

January 21, 2019

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This Morning

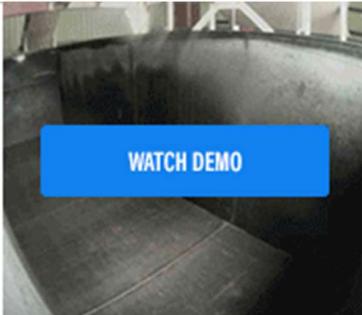
In the United States, stock and bond markets are closed for the Martin Luther King, Jr. holiday and trading floors are closed at the CME group, although electronic trading continues. COMEX March copper was trading down nearly 3 cents early this morning at around \$2.69 per pound. In contrast, copper futures in Shanghai settled 0.7% higher this morning following the release of official statistics that show Chinese real GDP dipped to 6.4 percent growth in the fourth quarter, while industrial output rose 5.7% and retail sales increased 8.2% in December, in-line or slightly better than the consensus forecasts according to Bloomberg. In London, base metal prices were mostly lower this morning with LME 3-mo. copper recently trading around \$5,994/mt while 3-mo. aluminum dipped to \$1,860 per ton. In other commodity markets, NYMEX WTI crude oil was trading in a narrow range around \$54 per barrel while COMEX gold dipped to \$1,278/to. In foreign exchange trading the euro was holding up around \$1.136 while the British pound was little changed at \$1.287 as the Brexit drama continues.

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Selected Primary Commodity Prices: January 21, 2019

	Last	CHG	% CHG	Prior	Open	High	Low
COMEX Copper Mar (\$/lb.)	2.6915	-0.028	-1.0%	2.719	2.72	2.716	2.685
COMEX Gold Feb (\$/to)	1,278.1	-4.5	-0.4%	1,282.6	1280.7	1,283.0	1,276.8
COMEX Silver Mar (\$/to)	15.26	-0.1	-0.9%	15.40	15.38	15.39	15.2
NYMEX Light Sweet Crude Mar (\$/bbl)	53.99	-0.1	-0.1%	54.04	53.95	54.41	53.54
SHFE Aluminum Mar (RMB/mt)	13,530	135	1.0%	13,395	13,480	13,610	13,445
SHFE Copper Mar (RMB/mt)	47,950	320	0.7%	47,630	47,930	48,300	47,690
SHFE Nickel May (RMB/mt)	94,750	1,350	1.4%	93,400	94,030	95,660	93,700
SHFE Zinc Mar (RMB/mt)	21,510	335	1.6%	21,175	21,520	21,750	21,360

The Week Ahead

A light week on the U.S. economic calendar should be even lighter this week as new reports due out on new & existing home sales and durable goods orders are expected to be delayed due to the government shutdown. But regional manufacturing reports from the Richmond Fed and Kansas City Fed will be unaffected, along with the weekly figures on U.S. initial unemployment claims. Early in the week, market should take their cues from China's reports on retail sales, GDP, and industrial production, as well as Theresa May's new Brexit plan. Later in the week we'll get figures on German business sentiment. Please note that we'll be attending the ISRI Winter Board of Directors meetings in Austin Texas this week, so our next Market Report video will come out on February 4th, although we'll still put out our written report. Please enjoy the Martin Luther King, Jr. holiday and we hope you all have a great week.

U.S. Economic Calendar: January 21-25, 2019

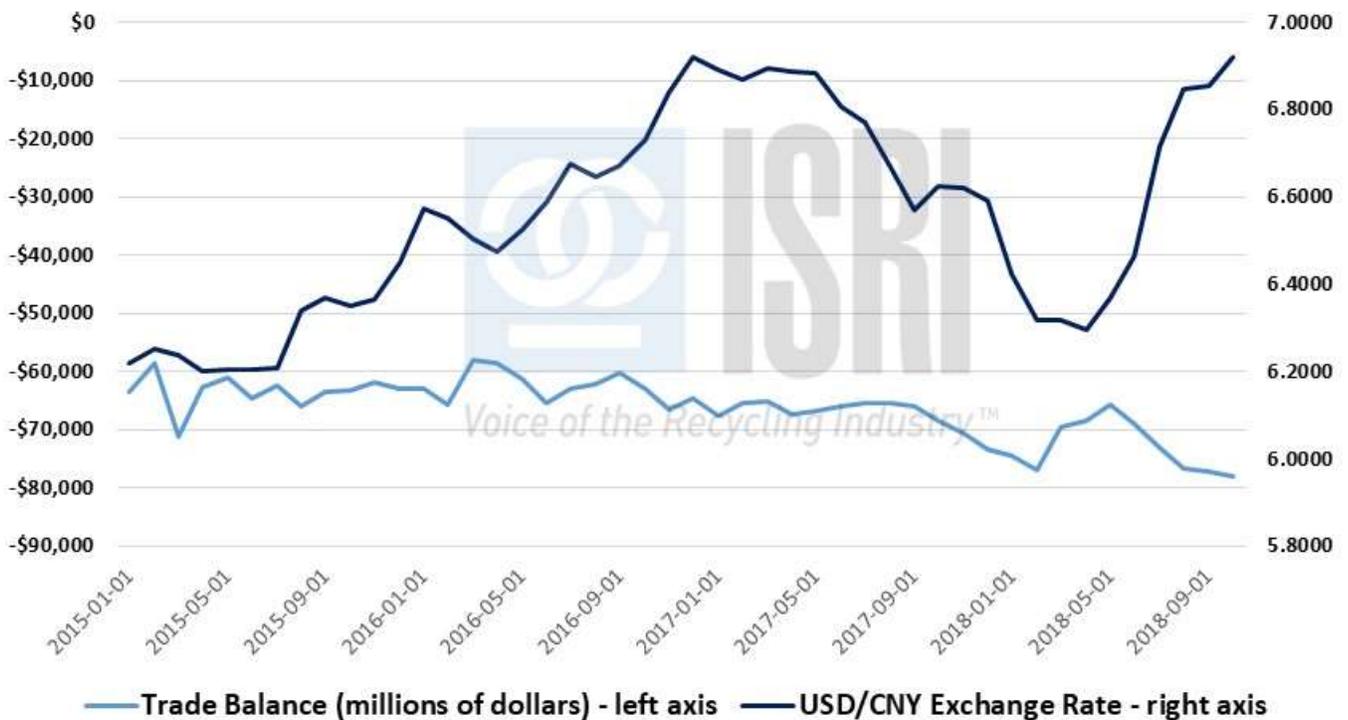
Date	Time	Release	Period	Prior
Jan 22	10:00	Existing Home Sales	Dec	5.32M
Jan 23	07:00	MBA Mortgage Applications Index	01/19	NA
Jan 23	09:00	FHFA Housing Price Index	Nov	5.7%
Jan 23	10:30	EIA Crude Oil Inventories	01/19	-2.7M
Jan 24	08:30	Initial Claims	01/19	213K
Jan 24	08:30	Continuing Claims	01/19	1737K
Jan 24	10:00	Leading Indicators	Dec	0.2%
Jan 24	10:30	EIA Natural Gas Inventories	01/19	-81 bcf
Jan 25	08:30	Durable Goods –ex transportation	Dec	-0.3%

Jan 25	08:30	Durable Orders	Dec	0.8%
Jan 25	10:00	New Home Sales	Dec	NA

Economic Week in Review

Last week started with some unsettling Chinese trade data showing China's exports and imports both fell in December as compared to a year ago. But at the same time, The Wall Street Journal reports that "China's trade surplus with the U.S. hit an all-time record last year, as robust American demand for Chinese goods undercut the Trump administration's tariff offensive aimed at narrowing the countries' lopsided trade gap." Here's a look at the mirror image of the U.S. trade deficit with China and depreciation of the Chinese RMB.

U.S.-China Trade Balance and Currency Exchange Rates

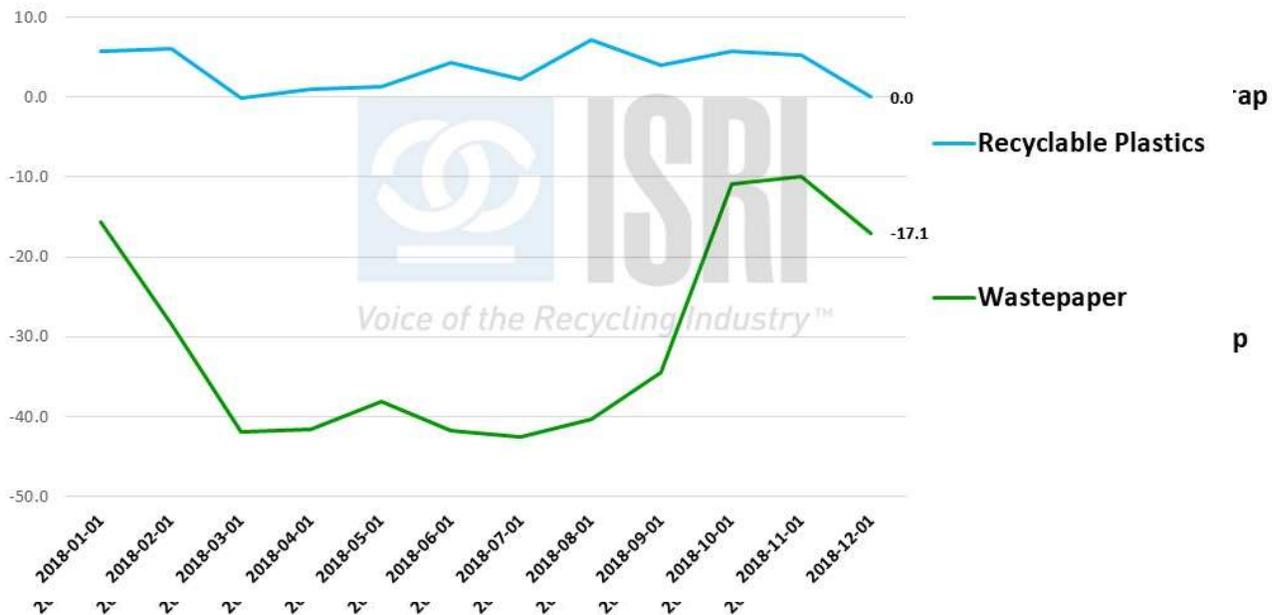


As the trade deficit with China has widened, producer price inflation in the United States has moderated lately, including a 0.2 percent month on month decline in the producer price index in December. But why should recyclers care about producer price inflation? First off, the producer price index represents the change in the selling prices received by producers for their output, including scrap. The following chart shows the year-on-year percentage changes over the course of 2018 for the major metal scrap commodities including ferrous scrap, stainless, copper and aluminum scrap as reported by the BLS. As we can see, nonferrous scrap prices significantly underperformed as compared to ferrous scrap, particularly in the second half of last year.

Recycled plastics and paper have also diverged significantly as the BLS data show producer prices for wastepaper -- their term, not ours -- were down just over 17 percent year-on-year in December. However, note that within the paper sector, prices varied widely by grade.

Year-on-Year Percentage Change in Monthly U.S. Scrap Producer Price Indexes, Jan-Dec 2018

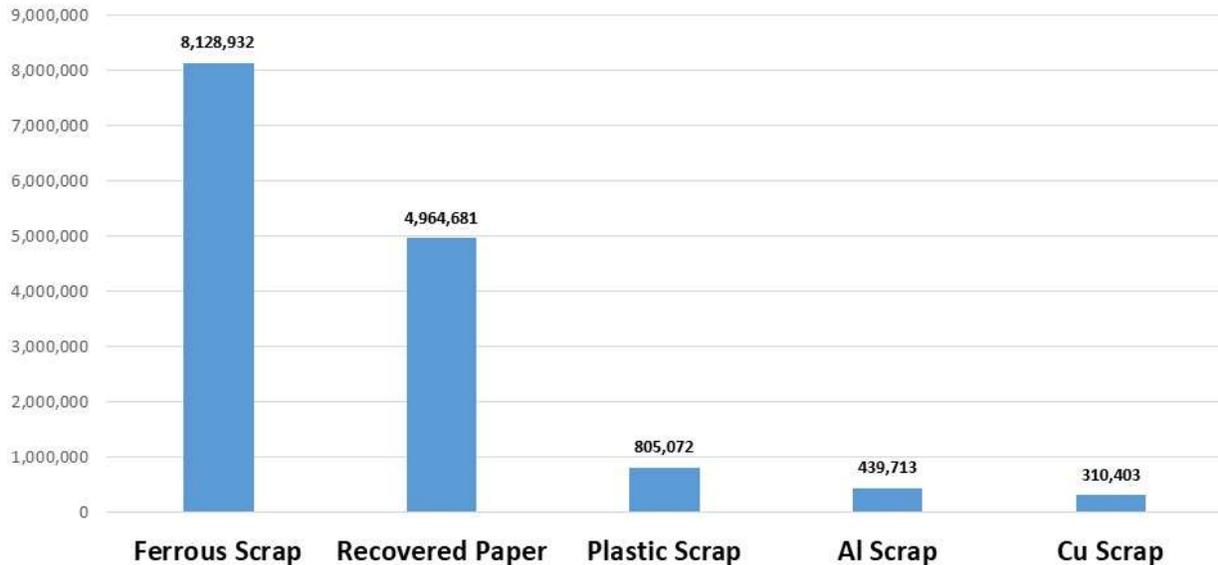
Source: Bureau of Labor Statistics



Of course Brexit was in the news again last week after Theresa May's plan was overwhelmingly defeated in Parliament last week. For scrap recyclers in the U.S., the uncertainty surrounding Brexit has a couple of important implications: one is the potential for an unorderly Brexit to wreak havoc on global financial markets. But more directly, the UK is one of the world's major scrap exporters. In 2016, the UK was the 4th largest exporter of ferrous scrap in the world, the third largest copper scrap exporter, and second largest recovered paper exporter. Should the Brexit troubles cause a serious meltdown in the UK economy or the value of the British pound, British scrap exports could become much more competitive on the global stage, including for import into the United States.

U.K. Exports of Major Scrap Commodities, 2016 Metric tons

Source: UN Comtrade Database




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Commodity News

Ferrous –

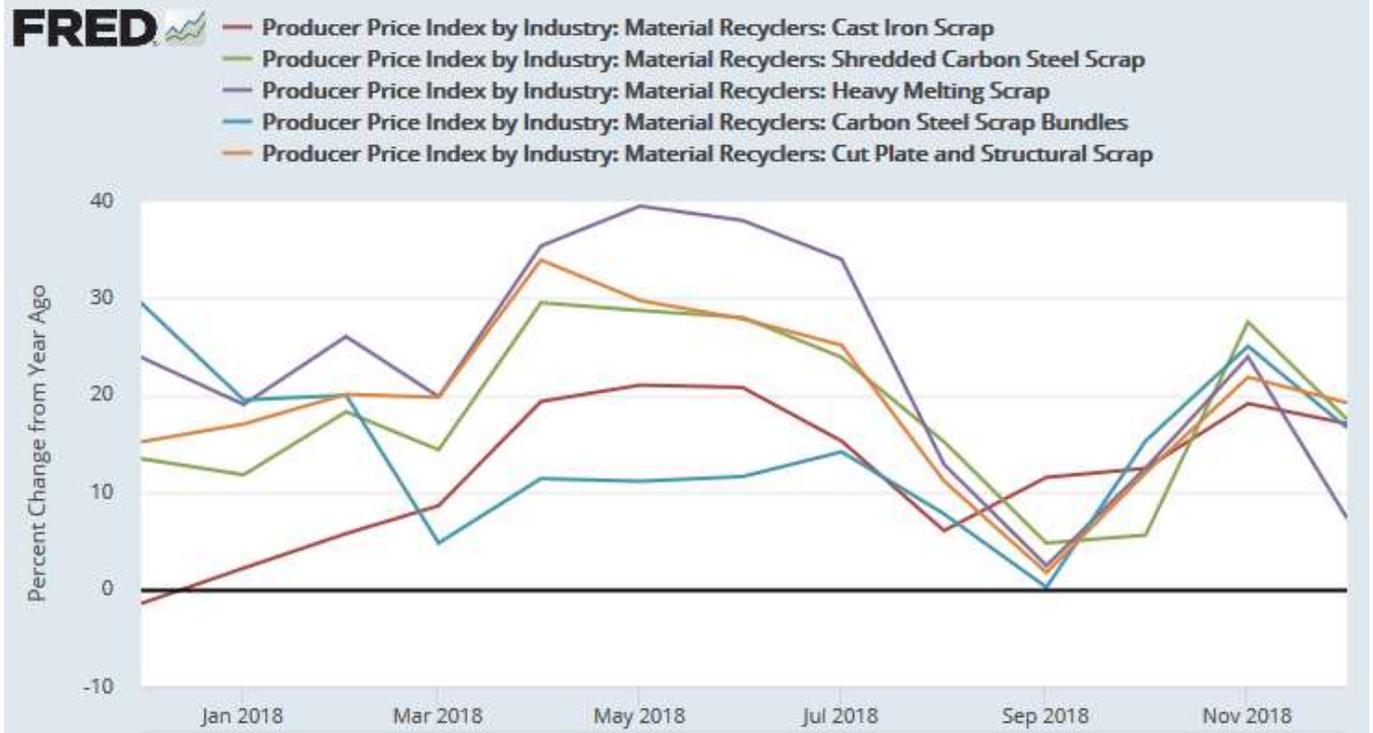
The American Iron and Steel Institute reports that for the week ending January 12th, "...domestic raw steel production was 1,891,000 net tons while the capability utilization rate was 79.8 percent. Production was 1,715,000 net tons in the week ending January 12, 2018 while the capability utilization then was 73.6 percent. The current week production represents a **10.3 percent increase from the same period in the previous year**. Production for the week ending January 12, 2019 is up 0.8 percent from the previous week ending January 5, 2019 when production was 1,876,000 net tons and the rate of capability utilization was 80.0 percent.

The rise in steel production comes amid reports that industrial production in the U.S. overall is also improving. The Federal Reserve reported last week that U.S. industrial production rose 0.3% in December while the total capacity utilization rate edged up to 78.7%.

Capacity Utilization



As for domestic steel prices, Fastmarkets AMM reports their “daily US Midwest hot-rolled coil index stood at \$34.58 per cwt (\$691.60 per ton) on Thursday January 17, down 0.2% from \$34.64 per cwt on January 16 and nearly level with the \$34.59 per cwt recorded on January 15. But the latest price is down by 4.5% from \$36.21 per cwt at the beginning of this year.” Ferrous scrap prices have also gotten off to a mixed start in 2019 following significant disparity among the different scrap grades last year. Here’s are the Bureau of Labor Statistics’ producer price trends for U.S. cast iron scrap, shredded, heavy melt, bundles, and cut plate & structural last year:



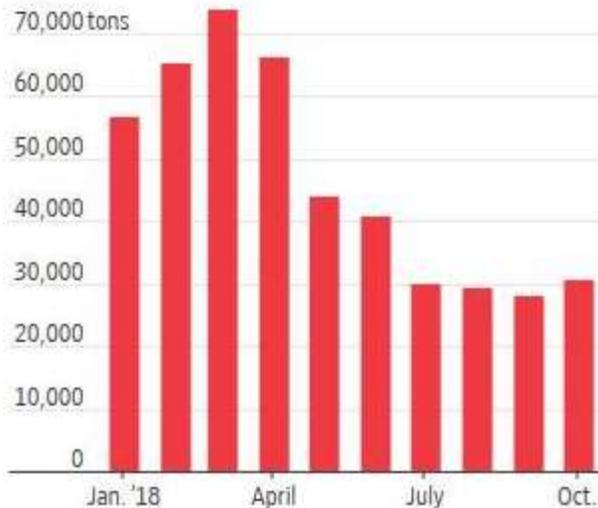
Nonferrous –

Nonferrous metal prices at the London Metal Exchange ended the week on a positive note amid reports of renewed optimism on the U.S.-China trade talks. LME 3-mo. copper ended the week higher at \$6,056 per metric ton while 3-mo. aluminum advanced to \$1,870/mt, after having closed the prior week at \$1,833.50/mt. Aluminum scrap continues to garner attention, with the Wall Street Journal reporting last week: "...domestic smelters that make new aluminum from bauxite aren't able to supply more than a fraction of the aluminum consumed, even with higher production last year. Instead, much of the increase in domestic {aluminum} production to offset lower imports has come from the processors that make aluminum from scrap. China implemented more-stringent quality standards on U.S. scrap exports early last year that started to drive down exports, and then it followed with tariffs totaling 50% on U.S. scrap aluminum, creating a glut for U.S. recyclers to remelt into new aluminum. 'It is a complete buyers' market,' said Matt Kripke, president of Ohio scrap broker Kripke Enterprises Inc. The U.S. generates more aluminum scrap than any other country. Much comes from old automobiles, demolished buildings and factory waste. Inventories were rising before China's tariff took effect. Vehicles sold during the automotive boom following the 2008 recession are reaching the end of their lives, providing the U.S. scrap industry with a burgeoning supply of junked cars. That nationwide scrap heap grew more rapidly after Beijing's trade barriers squeezed exports lower." Here are the Journal's charts on aluminum scrap exports and prices:

Cooling Down

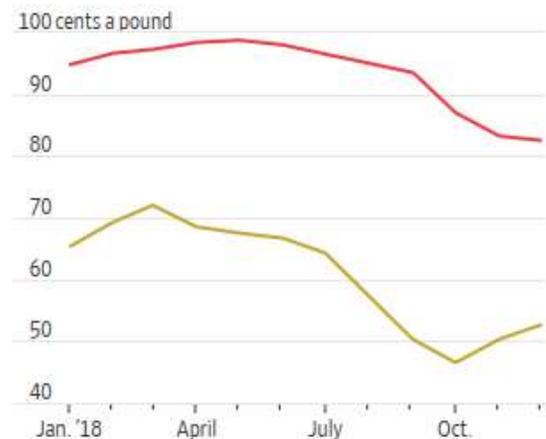
China's tariff on U.S. scrap aluminum is decreasing export volumes...

U.S. exports of scrap aluminum to China



...and growing scrap supplies in the U.S. are pushing down prices, making scrap cheaper for domestic remelters.

■ U.S. aluminum made from recycled scrap
 ■ Processed aluminum scrap ready for remelting



Sources: Fastmarkets analysis of U.S. Census Bureau data (exports); Harbor Aluminum (prices)

Paper and Plastic –

Plastic Scrap Type	2017		Jan-Oct 2017		Jan-Oct 2018	
	FAS \$	Metric tons	FAS \$	Metric tons	FAS \$	Metric tons
Polyethylene	\$235,633,283	603,842	\$200,678,038	517,466	\$140,240,598	333,856
Polystyrene	\$23,172,106	44,577	\$19,736,217	37,979	\$16,230,857	23,391
PVC	\$246,152,756	635,741	\$213,765,363	552,599	\$149,401,200	350,506
PET	\$48,636,160	160,401	\$42,771,541	139,616	\$38,025,265	128,187
Mixed Plastics	\$79,839,830	223,176	\$69,821,300	198,407	\$47,056,019	102,325

It appears that plastic scrap prices have found a new normal during the 2018 year. U.S. exports declined in volume but trade value prices per ton indicate that the remaining demand held stronger margins. Based on trade data from the U.S. Census Bureau and International Trade Commission, the price per ton for the major polymers increased by 31% for mixed plastics despite a volume decline of -48%. The increased price for polystyrene tracked similarly. These two plastics generally account for the highest public concern in regard to ocean plastics while they may not actually account for the largest volumes of ocean plastic pollution.

PET plastics remained rather stable. RecyclingMarkets.net shows that PET prices has recovered from 2015 lows. While the market may have been affected by the lack of Chinese processing, it appears that other demand areas have been able to bolster the void.

U.S. PET Scrap Pricing (cents per pound)



*data from RecyclingMarkets.net

Destinations for U.S. PET scrap have shifted to South Korea, Germany, Thailand, and Turkey. Despite the volume disparity from China's lack of demand for U.S. PET scrap, these are still significant shifts in market demand.

U.S. PET Scrap Exports by Major Destination (kg)

Country	Year 2017	Jan-Oct 2017	Jan-Oct 2018	% Change
Korea	903,998	353,836	4,658,131	1216%
Germany	327,778	222,043	2,594,569	1068%
Thailand	1,899,812	995,531	7,788,894	682%
Turkey	8,616,128	2,669,547	8,870,915	232%
Taiwan	6,034,099	4,227,346	8,363,150	98%
Mexico	1,978,797	1,593,579	2,836,141	78%
Malaysia	14,629,620	12,944,123	18,527,614	43%
India	5,184,201	4,289,066	5,217,138	22%
Philippines	1,124,442	1,018,457	1,083,460	6%
Vietnam	20,453,899	16,023,198	6,596,341	-59%
Hong Kong	66,677,945	61,242,244	23,410,745	-62%
China	89,829,653	88,094,531	5,808,207	-93%



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

Transportation

Labor shortages continue to cast a shadow over the transportation industry as haulers struggle to keep CDL drivers and techs on their payroll. Earlier reports had driver turnover rates at their lowest in the last 20 years though. The difficulty is that there remains a shortage of drivers to service all of the continuous demand for their services. According to a Waste360 article, city sanitation employees have clocked in nearly \$1 million in overtime pay. The push to keep prices low may have prompted businesses to base their staffing models on lowest possible service needs. Living on this edge offers little room for error when demand ramps up and either contractors or overtime raises the marginal costs beyond an employment expansion.

The opposite end of this story is when capacity is set for high regular volumes that see period of slowdown. This creates a cost burden for maintaining facilities and underutilized staff. Trans-Pacific carriers are cancelling Asia-bound sailings at a higher rate in anticipation of the Lunar New Year celebrations. Another benefit of doing so will put them in a stronger bargaining position as contract negotiations begin again in March. This is another balancing act in managing labor costs. It appears that rail has been enjoying an improvement over the last decade. Union Pacific has outpaced S&P 500 growth over the past year under the leadership of Jim Vena, a protégé of railroad legend, Hunter Harrison. Some of this management success should be tempered since those same efficiency gains have been implemented in other lines that have later had to consolidate schedules and reduce opportunities to link up with short-line support.

This Week's Story

Three priests gathered together for a drink. During their get together, the host asks the other two: "How do you split your money with the Lord?"

The first priest replies, "I draw a line on the floor in my church, then I throw the money in the air, whatever lands on my side I get to keep, and whatever falls on His side He keeps."

The second priest replies, "Well, I draw a circle and then I throw the money in the air, whatever falls inside the circle is mine, whatever falls outside the circle is His."

"How do you split your money?" the two ask the host priest.

"It's simple, I just throw the money in the air and He keeps whatever He wants."

This Week's Quote

"Life's most persistent and urgent question is, 'What are you doing for others?'"

-- Martin Luther King, Jr.



Weekly Market Report

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