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# METALS

SECTOR OVERVIEW OCTOBER 2016



## TOP NEWS

### Steelmakers are concerned about the growth in coal prices

The greatest steel producer in the world, Arcelor Mittal, is concerned about its result in the fourth quarter, due to rising input prices, primarily of coal. Concerns increased by the fact that the price of steel in the United States, one of the largest consumers of this metal, is decreasing since the summer of this year, despite the global rising. The expectations are slightly more positive in Europe, where there is a growing demand for cars.

### Immediately after the victory of Donald Trump in the elections in the US, the price of gold increased by 4.9%

This is the highest daily growth in gold prices recorded since Brexit in June. The cause is the same - escape to a safe haven due to increased uncertainty.

### Despite the recovery in the prices of all the base metals, copper price will continue to stagnate

One of the greatest producers of copper, the Chilean company Antofagasta, warns that the copper market will remain saturated for at least another three years. Although the demand for copper will grow, primarily by the largest consumer - China (3% per year), it is estimated that it will not be able to respond to the great offer that was made in previous years that were extremely prosperous for this sector. In the course of this year, the price of copper grew by only 6%, losing to all other metals, while in 2015 it fell by as much as 25%. However, the election results in the United States could bring a short-term reversal. The price of copper has increased after the elections, reaching its 16-month maximum.

### In the period January-September 2016, Hesteel Serbia exported goods in the value of EUR 246 million, which made it the second greatest exporter in Serbia this year

At the same time, the export of Hesteel Serbia grew during the year, as this company has healed its operations after the arrival of Chinese investors, and, in the third quarter, the exports increased by as much as 50% higher than in the same quarter of 2015. At the first place by value of exports was Fiat Chrysler which export amounted to EUR 866.6 million, while Tigar Tyres held the third position, at its exports amounted to EUR 238.6 million.

### Zelezara Smederevo operates at the full capacity - the next step is exploiting the potential capacity

Director of the Steelworks Hesteel Serbia met in late October the Prime Minister of Serbia and said that the Serbian employees are satisfied with operations of Zelezara and their status within. What follows at the moment is the construction of infrastructure for further progress of Zelezara, primarily of the new railway and port on the Danube.

### However, the EBRD warns that Zelezara should be cautious with further investments

Namely, the European Bank for Reconstruction and Development (EBRD) has increased the Serbian assessment of this year's GDP growth to grow by 0.7 percentage points, rising to 2.5%. However, this bank points out that the main risk in the projected growth can come precisely from Zelezara, which announces ambitious investments in production in the future. This means that we can expect an increase in production by this giant, while movements in the price of oil and the potential decrease in demand for cars can operate in the opposite direction and slow down the projected growth.

### RTB Bor operates under a previously prepared plan of reorganization (prepack plan), but fulfilment of the plan is questionable

Namely, the problem is that RTB Bor prepack plan rests on two very weak assumptions: that the price of copper will grow by around 2% per year (forecast of the World Bank, which in practice often turns out to be untrue) and that the copper content in the wet ore will increase from 0.30 to about 0.33%. Another weak point of the prepack plan is that it envisages fewer resources to be invested in the tailings than it would be optimal, given the current risk of environmental disaster. Finally, reducing the number of employees is planned gradually (over the following five years), but for the sake of financial sustainability of the company, it should be carried out earlier, and professional management shall be introduced by the beginning of 2017.

### The right solution for RTB Bor seems to be in the privatization, preferably by Chinese companies

At the Riga Summit, which was held on 5 and 6 November, solving the problem of RTB Bor was discussed. There is a little prospect that it can

recover itself, especially given the historically low metal prices at the moment. As it is believed that only China can help in this situation, the Serbian Prime Minister discussed with Chinese Prime Minister the support of China in finding solutions for RTB Bor. Specifically, he targeted the Chinese company "Liten".



## GLOBAL MARKET

**Prices of base metals are rising again in October after September's slight decline and short deviation from the path of recovery.**

Namely, the prices of base metals rise since the beginning of 2016, recovering from the deep decrease in the previous year, but in September decreased by 1.2%. Now, those are back on a growth path, but it is uncertain whether this trend will continue.

**The most significant month-on-month growth was recorded in aluminum and iron ore prices, which in the month before recorded the biggest decrease, while the only base metal whose price has not increased in October was copper - its price has remained unchanged.**

Aluminum prices in October increased by 5% compared to September, and the iron ore prices increased by 2%, while in September compared to August, prices of these two metals decreased by 3% and 5%, respectively. Price of iron ore in October was the highest since April of this year, which is mainly the result of higher demand for iron and steel. In the future we can expect a continuation of this trend, but it may be the opposite, given that Chinese steelmakers increase production productivity to use less coal in the production, as coal price rises. Prices of nickel and zinc in October recorded a month-on-month mild growth of 1%.

**In Europe, it is expected that the prices of metal will continue to grow until the end of 2016, led mostly by the growth in prices of steel in this market**

There are three main reasons to expect growth in steel prices: European steelworks are overcrowded with orders for the last quarter of 2016; increasing price of coal (regarding the fact that electricity is used in its production); and reducing volume of imports from third countries due to the introduction of anti-dumping measures by the EU (eg. import duties on two types of cheap steel from China). On the other hand, in 2017, price stability is expected at the mere beginning of the year, but a decrease at the end of the first quarter, due to the expected increase in the production of European steel mills and and potential increase of imports from third countries.

**The prices of precious metals, however, significantly decreased in October**

Although a trend of decreasing precious metals' prices has been already established in the last few months, the October decline managed to surprise the market with its depth - the price of silver decreased by 9%, platinum by 8% and gold by 5%. However, as far as silver and gold are concerned (due to rapid growth in general prices of these two metals in the last year), prices in October this year remained higher than in October last year - by 11.6% and 9.2% , respectively.



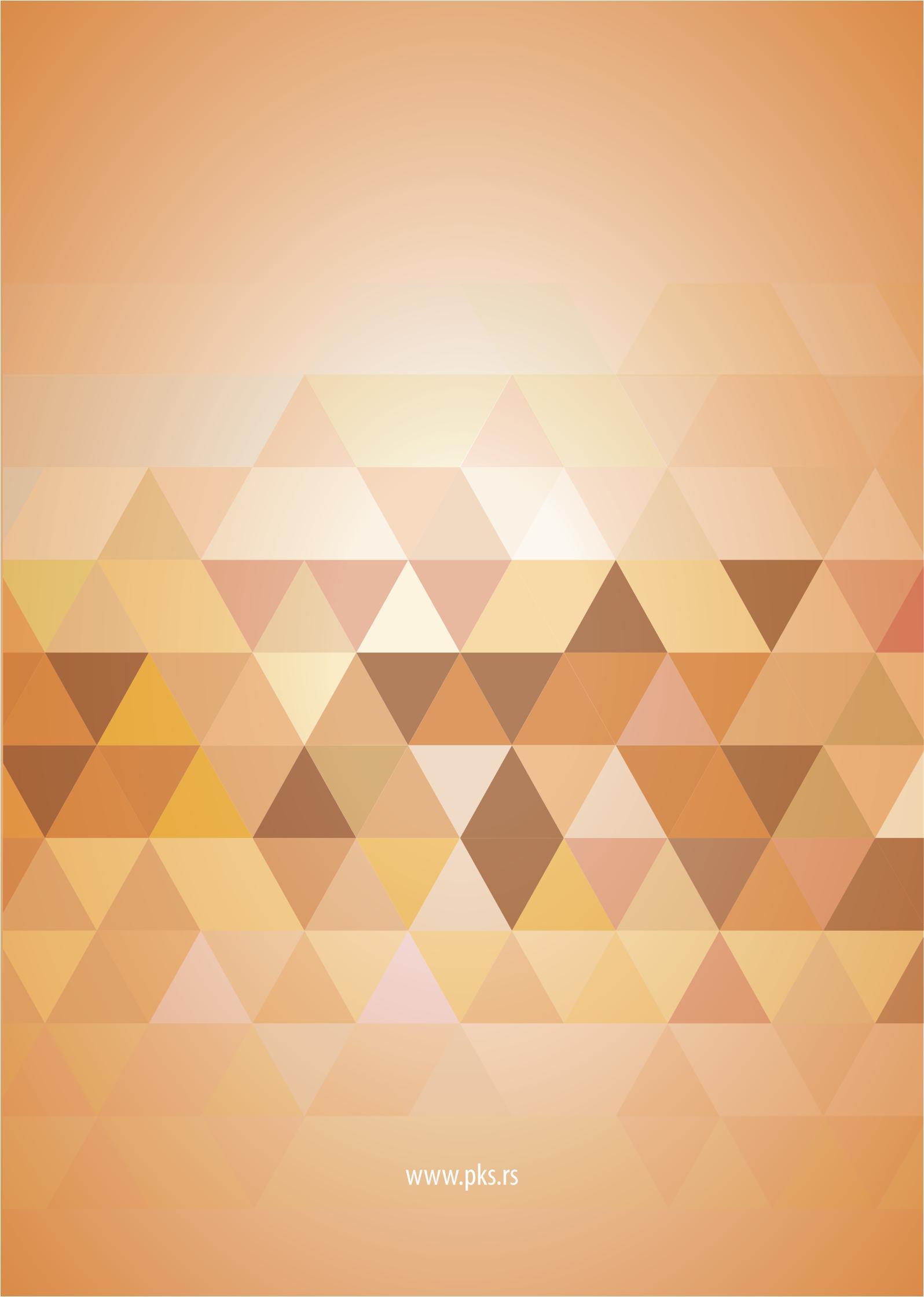
## DOMESTIC MARKET

**Production of base metals recorded a growth in the first nine months of 2016 when compared to the comparable period in 2015 at a rate of 5%**

Production growth was most pronounced in the last months (in September it amounted to 18% when compared to September 2015), which is most likely due to increased production in Zelezara. Foreign trade in base metals in the first nine months of 2016 recorded a surplus, which is by 79% higher than the surplus in the comparable period last year, but this high growth rate of surplus value occurred mainly due to change in the price, not the quantity. In fact, it is the change in the value of imports and exports, and not so much in the quantity imported or exported. In the reporting period, both the value of imports (-9%) and the value of exports (-2%) were reduced.

**Production of metal products in the current year increased by as much as 11% than in the comparable period last year**

Foreign trade of fabricated metal products recorded a surplus in the first nine months of the current year, which is 13% higher than the surplus in the comparable period last year.



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