Metal Expert

CIS Raw Materials Forecast

Semi-finished steel, ferrous scrap, pig iron, iron ore, met coke

QUARTERLY REPORT

AUGUST, 2020

metalexpert.com

SUMMARY

The quarantine restrictions forced steelmakers to revise their plans and reschedule repairs. The results of Q2 were as low as expected, but Metal Expert believes consumption and activity in the markets outside China will start recovering as soon as in H2. Nevertheless, steel production in Russia and Ukraine will be reduced in 2020 to rebound only in 2021 thanks to rallying domestic consumer demand and the revival of global economies.

The issue of imposing export quotas is again being considered in the Russian scrap market. Steelmakers think this measure will improve their self-sufficiency in the material, but scrap collectors warn that the initiative will cause a further decrease in the country's scrap collection amid the reduced consumption this year. Ukrainian scrap collectors keep leaving the market due to low margins amid the continuing downtrend in the domestic market and exports being unprofitable because of the effective export duty. The market unshadowing law aimed at increasing scrap collection is yet to come into effect.

The global slowdown of demand from the main consumers is a major challenge for CIS pig iron exporters, though untypically strong buying interest in China supports suppliers. Tulachermet continues to lose ground in the merchant pig iron market amid growing consumption at a partner facility. The Ukrainian pig iron market will manage to stay afloat in 2020 thanks to higher exports.

China is keeping iron ore consumption high, which is holding prices at increased levels. A steady recovery of supplies from Brazil is expected to be the key factor to urge the price trend reversal. In 2021, iron ore prices will go down as supply grows. An inevitable decrease in iron ore consumption in Russia this year will force suppliers to redirect the growing spare volumes for export. The situation is similar in the Ukrainian iron ore market. China remains the promising outlet for both countries on the back of falling global economies.

While domestic coke consumption is decreasing in Russia in 2020, suppliers will find it hard to redirect the spare tonnages for export, so coke production will be reduced in the country. While coking coal supply is no longer an issue for Ukrainian coke plants, a shortage of sulphuric acid may become a new challenge. Despite an expected decrease in coke consumption, consumers will have to continue importing the material in 2020. In 2021, coke production in Russia and Ukraine will grow amid forecast improvement of market environment and higher domestic consumption.

CONTENT

Detailed statistical information is provided in statistical excel-supplement

STEEL MARKET TRENDS IN RUSSIA AND UKRAINE

In Q2, production dropped as expected amid the pandemic-related economic slowdown: in Russia – down 6% q-o-q (6% y-o-y), in Ukraine – 12% q-o-q (19% y-o-y). The quarantine restrictions forced steelmakers to revise production targets and investment plans and reschedule repairs. Along with a recovery of consumption and global market activity, production results are expected to improve in H2 but overall 2020 figures will be lower than last year. In 2021, steel production is expected to recover thanks to rallying consumer demand and a revival of global economies.

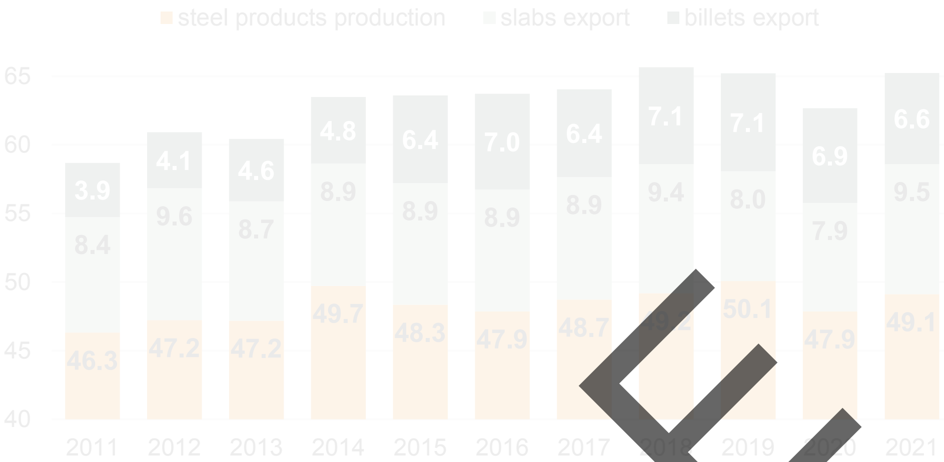
In Russia, only Tulachermet will manage boost steel production in 2020 (by 1.1 million t according to estimates) due to reaching projected capacity. Meanwhile, overall EAF and OHF-based steel output will decrease by 10% and 5% respectively. The biggest cut is expected at MMK (down 1.6 million t) due to extensive repairs at BF and rolling shops.

Ukraine's overall steel production will also fall in 2020. Only ArcelorMittal Kryvyi Rih is expected to increase production (up 0.3 million t, thanks to higher square billet output) and DMKD (due to low basis for comparison last year).

Steel production in Russia and Ukraine, million t

Steel product output to fall by 4% in 2020, square billet and slabs – by 3% and 1% respectively

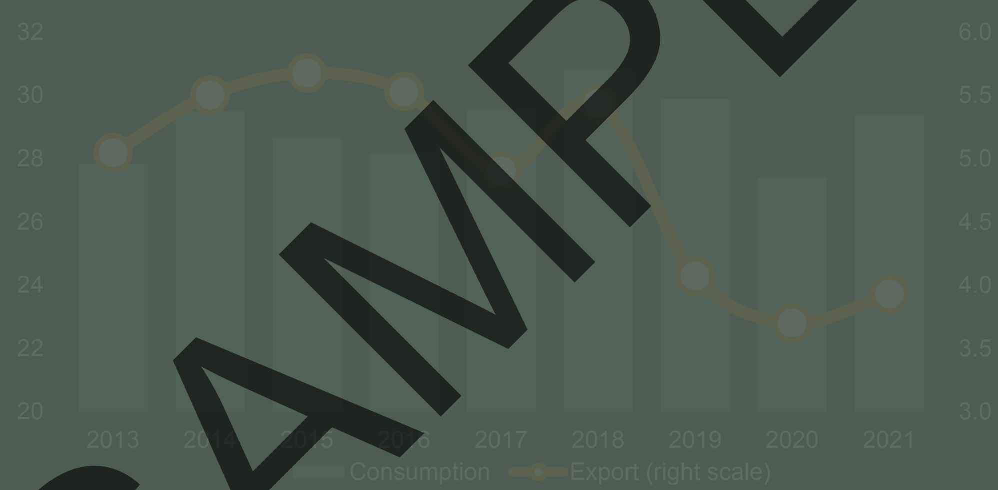
Forecast of steel products output and semis exports, million t



RUSSIAN SCRAP MARKET

After the April collapse in scrap collection caused by tough quarantine restrictions, scrap collectors are only slightly restoring their activity and returning to their usual shipment rates. Amid growing supply shortage steelmakers have started the price race. The initiative of Foundation for development of tube industry (FRTP) to reinstate export quotas for 6 months may support steelmakers. Meanwhile, scrap collectors believe this measure will make the business lossmaking and cause a further decline in scrap collection amid reduced consumption this year. While issue is still under consideration of Russia' Ministry of Economic Development, the quotas are very likely to be imposed in the next few months.

Consumption and exports of steel scrap in Russia, million t



Russian aggregate steel production decreased in H1 due to lower EAF steel output (down 13% y-o-y to 11.18 million t), which pushed scrap consumption down by 11% to 13.8 million t. The biggest cuts in the EAF steel segment were seen at MMK (down 0.82 million t y-o-y) due to repairs, Novorossiysky Rolling Plant (former REMZ; down 0.27 million t) because of the owner change and downtime since February, long product mills of NLMK (down 0.22 million t in total) as well as Amurstal (down 0.17 million t) due to February outage and the lack of raw materials, so scrap supplies to these facilities decreased. April saw no traditional growth of scrap collection as amid the quarantine measures (limited road traffic, almost full stoppage of scrap take-over from individuals etc.) scrap collectors supplied only 1.39 million t to the Russian market, which is the lowest level over the past 16 months (except January 2020).

UKRAINIAN SCRAP MARKET

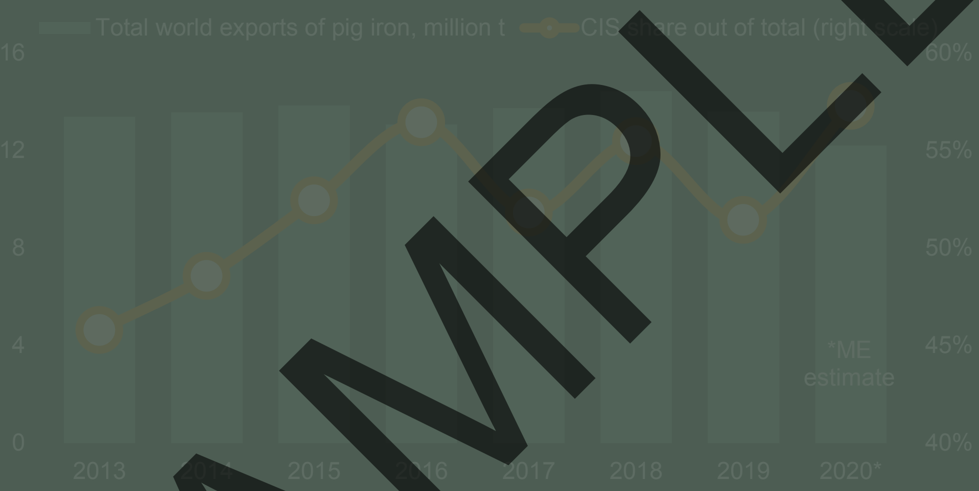
Ukrainian scrap collectors continue leaving the market due to low margins because of the long-lasting downward trend in the domestic market and unprofitable exports in view of effective export duty. In H1, scrap self-sufficieny of steel mills was quite high amid reduced consumption, but in H2 competition for scrap is expected to strengthen. Scrap collection in the country will keep going down inevitably. The law about the market unshadowing aimed at improving scrap collection and eliminating conflicts of law has yet to come into effect and will not allow to restore scrap collection quickly.

Scrap market balance in Ukraine, million t (from Q2 2017 excluding mills located on the territory beyond Ukrainian control)

Excluding mills beyond the state control, overall steel scrap consumption in Ukraine dropped by 5% y-o-y to 2.81 million t in H1 owing to the Q2 collapse in production caused by quarantine restrictions and repairs. For this reason scrap shortage was no longer an issue for Ukrainian producers in Q2. However, according to Ukrmetallurgprom, mills' scrap self-sufficiency decreased to 94% in June (113% in April), while stocks declined to 100,000 t by the end of the month (190,000 t in April). Exports stayed minimal in January-June at 17,000 t (48,000 t in the same period last year), while imports amounted to 10,000 t (37,000 t). Scrap collection dropped by 23% to 1.32 million t amid low prices and unprofitable exports.

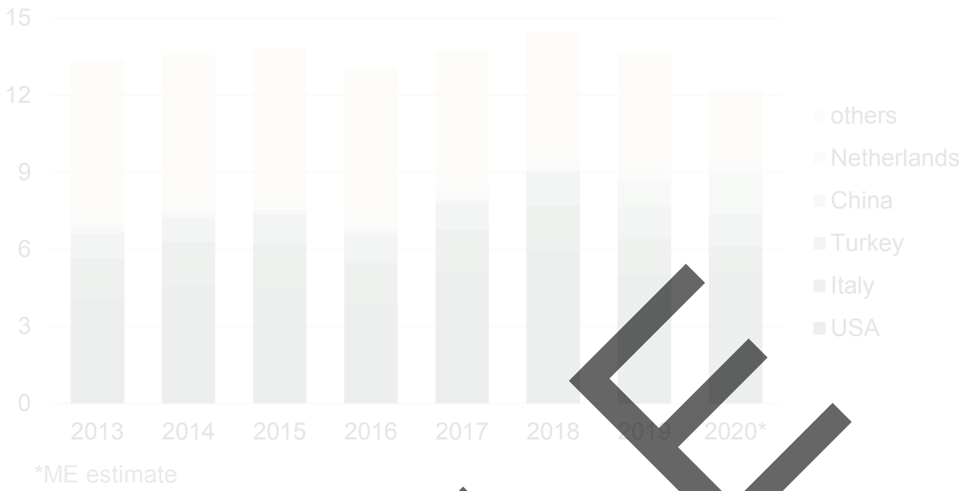
PIG IRON MARKET

Untypically strong buying interest in China amid slack demand in traditional sales markets supported pig iron suppliers in Russia and Ukraine, encouraging them to raise prices. In H1, overall exports from the two countries to China increased to 0.6 million t (71,000 t a year before). Tulachermet continues to lose positions in the merchant pig iron market on the back of growing consumption at the partner facility and is lagging behind Ural Steel and NLMK in sales volumes. The Ukrainian pig iron market will stay afloat in 2020 thanks to higher exports.



Global market capacity to drop by more than 1 million t in 2020 despite strong demand in China

Pig iron imports, million t



RUSSIAN IRON ORE MARKET

An inevitable drop in domestic consumption of iron ore will force suppliers to redirect more and more spare tonnages to export markets this year. Meanwhile, China remains the most promising outlet amid the slowdown of other global economies. In H1, Russian iron ore exports to the country increased 2.5-fold y-o-y to almost 6.7 million t (of which 1.86 million t was concentrate from Kimkano-Sutarsky and Bystrinsky GOKs; 1.82 million t – concentrate from Kovdorsky GOK; 2.3 million t – pellets from MGOK). The fact that the launch of the railway bridge over the Amur River was postponed to Q3 2021 will restrain exports to China as the existing border points are overloaded.

Russian iron ore market balance, million t

Sinter and pellets

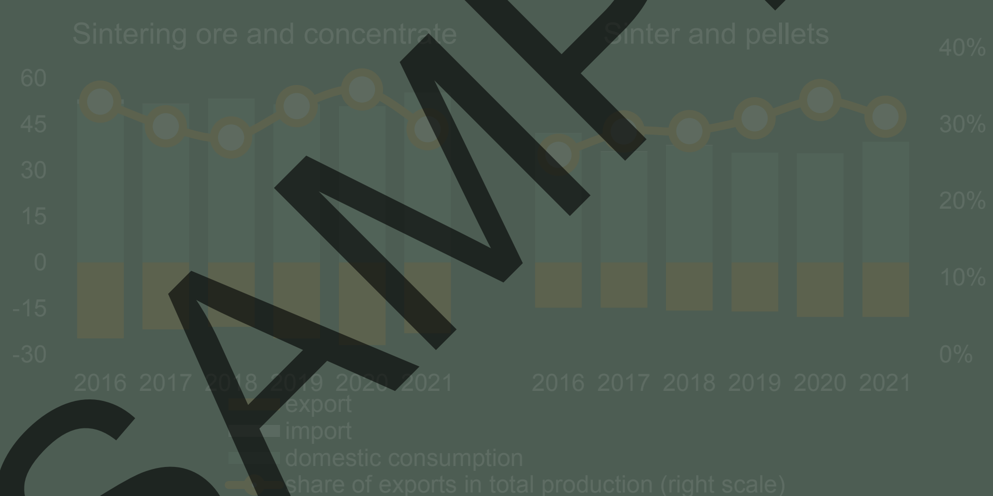
Owing to a decline in pig iron production expected this year, domestic consumption of sinter and pellets by Russian mills will shrink by 2% to about 96.5 million t. The decrease will be registered in the segment of pellets (down 3% to 38.4 million t) and sinter (down 0.5% to 58.1 million t). Meanwhile, the capacity of the domestic free market for pellets will also keep falling (down 13% to 9.3 million t). Despite a possible rise in exports (to 13.8 million t), Metal Expert expects overall pellets production to decrease to 51.5 million t in 2020. In 2021, output of sinter and pellets will keep rising mainly on a recovery in domestic consumption as well as increased pellet capacity at Mikhailovsky GOK (up 0.3 million t) and Stoylensky GOK (up 1.3 million t) as well as at Karelsky Okatysh (up 0.5 million t).

UKRAINIAN IRON ORE MARKET

Amid lowered domestic consumption of sinter and pellets in Ukraine (DMZ was launched only in late May) and slackening demand from European consumers of Ukrainian iron ore, China remains the only outlet for unclaimed tonnages. In Q2, Ukraine exported 8.95 million t of pellets, which is a new record high. In the forecast period, Ukrainian railway and port infrastructure will remain the weakest links in the supply chain, which could restrain exports to any destination.

The rise in the rent for iron ore production is still being discussed. In May, the President signed the law stipulating the rent increase from 8% to 11-12% depending on IODEX (Fe 58%, CFR China) which is strongly opposed by Ukrainian steelmakers.

Ukrainian iron ore market balance, million t (from Q2 2017 excluding mills on the territory beyond the state control)



Sinter and pellets

In H1, consumption of sinter and pellets dropped to 17.58 million t as pig iron production decreased by 3% y-o-y to 9.98 million t (hereinafter excluding mills on the uncontrolled territory) caused. Yuzhny GOK still produces no sinter; DMZ, relaunched only in late May, agreed to source sinter from Pokrovsky GOK (25,000-30,000 tpm till January 2021), which started producing the material from Sukhaya Balka's ore. These volumes will not be enough to meet DMZ's rising requirement, so the steelmaker may resume negotiations with Yuzhny GOK in the next few months. Thanks to strong demand in China, overall pellets exports from Ukraine increased by 11% y-o-y to 8.79 million t (of which 67% goes to China) despite reduced shipments from Northern GOK (down 35% y-o-y) due to repairs. In H1, aggregate production of sinter and pellets in Ukraine dropped by 4% y-o-y to 25.56 million t (pellets – down 9%, sinter – down 1%).

RUSSIAN COKE MARKET

With domestic coke consumption going down in Russia in 2020, local suppliers will find it difficult to redirect the unclaimed tonnages to export markets due to low demand and thin trade in the global market. As a result, coke production will drop in Russia this year. In 2021, pig iron production is forecast to rise, with domestic coke consumption increasing to about the 2019 level.

Russian free coke market, million t

Despite the fall in coke consumption in Russia seen in Q2, the overall intake stayed unchanged year-on-year at 11.56 million t in H1 2020 thanks to high numbers of January-March. Aggregate production shrank by 1% y-o-y to 13.2 million t as shipments to the free market dropped to 2.06 million t (down 11%) of which 0.68 million t was supplied to the home market. Overall exports fell to 1.38 million t (down 16%) as shipments to Ukraine collapsed by 81% y-o-y to 95,000 t (499,000 t over the same period last year). The increase in exports to other major markets – Turkey (up 169,000 t) and Kazakhstan (up 125,000 t) could not offset the reduction in aggregate Russian exports.

UKRAINIAN COKE MARKET

Due to lower coke production in H1, coking coal supply is no longer an issue for Ukrainian plants. A potentially new challenge for Ukrainian coke producers may be difficulties with supply of sulphuric acid due to import quotas imposed in the country.

After hitting the critical low for Ukrainian steelmakers, the situation is supposed to recover in H2. With coke production expected at 9.3 million t in 2020 (down 2% over the year), the material consumption will decrease by 5% to about 9.8 million t, so consumers will have to import 0.5 million t. In 2021, as the market situation improves, coke production in Ukraine may recover by 5%, which along with higher requirement will push up the need for imports to 0.7-0.8 million t. Meanwhile, everything may change for worse in case the pandemic accelerates.

Coke market balance, million t
(from Q2 2017 excluding the plants located in the territory beyond control of Ukraine)

In H1, overall coke consumption in Ukraine (including steel mills, ferroalloy producers, cement plants etc.) dropped by 14% y-o-y to 4.69 million t (hereinafter excluding mills on the uncontrolled territories) largely due to suspension of pig iron production at DMK as well as the decrease in output at ArcelorMittal Kryvyi Rih (down 2%) and Ilyich Steel (down 2%). Besides, coke usage per tonne of pig iron was reduced at Azovstal.

CIS RAW MATERIALS FORECAST

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