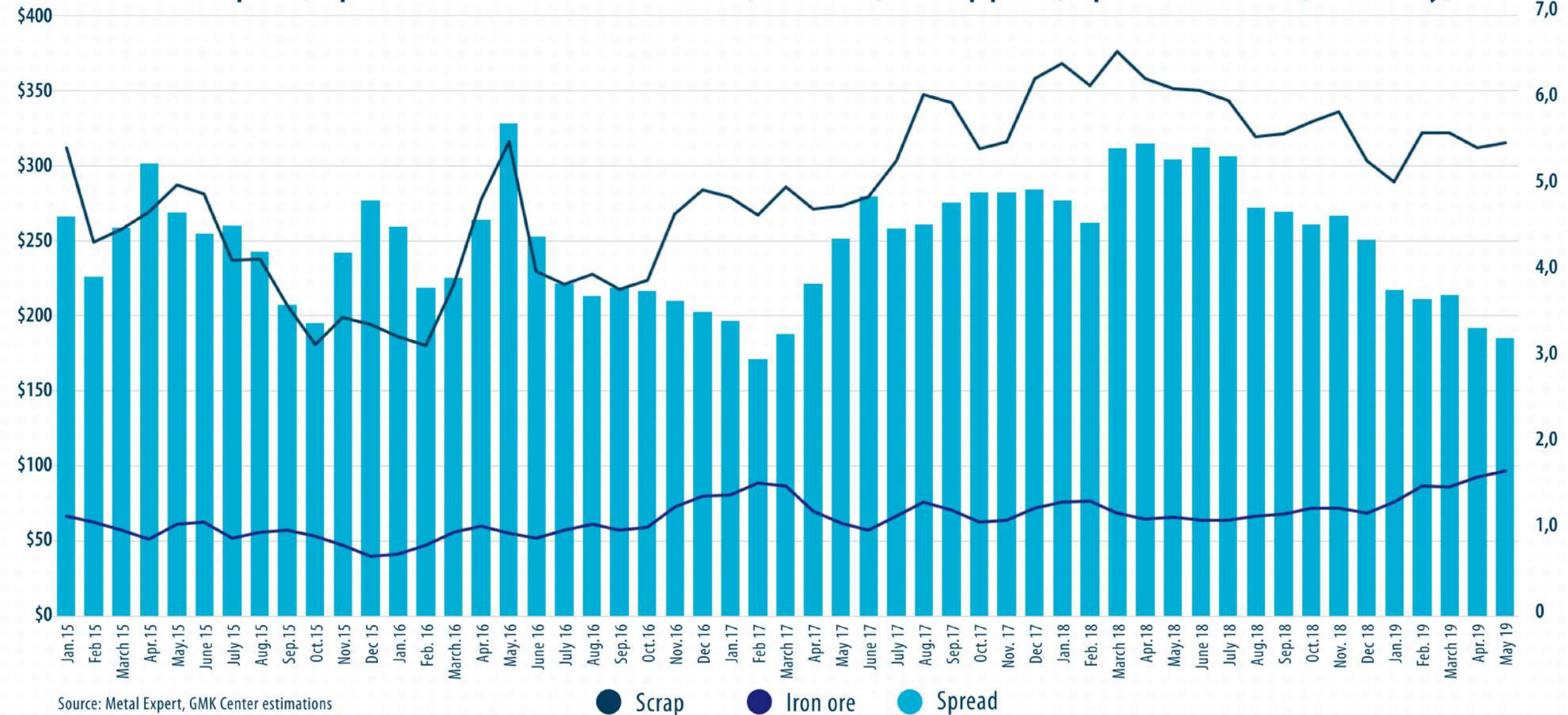


The global ferrous scrap market: state and prospects

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Iron ore price (import of 52% Fe fines from Australia, CFR China) to scrap price (import from the U.S., CFR Turkey)



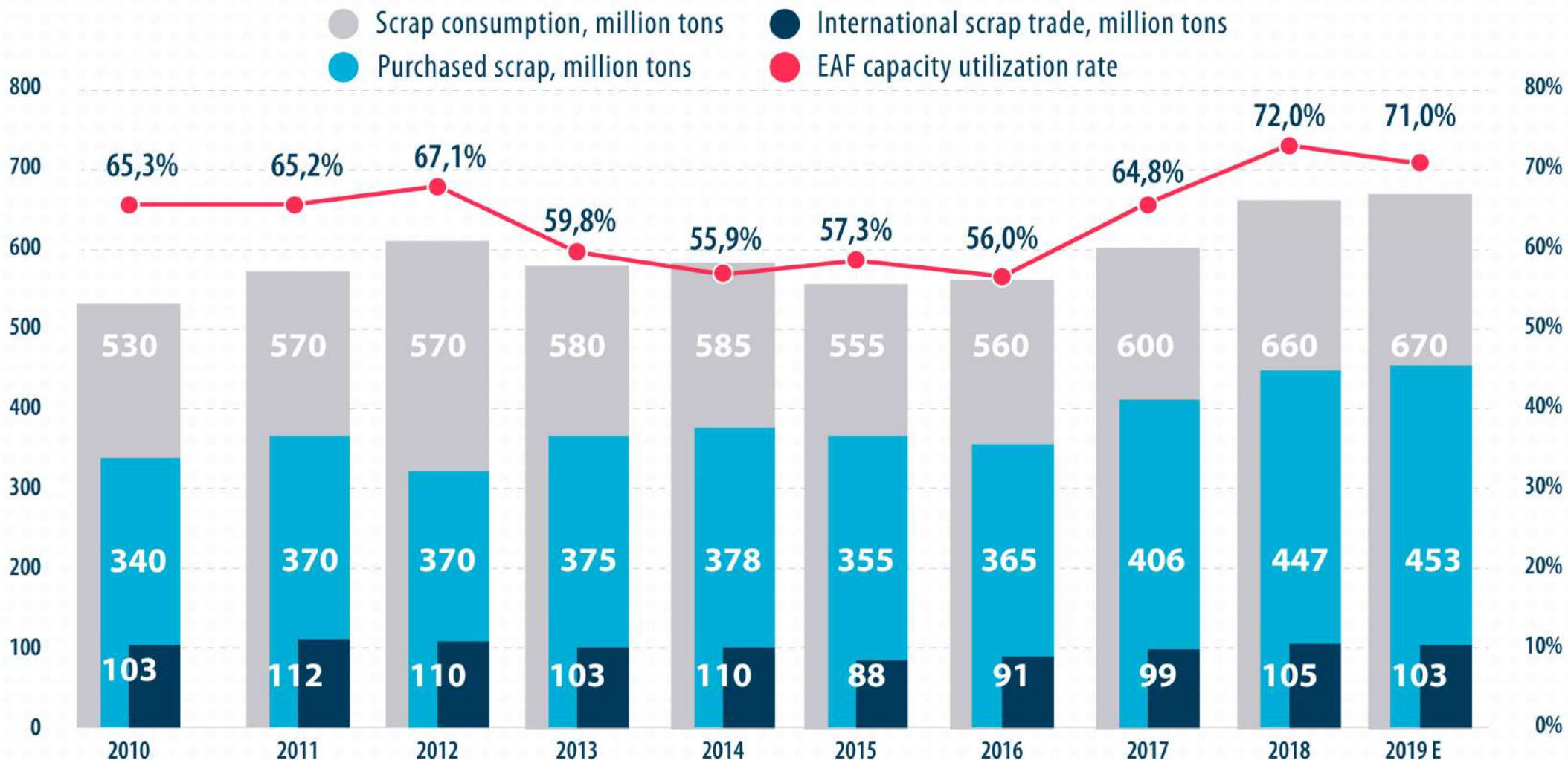
Scrap vs pig iron

The ratio between prices for iron ore in China and scrap in Turkey has been minimum over the past few years. Scrap is quite cheap in relation to the cost of iron ore and, consequently, pig iron.

Theoretically, such situation cannot last for long. Consumption of scrap is expected to increase, as it is advantageous in both electric-arc steelmaking and BOF production. Therefore, prices for scrap should level out.

Yet in fact, the situation is different.

Global ferrous scrap market



Trends in scrap demand

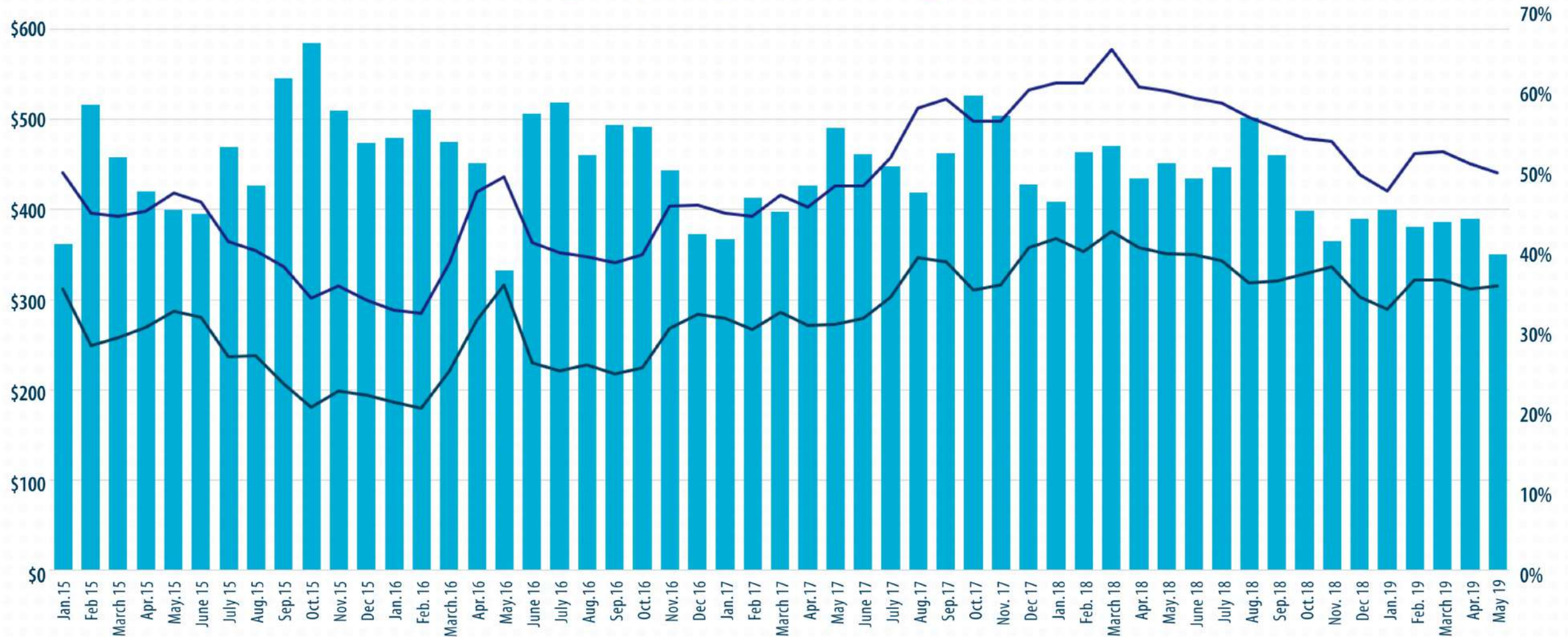
Scrap consumption is actually growing around the world. This is due to China, where electric-arc steel production volumes doubled last year due to the tougher environmental requirements. It continues to grow this year as well.

Though China is self-sufficient in terms of scrap supplies. Moreover, it cuts imports in connection with the approval of regulations on waste treatment that imposed restrictions on the terms of scrap import. In other words, China has a restricting impact on the international scrap trade.

For this reason, international trade volumes (or actually the global market volume) remain at the same level, and may reduce this year.

Billet price (EXW Turkey) to scrap price (import from the U.S., CFR Turkey)

● Scrap ● Billet ● Spread



Scrap vs billet

The capacity utilization rate of electric-arc steelmaking companies may drop

this year, because their margin is at the minimum. This is evidenced by the scrap to square billet price ratio.

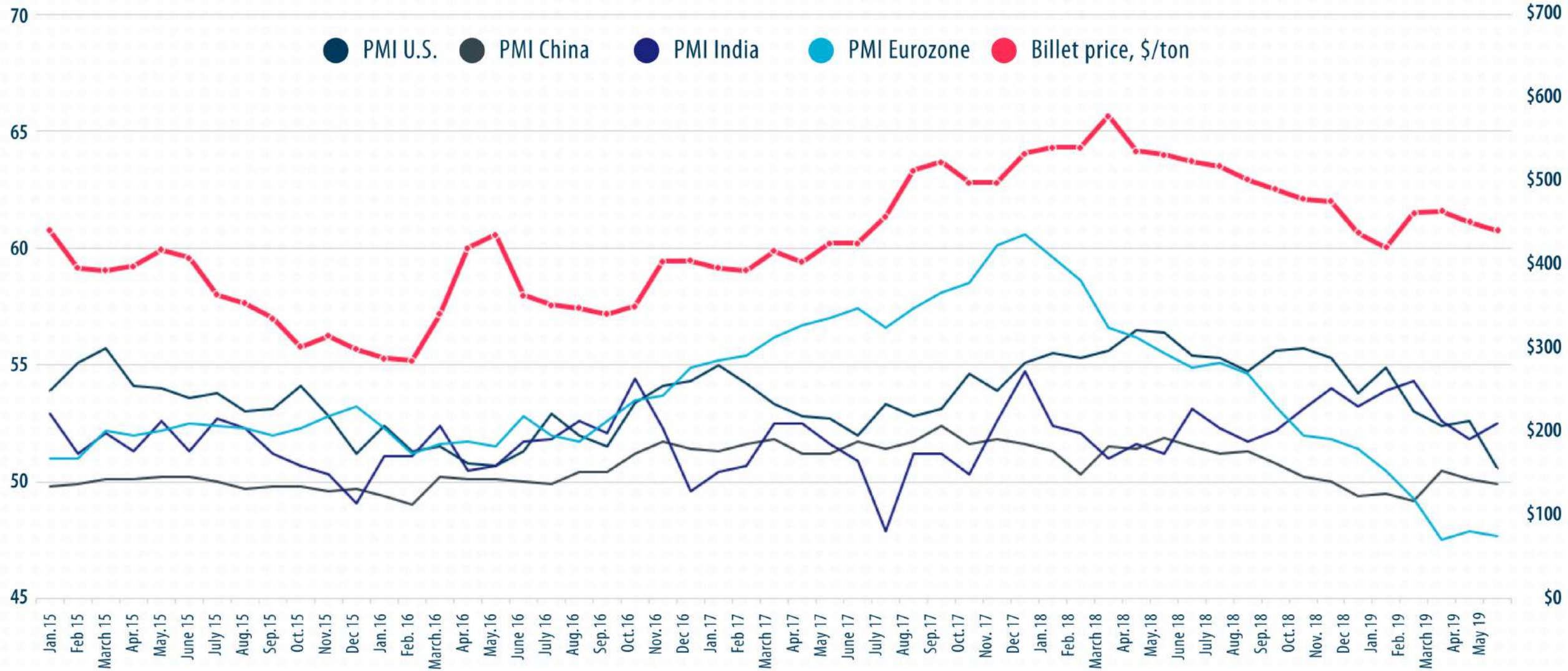
It is impossible to make buyers pay high prices for raw materials in a weak market.

Prices for finished products hold down prices for scrap.

Billet to scrap price ratio was lower only in early 2017, but the situation has changed quickly. What are the current prospects?

Weak demand in the global market

Production activity in the key steel markets



Weak demand in the global market

Production activity in the main steel-consuming regions has been decreasing synchronously since the beginning of the year. This is confirmed by the trends of the PMI indices. The relationship between these indicators and prices for finished products is obvious.

The steel market much depends on the construction sector. EUROFER expects a 2.1% growth in construction in the EU, with a sharp slowdown in the second half of the year, down to less than 1%.

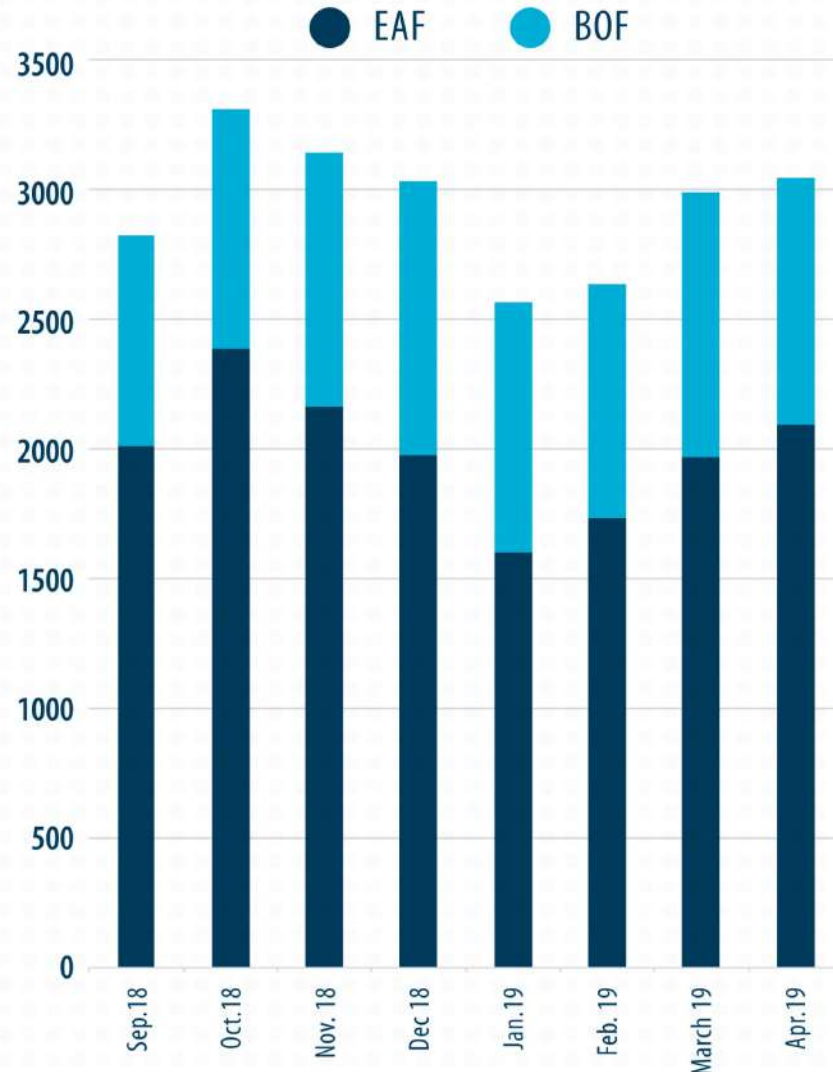
In China, investment in construction grew by 12% in the 1st quarter. Yet, this is solely due to a stimulus package. And the market does not believe that the trend will continue, as land sales dropped by 30%.

According to the April forecast of the World Steel Association, global steel production is expected to rise just by 1.3%.

Though within the first 4 months, the production growth was 6.4%. A slowdown is expected in the second half of the year.

This year, March and April were the best months in terms of the market situation. Prices may start going down by the end of the year.

Steel production in Turkey, thousand tons per month



Источник: Turkish Steel Production Association

Decline of Turkey's market in Q1 2019:

Rolled products consumption ↓ **38,7%**, including:

- long products ↓ **50,0%**

- flat products ↓ **28,6%**

Steel production ↓ **14,5%**, including:

- EAF ↓ **20,0%**

- BOF ↓ **2,2%**

Scrap import ↓ **28%**

Crisis in Turkey

Apart from the problems with export, Turkey, with its 20% share in global scrap imports, faces problems with the domestic market.

The Turkish steel sector achieves stable outputs in the recent months, some 3 million tons per month. Therefore, we guess that the worst is over for Turkey.

There are positive signals — the duty on imports to the U.S. decreased. This became the focus of the main price debate. Will Turkey be able to return to the U.S. market and what will be its export volumes?

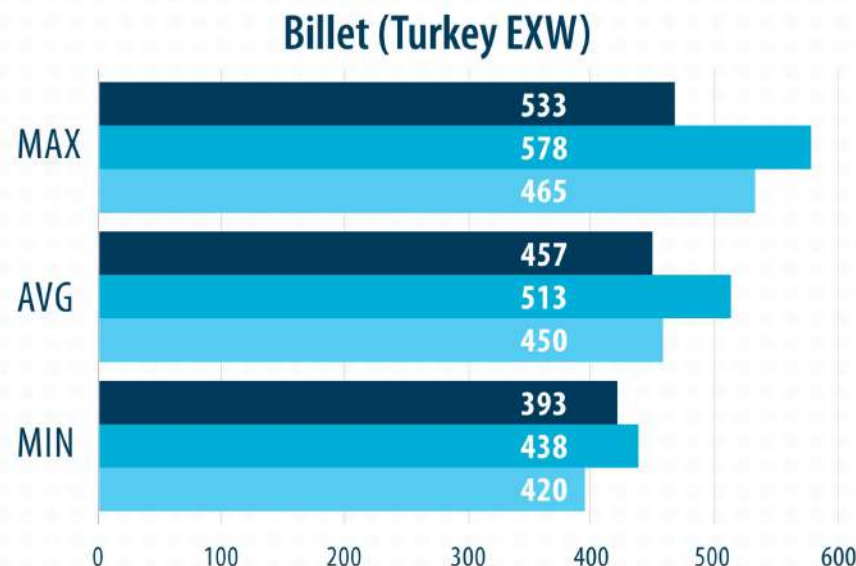
In our opinion, the impact of this factor has been exaggerated. In March–July 2018, when a 25% duty was applicable to Turkey, rebar export volume was 30 thousand tons per month, cold rolled products — 15 thousand tons, and galvanized steel products — 10 thousand tons. To date, the situation has somewhat changed: some countries have been granted the right to export their products to the U.S. duty-free. But even if Turkey resumes its export by 100%, this will be insignificant volumes within the sector.

Consensus — rolled products price forecast

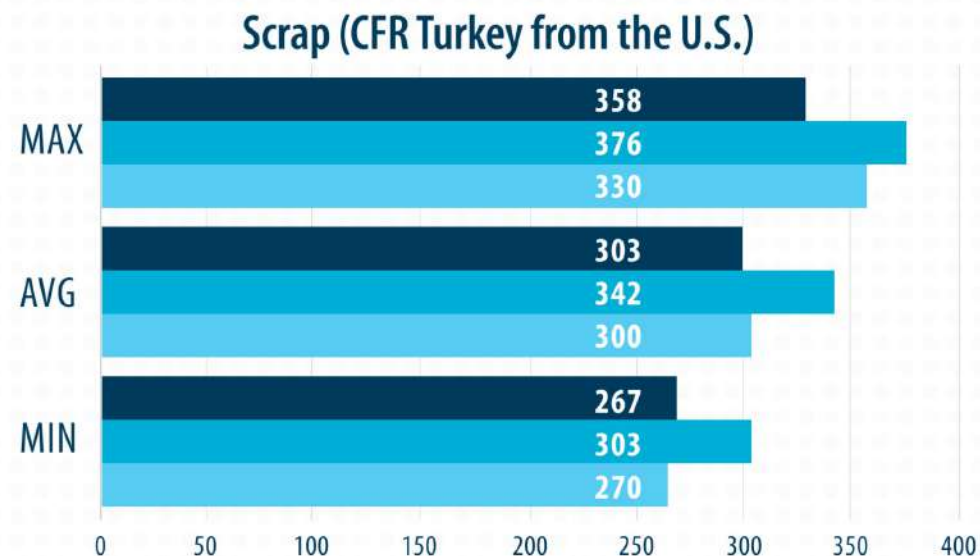
(IHS, CRU, SteelInsight, The Economist, World Bank, IMF, ГМК Центр)

↓ -12%

Consensus — rolled products price forecast



● 2017
● 2018
● 2019



Expectations on Turkey in 2019:

Steel production – **35,6** million tons, **(-5%)**

Scrap consumption – **19** million tons, **(-8%)** by 2018