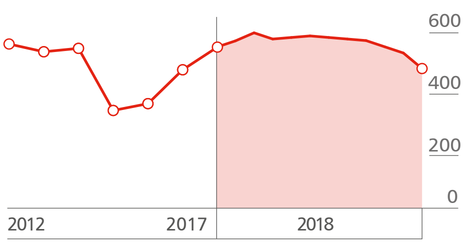
Market overview

GLOBAL PICTURE

In 2018, the steel and bulk commodities markets were buoyed by moderately stable supply and steadily growing demand for steel end products and metallurgical coal. A significant deficit on the vanadium market was a key price driver for the product.

Steel prices, *US$ per tonne*

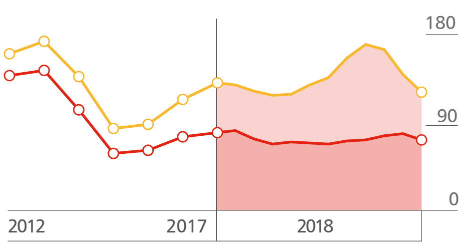


In 2018, global finished steel consumption exceeded expectations, growing 2.5% year-on-year to 1.6 billion tonnes (excluding China, the growth figure was 1.8% year-on-year). Demand for steel climbed by 6% in India, where 99 million tonnes were consumed. Growth exceeded 4% in developing Asia-Pacific region, and was a steady 1% in the rest of the world. Steel use in China's economy reached 784 million tonnes in 2018, compared with 760 million tonnes in 2017, up 3% year-on-year. Overall, downstream demand held strong throughout the year, particularly in the long segment, where more construction projects were launched towards the end of the year. China's gross output value of construction was 268% higher in Q3 2018 than in Q1 2018 and was up 10% year-on-year in 9M 2018.

On the supply side, the global market benefited from several trends. In 2018, the Chinese government reduced the country's steelmaking capacity by another 30 million tonnes, accomplishing its goal of shutting down 150 million tonnes of steelmaking capacity over 2016-20. China's environmental regulation suspending production during the heating season also played a role in reducing steel output. China began restricting production a month earlier in 2018 (in October compared with November in 2017), expanded the measure to cover more provinces and switched from setting output targets to pollution limits. The country's steel mills were also more prepared in 2018 than the year before and hence better anticipated the boundaries. In 2018, China's crude steel production totalled 930 million tonnes, up 10% compared with 2017 figure. Overall, China's net steel export volumes fell by 12% year-on-year to 55 million tonnes during the reporting period, compared with 62 million tonnes in 2017.

Steel prices, based on the CFR slab FE&SEA benchmark, climbed by 19% year-on-year to an average of US$532 per tonne in 2018. In March, prices surged to US$565 per tonne before gradually returning over the summer and autumn to US$520 per tonne – the level seen at the beginning of the year – and then continued to subside throughout the rest of the year, reaching US$450 per tonne in December.

Iron ore prices, *US$ per tonne*



In 2018, total consumption of iron ore products rose by 3% year-on-year to 2.13 billion tonnes. Consumption in India and Iran grew by 13% and 15% year-on-year, respectively, to 148 million tonnes and 38 million tonnes. India nearly tripled its imports to 15 million tonnes and reduced exports by 37% to 18 million tonnes. At the same time, China's consumption of iron ore increased slightly to 1.26 billion tonnes (compared with 1.23 billion tonnes in 2017) and its imports edged down to 1.06 billion tonnes in 2018 from 1.07 billion tonnes in 2017. Moreover, increased scrap usage (134 million tonnes in 2018 compared with 106 million tonnes in 2017) helped China's economy to sustain the 2017 level of crude steel production.

Steel producers have switched towards higher-grade iron ore by virtue of attractive margins of over 20%, a desire to have a more sustainable approach and quality concerns in the steel industry. Moreover, as the "coking coal to iron ore" price ratio is increasing, so does the steelmakers' preference towards higher ore grades and pellets in order to increase blast furnace productivity and reduce the consumption of coke.

Global iron ore production totalled 2.2 billion tonnes, with declines seen in Africa (down 12% or 12 million tonnes) and the CIS (down 4% or 8 million tonnes) and growth in Brazil (up 4% or 17 million tonnes) and Australia (up 3% or 28 million tonnes). International seaborne supply was reasonably stable, delivering 1.6 billion tonnes in 2018, with Australia (up 2% year-on-year) and Brazil (up 6% year-on-year) being responsible for more than 80% of total seaborne exports. However, the supply constraints on the pellet market remained in place, as LKAB's Svappavaara plant in Sweden was closed in Q4 2018, while in Brazil, the Samarco mine is still shut down and a pipeline leak forced the Minas Rio mine out of the pellet feed market.

In 2018, the price for Fe 62% fines CFR China saw relatively low volatility, fluctuating within the range of US$64-77 per tonne. The average price was US$69 per tonne, down 1% year-on-year. In contrast to base index dynamics, the prices surged for premium products, with the 65% grade premium climbing by 25% from US$16 per tonne to US$20 per tonne and the pellet premium surging by 58% from US$37 per tonne to US$59 per tonne.

TRENDS IN EVRAZ CORE MARKETS

Steel

Apparent demand for finished steel on the Russian market did not grow as expected in 2018 with 41 million tonnes consumed, largely in line with the figures seen last year. Construction market growth was moderate, as some work was suspended over the summer in the cities that hosted the World Cup. In terms of the macroeconomic environment, Russia's annual GDP growth projected at 2.3% in 2018. Oil prices climbed by 29% year-on-year, averaging US$72 per barrel of Brent. Capital investments increased by 4% year-on-year, similar to the growth rate from the previous year. Steel production in Russia was relatively flat at 72 million tonnes of crude steel. The price for rebar in Moscow region was up 12% and averaged US$495 per tonne.

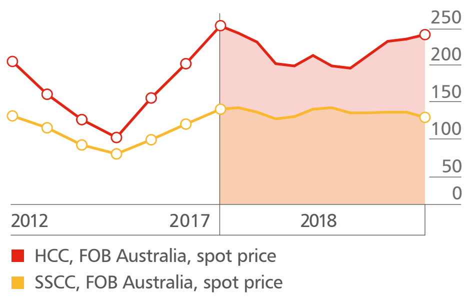
Coal

In 2018, Russian coking coal consumption dropped by 4% year-on-year to 37 million tonnes. Overall, coking coal mining levels were up 1%, with the highest year-on-year growth from MMK (39%) and Colmar (32%), and a major decline from Mechel (minus 7%). Internal sales grew by 6%, leaving the free market with a 9% year-on-year drop. Russian exports of coking coal rose by 13% year-on-year and, while shipments abroad are attractive, logistical capacities limit the potential export volumes to Asia. In 2018, the average price for FCA Zh-grade coal was US$159 per tonne, down 3% year-on-year.

Steel, North America

In 2018, finished steel consumption in the US rose 3% year-on-year to 99 million tonnes. Protective measures implemented by the US government, including Section 232 tariffs and other import duties, continue to have a significant impact on the US steel market, influencing the import balance and domestic shipments. Imports of finished steel were at 23 million tonnes, 10% down from the previous year. Local producers to begin increasing their output and bringing mothballed production capacity back online, particularly in the flat segment. In 2018, the output of finished steel products climbed by 5% year-on-year to 83.5 million tonnes. The domestic FOB Midwest price for hot-rolled coil (HRC) surged by 35% to an average of US$915 per tonne.

Coking coal prices, *US$ per tonne*



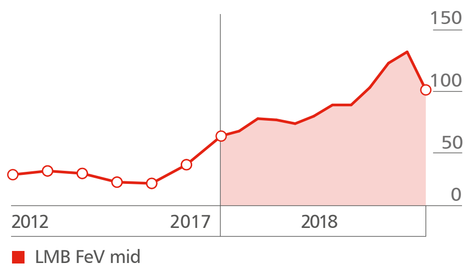
In 2018, the global coal market was reasonably stable: total metallurgical coal consumption edged up 1% to 1.15 billion tonnes, with growth of 8% seen in both India and South-East Asia, while elsewhere it was relatively flat. Another highlight includes lower imports to China (down 7% year-on-year to 65 million tonnes), which was offset by higher demand in India (57 million tonnes imported in 2018 compared with 52 million tonnes in 2017). The latter was caused by robust growth in India's crude steel production and insufficient domestic coal supplies.

Few surprises were brought by suppliers, as Australian exports rose by 3% to 177 million tonnes, mainly due to increased shipments of hard coking coal (HCC), while exports from the US climbed by 8% to 55 million tonnes. Overall, global coking coal supply totalled 1.15 billion tonnes in 2018, up 1% year-on-year. In November 2018, China implemented more stringent safety standards after a major mine incident in Shandong Province, leading to closures of mines throughout the country for inspection.

The average price for Australian hard coking coal, spot FOB, was US$208 per tonne, up 10% year-on-year. The peak price during 2018 was recorded in January, at US$240 per tonne. Since then, prices gradually declined, albeit within a narrow corridor, until rebounding to US$228 per tonne in December.

The renewed strength in coking coal prices at the end of the year was influenced by high steelmaking margins, combined with stronger demand for premium coking coal grades, widening the spread between the hard and semi-soft coking coal grades. Meanwhile, the average price for semi-soft coking coal (SSCC) increased by 14% to US$124 per tonne.

Vanadium prices, *US$ per kgV*



In 2018, global vanadium demand climbed by 8% year-on-year to 100 thousand tonnes. Such rapid growth led to increasing scarcity on global vanadium markets. China's decision to implement a new rebar standard with higher vanadium requirements (0.03%) was a significant demand driver. At the same time, the ban that was enacted in 2018 on imports of vanadium scrap, slag and waste to China limited the supply in the country. Limited global spare operating capacity among vanadium producers also drove prices higher. Ferrovanadium (FeV) prices surged throughout the year, peaking in November at US$124 per kilogramme of contained vanadium (kgV), with average price growth of 150% year-on-year in 2018.