crédito y caución
Atradius Group

market monitor

Focus on steel and metals performance and outlook

September 2013

Market conditions soften

Last year the World Steel Association (WSA) forecast that the world's steel industry would grow 4.5% in 2013. Now the WSA has had to revise its forecast to just 2.9% (see chart below). And, while we referred to the WSA's earlier forecast when we last reviewed the steel and metal industry in Market Monitor, we did so with the qualification that any revival would be subject to a reversal of fortunes in the Eurozone and, importantly, the level of demand from major user markets like China.

However, we are now seeing a continued drop in demand, not just in China but in many other markets, resulting in overcapacity and falling prices as producers seek to unburden themselves of their unused stockpiles. In the US, aggressive competition for scarce projects has led to falling market prices, not helped by the government's continuing budget uncertainty. In Japan, the contraction of the shipbuilding and automotive sectors has put a strain on the steel industry. Australia has its own set of problems, with a decline in the contribution of mining to the economy.

There are some more positive signs. Turkey's steel and metal industry has seen something of a boost, as it benefits from the continuing success of other Turkish sectors that depend on a supply of steel and metal products. And the leading producers in the sector, from Russia to the US, are financial healthy enough to weather the storm, whether through their equity strength or acquisitions and mergers.

Apparent Steel Use (ASU)

Short Range Outlook for Apparent Steel Use, finished steel products (2012-2014)

Regions	ASU, Mt			Growth Rates, %		
	2012	2013 (f)	2014 (f)	2012	2013 (f)	2014 (f)
European Union (27)	140	139	144	-9.3	-0.5	3.3
Other Europe	35	37	38	4.1	6.1	4.1
CIS	56	58	60	3.3	2.0	3.8
NAFTA	131	135	139	7.8	2.9	3.0
Central & South America	47	50	52	2.6	6.2	4.3
Africa	27	29	31	7.1	8.1	7.6
Middle East	49	49	52	-1.2	0.8	6.1
Asia & Oceania	928	957	984	1.8	3.2	2.8
World	**1 413**	**1 454**	**1 500**	**1.2**	**2.9**	**3.2**
Developed Economies	389	390	400	-1.9	0.4	2.3
Emerging & Developing Economies	1 024	1 063	1 101	2.5	3.9	3.5
China	646	669	686	1.9	3.5	2.5
BRIC	785	814	838	1.9	3.7	3.0
MENA	63	65	70	2.2	3.2	7.1
World excl. China	766	785	815	0.7	2.4	3.8

Source: World Steel Association

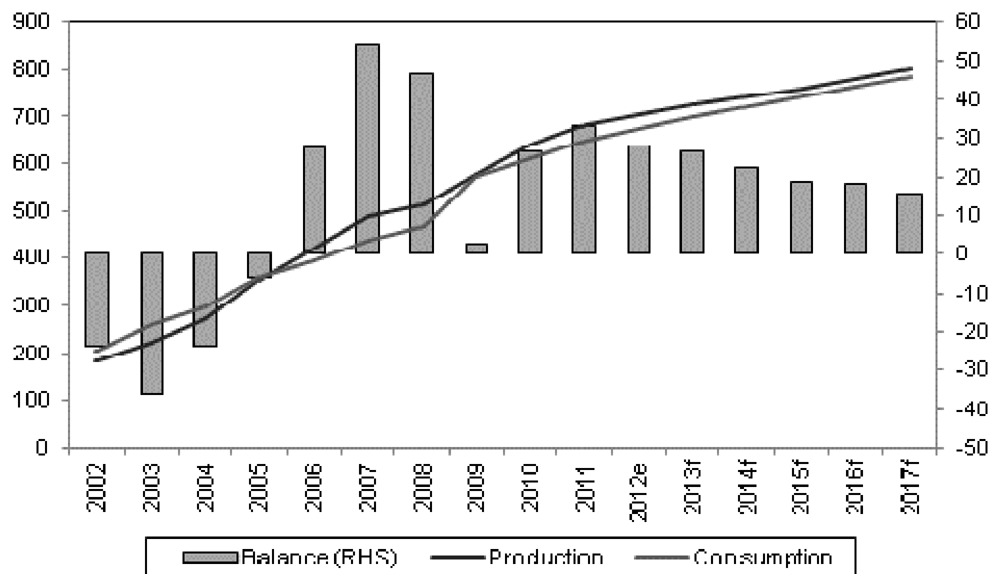
China: steel

- **Overcapacities of about 200 million tons in 2013**
- **Bank loans to steel companies will decrease 20%-30% this year**
- **Rising payment delays and insolvencies**

China has retained its position as the world's largest steel producer, with domestic production equal to the rest of the world's combined output. Most of the steel companies are located in Northern China, which covers Hebei, Liaoning, Shanxi and Inner Mongolia. The Hebei province in particular is the largest production base for steels. According to the World Steel Association, apparent steel use in China is expected to grow 3.5% in 2013, to 668.8 metric tons, following a 1.9% increase in 2012. In 2014, steel demand is expected to grow 2.5% as the Chinese government continues its policy of controlling investment in an effort to rebalance the economy.

Despite this steady growth in apparent steel use, the Chinese steel sector has shown a steady deterioration ever since the global credit crisis of late 2008. Overcapacity and huge stockpiles remain major challenges and the main reason for the poor performance of the industry.

China - Crude Steel Production, Consumption & Balance (million tonnes)



Source: BMI, WBMS

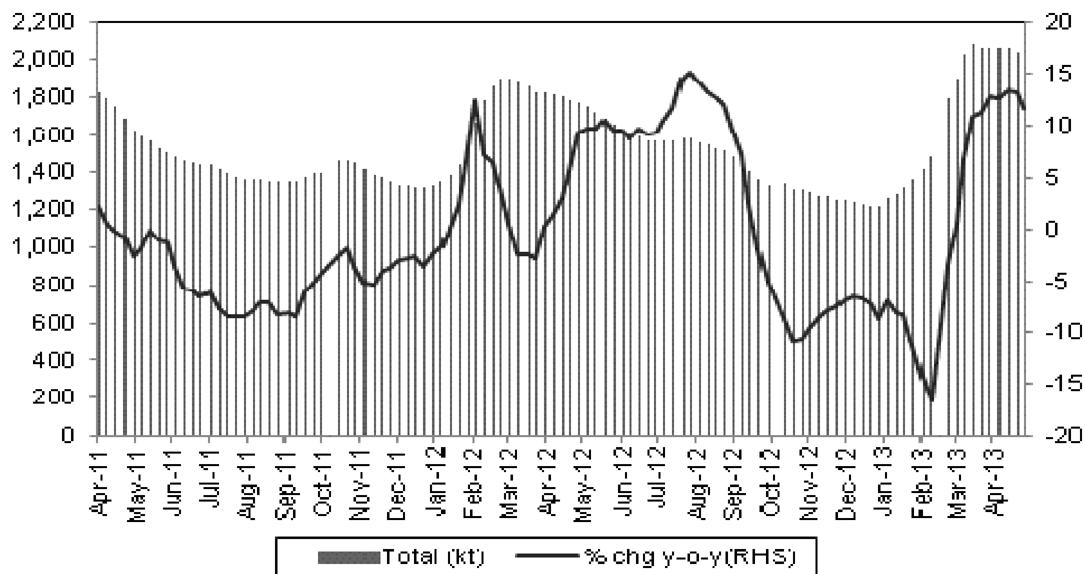
Steel output continued to grow in Q1 of 2013, by 9.1% year-on-year, due mainly to high operating rates since last December when most steel mills increased their purchase and inventory of iron ore. Nevertheless, steel demand did not live up to expectations despite ongoing urbanisation.

Capacity is expected to rise to 950 million tons a year as some 50 million tons of new capacity is being built, compared to the government's target of 750 million metric tons of crude steel in 2013. This will lead to an overcapacity of around 200

million tons. The strong expansive impulse has yet to subside, as 510 projects have begun in 2013 and 269.9 billion Yuan has been invested in those under construction. If this trend continues, overcapacity could be 200 to 300 million tons each year, as growth in China's economy slows. As a result, it may take 5-10 years to totally eradicate this overcapacity.

Inventory Overhang

China - Steel Inventories (k tons)



Source: BMI, Shanghai Steel home Information

Steel inventories have been too high because of the sharp fall in underlying demand in recent months. Iron ore prices have also fallen, leaving steel mills scrambling to try to maintain their limited profit margins. Since iron ore prices have declined more slowly than steel prices, production costs have risen. According to the China Iron and Steel Association (CISA), in 2012 the aggregate net profit of 80 major Chinese steel producers plunged 98% year-on-year - to CNY 1.581 billion - with total margins hitting a meagre 0.04%. Recently released data show that, from January to May this year, medium-sized iron and steel enterprises realised profits of just CNY 2.533 billion: a decrease of 94%.

For both steel manufacturers and steel traders, bank financing is the major source of funding. However, in the face of rising bad debts and a worsening market outlook, banks have been very restrictive with their loans to the sector. When loans are given, banks have taken tougher measures to avoid potential risk by closely scrutinising financial statements and collateral. Loan risks have increased as some companies have repeatedly pledged the same collateral for loans from several different banks, thus multiplying the risk. At the same time, loans - especially to steel traders - are being used for purposes other than investment in steel, but rather to invest in more profitable businesses. Therefore the potential systemic risk for banks is high, forcing them to cut loans. We expect to see another 20-30% decrease in bank loans to the steel sector in 2013, hurting an industry highly dependent on bank financing.

China's government has learned lessons from the EU and Japan's experiences in reducing overcapacity, such as the closure of carbon steel mills with a capacity of no more than one million tons a year, shutting down outdated production lines,

constraining government assistance to steel enterprises and abolishing loans for steel expansion projects, in order to adjust the market. Tougher controls on pollution will also force the small players out of business.

To streamline the industry, the government still aims to concentrate 60% of the country's total steel capacity in the hands of its top ten firms by the end of 2015, according to its latest five-year plan for the industry. The aim is to consolidate output with some of the largest steel makers, while large state-owned firms, like Baosteel and Hebei Iron and Steel Group, will be encouraged to increase annual capacity to 50-60 million tons over the period of the plan. This would create significant potential for efficiency gains, while these larger consolidated mills may be able to use their improved bargaining power to negotiate better input prices for iron ore and coking coal, improving margins and increasing output.

However, while these plans have been known for some years, they have met with limited success, because regional governments have a strong incentive to support local production where possible in order to maintain employment and prestige. For instance, steel production contributes more than 50% of the local GDP in the Hebei province. Despite the central government's urge to cut production and encourage industry consolidation, the regional governments are still reluctant to take real actions. Therefore we do not expect to see major progress in the central government's attempts to adjust the market in the short-term.

However, consolidation will eventually materialise because of falling profit margins, weaker metal prices and a reorientation of China's economy away from fixed asset investment and towards more private consumption. Lower prices will continue to squeeze margins and force smaller, inefficient producers out of business. State-owned companies already have an important role in the steel industry and will increase their market shares by 2017.

Payment delays in this sector are already high, and we expect them to increase in the coming six months. Business failures have risen and will continue to do so for the rest of 2013. It is rare to see businesses go through the proper insolvency process: instead companies simply close down or shareholders leave.

Due to the structural problems in the steel sector, we have to maintain a very cautious and selective underwriting approach compared to other Chinese sectors. We meet with our customers whenever possible to assess their strength, their buyer portfolio as a whole, claims history and internal credit control.

When underwriting a buyer, we look at:

- Shareholder background (preferably state-owned)

- Local and national market position

- Product portfolios (i.e. goods and services supplied)

- Pollution issues

- Payment terms and trading history

- Financial trends

Financial information obtained from agencies is always at least one year old, and is thus insufficient to allow us to accurately assess a buyer's current financial strength. Therefore we always ask our customers to obtain the most up to date internal financial accounts from their buyers – and, if the potential exposure is high, we will seek an audited annual report with financial notes. Our customers understand the need for this and are eager to provide the relevant buyer information. However, if up-to-date financial information cannot to be obtained, we must usually be more restrictive, simply because we know that the steel market is still in decline. Our largest exposures are mainly on buyers with strong shareholder background, such as state-owned, foreign-owned by strong international group, or listed on the stock exchange.

Chinese steel sector

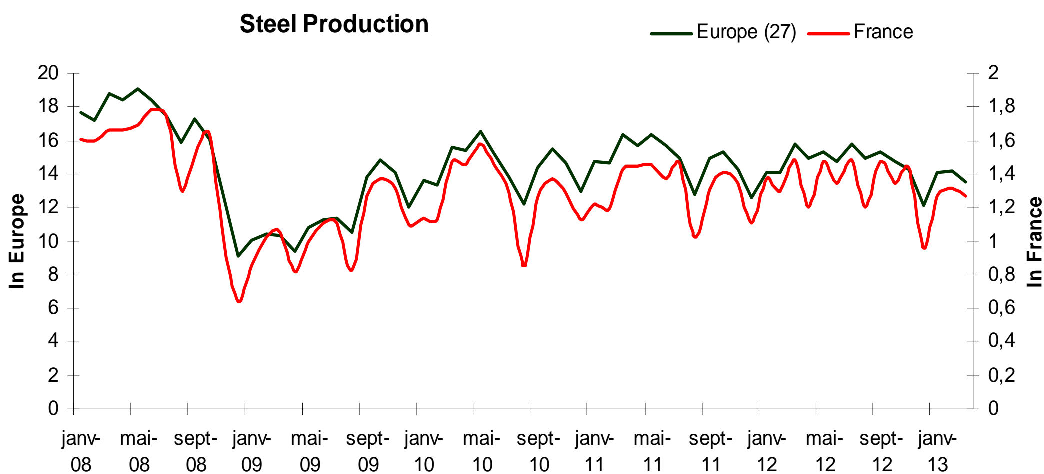
STRENGTHS	WEAKNESSES
A central pillar of China's industry, with major players: strong state-owned enterprises with government support	The industry faces the serious issue of overcapacity, which affects prices of both steel and raw materials. Margins are deteriorating
China is the largest steel production base in the world.	Challenges from government regulation to achieve energy efficiency and pollution reduction targets, in terms of cost increase and production cuts
Consolidation is likely to lead to the elimination of surplus capacity in the long term	Restrictive bank policies

France: steel/metals

- **Business environment remains difficult**
- **Steel/metals wholesale: default of the weaker players is highly likely**
- **Metals manufacturing: many insolvencies and more to come in 2013**

Steel producers

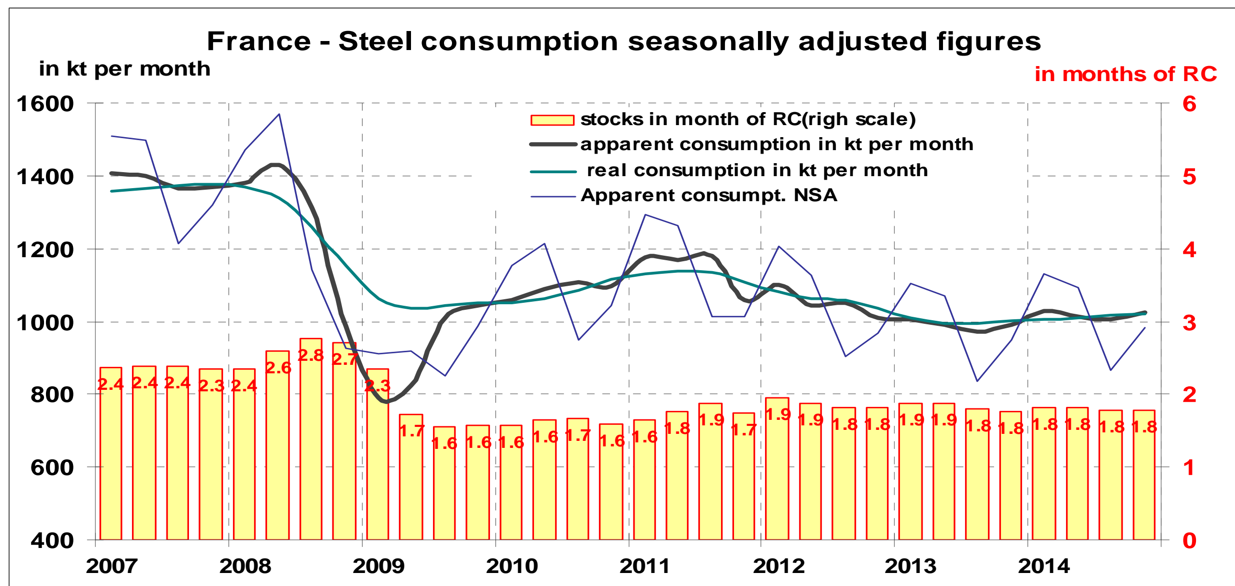
After a moderate 2.4% increase in 2011, French steel production fell 2.5% year-on-year in 2012, according to the World Steel Association. This was due mainly to poor demand from key customers, especially in the building and construction sector, which accounts for 35% of steel consumption. So far, 2013 has followed the same trend, with a 5.6% year-on-year decrease in production from January to the end of May. Production is now 20% below its pre-crisis level. Troubled buyer sectors are one reason, while both steel producers and traders are also having to reduce their prices: down 5.4% year-on-year in the period from January to May this year.



Millions of tons

Source: Eurofer

However, the main steel producers - large international firms - are cushioned by their ample equity and sufficient capital bases and are therefore able to cope with these current difficult conditions. Nevertheless, even the major players are cutting their costs (e.g. through furnace closures and redundancies in France).



Source: Eurofer

Wholesale of steel and metal ores:

Steel wholesalers deal with two main categories of products:

- Flat products: for the automotive, construction, aircraft and industrial equipment sectors, and
- Long products: for the construction, boiling, piping, and rail industries.

After a difficult 2012, with volumes down 5%, according to the French Steel Association (Fédération Française de l'Acier), both flat and long products have again seen a volume decline in the first five months of 2013, especially carbon steels (which recorded a two-digit decrease). This year, domestic demand is expected to decrease more than 6%. As already indicated, steel wholesalers' profits will also be affected by lower prices, although costs structures are often flexible (with low fixed costs). The only positive sign is that inventories are being effectively adapted to current activity.

Wholesalers' financial strength varies according to size, with each company's structural financing needs determined by their working capital requirements: but of course those capital requirements vary according to (volatile) raw material prices development. Major players usually have the advantage of a strong financial structure and adequate financing to cover their rising working capital needs while, for smaller companies, short-term financing options can be limited and liquidity strained.

However, across the board, steel traders are facing decreasing demand paired with lower prices, so margins are greatly reduced and cash is strained. The whole subsector suffers from overcapacity – and the solution may involve both market concentration and the loss of weaker players. Currently, any hope of an improvement in the market would come from sustained consumption by dynamic sectors such as aircraft and industrial/agricultural equipment.

Metals manufacturing

Like last year, the French metals manufacturing subsector remains in trouble. This subsector's main activities are casting, stamping, forging and cutting: mostly for the automotive and aerospace sectors which represent around 50% of the customer base.

Although the aeronautical sector is particularly dynamic, automotive and other buyer sectors are performing poorly. 2013 will therefore be another difficult year for many metal manufacturing companies, with overall activity decreasing 2% after a 3% decline in 2012. As companies struggle to maintain prices in a very competitive business environment, revenues and margins will decrease.

An issue throughout the metals subsector is the need for funding. This is required to finance extensive investment - to improve productivity and competitiveness and retain key customers who have developed new plants in emerging markets - and also for R&D - to satisfy the demands of customers producing technically advanced, added value products. As a result, over-indebtedness is a real problem.

On average, payments in the French steel/metals sector take 60 days, but we expect them to take longer in the near future. In the metals manufacturing subsector, in particular, we expect more payment delays. Compared to other French industries, the insolvency rate in the steel/metals sector is very good for iron and steel production, while only average for steel/metals wholesalers and worse for metal manufacturing. The metal structures and parts manufacturing sector, which is highly dependent on the construction sector, has seen a sharp increase in insolvencies (up 24% in 2012 and a massive 40% in Q2 of 2013, due mainly to a price war that has hit small and medium-sized businesses). Insolvencies will continue to increase in this subsector in the coming months.

With the steel/metals sector's business environment worsening as a result of the declining performance of several significant end-users (mainly in automotive and construction), our underwriting approach remains cautious. We have a more relaxed attitude towards steel producers because of their overall financial strength, but for steel/metals wholesalers and metals manufacturing buyers we are vigilant when we receive requests for increased credit limits as, with lower prices and weak demand, they may reflect payment delays. Therefore, when we receive significant requests for new and increased credit limits, we ask for additional information about destination sectors, interim financial statements, working capital and short-term financing requirements.

Despite our necessary caution, we of course do our utmost to maximise our customers' insurance cover and, once we have sufficient detail of the buyer's financial strength, we hope to be able to approve a credit limit in full. If that isn't possible, we'll look to a partial or conditioned approval, perhaps with a guarantee from a bank or parent company. And we will always make our customers aware that we are keen to help them expand their business with financially sound companies.

French steel producing subsector

STRENGTHS	WEAKNESSES
Global players	Price volatility (currently low)
Strong financial structure	Dependence on construction and automotive performance
	Overcapacities

French steel wholesalers subsector

STRENGTHS	WEAKNESSES
Flexible cost structure	Price volatility (currently low)
Dynamism of aeronautics sector	Dependence on construction and automotive performance
Integrated industry in France	Overcapacities
	Poor margins
	High need for short-term financing

French metals manufacturing subsector

STRENGTHS	WEAKNESSES
Technical knowledge	Production overcapacity in some segments
Traditionally strong partnerships with big customers	Lack of productivity
	Weak demand
A key sector in terms of employment (potential French state support)	High restructuring and investment needs

India: steel/metals

- **Decreasing steel demand in 2013 due to economic slowdown**
- **Businesses´ profitability is increasingly under pressure**
- **No major increase of payment delays or insolvencies expected in the steel/metal sectors**

Indian domestic steel consumption grew just 0.2% in Q2 of 2013, reflecting a further slowdown after 3.3% growth in the financial year (FY) 2012-13 and 5.5% in FY 2011-12 (in India the fiscal year starts on 1 April and ends on 31 March). This was mainly due to a continued slowdown in end user industries: a weaker economic performance has resulted in muted demand for steel products especially from the automotive, construction and infrastructure sectors. Growth in domestic steel production also slowed down, to 2.5% in the financial year 2012-13 compared to 6.6 % in 2011-12. In Q2 of 2013 steel imports decreased by more than 30% year-on-year. At the same time steel exports increased 12.7 % - mainly triggered by inventory build-up by several large steel producers, a depreciating currency and export incentives.

The domestic iron ore mining industry has been operating under difficult conditions, given regulatory interventions in various federal states. There has been a sharp decrease in iron ore production impacted by a continued ban in Goa, a delay in approval of environmental and forest clearances for several mines in Karnataka and a cap on iron ore mining in Odisha. Production of iron ore decreased from 218 million tons in FY 2008-09 to 140 million tons in FY 2012-13 due to enforcement of strict environmental and other regulatory measures, and as a result dependence on imported iron ore has increased. According to the Ministry of Steel, Indian steel mills will require around 500 million tons of iron ore per annum by 2025, when the steel production is estimated to reach 300 million tons per annum. In Karnataka, the availability of iron ore is expected to improve going forward with the Supreme Court of India allowing mining in Category A and category B mines. However this is expected to get normalised only gradually as a number of conditions have to be fulfilled by the miners before they can resume mining operations.

While India has abundant thermal coal resources, its deposits of coking coal are scarce. Most of the country's coke requirements, vital for the conventional blast furnace method of steelmaking, are met by imports of hard coals for coking. The ongoing depreciation of the rupee against major currencies has offset any advantage that could have accrued by virtue of lower coking coal prices in global markets compared to last year. From May to the end of July 2013, the rupee depreciated almost 10% against the US$. Consequently, despite a decrease in international prices of hot rolled-coil by around 6%, currency depreciation led to an increase in the landed cost of steel imports by around 4%. However, domestic prices still remained flat instead of following the import parity price trend because of weak demand conditions. It can be expected that the rupee depreciation is likely to prompt domestic steel companies to increase product prices in the near future in order to offset rises in key raw material costs like coking coal, but it will be impossible to pass those costs on to buyers completely because of subdued demand. Given the weak demand environment, pricing pressure and higher input costs it comes as no surprise that profitability of most domestic steel firms is currently under pressure. However, domestic steel demand is expected to pick up again in 2014 after a subdued performance in H2 of 2013.

Major challenges for the Indian metal industry continue to be land acquisition issues in setting up Greenfield projects; delays in environmental clearances for mining activities; logistics support; security of raw material supply; higher raw material costs; and the increase in cheaper Chinese imports.

India is expected to remain an important player in the global aluminium sector despite expectations of a significant slowdown in production growth. India owns significant bauxite reserves (7.5% of the world's total), and this availability of bauxite makes India among the world's lowest cost producers of aluminium. However, growing concerns over the environmental impact of mining activities will continue to have some impact on growth in the aluminium sector. Refined zinc production in India is expected to head towards a period of slowing growth over the coming years due to a lack of expansion plans on the horizon. However growth in the construction sector, resulting in increased use of galvanised steel, is expected to sustain the Indian zinc market. India is expected to remain an important player in the copper market as production and consumption of refined copper continue to record high growth rates. Government stimulus measures in the infrastructure and construction sector, coupled with growing domestic consumption will encourage copper producers to expand output. However some structural weakness will continue to have some impact as project execution in the infrastructure sector is being delayed by issues surrounding land acquisition and environmental clearances.

On average, payments in the Indian steel/metals industry have remained unchanged since last year, still taking 60 to 90 days. We have received very few credit insurance claims during the last 3 years and, based on our experience to date do not foresee any imminent major change in our underwriting approach, as we do not expect any major increase in payment delays or insolvencies. However, as we are currently not completely relaxed with this sector, we would generally not encourage customers to lengthen their normal terms of payment. In order to accurately assess credit limit applications in this sector we always require up to date financial information, and more importantly, details of up to date trading experience with buyers in order to monitor any changes in payment behaviour. We also assess the strength of the customer–buyer relationship. As securities (in the form of guarantees to trade suppliers) are fairly unusual in India, we would tend to agree partial decisions rather than require a security, which is hard or even impossible for the customer to obtain. If we are restrictive in our decisions, we always explain our areas of concern and what information we would need to reassess.

Indian steel/metals sectors

STRENGTHS	WEAKNESSES
India is close to key demand markets in East Asia, including China.	Cheaper imports from China, Russia, Ukraine, Kazakhstan and Romania
Relatively low capital costs due to low land and construction costs/cheap labour costs	Heavily dependent on imports of metallurgical coal and coke, regulatory hurdles in iron ore mining
Increasing pace of urbanisation and industrialization is expected to make India a significant consumer of metals in the near future.	Land acquisition issues hindering capacity additions, delays in getting environmental clearances, slow allocation of coal blocks
	Infrastructure constraints in roads, railways, ports etc./high levels of taxation and restrictive labour laws

Japan: steel

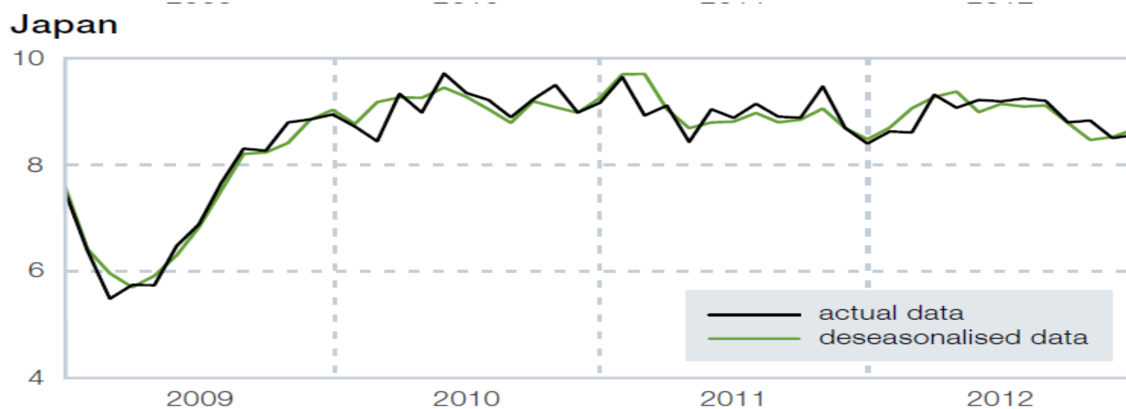
- **Decreasing demand in 2013 and 2014**
- **More mergers and acquisitions to preserve international competitiveness**
- **Good payment behaviour and few insolvencies despite market problems**

In terms of steel production volumes, Japan is currently second only to China and has clearly positioned itself as a strategic global player. As an essential requirement for construction, automotive and energy, the steel industry is closely linked to the development of the Japanese economy. Like last year, the industry continues to face some serious threats, including those of global economic volatility and increasing foreign competition.

In early 2012, the Japanese economy recovered slowly, with support primarily from subsidies for privately-owned environmentally-friendly vehicles and from public investment for earthquake reconstruction projects. But the recovery lost momentum in the second half of the year due to the expiry of the eco-car subsidy, the yen's prolonged strength hitting exports, the ongoing European debt crisis, and slowing economic growth in emerging markets. Japan's real GDP grew just 1.9% in 2012. Steel orders in Japan decreased for the second consecutive year in 2012, to 55.24 million tons. Orders for ordinary steel declined to 43.69 million tons, but increased by more than 8% in the building construction sector, thanks to projects for earthquake reconstruction and to make schools and hospitals more resistant to earthquakes, and rising demand for logistics facilities.

Monthly crude steel production

2009 to 2012 (million tons)



Source: World Steel Association

In the manufacturing sector, orders were higher for steel used in the automotive industry because of the eco-car subsidy and other government programmes. However, total manufacturing orders for ordinary steel fell 6.7% to 19.50 million tons because of the downturn in the shipbuilding and industrial machinery sectors: caused mainly by lower exports due to the yen's strength. Orders for speciality steel decreased 4.9%, to 11.54 million tons, for the same reasons.

The future does not look bright either. According to the World Steel Association, steel demand in Japan is expected to decline 2.2% in 2013 due to the contracting shipbuilding and automotive sectors, despite a positive boost from the

construction sector. In 2014, demand is expected to contract again, by 0.6%, because of the conclusion of fiscal stimulus and structural factors, such as the increasing overseas relocation of production by Japanese manufacturers. Moreover, Japan consumes only half of its steel production and is therefore highly dependent on exports, with a large share going to Korea and China. Chinese growth rates - and its demand for steel imports – have decreased, adding to the sector's troubles. In the short term, Japanese steelmakers are likely to face the challenge of lower margins, an oversupply of steel and volatile global economic conditions. In addition, large consumers of steel, automotive manufacturers like Toyota, Nissan, and Honda have considerable bargaining power and can therefore push prices down. It is likely that Japanese steel manufacturers will look for mergers and acquisitions as well as cost reductions to improve their competitive position. In 2012, a landmark deal was the merger of Japan's largest - and the world's sixth-largest - steel maker Nippon Steel Corporation with 27th-ranked Sumitomo Metal Industries to form the world's second largest steel firm: Nippon Steel & Sumitomo Metal Corporation. With a combined capacity of 47 million tons, the merger aims to generate savings in the face of increasingly intense global competition.

The pattern of payment and default in the sector remains unchanged since last year. In recent months, we have received no notifications of non-payment related to Japanese steel producers and do not expect any in the short term. All the larger players' balance sheets appear relatively robust although, as with many Japanese firms, gearing is high because of the capital intensive nature of the industry and the ready availability of cheap Japanese bank loans. No major company in the sector has become bankrupt and there is no immediate concern that this will change.

However, we have taken note of the fact that some of the large Japanese steel producers reported net losses in the financial year 2012 (in Japan the financial year starts on 1 April and ends on 31 March). With the challenges that steel producers are facing in 2013/2014 and the recent losses posted by the major players, we view this sector's performance now as rather poor. Having said that, our credit limit decisions are taken on the basis of each individual company's financial strength, trading experience, length of operation and ownership structure. As payment performance and default rates in the Japanese metal and steel sectors have been good in recent years, we are continuing to increase our cover, but because of the more difficult business environment we will understandably be more careful in the future. However, the key focus is obviously the financial strength of the buyer, and most buyers we look at in Japan are decent or large sized metal/steel companies with longstanding operations.

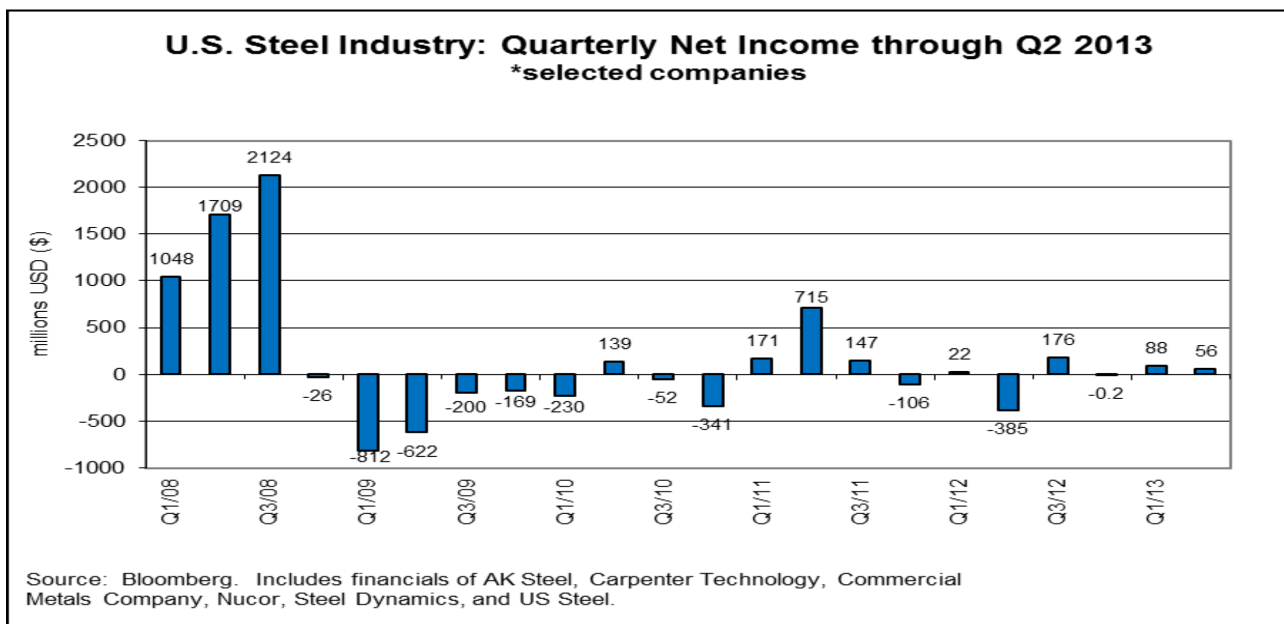
Japanese steel/metals sector

STRENGTHS	WEAKNESSES
A major industry in Japan	Decreasing steel demand
Many large and strong players with longstanding operations	Dependence on exports in a volatile global environment
	Bargaining power of customers

USA: steel/metals

- **Sector suffers from volatile pricing while production decreases**
- **Operating margins (2%-4%) and net margins (1%-3%) remain tight**
- **Rising payment delays and insolvencies, bucking the overall trend**

According to the World Steel Association, apparent steel use in the US grew 8.4% in 2012 benefitting increased demand from the automotive, construction and energy sectors. However, the performance of the US steel and metals sectors has remained depressed-to-flat at best in the first half of 2013, due to lags in both residential and commercial construction. New construction is very weak, as companies' capital expenditure strategies are to 'maintain' rather than 'build'. In addition, overall production has begun to decline: raw steel production decreased 4.5% year-on-year from January to July 2013. As in 2012, the operating and net margins of steel and metals businesses remain tight: averaging between 2-4% and 1-3% respectively. Cash from operations and free cash flow overall have both improved, as a result of the tighter controls on purchasing, allowing companies to pay off more debt and lessen their reliance on revolving credit lines. This has resulted in a de-leveraging of corporate debt as most debt-to-equity ratios are now hovering around the 1:1 mark compared to the 1.5:1 mark of five years ago. Dependence on bank finance remains high, but we currently see no signs that banks are unwilling to provide credit to the sector.



Source: Bloomberg. Includes financials of AK Steel, Carpenter Technology, Commercial Metals Company, Nucor, Steel Dynamics, and US Steel.

Overall, income statements and balance sheets have become more stable, although they are not necessarily growing because of weaker end-buyer demand for steel products (beams, structure supports, tubular goods for oil producing countries), aluminium (siding, windows, doors) and copper (electrical wire). Additionally, volatile pricing, with the recent decline in production, is beginning to have an effect on the bottom line as companies are selling at current market prices that are lower than the price of stock inventory purchased just a few months ago. While consolidation and overcapacity are still not a major issue, the economy has forced companies to seek business outside their normal areas of operation. Construction companies used to bidding on projects in one or two states are now seeking business in three to five states. Similarly, companies used to bidding on regional projects are now pursuing business nationally. This has led to fierce price

competition, with demand for work outpacing the supply of projects. It will be difficult for steel and metal companies to show significant growth over the next 12 months, due to the uncertain future of construction and the reduction in government budgets. Sequestration by the federal government is greatly affecting business planning and production, especially with companies working under government contracts. This was very apparent in the recent Defence Department decision to scrap the remodel of one of its fleet vessels as the costs could not be properly budgeted and it would affect appropriate readiness for the remainder of the fleet. This affected around 2,000 jobs that would have been needed to complete the project. The World Steel Association expects apparent use of steel to grow just 2.7% - to 99.3 million tons - in 2013 due to continuing fiscal concerns. In 2014, steel demand is expected to increase 2.9%.

On average, payments in the steel and metals industries take 40-45 days, and there has been no increase in payment delays in the last couple of months, with the industry's income statements and balance sheets remaining stable. As customers continue to buy on a 'just-in-time' basis, they are more readily able to pay in time for their purchases than if they carried heavy stock loads. Previously, this reduced the worry of taking in significant stock at a high price and then having the bottom fall out of the market, so that end-products have to be sold at a loss. However, with a weakening of the end-buyer market, we are again seeing profit margins being squeezed. Therefore we expect payment delays to increase in the coming months, and the same goes for insolvencies, which have been stable so far, but will probably rise this year, bucking the overall trend of decreasing business insolvencies in the US (down by 6% year-on-year in 2013 after a 16% fall in 2012).

Last year our underwriting approach to metals and steel was already cautious and we have had to be even more vigilant this year. When assessing credit limit applications we continue to review audited financial information. But another decisive factor is the buyer's payment history with businesses other than our applicant. On smaller and/or privately held companies, where financial information is not available, we look at the company's years in business, both under a corporate and family structure, its recent payment history, high credits and any legal issues. We also continue to take into consideration the length of time that our customer has been doing business with a buyer and the credit controls and procedures that the customer has in place. So that we can maximise the cover provided to our customers on buyers in the metals/steel sector we always review each buyer individually and make decisions based on all available information. This includes consideration of bank or parental securities, limiting the exposure to a specific project or time frame or approving as much cover as possible under the limit capacities.

US steel/metals sectors

STRENGTHS	WEAKNESSES
Businesses´ financial situation is generally stable	Construction activity still subdued and there are fiscal concerns
	Competition has become fiercer
	Soft demand and overcapacity has lead to weaker prices

Market performance at a glance

Russia: steel/metals

- **Performance will remain volatile in 2013**
- **Businesses solvency and liquidity generally solid**
- **Rising payment delays and insolvencies in the coming months**

According to the Russian statistics agency Rosstat, in the first seven months of 2013 Russian production of metals and related products decreased 2.4% year-on-year in volume, while production of pipes increased 8.6% to 924 thousand tons. For the Russian steel/metals sector, exports - mainly to China and other Asian countries but also to Western Europe - are highly important. However, external demand has decreased over the last 10 months as growth in Western Europe has slowed and these markets now hold more than enough steel and metal. With export prices for Russian steel/metals products falling, in line with the global trend, domestic demand - from industries such as construction, infrastructure, transport and machinery - has gained in importance.

The share prices of major Russian listed companies have fallen sharply over the last 12 months. Shares in NLMK are down 19%, Severstal down 33%, Mechel down 55%, and Evraz down 57%, following the negative trend in global steel/metals markets and reflecting the high debt burden of these companies. Lower prices for coal and steel/metals have hit Russian metal and mining companies, which usually have vertically integrated structures (coal, iron ores, production of metals).

In the coming months the Russian steel/metal sector will remain volatile and dependent on global trends. However, stronger domestic demand will be a major positive factor to drive market development.

With decreases in orders and turnover, the profit margins of Russian steel/metals businesses have suffered. Equity strength, while weaker, has remained generally solid. These businesses' general solvency and liquidity also remain generally robust, as most companies have been able to refinance their debts. The overall high indebtedness of the sector is a weak point, but banks are still willing to provide credit.

Although we have received few notifications of non-payment over the past six months, we expect these to increase in the coming months, as the number of insolvencies in the sector rises.

While our underwriting stance takes into account the deterioration in the financial strength of steel/metals producers, Russia's largest steel/metal corporations still have very strong net worth and asset bases, with good access to financing from the domestic state banks. Therefore, we do not expect any large insolvency in the sector in the long run.

Turkey: steel/metals

- **Sector benefits from growth in key buyer industries**
- **A good payment and insolvency record**
- **Our underwriting stance is open**

In the first half of 2013, Turkish crude steel production totalled 17.4 million tons (12.3 mi1lion tons by electrical arc furnaces and 5.1 million tons by integrated plants): a 2.9% year-on-year decrease. However, despite this fall, Turkey is still the world's 8th largest steel producer. Apparent steel use in Turkey increased 7.5%, reaching 14.8 million tons. Flat steel consumption increased 6.7%, while long steel consumption has increased 8%.

As in 2012, steel and metals continued to benefit from growth in leading Turkish industries such as automotive, construction and textiles, with their consequent increased demand for steel/metals products. In H1 of 2013, profit margins in the steel sector continued to improve with strong demand and higher prices, and this trend is expected to continue in the coming months. The industry's general equity strength, solvency and liquidity indicators are traditionally robust. Overall indebtedness of the sector is average, and banks are still willing to provide credit.

On average, payments in the Turkish steel and metals industry take 60 days, and we do not expect any increase in payment delays in the coming months. Compared to other Turkish industries, the steel and metals sectors´ default and insolvency records are good, with the low rate of business failures set to remain unchanged for the rest of the year.

Therefore, as in 2012, we have an open underwriting stance towards this industry. Our main criteria for assessing credit limit applications a shareholder structure, equity level and cash position. For new buyers we look at payment behaviour (bounced cheques). If no financial information is available, we can approve only small credit limits based on length of time in business and capital. However, to maximise cover we always contact those buyers, banks, and information agencies for additional financial information. Our customers can help in such cases, through their close relations with buyers. If, with all the available information, we still have to restrict cover, we will of course explain our decision to our customer.

Australia: mining

- **Sharp decline of investments in 2013**
- **Notifications of non-payment still low**
- **Increasing payment delays in the mining-related services sector**

Current issues in the Australian mining sector are the end of the mining investment boom and declining commodity/metal prices. It is clear that the mining investment boom that Australia has experienced for at least the last five years has come to an end and this will also hit service providers to the sector, such as mining contractors.

The mining sector was the driver of high growth in Australia's real fixed investment in 2011 (7.2%) and 2012 (8.4%) - but there are clear signs that it is no longer contributing to economic growth. Real fixed investment growth will decrease to less than 1% in 2013. There are still several major liquefied natural gas (LNG) projects underway to keep mining construction elevated until their completion in early 2017, but overall the pipeline of incomplete work continues to decline in an environment of lower demand and weak and volatile commodity prices. Prices for nickel, copper and zinc have fallen since February 2013 due to lower demand growth (especially from key Asia-Pacific markets) and higher stock levels will limit the prospects for future price rises. Prices for gold have dropped sharply since the end of 2012, the likely outcome of a change in investor sentiment towards gold in response to indications that the US Federal Reserve may end its quantitative easing programme earlier than expected, triggering a capital outflow from gold into other asset classes. Spot prices in 2013 for iron ore reached a peak of around US $152 a ton in February but have since moderated to around US$ 115 a ton in June, in line with changing sentiment over China's economic growth and steel output. Iron ore prices are still volatile with the expectation of future price falls. Prices for coal have also decreased sharply during the last 12 months.

However, our underwriting approach remains generally open. Banks are still willing to provide credit to mining businesses and the overall indebtedness of the industry is manageable. Our portfolio payment experience over the past two years has been good and notifications of non-payments are still low.

We will of course continue to monitor price fluctuations, as a sharp fall in price can rapidly affect those miners who are high-cost producers. It is clear that coal and gold miners need to adjust to the current reduced prices and the high-cost producers pose a higher risk. The slowdown in the mining sector will also affect service providers to the industry and we expect payment delays and insolvencies to increase in the coming months.

Given the high capital cost involved in mining, many mining businesses are listed or are subsidiaries of listed groups. This ensures that we have access to the financial information we need to accurately assess their creditworthiness. For those companies that are not listed and which do not lodge financial statements at the Australian Securities and Investments Commission (ASIC), we usually ask for assistance from our customers to obtain financial information. Obviously, we can offer cover more readily when the mining business is profitable, generating positive net cash from operations and has a solid balance sheet. In addition, we undertake a 'cash cost' versus spot price analysis, to establish that the miner is viable at current prices. On the mining services sector, we require current financial statements for our annual reviews and to consider increases in cover.

Acerca de Crédito y Caución

Crédito y Caución es el operador líder del seguro de crédito interior y a la exportación en España desde su fundación, en 1929. Con una cuota de mercado del 54%, lleva más de 80 años contribuyendo al crecimiento de las empresas, protegiéndolas de los riesgos de impago asociados a sus ventas a crédito de bienes y servicios. Desde 2008, es el operador del Grupo Atradius en España, Portugal y Brasil.

El Grupo Atradius es un operador global del seguro de crédito presente en 45 países. Con una cuota de mercado de aproximadamente el 31% del mercado mundial del seguro de crédito, tiene acceso a la información de crédito en más de 100 millones de empresas en todo el mundo y toma cerca de 20.000 decisiones diarias de límites de crédito comercial. El operador global consolida su actividad dentro del Grupo Catalana Occidente.

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