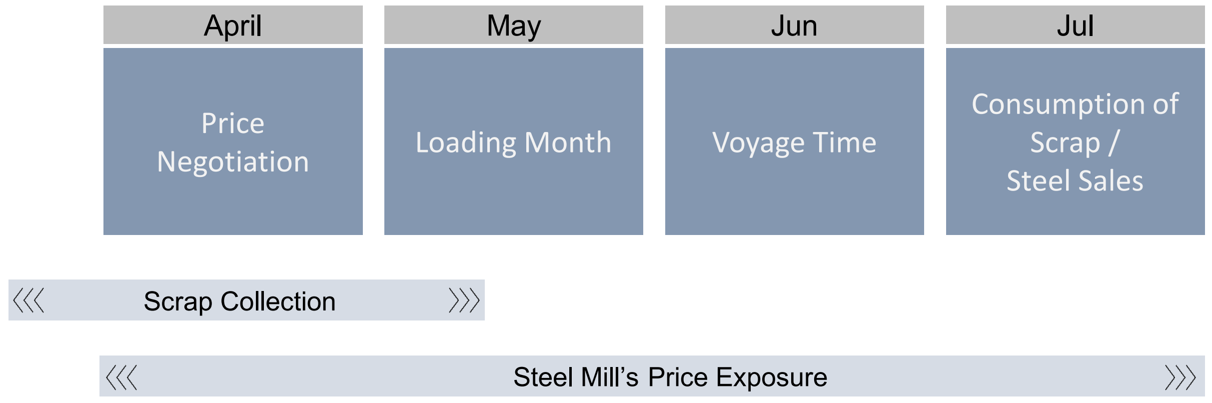
LME Asia Week

May 2023

How does Scrap indexation benefit everyone in the supply chain?

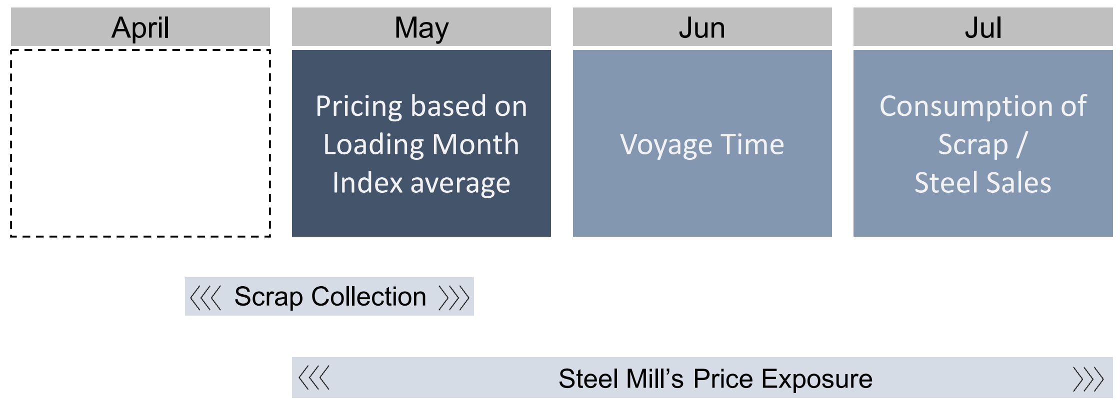
Status Quo: Spot fixed price negotiation



Key challenges

- Scrap yard needs to accumulate inventory throughout price negotiation cycle; Single price negotiation with buyer vs. several tranches of negotiation with collectors.
- Inventory holding period is stretched for up to two months, which leads to higher working capital usage under current high interest environment
- Steel mills (scrap buyer) is exposed to large price swing as they can only price steel sales closer to steel delivery months. The longer the voyage time is, the bigger the challenges Steel mill faces.

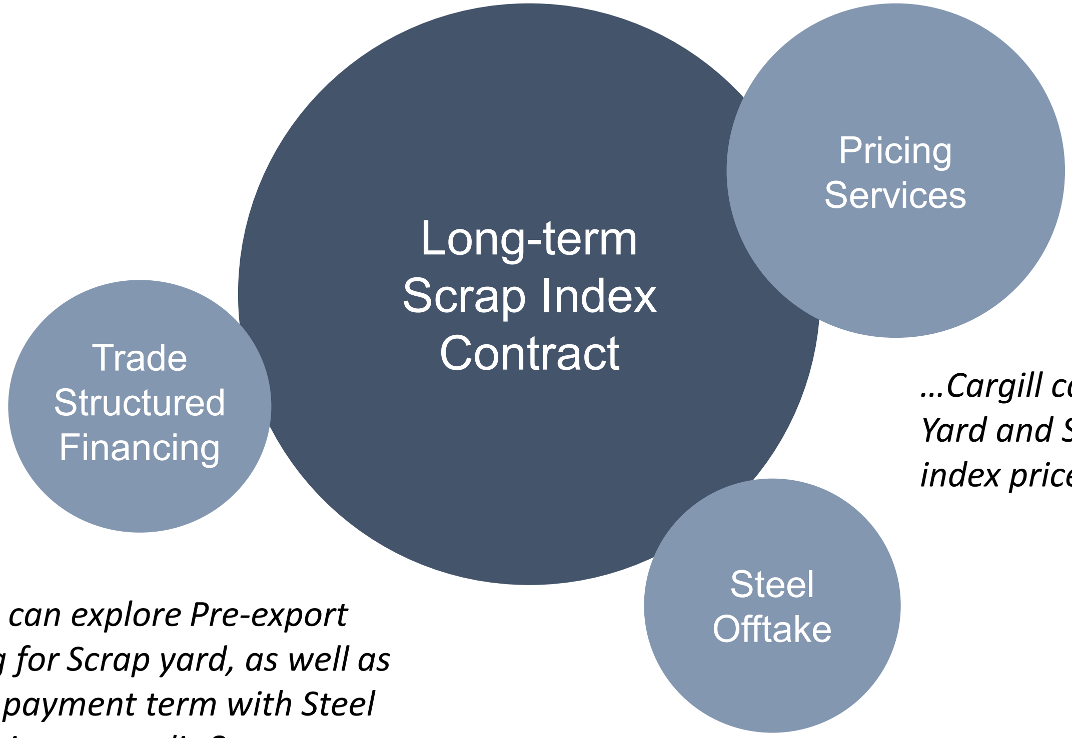
Solution: Scrap Index long term contract



How does indexation address the challenges?

- By moving pricing window to month of loading, Steel mills are less exposed to potential market volatility.
- Monthly index price ensures that steel mill achieve fair market value without the burden of 'picking the right moment' to purchase scrap.

How can Cargill add value in this structure?



…Cargill can help both Scrap Yard and Steel mill converting index price to fixed price.

... Cargill can explore Pre-export financing for Scrap yard, as well as deferred payment term with Steel mills, subject to credit & management approval.

…Cargill can explore off taking steel product from steel mill based on the same Scrap Index + Conversion Cost, thereby helping steel mill to lock in profit

We believe that Cargill's additional services, embedded into long term scrap index flow, will incentivize the industry to make the move to an indexation and this will in turn help the industry to manage price exposure better.

Case Study: Pricing Services

Problem Statement

When steel price upticks, steel mills want to capture the sales liquidity however sometimes mills do not have a sufficient scrap inventory to cover the additional steel sales (i.e., short scrap)

Available Options	"Sell steel first then buy scrap"	"LME Scrap financial hedge"	Cargill's Index to Fixed Price Solution
Challenges	• Most common / traditional approach. Other mills are sensing the same signal, which creates a competition among buyers, which typically pushes up the price. "Good sales today becomes loss making sales tomorrow." • Scrap yards hold back offers as they quickly sense that steel market sentiment is turning bullish, making this problem even worse. • Even when spot scrap is available at reasonable price, steel mill sometimes have to buy whole vessel of scrap, exceeding the quantity of steel they can sell. This creates a reverse problem – adding scrap inventory while sales prospect is uncertain.	• LME scrap bid/offer liquidity is not sufficient to cover steel mills' required hedging quantity • Not every steel mill is set up to trade LME due to additional working capital requirement, accounting complexity, decision making structure, etc.	• Steel mill can simply convert the price of incoming scrap shipment, from Index to Fixed Price.

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