

Sandy's silver lining for scrap dealers

By Gregory Meyer in New York and Jack Farchy in London

First came Sandy's storm surge. Now comes the tide of junk. As towns clean up after the US superstorm, piles of scrapped goods are appearing at kerbs. "There are hot water heaters, furnaces, dryers, washers, refrigerators, cars," says Dena Flowers, a public works official in Little Ferry, a New Jersey town flooded by several feet of water. "Anything metal is out there."

Sandy devastated places such as Little Ferry and is estimated to have cost the east coast tens of billions of dollars. It has released a wave of scrap metal into a market starved of supply since the financial crisis. Scrap, the "urban mine", has become an important source of many metals over the past decade as mines have been unable to keep up with the growth in Chinese demand. Steel scrap use hit a record 570m tonnes last year, or 38 per cent of crude steel production, according to the Brussels-based Bureau of International Recycling.

About a third of copper usage is scrap, and for some more commonly recycled metals such as lead, scrap is more than half the market, according to industry estimates.

But supply has not kept pace with demand. Americans have been hanging on to old white goods and cars, worried they could lose their jobs while the recovery remains fragile. This limits the volumes headed for shredding machines and ships. US exports of ferrous scrap have fallen about 11 per cent in the year to September. US copper exports are 5 per cent lower.

"The biggest scrap reservoir on the planet has historically been the US, a very wasteful, wealthy, industrialised society," says Dan Dienst, chief executive of Sims Metal Management, the world's largest listed scrap merchant and recycler.

"But with the rollover in the US economy and aftershocks of the GFC [global financial crisis], scrap flows generated by the consumer have been down a bit. Therein lies the challenge."

Then Sandy flooded the biggest chamber of this urban mine: the New York metropolitan area. Out came the scrap.

"When homes get destroyed, obviously you have things that are scrap-metal-sensitive," says Steven Pikowski, chief operating officer at Cinelli Iron & Metal, a New Jersey scrap dealer. "You see an increase in flow, but it's with a heavy heart that you see it."

Some metallic debris is turning up at Sims Metal Management's dockside terminal in Jersey City, New Jersey, just south of the Statue of Liberty. Sandy lashed the terminal itself, covering its wharf with three feet of water.

Peddler flows into the facility have about doubled from before the storm, Mr Dienst says. Their pick-up trucks arrive with aluminium siding, structural steel, wires, ventilation equipment and cast iron boilers that are tested for radioactivity and weighed before a sale. Sims will shred fleets of new cars flooded on the docks of New York harbour.

The finished goods are fed into a towering, 9,000-horsepower "megashredder" that can mince an appliance or car in seconds, separating steel from non-ferrous scrap and plastics, foams, vinyl and other non-recyclables.

Non-ferrous scrap later enters a loud machine that can sort products as small as lengths of copper wire. Hand-sized hunks of aluminium, known as zorba, spill into a dump truck to be packed in containers and sold to China for 70-80 cents per pound.

Mr Dienst cups his ear as he walks past and says: "You hear that? That's the sound of money." However, scrap brought to market by Sandy will not be enough to relieve scarce global supplies. Colin Hamilton, head of commodities research at Macquarie, estimates that it will generate less than 300,000 tonnes of extra material.

"One of the under-the-radar stories continues to be the lack of scrap availability in global markets," Mr Hamilton says. "In both steel and copper, lower developed-world industrial output has impacted global trade flows."

He notes that the price of scrap steel relative to iron ore has risen since the end of 2011, pointing to a tight market.

Sims lost money in its last fiscal year.

“Utilisation of scrap machines is 60 per cent, not more. That makes it quite difficult to earn money,” says Christian Rubach, adviser to TSR Recycling in Germany. He says scrap liberated by Sandy will probably head to Turkey, the top steel scrap importer, and compete with supplies from Europe. Prices are volatile. Robert Stein, senior vice-president at US-based dealer Alter Trading, says intraday moves on the metal futures exchanges can sometimes be larger than the profit margin per pound of scrap the company buys and sells.

For steel scrap, there are no liquid futures against which to hedge, so dealers execute sales as soon as they buy supplies to avoid being stuck with overpriced inventory.

Sandy will not solve the industry’s problems but, as Mr Stein says, “it will put a lot of certain grades of material on the market”.