

September 23, 2019

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## This Morning

Most of the major commodity indexes started the morning in negative territory as NYMEX's most-actively traded crude oil contract dipped below \$58 barrel on reports that Saudi production capacity was quickly coming back on line. Last week, NYMEX crude oil futures approached \$64 per barrel in the aftermath of the reported drone attacks on Saudi oil facilities, but this morning Reuters reports that "Saudi Arabia would fully restore oil output lost after attacks on its facilities faster than some traders expected." In base metals trading most of the major nonferrous metals followed oil prices lower this morning, with COMEX copper recently down around \$2.58 per pound. But nickel prices bucked the trend in early trading as SHFE nickel settled 1.5% higher in Shanghai while in London LME 3-mo. nickel rose as high as \$17,700 per metric ton in early trading. The major European stock indexes started the week in negative territory as the euro dipped as low as \$1.0966 was the British pound was recently trading down around \$1.245.

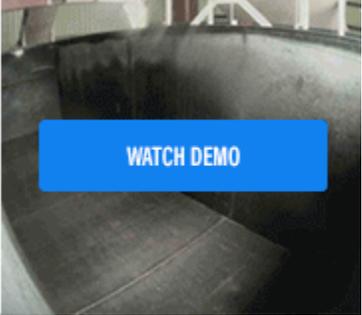
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## Selected Primary Commodity Prices: September 23, 2019

	Last	CHG	% CHG	Prior	Open	High	Low
<b>COMEX Copper Dec (\$/lb.)</b>	2.5785	-0.028	-1.1%	2.607	2.59	2.609	2.573
<b>COMEX Gold Dec (\$/to)</b>	1,526.3	11.2	0.7%	1,515.1	1521.5	1,528.7	1,517.9
<b>COMEX Silver Dec (\$/to)</b>	18.46	0.6	3.4%	17.85	18.03	18.50	18.0
<b>NYMEX Light Sweet Crude Nov (\$/bbl)</b>	57.79	-0.3	-0.5%	58.09	59.25	59.39	57.37
<b>SHFE Aluminum Nov (RMB/mt)</b>	14,210	15	0.1%	14,195	14,215	14,245	14,190
<b>SHFE Copper Nov (RMB/mt)</b>	47,030	-100	-0.2%	47,130	47,140	47,180	46,850
<b>SHFE Nickel Nov (RMB/mt)</b>	138,870	2,080	1.5%	136,790	139,160	139,960	137,450
<b>SHFE Zinc Nov (RMB/mt)</b>	18,860	-80	-0.4%	18,940	18,900	18,930	18,805

## The Week Ahead

On the U.S. economic calendar this week, we'll get updated figures on new and pending home sales, personal income & spending, durable goods orders, trade, and consumer confidence. The consensus forecasts are that durable goods orders declined 1% in August while personal spending advanced 0.3% last month. We'll also get a revised estimate of second quarter real GDP growth, with only minor revisions expected to the previously reported 2% growth. Investors will also be paying attention to a number of speeches by Fed officials this week.

Overseas, the Financial Times reports "This week is set to bring more UK political drama, with the country's Supreme Court expected to rule early in the week on whether Prime Minister Boris Johnson's suspension of parliament was lawful." We'll also get PMI data for Germany, France, and the euro zone, while European Central Bank chief economist Philip Lane is scheduled to make a speech at the ECB's conference on "Inflation in a Changing Economic Environment" in Frankfurt, the FT reports. In Asia, China is set to release data on profits at large industrial firms, with the Wall Street Journal reporting "Economists expect industrial earnings growth to remain sluggish, a major policy concern. Upstream players are struggling with falling prices due to soft demand, although consumer goods producers are benefiting from rising food prices. If companies aren't making money, they will not only cut down on investment and production, but they will probably also cut wages. That is something Beijing doesn't want to see." Don't miss next week's ISRI Market Report for a recap of the week's key economic, trade, commodity, and scrap market highlights. Have a great week!

## U.S. Economic Calendar: September 23-27, 2019

Date	Time	Release	For	Consensus	Prior
24-Sep	09:00 ET	FHFA Housing Price Index	Jul	NA	0.2%

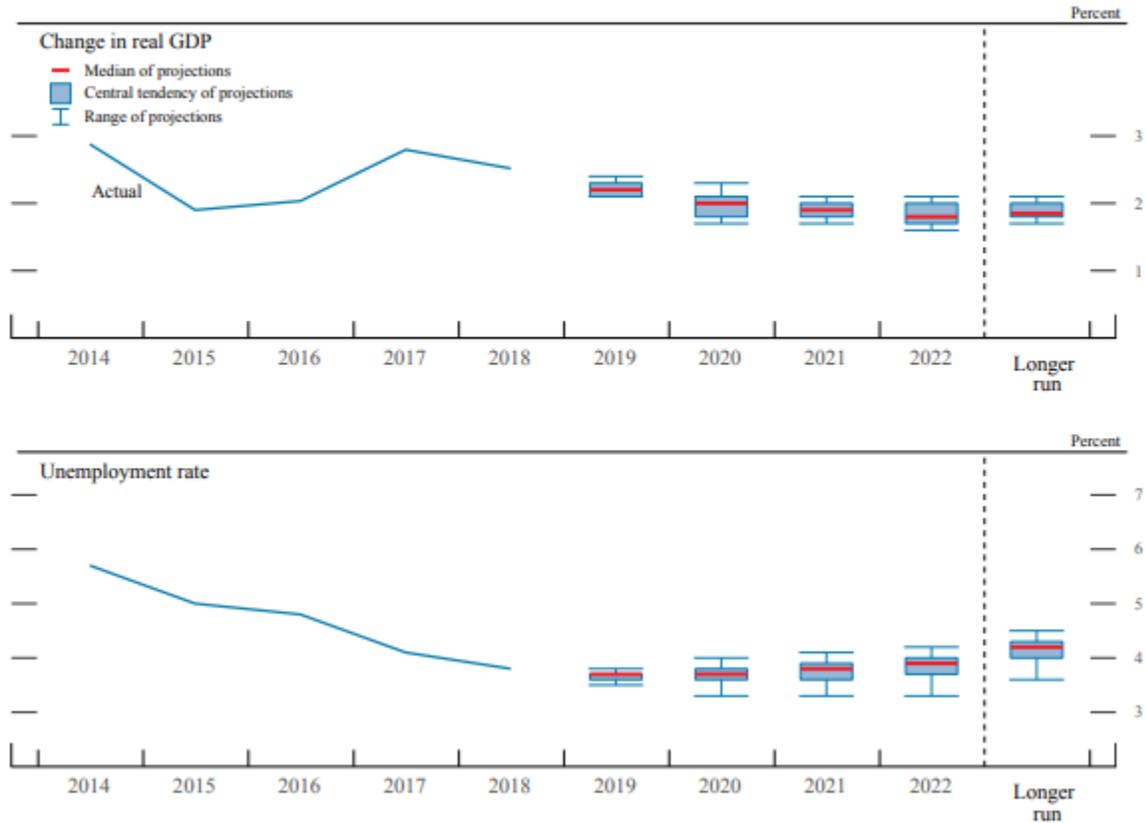
24-Sep	09:00 ET	S&P Case-Shiller Home Price Index	Jul	2.3%	2.1%
24-Sep	10:00 ET	Consumer Confidence	Sep	134	135.1
25-Sep	10:00 ET	New Home Sales	Aug	659K	635K
26-Sep	08:30 ET	Adv. Intl. Trade in Goods	Aug	NA	-\$72.3B
26-Sep	08:30 ET	Adv. Retail Inventories	Aug	NA	0.8%
26-Sep	08:30 ET	Adv. Wholesale Inventories	Aug	NA	0.2%
26-Sep	08:30 ET	Initial Claims	Sep 21	212K	208K
26-Sep	08:30 ET	GDP - Third Estimate	Q2	2.0%	2.0%
26-Sep	08:30 ET	GDP Deflator - Third Estimate	Q2	2.4%	2.4%
26-Sep	10:00 ET	Pending Home Sales	Aug	0.9%	-2.5%
27-Sep	08:30 ET	Personal Income	Aug	0.4%	0.1%
27-Sep	08:30 ET	Personal Spending	Aug	0.3%	0.6%
27-Sep	08:30 ET	PCE Price Index	Aug	0.1%	0.2%
27-Sep	08:30 ET	Core PCE Price Index	Aug	0.2%	0.2%
27-Sep	08:30 ET	Durable Orders	Aug	-1.0%	2.1%
27-Sep	08:30 ET	Durable Goods –ex transportation	Aug	0.2%	-0.4%
27-Sep	10:00 ET	Univ. of Michigan Consumer Sentiment - Final	Sep	92.1	92

## Economic Week in Review

Monetary policy remained squarely in focus last week and, as expected, the Federal Reserve cut the target range for the federal funds rate by a quarter percentage point. According to the FOMC press release, “In light of the implications of global developments for the economic outlook as well as muted inflation pressures, the Committee decided to lower the target range for the federal funds rate to 1-3/4 to 2 percent. This action supports the Committee’s view that sustained expansion of economic activity, strong labor market conditions, and inflation near the Committee’s symmetric 2 percent objective are the most likely outcomes, **but uncertainties about this outlook remain.**”

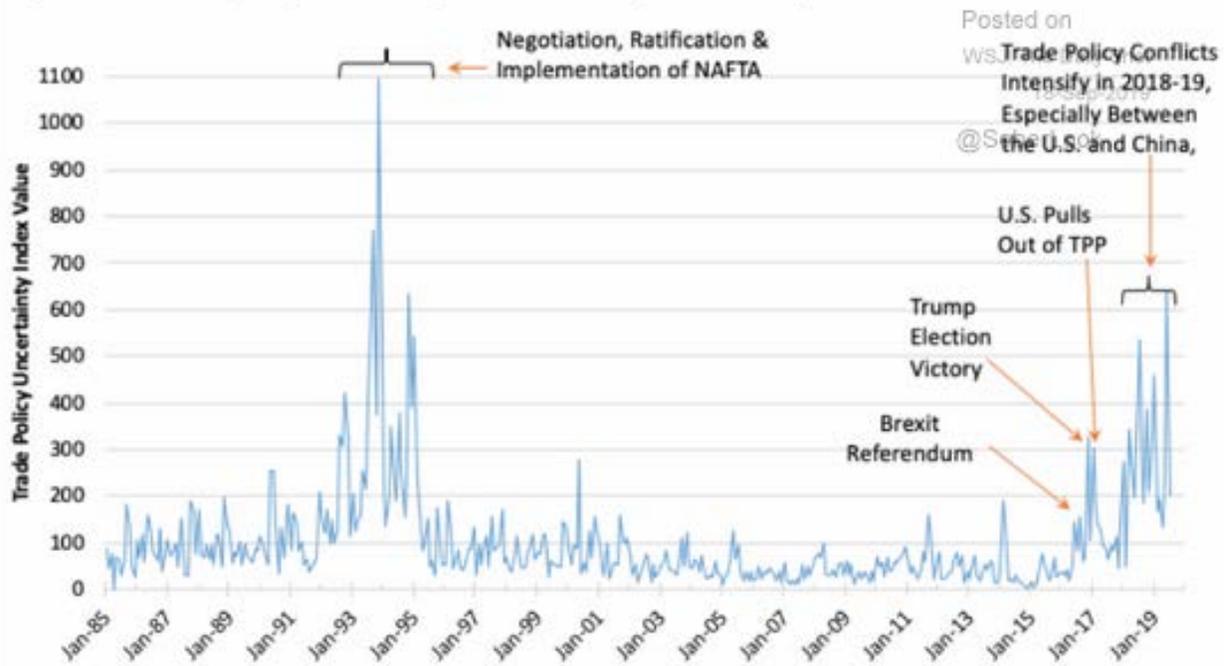
The market reaction to the FOMC's release, press conference, and updated economic projections were somewhat underwhelming. Here are the Fed's real GDP and unemployment projections going forward:

Figure 1. Medians, central tendencies, and ranges of economic projections, 2019-22 and over the longer run



Uncertainty on the trade front and mixed reports on U.S. manufacturing are still key concerns going forward. As per [policyuncertainty.com](http://policyuncertainty.com), the trade policy uncertainty index has been climbing higher lately:

**Figure 3 US trade policy uncertainty index, January 1985 to July 2019**



Note: Monthly data normalised to 100 from 1985 to 2009.  
 Source: Baker et al. (2016), as updated at [www.policyuncertainty.com](http://www.policyuncertainty.com).

On a positive note, the latest report on U.S. industrial production came in better than expected for August. The Fed reported last week that U.S. industrial output increased 0.6% in August following a 0.1% contraction in July as manufacturing output rose 0.5%, utilities output increased 0.6%, and mine production rebounded 1.4%. Of note, the Fed reports that the U.S. manufacturing capacity utilization rate improved to 75.7% last month as the total industry utilization rate increased to 77.9%.

### Monthly U.S. Industrial Production and Capacity Utilization

Category	AUG	JUL	JUN	MAY	APR
<b>Industrial Production</b>					
Total Index	0.6%	-0.1%	0.1%	0.2%	-0.6%
Manufacturing	0.5%	-0.4%	0.6%	0.1%	-0.9%
Utilities	0.6%	3.7%	-4.1%	1.8%	-3.3%
Mining	1.4%	-1.5%	0.5%	-0.3%	2.5%
<b>Capacity Utilization</b>					
Total Industry	77.9%	77.5%	77.8%	77.8%	77.8%
Manufacturing	75.7%	75.4%	75.8%	75.4%	75.4%

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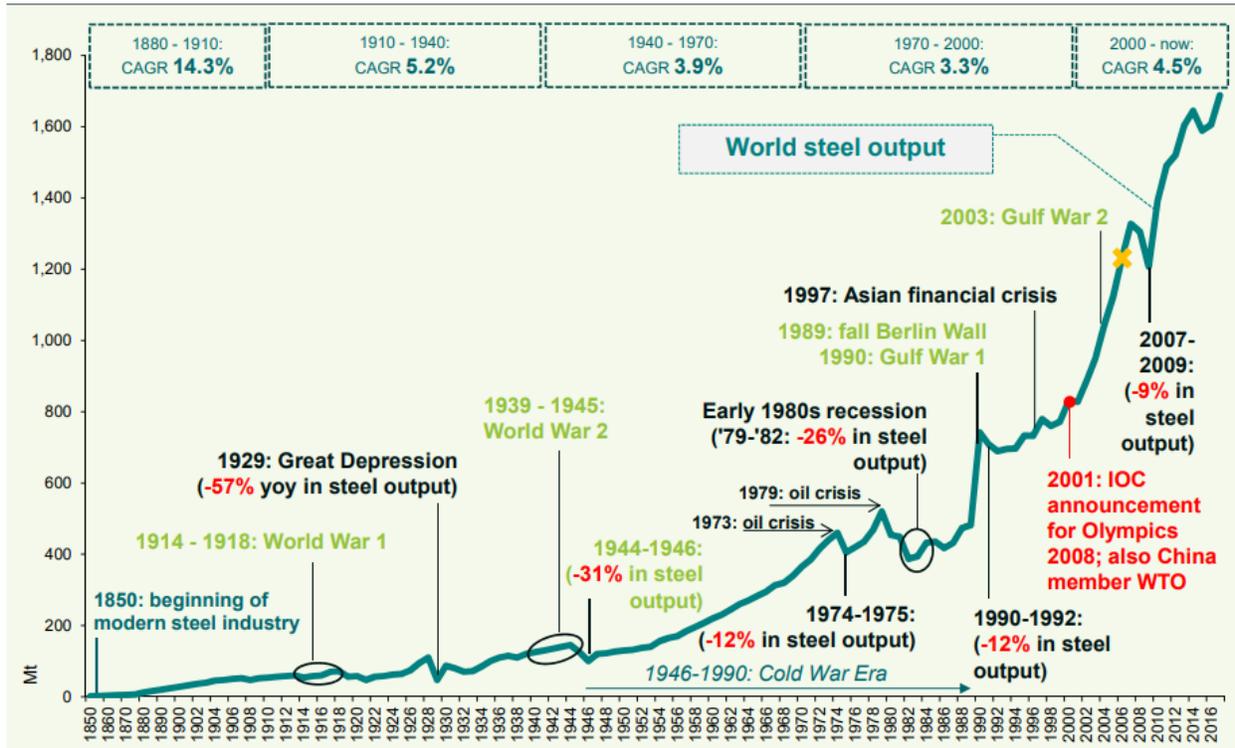
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## Commodity News

We would like to take this opportunity to thank all of the sponsors, speakers, moderators, and attendees who participated at our Commodities Roundtable Forum in Chicago. We had an excellent turnout and outstanding roundtable discussions and networking events, and we look forward to seeing you all in Chicago again next year! Below are some excerpts from the roundtable presentations, the complete collection of presentations will be available in the members' section of the ISRI website shortly.

**Ferrous –**

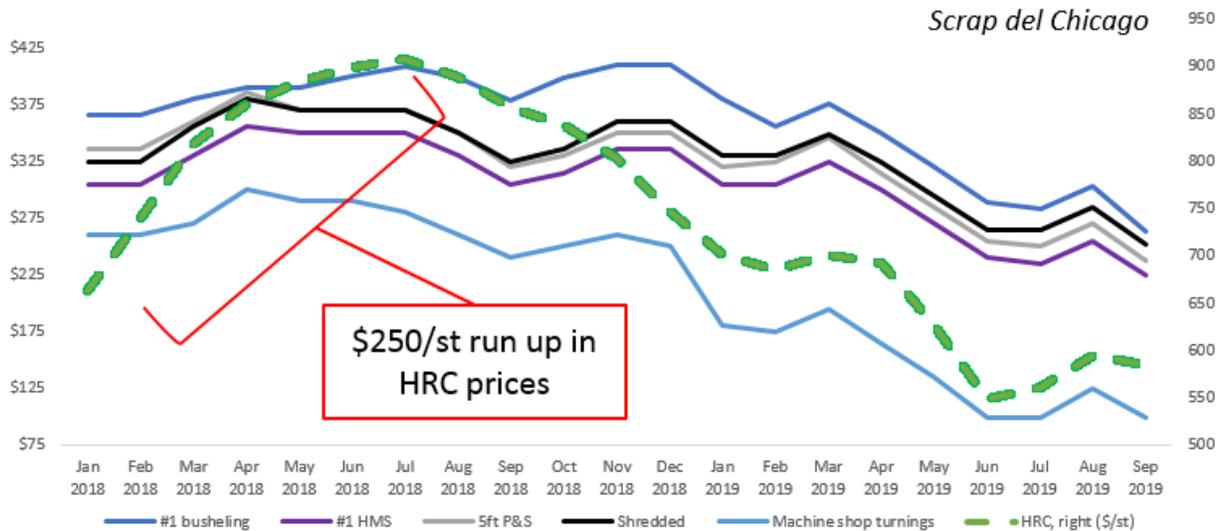
Moderated by Smart Recycling Mgt. CEO Greg Dixon, our ISRI Ferrous Roundtable featured Andreas Bokkenheuser from UBS, Casper Burgering from ABN AMRO, and Blake Hurtik from Argus Media. By itself, Mr. Bokkenheuser's outstanding analysis of the ferrous scrap situation in China was worth the price of admission and attendees also benefitted from the excellent insights provided by Mssrs. Burgering and Hurtik. Here's Casper Burgering's slide on the history of the global steel industry:



Source: ABN-AMRO

A recurring theme across the roundtables was the impact of the various protectionist trade measures on the U.S. scrap recycling industry. Here's Blake Hurtik's slide on how ferrous scrap prices missed out on the Section 232 party that supported hot-rolled coil prices early on:

## Scrap misses out on the 232 party

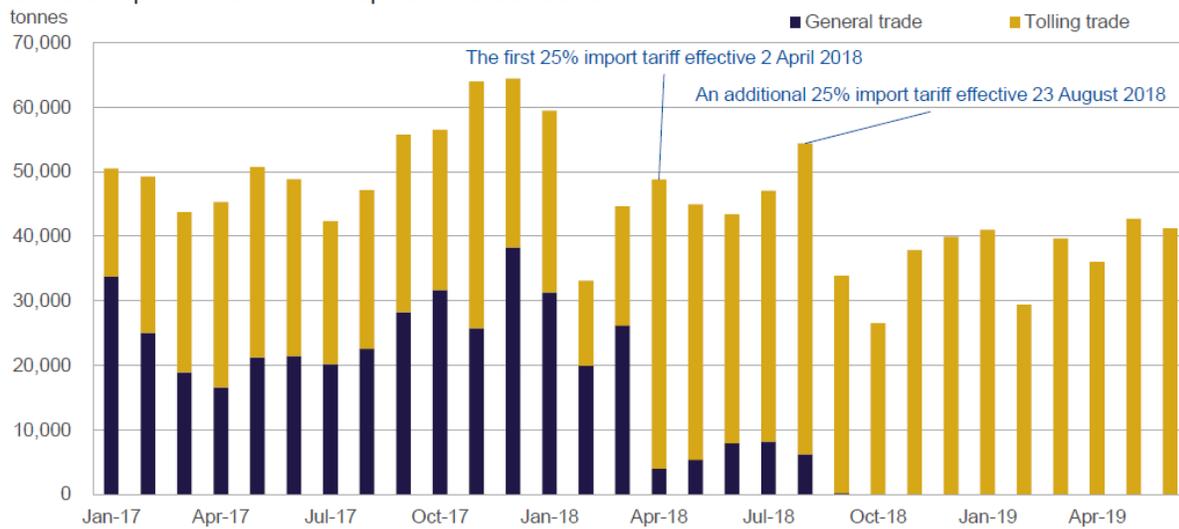


Source: Argus Media

### Nonferrous –

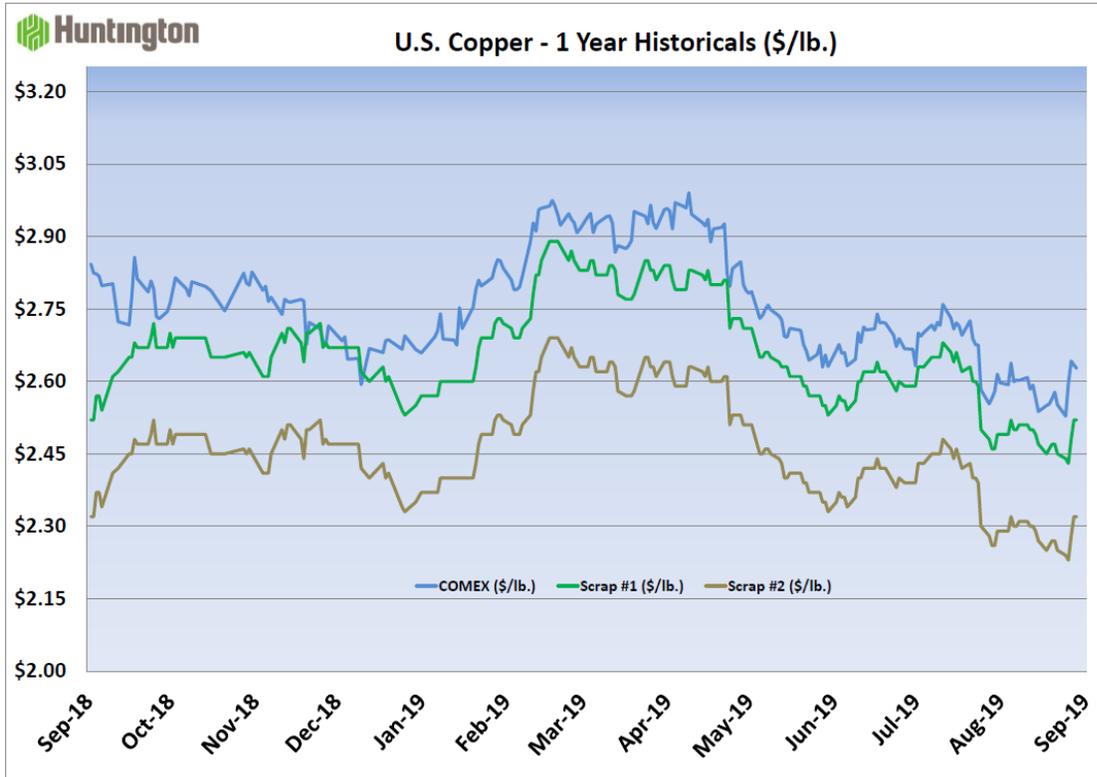
Trade issues and China also featured prominently at our Aluminum, Copper, and Nickel/Stainless Roundtables. One of the most interesting presentations came from CRU's Doug Hilderhoff at the Aluminum Roundtable, where the shifting dynamic between China's aluminum scrap imports for general vs. tolling trade purposes was highlighted:

Chinese import of aluminum scrap from the US has declined



DATA: CRU, IHS Markit, China Customs

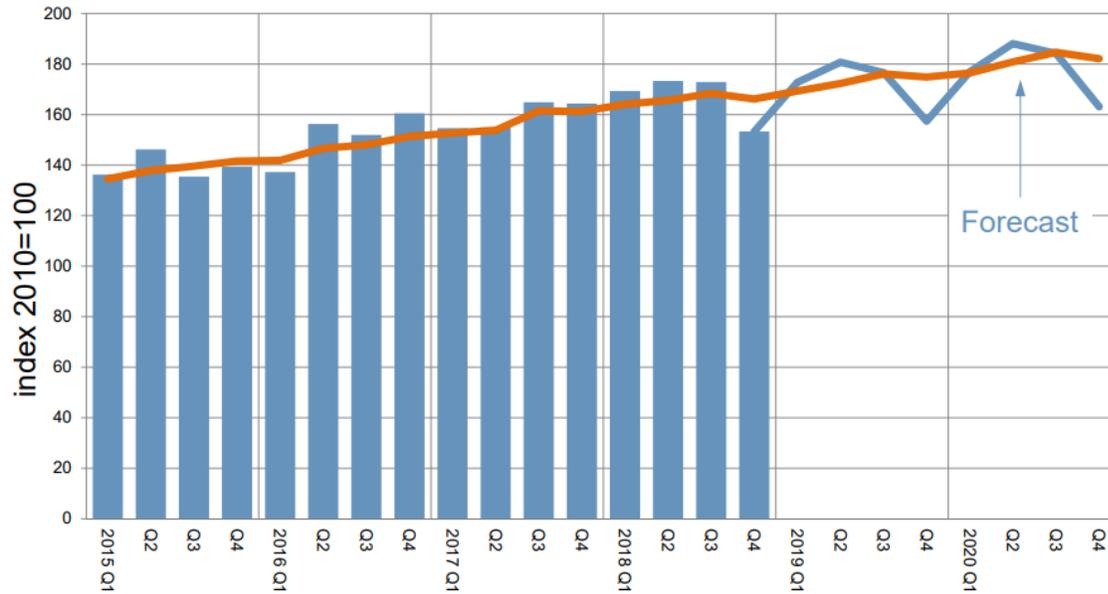
The disconnect between nonferrous primary and scrap prices also featured prominently in Chicago as scrap metal market conditions in the U.S. have become increasingly difficult. Darrell Fletcher from Huntington Bank presented this comparison of COMEX copper prices with No.1 and No. 2 scrap values:



As for the nickel/stainless steel scrap markets, Barry Hunter from Hunter Alloys provided a master class in Chicago on the development and outlook for the U.S. stainless scrap market and the importance of staying focused on how to conduct your business regardless of what primary commodity prices are doing. Looking forward, global consolidation and steady demand growth are expected to remain prominent features for the stainless steel industry:

## Global consolidation

Stainless steel **all products** consumption index and demand index development [2010=100]



## Recovered Paper –

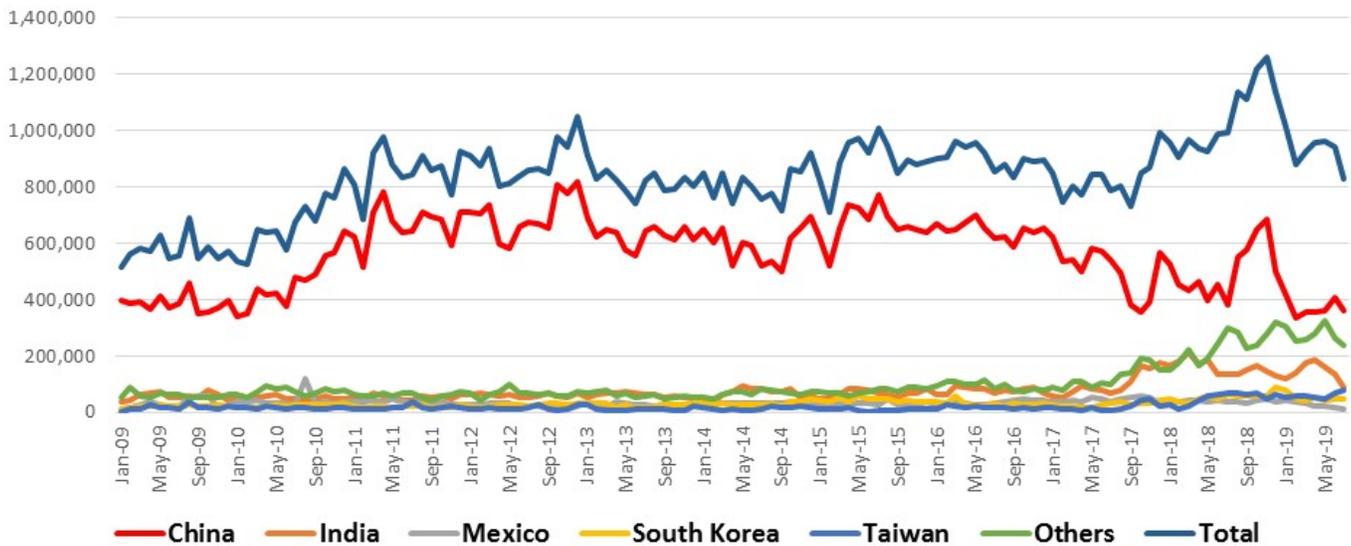
Last week, Fastmarkets RISI reported on the latest AF&PA boxboard production figures for the United States that show “Total boxboard monthly production {in August 2019} decreased 1.0 percent when compared to August 2018. The total boxboard operating rate was 94.1 percent for August. Total Solid Bleached Boxboard & Liner production decreased 0.4 percent year to date; Recycled Boxboard production fell 1.0 percent year to date; and Unbleached Kraft & Gypsum decreased 0.5 percent year to date.”

As for recovered paper and fiber, RISI reports that "...buyers continue to press producers over lower recovered paper furnish costs, with old corrugated containers (OCC) remaining at just \$25/ton in September, 63.8% lower than a year ago." Here's the trend in U.S. corrugated exports overall and to China and other key markets going back to the start of 2009:

## Monthly U.S. OCC Exports, Jan 2009-Jul 2019

Short tons

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



## Transportation: Rail Traffic

For the week ending September 14, 2019, the Association of American Railroads reports that "...total U.S. weekly rail traffic was 526,734 carloads and intermodal units, down 4.8 percent compared with the same week last year. Total carloads for the week ending September 14th were 252,310 carloads, down 6.1 percent compared with the same week in 2018, while U.S. weekly intermodal volume was 274,424 containers and trailers, down 3.5 percent compared to 2018.

One of the 10 carload commodity groups posted an increase compared with the same week in 2018. It was motor vehicles and parts, up 299 carloads, to 17,339. Commodity groups that posted decreases compared with the same week in 2018 included coal, down 4,950 carloads, to 80,753; grain, down 2,915 carloads, to 18,337; and metallic ores and metals, down 2,360 carloads, to 22,766.

For the first 37 weeks of 2019, U.S. railroads reported cumulative volume of 9,363,002 carloads, down 3.5 percent from the same point last year; and 9,833,164 intermodal units, down 4 percent from last year. Total combined U.S. traffic for the first 37 weeks of 2019 was 19,196,166 carloads and intermodal units, a decrease of 3.7 percent compared to last year."

## This Week's Story

A mathematician, an accountant and an economist apply for the same job.

The interviewer calls in the mathematician and asks "What do two plus two equal?" The mathematician replies "Four." The interviewer asks "Four, exactly?" The mathematician looks at the interviewer incredulously and says "Yes, four, exactly."

Then the interviewer calls in the accountant and asks the same question "What do two plus two equal?" The accountant says "On average, four - give or take ten percent, but on average, four."

Then the interviewer calls in the economist and poses the same question "What do two plus two equal?"

The economist gets up, locks the door, closes the shade, sits down next to the interviewer and says "What do you want it to equal?"

## This Week's Quote

"The supreme quality for leadership is unquestionably integrity. Without it, no real success is possible, no matter whether it is on a section gang, a football field, in an army, or in an office."

-- Dwight D. Eisenhower

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