Rapid Sporadic Pickup of Pace Due to International Demand

Scrap Metal Market Report - December 2023
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General Developments

It was expected and all indicators pointed towards 2023 being the year of recovery. However, the determining factors are still problematic, not least because of geo-political conflicts and the lingering controversy over the budget in Germany; the continuing friction in relation to the latter especially, is resulting in uncertainty amongst the population. Many businesses are putting investment decisions on the back burner for now. Government expenditure has suddenly been slashed by 20 billion Euros, pushing the gross domestic product (GDP) down by 0.5% and in the worst case scenario by up to 1%. After the fall of the GDP in the 3rd quarter, current economic data indicates weak economic development during the last quarter of the year. The recessionary trend seen since the summer for the manufacturing industry continues. Positive investment developments are unlikely, as it is expected that investments will noticeably decline. Fortunately, private consumption has stabilised. The rate of inflation was 3.2% in November, the lowest rate since June 2021.

Scrap Market

The scrap market started cautiously at the beginning of the month. Steel mills had already tried to purchase amounts for December delivery during their November negotiations, as they were expecting the market to remain stable. Many mills announced extended shutdown periods. The extension of shutdown periods as an effective method to curb production was already under much discussion during November. However, in the first few days of December international scrap contract closures massively increased the pressure on pricing. In total, two consecutive purchasing campaigns by Turkish scrap importers were registered and resulted in the outflow of scrap onto the international export market, even though scrap availability on the domestic market was less than satisfactory; due to seasonal factors scrap availability was down by approximately 35%, compared to a normal trading month. The limited availability was apparent for all scrap grades. Low quantities reached the treatment aggregates, which were struggling with poor capacity utilisation levels. Outflow from the scrap producing industries was relatively good, but the export motor exerted pressure on the market, which was reflected in price increases of €20-30 per tonne. These increases resulted in the levelling up of obsolete and industrial scrap prices.

Regional Developments

In the **north** of Germany, scrap demand levels were varied; whereas some mills indicated no demand, others purchased the expected quantities. However, prices still rose by €20-30 per tonne due to the aforementioned pressure from export demand. In the **east**, price increases were somewhat larger – between €25-30 per tonne. One mill announced that, for the most part, production would not cease over the public holidays and continued to purchase scrap during December. In the **west**, prices rose by €20-25 per tonne. One mill purchased scrap quantities for January delivery with a €20 per tonne price increase. In the **south**, the year's production quantities were down 20-30% on what had been originally expected. Despite this, price increases of €20-30 per tonne were similar to those seen in other areas. In the **south west**, market participants had not expected the high price increases. Purchased quantities were at normal levels and nearby suppliers were able to meet the required quantities. Prices also increased by €25-30 per tonne as a result of the pressure on pricing exerted by neighbouring Luxembourg. Along the **Saar** river, mills were also forced to accept price increases of €20-30 per tonne, as price increases on the French market showed plus €30 per tonne, thus slightly higher than those on the German market.

Neighbouring Foreign Markets

In **France**, December prices for steel scrap rose by €30 per tonne. Purchased quantities in **Luxembourg** were relatively good and prices rose by €20-30 per tonne. On the **Austrian** market, price increases of €20 per tonne were seen for both obsolete and industrial scrap. Availability of both types of scrap is very limited and mill production levels are down to 60%. In some cases, **Swiss** mills already added quantities for January delivery to their quantities purchased during December. The mills are complaining of a difficult order situation for their finished products. On the **Italian** market, panic spread quickly at the beginning of the month as the demand for scrap was higher than originally anticipated. Previously, many Italian mills were intending to extend their shutdown periods during the Christmas holidays due to weak steel demand. However, according to the latest information, the situation has changed and quite in contrast, some mills are now intending to keep their production going, where possible, and produce mainly over the New Year holiday period. At plus €30-40 per tonne, prices have settled at a higher level than on the German market. This is the result of Italian mills having to catch up with their backlog in demand from previous months. Italian suppliers were unable to completely cover domestic mill demand. On the **Polish** market, prices rose by €10-15 per tonne and market participants are expecting a very tight January market. Prices on the **Czech** market also rose by €10-15 per tonne.

Global Scrap Market

The congestion on the Panama Canal and the considerable hindrance for the transportation of bulk dry goods exacerbated the already seasonally short availability of ships in the USA. Freight costs rocketed within a week to over 40 US-$ per tonne, an increase of 20%, and were still showing an upwards trend. As previous increases for deep sea contracts made the rounds, Turkish scrap import prices jumped more or less overnight in the first few days of December. Domestic mills reacted accordingly and raised their offered prices initially by 6-18 US-$ per tonne. The higher import prices also led to increased prices for domestic collection scrap. Hardly any market participants had anticipated such large quantity contracts on the import market.

After a quiet period of purchasing activity on the import market in the last few months, at the end of November Turkish steels made the decision to increase their stocks before the onset of the Christmas holidays. The situation was underpinned by an underlying feeling of optimism and a very strong US domestic market, with increasing freight costs and, as a consequence, a moderate increase in export scrap prices. This in turn increased activity on the US domestic sales market; in Detroit the offered prices per tonne for shredder scrap and bonus material rose by 50 US-$ and for P&S by 30 US-$. The offers from US exporters for HMS 1/2 (80:20) (CFR -Türkiye) increased initially to 425 US-$ per tonne and subsequently even up to 430 US-$. As a consequence, prices for this grade in the US ports climbed to 330-335 US-$ (CFR).

Expensive sales of deep sea scrap led some Turkish consumers to mull over how long this upwards trend would continue and consequently acted cautiously in the light of the rapidly increasing pace on the market. They refused offers with only nominal price reductions. At the same time, other steel mills were looking for material and purchased scrap loads from both US and continental European suppliers. According to market experts, the continual increase in scrap prices can only be checked by resistance on the part of Turkish rebar purchasers. These purchasers have, for the most part, withdrawn for the market and are waiting for clear signals. After the lively upswing caused by the second large Turkish purchasing campaign, activity on the Turkish import market has been subdued. This purchasing campaign, where more than 10 cargo loads were purchased, led to increasing prices and resulted in a total of 33 ship loads being purchased for January delivery. Turkish consumers have now almost covered their complete requirements for January and have to look-out for quantities for February delivery.

Foundries

The situation on the foundry market was very varied; some foundries purchased scrap in the first few days of the month, others were still struggling and working short shifts. Possible insolvencies are still the subject of many a lengthy discussion. Scrap suppliers are complaining that foundry bad debt insurance is becoming increasingly problematic. Since last summer, foundries that are upstream of the machinery and plant engineering industry are suffering increasingly under low demand levels for their finished products. Despite all this, price increase of €20-30 per tonne were seen during December.

Outlook

Latest market sentiment indicators, such as the ifo-Business Climate Index, the ZEW Indicator of Economic Sentiment or the German Purchasing Managers' Index for Industry, point to a more optimistic future. Private households also appear to be more optimistic as a result of falling inflation and increasing real income. On the steel market and, thus, on the scrap market the sentiment is varied.

The December scrap market was caught on the hop by the level of export demand, which mainly came from Turkish consumers, and the unusually high level of domestic demand. Replenishment of stocks was often the main focus of both domestic and international demand, as the mills are reluctant to enter the new year with their current low stock levels. By all accounts, Turkish consumers have already purchased quantities for February delivery, which will reduce demand pressure on the January market. However, scrap availability is still problematic and is probably unlikely to improve much during January. Many mills in Germany have not implemented the extended shutdown periods to curb production levels, as previously announced. It is difficult to assess whether a real boost in demand is likely during January or whether mills will increase demand purely to cover their fixed costs. However, at the moment, there is no foundation for the assumption that demand stimuli will be present at the beginning of January.