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Ukraine / Metals & Mining

CIS Metallurgical Raw Materials Markets

Industry conference notes

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We just returned from the CIS Metallurgical Raw Materials Markets conference in Alushta (Ukraine). Participants included key CIS steel makers and raw material suppliers.

Here are our quick notes about insiders' sentiment:

Current spot steel prices (450 USD/mt; FOB) do not represent reality. There is general perception that there is no market at all and that even if the price plunges to 250 USD/mt, nobody would buy

Demand is frozen due to a paralyzing mix of seasonality, high inventories accumulated in April-July and financing difficulties

Some industry participants expect demand for steel to be restored in November; others think demand will pick back up in spring

Export-oriented Ukrainians have already been harmed by the global decline in demand for steel; Russians felt better in September supported by domestic demand, however, in October there was an opinion that they risk decreasing production as well

Ukraine will remain cost competitive players in the mid-term. Costs for Ukraine are 10-15% higher compared to Russia, though Ukraine enjoys logistics advantages to its key export markets

Experts and companies are cautious on forecasting steel and raw material prices for 2009. The most common forecast for steel is 800-850 USD/mt. Although, they all confirm that prices will be volatile in 2009

Each speaker at the conference referred to the negative impact of the financial crisis on the industry. In the companies' views, the crisis resulted in: eroded demand from consumers, narrowed cash liquidity (high risk of delays in receivables), shrinking funds to finance investment programs

Both raw material and steel producers are revising their CapEx programs

Steel producers are citing low steel prices as a basis for renegotiating annual contracts on raw materials that were signed at the beginning of the year

However, more consolidated raw material producers and integrated resource-rich steel groups enjoy pricing power: they are adamant on prices; raw material producers prefer to support prices for iron ore/coal/ferroalloys, etc. at current levels by cutting supplies

From a technological point of view, it is easier to slow production of iron ore/coal, than to do the same at a metallurgical plant

Integrated steel makers and resource companies (with strong P&Ls) are preparing to take market share from non-integrated competitors and expand via acquisitions in the CIS

Ukrainian steel makers (even those that are non-integrated with raw materials) enjoyed profits in 1H08, when their gross margins per mt of steel surged from 100-150 USD/mt on average in 2007 to 250-400 USD/mt. Most have not spent this money on modernizations or acquisitions

Zhevago's (majority owner of Ferrexpo) margin call was an active topic of casual discussions. The general view was that bankruptcy and/or hostile takeover risks for CIS players with high debt are growing (our opinion: among Ukrainian players IUD is the most likely takeover candidate)

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