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

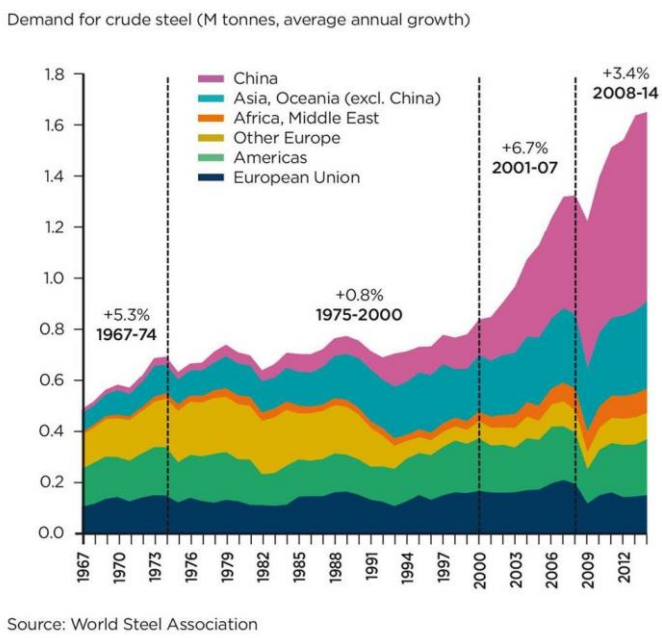
London, 15 April 2016

Steel overcapacity around the world: risk reaches a high in 2016

- **Following a long period of increasing demand, driven by China in the 2000s, steel is suffering from weak growth in the global economy**
- **The imbalance between supply and demand is being fed by overcapacity and Chinese exports**
- **In February 2016, the Chinese government announced the first reduction in production capacity - by 40 million tonnes**
- **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. Now, however, its 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 end February 2016) and one-third of steel production lines are at a standstill, supply is still abundant. This has resulted in strong pressure on prices, which are down significantly. China is now exporting its production surplus (+20% in volume in 2015), which is particularly weakening steel production structures in Europe, the United States and emerging countries.



The Chinese economy is undergoing structural changes. Manufacturing is giving way to the expanding services sector in China's growth model. The country's domestic consumption of steel has already reached its peak and will continue to decline.

Coface has seen a gradual downgrading of credit risks in global metal production. The sector is the most at risk among the 12 structures assessed 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, it is one of the least 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?

Nevertheless, the rebalancing of supply and demand could be possible from 2018. The first capacity reductions in Chinese production will begin to materialise. While emerging economies will have less success in catching up than in the past, their growing urbanisation and expanding middle classes will be new relays for growth. The three sectors that use the most steel continue to have positive perspectives over the medium term:

- **The automotive industry** has a substantial margin for progression in the emerging economies. For example, in India there are 100 autos per 1000 inhabitants (compared to 808 per 1000 inhabitants in the US);
- **Machinery** is also benefiting from numerous growth relays, both in the emerging markets and in advanced economies;
- Finally, **construction activity** should take off again, thanks to the strong potential for urbanisation in most of the emerging countries.

Each year, Coface UK & Ireland holds a Country Risk Conference to help businesses understand global economic trends and assess trading conditions in established and emerging markets. If you want to be better informed about UK and overseas trading risk, Coface's Country Risk Conference takes place in London on Thursday 9th June. To register your interest please email crc_uk@coface.com

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About Coface

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In France, Coface manages export public guarantees on behalf of the French State.

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The company's credit insurance offer integrates credit assessment, collection services and cover for unpaid debts. Multinational businesses can protect their worldwide subsidiaries through Coface's international network.

The company also provides access to domestic and international business information and a collection network at home and overseas. Coface is also a recognised operator in the London political risk market.www.cofaceuk.com and www.coface.ie