



## Ferrous Metals

June 2010

### The Ferrous Industry – utmost challenging and far from boring!



*Dear friends and colleagues,  
I would like to briefly address some aspects which came into my mind when preparing today's Ferrous Mirror.*

*Apparent steel demand is forecast to grow by nearly 11% globally this year and by some 5-6 % next year. This sounds good, although even in 2011, countries of the NAFTA region, Europe and Japan will only reach apparent steel consumption volumes equivalent to those decades ago. This means that the financial crisis has thrown these countries back by between 14 and 28 years!! Taking these figures into account and looking at actual capacity utilization rates of 75-85%, there seems to be no rational incentive to increase steelmaking capacities in these countries. Projects under construction are already burden enough and an overcapacity problem raises again its ugly head in these countries.*

*The consequences are that in the future an even bigger share of world steel production will come from the developing countries, with China as the front-runner. More than ever, we will be depending on what is happening in China.*

*Then I would like to address the exploding ore prices and the current Euro devaluation versus the US Dollar and Yen.*

*Most steel producers in the industrialized western world fear that their crisis is still on-going: on the one hand good apparent steel demand, on the other hand they know that approximately 30% of steel demand is coming from steel traders and not from producers of steel goods.*

*This situation is not very comfortable for the steel mills as there are increasing doubts as to whether they can pass on increased material prices to the steel-consuming industries.*

*Iron ore prices have more than doubled since last year. The devaluation of the Euro will mean even higher raw material import prices for the European steel mills. On the other hands, European exports will be supported by this exchange rate change and US\$ and Yen- exports will suffer. I would therefore not be surprised, if Europe replaced the USA as the world's biggest net exporter of scrap.*

*Last but not least, I would like to comment on future volatility of scrap prices. Looking at apparent steel consumption in the industrialized western world versus REAL steel consumption, it seems to me that inventory effects within the steel industry and among its downstream consumers are playing a more dominant role in today's production figures rather than the increase in REAL CONSUMPTION.*

*If this interpretation is correct, scrap prices will be much more vulnerable to strong volatility than if we were in a real boom period for the steel-consuming industries. Also, the change in the iron ore pricing system from annual to quarterly fixings will create further volatility.*

*The ever-increasing role of China in world steel production, the raw material situation worldwide, the turbulence on the foreign exchange, new scrap export and import flows – all these factors will create a future for all of us in the ferrous scrap industry that is utmost challenging and far from boring. Good luck!*

**Christian Rubach**  
Interseroh Hansa Recycling  
**President of the BIR Ferrous Division**

## US and Pacific Rim markets

by **William Schmiedel**, Board Member of the BIR Ferrous Division  
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### USA

Domestic scrap prices at the beginning of May dropped by as much as \$50/GT, but soon bottomed and bounced up by about \$25-\$30/GT. The market generally settled by the 2<sup>nd</sup> week of May with Prime Grades at \$470/GT, Shredded at \$370/GT, and HMS at \$345/GT delivered to the consumer. The latest AMM composite price was \$341.50/GTD. Trade opinion last week expected June prices to increase modestly, in fact early buys showed increases of about \$20/GT. Trade optimism was based on strong domestic demand for raw materials and solid order books, however it now appears that increased domestic shipments from normal exporters will satisfy this requirement, but at lower prices than in May.

Pig Iron was purchased a few weeks ago at \$507 C&F FO New Orleans although current expectations may be closer

to \$470. The cost to produce Pig Iron in Brazil is around \$460, which is higher than the current FOBST market price forcing producers to operate at about 50% of capacity. Conditions are similar for HBI from Venezuela where production is being reduced by market factors including reduced availability of electricity and iron ore and by government edict. As a result, availability of these important iron alternatives is expected to continue at lower levels, thereby putting upward pressure on Prime scrap prices.

Steel prices in the USA have generally been steady to increasing, although HRC prices have begun to weaken with latest price around \$770 ex works. Mills operated at 73.9% of capacity in week ended May 22<sup>nd</sup>. Demand for steel for automotive and oil country applications has been very strong while demand for construction steels has been suppressed for some time, but with present order book increases the outlook is brighter. Plate mills also report that their order books are full for the next 60 days.

Nonetheless, firm steel prices in the USA have been enabled by higher world prices resulting in reduced imports, but steel import levels have begun to increase. The outlook for the summer, while not necessarily bullish, is optimistic as we anticipate consistent demand.

### Pacific Rim

In China, concerns that government will restrict residential construction and economic growth are keeping scrap buyers cautious. There have been reports of numerous bulk scrap purchases made at \$420 for Shredded. Notwithstanding economic concerns and falling scrap prices, iron ore imports continue at near record rates and raw steel production in April set a new record at 55.4 or nearly 650 million MT annualized. Spot Iron Ore import prices have recently fallen back to about \$145 C&F or less, but domestic coke prices have trended higher until very recently. There are many reports that iron ore

inventories, held on Chinese docks, are decreasing rapidly. This, of course, reflects both the increased demand and the desire to control costs.

Domestic HRC prices in China have declined as result of high inventories and buyer concerns about future business levels with the latest pricing reportedly around \$600-625 ex Works. Having said that, we should note that the production of automobiles and light trucks continues at a record pace with a projected yearly output over 17 million units. Chinese steel exports continue to increase and in April were at an annualized rate of nearly 52 million MT.

In Korea, scrap imports through March have been at an annualized rate of 8.570 million MT with Japan and USA as the #1 and #2 origins, respectively. The most recent bulk purchase reported last week was at \$409.50 C&F, although the current price estimate is lower. We expect numerous cargos to be bought at similar equivalent levels. It should also be noted that Korea finished steel prices have been steady to increasing in the last 30 days.

In SE Asia, a recent purchase tender resulted in a low offer of \$431 however this was not consummated. There are also reports of two cargoes of A3 being purchased by Taiwanese steel mills around the \$420-425 MT level. Containerized purchases have moved lower with business done around \$375-\$380 for Shredded scrap. Steel prices have weakened and Billet suppliers are currently asking under \$550 C&F.

Freights: Bulk freights continue to increase over the last 2 months and are up by about 27% in the past 6 weeks reportedly based on increased iron ore and coal shipments to China, increased port congestion, longer voyages, and canceled or delayed launchings of planned new vessel buildings. However, rates have begun to moderate in the recent past week. Container freights are also firm based on increased trade levels and stagnant operating fleet size. We do not anticipate container rates to move lower however.

### Summary

Based on a 4-month projection of WSA data, in 2010 the world will:

- Produce 202 million MT more raw steel.
- Produce 148 million MT more iron.
- Apparently Consume 54 million MT more Purchased Scrap.

World steel production continues running at record levels. In fact, April production was at a 1.46 billion MT rate and YTD production annualizes to 1.40 billion MT. While there is some concern on whether this production level will exceed expected demand in the short run, our view is that the market is well balanced over the longer term.

As a result, raw materials are also being consumed at a record rate. However, in the very short run, steel scrap buyers are being cautious and delaying new purchases in order to avoid as much immediate steel sales price and inventory risk as possible. Meanwhile, each day consumers delay new purchases creates a potential short fall. Ferrous scrap prices have dropped about 20% from recent highs and at these current lower prices, ferrous scrap demonstrates its advantages versus BFI and DRI, so we may see more demand from integrated and EAF steel makers.

Lower scrap sales prices are forcing processors to drop their yard purchase prices which have already slowed collection rates by over 25% in many regions. Lower C&F prices coupled with declining imported iron ore stock levels should encourage many more Chinese buyers to enter the market. Moreover, Turkey is expected to return to the market in effort to secure delivery for the end of June and July. These factors coupled with decreased supply at the export docks will give scrap a brighter outlook this year.

## Indian market



by **Ikbal Nathani**, Board Member of the BIR Ferrous Division, Nathani Group of Companies

Crude Steel production in 2009 was around 60 Million MTS, and is expected to reach 65 Million MTS in 2010 (an increase of around 8% year on year). Further, large capacity expansion is expected to come on line between 2012-2014 by which time Crude Steel production expected to reach around 110 Million MTS.

Ferrous Scrap imported into India between April 1st, 2009 to March 31st, 2010 was expected to be around 5 Million MTS (official data is not yet available for the entire 12 month period, however the annual figure has been estimated given the six month available data).

Since the BIR Convention in Amsterdam, Indian Ferrous Scrap buyers were very active between November 2009-March 2010 (when prices increased from around \$300/MT to \$450/MT CFR basis for Shredded Scrap in containers), however further price increases for Ferrous Scrap during early April 2010 made most Indian buyers stay out of the market and turn to domestic Heavy Melting Scrap and locally produced DRI/Sponge Iron.

As the current Scrap market begins to cool off and prices are now around \$390/MT CFR basis for Shredded Scrap in containers, Indian consumers are showing interest. However with the upcoming monsoon season, demand for Ferrous Scrap might see a slight drop since domestic construction activity slows down during this period.

We also expect a substantial increase in domestic arising and consumption of Heavy Melting Scrap due to the increasing number of vessels being scrapped at Alang ship breaking yard.

## Russian and Ukrainian markets



by **Andrey Moiseenko**, Member of the BIR Ferrous Division, PG MAIR

### *Russia*

Russia's steel scrap collection volumes declined 40% in 2009 and 60% in the first half of that year. Huge stocks of scrap among the steel mills at the end of 2008 were the main reasons for such a fall. As a result, scrap consumption decreased by a factor of three or four while domestic prices dropped on several occasions. Steel mills virtually stopped payments for scrap and ran up huge outstanding debts with their suppliers.

Low collection levels were followed by a scrap shortage on the domestic market and, as a result, price increases. Collections recovered very slowly and steel mills entered the winter period with their lowest stock levels in recent years at only 1.5 months' consumption versus the usual two to three months. Therefore, they were forced to keep scrap prices at a high level during the first quarter of 2010, reaching US\$ 330 per tonne DDU steel mill by mid-March. In more recent months, there has been a serious increase in scrap supply and mills have dropped their prices by up to US\$ 80 per tonne. Scrap collections in Russia will be significantly higher this year compared to 2009. Scrap will mostly be consumed domestically, with the quantities available for export remaining quite limited.

### *The Ukraine*

The steel scrap market in the Ukraine was not damaged too much by the financial crisis for the following main reasons: firstly, Ukrainian steel mills traditionally hold low scrap stocks compared to their Russian counterparts, and despite a drop in consumption, they were in the market for scrap during the worst days of the crisis; and secondly, the "export potential" of Ukrainian scrap is higher than in Russia for geographical reasons. Therefore, scrap

processors facing difficulties with payments on the domestic market always have the option to divert scrap into export markets.

Devaluation of the local currency - the grivna - has had a positive influence on the Ukraine's metallurgical industry which is traditionally export oriented. Ukrainian mills have achieved lower costs of production and, as a result, were able to pay competitive scrap prices.

Scrap collection volumes declined 10% in 2009 compared to the previous year - in line with the general trend for the Ukraine.

The low collection level in January 2010 can be explained only by the extremely cold winter with heavy snowfalls. The situation improved in March and April; however, owing to an increase in steel mills' consumption, there was a shortage of scrap on the domestic market by the end of April.

## EU market



by **Ruggero Alocci**, Vice-President of the BIR Ferrous Division, Alocci Rappresentanze, Italy

For the time being it is not possible to talk about the European scrap market without looking at some general issues, such as Euro Zone concerns, apparent steel use and production, overcapacity risk, different impact of the raw materials prices increase, environment dumping, scrap flows.

The PIIGS sovereign credit risk is generally a big concern, not just for Europe. Although the financial crisis has been over now for almost three months, Europe finally got the message: in a financial crisis, fast and strong action is required to break the negative feedback loops. Now the serious contagion seems to be broken, but the Euro zone countries will need a very, very long time to cover the monetary support package. The virtuous behaviour of

Germany, France and some other countries is not enough to solve the situation. Heavy cuts in national budgets are expected. The financial austerity measures mean less consumption and investment for the future. The slow recovery and the expected inflation increase are not helping Europe. Only a strong US dollar is positive for developing exports.

On April 20, worldsteel Association released its last short-term outlook for 2010. worldsteel forecasts that apparent steel use will increase by 10.7% to 1,241 billion ton in 2010 after shrinking by -6.7% in 2009. It is a positive sound but it changes if we consider the apparent use and production for each geographic area. The current recovery in the major developed economies is slower compared with the emerging economies and the projected steel demand for them in 2010 is well below the 2007 level. According to WSA, EU economies have seen a fall in apparent steel use of -35.2% in 2009 with Spain and Italy very hardly hit by the collapse of their construction sectors. In 2010, the region will see an increase of 13.7% in steel demand, basically due to inventory rebuilding and only a slight increase in real steel use.

As you can see, following the last ten years of steel production, Europe 27 moved from the 193 million ton in 2000 to the highest 210 million during 2007, followed by the lowest 139 to the 167 million foreseen for this year (with a 20% increase predicted). The EU steel production lost, and is still losing, about 30 million ton in ten years. It is important to point out the difference between the total capacity of about 210 million ton done in 2007 and the foreseen average of 170 million for the next future. It means at least about 40 million ton of overcapacity! Plus the new startup of course! It is also important to show the different trend of the main European countries: the fall is higher for the bigger producers and consumers like Germany, Italy, France and United Kingdom. Taking in consideration the highest level recorded, we can assume it

is quite impossible to return to these volumes in the short future. It means that overcapacity needs to be solved.

Now the different impact of the raw materials increases for each one of the economic areas. Like in the first half of 2008, the raw materials and energies prices have been raised hardly during March and April. The prices are now falling down because these increases are not supported by a strong economic rebound, neither a vigorous internal demand in the advanced economies, Europe included. The scrap, basic pig iron, DRI and HBI are following the new iron ore and coal quarterly benchmark and the spot market. The quarterly iron ore contracts price is the most important novelty of 2010. They are based on a narrow spot market in China, but it is not representative of the wider iron ore market. Short term iron ore pricing introduced volatility into scrap, pig iron and DRI/HBI market. Three iron ore producers are controlling almost three quarters of the world market. They are the holder of the highest power into the steel chain. They will drive the future of all of us! The advanced economies will suffer much more the high raw materials prices than the developing economies. It means less sale competitiveness and the consequent loss of export opportunities for the steel makers. High raw material prices and low export volumes are a strong poison for the European producers.

The Q1 improved European steel production seems to be only a progressive restocking and not a demand growth. The restocking is not enough to maintain this price and the production level. If the steel sales growth will not be fast and considerable, the scrap prices will move once more down, but they will not return to the low level we have seen at the beginning of this year. Price volatility will influence the market more and more. In the future the scrap generation and collection will be lower in Europe, but also the consumption will be less. The scrap flows will change again.

Some export countries will become importer (like Russia, Ukraine, Poland, Morocco) and some others will increase their export, basically versus Asia (an example is the new export flow from Italy). China and Asia are today the greatest opportunity. Generally the positive trend of the Chinese economy is expected for the next 20 / 25 years. Today China is the only game in town!

Last but not least the Copenhagen climate and Kyoto protocols are a disadvantage heavier for the advanced than the developing economies, more for Europe than USA and Japan. Heavy investments are required, hard emission limits are forced and expensive fees paid for the developing economies. Please don't forget all this hit steelmakers particularly hard in Europe.

Finally: Europe will have to fight for a long time to be able to settle the various economic problems. The slow recovery is not helping the Euro zone countries. At the same time we have to solve quite a few things: the overcapacity in the whole of the steel chain, scrap recyclers included, the environment dumping, the higher impact of the raw materials prices, the price volatility and the inflation which will probably arrive.

As in the past, scrap flows will change their direction to countries where scrap will be needed. It means that the European scrap recyclers must follow the new business opportunities, even if they have to adjust their companies for the new challenges. It is important today and it will be even more important in the future, to defend the free and fair trade against any restriction.

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## Spotlight on JISRI and the Japanese Market



by Tsunefumi Nakatsuji, President of JISRI

Established in 1975, JISRI was incorporated under the auspices of the Ministry of International Trade and Industry. Its objective is to contribute to the sustainable economic

development of Japan, in harmony with the development of Asia and thus, to the world. For the achievements of this objective, JISRI conducts researches on demand and supply structure constantly to ensure the stable scrap supply. Educational activities are promoted, pertaining to environmental protection, processing technologies, and management models development.

One of the distinctive features of JISRI is that it is the only national-wide organization that extends from the northern island of Hokkaido to the southern island of Kyushu with seven district chapters. Based on this feature, the membership of the institute, as of this year, is consisted of 948 corporate members, plus 50 supporting members, that totals to almost 1,000 members. JISRI, with its 1,000 corporate members, cover 100% of the Japanese ferrous scrap market of approx. 35 million metric tons, including export market that reached to over 9 million tons in 2009.

Some basic features of the Japanese market: The production volume of crude steel in Japan for those 20 years averaged, 100 million tons per year. Approx. 75% of crude steel is produced by 5 blast furnace mills. The remaining of 25% by electric furnace mills, and there are approx. 40 electric mills. Blast furnaces also use scrap in the limited volume for the production of hot metal, which leads me to think that recycled steel occupies 35% of the total production of crude steel in Japan.

The scrap supply of 2008 was 47 million tons, plus 6 million for the export. Excluding the home scrap of 14 million tons, 33 million tons were generated, processed and consumed by mills. Characteristic point in Japan is that obsolete scrap occupies more than 80% of 33 million tons that requires the constant development of processing technologies.

Japan is reported to hold more than 1,3 billion tons of scrap reserve which annually accumulates another 15 million tons while scrap reserve of the whole world is presumed to be 20 billion tons.

One dynamic market transformation has taken place in the late '90's when Japan became a net-export country in the scrap market. Our business until the late 1900s, could have been described as "Think locally, and Act locally" and our growth had depended on the stable scrap supply to local mills. This market transformation provided us with two important impacts on our business behaviors. One is that it gave us a wide range of alternatives other than local domestic mills that brought about the developments of logistics, shipping yard operation, and purchasing methods of materials. This change of the market also provided an opportunity to widen our view to Asia, thus to a global view on the world market.

This global view has been accelerated with the recent recognition on the importance to tackle with global warming caused by CO<sub>2</sub> which can be remarkably reduced by using scrap as resources. We are very proud of our engagements in scrap recovery and recycling in the recognition that we are contributing to the world economic growth in the way where our business contributes a great deal to the prevention of global warming.

Under that consciousness on the sustainable growth, JISRI has promoted official exchange meetings with China, Korea, Taiwan and Asian countries for those 6 years and is now expanding our networking to the Europe and the USA. JISRI is going to hold an "International Ferrous Scrap Forum" on coming Jun 10<sup>th</sup> in Yokohama. The representatives from BIR, as the world organization, CAMU: China, ISRI:USA, TSA: Taiwan, KOSA: Korea, are going to be in attendance. This forum will be followed by the Annual General Assembly and National Meeting of JISRI the next day.