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<u>Scrap Metal Market Report - August</u>

A Summer Dip?

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Review

Due to the summer vacation period and/or maintenance downtime both consumer scrap demand and scrap inflow from industry and collection companies were weaker during August. Some mills used their reduced demand to lower their offered prices, whereby the price reductions for industrial scrap, which is still in short supply, were much less than those made for obsolete scrap. In the majority of cases, offered prices were closely linked to the scrap grade demand of each individual mill and were thus varied considerably. However, generally scrap consumers offered either unchanged prices or reductions of up to €10 per tonne for industrial scrap, whereas price reductions for obsolete scrap, depending on the mill and scrap grade concerned, ranged from €15 - €35 per tonne. Due to an abundance in supply of basic shearing scrap, the largest price reductions were seen for these grades; on the one hand, domestic demand was lower than expected due to the altered production programmes of some EAF-steel mills and the vacation period and on the other, there was insufficient demand on the export market for pure HMS 2 (partly off-grade) scrap. Some consumers only registered minimal demand volumes and concentrated on fulfilling delivery volumes for their outstanding contracts, despite production halts.
Scrap demand in the east of Germany was lower than expected, because of the vacation period and also because of a small number of mills experiencing technical problems. Offered price reductions for those obsolete scrap grades purchased were between €13 and €25 per tonne. In the north of Germany price reductions were a little more moderate, albeit defence pricing was seen for the abundant basic shearing scrap grades previously mentioned. The same picture was seen in the north-west and west of Germany; where price reductions were also generally smaller for those scrap grades in demand. Demand in the west was more or less non-existent due to the ongoing restricted delivery acceptance at the integrated mills, which is not expected to be resolved any time before October. According to the international trade press, pig-iron production started successfully on 17th August 2021 after the relining of a blast furnace in one of the integrated steel mills. Crude steel production was also re-started after a 30-day production halt for modernisation purposes in one of the oxygen steel mills. The consumers along the Saar river showed strong demand and their offered prices differed from their neighbouring competitors accordingly. In the south west, a production halt for operational reasons resulted in reduced demand for the usual suppliers to this area. In the south, demand was generally reduced due to the vacation period, but some better quality grades were more sought after, dependent on the production programmes of the mills concerned.

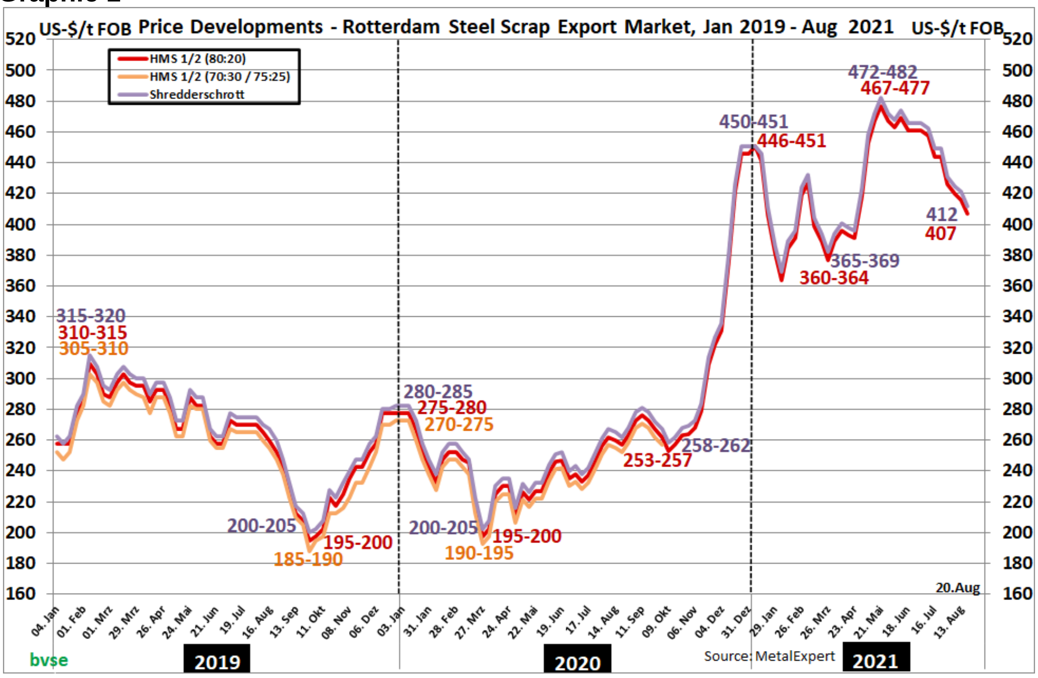
Neighbouring Foreign Markets

Neighbouring foreign markets were also quiet as a result of the summer vacation period. Demand matched the reduced production levels. **Italian** mill demand in neighbouring countries was subdued. Depending on the obsolete scrap grade concerned, offered price reductions of between €15 and €25 per tonne were seen. Offered prices for industrial scrap either remained unchanged or only minimal price reductions were seen. Some mills had already built up stocks in July by increasing their quantities purchased on third-country markets. The consumer in **Luxembourg** showed minimally reduced demand. Depending on the scrap grade concerned, price peaks were broken down and additional price reductions of between €10 and €30 per tonne were seen. On the **French** and **Belgian** markets, those consumers active on the market were mostly interested in procuring industrial scrap and made offered price reductions of approximately €10. Prices for obsolete scrap fell by €20 to €25 per tonne. It appears that **Austrian** consumers had an unusually high level of demand for industrial scrap; increases of between €25 and €45 per tonne were offered for sought-after industrial scrap grades and €25 per tonne for heavy obsolete scrap grades. Perhaps this purchasing behaviour is related to the shortage of scrap loads usually purchased directly from the automotive industry. The price reductions for other obsolete scrap grades on the Austrian market were between €20 and €25 per tonne. Import scrap demand from **Swiss** consumers was low; it appears they were able to cover their reduced August vacation period demand through domestic suppliers. Depending on the scrap grade concerned, price reductions of 5 CHF per tonne for industrial scrap and up to 25 CHF per tonne for obsolete scrap were registered. Compared to last month, **Polish** consumers offered price reductions of €20 per tonne for obsolete scrap and €10 per tonne for industrial scrap. Despite the general decline in prices on the summer market, prices for construction steel remained unchanged; an upturn is expected for the construction steel market in September. On the **Czech** market prices fell by €23 per tonne. In the **United Kingdom** the drop in production levels during the vacation period was also noticeable. Consumers reduced their offered prices by between £10 and £20 per tonne, depending on the grade, mill and volume of demand. Due to the short supply of foundry scrap, foundries left their offered prices unchanged during August. However, due to the current developments on the deep sea market, market participants are expecting marked price reductions during September.

Foundries
August is generally a weak turnover month for foundry scrap grades. Depending on demand levels and the grades concerned, offered prices for industrial scrap from non-index bound foundries either remained unchanged or increased slightly. For obsolete scrap grades suppliers were forced to accept price reductions of between €10 and €20 per tonne. From the middle of July up until the editorial deadline there was a marked fall in iron-ore prices from 220 US-$ to 145 US-$ per tonne (CFR China) for Australian iron ore with a Fe-content of 62%, so that foundries are hoping for sinking pig-iron prices as a consequence. Foundry pig iron is mainly imported from Russia. Since 01.08.2021 the Russian government has imposed an export tax, amongst other things on pig-iron and scrap, so that raw materials from Russia are more expensive and in turn export possibilities will be reduced. From September onwards at the very latest, there is likely to be less Russian pig-iron offered on the market, which could negatively impact the hoped-for price reduction for pig-iron.

Deep Sea Market
By employing calm purchasing tactics, Turkish consumers have managed to gradually reduce their scrap import prices and at the same time have kept their high profit margins stable. They cleverly took advantage of the increasing supply of obsolete scrap on other markets where they also traditionally procure scrap to underpin their purchasing strategy. European exporters were at a disadvantage, as domestic prices are still much higher than export prices. Since the middle of July up to the editorial deadline, exporters have reduced the price for HMS 1/2 (80:20) by approximately €20 per tonne (free port export yards), which has had a considerable negative impact on the trade’s delivery willingness. Particularly the procurement of better quality grades is problematic, as the turnover opportunities on the domestic market are simply more advantageous. The pressure on the market caused by the Turkish consumers purchasing strategy showed no sign of weakening at the editorial deadline.

Graphic 1



Closing Remarks
Most market participants had expected prices to fall somewhat during August. However, the pace at which prices were falling picked up again in the last third of the month, so that participants are beginning to question the assumption that the drop in prices was just a temporary summer dip – perhaps, for the time being, scrap prices had already reached their highest level in July. During September, those market participants asked were expecting prices to remain stable for industrial scrap. As far as price developments for obsolete scrap are concerned, unclear September demand volume on both the domestic and export market is making a prognosis difficult; minimal to slightly more marked price reductions are expected, although the predominate opinion is that construction steel producers are unlikely to want to lower their sales prices. However, the decisive factor on the market for the rest of the year is likely to be the, to outsiders rather vague, diverse price and demand volume stimuli coming from China. The officially imposed production throttle back in the steel sector of possibly 62 million tonnes of crude steel until the end of the year has made the market nervous; this restriction was introduced for environmental reasons to freeze 2021 steel production volume at

the 2020 level. The sudden drop in demand for import iron-ore from Chinese consumers has put considerable pressure on iron-ore prices, as previously mentioned. The fluctuations in the metal industry's stock market prices in the 33rd calendar week also indicate how tense the situation has become. On the one side, new product prices are globally on the rise as consumer demand following diverse lockdowns during the pandemic is outstripping production quantities. On the other, many regions in the world are suffering under repeated and extensive production drop-offs; for example, in the automotive industry not only are semi-conductors still in short supply, but now other important components too. This, in turn, directly and indirectly negatively impacts other companies both upstream and downstream from the automotive industry. One challenge after the other is putting yet another damper on the euphoric market mood.