ECONOMIC AND STEEL MARKET OUTLOOK 2018-2019

THIRD QUARTER, 2018

19 JULY 2018

EUROFER AISBL • Avenue de Cortenbergh, 172 • B-1000 Brussels • Belgium
+32 3 738 79 20 • mail@eurofer.be • www.eurofer.eu • EU Transparency Register: ID 93038071152-83

ECONOMIC AND STEEL MARKET OUTLOOK 2018-2019

INTRODUCTION

The EU steel market began 2018 on a relatively strong footing, supported by the ongoing economic recovery and because of improved business conditions in steel-using sectors. However, imports continued to increase from already high levels in 2017. Over the forecast period 2018-2019 steel demand is expected to flatten as the growth of final steel use slows down to a more sustainable rate of expansion. The recent rise in protectionist trade measures is deepening uncertainty and could result in the market situation diverging from the base-case scenario.

EU steel market overview

EU28 apparent steel consumption rose by 3% year-on-year in the first quarter of 2018. Robust real steel consumption and the seasonal restocking in this period explain this growth.

Domestic deliveries to the EU market rose by 2.1% year-on-year to 37 million tonnes in the first quarter. Third country imports rose by 9.8% to 10 million tonnes compared to the already elevated import level registered in the same period of 2017. As a result imports reached the highest quarterly level since the third quarter of 2007. This confirms that the volume effects of anti-dumping measures imposed by the European Commission over the course of 2017 faded out rapidly due to other third country suppliers filling the gap left by the countries which had duties applied to them.

The EU market witnessed a seasonal inventory build-up in the distribution chain and at the end-user stage, which is common in the first quarter of the year. The extent of the increase in steel stocks was lower than in the same period of 2017, which suggests a rather high stock rotation and robust levels of distribution chain sales.

EU steel demand prospects are in principle rather positive. Current expectations for the economic and business climate support the expectation of continued growth in apparent steel consumption in 2018 and 2019. However, international steel trade fundamentals have become highly uncertain and more difficult to foresee. The sharp rise in imports of specific steel product from some third countries confirms that steel trade distortions remain a threat, which could be exacerbated by trade deflection resulting from the Section 232 tariffs applied by the Trump administration.

EU steel-using sectors

In the first quarter of 2018 all steel-using sectors in the EU – except steel tube manufacturing – registered an increase in production activity. At the country level, almost all reporting countries reported higher activity levels, with some of them – Sweden, Austria and Poland – registering double-digit growth in total production activity. Main exception was Germany owing to the negative impact of a contraction in tube output.

Production activity in EU steel-using sectors is forecast to grow by 2.8% in 2018 and by 1.9% in 2019.

The outlook for the production trend in the EU steel-using sectors for 2018 and 2019 is favourable overall. Economic conditions look set to remain supportive to growth; domestic demand will be the key driver of growth over this period. However, the recent rise in protectionism is fuelling uncertainty and could result in important growth factors, such as business confidence and investment, deviating from the expected scenarios.

Output in EU steel-using sectors is forecast to grow by 3.1% in 2018 and by 1.9% in 2019.

EU economic context

In the first quarter of 2018 economic growth in the EU slowed down to 0.4% quarter-on-quarter, compared with 0.7% growth in the final quarter of 2017. The growth moderation was to a large extent the result of a weaker net trade performance as EU exporters began to experience the negative impact of the slowing global economy and the strength of the euro versus other major currencies.

Confidence levels stabilising after the first quarter correction remains consistent with solid – albeit flattening growth – in the future. However, EU economic growth this year and next will be driven mainly by domestic demand. The contribution of net exports to economic growth in the EU looks set to diminish because of trade tensions between the US and its trade counterparts flaring up, which could have a potentially negative impact on global economic growth and international trade. This could also negatively impact the investment outlook.

EUROFER forecasts EU GDP growth of 2.1% in 2018 and of 1.8% in 2019.

Table of Contents

EU ECONOMIC OUTLOOK 2018-2019

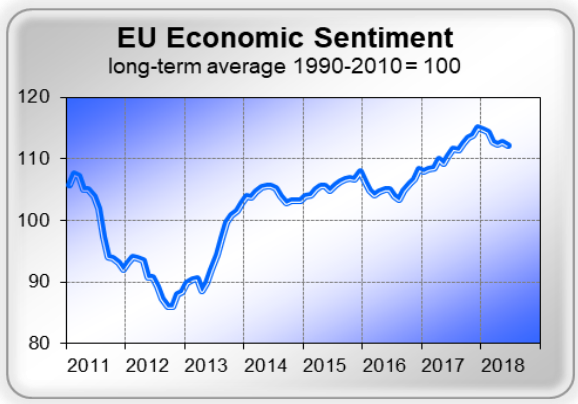
GDP GROWTH

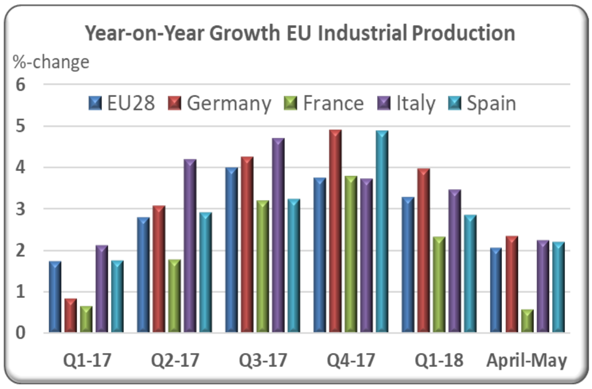
In the first quarter of 2018 economic growth in the EU slowed down to 0.4% quarter-on-quarter, compared with 0.7% growth in the final quarter of 2017. The moderation of EU growth was, to a large extent, the result of a weaker net trade performance as EU exporters began to experience the negative impact of the slowing global economy and the strength of the euro versus other major currencies. In particular, Germany and France suffered from a lower contribution from net exports.

The contribution of domestic demand to economic growth in the EU remained positive, although investment growth also slowed in comparison with the previous quarter.

CONFIDENCE INDICATORS

Economic sentiment in the euro area and EU28 remained relatively stable over the second quarter of 2018, after the downward correction in the first quarter from the peak level reached at the end of last year. The latest monthly business and consumer survey conducted by the European Commission shows that stable, or even slightly higher, confidence in industry, services and retail trade compensated for lower consumer and construction sector sentiment. Among the major Eurozone economies, economic sentiment improved in Italy and France, remained stable in Spain while it deteriorated in Germany and the Netherlands.





Meanwhile, the IHS Markit surveys on the assessment of activity and orders in manufacturing and the services sector suggest that the slowdown in the manufacturing rebound in the Eurozone continued over the second quarter of 2018. The assessment of growth of new production and new order volumes, especially those from the international export markets, moved lower in each month since the start of 2018. This trend is confirmed by hard data on industrial production growth in the EU28 and major Eurozone countries over the first quarter of 2018 and in April and May which also showed a deceleration in activity growth.

Booming export orders amid a favourable external environment drove, to a significant extent, the growth spurt of industry in 2017. This explains why increasing protectionism and the intensifying risk of a full-blown trade war against the backdrop of a less supportive global economic context is fuelling concerns that the growth of export order intakes may go into decline, with a negative impact on future production activity in the EU.

Other factors which may have played a temporary role in depressing economic sentiment are political uncertainty in the EU, particularly in Germany and Italy, and Brexit-related concerns.

ECONOMIC FUNDAMENTALS

Despite disappointing growth in the first quarter and softer survey results and hard data for the second quarter, 2018 still looks set to be a relatively strong year for the EU economy. Domestic demand, rather than exports, will be the key driver of growth.

Household consumption growth was rather strong in the first quarter. This could be a sign that labour market strength is starting to feed through into firmer wage growth. In May the EU28 unemployment rate was 7%, the lowest rate recorded since August 2008. This could also imply that the increase in inflation since February this year will be absorbed more easily by households.

Prospects for investment also remain rather benign. Total investment in the EU28 grew by 0.8% quarter-on-quarter in the first quarter of 2018. It is expected that the remainder of the year and 2019 will see the continuation of robust investment growth, albeit at a lower rate than in 2017. Still healthy business sentiment levels, improved capacity utilisation rates and profits in industry in combination with still easy access to low-cost finance will support domestic demand for machinery and equipment.

Economic indicators

Year-on-year change in %

EUROFER Forecast	2016	2017	2018 (f)	2019 (f)
GDP	1.9	2.5	2.1	1.8
Private consumption	2.3	2.0	1.7	1.6
Government consumption	1.7	1.0	1.2	1.2
Investment	2.3	3.7	3.5	3.0
Investment in mach. equip.	3.2	3.8	3.9	3.0
Investment in construction	1.2	4.0	3.1	2.9
Exports	3.3	5.5	4.3	4.4
Imports	4.4	4.8	4.2	4.5
Unemployment rate	9.2	8.2	7.6	7.1
Inflation	0.3	1.7	1.9	1.8
Industrial production	2.1	3.1	2.7	2.1

(f) = forecast

The performance of the export sector is currently clouded by uncertainties related to mounting worries about tariff walls currently being built, and the risk of this sparking full-blown trade wars. Concerns about the strength of the euro have diminished over the second quarter. The euro-US dollar exchange rate stood at 1.17 in mid-July, some 5% lower than at the end of the first quarter.

GROWTH OUTLOOK FOR 2018-2019

Confidence levels stabilising after the first quarter correction remain consistent with solid albeit flattening growth going forward. However, EU economic growth this year and next will be driven mainly by domestic demand. The contribution of net exports to economic growth in the EU looks set to diminish against the backdrop of trade tensions between the US and its trade counterparts flaring up with a potentially negative impact on global economic growth and international trade. This could also backfire on the investment outlook.

The normalisation of monetary policy is foreseen to remain very gradual; ECB's monetary decisions will remain data-dependent over the coming period.

EUROFER's third quarter 2018 outlook forecasts EU GDP growth at 2.1% in 2018 and 1.8% in 2019.

THE EU STEEL MARKET: FINAL USE

OUTLOOK FOR STEEL-USING SECTORS

Much in line with expectations, production activity in the EU steel-using sectors continued to expand at a robust pace in the first quarter of 2018, albeit at a less vigorous growth pace than in the same period of 2017. This trend looks set to continue in the remainder of the year and in 2019.

CONSTRUCTION INDUSTRY

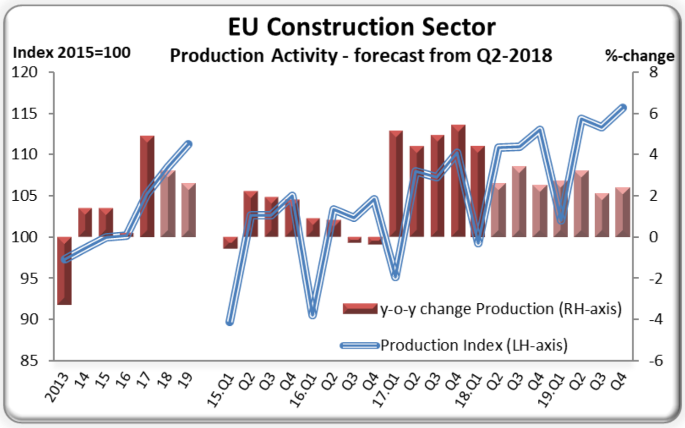
EU construction output growth in the first quarter of 2018 surprised again on the upside. Total construction activity grew by a healthy 4.4% year-on-year.

Construction industry output

Having grown by 4.9% in 2017, EU production activity grew by 4.4% year-on-year in the first quarter of 2018, confirming that the construction recovery in the EU is firmly underway although it is taking place at different speeds across countries and regions. Following the global financial crisis and the Eurozone crisis construction investment in the EU had suffered from a collapse in consumer and business confidence, difficult access to finance and governments holding back on public spending.

Construction industry growth in the first quarter of 2018

In the first quarter of 2018, construction output increased in most EU countries. Growth was slightly negative in Germany and Sweden, due to weather conditions hampering work on projects in the winter period and the high level of activity registered in the same period of 2017. Meanwhile, construction activity in the UK witnessed a rather sharp contraction in the first quarter of this year, in a reflection of Brexit-related uncertainty negatively impacting construction confidence and investment.



In Western Europe, robust demand for new housing and for residential renovation and modernisation remains the key growth driver of overall construction activity. High levels of consumer sentiment, improving labour market conditions and low cost and easy access to finance are contributing to the current growth spurt in demand for new and existing residential property. Migrant inflows have led to additional demand for social housing, exacerbating supply shortages in the lower segments of the housing market.

Non-residential construction activity is currently benefitting from strengthening demand from the private sector for commercial and industrial projects. Pent-up demand for construction that was unfulfilled during the recent crisis years is now being unleashed. Public non-residential investment is also gaining strength as the result of increased spending on schools, hospitals and other public service-related construction.

Civil engineering projects and related activities remain the major driver of construction sector growth in the Central European region. In Poland, activity is growing again at a fast pace, owing to a revival of investment spending by local authorities and the central government, supported by the release of EU funds.

EU construction activity is estimated to have grown by 2.6% in the second quarter of 2018. Only in the UK is construction activity expected to have weakened again – and rather sharply compared with the same period of 2017.

Construction industry forecast 2018-2019

Construction activity is forecast to gradually expand further in the remainder of 2018 and in 2019, supported by the continued strength of private and public demand for building and civil engineering projects. All construction segments are expected to do well over the forecast period, but total construction activity growth is expected to settle at a more sustainable rate. Residential demand will benefit from improving consumer spending power, good levels of confidence and the attractiveness of investing in residential property. Supply constraints may lead to an overheating of property markets which could in due time lead to a downward correction of housing prices in some countries. The improved business climate, and overall benign economic conditions, will continue to support private demand for commercial and industrial construction; the boost provided by pent-up demand being unleashed will gradually fade. Government investment in non-residential and civil engineering projects is for the time being expected to benefit from the improved budgetary situation in most EU countries..

Supply-side constraints in the construction sector – particularly lack of capacity and skilled labour – may weigh on the sector's ability to fulfil potential demand in the various construction segments .

Total EU output is forecast to rise by 3.2% in 2018 and by 2.6% in 2019. In the UK, activity growth in 2018 is forecast to contract as firms opt for a wait-and-see approach due to Brexit-related uncertainty.

AUTOMOTIVE INDUSTRY

EU automotive sector activity continued to expand in the first quarter of 2018. As expected, slowing demand growth is resulting in a mild moderation of production growth in the EU.

EU passenger car and commercial vehicle demand

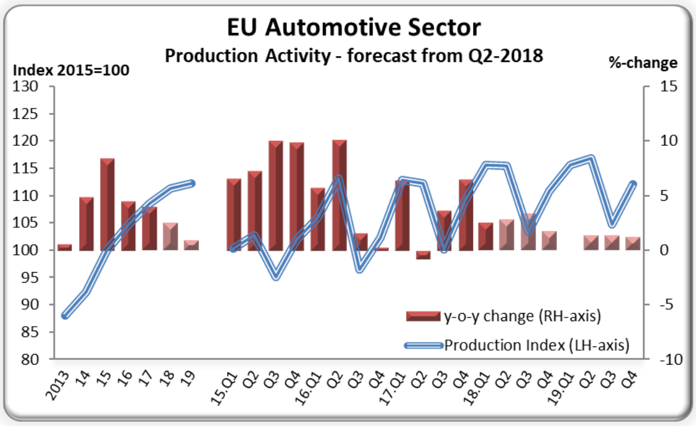
EU passenger car registrations rose by 2.4% over the first five months of 2018; robust growth in April was followed by a sideway move of the market in May. Car registrations in the UK continued to decline; the market contracted by almost 7% year-on-year over this period. Sales in Italy stabilised at the level seen in the previous year, whereas all other large markets registered growth. Almost all smaller EU markets saw registrations rise as well. On balance, growth momentum in the EU is fading in line with expectations.

New commercial vehicle registrations in the European Union grew by 4.3% over the first five months of 2018. All large markets in the EU28 except the UK remained on a mildly positive growth trend over this period.

EU car exports in units appear to be contracting since the start of this year. Export data for Germany and the UK over the January-May show a drop of 2% compared with the same period of 2018. Total EU car exports in value terms fell by 0.3% year-on-year.

Automotive sector growth in the first quarter of 2018

Production activity in the EU automotive industry grew by 2.5% year-on-year in the first quarter of 2018. This is indeed a growth moderation compared with the 6.5% growth registered in the same period of 2017 and overall growth of almost 4% over the whole year 2017, but in line with the anticipated weakening of demand dynamics in the domestic market. Vehicle output in the UK and Belgium registered a decline; changes in the vehicle platforms lifetimes are partly to blame for this. Output in the second quarter of 2018 is estimated to have risen by 2.8% year-on-year.



Automotive industry forecast 2018-2019

EU vehicle demand – having grown very strongly over the past four years – has been gradually losing momentum since the start of this year as the market is slowly becoming saturated in terms of vehicle density, albeit with diverging trends at the individual country level. Saturation effects are likely to have a stronger impact on large mature markets such as Germany and France, whereas the peripheral Eurozone countries and most countries in the Central European region still have some catching up potential. On balance, EU vehicle demand is expected to register moderate growth over the forecast period.

The outlook for export demand for EU-made passenger cars and commercial vehicles is becoming increasingly more uncertain. Export volumes are under pressure due to rising local production in third countries and is gradually replacing EU exports; this could outweigh the positive impact from rising demand in emerging countries. Moreover, the current protectionist attitude of the Trump administration is fuelling concerns of automotive OEMs based in the EU, and particularly of those with a significant exposure to US trade such as Germany, Italy and the UK. A more protectionist stance would certainly have a negative impact on the units of vehicles and volumes of parts and components being built for export. Brexit also continues to obscure business prospects for OEMs both in the UK and in continental Europe. Interdependency is high, with almost 50% of automotive parts and components used in UK vehicle production being sourced from the EU. Most UK-based OEMs are foreign-owned and the risk of more difficult access to the EU and US market could undermine future investment plans

The outlook for EU automotive output is moderately positive. Total output – including parts and components – is expected to rise by 2.5% in 2018 and by 0.9% in 2019.

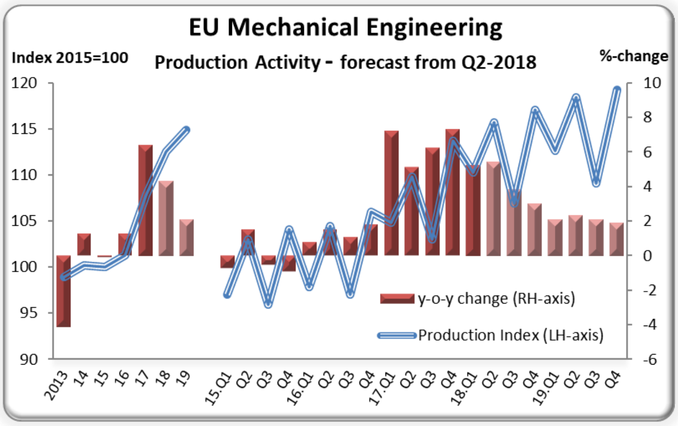
MECHANICAL ENGINEERING

The mechanical engineering sector remained on a solid footing in the first quarter of 2018. Production activity rose by 5.2% compared with the same period of 2017.

Mechanical engineering output

Output in the EU mechanical engineering industry grew by 5.9% year-on-year in the first quarter of 2018, only fractionally lower than the average growth of 6.4% over the whole year 2017. The business investment climate remained very supportive to demand for machinery and equipment. The slowdown in growth of order intakes since the start of this year – that was signalled by some business surveys – will most likely not show until the second half of 2018, because of the relatively long lead times in this sector.

Mechanical engineering growth in the first quarter of 2018



The capital goods market in the EU started 2018 on a solid footing. Owing to the strong production growth of the manufacturing and construction sector in 2017, capacity utilisation in industry is currently high. Germany, representing EU's largest manufacturing base, is reporting utilisation rates in excess of 90 percent. In combination with bottlenecks in supply of intermediate goods and shortages in skilled manpower, companies are willing to invest in new equipment and machinery. Particularly equipment related to improvement of efficiency and productivity is currently in high demand, such as robotics and automatisation including systems and software, handling and lifting equipment. But demand for machinery for dedicated industry use such as machine tools and equipment for mining, construction and agriculture, as well as machinery for the manufacture of electronics, food and chemicals, is currently also showing strong growth.

Demand from the international markets for mechanical engineering products is also reported to have remained strong. In particular, demand from the US and China continued to grow over the first months of this year.

Owing to the sector's robust order book, production activity in the second quarter of 2018 is estimated to have grown by 5.4% year-on-year.

Mechanical engineering forecast 2018-2019

The mechanical engineering sector in the EU looks well positioned to enjoy a fast pace of output growth in 2018 and 2019, supported by the benign macro-economic environment. Prospects for EU investment in machinery and equipment are expected to remain positive: for 2018 a growth rate of 3.9% is foreseen, followed by 3% growth in 2019. Investment decisions will be facilitated by the improved profit situation and still easy access to and low cost of finance.

Global spending on capital goods look set to continue to benefit from improving capacity utilisation and profit margins in sectors such as mining, extraction and construction. This will provide a boost to international trade in engineering products.

However, the recent rise in trade tensions between the US on the one side and its main trading partners such as the EU and China on the other side could lead to trade wars hitting global economic growth and international trade, which would have a strongly negative impact on confidence in industry and as a consequence on investment.

As long as the outcome of the future trading relationship between the EU and the UK is not clear, UK firms are likely to postpone investment.

Production activity in the EU mechanical engineering sector is forecast to rise by 4.3% in 2018 and by 2.1% in 2019 but with trade-related uncertainty leading to rising risks to this growth forecast.

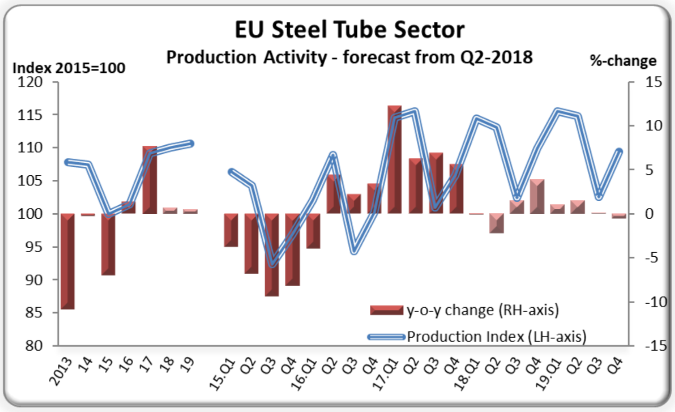
STEEL TUBE INDUSTRY

In the first quarter of 2018, output in the steel tube industry stabilised around the level of activity registered in the same period of 2017. As expected, output growth came to a standstill owing to the temporary demand from pipeline projects – that had boosted production in 2017 – drying up.

Steel tube industry output

In the first quarter of 2018, output in the steel tube industry fell by 0.1% year-on-year. Output growth came to a standstill owing to the temporary demand from large pipeline projects – that had supported the order book of EU manufacturers in 2017 – drying up.

Steel tube industry growth the first quarter of 2018



In the absence of the demand boost from the international pipeline market, production activity in the EU steel tube sector depends, currently, more strongly on demand fundamentals in the other steel tube market segments. With total steel tube output stabilising around the year earlier level in the first quarter of 2018, only production activity in Germany registered a significant decline because of the country's focus on the manufacture of large welded steel tubes. The other countries with steel tube production facilities in the EU benefitted from improving business conditions in the downstream client sectors of smaller diameter welded and seamless steel tubes. The production growth of these tube products could compensate the loss of production of large welded tubes. Demand from the automotive sector, construction and the engineering industries rose in line with output in these sectors. Business conditions in the Oil Country Tubular Goods (OCTG) market remained relatively favourable. Total world rig count is on a mildly rising trend compared with a year ago.

Total EU steel tube output is estimated to have fallen by 2.2% year-on-year in the second quarter of 2018.

Steel tube industry forecast 2018-2019

In 2018 and 2019, steel tube production activity in the EU is forecast to increase only very slightly. The market for large welded tubes is expected to remain rather lacklustre; although there will be bookings for occasional volumes, major new projects which could benefit European producers are not expected. Commercial pipeline projects aiming at supplying the EU with Russian gas are under intense scrutiny at the highest levels of European politics. Consequently, construction of these lines faces many obstacles. However, the expected drop in the output of large welded tubes will be compensated for by increasing output in the other tube segments, owing to the favourable outlook for main downstream user segments such as construction, automotive and engineering.

Production in the EU steel tube sector is forecast to grow by 0.7% in 2018 and by 0.5% in 2019.

ELECTRICAL DOMESTIC APPLIANCES INDUSTRY

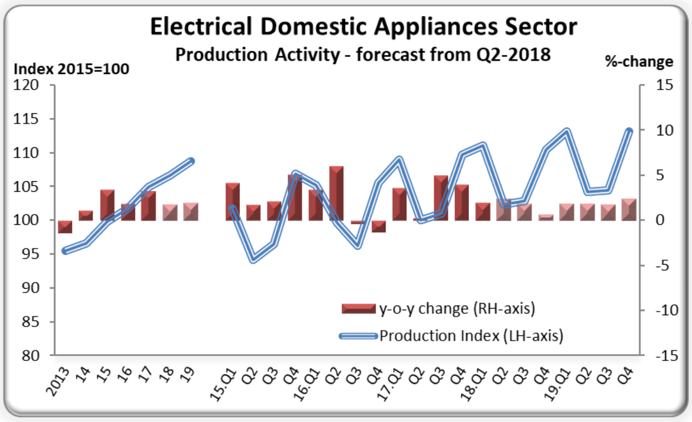
Production activity in the electrical domestic appliances industry grew by 1.3% in the first quarter of 2018.

Electrical domestic appliances output

Output growth in the EU's electrical domestic appliances sector slowed to 1.9% year-on-year in the first quarter of 2018. This compares to a production expansion of 3.2% in 2017. Underlying production activity data show widely diverging trends at the individual country level.

Electrical domestic appliances industry growth in the first quarter of 2018

Total production activity in the electrical domestic appliances sector in the EU grew by 1.9% year-on-year in the first quarter of 2018.



Output in Germany, France, Sweden, Austria, the Czech Republic and Hungary registered growth compared with the same period of 2017. In contrast, production in the UK, Spain, Sweden, Poland and Slovakia contracted in the first quarter of this in comparison with a year ago. Meanwhile, production activity in Italy stabilised at the level seen in the previous year.

The EU market for electrical domestic appliances was driven by robust household spending in the first quarter of 2018. Continued high levels of consumer sentiment, easy credit conditions and an improving labour market situation encouraged consumers to buy both large and small home appliances. Support was also provided by the continued strength of the residential property market. The rising trend in new dwellings being constructed and housing renovation had a positive impact on kitchen and other household equipment. Fairly similar market conditions are expected for the second quarter of 2018; production activity is estimated to have grown by 2.4% year-on-year.

Electrical domestic appliances industry forecast 2018-2019

The outlook for the EU market for electrical domestic appliances market is rather positive. Demand for large and small electric household appliances looks set to remain strong over the forecast period. The anticipated mild slowdown in private consumption growth should be seen in the context of the gradual rise in headline and core inflation forecast for 2018 and 2019 and increasing labour market pressures feeding through with a lag in a moderate rise in wages.

The favourable outlook for new residential building activity, housing renovation and maintenance activity will be supportive to the demand side of the domestic appliances market in 2018 and 2019. Nevertheless, the EU market will remain largely driven by replacement demand. Factors influencing potential buyers' replacement decisions are energy efficiency, connectivity and sustainability and circularity.

However, trade restrictions are causing also concerns in this sector. The US is one of the largest export destinations for EU-manufactured large home appliances and the ranks as number one in EU's top export destinations for small appliances. At the same time, imports account for 35-40% of the total EU domestic market. International competition is at risk of becoming even more fierce during the forecast period.

Production activity in the EU is forecast to rise by 1.7% in 2018 and by 1.9% in 2019.

TOTAL STEEL-USING SECTORS OUTPUT

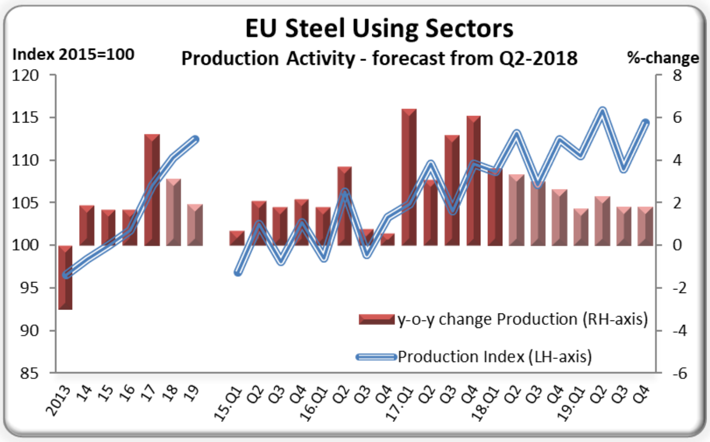
Total production activity in EU steel-using sectors grew by 3.6% year-on-year in the first quarter of 2018.

Year-on-year %-change EU Steel Weighted Industrial Production (SWIP) index

	% share in total Consumption	Year 2017	Q118	Q218	Q318	Q418	Year 2018	Q119	Q219	Q319	Q419	Year 2019
Construction	35	4.9	4.4	2.6	3.4	2.5	3.2	2.7	3.2	2.1	2.4	2.6
Mechanical engineering	14	6.4	5.2	5.4	3.8	3.0	4.3	2.1	2.3	2.1	1.9	2.1
Automotive	18	3.9	2.5	2.8	3.3	1.7	2.5	0.0	1.3	1.3	1.2	0.9
Domestic appliances	3	3.2	1.9	2.4	1.8	0.6	1.7	1.8	1.8	1.7	2.4	1.9
Other Transport	2	3.6	3.0	5.6	3.5	3.0	3.7	2.9	2.5	3.2	3.3	3.0
Tubes	13	7.7	-0.1	-2.2	1.5	3.9	0.7	1.0	1.5	0.1	-0.5	0.5
Metal goods	14	5.2	5.9	6.0	3.0	2.8	4.4	2.5	2.1	2.4	2.4	2.3
Miscellaneous	2	3.2	2.9	4.0	2.8	1.4	2.8	3.2	1.8	1.4	2.4	2.2
TOTAL	100	5.2	3.6	3.3	3.0	2.6	3.1	1.7	2.3	1.8	1.8	1.9

Total steel-using sector growth in the first quarter of 2018

In the first quarter of 2018 all steel-using sectors in the EU except steel tube manufacturing registered an increase in production activity. At the country level, almost all reporting countries reported higher activity levels, with some of them – Sweden, Austria and Poland – registering double-digit growth in total production activity. The main exception was Germany owing to the negative impact of a contraction in tube output.



Total production activity in the steel-using sectors is estimated to have grown by 3.3% in the second quarter of 2018.

Total steel-using sector forecast 2018-2019

The outlook for the production trend in the EU steel-using sectors for 2018 and 2019 is favourable overall. Economic conditions look set to remain supportive to growth; domestic demand will be the key driver of growth over this period. However, the recent rise in protectionism is deepening uncertainty and could result in important growth factors such as business confidence and investment diverging from the base-case scenario.

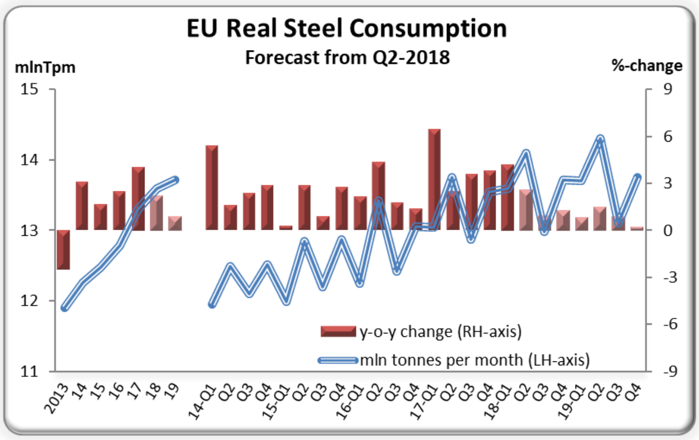
Output in EU's steel-using sectors is forecast to grow by 3.1% in 2018 and by 1.9% in 2019.

REAL STEEL CONSUMPTION

Real steel consumption rose by 4.2% in the first quarter of 2018 to 41 million tonnes. The increase in final steel use was driven by the continued growth of production activity in the main steel using sectors.

Real steel consumption growth in the first quarter of 2018

Spurred by the continued growth of production activity in its downstream customer segments, EU real steel consumption in the EU rose by 4.2% year-on-year in the first quarter of 2018. Since 2014 final steel use in the EU has been recovering from the decline in 2012 and 2013 when EU industry was hit by the Eurozone crisis. The recovery gained strength, supported by robust business conditions in the main steel-using sectors in Europe.



Initial estimates for the second quarter of 2018 signal a positive but more moderate growth rate of real steel consumption at 2.6% year-on-year, reflecting a mild moderation of output growth in the steel-using sectors.

Real steel consumption forecast 2018-2019

Real steel consumption growth is forecast to gradually moderate further as output growth in the construction and manufacturing sectors in the EU settles at more sustainable rates. Only the steel tube sector is forecast to witness a rather brisk slowdown in production activity growth.

EU real steel consumption is forecast to grow by 2.2% in 2018 and by 0.9% in 2019. This will result in real steel consumption reaching 165 million tonnes, the best annual level since 2008. Owing to the positive trend in real steel consumption, the gap with the peak year 2007 has narrowed to 15%.

Forecast for real consumption - % change year-on-year

Period	Year 2017	Q1-18	Q2-18	Q3-18	Q4-18	Year 2018	Q1-19	Q2-19	Q3-19	Q4-19	Year 2019
% change	4.0	4.2	2.6	0.9	1.3	2.2	0.8	1.5	0.9	0.2	0.9

THE EU STEEL MARKET: SUPPLY

The supply-side of the EU steel market analysis factors in the impact of domestic and foreign supply as well as stock effects in the distribution chain and at end-users.

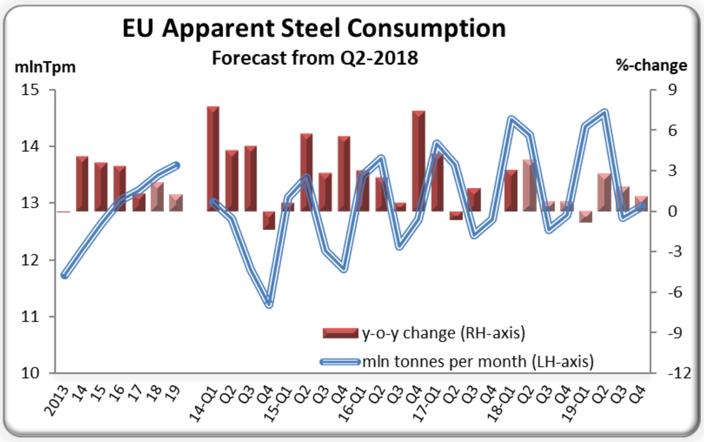
APPARENT STEEL CONSUMPTION

Apparent steel consumption concerns the supply of all steel products delivered to the EU28 market by domestic producers in the EU and third country exporters.

Apparent steel consumption in the first quarter of 2018

EU28 apparent steel consumption rose by 3% year-on-year in the first quarter of 2018. Robust real steel consumption and seasonal restocking in this period explain this growth.

Initial estimates for the second quarter of 2018 show that apparent steel consumption in the EU28 may have grown by 3.8% year-on year.



EU domestic and foreign supply

In the first quarter of 2018 domestic deliveries to the EU market rose by 2.1% year-on-year. Meanwhile third country imports rose by 9.8% compared to the already elevated import level registered in the same period of 2017. As a result, imports reached the highest quarterly level since the third quarter of 2007. This confirms that the volume effects of anti-dumping measures imposed by the European Commission over the course of 2017 have rapidly faded out due to other third country suppliers filling the gap left by the countries which had duties applied on them.

The EU market witnessed its seasonal inventory build in the distribution chain and at the end-user stage, which is common to the first quarter of the year. The extent of the increase in steel stocks was lower than in the same period of 2017, which suggests a rather high stock rotation and robust levels of distribution chain sales.

Preliminary estimates for the second quarter of 2018 show apparent steel consumption rising by 3.8%, largely owing to a continued rise in imports. The latest customs statistics signal a market share of imports of 24% in the second quarter.

Apparent steel consumption forecast 2018-2019

EU steel demand prospects are, in principle, positive. Current expectations for the economic and business climate support the expectation of continued growth of apparent steel consumption over the forecast period. However, international steel trade fundamentals have become highly uncertain and more difficult to predict. The sharp rise in imports of specific steel product from some third countries confirms that steel trade distortions remain a threat, which could be exacerbated by trade deflection resulting from S232 tariffs applied by the Trump administration.

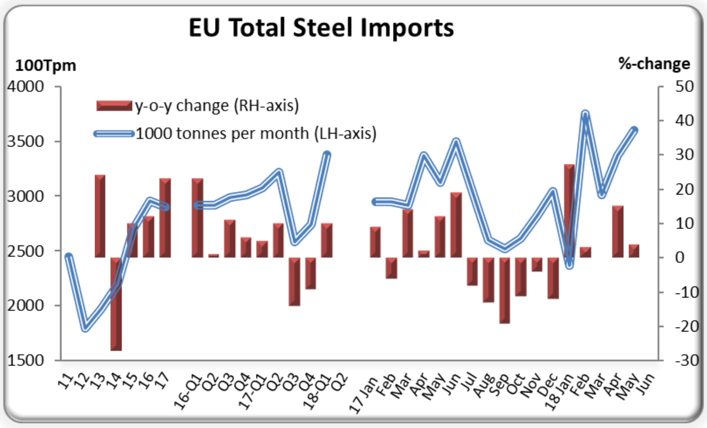
EU apparent steel consumption - in million tonnes per year											
Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018 (f)	2019 (f)
Million tonnes	121	148	158	141	141	146	152	157	159	162	164

Forecast for EU apparent steel consumption - % change year-on-year											
Period	Year 2017	Q1-18	Q2-18	Q3-18	Q4-18	Year 2018	Q1-19	Q2-19	Q3-19	Q4-19	Year 2019
% change	1.3	3.0	3.8	0.7	0.7	2.1	-0.8	2.8	1.8	1.1	1.2

IMPORTS

Total imports – including semi-finished products – grew by 10% year-on-year over the first five months of 2018.

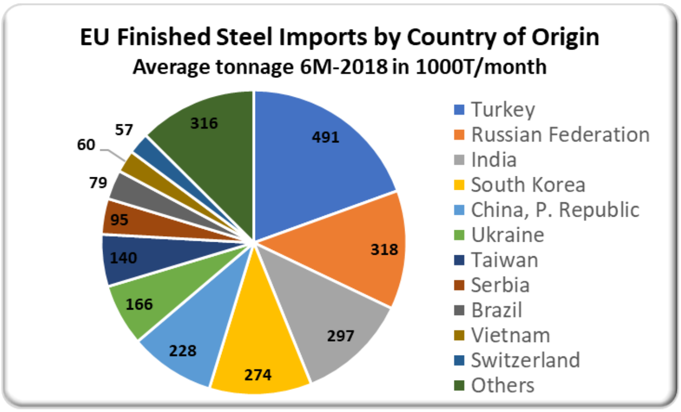
Including SURV2 data for June, finished product imports grew by 7% year-on-year over this period. Underlying data by product show a 1% year-on-year drop in flat product imports and a huge 49% rise in long product imports.



Imports by country of origin

Over the first six months of 2018, the main countries of origin for finished steel imports into the EU market were Turkey, Russia, South Korea and China. These five countries represented 64% of total finished steel import volumes into the EU.

Within this group of countries, Russia stands out from the perspective of relative growth compared to the same period of 2017. Finished product imports from Russia rose by 79% year-on-year over the first six months of 2018, as the result of a 106% rise in flat products and a 42% jump in long product imports. Long product imports from Turkey, China and South Korea also rose sharply over this period, by respectively 101%, 95% and 59% year-on-year.

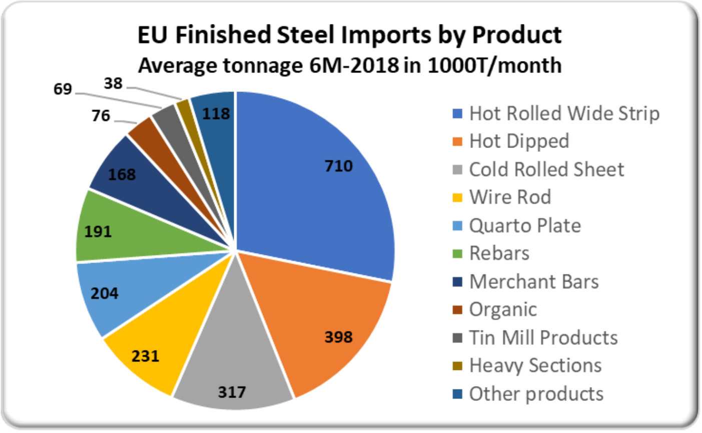


Several other countries with a less established footprint on the EU market stepped up their exports to the EU as well. The volume of steel product from Vietnam rose by a massive 408% year

-on-year over the first six months of 2018. Imports from Iran grew by 101% and from Moldova by 91% year-on-year over this period.

Imports by product category

While total imports of flat products fell by 1% year-on-year over the first six months of 2018, underlying data show sharply diverging trends at the individual product level.

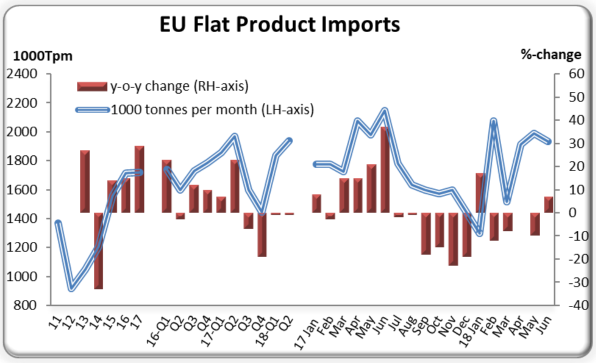


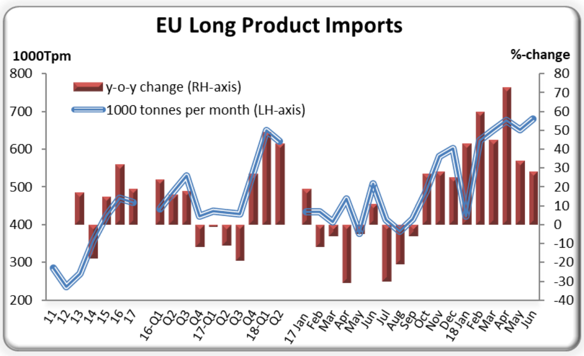
Increases in import volumes were registered for hot-rolled coils (3% year-on-year), cold-rolled sheets (4% year-on-year), organic coated sheets (4%) and tin mill products (41%). Imports of quarto plate and hot-dipped galvanised sheets were respectively 13% and 15% lower than in the same period of 2017.

Hot-rolled coil imports from Russia rose by 245% year-on-year; a rise which can only be explained from the perspective of importers trying to defeat safeguard measures being imposed by the European Commission in response to the S232 tariffs applied by the Trump administration on EU steel imports into the US.

Meanwhile, all long product imports increased over the first six months of 2018.

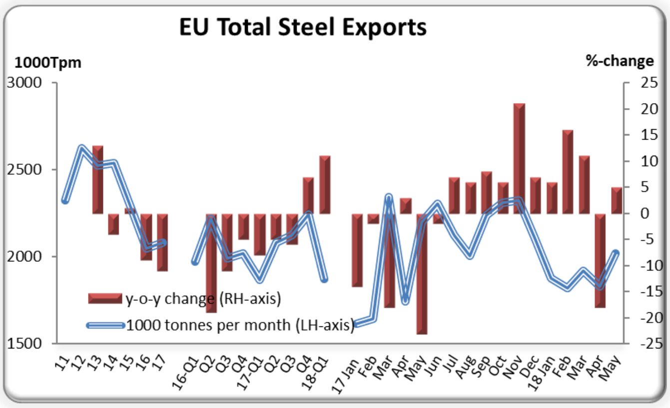
Imports of rebar and heavy sections grew sharply; volumes of both long products rose by respectively 84% and 93% year-on-year. Precautionary inventory build within the context of potential EU safeguards could be seen as one of the drivers behind this rise. The increase in merchant bar and wire rod imports was with respectively 60% and 16% year-on-year less strong but still significant.





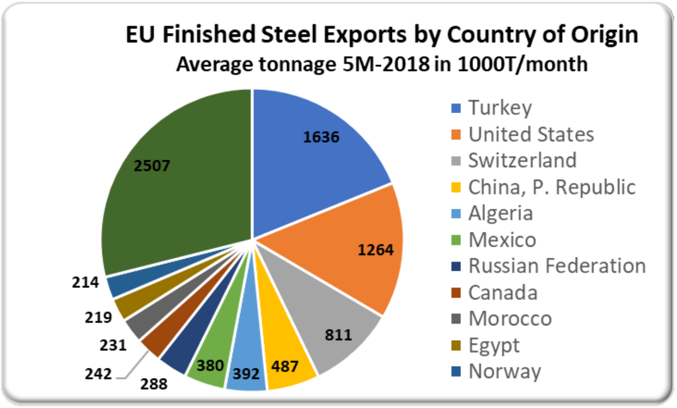
EXPORTS

Total EU exports of steel products to third countries fell by a very modest 1% year-on-year over the first five months of 2018. Exports of semi-finished products fell by 7% compared with the same period of 20107. Total finished product exports fell by 1% year-on-year as a result of a 4% increase in flat product exports and a 9% drop in long product exports.



Exports by country

While the year-to-date EU export volume did not register much of a change compared with 2017, a similar observation can be made with regards to the main destinations. Over the first five months of 2018, Turkey, the United States and Switzerland remained the major export destinations for EU flat and long product exports, followed by China and Algeria.



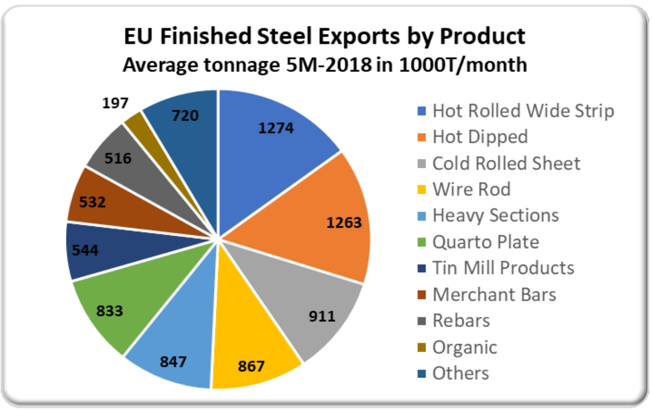
The main export destinations for EU flat exports were Turkey, the United States, Switzerland, China and Mexico. The relative share of these countries in total EU finished product exports over the first five months of 2018 remained basically the same as in 2017, underlining that EU flat product deliveries are characterised by having a stable and loyal group of downstream customers.

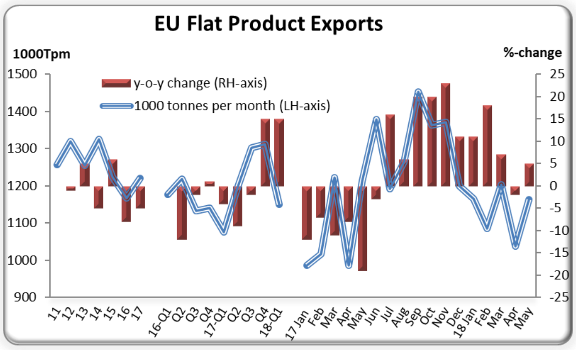
The key destinations for long product exports were Turkey, the United States, Switzerland, Algeria and Israel.

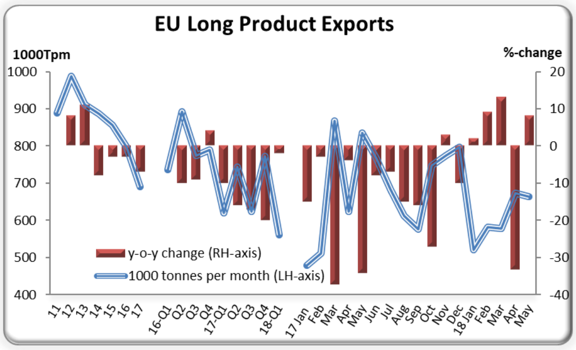
Exports by product category

The share of finished steel product exports remained at 92% of total EU exports over the first five months of 2018 and semis accounted for the remaining 8% of exports.

The share of flat product exports increased marginally from 59% to 60% of total exports whereas long product exports accounted for the remaining 32%.







Trade balance

The increase in imports combined with the slight drop in exports resulted in a marked increase in the EU's net trade deficit over the first five months of 2018. The trade deficit amounted to 7.9 million tonnes over this period, which would represent an annualised level of 19 million tonnes over the whole year 2018. This compares to a trade deficit of 9.9 million tonnes in 2017. The almost doubling of the net trade deficit suggests that speculative buying behaviour in advance of the Section 232 tariffs impositions and the safeguard response from the European Commission have already started to impact steel trade conditions for all steel product groups.

The trade deficit in semis rose from 6.7 million tonnes in 2017 to an annualised 9.3 million tonnes over the first five months of 2018. The net trade deficit in finished products grew from 3.2 million tonnes in 2017 to an annualised level of 9.7 million tonnes over this period.

The deficit for flat products grew by 52% to 9.0 million tonnes over the first five months of 2018, coming from 6 million tonnes in 2017.

For the first time in a long period, the trade balance in long products turned negative, to the annualised amount of 0.64 million tonnes compared with a trade surplus of 2.8 million tonnes in 2017.

Country-wise the strongest trade deficits were recorded for steel trade with Russia, Ukraine, India, South Korea and Turkey.

GLOSSARY OF TERMS

SECTOR DEFINITIONS ACCORDING TO NACE REV.2

Building & Civil Engineering

41 Construction of buildings

42 Civil engineering

43 Specialised construction activities

25.1 Manufacture of metal structures and part of structures

25.2 Manufacture of tanks. generators. radiators. boilers

Mechanical Engineering

28 Manufacture of machinery and equipment

27.1 Manufacture of electric motors. generators. transformers

25.3 Manufacture of steam generators. except central heating hot water boilers

Automotive

29 Manufacture of motor vehicles and trailers

Domestic Appliances

27.51 Manufacture of electric domestic appliances

Other Transport Equipment

30 Manufacture of other transport equipment

30.1 Building and repair of ships

30.2 Manufacture of railway locomotives and rolling stock

30.91 Manufacture of motorcycles

Steel Tubes

24.2 Manufacture of steel tubes

Metal Goods

25 Manufacture of fabricated metal products excluding 25.1-25.2-25.3

Other sectors

26 Manufacture of computer. electronic and optical products

27 Manufacture of electric motors. generators. transformers and electricity distribution and control apparatus excluding 27.1 and 27.5

EU STEEL MARKET DEFINITIONS

SWIP: abbreviation for Steel Weighted Industrial Production index. used as a proxy for real steel consumption. Activity in the steel-using sectors is weighted with the relative share of each sector in total steel consumed by all sectors.

Real steel consumption: consumption of all steel products used by the steel-using sectors in their production processes, also referred to as "final use" of steel products.

Apparent steel consumption: also referred to as "steel demand". It concerns the supply of all steel products delivered to the EU28 market by domestic producers in the EU or third country exporters. If apparent consumption exceeds real steel consumption, the surplus is stocked in the distribution chain. If apparent consumption is less than real steel consumption, inventories are being withdrawn. In formula: total deliveries + imports from third countries – exports to third countries – steel industry receipts

Steel industry receipts: deliveries for further processing from within the steel industry itself – subtracted to avoid double-counting of steel consumption

Narrow definition: EUROFER applies the so-called "narrow definition" which excludes steel tubes and first transformation products from the product scope used for calculating steel consumption. Hence, the steel tube sector is a steel-using sector under this definition

Steel intensity: the ratio of real steel consumption to steel weighted production in the steel-using sectors. This reflects the usually slightly negative impact on consumption of innovation in steel products, inter-material substitution, improvements in process efficiency and design, etc.

ABOUT THE EUROPEAN STEEL ASSOCIATION (EUROFER)

The European Steel Association (EUROFER) AISBL is an international not-for-profit organisation under Belgian law, based in Brussels.

EUROFER was founded in 1976 and represents the entirety of steel production in the European Union. EUROFER members are steel companies and national steel federations throughout the EU. The major steel companies and national steel federations in Switzerland and Turkey are associate members.

EUROFER is recorded in the EU transparency register: 93038071152-83

ABOUT THE EUROPEAN STEEL INDUSTRY

The European steel industry is a world leader in innovation and environmental sustainability. It has a turnover of around €170 billion and directly employs 320,000 highly-skilled people, producing on average 170 million tonnes of steel per year.

More than 500 steel production sites across 22 EU Member States provide direct and indirect employment to millions more European citizens. Closely integrated with Europe's manufacturing and construction industries, steel is the backbone for development, growth and employment in Europe.

Steel is the most versatile industrial material in the world. The thousands of different grades and types of steel developed by the industry make the modern world possible. Steel is 100% recyclable and therefore is a fundamental part of the circular economy. As a basic engineering material, steel is also an essential factor in the development and deployment of innovative, CO2-mitigating technologies, improving resource efficiency and fostering sustainable development in Europe.