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Russia-Ukraine war and its impact on steel trade flows in MENA and Asia

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Anastasiia Kononenko, head of Market Intelligence, the CIS and Asia

CONTENT

- Importance of Ukraine and Russia in the global steel market
- Direct impact of the war on Ukraine, western sanctions on Russia
- Changes in trade flows in Turkey and Europe
- Impact on Asia
- How changed exports by product?
- Impact on prices
- Conclusion



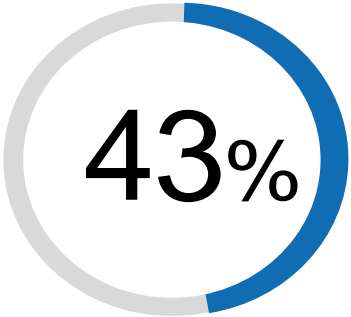
Russia and Ukraine were among top-5 world net steel exporters in 2021



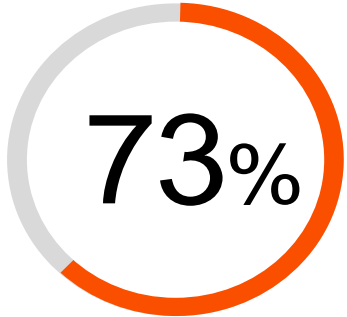
32.6 MILLION MT



15.7 MILLION MT



Share of Russian steel exports in production in 2021



Share of Ukrainian steel exports in production in 2021

Source: worldsteel

40% of Ukrainian capacities seized, logistic is the major problem



MARIUPOL - METINVEST
8.6 million mt of crude steel production in 2021
Fully stopped, partially destroyed

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4.5 million mt of pig iron
40-50 percent of utilization rate

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4.9 million mt of crude steel
1 out of 4 BF's in operation,
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KAMYANSKE - KAMETSTAL

2.44 million mt of crude steel
In Spring utilization rate was 80%, in July it fell to below 40%

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Production at Donbas plants occupied since 2014 is unstable




DONBAS PLANTS, OCCUPIED BY RUSSIA SINCE 2014

Capacity to produce up to 3 million mt of steel, large production base of coke. Production is very unstable since 2014. In 2020, BPI output was 640,000 mt, steel production – less than 600,000 mt.

Blockade of ports results in loss of 8.5 million mt of ex-Ukraine exports

UKRAINIAN PORTS

- Avov Sea ports (incl. Mariupol accounting for 20% of Ukraine's exports) seized.
- Black Sea ports (60% of ferrous metals exports) – Odesa, Pivdennyi, Mykolayiv and Chornomorsk – blocked due to high risks of mines and attacks of Russian troops.
- Black Sea ports can export only grain under the grain deal involved Turkey and the UN.
- Transportation by rail to Europe and further exports from European ports is much harder for Ukraine due to not enough capacities, and high expenses.



**FERROUS STEEL EXPORTS
FROM UKRAINE DROP BY 64%
OR 8.5 MILLION MT
IN 8 MONTHS OF 2022**

Effect of Western sanctions on Russia's steel sector is uneven

Personal sanctions

Severstal and MMK most affected
Metalloinvest, Evraz less affected
NLMK not sanctioned

Sanctions on company

Evraz by the UK
MMK + subsidiaries by the US
EU's ban on Russia's steel

Payment issues

10 Russian banks cut from SWIFT
Use of dollars, euros is limited
Some banks' assets froze

FORECAST for 2022

Exports	-23%
Consumption	-20%
Production	-15%

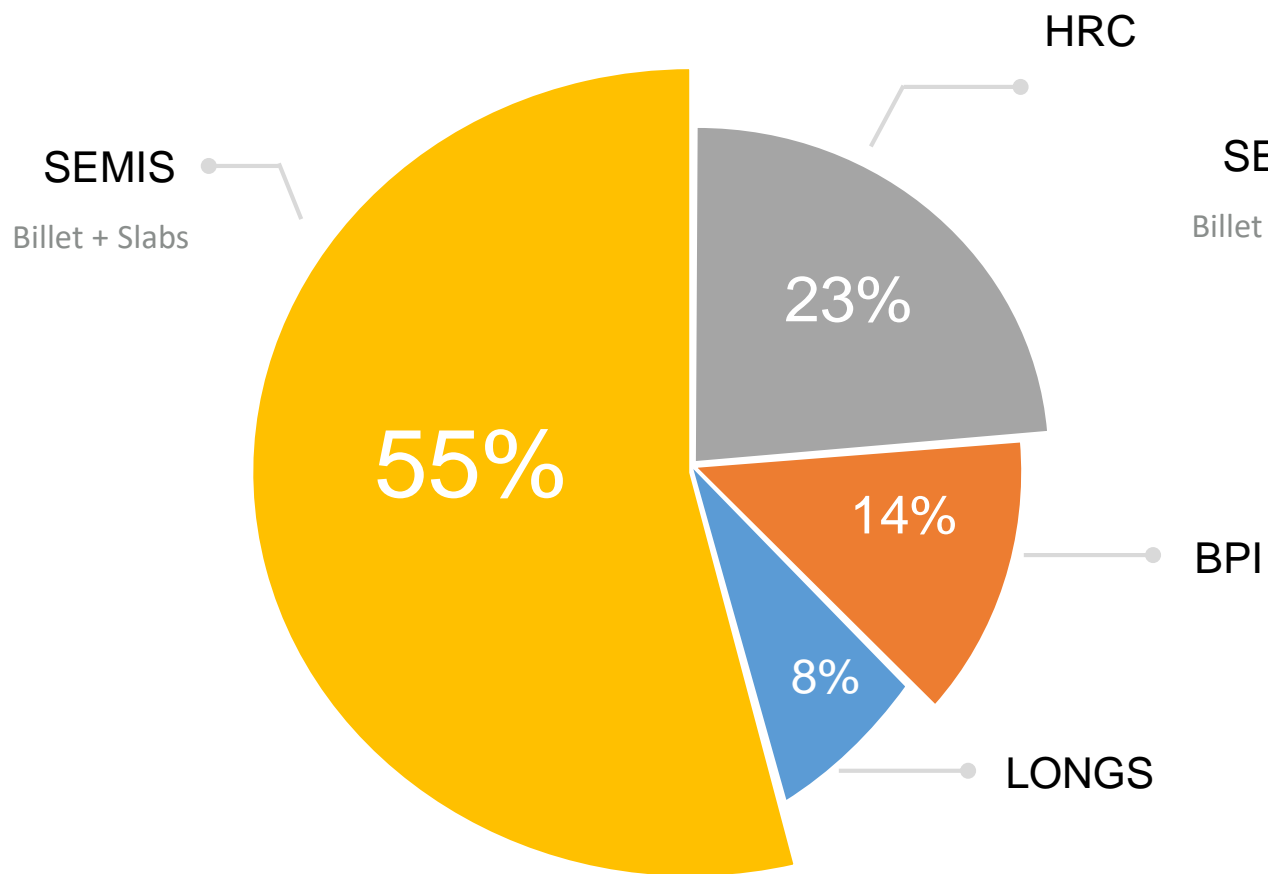
FACT H1 of 2022

Exports	-5%^e
Consumption	-10-15%^e
Production	-7.2%

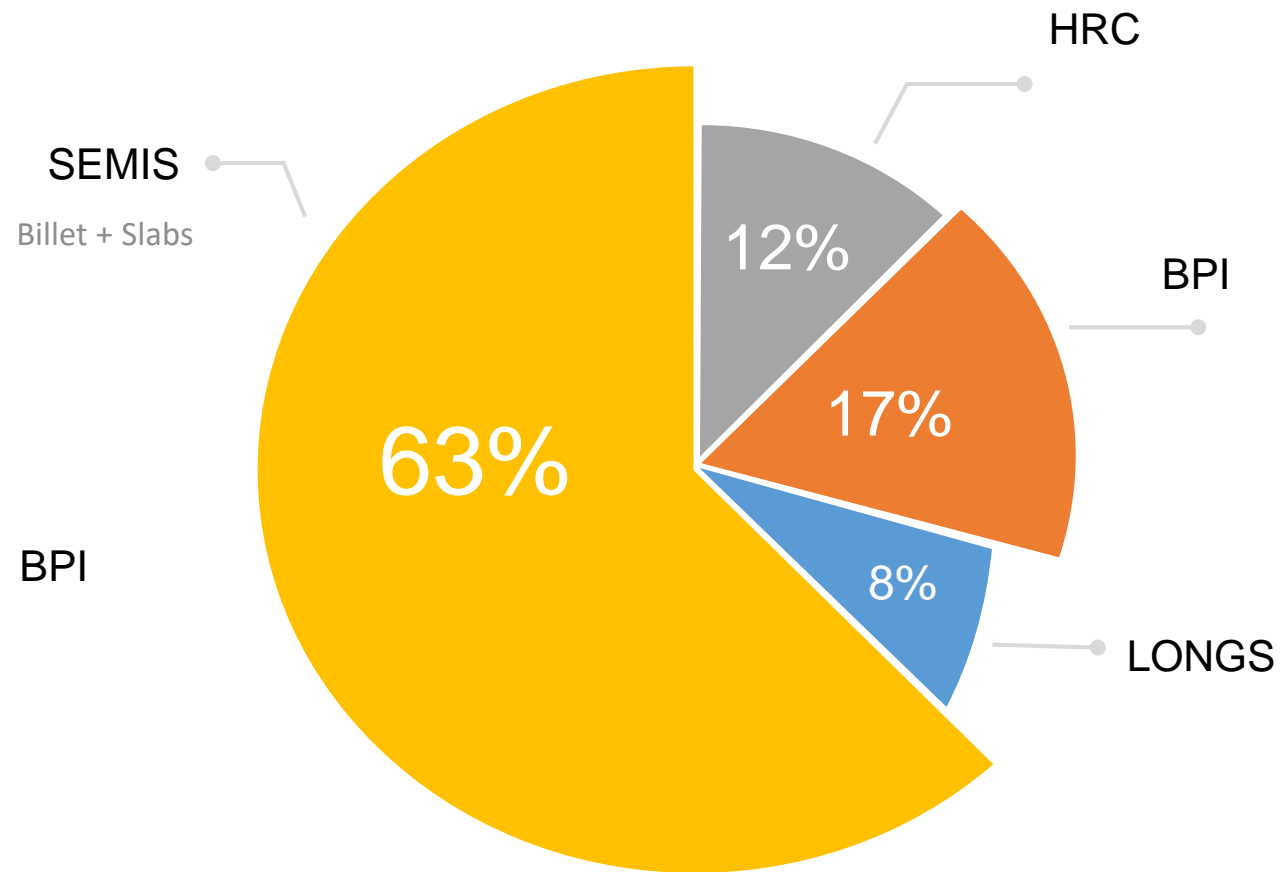
Source: worldsteel, NLMK, SteelOrbis

Russia's steel exports down only 5% in H1 2022, but change by products

Russia's exports of 5 major iron and steel products in H1 2021



Russia's exports of 5 major iron and steel products in H1 2022



Source: customs, ISSB, SteelOrbis

Semis exports hike amid slab sales, billets shipments down



BILLET exports down 12%

- Turkey cut imports from Russia by 300,000 mt due to weak market.
- Egypt faced currency shortage.
- Latin America was buying from other sources due to very high freight from Black Sea.
- Taiwan increased purchases slightly due to less payment issues.



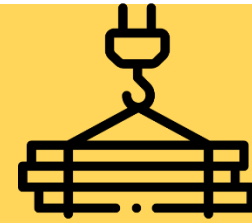
SLAB exports add 22%

- Turkey and China increased purchases the most – over 60-100% each.
- Europe didn't cut imports from Russia.
- Mexico remained among the major buyers.
- Only Taiwan cut purchases (not only from Russia).

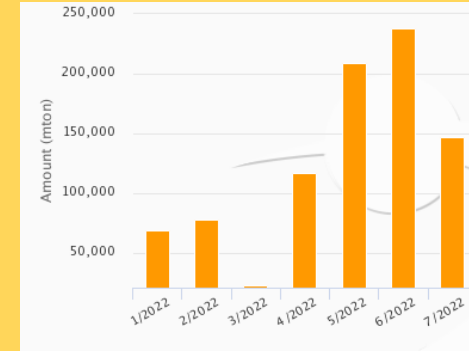
As a result, total semis exports from Russia added 8% in H1 2022

Turkey remains among major buyers of ex-Russia steel

- General weakness in demand: crude steel production fell 4.6% in H12022
- Loss of Ukrainian volumes led to only short-lived hike in ex-Russia shipments in Q2

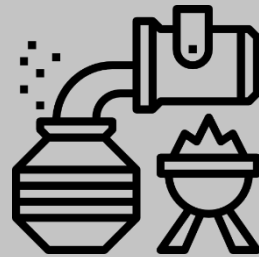


Billet imports in H12022 **↓ 33%**

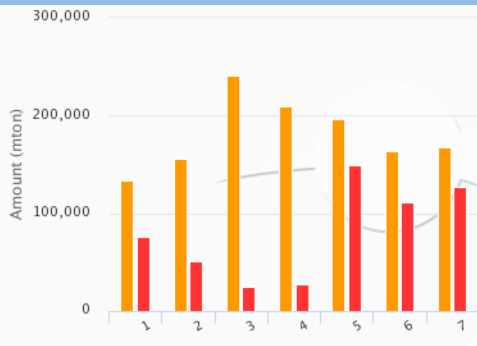


Slab imports in H12022 **↑ 28%**

Ex-Russia shipments **↑ 65%**



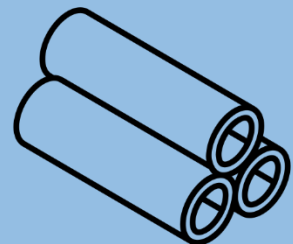
- Ukraine absent due to the war, ex-Russia purchases with the share of up to 100% in some months
- Much lower prices as the major factor for rise in ex-Russia slab imports



- Russia lost its leading position in HRC market due to sanctions
- India became top exporter to Turkey with 23% share, China grabbed 8% of the market, just slightly less than Ukraine (9%, down from 22%)

HRC imports in H12022 **↓ 9%**

Ex-Russia HRC sales **↓ 60%**



Energy crisis in Europe is one of results of the ongoing war

- **ArcelorMittal Hamburg DRI** temporary idled – 1.1 million mt
- **ArcelorMittal Bremen** – reduced utilization rates – 1.98 million
- **ArcelorMittal Duisburg** – Reduced working works – 6.8 million mt
- **Salzgitter** – 1 BF temporary idled 1.6 million mt
- **ArcelorMittal Eisenhuttenstandt** - Reduced working hours – 2.34 million mt

Germany

Italy

- **Arvedi** – Temporary stoppage at 1 EAF – 1.1 million mt
- **Acciaierie d'Italia** – 2 BF's temporary idled – 4.8 million mt

Spain

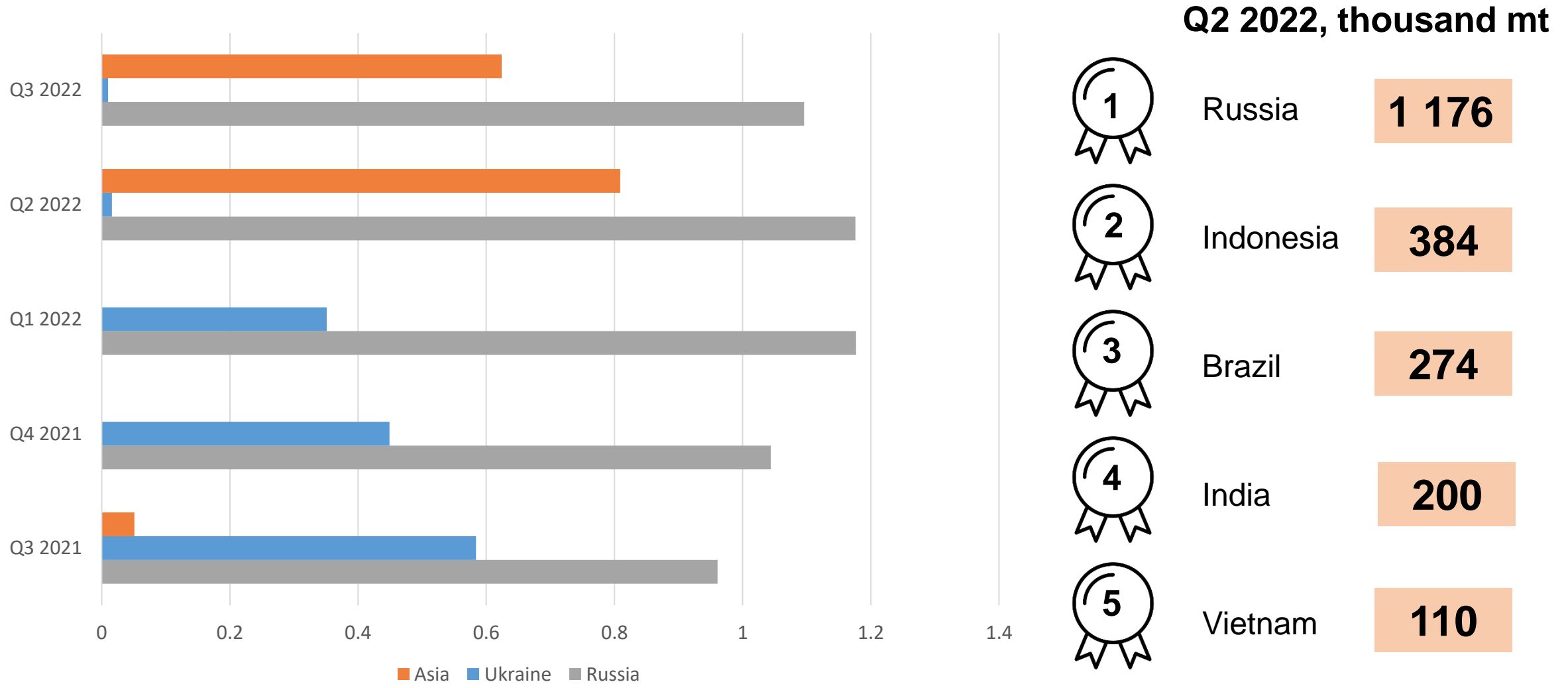
- **ArcelorMittal Gijon** – 1 BF temporary idled – 2.24 million mt
- **ArcelorMittal Sestao** – Temporary idled EAF hot end – 2 million mt

Others

- **ArcelorMittal Dunkirk** - 2 BF's idled – 4.5 million mt
- **ArcelorMittal (Warsaw)** – EAF stoppage – 750,000 mt
- **ArcelorMittal (Dabrowa Gornicza)** – 1 BF idled – 2.25 million mt
- **USS Kosice** – 1 BF idled – 1.42 million mt
- **Liberty (Ostrava)** – 1 BF idled – 1.06 million mt

Source: Eurometal, SteelOrbis

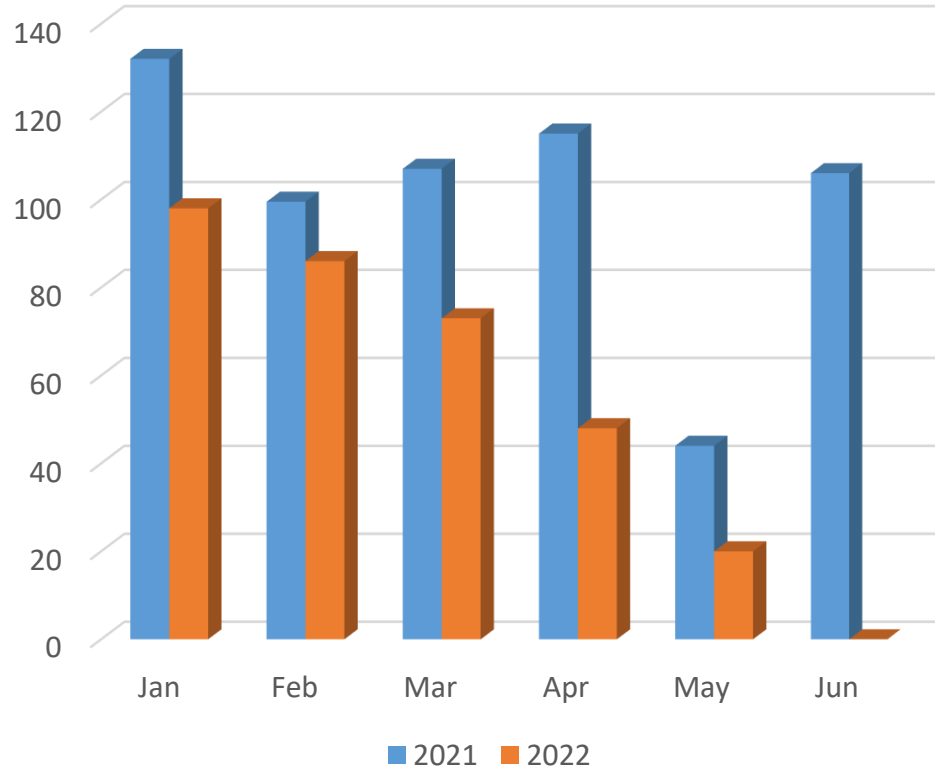
Europe substitutes ex-Ukraine slab volumes by Asian sourcing



Source: ISSB, SteelOrbis, Q3 2022 - estimated

Taiwan becomes bigger ex-Russia billet buyer than the Philippines

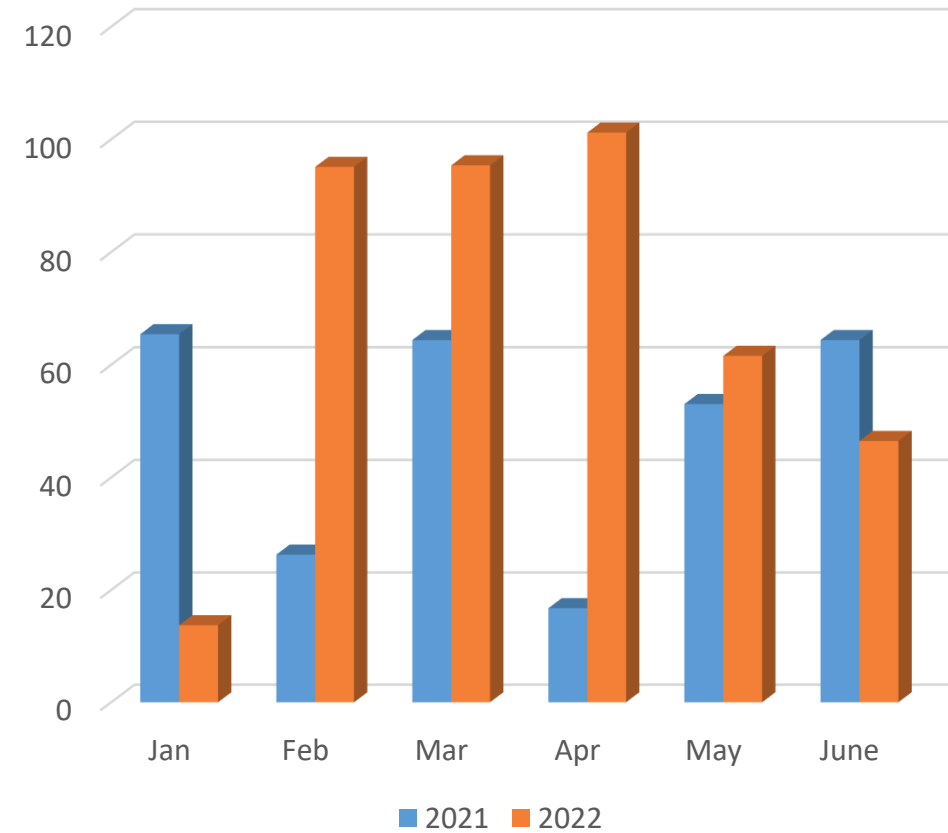
Ex-Russia billet imports in the Philippines



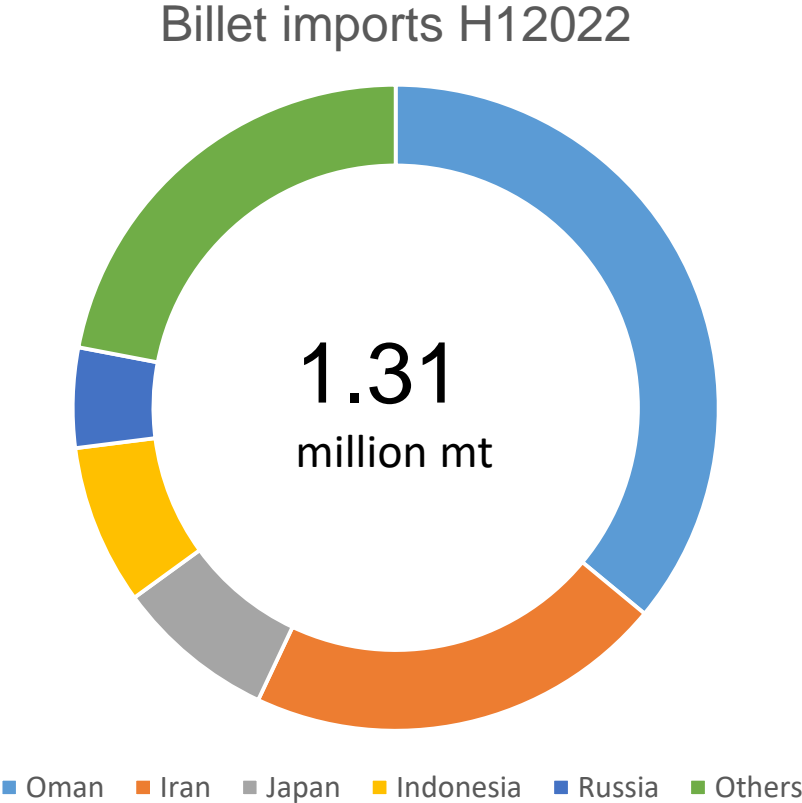
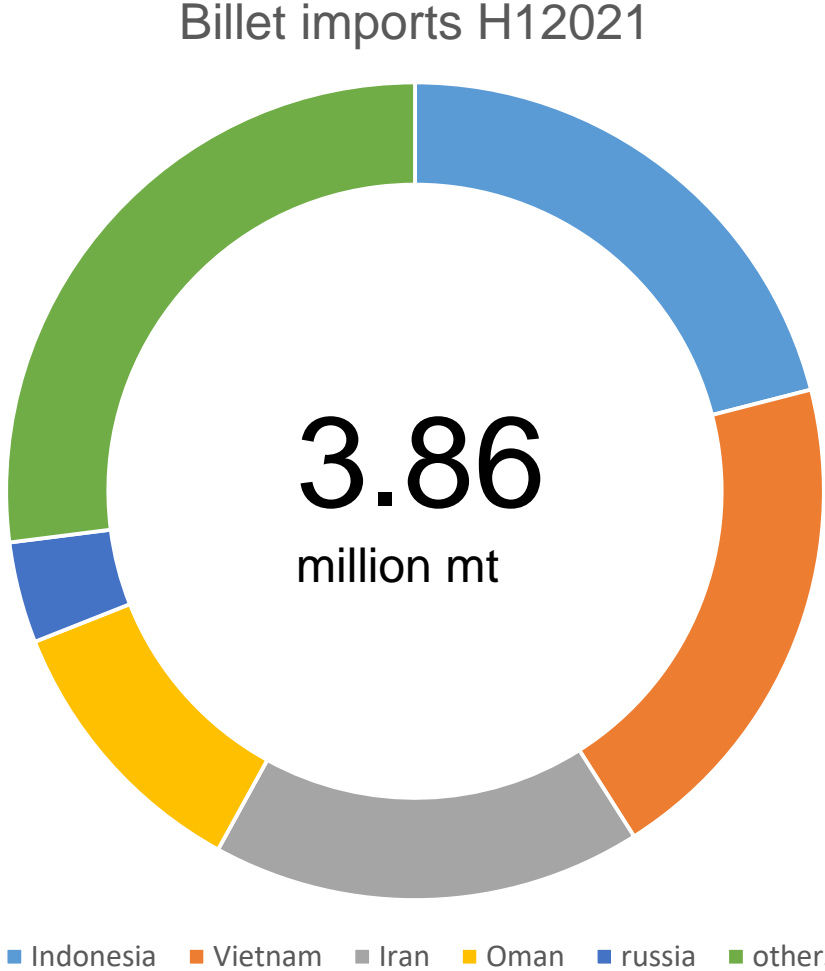
Source: Taiwan's bureau of trade, Philippine customs



Ex-Russia billet imports in Taiwan

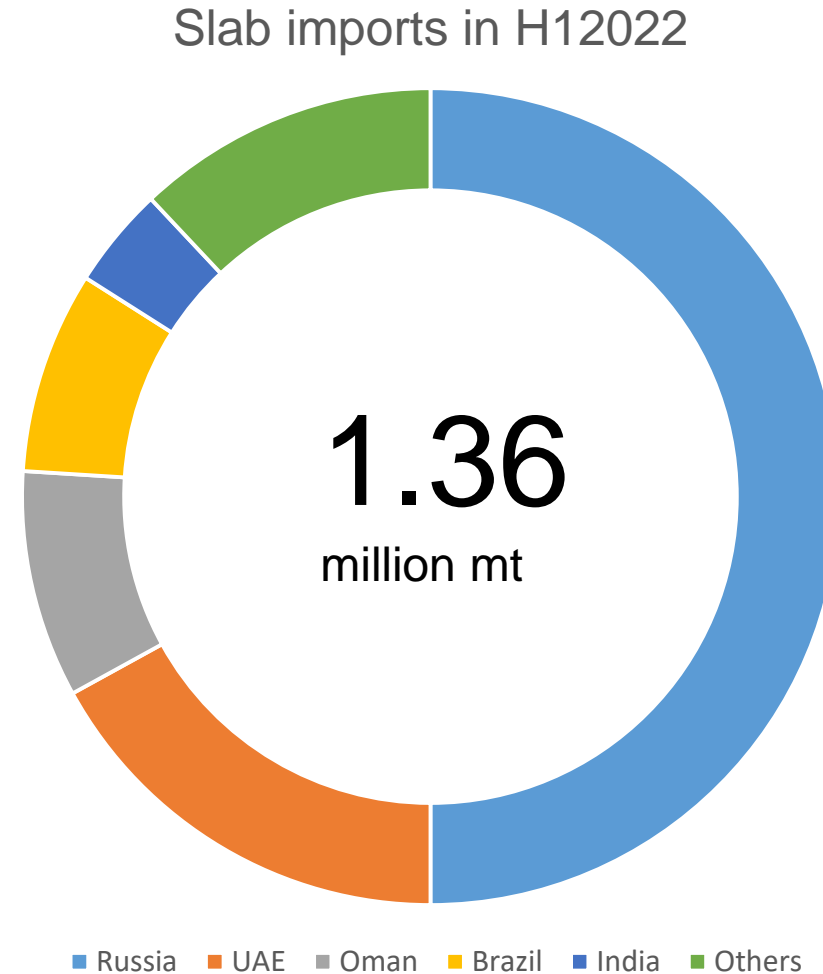
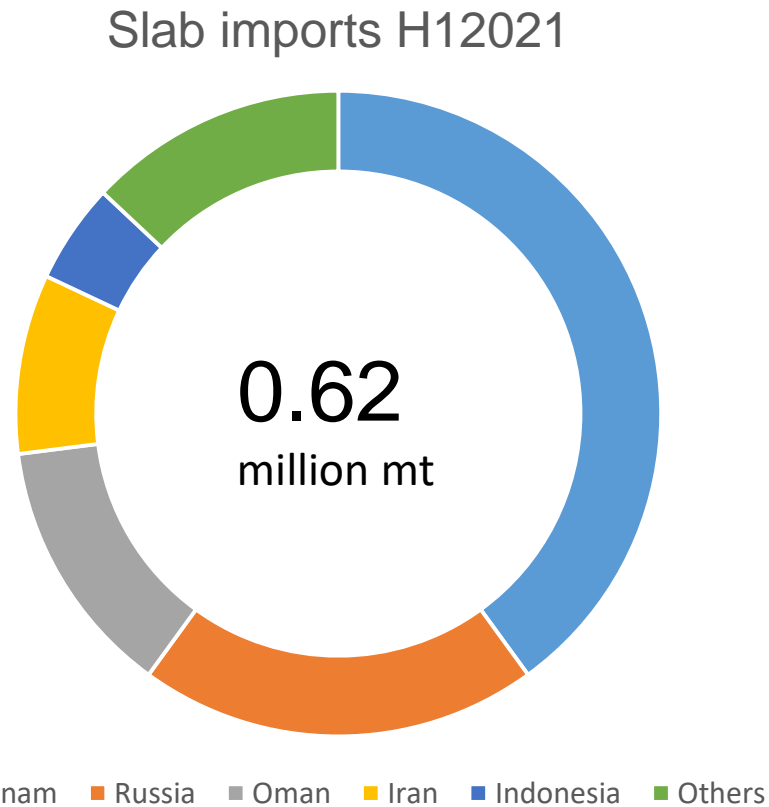


China significantly cuts total billet imports, Russian supply changes accordingly



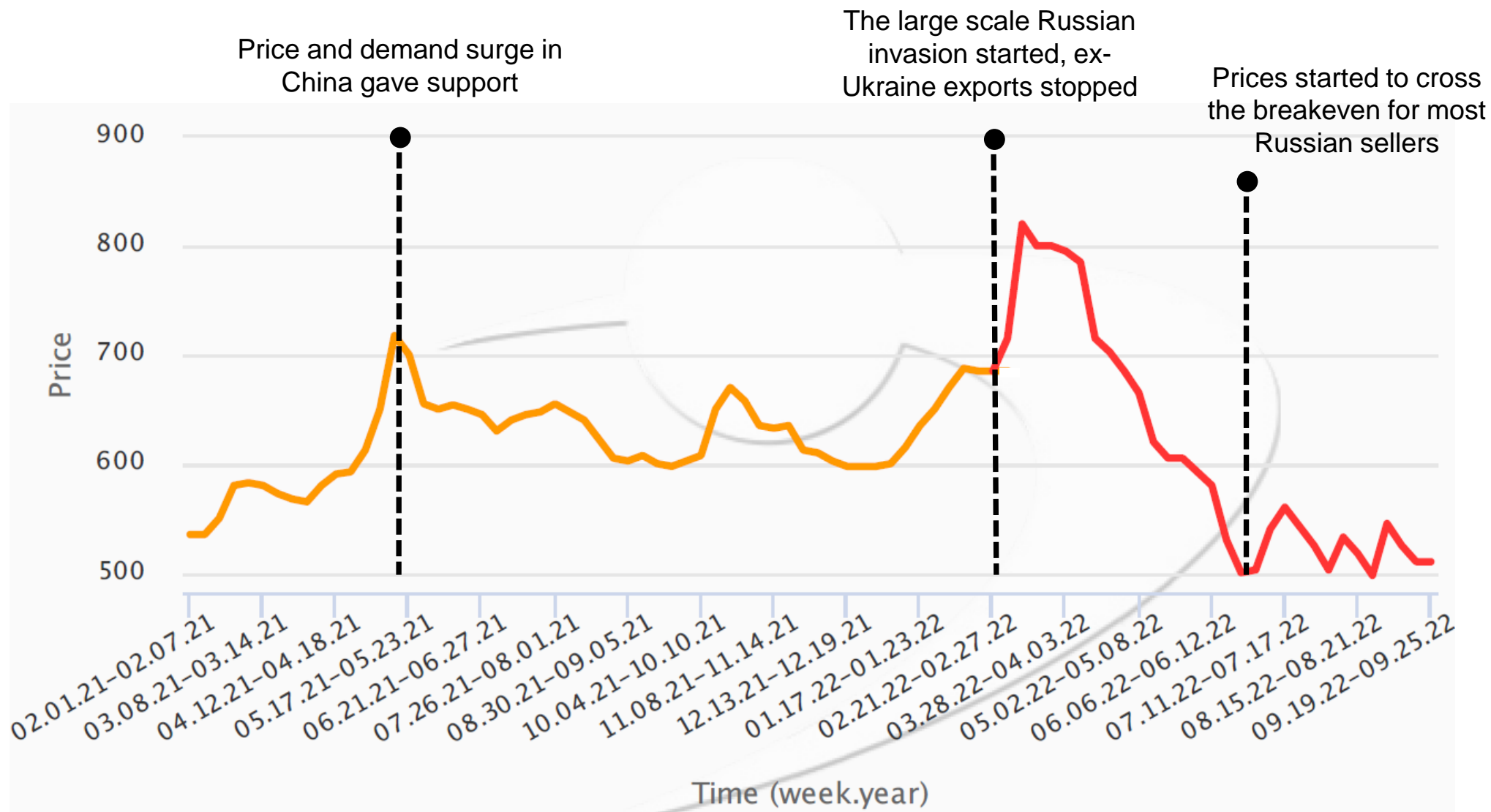
Source: customs, SteelOrbis

China's slabs purchases surge by 120%, Russia's share hits 50%

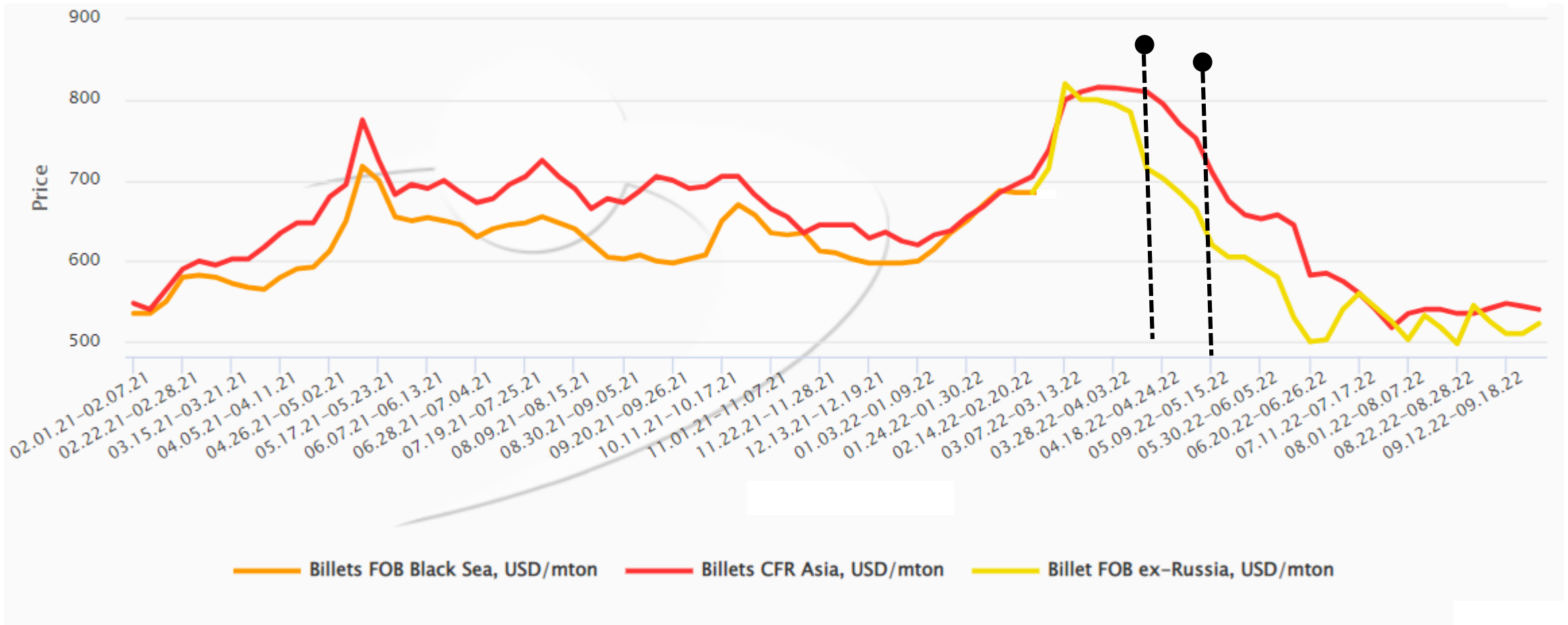


Source: customs, SteelOrbis

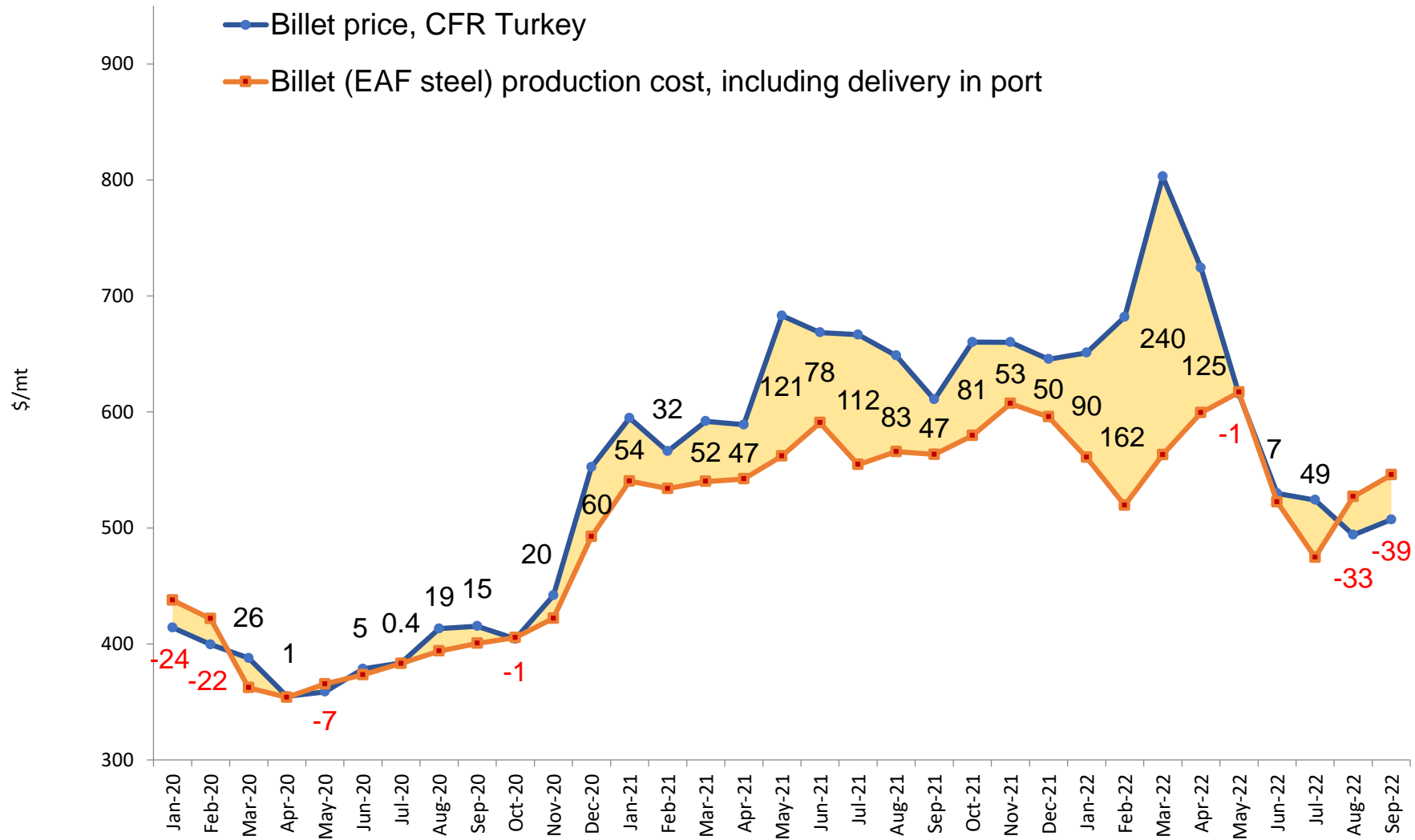
Billet prices surge just after the war started and were falling since then



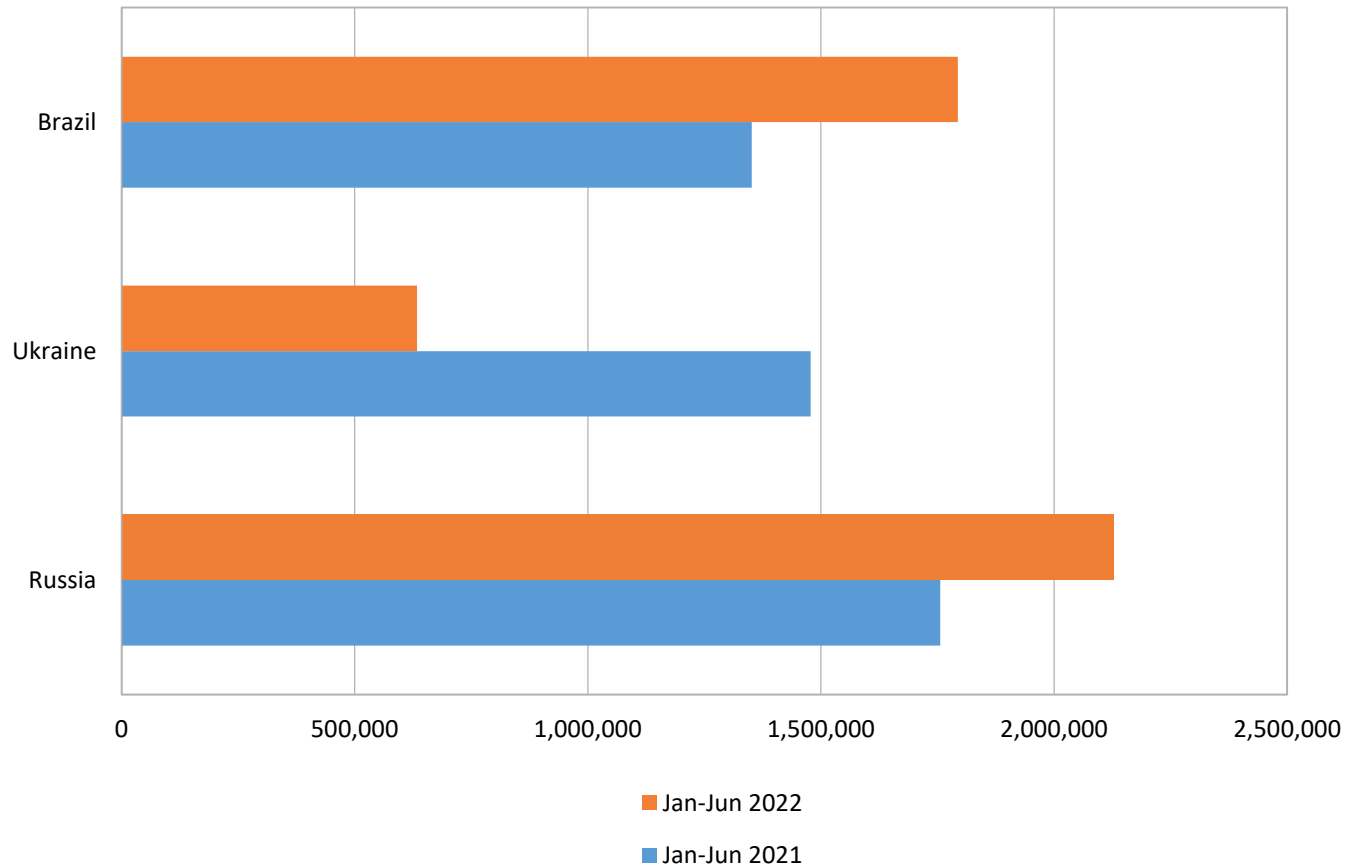
Ex-Black Sea billet sellers had short window for sales to Asia



Russian billet sellers have limited space for further price drops



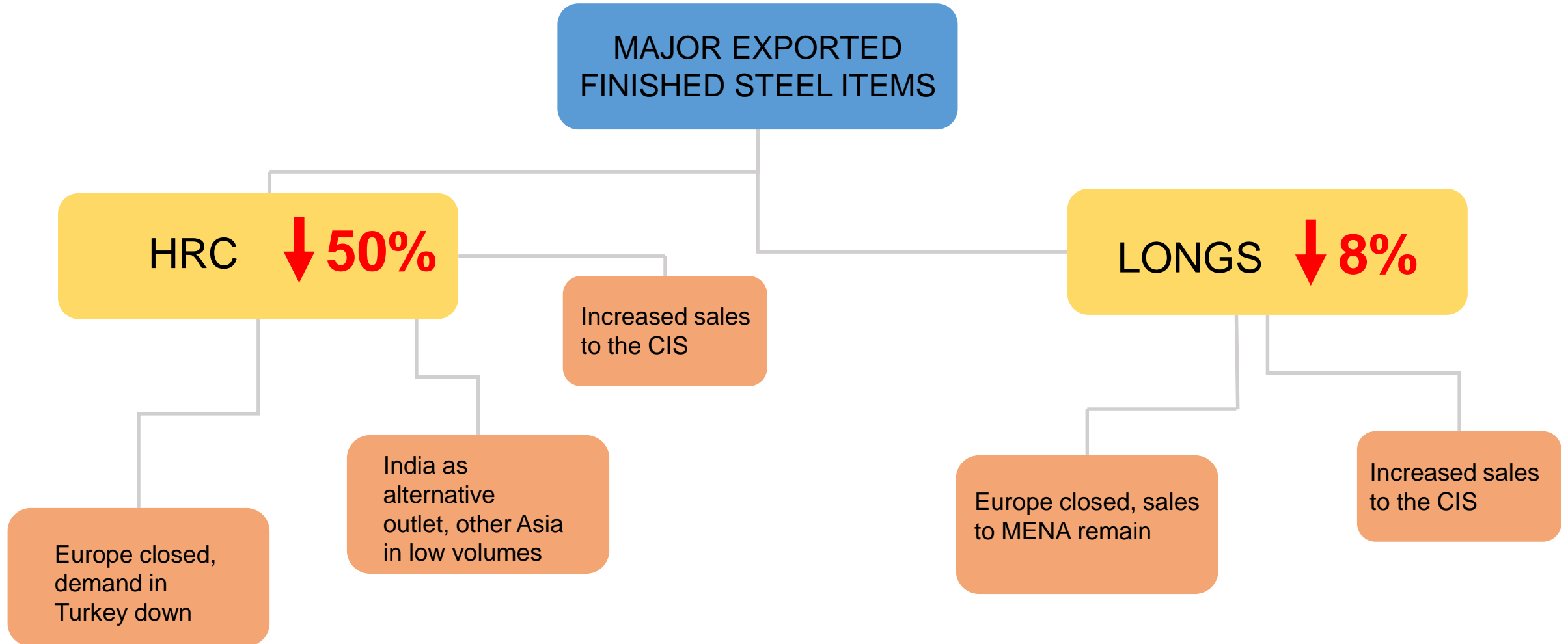
Pig Iron exports from Russia up strongly, but sales are at big discounts



- Pig iron shipments from Russia in H1 rose by 21.2 percent year on year mainly amid hike in sales to Turkey and China. But shipments to the US and Europe also maintained
- But sanctions-related risks, coupled with logistic challenges, resulted in much lower prices. In May, for instance, the average premium for ex-Brazil BPI compared to ex-Russia BPI reached \$326/mt
- Ex-Ukraine BPI exports dropped dramatically - by 57 percent. Shipments remained mainly to the US and Europe

Source: Russian customs, SteelOrbis

Ex-Russia finished steel exports fall the most



Source: Russian rail export-bound statistics, SteelOrbis

Conclusions

- Russian war caused a huge loss of up to 10 million mt of ex-Ukraine steel and pig iron exports in 8 months of 2022 + 40% of capacities of Ukraine
- Western sanctions on Russia led to just small decline in steel exports, mainly seen in the finished steel products
- The major problems in Russian export sales are connected with payment issues and secondary sanctions risks
- Europe turns to ex-Asia semis imports and the tendency may continue
- Prices were falling and ex-Russia materials were sold at discounts like earlier happened with Iran
- Economic impact on the Asian region was bigger than real sales impact: all markets see demand recession
- Russia's exports will highly depend on sanctions, volumes to stay, but prices will remain under pressure
- Russia to continue losing its export market share to alternative origins

Q&A

**Anastasiia Kononenko,
Head of the CIS and Asia
SteelOrbis**

akononenko@steelorbis.com

+90 530 834 68 90