By Ian Martin

Optimism amid justifiable uncertainty

Ferrous

Pressures on the steel industry – and therefore on its scrap suppliers – have become almost too numerous to catalogue. But several of the speakers at the BIR Ferrous Round-Table in Barcelona appeared determined to seek out grounds for optimism. There was certainly a consensus that, by the time of the meeting in late October, the ferrous scrap market had bottomed and was heading higher again.

If the keynote speaker in Barcelona was chosen with an eye on raising the scrap industry's spirits at the Ferrous Round-Table, then the plan worked to perfection as Ralph Oppenheimer, Executive Chairman of the London-based international steel trading company Stemcor, stepped up to the podium to offer a liberal measure of cheer both for the short and the longer term.

Despite describing price prediction as 'a mug's game' requiring an accompanying 'health warning', he was sufficiently confident about the continuing seasonality of the scrap business to forecast that ferrous values would rise 'at least US$ 50' over the coming three months. And indeed, he foresaw no reason why those prices would not climb beyond US$ 500 per tonne in the near future.

The main planks of his price-hike argument were as follows: scrap prices generally improve as winter approaches; investment in new electric furnaces is continuing in many countries; and scrap availability will become ever shorter because supply is failing to increase at the same rate as demand.

Francisco Alberich de Castro of Francisco Alberich SA in Spain (left) and General Delegate Rainer Cosson of the German steel scrap recycling association BDSV.

'Not a happy place'

Furthermore, the guest speaker argued that Chinese exports of steel are quite possibly unsustainable on their current scale and that a reduction in the country's overseas shipments would increase scrap demand from electric arc furnace operators. Owing to the fact that it imports substantial quantities of its raw materials such as iron ore and coking coal, China is not a competitive producer of the commodity grades of steel, he elaborated. Ore-based billets, rebar and wire rod will struggle to compete with scrap-centred production in the longer term, and so it is 'inevitable that the threat from Chinese exports to scrap-based steelmakers will diminish'.

The fact that around 45% of the world's steel is now produced in a country which is home to some 20% of the global population is 'incredible', said Mr Oppenheimer. However, he underlined, this situation has arisen through 'a lot of irrational investment'.

Mr Oppenheimer's guest presentation may have concluded with a positive assessment of the outlook for scrap suppliers but it began by drawing somewhat bleaker conclusions about the steelmaking sector. 'The steel industry is not a happy place at the moment,' he told delegates, as producers in Europe and elsewhere around the world are 'losing money'.

These comments echoed those expressed earlier by BIR Ferrous Division President Christian Rubach of Germany-based TSR Recycling who pointed to 'obvious' over-capacity in the global steel industry - mirrored to some extent by an

> *'The threat from Chinese (steel) exports to scrap-based steelmakers will diminish.'*

excess of capacity within the steel recycling sector, particularly in the highly-developed economies. With 'negative' prospects for many steel-consuming industries and with the steel industries themselves in many countries 'suffering from heavy debt burdens', clearly recyclers 'are facing enormous uncertainties', he said. The Euro-zone crisis, 'real' sovereign debt risks and 'a negative business outlook for the European economy as a whole' completed the rather ominous picture sketched by Mr Rubach.

'Chicken and egg'

During his address to the BIR Ferrous Round-Table, Mr Oppenheimer also confirmed that Stemcor - which turned over around US$ 10 billion last year and handled some 18 million tonnes of steel and raw materials, trading approximately 1.5 million tonnes of ferrous scrap - would like to grow its scrap activities and invest in processing facilities.

And the keynote speaker also attempted to settle the age-old 'chicken and egg' argument over the leading influences affecting scrap and steel prices. 'Supply and demand for scrap are the key determinants of steel prices,' he asserted. 'Causation goes from scrap prices to steel prices, not the other way round, though steel prices are also affected by other economic factors.' When scrap supply is reduced in the winter, 'scrap prices go up and steel prices follow', he noted. 'Scrap prices impact steel prices - not the other way round.'

Dynamics 'about-turn'

Of course, the possibility of hearing informed scrap price projections is what attracts many delegates into the meeting rooms at BIR Conventions. And in Barcelona, the country/regional market reports delivered to the Ferrous Round-Table certainly reflected some positive sentiment. The President of the European Ferrous Recovery & Recycling Federation (EFR) - Tom Bird of Van Dalen Recycling UK - insisted that 'the final quarter for 2012 should prove to be better than the previous three quarters' and that 'prices in the EU markets should remain relatively stable and not fall further'. A continuation of 'active' scrap buying in Turkey and recent Chinese attempts to push up steel prices were identified as factors in the 'improvement in the market over the last week or so'.

Amid the 'challenging conditions' witnessed since this year's BIR Spring Convention in Rome, the world's biggest scrap importer, Turkey, has seen 'a complete about-turn' in the dynamics of its markets such that 'the rebar price is now determining the price of scrap rather than the price of scrap determining the price of rebar'. With its excess of production, China is 'flooding' established Turkish markets with rebar at levels well below those at which Turkey would wish to supply. 'As Turkey is being squeezed out of its traditional markets, this will undoubtedly affect traditional EU markets as Turkey looks to replace sales,' explained Mr Bird. 'This will then further affect the state of the EU market.' Steel demand is 'particularly low' in southern Europe, he added.

Higher values 'already evident'

Blake Kelley of Sims Metal Management in the USA contended that 'industry prospects appear more stable and positive at the moment', although 'economic uncertainties continue to keep buyers cautious, which naturally limits inventory accumulation'.

Reporting specifically on his home market, he noted that domestic dealer scrap prices fell US$ 40-60 per ton for early October before rebounding around US$ 25-35. With yard collection volumes generally as much as 25% lower, the trade expects November dealer prices to increase - with some higher values 'already evident'. On the downside, US raw steel production fell to only 69.7% of capacity in the penultimate full week of October, it was reported.

Turning to the Pacific Rim, Mr Kelley hailed China's recent strong return to the deep-sea bulk cargo scrap import market 'after a long absence' whereas South Korea's deep-sea purchasing activity 'has recently been slower than usual'. 'Fairly active' is how the speaker described the South East Asian market, although 'Thailand has been quiet lately'. He also pointed to steelmaking expansion plans in Indonesia, Malaysia, Thailand and Vietnam.

In his concluding comments, Mr Kelley provided his now-familiar extrapolation of World Steel Association data. Using figures from the first nine months of this year and comparing them to those of 2011, it can be projected that, in 2012, the world will produce 29 million tonnes more raw steel and 26 million tonnes more iron while apparently consuming 3 million tonnes more purchased scrap.

Recovery ceiling

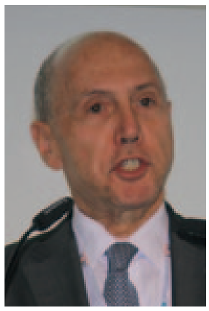
In his report on the Japanese market, Hisatoshi Kojo of Metz Corporation confirmed that Tokyo Steel - dubbed 'the price-setter' in Japan - cut its scrap purchasing price 13 times between mid-August and mid-October by the combined amount of Yen 5000 per tonne (US$ 63). By October 19, the steelmaker's buying price for H2 scrap was Yen 24 000 per tonne (US$ 303.80) for seaborne arrivals at its Okayama works and Yen 23 000 (US$ 291.14) for deliveries by truck to its Utsunomiya works.

After the Chinese holidays in early October, some of the country's steel mills entered the market for the first time in several months and bought around 400 000 tonnes of scrap from, among others, Japan. In response, South Korean steel mills have started to procure December shipment

Blake Kelley of Sims Metal Management in the USA: 'Economic uncertainties continue to keep buyers cautious.'

BIR Ferrous Division President Christian Rubach of Germany-based TSR Recycling laments that companies 'are facing enormous uncertainties'.

President of the European Ferrous Recovery & Recycling Federation (EFR) Tom Bird of Van Dalen Recycling UK: 'Prices in the EU markets should remain relatively stable and not fall further.'



Keynote speaker Ralph Oppenheimer, Executive Chairman of London-based international steel trading company Stemcor: 'The steel industry is not a happy place at the moment.'

BIR Ferrous Division's Statistics Advisor Rolf Willeke: 'I think we have to expect lower figures for global steel scrap use and purchases by the steelworks for 2012 as a whole.'

Lower scrap usage likely in 2012

In the first six months of this year, there was a downturn in overall steel scrap use in the main steel-producing countries and regions of the world, the BIR Ferrous Division's Statistics Advisor Rolf Willeke concluded in his January-June 2012 'World Steel Recycling in Figures' update. 'After setting a new record in 2011, I think now we have to expect lower figures for global steel scrap use and purchases by the steelworks for 2012 as a whole,' he warned delegates to the Ferrous Round-Table in Barcelona.

Comparing the first half of 2012 with the same period last year, the downward trend was particularly apparent in China where there was a sharp 17.1% decline in steel scrap usage and in the EU-27 where consumption fell around 3.4%, while noteworthy demand reductions were also recorded by Japan (-2.8%) and Russia (-2.4%).

The only substantial positives in steel scrap use were the 11.3% increase to 16.4 million tonnes in Turkey and the 3.2% jump in the USA to 28.6 million tonnes, noted Mr Willeke. For the former, 'it is noticeable that the increase in steel scrap use was higher than the growth in domestic crude steel production (+9.3%)', he pointed out.

Turkey reinforced its position as the world's foremost steel scrap importer in January-June this year while higher overseas purchases were also concluded by the Republic of Korea (+22.2%) and by China (+0.8%). Meanwhile, America's overseas shipments dropped around 7.6% to 11.3 million tonnes but the nation maintained its role as the world's leading exporter of steel scrap. Also during the first half of 2012, the EU's total exports increased around 12.7% and Japan's overseas shipments jumped 68.8% to 4.1 million tonnes.

Mr Willeke went on to emphasise that the world's leading steel scrap exporters are major net steel scrap exporters - but with 'no detrimental impact on the domestic supply chain'.

cargoes for fear of prices rising in the near future. Although the scrap market has 'clearly hit the bottom', said Mr Kojo, there is a ceiling on the recovery because steel product prices cannot be expected to improve until next spring at the earliest, especially as annual overcapacity in China is put at some 200 million tonnes.

New milestones

New scrap import and shipbreaking milestones have been reached in India, it was pointed out by Zain Nathani of the Nathani Group of Companies.

The country's ferrous scrap imports were increased by around 50% in the 2011/12 financial year to an all-time high of 6.03 million tonnes from just 3.99 million tonnes in the previous 12 months. While four countries - the UK, the USA, the United Arab Emirates and South Africa - were responsible for supplying almost 55% of this record import tonnage, the number of nations shipping ferrous scrap to India has expanded significantly over recent years and totalled more than 150 in 2011/12.

And in that same financial period, India's domestic shipbreaking scrap volumes also soared to a new high, with 425 vessels yielding an estimated 3.9 million ldt compared to 2.8 million ldt in the previous financial year from 357 ships. As recently as 2007/08, a mere 119 vessels were dismantled in India.

> *'Supply and demand for scrap are the key determinants of steel prices.'*

Having indicated that the scrap market appears to have bottomed out and that prices are now 'on the way up', Mr Nathani concluded his presentation by urging India's overseas scrap suppliers to ignore the earlier list of approved inspection agencies and to switch to the new one developed by the country's Directorate General of Foreign Trade in a bid to combat 'fraudulent' agencies. Nineteen agencies had been approved at the time of the Ferrous Round-Table in Barcelona.

Scrap processors association

According to Andrey Moiseenko of Ukrmet Ltd, the increased pressure applied by China to the international steel product market has also put the squeeze on Russia's steelmakers, with domestic prices falling by typically US$ 20-30 per tonne since the beginning of September. However, Russian mills have generally managed to keep scrap purchasing prices at reasonable levels.

Compared to January-September 2011, Russia saw a 5% reduction in steel scrap shipments in the first nine months of this year while the Ukraine's collections slumped more than 25% over the same period as a result of market volatility and of low prices denting the flow of material, Mr Moiseenko continued. At the same time, a lack of export quota availability has reduced Ukrainian scrap exports to virtually nothing; no new quotas are expected to be issued over the remainder of the year. □

According to Andrey Moiseenko of Ukrmet, a lack of export quota availability has reduced Ukrainian scrap exports to virtually nothing.

According to Zain Nathani of the Nathani Group of Companies, India's ferrous scrap imports reached an all-time high of 6.03 million tonnes in the 2011/12 financial year.

Hisatoshi Kojo of Metz Corporation in Japan: 'The scrap market has clearly hit the bottom.'

William Schmiedel of Sims Metal Management Global Trade Corporation.

Investment in new electric furnaces is continuing in many countries.