MARKET REVIEW: GLOBAL

# A YEAR OF GROWTH

In 2021, commodity markets saw a recovery in both supply and demand as the global economy rebounded from lows reached during the COVID-19 pandemic. Steel, iron ore and coking coal prices stood at multi-year highs, although they subsided somewhat towards the end of the year.

## GLOBAL STEEL MARKET

During the year, global crude steel production totalled 1,951 million tonnes, up 3.8% year-on-year, and apparent consumption of finished steel products amounted to 1,834 million tonnes, up 2.7%.

Although China continued to produce and consume more steel than the rest of the world, it was no longer the global growth driver in annual terms. As part of its official policy, the country capped its 2021 steel output at 2020 levels to align with $CO_2$ emissions goals. Weakness in China's property sector also affected domestic demand for construction steel in the second half of 2021. Taking into account the high-base effect of 2020, caused by China rebounding from the pandemic more quickly than other major economies, its overall crude steel production declined in 2021 by 3.0% to 1,033 million tonnes and apparent consumption of finished steel products dropped by 5.4% to 952 million tonnes.

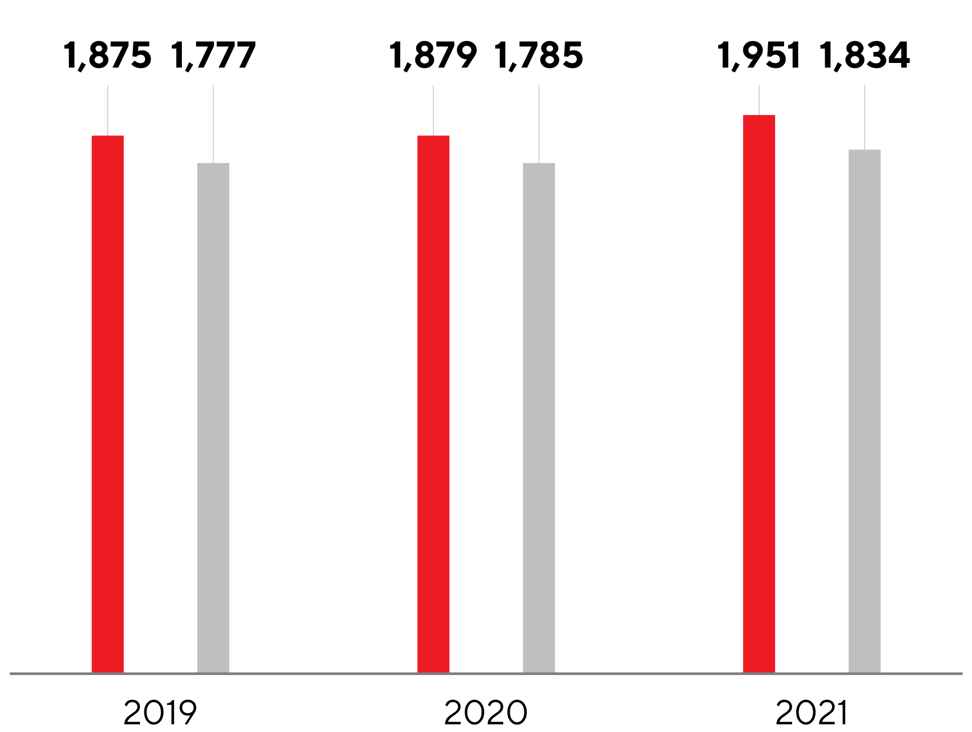
Supply and demand in the rest of the world recovered from the pandemic-driven lows of 2020, driven by economic stimulus measures and the easing of COVID-19 related restrictions. In response, crude steel production expanded by 12.7% to 918 million tonnes and apparent consumption of finished steel products climbed by 13.2% to 882 million tonnes. In particular, the latter increased by 21.3%, 16.6% and 9.3% in the US, the EU-27 and Japan, respectively.

Consistent with these trends, Metinvest shifted sales in favour of strategic markets. For example, sales volumes of semi-finished and finished steel products to Europe rose by 40.7% and 29.7% year-on-year, respectively. Meanwhile, sales volumes of those products to Asia, primarily to China, fell by 81.9% year-on-year.

Protectionist measures remained a central issue for the global steel industry in 2021. After the US and EU relaxed their trade restrictions to some extent, the two sides also agreed to address the challenge of carbon emissions in steelmaking. This announcement came after the EU presented the first iteration of its Carbon Border Adjustment Mechanism (CBAM) in mid-2021. To ensure that the EU's climate policies are effective, the CBAM aims to impose an additional tariff on imports of carbon-intensive products, including steel, to stem carbon leakage from countries without carbon emission trading or taxation regimes. Nevertheless, the final design, scope of application and timing of the CBAM remain to be seen.

Amid these developments, global steel prices reached multi-year highs in the first half of 2021, driven primarily by greater global demand and international supply chain disruptions. In the second half of the year, global prices subsided somewhat, largely due to improvements in steel mill utilisation in Europe and the US, but were supported by elevated coking coal prices despite the fall in iron ore prices induced by collapsing Chinese iron ore demand. Overall, the 2021 average of the hot-rolled coil (HRC) FOB Black Sea benchmark reached US$875 per tonne, up 84.3% year-on-year. While the monthly average peaked in May 2021 at US$1,083 per tonne, it ended the year at US$788 per tonne in December 2021.

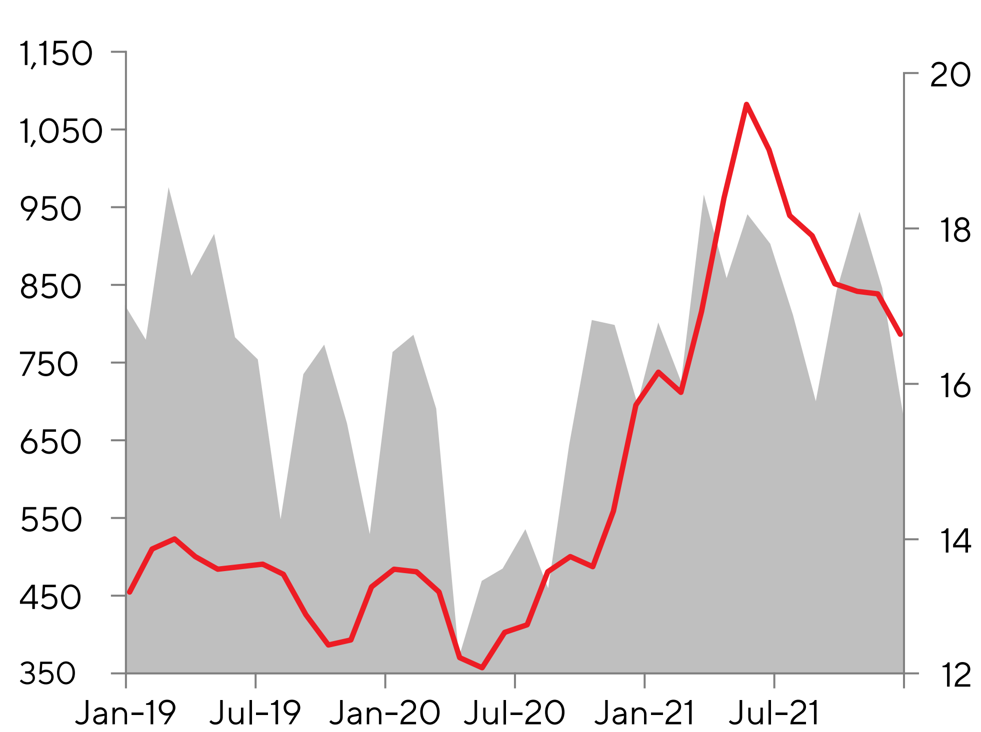
**Global steel industry**




Crude steel production, mt
Finished steel consumption, mt

Source: World Steel Association

**Steel price**




Crude steel production in Europe, mt (RHS)
HRC, FOB Black Sea, US$/tonne (LHS)
Europe includes current EU-27 members, the UK, Bosnia and Herzegovina, North Macedonia, Norway, Serbia and Turkey.

Source: World Steel Association, Metal Expert

## GLOBAL RAW MATERIALS MARKET

In 2021, both iron ore and coking coal prices demonstrated growth trends.

The key developments for China's steel sector described earlier were among the main drivers impacting global iron ore demand, as the country accounts for more than 67% of worldwide iron ore imports. In 2021, global iron ore trade remained almost flat at 1,663 million tonnes, a 0.3% year-on-year increase, as the 45 million tonne drop in China's iron ore imports in 2021 was almost entirely offset by the 50 million tonne increase in the rest of the world, according to the World Steel Association.

In this environment, Metinvest maximised iron ore sales to markets in Europe and MENA that were logistically closer and resulted in higher margins. Shipments of iron ore products to these two regions rose by 42.4% and 3.5 times year-on-year, respectively. Meanwhile, deliveries to Asia fell by 37.7%, mainly amid significantly lower supplies to China.

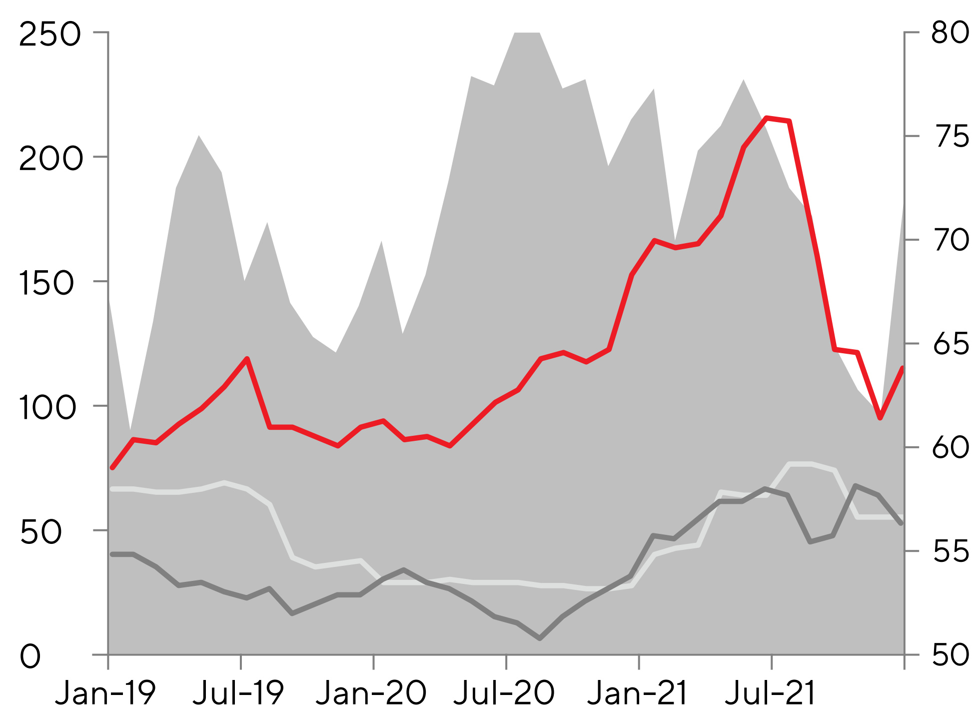
Consequently, the 62% Fe iron ore fines CFR China benchmark price grew from US$159 per dry metric tonne (dmt) at the end of 2020 to a peak of US$233 per dmt in May 2021 before subsiding to close the year at US$119. Overall, the average price climbed by 47.3% year-on-year to US$162 per tonne in 2021.

In 2021, a greater focus on efficiency in hot metal production coupled with increased environmental concerns supported pellet premiums globally. In Europe, the Atlantic basin premium rose by 107.6% year-on-year to US$60 per tonne. In China, the 65% Fe premium grew by 150.7% to US$57 per tonne. Driven by these favourable trends, Metinvest increased overall shipments of pellets by 13.4% year-on-year in the reporting period.

The international coking coal market was in flux after China introduced restrictions on imports of the product from Australia in the second half of 2020 and amid greater demand for coal in India. Meanwhile, weather constraints limited shipments from Australia and COVID-19 border closures between China and Mongolia reduced supplies from the latter.

A tight coking coal supply and demand balance, exacerbated by a sudden tension in global natural gas and thermal coal markets, led to a surge in prices in the second half of the year. The average annual hard coking coal spot price index (premium LV, FOB Australia) increased by 81.5% year-on-year to US$225 per tonne in 2021.

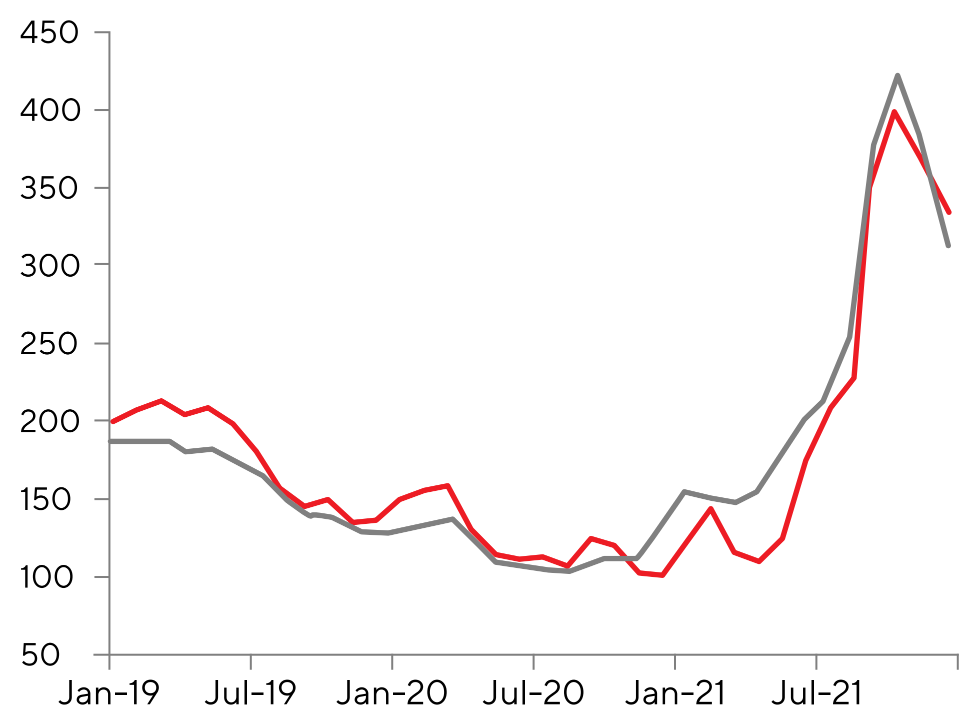
**Iron ore price and premiums**




Hot metal production in China, mt (RHS)
62% Fe iron ore fines, CFR China, US$/dmt (LHS)
Pellet premium in Europe, US$/tonne (LHS)
Pellet premium in China, US$/tonne (LHS)

Source: Bloomberg, Platts, World Steel Association

**Hard coking coal price**




Daily spot index, premium LV, FOB Australia, US$/tonne
Daily spot index, HCC LV FOB USEC, US$/tonne

Source: Platts

## DEVELOPMENTS AFTER THE REPORTING PERIOD

Global economic developments in 2022 have posed significant challenges for the steel, iron ore and coking coal markets. Russia's full-scale invasion of Ukraine in late February 2022 soon materialised into surging steel prices in Europe and the US. The burden of overall cost inflation has been exacerbated by higher energy prices, especially in Europe and the US, amid a combination of Western sanctions and Russia's retaliatory reductions in gas supplies.

Following a wave of steel, iron ore and coking coal restocking, global demand has softened amid renewed COVID-19 restrictions in China and continued weakness in its property sector. This led to a cooling in the pricing environment in the second quarter of 2022.

Adding to these factors, numerous central banks around the world have doubled their efforts to combat inflation throughout 2022. They have begun to increase interest rates, reduce the liquidity injections started during the pandemic and even introduce quantitative tightening. These measures have resulted in greater concerns about slowing growth and possible recessions in major global economies, including the EU, UK and US, placing further downward pressure on prices for steel and raw materials.