

Market overview

Global picture

During 2016, we saw positive global price trends in steel and bulk commodities with several spikes primarily driven by developments in China.

Steel prices, based on HRC (hot-rolled coil) FOB China contracts, surged by 53% from the beginning of the year to peak at US\$430 per tonne in April, then falling back to the bottom of US\$349 per tonne in June before gradually recovering to US\$501 per tonne in December. The price recovery was driven by Chinese government investment stimulus, healthy domestic demand and rising raw materials prices. It was also supported by Chinese steel capacity cuts of 45 million tonnes per year, as well as global steel industry consolidation trends.

Chinese steel demand recovered slightly with 705 million tonnes consumed during 2016, up by 1% year-on-year thanks to improvements in the real estate and infrastructure sectors. Chinese steel export volumes remained high at 96 million tonne, however down by 4% y-o-y, putting pressure on European and North American domestic steel producers. This led Western governments to start trade investigations and introduce protective measures against several countries in HRC, rebar, plate and tubular products.

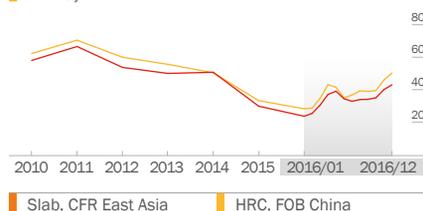
The iron ore market was driven by the changing sentiment in global steel markets with prices averaging US\$58 per tonne for 62% Fe CFR China in 2016, up by 3% compared with US\$56 per tonne in 2015. Local price peaks in April

and October 2016 were explained by the supply rationalisation, announced project delays and trading activity. Chinese iron ore imports increased by 8% to 1,032 million tonnes in 2016 from 953 million tonnes in 2015 due to stable steel production and domestic capacity closures.

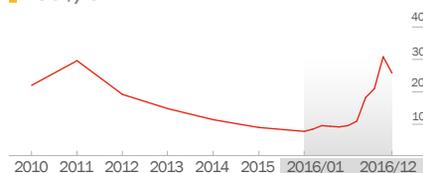
Coking coal prices surged, driven primarily by bankruptcies and mine closures in the US, a 276-day working limit at Chinese mines, and unfavourable weather conditions in China and Australia. Based on spot FOB Australia contracts, the hard coking coal price peaked at US\$310 per tonne in November. In 2016, the price of hard coking coal averaged US\$140 per tonne, compared with US\$90 per tonne in 2015. Coking coal imports to China increased to 65 million tonnes in 2016, up by 12% year-on-year due to the deficit of domestic shipments.

Global demand for vanadium was 79.7 thousand tonnes in 2016, down 0.2% from 79.8 thousand tonnes in 2015. Demand from steel producers remained largely flat, while supply underwent some structural changes: lower prices caused shutdowns and measures to optimise vanadium feedstock allocation, which in turn prompted a recovery in prices from Q4 2016 onwards. The LMB FeV price averaged US\$18.5 per kgV in 2016, down 0.6% from US\$18.6 per kgV in 2015.

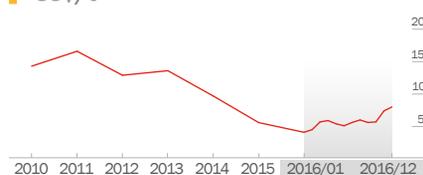
Global steel prices, US\$/t



Coal price, US\$/t



Iron ore price, US\$/t



Trends on EVRAZ' core markets

Russian steel consumption declined for the third year in a row due to the combined headwinds of a general economic recession, an 0.2% reduction in GDP, and low oil prices. While demand for long products went down, railway products performed more favourably, with Russian Railways increasing its orders by 50% last year. Key steel product prices were also positive based on global benchmarks (see page 42).

US steel demand fell by 4% to 91.2 million tonnes in 2016. Despite relatively strong LDP market fundamentals, consumption decreased due to pipeline project delays. North American rails market was negatively influenced by low activity in energy E&P activity and in coal extraction, as well as the moderate CAPEX outlays from Class-I railroads. Steel imports were down as a result of favorable rulings on trade cases and pending trade cases against certain producers. However, prices across major steel products were a mixed bag (see page 65).

Russian coking coal concentrate consumption remained mostly unchanged year-on-year in 2016. Export shipments rose by 15% due to a favourable price environment and highly competitive position on the global cost curve. The uptick in local coking coal prices during the year was influenced by global benchmark trends (see page 55).

Long-term prospects



Industrialisation and urbanisation in developing countries, as well as continued development of advanced economies, continues to be the largest demand driver for steel and other commodities.

Global urbanisation

According to United Nations data, an estimated 54.5% of the world's population lived in urban settlements in 2016. By 2030, urban areas are projected to house 60% of people globally. This rise will require significant investments in housing and infrastructure construction, which will lead to an increase in steel demand. As a clear example, increasing urbanisation in China over the last 15 years has led to an increase in steel consumption per capita from c. 100 kg per capita in the beginning of 2000, to a peak of c. 540 kg per capita in 2013.

The current average level of apparent steel use per capita in developed countries (ex. Germany, US and Japan) is around 430 kg per capita. In contrast, in India, which in recent years has delivered steady economic growth, steel consumption per capita in 2015 was only c. 60 kg per capita. As a result, in coming years, ongoing development of India and key South-East Asian countries may drive substantial steel demand growth.



The upgrade of and significant investments into the US and Canadian infrastructure will support the demand for steel products in the region.

North America

The American Society of Civil Engineers says that the US needs massive investments in all essential infrastructure, from bridges and airports to dams and railways. According to the society's most recent infrastructure report card, the US earns a D+ for its infrastructure. The government's current investment programme views America's infrastructure as an opportunity for accelerated economic growth, targeting spending US\$1 trillion on new investments by private institutions over 10 years. That programme will build the transportation, water, telecommunications and energy infrastructure needed to enable new economic development in the US.

In Canada, the government has announced the launch of a highly anticipated new infrastructure bank that provides project finance, support with evidence-based project prioritisation, and acts as a centre of excellence on project delivery, aiming to support US\$186 billion in infrastructure spending over 11 years.

Infrastructure construction is very steel-intensive, which should support the demand for major steel products for several years, especially in structural steel, rails, tubes and plates.



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Russian construction sector increase

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Russia's construction industry has tremendous potential due to the current low level of residential property per capita and the extremely low mortgage activity when compared with developed countries. Russia has only 20-25 m² of housing per capita compared with 44 m² per capita in the UK and 70 m² per capita in the US.

Russia's residential loans to GDP ratio is just 4%, compared with 41% in Japan and 68% in the UK. A forecast economic recovery should drive increased investments in housing, support the mortgage industry, and elevate the demand for rebars, beams and structural steel products.

An analysis of the last ten years reveals a strong relationship between rebar consumption growth and GDP growth. This analysis has shown that a 1% increase in GDP leads to a 4% rise in Russian rebar consumption.