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Scrap Metal Market Report - December

Hold Tight!

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Review

Very rapid price and volume developments characterised the December export market. Although Turkish demand for import scrap has been steadily increasing since July, the recent massive buying spree that started around the last third in November could not have been forecast. On an increasingly hectic market domestic mills scrambled to cover their December demand and price increases of between €30 and €45 per tonne were the order of the day, depending on the region and scrap grade concerned, but above all also on the point of contract closure. At the same time, Turkish consumers offered higher prices each time they closed a contract on the deep sea market. International trade press calculations revealed that Turkish consumers officially purchased 40 deep sea cargoes for December delivery; 11 of which originated from mainland Europe. Other behind-closed-door contracts of unknown quantity were also closed. The cause for the high Turkish consumer demand in Europe and the Baltic region was that US-exporters offered only small quantities of scrap for December delivery and to date have offered none for January delivery. Due to high domestic demand and a shortage of scrap on the domestic market, prices on the US domestic market rose by approximately 80 US-$ per tonne, so that domestic turnover was more economically attractive and in addition good export turnover possibilities, besides the Turkish market, were also available to US exporters.

On the German domestic market, consumers located north of the river Main increased their offered prices by between €35 and €45 per tonne, whilst those located south of the river increased theirs by between €25 and €35 per tonne. EAF-steel mills carrying out maintenance work during December still purchased scrap at the going market rate and indicated that scrap deliveries would still be accepted throughout the maintenance shutdown period. For stock-piling reasons, some mills have not called for delivery for scrap purchased for December delivery, but instead have deferred the delivery date to January. However, the fact that up to the editorial deadline many mills were still trying to procure scrap whilst scrap prices are on the increase shows that in many cases consumers have not been completely successful in procuring sufficient scrap to cover their demand. The high global demand for scrap is a direct result of the marked increase in demand for steel, which also led to steel prices increasing in leaps and bounds and considerably longer delivery times. Comparing the same period in 2020 and 2019, German EAF-steel production has increased continually since September and integrated mill production since October; according to the German Steel Federation (Wirtschaftsvereingung Stahl) both showed a leap in production of 14.1% and 14.7% respectively during November. An explanation for the market upswing in Germany are catch-up effects; for example, during and following the first lockdown German steel consumers kept orders to an absolute minimum, consequently empty yards are now being restocked. The automotive industry is visibly on the mend and the mechanical engineering sector is seeing an improved order book situation. However, world-wide scrap inflow is not keeping pace with rapidly increasing scrap demand; relocation of production and short-time work that are still on-going in some mills, amongst other things, are significantly affecting industrial scrap production.

Those mills which hesitated in offering more or less market conform prices learnt the hard way that when scrap is in short supply, procuring scrap becomes increasingly difficult on a sellers' market. Despite consumers gradually increasing their offered prices during the course of the month, domestic scrap prices are not yet in line with export prices. Since the end of November export prices have shot up by approximately 120 US-$ per tonne, which converts to approximately €90 per tonne, when the weakening US-Dollar is considered. For the coming month, unchanged or falling prices can be ruled out, as the first contract closures for January indicate pricing levels which haven't been seen since 2011.

Neighbouring Foreign Markets

Italian mills showed good demand levels. However, with their offered price increases of between €20 and €25 per tonne German suppliers felt the need for a negotiation round. Some mills did pay between €30 and €35 per tonne, but even so, delivery willingness on the part of the German suppliers was rather reserved due to the achievable prices on their own domestic market. According to the trade press, Italian mills with urgent demand paid their domestic suppliers (in gradually increasing steps) between €35 and €60 per tonne more than in November.

Whether all mills were able to cover their demand is questionable, at the very least. In **France** and **Belgium**, most consumers were not prepared to increase their offered prices by more than €25 per tonne (compared to November) and as a result traders were reluctant to sell. In the deep sea yards in **Belgium** and the **Netherlands**, since the end of November price adjustments of approximately €70 were seen. After initial hesitation, the consumer in **Luxembourg** offered price increases of €40 per tonne across all grades. Although December demand was reduced, due to short-term production stops, and up until the editorial deadline a willingness to negotiate was shown, it may be possible that here too delivery volume will remain lower than the mill had expected. The logistical coordination problems affecting scrap delivery still exist. **Swiss** mills increased their offered prices by €30 per tonne in an increased effort to generate further foreign scrap quantities. On the **Austrian** market, price increases of between €30 and €35 per tonne were registered, depending on the scrap grade and mill concerned. **Czech** consumers showed strong demand and price increase of between €38 and €43 per tonne were seen, depending on the mill concerned. **Polish** consumers increased their offered prices by between €35 and €40 per tonne, albeit prices for shredder scrap were in excess of these markups. Domestic prices on the **UK** market rose by between €22 and €33 per tonne. Even price increases of approximately €28 per tonne for foundry scrap were achievable, due to vacation period reductions in production volume. More marked offered price increases were seen from the export yards, where markups of between €45 and €55 per tonne were registered.

Foundries

Fortunately, as during the last few months, scrap demand from some foundries is continuing to rise. However, some foundries are still having to implement short-time work and are also halting their production for a longer period during December. Achievable prices varied considerably and were dependent on the foundry concerned. Non-index bound foundries raised their offered prices by between €10 and €30 per tonne. The scrap trade described some negotiations as very difficult, due to the fact that many foundries still find themselves in the middle of a crisis, as mentioned above. For those foundries upstream of the automotive industry, this situation is exacerbated by marked increasing international pig-iron prices, which put further strain on their already bleak revenue situation. The switch to e-mobility is hitting some foundries hard, as the option to change to alternative products is not always available. The price for low-manganese Russian pig iron has risen by approximately 120 US-$ per tonne since the middle of November. The effect of the price increase has been somewhat lessened by a weaker Dollar, albeit by a minimal amount.

Deep Sea Export

According to official information available to bvse, Turkish consumers have purchased almost 30 deep sea cargoes for January delivery; 16 of which will be from mainland Europe. Calculating an average cargo size of 35,000 tonnes, this would mean that almost 560,000 tonnes of scrap will be due for delivery to Turkey during January - although behind-closed-door contracts will increase this sum considerably. Whilst deliveries to the sub-Indian continent were on the weak side as a result of low container availability, it appears that sufficient ship cargo capacity is available for bulk cargo shipping.

Outlook

Asked market participants used such terms as amazing, chaotic and quite scary to describe the developments on the December scrap market. Galloping prices had not been expected and coupled with strong scrap demand, including higher demand from European mills, a euphoric and sometimes rather panicky market mood developed. Answering the question, as to what extent scrap supply in January will be able to keep pace with the expected levels of European and non-European demand during the month, will go hand in hand with a certain degree of tension and excitement next month.

The rapid recovery in the demand for steel in south-east Asia, Turkey and North America alongside rapidly increasing prices for raw materials for steel production, has resulted in rocketing steel prices. Non-ferrous metal prices have also reached heights that haven't been achieved for many a year. The question of the sustainability of these developments is being increasingly voiced by market participants. Even so, they are expecting further price increases until February, at least.