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<u>Scrap Metal Market Report - September</u>
Scrap Prices Under Pressure
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Review
During September mills were successful in reducing scrap prices for the 6th consecutive time; whereas price reductions from April to August were moderate, those during September ranged from €20 to €30 per tonne, depending on the point of contract closure as well as the mill and scrap grade concerned. Despite the vacation period, the August production of crude steel in Germany was registered at 3.37 million tonnes, thus higher than production during July (3.22 million tonnes). Consequently, some market participants believed that an increase in scrap demand would follow during September as all mills would be back in production. However, price developments on the deep sea market, already noticed during August, created a weak point; scrap prices fell by approximately 25 US-$ and Turkish consumers demanded further massive price reductions, which up until the editorial deadline were registered at a further 40 US-$. In addition, the much hoped-for recovery of demand did not occur. The scrap trade estimated that scrap demand from the mills was 30% lower than during August, whereby a number of factors played their part; some mills halted production by the week, some were on short-time hours and technical problems also negatively affected delivery in some cases. Mills along the Ruhr only purchased small amounts of scrap to reduce stock levels (for balance sheet reasons), concentrating their activities instead on the delivery of outstanding contracts. Consequently, during negotiations purchasers were able to take advantage of the weak deep sea market as well as the somewhat panicky delivery willingness shown by some scrap traders. Contracts closed early showed price reductions of €20 - €23 per tonne, the later the point of contract closure the higher the markdown, so that in the end, traders were forced to accept markdowns of up to €30 per tonne, sometimes even up to €35 per tonne. Some traders were also unsuccessful in turning over their offered quantities, particularly because of reduced turnover possibilities on the deep sea market as mentioned above. A pessimistic mood spread over the whole market, as scrap consumers too are suffering under falling prices and turnover problems; in the light of the weakening scrap market, steel consumers are either delaying purchasing activity or are only purchasing the absolute minimum quantities to cover their current requirements.

Neighbouring Foreign Markets
At the beginning of the month, **Italian** mills lowered their offered prices by €20 - €30 per tonne, depending on the price negotiated in the previous month and on the mill and scrap grade concerned. Demand was low as mills had throttled back production due to turnover problems. Obviously, supply on the Italian domestic market was sufficient, for the most part. German suppliers only sold minimal ‘contact’ quantities. On the **Swiss** market demand was manageable and compared to last month, price reductions of €32 per tonne were registered. **Austrian** consumers entered the market early and covered their demand with relatively moderate price reductions of between €10 and €15 per tonne, depending on the mill and scrap grade concerned. On the **Czech** market prices fell by between €27 and €30 per tonne, depending on the scrap grade concerned, whilst on the **Polish** market price reductions of between €23 and €30 per tonne were seen. The consumer in **Luxembourg** demanded delivery of all outstanding contracts and offered price reductions for other scrap grades purchased during September of between €20 and €30 per tonne. Demand levels were considered to be normal. In **France** and the **Netherlands** price reductions of €30 per tonne were the order of the day and in some cases delivery acceptance was curbed. In the **United Kingdom**, trading at the beginning of the month saw price reductions of between £15 and £20, but as the weakening export market became obvious, consumers were only prepared to pay £25 per tonne; despite this UK domestic consumers were still dissatisfied and have already announced their intention to reduce their offered prices further during October.

Foundries
Depending on their capacity utilisation levels, non-index bound foundries reduced their offered prices by between €10 and €25 per tonne. In particular, those foundries supplying the automotive industry are

struggling with weak capacity utilisation levels and are trying to counteract this situation using various adjustment strategies. Pig-iron demand has fallen due to high pig-iron prices and the difficult order book situation of many foundries. As scrap prices are still under considerable pressure, it is only a question of time before pig-iron producers will have to consider making price adjustments to come more in line with scrap prices. According to market circles, at the current price level only marginal amounts are being purchased and only when demand is backed by actual orders.

Third Country Exports

Since the beginning of August, weak third country demand and shrewd negotiation tactics on the part of Turkish consumers has led to a marked price reduction of over 60 US-$ for scrap grade HMS 1/2 (80:20) originating in Europe. Turkish mills are in a difficult situation both at home and abroad; at home they are struggling because of weak domestic demand and abroad because the competition for North African, the Far East and Southeast Asian consumers on the export market is becoming more and more aggressive. The slump in the Turkish Lira is also adding to their woes. During the period covered by this report, officially registered scrap purchases were sporadic. The European exporters who sold the 4 cargoes that were officially registered hesitated before selling, as the offered price in question made the procurement of scrap very difficult, as suppliers to the export yards were at first reluctant to accept the necessary price adjustments. Turkish consumers attempted to push down prices even further in order to stay competitive on their turnover markets. In addition, it became apparent that the US economic motor is stuttering somewhat, as several steel producers announced that they are intending to throttle back production during October and November. This in turn, should lead to lower scrap demand.

Outlook

In the light of the worldwide negative economic reports appearing daily, the increasing pressure under which German foundry and steel producers are suffering is tangible and comprehensible. It is not surprising that some consumers and producers who are closely tied to the automotive industry are attempting to pass on this pressure my means of downstream discounts and trade credit. Due to the already tight margins for businesses where scrap is produced, the above is just a further step towards market concentration at the “supposed” bottom end of the supply chain. In the case of the above-mentioned measures and especially because of the already extremely meagre profit margins, it is difficult to imagine that costs can be covered, whichever way the trade tries to slice the cake. The trade should make it clear to scrap producers and consumers where its strength lies; for example, a 24/7 service, which if not rendered will after a short period of time negatively and sustainably affect production. The introduction of just-in-time deliveries for specific grades would guarantee their supply at the required point in time. However, the terms and conditions of such services and prompt payment thereof should not become bargaining chips or bail-out aid for companies and concerns which at the end of the day show billions in profits.