
Chinese scrap market may decline after modest rise in June

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Finished steel products market performed well in May as stocks fell and demand recovered. Scrap market thus moved upward due to insufficient supply and brisk purchasing. In June the uptrend will go on in the early and mid period, but scrap market may fall after a modest rise.

Favorable factors are listed below:

1. Steel market has climbed with fluctuations since May. The trend still continues at the moment, hence scrap market which has been knocked down for a long period, also rises amid modest undulations. Scrap market posted a clear uptrend in the month end. If steel market can go on the upswings in June scrap market will follow suit.
2. Japan's Nippon Steel and Rio Tinto agreed in May end on a 32.94% to 44.46% drop for iron ore benchmark price in fiscal year 2009. The price cut is smaller than the 40% to 45% expected. Iron ore price may rise in the coming days. Coke price still tends up in June after overall upswings in May. This will buoy up pig iron price, exerting upward momentum for scrap market.
3. Scrap market witnesses short supply. Import orders dived significantly in May since international price ascended. There will be fewer resources supplementing market supply hence the undersupply will help support scrap market.
4. Macro-economic statistics and market movements show China's CNY 4 trillion stimulus package has worked efficiently, restoring market confidence.

On the other hand, there are also some unfavorable factors:

1. Though steel market has moved upward, it is too early to be optimistic since nobody knows the ranges of economic revive and demand recovery. The upcoming summer will also frustrate actual demand for steel products.
2. Nice steel market performance will encourage steelmakers to release steel capacity, which will increase market supply and beat down steel price. This will also influence scrap market in view of severe overcapacity in China's steel sector.
3. Scrap price in international market fell from a high level in May, and may drop further in June. But in the meanwhile domestic scrap price presents an uptrend. The different trends will enhance the price advantage of imported scrap, curbing domestic price hike.

As a result, scrap market performance will be closely related to the operation of steel and raw material markets. In early and mid Jun scrap market is expected to go on the uptrend, but situation may change later. Scrap price will possibly decline providing steel market performs dull. The market is likely to rise in the coming days yet may slide soon after that.

(Sourced from MySteel.net)

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