Steel and scrap mark

A parade of the Queen's Life Guards

China may have attempted to slow its economy during the course of this year, but its actions have not halted the flow of global steel production or of ferrous scrap demand. Speakers at BIR's joint Ferrous Division and Shredder Committee Round-Table in London confirmed that prices were firm and could rise even higher in the coming months.

By Alfred Nijkerk

From left to right: General Delegate Rolf Willeke of Germany, Ferrous Division President Robert Philip of US-based Hugo Neu Schnitzer, and Denis Ilatovskiy of Mair Joint Stock Co., Russia.

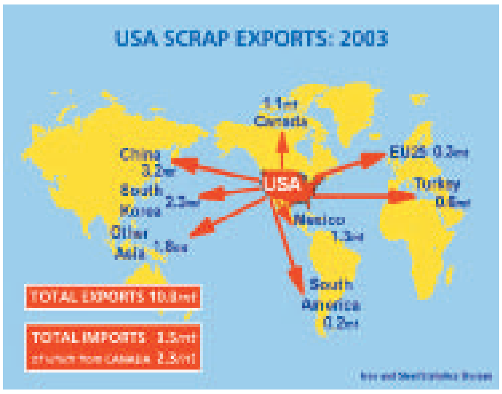
Ikbal Nathani of the India-based Nathani Group of Companies (left) and Gideon Overwater of HKS Metals in The Netherlands

In his report to the BIR Ferrous Division and Shredder Committee Round-Table, divisional President Robert Philip of US-based Hugo Neu Schnitzer said that prices in his domestic market were stable to rising in response to continued domestic demand for all prime grades of scrap. The potential for extreme price volatility, however, remained high.

'When China tapped its economic brakes mid-year, continuing export market strength for US scrap to other markets came into play,' Mr Philip observed. US steel mills were continuing to run at utilisation rates of around 90% and, notwithstanding scrap surcharges, were selling nearly everything they produced. While some producers had urged restrictions on US scrap exports earlier this year as a means of curbing internal cost increases, mills had been able to pass along these higher prices to their customers.

However, the speaker saw no relief from high freight costs thanks to the continuing dynamism of the Chinese and other economies, as well as to the dearth of available vessels. Other factors in the marketplace included mounting congestion in numerous ports, and increased demand for, and consumption of, coal in the face of crude oil price increases.

In conclusion, Mr Philip anticipated that sales would be completed over the next three months at the same or even higher price levels.



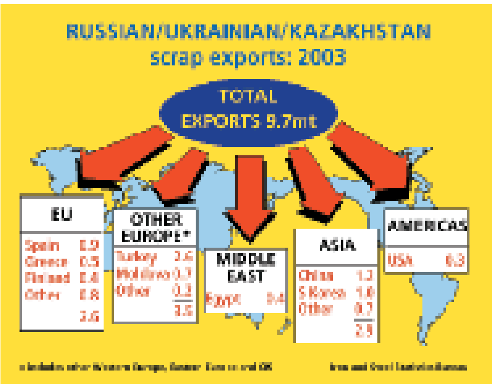
Solid investment growth

John Neu, also of Hugo Neu Schnitzer, foresaw solid growth in world capital investment as well as consumer spending in the first half of 2005. He anticipated double-digit increases at the US automotive bundle auctions for November shipment, thereby illustrating the demand for prompt, low-residual cold metallics.

ets maintain their momentum

In the report on the EU steel and scrap market presented by Gideon Overwater of HKS Metals in The Netherlands, it was noted that raw steel production across all 25 member states had increased by 4.3% to 97.7 million tonnes during the first half of 2004. Poland registered the largest increase with output jumping a spectacular 21.5% to 5.4 million tonnes. Slovakia was the only member state to witness a decline in output. EU scrap consumption in the first half of 2004 was around 53 million tonnes, which corresponded to a recycling rate of 54%. The EU scrap export surplus in the first half of 2004 amounted to 1.8 million tonnes.

According to Mr Overwater, consumer demand for quality scrap was strong but difficult to meet. In the first half of 2004, Russia was the largest single supplier on 1.54 million tonnes while the main buyers of EU scrap were Turkey (1.62m tonnes), followed by the USA (770 000 tonnes) and Malaysia (580 000 tonnes). India took 370 000 tonnes and China only 190 000 tonnes.



Prices had also been on a rising trend with German automobile bundles yielding no less than € 306 (US$ 395) per tonne delivered mill in September. In October, EU scrap prices rose by a further € 10-20 per tonne depending on quality and region.

Significant rise in collection

In his report on the Russian steel scrap market, Denis Ilatovskiy of Mair Joint Stock Co. noted that domestic scrap collection in the first nine months of this year reached 20.2 million tonnes, a significant 28% more than in the same period last year. A total of 27 million tonnes was expected for the whole year. Mr Ilatovskiy attributed this large growth mainly to the rise in world scrap prices. Annual Russian demand was around 16 million tonnes, or roughly half of domestic arisings.

Exports grew by 70% over the same nine-month period to total 9.2 million tonnes: 3.3 million tonnes was exported via Black and Azov Sea ports; 2.9 million tonnes through Baltic Sea ports; and 1.1 million tonnes through Far East ports. Mr Ilatovskiy was anticipating an export total of 12 million tonnes for 2004 as a whole.

In August, the domestic price for steel scrap had risen to the equivalent of US$ 185-190 per tonne delivered, inclusive of VAT, but in September these prices declined by some US$ 10 per tonne and had

China to continue to rely on steel imports

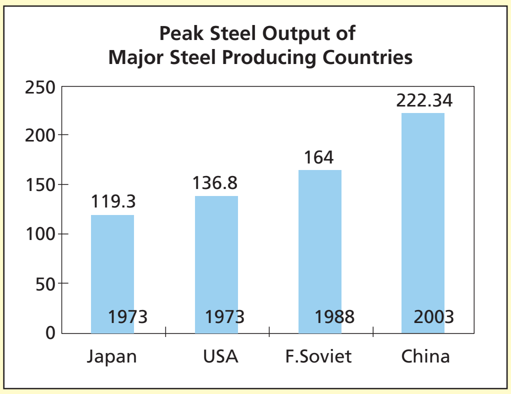
Zunqing Yang, Deputy Secretary General of the China Iron and Steel Association, pointed to the continuing gap – 24 million tonnes in 2003 – between Chinese steel production (24 million tonnes in 2003) and consumption (27 million tonnes), which would require the country to maintain its strong steel imports. These imports had increased from around 12 million tonnes in 1998 to 37 million tonnes last year, the majority coming from Japan followed by Taiwan, Korea and Russia. The EU was sixth on this list and the USA tenth. Chinese steel exports had increased by 67% to 8.6 million tonnes and had arrived mainly in the form of slabs and billets.

For the whole of 2004, Mr Yang predicted domestic crude steel production of 260 million tonnes (+17% compared to 2003), pig iron production of 240 million tonnes (+18.6%) and an apparent consumption of 276 million tonnes of steel (+13%).

Imports of iron ore in the first nine months of 2004 had increased 36.6% to 151 million tonnes; hence 50% of liquid steel had been produced by using imported iron ore. Coal production had amounted to 1.3 billion tonnes, Mr Yang remarked, while electricity generation had risen by 14.5%, rail capacity by 9% and port handling capacity by 20%.

In conclusion, Mr Yang observed that China's steel industry would maintain its momentum for many years to come and that the country's steel industry would develop on a healthier and more stable basis, which means that many of the smaller steel producers are likely to disappear in the future.

Zunqing Yang, Deputy Secretary General of the China Iron and Steel Association.



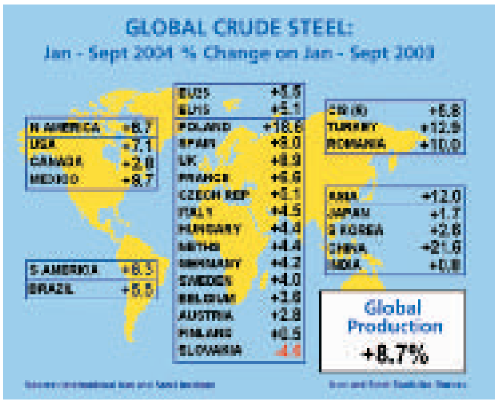
remained at the same level in October. Export prices dropped US$ 30 a tonne in September but returned to their August levels the following month.

China the catalyst

Jeremy Sutcliffe, CEO of the Australia-based Sims Group, submitted a report on the Pacific Rim scrap markets. 'China had been the catalyst for the extraordinary increase in price levels in early 2004 but then suddenly went quiet,' he noted. 'This has been attributed to a government curb on lending, electrical power shortages which curbed steel production and healthy domestic arisings.'

When scrap prices fell to a low of around US$ 200 per tonne in the summer, mills predictably returned to the market. Once China had apparently resumed its buying activities, this led to a frenzied period of purchasing by other consumers who were short of material and had misjudged the market on the way down. Prices quickly recovered to US$ 300 per tonne. China's imports of ferrous scrap in the January-August period were around 7.2 million tonnes, representing an increase of 28% over the corresponding period last year.

According to Mr Sutcliffe, global steel production rose by 8.7% in the first nine months of this year but by 21% in China. The country's iron ore imports had already exceeded 130 million tonnes in 2004 while export prices of metallurgical coke from China had fallen to around US$ 300 per tonne from levels in excess of US$ 400 during the early part of 2004. The global shortage of HBI (hot briquetted iron) had pushed prices above US$ 400 per tonne. As a consequence, an increase in demand for pig iron had prompted the price gap between pig iron and ferrous scrap to widen to over US$ 50 per tonne. Noting that prices for pig iron were around US$ 330 per tonne fob, Mr Sutcliffe said he expected scrap prices to remain at high levels in the near term unless there was a dramatic shift in the fundamentals. □



From left: Guest speaker Steve Mackrell of the London-based Iron and Steel Statistics Bureau, Jeremy Sutcliffe, CEO of the Australia-based Sims Group and Anthony Bird of the Bird Group of Companies in the UK.

From left: John Neu of Hugo Neu Schnitzer, USA, Jens Hempel Hansen of H.J. Hansen, Denmark and Ruggero Alocci of Alocci Representanze Industriali, Italy.