



PROCEEDING WITH CAUTION

Date: 6/24/2010

Cautiously optimistic scrap dealers gathered in San Diego for the ISRI 2010 Convention & Exposition



The Institute of Scrap Recycling Industries Inc. (ISRI) Convention & Exposition in San Diego May 5-8 came at the right time. A total of more than 4,500 attendees from 48 states and 40 countries made this year's show the second largest in ISRI history, according to the organization. Despite signals that some commodities might be at the front end of a correction, attendees heard a number of industry speakers say that overall conditions point to a steady market, at least through the rest of the year.

GENERALLY SPEAKING

In a session that provided a general economic outlook, moderator Jason Schenker of Prestige Economics, along with John Rutledge, chairman of the venture capital firm Rutledge Capital, and Yelena Takhtamanova with the Federal Reserve Bank of San Francisco, discussed the dynamics driving the global economy.

Rutledge and Takhtamanova said China would continue to be a strong market in the future. Rutledge noted that the industriousness of Chinese workers would help drive the country's economy. "The picture in our head of China is false," he said. "There are 1.5 billion people

working their tails off. In many ways they are more capitalist than us.” He added, “For China, stability is everything.”

Rutledge said that, counter to some who have expressed the opinion that the Chinese economy was set to collapse, “They are growing like crazy.” Takhtamanova, who focused much of her discussion on monetary policies, added that as Asian economies continued to grow in importance, it would be important to develop business relationships, especially with China.

She also said the U.S. economy was “in good shape this year.”

Other macroeconomic factors that would play a role in the global economy, according to these speakers, would be the strength of the U.S. dollar in comparison with other currencies (especially the euro) as well as unfolding economic problems in many parts of Europe, notably Greece.

THE GLOBAL OUTLOOK

During a session titled “The Present and Future of Global Trade,” two speakers examined some of the macroeconomic trends developing in the world. Dennis Unkovic, an attorney with Meyer, Unkovic & Scott, looked at the rise of nationalism, the growth in multinational companies and the move toward consolidation in the steel industry.

Robert Voss of Voss International said consolidation was fast becoming the norm, especially in China, where within the next three years he said he expected that roughly 45 percent of the Chinese steel industry would be controlled by the five largest companies.

In light of the consolidation in China, Voss stressed that scrap recyclers should develop or strengthen their relationships with Chinese scrap buyers to ensure that they had a position as the industry narrowed to a handful of larger players.

With China growing so quickly, Voss said the country would undoubtedly be pressured to take steps to guarantee its raw material intake, including the possibility of acquiring scrap metal recycling operations.

(As a side note, a number of attendees during the show said China-based companies are exploring the possibility of acquiring or starting scrap metal operations to offset the soaring costs of iron ore, a raw material used to make steel.)

Japan also is undergoing a number of economic trends that could alter its position in the global economy. Unkovic said that Japan was seeing the end of its industrialization drive with an aging population and an unfocused political system.

India, however, continues to grow, though its growth can be misleading, as the population is growing so quickly that the country needs to see a 6 to 7 percent increase in GDP just to stay at its present level.

A CLOSER LOOK

During the convention's various commodity sessions, the mood was more optimistic than during the macroeconomic sessions. Panelists at the "Spotlight on Iron and Steel" session were largely in agreement that the lofty market would continue into the rest of 2010.

"I think we're already having some reduction in pricing, but I don't see a long-term decline," said industry analyst Michael Locker of Locker Associates, New York. "Scrap is a very valuable commodity," he added.

In a comment that drew a skeptical counterpoint from an audience member, Locker also predicted a looming shortage of ferrous scrap. "I think there's going to be a shortage of scrap," he said. "The U.S. can't continue to 'mine' as much scrap as it used to."

The scrap would be in demand domestically, Locker said, from a steel industry that was at a relative advantage to China's because of its access to feedstock.

Some of that scrap began emerging in the spring, according to Keith Grass, president of Nucor's Cincinnati-based David J. Joseph Co. subsidiary. "Scrap flows were very, very low in the first quarter [of 2010]," said Grass, president of David J. Joseph. "When we hit mid-March, we started seeing sufficient flows, particularly of obsolete scrap, which is our primary business."

Tamara Lundgren, CEO of Schnitzer Steel Industries Inc., pointed to ferrous scrap's role as a leading economic indicator. "We started seeing an improving flow of scrap about nine months ago," she remarked. "We're seeing steady improvement, which underpins the scrap industry as a leading indicator of economic growth. We saw it first."

Larry Schnurbusch of steel producer SSAB said of the steel industry, "I think steel will stay strong on a global basis," though he added, "I think it's going to be a slow recovery" regarding the overall economy.

At the "Spotlight on Aluminum" session, representatives from Aleris International, Sigma and Kaiser Aluminum, along with a consultant to the metals industry, touched on some of the trends and future opportunities in this market.

Jorge Vasquez, a market analyst for Harbor Intelligence, a consulting firm based in Laredo, Texas, noted that, despite significant talk about speculation in the aluminum markets, it hasn't played as prominent a role in the market in the past year.

ISRI will hold its 2011 Conference & Exposition April 6-10 in Los Angeles at the Los Angeles Convention Center. The authors are editor-in-chief and senior and Internet editor of *Recycling Today* and can be contacted at btaylor@gie.net and at dsandoval@gie.net.