

January 7, 2019

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This Morning

Commodity prices were mostly firmer in early trading this morning as the Bloomberg Commodity Index advanced 0.6% amid firmer crude oil and precious metal prices and a weaker dollar. In New York, NYMEX crude oil futures were up around 2.5% this morning to more than \$49 per barrel. Reuters reports, "The oil prices are drawing support from an agreed supply cut by the Organization of the Petroleum Exporting Countries, well as some non-member countries such as Russia and Oman." While nonferrous metal prices got off to a positive start in Shanghai this morning, trading in London and New York was mixed as COMEX copper futures slipped to around \$2.64 per pound early on. In London, LME 3-mo. aluminum edged up to \$1,880/mt this morning while 3-mo. copper eased to \$5,915/mt and nickel was holding steady around \$11,125/mt. In forex trading the euro advanced to \$1.145 while the greenback was buying 108.30 Japanese yen.

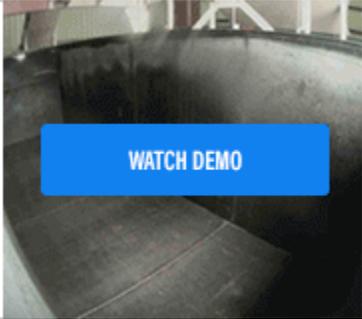
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Selected Primary Commodity Prices: January 7, 2019

	Last	CHG	% CHG	Prior	Open	High	Low
COMEX Copper Mar (\$/lb.)	2.6385	-0.009	-0.3%	2.648	2.65	2.660	2.632
COMEX Gold Feb (\$/to)	1,293.2	7.4	0.6%	1,285.8	1287	1,293.9	1,284.1
COMEX Silver Mar (\$/to)	15.84	0.0	0.3%	15.79	15.80	15.88	15.7
NYMEX Light Sweet Crude Feb (\$/bbl)	49.10	1.1	2.4%	47.96	48.3	49.47	48.11
SHFE Aluminum Mar (RMB/mt)	13,475	85	0.6%	13,390	13,460	13,525	13,440
SHFE Copper Mar (RMB/mt)	47,290	530	1.1%	46,760	47,140	47,680	46,810
SHFE Nickel May (RMB/mt)	90,660	1,760	2.0%	88,900	90,240	91,200	89,810
SHFE Zinc Mar (RMB/mt)	20,200	235	1.2%	19,965	20,220	20,335	20,035

The Week Ahead

New figures on U.S. job openings, consumer credit, consumer prices, and initial unemployment claims are scheduled for release next week but the government shutdown should figure even more prominently. Investors will be paying close attention to the release of the minutes of the last Fed meeting for any clues as to future policy moves. Strong numbers on job growth and wages released last week should keep the Fed on pace for additional rate hikes. Overseas, China releases a batch of new data including GDP, producer prices, consumer prices, and trade, while German industrial production, retail sales, and trade will also be in focus. 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: January 7-11, 2019

Date	Time	Release	Period	Prior
Jan 07	10:00	ISM Non-Manufacturing Index	Dec	60.7
Jan 08	06:00	NFIB Small Business Optimism	Dec	104.8
Jan 08	10:00	JOLTS - Job Openings	Nov	7.079M
Jan 08	15:00	Consumer Credit	Nov	\$25.4B
Jan 09	07:00	MBA Mortgage Applications Index	01/05	-8.5%
Jan 09	10:30	EIA Crude Oil Inventories	01/05	UNCH
Jan 09	14:00	FOMC Minutes	Dec	
Jan 10	08:30	Continuing Claims	12/29	1740K
Jan 10	08:30	Initial Claims	01/05	231K
Jan 10	10:30	EIA Natural Gas Inventories	01/05	-20 bcf
Jan 11	08:30	Core CPI	Dec	0.2%
Jan 11	08:30	CPI	Dec	0.0%
Jan 11	14:00	Treasury Budget	Dec	-\$23.2B

Economic Week in Review

On Friday, the Bureau of Labor Statistics reported U.S. nonfarm payrolls rose by 312,000 in December, easily beating expectations and continuing the expansion in U.S. jobs that began in October 2010.

Monthly Gains In U.S. Nonfarm Payrolls in 2018 (1,000 jobs)

Source: Bureau of Labor Statistics



Manufacturers continue to hire more employees, contributing to the nation's job growth. According to the BLS: "Manufacturing added 32,000 jobs in December. Most of the gain occurred in the durable goods component (+19,000), with job growth in fabricated metal products (+7,000) and in computer and electronic products (+4,000). Employment in the nondurable goods component also increased over the month (+13,000). Manufacturing employment increased by 284,000 over the year, with about three-fourths of the gain in durable goods industries. Manufacturing had added 207,000 jobs in 2017."

However, leading indicators on manufacturing have become somewhat less encouraging as of late. According to the Institute for Supply Management, the U.S. manufacturing PMI declined from 59.3 in November to 54.1 in December as new orders dropped from 62.1 in November to 51.1 last month. The drop in U.S. manufacturing PMI came on top of disappointing Chinese PMI numbers earlier in the week.

Category	DEC	NOV	OCT	SEP	AUG
Total Index	54.1	59.3	57.7	59.8	61.3
Orders	51.1	62.1	57.4	61.8	65.1
Production	54.3	60.6	59.9	63.9	63.3
Employment	56.2	58.4	56.8	58.8	58.5
Deliveries	57.5	62.5	63.8	61.1	64.5
Inventories	51.2	52.9	50.7	53.3	55.4
Export Orders	52.8	52.2	52.2	56.0	55.2
Prices paid (not seas adj)	54.9	60.7	71.6	66.9	72.1

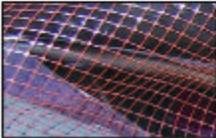
Here's what some of the ISM survey respondents had to say:

- “Growth appears to have stopped. Resources still focused on re-sourcing for U.S. tariff mitigation out of China.” (Computer & Electronic Products)
- “Brexit has become a problem due to labeling changes.” (Chemical Products)
- “Customer demand continues to decrease [due to] concerns about the economy and tariffs.” (Transportation Equipment)
- “Starting to see more and more inflationary increases for raw materials. Also, suppliers [are] forcing price increases due to tariffs.” (Food, Beverage & Tobacco Products)
- “The ongoing open issues with tariffs between U.S. and China are causing longer-term concerns about costs and sourcing strategies for our manufacturing operations. We were anticipating more clarity [regarding] tariffs at the end of 2018.” (Machinery)
- “Business is steady, but pace of incoming orders are slowing.” (Furniture & Related Products)
- “Business is robust for certain sectors [aerospace] and flat to downward for others [energy]. Tariffs continue to impact business direction and profit.” (Miscellaneous Manufacturing)
- “Caution seems to be the outlook. Are we in a correction, or is the market getting ready to slow over time?” (Fabricated Metal Products)
- “No major change in business operations towards the end of 2018; however, we are carefully monitoring oil prices and outside influence from market conditions to better understand our 2019 outlook and capital plans.” (Petroleum & Coal Products)
- “Customers are hedge buying in December as a result of announced price increases starting in January.” (Textile Mills)

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Commodity Markets

Ferrous –

The Wall Street Journal reported last week that as of December 17, “the Commerce Department... granted about 75% of the 19,000 requests it processed to exclude products from tariffs on foreign steel that took effect in March... Exclusions issued so far cover 3.8 million tons of steel, or about 16% of the finished foreign steel entering the U.S. through 11 months of 2018.”

According to the American Iron and Steel Institute, “In the week ending on December 29, 2018, domestic raw steel production was 1,899,000 net tons while the capability utilization rate was 81.0 percent... The current week production represents a **13.3 percent increase** from the same period in the previous year. Production for the week ending December 29, 2018 is up 1.6 percent from the previous week ending December 22, 2018 when production was 1,870,000 net tons and the rate of capability utilization was 79.8 percent. Adjusted year-to-date production through December 29, 2018 was **95,063,000 net tons**, at a capability utilization rate of 78.3 percent. That is **up 6.2 percent** from the 89,483,000 net tons during the same period last year, when the capability utilization rate was 74.0 percent.”

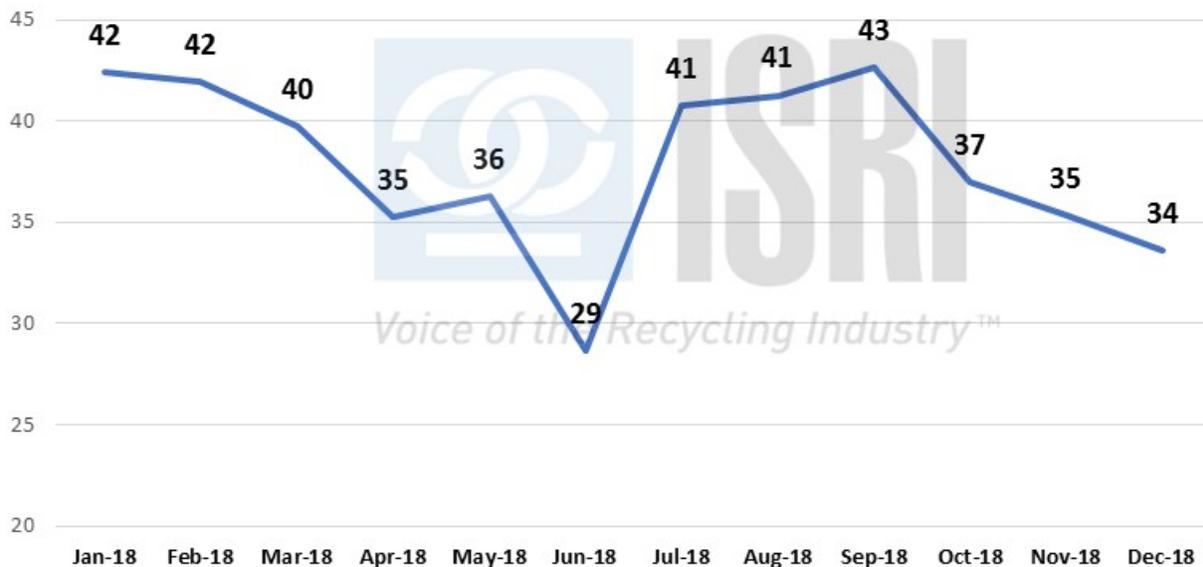
Ferrous scrap prices advanced over the course of 2018, with No. 1 heavy melt averaging \$333.50 per ton. U.S. ferrous scrap exports were up about 20 percent in 2018 compared with 2017 thanks to improved overseas demand for obsolete ferrous scrap. On the domestic front, new durable goods orders hovered around \$243 billion per month and were on a similar track with ferrous scrap prices. While purchasing has remained consistent, capacity utilization and personal expenditures on durable goods steadily increased over the course of the year. U.S. automobile sales were similar in 2017 and 2018 in terms of the number of units sold, but the composition of those sales shifted 5 percent from passenger vehicles to light trucks or larger vehicles.

Nonferrous –

Our friends at the International Copper Study Group report that world secondary refined copper production (from scrap) increased 12% during the first 9 months of 2018 to more than 3.4 million metric tons. COMEX copper prices rebounded on Friday but as we report in our 2019 Market Forecast to appear in the Jan/Feb edition of Scrap magazine, “China’s restrictions on copper and copper alloy scrap imports continue to reshape the global market, a process that’s likely to continue well into 2019. According to trade figures from the U.S. Commerce Department, U.S. copper and copper alloy scrap shipments to mainland China were down 55 percent by volume during the first 10 months of 2018, although larger shipments to Malaysia, South Korea, Japan, India, Thailand, and other countries helped offset the reduction in Chinese demand. China’s increased demand for higher-quality packages of No. 1 (Bare Bright) and No. 2 copper may contribute to tighter market conditions for those commodities, while lower-quality scrap commodities may see more balanced market conditions.” Meanwhile, Fastmarkets AMM reports that spreads on No. 2 copper scrap in the U.S. tightened significantly in the fourth quarter of 2018:

**Average Monthly No. 2 Copper Scrap Discounts to U.S. Refiners
(cents/lb.)**

Source: Fastmarkets AMM



Paper and Plastic –

The Chinese government has granted RCP import licenses of 5.47 million metric tons to 58 companies in two rounds of releases. The second round of licenses appear to be an expansion focused on large packaging producers and believed to be an anticipatory move to avoid problems in their domestic RCP market. This is a good sign that the government is aware of the market effects of a heavy-handed approach to their import policy restrictions on scrap recyclables. Does it mean that the older paradigm of Chinese consumption of recovered paper is on the horizon? That’s still highly doubtful.

Dr. Paper of BMO Capital Markets has many of the major packaging producers rated at or above expected market performance. The indication of market optimism for packaging producers going into 2019 may be helpful as the overall performance of these stocks have been down virtually across the board at this time a year ago.

Bans on single-use plastics are becoming a growing trend as New York, NY and Washington, DC implement bans on [expanded polystyrene \(EPS\) food service packaging](#) and [straws](#). The [European Parliament approved a ban on single-use plastics by 2021](#) which include sticks for cotton swabs, cutlery, and straws. The European legislation goes further to restrict product design, collection systems for beverage bottles, and implementing consumption reduction targets. These initiatives seem much more driven by the alarmed reaction to marine litter which unfortunately may push onerous restrictions onto recyclers despite the viable solutions requiring smartly regulated international trade.

Despite calls from OPEC to reduce production and buoy up prices, [production cutbacks softened significantly during the second half of 2018](#). Saudi Arabia, UAE, Kuwait, and Iraq are some of OPEC's largest producers and least compliant to the terms of the production cutback. Their production cutback noncompliance, however, pales in comparison to virtual disregard that the non-OPEC countries, who were party to the production cutback agreement, have continued or increased their production pace. With U.S. production of fossil fuels (particularly natural gas) rapidly increasing, the glut in supply is likely to continue to suppress pricing into 2019. That will make the natural gas feedstock for virgin plastic resin looking rather cheap.

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

Transportation

Congestion at the Ports of Los Angeles-Long Beach [have shippers in a frustrated bind due to detention and demurrage charges](#) building up. Much of the congestion is due to businesses front-loading imports from China to avoid the new set of tariffs that were supposed to take effect on Jan 1, 2019. The tariff deadline has been delayed to March 1 but that came after many ships were already on the water.

On the other side of the [U.S. the Port Authority of NY/NJ is exploring an expansion to accommodate 18,000 TEU container ships](#) into its facilities. The expansion would include a widening of shipping lanes that would permit such super-sized carriers to pass each other going in and out of the harbor and free up a chokepoint for this shipping lane. However, another developing move would be to expand the terminal facilities before the Kill Van Kull Bridge. This would be significant departure from the port's sunken costs to deepen the channel and raise the bridge. TEU traffic to the port has increased 6.5 during the first three quarters of 2018 compared to the same time a year before. While safety concerns have kept regulators recommending that the expansion doesn't go much further, the number of mega-vessels has been increasing from 7 per month entering the harbor to 19 per month.

This Week's Story

Sven and Ole buy a mule. But when they get it home, they can't get it into the barn. It just won't go.

Sven says, "I know just the problem. He won't fit through the door because his ears are too long."

Ole sees that Sven is right, thinks a bit, and then says, "I know what we can do. We should raise the barn by a foot, so he'll fit."

Sven asks, "Wouldn't it be easier to dig a ditch for him to walk in?"

Ole says, "Sven, don't be such a dummy! It's his ears that are too long, not his legs!"

This Week's Quote

"Life is like riding a bicycle. To keep your balance, you must keep moving."

-- Albert Einstein