Ferrous market defies

With finished steel prices showing further signs of upward momentum, experts at the BIR Ferrous Division meeting in Beijing were generally upbeat about near-term prospects for both the steel and scrap sectors. The meeting also learned that India had followed the lead of China by introducing a registration system for overseas suppliers of ferrous scrap.

Ferrous Division President Colin Iles of UK-based European Metal Recycling (left) and Anthony Bird of the UK's Bird Group of companies.

From left: Ikbal Nathani of the Indian Nathani Group of Companies, Jens Hempel-Hansen of H.J. Hansen Holding, Denmark, and General Delegate Rolf Willeke of the German steel recycling association BDSV.

Jeremy Sutcliffe of the Australian Sims Group (left) and Denis Ilatovskiy of Russia's Mair Joint Stock Company.

Guest speaker Peter Hickson, Managing Director of UBS Investment Bank in the UK.

With steel remaining 'cheap relative to its basic material peers', there were sound reasons for expecting steel and scrap prices to continue at elevated levels, the BIR Ferrous Division meeting in Beijing was assured by guest speaker Peter Hickson, Managing Director of UBS Investment Bank in the UK. His view was supported by

Ferrous Division President Colin Iles of UK-based European Metal Recycling (EMR) who contended that scrap prices - as well as those for pig iron and HBI - 'should be firm for the next few months at least'.

According to Mr Hickson, three factors would underpin 'a great period of growth' for recycling: high energy costs; gathering support for environmental issues around the globe; and a 'systemic shortage' of raw materials. Having pointed to a strong correlation between the price of crude oil and those of steel and other commodities, he argued that a continuing rising trend in oil prices would be 'a relatively important indicator of where scrap prices may go'.

Difficult to predict

Also of importance is demand from the Chinese market. 'All of our ultimate destinies really depend on (steel) consumption growth in China', said Mr Hickson, before acknowledging that this trend was 'very difficult to predict'. The Asian giant had been recording steel consumption growth of around 20% per annum whereas increases of 13% and 10% were envisaged for 2006 and 2007 respectively.

China's steel production had risen by 24% year-on-year in 2005 and by a further 19% in the first quarter of 2006. In recent months, the country had once again become a net exporter of steel - a fact that could lead to some softness in scrap prices during the second half of this year, commented Mr Hickson. Longer term, China's steel production would be constrained by the supply of raw materials - including scrap, he added.

For the next months, it is expected that scrap prices in Europe will remain firm.

The guest speaker went on to estimate that around 25% of China's steel industry was 'not economical'. If the government succeeded in balancing its steel output with domestic consumption, this would be 'good news' for the world steel and scrap industries. If not, the result would be market volatility.

Change in sentiment

In his market review covering Europe, the USA and the Asia Pacific region, Mr Iles confirmed that current conditions had comfortably exceeded the expectations of late 2005. 'People expected steel

the gloomy forecasts

By Ian Martin

exports from China to flood Asia and other Western markets, causing a further downturn in prices,' he recalled. Instead, Chinese domestic steel prices had stabilised and prices for flat-rolled steel had begun to improve throughout the Asia Pacific region. All of a sudden, 'sentiment changed' and 'conditions for the world steel and ferrous scrap industry dramatically improved'.

During the first quarter of this year, scrap imports into China and South Korea were, respectively, 27% and 16.7% lower than in the corresponding period of 2005. But in other major consuming areas of the world, said Mr Iles, 'increased scrap consumption is evident and appears sustainable for the immediate future'. Tight scrap supply conditions were likely to continue 'until buyers are satisfied with their inventory and on-order levels'.

Squeezed margins

Divisional Vice-President Denis Ilatovskiy of Russia's Mair Joint Stock Company acknowledged the upturn in world steel production but warned against excessive optimism given that most of the additional capacity in China was reliant on pig iron rather than scrap.

Having noted the proposed link-up between Arcelor and Severstal of Russia, Mr Ilatovskiy suggested that on-going steel industry consolidation would probably result in traders' margins becoming squeezed even harder. There was now concern that another of Russia's leading steelmakers would merge with Mittal.

Mr Ilatovskiy went on to explain that low start-up costs and the prospect of high profits had lured large numbers of new entrants into the scrap market in the two years to 2005. Many had since ceased operations because of a lack market growth and because 'inflation and fiscal pressure are taking away the easy money'.

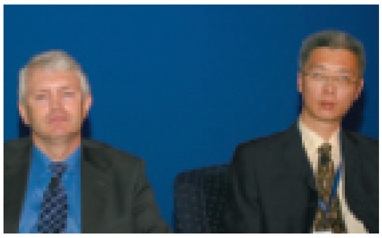
Unusually cold winter conditions and price levels had not been responsible for the 20% drop in Russia's scrap collection volumes during 2006, according to Mr Ilatovskiy. Instead, the downturn had resulted from: the trend towards keeping lower stocks; an end to easily obtainable and cheap scrap; and 'zero profit' for most operators due to strong competition. 'Now the question is not how many yards or shredders a company has, but how efficiently you can manage them,' he observed. 'The game is now for each US$ 2 or 3 per tonne.'

Registration system in India

Ikbal Nathani of the Nathani Group of Companies confirmed that the Indian government was introducing a registration system for overseas suppliers of all grades of ferrous scrap. Similar to the AQSIQ scheme adopted in China, India's system was a response to the accidents and loss of life caused by explosive materials in imported heavy melting scrap - notably from war zones in the Middle East and Africa, the speaker explained. More than 1000 companies had already sought registration although applications would take several months to process, he added.

In a subsequent panel discussion chaired by Ferrous Division Honorary President Anthony Bird of the UK's Bird Group of Companies, Mr Hickson argued that India would exceed its aim of producing 100 million tonnes of steel per annum by the year 2020, although other panellists believed this target would be difficult to achieve. Editor of CRU Hong Kong John Johnson and Chief-Editor of China Metals Xiao-Ming Lu both suggested China would ultimately follow the lead of others in accepting a 19% increase in iron ore prices for this year. □

Ruggero Alocci of Alocci Rappresentanze of Italy (left) and Christian Rubach of Interseroh in Germany.



John Johnson (left), Hong Kong based Editor of industrial analyst group CRU and Xiao-Ming Lu, Editor in Chief of the Chinese magazine China Metals, participated in the Ferrous Division's round table discussion.

'Shredder mania' becomes contagious

At least 26 shredders had come on stream since BIR's 2005 Autumn Convention in Milan, according to Jim Schwartz of US-based Metso Texas Shredder.

Some 16 of these new machines had been unveiled in North America, eight in Europe and two in Latin America. Eleven were of 6000 HP or higher and were therefore designated mega-shredders, with the largest weighing in at 9000 HP. 'It seems as though there is a bit of shredder mania going on in the world,' Mr Schwartz declared.

Having updated his estimate of world shredded scrap output to more than 100 million tonnes per annum, Mr Schwartz pointed to a small but growing trend in the USA towards adopting gamma ray technology to detect copper in shredded scrap. The technology had already been built into at least six plants.

The meeting learned that China's shredder population might shortly increase from five to six. BIR Shredder Committee Chairman Jens Hempel-Hansen of H.J. Hansen Recycling Industry, Denmark, suggested a 'boom' in Chinese shredder installations was unlikely given the country's low labour costs and the efficiency of its scrap processing operations using relatively simple equipment. However, he was confident of strong Chinese demand for shredded scrap.

Jim Schwartz of Metso Texas Shredder, San Antonio, Texas, USA.