

Steel trader expects ferrous scrap prices to follow seasonal pattern and rise in the winter

Increase in EAF capacity will support long-term upward trend

(WW) - The coming winter will be no different than the previous years and ferrous scrap prices will increase due to the seasonal dip in supply, forecast Ralph Oppenheimer, executive chairman of steel and raw material trading company Stemcor. Speaking at the autumn convention of the Bureau of International Recycling (BIR) held in Barcelona at the end of October, he commented that ferrous scrap prices may increase by at least USD50 per tonne in the next three months.

Mr Oppenheimer based his projection on the "contention" that scrap prices are driven by supply and demand and not by steel prices. Quite to the contrary, steel prices are determined by the price of scrap.

In the short term, Mr Oppenheimer expects that Chinese exports of steel products to markets such as Africa and South America will fall again. These exports hampered the sale of steel products and hence scrap demand from Turkey and other countries. However, billets, rebar and wire rod from ore-based steel production will find it difficult to compete with products from electric-arc furnace (EAF) steel plants in the long run, Mr Oppenheimer argued. He also pointed out that it was not in China's interest to increase steel exports, given the dominance of ore-based steel production in the country, its dependence on ore and coke imports and the low added value.

According to his forecast, falling exports from China will trigger a recovery in scrap demand from EAF steel plants in other countries. In the USA, EAF mill production has increased again of late, Mr Oppenheimer added.

The Stemcor chief executive also expects steel scrap prices to increase in the long term because many countries are investing in new EAF capacities while scrap supply is not increasing at the same pace. Mr Oppenheimer cited the composite HMS no. 1 index of American Metal Markets (AMM) which crossed the \$100/t mark in the early 1990s and \$200 in 2003. "I see no reason why this very strong trend should not continue and I think it is only a matter of time before the scrap price turns above 500 \$ per tonne on that particular index", said Mr Oppenheimer.

According to Mr Oppenheimer, Stemcor plans to strengthen its scrap operations and also invest in processing facilities, with the acquisition of a 15 per cent stake in Australian recycler CMA Corporation in September 2011 representing Stemcor's first step in this direction. Mr Oppenheimer reported that Stemcor currently handles about 1.5m tonnes a year of steel scrap sourced from Australia, Europe, South Africa and the USA and delivered mainly to the Far East, India, Southeast Asia and Turkey. The company handled a total of around 18m tonnes of steel and raw materials for the steel industry in 2011 and generated a turnover of 6.3bn (ca. €8bn).