



## Scrap Metal Market Report - May Scrap Demand Stays Strong

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### Review

At the beginning of May scrap consumers began negotiations rather tentatively. Some mills wanted to quickly take advantage of the seemingly weaker export market at the end of April/beginning of May to cover their demand by offering moderate price increases of between €15 and €20 per tonne. However, exporters in the ARAG ports had already increased their prices as Turkish consumers due to their increasing turnover opportunities had already started purchasing scrap in the first week of May, both on their domestic and foreign markets, but especially on the north European and Baltic Sea markets. Up until the editorial deadline and depending on the scrap grade concerned, price increases of up to €55 per tonne were registered. German consumers were forced to follow suit, which led to an increase of average offered prices of approximately €35 per tonne. Whether all consumers were actually able to purchase the quantities they required is questionable, as at the editorial deadline there were still a few mills combing the market for scrap. The trade reported that all available scrap quantities had been turned over. The short supply of industrial scrap is becoming increasingly noticeable; according to the trade, industrial scrap inflow to the yards is down by one third on normal average levels. One of the reasons for this on the supply side is the short supply of semiconductors to the automotive industry, where manufactures are having to drop shifts and/or introduce short-time working and in some cases to temporarily completely halt production week by week, thus negatively impacting scrap production. Another reason on the demand side is that international steel demand has risen much more rapidly than any increase in supply. This situation was exacerbated by a less than smooth production start at some European steel mills. All in all, the excess demand has caused steel prices to reach a new all-time high. Lengthy delivery times are now causing production bottlenecks for steel consumers, so that machinery is grinding to a halt, which yet again has a negative effect on scrap production.

Whilst all consumers throughout Germany showed an increase in scrap demand, price developments varied from region to region. In the north and north west of Germany scrap consumers offered average price increases of €25 per tonne for obsolete scrap and €30 per tonne for industrial scrap - for particular scrap grades higher price increases were seen. Consumers in the west purchased scrap at between €25 and €35 per tonne, depending on the scrap grade concerned, albeit those consumers who purchased scrap towards the end of the month were able to close negotiations at marginally lower or unchanged price levels. Mills in the east increased their offered prices by between €28 and €35 per tonne. Supply in the east was underpinned, in parts, by an increase in imports from neighbouring countries or from the Baltic Sea area. The consumer in the south west insisted on fulfilment of outstanding contracts and entered the May negotiations offering price increases of between €15 and €20 per tonne, which were hardly in line with prevailing market pricing, so that market compliant adjustments were necessary as the month progressed. The consumer in the south was forced to react to price developments on the Italian and Austrian markets and offered price increases of between €25 and €35 per tonne, depending on the scrap grade concerned.

### Neighbouring Foreign Markets

According to the World Steel Association (worldsteel) in Brussels, **Italian** steel producers were able to increase their April steel production to 2.06 million tonnes – an increase of almost 80%. This enormous increase can be put down to the effects of the pandemic in April 2020, where Italy especially was under the yoke of a hard lockdown, resulting in extremely low crude steel production volume. The Italian Steel Association (Federacciai) stated in May that the high demand for steel coupled with low stocks by both purchasers and producers skewed the relationship between supply and demand even further. Consequently, rebar prices for example, have reached new historical heights. Italian consumers didn't waste much time and entered negotiations with their German suppliers with offered price increases of between €30 and €40 per tonne (depending on the grade concerned) to secure scrap to cover their May requirements; for particular grades, even higher price increases were offered. The special steel producers were particularly open to negotiation in the light of the Europe-wide shortage of industrial scrap. Furthermore, some Italian consumers also increased their activity on the deep sea or short sea shipping markets. **Austrian** consumers increased their offered prices by between €25 and €30 per tonne. The largest Austrian consumer increased its offered prices for industrial scrap by €40 per tonne due to pressing demand. Whether sufficient scrap was procured is questionable, as was the case for many other consumers. **Swiss** consumers were hesitant in their negotiations, as they initially estimated that the opportunities to purchase scrap on their domestic

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market with a 20 CHF offered price increase would be sufficient. However, it was not long before they started looking to German scrap suppliers, offering them price increases of €30 per tonne. Compared to last month and depending on the mill concerned, **Czech** mills offered price increases of between €26 and €33 per tonne. **Polish** mills reacted promptly to the market situation and offered price increases of between €30 to €35 per tonne. The consumer in **Luxembourg** started negotiations for scrap for May delivery with offered price increases of €20 per tonne, compared to last month. However, at these price levels sufficient scrap to cover their demand at full capacity utilisation was not forthcoming, so that after further intensive negotiations and depending on the supplier concerned, price increases of between €30 and €35 per tonne were agreed upon. Due to high demand on the **French** market, French mills offered price increases of between €20 and €40 per tonne. On the French market, industrial scrap prices were higher than those for obsolete scrap, as is currently the case on all markets, so that **Dutch** consumers were also forced to increase their offered prices in excess of the average €30 per tonne this month. **UK** scrap demand was low, in contrast to the other neighbouring markets. This was attributed to the no show on the market of the financially troubled Liberty Steel, in Scunthorpe. As far as the other UK consumers are concerned, contracts were closed quickly and compared to last month price increases of between £10 and £15 per tonne were registered, depending on the scrap grade concerned. Foundry grade scrap demand was also lower than last month. Scrap suppliers were able to achieve price increases of £15 per tonne, compared to April pricing.

### Foundries

The strong order book situation of many foundries goes hand in hand with strong demand for scrap. Consumers were forced to pay going market prices, however, supply in some areas was somewhat tight due to the lower volume of industrial scrap available on the market in those areas. Some foundries are also suffering under low credit limits, as the time-delayed assessments made by the credit insurers have not yet taken into account the explosion in raw material and product prices. For the foundries this makes procuring scrap all the more difficult and steep pig-iron prices more or less rule out the use of pig-iron as an alternative to scrap.

### Third Countries

Turkish mills have full order books and their delivery times are unusually long - for long steel from three to four months and for flat steel anything up to six months. As a result, scrap demand is sustained and strong. The last official data published by SteelData shows that in March the Turkish steel industry was running at a capacity level of 74%, as was the German steel industry in the same period. In the light of the huge demand for scrap from March onwards it is likely that this figure will be even higher for April and May. According to SteelData, in the first quarter of 2021 Turkish scrap imports of scrap originating in the EU (27) were already 6.32 million tonnes – an almost 20% increase compared to the same period in 2020, when European traders supplied 5.27 million tonnes. In the negotiations nearing completion for June delivery a similarly high level of demand to April and May has been seen, whereby some Turkish mills attempted to bring forward previously purchased scrap for July delivery into June. Worthy of note is that in the scrap volume figures for June delivery the US-exporters fall below their usual levels; this is due to other available export opportunities, high domestic pricing and demands on consumers - to which Turkish consumers to date have not agreed to; instead Turkish consumers chose to procure scrap from all other available sources. According to the international trade press, the current sales price for concrete reinforcement steel of 780 US-\$ per tonne (FOB), compared to the average purchasing price for standard grade HMS 1/2 (80:20) of 510 US-\$ per tonne CFR Turkey, reveals just how much profit-leeway Turkish construction steel producers have at their disposal. During May, the above-mentioned purchasing price rose by 60 US-\$, whilst the sales price for concrete reinforcement steel rose by 120 US-\$ in the same period. Consequently, for the next two months scrap suppliers are not expecting the current ongoing strong Turkish demand to fall off.

### Closing Remarks

For the coming months, consulted market participants do not see an easing of tension on the market due to the overall prevailing tense mood on the global markets. It is expected that prices will rise again, especially as far as industrial scrap is concerned, where supply in June will also be tight due to delivery chains being interrupted or even deliveries being halted altogether. The trade reported that developments are much more positive for obsolete scrap; demolitions are on the increase due to an upturn in construction activity, there are marked positive price developments and obsolete scrap collection volume is also picking up. In the light of the difficult supply situation affecting particular quality scrap grades, some consumers are adapting to the market situation by altering the composition of their smelting mix. Further developments on the scrap market will be highly dependent on Turkish consumer market behaviour. At the moment, demand appears to be stable. However, the general market mood can only be described as having an increasingly nervous tendency, as last week's intervention on the part of the Chinese government showed; they are concerned at the exorbitant price developments for steel and raw materials, which, in their opinion, is against general public interest. What effect these intervention measures will have is still not clear; however, it is unlikely that scrap prices will be affected in the short term.