EUROFER
The European Steel Association

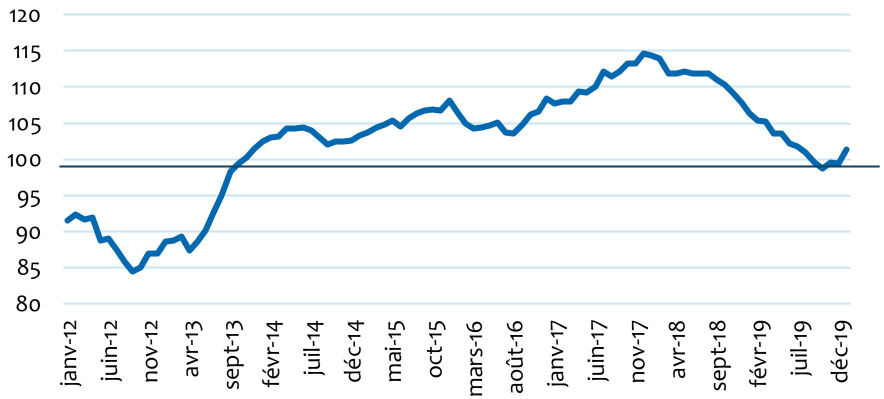
EU ECONOMY & STEEL MARKET CHALLENGES

88 SESSION OF THE OECD STEEL COMMITTEE

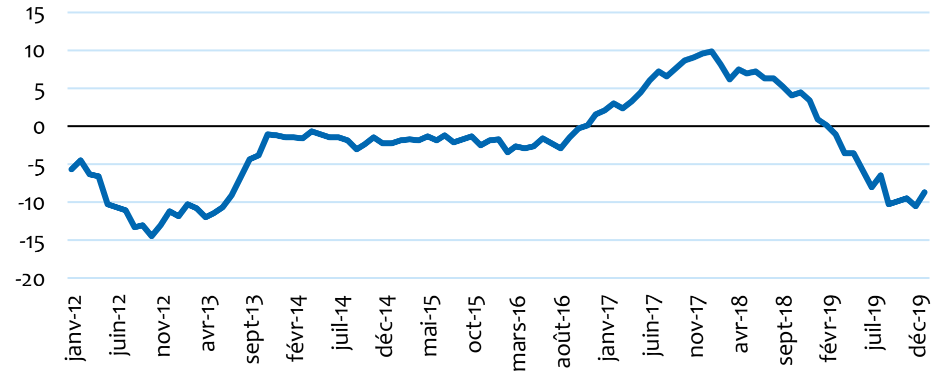
MARCH 2020

LATEST ACTUAL DATA: DOWNWARD TREND IN EU SENTIMENT SEEMS TO HAVE BOTTOMED OUT IN NOV AND DEC '19, BEFORE THE COVID-19 OUTBREAK

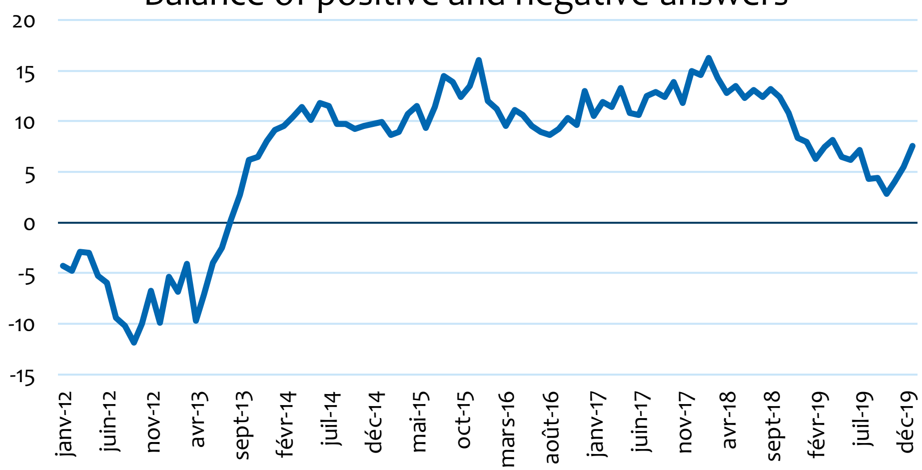
EU Economic Sentiment
(Long-term average=100)



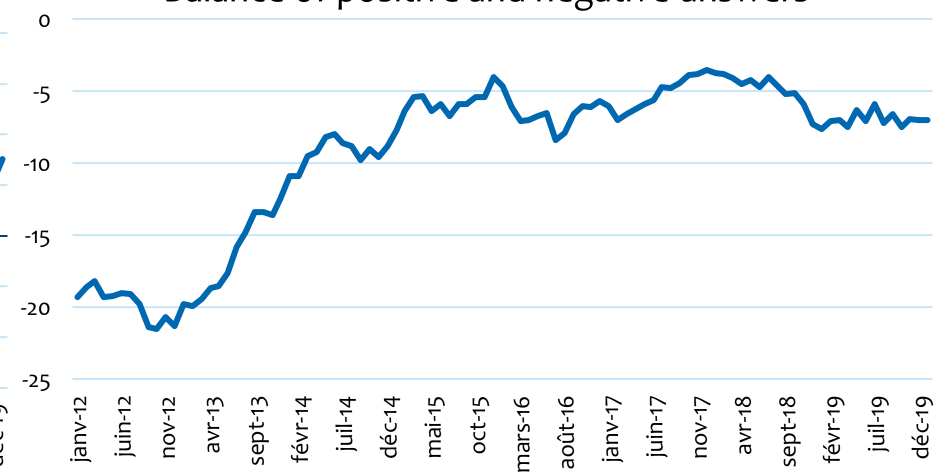
EU Industrial Confidence
Balance of positive and negative answers



EU Services Confidence
Balance of positive and negative answers

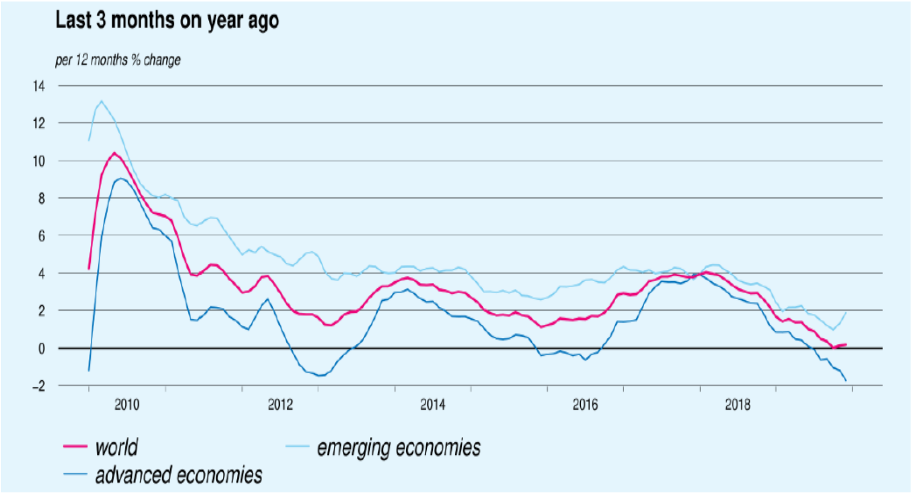


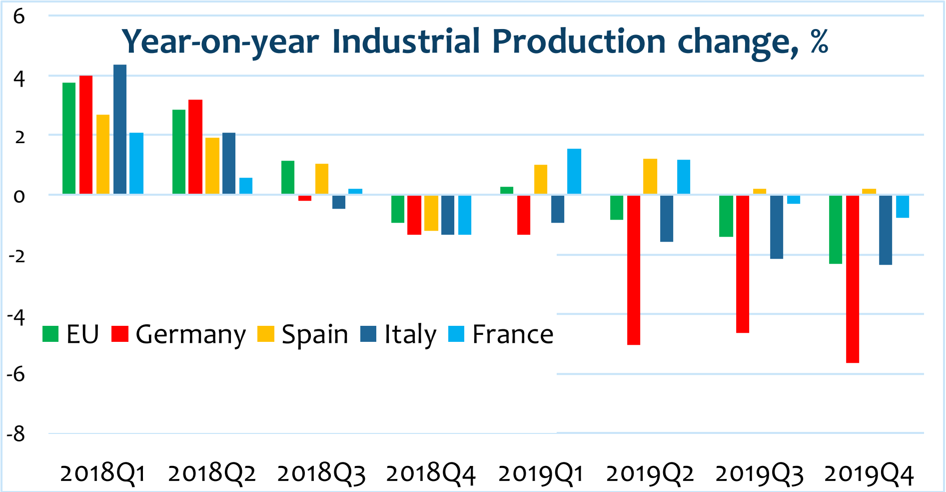
EU Consumer Confidence
Balance of positive and negative answers



EU ECONOMY AT END-2019 STILL AFFECTED BY PERSISTENT TRADE TENSIONS AND SLOWING GLOBAL GROWTH – HURTING GERMANY IN PARTICULAR

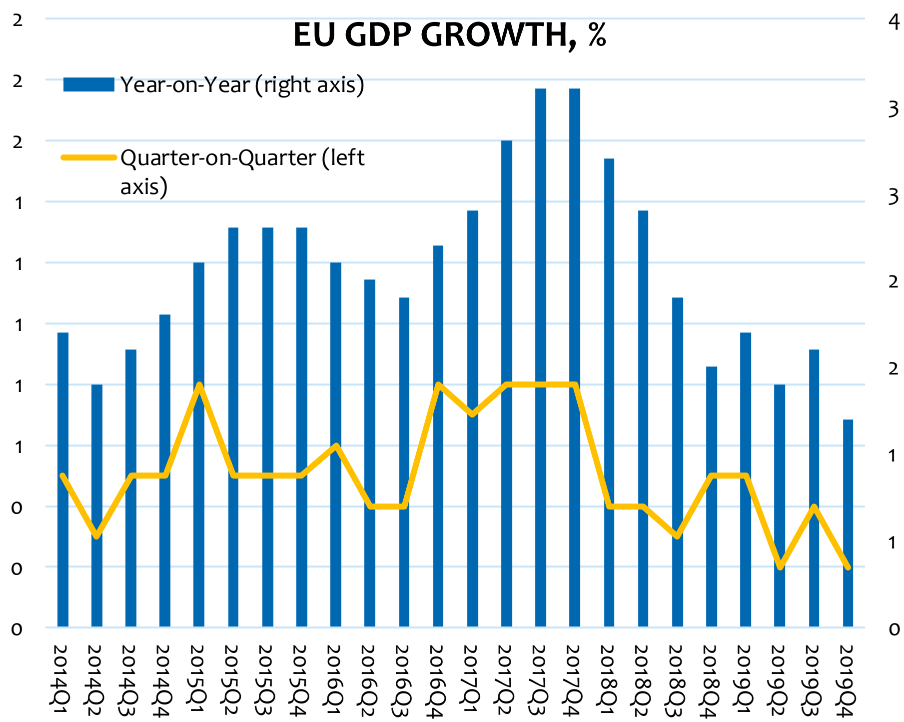
Industrial Production Volume





- GDP growth in the EU slowed further down in Q4'19 (0.1% q-o-q, 1.4% y-o-y)
- Coronavirus outbreak will cost at least 1% of world GDP to the global economy (supply chain disruption etc). IMF and OECD have lowered their global growth predictions (2.4% in 2020, formerly 2.9%). Most likely biggest impact during H1 '20
- EU private consumption and services provided strongest contribution to growth
- Led by Germany, manufacturing activity dragged lower by slowing domestic growth, weaker exports, automotive slump
- Business sentiment in Q4 still affected by trade war worries and ongoing Brexit-related uncertainty
- Overall negative impact on business investment
- GDP growth expected at only 1.3% over the whole year 2019 (lowest since 2013)

EU OUTLOOK 2020-2021: RECESSION HAS BECOME ALMOST CERTAIN DUE TO INDUSTRY WEAKNESS AND CORONAVIRUS OUTBREAK

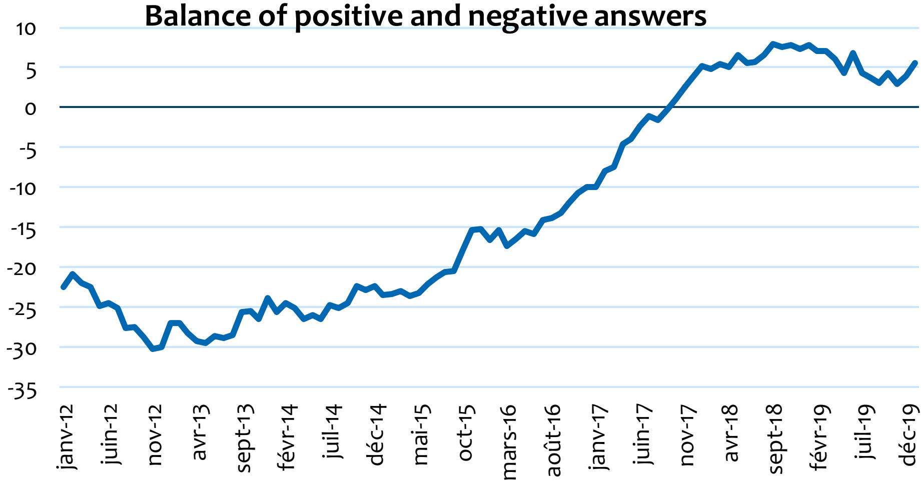


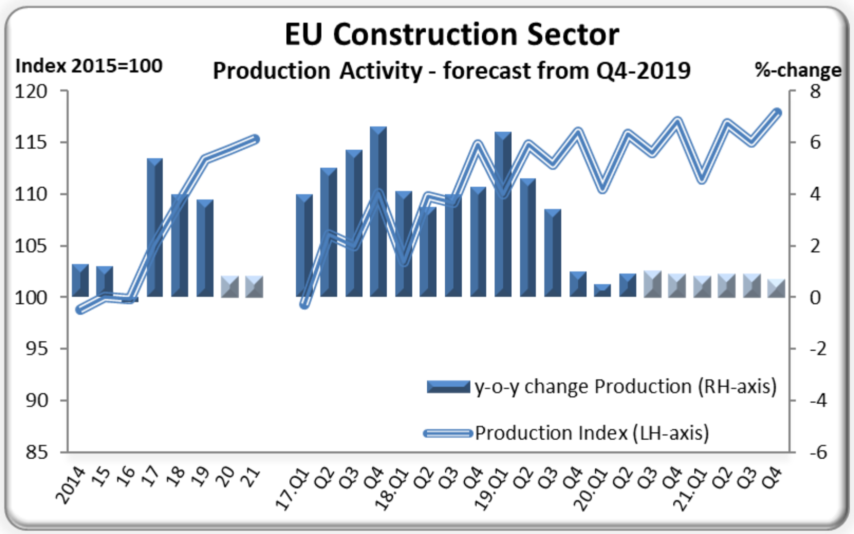
- Coronavirus outbreak set to take a heavy toll on global supply chain and overall economic and industrial activity
- Most indicators signal subdued economic growth in Q1 ‘20, with worsening outlook
- Key driver: private consumption
- Weak investment outlook
- Slowdown in growth of international trade likely to continue, albeit easing somewhat
- US and China trade agreement of 15 January – fragile deal but slightly more optimistic outlook
- Risks of financial instability and debt sustainability issues (both corporate and gov’t debt)
- Monetary policy has almost run out its tools – a new QE and zero/negative rates set to continue; fiscal policy more expansionary
- Manufacturing weakness to continue until H2 2020, with further downside risks
- GDP growth at 1.3% in ’19 in the EU, but the outlook has worsened rapidly and recession is almost certain in 2020 (the first since 2009)

CONSTRUCTION SECTOR

EU Construction Confidence

Balance of positive and negative answers



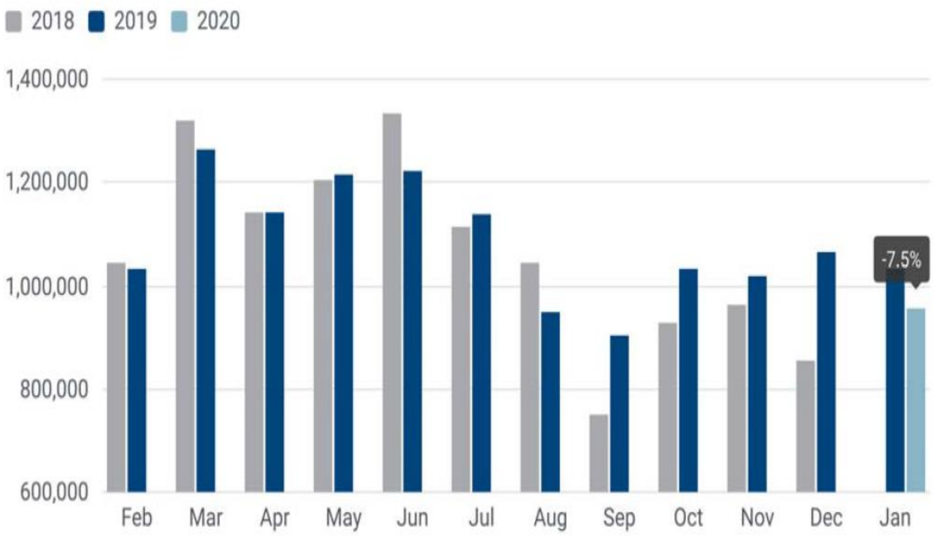


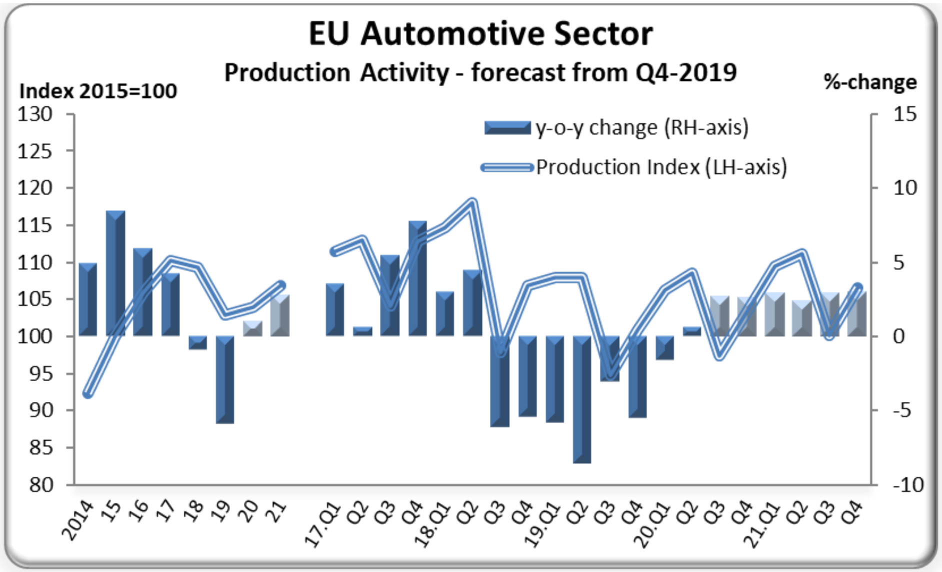
Current situation

- Confidence slowed down, but still at high levels
- Strength of residential real estate markets
- Private non-residential investment weighed down by subdued business sentiment
- Civil engineering best performing subsector: infrastructure demand remains the key driver in Central Europe
- Output growth 2019: 3.8%

- **Outlook 2020-2021**
- Albeit strongly affected by the overall macroeconomic turmoil caused by Covid-19, the sector will prove relatively resilient
- Residential building: cyclical slowdown after multi-year boom
- Weak business sentiment set to curb private commercial and industrial construction activity in 2020
- Civil engineering will be used as countercyclical economic tool and public construction spending is likely to increase

AUTOMOTIVE SECTOR





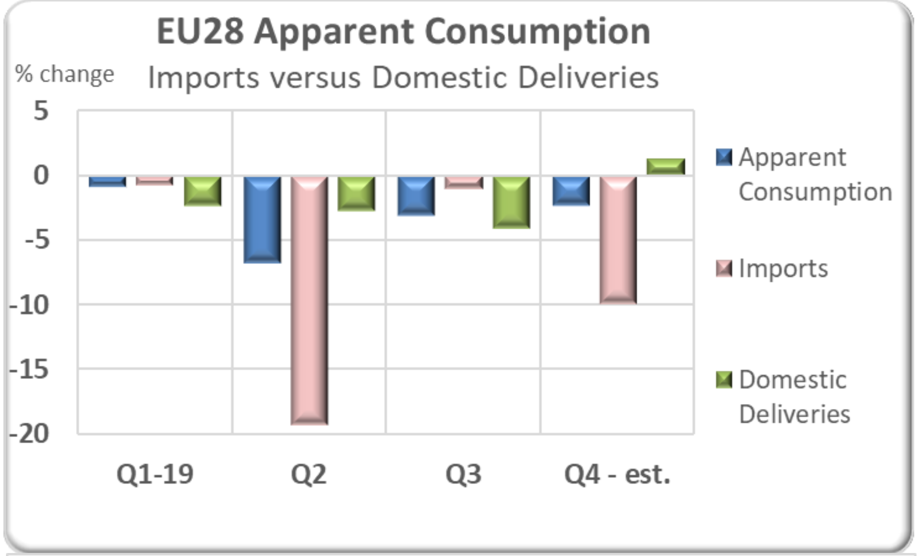
Current situation

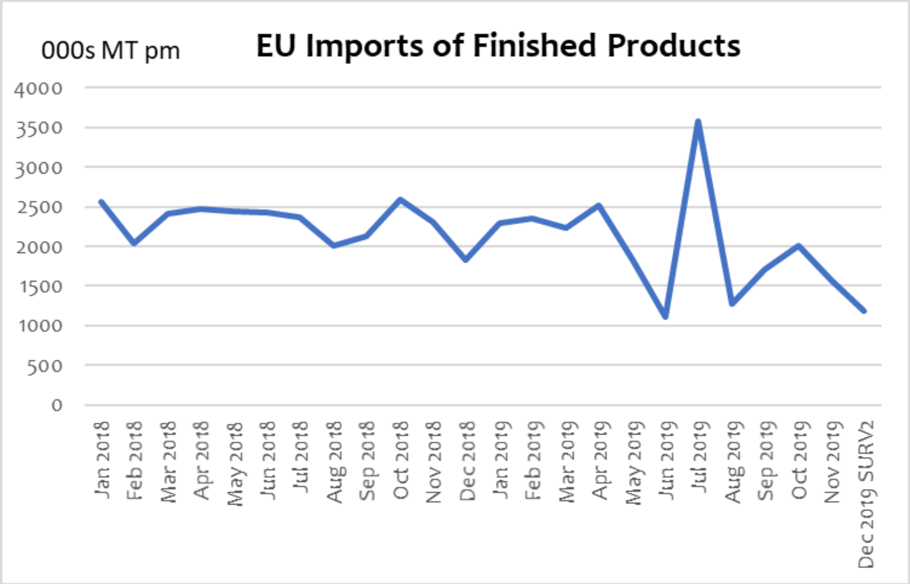
- In 2019 EU car sales rose by 1.2%. Strong growth in the last four months of 2019 resulted into positive sales growth in the EU . Negative figures in Jan. 2020, though (-7.5%)
- While market conditions in the EU were showing signs of stabilisation, falling demand in key export markets such as the USA, China and Turkey
- Delays in gaining WLTP certification had a negative impact on production activity
- Output in the EU automotive industry fell by 2.5% y-o-y in the third quarter of 2019, overall -5.9% in 2019, worst performance since 2012

Outlook 2020-2021

- The impact of Covid-19 on the industry in 2020 is going to be very high, with plants closure and huge disruptions in the supply chain
- Electric-vehicle (EV) market looks set to grow, with car buyers' preference shifting from petrol and diesel cars to EVs and plug-in hybrids
- Still, subdued demand for exports to key markets
- The commercial vehicle market segment relatively weak also in 2020 and 2021
- Automotive output is expected to experience serious recession in 2020. Possible recovery in 2021.

SHARPLY NEGATIVE TREND IN APPARENT STEEL CONSUMPTION IN 2019





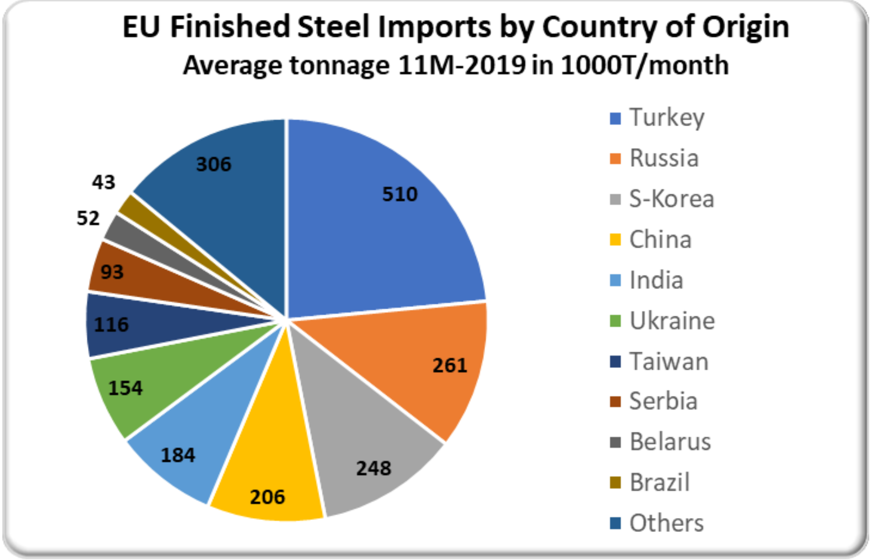
Current situation

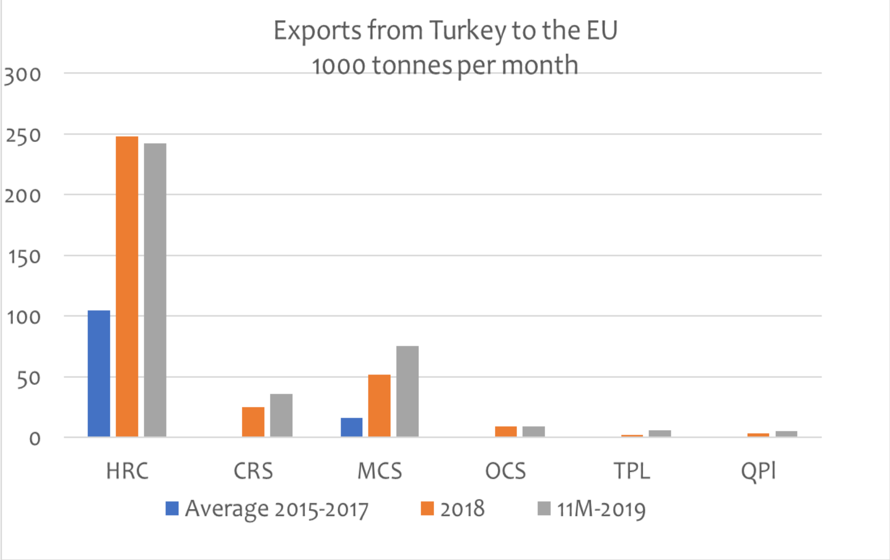
- Apparent steel consumption falling since early 2019, reflecting negative trend in real steel consumption and destocking
- EU imports fell by 11% y/y over 11M'19
- EU safeguards limit volumes but also lead to more volatile monthly imports (unusual peak in July)
- Pressure on prices intensifies, offsetting any gains in market share by EU steel producers
- Apparent consumption: -3.3% in 2019

Outlook 2020-2021:

- Improvement in steel using sectors + some restocking will be negatively offset by the huge impact of Covid-19
- The transfer mechanism of unused quota may benefit non-EU exporters to the detriment of EU producers
- In addition, ongoing risk of import distortions destabilising supply-demand balance

Turkey remains the key exporter to the EU in Q3 2019



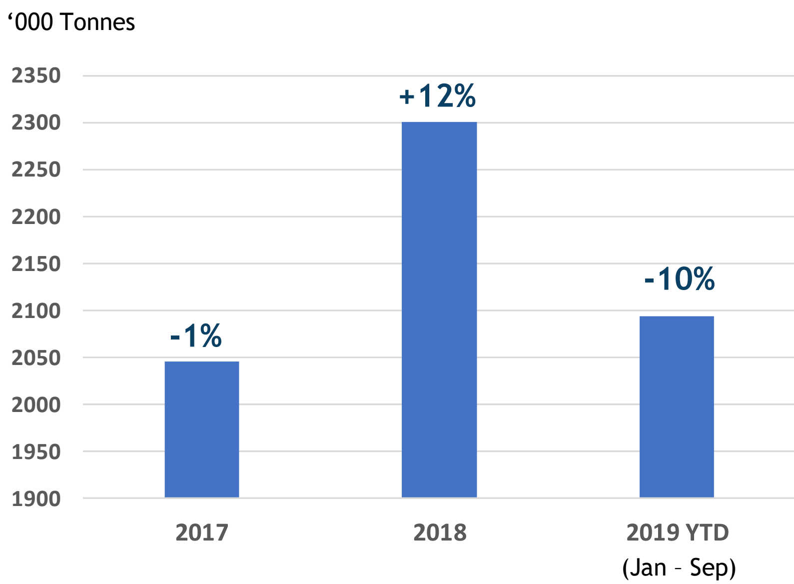


Current situation

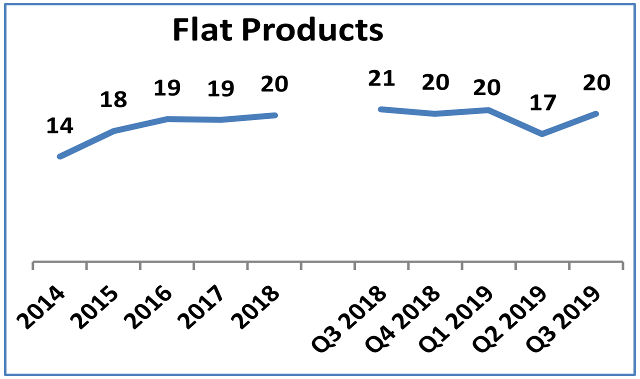
- Total imports of finished products into the EU dropped by 13% in 11M 2019
- Turkey, Russia, South Korea, China and India represented 65% of total finished steel imports into the EU in 11M 2019. Turkey leads with 23%
- Worth noting that imports of finished products from Turkey marginally decreased (i.e. by -0.7%) compared to 11M 2018; same for other major exporters, but with steeper falls, such as Brazil, India, Taiwan, and South Korea
- Despite moderation during 2019, hot rolled coil imports are still twice as much in volumes than the reference period 2015-2017
- Imports of other flat products such as cold-rolled sheet and metal-coated sheet have continued to increase in 2019

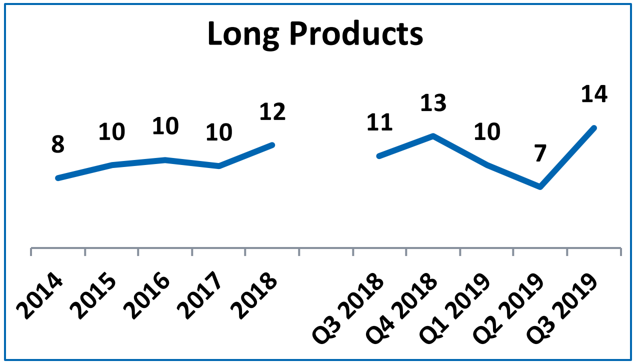
EU IMPORT VOLUME DECREASED IN 2019 REFLECTING DEPRESSED DEMAND, BUT EU IMPORT MARKET SHARE REMAINING HIGH

EU imports finished steel* (% change y-o-y)



EU import market share (%)





* Finished steel includes flat and long products excluding tubes

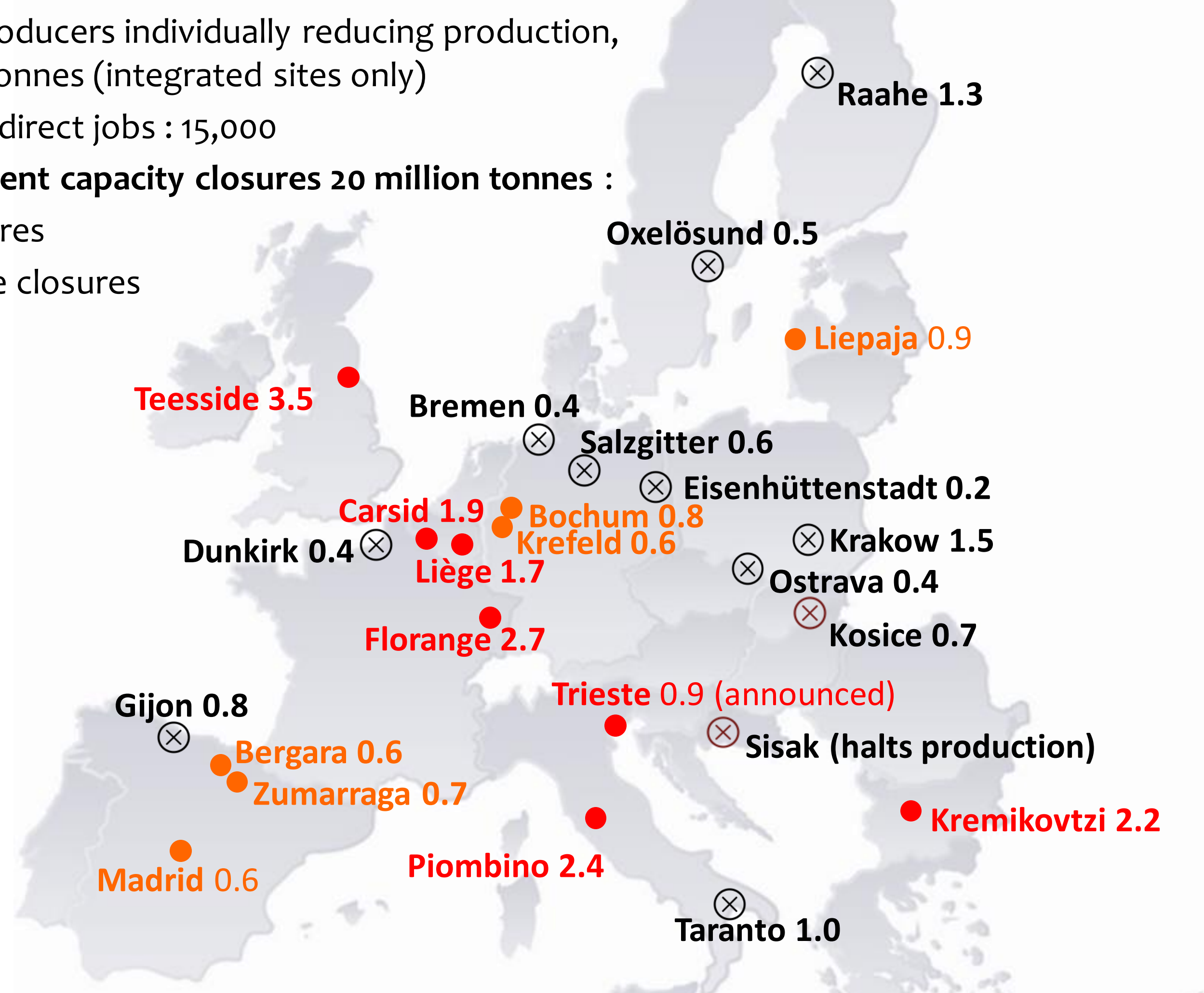
Source: COMEXT, EUROFER

EU STEEL PRODUCTION CUTS IN 2019 ADJUSTING TO CYCLICAL DEMAND DEPRESSION AND IMPORT PRESSURE // PERMANENT CAPACITY CLOSURES SINCE 2009

- ⊗ **In 2019:** EU steel producers individually reducing production, totalling 8 million tonnes (integrated sites only)

  Announced cuts in direct jobs : 15,000

  Since 2009 permanent capacity closures 20 million tonnes :
- ● Blast Furnace closures
- ● Electric Arc Furnace closures



80,000 direct jobs lost since 2009 (25% of total EU steel workforce)

Source: Company and press announcements

EUROFER WELCOMES THE AGREEMENT OF A LARGE MAJORITY OF GFSEC MEMBERS TO CONTINUE ADDRESSING STEEL EXCESS CAPACITY ON THE CURRENT GFSEC BASIS

- EUROFER in cooperation with the U.S. steel industry mobilised **19 steel industry associations in Europe, the Americas, Asia and Africa** calling for the governments to step up efforts to effectively tackle persistent global steel excess capacity including a continuation of the GFSEC implementing the full mandate.

- Regional steel industries are deeply disappointed about China stepping out of the forum undermining the multilateral approach that is needed for reaching effective solutions to a global problem.

- **EUROFER welcomes the agreement of a large majority of members of the GFSEC, excluding China, to continue the work on addressing steel excess capacity**

STRONGER INTERNATIONAL SUBSIDY RULES AND DISCIPLINES ARE CRITICAL TO EU INDUSTRY INCLUDING STEEL

The Global Forum on Steel Excess Capacities has provided the substantial groundwork for negotiating stronger subsidy disciplines

EUROFER welcomes the recent EU/US/Japan statement agreeing to strengthen the existing WTO disciplines on industrial subsidies (14/01/20)

The EU/US/Japan statement targets the subsidies distorting capacities and trade that are the most harmful for the steel sector including:

1. Absolute prohibition of unlimited state guarantees
2. Subsidies to insolvent producers absent credible restructuring plan
3. Subsidies to producers unable to attract private investment or financing in situations of overcapacity
4. Debt forgiveness
5. Certain subsidies for which there is a presumption of serious harmful effects unless the subsidising country can demonstrate the opposite (such as excessively large subsidies, subsidies creating massive manufacturing capacity, subsidies lowering input costs domestically…)

Other important elements include:

1. Qualifying non-notified subsidies that are counter-notified by another WTO member as prohibited ones
2. Considering subsidies distorting capacity as such causing serious prejudice therefore actionable (WTO dispute settlement and ultimately retaliation)
3. Review of the "public body" notion for purpose of countervailing duty actions