

Steel Long Products Market

75st IREPAS Meeting



Kim Marti
International Commercial Director
CELSA Group

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Table 1. Overview of the World Economic Outlook Projections

(Percent change unless noted otherwise)

	Year over Year						Q4 over Q4 2/		
	2014	2015	Projections		Difference from April 2016 WEO Projections 1/		2015	Projections	
			2016	2017	2016	2017		2016	2017
World Output	3.4	3.1	3.1	3.4	-0.1	-0.1	3.0	3.2	3.5
Advanced Economies	1.9	1.9	1.8	1.8	-0.1	-0.2	1.8	1.8	1.9
United States	2.4	2.4	2.2	2.5	-0.2	0.0	2.0	2.5	2.3
Euro Area	0.9	1.7	1.6	1.4	0.1	-0.2	1.7	1.4	1.5
Germany	1.6	1.5	1.6	1.2	0.1	-0.4	1.3	1.5	1.3
France	0.6	1.3	1.5	1.2	0.4	-0.1	1.4	1.3	1.4
Italy	-0.3	0.8	0.9	1.0	-0.1	-0.1	1.1	1.0	1.0
Spain	1.4	3.2	2.6	2.1	0.0	-0.2	3.5	1.8	2.5
Japan	0.0	0.5	0.3	0.1	-0.2	0.2	0.8	0.6	0.2
United Kingdom	3.1	2.2	1.7	1.3	-0.2	-0.9	1.8	1.2	1.5
Canada	2.5	1.1	1.4	2.1	-0.1	0.2	0.3	1.8	2.2
Other Advanced Economies 3/	2.8	2.0	2.0	2.3	-0.1	-0.1	2.2	2.0	2.6
Emerging Market and Developing Economies	4.6	4.0	4.1	4.6	0.0	0.0	4.1	4.4	4.9
Commonwealth of Independent States	1.1	-2.8	-0.6	1.5	0.5	0.2	-3.4	-0.3	1.8
Russia	0.7	-3.7	-1.2	1.0	0.6	0.2	-4.0	-0.3	1.8
Excluding Russia	1.9	-0.6	1.0	2.5	0.1	0.2
Emerging and Developing Asia	6.8	6.6	6.4	6.3	0.0	0.0	6.8	6.3	6.3
China	7.3	6.9	6.6	6.2	0.1	0.0	6.8	6.5	6.1
India 4/	7.2	7.6	7.4	7.4	-0.1	-0.1	8.1	7.4	7.4
ASEAN-5 5/	4.6	4.8	4.8	5.1	0.0	0.0	4.8	4.5	5.3
Emerging and Developing Europe	2.8	3.6	3.5	3.2	0.0	-0.1	4.1	3.3	3.0
Latin America and the Caribbean	1.3	0.0	-0.4	1.6	0.1	0.1	-1.4	0.0	2.1
Brazil	0.1	-3.8	-3.3	0.5	0.5	0.5	-5.9	-1.2	1.1
Mexico	2.2	2.5	2.5	2.6	0.1	0.0	2.4	2.4	2.8
Middle East, North Africa, Afghanistan, and Pakistan	2.7	2.3	3.4	3.3	0.3	-0.2
Saudi Arabia	3.6	3.5	1.2	2.0	0.0	0.1	1.8	1.0	2.4

Source: IMF

- According to indicators output growth in first part of 2016 was better than expected in emerging markets and in line for advanced economies.
- Accounting on the likely impact of Brexit, the Global growth in 2016 and 2017 have been revised down by 0.1%
- The outlook worsens for advanced econ and remains unchanged for emerging economies. Prospects are somewhat better for China, Brazil and Russia

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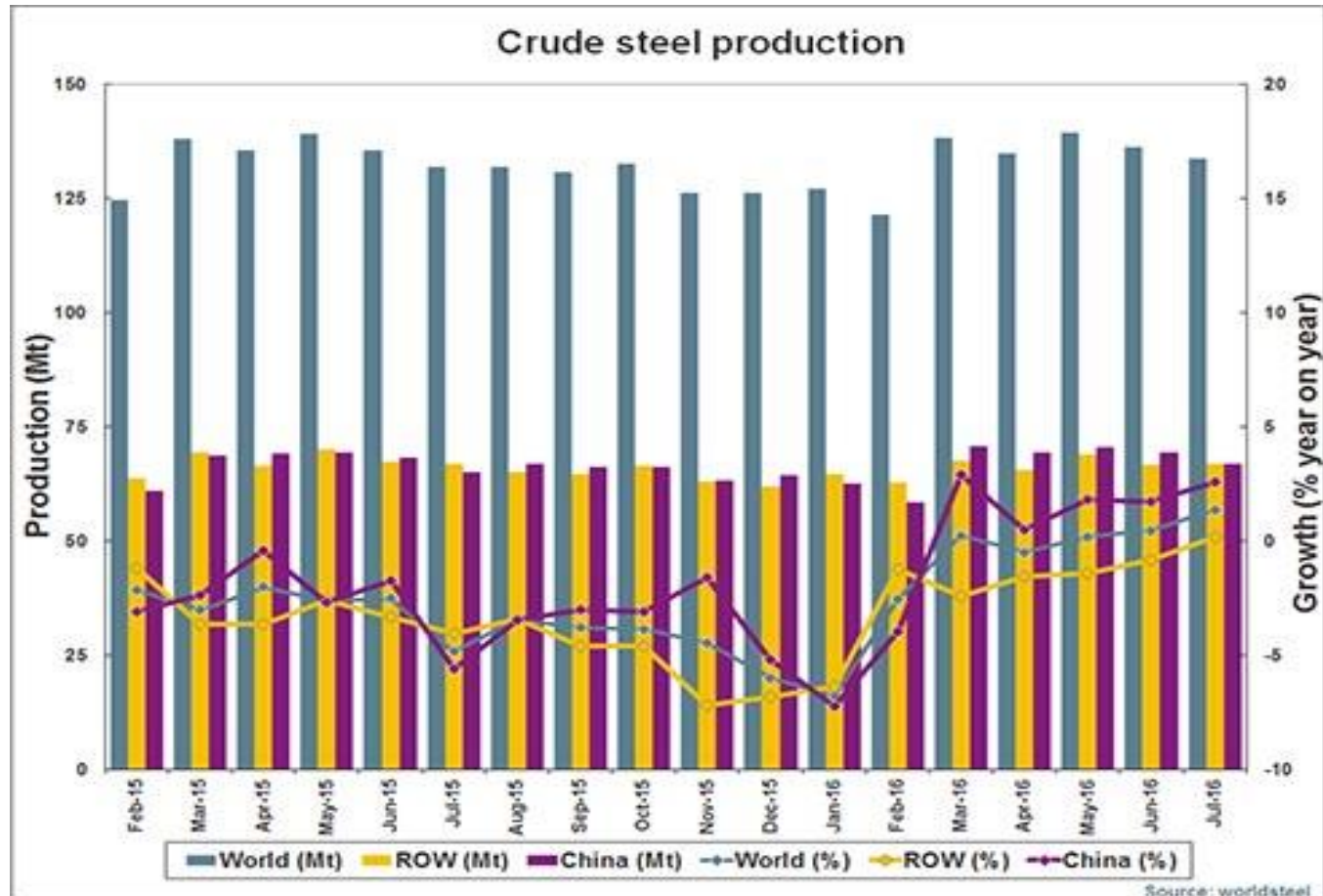
Table 1. Steel Demand Forecasts

SRO April 2016, finished steel products

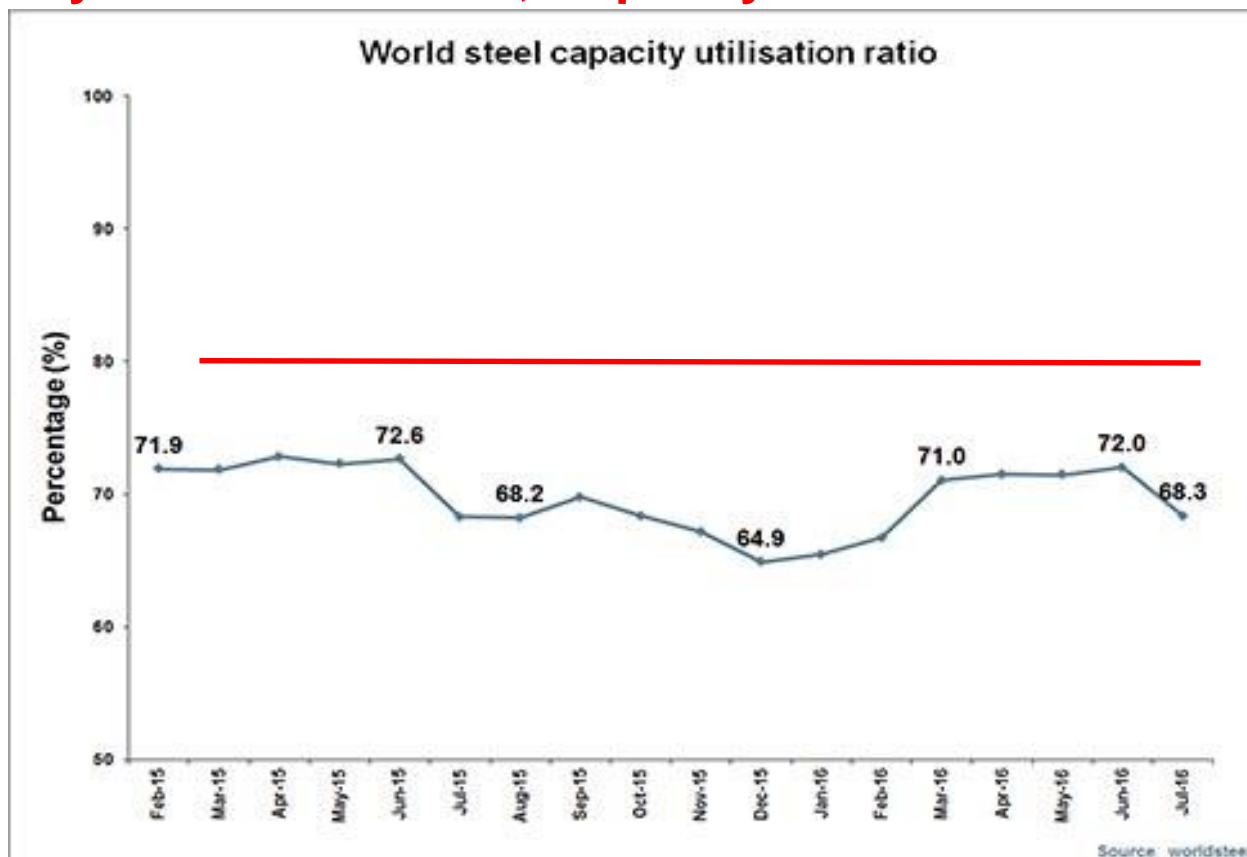
Regions	million tonnes			y-o-y growth rates, %		
	2015	2016 (f)	2017 (f)	2015	2016 (f)	2017 (f)
European Union (28)	153.3	155.4	158.1	2.8	1.4	1.7
Other Europe	40.1	41.3	42.6	8.1	3.0	3.0
CIS	50.0	46.3	48.4	-10.8	-7.4	4.6
NAFTA	134.5	138.8	142.3	-8.4	3.2	2.6
Central and South America	45.4	42.6	44.0	-7.3	-6.0	3.2
Africa	39.0	40.5	43.1	4.3	3.8	6.5
Middle East	53.0	54.3	56.4	-1.0	2.4	4.0
Asia and Oceania	984.8	968.5	958.7	-3.3	-1.7	-1.0
World	1 500.1	1 487.7	1 493.6	-3.0	-0.8	0.4
Developed Economies	399.1	405.9	410.4	-4.0	1.7	1.1
Emerging and Developing Economies	1 101.0	1 081.8	1 083.2	-2.7	-1.7	0.1
China	672.3	645.4	626.1	-5.4	-4.0	-3.0
MENA	72.1	74.4	78.0	-0.6	3.1	4.9
Em. and Dev. Economies excl. China	428.6	436.3	457.1	2.0	1.8	4.8
World excl. China	827.7	842.2	867.6	-1.0	1.8	3.0

Source: Worlsteel

- 2015 final data confirmed last year was the end of a long growth cycle that was based on the quick development of China. Final number was even worse than forecasted
- World steel demand could be better than expected in 2016, maybe close to even, as Chinese government has come with a new infrastructure stimulus plan. Russia steel market is also showing signs of stabilization

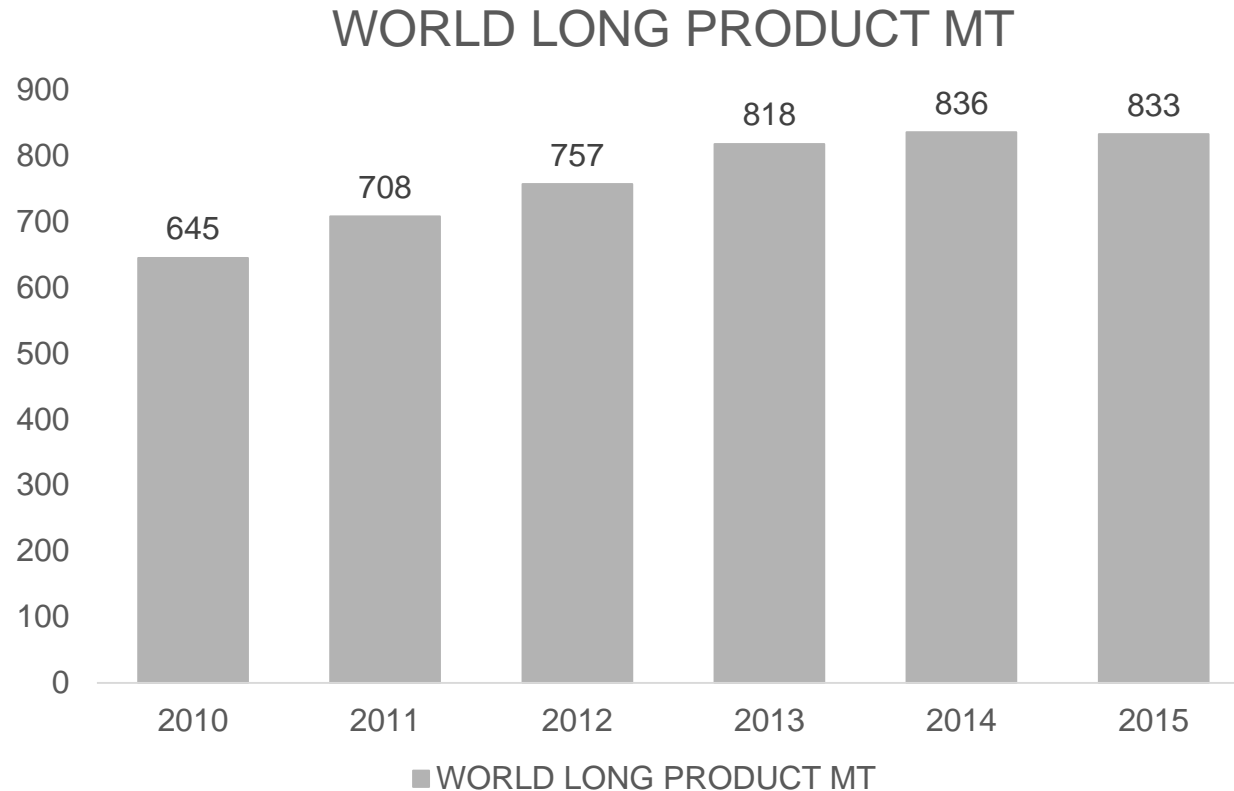


- World steel production was 133.7 Mt in July 2016, up 1,4% on July 2015.
- China's production was up 2,6% and India up 8,1% all July v July. Japan was flat and South Korea up 1,5%
- In EU, Germany down by -6.1%, UK down -27.3% also July16 v July15
- In America US down -2.2%, Brazil down by -6,0%



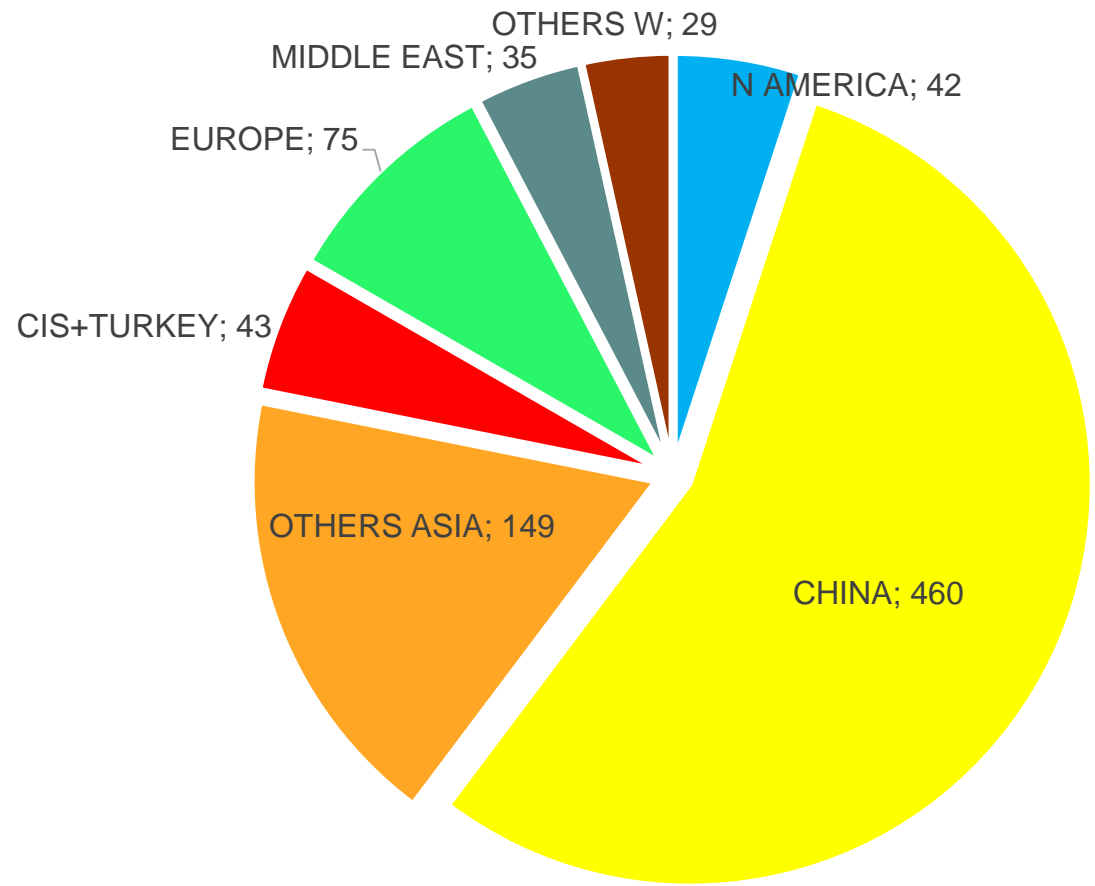
- Utilization levels is coming back down after recovery in March, far below profitable levels(80%).
- In China State directives to improve efficiency are in place and environmental inspections that started in June, will be carried through October. Those will force a significant drop in production. From 840 MT annualized in June 2016, drop to 7890Mt in July and it may well come down to 760 MT in October 2016
- Restructuring actions are also continuing in Europe and America. Temporary and permanent stops and shut downs are already happening.
- Everywhere, steel sector needs to recover the interest from investors and lenders. It will come for those companies that improve operating figures

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Global long product market figures confirmed that long term growth pattern, come to a stop in 2015. Sharp slowdown of construction market in China, economic downturn in oil producing countries and geopolitical unrest being the main reasons.

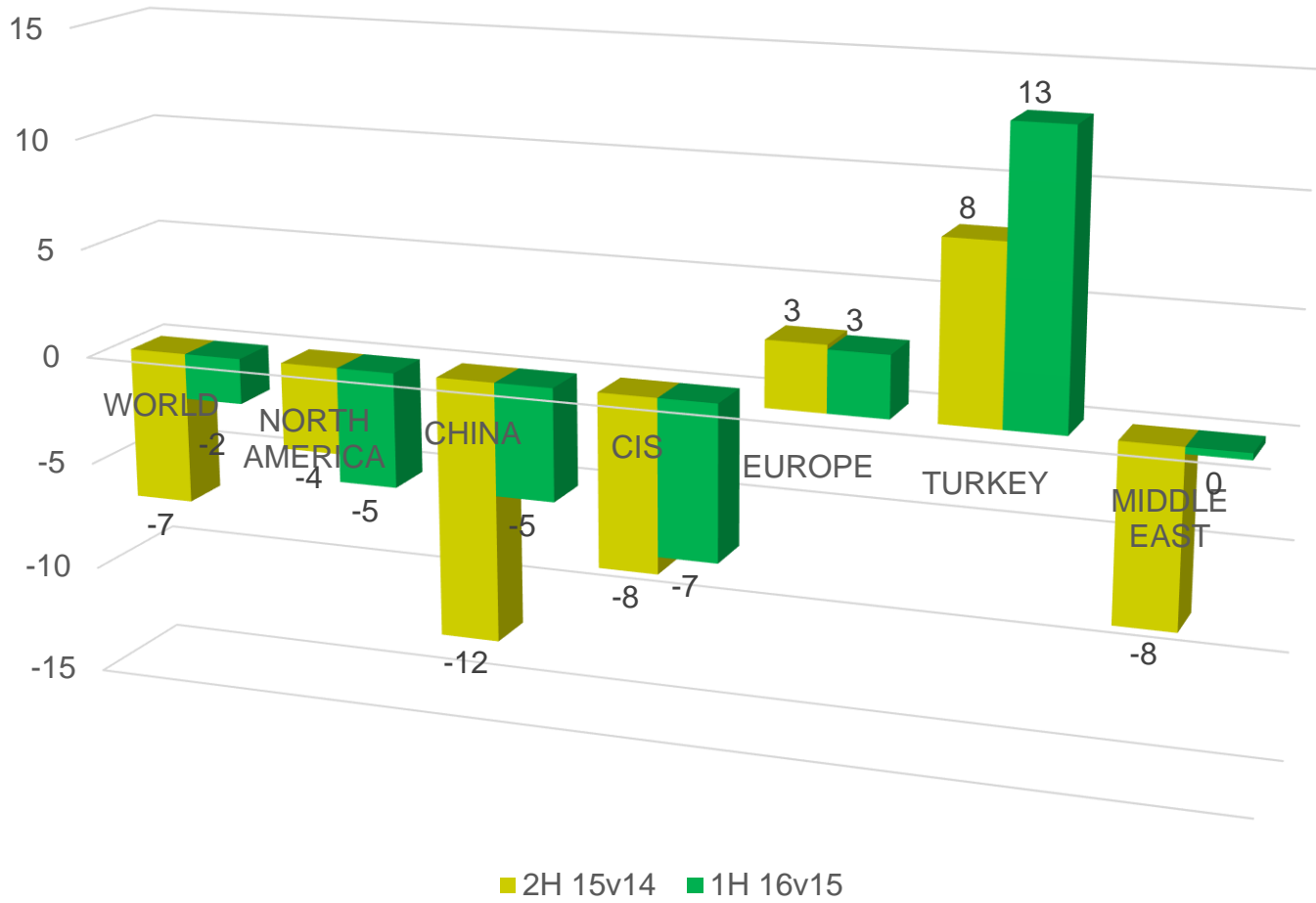
LONG PRODUCTS 2015



Asian markets accounted in 2015 for about 73% of total longs consumption, and China for about 53%

Source: Estimation

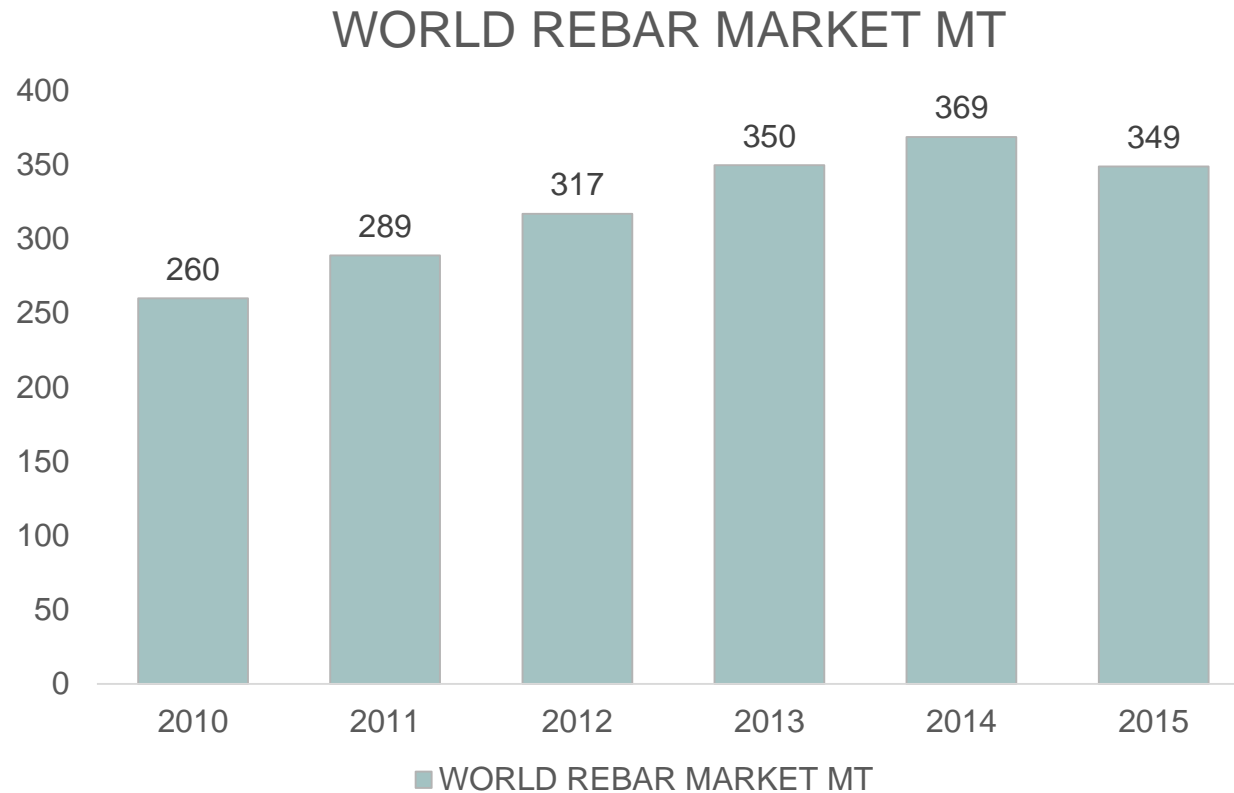
Long Products by Regions, growth 2H 2015, 1H 2016



Overall 7% global market decrease on 2H 2015 y2y underlining market contraction. Main source being China, CIS and Middle East. During 1H 2016 drop has slowed in many markets, market in Europe is slowly but consistently increasing from very low crisis levels and in Turkey growth accelerated

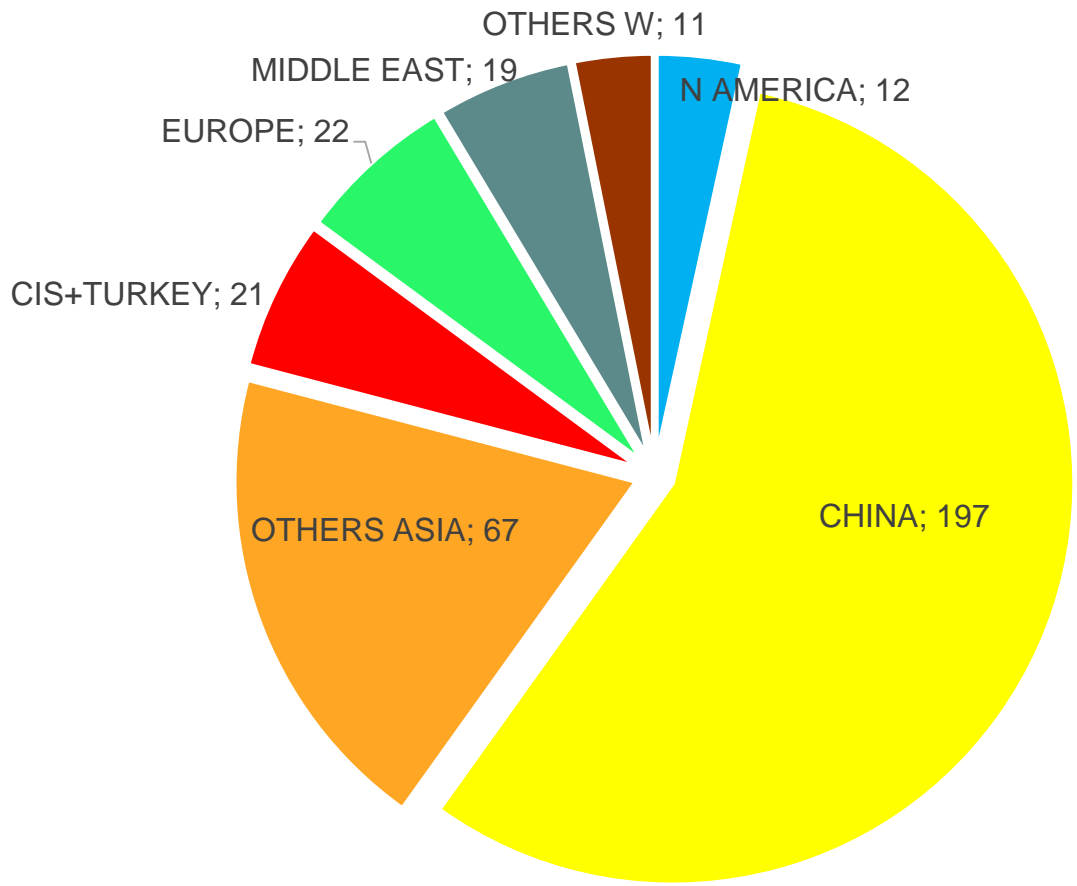
Source: Estimation

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Final confirmed the expected drop for Rebar consumption. Chinese demand contraction for the first time in years was the main cause.

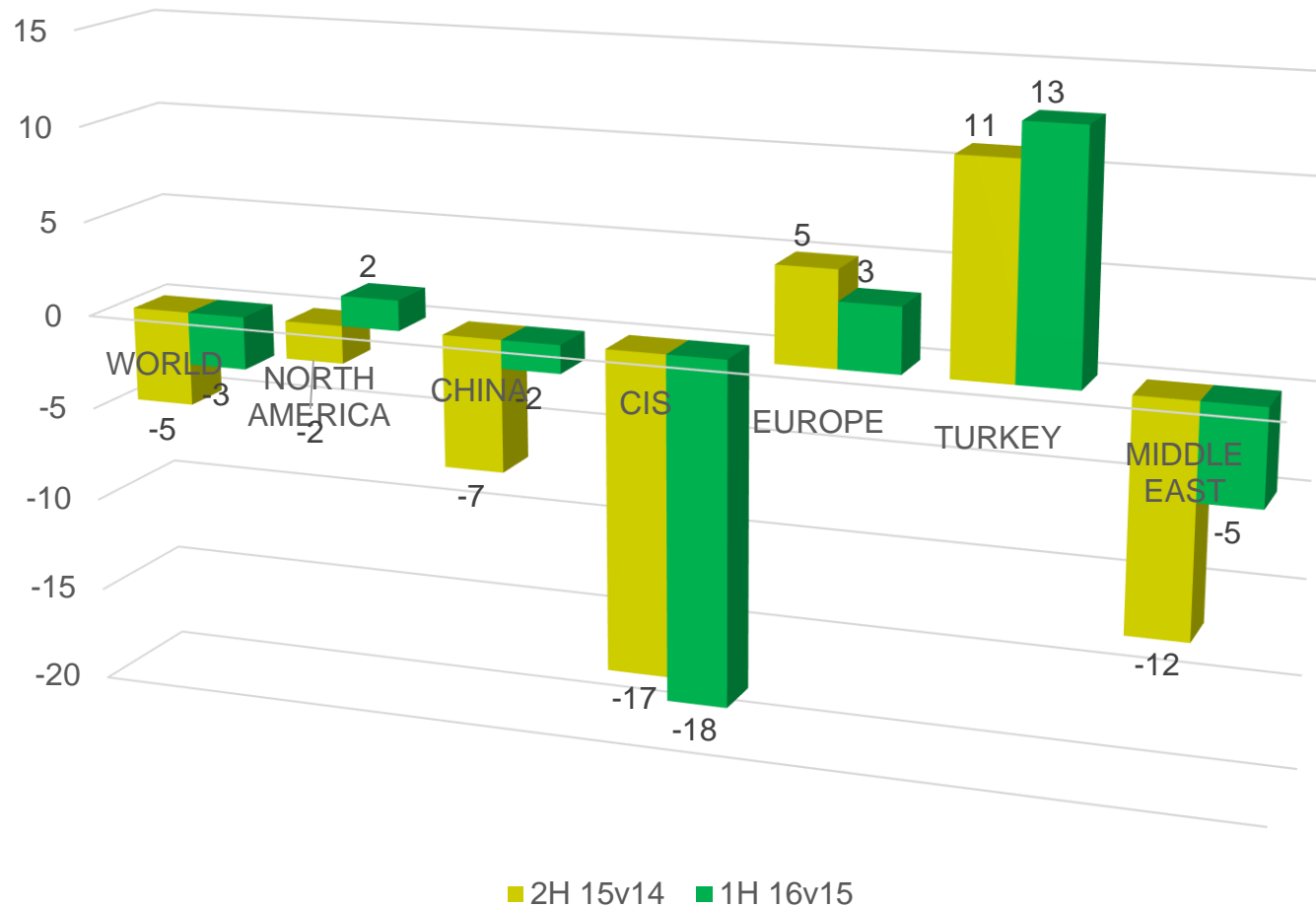
REBAR MARKET 2015



Asian markets account for about 75% of Rebar consumption, and China for more than 56%

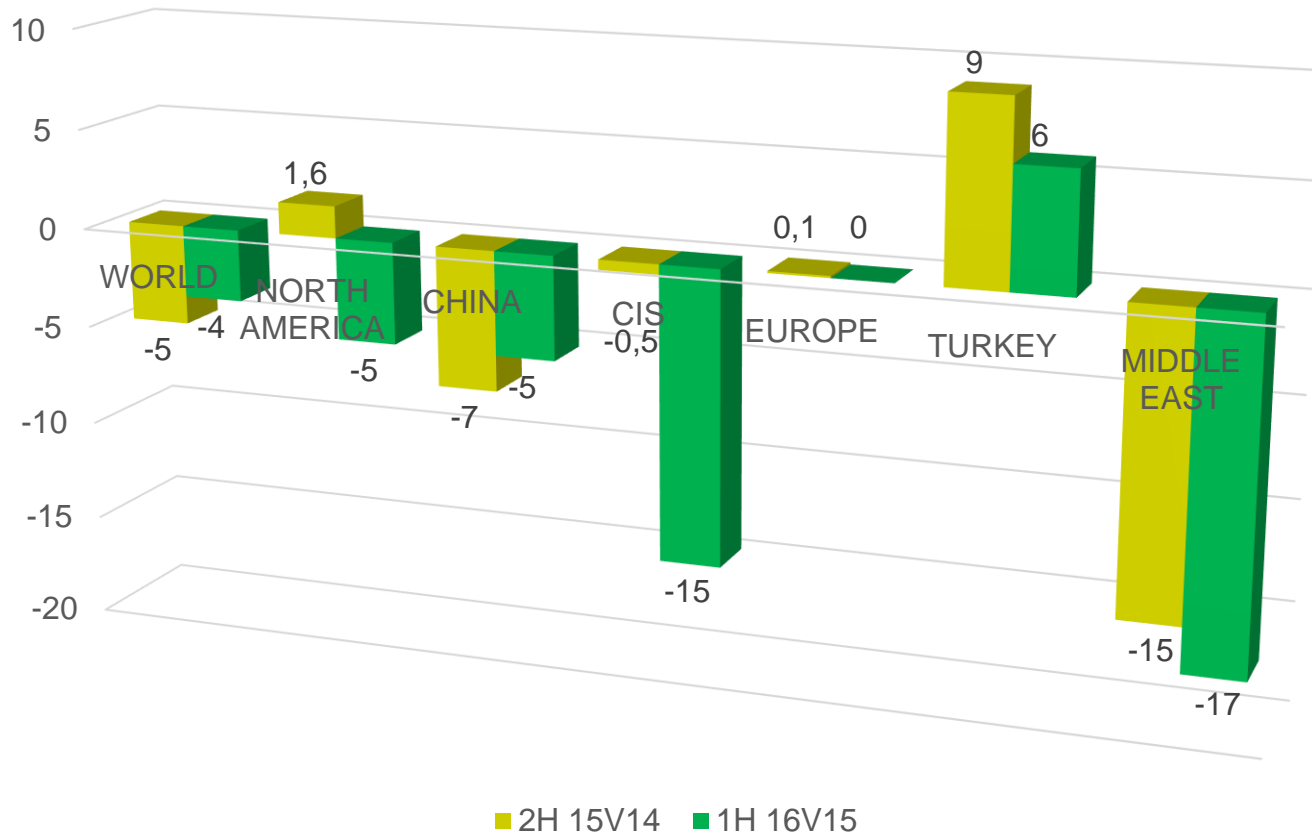
Source: Estimation

Rebars by region, growth 2H 2015 v 1H 2016

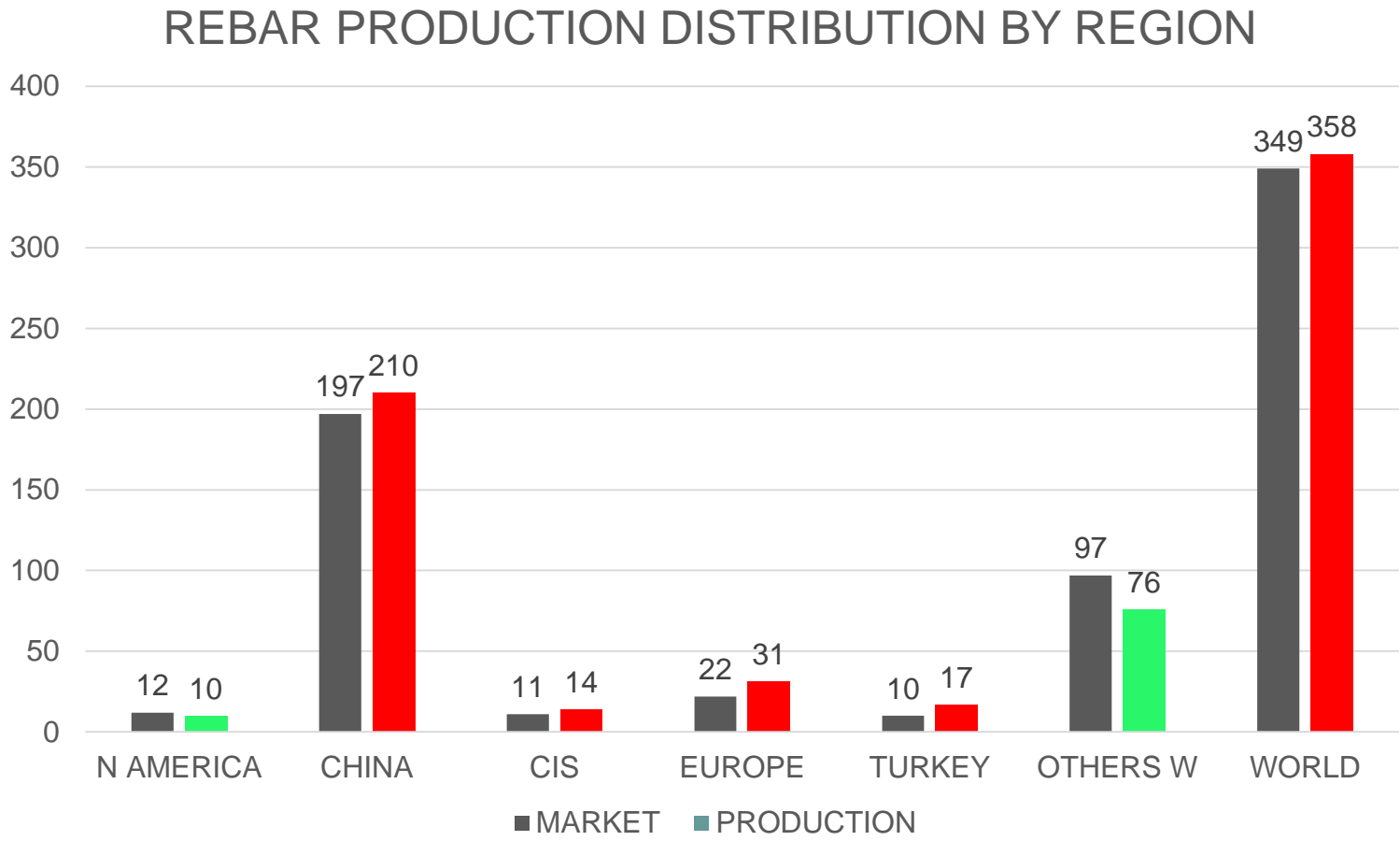


Market decrease on 2H 2015 y2y for Rebars, main source being China, CIS and Middle East. During 1H 2016, Europe kept recovering from crisis very low levels, North America got back to growth and Turkey accelerated. In CIS things got worse, in China improved although still negative and in general, Global markets were coming back towards stabilization.

Wire rod by region, growth 2H 2015 v 1H2016



Overall 6% global market decrease on 2H 2015 y2y for Wire rod and China weighted the most. 1H 2016 market continued to fall almost everywhere with the exception of Turkey

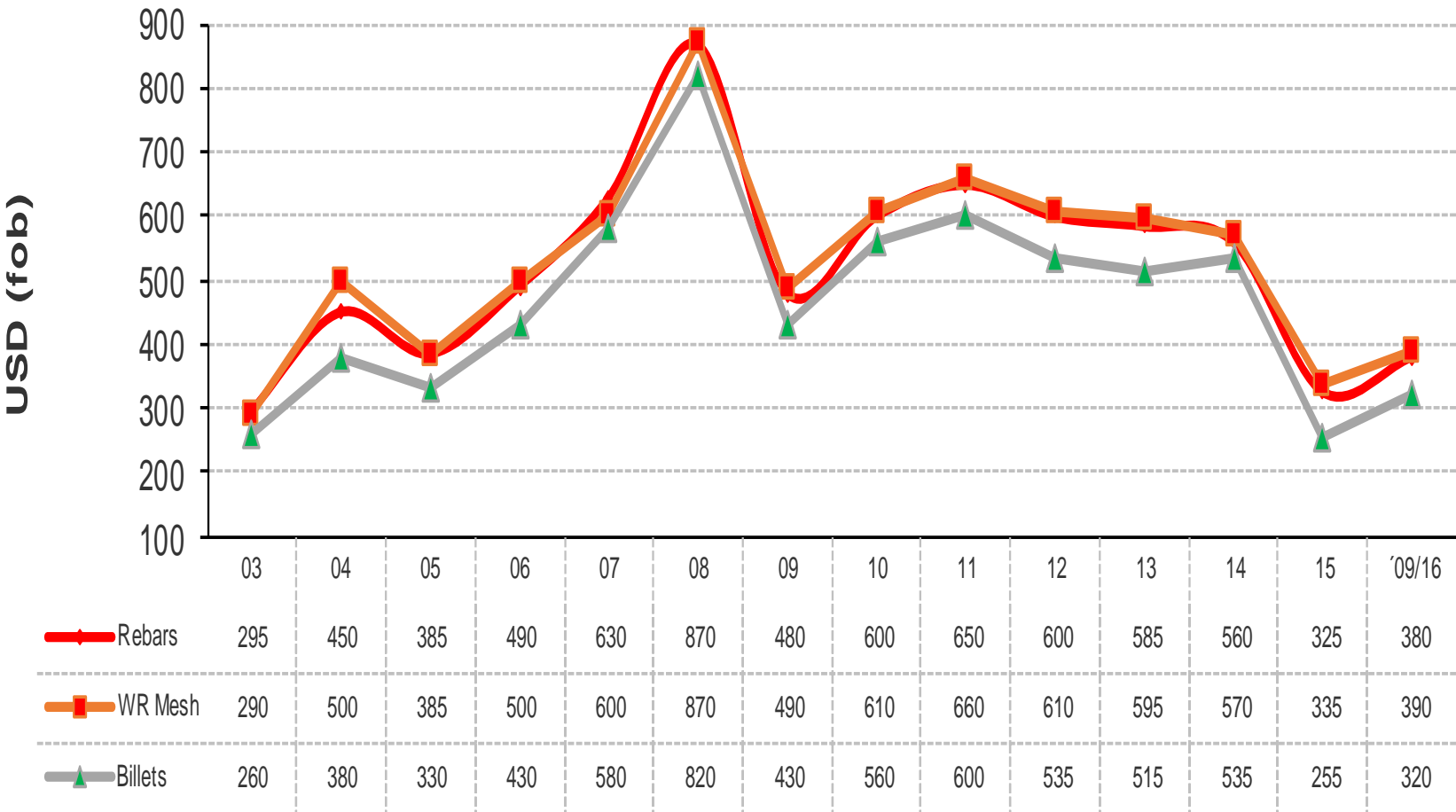


Excess of supply is still an issue but significant adjustments already started in 2015. Economic sense and financial restrictions are forcing industry back to a more healthy balance. Restructuring is continuing

Source: Estimation

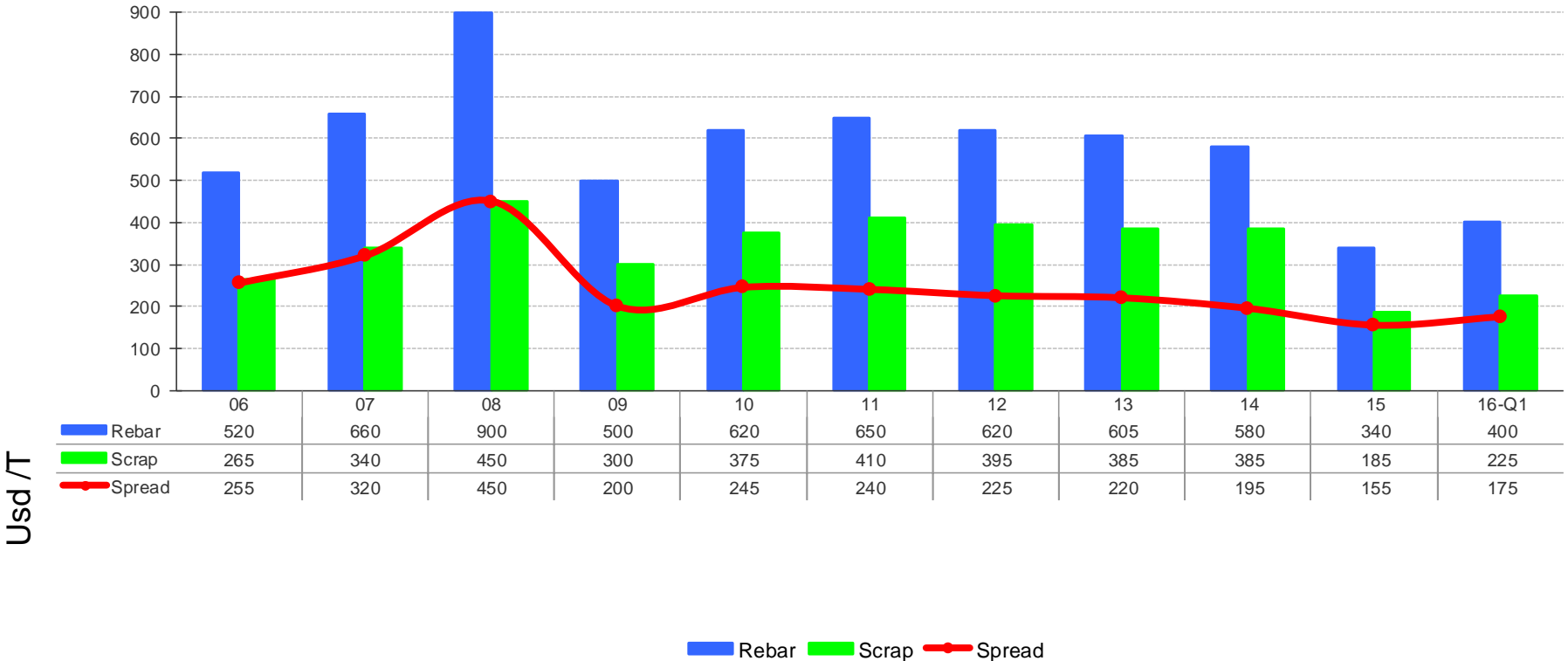
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FOB prices following raw materials recent trends



Source: Estimation

Reinforcing bars CFR price and spread



Margins were taken at the end of 2015 to historical low levels. Producers were feeling the pain and took actions reducing supply in the market. Spread recovered in Q1 but has pulled back a bit. Steel business needs more spread to be sustainable.

Source: Estimation

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- ✓ Indicators of real activity show that growth in the Q1 was somewhat better than expected in emerging markets and developing economies and in line with projections in advanced economies. A potentially disrupting event as Brexit, after having a first negative hit, is not showing much effect as unfolding until now
- ✓ After a fall of -3% in 2015, another drop of World steel production is expected in 2016. Steel industry is still facing an excess of capacity that creates an excess of supply. Number of Trade actions keep growing around the World as never before. Mills will keep fighting to protect their markets as domestic price is the key driver of profitability. Purely survival instinct.
- ✓ Steel sector needs to recover the interest from investors. Output level is the problem to be tackled. Overcapacity is concentrated in a few regions and there is where reductions are happening. That will continue until factory utilization gets back to profitable levels.
- ✓ All that are signs that we have passed the lowest part of the cycle. The time it will take to get back to more reasonable business environment will depend exclusively on how quick restructuring actions are taken.

Thank you for your attention !

