Offshore ferrous scrap prices moved closer to parity with domestic U.S. scrap prices, but they are still trailing by about $15 per gross ton to what U.S. exporters and dealers netted in their sales of shredded scrap to domestic mills this month. The Turkish mills bought three cargoes from U.S. exporters last week and raised their prices by $20 per tonne. That boosted the price for 80/20 heavy melt to an average of $303 per tonne delivered to a Turkish port and shredded scrap to $308 per tonne.

But U.S. East Coast exporters and coastal shredders got $330 per ton or higher for shredded scrap from steelmakers in Ohio and Indiana and about $290 per ton F.O.B. a barge going to mills along the Southeast Coast. These were more lucrative than the prices in Turkey, at least for shredded scrap. U.S. exporters got an estimated $275 per tonne on a shipping point basis from the Turkish mills for their shredded versus a comparable $290 per ton from U.S. mills. That’s based on the $308 per tonne that Turkish mills paid for shredded minus about $33 per tonne for stevedoring and ocean freight costs. The offshore 80/20 heavy melt sales aren’t comparable because few U.S. mills use that scrap.

Thus, while stronger demand and higher prices have spread to the offshore market, the foreign mills don’t yet pose a supply threat to U.S. mills. Demand was so strong in Ohio and Indiana this month, said a northern Ohio trader, that he and several others brought more scrap into the region from the East Coast than they had handled in several months.

Indeed, another Midwest trader said the $40 rise also brought a lot of plate and structural scrap into the domestic ferrous scrap market this month. Several demolition contractors had been sitting on huge piles of P&S, he said, and decided to unload now when the price increase surpassed their expectations.

The one new kink in the supply picture this month was the blizzard that covered the upper Midwest and the East Coast with a foot of snow this week. That will slow shipments to many of the mills in these regions as well as the processing of scrap in dealers’ yards. But snowstorms are usually short-term hindrances that dealers cope with by ordering extra railcars. One problem, however, may be railcar shortages arising from the greater rail use by the coastal shredders and exporters shipping shredded scrap to the Midwest mills.

**Busheling and bundles demand is setting the pace for price increases in the U.S.**

*March 15, 2017*
There is little doubt that domestic demand for busheling and bundles is the main price driver in the U.S. ferrous scrap market. The flat-rolled mills jacked up their sheet prices by $30 per ton last month in anticipation of higher scrap prices this month. Then they tacked on another $30 per ton increase last week after they finished this month’s scrap buys and saw busheling and bundles prices rise by $60 per ton. These increases could take the domestic hot-rolled band price up to $680 per net ton if the domestic mills maintain their current profit margins on steel products, but it also could begin to draw more foreign sheet steel into the U.S. market.

The $60 per ton spike in busheling and bundles prices also surpassed the $40 per ton increase in obsolete scrap prices. Some traders believe the increase in the obsolete grades were partly a “sympathetic move” brought about by the bigger rises in industrial scrap prices.

That steeper rise increased the so-called busheling premium over shredded scrap to as high as $70 per ton in some regions. That indicates how strong the competition for prime industrial scrap has become. Higher prices don’t bring out more busheling and bundles as they usually do for shredded scrap and heavy melt. They merely force the mills to outbid each other for the available tonnage.

The output of industrial scrap is determined by production of durable goods like cars and appliances, not scrap prices. Indeed, in 2008 when ferrous scrap prices were rising by as much as $100 per ton some months, the busheling premium over shredded scrap soared to more than $300 per ton before collapsing later that year.

**Increased demand from other busheling users is impacting scrap availability.**

One key but frequently overlooked aspect of the busheling market is the steady increase in demand from smaller mills that are also consumers of this industrial scrap. Many of these mills had been taking in less prime scrap in the past year because their order books were weaker. Much of that material had been going to the busier EAF-based flat-rolled mills. Now, these other mills are making more steel. They need busheling and bundles and are battling the flat-rolled mills for it.

Other rivals are the integrated mills, said a Chicago area broker. These big mills could make do by using home scrap and shredded with the hot metal from their blast furnaces, he said, but some melters are accustomed to using bundles. Another broker in the South said EAF melt shop managers don’t realize how difficult it can be to buy more of the industrial scrap when demand is rising. They behave in much the same way his wife does when giving him instructions for stopping at the supermarket. “It’s like they are saying, ‘Oh yeah on your way home tonight, I need a quart of milk, a loaf of bread and 200,000 tons of busheling,’” he said.

Busheling prices paid by some mills in the South soared to as high as $440 per ton on springboard buys from the upper Midwest and the U.S. East Coast. Steep price increases
can be a challenge even for mill-owned scrap yards. The temptation is to jump on that early offer before other dealers flood the market and the price increases start to recede. Yet, traders at the mill-owned yards must keep in mind their paramount duty, namely having enough scrap to feed their own melt shops. That’s part of the challenge any mill faces with vertical integration in the steel and scrap business.

Other than a modest 10,000 ton drop a week ago, domestic steel production has been rising steadily this year. Since the flat-rolled mills have been running at capacity for much of the past year, these new gains are coming elsewhere. Last week, according to the American Iron and Steel Institute, domestic raw steel production rose to 1,791,000 net tons. That is up 1.8% from the previous week and its highest weekly total in more than two years. The industry’s capability utilization rate climbed to 75.6%, AISI said.

Another concern expressed by some mill buyers is whether they will get all the tons dealers promised this month. In a rising market like this, dealers typically sell what they expect to see coming through the gates each month and not just the scrap already there. Some larger dealers can take it a step farther by assuming that they can switch hats and become brokers. They try to buy more busheling and bundles from other local yards that have no rail sidings and thus can’t sell into the higher-priced markets in the South and Midwest. The local yards either must accept lower offers from local mills or sell to a larger dealer acting like a broker.

But the seemingly cheapskate local mill may raise its offer to keep that industrial scrap from leaving the area. The larger dealer who promised, say, 20,000 tons of busheling to a flat-rolled mill in Arkansas or Mississippi may only be able to deliver half—i.e., only the scrap from his or her yard. The dealer can promise to ship it next month when more scrap will be available, but that doesn’t meet the mills immediate needs. If short, the mill’s buyer may have to pay an even higher price for an emergency late-month delivery from another supplier.

Will industrial scrap prices be unchanged in April and sharply higher by June?

Busheling and bundles prices spanned a huge range this month, from a low of $340 per ton in the East to as high as $440 per ton for some remote deals. Also, the $60-per-ton increase made most dealers sellers this month. Some traders said that while it is still only mid-March, they nevertheless expect a sideways market in April, at least for industrial scrap prices, or at worst only a soft sideways market with industrial scrap prices off by only $5 or $10 per ton. Obsolete scrap prices could decline more, especially if the warmer spring weather brings out more obsolete scrap and export demand doesn’t rise.

This industrial scrap demand boom could mean the mills are now carrying sufficient inventories to protect them from any further price increases over the next few months, said a veteran Chicago area trader. Next month, he said, the mills might choose to slash prices for all grades because they bought enough this month or are still owed some scrap at month’s end. However, dealers sold heavily in March and could pull back their offers in April and May. By June, he said, the mill inventories might be very low. Also, the
mills will beware of the upcoming summer vacation outages at auto stamping plants and the impact of those shutdowns on industrial scrap supplies. That could set off another buying binge in June.

**Shredded Scrap Thermometer: An excess supply response.**

Shredded scrap prices have backed off by $10 to $15 per ton from the peak springboard levels seen earlier this month. That may be because some dealers are still trying to sell excess shredded scrap that they did not unload earlier in the month. Some have paid higher prices for feedstock in the past few weeks because they had to match offers from mill-owned shredders. One in the Midwest was paying as much as $225 per net ton and taking material away from its independent rivals in the area. Other factors affected shredded sales included:

- A few mills didn’t buy as much shredded as expected this month. A large Pittsburgh area mill bought not a pound and another small EAF-based mill in that region had furnace problems and reduced its buy.
- In the South, despite some mills paying higher prices for remote supplies of busheling, some local shredded prices were up only by $30 per ton locally, not the $40-per-ton increases seen elsewhere. Shredded coming in from the East Coast suppliers may have put a lid on local prices. Also, shredded prices in some areas of the South last month didn’t drop as much as they did in the North and Midwest.
- The first shredded buyers this month were a small Eastern EAF-based long products mill and a Detroit area sheet steelmaker. The Eastern mill hiked its offers for shredded scrap, by $50 but the Detroit mill upped its price by $40. The Detroit area mill is a bigger shredded consumer and its buy sets the pattern in other Midwest cities.
- Shredded scrap and other obsolete grades like No. 1 heavy melt are more sensitive to price changes than industrial scrap grades. That and the mild winter weather prior to this week’s snowstorm may have brought more scrap into dealers’ yards.

Two years ago, busheling supplies were plentiful and the prices paid for busheling and shredded were “upside-down.” Shredded, though generally regarded as lower quality scrap, was more expensive and had made busheling a “wild card” in the scrap supply game.

- Mills are paying a busheling premium of as much as $70 per ton this month, but one broker said it’s a mistake to look at the dollar spread between busheling and shredded and assume that it should be no more than, say, $15 per ton. The percentage spread is a better indicator. A 15% premium over shredded makes more sense at current price levels and reflects the value of the cleanliness and higher metal recovery of industrial steel scrap, he said. By this logic, if shredded is sold for $330 per ton, busheling at $380 per ton is priced fairly.
Ironically, when the busheling price sagged below the shredded price, many of the nation’s rebar makers became bigger users of the industrial scrap. It was cheaper and the metal recovery was better than shredded, heavy melt and the other lower quality scrap that these mills normally use.

The Nasdaq Futures Exchange (NFX) expects to start trading in the Midwest US shredded scrap index futures by mid-year 2017. The contract will trade in 20-gross ton units with the prices settled on the 11th day of each month against the TSI Midwest US Shredded Scrap Index published by Platts. For additional information about shredded futures trading, contact John Conheeney at WSEM. His phone number is 201-503-0922 and his email is jconheeney@wsemgroup.com.

Note: Each issue, Mike Marley gives his opinion on the one-month steel scrap price outlook. He explains the key reasons for his view and highlights the “wild cards” that might cause him to be wrong.
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