

Scrap Metal Market Report - January

**Strong Start, Slack Finish**

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**Review**

Despite the continuing overall difficult market environment and the traditional shutdowns and/or maintenance work at the turn of the year, January scrap demand was good, albeit regionally very varied. Not all domestic mills were able to cover their demand during December, consequently those mills affected started off the January market with offered price increases of between €20 and €30 per tonne, depending on the mill and scrap grade concerned. In the end, compared to December, consumers paid a Germany-wide average price markup of €15 per tonne (free to station). Those suppliers quick off the mark were able to take advantage of the offered price increases, which turned out to be higher than anticipated by the trade. However, the lack of demand from Turkish consumers since the beginning of January soon dampened the market mood. The weakening of deep sea prices accompanied by the feeling that December prices had already exceeded their zenith influenced negotiations towards the end of the month. It cannot be ruled out that some unforeseen demand volume cutbacks and refusals to accept deliveries, that were observed during the course of the month, could have been related to the weakening market. Nevertheless, quantities offered at the end of the month could only be turned over at very low prices, if at all.

Obsolete scrap prices were at the top end of the markup range and industrial scrap prices at the lower end. Whilst scrap prices were high, the inflow volume of obsolete scrap increased, whereas according to those traders asked, the inflow volume of industrial scrap was often lower than had been expected, as a result of the continuing economic downturn in some sectors.

In the east of Germany, those mills in production showed normal levels of demand and adjusted their offered prices by between €18 and €28 per tonne, depending on the mill and scrap grade concerned. In the north and north west demand was good and price markups of between €15 and €25 per tonne were registered. Consumers in the Ruhr area showed low demand and paid price markups of €20 per tonne, whereby continual delivery was repeatedly difficult as a result of production outages. In the south and southwest, depending on the mill and scrap grade concerned, price markups of between €15 and €30 were registered; the final price markups were also dependent on whether the price negotiations had started at the price levels from the end of November or those from the end of December.

**Neighbouring Foreign Markets**

Depending on the starting price at the beginning of negotiations and the point of contract finalisation, **Italian** steel mills purchased scrap in Germany at price markups of between €10 and €20 per tonne, compared to December. Although Italian domestic suppliers reappeared on the market, demand for import scrap was good. Additional offers of scrap were declined by the majority of the consumers or were only accepted if the price was right. At least one consumer in **Switzerland** showed good scrap demand. Swiss mills purchased import scrap from neighbouring countries at an increase of €15 per tonne. In **Austria**, price markups of €25 per tonne were registered. **Czech** steel mills increased their offered prices by between €20 and €25 per tonne. Czech demand was higher than in December, when the mills were reducing stock levels; re-stocking obviously commenced again during January. **Polish** consumers raised their offered prices by approximately €20 per tonne. Due to similar achievable price levels (ex-work) on all three sides of the border, delivery quantities to Germany from Czech and Polish suppliers situated near the German border were reported to be normal. Price adjustments of between €10 and €15 per tonne were seen on the **French**, **Belgian** and **Dutch** markets. Compared to last month and depending on the scrap grade concerned, the consumer in **Luxembourg** increased its offered prices by between €10 and €15 per tonne, whereby some suppliers were forced to accept a reduction in supply volume. On the **UK** market, scrap suppliers were unable to push through their demand for price increases of approximately €20 per tonne; in the end, they were forced to settle for price markups of between €6 and €12 per tonne, compared to December. As the month progressed, the mood on the UK market also became more negative, so that consumers are now considering a price reversal in February negotiations.

**Foundries**

The levels of both the capacity utilisation and incoming orders at many foundries in Germany are still not satisfactory. The difficulties being experienced by suppliers to the automotive and wind-energy industry have not improved. For example, despite increasing numbers of new vehicles being registered, these figures are not reflected in stable production or capacity utilisation levels in those foundries supplying this sector. Consequently, demand levels vary considerably from foundry to foundry. Compared to December, non-index bound consumers paid markups of between €10 and €20 per tonne, depending on the scrap grade and foundry concerned. In the light of increasing scrap prices, pig-iron producers also tried to make corresponding price adjustments, thereby further increasing the pressure on the foundries.

**Third Country Exports**

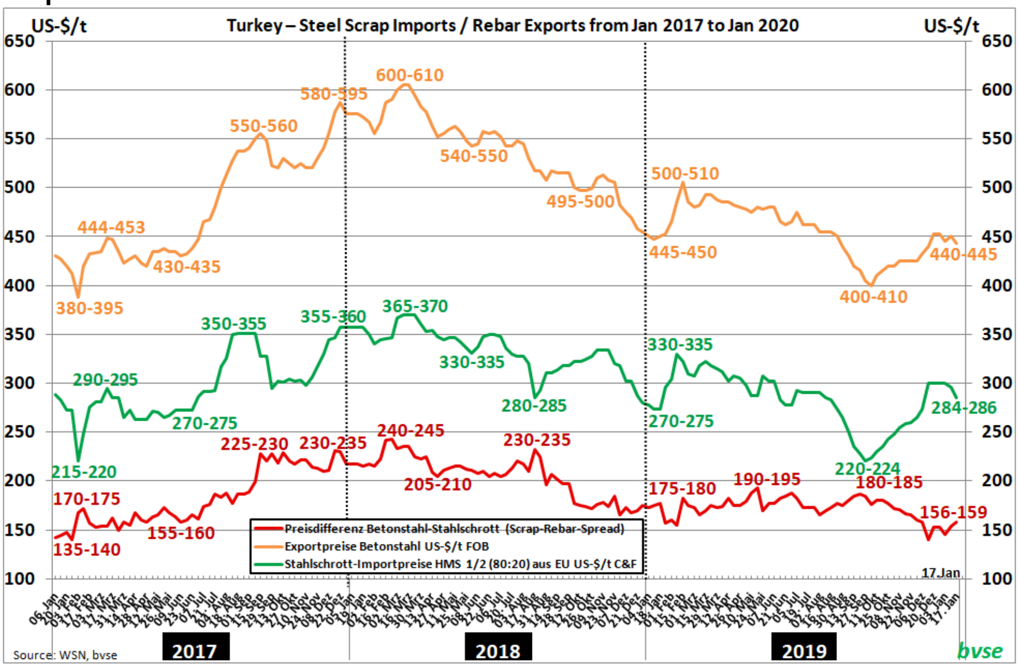
As a result of strong scrap demand from Turkish consumers during December, deep sea prices leapt by approximately 25 US-$ per tonne. Flexibility was required of the exporters in order for them to procure the required quantities. However, Turkish consumers were unable to achieve corresponding steel price increases on their turnover markets, so they withdrew from the scrap market at the beginning of January in order to put pressure on scrap prices in their period of absence. A small number of sales showed which way the market was heading, resulting in a prompt dampening of the mood on the European scrap market, as explained above. The current achievable steel sales prices are not only for Turkish consumers hardly sufficient; the difference between scrap prices and achievable rebar prices in 2017 was approximately 183 US-$, in 2018 this increased to approximately 205 US-$, which at the time was considered as sufficient to cover costs, only to fall again last year to approximately 173 US-$.

**Table 1: Average Margin p.a. in US-$ per Tonne**

| Year | Ø-Margin | Max. | Min. |
|---|---|---|---|
| **2017** | 183 | 231 | 140 |
| **2018** | 205 | 243 | 165 |
| **2019** | 173 | 192.5 | 140 |
| Source: WSN, bvse, Table: bvse | | | |

Of the two possible methods by which to increase margins, one method has already been unsuccessful - that is to achieve a sustainable increase in steel prices. The other alternative, i.e., to achieve a corresponding reduction in scrap prices, is hardly likely to be successful in the light of current scrap inflow quantities. In addition, steel consumers will exacerbate the situation further by pointing to falling scrap prices as an excuse to demand price reductions for finished steel.

**Graphic 1:**




Scrap-Rebar-Spread — Rebar Export Prices US-$/t (FOB) — Steel Scrap Import Prices for EU HMS1/2 (80:20) US-$/t (C&F)

**Outlook**

Market participants are currently expecting a slight weakening of prices during the coming month. As a result of the January price increases, considerable amounts of scrap were offered on the market. This behaviour suggested to consumers that inflow quantities were high, when in fact the quantity of scrap offered was made up of January inflow quantities and surplus scrap quantities from December. The trade is expecting scrap demand to strengthen during February, as the EAF-steel mills, at least, will be showing normal levels of demand and February has more production days this year.