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Scrap Metal Market Report - September 2022

Thwarted

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Review

The majority of steel mills were able to cover their demand at more or unless unchanged prices during September. Neither the price increases expected by some traders nor the sought-after price reductions on the part of the consumers materialised. At the beginning of the month, a few contract closures involving small quantities were closed with slight price increases of between €5 and €15 per tonne. Consequent contracts were closed at more or less unchanged price levels, albeit consumers were able to push through slight price reductions for closures towards the end of the month. The stable pricing seen throughout the month was a consequence of reduced demand and corresponding reduced scrap availability on the market. Exorbitant energy cost increases led to a throttling back of mill production levels, especially at the EAF-steel mills; a correspondingly varied, but overall reduced mill scrap demand was the consequence. The trade complained of low inflow quantities of obsolete scrap to the market and in some instances had difficulty in procuring sufficient feedstock for the aggregates. Vehicle body scrap was, and continues to be, in very low supply. Reduced demand for industrial scrap grades in continual production led to a certain oversupply in these grades as consumers preferred the more favourably-priced scrap grades when putting together their grade assortment for smelting.

Once again, scrap trading and transport logistics didn't marry well in September. There was a slight respite for inland shipping for a short period during the middle of the month, as water levels rose. However, water levels did not get back to normal, sinking rapidly once again soon after. Low-water levies are still being imposed. The preferential treatment for barges transporting coal from Rotterdam to the coal-fired power plants has not only resulted in scrap shipping agents having hardly any inland waterway freight capacity at their disposal, but also to two to three times higher freight costs. However, the rail transport situation in the south and south west of Germany has improved somewhat; waggons could be ordered, but as a result of curbed production levels at the mills consumer scrap orders were lacking. In the west, the preferential treatment of coal transporters on the rails had exactly the opposite effect. It does appear that for a few freight forwarding companies the situation has improved somewhat. It will become clear at some point, whether these developments are just forerunners to further tightening market conditions.

In the east of Germany, steel mill scrap demand was described as normal. Contracts closed early on in the month showed unchanged or a slight increase in pricing. Contracts closed in the latter half of the month showed price reductions of up to €20 per tonne. The consumer in the north had throttled back production considerably and demand was estimated to be down a third on usual levels; the mill was able to cover its demand at unchanged price levels. In the north west, consumer demand quantities were varied and in accordance with the capacity utilisation level of the mill concerned. Scrap was purchased at either unchanged price levels or with slight reductions. Works profited from reduced demand quantities in the region, which traders further afield were able to evade. Consumers in the west showed reduced demand, whereas along the Saar River demand was normal and quantities were ordered at unchanged prices. In the south and the south west, sales opportunities were more limited and dependent on the varying degree of production cuts at the mills. The situation was exacerbated by the continuingly low export opportunities to Italy. These factors were reflected in a lower price level in this region compared to the rest of Germany. The consumer situated in the south west purchased modest amounts of scrap at unchanged or slightly higher prices, depending on the grade concerned. Scrap availability is still being negatively impacted due to reduced transport volumes on the Rhine River. The demand from the consumer in the south was more or less zero, as September production at the mill had been throttled back considerably and the required quantities were covered by internal group supplies.

Neighbouring Foreign Markets

During September, **Italian** steel mills smelted steel with their foot on the brake; energy prices and energy supply were the determining factors for production levels. At Italy's largest EAF-steel mill, where production has been halted for an unusually long 8-week period, it appears that the ovens are since in operation for a few days each week. According to trade circles, the mill has very high stock levels at its disposal. As a result of low scrap demand throughout the country, Italian mills requiring scrap were able to largely cover their demand with favourably-priced quantities on their domestic market; consequently, hardly any scrap was ordered from scrap traders in neighbouring foreign countries. Production cuts were also seen in **Switzerland** and consumers were able to cover their demand at price reductions of CHF5 per tonne on the domestic market. **Austrian** consumers showed reduced demand and left their offered prices unchanged. On the **Czech** market, consumers offered scrap traders either unchanged prices or price reductions of up to €10 per tonne, depending on the mill concerned. The **Polish** traders' hopes for price increases during September vanished just as quickly as those of their German counterparts. Consumers covered their reduced demand at either unchanged prices or were able to push through price reductions of up to €20 per tonne; despite this, price levels, were in parts still higher than those of the east German mills, which are easily accessible for Polish scrap traders. The consumer in **Luxembourg** once again showed lower demand compared to the previous month and offered price increases of up to €5 per tonne for almost all required scrap grades; although, higher prices were achievable for sheared scrap. In **France**, demand was good and the offered prices ranged from unchanged to up €10 more per tonne. However, some producers have announced production stoppages in the coming month. In the **Netherlands,** consumers purchased scrap at unchanged prices, whereas during the course of the month exporters reduced their offered prices by between €30 and €40 per tonne (delivered free deep sea yard).

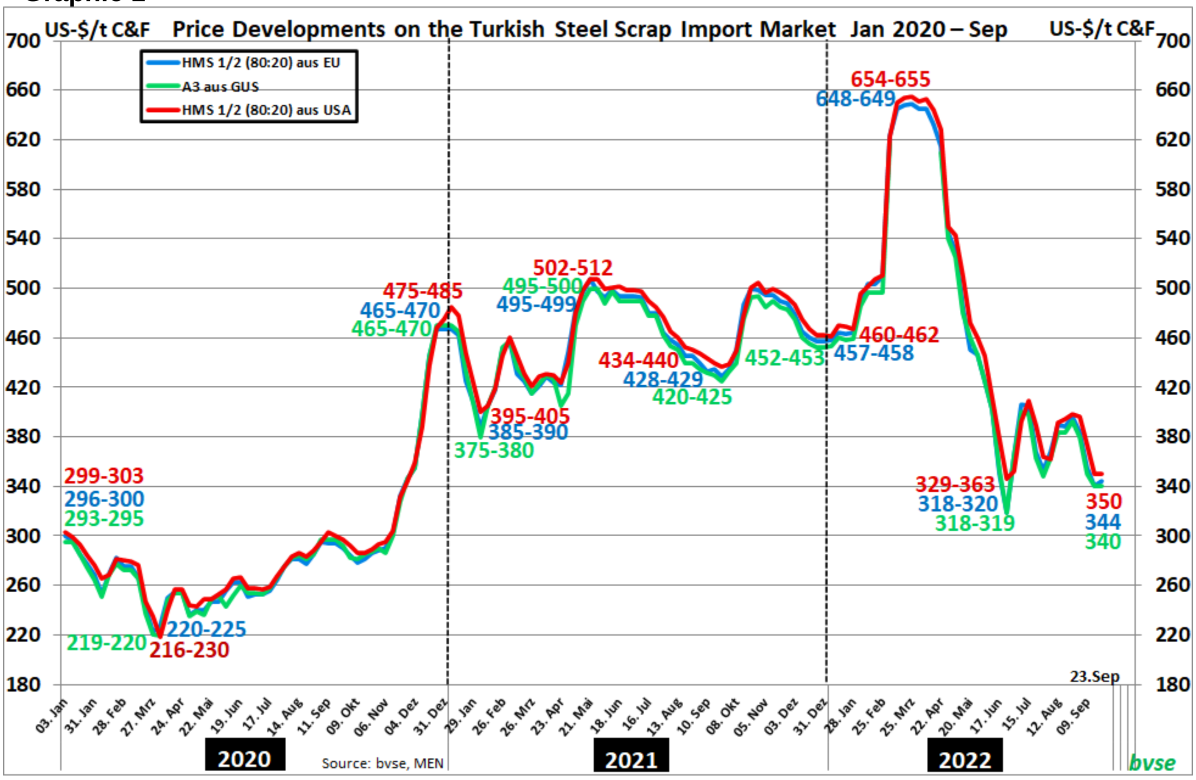
Foundries

Those traders asked agreed that the majority of foundries are still enjoying pleasingly high capacity utilisation levels and that foundry demand is strong, accordingly. They still appear to be profiting from their healthy order backlogs. Furthermore, production levels are recovering in the automotive industry as some of the problems affecting delivery chains have been solved. Those foundries supplying the wind power industry also showed high scrap demand. Non-index bound foundry scrap prices increased slightly compared to last month; although even price increases of up to €40 per tonne were achievable for certain scrap grades, such as good quality or low alloy grades, the supply of which leaves much to be desired. Pig-iron prices have become tighter. The majority of pig-iron has to be imported and the weak Euro against the US-Dollar also takes its toll, thus making pig-iron import even more expensive. The problem of rising energy costs is making a farce of calculations made by the foundries and is an economic challenge for all concerned; a challenge that not all foundries will be able to overcome, now or in the future. The trade reported that some ordered quantities were suddenly suspended or cancelled.

Deep Sea Market

As **Graphic 1** shows, Turkish consumers were able to considerably reduce their scrap import prices; since the end of August they have reduced their purchasing prices by between 50 US-$ and 60 US-$. However, their purchases made in the 38th calendar week for October delivery show that prices are starting to become tighter again. Exporters stood firm against Turkish consumer pressure as they were no longer prepared to accept further demands for price reductions. Furthermore, scrap suppliers also refused to accept further price reductions, as despite reduced steel production in Europe there is not a glut of scrap on the market. Logistic problems with ship and rail freight are not an insignificant factor regarding the continual procurement of scrap. Whilst Turkish consumers used their usual purchasing tactic of disappearing from the market and with this behaviour attempted to increase the pressure on the market, the trade was able to take advantage of increasing demand from the Indian sub-continent and from South Asia to turn over their scrap. Consequently, Turkish consumers had to accept that this time they weren't the only ones that had a say in market pricing.

Graphic 1



Indian consumers, especially, increased their search in Europe for turnings and other scrap grades for container delivery, for which they were prepared to pay higher prices than both domestic and Turkish consumers. The trade press also reported the possibility of selling bulk cargos to Indian consumers. However, due to difficult transport conditions as well as a shortage of containers some of the goods ordered could not be delivered on time. This problem was further exacerbated by the difficult delivery acceptance behaviour of the contract partners in India.

Closing Remarks

The economic situation as a whole, currently supressed by the worries concerning energy supply and price development, is anything but rosy. Post-Covid delivery chain interruptions and the Russian war of aggression against the Ukraine, which is showing no signs of ending, are resulting in much anxiety and insecurity amongst all participants involved in the economy. This is causing unexpected reactions and planning is being impacted by many uncertain factors, so much so that in some instances it is not possible to plan at all. All market participants are proceeding with caution. Under the current conditions, inflation and recession are the likely consequences. Nonetheless, on the upside some producers, including foundries, have healthy order backlogs which need to be fulfilled. However, on the downside construction contracts are now few and far between, as increased interest rates and raw material costs have now made planned contracts economically unviable. At the moment, the majority of market participants asked are expecting unchanged pricing or a slight reduction in pricing, depending on importer purchasing behaviour.