

September 30, 2019

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This Morning

The Bloomberg Commodity Index was down around 0.3% this morning amid softer energy and precious metal prices. Reuters reports that "Oil slipped on Monday as China's economic outlook remained weak even as manufacturing data improved, with the continuing trade war with the United States weighing on demand growth for the world's largest crude importer." Regarding the Chinese manufacturing data, CNBC reports this morning that "Two widely watched indicators on China's manufacturing activity came in above expectations on Monday. A private survey of China's manufacturing activity, the Caixin/Markit factory Purchasing Managers' Index (PMI), was 51.4 for September — the highest reading since February 2018. The latest data was much higher than the 50.2 that analysts polled by Reuters had expected and the 50.4 recorded in August." In London, LME 3-mo. copper and aluminum were recently trading lower around \$5,755/mt and \$1,725/mt, respectively. In foreign exchange trade the dollar was firmer this morning as the euro slipped to \$1.091 and the British pound was trading around \$1.2323.

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Selected Primary Commodity Prices: September 30, 2019

	Last	CHG	% CHG	Prior	Open	High	Low
COMEX Copper Dec (\$/lb.)	2.6120	0.015	0.6%	2.598	2.60	2.619	2.598
COMEX Gold Dec (\$/to)	1,491.8	-14.6	-1.0%	1,506.4	1,501.7	1,507.2	1,486.2
COMEX Silver Dec (\$/to)	17.21	-0.4	-2.5%	17.65	17.59	17.66	17.2
NYMEX Light Sweet Crude Nov (\$/bbl)	55.28	-0.6	-1.1%	55.91	56.54	56.57	54.93
SHFE Aluminum Nov (RMB/mt)	13,955	-15	-0.1%	13,970	13,925	14,020	13,885
SHFE Copper Nov (RMB/mt)	47,110	280	0.6%	46,830	46,960	47,340	46,830
SHFE Nickel Nov (RMB/mt)	136,950	20	0.0%	136,930	137,810	137,890	136,310
SHFE Zinc Nov (RMB/mt)	18,860	-80	-0.4%	18,940	18,900	18,930	18,805

The Week Ahead

The monthly U.S. jobs report is the big economic release of the week and the consensus forecast is that nonfarm payrolls rose by around 130,000 – 150,000 in September while the unemployment rate held steady at 3.7 percent. Investors will also be paying attention to new figures on U.S. construction spending, factory orders, light vehicle sales, and manufacturing PMI. PMI numbers will also be in focus overseas, with new releases due out for Germany, France, the U.K., the euro zone, India, and others. In China, the WSJ reports markets will be closed for most of the week for the National Day/Golden Week holidays while noting that, despite signs of slower Chinese growth, “Massive monetary-policy easing probably isn’t what China wants given its mounting debt problem, but the country’s deepening economic slowdown does require Beijing to be proactive in its easing efforts.” Have a great week and best wishes for a sweet year ahead to all our friends celebrating Rosh Hashanah!

U.S. Economic Calendar: Sep 30 – Oct 4, 2019

Date	Time	Release	Period	Consensus	Prior
30-Sep	09:45 ET	Chicago PMI	Sep	50.8	50.4
1-Oct	10:00 ET	ISM Manufacturing Index	Sep	50.2	49.1
1-Oct	10:00 ET	Construction Spending	Aug	0.4%	0.1%
1-Oct	14:00 ET	Auto Sales	Sep	NA	3.39M
1-Oct	14:00 ET	Truck Sales	Sep	NA	9.75M
2-Oct	08:15 ET	ADP Employment Change	Sep	150K	195K
3-Oct	08:30 ET	Initial Claims	28-Sep	215K	213K
3-Oct	08:30 ET	Continuing Claims	21-Sep	NA	1650K
3-Oct	10:00 ET	Factory Orders	Aug	0.0%	1.4%
4-Oct	08:30 ET	Nonfarm Payrolls	Sep	150K	130K

4-Oct	08:30 ET	Nonfarm Private Payrolls	Sep	120K	96K
4-Oct	08:30 ET	Avg. Hourly Earnings	Sep	0.3%	0.4%
4-Oct	08:30 ET	Unemployment Rate	Sep	3.7%	3.7%
4-Oct	08:30 ET	Average Workweek	Sep	34.4	34.4
4-Oct	08:30 ET	Trade Balance	Aug	-\$54.4B	-\$54.0B

Economic Week in Review

New U.S. home sales surprised to the upside in August, with the Census Bureau and Department of Housing and Urban Development reporting last week that sales of new single-family houses were up 7.1% month-on-month and up 18% year-on-year to a seasonally adjusted annual rate of 713,000 units. Declining mortgage rates have been widely cited as a source of support for the housing market. CNBC reports “The 30-year fixed mortgage rate has dropped about 120 basis points from last year’s highs to an average of 3.73%, according to data from mortgage finance agency Freddie Mac.”

New Home Sales (thousands, SAAR)



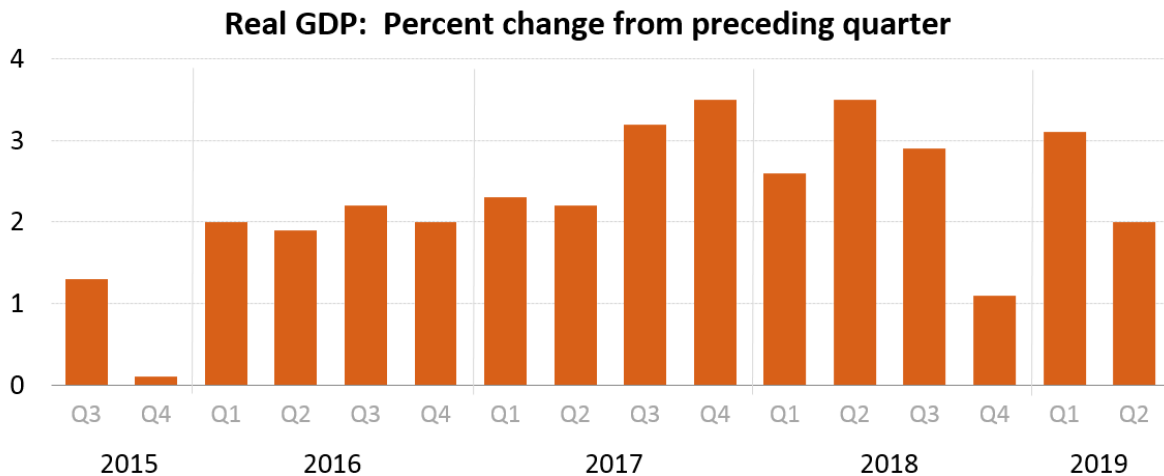
Source: Census Bureau; updated 09/25/19

Durable goods orders also came in better than expected in August. Against the consensus forecast for a 1.0% drop, the Census Bureau reports new orders for manufactured durable goods advanced by \$0.5 billion, or 0.2%, to \$250.7 billion in August. Census reports that “Fabricated metal products, up four of the last five months, led the increase, \$0.4 billion or 1.3 percent to \$34.4 billion.”

Category	AUG	JUL	JUN	MAY	APR
Total Durable Orders	0.2%	2.0%	1.8%	-2.3%	-2.8%
Less Defense	-0.6%	1.3%	3.1%	-1.2%	-3.3%

Less Transport	0.5%	-0.5%	0.7%	0.4%	-0.2%
Transportation	-0.4%	7.2%	4.1%	-7.5%	-7.6%
Capital Goods	0.2%	6.4%	1.1%	-6.6%	-4.8%
Non-defense	-2.1%	5.2%	5.0%	-5.0%	-7.0%
Non-defense/non-aircraft (core cap gds)	-0.2%	0.0%	0.9%	0.2%	-1.1%
Defense Cap Goods	15.4%	15.1%	-20.1%	-14.2%	6.9%

In line with expectations, the Bureau of Economic Analysis confirmed last week that real (adjusted for inflation) GDP increased 2% at a seasonally adjusted annual in the second quarter, although “Downward revisions to personal consumption expenditures (PCE) and nonresidential fixed investment were primarily offset by upward revisions to state and local government spending and exports.”



U.S. Bureau of Economic Analysis

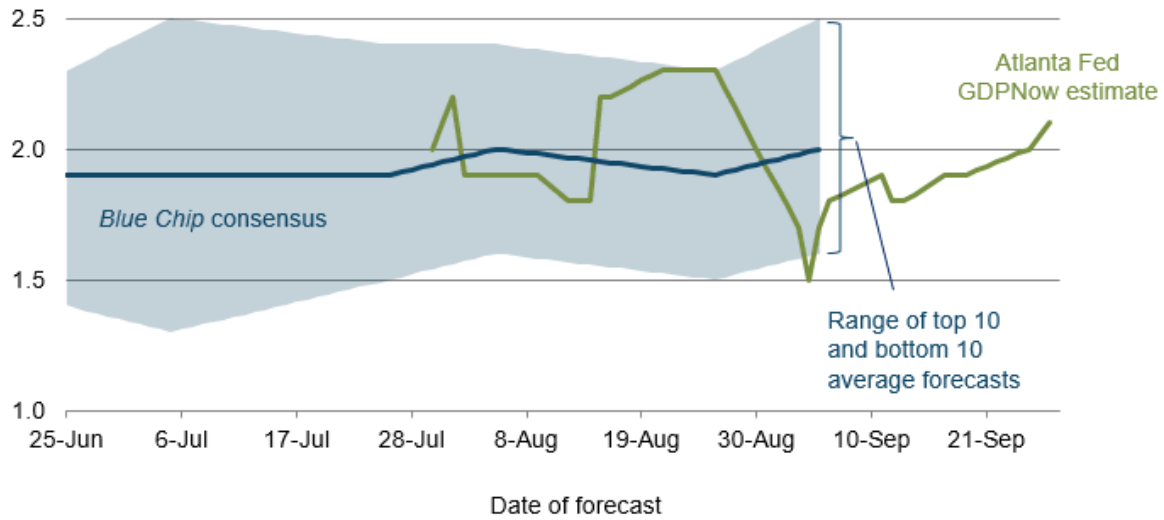
Seasonally adjusted at annual rates

While U.S. personal income was up 0.4% last month, weaker than expected personal spending in August (+0.1%, vs. consensus forecast for 0.3% growth) tempered some expectations for 3rd quarter GDP growth. The Federal Reserve Bank of Atlanta’s GDPNow model now projects real GDP growth in the third quarter will be up 2.1 percent but, as the WSJ’s Daily Shot reports, “Morgan Stanley downgraded its Q3 forecast to 1.5%, while Oxford Economics is expecting 1.3%.”

**Evolution of Atlanta Fed GDPNow real
GDP estimate for 2019: Q3**

GDPNow™

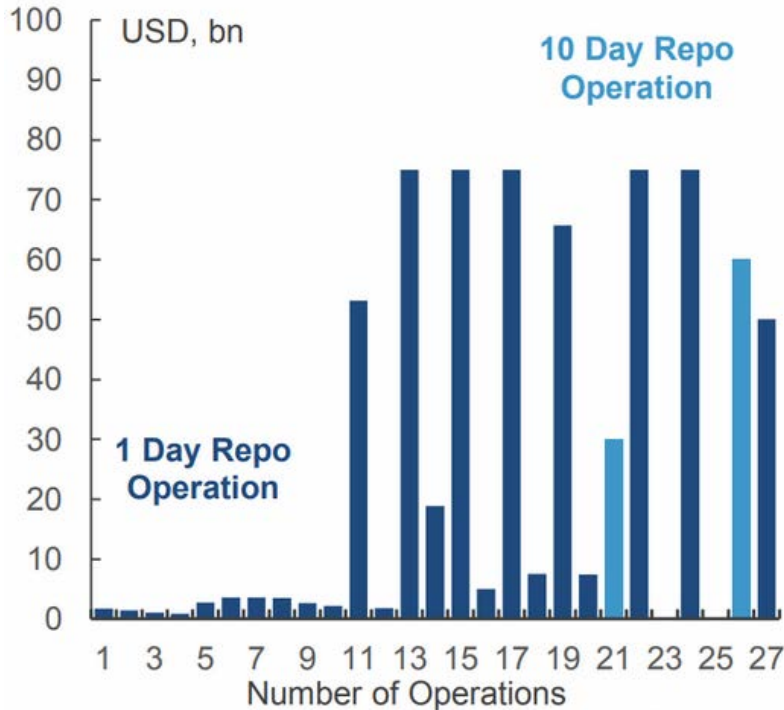
3.0 Quarterly percent change (SAAR)



Sources: *Blue Chip Economic Indicators* and *Blue Chip Financial Forecasts*

Last but not least, the WSJ reports that the Fed's repo financing remains in high demand, "...suggesting that a more permanent solution will be necessary. It will probably involve increasing bank reserves (via Treasury securities purchases) and a standby repo facility."

Accepted Bids for New York Fed Repo Operations in September

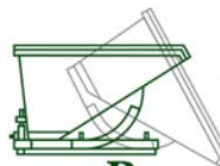


Sources: Scotiabank Economics, Federal Reserve of New York.

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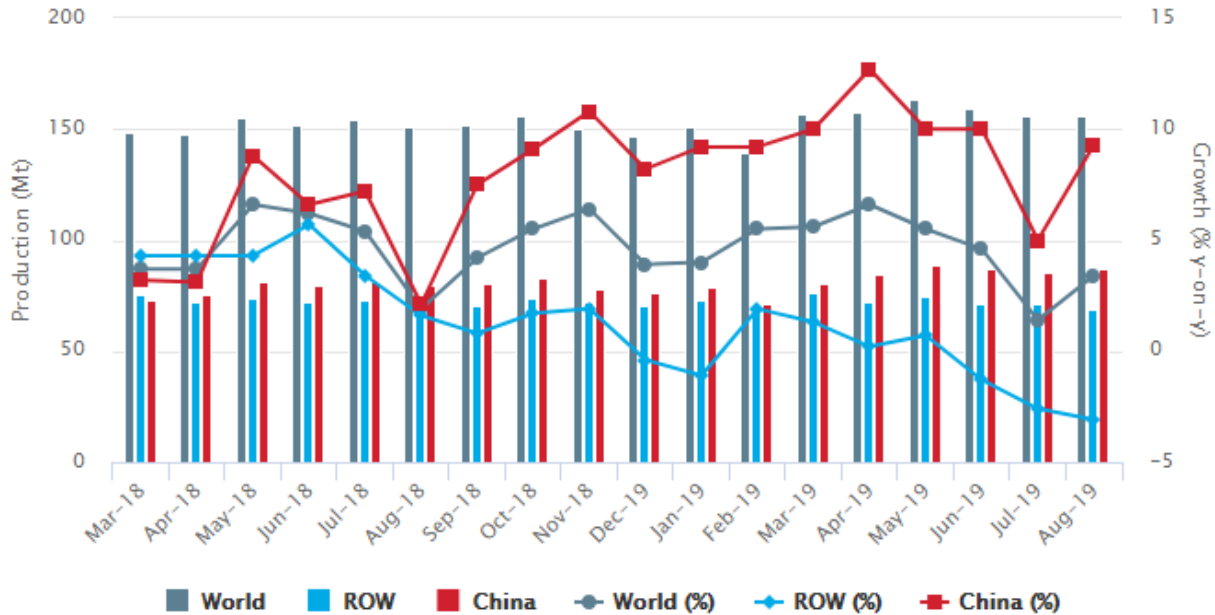
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Ferrous –

China's National Bureau of Statistics reported last week that total Chinese industrial profits declined 1.7% during the first 8 months of 2019 while **total profits at Chinese manufacturers of ferrous metals**

Crude steel production



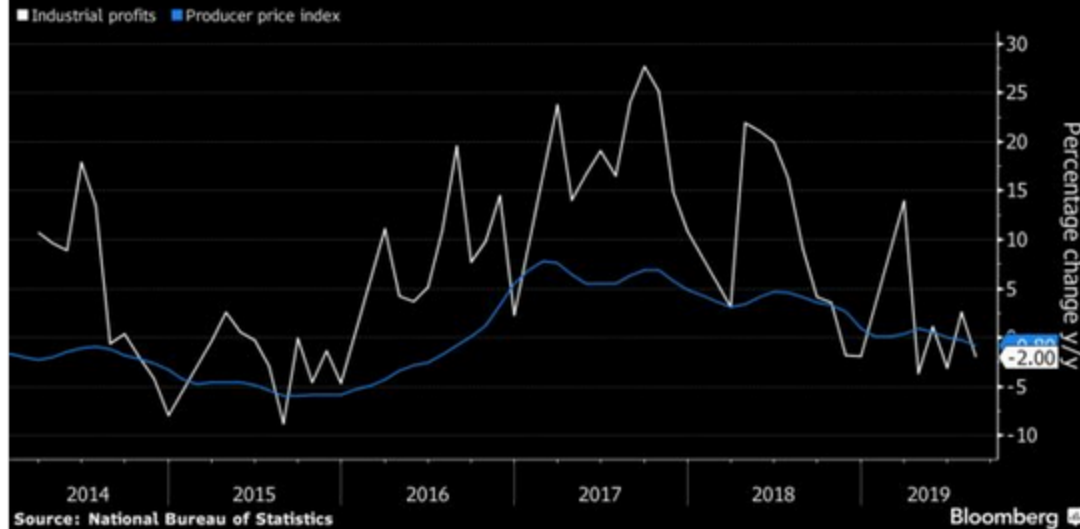
worldsteel.org

declined 31.3% over the corresponding period. And yet at the same time, the World Steel Association reports Chinese steel production was up 9.3% year-on-year in August to 87.25 million metric tons while **Chinese steel production during Jan-Aug 2019 was up 9.1% to nearly 665 million metric tons.**

Not surprisingly, record output and decreased profitability have been accompanied by falling producer prices in China. According to the NBS, China's producer price index for ferrous metals declined 0.8% month-on-month in August.

Declines Return

China's corporate profits shrank due to PPI deflation, other factors



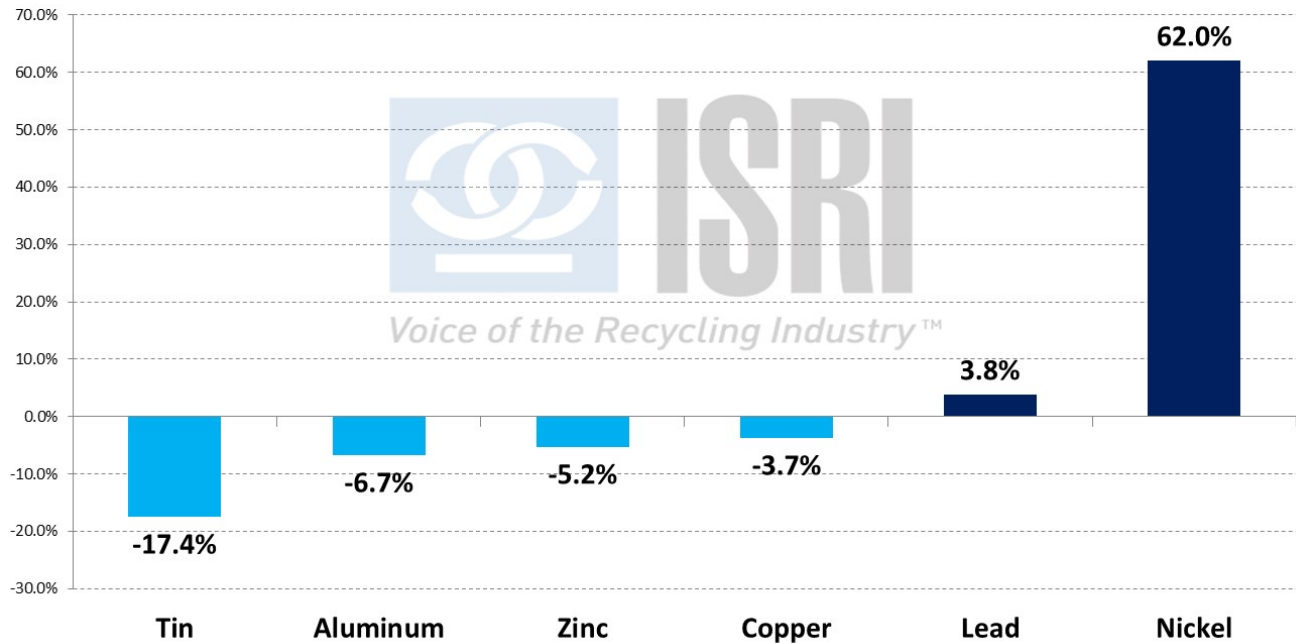
But Macquarie reports that environmental protection cuts ahead of the National Day/Golden Week holidays helped to underpin steel prices in China last week: “China steel prices climbed by 0.4%~1.4% last week. Mysteel national blast furnace capacity utilization rate dropped by nearly 10% over the past week, reducing daily hot metal production by 105ktpa, and steel inventory drawdown accelerated from previous week, of which traders steel inventory fell by 5.2% WoW and mills steel inventory fell by 1.5% WoW. However, reported rebar production continued to increase WoW thanks to the improvement in long steel product profit margin and recovery in EAF production, and we saw an increase in apparent rebar consumption again. Environmental protection policy also had impact on construction sites, but the impact seems to be less than that on steel production, and if steel production recovery after holiday is more than demand resumption, steel inventory drawdown may slow down by then.”

Here in the United States, worldsteel reports steel production was up just 0.3% year-on-year in August to around 7.5 million metric tons as steel prices in the U.S. have come under pressure. Fastmarkets AMM reports “US hot-rolled coil prices are holding steady around \$27 per hundredweight (\$540 per ton) as market participants look for a catalyst to lift them higher amid fears that they could be knocked lower in the fourth quarter. Fastmarkets AMM's daily steel hot-rolled coil index, fob mill US ended Thursday September 26 at \$27.14 per hundredweight (\$542.80 per ton), little changed from \$27.08 per cwt on Wednesday but down 1.3% from \$27.51 per cwt a week earlier.” But some industry sources indicate hot-rolled coil prices have dropped considerably lower.

Nonferrous –

Copper prices in New York mostly bounced around between \$2.57-\$2.62 per pound last week, while AMM was recently listing brass ingot maker scrap prices at 246-248 cents for Bare Bright, 238-240 cents for No. 1 copper, 217-219 cents for No. 2 copper, and 212-214 cents for light copper. In London, the LME official 3-mo. copper asking price was down 3.7% for the year-to-date as of this morning despite reported global copper market supply deficits.

YTD 2019 Percentage CHG in LME Official 3-Mo. Nonferrous Metal Asking Prices through Sep 30, 2019 (%)



According to figures released by the International Copper Study Group last week, global demand for refined copper exceeded copper supply by 220,000 metric tons during the first half of 2019, up from the 177,000 mt supply deficit in the first half of last year. According to ICSG's press release, "...world refined production declined by about 1% in the 1st half of 2019 with primary production (electrolytic and electrowinning) declining by 1.5% and secondary production (from scrap) increasing by 1%. The fall in world refined production was mainly due to:

- A 38% decrease in Chilean electrolytic refined output due to temporary smelter shutdowns whilst undergoing upgrades to comply with new environmental regulations. Total Chilean refined production (including Electrowinning) declined by 15%.
- A decline of 33% in India's production which was negatively impacted by the shutdown of Vedanta's Tuticorin smelter in April 2018.
- A 28% decrease in Zambian refined output due to power supply interruptions, smelter outages and the introduction on 1st January 2019 of a 5% custom duty on copper concentrate imports constraining smelter feed.
- Reduced output in Japan, Peru, the United States and a few European countries due to smelter maintenance shutdowns."

Recovered Paper –

PPI Pulp & Paper Week reported last week that “US recovered paper consumption decreased 2% last month compared with August 2018, and was down 3% when compared with the same eight months of 2018, the American Forest & Products Association (AF&PA) reported. Mill inventories in August were down 3% from the previous month and were down 11% when compared with August 2018, according to AF&PA data. Total OCC consumption decreased 2% in August compared with August 2018, and was down 4% when compared with the first eight months. OCC mill inventories in August fell 5% from July and were down 19% compared with August 2018. Total mixed paper consumption in August increased 3% compared with August 2018, and was up 3% when compared to the same eight months of 2018. Two additional recycled containerboard machines are to be running next month. One already is producing in Wisconsin and the second in Ohio is to be next month. Both run on mixed paper.”

RISI also reported on the latest batch of Chinese import quotas as follows: “China issued 101,500 tonnes of recovered paper import permits to seven mills owned by six companies on Sept. 23, taking the total quotas for this year to 10.3 million tonnes globally -- off more than 4 million tonnes from the same nine months of 2018. It marked the 12th batch released by China's Ministry of Ecology and Environment (MEE) for 2019. This time last year, the MEE had issued 20 batches by the end of September; 362,980 tonnes had been released on Sept. 20, 2018, pushing the total approved at that time to 14.92 million tonnes. In the latest round, Nine Dragons Paper topped the list at 56,560 tonnes.”

Transportation Costs: Diesel Fuel

For the week ending September 23, 2019, the U.S. Energy Information Administration reports the average U.S. on-highway diesel fuel price increased more than 9 cents per gallon from the prior week to \$3.081. The Midwest region saw the largest price increase (up 11 cents per gallon) while California retained the highest average diesel fuel price in the country at \$3.976 per gallon.

U.S. On-Highway Diesel Fuel Prices* (dollars per gallon)					
				Change from	
	09/09/19	09/16/19	09/23/19	week ago	year ago
U.S.	2.971	2.987	3.081	↑ 0.094	↓ -0.190
East Coast	2.992	2.998	3.083	↑ 0.085	↓ -0.171
New England	3.022	3.013	3.070	↑ 0.057	↓ -0.200
Central Atlantic	3.161	3.177	3.252	↑ 0.075	↓ -0.164
Lower Atlantic	2.871	2.874	2.971	↑ 0.097	↓ -0.165
Midwest	2.864	2.882	2.992	↑ 0.110	↓ -0.226
Gulf Coast	2.745	2.761	2.858	↑ 0.097	↓ -0.194
Rocky Mountain	2.933	2.959	3.034	↑ 0.075	↓ -0.321
West Coast	3.548	3.574	3.650	↑ 0.076	↓ -0.109
West Coast less California	3.131	3.161	3.238	↑ 0.077	↓ -0.235
California	3.878	3.901	3.976	↑ 0.075	↓ -0.010

*prices include all taxes

This Week's Story

The doctor tells his patient that he has good news and bad news for him. The bad news is that the man needs a heart transplant. The good news is that the doctor has several donors to choose from.

The doctor asks him, "How would you like the heart of an 18 year-old young man?" "No thanks," replies the patient, "That's too young."

"How about the heart of a forty-year old lawyer?" asks the doctor. "Don't be silly," replies the patient, "Lawyers don't have hearts."

"OK, how about the heart of a 90 year-old economist?" the doctor asks. The patient says "I'll take it!"

"But why would you want the heart of an economist?" The man replies, "I assume it's never been used!"

This Week's Quote

"Nobody made a greater mistake than he who did nothing because he could do only a little."

-- Edmund Burke

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L'shana Tovah!