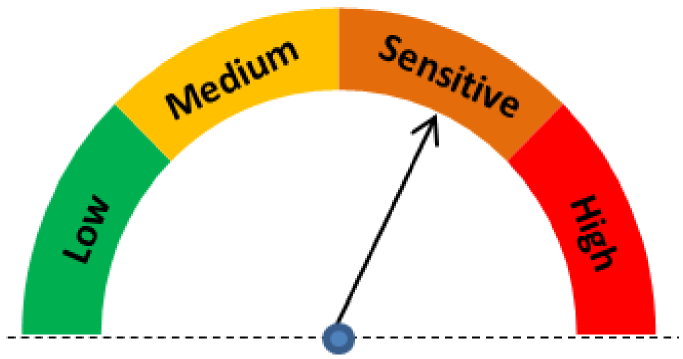
Euler Hermes Economic Research

Global Sector Report

METAL

Sector Risk Rating



What to Watch?

- Management of overcapacities in China (50% of world steel demand and production) has a critical impact on steel and iron ore prices
- Increasing demand trend in two major end-sectors for steel: construction and automotive
- Increasing competition between steel and aluminum in the automotive industry (for efficiency purposes)

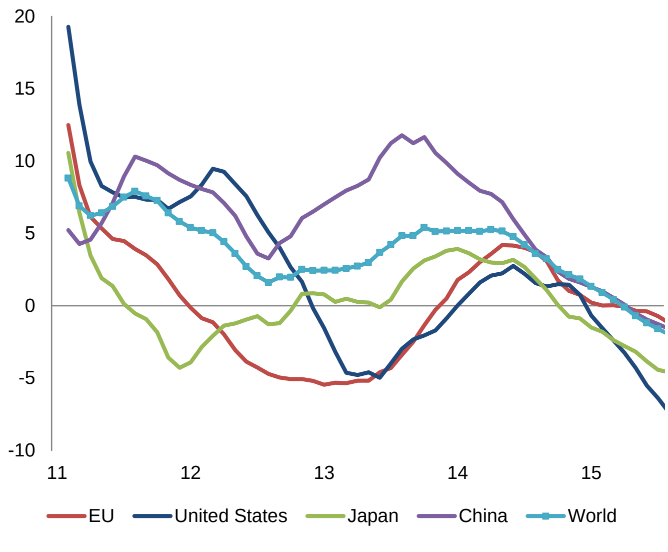
Steel production decreases and prices continue to fall

2015 has been particularly challenging with a -2% decline in both demand and production for steel. We do not foresee an improvement in the metal sector in 2016.
This negative outlook stems from: (i) global steel demand will remain sluggish, weighed by a -2% decline in China (after -3.5% in 2015) (ii) overcapacities and low prices to persist in the absence of consolidation within the sector.

Market surplus is currently worsened by Brazil and Russia's situation. Both countries are dramatically increasing exports in order to sell off surpluses while internal demand has collapsed in 2015: -12.8% in Brazil and -10.4% in Russia.
The yawning gap between oversupply and demand leads to: (i) a decrease in the utilization rate of production capacities to only 67% at the end of 2015; and (ii) a sharp decline in iron ore and steel prices -43% and -32% (respectively) in 2015.

Companies thus face a double whammy as volumes and value of sales decline. This is all the more challenging owing to hefty operational fixed costs.
It calls the need for a broad restructuring to reduce production capacities and enable prices to go up again. However, for the time being, consolidation remains far from sight.

Steel production
(rolling 12-months average change in %)



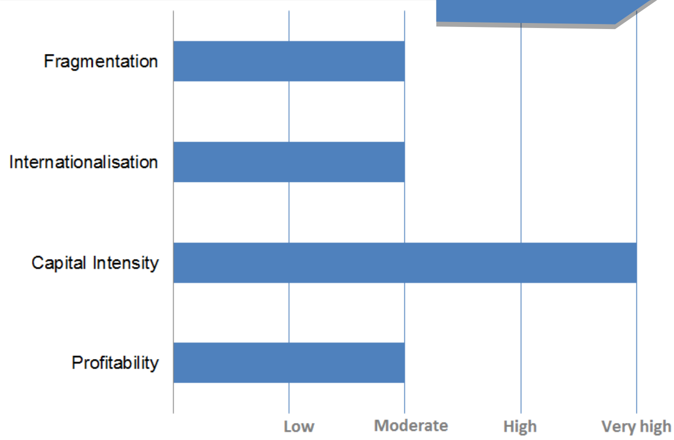
Sources: World Steel Association, Euler Hermes

Key Players

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

ID Card

Sector Value:
1466bn
USD



Strengths

- Recovery of the European automotive sector
- Restructuring in the U.S. successfully completed

Weaknesses

- Decrease in demand exacerbating structural overcapacities
- Steel price halved over the past four years
- High fixed costs require capital expenditures and funding

Subsectors Insights

Iron ore: The fall in prices over the last 12 months, on the back of expansion of capacity and low demand, causes a serious profitability problem for small companies.

Steel companies: Global overcapacity and continued price decline put the sector at risk.

Nonferrous: Prices have slid to low levels, prompting the closure of high-cost operations and/or use of local measures (Indonesia's ore export ban).

Recent Sector Risk Changes

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

Contact Euler Hermes Economic Research Team
research@eulerhermes.com

Last review: February 2016
Sector Risk Analyst: Yann Lacroix
yann.lacroix@eulerhermes.com