

The European economy in 2012 and its impact on the ferroalloy sector

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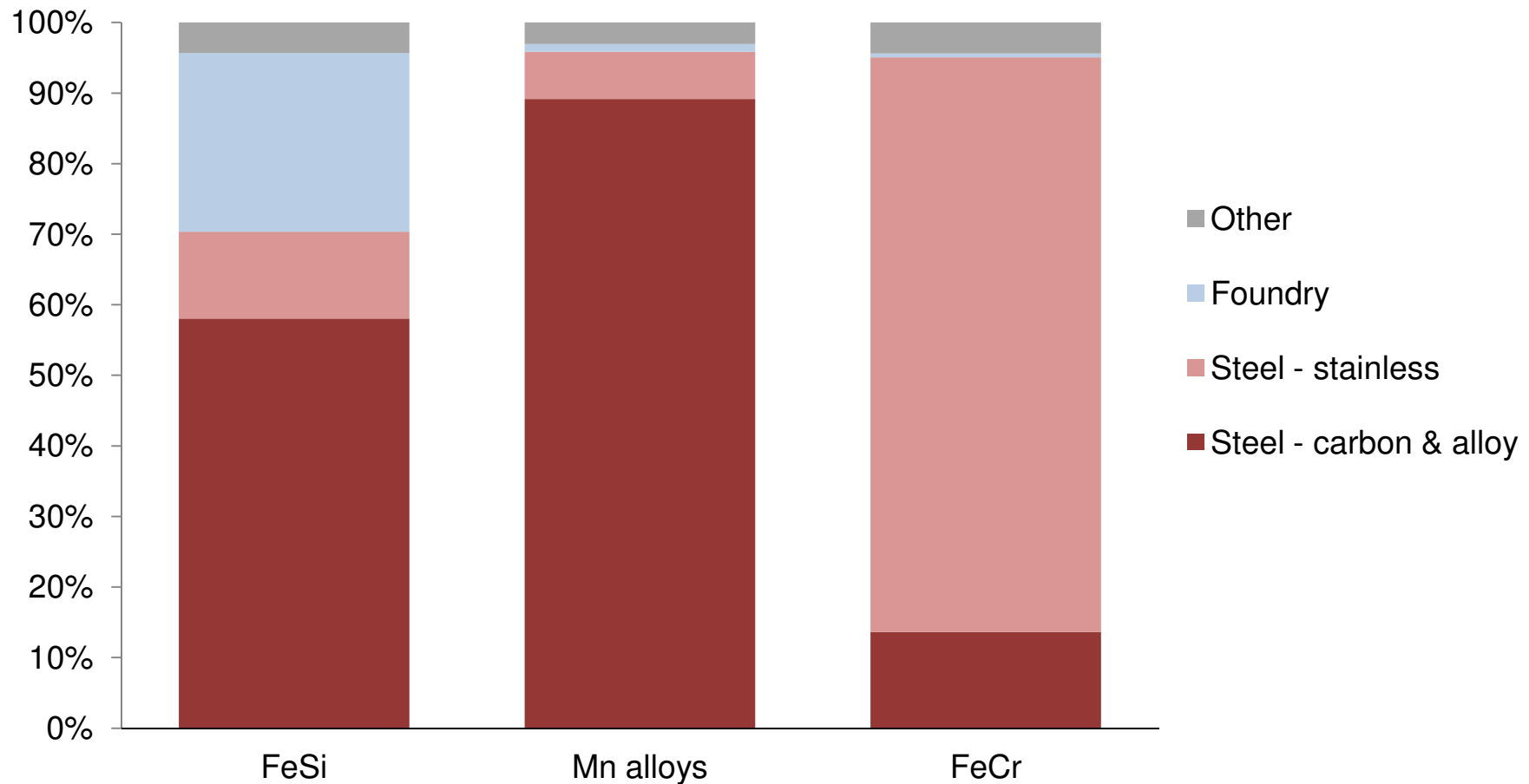
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25th June, 2012

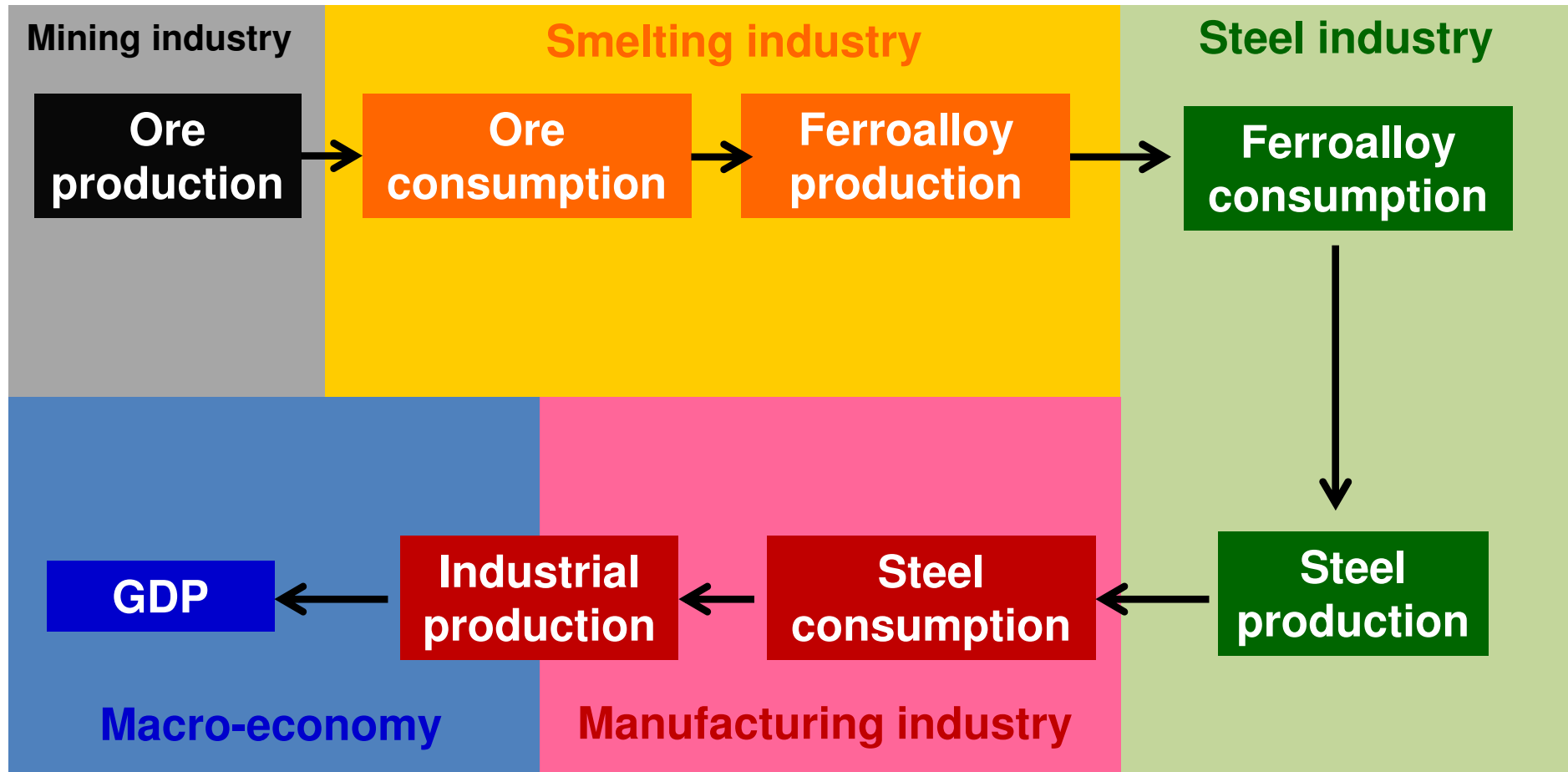
Metal Expert Ferroalloy Conference
Vienna

The vast majority of ferroalloy consumption is driven by the steel industry

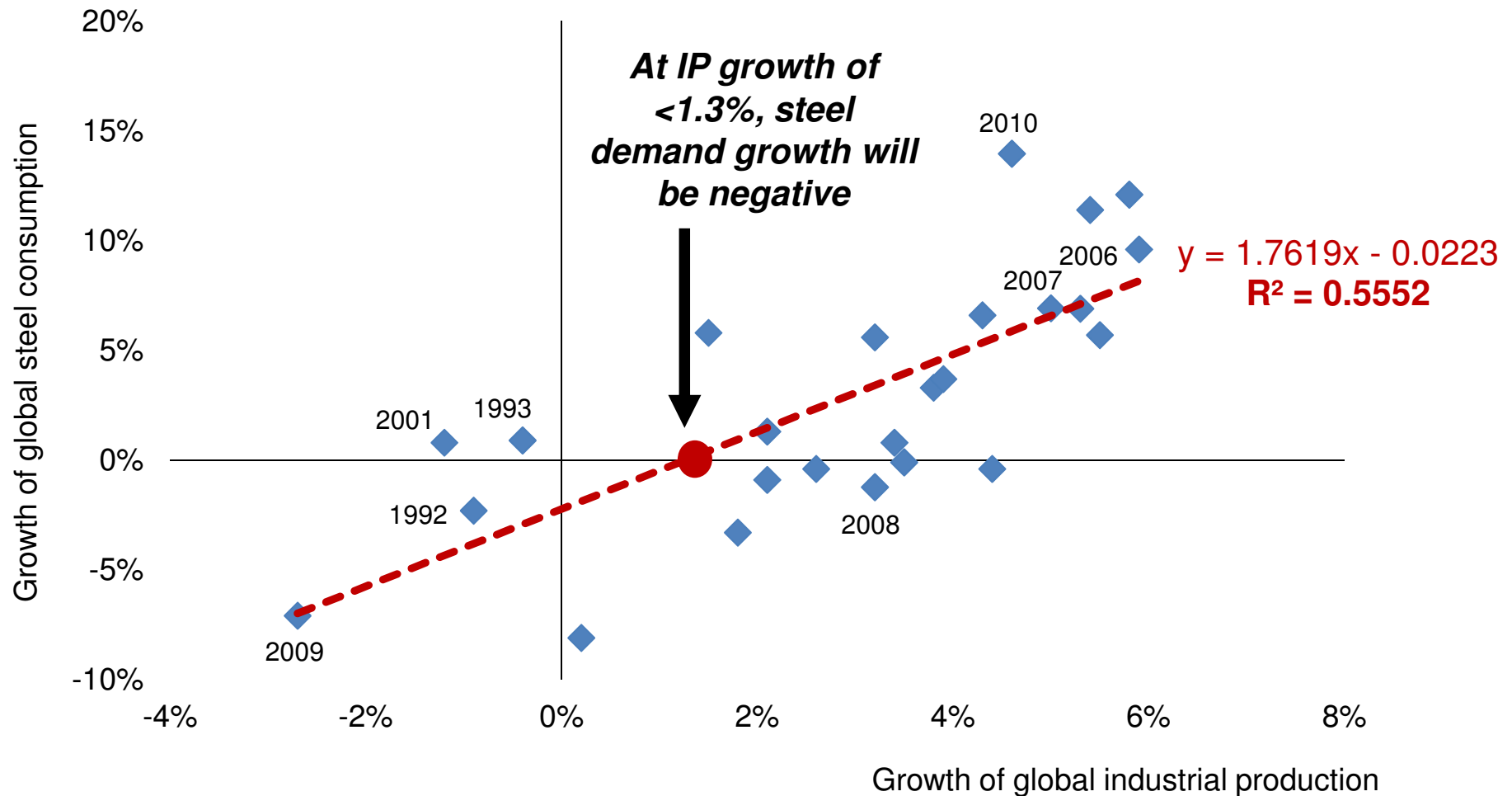
European ferroalloy consumption by sector, 2011



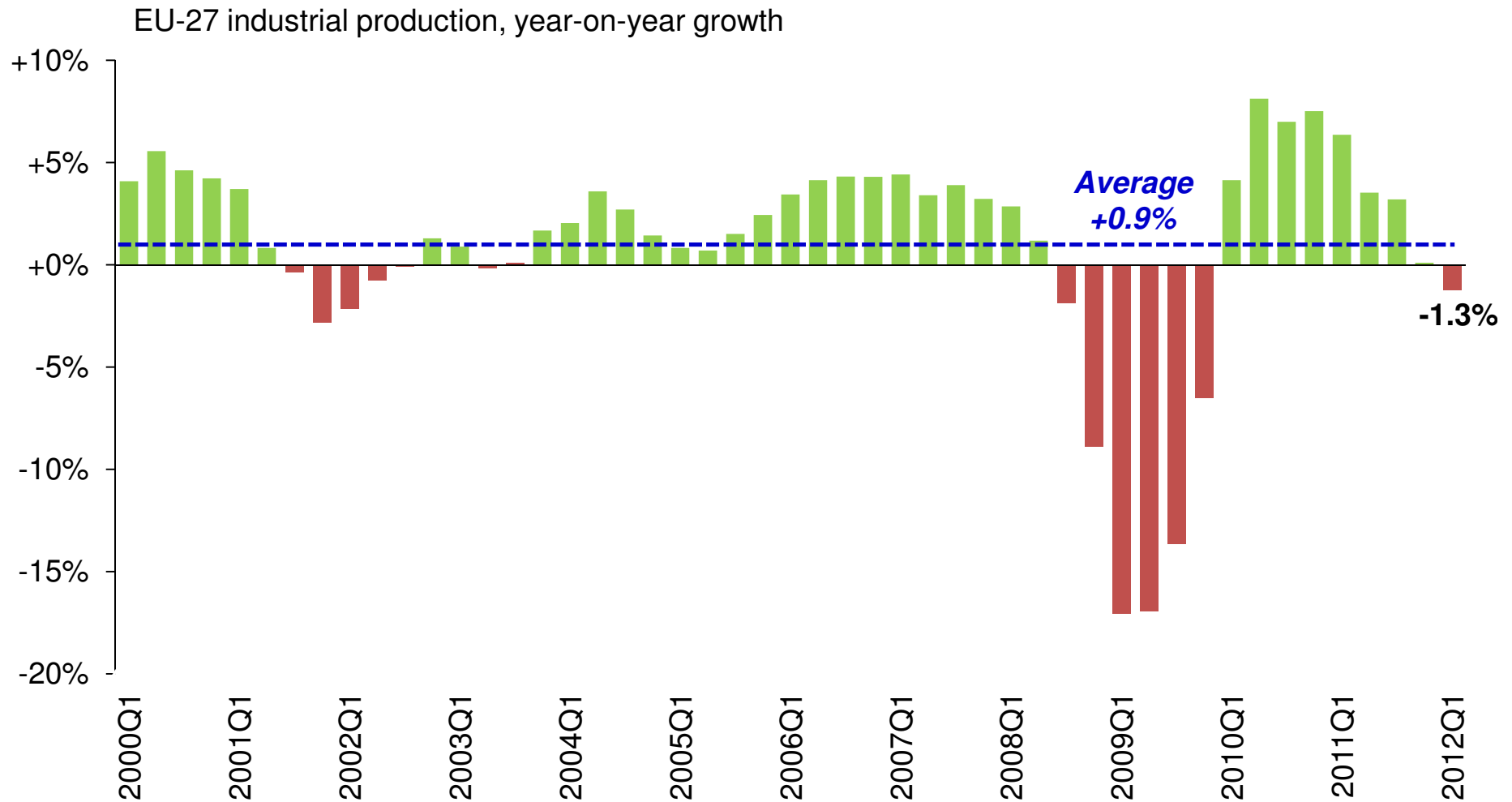
The ferroalloy sector is several steps back in the “value chain” from macro-economic indicators



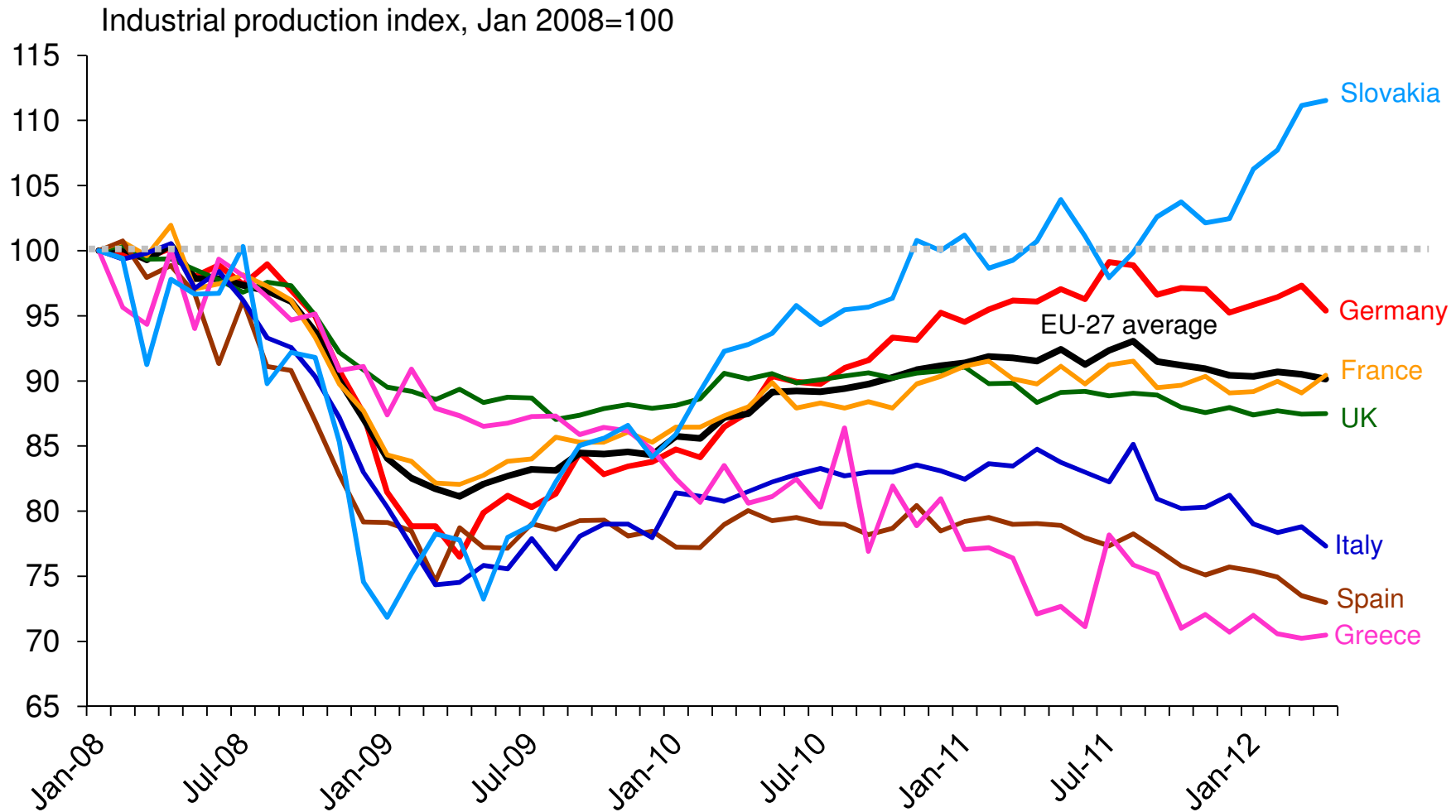
Steel consumption vs. industrial production – a statistically significant correlation



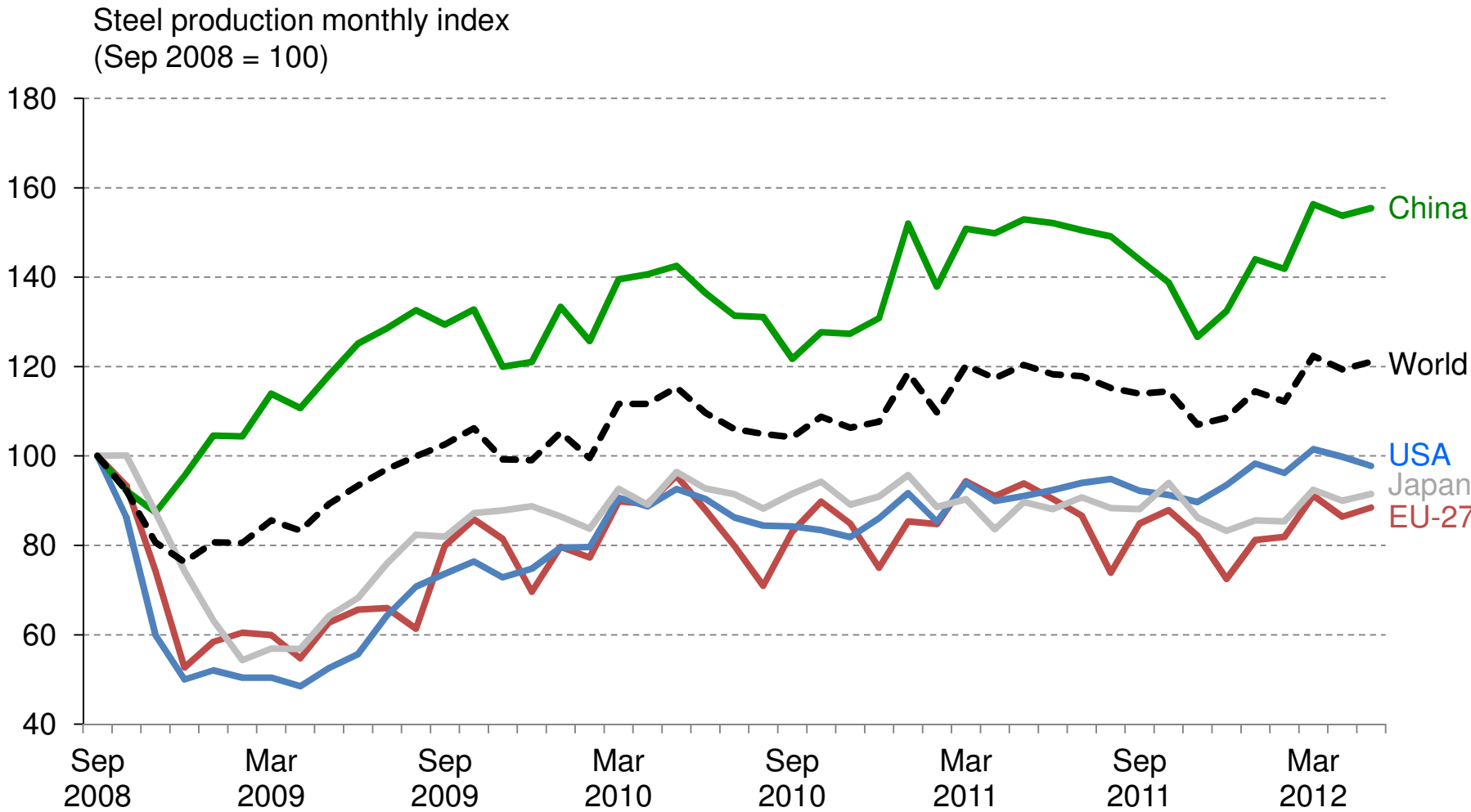
EU industrial output is tipping back into recession. Average growth rate now implies falling steel demand



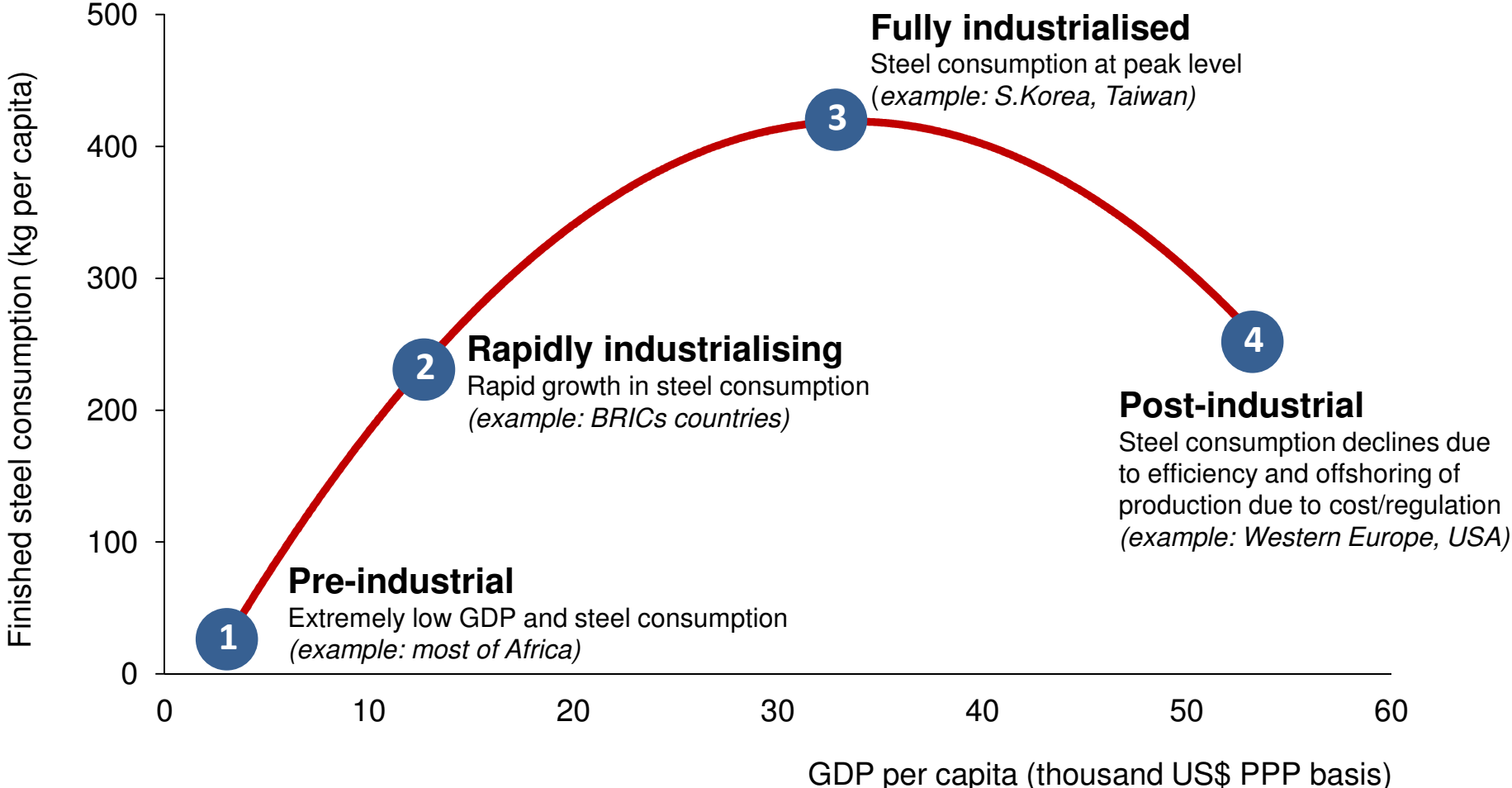
Industrial production in Europe has diverged widely between countries since 2008



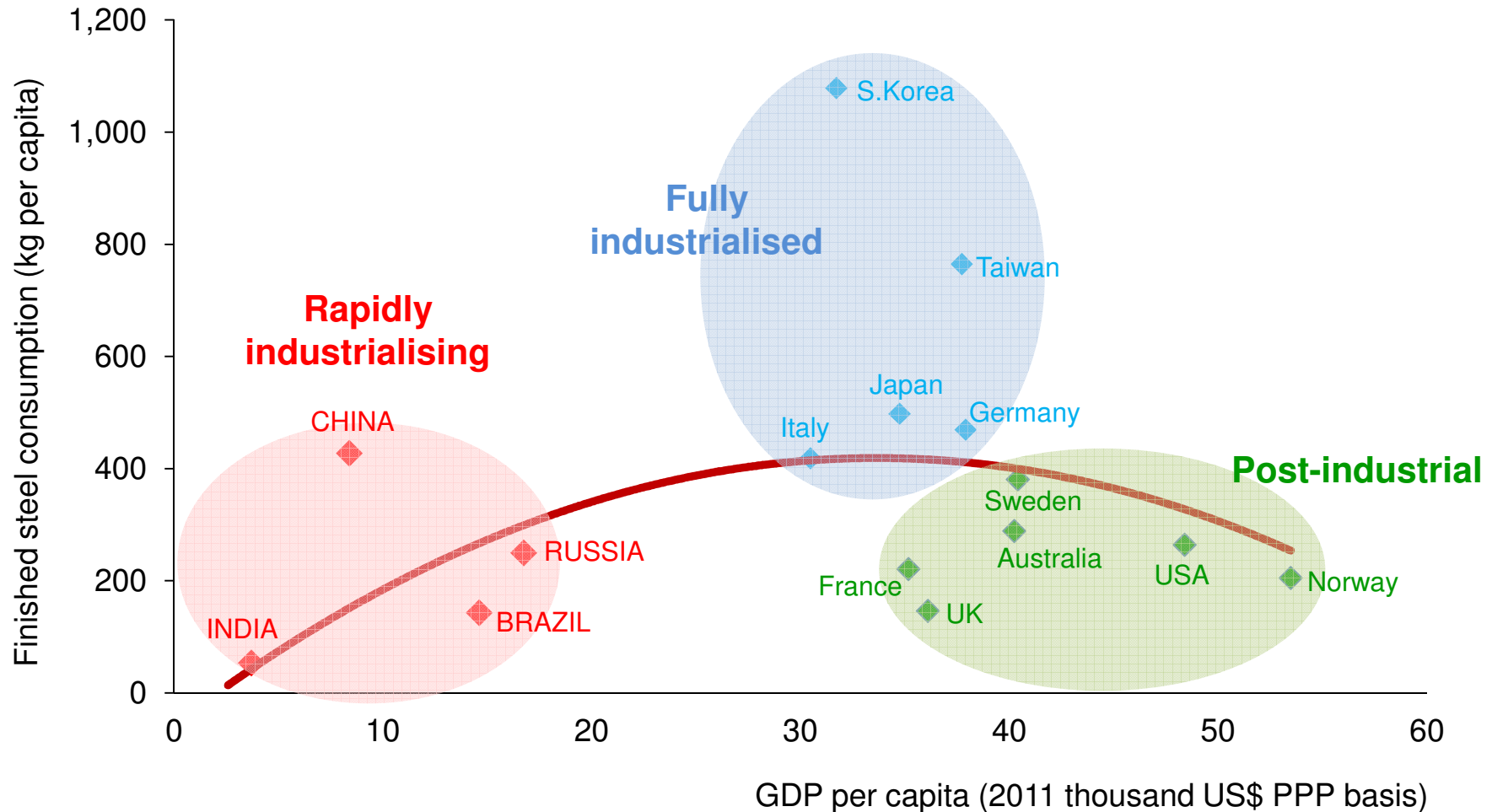
European steel output has recovered only slowly, but has confounded more pessimistic forecasts



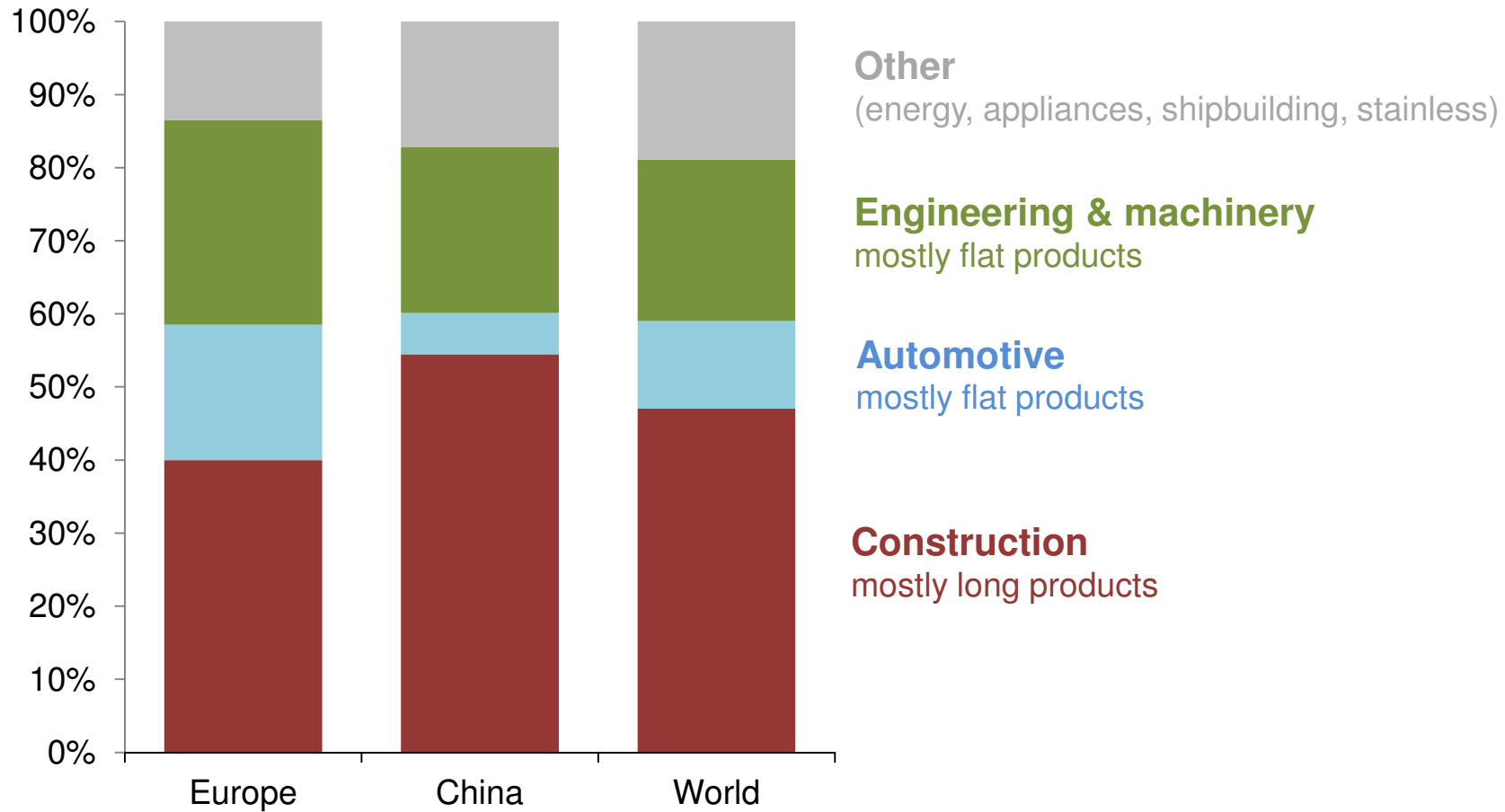
There are four key stages to a country's process of industrial development



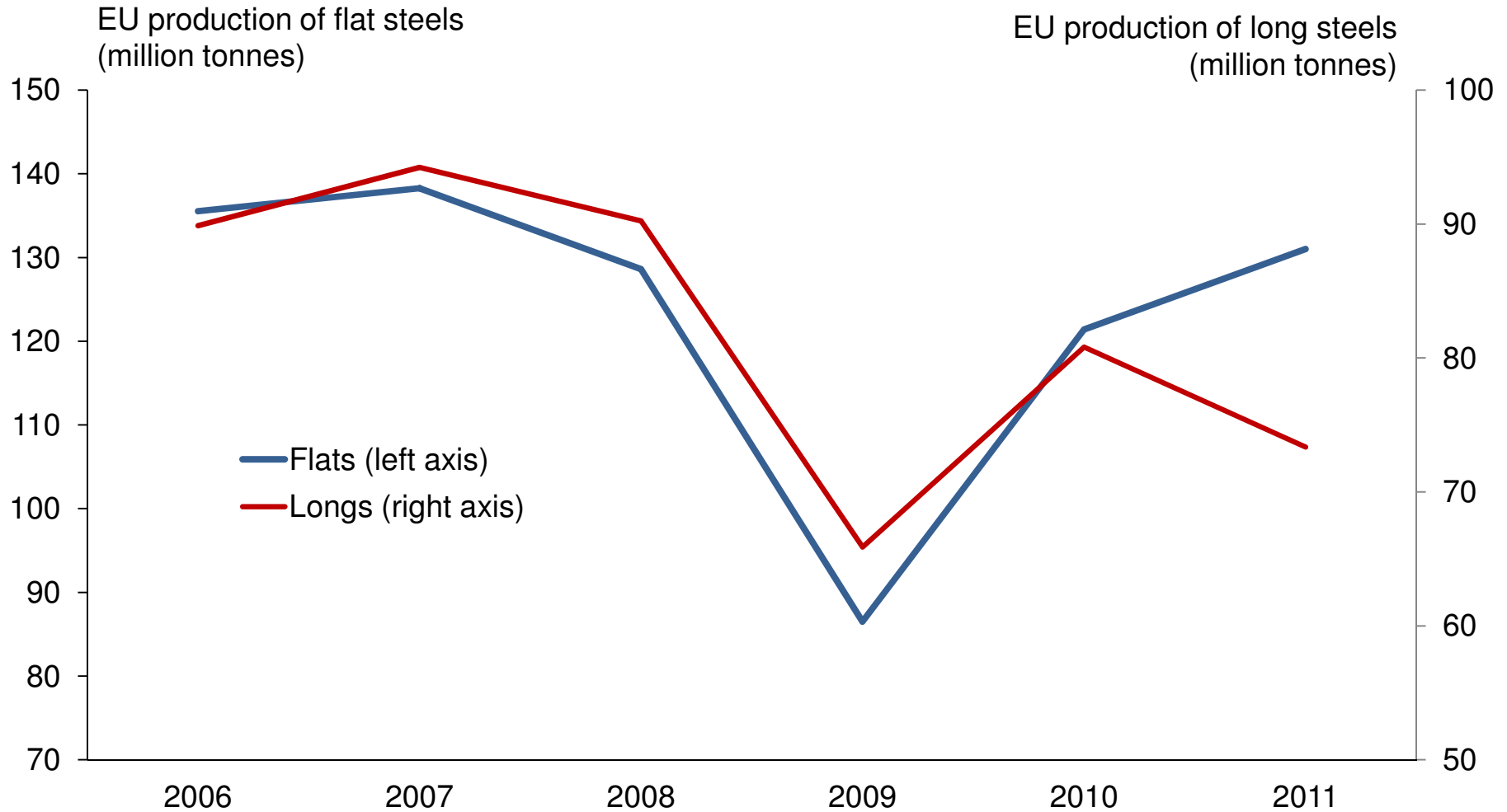
Some European countries are now post-industrial, with structurally declining steel consumption



Steel consumption by primary end-use, 2011

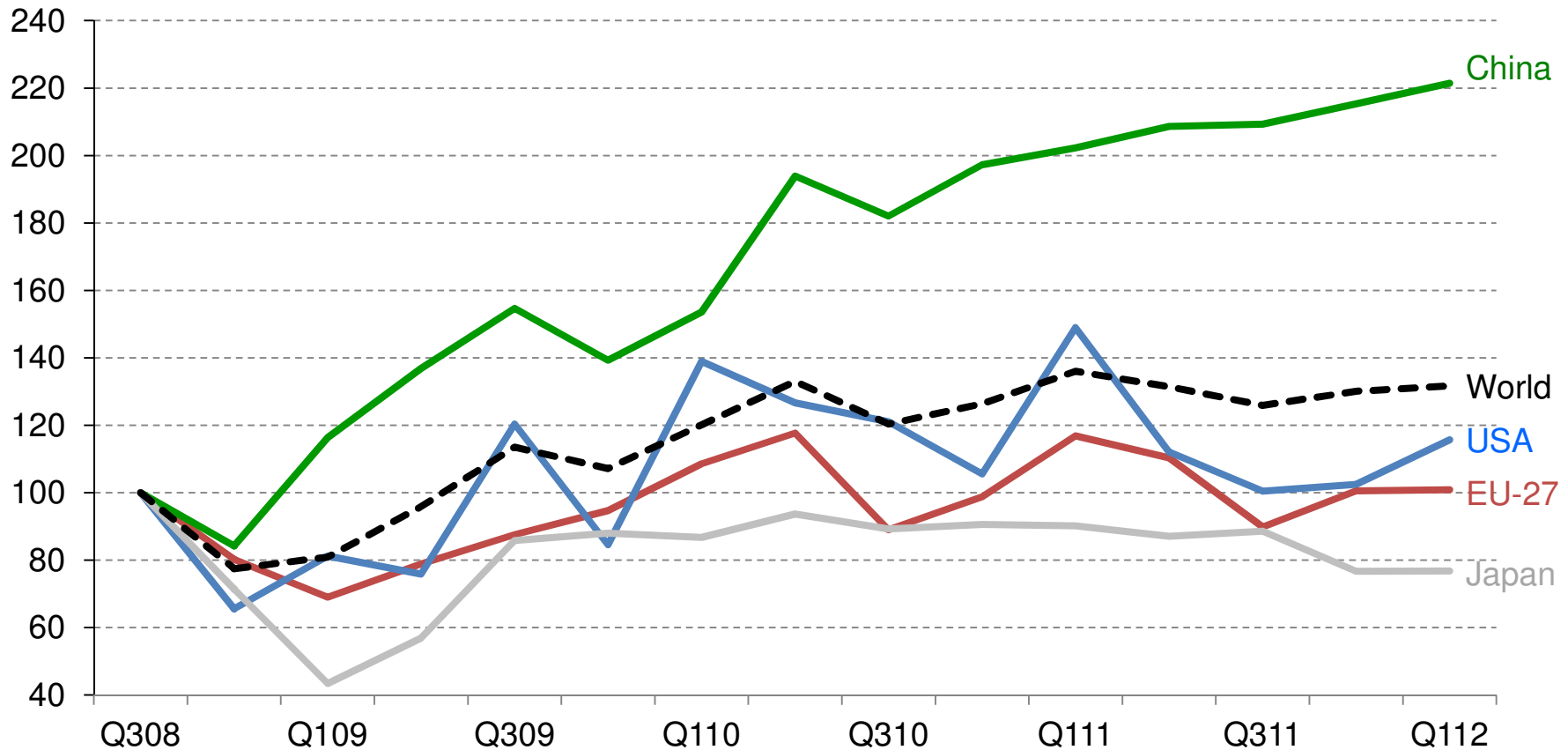


Flat steel production in Europe has recovered, whilst output of long products has stagnated



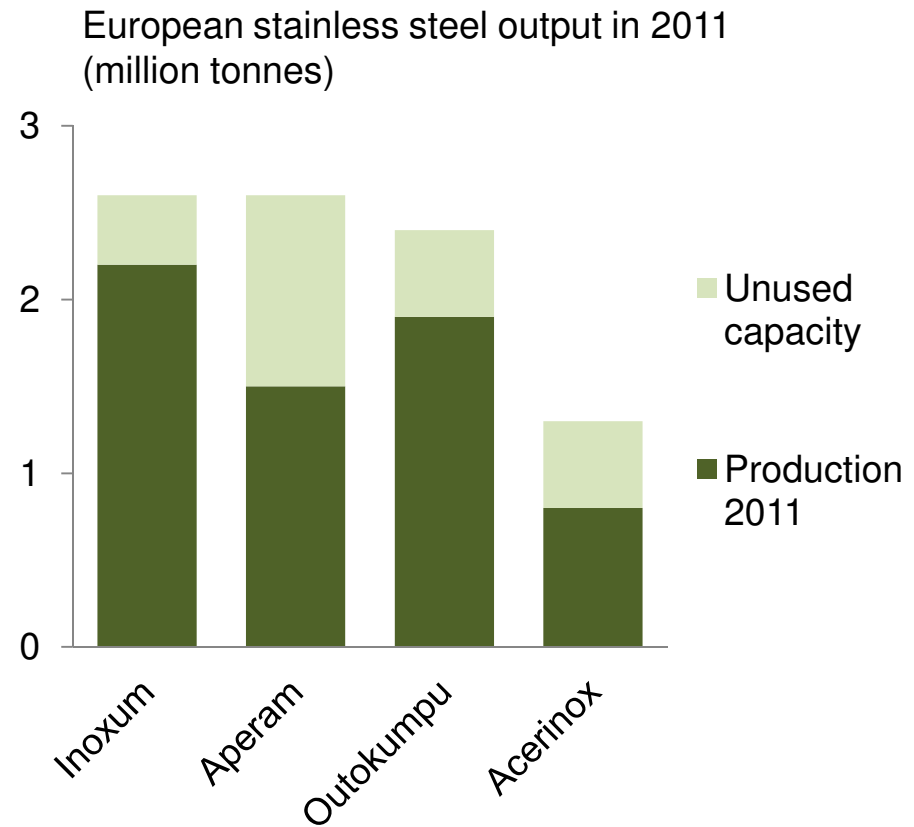
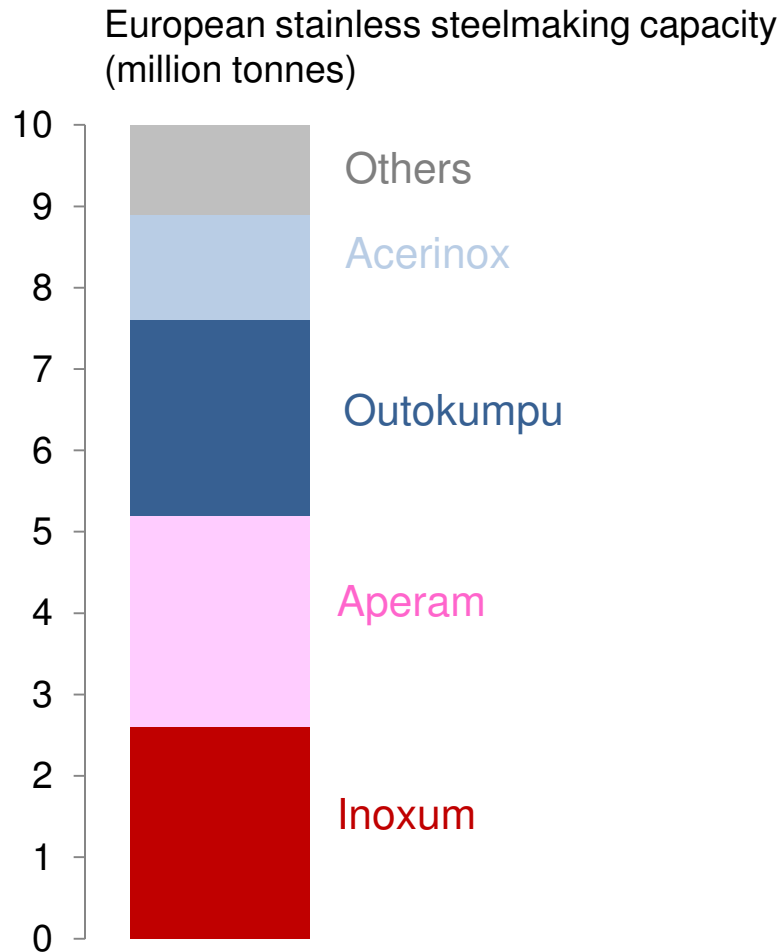
As with carbon steel, the recovery of European stainless output since 2008 has been sluggish

Stainless steel production quarterly index
(Q3-2008 = 100)



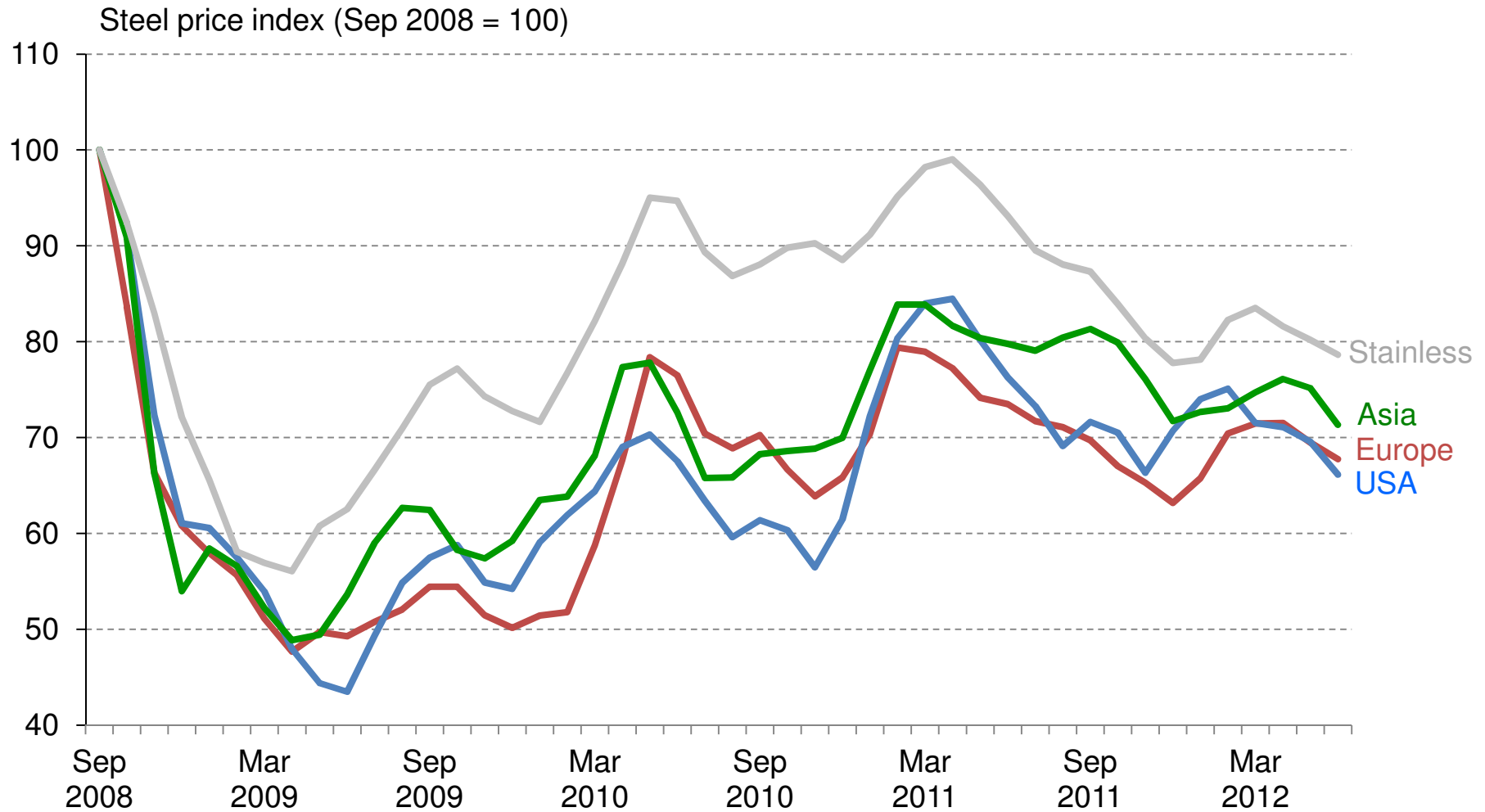
European stainless steel production

No market leader, low profits, low capacity utilisation....
Expect consolidation and rationalisation

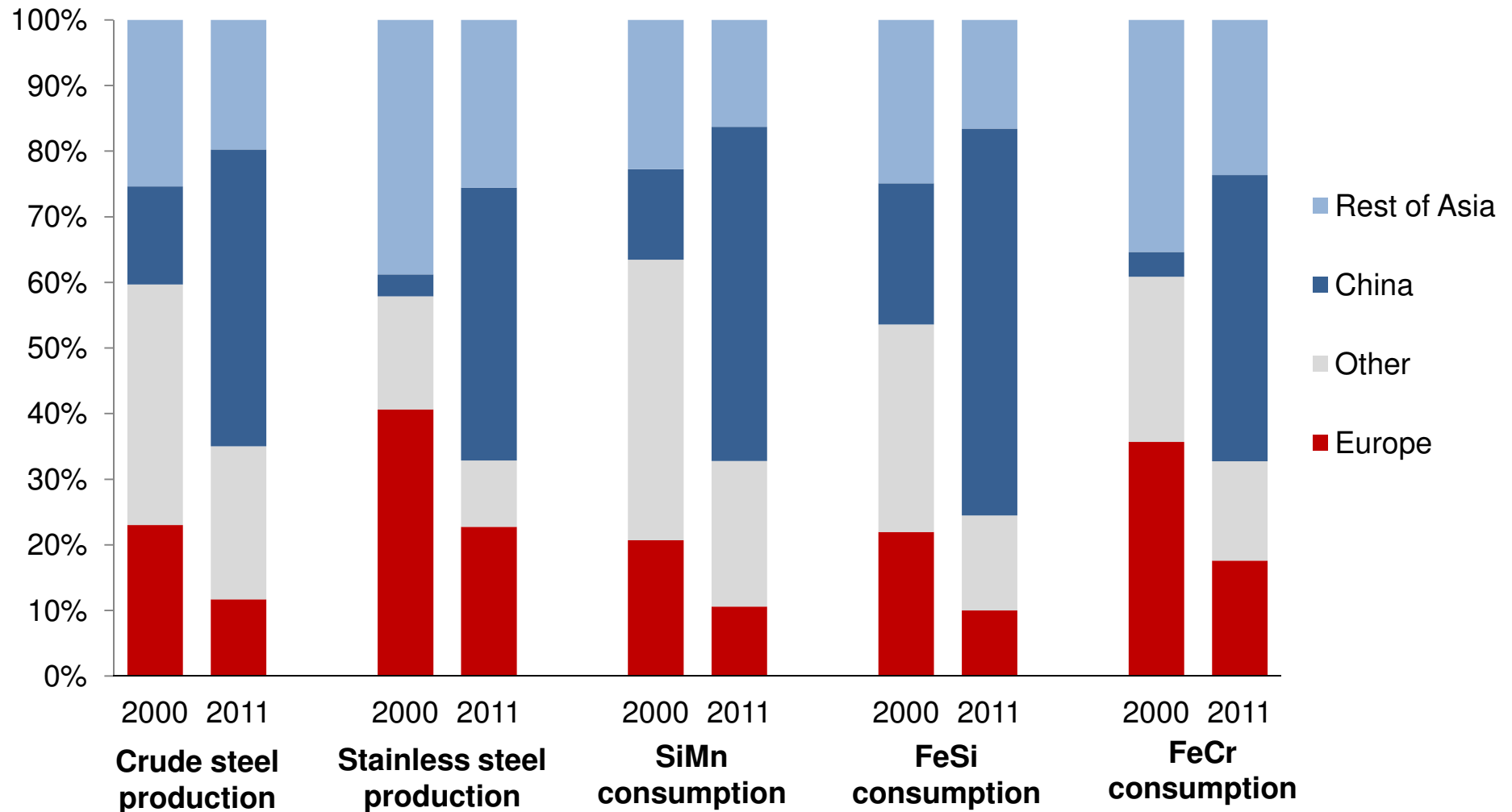


Source: SMR, K.Fowkes

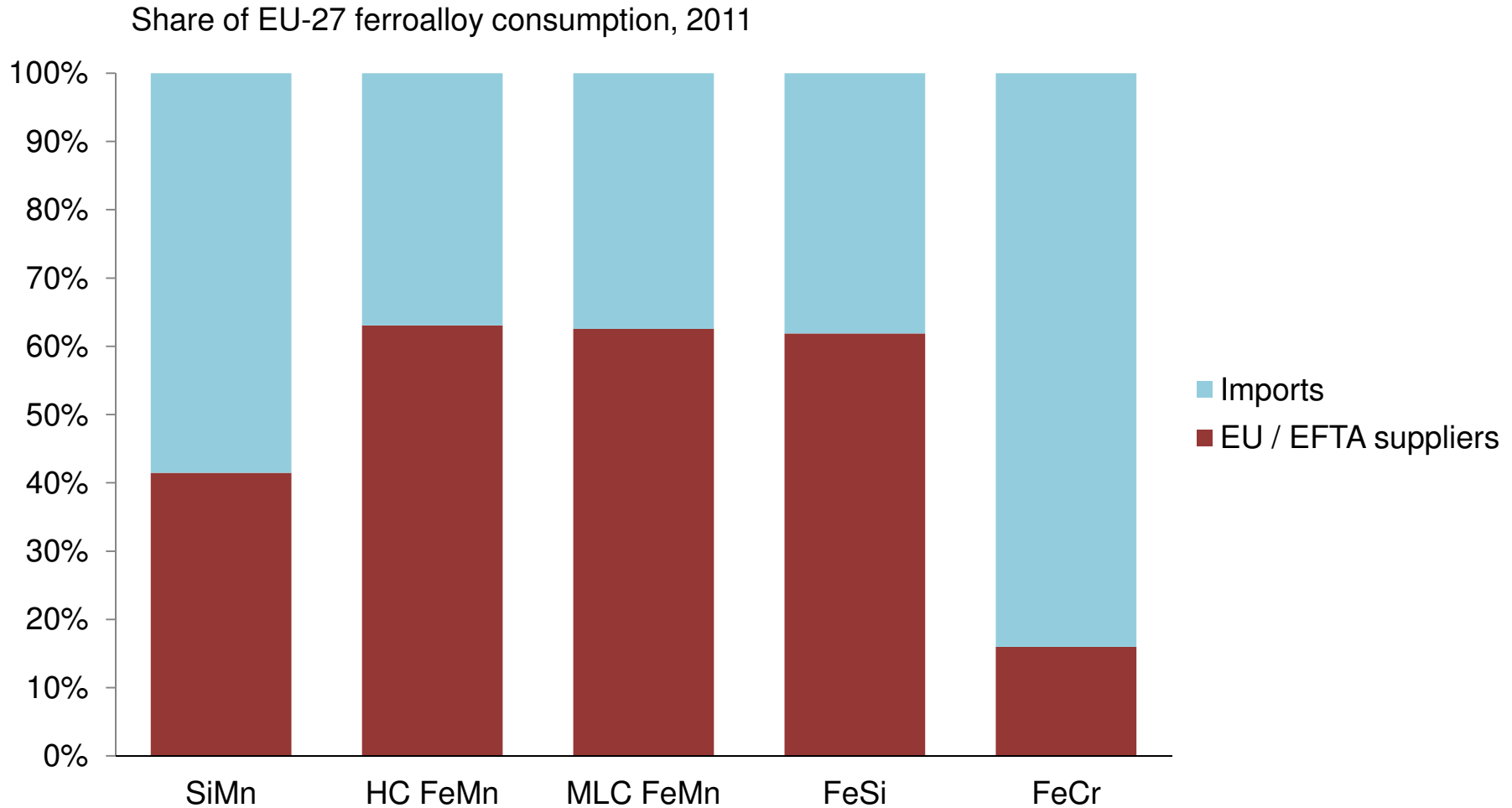
Falling steel prices in all regions...suggests production cutbacks in Q3 and Q4



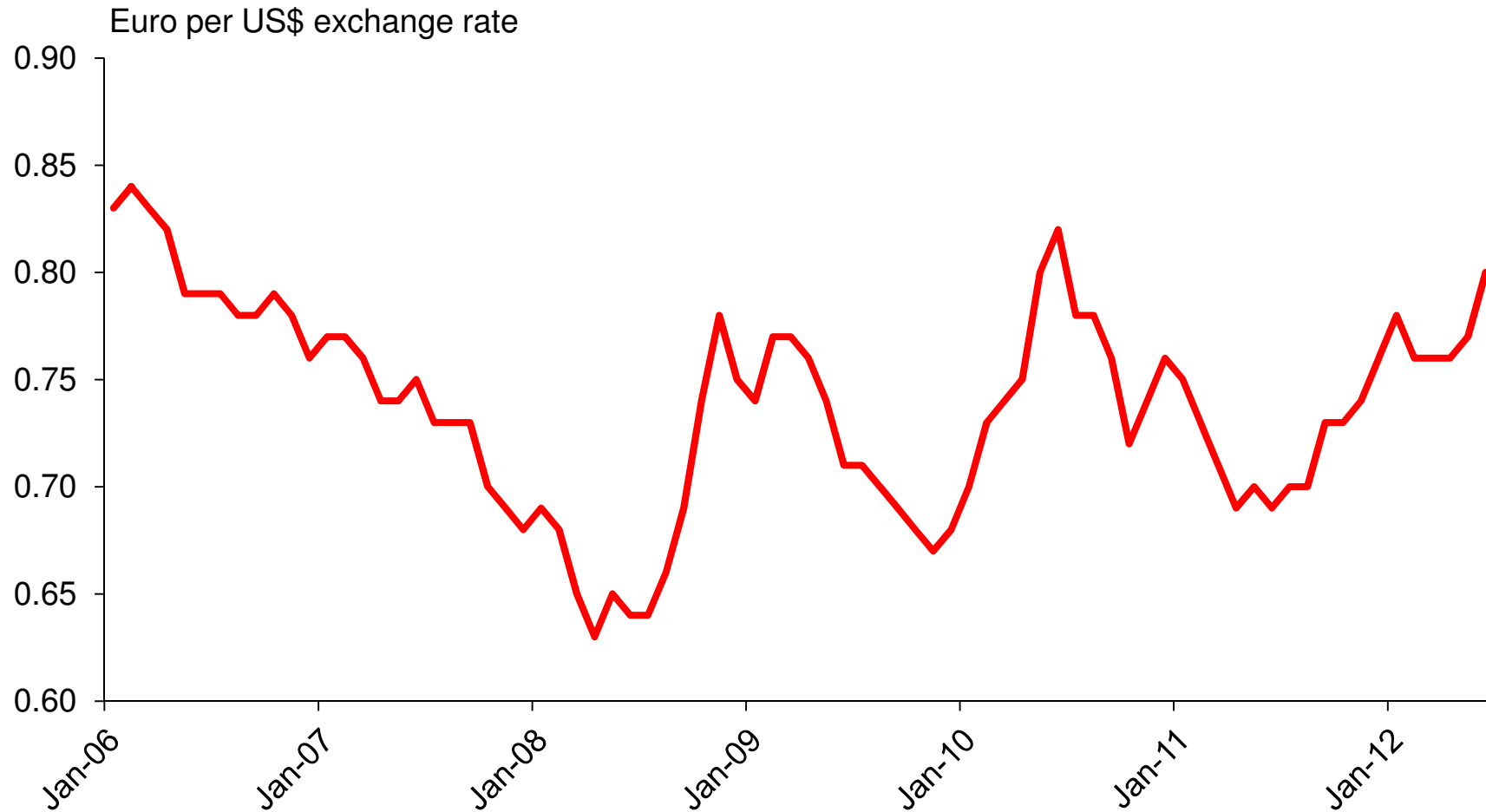
On a global comparison, Europe is a much less important consumer of ferroalloys than 10 years ago



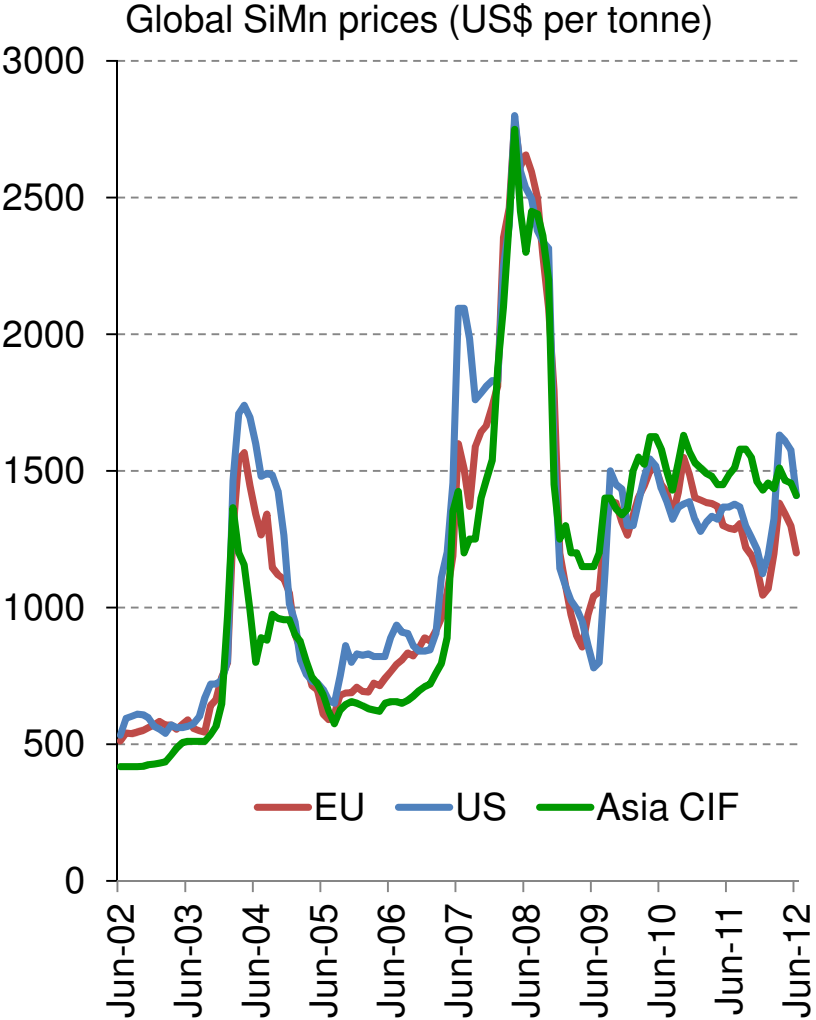
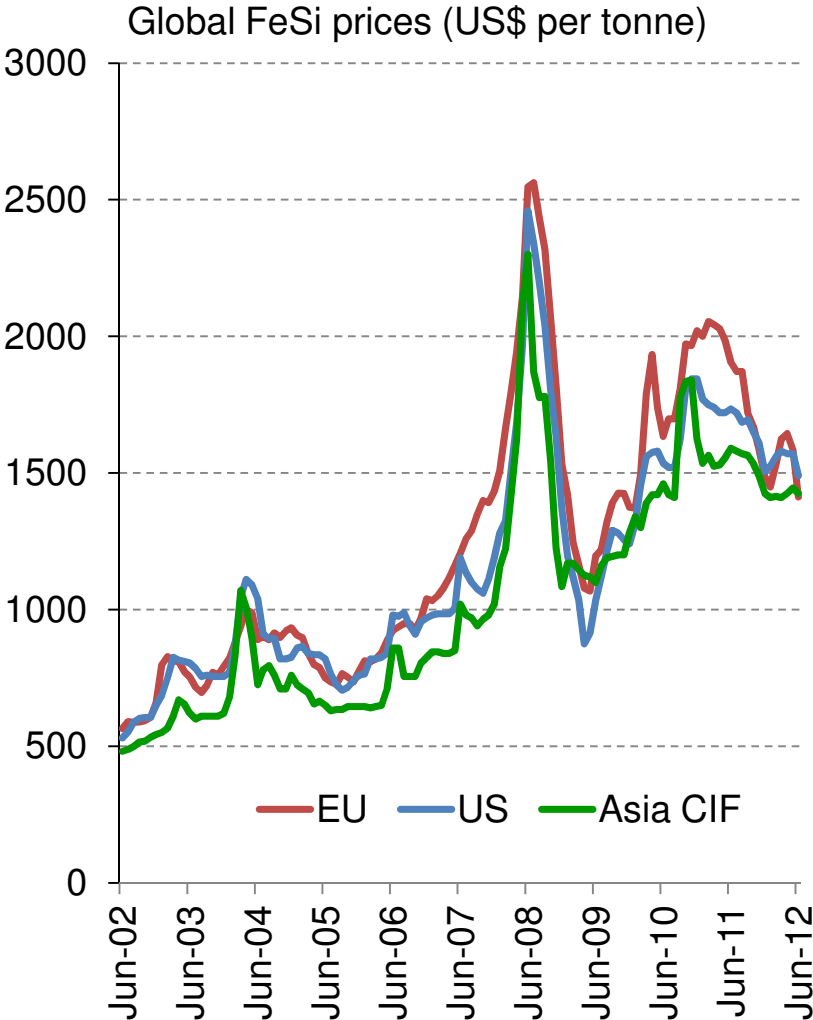
To varying degrees, European ferroalloy consumption has become highly dependent on imports



The Euro has weakened substantially...but it still looks nothing out of the ordinary (yet)

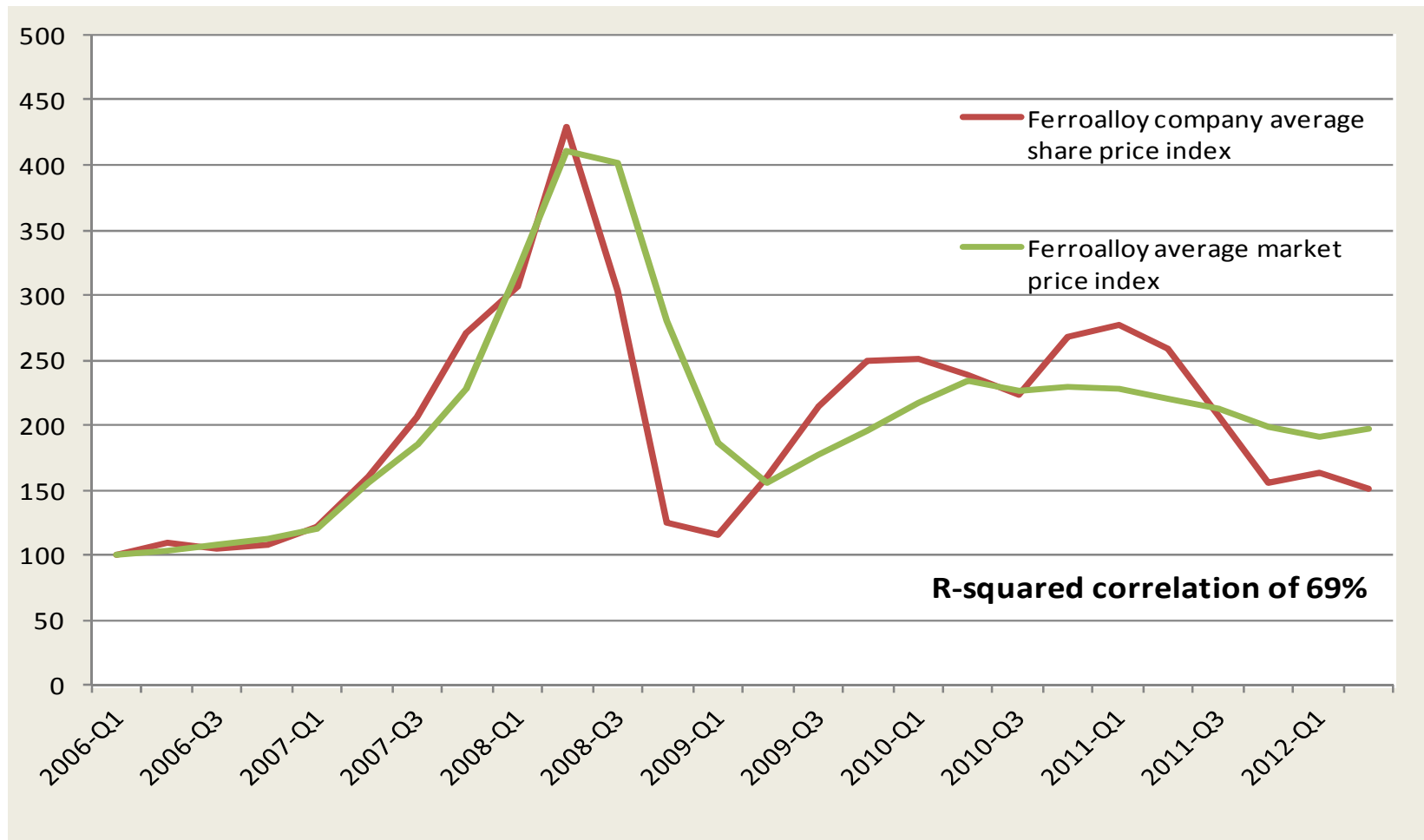


Partly due to the weakening Euro, Europe is already an unattractive export market for ferroalloys



Also do not forget the impact that stock market pessimism is having on the ferroalloy sector

Index (2006-Q1= 100)



In conclusion...

- Short term prospects for European economy are poor – ranging from mild recession to >10% contraction in IP if there is a second financial crisis of the 2008-9 magnitude
- European steel production will undoubtedly be affected – but so far it has remained quite stable overall despite much more pessimistic predictions
- Europe is no longer a large consuming region for most ferroalloys (no more than 10% of global market). Thus impact of a European crisis only becomes very severe on the global ferroalloy sector if China/Asia are dragged down too
- Pessimism currently overhangs all ferroalloy markets, and prospects for most prices in Q3/Q4 do not look strong at this point
- Macroeconomic deterioration may change this, but currently fundamentals are stronger than market sentiment and prices indicate