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**This Morning**

Reuters reports this morning that "Oil prices steadied on Monday after slipping by around 2 percent last week, but remained under pressure from oversupply and concern over the prospects for global economic growth and fuel demand." Slower industrial production in China reported late last week took a toll on investor confidence as markets gear up for this week's Fed announcement. In New York, NYMEX crude oil futures steadied around \$51.90 per barrel while COMEX copper futures dipped below \$2.74 per pound. In London, base metal prices were mostly softer this morning with LME 3-mo. copper trading around \$6,100 per ton while 3-mo. aluminum dipped below \$1,925/mt (= 87 cents/lb.). In foreign exchange trading the euro edged up to around \$1.134 while the dollar was buying 113.3 Japanese yen.

**Selected Primary Commodity Prices: December 17, 2018**

	Last	CHG	% CHG	Prior	Open	High	Low
<b>COMEX Copper Mar (\$/lb.)</b>	2.7385	-0.024	-0.9%	2.763	2.75	2.760	2.738
<b>COMEX Gold Feb (\$/to)</b>	1,243.6	2.2	0.2%	1,241.4	1242.8	1,244.0	1,239.4
<b>COMEX Silver Mar (\$/to)</b>	14.69	0.1	0.4%	14.64	14.66	14.71	14.6
<b>NYMEX Light Sweet Crude Feb (\$/bbl)</b>	51.89	0.4	0.8%	51.47	51.52	52.06	51.38
<b>SHFE Aluminum Feb (RMB/mt)</b>	13,645	5	0.0%	13,640	13,630	13,695	13,600
<b>SHFE Copper Feb (RMB/mt)</b>	49,100	-50	-0.1%	49,150	48,800	49,300	48,740
<b>SHFE Nickel May (RMB/mt)</b>	90,240	990	1.1%	89,250	89,050	91,040	88,900
<b>SHFE Zinc Feb (RMB/mt)</b>	20,870	35	0.2%	20,835	20,540	21,155	20,520

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## The Week Ahead

The Fed's rate decision will be a key feature this week, with a rate hike all but assured. The Wall Street Journal reports "All but one of the 60 economists polled expect the Fed to raise its benchmark federal-funds rate... to a range between 2.25% and 2.5%. But they dialed back their median forecast for 2019, calling for two rate increases next year rather than the three they expected when surveyed last month." Other key U.S. economic releases out this week will cover building permits & housing starts, existing home sales, durable goods orders, personal income & spending, leading economic indicators, and an update to third quarter GDP. Overseas, we'll get updates on U.K. GDP, retail sales, inflation, and the Bank of England's latest monetary policy statement, which should be especially interesting in light of the Brexit troubles. We will not publish a Market Report next week so we'd like to take this opportunity to wish you all a joyous and safe holiday season! We'll be back with our last report of 2018 on Monday, December 31 and we hope both of you will read that special New Year's Eve report. Happy Holidays!!!

## U.S. Economic Calendar: December 17-21, 2018

Date	Time	Release	Period	Prior
Dec 17	08:30	Empire Manufacturing	Dec	23.3
Dec 17	10:00	NAHB Housing Market Index	Dec	60
Dec 17	16:00	Net Long-Term TIC Flows	Oct	\$30.8B
Dec 18	08:30	Building Permits	Nov	1263K
Dec 18	08:30	Housing Starts	Nov	1228K
Dec 19	07:00	MBA Mortgage Purchase Index	12/15	1.6%
Dec 19	08:30	Current Account Balance	Q3	-\$101.5B
Dec 19	10:00	Existing Home Sales	Nov	5.22M
Dec 19	10:30	Crude Inventories	12/15	NA
Dec 19	14:00	FOMC Rate Decision	Dec	2.125%
Dec 20	08:30	Continuing Claims	12/8	1661K
Dec 20	08:30	Initial Claims	12/15	206K

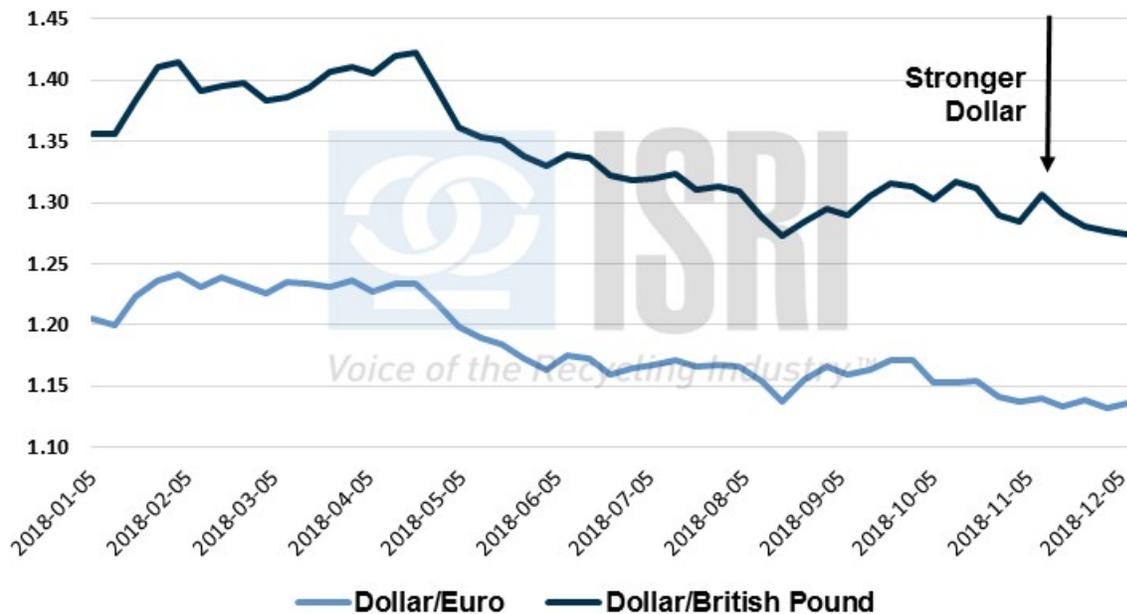
Dec 20	08:30	Philadelphia Fed	Dec	12.9
Dec 20	10:00	Leading Indicators	Nov	0.1%
Dec 20	10:30	Natural Gas Inventories	12/15	-77 bcf
Dec 21	08:30	Durable Goods –ex transportation	Nov	0.1%
Dec 21	08:30	Durable Orders	Nov	-4.4%
Dec 21	08:30	GDP - Third Estimate	Q3	3.5%
Dec 21	08:30	PCE Prices	Nov	0.2%
Dec 21	08:30	PCE Prices - Core	Nov	0.1%
Dec 21	08:30	Personal Income	Nov	0.5%
Dec 21	08:30	Personal Spending	Nov	0.6%

## Economic Week in Review

While recent statements from Federal Reserve officials have investors wondering if 2019 interest rate hikes will stick to schedule, the European Central Bank announced [it is ending its quantitative easing program](#). This may impact the valuation gap between the euro and dollar should U.S. interest rate hikes get delayed as European monetary conditions tighten. Here's the year-to-date appreciation of the dollar against the euro and pound in 2018:

### YTD Dollar/Euro and Dollar/British Pound Exchange Rates

Source: Federal Reserve



The strong dollar, U.S.-China trade war, Brexit worries, and expectations for rising U.S. interest rates have all been widely cited as sources of global market jitters. Indicators of slower European manufacturing growth have also raised concerns. According to IHS Markit, "Eurozone Manufacturing PMI signaled the continued growth slowdown of the single currency area's manufacturing economy... Although remaining above the crucial 50.0 nochange mark for a sixty-fifth month running, the final PMI

came in at 51.8 in November, down from 52.0 in October and the **lowest reading since August 2016.** They also report the Eurozone business confidence is at the weakest level in around six years.

## Eurozone Manufacturing PMI in 2018

Source: IHS Markit



Here in the U.S., real-estate speculation appears to be slowing down, pointing to a weakening longer-term outlook on the U.S. housing market. The Wall Street Journal reports “The national housing slowdown is spreading to markets like Las Vegas and Phoenix, where prices still haven’t reclaimed their pre-crisis peaks.” We’ll get new data on housing starts and building permits, along with existing home sales data, this week. On a positive note, recently released U.S. inflation and jobs numbers continue to point to healthy economic growth in the near term. The Bureau of Labor Statistics reported last week that the Producer Price Index was up just 0.1% in November while the Consumer Price Index was flat (0.0%) last month. As for the labor market, U.S. job openings rose to nearly 7.08 million in October while there were 332,000 job openings in the durable goods manufacturing sector. This exceeds any level seen since 2001. While producer prices for recyclers have eased as of late due in part to Chinese trade restrictions, U.S. durable goods manufacturing job openings have continued to improve according to the BLS data:

## U.S. Job Openings at Durable Goods Manufacturers vs. Producer Prices for Material Recyclers - 10 yr review

Source: Bureau of Labor Statistics



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## Commodity News

### Ferrous –

Last week, Scrap Price Bulletin was listing U.S. composite ferrous scrap prices for No. 1 HMS at \$335.17/gt (+13% Y-o-Y), shredded at \$362.17/gt (+16% Y-o-Y), and No. 1 Dealer Bundles at \$392.17/gt (+13% Y-o-Y). Fastmarkets SPB notes, “North America’s ferrous scrap market settled in a two-tier direction in December, with the Coasts down \$10 to \$20, the Midwest and South generally sideways, and Canada up slightly.” Unsteady export demand was cited as a source of price weakness along the coasts. AMM reported last week that “Turkish steel mills continued to stay out of the deep-sea scrap markets on

Thursday December 13 and are unlikely to resume buying any time soon due to the continuing lack of demand for finished steel in the country's domestic and export markets.”

For the year to date (through October), Turkish demand for U.S. ferrous scrap was up 2% as compared to the first 10 months of 2017 to more than 2.9 million metric tons, according to Commerce Dept. trade data. But the data also show a slowdown in shipments to Turkey in October to just over 230,000 mt, down from more than 350,000 mt shipped in September.. However, improved trade flows with Thailand, Malaysia, Mexico, Taiwan, South Korea, and Bangladesh, among other, more than offset the October downturn in Turkish demand. For the Jan-Oct 2018 period, the official trade figures show U.S. exports of ferrous scrap (ex-stainless and alloy steel scrap) were up 20% year-on-year to nearly 13.4 million metric tons.

## Monthly Trend in U.S. Ferrous Scrap Exports to Major Destinations

(Excluding Stainless and Alloy Steel Scrap)  
Metric tons

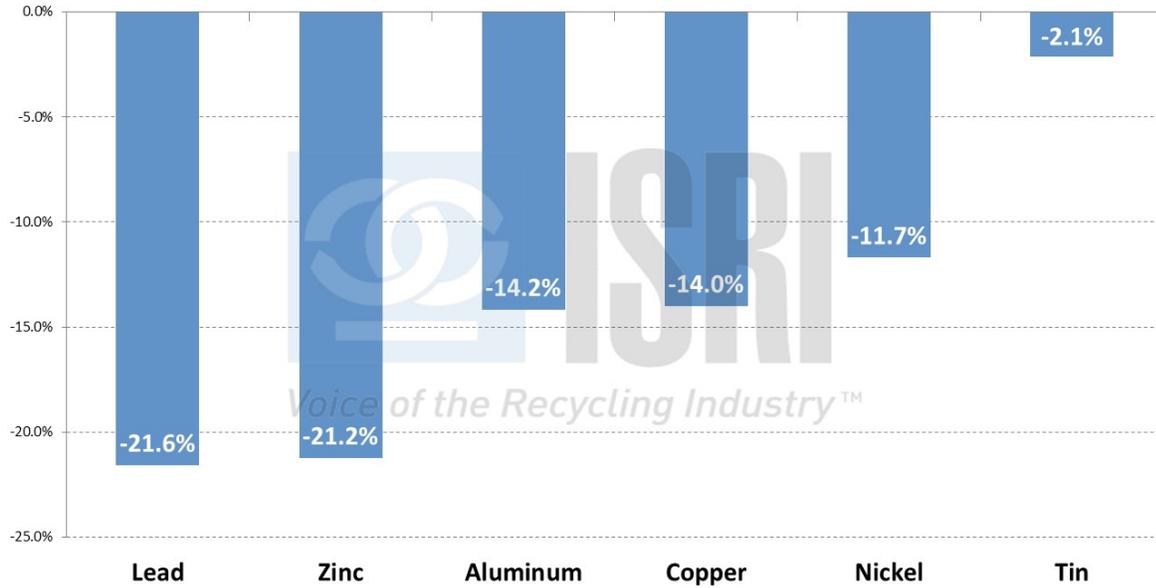
Country	APR 18	MAY 18	JUN 18	JUL 18	AUG 18	SEP 18	OCT 18
Turkey	328,541	215,238	146,727	367,478	299,578	351,806	230,484
Mexico	223,409	213,822	142,023	145,358	152,322	86,484	116,769
Taiwan	191,340	179,671	141,377	115,165	172,820	120,953	181,927
Vietnam	28,201	54,746	81,370	93,399	71,695	172,949	157,987
India	103,569	178,364	43,408	40,878	35,375	51,764	54,398
Korea	10,449	50,196	128,088	88,715	80,060	122,911	142,278
Bangladesh	193,039	34,089	67,249	109,307	67,483	68,190	100,565
Egypt	0	198,404	42,035	108,998	140,341	38,017	42,995
Canada	63,845	61,969	50,294	45,764	38,776	36,265	55,079
Thailand	6,573	40,449	39,863	36,091	63,325	5,398	122,182
China	106,681	22,933	6,815	16,083	10,169	11,138	5,713
Indonesia	17,280	23,898	52,201	11,811	96,092	18,028	19,551
Kuwait	46,350	43,000	38,371	46,927	44,000	0	0
Malaysia	12,265	21,398	22,103	51,107	16,382	18,702	88,055
Pakistan	36,510	37,449	27,178	22,495	24,039	26,013	32,635
Peru	64,577	33,072	0	0	32,500	32,326	30,000
Others	28,271	77,828	86,098	26,105	143,061	31,461	28,293
<b>Total:</b>	<b>1,460,900</b>	<b>1,486,526</b>	<b>1,115,200</b>	<b>1,325,681</b>	<b>1,488,018</b>	<b>1,192,405</b>	<b>1,408,911</b>

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

### Nonferrous –

Through December 13<sup>th</sup>, prices for the major nonferrous metal at the London Metal Exchange were all in negative territory as compared to the end of last year. Lead prices have been the worst performer this year (-21.6%) while tin prices have held up relatively (-2.1%) well.

**YTD 2018 Percentage CHG in LME Official 3-Mo. Nonferrous Metal Asking Prices through Dec 13, 2018 (%)**

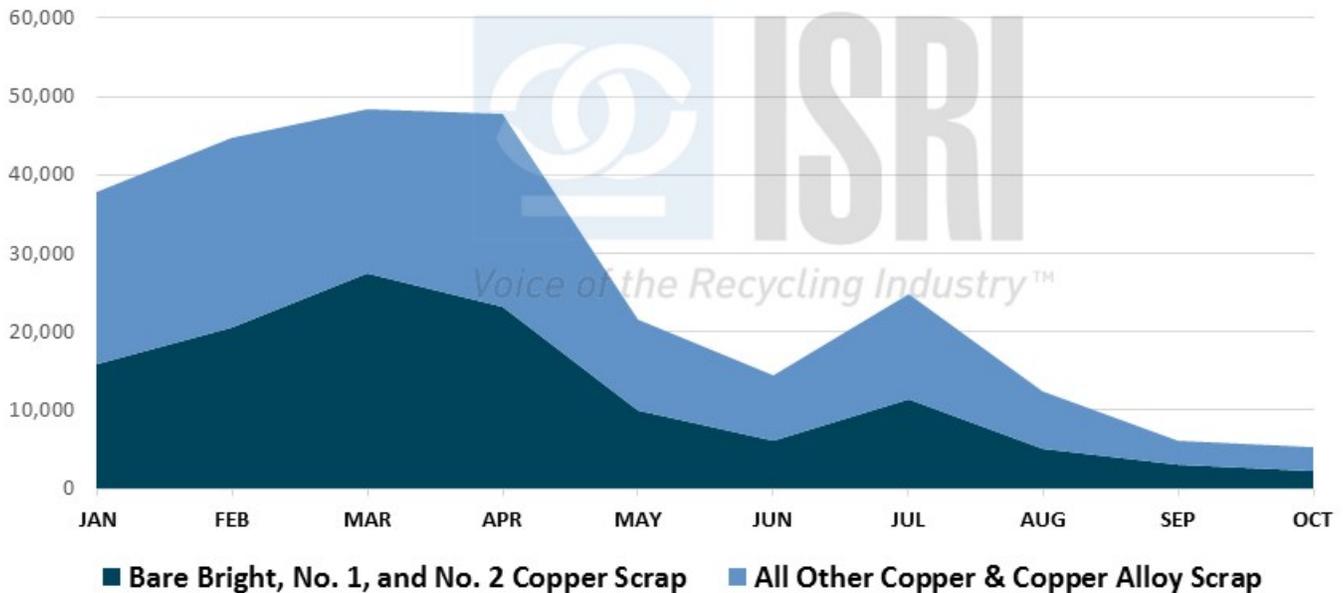


The average LME 3-mo. asking price for copper was down 14% through December 13<sup>th</sup>, while AMM continues to report divergence between spreads for different grades of copper and copper alloy scrap: “Copper and brass scrap markets in the United States were mixed this week, with fading domestic demand weighing on some copper scrap discounts while firm overseas demand helped to hold other prices steady.” While Chinese demand for higher quality copper & alloy scrap grades has held up relatively better than for other commodities, the trend overall has been painful:

## Monthly U.S. Exports of Copper and Copper Alloy Scrap to China, 2018

Metric tons

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



While copper and copper alloy scrap shipments to China are down 55% by volume so far this year, gains to Malaysia, South Korea, Japan, India, Thailand, and others helped to offset the reduction in shipments to mainland China. Of note, there is a nice new [tool](#) from the U.S. International Trade Administration to help exporters determine what new markets they might want to look at developing. It's super easy to use, just enter in the 6 digit HS code, what country you're currently doing business with, and zip code, and it comes back with top markets to look at, how much of that product those countries are buying, and what the tariff levels are. It also provides info about the US market share, import growth, import costs, and other factors. ITA will have a webinar on how to use the tool next Tuesday the 18<sup>th</sup> at 10 am, here's where to sign up: <https://emenuapps.ita.doc.gov/ePublic/event/editWebReg.do?SmartCode=9QCF>.

## Monthly Trend in U.S. Copper and Cu Alloy Scrap Exports to Major Destinations

Metric tons

Country	2017	Jan-Oct 2017	Jan-Oct 2018	YTD % CHG
China	687,894	581,734	263,494	-55%
Malaysia	5,553	2,799	83,926	2899%
Canada	93,461	82,971	77,285	-7%
Korea	31,334	23,870	52,353	119%
Japan	21,145	17,765	40,841	130%
India	24,869	20,488	37,484	83%
Hong Kong	36,345	30,537	36,246	19%
Germany	30,657	25,432	30,060	18%

Taiwan	8,645	6,698	27,878	316%
Belgium	16,435	13,655	24,211	77%
Thailand	677	316	13,485	4163%
Pakistan	9,571	8,718	12,157	39%
Netherlands	8,376	6,830	8,836	29%
Spain	7,501	5,587	8,580	54%
Indonesia	1,118	839	6,960	729%
Greece	251	118	5,931	4918%
Others	20,383	17,256	27,561	60%
<b>Total:</b>	<b>1,004,215</b>	<b>845,614</b>	<b>757,289</b>	<b>-10%</b>

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

## Paper and Plastic –

China's demand for U.S. recovered paper reportedly dropped sharply in November. RISI reports that west coast exports for DSOCC-12 declined by \$50 per short ton. Chinese demand for recovered paper tends to drop the closer we get to the Lunar New Year. While processors may rightly consider this unusual, the new trade policies have already changed consumption patterns and a relatively significant increase in OCC exports during the late summer months into the fall was also a departure from usual consumption demand from China.

Food packaging is continuing to make forays into the recycling stream. The Paper Stock Report recently posted that [Tetra Pak and Veolia are in a partnership to enable the recycling of their beverage cartons in European recycling programs by 2025](#). This may be [prompting](#) other adaptations such as Georgia-Pacific's intention to add sorting capacity to their containerboard mill in Toledo, OR. However, the focus for such an addition would be to source from commercial sources rather than transfer from residential curbside programs.

Japan's state minister of the environment announced that [Japan needs to move away from waste-to-energy](#). Plastic scrap volumes have been increasing beyond their capacity to mechanically process or landfill. This may be a difficult pill to swallow for Japan as their domestic sources for energy are rather limited. The glut of fossil fuels from the U.S., Russia, and Saudi Arabia is unlikely to help keep feedstocks down and consumer demands appear to be shifting towards more film consumption as alternatives for other plastic products are being adopted.

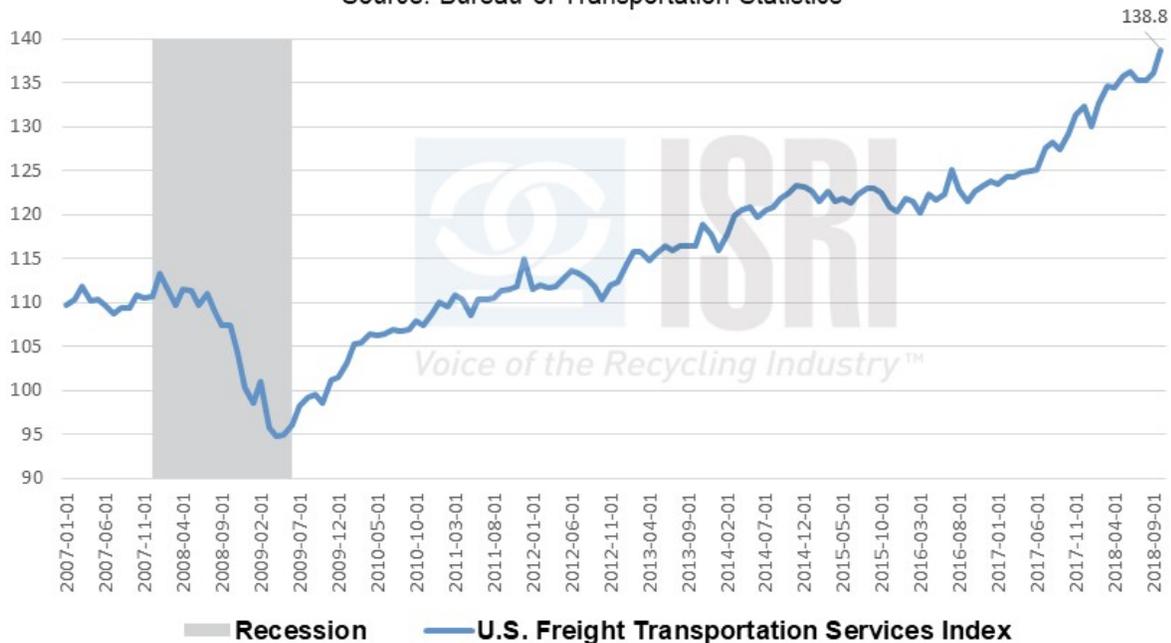
For more information, please contact ISRI Research Analyst [Bernie Lee](#).

## Transportation

Freight services remain in high demand according to the Bureau of Transportation Statistics' latest release: "The Freight Transportation Services Index (TSI), which is based on the amount of freight carried by the for-hire transportation industry, rose 2.0 percent in October from September, rising for the second consecutive month **to reach a new all-time high**... The October 2018 index level (138.8) was 46.4 percent above the April 2009 low during the most recent recession."

## Freight Transportation Services Index

Source: Bureau of Transportation Statistics



Separately, the Association of American Railroads reports that U.S. rail traffic was up 3.1 percent over the first week of December compared to the same week in 2017. Intermodal traffic was comparatively up 5.7 percent. As truck driver availability has stagnated, this uptick in intermodal traffic underscores the importance of port to rail transport as a key logistic lynchpin for timely deliveries.

North American rail volume on 12 reporting U.S., Canadian and Mexican railroads totaled 370,277 carloads, up 0.04 percent compared with the same week last year, and 395,454 intermodal units, up 5.4 percent compared with last year. Total combined weekly rail traffic in North America was 765,731 carloads and intermodal units, up 2.8 percent. North American rail volume for the first 49 weeks of 2018 was 35,888,446 carloads and intermodal units, up 3.3 percent compared with 2017, according to AAR.

### This Week's Story

Just before Christmas, an honest politician, a generous lawyer, and Santa Claus all got into the elevator at the Ritz-Carlton Hotel in New York. As the elevator descended from the 5th floor down to the lobby, one-by-one they noticed a \$100 bill lying on the elevator floor.

Which one picked up the \$100 bill and handed it in at reception?

Santa of course, the other two don't actually exist!

### This Week's Quote

“God gives the nuts, but he does not crack them.”

-- Franz Kafka

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