



Scrap Metal Market Report - June

Tight Supply

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Review

June was characterised by long, drawn-out negotiations between market participants, high consumer demand across the board, a short supply of scrap and an unexpected marked jump in prices. As the month progressed, consumers became more open to demands made by the trade, especially those who were having difficulty obtaining their required quantities. Price increases of between €30 and €60 per tonne were officially registered, depending on the scrap grade and mill concerned. However, for spot transactions some consumers were prepared to pay above prevailing market pricing, both before and after the editorial deadline. Price levels varied considerably throughout Germany as a result of varying individual demand for some scrap grades. Those traders asked described scrap demand as "good to extremely good". This statement was underpinned by the figure of 3.7 million tonnes for German crude steel production during May, released by the German Steel Federation (WV Stahl) on 22nd June 2021; this represents a 9% increase on April production levels. To date, the average monthly production of crude steel in Germany this year was 3.4 million tonnes, compared to 3.3 millions tonnes per month in 2019. Compared with the period January to Mai 2020, in the same period this year EAF-steel mill production rose by 11.3% to 5.36 tonnes and by even more at the integrated mills, where an increase of 16.5% to 11.83 million tonnes was recorded; whereby, in addition to the general increase in scrap demand (as with the EAF-steel mills) the integrated mills have also increased the volume of scrap used in their converters partly for environmental reasons, but also because of high iron ore prices, thus resulting in a marked increase in scrap demand compared to 2020.

The consumers in the west of Germany who usually purchase scrap at the end of the month for the following month and depending on the market situation make adjustments at the start of each month, surprised the market by purchasing additional quantities of industrial scrap with price increases of approximately €75 per tonne. Not all consumers offering lower prices were able to secure their desired quantities and were thus forced to increase their offered prices as the month progressed. The price gap between obsolete scrap and the especially sought-after industrial scrap grades is widening. In the north, north west and east, price increases of between €30 and €40 were generally seen for obsolete scrap and approximately €60 per tonne for industrial scrap, whereby, as mentioned above, purchasing prices varied considerably depending on the scrap grade and the individual mill concerned. Although the consumer in the south west offered price increases in line with the general market trend, the appearance of Italian consumers showing increased demand for scrap in whole of south Germany (and the offering of exceedingly good contract terms) meant that the consumer was still purchasing scrap to cover immediate demand after the 24th calendar week. The consumer situated in the south of Germany was also forced to increase its original offered prices in order to secure scrap to cover demand.

Neighbouring Foreign Markets

Right at the beginning of the month, **Italian** scrap consumers indicated high scrap demand to their German suppliers and compared to last month were prepared to offer price increases of up to €70 per tonne. Industrial scrap grades were in particular demand and especially those consumers who do not normally purchase scrap from neighbouring countries were prepared to pay higher prices as the negotiation period progressed, as they were unable to procure sufficient scrap from domestic sources to cover their demand. **Austrian** consumers offered price increases of €50 per tonne for obsolete scrap and €60 per tonne for industrial scrap. It is unclear whether sufficient scrap was supplied at these price levels. **Swiss** demand was reduced due to one consumer carrying out maintenance work, but otherwise demand from the remaining consumer was good, with mills attempting to cover their demand with offered price increases of between €45 and €60 per tonne. Depending on the mill concerned, **Czech** and **Polish** consumers increased their purchasing prices by between €60 and €70 per tonne, bringing them in line with prevailing pricing on the German market. Domestic demand in Poland was high and export possibilities to third countries were improved. German consumers described the delivery willingness of both the Polish and Czech exporters as rather sluggish. **French** consumers showed strong demand and offered price increases of up to €60 per tonne, compared to last month. Negotiations with the consumer in **Luxembourg** were unusually long-winded; suppliers were unimpressed with the offered price increases of between €30 and €40 per tonne at the beginning of the month and accordingly showed very little inclination to sell. Negotiations only started to pick up speed when price increases of between €40 and €60 per tonne were offered. It is unclear whether the consumer

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was able to procure the required quantities. Whilst prices on the European market climbed rapidly, Turkish consumers were successful in pushing through small price reductions on the deep sea market, so that depending on the scrap grade the domestic-export price gap grew to up to €50 per tonne. Consequently, exporters in the ARAG ports are showing little interest in selling scrap, as their suppliers are preferring to turnover scrap on the domestic market. Some exporters also turned to the domestic market and were able to turnover quantities previously earmarked for export. In the **United Kingdom** consumers only offered price increases of £10 per tonne, but in the end reluctantly paid £20 per tonne more than during May. Despite the absence of demand for scrap from Liberty Specialist Steel, higher demand from both British Steel and Celsa Steel has at least compensated to a certain extent for this fallout in demand. Despite a €30 per tonne price increase for foundry scrap, supply fell short of demand and foundries were unable to procure their required quantities.

Foundries

Most foundries are showing high demand, despite incoming orders from the automotive industry still being on the low side. They were in competition with the steel mills for their preferred scrap grades and scrap suppliers insisted on marked price adjustments, especially as foundry scrap requires specialised preparation treatment. The average price increase for non-index bound foundries was up to €70 per tonne. However, many consumers were more concerned about procuring sufficient quantities of scrap rather than paying much attention to the price they had to pay.

Deep Sea Market

At the end of May Turkish consumers were able to purchase some scrap quantities for July delivery at reduced prices. However, European exporters were not prepared to make any concessions and declined to sell, pointing out the increasingly tighter domestic market and the above mentioned considerable (and for them favourable) domestic-export price gap. Despite marked price increases on the US domestic market during June, a number of exporters sold quantities of standard grade HMS 1/2 (80:20) from their export yards at 500 US-\$ per tonne (CFR Turkey), although for higher quality grades, such as shredder scrap, they were able to increase the usual 5 US-\$ per tonne price difference to standard grade scrap by between 15 US-\$ and 20 US-\$ per tonne. The tried and tested Turkish purchasing tactic – “delay ordering for as long as possible” – is currently being implemented. It now depends on how long the Turkish consumers can hold out, so that exporters who have been unable to turnover sheared scrap on the European domestic market start to become more willing to negotiate. According to market circles, Turkish consumers are now demanding a certain percentage of quality scrap in every cargo, which in the light of the much higher domestic prices makes price calculations all the more difficult for exporters. How the alleged dip in the deep sea market will affect scrap prices is unclear. Continuing high global scrap demand and supply struggling to catch up in many industrial nations (for various reasons) means that at one point this imbalance will be regulated by the price.

Closing Remarks

There are varying opinions amongst the trade as to how prices will develop in the coming month. Obsolete scrap inflow is slowly on the rise, whereas industrial scrap production has still not reached pre-pandemic levels due to continuing problems caused by interrupted or completely broken down delivery chains, so that excess demand could still be present during the summer months. In the light of this, certain traders can see some consumers increasing their offered prices yet again, especially for industrial scrap, whereas others are expecting price adjustments to flatten price spikes and to generally make the varying price levels between individual mills more homogenous. In the current situation, where for example rebar producers are achieving historically high sales prices, and due to an extension of the European protection measures are unlikely to face much competition from their third country counterparts in the next three years, they are unlikely to endanger their comfortable sales prices by reducing scrap prices. The trade is not expecting an easing of the market situation, despite the upcoming vacation production cessation, as scrap inflow will be negatively affected accordingly. The situation for the trade is far from comfortable under present conditions as price increases have to be passed on to scrap collectors and producers. Previously agreed advanced amounts and prices with consumers are proving to be a millstone, especially as market pricing is so volatile. Their situation is further exacerbated by scrap prices almost doubling since November 2020 resulting in cash flow problems for many companies. Logistic bottlenecks, such as insufficient HGV freight capacity and intermittent rail wagon availability (usual in times of high demand) are also increasingly negatively impacting the situation further.