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Scrap Metal Market Report - July

Market Still Divided

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Review

At the start, July negotiations were very arduous. Although, two consumers in the west of Germany were, as usual, quick off the mark, purchasing their required quantities of quality scrap at much higher prices than last month. Consequently, Italian consumers, who were present in large numbers on the German market, also began to increase their offered prices. Parallel to this, a weakening of the export market was observed. Some consumers also cited reduced monthly demand due to vacational or operational reasons, thus preferring to delay contract closures in the hope of purchasing scrap at lower prices at a later date. However, full order books in the steel industry means scrap demand is high and demand for particular grades is still outstripping supply. Industrial scrap prices rose by between €15 and €40 per tonne, depending on the mill concerned, individual demand levels and the combination of scrap grades required. Compared to last month, the price span for obsolete scrap ranged between marginal price reductions, unchanged pricing and price increases of between €5 and €10 per tonne.
The deficit in the supply of industrial scrap worsened during July, so that consumers were prepared to pay the asking price for certain scrap grades. In contrast, supported by high prices, the inflow of obsolete scrap increased noticeably in particular regions. As a result of lacking export opportunities, exporters turned to the domestic market selling high quality grades, in particular, to domestic consumers, thus contributing to the equilibrium between supply and demand. However, domestic scrap shortfall is reflected by the €50 - €60 price gap between export and domestic grades, so that it is plausible to speak of a divided market.
Individual offered prices varied considerably from mill to mill. In north Germany, in particular, some mills were able to increasingly take advantage of quantities offered by export yards. Prices for obsolete scrap remained either unchanged or price increases of €5 per tonne were achievable, whereas prices for scrap grades E2, E5 and E8 rose by between €15 and €20 per tonne. Demand in the north-west of Germany was already lower due to the summer holiday season there. Defensive pricing was seen for obsolete scrap in some cases, whereas consumers were generally prepared to pay price increases of between €25 and €50 per tonne for industrial scrap. In the east, two mills showed reduced demand as a result of existing or upcoming production halts. Compared to last month and depending on the mill and scrap grade concerned, prices increased by between €5 and €22 per tonne. In the west, price increases of up to €10 per tonne for obsolete scrap were registered and between €30 and €40 per tonne for industrial scrap. In the south, price increases were within the aforementioned price range. In the south-west, prices remained under the prevailing market prices; compared to June, the prices for obsolete scrap remained unchanged and those for industrial scrap rose by €5 to €15 per tonne, depending on the point of contract closure. It is possible that consumers there were able to fall back on import quantities. It appears that the supply was sufficient to meet the high demand.
The trade reported that demand for industrial scrap was very strong. However, as industrial production levels and trade activity have not yet reached their pre-Covid levels, industrial scrap supply is having difficulty keeping up with demand from the booming steel industry. As a result, the price gap between obsolete and industrial scrap continues to widen increasingly. This situation can be observed across the globe and is related to a large part on the marked decline in production levels in the automotive industry, which is still suffering under the acute shortage of semi-conductors, resulting in production levels being a long way from normal; the trade estimates that industrial scrap production in the automotive industry is 40% - 50% below the already low levels seen in 2020.

Neighbouring Foreign Markets

Due to strong order books and the shortage of industrial scrap on their domestic market, **Italian** steel mills offered higher prices than German mills situated south of the river Main, resulting in a marked increase in delivery willingness to Italian consumers by German scrap suppliers. On average, price increases of €30 per tonne were registered as well as special offers for grade E8 scrap. Obsolete scrap prices rose by between €5 and €20 per tonne, depending on the mill and the previous month's pricing levels. As an incentive, smaller Italian steel producers who needed scrap to fulfil their existing contractual obligations offered even larger increases. The mood on the market shifted as the period of Turkish consumer abstinence on the market lengthened. As a reaction to the pause in the German suppliers increased delivery willingness Italian consumers have, since last week, reduced their offered prices considerably. The majority of Italian mills will not be producing in the first two weeks of August, but like their German counterparts, they will be available throughout the period to accept scrap deliveries. The severe damage caused to the Munich-North shunting yard by torrential rain (on 23.06.21) has led to considerable delays in rail freight transport to Italy. Deutsche Bahn announced that rail freight transport is slowly starting to recover. The steel mills and the scrap trade are both complaining about the insufficient numbers of empty waggons, resulting in missed delivery dates. Deutsche Bahn also announced that it will require until autumn to repair the damaged shunting yard. According to the trade, July demand from the consumer in **Luxembourg** was in the region of 190,000 to 200,000 tonnes of scrap and compared to last month, price increases of up to €15 per tonne for Industrial scrap were seen. For other scrap grades either unchanged prices or price increases of up to €10 per tonne were offered. **French** mills showed demand for E5 and E8 grades, for which they paid €10 more per tonne than last month. Prices paid for obsolete scrap remained unchanged. **Austrian** consumers showed strong demand and increased their offered prices for obsolete scrap by between €25 and €30 per tonne and by between €30 and €40 per tonne for industrial scrap, depending on the mill concerned; for particular grades special offers were accepted. Demand from **Swiss** consumers was on the low side due the vacation period. Domestic supply for obsolete scrap appears to have been sufficient to meet demand and prices remained unchanged. Industrial scrap prices rose by up to €25 per tonne. In the **Czech Republic**, one of the consumers paid unchanged prices, whilst the other increased its offered prices by €20 per tonne. In **Poland**, obsolete scrap prices remained unchanged, whilst price increases of between €12 and €20 for industrial scrap were achievable. It appears that Polish consumers wanted to thwart the outflow of scrap towards Italy. In the **VK** negotiations were also rather long-winded. Although consumers attempted to take advantage of the dip on the deep sea market, in the end they too were forced to come in line with market pricing and both the steel mills and foundries increased their offered prices by £20 per tonne.

Foundries

The trade reported strong scrap demand from the majority of foundries. The shortfall in supply of quality industrial scrap meant that foundries too were forced to pay the going rate if they wanted to be supplied with scrap. The trade is concerned at the lack of credit insurance for some foundries, which is putting a strain on business relationships. In the middle of July, the most important Russian supplier of foundry grade pig-iron (Tulachermet) announced its intentions to increase export volumes prior to 1st August 2021, when an export tax on Russian pig-iron comes into force. To what extent German foundries might profit from this intention is still unclear.

Deep Sea Market

As a result of a general Turkish consumer abstinence on international markets, on the European market in particular, Turkish consumers were able to reduce their purchasing prices in the last 4 weeks by approximately 12 US-$ per tonne, despite otherwise very tight market conditions. It appears they still received sufficient scrap to cover their demands. With their renowned, disciplined procurement tactics they were able to increase their profit levels once again to a record level. According to official records, the last purchases of scrap from the continent for July delivery were in the last third of May. According to the international trade press, Turkish long steel producers have full order books for September, so that scrap suppliers are expecting an imminent start to scrap purchasing activity. It is also expected that scrap will be purchased for August delivery. Initially, European mainland exporters were little inclined to accept the demands made by Turkish consumers due to the marked price gap between European domestic and deep sea market pricing. In the meantime, exporters are offering HMS 1/2 (80:20) grade scrap for €340 - €345 per tonne (free deep sea yard) and have thus reduced their own purchasing prices by €15 - €20 per tonne in the last 14 days. However, with this reduction they will have difficulty remaining competitive with domestic traders. Trade circles are not expecting further price reductions on the part of the Turkish consumers, so that September purchasing prices should remain tight. This could be underpinned by the increase in export tax on Russian scrap (on 1st August 2021) from €45 to €70 per tonne, as this is likely to negatively impact the delivery willingness of Russian scrap exporters.

Closing Remarks

Seasonally reduced consumer demand is coupled with falling inflow volumes. However, the pressure has increased on the scrap market as a result of lacking export opportunities. Unmarketable scrap grades are increasingly putting pressure on exporters, despite the Egyptian market taking some quantities off their hands. Since the end of the 28th calendar week, most domestic consumers are reacting to offers of additional quantities with defensive pricing and some have already announced their intention to reduce prices for the coming month. Those traders asked are expecting marginally sinking prices for obsolete scrap during August, whilst they are expecting industrial scrap prices to be very tight due to ongoing high demand.