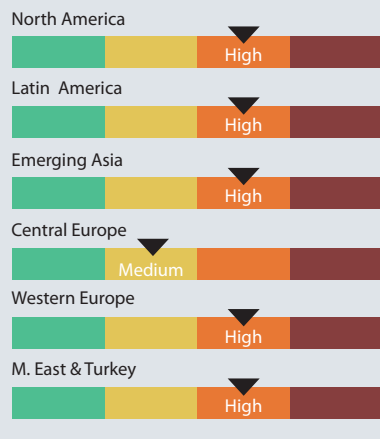


# METALS

## COFACE REGIONAL SECTOR RISK ASSESSMENT



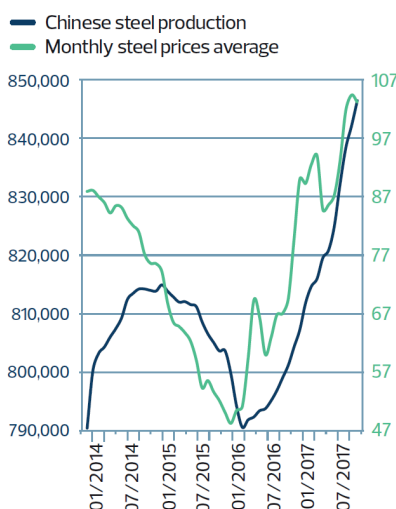
### + STRENGTHS

- Dynamic worldwide vehicle sales
- Growing use of electrical batteries (transport, connected devices)
- Restructuring of industries (nickel, rare earths, aluminium) and lower production costs

### - WEAKNESSES

- Production capacity rates below pre-crisis levels
- Increased pressure from the Chinese authorities to reorganise the industry

## TRENDS IN CHINESE STEEL PRODUCTION AND STEEL PRICES



Source: WSA, SteelHome

## RISK ASSESSMENT

Prices for major metals were still geared towards an increase in 2017, mainly due to growth in the construction industry and infrastructures in China, and also to the closure of several mines throughout the world. Nevertheless, slowdown is looming in the sector, especially in steelmaking. Half of the world's steel is produced and consumed by China.

Chinese steel production increased slightly by 5.4% at the end of October 2017. Consequently, the monthly average for the SteelHome SHGSI main steel products index rose by 17% between January and November 2017. In addition to steel, prices for other metals have also risen. Aluminium saw its monthly average LME spot price per tonne increase by 17.4% year-on-year between January and November 2017, due to strong performance from the automobile sector in Europe and China, and also to the closure of some plants in China. The monthly average LME spot prices for nickel, zinc and copper followed the same trend, with sharp rises of 20%, 19% and 19% respectively.

Chinese steel exports continued to shrink, with a 29% year-on-year drop in exports of finished steel products at the end of October 2017. Increased customs tariffs in Europe and the United States, and the rise in domestic consumption, have spurred Chinese steelmakers to turn towards their domestic market.

## DEMAND

Global consumption of steel products should grow by 0.7% in 2018. The widespread adoption of measures, mainly by Europe and the United States, to impose duties on Chinese products risks disadvantaging the client sectors (construction and real estate, manufacturing, etc.) that benefitted from low-price steel imports.

China may experience a 1.6% fall in consumption in 2018, after the expected rise of 6.8% in 2016, according to the Australian Ministry of Industry. This would be due to poor economic conditions in the construction and public works industries in 2018, and to the high level of debt (USD 30 billion coming due during the year). A slowdown in real estate investment in the country's largest cities has led to a deterioration in the corporate financial situation, as shown in the March 2017 Coface Asian payments survey. Although we predict an increase in automobile sales in 2018, this will not be sufficient to counterbalance the ongoing reform effects on the country's construction and public works sector. India's consumption of steel products should grow by 5% in 2018. Public support for infrastructure projects and the manufacturing sector should continue to bolster domestic consumption.

Western Europe should experience a 1% growth in consumption in 2018. Therefore, the strong performance of the European automobile market will benefit domestic producers, better positioned with high added value steel. Registrations of new vehicles should rise, while favourable borrowing conditions and the improvement of household finances will continue to fuel an upturn in the construction sector in 2018. This sector should be strong, with the index of building permits in European Union countries reaching 110.3 points in the second quarter of 2017 vs. 100.6 one year before.

Steel consumption in the United States should grow by 1.2% in 2018. Players in the construction sector, the primary customer for the steelmaking industry, appear optimistic. This was shown by the rise in the NAHB (construction companies) index, which reached 70 points in December 2017, its highest level since 2017. Moreover, the metals sector as a whole should benefit from President Donald Trump's plan aimed at infrastructure improvements, if this is carried out. Many civil engineering projects may require substantial construction work, which should boost the consumption of steel products.

## SUPPLY

Global production should grow by 2% in 2018. Some highly polluting Chinese steelworks will be closed by the authorities to combat air pollution.

Chinese production should grow by 2-3% in 2018, after a 1% drop in 2017. The country is at the centre of controversy, accused of dumping several steel products. Chinese steelmaking is mainly oriented toward low added value products for the construction sector (almost 60% of opportunities for the steelmaking industry). In addition, it is largely decentralized and local provinces have little incentive to reduce this relatively major tax resource. Further, rising steel prices encourage local producers in producing more, while local consumption is likely to decline. Production in India should grow by 7% in 2018, well below the growth targets set by the government of 13% per year between 2015 and 2025. Prime Minister Modi's government hopes that, by this date, the country will be able to produce roughly 300 million tonnes of steel per year. Lastly, to continue protecting their steelmakers from foreign competition, the Modi government will continue to keep customs tariffs high for some products.

Steelmaking in Western Europe should grow by 3% in 2018, driven by France and Italy. The relatively robust performance of consumption has bolstered European production, and some high value added steelmakers have been able to benefit from niche markets, such as Voestalpine. European production has suffered in part from Chinese competition. However, the European steel sector should benefit from the measures taken by the European Commission in August 2017 after imposing customs tariffs on some products. In addition, the United Kingdom's exit from the European Union might, in the medium term, leave the field open for some countries to increase protectionist measures for European steel on Chinese products.

In the United States, steel production should grow by 2% in 2018, boosted by resilient economic growth. Domestic steelmakers are also benefitting from the federal government's decisions to continue imposing customs duties of 266% on steel from China (as well as Brazil, Russia, Japan, etc.). US steel may be widely used if President Trump's proposed large-scale infrastructure development plan is implemented.