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Schrottmarktinfo

Nr. 012 *by B. Guschall-Jaik, 22nd January 2021*

Fachverband Schrott, E-Schrott und Kfz-Recycling

Scrap Metal Market Report - January

A Turbulent Start to the Year

Editorial Deadline: 22.01.2021

Review

Price increases of between €70 and €100 were registered during the month, depending on the date of contract closure, the consumer and the scrap grade concerned. As in December, the price picture lacked transparency, due to the differing price levels of each individual supplier. Taking both December 2020 and January 2021 price increases into account, this reveals an approximate price increase of between €120 and €135 per tonne in the last two months. Noticeably turbulent negotiations started after 4th January as many steel mills were concerned about procuring sufficient scrap to cover their demands. The reasons that brought about this concern were mill pricing policy over the last few months, increasing mill capacity utilisation levels and the simultaneous enormous order quantities from Turkish steel mills, which since October have dominated the European scrap market both in terms of order quantities and price developments. Despite this dominance, German steel mills purchased scrap during October at unchanged price levels, during November at price increases of between €5 and €10 per tonne and subsequently at price increases of between €30 and €45 per tonne during December. In contrast, Turkish mills increased their offered prices considerably during November and December as a result of continuing strong demand; as an example, they increased their offered prices for scrap grade HMS 1/2 (80-20) by approximately 178 US-$ (FOB Rotterdam) per tonne over this period. During the same period, scrap exporters gradually increased their prices (free deep sea yard) by €125 per tonne, on average. As a result, the gap between domestic and export prices widened considerably, so that consumers across Europe saw no alternative other than to offer the considerably higher prices shown above to secure scrap to cover their increasing January demand. Scrap prices have now reached price levels last seen in 2011, although such a price surge in one go has not been seen in the last ten years. This current development led scrap suppliers to offer all available and not available quantities of scrap; this in turn created the impression of large quantities of scrap in hand, albeit according to trade estimates only 50% (at the most) of the scrap sold is actually physically in the yards. Many traders reported dwindling scrap inflow as industrial production is not at the desired levels due to the general effects of corona-virus pandemic and more specifically, the recent re-introduction of a lockdown. In addition, despite record high prices, the inflow of obsolete scrap has been less than expected.

After the second calendar week this year, the Turkish mills' position on the international finished steel market worsened, prompting them to reduce their prices to enable them to secure their market share. As is usually the case in such circumstances, they then subsequently withdrew from the scrap market and reduced their notional offered scrap prices by approximately 35 US-$ per tonne. As it became clear that for the time being Turkish consumers had halted their price offensive on the market, European mills which still required scrap began to lower their offered prices to reduce the recent price peaks. Those consumers who had not closed their negotiations by this time reduced their offered prices by between €20 and €30 per tonne, compared to prices paid at the beginning of the month.

Neighbouring Foreign Markets

Once again, negotiations with some **Italian** consumers were more long-winded than had been expected. In the end, price increases between approximately €70 and €100 were agreed upon, depending on the mill and scrap grade concerned as well as the previous month's price levels. Those mills that closed contracts later in the month were successful in purchasing scrap at the lower end of the price range. Suppliers were satisfied with the level of demand. **French** consumers revealed a surprisingly high level of demand and offered price increases of between €65 and €95 per tonne, depending on their previous month's price levels. This resulted in parts to price levels above those prevalent on the German market. The consumer in **Luxembourg** showed strong demand and increased its offered prices by between €80 and €100 per tonne, depending on the scrap grade concerned. A new purchasing variant was introduced that entails a change in freight cost calculation from a blanket amount to actual freight costs; this means that especially for those scrap suppliers with larger delivery distances the achievable profit will be negatively affected. Compared to last month **Czech** steel mills increased their offered prices by €65 per tonne and their **Polish** counterparts by between €65 and €75 per tonne, depending on the mill concerned. According to market circles, delivery willingness to the German market was high. There was consensus amongst **Austrian** consumers regarding offered price increases and mark ups of €65 per tonne for industrial scrap and €60 per tonne for obsolete scrap were registered. **Swiss** mills showed strong demand and offered prices in line with those prevailing on the German market. Demand from **British** steel mills and foundries was also strong. At the beginning of the month, steel mills offered price increases of approximately £30 per tonne, but these were rapidly increased to up to £55. Foundry offered price increases ranged between £40 and £60 per tonne. From the middle of January onwards, a sinking price trend was also noticeable on the UK market as a result of the market developments in Turkey.

Foundries

Capacity utilisation has pleasingly improved in some foundries. The well recovering automotive industry has put producers in an optimistic mood for at least the first quarter of 2021. The price levels expected by non-index bound foundries and their suppliers were wide apart and ranged from between €35 and €90 per tonne. The majority of foundries observed the price leaps on the market with grave concern, although pig-iron prices also climbed steeply. The revenue situation in many foundries is less than desirable as when ordering, their consumers have only their own financial advantage at heart. It will become less than satisfactory if this behaviour is extended to scrap suppliers, who are already known to have profit margins that the automotive industry, for example, would not consider to be acceptable.

Turkish Consumer Purchasing Behaviour

Table 1 illustrates why the purchasing behaviour of the Turkish consumers drove prices for scrap grade HMS 1/2 (80:20) up to 485 US-$ per tonne (CFR Turkey). The Turkish steel industry has recovered more quickly than its European counterpart, but a decline of approximately 20% in domestic scrap availability shows that the domestic economy has been hard hit by the pandemic. The quantities of purchased scrap show that scrap was a very much favoured raw material in steel production last year, albeit only figures up to and including November are available at present. The main suppliers for this raw material were EU-suppliers, who succeeded in increasing their delivery volume to Turkey by almost 20% in 2020, compared to 2019. Initial bvse estimates show that figures for December 2020 are unlikely to reveal any significant changes to the above trend.

Table 1: Turkey: Crude Steel Production and Raw Material Consumption Jan. 2019 – Nov. 2020 in t

	2019	2020	± in %
Crude Steel Production	30,852,000	32,360,000	4.9
Total Scrap Imports	16,815,904	20,099,866	19.5
EU Scrap Imports	10,570,773	12,612,729	19.3
Purchased Domestic Scrap	7,662,863	6,105,241	-20.3
Pig-iron Consumption	1,046,267	1,061,251	1,4
Iron Ore Consumption	9,141,000	8,959,358	-2.0
Source: SteelData Table: **bvse**			

Turkey imported 6 million tonnes of EU scrap in the first half of 2020 and from July to November (incl.) 6.6 million tonnes. As mentioned above, a timely reaction on the part of the European scrap consumers to the significantly increased outflow of scrap was lacking.

Outlook

According to the German Steel Federation (WV-Stahl), 35.7 million tonnes less crude steel (a good 10%) was produced last year, compared to 2019. Although a recovery has started to kick in, as figures for the last quarter of 2020 reveal that 9.9 million tonnes of crude steel were produced – the highest quarterly volume of the whole of last year. Hope still remains that despite the prevailing lockdown the economy will continue its recovery. Next month, nearly all EAF-steel mills will be producing their usual quantities, integrated mill production is on the increase and steel demand is strong. Domestic consumers will be in competition with scrap exporters for already sold export quantities which are due for delivery. Despite this, due to international developments and the trend towards price markdowns by consumers in the third week of January, it is expected that prices will fall again during February. However, nobody is expecting plummeting prices, but more likely a small dip or price adjustment; especially as finished steel prices have risen more than scrap prices and a large drop in steel demand is not on the horizon.

A delivery bottle-neck for semi-conductor chips used in the automotive industry is causing some concern. Reports of the first production halts and reduced shift hours are coming in. The effects should later become tangible along the whole supply chain, which the steel and foundry industry are part of. When this bottle-neck will be resolved is unclear. According to the daily newspapers, the automotive industry is doing all it can to resolve the situation. Last year, all global automobile manufacturers had reduced their quantities of the electronic chips purchased from their Chinese suppliers as a result of plummeting demand in the automotive industry. Their Chinese suppliers soon found alternative turnover possibilities for their chips, so that now they do not have the volume of chips available that are currently required by the automotive industry. This lays open the weaknesses of just-in-time ordering behaviour quite clearly for all to see. Once suppliers are lost they are not always able or willing to step back up to the mark when required. This lesson is applicable to all producing industries.

Due to numerous external troublesome factors, no one is inclined to give a forecast as to when supply and demand are likely be in equilibrium again. Until supply and demand are more or less balanced, pricing will be what tips the scales.