



## Summary

- ▶ November's average for TSI's Turkish scrap imports index fell 3.8% to US\$420.09/t. However this fall was half that of October, with the backend of the month seeing scrap prices rising.
- ▶ US domestic shredded similarly saw big falls, dropping 4.5% to a monthly average of US\$421.50/l.t
- ▶ Indian shredded imports dropped the largest in percentage terms, down 5.1% to US\$439.75/t
- ▶ Turkish demand for prompt scrap shipments towards the end of November saw strong upward daily price movements as price recovery took hold
- ▶ Early in the month, the precipitous fall in iron ore prices seen at the end of October sapped confidence; this, combined with weak steel prices, added to the global pressure on scrap pricing
- ▶ Globally sentiment on scrap prices turned upwards towards the end of November, yet it's too early to say whether there's momentum behind this recovery in pricing.

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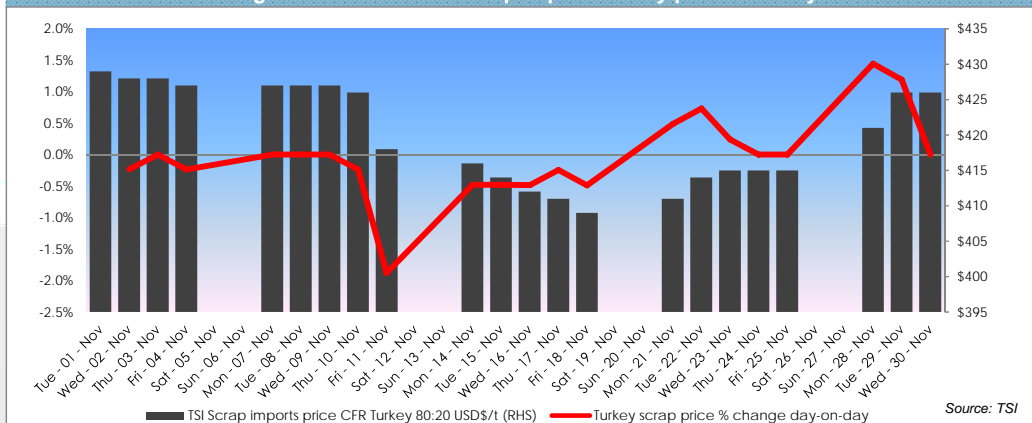
### TSI Weekly Scrap Reference Prices (change week-on-week)

	Nov 5-11		Nov 12-18		Nov 19-25		Nov 26-Dec 2	
Turkish Imports HMS 1&2 80:20, CFR Port (US\$/t)*	425	-0.7%	412	-3.1%	414	+0.5%	425	+2.7%
US Domestic Shredded, delivered mill (US\$/l.t)	422	-0.2%	421	-0.2%	415	-1.4%	428	+3.1%
Indian Imports Shredded, CFR Port (US\$/t)	448	0.0%	439	-2.0%	436	-0.7%	436	0.0%
<b>Scrap Freight Rates (for 40,000t bulk scrap cargo)</b>								
Northern Europe - Turkey (US\$/t)	27	0.0%	28	+3.7%	28	0.0%	28	0.0%
US East Coast - Turkey (US\$/t)	34	0.0%	34	0.0%	34	0.0%	34	0.0%
<b>Implied Netbacks (change week-on-week)</b>								
HMS 1&2 80:20, FOB Rotterdam (US\$/t)	398	-0.7%	384	-3.5%	386	+0.5%	397	+2.8%
HMS 1&2 80:20, FOB US East Coast (US\$/t)	391	-0.8%	378	-3.3%	380	+0.5%	391	+2.9%
<b>TSI Monthly Averages (change month-on-month)</b>								
	August		September		October		November	
Turkish Imports HMS 1&2 80:20, CFR Port (US\$/t)	467.80	-0.2%	467.18	-0.1%	436.81	-6.5%	420.09	-3.8%
US Domestic Shredded, delivered mill (US\$/l.t)	453.80	-2.1%	456.50	+0.6%	441.20	-3.4%	421.50	-4.5%
Indian Imports Shredded, CFR Port (US\$/t)	500.40	+2.8%	492.00	-1.7%	463.40	-5.8%	439.75	-5.1%

## Turkey

- ▶ November was a tumultuous month for Turkey as volatility saw daily prices moving US\$13/t from peak to trough and back again in a space of 4 weeks. The month itself had a quiet start as shown by Figure 1 below. With an oncoming religious holiday and material on hand for mills, the price was steady with only a few cargoes in the first week of November, all settled at identical levels.
- ▶ Lower sales prices saw the index tick down a few dollars, then all went quiet for a week due to the Eid al-Adha holiday which ran for a few days from November 6th onwards. This led to a week of watchfulness and anticipation in the market as Turkey took a break. Volatility was limited to a couple dollars in movements as buyers stayed out of the market.

Fig 1: Turkish ferrous scrap imports - daily price volatility



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## Turkey (continued)

- ▶ This lasted till the 11th when mills started bidding at lower levels and a few European origin cargoes settled before the weekend. This behaviour lasted through the 3rd week of November, with each subsequent cargo settling at a lower level than previous.
- ▶ November finished where it started, with transaction prices at the same level as during the first week. However, the average for the month showed a continuation of the fall seen in October, down 3.8% to US\$420.09/t.
- ▶ Some of the recovery in scrap prices has been attributed to a slow recovery in world sentiment, bullishness on steel prices, and re-stocking of Turkish mill inventory in anticipation of better times in the short term. It also has to be noted that, faced with the prospect of an a frigid Azov sea and a potential freezing of CIS/Baltic ports, mills are turning to the deep sea market to meet their needs in case the routes for A3 seize up.
- ▶ Figure 2 shows that scrap spot volumes recorded by TSI were solid for November, over 2.5x times those seen in November 2010. Interest in participating in the index has continued to grow, as demonstrated by the ever-increasing volumes submitted to the index.
- ▶ Figure 3 shows the trend for the rebar-scrap price spread throughout the month of November, using SBB rebar export prices for Turkey. The spot spread bubbled around the trend line, peaking mid-month as scrap prices dipped following Eid al-Adha, before falling away towards the backend with falling finished steel prices and rising scrap input costs.
- ▶ This can be partly attributed to local mills in Turkey's key domestic export markets cutting offer prices for longs products, further increasing pressure on Turkish exporters to lower their own offer prices. Support continued to fall away for rebar, and with scrap recovering, margins continued to be squeezed in the last week of November.
- ▶ The forward curve in Figure 4, shows sentiment had become more bullish as November came to a close. The curve showed an uptick in pricing for the onset of winter, but this was smoothed out in later forward curves as scrap prices dipped mid-month.

Fig 2: Indexed TSI Turkish Scrap Spot Volumes and Monthly Average TSI price

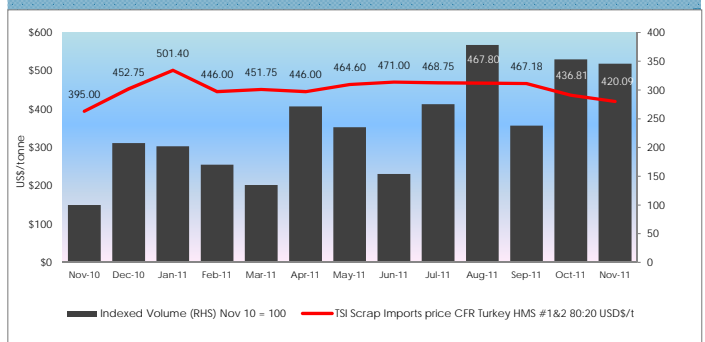


Fig 3: Scrap—Rebar price spread

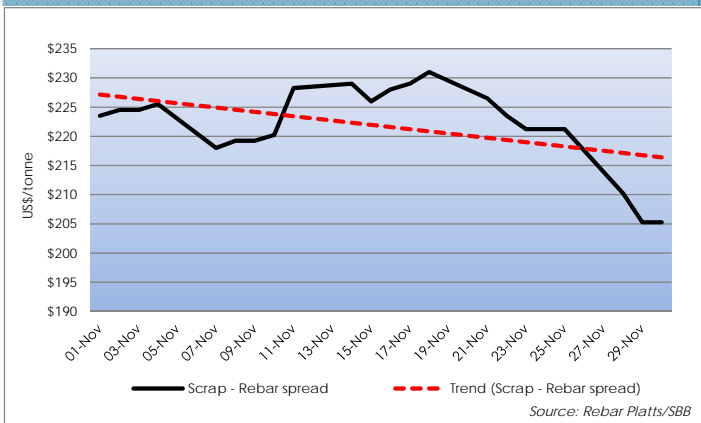
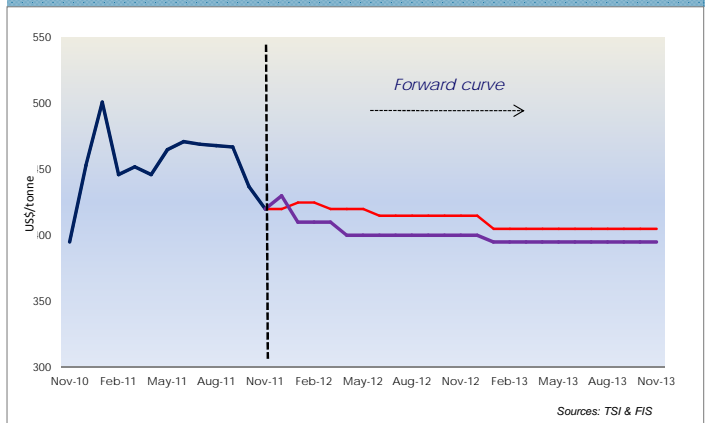


Fig 4: FIS Turkish Scrap Imports Forward Price Curve

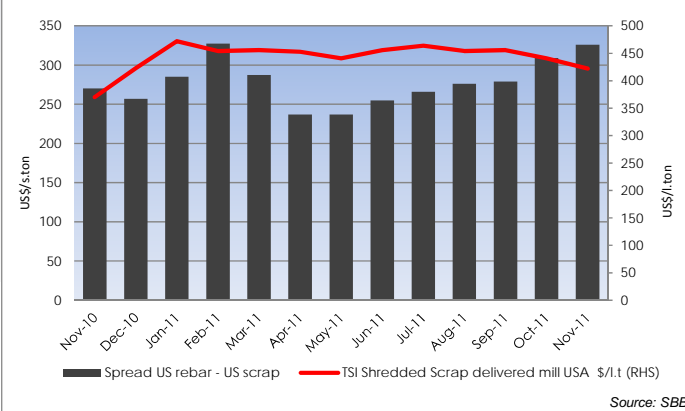


## United States

- ▶ The US market ended October with a large fall during 'buy-week' (w/c 31st October) as export markets dried up. TSI's domestic shredded index fell US\$18/long ton. This, combined with pressure on finished steel prices and late October's confidence-sapping fall in spot iron ore prices, were contributing factors behind the price drop. Additionally, in October, US mill capacity utilisation rates had been scaled back, partly in response to continuing pressure on steel sheet prices, which had the further effect of reducing net domestic demand for ferrous scrap. Taking all of these factors into account, it is testament to the relative structural tightness of the market that scrap processors/brokers/vendors for the region experienced only a 4% price fall. This aside, in many ways vendors were lucky that buy week falls during the opening part of the month, as conditions continued to deteriorate.
- ▶ The global outlook for steel scrap continued to weaken over the month. Markets watched a slumping Japanese auction price, South Korean buying prices drop off and Chinese mills reducing their offer prices for inbound scrap deliveries, while European (including UK) markets saw their regional tags coming under pressure as well. Nevertheless, in the US, the first week of November (commencing 7th) began without panic, dropping a single dollar. This was despite lower-priced transactions with low volumes being reported, which failed to shift TSI's volume-weighted index significantly.

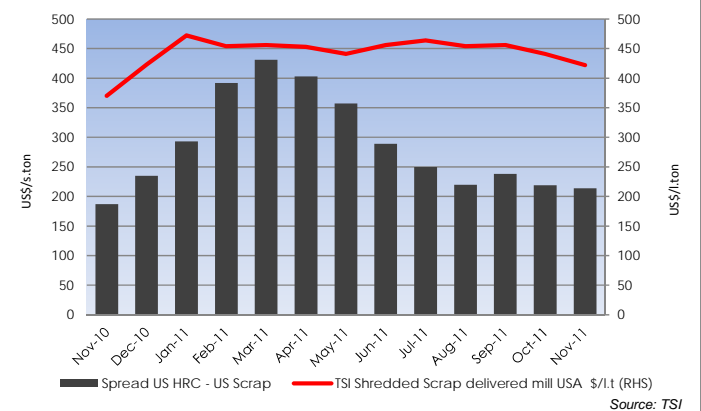


Fig 5: SBB US ex-mill domestic Rebar vs TSI US shredded scrap Mid-West



Source: SBB

Fig 6: TSI US domestic HRC vs TSI US shredded scrap Mid-West

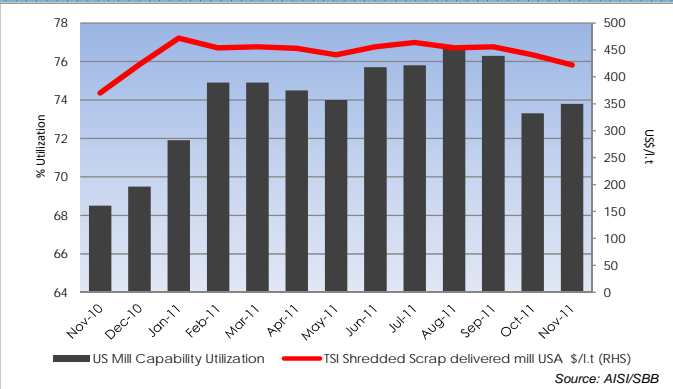


Source: TSI

## United States (continued)

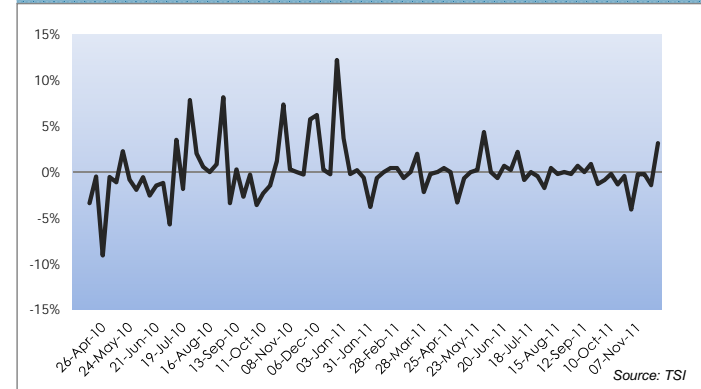
- ▶ Week two had the market feeling jittery as the 'dried-up' export situation on both coasts had many beginning to consider the potential spectre of material previously earmarked for export, instead washing back inland to weigh on domestic prices during December's buy-week (the export outlook at this point of the month seemed so dire).
- ▶ 'Cut grades' all suffered lower prices on trades reported to TSI, yet they were not alone: shredded material also came under pressure. TSI's index fell another US\$1/long ton, taking it down to US\$421/l.ton.
- ▶ The Thanksgiving holiday in week 3 ensured light volumes of transactions, although recorded trades caused the index to drop a further US\$6/l.ton. Meanwhile, offshore, the export market was stirring back to life as the most significant buyer for East Coast material (Turkey) finally re-entered the market, with the promise of more buying to come.
- ▶ So, as some domestic mill buyers returned to the market at the end of the month, they discovered a far firmer market than they had left. Turkish offers had risen by US\$15/t this week alone (on top of increases recorded for transactions over the preceding two weeks), and domestic mill utilization rates had picked back up, reversing the downward pressure. US prices for shredded (Midwest, del. Mill) increased US\$11/l.ton to US\$425/l.ton during this final week in November.

Fig 7: US Mill Capability utilization



Source: AISI/SBB

Fig 8: US Shredded scrap volatility—week-on-week change



Source: TSI

## India

- ▶ Indian containerised scrap had a fitful month, with the US dollar appreciating against the Indian Rupee (by up to 15%) forcing Indian manufacturers to look to domestic feeds to avoid adverse currency fluctuations. Whilst Figure 10 shows a dip in prices in November in US dollar terms, in reality, as Figure 9 (on page 4) shows, scrap import prices in fact increased in Rupee terms.
- ▶ New BIR Indian scrap import data for the January-June period of this year saw a **51.6%** decline in imports compared to the same period last year. Falls in other Asian markets were seen as well.
- ▶ Sluggish industrial output has lately been impacting steel growth in India, with some forecasts suggesting that instead of the 12% growth in the Indian steel industry initially anticipated for 2011, it may be closer to **6%**. This will have an impact on future Indian scrap demand, especially as India is expanding its DRI production, a key input material for its EAF steel industry and substitute for scrap. India's DRI production was up to nearly 23 million tonnes in the period Jan-Oct of this year.
- ▶ Looking at the macro-economic conditions in India, a lending crisis has developed, with lending rates increasing past 8% after multiple hikes in the last 12 months. This, in conjunction with the Rupee collapse, has increased costs to the smaller furnace producers and re-rollers, with economic conditions making it difficult to pass on these costs to domestic customers.



Fig 9: Indian containerised imports INR/t

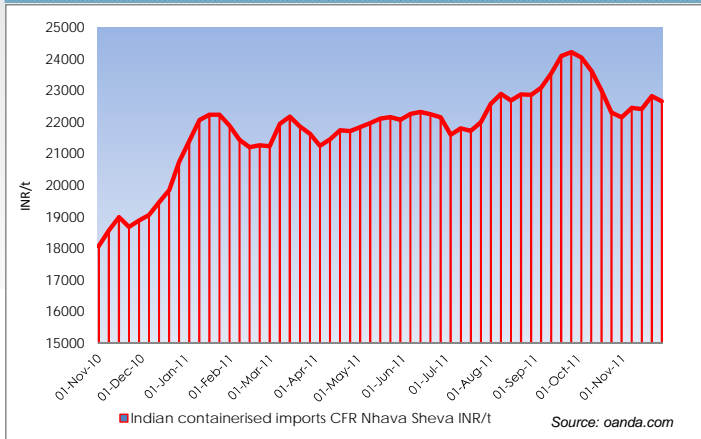
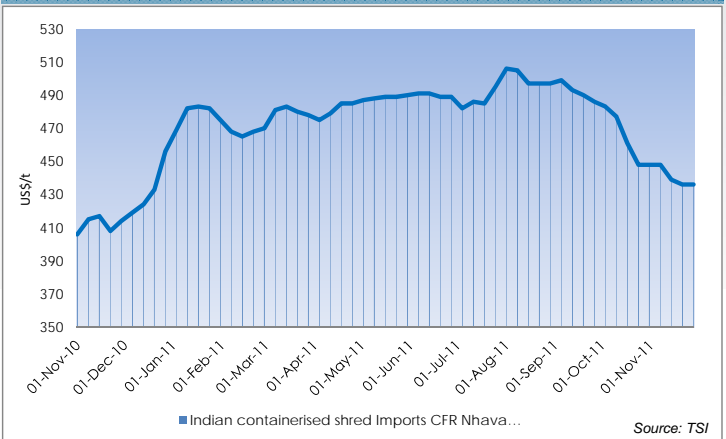


Fig 10: Indian containerised imports US\$/t



## TSI on the market - December

- ▶ The Eurozone crisis continues, with governments demanding that some kind of plan be put in place by the end of this week in order to calm a jittery market...however, there is a feeling of déjà vu about this announcement. Anything which draws a line under the uncertainty in the EU and surrounding markets (think MENA) should bring a boost to the demand for scrap.
- ▶ FX rates will be closely watched by steelmakers, especially in Turkey where the TRY/US exchange rate nearly touched one year highs yet again. The Lira appreciated 6% after falls in October. India will be looking for relief of its own as it battles stubborn inflation. Again, this is linked to the previous point: if woes in the Eurozone are alleviated, the US dollar's relative strength against other currencies may ease.
- ▶ Iron ore has been trying to find its pricing level over the past few weeks, with no clear alignment between supply/demand fundamentals and sentiment. However at present it is still over \$40/dry tonne off September levels, giving relief to steelmakers, and making it less likely they will be looking over the fence to scrap producers for steelmaking material (i.e. increasing the quantity of scrap used in their melt for economic purposes).
- ▶ Finished steel product prices are increasing in the US, giving some breathing space to domestic steel mills, allowing buyers to take on the higher scrap prices. Capacity utilization is also on the rise from October's levels. Look to see whether steelmakers can succeed in keeping scrap prices low to increase their margins. Globally, scrap prices are on the rise as November finishes, ending a recent slump.
- ▶ The weather will also be beginning to play a factor in scrap prices as we enter December. Will it be mild or stay at home cold (for peddler flows)?

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### About The Steel Index (TSI)

The Steel Index (TSI) is a leading global source of independent iron ore, steel and scrap price information based on actual transactions worldwide. TSI is also currently developing coking coal reference prices.

Transaction price data is submitted confidentially to TSI on-line by companies buying and selling a range of relevant iron ore, scrap and steel products. TSI's index reference prices are then calculated using transparent and verifiable procedures.

TSI supplies the reference prices for the only cleared ferrous scrap swap contracts. LCH.Clearnet offers a clearing service for Over-the-Counter (OTC) ferrous scrap swap contracts, settling against TSI's Turkish 80:20 CFR reference prices.

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