

MARKET OVERVIEW

The global market in 2019 was shaped by the global economic slowdown in a number of countries, amid significant economic growth and an increase in steel consumption and output in China, the US, Iran, and India.

The decline in iron-ore supplies, a consequence of measures to ensure the safety of mining operations in Brazil following the Brumadinho dam disaster, had a significant impact on steel markets, combined with a decline in iron-ore shipments from Australia due to issues vis-à-vis the production and delivery of iron ore to ports owing to weather conditions. A drop in iron-ore supplies, alongside a significant increase in steel and pig iron production on global markets, drove iron-ore prices up.

The market was divided into two clusters: growing demand for steel in China and some other countries enabled steelmakers to pass costs associated with rising iron-ore prices onto their customers. In most countries outside of China, lower demand for finished steel led to a downward trend in iron-ore prices, which – together with rising prices – had a negative impact on the economic indicators and financial flows of most steel producers, forcing them to cut output.

The current situation has led to a narrowing of spreads between prices for iron ore of low, basic, and high quality. Demand for scrap metal outside of China has decreased, which is rather typical for crisis periods.

Metallinvest has maintained operations in all significant markets, among which the highest priority was attached to Russia, Eastern and Western Europe, Asia, and the Middle East. The Company has increased supplies of iron ore to China and Vietnam.

IRON-ORE MARKET

The global iron-ore market remains highly consolidated, with four leaders (Vale, BHP Billiton, Rio Tinto, and FMG) accounting for over two thirds of global iron-ore sales. The leading producers of merchant iron ore are Australia, Brazil, China, India, and Russia, which together account for over 81% of global output.

As the largest producer and supplier of iron-ore products in Russia and the CIS, Metallinvest works hard to assess the factors impacting the iron-ore market, and these will be taken into account when the Company's medium- and long-term development plans are formulated.

The increase in the base price for 62% Fe fines was due to the iron-ore shortage in 2019. A sharp decline in supply, which hit the global iron-ore market for the first time since 2009, could not be offset by the Big Three iron-ore producers, as they reduced shipment volumes. Along with an increase in pig iron and DRI production, this contributed to the rise in iron-ore prices.

The common method used to lower prices failed, amid a diversion of supplies to China due to weak demand in developed countries. Following the iron-ore shortage, a small number of diverted shipments brought the summer peak prices down, however, the general price level went up by USD23.9 per tonne.

Iron-ore production and consumption by region, 2015–2019

million tonnes

IRON-ORE PRODUCTION					COUNTRY	IRON-ORE CONSUMPTION				
2015	2016	2017	2018	2019		2015	2016	2017	2018	2019
277	222	203	204	229	China	1,163	1,174	1,187	1,271	1,359
391	405	395	407	396	Brazil	42	39	43	44	39
701	762	800	822	846	Australia	5	5	5	6	6
188	187	184	173	190	CIS	128	130	128	130	130
120	129	172	183	212	India	118	128	139	155	165
3	3	3	3		Japan	133	132	129	127	122
51	43	39	46	47	US	40	36	38	40	41
71	64	56	62	59	South Africa	8	8	8	9	8
38	34	31	31	37	Europe	162	159	163	160	153
33	36	32	31	30	Central and South America (excluding Brazil)	56	48	53	53	47
56	58	55	61	70	North America (excluding the US)	25	25	26	27	25
118	86	85	90	93	Other	114	119	127	141	158
2,047	2,029	2,055	2,113	2,210	TOTAL	1,994	2,002	2,045	2,162	2,254

Source: AME Research.

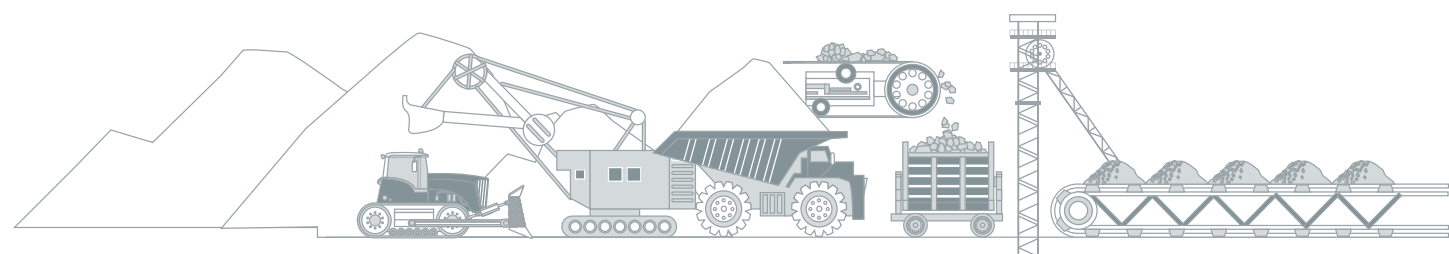
Price reporting agencies, including Argus, Platts, Steel Index, Fastmarkets, Mysteel, and SteelHome, publish reliable current information about iron-ore spot prices in the form of indices. However, the difference between China's steel market and the rest of the world, including Russia, triggered a refusal of contracted volumes and new supplies if buyers received no discount on the index price. Metallinvest monitors commodity markets on a daily basis, and takes all necessary steps to ensure that its products are optimally priced.

Average prices

USD/tonne

IRON ORE	2017	2018	2019
Iron-ore fines (62% Fe) CFR Northern China	71,3	69,5	93,4
Iron-ore fines (65% Fe) CFR Northern China	87,4	90,4	104,5
Pellets CFR Qingdao (65% Fe)	107,7	128,7	125,8

Source: Fastmarkets Mb



MARKET OVERVIEW

PELLET MARKET

According to AME Research, global pellet production fell by 1.9% (-6.78 million tonnes), to 350.9 million tonnes in 2019. The largest pellet producers are those that mainly satisfy the needs of local steelmakers: China, the US, Russia, India, Ukraine, and Mexico. The effects of deteriorating economic conditions hitting European steel producers, which traditionally created long-term and fairly stable demand for pellets, led not only to a decline in the average annual premium for pellets, but also in a drop in the average annual price for pellets compared to 2018.

In 2019 Metalloinvest once again achieved a record pellet output of 28.1 million tonnes (+1.5% on 2018) and pellet shipments (+6.1%, reaching 14.9 million tonnes).

Pellet production, 2015–2019

million tonnes

REGION	2015	2016	2017	2018	2019
China	117.1	114.6	116.8	120.4	118.6
US	43.1	42.2	47.1	48.0	47.2
Russia	31.9	33.6	39.1	40.5	38.8
India	23.4	29.3	32.8	31.5	33.4
Ukraine	19.5	21.9	19.7	22.7	23.7
Brazil	44.4	28.1	28.7	30.3	23.6
Canada	17.4	17.7	18.3	17.5	19.1
Sweden	15.9	17.8	16.5	17.3	17.3
Mexico	6.6	6.0	8.2	8.6	8.6
Kazakhstan	8.2	6.2	4.6	5.6	5.3
Netherlands	4.3	4.3	4.3	4.3	4.3
Chile	3.4	3.4	3.5	3.6	3.6
Australia	4.0	3.9	3.1	3.5	3.1
Japan	2.9	2.9	2.9	2.9	2.9
Other	1.8	0.3	0.3	0.3	0.8
Peru	0.1	-	-	-	-
TOTAL	343.8	332.0	345.9	356.9	350.3

Source: AME Research.

HBI/DRI MARKET

Hot briquetted iron (HBI) and direct reduced iron (DRI) are essential components in producing high-quality steel grades, which in turn contributes to a greener steelmaking process.

Currently there is a trend towards building new electrometallurgical plants, which offer greater steelmaking efficiency and require purer raw materials, including HBI/DRI and ferrous scrap.

The global HBI/DRI industry is highly concentrated. In 2019 global HBI/DRI output grew by 5.8 million tonnes y-o-y. The main reason behind this weak growth was the limited availability of raw materials.

The Company's long-term strategy is to advance the production of iron ore and metallised high value-added products, mainly HBI/DRI and pellets.

Metalloinvest has high-quality iron-ore raw materials, as well as access to a gas pipeline system that facilitates uninterrupted supplies of natural gas for the direct reduction process. This means that it can produce high-quality HBI/DRI with minimal impacts on the environment. The Company possesses not only the necessary resources, but also the full range of skills and knowledge required for HBI/DRI production.

In 2019 the Company increased its HBI/DRI output by 40,000 tonnes. Shipments to customers outside Russia grew by 121,000 tonnes, a rise of 2.8%.

Metalloinvest maintains a stable position on the HBI market. Based on expert data, Metalloinvest maintained its share in the global merchant HBI market in 2019.

HBI/DRI production by region

million tonnes

COUNTRY	2018	2019
India	30.4	36.9
Iran	25.7	27.7
Russia	8	8
Mexico	6	6
Saudi Arabia	5	4.6
Egypt	5.8	4.4
UAE	3.8	3.7
Qatar	2.5	2.4
Canada	1.7	1.4
Argentina	1.6	1
Libya	0.6	0.9
South Africa	0.8	0.7
Venezuela	0.4	0.4
TOTAL	92.3	98.1

Source: WSA and Metalloinvest.



MARKET OVERVIEW

STEEL MARKET

According to the WSA, the global output of crude steel grew by 3.3%, to 1,870 million tonnes, in 2019 chiefly owing to China, the US, and Iran. The same year, Chinese steel exports fell 7.3%, to 64.3 million tonnes.

Metalloinvest is the leading regional producer of niche rolled steel products. In 2019 the Company fully maintained its share in Russia's total steel output. The Company holds leading positions in the production of bearing steel, SBQ steel for the automotive and hardware industries, and heavy plate steel for bridge building. Metalloinvest is consolidating its position as a supplier of steel for the production of wheels for railway cars. However, the crisis in European engineering and automotive industries dampened demand for high-quality steel, and this was particularly evident in Q4 2019. Consequently, SBQ production fell to 939,000 tonnes in 2019.

The COVID-19 virus, which was declared by the WHO on 11 March 2020 to be a worldwide pandemic, makes it difficult to predict future sales patterns for Metalloinvest products on the steel market.

Steel production in 2015–2019

million tonnes

REGION	2015	2016	2017	2018	2019
North America	110.9	110.6	115.8	120.5	120.0
Central and South America	43.9	40.2	43.7	44.3	41.2
Europe	202.1	199.8	210.7	210.0	198.4
CIS	101.6	102.1	100.9	101.3	100.4
Middle East	29.4	31.5	34.5	38.0	45.3
Africa	13.7	13.1	15.1	16.1	17.0
China	803.8	807.6	870.9	928.3	996.3
Rest of Asia	309.0	316.3	332.3	342.7	345.2
Oceania	5.7	5.8	6.0	6.3	6.2
TOTAL	1,620.1	1,627.0	1,729.9	1,807.5	1,870.0

Source: WSA.

The Company has maintained business relationships and partnerships with all its customers, while at the same time seeking new opportunities collaboratively with its clients and looking internally at its own operations. However, the results of this work can only be assessed after the end of the pandemic, when the situation on global markets will be clearer.

SBQ

In a fiercely competitive market, the Company is concentrating its efforts on enhancing the quality of its steel products, including SBQ and quality wire rod (QWR) at OEMK and heavy plate steel at Ural Steel.

SBQ is a rolled steel product with enhanced physical characteristics, and is used in load-bearing components in the automotive, mechanical engineering, shipbuilding, and aviation industries, as well as in other sectors. Recently there has also been a rise in global demand for highly processed metal products in high-tech industries. Many types of equipment used in aviation or instrumentation engineering, or in the construction of structures that can withstand the extreme environments of the Far North or outer space, require steel with very low levels of gas, non-metallic inclusions, and other impurities.

SBQ makes up around a quarter of all Metalloinvest's steel production. The quality of SBQ steel produced by OEMK relies on the plant's own steel, which has a tightly controlled chemical composition, low levels of gaseous and other harmful impurities, greater strength and plasticity, and improved cutting performance.

The volume of the SBQ market in Russia and the CIS is around 2 million tonnes. Metalloinvest supplies most of its SBQ steel to automotive and bearing factories in Russia, the CIS, and Europe. Its customers include KAMAZ, AVTOVAZ, and leading European carmakers such as Volkswagen, Ford, Groupe PSA, and Daimler. OEMK has been approved by the leading European bearing producers Schaeffler, SKF, and Timken.

OEMK's SBQ steel is used in the production of high-load automotive components and assemblies: crankshafts, transmissions, gears, steering and shock absorber struts, and springs.

OEMK is the only Russian company to have received the Supplier of the Year Award by Schaeffler Group.

In the coming years the industry will be shaped by the following trends: weakening demand from the biggest buyer China, a shift to environmentally friendly production, and a higher share of electric arc furnaces in total steel output, with growing demand for scrap and metallised raw materials. These factors create new opportunities for Metalloinvest vis-à-vis increasing the production of HBI and high-quality iron ore. Another trend seen will be a global rise in trade barriers and protectionism.

SBQ shipped from OEMK, 2015–2019

thousand tonnes

