By Ian Martin

Ferrous

End of bull run difficult to bear

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Even the most seasoned experts within the international ferrous scrap industry have been amazed – and perturbed – by the steepness of the recent price decline as well as by the reaction to it of some of their customers. And although there has been some evidence of scrap prices trying to firm and of movement in steel stocks, few believe the current crisis is anywhere near its end judging from comments made during the latest BIR Ferrous Round-Table.

'It is disturbing to see so many attempts by buyers to renegotiate contracts, make fictitious quality claims or allege Letter of Credit discrepancies.' The words of Sims Metal Management's Blake Kelley, uttered during his US and international market report to the BIR Ferrous Round-Table in Düsseldorf, captured the mood of many delegates to the world recycling body's latest convention.

Recent events, he argued, have brought into question the reliability of Letters of Credit while increased business risks exist in most markets. 'Simply said, a discrepancy is more easily accepted in a rising or stable market, but more certainly refused in a falling market or if the consumer or its opening bank is financially weak,' he ventured.

Guest speaker Professor Dr Norbert Walter, Chief Economist at Deutsche Bank Group and Head of Deutsche Bank Research.

Roman Genkel of PG Mair in Russia.

Guest speaker Dr Jost Massenberg, Member of the Executive Board at German steelmaker ThyssenKrupp Steel.

Scrap collections have declined by around 40-50% in response to 'dramatic' price cutting while many steel mill and scrap yard purchasers have stopped buying, according to Mr Kelley. He added: 'Everyone in the chain is trying desperately to reduce inventories.' Specifically in relation to the US market, he said that many steel producers have continued to operate at 'high margins' despite the dramatic market reversal.

On a more positive note, he said, the favourable cost of scrap in relation to blast furnace iron is encouraging increased consumption of the former among integrated steel producers while supporting a more competitive position for electric arc furnace steelmakers. 'The daily rate of apparent purchased scrap consumption increased 4.6% in September compared to August, reversing two consecutive months of decline,' he observed.

Having highlighted the probability that the US and other world economies will shrink in the fourth quarter of 2008 'and beyond', Mr Kelley said a likely consequence will be decreased steel production and raw material consumption. 'However, at the same time, scrap supply is also decreasing and I expect the same for pig iron and HBI,' he commented.

The speaker went on to identify 'some signs that scrap prices are trying to firm' - before adding the qualifying comment: 'But we need to watch carefully.' And he concluded on the following bright note: 'The current difficult situation will eventually improve as inventories clear.'

Bullishness eradicated

Other reports to the Ferrous Round-Table painted a similar picture. Elected to serve a further two-year term as BIR Ferrous Division President, Christian Rubach of Interseroh Hansa Recycling GmbH of Germany lamented that the optimism - and even bullishness - witnessed at the world recycling organisation's previous convention in June this year had been rapidly and conclusively eradicated. Nobody had anticipated the subsequent scrap price falls of 'up to 80%' since the middle of the year; the ferrous scrap industry has grown accustomed to market volatility 'but not in such dimensions', he added.

Having acknowledged that 'a very great majority of our customers respect and honour contracts in good and bad times', Mr Rubach confirmed that a number of parties - including 'one or two global players in the steel market' - have tried to back-track on agreements. This situation requires close monitoring, he said, because it has the potential to 'damage the whole industry'.

In his report on the EU ferrous scrap market, Kevin Fitzpatrick of Sims Group in the UK said the decision by some steel industry customers to cancel contracts will put 'a significant strain' on scrap operators. He spoke of the 'unprecedented' speed of scrap price declines and of a 30% reduction in yard infeed volumes, adding that a 60% drop in scrap demand is anticipated for the fourth quarter. On a more positive note, Mr Fitzpatrick pointed to early signs of movement in steel stock levels - although he expects no positive impact on the market until early 2009.

No new credit

'Price renegotiations and overdue payments' were highlighted by Roman Genkel of PG Mair in Russia as the two main problems facing his domestic scrap industry. 'Only steel mills' scrap subsidiaries receive money for delivered scrap without delay,' he observed. 'However, it is not possible to get money from mills for independent suppliers - and it's not possible to get any new credit from the bank either.'

Blake Kelley of US-based Sims Metal Management (left) and Ikbal Nathani of the Indian Nathani group of companies.

In Russia, steel scrap collection volumes have declined three- or four-fold compared to June/ July levels and could even halve again before the end of the year, Mr Genkel warned. Meanwhile, scrap prices have plummeted by a factor of five in the space of two months.

Scrap collection tonnages in the Ukraine are amounting to only 20% of their normal levels while prices have tumbled from US$ 500 per tonne to nearer US$ 110. Crude steel production cuts have averaged 25-30% in Russia and 75% in the Ukraine.

In order to extricate themselves from their current predicament, steelmakers and scrap processors 'need to cut production as much as possible now in order to stabilise the steel products market - otherwise the crisis will last much longer and bring us much more losses', Mr Genkel insisted.

Pain 'far from over'

Guest speaker Professor Dr Norbert Walter, Chief Economist at Deutsche Bank Group and Head of Deutsche Bank Research, began by asking delegates to spare the messenger as he went on to warn that the world financial crisis is 'far from being over'.

Offering three possible scenarios for the future, the most likely (with a probability rating of 45%) is that recession in the USA, Japan and Europe will last until the first half of 2010, according to the speaker. There is a 30% chance, he added, that the recession will prove to be 'not that deep' and will end next year. However, it is the third scenario - to which Prof. Walter attached a 25% probability - that 'particularly frightened' the speaker: specifically, that the current crisis provokes a backlash against capitalism and a strong move in the direction of protectionism. Many people are already suggesting, he said, that 'capitalism has outlived its welcome'.

Prof. Walter remains bullish about prospects for the emerging nations of the world and believes Asia as a whole will continue to outperform other markets in terms of GDP. However, he warned in Düsseldorf that China is unlikely to return to the 11% growth rates achieved in recent years. Part of the reason for this, he continued, is that China has become 'a more mature place' with environmental responsibilities and labour availability issues. India, meanwhile, 'badly needs infrastructure' but 'slow bureaucracy stands in the way'.

Ruggero Allocci of Alocci Rapresentanze Ind. of Italy (left) and Rolf Willeke, General delegate of BIR's Ferrous Division.

Christian Rubach of Interseroh Hansa Recycling of Germany (left) who was elected to serve a further two-year term as BIR Ferrous Division President and Anthony P. Bird of the UK-based Bird group of companies.

Robust in longer term

Fellow guest speaker Dr Jost Massenberg, Member of the Executive Board at German steelmaker ThyssenKrupp Steel AG, acknowledged that the business climate is currently 'delicate' but added that, for his own company, 'the fourth quarter will be difficult but profitable'. The steel market is still 'robust' from the medium- and long-term perspective and production is still expected to climb some 4% this year to around 1.4 billion tonnes, he added.

Dr Massenberg underlined ThyssenKrupp Steel's intention to persist with its longer-term strategy, including expenditure of Euro 7 billion on new projects in South America, the USA and Europe. A Euro 4.5 billion slab facility in Brazil is scheduled to begin production before the end of 2009, he pointed out.

The speaker also dwelt on the difficulties encountered by ThyssenKrupp Steel in absorbing the recent high raw material costs. Compared to 56% in 2003/04, spending on raw materials accounted for 73% of the company's total hot-rolled coil production costs in 2007/08, he told delegates.□