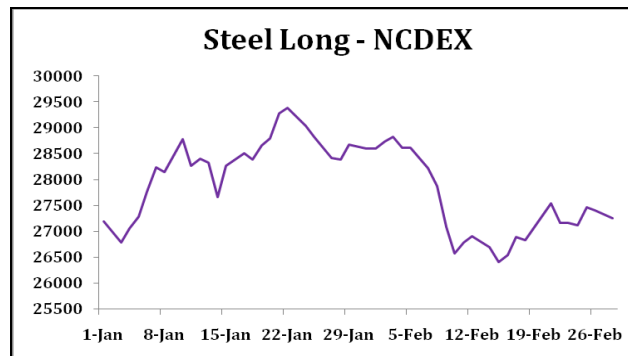


STEEL LONG

Steel- April- NCDEX: Buy in the range of ₹27000-27250 targeting ₹28000/28200 with SL below ₹26500

After witnessing strong price appreciation in the month of January, steel long prices on NCDEX declined by 4.7 percent to end February month at ₹27,260/tonne. During the month prices made a high of ₹28,920/tonne and a low of ₹25,660/tonne. Demand at higher prices remains subdued and the moderation in industrial production only added to the pressure. A similar trend was witnessed in iron ore prices as well which witnessed slight decline in prices after almost double digit gains in January.



Global crude steel production in the month of January rose by 5.2 percent to 119 million tonnes. Output across the regions accelerated as companies increased production to take advantage of expected acceleration in demand, especially from emerging markets.

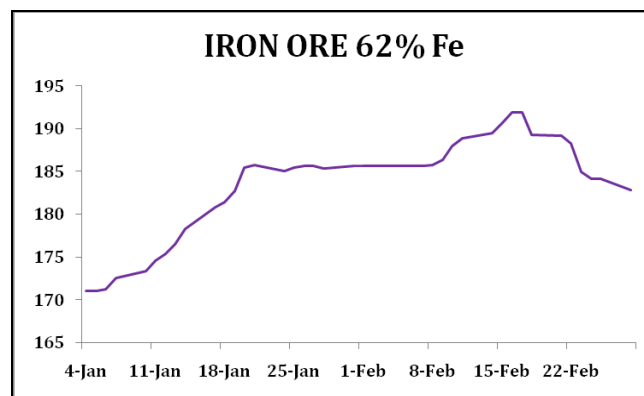
Infrastructure continues to remain top priority for the Indian government, rightly so, and that was visible in Budget 2011-12 as well. Infrastructure bottlenecks have to be removed to get the economy on to higher growth trajectory for a long term. This made the government to allocate 214,000 Crore for infrastructure for the financial year 2011-12 thereby marking an increase of 23.3 percent over the previous year. Also policies to make more funds available for the sector, like increasing the amount of take-out financing, increase in FII investment limit in corporate bonds issued in infrastructure sector, and continued additional exemption of 20,000 for investment in infrastructure bonds have also been taken.

CRUDE STEEL PRODUCTION			
REGION	January-11	January-10	Growth Rate
European Union (27)	14,244	13,619	4.59%
Other Europe	3,040	2,416	25.83%
C.I.S. (6)	9,645	8,553	12.77%
North America	9,408	8,637	8.93%
South America	3,821	3,697	3.35%
Africa	1,424	1,354	5.17%
Middle East	1,660	1,578	5.20%
Asia	75,427	72,911	3.45%
Oceania	733	676	8.43%
TOTAL (thousand tonnes)	119,402	113,441	5.25%

On the industry front, after Posco’s clearance last month, environment ministry has approved 6 million tonnes of steel plant proposed by Jindal Steel. Demand for steel over the next few years is going to be strong in India as spending on infrastructure picks. However companies have been facing constraints in the form of availability of raw materials and land acquisition which has limited the production growth. World’s largest steel producer, Arcelor Mittal, was also able to ramp up production and thereby production for 2010 came in higher by 22 percent at 85m tonnes.

IRON ORE: Iron ore prices declined by 1.5 percent in the month of February to end at \$182.8/Dry Metric Tonne on the back of concern about the demand at higher prices. In Indian markets however prices rose by a similar percentage point. On ICEX, price for March contract rose from 7,946/Dry Metric Tonne to 8,078/Dry Metric Tonne.

In Budget 2011-12, the rate of export duty for all types of iron ore has been increased and also unified at 20 percent ad valorem (i.e., based on value). The reason that propelled government to increase export duty is to increase the availability of material for domestic producers. Steel, the major user industry of iron ore, is crucial given the importance being given to infrastructure. The export duty on Iron Ore Pellets (processed form of iron ore which is usually of very fine grade) however has been withdrawn so that value addition process in the country can be encouraged.



DEMAND FOR IRON ORE STRONG: Demand for iron ore from China continued to remain strong and in the month of January, iron ore imports amounted to 68.9 million tonnes, thereby reporting an increase of nearly 48 percent from a year earlier and 19 percent over the previous month. Another state in India, Chhattisgarh, is planning to ban the iron ore exports from the state. This could reduce the supply of the material which already is tight owing to ongoing ban of exports from Karnataka, a state which accounts for nearly 25 percent of the country’s annual exports. India’s largest iron ore miner, NMDC, indicated that output might touch the 30 million tonnes this year as against 24 million tonnes.

Usually production and demand picks up strongly in China after the winter. However given the ongoing monetary tightening in China, it might impact the demand for the metal in the near term and thereby production of steel in the country might not return strongly in what has seasonally been a strong month. Profitability of the steel makers also continues to remain lower as prices hikes have not been able to keep up with the increase in raw material prices.

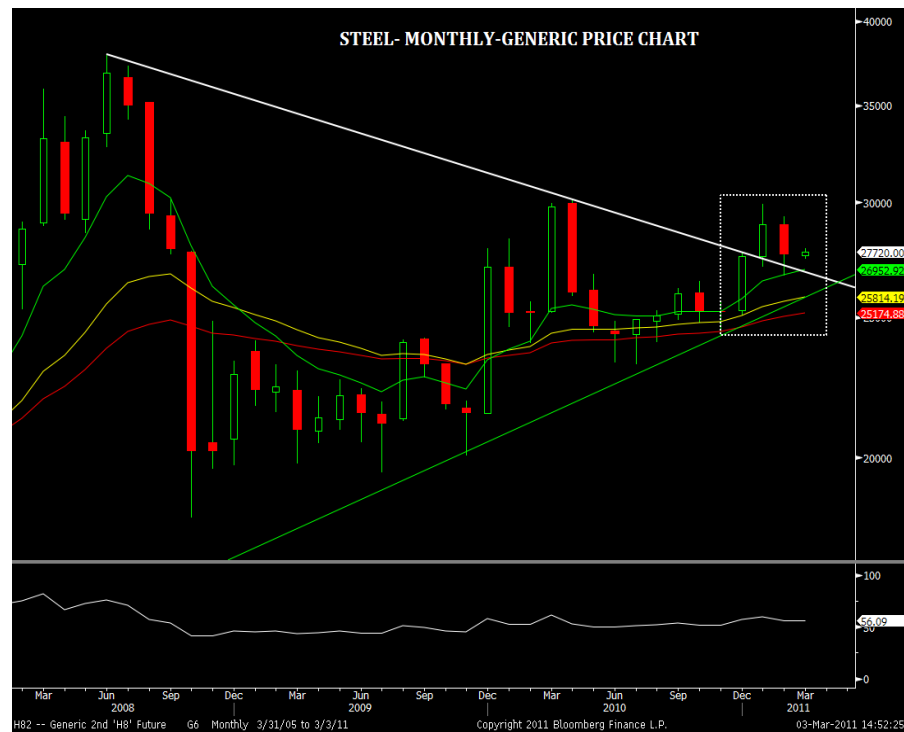
In India, recent increase in steel prices was driven by higher raw material costs too. However given the imposition of customs duty on iron ore, domestic prices for the material might decline. This would also limit the upside for steel prices in the near term.

In India, infrastructure sector output has picked up in the month of January by 7.1 percent as against increase of 6.1 percent in the prior month. This is indicating that the industrial production numbers might also pick up in the fourth quarter of FY11. Stocks in the physical market as reported by the exchange stood at 55,868 tonnes by the end of the February as against 64,347 tons in the prior month.

Overall, steel prices might remain in the range of ₹26900-₹27800 per tonne for the coming month.

Technical Analysis:

The February month has been bearish for steel prices for spot as well as futures contracts. In the month of February steel future prices declined by 5.85 and 6.27 per cent for March and April contracts respectively. The chart pattern and price behavior of individual contract does not indicate any clear hence; we are making our analysis based on the generic chart. In the monthly chart of steel (generic) we see prices have retraced lower to the 8-month moving average suggesting few support



levels near the average zone. Technically speaking the supports can be seen at Rs. 26,700 and then Rs. 26470 levels. However, market is likely to retrace back higher from these support levels but the gains could be limited. The resistances can be seen at Rs. 27,840 and then Rs. 28,000 levels. If market clears the first resistance then the behavior of the candle may change which may keep steel prices to trade higher. Moreover, in the monthly chart currently levels are getting support from the higher trend line. The intricacy of analysis also suggests market is in a consolidation phase after the strong rally witnessed in the months of December and January. Since the price actions are sideways no momentum indicators are indicating any direction, the monthly RSI-14 is trading at 0.56 levels.

Looking at the above analysis we expect initial correction can be seen on steel prices however, buying could be initiated at the support levels.

Recommendations: Steel- April- NCDEX: Buy in the range of Rs.27000-27250 targeting Rs. 28000/28200 with stop loss below Rs. 26500

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