Quarterly Report – October 2015

Dear colleagues,

My good friend Blake Kelley always used to say two things: "Ferrous scrap clears the market" and "Every discussion about the future of carbon metallics should begin and end with China". Certainly, we are seeing how prophetic he was. China has continued to export the effects of its excess steel production in the form of semi and finished steel.

China's finished steel exports in July and August combined for over 19m tonnes but even this figure was eclipsed by the record-breaking 11.3m tonnes shipped out in September alone. In response to this, ferrous scrap prices have dropped in order to compete, reaching levels that we have not seen in 11 years. As we have discussed many times, our industry needs to find new ways to compete. We cannot look to the market to help us but should rather concentrate on the things we can control, like our costs and streamlining our production wherever we can.

I am excited about our meeting in Prague as our speaker, Becky Hites, will have many insights into what we face over the coming years that should benefit us all. Ms Hites is a global steel industry professional and former Wall Street executive who has served as an equity analyst, project finance, mergers and acquisitions investment banker, cost modelling expert, industry trend macro and micro consultant, expert witness and C-level strategic planning consultant. In 2012, she founded Steel-Insights, LLC in order to provide highly-specialised services to clients in the metals, mining and manufacturing industries.

Ms Hites' presentation will be followed by a panel discussion and interactive Q&A with the audience.

William Schmiedel
President of the BIR Ferrous Division and
President of Sims Group Global Trade Corporation

WORLD STEEL RECYCLING IN FIGURES

January-June 2015 update

by **Rolf Willeke,** Statistics Advisor of the BIR Ferrous Division

When compared to the same period in 2014, figures from worldsteel for the first six months of 2015 confirm a decrease in global crude steel production of around 2% to 813.05m tonnes. Statistics show a year-on-year crude steel production decrease in China (-1.3% to 409.97m tonnes), the USA (-8.6% to 39.87m tonnes), Japan (-4.7% to 52.64m tonnes), the Republic of Korea (-4.9% to 34.53m tonnes) and Turkey (-5.7% to 16.19m tonnes) whereas positive growth was recorded in the EU-28 (+0.5% to 88.12m tonnes) and in Russia (+0.8% to 35.71m tonnes). The global crude steel capacity utilisation rate in June this year was 72.2% - or 3.5 percentage points below that of June 2014.

Mainly negative developments in steel scrap consumption

In the first six months of 2015, the increase in steel scrap usage for crude steel production in the EU-28 (+0.5% to 48.4m tonnes) was the same in percentage terms as the upturn in its crude steel production (+0.5% to 88.12m tonnes). Steel scrap consumption in Russia was virtually unchanged (-0.1% to 8.26m tonnes) whereas its crude steel production was 0.8% higher.

Over the same period, there was a steep fall in steel scrap usage in China (-9.3% to 43.1m tonnes), Japan (-10.3% to 17.03m tonnes), the Republic of Korea (-10.1% to 15.17m tonnes) and Turkey (-10.3% to 13.21m tonnes). In all these individual cases, the drop in scrap usage was sharper than the decline in crude steel production. Only the USA recorded a dip in scrap consumption (-7.7% to 24m tonnes) that was smaller than the decline in its crude steel production (-8.6%).

Mixed results from main steel scrap importers

Statistics for the first six months of 2015 also show that Turkey - the world's leading steel scrap importer - reduced its overseas purchases by 12.9% to 8.472m tonnes. Year-on-year cuts in steel scrap imports were also made by the Republic of Korea (-35.5% to 2.778m tonnes), the USA (-12% to 1.856m tonnes), the EU-28 (-11.9% to 1.414m tonnes), China (-2.4% to 1.274m tonnes) and Indonesia (-53.6% to 0.523m tonnes).

Conversely, the January-June 2015 figures show an increase in overseas steel scrap purchases by India (+29.9% to 3.168m tonnes), Taiwan (+4.8% to 2.301m tonnes), Belarus (+53.8% to 0.646m tonnes) and Mexico (+32.8% to 0.608m tonnes). India was the world's second largest steel scrap importer in the first half of 2015 behind the aforementioned Turkey.

EU-28: the leading steel scrap exporter despite reduction

Despite a steep reduction in EU-28 steel scrap exports in the first half of 2015 (-12.1% to 7.455m tonnes), it remained the world leader in terms of volumes shipped abroad. Those major buyers of EU-28 steel scrap to cut their purchases were Turkey (-13.1% to 4.39m tonnes), India (-1.3% to 0.742m tonnes), Egypt (-59.4% to 0.441m tonnes) and the USA (-38.3% to 0.161m tonnes). Conversely, there was an increase in purchases by Pakistan (+81.3% to 0.484m tonnes), Switzerland (+13.2% to 0.275m tonnes), Morocco (+99.2% to 0.237m tonnes) and China (+2.8% to 0.185m tonnes).

US overseas shipments declined by 9.1% to 6.902m tonnes in January-June 2015, mainly as a result of the reduction in volumes dispatched to Taiwan (-19.1% to 1.181m tonnes), the Republic of Korea (-42.9% to 0.472m tonnes) and Canada (-23% to 0.355m tonnes). The main buyer of US steel scrap, Turkey, upped its order by 10.2% to 1.963m tonnes while increased purchases were also made by India (+85.1% to 0.498m tonnes), Mexico (+20.6% to 0.474m tonnes), China (+2.8% to 0.406m tonnes) and Thailand (+137% to 0.282m tonnes).

A further upturn was apparent in Japan's overseas shipments of steel scrap in this year's first half (+10.8% to 4.137m tonnes). Although there was a decline in the country's deliveries to the Republic of Korea (-22.2% to 1.602m tonnes) and to China (-0.8% to 1.196m tonnes), its exports soared to both Vietnam (+91.3% to 0.7m tonnes) and Taiwan (+200.9% to 0.677m tonnes).

MAIN STEEL SCRAP USE FOR STEELMAKING IN THE WORLD (MILLION TONNES)

	Steel Scrap Consumption Jan-June			Crude Steel Production Jan-June		
	2015	2014	% Change	2015	2014	% Change
EU-28	48.40	48.14	+0.5	88.12	87.66	+0.5
China	43.1	47.5	-9.3	409.97	415.37	-1.3
USA	24.0e*	26.0	-7.7	39.87	43.61	-8.6
Japan	17.03	18.98	-10.3	52.64	55.24	-4.7
Korea Rep.	15.17	16.88	-10.1	34.53	36.30	-4.9
Turkey	13.21	14.73	-10.3	16.19	17.16	-5.7
Russia	8.26	8.27	-0.1	35.71	35.42	+0.8

*e-estimated
Source: worldsteel, EUROFER, CAMU, ISRI /USGS, TCUD, Japan Ministry of Economy, KOSA, Impextrade LLC, Russia

STEEL SCRAP FOR STEELMAKING IN EU-28 COUNTRIES (MILLION TONNES)

	Steel Scrap Consumption Jan-June			Crude Steel Production Jan-June		
	2015	2014	% Change	2015	2014	% Change
Austria	1.384	1.400	-1.1	3.969	3.956	+0.3
Belgium	1.567	1.493	+5.0	3.837	3.681	+4.2
Bulgaria	0.353	0.343	+2.8	0.324	0.314	+3.2
Croatia	x	x	x	0.095	0.108	-11.9
Czech Rep.	1.012	0.984	+2.8	2.769	2.726	+1.6
Finland	1.047	0.999	+5.0	2.071	1.967	+5.3
France	4.226	4.077	+3.7	8.166	8.305	-1.7
Germany	9.514	10.070	-5.5	22.149	22.485	-1.5
Greece	0.614	0.600	+2.3	0.518	0.510	+1.6
Hungary	0.325	0.207	+57.0	0.852	0.465	+83.2
Italy	10.345	10.940	-5.4	11.719	13.105	-10.6
Luxembourg	1.219	1.256	-2.9	1.110	1.121	-1.0
Netherlands	0.909	0.853	+6.6	3.553	3.438	3.3
Poland	3.083	2.510	+22.8	4.947	4.207	+17.6
Portugal	1.175	1.137	+3.3	1.047	1.011	+3.6
Romania	0.845	0.793	+6.6	1.679	1.409	+19.2
Slovakia	0.768	0.749	+2.5	2.428	2.325	+4.4
Slovenia	0.366	0.368	-0.5	0.325	0.323	+0.6
Spain	6.370	6.056	+5.2	7.830	7.578	+3.3
Sweden	1.192	1.184	+0.7	2.468	2.428	+1.6
UK	2.087	2.119	-1.5	6.258	6.198	+1.0
EU-28	48.400	48.137	+0.5	88.115	87.661	+0.5

x: Figures not available
Source: Steel Scrap Consumption: EUROFER Steel Production: worldsteel

MAIN STEEL SCRAP IMPORTERS IN THE WORLD (MILLION TONNES)

	Jan-June 2015	Jan-June 2014	% Change
Turkey	8.472	9.729	-12.9
Korea Rep.	2.778	4.308	-35.5
India	3.168	2.438	+29.9
Taiwan	2.301	2.196	+4.8
USA	1.856	2.109	-12.0
EU-28	1.414	1.605	-11.9
China	1.274	1.305	-2.4
Belarus	0.646	0.420	+53.8
Mexico	0.608	0.458	+32.8
Indonesia	0.523	1.126	-53.6
Canada	0.516	0.674	-23.5

Sources: Official Trade Statistics/WV Stahl

MAIN STEEL SCRAP EXPORTERS IN THE WORLD (MILLION TONNES)

	Jan-June 2015	Jan-June 2014	% Change
EU-28	7.455	8.478	-12.1
USA	6.902	7.595	-9.1
Japan	4.137	3.734	+10.8
Russia	2.757	2.736	+0.8
Canada	1.641	2.192	-25.1
Australia	1.030	1.206	-14.6
Ukraine	0.739	0.464	+59.3
South Africa	0.658	0.726	-9.4

Sources: Official Trade Statistics/WV Stahl

MAIN FLOWS OF STEEL SCRAP EXPORTS IN THE WORLD (MILLION TONNES)

	Jan-June				Jan-June	
Exporters	2015	2014	% Change	Biggest Buyers	2015	% Change
EU-28	7.455	8.478	-12.1	Turkey	4.390	-13.1
				India	0.742	-1.3
				Pakistan	0.484	+81.3
				Egypt	0.441	-59.4
				Switzerland	0.275	+13.2
				Morocco	0.237	+99.2
				China	0.185	+2.8
				USA	0.161	-38.3
USA	6.902	7.595	-9.1	Turkey	1.963	+10.2
				Taiwan	1.181	-19.1
				India	0.498	+85.1
				Mexico	0.474	+20.6
				Korea Rep.	0.472	-42.9
Japan	4.137	3.734	+10.8	Korea Rep.	1.602	-22.2
				China	1.037	-0.8
				Vietnam	0.700	+91.3
				Taiwan	0.677	+200.9
Russia	2.757	2.736	+0.8	Turkey	1.196	-3.9
				Belarus	0.553	+31.4
				Spain	0.361	-1.1
				Korea Rep.	0.344	-8.3
Canada	1.641	2.192	-25.1	USA	1.450	-12.4
				Egypt	0.053	-66.0
				India	0.033	+32.0
				Taiwan	0.028	-78.6
Australia	1.030	1.206	-14.6	India	0.226	+41.3
				Vietnam	0.150	-49.7
				Bangladesh	0.117	+2825.0
Ukraine	0.739	0.464	+59.3	Turkey	0.626	+61.3
				Moldova	0.105	+43.8
South Africa	0.658	0.726	-9.4	India	0.287	-26.2
				Pakistan	0.174	+68.9
				Turkey	0.064	+255.5

% Change Jan-March 2015/2014
Source: Official Trade Statistics/WVStahl

Steel scrap export increases were also recorded by Russia (+0.8% to 2.757m tonnes) and Ukraine (+59.3% to 0.739m tonnes) in the first half of 2015. Turkey emerged as the biggest buyer for Russia (-3.9% to 1.196m tonnes) and also for Ukraine (+61.3% to 0.626m tonnes).

Meanwhile, lower overseas shipments of steel scrap were posted in the first half of 2015 by Canada (-25.1% to 1.641m tonnes), Australia (-14.6% to 1.03m tonnes) and South Africa (-9.4% to 0.658m tonnes).

The main buyer of Canadian steel scrap was the USA (-12.4% to 1.45m tonnes). India was the main steel scrap purchaser for exporters in Australia (+41.3% to 0.226m tonnes) and South Africa (-26.2% to 0.287m tonnes).

USA AND PACIFIC RIM

by **George Adams**, SA Recycling, USA
Ad Hoc Board Member of the BIR Ferrous Division

USA

July began what has continued to be a downward trend in US steel mill orders, as well as scrap prices. Faced with increased foreign imports of finished and semi-finished steel and slowing domestic demand, most US mills began cutting scrap purchases and prices in July. Despite reduced intakes at many scrap yards owing to lower prices, scrap inventories have exceeded mill demand for the last quarter, giving the steel mills the opportunity to continually reduce scrap prices month over month. That trend culminated in October when most mills easily took US$ 50 out of scrap prices, equating to a 25-30% drop from September. Most scrap sellers capitulated and took any orders they could find.

That weakness looks set to remain in November as many mill order books remain weak and scrap continues to overhang the domestic market. Faced with lower demand and weaker export markets, US mills look likely to remain in the driver's seat in November. On the supply side, intakes at most US scrap yards continue to slow, with many yards off another 20% as at the start of October. That may have some mills concerned as we approach the winter months.

PACIFIC RIM

- **China**

  The move by Beijing in early August to devalue the domestic currency helped Chinese exports of all goods, including steel, thus exacerbating an already serious problem for other steel-producing countries. Chinese steel exports have continued at record pace, drowning the markets of the world's EAF producers in ever-cheaper semi and finished steel products. From January to August, Chinese shipments totalled almost 72m tons - a 26% increase from 2014. We continue to hear about Chinese mills exporting at or below their production costs, prompting a long list of steelmakers to extend or raise tariffs on imports.

There are no signs of relief coming from the demand side of the Chinese domestic market. The latest Chinese PMI (Caixin) figure - a gauge of the country's manufacturing sector - was lacklustre. We now see reports of heightened concern surrounding China's debt-to-income ratio and corporate cash flow which would indicate capacity closures under normal free market economies. However, China is not a normal free market economy.

- **South Korea**

  Other than a couple of cargoes in July, Korea has been largely absent from the deep-sea market, with most of its needs being met by the short-sea market out of Japan. The country has also been hit by low-cost Chinese billets and, along with the rest of the world, has struggled to find the bottom. It looked like Korean buyers might come back to the deep-sea market in mid-September but ultimately they decided to wait. There are reports of large inventories and of ships waiting to berth. Most of the short-sea orders now being taken are for December or January delivery.

- **Taiwan**

  HMS containers delivered to Taiwan opened in July at US$ 200 per tonne but they have lost US$ 50 since then. Like the rest of the world, they have been hit really hard by the importation of low-cost Chinese billets. This has reduced scrap shipments from the USA by 50%. These cheap billets have put tremendous pressure on existing EAFs. World Best has announced the closure of its steel mill and the sale of the land to China Steel to be used as a storage yard. There are many rumours that other steel mills are in trouble and might have to close. In addition, rebar demand is low. Taiwan will probably continue to be very soft over the next quarter.

- **South East Asia**

  The situation has not changed in this region since our previous report. Steel exports from China are still dominant in Asia and we see no indication this will change. Close to 50% of total Chinese exports reach Asian markets, 30% alone into South East Asia with more than 20m tons supplied in the year to date. Billet prices have dropped around 17% since July while rebar has fallen close to 13%. South East Asia's mills are still struggling to compete and their appetite for scrap has been variable and somewhat uncertain. Scrap prices into the region have dropped around 25% since July, creating sentiments that scrap would be more competitive at these levels; however, comments heard in the region indicate a perceived weakness in steel demand and hence lower steel prices. News reports of plants closing or of the idling of certain operations are regularly seen. Again, the trend will be set by China's exports and pricing or by countries implementing measures to block cheaper products. So far, the few measures that have materialised have not been enough to reactivate local production.

EU

by **Tom Bird**, Mettalis Recycling Ltd, UK
Board Member of the BIR Ferrous Division

Since the previous report in July, we have seen some of the most challenging trading conditions ever witnessed. As stated in the conclusion of that report, the outlook for the final two quarters of 2015 would depend greatly on the continued flow of Chinese billet, this despite the usual uplift normally expected post-Ramadan. Unfortunately, the reality has been an increased flow of even cheaper Chinese billet, further depressing the price of steel scrap in the EU.

At the time of writing, Chinese billet is being quoted at around the US$ 260 per tonne level, representing a reduction of approximately US$ 80 since July, with CIS billet holding up slightly better at around US$ 270. This has impacted the price of scrap across the region. The main export outlet for deep-sea material, namely Turkey, is seeing HMS being quoted at US$ 165-170 per tonne at the time of writing, representing a US$ 100 drop since the middle of 2015. Since the end of July, we have seen prices tumble into EU mills by in excess of Euro 60 per tonne. October alone has seen price reductions of Euro 30-plus per tonne. Coupled with this, demand has declined significantly with a number of mills cutting back production.

The Spanish market has deteriorated considerably over the last few months, with HMS levels at the time of writing barely reaching Euro 140 per tonne. Demand has also tapered off as buyers are waiting for ever lower levels. Similarly, the Italian market has seen significant drops. In the UK, Tata Steel has announced that it is unlikely to require any steel scrap into either of its integrated mills at Port Talbot or Scunthorpe for the remainder of the calendar year. Demand from Tata Steel's main scrap-consuming plant in Rotherham is significantly reduced, with October representing an extremely low buying level.

Low prices have adversely affected arisings across the entire EU. Discussions with a number of operators across the region suggest volumes are down around 30%, with some saying the decrease is as much as 40% in certain areas. Low volumes and dampened price levels are affecting margins significantly.

Container trade out of the EU has helped to some extent as the lower price levels have brought a flurry of activity (as noted in the report for India), with prices slightly better than those available in the traditional domestic markets. At the time of writing, however, buyers are standing back and some are even "walking away" from previously-concluded deals.

A question asked by many commentators is whether the current trading environment is worse than that experienced in 2008. The fundamental difference between now and then is that, in 2008, we had experienced a number of extremely buoyant years. While still hit hard in 2008, there was something put away for harder times whereas now we have had tough and challenging conditions for the last couple of years and, in many cases, "the cupboards are not as well stocked".

What can we expect for the final quarter of 2015? At the time of writing, there is nothing to suggest that anything will change significantly. Every price drop is met with the question "Is this the new low?" - only for further reductions to follow. As stated time and again, a great deal will depend on the flow of billet. Some countries are implementing tariffs to stem the tide, but only time will tell if this is fruitful. As long as China maintains current production levels with commodity markets generally struggling, then the immediate future will certainly remain challenging. One point to mention is that, if we experience a hard winter, we may see the odd spike for steel scrap, but timing of sales will be crucial.

JAPAN

by **Hisatoshi Kojo**, Metz Corporation
Board Member of the BIR Ferrous Division

The Japanese steel scrap market has continued to drop following the decline in the steel product market caused by global oversupply. Once below the Yen 20,000 per tonne mark (US$ 166.67), export prices for Japanese H-2 scrap fell quickly to Yen 16,000 FOB (US$ 133.33) in mid-September. These numbers are based on an exchange rate of Yen 120 to the US dollar.

Having reached this lowest point for six years and nine months, the scrap market has temporarily stopped falling in most regions because price-leader Tokyo Steel did not change its purchase tags in the second half of September. However, the potential for a rebound is weak and anxiety levels remain high for a further decrease.

The biggest concern is how the external environment surrounding the finished steel and semi-finished product market will develop. The fall in Chinese billet prices has yet to come to a halt; far from it, indeed, as its downtrend is expected to accelerate further and, as a consequence, scrap price modifications will be inevitable in the coming months. In this context, market movements after China's national holidays will be "an issue".

Given the decline in demand for scrap from the two major importing countries of South Korea and Turkey, as well as the floundering US scrap export market, no price rebound in the scrap market can be expected before the end of this year.

At the time of writing, Korean and Vietnamese bid prices for Japanese H-2 scrap are around Yen 15,500-16,000 per tonne FOB ST (US$ 129.17-133.33) on thin trade.

RUSSIA AND UKRAINE

by **Andrey Moiseenko**, Ukrmet Ltd, Ukraine
Board Member of the BIR Ferrous Division

Russia

The Russian market is following the international trend with a certain delay. Prices have decreased recently but we still have a long way to go; even today, several mills are paying more than US$ 175 per tonne delivered. The situation is quite unstable and mills are hesitating about "correct" price levels. Some customers had even announced further decreases and then later kept prices unchanged. However, we can say that, in general, mills have already secured their winter stocks.

The Russian ruble has definitely stopped weakening and an improvement in the exchange rate has even been observed. Most probably, it will stay around the level of 60 rubles to the US dollar and will not support exporters any longer with extra margins. If there is a further price decrease, we will not see much volume exported from Russia in the coming months because of the more competitive domestic market and the general slowdown in collections.

Ukraine

The situation in Ukraine is very complicated, with the main problem being the drop in collections of more than 40% on a year-on-year basis. Only a few major scrap buyers remain on the market and some of the mills have either stopped production or decreased it to minimum levels. Average prices on the domestic market are around the US$ 150 per tonne level delivered to the mill. A further decrease had been announced but this was cancelled at the last moment owing to the low incoming flows of scrap.

Ukraine is continuing to export scrap by sea as well as by rail but quantities are limited because we do not expect new quotas to be distributed until the end of the year.

The government keeps looking for new ways to control exports but it seems the existing system of export quotas will remain for some time.

INDIA

by **Zain Nathani**, Nathani Group of Companies
Vice-President of the BIR Ferrous Division

After many months of indifferent activity, the Indian scrap market has shown signs of revival in the last few weeks. Demand has picked up from Indian mills as international scrap prices continue to weaken. Quite a few bulk cargoes have been sold to traders for India West and East Coast, which shows that some traders are bullish for the short term. There is hope that the seasonal uptick in overall consumption and demand due to Diwali (Indian New Year) will positively impact the domestic steel industry too.

Indian ferrous scrap imports in the four months from April 1 to July 31 this year amounted to 1.95m tonnes, a total higher than that for last year's corresponding period. Meanwhile, flat steel imports into India have fallen slightly owing to the 20% anti-dumping duty levied by the Indian government on most grades of hot rolled plates/coils.

With the Central Bank once again cutting interest rates and inflation under control, most are quietly optimistic that the worst is behind us and that 2016 will be the start of a strong economic revival in India. However, many threats remain; in the event of a sluggish global economy and continued dumping of hot and cold rolled coils, the Indian steel industry could suffer further, which in turn would have a negative impact on demand for metal scrap.

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