



CONCORDE CAPITAL

Industrial output

August sees first yoy decline in two years

September 11, 2008

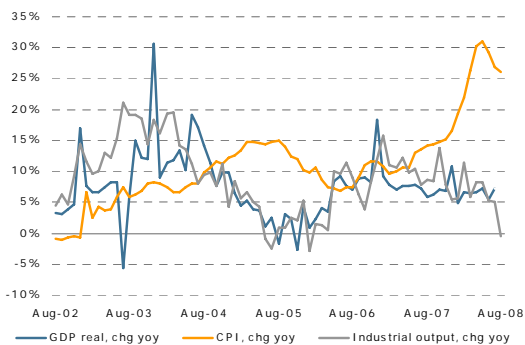
Polina Khomenko
pk@concorde.com.ua

Andrii Parkhomenko
pav@concorde.com.ua

+380 44 391 5577

Yesterday the State Statistics Committee reported industrial output decelerated for the first time, on a year-on-year basis, in two years. In August, industrial production fell 5.3% mom, or 0.5% yoy.

Business cycle indicators



Source: State Statistics Committee

Key macroeconomic indicators

	2007	2008E	2009F
Real economy			
Real GDP, % yoy	7.6	6.8	6.5
Nominal GDP, USD bln	141.2	202.4	246.8
Industrial output, % yoy	10.2	7.0	7.5
CPI (eop), % yoy	16.6	21.0	15.0
PPI (eop), % yoy	23.2	40.0	18.0
Retail trade, % yoy	28.8	25.5	25.0
Banking assets, % yoy	76.0	50.0	45.0
Construction, % yoy	15.8	-2.0	5.0

External sector

	2007	2008E	2009F
Trade balance, % GDP	-5.6	-4.9	-5.8
Current account balance, % GDP	-4.2	-4.3	-5.3
Net FDI, USD bln	9.9	11.4	15.0
NBU reserves, USD bln	32.5	42.0	50.5
External debt, % GDP	59.9	56.8	57.9

Monetary & fiscal policy

	2007	2008E	2009F
Money supply (M3), % yoy	51.7	25.0	40.0
Official UAH/USD (eop)	5.05	4.95	4.90
Consolidated budget, % GDP	-1.1	-1.0	-0.6

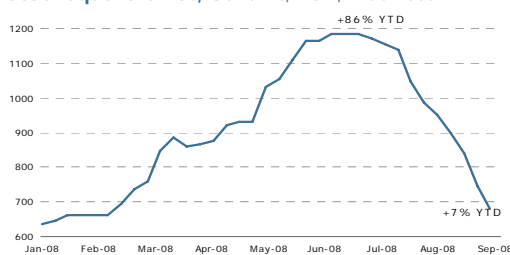
Source: State Statistics Committee, National Bank of Ukraine, Concorde Capital estimates

Prices for core commodities, as of September 10

	Current	%, YTD	%, yoy
Gas imports, USD/tcm	179.5	0%	38%
Crude oil (URALS), USD/bbl	97.1	5%	36%
Winter wheat, USD/mt, FOB**	261.0	2%	20%
Steel square billet, USD/mt, FOB**	680.0	7%	32%

**Black Sea ports
Source: Gas of Ukraine, Bloomberg, Agriculture Analytical Agency, Metal Courier

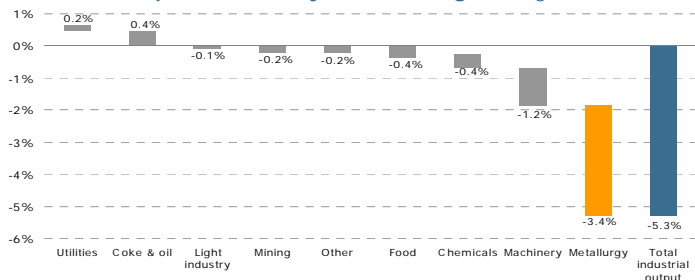
Steel square billet, USD/mt, FOB, Black sea



Source: Metal Courier

The deepest decline in production across industries in August occurred in metallurgy (-11.6% mom), the largest component of industrial output. Metallurgy contributed, according to our estimates, -3.4% of the total -5.3% yoy fall.

Industrial output decrease by sector in August, chg mom



Source: State Statistics Committee, Concorde Capital estimates

The slide in steel prices, which began in July, gathered steam in August, falling -22% mom, leading steel mills to cut output dramatically. In August, their capacity utilization was the lowest in the last two years (below 80%). Eager to benefit from record high prices in mid-summer, steel producers ran at full capacity June-July. By the time it was clear the downtrend was sustainable, manufacturers had built-up sizable inventories, which is now allowing them to scale back production and sit until prices turn up again.

Industrial output by sector in August

	chg mom	chg yoy
Mining	-2.0%	2.3%
Processing industry	-6.0%	-1.1%
Food	-2.6%	-3.5%
Light industry	-11.7%	-9.9%
Wood industry	-2.2%	10.7%
Pulp & paper	1.8%	9.0%
Coke & oil products	4.7%	-4.9%
Chemicals & petrochemicals	-5.9%	-9.1%
Other mineral production	-5.3%	6.2%
Metallurgy	-11.6%	-8.6%
Machine building	-7.7%	13.4%
Utilities	1.2%	4.3%
Industrial output	-5.3%	-0.5%

Source: State Statistics Committee

We expect further deceleration in output from the metallurgy sector in September, as prices are continuing to tumble. This month began with steel makers at 76.1% capacity utilization, even less than in August.

In our view, growth in metallurgical production and overall Ukrainian output will rebound only in October, when steel producers' inventories are exhausted and seasonal global demand for steel is higher. Even after industrial output picks up, it is unlikely to make up for the unexpected drop in August; we are now reviewing our 2008 forecast for industrial output for downgrade.

Concorde Capital, Head office

2 Mechnikova Street, 21st Floor
Parus Business Centre
Kyiv 01601, Ukraine
Tel.: +380 44 391 5577
Fax: +380 44 391 5571

www.concorde.ua

Concorde Capital

4 Fourth Lesnoy Pereulok, 5th Floor
Capital Plaza
Moscow 125047, Russia
Tel.: +7 495 642 87 15
Fax: +7 495 225 85 00

office@concorde.com.ua

CEO

Igor Mazepa

im@concorde.com.ua

Head of Equity Sales

Roman Nasirov

rn@concorde.com.ua

Equity Sales

Anastasiya Nazarenko
Marina Martirosyan
Andriy Supranonok
Marina Cherednichenko
Alyona Degrik

an@concorde.com.ua
mm@concorde.com.ua
sap@concorde.com.ua
cmg@concorde.com.ua
dav@concorde.com.ua

Director of Research

Konstantin Fisun, CFA

kf@concorde.com.ua

RESEARCH

Strategy

Konstantin Fisun
Oleksandr Klymchuk

kf@concorde.com.ua
ok@concorde.com.ua

Metals & Mining

Eugene Cherviachenko
Andriy Gerus

ec@concorde.com.ua
ga@concorde.com.ua

Utilities (Telecom, Energy)

Alexander Paraschiy

ap@concorde.com.ua

**Oil & Gas, Chemicals,
Pharmaceuticals**

Vladimir Nesterenko

vn@concorde.com.ua

Real Estate/Construction

Andriy Gostik, CFA
Alexander Romanov

ag@concorde.com.ua
ar@concorde.com.ua

Consumer-related

Olha Pankiv
Anna Dudchenko

op@concorde.com.ua
ad@concorde.com.ua

Machinery

Inna Perepelytsya

pi@concorde.com.ua

Financial Services, Retail

Alexander Viktorov

av@concorde.com.ua

Economics

Polina Khomenko
Andrii Parkhomenko

pk@concorde.com.ua
pav@concorde.com.ua

Fixed Income

Oleksandr Klymchuk

ok@concorde.com.ua

Editor

Brad Wells

bw@concorde.com.ua

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