

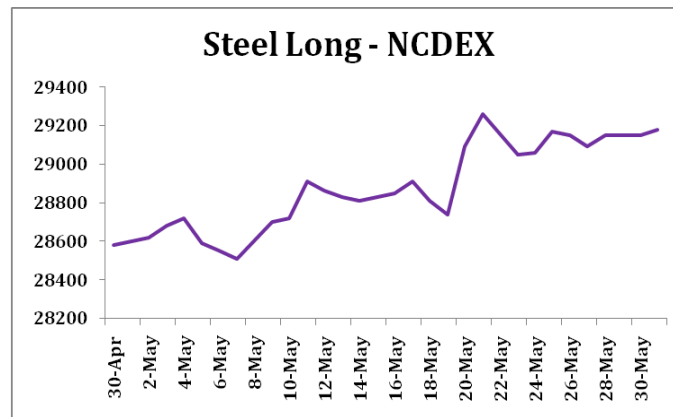
## STEEL LONG

**Steel- July- NCDEX: Buy 1<sup>st</sup> lot at present level 30500-450 and 2<sup>nd</sup> lot at 29600-450 TP 31800 and then 32500 SL below 28200.**

**PRICE PERFORMANCE:** Steel prices ended higher despite subdued demand as tight iron ore supply along with increase in scrap steel prices sent steel long prices higher. On NCDEX, steel long prices ended higher with gains of 2.1 percent at 29,180/tonne. During the month prices made a high of 29,300/tonne and a low of 28,410/tonne.

### FUNDAMENTALS:

According to World Steel Association, global crude steel production increased by 5 percent (YoY) to 127 million tonnes in the month of



April. However on a month-on-month basis, production moderated after touching an all-time high of 129 million tonnes in the previous month. Start of restocking cycle boosted output in the beginning of the year and thereby is leading to moderation in output now. Japanese economy was hit by devastating earthquake thereby disrupting production. As a result, crude steel production of the nation declined by 7 percent (MoM) to 8.4 million tonnes.

CRUDE STEEL PRODUCTION			
REGION	April-11	April-10	Growth Rate
European Union (27)	15,767	15,428	2.20%
Other Europe	3,043	2,592	17.40%
C.I.S. (6)	9,600	9,395	2.18%
North America	9,782	9,548	2.45%
South America	4,080	3,462	17.85%
Africa	1,102	1,416	-22.18%
Middle East	1,662	1,665	-0.18%
Asia	81,196	76,766	5.77%
Oceania	714	647	10.36%
<b>TOTAL ('000 Tonnes)</b>	<b>126,946</b>	<b>120,919</b>	<b>4.98%</b>

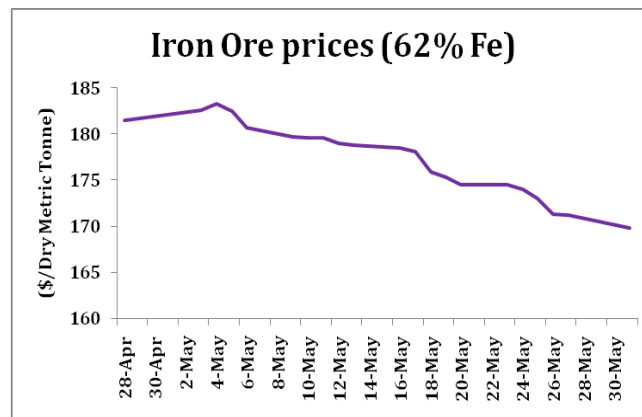
Chinese output declined by 1 percent to 59 million tonnes. Chinese central bank has been increasing interest rates to combat inflation. This is raising expectation of decline in demand and thereby is leading to lower production by the steel mills. Manufacturing numbers from the country is also indicating moderation in growth.

Infrastructure activities have also been slowing down and thereby are leading to lower demand for steel. Industrial production however indicated pick-up in activity in the month of March as growth rose to 7.3 percent. Capital goods output, which has been contracted for the previous three months, also rose by 12.9 percent. Continued strong demand would propel RBI to continue to hike interest rates and thereby growth might moderate ahead. Inflation though indicated slight moderation but revision of previous month's figure towards 10 percent has indicated continued demand pressure.

In the Indian markets, scrap steel prices moved higher owing to the slowdown at the country's largest ship-breaking yard, Alang. Trade sources said that melting scrap steel price increased by nearly 1,000/tonne to 24,000/tonne.

**IRON ORE:** Iron ore prices declined by 6.5 percent to end the month at \$170/Dry Metric Tonne. Weak Chinese demand, owing to monetary tightening in the country, lead to decline in iron ore prices. Chinese domestic iron ore output amounted to 97.76 million tonnes in the month of April, thereby registering a growth of 3.5 percent from the previous month. In the month of April, imports of iron ore by China however declined by 11 percent to 52.88 million tonnes.

Data from Mysteel indicated that stocks of imported iron ore at the major Chinese ports jumped by 10.7 percent to reach record level of 92.45 million tonnes for the week ended May 27. This lead to lower offtake of imports and thereby is creating pressure on prices.



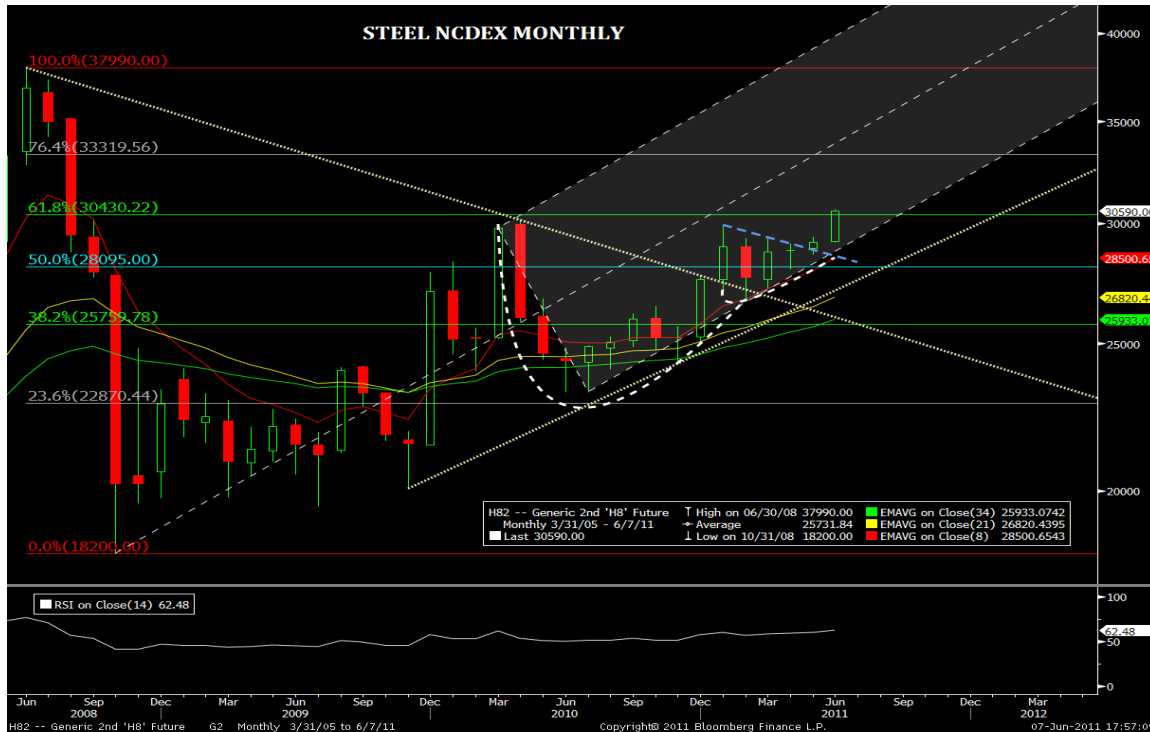
On the industry front, china's steel industry body CISA is also considering launching a domestic iron ore price index. Currently data is provided by the likes of Metal Bulletin and Platts which are largely used as benchmarks.

Supplies of iron ore ahead from India, world's third largest exporter, might remain tight as domestic demand for the mineral usually rises during the monsoon season. This bodes well for iron ore prices. Iron ore prices might also find support from the fact that Vietnam will raise the export duty on iron ore to 40 percent in early July from 30 percent now to ensure raw material for its domestic steel industry.

Steel prices are expected to move higher as increase in production costs is prompting companies to hike prices. Some of the companies have already indicated rate hikes. Demand of steel however might continue to remain subdued. Given the shortage of availability of raw materials, bias for steel

prices continues to remain on the higher side. In China, power shortages might become more rampant in the summer, given the recent indications. This would slowdown production and thereby might support prices.

### Technical Outlook:



Alloy prices started soaring as per our last month's expectation and are currently trading at 30540 as on 07th June 2011. Previous month low in steel is at 29180 and high of 30660.

A cup and handle continuation formation witnessed in the monthly chart which may push the prices upside for the coming few months. However, on the up side a crucial resistance is seen at 33320 which is 76.4% retracement of the range 37990-18200 as per Fibonacci principle and also a MEDIAN line resistance as per Andrew pitchfork tool of the range 18200-29960-23240. A long white candle stick is patterned in the monthly chart suggesting bullish continuation mode. Prices are sustaining above the long term trend line drawn by joining 2 well defined points in the chart 37990-18200 signaling bullishness in the near term. The RSI (14) is at 0.62 indicating upside potential for the commodity.

Over all we expect a bullish trend in the steel and recommend buying for the coming month.

### Recommendation

Buy 1st lot at present level 30500-450 and 2nd lot at 29600-450 TP 31800 and then 32500 SL below 28200.

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