Scrap Market Info

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Green Scrap for Green Steel!

Reduced Supply Set Against Low Demand

Scrap Metal Market - June 2023

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General Developments

Market expectations for June were very low from the outset. Diverse indices published by several institutes underpin this sentiment; for a considerable period of time, general economic developments have really only shown one direction and that is downwards. On 15th June, the European Central Bank announced yet another increase in the base interest rate. This is the 8th increase since the tightening of the fiscal policy, which began last summer, and means that the current base rate is the highest seen for the last 22 years. Further increases to break the inflationary spiral have already been indicated. Compared to last year, Eurozone consumer prices rose by 6.1% in May, after already rising 7.2% in April. Following two quarters of negative growth in the winter half year of 22/23, current economic indicators are suggesting a subdued economic situation for the second quarter this year.

Scrap Market

Steel mill demand is weak and demand for steel products is on the decline. In the light of the faltering economy, steel production levels are on the low side and the steel industry cannot yet see a light at the end of the tunnel. Construction steel traders were faced with particularly low demand for rebar, as a result of high costs for construction materials and financing. In general, steel mills have good stock levels of unsold finished steel products. Reduced scrap supply is set against low scrap demand. All these factors are negatively impacting scrap pricing.

At the beginning of the month, scrap traders were expecting slight price reductions and, at first, it appeared that early on in the month a relatively clear picture was developing. Negotiations started, however, these lasted until the middle of the month. Several freight loads of scrap that were turned over on the export market brought some momentum to the market. This short-lived hype on the export market at the beginning of the month caused a price upswing of 10 US-$ per tonne and, in some cases, on the purchasing side of trade prices rose by as much as 30 US-$ per tonne. However, it became apparent that higher prices could not stimulate the inflow volume of scrap – purchasing prices rose, but scrap availability still remained limited. In general, price reductions were larger than anticipated and, depending on the region and scrap grade concerned, prices fell by €20 - €30 per tonne. Available volumes of obsolete scrap were low, whilst inflow of industrial scrap was good initially, but supply dwindled as the month progressed. The scant supply of scrap, for which competition was tight, was set against low steel mill demand. Due to uncertainty, both steel mills and scrap traders wanted to avoid high stock levels over the coming summer shutdown period; this resulted in the trade implementing quick turnarounds, whilst the mills showed very reserved delivery acceptance behaviour.

The north-south scrap price divide has widened further; the main reason therefore being the dependency of the mills situated in the south on the Italian market. In the light of their very poor turnover situation, Italian steel mills reduced their offered scrap prices by €30 - €50 per tonne. Scrap suppliers situated in the south of Germany had little manoeuvring room as far as prices were concerned and exported scrap to Italy with similarly high price reductions.

Scrap - Regional Developments

In the **north** of Germany, €10 - €20 per tonne price reductions were registered; price reductions for industrial scrap were at the lower end of the range. There was an optional possibility to load shredder scrap and turnings into containers for sale on the export market. In the **east**, initially prices fell by €20 per tonne, in the peak by up to €30 per tonne; the more drawn-out the negotiations the higher the price drop. Price reductions for industrial scrap were here also lower than those for obsolete scrap. Price reductions of €30 per tonne in the **west** were at the top of the range. Purchased volumes improved marginally. One mill restricted its purchasing to a single speciality grade. In the **south-west**, prices were down on last month by €20 - €25 per tonne. Industrial scrap price reductions were at the higher end of the range as availability, in relation to scrap demand, was strong. One mill announced that it has high stocks of finished material and for this reason and, contrary to custom, would be bringing forward its maintenance work to August to be able to halt production for the duration thereof. Demand for construction steel was in line with steel mill capacity utilisation levels of approximately 50%. Along the **Saar** river, prices softened by €25 per tonne. According to market experts, in some mills in the region capacity-utilisation levels were under 50% and short shifts were introduced in line with low production levels. In the **south,** price reductions ranged from €15 - €20 per tonne; reductions for industrial scrap were at the higher end of the range at €20 per tonne. It appears that production at one mill has been suspended. To avoid stock piling up at the yards, some scrap traders turned over quantities of obsolete scrap on the Italian market with price reductions of €30 per tonne.

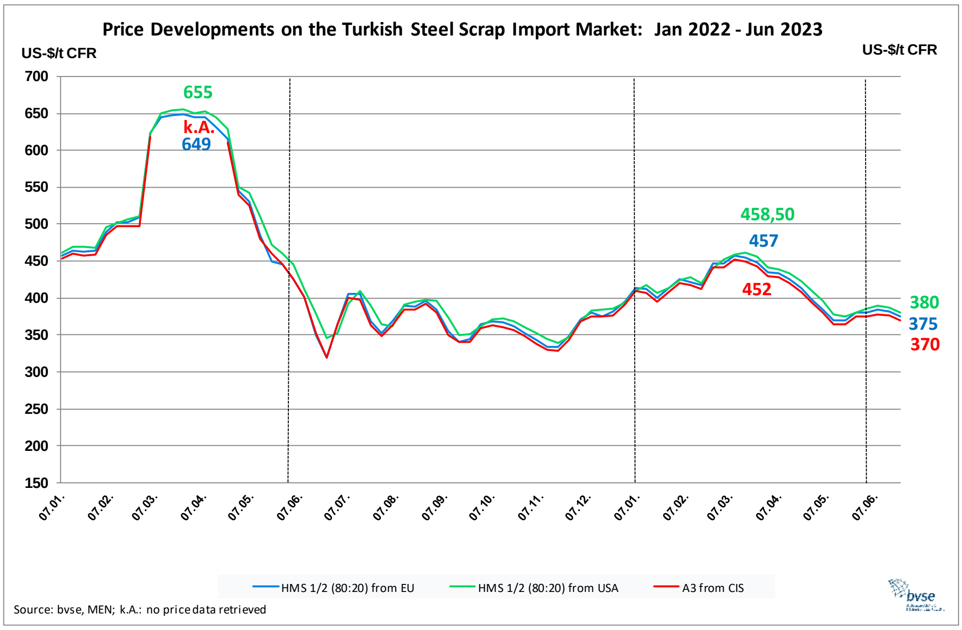
Neighbouring Foreign Scrap Markets

On the **French** market demand was low and prices fell by €20 - €30 per tonne. Prices also fell similarly on the **Belgian** market, where price reductions from €10 - €15 per tonne for higher quality grades and €20 - €30 per tonne for lower quality grades were seen. In **Luxembourg**, prices fell on average by €25 per tonne; those for shearing material fell by €30 per tonne and those for demolition scrap by €20 per tonne. Demand shrank marginally again and according to market insiders is now estimated at 70%. **Italian** steel mills have announced their summer production stoppages from the middle of July onwards and will actively reappear on the market during September at the earliest. Demand for steel and the according demand for scrap are still very subdued. On the whole, price reductions ranged from €20 - €40 per tonne, peaking at up to €50 per tonne. Price reductions in **Austria** ranged from €20 - €35 per tonne. **Swiss** mills have announced short time work for the second month in a row and prices dropped by €30 per tonne. One mill was only able to push through a price reduction of €20 per tonne for special quality scrap grades. On the **Spanish** market, price reductions were not quite as high as on other neighbouring markets; prices softened on average by €10 - €20 per tonne. Exorbitant pricing has dominated the **Polish** market in the last few months. Scrap was sold for shipment to Türkiye. It was on the Polish market where the largest price drop was seen, with scrap prices plummeting on average by €50 per tonne. Financial difficulties being experienced by one of the largest scrap consumers in the **Czech Republic** negatively impacted scrap demand. Prices fell by €20 - €30 per tonne, depending on the scrap grade concerned. The Czech scrap trade intensified its efforts with business contacts in neighbouring countries and was successful in increasing sales quantities there.

Global Scrap Market

Activity on the global scrap market is very subdued. After a short upswing lasting until the middle of June, where several scrap deliveries from the European continent were sold to Türkiye, scrap demand quickly flattened again. Importers meticulously analysed the short sea and deep sea market (especially from the USA) and purchased scrap as required. In the light of the general meagre demand for steel products, especially for construction steel, Turkish consumers were particularly shrewd with their purchasing behaviour to avoid continually pushing up prices; after an active purchasing period, they promptly disappeared from the market to quickly drive prices down again. The weakening of the Turkish Lira against the dollar increased considerably as the month progressed. Due to the uncertainty surrounding the Turkish currency, Turkish consumers purchased scrap, hoping that in doing so they would be one step ahead of a further drop in the exchange rate; albeit purchased quantities were limited due to weak steel demand. Exporters are only making short-term purchases and some are not even indicating their envisaged prices for the fear of piling up stock due to a lack of demand.

Graphic 1 shows the price developments (CFR Türkiye) for HMS1/2 (80/20) from the EU, HMS1/2 (80/20) from the USA and A3 from the CIS. In the period between the beginning of March 2022 and the end of April 2022 retrieval of price data for grade A3 scrap was suspended due to the onset of war in Ukraine.



Graphic 1: Price Developments on the Turkish Steel Scrap Import Market: Jan 2022 - Jun 2023

Foundries

Developments on the foundry market were varied; whilst some foundries are showing declining incoming order numbers and have announced short shifts, those foundries upstream of the automotive industry are showing a relatively healthy order book situation. Some foundries have already announced that they will halt production during July, whilst others will be halting theirs for the summer holidays during August. Foundry grade scrap is in general difficult to come by; availability of industrial scrap is somewhat better than that of obsolete scrap. On the whole, prices fell for non-index bound foundry scrap grades were by €15 - €20 per tonne.

Outlook

It can be assumed for the rest of the year that pricing dynamics will remain high initially, but will slowly abate as the year progresses, even when considering the price expectations of the market participants. The pressure on prices caused by rising costs and delivery chain interruptions was largely passed on to consumers and global energy prices have now fallen to the pre-crisis level. The tightening of the fiscal policy is putting a damper on demand pricing. A drastic increase in the HGV-toll is on the cards for 01.12.23, when a CO_2 toll of €200 per emitted tonne of CO_2 will be introduced by the German government. Furthermore, increasing costs for rail freight, which had already increased by up to 45% at the end of 2022, will make a freight transport switch from the tarmac to the tracks almost impossible.

In Germany, the summer vacation period is starting in some federal states and mills in these regions have already announced curbed or halted production for up to three weeks during this period. Expectations for the summer vacation months of July and August are not particularly high, as a marked reduction in scrap demand must be expected in the coming two months. Market participants are expecting very subdued market activity. A positive mood for September, when consumers could be actively back on the market, is also not apparent; many are uncertain and do not believe that scrap demand will bounce back, as the indicators therefore are still lacking. In addition, high stock levels at the steel mills could satisfy demand for steel for a considerable length of time. Scrap demand and scrap supply have both declined at the same time. Based on experience, when both of these parameters are showing a downward trend, a long, protracted period of considerable market uncertainty lies ahead.