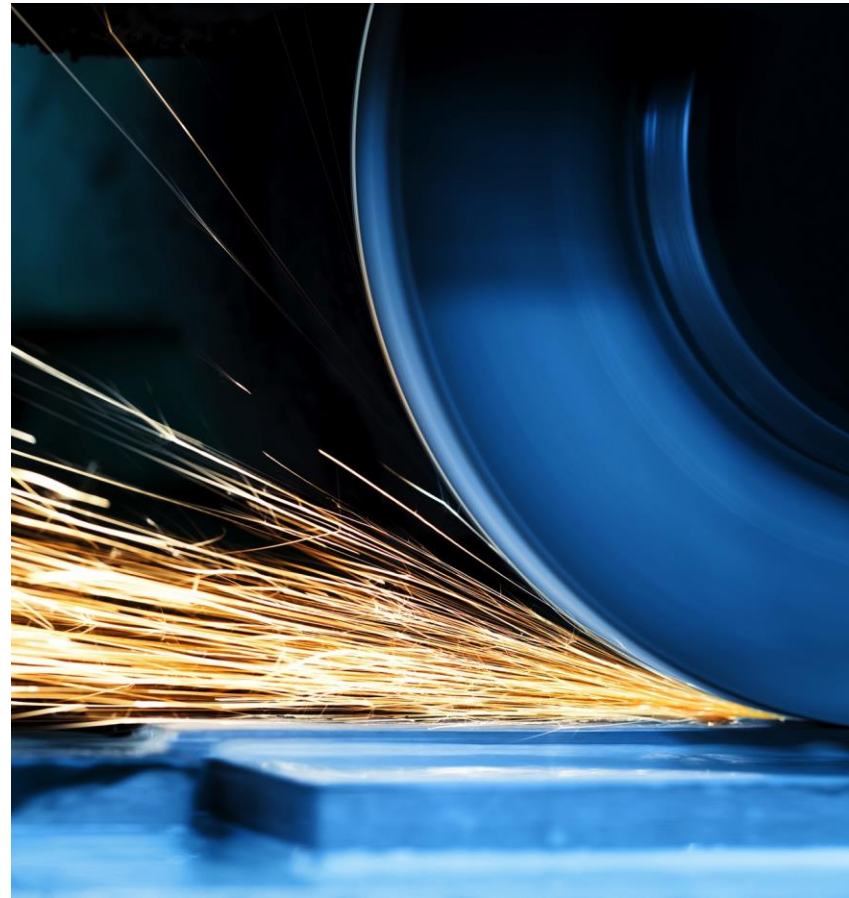




Damstahl[®]
stainless steel solutions

Damstahl
Stainless Steel Briefing
October 2017

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Market: Let's do business!

- Strong economic fundamentals spur the stainless steel demand in Europe. As the summer lull has been overcome, the strong demand has firmly established on a long term basis. Furthermore, demand is backed up by the majority of industry segments that report full order books and hire workers.
- The stainless steel industry can also breath a sigh of relief, after a significant rise of the alloy surcharge, although a certain correction downwards can be expected for November. Prices went up and will be accompanied by base price increases the following months. Thus, the stainless steel industry should be able to achieve higher margins in the months to come. This, however, will strongly depend on end-users and to which degree they will accept higher base prices due to higher production costs.
- The end of the year is coming closer and the promising outlook for Q4 strengthens more and more.



Alloy Surcharge:

- The alloy surcharge increased considerably in October 2017.
- Outokumpu set the surcharge for type 304 (1.4301) to 1,250 EUR/t in October 2017 up from 1,109 EUR/t in September 2017. The surcharge for type 316 (1.4401) was set to 1,783 EUR/t in October 2017 up from 1,597 EUR/t in September 2017.
- Some mills already began to charge an ‚electrode surcharge‘ to reflect higher costs from the global tightness of graphite electrodes that are needed to melt – and refine – stainless steels.



Building & Construction:

- According to Eurostat, production in construction grew by 3.4% in the euro area and by 3.6% in the EU28 in July 2017 yoy. The increase in the euro area is due to building construction rising by 4.0% and civil engineering by 0.9%. The increase in the EU28 is due to building construction rising by 4.0% and civil engineering by 2.3%.
- Highest increases were seen in:

Hungary	+ 22.6% yoy
Sweden	+ 21.2% yoy
Poland	+ 19.8% yoy
Slovakia	+ 14.7% yoy
- Largest decreases were recorded in:

United Kingdom	- 1.1% yoy
Italy	- 0.4% yoy
- Other Damstahl countries:

Slovenia	+ 8.8% yoy
Germany	+ 4.6% yoy
Netherlands	+ 4.3% yoy



Consumer Goods:

- In September, the German Association representing the appliance industry (ZVEI) revised its forecast for 2017 of the real production of the German electronics industry. The ZVEI expects a growth in production of 2.5%, up by 1 percentage point when compared to its forecast at the beginning of the year. The revision incorporates the plus in production of 4,5% as well as the plus in order intake of 8.8% in the first seven months of 2017 compared to the same period last year.



Automotive:

- In August 2017, 865,047 new passenger cars were registered in the EU, which marks the highest number in a decade. For the period from January to August 2017, car registrations amounted to 10.2 mill. units, up by 4.5% yoy. Of the new registrations, VW had a share of 23.6%, PSA Group* of 10.6% and Renault Group of 10.4%.
- Among the five major markets, Italy (+9.1%), Spain (+6.9%), France (+4.2%) and Germany (+2.9%) have shown increasing demand, whereas car registrations in the United Kingdom declined by 2.4%.



Process Industry:

- According to the German engineering association VDMA, the mechanical and plant engineering companies recorded a growth in production of 2.9% in the first seven months of 2017. For 2017, as well as for 2018, a production increase of 3% is anticipated. The growth expectation for 2018 is mainly driven by Germany that shows all signs to expansion. Also the signs from the USA promise a continuing solid growth, while growth in China will begin to slow again. Exports to other EU member countries are expected to rise in the mid single-digit range for 2018, mainly due to a backlog of investments in the euro member countries.

* as of 1 August 2017 Opel/Vauxhall registrations are accounted in the PSA Group

- European Industry News
- Where do we stand in the Business Cycle? – PMI Status
- China Monthly Exports



Graphite electrodes and Refractories will increase the stainless steel base price

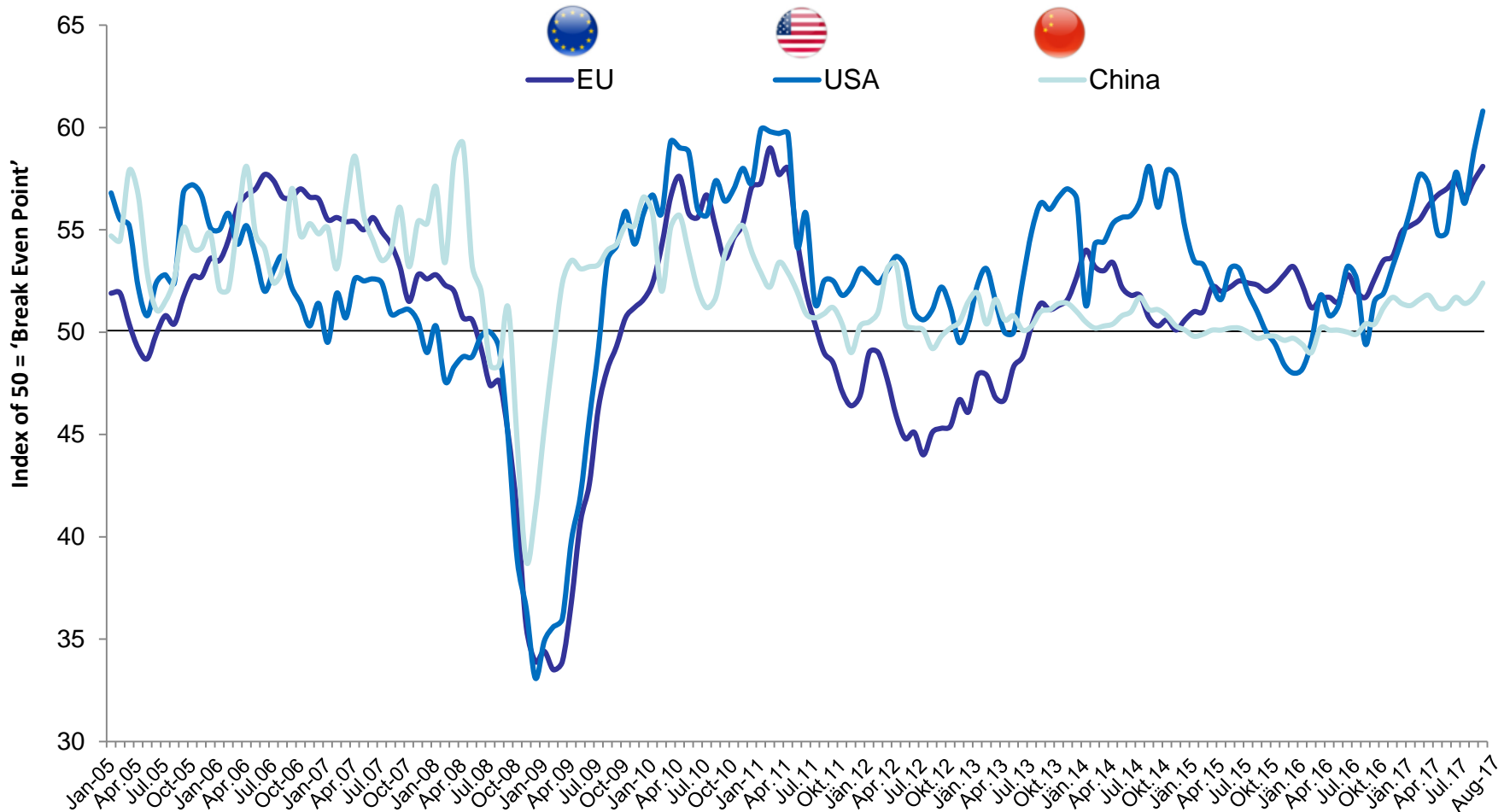
- Stainless steel base prices for both flat and long products have been increased in September and further increases are expected. This due to robust demand and increasing production costs, partly caused by the graphite electrodes shortage and higher prices for refractories. Graphite electrode prices have jumped from about 2,000 USD/t last year to more than 10,000 USD/t in 2017 and are adding costs for steelmakers using electric arc furnaces (EAFs). As the shortage has already started at the beginning of the year, producers have filled their stocks and no production disruptions are expected.
- **Outokumpu** has introduced a new charge covering the extra costs of graphite electrodes. The initial electrode charge with immediate effect is 30 EUR / t and will be adjusted on a monthly basis. Aperam and Acerinox stated to lift the base prices, rather than to introduce an electrode surcharge.
- **Voestalpine** announced to build its new specialty steel plant in Kapfenberg, Austria, starting operation in 2021. The investments amounts to 330-350 mill. EUR and will replace the existing Böhler special steel plant. The new plant will have an annual capacity of 205,000 t of high performance steels and employ 3,000 people. The electric arc furnace will be operated with electricity generated from 100% renewable sources.

Where do we Stand in the Business Cycle?



PMI Status August 2017

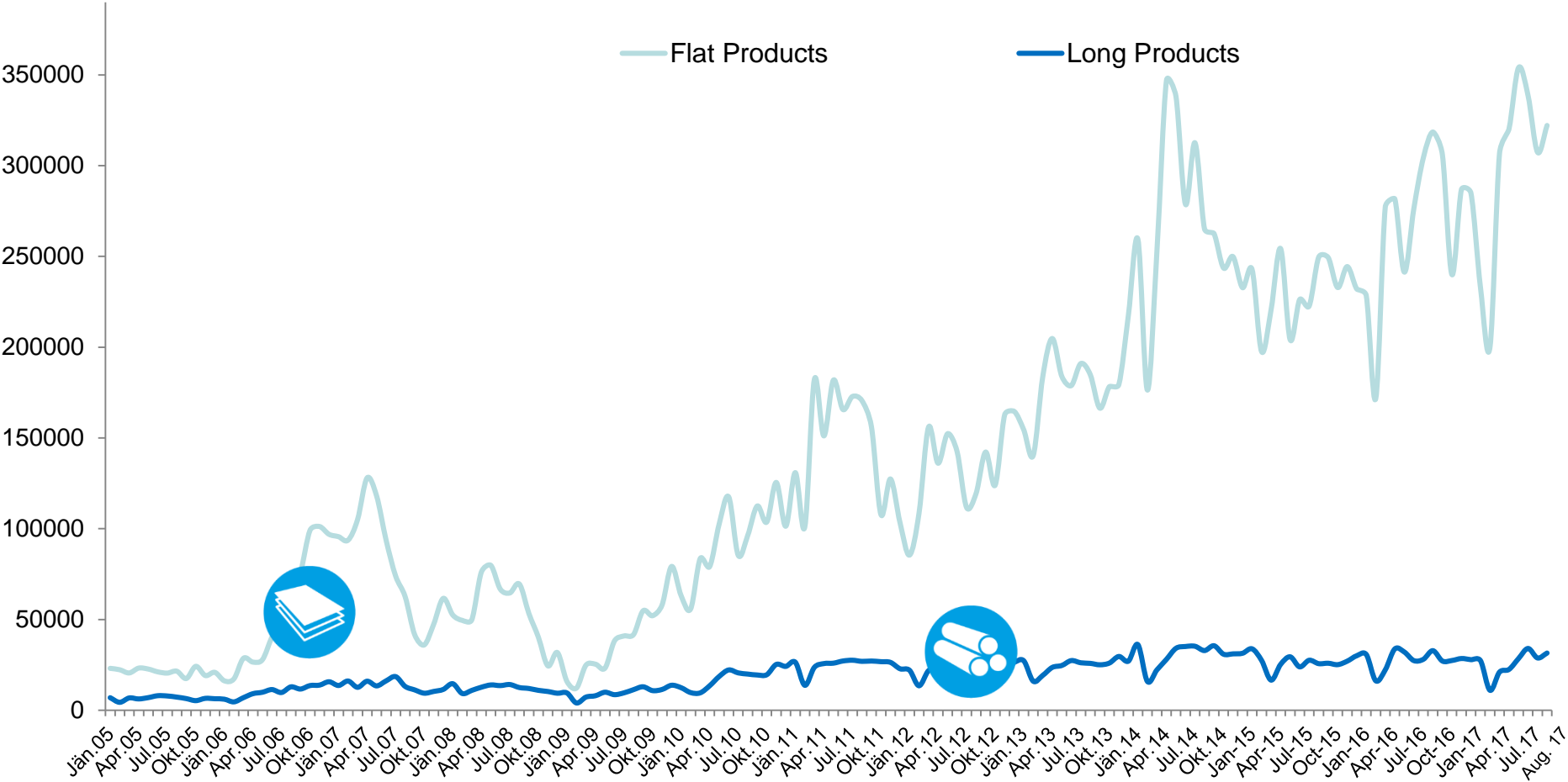
The index improved in all regions and for the USA it is the highest reading since May 2004



China Monthly Exports



Exports of Flat and Long Products declined in July, but grew slightly again in August



Relevant Issues in Damstahl-Land



Germany



The Netherlands



Denmark



Sweden



Norway



Slovenia



Finland



Germany:

- After a remarkably high stainless steel demand in summer, the “shopping fever” continues across all industries in September. Due to higher alloy surcharges distributors were also able to achieve higher revenues. Despite of the positive market development, stocks are on a good level across all products.
- **Damstahl GmbH** will participate with a stand at the Stainless Steel World Exhibition 2017 in Maastricht, which lasts from the 28th to 30th of November. Over 250 exhibitors are registered to showcase their expertise to more than 6,500 visitors.
- The engineering company **GEA** took over the Italian Pavan Group, but the parties agreed not to publish the purchase price. The Pavan Group is a supplier of extrusion and milling technology for food processing and generated a revenue of 155 mill. EUR and an EBITDA of almost 29 mill. EUR in 2016.



The Netherlands:

- In accordance with the growing economy, the stainless steel demand is showing a positive development. On top of that, stainless steel prices are going up and are expected to continue to climb due to longer delivery times of European mills. While in most end-use segments investment activity is gaining momentum, the Oil&Gas industry still suffers from a low oil price and no large projects are anticipated in the foreseeable future. Stock levels in the stainless steel market are still on a good level, but will be less in the coming months. This is due to the fact that mills are delayed with deliveries.



Denmark:

- The Danish economy is in a good shape and stainless steel end-users report full order books. The companies are claiming to have difficulties in finding skilled employees to uphold the high production activity. Danish stainless steel distributors still facing a fierce competition, but due to a rising alloy surcharge on a higher and more profitable level.
- In September, **Damstahl a/s** continued its series of knowledge sharing seminars. As the seminars were fully booked and received a very positive response, Damstahl is encouraged to continue these events.
- The dairy producer **Arla Foods** reported a revenue of 5,016 mill. EUR in HY1/17, up from 4,853 mill. EUR in HY1/16. The profit for the period totalled 112 mill. EUR in HY1/17, down from 244 mill. EUR in HY1/16. The decline in profit is partly due to increased production costs.



Sweden:

- The Swedish stainless steel demand weakened slightly in September, but the general economic fundamentals are still in a good shape. Base price and alloy surcharge increases communicated by the stainless steel mills keep the expectations high for a strong fourth quarter.
- The Electrolux Group reported an increase of sales in Europe of 1% in HY1/17 with respect to the same period the previous year. The growth in sales is driven by an increase in Eastern Europe of 4%, while Western Europe remained on the same level as last year. In August, Electrolux announced the acquisition of the European kitchen hood company Best.



Norway:

- The Norwegian stainless steel market is currently very quiet until the Oil&Gas industry is coming back to full activity again. Statoil and other large Oil&Gas companies are starting slowly to assign contracts for maintenance. The fishing industry is still in a good shape and realizes high prices for Salmon. Also the shipbuilding industry achieved new orders, especially from ferry companies.
- The French oil company **Total** has acquired **Maersk's** Norwegian and UK producing assets and became the second largest producer in the North Sea.
- In July the **Ulstein Verft** started production of the world's largest Plug-in hybrid vessel. The new ferry will connect Sandefjord with Strömstad and will be delivered to the ferry operator **Color Line** in May 2019. The ship is designed to carry 2,000 passengers and 500 cars.



Slovenia:

- The Slovenian economy will grow substantially in 2017 and is driven by larger exports than expected. The stainless steel industry can benefit from the positive economic development and anticipates a successful year. Stainless steel demand in September was exceptionally high and full order books promise a good October, too. After the summer months from June to August did not achieve the desired result, September and October might already compensate the summer lull.
- After the Slovenian referendum supported the **Divača–Koper rail project** in September, the Slovenian government can move ahead. The new railway line that will connect the city Divaca with Slovenia's sole port, Koper, is estimated to cost 1 bill. EUR and works are planned to be completed in 6 years. Slovenia hopes that other countries using the port for imports and exports such as Hungary, Austria, Czech Republic, Slovakia and Poland will contribute to the investment. The project involves a 27 km long double-track, which consists of 8 tunnels covering 75% of its length as well as two viaducts and two bridges.



Finland:

- The stainless steel demand has still been low in September. However, demand was picking up at the end of September and prices were going up. These factors fuel hopes for a better last quarter of 2017.
- From 26th to 28th of September, the **Alihankinta Subcontracting Trade Fair** was held in Tampere. The Alihankinta fair is an event for industrial companies and start-ups and hosted in total over 1,000 exhibitors and brings together about 20,000 industrial professional. Together with other stainless steel market participants, **Damstahl Oy** was present with a stand and can look back at three successful days with their customers. Most of their customers are more active recently and perceive the business environment as positive.
- At **Meyer Turku** shipyard the construction of a LNG-powered cruise ship for Costa Cruises has started in September. The new ship will be named Costa Smeralda and will sail to the sea in October 2019 with a sister ship following in 2021.
- **Meyer Turku** shipyard has a record breaking order book reaching to 2024. In order to meet the demand, the company boosts the steel production by investing 185 mill. EUR in new steel cutting lines, which will be operational by the end of 2018.