

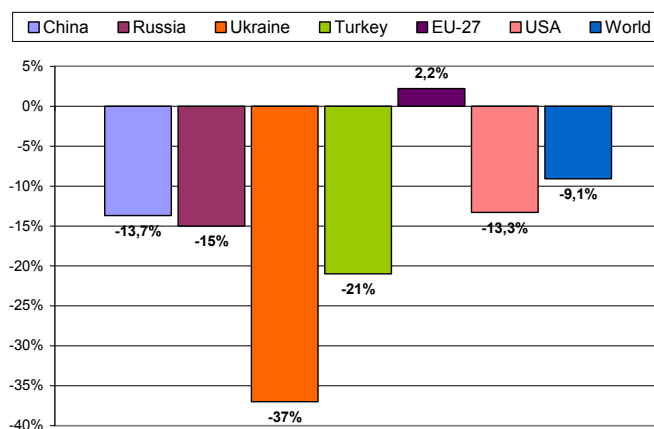
# World economic turmoil and Ukraine's steel sector in 2009

Presented by Dr. Vlasjuk V.  
*Director UPE Co., Ukraine*



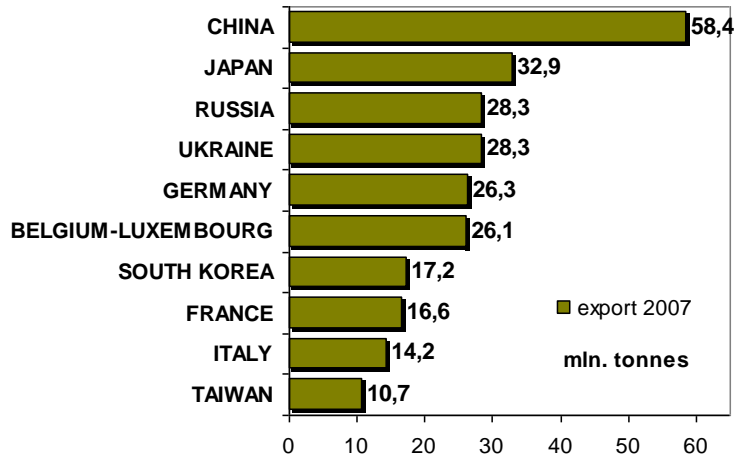
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## 1. World steel production decrease July-August/September-October 2008



Steel sector was appeared to be one of the most affected by global financial crisis, having varied impact on different countries

## 2. Top steel exporters 2007



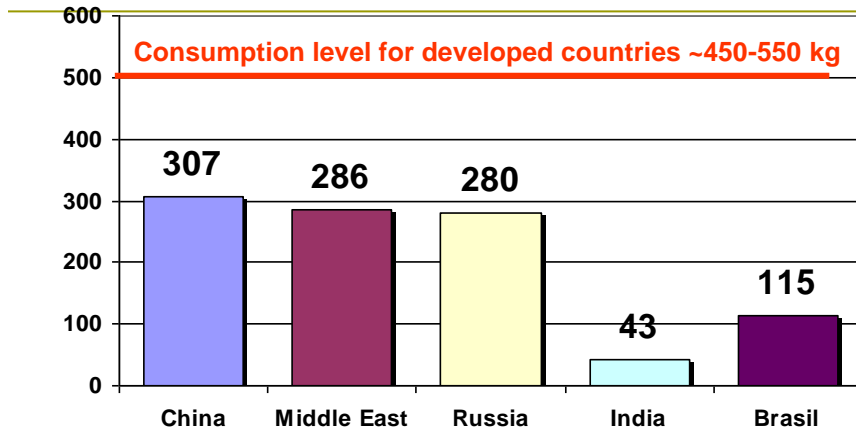
The leading exporters become first victims of the crisis. Among them Ukraine, which reduced its crude steel production more than 2,5 times

## 3. The basic assumptions for 2009 market scenario

- ✓ Expected government financial aid (up to \$10 trln.) aimed to stabilize credit market will exceed banking write-offs (\$1 trln.) substantially. So, the policy of authorities and Central Banks will be strong enough to put the global financial turmoil under the control. But it takes at least all the next year to get recovery.
- ✓ Strategically world steel demand will remain high due to the sustainable economic growth of developing countries
- ✓ The infrastructure projects backed by the state and targeted funds finance will support steel market in 2009

Most significant real economic stimulus plan: USA (\$700 bn.), China (\$586 bn.), Japan (\$437 bn.), EU (\$260 bn.), Russia (\$200 bn.) etc.

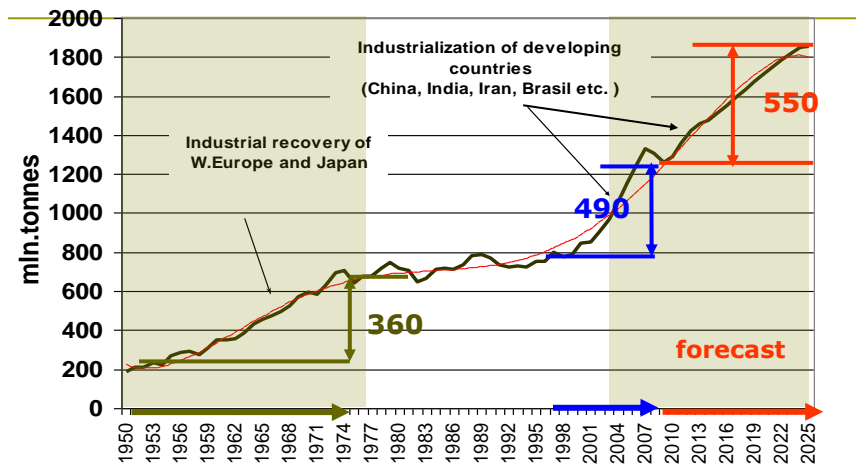
### 4. Crude steel consumption per capita 2007



Source: UPE Co est.

The difference between the present consumption per capita in developing countries and standards for advanced economies strategically creates the potential for further growth.

### 5. World steel consumption (demand forecast)



Source: IISI, UPE Co est.

Now we have recession but it doesn't cancel the trend. Most probably steel market will renew upward tendency in 2010 and growth cycle caused by "march" of developing countries will last till 2025.

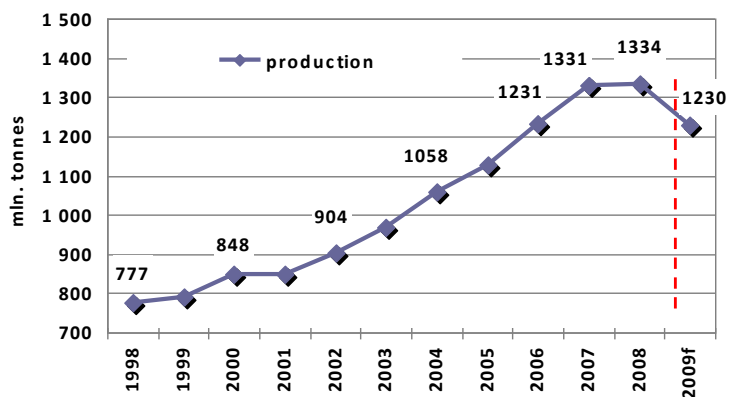
## 6. World steel consumption 2009 (forecast)

Region	2007	2008	2009	2009-2008	% 07/06	% 08/07	% 09/08
EU27	220,6	205,3	186,3	-19,0	3,7%	-6,9%	-9,3%
Europe other	34,9	33,8	32,1	-1,7	5,2%	-3,2%	-5,0%
CIS	66,5	63,5	64,0	0,5	10,0%	-4,5%	0,8%
NAFTA	157,9	147,3	132,9	-14,4	-8,8%	-6,7%	-9,8%
Latin America	46,5	45,0	42,8	-2,2	14,0%	-3,3%	-4,9%
Africa & Middle East	83,8	86,0	81,9	-4,1	22,1%	2,7%	-4,8%
Asia (w/o China)	274,4	271,1	253,1	-18,0	6,7%	-1,2%	-6,6%
China	434,3	445,0	455,0	10,0	13,0%	2,5%	2,2%
World w/o China	894,0	861,0	801,8	-59,2	4,6%	-3,7%	-6,9%
<b>World total</b>	<b>1328,3</b>	<b>1306,0</b>	<b>1256,8</b>	<b>-49,2</b>	<b>7,2%</b>	<b>-1,7%</b>	<b>-3,8%</b>

Source: IISI, UPE Co est.

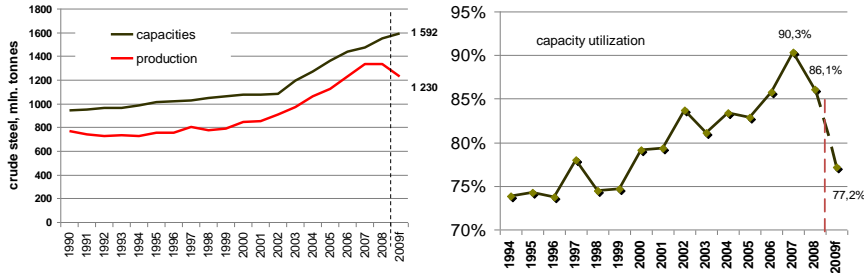
The world steel consumption in 2009 will decrease from 1306 (2008) to 1257 mln.t. or approx. by 50 mln. t. China will show the increase up to 10 mln. t. but it will not be enough to prevent global descending trend. EU, NAFTA, Japan will demonstrate the most deep drop next year.

## 7. World crude steel production 1998-2009f



To consume current excessive inventories and restore world market balance it will be necessary to cut global production to **1 230 mln. t** in 2009 or by **104 mln t** (-8% y-to-y)

## 8. The capacity utilization in 2009

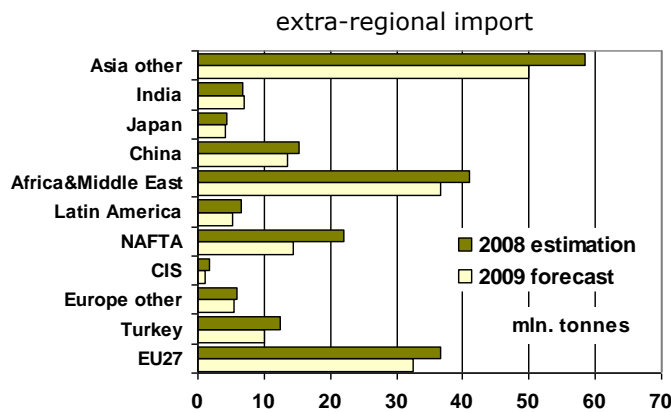


Source: WSA, OECD, UPE Co est.

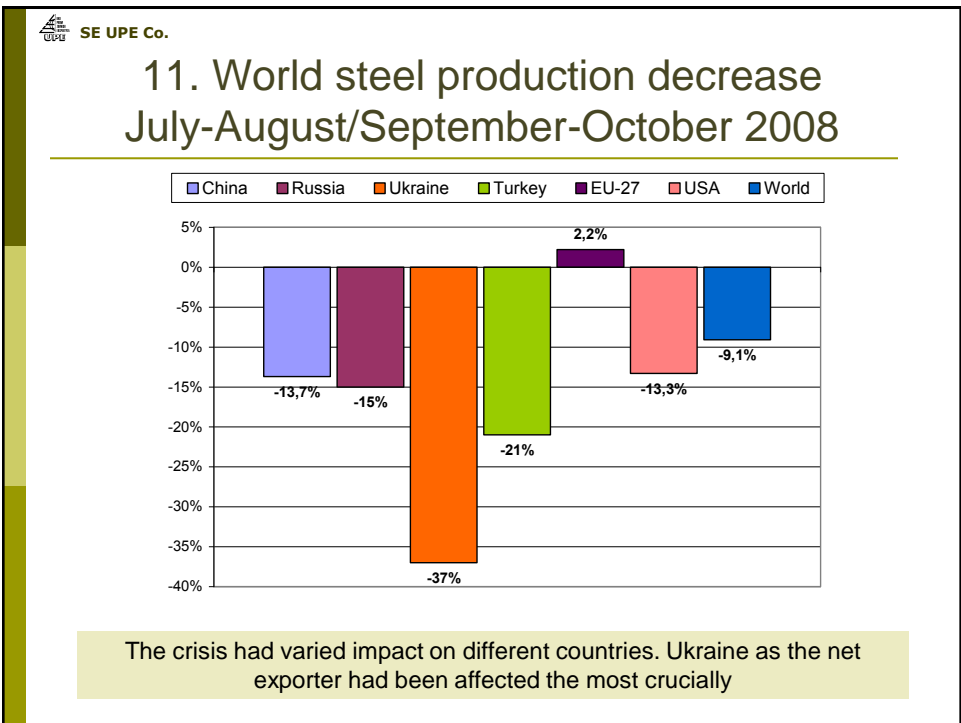
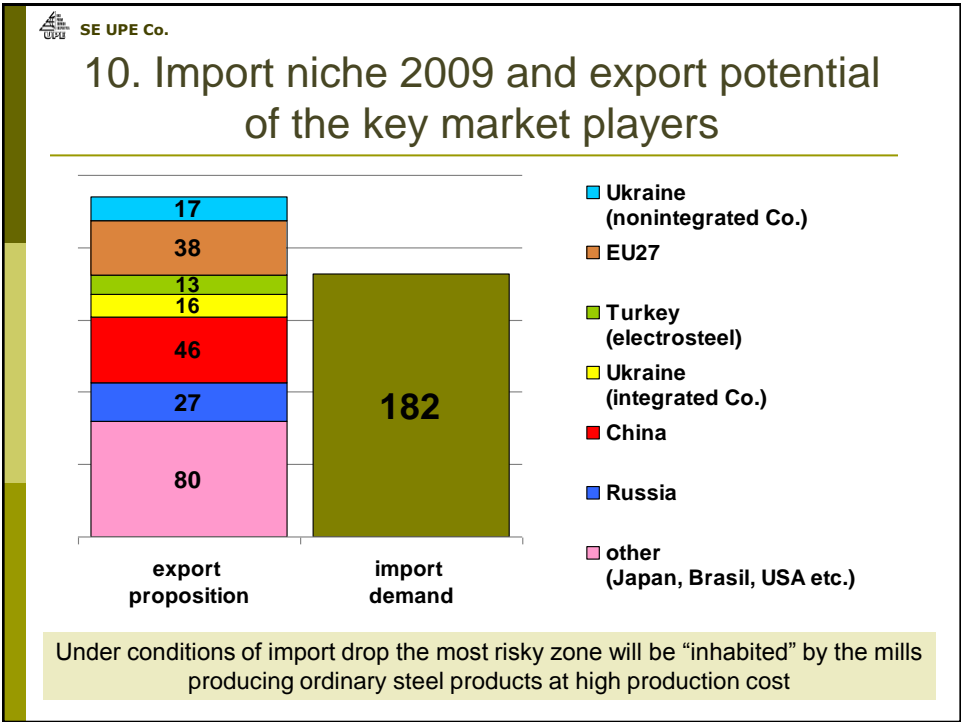
Despite market depression and cut of production, global steelmaking capacities will continue to expand by 59 mln. t. in 2009, thereby reviving the “excessive capacity” problem

With the 77% capacity utilization next year, world will see a lot of inefficient and excessive mills. Due to the lack of orders the market in 2009 should be considered as the market of buyers and the producer’s profit will be restricted by 5-10%

## 9. The reduction of world steel trade 2008/2009

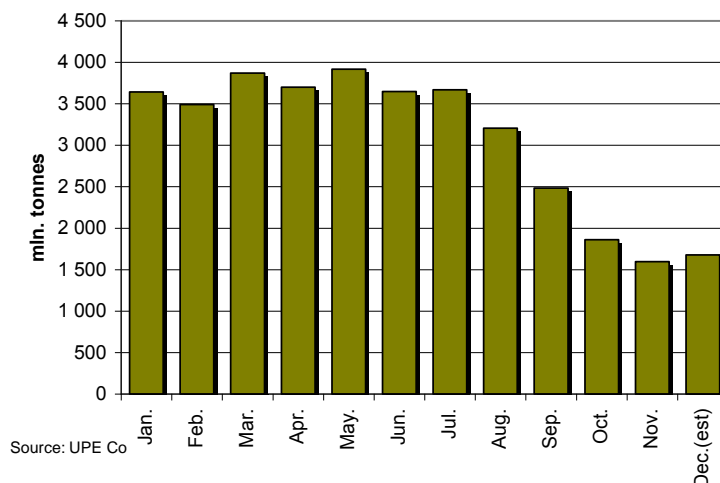


The steel consumption decrease combined with trade protectionism can lead to sharp fall in world trade by 35-40 mln. tonnes in 2009. It will hit first of all the leading exporters such as China, Russia, Ukraine and Turkey





## 12. Monthly crude steel production in Ukraine, 2008



Ukraine's steel production in September-November has dropped 2,5 times in comparison with records in May-July 2008.

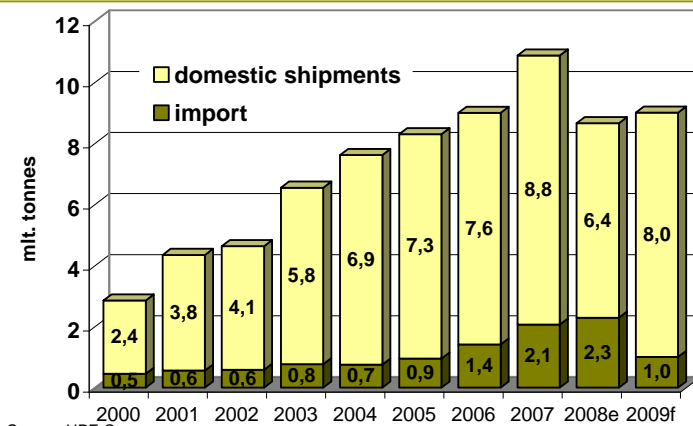


## 13. Ukrainian steel product export 2000-2009f



Ukraine's steel production in 2009 will be determined by available market for domestic and export shipments. As to export, next year we should expect the reduction by approx. 8 mln. t from 26 (2008) to 18 mln. t in 2009.

### 14. Crude steel consumption in Ukraine, 2000-2009



Source: UPE Co

In 2008 crude steel consumption in Ukraine is expected to be 8,7 mln. t, that is substantially less than 2007 (10.9 mln.t). Next year we expect the growing in Ukraine's steel consumption. The market will be supported by government finance of some important infrastructure and industrial programs.

### 15. Steel consumption by sector in Ukraine, 2000-2009

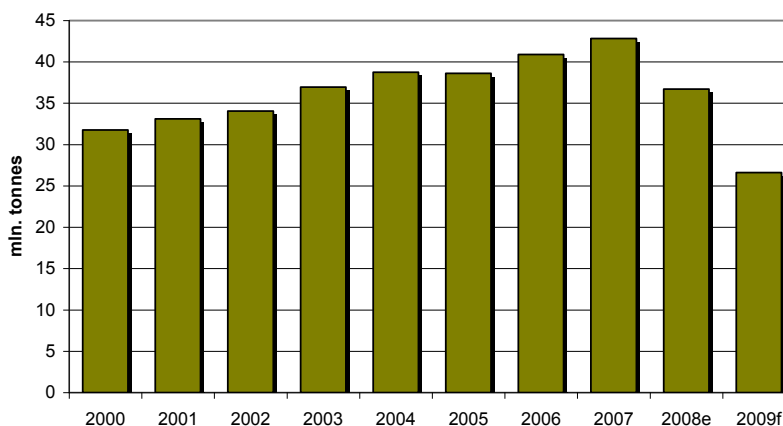


Source: UPE Co

In Ukraine steel is mostly consumed by the sectors of tube & metal production, industrial machinery and construction



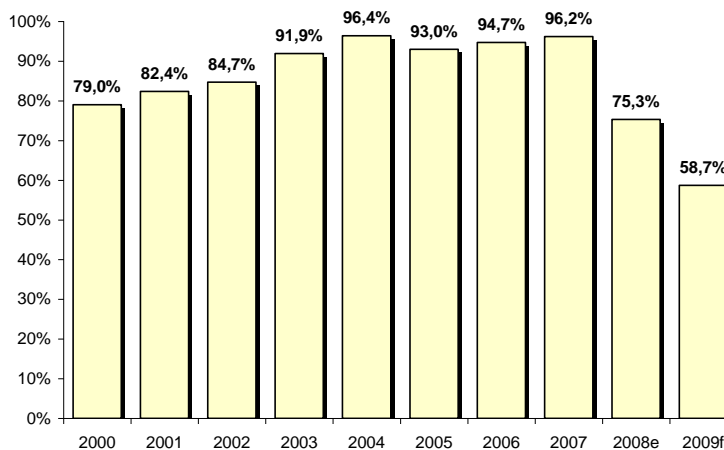
## 16. Crude steel production in Ukraine, 2000-2009f



Source: UPE Co

To stabilize market balance Ukraine's producers are going to decrease crude steel production to 27 mln. t (2009) from 37 mln. t (2008) or by 10 mln. tonnes

## 17. Steelmaking capacity utilization in Ukraine, 2000-2009



Source: UPE Co

In 2009 substantial reduction of capacity utilization to 58% is expected.

## 18. Steel cost changes for integrated mills in Ukraine 2009

Item	Unit	consumption per 1 t steel	% price changes per unit	price changes per unit, \$	cost changes, \$
Iron ore	t	1,79	-55%	-60	-107
Coking coal	t	0,79	-57%	-170	-135
Steel scrap	t	0,25	-19%	-60	-15
Electricity	KWh	392,6	0%	0	0
Railway transport	\$/t	20,00	0%	0	0
Natural Gas	m <sup>3</sup>	139,91	20%	0,05	7
Ferroalloys	kg	11,00	-50%	-0,83	-9
<b>Total</b>					<b>-260</b>

Price for other raw materials is expected to be unchanged in 2009

In view of market reality raw materials suppliers will be forced to reduce the price, thereby cost production will drop approx. by \$250 to the level of \$390 per ton in case of Ukraine



## The DELPHICA project

**Steel  
Price  
Forecast  
Briefing**

*developed by  
UPE Co., Ukraine*



tel/fax (+38044) 484-64-83  
 e-mail expert@expert.kiev.ua  
 www <http://www.expert.kiev.ua/delfika/>