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

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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 summarize some of these key movements and how they relate to the US:

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. This is in addition to the fact that Russian transport infrastructure and airspace cannot be used.

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, (WTI price at US$103) with renewed talk of EU sanctions on Russia's energy sector expected to have a bearing, marking an almost 71 percent year-on-year increase in prices. This followed a softening of prices last week, with a 13 percent drop constituting the largest decline in two years. This was 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 stabilization, although there were still pressures at play in early 2022. As noted in our previous update, Russia and Ukraine have been critical pig iron suppliers to the US for years, comprising more than 60 percent of the imports coming in since 2018. It is anticipated that the conflict could force US pig iron consumers to lean increasingly on other suppliers like Brazil, and in 2021, through November, pig iron imports from Brazil to the US exceeded those from Ukraine, coming in at 27 percent of total volumes.

The removal of the steel tariff on the UK in recent weeks will also help to ease pressures. Initially enforced in 2018 under the Trump administration, the tariff was imposed in the name of national security, with a belief that cheap foreign metals posed a threat. Despite widespread criticism, the 25 percent tax on foreign steel shipments proceeded, and led to a halving of UK steel imports to the US. A quota system will come into effect in June, removing the tariff up to that point, which is expected to help ease supply constraints. Steel prices were at US$803.92 per ton on the morning of April 6th, marking a 3.25 percent weekly increase and a 4.9 percent monthly increase.

Lumber has moderated in recent times, with the price declining almost 36 percent 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 percent 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 12 billion cubic feet 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 percent 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 organizations, 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.

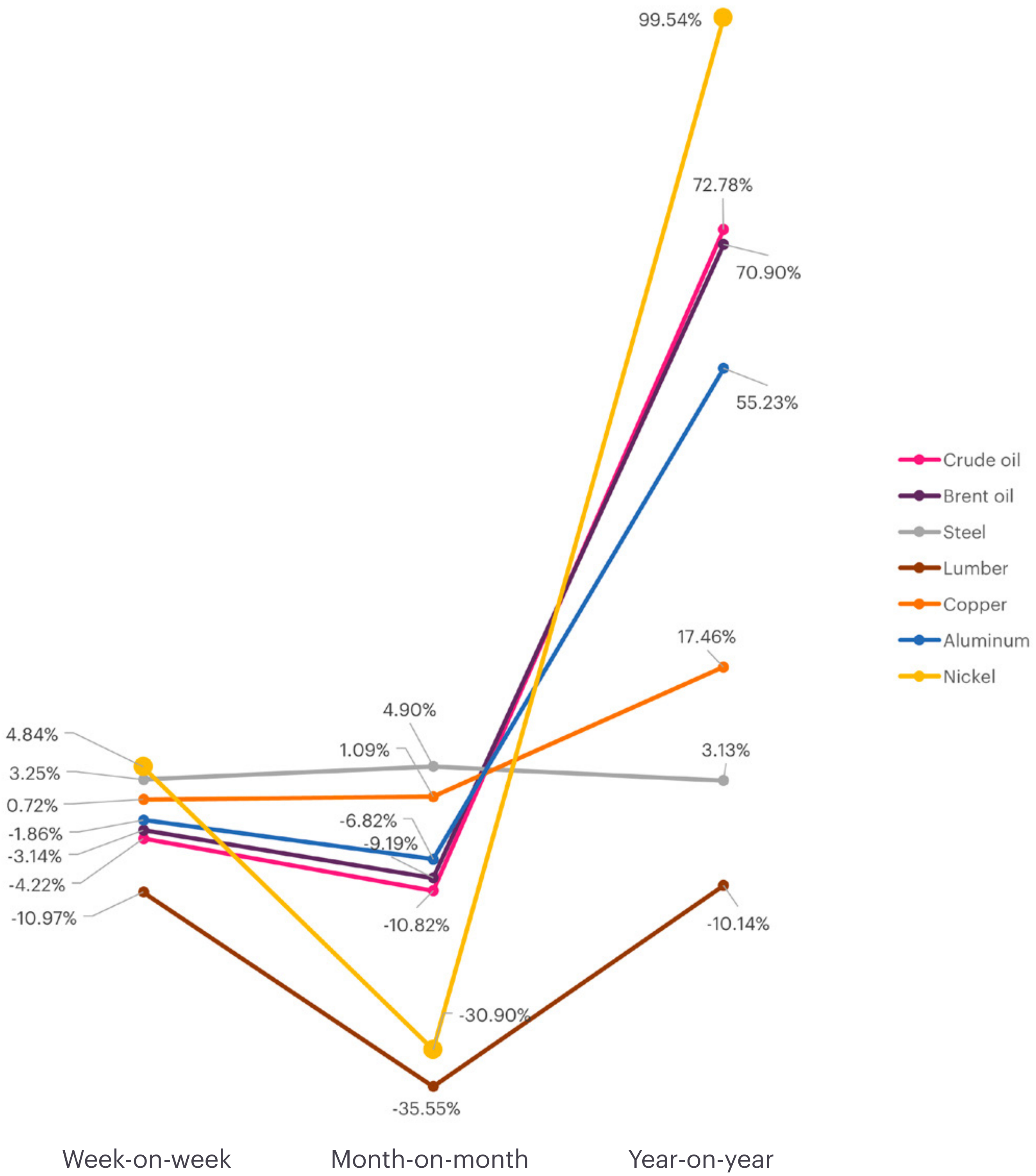
With Russia controlling about 10 percent of global copper reserves, the material has been impacted, recording a 17.5 percent increase year-on-year as of the morning of April 6th, but moderating slightly in recent weeks (up around 0.7 percent week-on-week). Aluminium, meanwhile, has seen a 55 percent year-on-year increase as of the morning of April 6th, although it has moderated week-on-week, down 1.86 percent. Lastly, nickel saw an unprecedented suspension of activity on the LME last month for over a week, when prices spiked by 250 percent in a matter of days to approx. US$100,000 per ton. 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 percent, and is up almost 5 percent week-on-week as of April 5th.

Lastly, the supply of neon gas, which is essential in semiconductor manufacturing, is at risk, with approx. half of all global production happening in Ukraine. This could further exacerbate the global supply-demand imbalance for chips.

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

- 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.

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