
Balli Steel outlines challenges for Russian steel market

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I-Newswire reported that Balli Steel, one of the world's largest privately owned independent commodity traders, has warned that despite the bottoming out of the global steel market, the Russian market will continue to face challenging conditions for the next 12 to 18 months.

Mr Nasser Alaghband director of Balli Steel while speaking at Metal Bulletin's 7th Russian Steel Summit in Moscow outlined that the strengthening rouble and the impact of the annual Iron Ore negotiations could weaken the competitiveness of Russian producers.

According to Balli Steel "The Russian Steel market has undergone considerable growth and wide scale transformation over the past decade with gradual modernization of plants and production facilities. Russia is able to take advantage of abundant natural resources and competitive labor costs to produce steel on the lower side of the cost curve and has established a strong position as the 4th largest producer of steel in the world."

Balli Steel highlighted that the downturn in global steel prices has not been easy for the majority of Russian producers to absorb, with many in the midst of extensive capital investment initiatives on plant modernizations and new acquisitions.

It said "Steel consumption appears to be down by 40% YoY with Russia's largest steel company, Severstal, expecting domestic demand to fall by 25% in 2009. Balli Steel anticipates that domestic demand will remain low as the country heads towards its first recession for 10 years."

It added that "However until very recently the decline in domestic steel demand was offset by export growth, with the weak rouble, which had declined by as much as 36% against the dollar in the previous year, making Russian steel an attractive proposition to importers. However, in the last month, the rouble has undergone a substantial appreciation which has put considerable pressure on the export prices. The profit margins for many of the Russian Mills have begun to shrink, with most producers now operating at close to cost. As a result, any further strengthening of the rouble would put increasing pressure on Russian steel exports."

Mr Nasser Alaghband director of Balli Steel added that "Global steel prices have shown signs of recovery in recent months. However, whilst price improvements have been promising, steel has not recovered as well as some precious metals or energy commodities. We believe that steel prices will increase further amidst the global economic revival, although the recovery will not be smooth or uniform and individual markets, such as Russia, will continue to react differently to both domestic and international factors."

(Sourced from I-Newswire)

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