

August 26, 2019

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## This Morning

The Bloomberg Commodity Index was up around 0.5% in early morning trading today thanks in part to firmer energy and precious metal prices. Reuters reports that "Oil prices rose on Monday after the United States and China both suggested they could ease up in a trade war that has undermined the outlook for the global economy and crude demand... U.S. President Donald Trump said on Monday he believed China was seeking a trade deal after he said Beijing contacted U.S. officials overnight to say it wanted a return to talks." In New York, NYMEX crude oil futures were trading as high as \$55 per barrel this morning while COMEX copper futures edged up to around \$2.54 per pound after having traded as low as \$2.5235/lb. late last week. Stocks were mostly lower in Asian trading this morning although markets were faring better in European trading. In foreign exchange trading, the euro slipped to \$1.111 and the British pound was down to around \$1.224, while the dollar was buying 105.85 Japanese yen in early trading.

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## Selected Primary Commodity Prices: August 26, 2019

	Last	CHG	% CHG	Prior	Open	High	Low
COMEX Copper Sep (\$/lb.)	2.5360	0.006	0.2%	2.530	2.52	2.549	2.491
COMEX Gold Dec (\$/to)	1,541.8	4.2	0.3%	1,537.6	1545.4	1,565.0	1,534.8
COMEX Silver Sep (\$/to)	17.60	0.2	1.1%	17.41	17.50	17.76	17.5
NYMEX Light Sweet Crude Oct (\$/bbl)	54.58	0.4	0.8%	54.17	53.25	55.00	52.96
SHFE Aluminum Oct (RMB/mt)	14,240	-45	-0.3%	14,285	14,280	14,335	14,185
SHFE Copper Oct (RMB/mt)	46,080	-230	-0.5%	46,310	46,150	46,330	45,830
SHFE Nickel Oct (RMB/mt)	123,980	860	0.7%	123,120	123,400	125,450	122,510
SHFE Zinc Oct (RMB/mt)	18,470	-55	-0.3%	18,525	18,555	18,645	18,270

## The Week Ahead

On the U.S. economic calendar this week we'll get new figures on durable goods orders, personal income and spending, consumer sentiment, and the second estimate of real (adjusted for inflation) GDP growth in the second quarter. The consensus estimates are that GDP growth came in at 2% in the second quarter (from 2.1% growth in the first estimate), while personal spending advanced 0.5% in July and durable goods orders rose 1.2% (0.1% ex-transportation orders). Overseas, Japan will release a batch of economic data covering unemployment, industrial production, and retail sales this week. But trade issues should remain squarely in focus this week given the escalating threats between the U.S. and China lately. The Financial Times reports "The US-China trade war will continue to hover over markets when they open this week after Donald Trump told U.S. companies last Friday that they should leave China, adding he would raise tariffs on \$300bn of Chinese goods from 10 per cent to 15 per cent at the end of the month." We take a look at the trend in trade flows between the U.S., China, and the rest of Asia for the major scrap commodities in this week's ISRI Market Report. Have a great week!

## U.S. Economic Calendar: August 26-30, 2019

Date	Time	Release	Period	Trading Impact	Consensus	Prior
26-Aug	8:30	Durable Orders	Jul	Medium	1.2%	2.0%
26-Aug	8:30	Durable Goods –ex transportation	Jul	Low	0.1%	1.2%
27-Aug	9:00	FHFA Housing Price Index	Jun	Low	NA	0.1%
27-Aug	9:00	S&P Case-Shiller Home Price Index	Jun	Low	2.7%	2.4%
27-Aug	10:00	Consumer Confidence	Aug	Medium	129.6	135.7

29-Aug	8:30	Adv. Intl. Trade in Goods	Jul	Low	NA	-\$74.2B
29-Aug	8:30	GDP - Second Estimate	Q2	Low	2.0%	2.1%
29-Aug	8:30	GDP Deflator - Second Estimate	Q2	Low	2.4%	2.4%
29-Aug	8:30	Initial Claims	43701	Low	215K	209K
29-Aug	8:30	Continuing Claims	43694	Low	NA	1674K
30-Aug	8:30	Personal Income	Jul	High	0.3%	0.4%
30-Aug	8:30	Personal Spending	Jul	High	0.5%	0.3%
30-Aug	8:30	PCE Price Index	Jul	High	0.2%	0.1%
30-Aug	8:30	Core PCE Price Index	Jul	High	0.2%	0.2%
30-Aug	9:45	Chicago PMI	Aug	Medium	48.2	44.4
30-Aug	10:00	Univ. of Michigan Consumer Sentiment – Final	Aug	Low	92.4	92.1

## This Week's Focus: U.S.-Asian Scrap Trade Flows

As per ISRI's Member Alert last week:

*“In apparent retaliation for the U.S. Administration's announcement of tariffs on Chinese products to begin in September and December, the Chinese government announced its intent to levy additional tariffs on \$75 billion worth of goods from the United States. These tariffs add on to those already in place from announcements in 2018.*

Included on the list are the following scrap commodities to be assessed an additional 5 percent tariff beginning on December 15, bringing the total import tariff to 30 percent:

Harmonized Tariff Code	Product Description & Corresponding ISRI Specification
---------------------------	--

4707.10.00 ...	Unbleached kraft paper or paperboard or corrugated paper or paperboard (e.g., paper grades 4, 5, 11, 12, 13, 14, 15, 16, 17, 18, 19, 20, 21; and specialty grades 8-S and 11-S).
4707.30.10 ...	Paper or paperboard made mainly of mechanical pulp (for example, newspapers, journals and similar printed matter); newspaper and other. (e.g., paper grades 9, 10, 22, 23, 24, 25, 26, 27, 44, 56, 58; and specialty grades 25-S, 32-S, 33-S, 36-S).
4707.90.00 ...	Other, including unsorted waste and scrap (e.g., paper grades 52, 54; and specialty grades 1-S through 7-S, 10-S, 12-S, 14-S through 20-S, 22-S, 31-S, 34-S) <i>Note: It is our understanding that unsorted mixed paper is banned for import into China, but in instances where materials under this Harmonized Tariff Code are still obtaining clearance, the tariff would apply.</i>
7001.00.00...	Cullet and other waste and scrap of glass.
7404.00.00 ...	Copper waste and scrap (e.g., All copper grades).

7602.00.00 ... Aluminum waste and scrap (e.g., All aluminum grades).

Included on the list are the following scrap commodities to be assessed an additional 10 percent tariff beginning on December 15, bringing the total import tariff to 35 percent:

**Harmonized Tariff Code      Product Description & Corresponding ISRI Specification**

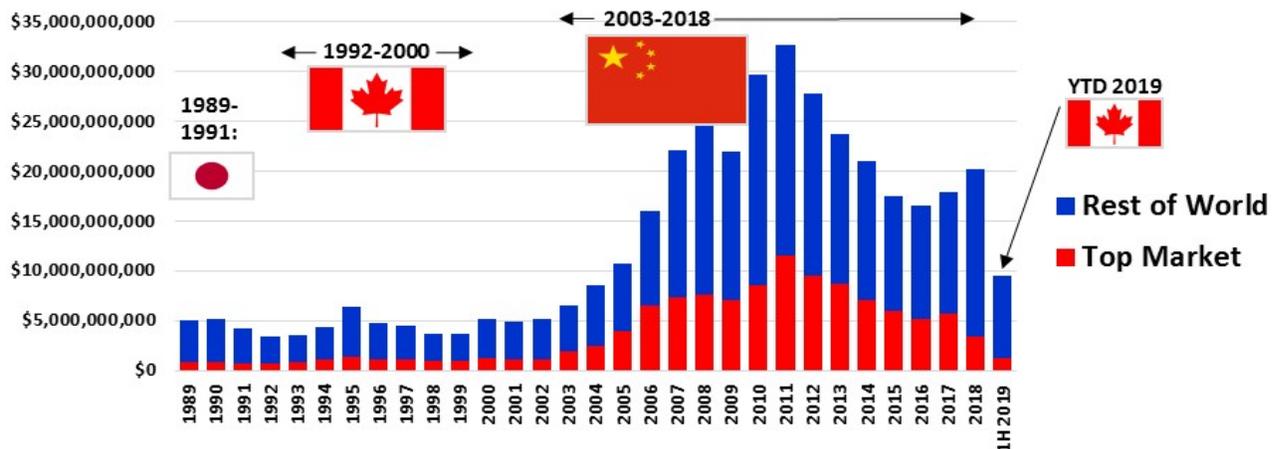
8107.30.00 ... Unwrought cadmium; waste and scrap.

The U.S. Administration has reacted negatively to this announcement. However, the pledged December implementation date provides some flexibility if the U.S. and Chinese Governments resume negotiations on a trade deal.”

Given the rising trade tensions between the U.S. and China, and the accompanying threats of rising tariff levels on both sides, this seems like a good time to review the pattern of scrap trade flows between the U.S., China, and the rest of the world. For starters, China has consistently been the dominant export market for U.S. scrap since 2003, although prior to the recent period, Canada (1992-2000, and 2002) and Japan (1989-1991) have also been leading scrap export markets:

**U.S. Export Sales of All\* Recycled Commodities, 1989 - 1H 2019, by Top Market and Rest of World (US\$)**

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



\*Ferrous metals, base metals, precious metals, recovered paper & fiber, plastics, rubber, glass, and textiles.

In dollar terms, Canada reclaimed its status as the largest U.S. export market for scrap during the first half of 2019, with U.S. export sales of scrap to Canada coming in at more than \$1.2 billion, or nearly 13% of total U.S. scrap export sales, for the year-to-date, followed by China, India, South Korea, and Mexico.

## Top 20 U.S. Export Markets for Scrap by Dollar Value, Jan-Jun 2019

Rank	Country	\$ Value	Rank	Country	\$ Value
1	Canada	\$1,234,327,040	11	Italy	\$397,975,190
2	China	\$1,115,428,453	12	U.K.	\$395,223,226
3	India	\$827,719,532	13	Hong Kong	\$254,014,892
4	South Korea	\$613,829,902	14	Vietnam	\$213,679,798
5	Mexico	\$533,922,734	15	Indonesia	\$199,957,959
6	Turkey	\$518,597,860	16	Belgium	\$194,411,819
7	Taiwan	\$502,263,880	17	Bangladesh	\$141,191,849
8	Malaysia	\$497,512,331	18	Thailand	\$127,726,209
9	Germany	\$439,174,657	19	Pakistan	\$125,131,708
10	Japan	\$420,704,818	20	Kuwait	\$72,284,961

Looking to Asia (excluding the Middle East and Central Asia), the largest net gain in U.S. export sales so far this year has been to Malaysia, followed by South Korea, Hong Kong, Japan, India, Taiwan, and Bangladesh. Meanwhile, the biggest net losses in Asia so far this year have been to China (-\$1.07 billion), Thailand (-\$59 million), and Vietnam (-\$14 million).

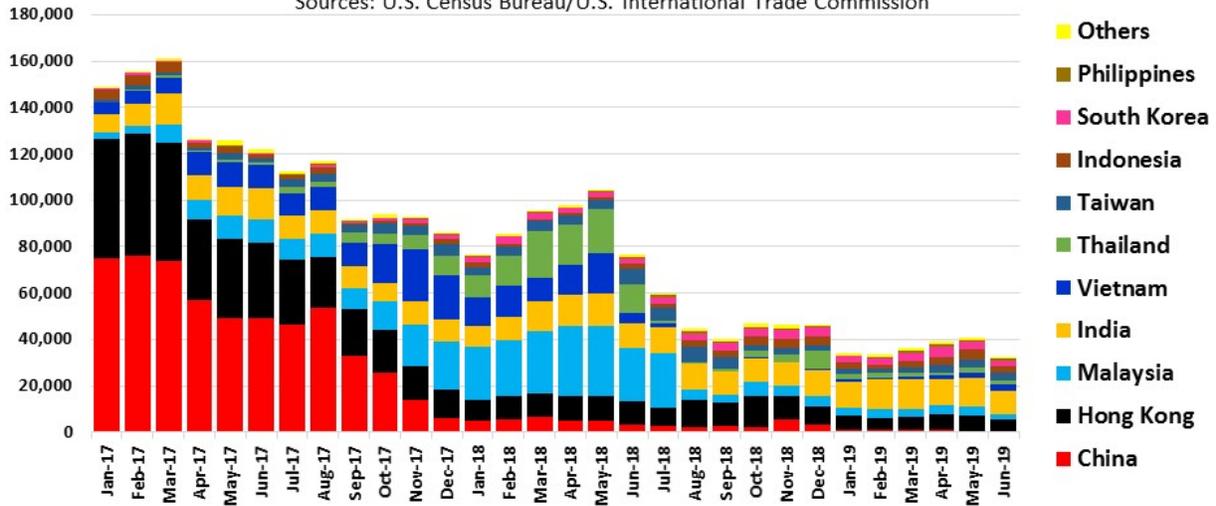
## YTD Gains and Losses: U.S. Scrap Export Sales in Asia

Country	Jan-Jun 2018	Jan-Jun 2019	Net Change
Malaysia	\$286,208,249	\$497,512,331	\$211,304,082
South Korea	\$480,772,524	\$613,829,902	\$133,057,378
Hong Kong	\$130,220,564	\$254,014,892	\$123,794,328
Japan	\$313,053,896	\$420,704,818	\$107,650,922
India	\$738,002,291	\$827,719,532	\$89,717,241
Taiwan	\$467,954,349	\$502,263,880	\$34,309,531
Bangladesh	\$127,715,773	\$141,191,849	\$13,476,076
Singapore	\$5,920,345	\$19,152,179	\$13,231,834
Philippines	\$22,462,774	\$30,421,742	\$7,958,968
Indonesia	\$192,196,086	\$199,957,959	\$7,761,873
Pakistan	\$124,343,397	\$125,131,708	\$788,311
Laos	\$0	\$438,590	\$438,590
Sri Lanka	\$787,580	\$984,899	\$197,319
Burma	\$0	\$171,012	\$171,012
Vietnam	\$227,247,097	\$213,679,798	-\$13,567,299
Thailand	\$186,982,687	\$127,726,209	-\$59,256,478
China	\$2,181,028,816	\$1,115,428,453	-\$1,065,600,363

By major scrap commodity, the trend in U.S. exports of plastic scrap to China and other Asian markets have had the worst performance so far this year as sales to Malaysia, Vietnam, and Thailand also remain on a downward trajectory.

## Monthly U.S. Plastic Scrap Exports to Asia (ex-Middle East and Central Asia), Jan 2017 - Jun 2019 (metric tons)

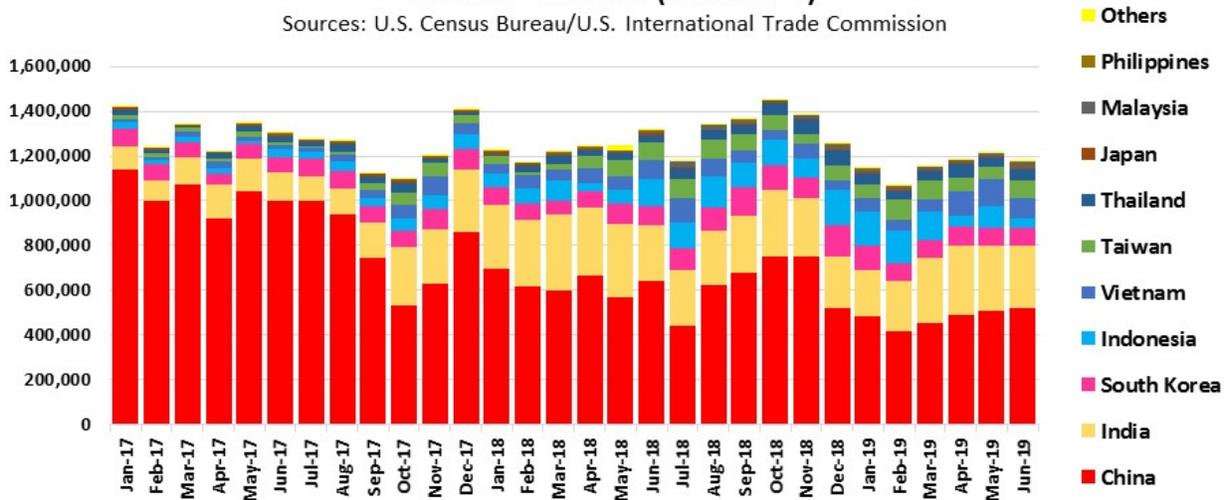
Sources: U.S. Census Bureau/U.S. International Trade Commission



For recovered paper exports, markets outside of China have helped to absorb a significant amount of the slack in Chinese demand, although global demand for U.S. recovered paper and fiber continues to vary significantly by grade.

## Monthly U.S. Recovered Paper Exports to Asia (ex-Middle East and Central Asia), Jan 2017 - Jun 2019 (metric tons)

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



Here's the trend in year-to-date U.S. exports of recovered paper and fiber by grade and volume to China and the world so far this year, including the sizeable increase in demand for pulp derived from recovered paper (up 763% to mainland China and up 310% by volume overall).

## U.S. Recovered Paper Exports by Grade and Volume (China market share in parentheses)

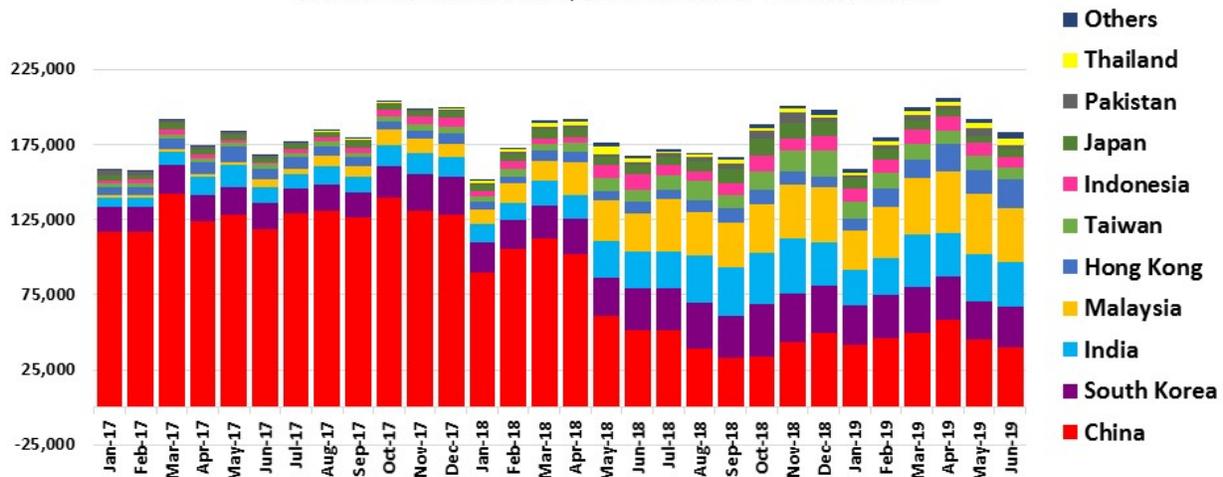
	2018	Jan-Jun 2018	Jan-Jun 2019	% Change Jan-Jun
Pulp derived from RP	43,611	23,551	96,502	310%
to China	14,538 (33.3%)	8,789 (37.3%)	75,848 (78.6%)	763%
Corrugate/Board	11,380,454	5,156,045	5,154,294	0%
to China	5,517,299 (48.5%)	2,480,611 (48.1%)	2,032,151 (39.4%)	-18%
High Grade Deinking	1,022,793	480,413	509,712	6%
to China	9,380 (0.9%)	7,712 (1.6%)	1,674 (0.3%)	-78%
Pulp Substitutes	1,113,711	517,297	579,300	12%
to China	112,082 (10.1%)	49,630 (9.6%)	23,498 (4.1%)	-53%
News Grades	1,215,675	628,902	433,298	-31%
to China	543,137 (44.7%)	345,695 (55.0%)	149,594 (34.5%)	-57%
Groundwood Grades	1,669,235	1,010,845	831,089	-18%
to China	1,286,293 (77.1%)	848,701 (84%)	641,087 (77.1%)	-24%
Mixed Paper	2,607,073	1,333,710	1,274,358	-4%
to China	92,970 (3.6%)	53,561 (4.0%)	25,482 (2.0%)	-52%
<b>Total Recovered Paper Exports</b>	<b>19,052,552</b>	<b>9,150,763</b>	<b>8,878,553</b>	<b>-3%</b>
to China	7,575,699 (39.8%)	3,794,699 (41.5%)	2,949,334 (33.2%)	-22%

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

As for the metals, nonferrous trade flows to China continue to underperform, especially for copper and copper alloy scrap, but shipments to other markets in the region continue to reshape (and redirect) the movement of base metal scrap throughout the region.

## Monthly U.S. Nonferrous Scrap Exports to Asia (ex-Middle East and Central Asia), Jan 2017 - Jun 2019 (metric tons)

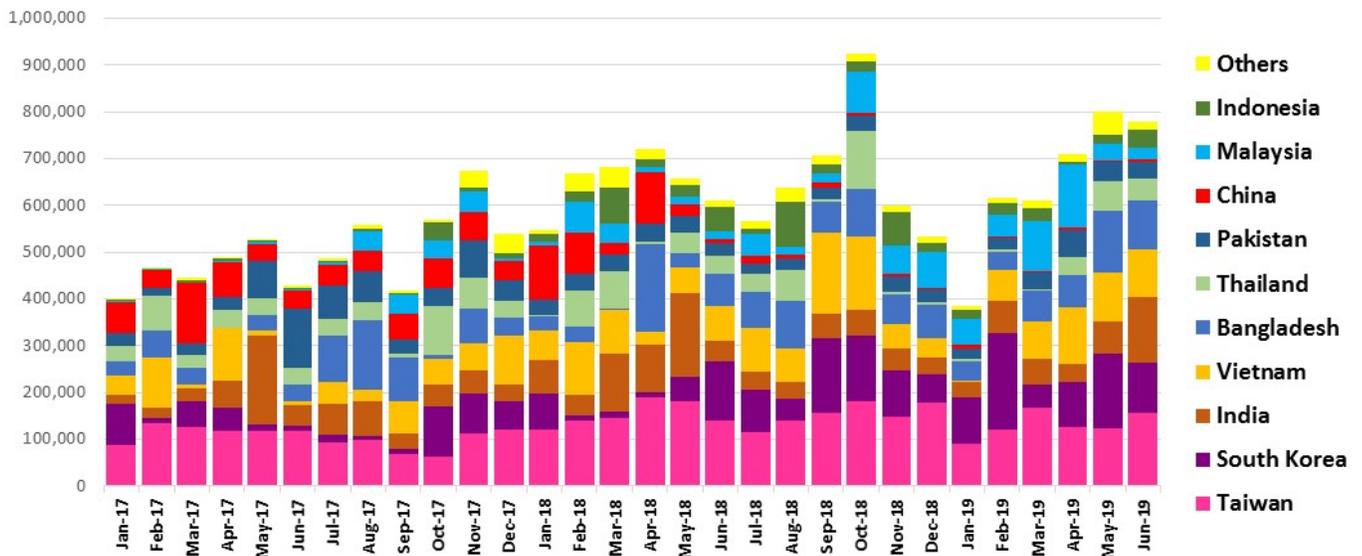
Sources: U.S. Census Bureau/U.S. International Trade Commission



While ferrous scrap exports to China have been negligible in recent years -- helping to insulate ferrous scrap exporters from fluctuations in the Chinese market, key developing market in South, SE, and East Asia including Taiwan, South Korea, India, Vietnam, and Bangladesh are taking on greater significance:

## Monthly U.S. Ferrous Scrap Exports to Asia (ex-Middle East and Central Asia), Jan 2017 - Jun 2019 (metric tons)

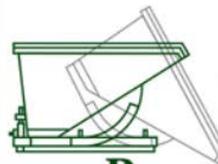
Sources: U.S. Census Bureau/U.S. International Trade Commission



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### Transportation Costs: Diesel Fuel

The latest on U.S. on-highway diesel fuel prices.

U.S. On-Highway Diesel Fuel Prices* (dollars per gallon)					
				Change from	
	08/05/19	08/12/19	08/19/19	week ago	year ago
<b>U.S.</b>	3.032	3.011	2.994	↓ -0.017	↓ -0.213
<b>East Coast</b>	3.055	3.034	3.019	↓ -0.015	↓ -0.188
<b>New England</b>	3.107	3.073	3.048	↓ -0.025	↓ -0.213
<b>Central Atlantic</b>	3.233	3.215	3.199	↓ -0.016	↓ -0.181
<b>Lower Atlantic</b>	2.923	2.904	2.892	↓ -0.012	↓ -0.184
<b>Midwest</b>	2.942	2.924	2.900	↓ -0.024	↓ -0.229
<b>Gulf Coast</b>	2.787	2.763	2.751	↓ -0.012	↓ -0.230
<b>Rocky Mountain</b>	2.965	2.940	2.939	↓ -0.001	↓ -0.410
<b>West Coast</b>	3.605	3.580	3.564	↓ -0.016	↓ -0.142
<b>West Coast less California</b>	3.182	3.164	3.158	↓ -0.006	↓ -0.265
<b>California</b>	3.940	3.909	3.887	↓ -0.022	↓ -0.042

\*prices include all taxes

## This Week's Story

A billionaire died and went to his last Judgment.

St. Peter met him at the Gates of Heaven and said, "Before you meet with God, I thought I should tell you -- we've looked at your life, and you really didn't do anything particularly good or bad. We're not at all sure what to do with you. Can you tell us anything you did that can help us make a decision?"

The billionaire thought for a moment and replied, "Yeah, once I was driving along in my Ferrari and came upon a woman who was being harassed by a group of bikers. So I pulled over, got out my tire iron, and went up to the leader of the bikers. He was a big, muscular, hairy guy with tattoos all over his body and a ring pierced through his nose. Well, I tore the nose ring out of his nose, and told him he and his gang had better stop bothering the woman or they would have to deal with me!"

"I'm impressed," St. Peter responded, "When did this happen?"

"About two minutes ago," came the reply.

## This Week's Quote

"How many emperors and how many princes have lived and died and no record of them remains, and they only sought to gain dominions and riches in order that their fame might be ever-lasting."

-- Leonardo da Vinci

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