

February 19, 2019

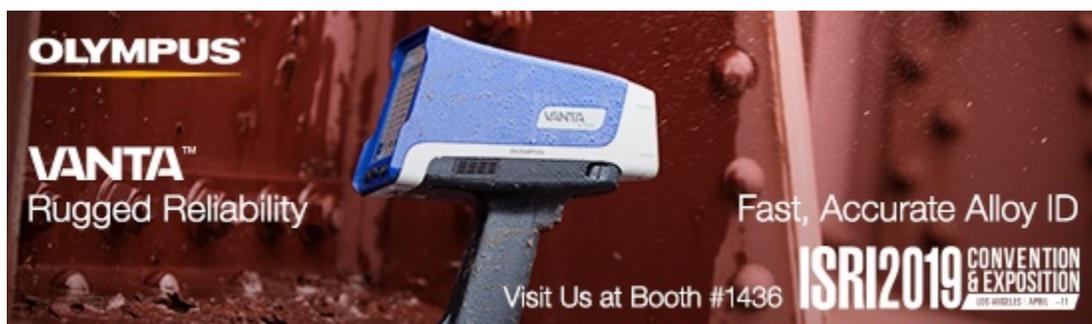
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This Morning

Following the President's Day holiday in the U.S. on Monday, stock futures in the U.S. were pointing to a lower open following the decline in European shares and softer euro. In early foreign exchange trading, the euro dipped to \$1.128 while the British pound was little changed at \$1.292. In commodity markets, the Bloomberg Commodity Index advanced 0.27% this morning amid firmer crude oil, precious metal and base metal futures. In New York, COMEX copper opened higher this morning at \$2.84 per pound while NYMEX crude oil futures rose above \$56 per barrel. Reuters cited the OPEC supply cuts as a supportive feature, reporting "The supply curbs led by the Organization of the Petroleum Exporting Countries have helped crude prices to rise more than 20 percent this year. U.S. sanctions against OPEC members Iran and Venezuela have also tightened the market." In London, base metal prices were mixed this morning with LME 3-mo. copper and aluminum recently trading around \$6,245 and \$1,865 per ton, respectively, while 3-mo. nickel was flat around \$12,465/mt. On the ferrous front, Bloomberg reports today that "BHP Group, the world's biggest miner, doesn't have capacity to raise shipments into the iron ore market as competitor Vale SA faces outages following the fatal mining disaster in Brazil last month."

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Selected Primary Commodity Prices: February 19, 2019

	Last/Settle	CHG	% CHG	Prior Settle	Open	High	Low
COMEX Copper Mar (\$/lb.)	2.8265	0.03	1.0%	2.7985	2.84	2.848	2.8035
COMEX Gold Apr (\$/to)	1,332.3	10.2	0.8%	1,322.1	1,329.2	1,333.5	1,323.8
COMEX Silver Mar (\$/to)	15.8	0.1	0.3%	15.7	15.8	15.8	15.7
NYMEX Light Sweet Crude Apr (\$/bbl)	56.47	0.5	0.9%	55.98	56.46	56.73	56
SHFE Aluminum Apr (RMB/mt)	13,460	-40	-0.3%	13,500	13,480	13,505	13,435
SHFE Copper Apr (RMB/mt)	49,330	520	1.1%	48,810	49,290	49,480	49,160
SHFE Nickel May (RMB/mt)	99,090	1140	1.2%	97,950	98,700	99,680	98,400
SHFE Zinc Apr (RMB/mt)	21,420	-90	-0.4%	21,510	21,360	21,550	21,325

The Week Ahead

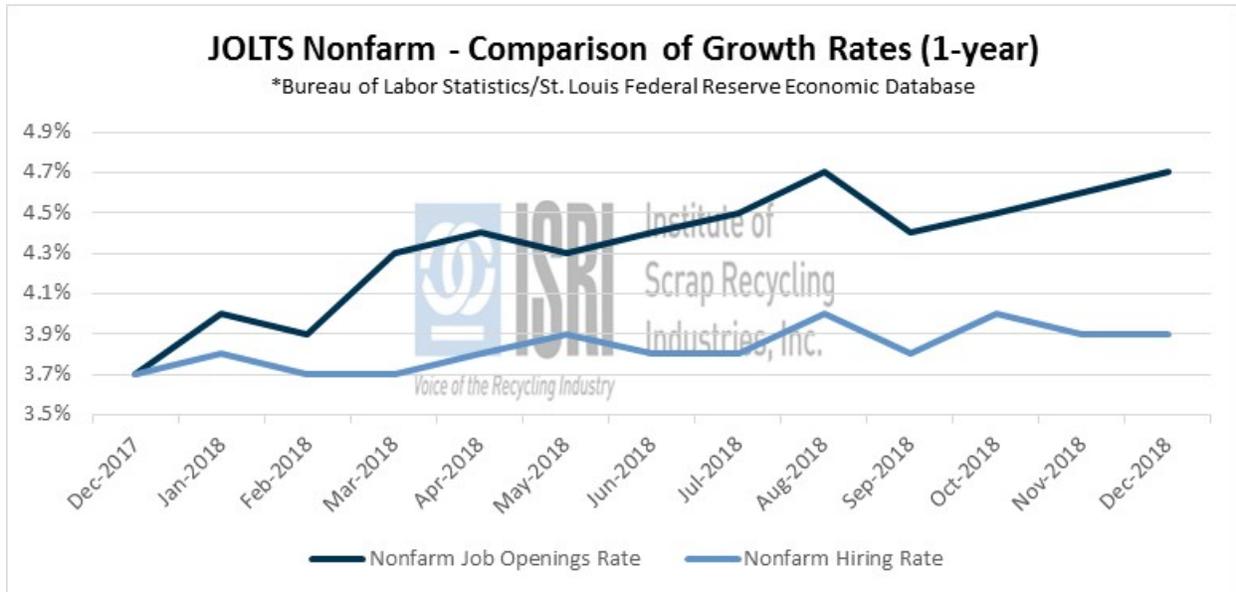
The U.S.-China trade talks continue this week, with the Financial Times reporting “The talks come after US president Donald Trump insisted that far-reaching structural economic reforms had to be part of any “real deal” to end the trade war. The deadlock has raised pressure on Mr. Trump to delay the March 1 deadline to arrive at a deal and avoid an escalation in tariffs on \$200bn of Chinese imports.” On the U.S. economic calendar this week, we’ll get new figures on durable goods orders, existing home sales, leading economic indicators, and the minutes of the last Fed meeting. The consensus forecasts are that durable goods order advanced 1.3% in December and existing home sales rose to 5.05 million units at a seasonally adjusted annual rate in January. Overseas, Theresa May heads back to Brussels for additional Brexit talks while Germany reports on GDP, producer and consumer price inflation, and business confidence. 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: February 19-22, 2019

Date	Time	Release	Period	Consensus	Prior
Feb 19	10:00	NAHB Housing Market Index	Feb	59	58
Feb 20	07:00	MBA Mortgage Applications Index	02/16	NA	-3.7%
Feb 20	14:00	FOMC Minutes	Jan	NA	NA
Feb 21	08:30	Durable Orders	Dec	1.3%	0.8%
Feb 21	08:30	Durable Goods ex-transportation	Dec	0.2%	-0.3%
Feb 21	08:30	Initial Claims	02/16	225K	239K
Feb 21	08:30	Continuing Claims	02/09	NA	1773K
Feb 21	08:30	Philadelphia Fed Index	Feb	12	17.0
Feb 21	10:00	Existing Home Sales	Jan	5.05M	4.99M
Feb 21	10:00	Leading Indicators	Jan	0.1%	-0.1%
Feb 21	10:30	EIA Natural Gas Inventories	02/16	NA	-78 bcf
Feb 21	11:00	EIA Crude Oil Inventories	02/16	NA	+3.6M

Economic Week in Review

The Job Openings and Labor Turnover Survey (JOLTS) report hit a series high at 7.3 million job openings as of the end of December. The hiring growth rate was 3.9 percent while the job openings growth rate was 4.7 percent. This continued outpacing of job openings to hirings is indicative of confidence that business opportunities are growing, while the lagging rate of hiring may be due to belated wage growth.



Other economic reports out last week showed core consumer price (+0.2%) and producer price (+0.3) inflation were largely in line with expectations in January, although December retail sales (down 1.2% month-on-month) were unexpectedly soft, according to Census Bureau figures. The Federal Reserve's report on U.S. industrial production last week was also something of a disappointment as manufacturing production reportedly declined 0.9% in January, dragging industrial 0.6% lower for the month despite modest gains in utilities (+0.4%) and mining output (+0.1%). According to Briefing.com, "The key takeaway from the report is that it will feed into concerns about a slowing U.S. economy. Manufacturing production fell 0.9% due to the downturn in motor vehicle assemblies, but excluding that factor, manufacturing production was still down 0.2% with decreases logged for most other major durable goods industries."

Category	JAN	DEC	NOV	OCT	SEP
Industrial Production					
Total Index	-0.6%	0.1%	0.6%	0.3%	0.2%
Manufacturing	-0.9%	0.8%	0.3%	-0.1%	0.2%
Utilities	0.4%	-6.9%	2.2%	3.4%	-1.3%
Mining	0.1%	1.5%	1.0%	0.2%	0.9%
Capacity Utilization					
Total Industry	78.2%	78.8%	78.9%	78.6%	78.5%
Manufacturing	75.8%	76.5%	76.0%	75.9%	76.1%

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Commodity News

Ferrous –

According to the Federal Reserve's report last week, total U.S. industry capacity utilization declined from 78.8% in December to 78.2% in January. Capacity utilization in the U.S. steel sector for the week ending February 16th came in at 81.0% according to the American Iron and Steel Institute. That compares to a capacity utilization rate of 81.5% the prior week but 77.9% one year ago. For the year-to-date, AISI reports that U.S. steel production is up 8.4% to 12.737 million net tons.

AISI also reports that U.S. finished and total steel imports during Jan-Nov 2018 declined 10.8% and 13.2%, respectively, as compared to the corresponding period in 2017. By product, the biggest YTD percentage declines in U.S. imports included heavy structural shapes (-34%), wire rod (-30%), and cold-rolled sheet (-23%). Imports of finished steel mill products are reportedly down sharply this year from Turkey (-48%), South Korea (-25%), Taiwan (-16%), and China (-15%), the association reports.

**U.S. IMPORTS OF FINISHED STEEL MILL PRODUCTS
BY COUNTRY OF ORIGIN**
(thousands of net tons)

COUNTRY	Nov. 2018 Final	Oct. 2018 Final	% incr. Nov. vs. Oct.	YTD 2018 (11 mo.)	YTD 2017 (11 mo.)	% incr. '18 vs. '17	2018 Ann.	2017 12 mo.	% incr. 2018 vs. '17
South Korea	195	183	6.3%	2,674	3,561	-24.9%	2,917	3,753	-22.3%
Japan	115	107	8.3%	1,286	1,422	-9.6%	1,403	1,504	-6.7%
Germany	125	113	10.4%	1,225	1,301	-5.8%	1,336	1,405	-4.9%
Turkey	59	68	-13.3%	1,100	2,133	-48.4%	1,200	2,191	-45.2%
Taiwan	100	71	40.2%	1,016	1,204	-15.6%	1,109	1,245	-10.9%
Vietnam	121	115	5.0%	1,010	700	44.2%	1,101	749	47.1%
China	65	59	10.2%	649	760	-14.6%	708	813	-13.0%
Netherlands	79	78	0.1%	568	608	-6.5%	620	658	-5.8%
All Other	1,063	1,208	-12.1%	14,488	15,991	-9.4%	15,805	17,243	-8.3%
Total	1,921	2,003	-4.1%	24,016	27,681	-13.2%	26,199	29,561	-11.4%

Source: AISI

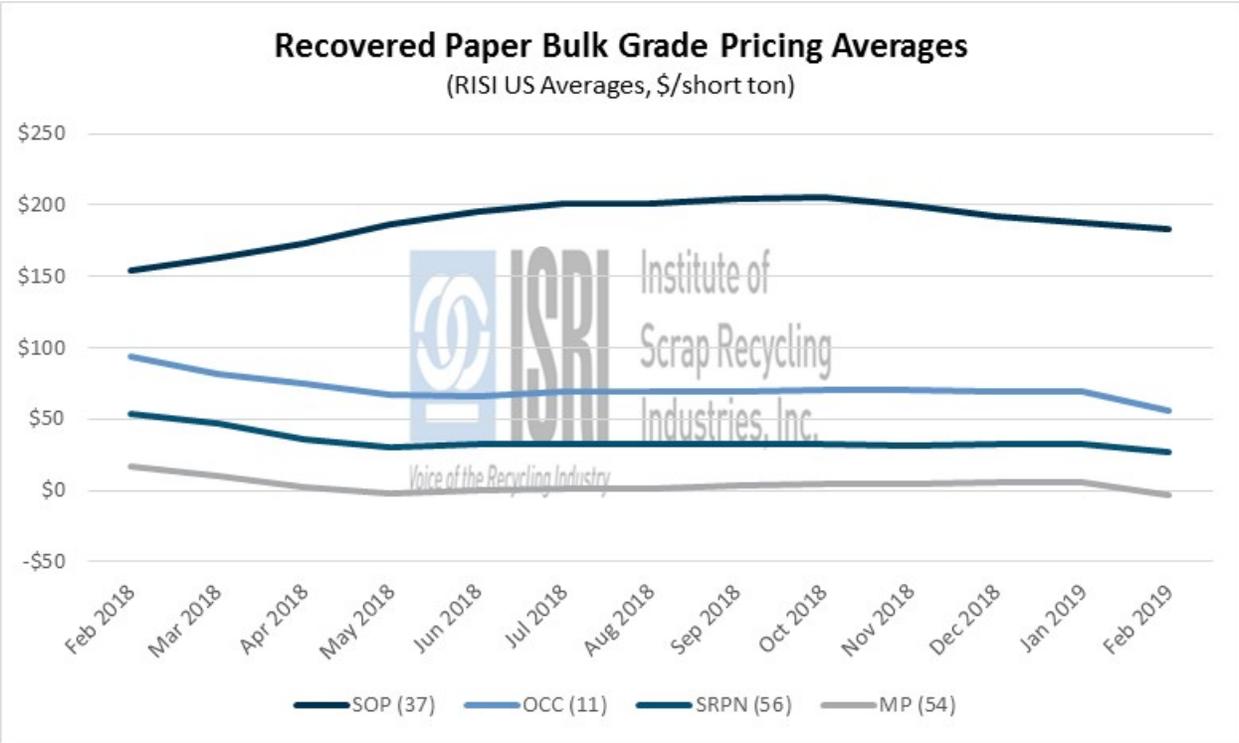
Nonferrous –

Late last week, LME 3-mo. and cash copper prices were trading higher around \$6,180 per metric ton. In comparison, 3-mo. copper was trading \$30 a ton higher than cash one month ago as traders may be

lowering their copper price expectations amid indicators of slowing Chinese economic growth. On the aluminum front, Bob Tita of the Wall Street Journal spoke about falling prices for Twitch and Zorba in his research on current scrap metal trends. Aluminum prices on the LME and SHFE have declined and Fastmarkets MB's Aluminum Spotlight reported that monthly aluminum production in China advanced to 3.025 million tons in November. According to that Fastmarkets' report, as of late January "...the latest Commitment Of Traders' Report {shows} LME aluminium had the largest net short fund position in the base metals complex. Stale-long liquidation pushed its gross long position down to just 61,305 lots at the end of 2018, a contrast to its May high of 122,629 lots. Confident sellers increased their bearish exposure to an annual high of 79,870 lots in 2018, an indication that overall sentiment towards the light metal is firmly bearish." Here's the reported trend in U.S. nonferrous scrap exports through November:

U.S. Exports of Nonferrous Scrap (metric tons)	Year 2017	Jan-Nov 2017	Jan-Nov 2018
No. 1 Copper (Bare Bright)	26,148	23,305	43,074
No. 1 Copper (ex Bare Bright)	155,024	142,947	120,339
No. 2 Copper	122,594	110,172	125,823
Refined Copper	190,648	175,661	183,910
Brass and Copper Alloy Scrap	509,802	475,063	362,591
Stainless Steel	488,307	440,207	734,499
Alloy Steel	704,165	664,124	837,647
Nickel Scrap	29,800	27,271	33,938
Remelt Aluminum Ingot	43,478	38,980	58,282
UBCs	26,651	24,636	38,966
Aluminum Scrap	1,497,116	1,354,962	1,497,998
Battery Lead Scrap	20,033	18,183	9,204
Other Lead Scrap	37,601	33,603	36,760
Zinc Scrap	33,577	29,628	37,219
Other Base Metal Scrap	22,936	21,080	25,158

Paper and Plastic –



Prices softened at the beginning of 2019 as Chinese demand tailed off well in anticipation of the Lunar New Year holidays. Given the limitations on recovered paper imports, this is likely to become an annual trend unless Chinese trade policy changes or significant production capacity comes online outside of Asia.

U.S. Exports of Recovered Paper (metric tons)	Year 2017	Jan-Nov 2017	Jan-Nov 2018
Pulp derived from RP	51,827	47,283	34,796
Corrugated/Board	8,979,920	8,077,178	10,333,092
High Grade Deinking	906,776	830,317	936,279
Pulp Substitutes	751,442	684,697	1,031,730
News Grades	1,758,480	1,597,200	1,146,724
Groundwood Grades	2,337,483	2,151,333	1,591,483
Mixed Paper	3,527,233	3,260,082	2,424,987

U.S. recovered paper export data from the Commerce Department show that buyers have been making the shift to higher quality. While the increase in OCC from Mixed Paper was expected due to the Chinese import restrictions, the increase in deinking and pulp substitute grades is also noteworthy. This change indicates that processing improvements are creating a new bar for the industry. Environmentalists may become concerned about the pricing of mixed paper in that landfilling becomes a more attractive option to improve marginal costs on the processor.

Japanese RP Exports to China (metric tons)	2017	2018	% Change
OCC	872000	1574000	81%
ONP	145000	501000	246%
Magazines	665000	418000	-37%

Deinking grades	50000	63000	26%
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The Paper Recycling Promotion Center (PRPC) of Japan shared some of their trade current trade data with ISRI on Japanese RP exports to China. According to Nobuyuki Kanatani of the PRPC, Chinese buyers were aggressively increasing their demand of Japanese recovered paper and move on the market with little to no vetting. Many Japanese paper companies were concerned about fiber shortages during H2 2018. Since U.S. exports of news grades to China are down nearly 60% over the year while Japanese exports went up 246%, it is evident that Chinese buyers prefer source separation as an indicator of quality.

U.S. Exports of Plastic Scrap (metric tons)	Year 2017	Jan-Nov 2017	Jan-Nov 2018
PE Scrap	635,741	594,698	381,071
PS Scrap	44,577	41,382	24,989
PVC Scrap	160,401	150,006	133,744
PET Scrap	223,176	211,062	110,015
Mixed Plastic Scrap	603,842	562,829	353,762

The demand void created by the import ban on scrap plastics to China has been evident in the export data from the U.S. Census Bureau. Annual declines appear to be less than half for all polymer categories. Since China was previously the destination for nearly two-thirds of these exports, it's a testament to the expansion of alternative markets that the declines were less than 50% on the year over year comparison. However, it may be just as instructive to look at the imports to get a better picture of what's going on.

U.S. Imports of Plastic Scrap (metric tons)	Year 2017	Jan-Nov 2017	Jan-Nov 2018
PE Scrap	68,917	62,987	59,400
PS Scrap	7,476	6,715	8,548
PVC Scrap	17,784	16,236	15,043
PET Scrap	120,307	109,575	135,887
Mixed Plastic Scrap	214,954	198,234	189,346

According to industry participants, scrap HDPE plastics have been dealing with a supply crunch which has been supported by sustained prices reviewed at RecyclingMarkets.net. A further look also showed that PET markets had been more robust in 2018, enough so that the U.S. was a net importer of PET scrap rather than an exporter.

For more information, please contact ISRI Research Analyst Bernie Lee at blee@isri.org.

Transportation Costs

Energy demand has been soft according to the latest Energy Information Administration's Petroleum Status Report. Crude inventories went up 3.6 million barrels after the first week of February. Gasoline and distillate inventories increased as well. This is also following OPEC production cuts led by Saudi Arabia bringing the [OPEC daily production average down by 797,000 barrels per day](#). OPEC's new daily average is at 30.81 million barrels. However, the concept that a production cut will keep oil prices aloft may unravel quickly. Most market forecasters have had their eyes on China as their environmental initiatives gain traction and momentum. But with [an estimated drop in demand of 181,000 barrels per day](#), Germany's decline in oil demand may keep oil markets soft in the medium term. The continued strength of the dollar is also going to impact oil prices.

U.S. On-Highway Diesel Fuel Prices* (dollars per gallon)					
				Change from	
	01/28/19	02/04/19	02/11/19	week ago	year ago
U.S.	2.965	2.966	2.966	0.000	↓ -0.097
East Coast (PADD1)	3.050	3.038	3.031	↓ -0.007	↓ -0.080
New England (PADD1A)	3.188	3.176	3.161	↓ -0.015	↑ 0.007
Central Atlantic (PADD1B)	3.237	3.227	3.225	↓ -0.002	↓ -0.081
Lower Atlantic (PADD1C)	2.893	2.879	2.872	↓ -0.007	↓ -0.094
Midwest (PADD2)	2.806	2.839	2.849	↑ 0.010	↓ -0.171
Gulf Coast (PADD3)	2.789	2.779	2.776	↓ -0.003	↓ -0.075
Rocky Mountain (PADD4)	2.911	2.883	2.870	↓ -0.013	↓ -0.102
West Coast (PADD5)	3.448	3.435	3.435	0.000	↑ 0.003
West Coast less California	3.099	3.087	3.084	↓ -0.003	↓ -0.023
California	3.726	3.711	3.714	↑ 0.003	↑ 0.025

*prices include all taxes

This Week's Story

Three men, all of them inexperienced hikers, are hiking out West and soon lose their way. Eventually, they find themselves at the mouth of a large canyon. One of the three hikers says, "I've got an idea. We can call out for help in this canyon and the echo will carry our voices far."

So he yells out, "Hellllooooo! Where are we?" (They hear his voice echo several times down the canyon). Thirty minutes later, they hear a reply echoing back: "Hellllooooo! You're lost!!"

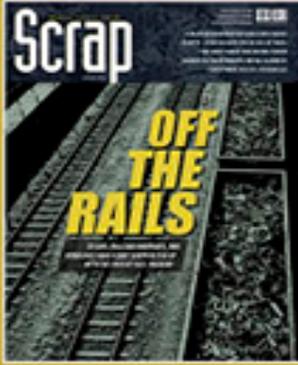
One of the hikers says, "That must have been an economist." Puzzled, one of the other men ask, "Why do you say that?"

"Three reasons," he replies. "One, he took a long time to answer; Two, he was technically correct; and Three, his answer was absolutely useless."

This Week's Quote

"Blessed are the young for they shall inherit the national debt."

-- Herbert Hoover



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