

MARKET REVIEW: GLOBAL

A TUMULTUOUS YEAR

In 2022, global steel and iron ore prices reflected the instability of the global economic and geopolitical environment, weakening year-on-year on average. While coking coal prices were also volatile during 2022, they increased year-on-year amid occasional additional demand from the energy sector, as well as supply constraints.

GLOBAL STEEL MARKET

In 2022, global crude steel production fell by 3.9% year-on-year to 1,885 million tonnes and global apparent consumption of finished steel products dropped by 4.0% year-on-year to 1,768 million tonnes. These declines reflected a complex year for the global steel industry.

The macroeconomic environment led to weaker overall demand for steel products, as persistently high inflation across global markets resulted in increased interest rates in major economies and reduced spending. While the pandemic continued to disrupt the

markets, Russia's launch of a full-scale war in a European country added to global volatility.

The Russian Aggression drove changes in supply and demand for steel and raw materials beyond the countries involved, while also disrupting global energy markets. As a response to the invasion, several countries, including EU members, imposed individual, trade, transport and financial sanctions that affected iron ore, coking coal and steel supplies from Russia. Still, the EU sanctions packages enacted during 2022 retained quotas for certain semi-finished

steel products, with slab imports permitted at near their previous levels.

In the meantime, China, which produces and consumes more steel than the rest of the world combined, saw a decrease in both production and consumption for the second year in a row. Notably, there was a sharp reduction in steel demand during the second half of 2022 amid intermittent COVID-19 lockdowns. A slowdown in the property market, one of China's main steel consuming sectors, also continued. Overall, China's crude steel production was 1,018 million tonnes in 2022, down 1.7%, while its apparent consumption of finished steel products totalled 921 million tonnes, a 3.5% decline year-on-year.

Combined with the impact of the Chinese retrenching, volatile markets and increased energy costs led steelmakers to cut output substantially to rebalance supplies with weakening customer demand. These factors, together with a decrease of output in Ukraine, drove crude steel production in the rest of the world down 6.4% to 867 million tonnes and apparent consumption of finished steel products 4.6% lower year-on-year to 847 million tonnes.

Global steel prices reflected these evolving factors during 2022. They surged in Europe and the US in the first quarter of 2022. A declining trend emerged in the second

quarter that lasted until a slight price recovery in the fourth quarter. Still, the year-on-year pricing trend was downward. The 2022 average hot-rolled coil (HRC) CFR Italy benchmark fell by 18.4% year-on-year to US\$846 per tonne. The monthly average peaked at US\$1,241 per tonne in March 2022 and closed out 2022 at US\$644 per tonne in December.

GLOBAL RAW MATERIALS MARKET

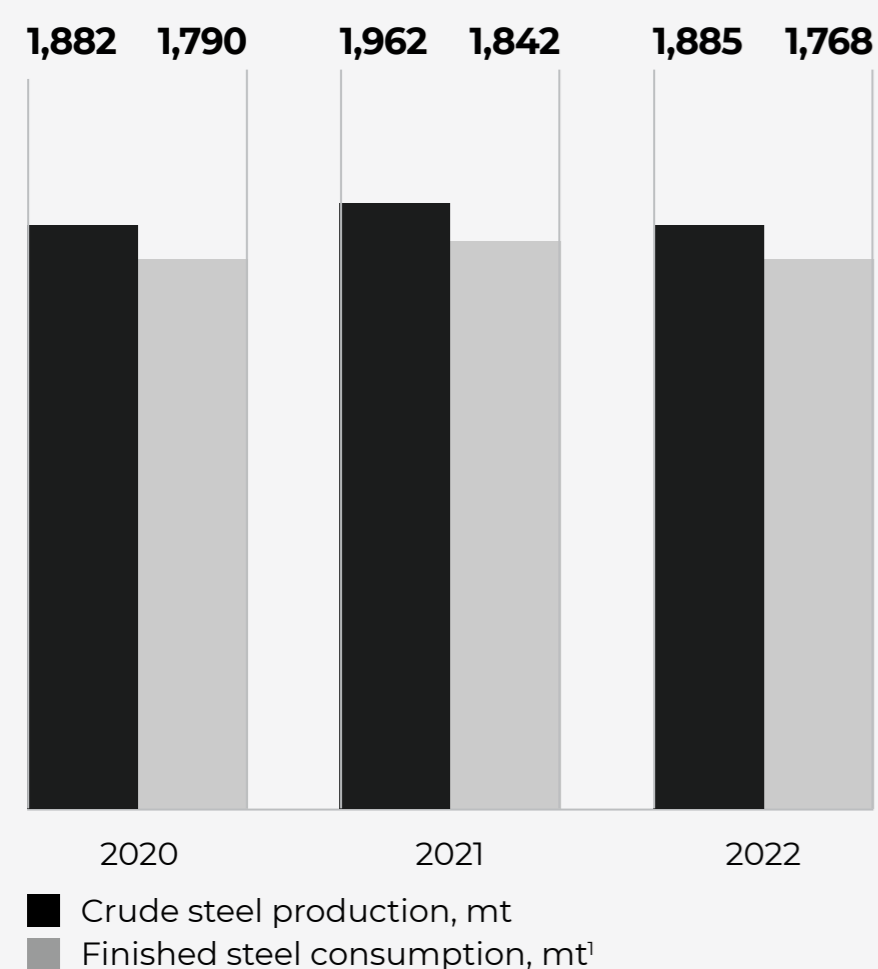
Amid the year-on-year fall of global steel benchmarks, global iron ore and coking coal prices diverged during 2022. Iron ore prices fell year-on-year, while coking coal prices actually rose, reflecting different supply and demand pressures on those raw materials.

Iron ore prices felt the impact of China's slowing steel market, with the country's iron ore imports down 1.6% to 1,108 million tonnes, accounting for 69.8% of global imports according to World Steel Association (WSA) figures. Exports from Australia and Brazil, accounting for 77.8% of global exports, remained almost flat. At the same time, exports from other countries were substantially less, caused by the war in Ukraine among several other factors.

Global iron ore benchmark prices were relatively strong early in the year but fell off

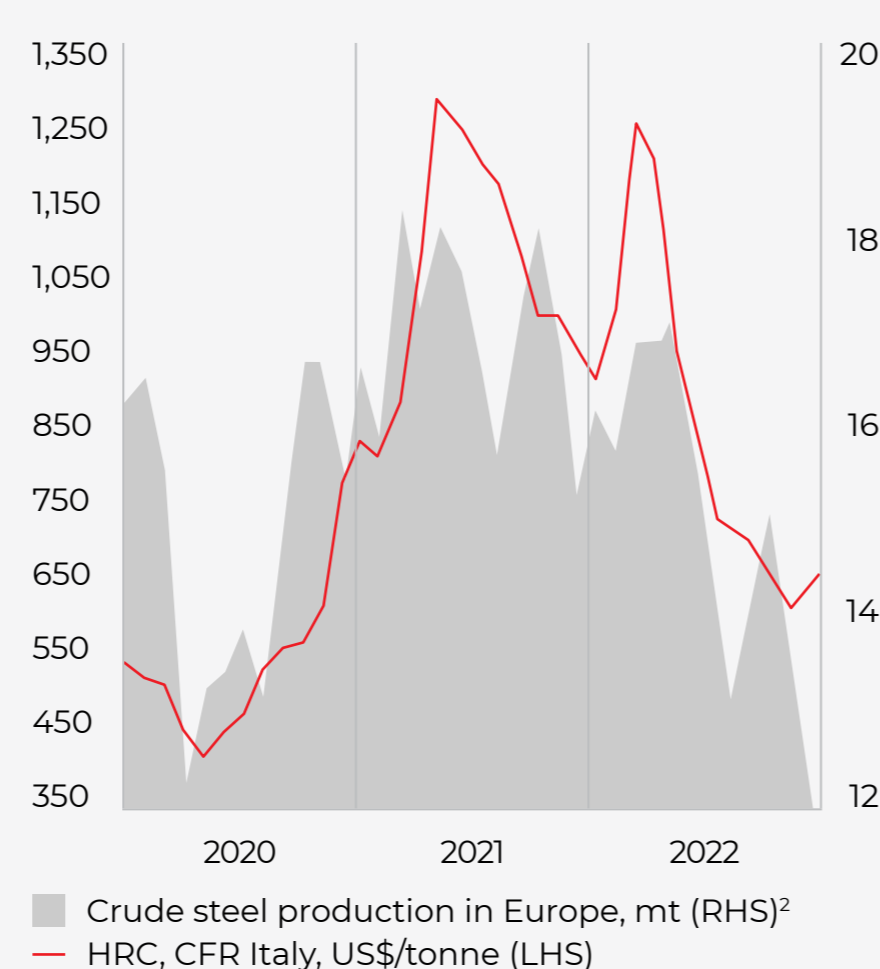
¹ Apparent consumption of finished steel products.
² On a monthly basis. Europe includes the current EU-27 members and the UK, Bosnia and Herzegovina, North Macedonia, Norway, Serbia and Türkiye.

Global steel industry



Source: World Steel Association

Steel price and production in Europe



Source: Bloomberg, World Steel Association, Metal Expert

sharply as demand eased amid events in China. The 62% Fe iron ore fines CFR China benchmark fell from a peak of US\$152 per dry metric tonne (dmt) in March 2022 to a low of US\$93 per dmt in October and November 2022, before ending the year at US\$112 per dmt. Overall, the 62% Fe iron ore fines CFR China benchmark price averaged US\$121 per dmt, down 25.0% year-on-year.

Pellet premiums showed diverging regional trends in 2022. Premiums in China fell, while they rose in Europe.

On the international coking coal market, the main factors were supply constraints and changes in demand patterns, both of which supported international benchmarks. Supply from Australia was limited by weather disruptions and COVID-19 restrictions. At the same time, production in China stagnated due to the decision to prioritise thermal coal over metallurgical grades and other domestic factors, including pandemic-

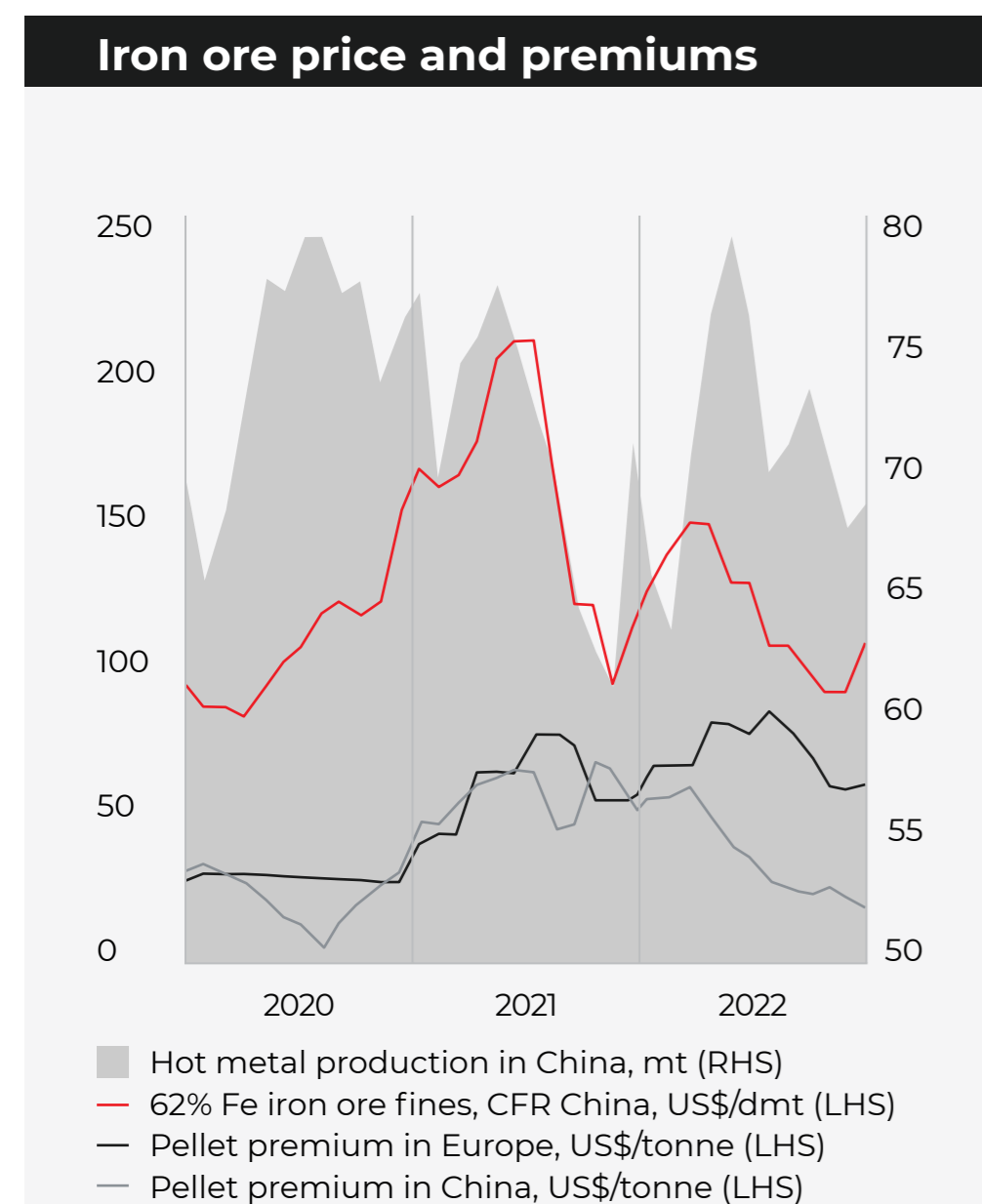
related shutdowns and mine incidents. On the demand side, the restructuring of the energy market in the EU and fears of shortfalls caused by the war in Ukraine led to the greater use of some coking coal grades in energy production. Seaborne trade was also impacted by the EU embargo on Russian coal beginning in August 2022. The resulting increase in demand for non-Russian coal was mostly satisfied by supplies from Australia and the US.

As a result, the average annual hard coking coal spot price index (premium LV, FOB Australia) jumped by 62.4% year-on-year to US\$365 per tonne, with the maximum monthly price of US\$594 per tonne reached in March 2022 and the minimum of US\$240 per tonne in July 2022. The HCC LV FOB USEC benchmark price climbed by 39.2% year-on-year to US\$344 per tonne in 2022, with a monthly peak of US\$509 in March 2022 and the lowest level of US\$246 in August 2022.

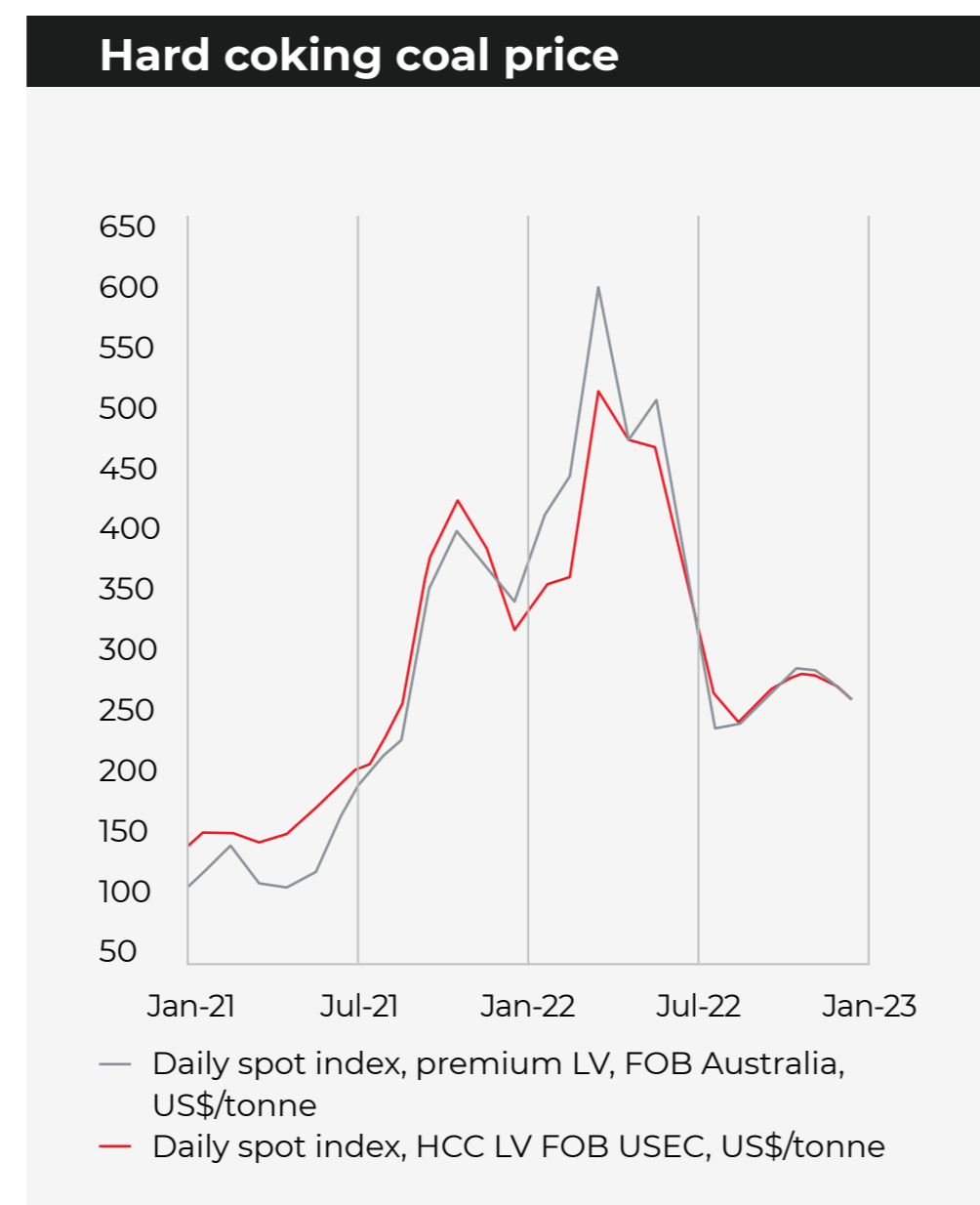
DEVELOPMENTS AFTER THE REPORTING PERIOD

Entering 2023, global steel and raw material prices appeared set for a degree of volatility as many of 2022's external market factors remained in place. In the first quarter of 2023, global steel and raw material prices increased amid optimism about a rebound in China after the country moved to stabilise its property market at the end of 2022. However, uncertainty regarding the actual path of demand in China, as well as concerns about global economic growth and financial stability, resulted in a price correction in the second quarter of 2023.

The level of volatility is expected to be sustained across the entire value chain. The ongoing war in Ukraine, high interest rates and the tight monetary policy, elevated inflation, weak consumer spending and elevated energy prices in key global economies are expected to impact the markets going forward.



Source: Bloomberg, Platts, World Steel Association



Source: Platts

