Around $300/mt is 'threshold' for viable ferrous scrap business: McKinsey

- Author Diana Kinch
- Editor James Burgess
- Commodity Metals

Singapore — A price range of $275-$325/mt for heavy melting scrap 1/2 (80:20) may be considered a threshold for the ferrous scrap businesses to be economically viable, Steven Vercammen, senior expert at consultancy McKinsey & Co, told the Bureau of International Recycling convention in Singapore Tuesday.

Prices of around this level are need to ensure operations including logistics are viable in the sector, he said.

"Scrap supply is more elastic to price once the scrap price hits threshold values of $300/mt," Vercammen said.

S&P Global Platts assessed Turkish imports of premium HMS 1/2 (80:20) at $297.50/mt CFR Monday, up $3.50/mt from Friday, while the Turkish rebar export assessment rose $5/mt to $470/mt FOB, after the US halved import taxes on Turkish steel products effective May 17. Turkish import ferrous scrap prices have remained below $300/mt for an extended period due to reduced steel production and demand in Turkey, attributed in part to the impact of US steel import tariffs.

Global ferrous scrap consumption has increased an average of 3.7% annually over the last 18 years, although this is lower than the 4.4% growth in pig iron over the same period, mainly driven by Chinese steelmaking growth, Vercammen said.

Despite the steady growth, scrap trade volumes remain relatively low, at around 14% of total usage. Scrap is typically a local industry, with different price dynamics in different markets, Vercammen said.

Scrap's share in steelmaking varies from region to region, from 25%-85%, depending on production growth and available technology, Vercammen said. Electric arc furnace steelmaking, which is scrap-based, accounts for 79% of steelmaking in Southeast Asia and for 69% in North America, he said.

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BIR Ferrous Division president Greg Schnitzer said uncertainties including the China-US trade dispute and Brexit had recently "clouded" ferrous scrap markets. This has led to a slowdown in production in some markets, compounded by seasonal factors in the run-up to the summer months of slowing construction and higher energy costs.

US ferrous scrap prices fell $20 a gross ton or more in April, SA Recycling CEO George Adams said in a report presented to the BIR congress, as steel prices eroded, steel service centers built up stocks and scrap exports fell due partly to the impact of Section 232 tariffs. The price fall came after an increase in March of $20 per gross ton on a tight market. The US tariff reduction on Turkish steel imports should support US scrap prices into June, he said.

Hisatoshi Kojo of Japan's Metz Corporation said that ferrous scrap prices in Japan fell sharply in April, losing $45-$54/mt on stagnant construction steel shipments and as the China-US trade dispute weighed on the economy in South Korea, a major export destination for Japanese scrap.

Autumn Barnes of Sims Metal Management Global Trade Corp said ongoing trade disputes could also result in a slowdown in the Taiwanese steel industry, which is facing more competition from other Asian countries such as Vietnam. While Taiwan's GDP is expected to grow 2.9% this year, "an ideal rate for a developing nation," Barnes said, its scrap industry has been "sideways over the last few weeks" with procurement difficulties, she said.

Zain Nathani, of India's Nathani Group, was relatively upbeat, noting "a flurry of buying recently from India, Pakistan and Bangladesh," despite a slowdown in India's automotive and real estate sectors. However, new bankruptcy laws will help consolidate the domestic steel industry and "strong demand is expected to continue for ferrous scrap from India, Pakistan and Bangladesh for the rest of the year," he told delegates.

As for the Northern Europe market, Torben Norgaard Hansen of H.J. Hansen Recycling Industry also noted "increased interest from India, Pakistan and Bangladesh in the last two months," while for the rest of 2019, the situation "is not so optimistic in the European Union," with car industry activity declining, tensions around Iran and China-US trade uncertainties.

Shane Mellor, of the UK's Mellor Metals, said that while the UK has maintained high prices for domestic material, there has been concern over lack of arisings within the UK and that "Brexit uncertainties are leading to distortions." He noted that steelmaker British Steel is seeking financial support from the government. "The effect of Brexit on confidence is frustrating. Companies are growing impatient for a Brexit deal," he said.

-- Diana Kinch, newsdesk@spglobal.com

-- Edited by James Burgess, newsdesk@spglobal.com