



# Weekly Market Report

July 8, 2019

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## This Morning

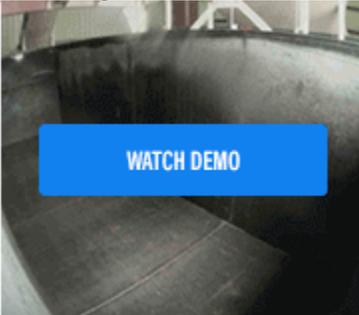
The Bloomberg Commodity Index was up 0.27% in early trading this morning amid mostly firmer precious and industrial metals prices. In New York, COMEX gold futures approached \$1,410 per troy ounce while copper futures were up 2 cents to around \$2.68 per pound. But NYMEX crude oil futures slipped below \$57.50 per barrel this morning after having traded above \$60/bbl last week. Reuters reports that "Oil prices steadied on Monday as tensions over Iran's nuclear program were tempered by global economic growth concerns and consequently oil demand." Whatever that means. In London, LME 3-mo. nickel traded as high as \$12,645/mt this morning while 3-mo. copper edged up to around \$5,914/mt. In foreign exchange trading, the Financial Times reports that the Turkish lira was down 2 percent this morning "...after Recep Tayyip Erdogan sacked central bank governor Murat Cetinkaya over the weekend," while the dollar was little changed against most major trading partners.

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## Selected Primary Commodity Prices: July 8, 2019

	Last	CHG	% CHG	Prior	Open	High	Low
<b>COMEX Copper Sep (\$/lb.)</b>	2.6835	0.023	0.8%	2.661	2.67	2.689	2.655

<b>COMEX Gold Aug (\$/to)</b>	1,406.5	6.4	0.5%	1,400.1	1401	1,409.9	1,395.0
<b>COMEX Silver Sep (\$/to)</b>	15.13	0.1	0.9%	15.00	15.05	15.15	15.0
<b>NYMEX Light Sweet Crude Aug (\$/bbl)</b>	57.44	-0.1	-0.1%	57.51	57.77	57.91	57.30
<b>SHFE Aluminum Aug (RMB/mt)</b>	13,770	-35	-0.3%	13,805	13,770	13,820	13,735
<b>SHFE Copper Sep (RMB/mt)</b>	46,390	-30	-0.1%	46,420	46,270	46,520	46,170
<b>SHFE Nickel Aug (RMB/mt)</b>	99,230	1,180	1.2%	98,050	98,000	100,580	98,000
<b>SHFE Zinc Aug (RMB/mt)</b>	19,365	-80	-0.4%	19,445	19,305	19,520	19,190

## The Week Ahead

Investors will be paying close attention to statements from Federal Reserve officials this week as Chairman Jay Powell is scheduled speak at a Fed conference in Boston on Tuesday before testifying at the House Financial Services Committee on Wednesday and the Senate Banking Committee on Thursday. Several other high-ranking Fed officials will be speaking this week and the minutes of the last FOMC meeting are due out on Wednesday. The consensus has been the Fed will ease rates at their meeting later this month, although Friday's strong jobs report may discourage the Fed from doing so, hence the increased focus on this week's speeches. As for economic releases due out this week, we'll get new U.S. reports on job openings and labor turnover, consumer credit, initial unemployment claims, and consumer and producer price indexes. The consensus forecasts are for flat (0.0%) monthly readings on both CPI and PPI. China also releases inflation and trade data this week, while Germany and the euro zone report on industrial production. 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: July 8-12, 2019

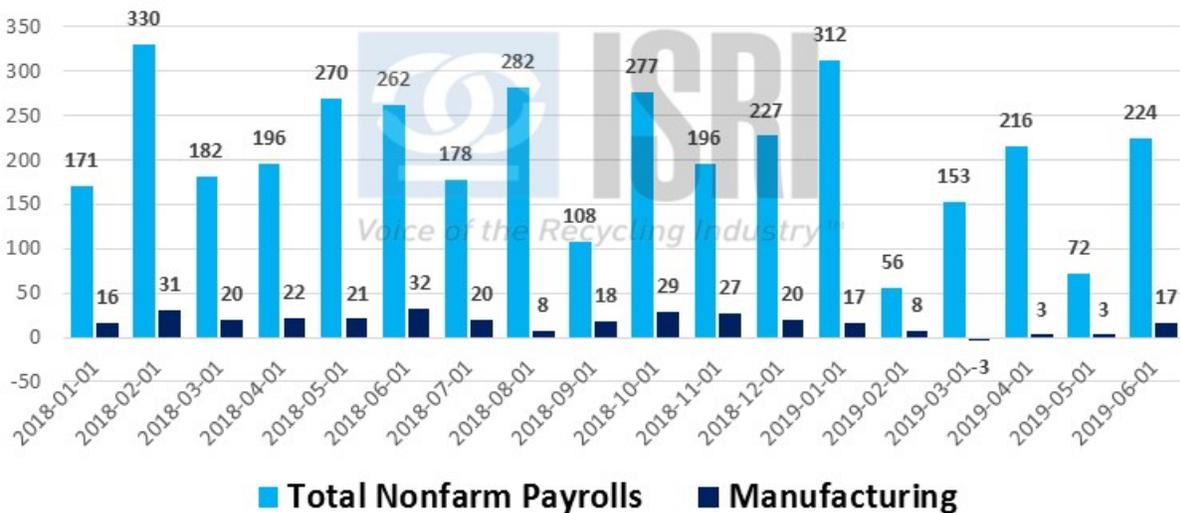
Date	Time	Release	Period	Consensus	Prior
Jul 08	15:00	Consumer Credit	May	\$17.7B	\$17.5B
Jul 09	06:00	NFIB Small Business Optimism Index	Jun	NA	105.0
Jul 09	10:00	JOLTS - Job Openings	May	NA	7.449M
Jul 10	07:00	MBA Mortgage Applications Index	07/06	NA	-0.1%
Jul 10	10:00	Wholesale Inventories	May	0.4%	0.8%
Jul 10	10:00	Fed Chair Powell Testimony		NA	
Jul 10	10:30	EIA Crude Oil Inventories	07/06	NA	-1.1M
Jul 10	14:00	FOMC Minutes	Jun	NA	NA
Jul 11	08:30	CPI	Jun	0.0%	0.1%
Jul 11	08:30	Core CPI	Jun	0.2%	0.1%
Jul 11	08:30	Initial Claims	07/06	222K	221K
Jul 11	08:30	Continuing Claims	06/30	NA	1686K
Jul 11	10:00	Fed Chair Powell Testimony		NA	
Jul 11	10:30	EIA Natural Gas Inventories	07/06	NA	+89 buck
Jul 11	14:00	Treasury Budget	Jun	NA	-\$74.9B
Jul 12	08:30	PPI	Jun	0.0%	0.1%
Jul 12	08:30	Core PPI	Jun	0.2%	0.2%

## Economic Week in Review

The U.S. jobs report for June came in much better than expected as total nonfarm payrolls rose by 224,000 (against the consensus forecast for a gain of 160,000 jobs) while the unemployment rate was little changed at 3.7%. The Bureau of Labor Statistics reports “Employment growth has averaged 172,000 per month thus far this year, compared with an average monthly gain of 223,000 in 2018. In June, notable job gains occurred in professional and business services, in health care, and in transportation and warehousing.” On another positive note, manufacturing payrolls rose by 17,000 in June following 4 months of stagnant job growth.

### Monthly Changes in U.S. Total Nonfarm and Manufacturing Payrolls, Jan 2018 - Jun 2019 (thousands)

Source: Bureau of Labor Statistics



The uptick in manufacturing employment last month comes on top of some mixed manufacturing reports. The Institute for Supply Management reported last week that their reading on manufacturing PMI eased from 52.1 in May to 51.7 in June as weaker readings on manufacturing orders, deliveries, prices, and inventories were offset by employment and production growth:

Category	JUN	MAY	APR	MAR	FEB
<b>Total Index</b>	51.7	52.1	52.8	55.3	54.2
Orders	50.0	52.7	51.7	57.4	55.5
Production	54.1	51.3	52.3	55.8	54.8
Employment	54.5	53.7	52.4	57.5	52.3
Deliveries	50.7	52.0	54.6	54.2	54.9
Inventories	49.1	50.9	52.9	51.8	53.4
Export Orders	50.5	51.0	49.5	51.7	52.8
Prices paid (not seas adj.)	47.9	53.2	50.0	54.3	49.4

Here’s what some of the ISM survey respondents had to say:

- “China tariffs and pending Mexico tariffs are wreaking havoc with supply chains and costs. The situation is crazy, driving a huge amount of work [and] costs, as well as potential supply disruptions.” (Computer & Electronic Products)

- “Tariffs are causing an increase in cost of goods, meaning U.S. consumers are paying more for products.” (Chemical Products)
- “Demand for the remainder of 2019 has softened significantly, due to issues in the aerospace industry. The 2020 outlook is looking stronger. Overall, state and local economies remain strong. Recruiting for open positions still requires time to find the right candidates.” (Transportation Equipment)
- “Global demand remains very strong. [We] shifted shipments to China from our U.S. plants to our Canadian and European plants because of tariffs.” (Food, Beverage & Tobacco Products)
- “Tariffs continue to adversely impact decisions and forecasting. Our increasing fear is that current trends will weaken the global economy, influencing our ability to grow in 2020 and beyond.” (Fabricated Metal Products)
- “Business is still strong. Pricing on raw materials has stabilized.” (Plastics & Rubber Products)
- “Business has slowed in the last 30 to 60 days. The last 30 days have tracked 4 percent below plan, but still 6 to 8 percent above the previous year to date.” (Miscellaneous Manufacturing)

We’ve seen lackluster manufacturing reports in other key economies lately, including China. As we reported last week, the Caixin manufacturing PMI fell from 50.2 in May to 49.4 in June, falling below the 50 threshold separating expansion from contraction for the first time in 4 months. According to the IHS Markit press release, “June data highlighted a challenging month for Chinese manufacturers, with trade tensions reportedly causing renewed declines in total sales, export orders and production. Companies responded by reducing headcounts further and making fewer purchases of raw materials and semi-finished items. At the same time, selling prices were raised following another increase in input costs, though rates of inflation were negligible. Business sentiment was broadly neutral at the end of the second quarter, with firms mainly concerned about the US-China trade dispute.”

Despite the U.S. restrictions on Chinese imports, the Census Bureau reported last week that the U.S. trade deficit widened to -\$55.5 billion in May while the goods trade gap with China increased to -\$30.1 billion. Diminished U.S. scrap export sales to China have not helped the trade deficit: through the first 5 months of 2019, scrap exports to China have been cut in half to less than \$950 million, a drop of nearly \$1 billion as compared to the first 5 months of 2018:

### Total U.S. Scrap Exports to China, Jan-May 2018 vs. Jan-May 2019 (\$ millions)

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



Of note on the trade front, the EU and Mercosur (Argentina, Brazil, Uruguay, Paraguay) have reached a trade deal to lower commercial barriers and reduce tariffs. Duties on EU exports to Mercosur countries

are projected to be cut by \$4.5 billion annually. This deal covers a market relationship of 780 million people. According to Eurostat data, the more commonly traded scrap commodities between these markets are corrugated/board and news grades of paper, stainless steel, copper, and aluminum.

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## Commodity News

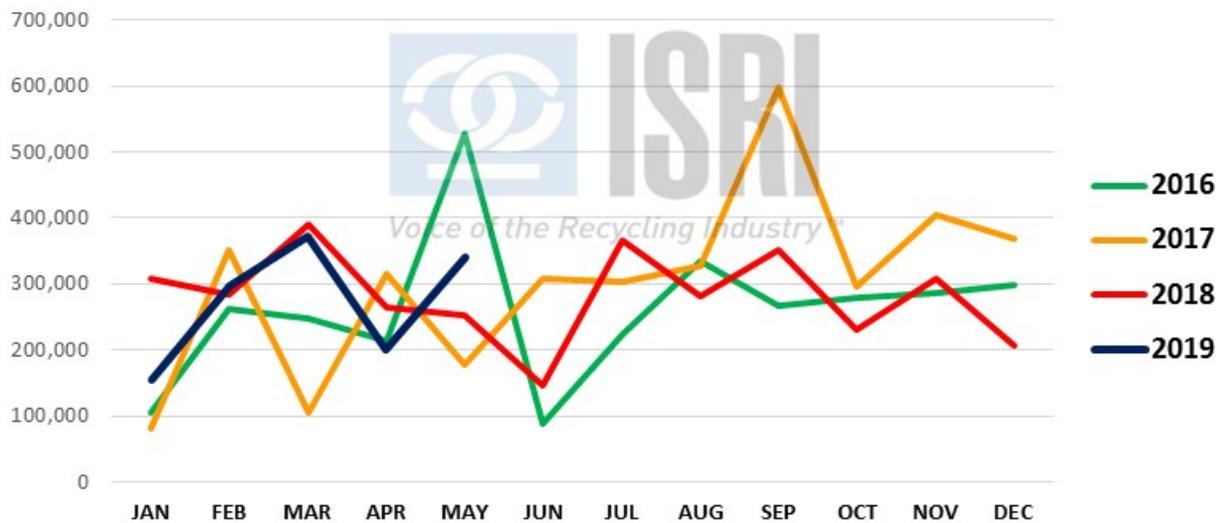
### Ferrous –

The latest U.S. trade data show that ferrous scrap exports to Turkey rebounded to more than 340,000 tons in May, up from just over 200kt in April. But for the year-to-date, U.S. ferrous scrap exports to Turkey are still down nearly 9 percent.

### Monthly U.S. Ferrous Scrap Exports to Turkey, 2016-2019

Metric tons

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



As a result, U.S. ferrous scrap exports (excluding stainless and alloy steel scrap) were down 11 percent year-on-year during Jan-May 2019. While sales to Turkey, Taiwan, Mexico, and India have all deteriorated this year, those losses have been partially offset by gains to South Korea, Malaysia, Bangladesh, Greece, Italy, Saudi Arabia, and Vietnam.

### U.S. Ferrous Scrap Exports (ex-stainless and alloy scrap) by Major Destination

**Metric tons**

Country	2017	2018	Jan-May 2018	Jan-May 2019	YTD % CHG
Turkey	3,635,585	3,391,709	1,499,812	1,368,156	-8.8%
Taiwan	1,256,025	1,833,189	777,283	625,878	-19.5%
South Korea	523,367	885,485	163,328	610,107	273.5%
Mexico	1,544,051	1,722,864	890,319	524,656	-41.1%
Malaysia	193,861	470,397	145,102	380,694	162.4%
Vietnam	656,409	1,009,601	349,364	373,971	7.0%
Bangladesh	647,026	837,963	284,607	347,351	22.0%
Canada	610,051	638,922	281,788	303,000	7.5%
India	655,413	831,950	521,122	265,520	-49.0%
Kuwait	426,332	387,143	222,845	235,791	5.8%
Pakistan	629,003	373,561	181,048	181,551	0.3%
Peru	444,086	379,136	218,205	154,237	-29.3%
Thailand	537,647	496,423	209,474	114,910	-45.1%
Indonesia	85,791	450,349	160,273	96,083	-40.1%
Greece	181,735	125,006	27,843	87,966	215.9%
Egypt	400,273	805,028	268,657	82,259	-69.4%
Saudi Arabia	42,892	44,038	44,018	75,351	71.2%
Ecuador	150,524	139,872	103,143	66,949	-35.1%
Japan	74,459	124,821	82,856	58,857	-29.0%
Italy	109,286	5,890	1,355	35,907	2550.0%
Hong Kong	44,960	95,887	30,988	31,468	1.5%
China	691,984	416,370	358,786	23,804	-93.4%
Others	218,627	186,603	32,635	53,372	63.5%
<b>Total:</b>	<b>13,759,387</b>	<b>15,652,207</b>	<b>6,854,851</b>	<b>6,097,838</b>	<b>-11.0%</b>

Here in the U.S., the American Iron and Steel Institute reports that “In the week ending on June 29, 2019, domestic raw steel production was 1,851,000 net tons while the capability utilization rate was 79.5 percent. Production was 1,815,000 net tons in the week ending June 29, 2018 while the capability utilization then was 77.4 percent. The current week production represents a 2.0 percent increase from the same period in the previous year. Production for the week ending June 29, 2019 is down 1.2 percent from the previous week ending June 22, 2019 when production was 1,873,000 net tons and the rate of capability utilization was 80.5 percent.”

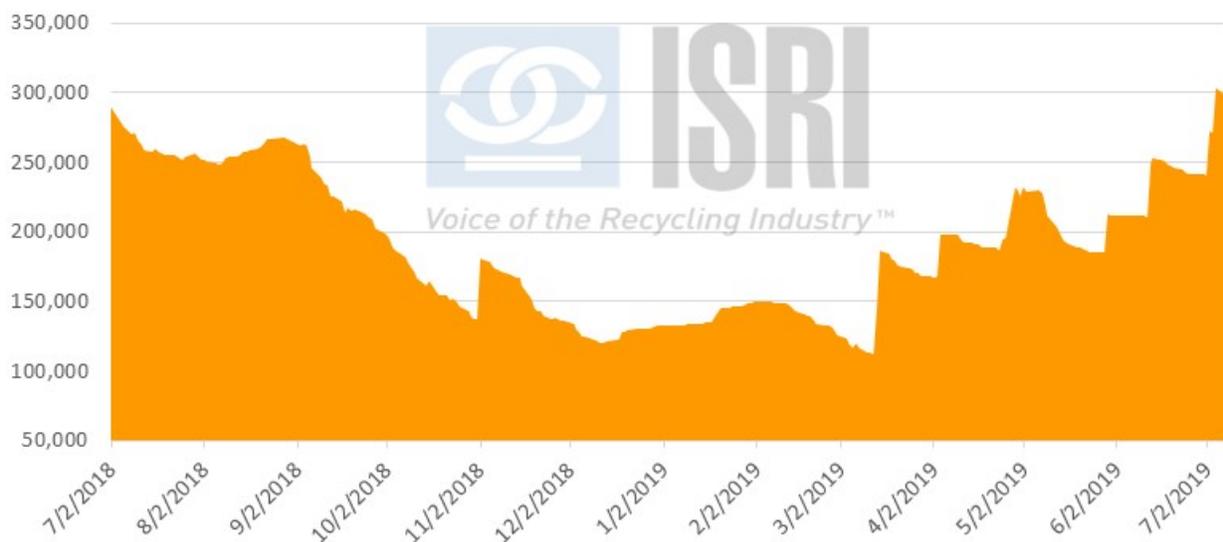
**Nonferrous –**

After having opened the week at \$2.75 per pound, most-actively traded COMEX copper futures drifted lower over the course of the holiday week to close at \$2.661/lb. on Friday. A stronger dollar and rising stock levels were widely cited as sources of weakness late in the week. Closing copper stocks in LME are up by around 170,000 metric tons so far this year:

## Closing Copper Stocks in LME Warehouses

Metric tons

Sources: Fastmarkets/LME



For U.S. copper scrap market participants, China continues to complicate already challenging market conditions. According to Census Bureau trade data, U.S. copper scrap exports to China averaged 12,000 tons per month in Apr-May, up from just over 5,000 mt in January as shippers moved more material ahead of the July 1 deadline. But for the year-to-date, copper scrap exports to China are down more than 75 percent and shipments overall are down 2 percent despite expanded trade with Malaysia, Canada, South Korea, India, Japan, and others. Of note, copper scrap exports to Hong Kong were reportedly up 47 percent during the first 5 months of the year.

### U.S. Copper and Copper Alloy Scrap Exports by Major Destination

Metric tons

Country	2017	2018	Jan-May 2018	Jan-May 2019	YTD % CHG
Malaysia	5,553	119,573	26,890	97,593	262.9%
China	687,876	271,254	198,989	48,479	-75.6%
Canada	93,501	92,136	36,545	43,298	18.5%
South Korea	31,334	71,726	17,505	26,284	50.2%
Hong Kong	36,345	44,269	16,322	24,054	47.4%
India	24,869	48,260	11,048	22,889	107.2%
Japan	21,145	55,989	15,261	21,268	39.4%
Germany	30,657	37,269	15,319	18,112	18.2%
Taiwan	8,645	35,427	9,015	16,411	82.0%
Belgium	16,435	31,330	7,602	14,525	91.1%
Pakistan	9,571	17,949	3,513	7,674	118.4%
Thailand	677	14,151	9,959	7,446	-25.2%
Spain	7,501	10,824	4,297	5,208	21.2%
Greece	251	8,776	1,572	4,907	212.2%
Sweden	2,087	3,828	671	3,155	370.0%
Singapore	131	3,152	642	3,148	390.4%
Others	27,659	46,933	16,643	18,295	9.9%
<b>Total:</b>	<b>1,004,237</b>	<b>912,848</b>	<b>391,793</b>	<b>382,746</b>	<b>-2.3%</b>

As for July, our good friend Ed Meir is projecting copper will trade in a range of \$5,800-\$6,090 per mt.

### **Paper and Plastic –**

BioPappel's McKinley Paper has made a stronger push into the US box market through the acquisition of a majority share of US Corrugated. RISI Mill Intelligence estimates that that this acquisition makes McKinley Paper the 14<sup>th</sup> largest U.S. producer in North America with a containerboard capacity of 410,000 tons per year. What this more significantly indicates is the continued trend of supply-chain integration in the paper industry in order to absorb volatile cost centers and improve efficiency.

Companies that produce bottled beverages are facing [a shortage in recycled plastic](#) to produce their bottles and meet environmental targets that the general public demands. Secondary sorting has become a viable niche in plastics recycling in Canada. While many would attribute this to EPR regulations, the key motivating point may be the minimum recycled content standards. What this may also point out is the scale in which China was producing recycled resin out of mixed plastic bales.

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

### **This Week's Story**

This one student nurse was all about following the rules. Hospital regulations require a wheelchair for patients who are being discharged.

On his first day, the young nurse found an elderly gentleman already dressed and sitting on the bed with a suitcase at his feet. The nurse demanded he get in the chair, but he insisted to the nurse that he didn't need any help.

After a chat about rules being rules, he reluctantly let the young nurse wheel him to the elevator.

On the way down, the nurse asked him, "Is your wife meeting you downstairs?"

"I don't know," he replied. "She's still upstairs in the bathroom changing out of her hospital gown."

### **This Week's Quote**

"What then is freedom? The power to live as one wishes."

-- Marcus Tullius Cicero

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