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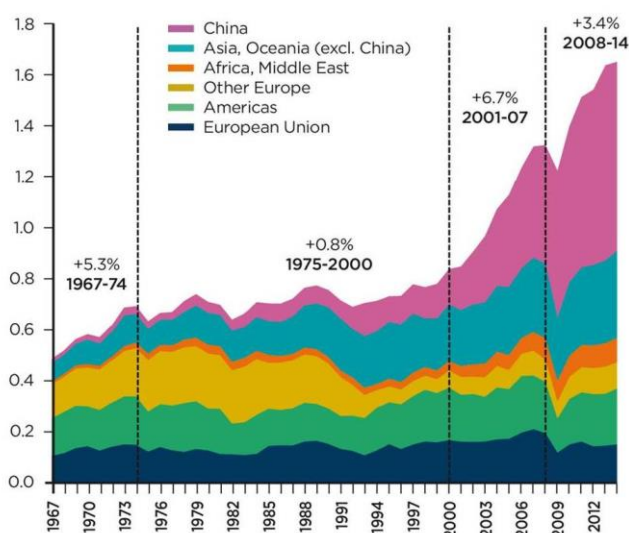
Global Steel Sector Risk at an All Time High in 2016 – Coface

- The global steel industry is suffering from weak growth, fed by overcapacity and Chinese exports. This follows a long period of increasing demand driven by China in the 2000s.
- In February 2016, the Chinese government announced the first reduction in production capacity - by 40 million metric tons.
- Credit risks are rising for steel companies.
- The market is not expected to regain equilibrium before 2018.

Credit Risks Peak

In 2014, China accounted for 45% of the world's total steel production. But that appetite is waning, with a -3.3% contraction in 2014 and -5% consumption in 2015. Meanwhile, China's production capacity has continued to increase, heightening the global imbalance between supply and demand. While global production is weakening (-3.1% at the end of February 2016) and one-third of steel production lines are at a standstill, supply is still abundant. This has resulted in strong downward price pressure. China is now exporting its production surplus (+20% in volume in 2015), which is weakening steel production structures in Europe, the United States and emerging countries.

Demand for crude steel (M tonnes, average annual growth)



Source: World Steel Association

The Chinese economy is undergoing structural changes, with manufacturing giving way to the expanding services sector. The country's domestic consumption of steel has already reached its peak and will continue to decline.

Coface has seen a gradual rise of credit risks in global metal production. The sector is the most at risk among the 12 industries followed by Coface. It is now assessed as "very high risk" in Latin America, emerging Asia, the Middle East and Western Europe, and "high risk" in Central Europe and North America.

In fact, steel is one of the least



P R E S S R E L E A S E

profitable sectors in the world (ranked 90th out of 94) and the deepest in debt. China's price competitiveness, especially for low-end steel, is weakening steel producers around the world. Current overcapacity is also weighing down on credit risks in China and corporate indebtedness is rising significantly.

Outlook: A Return to Normal in 2018?

The rebalancing of supply and demand could be possible from 2018, when the capacity reductions by China will begin to be felt. Growing urbanization and expanding middle classes in emerging markets are expected to present new outlets for growth. The three sectors that use the most steel continue to have positive outlooks over the medium term:

- **The automotive industry** has a substantial margin for development in the emerging economies. For example, in India there are 100 autos per 1,000 inhabitants compared to 808 per 1,000 inhabitants in the US.
- **Machinery** is also benefiting from numerous pockets of growth, both in emerging markets and advanced economies.
- **Construction** activity should take off again, due to the strong potential for urbanization in most emerging countries.

NORTH AMERICA MEDIA CONTACT: Sue Hinton – sue.hinton@coface.com - +1 212 389 6484

About Coface

The Coface Group, a worldwide leader in credit insurance, offers companies around the globe solutions to protect them against the risk of financial default of their clients, both on the domestic market and for export. In 2015, the Group, supported by its 4,500 staff, posted a consolidated turnover of €1.490 billion. Present directly or indirectly in 99 countries, Coface protects transactions of 40,000 companies in more than 200 countries. Each quarter, Coface publishes assessments of country risk for 160 countries, based on its unique knowledge of company payment behavior and on the expertise of its 340 underwriters located close to clients and their debtors. In France, Coface manages export public guarantees on behalf of the French State. Learn more at www.coface.com. Coface SA. is listed on Euronext Paris – Compartment A, ISIN: FR0010667147 / Ticker: COFA.