



# Ukrainian steel industry under conditions of market depression

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## 1. Current conditions for Ukrainian steel industry

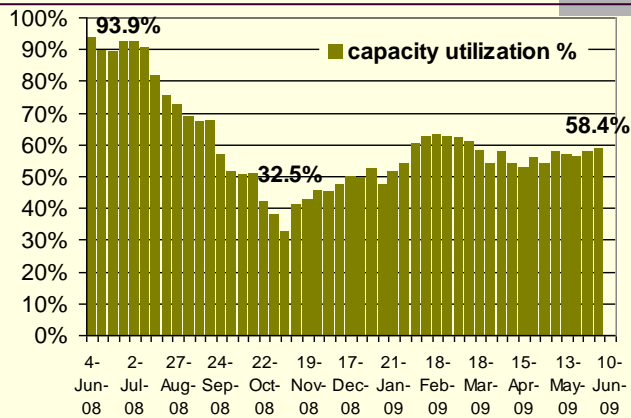
Presently in Ukraine as almost everywhere steel sector exists under the extremal conditions that characterized by:

- **Low capacity utilization**
- **Low prices and minimal operating profit**
- **High creditor debts**

Some companies are facing the problem of its property loss to meet creditors' claims



## 2. Steel capacity utilization in Ukraine

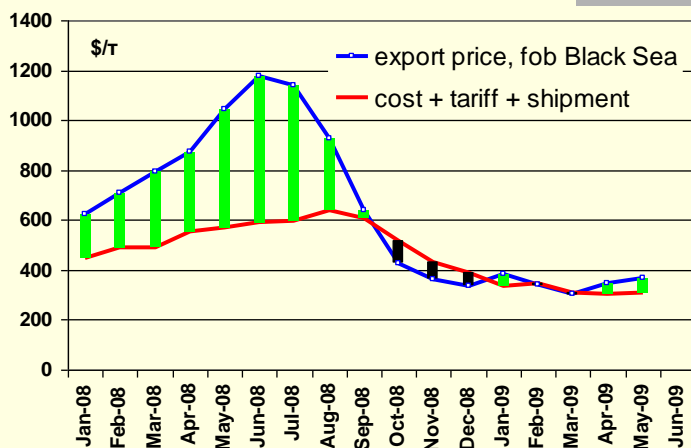


Source: Metallurgprom, Ukraine

At present time production capacity in Ukraine is used by 58% while minimum was in November 2008 (33%)



## 3. Export prices and production expenses (billet, fob Black Sea)

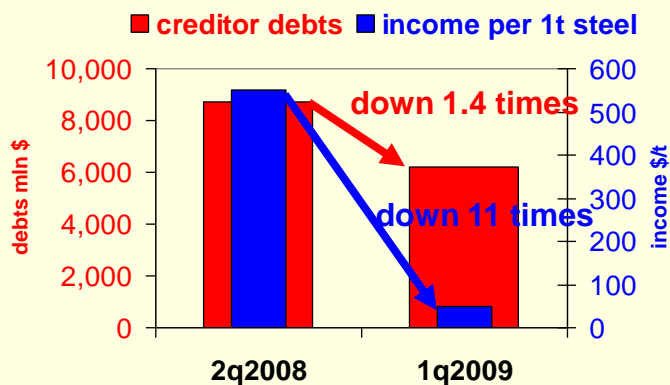


Source: UPE Co.

Current steel prices hardly allow to cover production expenses



## 4. Steel producer's ability to debt service

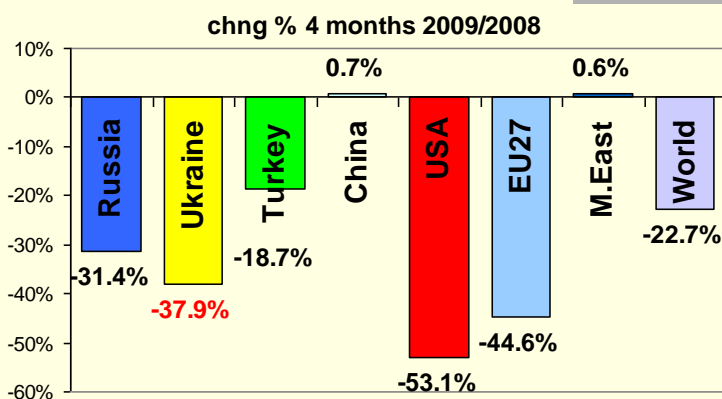


Source: UPE Co., Metallurgprom, Ukraine

Only substantial price increase or debt refinancing could uphold steel producers in times of current financial hardship



## 5. World crude steel production 4 months 2009/2008

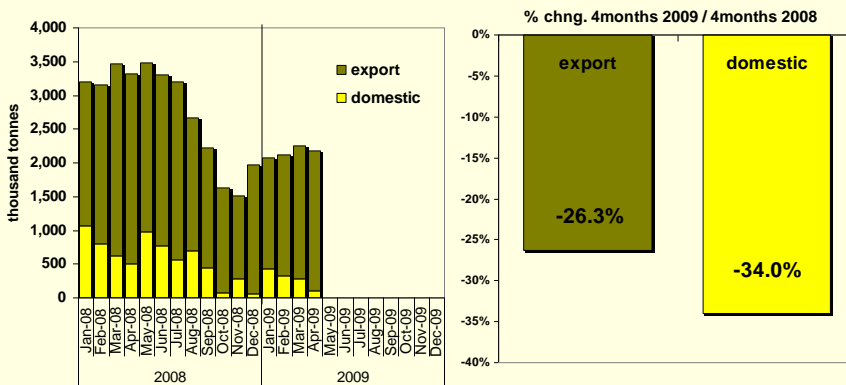


Source: WSA

During 4 months of 2009 Ukraine has cut steel production by 38% y-to-y. At the same times the Ukrainian steel production has increased against last 4 months 2008 (+14.4%)



## 6. Ukrainian steel sales in export and domestic markets in 2009

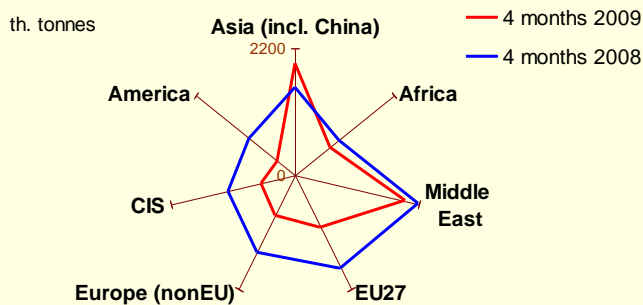


Source: UPE Co.

Within 4 months of 2009 Ukraine has lost 26% export and 34% of domestic consumption respectively



## 7. Ukrainian steel export by regions



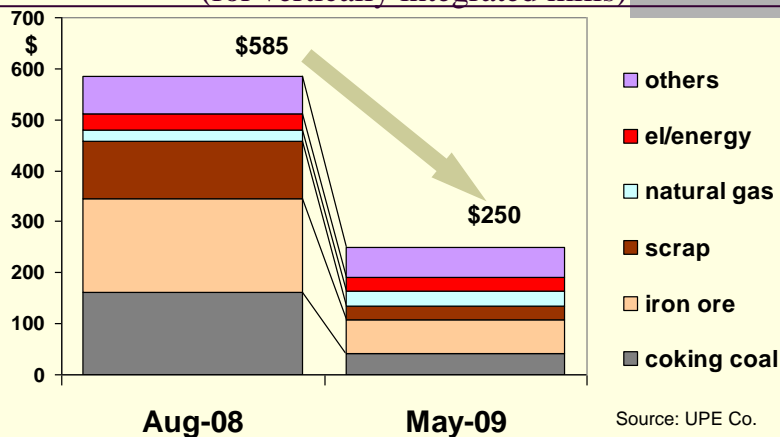
Source: UPE Co.

The shrinkage of export covers most regions except South East Asia and China. The increasing export to SEA and China became possible due to the substantial reduction of production cost in Ukraine



## 8. Production cost of steel in Ukraine before crisis and now

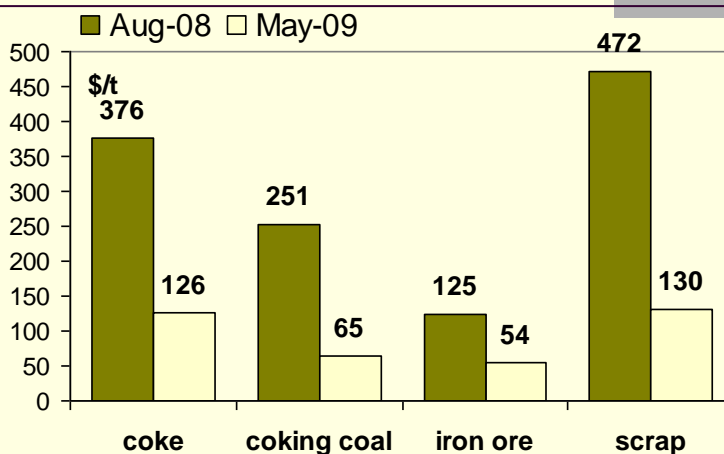
(for vertically integrated mills)



Under the conditions of crisis Ukrainian steel sector has demonstrated high ability to reduce production cost



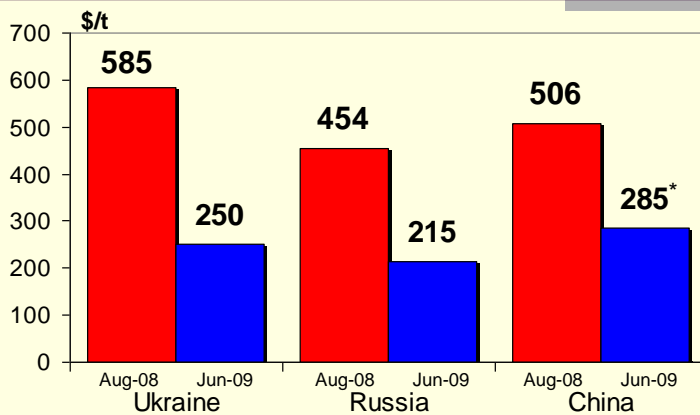
## 9. Changes in prices for raw materials



The substantial decrease of production cost has become possible first of all thanks to reduction of raw material prices



## 10. Billet production cost by the main exporters before crisis and now



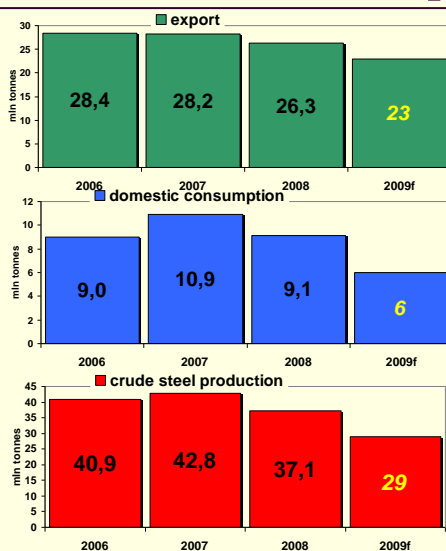
Source: UPE Co. est.

\*after iron ore price decreased by 33%

With present production cost level, Ukraine can supply steel products to South East Asia and China



## 11. The expectation of Ukrainian steel sector development in 2009



Ukraine will lose about **3.3 mln. t** of export and **3 mln. t** of domestic sales in 2009

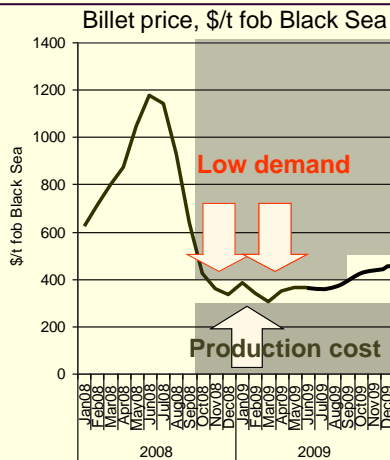
To meet market demand the crude steel production should be cut to **29 mln. t** or by **22%** that is the lowest niveau since 2000

The capacity utilization will make up 59%, which is the lowest figure since 1997

Source: UPE Co. est.



## 12. Market expectations till the end of 2009



Source: UPE Co.

- ✓ It's hardly worth expecting substantial improvement of the market till the end of 2009, but the second half of the year promises to be slightly better.
- ✓ The government support programs combined with better industrial performance will have its effect on steel consumption increase.
- ✓ Under such scenario the pressure of low demand on even smooth prices should weaken. Producers will rise its prices, being strongly motivated by lack of cash and working capital to cover expenses



### Steel Price Forecast Briefing

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