Steel Long Products Market
75th IREPAS Meeting

Kim Marti
International Commercial Director
CELSA Group

Vienna

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Macroeconomics

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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/		
			Projections		Difference from April 2016 WEO Projections 1/			Projections	
	2014	2015	2016	2017	2016	2017	2015	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 was better than expected in emerging markets and in line for advanced economies.
- 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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Steel industry overview. Part 1, Demand

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Table 1. Steel Demand Forecasts

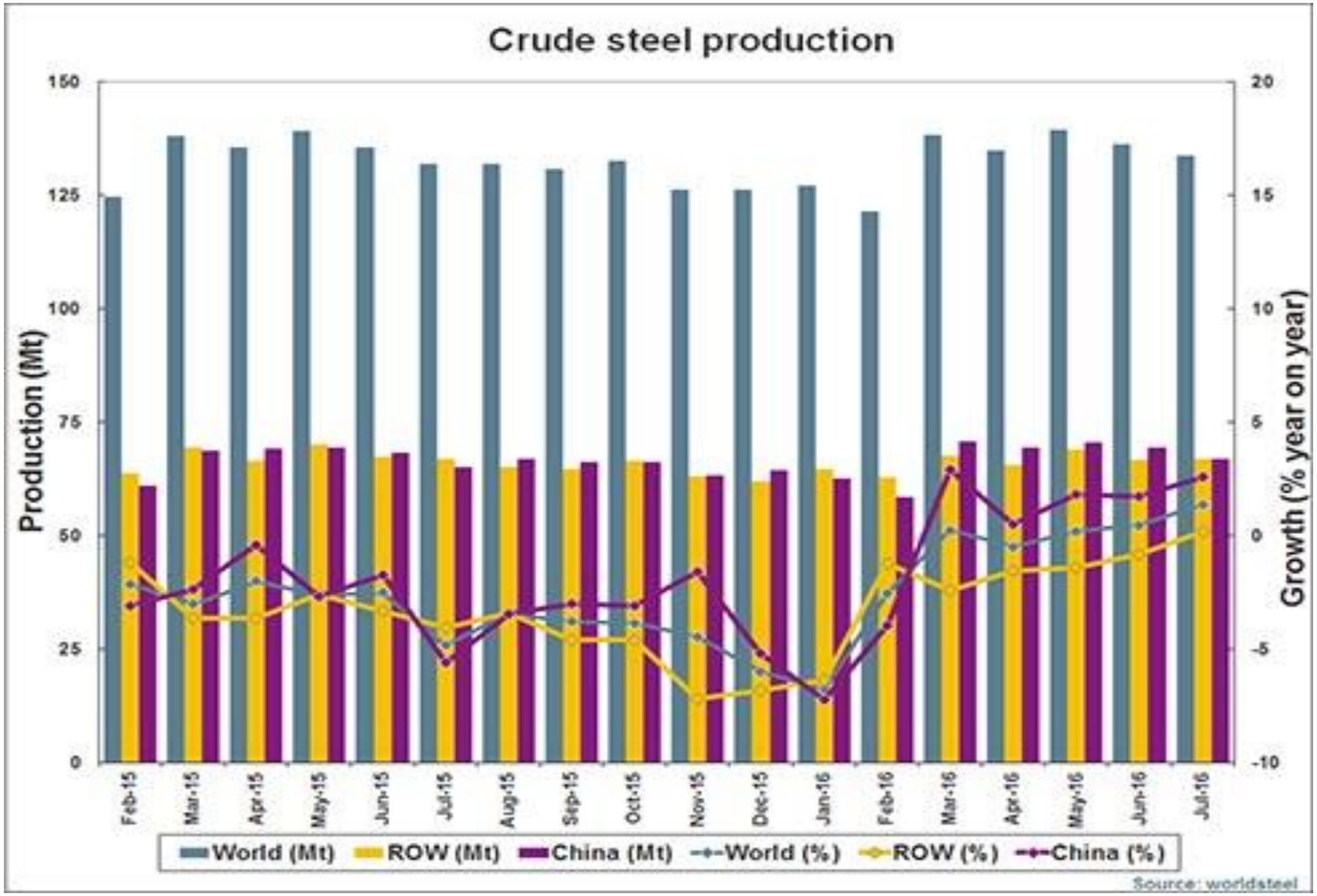
SRO April 2016, finished steel products

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

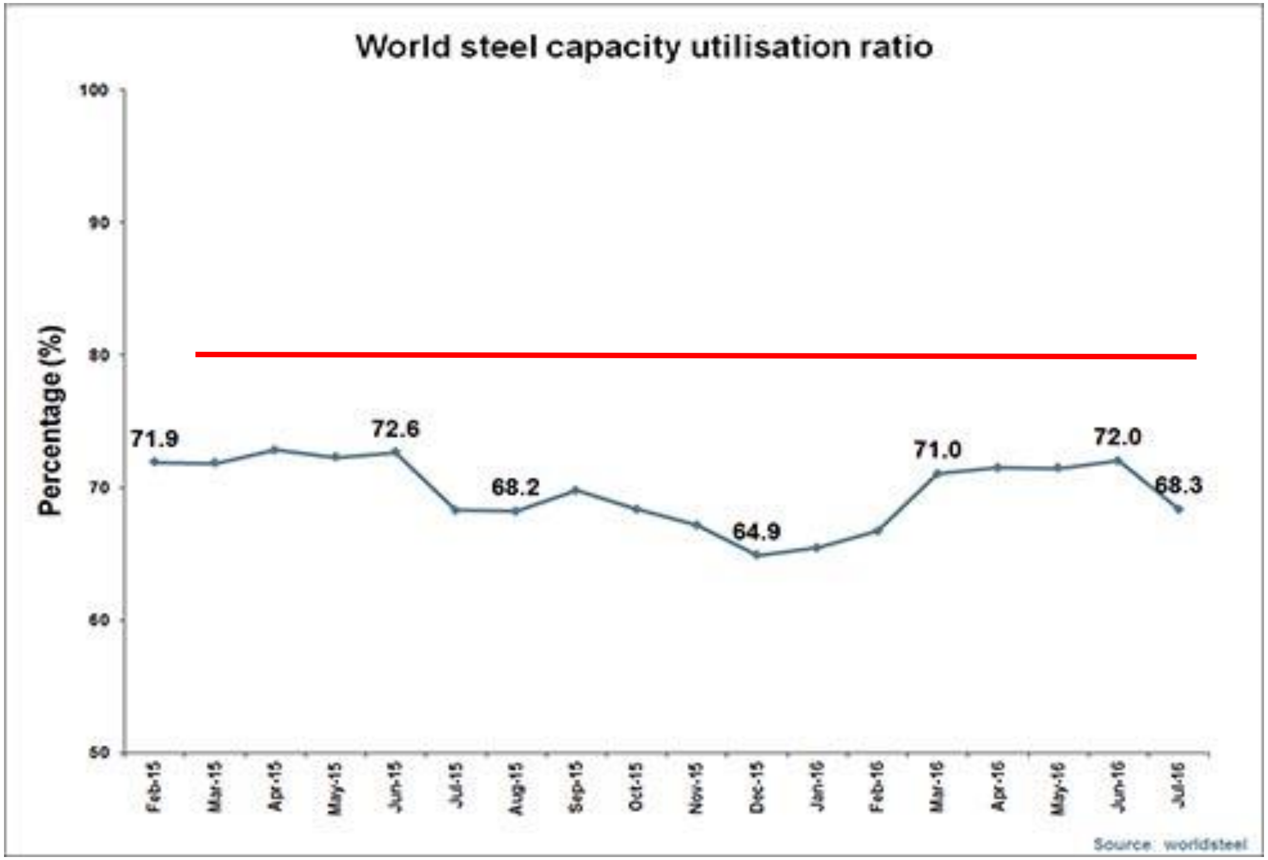
- Final data confirmed last year was the end of a long growth cycle that was based on the quick development of China. Final number was even worse than forecasted
- World steel demand could be better than expected, maybe close to even, as Chinese government has come with a new infrastructure stimulus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

Steel industry overview. Part 2, Production



- 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%

Steel industry overview. Part 3, Capacity utilization



- 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.
- 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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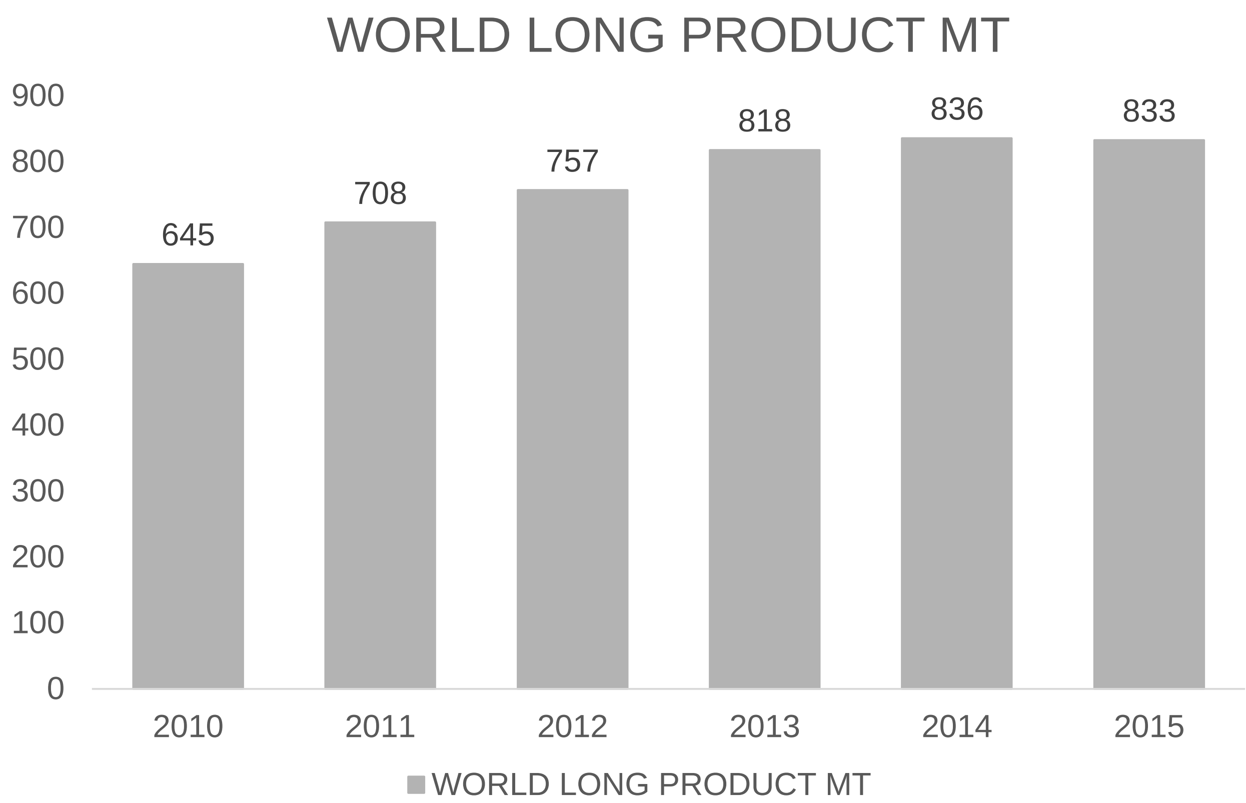
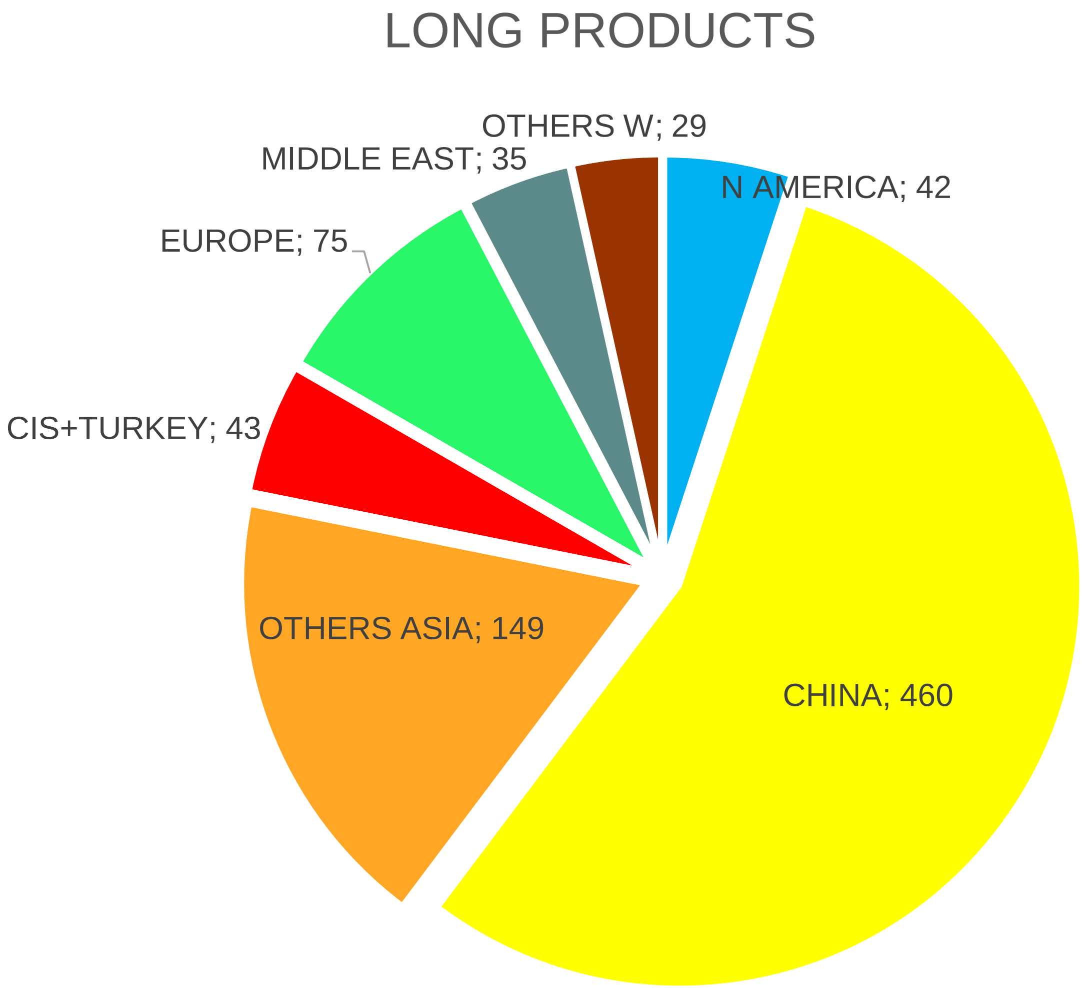
Long Products



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

Source: Estimation

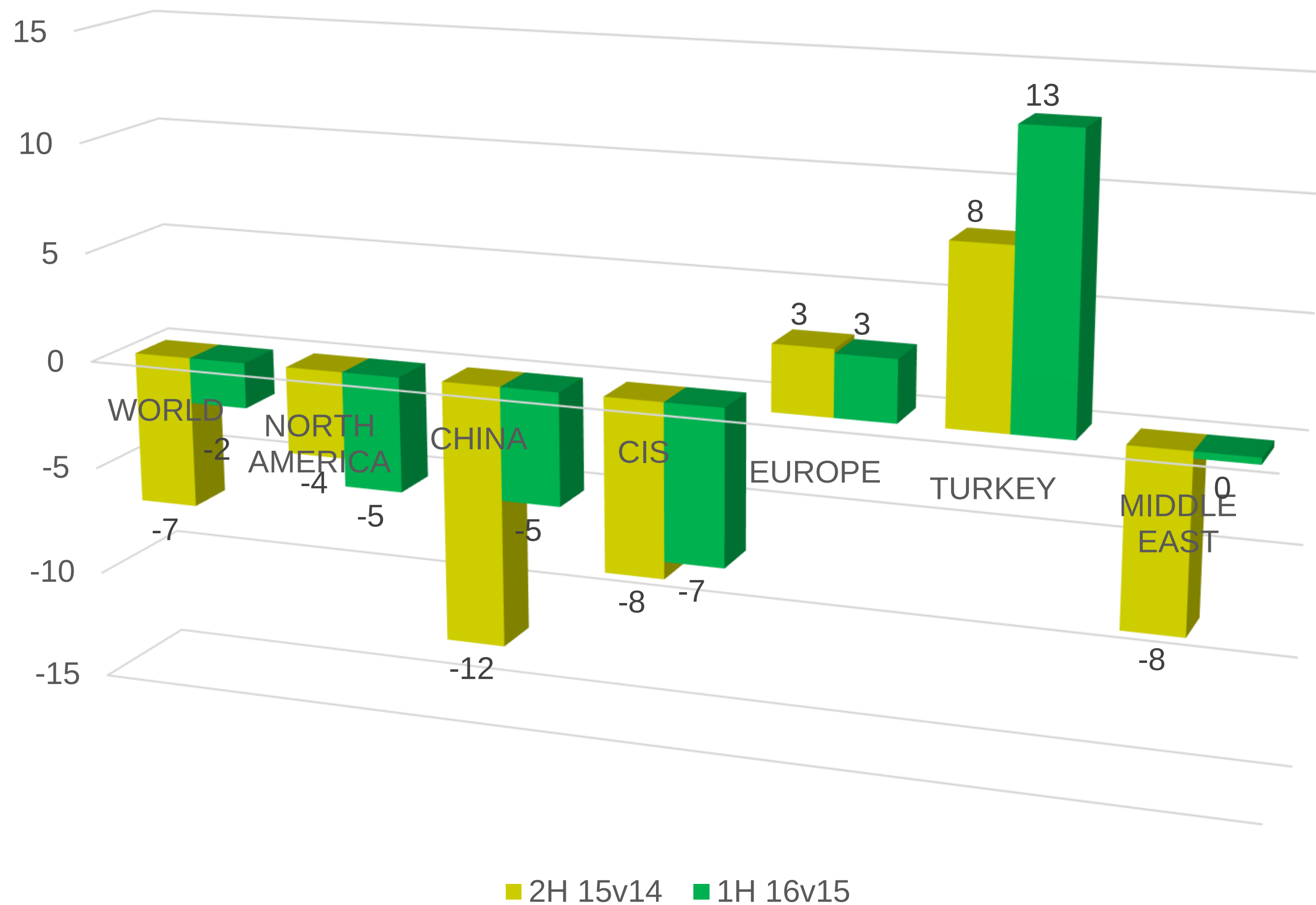
Long Products Consumption, by Region (Mt)



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

Source: Estimation

Long Products by Regions



Overall 7% global market decrease on y2y underlining market contraction. Main source being China, CIS and Middle East. During 1H 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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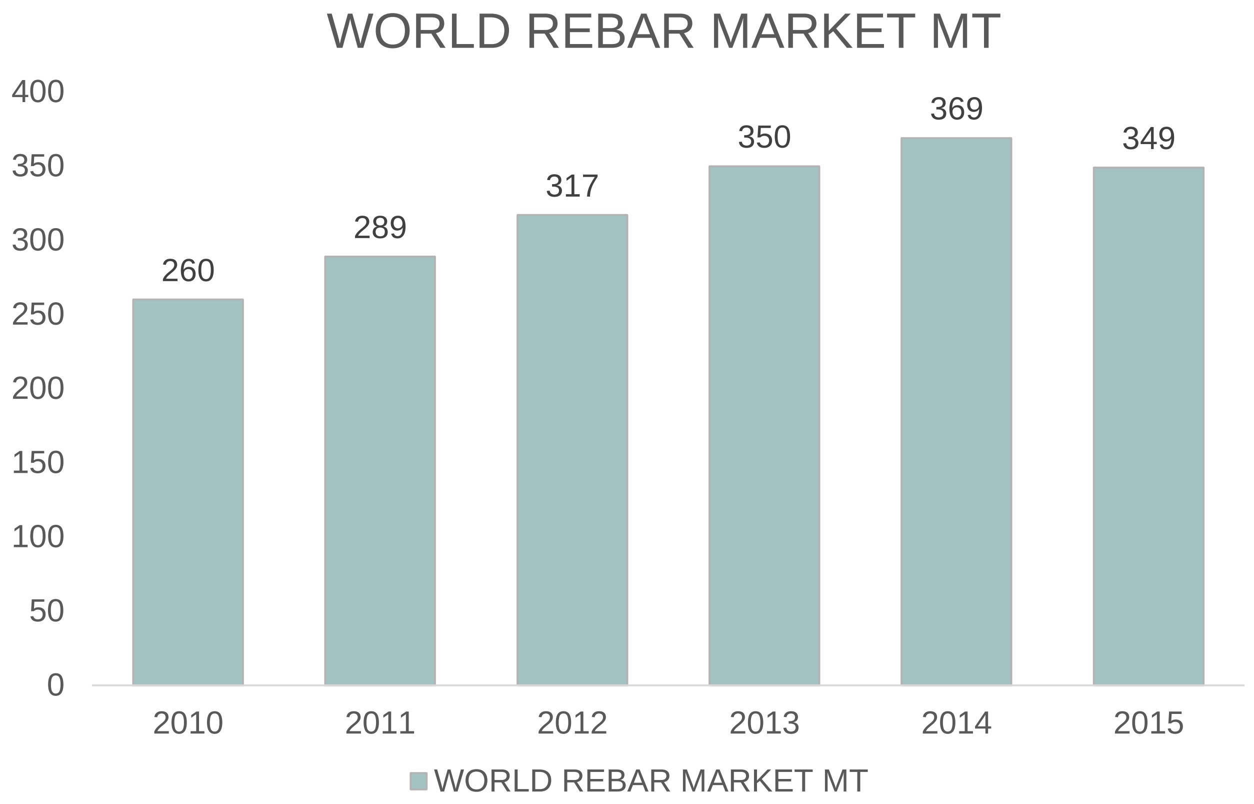
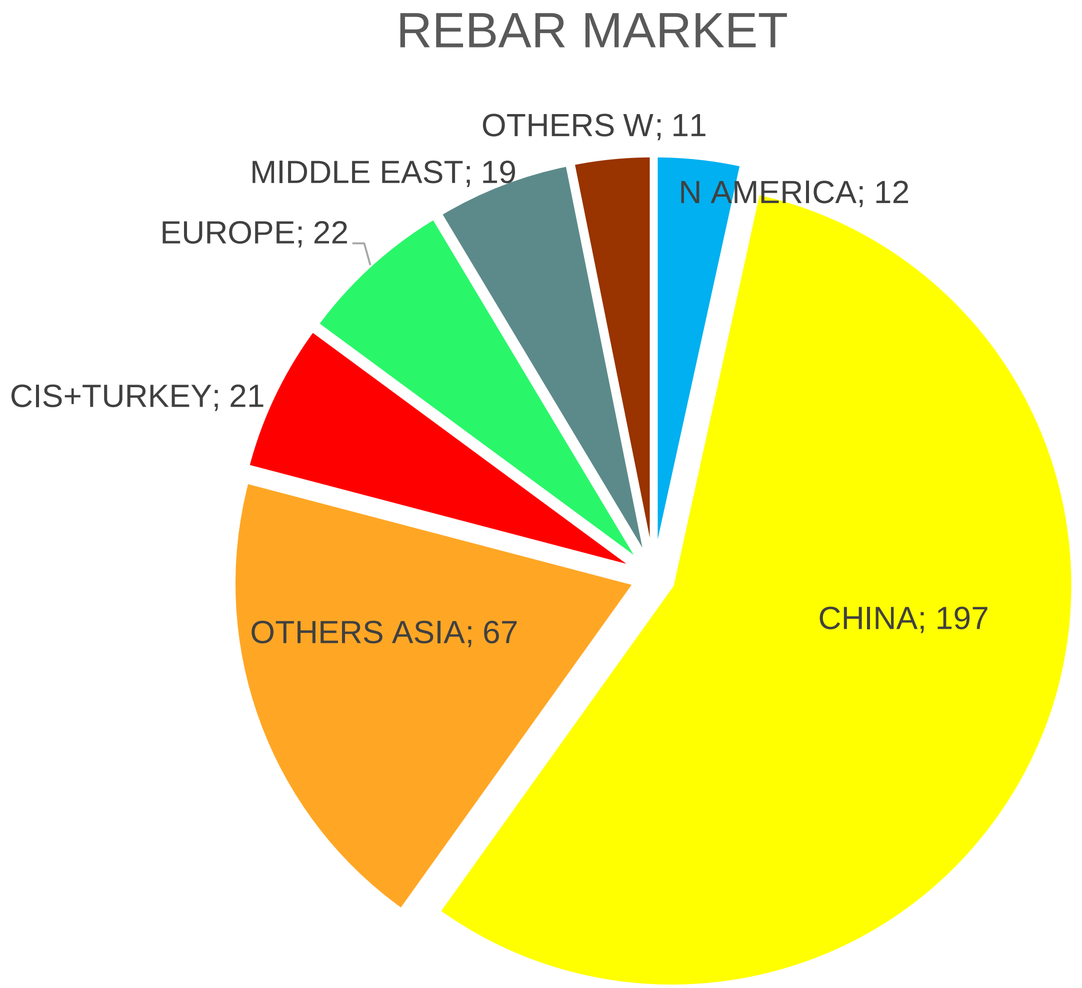
Rebar market



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

Source: Estimation

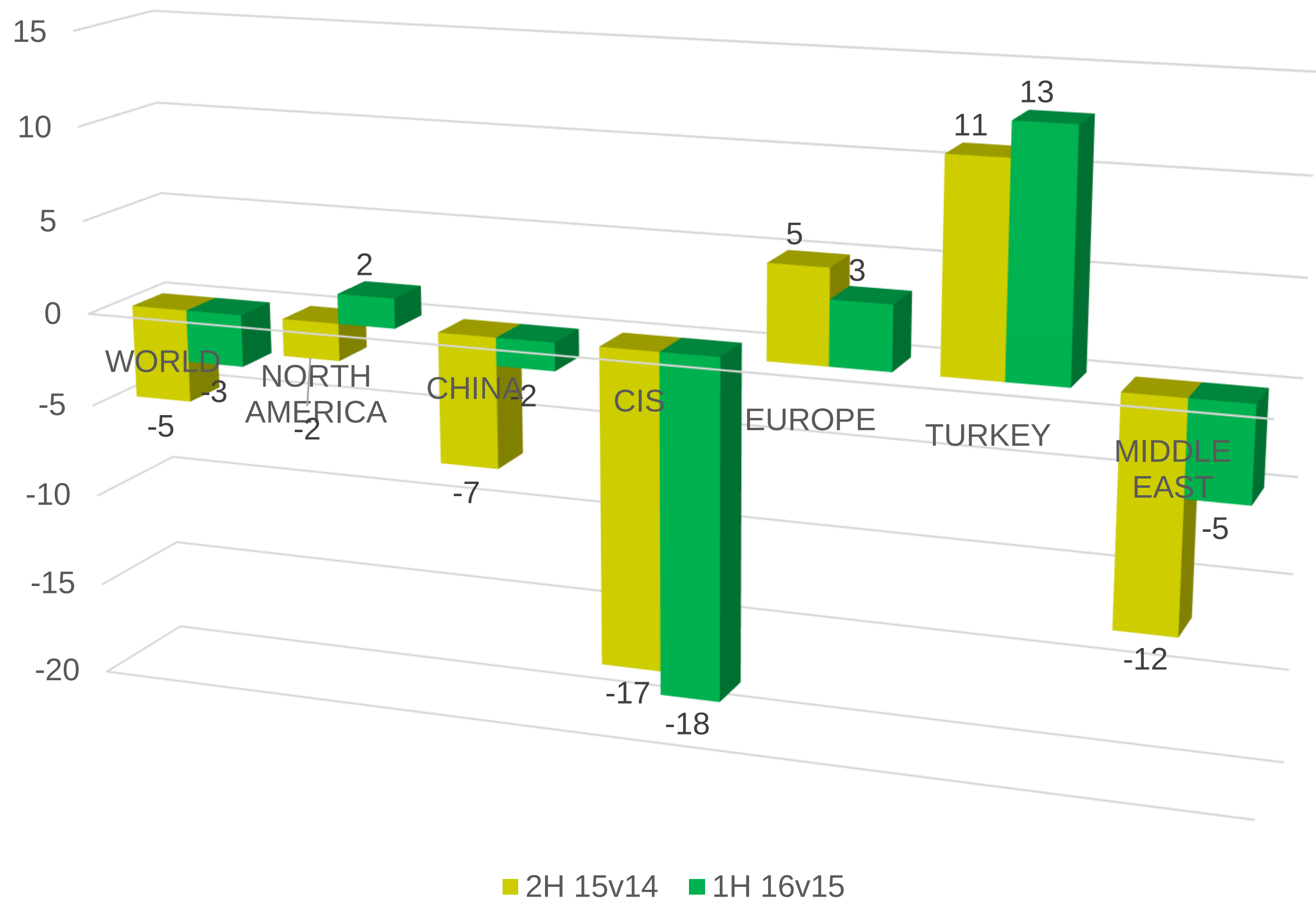
Rebar market by region



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

Source: Estimation

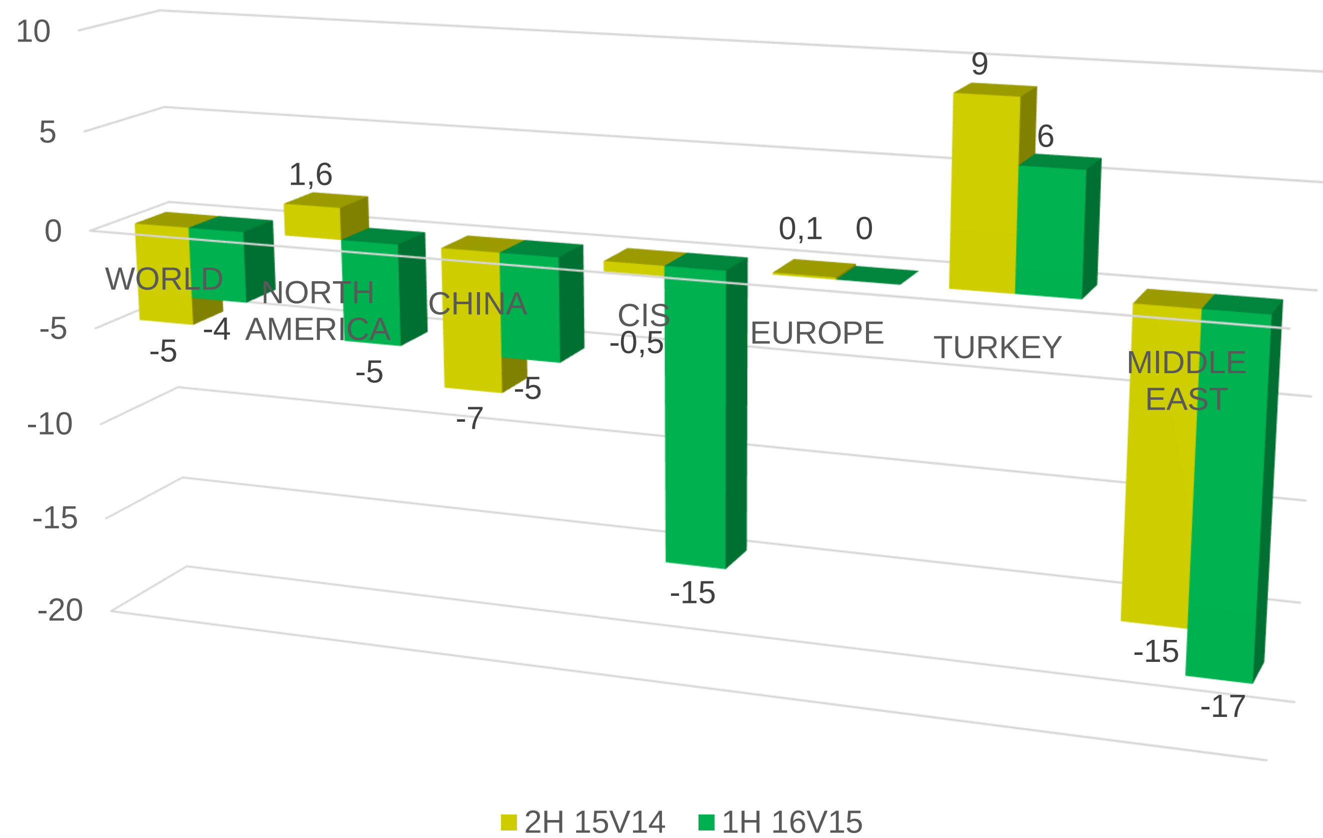
Rebars by region, growth



Market decrease on y2y for Rebars, main source being China, CIS and Middle East. 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.

Source: Estimation

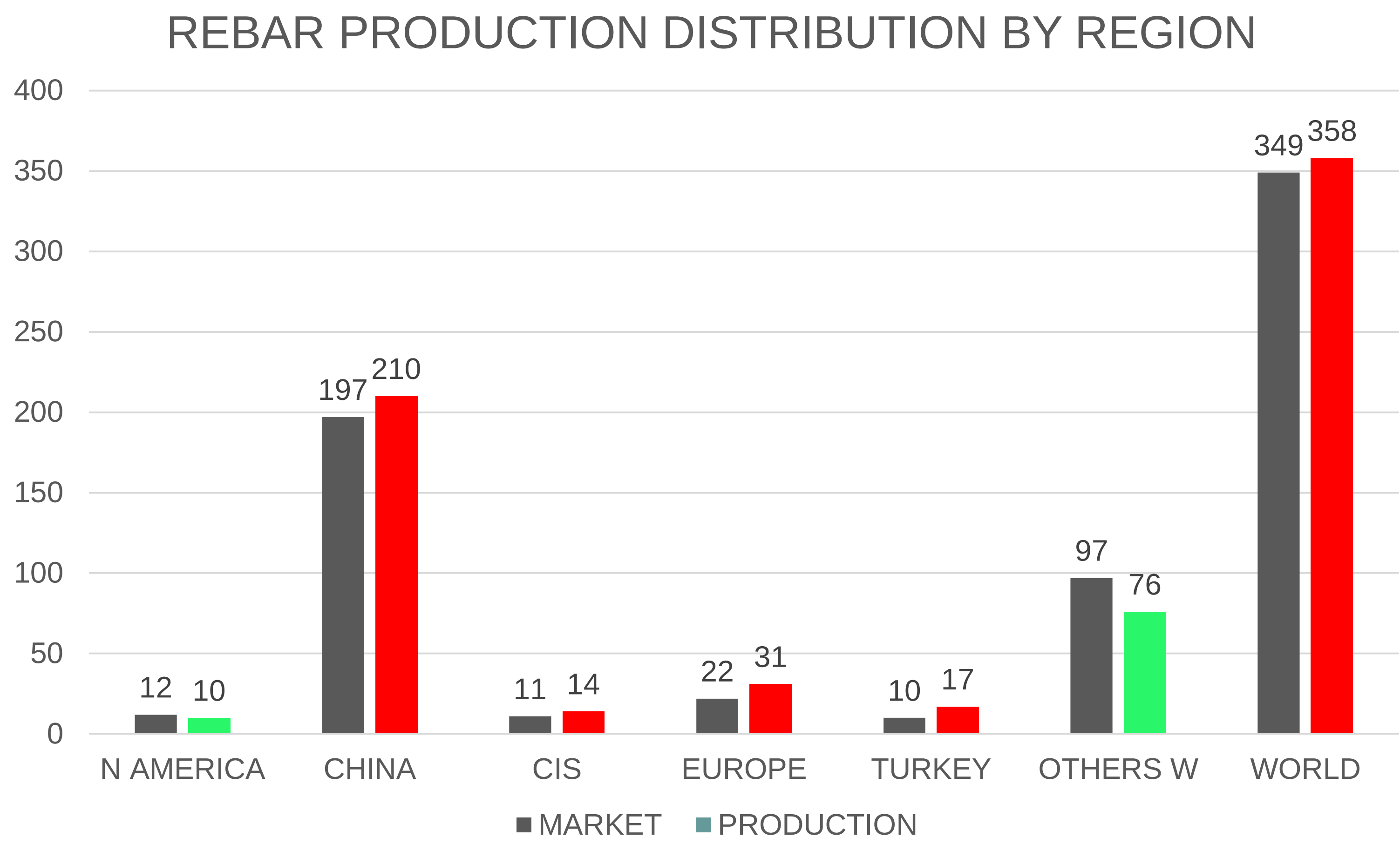
Wire rod by region, growth



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

Source: Estimation

Rebar market. Supply-demand



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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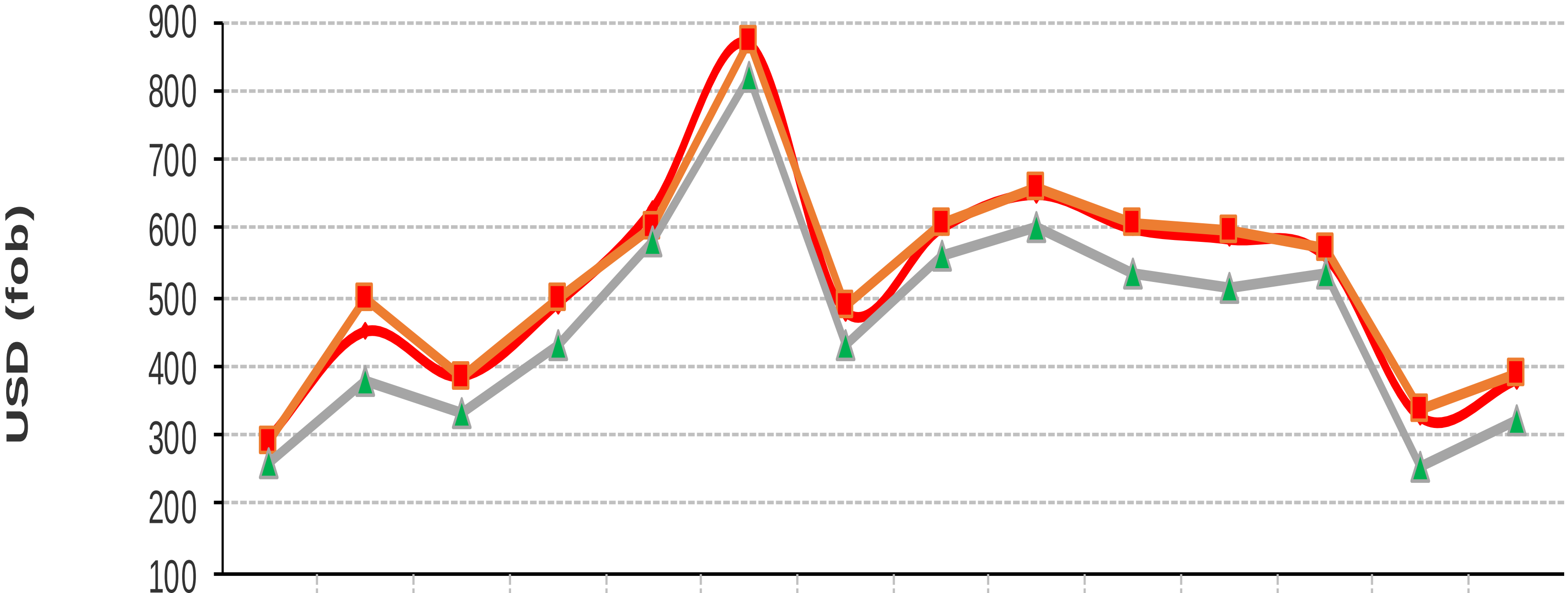
Reinforcing bars, wire rod and billet FOB price

FOB prices following raw materials recent trends



	03	04	05	06	07	08	09	10	11	12	13	14	15	´09/16
Rebars	295	450	385	490	630	870	480	600	650	600	585	560	325	380
WR Mesh	290	500	385	500	600	870	490	610	660	610	595	570	335	390
Billets	260	380	330	430	580	820	430	560	600	535	515	535	255	320

Source: Estimation

Reinforcing bars CFR price and spread

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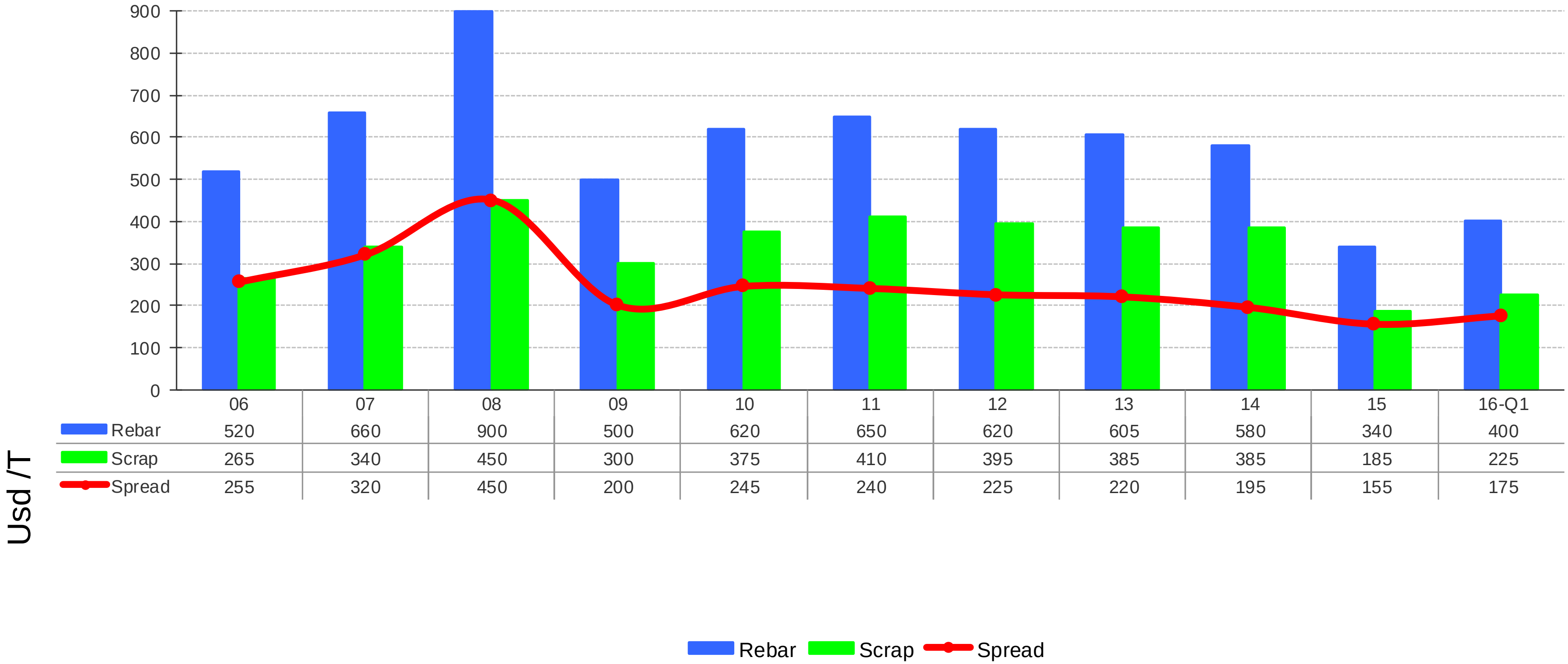

	06	07	08	09	10	11	12	13	14	15	16-Q1
Rebar	520	660	900	500	620	650	620	605	580	340	400
Scrap	265	340	450	300	375	410	395	385	385	185	225
Spread	255	320	450	200	245	240	225	220	195	155	175

Margins were taken to historical low levels. Producers where 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.

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Summary & Outlook

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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.
- ✓ After a fall of -3%, another drop of World steel production is expected. Steel industry is still facing an excess of capacity that creates and 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 !

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