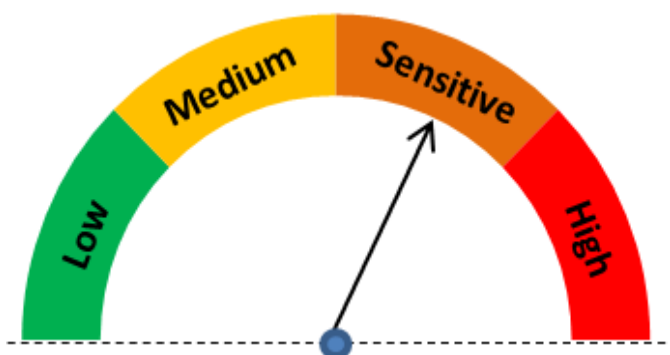




## Sector Risk Rating



## What to Watch?

- Evolution of steel main outlets: construction and automobile, currently on an upward trend
- China, representing 50% of world demand and production, key driver for steel world price
- Competition between steel and aluminum in the automotive industry (for efficiency purposes)

## Steel Production Remains Flat and Prices Continue to Fall

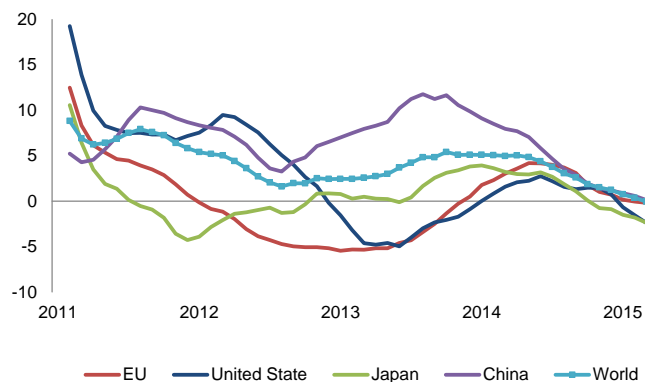
World steel production growth continued to slowdown in the first months of 2015 (to -0.1% in yearly average as of May). Production decreased by -2.4% in the US and Japan, and by -0.2% in the EU (due principally to a -8% fall in Italy). In China growth is now flat (+0.1% as of May) compared to the previous year (+8% in May 2014). Emerging markets suffering from recession experience different dynamics. Production is stagnating in Brazil while the +4.6% increase in Russia is only due to governmental infrastructure incentives.

The crude steel capacity utilization ratio for the main producers in the world in April 2015 was 72% (3.4 points lower than it was a year ago). This is insufficient to reach profitability and trigger investment decision.

Significant overcapacities and low demand have led to lower steel prices, which have decreased consistently for 4 years and are expected to drop by -24% in 2015. Iron ore price also decreased by nearly -60% during the last 12 months.

The sector copes with high fixed costs, keeping profitability under pressure and calling for restructuring and cost cutting.

Yearly average of steel production (%)



Sources: World Steel Association, Euler Hermes

Sector Value:

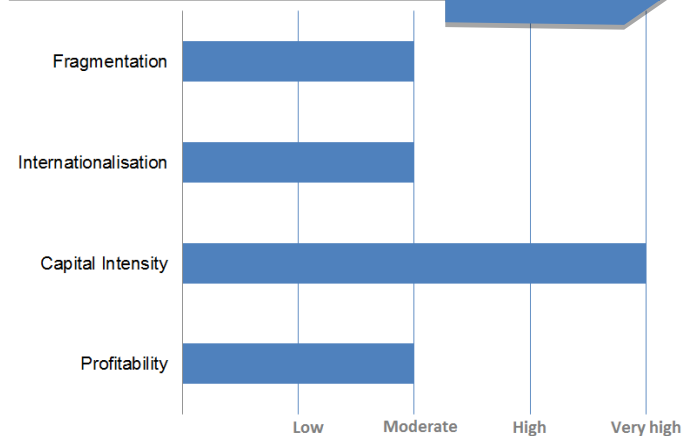
97bn

USD

## Key Players

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

## ID Card



## Strengths

- Recovery of the European automotive sector
- Restructuring in the US successfully completed

## Weaknesses

- Sluggish demand exacerbating structural overcapacities
- Steel price decreasing for 4 years (-25%)
- High fixed costs requiring important capital expenditures and funding

## Subsectors Insights

**Iron Ore:** The fall of price during the last 12 months, after expansion of capacity and low demand, the profitability for small companies is a huge problem.

**Steel companies:** The overcapacity around the world and continued price decline put the sector at risk.

**Non ferrous:** Prices have slid to low levels, pushing for closing high-cost operations and/or local measures (Indonesia's ore export ban).

## Recent Sector Risk Changes



### DISCLAIMER

These assessments are, as always, subject to the disclaimer provided below.

This material is published by Euler Hermes SA, a Company of Allianz, for information purposes only and should not be regarded as providing any specific advice. Recipients should make their own independent evaluation of this information and no action should be taken, solely relying on it. This material should not be reproduced or disclosed without our consent. It is not intended for distribution in any jurisdiction in which this would be prohibited. Whilst this information is believed to be reliable, it has not been independently verified by Euler Hermes and Euler Hermes makes no representation or warranty (express or implied) of any kind, as regards the accuracy or completeness of this information, nor does it accept any responsibility or liability for any loss or damage arising in any way from any use made of or reliance placed on, this information. Unless otherwise stated, any views, forecasts, or estimates are solely those of the Euler Hermes Economics Department, as of this date and are subject to change without notice. Euler Hermes SA is authorised and regulated by the Financial Markets Authority of France.

© Copyright 2015 Euler Hermes. All rights reserved.

View all Euler Hermes  
Economic Research online  
<http://www.eulerhermes.com/economic-research>

Contact Euler Hermes Economic  
Research Team  
✉ [research@eulerhermes.com](mailto:research@eulerhermes.com)

Last review: 2015-07-15  
Sector Risk Analyst: Yann Lacroix  
✉ [yann.lacroix@eulerhermes.com](mailto:yann.lacroix@eulerhermes.com)