<u>BIR anticipates greater scrap consumption, led by China</u> – Kallanish 30 May 2018

Global crude steel production in electric furnaces grew 8% on-year in 2017 to 445 million tonnes, with BOF-based output growing at only 2.3% to 1.23 billion tonnes. This is good news for scrap suppliers, according to the Bureau of International Recycling (BIR)'s statistics advisor Rolf Willeke. Global scrap use in 2017 is estimated to have been 600mt.

In China scrap use soared to 147.5mt in 2017 from 90.1mt in 2016, although this is because induction furnaces now closed by China were not included in official figures. These induction furnaces are estimated to have used 60mt in 2016, a tonnage that was instead consumed by EAFs and BOFs in 2017.

"The increase in China's official use for last year is in line with the government's plan for a general rise in steel scrap use in domestic steel production, and a result China's electric arc furnace production is expected to climb over the coming years and further investments in steel scrap processing are planned," Willeke said at this week's BIR convention in Barcelona attended by **Kallanish**.

The ratio of scrap use to crude steel production was highest in Turkey in 2017 at 80.8%, followed by the US with 72.1% and the EU with 55.5%. China's was 17.8%.

Global external steel scrap trade, including internal EU trade, rose 9.9% in 2017 to 99mt.

Turkey was the largest scrap importer last year with 20.98mt, up 18.4% on-year, followed by South Korea with 6.18mt, up 5.6%, and India with 5.37mt, down -15.9%. The US and Taiwan imported 4.64mt and 2.92mt respectively, up 20% and down -7.5%.

Turkey's main import sources were the US, with 3.8mt, up 16.5%, the UK with 3.18mt, up 22%, and Holland with 2.73mt, up 13.6%. South Korea imported 4.01mt from Japan, up 17.3%, 1.02mt from Russia, down -1.4%, and 521,000t from the US, down -45%.

The EU was the world's largest scrap exporter in 2017 with 20.06mt, up 12.9%, followed by the US with 15.02mt, up 17%, and Japan with 8.22mt, down -5.5%. These three regions are also the largest net scrap exporters in the same order.

The EU's main scrap export destinations were Turkey with 12.6mt, up 21.6%, Egypt with 1.39mt, up 54%, and Pakistan with 1.37mt, up 0.7%. The US's main destinations were Turkey with 3.63mt, up 14.6%, Mexico with 1.67mt, up 1.8%, and Taiwan with 1.42mt, up 3.9%.

Interestingly, Willeke, pointed out, China began scrap exports in March 2017, shipping 2.32mt between then and the end of the year. Indonesia (690,000t), Thailand and Vietnam (each 318,000t) were the main buyers.

Within the EU, the UK, Holland and Belgium were the largest scrap exporters in that order, with the main destination from each origin being Turkey. Germany, France and Holland were the largest importers in that order, with the main origins being Holland, Spain and Germany respectively.

Stainless steel seen entering US despite 232 tariffs – Kallanish 30 May 2018

Stainless steel is likely to find its way to the US, despite 232 tariffs, in the form of stainless-containing manufactured goods. This was a conclusion of the Bureau of International Recycling's stainless steel & special alloys panel at this week's BIR convention and exhibition in Barcelona.

"It probably does make its way to the US and other regions in finished goods," Olivier Masson, senior analyst at consultancy Roskill, said. "We see these exports in the form of coils, in the forms of bars, so they'll probably end up in the US as vehicle exhausts, washing machines, refrigerators, basically in finished goods."

Jason Schenker of Prestige Economics said US and EU economic performance is likely to weaken in the near term. "As we look to next year we see higher interest rates, we see some downside risks to growth, not necessarily catastrophically but because of trade risks and higher cost of capital; those things tend to weigh on growth a little bit, so next year may not be as pleasant as this year."

Tsingshan's prospective 300,000 tonnes/year stainless hot rolled coil joint venture in the US with ATI is seen having a strong argument to lobby for an exemption for Indonesia-origin slab imports into the US. Tsingshan's Indonesian plant produces nickel pig iron (NPI) from domestically-mined ore, produces ferrochrome from imported chrome ore, has its own power plant, and ferrochrome and NPI are hot charged into the furnace. The JV will say "… those are out costs, we're not dumping," Masson said at the meeting attended by **Kallanish**. "I don't know what the US can do."

Chinese stainless scrap usage is currently very low versus NPI, and that is not expected to change. If China does increase scrap use, it will come from the country's internal collection system, suggested Barry Hunter of Hunter Alloys.

Schenker highlighted the risk of 232 tariffs increasing costs for US stainless consumers. "If the cost becomes too much, you put the US manufacturers out of business and they made end up in Asia," he observed.

Chinese stainless HRC and cold rolled coil is levied with tariffs in the US, and Chinese stainless CRC in the EU, but these markets are not seen switching to semi-finished product imports instead. "I cannot imagine a large stainless producer in Europe thinking, 'actually let's give up our melting and hot rolling, let's buy slab from China,' I just can't see that happening," Masson said.

<u>Asian scrap seen range-bound, China unlikely scrap exporter</u> – Kallanish 29 May 2018

Asian scrap prices should remain range-bound in the near term barring any major changes in the Chinese market, while China is not expected to become a scrap exporter. This was the consensus among ferrous division board members at the Bureau of International Recycling (BIR) convention in Barcelona on Tuesday.

Year-to-date Taiwanese imports of US-origin scrap are at around 200,000 tonnes, down significantly on previous years, according to George Adams of US-based SA Recycling. Prices are seen range-bound throughout summer. “Although China could affect that if they start exporting a lot of billet; certainly, the prices of billet or the concern about billet has kept Taiwan (scrap) prices in check,” Adams said at the event attended by **Kallanish**.

South Korean demand has been soft and most of its scrap has been sourced from Japan so far this year. Some mills have taken downtime due to the low activity, Adams observed.

Chinese steel production rose in April at the end of winter production cuts. The country is pushing to install more EAFs and increase the scrap ratio in BOFs to 20% from 5%. It has recently installed 130 new shredders to consume more domestic scrap, taking its overall shredder numbers to 200. However, China is unlikely to ever export scrap on a large scale as most will be locally consumed, Adams said.

In Japan, scrap prices have remained in the $309-345/tonne range for the last six months, according to Hisatoshi Kojo of Japan’s Metz Corporation. This is due to stable steel demand stemming from construction projects related to the 2020 Tokyo Olympic Games.

Japanese H2 scrap prices recently rebounded to $318-322/t from $309/t. “But we cannot see any momentum to rise further because there are many uncertain factors in the market,” Kojo observed. “So I think the Japanese scrap market could be moving sideways for the time being unless there is a major change,” such as in the exchange rate, oil prices or the Chinese steel market.

Zain Nathani of India-based Nathani Group said the Indian subcontinent is expected to see substantially increased scrap imports this year versus 2017. Economic growth in India, Pakistan and Bangladesh is positive, but “… there’s no doubt there are some near-term headwinds,” he observed. “Recently, Indian and Pakistani scrap importers are facing certain issues due to currency devaluation against the US dollar; also we have the upcoming monsoon season.”

Once the banking sector is cleaned up following the reorganisation of various insolvent Indian steel mills, moreover, the scrap industry will benefit further, Nathani concluded.

<u>Chinese retaliation to 232 concerns scrap suppliers</u> – Kallanish 29 May 2018

Potential further Chinese retaliation to Section 232 tariffs is a big concern for ferrous scrap suppliers, according to Bureau of International Recycling (BIR) ferrous division president Tom Bird. Nevertheless, China is seen resuming from 4 June issuing certificates for scrap imports from the US.

Most regions are seeing good economic growth and therefore also steel and scrap demand, but the scrap industry has been challenged, according to Bird.

“Current trade disputes have put many recyclers in our industry in a precarious position, leading to trade flow disruptions and market uncertainty,” Bird said at Tuesday’s BIR convention in Barcelona attended by **Kallanish**. China retaliated to 232 by suspending certificates for US-origin scrap imports in May, leaving scrap suppliers scrambling to find new export markets. There has in recent days been a softening of approach, but this could change at any time, Bird stressed.

“There is still uncertainty as to the status of shipments and CCIC (China Inspection and Certification Group) inspection during this month’s suspension,” Bird continued. “The consequences of these trade disputes will have an enormous impact on our industry this year and this is a reminder of how trade is continuously challenging and market diversification in our industry is critical.”

A full-blown trade war between the US and China could result in $2.3 trillion of global trade being wiped out in 2021, Bird suggested. The EU would not be immune to this.

<u>Stuttering Turkish economy seen maintaining pressure on scrap</u> – Kallanish 29 May 2018

Turkey's precarious economic situation is likely to continue to suppress the country's scrap purchases and therefore maintain downward pressure on global scrap prices going into the summer. This was the consensus among ferrous division board members at the Bureau of International Recycling (BIR) convention in Barcelona on Tuesday.

Ferrous division president Tom Bird said that although steel demand is healthy across most regions, Turkey is "… the elephant in the room." He continued: "The ferrous scrap market should not forget the current economic situation in Turkey. Devaluation of the lira, issues on exports of finished steel and the general state of the Turkish economy are of concern… Turkey is the biggest market for our ferrous scrap, and a close eye should be kept on the situation."

George Adams of US-based SA Recycling said subdued Turkish demand is undermining the strong US domestic market. "[... Section] 232, I think, has the whole world in an uproar," he observed at the event attended by **Kallanish**. Although capacity utilisation in the US has risen above 75% and steel demand is healthy, he said, "… the uncertainty and the bulk markets not moving… with Turkey not being able to buy the scrap they are because they're not exporting the steel," means US scrap prices are set to fall $10-20/tonne in June.

"So therefore I think we'll continue to see the market soften a little bit as people try to figure out what's happening with 232," Adams concluded.

"Turkey is not doing well," said Frank Heukeshoven of Germany's TSR Recycling. After picking up in early March, scrap sales and prices into Turkey fell again in April. The main drivers of reduced prices have been weak Turkish domestic rebar sales and curtailed exports owing to Section 232. "At the end of Ramadan we could see some production stops depending on the sales possibilities of Turkish mills for finished products," Heukeshoven observed. "Overall, Turkey is in a very difficult economic situation."

Indonesia seen becoming major stainless supplier to West – Kallanish 28 May 2018

Indonesia could become a major stainless steel supplier to the US and Europe following the ramp up of the stainless steel plant there owned by China's Tsingshan Iron & Steel. This is according to Olivier Masson, senior analyst at consultancy Roskill.

Chinese stainless cold rolled coil exports have declined since 2014 due to trade barriers in the US and EU. In 2014 Chinese stainless CRC exports to these two regions combined reached 453,000 tonnes, while in 2017 they dropped to only 23,000t. China has offset most of this by exporting more to Africa, Canada, Mexico, Asia, the rest of Europe, Latin America, the Middle East, and the CIS.

Chinese stainless hot rolled coil exports, meanwhile, reached an all-time high of 1.9 million tonnes in 2017. Chinese exports are expected to sustain as shipments to the rest of Asia, a major market, have held up well. Moreover, stainless steel demand growth is forecast to be concentrated in regions that are strong Chinese export markets.

While China is blocked by tariffs, Indonesia's "… emergence on the stainless steel scene could have a profound effect on stainless steel trade flows going forward," Masson said at the BIR convention and exhibition in Barcelona on Monday. Indonesia has 2m tonnes/year of stainless melting and HR capacity, which is soon to be increased to 3m t/y.

"Tsingshan's new mill in Indonesia can supply slab and hot rolled to the EU duty-free for those who are prepared to take it, and for hot rolled there could be takers, slab probably not, that's far less certain," Masson observed at the event attended by **Kallanish**. "If cold rolled capacity were to be added in Indonesia, there would be takers in the EU."

Tsingshan also agreed to set up a 300,000 t/y stainless HRC joint venture in the US with ATI, but this was before Section 232 tariffs were imposed. ATI has now applied for a tariff exemption for Indonesia-origin slab imports.

Chinese apparent stainless steel consumption grew 7.8% in 2017, slowing from 12% growth in 2016, although that was from a weak base in 2015.

In the stainless-consuming sectors globally in 2017, the machinery and equipment sector market grew 6.7%, fabricated metal products grew 4%, motor vehicles rose 6.5%, and domestic appliances increased 6%. The weighted average growth rate in stainless consuming sectors was 4.2% in 2017. The growth has been mainly in emerging economies.

<u>New Indonesian stainless supply seen depressing scrap prices</u> – Kallanish 28 May 2018

The European stainless steel scrap market is likely to see significant price decreases in the coming months as regional mills struggle to compete on cost with increased Indonesian finished stainless steel supply. This is according to the Bureau of International Recycling (BIR)'s stainless steel & special alloys committee.

Nickel prices rose to a high of $15,790/tonne in April from $10,800/t last December, while molybdenum has ranged from $15,000/t to $26,000/t in that time. High carbon ferrochrome prices also rose significantly from the first quarter to the second, but are seen dropping in Q3.

Q1 was a period of good volumes and margins for most European stainless producers, but Q2 is proving to be more challenging due to the Indonesian supply and typical seasonal slowdown. The Indonesian situation is reminiscent of the introduction a couple of years ago of nickel pig iron (NPI), which gave mainly Chinese stainless producers a cost advantage and brought down scrap prices, BIR suggests. The EU ultimately protected its market against Chinese stainless product.

India, meanwhile, has been hit by banks' restrictions on credit guarantees for offshore transactions due to fraudulent activity. This has curtailed India's ability to import stainless scrap, thereby increasing mills' costs. This move has also devalued the rupee, further hampering the ability to import.

In Asia stainless scrap demand has diminished in Q2, as imports of stainless hot rolled coil and NPI from Indonesia have increased. "The situation has left pricing in a very tenuous situation that could rapidly deteriorate," BIR board member Rick Dobkin said at the BIR convention and exhibition in Barcelona on Monday. "Taiwan and South Korean purchases of spot cargoes have been very limited." Japanese mills are fairing better due to 2020 Olympics-related construction.

In the US, stainless product and scrap prices have been lifted by the 25% steel import tariffs, which include some stainless products, as well as restrictions on Oleg Deripaska's ownership of Norilsk Nickel. "Mills are busy and processors maintained relatively high prices to keep scrap flowing into their yards," Dobkin, also of US-based Shapiro Metals, said at the event attended by **Kallanish**. A stronger dollar may attract more scrap to US mills, he added.