Scrap Metal Market Report
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Green Scrap for Green Steel!

How Sustainable is the Asian Demand for Scrap?

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General Developments

In the second quarter of 2023, nominal wages showed the highest increase since 2008 as a result of the minimum wage increase, higher wage settlements and a tax-free inflation compensation premium. Compared to last year, price-adjusted real wages were slightly positive for the first time in two years. The current economic situation is divided; on the one hand, the dynamics of the domestic economy have slowly picked up as a result of slightly increasing real wages and positive investment developments, on the other, foreign demand in the light of continuing weak global economic developments has further deteriorated. In Germany, production has once again declined significantly, showing a decline of 1.8%. Current early indicators, such as incoming orders, the overall business climate and the restrained developments in the global economy, point towards a weak third quarter. Investments in machines, systems and construction increased and helped to provide a positive stimulus for growth. At the beginning of the third quarter, industrial activity has not yet overcome its weaknesses and overall industrial demand continues to fluctuate considerably.

Scrap Market

The general picture on the scrap market is characterised by low demand for finished steel products, as has been the case for several months now. Companies are complaining of lack of sales and scarce supply of parts for production. Measures such as short-time work are being implemented to counterbalance the situation. On the scrap market, the focus is on the international market. The Asian demand for scrap is creating a market dynamic that is also unsettling Turkish importers. Up until now, emphasis was mostly on activity on the Turkish import market and the related foreign export markets, such as the US scrap market or the short-sea market with the Baltic States and the Black Sea region, to explain scrap market developments. Currently, Turkish importers have lost their main protagonist roles and have become supporting roles. Asian importers are now taking on the role of the main protagonists and are exerting their influence on the market. However, there remains the question, how long will this situation last and when will the market revert back to its usual structure? In other words, *how sustainable is the current Asian scrap demand?* The German domestic market is strongly influenced by the export market and the higher prices associated with it. German steel mills only seem able, to a limited extent, to compete against these market conditions; container loads of shredder scrap, sheared scrap, turnings and, in some cases, even short sheet metal scrap are leaving the country. The availability of containers is described as good and trade with buyers, predominantly from India and Pakistan, appears to be running smoothly. The availability of obsolete scrap on the domestic market is tight, as the outflow thereof on the export market is considerable. In general, the inflow of obsolete scrap is strongly declining. There are insufficient quantities to meet capacity utilisation levels of the aggregates. As far as industrial scrap is concerned, availability is still quite good, but the lack of demand for finished products and production difficulties are fuelling discussion in the steel plants over production cuts and short-time work. Existing turnover channels need to be reconsidered and new turnover opportunities need to be taken into consideration. The complexity of the situation has increased immensely.

Regional Scrap Developments

Scrap prices in the **north** increased by 15 -20 €/t. Demand for shredder scrap was on the low side. Availability of sheet metal scrap was better than that for hard-fought-over obsolete scrap. Here, the outflow via the export market did offer another turnover possibility, but exacerbated the situation further making procurement difficult and causing margins to shrink to an absolute minimum. In the **east**, there was a similar picture, albeit with slightly higher price increases of 20 €/t during September. Steelworks reappeared on the scrap market after the summer vacation period and did purchase scrap. In the **southern** regions, price developments were more complex. In the **west,** demand levels were down over 50% on usual levels and right from the beginning of the month offered prices remained unchanged. In the **southwest**, price increases stood at 10-15 €/t, whereby one steel mill entered the market with a lower August price level as a result of incoming order difficulties. Stocks of both finished steel products and scrap are still very high. Along the **Saar** river price increases of approximately 15 €/t were registered. In the **south**, overall demand for industrial scrap was low, as one mill showed lower demand. Scrap prices increased by 15 €/t.

Neighbouring Foreign Scrap Markets

In **France** prices rose by 10-20 €/t. In **Luxembourg**, a capacity utilisation rate of up to 80% is estimated. The demand for scrap was relatively strong due to large order production. The Luxembourg works were able to obtain quantities from neighbouring France to cover their demand. Prices rose by 10-15 €/t; industrial scrap prices only increased by 10 €/t due to better availability, whilst obsolete scrap prices increased by 15 €/t. In **Italy**, turnover on the finished steel market was still very difficult. Production shifts were cancelled due to low demand, thus, reducing scrap demand accordingly. On the whole, prices remained unchanged on the Italian market as a result of the strong export market, however, depending on the supplier and scrap grade concerned slight price increases of up to 5 €/t were achieved. In **Austria**, scrap demand was low and obsolete scrap prices increases of 20 €/t were seen. Industrial scrap was more abundant in supply and prices only increased by 15 €/t. On the **Czech** market prices rose by 25-39 €/t, whereas on the **Polish** market, lesser price increases of 15 -35 €/t were seen.

Global Scrap Market

Turkish steel producers felt under pressure to adjust their offered prices in line with the Asian market, although firm demand for finished steel products was still nowhere to be seen. The increase in scrap prices during the course of the month prevented Turkish producers from lowering their sales prices for finished materials. This would have been necessary to stimulate sales. In which direction scrap prices will move still remains unclear. A more hopeful picture has been created by rising export prices, mainly driven by the European and UK exporters. Turkish consumers are faced with a constant balancing act. On the one hand, between price reductions to improve the cost situation of their finished products in order to maintain a profit margin that will enable them to make price concessions to create possible sales incentives. On the other, they are forced to follow the international upward price trend to ensure that sufficient quantities of scrap are secured against the strong Asian market. Furthermore, cheap flat steel products from China, priced between 95-120 $/t lower than Turkish domestic products, are flooding the Turkish market. Russian and eastern Ukrainian billet prices were 50 $/t under the Turkish prices, making the production situation for Turkish steelmakers even more challenging. Total Turkish steel imports amounted to 11 million tonnes in the period from January to July 2023, an increase of 22%. Over the same period, overseas deliveries plummeted by 44.2% to 5.3 million.

Table 1 shows molten crude steel production volumes. In total, in the first seven months of 2023, 18.84 million tonnes of molten crude steel were produced in Turkey, a decrease of 13.3% compared to the same period in 2022. The EAF-steel production was 13.67 million tonnes, down 13.4% for the same period last year. Blast furnace steel production was only 5.16 million tonnes, down 14.9% for the corresponding period in 2022.

	Total Crude Steel Production			EAF-Steel Production			BOF-Steel Production		
	2023	2022	± in %	EAF 2023	EAF 2022	± in %	BOF 2023	BOF 2022	± in %
January	2,605	3,162	-17.6%	1,789	2,246	-20.3%	816	916	-10.9%
February	2,104	2,959	-28.9%	1,646	2,192	-24.9%	458	767	-40.3%
March	2,713	3,334	-18.6%	2,184	2,496	-12.5%	529	838	-36.9%
April	2,678	3,374	-20.6%	1,960	2,475	-20.8%	718	899	-20.1%
May	2,879	3,211	-10.3%	1,951	2,261	-13.7%	928	950	-2.3%
June	2,937	2,983	-1.5%	2,025	2,153	-5.9%	913	830	10.0%
July	2,927	2,718	7.7%	2,123	1,975	7.5%	804	871	-7.7%
TOTAL	**18,843**	**21,741**	-13.3%	**13,678**	**15,798**	-13.4%	**5,166**	**6,071**	-14.9%
August		2,837			1,966			871	
September		2,665			1,855			809	
October		2,847			2,066			781	
November		2,384			1,623			761	
December		2,659			1,815			844	
TOTAL		**56,874**			**40,921**			**16,208**	

Sources: German Steel Federation (WV-Steel), own calculations, rounding deviation table

Table 1: Turkish Molten Crude Steel Production in 2023

Foundries

In general, new incoming orders are lacking, especially in machine and plant engineering, which is why production levels in these sectors are dwindling. Actual production is expected to decline by 2 %. Foundries are also being impacted by general economic developments. The tense situation concerning scrap availability led to a 20 €/t price increase for non-index bound foundries. The situation at the foundries is very varied; some call for their ordered quantities as planned, whilst others purchase drastically lower scrap quantities. Thoughts of closing and leaving the sector are becoming increasingly apparent.

Outlook

Economic activity in China, at 5.3%, is expected to show a weaker development than initially expected this year. In Europe, only a very restrained growth of +0.6 per cent is to be expected. Even though the economic outlook in the US has recently brightened somewhat (2023: +1.9 percent), global economic demand remains subdued; this stated trend is underpinned by current forecasts of leading German economic research institutes. Early indicators point to a continued weak export trend. The path of the scrap market is multi-directional and shows no straight uniform way forward. The status quo that once was is a thing of the past and what may transpire is difficult to grasp. Great uncertainty and the feeling of helplessness is spreading throughout the market. The trend is moving towards increasing spot deliveries to minimise trading risks and stock-piling. Many unknowns and uncertainties do not allow for any substantiated statements as to the developments in supply and demand. Everyone is well advised to act only in the short term and to have an ear to the ground to quickly pick up on any developing momentum.