

Global Scrap - Trade, Volatility & View

Affected by global steel slowdown, global seaborne scrap trade witnessed a poor 2015. According to BIR, global steel scrap trade was down by 13.1% in 2015.

Steel 360 gathered inputs on price, import and export of global scrap business from Mr Ved Prakash, Director, Steel Division, Gemini Corporation NV, Belgium via a written interview. Following is an excerpt.

Q. Will global scrap prices sustain at these levels looking at volatility in the Chinese billet market? What according to you is the bottom for global scrap prices?

A. This is a very relevant question. We have to first understand what volatility actually means in scrap business. I would say that scrap has traditionally been more range-bound than volatile. The annual trends denote that prices hover at +/-10% around that year's price range. The driving factors in scrap business, like Turkey, domestic demand for scrap, currency etc is now common knowledge. This makes it easier to anticipate the short term direction of scrap movements. Historical data makes it easy to determine that the scrap price cycle has mostly been around 45 days.

The twist in the tale came in late 2014 when this 45-day cycle gradually began to change. Historically, scrap prices have never been high or low for 4-5 months in a row. But since 2014, we have been witnessing rather long periods of 4-5 months of consistent rise or fall in steel and scrap prices. These sudden fluctuations make the outlook very blurry. Take this recent example; everybody was extremely confident

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Ved Prakash, Director, Steel Division,
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that the Turks will continue to buy scrap and people predicted prices to reach USD 350 CFR. But the markets turned sharply and cooled off faster than anybody anticipated. And it's very important to note that until the point Chinese had not started offering cheap billets in export, market corrected only in anticipation! It is possible that this anticipated view point may not last

longer in short term. This is the mark of arrival of actual volatility in scrap.

So the scrap price sustainability in wake of volatile Chinese billet prices is largely dependent on whether China is making heavy sales of its billets to Turkey or not. Chinese billets are not as liquid as scrap trade. Other issues with billets like shipment time, tax rebate on exports, CIS factor etc should be kept in mind too. I feel that we might see a great disruption in the market. Like iron ore and finished steel price is not in sync anymore. I will not be surprised to see international scrap price and Chinese billet price completely in disparity. We may see scrap prices firming despite low billet prices in China and vice-versa.

Unavoidable costs like that of collections, logistics, financing, etc won't allow low scrap prices to sustain much. In view of recent years' experience, I feel the bottom should be anywhere between USD 190 to USD 225 per tonne CFR for scrap.

Q. Will China be a net exporter of scrap in coming years?

A. I am very confident of this. It's just a matter of time. I have said this in many conferences that China might export and even manufacture the scrap in near future. It will not be a surprise that in near future one can buy scrap from China as per required specification.

Q. Of the top 5 scrap importers in 2015 - Turkey, India, Korea, USA and Taiwan, only India showed around 18% increase over

the previous year. How do you rate India's demand this year? What is your view on the demand for scrap in other Asian markets?

A. No doubt, India is a rising star in Asia. The recent article in Financial Times about India's contribution to crude oil price rally confirms this. But if you analyzed India's scrap import data of last 5 years, you would notice a serious lack of pattern corroborating growth in crude steel production in the country. One of the obvious reasons is abundance of domestic DRI. Further, while Turkey, Korea, Taiwan have traditional export partners like USA, Europe and Japan, India has multiple import partners viz USA, Europe, Africa, Middle East, Australia and Brazil. India's scrap demand is not affected by supply situation of major exporters, like USA and Europe, rather India's own circumstances. Like it happened in 2012, when demand for steel products was not so good in general yet scrap imports reached a record 8.1 million tonnes. My point is that India's quantum of demand might be good but still we can see lower import volumes and a way around. As said, I don't see much often a correlation between higher demand resulting in higher import of scrap in India.

Q. MSTC along with Mahindra Intertrade will set up India's first auto shredding unit; what in your view is the future of shredding in India? How will it immediately impact scrap imports into the country?

A. This is a very positive step towards sustainable recycling in India. I must bring some important points to everybody's attention.

1. India's expected urban population is to reach to 35% by 2020; just envisage the waste it will generate.

2. Now imagine projected 'daily sales' of following in 2020 from current year:

- a)** Car Sales is expected to reach 14,000 units from current 5,200 units
- b)** Bikes sales will reach 85,000 units from current 42,000 units
- c)** Refrigerator sales will reach 66,000 units from 40,000
- d)** Washing machines sales will be 35,000 units from 21,000 units
- e)** TV sales will reach to 84,000 units from 44,000 units now.

Now, can you visualize the need for recycling in India by 2020? India has great future for shredding and it must be encouraged seriously by public and private sector. If we fail to do so, I am afraid, India shall be sitting on a huge pile of waste which is actually a circular – sustainable – environmental friendly resource.

As far as scrap import demand is concerned, local recycling will definitely not hinder it. Yes, grades of scrap imports might change. Take USA as an example; largest exporter of scrap is among top 5 importers of scrap too. I would like to remind that USA has more than 300 shredding units. So import will be there as growth in steel production will also ramp up in India. ■

Mr. Ved Prakash is Director of Steel Division of Belgium based Gemini Corporation NV which handles more than 1 million tonne of recyclable raw materials through their global presence.

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