ECONOMIC REPORT

Economic and steel market outlook 2020-2021

Fourth quarter report
Data up to, and including, second quarter 2020

28 October 2020

EUROFER
THE EUROPEAN STEEL ASSOCIATION

Introduction

The COVID-19 pandemic has slashed steel consumption forecasts as well as the overall economic outlook across the EU and the world. Shutdown measures implemented by governments starting from March 2020 have significantly impacted manufacturing activity and steel-using industrial sectors, although these measures have been completely removed from lockdown – or at least had restrictions upon them broadly eased – around early June so as to allow economic and industrial activity to restart.

This affected the automotive sector in particular, but it and other industries had already been experiencing subdued developments in the second half of 2019 due to the downslide of the manufacturing sector in the EU, escalating trade wars between the US and several of its main trading partners and persistent uncertainty regarding Brexit. All of these factors combined led to continued further deterioration in business sentiment and curbed investment growth throughout 2019, even before the onset of the pandemic.

Actual data for apparent consumption reported here refers to the second quarter of 2020, which reflect the most severe impact of the pandemic on the industry and the economy. The latest economic prospects and steel consumption outlook reflect the dramatic deterioration due to the expected consequences of the pandemic as well as the ongoing uncertainty as to when the Covid-19 pandemic and its impact will pass.

Industrial activity has restarted over the third quarter and is very likely to lead to a considerable rebound in GDP as well in industrial production, compared to record lows observed in the second quarter. The outlook for this year and for 2021, however, remains hugely affected by the Covid-19 related disruption and is likely to be revised again later in the year in EUROFER's later quarterly outlooks. The unprecedented nature of this crisis means uncertainty and volatility surrounding possible developments in the coming months is still high.

Despite contagion increasing across Member States in recent weeks deteriorating the economic outlook for the fourth quarter of 2020, the somewhat stabilised situation in relation to the pandemic has made it possible for EUROFER to publish – like in the previous Quarterly Economic and Market Outlook Report - figures quantifying forecasts for 2020 and 2021.

Apparent steel consumption in the EU fell (-25.5%) year-on-year in the second quarter of 2020, after a drop (-12%) in the first quarter. This was the most severe drop in EU steel consumption ever recorded. The exceptionally negative trend in steel demand seen in the second quarter of 2020 is – as widely expected – the result of the economic and industrial lockdown due to governments measures in response to the Covid-19 pandemic, that has led a complete stop in orders and output.

This unprecedented fall in steel demand has occurred after several quarters that have shown deterioration in market conditions, particularly over the second half of 2019. In particular, the continued slump in EU's manufacturing sector due to weakened exports and investment, coupled with escalating trade tensions between the US and its major trading partners have increasingly affected business conditions prior to the onset of the pandemic. In addition, as in previous quarters, data for the second quarter of 2020 continued to show growing import distortions as well as higher volatility as a result of the increase of safeguard measures' quota.

The onset of the COVID-19 pandemic has therefore dramatically impacted the already challenging steel market situation, with unprecedented consequences for the steel industry. Capacity idling, reductions in the workforce and cuts in production have already taken place at an unprecedented scale and it is unknown, at the time of writing, as to when – or whether – normal economic activity will be fully restored to the levels of activity and confidence observed before the pandemic. Uncertainty remains widespread and the economic and industrial recovery appears to be very fragile.

EU steel market overview

EU28 apparent steel consumption fell (-25.5%) year-on-year in the second quarter of 2020 (that is for the sixth consecutive quarter, after a drop (-12%) in the first quarter) and amounted to 29.6 million tonnes. The figure for the second quarter 2020 is the reflection of the unprecedented deterioration in steel demand due to the heavy disruption brought by the Covid-19 pandemic, in addition to the negative factors that had materialised in the preceding quarters and had already led to a sharp reduction in steel consumption.

As a result, the continued downturn in steel demand led to the seventh consecutive fall year-on-year in domestic deliveries in the EU in the second quarter of 2020 (i.e. -28.6%, steeper than -8.2% recorded in the first quarter). After a considerable drop (-20%) in the first quarter of 2020, the downward trend in imports from third countries continued in the second quarter of 2020, with a year-on-year fall (-16.7%). This equated with 7.1 million tonnes in absolute volumes, accounting for 24% of EU steel demand (in historical terms, slightly up from 23.5% in the first quarter of 2018).

As in preceding quarters, developments in total imports continued to conceal some distortions at the individual product level. These continued to be linked to the design of the current safeguard mechanism, and which has resulted in a rush to maximise quarterly quota allowances by several key exporters to the EU, such as Turkey and China. Despite the current uncertainty on the magnitude and the length of the COVID-19 outbreak, whose length and intensity are unprecedented, it is expected normal market conditions will at some point be restored and steel demand will pick up again. The main challenge is that persistent import pressure – resulting from continued stockpiling and capacity expansion by major non-EU exporting countries – will, in essence, penalise EU steel producers.

Although the wide uncertainty and the unprecedented nature of the crisis has made it more complicated than ever to produce reliable forecasts, at the time of writing we assume that market conditions are not expected to improve before early 2021.

Lockdown measures have (at the time of writing) been removed or considerably eased almost everywhere in the EU, allowing restart in automotive and other sectors, but the level of orders and normal business confidence are far from being restored. In addition, the pandemic-led contagion has started to rise significantly again in most EU countries in recent weeks and there are serious concerns about new measures that may considerably limit economic activity. A key role will also be played by governments' ability to alleviate the huge economic and social costs of the pandemic so as to support demand.

However, if and when the economy returns to normal conditions, all the downside risks that had considerably weakened steel-using sectors and steel demand during 2019 will still be there, namely import distortions and continued global overcapacity and weakness in the global manufacturing cycle. Restarting normal industrial activity after the end of the pandemic – when, is unknown at the moment – will not lead to a rapid return to usual output volumes. Consumer demand, due to the huge social disruption caused by the pandemic, is set to remain depressed throughout 2020 and up to early 2021; it will take time before the end of industrial lockdown leads to substantial output increases.

EU steel-using sectors

The Covid-19 outbreak has further hit EU industrial sectors at a time when these had already been experiencing a severe downturn and were coping with serious challenges. Over the course of 2019, business conditions in the manufacturing industry have continued to deteriorate. This downward trend has gained speed in the second half of 2019, particularly in the automotive industry, while the construction sector has continued to outperform other major steel-using sectors.

This has resulted in a pronounced slowdown in output growth in steel-using sectors, that has culminated in unprecedented drops over the second quarter 2020, mainly as a result of the severe lockdown measures imposed by governments in March and April this year. Total output in steel-using sectors fell (-21.3%) in the second quarter of 2020 after falling (-6.5%) in the first quarter. The annual 2019 figure (formerly, a meagre increase of +0.3% compared to 2018) has been revised compared to EUROFER's previous Market Outlook, so that steel-using sectors' output remained almost unchanged (i.e. +0.1% in 2019 after +2.7% in 2018).

The dramatic consequences of the COVID-19-related shutdown in industrial activity do not only affect Europe. They have reached a global scale, in terms of huge disruption supply chains and supplies of input and raw materials.

Despite the restart in economic activity all over advanced economies, this will probably also have unprecedented repercussions on output in the third and fourth quarters of 2020. Against this background, a substantial rebound is not in sight before the first quarter of 2021. Even after the end of the pandemic, external risks will continue to cast a shadow over steel-using industrial sectors, even in 2021. This will likely seriously hamper investment.

However, the extent remains difficult to predict. Much will depend on other, non-COVID-19 related factors that were already in place before the outbreak. Whether global trade fundamentals will improve – which is fundamental given the large exposure of EU's export-oriented industrial economies to changes in global trade – is unclear at this stage. Other sources of uncertainty exist, such as a no-deal Brexit – as the final agreement with the EU must be reached before the end of 2020 – and a new escalation in protectionist trade measures would also contribute to a sustained negative outlook.

EU economic context

The outlook for the global economy has been hugely impacted by the COVID-19 pandemic. The outbreak has resulted in the shutdown of major economic activities across the EU, particularly the manufacturing and automotive sectors from the second half of March until late May, including steel mills.

While the 2009 recession was triggered by the collapse of the housing market in the EU and impacted the construction sector at first, the current downturn is both a supply and demand side shock with unprecedented consequences. On the supply chain side, the pandemic caused major disruption, i.e. factory shut downs and logistics bottlenecks causing parts/components and shortages. Substantial falls in productivity were recorded as a result of social distancing and a shortage of workers.

All steel using sectors have been widely affected, especially those with long, global supply chains. On the demand side, severe containment measures and falling confidence have led to sharp falls in consumer spending on services and consumer durables. Rising unemployment and much more cautious spending have contributed an exacerbation of the situation.

Lockdown measures were removed across most member states from early May, leading to restarts in production and almost complete freedom of movement for citizens. In any case, the complete lockdown in March and April led to the worst economic recession ever recorded for the EU as well as other advanced economies over the second quarter of 2020, and is set to do so for the entire year 2020 compared to 2019. The downturn is expected to be far larger than the 'Great Recession' of 2009-2012 triggered by the financial crisis, resulting in the most severe GDP recession on record for the EU and its individual economies.

Figures already available for the second quarter reveal the most dramatic GDP falls ever recorded, which should be followed by a robust rebound in the third quarter, as anticipated by major leading indicators. However, from the start of the fourth quarter the situation linked to the pandemic has deteriorated again and the recovery appears to be very fragile across EU Member States affecting the whole economic cycle.

The pandemic continues to take its toll on economic confidence and output (particularly services), whereas industrial activity continues, albeit around production levels that are far below those observed prior to the outbreak of the pandemic.

Further to some rebound in economic activity in the third quarter in the EU and on other advanced economies, growth prospects for the entire year 2020 have been revised and now are on average relatively less pessimistic, albeit continuing to foresee the sharpest economic recession at the world level since WWII.

In its latest Economic Outlook (October 2020) the IMF has reviewed its global recession forecast for 2020 from -4.9% in its June Outlook to -4.4%, with the US economy experiencing a considerable improvement compared to the previous forecast (from -8% to -4.3%), whereas recessions for the euro area and major EU economies have also been slightly revised (i.e. the euro area will see a recession of -8.3% vs. -10.2% in the June forecast), all followed by a rebound in 2021.

The European Commission has released its latest Summer Forecast in early July with a slightly less pessimistic outlook, i.e. a recession (-8.3%) in the EU and (-8.7%) in the euro area. As expected, latest Eurostat's figures for the second quarter revealed the most severe consequences of lockdowns and the shutdown in industry on EU economies, with unprecedented quarterly and yearly drops in real GDP.

In the EU, GDP fell (-11.4%) quarter-on-quarter, in Germany (-9.7%), in Spain (-17.8%), in France (-13.8%) and in Italy (-13%). Outside the EU, the UK recorded an even more severe drop (-19.8%). When compared to the second quarter of 2019, GDP fell in the EU (-14.1%), in Germany (-11.3%), in France (-18.9%) and in Italy (-18%). Overall, Eastern European Countries recorded relatively less pronounced GDP falls (between -5% and -10%).

The unprecedented nature of this crisis means that volatility around any macroeconomic forecast remains very high. Therefore, these are subject to continuous revision during the year, with a higher-than-usual degree of uncertainty. In economies with declining infection rates, the slower recovery path in the updated forecast reflects persistent social distancing into the second half of 2020, albeit with less severe consequences than the larger-than-anticipated hit to activity during the lockdown in the first and second quarters of 2020.

Should EU economies continue to struggle to control infection rates, a lengthier lockdown will inflict an additional toll on activity. Moreover, any forecast assumes that financial conditions—which have been exceptionally accommodative in the euro area since 2015, with key interest rates at zero—will remain broadly at current levels. Alternative outcomes to those in the baseline are clearly possible, depending on how the pandemic is evolving.

In the short-term, the COVID-19 crisis is having a massive impact on jobs in the steel sector, with thousands of steelworkers on reduced working or temporary layoffs. Many companies have severely cut production, mostly due to governmental measures in many member states that have de facto stopped steel production (with a few exceptions) and steel-using sectors' activity, automotive at first, leading to large-scale idling of steel facilities.

Production in steel-making sectors finally restarted around mid-May in most member states and has not been interrupted by a second wave of industrial lockdown measures yet, but it will take some time before new orders translate in substantial increases in steel consumption.

In April 2020, the COVID-19 outbreak led to an almost complete stop in production in the automotive sector, which is the second largest steel user, and a corresponding slowdown in construction activity, which is, however currently exempt from the lockdown by some governments (and also, typically reacts more slowly to changes in the economic landscape, being more resilient).

As a result, the EU steel sector these days works at very low capacity utilisation rates, even lower that those recorded at the time of the financial crisis of 2008-09. The medium-term demand hit created by the pandemic from rising unemployment that is expected to take many months to recover post-lockdown, leading the EU steel industry to an almost unsustainable position which may pose a threat to its ability to compete with major steel-making exporting regions.

As stated above, the COVID-19 outbreak is a short-term symmetric economic shock (i.e. that has hit all over the EU and is not country-specific) whose dramatic effects must be added to the structural problems that the steel sector was already facing before the onset of the current crisis. Even assuming that normal business conditions are restored – provided that no new outbreak occurs – during the second half of 2020, positive effects on economic activity and on steel-using sectors are not likely to materialise before the first quarter of 2021.

Even after the return to normal business conditions, the EU economy will still be particularly vulnerable as it is exposed to fluctuations in international trade. As the largest contribution to growth during the previous cycle came from exports, a slowdown in export markets will further exacerbate the difficulties that EU economies will face even once the pandemic will be over.

Prior to the pandemic, EU economic growth, albeit slowing down, had continued to be supported by final consumption even as the contribution of exports to growth had begun to wane. Services, contrary to the weakness of the industrial sectors, had proven resilient, being far less exposed to both internal and external competition than the primary sectors. However, even once lockdown measures are removed, after the third quarter of 2020 the EU economy will continue to be subject to several risk factors, such as US trade policy action against its partners, no-deal Brexit and stunted domestic final consumption.

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EU economic outlook 2020-2021

GDP growth

The EU economy was already experiencing a significant slowdown over the second half of 2019, reflecting global trade tensions and the continued downturn in manufacturing – affecting Germany in particular – culminating in marginal GDP growth rates in the fourth quarter of 2019.

The onset of the Covid-19 pandemic with all its disruptions has obviously worsened this trend, resulting in substantial falls in real GDP across the EU in the first quarter of 2020. Even more severe quarterly GDP falls were reflected in the data of the second quarter of 2020 (which include April – the month most affected by the general economic lockdown), so that the entire EU technically entered economic recession (i.e. two consecutive quarterly GDP drops). As a result, in the second quarter of 2020 EU 's real GDP recorded a record slump (-11.4%, further to -3.3% in the first quarter).

In year-on-year terms, the EU economy dropped (-14.1%, -2.5% in the first quarter). Individual EU economies recorded comparable GDP falls. Germany recorded an economic drop of 11.3% and – outside the EU – the UK recorded the most pronounced drop than other major European economies (-21.5%) year-on-year. Within the euro area, in Spain real GDP also fell (-21.5%) year-on-year. France and Italy both experienced a fall (around -18%) year-on-year. Eastern European countries generally recorded relatively less pronounced year-on-year falls in real GDP (i.e. below -10%) over the second quarter, as well as Ireland, Luxembourg and Denmark.

During the preceding quarters, GDP growth had been led mainly by domestic demand, that had to some extent proven resilient and had gradually been replacing exports as the main engine of growth during 2018 and 2019 (due to substantial slowdown in international trade), particularly in a largely export-driven economy such as Germany.

Data for the first quarter had already reveal sharply negative contribution to GDP growth from private consumption (-3.2%), and gross fixed capital formation (-2.6% quarter-on-quarter), whose contribution had been positive in preceding quarters. Data for the second quarter showed falls (-9.2% and -15.4%) respectively.

Government consumption proved relatively more resilient and provided slightly contribution to growth (+0.7%) as governments used public spending as a macroeconomic tool to alleviate the slump in demand and support the economy. Contribution from exports, reflecting the sharp downturn in international trade before and after the onset of the pandemic, was also dramatically negative (-18.8%), and so that from imports (-17.8%).

The construction sector in the EU recorded a drop (-11.3%) quarter-on-quarter (i.e. the third consecutive drop, following from -0.8% in the first quarter) equating with a fall (-12.4%) year-on-year. This resulted from a sharp year-on-year fall both in residential investment (-11.3%) and in other construction investment (i.e. private non-residential plus civil engineering, -13.5%).

EUROFER's GDP growth forecast for 2020 is -7.9%, the first recession since 2013 and the harshest ever recorded in the EU (albeit lower than the drop of -8.7% foreseen in the previous quarter). It will be followed by a rebound (+5.7%) in 2021.

Confidence indicators

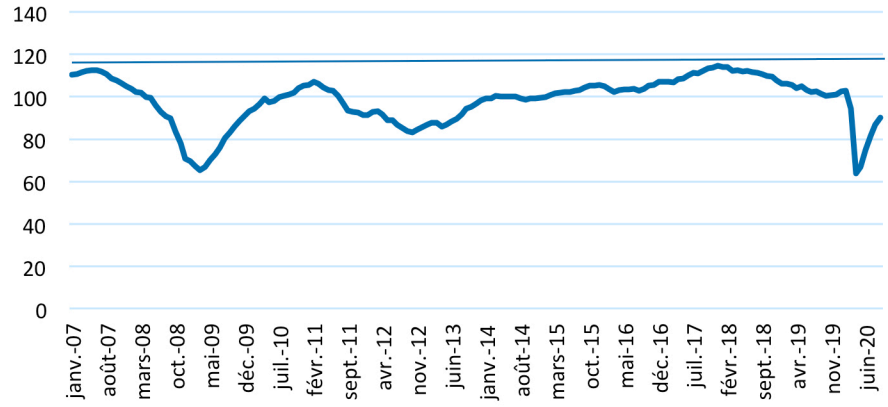
Decreasing economic confidence in the EU due to the sharp slowdown in the economic cycle was already clearly visible during the second half of 2019, as the Economic Sentiment Indicator (ESI) for the EU had been moving around the low levels last seen in 2014.

The indicator then plummeted to 94.5 in March 2020 after the onset of the pandemic, the lowest level since November 2013, and then reached the all-time low of 63.8 in April, i.e. the month of the toughest lockdown in economic activity everywhere in the EU. It then rebounded to 74.9 in June and has increased to 90.2 in September. This resulted from the removal of lockdown measures and improved economic confidence, along with better prospects for the economy for the rest of year thanks to expected substantial weakening of the Covid-19 pandemic and restored industrial activity.

Industrial confidence had remained in negative territory throughout 2019, due to gloomier expectations about production activity, new orders and stocks of finished products, and followed the same pattern of the ESI, with a steeper-than-ever fall in April and only marginal improvements in May and June, but then it has seen a more pronounced increase in July and August.

By contrast, sentiment had improved among consumers and had remained stable in services, construction and in the retail sector during 2019, but confidence in these sectors has also shifted to deeply negative levels from March 2020, particularly in services that has been hit the most by the economic lockdown in earlier months, and relatively less pronounced for construction.

ECONOMIC SENTIMENT INDICATOR, EU
(long-term average=100)

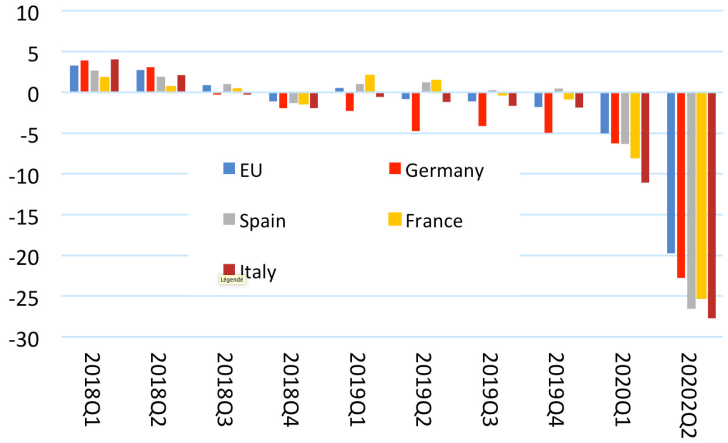


Other leading indicators reflect the quick deterioration in the EU economic outlook over the first half of the year, followed by quick rebound from June 2020 as a reflection of restarted economic activity, which however sees confidence indicators remain at rather low historical levels. The flash IHS Markit Eurozone PMIs for June 2020 reached 47.5, i.e. a jump from 31.9 in May, which however just followed and the all-time-low of 13.6 in April.

However, growth in the euro area private sector slowed further towards stagnation in September: the IHS Markit Composite Index slipped to a three-month low of 50.4, down from August's 51.9 and indicative of only a marginal expansion.

The composite PMI Index concealed a two-speed economy within the eurozone in September. Led by a strongly performing Germany, overall regional manufacturing output rose at the fastest pace for over two-and-a-half years: the euro area Manufacturing PMI continued to rise sharply from 48.2 in June, reaching 53.7 in September (vs 51.7 in August), driven by the rebound in output and new orders, supported by recovery in export trade. By contrast, in September the service sector PMI leading indicator slipped back into contraction by registering its worst performance since May.

INDUSTRIAL PRODUCTION, YEAR-ON-YEAR GROWTH RATES, SEASONALLY ADJUSTED (%)



Sharply declining industrial confidence due to the COVID-19 outbreak in the first four months of 2020 follows the prolonged weakness in industrial activity in the EU throughout 2019, which is reflected in real industrial production data, being only partly affected by the industrial lockdown that started in mid-March in most Member States.

As a result, the year-on-year decline in industrial production dramatically worsened in the first quarter of 2020 in the EU as well as in major euro area economies and even more in the second quarter, that was affected (in April and May) by lockdowns imposed by governments due to the pandemic, leading de facto to complete stop in industrial production over these two months.

In Germany, where industrial production had dropped (around -5%) year-on-year in each of the last three quarters of 2019 and in the first quarter of 2020 (-6.3%), with a fall in industrial output in the second quarter (-22.8%).

Spain – and France in in the second quarter – were the only large EU countries that registered a slight increase in manufacturing output over the last three quarters of 2019 but then in the first quarter recorded a slump (-6.4% and -8%). This culminated in drops (-26.5% and -25.2%) respectively over the second quarter. As reported in the first quarter, the most severe impact was felt in Italy, where industrial production in the second quarter of 2020 plummeted (-28%).

Against this background, short-term improvement in industrial activity is expected in the third quarter as a rebound from the record lows experienced in the second quarter that was hugely affected but the shutdown in industrial activity almost all over the EU. In any case, despite this quarter-on-quarter rebound the year-on-year change in industrial production over the third quarter is still expected to be negative.

This will mean it will take time before the removal of lockdown measures is translated into new output. Accordingly, a considerable rebound is not likely to materialise before early 2021. Even once normal business conditions are restored, lower production levels and rising stock levels in the manufacturing supply chain, coupled with possible trade tensions and Brexit-related uncertainty – at least until 31 December 2020 – are set to take their toll on industrial confidence, contributing to delayed business investment decisions.

EUROFER foresees a fall in industrial production in the EU (-9.7%) in 2020 (further to the drop of 1% already recorded in 2019) and a rebound (+8.2%) in 2021.

Economic fundamentals

Due to the global pandemic, the downward trend in world trade has dramatically worsened exacerbated, as reported by short-term (i.e. monthly) trade volumes according to WTO data.

World merchandise trade volume decreased (-14.3%) in the second quarter of 2020 over the first quarter, after a drop (-2.7%) in the preceding quarter. Lockdown measures across the globe took a heavy toll on global demand,

production and trade. All world regions recorded considerable declines in the second quarter. Europe contacted (-19%), in North America (-14.5%), and in Asia (-7.1%). World imports contracted (-1.9%).

Still in the first quarter of 2020, as in the previous three quarters – and prior to any possible impact on actual data by the current COVID-19 outbreak – private consumption had remained relatively resilient and continued to provide positive contribution to GDP growth.

Labour market fundamentals had continued to improve, albeit at a slower pace than before in most EU countries. However, job creation continued to be affected by lower levels of production activity in industry and by persistent uncertainty on short-term business conditions.

EUROFER MACROECONOMIC DATA

	2018	2019	2020	2021
GDP	1.9	1.4	-7.9	5.7
Private consumption	1.6	1.4	-7.3	6.2
Government consumption	1.1	2.0	0.1	3.3
Investment	3.1	2.4	-10.7	8.0
Investment in mach. equip.	3.9	2.1	-16.1	11.3
Investment in construction	3.4	2.5	-11.1	8.3
Exports	3.1	2.5	-10.7	8.5
Imports	3.6	2.9	-12.1	8.8
Unemployment rate (level)	7.5	7.0	8.2	8.6
Inflation	1.9	1.5	0.6	1.2
Industrial production	1.5	-1.0	-9.7	8.2

The dramatic deterioration of the economic situation due to the pandemic, the ongoing rise in unemployment have - as expected - completely reversed the picture. As one of the worst consequences of the pandemic on the economy, the EU28 unemployment rate – that had remained around the levels observed around late 2019, started to rise, i.e. from 6.3% in March to 7.4% in August, with considerable variations across Member States and across economic sectors (employment in services being particularly impacted). Consumers have been suffering from substantial losses in their in disposable income, due to job losses or temporary lay-off or reduction of working time, which will slash private consumption growth.

Other major GDP components are set to pay a high price for the COVID-19 disruption. The combined effect of cooling global GDP growth, increasing trade frictions, policy uncertainty and the ongoing profit squeeze in the corporate sector will curb business investment in machinery and equipment at least until the third quarter of 2020, but repercussions on investment in the deteriorated economic environment will also be felt during the fourth quarter.

The outlook for construction investment is less negative, as the construction sector is set to be relatively more resilient and, to some extent, less exposed to the huge repercussions of the COVID-19 lockdown. It is thus likely to achieve relatively better performance than other GDP components in 2020.

In addition, government investment and public expenditure are expected to play a rather robust, countercyclical role and could provide a strong contribution to the growth of domestic demand. The role of fiscal policy in providing stimulus could be an approach, as could both 'conventional' and 'unconventional' monetary policies (e.g. quantitative easing, negative interest rates). These have been deployed by the ECB to a very large extent. However, it is expected that the ECB will provide further support until the end of the current crisis. Further measures are being discussed and/or refined, both at the EU level as well as the state level. The objective is to provide adequate support for, and liquidity to, the economy (both to households and businesses) so as to alleviate the huge costs of the economic lockdown and the related output (and job) losses.

The central EU institutions and bodies have responded to the outbreak-related economic emergency with a detailed set of measures, whose implementation will however require time (and additional political negotiations). The Stability and Growth Pact and the Fiscal Compact have been suspended. With regard to monetary policy, the ECB has extended and enhanced the ongoing Asset Purchase Programme (APP, or Quantitative Easing, QE) – that had been launched in 2015 in order to tackle the already weak economic environment. The 'augmented' APP is now called the Pandemic Emergency Purchase Programme (PEPP) and will have an overall envelope of €750 billion. Purchases will be conducted until at least the end of 2020 and will include all the asset categories (i.e. government and corporate bonds) eligible under the previous APP.

The ECB has also continued to provide its forward guidance, leaving its key policy rate unchanged at zero, its deposit facility rates at negative levels (-0.50%) and indicating that its key policy rates will remain at current levels as long as the economic circumstances make it appropriate (i.e. in the absence of any inflationary pressure and as long as economic conditions remain depressed).

The European Commission has launched the SURE fund worth €100 billion. This will be distributed among Member States in order to provide short-time working schemes and tackle unemployment costs. The European Investment Bank (EIB) has committed to leveraging its €25 billion guarantee fund up to €200 billion that will be available for EU Member States.

In addition, the European Stability Mechanism (ESM) will make €240 billion available in the form of very cheap loans for those EU countries that might have difficulty on government bond markets (Italy, Spain etc).

The above measures total some €540 billion that EU countries can use as additional resources so as to cope with the costs of the recession. Lastly, it is worth mentioning the Next Generation EU package that was agreed at the European Council last summer, and will provide support to the EU economies worth €750 billion, of which grants worth 390 billion and loans worth €360 billion. It will be financed by issuing common bonds for the first time in EU history. The core programme of the package is the so-called Recovery and Resilience Facility (RRF) and will amount to €313 billion.

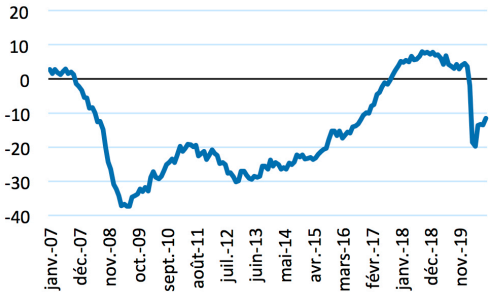
The EU steel market: final use

Outlook for steel-using sectors

Prior to the onset of the Covid-19 pandemic, the manufacturing slump in the EU had deepened in the second half of 2019, with the automotive sector registering quarterly falls in production activity since the third quarter of 2018. In most other sectors, output fell considerably as well.

The main exception was the construction industry whose growth, however, lost ground. Persistent headwinds were already blowing before the outbreak of COVID-19, and are likely to continue weighing on the steel-using sectors once normal business conditions are fully restored.

EU CONSTRUCTION CONFIDENCE
Balance of positive and negative answers



The outlook for output growth has been slashed dramatically for 2020 due to the almost complete shutdown in industrial activity from the second half of March 2020. This resulted in unprecedented falls in output and is likely to lead to the most severe annual output drops ever recorded by the European steel-using sectors.

Construction industry

The momentum of the EU construction sector had already lost speed considerably over the last three quarters of 2019, culminating in marginal growth year-on-year (+1.5%) in the fourth quarter. However, on an annual basis construction recorded another positive performance, at the same growth rate recorded in 2018 (i.e. +3.6%; revised, formerly +3.9%). This was its third consecutive year of strong output growth, higher than other steel-using sectors. In the first quarter of 2020, the onset of the pandemic from mid-March had relatively less dramatic impact than other steel-using sectors but resulted in the lowest growth rate since the fourth quarter of 2016 (+0.3%), albeit leading to substantially revised growth prospects for 2020.

Construction industry activity in the fourth quarter of 2019

In the second quarter of 2020, construction output has been more seriously impacted by the economic lockdown across the EU that started in mid-March, although the construction sector cycle usually reacts more slowly to economic shocks. Construction output in EU fell year-on-year (-9.5%). Construction output still grew only in Germany, France and Czech Republic, at moderate rates, while it fell in all other European countries.

In line with actual construction production volumes, gross fixed investment in construction in the second quarter of 2020 fell (-11.3%) quarter-on-quarter (i.e. the third consecutive drop, following from -0.8% in the first quarter) equating with a fall (-12.4%) year-on-year, due to a sharp year-on-year fall both in residential investment (-11.3%) and in other construction investment (i.e. private non-residential plus civil engineering, -13.5%).

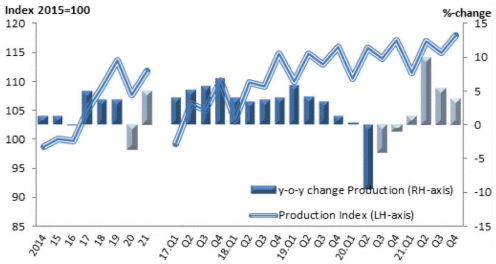
Looking at the performance of individual countries, construction investment dropped almost across all countries, albeit at different speed, whereas in previous quarters Eastern European countries had generally recorded positive growth rates.

Construction industry forecast 2020-21

Prospects for the EU construction sector are hugely impacted by the economic lockdown which European countries experienced from mid-March to early June, with variations in intensity and with some local lockdowns still in place. This has resulted in closures of construction sites, particularly in civil engineering, despite slow restart in construction works (particularly in public construction) from June/July onwards.

However, some EU countries have explicitly planned to restart public construction activity as quickly as possible, so as to use it as a countercyclical tool during the unprecedented economic downturn. The EU construction confidence indicator had remained well above its long-term average over the first half of 2019 but has continued to decline since then. This trend has continued in early 2020 according to available figures, before plummeting to dramatic record lows in April, followed by a short-term rebound in June and July. It is worth recalling that construction activity at the end of 2019 was already experiencing a slowdown that is not only due to demand-related factors such as the weakening economic fundamentals and a general cooling of market dynamics after several years of strong growth.

EU CONSTRUCTION SECTOR
Production Activity - forecast from Q3-2020



However, albeit largely affected by the huge disruption caused by the COVID-19 lockdown, the construction industry is expected to perform relatively better – that is, to experience a lower recession – than the other steel-using sectors with regards to the expected trend in production activity.

The residential construction market and, particularly, private non-residential subsectors are expected to be impacted the most by the halt in construction production in the course of 2020. Despite mortgage and business loans set to remain at record lows, the fall in incomes due to the increase in unemployment as a result of the economic lockdown will continue to be strongly unsupportive of housing demand. Until a substantial improvement in the labour market, and growth in wages, is seen the residential market will not provide positive contribution to new output in construction.

Non-residential construction (offices, commercial and industrial buildings), which was already the weakest subsector in 2019 due to subdued investment climate and economic uncertainty, is expected to pay the highest toll to the pandemic-related lockdown. Even after the removal of lockdown measures, the increasing vacancy rates in offices due to widespread remote working across Member States, the probable continued downturn in the manufacturing industry in the EU will most likely result in delayed investment decisions, with very little benefit for new non-residential investment.

In contrast, the role of civil engineering as a growth engine for the construction sector is expected to strengthen at least from the first half of 2021, and to avoid a deeper collapse of the sector as a result of the COVID-19 outbreak. During the economic slowdown in 2019, civil engineering consistently recorded higher growth rates than both residential and non-residential construction.

Under the current, dire economic circumstances, many EU governments have announced that they will provide impetus to the completion of public construction and infrastructure projects, facilitated by to the suspension of the Stability and Growth Pact and the Fiscal Compact. Lower government debt service costs, given the continuity of the ECB action, should provide a very supportive role.

Construction output will drop (-3.6%) in 2020 (a more moderate fall than our previous forecast of -5.3%), and will rebound (+5%) in 2021.

Automotive industry

The EU automotive sector was already suffering its worst slump since the eurozone crisis of 2009-2012, before the onset of the COVID-19 outbreak that led, in March and April this year, to an almost complete stop in production across EU car plants. Activity restarted after the removal of lockdown measures between May and

early June in almost all EU countries, leading to a considerable rebound in output albeit far below the activity levels observed before the pandemic.

Sluggish domestic and export demand, trade-related uncertainties, emissions woes, shifting patterns in ownership and model ranges already took their heavy toll on production activity during 2019. Output in the automotive sector has fallen since the third quarter of 2018, resulting in annual drop of -5% over the entire year 2019 (the first since 2013), and – due to the huge impact of the pandemic-related lockdown - to an unprecedented year-on-year fall of 44% in the second quarter of 2020 (after -14.5% in the fourth quarter of 2019).

EU passenger car and commercial vehicle demand

Despite restored production activity, according to most recent data market conditions and car demand in the EU continue to experience unprecedented weakness. In the third quarter of 2020, for which data are already available, sales of passenger cars in the EU fell (-25.6%) compared to the same period of 2019. Passenger car registrations fell (28.8%) in the first nine months of 2020, but interestingly rose (+3.1%) in the month of September, marking the first monthly increase of the year, signalling some rebound in demand.

Automotive sector activity in the second quarter of 2020

Production activity in the EU automotive industry fell year-on-year for the seventh consecutive quarter (-44%), after falling (-14.5%) in the first quarter. The combination of already weakening demand for new passenger cars in Europe and in key export markets such as the US, China and Turkey, uncertainty around WLTP and model changes plus – from mid-March 2020 – the outbreak of the Covid-19 pandemic took their unprecedented toll on production activity in all EU countries.

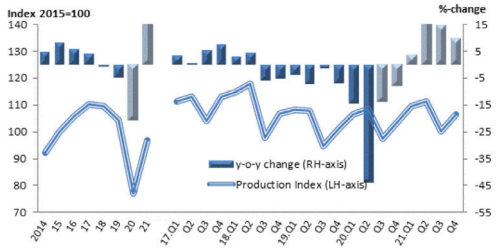
Automotive industry forecast 2020-2021

Due to the onset of the pandemic, the automotive industry had almost completely shut down and production had been suspended all over Europe, with very few exceptions. Some production sites re-opened already in late April, and gradually the sector returned to almost normal activity around mid-June all over the EU, leading to new orders and restart in output, albeit around low levels. Huge disruption in the supply chain due to lockdowns and blockages in transport across EU countries have made it very difficult to ensure the supply of materials and components to the industry.

It remains to be seen if and when normal business conditions will be restored in the course of 2020, given ongoing uncertainty over the fourth quarter further to most likely rebound in the third quarter (which is not yet reflected in actual figures).

However, assuming that from the third quarter onwards normal business conditions return, it will take time before new orders translate into new deliveries due to persistent transport and supply chain issues, which will remain in place for some time. In addition, demand for new cars from consumers is expected to remain very weak at least until the macroeconomic picture and consumer disposable income improve. This is another source of uncertainty.

EU AUTOMOTIVE SECTOR
Production Activity - forecast from Q3-2020



In 2021, provided that the industry has been able to restore its production to normal levels, and with WLTP distortions having faded out by then, the launch of new models – many of them electric vehicles – could be a supportive factor, combined with some improvement in real wages and labour market dynamics on the demand side. However, subdued car demand from major markets such as the US, China and Turkey will remain a challenge for EU car exporters.

In addition, trade-related risks remain considerable, with possible disputes with the US on tariffs on EU automobiles and automotive parts and components that still hang over the industry. This would continue to impact German and a significant part of the Central European industry, which have extensive trade linkages with the US market and are closely integrated into European auto supply chains.

Output in the automotive sector is expected to be hit the most compared to all other steel-using sectors in the course of 2020, with an annual slump (-20.6% - less than -26% in our previous outlook), which remains the most severe on record, followed by a rebound (+18.1%) in 2021.

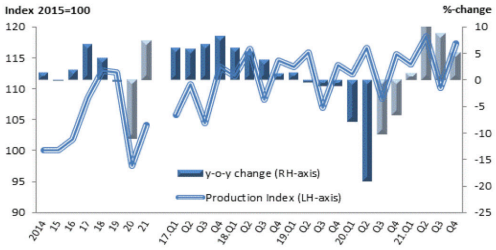
Mechanical engineering

In line with expectations, production activity in the EU mechanical engineering sector registered record recession in the second quarter of 2020, which was equally affected by the industrial lockdown in response to the Covid-19 outbreak as the lack of new orders took its toll on production activity. As a result, the downward trend in output observed in previous quarters was considerably exacerbated, with a fall (-18.9%) year-on-year (against -7.9% in the first quarter). Output in mechanical engineering has been falling since the second quarter of 2019.

Mechanical engineering activity in the second quarter of 2020

Production activity in the EU mechanical engineering industry fell (-18.9%) year-on-year in the first quarter of 2020 (after a drop of -7.9% in the first quarter), as a continuation of the existing negative trend.

EU MECHANICAL ENGINEERING
Production Activity - forecast from Q3-2020



The negative impact of slowing capital investment growth in the EU, weaker international trade, slowing global economic growth, protectionist policies and continuing Brexit uncertainty had continued to outweigh positive support for output growth from orders that were still in the production pipe line throughout 2019.

As a consequence, growth in production activity continued to lose speed. The business climate in the mechanical engineering sector had continued to deteriorate in general due to trade-related and Brexit uncertainty as well as on incoming orders and near-term production activity, which led to investment decisions being postponed. This trend has been further worsened by the onset of the Covid-19 pandemic and its unprecedented consequences on the industry. Activity came to almost complete shutdown from mid-March, which has hugely impacted figures for the second quarter of 2020.

Mechanical engineering forecast 2020-2021

The lockdown measures and the shutdown of industrial activity across the EU in the second quarter of 2020 have taken a heavy toll on the sector, with an unprecedented output loss at least until the end of the second quarter.

Due to the relatively strong reliance of the mechanical engineering sector in the EU on export markets and the investment climate, prospects for the post-pandemic scenario are far from bright. The combined effect of persistently low business confidence, trade friction, weakened demand in key domestic markets in the EU, policy uncertainty and the likely weakness of the manufacturing sector in general will continue to put the brake on investment decisions.

Amid such levels of uncertainty, companies in most downstream sectors will likely refrain from investment in new machinery and equipment and will instead favour maintenance, debottlenecking and the upgrading of existing machinery.

Business conditions are expected to improve only slightly in 2021 as the manufacturing sector in the EU begins to recover from the huge disruptions linked to the COVID-19 pandemic and will restore normal production capacity, with the global supply chain functioning more normally. However, it will take time before a rebound in orders feeds through to production activity. On the other hand, in the post-pandemic scenario, easy credit conditions and financial support from policymakers should prove supportive.

Mechanical engineering output is expected to fall (-11% vs our previous forecast of -13.4%) in 2020, that is for the second consecutive year – further to -0.4% in 2019) and to rebound (+7.4%) in 2021.

Steel tube industry

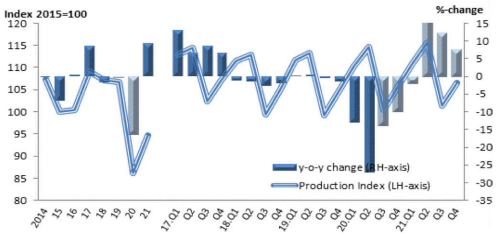
Production activity in the EU steel tube industry has become more closely aligned with downstream sectors such as construction, automotive, the metal goods and mechanical engineering sectors. It has thus moderately declined over the second half of 2019, further to modest growth rates or even negative growth rates recorded between the second half of 2018 and the first half of 2019.

This trend has been exacerbated dramatically by the outbreak of the Covid-19 pandemic in March 2020, resulted in an even steeper fall in steel tube output in the first and second quarter of this year. Over the whole year 2019, the sector had experienced a moderate drop (-0.3%), which was however the second in a row (-1.8% in 2018) signalling already challenging situation and deteriorating perspectives for the sector.

Steel tube industry activity in the second quarter of 2020

In the second quarter of 2020, as a result of the lockdown caused by the Covid-19 pandemic in April and May, output in the EU steel tube industry fell (-27.1%), even much steeper fall than that (-13.3%) recorded in the first quarter, marking the fourth quarterly drop in a row.

EU STEEL TUBE SECTOR
Production Activity - forecast from Q3-2020



At the individual country level, while divergence in output trends has been observed during the preceding quarters, with Central European countries recording increases in production activity, in the second quarter of 2020 the picture somewhat reversed, as steel tube output has fallen rather sharply in these countries. By contrast, output has increased, albeit at low rates, mostly in Western European economies.

The relative resilience of the tube industry over the preceding quarters, that is more moderate decreases in output compared to other steel-using sectors, can be partly explained by the links with the construction sector in the EU, which had a positive impact on demand for steel tubes in construction applications up to the first quarter of 2020.

This had somewhat mitigated the negative impact of deteriorating demand conditions in other sectors, such the automotive industry, mechanical engineering and the metal goods sector. However, this trend has ended over the second quarter of this year when the harshest consequences of the pandemic have materialised and have also seriously impacted the construction sector.

Steel tube industry forecast 2020-2021

Output in the EU steel tube industry is expected to be heavily impacted by the industrial lockdown that has hit the EU further to the COVID-19 outbreak. There will be visible effects at least until the end of the second quarter of 2020 and beyond.

Once lockdown measures are removed and assuming that the pandemic ends in early 2021, which is essentially unknowable at the moment, this may change.

In fact, the outlook for demand for large welded tubes from the oil and gas sector is expected to remain very weak. Most important regional projects from which EU-based large welded tube producers could benefit have been put on hold and little progress has been made over the past few months in solving the political and commercial issues hampering the completion of some specific pipeline projects. The recent collapse of global oil demand (and oil prices) reinforces this difficulty.

The demand outlook from the other downstream steel tube market segments is expected to remain fairly sluggish even after the return to normal business conditions. This will produce some positive effects on output from the first quarter 2021, provided that the economic scenario will not deteriorate due another shock.

Demand from the construction sector looks set to recover, albeit most likely, whereas tube demand from the automotive and engineering sectors is forecast to remain rather weak, even if these sectors restore their production activity to high historical levels and supply chain disruptions are sorted out. Import pressure on steel

tube markets in the EU will remain high, particularly for the commodity segment.

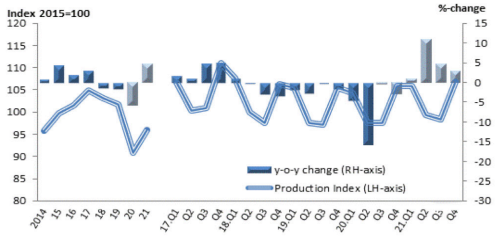
Steel tube output is set to fall for the third consecutive year in 2020, at a much faster rate than in 2019 (-16.3% vs -0.3%). A rebound (+9.4%) is foreseen for 2021.

Electrical domestic appliances industry

Production activity in the electrical domestic appliances sector dropped for the seventh consecutive quarter Production activity in the electrical domestic appliances sector dropped sharply (-15.6%) in the second quarter of 2020, further to a decrease (-4.5%) in the first quarter, resulting in the nineth consecutive quarterly drop in output.

The domestic appliances sector, as well as other steel-using sectors, has been severely impacted by the economic lockdown due to the onset of the pandemic in mid-March 2020. This has further exacerbated the negative trend in production of the electrical domestic appliances sector in the EU recorded since the third quarter of 2018.

EU ELECTRICAL DOMESTIC APPLIANCE SECTOR
Production Activity - forecast from Q3-2020



Electrical domestic appliances industry activity in the second quarter of 2020

Production activity in the EU's electrical domestic appliances sector fell (-15.6%) year-on-year in the second quarter of 2020.

Output is expected to fall (-5.8%) (revised, formerly set at -10.8%) in 2020, which represents the third consecutive annual drop, and to recover (+4.6%) in 2021.

Total steel-using sectors output

Total production activity in EU steel-using sectors increased meagrely (+0.1%) which is a revision from the former +0.3% in our previous outlook) in the whole year 2019 - further to an increase (+2.7%) in 2018 - which was the first annual drop in output since 2013.

The negative growth in 2019 was the result of an increase in construction output and a drop in all other steel-using sectors (the most pronounced being recorded by the automotive sector). This negative trend continued at a faster pace in the first quarter of 2020. This quarter was only impacted to a limited extent – i.e. from mid-March – by the lockdown measures implemented almost all over the EU due to the Covid-19 pandemic, that de facto prevented industrial production until their complete removal in June. The most severe consequences of the stop to industrial activity were thus recorded over the second quarter.

Total steel-using sector activity in the second quarter of 2020

Further to the downturn already observed in the preceding quarters due to worsening conditions for the whole manufacturing sector, production activity in steel-using sectors of the EU experienced a pronounced fall in the first quarter of 2020 (-6.5%, revised, formerly -7.2%). In the second quarter of 2020, total steel-using output dropped (-21.3%) as a result of the worst impact of the Covid-19 pandemic-related lockdown exacerbating the existing negative trend.

In fact, since the second quarter of 2019 (with flat growth), manufacturing output has been slowing down considerably compared to the bullish cycle of 2017 and the first half of 2018, due to international trade tensions and lower exports to third countries, decreasing industrial confidence and growing business uncertainty.

In particular, since mid-2018, automotive production activity has been under severe pressure. Meanwhile, total production activity in the steel-using sectors has held up somewhat better thanks to the resilience of the construction sector. It is largely insulated from the ongoing weakening dynamics in foreign trade, but has also been largely affected by the disruptive impact of the Covid-19 pandemic in the first, and even with much higher intensity in the second quarter 2020.

Overall output in the steel-using sectors in the second quarter of 2020 registered negative growth in all EU economies (at different rates across countries) with the only exception of the Czech Republic.

YEAR-ON-YEAR % CHANGE - EU STEEL WEIGHTED INDUSTRIAL PRODUCTION (SWIP) INDEX

	% Share in total Consumption	Year 2019	Q1'20	Q2'20	Q3'20	Q4'20	Year 2020	Q1'21	Q2'21	Q3'21	Q4'21	Year 2021
Construction	35	3.6	0.3	-9.5	4.1	-1.0	-3.6	1.3	9.9	5.4	3.9	5.0
Mechanical engineering	14	-0.4	-7.9	-18.9	-10.1	-6.6	-11.0	1.3	15.2	8.8	5.1	7.4
Automotive	18	-5.0	-14.5	-44.0	-13.8	-8.0	-20.6	3.7	57.3	14.7	9.7	18.1
Domestic appliances	3	-1.7	-4.5	-15.6	-0.4	-2.9	-5.8	1.0	11.0	4.6	3.0	4.6
Other Transport	2	9.3	-4.0	-18.1	-7.5	-9.1	-9.5	-0.6	14.2	7.1	6.6	6.4
Tubes	13	0.3	-13.1	-27.1	-14.0	-10.1	-16.3	-2.0	21.9	12.3	7.6	9.4
Metal goods	14	-1.6	-5.5	-18.8	-7.3	-4.8	-9.2	-0.6	17.3	8.0	5.5	7.2
Miscellaneous	2	-0.3	-4.3	-16.8	-9.2	-5.2	-8.9	-3.2	13.2	5.6	2.5	4.2
TOTAL	100	0.1	-6.5	-21.3	-8.4	-5.0	-10.4	0.9	19.6	8.4	5.7	8.2

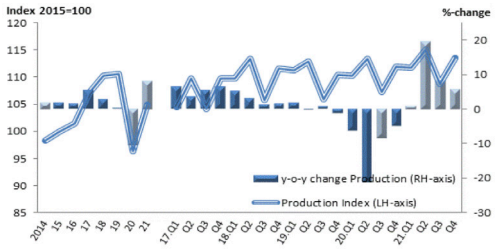
Total steel-using sectors forecast 2020-2021

The Coronavirus outbreak and the related industrial and economic lockdown experienced since March this year have had a massive impact on steel-using sectors' output, with plant closures, capacity reduction (permanent and/or temporary) and huge supply chain disruption. Despite the removal of lockdown measures and restarted industrial activity, uncertainty remains quite high as the pandemic is not yet over and continues to weigh down confidence and growth prospects. Thus, economic growth and global trade are set to remain weak until early 2021, with repercussions for export-oriented sectors (automotive in particular).

This will also affect EU investment via severely weakened business confidence levels. Continued resilience in construction (that is: probably less negative output growth than other sectors in 2020) may cushion negative trends in other steel-using sectors.

Total steel-using sectors output is set to fall (-10.4%, revised from -12.8% in our previous forecast) in 2020 and to recover (+8.2%) in 2021.

EU STEEL-USING SECTORS
Production Activity - forecast from Q3-2020



Real steel consumption

Real steel consumption fell (-20.6%) year-on-year in the second quarter of 2020 and stood at 33.3 million tonnes, after -6.9% in the first quarter. Over the entire year 2019, real consumption had fallen (-2.8%) compared to 2018.

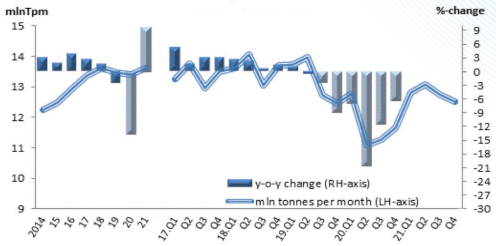
Real steel consumption in the second quarter of 2020

The continued, pronounced slowdown in production activity of steel-using sectors, coupled with reduced steel intensity and the rapid, dramatic deterioration in market conditions due to the onset of the Covid-19 pandemic led to a fall (-20.6%, further to -6.9% in the first quarter) year-on-year in real steel consumption in the second quarter of 2020. This was the fifth consecutive year-on-year drop.

The second quarter's real consumption figure resulted from unprecedented worsening market conditions that had materialised due to the Covid-19 pandemic, which followed continued deterioration over the preceding quarters. The economic slowdown over the second half of 2019 and widespread business uncertainty, plus decreasing steel intensity – the ratio of steel consumption to steel-weighted production in steel-using industries

– reflecting the fact that during economic downturns steel using industries tend to reduce the steel content in their final output unit – were key drivers behind this negative performance. The de-stocking process, which had already taken place substantially during 2019 reflecting poor expectations, has continued also in the first two quarters of 2020, contrary to the seasonal pattern (i.e. under normal business cycles, stocks increase over the first two quarters of the year).

EU REAL STEEL CONSUMPTION
Forecast from Q3-2020



FORECAST FOR REAL CONSUMPTION - % CHANGE YEAR-ON-YEAR

Period	Year 2019	Q1'20	Q2'20	Q3'20	Q4'20	Year 2020	Q1'21	Q2'21	Q3'21	Q4'21	Year 2021
% change	-2.8	-6.9	-20.6	-11.5	-6.4	-11.5	0.3	18.0	13.1	7.4	9.3

Real consumption has been hugely impacted by the Covid-19 pandemic and the shutdown in economic activity, particularly steel-using industries. Real consumption will fall at unprecedented rates (-11.5%, previously set at -13.6%) in 2020, and will recover in 2021, together with the improvement in steel demand, (+9.3%).

The EU steel market: supply

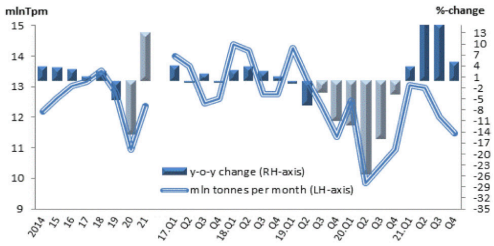
The supply-side of the EU steel market analyses factors affecting domestic and foreign supply, as well as stock effects in the distribution chain and at the end-user level.

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 by third country exporters.

Apparent steel consumption in the second quarter of 2020

EU APPARENT STEEL CONSUMPTION
Forecast from Q3-2020



Further to an already sharp drop in the first quarter (-12%), EU apparent steel consumption plummeted (-25.5%) year-on-year in the second quarter of 2020 – the sixth consecutive fall, and reached the record low of 29.6 million tonnes. The outbreak of the Covid-19 pandemic had led to an almost complete stop in industrial activity from mid-March 2020 and took a heaviest, but steel demand had already been impacted in the previous quarters. Substantial deterioration in business conditions due to the onset of the pandemic were added to existing downside factors that had already seriously depressed steel demand over the preceding quarters: uncertainty about near-term business conditions, weak demand from the manufacturing sector and continued stock reduction to record lows resulted in exceptional quarterly falls in the first quarter, before steel demand felt the worst impact of the pandemic over the second quarter.

As a result of the above downside factors, apparent consumption in the EU fell (-5.3%) over the entire year 2019, compared to 2018, when apparent consumption increased (+2.6%) year-on-year.

EU domestic and foreign supply

In line with what had been seen in preceding quarters, imports of steel products from third countries into the EU market – including semi-finished products – decreased markedly over the second quarter as a result of extremely weak steel demand in the EU, coupled with safeguard measures, resulting in a year-on-year drop (-16.7%), slightly less pronounced than the figure (-20%) recorded in the first quarter, resulting in the third consecutive quarterly drop.

When looking at monthly data, imports have shown considerable volatility throughout 2019, with unusual monthly peaks, and this trend has also continued in the first eight months of 2020. Imports jumped to all-time record level of 4.4 million tonnes in August 2019, followed by much lower tonnages in the subsequent months down to low levels in historical terms, with more stable figures and lower volatility up to April 2020 (as a reflection of weak demand), before surging again for some products in July 2020.

Meanwhile, domestic deliveries by EU steel suppliers fell (-28.6%) year-on-year in the second quarter of 2020, much steeper fall than the figure (-8.2%) recorded in the first quarter of the year. Over 2019, deliveries fell (-4.2%) compared to 2018, when they had increased in yearly terms (+1.2%).

Apparent consumption is expected to fall (-14.6%, previously forecast at -16.6%) in 2020, and then to rebound (+)13.1% in 2021.

EU APPARENT STEEL CONSUMPTION - IN MILLION TONNES PER YEAR

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020 (f)	2021 (f)
Million tonnes	141	141	146	152	156	158	162	154	131	149

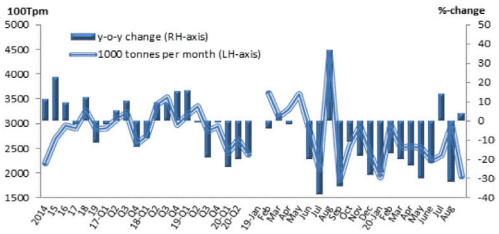
EU APPARENT STEEL CONSUMPTION - % CHANGE YEAR-ON-YEAR

Period	Year 2019	Q1'20	Q2'20	Q3'20	Q4'20	Year 2020	Q1'21	Q2'21	Q3'21	Q4'21	Year 2021
% change	-5.3	-12.0	-25.5	-15.9	-3.7	-14.6	3.9	31.4	15.4	5.0	13.1

Imports

Total imports of steel products into the EU28 – including semi-finished products – fell by a pronounced extent (-17%) in the second quarter of 2020 (vs -20% in the first quarter). In the whole year 2019, imports from third countries had decreased by 11.5%, against an increase of 12.5% in 2018. During the year 2019, monthly data has shown increasing volatility, which has nevertheless eased considerably after an exceptional peak in August. This relatively more stable trend has continued up to April 2020, but then a short-term increase (particularly for some specific products) was reported in July 2020.

EU TOTAL STEEL IMPORTS



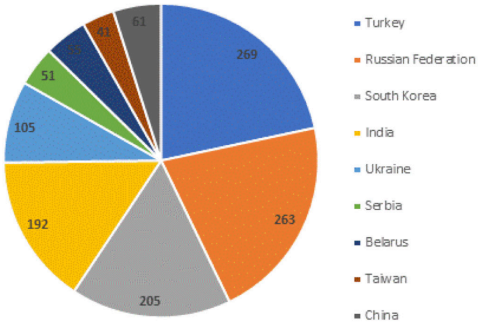
In the first eight months of 2020 – August is the most recent monthly data available at the time of publication – finished product imports fell (-19%) year-on-year due to a year-on-year drop in flat product imports (-18%) and a reduction in long product imports(-25%).

Imports by country of origin

According to August 2020 data, the main countries of origin for finished steel imports into the EU market were Turkey, the Russian Federation, South Korea, India and Ukraine. These five countries represented 68% of total finished steel imports into the EU.

Despite continuously decreasing exports to the EU over preceding months of 2020, in August Turkey was still the largest exporter of finished steel products to the EU, with 18% of total EU finished steel imports (same as in April this year), followed by the Russian Federation with 17% and South Korea with 13%. Imports from Turkey have decreased by (-1%) (after -27% in July), while imports from China have dropped (-29%). By contrast, imports from the Russian Federation have increased (+9%).

EU FINISHED STEEL PRODUCT IMPORTS BY COUNTRY OF ORIGIN
February 2020, '000 metric tonnes



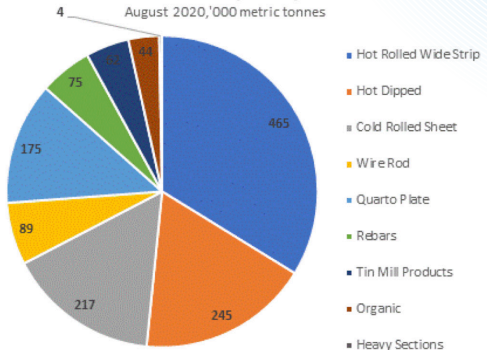
Imports by product category

The decline in EU imports of finished steel products that had followed a substantial increase during 2018 continued throughout 2019, despite some volatility, up to August 2020.

Customs data show that flat product imports dropped (10%) year-on-year over the second quarter of 2020 (vs. -22% in the first quarter). By contrast, in August 2020 imports of flat products have increased (+26%). Meanwhile, long product imports fell (-3%) on a yearly basis in the second quarter of 2020 (vs. -17% in the first quarter), and (-36%) in August 2020. The share of long products out of total finished steel product imports was 19%.

Within the flat product market segment, in August 2020 imports of cold rolled sheet rose considerably (+47%), while strip mill products, hot-rolled wide strip and hot-dipped galvanised sheets all increased (+23-26%) and coated sheets increased (+20%). Imports of quarto plate rose more moderately, (+9%).

EU FINISHED STEEL IMPORTS BY PRODUCT
February 2020, '000 metric tonnes

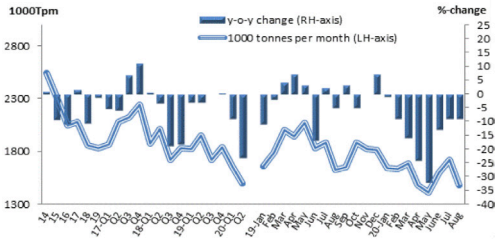


All long product imports were significantly lower in August 2020 compared to the same period of 2019. The sharpest falls were recorded for heavy sections (-84%) and rebars (-51%), while merchant bars and wire rod recorded decreases (-20%).

Exports

Total EU exports of steel products to third countries decreased (-23%) year-on-year in the second quarter of 2020, further to a decline (-9%) in the first quarter (revised, formerly no change). In August 2020, total steel imports fell (-9%) compared to the same period of the previous year, as a result of a decrease of a drop (-4%) in exports of flat products and a drop (-18%) in the exports of long products. Over the same period, exports of finished steel products dropped (-8%).

EU TOTAL STEEL IMPORTS

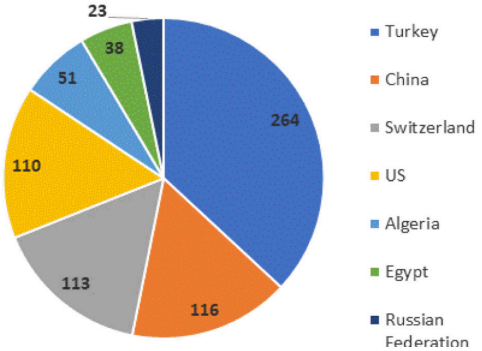


Exports by country

The main export destinations for EU steel exports over the second quarter of 2020 were Turkey, China, Switzerland and the United States, followed by Algeria and Egypt, with some changes compared to the pattern in key export destinations seen earlier during the year 2019. This trend has continued up to the latest monthly data available (August 2020), when the main four exporting countries together accounted for 43% of total EU finished product exports over this period.

In August 2020, exports of finished products to China rose by an exceptional +86% (the third monthly increase in a row) and export to Egypt rose (+13%). By contrast, exports to the Russian Federation dropped significantly (-70%), and also exports to the US and to Algeria recorded sharp decreases (-35% and --34%) respectively. Exports to Switzerland decreased much less significantly (-8%). Exports to the Russian Federation increased only marginally (+1%).

EU FINISHED STEEL EXPORTS BY DESTINATION
February 2020, Monthly '000 metric tonnes



Exports by product category

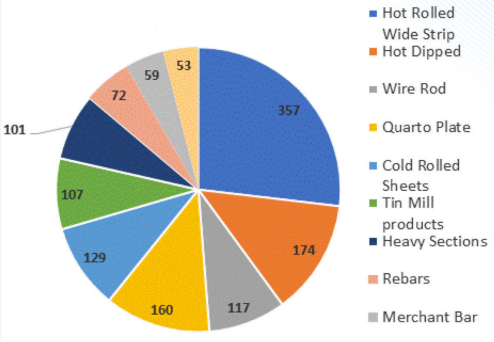
In the second quarter of 2020, flat product exports accounted for 66% of finished product exports and long product exports accounted for the remaining 34%. Exports of flat products recorded a decrease

(-24%) following a drop (-9%) in the first quarter, and exports of long products decreased (-17%) further to a decline (-15%) in first quarter.

Within the flat product segment, exports of all individual products decreased compared to the previous year. Exports of quarto plate recorded the least pronounced drop (-9%), while, while all other flat products recorded decreases (between -20% and -30%).

Among long products, exports of rebar recorded the most significant drops (-29%), while exports of merchant bars, wire rod and heavy sections also fell (-15%-20%).

EU FINISHED STEEL EXPORTS BY PRODUCT
February 2020, '000 metric tonnes



Trade balance

The EU's total steel product trade deficit amounted to 929 million tonnes per month over the first eight months of 2020. In August 2020, to which the latest report referred, there was a trade surplus in long products thanks to a considerable surplus in heavy sections, as observed over the preceding months. In the second quarter of 2020, trade deficit of total steel products amounted to 880,000 tonnes, lower than 1.028 million tonnes reported in the first quarter. In detail, there was a deficit of 519,000 tonnes in flat products and a surplus of 148,000 tonnes in long products.

As far as the trade deficit with individual trade partners is concerned, the largest trade deficit in finished products was with Russia with 253,000 tonnes, followed by South Korea with a deficit of 222,000 tonnes per month and Turkey with 85,000 tonnes. The major destination countries for EU finished steel exports with a trade surplus over the first four months of 2020 remained the US, Switzerland and Algeria.

It is worth noting that, once normal business conditions are restored post-pandemic and steel demand picks up again, the combination of still-volatile monthly steel imports and the increased capacity of major exporting third countries will continue to pose a serious risk for EU steel producers. The final safeguards may have undergone some improvements in their design, but the safeguard itself keeps the door open for historically high import volumes.

These are imports which under the safeguard are allowed to increase further, even as market conditions deteriorate. The risk is that any growth in EU steel demand in the course of 2021 will mostly benefit imports due to the unused quota transfer mechanism. This is already partly reflected in import market shares of steel consumption that have remained unchanged even in times of plummeting steel demand.

The EU market therefore remains at risk of being destabilised by third country imports to the detriment of EU domestic producers. The root cause of the challenges faced by the EU sector today is, still, global overcapacity. Global overcapacity is still running far ahead of growth in worldwide production. Moreover, excess capacity is still being built up without solid economic justification in countries such as China, Indonesia, Iran, Russia, or Turkey. The safeguard alone will not be sufficient in countering this threat.

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. It is 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: Real consumption is the use of all steel products used by steel-using sectors in their production processes, also referred to as the 'final use' of steel products, adjusted for the stock cycle.

Apparent steel consumption: Apparent consumption is also referred to as 'steel demand'. It is total deliveries of all steel products and qualities by EU producers plus imports less 'receipts' into the EU, minus exports to third countries. In other words, apparent consumption is deliveries by EU producers plus imports minus receipts (that is, imports by EU producers themselves of material that is further processed), minus exports to third countries. EUROFER's definition of apparent consumption includes all qualities, including stainless, and all finished products and semi-finished products.
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.

Steel industry receipts: In both the apparent consumption and market supply statistics, the imports component of the calculation is written, in the EUROFER definition, as 'imports less receipts'.
The 'receipts' in this instance mean imports by EU producers themselves of finished or semi-finished steel products that are further processed by the producer and transformed into other products. In the publicly available EUROFER figures, only finished products are shown and thus impacted by the receipts calculation.
This correction is important because it prevents double-counting that would artificially inflate the size of the market. If an EU producer imports a tonne of hot rolled strip that it further processes into a tonne of cold rolled which it then delivers to the EU market - in an uncorrected calculation the import of one tonne would then become one imported tonne plus one EU-processed and delivered tonne. The imported tonne is thus corrected out in the import side of the market supply and apparent consumption figures.

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)

EUROFER AISBL is located in Brussels and was founded in 1976. It 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.

The European Steel Association 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 330,000 highly-skilled people, producing on average 160 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.

EUROFER

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