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China ferrous scrap consumption rises sharply in 2018

Published date: 24 May 2019

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China's ferrous scrap consumption rose by 27pc in 2018, driven primarily by higher scrap utilisation rates in basic oxygen furnaces, the Bureau of International Recycling (BIR) said this week.

Chinese consumption of ferrous scrap totalled 187.8mn t last year, up from 147.9mn t in 2017. Speaking at the BIR conference in Singapore this week, BIR statistics advisor Rolf Willeke said Chinese basic oxygen furnace (BOF) steel mills have actively increased their scrap input to meet higher pollutant emissions standards introduced by the central government.

BIR said the Chinese BOF steel/scrap crude steel ratio has risen to around 25-30pc. This is in line with the 25pc average ratio in the second and third quarters of 2018 but represents a rebound from December, when the average Chinese BOF scrap ratio [fell to 13 pc](#), according to an *Argus* survey.

The recovery is likely to have been partially driven by a steady rise in Chinese imported iron ore prices since the start of this year. The *Argus* ICX price for 62pc Fe cfr China iron ore has increased by 43pc from 31 December to \$103.80/t today.

China's higher ferrous scrap consumption in 2018 was also driven by an increase in electric arc furnace (EAF) capacity, which more than doubled to 120.7mn t from 54mn t in 2017, according to industry association World Steel.

This extra EAF capacity has not yet translated to an equivalent increase in scrap consumption on top of the higher BOF utilisations because China's EAF mills are still the country's marginal cost producers, with production costs an estimated 400-800 yuan (\$58-116/t) higher than BOF mills.

Consequently, EAF mills are prone to sharp drops in capacity utilisation whenever margins come under pressure, underlined by a swing from above 70pc in October-November last year to less than 40pc in January and sub-15pc during the lunar new year holiday.

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