



Automotive Industry Weekly Digest

01 November – 05 November 2021





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[Policy Highlights] Chinese authorities issue draft guidelines for improving safety of NEVs

China's Ministry of Industry and Information Technology (MIIT) has issued draft guidelines that require new energy vehicles (NEVs) to be subjected to increased safety checks in China amid concerns over battery fires and brake failures, according to Automotive News China. Automakers will be required to improve safety monitoring and management systems along with improving quality defects, from vehicle design and testing to upstream supply chains. According to the guidelines, automakers will also be required to set up a 24-hour emergency response system for major accidents. Companies whose vehicles are involved in accidents or do not conduct regular checks may face penalties, including being removed from government subsidies or production suspensions.



Outlook and implications

China is in the process of drafting laws to better protect its citizens. This comes after several reports of cars getting into accidents and catching fire surfaced. In August this year, China urged automakers to strengthen their data protection and store locally generated data in the country. These rules are intended to prohibit companies from processing data generated by cars that are not related to vehicle management. In addition, collected data such as locations, roads, buildings, terrain, and other information about the environment outside the car gained via sensors is not allowed to leave the country. Due to the recent scrutiny, companies such as Tesla, BMW, Nissan, Stellantis, and Daimler confirmed in May that they either already have or will soon set up data storage centres locally.

[Policy Highlights] China's State Council releases new action plan to curb carbon-dioxide emissions

China's State Council has released a new action plan with the aim to curb carbon dioxide emissions before 2030, reports Gasgoo. As per the plan, China will promote the use of low-carbon options for transportation such as electricity, hydrogen, natural gas, and advanced biology liquid fuel. In order to achieve that goal, the country plans to gradually lower the proportion of traditional fuel cars in new vehicle production and focus on the replacement of oil-fuelled public service vehicles with electric ones. China also aims at speeding up the setting up of electric vehicle (EV) charging piles, supporting power grids, and gas and hydrogen filling stations in order to improve transport infrastructure.



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Outlook and implications

China has been aggressively pushing for the use of new energy vehicles (NEVs) in both the private and public transport domains. NEV sales have increased significantly in the past five years in China, thanks to the generous subsidies offered by the government. Despite the impact of the coronavirus disease 2019 (COVID-19) virus pandemic on vehicle sales, the Chinese NEV market continued to expand during 2020. Sales of NEVs increased by 10.9% to 1.37 million units last year. In the first nine months of this year, NEV sales in China rose by 185.3% y/y to 2.157 million units and are anticipated to increase by more than 40% each year for the next five years. Apart from promoting the use of NEVs, the government in July this year also announced a plan for better traceability and recycling of batteries used in NEVs to reduce their impact on the environment. The Chinese authorities also updated regulations related to returns, repairs, and replacements of NEVs to help ease the anxiety in the minds of current customers and over prospects about the quality of NEVs. Under the new policies, power batteries and motors are included in the new regulations as main auto parts and will enjoy the same warranty rights as the engines and transmissions in gasoline (petrol) vehicles.



[Mobility Highlights] Chinese EV-maker Xpeng launches upgraded semi-autonomous features

Chinese electric vehicle (EV) startup Xpeng Motors has announced updates for its semi-autonomous system at its Tech Day virtual briefing. Xpeng has released Xpilot 3.5, the latest version of its advanced driver assistance system (ADAS). It will be available to owners of Xpeng's P5 car, which was launched this year. The upgrade will be available to customers in the first half of next year. The Xpilot 3.5 system will introduce a feature called City NGP (Navigation Guided Pilot), that allows the car to change lanes, speed up or slow down, or overtake cars and enter and exit motorways. Xpeng also announced details of the next-generation ADAS called Xpilot 4.0, which be built on a comprehensive hardware upgrade and will include features such as vehicle switch-on to assisted parking. Xpilot 4.0 is scheduled for rollout in the first half of 2023. As well as this, Xpeng also unveiled a new vehicle charger that would give the battery a range of 200 km with just five minutes of charging, reports CNBC.



Outlook and implications

Xpeng, also known as Xiaopeng Motors, is one of a group of EV startups established in China due to growing demand for new energy vehicles (NEVs). In September, Xpeng launched its third mass-produced model, the P5 sedan, in China. IHS Markit forecasts that P5 sales will total around 3,700 units in 2021 and around 11,200 units next year.

[Mobility Highlights] Startup WeRide launches China's first level 4 self-driving cargo van

The company will work with Jiangling Motors (JMC), and ZTO Express, a leading express delivery company in China



Source: Getty image/ gorodenkoff

According to a press release published on PR Newswire on 15 October, WeRide entered the urban logistics industry with the unveiling of WeRide Robovan, China's first Level 4 self-driving cargo van.



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In a strategic collaboration, the company will work with Jiangling Motors (JMC), a major Chinese automobile manufacturer, and ZTO Express, a leading express delivery company in China, to promote mass production and commercialization of WeRide Robovan. WeRide coordinates this trilateral collaboration and builds an autonomous driving (AD) ecosystem for China's urban logistics. WeRide is now dedicated not only to L4 autonomous driving mobility, but also to smart urban logistics.

"WeRide has always emphasized that AD technologies should be used effectively in reality to serve the society. With the introduction of Robovan, the very first L4 self-driving cargo van in China, we have heralded a new era of autonomous driving for urban logistics in the country. By teaming up with two key players in the sector, Jiangling Motors and ZTO Express, we continue to uphold the "triangle model" of collaborating, an approach which WeRide has adopted since we developed passenger vehicles. We are aiming to deliver both smart mobility and smart logistics for cities in the future," said Tony Han.

Outlook and implications

They will jointly undertake Robovan's commercial pilot operations and explore the know-how of upgrading urban logistics, combining the three companies' expertise in technology, product innovation, and commercialization. WeRide and JMC will collaborate closely in the future to design purpose-built models for mass production on JMC's customised assembly lines, while ZTO Express will acquire Robovans for urban logistics use.

WeRide currently offers an all-around product mix of Robo-taxi, Robo-van, and Mini Robo-bus, and will continue to advance its technology. The company is committed to Level 4 autonomous driving on mobility and logistics services.



[Sales Highlights] Volvo Group's Q3 sales, profits improve y/y despite semiconductor disruption

IHS Markit perspective

Implications Volvo Group has announced that its third-quarter sales and profit have improved, despite the disruption that has been caused by the semiconductor shortage.

Outlook As a result of the shortage of semiconductors and other components, Volvo Group has reduced its orders during the third quarter to focus on building and supplying vehicles already on order. However, it has warned that uncertainties over supply will continue for now.



Volvo Group has announced that its financial performance has improved during the third quarter despite the impact of the ongoing semiconductor shortage. During the three months ending 30 September, net sales increased by 10.9% year on year (y/y) to SEK85,258 million. However, excluding UD Trucks, which was divested on 1 April, net sales have grown by 19.2% y/y. In addition, without the impact of currency movements, the improvement is said to have reached 20% y/y. Operating income during this period surged to SEK9,433 million, a gain of 25.6% y/y. It said that this was mainly down to an effect of price realisation, increased vehicle and service volumes as well as positive mix effects from its Construction Equipment business, although this was partly offset by higher raw material costs and lower contribution from its joint ventures (JVs). On an adjusted basis, which reflects the ceased depreciation and amortisation of assets held for sale, it is now up 30.3% y/y at SEK9,403 million. Adjusted operating margin has also reached 11% against 9.4% a year ago. Overall, income for this period stood at SEK7,109 million, up from a profit of just SEK5,903 million a year ago.

From a business unit perspective, its dominant Trucks unit has supported this improvement. During the quarter, its sales revenues increased by 11.9% y/y to SEK53,401 million. However, when taking the contribution made by UD Trucks in the third quarter of 2020 out, its revenues increased by 25.8% y/y, and if the negative currency factors are removed, this increases to around 27% y/y. It was boosted by a considerable increase in its worldwide deliveries, due to much stronger customer demand from those looking to replace old trucks or expand their fleets. During the quarter, its volumes increased by 16.6% y/y to 43,984 units, while excluding the UD Trucks contribution a year ago this jumps by 29.9% y/y. On a regional basis, sales have increased across the world since a year ago. Europe led the way in terms of volume, where its deliveries have increased by 13.8% y/y to 20,286 units. North America recorded a far bigger percentage gain of 67.5% y/y to 10,222 units. In South America, deliveries leapt by 87.4% y/y to 8,152 units. Its Africa and Oceania deliveries also increased by 12.8% y/y to 2,226 units. However, in Asia there was a decline of 14.4% y/y to 3,098 units. Operating income for the third quarter improved by 27.8% y/y to SEK5,814 million, while on an adjusted basis this has increased by 28.6% y/y to SEK5,814 million. The improvement has stemmed from improved price realisation, increased vehicle and



service volumes, as well as improved profitability on used vehicles. However, this was offset by increased material costs, lower income from JVs and negative mix effects.



The Buses division struggled again during the third quarter of 2021. Its sales revenues during this period increased by 2.5% y/y to SEK4,770 million, as deliveries increased by 2% y/y to 1,357 units. However, operating income dropped by 81.9% y/y to SEK42 million, while adjusted income contracted 82.5% y/y, also to SEK42 million. This drop has been caused by lower capacity utilisation, production disruptions and an unfavourable market mix. However, there was some benefit from higher service earnings.

Elsewhere, its Construction Equipment (CE) business recorded a solid improvement. Net sales increased by 11.5% y/y to SEK19,638 million despite total deliveries falling by 8.5% y/y to 18,085 units, which was due to a drop-off in the important Asia region. Adjusted operating income is up by 34.2% y/y to SEK2,635 million. At the same time, the Penta engine business's sales revenues gained by 12% y/y to SEK3,428 million, while adjusted operating income dropped back by 12.1% y/y to SEK501 million.

This recent performance combined with the low base caused by the COVID-19 virus pandemic during the first half of 2020 and the completion of the sale of UD Trucks earlier this year has been beneficial to its financial performance during the year to date (YTD). For the nine months ending 30 September, net sales increased by 11.7% y/y to SEK269,838 million. However, excluding UD Trucks, net sales have grown by 17.3% y/y. Operating income during this period leapt to SEK32,854 million, an increase of 115.2% y/y. On an adjusted operating income grew by 75.6% y/y to SEK30,955 million. Adjusted operating margin has also reached 11.3% against 7.3% in YTD 2020. Overall, income for this period stood at SEK25,177 million, an increase of 135% y/y.

Outlook and implications

The positive performance during the third quarter has come despite the company facing challenges that have hindered its ability to keep up with demand. The company's CEO Martin Lundstedt said in a statement, "The quarter was affected by shortages of semiconductors, other components and freight capacity resulting in production disturbances and increased costs." He added that with regards to its truck business, "We see that customers need to both renew and expand their fleets. However, this is not fully reflected in our order intake, as well have been restricted with order slotting due to our already large order books and long delivery times". As a result, the company's total order intake during the third quarter fell by 3.7% y/y to 51,118 units, even excluding the now disposed of UD Trucks unit. The regional view underlines the challenge being faced by the truck-maker, with net orders in Europe slumping by 23.9% y/y to 18,396 units. There was also a drop of 48.2% y/y in South America and 33.9% y/y in Asia. However, on a more positive note, Volvo Group recorded a 74.9% y/y increase in orders in North America to 21,750 units during the third quarter. For now, Lundstedt has said that the company is "fully focused on producing and delivering trucks to meet customer demand, but the persistent problems in the



supply chain have meant that we from time to time have been forced to stop or slow down production". Indeed, the company has said that in some instances it has built incomplete trucks as well as undertaking production stoppages, which have also blighted other companies in the automotive sector.



Lundstedt has also warned, "The situation in the global supply chain for semiconductors and other components remains unstable, characterized by disruptions, unpredictability and a lack of freight capacity". Indeed, during the presentation the company has noted that supply challenges will continue into the first half of 2022 with low visibility in the fourth quarter. As a result, he expects the company to "therefore continue to have disruptions and stoppages both in the production of trucks and in other parts of the group."

Looking forward to the remainder of 2021, IHS Markit currently still expects an improvement in truck and bus production volumes of around 18% y/y compared to the COVID-19-hit 2020. However, this will be around 13% below that recorded during 2019.

[Sales Highlights] Kia's net profit surges 748.8% y/y in Q3

IHS Markit perspective

Implications	The strong growth in Kia's net profit during the third quarter came on the back of a low base of comparison. During the third quarter of last year, quality-related expenses affected the automaker's profitability, as it put aside around KRW1.01 trillion in provisions for engine issues in the United States and pre-emptive measures on quality management. This year, there were no such one-off expenses. However, unfavourable exchange-rate effects, production disruption due to the global semiconductor shortage issue and the renewed COVID-19 virus pandemic in some parts of the world did weigh on the automaker's profitability in the last quarter.
Outlook	Kia expects the global semiconductor shortage issue and increased volatility in exchange rates to continue to weigh on its earnings in the fourth quarter. The automaker expects its annual sales to be less than 2.9 million units this year.

This report covers only the results of the Kia brand in the third quarter; affiliate Hyundai's financial results were covered in a separate article. Hyundai Motor Group is the parent company of both Hyundai and Kia.

Kia has announced that its net profit increased 748.8% year on year (y/y) to KRW1.13 trillion (USD967.8 million) in the third quarter, up from KRW133.7 billion during the same period of 2020. Operating profit surged by 579.7% y/y to KRW1.33 trillion during the third quarter, which included gains from product mix improvements worth KRW452 billion and from volume increases worth KRW137 billion. These gains offset factors such as cost increases and unfavourable exchange-rate effects worth KRW310 billion and KRW160 billion, respectively.



Kia's sales revenues totalled KRW17.75 trillion during the third quarter, up by 8.8% y/y. The automaker's South Korean unit accounted for 21.7% of its total sales revenues in the third quarter, while its North American and European operations contributed around 35.0% and 29.4%, respectively. The automaker's Indian unit accounted for 4.7% of total revenues, while other overseas units contributed a combined 9.1% of total revenues during the period. At the end of the third quarter, Kia's total assets were KRW64.49 trillion, while its liabilities totalled KRW30.71 trillion.

起亚汽车 2021 年第三季度及 2021 年累计财务业绩 (十亿韩元)

	2021 年第三季度	2020 年第三季度	同比变化	2021 年累计	2020 年累计	同比变化
销售收入	17,752.76	16,321.78	8.8	52,673.99	42,257.52	24.6
营业收入	1,327.00	195.23	579.7	3,890.56	784.85	395.7
净收益	1,134.66	133.68	748.8	3,512.61	525.96	567.8

来源：起亚汽车新闻稿

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During the third quarter, the automaker's cost of goods sold (as a percentage of sales revenues) remained flat at 82.0%. Kia's selling, general, and administrative (SG&A) expenses, also as a percentage of sales revenues, decreased to 10.5% (down by 6.3 percentage points). This was mainly owing to a 5.6-percentage-point drop in warranty expenses to 2.3% of sales revenues, a 0.6-percentage-point fall in marketing expenses to 3.5%, a 0.1-percentage-point decline in research-and-development expenses to 1.3%, and a 0.1-percentage-point decrease in other expenses to 1.7%. However, Kia's salary and wage expenses increased by 0.1 percentage point to 1.7% of sales revenues.

Kia posted a 1.3% y/y increase in its global vehicle sales (on a retail basis) to around 745,000 units in the third quarter. Of this total, South Korean sales accounted for 125,000 units, down by 8.6% y/y; sales in the United States were 177,000 units, up by 7.3% y/y; and sales in Western Europe grew by 2.7% y/y to 137,000 units. Kia's Chinese sales decreased 42.2% y/y to 35,000 units during the period. Its sales in India surged by 57.9% y/y to 48,000 units, while its sales in "other general markets", including the Middle East and North Africa (MENA), Russia, Latin America, and Asia Pacific, were up by 6.7% y/y to 223,000 units.

On a wholesale basis (shipments from factory to dealership), Kia sold 684,000 units globally during the third quarter, down by 2.1% y/y. The automaker's wholesales in South Korea during this period went down by 8.6% y/y to 125,000 units, while those in North America declined 1.9% y/y to 193,000 units. Sales in Europe went up by 7.0% y/y to 137,000 units last quarter. In the third quarter, Kia recorded a 21.5% y/y surge in sales in India to 46,000 units; a 55.2% y/y sales decline in China to 28,000 units; a 4.2% y/y sales drop in Russia to 57,000 units; a 43.4% y/y sales jump in the MENA region to 45,000 units; a 14.2% y/y sales decrease in Asia Pacific to 29,000 units; and a 94.8% y/y sales increase in Latin America to 25,000 units.





During the first three quarters of 2021, Kia's net earnings were up by 567.8% y/y to KRW3.51 trillion. During this period, operating profit surged by 395.7% y/y to KRW3.89 trillion, which included gains from product mix improvements worth KRW1.82 trillion and from volume increases worth KRW1.38 trillion. These gains offset factors such as cost increases and unfavourable exchange-rate effects worth KRW513 billion and KRW601 billion, respectively. The automaker's sales revenues during the first three quarters increased by 24.6% y/y to KRW52.67 trillion.

The automaker's global retail sales during the first three quarters of 2021 jumped by 20.1% y/y to 2.27 million units. Of this total, South Korean sales accounted for 403,000 units, down by 2.8% y/y; sales in the United States surged 29.7% y/y to 556,000 units; and sales in Western Europe grew by 24.5% y/y to 388,000 units. Kia's Chinese sales decreased by 25.3% y/y to 115,000 units during the period. The automaker's sales in India surged by 91.6% y/y to 138,000 units, while its sales in "other general markets" were up by 31.8% y/y to 674,000 units.

Outlook and implications

The strong growth in Kia's net profit during the third quarter came on the back of a low base of comparison. During the third quarter of last year, quality-related expenses affected the automaker's profitability, as it put aside around KRW1.01 trillion in provisions for engine issues in the United States and pre-emptive measures on quality management. This year, there were no such one-off expenses. However, unfavourable exchange-rate effects, production disruption due to the global semiconductor shortage issue and the renewed coronavirus disease 2019 (COVID-19) virus pandemic in some parts of the world did weigh on the automaker's profitability in the last quarter. Kia has been forced to disrupt production at a number of its South Korean and overseas facilities in relation to the ongoing semiconductor shortage, which is hitting OEMs around the world.

Meanwhile, reduced incentives for Kia vehicle buyers in the United States and improved sales of its high-margin "recreational vehicles" – sport utility vehicles (SUVs) and multi-purpose vehicles (MPVs) – aided the automaker's earnings in the third quarter. By segment, the company's A-, B-, and C-segment models contributed 28.3% of total wholesales (excluding China) in the third quarter, up from 27.2% in the same period last year; "recreational vehicles" accounted for 58.7% (up from 57.6%); D- and E-segment vehicles contributed 9.3% (down from 10.8%); and the remaining 3.7% (down from 4.4%) came from other segments.

Kia expects the global semiconductor shortage issue and increased volatility in exchange rates to continue to weigh on its earnings in the fourth quarter, highlights a report by the Yonhap News Agency. It is taking measures to minimise the microchip shortage's impact, such as producing components locally, diversifying its supply chain, pre-emptively managing inventory, and continuously looking for alternative chip parts to prevent a components shortage. "At stake is how many vehicles Kia will be able to produce until the first half of 2022 despite disruptions in the global chip supply chain," said Kia chief financial officer Joo Woo-jeong. He expects the automaker to fall short of its sales target of 2.92 million units this year, mainly due to supply-chain issues, adding that Kia's annual sales are expected to be less than 2.9 million units this year.

Despite the tough business environment, Kia plans to continue to focus on realising its "Plan S" mid- to long-term strategy, as well as improving sales momentum and profitability through new models, including the new EV6 battery electric vehicle, K8 sedan, and next-generation Sportage SUV.

According to IHS Markit data, Kia's global light-vehicle sales will come in at around 2.75 million units in 2021, up by 6.0% from an estimated 2.59 million units in 2020. Our light-vehicle forecast includes only passenger vehicles



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and light commercial vehicles. We will continue to monitor the situation and will provide further updates to our forecast through Automotive Intelligence and other product platforms.



[GSP] Middle East/Africa Sales and Production Commentary - 2021.10

Middle East/Africa sales

September 2021: -6.6%; 0.253 million units vs. 0.271 million units

YTD 2021: +22.2%; 2.557 million units vs. 2.092 million units

Light vehicle demand in the Middle East and Africa region posted an expected decrease in September compared with the same month last year at -6.6%, thus confirming the vehicle sales trend of a slowing pace of growth from the high rates registered in March–May. It is important to highlight that March 2020 marked the beginning of the COVID-19 pandemic, and vehicle sales sharply declined in the following months owing to severe lockdown measures. Therefore, the comparison for March–July 2021 versus the unusual circumstances for March through July 2020 should be noted. However, the following months of September 2021 through December 2021 are not expected to report high growth, but rather decline as a result of the global chip shortage, which has affected vehicle production and pressured showrooms with less new-car stock. The first quarter of 2021 registered 7.7% growth, and the second quarter soared at 64.5% growth, while the third quarter is estimated to have increased by 9.8%. Interesting to note is that new-vehicle demand is slightly below par when compared with the first three quarters of 2019 (pre-pandemic), thus signaling that a firm recovery has now been delayed, despite consumers beginning to look beyond quarantines and economic lockdowns. Overall, in the 12 months of the COVID-19 crisis from March 2020 to February 2021, demand had collapsed 20.5%, with 740,000 fewer vehicles registered.

In recent years, regional economies were already very fragile, and the COVID-19 pandemic further deteriorated both business and consumer confidence levels. In addition, record-low crude oil prices in 2020 further depressed countries that heavily depend on oil export revenues, as global supply heavily overshadowed global demand. Key industry sectors in developed countries, such as airlines, cruises, cargo shipping, fuel stations, and manufacturing plants, significantly lowered their demand for oil, resulting from government-imposed lockdowns, forcing consumers to stay at home. As a result, countries heavily dependent on either oil or tourism revenues crashed across the region. However, a more positive turnaround should gather pace in the second half of 2021, as the economic recoveries gain momentum at various speeds, depending on each region and country's specific core sectors. Robust demand for commodities has benefited specific countries; the return of tourism will also kickstart the revival of car rental companies representing an important market share in some countries, which have frozen new registrations since the start of the pandemic and decreased the size of their fleets to readjust to demand levels. Higher demand for new vehicles will face longer waiting times as a result of the global chip shortages that have forced carmakers to slow production rates. As a result, many registrations will be pushed out to the following year.

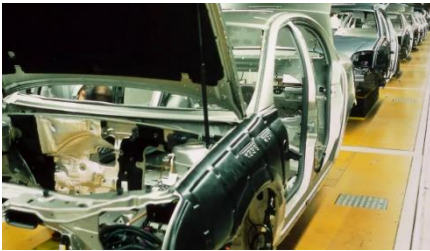
January–December 2020 estimated full-year volumes were down 17.7%. The overall negative trend that has developed in the past few years will likely bottom out in the near term and rebound. However, the need for structural economic reforms to be implemented will continue to overshadow this recovery. The full-year 2021 forecast for the Middle East and Africa region is set at 3.297 million units (revised down 97,000 units versus last month), representing a 12.8% year-on-year (y/y) increase, which still holds total regional volumes back to levels reached 16 years ago (in 2005). Moreover, falling demand in six consecutive years highlights the economic instability across the region and consumers' cautiousness to commit to a new vehicle purchase.



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As previously forecast, the increasing vehicle demand trend in fact began its recovery stage during the second quarter of 2021. However, the stronger demand expected in the last quarter of the year will continue to be disrupted owing to a certain degree of economic disruption from post-COVID-19 “softer” restrictions to several industries that will continue to linger. More importantly, the slow recovery pace of vehicle registrations will not match the higher demand from consumers for new vehicles resulting from the easing of economic restrictions and especially due to the chip shortage affecting vehicle production globally. Vehicle sales in September 2021 were affected by the distinct performances across the region, with specific economic developments affecting various markets and subregions in different ways. Vehicle demand during September in the Middle East (excluding Iran) and the Gulf decreased 6.5% compared with the same month in 2020. In similar fashion, vehicle demand in Iran crashed 16.0%, and that in the African continent demand edged up 0.5%.

Sales of new vehicles in 2021 should increase 13.9% across the Middle East (excluding Iran) and the Gulf subregion. There may be some volatility in specific months as consumers pull forward vehicle purchases to avoid higher value-added tax (VAT) rates to be introduced in some countries. Oman introduced a 5% VAT to become the fourth Gulf country to do so. Only Kuwait and Qatar are lagging with their implementation process. The Gulf nations of Bahrain, Saudi Arabia, and the United Arab Emirates (UAE) have already introduced a VAT. Recovery was strong and positive in the second and third quarters of 2021 owing to the comparison with a dreadfully low result during the second quarter of 2020. The remaining fourth quarter of 2021 will be negative owing to the global chip shortage, and the following year is expected to trend cautiously low growth, as the vaccine is further rolled out and the economies reopen with fewer restrictions, allowing for consumer spending levels to begin to rise, in line with more positive confidence indicators. Also, the rise of global oil prices will benefit the Gulf subregion’s economic landscape.

Unfortunately, the African continent felt the full force of the COVID-19 pandemic in the second half of 2020, and this struggle will continue throughout 2021, as the global epicenter of the virus moved away from Europe and the United States. Unfortunately, this expectation has been confirmed as African leaders struggle to contain the virus from further spreading, and South Africa in particular has recorded a higher number of positive cases.

Demand for new vehicles in Africa increased by an estimated 0.5% in September and 28.2% in YTD 2021, signaling the green shoots of recovery, as substantial pent-up demand has significantly risen over the years. Since 2015, vehicle sales have considerably fallen from the highs of fewer than 2.0 million units to the current lows of fewer than 1.0 million units. The positive momentum during late 2018 and the first half of 2019 was short-lived, and the start of a turnaround is expected for mid-2021. Countries in North Africa, such as Algeria and Morocco, fell into negative territory in 2020, joining South Africa and hurting the region’s overall demand levels. As a result of much weaker consumer demand, vehicle demand across Africa likely decreased 26.7% in full-year 2020, despite some relative support from the rise in commodity prices. Vehicle demand will also continue to be heavily affected by slightly higher levels of global crude oil demand, as a trending recovery in prices has materialized in late 2021. Nevertheless, total African vehicle demand has fallen back to levels achieved 17 years



ago, in 2003. This scenario will lead to more hardship across Sub-Saharan countries, while North African countries also suffer from a slowdown in Western Europe. Sales of new vehicles in the African continent will increase an estimated 14.8% in 2021.



South Africa is the largest vehicle market in Africa, but the economic landscape has been extremely difficult during the past few years and further depressed owing to COVID-19, despite the recent strong demand for natural resources and precious metals. Demand for new vehicles continues to struggle owing to an outdated automotive policy and the political tension within the African National Congress (ANC), which in turn has led to economic policy stagnation. General elections were held in May 2019 and won by the ANC led by Cyril Ramaphosa, whose main task has been to provide greater stability, which is critical and necessary to turn around low consumer confidence levels. Big-ticket purchases, such as new vehicles, have been largely postponed and are expected to recover at a more solid pace well into the second half of 2021. As a result of the government lockdown measures, which restricted movement and closed businesses over several months in the last year, consumer spending similarly sharply declined. At present, a recovery is unraveling, and vehicle sales in the first nine months of 2021 were up by 30.2%. However, the results continue to lag behind the sales performance experienced in 2019 during pre-pandemic, which shows the underlining struggle to renew the vehicle fleet. Furthermore, political unrest has now intensified following the arrest of former president Jacob Zuma that has led to chaos, with looting and violence in the Guateng and Kwa-Zulu Natal provinces. A peaceful solution to this social unrest will be key for supporting a dynamic economic landscape.

The Sub-Saharan region has also struggled in recent years owing to low global oil prices hurting oil revenues for exporting countries and low commodity prices hurting agricultural and mining revenues for other nations. Following the high volumes reached in 2014, vehicle demand has struggled to achieve any consistency trending downward in the past five years, and imports of used vehicles continue to flood the continent despite the government policy. Vehicle sales in 2021 are forecast to remain at the levels achieved 20 years ago. A stronger turnaround is projected for beyond 2022, as more governments implement growth strategies for the automotive sector.

North African countries have also been struggling to put their economies on the right path to economic growth. Demand for new vehicles heavily fell in the three-year period (2015–17) owing to the economic collapse in Algeria, Egypt, and Tunisia. Overall, North African vehicle sales have fallen to levels registered 15 years ago. In 2018, Algeria implemented a vehicle import quota system and has since continued to tank, with sales developments destined to be drastically lower than the normal market demand. In fact, new-vehicle registrations is estimated to have reached an all-time low in 2020 at 27,000 units, an abysmal gap from the highs of 500,000 in both 2012 and 2013 for Algeria. Egypt's vehicle market had been struggling in the recent past and is forecast to continue on the path of a slow recovery throughout 2021. Lastly, Morocco's vehicle market continues to develop in line with its economic growth, despite weaker sales resulting from effects of the COVID-19 virus outbreak on the economy and significant trading partners. The recovery in demand will likely be mild for new vehicles across



North Africa in 2021, as more carmakers and many tier suppliers have delayed expanding their manufacturing footprint in the region.

Demand for new vehicles in the Middle East and Gulf region (excluding Iran) fell by an estimated 6.5% in September, slightly halting the recovery that has begun to form in the region. Across the region, many countries have lifted the economic restrictions, and business activity has returned. For 2021, the trend should remain slightly positive, and full-year vehicle sales will increase 13.9%. Further at the negative end of the scale, Iranian vehicle sales have collapsed to levels reached over 20 years ago, since the highs registered in 2017 at 1.6 million units, down to 0.8 million units in the present day. The stark double-digit declines are a direct result of the renewed economic sanctions imposed by the US under the Trump administration. The Iranian market in 2021 is forecast to post low growth as poor economic development concerns continue to affect the negative sentiments of Iranians. Across the Gulf region, higher taxation has slowed demand for high-priced goods. Iran and Saudi Arabia are the largest vehicle markets in the Middle East and Gulf region, and their performance will significantly affect overall demand. In recent years, Iran's vehicle demand registered one in every two vehicles sold in the region, thus highlighting the importance of the country.



The high volatility in demand for new vehicles is expected to continue and lies in the political turmoil within the Gulf region, where countries have turned on Iran and previously Qatar, led by Saudi Arabia.

Oil prices have begun to slowly rise from late 2020, supported by a weak global recovery, owing to the varied global lockdowns, which have grounded industries, such as airlines, cruises, and road transportation, and led to significantly low oil demand in developed markets. As a result, oil-exporting nations have planned budgets with lower revenues. However, from the third quarter onwards, higher global prices are expected to take shape as global economies set to return at a faster pace, supported by consumer spending. The major difficulty now is the supply of chips to build new vehicles. For this reason, IHS Markit analysts expect vehicle demand in the second half of 2021 to decline in the Middle East and Gulf region. Vehicle demand in the region (including Iran) is expected to begin a fuller recovery in the second half of the following year.

In the next few years, consumers will continue to be slightly affected by the VAT introduction in the Gulf countries, and the higher cost of goods will lower disposable income, thus hurting demand for new vehicles. The UAE and Bahrain have implemented the VAT since January 2018 and January 2019, respectively. Saudi Arabia went ahead and tripled its VAT starting July 2020 to 15%. The three remaining Gulf countries of Kuwait, Oman, and Qatar have pledged to implement the 5% VAT by April 2021. Only Oman succeeded as both Qatar and Kuwait now target 2022 to introduce a VAT. Meanwhile, Gulf leaders will continue to implement projects that are necessary to become less dependent on oil revenues in the longer term. Lastly, as a direct result of the COVID-19 pandemic and low oil prices in comparison with the highs of recent past years, a very mild recovery in vehicle demand is expected over the next several quarters. On a positive note, crude oil prices are now rising and former US president Trump's historic peace deal among Israel, Bahrain, and the UAE shall bring much-needed stability



across the region. From 2021 onwards, President Joe Biden's administration will have high expectations from Gulf nation leaders to further positively contribute toward the region's peace and economic developments.

Iranian car owners will hold onto their vehicles for a longer period of time, thus driving up the age of the fleet of Iranian vehicles. In turn, this trend will lead to higher demand for new vehicles in the longer term.

Global crude oil outlook

The first energy transition storm has arrived. Gas, coal, and power are in short supply in Europe and Asia. Extremely high natural gas prices are unanchored from any historical experience. Is oil next? This fear is what drove oil prices in October to their highest levels since 2014. The supply-side slack in oil that emerged during the 2020 lockdowns is gone. Oil demand is not back to pre-COVID-19 levels, but the balance between demand and supply is. Gulf-3* spare production capacity is around 3–4 MMb/d—near historical norms—and the US and OECD oil inventory levels are near 2019 levels. An additional part of the story is the erosion in oil production capacity—compared with 2019—in a number of countries, including the United States, where oil production today is still 11% below the fourth quarter 2019 level. Indeed, upstream oil and gas spending last year was the lowest since 2006—a time when world oil demand was 84 MMb/d compared with around 99 MMb/d today. More broadly, energy transition policies and investor pressure have discouraged investment in fossil fuels. Energy prices have transitioned to higher levels.

However, oil is distinct from gas. The main markets for gas and oil are not the same—power generation for gas and transportation for oil. The gas market has no spare capacity like that held by the Gulf-3—and Saudi Arabia in particular. Oil prices would have to rise to about USD400 per barrel (/barrel) to match the increase in gas prices since 2019. Unlike gas, there is no looming physical shortage of oil, although that does not preclude higher prices.

IHS Markit analysts have raised the oil price outlook this month. The fourth-quarter 2021 Dated Brent price outlook is USD84/barrel in our base case compared with USD71/barrel in our September outlook. Two things have changed—one psychological and the other physical. Unhinged gas prices in Europe and Asia are fueling the sentiment that oil supply will be tighter than expected and oil inventories will be drawn down further because of gas-to-oil switching.

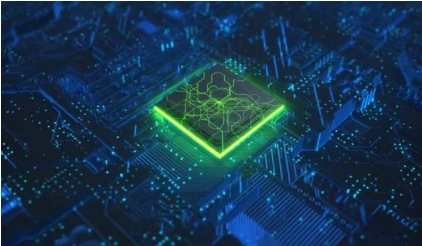


What could ease the pressure on oil prices? The economic headwinds from energy shortages and other supply bottlenecks could offset the increase in oil demand from gas-to-oil switching. Also, signs that US production will grow significantly next year—entry-to-exit growth of 800,000 barrels per day is projected—would demonstrate that US growth is not over. Mainland China could release oil from its massive inventory buildup. OPEC+ could also increase output beyond what is already planned, although on 14 October in Moscow, Saudi Oil Minister Prince Abdulaziz bin Salman said he still favored the current “gradual, phased-in approach.” Iran remains a wildcard that could have an impact on the global oil balance.



[Supplier Trends and Highlights] Faurecia developing “emirror” for active safety

Faurecia is creating a smarter and safer driving environment



Source: Getty image/ 4X-image

According to an official press release dated 13 October, Faurecia announced that it is collaborating with new mobility company Human Horizons on an emirror project in China. The emirror solution will be integrated into two new electric vehicle (EV) models, a sedan and a sport utility vehicle (SUV), that will hit the road in 2022 and 2023. Human Horizons, founded in 2017, is a company that creates smart transportation technologies and energy-efficient vehicles. It began deploying its first super SUV, the HiPhi X, this year and is currently developing its next fleet of smart EVs, all of which are centred on a highly connected mobility experience.

Faurecia is developing the ECU, which acts as the central brain for Human Horizons, by processing visual data from cameras and combining it with display algorithms that warn drivers about lane keeping, blind spots, and potential obstacles. Faurecia's expertise in electronics, system integration, and hardware and software functional safety is used in this. Faurecia's emirror technologies were developed as part of the Group's advanced driver assistance systems (ADAS) in Japan, India, and China.

Outlook and implications

The Faurecia emirror project with Human Horizons will provide valuable insight into consumer experience and acceptance of this new technology, allowing solutions to be tailored to the needs of the Chinese market and informing ADAS developments, such as automated parking, in the transition to autonomous driving. It is estimated that cars will need to be equipped with up to 20 sensors such as cameras, radars, and so on in order to achieve Level 3 autonomy.

[Supplier Trends and Highlights] Nexteer unveils new modular column-assist power steering system

Available in 3 models, the system supports multiple load capacities and features such as automated driving



Source: Getty Images/ Bim

US automotive parts manufacturer Nexteer Automotive announced via press release on 22 October the release of its new Modular Column-Assist Electric Power Steering (mCEPS) system.

According to the release, the new system offers a cost-efficient modular platform design that provides the supplier scalability and flexibility to meet a wide range of OEM requirements.

According to global VP and APAC Division president of Nexteer Automotive, David Fan, “Nexteer’s mCEPS system creates new possibilities for vehicle types that have used traditional CEPS systems in the past. With a platform design and an expandable electronic control system, mCEPS allows us to meet OEM customers’ needs for an advanced, customizable, and cost-effective steering system that is flexible to customer packaging and other requirements.”

According to the company, the mCEPS features the following:

- Availability in three models—Standard, Enhanced, and Pro—to support different load capacities and requirements
- A support for SAE automated driving levels 2–5, over-the-air (OTA) updates and cybersecurity in mCEPS Pro
- AUTOSAR Release 4.0 electrical/software architecture network connectivity
- Custom-developed, high-performance torque and rotation angle sensors that provide an outstanding NVH performance and a smooth and accurate steering feel

Outlook and implications

In addition to the mCEPS, Nexteer offers other EPS solutions including a Rack-Assist EPS (REPS), a Dual Pinion-Assist EPS (DPEPS), a Single Pinion-Assist EPS (SPEPS), a CEPS, a High-Output EPS, and a High-Availability EPS.

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