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The impact of the Russia-Ukraine conflict on construction in Europe

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Thursday 7th April marks six weeks since the start of the Russia-Ukraine conflict, and a resurgence of volatility in the pricing and availability of critical commodities, including a number of construction materials. In this brief update, we summarise some of these key movements and how they relate to Europe:

The cost of crude oil is a key gauge of the overall economy, and it has been one of the most significantly impacted commodities over the last number of weeks. Oil and gas prices have increased transportation costs for the supply chain, making it more expensive to move supplies and other necessary materials to construction sites.

While spikes had been seen earlier on in the conflict, and prices of US$140 per barrel were reached (the highest level in around 14 years), that has now moderated somewhat. Brent prices sat at approx. US$107 per barrel early on April 6th, with renewed talk of EU sanctions on Russia's energy sector expected to have a bearing, marking an almost 71% year-on-year increase in prices. This followed a softening of prices last week, with a 13% drop constituting the largest decline in two years, after the US announcement of the most significant Strategic Petroleum Reserve release to date (1 million barrels per day for a six-month period from May), and a commitment from the International Energy Agency to another coordinated oil release. Global supply pressures were also eased with the announcement of a truce in Yemen between the Saudi-led coalition and the Iran-aligned Houthi group for the first time in the seven-year conflict, overseen by the UN, alleviating the additional supply disruption caused by the targeting of Saudi oil facilities.

The abovementioned oil price volatility in turn impacts on steel prices, given its role in steel production. Following the volatility seen in 2021, there had been an element of some stabilisation, although there were still pressures at play in early 2022. Similar to the abovementioned additional sanctions being considered by the EU for oil, the new package of sanctions may restrict the import of steel products from Russia, which would add to the supply-demand imbalance and market volatility being seen at present. The EU constitutes a key market for Russian steelmakers.

The removal of the US steel tariff on the UK in recent weeks may serve to further increase demand in the European market, which could place upward pressure on pricing. Initially enforced in 2018 under the Trump administration, the 25% tariff led to a halving of UK steel imports to the US. A key impact which has perhaps remained relatively under the radar is the shift towards more renewable energy sources – the EU's goal of tripling wind and solar capacity (290GW of wind and 250GW of solar) in the coming years could be hampered by the requirement for circa 52 million tonnes of steel, as Russia and

Ukraine are two of the major exporters of the steel slabs used in constructing turbines and gas pipelines.

Steel rebar prices were approx. €736.25 per tonne on the morning of April 6th, marking a 3.25% weekly increase and a 4.9% monthly increase.

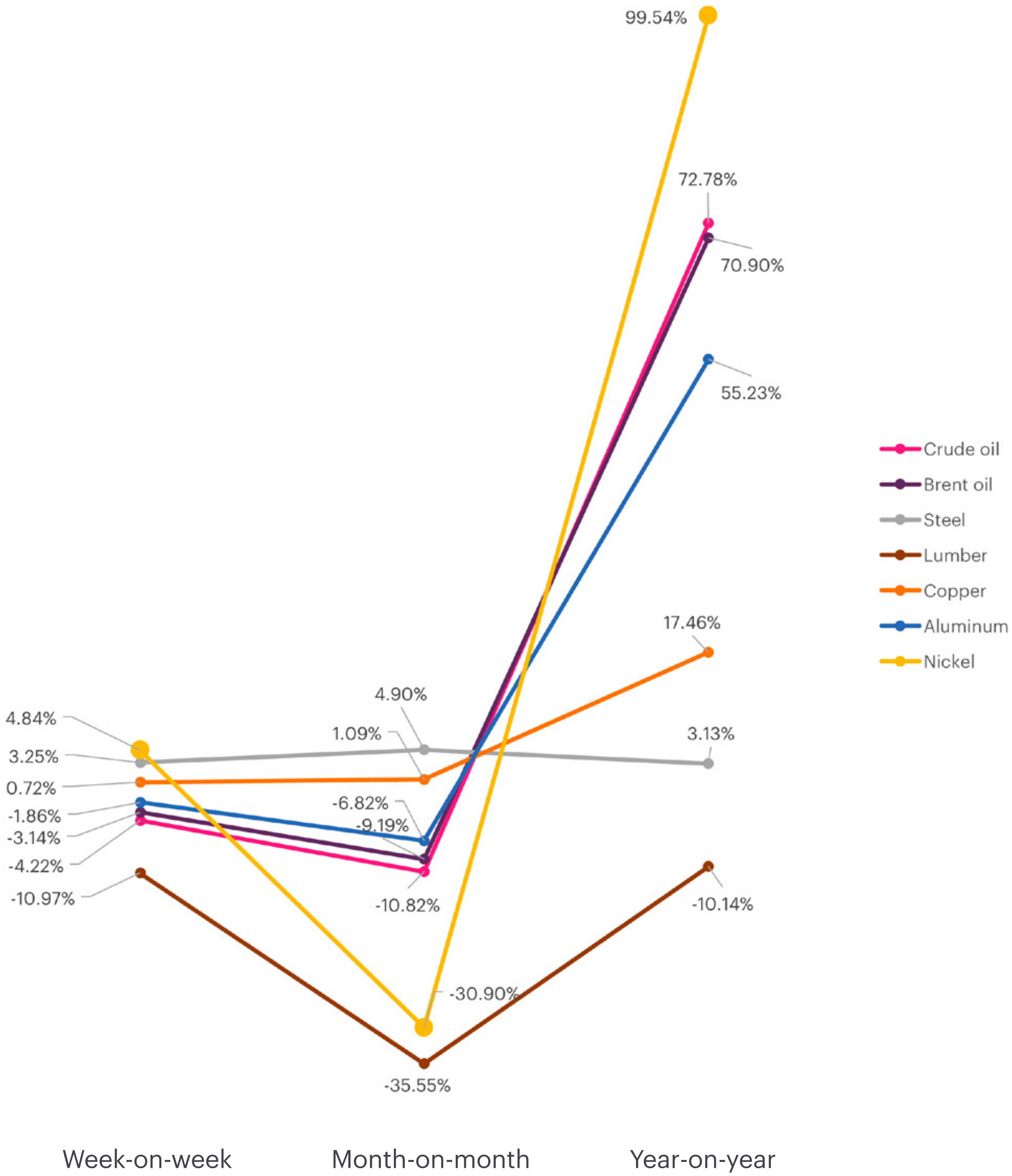
Lumber has moderated in recent times, with the price declining almost 36% on a month-on-month basis as of April 5th, to hit €859.34 per 1,000 board feet. Weekly, this price marked an 11% decline. Wood Resources International (WRI) noted that the sanctions placed on Russia, as the largest lumber exporter globally, are expected to have a permanent impact on global lumber trade. More than a quarter of the 34 million cubic metres of lumber exported by Russia, Ukraine and Belarus in 2021 went to countries that have sanctions in place at present on Russia. WRI notes that as a result of these sanctions, around 30% of the total volume exported by these three nations last year will not make it to the European and Asian markets (China excluded). Furthermore, two major wood certification organisations, the Forest Stewardship Council (FSC) and Programme for the Endorsement of Forest Certification (PEFC), are now labelling all timber from Russia and Belarus as 'conflict timber', which means that it cannot be used in certified products, e.g., lumber, plywood and pulp.

With Russia controlling about 10% of global copper reserves, the material has been impacted, recording a 17.5% increase year-on-year as of the morning of April 6th, but moderating slightly in recent weeks (up around 0.7% week-on-week). Aluminium, meanwhile, has seen a 55% year-on-year increase as of the morning of April 6th, although again it has moderated week-on-week, down 1.86%. Lastly, nickel saw an unprecedented suspension of activity on the LME last month for over a week, when prices spiked by 250% in a matter of days to approx. €91,500 per tonne. This was reportedly largely due to short covering by one of the world's most prevalent producers. Year-on-year, nickel pricing has grown by approx. 100%, and is up almost 5% week-on-week as of April 5th.

Some key considerations to manage the impact on construction projects and programmes:

- Importance of strategic procurement
- Importance of early engagement of the supply chain
- Active communication and management of the entire process
- Implementation of a clear risk management process, to eliminate, mitigate and address the project risks
- Role of contingency review

Percentage price changes as of April 5th and 6th 2022



Notes: The data in this report is sourced from Trading Economics, and is based on spot prices as of the morning of April 6th 2022 - this is the comparative base for the above chart. It should be noted that it doesn't reflect production/fabrication, delivery and installation on-site. In some cases, averages over time may be higher – this is a spot comparison of specific points in time. There are other market dynamics at play, driving prices up, which include: increased fabrication/production costs, increased supply chain costs – transport/ delivery, intermediary costs and supply-demand metrics at play.