

Steel Market Outlook



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Outline

- Economic indicators
- Key steel consuming markets
- Steel consumption trends
- Global steel outlook and raw materials
- CO2 regulations and the steel industry
- Questions

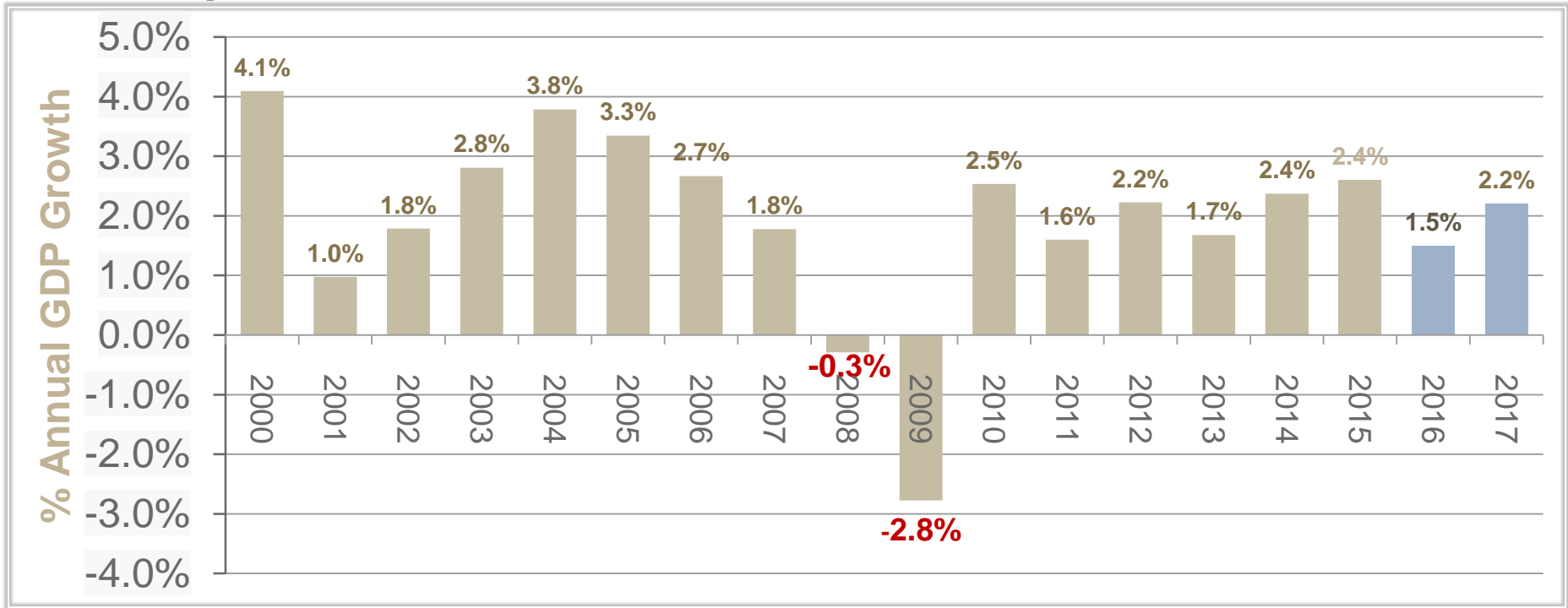
U.S. Gross Domestic Product (GDP)



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

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

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- Real GDP growth has fallen below 2% in each of the last three quarters, measuring 0.9% in Q415, 0.8% in 1Q16 and 1.2% in 2Q16 (advance estimate). Growth in PCE climbed to 4.2% in 2Q16 from 1.6% in 1Q16, while nonresidential fixed investment growth was negative for the 3rd consecutive quarter as investment fell in nonresidential structures (-7.9%) and equipment (-3.5%).
- 2017 full year GDP growth is forecast at 2.2% with growth driven largely by the same sectors as in 2016, though nonresidential fixed investment and industrial production are expected to make larger contributions, improving upon their 2016 softness.

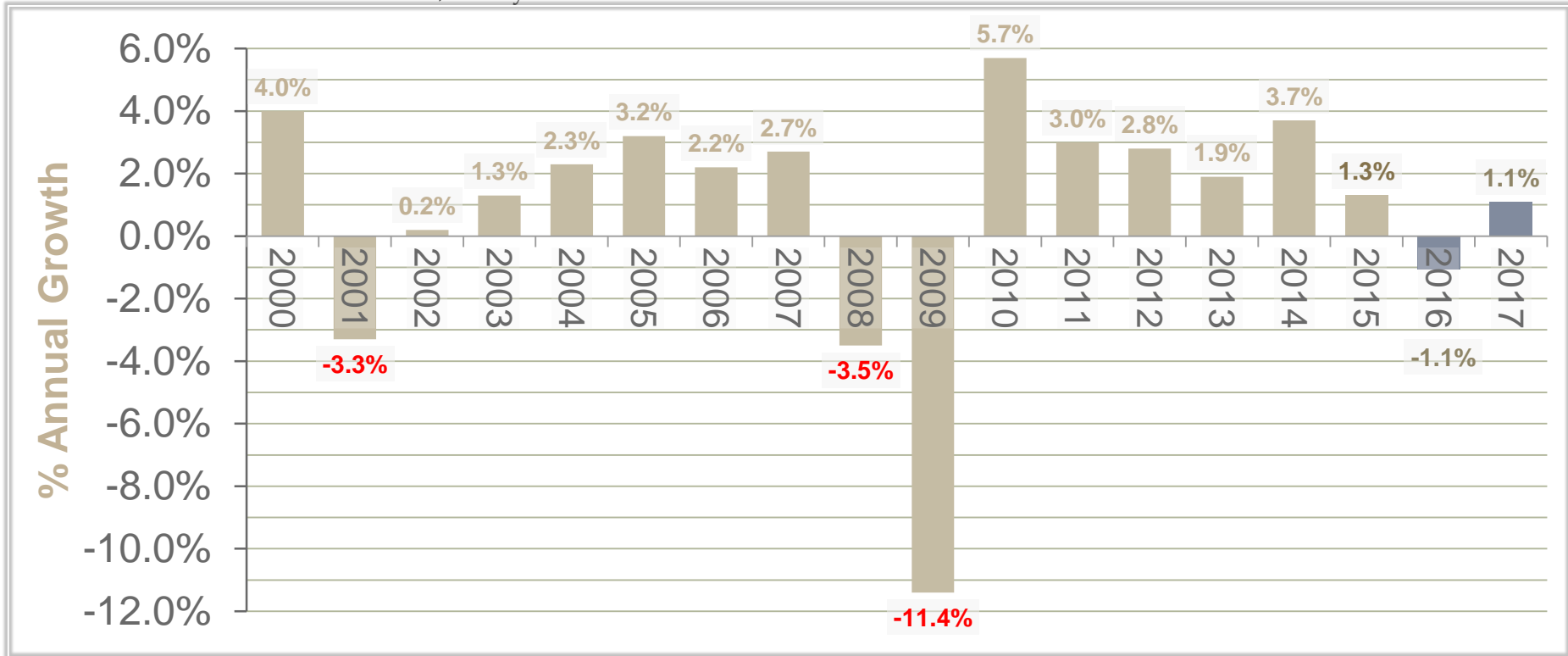
Industrial Production Index (IP)

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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- IP declined by 1.0% in 2Q16, following a 1.8% drop in 1Q16. Mining (which includes crude oil and natural gas production) declined significantly (-15.9%) during the period. Manufacturing output (NAICS basis) fell 0.8%.
- The 2016 forecast for IP is negative as the mining sector will decline further, offsetting marginal gains posted in manufacturing. Weak global conditions and prior appreciation of the U.S. dollar will limit exports.
- IP is seen returning to growth in 2017 at 1.1% as headwinds slowly dissipate for the manufacturing and upstream energy sectors.

Steel Consuming Markets

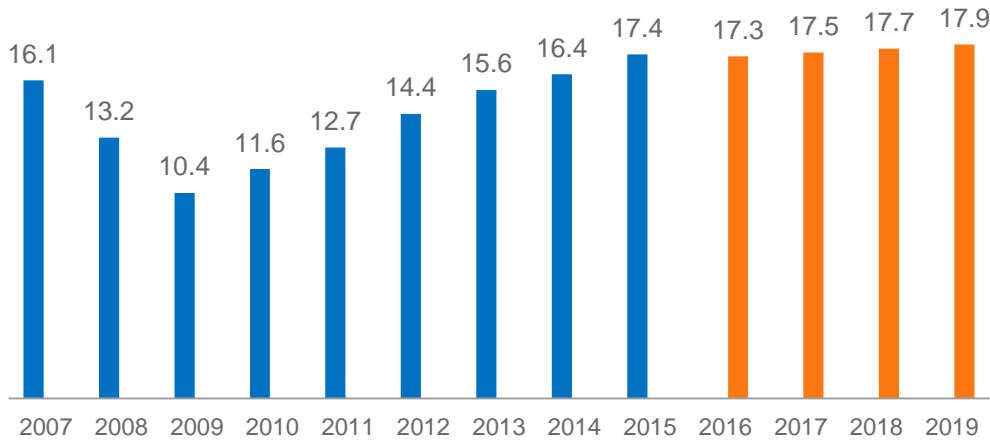


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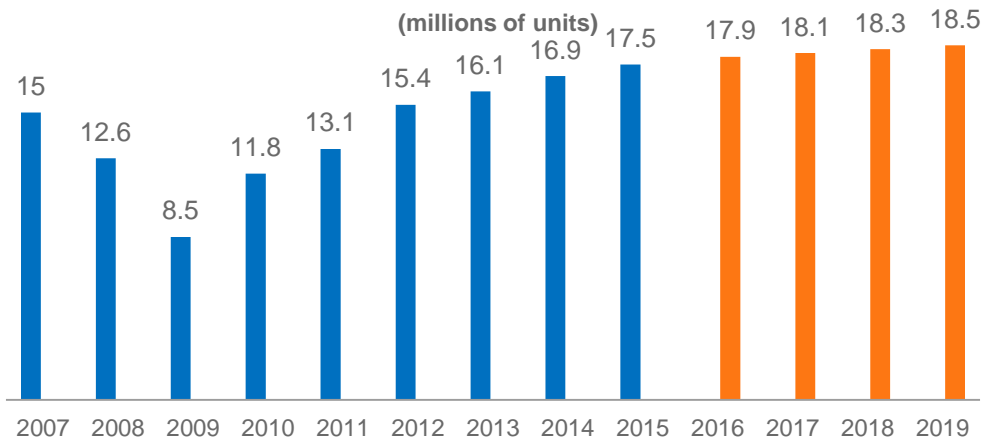


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US Auto Sales (millions of units)



North America Auto Production



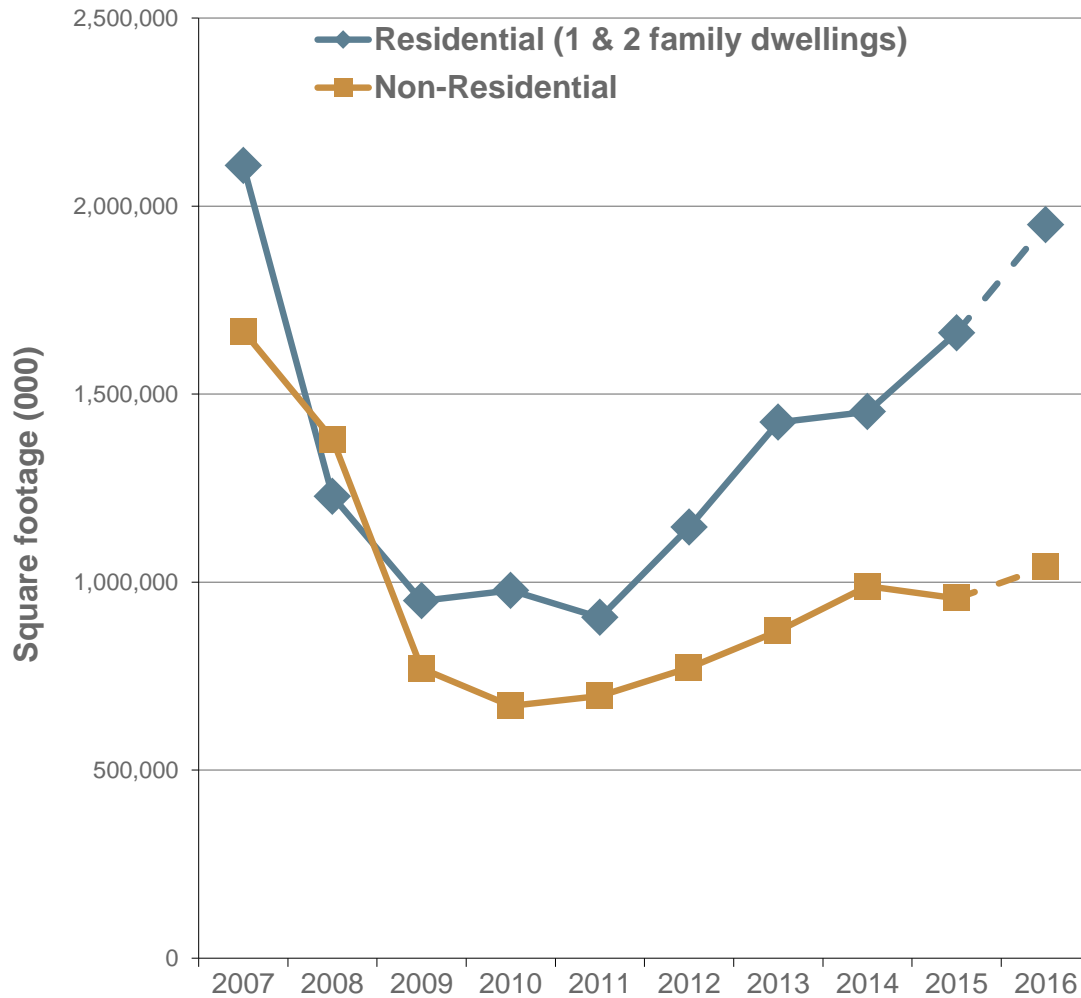
- Pent-up demand from the recession is exhausted on the retail side of the market. Replacement is now the biggest driver of retail sales.
- The average age of vehicles on the road is now over 11.5 years. The fleet is old and needs to be replaced. This will maintain sales at a high level for the next several years.
- There is still some pent up demand left on the fleet side of the market. Fleet sales are now increasing as a percent of total sales.
- As the housing market improves demand for pickup trucks is improving.
- Low gasoline prices are also increasing demand for trucks.
- Trucks achieved record market share in 2015 at 57%. Through 2016 trucks are running at 61% market share.
- Although the rate of increase will slow as long as demographics & economics remain positive sales will continue to increase, unless there is a change in lifestyle and behavior. There is no peak in sales until we go into a recession.

Building construction

Some growth in private construction



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* Non-building structures (e.g. infrastructure) not included

- Economic conditions continue to support steady improvement in 2016, but not robust recovery.
- The residential construction recovery that began in 2012 should continue its momentum in 2016 & 2017 prompted by improving labor markets, demographics, affordability, and mortgage availability. Homeownership rates remain historically low; however, growth in multifamily construction is expected to slow in 2016.
- The non-residential construction sector weakened in 2015, however market fundamentals suggest return to modest growth across both commercial and institutional sectors in 2016 & 2017.
- Growth in the residential sector should continue to provide a catalyst for growth in several nonresidential segments in 2016 & 2017.

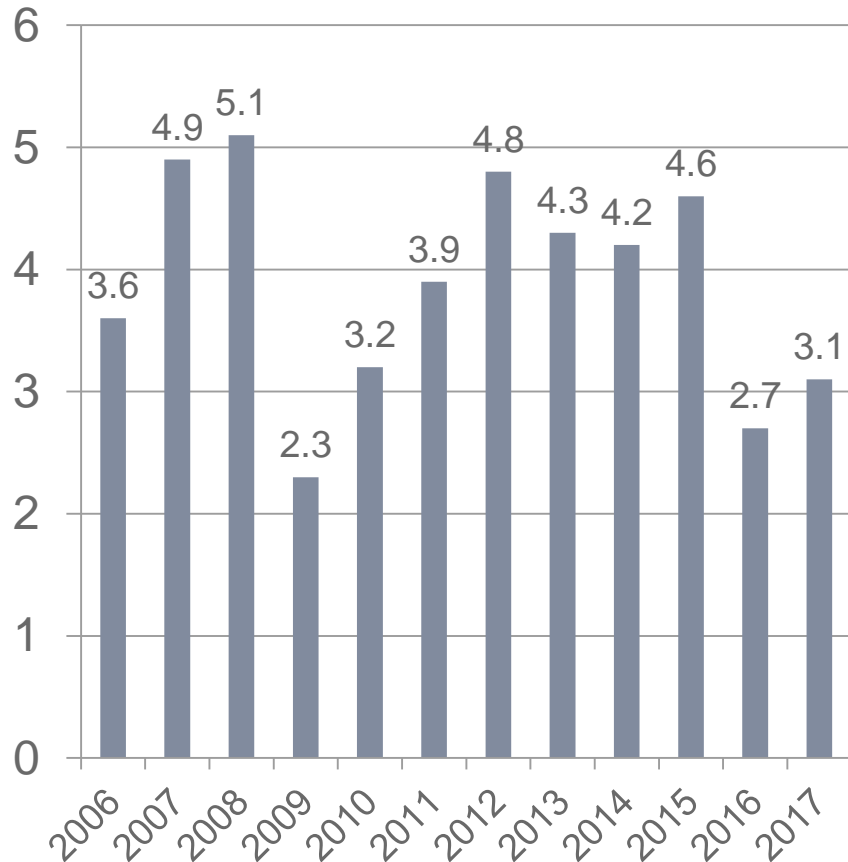
USA Energy Market Steel Demand

(millions of tons)

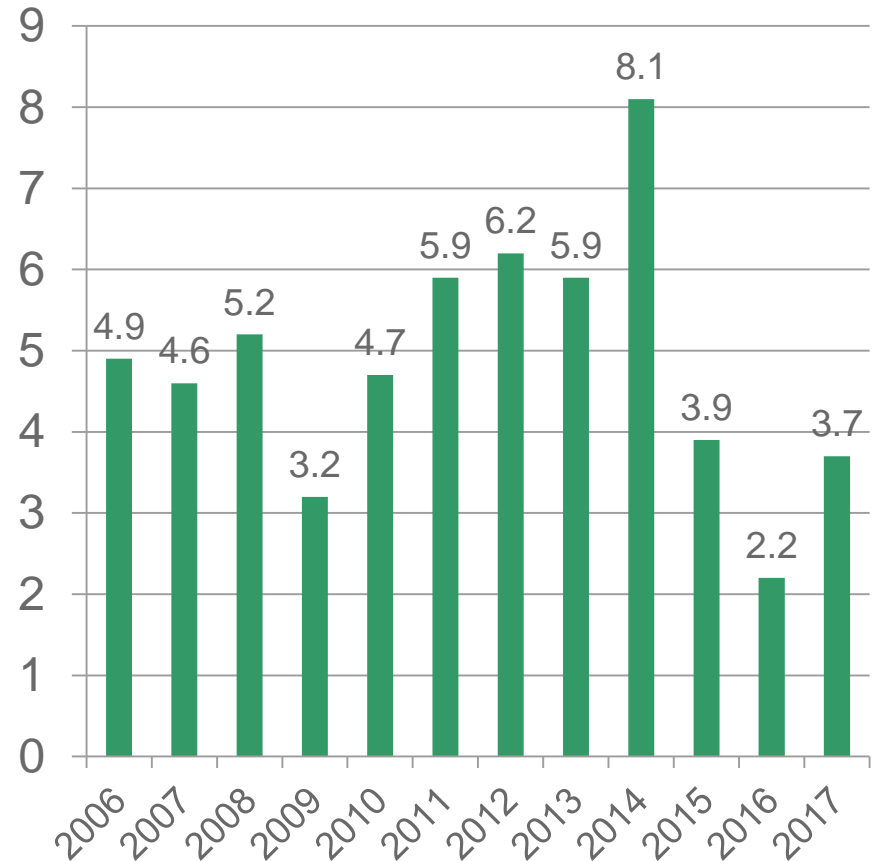


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line pipe



OCTG



Totals: 2014 - 12.3
2015 - 8.5
2016 - 4.9
2017 - 6.8

Preston optimistic case has OCTG demand at 4.5m tons for 2017

Source: Preston Pipe and Tube Report, November 2016

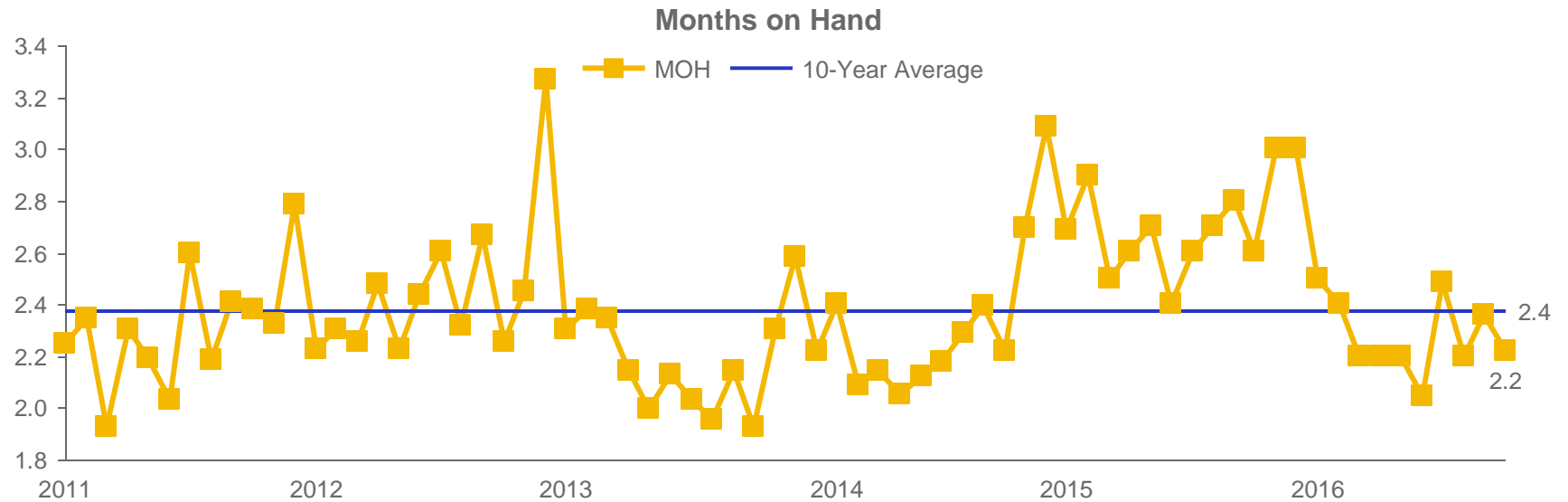
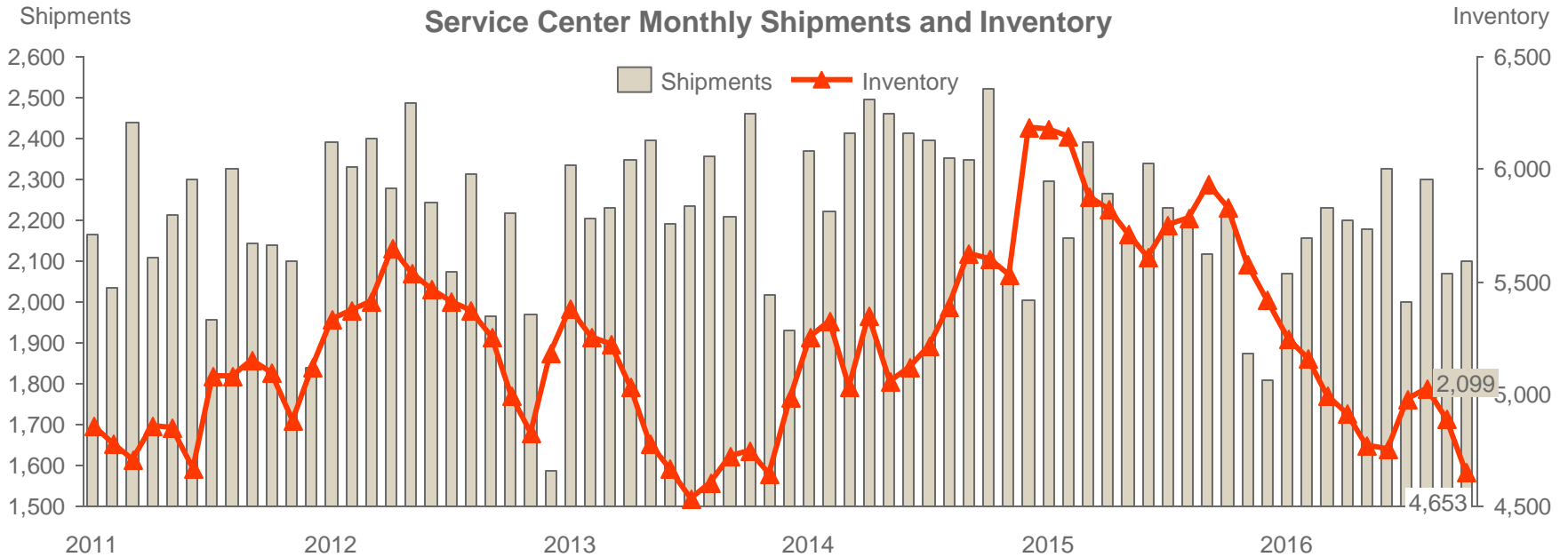
U.S. Service Center Data: Carbon Flat Roll

Shipments, Inventory, and Months-on-Hand

Source: MSCI November 2016



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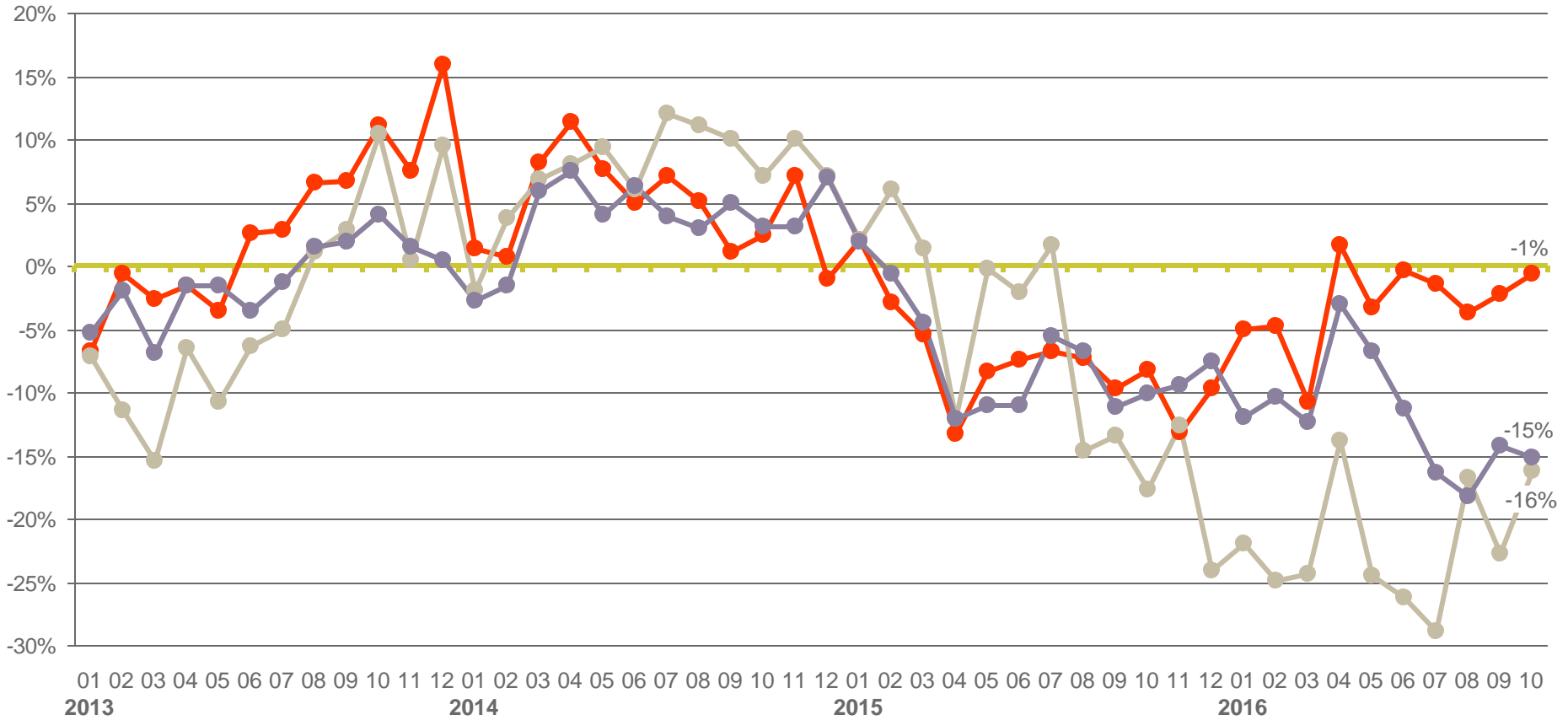


Average Daily Shipment Rate: Y/Y % Change











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



Shipments	Flat Roll	Plate	Pipe & Tube
Jan-Oct 2015	20,124	3,218	2,008
Jan-Oct 2016	19,530	2,494	1,781
Diff: Tons	-594	-724	-226
Diff: %	-3%	-22%	-11%

Steel markets direction in 2017

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

- There is no expectation that we will see robust growth any time soon. Steel markets are still slowly recovering from the recession.
- Auto growth is in Mexico in 2017. USA market is flat.
- Non-res construction will add about 1 million tons of demand in 2016.
- Energy activity will continue to be soft but recovers off the bottom in 2017.
- Steel inventories will add some demand in 2016 but will end low in 2016 and will be rebuilt in 2017.



USA apparent steel consumption

	Short tons (in millions)	% change
2013	106	1%
2014	118	12%*
2015	106	-11%
2016	105	-1%
2017	108	3%

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

Steel Consumption Trends & Global Markets



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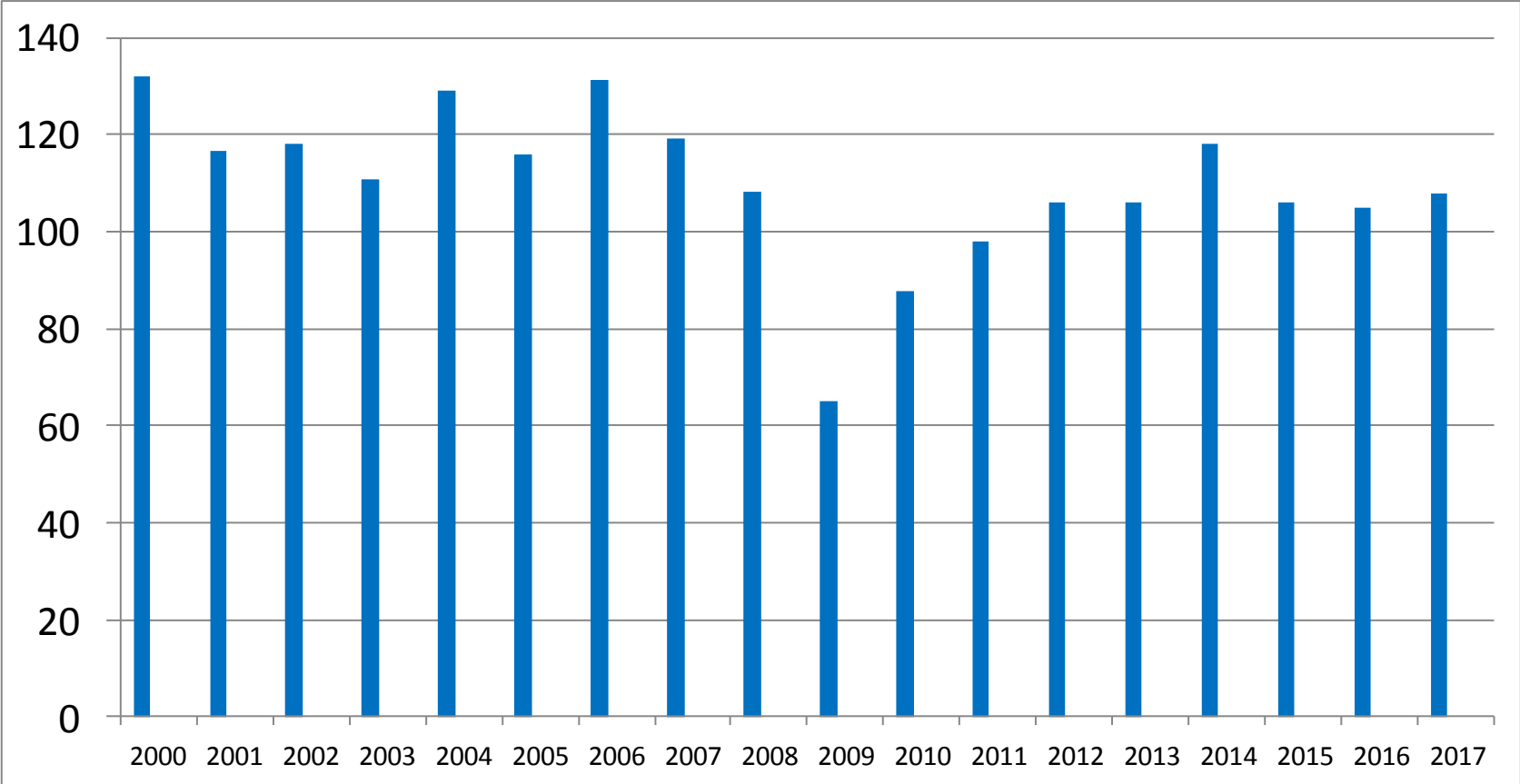
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Weekly US raw steel production Capacity utilization



USA Apparent Steel Consumption

million of short tons



Source: AISI, AM Marketing

Drop in ASC in
select recessions

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

USA imports and shipments



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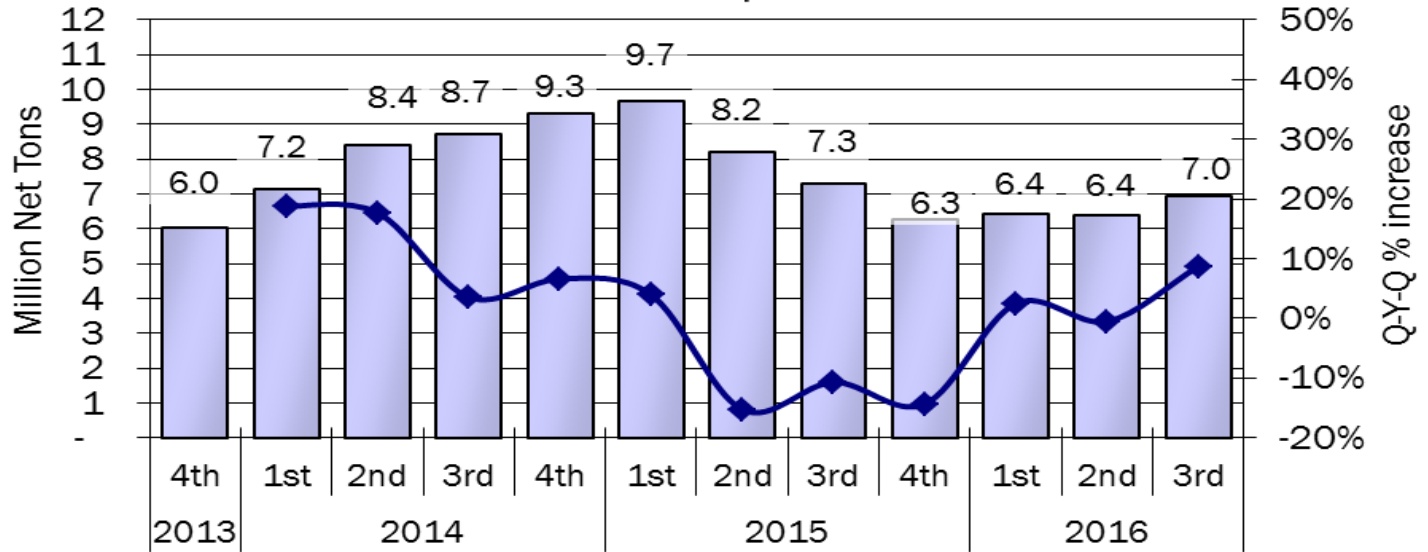
Imports market share 2015

- Q1 - 34%
- Q2 - 30%
- Q3 - 27%
- Q4 - 26%

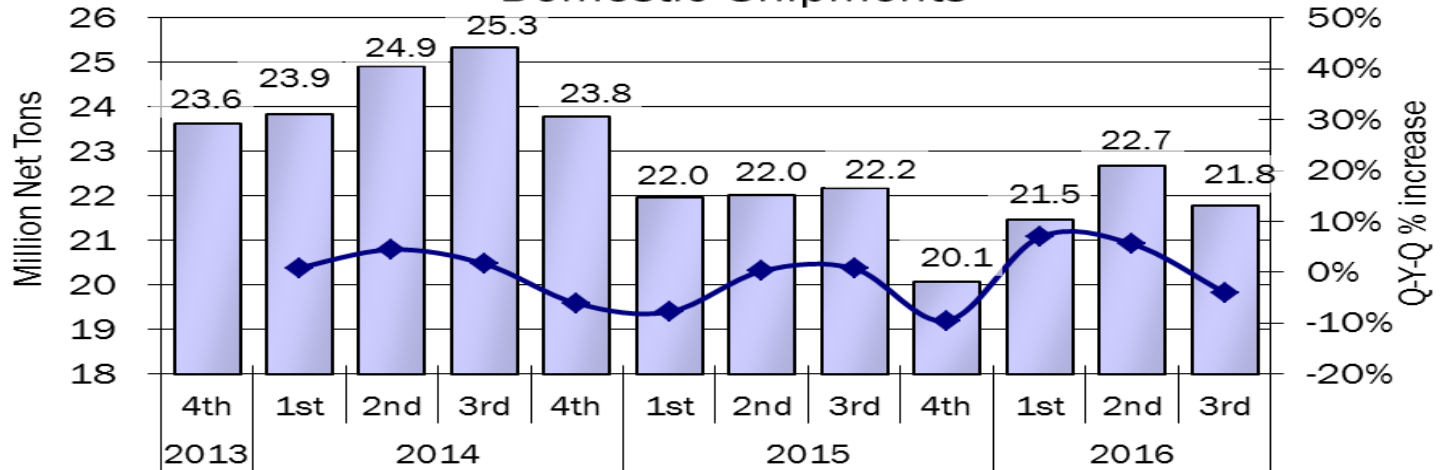
2016

- Q1 - 25%
- Q2 - 23%
- Q3 - 26%

Finished Imports



Domestic Shipments



Trade Cases



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Flat Roll Anti-Dumping Duty Case Timelines				
Product	CTD (CORE)	CR	HR	CTL Plate
AD Targeted Countries	China, India, Italy, S.Korea, Taiwan	Brazil, China, India, Japan, S.Korea, UK	Australia, Brazil, Japan, S.Korea, Netherlands, Turkey, UK	Austria, Belgium, Brazil, China, France, Germany, Italy, Japan, S.Korea, South Africa, Taiwan and Turkey
Start	6/3/2015	7/28/2015	8/11/2015	4/8/2016
DOC Initiation	6/23/2015	8/17/2015	8/31/2015	4/28/2016
ITC Prelim	7/24/2015	9/10/2015	9/25/2015	5/23/2016
DOC Prelim	11/2/2015	3/1/2016	3/14/2016	11/7/2016 ⁽¹⁾
DOC Final	5/24/2016	7/21/2016	8/4/2016	Late Mar '17
ITC Final	6/24/2016	9/2/2016	9/12/2016	Mid May '17
Issuance of Order	7/1/2016	9/9/2016	9/19/2016	Mid May '17
Flat Roll Countervailing Duty Case Timelines				
Product	CTD (CORE)	CR	HR	CTL Plate
CVD Targeted Countries	China, India, Italy, S.Korea,	Brazil, China, India	Brazil, S.Korea	China and S.Korea
Start	6/3/2015	7/28/2015	8/11/2015	4/8/2016
DOC Initiation	6/23/2015	8/17/2015	8/31/2015	4/28/2016
ITC Prelim	7/24/2015	9/10/2015	9/25/2015	5/23/2016
DOC Prelim	11/2/2015	12/15/2015	1/8/2016	9/7/2016
DOC Final	5/24/2016	7/21/2016	8/4/2016	Late Mar '17
ITC Final	6/24/2016	9/2/2016	9/12/2016	Mid May '17
Issuance of Order	7/1/2016	9/5/2016	9/19/2016	Mid May '17

Future steps
Est. date

The (1) Prelim results for Brazil, S. Africa and Turkey were released on 9/16/2016, as those countries did not respond to the questionnaires. The final decision for those countries from DoC will be on 11/29/16

Note: The Commerce Department initiated the investigation on China's circumvention of the AD/CVD orders on CR and CORE imports thru Vietnam on 11/7/2016

ITC has denied one of U.S. Steel's claims in a Section 337 case aimed at stopping all Chinese Carbon and Alloy steel entering the U.S.

Trade Cases

Dumping Margins and Subsidy Rates								
Countries	CTD (CORE)		CR		HR		CTL Plate	
	Final AD Assessments	Final Subsidy Rates	Final AD Assessments	Final Subsidy Rates	Final AD Assessments	Final Subsidy Rates	AD margins alleged(1)	DOC Prelim Subsidy Rates
Austria	NA	NA	NA	NA	NA	NA	41.97%	NA
Australia	NA	NA	NA	NA	29.37%	NA	NA	NA
Belgium	NA	NA	NA	NA	NA	NA	2.41-8.98%	NA
Brazil	NA	NA	14.35-35.43%	11.09-11.31%	33.14-34.28%	11.09-11.30%	74.52%(P)	NA
China	209.97%	39.05-241.07%	265.79%	256.44%	NA	NA	68.27%	210.5%
France	NA	NA	NA	NA	NA	NA	4.26-12.97%	NA
Germany	NA	NA	NA	NA	NA	NA	0.00-6.56%	NA
India	3.05-4.44%	8.0-29.46%	7.60%	10.00%	NA	NA	NA	NA
Italy	12.63-92.12%	De minimis-38.15%	NA	NA	NA	NA	6.00-130.63%	NA
Japan	NA	NA	71.35%	NA	4.99-7.51%	NA	14.96-48.64 %	NA
Netherlands	NA	NA	NA	NA	3.73%	NA	NA	NA
South Korea	8.75-47.8%	De minimis-1.19%	6.32-34.33%	3.91-58.36%	3.89-9.49%	3.89-57.04%	6.82%	De minimis
South Africa	NA	NA	NA	NA	NA	NA	87.72-94.14%(P)	NA
Taiwan	10.34%	De minimis	NA	NA	NA	NA	3.51-28.00%	NA
Turkey	NA	NA	NA	NA	4.15-6.77%	0.34-6.01%	42.02-50.00% (P)	NA
UK	NA	NA	5.40-25.56%	NA	33.06%	NA	NA	NA

Global Market Outlook & Raw Materials



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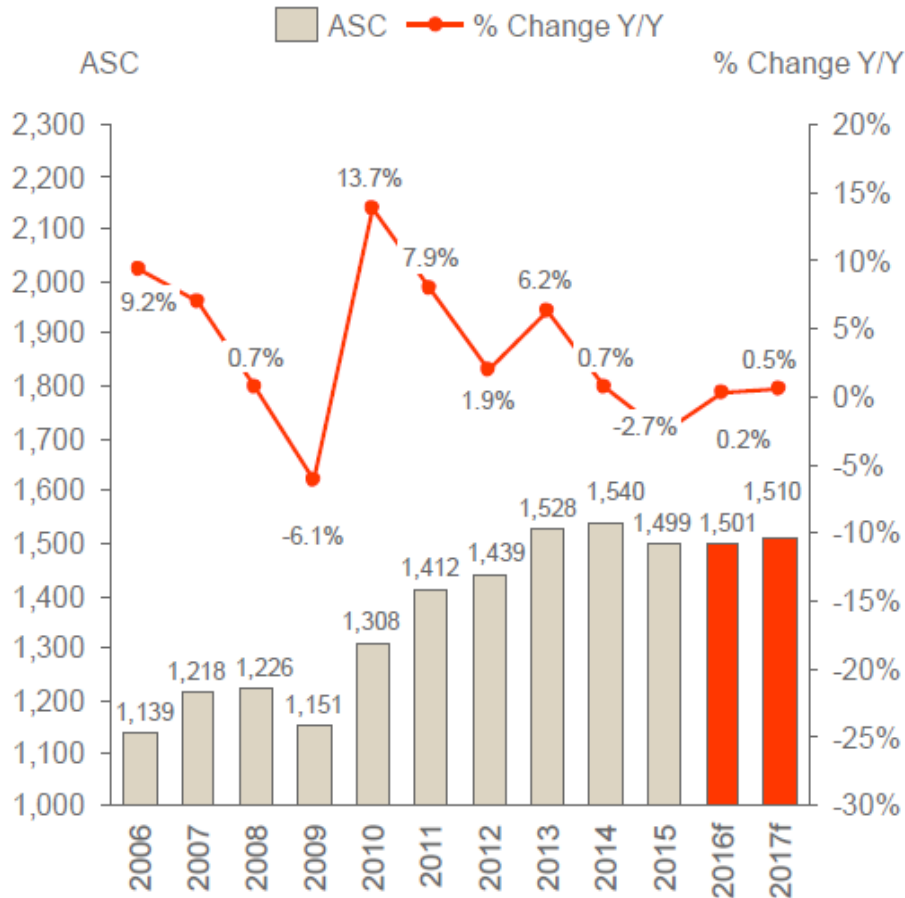
Global Steel Outlook



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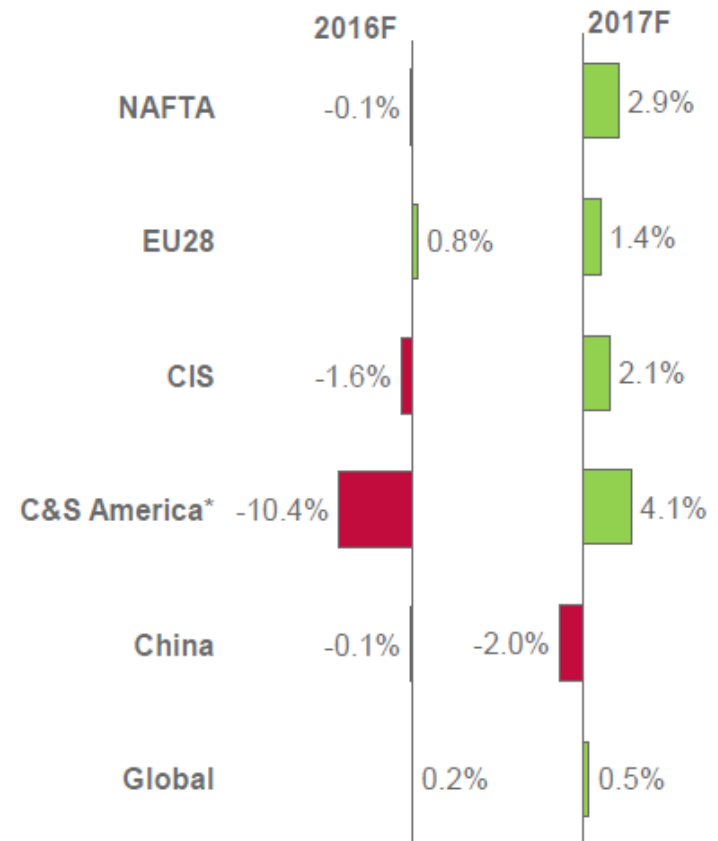
WSA - Global Apparent Steel Consumption

million metric tons



WSA - Global ASC Growth Forecast by Region

% Change Y/Y



* Central and South America

Source: World Steel Association – Short Range Outlook (Oct 2016)

Steelmaking Raw Material Input Costs

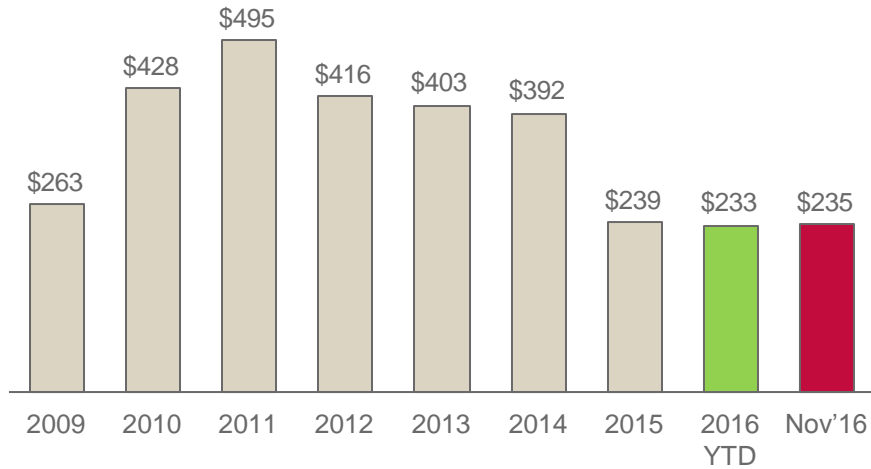
2009-2015 Averages and November 2016



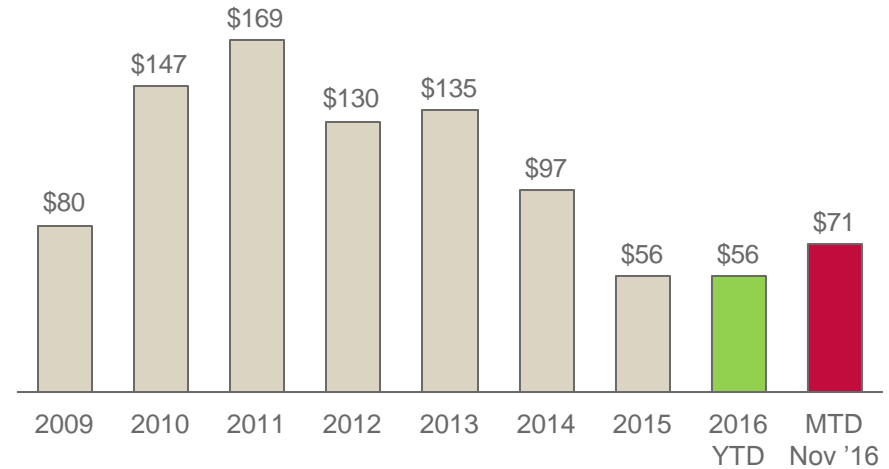
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All charts in \$ per metric ton except for Scrap

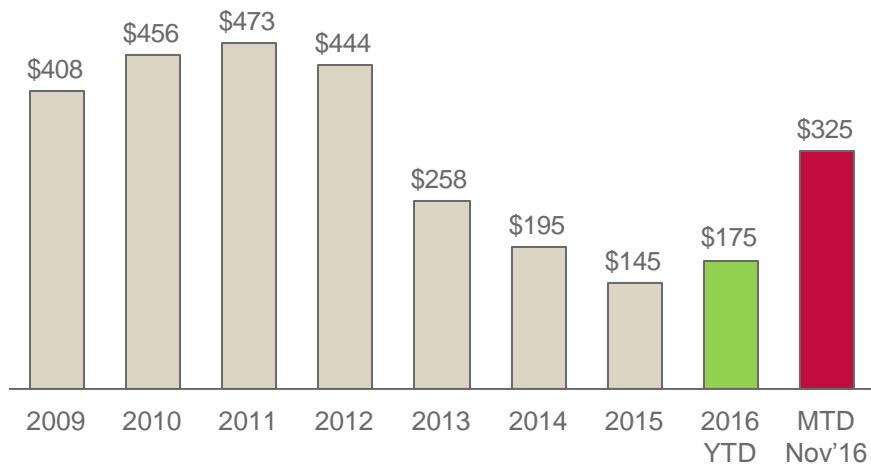
#1 Busheling Chicago Scrap AMM (\$/GT)



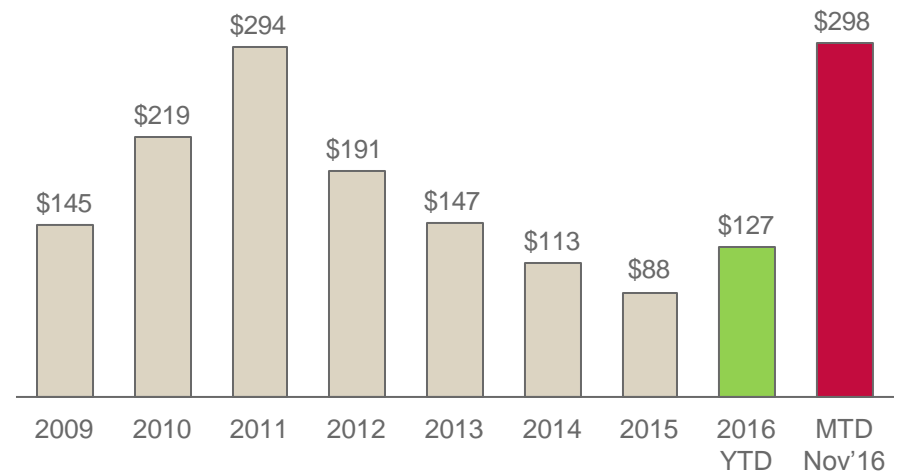
Platts IODEX 62%CFR China



Metallurgical Coke SBB/Platts



Australian Hard Coking Coal CRU/SBB



2009 – June 2012 = SBB, July 2012 - Present = Platts

CO2 regulations



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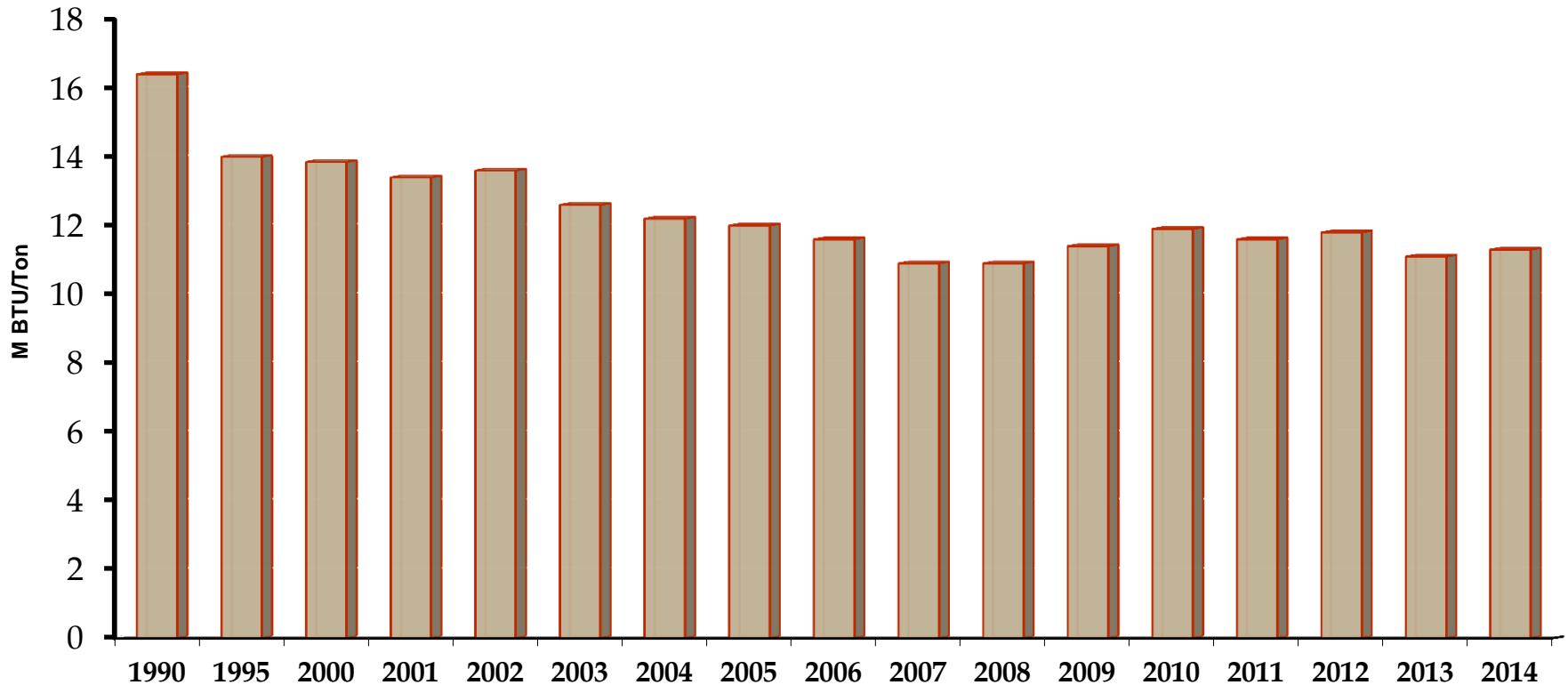


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Energy Efficiency

The industry has reduced energy intensity per ton of steel shipped by 31 percent and CO2 emissions by 36 percent per ton of steel produced since 1990.

The Steel Industry Improved Its Energy Efficiency by 31% Since 1990



Source: American Iron and Steel Institute

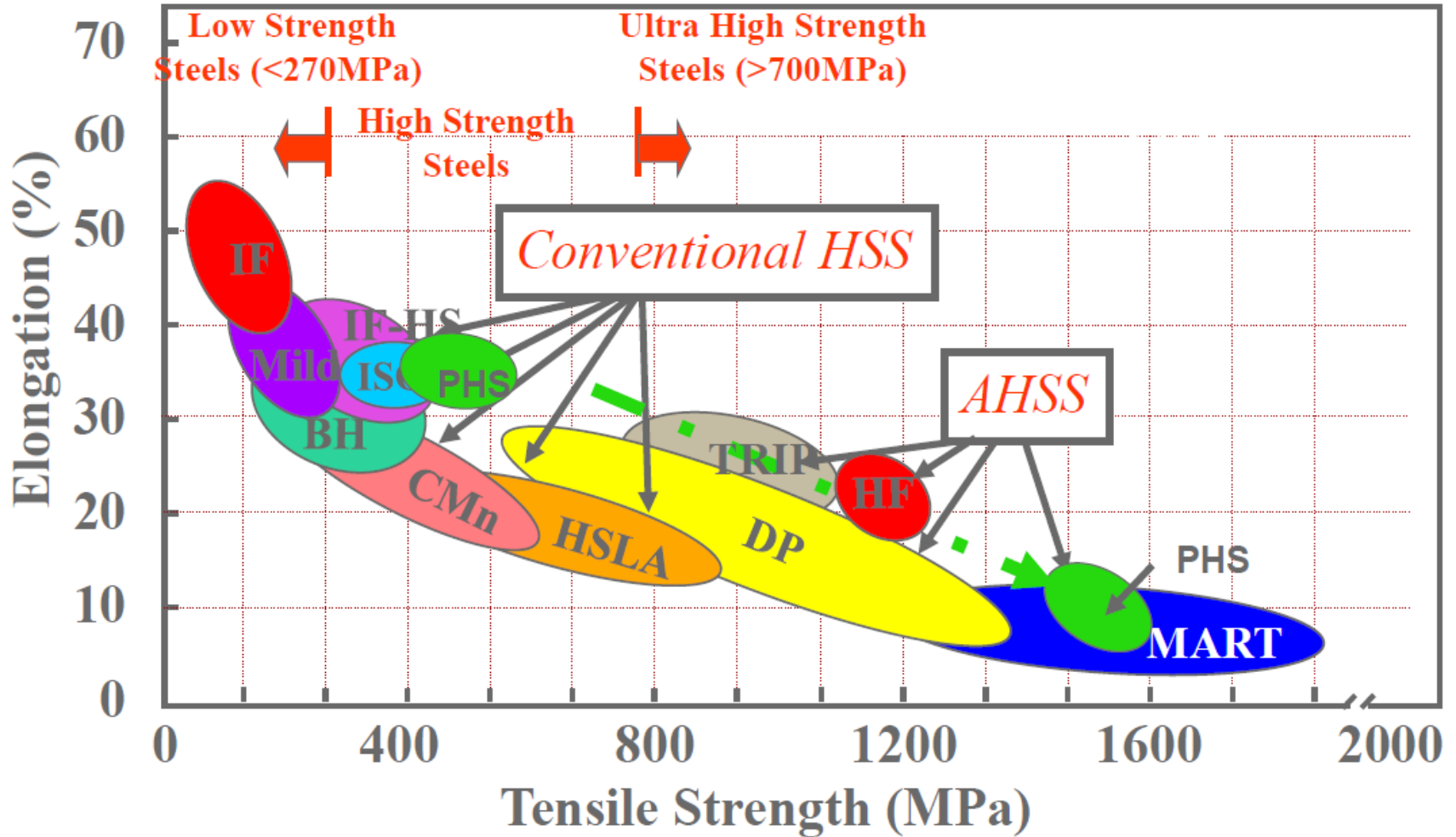
CAFÉ rules for 2025

- NHTSA CAFÉ rule = 54.5 mpg in 2025
- EPA rule = 163g/m = 54.5 mpg
- NHTSA can only rule out to 2021. Therefore, a mid term review is required in 2017 to get to 2025
- The EPA rule already goes to 2025

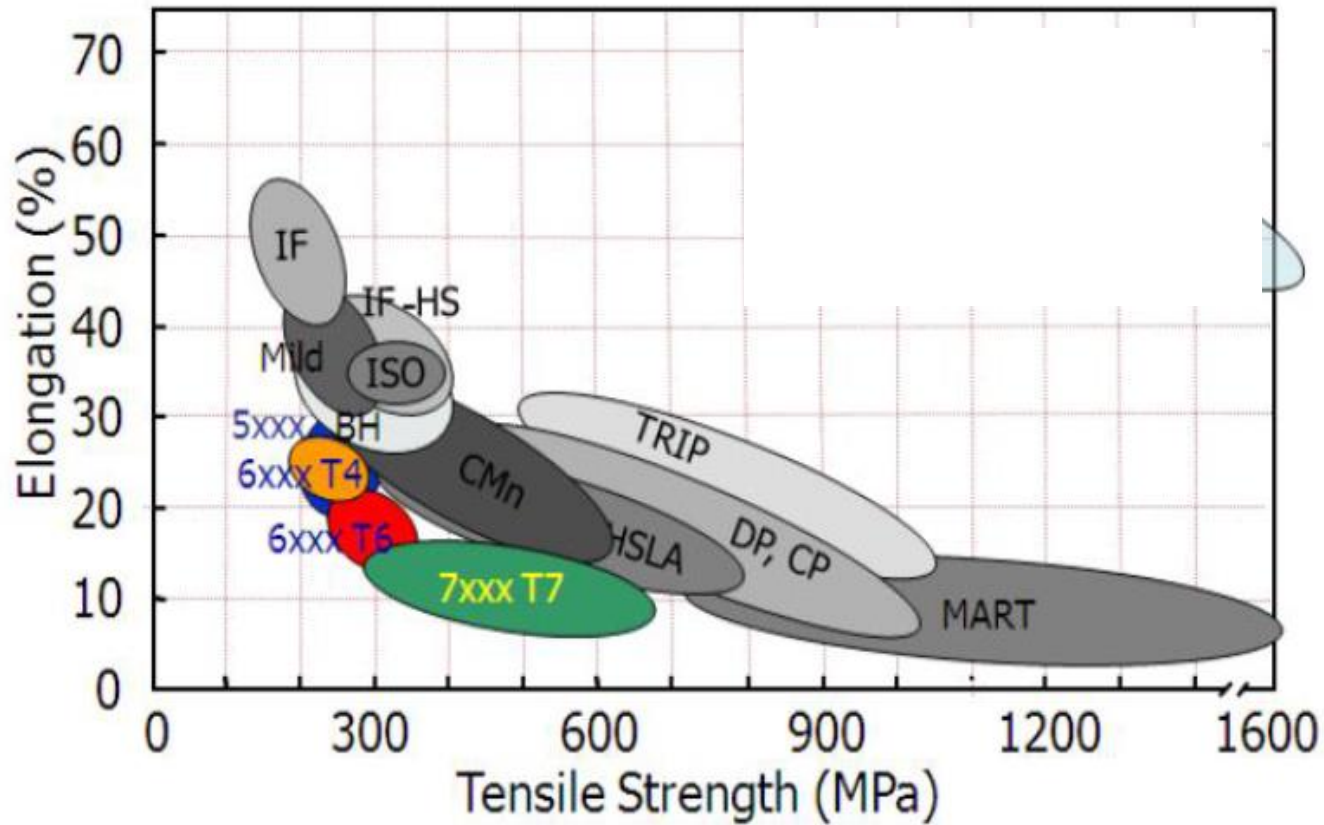
Automotive Sheet Steels



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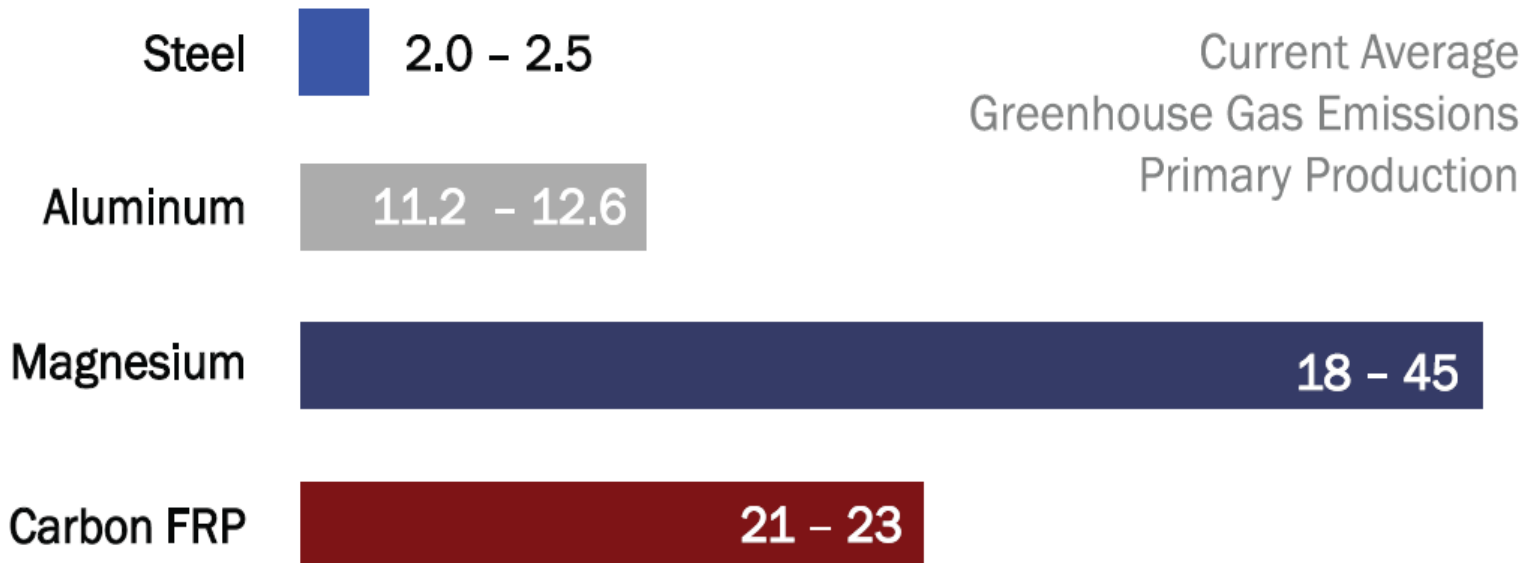


Properties of Al Alloys Relative to Steel



CO2 Emissions in Production Phase

Greenhouse Gas from Production (in kg CO₂e/kg of material)



Footnotes:

- All steel and aluminum grades included in ranges.
- Difference between AHSS and conventional steels less than 5%.
- Aluminum data - global for ingots; European only for process from ingot to final products .



Questions