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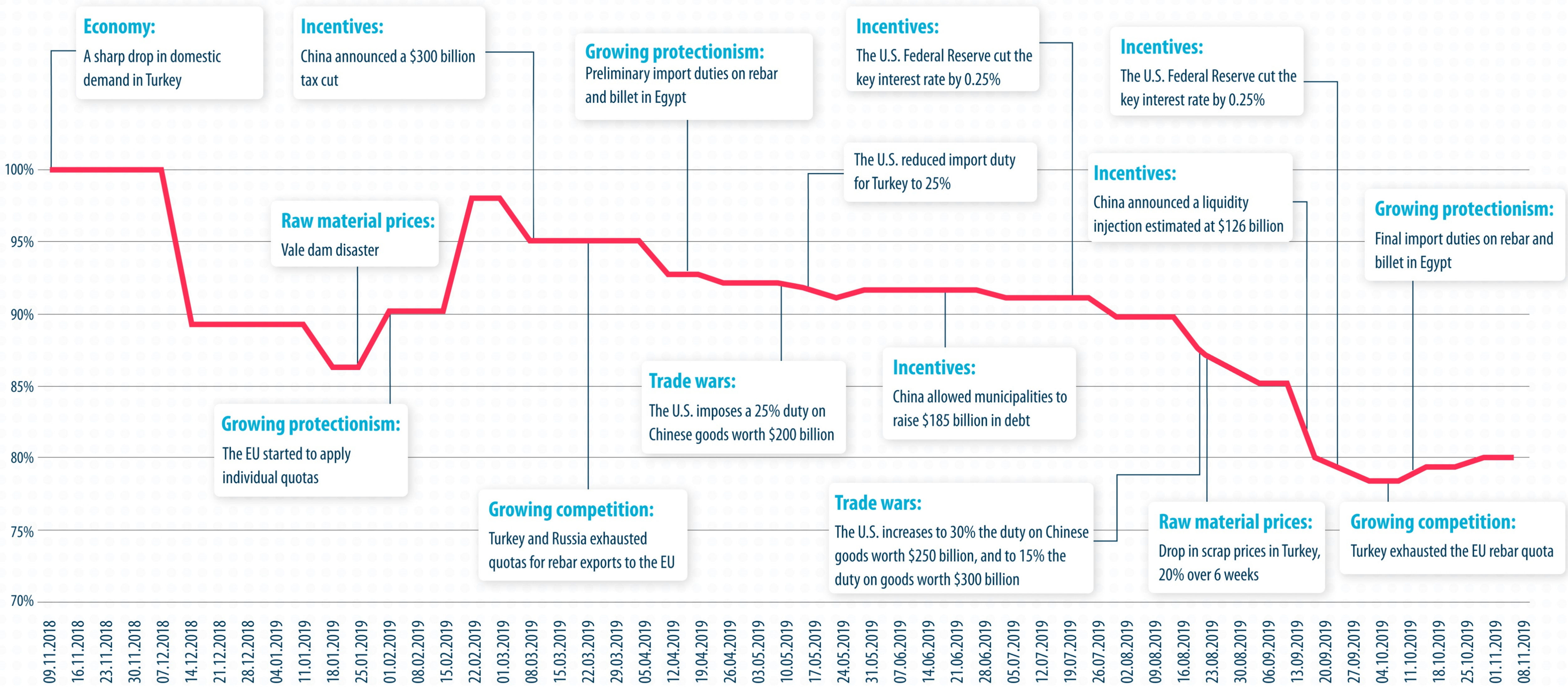
TRENDS IN GLOBAL PRICES FOR LONG PRODUCTS

Trends in rebar prices, FOB Black Sea



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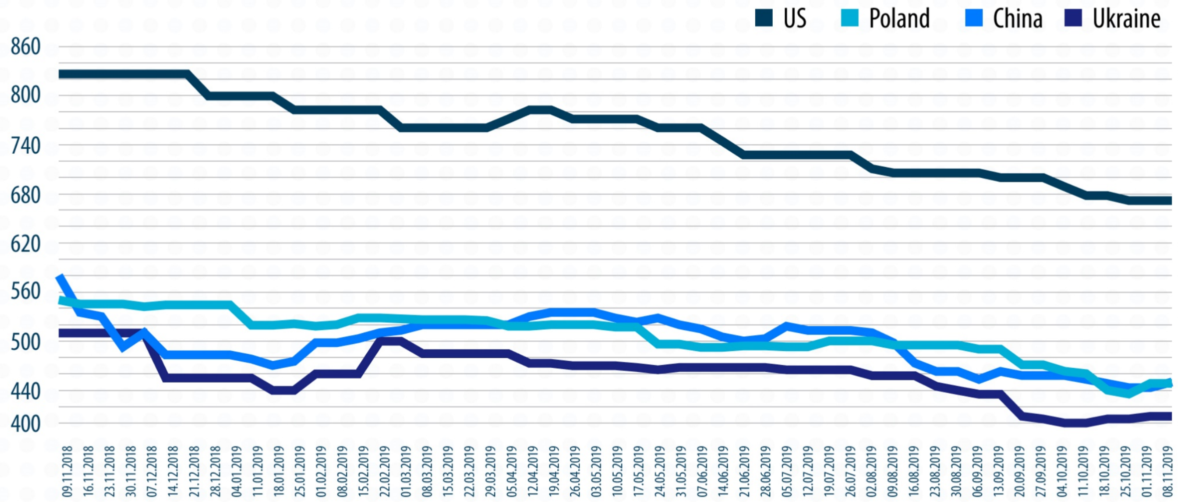
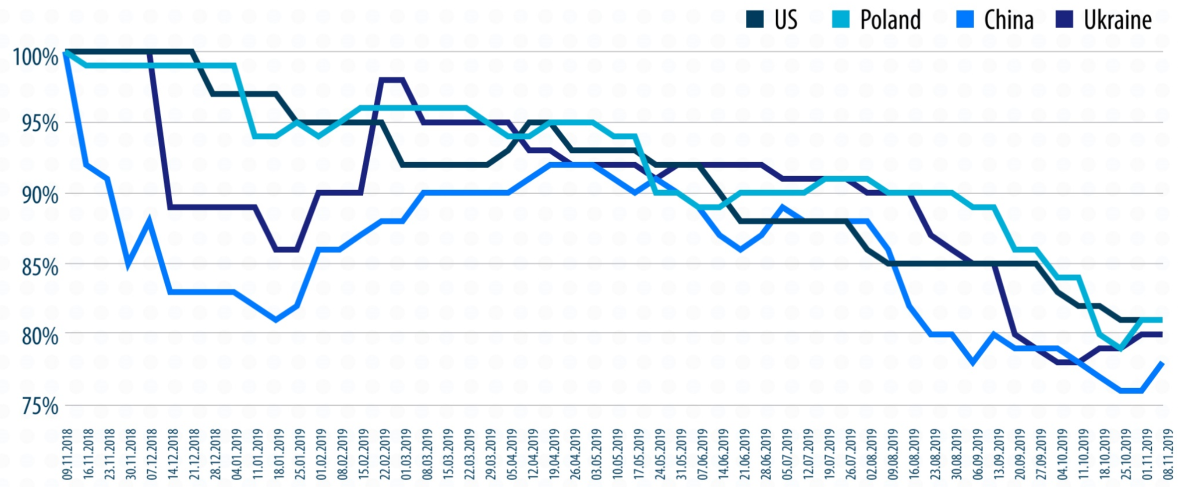
Trends in global prices for rebar, $/ton



Trends in rebar prices, %



Data: Metal Expert

- Prices in all markets declined synchronously. The fall in November amounted to about 20% YoY. Further decline is restrained by relatively high prices for iron ore and trade barriers.

- The main factors of price movements are raw material prices. In January, a hike in prices was caused by iron ore deficit due to the collapse of Vale tailings dam. A fall in prices for scrap in August–September led to a drop in prices for finished products.

- Growing trade barriers in the EU limited Turky's exports, which exhausted its annual quota in 3.5 months. Along with a drop in domestic steel consumption in Turkey, this brought down scrap prices, as Turkey is the largest world importer of scrap. Also, this enhanced competition in other regions.

- Prices in China fell more than in other markets due to a higher comparative base. The decline occurred despite the active economic incentives. Trade wars raised concerns about growth prospects for the Chinese economy. Beijing responded with more incentives, keeping demand high. Exports from the country are declining, whereas imports are record-high.

- Notwithstanding an overall drop in steel consumption in the EU (-7.7% in Q2 YoY), the construction sector supported the market. According to Eurofer forecasts, construction volumes in the EU will grow by 3.5% in 2019. Meanwhile, trade barriers reduced imports of long products to the EU by 47% in Q2. Price fluctuations in the EU market were most likely caused by the dynamics of raw material prices.

- Prices in the U.S. remain 33% higher than in the EU, enabling U.S. companies to make money even in a weak market.

- Ukrainian steelmakers benefited from a rise in iron ore prices early this year. Meanwhile, a drop in scrap prices in August–September resulted in losses incurred by Ukrainian producers.

Expectations

- According to Irepas forecasts, prices for long products will continue depending on scrap prices. The current rise in scrap prices is temporary, because buyers reduced their stocks, not because of increased demand.
  Low capacity utilization in Turkey will continue putting pressure on prices for scrap and, consequently, for long products.

- China may change the market situation if it softens its policy towards scrap imports. To date, import volumes have been limited by quotas and are close to zero in real terms. The increase in scrap prices in China inflicted losses on electric steel makers throughout the year. This cannot go on for long. If China resumes scrap imports, prices for scrap and rolled products may slightly increase.

- Next year, iron ore prices are expected to decline amid recovery of supplies from Brazil and a possible drop in consumption in China. This will impede the growth of scrap prices and help maintain a balance between prices for scrap and iron ore.

- The long-expected trade deal between the U.S. and China will give the market a short, temporary breathing room in crisis. Perhaps in Q1 2020. One should not overestimate the implications of this factor, its likelihood is low.

- The growth of construction in the EU, according to Eurofer, will slow down to 1.2% next year. Imports will grow by 3% (increase in the quota volume), with the current share of long products imports being 22%. In other words, demand in the EU will not support prices.

- SteelHome expects a decrease in steel demand, production in China by 2% next year, as well as a cut in average prices for rebar within 8%, with a 10–15% decline in iron ore prices. A low price difference between China and other regions will hold back exports. Exports from China are not expected to increase next year.

- China's slowdown may increase competition from Iran and India, which have been actively increasing exports to Southeast Asia and China this year.

- There is high uncertainty in the market which triggers price volatility, while demand will remain weak for long.

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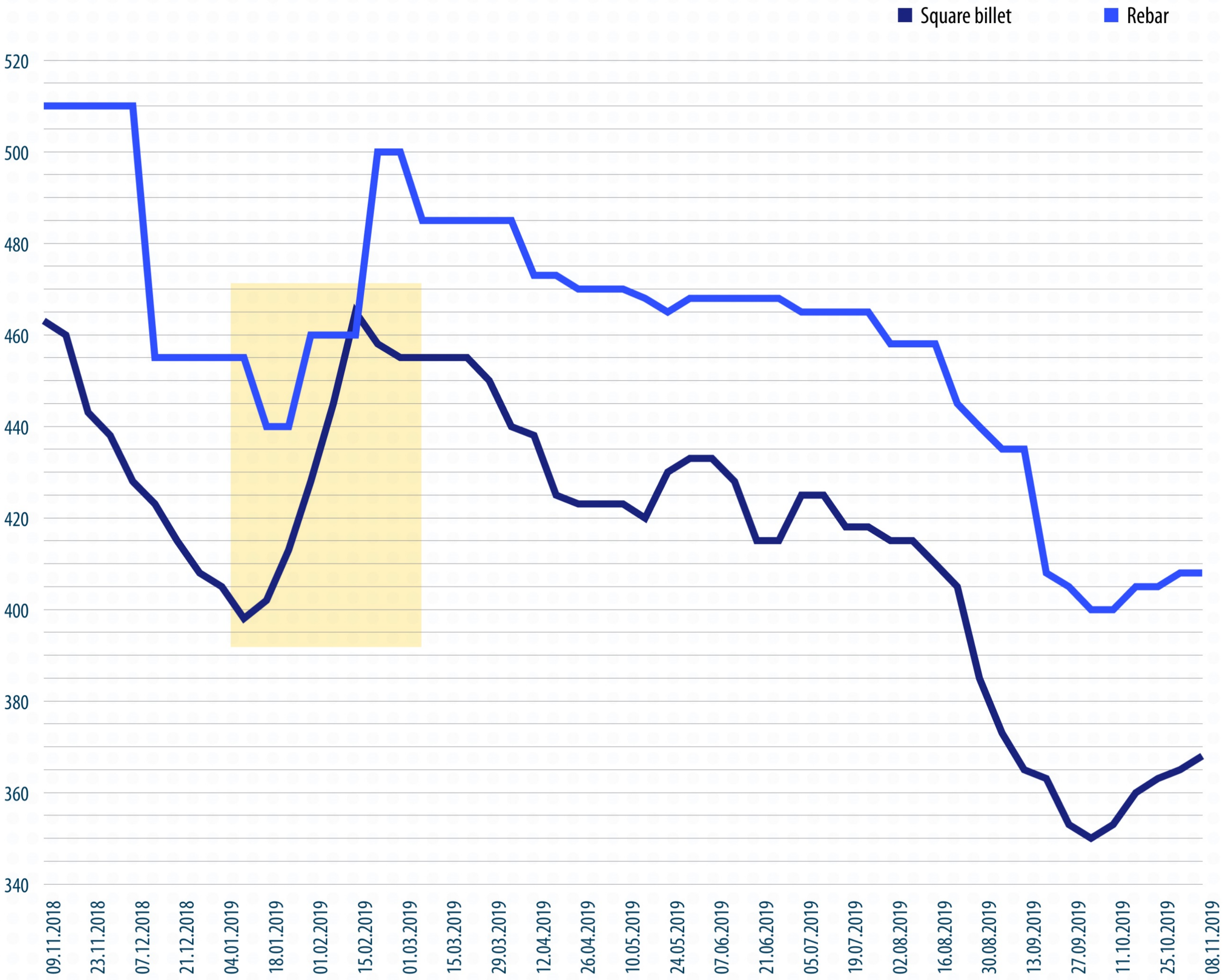
INTERESTING FACTS

An interesting situation was observed in February, when a sharp increase in iron ore prices and a weak position of the market of finished products brought prices for billet close to those for rebar

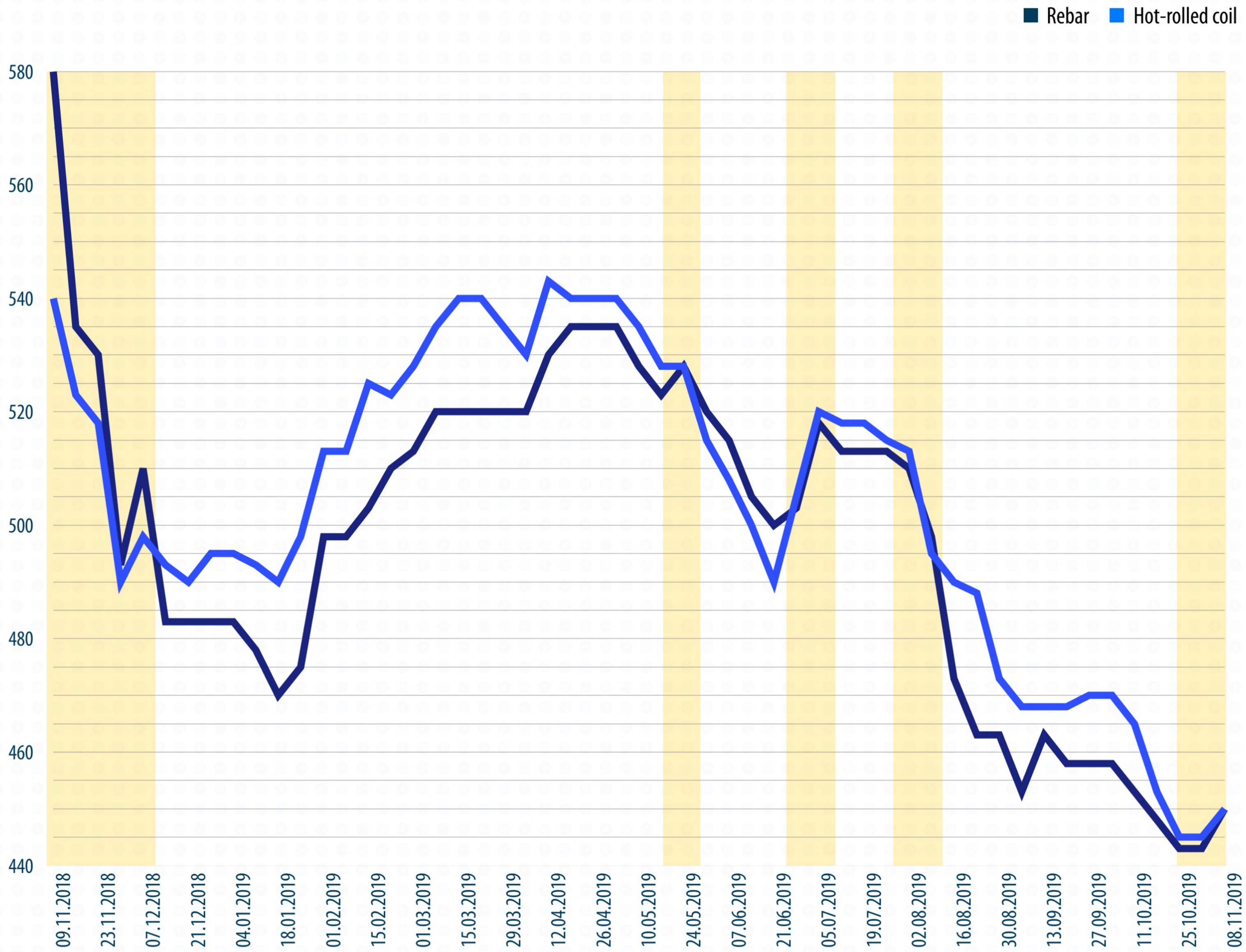
Trends in export prices for billet and rebar, $/ton, FOB Black Sea



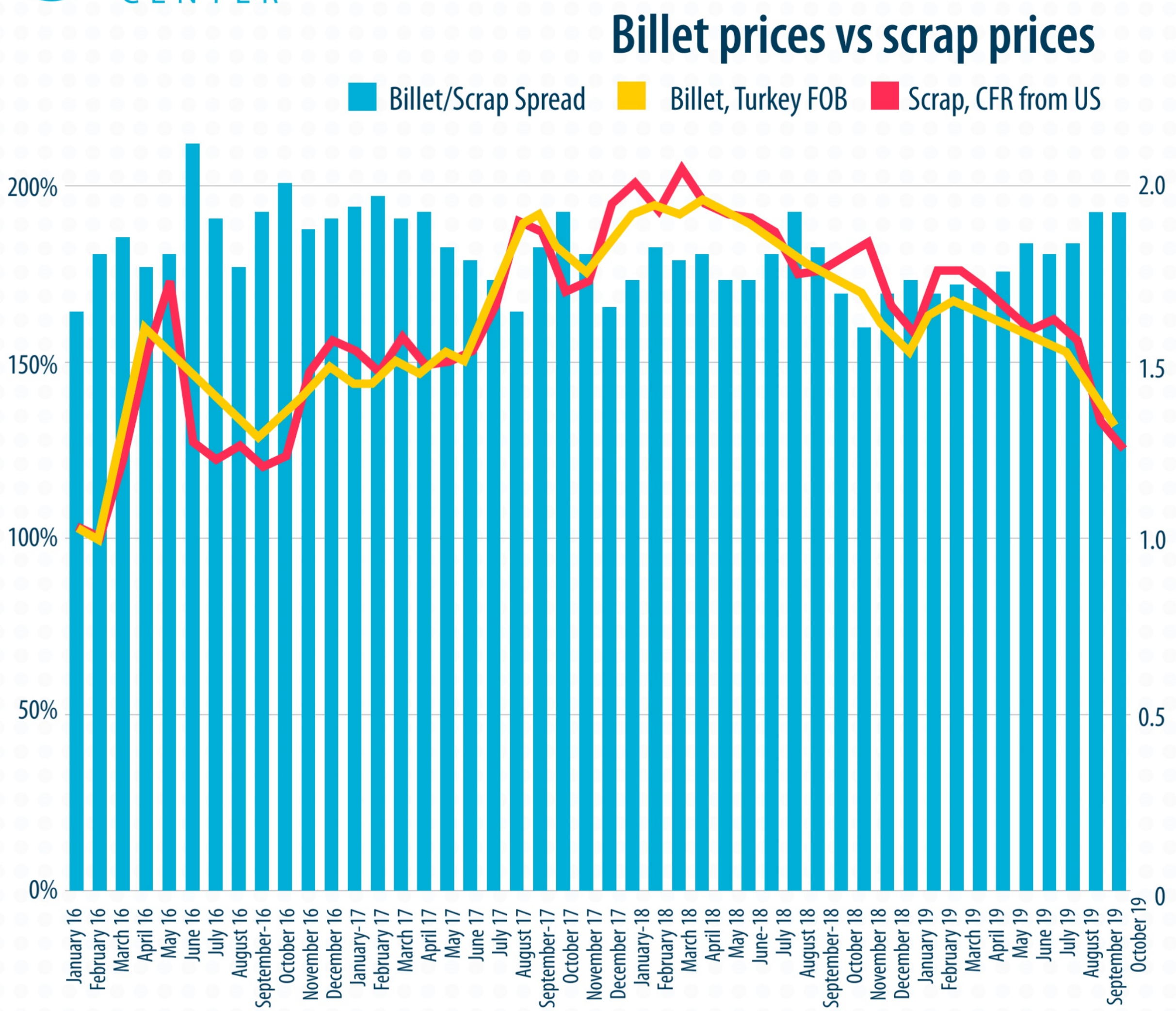
Data: Metal Expert

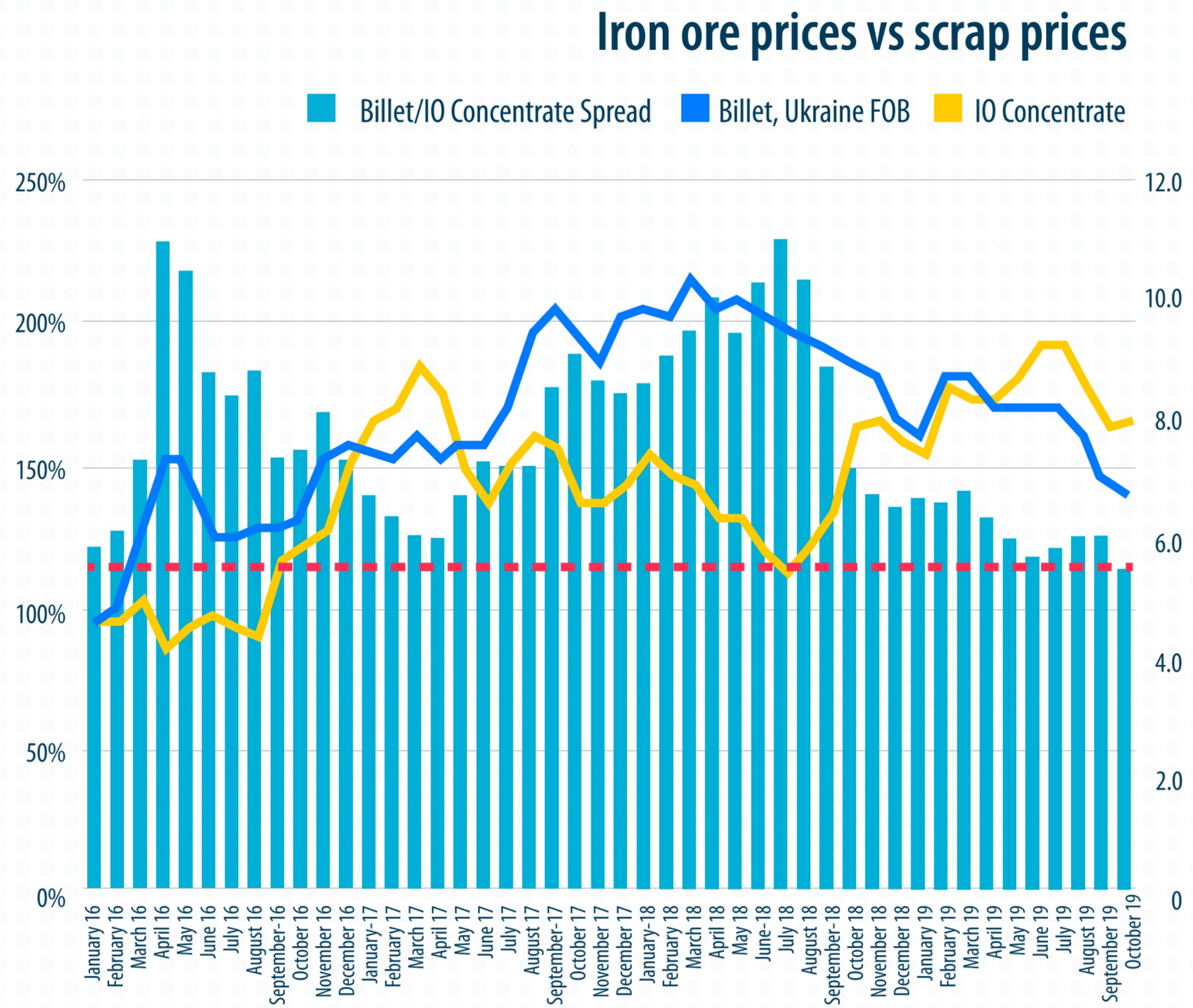
China's incentives mostly relate to investment in construction and brought prices for rebar close to those for hot-rolled coil, while production costs for the latter are higher.

Trends in prices for rebar and hot-rolled coil in China, $/ton, FOB



Data: Metal Expert





Imbalance between scrap and iron ore prices

Scrap prices fell much lower than prices for iron ore that Ukrainian companies use in production. Turkish companies got an advantage, whereas Ukrainian steelmakers lost competitiveness.

Data: Metal Expert