Atradius
Managing risk, enabling trade

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market monitor

Focus on steel and metals performance and outlook

Disclaimer

In this issue...

On the following pages we indicate the general outlook for each sector featured using these symbols:

Excellent Good Fair Poor Bleak

Tougher times ahead

The World Steel Association (WSA) forecasts that apparent steel use is expected to increase only 0.5% in 2015, after a subdued 0.6% growth rate in 2014. The main reason for this is the economic slowdown in China, the world´s largest producer and consumer of steel, where steel use is forecast to decrease further in 2015 and 2016. At the same time, Chinese exports have been increasing, which led to lower prices and reduced earnings for many steel businesses globally.

Overcapacity is an ever increasing issue for many steel producers and traders in the markets covered in this Market Monitor issue. Despite lower iron ore prices, companies find themselves in a fierce global competitive environment, in which the persistent pressure on steel prices is hindering profitability and affecting profit margins. The European steel industry is facing tighter environmental standards to be imposed by the European Union. At the same time, steel plants in North America are negatively affected by a sharp decline in investments made by the energy sector due to the lower oil price.

Germany

- Decreasing steel prices are a major issue
- Increasing competition from China
- Payments take between 30-45 days

Overview

Credit risk assessment	significantly improving	improving	stable	deteriorating	significantly deteriorating
Trend in non-payments over the last 6 months			✔		
Development of non-payments over the coming 6 months			✔		
Trend in insolvencies over the last 6 months			✔		
Development of insolvencies over the coming 6 months			✔		
Financing conditions	very high	high	average	low	very low
Dependence on bank finance			✔		
Overall indebtedness of the sector			✔		
Willingness of banks to provide credit to this sector			✔		
Business conditions	significantly improving	improving	stable	deteriorating	significantly deteriorating
Profit margins: general trend over the last 12 months				✔	
General demand situation (sales)			✔		

Source: Atradius

The German steel and metals sector (with its main subsectors metals manufacturing, wholesale of metals and ores, iron and steel) is heavily dependent on the overall development of the German economy, especially on the performance of construction and the export-oriented sectors such as mechanical engineering and automotive manufacturing.

In 2014, Germany´s steel production reached 42.9 million tonnes of crude steel, which is about the same level as in 2013. According to the German Steel Association, German steel production increased 1.5% year-on-year in the period January-June 2015, and orders increased in Q1 of 2015. However, order income and order backlog were mainly driven by orders from abroad, while domestic order income and backlog decreased 3.8% and 5.3% respectively. Apparent steel use is expected to grow 2.1% in 2015. Despite increasing orders and production, German steel producers and distributors are facing some structural challenges. In 2014, steel prices decreased 10% and continued to decline further into 2015, mainly due to global overcapacity (especially in China). Another reason is the growth in imports from foreign competitors, which continues to have a negative effect on the turnover of businesses. In many cases producers are unable to pass on increased production costs. Margins remain under pressure, and net profits have dropped as imports from China and India hit the European steel industry (Chinese steel exports increased 28% year-on-year in H1 of 2015).

Moreover, the German steel and metals sector is heavily affected by high energy costs. Additional annual expenses of EUR 1 billion to 1.5 billion, brought by the decision to abandon nuclear energy in Germany, are expected for the whole sector.

While profit margins are shrinking, the general equity and liquidity of steel businesses in Germany are better than the manufacturing industry average, except for small wholesalers without pre-fabrication and/or steel service activities.

Germany: Metals sector

	2014	2015f	2016f
GDP growth (%)	1.6	1.7	2.1
Sector value added growth (%)	2.2	-0.4	0.6

Sector share in the national economy (%)	0.8
Average sector growth over the past 3 years (%)	0.0
Average sector growth over the past 5 years (%)	-0.7
Degree of export orientation	high
Degree of competition	high

Sources: IHS, Atradius

The German steel sector remains resilient with a competitive edge, due to its high technology products. We have seen no change in the payment behaviour of companies in the steel and metals sector over the past couple of months, with payments taking, on average, between 30 and 45 days. The number of non-payment notifications in the last six months has been stable and we do not expect an increase in payment delays throughout the rest of 2015. Overdue payment days have decreased in H1 of 2015 compared to H1 of 2014. We also expect steel insolvencies to level off or to decrease slightly in the short-to-medium term (down by about 4% year-on-year in 2015), in line with the overall trend in German business insolvencies.

That said, the steel/metals trade and pipe manufacturing segments face more troubles than other subsectors. The market is difficult due to strong competition and low margins; especially for small steel/metals dealers without additional business like prefabrication and low equity ratios. Sooner or later market adjustments will have to take place. The same applies for the piping business, which is characterised by overcapacity and strong international competition (especially from Italy). Margins are very weak and some companies even accept losses in order to gain orders. The sector suffers from decreased oil prices which led to many oil and gas exploitation and pipeline projects being postponed.

Our customers' demand for credit approvals in this sector has been high for a couple of years, and in general our underwriting policy remains fairly relaxed. We pay particular attention to recent financial information (balance sheets, interim figures, bank status, payment terms, duration of contract, order volume, payment behaviour).

However, we remain more cautious about steel companies supplying the automotive industry. This subsector is traditionally very competitive and, because it is sandwiched between steel producers and car industry buyers, it suffers from considerable pressure on payment terms and margins. The same goes for non-ferrous metals producers and processors, which have to cope with volatile price development and a need for stock reduction. Additionally, our underwriting stance is more restrictive on smaller steel traders and pipe manufacturers due to the on-going problems in those segments.

German steel/metals sector

Strengths	Broad range of customer industries and export destinations
	High quality/niche products
	High technology level compared to other competitors
Weaknesses	High energy costs
	High competition, increased by imports from China
	High dependency on raw materials
	Increasing overcapacity with pressure on margins

Source: Atradius

India

- Steel consumption expected to increase further
- Increasing steel imports hurt local producers
- Payments take between 60 and 90 days on average

Overview

Credit risk assessment	significantly improving	improving	stable	deteriorating	significantly deteriorating
Trend in non-payments over the last 6 months			✔		
Development of non-payments over the coming 6 months			✔		
Trend in insolvencies over the last 6 months			✔		
Development of insolvencies over the coming 6 months			✔		
Financing conditions	**very high**	**high**	**average**	**low**	**very low**
Dependence on bank finance		✔			
Overall indebtedness of the sector		✔			
Willingness of banks to provide credit to this sector			✔		
Business conditions	**significantly improving**	**improving**	**stable**	**deteriorating**	**significantly deteriorating**
Profit margins: general trend over the last 12 months				✔	
General demand situation (sales)			✔		

Source: Atradius

According to the Joint Plant Committee (a unit set up by the Indian Ministry of Steel), in fiscal year 2013-2014 (in India the financial year runs from 1 April to 31 March) India's steel production increased 7.9% year-on-year, to 88.12 million tonnes. The integrated steel plants (SAIL, RINL, TSL, Essar Steel, JSW Steel and JSPL) together produced 45.3 million tonnes in fiscal year 2014-2015 (up 2.4%) while other producers accounted for 42.8 million tonnes (up 14.3%). Real consumption of steel increased 3.1%, to 76.3 million tonnes. Despite the increase in steel output, imports surged 71% to a record 9.32 million tonnes, with India becoming a net importer of total finished steel.

India's steel imports increased further in Q2 of 2015, by more than 53%, indicating that domestic producers continue to face pressure from cheap inbound shipments, mainly from China, Japan and South Korea. This has brought down capacity utilisation levels of domestic producers to about 80% and has eaten into the market share of established Indian companies, putting pressure on the balance sheets of hundreds of Indian steel companies. In order to stem rising imports, in June 2015 the Indian government raised basic customs duties on some long and flat steel products by 2.5%, to 7.5% and 10% respectively. Additionally, anti-dumping duties of up to USD 316 per tonne on imports of single steel products from certain countries, including China, were also imposed.

International iron ore prices have sharply decreased, mainly due to weaker demand from China and capacity expansions by large global mining companies in the past. However, India's domestic iron ore prices have remained stable, reflecting the continuing short supply situation in the country despite lifting bans for mines in Karnataka and Goa. Large Indian steel players will con-

India: Metals sector

	2014	2015f	2016f
GDP growth (%)	7.4	7.6	8.1
Sector value added growth (%)	10.1	8.1	7.4

Sector share in the national economy (%)	1.8
Average sector growth over the past 3 years (%)	6.4
Average sector growth over the past 5 years (%)	7.9
Degree of export orientation	medium
Degree of competition	high

Sources: IHS, Atradius

tinue to import iron ore, given the steep decline in international prices and economies of scale associated with bulk imports. However, smaller players could find it more difficult to import at large scale. Therefore, their capacity utilisation is expected to remain affected in the near term.

Major challenges for the Indian steel and metal industry remain land acquisition issues in setting up greenfield projects, delays in environmental clearances for mining activities, logistics support and external financing at competitive conditions. Some of the top 10 private steel producing companies currently face severe problems due to delayed implementation of their projects – caused by land acquisition and environmental clearance issues.

India's steel consumption is expected to grow 7% in the fiscal year 2015-2016 on the back of increasing economic growth. At the same time, steel supply is expected to increase 10%. As a result, capacity utilisation may fall below 78%. Adding to the domestic steel industry woes the trend of rapidly increasing steel imports is expected to continue into 2016, despite the measures taken by the administration to curb them.

The Indian government plans to achieve the target of 300 million tonnes of annual steel production by 2025. To reach this target, Delhi has set up the Steel Research & Technology Mission of India (SRTMI) in order to promote collaborative research programmes and to enhance competitiveness, quality, R&D and production capacities. SRTMI is being promoted as the steel industry's contribution to the 'Make in India' initiative.

On average, payment periods in the Indian steel/metals industry have remained unchanged since last year, taking between 60 and 90 days. We have received just a few credit insurance claims in the last three years and, based on our experience to date, we do not plan any imminent major change in our underwriting approach as we do not expect any major increase in payment delays or insolvencies. Nevertheless, we remain prudent in underwriting this sector. To accurately assess credit limit applications we always require up-to-date financial information and, more importantly, details of up-to-date trading experience with buyers in order to assess actual requirements and monitor any changes in payment behaviour. We also assess the strength of the customer/buyer relationship.

Indian steel/metals sector

Strengths

- Increased infrastructure spending expected
- Increasing pace of urbanisation and industrialisation
- Relatively low capital and labour costs

Weaknesses

- Cheaper imports from China and other countries
- Regulatory hurdles hamper iron ore mining
- Land acquisition and environmental clearance issues
- Infrastructure constraints

Source: Atradius

Italy

- **Still no major rebound in 2015**
- **Mergers and integrations to help the sector**
- **Payments take 90 days on average**

Overview

Credit risk assessment	significantly improving	improving	stable	deteriorating	significantly deteriorating
Trend in non-payments over the last 6 months		✔			
Development of non-payments over the coming 6 months			✔		
Trend in insolvencies over the last 6 months		✔			
Development of insolvencies over the coming 6 months			✔		
Financing conditions	very high	high	average	low	very low
Dependence on bank finance		✔			
Overall indebtedness of the sector		✔			
Willingness of banks to provide credit to this sector				✔	
Business conditions	significantly improving	improving	stable	deteriorating	significantly deteriorating
Profit margins: general trend over the last 12 months			✔		
General demand situation (sales)			✔		

Source: Atradius

For the Italian economy the metals, and in particular, the steel industry are of major importance, accounting for about 2% of GDP, with an estimated value of EUR 34 billion. The steel sector suffered from massive production and consumption decreases in 2012 and 2013, and this negative trend continued in 2014. According to the Federation of Italian Steel Industries Federacciai, in 2014 domestic production decreased 1.6%, and this downturn continued in H1 of 2015, affecting flat as well as long steel products. All businesses along the value chain, from steel mills to service centres and wholesalers, are impacted by still subdued domestic demand for steel.

Among the two steel mills operating with traditional blast furnaces, the biggest one, Ilva, responsible for one third of domestic steel output and Europe´s biggest in terms of output capacity, has been run by a government-appointed commissioner since 2013, after it was accused of failing to contain toxic emissions. In January 2015, the Italian government took full control of the steel mill, which is now operating well below full capacity. Italy´s second largest steelmaker Lucchini, declared insolvent in 2012 and placed into special administration, has been sold to the Algerian conglomerate Cevital. Production in Lucchini's plant is expected to restart in the coming months.

Smaller mills operating with electric furnaces are struggling with poor operating margins driven by flat demand and lower sales prices. However, scrap prices are expected to continue to decrease in the coming months due to weak demand.

The Italian steel distributor and service centre segments are characterised by a large number of relatively small companies . After two years of sharply increasing insolvencies, this subsector is on the verge of stabilising due to vertical or horizontal integrations. In the flat steel product segment, the service centres of CLN and ArcelorMittal have merged into a joint venture, ArcelorMittal CLN Distribuzione Italia. Together with Ilva, Marcegaglia and Gabrielli,

Italy: Metals sector

	2014	2015f	2016f
GDP growth (%)	-0.4	0.6	0.9
Sector value added growth (%)	4.2	-0.3	1.9

Sector share in the national economy (%)	0.6
Average sector growth over the past 3 years (%)	-4.2
Average sector growth over the past 5 years (%)	6.7
Degree of export orientation	low
Degree of competition	high

Sources: IHS, Atradius

it will control more than half of the volume of flat steel products in Italy. Additionally, Feralpi has acquired a 48% share in Presider SpA and Metallurgica Piemontese Lavorazioni. Both companies supply and install steel scaffolding for reinforced concrete and all related civil construction products, and represent an example of vertical integration.

The outlook for the Italian steel industry remains subdued, despite a modest rebound of the economy in 2015. The sector´s future performance is highly connected to the future of Ilva, which is by far the largest steel producer, having great influence in defining domestic market prices.

With some success, steel and metal manufacturers have tried to expand export activities in order to compensate for depressed domestic markets. However, the export of long products is mostly destined for Algeria, whose market is expected to mature within the next 4-5 years.

Due to the on-going problems in this industry our underwriting stance remains generally cautious. However, given a decreasing claims trend we are currently more open to new cover than in previous years. While we remain more restrictive in the (mainly construction-related) long products segment and for wholesalers, we are willing to develop business in the special steel and mechanics segment.

Italian steel/metals sector

Strengths	Flexible production
	Export oriented
	Consolidation in certain sectors
Weaknesses	Weak domestic demand
	Market remains quite fragmented
	High dependence on construction

Source: Atradius

Poland

- **Rebound driven by construction recovery**
- **Increased foreign competition affects margins**
- **Still some subsectors with problems**

Overview

Credit risk assessment	significantly improving	improving	stable	deteriorating	significantly deteriorating
Trend in non-payments over the last 6 months		✔			
Development of non-payments over the coming 6 months			✔		
Trend in insolvencies over the last 6 months			✔		
Development of insolvencies over the coming 6 months		✔			
Financing conditions	**very high**	**high**	**average**	**low**	**very low**
Dependence on bank finance		✔			
Overall indebtedness of the sector		✔			
Willingness of banks to provide credit to this sector			✔		
Business conditions	**significantly improving**	**improving**	**stable**	**deteriorating**	**significantly deteriorating**
Profit margins: general trend over the last 12 months			✔		
General demand situation (sales)		✔			

Source: Atradius

Poland is the fourth largest steel producer in the EU and 19th largest globally. Domestic steel production is dominated by large global players like ArcelorMittal. Along the value chain, between mills and final consumers of steel, (construction, automotive, household appliance sectors) there are a lot of specialised manufacturers and distributors which process steel and metal goods for final use.

After two years of decreasing demand, the steel/metals market started to rebound in 2014, mainly due to a recovery in construction activity, with lots of new projects started. In the residential buildings segment, many new blocks of flats and offices are currently being built.

At the same time, major public investment projects using EU funds have started or are about to be launched, mainly to improve railways, roads and to renovate pipelines. Steel and metals demand will also be supported by an expected surge in car production, e.g. Volkswagen (VW) is currently building a new factory in Poland to produce the VW Crafter.

Domestic steel production increased 8% in 2014, to 8.6 million tonnes, while steel consumption increased 17%, to 12.2 million tonnes. In H1 of 2015, Polish mills manufactured 4.9 million tonnes of steel, a year-on-year increase of 17%.

That said, competition in the Polish market is fierce, especially in the steel and metals distribution segment as increased imports from Eastern European and Asian competitors can affect profit margins of Polish businesses. The costs of complying with high EU environmental standards put Polish producers at a disadvantage to non-EU producers. Polish steel/metals businesses benefit from some preferential treatment: e.g. for pipeline tenders there is often the precondition that a minimum of 50% of materials used (pipes) should be produced in the EU. At the same time, the Polish government announced lower electricity excise duties

Poland: Metals sector

	2014	2015f	2016f
GDP growth (%)	3.4	3.5	3.8
Sector value added growth (%)	6.5	11.4	5.6

Sector share in the national economy (%)	0.6
Average sector growth over the past 3 years (%)	0.5
Average sector growth over the past 5 years (%)	5.6
Degree of export orientation	low
Degree of competition	high

Sources: IHS, Atradius

for industries with high consumption, including the steel sector.

Access to bank financing remains somehow restrained for Polish steel/metals businesses, but has improved lately. While the level of protracted payments is still high in the industry, no increase in non-payments is expected in the coming months. Insolvencies are expected to decrease due to the currently more benign business environment. Weaker players left the market in previous crisis years and it seems that the surviving businesses are financially more resilient.

While our underwriting stance was generally restrictive in previous years, we have partly relaxed this stance since H1 of 2014 to cautious, given the rebound of the steel and metals sectors. However, we are still more restrictive on steel and metals businesses involved in railway tenders (due to payment backlogs) and the mining industry (due liquidity troubles in this segment). In the steel service subsector, caution is advised as businesses´ margins have significantly deteriorated over the last couple of years. Generally, we demand a third-party guarantee on buyer companies which have only been active for one or two years.

Polish steel/metals sector

Strengths	Major investments in infrastructure
	Robust economic performance in Poland
Weaknesses	High dependence on construction
	Strong competition from Eastern Europe and Asia

Source: Atradius

United Kingdom

- Lower construction growth and overcapacity affect the sector
- Payments take 60 days on average
- Improved outlook for 2016

Overview

Credit risk assessment	significantly improving	improving	stable	deteriorating	significantly deteriorating
Trend in non-payments over the last 6 months			✔		
Development of non-payments over the coming 6 months			✔		
Trend in insolvencies over the last 6 months			✔		
Development of insolvencies over the coming 6 months			✔		
Financing conditions	**very high**	**high**	**average**	**low**	**very low**
Dependence on bank finance	✔				
Overall indebtedness of the sector	✔				
Willingness of banks to provide credit to this sector		✔			
Business conditions	**significantly improving**	**improving**	**stable**	**deteriorating**	**significantly deteriorating**
Profit margins: general trend over the last 12 months				✔	
General demand situation (sales)				✔	

Source: Atradius

The British steel and metals industry has benefited from the UK economic rebound, but recently it has been affected by subdued performance of the construction sector, which is a main consumer of steel. Additionally, exchange rate volatility, high energy costs, competition and on-going austerity measures continue to weigh on the performance and financial strength of steel and metals businesses.

Decreased steel prices and overcapacity in the market (mainly due to the slowdown in Chinese economic growth) have impaired revenues, margins, profits and cash flow for many businesses. Consequently, in a bid to mitigate liquidity risks, cost cutting programmes and vigilant cost management strategies have been implemented and inventories are being unwound and non-core assets disposed of. However, while cost containment measures have been the industry´s main response to overcapacity so far, this could turn out to be just a short-term remedy. Maintaining margins through cost reduction and focusing on high-end products should not be seen as an ultimate solution to structural problems.

That said, many businesses have already invested in new technologies, such as laser cutting and detailed integrity scanners in order to gain competitive advantages. In the steel and metals industry the ability of businesses to process products efficiently is a major asset.

The balance sheets of steel and metals businesses are often dominated by a mixture of tangible assets in the form of property and machinery and debtor books, upon which finance can be raised. The main source of working capital funding within the sector remains invoice discounting facilities, given the nature of the debtor books. This has allowed businesses to increase their facility when and while they are growing. The UK banking sector faces increased scrutiny from the UK government to lend to businesses in an attempt to bolster economic growth. We should be

United Kingdom: Metals sector

	2014	2015f	2016f
GDP growth (%)	3.0	2.6	2.6
Sector value added growth (%)	0.2	0.7	1.3

Sector share in the national economy (%)	0.2
Average sector growth over the past 3 years (%)	1.3
Average sector growth over the past 5 years (%)	2.4
Degree of export orientation	low
Degree of competition	high

Sources: IHS, Atradius

mindful of the fact that many steel businesses are viable banking propositions given the profile of the asset base. The availability of liquidity within the industry has aided a rather benign insolvency development.

After a challenging start of 2015, the outlook for the British steel and metals industry for the second half of 2015 remains volatile, with on-going uncertainty arising from Eurozone austerity and further slowing of Chinese growth being constant risk factors.

However, looking further ahead into early 2016, there is some optimism that sector performance will improve on the back of increasing volumes. While growth in the new housing sector has a low impact on the industry (there is low demand for steel and metals in this segment), expected growth in the non-residential building and infrastructure segments should help the sector. At this stage, access to additional financing will be key for the growth of steel and metals businesses (especially for service centres) in order to re-stock and meet the anticipated rise in demand.

The average payment duration in the UK steel and metals industry is 60 days. Despite the current challenges, payment delays are not expected to increase for the time being. Insolvencies are not expected to increase in 2015, as the volume of UK steel consumption is still rising. However, caution is advised due to the still fragile nature of the sector, which can lead to unexpected failures.

Our underwriting approach remains selective, as market conditions are unstable and the potential volatility of a rebound should not be underestimated. However, we continue to underwrite positively on acceptable risks. While our underwriting strategy is largely on a case-by-case basis, over the last few years, we have adopted a comprehensive understanding of the sector and the prevailing issues. As such, we have further developed relationships with many of the buyers in our portfolio, allowing us to obtain non-publicly available information in order to review current commitments as well as to consider new limit applications on a fully informed basis. The role of credit insurance within the industry has a long-standing history and, as such, the value of credit insurance is well respected.

British steel/metals sector

Strengths	Investment in new technologies
	Abundant access to external finance
Weaknesses	Decreasing profit margins
	High dependence on construction

Source: Atradius

Market performance snapshots

Mexico

- Steel consumption picked up again due to demand from the automotive sector
- Payments take between 90-120 days on average
- Exchange rate volatility expected to cause payment delays

Mexico´s domestic production of crude steel increased 4.1% year-on-year in 2014, to 18.99 million tonnes, while apparent steel use increased 12.2%. Steel imports grew 19.5%, reaching 12.4 million tonnes, mainly in Japan, South Korea and China. In contrast, steel exports decreased 3.6%, to 5.8 million tonnes, causing a steel trade deficit.

In 2014 and in H1 of 2015 domestic steel demand has been driven by strong growth in the automotive industry (both car makers and car part manufacturers) as well as by a robust performance in the pipeline installation segment. This has offset weaker performance of the construction sector, which has recorded a modest recovery since Q2 of 2015; especially in the infrastructure segment (due to higher government spending). This upturn is encouraging but still not entirely satisfactory, since construction performance was subdued for a long period.

On average, payments in the Mexican steel and metals industry take 90 to 120 days. The record of payment delays and insolvencies in this sector has been stable over the last six months. However, non-payment notifications are expected to increase in the coming months, due to deprecation of the peso against the dollar, making imports more expensive.

External risk factors for the Mexican steel industry are the volatility of international metals prices, rising uncertainty concerning Chinese economic performance and oil price developments. Domestically, government investment plans in projects resulting from the recent energy reform to infrastructure remain susceptible to change.

As in 2014 our underwriting stance remains cautious, given potential exchange rate and steel price volatility that could adversely affect production costs, and the growth in imports that could harm domestic production.

To accurately assess a credit limit application in this sector, we currently ask for audited financial statements for the year 2014. If those are not yet available, we could consider year-end 2014 management accounts signed by a company director, together with the most current financial information. Some underwriting cases can be supported by trading experience and/or guarantees or promissory notes (pagarés).

Turkey

- Sector suffers from high inventories
- Increases in late payments and insolvencies
- Our underwriting stance is cautious

Turkey's crude steel production capacity increased 1.9% year-on-year in 2014, to 50.2 million tonnes, retaining its position as the world's eighth-largest crude steel producer. However, production decreased 8.8% in Q1 of 2015, while domestic consumption of crude steel increased 9%. In 2014, Turkish steel export volumes decreased 5%, to 18 million tonnes.

In 2014, net profitability of many Turkish steel businesses decreased further, as foreign exchange losses resulted from the depreciation of the Turkish lira. Pressure on profitability is expected to increase further in 2015 due to on-going currency volatility and a more uncertain economic outlook. As many smaller steel firms hold high bank debts in order to keep high inventories, the current economic slowdown has caused liquidity problems in this segment. Overall indebtedness in the sector is average, but banks have become increasingly unwilling to provide credit. Smaller players in particular often cannot increase bank loans due to frequent non-performing loan cases.

On average, payments in the Turkish steel and metals industry take 60 days, and it is expected that payment delays will further deteriorate in the coming months, after increasing in H1 of 2015.

Insolvencies of steel businesses are expected to increase further in H2 of 2015. Therefore, we have adopted a cautious underwriting stance towards this industry, especially for small and medium-sized enterprises.

Our main criteria for assessing credit limit applications are shareholder structure, equity level and cash position. For new buyers we look at payment behaviour issues such as bounced cheques or protested bills.

To maximise cover we contact the 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.

United States

- **Increased imports affect profit margins of US businesses**
- **Payment delays expected to increase**
- **More insolvencies expected in the tubular goods segment**

Currently the US steel and metals sector´s revenue performance is negatively affected by the lower cost of imported steel and decreasing demand from the construction industry and the oil/gas industry, which suffers from the oil price decline. The latter particularly affects the oil country tubular goods (OCTG) sector.

Profit margins of steel and metals businesses have decreased over the last 12 months due to the negative impact lower import pricing has had on the sector, and this declining trend is expected to continue through the end of 2015. The inventory of some businesses is currently stocked at higher pricing than they can sell to the market. Competition is increasing, as companies try to expand their regional reach (local to regional, regional to national) in order to find new business and increase revenues and profits.

Financing requirements and gearing are generally high in this industry. While banks are generally not opposed to providing loans, they now demand more security for their debt structure or limit asset based lending (ABL) agreements to lower borrowing bases. Steel/metals companies must be financially very viable in order to obtain preferred lending terms and interest rates.

We continue to see the metals service centres as ultimately controlling the industry. Back in the early 2000s, many of these companies were hit hard by overstocking of inventory and suffered years of minimal profits and/or losses. Today, they typically keep their inventory levels within 60-90 days of supply, with many placing orders on a 'just-in-time' basis in order to keep overhead costs at a minimum. It also allows them to manage purchase costs with end-market sales pricing, providing for more stable financial results. Profit margins for these companies have been generally stable between 3% and 5% over the last few years and we expect this trend to continue, with the exception of businesses affected by downturns in the oil-and-gas exploration sectors.

The average payment duration is 30 - 45 days domestically and 60 - 90 days for businesses aboard. Payment delays and defaults have increased and are expected to rise further, as the cash flow of end-buyers has been impacted by lower growth, especially in the OCTG and construction sectors. Insolvencies have increased in the OCTG-related segment and are expected to increase further in 2015, by about 10% - 15%.

Our underwriting stance remains neutral for the time being. Abundant information on buyers (company and payment history) and financial information is required. Regarding subsectors, we are currently restrictive on OCTG and aluminium/copper related businesses, as in the latter segment high price volatility has affected the ability of producers/suppliers to pass on production costs to end-buyers.

Market performance at a glance

Belgium

- In 2014 Belgian steel and metals businesses were negatively affected by decreased orders from their main buyer industries construction and automotive. Since the beginning of 2015 shipments have increased again, but this rebound is offset by lower sales prices. At least the sector is helped by lower commodity prices.
- Structural overcapacity in the industry had a negative effect on businesses´ profit margins in 2014, and this negative trend is expected to continue in 2015.
- The average payment duration in the steel/metals sector is 90 days. Payment delays and non-payment cases have increased in H2 of 2014, and are expected to rise further in the coming months, as the economic conditions for automotive and construction, as the main sectors for buyers of steel and metals products, are expected to remain subdued.
- Over the last couple of months we recorded increasing insolvencies, mainly in the metals manufacturing subsector. That said, steel/metals business failures are expected to level off in H2 of 2015.
- In general, our underwriting stance remains neutral for steel and metals businesses, however we have become more cautious on the metals manufacturing segment, scrutinising buyers in this subsector more closely. Even very well established metals manufacturing companies have faced or are facing problems due to limited orders.

Canada

- In 2014 the Canadian steel/metals sector recorded 5.5% production growth, up to CAD 47.1 billion. However, since the end of 2014 and into H1 of 2015 growth slowed down, mainly due to decreased demand from the energy sector. This has resulted in growing overcapacity, decreasing sales prices and profit margins. While the lower Canadian dollar has increased steel export opportunities, global overcapacity issues have reduced this potential upside for Canadian businesses.
- Competition in the sector is high, and there are clear signs of price wars as the industry is struggling with overcapacity and weaker demand. This is ultimately expected to result in reduced financial strength - especially for smaller and medium-sized players.
- The average payment duration in the industry is 90 days. Payment delays have increased since the end of 2014, and are expected to rise further in the coming months, especially in the energy and mining related subsectors. Due to overcapacity concerns many companies are facing inventory issues, which is stalling their cash conversion cycle.
- In general, our underwriting stance remains neutral for metals manufacturing and steel, however we have become restrictive on the energy and mining related segments due to the on-going problems in these industries.

The Netherlands

- The Dutch steel and metals sector is highly dependent on domestic economic development, especially construction sector performance. Therefore, the industry has benefited from the economic rebound in the Netherlands since 2014. Both turnover and investments increased last year, and are expected to grow further in 2015. Production increased 1.8% in 2014.
- The profits of steel/metal businesses have increased in 2014, and are expected to level off in 2015. However, competition remains high, and many businesses still hold large stockpiles, financed with long-term debt. Existing bank facilities are usually continued, however some steel/metals businesses still have difficulties obtaining new loans.
- Payment behaviour is quite stable, and it is expected that non-payment notifications will decrease further in 2015 due to the economic rebound. However, with 90 days on average, payment terms are quite long compared to other sectors.
- Insolvencies have decreased in 2014 and are expected to level off in 2015. The insolvency level in this segment is quite low.
- Due to the economic recovery and better sector performance, we relaxed our underwriting stance in 2014. However, close monitoring of buyers is still necessary due to the very competitive business environment, which could lead to decreasing margins or even the loss of contracts/orders for some steel/metals businesses.

Industries performance forecast per country

September 2015

	Agriculture	Automotive/ Transport	Chemicals/ Pharma	Construction Const.Mtrls	Consumer Durables	Electronics/ ICT	Financial Services
Austria	⛅	🌧	☀	☁	⛅	☁	⛅
Belgium	☁	⛅	☀	🌧	☁	⛅	⛅
Czech Rep.	⛅	☀	⛅	🌧	☁	☁	⛅
Denmark	⛈	☁	☀	🌧	🌧	☁	☁
France	⛅	☁	☀	⛈	🌧	☁	⛅
Germany	⛅	☁	⛅	⛅	☁	☁	⛅
Hungary	☁	☁	⛅	🌧	☁	☁	☁
Ireland	⛅	☁	⛅	☁	☁	☁	☁
Italy	☁	🌧	⛅	⛈	☁	⛅	⛅
The Netherlands	⛅	☁	☀	🌧	🌧	☁	⛅
Poland	☁	🌧	☁	🌧	🌧	☁	⛅
Portugal	⛅	☁	☁	🌧	☁	🌧	🌧
Russia	🌧	⛈	☁	🌧	🌧	🌧	🌧
Slovakia	🌧	⛅	⛅	⛈	☁	☁	⛅
Spain	☁	☁	⛅	⛈	☁	☁	☁
Sweden	⛅	☁	⛅	☁	☁	☁	⛅
Switzerland	⛅	☁	⛅	⛅	⛅	☁	☀
Turkey	⛅	⛅	☁	🌧	☁	🌧	⛅
UK	⛅	☁	⛅	🌧	☁	☁	☁
Brazil	☁	🌧	☁	🌧	🌧	🌧	⛅
Canada	☀	☁	☁	☁	☁	☁	☀
Mexico	☁	⛅	☁	🌧	☁	☁	⛅
USA	☁	⛅	⛅	☁	☁	⛅	⛅
Australia	⛅	🌧	☁	🌧	☁	⛅	⛅
China	☀	☁	☁	🌧	☁	☁	☀
Hong Kong	N/A	☁	☁	☁	⛅	⛅	⛅
India	☁	☁	⛅	🌧	☁	☁	☁
Indonesia	⛅	🌧	☁	☁	☁	⛅	☁
Japan	⛅	☁	☁	☁	☁	⛅	⛅
New Zealand	⛅	🌧	⛅	🌧	🌧	⛅	⛅
Singapore	⛅	🌧	☁	🌧	☁	☁	⛅
Taiwan	N/A	🌧	☁	☁	⛅	⛅	☁
Thailand	☁	☁	☁	☁	🌧	☁	☁
United Arab Emirates	☀	⛅	⛅	☁	☁	☁	⛅

Food	Machines/ Engineering	Metals	Paper	Services	Steel	Textiles
Good	Good	Fair	Fair	Good	Poor	Poor
Good	Fair	Fair	Poor	Poor	Fair	Poor
Fair	Good	Fair	Fair	Fair	Poor	Poor
Good	Fair	Fair	Bleak	Fair	Poor	Poor
Good	Fair	Fair	Poor	Poor	Fair	Poor
Fair	Good	Fair	Poor	Good	Fair	Poor
Fair	Good	Poor	Poor	Good	Poor	Poor
Good	Fair	Poor	Bleak	Poor	Poor	Poor
Good	Fair	Poor	Poor	Fair	Poor	Poor
Good	Fair	Fair	Fair	Good	Fair	Poor
Fair	Fair	Fair	Fair	Good	Fair	Fair
Fair	Fair	Poor	Fair	Fair	Poor	Fair
Poor	Poor	Poor	Fair	Poor	Poor	Poor
Fair	Good	Fair	Fair	Fair	Poor	Poor
Good	Fair	Poor	Poor	Fair	Poor	Poor
Good	Good	Poor	Fair	Fair	Poor	Fair
Good	Good	Fair	Bleak	Good	Poor	Fair
Good	Fair	Bleak	Poor	Poor	Fair	Poor
Fair	Fair	Fair	Poor	Fair	Poor	Poor
Good	Poor	Poor	Fair	Fair	Poor	Poor
Good	Fair	Fair	Poor	Good	Fair	Bleak
Good	Fair	Fair	Good	Good	Poor	Poor
Good	Good	Poor	Poor	Good	Poor	Fair
Good	Fair	Poor	Poor	Fair	Poor	Poor
Fair	Fair	Poor	Poor	Good	Bleak	Poor
Excellent	Fair	Poor	Fair	Good	Poor	Fair
Good	Fair	Fair	Good	Good	Fair	Fair
Good	Good	Fair	Fair	Fair	Poor	Fair
Good	Good	Fair	Fair	Fair	Fair	Poor
Fair	Fair	Fair	Poor	Poor	Poor	Poor
Good	Good	Fair	Fair	Good	Poor	Fair
Excellent	Fair	Poor	Fair	Good	Poor	Fair
Good	Fair	Fair	Fair	Fair	Poor	Bleak
Good	Good	Fair	Good	Good	Fair	Fair

Excellent

Good

Fair

Poor

Bleak

Industry performance

Changes since July 2015

Europe

The Netherlands

Metals

Up from Poor to Fair

Steel

Up from Poor to Fair

See article on page 19.

Turkey

Steel

Down from Good to Fair

See article on page 16.

The Americas

Brazil

Consumer durables

Down from Fair to Poor

Electronics/ ICT

Down from Fair to Poor

Metals

Down from Fair to Poor

Steel

Down from Fair to Poor

All those sectors have been negatively affected by the continuing downturn of the Brazilian economy and the deterioration of the Brazilian business environment, hampered by high inflation, a rapid depreciation of the real, and the Petrobras corruption scandal. As a consequence, non-payments and defaults have increased in all those industries, and are expected to increase further in the coming months.

Mexico

Steel

Down from Fair to Poor

See article on page 15.

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