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CHINA STEEL INTELLIGENCE REPORT

China’s shrinking scrap market

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CHINA'S SHRINKING SCRAP MARKET

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China's scrap market is shrinking, and has been for some time. That is unusual for a developing economy which should be seeing scrap availability surge. This issue looks at why that is, and how the trend might develop in future. After all, it was only recently that some analysts were concerned about a tidal wave of Chinese scrap exports overwhelming international markets. Now China can barely source enough scrap for its own use. The repercussions of China's ferrous scrap balance will have impacts across the globe.

After a weak first half, China could be on track to see the third consecutive year of falling ferrous scrap consumption. Simplistic formulas for the development of scrap markets, such as the 'seventeen-year rule,' (where steel products take on average seventeen years from entering the economy to becoming scrap) have failed to predict the trend, and cannot explain it. As a quick reminder of the historical background, seventeen years ago, in 2006, China produced 421 million tonnes of crude steel, up 18.3% on-year, 54.3% from 2004 and 227.6% from the year 2000.

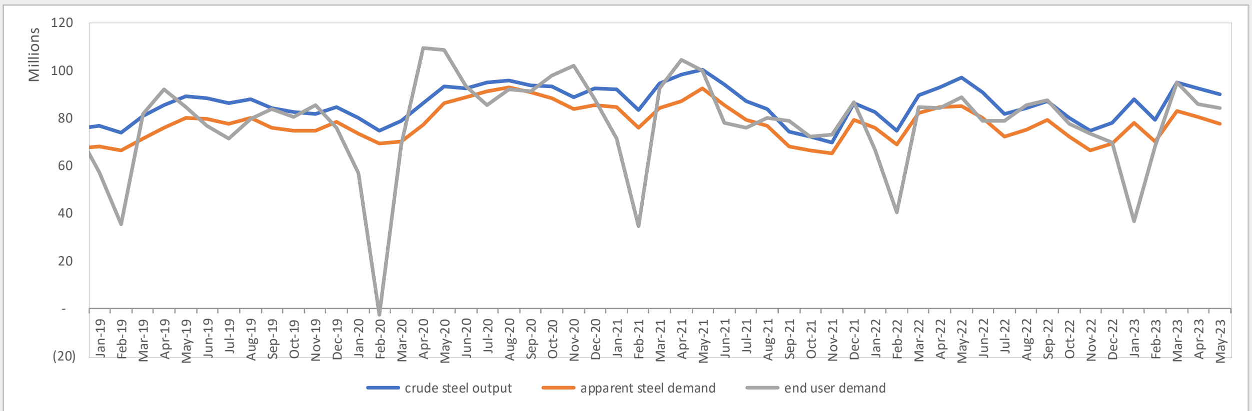
Many analysts fell into the trap of assuming that this astounding growth would now be showing up in scrap use data. This was never a realistic assumption. More nuanced views of how scrap markets were developing noted that the weighting of construction made the seventeen-year rule inappropriate, home scrap and prompt scrap would not be increasing, and processing capacity meant the supply of usable scrap could not increase so rapidly. Nevertheless, in 2020 Kallanish expected total scrap supply in 2023 to be

TABLE 1. SUPPLY AND DEMAND

	2022	Jan-May2023	Y-o-y	2023 Outlook	Y-o-y
Official crude steel output	1,013	445	1.90%	1,027	1.30%
Apparent consumption	911	389	-1.90%	927	1.70%
End user demand	916	370	1.50%	924	0.90%

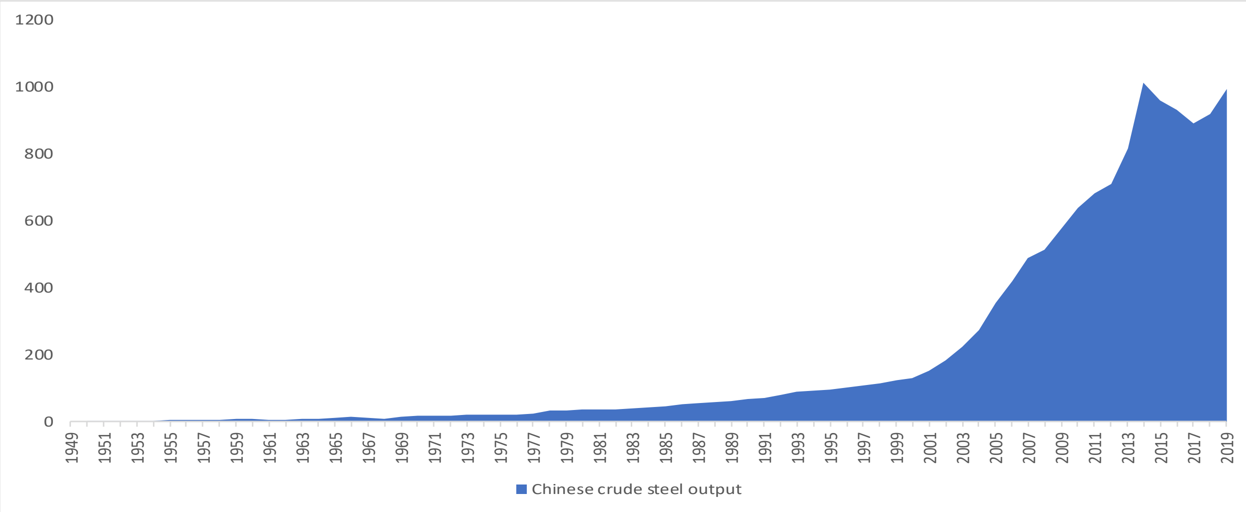
Source: Kallanish. Million Tonnes

FIGURE 1. STEEL PRODUCTION AND DEMAND 2019-2021



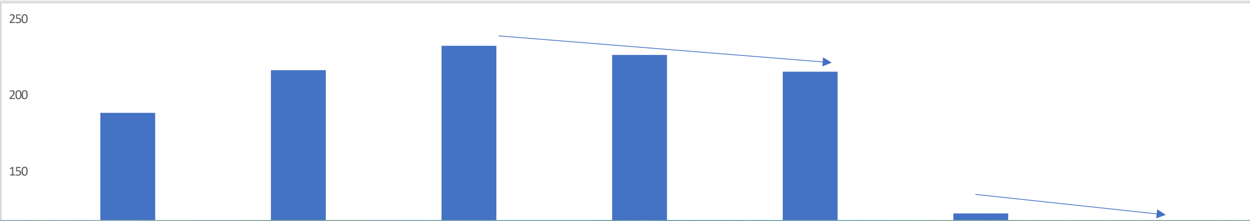
Source: Kallanish. Million Tonnes

FIGURE 2. HISTORICAL STEEL OUTPUT SUGGESTS SCRAP SURGE



Source: Kallanish, worldsteel, CWIHP (million tonnes/year)

FIGURE 3. SCRAP CONSUMPTION RETREATS



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