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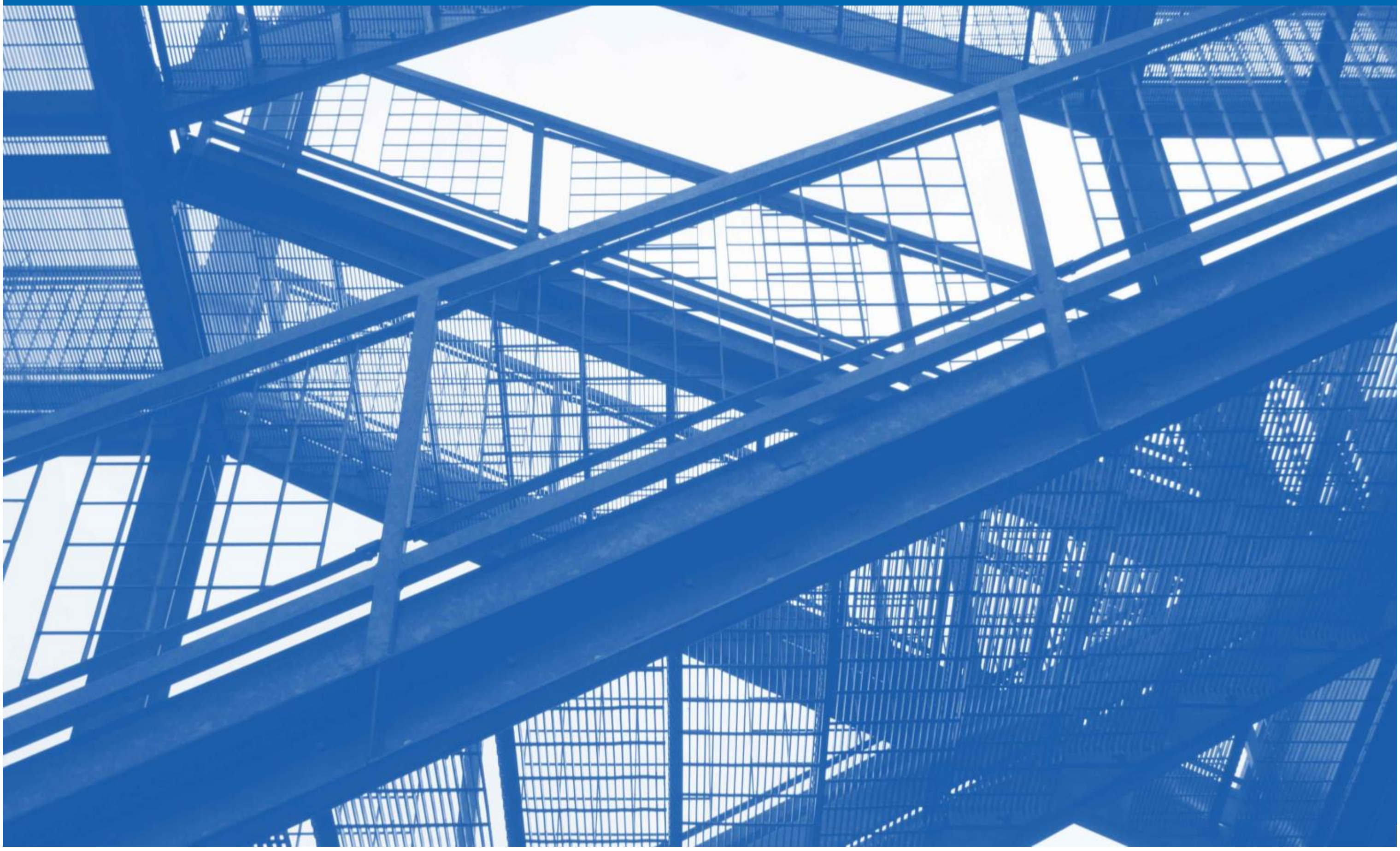

ECONOMIC AND STEEL MARKET OUTLOOK 2018-2019

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ECONOMIC AND STEEL MARKET OUTLOOK 2018-2019

INTRODUCTION

The EU steel market remained on a relatively fast growth track in the second quarter, supported by healthy economic fundamentals and the good operating performance of steel-using sectors. Nonetheless, imports continued to grow much faster than the domestic deliveries of EU mills.

Steel demand growth levelling out in the EU and in other regions over the coming quarters, against the backdrop of persisting excess capacities in the global steel sector and proliferation of steel trade actions worldwide, is reason for concern.

EU steel market overview

EU28 apparent steel consumption grew by 4.4% year-on-year in the second quarter of 2018. Healthy levels of real steel consumption, in combination with stockbuilding in the steel distribution chain in this period, led to this growth.

In the second quarter of 2018 domestic deliveries from EU mills to the EU market rose by 3.7% year-on-year. Third country imports rose by 9.8% compared with the same period of 2017 and surpassed the already extremely high level of imports registered in the first quarter of 2018 by almost 5%. The share of imports in EU apparent consumption rose from 23.2% in the first quarter to almost 25% in the second quarter.

The continued, marked increase in import supply in the second quarter appears to confirm previous concerns about third country exporters pushing extra volumes to the EU market in anticipation of safeguard measures, and a willingness of buyers to take certain speculative risks.

EU steel market fundamentals are expected to remain supportive to a continued but moderate increase in apparent steel consumption. However, ongoing trade frictions with the US, and cooling global demand, suggest that external risks could continue to climb, which in turn would increase uncertainty and lead to weakening prospects for EU steel users.

Moreover, other trade barriers which are being considered by the Trump administration, such as tariffs on EU automotive exports to the US, could lead to a further escalation of the trade dispute and have a damaging impact on steel demand.

Nevertheless, EU apparent steel consumption is forecast to rise by 2.2% in 2018 and by a further 1.1% in 2019

EU steel-using sectors

Business conditions in the second quarter of 2018 were similar to those in the first quarter of the year. All steel-using sectors in the EU except steel tube industry registered a solid increase in production activity.

Prospects for the EU steel-using sectors in 2018 and 2019 are rather favourable. Despite a mild moderation in economic momentum, framework conditions for steel using sectors are expected to remain supportive to continued but somewhat slower growth of production activity. Domestic demand, rather than exports, will be the main engine of growth over this period.

However, the global economic context has become more uncertain due to rising protectionism and the risk of escalating trade tensions. This might have a negative impact on business confidence and investment.

Output in EU's steel-using sectors is forecast to grow by 3.5% in 2018 and by 1.8% in 2019.

EU economic context

GDP data for the second quarter of 2018 showed the continuation of slower but steady economic growth in the EU. While investment rebounded strongly from its weak first quarter performance, there was a negative contribution of net trade, in spite of a recovery in exports.

This suggests that the downside risks for exports have begun to materialise, as a consequence of the current slump in international trade and a delayed impact of the stronger euro. Although confidence indicators weakened slightly further in the third quarter of 2018, economic sentiment continues to run at an elevated level – well above its long-term average, consistent with ongoing and broad-based but more moderate economic growth in the EU.

EU GDP is expected to grow at a lower rate in 2018 and 2019, supported by domestic demand but with net exports weighing down on growth. The greatest risks stem from rising protectionism and a further escalation of trade tensions and currency and stock market volatility in several emerging economies.

EUROFER forecasts EU GDP growth of 2% in 2018 and of 1.8% in 2019.

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EU ECONOMIC OUTLOOK 2018-2019

GDP GROWTH

Final data for the second quarter of 2018 showed the continuation of slower, but nonetheless steady, economic growth in the EU. GDP grew by 0.4% quarter-on-quarter, the same growth rate as registered in the first quarter of 2018.

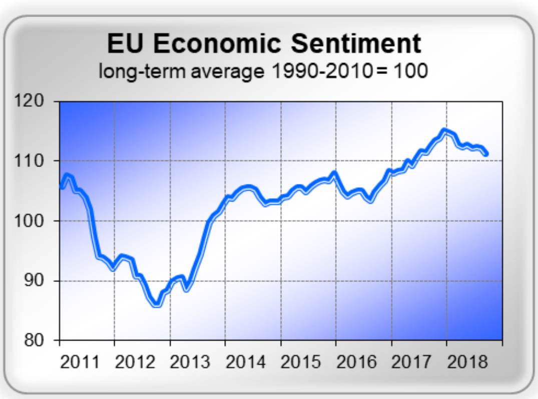
Underlying figures for the main expenditure components reveal that investment rebounded strongly from its weak first quarter performance and that government expenditure also edged up compared with the previous quarter.

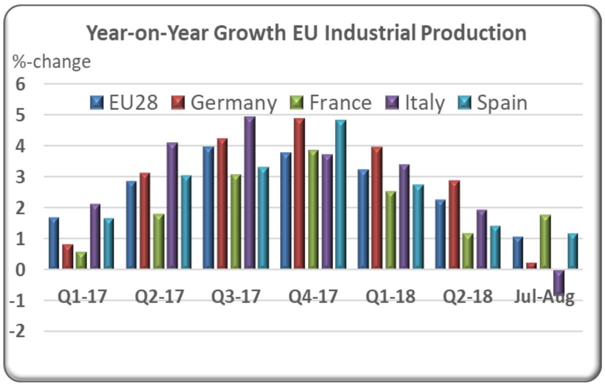
Meanwhile, there was some slowdown in private consumption growth and a negative contribution of net trade, in spite of a recovery in exports. This suggests that the downside risks for exports have begun to materialise, as a consequence of the current slump in international trade and a delayed impact of the stronger euro, putting Euro area exporters under pressure.

On balance, domestic demand was the main driver of economic growth in the EU in the first half of 2018.

France and Italy, and several smaller EU countries, registered a slowdown in GDP growth compared with the first quarter.

CONFIDENCE INDICATORS





Following a sideways move in the second quarter, economic sentiment indicators for the euro area and EU28 weakened further in the third quarter of 2018.

The latest monthly business and consumer survey conducted by the European Commission shows that industry, consumer and financial services confidence edged somewhat lower, whereas services confidence was largely unchanged and retail trade confidence and particularly construction sector sentiment improved.

The mildly downward trend in economic sentiment was primarily the result of a marked deterioration of confidence in the UK and Poland.

A similar pattern could be observed in the IHS Markit Eurozone Composite Output Index. The September reading confirmed that Euro area manufacturing activity recorded its slowest rise in output since May 2016.

In contrast, there was an increase in service sector activity to a three-month high. Underlying data suggest that particularly gains in new export orders have been losing momentum lately, leading to manufacturing companies submitting a weakened assessment of export growth in the near future.

Slowing manufacturing activity in the EU was confirmed by Q2 and July-August industrial production data from Eurostat, with EU output growth falling to around 1% year-on-year.

Although forward looking indicators so far do not offer clear signs of an immediate rebound, economic sentiment continues to run at an elevated level well above its long-term average, consistent with ongoing and broad-based - though more moderate - economic growth in the EU.

ECONOMIC FUNDAMENTALS

With net exports weighing on growth due to slowing global trade and rising protectionism, domestic demand looks set to remain the key driver of economic growth in the second half of 2018 and in 2019.

Consumer fundamentals are looking robust. Retail sales grew by 3.7% year-on-year over the first eight months of 2018, confirming that household expenditure remained on course for solid growth.

Private consumption will be supported by the continuation of favourable labour market trends, resulting in ongoing job gains and declines in unemployment, as well as rising wages. However, these positives will eventually run up against higher inflation.

Business investment has been bolstered by rising capacity utilisation, improving profitability and still easy access to and cost of financing.

The unexpected strength of domestic and export demand in 2017 led to capacity constraints in several industrial sectors in the EU.

Despite slowing export order growth, total order backlogs are high and manufacturers are looking to expand their production capacity. Despite trade-related uncertainty, investment growth grew by 3% year-on-year in the second quarter of 2018.

Economic indicators

Year-on-year change in %

EUROFER Forecast	2016	2017	2018 (f)	2019 (f)
GDP	1.9	2.4	2.0	1.8
Private consumption	2.3	2.0	1.7	1.6
Government consumption	1.7	0.9	1.3	1.3
Investment	1.7	3.7	3.9	3.0
Investment in mach. equip.	2.9	4.0	4.0	2.8
Investment in construction	0.9	4.0	3.5	2.9
Exports	2.9	5.3	3.4	4.2
Imports	3.7	4.7	3.3	4.2
Unemployment rate	9.2	8.2	7.5	7.0
Inflation	0.3	1.7	1.9	1.8
Industrial production	2.0	3.3	2.3	2.0

(f) = forecast

Nevertheless, downside risks for the export sector appear to be materialising. Weakening leading export indicators, trade tensions, rising protectionism and continuing uncertainty about the potential implementation of US tariffs on import cars suggest that for the time being the risk profile will remain skewed to the downside.

Concerns about the strength of the euro diminished further over the past few months. The euro-US dollar exchange rate fell below 1.15 in October, some 7% lower than the first quarter peak. On balance, net trade is expected to make only a rather modest contribution to GDP growth in 2018 and 2019.

GROWTH OUTLOOK FOR 2018-2019

EU GDP is expected to grow at a lower cruising speed in 2018 and 2019, supported by domestic demand, but with net exports weighing down on growth. The greatest risks stem from a global economic context which has become more uncertain due to rising protectionism potentially leading to a further escalation of trade tensions between the US and its trading partners and currency and stock market volatility in several emerging economies.

In the EU, tough Brexit negotiations and Italy's deteriorating fiscal balance pose the main threat to economic growth and stability. The ECB will keep monetary policy conditions accommodative over the forecast period.

EUROFER's fourth quarter 2018 forecast for EU GDP growth is 2% in 2018 and 1.8% in 2019.

THE EU STEEL MARKET: FINAL USE

OUTLOOK FOR STEEL-USING SECTORS

Production activity in the EU steel-using sectors grew robustly in the second quarter of 2018 and outpaced first quarter growth by 0.7 percentage points. For the second half of 2018 and the year 2019 a more moderate growth rate is forecast.

CONSTRUCTION INDUSTRY

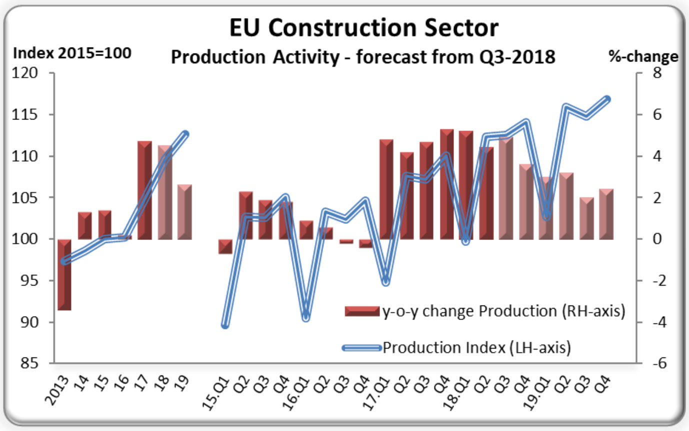
EU construction output growth in the second quarter of 2018 remained robust. Total construction activity in the first half of the year grew by 4.7% year-on-year.

Construction industry output

EU production activity grew by 4.4% year-on-year in the second quarter of 2018, only marginally below the 5.2% growth rate registered in the first quarter. Having risen by 4.7% in 2017, the continuation of a robust rate of expansion in the first half of 2018 suggests that the cyclical rebound of the construction sector in the EU is well established. Demand for construction that had been postponed during the recession of 2008-2009 and 2012-2013 is steadily being unleashed, supported by much improved economic fundamentals.

Construction industry growth in the second quarter of 2018

In the second quarter of 2018, construction output increased in almost all EU countries. Only in France and Sweden year-on-year growth was slightly negative, reflecting a base-year effect rather than an overall negative tendency in construction activity.



Construction activity growth was particularly vigorous in Spain, the Netherlands, Austria and the Central-European region. Construction activity in the UK was sluggish in the second quarter due to uncertainty related to the outcome of Brexit negotiations leading to delayed or postponed construction investment decisions.

In Western Europe, demand for new housing and residential renovation and modernisation remained the growth engine of construction activity. In several countries the availability of new and existing homes on the property market is rather tight, also because of migration flows of recent years leading to additional demand for social housing.

Supply of new housing is restrained by capacity issues in the construction sector and significant delays in the authorities granting building permits. Private non-residential construction demand is boosted by markedly improved business conditions in industry and services, whereas government non-residential investment is being expanded in those countries which had a healthy GDP recovery in recent years.

In the Central European region, the major driver of construction sector growth remains civil engineering demand. Particularly in Poland, by far the largest construction market in the region, activity continued to increase at a two-digit growth rate in the first two quarters of 2018. Key drivers are the EU co-funded investment cycle picking up since late 2017 and the economy enjoying a multiyear economic boom, fuelled by low interest rates, surging private consumption and business investment.

EU construction activity is estimated to have expanded by 4.9% year-on-year in the third quarter of 2018, supported by the continuation of positive construction market fundamentals.

Construction industry forecast 2018-2019

Construction activity growth is forecast to remain healthy in the fourth quarter of 2018 and in 2019, owing to strong order books for residential, non-residential and civil engineering construction. Output growth is expected to moderate to a more sustainable rate during 2019 as the pent-up demand boost dating from the recent crisis periods in the EU starts to lose momentum. Some countries that have gone through major downturns in the recent past such as Spain have significant scope for a prolonged period of catch-up growth.

Improving disposable incomes, elevated consumer confidence levels and still low cost of finance will drive residential housing demand. High levels of capacity utilisation and improving profits in the corporate sector will continue to support investment in new commercial and industrial construction projects.

Public construction investment - which at the individual country level had seen a slow and uneven recovery since 2009 – is expected to become more broad-based and occur in both economic infrastructure such as transport, utilities and telecommunications and social infrastructure such as education, health and community services. This will most likely lead to a mildly diminishing role of new housing construction as the engine of growth and the focus of growth shifting to infrastructure construction.

Total EU output is forecast to rise by 4.5% in 2018 and by 2.6% in 2019.

AUTOMOTIVE INDUSTRY

EU automotive sector activity continued to expand in the second quarter of 2018. Stronger than expected demand growth led to an acceleration of production growth in the EU.

EU passenger car and commercial vehicle demand

Demand for passenger cars in the EU grew by 2.5% year-on-year over the first nine months of 2018.

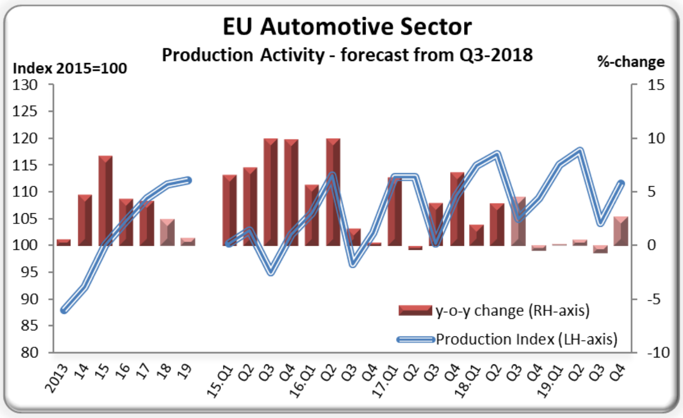
Having grown at a rather moderate rate up to June, sales in July and August rose very strongly. This growth spurt can be explained by the introduction of the new WLTP (Worldwide Harmonised Light Vehicle Test Procedure) that applies to all new car registrations since September 2018.

Some OEMs offered pre-WLTP models at very attractive prices, which led to exceptionally strong rise in sales. The correction occurred in September, with sales falling by 24% year-on-year. Over the first nine months of 2018 almost all EU markets registered a rise in demand, but sales contracted in the UK, Ireland and Italy.

Commercial vehicle sales grew by 4.8% year-on year over the first eight months of 2018. All segments showed a satisfactory performance over this period. The only major market which registered a drop in demand was the UK.

Vehicle exports registered a mild decline in value in the first half of 2018, largely as a result of lower sales in the US and Turkey.

Automotive sector growth in the second quarter of 2018



Production activity in the EU automotive industry grew by 3.9% year-on-year in the second quarter of 2018 compared with 1.9% in the first quarter. Average growth over the first half of the year is therefore similar to the growth seen in the same period of 2017.

German production weakened because of a declining share of diesel-powered cars in the vehicle mix; this impacted in particular output at VW and BMW. In Belgium model changes at Audi also resulted in a lower output. Production activity in the third quarter of 2018 is estimated to have risen by 4.5% year-on-year.

Automotive industry forecast 2018-2019

As expected, growth of EU passenger car sales in 2018 settled back at a moderate growth rate after the temporary boost from pre-WLTP vehicle sales had petered out; 2019 sales are also expected to register only moderate growth.

The EU market is close to saturation in terms of vehicle density and population growth is slowing, albeit with regional divergences. Moreover, car owners that are considering replacing their vehicle are currently faced with an increasingly difficult choice for the preferable powertrain technology of the new vehicle.

Uncertainty related to changing legislation with regards to the access by most polluting vehicles into urban areas may lead to car buyers postponing replacement decisions. In addition, the choice of alternative powertrain is not clear cut and is not as extensive; the purchase costs of electrically-rechargeable vehicles remain relatively high, and their practical use is still limited by the inadequacies of the charging point network.

Growth in EU commercial vehicle sales is also expected to lose momentum in the remainder of 2018 and in 2019. Nevertheless, the expected mild growth of the domestic markets will remain the key growth driver of EU vehicle production.

Exports will contribute as well, but the longer-term outlook for demand for EU manufactured vehicles is increasingly becoming more obscure. Localised production in emerging markets is overtaking imports from Europe.

Meanwhile, trade risks for the EU automotive sector are rising, with potentially Germany, Italy and the UK hardest hit from any automotive tariffs imposed by the Trump administration because of their exposure to the US market. For UK manufacturers, the prospect of higher trade tariffs in the EU due to Brexit would also be a negative development. It could lead to the production of new models being transferred out of the country.

The outlook for EU automotive output is, overall, rather solid. However, production growth is expected to shift down a gear. Total output in value terms – including parts and components – is expected to grow by 2.4% in 2018, falling to 0.7% in 2019.

MECHANICAL ENGINEERING

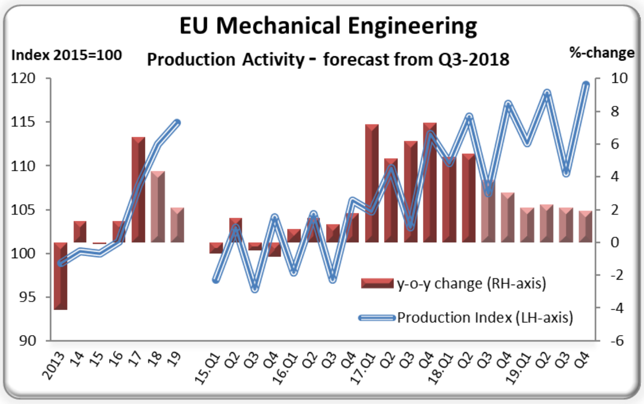
The mechanical engineering sector was supported by extremely positive market fundamentals in the second quarter of 2018. Production rose by almost 7% compared with the same period of 2017.

Mechanical engineering output

Output in the EU mechanical engineering industry grew by 6.7% year-on-year in the second quarter of 2018, slightly higher than quarterly growth in the first quarter of this year. Output growth was positive in all reporting countries except Hungary.

Average growth over the first half of 2018 remained well aligned with the output growth rate seen in 2017. Despite some signs of slowing international trade, order intakes from the internal EU market, as well from the key export markets, remained robust adding a further load to already well-filled order books.

Mechanical engineering growth in the second quarter of 2018



Business conditions in the main client sectors of the mechanical engineering industry in the EU remained supportive to demand for machinery and equipment. The healthy profit situation and relatively high capacity utilisation rates in the main downstream customer segments in combination with easy access to, and low cost of, finance provided solid demand fundamentals.

Global demand trends remained positive as well, despite signs of slowing demand growth in some key emerging markets, such as China. This was compensated by strong investment gains in the US, owing to lower corporate taxes and a stronger focus of the authorities on pro-business support policies.

Production activity in the third quarter of 2018 is estimated to have grown by 4.9% year-on-year.

Mechanical engineering forecast 2018-2019

The mechanical engineering sector in the EU is expected to post a solid performance in 2018 and 2019. EU investment in machinery and equipment is expected to grow again by 4% in 2018, the same growth rate as registered in 2017. Global demand trends also look set to remain supportive to healthy business conditions in the key markets outside the EU. The weakened euro - currently some 7% down from its peak in the first quarter of 2018 - will contribute to the competitiveness of euro area exporters. This implies that in combination with existing order backlogs, production will remain on a high level. Capacity limitations will lead to production activity slowing from 5% in 2018 to around 2% in 2019.

Uncertainty related to the rising threat of protectionism and trade tensions eventually leading to trade wars hitting global growth would seriously impact international trade and investment decisions.

Investment being delayed or postponed would weigh heavily on the performance of the EU mechanical engineering sector because of its significant exposure to exports to third countries.

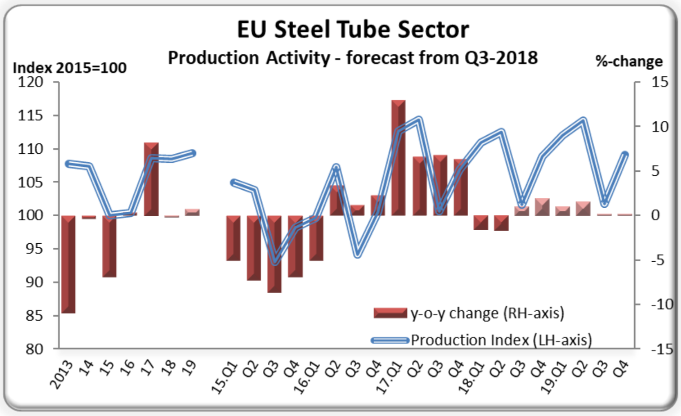
STEEL TUBE INDUSTRY

In the second quarter of 2018, production activity in the steel tube industry remained subdued as the temporary demand boost from large pipeline projects – which had supported the order book of EU manufacturers in 2017 – has been drying up.

Steel tube industry output

In the second quarter of 2018, output in the steel tube industry fell by 1.7% year-on-year. Revised figures for production in the first quarter of 2018 show a similar year-on-year contraction in output. In particular production activity in Germany registered a sharp drop, while output in Poland and France also fell compared with the same period of 2017.

Steel tube industry growth the second quarter of 2018



As expected, the EU steel tube sector registered a contraction in production activity in the first half of 2018, as order books for large welded tubes have been steadily shrinking. Due to the absence of a significant new demand boost for EU producers from the international pipeline markets, the performance of the EU steel tube sector now depends more strongly on demand for small and medium-sized welded tubes and seamless tubes. Due to its focus on the manufacture of large welded tubes for pipeline purposes, production activity in Germany registered a significant decline in the first half of 2018. The situation in the other EU countries was more favourable owing to the relatively strong performance of the main downstream client sectors of smaller diameter welded and seamless steel tubes, such as automotive, metal goods, mechanical engineering and construction. Improving global drilling activity was supportive to demand for Oil Country Tubular Goods (OCTG).

Total EU steel tube output is estimated to have risen by 1% year-on-year in the third quarter of 2018.

Steel tube industry forecast 2018-2019

In 2018, steel tube production activity in the EU is forecast to stagnate around the level seen in the previous and register only very moderate growth in 2019. While the outlook for smaller sized welded and seamless tubes from the main downstream user segments is rather favourable, prospects for large welded tubes are uncertain.

Apart from some smaller pipeline projects such as the Poland-Slovakia gas pipeline, demand from other major projects is expected to remain subdued.

In the EU, the Nord Stream 2 gas pipeline with Russia is leading to political tensions as the European Commission argues that the project undermines its push for greater energy independence. Moreover, the US is demanding the EU end the project and is threatening to impose sanctions to reach that goal. This reduces the likelihood of EU companies benefitting from new future project activity.

Meanwhile, import pressure on steel tube markets in the EU remains high with clear evidence of unfair competition practices by several third country suppliers. This is reflected by the recent decision of the European Commission to impose anti-dumping duties on imports of seamless pipes and tubes from Russia and Ukraine.

The European Commission also initiated an anti-dumping proceeding concerning imports of welded tubes, pipes and hollow sections from the former Yugoslav Republic of Macedonia, Russia and Turkey.

ELECTRICAL DOMESTIC APPLIANCES INDUSTRY

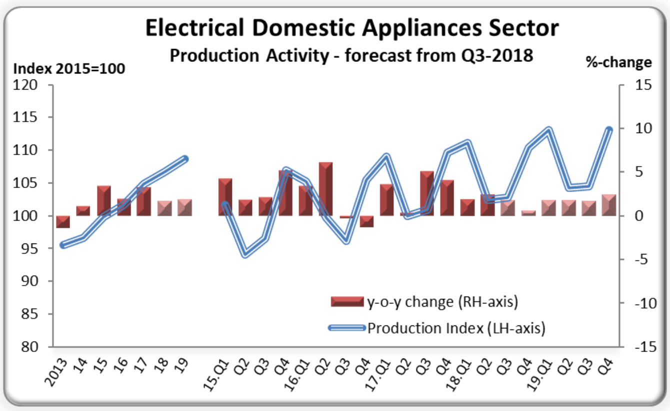
Production activity in the electrical domestic appliances industry grew by 2.4% in the second quarter of 2018.

Electrical domestic appliances output

Production activity in the EU's electrical domestic appliances sector grew by 2.4% year-on-year in the second quarter of 2018, a fairly similar growth rate to that registered in the first quarter. Underlying production data confirm the continuation of widely diverging trends at the individual country level.

Electrical domestic appliances industry growth in the second quarter of 2018

While output in Germany, France, Italy, Austria, the Czech Republic and Hungary registered growth compared with the same period of 2017, production in the UK, the Netherlands, Spain, Poland and Slovakia contracted in the second quarter of 2018 in comparison with the same period of 2017. Meanwhile, production activity in Belgium and Sweden stagnated at the level seen in the previous year.



Demand for electrical domestic

appliances was supported by the strength of consumer spending, reflecting still elevated levels of consumer confidence, the low cost of consumer credit and moderately rising wages. The ongoing strength of the residential property market continues to be another important factor stimulating demand for household appliances. First estimates for production activity in the third quarter of 2018 signal around 1% growth year-on-year.

Electrical domestic appliances industry forecast 2018-2019

Prospects for the EU market for electrical domestic appliances market remain moderately positive. Economic fundamentals are forecast to remain supportive to demand for electric household appliances.

Private consumption in 2018 and 2019 is expected to slow only mildly compared with the 2% growth rate registered in 2017; this is basically the result of inflation edging higher and a delayed response in wages.

The EU is the world's second largest household appliances market and is primarily driven by replacement demand. Nevertheless, the current health of the property markets and strengthened demand for new and existing dwellings implies that first-time buyers are also entering this market.

Key factors leading to purchase decisions are energy efficiency, styling and user-friendliness, followed by environmental aspects such as sustainability and circularity. While connectivity is being fostered by producers, with the application of open systems enabling the integration of appliances from different brands, cybersecurity is acknowledged by the European Commission as becoming an important issue. Plans are under development to introduce levels of security assurance and to adopt the European Certification System accordingly.

Protectionism and trade restrictions could have an impact on business conditions in this sector. The US is an important outlet for EU-manufactured household appliances.

Production activity in the EU is forecast to rise by 1.2% in 2018 and by 1.9% in 2019.

TOTAL STEEL-USING SECTORS OUTPUT

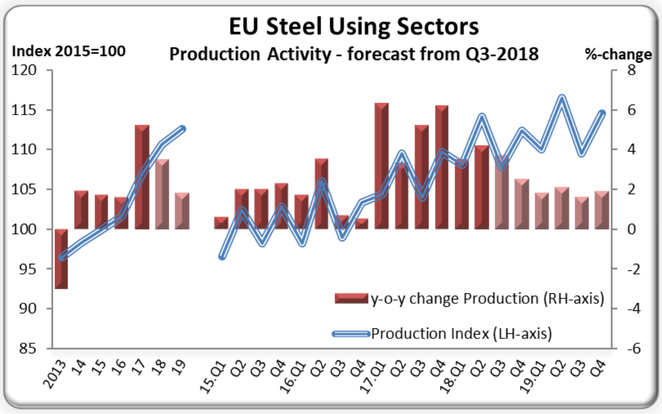
Total production activity in EU steel-using sectors grew by 4.2% year-on-year in the second quarter of 2018.

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	4.7	5.2	4.4	4.9	3.6	4.5	3.0	3.2	2.0	2.4	2.6
Mechanical engineering	14	6.4	5.6	6.7	4.9	2.9	5.0	2.5	2.1	1.8	2.4	2.2
Automotive	18	4.1	1.9	3.9	4.5	-0.5	2.4	0.1	0.5	-0.7	2.7	0.7
Domestic appliances	3	3.9	1.9	2.4	1.1	-0.6	1.2	0.9	2.0	2.1	2.8	1.9
Other Transport	2	3.7	2.4	9.1	7.7	5.2	6.0	2.8	-1.0	1.7	2.2	1.5
Tubes	13	8.2	-1.6	-1.7	1.0	1.9	-0.2	1.0	1.5	0.2	0.2	0.7
Metal goods	14	5.5	5.3	5.0	2.7	2.0	3.8	1.5	1.9	1.7	1.5	1.7
Miscellaneous	2	3.4	2.5	3.2	2.2	2.1	2.5	2.2	1.8	2.4	1.4	1.9
TOTAL	100	5.2	3.5	4.2	3.7	2.5	3.5	1.8	2.1	1.6	1.9	1.8

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

Business conditions in the second quarter of 2018 were somewhat similar to those in the first quarter of the year. All steel-using sectors in the EU except steel tube industry registered an increase in production activity.



All reporting countries registered year-on-year growth in total production activity. In Germany and Belgium, the rise in output of the steel using sectors was quite modest, in contrast with countries such as Austria, Poland and Hungary where double-digit growth in total production activity was recorded.

Total output is estimated to have grown by 3.7% in the third quarter of 2018.

Total steel-using sector forecast 2018-2019

Prospects for the EU steel-using sectors in 2018 and 2019 are rather favourable. Despite a mild moderation in economic momentum, framework conditions for steel using sectors are expected to remain supportive to continued, though somewhat slower, growth in production activity. Domestic demand, rather than exports, will be the main engine of growth over this period.

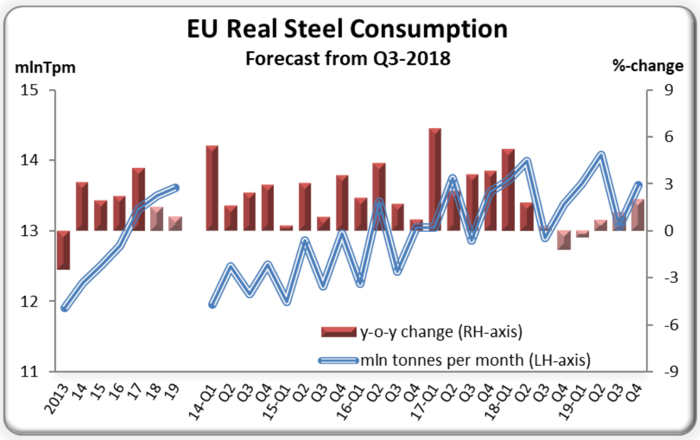
However, the global economic context has become more uncertain due to rising protectionism and the risk of escalating trade tensions. This might have a negative impact on business confidence and investment. Output in the EU's steel-using sectors is forecast to grow by 3.5% in 2018 and by 1.8% in 2019.

REAL STEEL CONSUMPTION

Real steel consumption rose by 1.8% year-on-year in the second quarter of 2018 to 42 million tonnes, in tandem with the decent operating performance of the main steel using sectors.

Real steel consumption growth in the second quarter of 2018

Supported by healthy business conditions in the steel using sectors in the EU, real steel consumption rose by 1.8% year-on-year in the second quarter of 2018.



This was the 18th consecutive quarter of year-on-year real steel consumption growth in the EU. Since 2014, final steel consumption in the EU gained some 20 million tonnes on an annual basis.

Estimates for the third quarter of 2018 signal a reduction in year-on-year real steel consumption growth, on a par with the usual seasonal slowdown in production activity of the key downstream steel using sectors over the summer period.

Real steel consumption forecast 2018-2019

Real steel consumption growth is expected to lose momentum in the second half of 2018 and in 2019 and slow down to a more sustainable rate of expansion after a period of more vigorous growth in 2017 and the first half of 2018. The sharp downward correction in output of the steel tube sector in 2018 is one of the determining factors of this slowing tendency.

EU real steel consumption is forecast to grow by 1.5% in 2018 and by 0.9% in 2019. This will result in real steel consumption reaching 162 million tonnes in 2018 and 163 million tonnes in 2019, adding two years of consumption growth to a period of uninterrupted growth since 2013.

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	5.2	1.8	0.3	-1.2	1.5	-0.4	0.7	1.2	2.0	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.

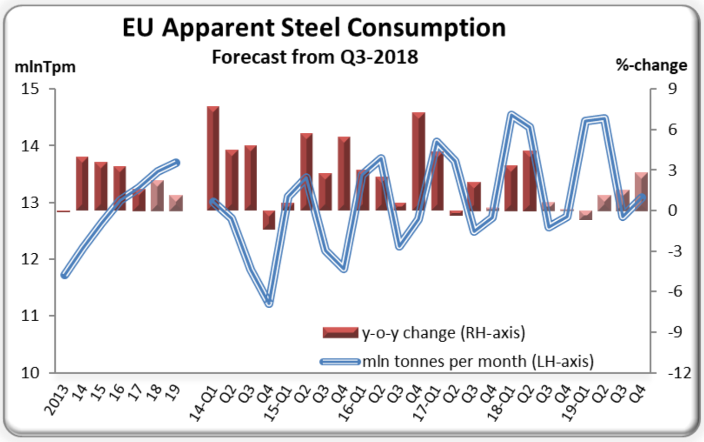
APPARENT STEEL CONSUMPTION

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 second quarter of 2018

EU28 apparent steel consumption grew by 4.4% year-on-year in the second quarter of 2018. Healthy levels of real steel consumption in combination with stockbuilding in the steel distribution chain in this period led to this growth.

Initial estimates for the third quarter of 2018 signal the usual moderation in apparent steel consumption over the summer period and the start of the usual seasonal destocking in the second half of the year.



EU domestic and foreign supply

In the second quarter of 2018 domestic deliveries from EU mills to the EU market rose by 3.7% year-on-year. Third country imports rose by 9.8% compared with the same period of 2017 and surpassed the already extremely high level of imports registered in the first quarter of 2018 by almost 5%. The share of imports in EU apparent consumption rose from 23.2% in the first quarter to just under 25% in the second quarter.

The continued sharp increase in import supply in the second quarter appears to confirm previous concerns about the risk of third country exporters pushing extra volumes to the EU market in anticipation of safeguard measures that were expected to be announced by the European Commission, and the willingness of buyers to take certain speculative risks.

Preliminary estimates for the third quarter of 2018 show apparent steel consumption rising by a modest 0.6% year-on-year. With customs data suggesting a further increase in import pressure due to a 10% year-on-year rise in imports this would imply that EU domestic deliveries at best stabilised around level seen in the previous year.

Apparent steel consumption forecast 2018-2019

EU steel market fundamentals are expected to remain supportive to a continued, though moderate, further increase in apparent steel consumption. Nonetheless, ongoing trade frictions with the US and cooling global demand suggest that external risks could continue to climb, which in turn would increase uncertainty and lead to weakening prospects for EU steel users. Moreover, other trade barriers which are being considered by the Trump administration, such as tariffs on EU automotive exports to the US, could have a damaging impact on steel demand and lead to a further escalation of the trade dispute.

EU apparent steel consumption is forecast to rise by 2.2% in 2018 and by a further 1.1% in 2019.

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	163	164

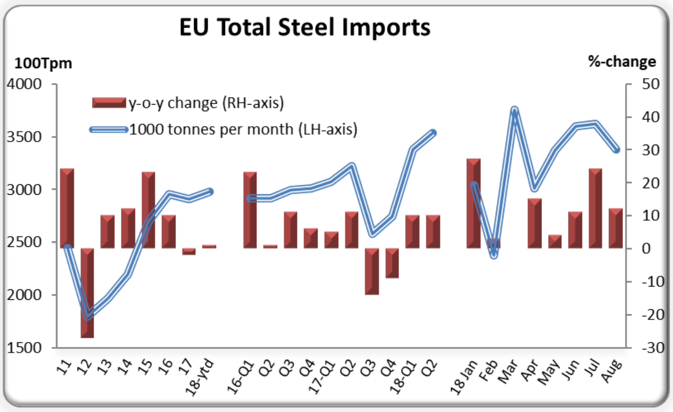
Forecast for EU apparent steel consumption - % change year-on-year											
Period	**Year 2017**	**Q1-18**	**Q2-18**	**Q3-18**	**Q4-18**	**Year 2018**	**Q1-19**	**Q2-19**	**Q3-19**	**Q4-19**	**Year 2019**
% change	**1.6**	**3.3**	**4.4**	**0.6**	**0.1**	**2.2**	**-0.7**	**1.1**	**1.5**	**2.8**	**1.1**

IMPORTS

Total imports – including semi-finished products – rose by 1% year-on-year over the first eight months of 2018.

Including SURV2 data for September, finished product imports grew by 10% year-on-year over this period as a result of a 40% year-on-year increase in long products imports and a 2% rise of flat product imports.

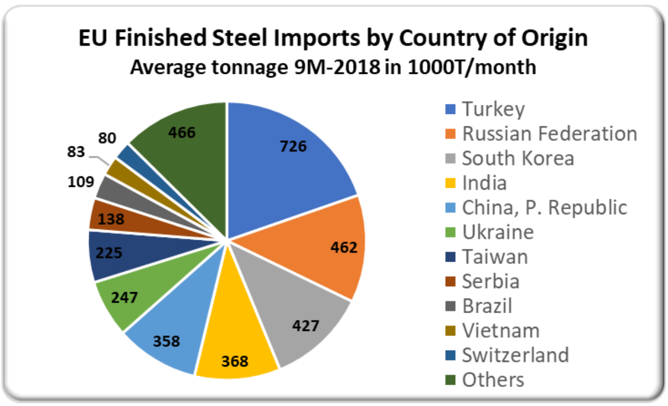
Monthly fluctuations have been significant so far this year with particularly high volumes in the second quarter and a moderation in August and September.



Imports by country of origin

Over the first nine 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 imports into the EU.

Imports from Turkey and Russia remained on a strongly rising trend over this period.



Imports from Turkey grew by 57% year-on-year, owing to a 40% increase in flat product imports and a 100% rise in long product imports.

Imports from Russia rose by 56% year-on-year, as the result of a 65% rise in flat products and a 40% jump in long product imports.

Meanwhile, imports from China and South Korea increased as well compared with the same period of 2017, but clearly less vigorously than those of Turkey and Russia.

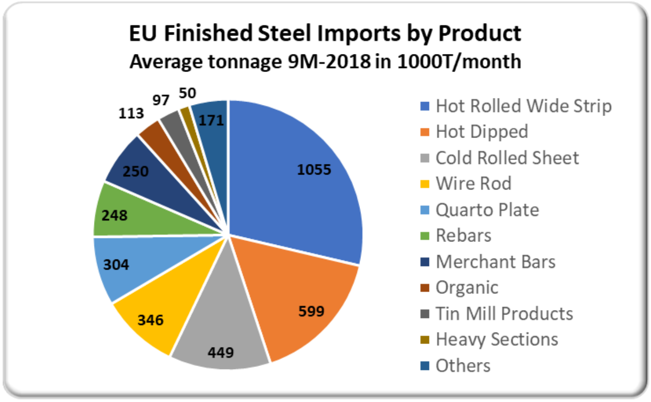
Imports from China rose by 10% year-on-year over the first nine months of 2018, owing to a 2% increase in flat products imports and a 40% rise in long product imports.

Imports from South Korea were 11% up compared with the same period of 2017, due to a 9% rise in flat product imports and a 63% increase in long product imports.

Other countries of origin for imports into the EU that showed a marked increase in actual volumes were Vietnam, with a growth of 138% year-on-year over the first nine months of 2018, Japan with a 55% rise, and Taiwan with a 46% increase.

Imports by product category

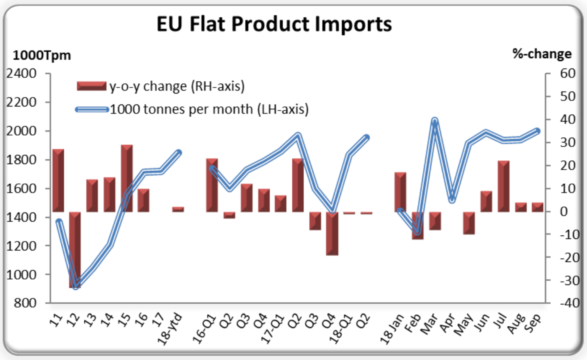
Total imports of flat products grew by 2% year-on-year over the first nine months of 2018; import volumes edged somewhat lower in recent months compared with higher levels in the first and second quarter. Underlying trends at the individual product level became gradually more aligned.

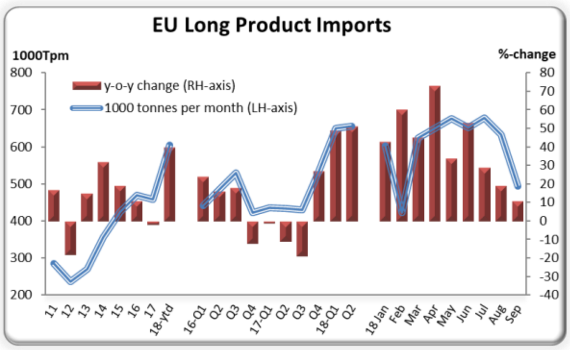


Tin mill product imports registered the strongest rise (27% year-on-year) over the first nine months of 2018, whereas imports of coated sheet and quarto plate were 5% respectively 7% lower than in the same period of 2017.

In contrast to the only slight rise in flat product imports, long product imports increased sharply over the first nine months of 2018.

Imports of heavy sections registered the strongest rise and were 80% higher than in the same period of 2017. Imports of rebar grew by 59% year-on-year and imports of merchant bar by 49% year-on-year. The increase in wire rod imports was with 21% year-on-year less strong but still significant.

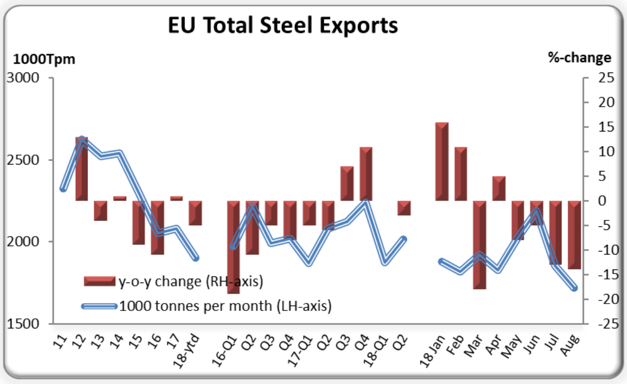




EXPORTS

Total EU exports of steel products to third countries fell by 5% year-on-year over the first eight months of 2018. While exports of semi-finished products fell by 3% year-on-year, total finished products fell by 3% year-on-year, total finished product exports fell by 5% year-on-year owing to a 3% drop in flat product exports and an 8% decline in long product exports.

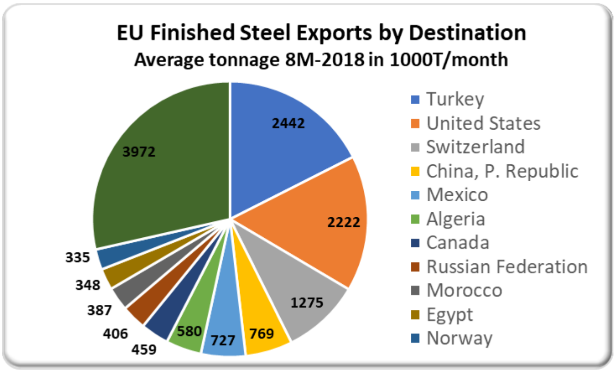
Finished product exports weakened significantly in July and August.



Exports by country

Over the first eight months of 2018, Turkey, the United States and Switzerland remained the major export destinations for EU finished product exports, followed by China and Algeria.

The main export destinations for EU flat exports were Turkey, the United States, and Switzerland, followed by China and Mexico. These five countries accounted for 59% of total EU flat product exports over the first eight months of 2018.

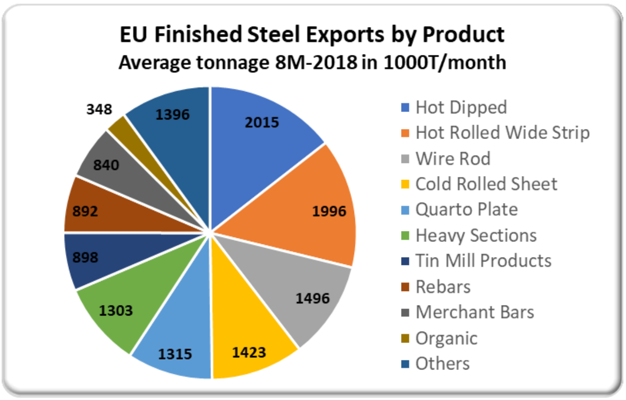


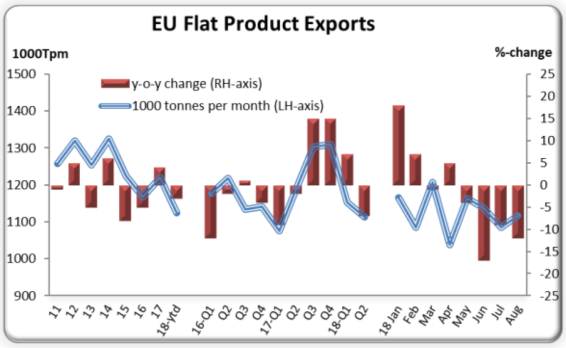
The key destinations for long product exports were Turkey, the United States, Switzerland, Algeria and Canada. This group of five countries represented 56% of total long product exports.

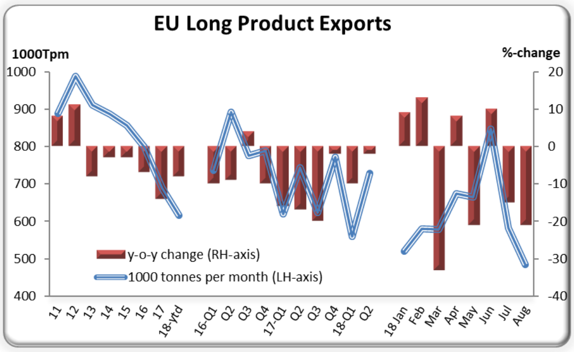
Exports by product category

Flat and long finished steel product exports accounted for 91% of total EU exports over the first eight months of 2018 while semis accounted for the remaining 9% of exports.

Flat product exports accounted for 57% of total exports whereas long product exports accounted for the remaining 34%.







Trade balance

As a result of the continued increase in imports and further drop in exports, the EU's net trade deficit worsened significantly over the first eight months of 2018.

The trade deficit amounted to 1.4 million tonnes per month over this period, compared with on average 0.8 million tonnes per month in 2017.

If continued over the whole year 2018 this would result in an annualised level of 17.3 million tonnes, compared to a trade deficit of 9.9 million tonnes in 2017.

This negative trend in EU trade conditions stokes concerns about the adverse impact of the implementation of Section 232 tariffs by the US government, due to the direct effect on EU exports to the US and indirect effects through trade diversion from the US to the EU market.

The trade deficit in semis rose from 0.56 million tonnes per month in 2017 to 0.69 million tonnes per month over the first eight months of 2018. The net trade deficit in finished products grew from 0.27 million tonnes per month in 2017 to 0.75 million tonnes per month over this period.

The deficit for flat products rose to 0.75 million tonnes per month over the first eight months of 2018, coming from 0.5 million tonnes per month in 2017.

The trade surplus in long products was effectively zero, compared with a trade surplus of 0.23 million tonnes per month in 2017.

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