

Ferrous

Steel production close to all-time high

While a primary focus at BIR Conventions is often the likely direction of scrap prices in the short term, plenty of information came forward at the latest gathering in Brussels to enable delegates to build a medium- and longer-term picture of the market. The scrap industry is benefiting from the fact that 2010 may well bring a new annual record in world raw steel production; furthermore, global steel consumption is expected to grow more than 13% in 2010 and a further 5.3% in 2011.

While there were regional differences of opinion as to whether the ferrous scrap market had actually bottomed by the time delegates gathered for the BIR Round-Table in Brussels, expert speakers were unanimous in their anticipation of price increases in the short term. Ferrous Division President Christian Rubach of TSR Group in Germany set the tone by noting a widespread improvement in demand for scrap in the weeks immediately prior to the world body's Autumn Convention - despite murmurings that steel production increases are expected to be 'quite low' over the coming months and that output growth may stagnate among the Western economies.

For his part, Blake Kelley of Sims Metal Management in the USA asserted that scrap prices 'are already off the bottom in many markets, including the USA, Spain, Turkey, India and South East Asia'. And he predicted: 'These changes will most likely cause some suppliers to offer less than they expect to generate and some consumers to buy more than they expect to melt.'

Buyers 'waited too long'

Mr Kelley went on to forecast that scrap prices and volumes will increase in the short term 'as long as steel production remains near current levels'. He based this prognosis on a combination of factors, including strong competition among processors for available raw material, the prospect of winter weather reducing supply in the CIS countries and North America, and the fact that many scrap buyers 'waited too long to purchase'. If output continues at its present rate through

to the end of the year, 2010 could well set a new annual peak for raw steel production. 'It will either be a new record or close,' ventured Mr Kelley. Based on an extrapolation of latest World Steel Association (WSA) data, the world will produce 201 million tonnes more raw steel in 2010 when compared to 2009, and will consume around 62 million tonnes more purchased scrap. Also on a positive note, the speaker pointed to recent WSA predictions of a 13.1% leap in global steel consumption this year and further 5.3% growth in 2011 to a total of around 1.34

billion tonnes. 'Conditions seem to support the probability of a new production record,' he said. 'Raw material consumption is directly related and therefore is also running at a record rate.' In terms of US market specifics, Mr Kelley confirmed that domestic prices had followed up a US\$ 30-40 per tonne decline in early October with increases of US\$ 25 by the time of the BIR Autumn Convention later in the month. Trade expectations are of 'additional gains for November', he told delegates.

Relatively strong outlook

Delivering the EU market report, EFR President Tom Bird of Van Dalen Recycling agreed that 'the general feeling is that the market has bottomed and that the outlook is relatively strong'. During the two weeks prior to the Convention, there had been evidence of suppliers 'holding back' in anticipation of higher prices. In addition to renewed buying interest out of Spain, latest indications suggested mills in Turkey were accepting prices 'at levels up on previous deals', he informed delegates.

While scrap prices in Japan had yet to show upward tendencies, Hisatoshi Kojo of Metz Corporation expressed the view that the market 'should soon touch the bottom'. A rebound was then anticipated owing to lower-than-normal material flows into most regions' yards and renewed purchasing from some South Korean and Chinese/Taiwanese mills which need to replenish their stocks.

Mr Rubach's report had also dwelt on events in Asia. He noted the intention of the Chinese



From left to right: Greg Schnitzer, Hans Hempel-Hansen, Ruggero Alocci and Tom Bird.



Ferrous Division President Christian Rubach.



Rainer Cosson of the German steel recycling association BDSV.





government to pursue consolidation of the domestic steel industry such that 65% of domestic production is in the hands of the country's leading 10 producers by the year 2015. The Beijing government's policy is to see 'at least two major Chinese steel producers - each one the size of ArcelorMittal'. And he added: 'Several analysts of the Chinese economy do not see the peak in Chinese steel demand until 2024. China's influence on our industry will remain ever-increasing, and countries like India, Brazil and others will follow.'

Huge production target

The ambitions of India's steel producers were duly outlined by Ikbali Nathani of the Nathani Group of Companies. The country is on course to produce 65 million tonnes of crude steel in the current year, building to as much as 110 million tonnes in the next two years. However, both these totals pale against the production target for the year 2020 - namely, 200 million tonnes. India's imports of shredded/HMS scrap are expected to rise from 3.94 million tonnes in 2008/09 to 4.75 million tonnes in 2009/10 but, looking ahead, will not increase in the same proportion as steel production, Mr Nathani observed. India is the largest sponge iron producer in the world at around 23 million tonnes per annum, and this provides a ready alternative to scrap, he explained.

The speaker concluded his presentation by confirming that recycling industry representatives are striving to convince India's Directorate General of Foreign Trade to accept self-certification for certain suppliers rather than the system of pre-shipment inspection certification which has become open to abuse. The former approach should be adopted for 'large, reputable, international ISO-certified scrap processors and yards that have the set-up and facilities for such self-certification', Mr Nathani contended.

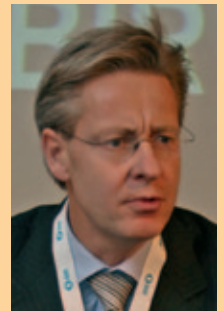
Competition among mills

In Russia, high prices and 'timely payments' for delivered scrap will result in collection growth - but to nowhere near the levels of 2007, according to Andrey Moiseenko of PG Mair. Domestic collection volumes are expected to recover from 17 million tonnes in 2009 to around 21 million tonnes this year - still well shy of the 30 million tonnes or thereabouts amassed each year in the 2005-2007 period. He added: 'Low levels of winter stocks at the steel mills as well as low collection levels have led to a scrap shortage and, as a result, to tight competition between steel mills for scrap supplies.'

Scrap collection volumes in the Ukraine returned to pre-crisis levels earlier this year but extremely hot summer weather and a massive tax audit conducted by the state authorities will probably limit the annual collection figure to 6.5-6.7 million tonnes, according to Mr Moiseenko. Serious issues confronting the country's scrap market include VAT fraud and limits on purchasing scrap from private individuals, he added. □

Economic prospects and projections

The US dollar/Euro exchange rate appears set to stabilise in the 1.35 to 1.40 range over the near term before averaging 1.35 in 2011, according to the Ferrous Round-Table's guest speaker Stefan Schilbe, Director and Chief Economist at HSBC Trinkaus und Burkhardt AG in Germany.



Stefan Schilbe, Director and Chief Economist at HSBC Trinkaus und Burkhardt AG in Germany.

In his analysis of three of the world's leading economies, he suggested the US Federal Reserve will 'do anything' to stave off its 'biggest fear', namely deflation. In America currently, many small companies remain pessimistic and therefore cautious in their outlook, while an 'extremely weak' labour market will continue to undermine consumption.

In the Euro-zone, meanwhile, the mounting economic strength seen in Germany and in a number of other northern European countries is in stark contrast to the weakness still afflicting parts of southern Europe, noted Mr Schilbe. High unemployment rates in the likes of Spain, Ireland, Italy and France 'will be a burden for private consumption'. Inflation in the region appears set to remain low, with the result that the European Central Bank is unlikely to raise interest rates too much next year.

Mr Schilbe predicted a GDP growth average of 1.5% for the Euro-zone next year. For China, however, he issued a growth forecast of around 9-10% and anticipated a gradual strengthening of its domestic currency.



Andrey Moiseenko of PG Mair in Russia.



Zain Nathani of the Nathani Group of companies was elected to the Board of the Ferrous Division.



Blake Kelley of Sims Metal Management in the USA.



Jerry Simms of US-based Atlas Metal & Iron Corp.

