

Metallurgy in Ukraine: A Do-Not-Resuscitate patient?

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Apparently metallurgy, one of the main branches of the Ukrainian economy, is gradually recovering from the crisis. It can be proved by the fact that the prices have stabilised. For example, in November steel sheets were worth USD 400-420 per tonne, rebar and rolled products USD 320-340 per tonne. In August-October the market was off and the prices were declining, sometimes by USD 50-60 per week. However, nowadays we may conclude that the metal sector can grow in the second quarter of 2009.

Metallurgy was the first Ukrainian branch of the economy influenced by the global financial crisis. The majority of the steelmakers traditionally deliver the lion's share of the produced metal abroad, as the domestic market is not capable of consuming the full volumes of output. The technical facilities of Ukrainian plants surpass domestic consuming capacity. And it also should be mentioned that the principal buyers of Ukrainian metallurgical production are metal traders, which since August have stopped purchasing Ukrainian steel due to the prices (USD 1000-1200 per tonne) and recession of demand of the ultimate buyers. So August was the start of the dead season of the branch.

Traders accumulated tonnes of steel in stock and refused to buy Ukrainian products at the existent price, while producers refused to reduce the prices due to high net cost. Consequently, companies with big storage facilities had an advantage; they were able to not have to halt the production (so they won't face the complicated technological problem of its renewal.) For example, up to November Metinvest produced slabs, square billet and rolled steel in almost the same amount as before the "crisis." But, at the same time, Zaporizhstal, Alchevsk and Ilyich had to shut part of their production facilities in September-November.

However, in November, Metinvest also had to reduce volumes of output: there was already no place where the production could be stocked. Yenakiyevo Steel & Iron Works has reduced metal release by 23 percent, Azovstal Steel & Iron Works by 47 percent. Makeyevka metallurgical plant at all stopped producing pig-iron.

Orders for the Ukrainian steel production began to appear in the first decade of November, 2008. Small Ukrainian building companies started buying small lots of rebar. In November some plants offered buyers a discount (10–15 percent). And by the end of November, traders which work in the markets of the Near East and Asia have also increased their business activity.

The occurrence of buyers may be explained by the fact that the prices of Ukrainian steel have been reduced a great extent. In November the steel price stabilised at the USD 350-420 level due to the lowering of net costs. At that time, traders from the Eastern countries fill up their stocks at the expense of cheaper Ukrainian rolled products, thereby allowing our steelmakers to load capacities in the conditions of global recession in demand.

It can't be omitted that prices on the freight market have also changed greatly (lowered by USD 30-50, they are now at prices of approximately USD 40 per tonne), which helps to activate purchases made by foreign traders. In comparison with China, Ukraine has an advantage in the metals sector. The Chinese policy of protectionism has resulted in a backlash of making the prices

on the domestic market too high for the majority of consumers. Moreover, a lot of small Chinese steel producers substantially reduced the level of their output. In such conditions, Ukraine has a good chance to fill undersaturated Chinese steel markets.

There is no exact data about the volumes of the rolled products which have been already exported to China during the last month. But still Ukraine may construe the very fact of exporting steel to China as a positive notion, as in 2007, for example, there was nothing exported at all. Ukrainian metallurgy has not reached the lowest point yet. In November, steel output was 14 percent lower when compared with the October rate, to 1.6 million tonnes.

In December-January steel production, most likely, will fall to 1.4 million tonnes per month as a result of traditional winter decrease in business activity. But in February 2009 production could increase to 1.6 million tonnes, and from April up to the end of the year the possible growth of volumes of output have been estimated at 1.7-2 million tonnes per month. The activation of sale is expected due to new building projects in the Near East and North Africa in the second quarter of 2009.

In 2009, low cost of production will be the main competitive advantage of the Ukrainian metallurgists. As a result of falling of demand in the autumn, the prices for iron ore raw materials (coke, ore, agglomerate) has lowered. Therefore, Ukrainian steel producers got a lower net cost. In general the net price of steel production in Ukraine till December, 2008 fell to USD 300 per tonne (in the middle of 2008 production of rolled steel cost USD 500–600. That is, that even selling the steel production at USD 350–400, Ukrainian steel companies' work can be profitable. Especially, when you take the devaluation of the hryvnia into account.

Source: NEW EUROPE