Atradius
Managing risk, enabling trade

November 2017

market monitor

Focus on steel and metals performance and outlook

Disclaimer

In this issue...

On the following pages we indicate the general outlook for each sector featured using these symbols:

Excellent Good Fair Poor Bleak

A flash in the pan?

The steel industry has rebounded since 2016, following a period of subdued demand. Both steel prices and global steel use increased again last year, which has had a positive effect on the previously depressed margins of many steel businesses. The World Steel Association (WSA) forecasts that worldwide apparent steel use will increase 2.6% in 2017 and 1.6% in 2018, mainly driven by better economic performance in most advanced and developing economies.

However, the current steel rebound is mainly driven by cyclical factors, while fundamental structural issues remain. Steel remains very susceptible to political and economic risk factors, currently the increased threat of protectionism, China's hard landing, Brexit, and capital outflows from emerging markets. Should any of these risks materialise, it could immediately lead to another downturn in regional or global steel demand.

At the same time, there are persistent strains affecting steel producers and traders. Overcapacity remains a major issue, and the global capacity utilisation rate, currently at about 72%, remains low compared to the 85% seen before the 2008 credit crisis. While the current rebound has temporarily alleviated some of the pressures caused by global oversupply of steel, it seems evident that any future slowdown in demand would again highlight the impact of price volatility on the profitability of businesses with high fixed production costs, high capital and operating expenditure needs and which are highly leveraged - resulting in elevated credit risk.

The already shaky market conditions in the steel industry are not helped by future environmental and technological challenges, e.g. the European steel industry is facing tighter environmental standards to be imposed by the European Union, while technological innovations could lead to less steel demand from key buyer industries in the future. The rising trend towards e-mobility is such an issue, and it cannot be ruled out that in the medium-term decreasing demand for steel and metals from automotive as a key buyer industry (due to a shift to electric engines and lighter car bodies) could severely affect the sector.

China

- A short-lived rebound of demand in 2016
- Continued pressure on profit margins
- Private-owned producers face serious troubles

Overview

Credit risk assessment	significantly improving	improving	stable	deteriorating	significantly deteriorating
Trend in non-payments over the last 6 months			✔		
Development of non-payments over the coming 6 months			✔		
Trend in insolvencies over the last 6 months				✔	
Development of insolvencies over the coming 6 months			✔		
Financing conditions	**very high**	**high**	**average**	**low**	**very low**
Dependence on bank finance	✔				
Overall indebtedness of the sector	✔				
Willingness of banks to provide credit to this sector					✔
Business conditions	**significantly improving**	**improving**	**stable**	**deteriorating**	**significantly deteriorating**
Profit margins: general trend over the last 12 months				✔	
General demand situation (sales)			✔		

Source: Atradius

In the Chinese steel and metals industry overcapacity remains the main challenge, as the rebalancing of the Chinese economy from investment and export-oriented driven growth towards private consumption continues. China's government has repeatedly said that it will reduce steel overproduction and consolidate the industry. However, success has been rather limited so far as regional governments have a strong incentive to support local production where possible to maintain employment and prestige. A comprehensive consolidation of the sector still has a long way to go.

According to the World Steel Association, Chinese steel production continued to grow in 2016, by 1.2% year-on-year, to 808 million tons. This was followed by an increase of 5.6% between January and August 2017. In 2016 continued fiscal support drove domestic demand for industrial steel and metals, especially through public-private partnerships in public infrastructure construction (airports, water, railway, power, roads and bridges). However, the rebound has been short-lived: according to the World Steel Association, domestic steel demand will remain flat in 2017 and decrease 2% in 2018. At the same time, Chinese steel exports decreased 18% in H2 of 2016 and 25% in H1 of 2017, as many countries have imposed duties on Chinese steel imports.

The profit margin situation of many Chinese steel and metals businesses remains rather bad, as the average operating margin amounts to just about 2.7% - a very low level compared to all other industrial sectors - while the majority of steel producers registered losses. For both steel manufacturers and steel traders, bank financing is the major source of funding, however, banks remain very unwilling to provide loans. High leverage has been an outstanding issue over the last couple of years, together with shadow banking, while many steel companies have repeatedly pledged the same collateral for loans from several different

China: Metals manufacturing sector

	2016	2017f	2018f
GDP growth (%)	6.7	6.7	6.3
Sector value added growth (%)	5.8	2.1	3.2

Sector share in the national economy (%)	1.5
Average sector growth over the past 3 years (%)	9.6
Average sector growth over the past 5 years (%)	11.1
Degree of export orientation	average
Degree of competition	high

Sources: Macrobond, Oxford Economics, Atradius

banks, thus multiplying the risk. The intertwined nature of loan guarantees in China's steel sector implies that credit default by a single company could trigger a chain reaction across a string of other firms which are often guarantors of debts for their bankrupt competitors. For all those reasons, there is a high potential systemic risk for banks, which has forced them to cut loans.

Payments in the Chinese steel and metals industry take between 60 and 120 days on average. The number and amount of protracted payments and insolvencies remains high. While leading state-owned steel makers still show some resilience, many private-owned steel and metals producers face serious troubles. The majority of Chinese steel and metals traders do not have many fixed assets, and suffer from slim margins and very limited bank facilities.

Given the poor credit risk situation in the industry, our underwriting stance remains very restrictive, with cover strictly limited to businesses with strong financial profile or background.

Chinese steel/metals sector

Strengths	Government support for state-owned enterprises will prevent drastic production cuts in the short term
	Growth in the automotive sector may provide a silver lining for steel producers
	Consolidation is likely to lead to the elimination of surplus capacity in the long term
Weaknesses	Low margins and heavy losses
	Steel and metals consumption growth is expected to see a marked slowdown over the coming years
	Restrictive bank policies will force more producers to go out of business

Source: Atradius

Germany

- A rebound in sales prices has helped the sector
- Payments take between 30 and 45 days on average
- More challenges ahead in the medium-term

Overview

Credit risk assessment	significantly improving	improving	stable	deteriorating	significantly deteriorating
Trend in non-payments over the last 6 months			✔		
Development of non-payments over the coming 6 months			✔		
Trend in insolvencies over the last 6 months		✔			
Development of insolvencies over the coming 6 months			✔		
Financing conditions	**very high**	**high**	**average**	**low**	**very low**
Dependence on bank finance		✔			
Overall indebtedness of the sector			✔		
Willingness of banks to provide credit to this sector		✔			
Business conditions	**significantly improving**	**improving**	**stable**	**deteriorating**	**significantly deteriorating**
Profit margins: general trend over the last 12 months			✔		
General demand situation (sales)			✔		

Source: Atradius

According to the World Steel Association, German steel production decreased 1.4% year-on-year in 2016, to 42.1 million tons, mainly due to low steel prices in H1 of 2016, coupled with import pressure and overcapacity. The balance sheets of many steel and metals businesses showed losses due to decreasing sales, lower margins and depreciation of inventory. However, prices have rebounded since H2 of 2016, leading to better results and improved margins since then. Steel production grew again between January and August 2017, by 2.1% year-on-year. German steel demand is expected to grow slightly, by 0.9% in 2017 and 0.4% in 2018.

The general equity and liquidity of steel businesses in Germany are better than the manufacturing industry average, except for small wholesalers without pre-fabrication and/or steel service activities. Banks are generally willing to provide loans to the steel and metals sector.

We have seen no changes in the payment behaviour of companies in the steel and metals sector over the past couple of months, with payments taking, on average, between 30 and 45 days. In line with the overall trend, German steel and metals business failures have decreased in 2016, and no major change is expected in 2017 and into 2018.

Therefore, our underwriting stance is mainly positive for German steel and metals businesses. We pay particular attention to recent financial information (balance sheets, interim figures, bank status, payment terms, duration of contract, order volume, payment behaviour). We continue to be more cautious when underwriting small steel traders, especially those without additional business like prefabrication and weak equity ratios, as they often face strong competition and low margins. Another difficult subsector is scrap recycling where businesses are exposed to steel prices volatility and pressure on decreased margins.

Germany: Metal manufacturing sector

	2016	2017f	2018f
GDP growth (%)	1.9	1.8	1.8
Sector value added growth (%)	2.2	2.1	0.4

Sector share in the national economy (%)	2.3
Average sector growth over the past 3 years (%)	2.9
Average sector growth over the past 5 years (%)	1.4
Degree of export orientation	high
Degree of competition	high

Sources: Macrobond, Oxford Economics, Atradius

For the time being, the German steel and metals sector remains resilient with a competitive edge due to its high technology products and buoyant demand from automotive, construction and machinery. However, the market environment is turning increasingly difficult, and the pressure on German steel and metals businesses has increased over the last couple of years. Besides issues like punitive tariffs and trade barriers, there are persistent structural challenges, such as volatile commodity and sales prices and overcapacities, while the number of overseas competitors from Africa, Asia and South America climbing up the value chain has increased, putting pressure on prices and margins. At the same time, the EU emission trading scheme and high energy costs in Germany threaten to increase the financial burden for German steel and metals businesses. In the medium- and long-term, decreasing demand for steel and metals from automotive, as a key buyer industry (due to a shift to electric engines and lighter car bodies), could severely affect the sector.

Therefore, majors strains cannot be ruled out for German steel and metals producers in the medium-term – with sales and profit decreases for many businesses along the value chain, coupled with a surge in payment defaults and business failures.

German steel/metals sector

Strengths	Broad range of customer industries and export destinations
	High quality/niche products
	High technology level compared to other competitors
Weaknesses	High energy costs
	High foreign competition
	High dependency on raw materials
	Persistent overcapacities

Source: Atradius

Italy

- Weak performance in the distributors and service centres segment
- A rebound is underway since 2016
- Payments take 90 days on average

Overview

Credit risk assessment	significantly improving	improving	stable	deteriorating	significantly deteriorating
Trend in non-payments over the last 6 months		✔			
Development of non-payments over the coming 6 months			✔		
Trend in insolvencies over the last 6 months			✔		
Development of insolvencies over the coming 6 months			✔		
Financing conditions	**very high**	**high**	**average**	**low**	**very low**
Dependence on bank finance		✔			
Overall indebtedness of the sector		✔			
Willingness of banks to provide credit to this sector			✔		
Business conditions	**significantly improving**	**improving**	**stable**	**deteriorating**	**significantly deteriorating**
Profit margins: general trend over the last 12 months		✔			
General demand situation (sales)			✔		

Source: Atradius

For the Italian economy, metals and, in particular, the steel industry are of major importance, accounting for about 2% of GDP. The steel sector suffered massive production and consumption decreases in 2009 and again in 2011-2013, due to weak demand, overcapacity and flat prices, with all the players along the value chain suffering from deteriorating margins. Due to persistently subdued demand and low cost Chinese steel imports, Italian steel production decreased more than 7% in 2015, to 22 billion tons.

However, the industry rebounded in 2016, mainly due to increased demand from the automotive sector and EU anti-dumping import duties on Chinese steel. Steel production increased 6% due to a surge in flat steel output, while long steel products showed a modest increase. According to the World Steel Organisation, steel production increased 1.7% further in the period January-August 2017. Sales prices have recovered and exports benefit from a favourable euro exchange rate.

However, a real rebound of domestic steel sales is not expected before 2018, as demand from construction, which accounts for about 50% of steel consumption, shows only a modest recovery so far. Exports could be affected as the Algerian market, one of Italy's main export destinations (together with Germany) is expected to become self-sufficient by the end of 2018.

The rebound of steel and metals sales prices, together with export sales and the bottoming out of the decrease in domestic demand has helped to improve margins of steel and metals businesses in 2017, which nevertheless remain tight. Both payment delays and insolvencies have decreased in 2016, and are expected to remain stable or even to decrease slightly again in 2017. However, businesses operating in the domestic market are still affected by slow payments from their customers.

Italy: Metals manufacturing sector

	2016	2017f	2018f
GDP growth (%)	0.9	1.2	1.0
Sector value added growth (%)	3.0	3.8	0.3

Sector share in the national economy (%)	2.2
Average sector growth over the past 3 years (%)	0.4
Average sector growth over the past 5 years (%)	-0.6
Degree of export orientation	average
Degree of competition	high

Sources: Macrobond, Oxford Economics, Atradius

Due to the general improvement of the economic situation, higher sales prices, increased production and the satisfying credit insurance claims performance since 2016 we have recently upgraded the steel and metals sector performance outlook from "Poor" to "Fair". Our underwriting stance is generally open to neutral, depending on the performance of the subsectors and their main buyer industries. We are more open to steel mills, which benefit from higher sales prices, and to steel and metals businesses linked to the automotive industry.

The same accounts for export-driven companies, while more attention is advised for businesses dependent on domestic construction and the oil and gas sector. We are still more cautious with the steel and metals distributors and service centre segment, which is characterised by a large number of relatively small companies with low added value, thin margins and which are high leveraged. While the higher steel prices are favourable for steel mills, they might cause issues for distributors in terms of higher working capital requirements.

Italian steel/metals sector

Strengths	Flexible production
	Export oriented
	Consolidation in certain sectors
Weaknesses	Still subdued domestic demand
	Market remains quite fragmented
	High dependence on construction

Source: Atradius

United Kingdom

- **Margins have improved, but challenges remain**
- **Payments take 60 days on average**
- **No major insolvency increase expected in 2017**

Overview

Credit risk assessment	significantly improving	improving	stable	deteriorating	significantly deteriorating
Trend in non-payments over the last 6 months			✔		
Development of non-payments over the coming 6 months		✔			
Trend in insolvencies over the last 6 months			✔		
Development of insolvencies over the coming 6 months			✔		
Financing conditions	**very high**	**high**	**average**	**low**	**very low**
Dependence on bank finance	✔				
Overall indebtedness of the sector	✔				
Willingness of banks to provide credit to this sector		✔			
Business conditions	**significantly improving**	**improving**	**stable**	**deteriorating**	**significantly deteriorating**
Profit margins: general trend over the last 12 months			✔		
General demand situation (sales)			✔		

Source: Atradius

In 2015 and early 2016 the market situation of the British steel and metals industry was difficult, as overcapacity, fierce competition, exchange rate volatility, high energy costs, on-going austerity measures and increased uncertainty over the Brexit referendum outcome weighed on the performance and financial strength of many businesses. Steel prices remained depressed, largely as a result of low commodity prices, in particular iron ore.

However, steel and metals prices rebounded in 2016 as China curtailed its steel exports, while the European Union imposed import duties on Chinese steel. At the same time, demand from construction and especially automotive as key buyer sectors has been robust. High levels of warehouse inventories have been unwound, and therefore increases to the price of steel have been pushed through the supply chain. That said, according to the World Steel Association, British steel production decreased slightly in the period January-August 2017, down 1.4% year-on-year.

While the adverse market conditions in the past impaired revenues, margins, profits and cash flow of many steel and metals businesses, the rising sales prices have led to improved business margins. UK steel stockholders are mainly long established and profitable but also heavily reliant on bank finance (mainly invoice discounting) in order to have stock available as and when it is required. Usually they have low overheads, which makes them resilient to economic changes, as they are able to unwind inventories in order to free up cash. Banks are generally willing to provide loans to the industry.

The average payment duration in the UK steel and metals industry is 60 days. Payment delays have increased in late 2016 and early 2017, however, this was mainly due to the business failure of a large automotive supplier in 2016. It is expected that non-payment notifications will decrease in the coming months, as sales prices have remained at levels higher than expected, resulting in further increasing margins. The number of larger

United Kingdom: Metals manufacturing sector

	2016	2017f	2018f
GDP growth (%)	1.8	1.6	1.4
Sector value added growth (%)	-2.3	0.0	1.3

Sector share in the national economy (%)	0.8
Average sector growth over the past 3 years (%)	0.4
Average sector growth over the past 5 years (%)	0.3
Degree of export orientation	low
Degree of competition	very high

Sources: Macrobond, Oxford Economics, Atradius

credit insurance claims has decreased over the last six months and, while UK business insolvencies are forecast to increase 2% in 2017 and 4% in 2018, it is expected that the steel and metals sector will not follow this deteriorating trend.

Due to the improvement in businesses' margins and the stable credit insurance claims situation we have recently upgraded our steel and metals sector outlook from "Poor" to "Fair". However, we are still more cautious when underwriting businesses linked to the oil industry in the North Sea and/or Oil Country Tubular Goods (OCTG), as lower investments by the energy sector have negatively impacted revenues, margins and profitability of many steel and metals businesses supplying the oil industry.

Brexit could negatively affect the British steel and metals sector in the mid-term, as subsequent economic uncertainty could trigger delays or even cancellation of investment decisions, especially in the construction sector. At the same time, any introduction of new tariffs on imported metals and steel by the EU after the UK has officially left could hurt the steel segment, as 70% of British steel exports are currently destined for the EU.

We remain mindful that steel/metals is structurally a low margin sector, with unstable market conditions, high business fragmentation arguably ripe for consolidation, fierce competition and high dependency on banking lines, where highly leveraged balance sheets can cause issues during a downturn. In the steel and metals industry the ability of businesses to process products efficiently and investment in new technology such as laser cutting and detailed integrity scanners are major assets in order to gain competitive advantages.

British steel/metals sector

Strengths	Investment in new technologies
	Abundant access to external financing
Weaknesses	Decreasing profit margins
	High dependence on the construction sector

Source: Atradius

United States

- A rebound, but market conditions remain shaky
- Payment delays expected to increase in certain regions
- Major import tariffs on steel imports are still an issue

Overview

Credit risk assessment	significantly improving	improving	stable	deteriorating	significantly deteriorating
Trend in non-payments over the last 6 months			✔		
Development of non-payments over the coming 6 months			✔		
Trend in insolvencies over the last 6 months			✔		
Development of insolvencies over the coming 6 months			✔		
Financing conditions	**very high**	**high**	**average**	**low**	**very low**
Dependence on bank finance		✔			
Overall indebtedness of the sector			✔		
Willingness of banks to provide credit to this sector		✔			
Business conditions	**significantly improving**	**improving**	**stable**	**deteriorating**	**significantly deteriorating**
Profit margins: general trend over the last 12 months			✔		
General demand situation (sales)			✔		

Source: Atradius

In 2015 and in H1 of 2016 the US steel and metals sector´s revenue performance was severely affected by the lower cost of imported steel and decreasing demand from the oil/gas industry, which suffered from the oil price decline. The latter has particularly affected the oil country tubular goods (OCTG) sector.

Since H2 of 2016 a modest rebound has started as steel prices increased again and demand from the OCTG sector stabilised, with more oil rigs added each month in 2017 and old inventory being sold and newer products being purchased by suppliers. At the same time, demand from automotive and construction has remained robust, although we expect demand from automotive to flatten out in the coming six to nine months. According to the World Steel Association, US steel production decreased 0.3% in 2016, but rebounded 2.4% in the period January-August 2017. US steel demand is forecast to increase by about 3% annually in 2017 and 2018 after a 4.7% decline in 2016 as robust US economic growth is set to continue.

Profit margins of steel and metals businesses have stabilised again after a substantial deterioration in 2015 and H1 of 2016. Financing requirements and gearing are generally high in this industry, and banks have become increasingly willing to provide loans to businesses after a more restrictive stance in 2015 and 2016. While the overall financial and credit conditions are generally stable, steel/metals companies still must be financially very viable in order to obtain their preferred lending terms and interest rates.

The average payment duration is, on average, 30-45 days domestically and 60-90 days for businesses abroad. Payment delays and defaults have stabilised after increasing in 2015 and 2016, when the cash flow of end-buyers was impacted by lower growth, especially in the OCTG sector. Steel and metals insolvencies have remained stable over the last six months, and are not expected to increase sharply in 2017 and 2018. However, an increase in both payment delays and business failures in Puerto

United States: Metals manufacturing sector

	2016	2017f	2018f
GDP growth (%)	1.5	2.1	2.4
Sector value added growth (%)	-3.2	3.2	0.6

Sector share in the national economy (%)	0.9
Average sector growth over the past 3 years (%)	-2.0
Average sector growth over the past 5 years (%)	-0.7
Degree of export orientation	medium
Degree of competition	medium

Sources: Macrobond, Oxford Economics, Atradius

Rico and the area around Houston with its large oil industry cannot be ruled out. Both places have been severely affected recently by natural disasters (hurricanes Maria and Harvey). While the Houston area has recovered relatively well, issues in Puerto Rico are expected to last at least one year before a return to normalcy. Therefore, we expect payment delays and business failures, especially on the island of Puerto Rico, to increase.

Our underwriting stance for the steel and metals sector is neutral to restrictive as, despite the recent improvements, the industry has suffered a significant downturn in 2015 and early 2016. The financial situation of many businesses has just begun to stabilise, while the market environment remains volatile, with cheaper steel and metals imports still remaining an issue. We closely monitor the situation in the Houston area and Puerto Rico, where suppliers need to closely monitor and verify payment practices to make sure companies have sufficient resources to support the rebuilding process.

A major country-wide infrastructure improvement scheme announced by the US government would certainly help the sector, while the on-going rebound of energy sector investments could turn out to be limited due to increased efficiency of shale producers.

US steel mills still run at just about 75% of capacity, and in August 2017 major US steel producers urged the Trump administration to impose import tariffs under Section 232 of the Trade Expansion Act of 1962 (which allows the US president to adjust imports unilaterally should the US Department of Commerce find evidence of a national security threat from foreign shipments). However, the US steel and metals industry is divided over this issue, as many steel/metals traders and users are relying on (cheaper) imports of metals and steel. Any major import restrictions could also lead to retaliatory actions by major trading partners like the EU or China. In September 2017 the US administration finally announced that it has postponed any decision on steel import tariffs until after the passing of comprehensive tax reform.

US steel/metals sector

Strengths	Businesses´ financial situation is generally stable
	Insolvency trends continue to improve
	Planned infrastructure improvement projects should help the sector
Weaknesses	Competition is increasing, as companies try to expand their regional reach (local to regional, regional to national) in order to find new business
	The risk of an international trade war persists
	Average pricing and volume could quickly be affected by an economic setback

Source: Atradius

Market performance snapshots

France

- **Demand from the construction sector has finally picked up**
- **Low demand from agriculture machinery and energy sectors**
- **Non-payments have decreased in 2016**

As in 2016, in 2017 the French steel and metals sector has continued to benefit from higher sales prices, EU anti-dumping measures targeting foreign (Chinese) steel imports and buoyant demand from the automotive sector. Demand from construction finally picked up in 2016 as building activity increased 2% - driven by government stimulus and low interest rates - and expanded further in 2017. Metal manufacturing value added growth is expected to accelerate above 2% in 2017 and 2018, despite subdued demand for metals and steel from agricultural machinery and the oil and gas sector, as the global economic environment is expected to remain benign and French GDP is forecast to grow more than 1.5%.

However, overcapacity remains an issue in French steel trading activity. Although profit margins have increased over the last 12 months, operating margins generally remain low for many small players, especially smaller steel/metals traders, wholesalers and processors. Some smaller businesses, however, are able to operate in niche segments that provide higher margins.

Steel businesses are generally highly dependent on bank finance, either due to high capital expenditures when operating upstream and/or the need for short-term facilities to finance working capital requirements and inventories. Currently the willingness of banks to provide credit to the sector can be described as neutral. Financing will remain a key element in the coming months due to higher steel and metals prices.

Payment delays decreased in 2016, and the level of steel/metals insolvencies is not overly high. This is mainly because many steel and metals traders and wholesalers are able to adapt with a flexible cost structure. That said, the foundry segment and steel and metals businesses that are dependent on the oil and gas industry as their end-market still face difficulties.

Our underwriting approach remains neutral for the time being. However, conditions can change quickly in this industry characterised by both overcapacity and volatile prices, especially if decreasing revenues and margins are not bolstered (in time) by prudent cost management. Export orientation and customer diversification remain key factors for business success in the French steel and metals sector.

India

- Robust growth drives domestic steel consumption
- Government measures to stem steel imports
- Non-payments have increased in 2016 and in 2017

In line with India´s robust annual economic growth rates of more than 7%, domestic steel demand is expected to increase further, by 6.1% in 2017 and 7.1% in 2018 after increasing 4.1% in 2016, according to the World Steel Association. Demand is mainly driven by key end-user industries such as construction, capital goods and consumer durables. India is the world's third-largest steel producer and production increased 5.1% year-on-year between January-August 2017.

In order to stem rising imports and to protect domestic steel producers, the Indian government has implemented a couple of measures in 2015 and 2016 (e.g. increasing the steel import duty and imposing anti-dumping, countervailing duties on various steel products). Those actions have been welcomed by the Indian steel industry, which has previously been affected by sliding net sales, falling profits and, in some cases, rising net losses and an erosion of net worth. The sector was given a further boost by a government steel policy scheme which aims to triple India's annual steel production to 300 million tons by favouring locally manufactured steel and reducing imports to zero by 2030.

However, some major challenges remain. Capacity utilisation is low, and it is expected that the benefits from domestic demand growth will be offset by limits to raise sales prices due to enduring global steel overcapacity. As the share of stalled projects in the steel and metals industry has risen steadily, outstanding loans have increased, making the sector one of the largest contributors to non-performing assets (NPA) in India. Due to the high NPA level, banks remain reluctant to provide loans to the industry, and external financing at competitive conditions remains a challenge for many steel businesses.

On average, payment periods in the Indian steel and metals industry take between 60 and 90 days. Non-payment notifications have increased in 2016 and H1 of 2017, and therefore our underwriting stance remains restrictive, especially on steel and metals traders and wholesalers.

Market performance at a glance

Belgium

- Belgian steel production increased in 2016, by 5.9 % year-on-year, and by 5.1% between January and August 2017, to 4,500 metric tons. The Belgian steel and metal sector has benefitted from a rebound in sales prices since H2 of 2016, coupled with higher demand from the automotive and construction sectors, which are the major buyer industries.
- Competition remains high, especially with Asian steel and metals businesses on international markets. Profit margin development is generally stable, while financial requirements and gearing are high.
- Payment delays have decreased in the steel and metals sector in 2016, while both the number and amount of non-payment notifications and credit insurance claims have remained rather low in 2016 and H1 of 2017. We expect both the payment and insolvency development to remain stable in H2 of 2017 and in 2018.
- Our underwriting stance is generally open to neutral for steel and metals. Underwriting decisions are mainly made on updated information (buyer contacts) and close monitoring of iron ore and metals price developments in order to anticipate the potential impact of price changes on the financial situation of buyers. Due to price fluctuations, stock rotations and volume evolutions are in, certain cases, a better indicator to analyse a company's performance than its turnover. In particular, the margins of the steel and metals recycling and trading segment are highly sensitive to price volatility.

The Netherlands

- Although the steel and metals sector accounts for just 1.1% of Dutch GDP, it is important as a leading supplier for construction, automotive and machinery. Dutch steel production amounted to seven million tons in 2016, which makes the Netherlands the sixth largest manufacturer in Europe. The industry consists mainly of steel traders and wholesalers, and is highly dependent on domestic construction sector performance.
- After some difficult years, the industry has benefitted, since late 2015, from a rebound in the domestic building sector, from rising demand from the automotive and machinery sectors and from increased exports. The overall outlook for late 2017 and 2018 remains positive.
- However, due to overcapacity there is on-going price pressure in most segments, which negatively affects margins. Despite this, due to the benign demand situation, profit margins are expected to remain stable in the coming 12 months. Innovation continues to be important in order to focus on efficiency and to reduce costs.
- Dutch steel makers, traders and wholesalers are higly dependent on banks for financing their stock. Banks have become more willing to lend than in previous years due to the economic rebound. However, any major steel price deterioration in the future would again make it harder to obtain additonal credit facilities.
- Payments in the Dutch steel and metals sector take 45 days on average. Payment delays and insolvencies have decreased over the last 12 months, and both are expected to remain stable in the coming months. The insolvency level in this segment is quite low.
- Our underwriting stance is generally open due to the current positive performance and outlook. We monitor stock levels more closely and low value added steel and metals companies, as they are very sensitive to price fluctuations. Also companies that are highly dependent on the oil and gas and shipbuilding sectors have our special attention due to lower order levels.

Poland

- Polish steel production amounted to 8.9 million tons in 2016, which makes Poland the fifth largest manufacturer in Europe and the 18th largest globally. Domestic steel production is dominated by large global players like ArcelorMittal. Along the value chain between mills and final consumers of steel there are a lot of specialised manufacturers and distributors.
- According to the World Steel Association, Polish steel production rebounded in H2 of 2016 growing 19.1% year-on-year between January and August 2017. Growth was driven by robust domestic demand (mainly construction and infrastructure projects linked to EU funds).
- Competition in the Polish market is fierce, especially in the steel and metals distribution segment, due to increased imports from Eastern Europe and Asia. This affects profit margins of Polish businesses. The costs of complying with high EU environmental standards put Polish producers at a disadvantage to non-EU producers. While higher sales prices have improved businesses' profitability in H2 of 2016 and early 2017, profit margins are expected to decrease slightly in the coming six months due to a lower sales outlook.
- Payment experience has been good over the past two years, and steel and metals business insolvencies have decreased in 2016, with a stable outlook for 2017 and 2018. Access to bank financing has further improved over the last 12 months, and banks are generally willing to provide loans to the industry. Weaker players left the market in previous crisis years, and it seems that the surviving businesses are financially more resilient.
- Our current underwriting approach is positive to neutral due to improving margins and growing demand. However, due to new tax regulations regarding the reverse charge mechanism for construction businesses, we have monitored increased concerns among steel and metals distributors dependent on the building industry. Additionally, a new (still voluntary) mechanism of split payment scheme aimed at reducing VAT fraud, has raised concerns about deteriorating liquidity due to the freezing of businesses' funds related to VAT on an dedicated account.

South Africa

- South Africa ranks 22nd globally in terms of crude steel production (about six million metric tons per year). The steel and metals industry plays a pivotal role in the South African economy and is a key supplier to the domestic mining, construction, energy and infrastructure sectors.
- In 2015 and 2016 the steel industry was affected by global oversupply and the dumping of cheap import steel. This prompted the South African government to impose tariffs and safeguard duties. Following a 4.3% year-on-year decline in 2016, South African steel production decreased further between January and August 2017, by 1.3%, according to the World Steel Association. Domestic steel demand has remained subdued so far in 2017 as economic growth remains modest (forecast 0.8% in 2017, followed by 1.8% in 2018), and the performance of the main buyer sectors is still sluggish. Long-term steel production growth is expected to remain constrained by power supply issues and higher production costs.
- While the overall indebtedness of steel and metals businesses is about the same as other industries, banks have generally tightened their lending policies due to the fierce competitive environment (which puts persistent pressure on margins) and the still subdued demand.
- Although the number of payment delays and business failures is not expected to increase sharply in the coming 12 months, sizeable payment defaults or insolvencies by large businesses cannot be ruled out. Therefore, our current underwriting strategy continues to be restrictive, especially in the commodity traders segment.

Spain

- According to the World Steel Association, Spanish steel production decreased 8% year-on-year in 2016, to 13.7 million tons, while exports decreased 3%. This setback after years of sustained recovery was mainly due to lower global demand, strong competition from China and lower sales prices. Domestic steel consumption also decreased in 2016 (down 1.3%).
- However, with increasing sales prices and higher demand since H2 of 2016, especially from the automotive sector, Spanish steel production rose again in 2017, by 2.2% year-on-year between January and August 2017. Profit margins recovered in H2 of 2016 and in H1 of 2017, and are expected to remain stable in the coming months as steel and metals prices are not forecast to decrease for the time being.
- The competitiveness of the domestic steel and metals industry is negatively impacted by power costs, which are among the highest in the EU. This is of major importance for the sector, given that 75% of Spanish steel producers work with electric furnaces.
- Both payment delays and insolvencies have remained stable in 2016 and H1 of 2017, and are expected not to increase in the coming months. Our underwriting stance for the steel sector remains neutral to cautious, while we are more open for businesses in the non-ferrous metals segment.

Industries performance forecast per country

November 2017

	Agriculture	Automotive/ Transport	Chemicals/ Pharma	Construction Const.Mtrls	Consumer Durables	Electronics/ ICT	Financial Services
Austria	⛅	🌧	⛅	⛈	☁	☁	☀
Belgium	☁	⛅	☀	🌧	☁	⛅	☁
Czech Rep.	⛅	☀	⛅	🌧	☁	☁	⛅
Denmark	⛈	☁	⛅	☁	🌧	☁	☁
France	🌧	☁	☀	🌧	☁	☁	⛅
Germany	☁	☁	☀	☁	☁	☁	⛅
Hungary	☁	☁	⛅	☁	☁	☁	☁
Ireland	☁	☁	⛅	☁	☁	☁	⛅
Italy	⛅	⛅	⛅	🌧	⛅	⛅	⛅
The Netherlands	⛅	☁	☀	⛅	☁	⛅	⛅
Poland	☁	🌧	☁	🌧	🌧	🌧	⛅
Portugal	☁	☁	🌧	🌧	☁	☁	🌧
Russia	🌧	☁	🌧	🌧	☁	🌧	☁
Slovakia	☁	⛅	⛅	⛈	☁	☁	⛅
Spain	☁	⛅	⛅	🌧	☁	☁	☁
Sweden	⛅	☁	⛅	☁	⛅	⛅	⛅
Switzerland	⛅	☁	⛅	🌧	☁	☁	☀
Turkey	⛅	⛅	☁	🌧	☁	🌧	⛅
UK	⛅	☁	⛅	🌧	☁	☁	☁
Brazil	☁	🌧	☁	🌧	⛈	⛈	⛅
Canada	☀	☁	☁	☁	☁	☁	☀
Mexico	☁	⛅	☁	🌧	☁	☁	⛅
USA	☁	⛅	⛅	☁	☁	⛅	⛅
Australia	⛅	🌧	☁	🌧	☁	⛅	⛅
China	☀	☁	☁	🌧	☁	☁	☀
Hong Kong	N/A	☁	☁	☁	☁	⛅	⛅
India	☁	☁	⛅	🌧	☁	☁	☁
Indonesia	☁	🌧	☁	☁	☁	☁	☁
Japan	⛅	☁	☁	☁	☁	⛅	⛅
New Zealand	⛅	🌧	⛅	⛅	🌧	⛅	⛅
Singapore	⛅	🌧	☁	🌧	☁	☁	⛅
Taiwan	N/A	🌧	☁	☁	⛅	⛅	☁
Thailand	☁	☁	☁	☁	🌧	☁	☁
United Arab Emirates	⛅	☁	☁	🌧	🌧	🌧	☁

Food	Machines/ Engineering	Metals	Paper	Services	Steel	Textiles
Good	Good	Fair	Fair	Good	Poor	Poor
Good	Good	Fair	Poor	Poor	Good	Poor
Good	Fair	Fair	Fair	Fair	Fair	Poor
Good	Fair	Fair	Bleak	Fair	Poor	Poor
Good	Fair	Fair	Poor	Fair	Fair	Poor
Fair	Good	Fair	Poor	Good	Fair	Poor
Fair	Good	Poor	Fair	Good	Poor	Poor
Good	Fair	Fair	Bleak	Fair	Fair	Poor
Good	Excellent	Fair	Fair	Fair	Fair	Poor
Excellent	Good	Good	Fair	Good	Fair	Fair
Fair	Poor	Fair	Fair	Good	Fair	Fair
Fair	Fair	Poor	Fair	Good	Poor	Fair
Fair	Bleak	Fair	Fair	Poor	Fair	Fair
Good	Good	Fair	Fair	Fair	Fair	Poor
Good	Fair	Poor	Poor	Good	Fair	Poor
Good	Good	Poor	Fair	Fair	Poor	Poor
Good	Good	Fair	Fair	Good	Poor	Fair
Good	Fair	Bleak	Poor	Poor	Fair	Poor
Fair	Fair	Fair	Poor	Fair	Fair	Poor
Good	Poor	Poor	Fair	Fair	Poor	Poor
Good	Fair	Fair	Poor	Good	Fair	Bleak
Good	Fair	Poor	Good	Good	Poor	Poor
Good	Fair	Poor	Poor	Good	Poor	Poor
Good	Fair	Poor	Poor	Fair	Poor	Poor
Good	Fair	Bleak	Poor	Good	Bleak	Poor
Excellent	Fair	Poor	Fair	Good	Poor	Fair
Good	Fair	Poor	Good	Good	Poor	Fair
Good	Fair	Poor	Fair	Fair	Poor	Fair
Good	Fair	Fair	Fair	Good	Fair	Poor
Fair	Fair	Fair	Poor	Poor	Poor	Poor
Good	Fair	Fair	Fair	Good	Poor	Fair
Excellent	Fair	Poor	Fair	Good	Poor	Fair
Good	Fair	Fair	Fair	Fair	Poor	Bleak
Poor	Fair	Poor	Fair	Good	Poor	Poor

Excellent

Good

Fair

Poor

Bleak

Industry performance

Changes since October 2017

Europe

Ireland

Services

Up from Poor to Fair

Despite grown uncertainty over the repercussions of Brexit consumer spending has increased further, and business insolvencies in this sector have not increased in contrast to previous expectations.

The Netherlands

Construction/Construction Materials

Up from Fair to Good

Machines/Engineering

Up from Fair to Good

Metals

Up from Fair to Good

Those sectors benefit from a currently solid economic performance in the Netherlands and a benign outlook for 2018. Both non-payment notifications and credit insurance claims have decreased. The number of new build houses is rapidly increasing, supporting the metals sector and the building machines segment.

Electronics/ICT

Up from Fair to Good

The sector benefits from higher business investment in ICT equipment and increased ICT consumer spending.

Textiles

Up from Poor to Fair

The sector benefits from increased clothing retail turnover after disappointing sales figures over the last couple of years.

Asia/Oceania

Indonesia

Construction/Construction Materials

Down from Good to Fair

Late payments have increased, particularly from public bodies due to bureaucratic issues.

If you've found this report useful, why not visit our website www.atradius.com, where you'll find many more Atradius publications focusing on the global economy, including more country reports, industry analysis, advice on credit management and essays on current business issues.

On Twitter? Follow @Atradius or search #marketmonitor to stay up to date with the latest edition

Connect with Atradius
on Social Media

@atradius Atradius atradius

Atradius N.V.
David Ricardostraat 1 · 1066 JS Amsterdam
Postbus 8982 · 1006 JD Amsterdam
The Netherlands
Phone: +31 20 553 9111

info@atradius.com
www.atradius.com