



## ***ARGUS BLACK SEA STEEL***

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The most up-to-date Argus Black Sea Steel methodology is available on [www.argusmedia.com](http://www.argusmedia.com)

## Methodology rationale

Argus strives to construct methodologies that reflect the way the market trades. Argus aims to produce price assessments which are reliable and representative indicators of commodity market values and are free from distortion. As a result, the specific currencies, volume units, locations and other particulars of an assessment are determined by industry conventions.

In the steel and ferrous scrap markets, Argus publishes physical market prices in the open market as laid out in the specifications and methodology guide. Argus uses the trading period deemed by Argus to be most appropriate, in consultation with industry, to capture market liquidity.

In order to be included in the assessment process, deals must meet the minimum volume, delivery, timing and specification requirements in our methodology. In illiquid markets, and in other cases where deemed appropriate, Argus assesses the range within which product could have traded by applying a strict process outlined later in this methodology.

### Survey process

Argus price assessments are informed by information received from a wide cross-section of market participants, including steelmakers, end-users and intermediaries. Argus reporters engage with the industry by proactively polling participants for market data. Argus will contact and accept market data from all credible market sources including front and back office of market participants and brokers. Argus will also receive market data from electronic trading platforms and directly from the back offices of market participants. Argus will accept market data by telephone, instant messenger, email or other means.

Argus encourages all sources of market data to submit all market data to which they are a party that fall within the Argus stated methodological criteria for the relevant assessment. Argus encourages all sources of market data to submit transaction data from back office functions.

Throughout all markets, Argus is constantly seeking to increase the number of companies willing to provide market data. Reporters are mentored and held accountable for expanding their pool of contacts. The number of entities providing market data can vary significantly from day to day based on market conditions.

For certain price assessments identified by local management, if more than 50pc of the market data involved in arriving at a price assessment is sourced from a single party the supervising editor will engage in an analysis of the market data with the primary reporter to ensure that the quality and integrity of the assessment has not been affected.

### Market data usage

In each market, Argus uses the methodological approach deemed to be the most reliable and representative for that market. Argus will utilise various types of market data in its methodologies, to include:

- Transactions
- Bids and offers
- Other market information, to include spread values between grades, locations, timings, and many other data.

In many markets, the relevant methodology will assign a relatively higher importance to transactions over bids and offers, and a relatively higher importance to bids and offers over other market information. Certain markets however will exist for which such a hierarchy would produce unreliable and non-representative price assessments, and so the methodology must assign a different relative importance in order to ensure the quality and integrity of the price assessment. And even in markets for which the hierarchy normally applies, certain market situations will at times emerge for which the strict hierarchy would produce non-representative prices, requiring Argus to adapt in order to publish representative prices.

### Verification of transaction data

Reporters carefully analyse all data submitted to the price assessment process. These data include transactions, bids, offers, volumes, counterparties, specifications and any other information that contributes materially to the determination of price. This high level of care described applies regardless of the methodology employed. Specific to transactions, bids, and offers, reporters seek to verify the price, the volume, the specifications, location basis, and counterparty. In some transactional average methodologies, reporters also examine the full array of transactions to match counterparties and arrive at a list of unique transactions. In some transactional average methodologies, full details of the transactions verified are published electronically and are accessible by subscribers.

Several tests are applied by reporters in all markets to transactional data to determine if they should be subjected to further scrutiny. If a transaction has been identified as failing such a test, it will receive further scrutiny. For assessments used to settle derivatives and for many other assessments, Argus has established internal procedures that involve escalation of inquiry within the source's company and escalating review within Argus management. Should this process determine that a transaction should be excluded from the price assessment process, the supervising editor will initiate approval and, if necessary, documentation procedures.

### Primary tests applied by reporters

- Transactions not transacted at arms length, including deals between related parties or affiliates.
- Transaction prices that deviate significantly from the mean of all transactions submitted for the trading period.
- Transaction prices that fall outside of the generally observed lows and highs that operated throughout the trading period.
- Transactions that are suspected to be a leg of another transaction or in some way contingent on an unknown transaction.
- Single deal volumes that significantly exceed the typical transaction volume for that market.
- Transaction details that are identified by other market participants as being for any reason potentially anomalous and perceived by Argus to be as such.

- Transaction details that are reported by one counterparty differently than the other counterparty.
- Any transaction details that appear to the reporter to be illogical or to stray from the norms of trading behaviour. This could include but is not limited to divergent specifications, unusual delivery location and counterparties not typically seen.
- Transactions that involve the same counterparties, the same price and delivery dates are checked to see that they are separate deals and not one deal duplicated in Argus records.

### Secondary tests applied by editors for transactions identified for further scrutiny

#### Transaction tests

- The impact of linkage of the deal to possible other transactions such as contingent legs, exchanges, options, swaps, or other derivative instruments. This will include a review of transactions in markets that the reporter may not be covering.
- The nature of disagreement between counterparties on transactional details.
- The possibility that a deal is directly linked to an offsetting transaction that is not publicly known, for example a “wash trade” which has the purpose of influencing the published price.
- The impact of non-market factors on price or volume, including distressed delivery, credit issues, scheduling issues, demurrage, or containment.

#### Source tests

- The credibility of the explanation provided for the outlying nature of the transaction.
- The track record of the source. Sources will be deemed more credible if they
  - Regularly provide transaction data with few errors.
  - Provide data by Argus’ established deadline.
  - Quickly respond to queries from Argus reporters.
  - Have staff designated to respond to such queries.
- How close the information receipt is to the deadline for information, and the impact of that proximity on the validation process.

### Assessment guidelines

When insufficient, inadequate, or no transaction information exists, or when Argus concludes that a transaction-based methodology will not produce representative prices, Argus reporters will make an assessment of market value by applying intelligent judgment based on a broad array of factual market information. Reporters must use a high degree of care in gathering and validating all market data used in determining price assessments, a degree of care equal to that applying to gathering and validating transactions. The information used to form an assessment could include deals done, bids, offers, tenders, spread trades, exchange trades, fundamental supply and demand information and other inputs.

The assessment process employing judgment is rigorous, replicable, and uses widely accepted valuation metrics. These valuation metrics mirror the process used by physical commodity traders

to internally assess value prior to entering the market with a bid or offer. Applying these valuation metrics along with sound judgment significantly narrows the band within which a commodity can be assessed, and greatly increases the accuracy and consistency of the price series. The application of judgment is conducted jointly with the supervising editor, in order to be sure that guidelines below are being followed. Valuation metrics include the following:

#### Relative value transactions

Frequently transactions occur which instead of being an outright purchase or sale of a single commodity, are instead exchanges of commodities. Such transactions allow reporters to value less liquid markets against more liquid ones and establish a strong basis for the exercise of judgment.

- Exchange one commodity for a different commodity in the same market at a negotiated value.
- Exchange delivery dates for the same commodity at a negotiated value.
- Exchange a commodity in one location for the same commodity at another location at a negotiated value.

#### Bids and offers

If a sufficient number of bids and offers populate the market, then in most cases the highest bid and the lowest offer can be assumed to define the boundaries between which a deal could be transacted.

#### Comparative metrics

The relative values between compared commodities are readily discussed in the market and can be discovered through dialogue with market participants. These discussions are the precursor to negotiation and conclusion of transactions.

- Comparison to the same commodity in another market centre.
- Comparison to a more actively traded but slightly different specification commodity in the same market centre.
- Comparison to the same commodity traded for a different delivery timing.
- Comparison to the commodity’s primary feedstock or primary derived product(s).
- Comparison to trade in the same commodity but in a different modality (as in barge versus oceangoing vessel) or in a different total volume (as in full cargo load versus partial cargo load).

#### Volume minimums and transaction data thresholds

Argus typically does not establish thresholds strictly on the basis of a count of transactions, as this could lead to unreliable and non-representative assessments and because of the varying transportation infrastructure found in all commodity markets. Instead, minimum volumes are typically established which may apply to each transaction accepted, to the aggregate of transactions, to transactions which set a low or high assessment or to other volumetrically relevant parameters.

For price assessments used to settle derivatives, Argus will seek to establish minimum transaction data thresholds and when no such

threshold can be established Argus will explain the reasons. These thresholds will often reflect the minimum volumes necessary to produce a transaction-based methodology, but may also establish minimum deal parameters for use by a methodology that is based primarily on judgment.

Should no transaction threshold exist, or should submitted data fall below this methodology's stated transaction data threshold for any reason, Argus will follow the procedures outlined elsewhere in this document regarding the exercise of judgment in the price assessment process.

### Transparency

Argus values transparency in markets. As a result, where available, we publish lists of deals in our reports that include price, basis, counterparty and volume information. The deal tables allow subscribers to cross check and verify the deals against the prices. Argus feels transparency and openness is vital to developing confidence in the price assessment process.

### Swaps and forwards markets

Argus publishes forward assessments for numerous markets. These include forward market contracts that can allow physical delivery and swaps contracts that swap a fixed price for the average of a floating published price. Argus looks at forward swaps to inform physical assessments but places primary emphasis on the physical markets.

### Publications and price data

Argus steel and ferrous scrap prices are published in the Argus Black Sea Steel report. The price data are available independent of the text-based report in electronic files that can feed into various databases. These price data are also supplied through various third-party data integrators. The Argus website also provides access to prices, reports and news with various web-based tools. All Argus prices are kept in a historical database and available for purchase. Contact your local Argus office for information.

A publication schedule is available at [www.argusmedia.com](http://www.argusmedia.com)

### Corrections to assessments

Argus will on occasion publish corrections to price assessments after the publication date. We will correct errors that arise from clerical mistakes, calculation errors, or a misapplication of our stated methodology. Argus will not retroactively assess markets based on new information learned after the assessments are published. We make our best effort to assess markets based on the information we gather during the trading period assessed.

### Ethics and compliance

Argus operates according to the best practices in the publishing field, and maintains thorough compliance procedures throughout the firm. We want to be seen as a preferred provider by our subscribers, who are held to equally high standards, while at the same time maintaining our editorial integrity and independence. Argus has a strict ethics policy that applies to all staff. The policy can be found on our website at [www.argusmedia.com](http://www.argusmedia.com). Included in this

policy are restrictions against staff trading in any energy commodity or energy related stocks, and guidelines for accepting gifts. Argus also has strict policies regarding central archiving of email and instant messenger communication, maintenance and archiving of notes, and archiving of spreadsheets and deal lists used in the price assessment process. Argus publishes prices that report and reflect prevailing levels for open-market arms length transactions (please see the [Argus Global Compliance Policy](#) for a detailed definition of arms length).

### Consistency in the assessment process

Argus recognises the need to have judgment consistently applied by reporters covering separate markets, and by reporters replacing existing reporters in the assessment process. In order to ensure this consistency, Argus has developed a programme of training and oversight of reporters. This programme includes:

- A global price reporting manual describing among other things the guidelines for the exercise of judgment.
- Cross-training of staff between markets to ensure proper holiday and sick leave backup. Editors that float between markets to monitor staff application of best practices.
- Experienced editors overseeing reporting teams are involved in daily mentoring and assisting in the application of judgment for illiquid markets.
- Editors are required to sign-off on all price assessments each day, thus ensuring the consistent application of judgment.

### Review of methodology

The overriding objective of any methodology is to produce price assessments which are reliable and representative indicators of commodity market values and are free from distortion. As a result, Argus editors and reporters are regularly examining our methodologies and are in regular dialogue with the industry in order to ensure that the methodologies are representative of the market being assessed. This process is integral with reporting on a given market. In addition to this ongoing review of methodology, Argus conducts reviews of all of its methodologies and methodology documents on at least an annual basis.

Argus market report editors and management will periodically and as merited initiate reviews of market coverage based on a qualitative analysis that includes measurements of liquidity, visibility of market data, consistency of market data, quality of market data and industry usage of the assessments. Report editors will review:

- Appropriateness of the methodology of existing assessments
- Termination of existing assessments
- Initiation of new assessments

The report editor will initiate an informal process to examine viability. This process includes:

- Informal discussions with market participants
- Informal discussions with other stakeholders
- Internal review of market data

Should changes, terminations, or initiations be merited, the report editor will submit an internal proposal to management for review and approval. Should changes or terminations of existing assessments be approved, then formal procedures for external consultation are begun.

### Changes to methodology

Formal proposals to change methodologies typically emerge out of the ongoing process of internal and external review of the methodologies. Formal procedures for external consultation regarding material changes to existing methodologies will be initiated with an announcement of the proposed change published in the relevant Argus report. This announcement will include:

- Details on the proposed change and the rationale
- Method for submitting comments with a deadline for submissions
- For prices used in derivatives, notice that all formal comments will be published after the given consultation period unless submitter requests confidentiality

Argus will provide sufficient opportunity for stakeholders to analyse and comment on changes, but will not allow the time needed to follow these procedures to create a situation wherein unrepresentative or false prices are published, markets are disrupted, or market participants are put at unnecessary risk. Argus will engage with industry throughout this process in order to gain acceptance of proposed changes to methodology. Argus cannot however guarantee universal acceptance and will act for the good order of the market and ensure the continued integrity of its price assessments as an overriding objective.

Following the consultation period, Argus management will commence an internal review and decide on the methodology change. This will be followed by an announcement of the decision, which will be published in the relevant Argus report and include a date for implementation. For prices used in derivatives, publication of stakeholders' formal comments that are not subject to confidentiality and Argus' response to those comments will also take place.

### The report

Argus Black Sea Steel publishes weekly and daily price assessments for the international and domestic spot markets for various grades of steel, ferrous scrap and ferrous raw materials. The report consists of a daily bulletin with the most up-to-date pricing information, as well as a longer, more in depth weekly report.

### Reporting team

The Argus Black Sea Steel team consists of specialist market reporters and analysts in London, Kiev and Moscow, drawing on Argus' global network of correspondents.

### Survey process

Argus considers a broad range of information in assessing the price of various steel grades and ferrous scrap each day or week, depending on the assessment.

This includes information on fixed-price physical deals, market premiums, market discounts, reported but unconfirmed trades, tender results, bids, offers, and supply and demand fundamentals.

A balance is maintained in the survey between sellers, buyers, distributors and traders. The approach is methodical and standardised and the assessments are tested against the views of other market participants.

Deals, bids and offers must be considered repeatable to be reflected in the assessments. All information is taken into account

Argus calculates an average of any reported transactions that meet specifications. Assessments takes both the average of transactions and the results of the market survey into account.

Argus does not exclusively rely upon transactions to establish market prices.

### Exclusions

Argus applies editorial judgment to the surveys. Transactions that appear to be significantly above or below the market will be excluded before the final average is calculated. Transactions that have non-standard terms will also be excluded.

### Source data

Argus welcomes transaction data and survey input from all market participants. We strongly encourage full disclosure of all relevant details of all deals concluded. All information received will be cross-checked and tested against other market information. Any anomalies will be excluded.

## Steel

### International steel assessments

Argus Black Sea Steel contains assessments of hot rolled coil (HRC), cold reduced coil (CRC), plate, slab, billet, rebar and wire rod.

Information on transactions, bids and offers that lie outside the specifications of timing, size and quality will be taken into account. Argus takes into account transactions sold through Russian far east ports to Asian markets but information that lies within the specifications of the assessment will be given the most weight.

Argus applies editorial judgment to the surveys and will eliminate information that is not judged to be representative of the market in its final assessment of the price.

These specifications standardise the assessment around key criteria relating to cargo size and load port, while taking into account factors such as extras, payment terms and producer quality differentials.

The base specifications of the various steel grades are listed in the international steel specifications table below.

International steel specifications							
Name	Quality	Minimum quantity	Dimensions	Location	Timing	Measure	Frequency
HRC, fob Russia/Ukraine Black Sea	EN10025-2:2004. Grade S235JR or equivalent	3,000t	1,200-1,500mm wide, 2-10mm thick	fob Russia/ Ukraine Black Sea ports	2-6 weeks	\$/t	Daily
CRC, fob Russia/Ukraine Black Sea	EN10131:2006. Grade: DC01 or equivalent	3,000t	1,000-1,250mm wide, 0.9-1.5mm thick	fob Russia/ Ukraine Black Sea ports	2-6 weeks	\$/t	Daily
Plate, fob Russia/Ukraine Black Sea	st3sp/ps GOST 380-94 or equivalent	1,000t	10-40mm up to 2,500 wide and 12,000mm long	fob Russia/ Ukraine Black Sea ports	2-6 weeks	\$/t	Weekly
Billet, fob Russia/Ukraine Black Sea	3sp	5,000t	125x125mm square, 11,700mm long	fob Russia/ Ukraine Black Sea ports	2-6 weeks	\$/t	Daily
Chinese billet, cfr Turkey	Q235	10,000t	150x150mm square, 11,700mm long	cfr Turkish ports	6-12 weeks	\$/t	Daily
Slab, fob Russia/Ukraine Black Sea	SAE 1006 or equivalent	20,000t	1,000-1,850mm X 200-250mm	fob Russia/ Ukraine Black Sea ports	2-8 weeks	\$/t	Weekly
Rebar, fob Black Sea	3sp, A500C	3,000t	10-36mm	fob Russia/ Ukraine ports	2-6 weeks	\$/t	Weekly
Wire rod, fob Black Sea	SAE 1006 - 1080	3,000t	5.5-16mm	fob Russia/ Ukraine ports	2-6 weeks	\$/t	Weekly
Rebar, fob Turkey	B500C	2,000t	16-20 mm	fob Turkey port	2-6 weeks	\$/t	Daily
Rebar, ex-works Turkey (incl. VAT)	B500C	100t	10-14 mm	ex-works Turkish mill	0-6 weeks	\$/t	Weekly
Rebar, ex-works Turkey (incl. VAT)	B500C	100t	10-14 mm	ex-works Turkish mill	0-6 weeks	TL/t	Weekly

### Timing of assessment

The assessment reflects the average of the trading day or week's activity. Transactions completed after the time stamp for physical transactions (17:00 London time on the day of publication) will not be considered for inclusion in the average.

### Russian domestic steel assessments

Argus Black Sea Steel contains weekly assessments of hot rolled coil (HRC), cold reduced coil (CRC) and reinforcing bar (Rebar) delivered to a carrier or person nominated by the buyer at an agreed place, on a cpt Moscow basis. Prices are assessed in roubles per metric tonne and US dollars per metric tonne.

Prices are for delivery with the next two to five weeks.

Information on transactions, bids and offers that lie outside the specifications of timing, size and quality will be taken into account. Argus takes into account transactions in other regions but information that lies within the specifications of the assessment will be given the most weight. Argus applies editorial judgment to the surveys and will eliminate information that is not judged to be representative of the market in its final assessment of the price.

These specifications standardise the assessment around key criteria relating to delivery size and delivery location, while taking into account other factors such as extras, payment terms and producer quality differentials.

Russian domestic steel specifications							
Name	Quality	Minimum quantity	Dimensions	Location	Timing	Measure	Frequency
HRC, cpt Moscow	St3sp/St3ps, GOST 16523	100t	Up to 4mm thick, Width: 1,200-1,300mm, Wt 5-8 mt/coil	cpt Moscow	2-5 weeks	Rbs/t	Weekly
HRC, cpt Moscow	St3sp/St3ps, GOST 16523	100t	Up to 4mm thick, Width: 1,200 1,300mm, Wt 5-8 mt/coil	cpt Moscow	2-5 weeks	\$/t	Weekly
CRC, cpt Moscow	O8ps GOST 16523-97	100t	0.9-1.5mm thick, Width: 1,250mm	cpt Moscow	2-5 weeks	Rbs/t	Weekly
CRC, cpt Moscow	O8ps GOST 16523-97	100t	0.9-1.5mm thick, Width: 1,250mm	cpt Moscow	2-5 weeks	\$/t	Weekly
Rebar, cpt Moscow	St3 (ps, sp), A500, A500C	100t	12-16mm thick, 11,000-12,000mm long	cpt Moscow	2-5 weeks	Rbs/t	Weekly
Rebar, cpt Moscow	St3 (ps, sp), A500, A500C	100t	12-16mm thick, 11,000-12,000mm long	cpt Moscow	2-5 weeks	\$/t	Weekly

The base specifications of the various steel grades are listed in the Russia domestic steel specifications table on page 6.

### Timing of assessment

The assessment reflects the average of the trading week's activity. Transactions completed after the time stamp for physical transactions (16:30 London time on the day of publication) will not be considered for inclusion in the average.

The base specifications of the scrap and pig iron assessments are listed in the specifications table below.

### Timing of assessment

The assessment reflects the average of the trading period's activity. Transactions completed after the time stamp for physical transactions (17:30 London time on the day of publication) will not be considered for inclusion in the average.

## Raw materials

### International raw materials assessments

Argus Black Sea Steel contains daily assessments of ferrous scrap on the spot market. The assessments cover the A3 grade of ferrous scrap on both a fob Black Sea and a delivered Marmara Sea port basis. Prices are assessed in US dollars per metric tonne.

The report also contains daily assessments of ferrous scrap imported into Turkey from Europe and North America on a fob Rotterdam and cfr Turkey basis. Prices are assessed in US dollars per metric tonne.

The report also publishes weekly assessments of basic pig iron exported from Ukraine and CIS countries on a fob Black Sea and fob Sea of Azov basis. Prices are assessed in US dollars per metric tonne.

Information on transactions, bids and offers that lie outside the specifications of timing, size and quality will be taken into account but information that lies within the specifications of the assessment will be given the most weight.

Argus applies editorial judgment to the surveys and will eliminate information that is not judged to be representative of the market in its final assessment of the price.

These specifications standardise the assessment around key criteria relating to cargo size, cargo composition, loading port and producer quality differentials.

## Ferrous scrap

### Russian domestic ferrous scrap assessments

Argus Black Sea Steel contains weekly assessments of A3 ferrous scrap delivered to a carrier or person nominated by the buyer at an agreed place, on an fca for shipment to central European Russia mills and an fca for shipment to Urals mills basis. Prices are assessed in roubles per tonne and US dollars per tonne. Prices are for delivery with the next 0-30 days.

Information on transactions, bids and offers that lie outside the specifications of timing, size and quality will be taken into account. Argus takes into account transactions in other regions but information that lies within the specifications of the assessment will be given the most weight.

Argus applies editorial judgment to the surveys and will eliminate information that is not judged to be representative of the market in its final assessment of the price.

These specifications standardise the assessment around key criteria relating to shipment size, scrap consignment composition, delivery location and producer quality differentials.

The base specifications of the scrap assessments are listed in the scrap specifications table on page 8.

### Timing of assessment

The assessment reflects the average of the trading week's activity. Transactions completed after the time stamp for physical transactions (16:30 London time on the day of publication) will not be considered for inclusion in the average.

### International raw materials specifications

Name	Quality	Minimum quantity	Location	Timing	Measure	Frequency
A3, fob Russia/Ukraine Black Sea	GOST 2787-75	1,000t	fob Russia/Ukraine Black Sea ports	0-30 days	\$/t	Daily
A3, cif Marmara	GOST 2787-75	1,000t	cif Marmara Sea ports	0-30 days	\$/t	Daily
HMS 1/2 (75:25)	HMS 1 (ISRI 200, 201, 202) HMS 2 (ISRI 203, 204, 205, 206)	10,000t	fob Rotterdam	2-6 weeks	\$/t	Daily
HMS 1/2 (80:20)	HMS 1 (ISRI 200, 201, 202) HMS 2 (ISRI 203, 204, 205, 206)	10,000t	cfr Turkish ports	2-6 weeks	\$/t	Daily
Pig iron, fob Russia ports Black Sea	GOST 805-95, PL-1, PL-2 grades	3,000t	fob Russia Black Sea ports	2-6 weeks	\$/t	Weekly
Pig iron, fob Ukraine ports Black Sea	GOST 805-95, PL-1, PL-2 grades	3,000t	fob Ukraine Black Sea ports	2-6 weeks	\$/t	Weekly

Ferrous scrap specifications						
Name	Quality	Minimum quantity	Location	Timing	Measure	Frequency
A3, fca for shipment to central European Russian mills	GOST 2787-75	100t	fca for shipment to central European Russian mills	0-30 days	Rbs/t	Weekly
A3, fca for shipment to central European Russian mills	GOST 2787-75	100t	fca for shipment to central European Russian mills	0-30 days	\$/t	Weekly
A3, fca for shipment to Urals mills	GOST 2787-75	100t	fca for shipment to Urals mills	0-30 days	Rub/t	Weekly
A3, fca for shipment to Urals mills	GOST 2787-75	100t	fca for shipment to Urals mills	0-30 days	\$/t	Weekly
Shredded, fob Rotterdam (daily) 10,000t	See the <a href="#">Argus Steel Feedstocks methodology</a>					