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AN EXAMPLE OF THE METALLURGICAL INDUSTRY****Агапова В.В.***аспирантка кафедры экономики и
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Университет таможенного дела и финансов***СПЕЦИАЛИЗИРОВАННЫЕ ИНФОРМАЦИОННЫЕ АГЕНТСТВА В СИСТЕМЕ РЫНКА:
ПРИМЕР МЕТАЛЛУРГИЧЕСКОЙ ОТРАСЛИ**

Summary. The article presents the results of an ethnographic analysis of market participants in the practice of the metallurgical industry. In particular, the mediational and the determining roles of information agencies (price reporting agencies) have been studied in the system of information flows between sellers and buyers in the metallurgical industry. The author conceptualizes the influence of price reporting agencies on the price formation and, accordingly, on the behaviour of market participants through the performative theory.

Owing to the interviews with representatives of the price reporting agency, the real conditions of the market players' activities are determined, which makes it possible to study specific real examples of their interaction.

Аннотация. В статье представлены результаты этнографического анализа участников рынка на примере металлургической отрасли. В частности, были изучены посредническая и детерминирующая роли информационных агентств (ценовых агентств) в системе информационных потоков между продавцами и покупателями в металлургической отрасли. Автор концептуализирует влияние информационных агентств на ценообразование и, соответственно, на поведение участников рынка сквозь перспективу перформативной теории.

Благодаря интервьюированию представителей ценового агентства, а также наблюдению на ними, определены реальные условия деятельности участников рынка, что дает возможность изучить конкретные реальные примеры их взаимодействия.

Key words: information activity; information flow; metallurgical industry; performative; market; price reporting agency; journalist.

Ключевые слова: информационная деятельность; поток информации; металлургическая промышленность; перформатив; рынок; информационное агентства, журналист.

Introduction. A number of information-analytical agencies, whose activities were devoted to the study of specific sectors of the economy or regional markets and whose information coverage was limited to specifically motivated readers, gradually entered the global level and to some extent not only collect, process and share economic information but also determine the vector of the development of events. Moreover, not so long ago, 10 years ago, the American media conglomerate S&P Global not only launched the production of its new information product but also changed the long-term pricing system in iron ore market. Despite the fact that price reporting agencies have existed for many years, 2008 was an important year for the metallurgical market, when S&P Global Platts began publishing the IODEX – daily iron ore index, resulting in the changes in patterns of global pricing in the iron ore market [1]. Indeed, the market experienced the transition from long-term contracts, the prices of which were formed during long-lasting

negotiations behind closed doors, to formula-based contracts, which is based on industry benchmarks – benchmarks published by these specialized press agencies. As a benchmark, we mean an assessment of prices for commodities by an information agency in the relevant market that has developed as a result of concluded contracts for the relevant commodity.

The metallurgical industry is one of the basic spheres of the world's economy, which is processing iron ore and/or ferrous scrap into a range of products, that is sold with a total annual value of about \$2.5 trillion. In addition, for every \$1 of added value is the steel industry is about \$ 2.5 of value added in other sectors of the global economy as a result of purchasing raw materials, commodities, energy and services [2]. The main material for the production of almost 1.9 billion t of steel in 2019 was iron ore [3]. The largest top-5 producers of iron ore in the world in 2019 were Australia, Brazil, China, India and Russia [4], while the largest consumer of iron ore and steel producers was

China. The general trend in the global metallurgical industry depends to a greater extent on the political and economic situation and demand in this country. Moreover, the rapid growth of Chinese demand for iron ore in the 2000s marked the beginning of a change in the structure of the global iron ore market, which resulted in the formation of a large spot segment and raised the role of news agencies to a new level.

Another important market that has a determining role in the metallurgical industry is Turkey. Turkey is among the top-10 steel producers in the world – ranked 8th, and 5th in the list of world EAF steel producers in 2018 [5] (EAF – electric arc furnaces, along with oxygen steelmaking, is the second most used technology since it has a less negative impact on the environment). For both technologies of steel production ferrous scrap is used, but for EAF it accounts for 60% to 90%. The share of EAF steel production in the total volume of Turkish crude steel output is about 70%, and therefore consumption and prices for scrap are important indicators and have become a kind of benchmark for the global market along with import prices for iron ore in China. Scrap contract prices in the Turkish metallurgical market further determine prices for finished products, primarily long products, which are the country's key export products. In both of these markets, the media play an important role not only as a mediator between market players but also as participants themselves, influencing the behaviour of entities.

Main body. In their daily activity, journalists of price reporting agencies receive information by means of communication with those market participants who provide them with this information. Of course, some news is obtained indirectly. For example, news agencies could rely on the publication of press releases by steel companies on their official websites or receive them by e-mail. But in order to obtain real market insider information, i.e. exclusive information about signed contracts, concluded agreements, which are in fact commercial information and is not freely circulated neither announced for the public, it is necessary to make a “payment”. However, payment is not in broad sense. According to price reporting agencies, they receive market information from traders, manufacturers and buyers on a voluntary basis, there is no obligation to report to journalists their arrangements and sales [6, p.15]. Here is a possibility for both manipulation and performance. On the one hand, the information agencies can obtain information on prices of competitors of steel companies in “without names” format. Or they share their forecast and understanding of the market situation, which can influence the situation related to estimates. Here it is, a classic performative. Journalists either share their assessment/create independent channels in personal professional communication with market participants, or publish news and forecasts based on their own assessments. Subscribers (producers, buyers), in their

turn, make use of such published data in their operations. At the output, we get a new reality, constructed by various actions and verbalized products.

On the other hand, market participants themselves can manipulate by providing journalists with information that significantly changes the balance of power. *"After some time of communication with them [market participants], you just perfectly well understand that they sometimes intentionally tell you fake or partial information in order to win certain bonuses. Strictly speaking, I remember several times when the information really changed the market situation. Iron ore market in Russia. A small company was negotiating with one of the largest holdings [on the purchase of raw materials for its production] and achieved a solid discount. And they told us about it, we wrote news. Other companies had appealed to the supplier and said, that they also wanted discounts. In that period, negotiations for contracts were held every month, so this mining company was forced to provide with discounts everyone. They were very offended by us, then even called us and said that "please, next time we would approve what you write about us". It was a small enterprise, a small volume, but everything changed."* (4J-4). The coding of interviewees has the following meaning: the first digit is an encrypted designation of belonging to a specific unit, based on the geographical distribution of markets for the responsibilities of the employee of the news agency; the second letter – position (J - journalist, E – editor); the last digit is the ordinal number in the sequence of interviews).

Information and analytical agencies act as intermediaries between buyers and sellers of goods (raw materials, semi-finished products and finished products) (fig. 1). They receive and exchange information flows, which are accompanied by information noise from market participants, and return information in aggregate and filtered either as a finished information product (publications, indices, prices) or as a commodity exchanged for new information. These information signals have effects on prices. Thus, information flows take place not only directly between the parties of the transaction, but also could be indirect.

Information at all stages of production is interrelated. For example, taking into account the prices for raw materials and comparing them with the cost of semi-finished products, Turkish steelmakers decide on the economic feasibility of their own production or whether it is more efficient to purchase in the domestic market from integrated metallurgical companies or import. The comparison is made with the prices of finished products, such as reinforcing bar (rebar): understanding their own costs for the rebar production from ferrous scrap or reolling costs from semi-finished products, the company compares the difference in the sales margin of these options.

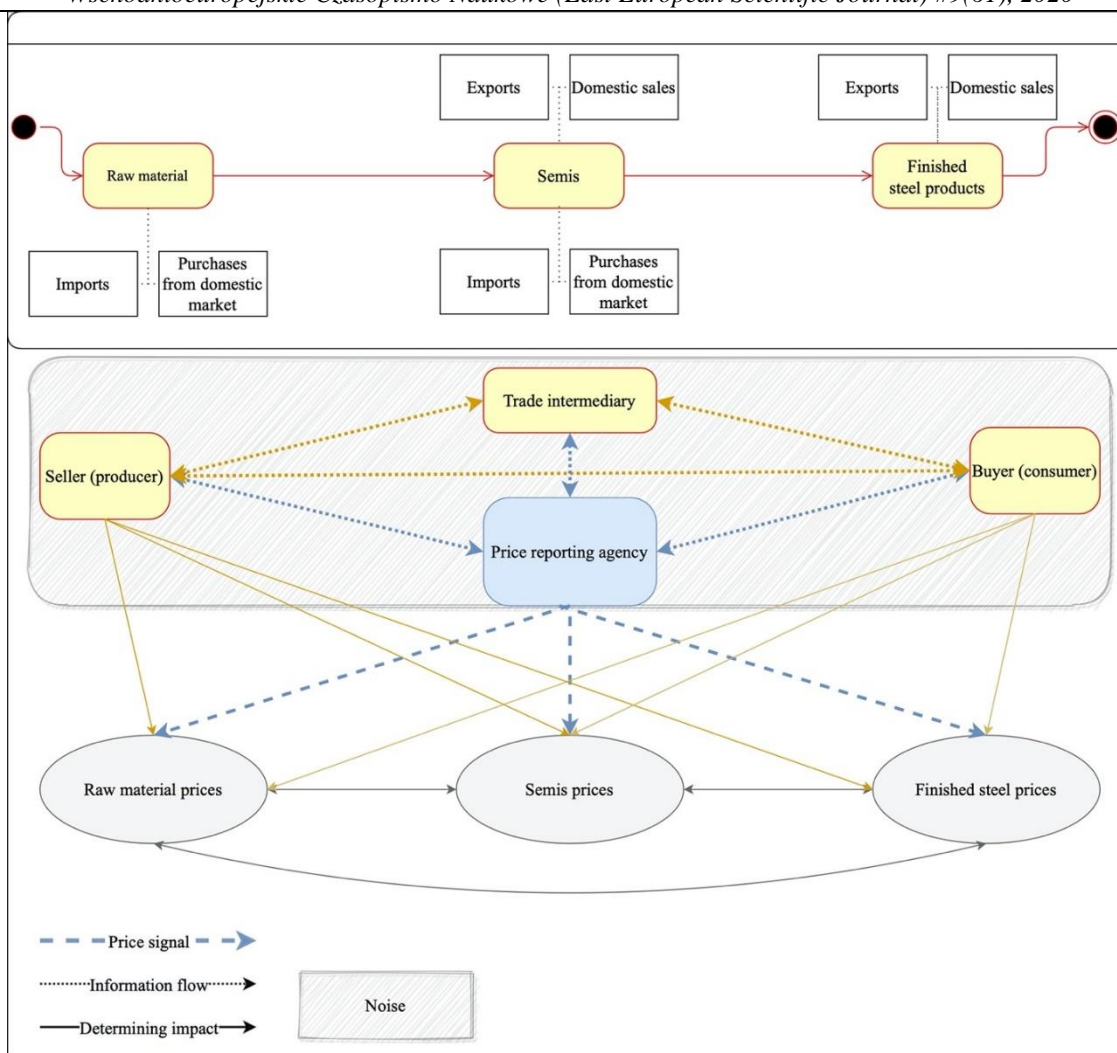


Figure 1. Production and sales chain and information flows in the steel market.

Source: author's own elaboration.

Let's take a specific example: according to estimates of Kallanish (price reporting agency), in mid-July 2020, the cost of rebar production from scrap of Turkish steelmakers was \$423.75 per t, and the cost of production of square billets was \$415 per t [7]. The export price of finished products, rebar, at that time was some \$415-425 per t based on FOB. Thus, we can conclude that specifically in mid-July, it was more economically feasible to purchase and manufacture rebar from semi-finished products. This is why it is important for producers and buyers to know the "freshest" price information. If supply prices and contract prices for imported scrap increase, Turkish steel manufacturers automatically increase prices for finished products. But how does the market get this information?

There are several channels for this. First, mills send a formal inquiry to scrap collectors; secondly, having reached an agreement, the companies send the main details of contracts to other market participants through messengers, primarily WhatsApp, and these messages reach news agencies. These messages in broad and narrow meanings simultaneously serve as information signals of what price trend is taking place: price stability, their increase or decrease.

«These messages are in most cases distributed by the sellers or buyers themselves. Sometimes third parties who got known with details of the agreements also might share information. Of course, they do not admit that they "spill" the information, but they, producers or sellers, may confirm journalists the fact of agreement: whether it done or not, or are mentioned terms of the contract, volume, prices relevant. The market reacts immediately. The deal details had been sent out at night, in the morning producers have already announced an increase in rebar prices. Sometimes such messages are made up and sent out to shake up the market. This is especially true for mills that do not communicate with the press because it is impossible to confirm whether the agreement is true. Then journalists themselves decide whether to publish such news or not. Such actions of market participants are like a game. There are periods when factories do not buy anything, believing that the offers [offer price] are overpriced. In such a case, the price of the first deal determines the trend. There are some "hysterical" mills. Someone deliberately launches a fake deal in which mill N seems to have agreed on a price increase, then the "hysterical mill" in fact agrees to a new higher price level. Then we write news, since, of course, the

information is important, after so many days of silence, an agreement was signed, although we understand that the mill just was overcome with panic and took fake as a truth. And as for the domino effect, other manufacturers also started to buy before the next stage of price increase reached» (2J-9).

As the diagram shows (fig. 1), news agencies act not only as intermediaries between market participants, they also influence prices themselves. On the one hand, this happens at the level of communication with sellers and buyers, and on the other hand, at the level of information products that they produce.

As mentioned above, after receiving, news agencies process market information into news and price data. But here lies the question: who is responsible for this information? Who checks it? On the one hand, price reporting agencies are not under direct government control, i.e. agencies are not controlled by government in matters of the product of their activities, and do not conduct their activities in accordance with mandatory standards. That is, the reliability of the data remains on the conscience of the “news-producers”. On the other hand, in the international information market in the segment of commodity markets, i.e. among price reporting agencies, the level of competition is quite tight [8], so it encourages companies to seek new ways to prove their reputation. One such option is the certification/accreditation/compliance procedure with the principles of the International Organization of Securities Commissions (IOSCO). First of all, this type of compliance with international standards has been reached by international credit rating agencies (S&P Global Ratings, Moody’s, Fitch), which operate in accordance with the Code of Conduct Fundamentals for Credit Rating Agencies [9]. For price reporting agencies that are primarily in the media, such a document is the Principles for Oil Price Reporting Agencies [10]. Initially, some regulation was made for benchmark oil prices, which follows from the title of the document, and in response to the growing role of benchmarks for the commodity derivatives market, but later the scope has expanded to other commodities, such as lithium, for example [11]. It is clear that it was important for IOSCO not to control the activities of price reporting agencies in general, but rather those areas of their presence and information coverage of agencies related to the financial markets because such benchmarks are base for indices and terms of derivative contracts. Thus, the question of full compliance of the price reporting agencies with the principles could be somehow contradictory: not all information, not all prices, not all news and analytical materials published by specialized media are used for decision-making in the securities markets.

Although the audit procedure for compliance with the above-mentioned principles is not mandatory, it becomes an additional competitive advantage. First of all, the principles concern methodological issues, although they are not limited to them: transparency of procedures, clear definition and disclosure of approaches, procedures for collecting, analyzing and evaluating market information based on which prices

are assessed [10]. In order to confirm compliance with their own principles (which comply with IOSCO principles), news companies must undergo an external audit. For example, in December 2019, S&P Global Platts announced that Ernst & Young had completed its sixth annual audit, a comprehensive review of S&P Global Platts' documentation on pricing processes used for oil and non-oil contracts, and compliance with this practice in Houston, London, and Singapore [12].

Conclusions. Owing to the interviews with representatives of a specialized information agency (price reporting agency), we were able to study not just an ideal image of the theoretical framework of interaction between market participants and the media but to observe their real activities and present a scheme of information flows and their impact on prices. News agencies act not only as intermediaries between market participants, they also influence prices themselves. On the one hand, this happens at the level of communication with sellers and buyers. In particular, in order to obtain real market insider information, journalists provide their dialogue partner with other information or data, in which counterpart is interested. On the other hand, at the level of information products that information agency produces, the impact is laying in the news content, assessments, benchmarks, forecasts.

Commodity sellers and buyers rely on information from business news to varying degrees. The question of the relevance, truthfulness and validity of such information lies in the plane of the integrity of the media since there are no bodies that would track these issues. The only thing that is regulated in some way is the compliance of price information that is used in financial markets with the standards developed by the International Organization of Securities Commissions. At the same time, price reporting agencies may conduct an external audit to assess compliance with such principles, namely the transparency of the methodology and the process of price assessments, in order to gain an additional competitive advantage.

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MANAGEMENT OF THE ENGINEERING INDUSTRY IN THE FACE OF A SOLVENCY CRISIS AND AN INCREASED RISK OF BANKRUPTCY

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Abstract. There is an increase in the risks of crisis in the industrial sector and especially engineering in the conditions of the 2020 solvency crisis and the strengthening of the impact of the crisis on the activities of all sectors of the economy of Ukraine. The purpose of the article is to substantiate the solvency of industrial and machine-building enterprises of Ukraine on the basis of statistical quantitative analysis of enterprises in the industry.

The following signs of reduced solvency were identified being based on the statistical analysis of macroeconomic indicators: the decrease in delivery in foreign markets; reduction of the share of mechanical engineering in the volume of sales of industrial products; reducing the growth rate of the industry; reduction of the current liquidity level; a high level of dependence on external sources and a higher level of bankruptcy risk in the long run.

The main management methods in such conditions are: cost reduction, enterprise restructuring, re-equipment, modernization of production, innovative development, debt restructuring.

Key words: bankruptcy of machine - building enterprises, crisis of machine - building industry, solvency crisis of machine - building enterprises, machine - building.

A problem statement. There is an increase in the risks of crisis in the industrial sector and especially engineering in the conditions of the 2020 solvency crisis and the strengthening of the impact of the crisis on the activities of all sectors of the economy of Ukraine. In addition, machine-building enterprises face problems of attracting additional financial and material resources and increasing competitiveness in

international markets in the context of European integration.

The instability of the market economy, the growth of crisis phenomena causes an increase in the level of insolvency of machine-building enterprises. So, machine-building enterprises face the challenge of maintaining market positions, increasing competitiveness, stabilizing the financial situation.