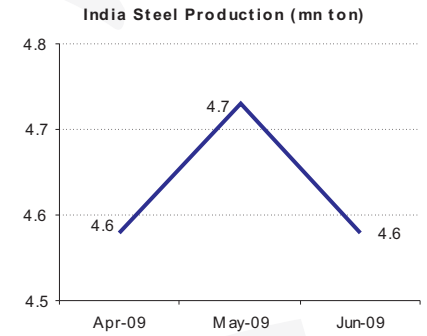
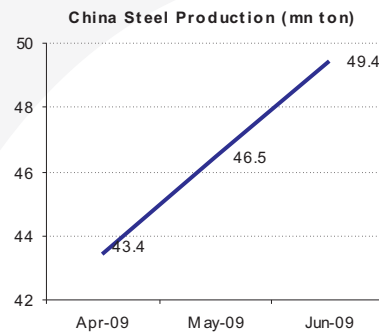
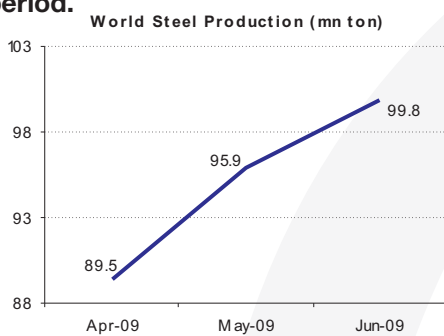


STEEL SECTOR - Monthly Update - JULY 2009

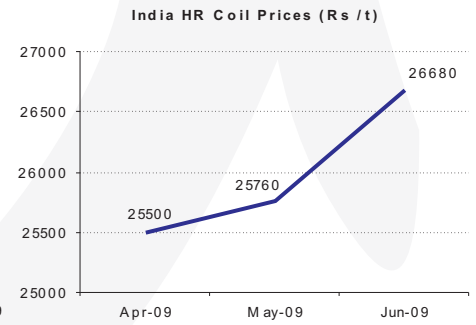
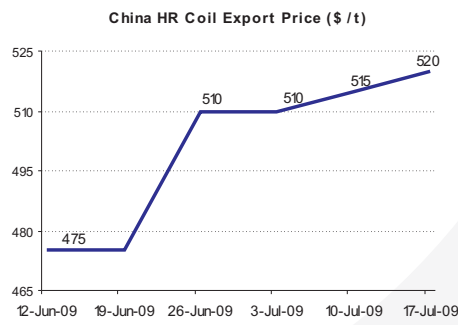
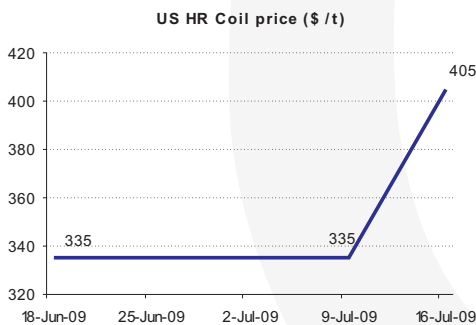
World crude steel production extended its gains for the second consecutive month. However, production was far away from the average levels in most parts of the world. Steel production in all major steel producing countries/continents increased 4.1% in the month of Jun-09 compared to the previous month (May-09). However, the production was down ~16% on YoY basis. Japan (up 6.3%), China (up 6.4%), EU (up 3.5%), US (up 3.2%) and Russia (up 4.1%) reported growth in steel production on month-on-month (MoM) basis. India (down 3.2%), South Korea (down 5.9%) and Ukraine (down 2%) were countries which reported decline in steel production on MoM basis. Steel production in US, EU, Japan and CIS countries were down by 47%, 38%, 34% and 26% respectively on YoY basis. India and China were only countries which report growth in steel production on YoY basis.

During first half of CY09, the world crude steel production was down 21.3% YoY led by US (down 47%), EU (down 38%), CIS (down 26%) and Japan (down 34%). China and India were only countries reported increase in steel production during the same period.



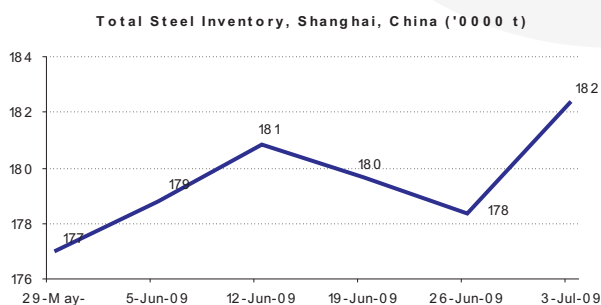
Source: World Steel Association, Bloomberg, GEPL Investment Research

Steel prices in major global markets were firm in last one month. Steel prices in US, China and India increased by ~20%, ~10% and ~4% respectively in last one month. Indian steel industry got disappointed after the government rejected their demand of imposition of import duty on steel products. Government argued that the price differential between major importing countries like China and CIS countries and India have narrowed down, thus import should not be a threat for domestic steel producers.



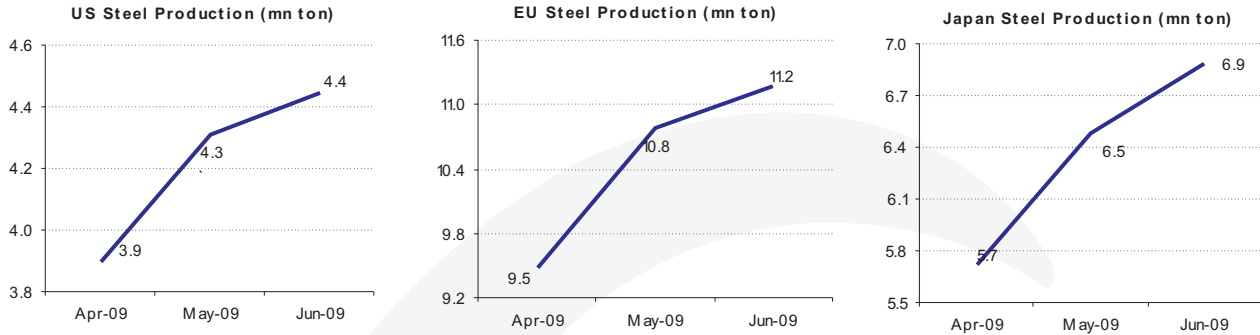
Source: Crisil, Bloomberg, GEPL Investment Research

Total steel inventory at Shanghai, China went up during last month. Steel export from China continued to fall. According to China Iron and Steel Association (CISA), China steel export may fall by 80% in CY09 to 12 mt (Vs 60 mt in CY08) due to massive fall in steel demand from export markets due to global recession.



Source: World Steel Association, Bloomberg, GEPL Investment Research

Steel production in major countries like US, EU and Japan were up by 3.2%, 3.5% and 6.3% respectively in the month of Jun-09.

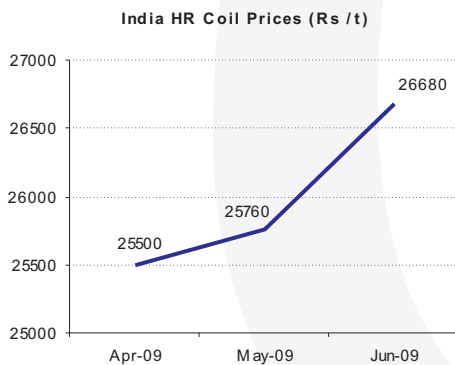


Source: World Steel Association, Bloomberg, GEPL Investment Research

HR prices in India show slight improvement

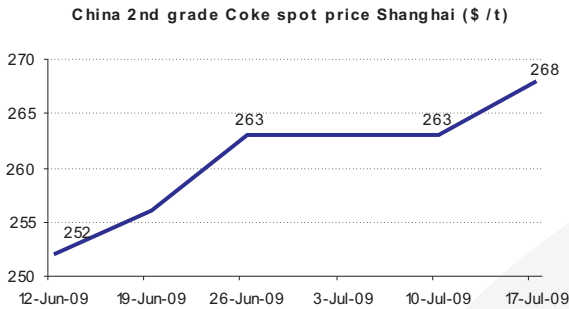
Prices of HR steel increased marginally from ~Rs25,800 per tonne in May-09 to ~Rs26,700 per tonne in June-09. This increase in prices is an indication of the recovery in major end-use sectors.

Domestic prices continued to remain at a premium of 10 to 20% to the landed cost of imports. Despite the import restrictions on these products, imports of flat products have witnessed an increase of 6% in the April-May 2009 period, year-on-year. Major steel players have been vying for an additional safeguard duty to be levied on these products. Since the domestic prices are already at a premium to the landed cost, any increase in import duty is unlikely to result in a significant increase in domestic steel prices.



Source: Bloomberg, GEPL Investment Research

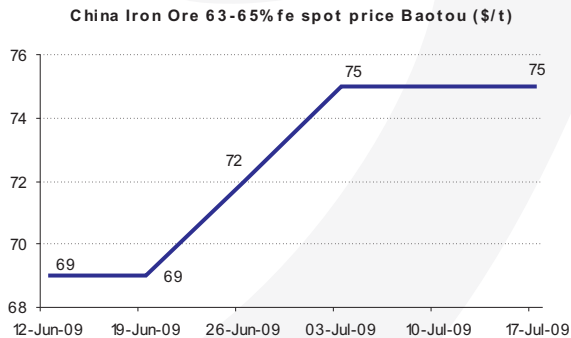
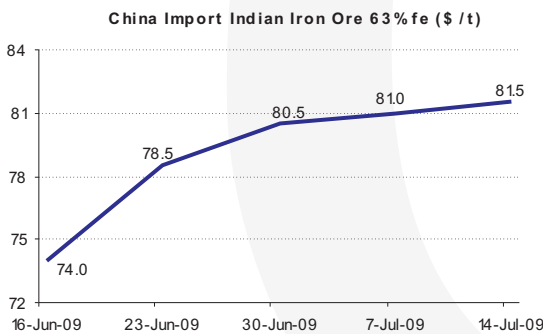
China 2nd grade coke price continued its rally and increased further (up ~6%) in last one month. The annual contract price of coking coal for FY10 was fixed at \$129 /t between Australian miners and Japanese steelmakers and followed by rest of the world.



Source: World Steel Association, Bloomberg, GEPL Investment Research

China import price of Indian iron ore increased ~10% in last one month due to lower supply of ore from Australia which increased demand of India and Brazilian iron ore. As per media reports, China detained four of Rio Tinto's employees for allegedly stealing state secrets related to iron ore prices. After this event, China slowed its purchase of iron ore from Australia and demanded more of Indian and Brazilian iron ore. This also moved spot price of iron ore in China upward by ~9% in last one month.

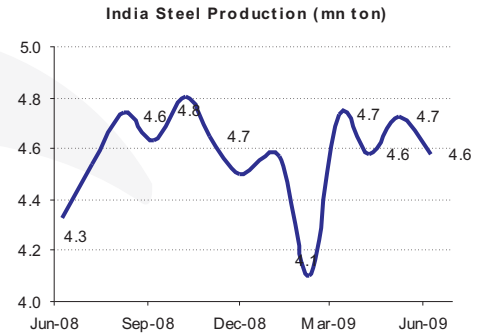
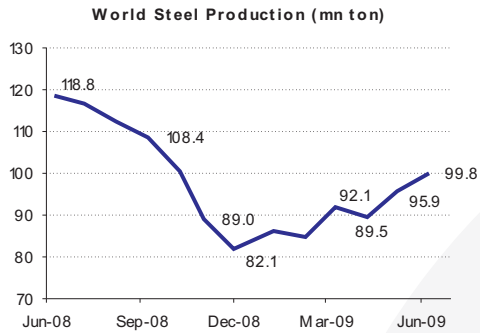
As per some media reports, few large Chinese steelmakers have accepted a temporary 33% cut on iron ore prices, at par with the prices accepted by Japanese steelmakers. However, Chinese steelmakers have denied from any such move. Chinese steel makers were demanding a price reduction of upto 45% for the annual contract price of iron ore.



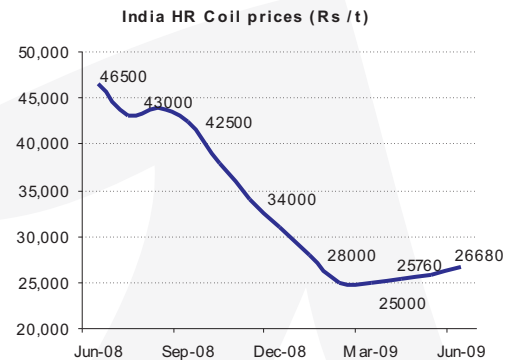
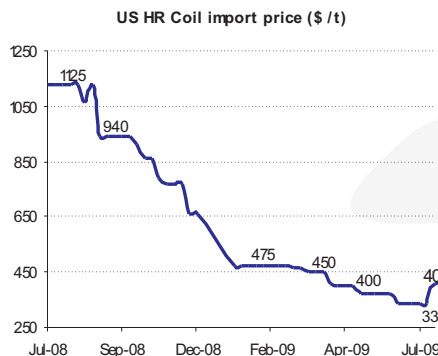
Source: World Steel Association, Bloomberg, GEPL Investment Research

Historical Trend

Production



Price



Source: World Steel Association, Bloomberg, GEPL Investment Research

Important News Flows

Reuters, 19 Jul 2009

POSCO raises stainless steel prices by 7.1%

POSCO would raise domestic prices of stainless steel by up to 7.1% in its second price hike in just one month to reflect improving demand and rising raw material costs.

Bloomberg, 20 July 2009

Cash Iron Ore Price Trades Above \$90 for First Time This Year

Cash prices for 63.5% fe iron ore delivered to China traded above \$90 /t for the first time this year amid rising imports by the Asian nation. That's the highest since Oct. 10, 2008. The price for 62 percent ore rose 1.4 percent to \$82.80 a ton, according to SBB.

Economic Information Daily, 17 Jul 2009

China steel demand may grow by over 17% in 2009

China Business Information, the largest integrated service provider in Chinese commodity markets turned up its forecast about China's steel market in a latest report and predicted an over 17% growth in demand and over 8% growth in supply in 2009.

PTI, 15 July 2009

Steel consumption rises by 5.2% in first quarter

Steel consumption in India has risen 5.2% during the first quarter, showing signs of improvement in demand for the commodity in the economy. However, the export of steel took a hit and fell sharply by 37.8% in the period. Imports also fell 5.3% during the period.

Bloomberg, 15 July 2009

China Accepts Ore Cut, May Allow Rio Talks to Lapse

Major Chinese steelmakers have accepted a temporary 33% iron ore price cut from Rio Tinto, and may allow annual contract talks to lapse, Umetal Research Institute said. However, there may be no official announcement about the price agreement.

Reuters, 13 July 2009

POSCO Q2 at 9-yr low, sees strong rebound in H2

POSCO expects second-half earnings to nearly quadruple as rising steel prices and improving demand from auto makers and other manufacturers help the industry recover from its toughest environment in decades.

Reuters, 13 July 2009

Baosteel raises key August steel prices

China's Baoshan Iron and Steel Co has raised August prices for its major products by 9 to 13 percent versus the July tags, higher than market expectations, trade sources said.

Reuters, 13 July 2009

India not reviewing iron ore export policy

"There is no proposal to review the iron ore export policy at present," minister said in a reply.

Steelguru, 29 Jun 2009

Japanese steelmakers settled HRC export price with SEA buyers

It is reported that Japan steelmakers have settled HRC export price with buyers in Southeast Asia for July to August shipment at USD 480 per tonne CNF. The price is USD 50 per tonne higher than previous one.

Platts, 24 Jun 2009

China cuts export tax on several steel products to 5% from July 1

China has cut the export tax on several steel products to 5% from the 10% to 15% charged currently from July 1st.

PTI, 13 July 2009

Vedanta to invest \$2 bn for buying copper, iron ore assets

Vedanta Resources will be looking at making investment worth over USD 2 billion (about Rs 9,750 crore) in buying copper and iron ore assets.

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