MetalPrices.com

Marley's Heavy Melt #64

The soft sideways market

turns to mush in Ohio.

A Canadian busheling invasion.

Current Situation: **The ferrous scrap price cuts ran as deep as $25 per ton, deeper that many had expected and created a buying opportunity for some flat-rolled mills.**

Scrap dealers and traders who predicted prices unchanged to down by as much as $10 per gross ton this month got to see their prophecies fulfilled. And a few got even more than they anticipated. While prices paid in Chicago and several southern markets were down by an average of about $10 per ton, northern Ohio and Detroit scrap markets turned into the pricing lowlands.

Steel mills and their brokers in both regions pushed through price cuts of as much as $25 per ton on prime industrial steel scrap and at least $20 per ton on heavy melt and shredded scrap. Such steep price cuts on the obsolete grades surprised many, since that scrap normally is in short supply in the winter. Also, East Coast export yards had been siphoning off that scrap during the past month.

Several forces converged to drive scrap prices lower there. First, demand from the USA East Coast export yards has slumped. They are not reaching as far inland and as aggressively as they had been, and they lowered the premium prices they were offering remote suppliers. Second, the order books at some mills have not improved much in recent months and others are having production problems. These mills may have too much scrap on hand and in the supply pipeline from last month's buys. While many steelmakers typically cancel existing orders that have not been shipped by the end of the month, there still may be plenty of material en route.

Third, the northern USA Rust Belt, from Chicago to Philadelphia, is seeing a tidal wave of cheaper No. 1 busheling emigrating from Canada. The Canadian steel mills have not been consuming much of the sheet steel scrap generated by their auto stampers and other manufacturers -- not just now, but for much of the past year. Some large Canadian scrap yards reacted by tossing the excess into their shredders because they were getting better offers for shredded scrap. That's no longer the case and some largest Canadian processors decided to find homes elsewhere for that scrap. Upside-down pricing prevailed for several months in Canada in the past year, during which lower quality shredded was being sold at higher prices than busheling. Prime industrial scrap historically commanded higher prices because it's cleaner and enables smelters to produce more steel.

One veteran Pittsburgh broker said the fact that price cuts varied sharply from one region to another assured him that all scrap markets are not created equal. He sees the market this month as "conflicted" and said he disagreed with the bearish buyers and sellers who wanted prices to go down by $20 per ton or more.

February 8, 2013

Michael Marley
484-751-5600

Still, No. 1 busheling prices sank to a low of $370 per ton in the Cleveland and Detroit markets, about $25 per ton lower than what mills there paid last month and $15 per ton below the prices quoted in Chicago and the South. Prices in those regions sank by an average of $10 per ton.

The mills in Eastern markets like Philadelphia, where busheling is normally in oversupply and not sold to the export yards, were paying only $5 below that $370 per-ton figure. Ironically, industrial steel scrap prices in northern Ohio have been the highest in the country at various times in the past two years.

Scrap price declines, even modest reductions, often are seen as an indication that steel demand may be weakening, but brokers and dealers said many mills bought their usual monthly tonnage, even in those regions hit hard by price cuts. One Detroit-based trader said the mills there sought and obtained $20-per-ton across the board price cuts, but did not lower their tonnage requirements.

Busheling and other industrial steel scrap is readily available even without the Canadian refugee scrap, in part because the USA auto industry, the largest generator of that scrap, has been running well. When that industry and other manufacturers are busy, prime steel scrap comes into the scrap steam regardless of the price. Supplies of shredded and other obsolete scrap like heavy melt scrap are tighter, on the other hand. Price is a key determinant, but also the flow of this feedstock slows in the winter months. Another factor this year has been the unwillingness of some shredder operators to pay the higher prices sought by smaller scrap dealers and auto wreckers. That has reduced shredded output.

Winter weather has played only a minor role as a supply disruption thus far. This could change this weekend with the predicted blizzard for the Northeast, but its impact may be minimal since there are few mills in the region.

***Pricing Outlook*: That latest wave of price cuts may have run its course already. Some brokers and traders believe scrap is now cheap and this represents a buying opportunity.**

While the price reductions in some regions were double what was expected, dealers may already be seeing a bounce back. One major broker was late to the market this month. That's not so unusual when prices are expected to decline, but several dealers said that broker's buyers were busy earlier this week polling dealers in an effort to determine how much scrap was still available.

As the week was drawing to a close, they were buying industrial steel scrap and paying higher prices for it, several industry sources said. One northern Ohio trader said he and other dealers in the region were being offered higher prices than were available elsewhere.

Another said some flat-rolled mills believe the recent base price increases on steel sheet products are sticking and that demand will continue at a steady pace this month and in March. The flat-rolled mills may be looking to add more prime steel scrap to their melt mix because the price is attractive and to get enough shredded scrap. Concerns about winter weather may be one driver. Dealer resistance and anger over the deeper than expected price cuts may be another, he said.

A rival Midwest broker said this Johnny-come-lately spot market activity suggests the market has bottomed and he is now more bullish. He argued that the aggressive buying by his rivals also indicates that they may be having trouble finding additional obsolete scrap because the intake at dealers' yards remains low. They are not taking away scrap that has already been sold to other mills, said another Chicago-based broker, but they also are not leaving much excess on the market.

If the order books are getting fatter at some flat-rolled mills, this unexpected buying binge could reflect what is called a 60-day market. Most mills buy only what they need to fulfill their monthly production and keep inventories on hand to a minimum during that time. When steel demand rises and the finished steel deliveries

start to stretch to six weeks or longer, they try to buy extra scrap at current price levels. This ensures that scrap will continue to flow to the mill in that period and enables them to avoid having to pay higher prices the following month.

The upshot of that activity has been to raise the prices that dealers are able to get within days after they were accepting lower offers. That, in turn, could produce if not a spike in prices at least a modest retreat by other steelmakers who are battling for still lower prices.

Those who may have cut the tonnage they bought this month or face an increase in orders may not be able to buy more scrap at lower prices. Also, if spot market activity later this month reflects steady to higher prices, it could persuade dealers that the market has bottomed and they may looking for higher prices in March.

The export market already has started to bounce back for the USA East and Gulf Coast scrap shippers. Turkish steelmakers bought 14 cargoes of scrap, approximately 500,000 tonnes, from both USA and western European suppliers on Thursday and Friday, industry sources said. More than half of the tonnage will come from the Europe, thanks largely to a weakening of the Euro in the past week.

One East Coast export trader had predicted that the Turkish market would rebound and said his expectation were based on estimates of inventory at the mills and not their sales of finished steel products. The prices on a delivered-to-the-port basis are said to be ranging from $390 to $395 per tonne, but could be higher in some instances because of higher bulk cargo freight costs from ports on the USA Gulf Coast.

What impact the latest sales to Turkey will have on the USA scrap market is still undetermined. Export yards in Philadelphia and northern New Jersey have been lowering their buying prices to their local suppliers. Most are now offering $325-330 per ton for the 80/20 heavy melt. That is down about $10 per ton this week and follows a $5 per ton reduction last week. Also, they are paying only modest premiums to their big tonnage or distant suppliers, sources said. That could change in the coming weeks depending on seasonal factor like winter weather and demand from the domestic steelmakers.

The lower buying prices at the docks have enabled some Philadelphia area mills to cut their buying prices by as much as $15 per ton. Several now are paying $335 per ton for No. 1 heavy melt on a delivered to the mill basis, down about $10 from last month's levels and slightly higher than the offers from the major exporters. Last month, when export demand was stronger, the docks and the local mills were both paying $345 per ton though the exporters typically take lower quality 80/20 heavy melt.

Michael Marley
484-751-5600

Marley's Scrap Snapshot

We have discarded our *Olympics Scorecard* in favor a digital camera to provide a quick picture of the market, trying to catch it in a candid moment. But we are still using the same 1-10 scale to represent forces driving the market. This week, though prices have dropped sharply in some regions, the snapshot shows a brighter outlook. Steel mills are taking in as much tonnage as they can get. Some are even looking for additional scrap—and paying slightly higher prices for it. Demand and prices tumbled in the USA East, Gulf and West Coast export markets. Turkey cut its prices and buying, while preparations for next week's lunar New Year's celebration have curtailed business operations in China, Taiwan and elsewhere in the region. Despite that, our picture of the ferrous market going forward has a more optimistic tone.

Marley's Scrap Snapshot

Item	Feb.8	Comment
1. USA marketplace	8	Despite steeper than expected reductions, prices are already on the rebound in several regions.
2. Industrial scrap flows	7	Manufacturers' output moving at top speed, thanks to USA auto production in high gear and Canadian imports in overdrive.
3. Obsolete scrap flows	4	Slower than expected, dealers say, even taking into account the usual seasonal impact.
4. Order cancellations/mill outages	5	Lower price expectations led to the usual end-of-month cancellations, but few mills have outages scheduled in February.
5. Exports to Turkey	7	Turkish buyers launch another overseas buying binge booking 14 cargoes from USA and European exporters.
6. Exports to Asia	5	Southeast Asian countries continue to buy, but the week-long lunar new year party elsewhere affects overall demand.
7. Pig price versus steel scrap price	4	Prices unchanged in recent sales, but lower scrap prices puts pressure on Brazilian producers.
8. Weather	7	A Nor'easter blizzard could crimp obsolete sales to dealers in this densely populated region.
9. Domestic steel outlook	7	Operating rates still in the mid 70s and long products makers look for a rebound in construction.
10. Present global steel production rate and forecast	5	Stronger economic growth in Asia improves the outlook for steel demand there.
11. U.S. dollar outlook	7	Weak European economic growth and dealer resistance to lower prices continues to provide an advantage to USA exporters.
Average of items 1-11	6.0	Each item above has an equal weight.
MARLEY'S ASSESSMENT	7.0	If prices have bottomed and steel demand rises, dealers will be looking for more money in March.

Michael Marley
484-751-5600

Mike Marley's USA Ferrous Scrap Price Intelligence

($ per gross ton, delivered to the mill)

	Eastern	Midwest	Southeast
#1 Heavy Melt			
Feb. 1, 2013	350-355	355-360	360-365
Feb. 8, 2013	335-340	345-350	360-365
Change	*-15*	*-10*	*NC*
#2 Heavy Melt			
Feb. 1, 2013	340-345	350-355	350-355
Feb. 8, 2013	325-330	340-345	350-355
Change	*-15*	*-10*	*NC*
Five-Foot P&S			
Feb. 1, 2013	375-380	375-380	380-385
Feb. 8, 2013	355-360	360-365	370-375
Change	*-20*	*-15*	*-10*
Shredded			
Feb. 1, 2013	385-390	390-395	400-405
Feb. 8, 2013	370-375	370-375	390-395
Change	*-15*	*-20*	*-10*
No. 1 Busheling			
Feb. 1, 2013	390-395	395-400	400-405
Feb. 8, 2013	365-370	380-385	390-395
Change	*-15*	*-15*	*-10*

Imported Pig Iron *(Delivered to the docks)*

	New Orleans
Feb. 1, 2013	410-415
Feb. 8, 2013	410-415
Change	*NC*

(Note:P&S stands for plate and structural scrap)

Source: Marley's Heavy Melt contacts

Michael Marley
484-751-5600

Mike Marley's USA Ferrous Scrap Export Price Intelligence

($ per metric tonne, FOB the port)

	East Coast		West Coast	
	Bulk Cargo	**Container**	**Bulk Cargo**	**Container**
Heavy Melt (80/20)				
Feb. 1, 2013	370-375	370-375	375-380	350-355
Feb. 8, 2013	365-370	355-360	375-380	350-355
Change	*-5*	*-15*	*NC*	*NC*
Shredded				
Feb. 1, 2013	375-380	375-380	385-390	355-360
Feb. 8, 2013	370-375	360-365	380-385	355-360
Change	*-5*	*-15*	*-5*	*NC*
Bonus Grade (Five-foot P&S)				
Feb. 1, 2013	380-385	380-385	385-390	360-365
Feb. 8, 2013	375-380	365-370	385-390	360-365
Change	*-5*	*-15*	*NC*	*NC*

(Note: P& S stand for plated and structural scrap)

Source: Marley's Heavy Melt contacts

Mike Marley's Scrap Freight Rate Intelligence

($ per metric tonne)

East Coast	**Bulk Cargo**	**Container**
Feb. 1, 2013	23-25	45-50
Feb. 8, 2013	23-25	45-50
Change	*NC*	*NC*

West Coast	**Bulk Cargo**	**Container**		
		Los Angeles	**San Francisco**	**Seattle/ Portland**
Feb. 1, 2013	33-35	20-22	24-26	40-42
Feb. 8, 2013	33-35	20-22	24-26	40-42
Change	*NC*	*NC*	*NC*	*NC*

Source: Marley's Heavy Melt contacts

Michael Marley
484-751-5600