7 September 2009

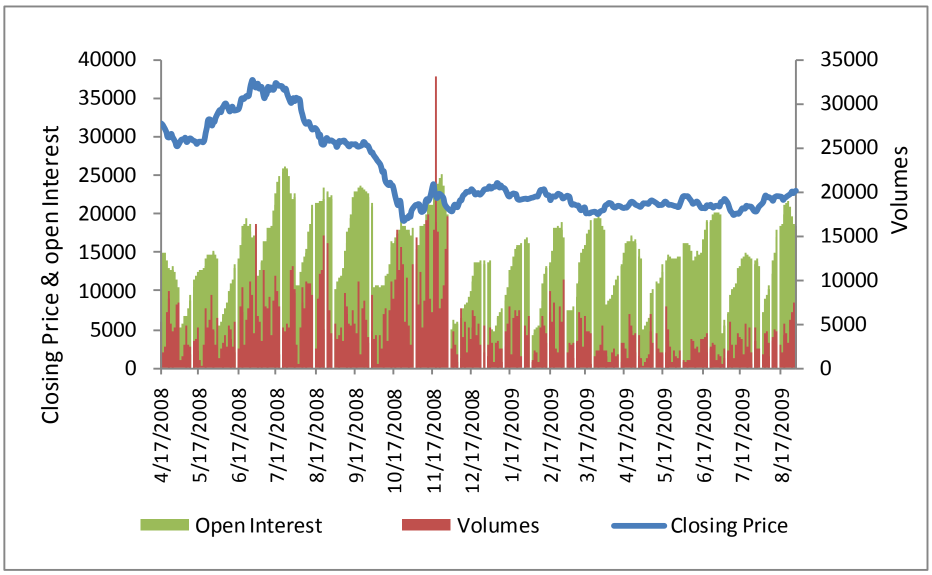
KARVY COMTRADE LIMITED

Steel Monthly

September-2009

MARKET RECAP

The NCDEX steel long futures prices break through their extended falling spree for the last seven-months and rose by around 10% as government takes measures to revive demand and infuse optimism in economy. The industrial bourses suggest demand to pick up in the West and the trade fall in Europe and the US has bottomed out. Prices moved from Rs. 20,830 per tonne to Rs. 22,900 per tonne as on 29th August 2009. The fall in last month i.e. July was close to 0.19%. Prices have registered a fall of close to 2.47% in the last 8 months of current year, due to economic meltdown globally. In the month of August alone, total volumes surged by whopping 72.73% to 3800 contracts from 2200 contracts whereas the open positions registered a surge of 36.32% to17.940 lots from 13,160 lots.



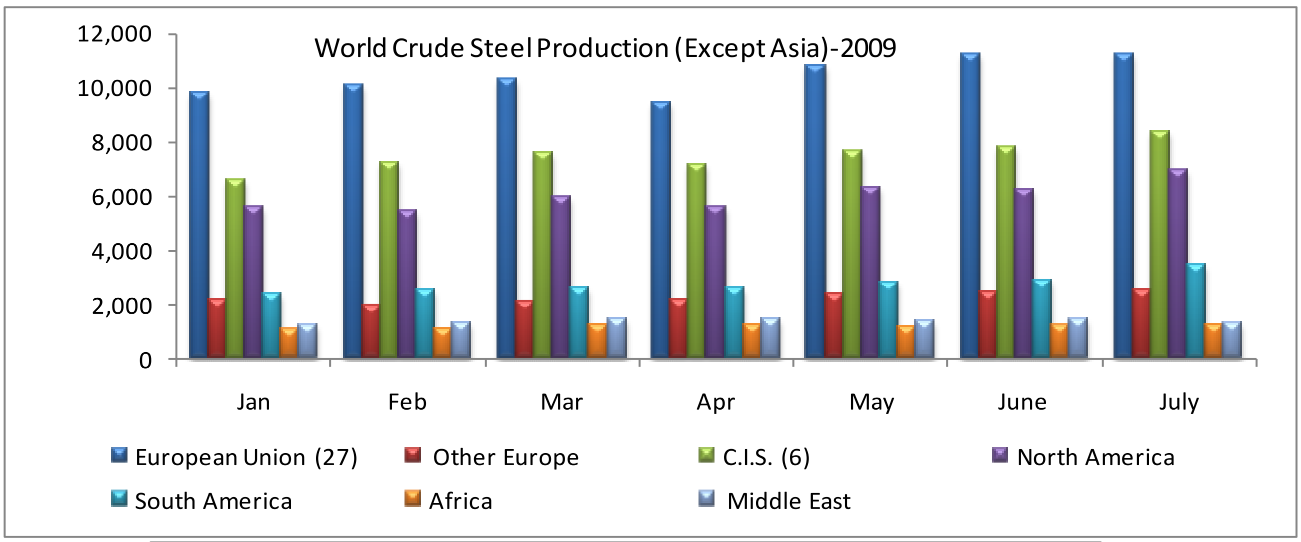
Prices on the international front, for 3-month LME steel billets forward contract rose by 5.19% to $405 per tonne from $385 per tonne in August, as compared to a fall of 3% in July. The prices fell by 27.89% in the same period last year, from $960 per tonne to $685 per tonne.

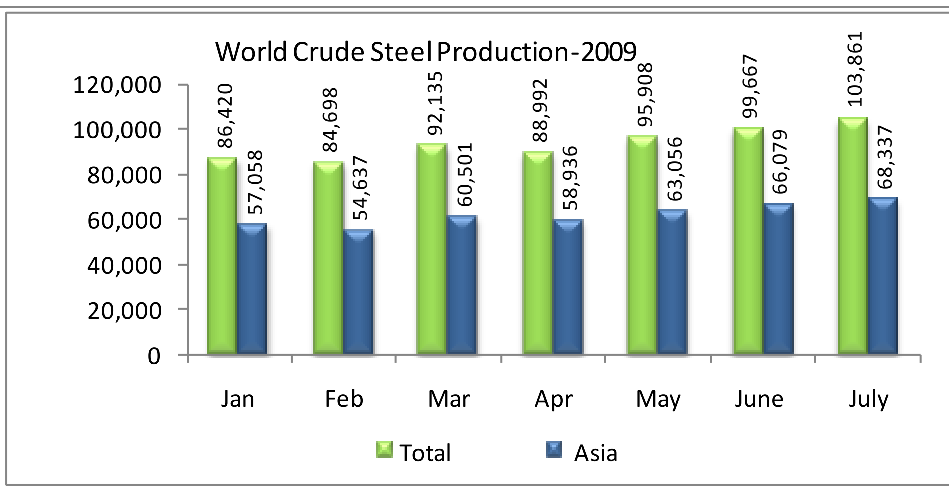
Prima facie, the factor that led to the slight recovery in prices in spite of subdued signs of economic recovery worldwide, were extraordinary rise in the infrastructural demand in the prior months and nearing is the supply concerns yet to hold high against demand and high cost of production. The rise in imports and fall in exports to sustain domestic growth added to price gains.

GLOBAL PRODUCTION

As per the data compiled by the World Steel Association (world steel), the July World crude steel production for the 66 countries was 103.9 million metric tons (mmt) in July, 11.1% lower than same period last year. However, it is the highest monthly production figure this year. Total crude steel production for Jan-July 2009 was 653 mmt, a -19.9% decrease over the same period of 2008.

China's crude steel production for July 2009 was 50.7 mmt, 12.6% higher than July 2008. It is the first time ever that China has produced over 50 mmt of crude steel in a month accounting for almost 50% of world crude steel production. Since April 2009, world and China's crude steel production has shown a steady month on month increase. In July, almost all the major steel-producing countries – including China, Japan, Germany, the US, Brazil, Turkey, Russia and Ukraine – have shown their highest monthly figures so far this year.





Country	July 2009 (in MMT)	% Change from July2008	June 2009 (in MMT)	% Change from June 2008
WORLD	103.9	-11.1%	99.8	-16%
China	50.7	12.6%	49.4	+6.0%
Japan	7.7	-24.9%	6.9	-33.6%
South Korea	4.0	-13.3%	4.0	-14.4%
Germany	2.7	-28.8%	2.5	-41.1%
U.S.	5.0	-41.6%	4.4	-46.9%
Brazil	2.5	-22.8%	1.9	-33.9%
Russia	5.0	-18.4%	4.9	-22.1%
Ukraine	2.7	-27.7%	2.3	-36.8%
Turkey	2.3	-8.5%	2.2	-12.7%
Iran	0.9	15.1%	0.9	9.4%

*MMT is Metric Million Tonnes

DOMESTIC FRONT

Coming on to Indian perspective, India's steel consumption in July 2009 grew at its fastest pace in over six months, as demand picked up from the automobile and engineering industries on slight signs of an economic recovery. India's finished steel production in July rose 5.9% on year to 4.79 million tonnes. During the same month, imports were up 3.2% at 581,000 tonne while exports fell by 48% to 283,000 tonnes. Mr P. K. Rastogi Federal Steel Secretary reported steel consumption rose 8.9% on year to 4.49 million tonnes in July. The prime reason quoted for such a rise was the higher automobiles sales consuming mostly flat steel products and thereby increasing demand.

During the April to July period this year, the countries steel output grew 3.8% to 18.77 million tonnes. Steel consumption during the four month period was up 5.8% at 17.31 million tonnes while imports and exports fell 3% and 41.3% to 1.99 million tonnes and 925,000 tonnes respectively.

INDUSTRIAL UPDATE

Looking at the industrial consumption preferences the steel companies have increased the prices of flat steel by Rs 500-1,000 a tonne while curtailed the prices of long steel products Rs 500-2,000 a tonne. Tata steel and SAIL increased by Rs 500-1,000 a tonne, while Uttam Galva Steels has hiked prices by Rs 2,000 a tonne, to mention a few. On the other hand, Tata Steel recently reduced the prices of long steel products by Rs 1,000-1,500 a tonne, while SAIL and JSW Steel cut the prices by almost Rs 2,000 per tonne.

Another reason contributing to the rise in flat steel prices was the increase in global prices. In Europe and the US, demand seems to come up well. Arcelor Mittal and Corus plans to augment production Q-on-Q basis. In the last couple of months, hot rolled coil prices in the international market moved up $200 a tonne to around $600 a tonne.

However, glancing through the corporate performance of steel companies, the corporate results failed to stand out in April-June 2009, despite a well-brought-up 5 percent rise in domestic sales, a 10-15 percent rise in steel prices from the recent lows and around 30-50 percent decline in costs of raw material. Net sales turn down by 11 percent, as steel prices are still lower by almost 30 percent over 2008 levels. The operating margins declined by 5.95 percent, due to a 20 percent decline in price realization. The profit earned before tax deteriorated by 48.7 percent, while reported net profit declined by 30.9 percent. However, the recuperating steel companies over the next quarter have raised hopes of improved profitability in the second quarter.

Q1 PERFORMANCE OF STEEL COMPANIES

Quarter ended	Sales*	Total cost	Raw Material	Net profit
Jun '08	34.48	35.91	32.70	10.07
Sep '08	39.21	45.16	50.79	15.31
Dec '08	-5.33	16.99	24.02	Net loss
Mar '09	-5.80	3.74	10.52	-35.78
Jun '09	-10.97	-5.27	-0.67	-30.91

**** Growth rate in per cent***

Further more, after logging a healthy 6.8 per cent growth in the previous month, the official index of six core infrastructure industries registered a moderate YoY increase of 1.8 per cent growth during July 2009 against 6 per cent of same month last year. Finished (carbon) steel output in July was estimated at 4.556 mt, a 1.2 per cent increase over the 4.504 mt of July 2008. During April-July 2009, total production, at 17.851 mt (17.431 mt), was only 2.4 per cent higher. The steel industry, it appears, has not benefited as much as cement from the Centre's stimulus packages and efforts at boosting infrastructure spending.

GOVERNMENT CONTROL

The finance ministry is considering a proposal from the steel ministry to levy 10% duty on exports of all classes of iron ore, a key input in steel making**.** The government reduced export duty on iron ore from a level of 15% (imposed in June, 2008) to 8% last year and thereafter to zero after exports plummeted. However, ore exports since then has picked up on the back of a revival in demand from spot markets in China. During the fiscal year 2008-09, India's iron ore exports even registered a marginal 0.4% growth to 104.7 million over the previous year. At current price of about $70-80 per tonne, the steel ministry's proposal would mean that mining companies would have to pay Rs 350-400 per tonne as export duty. This export duty would make India's top iron ore producers incompetent to make international exposure through exports, and thereby the production would solely be available for domestic consumption. As per the Federation of Indian Mineral Industries secretary general R. K. Sharma, India produces close to 200 million tonne of iron ore every year, of which 50% is exported. Around 80% of the country's ore exports go to China, while the rest goes to Japan and Korea.

As per the predictions of the Centre for Monitoring Indian Economy (CMIE), India's export of steel will fall by enormous 35 percent to 3.2 million tonnes during the FY09-10 buoyed by healthy domestic demand. The domestic steel industries are trying to lower dependence on the export revenue primarily because of the spur in domestic demand and slowdown in developed countries.

FUNDAMENTAL OUTLOOK

Consolidating the above factors we expect steel to trade sideways to higher in the coming month owing to bullish sentiments run over the sooner and sustained economic revival. End of so-called monsoon season will also recoup demand from the construction sector soon. Higher activities in the infrastructure sector, particularly road construction and power generation, will maintain enough demand for steel in the domestic market.

TECHNICAL OUTLOOK

Steel Futures witnessed a very good break out of triangle pattern at 21900 levels with considerable volumes (90000) in last months Trade. This pattern formed at the bottoms of the market can be considered as a good reversal pattern .Market is expected to test the supports initially at 22300 levels and then it is expected to move to 26000 then 30000 levels.

Overall we look at sideways to higher trading scenario in the coming month with targets up to 26000 then 30000.

RSI-14 bouncing from over sold zone, now treading at 0.56 levels may help Steel futures to trade higher side in the coming months.

A Close above 25652 levels is crucial for the bullish momentum to continue as this level is 38.2 % retracement level for ferrous metal fall from 33490 levels. A close above 30177 levels which is 61.8% retracement level will push market to 35000 levels in the long term.

Overall Range of commodity for the coming month is 27900 to 22300 levels