

# STEEL MARKET DEVELOPMENTS

Q2 2021





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*Recent market developments in the global steel industry*

This document is part of a regular monitoring exercise to provide the Steel Committee with timely information on steel market developments during the year 2020. It provides an update on recent developments in steel markets, based on the latest information available at the time of writing (as of January 2021). Given that the data for regional aggregates presented in the tables throughout this paper extend until the end of 2020, the United Kingdom is no longer included in the EU aggregate.

## 1. Executive summary

This document provides an overview of recent steel market developments - including demand, supply, and prices - and the outlook by region based on information available until December 2020. To summarise, the following key developments are discussed in this report:

- **The economic situation:** In its December 2020 Economic Outlook, the OECD projects world GDP growth to rebound to 4.2% in 2021 and 3.7% in 2022, following a 4.2% GDP contraction in 2020. Nevertheless, the economic outlook remains exceptionally uncertain due to unknowns concerning the successful rolling out of vaccines, the effectiveness of vaccines and the potential resurgence of the virus. Upside risks relate to the positive impacts on growth from faster-than-expected developments of vaccines around the world, and to the slowing down and quasi-disappearance of the disease in a number of countries. Downside-risks relate to the resurgence of the pandemic in many countries, as well as to a potential loss of confidence, should logistical issues concerning the distribution of vaccines prove more challenging than foreseen.
- **Steel consumption:** The October 2020 forecasts of the World Steel Association (henceforth, “worldsteel”) pointed to a global steel consumption decline of 2.4% in 2020. This moderate decrease despite the outbreak of COVID-19 was mainly attributed to growth in the People’s Republic of China (hereafter “China”), which accounted for around 57% of the global steel demand in 2020. Turkey was also projected to experience steel demand growth in 2020, after a sharp contraction in 2019.
- **Steel production:** Global crude steel production declined by 0.9% in 2020, with plunging output in the first half of the year being partly offset by a recovery in the second half. Steel production increased significantly in Asia (+6%), mainly led by a strong rebound in China (+9.5%), in Other Europe (+13.7%), in the CIS (+6.4%) and in the Middle East (+5.6%), and moderately in South America (+3.7%), Africa (+1.3%) and Oceania (+0.5%). In contrast, steel production dropped in both the European Union (-5.0%) and North America (-13.8 %).
- **World steel trade:** The decline of steel exports accelerated for most economies during the first nine months of 2020. During this period, steel exports decreased (in year-on-year terms) in the European Union (18.5%), China (16.0%), the United States (13.1%), Turkey (10.4%), Brazil (9.2%), Chinese Taipei (8.4%), Korea (4.6%), and Japan (3.1%). On the other hand, steel exports from India and Russia increased by 45.2% and 12.4%, respectively, during in the first three quarters of 2020.
- **Steel and steelmaking raw material prices:** Steel prices have risen sharply during the second half of 2020, following weakness earlier in the year. As of January 2021, monthly flat steel prices and rebar prices are 47% and 39% higher than one year earlier, respectively. A significant amount of steelmaking capacity idled during the heights of the pandemic could not be brought online quickly enough to meet recovering steel demand and restocking, leading to the rapid rise in global steel prices. As most of the plants that idled capacity during 2020 should have resumed production by March 2021, the recent global rally in steel prices could be short-lived. The sharp increase in prices has not translated into an increase of the average steel firm margin profit. Strong increases in raw materials needed to produce steel have reduced the margin. As of February 2021 prices of iron ore, coking coal and scrap were up 97%, 53% and 56%, respectively, from their levels one year earlier.

- **Capacity:** Global steelmaking capacity increased to 2 452.7mmt at the end of 2020, i.e. by 1.6% from the level at the end of 2019. World steel production as a share of capacity declined from 76.5% in 2019 to 74.5% in 2020.
- **Steel demand outlook:** In its October 2020 outlook, worldsteel forecast that Chinese finished-steel demand would stagnate in 2021 following growth of 8% in 2020. Recoveries are expected elsewhere, with projections of steel demand growth of 22.7%, 8.1%, 11.0% and 6.6% for India, Japan, the European Union and the United States, respectively. In most jurisdictions, however, the level of finished-steel demand in 2021 is expected to remain below pre-pandemic levels.

## 2. The OECD Economic outlook

### 2.1. Global prospects

Global growth prospects have improved significantly since the height of the COVID-19 crisis, which led to plummeting output in the first half of 2020 as strict containment measures aimed at slowing down the spread of the virus were implemented. While economic prospects have improved recently, the economic outlook remains exceptionally uncertain. Smaller firms and entrepreneurs are bearing most of the burden of the restrictions implemented to address the pandemic, and many continue to be out of business. This increases unemployment and causes long-lasting damage to the socio-economic fabric of many countries. Upside risks to the outlook relate to the positive impacts on economic growth from faster vaccine development and deployment around the world and the slower spread of COVID-19. Downside risks identified are the resurgence of the pandemic and its impacts on economic activity, as well as the potential loss of confidence should logistical issues concerning the distribution of vaccines prove more challenging than foreseen. A significant decline in business confidence would raise the risk of financial market turmoil, given the historically high level of corporate and sovereign debt worldwide.

In its December 2020 Economic Outlook, the OECD estimated world GDP to have dropped by 4.2% in 2020, with growth rebounding to 4.2% in 2021 and 3.7% in 2022. Fiscal balances are set to deteriorate considerably, as governments around the world have adopted significant support measures in an attempt to mitigate the damage to the corporate sector and workers caused by the restrictions and the lock-downs to contain the virus. Nevertheless, governments borrowing costs are historically low, as monetary authorities have stepped in to reduce the cost of funding.

Table 1 below presents the GDP growth forecasts according to the OECD's December 2020 Economic Outlook. As alluded to above, there is considerable uncertainty around the projections presented in this table, due to the challenge of predicting the speed and the success of the vaccines in the face of a rapidly evolving situation.



**Table 1. The latest OECD Economic Projections (December 2020)**

Real GDP growth (%)

	2018	2019	2020	2021	2022
<b>World <sup>1</sup></b>	<b>3.4</b>	<b>2.7</b>	<b>-4.2</b>	<b>4.2</b>	<b>3.7</b>
United States	3.0	2.2	-3.7	3.2	3.5
Euro area	1.9	1.3	-7.5	3.6	3.3
Germany	1.3	0.6	-5.5	2.8	3.3
France	1.8	1.5	-9.1	6.0	3.3
Italy	0.8	0.3	-9.1	4.3	3.2
Spain	2.4	2.0	-11.6	5.0	4.0
Japan	0.3	0.7	-5.3	2.3	1.5
United Kingdom	1.3	1.3	-11.2	4.2	4.1
Mexico	2.2	-0.3	-9.2	3.6	3.4
Korea	2.9	2.0	-1.1	2.8	3.4
Canada	2.0	1.7	-5.4	3.5	2.0
Turkey	3.0	0.9	-1.3	2.9	3.2
Australia	2.8	1.8	-3.8	3.2	3.1
China	6.7	6.1	1.8	8.0	4.9
India <sup>2</sup>	6.1	4.2	-9.9	7.9	4.8
Russia	2.4	1.3	-4.3	2.8	2.2
Brazil	1.2	1.1	-6.0	2.6	2.2
Indonesia	5.2	5.0	-2.4	4.0	5.1
South Africa	1.4	0.2	-8.1	3.1	2.5
<b>OECD <sup>1</sup></b>	<b>2.3</b>	<b>1.6</b>	<b>-5.5</b>	<b>3.3</b>	<b>3.2</b>
<b>Non-OECD <sup>1</sup></b>	<b>4.4</b>	<b>3.6</b>	<b>-3.0</b>	<b>5.1</b>	<b>4.2</b>
<b>World real GDP growth</b>	<b>3.4</b>	<b>2.7</b>	<b>-4.2</b>	<b>4.2</b>	<b>3.7</b>

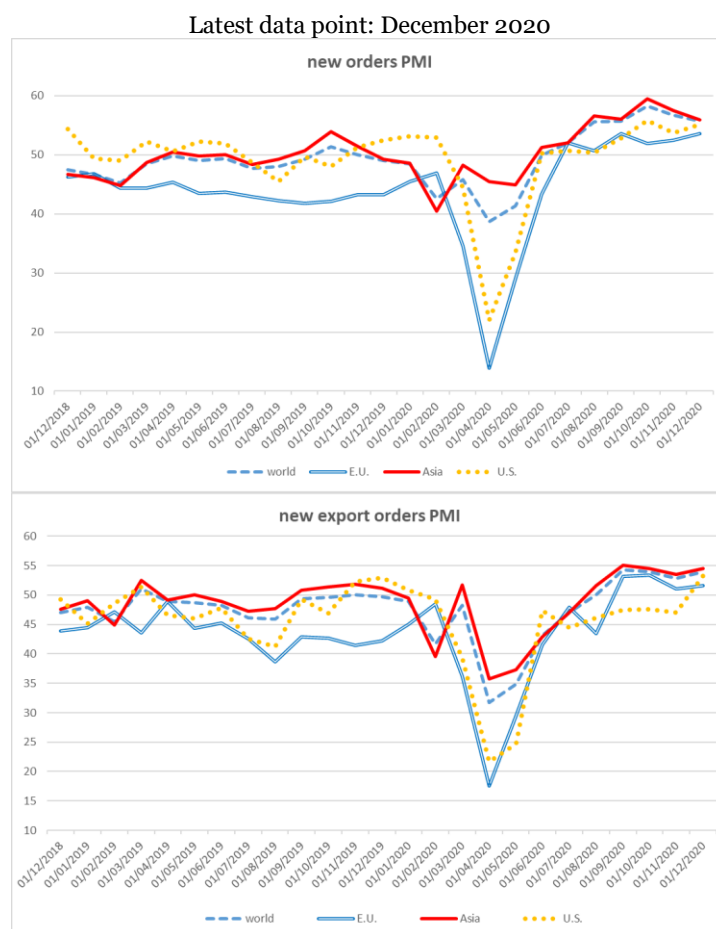
Note: 1. Moving nominal GDP weights using purchasing power parities.

2. Fiscal years starting in April.

Source: OECD Economic Outlook, December 2020, available at: <http://www.oecd.org/eco/outlook/economic-outlook>

Manufacturing activity has rebounded worldwide. The IHS-Markit index for new export orders of steel-intensive sectors, a forward-looking component of the overall Purchasing Managers' Index (PMI), indicates that a recovery in global manufacturing activity among steel-intensive sectors has taken place since July 2020 (Figure 1). Indeed, in July 2020 the above-mentioned Markit indices all jumped to levels higher than 50, which indicates expectations of an increase in new orders from steel-intensive sectors over the previous month, and have increased further thereafter. The indices have continued to increase in spite of the recent resurgence of the pandemic in many places, possibly reflecting better-targeted restriction measures, or comparatively strong growth in China and some other economies.

**Figure 1. Markit Steel Index: new orders and new export orders among Steel-Intensive Sectors PMI**



Note: An index reading of less than 50 indicates that more purchasing managers expect a decrease over the next month than an increase. The last data point represents expectations for the month of December 2020

Source: Markit economics, via Datastream

## 2.2. Regional prospects

In the euro area, GDP is expected to have decreased by 7.5% in 2020 and is forecast to increase by 3.6% in 2021 and 3.3% in 2022. Activity declined in 2020 due to the strong resurgence of the virus and the resulting widespread containment measures put in place by governments. Although retail sales had caught up during the summer, reflecting delayed demand, industrial production had not yet fully recovered, especially in capital goods, due to considerable weakness in investment. Private consumption and investment will be affected the most by pervasive uncertainty and low confidence, while unemployment will continue to rise until mid-2021, and fall only gradually afterwards. Investment will remain significantly below its pre-pandemic levels, but also the recovery of private consumption is projected to be sluggish, held back by the historically high unemployment rate and weak real wage growth. Though a bit more dynamic, export growth will be constrained by the subdued recovery in international trade. Differences in sectoral specialisation, as well as in the length and the extent of discretionary fiscal support, explains asymmetries in the size of the economic impact felt across euro area countries. The European Central Bank (ECB) has continued to provide abundant liquidity, in particular by keeping rates unchanged and conducting wide-scale asset purchases. The European instrument for temporary Support to

mitigate Unemployment Risks in an Emergency (SURE), an EU lending facility to support national short-time work schemes, has become operational and witnessed strong take-up, with loans approved to 17 Member States thus far, almost exhausting the facility's EUR 100 billion envelope.<sup>1</sup> Furthermore, in July 2020 the European Council reached an agreement on the Next Generation EU recovery plan, which envisages EUR 750 billion of financing (about 5.5% of EU27 GDP in 2019), mainly in the form of loans (EUR 360 billion) and grants (almost EUR 380 billion) to member states. A substantial part of these grants will be allocated to member states most affected by the pandemic, thus increasing their fiscal space. The Next Generation EU recovery plan complies with the objective of EU climate neutrality by 2050 and would thus contribute to achieving the EU's climate targets.

In the United States, GDP is expected to have decreased by 3.7% in 2020 and is forecast to increase by about 3.2% in 2021 and 3.5% in 2022. An upside risk to the U.S. outlook, according to the OECD's projections, is greater fiscal stimulus than currently assumed, such as one including provisions for a new infrastructure package. Downside risks include a smaller or delayed fiscal package and a higher-than-expected number of large-scale firm insolvencies, given the high indebtedness of the non-financial corporate sector in general, and of businesses in the sectors most impacted by the restrictions in particular. Unemployment is expected to decrease gradually but to remain above its pre-pandemic level. New COVID-19 cases started to rise again towards the end of 2020, which may dampen the recovery of the economy. A general rollout of an effective vaccine in the latter half of 2021 would allow an easing of containment measures and strengthen confidence. The Federal Reserve cut interest rates to 0-0.25% and announced the resumption of large-scale asset purchases, while adopting a new and more flexible average inflation targeting strategy. Furthermore, new credit facilities were introduced and capital and reserve requirements adjusted to limit the possibility of financial institutions restricting access to finance. Financial conditions thus became, overall, highly accommodative. Fiscal policy also helped temper the impact of the crisis as it provided comprehensive support, including supplementary unemployment insurance, one-off payments to families, financial assistance to state governments, as well as forgivable loans with a Treasury backstop to small businesses that retain workers or for increasing the health sector capacity.

In Japan, the economy is gradually strengthening, although growth remains sluggish. The pandemic shock in early 2020 triggered a major recession and real GDP is expected to have decreased by 5.3% in 2020. The OECD forecasts that GDP will increase by about 2.3% in 2021 and 1.5% in 2022. Although household consumption is expected to recover, as well as export growth, private investment will likely remain subdued. Confronted with the first wave of COVID-19 infections in March, the Japanese government declared a state of emergency from 7 April to 25 May, which enabled prefectural governors to order school closures, restrict the use of public facilities and request non-essential businesses to close. Although confinement was not legally imposed, many households chose to shield themselves. The Bank of Japan took steps to support the economy, expanding its policy to ensure financial stability by providing smooth and ample financing through enhanced purchases of various assets and introducing interest-free loans against private debt as collateral. In addition, some public financial institutions have provided interest-free loans to firms. The fiscal stance of the government also contributed to cushioning the impact of the crisis, with a wide range of measures to support households and protect businesses and employment. These include cash handouts of JPY 100 000 to every resident, cash transfers to heavily affected business owners, expanding the Employment Adjustment Subsidy which provides firms with financial support to cover the cost of special paid leave, additional cash benefits for single-parent households and a rent subsidy to help heavily affected firms. Although this fiscal support seems to have been successful in preventing a

significant increase in the unemployment rate, real wages have decreased and may take some time to recover, while new job creation has remained anaemic. Notwithstanding a recovery in industrial production due to export growth picking up, forward-looking indicators suggest continued weakness in investment, due to a low capacity utilisation rate and significant uncertainty about future growth.

In China, GDP is expected to have grown moderately in 2020, increasing by 1.8%. The OECD forecasts show GDP growth picking up to 8.0% in 2021 and settling at a robust 4.9% in 2022. While the COVID-19 outbreak originally started in China's Hubei province, containment of the virus, besides some occasional and sporadic new cases, appears to have allowed for a strong recovery. Although household consumption has still not completely reached its pre-COVID levels, investment, in particular in infrastructure and real estate, has been robust and significantly boosted growth in 2020. Government-induced infrastructure investment spending in particular has lifted the output of many midstream-manufacturing industries and prompted imports of raw materials such as iron ore or copper. Exports also contributed strongly to the country's growth, as they boomed on the back of demand for masks and other COVID-19-related materials and equipment, as well as teleworking-related goods. Nevertheless, the pandemic has increased households' precautionary savings and eroded consumer confidence. Monetary and financial policy authorities, in addition to the support provided earlier in the year such as lower reserve requirements and lower loan-loss provisioning coverage ratios, have enabled smaller banks, which were hit harder during the outbreak, to use part of the special treasury bonds<sup>2</sup> to replenish their capital. Shadow banking has increased again after several years of decrease, which has helped ease the financing conditions of private businesses. Monetary policy is reverting to a more neutral stance to avoid overheating in the real estate market. Fiscal policy has continued to support the recovery. Special and general local bonds, as well as special treasury bonds, are financing an infrastructure investment boom, in which local government investment vehicles are still playing an important role. Fiscal policy will remain supportive, with a number of tax cuts and extensions of social benefits promoting consumption amid weak consumer confidence.

In India, GDP is expected to have fallen sharply in 2020, by about 9.9%, according to the latest OECD Economic Outlook. The forecasts show Indian GDP growth resuming to rates of 7.9% in 2021 and 4.8% in 2022. However, economic activity in India is still below pre-pandemic levels, and indicators such as power demand, car sales, railway freight and the manufacturing PMI are all pointing towards weakness in the momentum of the recovery. Upstream industries, such as producers of capital equipment, are continuing to contract. The Reserve Bank of India cut the policy repo rate from 5.15% to 4%, and introduced mandatory credit repayment moratoria and one-off debt restructuring, but household consumption and investment have remained largely unresponsive to the resulting easier monetary conditions. Fiscal support has been significant, initially amounting to about 6.9% of GDP, of which 4.9% consisted of off-budget measures designed to support businesses and shore up credit. This was followed by a package focused on household consumption amounting to 0.2% of GDP ahead of the Diwali festivities, and a third intervention in November 2020 amounting to about 1.4% of GDP that will span over several fiscal years. Fiscal support in the near future is projected to be moderate, as the fiscal deficit amounting to about 16% of GDP (mainly caused by lost tax revenue) limits possibilities for expansionary fiscal policy. Monetary conditions are projected to remain accommodative, but further monetary relaxation is currently limited by a headline inflation rate that exceeds the central bank's target range. There are upside risks in inflation, should some supply chain bottlenecks persist as producers in the informal sector fail to restart activity after the pandemic. Inequality is set to increase, and school closures, if protracted, will hamper long-term growth in knowledge-intensive, high added-value sectors. On the upside, a successful



rollout of a vaccine or effective treatment or an uptick in global growth would translate into faster domestic growth. The immunisation campaign will be an immense logistical and operational challenge with substantial cost.

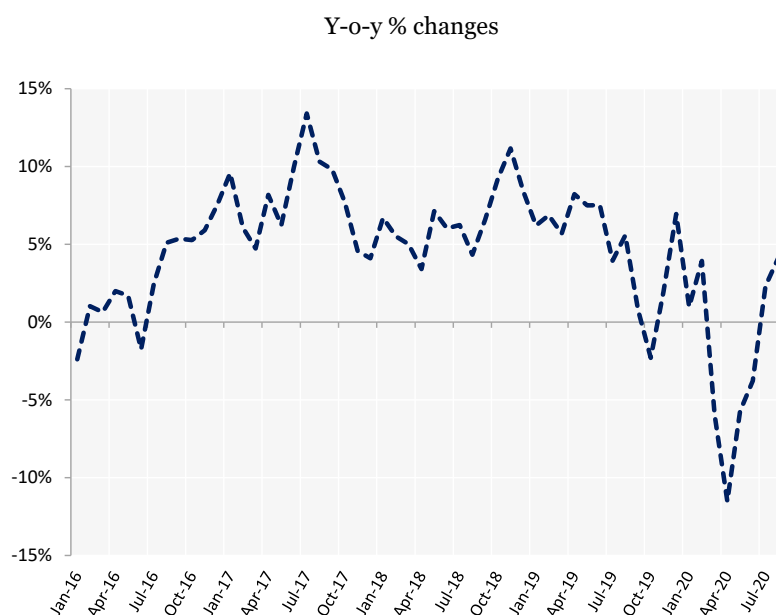
In Brazil, economic activity has started to recover across a wide range of sectors. GDP is projected to have dropped by 6.0% in 2020 but growth is forecast to recover to a rate of 2.6% in 2021 and 2.2% in 2022. The monetary policy response, with rate cuts of 250 basis points in 2020, have led to historically low interest rates, which should boost private investment once the recovery strengthens and credit demand increases. The fiscal policy response to the pandemic has been one of the largest in the region, with discretionary fiscal measures exceeding 8% of the country's GDP and focusing on the most vulnerable households. New temporary emergency benefits have been paid to over 67 million informal, self-employed or unemployed workers since April 2020, amounting to about BRL 600 (USD 120) per month<sup>3</sup>, or 57% of the federal minimum wage. Policy support for small firms includes a publicly guaranteed low-interest credit line to cover wages for employees earning up to twice the minimum wage. Additional new corporate credit lines have been provided by the national development bank. Exports will benefit from recovering global demand for food and minerals, but manufacturing exports are limited by continuously weak prospects in neighbouring Argentina. The unemployment rate will peak in 2021 at almost 14%, before receding slowly as previously discouraged workers return to the labour market.

### 3. Steel consumption

Global steel consumption was hit hard by the Covid-19 pandemic in 2020, particularly in the first half of the year, with some improvements registered since then. Figure 2 below presents the year-on-year (y-o-y) percentage change in the combined consumption of hot-rolled steel products for 10 of the world's largest steel-consuming economies in Asia, the CIS region, Europe, North America and South America. Together, these economies account for approximately 75% of global steel demand. Aggregate steel consumption, as measured by this indicator, decreased by 2.1% during the first eight months of 2020 compared to the same period in 2019, albeit with considerable volatility and significant regional differences.

In the spring of 2020, global steel consumption plunged due to the severe lockdowns measures and production disruptions in downstream steel-using industries. While many economies appear to have suffered double-digit declines in steel consumption during 2020, relatively strong demand developments in China have counterbalanced the overall global decline in steel consumption. The latest World Steel Association (worldsteel) projections point to a global steel consumption decline of 2.4% in 2020, with growth resuming to 4.1% in 2021.

**Figure 2. Consumption of hot-rolled steel products, major economies (aggregate)**



Note: Total represents the combined consumption of hot-rolled steel products of the following economies: Brazil, China, Germany, India, Italy, Japan, Korea, Mexico, Russia and the United States.

The consumption of hot-rolled products is defined as the sum of production and net imports.

Source: OECD calculations based on data from ISSB (International Steel Statistics Bureau) (ISSB, 2021<sup>[11]</sup>).

#### 3.1. Americas

The U.S. monthly steel consumption indicator decreased by 17.9% y-o-y during January to August 2020. Steel demand in the United States is expected to have declined by 15.8% in 2020, according to worldsteel's October 2020 Short-Range Outlook (hereafter "SRO").

Since the end of the lockdown the recovery has been strong, aided by substantial government support measures. However, according to worldsteel, the United States are still struggling to control the virus's spread, and the recovery momentum might taper off. (worldsteel, 2020<sup>[2]</sup>).

Steel demand in Mexico is expected to have decreased by 13.4% in 2020, continuing the downward trend of 2019 (worldsteel, 2020<sup>[2]</sup>). According to the Mexico National Institute of Statistics and Geography (INEGI), automotive production in Mexico declined by 20.2% to 3.04 million units in 2020 (Metal Expert, 2021<sup>[3]</sup>). In addition, shipments to the United States (representing around 80% of Mexican automotive production) decreased by 20% to 2.1 million units in 2020, according to INEGI (Metal Expert, 2021<sup>[3]</sup>).

According to worldsteel forecasts, steel demand in Central and South America is expected to have declined by 10.1% in 2020 (worldsteel, 2020<sup>[2]</sup>). In November 2020, Alacero (the Latin American Steel Association) revised its forecast for Latin American steel consumption, expecting a 11% drop in 2020 compared to a 14.5% decline forecast in September 2020, with a V-shaped recovery in steel demand expected for some countries, especially Brazil (Metal Expert, 2020<sup>[4]</sup>). In Brazil, steel demand increased by 1.2% to 21.2 mmt in 2020, according to the local steelmakers' association Instituto Aço Brasil (IAB). In December 2020, consumption rose sharply by 30.2% to 2.0 mmt compared with the same month of 2019 (Kallanish, 2021<sup>[5]</sup>). However, automotive production decreased by 31.6% to 2.01 million units in 2020 in Brazil, the first decline following four years of consecutive growth (Kallanish, 2021<sup>[6]</sup>).

### 3.2. Africa and the Middle East

Steel demand in Africa is expected to have contracted by 16.0% in 2020, the second- worst rate of decline by region, according to worldsteel's October 2020 SRO (worldsteel, 2020<sup>[2]</sup>). Apparent steel consumption in the Middle East is expected to have also fallen sharply, by 19.5%, which is the worst rate of decline projected by region in 2020 (worldsteel, 2020<sup>[2]</sup>).

### 3.3. Asia and Oceania

According to worldsteel forecasts, steel demand in China is expected to have increased by 8.0% in 2020 (worldsteel, 2020<sup>[2]</sup>). Growth in Chinese steel demand had been driven by the large government's infrastructure stimulus. Chinese steel demand accounted for around 57% of global demand in 2020 as a result of the sharp contraction in steel demand experienced in other regions and the relatively stable growth in China, according to worldsteel's October 2020 SRO (worldsteel, 2020<sup>[2]</sup>). By steel-consuming sector, investment in real estate increased by 7% to about USD 2.2 trillion in 2020, according to the National Bureau of Statistics (NBS) (Kallanish, 2021<sup>[7]</sup>). Automotive sales fell by 1.9% to 25.3 million units in 2020, according to the China Association of Automobile Manufacturers (hereafter "CAAM"). Although passenger vehicle sales decreased by 6%, the sales of commercial vehicles increased by 19% thanks to government investment in infrastructure and as buyers upgraded to comply with tougher emissions policies (Reuters, 2021<sup>[8]</sup>).

India, is expected to experience one of the sharpest percentage declines in steel demand (20.2%) in 2020, also in light of the strict lockdown measures implemented at the height of the Covid-19 pandemic (worldsteel, 2020<sup>[2]</sup>). Analysis by the Investment Information and Credit Rating Agency of India Limited (ICRA) notes that that key steel-consuming provinces have a sizeable portion of their population living in districts marked as red zones (the districts with substantial numbers of positive cases of Covid-19). For this reason, steel

demand from the construction sector could take some time to return to the pre-COVID-19 levels (The economic times, 2020<sup>[9]</sup>).

In Japan, steel consumption decreased by 23.3% y-o-y in the first eight months of 2020. According to worldsteel forecasts, steel demand in Japan is expected to have decreased by 19.6% in 2020 (worldsteel, 2020<sup>[2]</sup>). Steel demand from the construction, industrial machinery, and automobile sectors decreased to the levels of the financial crisis in 2009, while demand from the shipbuilding sector has been stagnant (JISF, 2020<sup>[10]</sup>). Steel consumption in Korea is expected to have decreased by around 9% in 2020. (KOSA, 2020<sup>[11]</sup>). Automotive production in Korea, a key steel-using industry, fell by 11% to 3.51 million units in 2020. Although domestic sales increased by 5.8% to 1.89 million units because of new model releases and government tax cuts, exports decreased by 21.4% to 1.89 million units in 2020 (Platts, 2021<sup>[12]</sup>). Within the local market, support came from the sale of eco-friendly vehicles, sales of which surged by 58.7% to 226,668 vehicles while exports rose 6.8% to 276,439 vehicles (Platts, 2021<sup>[12]</sup>).

According to the South East Asia Iron and Steel Institute (hereafter “SEAISI”), apparent steel consumption in the Association of Southeast Asian Nations region (ASEAN-6, i.e. Indonesia, Malaysia, Philippines, Singapore, Thailand and Viet Nam) decreased by 15.7% y-o-y during January-June 2020 (SEAISI, 2021<sup>[13]</sup>). By country, steel demand in Indonesia, Malaysia, Philippines, Singapore, Thailand and Viet Nam declined by 18.5%, 43%, 18%, 2.5%, 13.7% and 5%, respectively during the same period (SEAISI, 2021<sup>[13]</sup>). However, the decreases in production in the region amounted to 4% only, supported by an increase in exports in the first half of 2020 (SEAISI, 2021<sup>[13]</sup>).

In Indonesia, automotive production declined by 46.5% in 2020, according to the Association of Indonesian Automotive Industries (GAIKINDO) as many Indonesian automotive manufacturers were forced to halt production due to the COVID-19 pandemic. (Metal Expert, 2021<sup>[14]</sup>). Domestic automotive sales decreased by 45% to 578,327 units, and automotive exports also declined by 30.1% to 232,175 units in 2020.

### 3.4. Europe and CIS Economies

In October 2020, the European Steel Association (EUROFER) forecast EU steel demand to decline by 11.5% in 2020. The COVID-19 outbreak and the related industrial and economic lockdowns experienced since March 2020 have had a massive impact on steel-using sectors’ output, with plant closures, capacity reductions (permanent and temporary) and huge supply chain disruptions (Eurofer, 2020<sup>[15]</sup>).

In the automotive sector, EU passenger car sales dropped by 23.7% to 9.9 million units in 2020 compared to the previous year, according to the European Automobile Manufacturers Association (ACEA) also due to the Covid-19 pandemic and the associated containment measures (ACEA, 2021<sup>[16]</sup>).

According to worldsteel’s October 2020 SRO, apparent steel consumption in Turkey is expected to have increased by 10.0% in 2020, after contracting by 15.4% in 2019 (worldsteel, 2020<sup>[2]</sup>). Looking at steel-consuming sectors, automotive production fell by 11% to 1.3 million units in 2020, because export sales declined sharply by 27% to 916,543 units, according to the Turkish Automotive Manufacturers’ Association (OSD) (Platts, 2021<sup>[17]</sup>). However, domestic automotive sales rose by 61.3% to 772,788 units in 2020 after falling to their lowest level in the past sixteen years in 2019, despite the negative effect of the COVID-19 pandemic, according to Turkish Automotive Distributors Association (ODD) (Platts, 2021<sup>[18]</sup>).



According to the Russian Steel Association (Russian Steel), steel demand in Russia is expected to have decreased by 10.8% in 2020 (Russian Steel, 2020<sub>[19]</sub>). In November 2020, NLMK forecast steel demand to drop by 7- 9% in 2020 in Russia. They also noted that it could have fallen further if not for the mortgage interest rate cuts, which stimulated residential property demand (Platts, 2020<sub>[20]</sub>). In Ukraine, apparent steel consumption decreased by 8.6% in the first nine months of 2020, mainly due to a 20.6% drop in machinery output and a 19.4% reduction in pipe production, according to Metinvest (METINVEST, 2020<sub>[21]</sub>).

## 4. Steel production

The COVID-19 pandemic has led to a significant reduction in steel production in a number of jurisdictions. Overall, world crude steel production decreased by 5.4% during the first half of 2020 compared to the same period one year earlier, but then started to recover in the second half of the year. For 2020 as a whole, global steel production fell by 1.0% compared to 2019, albeit with significant regional discrepancies.

Table 2 below highlights steel production growth rates across regions. According to the data provided by worldsteel, crude steel production for the 2020 compared to the previous year increased in Asia (+1.7%), led by China (+5.9%), Other Europe (+3.9%) and in the Middle East (+2.7%). In contrast, steel production dropped sharply in the European Union (-12.2%), North America (-15.6%), South America (-8.4%), and Africa (-10.1%).

**Table 2. World crude steel production developments in 2020**

	Level, thousand tonnes		% change, year-on-year		
	Dec 2020	2020	Dec 2020	Jul-Dec 2020 / Jul-Dec 2019	2020 / 2019
EU 27	11,161	131,915	10.3	-5.2	-12.2
Other Europe	3,036	38,782	-4.7	13.7	3.9
CIS	8,242	100,231	-2.3	3.3	-0.2
North America	6,906	101,017	-29.5	-13.9	-15.6
South America	2,565	38,158	-18.4	3.7	-8.4
Africa	997	12,600	6.7	1.3	-10.1
Middle East	3,264	40,744	-3.2	5.6	2.7
Asia, of which:	113,667	1,349,973	1.6	6.0	1.7
China	91,579	1,054,429	8.1	9.5	5.9
Oceania	528	6,076	4.4	0.5	-1.4
World	149,520	1,827,806	-1.6	3.8	-1.0

Source: worldsteel data, as released on 6 February 2021.

Note: 1. Data are based on monthly production data and can differ from annual data published after December of each year. Furthermore, monthly production data can be revised at any time.

2. The present publication presents time series which extend beyond the date of the United Kingdom's withdrawal from the European Union on 1 February 2020. In order to maintain consistency over time, the "European Union" aggregate presented here excludes the UK for the entire time series.

### 4.1. Americas

In North America, total crude steel production collapsed by about 13.9% during the second half of 2020 compared to the same period in 2019 (henceforth, "year-on-year"), mainly driven by the decline in the United States and Canada, where steel production contracted by 16.4% and 15.7% year-on-year respectively. The Mexican steel industry experienced a small 0.1% year-on-year production decrease in the second half of 2020.

In South America, steel production increased by 3.7% during the second half of 2020, year-on-year. Production declined sharply year-on-year during the second half of 2020 in Argentina (-6.2%), Colombia (-3.9%) and Chile (-3.6%), but increased in Brazil (8.2%).

## 4.2. Africa and the Middle East

African steel production increased by 1.3% during the second half of 2020, year-on-year. This average growth rate for the continent hides a sharp contrast between South Africa, which registered a 25.9% production decline, reflecting the impacts of the economic recession as well as lockdowns, and Egypt, which saw production increase by 28.1%.

In the Middle East, steel production increased by 5.6% year-on-year, though with large disparities among countries. Iran's steel production increased sharply (+16.4%), while Saudi Arabia's production increased more moderately (+2.7%). Other smaller producing countries in the region experienced sharp declines.

## 4.3. Asia and Oceania

Crude steel production in Asia increased by 6.0% year-on-year during the second half of 2020, with a large divergence between China, where steel output increased by 9.5% year-on-year, and the rest of Asia. Changes in steel production in China were driven by infrastructure and manufacturing developments, with most steel-using sectors having already returned to pre-COVID production levels by early May 2020. The resumption of infrastructure investments and quantitative easing supported the recovery of the Chinese steel industry in the second half of 2020 (Jiemian, 2020<sup>[22]</sup>). Furthermore, an important trend in Chinese steel production is the concentration of production through mergers and acquisitions (M&A) (see [Box 1](#) below).

### Box 1. Production and consolidation trends in China

Following strong growth in steel production that raised China's share in global steel output to 57.6% in 2020, there is considerable interest in how production trends will evolve in 2021 and thereafter. The China Metallurgical Industry Planning and Research Institute (MPI), a government consulting agency, predicted that China's steel production will increase by 1.4% in 2021 to about 1.065 billion tonnes (Investment express, 2020<sup>[23]</sup>). However, according to a report by the Xinhua News Agency, the Minister of Industry and Information Technology, Xiao Yaqing, called on the steel industry to accelerate green development and "resolutely" reduce production to ensure that steel output will decline year-on-year in 2021 (Xinhua, 2020<sup>[24]</sup>). Overall, the consensus is that production growth will still continue in 2021, albeit at a moderate pace. The China Iron and Steel Association (CISA) mentions imports of primary steel products, especially billets, as a possible way to meet rising domestic demand without increasing domestic steel output (Russell - Reuters News, 2021<sup>[25]</sup>). In addition to the uncertainty of future production trends, another main trend in the Chinese steel industry seems to be consolidation, with an increasing part of the production controlled by a reduced number of firms.

In China, the authorities and steel companies have been ramping up their efforts to consolidate the steel industry to meet the official target of 60% of total Chinese production concentrated in the hands of the top ten Chinese steelmakers by 2025. As the top 10 Chinese steelmakers currently account for about 37% of total Chinese steel production, this consolidation trend is likely to continue. The large state-owned steel producer, Baowu Steel Group, which emerged in 2016 from the merger of Baosteel and Wuhan Iron and Steel (Wugang), has been leading the way in Chinese steel mergers and acquisitions (M&As), consolidating its position as the top Chinese steel producer, but there were also significant M&A activities among other SOE and private Chinese steel firms.

**The Baowu Steel Group engaged in a series of acquisitions and takeovers in 2020 and early 2021, which will make China's State-owned Assets Supervision and Administration Commission**

(SASAC) the indirect shareholder in a number of other steel firms due to its complete ownership of Baowu (Reuters News, 2020<sup>[26]</sup>):

- Baowu signed an agreement with the Yunnan provincial government on 1 February 2021 to reorganize Kunming Iron and Steel Co. (Kungang) after announcing the consolidation of its control over Kungang in January 2021. Kungang is 48.41% owned by Wuhan Iron and Steel and 47.41% owned indirectly by Kunming Steel Holdings. Baowu took control of Kungang by taking 90% of the shares of Kunming Steel Holdings, which effectively brings Kungang steelworks into Baowu official crude steel count which thus increased to a total of approximately 141.64 million metric tons per year (Kallanish, 2021<sup>[27]</sup>).

- In February 2021, Baowu was rumored to be considering taking over Shandong Iron & Steel Group (Argus, 2021<sup>[28]</sup>).

- In November 2020, Baowu's Xinjiang unit said it would acquire a 77% stake in Xinjiang Yili Iron & Steel Co Ltd to consolidate steel capacity in southwest Xinjiang region. The unit also outlined a plan to buy Xinxing Ductile Iron Pipes Xinjiang (Xinjiang Bayi, 2020<sup>[29]</sup>).

- In August 2020, Baowu agreed to take a controlling stake in Taiyuan Iron & Steel Co Ltd (TISCO). The 51% stake is estimated to be worth 14.5 billion yuan (USD 2.10 billion), based on an audit of TISCO's net assets, but Baowu will not have to make any payment as the deal is considered a state-backed restructuring (Reuters News, 2020<sup>[26]</sup>). This acquisition made Baowu the world's largest stainless steel producer (Kallanish, 2021<sup>[27]</sup>).

- In September 2020, Baowu signed a deal to take control of Chongqing Iron & Steel Co Ltd (Argus, 2021<sup>[28]</sup>).

- In October 2020, Baowu took over Sinosteel Group, a developer and processor of metallurgical mineral resources with two listed units: Sinosteel Engineering and Technology and Sinosteel New Materials (Shenzhen Stock Exchange, 2020<sup>[30]</sup>).

**Other M&A activity among SOEs include the following:**

- In September 2020, Beijing Shougang said it will buy a 19.2% stake in Shougang Jingtang Iron & Steel United via a share issue, giving it full ownership of the company (Shougang Steel, 2020<sup>[31]</sup>)

- In August 2020, Liuzhou Iron & Steel said it will increasing its voting rights stake in Guangxi Iron & Steel Group to 91.41% (Liuzhou Iron and Steel, 2020<sup>[32]</sup>)

- In June 2020, Sansteel Minguang said it agreed to buy Fujian Luoyuan Minguang Iron and Steel Co., Ltd. (Shenzhen Stock Exchange, 2020<sup>[33]</sup>).

- In January 2019, Daye Special Steel finished a restructuring by acquiring 86.5% of Xingcheng Special Steel for 23.2 billion yuan via a share issue (CITIC, 2019<sup>[34]</sup>). It then changed its name to CITIC Pacific Special Steel Group Co Ltd (LGMI, 2019<sup>[35]</sup>).

- CITIC Steel bought the remaining 13.5% stake in Xingcheng in November 2019 and now has special steel capacity at over 13 million tonnes per year (Citic Pacific Special Steel Group, 2019<sup>[36]</sup>).

**There was also significant M&A activity amongst private steel firms in China in 2020, including:**

- In November 2020, China's biggest private steel producer, Jiangsu Shagang Group, said it will invest 14.8 billion yuan (USD 2.25 billion) in buying up and modernising steel mills in central Henan province in a project to create a high-end manufacturing base for construction materials (Reuters News, 2020<sup>[37]</sup>).

- In March and September 2020, the Jingye Group, the Hebei-based private steelmaker which took over British Steel in 2020, acquired two steel mills; one in southwest Yunnan province and one in south Guangdong province (Jingye Group, 2020<sup>[38]</sup>).



- In August 2020, Jianlong Group, another large private steel company with annual capacity of over 35 million tonnes, spent 1.04 billion yuan (\$161 million) to restructure Harbin Bearing Manufacturing Ltd (Jianlong Group, 2020<sup>[39]</sup>) It also bought a 5.89% stake in state-owned Sinosteel Luoyang Technology under China's "mixed-ownership" reforms (Jianlong Group, 2020<sup>[40]</sup>).

- In July 2020, Nanjing Iron & Steel completed a deal to buy stakes in two steel firms for 4.6 billion yuan (Nanjing Iron and Steel, 2020<sup>[41]</sup>; Nanjing Iron and Steel, 2019<sup>[42]</sup>).

Production contracted in India during the first half of the year, and recovered moderately during the second half, resulting in a 1.9% increase over the second half of 2020 year-over-year. Japan steel production contracted by 15.5% year-on-year over the second half of 2020, while Korean steel production contracted more moderately (-2.2%). Chinese Taipei contracted by 6.4% year-on-year over the same period.

In Oceania, crude steel production growth was anaemic, with Australian crude steel production increasing at 0.5% year-on-year and New Zealand, a much smaller steel producer, at 0.7% year-on-year.

#### 4.4. Europe and CIS Economies

In the European Union, steel production experienced a decline of 5.2% over the second half of 2020 year-on-year.<sup>4</sup> Amongst the larger steel producers, the contraction was more profound in France (-12.0%), Spain (-11.4%), Poland (-8.6%), Germany (-3.7%) and Italy (-3.4%).

The United Kingdom steel production, on the contrary, increased by 6.0% over the period year-on-year.

In the “Other Europe” region, steel output increased by 13.7% over the second half of 2020 year-on-year, essentially explained by Turkey’s significant increase in steel production (+16.2%). In the CIS region, steel output increased by 3.3% due to an increase in both Russia (+2.8%) and Ukraine (+6.1%).

## 5. World steel trade

Global steel trade had been on a moderate decline in the past few years, but the downturn accelerated sharply in 2020, as the impacts of the Covid-19 pandemic depressed steel demand around the world. Some major steel exporters registered double-digit declines in their outward shipments during 2020, while several others have weathered the downturn somewhat better.

China experienced a 16% contraction in steel exports in January-September 2020, and a temporary shift to a net import trade balance for several months after June. More recently, steel exports have started to rebound, steel imports have fallen, and the trade balance appears to be moving back into surplus.

Steel exports from the European Union contracted sharply in 2020, plunging by 18.5% in January-September, relative to the same period in 2019, with a slightly lower rate of decline in imports. Elsewhere in Europe, Turkish steel exports declined by slightly more than 10% during the same period 2020, while steel imports increased.

Amongst other major steel exporting economies, Japan and Korea have experienced lower percentage declines in their steel exports during 2020 compared to many other economies. In the Americas, the United States and Brazil recorded steep declines in steel trade in 2020. Brazil is the larger exporter of the two, but its export performance has weakened over the last few years.

Major steel exporters with positive growth in outward shipments during 2020 include India and Russia, amounting to 45.2% and 12.4%, respectively, during the first nine months of the year.

**Table 3. Steel trade developments across major steel-producing economies**

2016-20 (Jan.-Sep.)

Thousands of metric tonnes		2016	2017	2018	2019	2020	2020 (ann.)	% (2019-20)
China (People's Republic of)	Exports	100 511	68 049	61 621	56 294	35 472	47 296	-16.0%
	Imports	13 211	13 535	13 954	15 168	29 068	38 757	155.5%
E.U.27	Exports	29 819	30 712	28 505	27 483	16 800	22 400	-18.5%
	Imports	40 745	40 358	44 945	39 995	25 261	33 681	-15.8%
India	Exports	8 967	14 769	9 895	12 277	13 368	17 824	45.2%
	Imports	9 259	8 379	8 312	8 140	3 467	4 623	-43.2%
Japan	Exports	38 312	35 248	33 794	31 111	22 616	30 155	-3.1%
	Imports	5 822	6 042	5 841	6 279	3 705	4 940	-21.3%
United States	Exports	8 364	9 469	7 875	6 608	4 306	5 742	-13.1%
	Imports	27 797	30 938	27 168	23 440	14 103	18 804	-19.8%
Russian Federation	Exports	30 077	29 247	31 246	27 793	23 433	31 245	12.4%
	Imports	3 971	5 763	5 735	5 726	3 656	4 874	-14.9%
Korea	Exports	29 696	30 168	29 056	29 058	20 788	27 718	-4.6%
	Imports	22 574	18 676	14 278	15 697	8 952	11 936	-24.0%
Turkey	Exports	14 952	15 985	19 297	19 200	12 901	17 201	-10.4%
	Imports	16 539	15 342	13 644	12 018	9 494	12 658	5.3%
Brazil	Exports	13 143	14 903	13 298	12 248	8 337	11 116	-9.2%
	Imports	1 638	2 058	2 158	2 120	1 283	1 710	-19.3%
Chinese Taipei	Exports	12 165	12 039	12 209	11 167	7 674	10 233	-8.4%
	Imports	7 654	7 242	7 478	7 106	5 470	7 293	2.6%

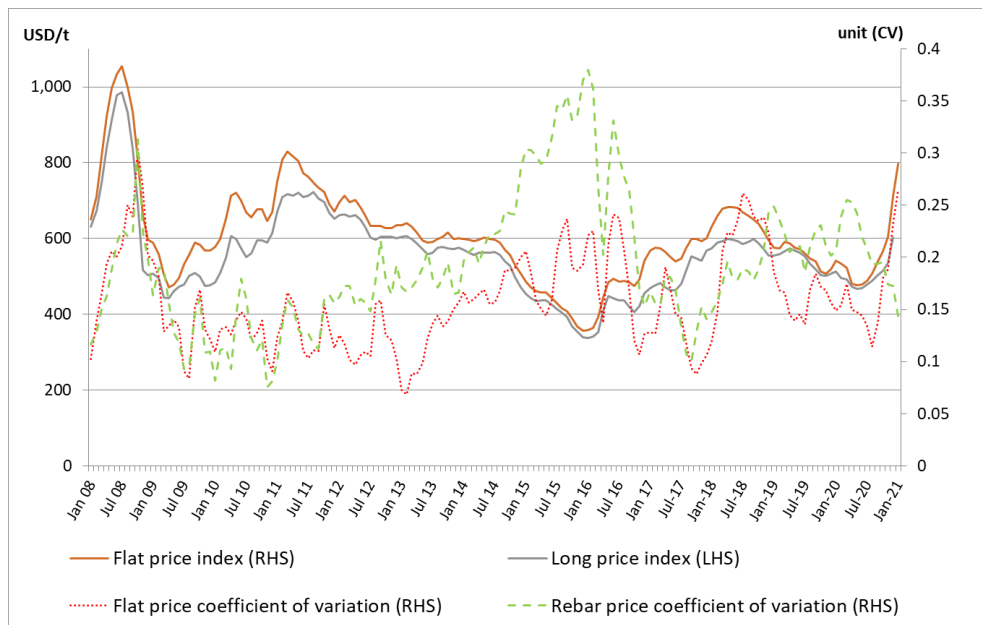
Source: OECD based on ISSB data.

## 6. Steel and raw material prices

### 6.1. Steel prices

Steel prices have all risen sharply during the second half of 2020. In January 2021, flat steel prices and rebar prices stood 47% and 39% higher than one year earlier, respectively (Figure 3). However, the price upswing is very recent, and steel prices were, on average, quite weak in 2020. Monthly prices of flat steel products and long steel products were, on average, 3% lower relative to 2019. Vast steelmaking capacity idled during the heights of the pandemic could not be brought online quickly enough to meet recovering steel demand and restocking, leading to the rapid rise in global steel prices (Fitch Ratings, 2021<sup>[43]</sup>). Most of the plants that idled capacity during 2020 have already resumed production or will restart by March 2021, according to OECD Secretariat's desk research. According to Fitch Ratings, this implies that the recent global rally in steel prices could be short-lived, and that prices may start to decline towards the end of the first quarter of 2021 (Fitch Ratings, 2021<sup>[43]</sup>).

**Figure 3. Aggregate flat and long steel price averages (latest month January 2021)**



Note: The flat price and long price indices are defined as the arithmetic average of the individual regional Platts price series for the United States, North Europe, China, Japan, India and Russia, when available. This indicator had the closest fit to the two global Platts price indices used in Steel Market Developments reports prior to being discontinued (in September 2017). The coefficients of variation (CV) are the ratio of the standard deviation of the regional Platts price series making up the indices to their mean, thus capturing price dispersion across regions.

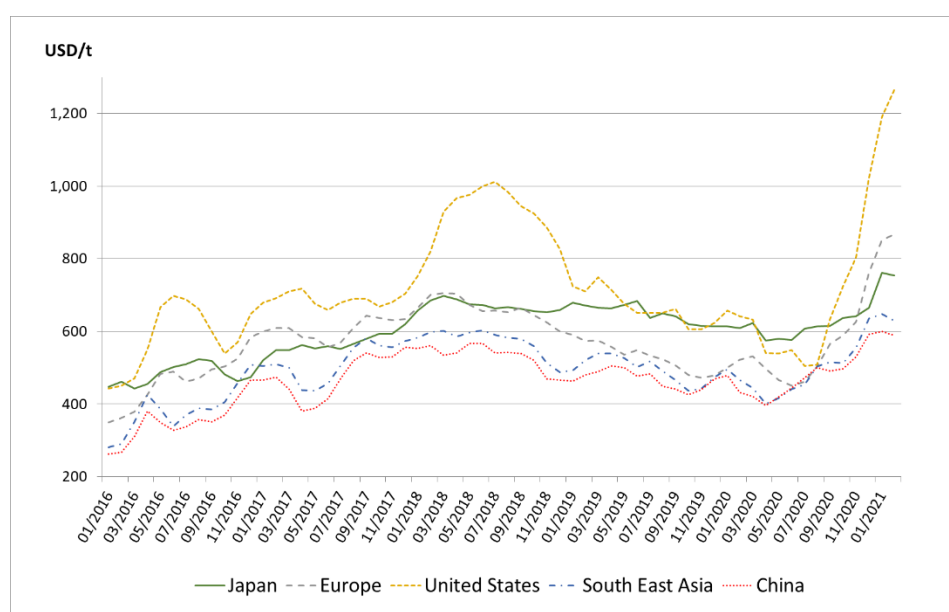
Source: Platts Steel Business Briefing.

All regions displayed similar dynamics with respect to both flat and long steel prices. Flat steel prices increased more rapidly in the United States than in other economies during the second half of 2020 (Figure 4), when the intensity of the demand rebound surprised steel users with low steel inventories, spurring advanced orders (World Steel Dynamics, 2020<sup>[44]</sup>). Additionally, some reports suggest that the domestic production response to

rising demand was slow, while *Buy America* provisions may have slowed the speed at which imports were able to respond to rising demand (World Steel Dynamics, 2020<sup>[44]</sup>; Wood Mackenzie, 2021<sup>[45]</sup>). Further support to steel prices in the United States came from the December spike in scrap prices caused by disruptions in scrap collection compounded by harsh winter conditions (Wood Mackenzie, 2021<sup>[45]</sup>). However, the persistence of such high price levels—in the United States and elsewhere—remains to be seen, as steel supply is widely expected to catch up with orders by the end of the first quarter of 2021 (Wood Mackenzie, 2021<sup>[45]</sup>; World Steel Dynamics, 2020<sup>[44]</sup>). Furthermore, U.S. flat steel prices have had a tendency in the past to react more quickly to the upside yet revert to lower levels afterwards, as experienced in 2018.

Long steel products showed similar price dynamics, exhibiting a significant increase during the second half of 2020 (Figure 5).

**Figure 4. Steel price for flat products, by region**

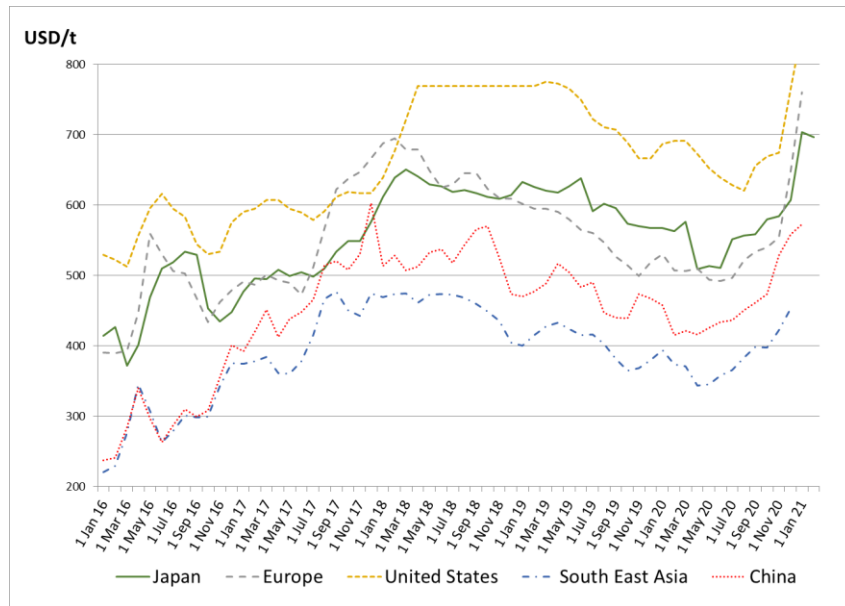


Note: Latest price: 1 February 2021, with the exception of India and Russia (1 January 2021)

Source: Platts Steel Business Briefing.



Figure 5. Steel price for rebar, by region



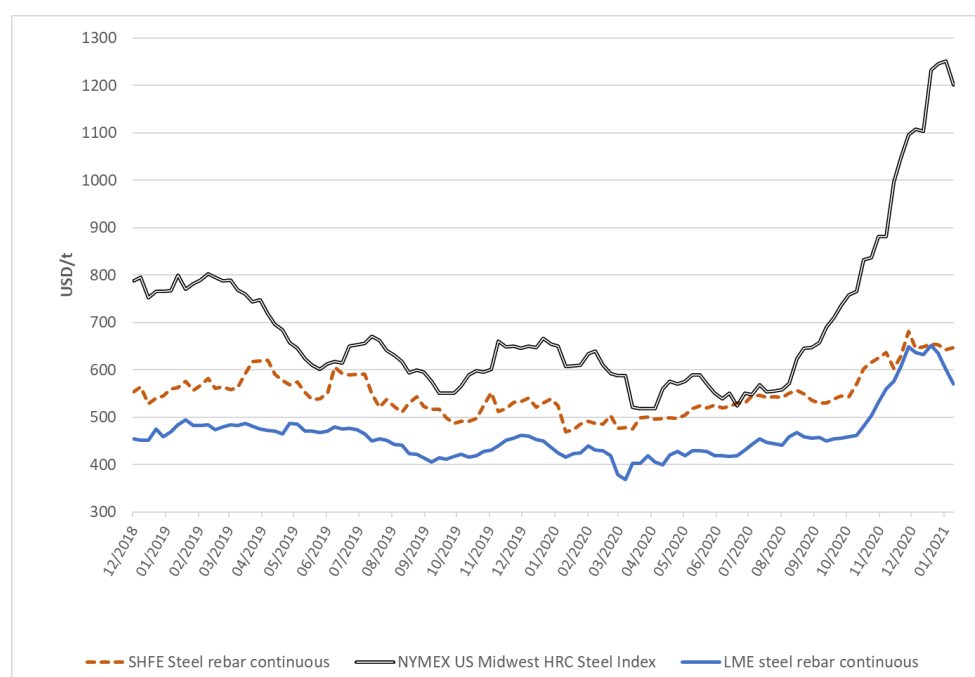
Note: The latest price is 1 January 2021, with the exception of South East Asia (1 December 2020) and Japan (1 February 2021)

Source: Platts Steel Business Briefing.

Steel futures prices tend to move slightly in advance of spot prices, suggesting that they are able to predict steel spot price dynamics at the daily frequency by quickly incorporating new market information. Figure 6 below shows three steel futures continuous contracts, as provided by Thomson Reuters Datastream (Refinitiv). Steel futures prices seem to have recently stabilised at their high levels and have started decreasing slightly in the U.S. and European markets.

**Figure 6. Steel futures prices (as of 01/02/2021)**

Indices of three continuously rolled steel futures contract prices, USD per tonne



Note: NYMEX US Midwest futures prices were converted to correspond to metric tonnes rather than short tons. SHFE Steel rebar futures prices were converted from RMB to USD using daily exchange rates at closing. For more information on contract specifications, please refer to <https://www.lme.com/en-GB/Metals/Ferrous/Steel-Rebar#tabIndex=0> for LME steel rebar contracts; to <http://www.shfe.com.cn/en/products/SteelRebar/contract/9220216.html> for SHFE steel rebar continuous contracts, and to <https://www.cmegroup.com/education/files/hot-rolled-coil-steel-index-futures-options.pdf> for NYMEX US Midwest HRC contracts. For a more detailed description of steel futures market, see (OECD, 2018<sup>[46]</sup>).

Source: Thomson Reuters, Datastream.

## 6.2. Steel raw material prices

Prices of the main steelmaking raw materials increased dramatically during the second half of 2020, and as of February 2021 benchmark prices for iron ore, coking coal and scrap were up 97%, 53% and 56%, y-o-y, respectively (Figure 7).

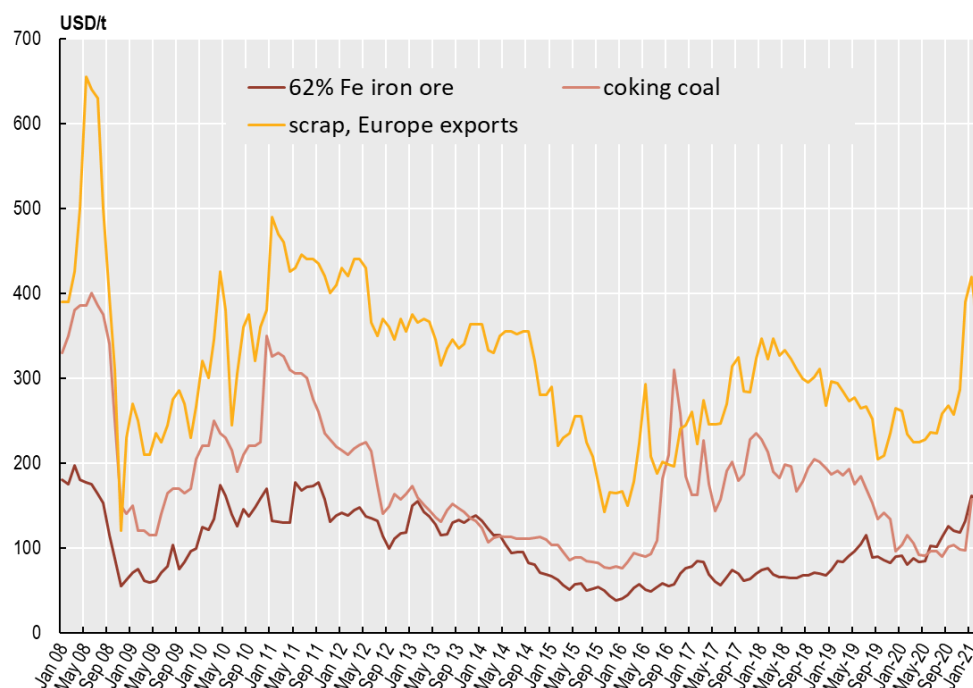
Chinese scrap prices also increased, albeit to a lesser extent, ending 2020 about 6% higher y-o-y. The increase, although not as sharp, is noticeable given that Chinese scrap price had remained roughly stable from February 2018 to mid-2020 (Figure 8). Most of the increase in Chinese scrap prices came after October 2020. The October increase was due to the conjunction of an increase of demand from Chinese steel mills, which needed to replenish their inventories of scrap metal ahead of the October 1-8 Golden Week holiday, and of a temporary restriction of supply due to rain and environmental inspections in several regions, which caused a drop in stocks at scrapyards (American Metal Market, 2020<sup>[47]</sup>). Going forward, scrap metal supply is expected to expand to better meet domestic demand since in February 2020 Chinese regulators allowed new companies to supply processed ferrous scrap, bringing the total number of such companies to 478, according to the China Association of Metalscrap Utilization (American Metal Market, 2021<sup>[48]</sup>). The companies obtaining those new permits are located mainly in steel production hubs such as the provinces of Hebei, Shandong and Jiangsu. Others are in provinces that typically have a high output of ferrous scrap such as Guangdong and Hubei (American Metal Market,

2021<sup>[48]</sup>). Additionally, in January 2021 new regulations entered in force in China. These lay out standards for steel scrap grades, classifying scrap as a recycled raw material and permitting imports (BIR, 2020<sup>[49]</sup>; BIR, 2021<sup>[50]</sup>). Imports that were previously not allowed as steel scrap were classified as waste (Reuters, 2020<sup>[51]</sup>). The new regulations may lead to an increase in Chinese scrap imports, supporting international scrap prices (Fastmarkets, 2020<sup>[52]</sup>).

Iron ore prices increased sharply from August 2020 onwards due to strong demand from Chinese steel mills and concerns over China's portside iron ore inventories, which had decreased significantly, as well as over iron ore deliveries (Zhang, 2020<sup>[53]</sup>). Although China's record steel output was a main driver of iron ore prices in 2020, global iron ore supply has also been hit by a series of issues in the second-largest exporting economy, Brazil, which has suffered disruptions from the coronavirus pandemic, mine closures on safety grounds and a recent fire at an export terminal (Russell - Reuters News, 2021<sup>[25]</sup>). Australia managed to keep its iron ore shipments at robust levels, yet this was not enough to completely offset the losses of supply from Brazil and still meet China's increasing demand. Going forward, iron ore dynamics may depend significantly on whether China moderates its steel production, which is an unknown, and depends on whether ongoing stimulus spending in China will result in the authorities prioritising economic growth over pollution and energy consumption concerns (Russell - Reuters News, 2021<sup>[25]</sup>).

Coking coal prices have been rising globally, except in Australia where the pullback in prices was due to China curbing its coal imports from the country (Russel, 2020<sup>[54]</sup>). Australia is the world's largest coal exporting economy, and it sends a third of its total exports to China. The unofficial ban on Australian coal imports was known in the commodity market as early as October 2020, with many major Chinese steel mills diverting their orders of Australian coking coal to other countries (The South China Morning Post, 2020<sup>[55]</sup>). On 18 November 2020 the foreign ministry spokesperson Zhao Lijian officially confirmed that "many" Australian coal shipments had "failed to pass environmental standard tests" (Muju, 2020<sup>[56]</sup>). China's coking coal imports from Australia slumped in October 2020 to 1.53 million tonnes, or about 26% of its total imports of the fuel, according to customs data, down from 78% in March, with imports from the U.S., Mongolia and Russia rising to compensate the short-fall.<sup>5</sup> This explains the divergence between the price of Australian coking coal and the Chinese price of coal (Russel, 2020<sup>[54]</sup>), and would continue to put upward pressure on international coal prices until other iron ore importing economies take advantage of the lower Australian prices for their own steel production (Russel, 2020<sup>[54]</sup>).

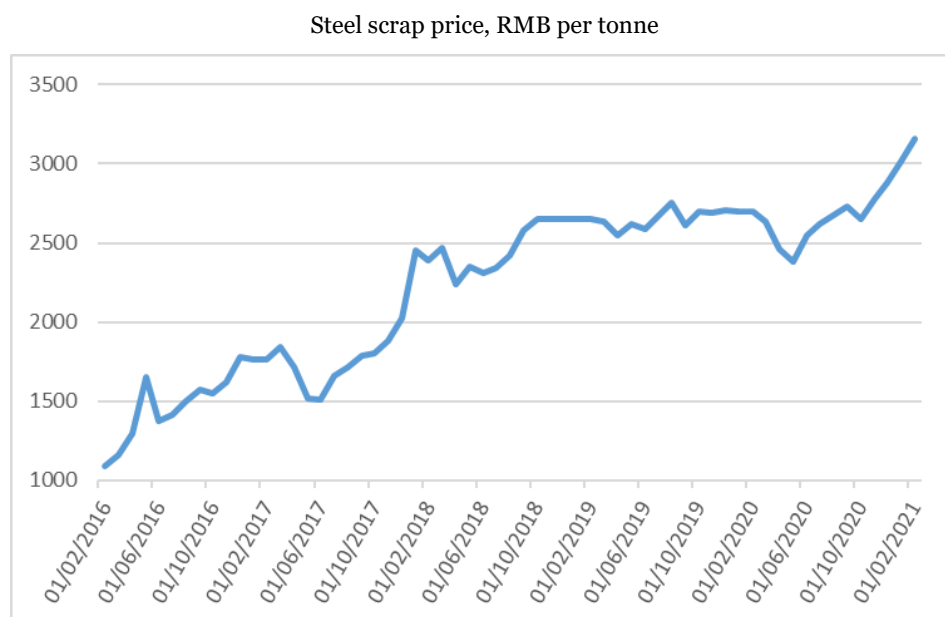
Figure 7. Prices for key steel-making raw materials (as of January 2021)



Note: The iron ore price series is Platt's "Forwards / SGX 62% Fe Iron Ore cash-settled swaps (dry metric tonne) / China import CFR Tianjin port \$/t"; the coking coal price series is Datastream's "Premium Coking Coal Australia"; the scrap price series is Platts "Scrap / Platts TSI HMS 1&2 (75:25) / Europe export FOB Rotterdam \$/t"

Source: Platts Steel Business Briefing (SBB), Datastream.

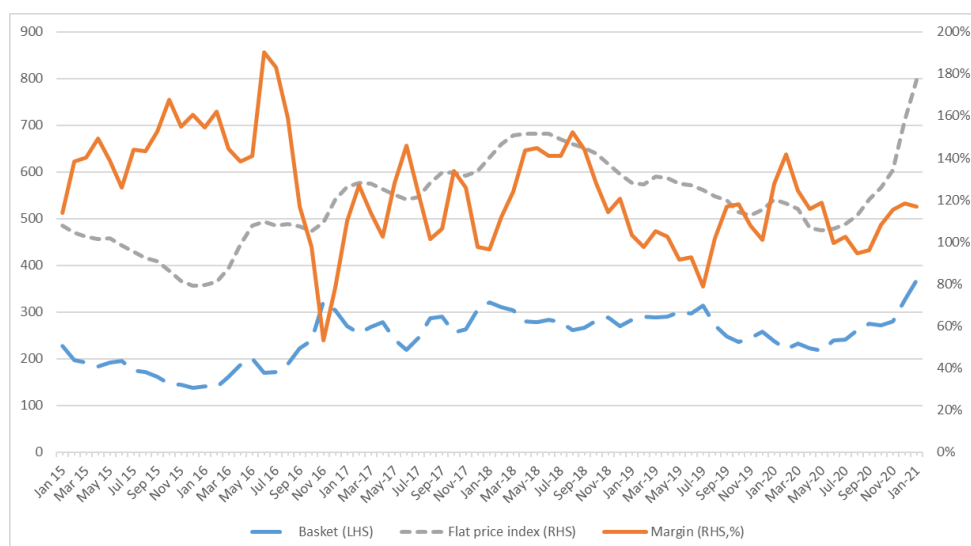
Figure 8. The upward trend in Chinese scrap prices has recently stabilised (last data point is January 2021)



Source: Datastream price series "Steel Scrap Price Index SHCNFSI - PRICE INDEX", originally sourced from Home Steel.

In spite of the sharp increase in steel prices, the steel-raw material price margin, measured by the difference between the price of steel and a basket of steel inputs, has not increased, due to the upswing in raw material prices (Figure 9). Indeed, the basket of raw material prices used to compute the margins was 97% higher in February 2021, y-o-y.

**Figure 9. Margin between steel and raw material prices**



Note: The raw materials basket for steel production includes 70% of the usual quantities of iron ore (1.6 tonne) and coking coal (0.77 tonne) needed to produce steel in the integrated process and 30% of the quantity of ferrous scrap (1.07 tonne) needed to produce steel in the electric arc furnace process (see OECD, 2016). Prices used are as follows: Iron ore Fines, 62% Fe, SPOT, CFR China; Hard coking coal spot, FOB Australia; Scrap, #1 HMS, FOB Rotterdam. The basket is compared against HRC world prices. The margin is defined as the per cent difference between the steel flat price and the raw materials basket price.

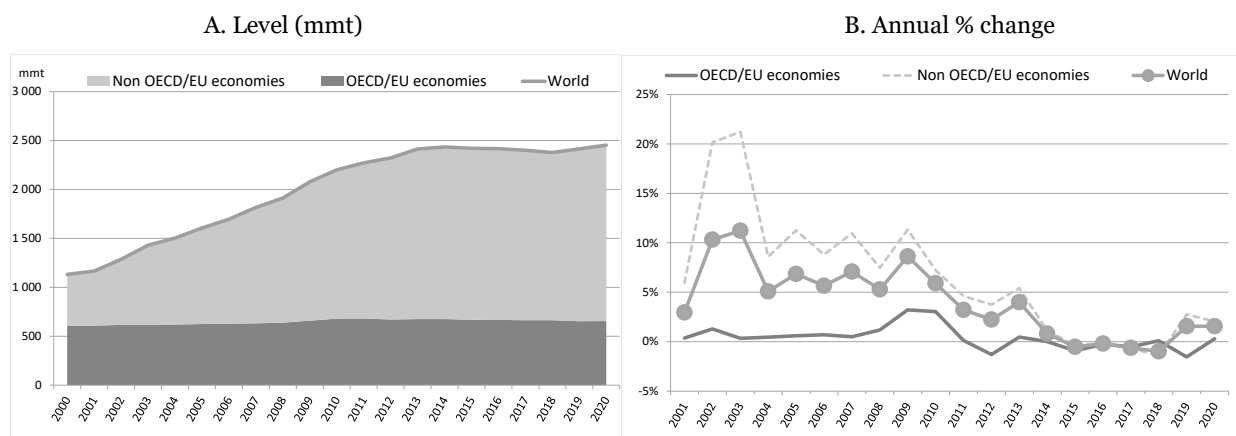
Source: OECD based on data from Thomson Reuters, Platts Steel Business Briefing (SBB), and Datastream.

## 7. The global steelmaking capacity situation

The latest available information (as of December 2020) suggests that global steelmaking capacity increased in 2020 for the second year in a row (Figure 10). The net capacity change in 2020, taking into account new capacity additions and closures, brings current global steelmaking capacity up to 2 452.7 mmt, representing a 1.6% increase from the level at the end of 2019.

As discussed in document [DSTI/SC(2021)5], most of the capacity additions in 2020 took place in Asia, where an additional 28.8 mmt of capacity was deployed. In 2020, steelmaking capacity also increased in the Middle East (by 7.2 mmt, i.e. 9.1% over the previous year), North America (by 3.3 mmt, i.e. 2.1% over the previous year), the CIS (0.25 mmt, i.e. 0.2% over the previous year) and Africa (0.04 mmt, i.e. 0.1% over the previous year). On the other hand, steelmaking capacity decreased in Europe by 1.4 mmt in 2020, i.e. by 0.5% compared to its level in 2019.. In addition, steelmaking capacity decreased in Latin America by 0.5 mmt in 2020, i.e. by 0.6% compared to the level of 2019. In Oceania, no new investments or permanent closures were registered in 2020, according to the sources used to update the OECD's capacity database.

**Figure 10. Evolution of crude steelmaking capacity in OECD/EU economies and non OECD/EU economies**

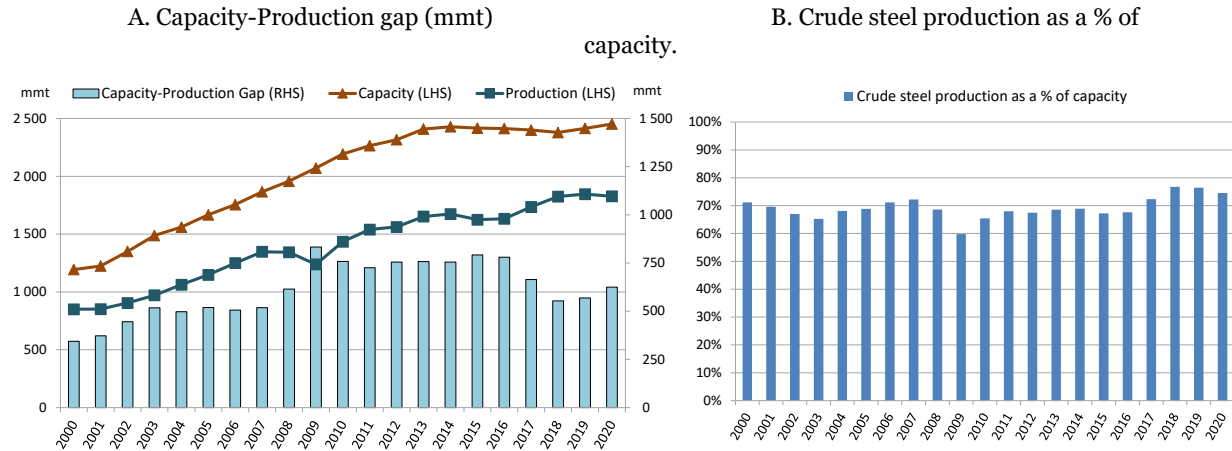


Note: Capacity data reflect information available to December 2020.

Source: OECD

Global steelmaking capacity rose to 2 452.7 mmt in 2020, while crude steel production declined to 1 827.8 mmt, with the gap between the two increasing to 624.9 mmt from 568.7 mmt in 2019 (Figure 11 A). Global steel production as a share of capacity, as a rough indicator of the global utilisation rate, declined from 76.5% in 2019 to 74.5% in 2020 (Figure 11 B).



**Figure 11. Global crude steelmaking capacity and crude steel production**

Note: Capacity data reflect information up to December 2020. Annual production data for 2020 are based on worldsteel (released on 6 February 2021). Annual production data from 2000 to 2019 are from “Steel Statistical Yearbook 2020”, published by worldsteel (World Steel Association, 2020<sup>[57]</sup>).

Source: OECD for capacity and worldsteel for production.

## 8. The steel market outlook

### 8.1. Global steel market outlook

In its October 2020 SRO, worldsteel expected finished-steel consumption to decline by 2.4% in 2020 as COVID-19 disrupted the global economy (worldsteel, 2020<sub>[2]</sub>). The upward revision (worldsteel, 2020<sub>[58]</sub>) was motivated by the strong recovery in China and a stronger-than-expected post-lock-down rebound elsewhere. Worldsteel's forecast maintains the assumption of a single lockdown, whereby a resurgence of infections would result in targeted measures rather than new nation-wide lockdowns (worldsteel, 2020<sub>[2]</sub>).

For 2021, worldsteel expects a partial recovery in global steel demand, with growth projected 4.1%. The extent of the recovery is likely to depend on the industry structure, government support measures, and the balance struck by individual governments between containing the virus and supporting economic activity. Government infrastructure plans and green-recovery programmes are expected to support growth in the construction sector in 2021, although risks related to weakened fiscal positions may lead to the revision of programmes (worldsteel, 2020<sub>[2]</sub>; World Steel Dynamics, 2020<sub>[44]</sub>). The weak outlook for the oil-and-gas sector also dampens the outlook for investment in oil-and-gas-producing jurisdictions (worldsteel, 2020<sub>[2]</sub>; World Steel Dynamics, 2020<sub>[44]</sub>). Steel-intensive manufacturing sectors—both automotive and machinery—suffered a sharper decline than construction in 2020, first because of disrupted supply chains and later because of low demand, so that only a sluggish recovery is expected beyond the initial rebound (worldsteel, 2020<sub>[2]</sub>; World Steel Dynamics, 2020<sub>[44]</sub>).

### 8.2. Regional steel market outlook

#### 8.2.1. Americas

In Central and South America, worldsteel expects steel demand to grow 8.2% y-o-y in 2021, following two consecutive years of contraction, of which 2020 was the worst registering a 10.1% decline (worldsteel, 2020<sub>[2]</sub>). In late 2020 a strong rebound in the civil construction industry was reported by steel producers in Peru and Argentina (Gerda, 2020<sub>[59]</sub>). Reports by steel- and construction-industry associations noted in January 2021 that higher spending on private construction caused shortages in construction products in almost all countries (Acero Argentino, 2020<sub>[60]</sub>; CNI, 2021<sub>[61]</sub>). Drilling activity also rebounded more strongly than anticipated throughout the region (Tenaris, 2020<sub>[62]</sub>). However, in its October 2020 SRO worldsteel forecast that the 2021 growth rate would not be sufficiently high for regional finished-steel consumption to return to pre-pandemic levels of 2019 (worldsteel, 2020<sub>[2]</sub>).

In Argentina, a rebound in steel-intensive economic activity started in the third quarter of 2020 (Tenaris, 2020<sub>[62]</sub>; Acero Argentino, 2021<sub>[63]</sub>; Ternium, 2020<sub>[64]</sub>), albeit from a low base, as COVID-related lockdowns compounded the effects of the 2018-2019 recession (CEP-XXI, 2021<sub>[65]</sub>). The rebound in steel-intensive industrial activities gathered pace in late 2020, as the resumption of large- and small-scale private projects supported growth in the construction sector (CEP-XXI, 2021<sub>[65]</sub>), and automotive production turned to y-o-y growth (ADEFA, 2021<sub>[66]</sub>). Finally, drilling resumed (Tenaris, 2020<sub>[62]</sub>), and rig-count continued to increase to the end of 2020 (Acero Argentino, 2020<sub>[60]</sub>). Leading indicators stayed strongly positive in early January 2021 (CEP-XXI, 2021<sub>[65]</sub>). Despite the successful restructuring of public debt, GDP is forecast to grow only by a moderate 3.7% in 2021,

with investment expected to be weak as macroeconomic imbalances – namely the high fiscal deficit and a growing gap between official and parallel exchange rate – remain (OECD, 2020<sup>[67]</sup>).

The Brazil Steel Institute foresees domestic steel consumption to grow by 5.8% in 2021, thus increasing from 21.223 thousand metric tonnes in 2020 to 22.448 thousand metric tonnes in 2021.<sup>6</sup> Growth in civil construction activity and the resumption of demand from the automotive sector underpinned a rebound in finished-steel demand starting in the third quarter of 2020 (Gerdau, 2020<sup>[59]</sup>). The December 2020 Survey of the Construction Industry showed that expectations of activity in the first six months of 2021 were strongly positive (CNI, 2021<sup>[61]</sup>). Pent-up demand, infrastructure restarts (for example of bridges and overpasses as well as the underground in São Paulo and Fortaleza) and a new legal framework on sanitation supported steelmakers' expectations of a V-shaped recovery (Gerdau, 2020<sup>[59]</sup>). In November 2020 ArcelorMittal anticipated that 2021 construction demand in Brazil would be higher than in 2019 (ArcelorMittal, 2020<sup>[68]</sup>). Other sectors—for instance durable goods, agribusiness, energy, wind farms and agricultural machinery—experienced strong rebounds in the second half of 2020, with business confidence soaring in December 2020 to its highest level in 10 years and remaining strongly positive in January (Gerdau, 2020<sup>[59]</sup>; Focus Economics, 2021<sup>[69]</sup>). Steel-demand from the automotive sector picked up in the third quarter (Gerdau, 2020<sup>[59]</sup>; Ternium, 2020<sup>[64]</sup>), although from a low base and with subdued growth (ANFAVEA, 2021<sup>[70]</sup>). ANFAVEA, the National Association of Automotive Vehicles Producers expects growth in automotive production of 25% in 2021 (ANFAVEA, 2021<sup>[71]</sup>). Even if achieved, this pace of growth would be insufficient to make up for the losses in 2020, when both exports and domestic demand declined sharply (ANFAVEA, 2021<sup>[71]</sup>). Indeed, the sharp 2020 contraction precipitated Ford's decision to close its lossmaking production facilities in Brazil in January 2021 (Reuters, 2021<sup>[72]</sup>; Al Jazeera, 2021<sup>[73]</sup>). Steelmakers' expectations of general economic conditions and the performance of the steel sector remained highly positive in January 2021 (acobrasil, 2021<sup>[74]</sup>). However, two considerations kept optimism in check. First, new measures to control the spread of COVID-19 cannot be ruled out and may cause economic activity to decline again (Usiminas, 2020<sup>[75]</sup>). Second, the country's fiscal framework may limit government support and contain investments (Usiminas, 2020<sup>[75]</sup>).

In Chile, the construction sector remained in deep contraction at the end of 2020. Although the pace of decline slowed in the second half of the year, 2020 permits for residential and non-residential construction fell 30.8% year-on-year (INE, 2021<sup>[76]</sup>). However, the OECD forecasts that Chile's solid fiscal and monetary position, supportive financing conditions and tax incentives will enable investment to pick up, albeit at a slow pace (OECD, 2020<sup>[67]</sup>), which should provide some support to steel demand going forward.

In Colombia, a producer of construction steel, reported that a strong rebound had started in the third quarter of 2020 (Gerdau, 2020<sup>[59]</sup>). However, at least until November 2020, the latest month for which statistics were available, construction permits remained in contraction in y-o-y terms (DANE, 2021<sup>[77]</sup>). The OECD forecasts that significant public investment—including in infrastructure and publicly supported housing, both of which are important components of domestic steel demand—will further support the economic rebound (OECD, 2020<sup>[67]</sup>).

In North America, following a year of sharp steel demand contraction in 2020 (expected at 15.3%), worldsteel forecasts annual growth of finished-steel demand to strengthen to 6.7% in 2021. Possible automotive production cuts are a factor that may impact near-term steel demand in the region. Indeed, the strong rebound of automotive production in many regions and rising demand for hybrid and electric vehicles, which use more computer chips than traditional diesel and petrol vehicles, as well as strong demand for consumer goods, have

caused shortages in semi-conductors. As a result, some carmakers in the USMCA region have announced cuts to production in the first quarter of 2021 (Foreman, 2021<sup>[78]</sup>).

In Canada, the steel industry was significantly impacted by the COVID-19 pandemic, with production being reduced sharply due to lower demand from primary markets. Despite a rebound in the second half of the year, building permits fell 2.3% in 2020, i.e. the largest decline since the 2009 recession. The deepest and most persistent falls in the non-residential-building component were only partly offset by strong growth in the residential sector, particularly single-family dwellings (Statistics Canada, 2021<sup>[79]</sup>). In 2021, the Petroleum Services Association of Canada forecasts drilling activity to remain below 2019 levels. However, the outlook improved in the last months of 2020 supported by higher oil price forecasts. Compared to 2020, the rig count is expected to increase 12% in 2021 (PSAC, 2021<sup>[80]</sup>).

In Mexico, worldsteel expects finished-steel demand to decline 13.4% in 2020 and to partially rebound by 7.3% in 2021 (worldsteel, 2020<sup>[2]</sup>). Some steelmakers operating in Mexico expected that fourth quarter 2020 shipments would recover to pre-pandemic levels, supported by growth in the automotive, household appliances, and heating ventilations and air conditioning sectors (Ternium, 2020<sup>[64]</sup>). Total automotive production for the first nine months of 2020 stood at 2.2 million units, i.e. 29.4% below production in 2019 (OICA, 2020<sup>[81]</sup>). In November 2020, the Asociación Mexicana de la Industria Automotriz—an automotive producers' industry body—estimated that it would take until 2023-2024 for automotive production to return to pre-pandemic levels (Reuters, 2020<sup>[82]</sup>). Indicators for the construction sector have also displayed weakness. The value of construction in January-November 2020 remained 23% below 2019 levels, despite some rebound from the April lows in certain civil engineering components—namely water and sanitation, as well as transportation (INEGI, 2020<sup>[83]</sup>).

In its October 2020 SRO, worldsteel expected finished-steel demand in the United States to increase 6.6% in 2021, after the 15.8% contraction experienced in 2020 (worldsteel, 2020<sup>[2]</sup>). Substantial government support has aided the rebound in the manufacturing sector (worldsteel, 2020<sup>[2]</sup>) and the approval of further sizeable support may enable stronger-than-expected growth in 2021 (OECD, 2020<sup>[67]</sup>). Automotive sales and production rebounded in the second half of the 2020 (Bureau of Transportation Statistics, 2021<sup>[84]</sup>; OICA, 2020<sup>[81]</sup>), resulting in better-than expected steel shipments (Gerdau, 2020<sup>[59]</sup>; Nucor, 2021<sup>[85]</sup>) and fostering expectations of a continuous demand pick-up in 2021 (Nucor, 2021<sup>[85]</sup>). According to forecasts collected by the U.S. automotive producers association, the Alliance for Automotive Innovation, light-vehicle sales would rise between 6.9% and 8.4% in 2021, though not to pre-pandemic levels (Alliance for Automotive Innovation, 2021<sup>[86]</sup>). In December 2020, the price of West Texas Intermediate, a U.S. benchmark oil product, rebounded to USD 47.01/barrel from the lows of USD 16.55/barrel in April. However, prices remained widely below January 2020 levels of USD 57.52/barrel (EIA, 2021<sup>[87]</sup>). Therefore, and despite the improvement in prices, the oil-and-gas sector is expected to grow only gradually and subject to the general economic recovery (Tenaris, 2020<sup>[62]</sup>; USS, 2021<sup>[88]</sup>). Some steelmakers, however, expected that the persistent weakness in finished-steel demand from the oil-and-gas sector would be partly offset by growth in the renewable power sector (Nucor, 2021<sup>[85]</sup>).

### ***8.2.2. Africa and the Middle East***

According to worldsteel's October 2020 SRO, African steel demand is expected to decrease by 16% in 2020 and grow by 9.3% in 2021 (worldsteel, 2020<sup>[2]</sup>). South Africa has been experiencing short supplies of steel due to almost three months of disruption to production as a result of different levels of lockdown. This has negatively affected downstream

manufacturers for several months. In November 2020, manufacturing production declined by 3.5% year-on-year, and by 1.3% month-on-month from October (Engineering News, 2021<sup>[89]</sup>). To support the steel industry, South African authorities have amended the pricing system of scrap metal following complaints from the steel and other metal-producing sectors. The key changes to the price preference system (PPS) include the imposition of an additional discount of 10% when domestic buyers are located in inland provinces and scrap metal is located in coastal areas (Reuters, 2020<sup>[90]</sup>).

Looking at trends in key steel-consuming sectors, infrastructure is expected to drive Africa's construction growth in the coming years. According to Globe Newswire, the African construction market will be able to register a compound annual growth rate (CAGR) of 6.4% over the 2019-2024 forecast period. Currently, there are 482 construction projects each valued at USD 50 million or above in 43 African countries. Egypt has the largest number of projects, with a total of 46 projects valued at USD 79.2 billion (Report Linker, 2020<sup>[91]</sup>). The construction sector appears to be a focus of the economic agenda for Egypt 2030's vision, and GlobalData's December 2020 report forecast construction in Egypt to grow 8.9% in 2021 (Globaldata, 2020<sup>[92]</sup>).

Turning to construction trends in other countries, GlobalData forecast considerable declines in construction activity in 2020 in Morocco, Algeria, and Tunisia, by 5.5%, 3.4%, and 13.3%, respectively, with COVID-19 continuing to affect the pace of construction projects and market growth in the region in the short term. Forecasts for the construction sector in Sub-Saharan Africa in 2021 point to a 3.7% growth rate (Globaldata, 2020<sup>[92]</sup>). In Ethiopia, construction projects involving railways and roads are expected to regain momentum from the third quarter of 2021, once elections are over and global economic conditions normalise (Globaldata, 2020<sup>[92]</sup>). In Nigeria, the construction sector is expected to grow by 4% in 2021. The construction industry could benefit from the 2021 government budget for capital expenditure, of USD 100 billion, which some observers expect will improve the residential, commercial, industrial, and institutional sectors (Africa Business Convention, 2021<sup>[93]</sup>).

Turning to the region's automotive sector, South Africa's domestic sales and exports of cars decreased by around 30% in 2020. The government is implementing new investments and tax incentives to double the industry's annual production to 1.4 million vehicles by 2035 and raising the proportion of auto components made locally to 60% from 39% (Reuters, 2021<sup>[94]</sup>). In February 2021, Ford Motor Co. announced an investment of USD 1.05 billion in its South African manufacturing operations aimed to increase the company's installed capacity in South Africa from 168,000 to 200,000 vehicles (Reuters, 2021<sup>[94]</sup>).

In 2020, Morocco's industrial activities, especially those highly dependent on external demand, such as the automotive and aeronautics sectors, were heavily impacted by the COVID-19 pandemic. However, some market participants expect the new African Continental Free Trade Area (AfCFTA), established on 1 January 2021, to provide a boost to Morocco's growing automotive sector in the coming years (Morocco world news, 2021<sup>[95]</sup>), with implications for steel demand. According to World Bank projections, the AfCFTA could increase intra-African exports to 81 per cent by the end of 2035 (The World Bank, 2020<sup>[96]</sup>).

In its October 2020 SRO, worldsteel forecast steel consumption to decrease by 19.5% in the Middle East in 2020. Steel demand is expected to increase by 6.2% in 2021 (worldsteel, 2020<sup>[2]</sup>). The effects of COVID-19, the decrease in oil prices, tighter sanctions against Iran, armed conflicts in Syria and Yemen, and unrest in Iraq and Lebanon are still important factors that are weighing on prospects for steel demand growth in the region.

Government stimulus packages are expected to support the construction industry across the Middle East. In the United Arab Emirates, the construction industry is expected to grow by 3.1 % in 2021 after contracting by 4.8% in 2020 (Linesight, 2020<sup>[97]</sup>). The recent approval of a new Dubai Building Code and the three-stage 'flexible package' of measures worth USD 70 billion could reduce construction costs and support investments, according to some sources (Research and Markets, 2020<sup>[98]</sup>). According to GlobalData, Saudi Arabia's construction output will increase by 3.3% in 2021. The slight recovery is underpinned by official announcements in mid-November that the Public Investment Fund would invest USD 40 billion, or 5% of GDP, per annum in 2021-22 (Globaldata, 2020<sup>[92]</sup>).

Despite the Covid-19 pandemic and economic sanctions, the Iranian steel industry has been expanding rapidly over the past years, and is becoming more export-oriented. According to Refinitiv Eikon, Iran will increase its steel output to 55 million tonnes a year by 2025, of which 20 to 25 million tonnes are targeted for export. During the last Iranian year (to March 20), the country's major steel producers exported 7.03 million tonnes of steel products, up 27% on the previous year. The devaluation of the Iranian rial over the last few months may have contributed to making Iranian steel more competitive on export markets (Platts, 2021<sup>[99]</sup>).

### 8.2.3. *Asia and Oceania*

The October 2020 forecast by worldsteel pointed to steel demand in Asia and Oceania growing by 2.5% in 2021. India is likely to be the driver of growth in steel demand in those regions (worldsteel, 2020<sup>[2]</sup>).

According to worldsteel, steel demand in China is forecast to stagnate in 2021, with demand remaining at the same level as in 2020. Worldsteel noted that although the infrastructure and housing projects initiated in 2020 will continue to support steel demand in 2021, the manufacturing sector's rebound will be limited by an overall weak global economy (worldsteel, 2020<sup>[2]</sup>). But projections for 2021 tend to vary. The China Metallurgical Industry Planning and Research Institute (MPI) forecasts that Chinese steel demand will increase by 1.0% in 2021 (Investment express, 2020<sup>[23]</sup>). The slowdown of the growth rate is attributed to an easing in the construction sector (Cctd.com.cn, 2021<sup>[100]</sup>). CISA also expects higher steel demand this year amid supportive macroeconomic policies (Russell - Reuters News, 2021<sup>[25]</sup>). Kallanish and Wood Mackenzie, on the other hand, forecast declines in Chinese finished-steel demand in 2021, by 0.9% and 2.3%, respectively, because of weak demand in the non-infrastructure construction sector (Kallanish, 2021<sup>[27]</sup>; Wood Mackenzie, 2021<sup>[45]</sup>). For instance, Guangzhou R&F Properties, a large developer, was bailed out by the Guangzhou provincial government in January 2021, caps have been imposed on banks' real-estate loans, and real estate prices have been falling since August 2020 (Kallanish, 2021<sup>[27]</sup>).

Looking at trends in key steel-consuming sectors, the China Association of Automobile Manufacturers (CAAM) forecasts total automotive sales (including passenger and commercial vehicles) would increase by around 4% in 2021, to a level of 26.3 million units thanks to supportive government policies and automakers' discounts. CAAM also expects that Chinese automotive sales will reach 30 million units in 2025 (Reuters, 2020<sup>[101]</sup>). Government schemes were launched between December 2020 and January 2021 to support the automotive infrastructure, particularly in rural communities (Kallanish, 2021<sup>[27]</sup>).

According to worldsteel's October 2020 SRO, Indian steel demand growth is expected to increase by 22.7% to 100.4 mmt in 2021, after a sharp decline of 20.2% in 2020. Worldsteel noted that this relatively fast recovery would be supported by rural consumption and government investment in infrastructure (worldsteel, 2020<sup>[2]</sup>). In addition, the Indian Steel Association (ISA) expects that steel demand could reach 100 mmt in 2021 supported by



government spending and demand coming from steel-intensive sectors (The economic times, 2020<sub>[102]</sub>). According to Nomura Research Institute Consulting & Solutions India, the Indian automotive industry is expected to see stronger growth in FY 2021-22. They add, however, that the levels recorded in FY 2018-19 would be reached only in FY 2023-24 in the personal vehicles segment (BloombergQuint, 2020<sub>[103]</sub>).

Steel demand in Japan is expected to increase by 8.1% in 2021, after a deep contraction of 19.6% in 2020, according to the October 2020 SRO by worldsteel (worldsteel, 2020<sub>[2]</sub>). According to the Japan Iron and Steel Federation, steel demand is expected to recover moderately in the financial year 2021-2022 (April 2021-March 2022) (JISF, 2020<sub>[104]</sub>).

In Korea, steel demand in 2021 is expected to rebound by only 3.8%, after contracting by 8.2% in 2020 due to falling exports and weak confidence, according to the latest forecast by worldsteel (worldsteel, 2020<sub>[2]</sub>).

Steel demand in the ASEAN-5 region (Indonesia, Malaysia, Philippines, Thailand and Viet Nam) is expected to increase by 5.8% in 2021, after shrinking 6.0% in 2020, according to worldsteel's October 2020 SRO (worldsteel, 2020<sub>[2]</sub>). Domestic steel consumption in Thailand is estimated to grow from 5% to 8% in 2021, supported by the government's infrastructure investment projects according to the Iron and Steel Industry Club under the Federation of Thai Industries (Bangkokpost, 2021<sub>[105]</sub>). Steel manufacturers in Viet Nam have a positive outlook, expecting higher production and demand in the country in 2021. For instance, a large volume of steel would be required for repairing infrastructure damage caused by the floods that occurred in 2020 in the central region. In addition, a new public-private partnership (PPP) law to attract more private and foreign investment came into force in January 2021 (Metal Expert, 2021<sub>[106]</sub>).

#### *8.2.4. Europe and CIS economies*

In the European Union<sup>7</sup>, worldsteel forecasts an 11% increase for finished-steel consumption in 2021 (worldsteel, 2020<sub>[2]</sub>). But even the 13% growth forecast by Eurofer would fall short of a recovery to 2019 demand levels (Eurofer, 2020<sub>[15]</sub>). The 2021 upturn will be supported by the EUR 750 billion stimulus package of the Next Generation EU recovery plan (see Section 2.2) and a suspension of fiscal probity rules (Eurofer, 2020<sub>[15]</sub>). The construction sector—which despite its sharp contraction fared well relative to manufacturing in 2020—is forecast to grow by 5% in 2021, supported by civil engineering projects restarted by some governments as part of their counter-cyclical measures to support their economies (Eurofer, 2020<sub>[15]</sub>). For the automotive sector, Eurofer forecasts a rebound of 18.1% in 2021, following a severe contraction in 2020. A normalisation in the supply chain, steadier activity levels, and the launch of new models—many of which are electric vehicles—are expected to sustain automotive production growth in 2021. However, the automotive sector is likely to remain exposed to external risks (Eurofer, 2020<sub>[15]</sub>). In early 2021, car manufacturers warned of production disruptions in some EU plants due to a shortage of semi-conductors (Ewing and Clark, 2021<sub>[107]</sub>). External risks may continue to hamper investment after the end of the pandemic also in the mechanical engineering sector, as low business confidence and trade frictions may result in firms decisions to delay investment in favour of maintenance (Eurofer, 2020<sub>[15]</sub>). A 7.4% growth rate is expected for this sector in 2021, following an expected 11% decline in 2020 (Eurofer, 2020<sub>[15]</sub>).

Worldsteel expects that finished-steel consumption expanded in only two regions in 2020: Asia and Oceania and Other Europe, where consumption was forecast to increase by 2.1% and 4%, respectively. Further growth is forecast for 2021 in Other Europe (worldsteel, 2020<sub>[108]</sub>). In Turkey, finished-steel consumption contracted 15.4% and 14.5% in 2018 and 2019 respectively, demonstrating that the 2020 rebound projected by worldsteel started from a very low base (worldsteel, 2020<sub>[108]</sub>). Residential construction permits increased

markedly in the first nine months of 2020 (TUIK, 2020<sup>[109]</sup>), while automotive production continued to decline (OSD, 2021<sup>[110]</sup>). White goods production picked up in the second half of 2020, but statistics for the year-to-October — the latest available — still showed a 1% contraction (Beysad, 2021<sup>[111]</sup>). The resurgence of infections and the reining in of monetary and quasi-fiscal stimulus in autumn 2020 may weigh on the recovery (OECD, 2020<sup>[67]</sup>).

After contracting by 9% in 2020, finished-steel consumption in the C.I.S. region is forecast to rebound 5.5% in 2021, as the region's economies come out of recession resulting from the combined effects of the COVID-19 epidemic and the decline in oil prices (worldsteel, 2020<sup>[2]</sup>). In the fourth quarter of 2020, Russian finished-steel demand recorded a rebound, supported most notably by automotive production and construction orders. Stable domestic and international demand was expected to last in the early months of 2021 (MMK, 2021<sup>[112]</sup>). However, the termination of government support to the economy is expected to dampen the speed of recovery (MMK, 2021<sup>[112]</sup>). Support to steel-demand growth in 2021 is expected to come from improved activity in construction and in the oil-and-gas sector (Severstal, 2021<sup>[113]</sup>).

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## *Endnotes*

<sup>1</sup> [https://ec.europa.eu/info/business-economy-euro/economic-and-fiscal-policy-coordination/financial-assistance-eu/funding-mechanisms-and-facilities/sure\\_en](https://ec.europa.eu/info/business-economy-euro/economic-and-fiscal-policy-coordination/financial-assistance-eu/funding-mechanisms-and-facilities/sure_en)

<sup>2</sup> Special treasury bonds are bonds introduced to support economic recovery.

<sup>3</sup>

[https://reliefweb.int/sites/reliefweb.int/files/resources/External%20Updates%20July%202020%20FINAL\\_EN.pdf](https://reliefweb.int/sites/reliefweb.int/files/resources/External%20Updates%20July%202020%20FINAL_EN.pdf)

<sup>4</sup> The present publication uses time series which extend beyond the date of the United Kingdom's withdrawal from the European Union on 1 February 2020. In order to maintain consistency over time, the "European Union" aggregate presented here excludes the UK for the entire time series. This allows more meaningful year-over-year comparisons.

<sup>5</sup> According to vessel-tracking and port data compiled by Refinitiv, only seven cargoes from Australia, totalling 744,000 tonnes, had been discharged at Chinese ports by 25 November 2020, compared to 69 ships carrying a total of 6.84 million tonnes of Australian coal waiting to discharge at Chinese ports, with 34 vessels having arrived in Chinese waters in November alone (Muju, 2020<sub>[56]</sub>).

<sup>6</sup> <https://acobrasil.org.br/site/noticia/a-retomada-da-economia-e-o-boom-internacional-das-commodities/>

<sup>7</sup> The World Steel Association did not publish figures for individual Member States of the European Union in their October 2020 Short Range Outlook (worldsteel, 2020<sub>[2]</sub>). Based on the original source the aggregate for the European Union includes the United Kingdom in this specific table (<https://www.worldsteel.org/en/dam/jcr:3b8764f6-e584-41a4-9d90-b1eea58aadd8/Short%2520Range%2520Outlook%2520October%25202020%2520table.pdf>)..



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