

2023

GLOBAL STEEL MARKET OUTLOOK

YOUR STEEL GUIDE IN THE POST PANDEMIC WORLD



INTRODUCTION

In 2022, the outbreak of the Russo-Ukrainian conflict drove European energy prices to soar; the Fed raised interest rates multiple times to control inflation (the worst one in 40 years), and China's stringent "zero-covid" policy led to a severe economic contraction.

Not only did the aforementioned facts put the global economy at a high risk of recession, but they also created a difficult and complex circumstance for the global steel market. In 2023, what will be the dominant trend in the global steel market? Despite the global economic slowdown and geopolitical tensions, is there hope for a revival in the steel industry?

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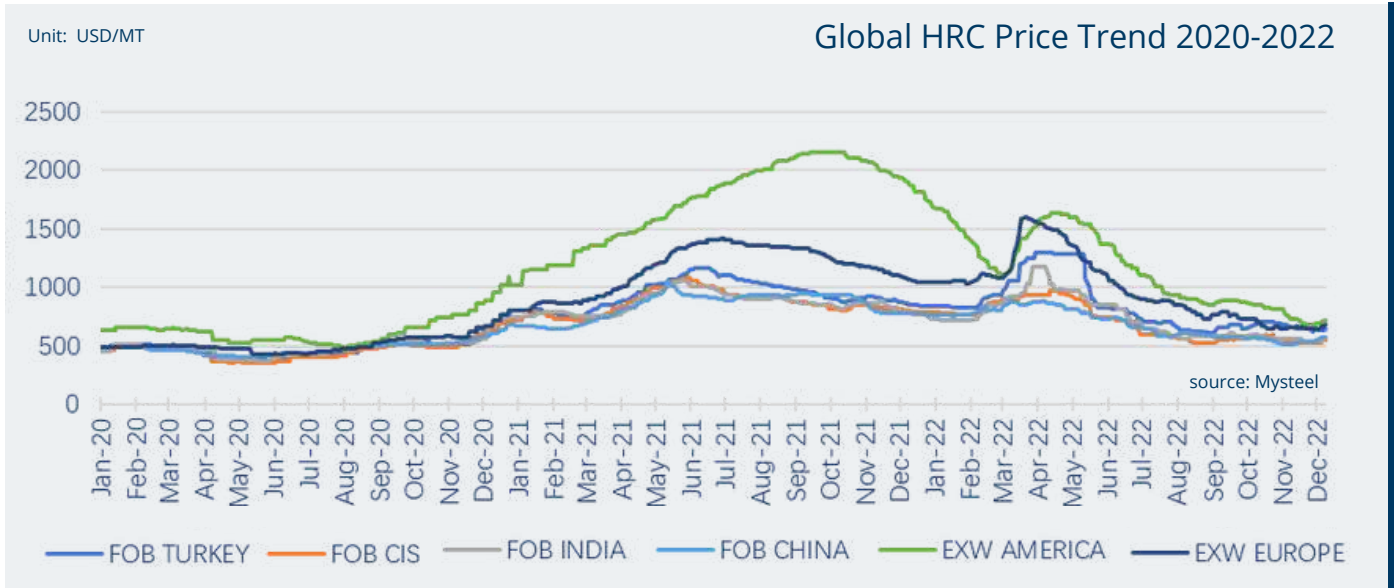
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PART 1

GLOBAL MARKET REVIEW 2022



1.1 2022 STEEL PRICES SNAPSHOT



2022 H1: Geopolitical events & supply chain disruptions lead to soaring steel costs

Looking back at the global steel market, the Black Sea transport was blocked since the outbreak of the Russia-Ukraine conflict at the end of February 2022, disrupting raw material supply and therefore European prices soared to a record high. Accordingly, prices in China, India, Turkey, and other major steel exporting countries also saw an increase. Coupled with sanctions imposed by the United States and Europe on Russia, energy prices soared up, inflation climbed high, and production costs pulled up, prompting European steel mills to reduce output, thereby pushing up prices.

As the world's third-largest steel exporter and Europe's second-largest steel producer, the production cuts of Russia aroused concern for the global steel supply. Since mid-March, the global steel pricing gap continuously expanded with China's price advantages being obvious. In May, China's steel exports went up drastically due to growing overseas inquiries from March to April.



2022 H2: Prices fall rapidly, approaching pre-COVID levels

However, with the outbreak of the Russo-Ukrainian conflict and the disruption of global supplies leading to the energy crisis in Europe, countries worldwide began to increase interest rates and adopt tightening policies to suppress inflation since 2022 H2, and China's property market entered a downturn due to its 'Dynamic zero-Covid' policy. All of the above contributed to the plummet in the demand and prices of steel with the market worrying about the potential subprime mortgage crisis that occurred in 2009.

With low demand and concerns about the global economic downturn, global steel prices fell rapidly in the second half of the year, not only falling below the price before the start of the Russo-Ukrainian conflict, but even approaching the historically-low price level before the outbreak of COVID-19.

2022 Global Demand Prospect

Global steel demand is expected to decline by **2.3%** in 2022, according to the World Steel Association.

CHINA

Following a 2.8% growth in 2021 China's steel demand would decline by 4.0% in 2022.

Developed Economies

Affected by the US financial tightening and the European energy crisis, steel demand is expected to drop by 1.7%.

Emerging Countries

Turkey and Russia would see a significant drop in demand and an overall poor performance except for India.

1.2 SPOTLIGHT: RUSSO-UKRAINIAN CONFLICT



Impacts on the Ukrainian steel industry

The steel industry makes up a fundamental part of the Ukrainian economy. Since Ukraine's steel industry is export-oriented, the conflict and the blockade of the Black Sea by warships posed a huge impact on its steel industry.

Before the conflict, steel industry contributed:

10% of Ukraine's GDP

33% of its export volume

Year 2021, Crude Steel Production:

21.37 Million Tons

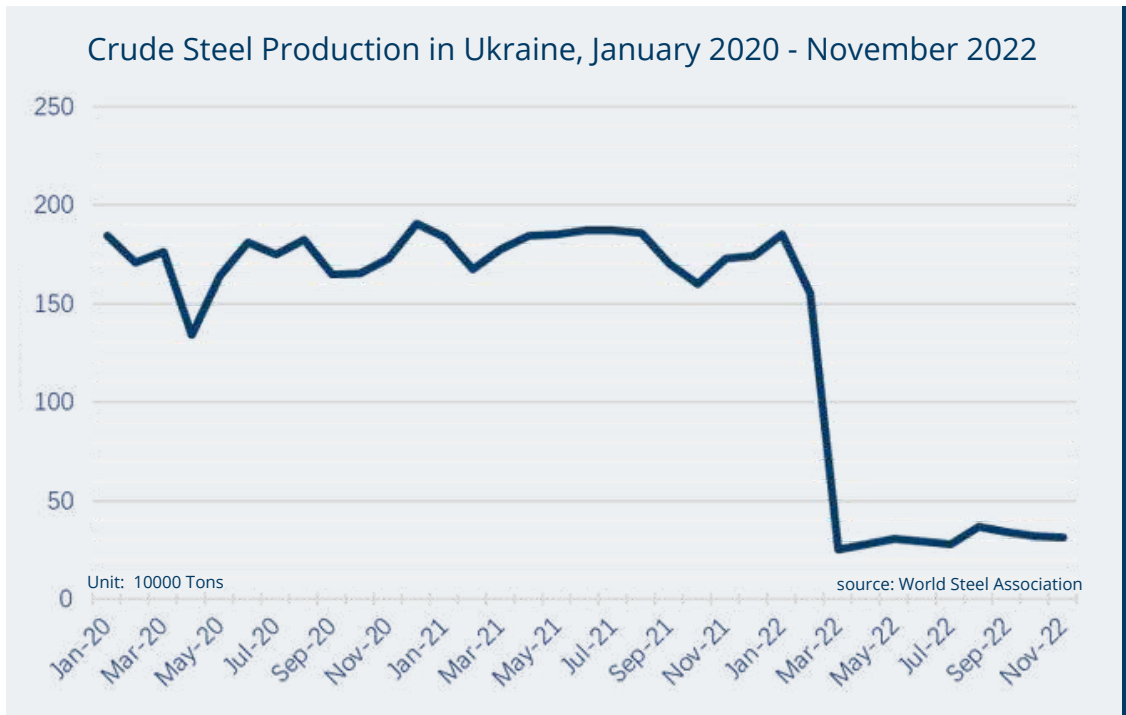
+3.6%

The export destination of the Ukrainian steel industry changed afterward.

Between October and November 2022, Russian troops interfered with Ukraine's national electricity infrastructure, causing problems with the supply of energy to the local population and industrial production, which further weakened steel demand. Due to the decline in demand and the impact of its conflict with Russia, the capacity utilization in the Ukrainian steel industry has fallen with some mills stopping working completely. Currently, only two blast furnaces are operating in Zaporizhstal and they are considering continued production cuts. Kametstal's capacity utilization is less than 80%, and most of ArcelorMittal's employees handle only 2/3 of normal workload since July 2022.

Since it became impossible to ship iron ore to China and pig iron to the US, Italy, and Turkey as before, the entire Ukrainian exports were redirected to Europe for either final consumption or re-transiting to other countries. Europe's share of Ukrainian steel exports increased from 34% to 69% in April-September 2022, while iron ore increased from 45% to 100%. Ukrainian steelmakers had no choice but to send their goods to European countries (mainly to Romania, Bulgaria, Poland, Croatia, and Germany). This led to an average of 3-4 times increase in transportation costs from Ukrainian mills to the destination ports.

Both the demand and output of steel in Ukraine dropped significantly.



According to the UKRMETALURGPROM Association, the production of steel in Ukraine decreased by 70.1% to 5.24 million tons in January-November 2022 compared to the same period in 2021. Pig iron and crude steel fell by more than 68% to 6.14 million tons and 6.16 million tons respectively.



Ukraine Production & Export Forecast

2022

Ukraine would produce 6.5 million tons of crude steel, 5.6 million tons of steel with 2.6 million tons of rolled steel export.

2023

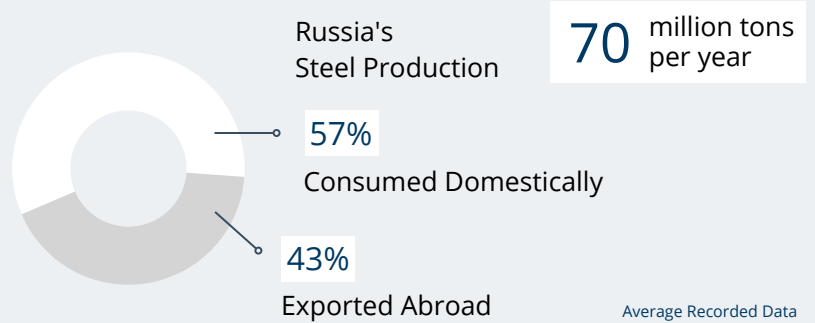
It would be 6.6 million tons of crude steel and 5.68 million tons of steel in 2023 with 3.3 million tons of rolled steel export.

The Ministry of Economy of Ukraine expects that the most active phase of the war would end in the summer of 2023 at the earliest. This means its effects could continue for quite some time, which could possibly cause a severe recession for the Ukrainian economy within 1-2 years as well as stagnate in the long run. The Ministry of Economy of Ukraine forecasts a 33.2% decline in GDP in 2022 and a slow recovery of 5%-6% in 2023.



Impacts on the Russian Steel Industry

In March 2022, the EU imposed sanctions on the Russian steel industry as European countries banned imports of Russian steel. This seriously affects its performance as the Russian steel industry is an export-oriented industry with Europe being one of its biggest markets.



Declined demand in the domestic market

In addition, the impact of trade sanctions has led to the closedown of many automotive companies and other enterprises that require imported raw materials, resulting in declined demand in the domestic market.



Sanctions have led to a reorientation of the Russian steel industry's target markets

Whereas the share of exports to Asian countries did not exceed 10-20% previously, about half of the steel products are exported to Asia, and China and Turkey import Russian steel in large quantities at preferential prices at the present time.

Russian Production & Demand Forecast 2022

Production

According to the World Steel Association, Russia's steel production fell by 6.6% to 60.4 million tons in January-October 2022. By the end of 2022, production of flat steel products is expected to have fallen by 23%, long products by 15%, and semi-finished products by 6%.

Demand

The apparent steel consumption in Russia is expected to be down by 8 million tons in 2022; According to Severstal, by the end of 2022, Russia's steel demand in the mechanical engineering sector is expected to have had a 22% drop to 4.5 million tons and in the construction sector by 4% to 32.9 million tons.



For 2023, the Russian steel industry still confronts various obstacles including international sanctions, high interest rates, postponement of downstream projects, etc. The Russian government is devising policies to alleviate the negative situation, hoping to gradually restore demand through the construction of large facilities, with the ultimate goal of halting the decline in steel demand. The Russian Ministry of Construction has planned to consume steel in the construction of educational institutions and residential areas. These measures should stimulate the steel market and increase steel demand under the sanctions banning steel exports to Europe and the US.

1.3 FOCUS ON CHINA

China's Steel Supply 2022

In January-November 2022, China's crude steel production was 935 million tons, decreasing by 1.4% YOY according to the National Bureau of Statistics of China (NBS).

China's crude steel production dropped significantly in the first quarter due to production restrictions at the 2022 Winter Olympics.

Q1

Q2

Crude steel production rose significantly after the lifting of production restrictions, but its domestic demand is not strong with rising cost of raw materials suppressing the profits of steel mills.

Q3

Q4

In July, steel mills began to reduce production and inventory due to reduced profit, but production recovered to a certain degree in August and September.

Under the dual suppression of low demand and low profits, production declined significantly again.

Production Outlook for 2023

China's crude steel production will likely to be around 1.013 billion tons in 2023, down by 10 million tons (- 0.96%) compared to 2022.



China's steel supply will continue to decline in accordance with the total production control policy. Meanwhile, the regulation of capacity and output, and industry mergers and acquisitions are all expected to grow in 2023. Crude steel production is expected to remain on a downward trend.

China's Demand 2022

The overall performance of China's steel demand is not promising, with apparent demand being significantly lower than the level of previous years.



With the outbreak of COVID-19 in many parts of the country after the Chinese New Year Holiday 2022, the lockdown of Shanghai, and the disruption of supply chains in the Yangtze River Delta, the market demand was affected dramatically. Furthermore, official data on the property sector from January-May released in June became the last straw to crush the market's confidence in the economic situation.

The expectations of the markets did not improve until late November when China eased its virus control measures, but demand did not recover proportionally. In general, investment in real estate development is weak in 2022. Although the infrastructure performance is relatively positive, the manufacturing industry declined compared with 2021, and the impact of COVID-19 lasts throughout the year.

Demand Outlook for 2023

China's steel demand is expected to show an overall downward trend in 2023, but at a slower pace.

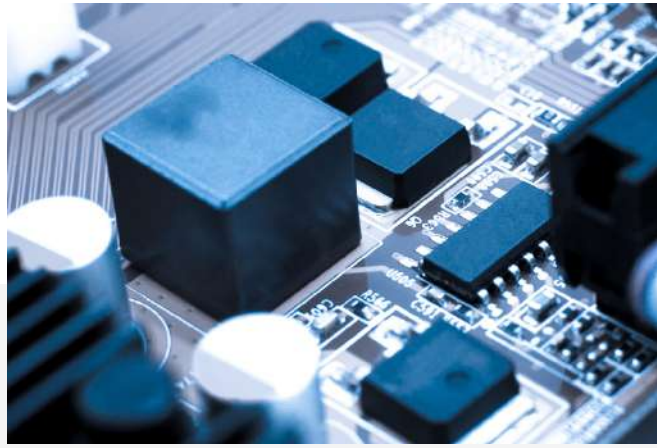
The infrastructure industry is still the main force to stabilize China's economy. With investment in the manufacturing industry maintaining its positive growth, steel demand for infrastructure and manufacturing is expected to continue to support China's steel industry.

However, the Chinese real estate market and overseas economic performance are the two most important variables affecting the trend of Chinese steel demand. It is expected that in 2023, the real estate industry will improve with the support of related policies, and its demand for steel might gradually increase, leading to a narrowing decline in steel demand, but the real estate market will still be the biggest drag on steel demand. At the same time, the risk of overseas economic recession has increased, and both direct and indirect exports are facing greater pressure.

PART 2

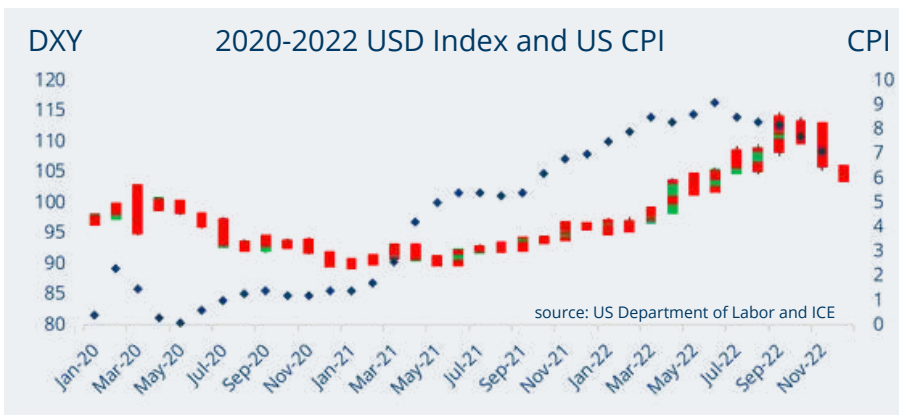
REGIONAL 2023 OUTLOOKS





2.1 UNITED STATES

Despite a recession, rising interest rates, and global supply chain issues that could dampen the future of the U.S. steel industry, and with global steel prices trending lower since 2022 H2, an upturn in US steel demand still has signs to follow in 2023.



425bps

Since the start of a new rate hike cycle in March 2022, the Fed has raised interest rates seven times in a row, totaling 425 basis points, the most intensive and aggressive rate hike since 1981.

\$280 B The CHIPS And Science Act Of 2022

Many US steelmakers believe that the automotive industry may be the only industry in which a chip shortage is suppressing demand. The CHIPS And Science Act is expected to ease the automotive industry's supply chain constraints in 2023, thereby aiding the recovery of steel demand.

Several U.S. steel producers have reported that their automotive customers anticipate an increase in steel demand through 2023. On the basis of extremely low dealer inventories and pent-up auto demand, the auto industry's production is projected to increase in 2023.

\$1.2 T Infrastructure Investment and Jobs Act

The purpose of the Infrastructure Investment and Jobs Act is to provide funding for construction projects such as roads, bridges, railroads, and other steel-using projects. Steel-using industries may be adequately supported by investments in strengthening domestic manufacturing and infrastructure.

In 2023, as states continue to advance infrastructure projects, it is anticipated that the positive impact of these government investment expenditures on the steel industry will become apparent.



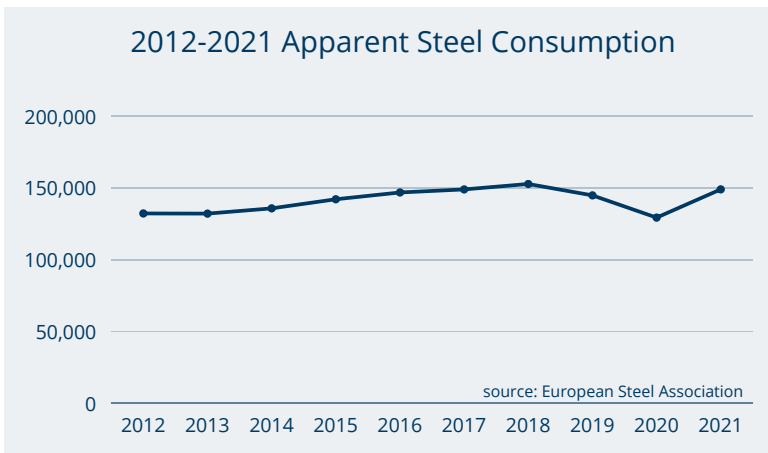
In the meantime, more industries are searching for domestic sources of raw materials, reducing their reliance on the global supply chain. In 2023, Worldsteel anticipates a modest 1.6% increase in US steel demand.

2.2 EUROPE

The upward trend in European steel apparent consumption in 2021 ends in the 2022 Q2 due to supply disruptions brought on by the Russo-Ukrainian conflicts, a weak demand outlook, and soaring energy prices.



The European Steel Association (EUROFER) forecasts that apparent consumption will fall by 3.5% Y-O-Y in 2022 and by 1.9% in 2023, marking the 3rd decline in the past four years. Demand development depends on the volatility of energy prices and the Russo-Ukrainian conflicts and their impact on the global supply chain trend, so at least until the end of the second quarter of 2023, the European market steel demand will remain severely depressed.



EU Natural Gas Futures 2020-2022



For the downstream sector, EUROFER believes that despite the impact of the Russo-Ukrainian conflicts and supply chain disruptions, the growth of European local industrial production proves that European industry is still developing more strongly than initially anticipated in the first half of 2022.

However, given the rapidly deteriorating global industrial and economic outlook, as well as the unprecedented rise in energy costs, the likelihood of a decline in the **SWIP index** for Europe during the second half of 2022 is high. As these downside factors are likely to persist into the first half of 2023, the SWIP index is projected to fall by 0.9% in 2023. Europe's economic and industrial outlook is expected to improve beginning in the second half of 2023.

Steel Weighted Industrial Production Index

SWIP index is used as a proxy for real steel consumption. Activity in the steel-using sectors is weighted with the relative share of each sector in total steel consumed by all sectors.



source: European Steel Association

2.3 TURKEY



According to the World Steel Association, Turkish steel demand is expected to decline by 4.1% Y-O-Y in 2022.

Source: Turkish Steel Producers' Association, TCUD

Crude Steel Production	30.2	-10.1%
Steel Consumption	27.1	-2.5%
Export Volume	13.6	-18%

JAN to OCT, 2022

Unit: Million Tons

Due to the extensive use of electricity and other forms of energy by the steel industry, as well as European sanctions on Russian resources, the steel supply to the European market will face significant obstacles.

And this may create opportunities for Turkey, particularly in 2023, when, as demand recovers, Turkey may receive a flood of orders for steel from Europe. The H1 of 2023 could be more positive for the Turkish steel industry due to its **proximity, easy access to freight facilities, sufficient steel capacity, and lower energy prices** than in European countries.



2.4 VIETNAM

In 2022, the steel industry in Vietnam experienced similar difficulties. In just three months, there were fifteen price changes for steel.

The Vietnam Steel Association (VSA) said the difficult time may continue into the second quarter of 2023 due to the gloomy export outlook, fierce competition among steelmakers, interest rate hikes, and exchange rate fluctuations.

In spite of this, the local steel industry is optimistic that the government will accelerate the release of public investment to support the steel industry by the end of 2022. Furthermore, demand for steel will continue to rise as Vietnam's economy grows and public living standards improve, as well as the country's rapidly growing manufacturing and construction sectors. Some analysts predict that the Vietnamese steel market will be one of the fastest-growing markets throughout the world from 2022-2031, as Vietnam's infrastructure construction, automobiles, home appliances, and other industries are expected to grow at a rapid pace.

2.5 JAPAN

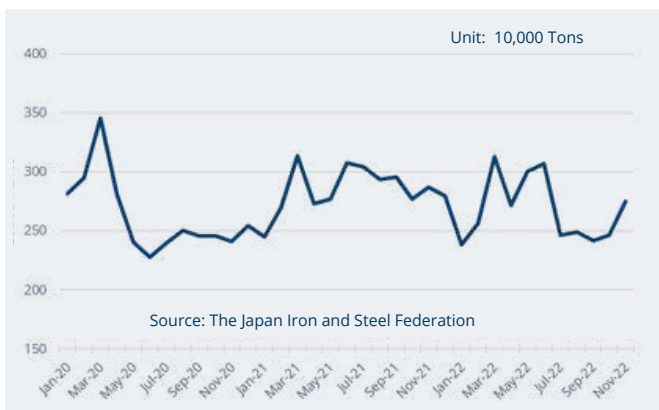


According to data from the Japan Iron and Steel Federation (JISF), Japan's crude steel output was 75.17 million tons from January to October 2022, a 6.5% decrease.



Source: Mizuho Industrial Bank of Japan

By 2024, the effects of the chip shortage should have subsided, and the auto market should recover gradually.



Japan's steel exports from 2020 to 2022

However, against the backdrop of a declining population, residential construction has stagnated, and demand for special steel has also begun to decrease slowly as the auto industry shifts toward electric vehicles. As a result, it is expected that the recovery of steel demand will peak at 64.4 million tons in 2024 and then remain relatively stable for the following years.



EXPORT

Japan's steel exports are anticipated to increase by 0.1% to 33,3 million tons in 2023, as a result of the recovery of global demand. Due to intense competition, particularly from Chinese steel resources, its exports of common steel products will decline over time.



PRODUCTION

Japan's crude steel output is expected to be 89.9 million tons in 2022, a 6.7% decrease due to weak domestic demand for automobiles and other products.

Despite the fact that domestic demand and exports are anticipated to rise in 2023, Japan's crude steel production is projected to increase by only 0.7% to 90,5 million tons, as the Keihin No. 2 blast furnace will be shut down in September. In addition, due to domestic demand reaching its peak and structural reforms, crude steel production in Japan is projected to reach 86.5 million tons by 2027.

2.6 SOUTH KOREA

Multiple risk factors persist, and it is anticipated that the downward pressure on the South Korean steel industry will remain high in 2023.



H1

According to the Korea Iron and Steel Association(KOSA), South Korea's domestic steel demand in the first half of 2022 is dominated by shipbuilding plates, with overall performance exceeding expectations.

H2

Beginning the second half of the year, the construction industry experienced a sharp decline in prosperity, resulting in a significant decline in demand for steel products. In 2022, South Korea's steel demand is anticipated to decrease by 5% to 53,2 million tons.



Due to a tight domestic supply and a decline in major export markets such as China, it was anticipated that South Korea's steel exports would decrease by 4% to 26 million tons in 2022.

STEEL PLATES

The export of plate products has remained sluggish due to the slowdown in global demand for automobiles and home appliances.

SECTION STEEL

Section steel exports may increase due to rising demand for infrastructure and construction in emerging markets.

2023
Estimated

In conclusion, the downturn in the steel industry will not be completely resolved until 2023, and the recovery of domestic and export demand for South Korean steel is anticipated to be limited, especially in light of geopolitical conflicts, high interest rates, exchange rate fluctuations, and energy crises.

2.7 BRAZIL



Owing to foreign exchange and a reduction in domestic sales in the second half of the year, Brazil's exports of finished steel would increase by 12.3% to 12 million tons in 2022.



Source: Brazil Steel Institute 2022

Crude Steel Production	34.6	-4%
Domestic Market Sales	20.2	-9.5%
Apparent Consumption	23.2	-11.4%

Unit: Million Tons

In 2023, the Brazilian steel industry's production, sales volume, and apparent consumption will increase moderately. Brazil's crude steel production is expected to rise by 2% to 35.3 million tons in 2023, with domestic sales rising by 1.9% to 20.6 million tons, while apparent consumption rose by 1.5% to 23.7 million tons.



BULLISH FACTORS

The Brazil Steel Institute anticipates that in 2023, numerous infrastructure projects and new real estate projects will commence. In 2023, it is anticipated that the real estate industry will increase by 1.5% to 2%, while automobile production will rise by 5% to 6%.



BEARISH FACTORS

Under heightened risks of global economic recession, high inflation, high tax rates, and soaring energy prices, global steel demand has greatly weakened. From the end of 2022 to the first half of 2023, it is anticipated that the steel market will still face obstacles.

After 2023, the Brazilian Iron and Steel Association anticipates that the country's steel consumption will increase by 3.5% to 4% annually.



CONCLUSION

Due to high inflation, monetary tightening, and China's economic slowdown, global steel demand is expected to fall by 2.3% in 2022—the first year of negative growth in seven years. And 2023, It is projected that global steel demand will grow by only 1% in 2023 as a result of the effects of austerity policies in various countries, the European energy crisis, the increased uncertainty of China's economic growth, and the global steel demand.

Historically, it may take some time for global steel demand to fully recover from the current economic recession and geopolitical shocks. China is crucial in determining the duration of this period. Whether China's economy can recover from the severe contraction brought on by the sluggish property market and stringent zero-COVID policy deserves the attention of the global steel industry.

ABOUT CUMIC

As an integrated steel trading solution provider, we, CUMIC Steel Limited, have long-term cooperation with 9 out of the top 10 steel-producing companies in the world. For the past 16 years, we have been consistently delivering high-quality integrated steel trading solutions to 2000 regular clients in more than 70 countries.

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Keeping track of the market trends and forces shaping a more efficient steel supply chain is crucial to ensuring that your business makes strategic sourcing decisions. As a role in the global steel supply chain, CUMIC monitors the latest industry trends and publishes a series of market reports as well as videos to keep our partners informed. If you found this report interesting, you could reach us via cumic@cumic.com, we'd love to hear from you.

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