



Cement  
Business  
Research



## What might the major trends in the global cement sector be in 2020?

At the beginning of 2019, we have selected three top issues that we felt will define our industry during the year. These were:

- Most regional markets experience overcapacity, whilst geopolitical and macroeconomic events dampen demand
- Many large markets exhibit a high degree of fragmentation, despite the recent global consolidation initiatives (mega-mergers etc.)
- Climate Change driven legislation and solutions. Several implications of this issue not least the potential impact on production capability of certain regional cement producers.



How have these issues developed in 2019?

If anything, geopolitics have taken a negative turn during 2019. There are several outstanding geopolitical events/issues still present around the world and then some! Most regions experience their own issues, none being immune to this trend. Clearly, there are several large items here; the trade conflict between the USA and China, Brexit, upheaval in the Middle East and the continuation of the standoff between the West and Russia are some of the most important geopolitical events that did not find a satisfactory solution in 2019. As a result, demand has been subdued but also varied between several larger markets. Developing markets have mostly suffered.

At the same time, most cement producers sought to recover increasing costs by raising prices. This has been successful in some markets but not all. In fact, in several emerging markets we have seen prices dropping during the year. There is more to be done here.

Fragmentation continued to be high as corporate activity was also subdued during 2019. Yes, several disposals from larger players have been undertaken or announced during the year but not enough to drive a strong consolidation activity in larger markets. In this light, it appears that major cement producers are abandoning emerging markets.

The climate change driven legislation has stalled during 2019 culminating in a generally accepted disappointing COP 25 in Madrid. At the same time CemBR's report on the EU ETS & Cement has proven conclusively that the European cement industry has not managed to achieve the targets intended by the System. Not much progress has been reported on the details of Phase IV of the ETS.



## What we might expect for 2020?

Given the subdued expectations for GDP growth globally (revised downwards towards the end of 2019), demand may show signs of tiredness in many large markets. There may be some bright spots around the world, but not many. We would therefore expect cement producers to push for higher prices. But again, given the continuing fragmentation of many markets, this endeavour may be successful in only a few cases. At the same time, unfavourable supply – demand balances in many markets may even lead to price erosion.

Under these circumstances, we may see lower levels of new capacity additions and increased levels of corporate activity. It has now become apparent to participants of several large and fragmented markets that consolidation is probably the only way forward for their industry. So, it will not be a surprise to see several assets changing hands (or at least, we may see relevant announcements or moves) during the year. Whether these moves are successful will depend on whether the “expectations gap” between buyers and sellers closes. Financial distress may (or should) drive buyers’ expectations downwards in several markets.

Another trend for 2020 may be the increased propensity of several cement producers to export. Such move would impact on FOB prices for cement and clinker, particularly in hotly contested regions (Med. Rim, West Africa etc.).



Phase IV of the EU ETS must be defined in 2020. There are several issues that need to be sorted, not least the concept of carbon leakage. The attitude of the European authorities towards carbon leakage and the new “benchmark” CO<sub>2</sub> per tonne of clinker will influence the behaviour of several Southern European cement producers. It should not come as a surprise if by the end of the year, we see several announcements of closures of cement plants. The scenarios here are many and clearly the political decisions of the EU will be pivotal for the survival of many a cement plant in Europe.

Globally, the implementation of similar systems (Emissions Trading) is expected to proceed, introducing an additional variable to existing challenges.

All in all, the challenging environment experienced in 2019 in our industry is expected to continue in 2020. Clearly, any initiatives to consolidate large, fragmented markets may provide a positive boost to the sector in 2020. The resolution of all or some of the major geopolitical issues will also act as a positive catalyst supporting global confidence.



**CemBR will continue to provide unbiased, fact-based research and analysis on several aspects of our industry. We aim to support our clients navigate these challenging times by enabling them to base major decisions on accurate and up to date sector intelligence. Our team wishes all our clients and friends a happy and prosperous 2020!**

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