Schrottmarktinfo

No. 118 *compiled and edited by J. Hanke – 21st August 2023*

Green Scrap for Green Steel!

Increase in Asian Demand Softens Price Reductions

Scrap Metal Market Report - August 2023

Editorial Deadline: 21.08.2023

General Developments

At the moment, early indicators, such as incoming orders, the general domestic economic climate and the subdued global economy do not suggest a sustainable economic recovery. In the absence of large orders, incoming order volumes are still showing a downwards trend. Consumer prices sank further in July and are now at +6.2%, compared to the same period last year. On the consumer side, in the light of declining inflation rates and increasing wages, private consumption, in particular, should have had a stabilising effect. Generally, the ifo-Business Climate Index for Germany has worsened, especially with regard to the expectations for future developments, which are clearly on the negative side. Net exports (total exports minus imports), in particular, are likely to have a negative impact, as the weak global economic environment is putting a damper on export activity and, consequently, also on production levels. The effects of further sinking global energy and raw material prices as well as the improvements in delivery change interruptions are still being reflected in foreign trade pricing; import prices have fallen (-1.6%) much more than export prices (-0.1%). In actual terms, this probably represents a slight increase in exports, whereas imports have probably not fallen quite as much as indicated.

Scrap Market

Overall, domestic scrap demand remained weak. There is no sign of a trend reversal in steel mill demand on the horizon; this is attributed to the vacation period shutdowns and the poor outlook for the construction industry, in particular. The domestic export market offered steady turnover possibilities for some scrap grades. Exporters complained of meagre scrap inflow quantities to the export yards, as a result of low scrap availability on the market. Even increases in purchasing prices were unsuccessful in stimulating higher inflow volumes.

At the beginning of August, steel producers attempted to push through price reductions of €10 - €20 per tonne. Prior to the start of negotiations, the trade had already reckoned with falling prices. On the whole, price reductions ranged from €5 - €15 per tonne, whereby lower price reductions were seen for finished quality scrap grades than for feeder material, where price reductions were at the higher end of the range. Price reductions would probably have been considerably larger had the increase in global demand from Asia not taken place. This increasing export pressure had a considerable impact on the Polish market, in particular, where short sheet cuttings, HMS 1/2 grades and turnings were exported to India, Bangladesh and Pakistan. In contrast to other countries, container availability was good. Due to the rekindled export market, procuring feeder material was challenging. Shredder plants had considerable difficulty obtaining feeder material and, in some cases, were forced to use higher quality grades to maintain acceptable aggregate capacity utilisation levels. The mood on the scrap market became more subdued, which was reflected in a low willingness to collect scrap. Increasing prices in transport and logistics simply made some business dealings unviable. Collection activity is strongly coupled with economic viability, which was reflected in declining quantities of collected scrap. During August, the scrap trade was forced yet again to come to terms with considerably restricted material inflow quantities and despite reduced demand, trade stock volumes decreased further.

Scrap – Regional Developments

In **north** Germany, price reductions of €5 - €10 per tonne were seen, which were somewhat lower than those seen in the south. Consumers were unable to force through their envisaged price reductions of €10 - €20 per tonne. As in other regions, both scrap supply and scrap demand were low. Procurement of finished shredder scrap and feeder material on the domestic market for shredder and shearing plants was made particularly difficult due to the rekindling of the export market for these materials. In the **east**, price reductions of €5 - €10 per tonne were also seen. Grade E1 scrap availability was very low, leading to supply shortages in the region. A large consumer in the **west** showed no demand for scrap worthy of mention, whilst another purchased scrap with price reductions of €10 per tonne for industrial scrap, €15 for obsolete scrap and €5 for turnings. In the **south west**, average price reductions of €5 - €15 per tonne were also somewhat higher than those seen in the north due to lower demand; industrial scrap prices fell by €10 per tonne, those for obsolete scrap by €15 and for turnings by €5. Scrap quantities from existing suppliers were reduced in line with the low demand levels. The mills announced that after the long August production stoppages, it is highly unlikely that demand levels will change significantly during September. Along the **Saar** river, purchased quantities were meagre and price reductions of €10 per tonne were registered. In the **south**, price reductions ranged from €10 - €15 per tonne.

Neighbouring Foreign Scrap Markets

On the **French** market, price reductions were approximately €10 per tonne. In addition, demand was low and material inflow was troublesome. In **Luxembourg**, due to the summer vacation period demand was very low and scrap was traded with price reductions of €10 per tonne. In **Italy**, scrap prices fell by €15 per tonne. On the **Austrian** market scrap prices fell by €20 per tonne for industrial scrap and slightly less for obsolete scrap at €18 per tonne. The **Swiss** scrap market came more or less to a halt due to the lack of turnover possibilities and prices softened by €15 - €20 per tonne. **Spanish** mills had difficulty finding purchasers for their finished products and scrap prices softened by €10 - €15 per tonne. On the **Polish** market, prices remained unchanged or softened by up to €7 per tonne. Polish mills reduced their average offered prices for E3 grade scrap by €5 - €6 per tonne. In parts, feeder material was traded with price increases of €5 - €10 per tonne. Indian, Thai and Pakistani importers purchased increased volumes of industrial scrap, short HMS grades and turnings on the Polish market for container shipment. On the **Czech** market, weak demand and the financial difficulties being experienced by one large mill put pressure on scrap pricing. Traders turned increasingly to neighbouring foreign markets to turnover their goods.

Global Scrap Market

Trading activity on the Turkish scrap market increased in the first half of the month. The reason for this was an upturn in demand on the Asian finished steel product market, especially from India and Pakistan, this in turn led to an improvement in the initial position on the turnover market for these products. Turkish consumers acted very cautiously, on the one hand to prevent further fuelling of price increases and on the other to prevent unnecessary stock piling. They repeatedly withdrew from the market to observe and analyse the prevailing market conditions. This stop-and-start behaviour slowed the import market down by interrupting trading, until the one or the other Turkish importer was ready to reappear on the scrap market. Sales prices for finished steel products were a long way off the desired levels. Sales price increases were necessary to counteract, for the most part, the increase in scrap prices. Demand for steel in Asia led to an increase in scrap demand, as seen for example, in India, Bangladesh and Pakistan. Provided there was demand for scrap in Asia, Indian importers ordered scrap. Due to the tightening of the UAE scrap export limitations, which reduced the delivery of scrap to Turkey from 120,000 tonnes to 50,000 tonnes per month, and the scarcity of sponge iron (DRI) scrap prices on the Turkish market also came under pressure. Suppliers who usually supply Turkey with scrap turned instead to delivering container loads of scrap to India, Bangladesh and Pakistan. There was also an increase in complete ship loads of scrap being sold to these countries.
Many scrap suppliers are having difficulties maintaining a continual inflow of scrap to the yards and have thus increased their purchasing prices, although this has had little effect as an incentive to increase material inflow volumes. The market was seen to be stable, but mill opposition to scrap price increases was on the rise. On the short sea market, sellers were looking for higher prices and acted with restraint, biding their time until prices reached a, for them, acceptable level.

Foundries

Compared to July, there have been no significant changes on the foundry market during August. The summer vacation period shutdowns resulted in low demand. The time was used to carry out maintenance work and a thorough analysis of the foundry market. These analyses are necessary to ascertain in advance whether shutdown periods should be extended and/or whether production levels should be throttled back. Price reductions ranged from €5 - €15 per tonne. Market experts have mixed feelings regarding the outlook on the foundry market during September. However, a sustainable market recovery, through increasing demand for foundry products, that continues after the actual end of the shutdown periods doesn't appear to be on anyone's cards.

Outlook

As was expected, incoming order volume has weakened in the construction and mechanical engineering industries as well as for the consumer goods sector. Hand in hand with an economic slowdown comes weaker demand, this has been further exacerbated by reducing stock volumes. Overall weak demand is expected to continue across all these sectors. Looking at the complete picture, it can at least be said that the automotive industry is stable.

Scrap is in scarce supply and demand is low. Once production after the summer vacation shutdowns has restarted at the steel plants, scrap inflow to the yards will pick up again. However, this time-lagged availability from production waste and sluggish scrap collection, which for many has become unviable due to rising costs and low volumes of scrap available for collection, are still putting pressure on material availability on the market. Low demolition activity as a result of the struggling construction industry is also exacerbating the scarce supply of materials, as far as obsolete scrap is concerned. Market participants are questioning whether rock bottom has already been reached and whether the mills will actually be able to procure sufficient quantities to cover their demand in the summer months. Some steel mills see no signs of a quick recovery of their operational activity, especially those upstream of the construction industry. It is expected that scrap demand from these mills will be below average and their outlook is likely to remain bleak into the first half of next year, as long project and financing lead times mean there are currently no positive impulses pointing towards a recovery. For steel producers upstream on other turnover markets, the prospects for stable demand levels are rosier. It is unclear how strong scrap demand will be on the Turkish and Asian markets. On the Asian market it appears that the dynamics have already deflated somewhat. Chinese economic and property market indicators are pointing to weakening demand for steel, which could also have a negative impact on demand on other Asian markets.