



## Scrap Metal Market Report 2010

### **April Price Surge**

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Scrap prices rose considerably during April. Prices rose from €65 - €80 per tonne, depending on scrap grade and region. However, the trading period was very short. For only a few days in calendar week 15 was it possible to obtain premium prices and to turnover respectable amounts of scrap. Those who missed this favorable opportunity, feverishly offered scrap later on, but were met with reluctant buyers. At the same time, Turkish consumers, who had purchased large amounts, stopped ordering. This, of course, added considerably to the trader's edginess, the more so as exporters then reduced their offered price or even stopped the inflow completely. The buying behavior of some mills coupled with no exports resulted in a strong scrap supply. Even so, the steel market still sent out some positive signals; the scrap demand from German mills rose during April by approximately 25% compared to the previous month and led to carriage-paid prices of well over €300 per tonne. However, the supply of industrial scrap is lagging behind the demand from the mills, as the produced steel first has to be processed and the manufacturing industry is only slowly finding its feet again. The inflow quantity to the shredders and shears has also not reached the desired level.

### **Transport Problems**

Again this month, loud complaints were to be heard from the scrap industry concerning the inability of the Bundesbahn (German Railways) to provide sufficient freight capacity. The Bundesbahn not only has problems with doors flying off during journeys or defective bogies on ICE trains, but the defective bogies on Eaos-x and Eanos-x require time-consuming, comprehensive inspection. As rail employees are still on short-time, the time required for these inspections to take place is over proportionally long. In addition, many of the bogies have to be replaced and obtaining the parts and fitting them promptly is also causing major problems. As ever, the ones who suffer are the customers and in turn their customers. At present, the Bundesbahn is definitely not able to provide sufficient freight wagons, so that it can be assumed that the delivery of orders received in April will take up to the middle or even the end of May to be completed. German Rail management has been following a profit-motivated course for several years at the cost of material quality and the customers are now paying for this policy. The transfer of excess freight onto the roads is also not possible as due to the effects of the credit crunch many freight forwarding companies have gone bankrupt or have taken a considerable number of vehicles out of service and it is impossible to get these vehicles back into service overnight. The freight forwarders are not able to keep up with the increased production levels, so that those prepared to pay higher freight costs are the ones who get their freight forwarded.

### **Neighboring Foreign Markets**

Price development was more or less the same as in Germany. Some consumers did try to influence the prevailing price level which, as mentioned above, did cause some commotion on the market. At the end of the day, €70 – €80 more had to be paid for quantities bought in the first half of the month in comparison with the previous month. In South Germany, Italian mills

were responsible for price stability, as they had buyers for their finished products and desperately needed scrap; they offered prices even above those of their German counterparts. In view of rising prices, Polish and Czech scrap traders showed increased delivery willingness, especially as several mills in Poland have shown reluctance concerning payments.

### **Foundries**

Although the capacity utilization in the foundries is increasing slowly, it is still estimated to be only around 50 – 60%. Some foundries are profiting from the economic upturn but, at the same time are having to deal with marked price increases for raw materials. At the moment, €450 - €470 per tonne has to be paid for Russian and Brazilian pig-iron and further price increases are expected to follow. The offered scrap prices from foundries without index-price binding were around €70 per tonne higher than those in March, although with some scrap grades the foundry scrap price was below that of the steel scrap price, so that for many scrap dealers it wasn't worth them offering this scrap to the foundries.

### **Deep Sea Market**

The Turks, the most important buyers of European scrap, have withdrawn from the market completely since calendar week 14, sparking off considerable speculation on the European market. For this reason, it is not possible to quote a current price level (or estimate where it may lie) until after the Turkish mills' next buying spree. Trade circles are expecting this to occur from the 2<sup>nd</sup> week in May onwards, as Turkish manufacturers are trying to solve the problem of their low sales volume for finished products by offering notable price incentives. As a result, they are no longer prepared to buy in scrap at 460 USD – 480 USD per tonne (CFR Turkey). Their Indian and Asian counterparts were also no longer prepared to pay the prices prevalent on the European market. The situation in Europe is another kettle of fish - the majority of mills are running at a capacity utilization of 80 -90 %, so that due to this and current order levels the scrap demand is expected to remain stable for the next two months. The mills have announced further price increases, justifying this step with the marked increase in the price of raw materials. A marked reduction in the scrap price could trigger the need for clarification, especially as the demand for quality scrap has noticeably increased. These scrap grades are in low demand from third countries, which have a higher demand for obsolete scrap.

### **Outlook**

As a result of the developments on the export market, the trade is expecting a price adjustment; there is no consensus as to the extent of this adjustment. The concerted action of third country scrap consumers (especially Turkey) to stop buying-in scrap and to wait for sinking prices has clearly shown how the domestic market of the scrap producing countries is dependent on the outflow of scrap to third countries. US mills already reduced their offered price by 50 USD per tonne in calendar week 16 as domestic supply was high because of the lack of demand from third countries. This weakness was capitalized on by the Turkish consumers, who are now concentrating on the US market. They succeeded in buying scrap with a price markdown of 40 USD not only from US traders but also from traders from the Black Sea area who were ready to renegotiate prices. Scrap is not in abundance and the market cannot be seen as stable.