Issue N° 116 – March 2013

What goes around ...

Non-ferrous scrap markets, just like all commodities, enjoy (or suffer) the cyclicality of the demand and supply paradigm. Who might be "in the driver's seat" changes constantly, something that both scrap merchant and consumer need always to keep in mind. What goes around, as they say, comes around.

I am reminded of a story told to me by a veteran of our industry who last year had the opportunity to visit a large copper smelter to whom he had recently begun shipping scrap. After traveling quite literally half way around the world, and then some, he anticipated a cordial greeting from the smelter manager. "Your prices are the highest that we have to pay anybody in the world, your quality is at best average, your shipments are late and your communications are poor." My proud friend was astonished; after all, he has been in the copper scrap game beyond three decades. He protested that he was proud of his scrap, that it had universal acceptance as a quality product, and that it was competitively priced.

My friend told the smelter manager there were two things he could do to remove his name from the bottom of the quality list. He had more than ample demand for his scrap copper given the current tightness of supply and there was no need to discount his price to his new-found and abrasive friend.

He told the gentleman that he could have his multiple scrap processing operations change their grading to increase quality, but he deemed this of no value given the worldwide acceptance and competitive pricing that his scrap commanded. He came up with a simple solution: "I have the easiest way to get off the bottom of the list, and you will find a quick replacement for me quite readily." His subtlety was lost on the poor consumer, to whom my friend has not shipped one kilo of scrap since his cold reception.

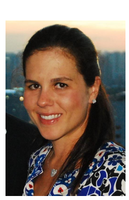
The tides will change, and no doubt suppliers will have trouble selling their scrap at some point in the future, but developing good and sustainable relationships goes a long way and is so important to our trade.

by Robert Stein
Alter Trading (USA)
President of the Non-Ferrous Metals Division
1st March 2013

International

Brazil

(by Bianca Vicintin Abud, Tecal Aluminio Da Amazonia / Metalur Group, Board Member of the BIR Non-Ferrous Metals Division)



Brazil's Central Bank is to raise interest rates in order to control growing inflation. Market projections for GDP growth are currently at 3.1% whereas inflation is expected to rise 5.69% in 2013. The appreciation of the Brazilian Real makes the LME drop even worse for the country's traders as most alloy prices in Brazil are based on LME x US dollar quotations for the month prior. The LME in Reals dropped 4.23% in January and is likely to have declined another 1.24% in February - something which has terrible side-effects for alloy producers as scrap prices don't always follow at the same pace.

Now that Carnival is over, economic activity will improve and so will demand for scrap metal. Civil construction is running at full speed as the country is getting ready for next year's football World Cup.

Primary grades of aluminium scrap such as extrusion are experiencing strong demand. Current aluminium scrap prices compared to LME cash for high grade are: extrusions at 111.5%; EC wire at 119%; Taint Tabor at 77%; Tense at 69%; and UBC at 75%. On the same basis for copper grades, Berry is at 93% and Birch/Cliff at 88%, while zinc is at 63%.

United States / Canada

(by Andy Wahl, Newell Recycling of Atlanta Inc., Vice-President of the BIR Non-Ferrous Metals Division))

So here we go again: the LME had a nice run-up from the start of the year, only to settle back down following some profit-taking after the Chinese New Year. The roller-coaster ride of the Euro/US dollar exchange rate has certainly not helped much either.

At the time of writing, we again face the deadline of the sequester in Washington DC, with political parties unable to come at least to some kind of arrangement that would last longer than three months and stop this uncertainty. Old taxes have been reinstated and the constant debate surrounding possible tax increases does not lead to an investor-friendly, job-creating environment.

The bright spot has been provided once again by the expected automotive manufacturing numbers, but that is about it. House prices have increased by over 10% in many areas but that is more due to the lack of new homes being built rather than a real sign of recovery. Gasoline prices went from US$ 3.26 on January 20 to US$ 3.73 on February 22; that may sound cheap for Europeans but, here in the USA, being able to have a car and pay for fuel is a bare necessity if you want to find a job or keep one.

We face the same issue on the collection of scrap: no matter how high or low you price it, you just cannot seem to improve volumes or margins. Most dealers are carrying very little inventory, and the few who do may have spent too much on it and are waiting for better markets. Winter is not over yet and some of the seasonal factors have played a bigger role than usual in the collection of scrap metals too.

Secondary grade Twitch has gained in price again although ingot values and the LME have not seen the same increases. Red metals are hard to find and at a cost leaving little room for error.

In general, I believe the first quarter of 2013 will be a repeat of the last quarter of 2012. I can only hope that things pick up in the second quarter and that this momentum will carry forward into the rest of the year.

Mexico

(by Alejandro Jaramillo, Recicladora Cachanilla, Board Member of the BIR Non-Ferrous Metals Division)

As we advance towards the end of the first quarter, it seems 2013 will not offer more promises or opportunities than 2012. As available non-ferrous scrap volumes stagnate or in some cases decline, companies will keep finding it hard to maintain - let alone increase - scrap volumes. Increased regulation and external variables, such as violence and price distortion by irregular VAT management, will make the business environment even more challenging.

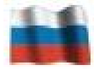
Business owners, managers, executives and workers in the non-ferrous recycling sector should feel blessed to be part of an industry that handles a wide variety of metals demanded by an almost endless and highly diverse list of consumers. There is also a vast opportunity to recover a higher percentage of the metal we use in our daily lives. It is mind-boggling and heart-breaking that millions of dollars of recyclable metals still end up in landfills every day; reducing such levels of inefficiency and ecological crime should be in the hearts and minds of all of us that work in the recycling sector. We should be driven by, and thankful for, the fact that the above-mentioned variables create still vast niches of opportunity in the non-ferrous recycling sector.

The Mexican economy expanded 3.2% in the final quarter of 2012 for an annual growth rate of 3.9%. For 2013, the GDP growth forecast is pegged at 3.9% by most analysts. During December, however, industrial production unexpectedly contracted for the first time in three years. On a brighter note, automotive production increased 19.8% in January compared to the same month in 2012. The Mexican peso stands at 12.76 to the US dollar at the time of writing and has traded in recent weeks within the range of 12.59 to 12.89.

Demand is liquid but not necessarily robust for scrap used to produce alloys related to primary aluminium; on the other hand, aluminium scrap used for secondary alloys remains strong despite the sharp drops on the LME. High-grade aluminium currently stands at US$ 1914 per tonne on the LME - its lowest level for at least four months. It will be interesting to observe how far the drop in LME prices can still hurt volumes: on the one hand, one could believe volumes have been so low of late that it would be hard for them to go even lower; on the other hand, we have to acknowledge that falling LME prices create a deadly environment for small, unsophisticated operations with no hedging capability.

Demand for red metals is not robust but is at least stable. LME copper prices have managed to hold up in comparison to other base metals, thus creating a healthier environment for the trading of red metal scrap.

Russia



(by Ildar Neverov, Steelway Limited Company,
Board Member of the BIR Non-Ferrous Metals Division)

The market has become slightly more depressed. Winter is coming to an end and scrap availability is increasing in most Russian territories. The heavy snows are over and scrap is flowing into the yards, prompting prices to fall along with similar LME fluctuations, in particular for copper.

India

(by Dhawal Shah, Metco Marketing (India) PVT Ltd,
Board Member of the BIR Non-Ferrous Metals Division)

Budget 2013 was a perfect platform for the current government to present a new vision for a revival of India's economy which recently hit a nadir, growing only at a rate of 4.5% in the October-December 2012 period. It was also the last chance to boost the sagging confidence of the business community and to reinstate people's faith in the quality of current governance before the general elections take place next year.

For good or bad, the finance minister only tinkered at the edges, indicating that current times are not conducive to harnessing an 8-9% growth trajectory. It rather required fiscal consolidation in order to stave off a potential crisis. India's current account deficit burgeoned to unprecedented levels of almost 6% last year, which was being attributed to large imports of gold. The government has worked over time to contain this to 5.3% now. Taking stock of all the window-dressing done towards subsidies, expenditures, direct/indirect taxes and so on, the overall feeling conveyed by Budget 2013 was: "Love you as much as hate you!"

The metal scrap business in India has largely retained the *status quo*, with no changes in import duty structure. However, the rupee has been under pressure, with current trade reported at 55 to the US dollar. Demand for materials also looks to have been decimated, as vehicle sellers reported negative numbers, and the same applied to the overall Indian Industrial Production (IIP). Demand for new housing and retail space is also reported to be stagnant as sentiment has remained weak.

Several local metal trade associations had pleaded with the government in the pre-budget debate to exempt manufacturers/importers of metal scrap from the 4% Special Additional Duty (SAD) which, except for brass, is applicable to most categories of ferrous and non-ferrous scrap. This would have improved cash liquidity and provided our secondary producers with some reinforcement against imported value-added goods from ASEAN, through Free Trade Agreements. This is not being considered for now, which means that Indian producers will need to pull up their socks and compete hard with overseas goods.

Pacific Rim

(by Shigenori Hayashi, Daiki Aluminium Industry Co., Ltd.,
Board Member of the BIR Non-Ferrous Metals Division)

The Japanese economy, which had been worsening since last spring, is now showing signs of bottoming out. The supplementary budget bill of about US$ 140 billion in total, announced by the new administration, is expected to raise real GDP by 0.8%. In addition, the yen dropped against the US dollar and has fallen by approximately 18% in the last three months in anticipation of further monetary easing by the Bank of Japan. The weaker yen has resulted in the improved profitability of exports and in boosting the revenues of car manufacturers and other exporting companies.

The weaker yen is also increasing exports of aluminium scrap from Japan: overseas shipments in 2012 amounted to 146,000 tons, representing growth of 34% from the previous year. Exports to South Korea have been increasing particularly rapidly. In effect, Japan has turned completely into an exporter of aluminium scrap. Meanwhile, the supply-demand balance for aluminium scrap within Japan is very tight. Given the drop in collection volumes in the winter, the raw materials market is expected to remain bullish.

The aluminium market in South East Asia is growing steadily, backed by strong production and sales of vehicles. Car production in Thailand grew 68% year on year to a record high of 2.45 million units in 2012, making it one of the top 10 car producing countries of the world, surpassing Spain and France. Its car production in 2013 is forecast to be 2.5-2.6 million units.

China

(by David Chiao, Uni-All Group Ltd, USA,
Board Member of the BIR Non-Ferrous Metals Division)

According to preliminary figures, the PMI surveyed by HSBC fell back from a 24-month peak of 52.3 in January to 50.4 the following month, forcing non-ferrous metal prices into retreat too. After the week-long Chinese New Year holidays, with most manufacturers not back at full capacity and migrant workers still returning to their posts, it is understandable that the PMI dropped back in February.

Buyers of both copper and aluminium are in a holding pattern at present, waiting for new orders as well as for manufacturing industries to return to normal production.
The non-ferrous fundamentals, especially of copper and aluminium, are not going to change in the near future given weaker demand in the key Chinese market. The Beijing government's policy of controlling real estate prices has made demand for copper and aluminium shrink even further.

For most BIR members, this is the year for renewal of AQSIQ certificates; so far, there has been no announcement of any changes from the previous application procedure.

South Africa

(by Mark Sellier, OneSteel Recycling, Vice-President of the BIR Non-Ferrous Metals Division)

This year's annual budget speech highlighted the challenges facing a South African economy which has continued to grow but at a slower rate than projected at the time of the 2012 budget. GDP growth reached 2.5% in 2012 and is expected to climb 2.7% this year, rising to 3.8% in 2015. Inflation has remained moderate, with consumer prices rising 5.7% last year and projected to increase by an average of 5.5% a year over the period ahead.

However, trade performance is holding the country back. Exports grew by just 1.1% in real terms last year while imports increased by 7.2%. The deficit on the current account of the balance of payments was 6.1% of GDP, which means in simple terms that expenditure in the South African economy exceeded the value of production and income last year. This is partly a consequence of the disruption to mining sector activity and the structural reduction in mineral exports owing to lower demand.

With the country's largest trading partner Europe still in recession and sluggish recovery elsewhere, the prospects are not encouraging. Continuing labour issues have impacted productivity and investor sentiment, thus adding to the bleak outlook. Exports may, however, begin to rise based on the weakness of the Rand in relation to the US dollar; the exchange rate currently sits at Rand 9.10 to the dollar compared with January and February averages of, respectively, 8.80 and 8.87. However, the weaker Rand will impact energy, petrol and foodstuff costs, thus threatening to edge inflation higher. This could maintain the balance of payments deficit.

Most significantly for our trade, the Government Gazette of January 25 contained draft guidelines for the control of exports of scrap metal (this is one of the notification steps the South African government takes when introducing a new law). Under the proposed policy, any scrap must first be offered to a local foundry at a price or price formula to be determined by the International Trade Administration Commission (whose website boasts "Enabling Fair Trade") based on Metal Bulletin levels. The offer should also be accompanied by a certificate from a metallurgical engineer confirming type, quantity and quality of scrap available and where it can be inspected.

This means that, in practical terms, a scrap dealer must pay to have his material certified, offer it to the local market at a price determined not by the free market but by a government-appointed body using potentially inaccurate, out-of-date information, and then wait for a period of time at risk before being able to confirm a sale. The BIR has written to the South African government to object to these potentially trade-restricting proposals but its words appear likely to fall on deaf ears.

In general, scrap availability remains relatively tight in the market.

Australasia

(by Paul Coyte, Hayes Metals, New Zealand, Board Member of the BIR Non-Ferrous Metals Division)

The Australasian metal markets remain fairly sluggish, with many merchants finding that their volumes are down and that trading conditions are generally more challenging.

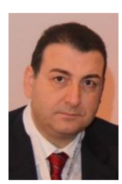
The Australian economy continues to show signs of cooling, reflected in less industrial output and lower scrap returns. The New Zealand economy is faring slightly better but is still not robust.

The New Zealand summer has been brilliant this year, with blue sky and sunshine almost daily. However, this weather is now leading to droughts being declared in some parts of the country. This will also impact on the economy going forward given that the country's main industry is agriculture-based.

The strong Australian and New Zealand dollars continue to plague exporters in both the metals sector and wider community. Coupled with the volatility and downward pressure of late in commodity prices, this presents difficult trading conditions for many local metal merchants.

Middle East

(by Fadi Shahrour, Sharmetal Trading Co. SARL, Lebanon, Board Member of the BIR Non-Ferrous Metals Division)



The LME downtrend and the fluctuation in exchange rates have made the scrap business difficult over the last month. In the Middle East region, the Arab Spring has not brought people safety and security; there is violence throughout the region - except in the Arabian Peninsula which is rich in oil and where peace is still maintained. Fresh investments in the metals sector are very slow as people await better opportunities given the gloomy immediate outlook for economic growth.

On the scrap side, collected volumes fell in response to the rapid drop on the LME, and local suppliers are locking their stock in their yards until export prices match up again. For copper scrap, exporters are demanding lower discounts on all grades because supply is tight; the Far East and Europe remain the major importers.

For aluminium and lead, the major export market continues to be India, with some local consumption of certain grades.

Europe

Nordic Countries

(by Ola Eklund, Kuusakoski OY, Finland, Vice-President of the BIR Non-Ferrous Metals Division)

While world economic indications in early 2013 support a more positive European market outlook for this year, data for the fourth quarter of 2012 threw some cold water on expectations. The 0.5% and 0.6% contractions for, respectively, the EU and the Euro-zone when compared to the previous quarter were worse than expected - a drop also experienced by all major European economies.

However, with the Chinese and the US economies leading the way, more positive signs have also emerged in the European market over recent weeks. Business attitudes in Germany, for example, improved for the third consecutive month in January, adding to evidence that Europe's largest economy is gathering speed once again.

While the future of the Euro-zone as a whole remains fragile, the consensus is that the debt crisis has receded and that the market will pick up in 2013.

This bullish outlook has been challenged of late, however, by the appreciation of the Euro; indeed, the volatility seen in the currency markets could prove to be a de-stabilising factor. A stronger Euro may hit exports, thus jeopardising a recovery before it has really begun.

In the Nordic economies, performances in late 2012 were similar to those recorded by EU member states in general. Finland, a largely export-oriented nation and the only Euro-zone member within this region, is particularly vulnerable to the effects of a strong Euro; its GDP contracted by 0.5% in the fourth quarter of last year. Meanwhile, the non-Euro EU member states of Sweden and Denmark are also assumed to have recorded negative growth from the previous quarter. But non-EU member Norway experienced growth of 0.4% in the fourth quarter.

Finnish GDP growth remained negative for 2012 as a whole, while there was a slight increase of some 1% in Sweden and Denmark and relatively strong growth of 3% in Norway.

As to 2013, the general view is that the year will become brighter than 2012, with the Nordic region benefiting from a world economy growing at a faster rate than before. The Nordic countries are expected to experience more sustained economic growth with increasing industrial production; in 2012, industrial production in Finland, for example, fell 2.1%. Overall demand for commodities such as metals is forecast to gain strength with improving market sentiment; however, there are few indications of a recovery in market fundamentals until the latter half of the year.

Italy

(by Fernando Duranti, Leghe & Metalli International S.r.l.)

We were not very enthusiastic about the domestic non-ferrous scrap market in our previous report and very little has changed since then. Relentless LME volatility can alter our mood in fractions of seconds as the colours of the quotes change on our screens. We are powerless as we stare at the numbers going generally downwards rather than in the direction that would bring us some cheer.

Scrap has become very scarce in Italy owing to two factors: firstly, the effect on collections of several falls of snow, cold temperatures and rain; and secondly and most importantly, industrial production is down to about 50% of capacity, thus reducing scrap recovery to levels well below that figure. Consequently, we are facing a scrap shortage and thus a recycling slow-down, prompting producers to consider slowing production. Yet despite all these difficulties, the active part of the industry survives, resists and even creates new business opportunities which are helping the country with its finished product export programmes and thus to sustain the economy.

This scarcity of scrap is not limited to Italy but is being experienced in other countries around Europe. And material that becomes available is nearly always destined for countries such as India and China where prices far exceed those quoted by most European consumers. However, China had slowed prior to its New Year festivities and has been calm ever since. We must wait and see whether, following the holiday period, the Chinese return to their mass purchasing of the past.

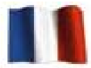
Copper seems to struggle along on occasions with the help of volatile prices, but at other times it is hit hard by those unexpected developments which seem to induce all metal prices to tumble. Brass scrap is experiencing lingering price weakness with which only the domestic market can cope because foreign scrap cannot be bought at the prices quoted by those sellers who apply Chinese prices to European consumers.

Secondary aluminium is still rather weak as a result of car sales which decrease with every month. Primary metal is also weak, with abundant stocks of finished products lying in warehouses waiting to be bought. Conversely, lead scrap seems to be the metal of the moment, with demand very strong and material difficult to find. Meanwhile, zinc is following closely in the wake of lead but is slightly easier to buy if one pays the correct price.

The result of Italy's recent election has caused instability and a tsunami which seems to have hit the major stock exchanges worldwide. This new wave of politicians was elected on the back of a protest vote by the majority of an electorate which has lost faith in the old political candidates. What are we to expect next?

France

(by Christian Nielsen, Epur,
Board Member of the BIR Non-Ferrous Metals Division)



Activity levels have been much lower in recent weeks. Copper works have stock and most of them are reluctant to buy for the time being. Copper scrap is staying mainly within Europe.

Even though some of Europe's brass ingot-makers are keen to buy, they simply cannot compete with Far and Middle East buying prices.

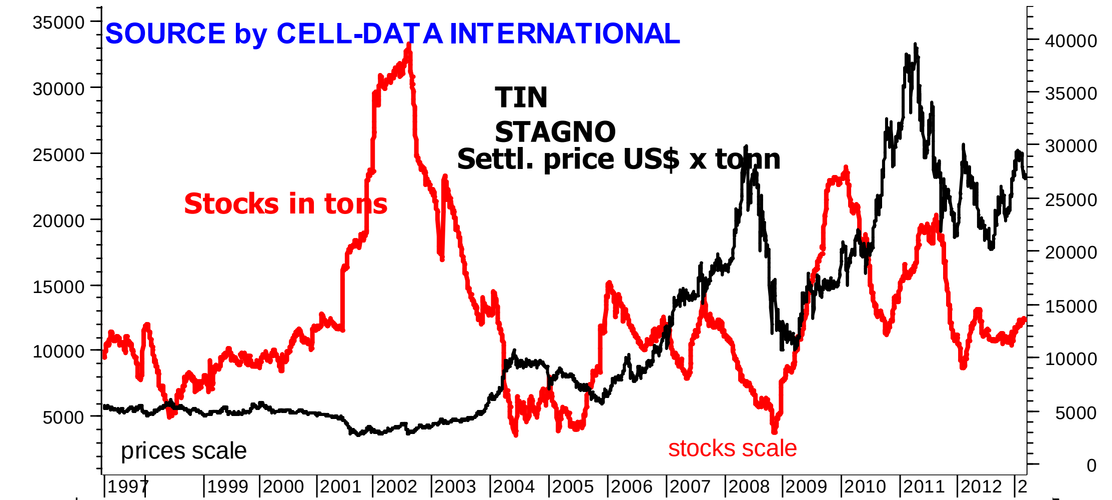
Demand from European and Asian aluminium consumers is satisfactory and prices are following the market. Some low/middle grade-type scraps have been exported to Asia.

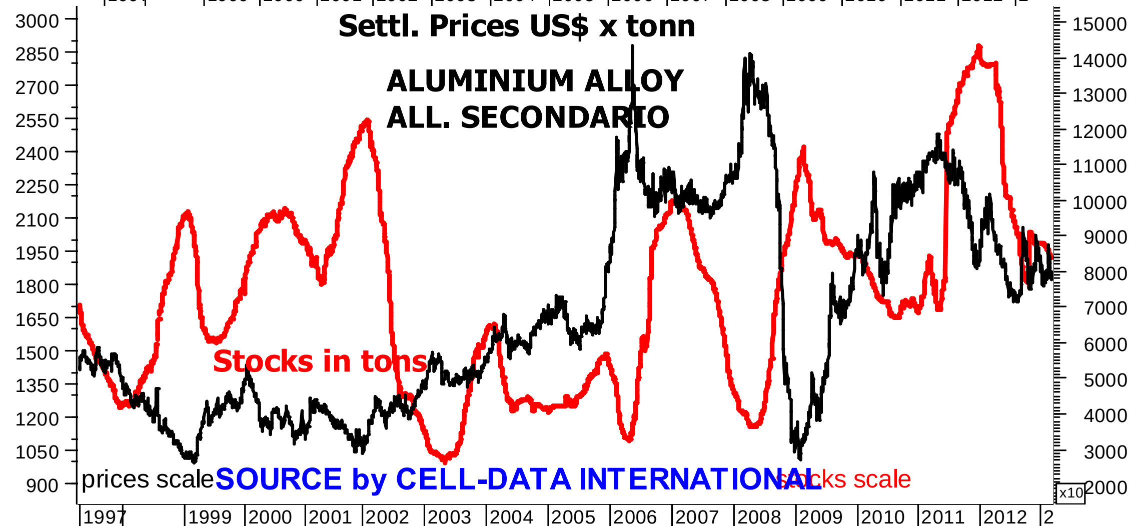
Zinc is in a similar position: there has been some interest at decent prices from zinc users, mainly in Europe. There is also some demand from Asia but price levels are not high enough to justify exports.
For lead and batteries, it is the same story every month. Lead consumers are in the market at good prices and stocks are low.

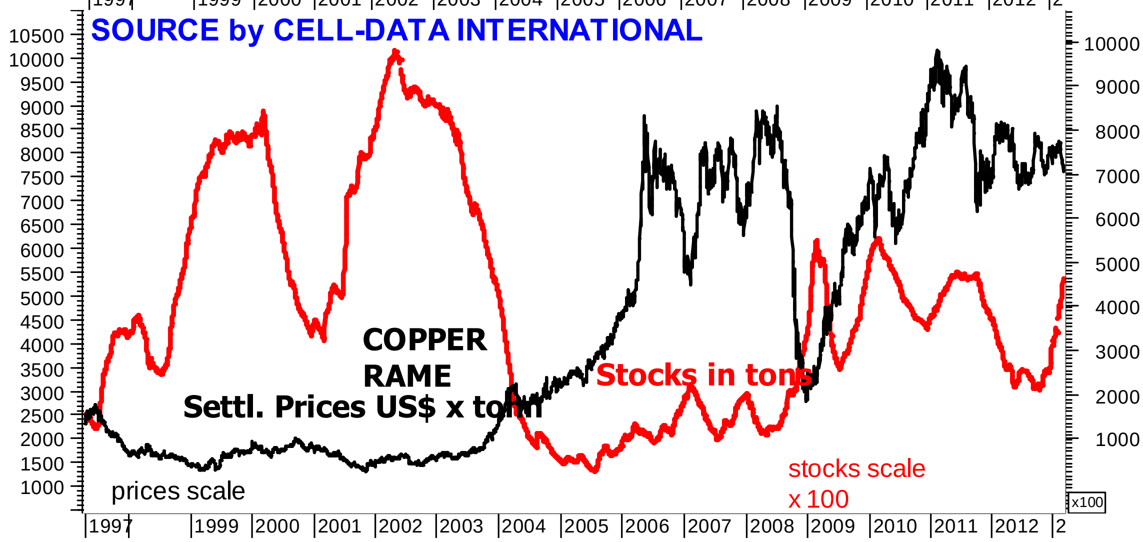
Demand for lead batteries is still very strong owing to low incoming volumes and high levels of competition between refiners. Scrap yards are still experiencing difficulties in renewing their stocks.

There is almost no demand from Europe's stainless steel buyers despite the fact that metal merchants do not have much material available.

DAILY OFFICIAL LME CLOSURE FOR SETTLEMENT AND STOCK







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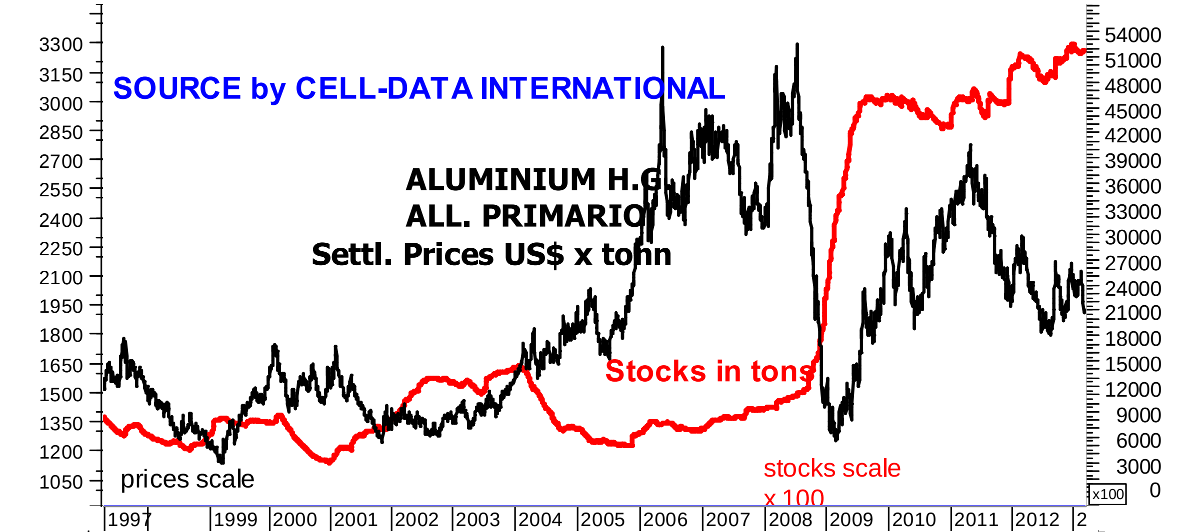

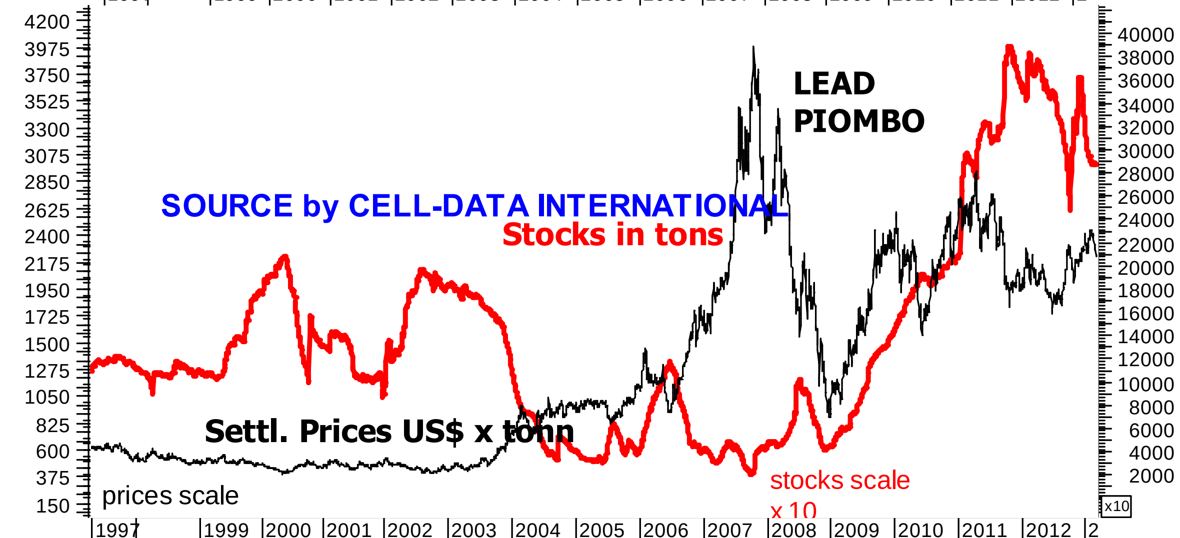

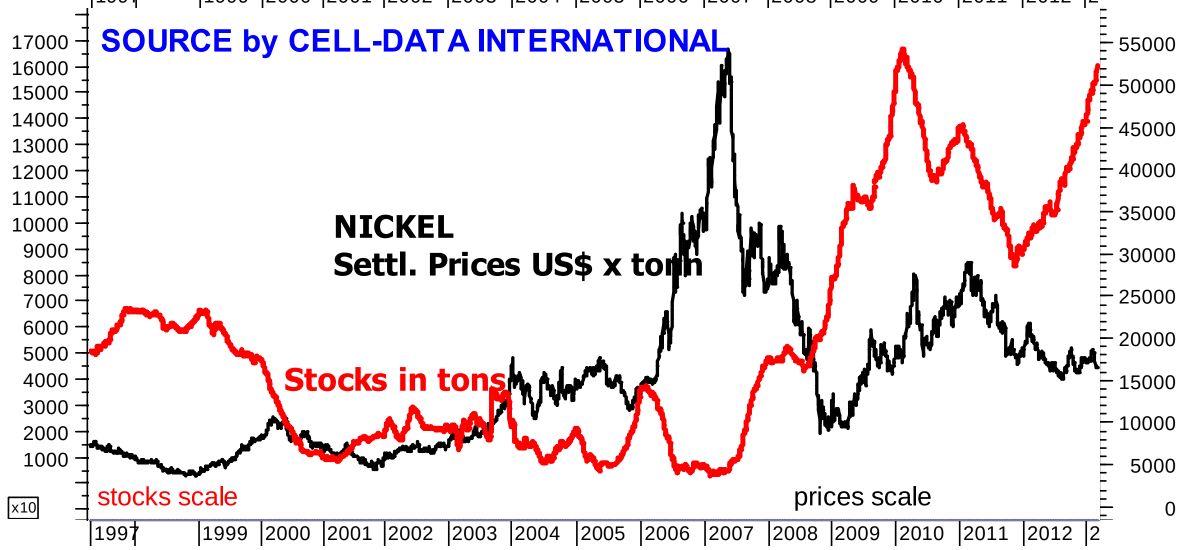

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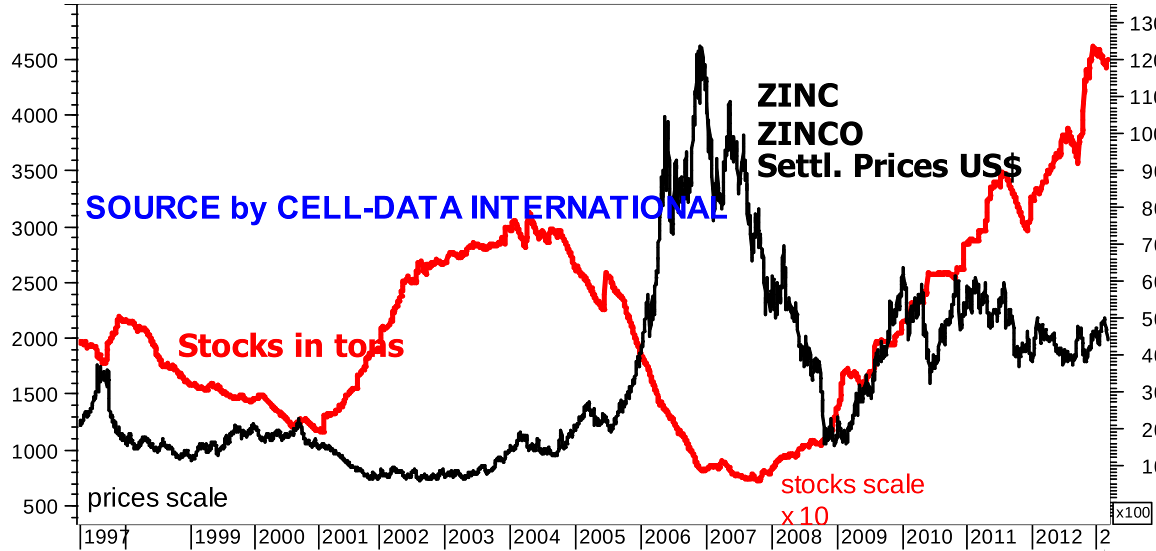

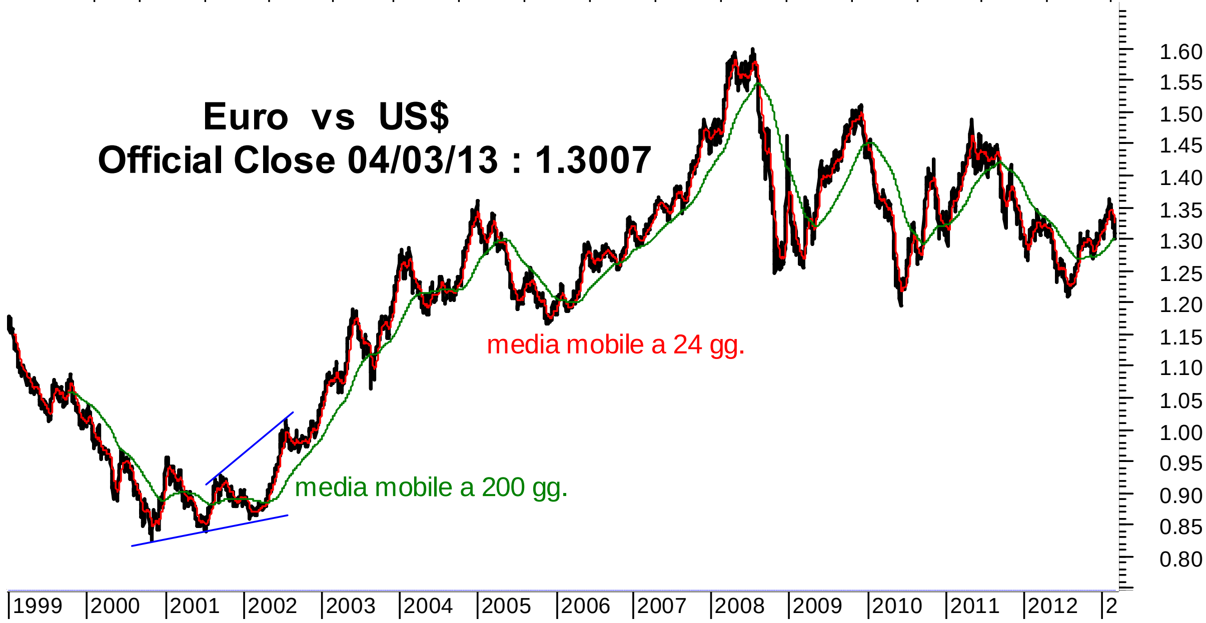

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