BIR CONVENTION - Scrap industry moves further away from long-term contracts - delegates

By Perrine Faye, perrine.faye@fastmarkets.com +44(0)20 7929 6339

Singapore 24/05/2011 - The scrap industry is moving further away from long-term contracts as consumers favour spot business, amid high metal price volatility and tighter finances, delegates at the BIR convention said on Tuesday.

"The domestic scrap market is struggling to align itself to the LME's daily volatility, such that buyers/suppliers are opting only for spot trading and conservative volumes," Dhawal Shah of Metco Marketing in India said.

"Consumers' order books remain in good shape but [they] remain extremely wary of being caught on the wrong side of the market when purchasing or selling," he added.

Copper has fallen sharply from the start of the year - it hit February all-time highs of $10,190 per tonne. Today it was trading around $8,890, having touched five-month lows near $8,500 earlier this month. Nickel dropped to six-month lows of $22,203 today at one stage.

"In the scrap market the recent strong commodities correction has led to works trying to limit their stock exposure by adopting 'hand-to-mouth' buying practices and to cautious or selective selling of already limited materials by suppliers," Anton van Genuchten of Reukema in The Netherlands said here.

Scrap consumers like steel mills, smelters and refineries used to book material on an annual basis, but they have moved to shorter-term contracts in the past two years, largely as a result of the global financial crisis.

"Consumers used to order on a long-term basis but with the financial crisis people are now buying pretty much 'hand-to-mouth'," Michael Wright, Chief Operating Officer at UK-based ELG Haniel, told FastMarkets.

"The mills are nervous to carry huge stocks - they don't want to finance unused inventories," he said, adding that spot enquiries made it difficult for scrap producers to plan ahead.
"The scrap industry has to get used to shorter-term ordering," he noted.

(Editing by Martin Hayes)