EU STEEL MARKET AND CHALLENGES

84th Session of the OECD Steel Committee
Paris, 5 – 6 March 2018
ECONOMIC OUTLOOK

• Investment: game changer in 2017
• Consumer spending maintained its strength
• Export performance supported by global investment-led upturn
• Increasingly synchronised growth pattern across countries and GDP components
• Manufacturing on a healthy growth spell in 2017
• 2017: above-trend GDP growth of 2.5% in spite of fears that political uncertainty might hamper growth

STRONG PERFORMANCE EU ECONOMY IN 2017
ECONOMIC OUTLOOK

EU’S ABOVE-TREND GROWTH TO BE SUSTAINED IN 2018 – ONLY MILD GROWTH MODERATION IN 2019

- Confidence remained at record levels in January
- Investment again a key growth driver
- Robust EU domestic and external demand
- Risks: strength of the euro, protectionist measures trigger global trade wars
- Monetary policy tightening may dampen investment growth in 2019
- GDP growth 2018: 2.2%, 2019: 1.9%
STEEL USING SECTORS

POSITIVE ASSESSMENT ORDER BOOKS AND STOCK SITUATION BODE WELL FOR PRODUCTION GROWTH

**EU Orderbook Assessment**
balance of positive and negative answers

**EU Product Stocks Assessment**
balance of positive and negative answers

**EU Steel Using Sectors**
Production Activity - forecast from Q4-2017

**Index 2015=100**

- **% change**
  - y-o-y change Production (RH-axis)
  - Production Index (LH-axis)
STEEL USING SECTORS

POSITIVE OUTLOOK FOR 2018-2019

• **2017: BUMPER YEAR**
  - Overall 4.7% output growth, best performance since 2011
  - Strong growth tube sector, construction and engineering industry
  - As expected, automotive output growth tempered somewhat

• **OUTLOOK 2018-2019**
  - Tailwinds from strong economic fundamentals
  - Activity growth steel using sectors expected to moderate
  - Waning momentum automotive industry and flat output tube sector
  - Construction and engineering well positioned for further growth
  - Output growth 2018: 2.6%, 2019: 2.2%
  - Risks: capacity restraints in some countries, euro strength, protectionist measures hampering international trade
STEEL USING SECTORS

CONSTRUCTION: HEALTHY PROSPECTS FOR 2018-2019

• 2017
  – Overall 4.3% output growth, best performance since 2007
  – W-EU boosted by rising demand for new housing and housing renovation
  – Central EU: infrastructure activity picking up after standstill

• OUTLOOK 2018-2019
  – Strong consumer fundamentals
  – Migrant inflows drive also demand for housing and services
  – Pent-up non-residential construction demand to be unleashed further
  – Infrastructure activity will gain traction
  – Output growth 2018: 2.6%, 2019: 2.2%
  – Capacity restraints in some countries
STEEL USING SECTORS

AUTOMOTIVE: SATURATION DEMAND AND CAPACITY RESTRAINTS LIMIT AUTOMOTIVE OUTPUT GROWTH GOING FORWARD

• 2017
  – Both passenger car and commercial vehicle sales grew by 3.4%
  – Positive trend large markets except UK
  – Car exports grew by 2.3% y-o-y over first 9 months of 2017
  – CV exports rose by 4.3%
  – EU output 2017: +3.7%

• OUTLOOK 2018-2019
  – Saturation effects will dampen demand growth in the EU - January sales +7% y-o-y
  – UK market remains stuck in low gear
  – Lower demand from key overseas markets
  – Output growth 2018: +1.7%, 2019: 1.1%
  – Brexit remains a risk for both the UK and the EU
EU STEEL MARKET

HEALTHY DEMAND CONDITIONS
COMPETITION REMAINS FIERCE

• 2017
  – Healthy final steel use conditions
  – Total growth apparent steel consumption 2017: 1.9%
  – Import trend turned negative in H2
  – EU domestic suppliers gained market share
  – Share imports in apparent steel consumption remain at 21% in 2017

• OUTLOOK 2018 AND 2019
  – Mild further increase apparent consumption
  – Reflecting improving final steel use and fairly neutral impact stock cycle
  – Growth forecast apparent steel consumption: 2018: +1.9%, 2019: +1.4%
  – Protectionism and retaliatory measures major risk for global steel market stability
EU STEEL TRADE

NET IMPORT BALANCE WORSENED IN 2017

• NET IMPORT BALANCE
  – Import trend turned negative in H2 2017 (-12% y-o-y)
  – For the whole 2017, EU finished steel imports remained at record level in 2017 (26 million tonnes)
  – Share imports in apparent steel consumption remained at 21% (2017)
  – EU finished exports further decreased down to 22.8 million tonnes (-5%) in 2017
  – Turkey and USA remain the major export destination for EU finished steel exports (20% resp. 15%)

• IMPORTS BY COUNTRIES
  – Six countries representing 75% of total EU imports (Turkey, India, China, South Korea, Russia, Ukraine)
  – Imports from India doubled in 2017, from Turkey increased by +65%
EU Steel Market and Trade

- Prospects for the continued recovery of EU steel demand are positive, fuelled by strength of most steel-using sectors
- Imports trended down in H2-2017 but remained at record level on a yearly basis
- Lower Chinese steel imports replaced by other import sources (Turkey, India, South Korea)

Challenges and Messages

- Over the past 10 years, the (European) steel industry has faced several disruptive shocks including the global steel demand collapse in the wake of the financial crisis (2009), the Eurozone crisis (outbreak 2011) and Chinese steel flooding exports markets triggered by sudden reversal in domestic demand growth exposing massive excess capacities
- Announced US Section 232 measures imposing prohibitive import tariffs may massively disrupt global trade flows by trade deflection, up to 20 – 25 million tonnes representing a volume more than half total EU imports
- In the current context of massive global excess capacity, regional markets will be forced to take contingency actions to avoid domestic market disruption.
- The unilateral use of US tariffs negates the global approach needed to address what is a global capacity problem