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Scrap Metal Market Report - February

A Capricious Market

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Review

It was a “bumpy ride” on the market during February. In the end, consumers paid prices averaging €20 per tonne less than in January, but the range of offered prices was extremely broad (depending on the point of contract closure and the individual consumer concerned); this broad price range of between €15 and €40 per tonne led to considerable agitation on the market. Perhaps some consumers had interpreted the short-term price drop, from €300 to €250 per tonne for standard export grade (HMS 1/2 (80:20) CFR Turkey at the beginning of January, as a sustainable market trend and thus started their negotiations at the beginning of February with offered price markdowns of between €30 and €40 per tonne. This, coupled with the usual trend of releasing surplus supplies from the foregone year during January, suggesting scrap abundance, would have definitely allowed mills to improve their profit margins, provided that a counter price movement did not materialise on the export market. However, right from the start, scrap suppliers were irritated by the prices offered, which they considered not in line with prevailing market pricing and expressed this irritation through delivery unwillingness. As export prices gradually became tighter during the 6th and 7th calendar week, consumers also decreased their offered price markdowns (which were not market conform) step by step by €5 per tonne a time. Scrap merchants, who were rather rattled by the purchasing antics of some consumers, reacted with reduced delivery willingness as they were anticipating improved conditions due to good scrap demand expected for the coming month. Not all mills were able to cover their demand and the later the point of contract closure, the more difficult it was for individual consumers to force through their envisaged price markdowns. In some cases, negotiations were still on-going at the editorial deadline, due to discord between the two parties over pricing.

Those traders asked reported the waning supply of industrial scrap, which in some areas has sunk by 20% - 30% compared to last year. The troubled automotive industry, especially, is not only causing reduced capacity utilisation by suppliers, it is also increasingly forcing small businesses to either switch their production to countries where costs are more favourable or to close up shop completely. The inflow of obsolete scrap from collection and demolition generally declines during the winter months, but this year, despite no real onset of winter, inflow quantities are much lower than expected in many regions. The trade is hoping for a recovery in the coming months.

Neighbouring Foreign Markets

Italian mills entered negotiations at the beginning of the month with offered price markdowns of €30, compared to January. Faced with a lack of sales interest on the part of their suppliers, they initially reduced their markdowns to €25 per tonne and then finally to €20 per tonne. Demand from two mills was reduced, as a result of a week-long production halt at the both the mills; this was reflected in overall demand levels, which were described as manageable. On the **Czech** market, consumers lowered their offered prices by between €12 and €20 per tonne. Export inclination to Germany suffered due to higher price markdowns on the German market. On the **Polish** market, demand was good and price markdowns of between €10 and €20 per tonne were registered, depending on the steel mill and scrap grade concerned. The **Swiss** consumer lowered its initially envisaged price markdowns during the course of the month and eventually purchased German scrap at price markdowns of between €15 and €20 per tonne. On the **Austrian** market, consumers covered their demand with price markdowns of between €10 and €12 per tonne, depending on the scrap grade and consumer concerned. **French** steel mills were less ready to compromise, so that only small quantities of scrap, at price markdowns of €30 per tonne, found their way over the French border. Negotiations with the consumer in **Luxembourg** were long-winded as here too price discord between the negotiating parties was a problem from the start. However, it appears that with offered price markdowns of approximately €20 per tonne, which most suppliers accepted, demand was not entirely met. On the **UK** market steel mills were able to push through price reductions of €35 per tonne. As far as the foundries were concerned, those foundries quick off the mark were able to purchase scrap at markdowns of €30 per tonne, but as the month progressed markdowns were gradually reduced to approximately €18 per tonne, due to the lack of scrap offered on the market; overall, this represented a €24 per tonne markdown for scrap suppliers during February. The consumer pricing policies led to a considerable reduction of scrap inflow to the yards; as a consequence, a counter movement is expected in the coming month.

Foundries

Non-index bound foundries covered their demand at price markdowns of between €10 and €15 per tonne, depending on the scrap grade and foundry concerned. Depending on the region and the individual foundry production programme, demand was either pleasingly high or remained constantly weak. Those foundries supplying the automotive industry are still suffering as a result of poor capacity utilisation levels and, in some cases, from resulting liquidity issues. Pig-iron prices followed suit, albeit somewhat delayed. However, the effect of the price markdowns was either hardly, or even not all, tangible for pig-iron importing foundries as the weak Euro counterbalanced the US-Dollar sales prices accordingly.

Deep Sea Exports

At the beginning of the month it appeared that scrap prices (CFR – Turkey) had not yet bottomed out, particularly in view of the fact that the lack of turnover possibilities for finished steel products and meagre profit margins were putting a strain on both EU and Turkish steel producers. However, after Turkish domestic demand for steel and subsequently third country demand increased encouragingly, coupled with limited availability of scrap in the yards, Turkish consumers were forced to raise their offered prices, so that exporters were able (with their purchasing prices) to stay competitive with regard to other scrap consumers on their domestic market. Turkish consumers succeeded in increasing the delivery willingness of their potential suppliers by very gradually, but continually, increasing their offered prices by the sum of approximately US-$ 20 per tonne; at the editorial deadline, the price for standard grade HMS 1/2 (80:20) had stabilised at approximately US-$ 280 per tonne (CFR – Turkey). These price developments (since the 6th calendar week onwards) coupled with the weak Euro – US-Dollar exchange rate enabled some European exporters to close scrap deals (for March delivery) with Turkish consumers. It is not yet foreseeable what economic effects COVID-19 will have or how the Chinese Government will react. Whatever happens, the massive disruption of supply chains will also take its toll on Europe and the European Economy.

Closing Remarks

Market insiders described the situation in February as perplexing. The pricing policies of some consumers, which were hardly explicable, bewildered scrap suppliers. So much so, that there was deep uncertainty as to when was the right time to sell; selling at the wrong time could easily make a difference of €15 per tonne. Expectations for the coming month are varied. Higher levels of demand than in February are anticipated and optimists also consider higher prices than in January a possibility. However, the majority of market participants are expecting moderate price increases, with which existing price disparities could be levelled.