

China's steel scrap exports seen as short-lived

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Hong Kong, 24 May (Argus) — China's recent spate of steel scrap exports are being seen as a temporary destocking by induction furnaces that will shut down operations over the next few months.

China's blast furnace-based mills are expected to absorb any surplus scrap stocks once stocks have fallen low enough.

"I do not think scrap exports from China will last as there is still a lot of growth potential for additional scrap to be melted inside China," the head of global trade for US-based scrap supplier Sims Metal Management William Schmiedel said at the Bureau of International Recycling (BIR) conference in Hong Kong.

Beijing has resolved to shut down 110mn t/yr of scrap-fed induction furnaces by the end of June but Schmiedel said the actual production by induction furnaces marked for shut down could be much lower. "I do not think anyone is quite sure what the production figure is for induction furnaces. I have heard 40mn t, 80mn t, 20mn t. I am not sure anybody really knows. A lot were not registered they did not have permits so it is really difficult to say," said Schmiedel.

Chinese exporters have over the past few months made limited sales of scrap bulk cargoes into India, Japan, South Korea and Taiwan, with offered prices much lower than market prices, said Liberty Steel president Tom Bird. It remains to be seen whether the exports are a continuing trend, but there is general consensus they will not last and prices would bounce back to normal levels.

Ferrous scrap prices have fallen for the past two months as Chinese material has entered the market, said a Japanese scrap trader.

"We have talked many times about ferrous scrap exports coming from China one day, and we all hoped it would not be in our lifetime," said Idoru Trading president Nathan Fruchter, although he too does not expect scrap exports from China to last beyond a few months.

Some ferrous market participants at the conference said Chinese exports will not affect regional trade in the US and Europe, although others see the emergence of scrap exports from China as a major threat to traditional trade flows because it could overwhelm demand and undercut prices.

China imposes a 40pc export tax on steel scrap to deter exports, but participants said it is possible exporters are avoiding the tax. "These are black market sales," said the executive of a Chinese equipment supplier. Exporters could be misidentifying shipments to customs to avoid pay duty the tax, just as China's billet exports are sometimes mislabelled as square bar to avoid an export tax.

China's billet exports can also displace scrap exports if priced low enough to be more economic for Turkish mills, as it last did in 2015.

Domestic use remains wildcard

There is disagreement on how much ferrous scrap China consumes and how much capacity is being shuttered. Official data put consumption at 90mn t in 2016, but conference participants challenged those figures as understated.

Schmiedel conceded the actual figures are much higher. Blast oxygen furnaces alone possibly consume around 80mn t in China, while electric arc furnaces consume another 50mn t/yr of scrap.

Chinese mills are increasing use of scrap to take advantage of the lower cost of low-grade scrap material freed up by the shutdown of induction furnaces, said an east China-based equipment supplier. Steel mills are pushing for discounts for scrap with less than 3mm thickness, squeezing margins for suppliers of lower quality scrap in China, he said. Enquiries from mills have increased for equipment to briquette scrap for adding it to the blast oxygen furnace, he said.

Blast furnace-based mills pour the hot metal produced in the blast furnace on to the basic oxygen furnace (BOF), which uses steel scrap in a ratio of around 10-30pc as a coolant.

China is not closing down its entire scrap-based steelmaking capacity. Scrap could be used in induction furnaces by special steel, stainless steel and casting products manufacturers. Electric arc furnaces, which have around 80mn t/yr capacity in China, are also allowed to keep functioning.

But the larger size, unshredded scrap used by induction furnaces are too large to be used by electric arc furnaces in operation at present. Induction furnaces are willing to pay the 40pc export tax to dispose of their scrap stocks and generate some cash.

Chinese mill buyers and traders echo the view at the conference that blast furnace-based mills are increasing use of scrap. Increased environmental monitoring in China's Anshan province has led mills to increase the scrap charge in BOF to 13-14pc using mostly higher-quality scrap grades, said a Beijing-based trader.

The scrap ratio for several Chinese mills has increased to 13-18pc on average from 6-8pc range a few months back, said a Singapore-based trader. Chinese mills used around 10pc scrap charge in the BOF last year, while the Chinese government has a target of raising that to 15pc by 2020 to reduce pollution. Mills are unlikely to increase the scrap charge beyond 20pc to maintain product quality, said the trader.

The cost advantages of scrap relative to iron ore will emerge gradually to increase scrap's share as a feedstock in China, said Shanghai futures exchange senior manager Ye Chen. The exchange is examining a steel scrap futures contract that would have physical delivery settlement, in contrast to the LME scrap contract that is cash settled. One tonne of scrap in the blast oxygen furnace means 1.7t less of iron ore and 0.4t less coking coal is required to make steel, he said.

If the shutdown of induction furnaces increases scrap use by 10pc it would reduce iron ore demand by 16pc and weigh on iron ore prices, said a Beijing-based trader.

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The increased use of scrap will lift demand for lower-grade iron ore fines but will cut demand for high-grade Mac, Newman and PB fines, said a Hong Kong-based trader.

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