Asia Al: US zorba drops 10pc below global price

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Houston, 8 June (Argus) — China's import prices for US zorba dropped to a range of 62-64¢/lb cif China this week, a full 10pc below prices for material imported from Canada, Europe, UK and Australia.

China's buyers booked zorba of 96-98pc metallic content and 2-4pc red metals from non-US origins at 68-72¢/lb this week, unchanged from a week earlier.

Aluminum scrap imported from the US is subject to a 25pc tariff in China which its smelters can only bypass if that material is used solely for the production of secondary alloy being sold to Japan.

Japan's diecasters expect US zorba export prices to drop more because of the oversupply triggered by the tariff and have lowered bid prices on alloy. Prices to Japan have dropped significantly while China's domestic secondary aluminum alloy trades at much higher prices.

Smelters want to take advantage of the higher prices in the domestic China alloy market but can only do so by melting non-US origin scrap. Zorba and other scrap grades booked from non-US regions are not subjected to tariffs and can be used by China's smelters to produce alloy for domestic consumption.

This divergence in Japanese and Chinese alloy prices has led to a 5-6¢/lb spread between US and non-US origin scrap imported by China given the strict channels of raw material sourcing that are now in effect. In some instances, China's buyers have bid for US material—to no avail—at discounts of as much as 11¢/lb to material from other regions.

Argus assessed zorba cif China at 63-69¢/lb for material of 96pc metallic content and higher with 2-4pc red metal, moving to a 6¢/lb spread for the first time in the history of the assessment. US fas prices for the material ranged from 57.5-59.5¢/lb this week. US domestic buying prices for zorba were at 58-60¢/lb.

In the lower yields, China booked orders of 94-3 zorba this week at 68-69¢/lb cif China from non-US regions.

US exporters booked several sales into Malaysia this week at price ranges of 55.5-56.5¢/lb fas USEC for 96-4 zorba, and 54-55¢/lb for 94-3 zorba.

India booked 98-3 zorba at 57-58¢/lb basis USEC ramp this week, with 94-3 zorba at 55¢/lb basis USEC ramp. Deals on 92-5 zorba were reported out of other regions at around 61¢/lb cif India.

According to market participants, China's authorities Friday confirmed that the suspension of self-inspection for any material being shipped into CCIC governed ports which means large volume exporters will now have to export at the same cost and with the same time constraints as other exporters.

The US branch of CCIC resumed inspecting US material Friday but with new rules and regulations in place most exporters were hesitant to become the first test cases for what is being viewed as a more cumbersome inspection process.

Material of 97-98pc metallic content was rejected in Shanghai this week after the inspection agency poured out material from several containers onto the land beside the unloading dock and measured the impurities. Inspectors deemed that the material contained more than the 1pc impurity threshold and rejected the material.

It is virtually impossible to determine with the naked eye the difference between 97pc and 99pc zorba material and, should this strict inspection process continue, exporters are likely to ship to non-CCIC governed ports like Sanshui, Mafang and Zhaoqing. Major ports that fall under CCIC jurisdiction include Shaghai, Dalian, Ningbo, Haimen and Sanshan.

For the next few weeks, zorba prices are expected to remain under severe downward pressure because there is a significant tonnage of unsold material in the US, in addition to large volumes that have been held at China's ports or at ports in neighboring countries after China abruptly suspended CCIC inspections on US material for the period of 4 May to 8 June.

At BIR's spring meeting in Barcelona held late May, recyclers estimated that around 10,000 containers of US-origin base metals scrap were on the water when the US CCIC was temporarily suspended. Some of these containers were shipped back to the US, some were diverted to other countries and some have remained in holding in Hong Kong or at neighboring ports.

In addition to the massive backlog of shipments already on the water and new material that will be shipped from the US, the market has entered a seasonal period of increased supply that tends to occur every US summer. US steel mills are operating at strong capacity utilization rates of around 75pc which has kept shredded scrap consumption high and will result in a continuing flow of zorba.

If the new inspection process intends to physically inspect every container by unloading it and scrutinizing every pound the cost of port delays and demurrage/detention costs will rise, potentially even outweighing the value of the goods.

As a result, most market participants expect the strict scrutiny to be short-lived and is being viewed as more of an exercise by China to demonstrate the permanent shift it would like in its imports to extremely low impurity scrap.

In the meantime, US exporters are in the process of seeking new customers in Japan, Malaysia, India and Indonesia.

At the recent BIR meeting in Barcelona, executives from the world's leading recycling companies said that scrap companies will need to move toward producing furnace-ready scrap for smelters, because much like China's crackdown on high impurity scrap other countries will also clamp down on such material to preserve their environment.

This week, authorities in Thailand conducted raids at several e-waste processing facilities allegedly operating without required licenses and shutdown three plants that were sorting zorba for upgraded material sales to China.

Several scrap company executives told Argus this week that 99pc zorba material will rapidly become the new standard. Companies are making new investments to improve their shredder downstream products to achieve these goal though for companies entering the fray now there is already a 6-12 month wait for new equipment.