



***Managing uncertainty  
European Steel – Prospects in  
the current climate***

SBB European Steel Lunch  
Paris December 13<sup>th</sup> 2011

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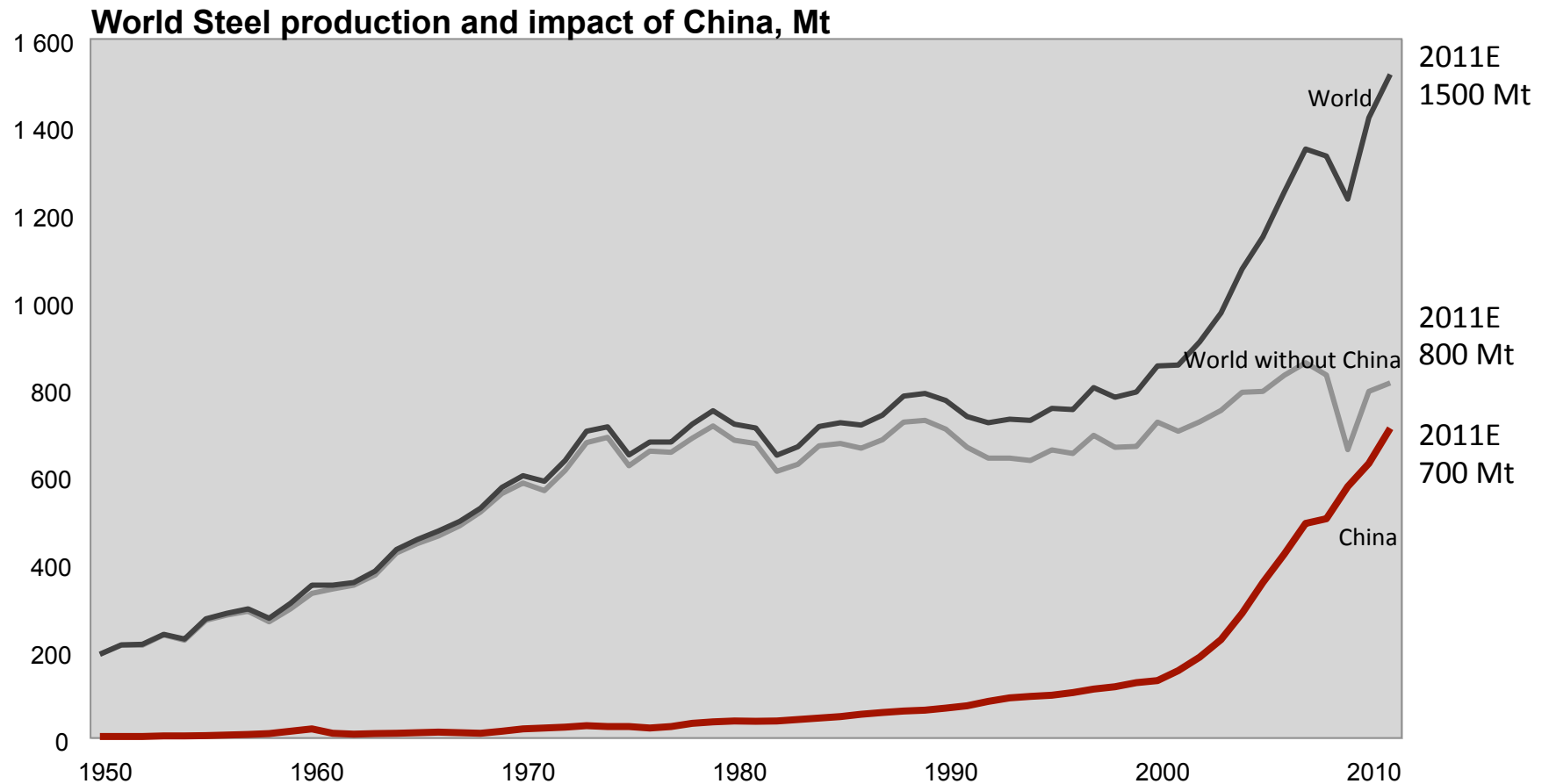
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## Rarely, has the world economic outlook been more uncertain for industrial producers in Europe

- Where is China going ? Accelerating, slowing down, hard landing ?
- What is the impact of the debt crisis ? Another 2009 style credit crunch ?
- Will the Euro collapse or be strengthened ?
- Will Europe adopt excessive CO2 countermeasure, move away from nuclear energy or both ?
- ArcelorMittal is announcing plant closure. Temporary or permanent ?

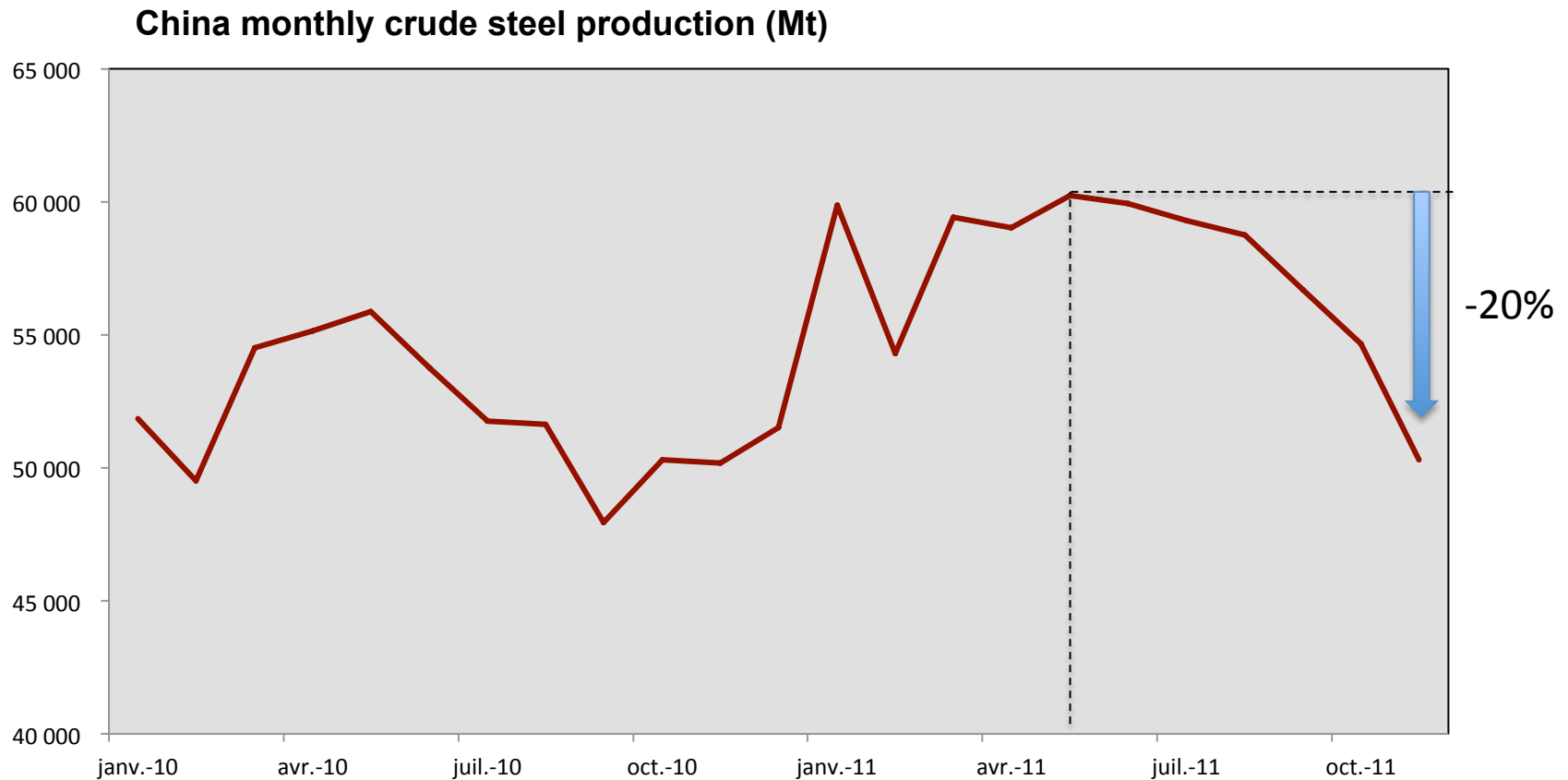


# Until now, China's economic growth explained most of the recent growth in global steel production



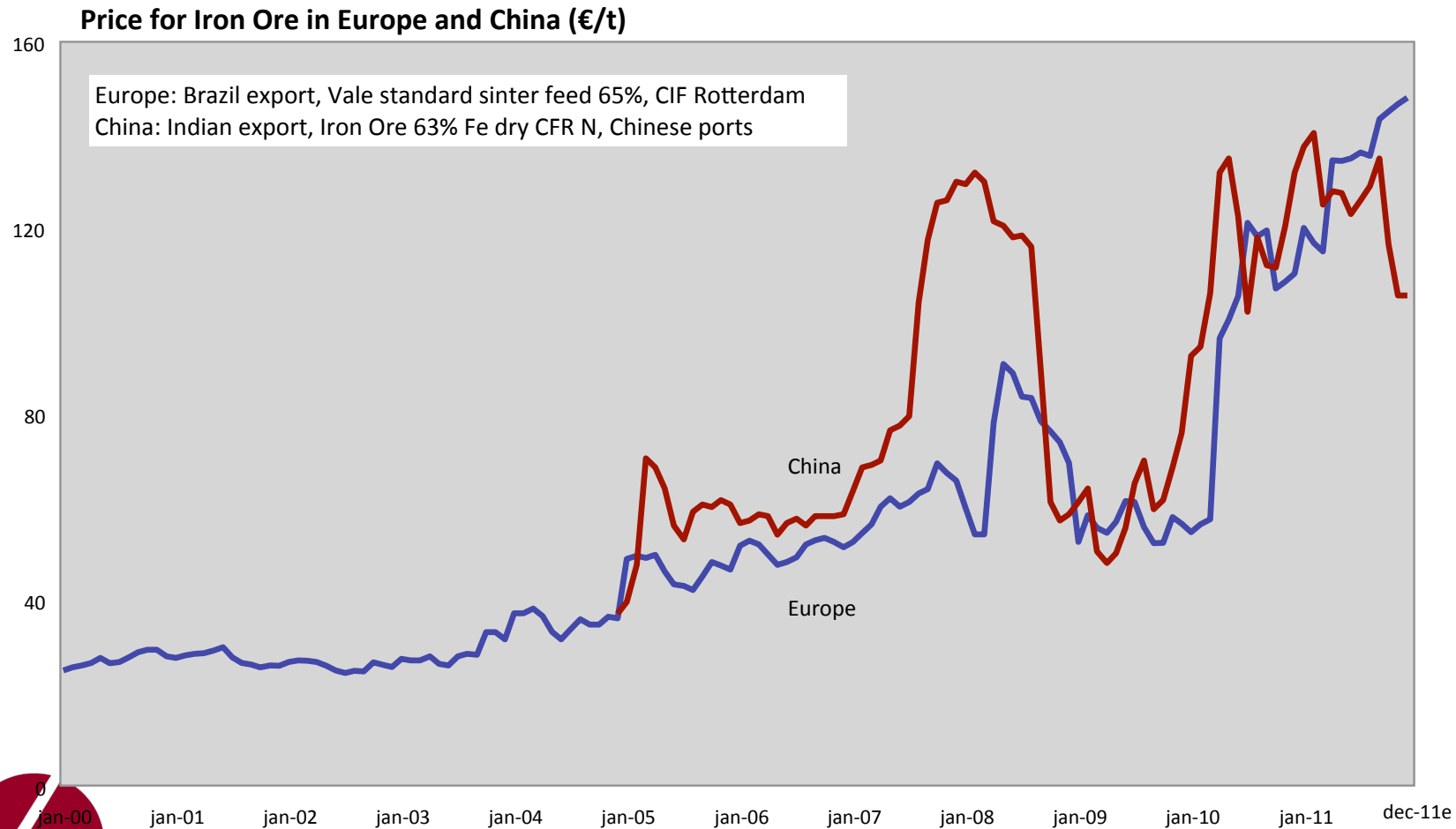
Source : Steel Statistical Yearbook, WorldSteel, Laplace Conseil analysis

However, since May 2011, China monthly crude steel production has declined by 20%



Source : WorldSteel, Laplace Conseil analysis

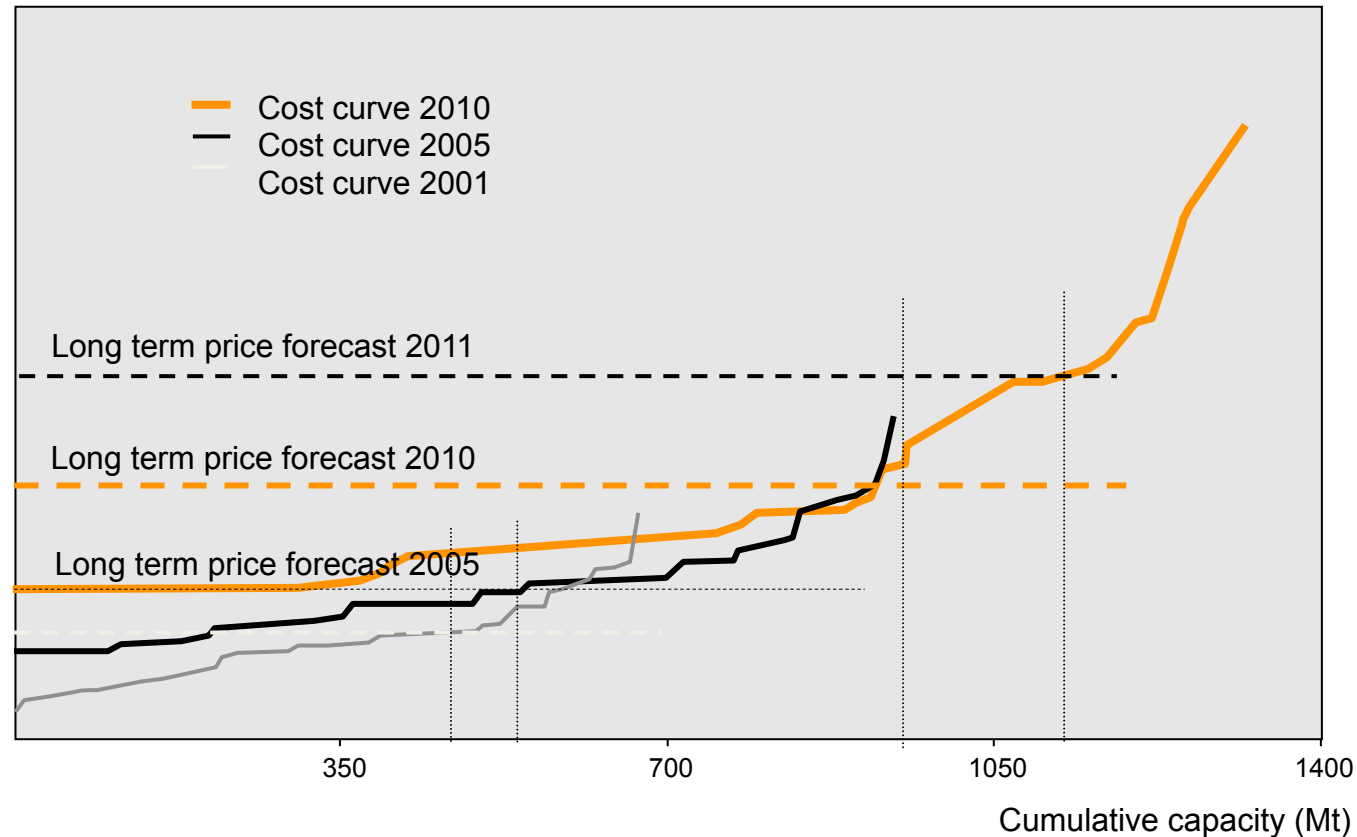
# Iron ore prices are suddenly declining in China amid rumors of China's economy fast cooling down



Source : SBB, Laplace Conseil analysis

# Low cost mines enjoy a huge profit margin in time of growing demand since marginal mines sets the price

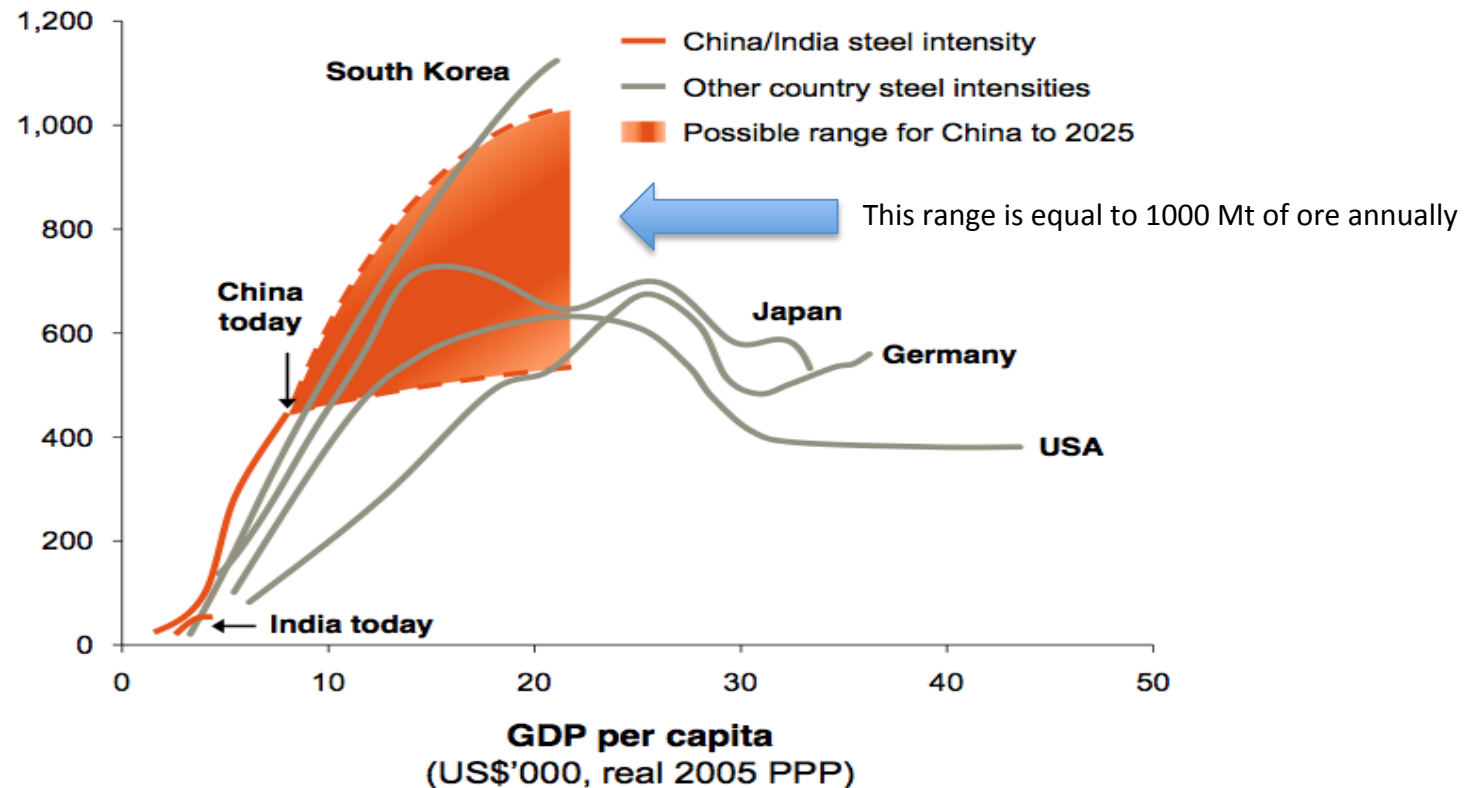
**Seaborne Iron ore cost curve (US\$/t 62 -63% Fe CIF China equivalent basis)**



Source : Macquarie Research

In a recent publication, the miner BHPB illustrates the range of uncertainty regarding China future path

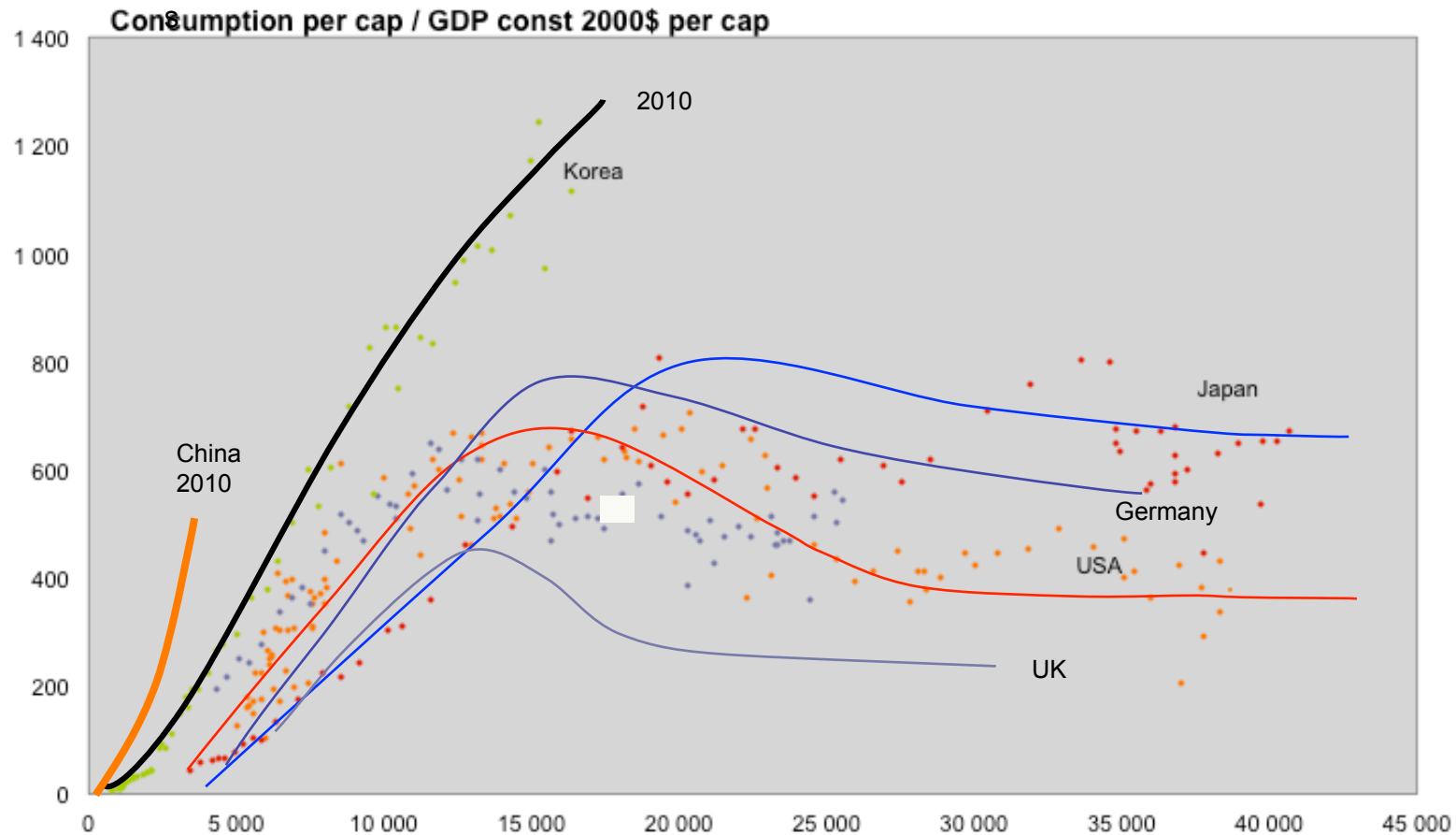
**Industrial development and apparent steel consumption<sup>1</sup>**  
(kilogram per capita)



Source: CISA; WSA; Global Insight; JBS; BHP Billiton.  
1. Steel consumption on a crude steel equivalent basis.



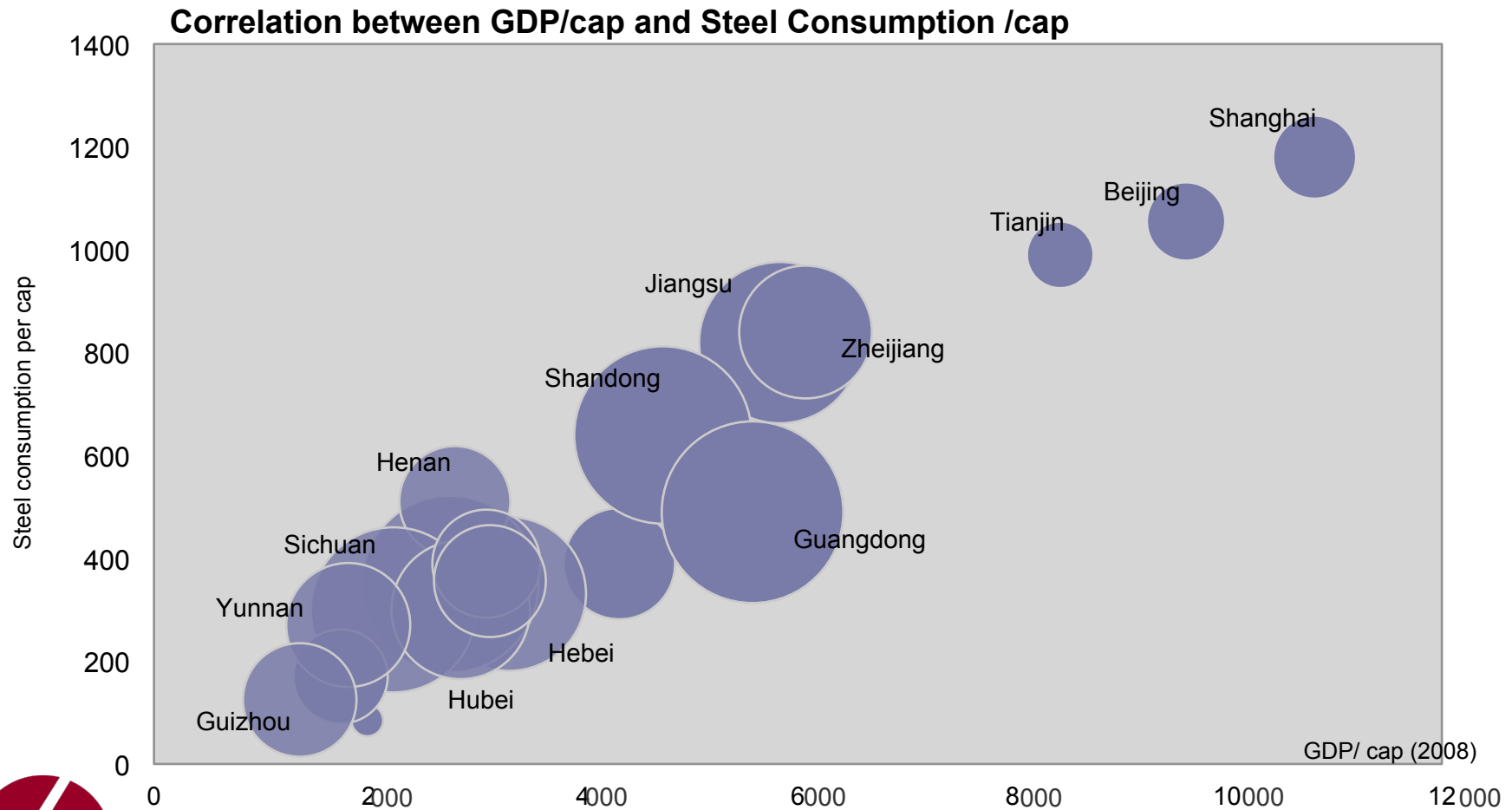
# Steel intensity is vastly different per country, but China and Korea are far more intensive than OECD



Source : WorldSteel, Worldbank, Laplace Conseil analysis

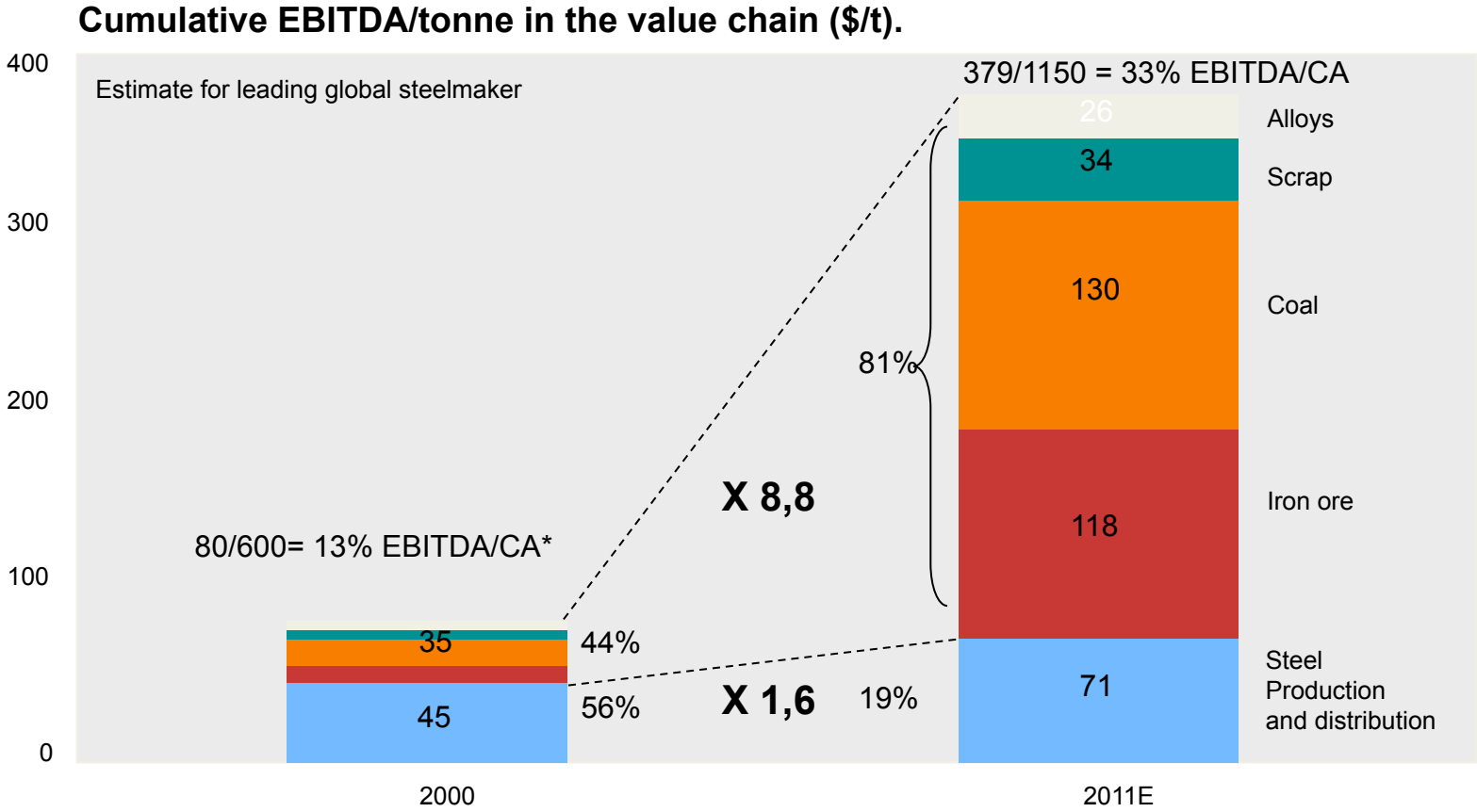


# Shanghai, Beijing and Tianjin are both the richest area and the most steel intensive



Source : WorldSteel, Worldbank, China Statistical Yearbook, NBS, Laplace Conseil analysis

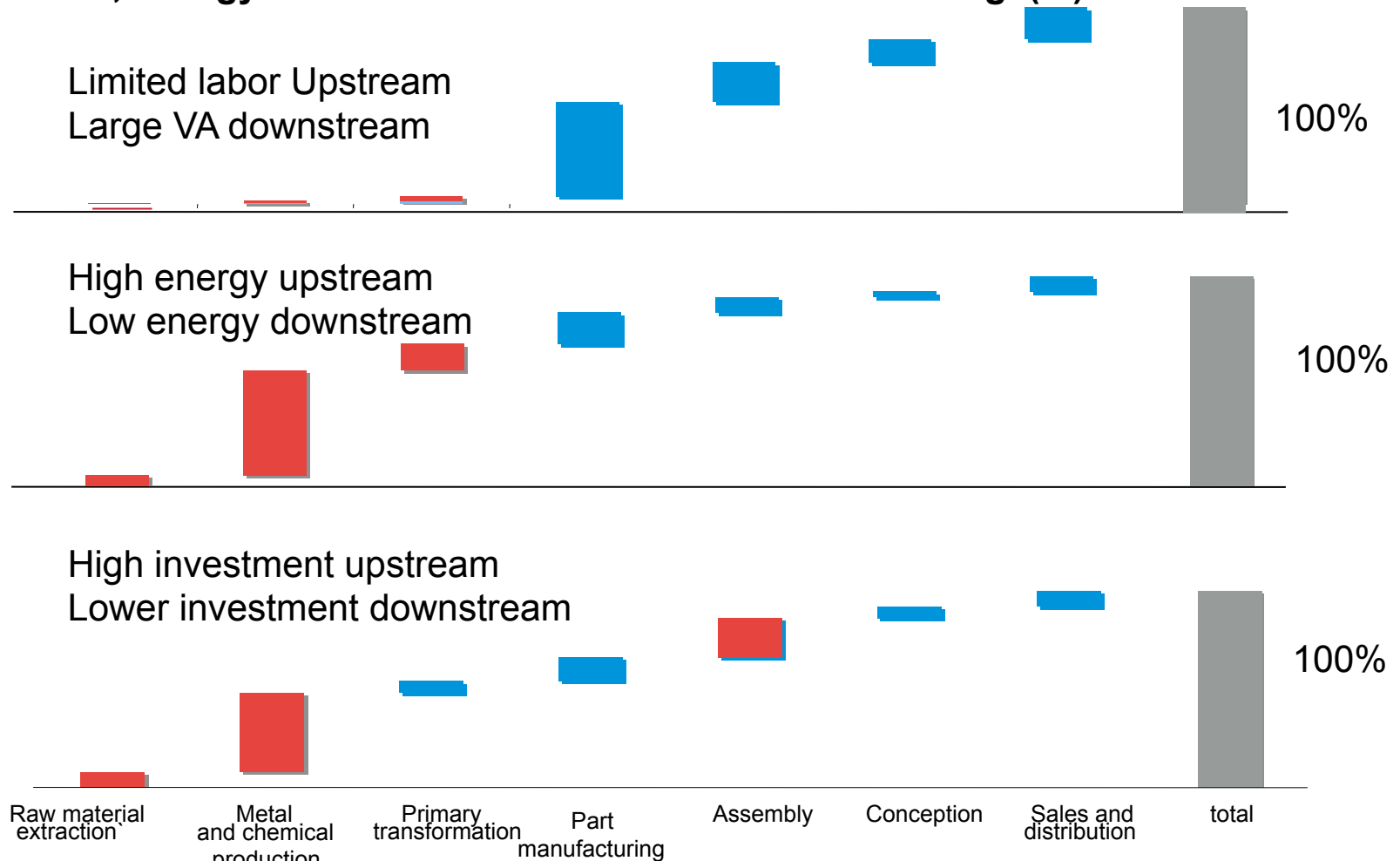
# Thanks to China, steel has become enormously profitable, but most profits are captured upstream



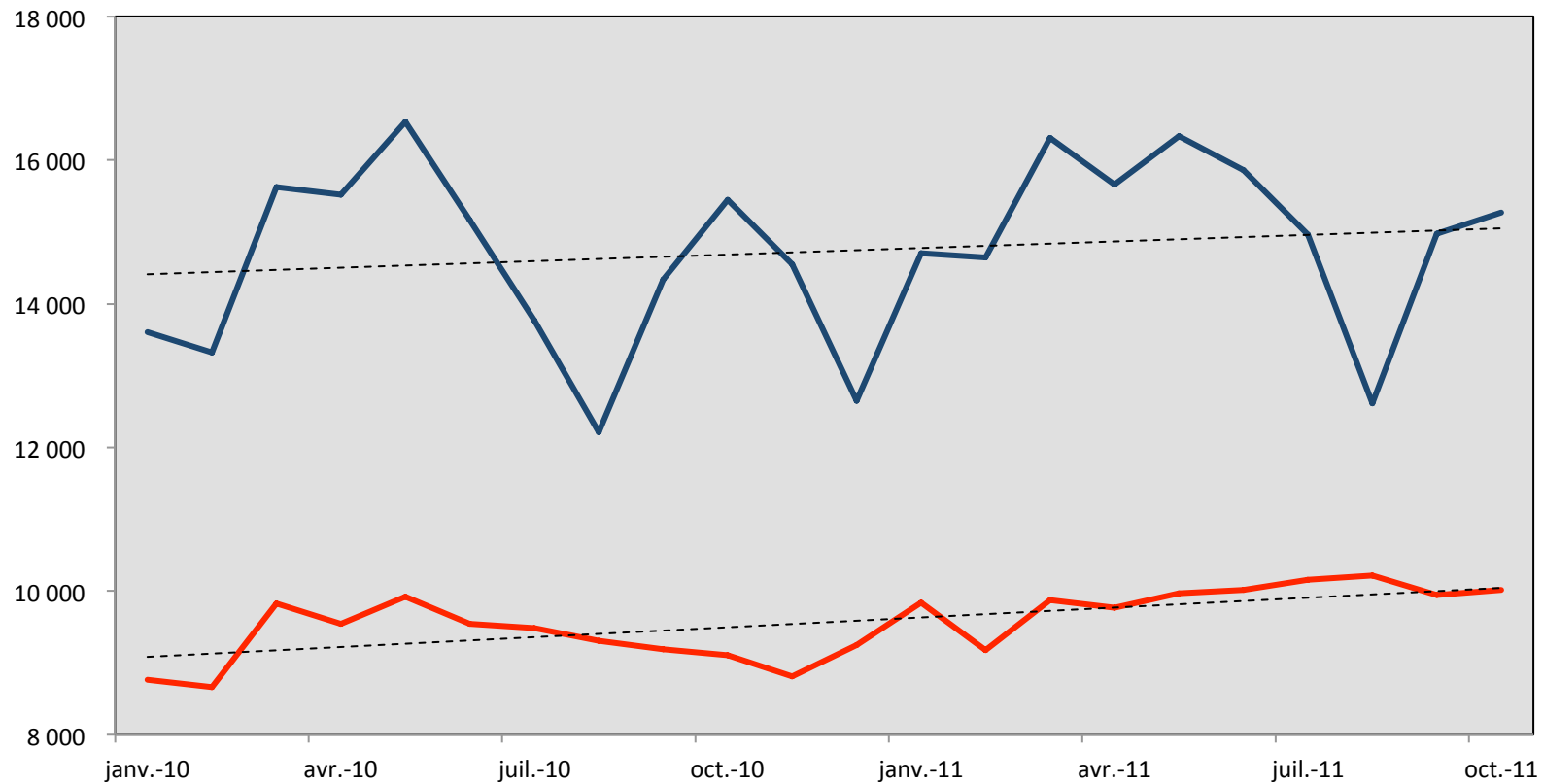
\* In 2000, a leading producer had revenue of 600 \$/t from the production and distribution of steel and generated 45 \$/T EBITDA; In 2011 his revenue reach 1150 \$/t and EBITDA from steel 71 \$/t. The massive change in profitability has all accrued to the producers of raw materials: ore, coal, scrap and alloys

# China aim to export high Value Added, low energy, low investment goods

**Labor, Energy and Investment cost in car manufacturing (%)**

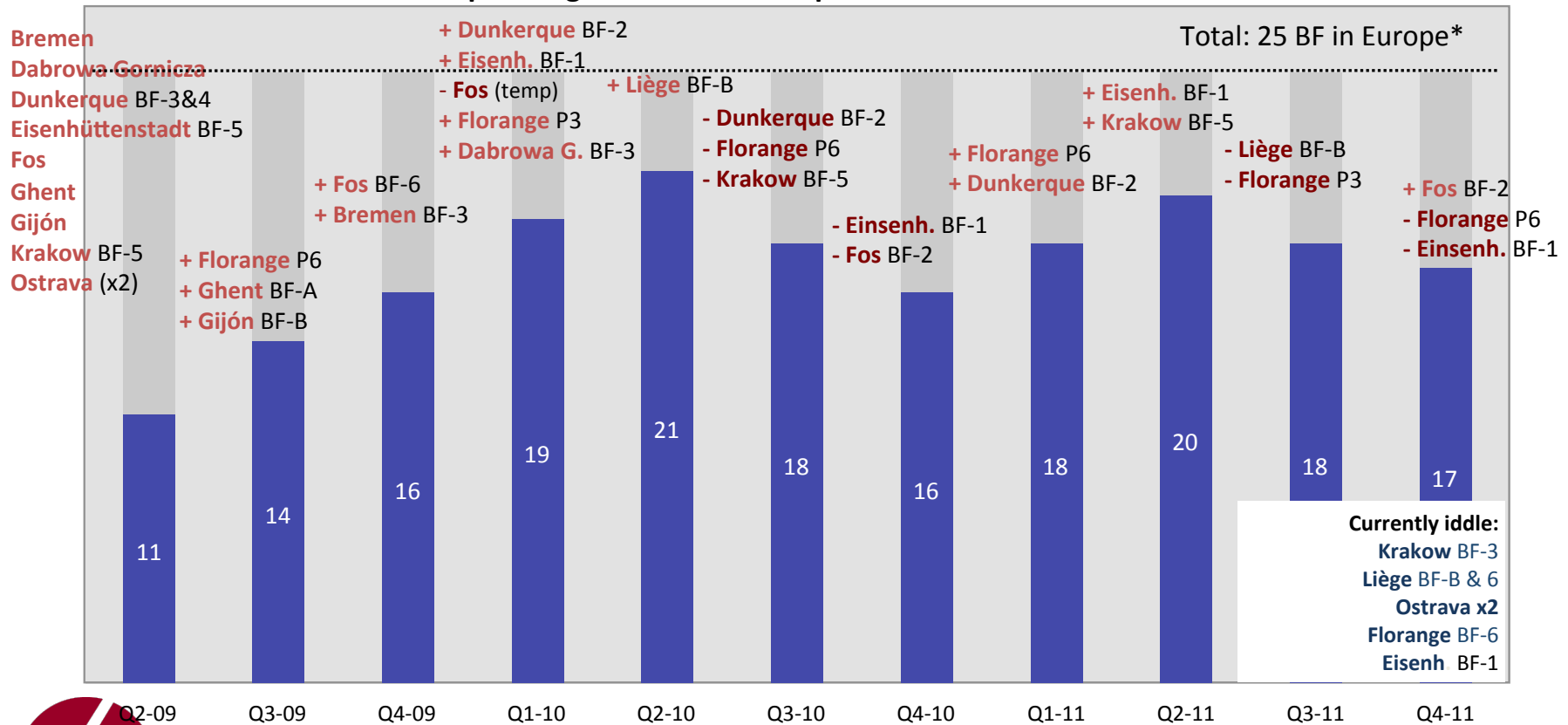


EU monthly production has been fairly volatile due to holidays, while NA is slowly creeping up



# ArcelorMittal is constantly adjusting its production to the market situation, adding further uncertainties

Number of ArcelorMittal's operating furnaces in Europe



Source : ArcelorMittal, SBB, Laplace Conseil analysis

\* excludes ArcelorMittal Galati (Romania)

While other steelmakers are also adjusting capacity, ArcelorMittal is the most aggressive

### LES CAPACITÉS TEMPORAIREMENT ARRÊTÉES DANS L'ACIER EUROPÉEN

EN MILLIONS DE TONNES

- HAUT-FOURNEAU
- FOUR ÉLECTRIQUE



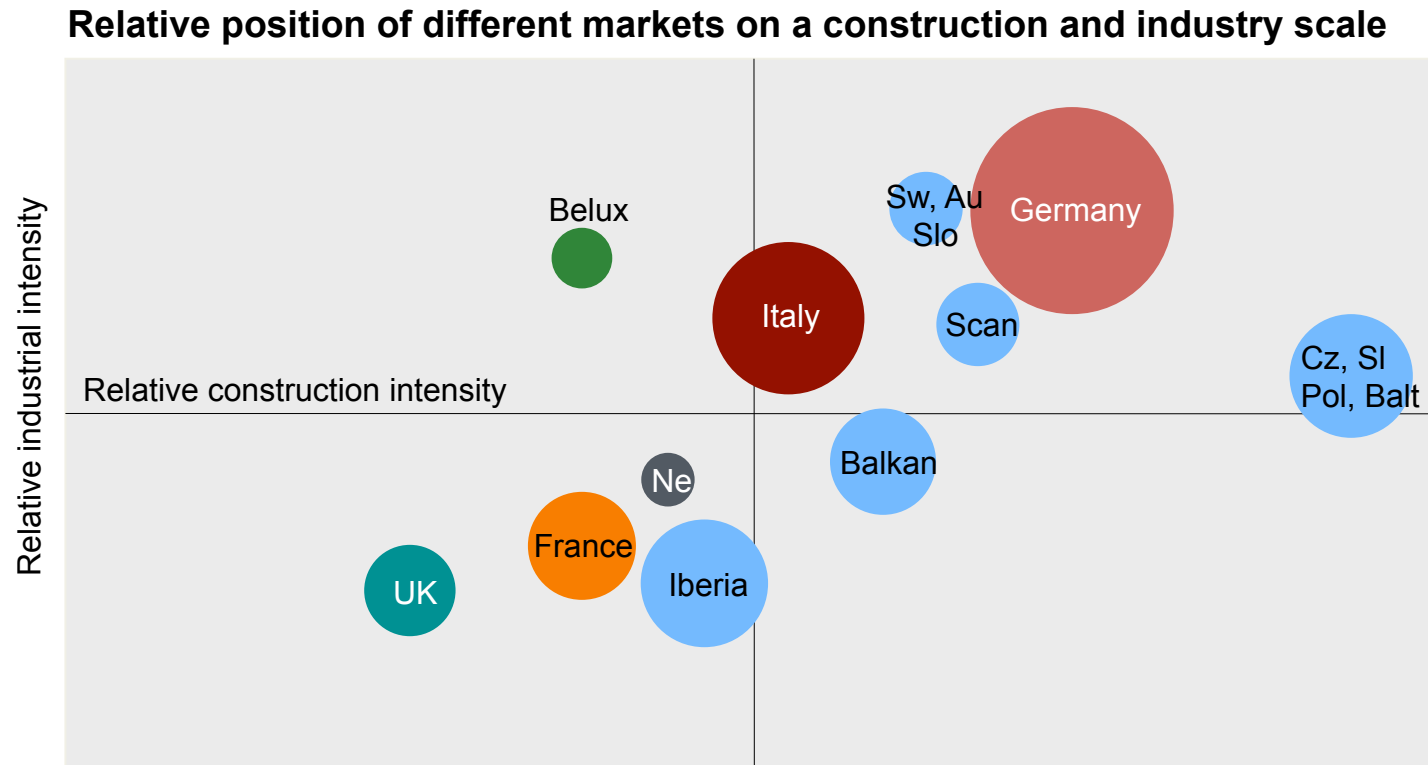
\*FERMETURE DÉFINITIVE

IDÉ / SOURCE : STEEL BUSINESS BRIEFING, «LES ECHOS»



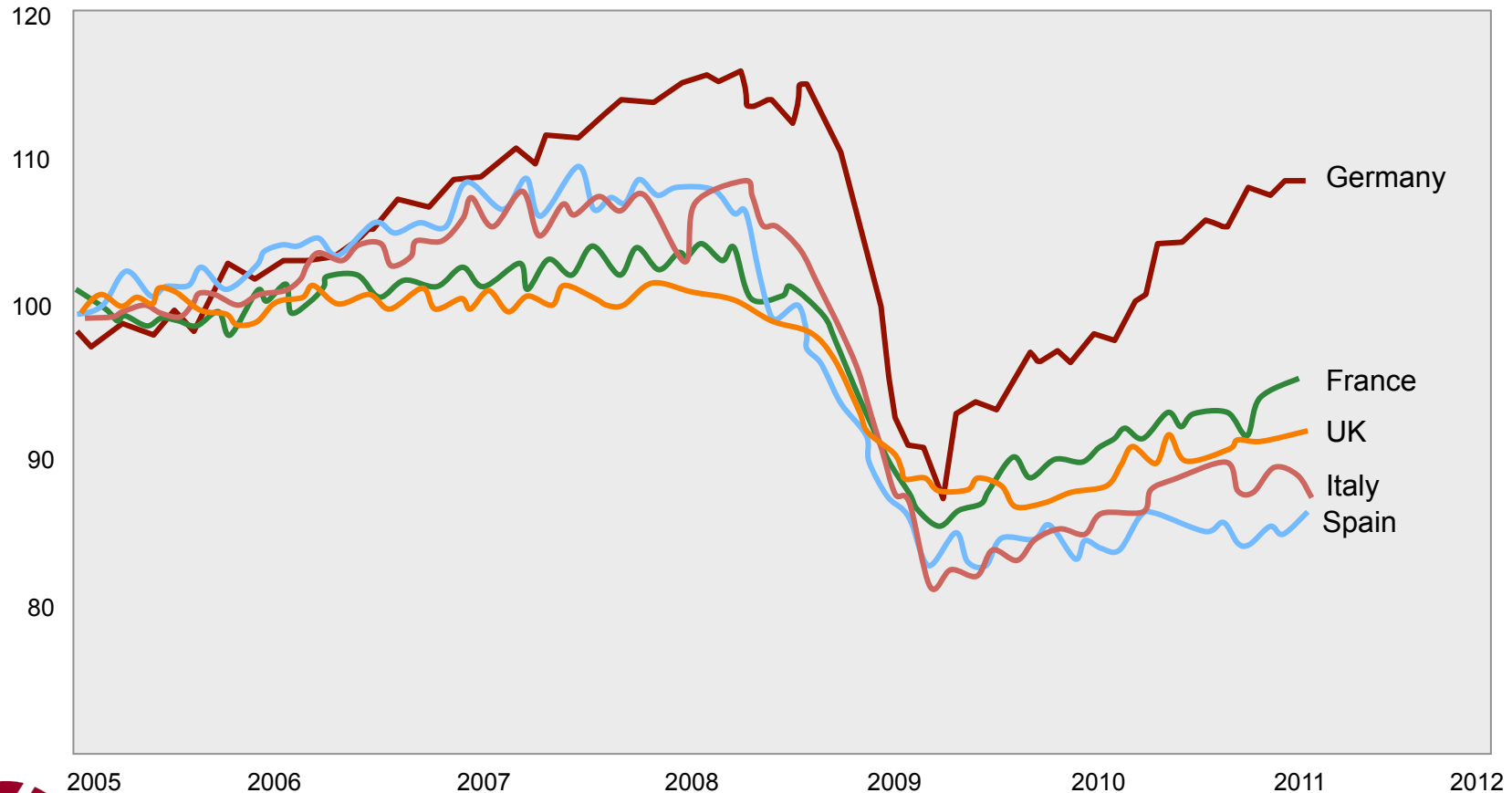
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# Steel intensity is mainly dependent on construction and industry (incl automotive)



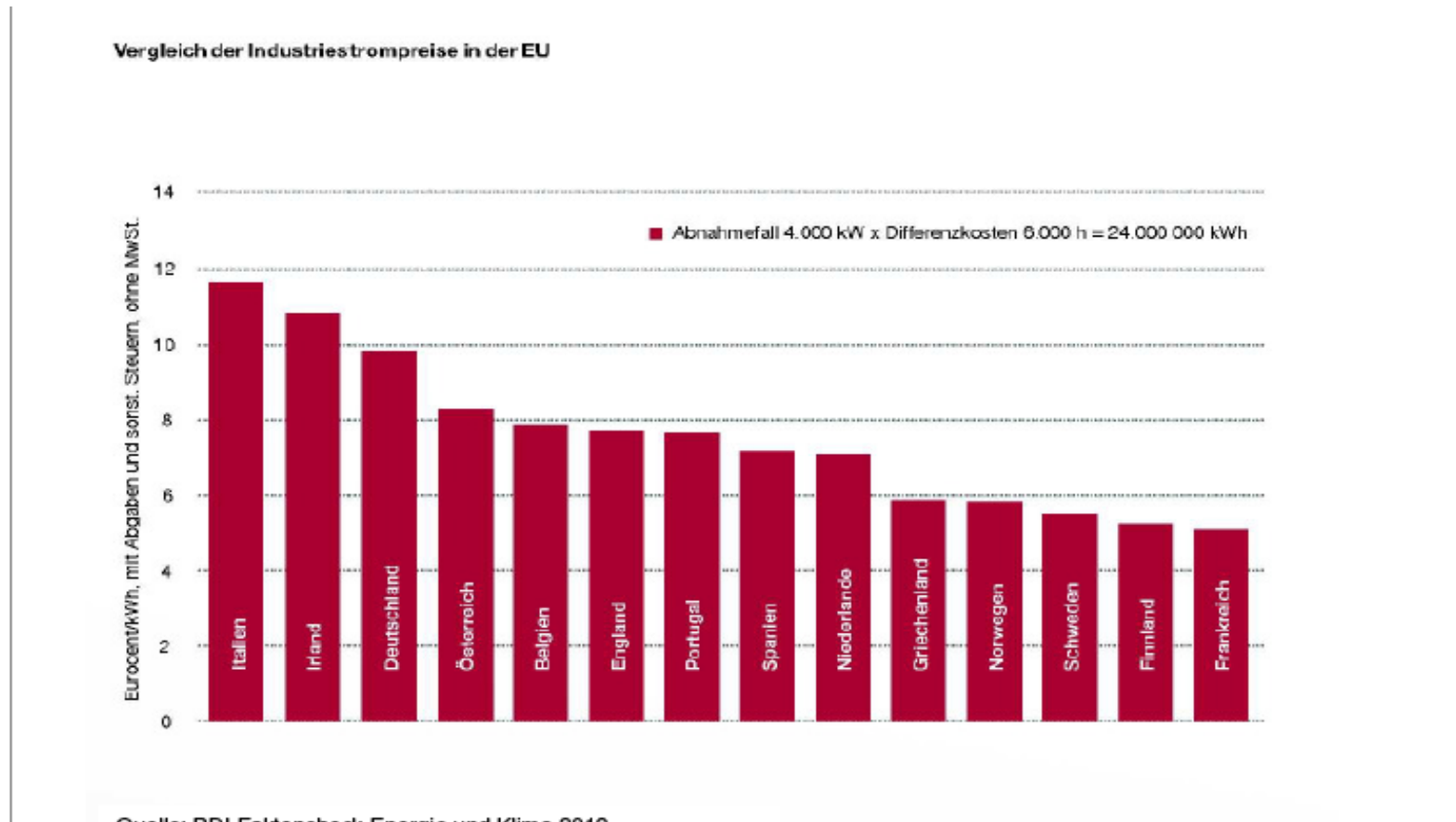
# Germany IP was growing and is recovering much faster from the crisis than the other economies

EU Industrial production index (excluding construction) (2000 = 100)





# Electricity prices are fairly different in Europe; Germany seems to adapt, while France do not benefit



# In Europe, we expect the steel intensive countries to recover faster than the other ones

