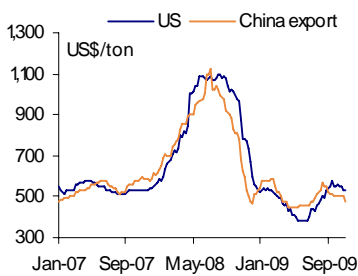
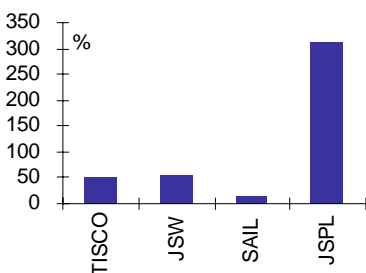
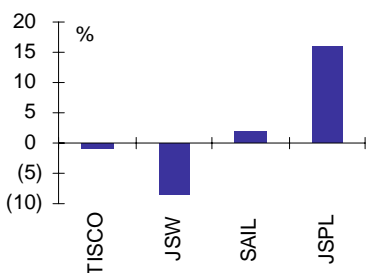


Steel price movement


Source: Bloomberg

Price performance v/s Sensex YTD


Source: India Infoline Research

Price performance v/s Sensex Mom


Source: India Infoline Research

Domestic producers cut flat product prices

Domestic steel manufacturers have announced price cuts to realign themselves with the sharp correction in landed cost of steel over the last one month. The rising steel imports have caused price cuts in the range of Rs700-1,500/ton across all flat product categories. The appreciation in the rupee against the dollar has added to the pressure on steel prices. We had mentioned in our earlier note that domestic prices would remain capped in Q3 FY10. Due to seasonal factors and a revival in global steel prices, we now expect steel prices to rise marginally in Q4 FY10.

Chinese HRC export prices slide to 2009 lows

Steel export prices from China have declined ~18.5% from its 2009 peak and are currently just above its 2009 lows. Chinese steel production has ballooned from the start of 2009 touching its all time high production of 52.3mn tons in August. Signs of steel products being dumped from China in the global market are visible on account of the excess steel in the domestic market. A pullback in global steel prices has been witnessed on the back of a rise in exports from China and a depreciating dollar. Global producers too have increased their production expecting a faster recovery in demand. We feel that steel prices will remain under pressure in Q3 FY10 on account of the sudden rise in production and lower seasonal demand. A rebound in the demand in Q4 FY10 (Q4 considered as the strongest quarter) coupled with some discipline by the producers will lead to firmer steel prices. We maintain our estimates for Chinese HRC export prices for FY10 at US\$500/ton.

2010 global steel consumption to bounce back to 2008 levels

World Steel in its Short Range Outlook released in October has revised upwards steel consumption over the next two years. It now expects a fall of 8.6% yoy to 1,104mn tons in global consumption against the 14.1% decline expected earlier, largely due to the exceptionally strong growth in Chinese demand. On expectations of a recovery in global demand in second half of the year, it expects global steel demand in 2010 to grow by 9.2% to 1,206mn tons, same as that of 2008. The resilience shown by the domestic market to the global slowdown has led to further upgrades on India consumption. It now expects domestic steel consumption to increase by 8.9% yoy in 2009, higher than the 6.8% projected earlier.

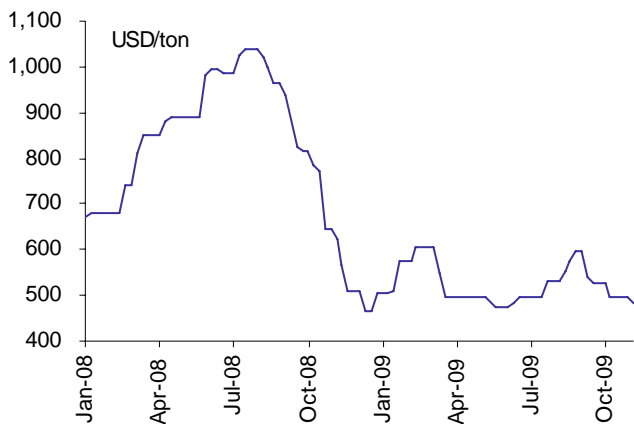
Steel price movements

	Nov-09	Nov-08	yoy (%)	Oct-09	mom (%)	YTD (%)
Price* (US\$/ton)						
USA HRC	542	780	(30.5)	575	(5.7)	2.4
Europe HRC	568	678	(16.1)	608	(4.0)	(5.9)
CIS BlackSea	498	725	(21.2)	550	(9.3)	18.7
China export	485	565	(14.1)	495	(2.0)	(4.9)
China spot iron ore	92.5	65	42.3	90	2.8	17.1
China export coke (fob)	395	505	(21.7)	395	-	16.2

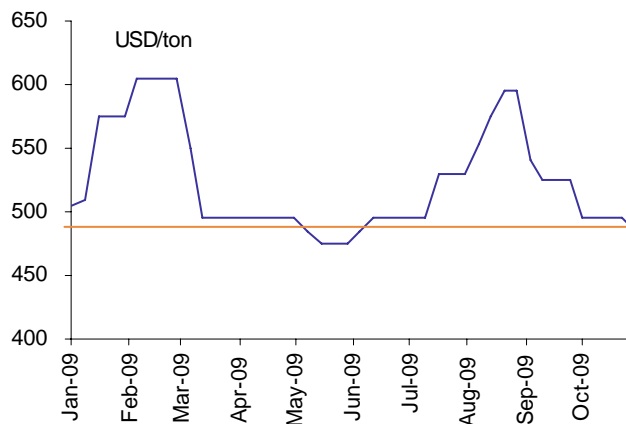
 Source: Bloomberg, Metal Bulletin, India Infoline Research *- Prices as of 3rd November 2009

Steel market key indicators

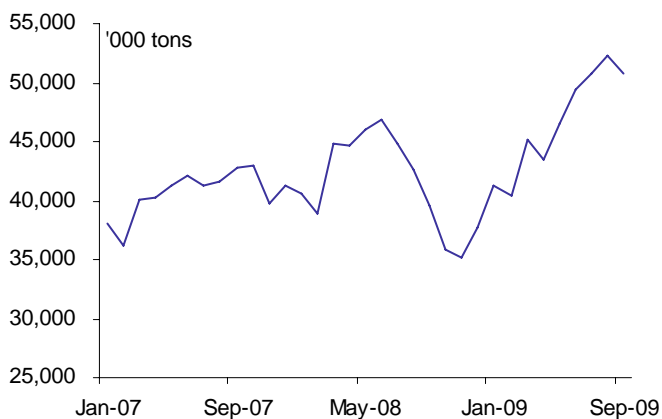
Chinese HRC export prices have slipped 18.5% from its recent peak



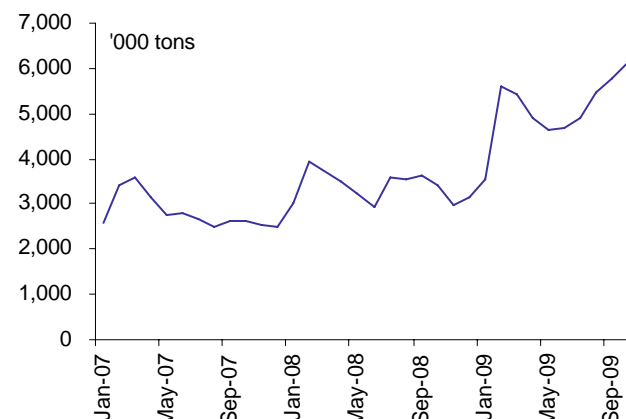
... and are trading near 2009 lows



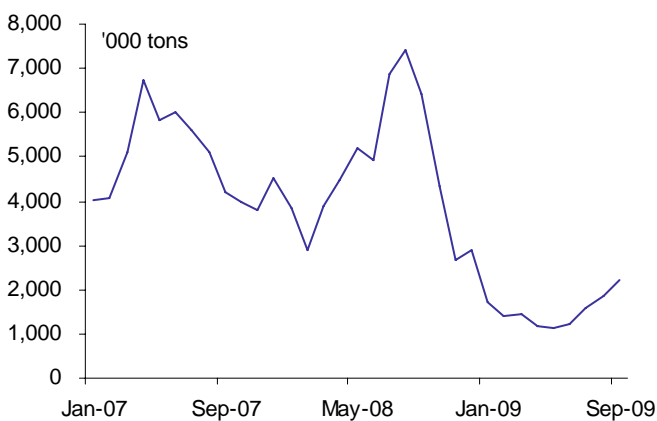
Chinese steel production continues to be at its all time high



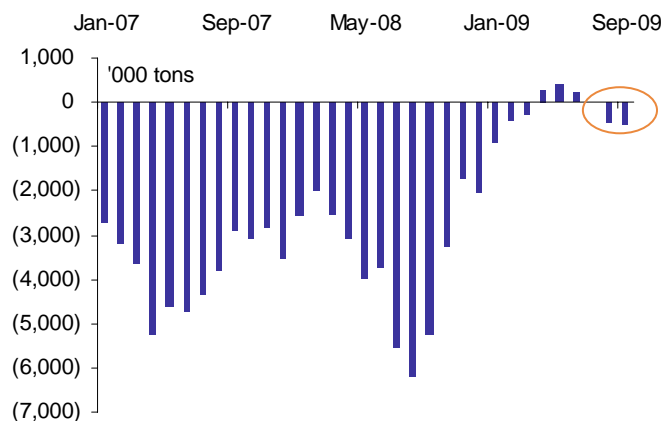
... So have inventory levels zoomed to its all time high, at 1.8x on a yoy basis



Exports have started to creep up recently

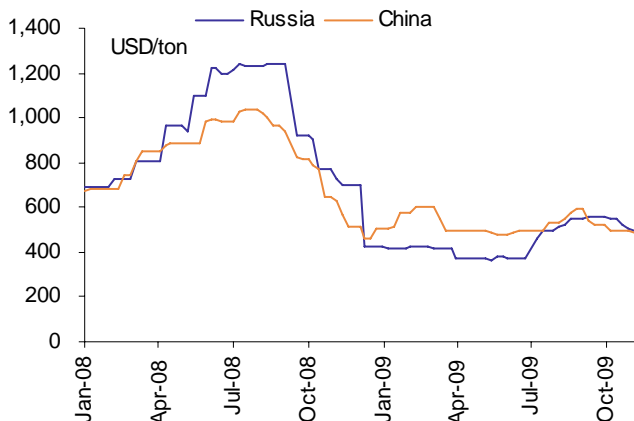


The country has turned into a net exporter over the last two months

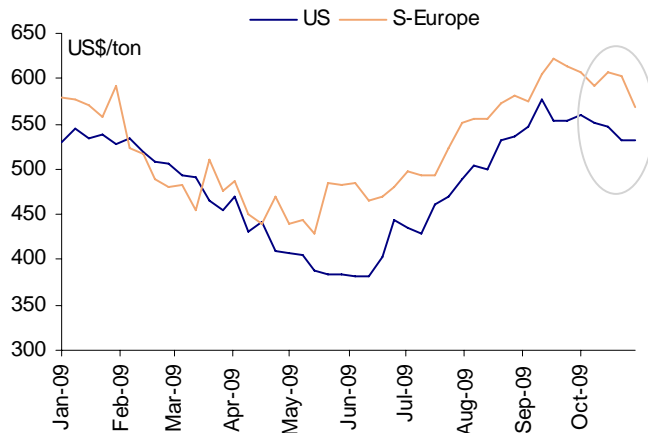


Source: Bloomberg, World Steel Organisation, India Infoline Research

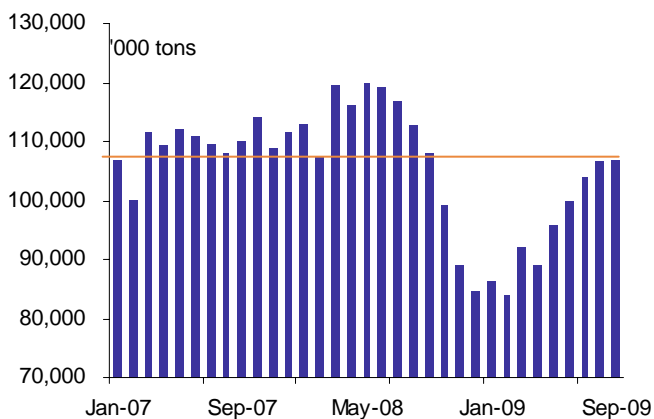
CIS export prices too slip below US\$500/ton



Increase in Chinese exports has led to a decline in global steel prices too



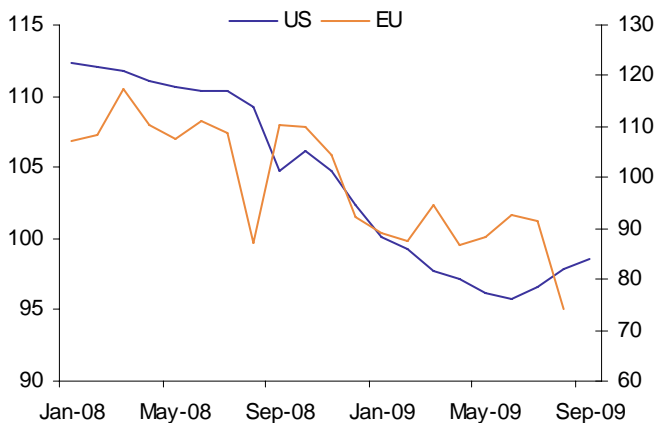
Global Steel production back to 2008 levels in September



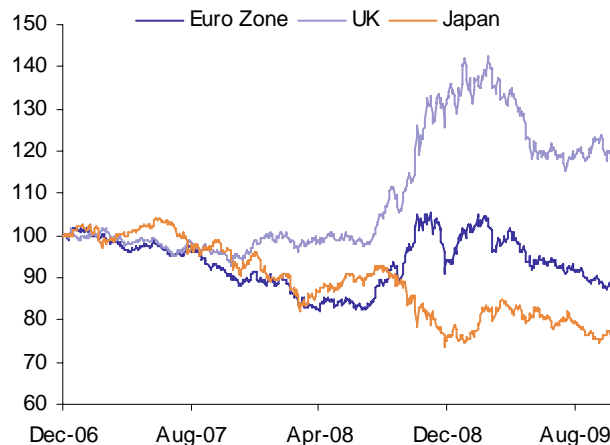
... steel players Ex-China have boosted production



However, industrial production is way below that of 2008



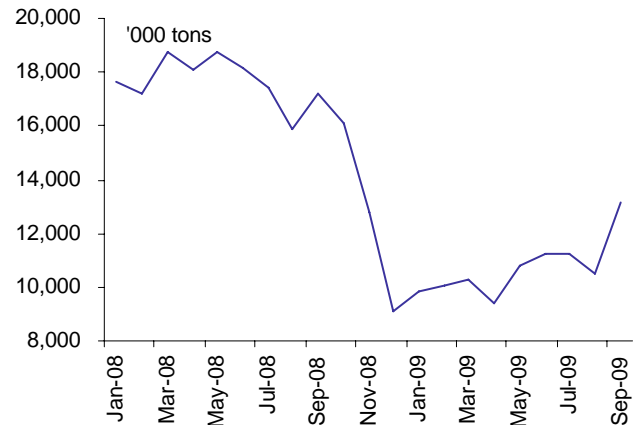
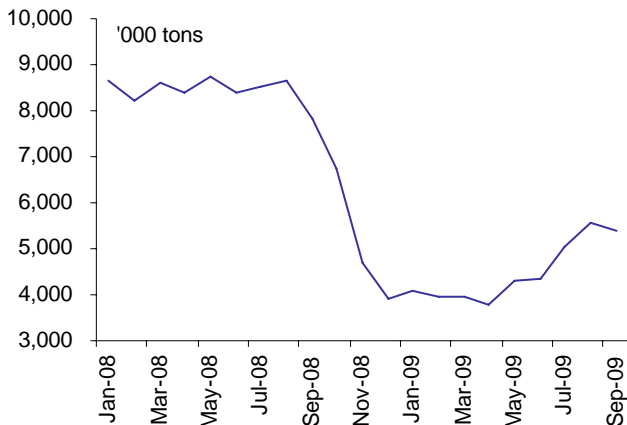
The dollar has slipped against major global currencies



Source: Bloomberg, World Steel Organisation, India Infoline Research

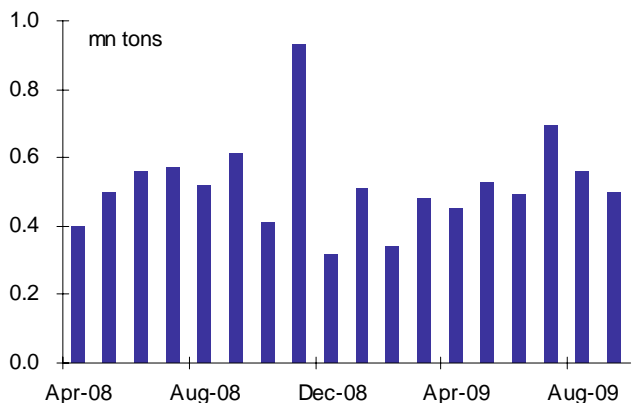
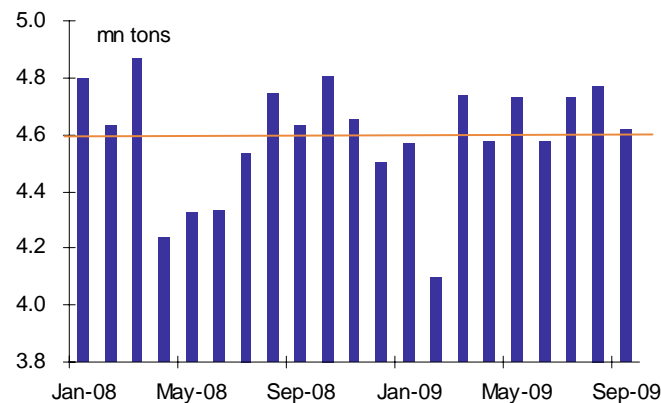
Firm prices have led to a rebound in production; current production levels in US up 41% from its 2009 low

... and that of Europe was 39.7% higher



Average domestic steel production per month was 4.6mn tons

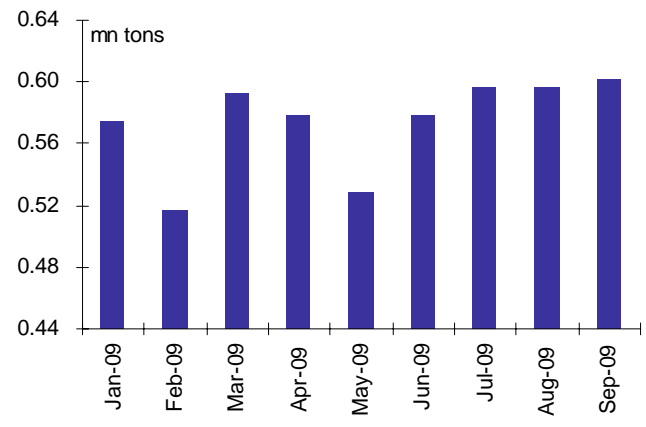
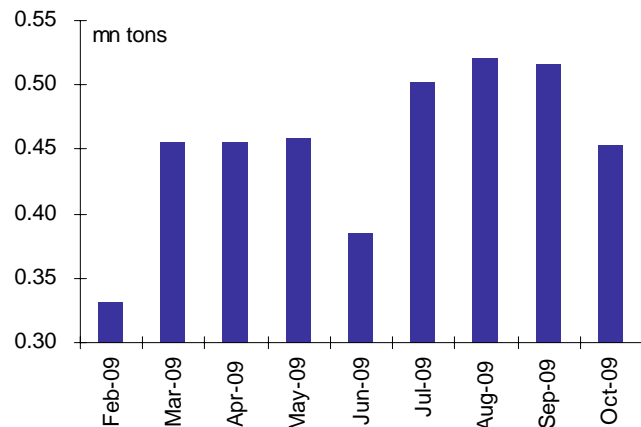
Imports have been strong in the last one quarter



Source: Bloomberg, World Steel Organisation, India Infoline Research

Domestic producers continue to register impressive growth, JSW's steel production YTD is up 42.5% yoy

Tata Steel has registered a 21.7% yoy rise in production YTD



Source: Bloomberg, Company, India Infoline Research

Recommendation parameters for fundamental reports:

Buy – Absolute return of over +10%

Market Performer – Absolute return between -10% to +10%

Sell – Absolute return below -10%

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