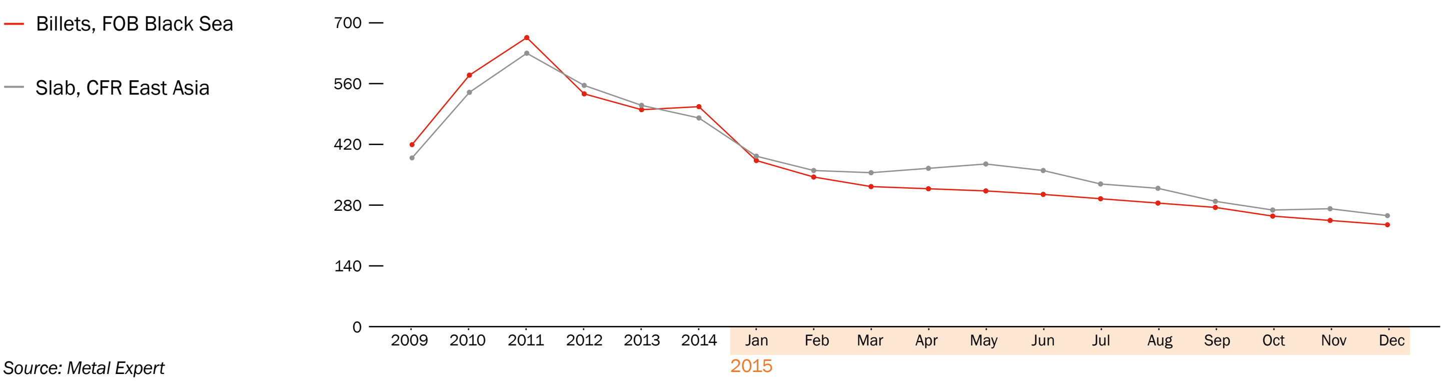
MARKET OVERVIEW

Global picture

The global steel and bulk commodities industry experienced another challenging year in 2015 due to structural overcapacity and the ongoing restructuring in the Chinese economy. Weak demand and excess supply in the steel, iron ore and coking coal markets led to a negative global price environment during the year.

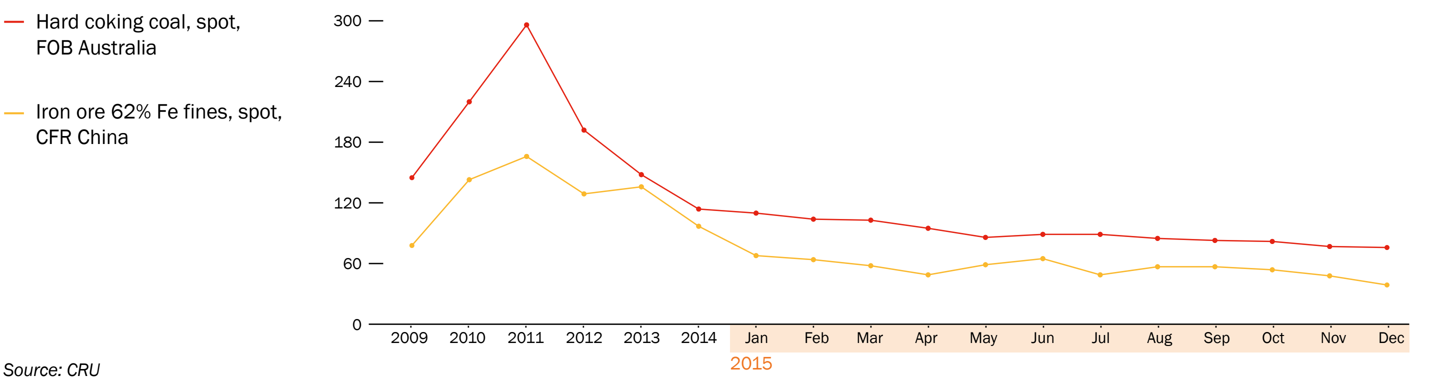
China consumed 671 million tonnes of steel products in 2015, down 5.5% year-on-year, while its steel production fell by just 2.7%. As such, its net exports rose to 104 million tonnes in 2015, up by 25% from 83 million tonnes in 2014. Together with weak steel demand in other regions, this put pressure on global steel prices, which declined by an average of 28% year-on-year in 2015. Global steel capacity utilisation reached 65% by the end of the year, down from the average of 73% for 2014 and the lowest rate since the bottom of the 2008-09 credit crunch.

Global steel prices, US$/t



Source: Metal Expert

Global raw material prices, US$/t



Source: CRU

Iron ore prices were negatively affected by stagnant global demand for the commodity, while 90 million tonnes of additional seaborne supply from Australia and Brazil came on-stream during 2015. These low-cost projects pushed down the global cost curve and forced uncompetitive producers out of the market, mostly domestic Chinese miners. Compared with US$97 per tonne for 62% Fe CFR China in 2014, prices averaged US$56 per tonne in 2015, down by 43%.

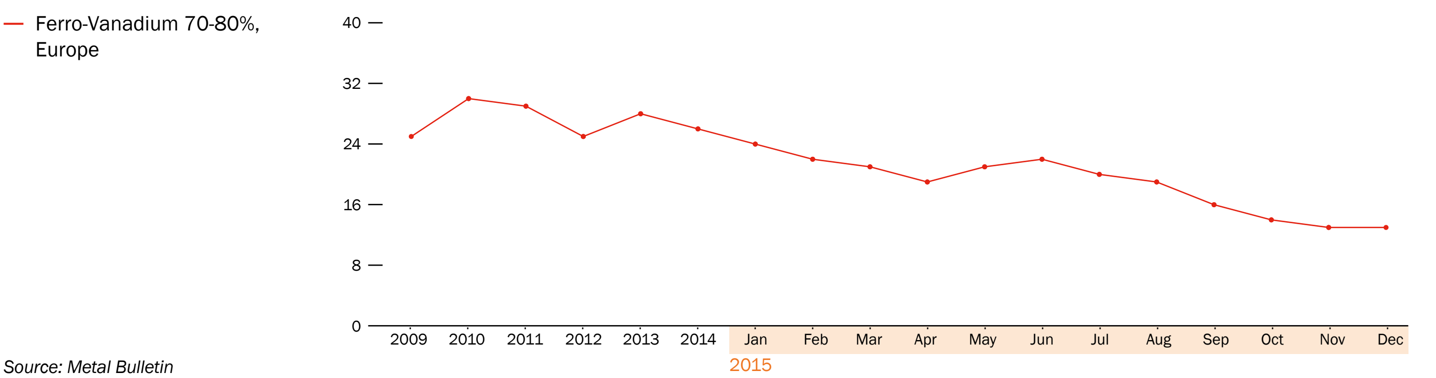
Coking coal followed the same path, driven by the dynamics of the steel market. Lower steel production meant a decrease of 14 million tonnes of coking coal imports to China in 2015. Global trade volumes decreased by 5% in the year, as exports from the US and Canada fell and Australia gained market share. Prices fell by 21% year-on-year. Based on spot FOB Australia contracts, the price of hard coking coal averaged US$90 per tonne in 2015, compared with US$114 per tonne in 2014.

While the market is not expected to recover in 2016, the Group believes that the situation is unlikely to worsen substantially. As the global iron ore supply and Chinese steel exports already peaked in 2015, the Group expects that commodity prices will face less negative pressure next year. Given current steel prices, producers globally continue to face low profitability, which will make certain future development unsustainable, leading to calls for capacity optimisation and market rebalancing.

Long-term prospects:

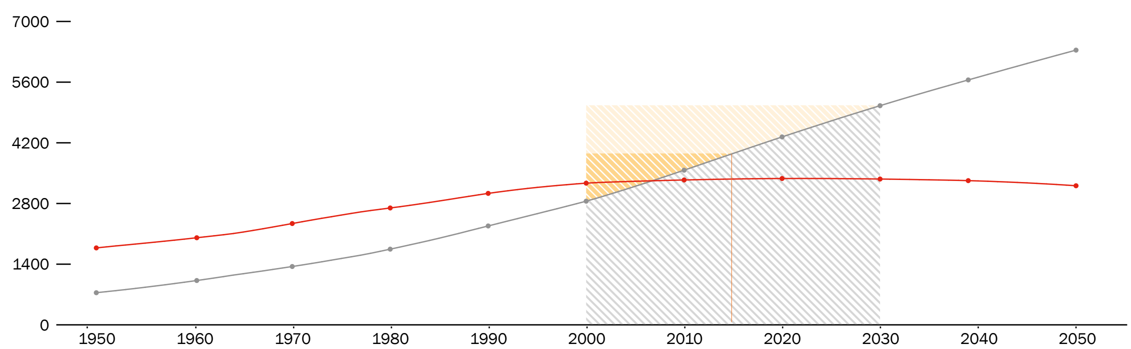
Ongoing urbanisation is a long-term driver for steel consumption growth. During the global steel supercycle of the last 15 years, the global urban population has increased by 1.1 billion people. The United Nations forecasts that by 2030, it will rise by another 1.1 billion people, highlighting the potential for a sustainable upside in global steel use.

Global vanadium prices, US$/kg



Source: Metal Bulletin

Global urban and rural populations, 1950-2050, million people



Over the next 15 years, the urban population growth rate is expected to remain at the same level

Source: United Nations