



Outlook and Risks for EU Steel

Kallanish Europe Steel Markets 2018 Conference

Antwerp, 20-21 June 2018

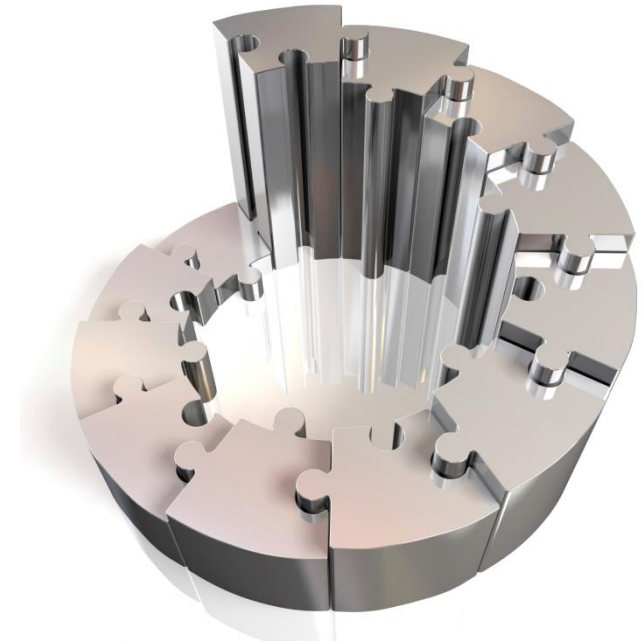


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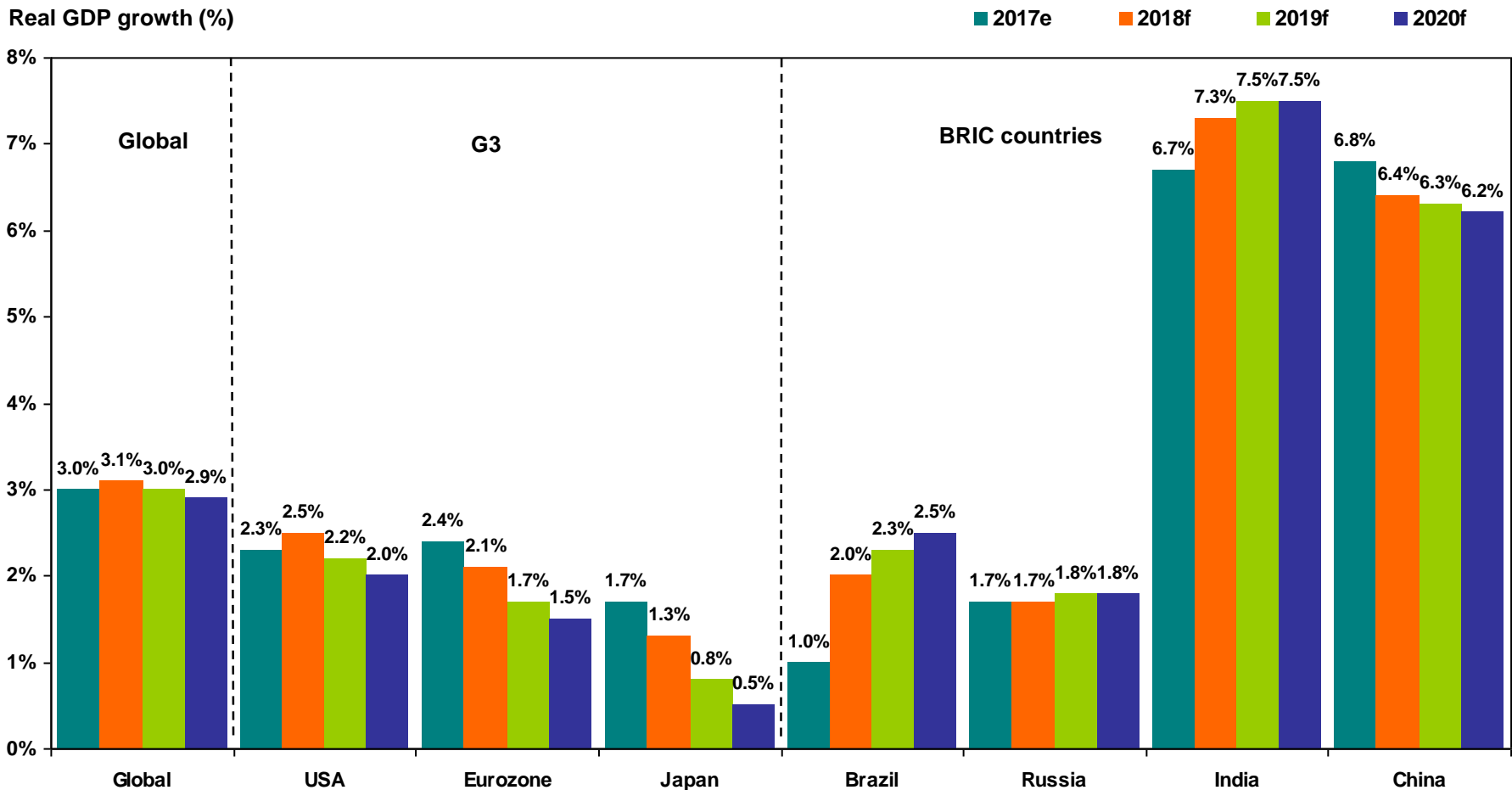
About SteelConsult International

- We know the steel industry
- We know the market
- Extensive databases
- Strong network of senior consultants, with a background in the industry



Services	Product Areas	Why SteelConsult?
• Strategic Consulting	• Steelmaking Raw Materials	• Specialised in Iron & Steel
• Market Research	• Semis	• Expertise & experience
• Economics Analysis	• Flat Products	• Background in industry
• Training	• Long Products	• Wide contact network

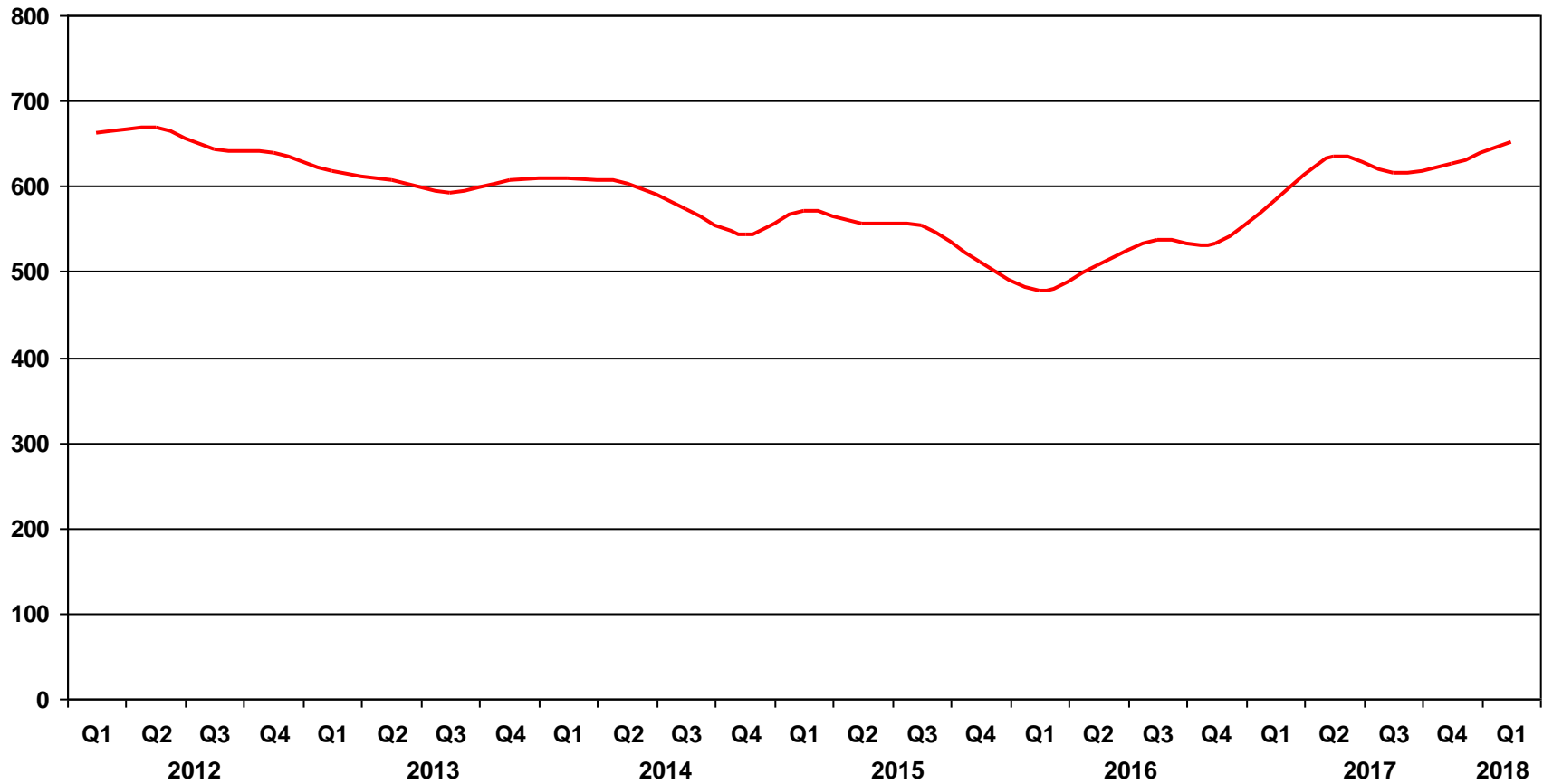
Growth prospects are bright around the world, incl. in the developed economies and the emerging markets. However, the outlook is subject to major risks, in particular the threat of increasing protectionism



Source: World Bank, SteelConsult

Steel prices have rebounded by 35% since Q1 2016

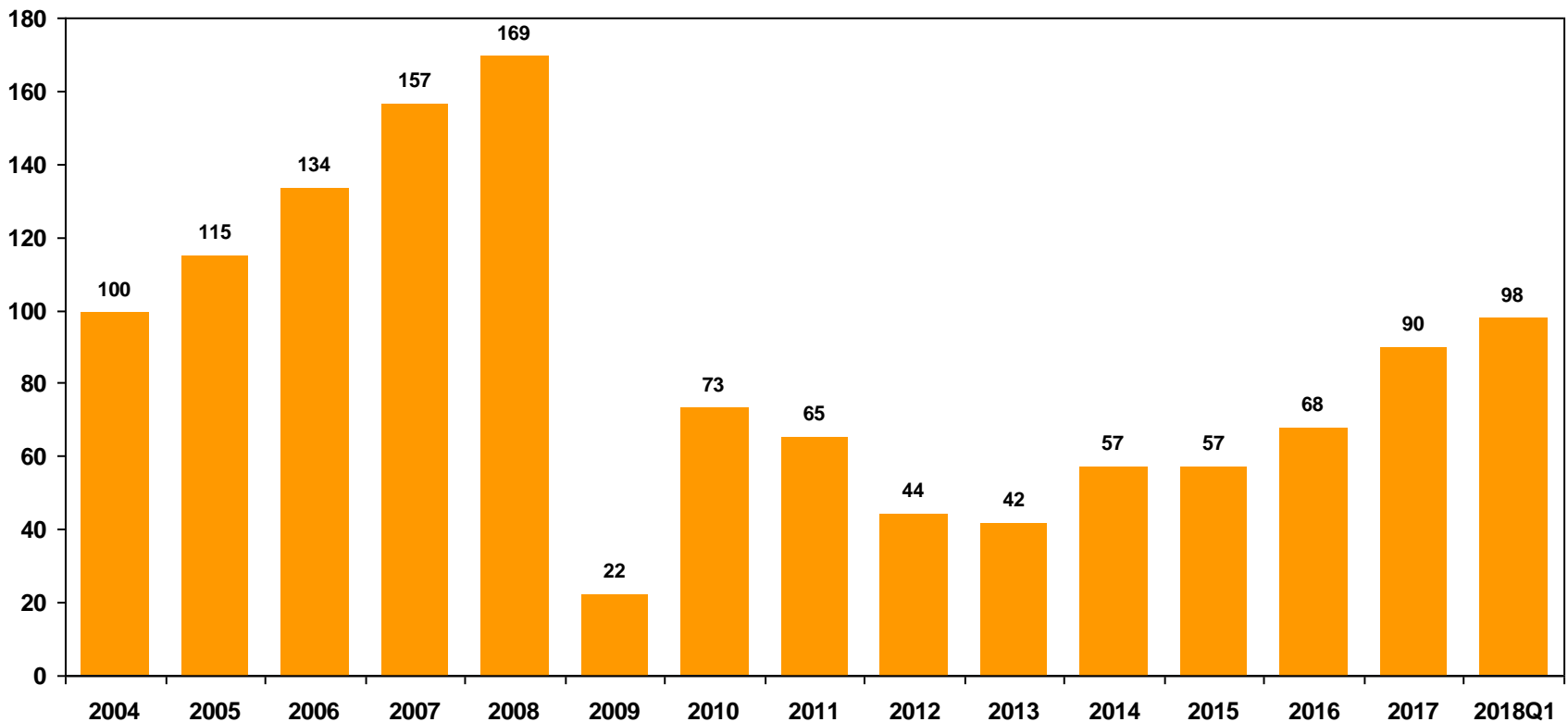
Average steel sales price EU (€/t)



Source: ArcelorMittal, SteelConsult analysis

Profitability has also improved, with mills booking their strongest financial performance since 2008

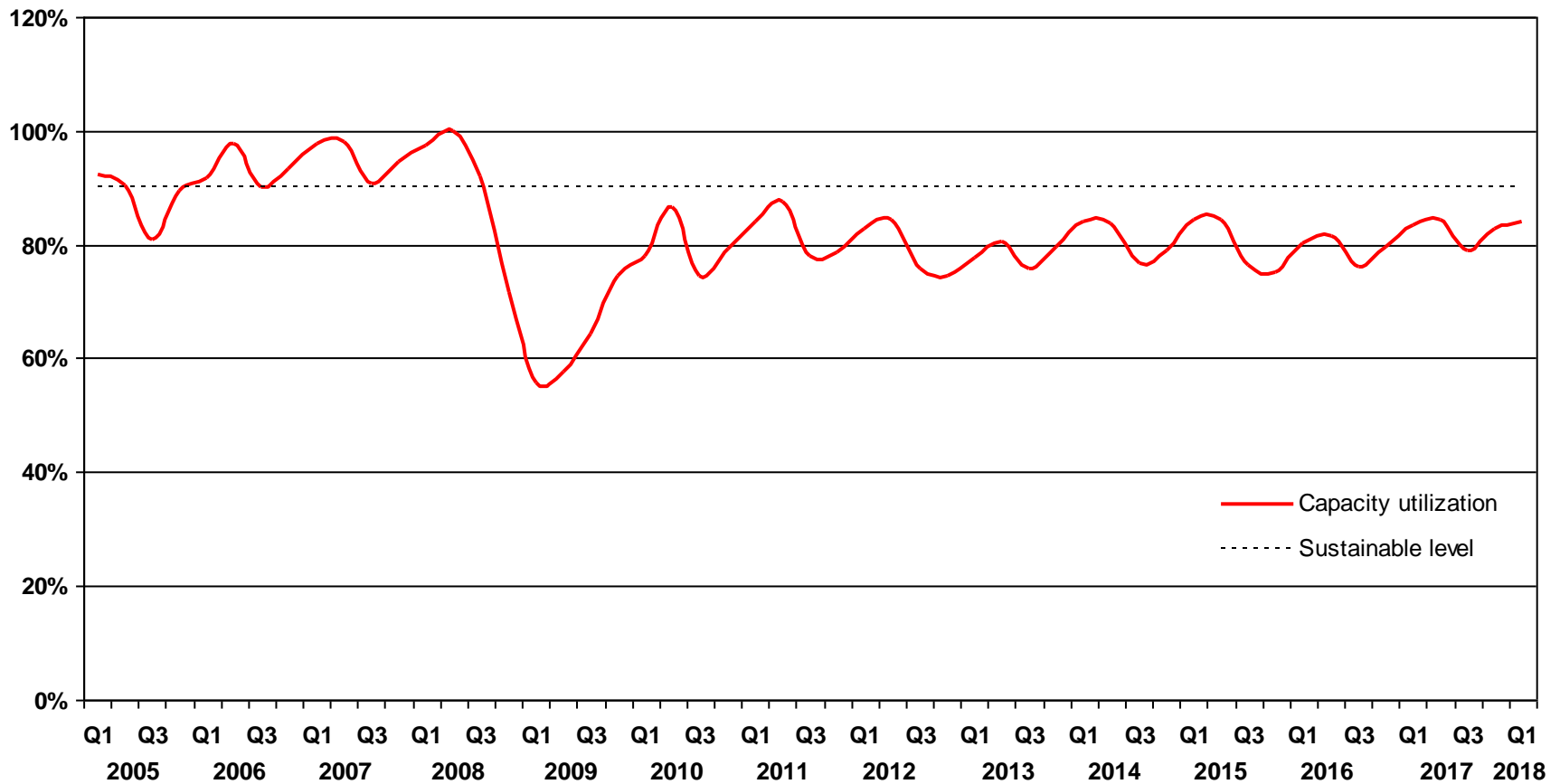
Average EBITDA margin EU steel industry (€/t crude steel)



Source: SteelConsult analysis

Capacity utilization in Europe is, however, still lagging behind at around 80%, remaining well below the cross cyclical sustainable level of 90%

Crude steel capacity utilization EU steel industry

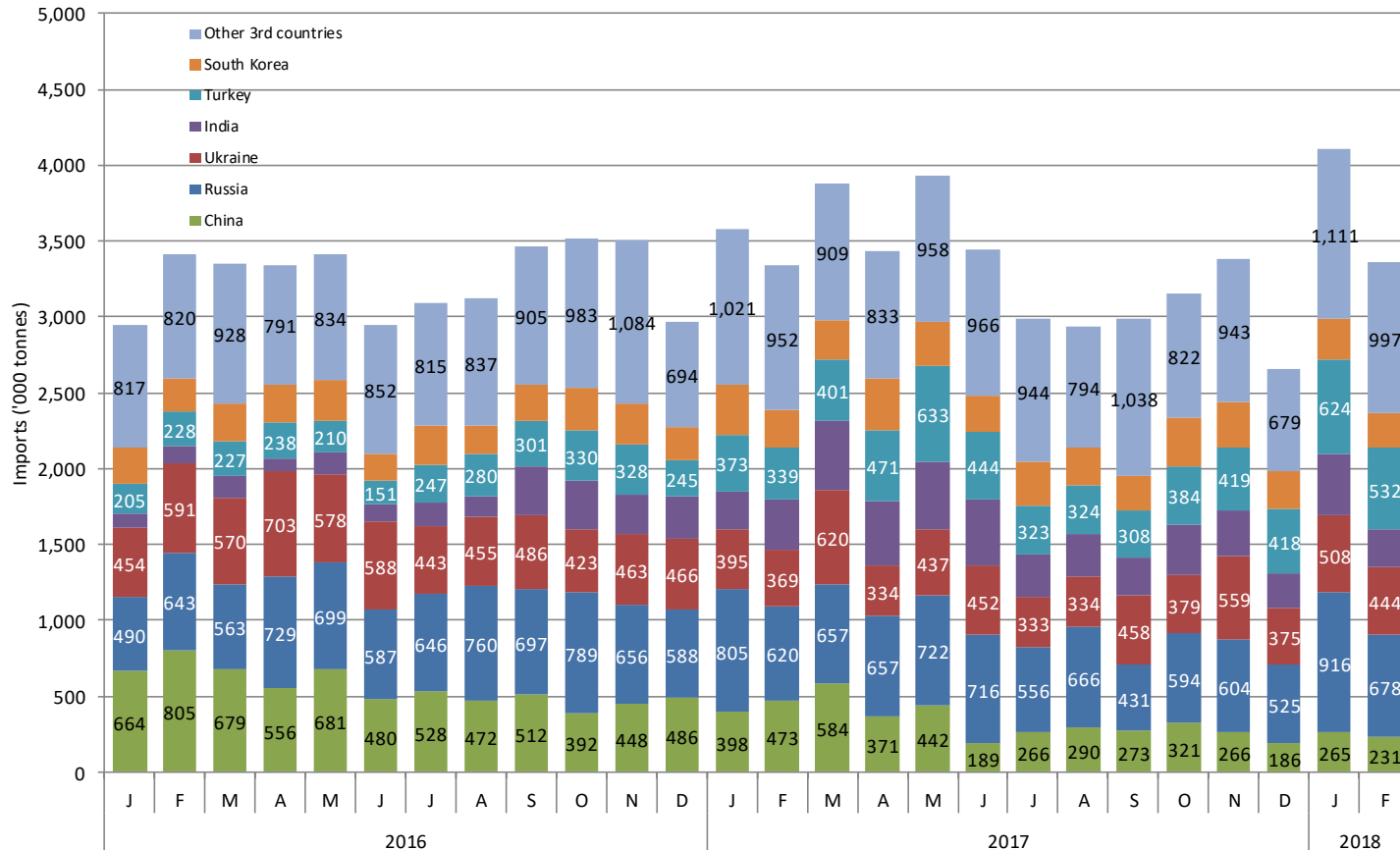


Source: WSA, SteelConsult analysis

EU steel imports remain at high levels, and have recently jumped up as exporters anticipated US Section 232 measures



3rd country imports of total steel products into the EU-28 by origin



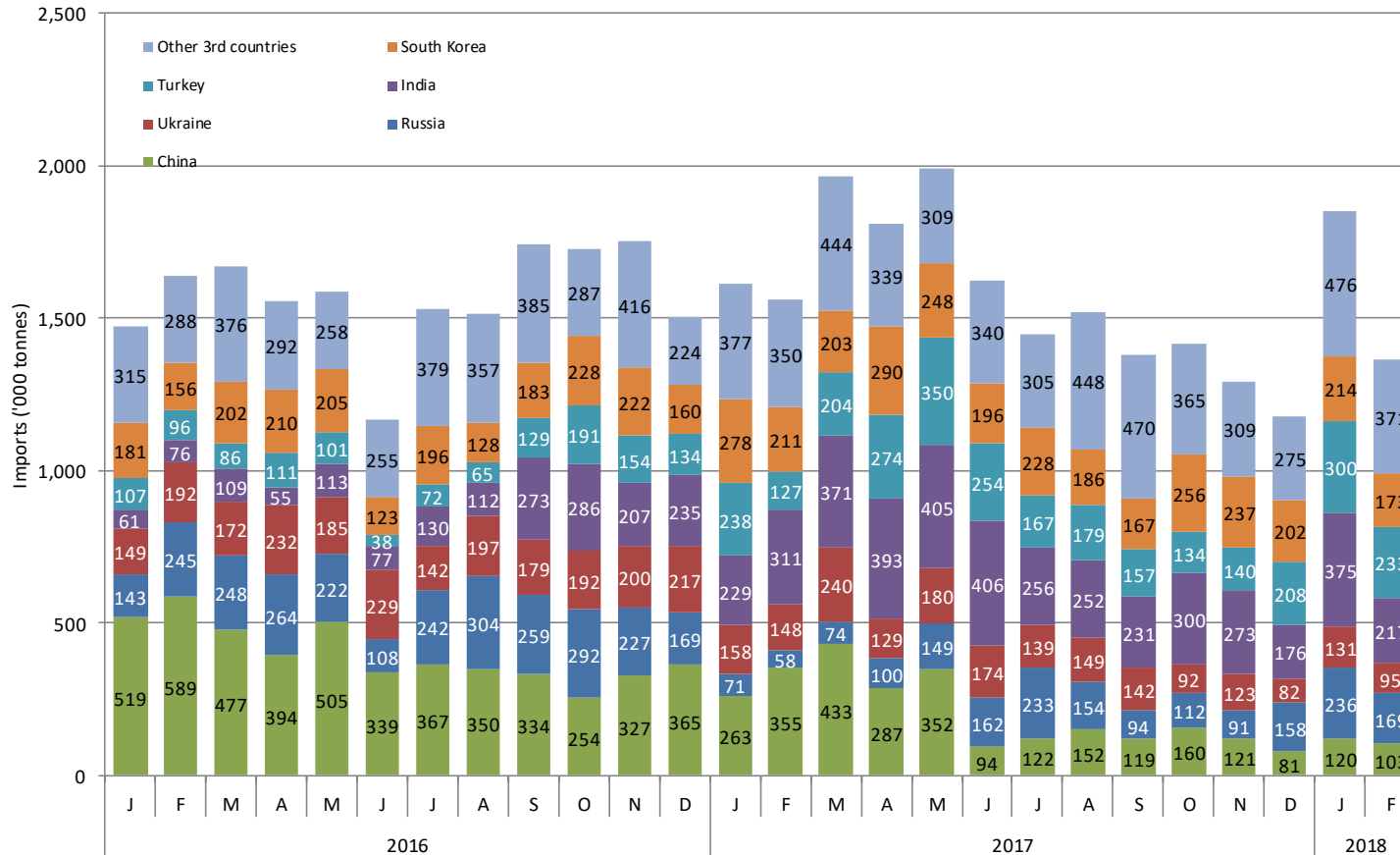
Source: ISSB

Note: Products incl. HR, CR, Electrical steel, HDG, EG, Plate, OCS, tinplate, long products, semi-finished steel and welded and seamless tubes

Imports of flats from China and Russia have come down sharply, but have been taken over by other countries incl. India and Turkey



3rd country imports of flat products* into the EU-28 by origin

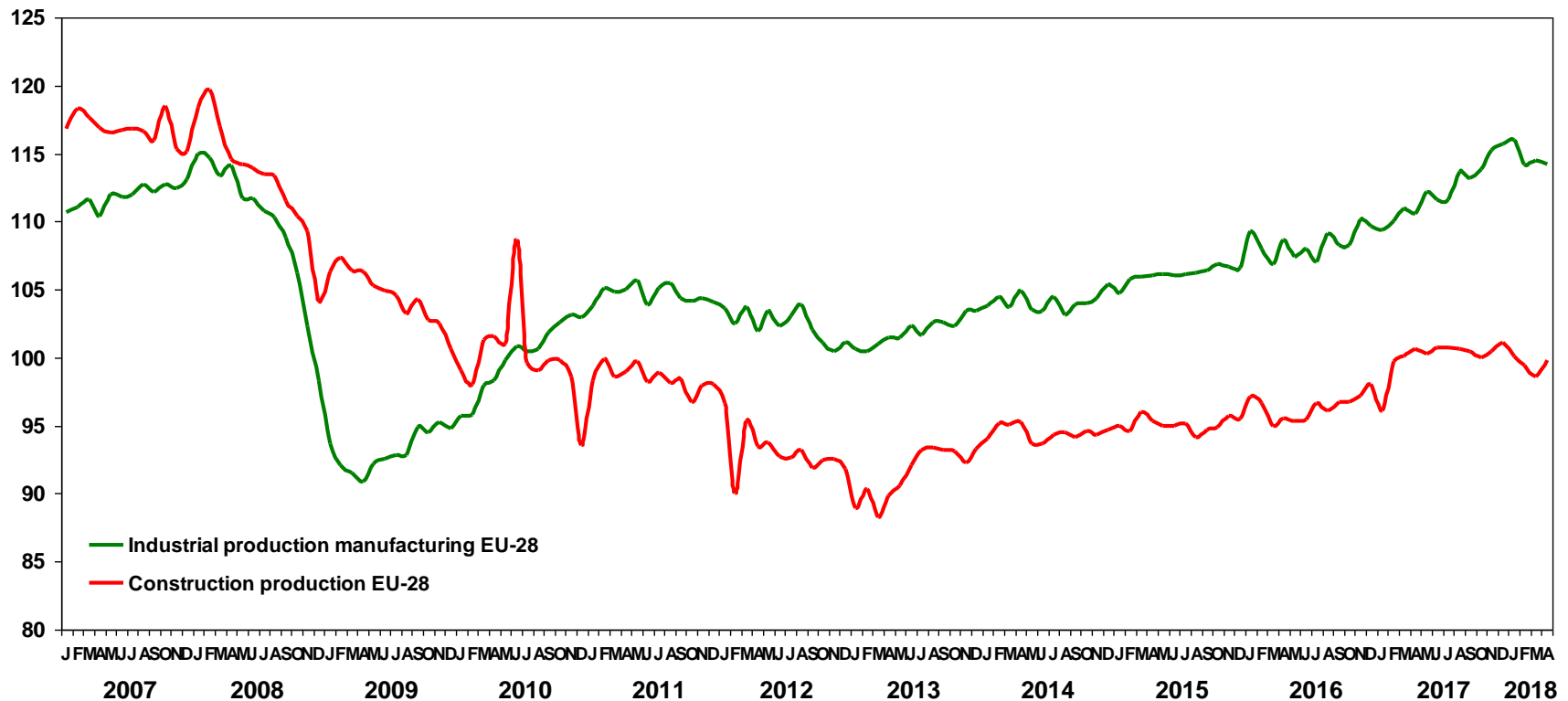


Source: ISSB

Note: * Flat products incl. HR, CR, Electrical steel, HDG, EG and Plate, excl. STS, OCS and tinplate

The price upturn has been mainly caused by a pick up in demand, with both the manufacturing and the construction sectors showing firm growth. Indicators have dipped recently, however, as a result of severe winter weather and a weakening of sentiment due to trade conflicts and geopolitical tensions

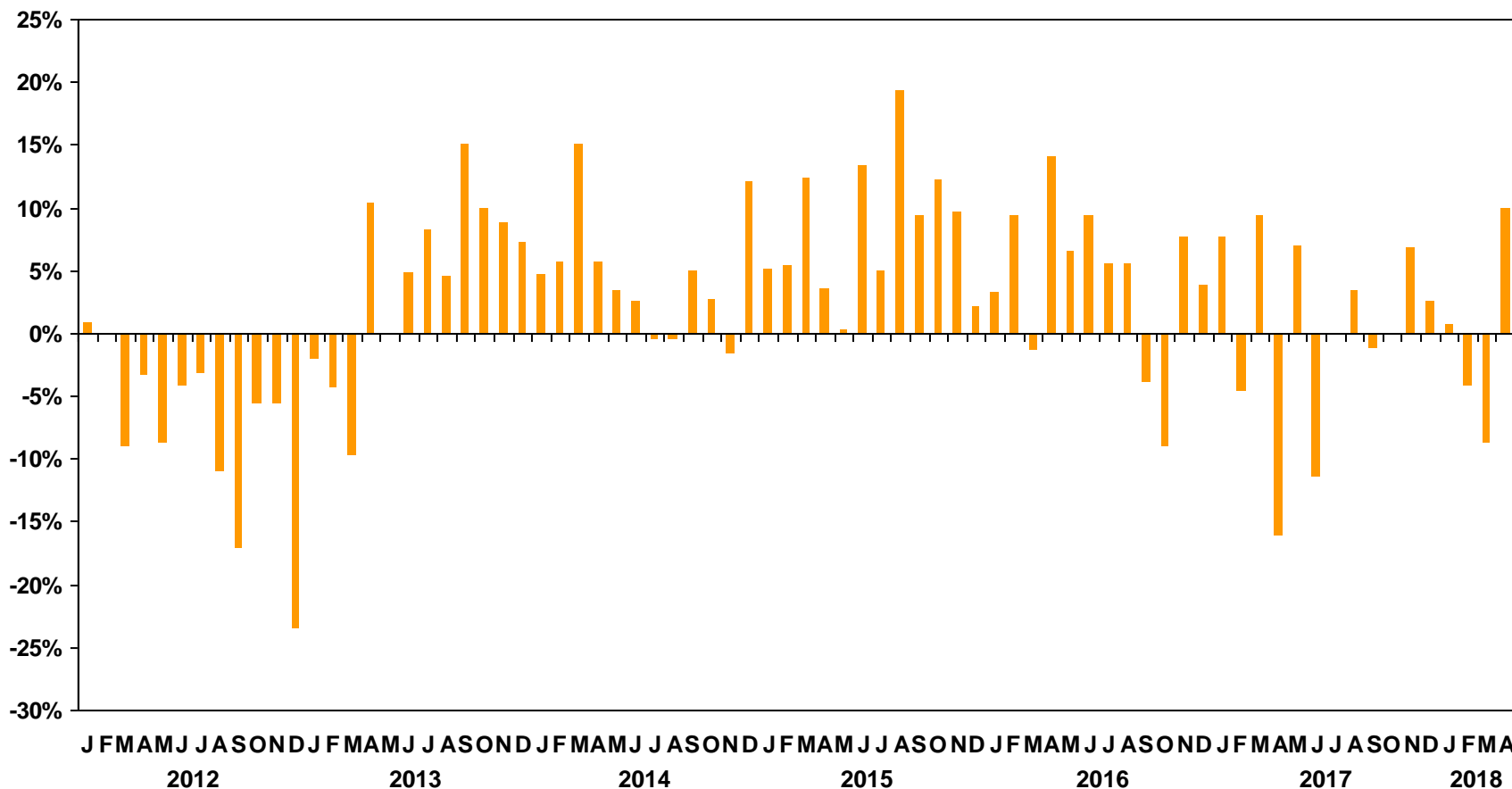
Leading economic indicators EU (Index 2010=100)



Source: Eurostat

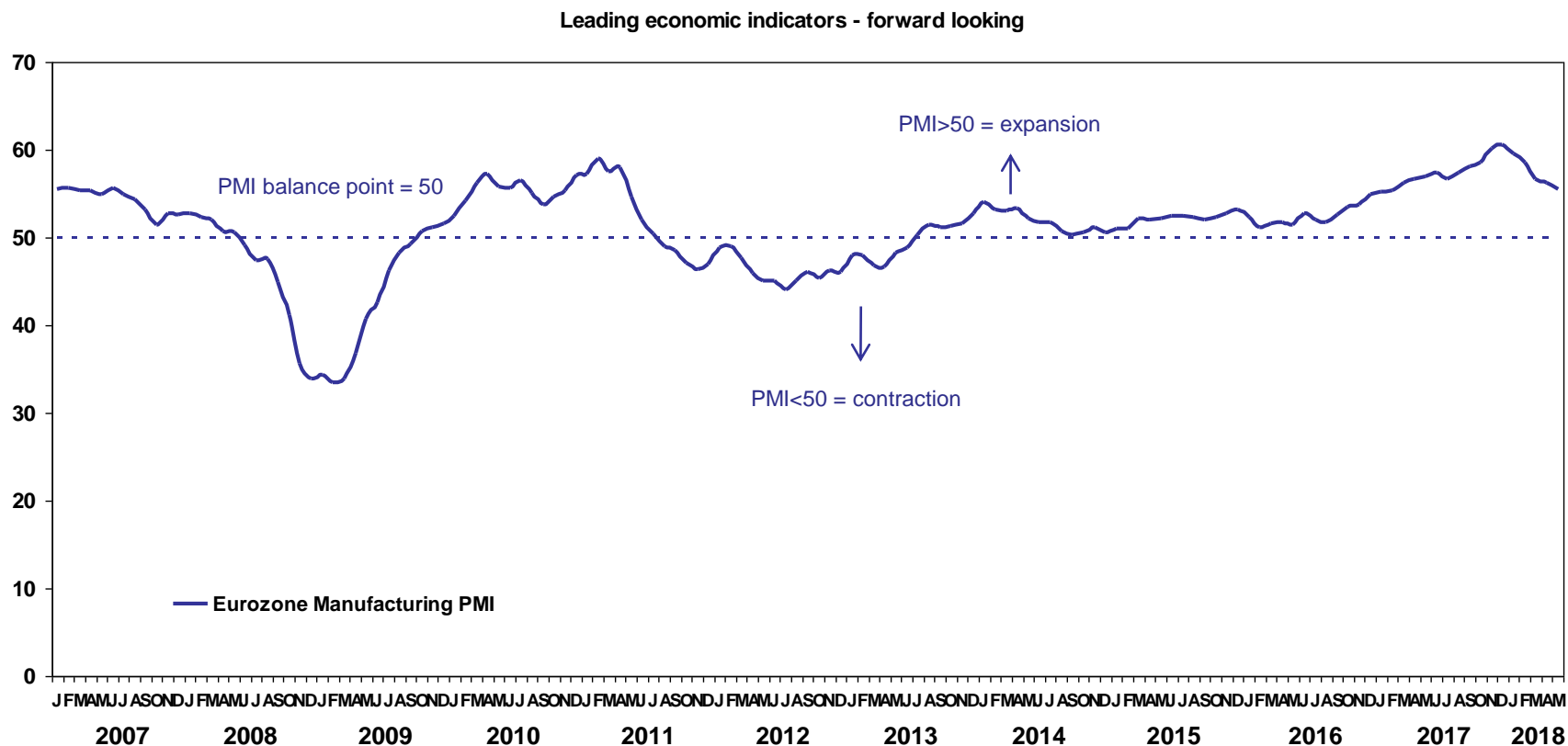
Steel demand growth by the EU automotive sector is loosing speed, but consumption remains at high levels

Passenger car output of main EU producing countries (% YoY growth)



Source: SteelConsult analysis

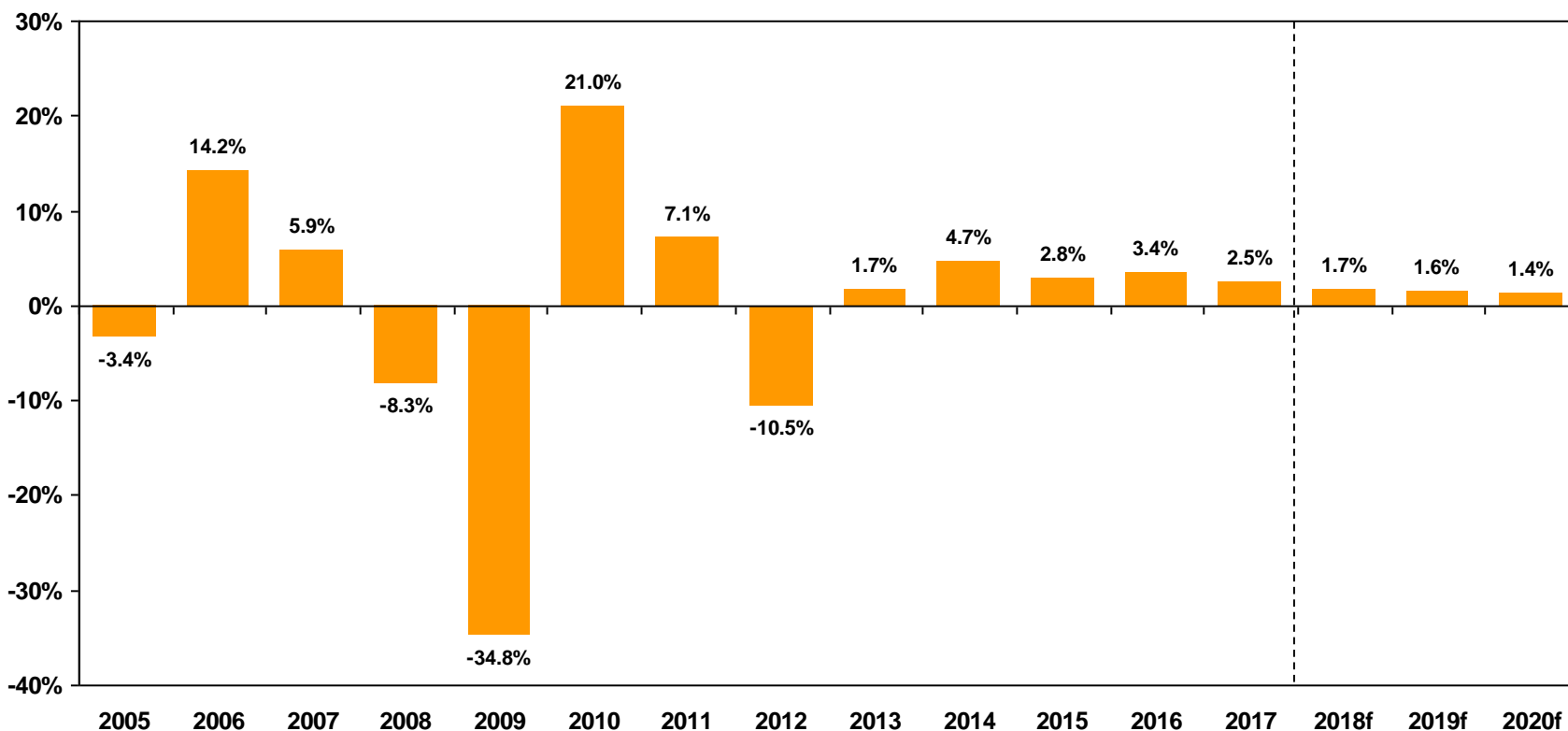
The PMI indicator for Eurozone Manufacturing remains at a high level, though has fallen in recent months from its peak of 60, likely caused by global trade tensions



Source: Markit

Growth in steel consumption is expected to slow down somewhat in 2018 and 2019, but remain well in positive territory

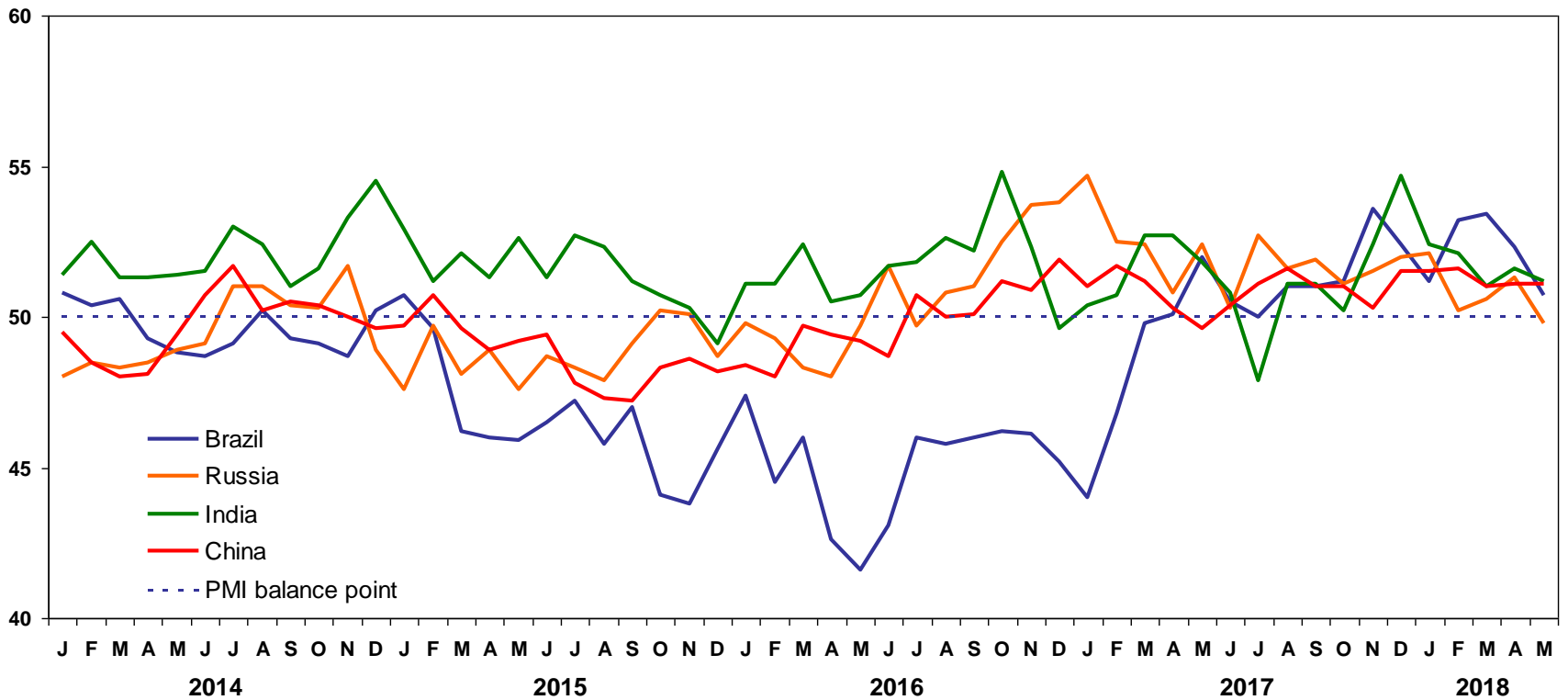
Growth in steel consumption Europe* (YoY % change)



Source: Eurofer, WSA, SteelConsult
 Note: *Excl. Turkey

Also the BRIC countries are doing better again, though recent months show a clear slowdown

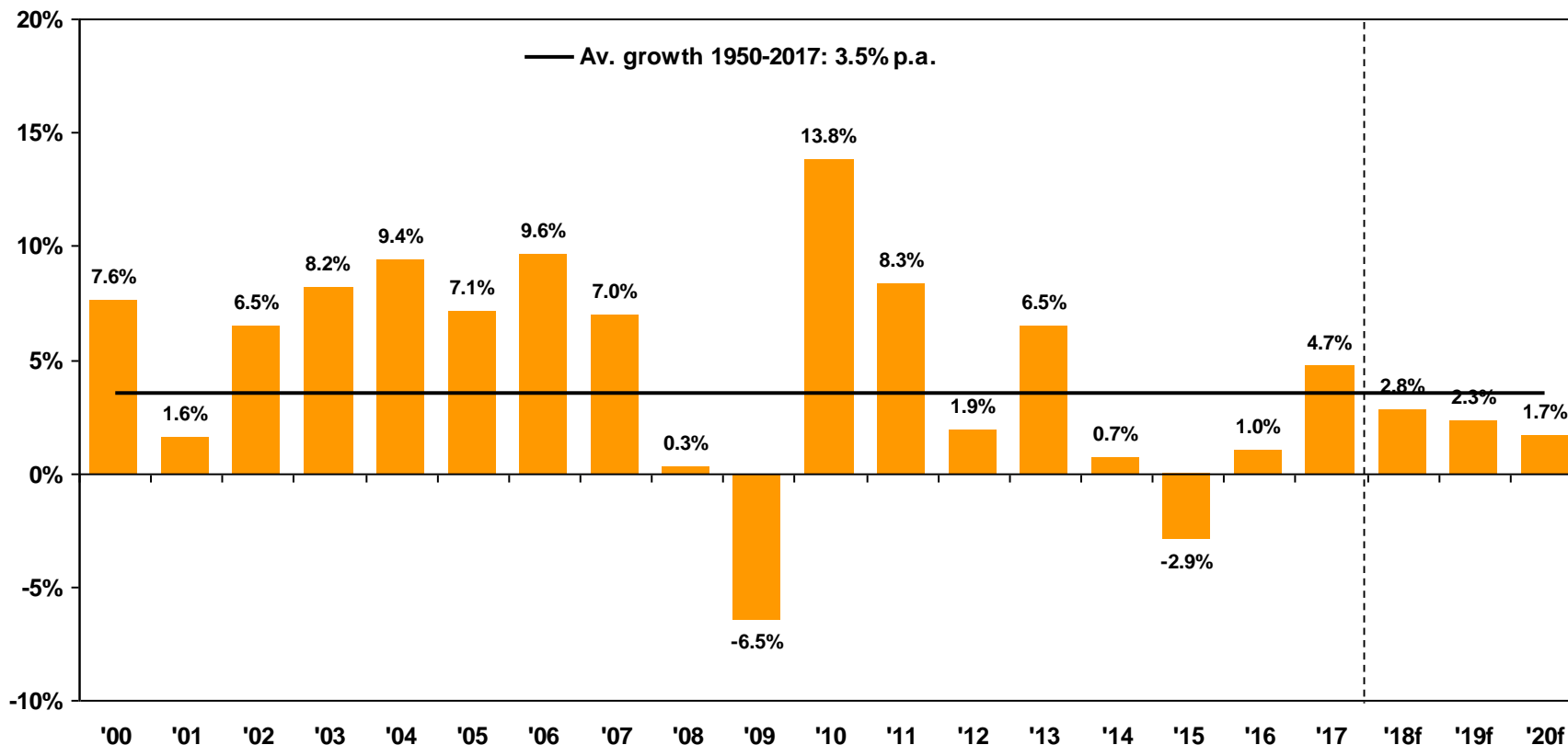
Manufacturing PMI Index



Source: Markit, HSBC

Global steel consumption is expected to grow somewhat below long term average levels throughout 2018-2020

YoY growth in global steel consumption (%)



Source: WSA, SteelConsult (forecasts)

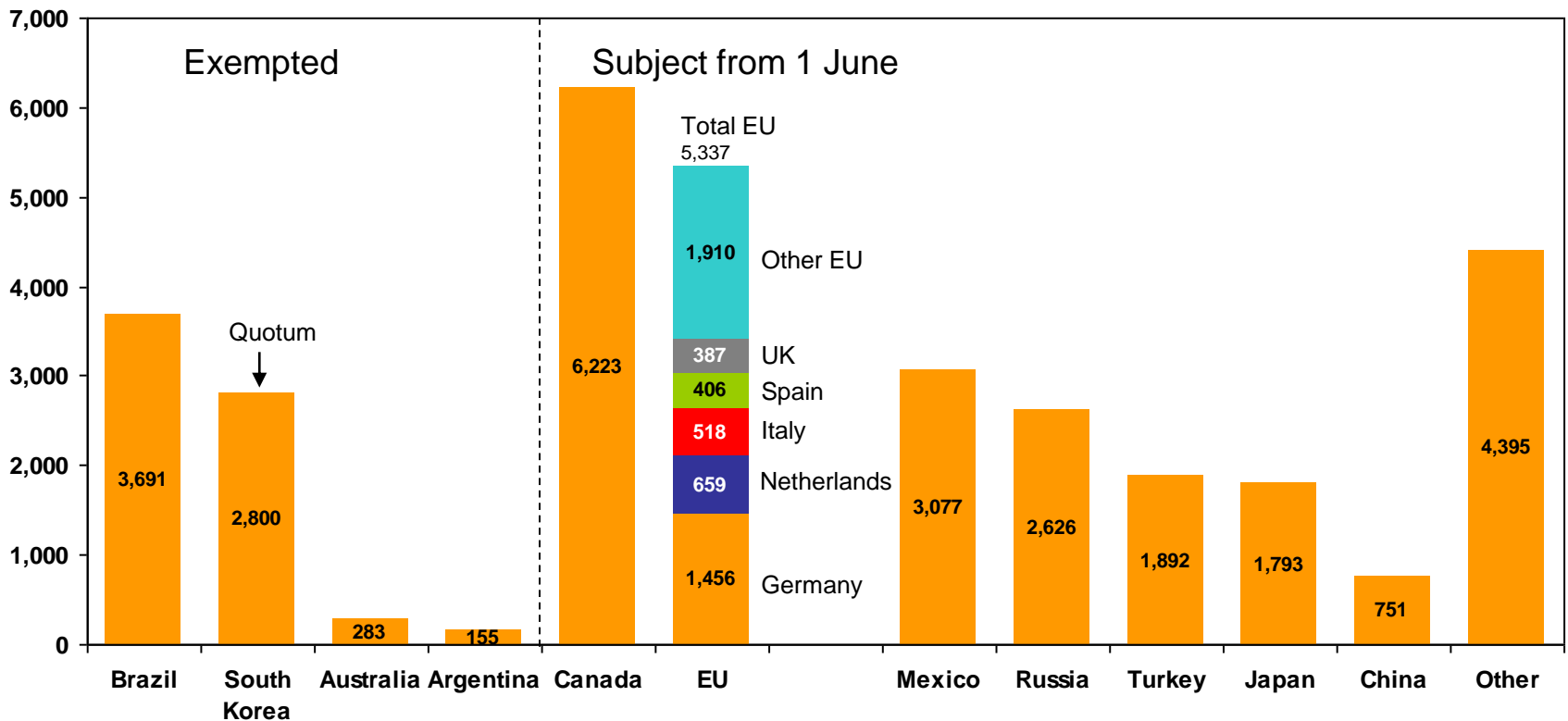
Note: *2017 rise inflated by the closure of induction furnaces in China, which were not included in official statistics, with production taken over by mainstream steel mills. Underlying global growth estimated to be 2.4% in 2017 (source WSA)

There are also threats however: President Trump's 25% tariffs on steel imports into the USA could have dire consequences for global economic fundamentals in general and for steel in particular

- President Trump has imposed tariffs on imports of steel (25%) and aluminium (10%), effective from 1 May 2018.
- Exemptions have been negotiated for certain countries (Argentina, Brazil, Australia and South Korea).
- Import tariffs will hurt the US economy on balance, though will be good for US mills.
- Steel mills in affected exporting countries are subject to a number of risks as a result:
 - Direct: loss of exports to the US market;
 - Indirect: Diversion of exports for the US seeking other destinations;
 - Trade war: Spread of import tariffs to other sectors using steel (cars);
 - Escalating trade war could cause a major global recession, affecting steel consumption across sectors, incl. construction;
 - Section 232 causes a dangerous precedent that could be an example for other countries. This, and retaliations by other countries, could undermine the functioning of the WTO.

Exporters hardest hit by US import tariffs include Canada, Mexico and the EU. From 1 June, a total amount of 25 mln tonnes of steel is subject to import tariffs. The indirect impact through diverted trade flows is even more relevant for most EU mills than the direct loss of export volumes

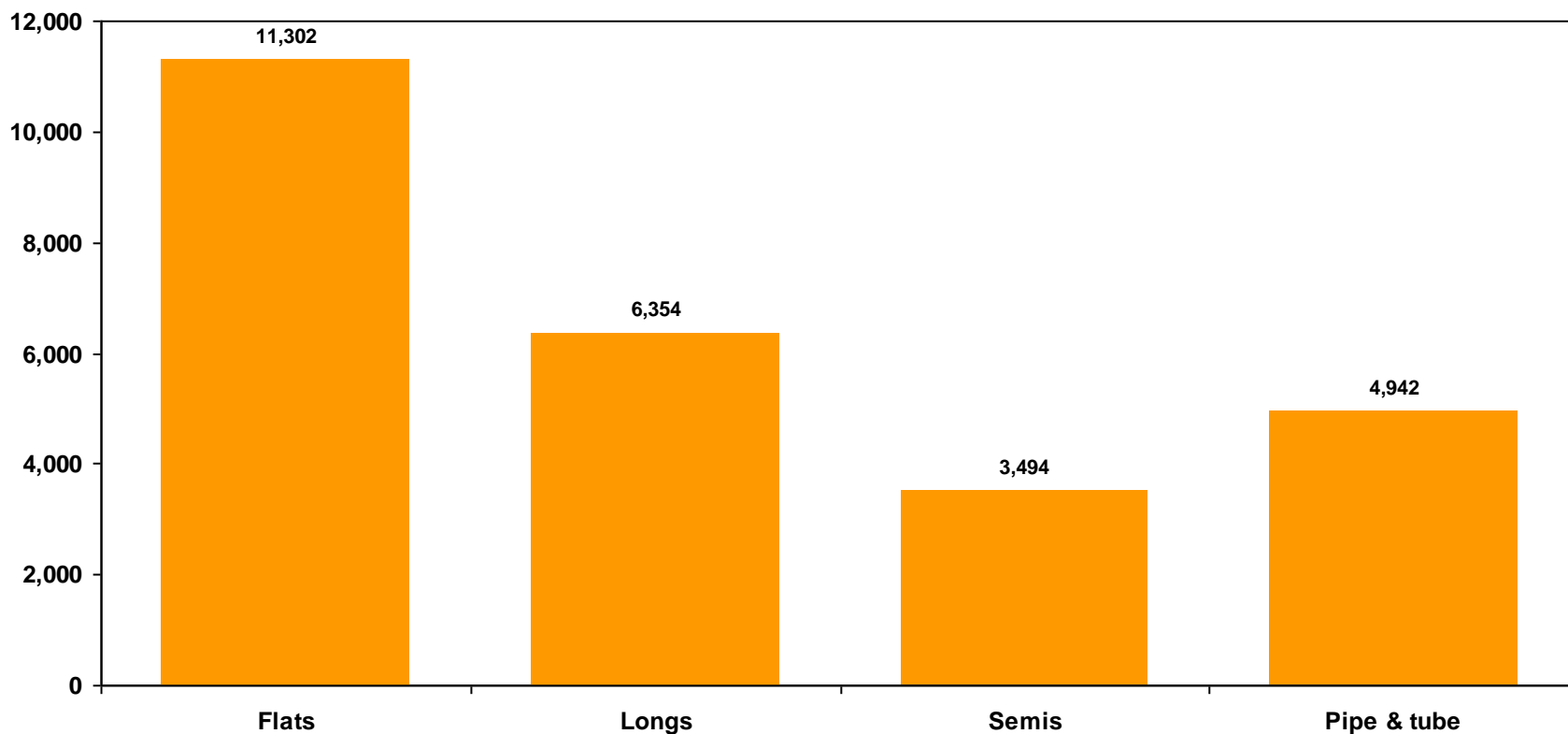
US steel imports by country, 2017 (kt)



Source: WSA, SteelConsult analysis

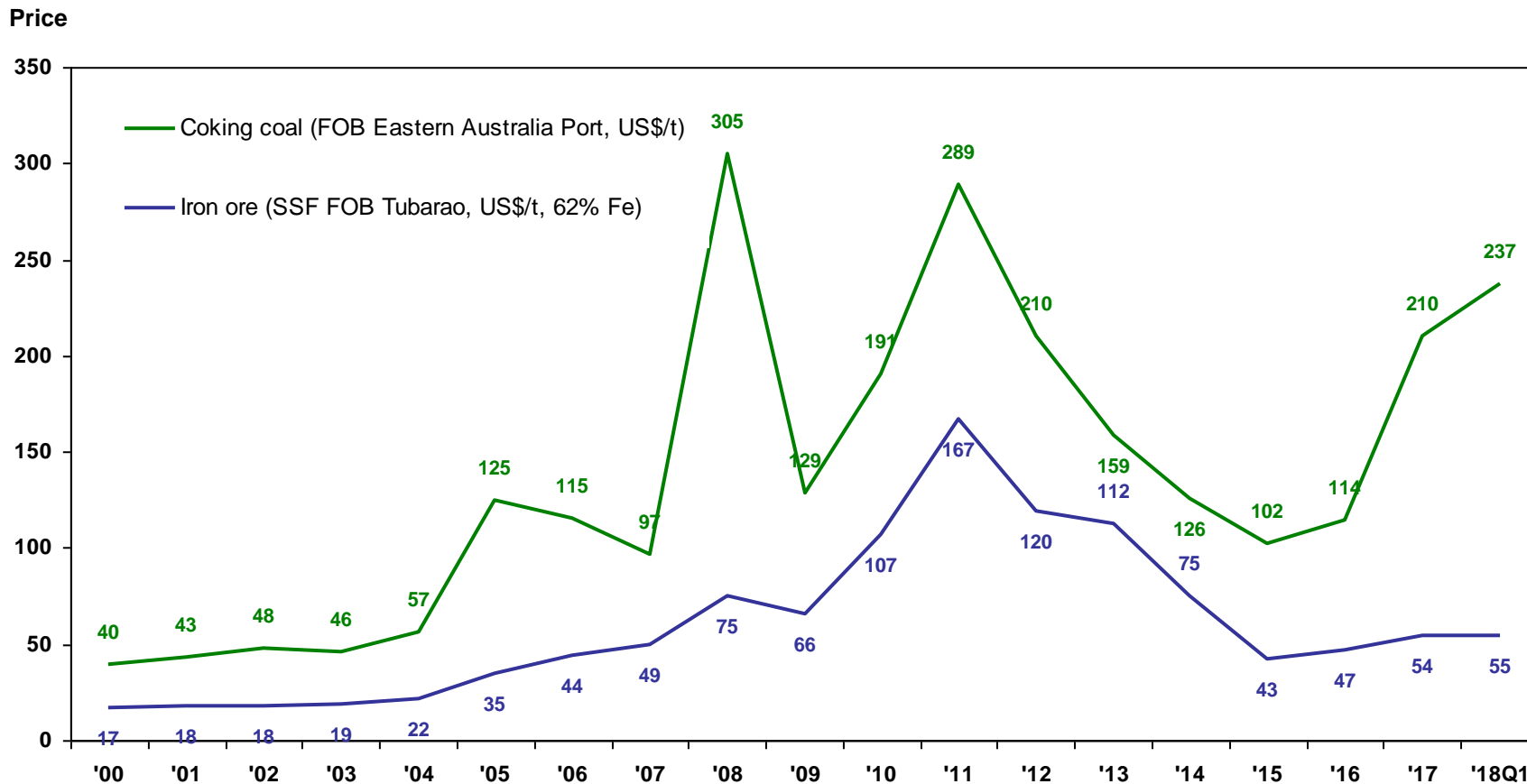
US integrated mills have much to gain from Section 232, US rerollers of imported semis and sheet from non-exempted countries face heavy cost penalties

US steel imports by product excl. exempted countries, 2017 (kt)



Source: WSA, SteelConsult analysis

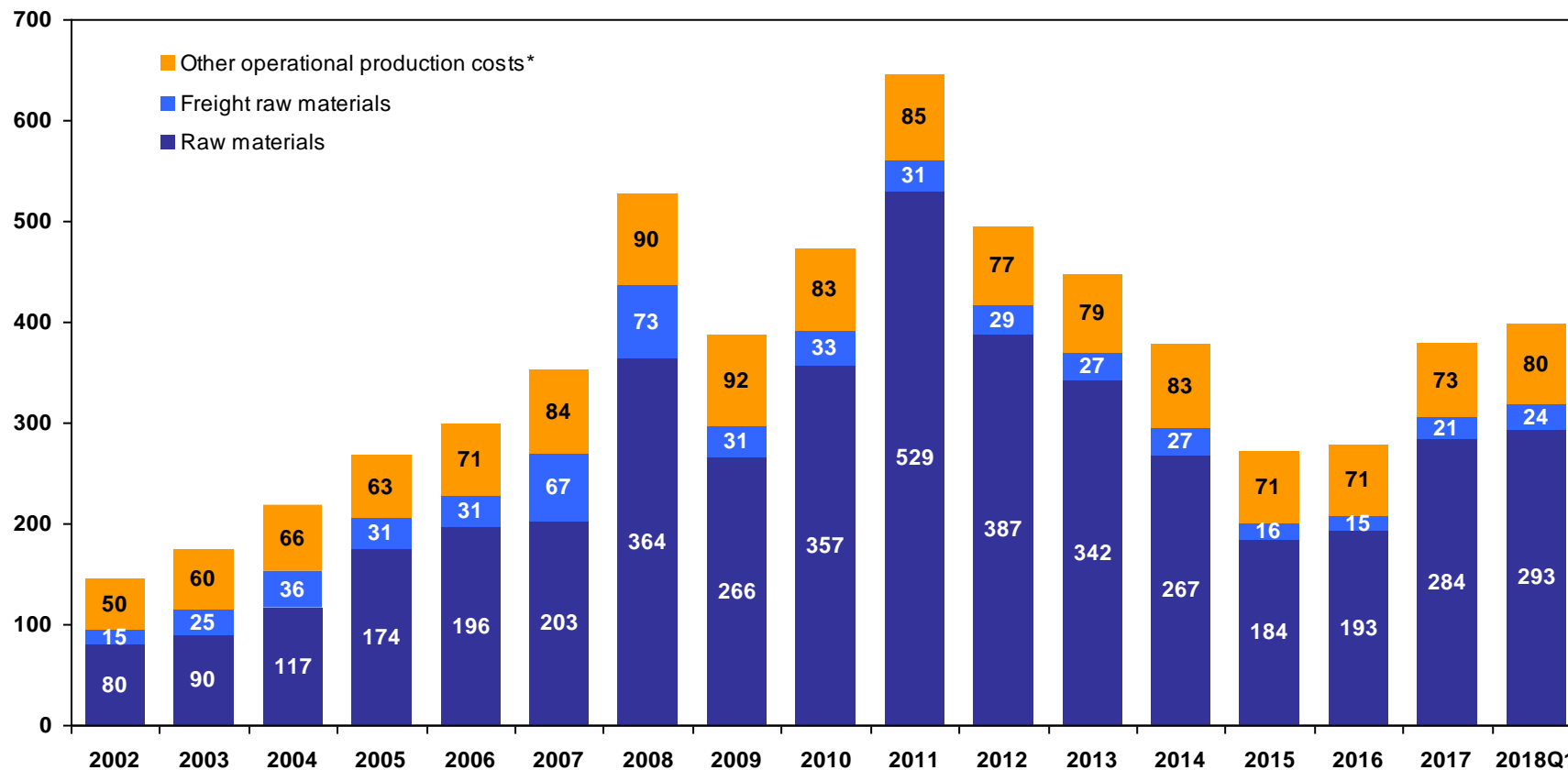
Another threat is that raw materials costs are rising again...



Source: SteelConsult analysis, SBB, MB

...As a result, EU mills are seeing their production costs increase significantly. In addition to raw materials, costs for energy, freight and labour are also rising

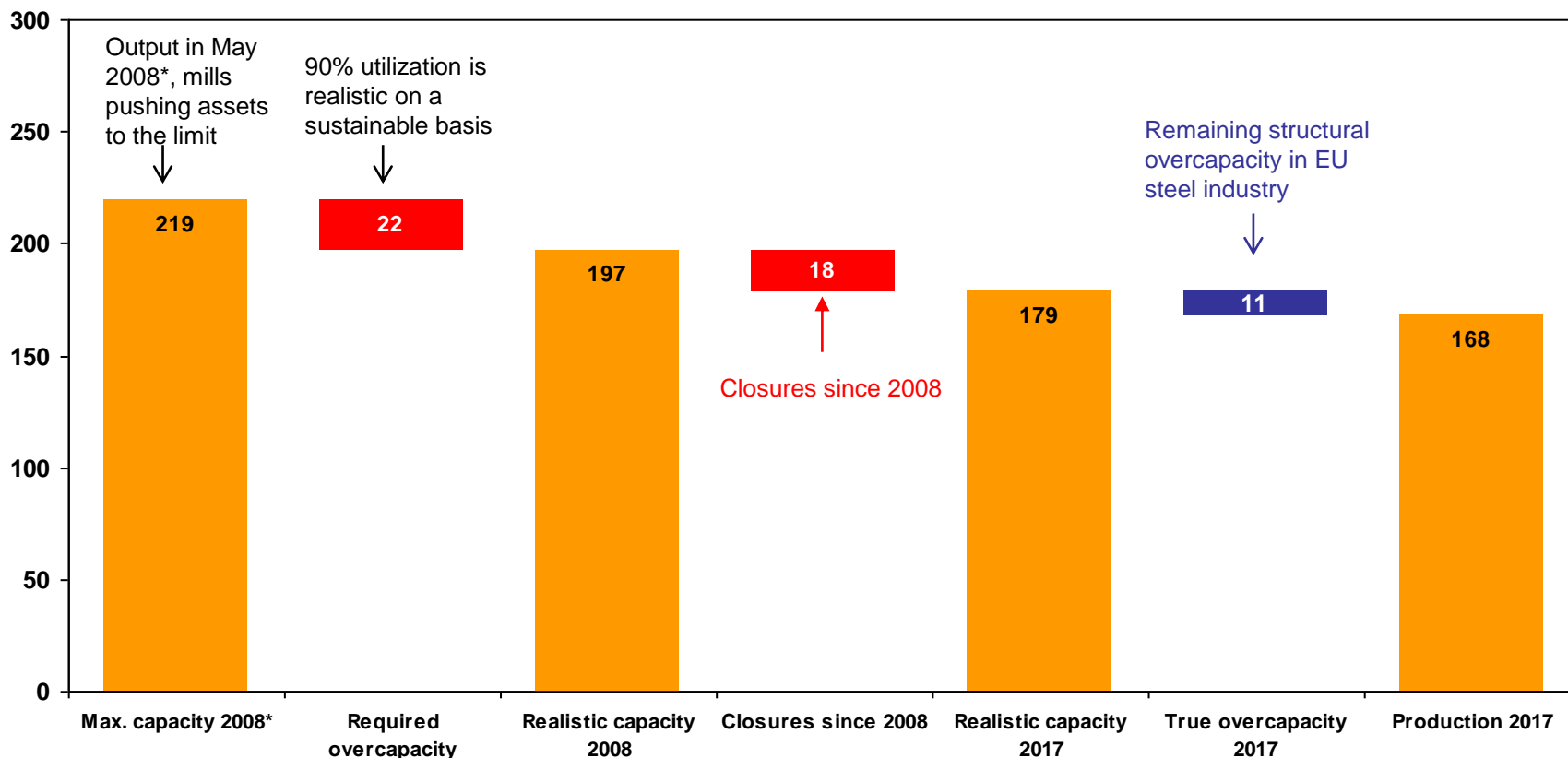
Operational production cost/t slab, EU mill, US\$/t



Source: SteelConsult analysis
 Note: *Incl. net energy credit

Despite considerable closures since 2008, there remains overcapacity in the EU amounting to ~10m tpy of steel

EU crude steel output/capacity, mln tonnes

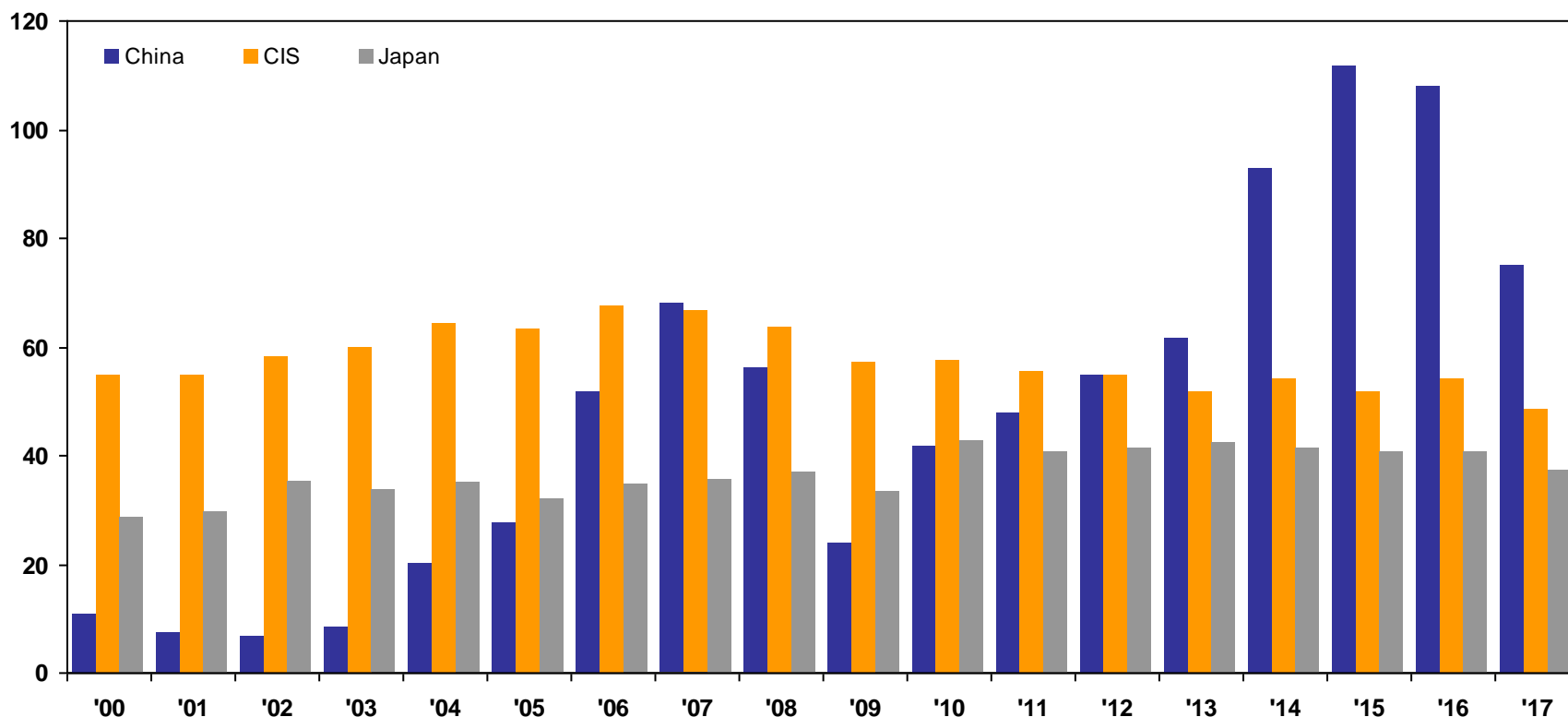


Source: WSA, SteelConsult analysis

Notes: *May 2008, annualized

Chinese steel exports have fallen steeply, but China still has ~200 mln tonnes of overcapacity. Chinese exports will remain a threat the coming years

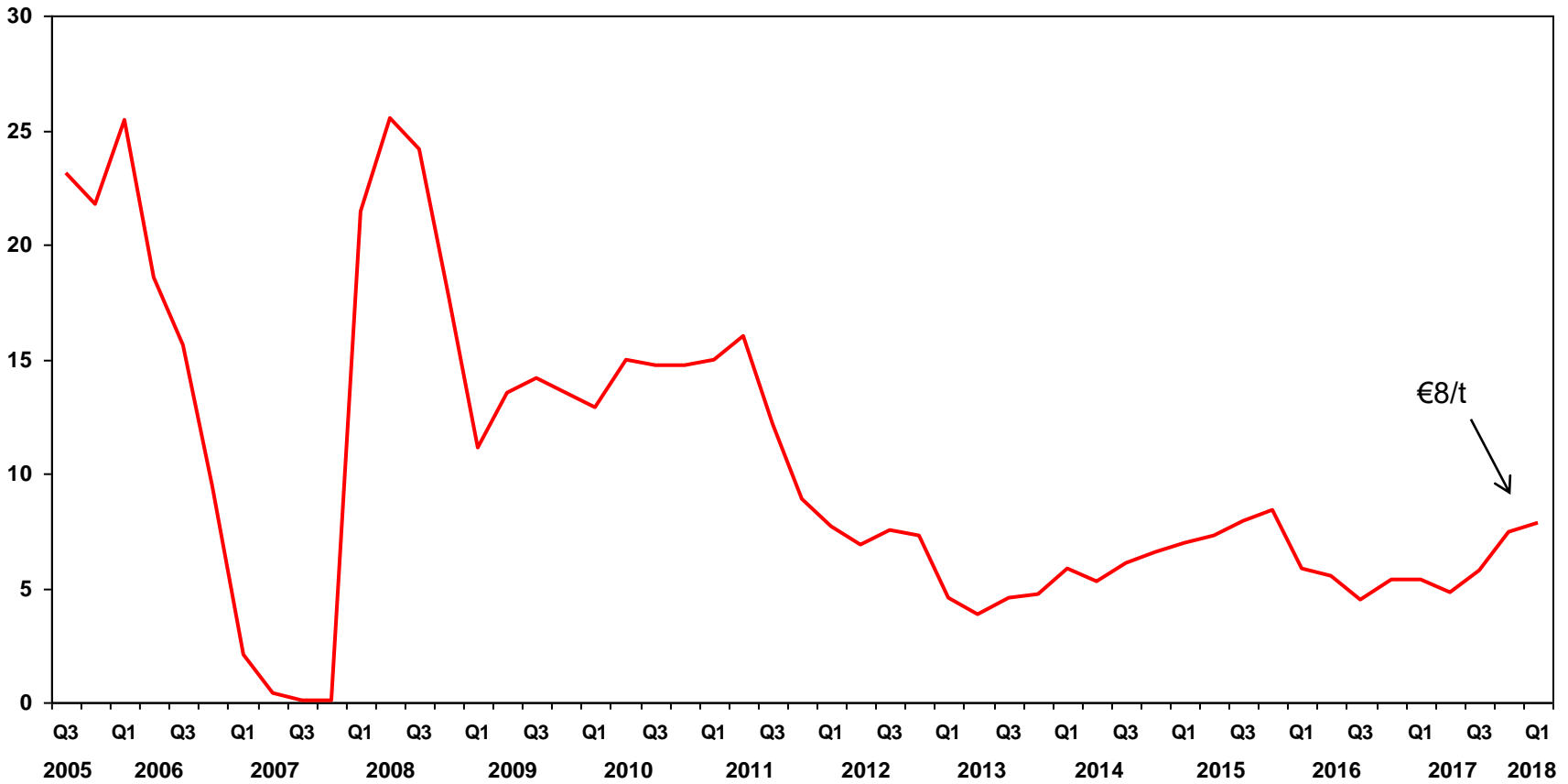
Exports of steel (mln tonnes)



Source: WSA, China Metals, SteelConsult

Rising CO₂ emissions costs: CO₂ emissions prices have been low for many years and the impact on the EU steel industry has so far remained modest...

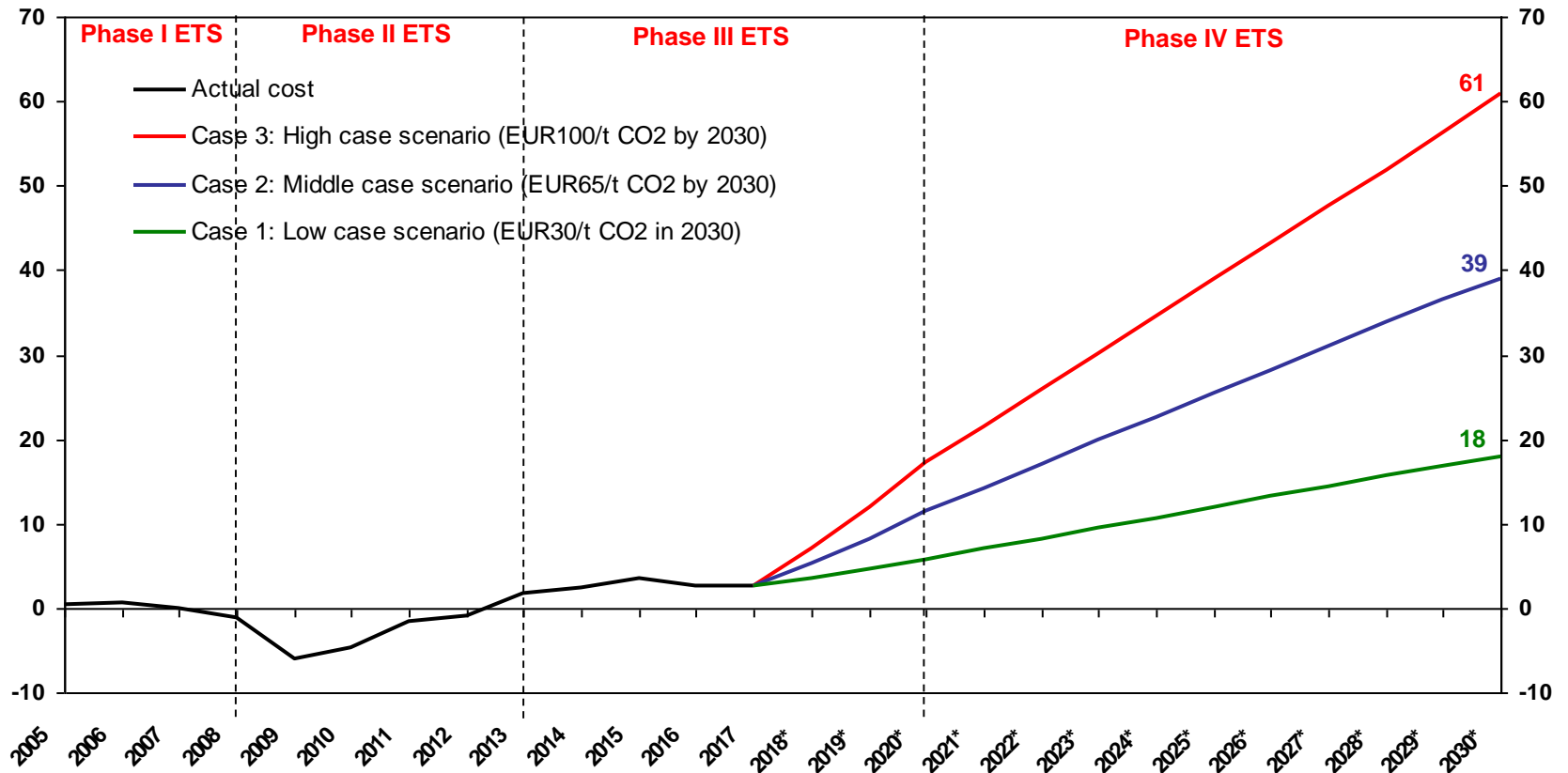
Spot carbon emission price ETS (€/t CO₂)



Source: EEX

However, the EC's CO₂ emissions regime is getting stricter and CO₂ emissions costs are expected to increase to levels of ~€20-60/t crude steel in Phase IV of the ETS

CO₂ emissions costs, average of integrated EU steel mills (€/t crude steel)



Source: SteelConsult analysis

Note: Indicative only, forecasts are subject to specific assumptions

In conclusion: the outlook for the global steel market and industry remains firm, though growth is slowing down. However, forecasts are subject to numerous and substantial risks, esp. increasing economic nationalism and risks of a renewed euro crisis

- Positive outlook for the global steel market and industry, with demand for steel firm from all major end-use sectors incl. automotive, construction and appliances. However, growth has started to slow down in various parts of the world.
- EU steel prices and industry profitability are also firm, but EU market continues to see high import levels.
- However, many and considerable risks remain:
 - **US import tariffs, and threat of global or Atlantic trade war**
 - **Italian government policies and risks of renewed euro crisis**
 - US Fed interest rate policy
 - ECB wind down of QE
 - Geopolitical risks (Russia/Ukraine, Middle-East, Korean peninsula, China)
 - Brexit
 - Tensions between Western and Eastern Europe

Thank you for your attention!



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