

# The Latin America Steel Market: an Overview

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OECD Steel Committee. 26-27 September 2019, Paris



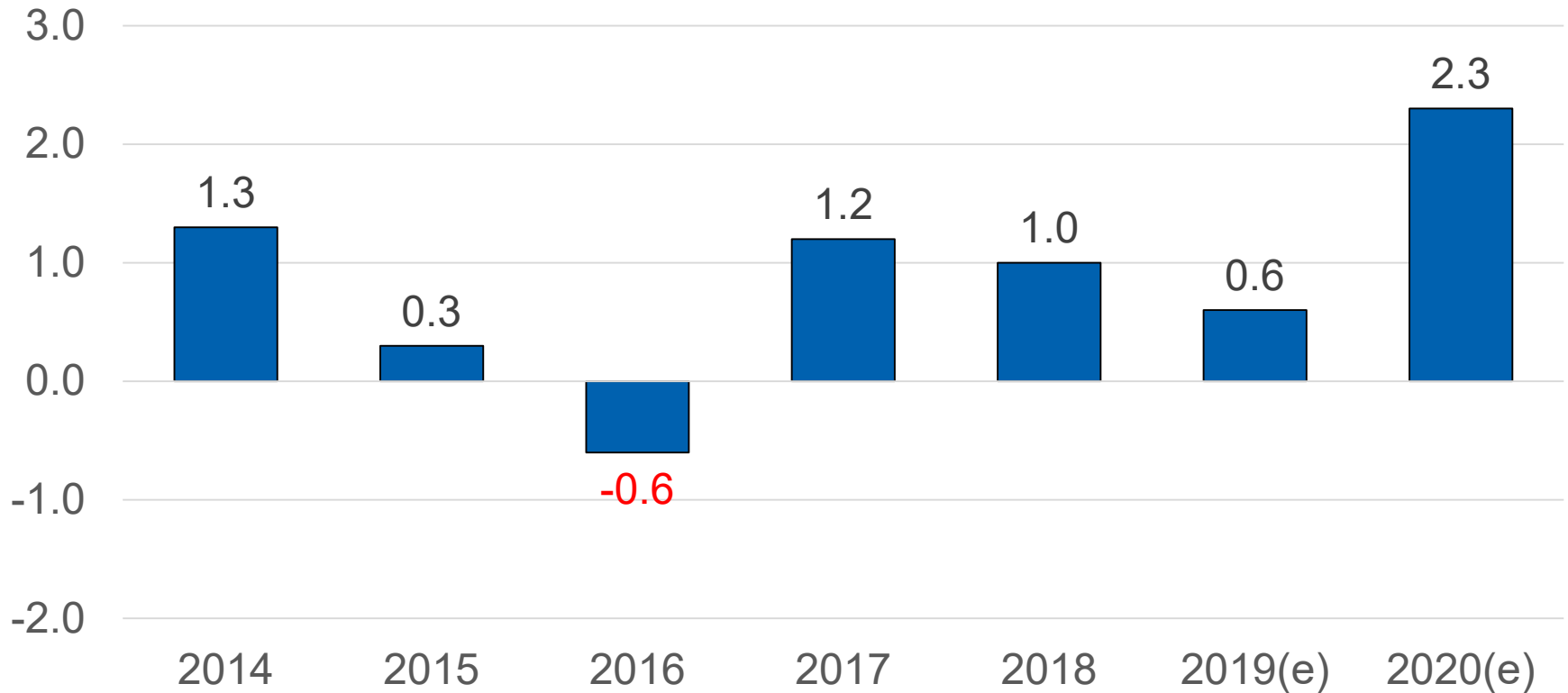
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# Introduction

- A **challenging global environment**. Persistent trade tensions and the slowdown in world growth is negatively impacting economic activity in Latin America. The year started with general optimism, soon we have realized our economies could not stay afloat in this great uncertainty.
- Latin America will grow only 0.6% in 2019, significantly **less than previously expected** (2.2%). The generalized downward surprise in growth in the first half of the year is behind this revision.
- The **deterioration of short-term growth prospects** is particularly strong in Brazil and Mexico. In both, GDP will expand by less than 1.0% in 2019, partly due to uncertainty about internal policies. In 2020 growth will increase in both countries but will remain close to 2%.
- The balance of risks is tilted to the **downside**: both global factors (trade tensions, risk aversion) and local issues (political noise, fiscal policy) could further delay the process of convergence to potential of growth in the countries of the region.

# Another 2019 setback, but LA will recover

GDP (%)

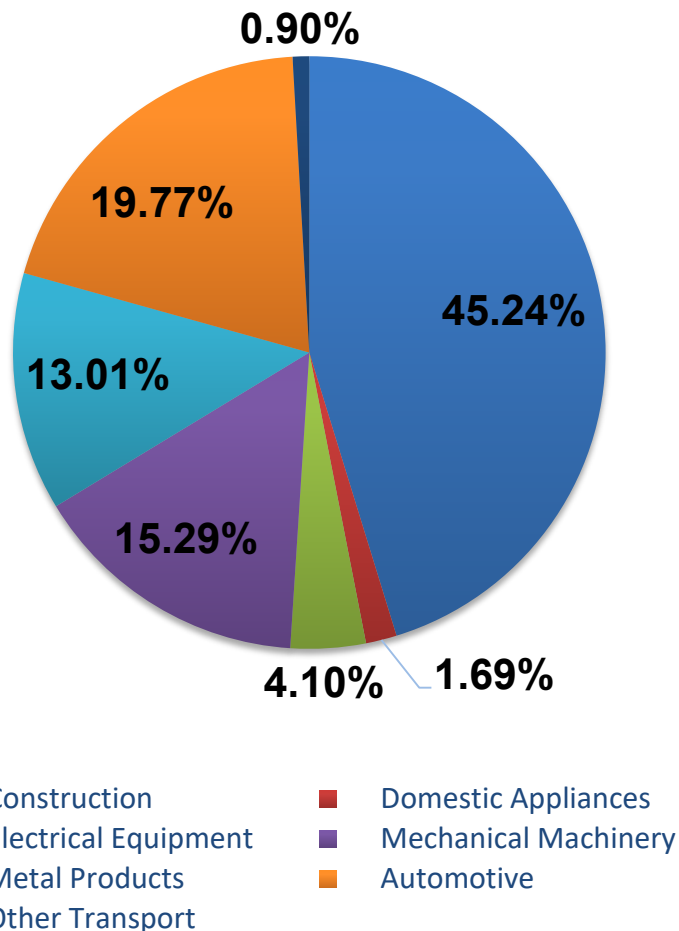


(e): estimated

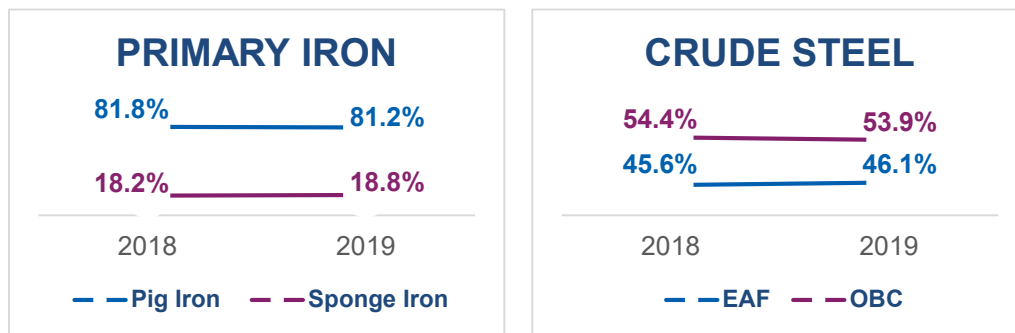
Source: IMF. WEO Feb 2019

# Construction still as the main driver. Steelmaking mainly BOF and long products

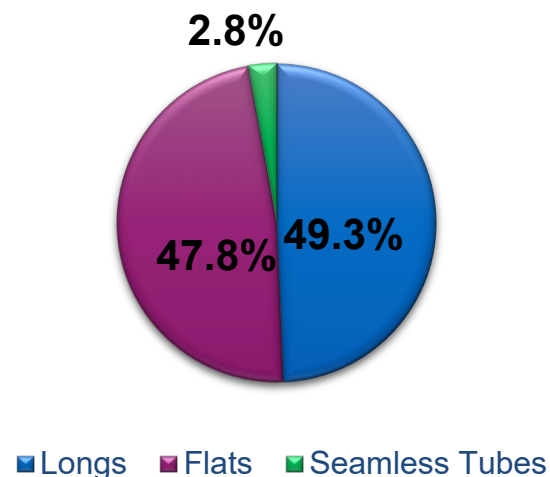
## Steel Weights



## Raw Production



## Finished Production



# Latin America GDP outlook

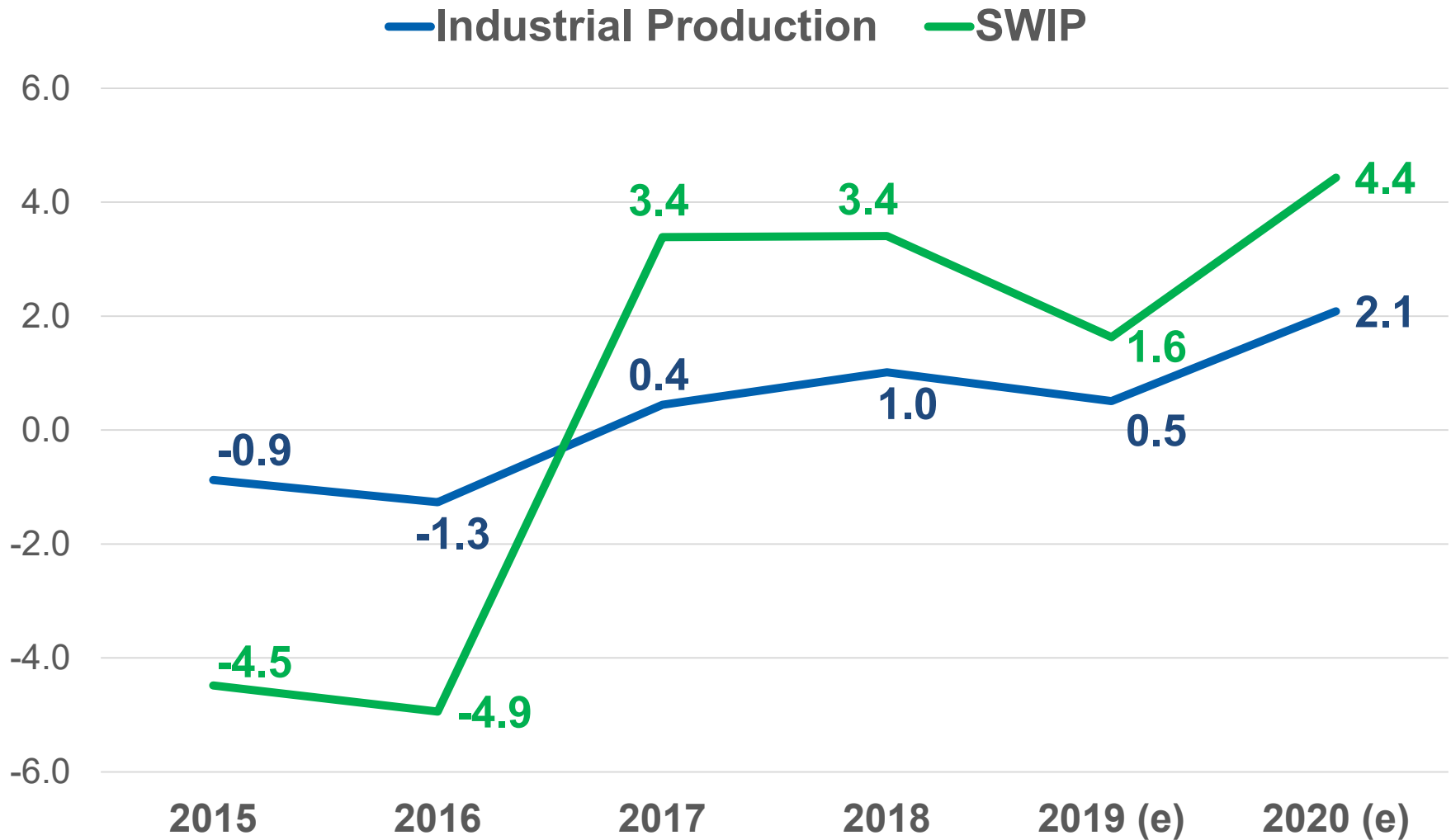
## GDP Growth (%)

Country	2015	2016	2017	2018	2019(e)	2020(e)
Latin America	0,3	-0,6	1,2	1,0	0,6	2,3
Argentina	2,7	-2,1	2,7	-2,5	-1,3	1,1
Brazil	-3,5	-3,3	1,1	1,1	0,8	2,4
Chile	2,3	1,7	1,3	4,0	3,2	3,2
Colombia	3,0	2,1	1,4	2,7	3,5	3,6
Dominican Republic	7,0	6,6	4,6	7,0	5,1	5,0
Mexico	3,3	2,9	2,1	2,0	0,9	1,9
Peru	3,3	4,0	2,5	4,0	3,9	4,0
Venezuela	-6,2	-17,0	-15,7	-18,0	-25,0	-10,0

(e): estimated

Source: Latin America from IMF WEO Aug 2019 - April data update. Others from National Regional Secretaries.

# Steel Drivers: 2019 down, but strong 2020



(e): estimated

Source: Alacero

# Latam ASU Outlook for 2019-2020

Million Tons

Country	2018	2019(e)	2020(e)
<b>LATAM</b>	<b>67,0</b>	<b>65,9</b>	<b>68,0</b>
Argentina	4,8	4,1	4,2
Brasil	21,2	21,7	22,7
Chile	2,7	2,6	3,0
Colombia	3,6	3,7	3,8
Dominican Rep.	0,5	0,6	0,6
México	25,6	24,7	25,1
Peru	4,0	4,1	4,1
Venezuela	0,2	0,1	0,1
<i>*Otros Latam</i>	<i>4,3</i>	<i>4,4</i>	<i>4,5</i>

Other Latam: Bolivia, Costa Rica, Cuba, Ecuador, El Salvador, Guatemala, Honduras, Nicaragua, Panamá, Paraguay, Trinidad & Tobago and Uruguay.

# Latam ASU Outlook 2019-2020 (%)

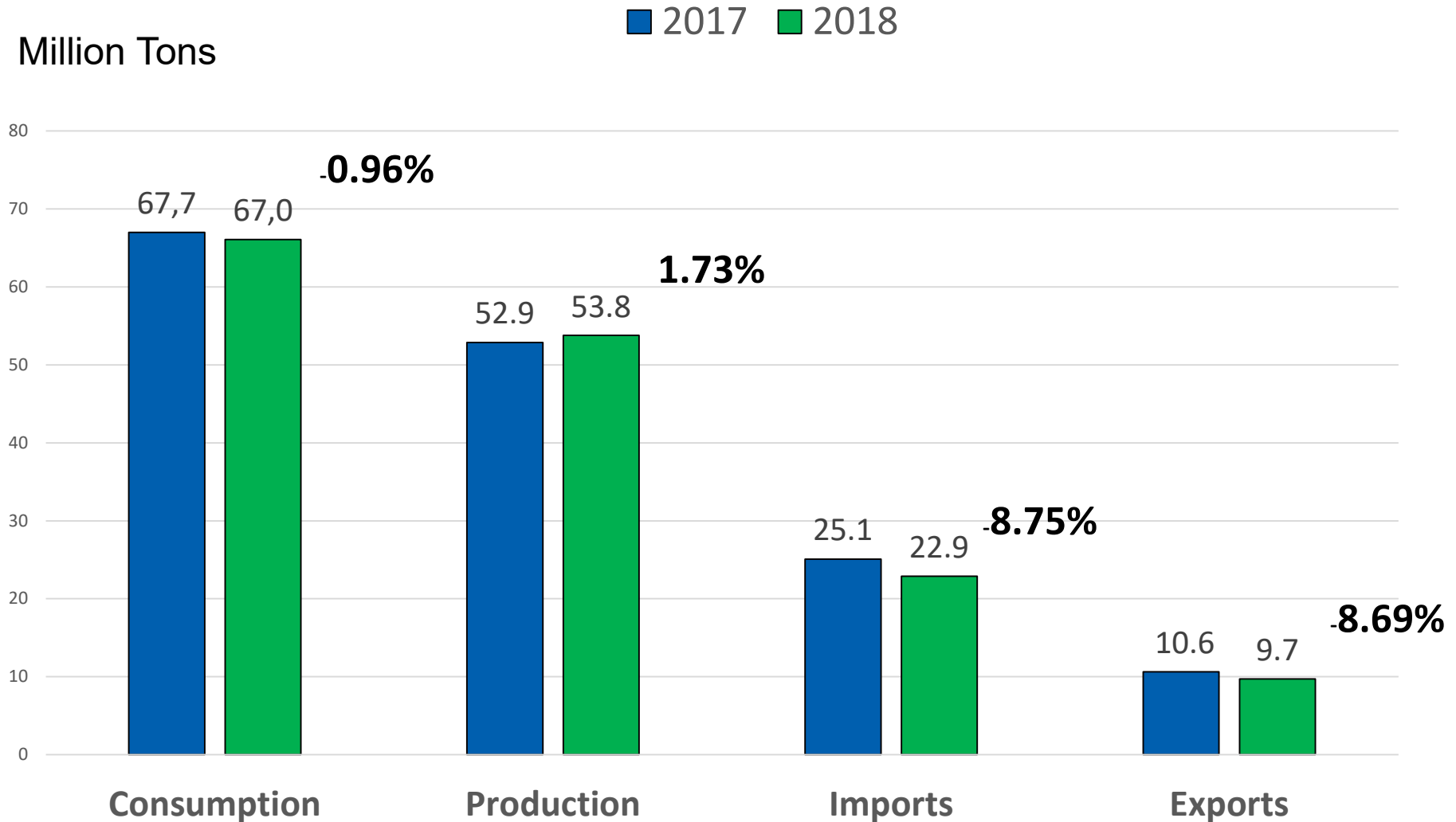
## Growth Rate (%)

Country	2018	2019(e)	2020(e)
<b>LATAM</b>	<b>-1,0%</b>	<b>-1,6%</b>	<b>3,1%</b>
Argentina	-1,9%	-14,3%	2,0%
Brasil	8,6%	2,1%	4,6%
Chile	-5,6%	-4,2%	12,8%
Colombia	2,1%	1,9%	2,4%
Dominican Rep.	11,0%	7,8%	5,0%
México	-3,5%	-3,5%	1,6%
Perú	10,5%	0,1%	0,4%
Venezuela	-66,8%	-27,1%	-10,0%
<i>*Other Latam</i>	<i>-23,7%</i>	<i>2,3%</i>	<i>2,6%</i>

Other Latam: Bolivia, Costa Rica, Cuba, Ecuador, El Salvador, Guatemala, Honduras, Nicaragua, Panamá, Paraguay, Trinidad & Tobago and Uruguay.

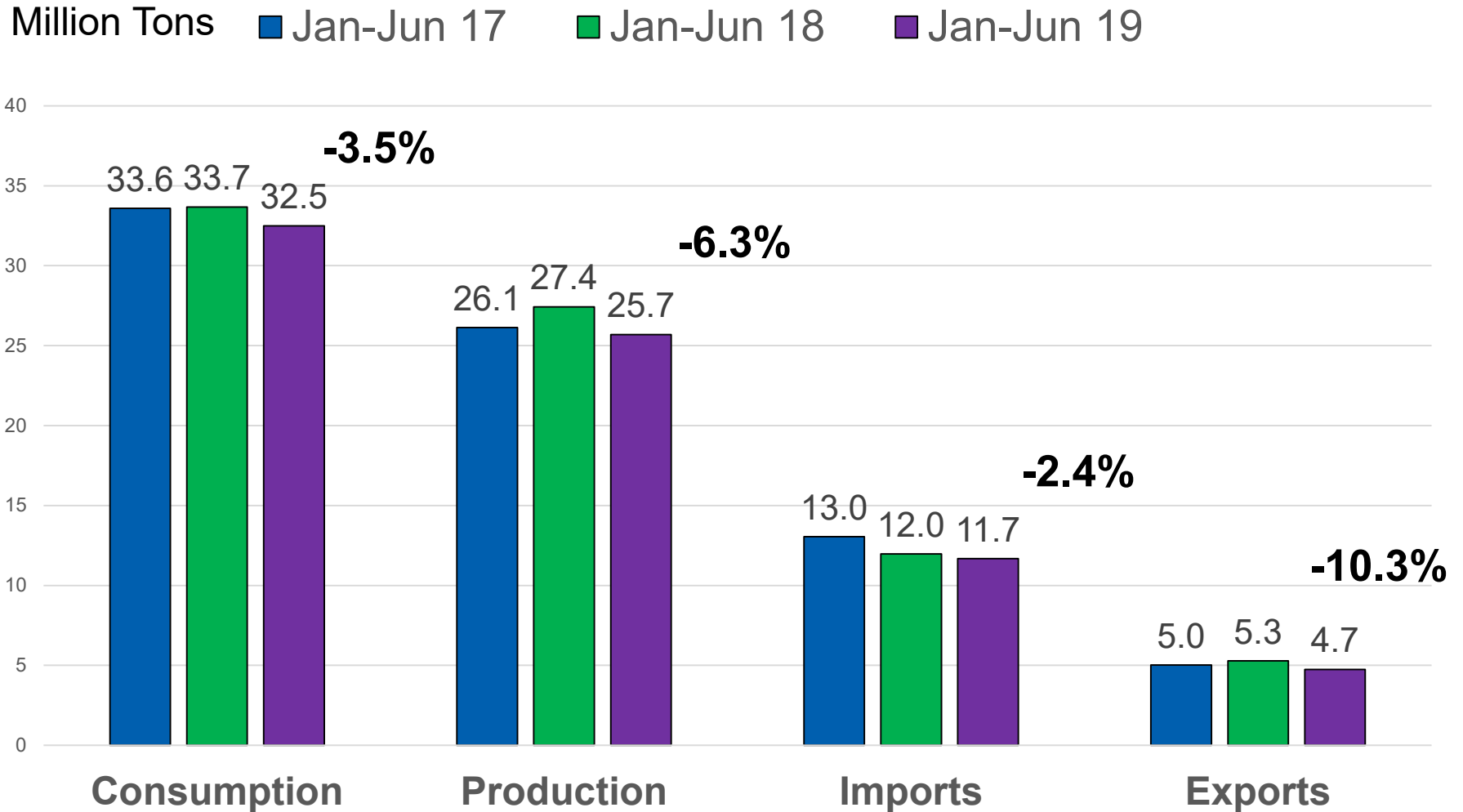


# Latin American steel market in 2018



Source: Alacero

# Latin American Steel Market 2019 (1st Semester)

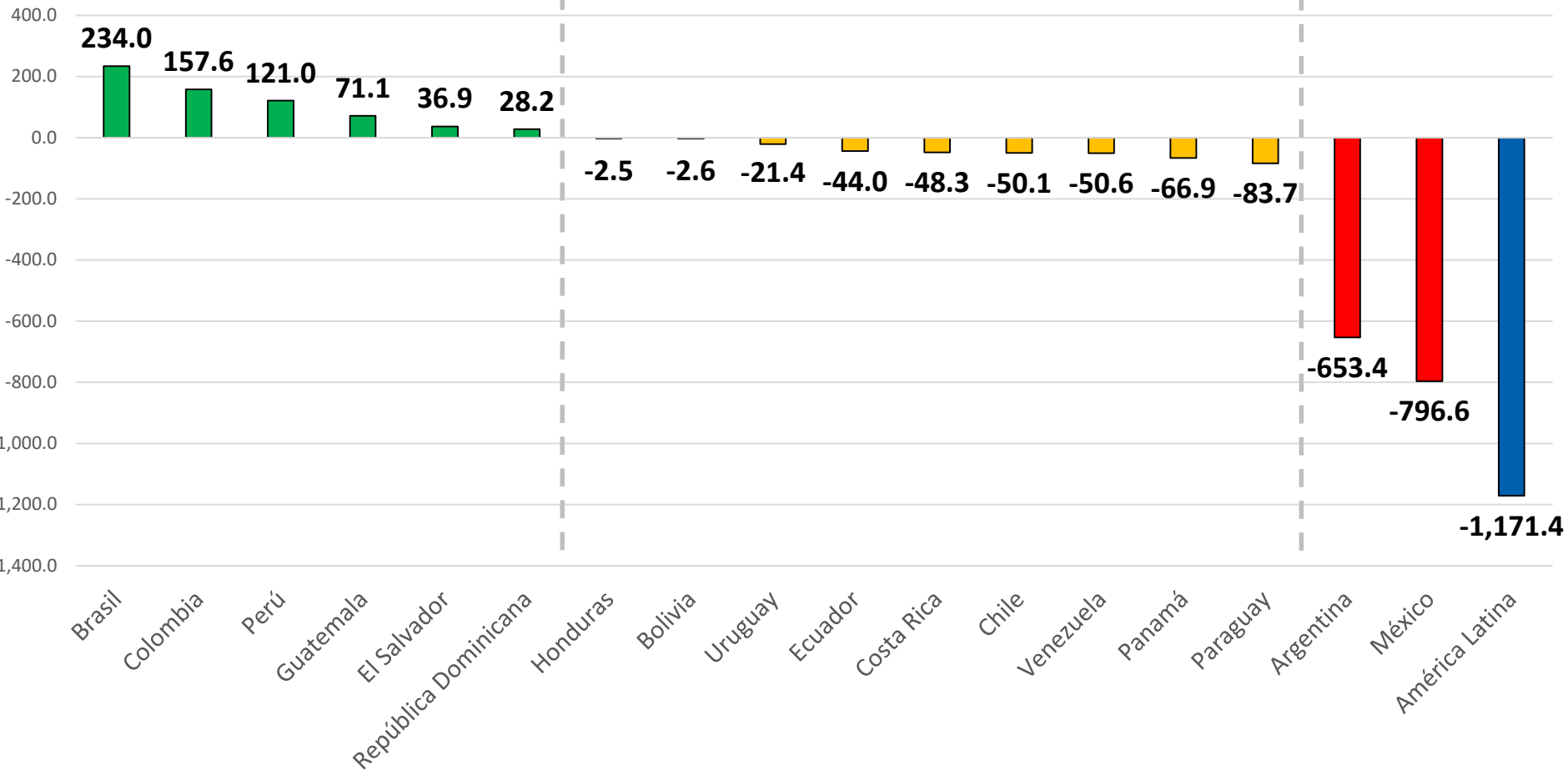


Source: Alacero

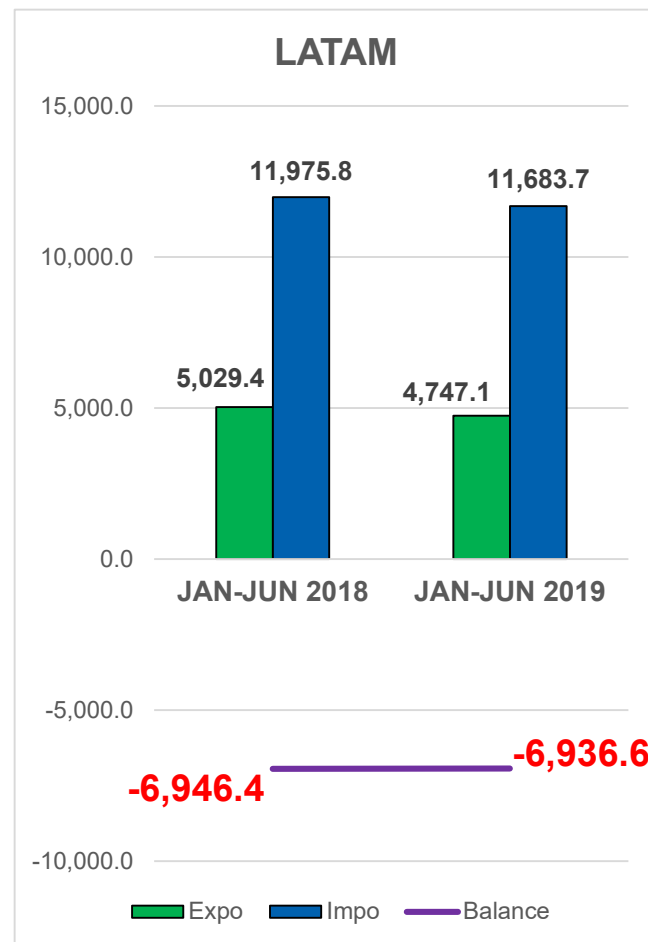
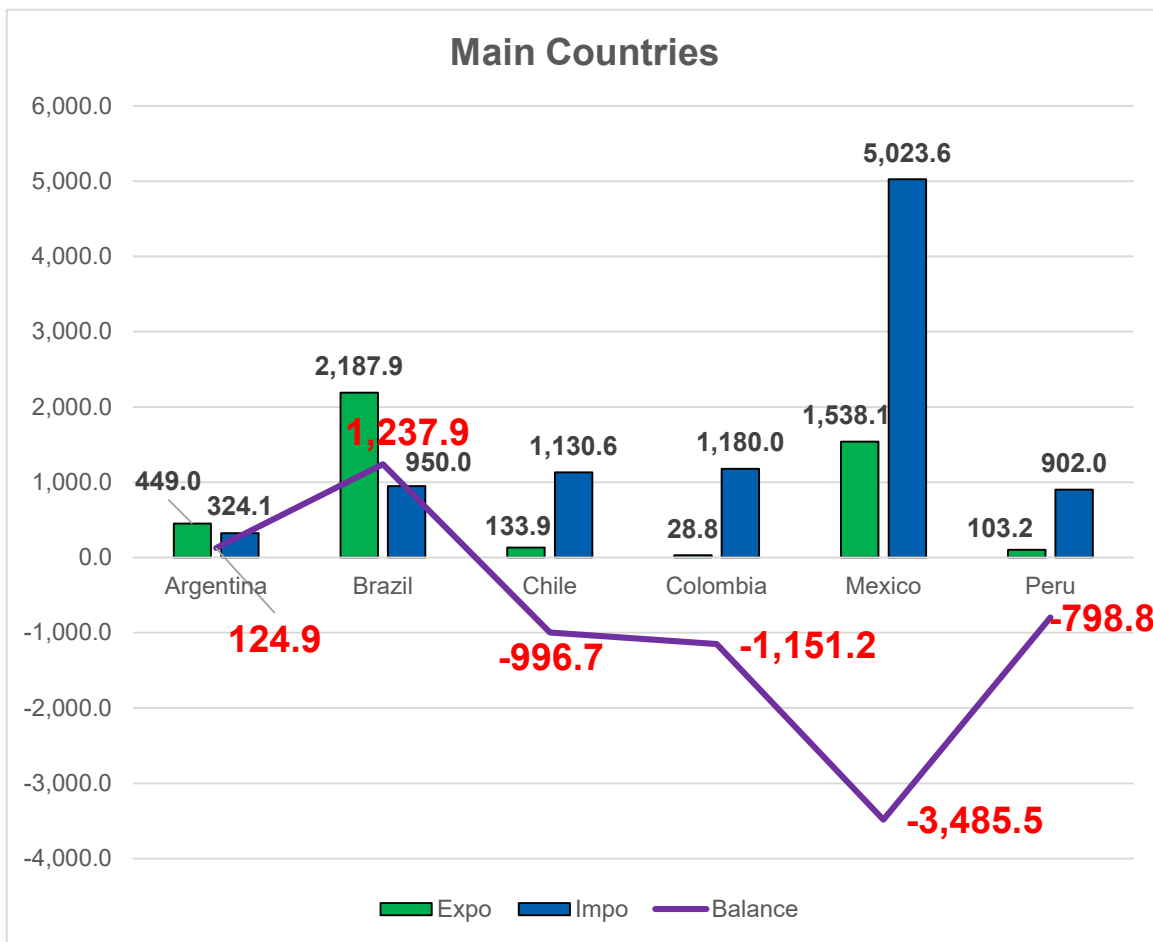
# Variation in the consumption of finished steel between JAN-JUN (2019 Vs 2018)

Million Tons

Variation



# Latin American Steel Trade Balance until June 2019



# General View

## **Latin America under pressure.**

- In the economic scenario, we should highlight the good GDP growth of **Chile**, **Peru** and **Colombia**. Immigration issues from Venezuela still a major challenge.
- The tax reform in **Colombia** was not enough to reach the target in the projected budget, now the new policy is to reduce government spending to help to get there.
- The main source of concern is the **trade war USA-China**. The LA region is rich in fertile land, minerals, oil, natural gas and coal and is highly dependent for economic activity, government revenues and the current account balance. The evolution of prices will largely depend on the economic outlook of China, the world's largest consumer of these commodities.

# Risks and opportunities

## **Trade agreements in sight.**

- The **USMCA** is not approved yet and is causing suppressed effect in investment, due to uncertainty in the face of US protectionist restrictions and Chinese unfair trade. However, the trade war opens the door to a promising future for countries that can strengthen their domestic markets and invest in value added to substitute commerce into the US.
- The **Mercosur-EU** agreement does not guarantee real market growth, especially for our steel industry. As informed so far, the steel industry should receive few benefits compared to other segments, such as agrobusiness. It even entails a risk opening the door to replacing production with imports and the possibility of weak control over the rules of origin of steel.

# Argentina

## **Economic scenario impacted by the political one.**

- In **Argentina**, pro-business president Mauricio Macri could not be reelected, and the course of market economy may be interrupted. Foreign exchange reserves fell from \$ 65.34 billion in April to \$ 44.69 billion in May. With the fright of the market, the exchange rate jumped to over 60 pesos/dollar after the election. Because the government has used foreign financing to cover its spending, public debt mixes dangerously with foreign debt. Mainly for this reason, the country depends on financing negotiated with the International Monetary Fund (IMF). Breaking the deal with the Fund could mean insolvency.

# Final comments

- As Association that represents Steel Industry in Latin America:
  - We confirm that the deceleration that the region is suffering is derived from what happens worldwide in the economic aspect, but it is exacerbated in our case because the problem of **excess capacity** generates oversupply in the region of imported steel products in unfair conditions, generating a reduction in its steel production of **-6%**, while countries like **China** see its production rise **+9%** (first 7 months of 2019 vs same period 2018).
  - Our recommendation is to strengthen the actions taken by each government to establish measures that prevent trade diversions, derived from **unfair competition**, from causing greater damage to developing economies. Promoting free trade but with equal competitive conditions.



# Final comments

- In the Latin America region, the steel industry and the economic performance is about to enter in a new phase of recovery, nevertheless we foresee big **potential impacts** as a function of:
  - Global trade tensions and commodities prices.
  - The region ability to implement structural reforms directed to productivity, innovate and assimilate new technologies.
  - Substitution of production by imports, in a deindustrialization process.
- A recent fall in the finished steel trade deficit, without increasing production, could lead to a new set of risks of deindustrialization and loss of competitiveness. The solution we anticipate is that LA will become the trading partner of large economies as a result of their commercial tensions.

# Latin America SRO and Discussion

Francisco Leal  
OECD Steel Committee. 26-27 September 2019, Paris

The logo for Alacero, featuring a stylized green and blue leaf-like shape above the word "alacero" in a bold, lowercase, sans-serif font. The "a" is blue and the rest of the letters are green.

alacero

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