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Whitepaper Series

Outlook for 2016: Scrap



Scrap 2016 Outlook

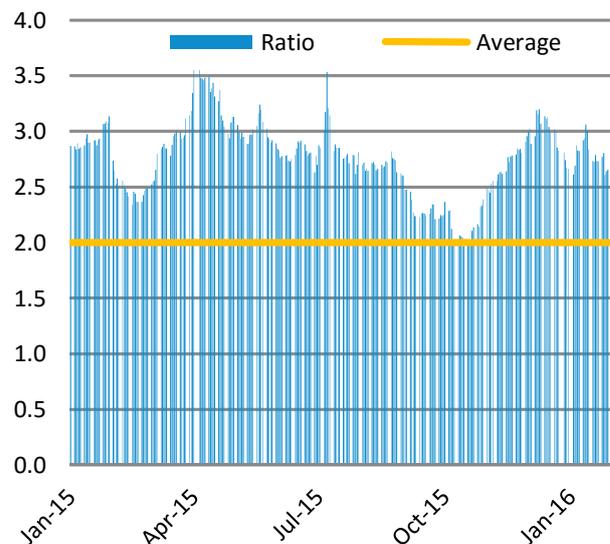
Turkish scrap purchasing activity has remained relatively stable for the past three months, as buyers have stepped in and out of the market on a hand-to-mouth basis. As a result, Metal Bulletin's Daily Turkish HMS#1&2 (80:20) import Price Index for north European-origin material bounced between \$177-196/t, CFR Turkey, since Wednesday 28th October 2015. Despite brief inclement weather, particularly on the US East Coast in late January 2016, scrap trade flows and major benchmarks were little affected by any potential logistical issues. More recently, however, major Turkish HMS#1&2 (80:20) import benchmarks for northern European-origin material have broken down out of this range that has existed for almost three months. Indeed, Turkish import prices fell to a recent low of \$169.59/t, CFR Turkey, on Wednesday 27th January 2016.

The lack of prolonged inclement wintry weather in Europe and the USA had also kept a lid on major scrap benchmarks and prevented suppliers from recovering a proportion of the sharp declines witnessed throughout 2015. Furthermore, MBR believes major seaborne scrap prices remain out of sync with the rest of the steelmaking raw materials commodity complex at current levels. At the same time, Turkish billet import prices stand at \$262.50/t, CFR, \$15/t below domestic ex-works benchmarks. Additionally, scrap to billet operational conversion costs for the most efficient Turkish electric arc furnaces are \$125/t, according to MBR's Steel Cost Model; indicating scrap import prices are still not economically viable at current levels.

MBR calculates that hot metal production costs for domestic and overseas basic oxygen furnaces (BOF) have become even more competitive compared with typically scrap-intensive EAFs raw materials costs. The value of an iron unit in iron ore 62% imports versus the equivalent in imported scrap has diverged away from its long-term mean. If we assume that scrap is a substitutable form of iron unit for iron ore (via pig iron/hot metal) for Turkish steelmakers, the long-term average value of an iron unit in scrap has been 2.0x that in iron ore. This ratio stood at 2.65 in late January; suggesting that scrap prices are less cost competitive compared with hot metal production costs.

MBR anticipates that European and US-origin major seaborne scrap prices will soften in the coming weeks, as some Turkish buyers take

IRON UNIT RATIO: SCRAP VS. IRON ORE



SOURCE: MBR

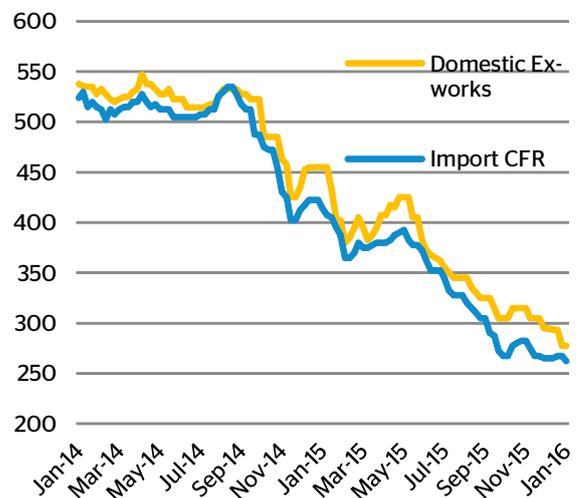
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a step back from the market following their restocking activity. At the same time, we expect some Turkish scrap buyers will use the arrival of relatively low-priced Chinese-origin billet as leverage to negotiate modest discounts from scrap cargoes in the short term. Looking further forward, MBR believes major seaborne scrap benchmarks will rebound towards the beginning of Q2 as Turkish mills increase their scrap purchases to feed higher output in response to seasonably stronger steel consumption from the local construction sector.

Looking further forward, should major seaborne spot iron ore (62% Fe) and Turkish billet prices remain relatively stable close to their current levels of \$40/t and \$260-280/t respectively, MBR forecasts that major Turkish HMS#1&2 (80:20) import benchmarks for northern European-origin material could fall to as low as \$135-155/t, CFR Turkey, by the third quarter of 2016. We believe seaborne scrap market pricing dynamics

will have to return towards equilibrium when Turkish buyers step out of the market due to seasonably subdued production schedules given that we expect demand for construction steel, particularly long products, to slow from Q3 and contract in Q4.

TURKISH BILLET PRICES (\$/T)



SOURCE: MBR, STEEL FIRST

Meet the Editor



Atilla Widnell is editor of Steel Raw Materials Market Tracker and Steel Scrap & Metallurgy Forecaster. He joined MBR in 2013, after spending almost 3 years at the CRU Group as the author and the editor of the Metallurgy Market Service and the monthly Metallurgy Monitor.

Prior to this Atilla worked as an equities and commodities

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Have a question about the Steel Raw Materials Market?

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