



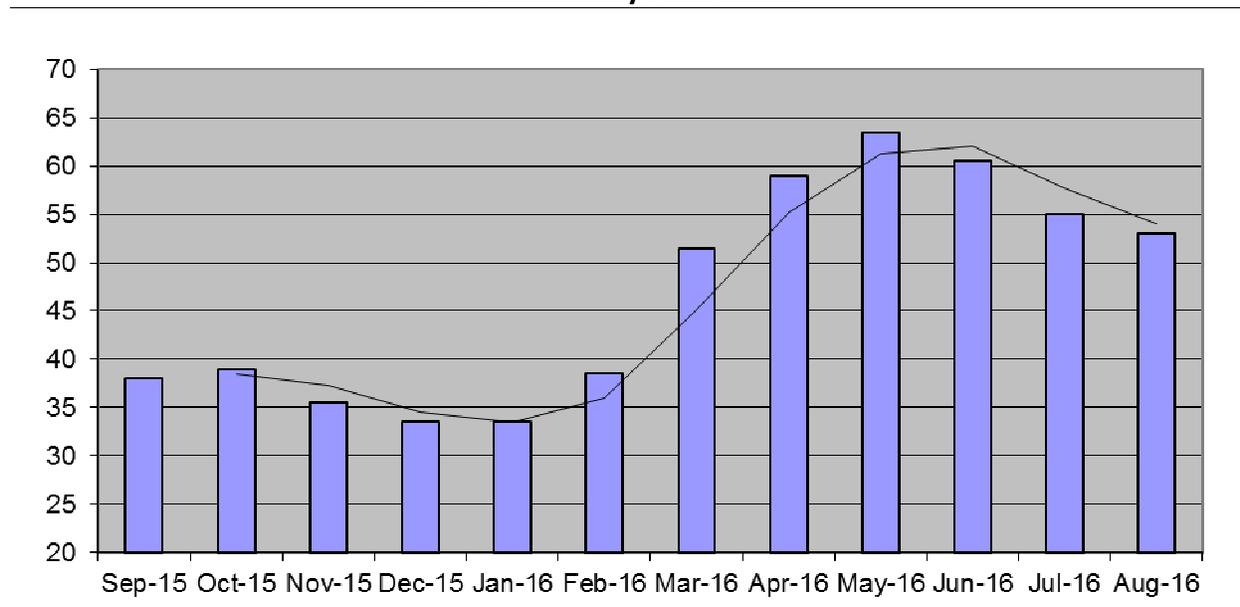
United Sourcing Alliance actively monitors market pricing as a service to our clients and to ensure our supplier partners remain competitive with market fluctuations. Below you'll find our latest update on key commodities and currencies. Please contact Gene Smith at [gsmith@usa-llc.com](mailto:gsmith@usa-llc.com) or 704-697-9695 Ext 14 if we can assist you further.

## Commodities Update September 30, 2016

**ISM Report on Business** – The manufacturing sector contracted in August following five consecutive months of expansion as the Purchasing Managers Index (PMI) for August 2016 came in with a reading of 49.4%. A reading below 50% generally indicates the manufacturing economy is generally contracting. Of the individual indexes New Orders, Production, Employment, Inventories, and Order Backlogs were all contracting when compared to the July numbers. Of the 18 industries that participate in the monthly survey only 6 reported growth in New Orders and only 9 reported growth in Production.

The ISM Price Index comes in at 53.0% in August, down 2.0% from the July reading but still indicating higher prices for the 6<sup>th</sup> consecutive month. Of those participating in the ISM report: **50% reported paying higher prices**, 33% reported paying the same, and 17% reported paying lower prices in raw materials. Reported to be up in price are: Caustic Soda, Copper Products, PE Resins, Stainless Steel Products, Propylene, Nickel, and Gold. No commodities were listed as being in short supply for the month of August.

**ISM Commodity Price Index**



Reported on the first business day following the close of the month, the ISM reports are the first look at economic activity for the prior month and are closely watched by policy makers and economists. You'll find a link to each monthly report on our website at [www.usa-llc.com](http://www.usa-llc.com).

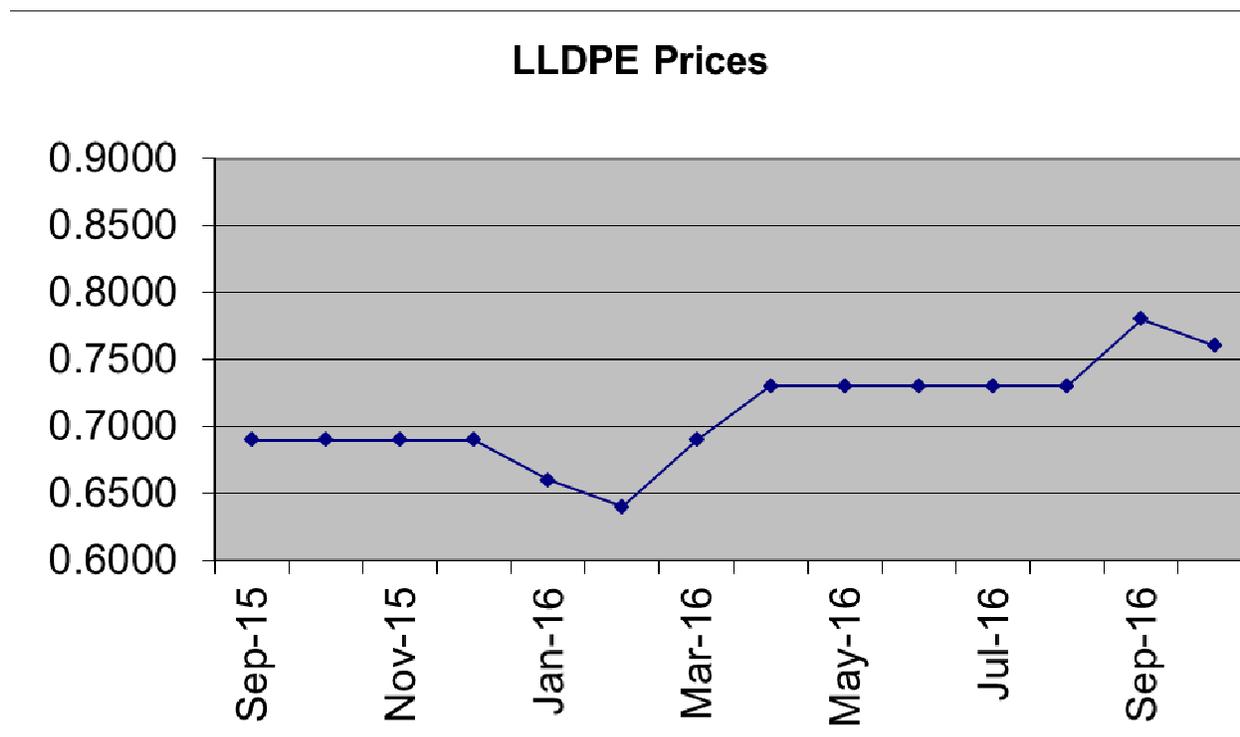
## MARKET UPDATES

**Polyethylene** – Ethylene markets have gone short as multiple operating problems and maintenance delays have impacted the market. This shortage in ethylene has spilled over into the polyethylene markets as you would expect. One manufacturer, who had shut down a multi-billion pound unit in April due to an expansion, has now delayed the restart of that unit by 2 months with a likely November start up. Spot ethylene prices, which were running in the 25 to 26 cents per pound range at the time of our June report, have hit a peak of 40 cents in mid-September. The good news is that unless some other significant event negatively impacts supply we should see prices start to decline through the 4<sup>th</sup> quarter.

The already tight LDPE and LLDPE markets got slightly tighter in September due to the previously mentioned unexpected operating issues. On top of the supply issues the industry also experienced a significant increase in demand. These factors led producers to push for the 5 cents per pound increase that is reflected in the chart below.

Domestic demand for both LDPE and LLDPE is up a little over 2% on a year to date basis, but because of supply issues exports have dropped. Inventories have tightened considerably with all grades of polyethylene combined losing 4-1/2 days to what would be considered normal supply. Because of this ongoing tightness in the market some producers are looking for more increases in October but there is good reason to believe that will not take place. As both the planned and unplanned outages start to come back on line and the general softer seasonal demand comes into play most believe further increases will not firm up.

Looking ahead the LDPE and LLDPE supply situation should improve and the current 5 cents increase will likely be lost before years end. Into 2017, we would expect further price erosion as new capacity comes on line moving all ethylene markets lower.

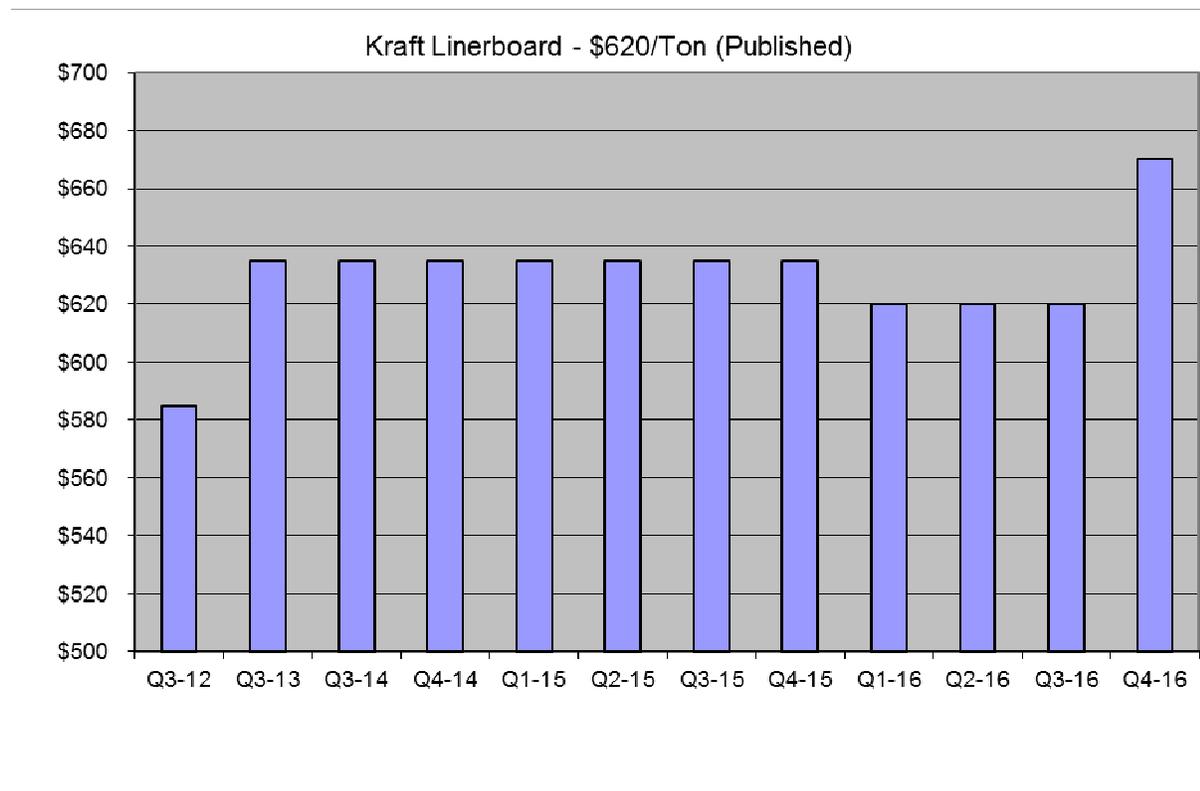


Charts are also available for LDPE and HDPE. Contact Gene Smith if you would like those.

**Corrugated Containers** – After seeing a relatively flat market for the past three years the linerboard index appears to be heading up for the 4<sup>th</sup> quarter of 2016. Most industry analysts report seeing a 100% probability that the announced increase will firm up and become a reality in the coming weeks. Linerboard inventory levels are described as tight and are currently running about 9% below this same period last year. Box demand moved up in August and is reported to be 10% higher than the previous year. Likewise linerboard consumed to make boxes moved up 10.6% compared to last year. Operating rates were up slightly in August to 96.4% compared to August 2015 but 2.4% ahead of prior month.

Box prices will remain under pressure as the forecast for linerboard goes up and as box demand continues to increase. Exports continue to rise and in August were right at 12% above the same period last year. YTD exports for the first 8 months of 2016 are 3.6% ahead of the first 8 months of 2015. While exports are up imports, mostly from Canada, were down 6% in August compared to last year.

The longer term outlook appears to be relatively flat as additional capacity comes on board to offset any further declines due to tight inventories. Unfortunately some of the expected new capacity through newsprint conversion to linerboard has been delayed as permitting for those conversions have been delayed. In addition, WestRock has confirmed the permanent closure of 3 mills. Linerboard demand will continue to grow not only through increased box demand but also due to heavier boxes being used by manufacturers to further protect their products during shipping.



If you haven't taken a look at your box specifications in a while give us a call: we can likely help. Our visibility into the market place and working across multiple industries gives us additional insight.

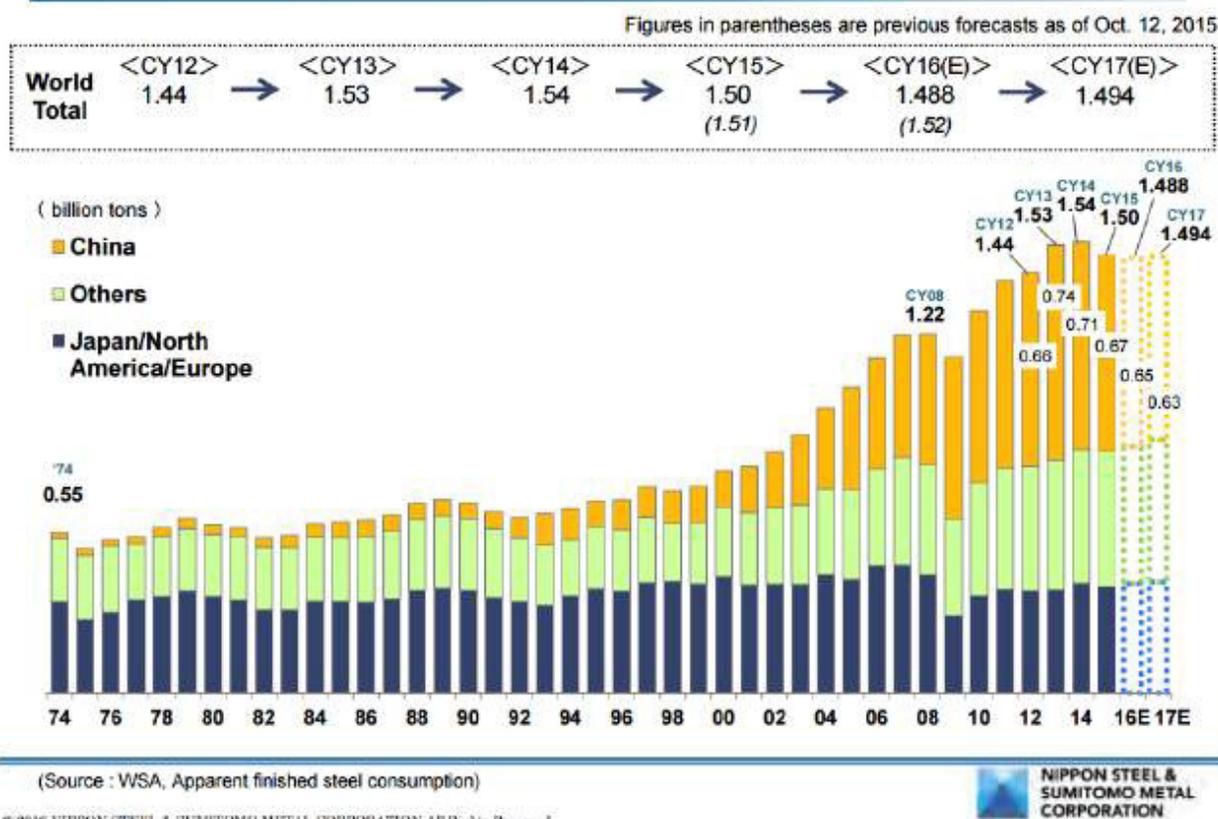
**Steel** – The domestic steel industry continues to face challenges as both steel mill shipments and service center shipments fell in the second quarter. Steel mill shipments fell 1.7% in June compared to the same period in 2015 and service center shipments are down for the first six months of 2016 by 8% compared to the same period in 2015. Domestic raw steel production is down 1.2% through the end of August as compared to the first 8 months of 2015.

Despite a small increase of 1% in June vs May, US steel exports are running 10.5% behind 2015 levels when comparing mid-year data. US imports, while up in July vs June, continue to lag last years' numbers by 25%. World steel demand continues to be relatively flat, as you can see from the chart below, with China continuing to lead the way.

## World Steel Demand

<Released on April 13, 2016 by WSA>

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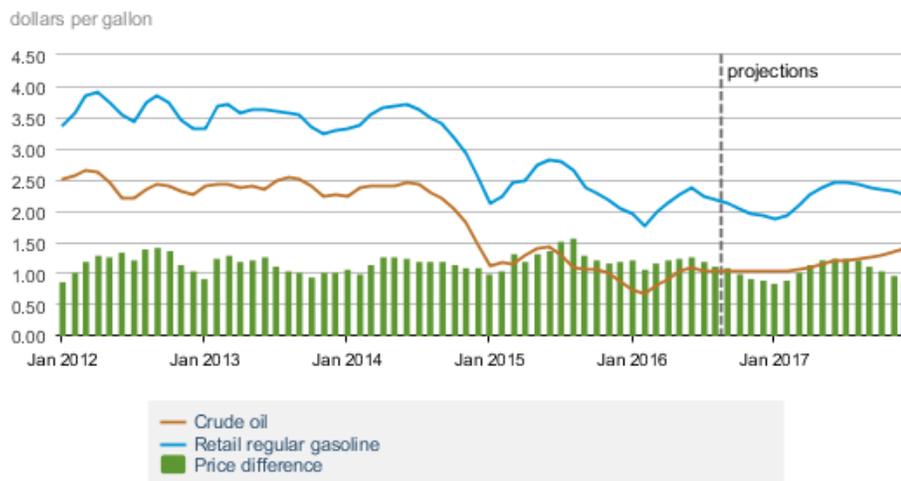
**Paper Products** – Major producers Domtar, Boise, and International Paper had previously announced a 6% to 7% price increase for all office papers that went into effect in May of this year. Over the past few months we were successful in negotiating with Office Depot as it relates to paper pricing for our group and we were able to hold that at bay. However those increases have now been pushed through.

We will continue to work with Office Depot to offer quarterly specials and will make those available to you as they are approved. In partnering with companies like Office Depot, United Sourcing Alliance continues to provide significant value to our client base through an uninterrupted supply of high value, quality products and services at very competitive prices.

**Energy Outlook** – Despite continued increases in US oil rig counts and global oil inventories the price of Brent crude oil went up \$1 per barrel in August to \$46 per barrel. However, we continue to run slightly behind the 2015 average of \$49. Forecast current show that inventories will continue to build slowly through the balance of the year with prices holding relatively stable in the \$40 to \$50 range.

The monthly average for retail regular grade gasoline is expected to average \$2.22 per gallon for the summer driving period (April thru September) which is \$0.41 per gallon lower than the summer of 2015. Current forecast have regular grade gasoline falling to an average of \$1.92 per gallon in December of this year and averaging \$2.26 for total year 2017. Keep in mind that these markets are extremely volatile and the monthly averages in some regions can exceed the national averages by \$0.30 per gallon.

**U.S. gasoline and crude oil prices**

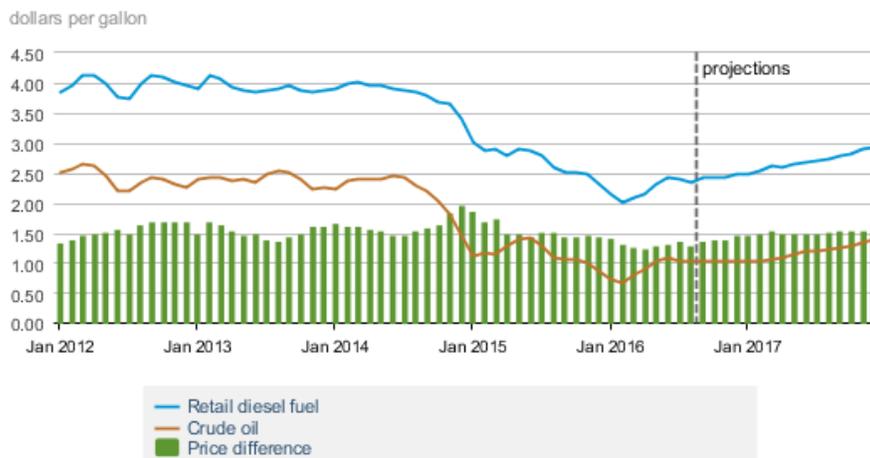


Source: Short-Term Energy Outlook, September 2016

Crude oil price is composite refiner acquisition cost. Retail prices include state and federal taxes.

U. S. average retail diesel fuel prices, which averaged \$2.71 per gallon in 2015, are expected to average \$2.31 per gallon in 2016 and \$2.70 in 2017.

**U.S. diesel fuel and crude oil prices**

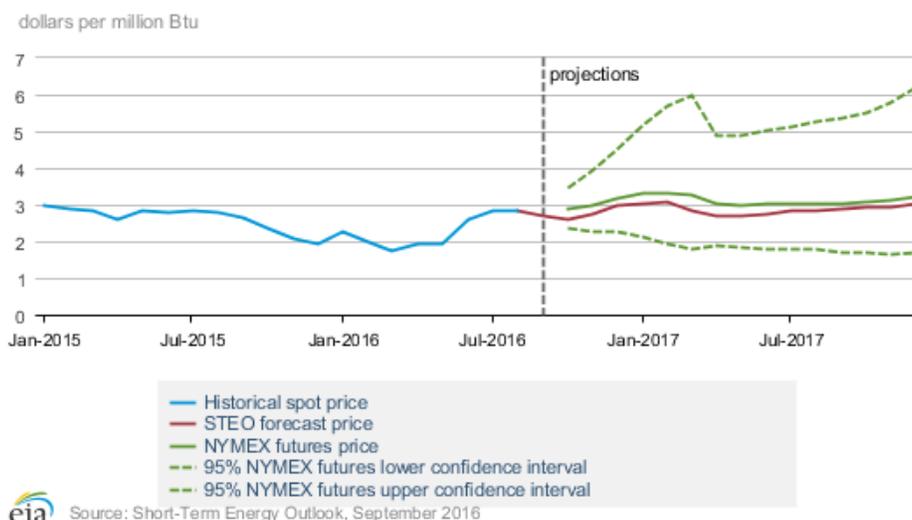


Source: Short-Term Energy Outlook, September 2016

Crude oil price is composite refiner acquisition cost. Retail prices include state and federal taxes.

The Henry Hub natural gas spot price averaged \$2.82 per MMBtu in August same as the July average. A hotter than average summer and a decline in production has put some upward pressure on prices. Current forecast is for prices to gradually rise and complete 2016 with a yearly average of \$2.42 per MMBtu and \$2.87 per MMBtu for 2017.

### Henry hub natural gas price



Note: Confidence interval derived from options market information for the 5 trading days ending Sep. 1 2016. Intervals not calculated for months with sparse trading in near-the-money options contracts.

**Currencies** – The US Dollar is the most commonly converted currency in the world and is regularly used as a benchmark in the Forex market. As the dominant global reserve currency, it is held by nearly every central bank in the world. Additionally, the Dollar is used as the standard currency in the commodity market and therefore has a direct impact on commodity prices. Despite the occasional daily dip the US Dollar has continued to hold relatively firm against most major currencies. A stronger dollar reduces the cost of imports while increasing the cost of our exported products to foreign countries.

	<u>9/30/16 Rate/US\$</u>	<u>3 Month chg</u>
<b>Brazil</b> real	3.2422	unchanged
<b>Canada</b> dollar	1.3107	unchanged
<b>México</b> peso	19.3873	+4.90%
<b>Euro area</b> euro	0.8914	-1.43%
<b>UK</b> pound	0.7708	+2.11%
<b>China</b> yuan	6.6688	unchanged
<b>India</b> rupee	66.588	-1.38%
<b>Japan</b> yen	101.335	-1.77%

Know the numbers and use them to your advantage.

## ***ECONOMIC NEWS***

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### **At A Glance – September - 2016**

- GDP increased 1.4% in Q2 - 2016
- Disposable Personal Income increased 0.2% in August
- Real Consumer Spending decreased 0.1% in August
- PCE prices increased 0.1% in August

Real gross domestic product, adjusted for price changes, increased at an annual rate of 1.4 percent in Q2 – 2016. This increase is primarily the result of positive contributions in personal consumption expenditures, non-residential fixed investment, and exports. These increases were partially offset by losses in state and government spending, residential fixed investment, and an increase in imports.

U. S. consumer spending was up for the fourth consecutive month in July as confidence grew fueled by employment gains, low interest rates, and low energy prices. Consumer prices remained relatively flat in July overall with increases in housing, medical costs, and prescription drugs being offset by decreases in energy, used cars, travel, and some food products.

The U. S. Consumer Confidence Index rose in August to 101.1 it's highest reading since September 2015. The U. S. Leading Economic Index rose for a second consecutive month in July to a reading of 124.3.

**Housing** – The S&P Case-Shiller Home Price Index rose 5.1% in the 12 months ending in June of 2016 down 0.1% compared to Q1 – 2016. The 20 city index showed year over year gains of 5.1% which is down slightly from the year over year figures from the first quarter.

Existing homes sales fell 3.2% in July as compared to June to an annual rate of 5.39 million units down slightly from our Q2 report. Limited inventory of existing homes and rising prices have driven some potential buyers away.

New housing starts were up in July compared to prior month by 2.1% driven primarily by multi-family units. New home sales posted the strongest numbers since October 2007, and through the first seven months of this year are running 12.4% ahead of the same period in 2015.

**U.S. Auto Sales** – Despite some very strong incentives sales of automobiles and light duty trucks fell significantly in August to an annual rate of 17 million compared to the July rate of 17.9 million. However, even with the August decrease volume remains historically solid and 2016 could possibly exceed the 2015 record of 17.5 million units.

Manufacturers Ford, Toyota, and BMW have recently committed almost \$16 billion to build new or expand existing facilities in Mexico. Growth in Mexico seems to make good sense for manufacturers as wages continue to be favorable. Ford has also announced plans to build a totally self-driving vehicle to be introduced in 2021 to the driverless taxi market. I'm thinking I'll let you guys take that first ride and you can let me know how it goes.

## **UNITED SOURCING ALLIANCE family of Companies**

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We are proud to announce that Transportation Insight was recognized as a 2016 SmartWay® Excellence Award recipient by the U.S. Environmental Protection Agency for the company's leadership in freight supply chain environmental performance and energy efficiency.

Transportation Insight Chief Operating Officer Laura Easley accepted the award during this morning's session of the Council of Supply Chain Management Professionals Annual Conference in Orlando, FL. A SmartWay Transport Partner since 2008, Transportation Insight was among nine companies recognized on stage today, including Bacardi USA, The Home Depot, HP Inc., Johnson & Johnson, Kimberly-Clark Corporation, Lowe's Companies Inc., Union Pacific Distribution Services and Whirlpool. Transportation Insight is one of only two logistics providers honored among more than 3,500 eligible shippers, carriers and logistics providers, and the award is a tribute to the diligent efforts of our Supply Chain Analytics team that is so integral to our mission to implement efficiencies that help make good businesses even better.

You can read the full article at: <http://bit.ly/2d42ITb>.



## **SOURCING OPERATIONS UPDATES**

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### **Standard Register & Staples Print Solutions Brand Change to Taylor Communications**

USA Members please lookout for a representative from Taylor Communications to reach out and set a face to face appointment in the very near future. Taylor Communications is made up of the former Standard Register and Staples Print Solutions organizations and is a multi-billion dollar, wholly owned Taylor Corporation Company. United Sourcing Alliance signed a multi-year agreement with Taylor Communications to ensure you our client as our most important asset, can gain significant cost reductions based on the group's ability to leverage our spend and negotiate a very aggressive agreement on your behalf.

Our clients typically see savings of up to 15% across this category, so if cost reductions are important and part of your company goals for 2016 please contact Eric Pritchard at (828) 485-5218 or Gene Smith at (704) 697-9695 ext 14.

**Packaging** – With the recent increases and coming increases now may be the perfect time for you to have United Sourcing Alliance take a look at your current packaging situation. We have expanded our network of packaging partners and have recently completed benchmarking with multiple companies resulting in solid double digit savings. The index for linerboard will likely go up shortly and resins markets have recently risen. Our visibility into these categories and our relationships with the top suppliers in these markets has allowed us to get aggressive reductions for our clients that go straight to their bottom line.

As a member of our group there is no costs to you to have us take a look at your requirements. With a 95% success rate in this area we can likely reduce your costs and potentially improve your service levels. Please reach out to us and we can have a brief conversation to determine if a deeper dive makes sense for you.

**Logistics** – If you are looking for help with logistics and are interested in a hosted web based technology solution, talk to us about our sister company, Transportation Insight or check them out at [www.transportationinsight.com](http://www.transportationinsight.com). Transportation Insight's offerings and services have expanded in recent months through acquisitions to include: BirdDog Solutions – the leader in parcel logistic solutions; Flynn Transportation Services – a highly regarded transactional services provider; West Coast Distributing – a leader in the temperature-controlled logistics sector. If you feel that your domestic truckload, LTL, or parcel logistics need a look, let us know and we can arrange a meeting with the subject matter experts.

Whether it's your indirect materials, logistics, or Lean practices, we're here to help make your company more cost efficient. Let us know what else we can do for you.

Respectfully....*United Sourcing Alliance*