



SPOTLIGHT

Slowing Growth Stabilizes Commodity Prices

COMMODITY PRICES HAVE BEGUN TO STABILIZE following robust price increases over the course of 2016. The three-month moving average of month-end US Steel Futures Prices has oscillated between \$278 and \$288 per gross ton over the last six months. Quarterly US Crude Oil Futures Prices have ranged between \$48 and \$52 per barrel and quarterly US Natural Gas Futures Prices have fluctuated between \$2.96 and \$3.18 per million BTU over the same six-month time period. US Copper Futures Prices is an exception. The three-month moving average of Copper Futures Prices has risen from \$2.64 as of February to \$2.89 as of August, a 9.5% increase. While this article examines the prices of each of these four commodities in further detail, overall you should plan for a rise in prices of most commodities in at least the first half of 2018, although some commodities will begin this rise earlier. Decline in leading indicators such as the JP Morgan Global Purchasing Managers Index signal that 2018 is likely to be a year of slowing growth in the global economy. Slowing macroeconomic growth is likely to keep any price rise mild during the upcoming cycle.

US Steel Futures Commodity Prices are generally flat. Decline in the China Floor Space of Residential Buildings Started quarterly growth rate suggests there will be muted demand for steel in late 2017 from this market. In addition, China Floor Space of Nonresidential Buildings Started is down 1.5% on a year-over-year basis. Less robust demand from China may place downward pressure on prices in the near term. However,

expectations for rising levels of Industrial Production in both Europe and the US will keep prices relatively stable through at least mid-2018. China Steel Production is accelerating, which will keep prices below the 2014 levels during the upcoming period of business cycle rise as supply meets demand.

US Crude Oil Futures Prices averaged \$47.81 per barrel during the three months through August, 6.5% above the year-ago level. Hurricane Harvey influenced prices in the near term as refining capacity was temporarily reduced. However, this is likely to be a short-term effect as Texas and Louisiana recover from the storm and refineries come back online. Expect average quarterly prices to generally drift higher into the upper \$50s to low \$60s by the second quarter of 2018. Accelerating growth in World Industrial Production and an increase in the number of light trucks/SUVs on the road will keep demand for crude strong. However, expect only a mild rise in prices given high inventory levels and the ability of producers to extract crude profitably at a low price point. This will help keep prices lower in this period of business cycle rise than they were during the 2014 business cycle rise.

Average US Natural Gas Futures Commodity Prices during the three months through August came to \$2.96 per million BTUs. The quarterly prices trend is generally declining from a tentative January 2017 peak of \$3.40 per million BTUs. US Natural Gas Production is recovering, but the recent decline

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GLOBAL ECONOMIC OVERVIEW

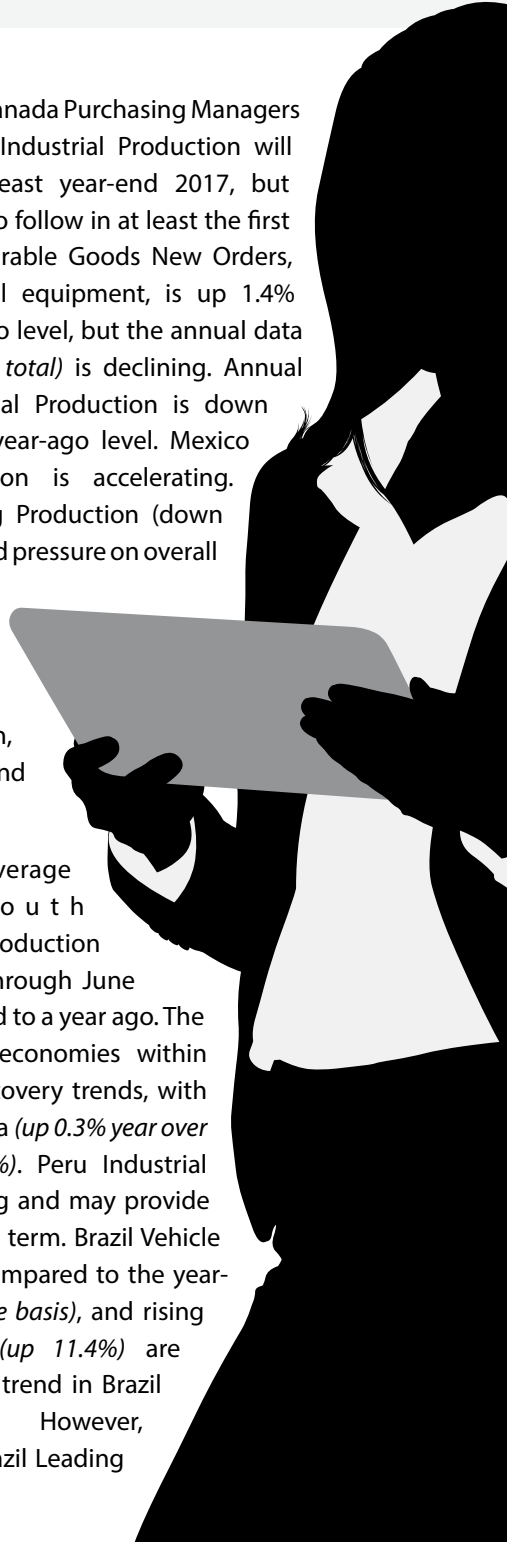
NORTH AMERICA The US economy is accelerating. US Real GDP grew at an annual rate of 2.2% in the second quarter while annual average US Industrial Production in August was up 0.8% compared to the year-ago level. Global leading indicators, such as the OECD Major Six Leading Indicator and the JP Morgan Global Manufacturing Purchasing Managers Index, are suggesting expansion in World Industrial Production in at least the coming quarters. Rising US leading indicators suggest that we can expect further accelerating growth in the US economy for the remainder of this year and into at least early 2018. The US Total Capacity Utilization Rate shows tentative signs of cyclical decline, signaling that the US economy is likely to grow at a slower pace in 2018 than 2017.

The growth in the US macroeconomy is translating to growth in the electrical equipment industry as well, as measured by US Wholesale Trade of Electrical and Electronic Goods. Annual wholesale trade was up 4.3% compared to the year-ago level, while the most recent three months of wholesale trade were up 9.1% compared to the same three months one year ago. This indicates there will be further cyclical rise in wholesale trade in at least the coming months. However, not all end-use markets of electrical equipment are experiencing growth. North America Light Vehicle Production is declining. With relatively low gasoline prices, consumers are trending toward larger, less fuel-efficient vehicles. This has benefited North America Light Truck Production (up 4.0%), which accounts for nearly two-thirds of North America Light Vehicle Production. Conversely, North America Passenger Car Production is down 6.2% year over year, and high inventories relative to current retail sales in this segment suggest auto firms will need to change their mix of production away from cars toward light trucks and SUVs. This may create opportunities for firms involved in production process changes.

The average of the most recent 12 months of Canada Industrial Production is up 4.0% compared to the year-ago

level. Cyclical rise in the Canada Purchasing Managers Index suggests Canada Industrial Production will accelerate through at least year-end 2017, but slowing growth is likely to follow in at least the first half of 2018. Canada Durable Goods New Orders, which includes electrical equipment, is up 1.4% compared to the year-ago level, but the annual data trend (12-month moving total) is declining. Annual average Mexico Industrial Production is down 0.4% compared to the year-ago level. Mexico Manufacturing Production is accelerating. However, Mexico Mining Production (down 9.5%) is placing downward pressure on overall industrial production. Look for opportunities in Mexico Light Vehicle Production and Mexico Total Truck Production, which are up 11.3% and 14.8%, respectively.

SOUTH AMERICA Average South America Industrial Production during the 12 months through June was down 1.7% compared to a year ago. The majority of the major economies within South America are in recovery trends, with the exception of Colombia (up 0.3% year over year) and Peru (up 2.7%). Peru Industrial Production is accelerating and may provide opportunities in the near term. Brazil Vehicle Production is up 7.6% compared to the year-ago level (annual average basis), and rising annual Brazil Exports (up 11.4%) are supporting the recovery trend in Brazil Industrial Production. However, cyclical decline in the Brazil Leading



BY THE
NUMBERS
(US)

Conference
Board Consumer
Confidence Index

122.9%

August (2017)
Unemployment

4.4%

Retail Sales
(July to August)

+3.2%

Mfg.'s New Orders
for Durable Goods
(June to July)

-6.8%

Indicator suggests that firms should exercise caution concerning business dealings in the country.

EUROPE

Average Europe Industrial Production during the 12 months through June was up 2.0% year over year. Expect annual average Production to rise into mid-2018. Eastern Europe Industrial Production (up 3.7%) is expanding at a greater pace than Western Europe Industrial Production (up 1.0% year over year). Romania and Poland Industrial Production are outpacing other countries in Eastern Europe, up 5.1% and 4.5%, respectively, year over year. In Western Europe, Spain Industrial Production (up 1.8%) and Italy Industrial Production (up 1.5%) are outpacing Germany Industrial Production (up 1.1%), UK Industrial Production (up 0.8%), and France Industrial Production (up 0.1%).

ASIA

Average China Industrial Production during the 12 months through July was up 6.6% compared to a year ago. Production is accelerating. Rise in the China Purchasing Managers Index signals further cyclical rise for production into late 2017, with subsequent cyclical decline in 2018. China's residential construction sector is outpacing the nonresidential construction sector. China Floor Space of Residential Buildings Started is up 11.3% in contrast to the Nonresidential Buildings Started, which is down 1.5%. However, the Floor Space of Residential Buildings Started annual trend ticked down in July. Decline in the quarterly growth rate signals further decline in this sector is likely in at least the near term. Opportunities in the Chinese construction market are likely to

become more limited in the coming months. Average Japan Industrial Production during the 12 months through July was up 3.8% year over year. Production is accelerating, but nascent decline in the Japan Purchasing Managers Index rate-of-change is consistent with an expectation of generally slowing growth in production during 2018. South Korea Industrial Production is up 3.2%. However, be wary of the South Korea marine industry, as South Korea Shipbuilding Production is in recession, down 14.5% from the year-ago level. India Industrial Production is growing at a slowing pace, up 3.3% year over year. Decline in the Production quarterly growth rate signals that the period of slowing growth is likely to persist in the near term.

MIDDLE EAST / AFRICA

Middle East and North Africa Industrial Production is up 3.3% compared to the year-ago level. Year-over-year growth in oil prices is helping oil-dependent economies in the region, such as Saudi Arabia, recover. However, the recent slide in quarterly oil prices suggests a limited upside for much of the region in at least the near term.

*Source - IEWC contracts the services of a third party consultant to provide current insights on the economy.

CURRENCY TRENDS

	Current Value of \$1USD	Change Since 1/1/2017	Change Since 9/1/2016
Brazilian Real	3.16	-0.09	-0.09
Canadian Dollar	1.24	-0.10	-0.07
Chinese RMB	6.62	-0.32	-0.05
Euro	0.84	-0.11	-0.05
Mexican Peso	17.90	-2.83	-0.93
Pound Sterling	0.74	-0.07	-0.01

Current values as of 9/25/2017

Mfg.'s Shipments of Durable Goods
(June to July)

+0.4%

Durable Goods Mfg.'s Inventories
(June to July)

+0.3%

CPI Inflation
(over prev. 12 months)

+0.4%

US Industrial Production Index
(over prev. 12 months)

+0.3%

Purchasing Managers Index
(August)

58.8%

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will push supply in closer alignment to demand. As a result, the downward pressure on quarterly prices is likely to abate by early 2018 as supply diminishes, yielding subsequently rising quarterly prices into at least mid-2018. Expect prices to vacillate between the high \$2 and low \$3 range during the next four quarters.

US Copper Futures Prices averaged \$2.89 per pound during the three months through August, the highest level in more than two and a half years. Reports that China could ban imports of scrap metal in 2018 contributed to this jump in prices, which could increase demand for copper to replace the scrap metals. Strikes in several of the world's largest copper mines are also contributing to the rise in prices. However, as of mid-September Futures Prices have trended downward as analysts warned of speculative buying beyond market fundamentals. Disappointing China import data, rising inventory levels, and

reduced concerns over sufficient copper supply have also contributed to the very recent pullback in prices.

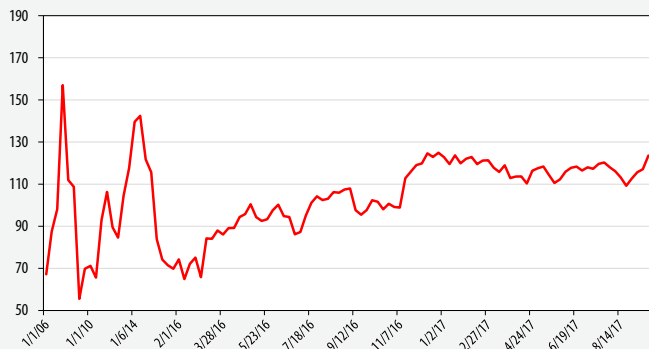
Do not expect significant upward movement in the prices of most commodities in the coming quarters. The US, China, and Europe are likely to experience slowing growth for much of 2018, as signaled by a growing list of declining leading indicators for these areas. Slowing macroeconomic growth will likely translate to diminished demand for commodities, keeping any price rise mild. This pricing environment is good news for most businesses as you will have opportunities to raise your prices, but the price increases will be low enough that your customers will likely be able to afford the increases. Focus on controlling other costs, such as labor, to increase your profitability during the upcoming business cycle.

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WIRE INDEX

The Wire Index increased by 6.3% since the beginning of August. It is now up a slight 0.5% year-to-date, and up 26.4% over the past 12 months. All tracked companies experienced stock price increases since the beginning of August except for Houston Wire & Cable, which fell by 10.4%. Belden had the largest stock price increase at 9.0%.

The Index tracks the weighted stock price of five publicly-traded wire and cable manufacturers and distributors based in the US and is benchmarked such that the average value during the second half of 2006 equals 100. With the purchase of Coleman Cable by Southwire, the Wire Index now has five publicly traded wire and cable manufacturers and distributors.



COPPER FUTURES

Comex copper prices increased by 1.6% since the beginning of August and sit at \$2.92/pound as of 9/22/17. For the year, Comex Copper is up 17.9%. It is up 33.7% over the last 12 months.

