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Scrap Metal Market Report - April 2022

War and Pandemic Cause Uncertainty Amongst Market Participants

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Review

At the beginning of April, mills offered between €10 and €35 per tonne more than during March, depending on the point of contract closure and scrap grade concerned. Demand varied considerably from region to region and during the negotiation period the over 14-day absence of Turkish importers on the export market resulted in increasing uncertainty on the domestic market. As the trade offered large quantities of scrap, the majority of consumers were able to close their order books quickly. According to the trade, supply of industrial scrap was barely able to meet demand, as production quantities in the automotive industry are still being negatively impacted by the shortage of semiconductors and wire harnesses. The mechanical engineering sector is suffering under the loss of turnover on the CIS market and the impact thereof on relevant suppliers is reflected in the reduced scrap production quantities; according to the trade, scrap production from this sector is down 10% – 30% on last year. Obsolete scrap inflow developments were satisfactory, although in some regions the inflow quantities are still far from normal and there is a shortage of feedstock in those regions. Grades E3 and E8 are still the most sought after grades.

Supply and Demand

Demand from the mills situated in the **east** of Germany was lower than during March as a result of two production stoppages; one mill is carrying out a 6-week maintenance and modernisation programme lasting until May and another carried out a 1-week maintenance programme. Depending on the negotiation partner concerned, some negotiations were very challenging. Prices remained unchanged or rose by up to €20 per tonne, depending on the mill, demand quantity and scrap grade concerned. In the **north,** demand was more restrained and market circles are surmising that import scrap may have been the preferred choice of supply. In the **north west,** mill order books are looking healthy, as was the demand for scrap. Offered prices rose by between €20 and €30 per tonne, depending on the mill and scrap grade concerned. In the **west**, despite EAF-steel mill capacity utilisation levels being varied, scrap demand was still pleasingly strong. In contrast, integrated mill demand was more on the low side. Through price adjustments some mills were able to compensate for the losses suffered during March. Along the **Saar** river, consumers increased their offered prices by up to €35 per tonne. In the **south west**, demand was lower than anticipated, as mill production was orientated on electricity and other energy rates. Depending on the previous month's price level, the point of contract closure and the scrap grade concerned, price increase of between €20 and €45 per tonne were achievable. The consumer in the **south** started the month very cautiously, but this changed as the month progressed; in the end offered price increases of between €25 and €30 per tonne were made, depending on the scrap grade concerned.
On average, price increases for industrial scrap were between €20 and €45 per tonne and for obsolete scrap between €20 and €30 per tonne. Demand for scrap is still strong, as the majority of consumers are showing healthy order books. Long steel producers, especially, are considered to have good capacity utilisation levels, as import quotas are preventing uncontrolled deliveries at dumping prices. However, what is good for the goose is not always good for the gander, some steel consumers who up until now have relied on CIS imports are now trying to find steel on the domestic market, thus creating higher demand for domestic steel. Many steel processors are still desperately looking for steel and are having to accept very long delivery times when found. An increase in steel production is expected in the coming month, along with a corresponding increase in demand for scrap. The pressure on the steel industry to reduce CO_2 production will remain, and with what else, if not an increased use of scrap in production, can the industry's carbon footprint be quickly and sustainably be reduced?

Neighbouring Foreign Markets

Italian steel mills mainly covered their demand through domestic suppliers. Some consumers tried to get a foothold on the European market by offering considerable price increases of up to €70 per tonne; however, in the majority of cases these attempts were futile. The delivery willingness on the part of their German suppliers was, as during last month, on the quiet side and some mills only indicated demand during the second half of the month. It appears that mills are preferring to optimise their capacity utilisation and to stabilise their profit margins in the light of high raw material and energy costs. **Swiss** steel producers appear to have fallen back on high stock levels and domestic suppliers to cover their demand, so that import demand from neighbouring countries was minimal. Offered price increases ranged from between 10 CHF and 25 CHF per tonne. Right at the beginning of the month, **Austrian** consumers offered price increases of €55 per tonne for industrial scrap and between €60 and €70 per tonne for obsolete scrap. The contract volumes, for those contracts finally closed at these amounts were, especially with one consumer, marginal. **Polish** consumers were able to cover their demand at the beginning of the month at unchanged price levels. This pricing

policy was also of benefit to the east German mills. However, there was sufficient scrap available on the market and already by the middle of the month consumers had reduced their offered prices by 200 Zloty per tonne. In the **Czech Republic**, one consumer showed normal demand and was able to procure the required scrap quantities with offered price increases of €7 per tonne, compared to last month. The other consumer had problems procuring iron ore and consequently a reduced demand for scrap. The trade reported that on the **French** market demand was strong and offered price increases, depending on the mill concerned, were higher than those registered on the German market. This situation forced the consumer in **Luxembourg** to adjust its pricing accordingly. Depending on the scrap grade and supplier concerned achievable prices were €15 to €25 up on those registered at the end of March. Occasionally, rumours were heard that demand fell during the course of the month, but enquiries made to traders, up until the editorial deadline, suggest otherwise. Price increases on the **Belgian** market were not quite so generous.

Foundries

Those non-index bound foundries with high demand paid €30 to €35 per tonne more during April than the previous month. The order book situation is still very varied. For example, those producing for the wind power and pump industries have extremely high scrap demand and the supply of low-manganese scrap was not always sufficient to cover demand, as a result of low production levels in the automotive industry. Consequently, some foundries are altering their smelting processes in order to adjust to the current scrap supply situation. There was no relief on the pig-iron front; procurement remains complicated and prices are still high, accordingly. Alternatives for traditional Russian suppliers have to be found. Both Canadian and Brazilian suppliers are possibilities, but both are obviously taking advantage of those cut off from their traditional CIS suppliers. As a consequence, pig-iron prices have spiralled upwards, which has a positive knock-on effect on scrap usage in foundry production. However, the scrap trade is concerned about the insurability of some of its consumers in this difficult situation, something that cannot always be swept aside with special agreements.

No Impetus, but a Uniform Modus Operandi

As previously, the Turkish no-show tactic did not miss the mark – as soon as the world's largest scrap importer disappears from the deep sea market, the market loses its price rudder and with it its orientation and equilibrium for market pricing. During April, Turkish consumers took their time with the expected purchase quantities for May delivery. According to the international trade press, they withdrew from negotiations on 7th April, when the price for European HMS 1/2 (80:20) grade scrap was US-$ 645 (CFR Turkey) and first reappeared on 22nd April, when the price was US-$ 576 (CFR Turkey). During March they increased their offered prices by US-$ 140 per tonne and, up until the editorial deadline, reduced them by US-$ 63 per tonne during April. How sensitively market participants react to information has been shown through the press report that Turkish steel mills have purchased Russian billet; Turkish market participants have kept trade open with their Russian suppliers, where possible, and as they are the only remaining consumers they have considerable negotiating clout and were able to negotiate prices well under the prevailing global market pricing. Some Turkish mills have used this opportunity to purchase Russian billet, at very favourable conditions, instead of purchasing scrap. It is unclear what the trade volume was, but alone the report that trade had taken place was enough to put scrap prices under pressure. In addition, Turkish consumers can use the traditionally low rebar turnover during Ramadan and the current weak export possibilities, to which the steel producers are reacting to with cautious price reductions, to further support their purchasing tactics.

Turbulent Times

The war in Ukraine has become tangible for everyone due to electricity and other energy price increases. The weaning off of the dependence on CIS countries, which has been created and expanded over years, is well under way. Interrupted delivery chains, which may never be re-instated, are leading to production bottlenecks in Germany and the rest of Europe. Raw materials now need to be accessed rapidly through other channels. Production plants are closing and turnover regions are collapsing, these are taking their toll on the German economy. On the domestic front, it appears that only projects from official contracting entities are still carrying on without a hitch, whereas for private concerns contract cancellations are having to be accepted. The outcome of this rapidly changing situation is unforeseeable.

During April, Turkish consumer market behaviour has led to an about turn as far as the market mood is concerned and many market participants are now expecting May prices to fall to the levels seen at the end of March; it appears that the never before seen price zenith has already been reached. As far as scrap supply is concerned, weak industrial production levels and sparse commercial trade are negatively impacting industrial scrap inflow. Although the obsolete scrap situation is starting to improve, inflow quantities are still below pre-pandemic inflow volume. Scrap traders are still showing little inclination to build up stocks, due to the continuing lengthy period of high market pricing, which encourages rapid stock turnover rather than stocking up. This could lead to varying price adjustments on the import and export markets in the coming months. In addition to the very uncertain and in parts very unclear market situation, some consumers are also having to struggle with the shortage of available shipping space; quantities available for delivery were port bound as shipping space was simply not available. The freight costs for transport on the roads have also increased, as a result of high petrol and diesel costs, driver shortages and difficulties in purchasing spare parts.