

7 October 2009



# Steel Monthly

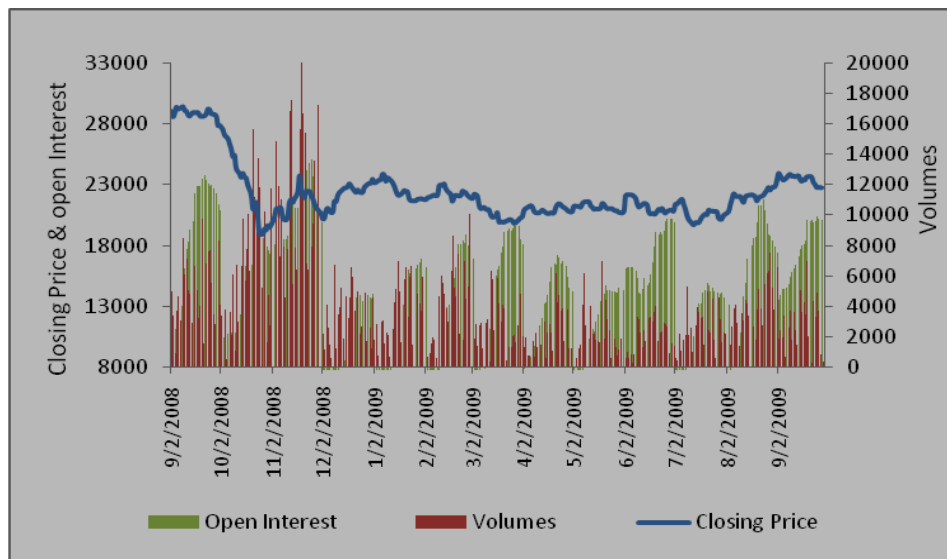
October-2009



## MARKET RECAP

The overall weak market sentiments prevailing among the industrial metals, China's burgeoning production leading to discarding low priced products in India and equities trying to maintain steady moves, led to a dull ending of steel futures in India. The prices of steel long futures registered a fall of close to 2.50% in last month after a rise of 12.05% rise in the penultimate month. The change in open interest and volumes also supplemented the trade. The fall in volumes by 74.51% from 6,590 contracts to 1,680 contracts, and a marginal rise in open interest by 15.72% supplemented the price movements. After a few months ending in green, the overall fall for the nine months of 2009 has come to 2.98%, as compared to the 5.23% fall in same period last year.

On the international front, prices remained mostly unchanged at \$405 per tonnes, as compared to 5.19% gains in the month of August. The 3 - month LME steel billets have regained 6.58% in 2009 from the fall of 24.82% in the same period last year.



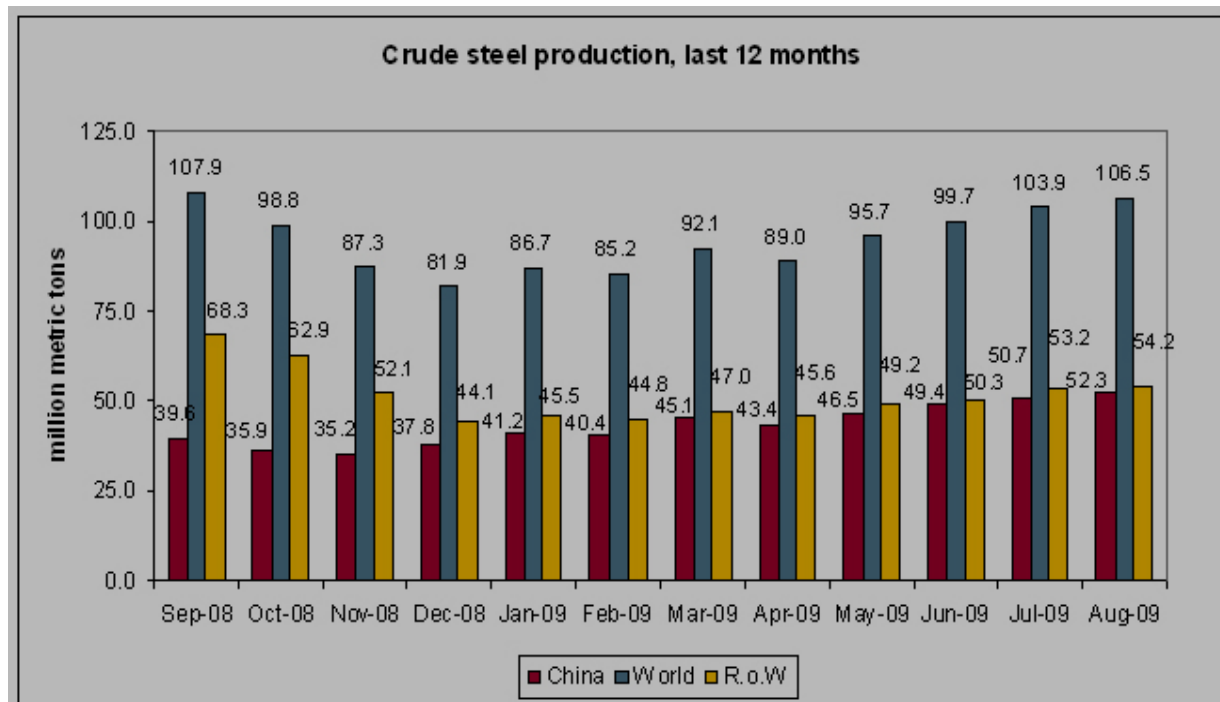
There were few reasons on the global front that contributed to this apathetic behavior in price in spite of market being supportive on the Indian front. The global downtrend with no hopes of demand recovery in U.S. and Europe before 2010, Chinese oversupply and thereby prices falling to promote higher production and India's expansionary phase not getting required guidance, are to mention a few.

## GLOBAL PRODUCTION

Globally crude steel production rose to its highest level in almost a year in August, as per the figures quoted from the World Steel Association. Many of the steel mills restarted idled capacity due to increased orders from the developing nations. Crude steel production was 106.5 million tonnes in August 2009, after entering the steady rally since April and up by 2.50% from 103.9 million tonnes in July. However, steel witnessed fall of 5.5% in August 2008. Total crude steel production in the 66 reporting countries for the first eight months of 2009 was 759.5 mmt, a -18.1% decrease over the same period of 2008.

Coming on to China, world's largest producer and consumer, the crude steel output rose 22% to 52.33 million tonnes in August, as against July's all-time high of 50.68 million tonnes, as recorded by the National Bureau of Statistics. Total crude steel production from January to August 2009 reached 369.65 million tonnes, up 5.2% as compared with the same period last year.

In August, almost all the major steel-producing countries – including China, Japan, South Korea, Germany, the US and Brazil– have shown their highest monthly figures so far this year.



Source: World Steel Association

Country	August 2009 (in MMT)	% Change from August 2008	July 2009 (in MMT)	% Change from July 2008
<b>WORLD</b>	106.5	-5.5%	103.9	-11.1%
<b>China</b>	52.3	22.0%	50.7	12.6%
<b>Japan</b>	8.3	-18.3%	7.7	-24.9%
<b>South Korea</b>	4.2	-5.4%	4.0	-13.3%
<b>Germany</b>	3.0	-26.0%	2.7	-28.8%
<b>U.S.</b>	5.2	-40.0%	5.0	-41.6%
<b>Brazil</b>	2.6	-15.0%	2.5	-22.8%
<b>Russia</b>	6.3	-20.8%	5.0	-18.4%
<b>Ukraine</b>	3.2	-17.0%	2.7	-27.7%
<b>Turkey</b>	2.5	-9.1%	2.3	-8.5%
<b>Iran</b>	0.9	15.2%	0.9	15.1%

\*MMT is Metric Million Tonnes

## DOMESTIC FRONT

Looking at the Indian front, according to the provisional data of steel ministry, the steel consumption rose to 4.59 million tonnes last month against 4.41 million tonnes in August, 2008, 4% growth last month compared to same period last year. Against an increase in steel consumption, its production during the August fell 1% to 4.7 million tonnes. This fall could not be justified by the 20% growth in production for the leading steel producers such as Steel Authority of India (SAIL) and Tata Steel which constitute for more than 30% of India's total annual steel production, stand around 56 million tonnes.

Showing stable signs of recovery, the six key infrastructure industries, namely cement, coal, electricity, steel, crude oil and petroleum refinery products, grew by 7.1% in August 2009 as against 2.1% in the corresponding period last year. Also in July, it showed a growth of 2.5%. We see that Indian economy expanded by 6.1%, in the first quarter of 2009-10, as against 7.8% in the same period last year. However, with the industry sector growing grew at a faster pace in Q2 than Q1, it would help to enhance the economic growth in the second quarter as well.

## **INDUSTRIAL UPDATE**

On the industrial front, as Arcelor-Mittal conglomerates with Uttam Galva, NMDC, India's biggest iron-ore miner, it seeks a partner for its new specialized steel plant in Karnataka. Arcelor-Mittal depend on external suppliers for hot rolled coils, the main raw material used for its operations, but following this deal, Uttam Galva would get priority among Arcelor Mittal's customers in a compactly supplied market. However, there is no obligation on either side for dealings. Uttam Galva would benefit out of this deal as it will also get access to technology for some high-end flat steel products.

Globally, when both long products and flat products were on an uptrend, Indian flat product prices were moving up, while India's long products were showing a reverse trend due to the monsoon and fall in demand. After cutting prices in the last two months, steel producers have raised the prices of long product by Rs 1,000-1,500 a tonne. Public sector steel major, Rashtriya Ispat Nigam (RINL) has raised prices by Rs 1,000-1,500 a tonne across products while SAIL has also raised prices by Rs 1,000 a tonne. The flat steel prices have moved up in almost every month in the current financial year registering an increase of 15-18% in the April-August period of 2009.

Lately, domestic steel rates may get beleaguered as prices fall in China by 10-12% to around \$510/tonne level in the month, after hitting a high of around \$600/tonne in August. This has crept fear among Indian companies that swelling low-priced steel imports may discourage consumption of Indian products. As per the steel ministry data, steel imports increased 9% to 0.8 million tonne in August over the corresponding period last year, a quick reaction to falling prices globally.

## **GOVERNMENT CONTROL**

The Indian government projects of India achieving a steel capacity of 124 million tonnes in the next three years and 150 million tonnes by 2015. However, this dream is hard to be materialized as major foreign and domestic groups wary to accept these big projects, involving doubts over doubling capacity in next 3 years. Not to forget the fact that, the Steel Minister Virbhadr Singh he has not taken into account the "promised capacity creation by Arcelor Mittal and Posco" while working out the 2012 target of 124 million tonnes. Thus concerns pile over how such a dream would be realized.

## FUNDAMENTAL OUTLOOK

Rising costs of steelmaking raw materials will encourage the recession-hit steel industry to seek further price increases this year, despite slow end-user demand, as the sector recovers from one of its worst ever downturns. At the current times when the global players are trading low, the domestic firms like Tata Steel, SAIL, JSW Steel, Uttam Galva, and Ispat are entering into larger projects.

Further more, the steel secretary P. K. Rastogi expects steel demand to reach touch double digit mark (10%) by the end of the current fiscal. Besides, the demand from automobiles and construction sector, the cheap availability of iron ore portrays a promising picture for India to be an ideal steel production destination. Demand outlook for the metal is strong in the coming months with stable signs of an economic recovery.

## TECHNICAL OUTLOOK



Steel futures on NCDEX witnessed a steep downfall in prices last month as the ferrous metal lost Rs 530 in last month's trading action. Steel futures opened at 23350, traded higher in initial trading sessions and posted a high of 23750. However, Prices struggled at highs and started to trade lower erasing all the gains as market created a low of 22200 and finally prices settled at 22820 levels.

Prices are trading below 14 Monthly EMA (22760) levels, suggesting a downward movement in prices. RSI trading at 0.46 levels are showing a potential for prices to come down.

Steel Futures are expected to trade sideways to downside in this month. Market is facing crucial supports at 21800 levels, a break below these levels would push prices to further downside to 21500 & 21200 levels. However, if prices close above 23200 levels, we may see prices to trade higher.

***Steel November Ncdex: Supports: 21800 & 21500, Resistances: 22650 & 23200***

## RECOMMENDATION

- ***Long Term Strategy:***

Steel November Ncdex: Sell in the range 22650-22800 levels targeting 21800-21500  
Stoploss above 23200

- ***Short Term Strategy:***

Steel November Ncdex: Buy around 21800-21850 targeting 22650 with stop los below 21450

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