

# Italy Metals Report Q3 2012

<https://marketpublishers.com/r/I9C9CB6594EEN.html>

Date: August 2012

Pages: 52

Price: US\$ 1,175.00 (Single User License)

ID: I9C9CB6594EEN

## Abstracts

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BMI's Italy Metals Report for Q3 2012 examines the recent positive trends in the Italian steel industry and expresses concerns that growth is unsustainable in the context of a domestic slowdown and increased pressure on exports.

The report examines how metals producers are responding to the challenges posed by an increasingly precarious external macroeconomic environment. These challenges have affected exports and had an impact on the Italian consumer. The report considers these issues and also assesses the ability of producers and exporters to realise returns in the short-term.

In the first four months of 2012, Italian crude steel output grew 3.4% y-o-y to 9.8mn tonnes (mnt), bucking the European trend. However, the EU's second largest steel industry will not escape the effects of the eurozone crisis and BMI expects a decline in monthly output going into H212. While exports may stabilise at around 12mnt, a sharp fall in domestic demand will reduce output. Italy's economic backdrop will deter large-scale capital investments, meaning that a strong rebound in the steel market may be difficult to attain. The Italian steel industry will take at least two or three years to return to the level of production seen before the 2008 financial crisis when output typically exceeded 30mnt per annum (mntpa).

Italy's output of aluminium and alloy semi-finished products was estimated at 849,000 tonnes in 2011, up 0.4% y-o-y, according to the Italian non-ferrous metals association Assomet. Alcoa, the country's only primary aluminium producer, has repeatedly threatened to pull out of Italy due to high costs, disputes over subsidies and loss-making at its two smelting operations.

Controversy surrounds the future of Alcoa's loss-making 150,000tpa Portovesme aluminium smelter, which it wishes to close in 2012 unless it finds a buyer. The closure of the Portovesme smelter would undermine the competitiveness of downstream aluminium alloy and metal works industries, which will be reliant on foreign producers for supplies due to the lack of primary metal. In March 2012, there were reportedly three potential investors – Glencore, Klesch and Hammerer Aluminium Industries – interested in taking over the smelter.

Over the last quarter BMI has revised the following forecasts/views:

We maintain our forecast of a 3.0% contraction in crude steel output to 27.8mnt for 2012. Imports are being more adversely impacted by the contraction in demand than domestic production.

The weakening of the euro is supporting Italian exports, although growth outside the EU is likely to slow down and Italian steelmakers will still be faced with increased competition from Turkey and Iran. Italy is set for a net steel trade surplus with countries outside the EU.

Domestic crude steel consumption is forecast to slump 8% to 31.3mnt in 2012, a revision from the 33.2mnt forecast in the previous quarter. Our more negative outlook comes amid fresh statistics that show a sharp industrial decline in Italy.

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