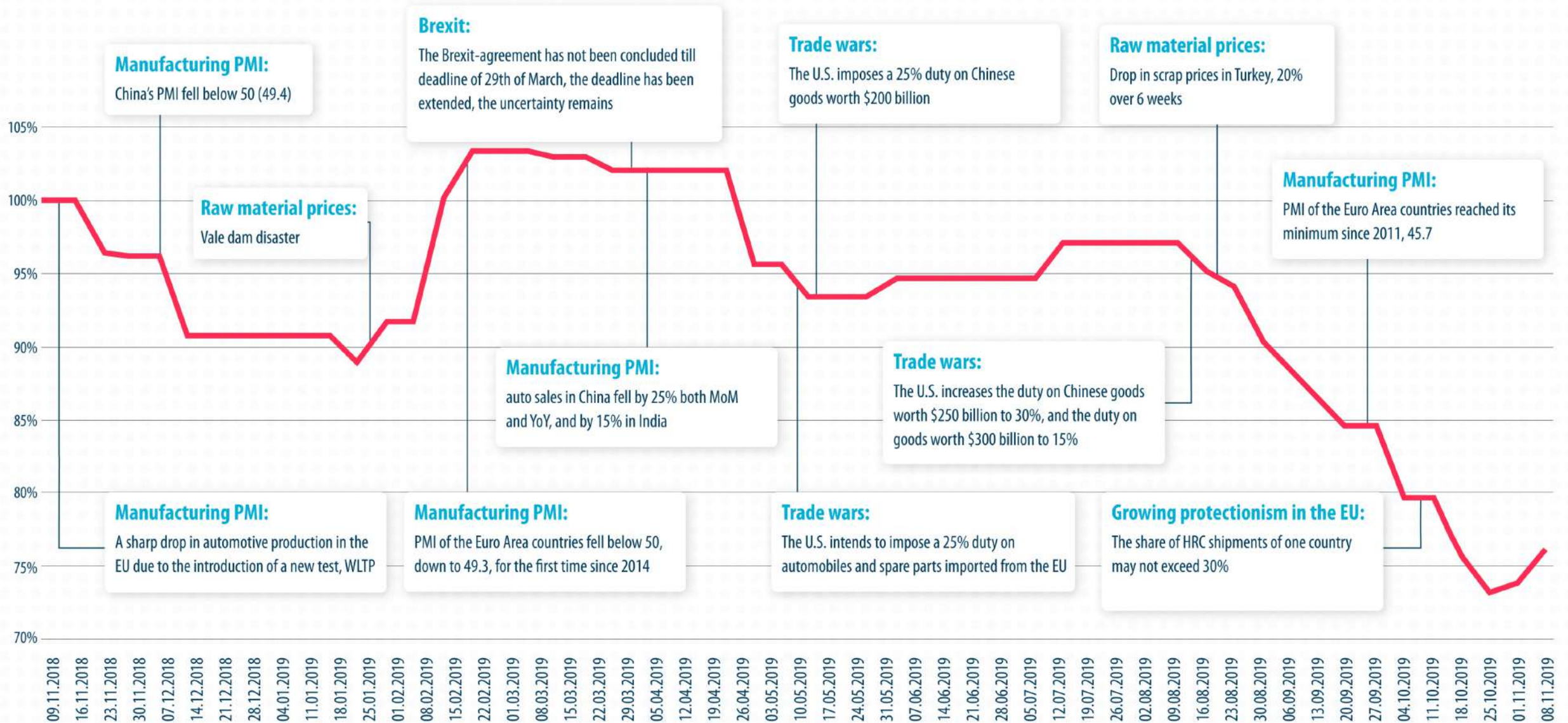


TRENDS IN GLOBAL PRICES FOR FLAT PRODUCTS

Trends in hot-rolled coil prices, FOB Black Sea



Manufacturing PMI:
China's PMI fell below 50 (49.4)

Raw material prices:
Vale dam disaster

Brexit:
The Brexit-agreement has not been concluded till deadline of 29th of March, the deadline has been extended, the uncertainty remains

Trade wars:
The U.S. imposes a 25% duty on Chinese goods worth \$200 billion

Raw material prices:
Drop in scrap prices in Turkey, 20% over 6 weeks

Manufacturing PMI:
PMI of the Euro Area countries reached its minimum since 2011, 45.7

Manufacturing PMI:
auto sales in China fell by 25% both MoM and YoY, and by 15% in India

Trade wars:
The U.S. increases the duty on Chinese goods worth \$250 billion to 30%, and the duty on goods worth \$300 billion to 15%

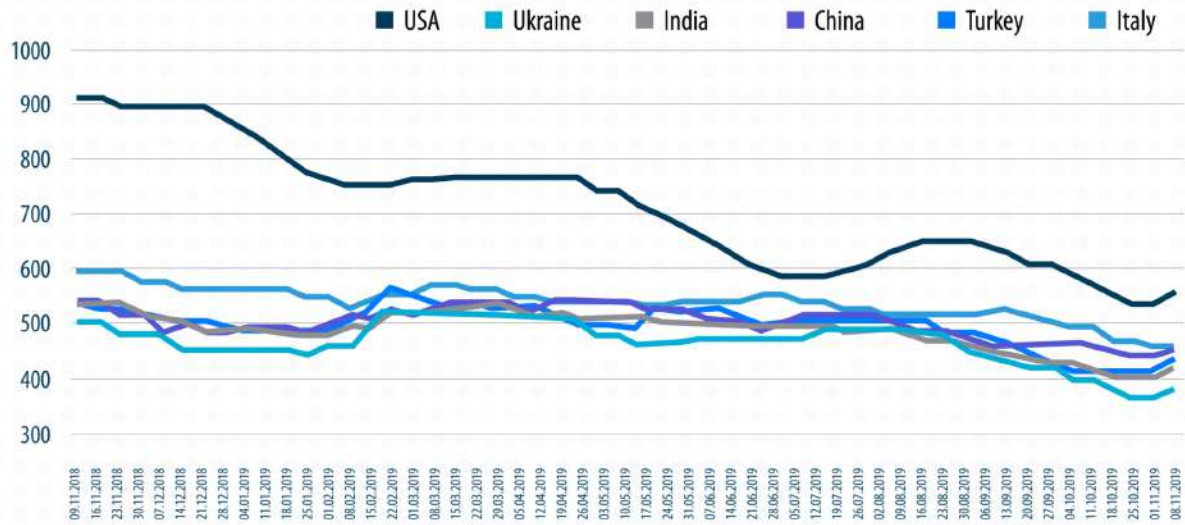
Manufacturing PMI:
A sharp drop in automotive production in the EU due to the introduction of a new test, WLTP

Manufacturing PMI:
PMI of the Euro Area countries fell below 50, down to 49.3, for the first time since 2014

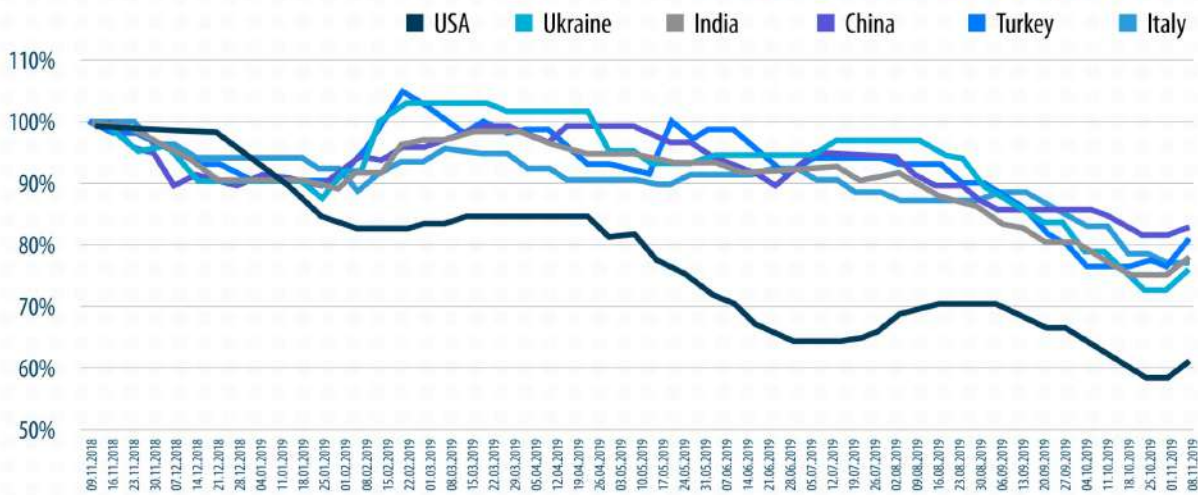
Trade wars:
The U.S. intends to impose a 25% duty on automobiles and spare parts imported from the EU

Growing protectionism in the EU:
The share of HRC shipments of one country may not exceed 30%

Trends in global prices for hot-rolled coil, \$/ton

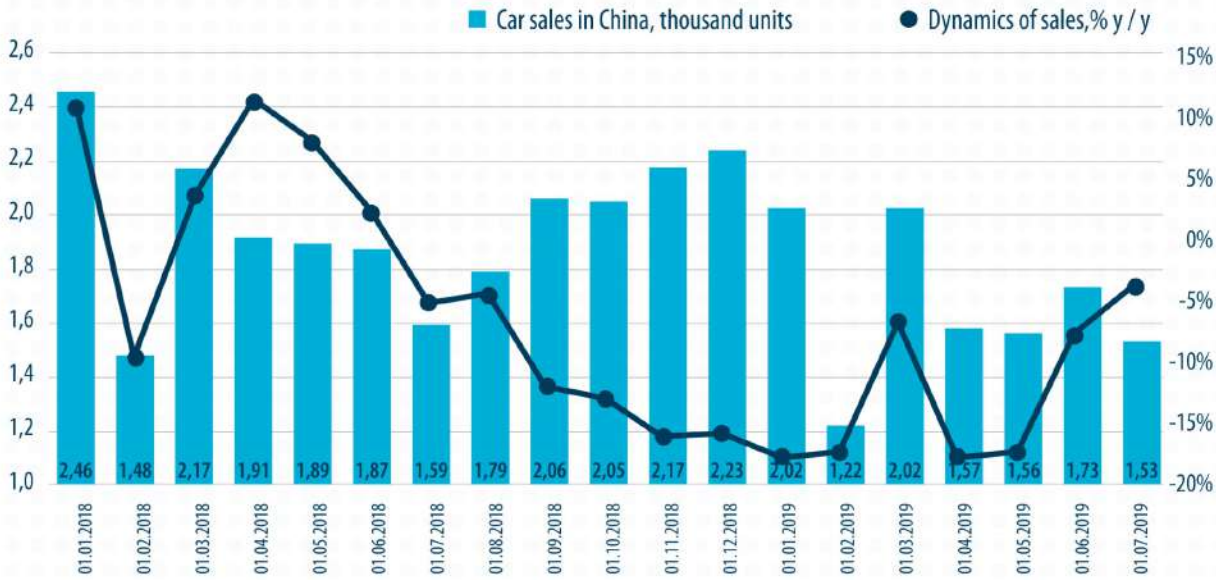


Trends in hot-rolled coil prices, %

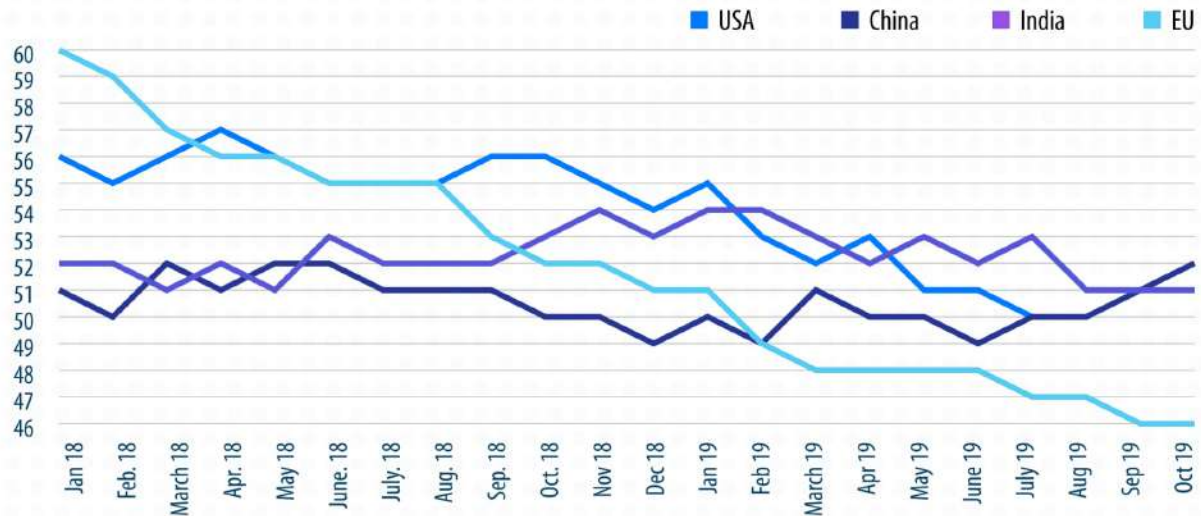


- Average hot-rolled coil prices in the global market decreased in November by 20–25% YoY.
- A sharper fall (-40%) was recorded in the U.S. On the one hand, this is due to higher comparative benchmarks. On the other hand, the high volatility resulted from the application of Section 232. A hike in prices in 2018 led to putting some capacities back into operation. In March 2018, flat products capacity utilization in the U.S. was around 90%. As the supply increased, prices went down, and utilization rate reached 77–78% in autumn 2019. According to World Steel Dynamics, the margin of mini plants producing flat products in the U.S. in September 2019 was \$160 per ton, which is significantly less than in 2014–2017.
- In 2019, almost all regions faced a decline in automotive sales, and, consequently, production, which adversely affected consumption of rolled products. Car sales around the globe over the past 6 months of 2019 fell by 8%. Among the reasons of the fall in demand are a slowdown in the global economic growth, trade wars, the uncertainty around Brexit, and a rise in prices for automobiles due to more stringent environmental requirements. Auto sales are a good indicator of the state of economy.
- Auto sales in the EU fell by 3.9% over 6 months. The situation in export markets was weak as well, and therefore production fell by 7.2%. The automotive industry is important for the EU industrial production, as production chains are linked to it. In Q3, auto sales in the EU increased by 2.3% YoY, but this was due to low comparative benchmarks. Automotive production in the EU went into freefall in September 2018, when a new test, called the Worldwide Harmonised Light Vehicle Test Procedure (WLTP), came into force. Eurofer expects automotive production in the EU to decrease by 3.8% by the end of 2019. Imports of flat products in the EU decreased by 35% in August 2019 YoY. In the first nine months of 2019, it fell by 7%.

Trends in sales of passenger cars in China, thousand units



Динамика производственной активности (индекс PMI)



Data: Metal Expert

- The largest drop in auto sales was recorded in China (-14.4%), following 30 years of steady growth. Trade wars sparked a slowdown in China's economy, which accounts for 25% of the global automotive production. Automotive production in China decreased by 12.7%. As a result, China began to increase exports of flat products for the first time in four years, while its imports went down. China's economic incentives are primarily focused on the construction sector.
- India also has a decline in sales (-11.3%) amid a liquidity crisis in the banking system. This is the maximum drop over the past 20 years.
- Sales of passenger cars over 6 months of 2019 decreased by 3.3%, and production by 6.5%. A growth in sales of commercial vehicles contributes to the overall vehicle production trend in the U.S. and consumption of flat products.
- Production activity in mechanical engineering is also decreasing around the globe. The World Steel Association expects a 0.2% drop. Trade wars, anticipated recession, uncertainty around Brexit, and development of protectionism resulted in a decrease in CAPEX. Production activity in mechanical engineering in the EU decreased even more — minus 0.8% in Q2 YoY, as EU's mechanical engineering companies are export-oriented (the U.S., China, Turkey).
- Shipbuilding, again, does not contribute to demand for steel. Shipbuilding in China fell by 7.5% over nine months of 2019. According to IHS Markit, shipbuilding orders have been reducing for ten years in a row. Factors that affect the orders remain the same — a slowdown in the global economy, trade wars, protectionism, and trade regionalization.



INTERESTING FACTS



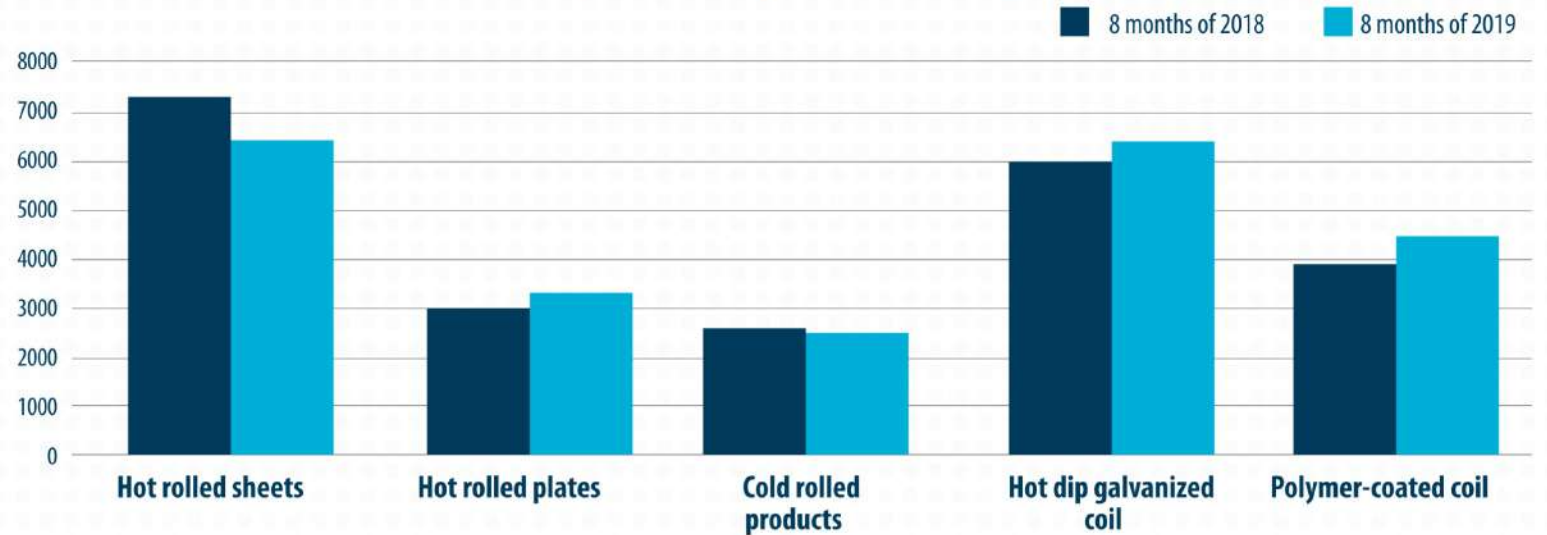
Expectations

- Eurofer expects automotive production in the EU to increase by 0.9% in 2020. This will not support prices, since this is an extremely low growth rate from this year's low comparative benchmarks. The performance of manufacturing index in the EU mechanical engineering may rise by modest 0.2% next year.
- A significant risk factor is the possible imposition of a 25% duty on cars imported into the U.S. from the EU. This may have disastrous consequences for the automotive industry not only in the EU, but also in the U.S., since EU companies have plants in the U.S. and vice versa. Production chains may also be disrupted.
- The World Steel Association says that incentives of the Chinese government will contribute to domestic car sales. Measures to reduce taxes are expected to be taken in 2020.
- SteelHome estimates a possible next year's fall in HRC prices at 6.7%.
- World Steel Dynamics believes that the current prices are unlikely to have hit the bottom line, as commodity prices are expected to decline. The trade deal between the U.S. and China will give the market a temporary breathing room in crisis, as many companies deter investment for this very reason.

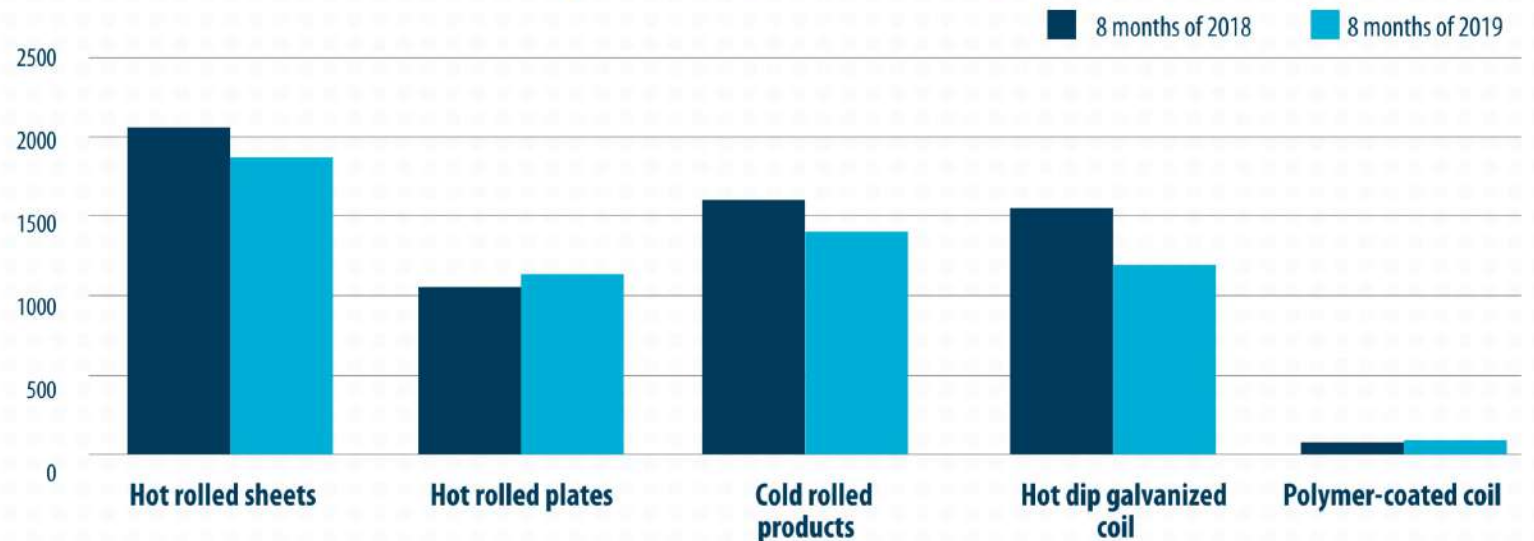


China began to increase exports of flat products for the first time in four years, while its imports went down. China's economic incentives are primarily focused on the construction sector.

Trends in China's exports of flat products over eight months of 2019, thousand tons



Trends in China's imports of flat products over eight months of 2019, thousand tons



The importance of the EU automotive industry

7%

of GDP

6,1%

of hired workers

20%

of demand for steel

50%

of EBITDA of steelmaking
companies in 2017

The automotive industry determines the trends in the overall EU's PMI, as production chains are linked to it