

Argus White Paper: Ferrous scrap — Europe looks to Asia to diversify exports



Ferrous scrap exporters in continental Europe and the UK increased sales to Asia throughout 2018 as part of a wider strategy to reduce dependence on a volatile Turkish market and capture a share of some of the world's fastest-growing steel markets.

UK suppliers looked to capitalise on strong existing positions in the south Asian market in the face of growing competition from continental European players. European exporting regions increased shipments significantly to southeast Asia.

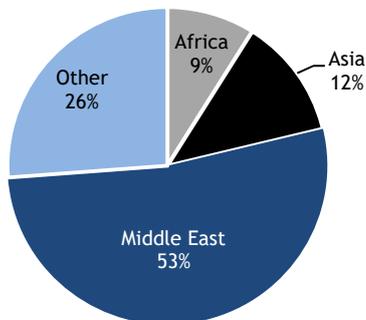
The growth in European sales to Asia has been driven by the containerised market to date, particularly in the case of continental Europe. Higher demand from container markets has drawn material away from the bulk market in Europe and the UK, providing support to dockside pricing and the deep-sea seaborne market in turn.

Increased demand — higher exports to Asia

Steelmaking capacity by electric arc furnaces – for which ferrous scrap is the major raw material – has been rising in south and southeast Asia since 2013, boosting demand for imported scrap. Exports to Asia from Belgium, the Netherlands and

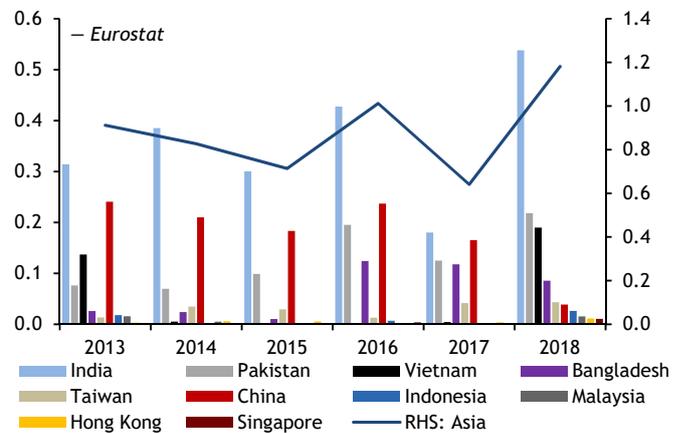
Belgium, Netherlands, Germany seaborne exports

Excluding Europe



— Eurostat

Belgium, N'lands and Germany exports to Asia *mn t*



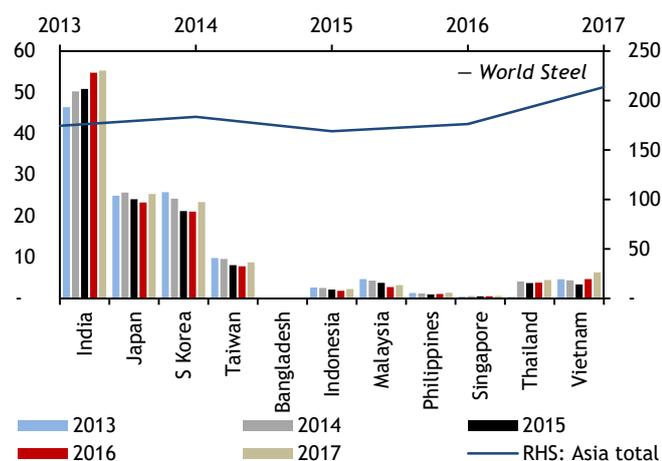
Germany rose by over 84pc year on year to 1.18mn t in 2018, of which a large portion was estimated to be in containers.

Asia accounted for 4.9pc of ferrous scrap exports from Belgium, the Netherlands and Germany in 2018, and over 12pc of shipments to markets outside Europe.

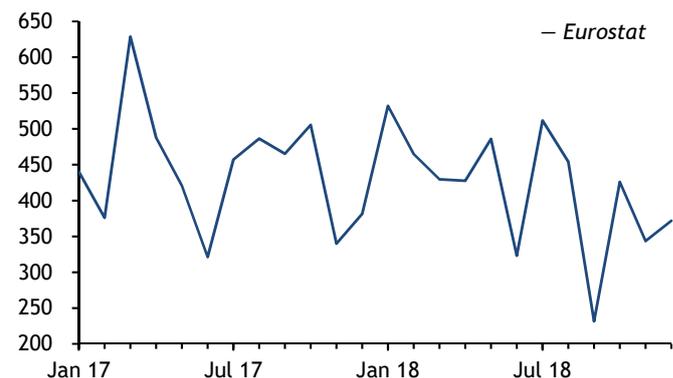
The two largest Asian buyers of European scrap in 2018 were India and Pakistan. Combined imports to these countries more than doubled year on year to over 750,000t. Vietnam was the third largest buyer of European scrap in Asia, with imported volumes rising to 190,000t in 2018 from just over 4,000t in the previous year. European exports to Vietnam are likely to remain stable at a minimum this year as at least 30,000t was shipped to the country from the Netherlands in January-February, according to Argus freight fixture records.

European suppliers have also increased exported volumes to other Asian countries such as Malaysia, Indonesia, Philippines and Thailand, which have all boosted EAF capacity in

Asia EAF production '000t



Exports to Turkey '000t



recent years. They could potentially emerge as important alternative buyers for European material in the coming years, allowing European suppliers to further diversify customer base and reduce customer concentration risk.

Competition for material between bulk and containerised ferrous scrap export markets has intensified in the continental European export hub Amsterdam-Rotterdam-Antwerp-Ghent (ARAG) since the start of 2019 as containerised sales to Asia remained strong.

Multiple steel mills in Benelux and Germany indicated that demand and pricing for containerised ferrous scrap in export markets has become a more frequently discussed topic during negotiations for monthly contracts since the start of 2018.

Volatile Turkish demand drives search for alternatives

An increase in the volatility of Turkish demand has encouraged more continental European exporters, particularly small and medium-sized suppliers, to participate in the containerised market.

Exports to Turkey from Belgium, the Netherlands and Germany fell by 300,000t year on year in 2018 to 5mn t, while exports to Asia rose by more than 540,000t to over 1.1mn t. This suggests that at least a portion of material that would typically be shipped to Turkey was re-allocated to Asia.

Despite this rebalance, Turkey is still the main driver in the European export market and will likely maintain its influence in the near future. The amount exported from northwest Europe to Turkey in 2018 was close to seven times larger than to Egypt, the second largest seaborne buyer.

But demand from Turkey became increasingly unpredictable in the past year and is expected to remain high in the first half of this year because of the lira's volatility and a less active domestic market caused by economic uncertainty. Turkish

mills now have greater flexibility in finished steel sales lead times as they attempt to maximise the opportunity to capture any unexpected rise in demand from any geography.

This change in sales strategy has increased the likelihood that mills will suddenly require prompt cargoes or pause seaborne procurement for an extended period of time, making it more difficult for suppliers to efficiently allocate material between markets.

UK-south Asia exports rebound on Pakistan demand

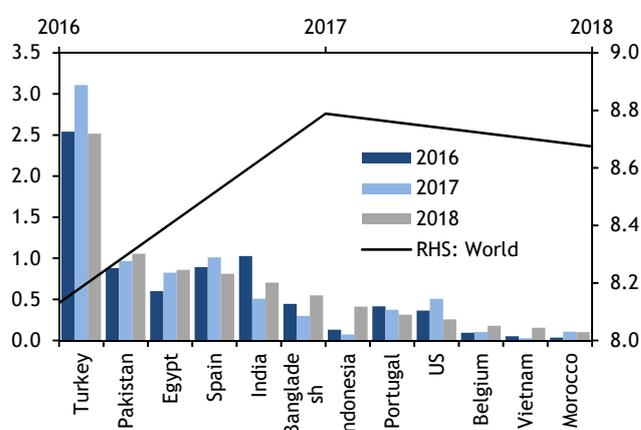
The UK has traditionally been a larger supplier of ferrous scrap to south Asia than continental Europe and also followed the realignment of exports to the region away from Turkey in 2018.

UK ferrous scrap exports to Turkey fell by 19pc year on year in 2018 to 2.52mn t, a drop of just under 600,000t.

Combined exports to India, Pakistan and Bangladesh rose by 30.1pc year on year to 2.3mn t, rivalling Turkey as the main market for UK supply.

In one sense, the growth in UK exports to south Asia in 2018 was a reversion to previous trading patterns after an abnormal

UK exports mn t



2017, during which extremely strong demand and pricing in Turkey diverted UK supply away from other outlets into bulk shipments sold into that market by large suppliers.

The UK's 2018 ferrous scrap exports to south Asia are actually almost flat on 2016, when it shipped 2.35mn t to the region.

But the breakdown of UK exports to the three south Asian countries changed between 2016 and 2018. Exports to India rose by 38.52pc year on year in 2018 to 703,000t but were still 31.6pc lower than in 2016.

The sharp drop in UK scrap exports to India in 2017 was caused by a series of financial reforms that made sales to India much less attractive for suppliers of containerised material. These reforms include a demonetisation policy implemented by the Indian government in November 2016 that negatively impacted industrial and manufacturing activity.

The more challenging Indian environment has contributed to the ongoing steady rise in UK exports to Pakistan, which became the second-largest single recipient of UK scrap in 2018, receiving 1.1mn t. This total was up by 9.2pc from 2017 and by 19.6pc from 2016.

Pakistan has also become a more attractive destination than India for UK container exporters simply because it frequently offers higher pricing and more consistent demand.

The Argus assessment for containerised shred cfr Pakistan averaged \$361.43/t between 2 March 2018 and 1 March 2019, a \$1.53/t premium over the average containerised shred cfr Nhava Sheva India price of \$359.90/t over the same period. Freight rates to both locations are typically equivalent.

UK exports to Bangladesh jumped sharply in 2018, rising by 83.1pc year on year to 547,000t, which was also up by 23pc from 2016.

Pakistan and India remain primarily containerised markets, but Bangladesh has emerged as a major growth destination

for bulk exports from the UK. The large UK exporters that are capable of loading cargoes of 40,000t or more are now regularly shipping to Bangladesh, competing with bulk sellers from the US West Coast.

Southeast Asia emerges as major growth market

South Asia is a story of revitalisation and development in a traditional mainstay, but it is in southeast Asia that UK and continental European ferrous scrap exporters are now recording exponential growth.

Indonesia became the UK's seventh-largest export market for ferrous scrap in 2018, with volumes shipped rising by 470pc to 412,000t from 71,000t in 2017.

UK exports to Vietnam surged by 504pc year on year to 155,000t, while volumes shipped to Malaysia and Thailand also grew by 435pc and 157pc to 48,000t and 46,000t, respectively.

Combined UK ferrous scrap volumes shipped to these four countries totalled 661,000t in 2018, up by 427pc from 2017 and 207pc from 2016.

Exports from continental Europe to these four countries have shown significant growth in the past two years, rising to 233,000t in 2018, from 6,700t in 2017 and 7,500t in 2016.

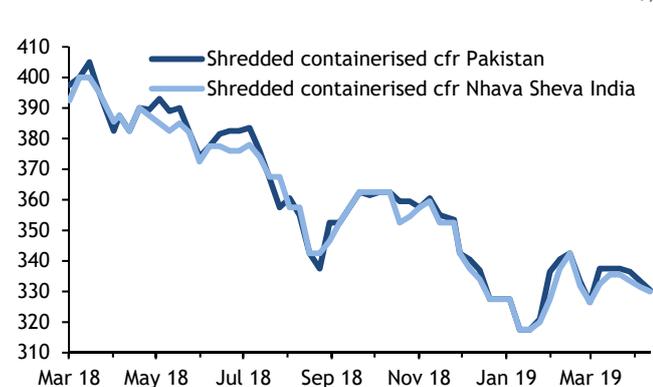
The swiftly growing demand in southeast Asia has attracted higher flows of containerised material from the UK and continental Europe, while also — in the case of Indonesia, Thailand and Vietnam — opening up a new market for large deep-sea bulk exports.

South Asia shows strong demand for European turnings

Shredded scrap and turnings are two of the more popular grades exported to India, Pakistan and Bangladesh from continental Europe, although those markets also purchase other grades such as HMS 1/2, busheling and bundles.

Continental Europe is becoming an increasingly important supplier to buyers in south Asia. The combined share of Bel-

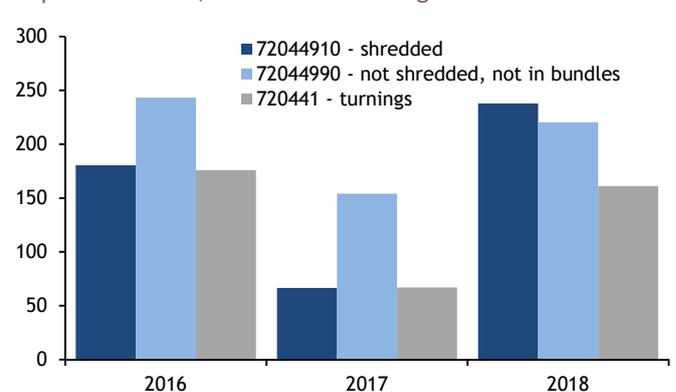
India vs Pakistan



\$/t

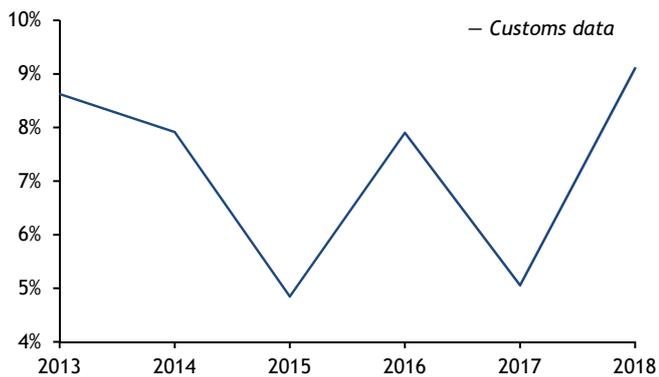
Exports to India, Pakistan and Bangladesh

'000t



Argus White Paper: Ferrous scrap – Europe looks to Asia to diversify exports

Belgium, Netherlands and Germany market share



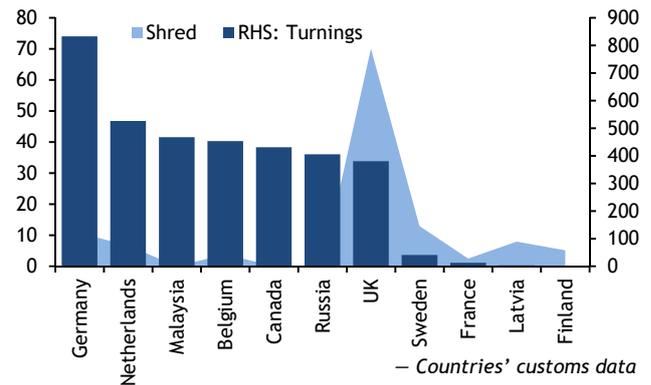
gium, Netherlands and Germany-origin scrap in the Indian, Pakistani and Bangladeshi imports market rose to over 9pc in 2018 from around 5pc in the prior year.

Europe is a particularly important source of turnings and shredded scrap for these markets. Germany was India, Pakistan and Bangladesh's largest supplier of turnings in 2018, while Germany and the Netherlands combined was the second largest supplier of shred behind the UK.

Against this backdrop, Argus launched three new containerised ferrous scrap ex-works assessments in northern Europe and the UK on 5 April to boost our coverage of the containerised market and provide additional references for the ferrous scrap industry.

Argus already publishes seaborne containerised assessments on a cfr India, Pakistan, Bangladesh and Taiwan basis, in addition to the benchmark deep-sea bulk import assessment for HMS 1/2 80:20 cfr Turkey. Argus also publishes ferrous scrap assessments for delivered to dock and delivered to mill prices in Europe, the UK, the US and Russia.

Major suppliers to India/Pakistan/Bangladesh '000t



The new containerised ex-works assessments launched on 5 April are:

ex-works Amsterdam-Rotterdam-Antwerp-Ghent (ARAG), €/t
Grade: Shredded and turnings

Minimum lot size: 100t
Assessment day: Friday

ex-works UK, £/t

Grade: Shredded
Minimum lot size: 100t
Assessment day: Friday

To view a copy of our full methodology and assessment list, please [click here](#).

For further information, contact:

Chi Hin Ling — Senior Reporter, Argus Metal Prices
+44 20 7199 3495 chihin.ling@argusmedia.com

Ronan Murphy — European Editor, Argus Metal Prices
+44 20 7199 6535 ronan.murphy@argusmedia.com

For more information:

 contact@argusmedia.com

 +44 20 7780 4200

 www.argusmedia.com

 @argusmedia