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Scrap Metal Market Report - December 2022

Curbed Production Exacerbates Weak Scrap Supply

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Review

Compared to November, German steel mill production and scrap demand fell once again during December; some consumers have brought forward and extended, to varying degrees, their traditional holiday period repair and maintenance work. According to the German Steel Federation (WV Stahl), during November crude steel production was down 2,768 million tonnes (almost 8%) compared to October. Whilst scrap prices remained more or less unchanged, with the exception of a few corrective price adjustments, remaining consumer demand for scrap was regionally very varied. Middle-sized traders, especially, concentrated on stock management, which consequently led to a reduction in their willingness to sell. The shortage of obsolete scrap on the market remained a problem and not all consumers were able to procure sufficient quantities of scrap to cover their demand.

Regional Developments

On the whole, despite curbed production levels in some mills during December, demand from mills in the east of Germany was satisfactory, as the majority of mills are only halting production during the vacation period. The mills offered prices were comparable to those offered in November, however one mill did offer slightly more for grades that were in short supply. At the beginning of the month, it appeared that north German mills had hardly any demand, but demand did increase as the month progressed. Officially, prices remained unchanged. In the north west, a total production stoppage at one mill and reduced acceptance of scrap deliveries by another mill increased scrap availability in the region, so that the third mill in the region was able to cover its demand for certain scrap grades with price reductions of approximately €10 per tonne. The EAF-steel mills in the west brought forward and extended their traditional Christmas holiday period production halts and covered their remaining demand from their own resources. Along the Saar river, consumers competing for available scrap were able to profit from the feeble purchasing behaviour of one consumer and covered their demand at unchanged price levels. Demand in the south west was considerably reduced as a result of extended production stoppages of the consumer in the region; remaining demand was covered at unchanged prices. The consumer in the south curbed December production considerably and covered its remaining demand from companies within the same consortium.

Neighbouring Foreign Markets

German suppliers described the purchasing behaviour of **Italian** consumers as lively. Compared to last month, those mills in production during December left their offered prices more or less unchanged. It appears, the order book situation at the mills varies considerably. Expectations for market developments in the coming quarter are more positive than they were last month, as a recovery in steel demand is expected. Although one **Austrian** consumer with reduced demand announced the intention to reduce its offered prices at the beginning of the month, in the end both obsolete and industrial scrap quantities were purchased at unchanged price levels. The two **Swiss** mills showed low import demand; one of the mills only produced for 7 days during December. Prices remained unchanged for both domestic and foreign suppliers. **Polish** consumers also offered their suppliers unchanged prices. Market participants reported that for some consumers the emphasis in the monthly negotiations was more on meeting demand in the long-term, which would suggest more encouraging future market developments. The market-related decline in scrap inflow, which is also noticeable on the Polish market, is also presenting new challenges for Polish green steel producers. Compared to last month in the **Czech Republic**, one consumer offered unchanged prices, whilst the other marginally increased its offered prices. **French** mills showed reduced demand and left their offered prices more or less unchanged. Compared to last month, the consumer in **Luxembourg** also showed reduced demand and also left its offered prices unchanged. Production volume should return to normal from January onwards.

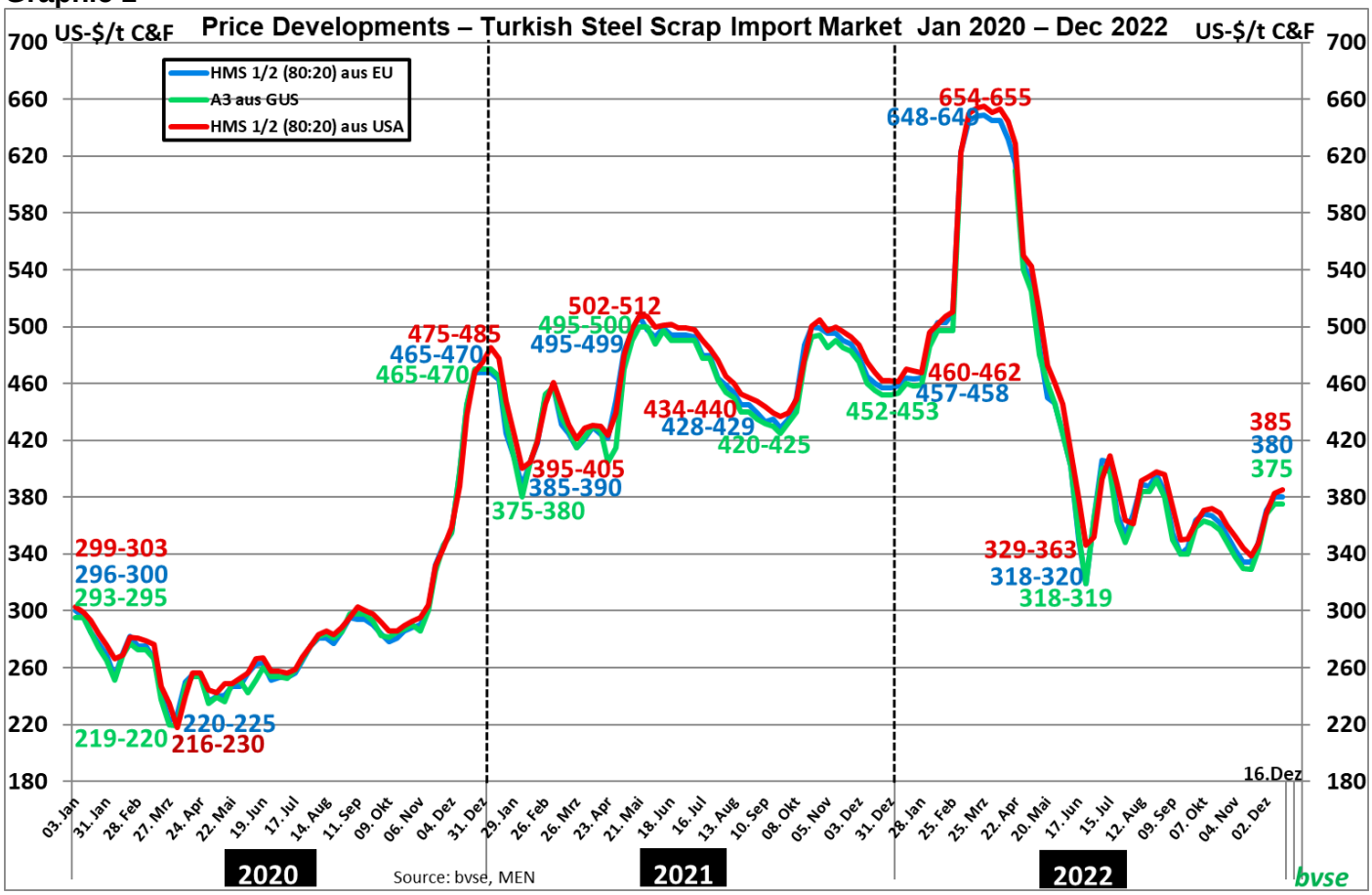
Foundries

According to the ifo-Institut's (Institute for Economic Research, Munich) Konjunkturspiegel – C400, Dezember 2022 for the manufacturing sector, foundries are still satisfied with their overall business situation: order numbers are healthy and at least for the coming three months hardly any changes to this are expected. Scrap suppliers are still faced with a shortage of special scrap grades in demand from many foundries and are having problems securing sufficient quantities thereof. Scrap inflow of these grades is still being negatively impacted by general economic shortcomings and many foundries were prepared to pay price increases for these particular grades. According to the trade, there was a surprisingly high level of demand for certain quality grades, which indicates that scrap is increasingly replacing pig-iron in foundry production. This is further exacerbating the shortage in supply of these special grades. It is fair to say that nobody had expected this form of positive economic development for the majority of foundries to occur.

Third Country Markets

The strong Euro, the short supply of scrap and the reluctance on the part of Turkish consumers to accept higher prices made life difficult for deep sea exporters. Turkish consumers purchased increased quantities of scrap for December/January delivery after Turkish domestic demand for construction steel picked up at the end of November/beginning of December. According to the trade press, Turkish mills purchased seven ship cargoes between 25th November and 16th December from the European continent and were prepared to raise their offered prices for standard grade HMS 1/2 (80:20) by approximately 25 US-$ per tonne during this period. However, exporters were forced to raise their purchasing prices (free export yards) by over €40 per tonne during the same period to ensure the inflow of scrap from domestic suppliers to the export yards. Consequently, at Turkish consumer offered prices of under 380 US-$ for standard grade, exporters whose procurement and treatment costs had increased were no longer able to stay competitive and up until the editorial deadline no further contract closures were registered. Turkish consumers are still hoping for a longer lasting increase in demand and a price recovery on the steel market. Graphic 1 illustrates how marked the price swings were on the deep sea market this year, where many diverse factors influencing the market were not foreseeable. Market participants were forced to remain flexible to be able to react to short-notice fluctuations in the market situation.

Graphic 1



Closing Remarks

On the whole, the trade appeared to be satisfied with the course of 2022; the first half of the year especially offered economic opportunities, which eased the way somewhat in the weaker second half of the year. The zig zag course taken by export prices shows clearly how difficult even a short-term market appraisal can be. Trade expectations for the coming month differ. It is unclear how high scrap demand will be; if demand increases, then price increases should follow, if it decreases then price decreases or unchanged prices can be expected. Even if it should come to a general economic recovery, nobody has any idea how strong or sustainable this recovery will be. Perhaps the situation will ease somewhat when gas and electricity price caps are introduced in January and steel production runs more smoothly. One thing is certain, the scrap trade will have to be prepared to face yet another wave of cost increases; energy, freight, personnel and administration costs are expected to rise and these should be budgeted for as early as possible, if at all possible.