Scrap eyes demand pickup from coking coal rise

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AMSTERDAM — High coking coal prices and supply limitations are expected to boost integrated steelmakers' demand for ferrous scrap globally over the next 90 days, Bureau of International Recycling (BIR) ferrous division president William Schmiedel said at the 2016 World Recycling Convention in Amsterdam Oct. 25.

“One of the latest (coking coal transactions) reached over $250 (per tonne), which in theory will raise the cost of blast furnace iron by between $80 to $90 per tonne—at least according to those who like to make those calculations,” according to Schmiedel, who is also president of Sims Group Global Trade Corp.
While ferrous scrap exporters look to electric-arc furnace steelmakers for indications of product value, he noted that it is important to remember that integrated mills account for more than 70 percent of global steel production.

“In addition, the demand and supply of ferrous scrap is as close to even as I can remember for a long, long time,” Schmiedel said. “This indicates that any measurable increase in demand will have a very positive effect on pricing.”

The coking coal shortage stems from steel and iron ore production capacity cutbacks implemented by the Chinese government this year as part of efforts to stabilize global steel prices. However, capacity reductions in the steel sector vs. the mining sector yield different results due to the fundamental nature of the two sectors, according to guest speaker Curtis Zhu, principal analyst of iron ore and steel markets at London-based research firm Wood Mackenzie Pty. Ltd.

“It was a simple miscalculation,” he said, noting that the rise in coking coal prices was unintentional, caused by a 10- to 15-percent drop in Chinese domestic coal supply in tandem with an increase in Chinese steel production.

Coking coal prices have surged over the past month, with *AMM* sister publication *Metal Bulletin*'s latest assessment for premium hard coking coal index at $248.17 per tonne c.f.r. Jingtang Oct. 25, up 27.8 percent from $194.17 per tonne Sept. 26; and $247.49 per tonne f.o.b. Australia, up 23.4 percent from $200.53 per tonne in the same comparison.

China’s central government will likely ease up on coal mine production restrictions after realizing the problems resulting from the supply shortage, Zhu said, adding that because it will take time to restart idled mines rationalization of coking coal supplies is unlikely to occur this year.

George Adams, BIR ferrous board member and president of Orange, Calif.-based scrap exporter SA Recycling LLC, believes the high coking coal prices place a limit on the downside for domestic ferrous scrap tags in the United States.

“It seems like (coking coal price) has put a floor under (scrap prices), and so even though the utilization in the U.S. has fallen below 70 percent ... I think the export prices (in terms of the recent rebound) are going to put a floor on the U.S., so I don’t think we will see the drop that we probably would have seen in November,” he said.

Scrap flows have again been impacted by declining prices, Adams added. “We are coming into the winter time now, which always tends to slow down in collections, plus these low prices have really knocked the heck out of it (flows) ... so there is not a chance now that scrap (prices) will go down in November.”

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