Canacero Mexican Congress, 7th September 2011

Competitiveness of the Steel Industry Supply Chain

# The European Steel Market

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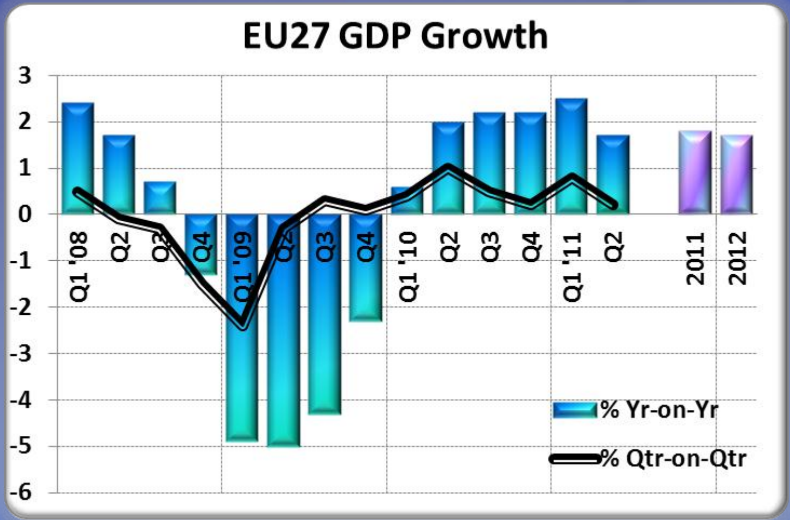
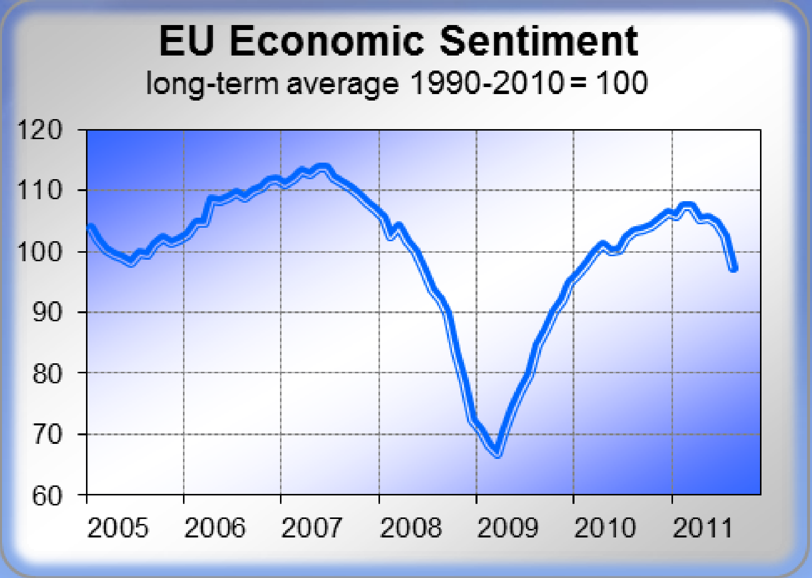
EUROFER

# EU economy: recovery losing steam - confidence shaken by debt problems

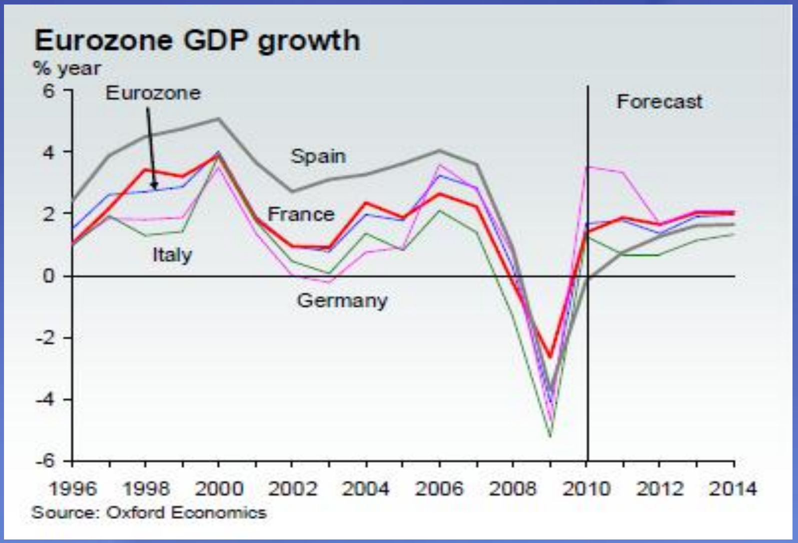


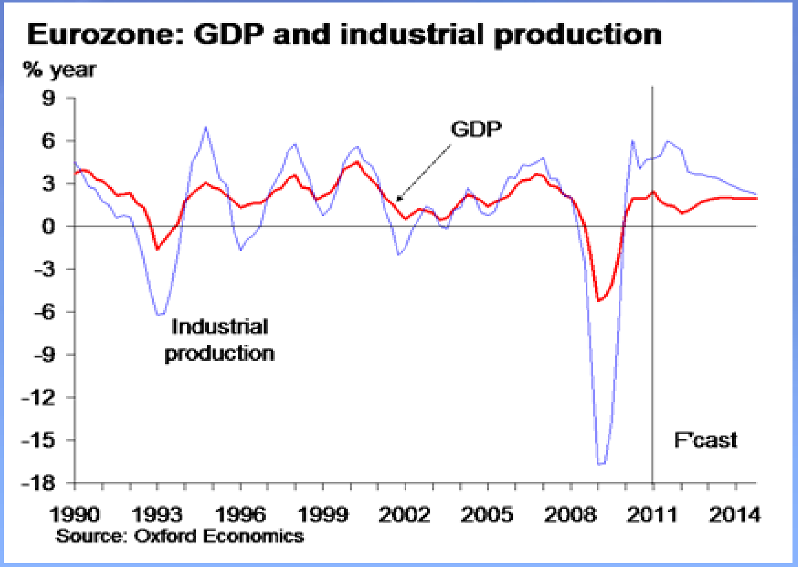




- Strength based in Germany, but also in France and Benelux, driven by exports and improving domestic demand… but:
- Loss of momentum now in N-Europe
- …while peripheral countries struggle to stay out of recession
- Q2 GDP growth slowed to 0.2% q-o-q
- Fiscal tightening, subdued government consumption acting as a drag on domestic demand
- Exports affected by global economic weakening and Euro strength
- Risks increasingly skewed to the downside…
- … as spotlights are again on accumulating financial risks in peripheral Eurozone countries
- Eurozone debt crisis reaching a new stage
- Financial market stress is putting confidence under severe pressure lately

*Source: Eurostat, EUROFER*

# Outlook 2011-12: financial market stress threatens to impact on growth prospects



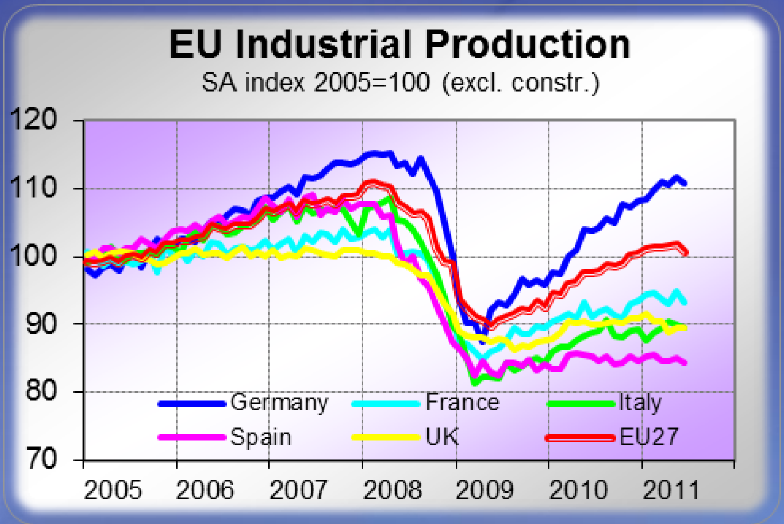



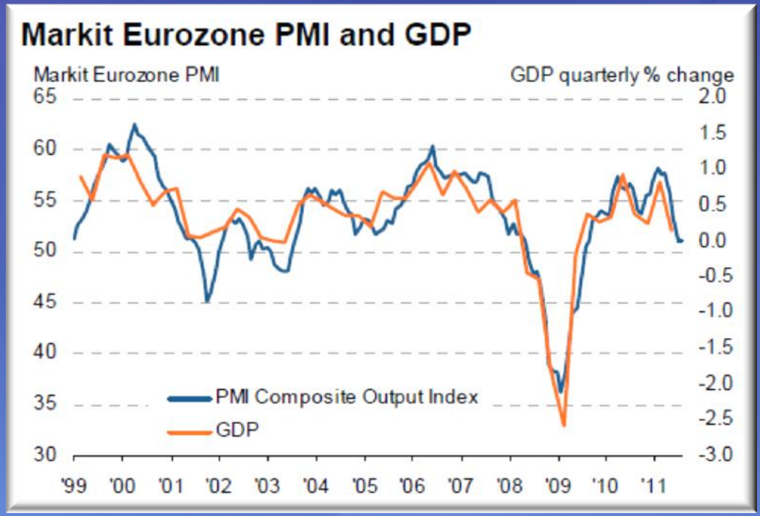

EU outlook: central view of fragile but continued recovery, assuming debt crisis does not deteriorate significantly further

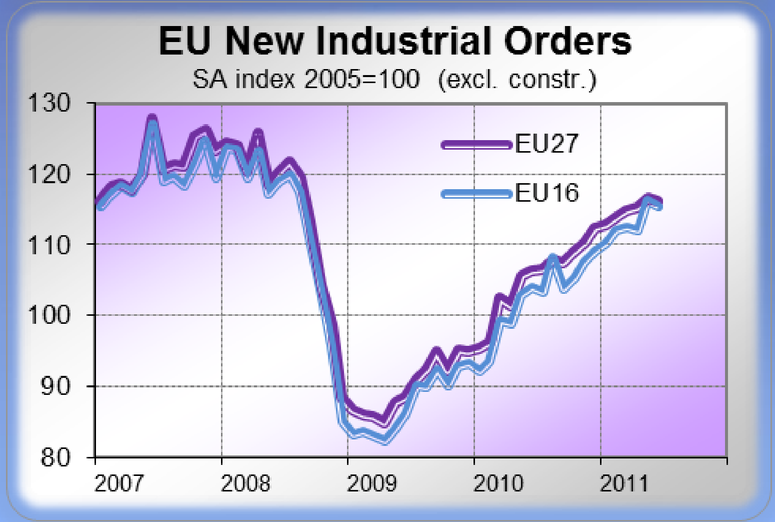
- **Strength**: mainly in the corporate sector, supported by EU investment and exports, private consumption in N-Europe
- **Weakness**: government spending in general and private consumption in peripheral Eurozone countries
- **Opportunities**: EU construction investment rebound, emerging economies picking up speed again
- **Threats**: more serious, fuelling concerns
  - Sovereign debt crisis: EU cannot continue fire fighting but has to make a clear choice for structural solutions
  - Until then, financial markets will remain volatile, affecting confidence
  - Deterioration in financial conditions could damage growth prospects
- GDP growth to remain below 2% p.a. hiding continuation of North-South divide

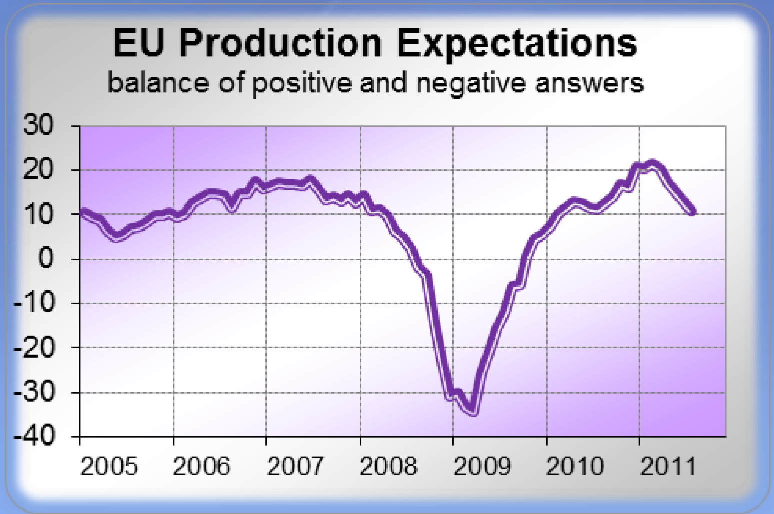
*Source: EUROFER, DN*

# Manufacturing momentum has peaked – most indicators going south



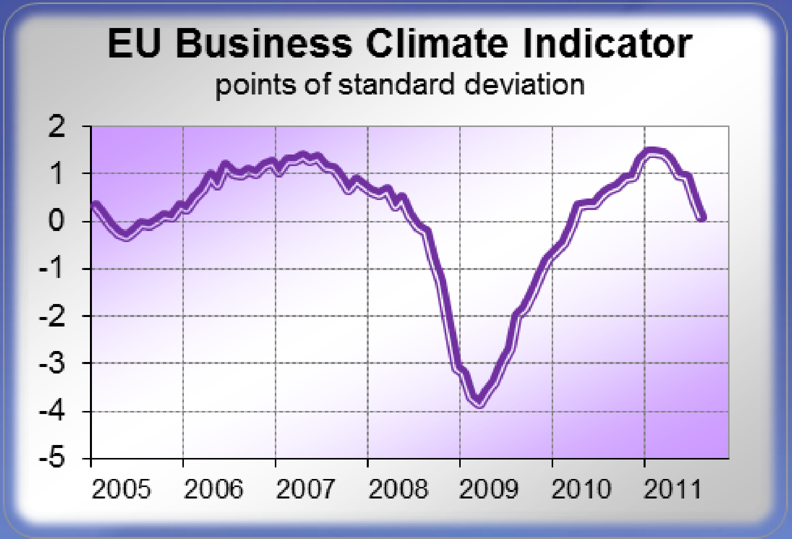



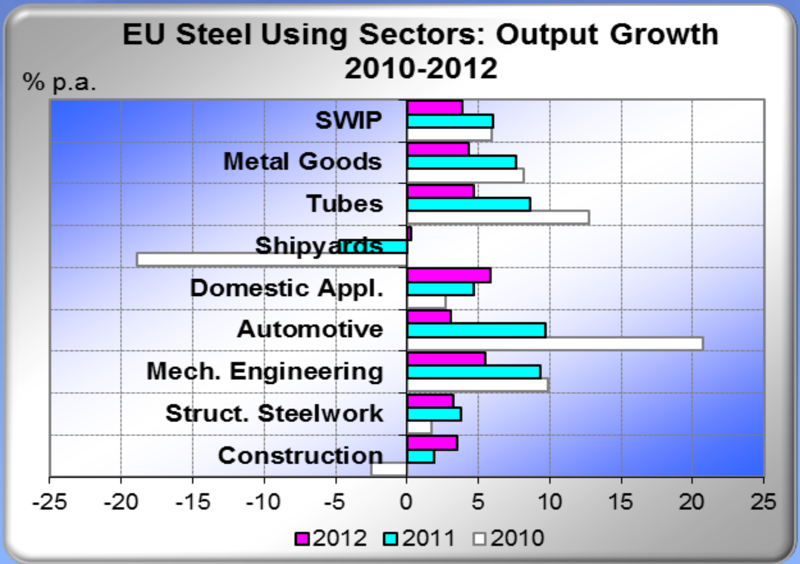




*Source: European Commission,, Markit*

# EU steel-using sectors: growth seen moderating

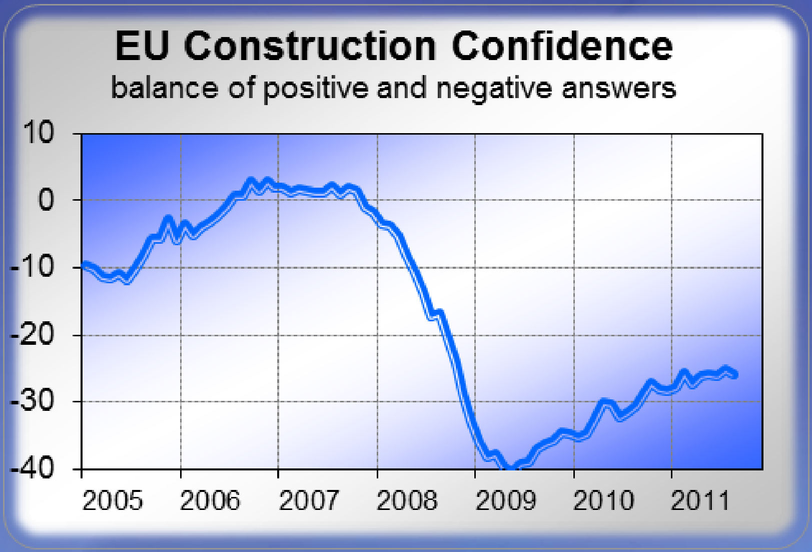


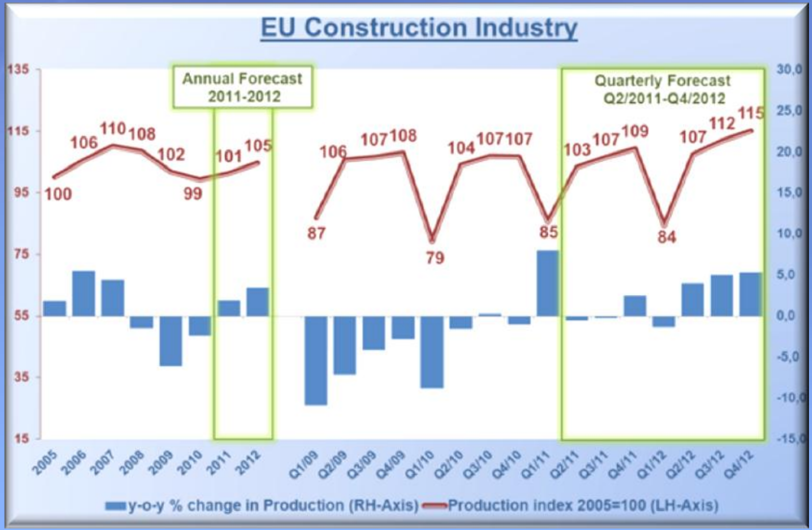




- Business climate assessment weakening: companies less upbeat on orders, productions expectations and stocks
- Also manufacturing PMIs under pressure
- Mid-year market fundamentals still relatively positive: order books are well filled, capacity utilisation at a healthy level
- SWIP Q1-2011 rose by almost 12% y-o-y, but Q2 growth slowed markedly
- **Rising concerns about business situation H2-2011 and 2012**
- SWIP growth to remain more subdued in the coming quarters
- Capacity restraints to be less of an issue
- Output 2011 seen growing 6.5% and in 2012 by below 3.5%
- **Gap with pre-crisis output levels is steadily closing**

*Source: Eurostat, EUROFER*

# Uneven performance national construction sectors EU



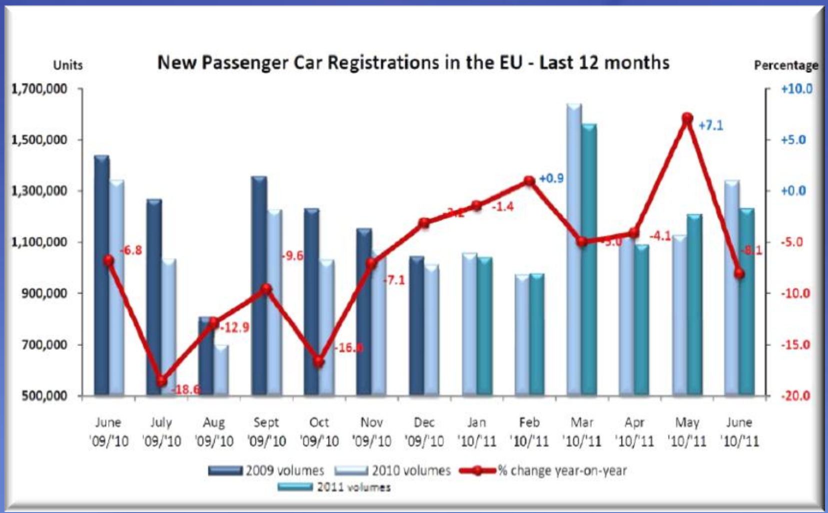



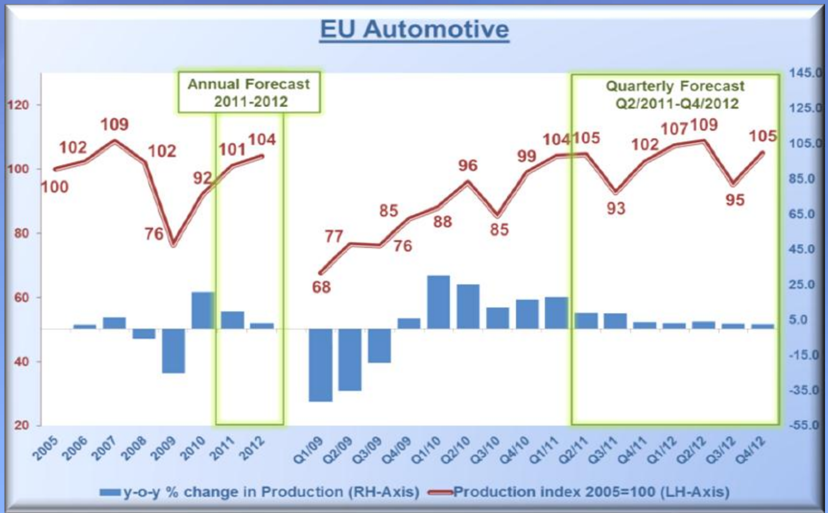

- Marginal improvement construction confidence first 7 months 2011
- Q1 construction activity rose 8% y-o-y
  - Mild weather provided temporary boost
  - Compared with very weak Q1-2010 level
- Q2 output slipped back into y-o-y decline
- Hiding an uneven performance across EU
  - NW-Europe + Poland in recovery
  - S-Europe + other C-Europe in decline
  - UK, Italy, Netherlands stagnant
- EU activity seen moving sideways in H2 and Q1-2012, rebound from Q2, more pronounced strength in C-Europe
  - Residential sector first to recover
  - R&M activity also supportive to growth
  - Government budget restrictions will keep civil engineering as well as public non-residential activity at a reduced level
  - Private non-residential to remain weak in 2011
  - Output +2% in 2011 and 3.5% in 2012

*Source: Eurostat, Economic Committee EUROFER*

## End-user sectors

# Automotive: output growth to slow as industry nears pre-crisis level of activity

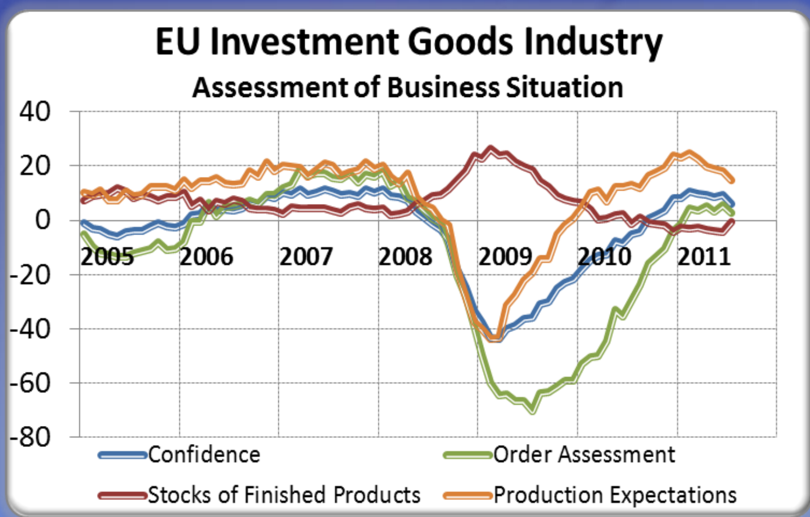


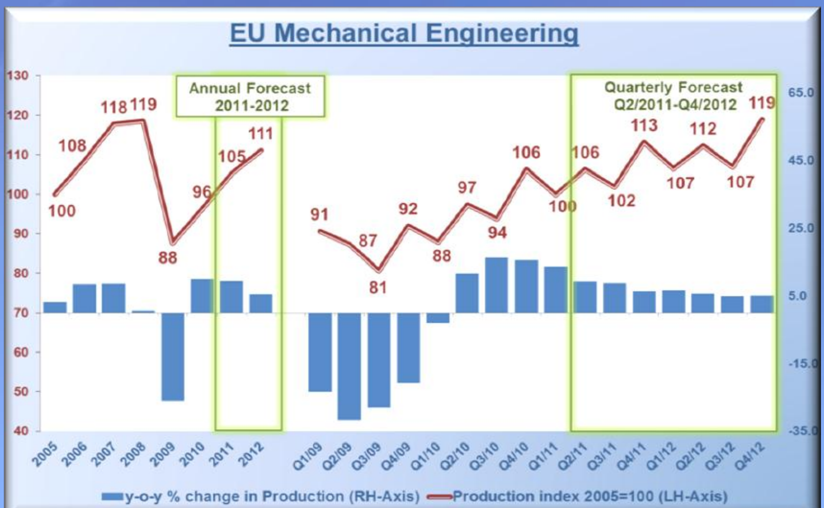




- EU car sales 2.1% y-o-y down in H1-11
  - Decline concentrated in Spain, Italy and UK but easing in the latter two
- Commercial vehicle sales rose 13.5% y-o-y, strong demand for medium & heavy trucks (+43.6% y-o-y)
- Export demand reported to have remained firm (Asia)
- Market well balanced so far in 2011
  - Q1 output +18% y-o-y, Q2 +9%
  - Minor effect Japanese supply constraints Q2
- Output growth to slow as industry nears pre-crisis level of activity again
  - Weak car demand in S-Europe seen acting as a drag, risk of consumer retrenchment elsewhere should debt crisis deepen
  - Export demand to remain driver for output
  - Commercial vehicle market expected to see further growth in 2011, slowing into 2012
  - Total output may grow 10% in 2011 and a further 2.5-3% in 2012

*Source: ACEA*

# EU Mechanical engineering: mid-2011 business situation still healthy, but slowdown looms

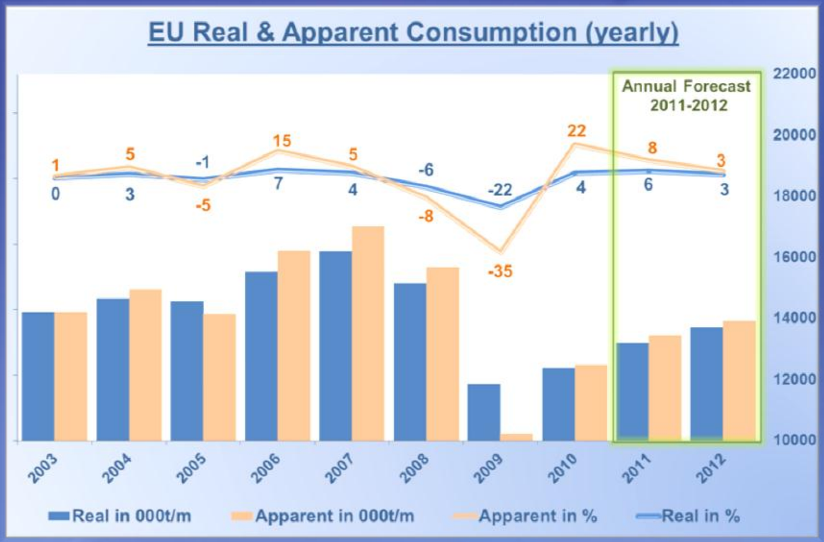


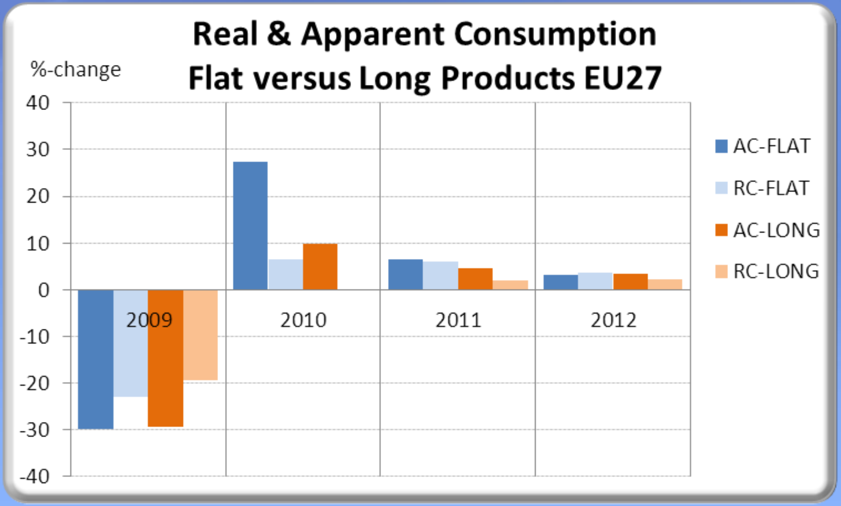




- Sector dynamics kept their strength in H1-2011: output 11% up y-o-y
  - Synchronised performance at country and sub-sector level
  - Improvement EU domestic market combined with robust exports
- Bookings remained strong until mid 2011
- Lead times have risen, industry is nearing capacity limits
- Mid-2011 assessment of business situation still positive, but slowdown looms
- Prospects on balance positive for 2011-12
  - Healthy order backlogs guarantee robust activity levels well into 2012
  - New orders  growth to slow mildly, from EU as well as export markets
  - Risk of more pronounced slowdown should debt crisis backfire on industrial confidence and corporate investment
- Output growth in 2011: approx. 8.5%
- Further but slower growth in 2012: 5%

*Source: Eurostat, EUROFER*

# EU steel market looking for direction – imports threat to market stability

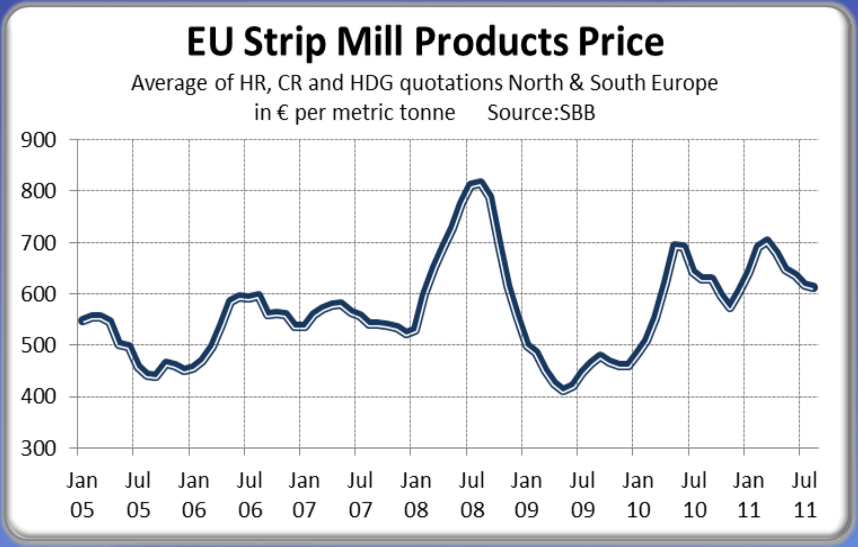



- Q1-2011 apparent consumption grew 16% y-o-y
  - Driven by real consumption and forward buying, by distributors rather than end-users
- Q2 demand growth slowed to below 3% y-o-y – steel buyers more cautious
  - Orders weakened sharply compared with Q1
  - Stocks rising but still assessed as normal
- H1-2011: rise in domestic shipments outpaced by increase in (flats) imports
  - Import licenses suggest imports to remain high for the time being
- Market outlook H2-2011: timing of steel demand pick-up uncertain
  - Supply seen remaining ample via imports
  - Rather fragile supply-demand balance
  - 2011 RSC +6%; ASC +8%
  - Imports seen rising 26% in 2011
- 2012 outlook supported by positive trend real steel consumption
  - Stock cycle effect neutral
  - Key risk for market stability is weaker than expected RSC and distortion by imports
  - RSC +3%, ASC +3%
  - Growth in flats and longs more aligned

*Source: Economic Committee EUROFER*

# EU Strip Mill Prices Under Pressure




- During Q2-2011 strip mill prices lost the gains made in Q1
  - Due to slowing real steel consumption growth and forward buying coming to an end
- Prices moved slightly further downwards in July-August
  - Seasonal slowdown in combination with increasing economic uncertainty
  - Rising pressure from imports
- H2-2011: supply questions
  - What will be the Q3 output level of domestic EU mills following the summer cutbacks?
  - How long will imports remain at an elevated level?
- H2-2011: demand issues
  - Base case scenario for steel-using industries still rather firm
  - Will current economic negativism impact on EU manufacturing confidence and investment?
  - When will we see the end in the soft patch in the global economy?
- Prices of steelmaking materials holding up rather well will cushion downward price pressure

# Key Messages




**The EU will have to reach consensus on structural solutions to calm down financial market stress**

**However, in the EU it takes more than two to tango…**

- EU economic recovery facing headwinds
  - Sovereign debt problem depressing confidence
  - Structural solutions needed
  - Still strength in manufacturing
  - But risk of debt crisis backfiring on industrial confidence and corporate investment

- EU steel market mid-2011 looking for direction
  - Q2 momentum slowed following strong Q1
  - Inventories normal despite some forward buying
  - Imports on a rising trend for flat products, much less so for longs
  - Risks: weaker than expected RSC and imports distorting more fragile demand-supply balance