July 29, 2018

Metinvest reaps pig iron benefits after 232

Metinvest Group has benefitted indirectly from the United States' Section 232 steel tariffs, with pig iron prices and volumes exported from Ukraine to the US improving, the company’s top executive said.

“We do have better demand for pig iron right now in the US than before the 232,” Metinvest chief executive officer Yuriy Ryzhenkov, told American Metal Market in an interview on Tuesday June 26. “We do have some benefits from that 232, in terms of pricing of pig iron into [the] US and in terms of volume as well.”

As US mills ramp up steel production to replace lost import volumes, they need more scrap or pig iron. But pig iron is cleaner and arguably more “readily available” in certain cases, he said on the sidelines of the Steel Success Strategies XXXIII conference in New York, co-sponsored by American Metal Market and World Steel Dynamics Inc.

“If the price of steel is rising, US mills can pay more for either scrap or pig iron. And they will pay more to increase their [steel] production,” according to Ryzhenkov, whose company sold severeal hundred thousand tonnes of pig iron into North America in 2017. “Without pig iron, the US will never get to the steel output needed to power its internal steel consumption.”

Metinvest’s sales of pig iron into North America rose by 313,000 tonnes in 2017 versus the previous year 2016, according to its full-year 2017 financial report, which did not provide overall sales tonnage figures.

Metinvest benefited from “favorable margins and orders from both existing and new customers in 2017,” with the jump in tons sold to North America almost triple that sold to Europe. The company's first-quarter 2018 pig iron production rose by 60,000 tonnes sequentially amid a “favorable market situation,” according to its operational results for the period.

But more of the company's pig iron could be diverted into steelmaking if certain mill upgrades are completed as envisioned, with changes due by the end of 2018, Ryzhenkov added.

Upgrades at Metinvest’s Ilyich steel works in Ukraine, where it will install a continuous caster to debottleneck the basic oxygen furnace (BOF) shop, could see Metinvest convert at least an additional 1 million tonnes of its pig iron into steel at that site, he said. Metinvest also makes pig iron at its Zaporizhstal Iron & Steel Works, one of Ukraine's largest industrial steel enterprises.

Metinvest sold nearly 1.69 million tonnes of pig iron globally in 2017, up 21.3% from 1.39 million tonnes the previous year. The company also has ample iron ore output, at 27.5 million tonnes in 2017, and produced about 2.15 million tonnes of hot metal per quarter across its steel works in the first quarter of this year and fourth quarter of last year.

The company has long-term pig iron customers in the US and sees sales to those buyers as a “long-term relationship,” but is unlikely to target growth in its US pig iron market share in the future, Ryzhenkov said.

Metinvest only appeared on the US pig iron scene around 2014, almost by accident, with “quite a bit of [extra] capacity” at its Mariupol mill diverted from its open-hearth furnaces that closed in 2014, with that metal becoming excess pig iron, he said.

US pig iron import prices were on the rise throughout most of June, hitting $415-420 per tonne cfr on June 22, with the first deal for Ukraine pig iron heard since May. Prices slipped slightly to $410-415 per tonne on June 29, according to Metal Bulletin's weekly assessment, but there is speculation in the market that pricing could regain ground if US prime scrap prices rise in July as expected. Ukraine-origin pig iron deals were done at $355 per tonne cfr in early December.

As for volume, overall US pig iron imports jumped to nearly 5.1 million tonnes last year, up 31.8% from almost 3.9 million tonnes in 2016. Ukraine ranked as the second-largest supplier of pig iron to the US, shipping almost 1.14 milliion tonnes in 2017, second only to Russia’s 2.78 million tonnes. Ukraine shipped only 413,707 tonnes of pig iron to the US in 2012.

Even as Metinvest adjusts its pig iron output to refocus on steelmaking in the coming years, the future remains unpredictable, Ryzhenkov noted.

“The best way and place to produce pig iron is right next to iron ore deposits,” and Ukraine still has such deposits, he added. “If we find long-term relationships with some [global] pig iron consumers, where we can plan out [supply deals] for five to 10 years in advance, then yes we can continue” our emphasis on pig iron, he said.

Ryzhenkov also levied criticisms against the Section 232 tariffs and warned of US protectionism in a panel discussion during the Steel Success Strategies conference, arguing that such global tariffs create more losers than winners.

The Section 232 tariffs have spurred some of the best profitability “in history” at US electric-arc furnace steelmakers, but such tariffs are the “worst nightmare” of US steel consumers, Ryzhenkov said in the interview with American Metal market after the panel discussion.

“As is typical in everyone-against-everyone trade wars, I don’t see the winners in this one,” he said, citing threatened and actual trade retaliation fanning out across the European Union, Canada, Turkey and Mexico. “Maybe some countries will lose more than the others. But at the end of the day, everyone will lose.”

It’s not possible to replace imports with US domestic production in a short period of time, Ryzhenkov added, noting that it could take six months to two years before US mills can consistently replace some of the imports. The US imported 34.47 million tonnes of steel in 2017, according to Census Bureau data.

“Importers are still supplying steel to the US. They’re just paying the tariffs and customers are compensating them for the tariffs,” he said, noting that this is true of Metinvest’s modest plate sales to the US.

US imports of cut-to-length plate from Ukraine totaled 53,238 tonnes last year, Census data show, although it is unclear how much of this came specifically from Metinvest. In May of this year, 14,917 tonnes of Ukranian plate arrived on domestic shores, preliminary data show, after the Section 232 tariffs were enforced.

Still, even if Metinvest’s volumes haven’t been disrupted in the brief three-month window since tariffs were announced on March 23, this could change in the longer term, Ryzhenkov said.

“Import volumes wouldn’t change in that short a period of time... You need some time to ramp up domestic production. Some ramp-up can be done quickly, but that still takes a few months. For the significant ramp up, you’d need years: anywhere from six months, to 1-½ to 2 years,” he said on June 26.

“So the real effect of the 232 on the production of steel in the US, we won’t really see until probably the middle of next year,” according to Ryzhenkov, whose company exports 80% of its steel production to global markets. “Let’s hope the US economy is still going to be alive by that time.”

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