

Steel Market Outlook



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Agenda

- Economic indicators
- Key steel consuming markets and forecasted demand
- Steel consumptions trends
- Global steel markets and raw materials
- Comments on trade

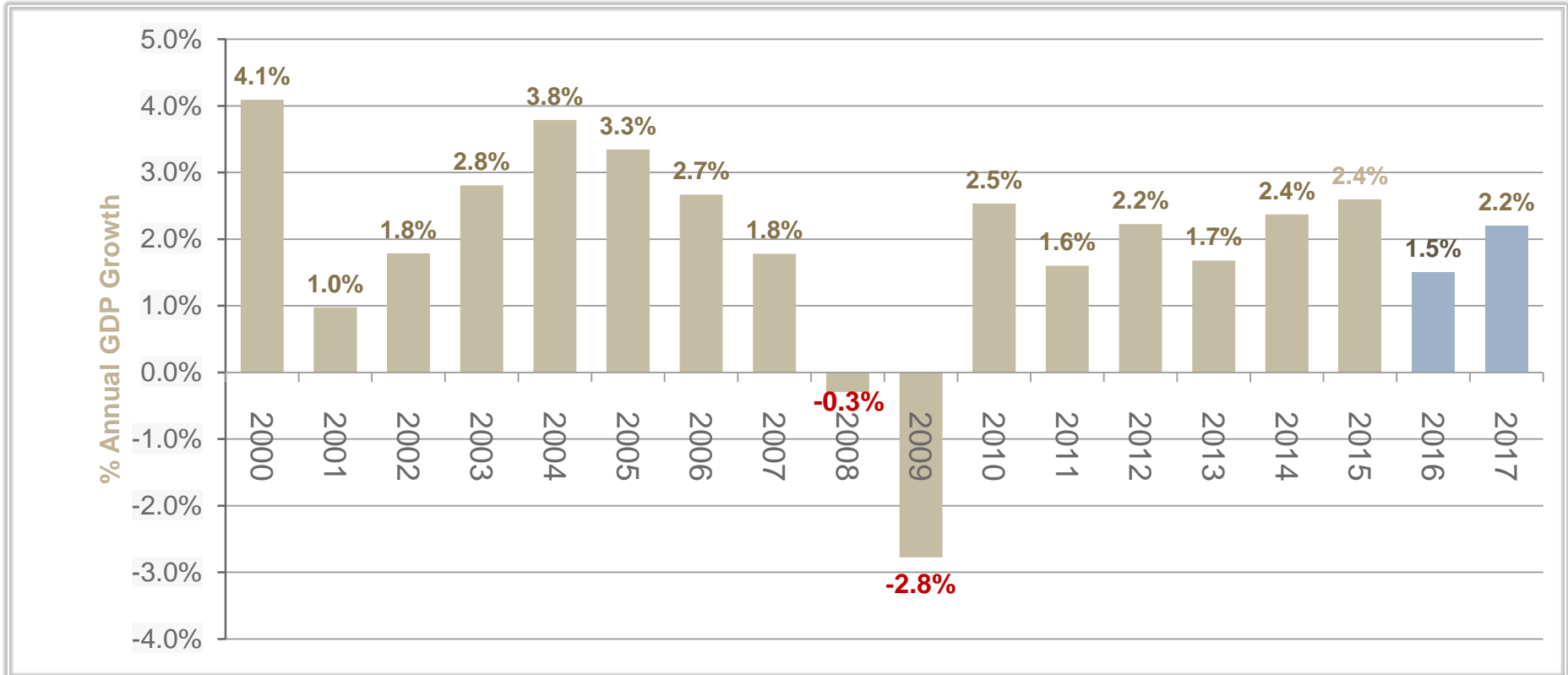
U.S. Gross Domestic Product (GDP) From 2016



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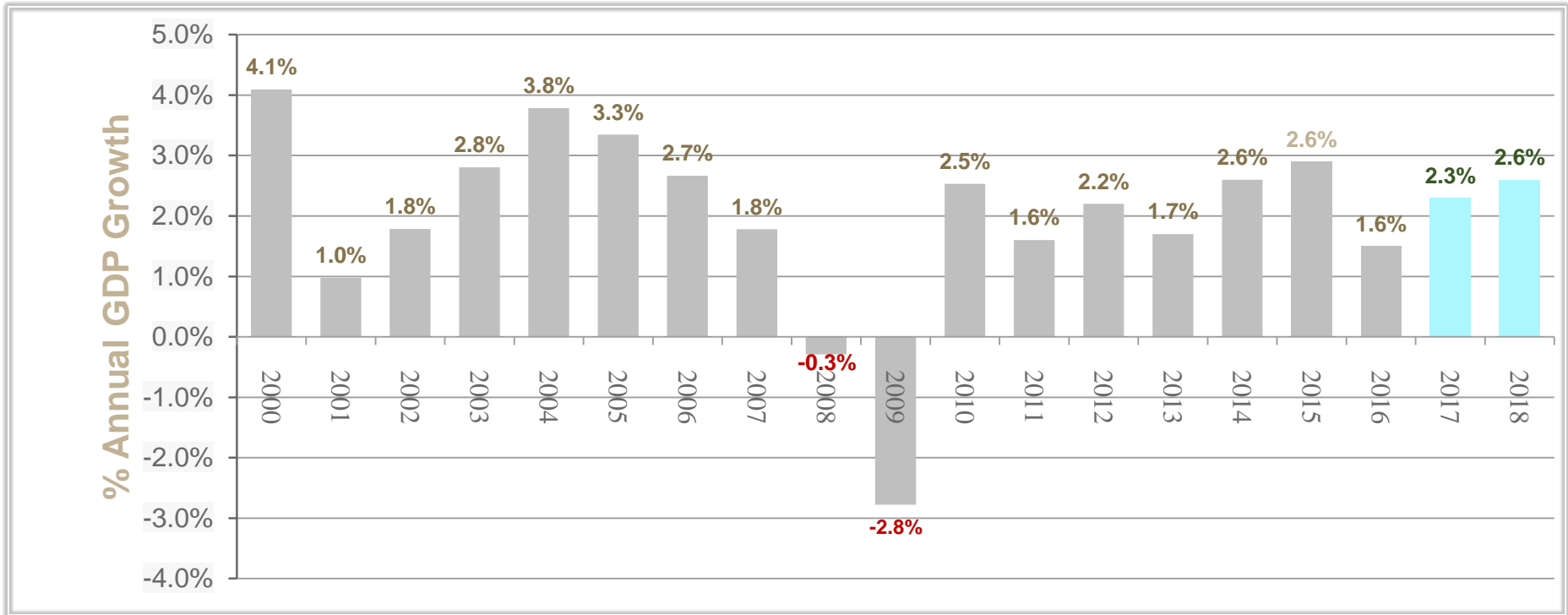
Real GDP Growth vs. Prior Years 2000-2015, Forecast 2016-2017

Source: U.S. Department of Commerce; IHS November 2016



Gross Domestic Product (GDP)

Sources: U.S. Department of Commerce; Oxford Economics Oct 2017



- The economy is improving in 2017 and 2018 after a weak 2016.
- Primary drivers of growth will be improvement in consumer spending and business spending as business confidence has improved significantly in 2017.
- Improving markets in the EU and Asia will also help USA growth.

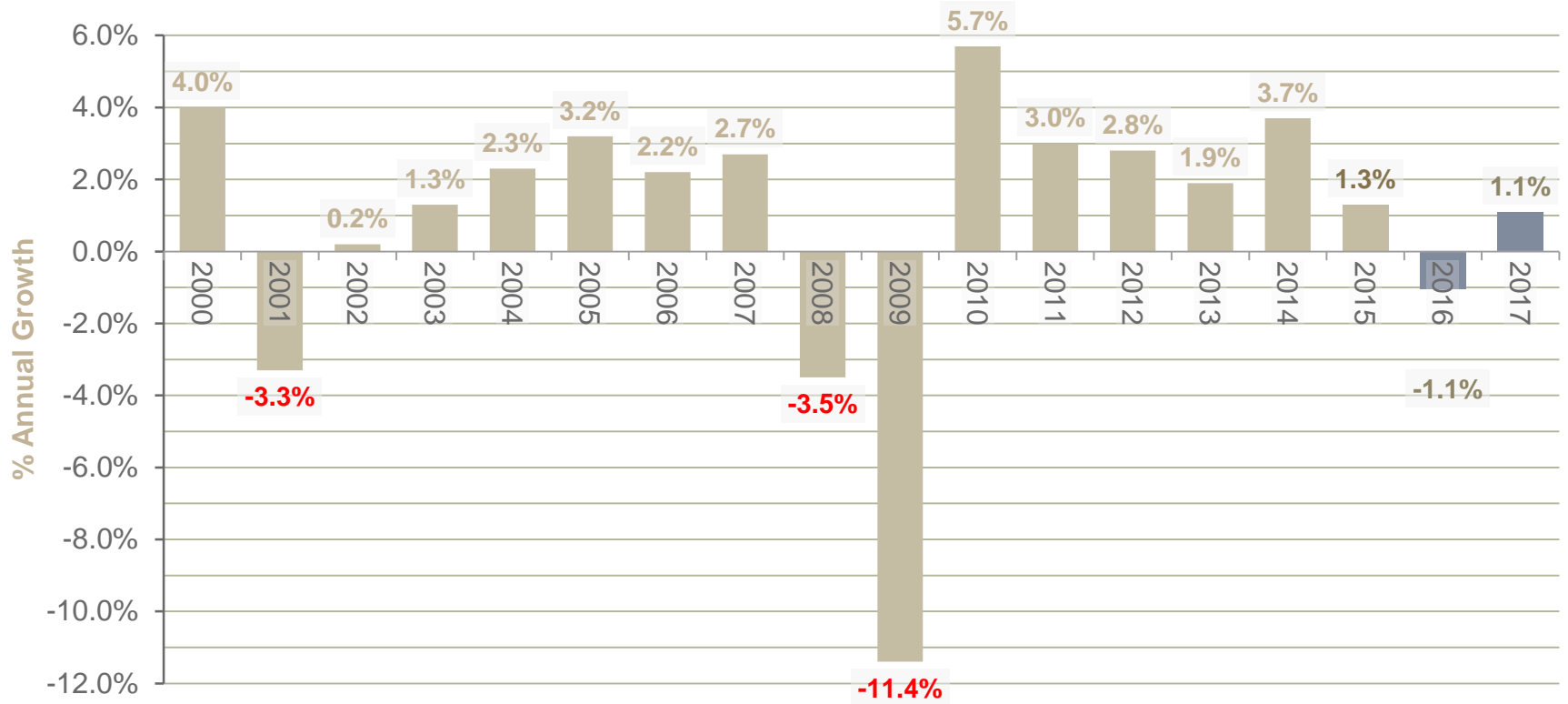
Industrial Production Index (IP) from 2016

Percent Change in Index vs. Prior Years 2000-2015, Forecast 2016-2017

Source: U.S. Federal Reserve Board; base year for index 2012: November IHS forecasts.



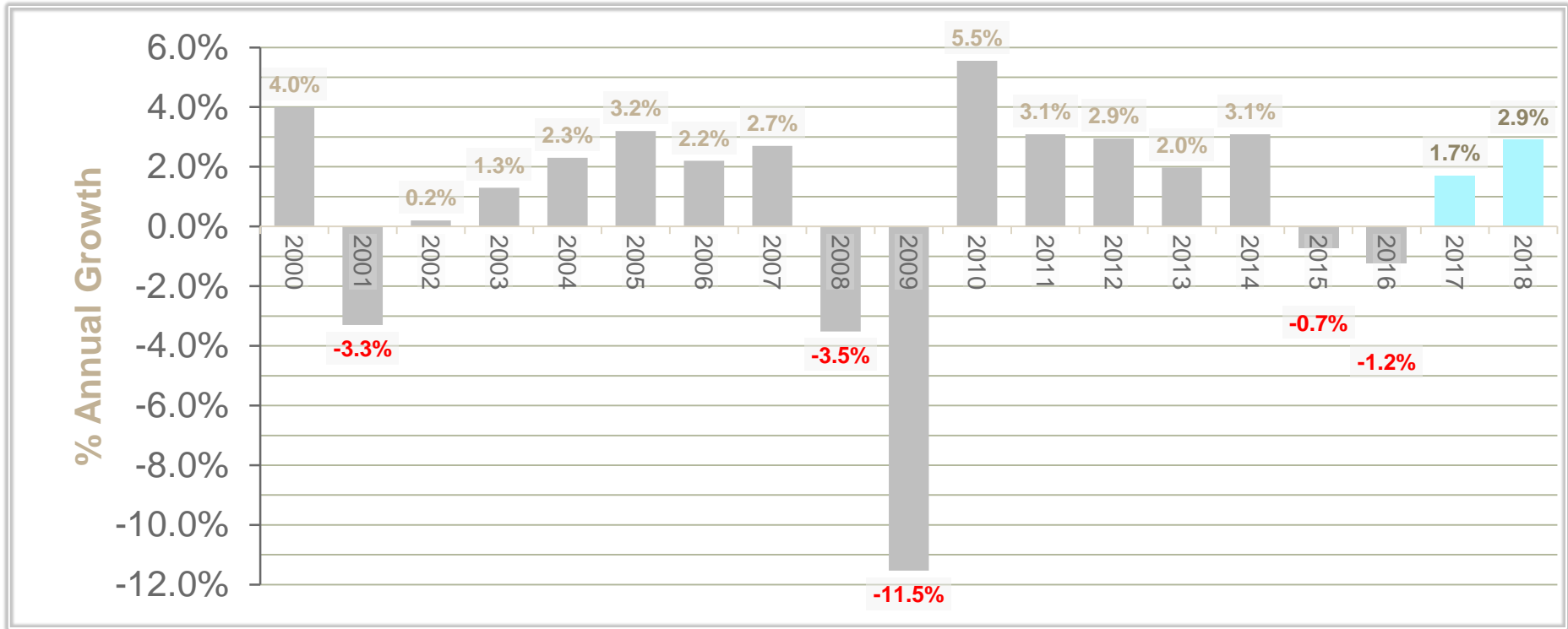
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Industrial Production Index (IP)

Sources: U.S. Federal Reserve Board; Oxford Economics Oct 2017 forecast



Business spending is increasing, supported by:

- Improvements in business confidence
- Improvements in US exports
- Increased spending for labor productivity as the labor market tightens

Steel Consuming Markets

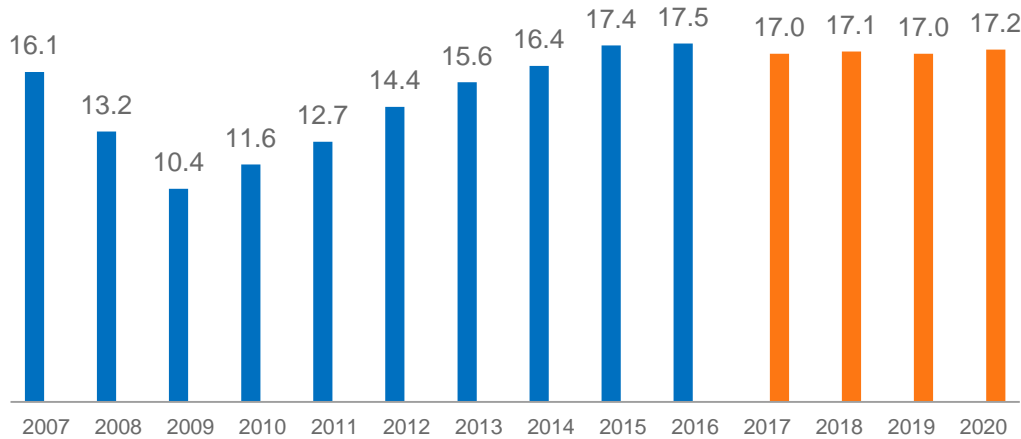


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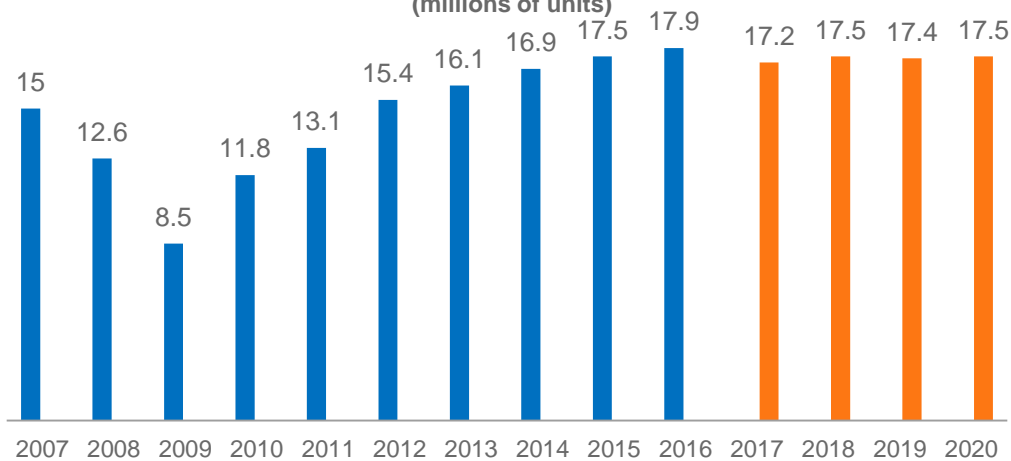
The ArcelorMittal Orbit

US Auto Sales (millions of units)



North American Auto Production

(millions of units)



- Auto sales are soft because all pent up demand from the recession has been used up, both on the retail side and the fleet side of the market, interest rates are increasing, a large number of good used vehicles are coming off lease, the OEMs are less aggressive with incentives than expected, and there is a lack of new launches compared to previous years.
- The major drivers for sales now are replacement and an expanding economy. Fortunately the fleet in very old with the average vehicle on the street just over 11.5 years old. Therefore a lot of replacement is needed.
- Low gasoline prices continue to increase demand for trucks to an extent that is surprising analysts. Truck market share finished 2016 at 62% and through June 2017 it has increased even more to 63%. Recovery in the housing market is also contributing to the strong market for trucks.

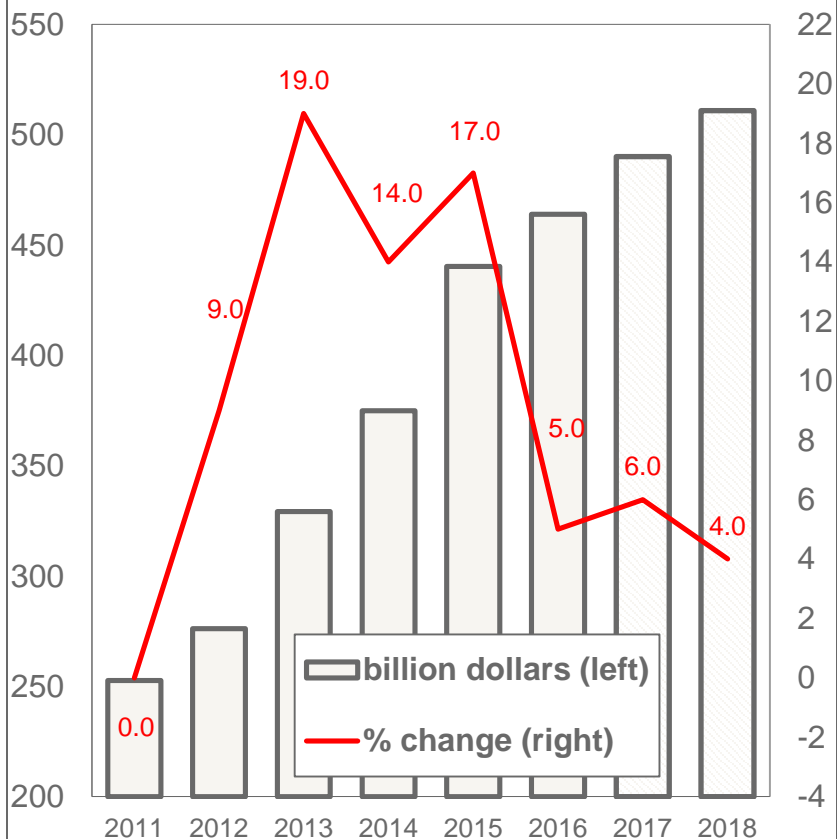
Construction Put-in-Place

Source: FMI Construction Outlook

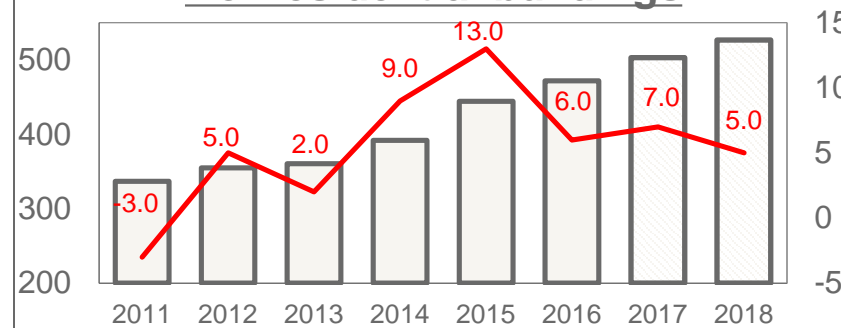


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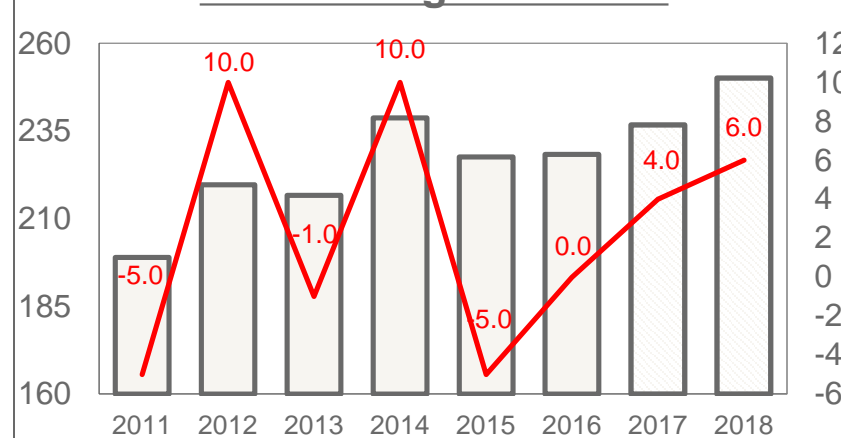
Residential buildings



Nonresidential buildings



Nonbuilding structures



- Residential construction spending increased 5% in 2016, slower than in each of the previous four years. FMI expects growth to proceed at a similar pace in 2017 and 2018.
- Nonresidential building construction spending increased 6% in 2016, also slower than in recent years, and is projected by FMI to post similar-sized gains during the forecast horizon.
- Nonbuilding construction is seen averaging 5% growth in 2017 and 2018.

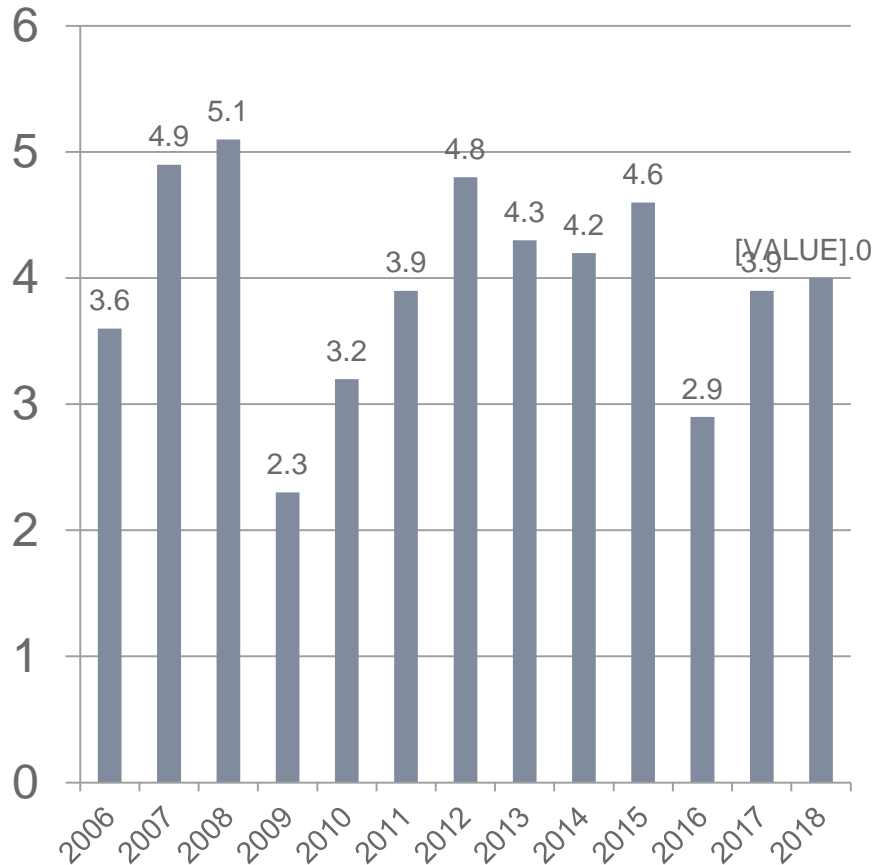
USA Energy Market Steel Demand

(millions of tons)

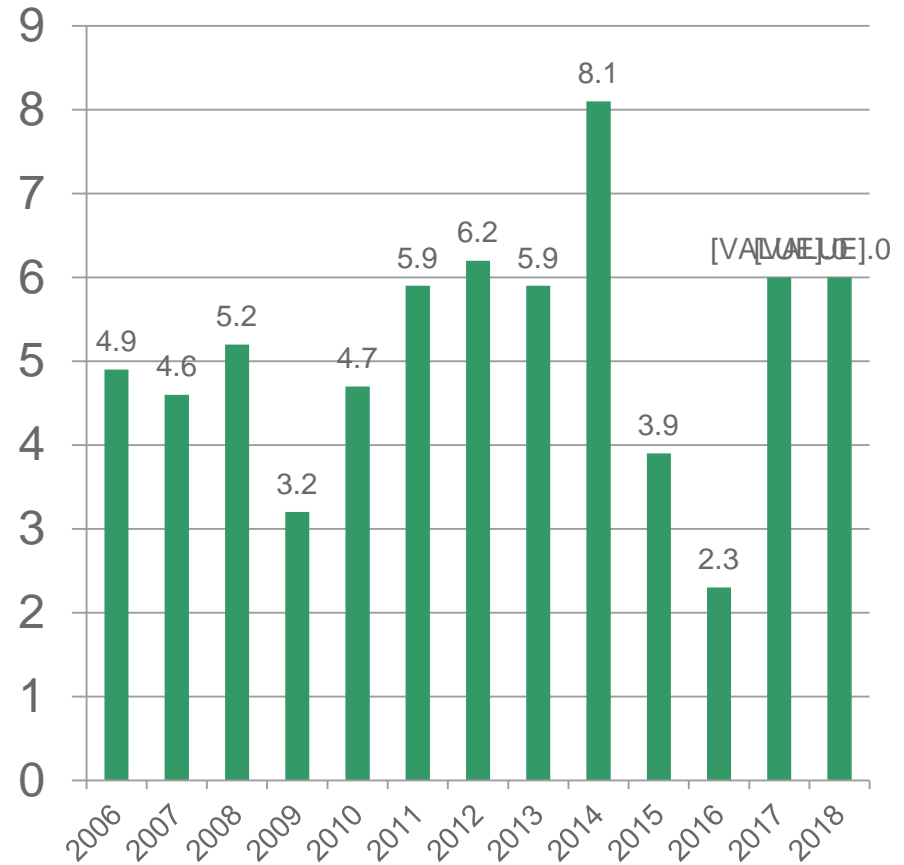


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line pipe



OCTG



Preston optimistic case for 2017 was 8.2m tons

Source: Preston Pipe and Tube Report, November 2017

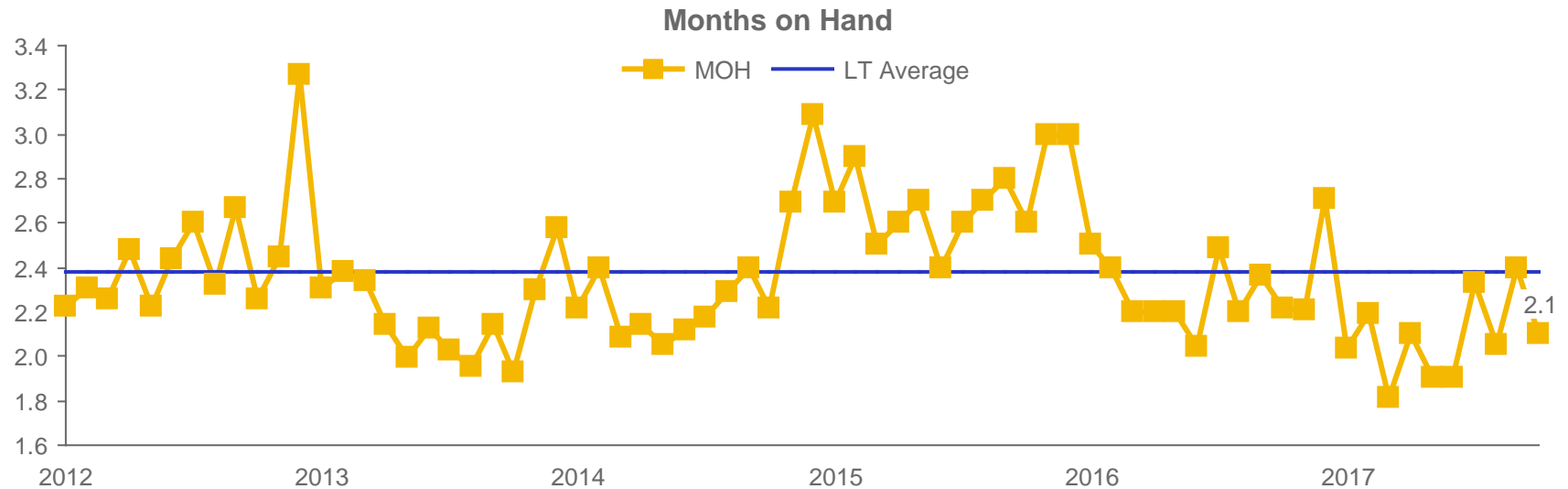
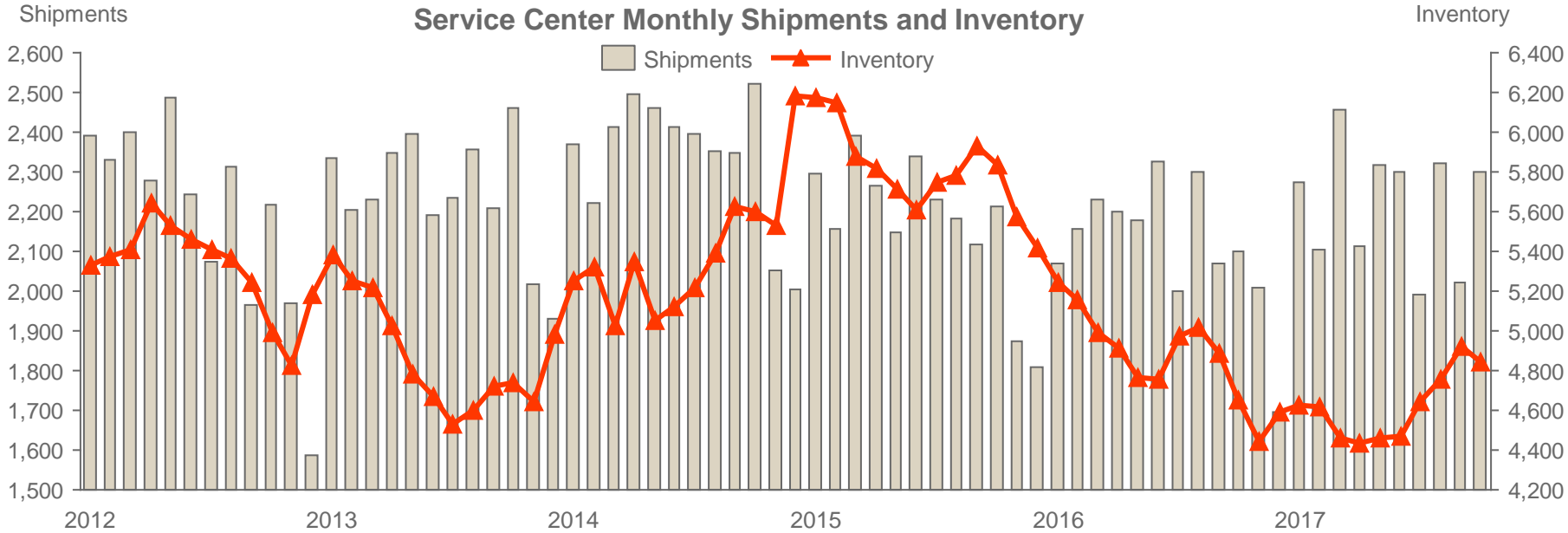
Totals:	Year	Demand (millions of tons)
	2014	12.3
	2015	8.5
	2016	5.2
	2017	9.9
	2018	10.0

U.S. Service Center Data: Carbon Flat Roll









Shipments, Inventory, and Months-on-Hand



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Steel markets direction in 2017 & 2018

Auto	
Residential Construction	
Non-residential Construction	
Machinery	
Appliance	
Infrastructure	
Energy	
Steel Inventories	

- Auto growth is in Mexico in 2018. USA market is flat.
- Non-res construction will add about 500k in 2018.
- After being negative in 2015 and 2016 energy activity will see positive demand in 2017 & 2018.
- Steel inventories started 2017 at low levels, are rebuilding this year, and will continue to rebuild in 2018.



USA apparent steel consumption

	Short tons (in millions)	% change
2013	106	1%
2014	118	12%*
2015	106	-11%
2016	101	-5%
2017	106	5%
2018	109	3%

**About 3 million tons of the 2014 increase was an inventory overbuild due to a late year surge in imports.*

Steel consumption trends



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Weekly US raw steel production Capacity utilization

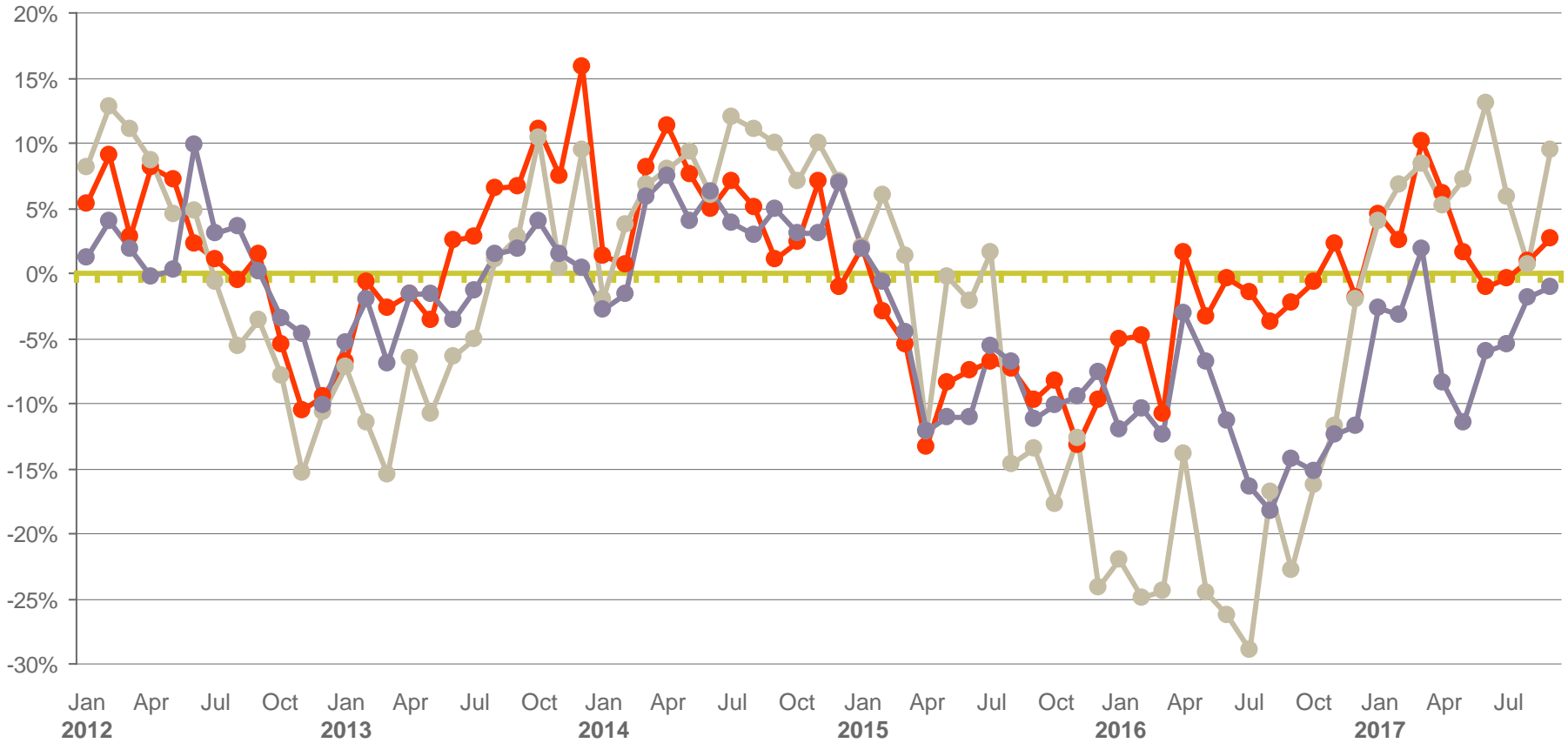


Average Daily Shipment Rate: Y/Y % Change



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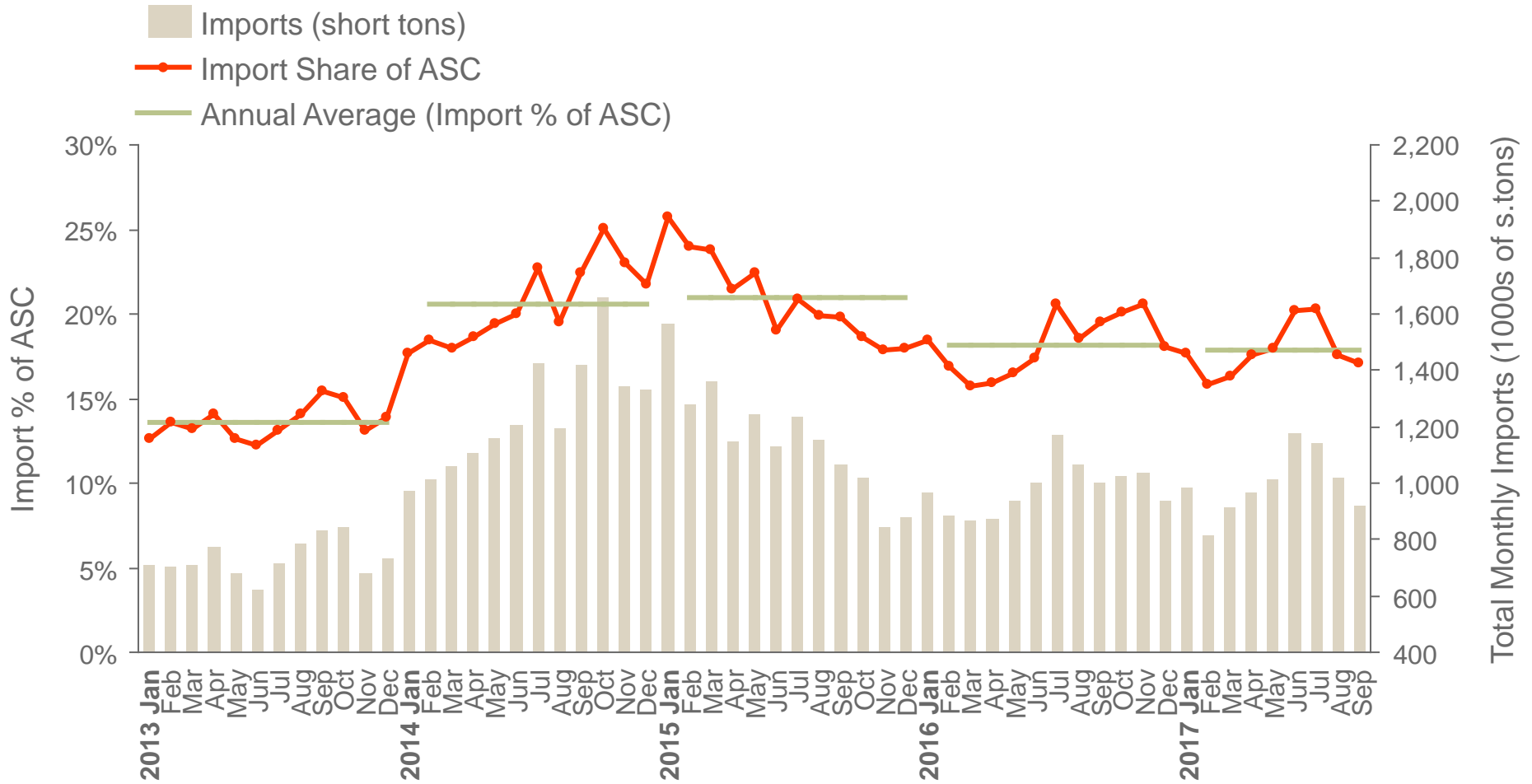
—●— Flat Roll —●— Plate —●— Pipe & Tube



Shipments	Flat Roll	Plate	Pipe & Tube
Jan-Sep 2016	19,530	2,494	1,781
Jan-Sep 2017	19,896	2,632	1,687
Diff: Tons	366	137	-94
Diff: %	2%	6%	-5%



U.S. Flat Roll Imports and Import % of ASC (Carbon Only)



Year	2013	2014	2015	2016	2017 YTD (Sept)
Average Import % of ASC	14%	21%	21%	18%	18%

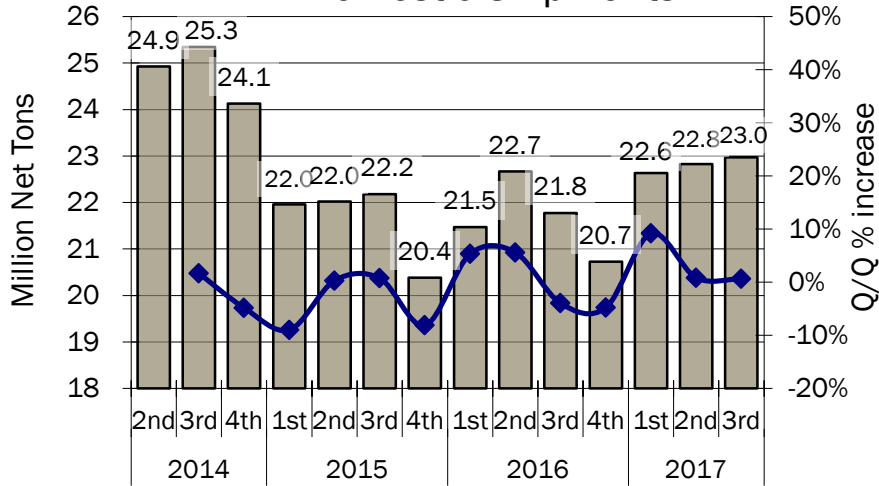
Steel Production and Apparent Demand

Source: AISI, U.S. Department of Commerce

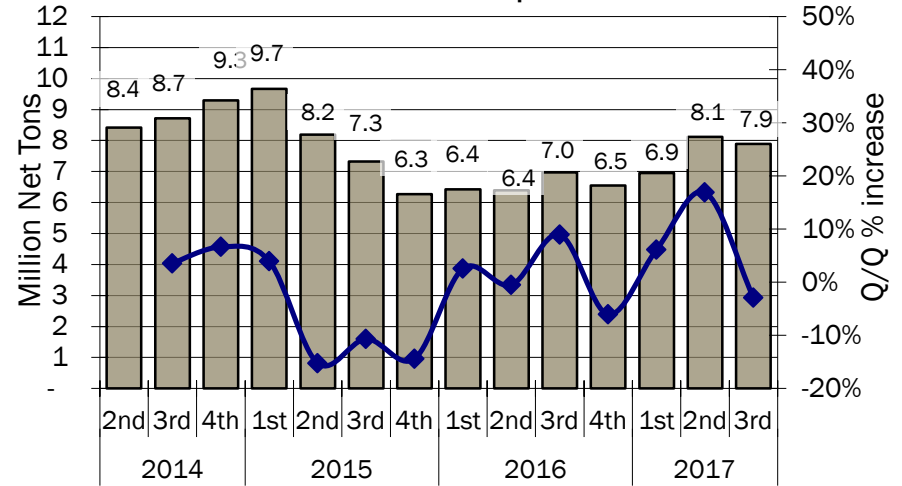


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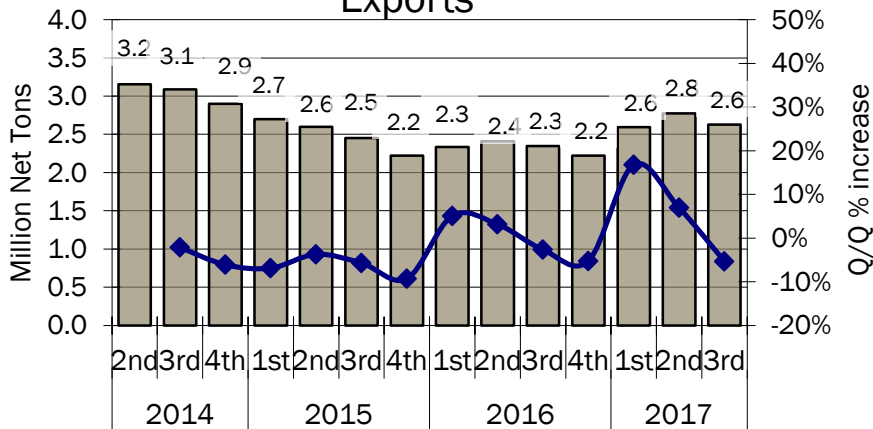
Domestic Shipments



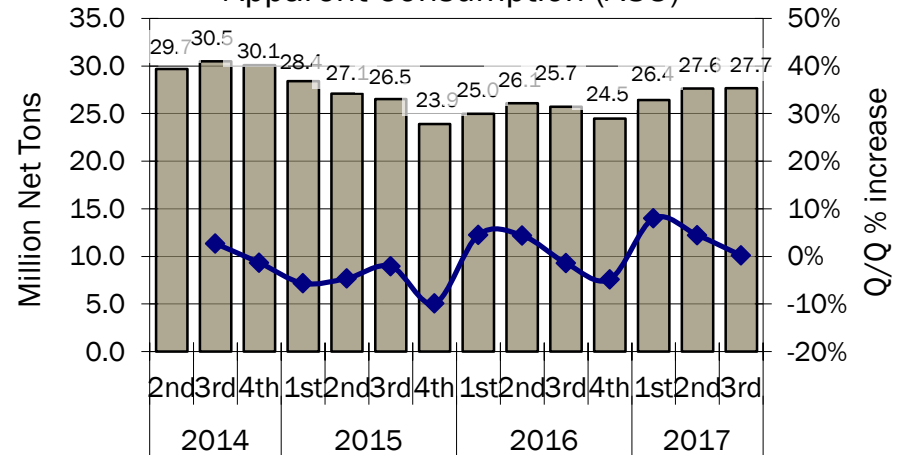
Finished Imports



Exports

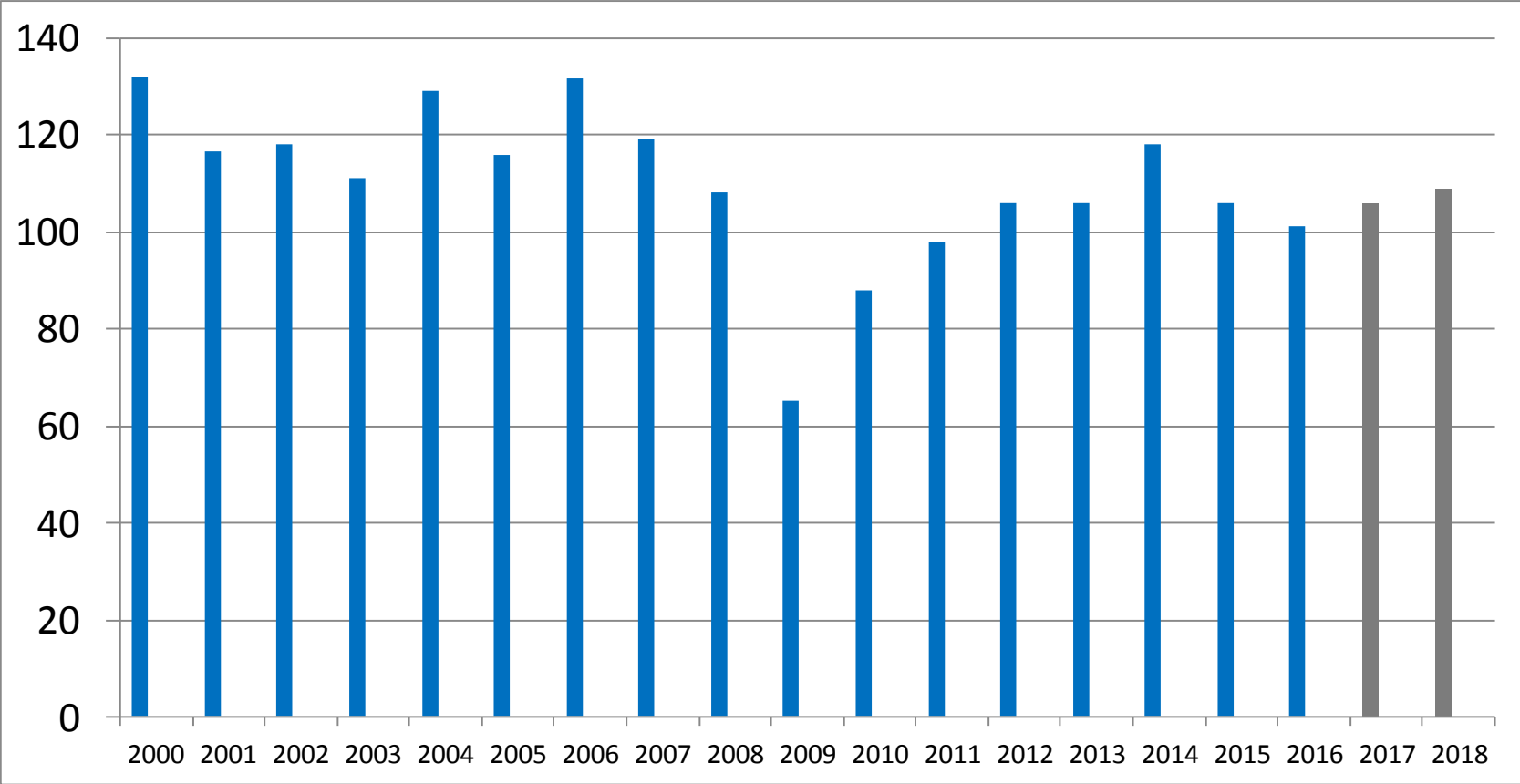


Apparent Consumption (ASU)



USA Apparent Steel Consumption

million of short tons



Drop in ASC in
select recessions

- 1953 – 22%
- 1957 – 22%
- 1973 – 23%
- 1981 – 27%
- 2009 – 41%

Source: AISI, AM Marketing

Manufacturing and Indirect Steel Trade Deficits



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Sources: U.S. Census (manufacturing trade deficit in \$ billions);
AISI (indirect steel trade deficit in net tons)

U.S. Manufacturing Trade Deficit

Source: U.S. Census

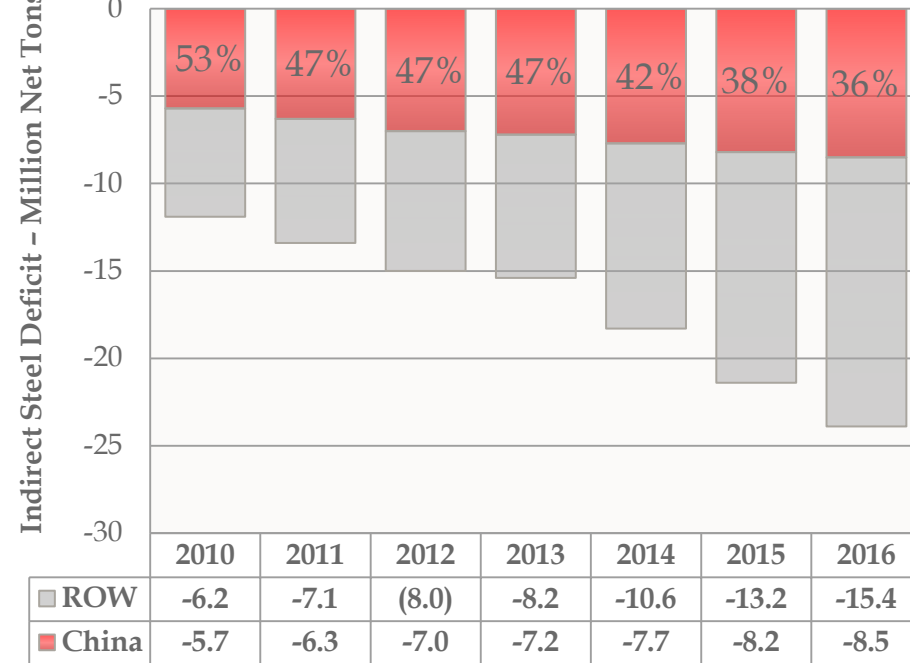
*2017 annualized based on data through July



U.S. Indirect Steel Trade Deficit

Source: AISI

Indirect Steel Deficit - Million Net Tons



- The U.S. manufacturing trade deficit is projected at \$868 billion in 2017 (based on 7 months of data annualized), a increase of \$2 billion from 2016.
- The U.S. indirect steel trade deficit posted another sizable increase in 2016, climbing to 23.9 million net tons from 21.4 million net tons in 2015.
- In 2016, China accounted for well over one-third (35.6%) of the total U.S. indirect steel trade deficit.

Global Market Outlook & Raw Materials

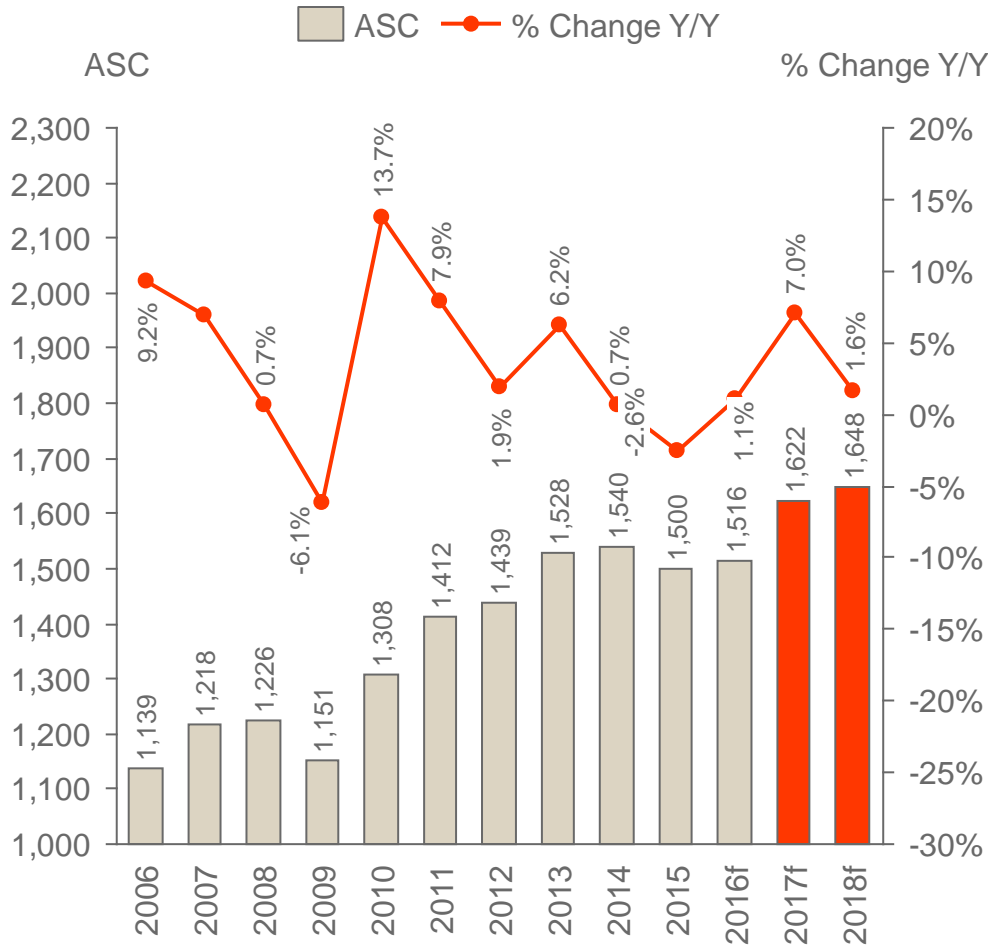


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Global Steel Demand

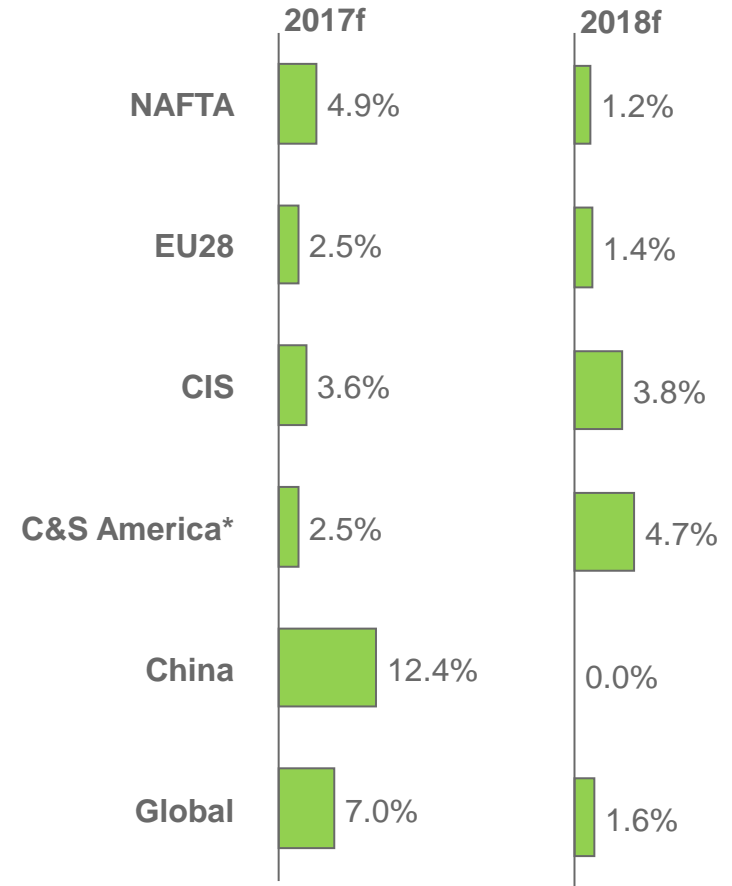
WSA - Global Apparent Steel Consumption

million metric tons



WSA - Global ASC Growth Forecast by Region

% Change Y/Y



* Central and South America

Steelmaking Raw Material Input Costs

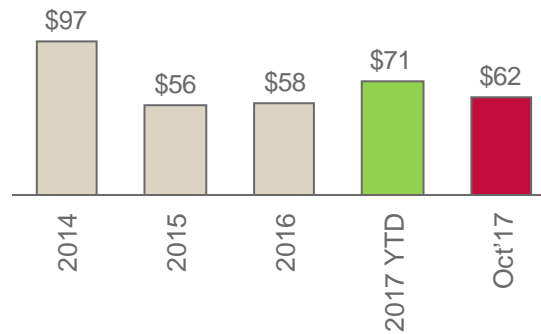
2014-2016 Averages and 2017 YTD

All charts in \$ per metric ton except for Scrap

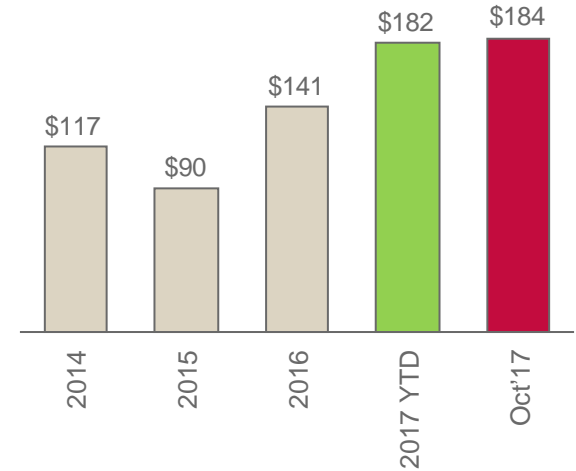
#1 Busheling Midwest Scrap (\$/GT)



Iron Ore 62% Delivered to China



Premium Hard Coking Coal FOB DBCT*



Coking Coal

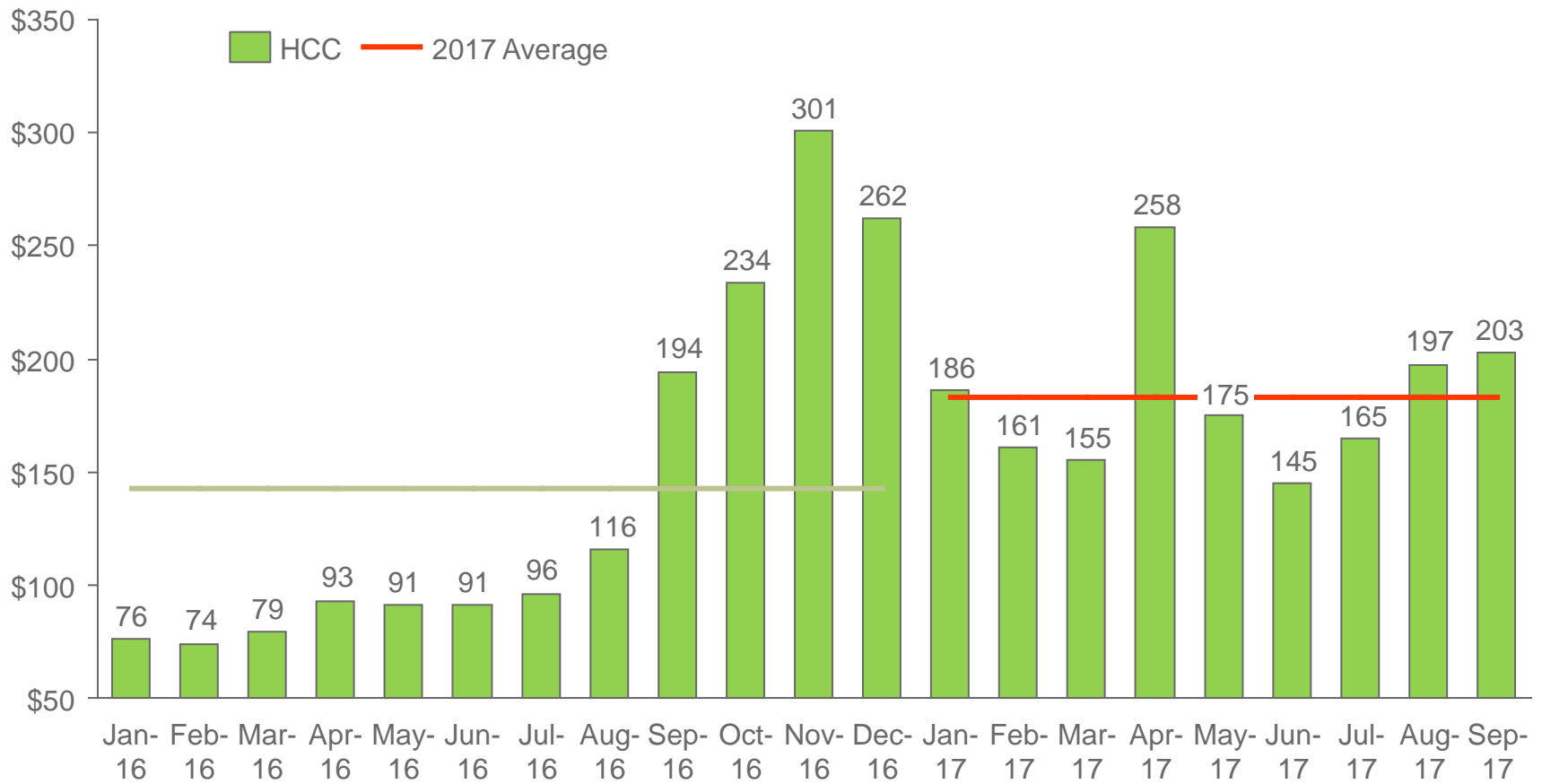
MBR

Jan 2014 – 2017 YTD



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Coking Coal Price
Premium Hard Coking Coal
\$/tonne FOB DBCT





Summary

- In 2017 and 2018 steel markets will expand after 2 years of contracting
- Energy is a major contributor of the improvement
- Consumer confidence and business confidence are surging since the election
- Markets are anticipating the administration's policies will continue support a strong revival of industrial markets
- 2016 decisions on trade will continue to limit the impact of imports....but
- Raw materials will remain volatile for the next several years
- Unlike the last few years the risk is more to the upside than the down side



Trade

- 232
- TPP
- NAFTA