



Scrap Metal Market Report - August 2022

A Ragged Market

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Review

During August, market activity was regionally varied and very much influenced by the low water levels on the waterways throughout mainland Europe; both up and downstream freight transport was considerably reduced, with some areas experiencing a complete freight standstill. The two other transport methods, rail and road, were also not running smoothly. Consequently, their use as an alternative method of transport was also very limited. German mills showed weak demand during August due to regular and extended vacation shutdowns. Scrap supply was also low and it remains unclear whether supply was sufficient to cover the required quantities of those mills in production.

At the beginning of the month, some market participants were expecting unchanged prices or price reductions during August. However, this changed during the procurement period as improved export opportunities and the effects of the logistic difficulties began to influence the market. Those mills requiring scrap increased their offered prices; however, offered price increases differed considerably and were dependent on the individual mill concerned. Due to an extended shutdown, consumer demand in north and north-west of Germany was still reduced and depending on the scrap grade concerned, offered price increases of between €10 and €30 per tonne were registered. The mills were in direct competition with exporters, who were enjoying an increase in export opportunities on the Turkish import market and on the container market to Pakistan and India. In the east, all mills returned to the market showing normal demand levels. They increased their offered prices by between €5 and €40 per tonne, depending on the previous month's price levels, the scrap grade and the mill concerned. The mills found themselves forced to react to the Polish and Czech mills' domestic pricing policies, where considerably higher prices were offered than during July. In the west, August demand was higher than during July as the vacation shutdowns came to an end. In the south and south west, both the mills and their suppliers were particularly hard hit by the above-mentioned low water levels on the waterways, which were hardly or not at all passable in these regions. As freight quantities for the majority of vessels are now reduced to a third of the normal volume, freight capacity on the waterways is therefore extremely low and as a consequence freight costs have increased approximately five-fold since spring. The situation is exacerbated by the constant delivery of import coal from Rotterdam in the Netherlands to the German coal-fired power plants, whose operators were and still are prepared to pay more than the usual going-rate for freight, thus cutting the freight capacity available to their competitors accordingly. This capacity shortage is affecting both the inward transport of raw materials and the outward transport of finished goods. Along the Saar River demand was good and prices remained more or less unchanged. Despite a temporary production halt during August, the consumer in the south-west continued to purchase scrap. As transport to and from the mill is largely dependent on the waterways, a considerable degree of flexibility was required on the part of the mill. As always, pricing was dependent on the point of contract closure and the supplier and scrap grade concerned. Although the consumer in the south halted all incoming scrap from the trade after two days and Italian mill demand was low, there was no glut of scrap on the market in the region. The low water on the waterways led to more emphasis being placed on delivering quantities to regionally more local consumers, as there were hardly any alternative methods of transport available to transport farther afield.

The trade complained of low industrial scrap availability, a shortfall in demolition scrap grades and low inflow quantities of obsolete scrap to the yards; they attributed the low inflow quantities of collected scrap not only to the traditional vacation period reduction in collection quantities, but also to the marked decline in collection scrap prices in the past months and to the extremely hot weather conditions. The Ifo-Institute for Economic Research, in Munich, reported an industrial order backlog of approximately 8 months; this backlog is attributed to a shortfall in pre-production input materials and interrupted delivery chains negatively impacting industrial scrap production and availability, as a result of the Covid-19 pandemic. In some regions, it appears that trade for suppliers to the automotive industry is picking up somewhat, so that an increase in industrial scrap production should be on the cards. The current economic situation, which is characterised by uncertainty about inflation levels, exorbitant gas and electricity prices, the possibility of energy rationing and the possibility of an economic recession, is leading to postponement of construction and demolition activity.

Neighbouring Foreign Markets

During August, the main holiday month in Italy, some **Italian** mills extended their vacation period shutdowns due to weak demand for finished steel and current high energy costs. They also announced possible cost-cutting production throttle-backs during September. Despite the vacation shut downs the majority of consumers showed purchasing interest at the beginning of the month and offered prices which were discussions-worthy. Subsequent negotiations only led to a

very small number of contract closures; however, the contact itself gives hope for the coming month. As mentioned above, the price movements on the Polish and Czech markets had a determining influence on prices on the east German market. At the beginning of August, price increases of between €50 and €60 per tonne were seen on the **Polish** market. There were several attempts to explain the reasoning behind these increases, one of which was stocking up to increase feedstock production in the near term and before the expected energy rationing, the accumulated feedstock would then be rolled at a later date. In another reasoning, increased procurement quantities also played their part, but the price increases were seen as an adjustment to the marked price decreases seen in July, as without these increases it would have been unlikely that the necessary scrap quantities could have been held on the domestic market. Scrap deliveries to Germany from Poland were lower during August. **Czech** consumers reacted with price increases of between €45 and €55 per tonne. Right the beginning of August, **Austrian** consumers showed strong demand and offered price increases of up to €15 per tonne for industrial scrap, whereas for obsolete scrap prices remained unchanged or price increases of up to €10 per tonne were offered, compared to last month. Compared to July, **Swiss** mills offered their domestic suppliers price increases of between 5 CHF and 20 CHF per tonne, depending on demand levels and the scrap grade concerned. Demand for import scrap from neighbouring countries was lower than the previous month. It is possible that production quantities in the Swiss EAF-steel mills will be throttled back in the coming month due to high energy costs. **Dutch** consumers showed strong demand and purchased scrap with price increases (compared to July) of between €15 and €20 per tonne, depending on the scrap grade concerned. There was a marked reduction in scrap availability on the Dutch market. Turkish demand was still weak at the end of July but increased again at the beginning of August. This led exporters to raise their purchasing prices for standard grade HMS 1/2 (80:20) from €280 per tonne to between €300 and €320 per tonne (free export yard) by the editorial deadline. As the inflow of scrap to the export yards in the **Netherlands** and **Belgium** is being hugely affected by the limited delivery possibilities as a result of the low water levels on the inland waterways, it is almost impossible for exporters to stock up, which in turn negatively impacts sales opportunities. Compared to last month and after returning to production from the summer vacation shutdowns, **French** mills purchased scrap on the German market at unchanged price levels. The consumer in **Luxembourg** further reduced its demand compared to last month and offered unchanged prices. Scrap suppliers preferred to concentrate on the delivery of outstanding quantities from previous contracts and limited new contract closures to marginal quantities to maintain contact.

Foundries

In the south and south west, foundry activity was still reduced as a result of the vacation period. In other regions the trade reported strong demand, albeit this was, and still is, very much dependent on the production programme of the individual foundry; whereas companies producing for the automotive and mechanical engineering industries are showing good order book situations, producers of wind turbines are complaining of a lack of orders. Demand for large quantities of low-manganese punching waste and automotive packages from remaining consumers is still strong. However, the trade is having difficulty in covering demand due to continuing low production levels of these grades in the automotive industry and their suppliers. Many foundries are showing more flexibility in the use of alternative scrap grades for production than was previously the case. Non-index bound foundries raised their offered prices by up to €10 per tonne during August. Pig-iron supply should continue to be sufficient as demand is on the low side as consumers push for price reductions.

The economic concerns as a result of increasing gas and electricity costs and the general supply situation are increasing, as they are in all companies with energy-intensive production lines. Small supply companies, in particular, have already been hit hard. At the beginning of August, representatives of the Trade association of Industrial Companies in Baden (wvib) pointed out in the *Badischen Zeitung* (a local newspaper covering the Baden region of Germany) exactly where the sticking points were in the delivery chains in the region. It has been known for a long time now, that the profit margins for those foundries mainly dependent on supplying the automotive industry are extremely small and since the Covid-19 pandemic, it is these suppliers, especially, who are suffering under acute economic pressure. Whereas the one side announces record figures, the other side is coming under further pressure, as trade credits spiral out of control as an example. The representatives of the trade association are demanding a commercial partnership on equal footing; a type of behaviour that is desired in many a circumstance and one that should actually be taken as just a matter of course.

Deep Sea Market

Turkish consumers brought life into the market with their purchasing activity in the first third of the month. The marked increase in demand, compared to July, led to price increases of between 20 US-\$ and 35 US-\$ per tonne (CFR Turkey) for European HMS 1/2 (80:20) grade scrap. Exporters on the North Sea coast adjusted their purchasing prices during the course of the month from €280 per tonne to approximately €320 per tonne (free export yard), accordingly. Further purchasing activity is expected at the end of August or the beginning of September as Turkish consumers still need to purchase scrap for their September deliveries. It remains to be seen as to how the price will develop in the light of the current uncertain economic market environment. The exporters' scrap procurement problems are still continuing. The quantities of European scrap purchased by Turkish consumers up until the editorial deadline were on the low side.

Competition for Turkish consumers has become more intense as a result of increasing purchasing interest on the part of consumers from India and Pakistan.

Closing Remarks

The trade is expecting an increase in demand during September, although the uncertainties concerning the supply of gas and electricity and the associated price developments are noticeably hampering market activity. Steel producers and smelters have already announced production cutbacks; however, despite this, it is expected that scrap demand will rise in September. although trade expectations differ and expected price developments range from unchanged, to slightly better to a marked increase.