



## Scrap Metal Market Report - July

### **Increasing Uncertainty**

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German mills were able to cover their July demand (and in some cases, in excess of it) at a further markdown of between €10 and €15 per tonne, compared to June price levels. Attempts by a few consumers to secure scrap with higher markdowns were unsuccessful. Those consumers who offered markdowns at the lower end of the above mentioned scale received continuous deliveries. The market became more stable during the course of the month, despite production shortfall which was not only attributed to the vacation period, but also to operational problems in some mills. The vacation period is automatically accompanied by a fall in demand on the one hand and on the other, by a fall in scrap in availability. During July, this balance appeared to be in equilibrium. How the situation develops during August remains to be seen, as the three-week summer vacation period for six of the largest German federal states coincide at the beginning of the month. Mill demand will be lower than in July, but scrap inflow to the yards, especially for obsolete scrap, will be even lower than it already was in July. As a result of considerable price movements this year, a large part of the trade has not yet managed to achieve economically healthy margins, as scrap purchasing prices are not in line with the achievable sales prices; this, amongst other things, is attributed to the fierce competition on the market. Considering the current financial straits and corresponding liquidity problems, price adjustments to rectify this situation would be more than welcome.

### **Neighboring Foreign Markets**

**Italian** mills lowered their offered prices by up to €10 per tonne, depending on the price levels at the end of June and demand was higher than anticipated. It is possible, that with this purchasing behavior, they intended to preempt rising prices during August. They have already indicated that in the coming vacation month demand will be lower or even non-existent and if they do purchase scrap, they will only be interested in doing so if price levels remain unchanged. On the whole, the Italian mills acted cautiously, as there is uncertainty as to when the Algerian government will renew rebar import licenses. Algeria is the most important turnover market for Italian, Spanish and Portuguese rebar producers. Theoretically, the licenses should be renewed by the Algerian government in the coming month, but at the beginning of the year, when the licensing system was introduced, the issuing of the licenses was delayed for several weeks. Without a valid license, imports are impossible. Another uncertain factor is the scrap import quantity stipulated by the licenses; for the first half of the year imports were limited to a maximum of 2 million tonnes. In the **Netherlands, Belgium, Luxembourg** and **France**, the vacation period has to some extent already taken its toll on demand and mills reduced their offered prices by approximately €10 per tonne accordingly. Those mills still producing showed high demand. **Polish** mills were able to keep scrap on their domestic market by adjusting their offered prices. Depending on the scrap grade concerned, they paid between €2.50 more and €10 less than in June. They were able to secure their required quantities as comparatively good prices were offered, especially for quality grades. In **Switzerland**, turnover possibilities were limited as a result of production cessation for operational reasons and due to the vacation period. Offered prices to German suppliers were reduced by €15 per tonne.

## Foundries

The foundry market was described as quiet by some traders. Those foundries present on the market reduced their offered prices by between €5 and €10 per tonne, depending on the region and scrap grade concerned. Although foundry capacity utilization levels still vary considerably, the order book situation of some foundries (especially in the south and the south west of Germany) has improved, which fortunately resulted in a corresponding increase in demand. Despite a drop in raw material prices of approximately €30 per tonne since the middle of June, it seems that the lower prices are still not enticing buyers; they are hoping for further reductions and consequently were not inclined to purchase. The weakening Euro is increasing pressure on the foundries.

## Quo Vadis Turkey?

Turkish consumers were able to cover their relatively high July scrap demand without much ado on the deep sea market. It is estimated that just under 15 freight loads were purchased in Europe. Despite this, the Turkish mills were successful in keeping price levels relatively constant and, from time to time, even achieved more favorable terms. As this market activity took place behind closed doors or later on in the month, it did not have much bearing on domestic market developments. Exporters are of the opinion that prices have bottomed out and that further high import demand on the part of the Turkish consumers could increase pressure on prices. In the aftermath of recent political unrest in Turkey, how the economy will develop is uncertain and unclear. It may turn out that for the time being the Turkish steel industry will not be negatively affected by current reforms in Turkey and will, at least for August, continue to show high demand levels. However, the cost of purchasing necessary raw materials has certainly risen as a result of the marked weakening of the Turkish Lira against the US-Dollar. As the required raw materials are scarce in Turkey, the country is dependent on raw material imports. In addition, it is unclear how much trust international investors (and their capital) will show in the country's economic stability; Turkey is dependent to a high degree on invested foreign capital.

## Closing Remarks

According to trade circles, the German scrap market was rather quiet during July. Those market participants asked were undivided in their opinion that prices have reached a nadir. For August, the majority of the trade is anticipating (at least for the first three weeks of the month) prices to remain unchanged or to rise slightly in the light of the expected fall in demand from the mills coupled with the expected drop in the availability of scrap. Whether the euphoric price fantasies, already expressed by some market participants, fall below the expectations (as in the two previous years) will depend on the developments in Turkey and numerous other international hot spots.