Schrottmarktinfo

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bvse Fachverband Schrott, E-Schrott und Kfz-Recycling

Scrap Metal Market Report - March 2022

War-driven Price Surge

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Review

During March, steel mills purchased all available scrap offered by the trade. They increased their offered prices by between €60 and €120 per tonne, depending on the mill, demand quantities, the scrap grade concerned and previous month's pricing. Demand was low for turnings and price increases were at the lower end of the range, whereas 3-figure price increases reflected lively demand for sheared scrap. Price adjustments for industrial scrap were lower than those for obsolete scrap. The war in the Ukraine has caused an interruption in supply chains for steel raw materials as well as for semi-finished and finished steel products. Huge price increases, which were not foreseeable, were and still are the consequence.

Supply and Demand

At the end of February consumers situated along the Ruhr river, who always purchase towards the end of the month for the following month, raised their offered prices by up to €15 per tonne; they were able to cover their demand, as at the time the offered prices were considered to be in line with the market. These contract closures soon weighed heavily on scrap suppliers as Turkish import prices shot up by 110 US-$ within a few days at the beginning of March and Turkish consumers showed great interest in the European market. The €30 - €40 price increases offered by some consumers at the beginning of the month soon turned out to be yesterday's news. Domestic consumers reacted hesitantly, as they were uncertain as to how large an increase they could pass on to their own consumers. In the east of Germany, consumers increased their offered prices by between €60 and €120 per tonne, depending on the mill and scrap grade concerned. In the north and north west by between €60 and €110 per tonne, along the Saar river and in the south west by up to €100 per tonne and in the south, where demand was lower, by up to €90 per tonne. Negotiations were remarkably long-winded and the later the contract closure, the higher the achievable price. Demand from EAF-mills may have been lower than last month, as some mills, depending on their cost burden, had either dropped shifts or stopped production all together on some days. In the coming month, it is certain that there will be the need for further talks between consumers and suppliers where contracts were closed at prices which were not in line with the then prevailing market pricing.

Insufficient Stocks

As in previous months, the trade has no stock levels worthy of mention. Strong demand and high pricing during last year, which have also continued in the current year, resulted in no notable excess of supply being carried over into 2022. Furthermore, stocking up in the new year has been practically impossible as a result of high costs and strong demand. Collection quantities usually increase in spring and it was hoped that during March, at the latest, larger quantities of obsolete scrap would come into the yards; however, this has not yet materialised in the desired volumes. As far as industrial scrap is concerned, supply chain interruptions for the steel industry have led, and are still are leading to, an irregular and reduced supply of industrial scrap. The interruption of cable harness supplies from Ukraine has resulted not only in halted production belts at the affected automobile manufacturers, but has also had a knock-on effect, with other upstream suppliers also having to curb production levels, resulting in a further reduction in industrial scrap availability. The war and sanctions are now resulting in contract cancellations in the mechanical engineering sector and as a result of the massive increase in costs, construction work in every form is either being postponed or cancelled completely; according to the trade, scrap production in this sector alone is estimated to be 30% lower than usual and although demolition work is increasing, this cannot compensate for the fall in scrap quantities from other sources.

Rising Costs

In the press, rocketing energy costs and their consequences are receiving considerable coverage; through which the loudly complaining steel industry is achieving publicity with the odd headline or two about production stoppages. However, all sectors of the economy are suffering under the yoke of the cost explosion and all must adjust accordingly. Another factor exacerbating the situation is the sharp increase in Covid-19 cases with the associated increased sick-leave absences in the work force. In some regions, this is also negatively impacting the recycling industry, causing a hardly manageable staff fallout for an acceptable level of operation. The already existing HGV-driver shortage has also been further exacerbated by the absence of many Ukrainian HGV-drivers who have stayed in the Ukraine to defend their country. Low water levels in the Rhine and its tributaries are causing freight costs to double, as only half of the volume of freight is permitted. Aside from the personal fate of so many, the skid marks the war in Ukraine is leaving behind in the west are becoming increasingly visible in our economy.

Neighbouring Foreign Markets

During March, **Italian** steel mills made their government aware of their precarious situation, caused by extremely high energy costs, by introducing temporary or complete production stoppages. As a result of these stoppages, they only registered very low demand with their neighbouring foreign suppliers and their envisaged prices were much lower than those of their German counterparts. Only one mill showed normal demand. In the majority of cases only minimal quantities were ordered to remain in contact with suppliers and offered prices rose by between €30 and €90 per tonne during the course of the month. The **Swiss** consumer showed demand for scrap and paid approximately €100 per tonne for obsolete scrap and €80 per tonne for industrial scrap. **Austrian** consumers showed high demand and were quick off the mark with offered price increases between €80 an €85 per tonne, depending on the scrap grade concerned. **Polish** domestic consumers offered price increases of between €90 and €130 per tonne, depending on the mill and scrap grade concerned; as a consequence, Polish suppliers showed little export interest. In contrast, in the **Czech Republic** domestic demand was low and prices rose by approximately €100 per tonne, so that exports to neighbouring countries played a more significant role. On the **French** and **Belgian** markets price increases between €80 and €100 were also registered. Purchasing interest from the mill in **Luxembourg** was lively and the various required grades were purchased with price increases of between €50 and €100 per tonne, depending on the supplier and point of contract closure.

Foundries

Non-index bound foundry demand was lively in parts and, depending on the scrap grade concerned, March pricing rose by between €60 and €150, compared to February. Import prices for pig iron, at up to 400 US-$ per tonne, rose much more sharply than scrap prices due to the absence of the Ukrainian and Russian suppliers on the market and the consequent run on alternative suppliers. This also led to increased demand for alternative foundry raw materials, such as low-manganese punching waste. Not all consumers were able to procure the quantities and scrap grades they required. Production interruptions were registered, especially in those foundries supplying the automotive industry. Despite healthy order books, there are a number of foundries in a tight financial situation due to the increases in raw material and energy costs.

Deep Sea Market

Despite political imponderables, since last year the Turkish steel economy has been doing well and the import demand for scrap, seen from the scrap trades point of view, has left nothing to be desired. On the one hand, Turkish steel producers are profiting from the Russia–Ukraine conflict, as some other CIS countries have recognised Turkey as an alternative supplier. On the other hand, Turkey imports large quantities of steel raw materials and semi-finished products form CIS countries, which they are now having to find other suppliers for. The use of scrap in production is partly compensating for the ongoing insufficient supply of pig-iron. However, in order to use scrap in production, like their American counterparts they require higher quality scrap grades. Currently, the traditional price gap between standard grade HMS 1/2 (80:20) and the bonus qualities is between 25 US-$ and 35 US-$ per tonne, with the possibility that this gap could further widen. Between the 25th of February and the 18rd March Turkish consumers raised their offered prices for standard grade HMS 1/2 (80:20) on the European market by almost 140 US-$ per tonne in order to cover demand. According to the trade press, scrap demand for both March and April should turn out to be very strong. It also looks like that this will remain so during May and that prices will remain tight, accordingly.

Closing Remarks

The 4-week old war in the Ukraine is affecting raw material prices with an unforeseeable outcome. Consequently, any estimates as to further market developments are only short-lived and probably of little significance. Many market participants can imagine prices rising again during April. Demand could increase again as a direct consequence of the lacking pig-iron trade out of the CIS countries, whereas the supply situation will remain tight. Price reductions are considered to be unlikely in the light of the still quite respectable economic developments in Europe and the estimated demand from Turkish consumers. However, there are two sides to the scale; on the one side increasing scrap demand and on the other the procurement of scrap, the price increases across the board, the associated financial demands and accompanying enormous binding of capital. All this is putting immense strain on all business operations, but especially for those of middle-sized companies. Credit limits are soon reached, as prices have now reached an all-time high. In 2008, when prices previously reached an all-time high, the price for grade 8 scrap, according to the then still published German Steel Federation's list, was €322 per tonne (ex-works) with a record monthly high of approximately €472 (ex-works) in June. During March 2022 a further €60 to €80 more was achievable. To put this all into perspective, according to Euwid, the price for grade 8 scrap in 2021 was approximately €411(ex-works); according to bvse calculations this represents an 81% increase compared to the average price in 2020. In the first three months of 2022, the price has risen by a further 35%.

During our 2022 Scrap Industry Forum in Leipzig, we will inform you in depth about the following topics: Decarbonisation, the increasing importance of scrap usage, the requirements for scrap treatment in the future, the expected increase in consolidation, the effects of the revision of the European waste shipment regulations and CO_2 as a new currency. **Further information and Registration**: **https://branchenforum.bvse.de/**