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METALS

SECTOR OVERVIEW DECEMBER 2016



TOP NEWS

Indian Tata Steel decided to continue doing business in its British branch (British Steel) for at least another five years, despite heavy losses and the announcement of the withdrawal

Despite the fact that there were days when the branch in the UK made daily losses of 1 million GBP, Tata Steel has decided to continue operations in this country, fueled by the growth of the global prices of steel. However, Tata Steel, in turn, seeks to emerge from the British Steel pension scheme worth GBP 15 billion, covering 130,000 members. However, the problem is that this pension fund guarantees for a certain part of the obligations of the Dutch branch of Tata Steel (factory IJmuiden). However, because it believes that the departure from the pension fund will facilitate the long-planned merger with a competitor from Germany (ThyssenKrupp), Tata Steel has announced that it is willing to pay “hundreds of millions” of GBP to release the guarantee fund of the Dutch branch.

Glencore performs horizontal integration, taking 19.5% of the shares in the Russian oil company Rosneft

The Russian banks will help finance the purchase of shares of the Rosneft in the amount of \$10 billion. The agreement was confirmed by the Russian president and the CEO of the company. The above is the largest foreign investment in the Russian economy since 2014 when sanctions were imposed.

The US steel industry is on track to return to growth after two years of contraction

Experts estimate that the raw output of the United States will be increased by 4.4% in 2017. After Donald Trump came to power, the stock prices of several major players in the steel industry have soared because the new president announced the investment of \$1 trillion in infrastructure. However, analysts believe it will take at least 18 months in order for this investment to “effectuate”.

The gold price in December dropped to the lowest level since February

The primary causes for the poor performance of gold lie in the strengthening of the US dollar and growth in interest rates, and greater attractiveness of investing in bonds. However, due to good performance in most of the year, the price of gold in 2016 increased by 6% compared to 2015.

Smederevo steel mill “Hest Serbia” may soon reach, and even exceed, the maximum production from 2008

This assessment comes from the author of Macroeconomic Analysis and Trends (MAT). The cause of such a positive performance of steel mill is the growth of iron prices on a world scale, better management since taking a Chinese partner and employment of existing facilities that have long been unused. The YoY increase in the production of pig iron, steel and ferroalloys in Serbia in November amounted to 43%.



GLOBAL MARKET

The month of December is marked by a significant increase in average prices of basic metals, and falling in prices of all precious metals

The main cause of these trends is the strengthening of the dollar after the victory of Donald Trump. Namely, the strengthening of the US currency increased the price of base metals for non-US investors (given that the price of these metals is expressed in dollars) and encourage investors to quickly buy these metals in anticipation of their future price increases. On the other hand, in contrast to the expectation of the world experts that victory of Donald Trump will bring uncertainty and encourage investors to invest in safe goods such as precious metals, the economic agenda, which the new president of the United States presented had the impact on strengthening security in the US currency and the withdrawal of funds from gold and similar precious metals.

However, not all base metals recorded growth rates

After a significant rise in the average price of base metals in November from 10.2%, which made this month the best month for basic metals in the last four years, the growth of prices of basic metals in December, slowed down, and in some cases stopped.

The most important monthly growth rate recorded in December is of iron ore, but its growth was much lower than in November

The price of iron ore in December increased by 10% compared to November, while its growth in November compared to October amounted to as much as 24%. There are three main causes of such a strong increase in the price of iron ore before the end of 2016. First of all, to the growth of the US dollar and investors' attempt to protect themselves against possible inflation after the Trump came to power - the so-called. "Trampinflation". The second most important factor influencing the increased investment in basic metals, originally in ironstone, was the weakening of the Chinese Renminbi, and the subsequent flight of investors from this currency. The third, but not the least important factor, came on the supply side - the closure of the mine Samarco in Brazil has reduced output by 29 million tons, and several other manufacturers failed to meet their targeted production volumes due to weather conditions. In addition to these factors, on the increase in the price of ironstone for quite sometimes affects stimulating credit policy of the Chinese Government, which stimulates construction activity, and hence the demand for steel.

In addition to iron ore, the monthly growth in December was recorded by the prices of copper and zinc, both at 4%

On the other hand, aluminum and nickel prices have fallen by 1%.

Precious metals in December experienced the deepest decline since the beginning of the year

Although these metals recorded a weaker performance in the second half of 2016, the decline in December was unexpectedly low. The gold price was 7% lower than in November, the price of silver was 6% lower and the platinum price decreased by 4%. Fall in prices of precious metals, especially gold, is a result of the fact that investors have turned to investing in bonds, given the rise of interest rates for the dollar, thanks to optimism in the US economy after the arrival of a new president.



DOMESTIC MARKET

Basic metals

Production of basic metals recorded growth of 7% in the first eleven months of 2016 compared to the comparable period in 2015, while foreign trade recorded a surplus of EUR 100 million, which is much higher compared to a surplus of EUR 4.5 million which was recorded in the first eleven months of the previous year. What is also good news is that in the reporting period export value increased (1%), and the value of imports decreased (9.5%). Such positive performance was partly owed to the low prices of base metals in 2015 (the period in respect of which we observe the activity in 2016), but largely to increased exports by Smederevo steelworks. Namely, steel mill „Hest Serbia“ (as it is now called) since the arrival of the Chinese partner at the end of the first half of 2016 to date had been able to fully use its existing capacities and is now planning to expand capacity.

Metal products, excluding machinery

Production of metal products in the first eleven months of the current year is 8.7% higher than production in the comparable period last year, while foreign trade recorded a surplus of EUR 226.4 million, which is 11.6% more than the surplus in the comparable period last year. Imports during this period increased by 7.6%, while exports increased by 8.9%. However, due to the fact that the share of exports and imports in total imports and exports is unchanged, it cannot be unambiguously concluded whether there is an increase or decrease in commercial activity in the sale of metal products, or is this just the result of an increase in growth rates.



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