluminum little changed around \$5,607/mt and \$1,750/mt, respectively. In foreign exchange trading the British pound continues to get hammered by Brexit worries, with the pound sterling trading as low as \$1.1958 earlier today.

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Selected Primary Commodity Prices: September 3, 2019

	Last	CHG	% CHG	Prior	Open	High	Low
COMEX Copper Dec (\$/lb.)	2.5150	-0.037	-1.4%	2.552	2.53	2.568	2.482
COMEX Gold Dec (\$/to)	1,555.6	26.2	1.7%	1,529.4	1539.2	1,558.9	1,528.0
COMEX Silver Dec (\$/to)	19.20	0.9	4.7%	18.34	18.60	19.25	18.4
NYMEX Light Sweet Crude Oct (\$/bbl)	53.33	-1.8	-3.2%	55.10	54.8	55.24	52.84
SHFE Aluminum Oct (RMB/mt)	14,325	35	0.2%	14,290	14,320	14,360	14,290
SHFE Copper Oct (RMB/mt)	46,420	-260	-0.6%	46,680	46,500	46,500	46,310
SHFE Nickel Nov (RMB/mt)	144,940	7,980	5.8%	136,960	139,450	149,190	139,200
SHFE Zinc Oct (RMB/mt)	18,710	25	0.1%	18,685	18,615	18,805	18,595

The Week Ahead

We'll get a number of important U.S. economic releases this week including new reports on construction spending, manufacturing PMI, light vehicle sales, trade, factory orders, and the big jobs report for August. The consensus forecast is that nonfarm payrolls grew by around 170,000 last month while the unemployment rate remained at a low 3.7 percent. The Federal Reserve also releases its Beige Book on current economic conditions, while Fed officials including Fed chair Jay Powell, New York Fed president John Williams, Boston Fed president Eric Rosengren, and St Louis Fed president James Bullard are all scheduled to deliver speeches this week. Overseas, we'll get manufacturing PMI numbers for Germany, France, the U.K., and the euro zone, while Brexit remains squarely in focus in Europe. The Financial Times reports, "Parliament will return on Tuesday amid calls for a no-confidence vote after the prime minister provoked a constitutional uproar last week with plans to shut down parliament for five weeks — widely seen as a measure to thwart MPs' efforts to stop a no-deal Brexit on October 31." The possibility of a no-deal Brexit continues to weigh heavily on the British pound. Have a great week and don't miss next week's Market Report for a recap of the week's key economic, commodity and scrap market highlights!

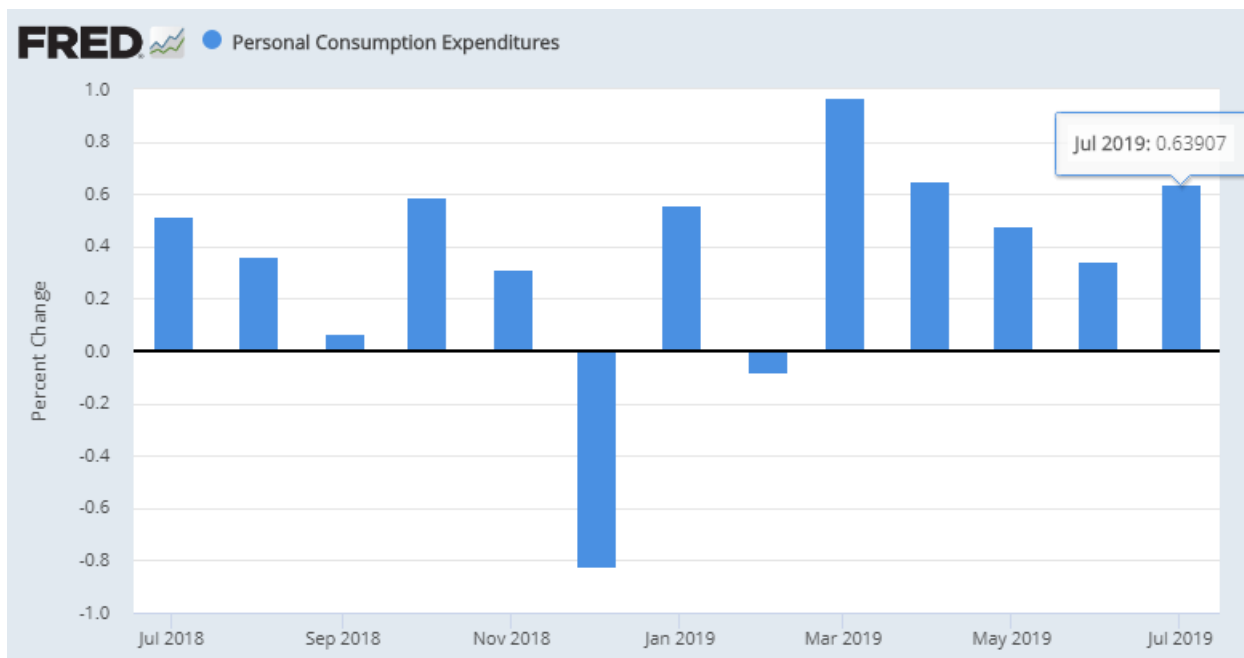
U.S. Economic Calendar: September 3-6, 2019

Date	Time	Release	Period	Consensus	Prior
03-Sep	10:00 ET	Construction Spending	Jul	0.3%	-1.3%
03-Sep	10:00 ET	ISM Manufacturing Index	Aug	51.3	51.2
03-Sep	14:00 ET	Auto Sales	Aug	NA	3.36M
03-Sep	14:00 ET	Truck Sales	Aug	NA	9.68M
04-Sep	08:30 ET	Trade Balance	Jul	-\$53.4B	-\$55.2B
04-Sep	14:00 ET	Fed's Beige Book	Sep	NA	NA
05-Sep	08:15 ET	ADP Employment Change	Aug	150K	156K
05-Sep	08:30 ET	Initial Claims	08/31	214K	215K
05-Sep	08:30 ET	Continuing Claims	08/24	NA	1698K
05-Sep	08:30 ET	Productivity-Rev.	Q2	2.2%	2.3%
05-Sep	08:30 ET	Unit Labor Costs - Rev.	Q2	2.4%	2.4%

05-Sep	10:00 ET	Factory Orders	Jul	1.0%	0.6%
05-Sep	10:00 ET	ISM Non-Manufacturing Index	Aug	54.0	53.7
06-Sep	08:30 ET	Nonfarm Payrolls	Aug	171K	164K
06-Sep	08:30 ET	Nonfarm Private Payrolls	Aug	145K	148K
06-Sep	08:30 ET	Avg. Hourly Earnings	Aug	0.2%	0.3%
06-Sep	08:30 ET	Unemployment Rate	Aug	3.7%	3.7%
06-Sep	08:30 ET	Average Workweek	Aug	34.4	34.3

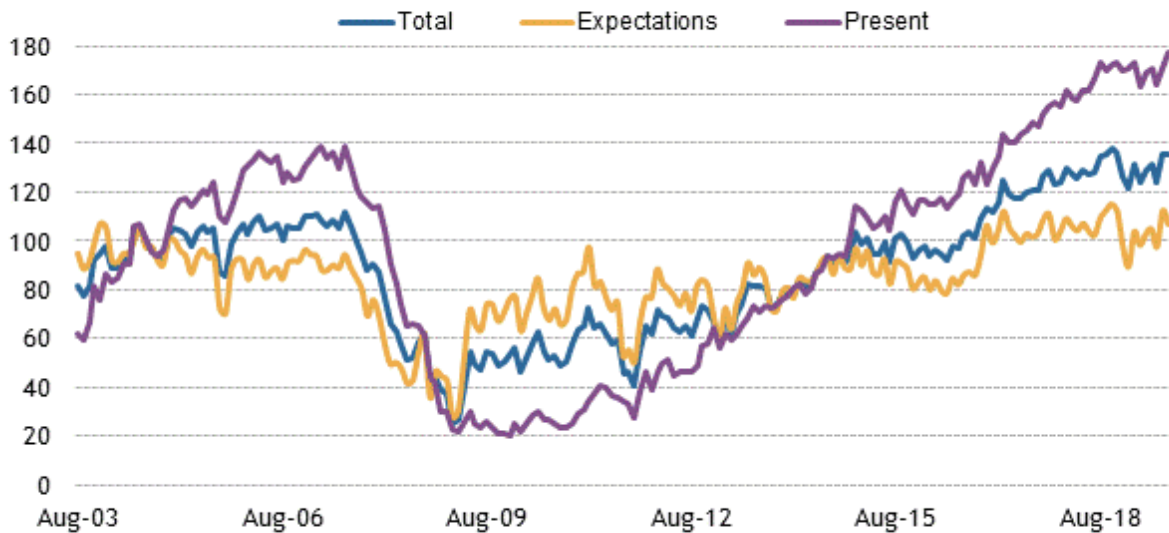
Economic Week in Review

The major U.S. stock indexes rebounded last week despite on-going global economic concerns, including Brexit and the U.S.-China trade war, and some mixed U.S. economic readings. On the positive side, the Bureau of Economic Analysis reported last week that personal spending increased at a healthy 0.6% in July, which “reflected increases in compensation of employees and government social benefits to persons that were partially offset by a decrease in personal interest income.” Although the gain in personal spending was not matched by the increase in personal income (+0.1%).



Elevated levels of consumer confidence may help support consumer spending going forward, with the Conference Board reporting their consumer confidence index came in at a better than expected 135.1 in August (down from 135.8 in July) while their present situation index jumped to 177.2 last month, up from 170.9 previously:

Consumer Confidence



Source: Conference Board; updated 08/27/19

Briefing.com

U.S. durable goods orders also beat expectations for July, rising 2.1% (as compared to the consensus forecast for 1.2% growth) thanks largely to sharp increases in new orders for transportation and defense capital goods. But even excluding defense and aircraft, so-called core capital goods orders were still up 0.4% in July.

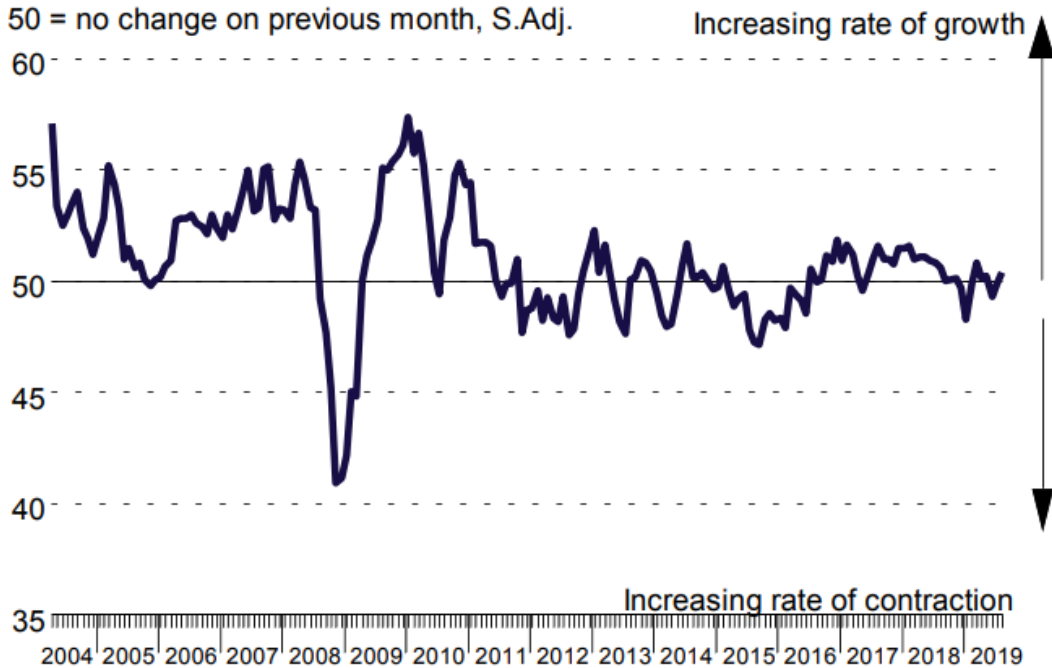
U.S. Durable Goods Orders

	JUL	JUN	MAY	APR	MAR
Total Durable Orders	2.1%	1.8%	-2.3%	-2.8%	1.7%
Less Defense	1.4%	3.1%	-1.2%	-3.3%	0.1%
Less Transport	-0.4%	0.8%	0.4%	-0.2%	-0.5%
Transportation	7.0%	4.1%	-7.5%	-7.6%	6.0%
Capital Goods	6.2%	1.0%	-6.6%	-4.8%	6.3%
Nondefense	5.0%	5.0%	-5.0%	-7.0%	2.6%
Nondefense/nonaircraft (core cap goods)	0.4%	0.9%	0.2%	-1.1%	0.3%
Defense Cap Goods	14.4%	-20.0%	-14.2%	6.9%	32.7%

Somewhat less encouraging was the downward revision of estimated 2nd quarter real GDP growth to 2.0% at a seasonally adjusted annual rate, down from the previous estimate of 2.1 growth and down from 3.1% growth in the first quarter. While personal consumption expenditures remains a driver of growth, rising 4.7% in the 2nd quarter, the 6.1% decline in gross private domestic investment and 5.8% drop in exports is of greater concern.

As for economic releases overseas, IHS Markit and Caixin report the manufacturing purchasing managers index (PMI) for China increased slightly from 49.9 in July to 50.4 in August. IHS Markit reports that “Supporting the higher headline index reading was the quickest increase in production for five months. Though only slight overall, the expansion contrasted with broadly unchanged output in July and a reduction in June. This contributed to the first rise in stocks of finished goods in 2019 to date. Companies often mentioned raising output due to signs of firmer demand conditions. After a marginal rise in July, total new work received by Chinese manufacturers was broadly stable during August. Data indicated that improved domestic demand helped to offset a further reduction in export sales. Notably, the latter fell at the quickest pace since last November.”

Caixin China General Manufacturing PMI



Sources: IHS Markit, Caixin.

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Commodity News

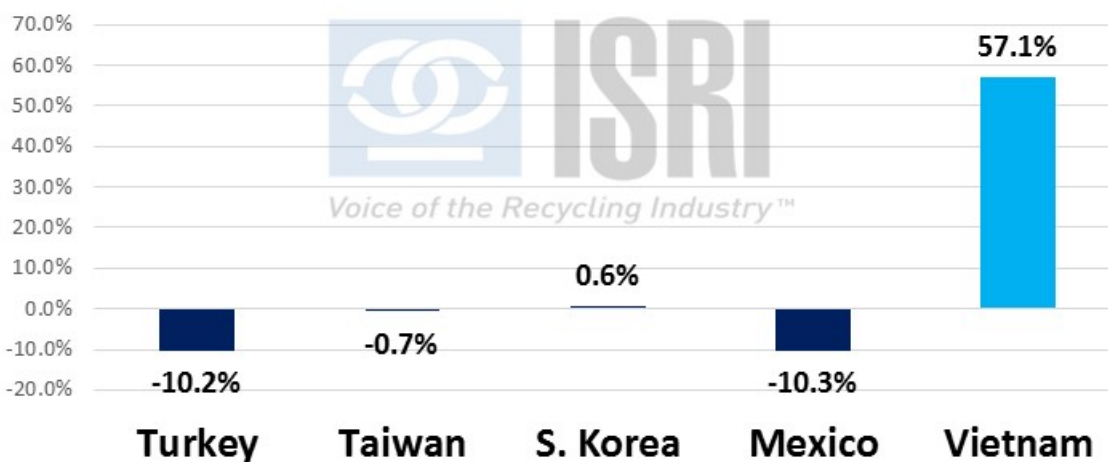
Ferrous –

The World Steel Association reported last week that steel production in China increased 5.0% year-on-year in July to 85.2 million tons amid reports of firmer demand. For the year-to-date, Chinese steel production is up 9% to more than 577 million tons, worldsteel report. According to Macquarie Research, “Major Chinese ports iron ore inventory increased by 1.2% last week, returning to above 120mt (121.3mt) after staying below since mid-June. However, sentiment on iron ore becomes more mixed as some people believe steel mills are restocking iron ore based on the strong daily iron ore offtake at ports, which rose by another 0.6% WoW last week to the highest level since mid-February, though reported steel mills iron ore inventory fell by over 2 days (6% in volume) over the past two weeks. Steel production restriction in Tangshan for September is estimated to be looser than the restriction in August, and **we learned that so far margin-driven production cut among BF/BOF producers are mainly done through the reduction of scrap usage instead of iron ore.**”

As for the major U.S. ferrous scrap export markets, the latest worldsteel figures show sharp year-to-date declines in both Turkey (-10.2%) and Mexico (-10.3%), modest changes in steel production in Taiwan (-0.7%) and Turkey (+0.6%), and a sharp spike in Vietnamese steel production (+57.1% so far this year).

YTD Change in Steel Production in Top 5 Export Markets for U.S. Ferrous Scrap, Jan-Jul 2019 vs. Jan-Jul 2018 (%)

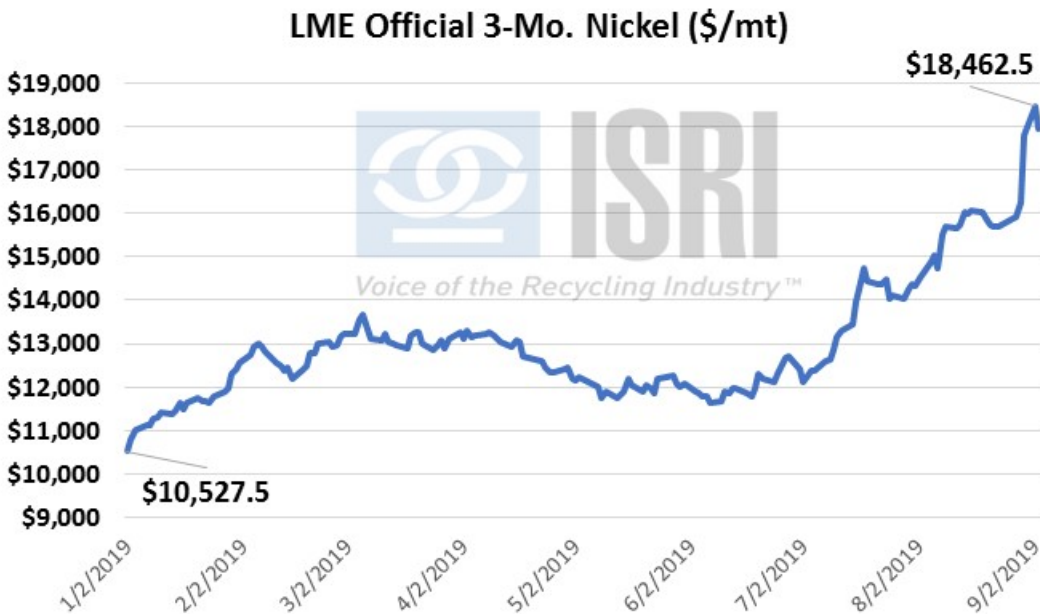
Source: World Steel Association



As for the United States, worldsteel reports that YTD steel production was up 4.8% during Jan-Jul 2019 to 51.8 million metric tons, although the pace of growth slowed to 1.8% year-on-year growth for the month of July. Of note, Fastmarkets AMM reported on Friday that their U.S. hot rolled coil index ended last week “...at \$29.17 per hundredweight (\$583.40 per short ton), down by 0.4% from \$29.29 per cwt the day before but up by 0.6% from \$29 per cwt one week earlier.”

Nonferrous –

Nickel remains firmly in the spotlight thanks to the reported total ban on Indonesian nickel ore exports starting in January 2020 and accompanying ramp up in nickel prices. In London, LME 3-mo. nickel futures surged past \$18,000 per metric ton, trading as high as \$18,850/mt (= \$8.55/lb.) on Monday.



Macquarie reported last week that “SHFE nickel price jumped by 6.4% WoW while LME price rallied by 14.5%. Market is excited about the news that government have confirmed to ban on nickel ore export from January 2020. In our analysis we see a full ban of Indonesia nickel ore export could add ~200kt to our global nickel market deficit, which will eat into exchange stocks and lead to sever tightness in the nickel market for the next two years, while earliest tightness could ease is in 2021 assuming a rapid acceleration in building nickel processing capacity in Indonesia. Following the strong rise in nickel price, NPI price is now in a bigger discount against nickel cathode, and stainless mills are seeing lower margin due to lagged price increase in stainless steel products, and stainless-steel inventory in major cities further jumped last week to a new record high.”

On a related note, Fastmarkets reports that starting on September 25th, stainless steel futures will begin trading at the Shanghai Futures Exchange for the first time: “According to a draft of stainless futures contract issued by SHFE early in August, the standard product to be traded will be stainless steel cold-rolled coil 304/2B 2.0mm x 1,219mm with trimmed edges. Sources foresee nickel futures - which are actively traded on the SHFE and the London Metal Exchange - having a considerable impact on stainless steel futures, which in turn will affect the spot market.”

With so much excitement in the nickel and stainless markets, you won’t want to miss **ISRI’s Nickel/Stainless Roundtable** to be held on September 11, 2019 as part of next week’s [2019 Commodity Roundtables Forum](#) where our panel of experts will include Michael Friedman from Sustainable Management Corp., Barry Hunter from Hunter Alloys, Fred Penha from INTL FC Stone, and ISRI’s own Joe Pickard. We hope to see you there!

Paper and Plastic –

Despite considerable shifts in trade policy that would have suppliers scrambling, Chinese demand for imported recovered paper remains robust within the license quota limitations. An additional tariff of 5% is likely to put pressure on sellers as Chinese mill buyers will need to negotiate harder to maintain their margins.



When you compare Q1 or Q2 2018 to the corresponding periods in 2019, the lower exports can easily be attributed to weaker retail sales. What may difficult to see on the chart is a near exponential increase in exports of pulp derived from recovered paper. Resource Recycling has recently [published a map showing the new capacity in the U.S. for consuming recovered paper](#) that has come online or been announced since 2017. The recent Nine Dragons acquisitions have primarily been to consume recyclable paper for pulp to feed their mill infrastructure in China. With [1.3 million metric tons of pulp making capacity set to come online](#) in the coming years, we may see some life breathing back into the mixed paper market.

This Week's Story

A husband and wife have four boys. The odd part of it is that the older three have red hair, light skin, and are tall, while the youngest son has black hair, dark eyes, and is short.

The father eventually becomes gravely ill and is lying on his deathbed when he turns to his wife and says, "Honey, before I die, be completely honest with me. Is our youngest son my child?"

The wife replies, "I swear on everything that's holy that he is your son." With that, the husband passes away peacefully. The wife then mutters to herself, "Thank God he didn't ask about the other three."

This Week's Quote

"I learned long ago, never to wrestle with a pig. You get dirty, and besides, the pig likes it."

George Bernard Shaw

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