Schrottmarktinfo

No 119 *by B. Guschall-Jaik, 21. July 2020*

bvse
Fachverband Schrott, E-Schrott und Kfz-Recycling

Scrap Metal Market Report - August
Regionally Varied Demand
Editorial Deadline: 21.08.2020

Review
July's fall in prices was followed by average price increases of €10 per tonne during August. Consumer scrap demand was regionally very varied. Considering the mills had indicated low demand at the beginning of the month, according to the trade, demand in some parts was good. Lively Turkish demand as well as trade with India and Pakistan also propped up demand levels. The impression that the more positive developments in the general economy are slowly starting to filter through to the steel industry is becoming stronger. The downward spiral on steel prices appears to have stopped, albeit the prices achieved are considered as barely sufficient to cover costs. Those mills willing to pay €10 per tonne and more were able to cover their demand; however, it appears those unwilling to do so were not able to secure sufficient scrap to meet their requirements.
In the east of Germany, purchasing prices ranged from unchanged to increases of up to €10 per tonne (compared to July), depending on the mill and scrap grade concerned. One mill showed marginal demand (due to the vacation period) and offered unchanged prices; however, suppliers were generally satisfied with the demand levels from other consumers, as they were successful in turning over all their offered quantities. Mills in the north and north west were searching for scrap, so that in some cases offered price increases of over €10 per tonne were necessary, particularly as higher export scrap prices resulted in fiercer competition on the market. In the west, the marked fall in demand from integrated mills continued throughout August, whereas in EAF steel mills production has re-commenced. The consumer in the south west purchased scrap, despite its 14-day production stop. However, the unchanged prices (compared to July) offered at the beginning of the month were not sufficient to secure scrap in the desired quantities, so that during the course of the month prices moved from unchanged to markups of between €5 to €10 per tonne. In south Germany, demand was also halved, due to vacation shutdowns, whereby price increases of €5 per tonne were realised. Along the Saar river, depending on the scrap grade required, consumers were forced to the market in Luxembourg and price increase of between €5 and €10 per tonne were offered.
The inflow of scrap to the yards was described by the trade as regionally varied. In general, complaints were heard concerning the shortage of cost-optimal primary material for the aggregates. In addition, the situation was further exacerbated by logistic problems on the rails, in some areas by low-water levies on domestic waterways and unloading difficulties at certain mills as well as generally insufficient calls for scrap delivery; so that a number of outstanding deliveries are expected to go out during September. The inflow of industrial scrap is still way below the levels recorded before the Covid-19 crisis; this is especially apparent for turnings, where some consumers have had to widen their search for this particular scrap grade.

Neighbouring Foreign Markets
There was no plant closure in **Luxembourg** and high demand led to price increases of between €7 and €15 on July's agreed prices, depending on the scrap grade and the supplier concerned. It appears that the procurement of scrap may have been problematic, as quantities were also purchased from regions further afield. Low demand during August, the main vacation month in **France**, was accompanied by price increase of approximately €5 per tonne. The same was observed on the **Belgian** market. During August, also the traditional holiday period in **Italy**, only those mills with a healthy order book situation continued production throughout the month. Demand was generally lower and consumers attempted to procure scrap from Germany at unchanged price levels; this was met by a reduced delivery willingness on the part of the German suppliers. Demand on the **Austrian** and **Swiss** market was also reduced due to the holiday period and, compared to July, prices remained unchanged. A marked price increase of €20 per tonne was registered on the **Polish** market as a result of high domestic demand. **Czech** consumers were forced to follow suit to prevent the outflow of domestic scrap to Poland, especially as both the Czech mills were in need of scrap. The much lower price increase on the German market could only move Czech suppliers to deliver to those German consumers who are situated in freight-cost favourable regions. In the **UK**, as in Germany, demand was higher than the trade had anticipated. For August delivery, scrap price increase of approximately €16 per tonne were registered. Scrap inflow was low as a result of the holiday period and because of the poor capacity utilisation levels in the automotive industry. British foundries, like their German counterparts (see below), are struggling with poor order books due to their dependency on the

automotive industry. Purchasing prices were only approximately €5 per tonne higher than July prices. Overall, the scrap inflow to the yards is estimated to be only around 70% of the pre-pandemic level.

Foundries

The few non-index bound foundries with demand for scrap in August raised their offered prices by between €5 and €10 per tonne, depending on the scrap grade and foundry concerned. Capacity utilisation levels in the majority of foundries are poor and the trade described purchasing activity as cautious. Orders from the automotive industry are still few and far between. The half-yearly figures released by bdguss (Federal Association of the German Foundry Industry) show clearly how much pressure German foundries are under; in the yearly comparison 2019/2020, production fell in the first half of 2020 by 34% (compared to the same period in 2019) and scrap quantities purchased from the trade fell by 640,000 tonnes.

Good international demand, particularly from China, is reflected in rising pig-iron prices. The current advantageous exchange rate that the Euro offers on imports does soften the blow, but it does not completely compensate for the price increases.

Table 1: Scrap Consumption in German Cast Steel, Cast Iron & Malleable Cast Iron Foundries in Mio. t

	H1-2019	H1-2020	± in %
Production*	2.1	1.38	-34.3
In-house scrap consumption	1.05	0.67	-36.2
Scrap purchased	1.78	1.14	-36.0
Total scrap consumption	2.83	1.81	-36.0
Source: bdguss Table**: bvse** *provisionary			

Deep Sea Export

At the time of going to press, the export market could be described as lying in wait. Turkish consumers have been absent from the market since 7th August and in doing so are trying to slowly increase pressure on the exporters with the intention of pushing through price reductions. It remains to be seen which side will have the stronger nerves. Turkish consumers had surprisingly high levels of demand during June, July and August. Their order book situation does not appear to have deteriorated, so that continental exporters are expecting renewed purchasing activity for delivery in the second half of September and for October. At the moment, the exporters are unwilling to accept price reductions due to the strong Euro and rising freight costs. From the middle of July to the middle of August export prices FOB Rotterdam have risen by €10 to €15 per tonne and have pulled the European domestic prices up with them. The Turkish consumer stance is understandable, as the decision to leave the base rate unchanged, made by the Turkish Central Bank on 20th August, means the Lira remains weak and as a result raw material imports remain expensive.

Closing Remarks

Steel prices appear to have bottomed out, as steel producers have succeeded in pushing through higher prices in some segments. Under normal circumstances scrap prices should pick up during September, as domestic scrap consumption as well as consumption in neighbouring and third countries should be increasing, whilst scrap inflow may take time to catch up with demand. However, there are a number of factors that suggest normal circumstances probably will not prevail. Amongst these are concern over the effects of a probable 2nd wave of Covid-19 infections, currency problems concerning the Turkish Lira and the diverse geo-political disputes affecting steel production. It is unclear what the capacity utilisation levels in the steel industry will actually be, as there could be unsold stock to turn over first, which could possibly have a negative effect on production levels. Increasing turnover in the automotive industry has yet to make itself felt in capacity utilisation levels of upstream producers. Those market participants asked are cautiously optimistic and are expecting prices to remain at least unchanged and perhaps even to rise slightly.

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