



ASIAN STEEL MARKETS 2019

Ho Chi Minh City, Vietnam, April 2019

CONTENT

DITH Group at a Glance	03-04
Steel Consumption in SEA	05
Steel Production in SEA	06-09
Trade Flows in SEA	10-15
Conclusion	16



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DITH Group at a glance

WE OPERATE IN

 **120**
countries

 **18**
offices^[1]

 **63** distribution &
service centers

 **3,418**
people

TRADING & DISTRIBUTING

17 million
tonnes of raw material & steel^[2]

secured from

 **401** steel
mills

supplied to over

 **44,000**
customers

of which



recurring clients
and it is this diversification that
limits risk and ensures that our
business remains sustainable.

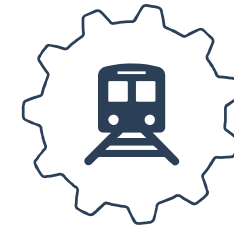
DELIVERED IN



1,996
ships



122,413
trucks



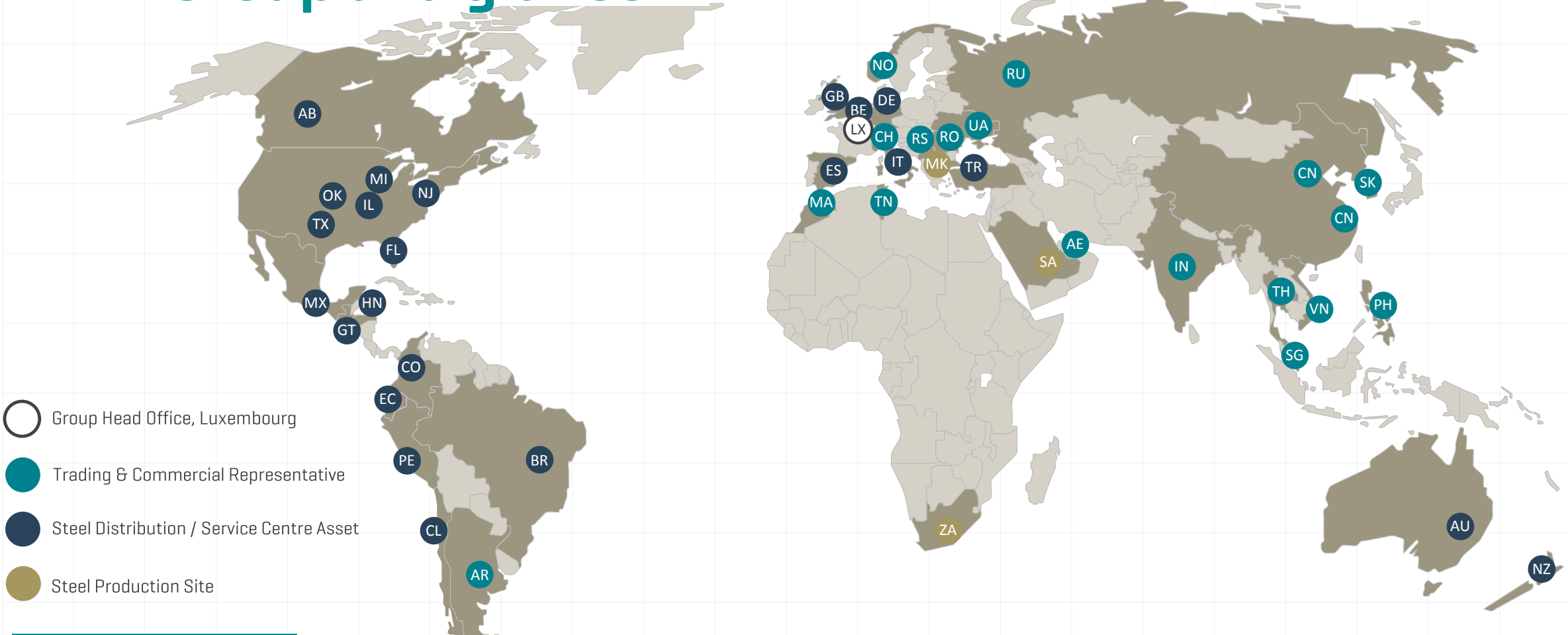
14,601
wagons



6,651
containers

1. Includes six regional sales consultants: Argentina, Chile, Guatemala, South Korea, Thailand & Vietnam
2. Includes intercompany sales

DITH Group at a glance



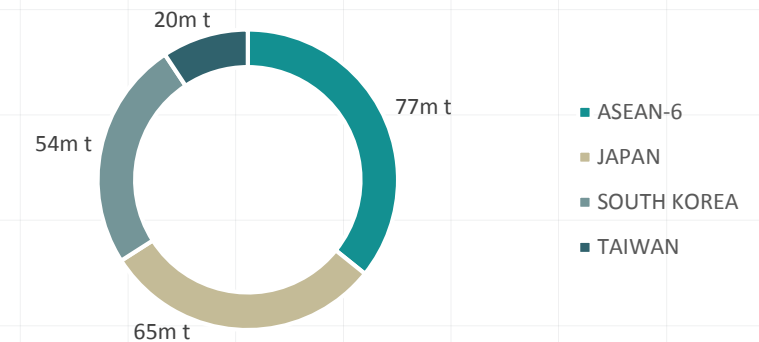
NORTH AMERICA		CENTRAL & SOUTH AMERICA		EUROPE		MIDDLE EAST & AFRICA		ASIA-PACIFIC	
UNITED STATES	CANADA	GT GUATEMALA	AR ARGENTINA	BE BELGIUM	RO ROMANIA	AE UNITED ARAB EMIRATES	CN CHINA	AU AUSTRALIA	
FL FLORIDA	AB ALBERTA	HN HONDURAS	BR BRAZIL	DE GERMANY	RU RUSSIA	SA SAUDI ARABIA	IN INDIA	NZ NEW ZEALAND	
NJ NEW JERSEY		MX MEXICO	CL CHILE	GB GREAT BRITAIN	RS SERBIA		PH PHILIPPINES		
IL ILLINOIS			CO COLOMBIA	IT ITALY	ES SPAIN	MA TN MOROCCO & TUNISIA	SG SINGAPORE		
MI MICHIGAN			EC ECUADOR	LU LUXEMBOURG	CH SWITZERLAND	ZA SOUTH AFRICA	SK SOUTH KOREA		
OK OKLAHOMA			PE PERÙ	MK MACEDONIA	TR TURKEY		TH THAILAND		
TX TEXAS				NO NORWAY	UA UKRAINE		VN VIETNAM		

1. Steel Consumption in SEA

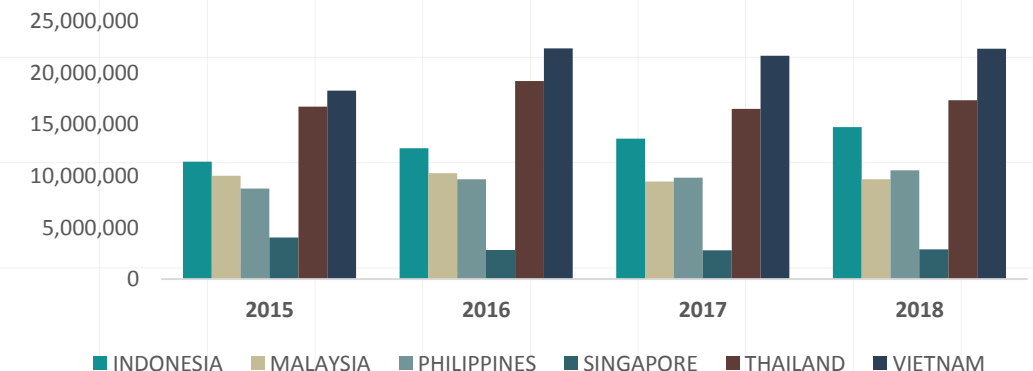
Consumption by Country

- South-East Asia has been one of world drivers for steel consumption growth in the past several years.
- In 2018, ASEAN-6 region steel consumption was about 77m t – bigger than South Korea and Taiwan combined, for the first time.
- In 2018 ASEAN-6 steel consumption growth was +5.5% (World excluding China: +2%), reaching a total growth of +12% in 3 years (World excluding China: +5%).
- Not all countries have been driving such growth:
 - Vietnam was the locomotive with +4.1m t (+23%) over 3 years, followed by Indonesia with +3.4m t (+30%) and the Philippines with +1.8m t (+20%).
 - Malaysia and Thailand have been about stable over the same period.
 - Singapore consumption has shrunk by 1m t (-25%).
- In the medium term, we expect Vietnam and Indonesia to keep leading the steel consumption growth path.
- An average yearly growth of +4% is sustainable in the long term in this region.

2018 Steel Market size comparison (tons)



ASEAN-6 Steel Consumption (tons)

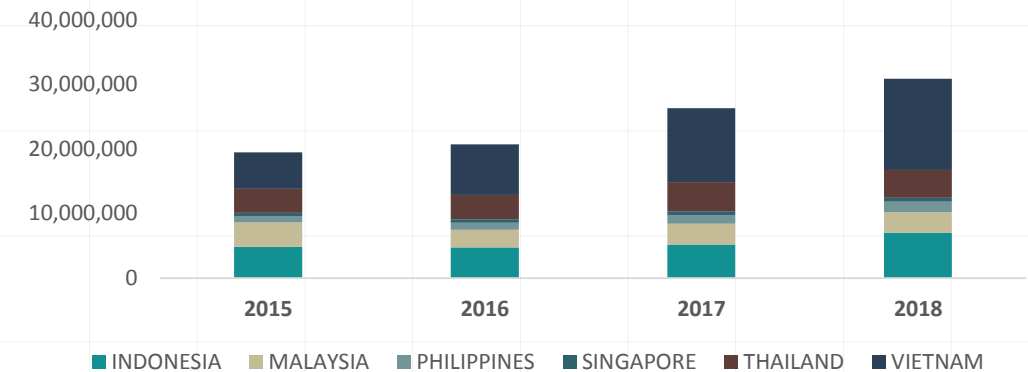


2. Steel Production in SEA

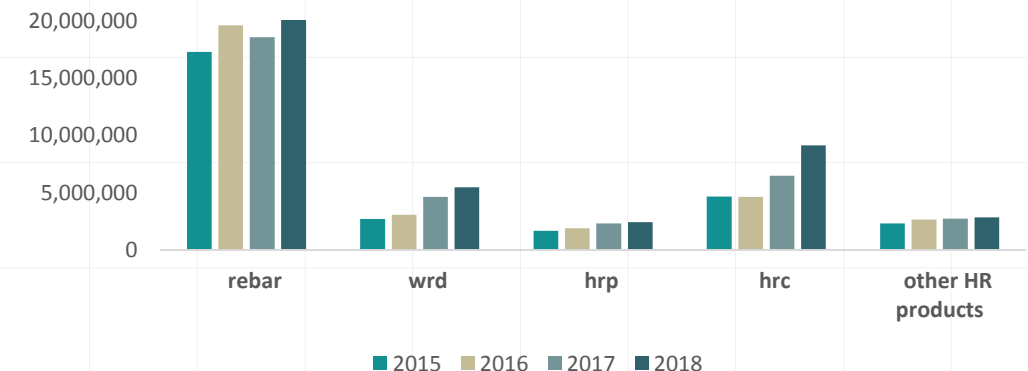
Production

- The ASEAN region crude steel production has grown by over 11m t per year (+60%) over the last 3 years, one of the fastest rates in the world – to 31 m t in 2018. Following the start up of the major projects under construction, by 2020/21 the regional crude steel production may reach up to 50m t.
- The main driver for such change was Vietnam (+7.5m t), followed by Indonesia (+3.5m t). Other countries crude steel production has remained about stable over the period.
- Most of regional production is focused on long products, specifically rebar with 18-20m t per year. By 2020/21, capacity additions will increase the regional rebar production to above 23m t per year.
- The fastest growing product is HRC, passing 9m t in 2018 due to new mills in Vietnam. By 2020/21, capacity additions will increase the regional HRC production to above 13m t per year.

ASEAN-6 Crude Steel production (tons)



ASEAN-6 Hot-Rolled production breakdown (tons)



2. Steel Production in SEA

New Projects

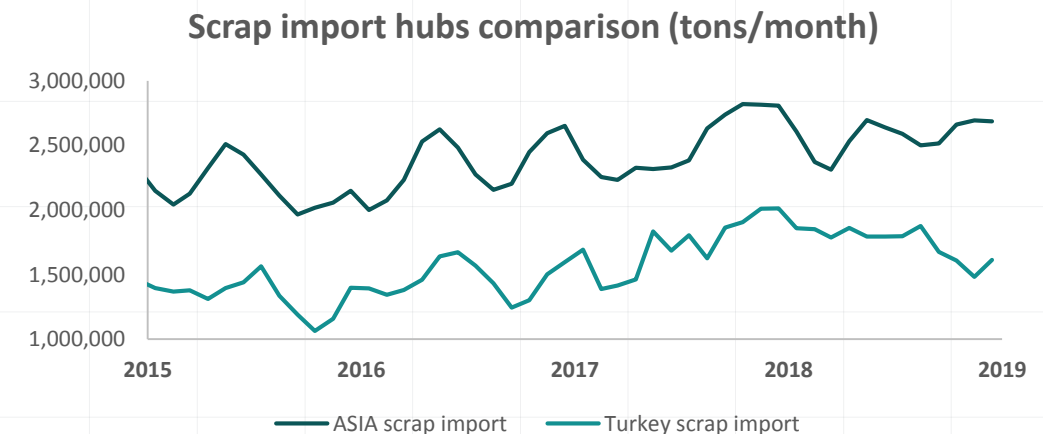
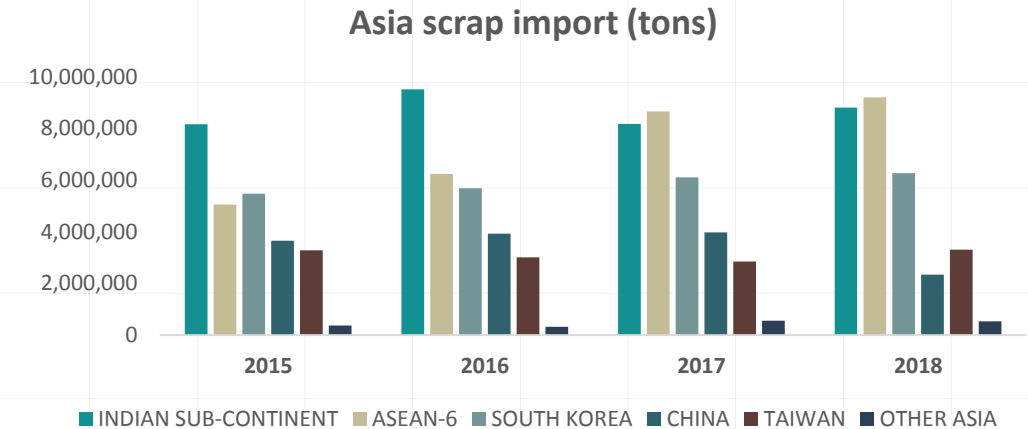
- The combination of demand growth and an import requirement and specialty needs has led to an increase in capacity being built over 2017-21
 - Vietnam – Formosa – 7.5m tpy – HRC (subject to 2-nd BF start up)
 - Vietnam – Hoa Phat – 3.5m tpy – HRC and other products
 - Philippines – Steel Asia – 3m tpy – Billet, Rebar, Wire Rod and Profiles
 - Malaysia – Alliance Steel – 3m tpy – Rebar and Wire Rod
 - Malaysia – Eastern Steel – 2.8m tpy – Billet and Slab
 - Krakatau – Indonesia – 1.5m tpy – HRC
 - Indonesia – Dexin Steel – 3.5m tpy – Slab, Billet, Rebar and Wire Rod
 - Indonesia – Morawali – up to 4m tpy – Billet, Slab, HRC, CRC

- In addition, there is a number of smaller expansions in long and flat product capacity through the region.

2. Steel Production in SEA

Scrap Trade Flow

- With growing production, a significant part being EAF based, Asia has steadily increased the total scrap import volume: in total from 26m t in 2015 to 30.5m t in 2018.
- Looking at details, only ASEAN countries and South Korea have shown an increase in scrap import volumes:
 - ASEAN scrap import volumes +4.1m t in 4 years (+82%)
 - South Korea scrap import volumes t + 0.8m t in 4 years (+14%)
 - The Indian sub-continent had a mixed trend, with a volatile performance of India partially compensated by growth in Bangladesh and Pakistan.
 - China has decreased import volumes by 1.3m t in 4 years (-36%)
- It is interesting to compare Asia with Turkey, which until the middle of 2018 had also kept increasing scrap import volumes in line with Asia, but since the economic crisis in Q3 2018 has drastically slowed purchases. See lower chart.
- This gradually undermines Turkey status as global scrap price maker, while Asia is in the process to pick up that title.

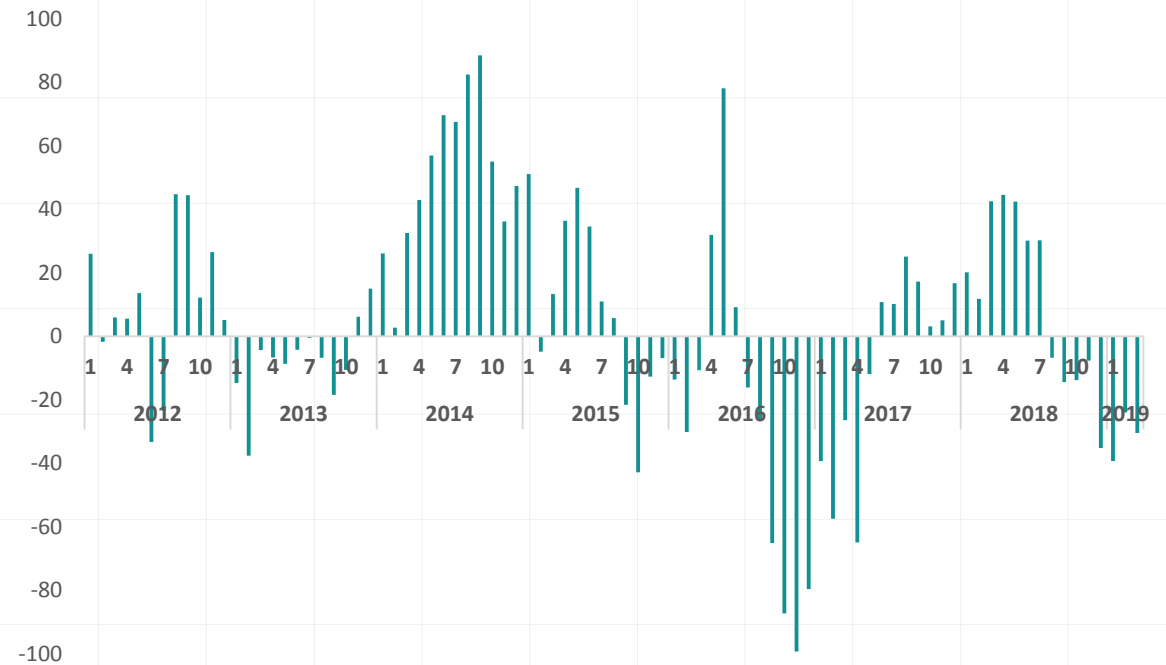


2. Steel Production in SEA

Scrap vs Pig Iron

- Traditionally a significant part of steel production in South East Asia is based on the EAF route – although new projects are mostly integrated mills.
- Since August 2018, when the Turkish Lira collapsed due to structural economic problems exacerbated by political dispute with the USA, international scrap prices have remained subdued compared to Iron Ore and Coking Coal.
- This means in the short term, EAF producers will remain competitive and may have the incentive to maximize production levels.
- We believe Asia will keep growing in importance within the international scrap market and will become the major global scrap trading hub within the next few years.

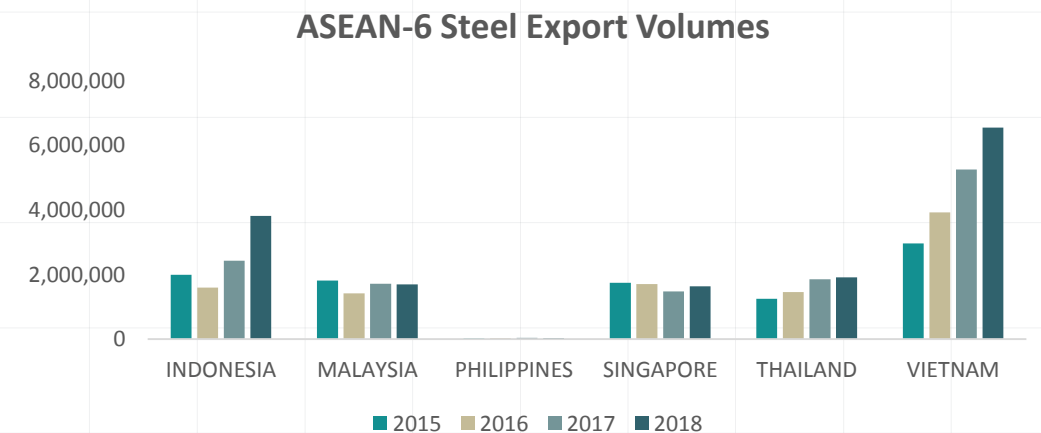
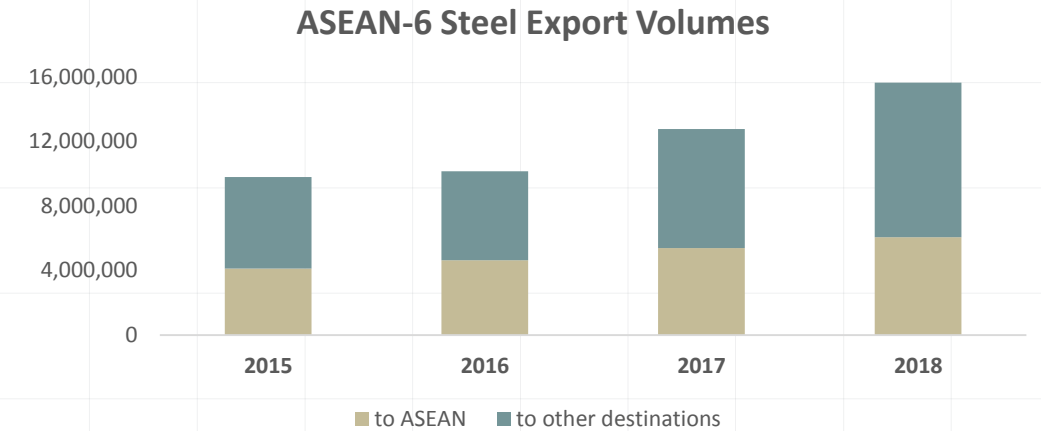
Scrap price evaluation vs. Pig Iron production cost (USD/t)



3. Trade Flows in SEA

SEA Export

- Following the increase of local steel production, steel export volumes from ASEAN countries have grown very rapidly between 2015 and 2018: from 9.8m t in 2015 to 15.6m t in 2018. See upper chart.
- Export volumes to other ASEAN countries have increased, but not as much as export volumes to outside of the region:
 - Intra-ASEAN volumes have moved up by 30% (from 4.1 to 6m tpy).
 - ASEAN exports to other regions have moved up by 74% (from 5.7m t to 9.6m tpy). Note: about 1m t per year of Vietnamese steel goes to the USA.
- Only two countries are driving the increase in export volumes. See lower chart:
 - Indonesia (from 1.6m t in 2016 to 3.8m t in 2018), and
 - Vietnam (from 3.2m t in 2016 to 6.5m t in 2018)
- Challenges for this trend to continue: possible new import barriers in the USA.
- Strategic advantages: duty advantage for exports to the fast growing steel market of India (1m t exported in 2018, growing trend).

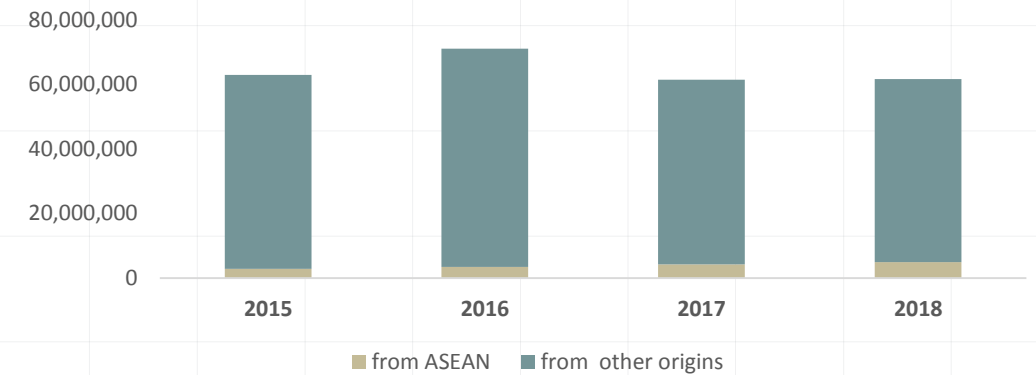


3. Trade Flows in SEA

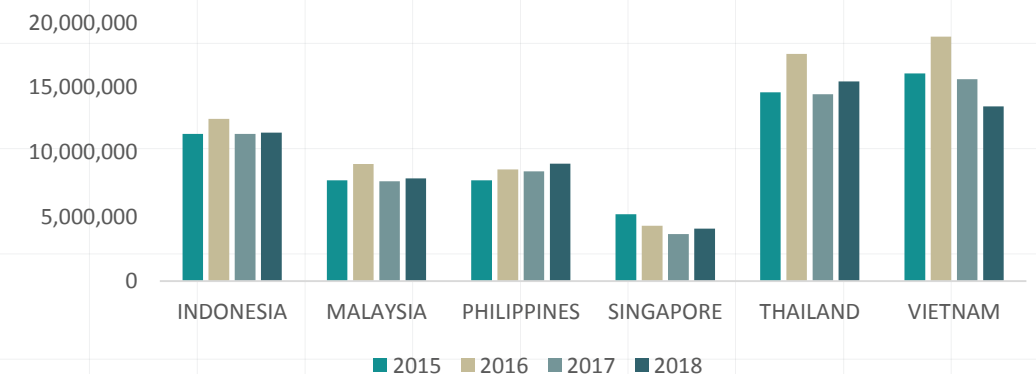
SEA Import

- Import volumes which have peaked at 71m t per year, have stabilized at around 60m t per year in 2017 and 2018.
- Meanwhile import volumes from within the ASEAN region have kept increasing from 2.9m t in 2015 to 4.9m t in 2018, with interregional import share growing from 4.5% to 8% over the same period.
- This shows the ASEAN steel import market remains very much dependent upon international supply, and it is too early to call for a broad regionalization.
- The country showing the biggest swing in import is Vietnam, due to the major increase of domestic production which has substituted part of import volumes starting from 2017.

ASEAN-6 Steel Import Volumes



ASEAN-6 Steel Import Volumes

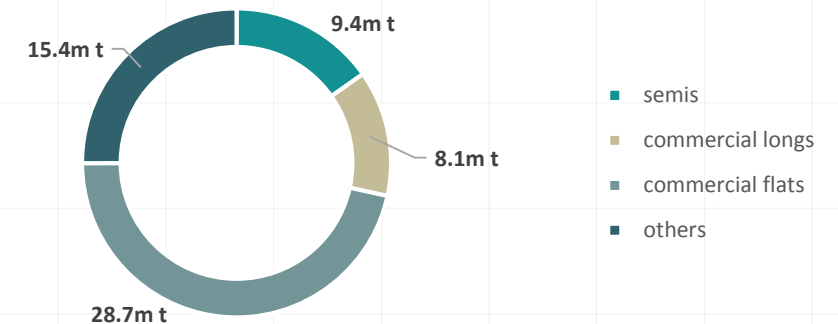


3. Trade Flows in SEA

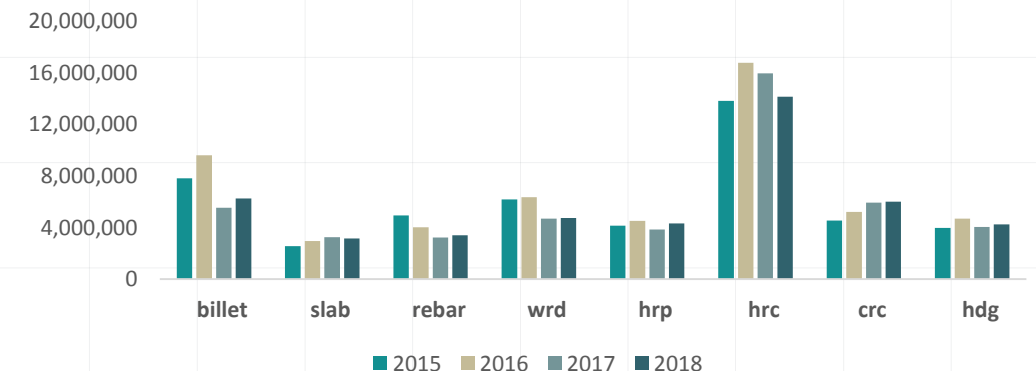
SEA Import – Product Breakdown

- ASEAN countries import structure has not changed very much in the last 4 years. Trend is for an increase of Flat products share vs. a decrease of Long products and semis.
- HRC is by far the biggest product, accounting for about 15m t per year.
- The most important regional trade flow dynamics are :
 - Billet volumes are one of main swing factors, defined mainly by international billet price competitiveness compared to scrap prices, as most domestic production is based on EAF.
 - Rebar and Wire Rod follow the same logic as billet, although to a smaller extent as more markets are protected.
 - HRC volumes have been swinging due to the increase of domestic production capacity in Vietnam.
 - CRC volumes have been growing constantly due to demand trend.

ASEAN-6 import structure in 2018



ASEAN-6 import / main products (tons)

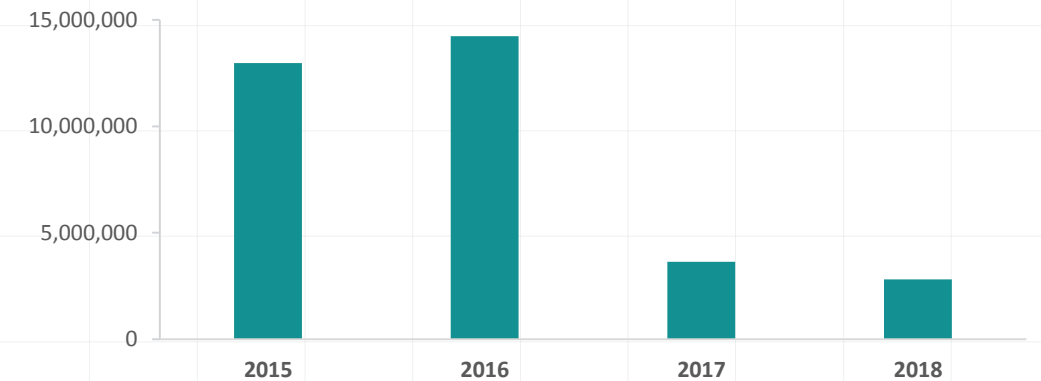


3. Trade Flows in SEA

China Export / Long Products

- During the last 2 years, China has lost competitiveness in the international market of Billet and commercial Long Products. See lower chart: the Turkish export benchmark has moved from 50 USD/t higher to 50 USD/t lower than Chinese domestic prices.
- As a result, Chinese export volumes of billet and commercial Long Products have decrease dramatically since 2016. South-East Asia used to be a major importer of this material and has lost the biggest part of volumes: from 14m tpy in 2016 down to 3m tpy in 2018. See upper chart.
- The reason is a combination of:
 - Higher demand in China for long products due to a stimulated construction industry
 - Lower capacity for long products production in China due various government policies, targeting Long Products producers more than Flat Products producers.
- Can this trend be reversed ? Only when Chinese steel consumption peaks and starts shrinking.

China export to ASEAN / Billet and rebar (tons)



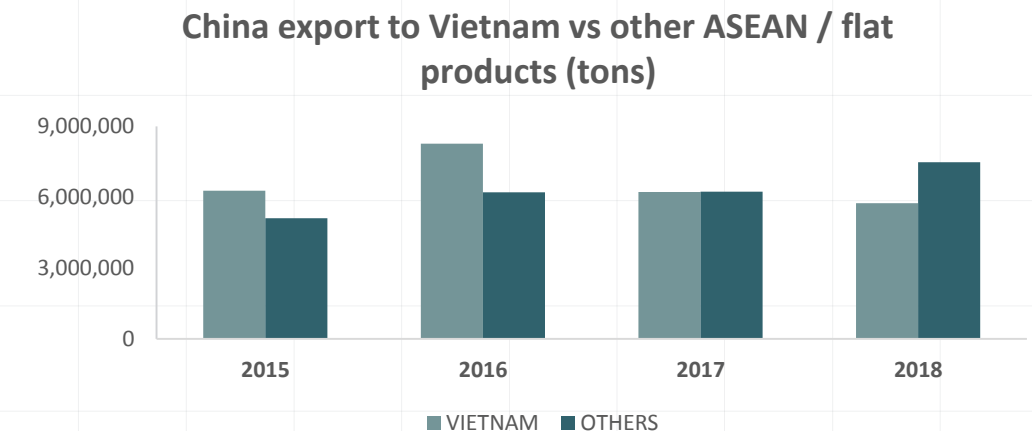
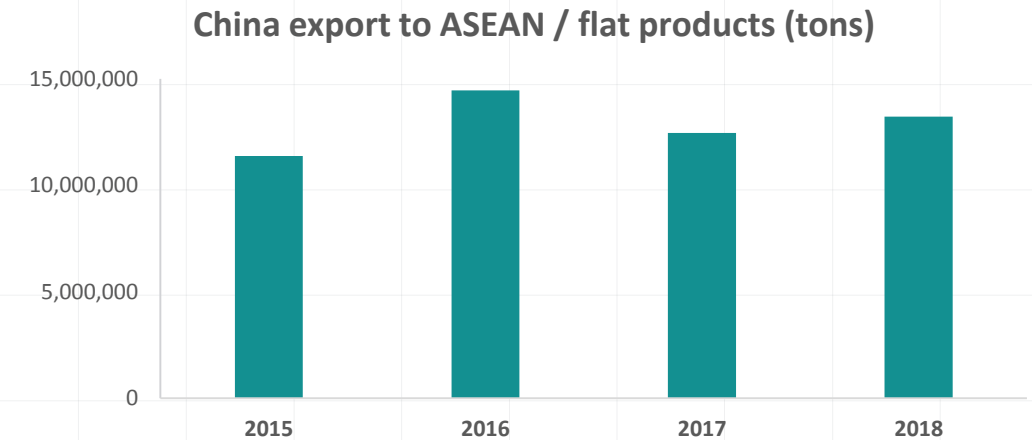
Price spread / Rebar FOB Turkey vs China export parity (USD/t)



3. Trade Flows in SEA

China Export / Flat Products

- Differently from Long Products, Chinese Flat Products exports have remained broadly stable over the last few years – the only significant factor being trade barriers in specific markets.
- Chinese export volumes of Flat Products remained stable also in South-East Asia. See upper chart.
- The only country in South-East Asia that has seen lower Flat Products import volumes from China during the last 2 years is Vietnam. See lower chart.
- Vietnam is the biggest importer of Chinese material within the ASEAN region, taking as much material as all other countries combined.
- With the continuous increase of domestic production, Vietnam will decrease further import dependency, first of all upon Chinese commercial products.

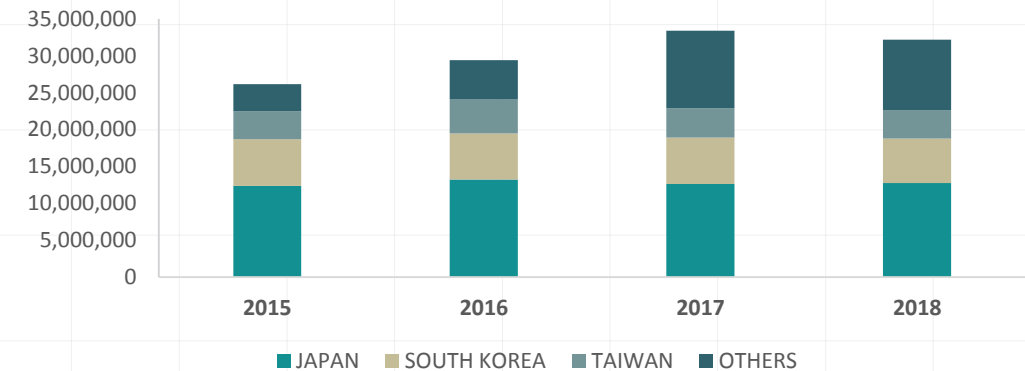


3. Trade Flows in SEA

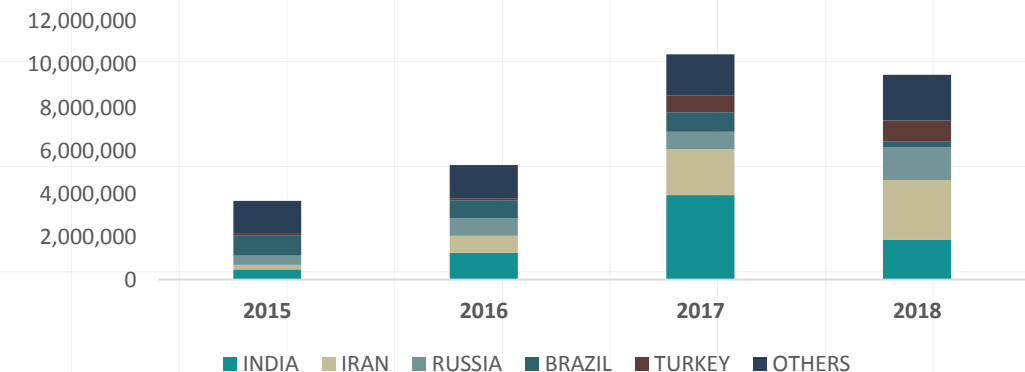
Other Exporters

- Besides China, other countries export to SEA has been growing until 2017, then stabilized in 2018. See upper chart.
- Top 3 exporters remain Japan, South Korea and Taiwan capitalizing on high product quality, J.V. approach and long term relationships with regional customers. However, their volumes have been actually shrinking slowly since 2016.
- Among other origins, it is noteworthy:
 - The volatility of volumes from India, which has a very dynamic domestic market swinging above and below the international price level;
 - The rise of volumes from Turkey and CIS, following the increase of competitiveness vs. Chinese origin.
 - The rise of Semi-Finished Products of Iranian origin, following the lift of sanctions in January 2016.
- China, Japan, South Korea and Taiwan are mostly exporting Flat Products to the region. Other countries are mostly exporting Long Products and Semi-Finished Products.

ASEAN import origins, excluding China (tons)



ASEAN import origins, excluding Top 4 (tons)



4. Conclusion

Summary

- Average consumption growth of +4% per year. Same trend to continue at least in the medium term.
- Production increase of 11m t per year since 2015. With several green field projects in the pipeline may add another 20m t within 2021, making South-East Asia one of fastest growing steel production regions in the world.
- Regionalization (intra-ASEAN) of import flow is still not a big factor for the region. Substitution of import has so far been coming rather from domestic production of each country.
- China, Japan, South Korea, Taiwan to remain primary origins for Flat Products at least in the Medium term. However, these countries will need to compete to the new capacities in Vietnam, Indonesia and, possibly, other countries of the region.
- In the short term, competitive scrap prices are a positive factor for the local steel industry where a significant part of existing plants is EAF based. New projects are mostly integrated mills, which will reduce the dependency upon scrap market competitiveness.
- SEA is to keep the status of swing market for long products: domestic production against imports from CIS, Middle East, Turkey.
- Challenges to South-East Asia steel industry
 - Short term: possible new import barriers in the USA targeting Vietnam exports.
 - Longer term: China is to try to come back to the Long Products market in some years creating a serious price pressure.



STRENGTH BEYOND BORDERS