

RUSSIAN METALLURGY: THE ROUBLE WEAKNESS ALONE DOES NOT SUFFICE ANY LONGER

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The current change in expectations concerning the prospects of global economy development is reflected in weakening demand for metallurgy products, primarily in China. International and Russian domestic producer prices for the major types of metal goods continue to decline. The rouble weakness no longer suffices for the Russian metallurgical industry to sustainably overcome the slump, let alone to resume its development. The dwindling domestic demand has pushed up Russian metallurgy exports in physical terms, although they have significantly declined in money terms¹.

In 2015, world market prices for metallurgy products continue to decline (Tables 1 and 2). The major reason for their decline is the adjustment of the demand-supply balance to the changing expectations concerning the prospects of global economy development. In particular, there is a weakening of demand for metallurgy products², first of all in China³, a country that has been playing the most important role on the world metal market during the past several decades.

Table 1

AVERAGE MONTHLY PRICES FOR THE MAJOR TYPES OF NON-FERROUS METALS AT LME IN DECEMBER 2014 – NOVEMBER 2015, USD /T

	Dec. 14	Jan. 15	Feb. 15	Mar.15	Apr. 15	May 15	Jun 15	July 15	Aug.15	Sep. 15	Oct. 15	Nov 15
Unalloyed aluminium	1,909	1,815	1,818	1,774	1,819	1,804	1,688	1,640	1,548	1,590	1,516	1,468
Refined copper	6,446	5,831	5,729	5,940	6,042	6,295	5,833	5,457	5,127	5,217	5,216	4,800
Unalloyed nickel	15,962	14,849	14,574	13,756	12,831	13,511	12,825	11,413	10,386	9,938	10,317	9,244

Source: World Bank data.

The rouble's considerable weakening that compensated Russian metallurgists for their losses from the decline in world market prices in late 2014-early 2015 has come to an end, thus resulting in a steady decrease of domestic prices in roubles for most of the types of metallurgy products in the second half of 2015 (Table 3).

1 This paper was originally published in *Online Monitoring of Russia's Economic Outlook* No.18.

2 According to the forecasts released by the World Steel Association, in 2015 demand for steel will fall by 1.7% relative to 2014. See 'Worldsteel Short Range Outlook 2015–2016', URL: [https://www.worldsteel.org/dms/internetDocumentList/press-release-downloads/2015/Short-Range-Outlook-2015-2016/document/Short%20Range%20Outlook%202015-2016.pdf].

3 In September 2015, demand for steel in China declined by 8.7% relative to September 2014. At the same time, it is expected that during the next 10 years steel production in China will fall by at least 10%. See URL: [http://www.afr.com/business/mining/iron-ore/steel-output-drops-in-china-as-maize-flags-iron-ore-mismatch-20151111-gkwru3]; [http://www.vedomosti.ru/business/articles/2015/12/08/620023-stali-snizhat-tseni].

Table 2

**AVERAGE MONTHLY WORLD MARKET PRICES FOR STEEL PRODUCTS
IN DECEMBER 2014 – AUGUST 2015, USD/T**

	Dec.14	Jan.15	Feb.15	Mar.15	Apr. 15	May 15	June 15	July 15	Aug. 15
Hot-rolled coil	576	548	519	495	471	479	469	463	452
Rolled sheet	685	658	617	586	556	552	541	533	523
Cold-rolled coil	663	632	601	582	554	563	550	548	540
Hot-galvanized coil	758	730	701	682	649	658	646	645	627
Wire rod	593	576	553	521	515	511	503	512	494
Rebar	580	562	538	516	508	508	498	497	484

Source: the independent information agency MEPS (International) Ltd.

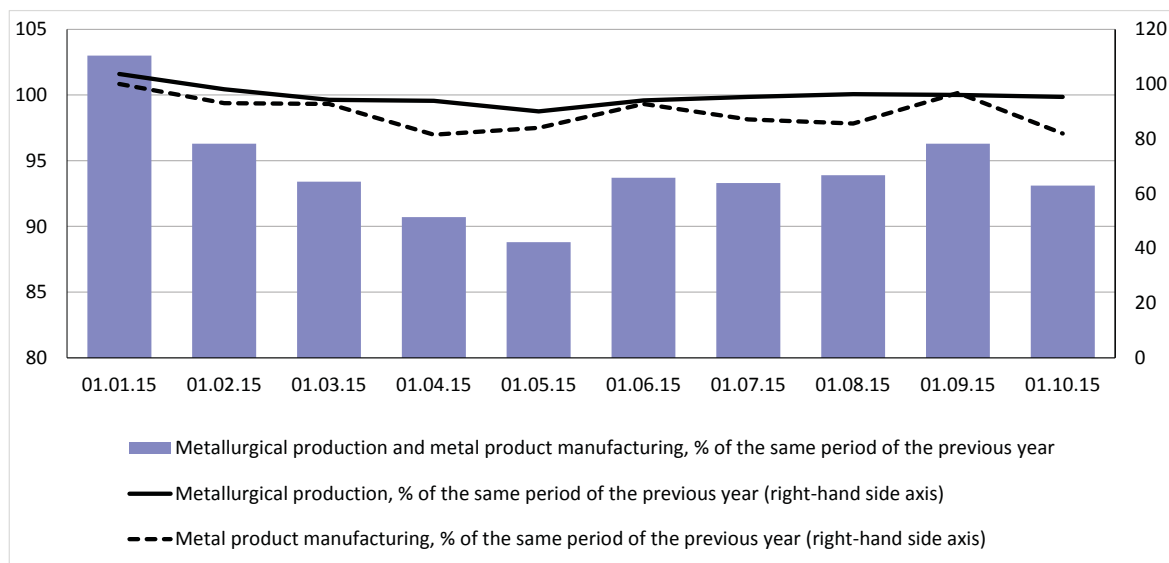
Table 3

**RUSSIAN DOMESTIC PRODUCER PRICES FOR THE MAJOR TYPES
OF METALLURGY PRODUCTS**

	Ratio of prices in October 2015 to prices in January 2015	Ratio of prices in October 2015 to prices in October 2014	Average monthly growth rate of prices (relative to previous period) over January–October 2015
Unprocessed aluminium, t	92%	141%	-0.6%
Refined unalloyed unprocessed copper, t	97%	134%	-0.2%
Unalloyed nickel, t	74%	97%	-3.1%
semi-finished steel products, t	72%	93%	-3.3%
Hot-rolled steel sheet (except stainless and high-speed steel), t	108%	120%	1.0%
Cold-rolled steel-plated sheet (except stainless and high-speed steel), not less than 600 mm in width, t	115%	121%	1.7%
Merchantable crude iron ore, t	91%	105%	-0.8%
Steel tubes, t	103%	115%	0.5%
Cast iron, t	64%	85%	-4.3%

Source: Rosstat, the authors' calculations.

In 2015, Russian metallurgy has shown a notable decline in production volumes: over the period January 2015 – October 2015, the Index of Metallurgical Production amounted to 94.2% relative to the same period of the previous year (the month-on-month movement of production volumes is shown in *Fig. 1*); in particular, there was also a fall in production of the major types of non-ferrous metals: primary aluminum – 96.4%, refined unalloyed unprocessed copper – 99.4%, and unprocessed nickel – 96.8%. The main factors behind the drop in metallurgy production volumes were as follows:



Source: Rosstat.

Fig. 1. The Index of Metallurgical Production in January–October 2015, Relative to the Same Period of the Previous Year

- decline in the prices of metals and metallurgical products;
- rise in transportation costs (for example, the introduction of an extra charge to railway tariffs for exporting metals; although from 1 January 2016 this extra fee will be cancelled, its cancellation cannot have a significant impact on the authors' conclusions, because it has already played some role in 2015¹);
- erection of trade barriers by third countries (for example, Canada introduced antidumping duties on Russian thin hot-rolled carbon steel plates and thin high-strength low-alloy steel plates²; at the end of 2015, the European Union also introduced minimum-import prices on electrical steel produced by the Novolipetsk Iron and Steel Works³ and prolonged its antidumping duties on welded pipes from Russia until 2020⁴; the USA has begun to revise its antidumping measure regarding Russian hot-rolled steel for the delivery period 19 December 2014 – 30 November 2015⁵, and has initiated an antidumping investigation regarding the export of cold-rolled steel from Russia⁶);
- decline in domestic demand for metallurgical products on the part of major consumer branches (machine-building, building construction⁷ etc.) due to the rise of crisis phenomena in the economy.

1 The charge to railway tariffs for exporting metals amounts to 13.4%, see URL: [<http://www.vedomosti.ru/business/articles/2015/11/25/618213-metallurgi-prosyat-otmenit-eksportnyu-nadbavku-rzhd>].

2 These duties are also extended to products from India, see also URL: [<http://www.metal-info.ru/ru/news/81075>].

3 See URL: [<http://www.kommersant.ru/doc/2868443>].

4 See URL: [<http://www.vedomosti.ru/business/articles/2015/06/10/595878-kak-rossiiskie-metallurgi-boryutsya-za-klienta>].

5 See URL: [<http://economy.gov.ru/minec/about/structure/depsvod/20151207>].

6 See URL: [<http://www.interfax.ru/business/457635>].

7 Over the period January 2015 – October 2015, the Construction Production Index and the Machinery and Equipment Production Index amounted to 89.7% and 87.7% respectively, relative to the same period of 2014.

The decline in domestic demand for metals¹ resulted in a rise in the physical volume of the major types of metallurgical exports during the first 9 months of 2015 relative to the same period of 2014, although with a rather significant loss in value due to the drop in world market prices:

ferrous metals	+5.6% in terms of weight, – 25.2% in terms of value
cast iron	+15.8% in terms of weight, – 17.0% in terms of value
refined copper	+104.5% in terms of weight, +71.0% in terms of value;
unprocessed nickel	-5.4% in terms of weight, – 30.6% in terms of value;
hot-rolled products ²	+2.2% in terms of weight, – 26.2% in terms of value;
cold-rolled products ³	-10.7% in terms of weight, – 31.5% in terms of value.

All these circumstances have resulted in a decline of the income and profitability of Russian metallurgical enterprises both in the domestic market (during the first 9 months of 2015, the incomes of the Novolipetsk Metallurgical Plant, *Severstal*, and the Magnitogorsk Iron and Steel Works dropped by 21%, 22.1% and 25%, respectively) and in the export-oriented segment⁴. At the same time, the government's initiatives⁵ (such as the requalification of metallurgical wastes, the construction of wastewater treatment plants, the introduction of payments for electric supply reserve capacity, the obligatory purchases of products from small and medium-size enterprises etc) are exerting additional pressure on the metallurgical industry.

The current situation in the Russian economy as a whole and in the metallurgical industry in particular further increases the existing challenges for the sustainable development of the domestic market of metals and metallurgical products: first, the challenge for the improvement of wastewater treatment at the existing iron and steel works and for the modernization thereof, as well as for the creation of new iron and steel works capable of producing high value-added products in the course of implementing the metallurgical industry's plan for imports substitution; second, the challenge for the optimization of logistics and market outlets – the share of the logistics component in the cost of domestically produced metallurgical products is rather high, which is especially important because of the accelerated growth of prices for goods and services in conditions of a dynamically developing economic situation; third, the challenge for the quest for a new demand-supply balance both in the domestic and external markets, that would bring about, as a consequence, the achievement of an agreement between the largest producers and consumers of metallurgical products. ●

1 The drop in domestic demand for non-ferrous metal in October 2015 amounted to 17.7% relative to the same period of 2014 (or to 19.8% since the beginning of the year), while the drop in demand for ferrous metals amounted to 3.4% relative to October 2014 (vs. 4.3% over the period January 2015 – October 2015 relative to the same period of 2014). See URL: [http://ipem.ru/files/files/index_archive/2015_10_ipem_index.pdf].

2 Commodity group 7208. In October 2015, the drop in this commodity group's exports in terms of weight amounted to 29% relative to October 2014.

3 Commodity group 7209.

4 See URL: [<http://www.vedomosti.ru/business/articles/2015/11/19/617459-metallurgine-hotyat-uvelichivat-nagruzku-197-mird-roublej>].

5 Ibid.