BIR World Mirror

Non-Ferrous Metals

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Pessimism among China's scrap consumers

The past few weeks have been far from peaceful given the terrible tragedy in Egypt, the terrorist attacks on Paris and the Brussels terrorist manhunt. We send our condolences to the families of the victims and wish our Brussels office staff keep safe and sound. Hopefully, their lives will return to normal soon.

Overall, the global economy isn't any better off than it was a month ago and is facing many uncertainties. The strengthening of the US dollar has brought down almost all commodity prices while China's economy is not faring any better, with weak demand getting even weaker.

At the 2015 Annual Convention of the China Nonferrous Metals Industry Association Recycling Metals Branch (CMRA) in early November, it was confirmed that all the uncertainty is prompting Chinese consumers to adopt a pessimistic buying stance.

At one of the sessions consisting of foreign scrap suppliers and Chinese buyers, it emerged that an increasing number of China's non-ferrous alloy consumers are using primary grades, refined grades and copper cathode rather than their traditional scrap input. Certainly, that is a threat to our industry, although all business entities are supposed to control their own costs of operation.

Not only is the overcapacity in primary metals production very serious, the hidden fact is that primary metals producing provinces and regions are facing an even tougher task to balance their budgets.

In mid-January 2016, I will form a working group to devise the programme for our meeting at the BIR World Recycling Convention in Berlin next May/early June. In the meantime, I wish you all health and happiness.

by David Chiao
Uni-All Group Ltd (USA)
President of the Non-Ferrous Metals Division

25th November 2015

International

Mexico

*(by Alejandro Jaramillo, Glorem SC,
General Delegate to the BIR Non-Ferrous Metals Division)*

During November, conditions continued to be extremely complicated for the non-ferrous recycling sector in Mexico. On top of falling volumes and already-narrow margins brought about by multi-year lows in base metal prices, we experienced an extremely choppy domestic market with some consumers shying away from the same scrap grades that they were pursuing aggressively just three months ago.

Secondary aluminium-related scrap grades such as Tense and Taint Tabor have recently suffered a sharp drop in demand. To understand the acuteness of this problem for Mexican operations, two factors should be considered: first, the size of the Mexican market, which is still limited in volume and in the number of consumers such that demand disruption is frequently felt in a very marked and abrupt way; and second, domestic scrap prices frequently do not correspond with export values, and so going from domestic to export frequently means a significant mark down.

Post-consumer scrap volumes are experiencing a sharper contraction than industrial scrap. The latter is being generated in increasing tonnages but has challenges of its own as more is finding its way into closed loops, meaning lower margins for the yards handling it or less volume in the market if the scrap does not require any handling at all.

Mexican auto production and exports were down, respectively, 1% and 4.7% in October whereas the year-to-date figures showed increases of, in turn, 5.6% and 5.4%. One of the silver linings for the Mexican economy is that domestic consumption is showing modest signs of recovery; domestic auto sales were 19.6% higher in the year to date and on pace for an all-time record.

The World Bank recently published its “Doing Business 2016” report that evaluates the ease of doing business in different countries of the world. Mexico improved by four places to number 38, the best in Latin America.

At the time of writing, the Mexican peso stands at MX$ 16.5520 to the US dollar and has fluctuated over recent weeks between MX$ 16.9030 and MX$ 16.3725.

Hopefully in December, some smaller operations and industries might be persuaded to liquidate scrap inventories for the year-end.

Australasia

*(by Paul Coyte, Hayes Metals, New Zealand,
Vice-President of the BIR Non-Ferrous Metals Division)*

Non-ferrous metal markets in Australasia remain in a lacklustre state. While we are ramping up to Christmas, which is typically a very busy time of year before the traditional summer shutdown period, most metal merchants are reporting much quieter market conditions and are certainly not optimistic about the prospects for a short-term improvement.

Domestic consumers are still buying at current levels and scrap availability is good at home. Traditional offshore markets are still buying, albeit with challenging terms.

According to latest research, business confidence in New Zealand is at a six-month high. This does not seem to reflect the current state of the country’s metal markets or sentiment among many of the companies that provide the raw material to these metal merchants.

India

*(by Dhawal Shah, Metco Marketing (India) PVT Ltd,
Senior Vice-President of the BIR Non-Ferrous Metals Division)*

The last six weeks have been very challenging in India, like everywhere else. It does not matter what kind of activity you undertake in secondary non-ferrous here, there is either a sad story to tell or feelings are a little low.

Surprisingly, the newspaper headlines at the time of writing this report read: “Indian GDP grew by 7.4% in the last quarter” and “Car sales grew by 10% on a year-on-year basis”. Both news items would normally infuse the India story with a lot of hope and confidence. But what is a mystery is the wider disconnect, which our industry is currently experiencing beyond all the surface-level razzmatazz. Undoubtedly, the major value erosion on the LME over the last two to three months has had the industry in India - which predominantly relies on imported raw materials/scrap - caught in a spin, as unhedged materials faced a solid write-down. Simultaneously, purchasing by local smelters and foundries is finding extra resistance as prices are being adjusted by the day based on real-time market and currency movements. To mitigate risks, more and more consumers are now shifting to formula contracts and are pricing materials closer to the time of consumption or sales.

Disregarding the newspaper headlines, which invariably miss the contribution of the secondary metals sector, there is still hope that India will be performing better than other markets in times to come. But the production cutbacks announced by producers of primary zinc, aluminium and nickel are doing very little to hold the downward push. The negatives are clearly outweighing the positives for now.

Therefore, it is imperative that risk management remains at the forefront of every business to combat high volatility. In other words, David has no option but to take on Goliath.

Japan

*(by Shigenori Hayashi, Daiki Aluminium Industry Co., Ltd.,Japan
Board Member of the BIR Non-Ferrous Metals Division)*

The Japanese economy shrank in the July-September quarter, reflecting sluggish corporate capital investment and a slow recovery in consumer spending and exports. The numbers from the Cabinet Office showed GDP declined at an annualised rate of 0.8% in the third quarter.

That meant the world’s third-largest economy might slip back into a technical recession because it recorded negative growth for a second straight quarter.

Meanwhile, car sales in Japan declined by 4.1% year on year in October to 380,000 units, thus completing 10 consecutive months of negative growth. Japanese secondary aluminium alloy shipments also dropped by 2.3% in September when compared to the same month last year.

On the foreign exchanges, the Japanese currency fell to a three-month low of Yen 123 to the US dollar in early November owing to expectations of an imminent interest hike by the Federal Reserve. The depreciation of the Japanese yen hampered imports of ADC12 aluminium alloy from China and Russia. Spot import offers on ADC12 have been down by US$ 80-100 per ton during the last month because of poorer sales to the Japanese market. Most buyers remain hesitant and prefer to wait on the sidelines as the prices fall week by week.

Japanese scrap prices also dropped by US$ 40-70 per ton in November owing to lower LME values and sufficient availability of raw materials for secondary aluminium smelters.

China

(by Shen Dong, OmniSource Corporation, USA)

The economic slowdown for the world's leading metals consumer has resulted in a sharp drop in commodity prices. The value of copper, for example, has plunged to a six-year low. Meanwhile, expectations remain high of a possible interest rate hike by the US Federal Reserve at its mid-December meeting. The increasing strength of the US dollar may add further pressure to commodity prices.

According to China Customs statistics for the first nine months of this year, refined copper imports suffered a 4% year-on-year decline to 2.55m tonnes owing to weak demand. Higher domestic supply and a reduction in the use of the metal as collateral for loans are being cited as the main factors likely to contribute to the projected drop in purchases. The launch of a probe into financial irregularities at the port of Qingdao in June last year has reduced copper's use as collateral for financing. The downtrend is likely to continue in 2016.

It is anticipated that China's copper processors will continue working with thin margins on weakening prices, soft demand and overcapacity. In addition, rising labour costs and increasingly strict EPA requirements will further squeeze processors' profitability.

China's production of 10 major non-ferrous metals grew at a slower pace compared to a year earlier, according to latest figures. Output climbed 2.6% year on year in October versus 4.8% for last October. In the first 10 months of this year, production rose 8.4% to 42.61m tonnes.

China's aluminium and nickel producers have requested the state planner to ask the government to buy up surplus metal; the proposal does not include copper. There has been no feedback from the government at the time of writing.

South Africa

(by Sidney Lazarus, Non-Ferrous Metal Works (SA) (Pty) Ltd, Board Member of the BIR Non-Ferrous Metals Division)

Business is quiet and many companies are closing in the first full week of December or at the latest December 11 for their annual shutdowns. There is sufficient raw material but the sudden drop on the LME has caught out many dealers with expensive scrap that they do not wish to sell at the present levels as they would lose too much money.

There has been no load shedding and none is expected before April 2016 as maintenance is taking place at the power stations.

The International Trade Administration Commission (ITAC) has changed the formula based on the LME but is still not working in the best interests of dealers and consumers. A meeting needs to be held with all parties to find the way forward in the new year. While ITAC is not granting export permits for copper, these are being issued for aluminium and brass scrap - although there have been a few objections on the export of aluminium scrap.

However, copper scrap is still being shipped abroad without export permits and under different tariff headings. Scrap dealers are still getting their copper scrap converted into ingots or blocks and exporting the product. One scrap dealer has installed plant to produce copper and brass extrusions.

At the time of writing, the South African rand is trading at 14.15 to the US dollar and 21.40 to the British pound. GDP growth in the third quarter was 0.7% (quarter on quarter, seasonally adjusted annualised), or close to 0.1% quarter on quarter without annualisation. This means the economy saw virtually no growth between quarters once the seasonal adjustment is made. The second quarter saw a contraction of 1.3% quarter on quarter (seasonally adjusted annualised).

Middle East

(by Ibrahim Aboura, Aboura Metals FZCO, Jordan, Board Member of the BIR Non-Ferrous Metals Division)

We approach the year-end on a challenging course as we are still facing multi-year lows across all commodities, particularly metals. The pressure on prices has given our industry its most puzzling time since the 2008 crisis - and it is proving to be an even tougher time as base metals values are not showing any signs of recovery.

China's slowing economy and the stronger US dollar are two of the major driving forces behind a continuous decline in LME prices that has hit the scrap metals industry hard in the past month as we witnessed the worst numbers in years. Copper has fallen to a six-year low of around US$ 4400 per tonne for a year-to-date drop of nearly 30%; market analysts are expecting US$ 4000 in the short term and such sentiment is creating panic among scrap yard operators and exporters.

The Middle East has not been immune to the weaker demand for metals and reduced commodity prices. Coupled with low oil prices and geopolitical instability, these factors have placed huge pressure on transactions and margins. Regional governments are working towards adopting new fiscal measures in order to generate non-oil revenues.

Overall, uncertainty continues to dominate the financial and commodity markets. As we wrap up the year on an ever more difficult note, we hope the markets will reach a turning point soon. This is certainly not the first downturn we have faced, and it is just a matter of navigating our way through these rough times before markets bounce back again.

United States

(by Andy Wahl, TAV Holdings Inc., Vice-President of the BIR Non-Ferrous Metals Division)

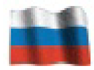
We have just experienced another exciting week with Comex copper almost dropping below US$ 2 per lb, dragging all other metals with it. In the space of a month, three-month metals prices have fallen thus: copper by 12.3%; aluminium by 3.3%; lead by 17%; and zinc by 10.2%. Gold and silver are lower by 7.9% and 10.8%, respectively.

Oddly, a number of leading indexes posted slight improvements (S&P 500 +0.7%, Dow Jones +0.9%, Dax +2.8% and Nikkei +5.4%). The exception was the Hang Seng which dropped 2.8% from a month earlier. On the currency side, we have seen a gain in the US dollar against the Euro of 4.2% at the time of writing.

These numbers speak for themselves. If you look back six months, copper has dropped 27% and the US dollar has gained 3.5% against the Euro. The bottom line is that certain sectors on the primary side are continuing to overproduce. So long as production capacities are not reduced, we will not see much price improvement. For those of you who monitor the ferrous markets, the situation is no better.

Automotive continues to be a source of brightness, along with the aerospace industry. However, one must not be misled by the low unemployment rate of 5% in the USA: this certainly does not apply to the recycling industry as, every week, there is news of headcount reductions in the form of lay-offs. Material is hard to source and margins are slim at best.

Russia



(by Ildar Neverov, Steelway Limited Company, Board Member of the BIR Non-Ferrous Metals Division)

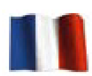
Russia is having its traditional problems with scrap availability. State tenders for significant reconstruction within the industrial and telecommunication sectors have generated scrap. But otherwise with the onset of winter, collection results have not been good. Moreover, prices have become weaker and weaker.

Also with regard to availability, we are awaiting scrap from Kazakhstan. On November 30, this country became a member of the World Trade Organization and so hopefully export duties will be eliminated.

Here, export duties were lowered on September 1 but local prices are still much more attractive in comparison to the international market.

Europe

France



(by Alexandra Weibel-Natan, Manco, Board Member of the BIR Non-Ferrous Metals Division)

The news has been going from bad to worse of late. France is paralysed with fear by the recent terrorist attacks in Paris and has been joined by most of the world in mourning its loss. Business-wise, the sun is not shining either. LME prices have dropped to their lowest levels since 2010 and it is difficult to say when normality will return, or even what normality really is. Meanwhile, the market is becoming increasingly concerned about production capacity cuts which it considers to be insufficient and thus inadequate given the contraction in Chinese demand.

The French scrap market is always very quiet at the end of the year - but “the end of the year” in 2015 seems to have arrived very early. Business has largely stopped, there is not much demand, and prices are so low that most scrap dealers prefer to stock and await a better market.

Germany

(by Murat Bayram, European Metal Recycling Limited, Board Member of the BIR Non-Ferrous Metals Division)

Prices are still on a downward trend and further negative corrections are still to be expected this year. Furthermore, scrap companies and smelters are reporting uncertain markets. On the scrap side, we have an overcapacity of operating yards which is asking for further consolidation.

Official data have shown moderate growth for the German economy. In the third quarter, GDP rose 0.3% compared to the second quarter. The unemployment rate in October showed a drop of 62,000. So much for the theory. Based on dropping iron prices, we can see that, besides the ferrous situation, availability of non-ferrous scrap has also been negatively affected. Some market participants are reporting that scrap supply is down by 30% to 40%, material which was previously delivered by small merchants. All this also results in a lot of market talk about so-called “walking deaths” - in other words, companies which are believed or known to be in great financial trouble but which somehow still operate/compete as everybody awaits the first collapses. Therefore, suppliers are being ever more careful in their choice of who to sell to with regard to liquidity and reliability.

The Euro/US dollar exchange rate has helped to compensate the loss in dollar prices on the LME and pushed export sales. Comparing the copper price at the end of October of US$ 5180 per tonne with the US$ 4600 on November 19, this means a drop of US$ 580 or 11.2%. In Euro terms, the copper price dropped from Euro 4555 to Euro 4300, or only 5.5%. As for high-grade aluminium, prices dropped over the same period from US$ 1520 per tonne to US$ 1460 but increased in Euro terms from Euro 1320 to Euro 1360 owing to the weaker Euro which lost approximately 6% over that time in relation to the US dollar.

Copper scrap and clean aluminium grades are rare. There are dropping discounts for copper scrap and stabilised premiums for primary aluminium scrap. Winter is knocking on our doors and scrap availability will certainly not improve. At the last VDM convention of this year in Munich, we will see how all this will impact the mood of market participants. I learned during one conference that the grass is also brown in the neighbour's garden and so we should use the winter season to prepare for 2016.

Italy

(by Leopoldo Clemente, LCD Trading S.R.L.)

Intuition, heart and courage are truly what Italian non-ferrous metals operators urgently need to overcome the economic transition. For months, unfortunately, the LME has reserved only blows for the metals sector, the most recent being on November 23 when copper dropped to its lowest point in six years of US$ 4443 per tonne while nickel has updated its low of 2003 in reaching US$ 8175. Aluminium at US$ 1432 per tonne and lead at US$ 1551 also reached thresholds last seen five years ago.

Given this background, strategic planning has been overtaken by "day-by-day" operations and a focus on solid customers and quick payments - the "fundamentals" that never betray.

Furthermore, operational flexibility and versatility always bring their reward, together with a wide commercial network that is continuously fed and a massive visibility on the national and international markets which is always needed to seize the opportunities that arise.

Some positive feedback has come from the marketplace, albeit not particularly striking. From the domestic foundry sector, for example, there has been overall growth in 2015 of 0.4%. After a sharp drop in 2012 and a balance in 2013, the first signs of recovery were recorded last year.

The automotive sector represented the largest share of sales in the third quarter on 38%. Within this business area, an important recovery of non-ferrous has been recorded - an increase of 4.8% compared to the corresponding consolidated volume of September 2014.

In a couple of weeks from now on December 16, some 15m homeowners will face payment of the 2015 balance of the TASI and IMU taxes. For the fourth consecutive year, the bill will be even more bitter to swallow. The public administration is paying its debts to 100 days (despite the 30 days required by law), and from March 31 to the time of writing it has paid only 32% of the accumulated liabilities. This certainly does not facilitate reinvestment in the private sector.

It is worth underlining, however, that 45% of Assolombarda member companies expect to close the year with higher sales than in 2014; concerning 2016, the trend outlook is even more positive (51%). It would be worthwhile to turn this "bounce" into a lasting recovery but this depends on several different decisions that make up an economic policy, a family policy, an expense saving policy, and much more.

Despite promises by the President of the European Central Bank, Mario Draghi, to make every effort to increase inflation in the shortest possible time, growth in prices for 2016 should be around 1% - which is very modest when compared to the ECB's 2% target.

United Kingdom

(by Nick Rose, Tandom Metallugical (Midlands) Ltd,
Board Member of the BIR Non-Ferrous Metals Division)

After a very subdued BIR World Recycling Convention in Prague, you could have been forgiven for thinking markets had bottomed out. But think again! All markets have been hit with new lower levels. Copper was trading at around US$ 5200 per tonne at the time of the BIR gathering but has lost a further US$ 700 at the time of writing while the nickel market has fallen to a 10-year low at around US$ 8500.

The aluminium market is still struggling in Europe as the limited demand is unable to cope with supply.

It has been a very difficult year for the non-ferrous metals industry and all UK traders are hoping for better market conditions in 2016.

Nordic Countries

(by Mogens Bach Christensen, H.J.Hansen Genvindingsindustri A/S, Denmark, Board Member of the BIR Non-Ferrous Metals Division)

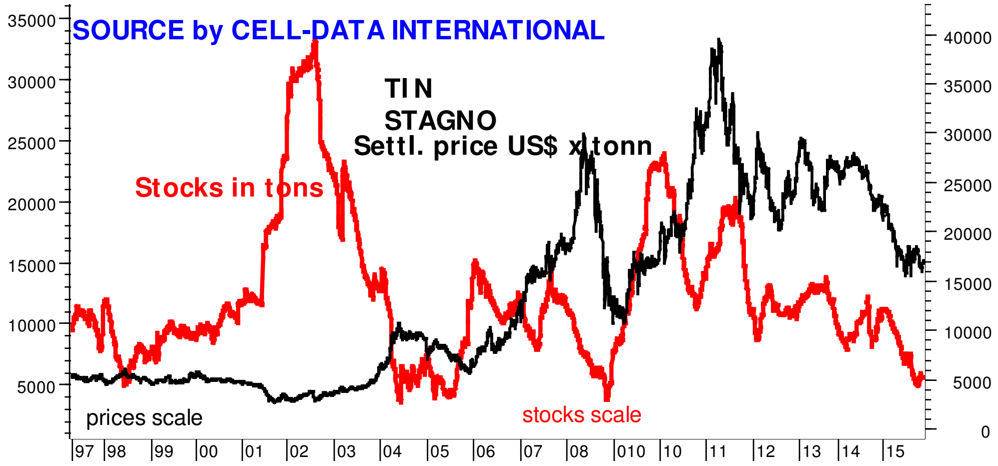
In general, there is a good pace to the Danish economy at present. The central bank looks set to hike rates but, given the large current account surplus, interest rates should remain lower than Euro rates and thus very low for several years yet. Employment is still rising and discussion of lack of labour in the future is on the table once again.

The Swedish economy remains in a “wait-and-see” phase but the trend towards improvement in the export sector is still visible. The pace of the general recovery still divides the financial and political markets.

There is still pressure on the short-term outlook in Norway, driven by developments in oil-related sectors. The lower rates and public investments are helping private consumption and construction.

Prospects for domestic demand in Finland remain dull. Household purchasing power continues to be weak owing to unemployment levels and a moderate wage agreement. A fall in consumer prices boosted private consumption in early 2015 but the impact is unlikely to last into 2016.

Investment activity is showing the first signs of bottoming. The housing market outlook is lacklustre, and prices and trade volumes stabilised in the spring. A cautious supply of new housing and low interest rates have helped to keep house prices relatively stable.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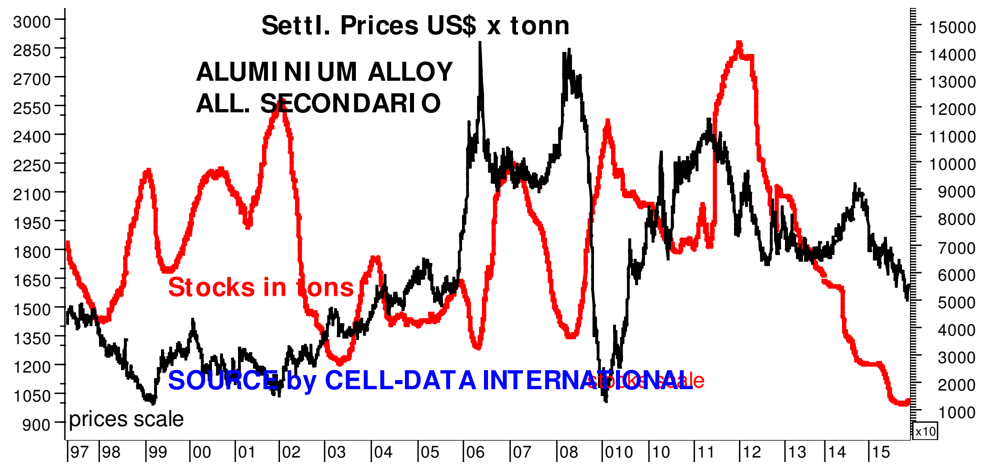
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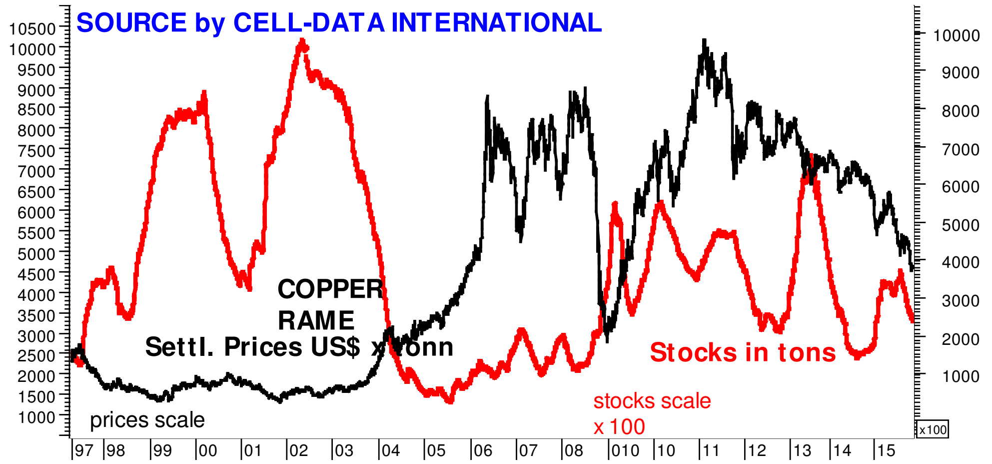
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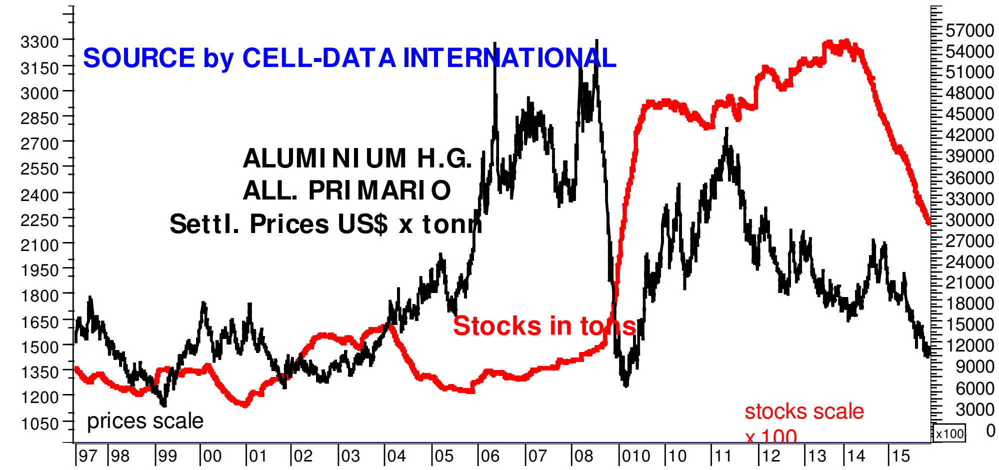

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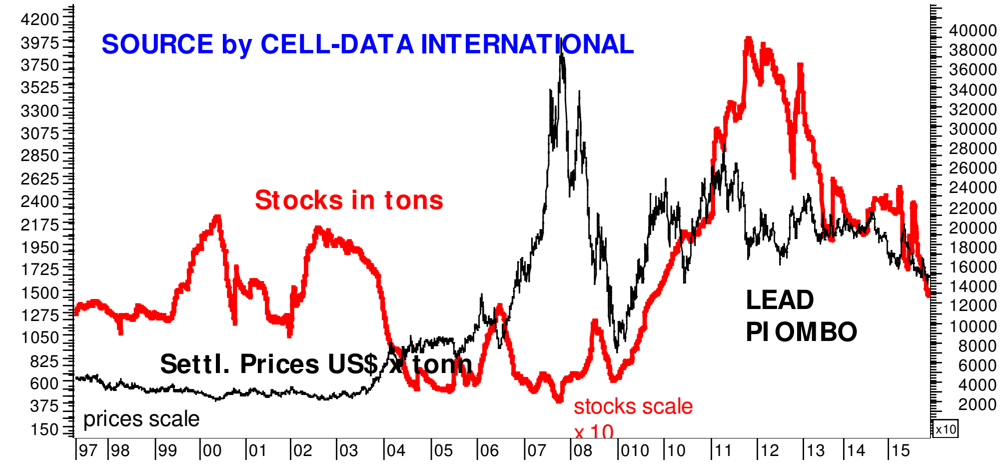

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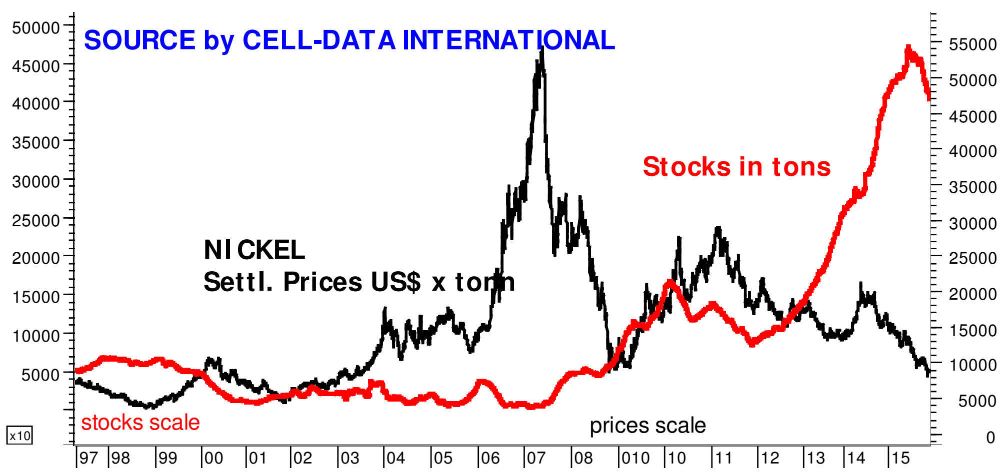

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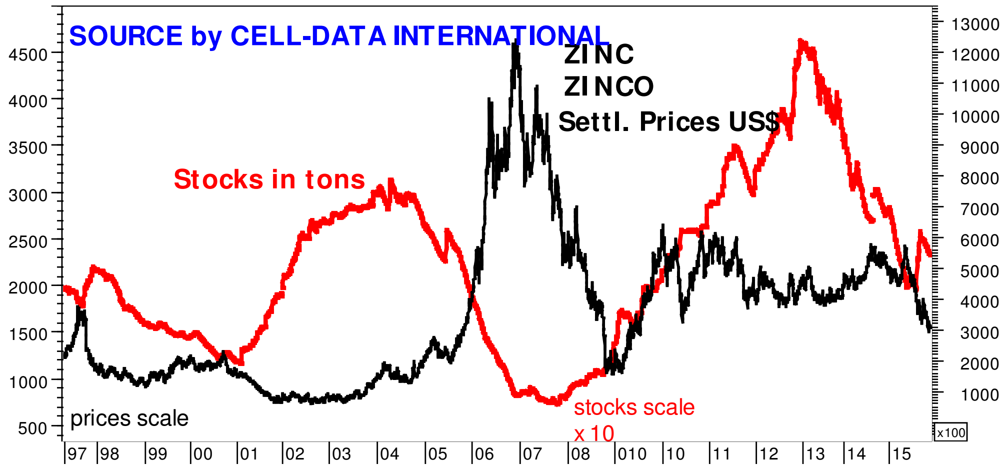

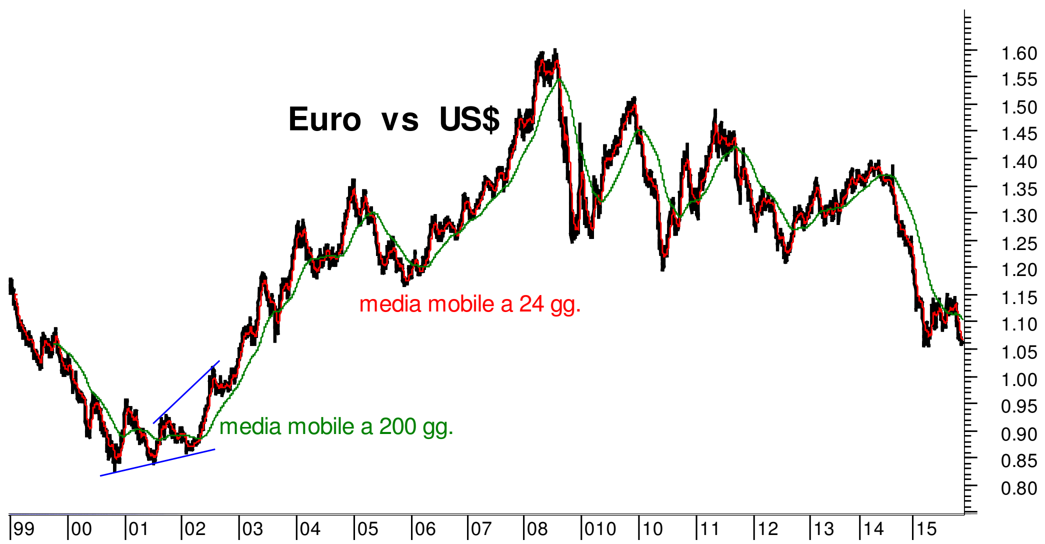

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