Steel Market developments: Q2 2020

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Recent market developments in the global steel industry

This document is part of a regular monitoring exercise to provide the Steel Committee with timely information on steel market developments during the year 2019. It provides an update on recent developments in steel markets, based on the latest information available at the time of writing (as of mid-February 2020). Given that the data for regional aggregates presented in the tables throughout this paper extend until the end of 2019, the United Kingdom has been included under any aggregates calculated for the European Union. In future reports, the United Kingdom will no longer be included in the EU aggregate.

Because this paper was prepared before Covid-19 became a global pandemic, it includes only a very brief discussion of some of the initial effects of the virus on steel markets observed in early 2020. The Q4 2020 edition of the Steel Market Developments paper will include more complete analysis of Covid-19 and its impacts on global steel markets.
1. Summary

Steel market fundamentals have weakened considerably in 2019. Steel production growth has turned negative in all regions, with the exception of Asia and the Middle East. Weakening global economic activity, uncertain prospects for steel demand growth, and the upturn in new capacity investments in some regions continue to cloud the outlook for the global steel market and excess capacity.

This document provides an overview of recent steel market developments—including demand, supply, and prices—and the outlook by region based on information available until February 2020. Due to the rapidly evolving impacts of the Covid-19 pandemic on steel markets, the outlook has deteriorated significantly since the time of writing. The next edition of this report will include more complete analysis of Covid-19 and its impacts on global steel markets. To summarise, the following key developments are discussed in this report.

- **The economic situation:** In its November 2019 Economic Outlook, the OECD revised its world GDP forecasts downwards, lowering them from 3.2% to 2.9% for the year 2020, and from 3.4% to 3% in 2021. Downside risks to GDP growth include a further escalation of trade and cross-border investment policy restrictions, the effects of Brexit, the potential for a sharp slowdown in China, and financial vulnerabilities stemming from slowing economic growth and high corporate indebtedness of deteriorating credit quality.

- **Steel consumption:** The October 2019 forecasts of the World Steel Association pointed to global steel consumption growth of 3.9% in 2019, down from 4.6% in 2018. The strongest growth was expected for China (7.8% growth rate), but this included the statistical effects of the closure of induction furnaces, which were not accounted for in official figures. Taking these effects into account, China was forecast to experience real demand growth of 4% in 2019, while global growth in steel demand was expected to slow to 2% in 2019 from 2.2% in 2018. India, Russia and economies in Southeast Asia were also projected to experience solid steel demand growth in 2019.

- **Steel production:** All regions, with the exception of Asia and the Middle East, saw declining steel production in 2019. The strongest declines were experienced in the region denoted as Other Europe (-8.5%), South America (-8.4%), Africa (-6.9%), and the European Union (-5%). Declines were moderate in North America (-0.8%) and in the Commonwealth of Independent States (CIS) at -0.6%, whereas the Middle East and Asia experienced strong growth (20.5% and 5.3%, respectively).

- **World steel trade:** Steel exports continued to decline for most regions during the first nine months of 2019. Steel export decreases (in y-o-y terms) were mainly observed in Russia (-11.7%), China (-5.2%), and Japan (-7.7%) during this period. On the other hand, steel export activity in India (+5.6%), Turkey (+9.2%) and Brazil (+6.3%) remained strong during these nine months.

- **Steel and raw material prices:** Steel prices continued to decline during 2019, with world average flat and rebar prices at the end of the year standing at levels 13% and 9% below their levels one year earlier, respectively. Steelmaking raw material prices followed divergent trajectories in 2019, with prices of scrap and coking coal having declined, while iron ore prices remained comparatively stable. European scrap export prices decreased by 17% on average during 2019, and in February 2020 stood 20% below their level one year earlier. Coking coal prices dropped by
15% in 2019, on average, and further declines have brought prices down in February 2020 to levels 42% lower than a year earlier. Iron ore prices, on the other hand, increased by 32% in 2019, but were down slightly in February 2020 from a year ago.

- **Capacity**: New investments in steelmaking capacity continue to take place in many regions. However, the gap between capacity and production narrowed slightly to 513.9 million metric tonnes (mmt) in 2019, from a level of 520.0 mmt in 2018, supported by the 3.4% increase in global steel production last year.

- **Steel demand outlook**: Forecasts by the World Steel Association (worldsteel) released in October 2019 projected slow growth in global steel demand in 2020. Global growth was projected to slow to 1.7%, although some emerging and developing economies were expected to post more robust steel demand growth. Chinese steel demand was forecast to slow appreciably to only 1% in 2020.
2. OECD Economic outlook

Global growth prospects have continued deteriorating amidst persistent policy uncertainty and weak trade and investment flows. In its November 2019 Economic Outlook, the OECD revised its world GDP growth forecasts downwards, lowering them from 3.2% to 2.9% for the year 2020, and from 3.4% to 3% in 2021. These are the weakest growth rates seen since the global financial crisis. Risks to the outlook include a further escalation of trade and cross-border investment policy restrictions, continued uncertainty about the effects of Brexit, risks of a sharper slowdown in China, and financial vulnerabilities stemming from slowing economic growth and high corporate indebtedness of deteriorating credit quality. Growth prospects around the world are being revised downward continuously, following the latest developments of the Covid-19 pandemic and the impact of containment measures on economic activity.

Table 1 below presents the November 2019 Economic Outlook OECD GDP growth forecasts, available at the time of the writing of this paper. Newer updates of the OECD forecasts that take into account the evolving impact of the Covid-19 pandemic on growth worldwide will be provided on the OECD website. Hence, the growth prospects mentioned in this section should be understood as of a longer-term nature, and interpreted in conjunction with the short- to medium-term effects of the rapid evolution of the Covid-19 pandemic. Growth prospects will be reassessed in the future given the economic impact of Covid-19. In many countries, monetary and fiscal policy stances have remained largely accommodating. Central banks that had previously favoured a normalisation of their balance sheets have reversed course, albeit with moderate apparent impact on real growth. Factors cited in the Economic Outlook, such as an increase in trade restrictions and the erosion of the rules-based global trading system, coupled with rising government support across a range of sectors, is inducing disruptions in supply chains and a reallocation of economic activities across countries. These factors are exerting a downward pressure on current demand by reducing incentives to invest and are undermining medium-term growth prospects.

Manufacturing activity worldwide has continued to decelerate significantly. Data on global industrial production show a sharp slowdown in the growth rate in recent months, and the Markit index for new export orders, which is a forward-looking component of the overall Purchasing Managers’ Index (PMI), suggests a contraction in global manufacturing activity. Unemployment rates across most OECD economies are still at their lowest levels in several decades, and real wage growth is sluggish.

In the euro area, economic growth is projected to remain subdued, with little prospects of a strong recovery over the coming two years. Weak growth in external demand, global trade tensions and policy uncertainty will limit exports and business investment. Real GDP is expected to grow by 1.1% in 2020 and 1.2% in 2021. Monetary policy in the euro zone has remained very accommodating, with the introduction of a two-tier system for reserve remuneration and more attractive conditions for longer-term refinancing operations. In spite of these measures, investment activity has decelerated. Manufacturing has been hit hardest by the slowdown, but business confidence in the service sector has also shown signs of faltering.

In the United States, the current economic expansion has become the longest on record. Real GDP growth, although now slowing, is still expected to be around 2.0% in both 2020 and 2021. Trade tensions as well as an overall slowing global economy are partly responsible for the slowdown in US growth. Moreover, heightened policy uncertainty about international trade continues to weigh on activity and investment decisions. Exporters have been hit by
counter measures abroad, and consumers are facing higher prices due to the tariff increases, which should help the Federal Reserve achieve its newly defined “symmetrical” 2% inflation target. The US labour market has remained relatively strong, with unemployment at its lowest point in decades, particularly among the older generations. Risks to financial stability stem from a combination of historically high asset valuations, a large amount of non-financial corporate debt of decreasing credit quality, and the relative ease to obtain credit due to historically low interest rates.

In Japan, economic growth is projected to be 0.6% in 2020 and 0.7% in 2021. Although exports have remained flat since mid-2018, wage income has increased at a rate of 1.3% annually in real terms since mid-2018 and has been supporting domestic business investment and household consumption. The upward pressure on wages is the result of a high employment rate and an ageing population that is dampening labour supply. The government launched a plan to accept up to 345 150 foreign workers between 2019 and 2024 in sectors facing severe labour shortages, such as construction, accommodation and food services, and healthcare. The government is also considering regulatory reforms to promote new services such as financial technologies, and further corporate governance reforms. The main risk to the Japanese economic outlook remains the country’s fiscal sustainability, as the government debt-to-GDP ratio stands at a record high level of 224% of GDP.

In the People’s Republic of China (hereafter “China”), GDP growth is expected to slow down to 5.7% in 2020 and to 5.5% in 2021. Although the frontloading of exports has supported economic activity in 2019, the higher tariffs on Chinese goods, if maintained, should limit the country’s exports going forward. Monetary conditions, which had previously tightened due to restrictions on shadow banking, have now been eased again in order to support economic activity. Fiscal policy will remain supportive of consumption, driven by a number of tax cuts. The economy appears to be rebalancing from investment and export-led growth towards domestic consumption, which has reduced the demand for imported capital goods and raw materials and thus increased the current account surplus. Public infrastructure investment is expected to be strong, with new large-scale projects being approved for roads, railways, telecommunications and energy, and project financing in general is expected to benefit from relaxed banking requirements. Fewer restrictions on car purchases and other measures should provide a lift to consumption.

In India, GDP is projected to expand by 6.2% in 2020 and 6.4% in 2021. Interest rate cuts have not been fully reflected in lower lending rates due to the high share of non-performing bank loans and to public borrowing needs crowding out private investors. Financial stress in non-banking financial companies, coupled with changes in insurance regulations, has affected car sales and negatively impacted construction, which rely significantly on non-banking institutions for funding. This, in turn, has weighed on job creation, income and consumption. Fuel price volatility has affected consumer confidence. Industrial production and manufacturing imports have weakened, while exports have suffered somewhat from the slowdown in foreign demand. Improvements in the trade infrastructure, logistics and related processes have nevertheless helped India to seize some of the market shares lost by other countries and helped Indian exports to remain resilient.

In Brazil, growth is projected to gain momentum in 2020, assuming that the reform agenda continues to be implemented. GDP growth is forecast to reach 1.7% in 2020 and 1.8% in 2021. The approval of the pension reform and better prospects for progress on structural reform have lifted confidence and are, together with easier financial conditions, supporting investment. Low inflation, as well as an easier withdrawal of unemployment insurance funds, are boosting domestic consumption, which should remain strong in the near future. However, unemployment is falling only slowly from high levels, and some newly created jobs are seen as being of low quality, including many informal jobs.
Table 1. OECD Economic Projections, November 2019

Real GDP growth (%)

<table>
<thead>
<tr>
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<th>2020</th>
<th>2021</th>
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<td>Brazil</td>
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<td>1.1</td>
<td>0.8</td>
<td>1.7</td>
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<td><strong>World real GDP growth</strong></td>
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<td>3.5</td>
<td>2.9</td>
<td>2.9</td>
<td>3.0</td>
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</tbody>
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Note: 1. Moving nominal GDP weights using purchasing power parities.
2. Fiscal years starting in April.
3. Steel consumption

Steel consumption growth appears to have slowed appreciably in some recent months for which data are available. Figure 1 below presents the year-on-year (y-o-y) percentage change in the combined consumption of hot-rolled steel products for 10 of the world’s largest steel-consuming economies in Asia, the CIS region, Europe, North America and South America. Together, these economies account for approximately 75% of global steel demand. Although the y-o-y growth figure for the first nine months of 2019 averaged 4.9% compared to the same period in 2018, it appears that the growth rate has been trending downwards since the spring of 2019. The data can, however, be quite volatile from month to month, and further information in the coming months will be necessary to confirm this trend.

**Figure 1. Consumption of hot-rolled steel products, major economies (aggregate)**

![Graph showing year-on-year percentage change in steel consumption](image)

*Note: Total represents the combined consumption of hot-rolled steel products of the following economies: Brazil, China, Germany, India, Italy, Japan, Korea, Mexico, Russia and the United States. The consumption of hot-rolled products is defined as the sum of production and net imports (ISSB, 2019(i)).

Source: OECD calculations based on data from ISSB (International Steel Statistics Bureau).

### 3.1. Americas

The US monthly steel consumption indicator increased by 0.8% y-o-y during January to September 2019. Although steel consumption is benefitting from the shift towards light truck
models in the automotive sector, activity in the construction sector is expected to have weakened for the whole 2019 (worldsteel, 2019[2]). Steel demand in Mexico is expected to have decreased by 3.5% in 2019, continuing the downward trend of 2018 (worldsteel, 2019[2]). According to ALACERO (the Latin American steel association), construction activities stagnated in 2019 in Mexico (Metal Expert, 2019[3]).

According to worldsteel forecasts, steel demand in Latin America is expected to have declined by 0.4% in 2019 (worldsteel, 2019[2]). However, the development may turn out to be weaker than expected, with data from ALACERO showing that consumption of finished steel products in Latin America has fallen by 5% in January-October 2019, when compared to the same period in 2018 (Metal Expert, 2019[3]). Steel demand has been impacted by the political and economic crisis in the region and, in particular, by macroeconomic imbalances in Argentina, and recession in Brazil (Metal Expert, 2020[4]). In Brazil, the largest steel-consuming economy in the region, apparent use of finished steel in 2019 is expected to have increased by 0.5%-1.0% (compared to a previous forecast of 1.5%-2.5%), with steel demand growth being dampened by delayed infrastructure spending and the impacts of the Argentinian recession, according to Arcelor Mittal’s estimates in November 2019 (Platts, 2019[5]).

3.2. Africa and the Middle East

Based on demand data for cement, which is highly correlated with that of steel due to the complementarity of the two materials in many building applications, domestic steel demand seems to be deteriorating in Egypt which is the largest steel consumer in the region, according to an October 2019 assessment by CI Capital (Platts, 2019[6]). Steel demand in South Africa, another major consumer, in the first half of 2019 dropped by 2% y-o-y. In addition to this market contraction, Arcelor Mittal South Africa is planning to close its Saldanha plant during the first quarter of 2020 due to lost competitiveness in export markets (Platts, 2019[7]).

In the Middle East, Iranian apparent finished steel use (Iran is by far the largest steel consumer in the region) is expected to have contracted in 2019, reflecting the economic impacts of sanctions, according to worldsteel assessments made in April 2019 (worldsteel, 2019[8]). The effect of sanctions was also evident in the automotive sector, where production declined by 24.8% from April to December 2019 compared with the same period in 2018 (Platts, 2020[9]). Market participants had been expecting a sharp drop in domestic car production due to the sanctions (Platts, 2020[10]). Nevertheless, Iranian auto production has increased from May 2019 to May 2020 by a robust 6%, according to the Iranian Securities and Exchange Organization (SEO), probably due to the conjunction of two factors. First, the production of automobile parts has been sourced to domestic producers, given the inability or unwillingness of foreign carmakers and parts producers to deal with Iranian car manufacturers (Platts, 2020[10]). Second, the Iranian government introduced a ban on foreign imports of cars in order to help its domestic auto industry (Platts, 2020[10]).

3.3. Asia and Oceania

The reported 7.8% growth in Chinese apparent use of finished steel, which accounted for around 51% of the global total in 2019, includes the one-off statistical effect resulting from the closure of induction furnaces that were previously operating in the informal sector and thus not reported in the government official statistics, and the redirection of this demand towards plants covered by official statistics. Without this effect, the steel demand growth rate would have been 4% in 2019 (worldsteel, 2019[2]). Growth in Chinese steel demand had been supported by activity in the real estate sector, supported by the relaxation of control
policies in tier 2 to tier 4 cities and the newly implemented construction standard (worldsteel, 2019[2]).

India is predicted to become the second largest steel-consuming country in 2019, surpassing the United States (worldsteel, 2019[2]). However, growth in India’s apparent use of finished steel products in 2019 is anticipated to have decelerated to 5.0% (worldsteel, 2019[2]). This is the result of the combined effect of the liquidity crisis and weak global demand, which have moderated activity in the country’s automotive industry, and active infrastructure investment policies that have driven construction activity and demand for steel in that sector (worldsteel, 2019[2]).

In Japan, the monthly steel consumption indicator decreased by 3.2% y-o-y in the first nine months of 2019. Steel demand from the construction, industrial machinery, and automobile sectors have been stagnant, while demand from the shipbuilding sector has been gradually increasing along with recovery of shipbuilding activities (JISF, 2019[10]). Steel consumption in Korea decreased by 0.5% in January-September 2019 compared to the corresponding time period in 2018, due to the slowdown in the automotive and construction industry (KOSA, 2019[11]).

According to the South East Asia Iron and Steel Institute (SEAISI), apparent steel consumption in the Association of Southeast Asian Nations region (ASEAN-6, i.e. Indonesia, Malaysia, Philippines, Singapore, Thailand and Viet Nam) increased by 5.9% y-o-y during January-June 2019 (SEAISI, 2019[12]). Steel demand in Viet Nam increased by 22.6% in the first half of 2019, supported by the numerous construction projects. Steel demand in Indonesia and the Philippines recorded moderate growth, of 3.0% and 4.4% y-o-y, respectively, supported by steel demand growth in those economies’ manufacturing sectors. Malaysia’s steel consumption increased by only 1.4% y-o-y in the same period. On the other hand, steel demand in Thailand declined by 2.7% during the first half of 2019. Singapore’s steel demand also declined significantly, doing so by 16% y-o-y, due to destocking activity following a merger between two large steel producers in the market during the first half of 2019 (SEAISI, 2019[12]).

3.4. Europe and CIS economies

A recent report by the European Steel Association (EUROFER) indicates that steel demand in the European Union fell by 3.3% in 2019 due to the negative inventory cycle and persisting import pressures (Eurofer, 2020[13]). Business conditions in the manufacturing sector have continued to deteriorate since the end of 2017, and this downward trend has become steeper in the second quarter of 2019, particularly in the automotive industry (Eurofer, 2020[13]). Conversely, the construction sector has continued to record growth (Eurofer, 2020[13]). In addition, EUROFER pointed out that European steel using sectors faced external risks, including a new escalation in protectionist trade measures and geopolitical tensions in the Middle East (Eurofer, 2020[13]).

Steel consumption in Turkey appears to have rebounded in October 2019 when it registered a y-o-y increase of 34%. The rebound follows a significant decline in the preceding months. In particular, in the first ten months of 2019 apparent use of finished steel products in Turkey declined by 21.5% due to a significant decline in construction activities (Platts, 2019[14]).

In November 2019, Arcelor Mittal forecasted steel demand to grow by 2.5%- 3.0% in 2019 in the Commonwealth of Independent States (CIS) region fuelled by robust demand growth in Russia (Platts, 2019[5]). Indeed, the steel monthly consumption indicator for Russia recorded y-o-y growth of 4.7% during the first nine months of 2019. According to Severstal, steel demand in Russia is expected to have increased by 4% in 2019, mainly supported by the construction sector, given that the sector’s share of Russian steel demand has reached a
level of 72% (Platts, 2019[15]). In Ukraine, apparent steel consumption in 2019 also recovered supported by a stronger local construction market (Metal Expert, 2020[16]).
4. Steel production

World crude steel production increased by 3.1% in 2019, but there were significant differences across regions (Table 2). All regions, with the exception of Asia and the Middle East, saw declining steel production in 2019. A strong rate of growth continued in the Middle East (20.5%), while Asian growth remained robust (5.3%). In contrast, other regions experienced significant steel production declines: Other Europe (-8.5%), South America (-8.4%), Africa (-6.9%), and the European Union (-5%). Declines were more moderate in North America (-0.8%) and the CIS (-0.6%).

Table 2. World crude steel production developments in 2019

<table>
<thead>
<tr>
<th>Region</th>
<th>Dec 2019</th>
<th>2019</th>
<th>% change, year-on-year</th>
</tr>
</thead>
<tbody>
<tr>
<td>EU</td>
<td>13,548</td>
<td>159,156</td>
<td>5.5</td>
</tr>
<tr>
<td>Other Europe</td>
<td>2,996</td>
<td>37,333</td>
<td>-5.9</td>
</tr>
<tr>
<td>CIS</td>
<td>8,394</td>
<td>100,165</td>
<td>-0.4</td>
</tr>
<tr>
<td>North America</td>
<td>9,822</td>
<td>119,685</td>
<td>-3.0</td>
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<tr>
<td>South America</td>
<td>3,585</td>
<td>41,165</td>
<td>4.8</td>
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<tr>
<td>Africa</td>
<td>1,112</td>
<td>13,530</td>
<td>-3.1</td>
</tr>
<tr>
<td>Middle East</td>
<td>3,781</td>
<td>42,879</td>
<td>24.8</td>
</tr>
<tr>
<td>Asia, of which:</td>
<td>115,873</td>
<td>1,324,528</td>
<td>11.9</td>
</tr>
<tr>
<td>China</td>
<td>87,533</td>
<td>992,882</td>
<td>16.0</td>
</tr>
<tr>
<td>Oceania</td>
<td>534</td>
<td>6,160</td>
<td>5.2</td>
</tr>
<tr>
<td>World</td>
<td>159,645</td>
<td>1,845,075</td>
<td>9.2</td>
</tr>
</tbody>
</table>

Source: World Steel Association data, as released on 4th of February, 2020. Data are based on monthly production data and can differ from annual data published after December of each year. Furthermore, monthly data production can be revised at any time.

4.1. Americas

In North America, total crude steel production decreased by 1% in 2019, a significant change compared to the 3.9% annual growth rate registered in 2018 for the region. The United States recorded positive steel production growth in 2019 of 1.3%, while the Mexican and Canadian steel industries continued to witness a sharp fall in steel production (-8.5% and -4.9%, respectively).

In South America, steel production contracted by 8.4% in 2019 compared to 2018. Production declined sharply in Argentina (-10%) and Brazil (-9%).

4.2. Africa and the Middle East

African steel production decreased by 6.9% in 2019. The decrease was driven by a large decline in Egyptian steel production (-7%), as well as a decrease in South Africa (-10.4%).

In the Middle East, steel production growth increased significantly in 2019 (20.5%), mainly led by Iran (30.1%), while Saudi Arabia’s steel production dropped by 2.7%.
4.3. Asia and Oceania

Crude steel production increased by 5.4% in Asia in 2019. The increase was led by a strong growth in Chinese steel production (+7.6%), which brought production to a total of 992.8 mmt during 2019. Steel production increased strongly in Viet Nam (+43.2%), while in India steel production growth was more moderate (+1.8%). Production decreased in Chinese Taipei (-5.1%), Korea (-1.4%) and in Japan (-4.8%), while Thailand experienced a sharp decrease of 33.6%.

In Oceania, Australian crude steel production decreased by 2.9%, falling to a level of 6.2 mmt during 2019. New Zealand, a much smaller steel producer, experienced a slight growth in production, i.e. by 2.3%, bringing its production level close to 0.7 mmt for 2019 as a whole.

4.4. Europe and CIS economies

EU steel production experienced a significant decline of 5.1% in 2019. Amongst the larger steel producers, the decrease was led by Poland (-10.8%), followed by Germany (-6.5%), France (-6.1%), Italy (-5.2%) and Spain (-5.2). Most other Member States also recorded significant declines in steel production, except for Austria (+7.8%) and Sweden, which recorded a moderate 1.4% growth during 2019.

In the “Other Europe” region, which includes e.g. Turkey, Serbia and Norway, steel output declined by 8.5% in 2019, driven by the decline in Turkish steel output of 9.6%. In the CIS region, steel output declined only marginally (-0.6%). Russian and Ukrainian steel output decreased (-0.8% and -1.3%, respectively). Kazakhstan, which produced slightly less than 4 mmt in 2018, saw its steel production increase by 3.1%, bringing its production level to 4.1 mmt in 2019. Byelorussia, also an important producer in the region, posted robust production growth of 8.4% in 2019, bringing its steel production level to approximately 2.7 mmt.
5. World steel trade

Global exports of steel reached high levels in 2015/16, a time when world steel market conditions were very weak. Still confronted with weak market conditions, global exports have declined somewhat since then, supported by growth in domestic demand for steel in some economies.

Recent data suggest that steel exports have continued to decline for most regions during the first nine months of 2019. Table 3 presents recent data on steel trade developments in the 10 largest steel-producing economies. Exports from China decreased by 5.2% in the first nine months of 2019 compared to the same period in the previous year, reaching an annualised level of 69.4 mmt. Exports from the European Union (external trade), Japan and Korea have also declined, by 1.9%, 7.7% and 3.3%, y-o-y, respectively, during the same period. Exports from the United States and the Russian Federation declined sharply, by 20.5% and 11.7%, y-o-y, respectively in the period January-September 2019. Conversely, exports from India, Turkey and Brazil increased by 5.6%, 9.2% and 6.3%, y-o-y, respectively. Iran, which has recently experienced strong steel export growth (exporting 9.2 mmt of steel in 2018, i.e. an increase of 145% compared to 2015), recorded a 15.3% decline in export shipments in the first four months of 2019.

Turning to steel imports, the European Union and the United States - the world’s largest steel-importing economies - saw steel imports decrease by 8.2% and 13.1%, respectively, in January-September 2019, compared to the corresponding period in 2018. The volume of imported steel products in India, Japan, Korea and Russia increased in the first nine months of 2019, by 5.2%, 10.0%, 14.4% and 8.9%, y-o-y, respectively. Steel imports in Turkey, Brazil and China declined by 12.7%, 2.8% and 6.6% y-o-y, during the same time period, respectively. Iran recorded a significant decrease in steel imports of 67.1%, during January-April 2019, reflecting a demand contraction (see Section 3.).
**Table 3. Steel trade developments across major steel-producing economies**

<table>
<thead>
<tr>
<th>Country</th>
<th>Exports</th>
<th>Imports</th>
<th>Exports</th>
<th>Imports</th>
<th>Exports</th>
<th>Imports</th>
<th>% change, y-o-y</th>
</tr>
</thead>
<tbody>
<tr>
<td>China (People’s Republic of)</td>
<td>110 928</td>
<td>13 048</td>
<td>107 531</td>
<td>13 467</td>
<td>74 238</td>
<td>13 792</td>
<td>-5.2%</td>
</tr>
<tr>
<td>EU</td>
<td>32 998</td>
<td>37 385</td>
<td>29 193</td>
<td>41 150</td>
<td>30 508</td>
<td>41 702</td>
<td>-1.9%</td>
</tr>
<tr>
<td>India</td>
<td>7 117</td>
<td>13 249</td>
<td>9 933</td>
<td>9 857</td>
<td>15 964</td>
<td>8 188</td>
<td>5.6%</td>
</tr>
<tr>
<td>Japan</td>
<td>40 720</td>
<td>5 850</td>
<td>40 452</td>
<td>5 965</td>
<td>37 408</td>
<td>6 186</td>
<td>-7.7%</td>
</tr>
<tr>
<td>United States</td>
<td>9 620</td>
<td>35 564</td>
<td>8 920</td>
<td>29 918</td>
<td>10 081</td>
<td>34 327</td>
<td>-20.5%</td>
</tr>
<tr>
<td>Korea</td>
<td>31 077</td>
<td>21 546</td>
<td>30 504</td>
<td>23 168</td>
<td>31 254</td>
<td>19 208</td>
<td>-3.3%</td>
</tr>
<tr>
<td>Russian Federation</td>
<td>29 605</td>
<td>4 309</td>
<td>31 104</td>
<td>6 407</td>
<td>31 087</td>
<td>8 282</td>
<td>-11.7%</td>
</tr>
<tr>
<td>Turkey</td>
<td>14 687</td>
<td>3 141</td>
<td>15 117</td>
<td>1 827</td>
<td>16 083</td>
<td>2 275</td>
<td>6.3%</td>
</tr>
<tr>
<td>Brazil</td>
<td>13 624</td>
<td>3 141</td>
<td>13 378</td>
<td>2 275</td>
<td>15 301</td>
<td>2 339</td>
<td>-12.7%</td>
</tr>
<tr>
<td>Iran</td>
<td>3 764</td>
<td>4 396</td>
<td>5 623</td>
<td>4 652</td>
<td>7 336</td>
<td>3 065</td>
<td>-15.3%</td>
</tr>
</tbody>
</table>

**Definition used for trade figures:** HS 7206 to 7302, 7304-7306, and 7307.21-7307.99 excluding some forgings (7326.19), points and switches/crossings (7302.30 and 7302.90), some forged cold finished sections (7216.69 and 7216.99), some cold formed sections (7216.61 and 7216.91), welded shapes and sections (7301.20) and steel castings (7325.99).

**Notes:** The economies listed in this table are the major crude steel producing economies by production volume in 2018 (worldsteel, 2019[18]). Iran trade data from May to September in 2019 was not available on ISSB:

1 Refers to January-April 2019.
2 Refers to January-April 2018.
3 % change in trade refers to January-April 2019 relative to January-April 2018.

**Source:** OECD calculations based on data from ISSB (International Steel Statistics Bureau).
6. Steel and raw material prices

6.1. Steel prices

The upturn in steel demand from late 2016 onwards have prompted steel prices to rebound from their 2015 lows, but the trend was short-lived. Indeed, both world hot-rolled coil (HRC) and rebar prices peaked around May 2018 and have since then declined although have shown some stability very recently.

On 1 February 2020, flat and rebar price indexes computed based on Platt's regional prices stood at USD 536.2 per tonne and USD 500.9 per tonne, respectively, slightly lower than their 2013-2014 levels, and with a similar price differential between the two products as that seen in 2013-2014. At the end of 2019, flat steel prices stood 13% lower than at the beginning of the year, while rebar prices stood 9% lower than their level at the beginning of 2019 (Figure 2). In spite of the small rebound observed in January 2020, those prices still stand, as of 1 February 2020, 7% and 10% lower, respectively, in year-on-year terms.

Interestingly, differences in prices across regions have narrowed, particularly for flat products, as reflected in the decrease in the price dispersion indicators depicted in Figure 2 (the dotted lines). As regional price dispersion has previously been associated with significant price declines (e.g. during 2015, price dispersion was very high and the price index at its lowest level during the whole 2008-2018 period), a decrease in price dispersion could indicate some stability in the current price levels, in spite of a slightly declining trend.

![Figure 2. Aggregate flat and rebar steel price averages (latest 1 February 2020)](image)

**Note:** The flat price and rebar price indices are defined as the arithmetic average of the individual regional Platts price series for the United States, North Europe, China, Japan, India and Russia, when available. This simple arithmetic average had the closest fit to the two global Platts price indices used in Market reports prior to the two global price indices being discontinued by Platts (from September 2017 onwards). The coefficients of variation (CV) are defined as the ratio of the standard deviation of the regional Platts price series making up the indices to their (arithmetic) mean, and thus captures price dispersion across regions.

**Source:** Platts Steel Business Briefing.
Flat steel prices increased more rapidly in the United States than in other economies during the first half of 2018, but changed course during the second half of the year (Figure 3), completely reversing those gains. Platts reported a stable US rebar steel price during most of the period (Figure 4). Since then, US rebar prices have been following the same dynamics as rebar prices in other regions, exhibiting moderate declines during 2019 (Figure 3 and Figure 4).

As discussed in a previous report on steel market developments (OECD, 2018[17]), steel futures prices tend to move slightly in advance of spot prices, suggesting that they are able to predict steel spot price dynamics at the daily frequency by quickly incorporating new market information.
For the purpose of analysis, this paper uses continuous steel price indices, constructed from a number of steel futures contracts by rolling them over. More precisely, each month the price data are extracted from a different steel contract price series of the same maturity as the contract used one month prior. Figure 5 below shows three steel futures continuous contracts, as provided by Thomson Reuters Datastream (Refinitiv). There has been a steady decrease in steel futures prices since early- to mid-2018, reversing some of the previous gains, and futures prices now seem to points towards a stabilisation of the current price levels.

### Figure 5. Steel futures prices (as of mid February 2020)

Indices of three continuously rolled steel futures contract prices, USD per tonne

Notes: NYMEX US Midwest futures prices were converted to correspond to metric tonnes rather than short tons. SHFE Steel rebar futures prices were converted from RMB to USD using daily exchange rates at closing. For more information on contract specifications, please refer to https://www.lme.com/en-GB/Metals/Ferrous/Steel-Rebar#tabIndex=0 for LME steel rebar contracts; to http://www.shfe.com.cn/en/products/SteelRebar/contract/9220216.html for SHFE steel rebar continuous contracts, and to https://www.cmegroup.com/education/files/hot-rolled-coil-steel-index-futures-options.pdf for NYMEX US Midwest HRC contracts. For a thorough description of futures contracts and steel futures markets, see (OECD, 2018[21]).

Sources: Thomson Reuters, Datastream

### 6.2. Steel raw material prices

Prices of the main steelmaking raw materials have followed divergent trajectories in 2019, with some of the trends already reversing in the first months of 2020. While prices have generally declined for coking coal and scrap over the last couple of years, they still remain higher than the lows recorded in late 2015. Iron ore prices rose by 34% over the year 2019, but erased those gains in early 2020, falling by 5% in February 2020 on a year-on-year basis.
European scrap export prices (Rotterdam, FOB) decreased by 17% in 2019, a similar rate of decrease compared to the previous year. The price of scrap nevertheless showed an uptick in September-December 2019, which raised scrap export prices to a level of USD 265 per tonne in December 2019 (Figure 6). Scrap prices then fell back again in January and February 2020. As of 14 February 2020, European scrap export prices stood at USD 234 per tonne. The Chinese scrap price has been roughly stable during the year 2019 (Figure 7).

Coking coal prices decreased by 15% in 2019 on average. On 14 February 2020, the coking coal price stood at USD 107 per tonne. Reasons for such decline in coking coal prices can be ascribed to minimal demand growth and deteriorating global economic conditions. In general, increases in coking coal supplies from Australia, Canada and Mongolia have confronted sluggish demand from the steel sector in India and other economies, thus creating downward pressures on prices (Office of the Chief Economist, 2019[18]).

Iron ore prices increased by 32% in 2019. The increase was concentrated during the first half of 2019, when iron ore prices went from USD 74.6 per tonne in January 2019 to USD 104.3 per tonne in June 2019 (Figure 6). The momentary increase of iron ore prices may be due to the simultaneity of two important factors. The Vale disaster cut more than 90 million metric tonnes of production from the world’s biggest supplier operations in Brazil, while Chinese steel production increased more than expected, supporting demand for iron ore (Financial Times, 2019[19]). The combination of strong demand and weak supply pushed prices up more than 50 per cent from January 2019 to a momentary five-year high of USD 114.57 per tonne in July 2019. Iron ore prices have since fallen back to USD 80 per tonne (as of February 2020).

Figure 6. Prices for key steel-making raw materials

Note: The iron ore price series is Platt’s “Forwards / SGX 62% Fe Iron Ore cash-settled swaps (dry metric tonne) / China import CFR Tianjin port $/t”; the coking coal price series is Datastream’s “Premium Coking Coal Australia”; the scrap price series is Platts “Scrap / Platts TSI HMS 1&2 (75:25) / Europe export FOB Rotterdam $/t”

Sources: Platts Steel Business Briefing (SBB), Datastream.
Figure 7. The upward trend in Chinese scrap prices has recently stabilised

Steel scrap price, RMB per tonne

Source: Datastream price series “Steel Scrap Price Index SHCNFSI - PRICE INDEX”, originally sourced from Home Steel.

The steel-raw material price margin, measured by the difference between the price of steel and a basket of steel inputs, has been on a downward trend for some time (Figure 8). The decrease of flat and rebar steel prices, coupled with raising iron ore prices, has been weighing on margins in 2019, which dropped by 5.6% over the year. The recent uptick in margins, for the month of January, may be temporary.

Figure 8. Margin between steel and raw material prices

Note: The raw materials basket for steel production includes 70% of the usual quantities of iron ore (1.6 tonne) and coking coal (0.77 tonne) needed to produce steel in the integrated process and 30% of the quantity of ferrous scrap (1.07 tonne) needed to produce steel in the electric arc furnace process (see OECD, 2016). Prices used are as follows: Iron ore Fines, 62% Fe, SPOT, CFR China; Hard coking coal spot, FOB Australia; Scrap, #1 HMS, FOB Rotterdam. The basket is compared against HRC world prices. The margin is defined as the percent difference between the steel flat price and the raw materials basket price.

Sources: OECD based on data from Thomson Reuters, Platts Steel Business Briefing (SBB), and Datastream.
7. The global steelmaking capacity situation

Global steelmaking capacity (in nominal crude terms) decreased from 2015 to 2018, but the latest available information (as of December 2019) suggests that capacity increased in 2019 for the first time since 2014 (Figure 9). The net capacity change in 2019, taking into account new capacity additions and closures, brings current global steelmaking capacity up to 2,362.5 mmt, representing a 1.5% increase from the level at the end of 2018.

As discussed in document [DSTI/SC(2020)3], most of the capacity additions in 2019 took place in Asia, where an additional 30.4 mmt of capacity came on stream. Steelmaking capacity also increased in Africa (2.4 mmt), the CIS (1.5 mmt), Europe (0.7 mmt) and the Middle East (2.8 mmt). In other regions, capacity either declined or remained unchanged from previous levels.

Figure 9. Evolution of crude steelmaking capacity in OECD/EU economies and non OECD/EU economies

A. Level (mmt)                                                                                   B. Annual % change.

Note: Capacity data reflect information available to December 2019.
Source: OECD

The gap between global steelmaking capacity and production narrowed between 2016 and 2019 as a result of the decrease in global crude steelmaking capacity (i.e. by -0.2% from 2016 to 2019) and the gradual increase in steel production (an increase of 13.6% in the same period). In 2019, global capacity was 2,362.5 mmt and production was 1,848.5 mmt, therefore the gap between capacity and production has decreased to 513.9 mmt in 2019, from 520.0 mmt in 2018 (Figure 10.A). World steel production as a share of capacity has improved slightly, from 77.7% last year to approximately 78.2% in 2019 (Figure 10.B).
Figure 10. Global crude steelmaking capacity and crude steel production

A. Capacity-Production gap (mmt)  
B. Crude steel production as a % of capacity

Note: Capacity data reflect information up to December 2019. Annual production data for 2019 are based on the press release of 27 January 2020 by the World Steel Association (worldsteel, 2020[20]). Annual production data from 2000 to 2018 are from “Steel Statistical Yearbook 2019”, published by the World Steel Association (World Steel Association, 2019[21]).

Source: OECD for capacity and World Steel Association for production.
8. The steel market outlook

8.1. The global steel market outlook

According to the October 2019 Short Range Outlook (SRO) of the World Steel Association (worldsteel), world finished steel demand is projected to increase by 1.7% to reach 1 805 mmt in 2020 (worldsteel, 2019[2]). In that forecast, global steel demand was expected to continue growing, albeit at a moderating pace, in line with the slowing global economy. Moreover, Worldsteel highlighted uncertainty, trade tensions and geopolitical issues as factors that are weighing on investment and trade activity (worldsteel, 2019[2]). Since that forecast was made, recent developments, such as weaker prospects for world economic growth and the recent coronavirus disease (COVID-19) outbreak, may dampen the outlook. The COVID-19 outbreak may disrupt both demand and supply side of steel markets, particularly in China, the epicentre of the outbreak (Box 1), but also in other regions due to global integrated supply chains.

8.2. Regional steel market outlook

8.2.1. Americas

According to worldsteel’s October 2019 SRO (worldsteel, 2019[2]), steel demand in Latin America is forecasted to grow by 3.9% in 2020. The Latin American Steel Association (Alacero) indicated earlier in 2019 a positive outlook for its regional steel industry in 2019 and 2020, as it expected strong investment activity in developing countries (Alacero, 2019[22]). Alacero expects Latin American steel consumption to grow by 3.1% in 2020 (Platts, 2019[23]). Nevertheless, the steel association was concerned about the imports of semi-finished steel products from China, as well as high imports of Chinese manufacturing goods with high steel content, as both types of imports were crowding out demand for steel produced in the region (Alacero, 2019[22]). Company CEOs in the region noted that Latin America has low per capita steel consumption – almost three times lower than the United States, and six times lower than China (Platts, 2019[24]).

In Colombia, an increase of steel demand due to large projects related to the Fourth Generation infrastructure project is expected. The 4G project's top initiatives include building and improving over 8,000 km of roads around Colombia, in addition to construction activity related to airports, ports and railroads (Platts, 2019[24]).

In Argentina, policy uncertainty continues to weigh on activity in all economic sectors (OECD, 2019[25]), with negative implications also for steel demand. Policy uncertainty increased sharply after the Argentinian August primary elections, and demand for Argentinian assets collapsed, triggering a currency depreciation that further added to already high inflation. Disruptions in payment chains have led to stalling investment, while rising inflation has reduced household purchasing power. The outlook for steel demand will partly depend on the macroeconomic policies implemented to stabilise the economy and get the country out of its current recession.

In Brazil, low interest rates are set to boost real estate investments, although it is unclear if it will benefit Brazilian steel producers or importers (Platts, 2019[24]). A new law requiring the Brazilian construction sector to use the international Building Information Modelling (BIM) digital construction system should favour the use of steel as a building material, and thus further boost construction demand of steel, as a material that is durable, recyclable and produces minimal residues (Kinch, 2019[26]). BIM uses various technologies to generate and
manage digital representations of a site’s characteristics, which can be exchanged to support decision-making concerning construction. BIM will be progressively introduced for current and planned projects in Brazil, as well as for work maintenance, in line with best practices already adopted in other regions such as Australia, the United States, northern Europe, the United Kingdom, Chile, Argentina, Mexico and Uruguay (Kinch, 2019[26]). Nevertheless, investors’ sensitivity to currency risk means they are likely to withhold the start of many major projects in the pipeline until 2021, in order for the government’s current major pension and tax reforms to be fully implemented and uncertainty to dissipate (Kinch, 2019[26]).

In the NAFTA region, worldsteel expects growth to be slightly positive in 2020 (+0.8%) (Fitzgerald, 2019[27]), (worldsteel, 2019[2]). The United States/Mexico/Canada Agreement (USMCA) has recently been ratified by the US Senate, and only ratification by Canada is pending. Canada’s Premiers urged the Government of Canada and all federal parliamentarians to swiftly ratify the new agreement (Billington, 2020[28]). The USMCA, which provides stronger provisions on new automobile manufacturing, rules of origin content requirements and trade enforcement, is seen as a positive by major US steel manufacturers, as the agreement will likely trigger more regional steel demand and more regionally-integrated supply chains (Coyne, 2020[29]), (Coyne, 2020[30]).

In Canada, implementation of the agreement is also seen by the domestic steel industry as critical to strengthening the competitiveness of the steel industry and ensuring market access. Canadian producers supply many segments of the North American automotive, construction, energy and transportation sectors. Some weakness in the domestic auto sector may, however, dampen steel demand growth going forward (Scotiabank, 2020[31]).

In Mexico, low investment in infrastructure appears to be moderating demand for long steel products, while the slower-than-expected expansion of the automotive industry is negatively impacting demand for flat steel products (Platts, 2019[24]). Admittedly, the construction of a new airport in Mexico City and the proposed Mayan Train railway will temporarily boost steel demand, but there seem to be few prospects for other large investment projects. The USMCA, which was set to establish a new playing field for local steelmakers, could also sustain demand for Mexican steel due to its higher local-content requirements for auto parts (Platts, 2019[24]). In the meantime, investments in Mexico from large steel-consuming sectors have been on hold, as companies waited for the details of the agreement (Platts, 2019[23]).

8.2.2. Africa and Middle East

According to worldsteel’s October 2019 SRO, African steel consumption is set to grow by 3.2% to 37.2 mmt in 2020 (worldsteel, 2019[23]). In South Africa, the steel and engineering sectors are forecast to expand by 0.6% in 2020. Growth is expected to be moderated by external factors, such as continuing trade disputes, weak internal demand, policy uncertainty and the availability and costs of electricity (SEIFSA, 2020[32]).

Looking at trends in key steel-consuming sectors, recent information suggests that the construction sector is expected to grow strongly in sub-Saharan Africa (Global Data, 2019[33]). Expansion is forecast to be particularly robust in Nigeria and Ethiopia, supported respectively by government-led infrastructure development and strong economic growth (Global Data, 2019[33]). In Algeria, the recent election of a former housing minister to become president has stirred expectations among local steel producers of a possible rise in residential construction activity and construction investment in general (Villa, 2019[34]). In Egypt, construction activity is expected to continue growing strongly, supported by plans to build 23 new cities (Enterprise, 2019[35]) by 2050, to accommodate the growing population
and efforts to ease congestion in and around Cairo. However, a lack of competition in the construction sector and high land prices mean that housing shortages are unlikely to be resolved (Bar’el, 2019[36]).

Turning to the automotive sector, production in South Africa is forecast to grow 2% from 654 000 to 667 200 units in 2020, supported by moderate domestic and foreign demand growth (NAAMSA, 2019[37]). In Algeria, where vehicles are largely assembled from imported kits, import quotas have been reported to threaten output (AFP, 2019[38]). However, government policies of diversification away from hydrocarbons and policies of import substitution and import quotas on cars continue to promote the construction of assembly plants in Algeria. A new plant is expected to open in 2020 in Algeria, with an initial capacity of 63 500 units (AFP, 2019[39]). According to the latest available production statistics, Morocco’s automotive production surpassed 400 000 units in 2018, equivalent to an annual growth rate of 17.6% (OICA, 2019[40]). Production is expected to exceed 500 000 units in 2020 (Kasraoui, 2019[41]).

Among smaller steel-consuming economies in the region, a programme to build energy and utilities infrastructure is expected to support steel demand growth in Lebanon, together with drilling activity in two new offshore blocks, which mark Lebanon’s entry into oil and gas exploitation (Kinch, 2019[42]).

In its October 2019 SRO, the World Steel Association forecast steel consumption growth of 0.2% for the Middle East in 2020, a small increase compared to the sharp contraction expected for 2019. As well as volatile oil prices, tighter sanctions against Iran, armed conflicts in Syria and Yemen, and unrest in Iraq and Lebanon are factors that are weighing on prospects for steel demand growth in the region.

The construction sector is expected to grow in Saudi Arabia, as the huge pipeline of construction projects included in the Saudi Vision 2030 programme, which spans from housing to transport, oil and gas, and social infrastructure, gets underway (Research and Markets, 2019[43]). However, delays are possible as the economy struggles to attract enough construction contractors to deliver the project (Rousseau, 2019[44]). Construction activity in the region is also expected to continue to benefit from investment made in preparation for events such as the FIFA World Cup 2022 in Qatar, although the Qatari construction boom appears to have largely run its course (Khaleej Times, 2019[45]; Global Data, 2019[33]). In Iran, the expansion of power-generation capacity together with government investment in transport infrastructure are expected to support construction activity (Research and Markets, 2019[46]). The government has ambitious plans for the construction of additional housing for middle-income families (Bizae, 2019[47]). However, previous plans to house low-income families in new satellite cities fell short of targets while also resulting in often unfinished and empty housing units (Wright, 2019[48]). Overall, the domestic demand for Iranian steel seems well-below the ambitious target set by the government for Iranian steel production as part of its “2025 Vision Plan” production, which is of 55 million tonnes per year by 2025 (Fastmarkets, 2018[49]). The OECD Steel Secretariat estimates that, should all steel plants projects already underway be completed as scheduled, Iranian nominal crude steelmaking capacity would reach 50.7 million metric tons by 2021, a 40.8% increase compared to the 36.0 million metric tons of capacity at the end of 2019. Hence, the government target seems attainable. On the production side, and despite the ongoing global COVID-19 pandemic, the Iranian government instructed all industries, including steel producers and mining companies, to continue their production as scheduled, according to a directive issued by the Ministry of Industries, Mining and Trade on March 28 (Platts, 2020[51]). The Iranian steel industry, in spite of sanctions, retains a large export-oriented component, as some 6.51 million tonnes of finished and semi-finished steel products were exported by Iran’s main steel producers, excluding small private sector mills, from February 2018 to February 2019,
a 28% increase from the same period the previous year (Platts, 2020[52]). Iran's largest producer Mobarakeh Steel Co (MSC) and its affiliated company Hormozgan Steel Co (Hosco), the second biggest producer Khouzestan Steel Co (KSC), South Kaveh Steel (SKS) and Esfahan Steel Co (Esco) were the main exporters in this period (Platts, 2020[52]). Iran aims to increase its steel exports to 11 million tonnes in the current year, a target deemed very ambitious by market participants, given the slowdown in demand in the region (Platts, 2020[52]).

Automotive manufacturing in Iran reported a sharp decline in 2019, as parts were difficult to source following the exit of foreign carmakers from the Iranian market (Platts, 2020[9]). However, carmakers were also reported to be switching suppliers to local and Chinese producers (Platts, 2020[9]). Increasing demand from manufacturing is also expected in Saudi Arabia as the government establishes a shipbuilding complex at Ras Al Khair industrial port (Platts, 2019[49]).
8.2.3. Asia and Oceania

The October 2019 forecast by the World Steel Association pointed to steel demand in the Asia and Oceania region growing by 1.8% in 2020 (worldsteel, 2019[2]). India and ASEAN are likely to be the drivers of growth in steel used for construction, due to robust investment activity in the infrastructure sector.

Worldsteel expects steel demand in China to grow by a mere 1.0% in 2020 due to weaknesses in the manufacturing sector (worldsteel, 2019[2]). Admittedly, the impacts of the recent coronavirus outbreak, which, at the time of writing are still uncertain, could weaken steel demand prospects even further (Box 1). Worldsteel noted that it was unlikely that the Chinese government would reintroduce substantial stimulus measures as it continues to hold a balance between containing the slowdown and pushing forward its economic restructuring agenda (worldsteel, 2019[2]).

MPI forecasts that Chinese steel demand will decrease by 0.6% in 2020 compared to 2019. Although steel demand in the energy, white goods, and rail infrastructure sectors would increase in 2020, demand in the construction, automotive and shipbuilding sectors are forecast to decrease in 2020 (MPI, 2019[50]). According to the China Association of Automobile Manufacturers (hereafter “CAAM”), total automobiles sales (including passenger and commercial vehicles) in China dropped by 8.2% in 2019, to a level of 25.8 million vehicles (The Wall Street Journal, 2020[51]). CAAM indicates that vehicle sales would decrease 2% in 2020 due to new emission standards and to trade frictions with the United States (Reuters, 2020[52]). Reflecting on the recent downturn, in January 2020, China’s Minister for Industry and Information Technology (MIIT) noted that there would no significant cuts to subsidies for new energy vehicles (NEV) in 2020 (Reuters, 2020[53]). A momentary glut in supply due to falling demand should also hinder automotive production in the short to medium term in China (see Box 1 and Figure 11 below).

Figure 11. Auto sales have declined sharply in China

Year-on-year % change in the volume of passenger car sales

Source: Datastream

Chinese steel demand has been supported by large infrastructure investment projects, such as construction of roads, bridges and subways. The growth rate of investment in
infrastructure (excluding electric power, heat power, gas and water) registered a moderate 3.8% increase in 2019, due to local government funding constraints (Reuters, 2020[54]).

However, the China Iron and Steel Association (hereafter “CISA”) expects that infrastructure construction will accelerate and offset the downward pressure on steel demand from weaker property construction in 2020 (Platts, 2020[55]). China’s Minister of Transport unveiled new public investments of 800 billion yuan (about USD 114 billion) in railways, 1.8 trillion yuan (about USD 0.26 trillion) in highway and waterway projects, and 90 billion yuan (about USD 13 billion) in civil aviation in 2020 (Reuters, 2019[56]).

Importantly, Chinese steel demand may be pushed forward in time due to the recent coronavirus outbreak. Box 1 discusses some aspects of this recent outbreak.

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**Box 1. The negative impact of the coronavirus disease (COVID-19) in China**

As of mid-February 2020, it is too early to assess the full impacts of the coronavirus disease (COVID-19)\(^6\) outbreak, as authorities are stepping up efforts to contain the virus and new cases are discovered every day.\(^7\) However, and even under a positive future scenario, the outbreak is likely to have a significant impacts on steel demand in China. According to an analysis by Platts, Chinese finished steel consumption in February 2020 could decline by about 43 million tonnes due to the coronavirus outbreak, with the effects coming from a slowdown of construction and manufacturing activity (Platts, 2020[57]).

Various other assessments also point to weaker market conditions. For example, a very recent survey revealed that more than a third of Chinese steel mills are considering production cuts due to rising inventories, a shortage of raw materials and abnormally weak downstream demand caused by the coronavirus (Cia, Hao and Bartholomew, 2020[58]). The impact of the COVID-19 may be disproportionately felt on Chinese steel downstream sectors compared to the Chinese steel production sector, as only 3.15% of the total Chinese steel capacity is located in the Hubei province, which is the epicentre of the disease, while the Hebei province, which accounts for 24% of total Chinese steel capacity, seems less affected by the COVID-19. The China Iron and Steel Association (CISA) indicated that they were pessimistic about Chinese steel firms’ operations in China in the first quarter of 2020 (Reuters, 2020[59]). Steel producer Baosteel believes that it will take longer for steel demand to recover after the coronavirus than was the case after the SARS outbreak (Platts, 2020[60]). Furthermore, the International Rebar Producers and Exporters Association (IREPAS) said surplus supply and inadequate demand is set to dominate the long steel products markets, due to both the coronavirus outbreak and geopolitical issues (Platts, 2020[61]).

For the automotive industry, a key steel-consuming industry, negative impacts from the outbreak are already being felt. Chinese automotive sales in the month of January 2020 declined 18% compared to January 2019, dropping to 1.94 million vehicles, according to the China Association of Automobile Manufacturers (Marketwatch.com, 2020[62]). Although a decline was originally expected for the month of January 2020 due to the Lunar New Year holiday falling in late January, as opposed to early February, the association predicted that there would be no rebound in February, and that the coronavirus outbreak will result in a steep decline of overall first-quarter auto sales (Marketwatch.com, 2020[62]). Furthermore, IHS Markit foresees a scenario in which the coronavirus spreads rapidly across the country, triggering a cascade of automotive plant closures which would last well into the middle of March 2020 and will considerably reduce automobile production (IHS Markit, 2020[63]). Some support for this assessment...
is seen in the fact that a number of automobile producers have already suspended production around the world. Volkswagen, General Motors, Renault, Toyota and many other automobile producers have already closed their Chinese plants as of 13 February (CNN, 2020[64]), (Reuters, 2020[65]), (Reuters, 2020[66]). In other Asian countries, a lack of automotive parts from China-based suppliers have prompted other producers to suspend production in February: Hyundai Motor Company, Renault Samsung Motors and Kia Motors have all suspended production in Korea, and Nissan Motor have suspended production in Japan (Reuters, 2020[67]) (BBC, 2020[68]). In Europe, Fiat Chrysler warned that the impact of the coronavirus epidemic through global supply chains could halt production at some of its European car plants (BBC, 2020[69]) and has already halted production in its Serbian plant (Bloomberg, 2020[70]). According to its spokesman, Fiat was in the process of securing future supply of those affected parts and production will restart at the plant later in February (Bloomberg, 2020[70]).

Many real-time activity indicators, such as traffic congestion, passenger transport volumes, construction indicators and daily property sales in 30 major Chinese cities, are, as of mid-February 2020, pointing towards large disruptions of economic activity in China (Capital Economics, 2020[71]). Another activity indicator is the comparison of air pollution, which can also be helpful to gauge economic activity. As of 10 February 2020, Guangzhou, Shanghai and Chengdu have air pollution 20-50% below their historical average for this period of the year. This could imply that human activities such as traffic and industrial production within or close to these cities are 50-80% below their usual levels (Durden, 2020[72]).

According to worldsteel’s October 2019 Short Range Outlook, Indian steel demand growth is expected to accelerate to 7.0% in 2020, from a rate of 5.0% in 2019 (worldsteel, 2019[2]). Infrastructure, as well as residential property construction, coupled with favourable demographics and improving macroeconomic fundamentals are expected to sustain increases in steel consumption in India (worldsteel, 2019[73]). In December 2019, India’s Finance Minister unveiled a plan to invest USD 1.39 trillion in public infrastructure over the next five years (Reuters, 2019[74]). The Indian automotive industry suffered from a domestic liquidity crisis and weak global demand in 2019, but is expected to pick up in early 2020, before the introduction of stringent pollution standards take effect in April 2020 (worldsteel, 2019[2]). Because of the expected growth of steel demand in India, ArcelorMittal Nippon Steel India, the former Essar Steel, noted that it will shift its strategic focus to domestic markets from exports (Platts, 2020[75]). Also, the Indian government unveiled its new steel scrap recycling policy in November 2019. This policy foresees the establishment of 70 scrap processing centres in the country to ensure high-quality scrap, but some market participants are worried by the surge of mixed metal, unprocessed scrap into India (Platts, 2019[76]).

Steel demand growth in Japan is slowing. The construction sector in Japan should experience almost stagnant growth as a result of the decline in residential construction. Furthermore, car production is being affected by weak demand in export markets, such as Korea. As a result of these factors, Japanese steel demand is forecast to decrease by 0.6% in 2020 (worldsteel, 2019[2]). According to the Japan Iron and Steel Federation (hereafter “JISF”), steel demand from both the residential buildings sector and the automotive sector in the financial year 2020-2021 (April 2020-March 2021) is expected to decrease compared with the previous financial year, mainly due to the consumption tax increase (from 8% to 10% in October 2019) (JISF, 2019[77]). Meanwhile, the Japanese economy is expected to continue recovering at a moderate pace, although trade issues, developments in the Chinese economy, and Brexit may put downward pressure on Japanese economic activity (Cabinet Office, 2020[78]).
In Korea, steel demand in 2020 is expected to register 0.4% annual growth, despite a contracting construction sector and weak demand in export markets for Korean-produced vehicles, according to worldsteel (worldsteel, 2019[2]). Hyundai Steel expects lower demand from the domestic construction and car industries, but higher demand from the shipbuilding industry in 2020 (Platts, 2020[79]).

Steel demand in the ASEAN region is expected to maintain its robust growth momentum, driven mainly by heavy infrastructure investment in 2020. Steel consumption in the ASEAN-5 region (Indonesia, Malaysia, Philippines, Thailand and Viet Nam) is expected to grow by 5.6% in 2020, according to worldsteel’s October 2019 Short Range Outlook (worldsteel, 2019[2]). In April 2019, the government of Malaysia decided to resume the development of two infrastructure projects — the construction of the “East Coast Rail Link and the “Bandar Malaysia Project” — which could boost domestic steel demand in the medium and long term (Prime Minister’s Office of Malaysia, 2019[80]). The Philippine Iron and Steel Institute explained that steel demand in 2020 would grow by 6% due to strong demand from the construction industry (Platts, 2019[81]). According to SSI Securities Corporation (a securities company based in Viet Nam), Viet Nam is expected to post steel demand growth of 5-7% in 2020, in spite of the slowdown in the real estate market and public investment (The Star Online, 2020[82]). Steel demand in Indonesia should grow by 7% in 2020, thanks to increasing steel use in the construction and automotive sectors, according to the Indonesian Iron and Steel Industry Association (Hellenic Shipping News, 2019[83]). On the other hand, there will be numerous capacity expansion projects in the ASEAN region and it will take around 18-20 years for ASEAN demand to catch up with capacities even assuming a 4-5% consumption growth annually, according to the SEASI (Metal Expert, 2019[84]).

8.2.4. Europe and CIS economies

After an expected decline in 2019, there is a general expectation is that EU steel demand growth will recover moderately in 2020. In its October 2019 Short Range Outlook, the World Steel Association forecasts a growth rate of 1.1% (worldsteel, 2019[85]). Similarly, Eurofer, the European Steel Association, expects a growth of 1.2% (Eurofer, 2020[86]).

Underlying activity in the key steel-consuming sectors is expected to grow at its weakest pace since 2013, with output inching up by only 0.6% in 2020. In the construction sector, Eurofer’s outlook remains relatively positive, with growth continuing in 2020 albeit at lower rates. After several years of strong increases — supported by low interest rates and real-wage growth in many jurisdictions — demand for residential construction is past its cyclical peak in many economies, and labour shortages are slowing project completions. Nevertheless, Eurofer expects that favourable financing conditions will continue to support steel demand growth in residential construction (Eurofer, 2020[86]).

In January 2020, the European Central Bank kept interest rates unchanged and encouraged expectations of persistently loose monetary policy. In addition to not raising interest rates, the bank narrowed its inflation target from ‘between 0 and 2%’ to ‘below but close to 2%’ (Financial Times, 2020[87]). Even such a reassuring stance is not expected to support growth in the private non-residential construction sector. Private investors, for the most part, are expected to postpone investment decisions as they continue to grapple with numerous external risks, such as trade disputes, continued weakness in manufacturing, and Brexit uncertainties (Eurofer, 2020[86]). Countering softness in private investment, civil engineering is expected to grow at a faster pace, mostly supported by the stronger budgetary position of many governments in the European Union, steady demand for infrastructure in eastern Member States and the continuous deployment of EU funds, particularly under the Transport and Energy Network theme (Eurofer, 2020[86]).
Eurofer expects only a moderate 0.8% expansion in automotive production in 2020. The slow recovery is expected to be supported by the progressive shift of consumers to electric vehicles—the European Union overtook the United States in 2019 as the second-largest market for electric vehicles after China—and the growing availability of EU-made electric vehicles models (Eurofer, 2020[86]). Some support to demand for light commercial vehicles is expected to come from changes in emission regulations that businesses will have to comply with. However, Eurofer expects the recovery to be constrained by external risks, particularly relating to trade. These will depress the prospects for manufacturing exports in general, and vehicles and automotive parts in particular. Immediate concerns over trade also highlight longer-term preoccupations over the fitness of the European car industry to compete with fast-growing producers of electric vehicles, particularly in emerging economies (Eurofer, 2020[86]; The Economist, 2020[88]).

With regards to other steel-consuming sectors, Eurofer expects similarly moderate recovery trends. Mechanical engineering is exposed to exports both directly and indirectly, as most of its EU-based clients are export-oriented manufacturers. An easing of trade disputes—exemplified by the agreement reached by China and the United States in January 2020—is expected to prevent a further contraction in output in 2020. However, it is not expected to be enough to support a robust rebound (Eurofer, 2020[86]). In the steel tube industry, demand for large-diameter welded pipes used in oil and gas infrastructure is expected to come from relatively small pipeline projects in the Baltic and Eastern Mediterranean. However, the larger Nord Stream 2 pipeline project (bringing Russian gas to Germany) is not forecast to support demand, as construction work was affected by new US sanctions in December 2019. Demand for medium- and small-diameter pipe used in construction, automotive and mechanical machinery is expected to mirror the weak growth forecast in those sectors (Eurofer, 2020[86]).

With subdued underlying activity in steel-consuming sectors, and real demand expected to contract further in 2020, Eurofer expects that restocking will support apparent finished steel consumption growth in 2020, and even so the growth will be mostly due to the low-base effect of 2019 (Eurofer, 2020[86]). On the price front, stock replenishments stoked expectations of price increases for the second and third quarters of 2020 and Northern European hot-dipped galvanised steel producers were reported as experiencing strong growth in orders in February 2020 (Villa, 2019[89]; Varriale, 2020[90]).

In its October 2019 SRO, the World Steel Association expected apparent finished steel demand growth in Other Europe at 5.0% in 2020, representing a moderate rebound after a severe contraction of 12.1% in 2019. In Turkey, the largest steel consumer in this region, moderate growth is expected in the construction sector (worldsteel, 2019[85]). A turning point in Turkish steel demand growth expectations was recorded in the last months of 2019, spurring some optimism about recovery in 2020, and leading some mills that had previously reduced production to increase output (Can, 2019[91]).

In the Commonwealth of Independent States (CIS) region, steel demand in Ukraine is expected by some observers to grow by a relatively modest 1.9% in 2020, to around 4.8 mmt (Wood Mackenzie, 2019[92]). In Russia, demand for tubes and pipes is expected to ease slightly, from 10 mmt to 9.85 mmt in 2020, according to the Russian Pipe Industry Development Fund (Bouckley, 2020[93]). The Fund expects that the completion of large pipelines, particularly Sakhalin-Khabarovsk-Vladivostock, Power of Siberia, and Nord Stream 2 will reduce demand for steel pipes for hydrocarbons transportation. However, an increase in enhanced hydrocarbons recovery, and moderate increases in demand from the construction and utilities sectors should partially offset the decline (Bouckley, 2020[93]).

NLMK, a Russian steel producer and exporter, expects that higher-than-usual temperatures in the early months of 2020 would bring forward the beginning of construction activity in
Russia, where it expects steel demand growth to stand at a modest 1% in 2020 (Bouckley, 2020[94]). Severstal, another Russian steelmaker, expects steel demand growth of 1.5% in 2020. In the longer term, the company expects stronger growth in the construction sector, as large government-backed construction projects kick in. The seven-year investment program *National Projects* is expected to stimulate steel demand in the construction sector until the mid-2020s (Platts, 2019[95]).
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Endnotes

1 Due to the date of publication of the OECD Economic Outlook, GDP figures and projections mentioned in this section do not yet take into account the potential negative impact of the coronavirus disease (COVID-19) in China and other jurisdictions.

2 https://www.oecd.org/economic-outlook/

3 Reserve remuneration refers to the interest paid to commercial banks by the central bank on the accounts they are holding with the central bank. The European Central Bank introduced a negative interest rate for all reserves held by commercial banks in excess of mandatory reserves. Refer to https://www.ecb.europa.eu/press/pr/date/2019/html/ecb.pr190912_2-a0b47cd62a.en.html for more information.

4 e.g. In Nanjing, capital of eastern Jiangsu province, individuals with high education qualifications, diploma holders from vocational institutes are allowed to buy homes in that area from December 2019. Previously, only degree holders were eligible (Reuters, 2020[185]).

5 OECD capacity data is being revised following the revision of the methodology to compute aggregate figures on the basis of the new plant-level capacity database built by the Secretariat. For further information on the magnitude of the revisions please see DSTI/SC(2020)3.

6 The virus was named 2019-nCoV by the World Health Organization (WHO), and later renamed SARS-CoV-2 by the International Committee on Taxonomy of Viruses. The name of the disease, that is, the symptoms triggered by the virus, is COVID-19.

7 See, for example, the real time tracking of Coronavirus COVID-19 cases published by the Johns Hopkins University: https://gisanddata.maps.arcgis.com/apps/opsdashboard/index.html#/bda7594740fd402994423467b48e9ecf0