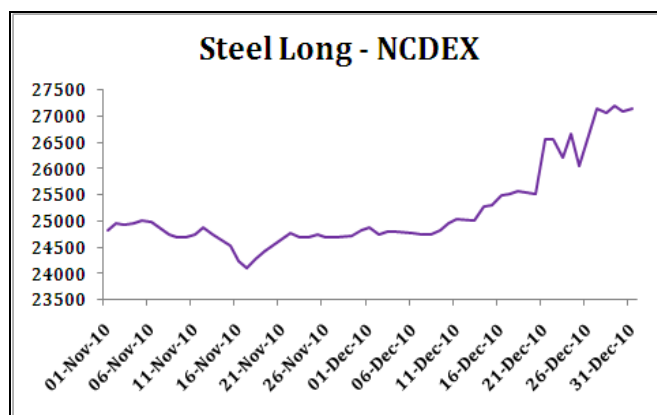


## STEEL – Higher raw material prices to drive prices higher

**Steel Feb NCDEX: Buy at 28300-28500 TP 29800 then 30500 SL 27100**

Revival in demand along with price increase by domestic producers sent steel prices higher in the month of December. Pick-up in the M&A activity in the steel sector only added to the optimism. After consolidating for almost a month, by the end of December steel long prices on NCDEX gained 9.3 percent to end at ₹27,150/tonne. Price made a high of ₹27,300 and a low of ₹24,670.



According to World Steel Association, Global crude steel production grew by 6.5 percent to 114 million tonnes in the month of November. Output in World's largest producer, China, also grew by 4.8 percent (YoY) to 50.2 million tonnes. Across the globe production increased as companies cater to the increasing demand from emerging economies. Capacity utilization however declined modestly to 75.2 percent.

CRUDE STEEL PRODUCTION			
REGION	November 2010	November 2009	Growth Rate
European Union (27)	14,685	14,012	4.80%
Other Europe	2,848	2,512	13.38%
C.I.S. (6)	9,015	8,723	3.35%
North America	9,006	8,037	12.06%
South America	3,632	3,755	-3.28%
Africa	1,454	1,257	15.67%
Middle East	1,590	1,302	22.12%
Asia	71,243	66,810	6.64%
Oceania	646	670	-3.58%
<b>TOTAL ('000 Tonnes)</b>	<b>114,119</b>	<b>107,078</b>	<b>6.58%</b>

Indian economic growth continued to remain strong as GDP grew by 8.9 percent. Industrial production grew by 10.8 percent in the month of October as against 4.4 percent in the prior month.

Higher growth came in from sectors like capital goods and consumer durables. Construction activity also picked up thereby increasing demand for steel.

On the industry front, JSW steel, one of the largest steel producers of India, is close to buying 45 percent stake in other steel producer Ispat industries for ₹2,157 Crore. The target company is reeling under debt and is even facing issues on operational front, thereby has largely been unable to take advantage of rising steel demand and prices. If the deal goes through than the JSW's crude steel capacity will increase by nearly 30 percent to 9.8 million tonnes.

On the other hand, environment ministry is expected to take decision on World's third largest steel maker's POSCO plant in Orissa might by the end of January. The proposed project would bring in close to \$12 billion and would be one of the largest investments in the country. Demand in India is fast picking up but the start of any new projects is becoming difficult as issues like land acquisition and environment clearances continue to linger. Thereby any new additions are mainly through expansion of existing projects.

#### **IRON ORE & COKING COAL:**

Strong demand from China has sent the iron ore prices higher. In the month of November, iron ore imports surged by 25 percent to 57.38 million tonnes as buyers rebuilt inventories given the expectation that contract prices might raise in the first quarter of 2011. Companies like Vale SA are expected to raise quarterly iron ore contract prices by 8.8 percent closer to \$150/tonne in January.

Floods in Australia, world's largest exporter of coking coal, disrupted supply from the region. The nation accounts for two-third of total global trade. Companies like Rio Tinto and Anglo American has already cancelled shipments and even declared force majeure given the uncontrollable situation.

#### **OUTLOOK:**

Steel Authority of India hiked steel long prices by ₹300/tonne for December production. Other steel companies are also likely to follow suit and hike prices close to ₹1000 to ₹1500 per tonne from January given the higher prices of inputs like iron ore and coking coal. Higher steel prices in international markets might also propel domestic steel makers to increase the prices. In anticipation of price hike, user industries like auto companies and consumer durables have already hiked prices for there products. Indian Railway has hiked the rail freight for transport of steel by 4 percent owing to rising fuel prices.

Domestic steel market continues to remain in backwardation and in fact the affect has widened owing to strong physical demand. By the end of the month, the difference between futures and Ghaziabad market increased to ₹1300/tonne. Total stocks in the Warehouses of NCDEX stood at 69,727 tonnes. Overall, strong demand along with price increases by companies is expected to send steel prices higher.

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