Schrottmarktinfo

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Scrap Metal Market Report - July 2022

Weak Demand and Low Supply

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Review

The July market was defined by weak mill demand, low scrap availability and a Turkish consumer buying spree on the deep sea market. The initial negotiations between the market participants were long-winded due to differing price expectations. At the same time, a Turkish consumer buying spree gained momentum; so that despite weak demand on the European market due to the summer vacation period, European consumers were unable to ignore the influence of the Turkish consumer purchasing behaviour on the market. Whereas exporters in accordance with their individual demand gradually increased their purchasing prices by between €40 and €70 per tonne (free deep sea yard), domestic consumers agreed average price reductions of between €30 and €50 per tonne with their suppliers. Price reductions were lower for quantities purchased later in the month. In a few cases, depending on the previous month's price level, prices remained unchanged or price increases were even achieved. Export prices for shredded scrap, as an example, were noticeably higher than prices achievable on the domestic market.

At the start of the month's negotiations, the mills indicated good stocks of scrap and showed low demand as a result of the vacation period and operational production stoppages. Unplanned extensions of production stoppages by up to a week occurred in some mills. One mill was also forced to work short-time due to its difficult order book situation. The trade acted cautiously and offered either a limited supply of scrap or no scrap at all, as depending on the region, there was a marked decrease in scrap inflow. Those traders asked reported a reduction of obsolete scrap inflow of between 20% and 70% compared to the usual inflow quantities at this time of the year. One reason for this could be the large domestic price reductions seen in the last 3 months and their negative impact on the collection willingness of scrap collectors, but it could also mean that the yards are simply void of stocks. The lack of scrapped vehicles can be attributed to the greatly reduced numbers of new vehicle registrations. According to the German Association of the Automotive Industry (Verband Der Automobilindustrie - VDA), 1.2 million new vehicles were registered in the first half of 2022; this represents a drop of more than 11% compared to the same period in 2021 and compared to the 2019 pre-pandemic figures it represents a turnover deficit of 33%.

Regional Developments

In north and north-west Germany, mills indicated a marked decrease in demand; this was attributed to vacation or other operational production stoppages or to sub-optimal capacity utilisation levels, amongst other things. However, increasing prices on the export market (free export yards) offered suppliers an alternative turnover opportunity. One consumer in the north who at the beginning of the month had offered defensive pricing was then looking for scrap at the time of going to press. In the east, demand from mills with no summer production halts was normal. Depending on the mill and scrap grade concerned, price reductions between €30 and €55 per tonne were seen. Consumers who were unable to cover their demand were more open to negotiation during the last third of the month. For scrap suppliers in the west, the two consumers along the Ruhr river, who were looking to cover their demand early for the coming month, reduced their offered prices by between €10 and €30 per tonne over the later determined average price reductions for the month. Along the Saar river, demand was good and depending on the consumer and scrap grade concerned, offered prices remained unchanged or price reductions of up to €50 per tonne had to be accepted. In the south west, demand was described as normal and once again the offered prices varied considerably; depending on the supplier and point of contract closure; price reductions ranged from €35 to €70 per tonne. In the south, at the beginning of the month, consumer in the south appeared to be looking for scrap quantities and offered price reductions of €20 per tonne, which in the course of the month increased to €60 per tonne.

Neighbouring Foreign Markets

According to the **Italian** mills themselves, stock levels were good and consequently they offered their German suppliers price reductions of between €100 and €150 per tonne, compared to last month; this in turn negatively impacted the delivery willingness of German scrap suppliers. As after the second third of the month consumers showed demand for scrap after all and after they had adjusted their originally offered prices from €100 to €50 per tonne a small number of contract closures were registered. Possibly scrap demand will increase from September; as according to the international trade press, the demand for Italian long and flat steel is showing some signs of recovery. Demand from **Swiss** mills was very much on the low side and those wishing to turnover scrap on the Swiss market were forced to accept price reductions of between €80 and €100 per tonne. The large steel producer in **Austria** reduced its offered price for all scrap grades by €70 per tonne. The smaller producer reduced its offered prices by €90 per tonne for obsolete scrap

and by €70 per tonne for industrial scrap. In the **Czech Republic**, the two most important consumers purchased scrap at differing price levels; whereas one mill reduced its offered prices by €40 per tonne, the other one reduced its offered prices by €10 per tonne for obsolete scrap and by approximately €16 per tonne for industrial scrap. As **Polish** mills had already reduced their offered prices in June by a larger margin than consumers in neighbouring countries, they only reduced their offered prices by between €17 and €27 per tonne, depending on the scrap grade concerned; behind this behaviour was the intention to keep more scrap on the domestic market for domestic production, as here an increase in demand is also expected. The consumer in **Luxembourg** showed a marked reduction in demand, compared to last month, and attempted to purchase quantities on the German market with offered price reductions of between €50 and €55 per tonne. **French** mills showed strong demand and reduced their offered prices by up to €50 per tonne.

Foundries

Depending on the production programme, demand from foundries was described as satisfactory. Traders reported that agricultural machinery manufacturers are suffering under the yoke of the sanctions imposed on Russia due to the absence of incoming orders. Poor capacity utilisation levels in the automotive industry, as a result of the continuing shortage of semi-conductors and other components, are increasingly affecting the upstream foundries as they consequently are unable to produce without production interruptions. During July deep-drawing grades were in demand, but supply quantities thereof were insufficient to satisfy demand due to interrupted production in the automotive industry. Non-index bound foundries paid up to €30 per tonne less for scrap than during June. As a result of the summer vacation period, some foundries in the west were absent from the market during July. Consumers in the south and the east will follow suit during August.

Deep Sea Market

For a period of fourteen weeks, Turkish consumers only purchased scrap sporadically on the deep sea market. This purchasing behaviour put pressure on scrap prices across the globe; the price for EU grade HMS 1/2 (80:20) CFR Turkey fell by 330 US-$ per tonne - from its high of 650 US-$ at the end of March to its low of 319 US-$ at the end of June. The Turkish consumers' buying spree at the beginning of July resulted in an initial price recovery of approximately 85 US-$ per tonne by the middle of the month; this recovery not only influenced the European market, but also other markets, such as the Indian market. bvse estimates that at least 8 cargos of European scrap were sold to Turkish consumers. From the middle to the end of June, exporters in the deep sea ports in the North Sea had lowered their purchasing prices from €310 to €220 per tonne. However, as Turkish consumer purchasing interest rekindled exporters increased their purchasing prices to between €310 and €330 per tonne (free export yard). Despite export prices exceeding those on the domestic market scrap procurement was still difficult; the availability of scrap quantities, as mentioned above, left a lot to be desired. A timely delivery of scrap to the export yards from suppliers using inland waterways was hampered by low water levels. At the time of going to press, the most recent sales of scrap from North America were already showing a reduction in scrap prices. It is unclear, by how much European exporters can make price concessions to their Turkish consumers, and indeed if they are at all inclined to do so. During June and July, albeit for short periods, Indian consumers offered prices that were way in excess of those on the domestic market, much to the pleasure of the scrap trade.

Closing Remarks

The current logistical challenges in the form of insufficient freight capacity, regardless of the transport method involved, are putting considerable pressure on the scrap trade. The already problematic situation concerning the shortage of HGV drivers and other specialist and skilled employees is being further exacerbated by the recent sharp increase of Covid-19 cases. Low water on the Rhine and its tributaries is increasing freight costs and delaying deliveries. In some regions, it is becoming increasingly difficult to book freight transport at all. The renaissance of the coal-fired power plants also means that there is another competitor competing for the already short supply of freight capacity. Along the Rhine, the supply to these plants has priority and their operators are paying freight carriers such high prices, that even empty return runs are profitable. Due to the shortage of freight capacity on the waterways, the power plant operators are now attempting to find additional capacity on the rail. However, the freight side of the Deutsche Bahn (German national railway network) is hopelessly overstretched and is already responsible for production stoppages in the industry, as finished products couldn't be transported and thus, stock depots were overflowing.

Forecasting August developments would be pure speculation due to the plethora of uncertain parameters influencing the market and causing nervous uncertainty amongst market participants. Just before the editorial deadline, reports came through that gas from Russia is now being supplied, albeit in a limited volume. Should this remain so, then there is a possibility that the situation will ease somewhat and steel production will start to pick up momentum and scrap consumption along with it. In the coming month, there will still be many works that have summer vacation production stoppages, so that demand will be adjusted accordingly. This may possibly change in September, as the order situation is in fact very promising.