

Mexico's Steel Industry

Recent developments

OECD Steel Committee Meeting
Paris, France / September 17-18, 2018



CANACERO
Cámara Nacional de la Industria del Hierro y del Acero

Mexico's steel sector: Market development

- Mexico's steel sector main variables under analysis are:
 - Regional integration: High
 - Trade balance: Deficit
 - Import market share: Absorbing increases in ASU
 - Uncertainty: Due to factors like; excess capacity, Imports surge, Nafta negotiations, 232.
 - Perspectives: Subject to Nafta negotiations

Nafta steel: Export Market Share, 2017

High regional integration: EUA: 88 % / Mx: 69.7 / Can: 97 %

In period 2016 – 2017. Mexico exports market share in US market lost 7.9 points.

Origin / destiny	United States	Mexico	Canada
United States	-	38.8 %	49.3
Mexico	65.0 % (2016: 72.9 %)	-	4.7
Canada	89.9	7.0	-

Mexico Steel sector: Trade balance, 2017

Mexico has a steel trade deficit with US and Canada

Mexico : Trade with United States; 2017

	VOLUME		VALUE
Exports	2 541		2 317
Imports	3 669		4 149
Deficit	- 1 188		- 1 832

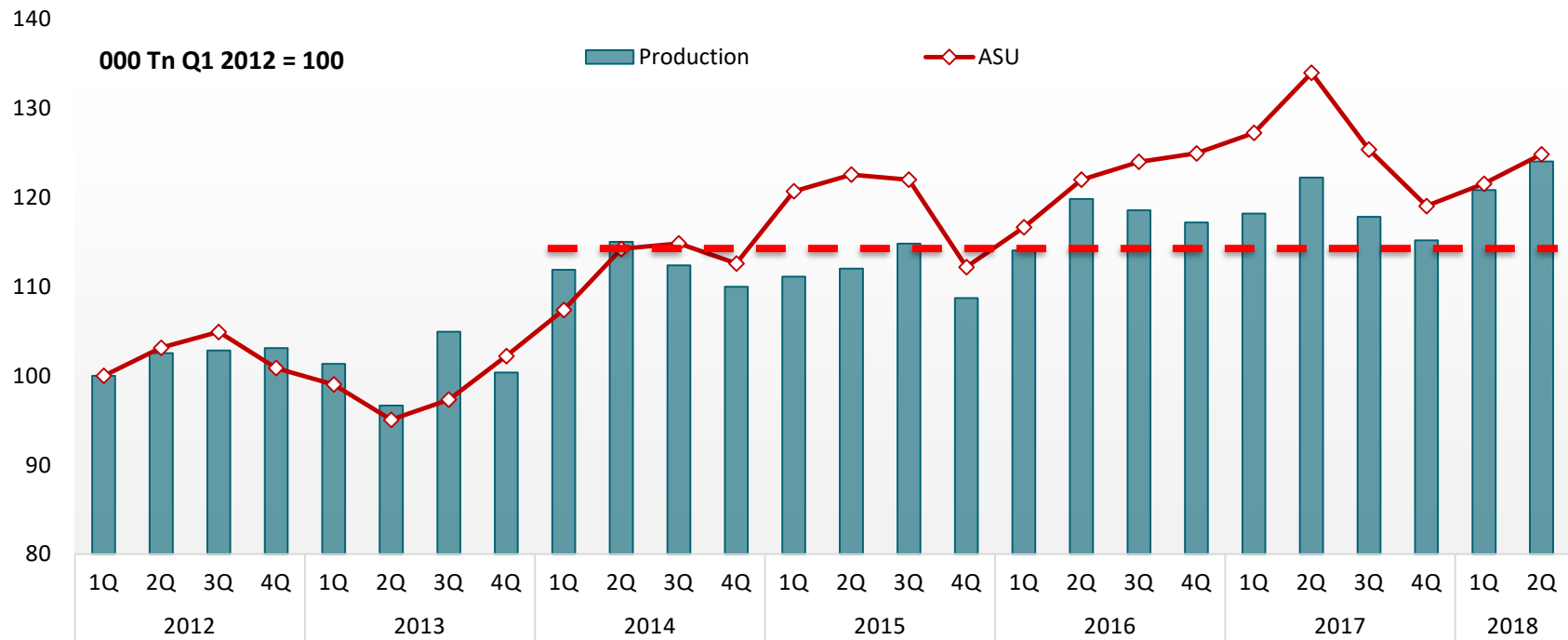
Mexico : Trade with Canada; 2017

	VOLUME		VALUE
Exports	237		246
Imports	456		448
Deficit	- 219		- 202

Mexico steel sector: ASU & Production, 2012 - 2018

Imports have taken the increase in the ASU / Production has remained flat

Mexico steel: Production & ASU, 2012 - 2017

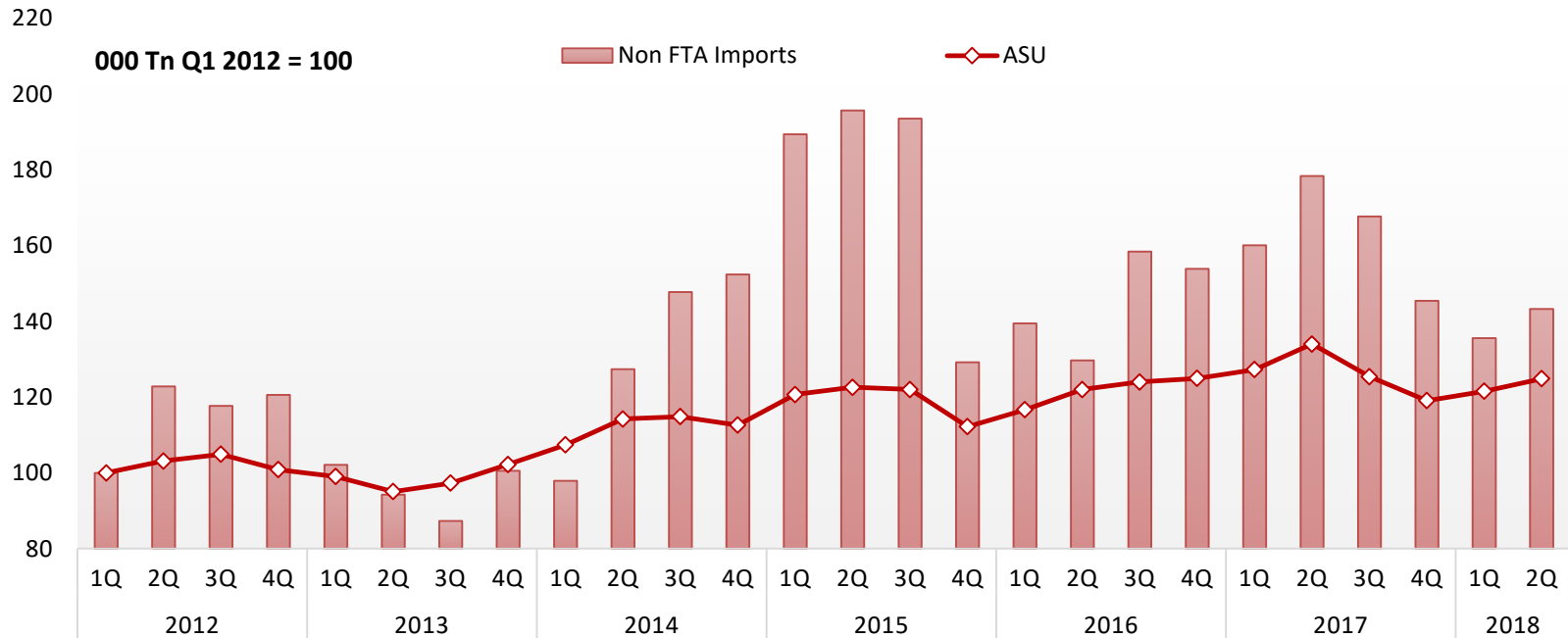


Source: SAT and Canacero

Mexico steel sector: No FTA imports, 2012 - 2018

Non - FTAs imports market share actually is 27.4 %. Very high

Mexico steel: Imports & ASU, 2012 - 2018



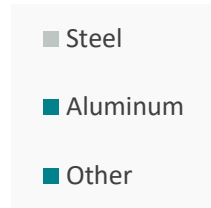
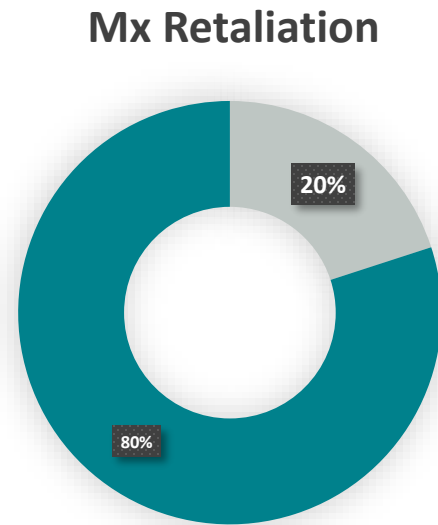
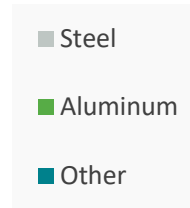
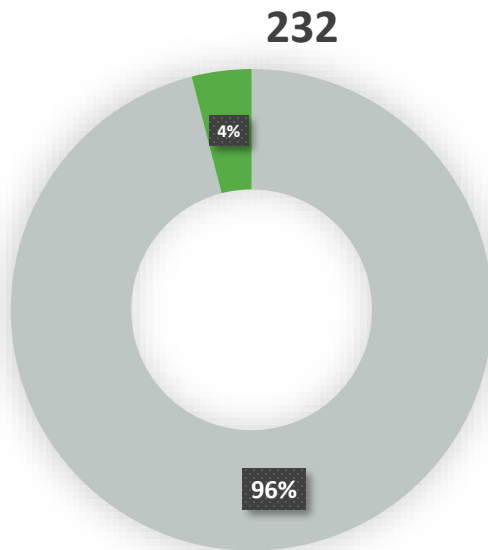
Source: SAT and Canacero

Measures affecting regional trade: 232

- United States imposed 25 percent global tariff on imports of steel products under Section 232. And subject to Nafta negotiation.
- In response, Mexico applied tariffs on imports from the United States... But
 - Mexico's policy action was no reciprocal
 - Mexican government applied 80 % retaliation to non-steel products and 20 % on steel product
 - Result: México's steel market remained open for US and Canadian exports
- Nafta negotiation:
 - August 31 st, US and Mexico announced an “agreement in principle”
 - Canada is still on negotiations. Deadline: Sep 30.
 - Mexico's principle for 232: No restrictions to trade should exist in Nafta region.

232 & Mexico retaliation

Mexican government applied 80 % retaliation to non-steel products.
Mexico's steel market is open to Nafta partners.

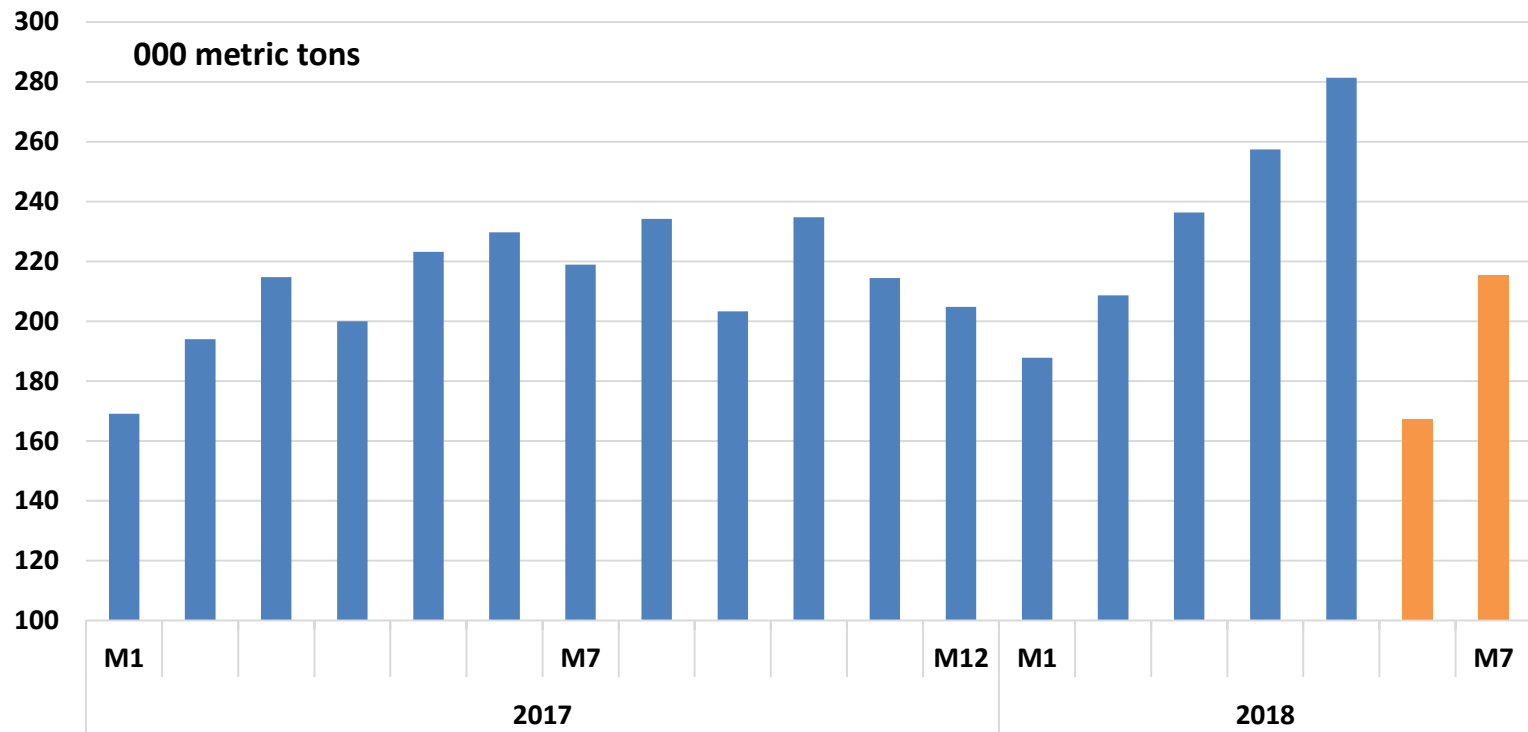


Bilateral trade is under abnormal conditions

Mexico steel sector: Exports, 2017 - 2018

Integration is so strong in North America, that even with 232, Mexican exports are partially recovering after dramatically decrease, despite the high cost related with the measure

Mexico steel: Finished steel exports to the United States. monthlv. 2017 - 2018



Source: SAT and Canacero

Perspectives

- Mexico's steel market is under pressure due:
 - Increasing non- Nafta imports market share
 - Excess capacity distortions effects
 - 232 subject to Nafta negotiations
 - Des-equilibrium created as a result of Mexico's retaliation: Mexico's market remain open.
- Nafta negotiations:
 - Creating better conditions for steel markets as a result of new rules and disciplines that could impact positively in the steel sector.
 - Also creating better conditions for regional integration.