

May 26, 2016

**Steel prices in Russia will stop growing in 3Q16, but largest steelmakers are to enjoy an EBITDA margin increase to 25-30% in 2H16.**

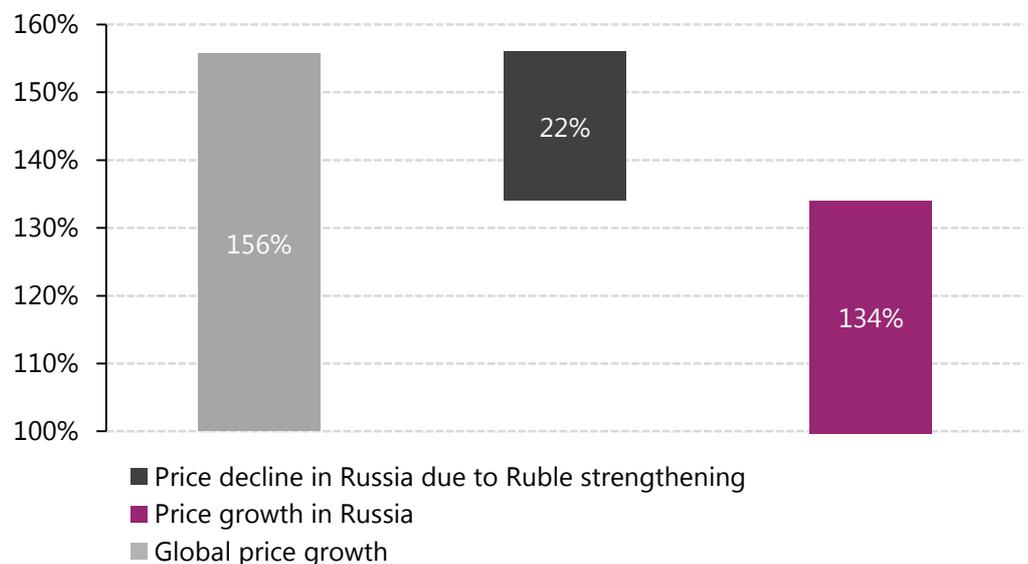
## Declining world steel prices to halt price growth in Russia

### Steel market trends

Between January and April 2016, steel products in Russia appreciated 34-47%, and May just saw the trend persist, which ran consumers into a serious concern on the back of low demand in construction and mechanical engineering. In an effort to curb the price growth, the Federal Antimonopoly Service (FAS) has stepped in holding a meeting on May 24, 2016, and declaring an intention to come up with a decision till the end of June on fining those metal producers, who would be exposed as violators of the Antimonopoly legislation.

ACRA **does not expect any rough sanctions against Russian steel makers by FAS**, as the steel price hike in Russia merely reflects a similar trend in the global market, which saw hot-rolled coil climb 56% to USD408 / ton from January to April 2016 (Black Sea FOB price). On the other hand, ruble strengthening over the same period inhibited domestic price growth by 22%. Overall, the prices gained 34%, which suggests no deliberate market manipulation by steel producers.

**Figure 1. Impact of the global prices and the ruble exchange rate on hot-rolled coil prices in Russia between January and April 2016**



Source: ACRA estimates, Bank of Russia, Gazprombank CEF

ACRA believes that **the steel prices surge on the Russian market seen in May** has exhausted itself and expects the local prices to decline 15-20% in 2H16 following their global peers and backed by the expected ruble devaluation, which will slow down the price decline on the Russian market:

- In 2H16, global steel prices are expected to fall, as steel capacities load will stay at an average of 70-72% due to low demand. As a result, hot-rolled coil on the global market should retreat to USD350-360 / ton, losing 14-17% versus April.

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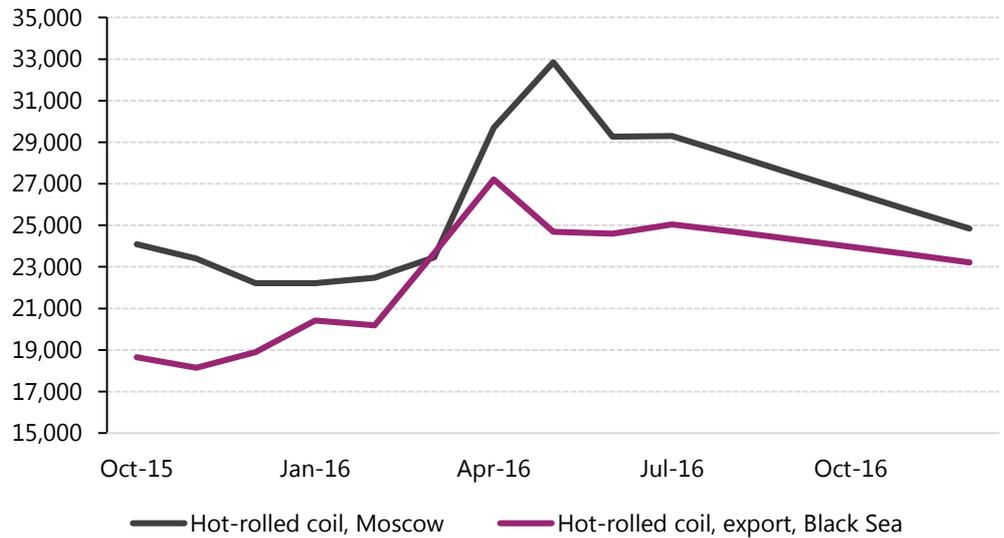
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- ACRA believes that oil prices may weaken in 2H16, among other things due to a possible key interest rate hike by US FED. Eventually, the ruble exchange rate over the period is projected to decrease to RUB67-69 / USD.

**Figure 2. Hot-rolled coil export and local price forecast, RUB / ton**



Source: ACRA estimates, Bank of Russia, metalinfo.ru, Gazprombank CEF

**On average prices 2H16 will be 19% higher than they were in 1Q16**, and the largest domestic steel makers will be able to raise EBITDA margin from the 1Q16 average of 23% (for large companies) to 25-30%.

Amid projections of further ruble devaluation, one might expect Russian steelmakers to show an improvement in leverage.

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