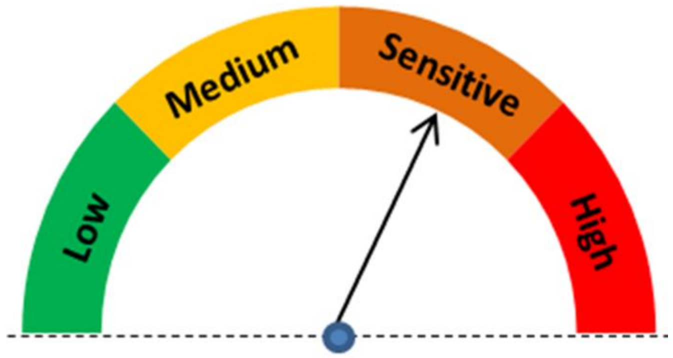
Euler Hermes Economic Research

Global Sector Report

METAL

Sector Risk Rating



What to Watch?

- Management of overcapacity in China (50% of global steel demand and production) highly impacting steel and iron ore prices
- Upward demand trend in two major end sectors for steel: construction and automotive
- Levels of anti-dumping measures by countries to block the import of subsidized Chinese steel

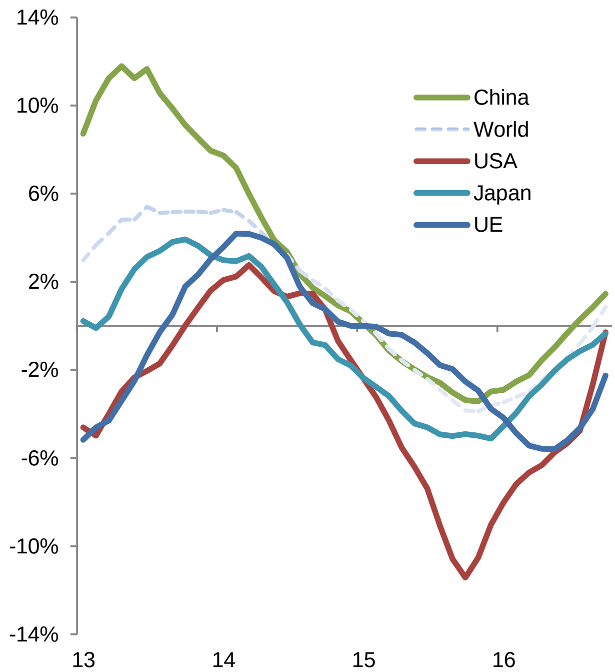
The recovery has begun but overcapacity has not yet been reduced

Global production of steel ended 2016 with a limited rebound (+0.9% after a fall of -3.4% in 2015). For 2017, we anticipate a low increase in volume. China, the first producer and consumer of steel in the world – around 50% market share– posted its 3rd year of declining demand (-4% in 2016 after -5.4% in 2015 and -3.3% in 2014), similar to Russia and Brazil, which contrary to China, were in a severe recession during the period. The rise in demand from advanced countries and India offset the decline of these 3 emerging countries in 2016.

With this low level of demand, overcapacities remain high –production in China has not yet been cut despite the rhetoric of Chinese authorities– and the capacity utilization rate remains insufficient, at less than 70%.

Yet through a finer management of iron ore production, a reduction in the number of hours worked and thus of volume produced, and an adjustment of high import tariffs against subsidized Chinese steel, steel prices have begun their recovery during the second half of 2016. After reaching a low point, of around 300 $/T at the end of 2015, the price rose to over 500$/T at the end of 2016 (420$/T yearly average). We anticipate a stabilization around 500 $/T in 2017 (+20% in yearly average) but it remains far below the 700 $/T in 2011.

Steel production
(rolling-12 months change, %)



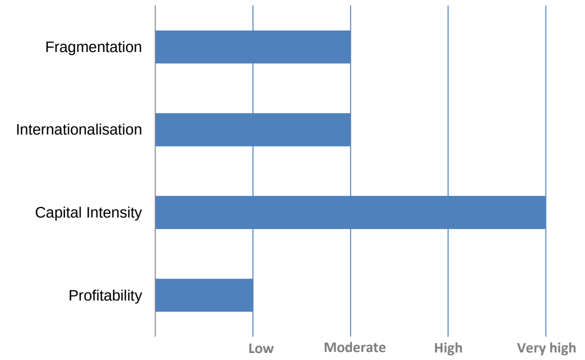
Sources: World Steel Association, Euler Hermes

Sector Value:
1,532bn
USD

Key Players

Country	Role	Sector Risk
China	#1 producer #1 consumer	
Japan	#2 producer #2 exporter	
Germany	#1 importer	

ID Card



Strengths

- Recovery of the European automotive sector
- Restructuring in the US successfully completed
- The efficiency of anti- dumping measures against subsidized steel prices

Weaknesses

- Overcapacity remains very high
- Low recovery of steel prices, but not yet sufficient enough
- High fixed costs requiring capital expenditures and funding

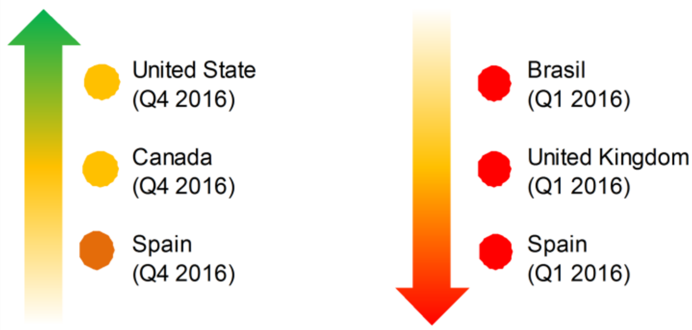
Subsectors Insight

Iron ore: A reduction in the number of hours worked –mainly in China– and thus of the volume produced permitted the price rebound

Steel companies: Global overcapacity but the high level of import taxes protects some specific markets such as US and Canada.

Nonferrous: Prices remain at a low level, not enough to signal a substantial improvement.

Recent Sector Risk Changes



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