

January 14, 2019

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This Morning

The major commodity indexes started the morning in negative territory as concerns about Chinese growth weighed on market sentiment. The Wall Street Journal Reports, "Data early on Monday showed that China's exports and imports both fell in December from a year ago as the impact of U.S. tariffs started to kick in and demand weakened. China's exports dropped 4.4%, contrary to economists' expectations of a 2.5% growth rate." In Shanghai, base metal prices were mixed this morning with SHFE copper and aluminum settling lower while SHFE nickel was up nearly 1%. In New York, WTI crude oil futures were down more than 1% this morning to less than \$51 per barrel while COMEX copper futures were down 4 cents to around \$2.62 per pound. The weaker than expected Chinese trade data reportedly kept a lid on base metal prices in London, with LME 3-mo. copper recently trading around \$5,888/mt as 3-mo. aluminum eased to \$1,820/mt (=82.6 cents/lb.). On the ferrous front, Fastmarkets AMM reports that ferrous scrap export prices continue to be supported by recent bulk sales to Turkey and South Korea. In foreign exchange trading, the euro eased to \$1.146 and while the greenback was buying 108.08 Japanese yen in early trading this morning.

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Selected Primary Commodity Prices: January 14, 2019

	Last	CHG	% CHG	Prior	Open	High	Low
COMEX Copper Mar (\$/lb.)	2.6215	-0.041	-1.5%	2.662	2.65	2.661	2.617
COMEX Gold Feb (\$/to)	1,296.1	6.6	0.5%	1,289.5	1288	1,296.6	1,287.7
COMEX Silver Mar (\$/to)	15.65	0.0	-0.1%	15.66	15.64	15.69	15.6
NYMEX Light Sweet Crude Feb (\$/bbl)	50.95	-0.6	-1.2%	51.59	51.73	52.11	50.43
SHFE Aluminum Mar (RMB/mt)	13,320	-60	-0.4%	13,380	13,370	13,375	13,255
SHFE Copper Mar (RMB/mt)	47,030	-150	-0.3%	47,180	47,150	47,270	46,730
SHFE Nickel May (RMB/mt)	91,840	780	0.9%	91,060	91,910	92,490	91,400
SHFE Zinc Mar (RMB/mt)	20,365	85	0.4%	20,280	20,355	20,500	20,245

The Week Ahead

On the U.S. economic calendar this week, we'll get the latest figures on U.S. industrial production, capacity utilization, producer price inflation, and regional manufacturing, although some other key economic reports on retail sales and housing starts & building permits are likely to be delayed due to the government shutdown, which should continue to feature prominently. Investors will also be paying close attention to speeches by a number of Federal Reserve Bank presidents this week. Overseas, we'll get new figures on EU industrial production and inflation, along with Japanese data on machine orders, producer prices, and consumer prices. And then there's the Brexit vote, which could lead to a rebound in the dollar against the major European currencies. 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 14-18, 2019

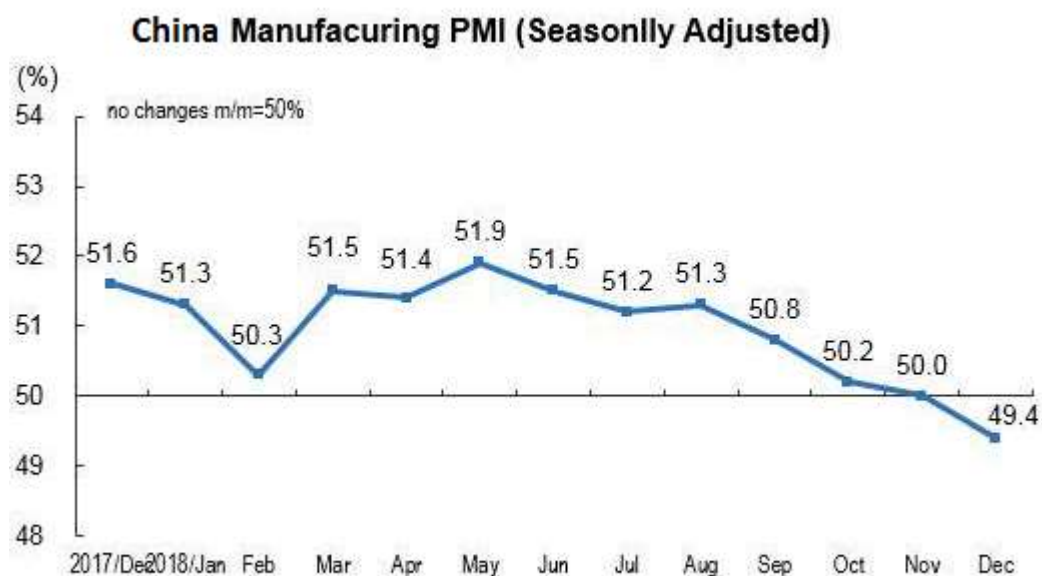
Date	Time	Release	Period	Prior
Jan 15	08:30	PPI	Dec	0.1%
Jan 15	08:30	Core PPI	Dec	0.3%
Jan 15	08:30	Empire State Manufacturing Survey	Jan	10.9
Jan 16	07:00	MBA Mortgage Applications Index	01/12	23.5%
Jan 16	08:30	Export Prices ex-ag.	Dec	-1.0%
Jan 16	08:30	Import Prices ex-oil	Dec	-0.3%
Jan 16	08:30	Retail Sales	Dec	0.2%
Jan 16	08:30	Retail Sales ex-auto	Dec	0.2%
Jan 16	10:00	Business Inventories	Nov	0.6%
Jan 16	10:00	NAHB Housing Market Index	Jan	56
Jan 16	10:30	EIA Crude Oil Inventories	01/12	-1.7M
Jan 16	14:00	Fed's Beige Book	Jan	NA
Jan 16	16:00	Net Long-Term TIC Flows	Nov	\$31.3B
Jan 17	08:30	Housing Starts	Dec	1256K
Jan 17	08:30	Building Permits	Dec	1328K

Jan 17	08:30	Initial Claims	01/12	216K
Jan 17	08:30	Continuing Claims	01/05	1722K
Jan 17	08:30	Philadelphia Fed Index	Jan	9.4
Jan 17	10:30	EIA Natural Gas Inventories	01/12	-91 bcf
Jan 18	09:15	Capacity Utilization	Dec	78.5%
Jan 18	09:15	Industrial Production	Dec	0.6%
Jan 18	10:00	Univ. of Michigan Consumer Sentiment - Prelim	Jan	98.3

Economic Week in Review

The news last week was somewhat more encouraging given the reports of progress on U.S.-China trade talks and the release of minutes from the last Fed meeting that indicate “the extent and timing of further policy firming has become less clear.” The initial market reaction to those developments was positive, helping to underpin stock and commodity market indexes despite the partial U.S. government shutdown.

In China, the latest economic reports have been somewhat less encouraging as of late. CNBC reports “China’s producer inflation rose less than expected for the month of December to hit the lowest growth rate in two years, official data showed on Thursday. The Producer Price Index in December rose 0.9 percent from a year ago, lower than the 1.6 percent economists were expecting in a Reuters poll.” In addition, China’s National Bureau of Statistics reported that the “new {manufacturing} orders index was 49.7 percent, a decrease of 0.7 percentage point month-on-month, and was lower than the threshold, showing that the manufacturing market demand was decreased.”



Source: China National Bureau of Statistics

In the United States, the Bureau of Labor Statistics reports that job openings dipped to less than 6.9 million opening in November, but the news on the labor front overall remains quite positive. Initial unemployment claims for the week ending January 5, 2019 declined to 216,000 and as Briefing.com reports, “The key takeaway from the report is that it fits neatly with the market’s latest awareness that the labor market has held up fine despite the burgeoning concerns about the economy slowing.”

U.S. Job Openings (thousands)

Source: U.S. Bureau of Labor Statistics



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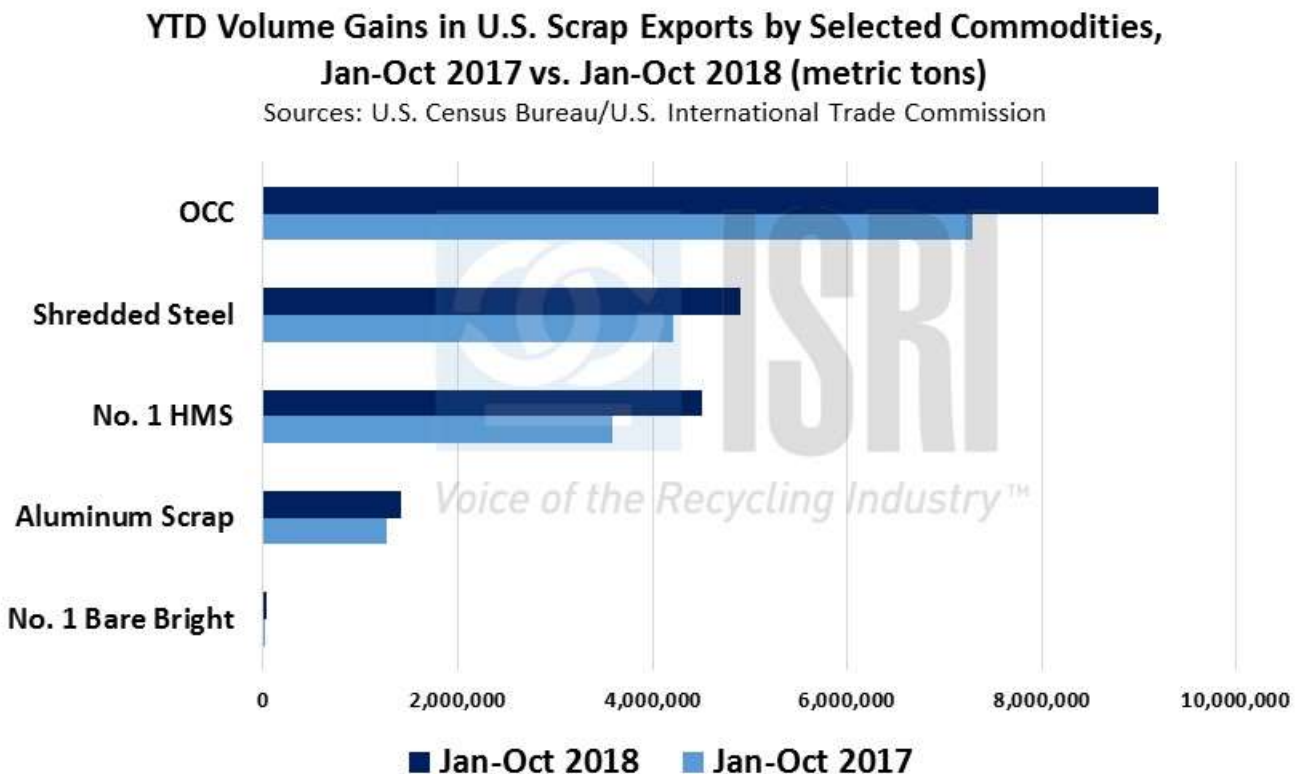
Commodities and Trade

International Trade –

Despite some onerous trade policy shifts, U.S. scrap exports are on track for their best performance since 2013. Which scrap commodities (and countries) are driving this change? Mostly paper and steel.

U.S. OCC exports increased 26% during Jan-Oct of 2018 as compared to the same period in 2017. That's an increase of 1.9 million metric tons of exported material. As for ferrous scrap, No. 1 HMS exports increased 25% (+912,000 metric tons) year-on-year. Bare Bright #1 copper and stainless steel scrap also made large relative leaps of 93% (+18.8k metric tons) and 72% (+286.4k metric tons), respectively, according to Commerce Dept. trade data. Other scrap categories that saw a major increase in export

volumes were shredded steel (+686,000 metric tons), pulp substitutes (+310,000 metric tons), cast iron scrap (+216,000 metric tons), and aluminum scrap (+147,000 metric tons, including UBCs and RSI).

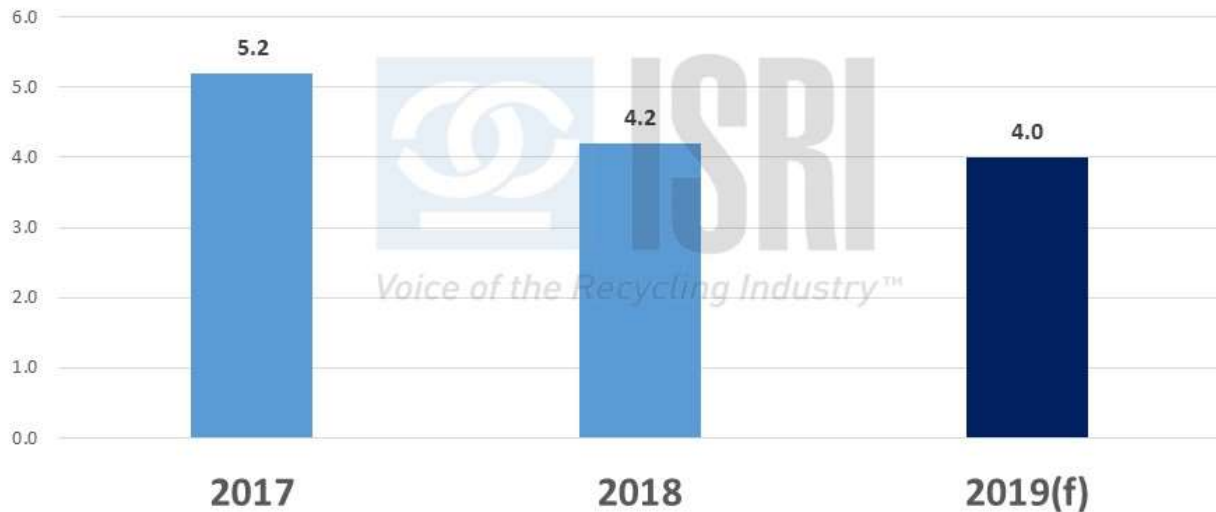


Exports of Bare Bright to South Korea more than quadrupled during the first 10 months of 2018. Mexico, Vietnam, Egypt, Taiwan, and South Korea all increased their imports of No. 1 HMS, so much so that they already exceeded their 2017 totals by the end of Q3 2018. Shipments of recovered paper to China were down across the board, with U.S. exports of OCC to China down 5% for the year-to-date through October. India led the way with an increase of 701,000 metric tons of U.S. OCC shipments. The rest of the 1.9 million metric ton increase in OCC export volumes went to Vietnam, Taiwan, Indonesia, South Korea, Thailand, and about 30 other countries.

Going forward, the International Monetary Fund expects the pace of growth in the global trade of goods and services will continue to decline this year to 4.0 percent, down from 4.2 percent growth in 2018 and 5.2 percent growth in 2017.

Percentage Growth in the Global Trade of Goods and Services, 2017 - 2019 (forecast)

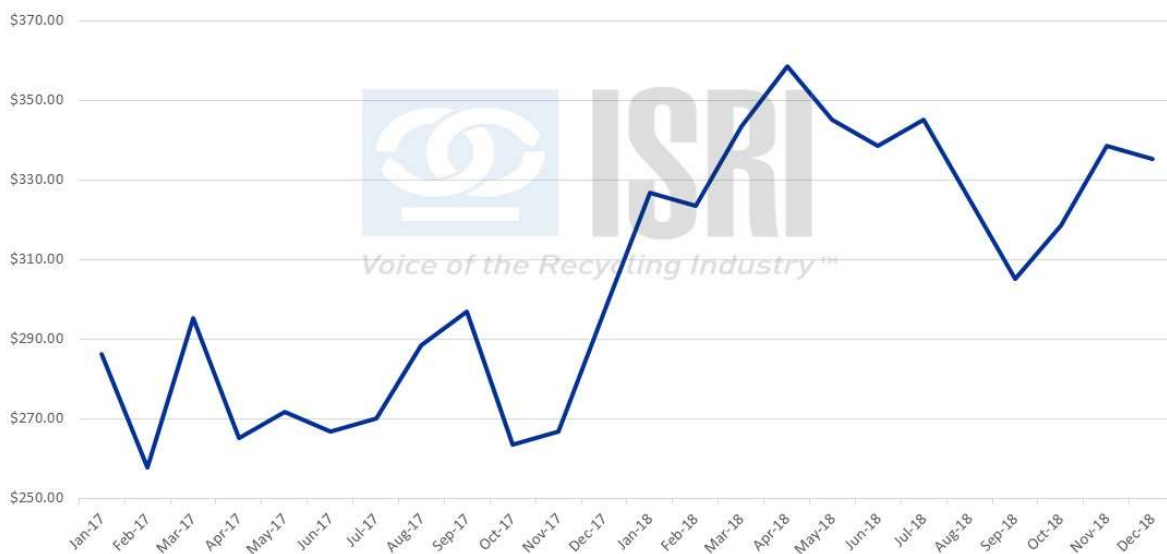
Source: International Monetary Fund



Ferrous –

Fastmarkets AMM reports that their “No. 1 busheling US domestic Midwest Index moved to \$372.11 per gross ton for January, down by 7.3% from \$401.46 per ton in December. The shredded scrap index settled at \$320.42 per ton, down by 8.4% from \$349.75 per ton last month; and the No. 1 heavy melt index decreased by 9.1% to \$293.74 per ton from \$323.19 per ton in the same comparison.” At the same time, AMM reports that Turkish buyers “...booked a 40,000-tonne US cargo comprising HMS 1&2 (80:20) at \$280 per tonne, shredded at \$285 per tonne and bonus at \$290 per tonne cfr.”

No. 1 HMS Monthly Average Prices 2017-2018 (per gross ton)



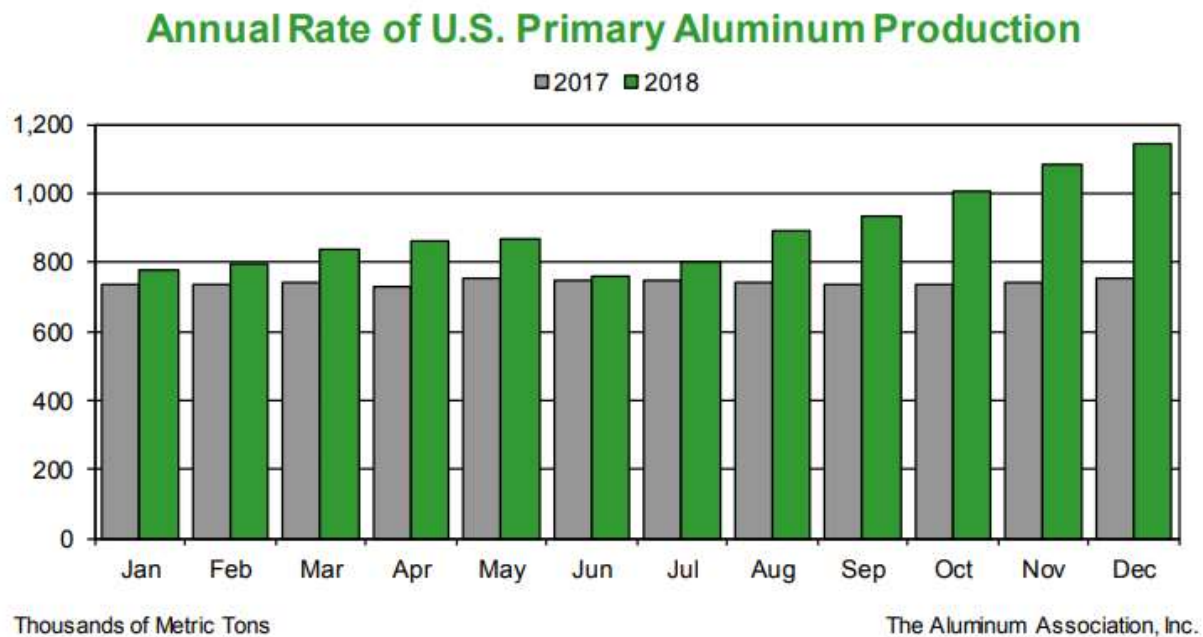
Meanwhile, the American Iron and Steel Institute reports that for “the week ending on January 5, 2019, domestic raw steel production was 1,876,000 net tons while the capability utilization rate was 80.0 percent. Production was 1,704,000 net tons in the week ending January 5, 2018 while the capability utilization then was 73.1 percent. The current week production represents a **10.1 percent increase** from the same period in the previous year.”

And for those of you who may not be regular NPR listeners, AISI President Thomas Gibson was interviewed on *All Things Considered* last week regarding the potential steel wall on our southern border, indicating “We estimate a barrier of about a thousand miles would require about 3 million tons of steel. And the industry is ready to meet that demand, to produce the steel that’s required for the project.”

Nonferrous –

On the aluminum front, U.S. sanctions against UC Rusal have re-entered the political fray. The Financial Times reports, “A Trump administration plan to lift sanctions on the aluminum empire controlled by the Kremlin-linked billionaire Oleg Deripaska has come under threat from Democratic lawmakers, who have demanded it be delayed for further scrutiny. Seven Democratic chairs of House of Representatives committees on Tuesday sent a letter to Steven Mnuchin, the Treasury secretary, expressing reservations about the plan in which Rusal, En+ and EuroSibEnergO — which together form one of the world’s largest aluminum producers — would be released from sanctions in return for various governance changes intended to distance them from Mr. Deripaska.”

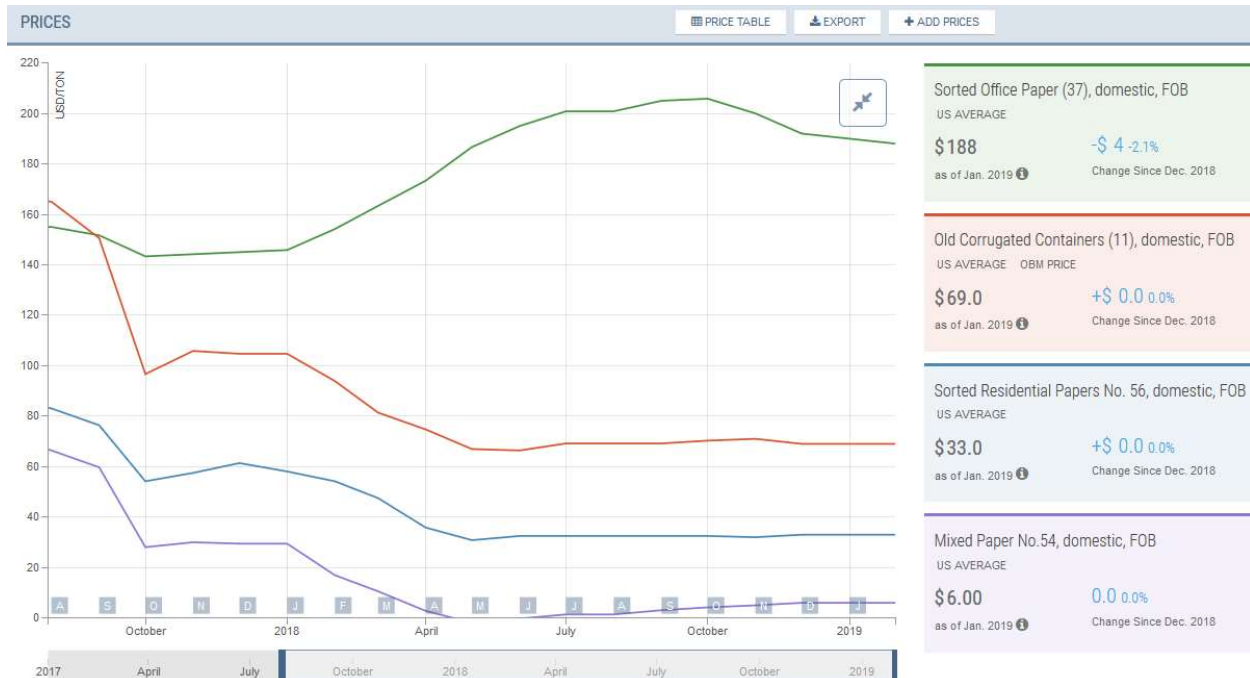
On a somewhat related note, the Aluminum Association reports U.S. primary aluminum production increased 21 percent in 2018 to nearly 897,000 metric tons:



And yet aluminum scrap prices in the U.S. continue to languish. Fastmarkets AMM was recently listing secondary smelter aluminum prices at 43-44 cents for old cast, 44-45 cents for old sheet, painted siding at 45-47 cents, and MLC at 50-51 cents, with domestic aluminum producer prices for UBCs at 54-56 cents per pound. For comparison’s sake, UBCs were listed at around 74-76 cents per pound this time last year. In London, LME 3-mo. aluminum was trading around \$1,860 per metric ton late last week, or around 84 cents per pound.

Paper –

Prices for the major bulk grades stayed relatively steady in 2018 despite the major shifts in demand on the different paper grades. The impact of investments made by Nine Dragons into U.S. mills should begin to take shape this year but it may be difficult to characterize the shifts through the customary supply and export statistics used in years past to understand the state of the industry. Over 5 million tons of Chinese import licenses have been issued, but the Lunar New Year starts in early February.



Electronics –

Dubai appears to have a massive, underestimated source of discarded electronics that has prompted Sims Recycling Solutions to move their operations to a larger site to handle the demand. Australia's MobileMuster, a joint product stewardship effort of their domestic handset manufacturing industry, estimates that 23 million mobile phones are collecting dust across the nation. That's a remarkably large number when compared to the 90 metric tons of discarded phones and chargers that they collected over the previous year.

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

Transportation

Last-mile logistics are seeing some interesting headlines. JB Hunt is acquiring another home delivery firm focused on large, bulky consumer goods. However, it seems that saturation may have hit on package delivery as parcel carriers have begun pulling back from a nearly two year expansion. E-commerce has certainly raised expectations of service with delivery logistics and the USPS provides an expansive infrastructure that parcel carriers fill out to provide it.

The expansion to bulky items that require more labor resources is only efficient in batch deliveries so it remains to be seen whether truckload carriers can operate profitably in this space where parcel carriers have been unable to meet demand. It does mean there may be more openings for CDL drivers with opportunities to develop long-haul experience. We're going to need it so that we don't have events such as stolen truck trailers of tequila occurring more regularly.

This Week's Story

A guy goes to the movies and notices that sitting right in front of him is a man with his dog. The theater is too crowded to change seats, so the guy is understandably upset.

"This dog is going to ruin the movie," he thinks to himself. It's not long, though, that he notices it's actually quite the opposite.

The dog starts crying at the sad parts of the movie. He covers his eyes with his paws for the scary parts, and he laughs at all the funny parts! When the movie ends, the dog jumps onto his hind legs and claps his front paws together with delight. The man is amazed and later approaches the man in the lobby.

"Hey man," he says, "that was really something. Your dog really seemed to enjoy that movie! I've never seen anything like that before!"

"Listen, I'm as surprised as you are," the guy replies, "he hated the book."

This Week's Quote

"Obstacles don't have to stop you. If you run into a wall, don't turn around and give up. Figure out how to climb it, go through it, or work around it."

-- Michael Jordan



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