

6 April 2010



Steel Monthly

April- 2010

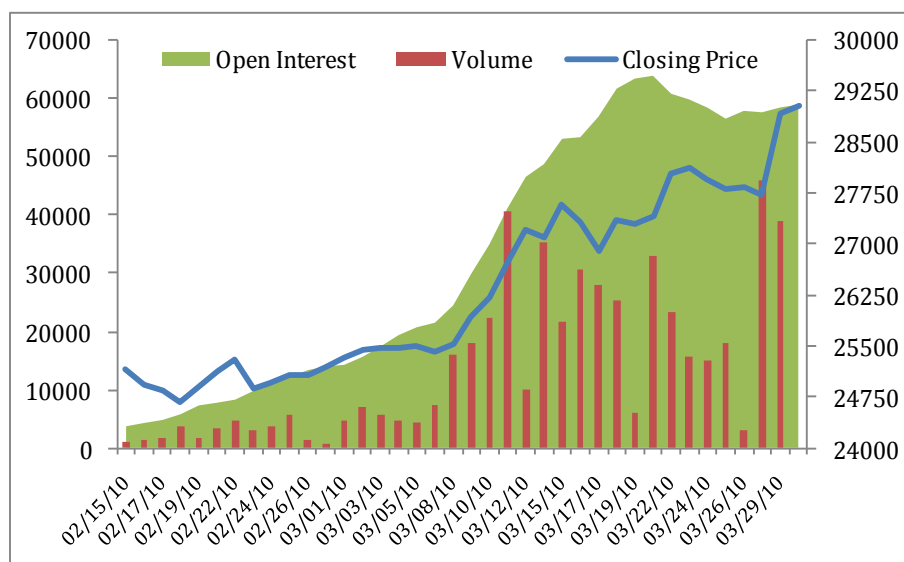


MARKET RECAP

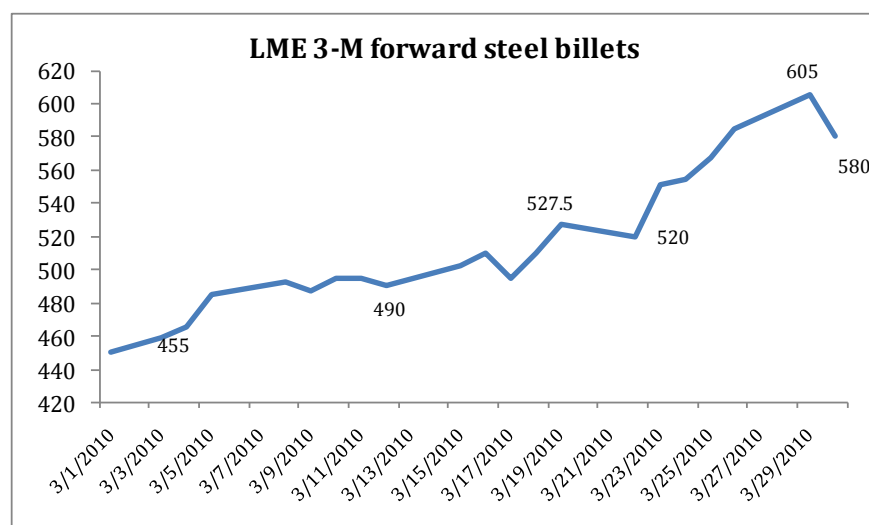
The rally in steel prices in the last month was a much talked about event. A lot happened in the economic and industrial front, leading to momentary triggers in prices. The reasons could be, indirect demand expected through budgetary allocation, rise in raw material prices, infrastructural expansion, export duty on iron ore and rise in diesel prices to mention a few.

In the federal budget 2010, the Finance Minister Pranab Mukherjee raised plan expenditure by 15 percent and proposed to invest 1.73 trillion rupees on infrastructure in the FY2010-11. The finance ministry further added saying that, the steel sector is expected to grow 6-9 percent in 2010 on higher demand from the real estate, construction and automobile sectors. Prices of the key inputs in the alloy, per se; coking coal and iron ore prices, have been on a rise, which could support the prices of the end-product.

The post budget announcements of hike in excise duty to 10 percent from 8 percent and the price hike of diesel supplement the rally in prices. The hike in prices of diesel is expected to exacerbate the freight charges as sizable amount of transports are through roadways. Although no such direct benefits were suggested for steel sector, all the budgetary outcomes were soothing for prices.



The active NCDEX steel futures contract traded in broad range of Rs. 25,210-29,450 per tonnes for March month. Prices gained around 16 percent in the last month as compares to the loss of 6.85 percent in the same month last year. However the prices are up by around 5.93 percent for the year 2010, due to 6.80 percent loss in January and 2.25 percent in February. The rally in prices was supported by the sizeable rise in open interest and volumes, suggesting market to be strong in future. The open interest increased by 332 percent, adding 46,400 positions to total at 60,370 open positions. Moreover, the volume surged by 2,633 percent to 39,640 lots.



The 3-month LME steel billets roared in the past month with price touching highs of \$605/tonnes, to settle the month at \$586.5/tonne, up by around 30 percent. The billets gained 10.17 percent in March 2009. However prices have surged strongly since the start of 2010, up by 43 percent.

GLOBAL PRODUCTION

Coming on to the global production and consumption figures, we find that the world crude steel production for the 66 countries reporting to the World Steel Association is rising steadily. The February 2010 showed a continued increase in production for almost all the major-steel producing countries. The production for February 2010 was 108 million metric tonnes, 24.2 percent higher than February 2009. Talking about the major steel producing nation, China, the crude steel production was 50.4 million metric tonnes, an increase of 22.5 percent from February 2009.

The table below shows the February production for worlds' major regions along with percentage rise of fall vis-à-vis the prior month.

Country	Jan-10	Feb-10	% Change
European Union (27)	13,619	13,350	-1.98%
Other Europe	2,416	2,186	-9.52%
C.I.S. (6)	8,553	7,835	-8.39%
North America	8,637	8,211	-4.93%
South America	3,697	3,376	-8.68%
Africa	1,354	1,218	-10.04%
Middle East	1,578	1,591	0.82%
Asia	72,911	69,180	-5.12%
Oceania	676	594	-12.13%
Total of 66 countries	113,441	107,541	-5.20%

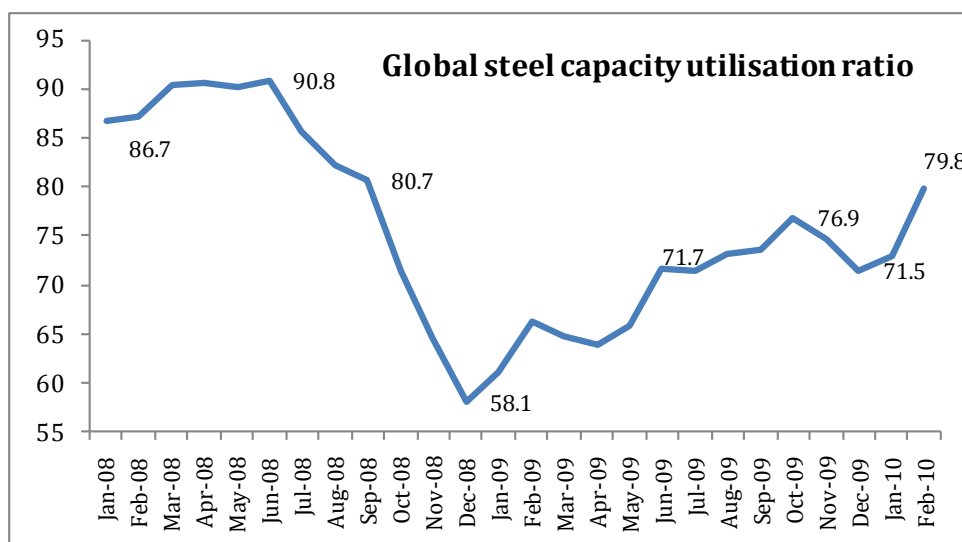
*MMT is Metric Million Tonnes

The table below shows the February production for worlds' top 15 producing nations along with percentage rise of fall vis-à-vis the prior month. Among the 66 nations, China alone contributes more than 46% to the total world production. Moreover, India ranks 4th among all, however contributes just 5% to the world production.

Country	Jan-10	Feb-10	% Change
China	52,535	50,357	-4.15%
Japan	8,724	8,435	-3.31%
United States	6,234	5,980	-4.07%
India	5,430	4,900	-9.76%
Russia	5,190	4,690	-9.63%
South Korea	4,512	3,943	-12.61%
Germany	3,497	3,419	-2.23%
Ukraine	2,726	2,565	-5.91%
Brazil	2,751	2,446	-11.09%
Italy	1,876	2,164	15.35%
Turkey	2,059	1,821	-11.56%
Taiwan, China	1,710	1,545	-9.65%
Spain	1,358	1,343	-1.10%
Mexico	1,300	1,175	-9.62%
France	1,136	1,127	-0.79%

*MMT is Metric Million Tonnes

The world crude steel capacity utilisation ratio in February 2010 was 79.8 percent, a 15-month high since September 2008. Compared to February 2009, the utilisation ratio in February 2010 increased by 12.0 percent points.



DOMESTIC FRONT

On the domestic front, as per the data released by Steel Ministry, Indian steel consumption during April to February 2010 rose by 8.5 percent YoY to 51.23 million metric tonnes as against 47.24 million metric tonnes in the year ago period. However, production rose by only 4.5 percent YoY during the period to 54.35 million metric tonnes as against 52.02 million metric tonnes in the same period last year. Steel imports surged by 22 percent YoY to 6.61 million metric tonnes during April to February 2010. But steel exports fell by 34.9 percent to 2.62 million metric tonnes.

INDUSTRIAL UPDATE

Moving on the industrial news, the Japanese steel industry (the second largest steel producer in the world) have accepted the quarterly pricing structure proposed by BHP Billiton (the worlds leading coke supplier) as opposed to the annual contracts earlier. The prices of coking coal (used primarily to make pig iron) have been revised upwards over last years contract price by 55 percent to USD 200/MT.

There have been reports that Vale, being the largest iron ore producer in the world, has sought an 80 percent increase in the prices of iron ore to be supplied to the local Brazilian market, increase to be affected by 40 percent in March 2010 and by another 40 percent in April 2010. Moreover, on the Indian front, the state run miner NMDC has announced that it would raise long term contract prices of iron ore by 40 - 50 percent effective April 1, 2010.

As per the Steel Authority India (SAIL) chairman Sushil Kumar Roongta, *“There is certainly a case for upward revision in steel prices, considering the expected hike in price of raw materials. Coking coal and iron ore contracts are likely to be on a higher side next fiscal and, as a result, steel prices may increase by \$100-\$150 per tonne.”* He expects steel industry to grow at 9 percent in FY2010-11 and attain 12 percent growth in FY2011-12 due to robust demand from automotive, infrastructure and consumer durable sectors. The government’s proposal to invest Rs 1, 73,000 crore in infrastructure in FY2010-11, is attributed for increase demand of steel and cement.

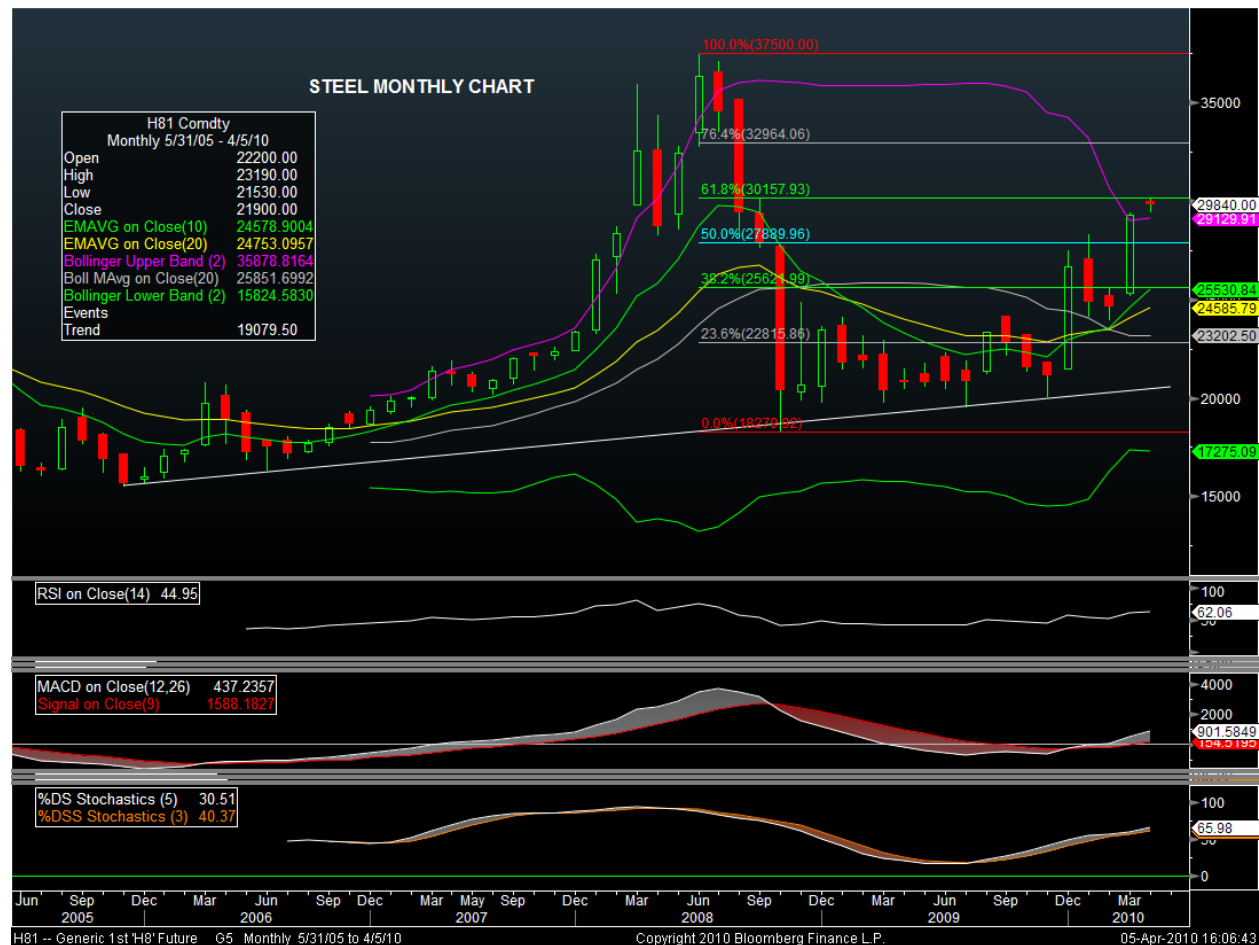
FUNDAMENTAL OUTLOOK

Steel sector sets the tone of development and recovery not only in India but also for US and Europe, badly hit by the recessionary downturn. Worst is expected to get over for steel, as led by the stimulus packages announced by china last year, sustaining the demand in the market. Although china is large consumer of steel domestically, while it may turn out to be a net exporter with increased domestic production, as many steel mills in the country is adding capacity.

India stands at a better platform as compares to its foreign counterparts in demand recovery. The West is still recovering from the impact of the economic slowdown, while in India, steel producers are in a better position to pass on the cost of inputs and production to the end users, in form of higher final goods pricing. Furthermore, the steel producers are expected to upgrade the prices band of their products in the FY2010-11.

For the coming month, we hold a bullish view for steel prices as supported by the global fundamental factors. Rise in raw material prices along with increase in consumption from the industrialists is instilling heavy production. The main producers viz.; SAIL, TATA, Essar, Ispat and JSW announced hikes in the prices of flat and long products by Rs 2000/MT and Rs 1000/MT, looking forward for rise in prices in the futures. Moreover, now when government is focusing more on infrastructural growth, steel demand can't go unnoticed. The next month probable range for NCDEX steel futures could be Rs. 28,850-30,000/tonnes.

TECHNICAL OUTLOOK



Steel prices sky rocketed last month after making a high of 29450 it settled the prices at 29280. The market had gained by 16.82% and still has the potential to take off the prices to higher level. Moreover, the RSI (14) monthly is trading at 0.62 is showing a bullish view for this month. The crossover of 12 month EMA above the 26 month EMA in MACD indicator shows the bullish trend is still valid. Supporting to this, the leading indicator Stochastic is showing the crossover of %K above the %D line. Moreover, the moving average crossover of 10 above 20 monthly EMA gives weightage to above comments. However, the Fibonacci Retracement shows a strong resistance at 30157 levels (61.8% of 18279-37500 moves) breaking above and sustains may lead the prices to move further up. However, if market fails to breach the same may see an ample correction till 27850 levels. On the higher side, the resistances are at 30160 then 32964 levels. Likewise, the supports are at 28340 then 25620 levels.

The market is expecting to trade higher and breaks above the 30157 levels confirm the firmness of the bullish trend. This month market will trade in the range of 27990-32064 and recommend buying on dips.

RECOMMENDATION

- *Buy on break of 30160 targeting 32125 stop losses below 28600*
- *Buy in the range of 28000-27900 targeting 30150/30160 then 30800 with stop loss below 27400*

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