Shredded Power #83
Mike Marley’s

Busheling and bundles prices rebound on strong demand.

Commentary:

This month’s ferrous scrap price slide, following three consecutive months of domestic price increases (and a contradictory decline in overseas prices), came to an end last week. Prices paid for busheling and bundles had dipped by $10 per gross ton a week earlier, but were back to January levels and higher in a few regions last week. Shredded scrap and heavy melt were recouping part of their losses as well.

Intense competition for industrial steel scrap supplies reversed what had started as a correction in domestic scrap prices. Early deals had seen those prices drop by $10 per ton in the Detroit area, a key regional market for buyers of busheling and bundles because of the concentration of automakers there. Several factors played a role in the turnaround, industry sources said.

First, some sheet steelmakers delayed their buying decisions when dealers balked at the lower offers for prime scrap. But competition for prime scrap has intensified in the South and Midwest this year because of the steady pace of sheet steel sales and new competition for industrial scrap. Brokers and buyers for major flat-rolled mills were paying as much as $340 per ton F.O.B. the barge along the Mississippi River for busheling and bundles shipped to their mills in the South, a Midwest broker said.

Second, Nucor Corp., the largest member of the sheet steelmaking group, has encountered new production problems with its troubled direct-reduced ironmaking (DRI) plant in Convent, LA. The big steelmaker didn’t disclose the problems initially, but instead began to make deals on industrial scrap at “sideways” prices with some large dealers. Word of these deals quickly leaked out to others in the scrap industry. Dealers rejected lower offers from other mills, which then had to ante up to avoid losing that scrap to a formidable rival.

Late last week, Nucor announced that the Louisiana DRI plant would be shut down for five weeks for repairs. It can divert some DRI from its other DRI plant in Trinidad. It may also replace some of this lost melt material with imported scrap and pig iron, but those offshore purchases usually must be made a month or two in advance whereas domestic scrap, even from distant suppliers, usually can be delivered within a few weeks.

Though it has its own scrap yards and buyback deals with independent stampers and other steel users, Nucor still buys a substantial tonnage of scrap on the open market each
month. Also, it can ship that scrap in railcars owned or leased by its subsidiary, the David J. Joseph Co. By last week, sources in several northern cities said the big steelmaker’s broker was buying busheling and bundles at F.O.B. dealer’s yard prices that matched the mill-delivered prices in those regions.

One obvious benefit of such arrangements is that dealers can make a higher return when they don’t have to include freight costs. Competing mills became aware of these purchases and started matching the offers to avoid seeing their shipments delayed; or worse, to have a dealer tell them that he or she had run out of scrap and would not be able to fill the order until next month.

Third, major scrap suppliers in Canada often supply scrap to U.S. mills, but they sold much of their scrap to one or two large Canadian mills last month and planned to do so again this month. That left several of the U.S. flat-rolled mills in the upper Midwest without an additional supply of industrial steel scrap.

Unlike shredded and other obsolete scrap grades, busheling and bundles are a fixed supply. It is determined each month by the stampers and other metal manufacturers that produce this scrap as a by-product of production work like making doors and hoods for new cars. Steelmakers can’t increase the amount of scrap generated by those plants. When these supplies are tight, all they can do is outbid each other for it or buy substitutes like pig iron, DRI or import scrap.

When competition for scrap rises, dealers will pull back from the market.

Some of the flat-rolled mills did not buy all the scrap they hoped to get this month, said a Midwest trader, adding that even those who got all they need would buy more if it was offered. Unfortunately, said a Chicago-based broker, a lot of dealers have pulled in their horns and aren’t offering additional scrap now. Most, he said, are prepared to wait. They’ll finish shipping what they sold this month and look for higher prices in March.

A Chicago area trader said his company made a couple of last minute deals with several mills that were short scrap, but which now he and other traders in his group regret. The company isn’t oversold and won’t have a problem filling those orders, he said. It has ample inventory on the ground and expects to see a steady flow of scrap from most of its industrial suppliers this month. “But I would rather have the inventory now,” he said and predicted that shredded scrap could climb to $350 per ton on a delivered to the mill basis next month.

An Eastern trader said some flat-rolled mills misread the market this month. They took for granted what the mills in Detroit managed to get in terms of price cuts and assumed they would get the same, but failed to get on board early enough. When their rivals were buying scrap ahead of them at unchanged prices, he said that they had to play catch-up and match those offers to avoid losing local scrap. At the same time, however, much of the industrial scrap was already sold. And they are content to hold off any unsold inventory from the market because they are expecting bigger increases in March.
Another Midwest broker said the ferrous scrap market is “on fire.” Though it’s only mid-February, he predicted that dealers will be asking for increases of $25 to $40 per ton on obsolete grades and $40 to $60 on prime scrap in March. Prime scrap is tight because the sheet mills are running at capacity and now several other mills that had not been as busy in the past year are picking up additional steel orders and looking to buy more busheling. Several mills paid $355 per ton for bundles and busheling this month on a delivered to the mill basis, he said, and noted that any mill which now wanted to buy 3,000 tons of prime industrial scrap would have to pay more than $350 per ton for it.

The American Iron and Steel Institute also confirmed that domestic raw steel production is climbing. It rose to 1,738,000 net tons last week while the capability utilization rate was 73.4 percent. That is up 0.9% from the previous week when raw steel output totaled 1,723,000 net tons and the operating rate of was 72.7%.

Another trader said that while there is inventory in a lot of yards, there is also better demand for scrap and a lot less scrap in the supply pipeline. Dealers are not holding a lot of inventory these days. His yards finished January with their inventories at the lowest level in more than six years. “We sold what we wanted to sell”, he said. He could have sold more, but stopped because he wouldn’t be able to deliver that scrap until the end of February or the beginning of March when prices will be going up and cost more to replace the inventory he sold.

The mild weather over the past two months in the Midwest and the East, along with higher prices, has kept obsolete scrap flowing into many yards through the winter. And several dealers said they don’t expect a slowdown as long as the weather remains moderate through the next six or seven weeks. That could provide ample supplies of shredded and heavy melt for both the domestic mills and the export market. But it may also mislead a few buyers and brokers in April. They may be looking for a big obsolete supply blip and the usual price drop in the Spring. That might not occur this year.

**U.S. West Coast exporters are busier than the East Coast export yards.**

Asian steelmakers are spending more time shopping for ferrous scrap from U.S. West Coast docks than their Turkish rivals are doing on the East Coast. Chinese steelmakers bought four bulk cargoes from two U.S. export yards last week and paid an average of $270 per tonne for that scrap, a West Coast trader said. Two other cargoes were sold to mills in Thailand and Indonesia.

Turkish steelmakers, however, are buying more from European suppliers than from U.S. East Coast yards. Their last deals on this side of the Atlantic were done more than a week ago and included one cargo that was solely cut grades like heavy melt and no shredded scrap. An East Coast trader said the exporters and coastal shredders were more interested in selling their output in the U.S. because the prices were better. Buying prices for export heavy melt at the docks range from $170 and $180 per ton, the same prices that was being quoted to suppliers two weeks ago, he said.
A New England export yard sold a cargo to a Turkish mill a week ago at $248 per tonne for the 80/20 heavy melt and $253 for the shredded. That put the price for the shredded portion of that cargo at about $220 per tonne on the docks. That’s about $20 per gross ton below the comparable F.O.B. prices exporters could obtain from U.S. mills. Steelmakers in the Middle Atlantic region paid between $260 and $265 per ton delivered for shredded scrap this month while prices in many of the Midwest cities are between $280 and $290 per ton.

**Shredded Scrap Thermometer: Reviving the busheling premium.**

Busheling and bundles usually surpass shredded scrap in terms of quality and price. In the past century, the auto industry’s factory bundles were the cream of the ferrous scrap crop because integrated steelmakers used it to make sheet products for the automakers and paid a premium price for that scrap. Shredded was contaminated with non-ferrous metals until the shredders installed advanced recovery systems and persuaded the BOF shops to use their product. EAF melt shops have experience with shredded, yet they also are bigger users of busheling and bundles for many of the same reasons and often pay a busheling premium for that scrap:

- There is a fixed supply of busheling and bundles because it’s generated by the manufacturing industry as a by-product. Stamping plants make usable products and produce sheet steel scrap as part of this process. No one makes busheling just to satisfy demand from steel mills and foundries.

- Most EAF sheet steelmakers would prefer to make their steel from an integrated mill’s steel scrap. One goal is to minimize the inclusions, the so-called tramp elements like copper and lead, that can affect steel’s metallurgical properties, making it difficult to shape into a car’s door or fender. Some use as much as 70% busheling to make their sheet products. As they use more of their own scrap, the levels of some inclusions can increase. If they can’t get enough clean scrap, they use pig iron to dilute those inclusions to acceptable levels.

- In addition to fewer inclusions, industrial steel scrap has less dirt and rust and other materials that are not entirely removed in the shredding process. Thus, busheling can have an iron recovery rate of more than 90% while shredded scrap is usually in the upper 80% range. Steelmakers will pay higher prices for more iron units, a premium over shredded and, when buying pig iron, a premium over busheling.

Having all the busheling isn’t always the blessing of abundance. There can be too much of a good thing even in scrap that can alter supplies and act as a “wild card” in figuring production costs. These are:

- When the U.S. market was flooded with imported sheet steel two years ago, some EAF steelmakers with their own scrap processing yards had too much busheling to fill their needs each month and in some instances had no means to reduce the buy-
back intake from those industrial stamping plants. All they could do was cut the price
to less than what others were paying for shredded scrap and hope that some of the
long products mills would substitute higher quality busheling for shredded and sop up
the excess supplies.

- Busheling may be cleaner, but it often lacks one attribute the melt shop managers’
  value – density. Thus, loading busheling scrap into an EAF might require three or
  more buckets to fill the furnace while shredded may need only two. Using busheling
  can stretch out tap-to-tap time and generate less steel output, and in some mills, mean
  a lower production bonus for the melt shop foreman and his crew.

The Nasdaq Futures Exchange (NFX) expects to start trading in the Midwest US
shredded scrap index futures in late 2Q 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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