

**Natural Resources & Energy
Metals & Mining**
Equity – Global

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HSBC Steel Weekly

India Steel – benefiting from the INR depreciation

- ▶ **Over the last year, Indian HRC realizations increase c6% vs c12% drop in China HRC prices as INR depreciates c25%**
- ▶ **Whereas INR depreciation increases raw material costs, margins tends to improve**
- ▶ **8% steel consumption growth for Apr-12, a welcome respite; but possibly boosted by one-off effects**

Steel prices in India increase amid falling international prices

Following INR depreciation of c25% over the last year, Indian steel prices have actually increased c8% y-y in May-12 (realizations for steel mills have gone up c6% when adjusted for higher excise duty). This leaves Indian mills in a sweet spot compared to their Chinese counterparts, where HRC prices have fallen c12% over the same period (see Exhibit 1 overleaf)

Costs rising for non-integrated players, but margins tend to increase nonetheless

For the non-integrated steel players (using import coking coal, and domestic iron ore) in India, raw material costs, denominated in INR, would increase as they have to pay up for import coking coal that, but also for iron ore, which is priced on export-parity. Since exports of iron ore yield higher prices when INR depreciates, the opportunity cost of selling ore in India is increasing prices in India too. However, whereas steel prices are revised on monthly basis, raw material contracts get revised on quarterly basis – giving steel companies in India and EBITDA margin expansion in times of a rapidly depreciating currency.

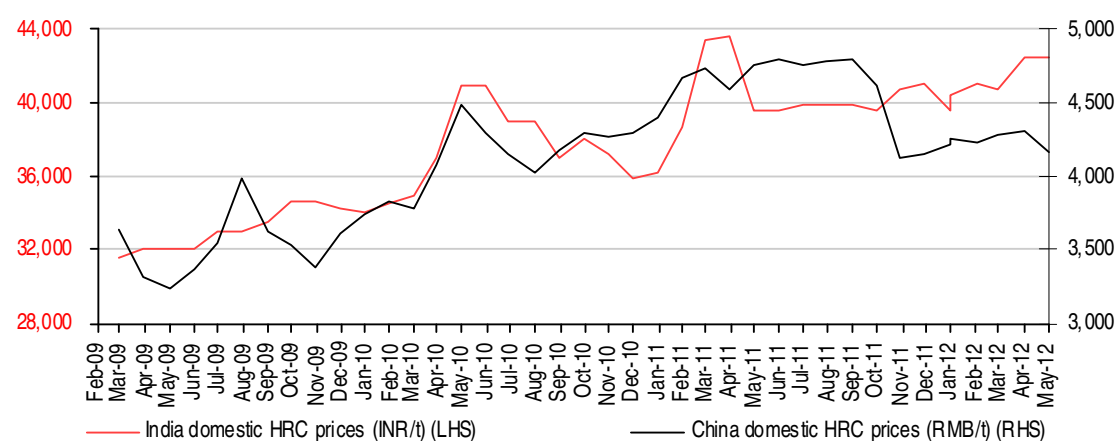
Eventually elevated INR will eventually hurt via foreign currency loans

What remains under the surface is the impact on debt. Most companies in our coverage (see Exhibit 2 overleaf) do carry meaningful foreign currency loans on their balance sheets. Under current Indian accounting standards, the INR depreciation results in higher marked-to-market FX losses that are not flowing through the P&L until the loan is actually paid-off. While profits in the more distant future could be hit if the INR does not recover, the mills can enjoy higher earnings for the time being.

April consumption data is a welcome respite, but questions persist

Steel consumption increased 8% y-y in Apr-12, and hence above our 6% average for FY12e. Exports declined c5% and imports rose 93% in Apr while production grew at 5%. We suspect that consumption could have been artificially boosted in Apr, as the increase in excise duties was widely expected by the market. May consumption data, therefore, should give a clearer picture about how real demand growth keeps up with the various headwinds.

Exhibit 1: Indian HRC prices have moved up whereas Chinese HRC prices have moved down over the last year



Source: Bloomberg, HSBC

Exhibit 2: Both Tata & JSW have strong exposure to USD:INR movements

	TATA	JSW Steel
Current assets	153	320
Receivables	132	9
Others	21	311
Payables	1,717	2,399
Loans	1,594	1,000
Others	124	1,398
Net exposure	1,564	2,078
INR depreciation	11%	11%
Reported foreign currency translation loss estimate (USDm)	166	220

Source: Company data, HSBC [Note: (a) Net exposure is calculated from published documents of respective companies as of Mar-11 and actual impact may be different to the extent of changes in exposure between Mar-11 and Mar-12 as well as changes in extent of hedging (b) We also note that cash flow impact of the above loss will be limited to the extent to which liabilities are extinguished and losses realized; otherwise, it is just a non-cash earnings impact (c) In Exhibit above, the calculations are based on INR:USD forex changes. The actual impact on P&L will depend on cross-currency exposure as well, which we are not in a position to independently calculate. The calculations above are just a broad indication of relative size of losses for cross-corporate comparison. Tata Steel & JSW Steel have adopted AS11 (Indian accounting standard) which allows for the capitalization of forex gains/losses on borrowings. Hence, reported accounts could look optically better with net worth not taking a hit but the increased liability being offset by an increase in the value of fixed assets.

Results

Severstal (SVST LI, N(V)) reports Q1FY12 results, stronger net income mainly on one-offs.

Severstal reported revenue of USD3,679m (-1% q-o-q) in line with (Reuters) consensus forecast of USD3,678m and marginally below our forecast of USD3,727m; reported underlying EBITDA of USD562m (-27% q-o-q) significantly below consensus forecast of USD630m and our forecast of USD721m, primarily due to a one-off inventory charge of USD57m and lower realized prices at Russian steel. With EBITDA margin of 15.3% Severstal retained the highest margin steelmaker position. Excluding the one-off effect the EBITDA of USD618m implied an EBITDA margin of 17%. Severstal reported net income of USD427m significantly beating consensus forecast of USD318m and our forecast of USD325m. Net income decreased less than EBITDA due to the support of strong Rouble and the effect of separation of Nordgold. The management expects higher demand in Russia in Q2FY12 due to seasonal construction growth but expects export markets to remain volatile due to weak European demand. However, some demand could pick up due to buying ahead of Ramadan in the Middle East. Positive trend in the US led by autos is expected by the company to continue in Q2FY12 as well. Severstal board has recommended a dividend payment of USD0.13 per share for Q1FY12 (to be approved at the company's AGM on 28 June 2012).

Tata Steel (TATA IN, N) reported strong Q4 FY12 numbers, in line with consensus expectations:

Tata Steel reported standalone EBITDA of INR30bn (-2.5% y-o-y/ +13.1% q-o-q) and consolidated EBITDA of INR32bn (-28.8% y-o-y/+66.1% q-o-q), in line with consensus and our estimates. Consolidated NPAT surprised negatively at INR2bn (down c89.1% y-o-y) and c80% below our estimate due to: a) adoption of Accounting Standard 11, and b) ETR of c82% due to losses at some European entities not being tax deductible. The company reported FY12 net debt at USD8.9bn and a pension surplus of GBP211m (triennial valuations underway, hence clearer picture of pension status will emerge over next two months). Outlook: We believe Tata Steel will have to deal with multiple issues: a) falling margins at the incumbent India business (as expected, lower iron ore prices result in lower mining margins); b) low margins at the expanded India business (as the facility is not as integrated as existing one); and c) continued pressure at its European business. Hence, we downgraded the stock to Neutral (from Overweight) and cut TP to INR450 (from INR500 earlier).

Macro News

Asia

HSBC China Manufacturing PMI still weakening, more easing on the way: The flash reading of HSBC China manufacturing PMI dropped to 48.7 in May (compared with 49.3 final reading in April), the lowest reading this year. Manufacturing activities softened again in May, weighed down by exports orders growth. Beijing policy makers are stepping up easing efforts to stabilize growth, as evidenced by the recent slew of measures to boost liquidity, public housing and infrastructure investment and consumption. HSBC economists expect Beijing to deliver more aggressive policy easing, as inflation continues to slow. As long as the impact of these easing measures filter through, China should secure a soft landing in the coming quarters.

Indian Rupee falls to record lows: The Indian rupee fell to record lows of c56 vs the US dollar this week, depreciating by c11% over the Jan-Mar quarter average of 50.16. While this fall partly cushions

steelmakers from falling regional steel prices, it also makes coking coal imports c4% more expensive over Jan-Mar levels, despite a 6.5% fall in USD denominated coking coal spot prices. Domestic flat product prices showing sustained weakness due to demand issues (long product prices enjoy stronger cost support due to iron ore/ thermal coal availability issues), which poses particular risks for the non-integrated flat steel producers such as JSW Steel (which also faces iron ore supply problems) if regional prices continue the downtrend.

EMEA

Eurozone PMI - it gets worse: The flash estimate of the Eurozone PMI contracted to the worst level since mid-2009, to 45.9 (vs. 46.7 in April). The one piece of good news was the ongoing resilience of the service sector PMI in Germany (52.2) but the overall composite PMI fell below 50 to 49.6, thanks to the sharp contraction in German manufacturing. On the other hand, France registered a faster pace of contraction (composite PMI at 44.7), along with the rest of the Eurozone. Overall, Eurozone PMI indicators remain consistent with a contraction in Q2.

Russian consumer demand growth eases despite tight labour market. The April macroeconomic release provided mixed data on domestic demand, at first glance. While the growth of investment goods demand has accelerated, the growth of demand for consumption goods eased. Yet, empirical evidence suggests that the former should be primarily attributed to state investment activity, while the private sector does not boost its investment activity much. Overall, the April data points to the likely moderation of economic activity expansion in the coming months. HSBC economists continue to expect GDP growth to stabilize at annualized 2.5% y-o-y in 2H 2012.

Americas

United States April existing home sales better than expectation – April existing home sales rose 3.4% m-o-m to an annual rate of 4.62m, matching consensus expectations. The pace of sales has now exceeded 4.60m in three out of the first four months of 2012. In comparison, sales did not surpass 4.60m in any of the twelve months of 2011. HSBC economist expect that existing home sales will average around 4.60m this year, about a 7.5% increase from the 4.28m sales rate recorded in 2011 and the months supply of existing homes for sale to average around 6 months this year, down from 8 to 10 months in each of the past five years. Home sales have improved since the end of 2011, and relative oversupply of homes for sale has been shrinking. However, HSBC economists do not see these housing metrics improving much further in the remainder of this year.

Central Bank of Brazil sells USD to halt BRL skid: On the back of some very ugly price action on last Friday the Central Bank of Brazil (BCB) has stepped into the market with USD sales via swaps contracts. They offered 13,000 swaps (around USD650m) and all were sold. This is a smaller amount than the approximate USD6.0bn they sold last September/October. Whether or not this can help to stabilize or reverse the BRL's slide remains to be seen, but it demonstrates that the authorities are uncomfortable with the pace of the move seen today.

Long USD positions hit new cycle high: Total long USD positions rose to USD27.8bn in the week ended May 15 from USD19bn the previous week, using the cumulative notional USD total of the currency futures contracts that trade on the IMM. The sizeable one-week increase put long USD positions at their largest of this cycle, dating back to September 2011 when speculators flipped from short to long

dollars. The rise is consistent with the USD's broad gains of late, as increased Greece/Eurozone stresses have given the currency a substantial lift.

Industry Specific News

April crude steel production increased slightly y-o-y. As per the World Steel Association, global crude steel production for April 2012 rose 1.2% y-o-y to 128.4mt, of which China contributed 60.6mt (c47% of the total). Jan-Apr cumulative production for 2012 at 504.0mt is marginally above 500.2mt production during corresponding 2011 period. The capacity utilisation ratio at 81.1% was mainly unchanged m-o-m (-1.7 percentage points y-o-y).

Asia

Chinese steel market continued to trend down last week. The HRC prices fell by 1.2% WoW to Rmb4,418/t (VAT-inclusive) and CRC prices lost 0.9% WoW to Rmb5,120/t. Rebar prices was down by 1.7% WoW to Rmb4,223/t and wire rods prices down by 1.4% WoW to Rmb4,258/t.

Inventory level continued to stay at high levels. Although inventory of China's five major steel products has declined for 12 straight weeks to 16.7m tonnes by the end of last week from a high 19.0m tonnes in Feb, it is still 9% higher than the same time last year.

Exports of finished steel products in Apr declined by 7% MoM from a 21-month high in Mar and down by 2% YoY to 4.67m tonnes. The number may decline further in May due to narrowed price gap between domestic and overseas market as well as poor overseas demand. This in turn will further worsen the oversupply issue in domestic market.

Baosteel has announced on May 9 that it will keep prices of its main steel products unchanged for June deliveries. WISCO has also recently announced to cut its HRC prices by Rmb80/t and certain CRC prices by Rmb100/t for June deliveries.

JSW Steel (JSTL IN, N(V)) reports strong April production numbers: JSW Steel reported a 35% y-o-y growth in crude steel production during April 2012. Capacity utilization levels were at 80% during the month. However, as we had highlighted in our Q4 FY12 results note, raw material visibility is only until July, post which a delay in start of Category A and B mines in Karnataka could bring down utilization levels sharply.

RINL files IPO document: Rashtriya Ispat Nigam Ltd (RINL), India's second largest public sector steel company (and a long products producer) with a capacity of 6.3mtpa currently (to which it plans to add an incremental 1mtpa by means of modernization and debottlenecking by end FY14), recently filed IPO papers with the Securities Exchange Board of India. Through the IPO, the Government of India plans to divest 10% of its stake in RINL and raise INR25bn (USD450m).

EMEA

Weak sentiment for prices and volumes prevail – European steel prices remained hardly changed at UR528/t, which resulted in a USD10/t drop w-o-w due to the weakening USD/EUR exchange rate. We continue to think that downside should be limited as prices are only covering marginal costs, the price premium to China export prices has narrowed to just USD37/t and prices in Northern Europe are at a discount to Southern Europe again. With weak macro news all around it is no surprise that the price

sentiment remained bearish, whereas the demand sentiment continued to weaken thereby turning borderline bearish.

ThyssenKrupp [TKAG.DE, Neutral(V)] rating outlook revised to negative: Fitch has revised down the rating outlook for ThyssenKrupp's long-term Issuer Default Rating (IDR) from 'stable' to 'negative' following Q2-12 interim results owing to spiralling debt, significant corrosion of other credit metrics and uncertainty regarding the potential sale of the Steel Americas operations. The rating agency has assigned 'BBB-' for long-term IDR and senior unsecured loans, while 'F3' for Short-term IDR. Fitch considers the company's diversified business and superior liquidity profile to be the key supporting factors for its credit profile. We would expect only a minor direct impact from a rating downgrade by Fitch.

EU commission opens in-depth investigation for acquisition of Inoxum: Under EU Merger Regulation, EU commission has initiated thorough investigation of planned acquisition of Inoxum, the stainless steel division of ThyssenKrupp [TKAG.DE, Neutral(V)], by Outokumpu. During the preliminary investigation, serious competition concerns were indicated in stainless steel flat products. The commission would make a final decision on the transaction in 90 working days (i.e. by September 26). A phase 2 investigation is in line with company guidance and our expectations and given the size of the deal we think this is business as usual and we expect that the acquisition will get cleared in the end.

ArcelorMittal [MT.N, N(V)] suspended USD1.5bn Brazil expansion. Due to a lack of domestic demand and a weaker outlook for global demand, ArcelorMittal's Brazil unit has deferred USD1.5bn expansion plan to build a wire rod plant (USD1.2bn) and a specialty steel production line.

TMK (TMKS LI, OW(V)) board recommends FY11 dividend. TMK board has recommended a dividend payment of USD0.09 per share for FY11, implying a dividend yield of 3%. The dividend payment is to be approved at the company's AGM on 26 June 2012 and payments will be made on 24 August 2012.

Severstal's (SVST LI, N(V)) Lucchini in advance talks for a potential sale. Lucchini, an Italian steelmaker owned by Severstal and Severstal's owner Alexei Mordashov, is in advanced talks with potential buyers for a complete sale by the end of 2012, as reported by Reuters on 17 May 2012. Lucchini specializes in making long products used in infrastructure projects. Lucchini's CFO, Maurizio Ria, said that the contacts with potential buyers are at an advanced stage and the goal is to sign a preliminary by summer and close the deal by year end.

MMK's (MMK LI, UW(V)) Flinders acquisition, hearing re-scheduled for 2 July 2012. MMK's takeover of Flinders mines continues to face problems as after a re-scheduled hearing on 24 April 2012, the Russian local court has further scheduled it for 2 July 2012, Bloomberg reported on 24 May 2012. The new date for hearing falls after 30 June 2012, the date of expiry of the MMK offer to purchase Flinders. The hearing is related to the lawsuit by a minority shareholder raising concerns that the purchase of Flinders by MMK would create financial and operational risks. The court has closed the hearings for public as financials and company information would be discussed. As mentioned earlier, MMK's appeal against the injunction will be heard on 30 May 2012 by another court.

Americas

US prices continued to slide and sentiment remained bearish – Although the US price sentiment slightly improved it remained solidly bearish and US steel prices declined by a further USD7/t now to USD719/t. The price premium versus China increased to USD91/t – still low enough to cool the import pressure that has been building in the past (see separate story below) which would be important as the demand sentiment continued to weaken.

US crude steel production fell 1.4% w-o-w but utilisation still above the 80% mark – According to American Iron and Steel Institute, for the week ended May 19, US crude steel production decreased 1.4% w-o-w to 2.0m s.t. The utilization rate at 80.0% decreased from 81.1% the week prior, but continues to be above 80% mark.

US imports decreased 2.3% m-o-m in April – According to US department of Commerce, preliminary census data for import for April was 2.72mt below from imports of 2.78mt of steel products in March. Imports continue to remain high, as US HRC price premium over China widened during the Feb – Mar period, in our view. But imports should come down in coming months as price difference is now close to USD100/t. Import of HRC, HDG, Coiled plates and Wire rods spiked up whereas imports of Blooms, Billets, Slabs and OCTG declined. Imports from Russia, China, India and United Kingdom increased significantly whereas imports from Brazil, Mexico, Japan and Germany declined.

American Iron and Steel Institute (AISI) forecast 2012 shipments to be 97m.s.t – AISI forecast 2012 US shipments to be 97m.s.t. The shipments for 1Q 2012 totalled 25m.s.t and AISI expects demand to be strong in second half of the year. According to AISI, import accounted for 23% of total market share in the year so far.

Brazil April crude steel production declined 2.7% m-o-m - According to IABr, crude steel production in April decreased 2.7% m-o-m (-1.2% y-o-y) to 3.0mt. Domestic sales decreased by 5.1% m-o-m to 1.8mt. Exports increased 10.2% m-o-m (-3.6% y-o-y) to 826kt whereas imports declined 6.3% m-o-m (+21.4% y-o-y) to 317kt. Apparent consumption declined 6.1% m-o-m to 2.1mt and has only increased c2% through the first four months of 2012 over the same period last year.

Brazil flat steel inventories remained flat in April – According to INDA, Brazil steel inventories for April remained flattish as compared to previous month. Distributor's shipments decreased by 9% m-o-m, resulting in increase of inventory to 2.9 months, though still close to historical average. We believe though inventory is at its historical level but scope for price increase is very narrow for steel producers as imports (direct and indirect) remains a threat and HRC prices are falling globally.

Brazil Government announced measure to stimulate domestic auto demand – Brazil Government announced measures to stimulate auto demand which include reduction on IPI (industrialized product tax) rates. Also, in order to increase auto credit, Government announced reduction in reserve requirements and in the IOF (financial tax) rate on loans to individuals. We note that auto production has declined in the first four months of the year and inventories are at elevated levels.

Usiminas (USIM5.SA, UW) has cut down its 2015 iron ore production target – Usiminas reduced 2015 iron ore production target to 25mt from 29mt. The company plans to increase output to 12mt from current production level of 8mt by end of the year. The current debt level is high and thus allocation of

capital might hinder the pace of the growth of production. We expect production to be 8.3mt and 20.0mt in 2012 and 2015, respectively.

North American rig count increases: According to data from Baker Hughes, rig counts increased for both US and Canada. The US rig count increased by 12 w-o-w to 1,986. Rigs employed in oil production increased by 10 w-o-w, while rigs geared for natural gas production by 2 w-o-w. Canada's rig count also increased by 3 w-o-w to 123.

Raw materials

Iron ore prices continue to decline: 62% Fe iron ore prices (China CFR) declined sharply by USD5/t w-o-w to USD131/t reflecting steel demand sentiments in China, the biggest consumer of sea borne iron ore. Prime coking coal prices declined marginally to USD207/t (versus USD208/t previous week).

Vale (VALE.N, N(V)) expects iron ore price to rise in second half of the year – Vale remains optimistic about increase in iron ore prices in second half of the year.. However, we sense potential short term weakness in the iron ore market (for detailed discussion, please see our report [HSBC Steel Weekly](#) report, dated 18 May).

Indian sponge iron industry heading for consolidation: Business Standard reported that sustained fall in profitability due to higher costs (tight supply of domestic iron ore, higher power costs) has led sponge iron producers to look for acquisition opportunities, especially in those mills that have definitive iron ore linkages. The sponge iron in India has a capacity of c35mtpa and with 350 units, ran utilization levels of c65% in FY11 which we think could have declined significantly during FY12 due to iron ore availability issues. Of these, 70 large units comprise 75% of the total capacity leaving the balance disseminated producers as acquisition targets.

Next week's events

Events Calendar

Date	Company	Event
29 May 2012	SAIL	Annual results – 2011/12
30 May 2012	Voestalpine	Annual results – 2011/12

Source: HSBC, Thomson Reuters

Recent research

[Latin America Metals & Mining](#) - Growth is slowing; weaker BRL is not a saving grace, 23 May 2012

[Tata Steel \(TATA\)](#) - Downgrade to N: 4Q12 results in line, but outlook weak, 21 May 2012

[JSW Steel Ltd \(JSTL IN\)](#) N(V): Good 4Q results but problems far from over, 14 May 2012

[Gerdau \(GGBR4\)](#) First Cut: 1Q12 – Weak results due partly to weather issues, 02 May 2012

[Jindal Steel & Power Ltd \(JSP\)](#) : OW: 4Q results good; projects delayed, 30 April 2012

[Sesa Goa Ltd \(SESA IN\)](#) - N(V): 4Q - Good results, but outlook timid, 26 April 2012

[VALE](#) First Cut: 1Q12 – Weak as expected, but looking forward, 26 April 2012

[A Commodity Cycle Health Check](#) - Is the Super Cycle reaching middle age?, 25 April 2012

[Metals Quarterly](#) - Q2 2012, 25 April 2012

[Usiminas \(USIM5\)](#) First Cut: 1Q12 – Tough start to the year, 24 April 2012

[Metals & Mining – Notes from the Road](#) - Feedback from our Brazil marketing trip, 23 April 2012

[Latam Metals & Mining](#) - 1Q 2012 results preview, 20 April 2012

[VALE](#) - N(V): 1Q12 production report – Brighter days ahead, 18 April 2012

[Latin America Metals & Mining](#) - Brazil steel: Grin and bear it, 13 April 2012

[Erdemir \(EREGL\)](#) N – ArcelorMittal’s stake sale is a major negative catalyst, 02 April 2012

[Novolipetsk Steel \(NLMK\)](#) N (V) – Margin leadership is lost, at least in the current cycle, 02 April 2012

[CSN](#) First Cut: Q4 2011 – In line operating results, 27 March 2012

[Jindal Steel & Power Ltd \(JSP\)](#) Upgrade to OW: CAG versus CAGR, 27 March 2012

[Russian Steel and Pipes](#) 4Q11 preview: negative surprises to damp the sentiment, 23 March 2012

[VALE](#) Vale tax saga – third party case may set precedent, 20 March 2012

[Voestalpine \(VOE AV\)](#) – OW (V): On track , 15 March 2012

[Turkish Steel and Gold](#) – Prefer Koza and Kardemir, 09 March 2012

[Usiminas \(USIM5.SA\)](#) – First Cut: 4Q2011– Still all about costs, 07 March 2012

[‘Dislocation barometer’ for EM metals and mining stocks](#) – Shifting the focus from Oversold to Overbought names, 7 March 2012

[VALE N\(V\)](#): Vale securing BRL1.6bn in assets to continue tax dispute, 6 March 2012

[Salzgitter \(SZG GR\)](#) – Downgrade to N on missing valuation upside and catalysts

[Jindal Steel & Power Ltd \(JSP\)](#) – Downgrade to N: Love the company, but stock expensive, 23 February 2012

[Russian steel: Already too late or still too early?](#) – Turning away from steel to pipes and coal, 21 February 2012

[Ezz Steel Rebars \(ESRS EY\)](#) – OW (V): Value hidden by legal issues, 22 February 2012

[China steel sector](#) – Structural changes needed, but unlikely to happen in 2012, 16 Feb 2012

[VALE](#) – First Cut: 4Q11 – Weak iron ore prices drive the quarter, 15 Feb 2012

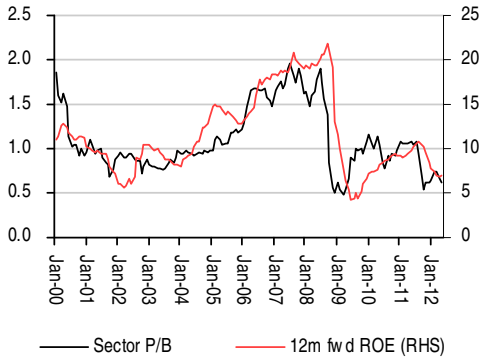
Global Steel Valuation

Company	BBG		Closing Price	Target Price	HSBC Rating	Market cap USD m	PE (x)		PBV (x)		EV/EBITDA (x)		Div Yield (%)		ROE (%)	
	Code	Ccy					2012	2013	2012	2013	2012	2013	2012	2013	2012	2013
North America																
Nucor	NUE US	USD	35.9	NR	NR	11,379	15.3	9.7	1.4	1.3	6.8	4.9	4.0%	4.2%	10%	15%
US Steel	X US	USD	22.0	NR	NR	3,172	8.8	5.9	0.9	0.8	4.7	3.6	0.9%	0.9%	10%	15%
AK Steel	AKS US	USD	6.2	NR	NR	687	17.7	5.9	1.7	1.3	4.7	3.7	3.2%	3.2%	10%	29%
Average							14.1	8.7	1.3	1.2	6.3	4.6	3.4%	3.5%	10%	15%
Latin America																
CSN*	CSNA3 BZ	BRL	13.5	14.5	UW	9,376	11.6	7.8	2.6	2.2	5.0	4.4	2.6%	3.8%	22%	30%
Gerdau*	GGBR4 BZ	BRL	16.3	17.5	N	12,776	14.0	9.0	1.1	1.0	7.5	5.4	2.0%	3.1%	8%	12%
Usiminas*	USIM5 BZ	BRL	9.4	10.5	UW	5,172	73.0	22.0	0.5	0.5	13.5	9.2	0.5%	1.7%	1%	2%
Temium ADRs	TX US	USD	19.7	NR	NR	3,943	6.0	5.8	0.6	0.6	3.1	3.0	3.8%	4.0%	11%	11%
Average							22.0	10.4	1.4	1.2	7.2	5.4	2.1%	3.2%	11%	16%
Europe																
Arcelor Mittal*	MT US	USD	14.5	21.4	N(V)	22,680	7.2	5.3	0.4	0.4	4.0	3.4	5.2%	5.2%	5%	7%
Thyssen Krupp*	TKA GR	EUR	14.6	24.7	N(V)	9,478	15.9	6.2	0.8	0.7	6.3	4.4	2.8%	4.6%	6%	13%
Voestalpine AG*	VOE AV	EUR	21.1	31.2	OW(V)	4,482	6.8	5.5	0.9	0.8	5.1	4.2	4.3%	5.4%	11%	13%
Salzgitter *	SZG GR	EUR	35.4	48.0	N	2,679	9.9	7.1	0.5	0.4	3.4	2.8	2.0%	2.8%	5%	6%
SSAB	SSABA SS	SEK	58.9	NR	NR	2,565	9.6	7.2	0.6	0.6	6.3	5.1	4.3%	5.2%	6%	8%
Rautaruukki	RTRKS FH	EUR	6.0	NR	NR	1,060	20.7	8.0	0.7	0.6	6.8	4.7	7.8%	8.7%	3%	8%
Average							9.7	5.8	0.6	0.5	4.8	3.8	4.4%	5.0%	6%	9%
EEMEA																
NLMK*	NLMK LI	USD	15.8	22.0	N(V)	9,445	5.8	4.2	0.8	0.7	5.5	3.8	4.3%	5.9%	15%	18%
Severstal*	SVST LI	USD	11.2	16.0	N(V)	11,286	5.4	6.0	1.3	1.1	3.7	3.6	4.7%	4.3%	24%	20%
Evrast*	EVR LN	GBP	3.1	4.4	N(V)	6,541	7.9	6.5	1.0	0.9	4.5	3.8	2.1%	3.2%	13%	15%
MMK*	MMK LI	USD	3.8	5.5	UW(V)	3,271	6.4	4.5	0.3	0.3	3.8	3.2	0.0%	3.9%	5%	7%
Erdemir *	EREGL TI	TRY	2.1	2.8	N	3,476	7.5	5.6	0.8	0.8	6.1	4.4	5.4%	4.6%	12%	14%
Arcelor Mittal SA	ACL SJ	ZAR	52.5	58.0	UW	2,775	15.9	8.3	0.9	0.8	6.7	4.1	2.1%	4.3%	6%	10%
TMK*	TMKS LI	USD	11.1	18.0	OW(V)	2,423	5.6	4.1	1.2	1.0	4.7	3.9	4.5%	6.1%	23%	28%
EZZ Steel *	ESRS EY	EGP	7.0	10.0	OW(V)	631	10.0	6.3	0.8	0.7	5.2	4.0	3.6%	14.3%	8%	12%
Evrast Highveld Steel	HVL SJ	ZAR	24.6	34.0	UW(V)	289	10.8	5.6	0.9	0.9	3.0	1.8	4.6%	8.9%	9%	16%
Kardemir *	KRDMD TI	TRY	0.9	1.4	OW	484	4.5	4.2	0.7	0.6	3.7	2.8	0.0%	0.0%	16%	15%
Average							7.0	5.5	1.0	0.8	4.7	3.8	3.6%	4.7%	16%	17%
Korea																
Posco *	005490 KS	KRW	351,500	470,000	OW	22,593	7.6	7.4	0.7	0.7	2.1	2.0	2.8%	2.8%	10%	10%
Hyundai Steel	004020 KS	KRW	81,600	NR	NR	5,936	7.6	6.7	0.7	0.6	7.7	6.7	0.6%	0.6%	9%	10%
Dongkuk Steel	001230 KS	KRW	15,850	NR	NR	836	10.3	7.9	0.3	0.3	8.4	7.4	4.6%	4.6%	2%	4%
Average							7.6	7.3	0.7	0.7	3.4	3.1	2.4%	2.4%	10%	10%
Japan																
Nippon Steel	5401 JP	JPY	177	NR	NR	15,207	13.1	9.0	0.6	0.6	5.9	4.9	1.9%	2.4%	5%	7%
JFE Holdings	5411 JP	JPY	1298	NR	NR	10,066	nm	7.7	0.5	0.5	7.0	5.6	2.2%	3.1%	5%	7%
Sumitomo Metal	5405 JP	JPY	128	NR	NR	7,764	nm	8.3	0.8	0.7	7.8	6.6	2.4%	3.0%	4%	10%
Kobe Steel	5406 JP	JPY	95	NR	NR	3,735	nm	11.7	0.5	0.5	5.2	4.8	1.8%	2.3%	2%	5%
Average							nm	8.8	0.6	0.6	6.5	5.5	2.1%	2.7%	5%	7%
China & Taiwan																
Baosteel *	600019 CH	CNY	4.8	6.3	OW(V)	13,386	12.5	11.1	0.8	0.7	6.3	5.8	3.6%	4.1%	6%	7%
Angang H *	347 HK	HKD	4.1	6.8	N(V)	4,638	38.3	15.5	0.5	0.5	7.6	6.5	1.2%	3.3%	1%	3%
Wuhan	600005 CH	CNY	2.8	NR	NR	4,509	14.2	12.3	0.8	0.8	6.1	5.0	2.5%	2.5%	3%	4%
Maanshan H *	323 HK	HKD	1.8	3.1	N(V)	2,678	20.8	7.2	0.4	0.4	5.1	4.0	1.4%	4.8%	2%	6%
China Steel	2002 TW	TWD	28.0	NR	NR	14,298	26.4	18.9	1.5	1.4	16.6	13.7	3.3%	3.6%	6%	8%
Average							18.4	11.7	0.7	0.7	6.4	5.6	2.7%	3.7%	4%	6%
India																
JSPL*	JSP IN	INR	454	590	OW	7,604	10.1	7.6	1.9	1.6	8.7	6.6	0.3%	0.3%	21%	23%
Tata Steel*	TATA IN	INR	396	450	N	6,888	10.5	6.0	0.9	0.8	6.2	5.3	3.0%	3.0%	12%	15%
JSW Steel*	JSTL IN	INR	578	650	N(V)	2,306	7.6	5.6	0.7	0.6	4.6	4.4	1.8%	1.8%	10%	11%
Average (ex JSP)							9.8	5.9	0.8	0.7	5.8	5.1	2.7%	2.7%	12%	14%
Australia																
OneSteel	OST AU	AUD	0.9	NR	NR	1,203	5.6	3.6	0.3	0.3	5.3	3.7	8.7%	13.6%	5%	8%
Bluescope Steel	BSL AU	AUD	0.3	NR	NR	1,074	6.0	6.5	0.3	0.3	6.6	2.7	3.0%	7.6%	-1%	4%
Average							5.8	4.9	0.3	0.3	5.9	3.2	6.0%	10.8%	2%	6%
Global average							13.1	8.5	0.9	0.8	6.2	5.1	3.0%	3.6%	9%	11%

Source: [DataStream, HSBC estimates], * covered by HSBC, OW = Overweight, UW = Underweight, N = Neutral, V = Volatile, NR = Not Rated

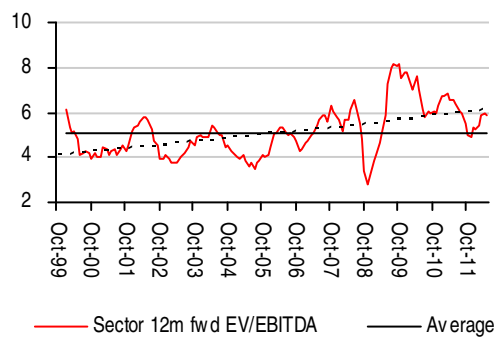
Regional sector valuation multiples

European steel sector P/B vs. forward ROE



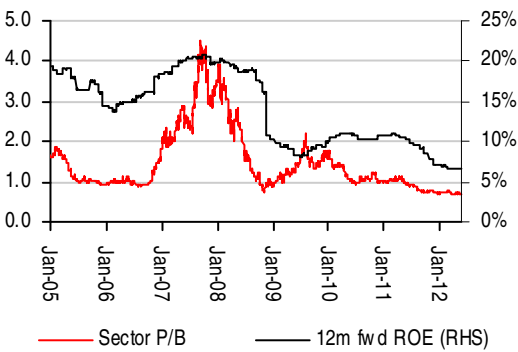
Source: Datastream, HSBC

European steel fwd EV/EBITDA



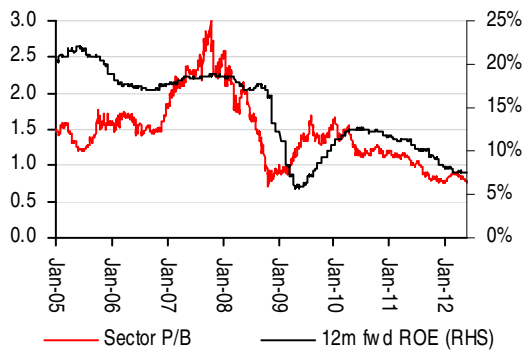
Source: Datastream, HSBC

China steel sector P/B vs. forward ROE



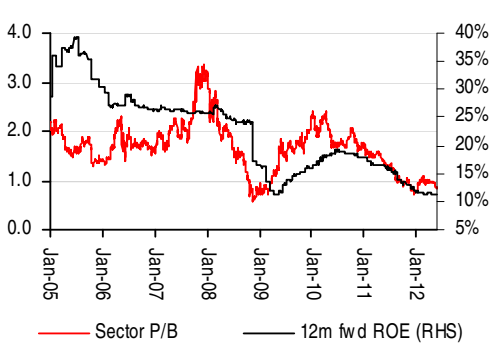
Source: Datastream, HSBC

Asia steel sector P/B vs. forward ROE



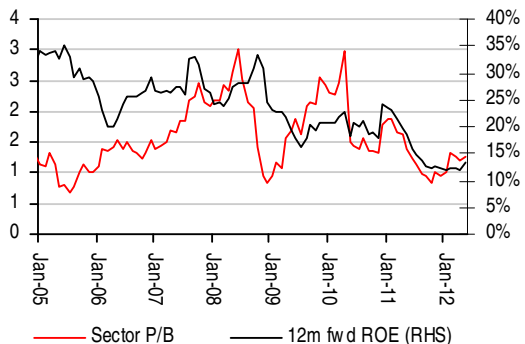
Source: Datastream, HSBC

India steel sector P/B vs. forward ROE



Source: Datastream, HSBC

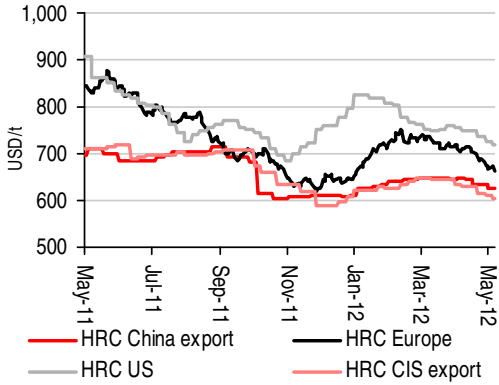
LatAm steel sector P/B vs. forward ROE



Source: Datastream, HSBC

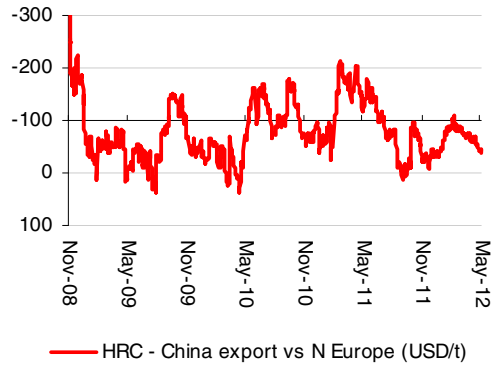
Global steel price development

Regional HRC prices (USD/t)



Source: Steel Benchmark, SBB, Metal Bulletin

HRC Delta- China vs N. Europe (USD/t)



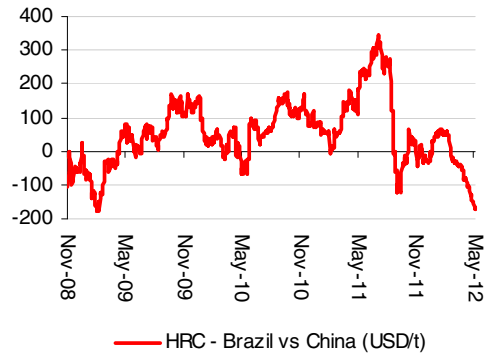
Source: SBB, Metal Bulletin, Steel Benchmark

HRC Delta- China vs. USA (USD/t)



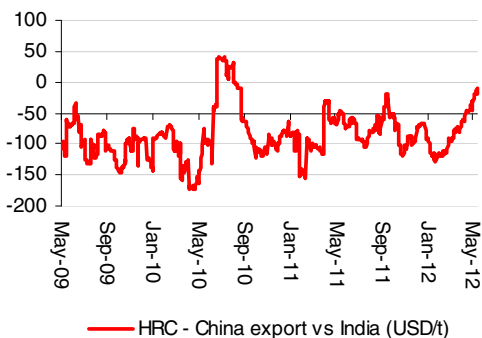
Source: SBB, Metal Bulletin, Steel Benchmark

HRC Delta- Brazil versus China (USD/t)



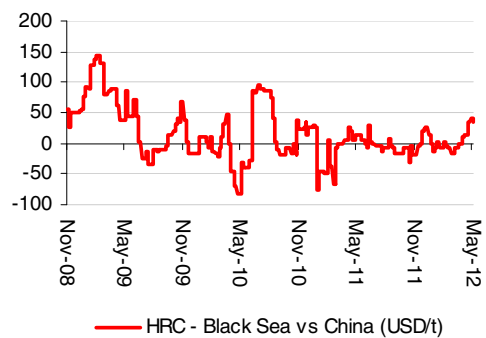
Source: SBB, Metal Bulletin

HRC Delta- China export versus India (USD/t)



Source: SBB, Metal Bulletin

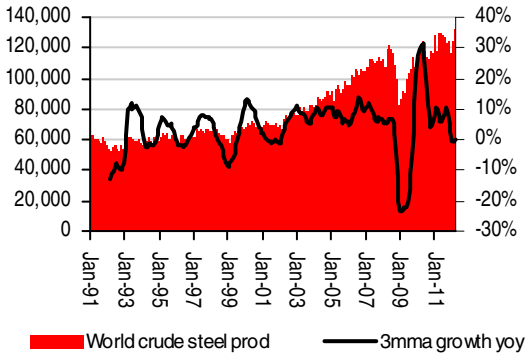
HRC Delta- Black Sea export vs. China export (USD/t)



Source: SBB, Metal Bulletin

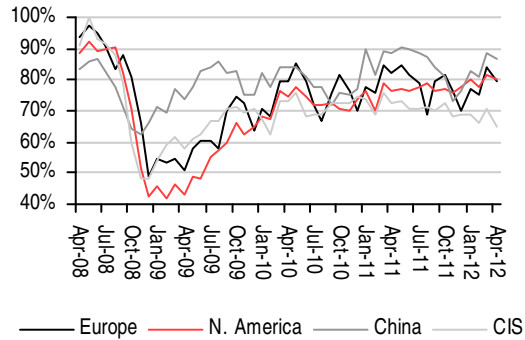
Steel production

Global monthly steel production (kt)



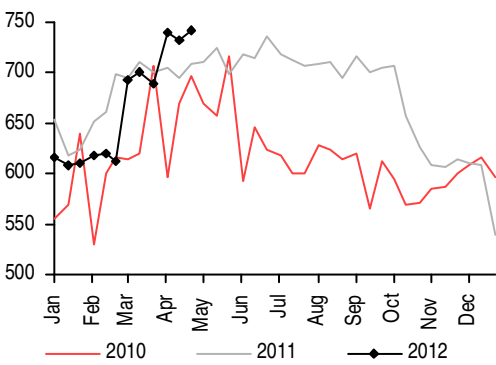
Source: Worldsteel

Regional monthly capacity utilisation



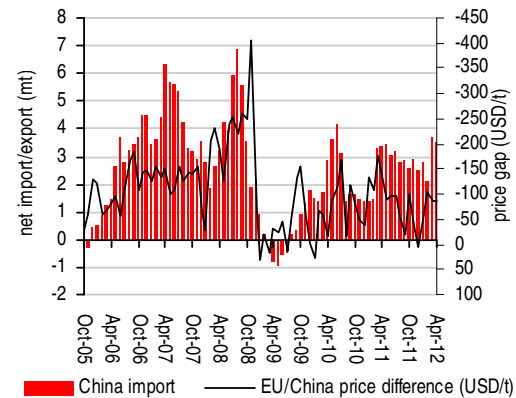
Source: Worldsteel, HSBC estimates

China crude steel production (mt) seasonality (annualised)



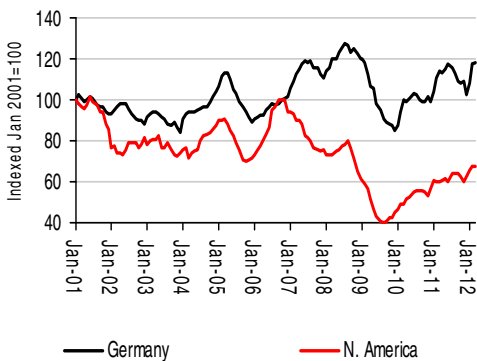
Source: CISA, HSBC

China net steel export (mt) vs price delta to Europe (USD/t)



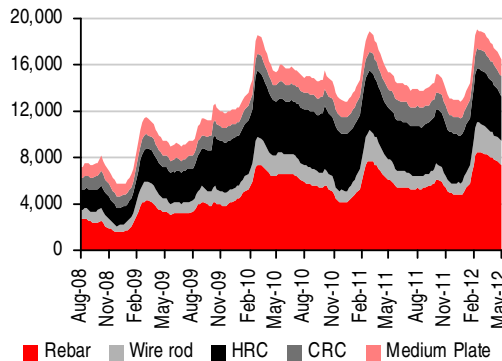
Source: CEIC, CRU

Germany and US steel inventory index



Source: CRU

China steel inventory (mt)



Source: MySteel

Steel production cost indicator

Spot iron ore CIF China (USD/t)



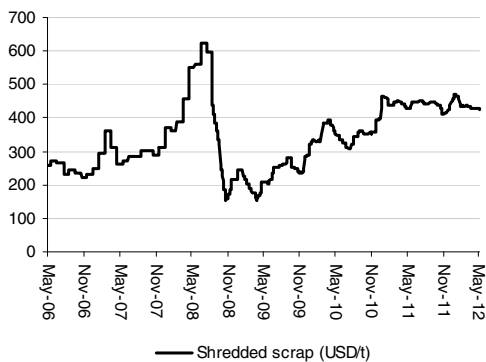
Source: Steel Business Briefing, Metal Bulletin

Spot coking coal CIF China (USD/t)



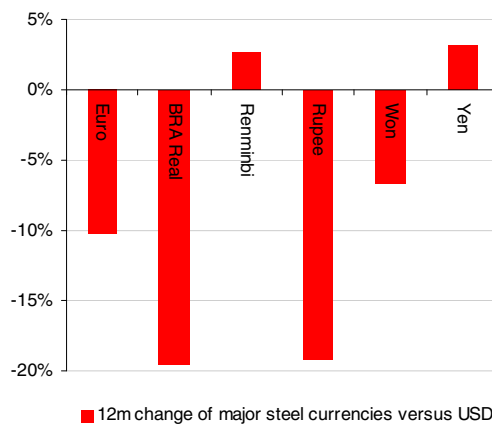
Source: Steel Home

Shredded scrap (USD/t)



Source: Steel Benchmarker

FX movements



Source: Thomson Financial Datastream

Global steel prices

	5/23/2012	5/16/2012	5/2/2012	w-o-w (%change)	m-o-m (%change)
HRC China (USD/t)	640	650	645	-1.5	-0.8
HRC CIS (USD/t)	593	595	648	-0.4	-8.5
HRC Europe (USD/t)	664	674	705	-1.4	-5.7
HRC US (USD/t)	719	725	714	-0.9	-5.1
Stainless base price (EUR/t)	1,140	1,140	1,165	0.0	-2.2
Stainless surcharge (EUR/t)	1,392	1,392	1,451	0	-4.1

Source: Metal Bulletin, Thomson Reuters Datastream

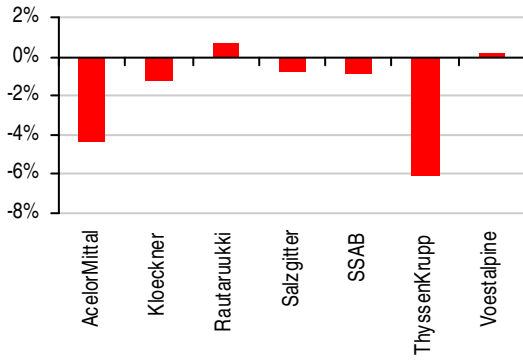
Raw material prices

	5/23/2012	5/16/2012	5/2/2012	w-o-w (%change)	m-o-m (%change)
Iron ore spot (CIF) (USD/t)	140	144	148	-2.8	-6.7
Shredded scrap (USD/t)	422	422	421	0.0	0.2
Nickel (USD/t)	16,687	16,942	17,206	-1.5	-4.5
Ferrochrome (USD/lb)	1.19	1.19	1.19	0.0	0.0

Source: Metal Bulletin, Thomson Reuters Datastream

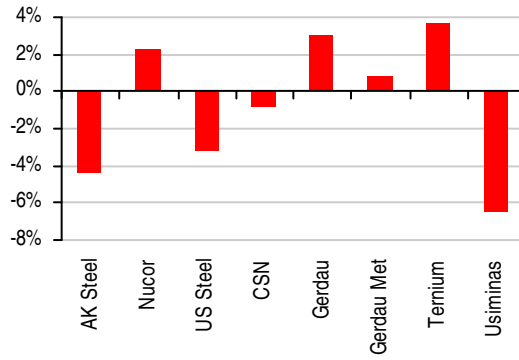
Weekly stock price return

Europe steel equities



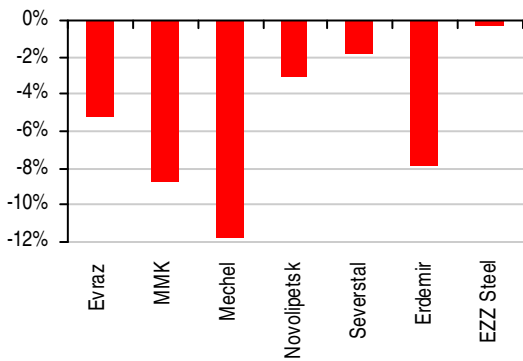
Source: Thomson Reuters Datastream

Americas steel equities



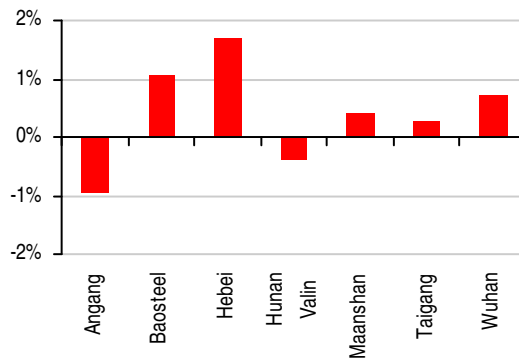
Source: Thomson Reuters Datastream

CEEMEA steel equities



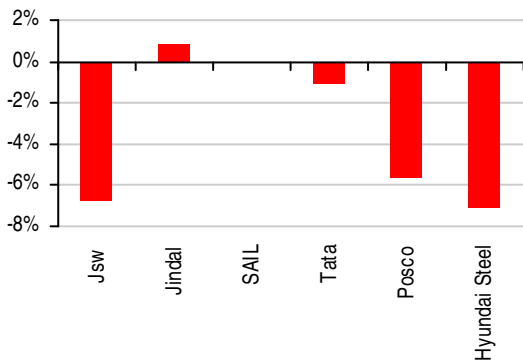
Source: Thomson Reuters Datastream

China steel equities



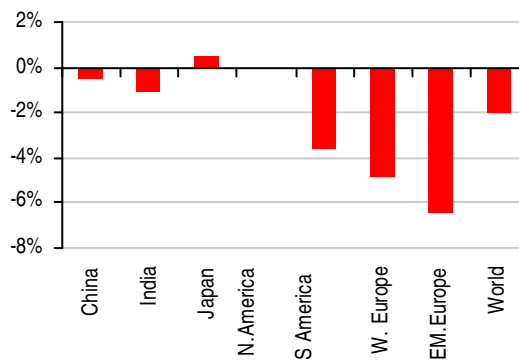
Source: Thomson Reuters Datastream

India / S. Korea steel equities



Source: Thomson Reuters Datastream

MSCI Steel Indices (in USD)



Source: Thomson Reuters Datastream

Disclosure appendix

Analyst Certification

The following analyst(s), economist(s), and/or strategist(s) who is(are) primarily responsible for this report, certifies(y) that the opinion(s) on the subject security(ies) or issuer(s) and/or any other views or forecasts expressed herein accurately reflect their personal view(s) and that no part of their compensation was, is or will be directly or indirectly related to the specific recommendation(s) or views contained in this research report: Jigar Mistry, Thorsten Zimmermann, Simon Russell Francis, Jonathan Brandt, Vladimir Zhukov and Andrew Keen

Brazilian Securities Exchange Commission (CVM) Regulation No. 483

Pursuant to CVM Ruling No. 483, of July 6, 2010, HSBC has obtained from the analyst(s) listed above under "Analyst Certification" and disclosed (where applicable), the statements set forth in Article 17 and have rendered (where applicable) the statements set forth in Article 18, under the sections titled "Analyst Certification" and "HSBC & Analyst Disclosures".

The analyst(s) furthermore certifies(y) that the recommendations contained in this report have been prepared independently, even in relation to HSBC.

Important disclosures

Stock ratings and basis for financial analysis

HSBC believes that investors utilise various disciplines and investment horizons when making investment decisions, which depend largely on individual circumstances such as the investor's existing holdings, risk tolerance and other considerations. Given these differences, HSBC has two principal aims in its equity research: 1) to identify long-term investment opportunities based on particular themes or ideas that may affect the future earnings or cash flows of companies on a 12 month time horizon; and 2) from time to time to identify short-term investment opportunities that are derived from fundamental, quantitative, technical or event-driven techniques on a 0-3 month time horizon and which may differ from our long-term investment rating. HSBC has assigned ratings for its long-term investment opportunities as described below.

This report addresses only the long-term investment opportunities of the companies referred to in the report. As and when HSBC publishes a short-term trading idea the stocks to which these relate are identified on the website at www.hsbcnet.com/research. Details of these short-term investment opportunities can be found under the Reports section of this website.

HSBC believes an investor's decision to buy or sell a stock should depend on individual circumstances such as the investor's existing holdings and other considerations. Different securities firms use a variety of ratings terms as well as different rating systems to describe their recommendations. Investors should carefully read the definitions of the ratings used in each research report. In addition, because research reports contain more complete information concerning the analysts' views, investors should carefully read the entire research report and should not infer its contents from the rating. In any case, ratings should not be used or relied on in isolation as investment advice.

Rating definitions for long-term investment opportunities

Stock ratings

HSBC assigns ratings to its stocks in this sector on the following basis:

For each stock we set a required rate of return calculated from the cost of equity for that stock's domestic or, as appropriate, regional market established by our strategy team. The price target for a stock represents the value the analyst expects the stock to reach over our performance horizon. The performance horizon is 12 months. For a stock to be classified as Overweight, the potential return, which equals the percentage difference between the current share price and the target price, including the forecast dividend yield when indicated, must exceed the required return by at least 5 percentage points over the next 12 months (or 10 percentage points for a stock classified as Volatile*). For a stock to be classified as Underweight, the stock must be

expected to underperform its required return by at least 5 percentage points over the next 12 months (or 10 percentage points for a stock classified as Volatile*). Stocks between these bands are classified as Neutral.

Our ratings are re-calibrated against these bands at the time of any 'material change' (initiation of coverage, change of volatility status or change in price target). Notwithstanding this, and although ratings are subject to ongoing management review, expected returns will be permitted to move outside the bands as a result of normal share price fluctuations without necessarily triggering a rating change.

*A stock will be classified as volatile if its historical volatility has exceeded 40%, if the stock has been listed for less than 12 months (unless it is in an industry or sector where volatility is low) or if the analyst expects significant volatility. However, stocks which we do not consider volatile may in fact also behave in such a way. Historical volatility is defined as the past month's average of the daily 365-day moving average volatilities. In order to avoid misleadingly frequent changes in rating, however, volatility has to move 2.5 percentage points past the 40% benchmark in either direction for a stock's status to change.

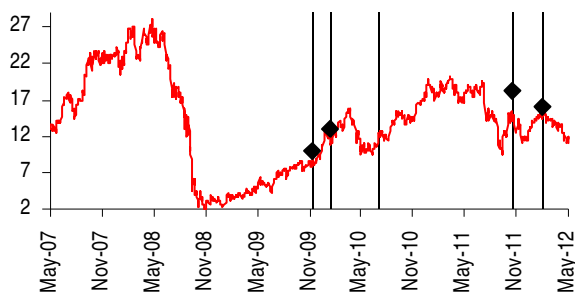
Rating distribution for long-term investment opportunities

As of 24 May 2012, the distribution of all ratings published is as follows:

Overweight (Buy)	49%	(26% of these provided with Investment Banking Services)
Neutral (Hold)	37%	(25% of these provided with Investment Banking Services)
Underweight (Sell)	14%	(16% of these provided with Investment Banking Services)

Share price and rating changes for long-term investment opportunities

Severstal Oao (CHMFq.L) Share Price performance USD Vs HSBC rating history



Source: HSBC

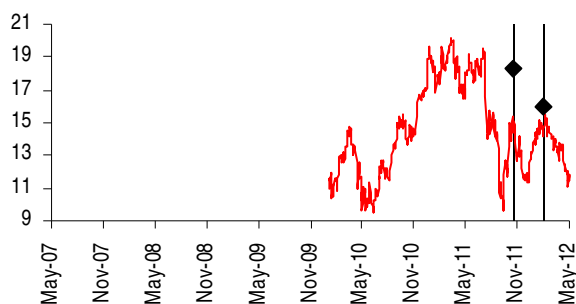
Recommendation & price target history

From	To	Date
Neutral (V)	Overweight (V)	01 December 2009
Overweight (V)	Neutral (V)	08 February 2010
Neutral (V)	N/A	28 July 2010
N/A	Overweight (V)	09 November 2011
Overweight (V)	Neutral (V)	21 February 2012
Target Price	Value	Date
Price 1	10.00	01 December 2009
Price 2	13.00	08 February 2010
Price 3	18.30	09 November 2011
Price 4	16.00	21 February 2012

Source: HSBC

Severstal Oao (CHMF.MM) Share Price performance USD Vs HSBC rating history

history



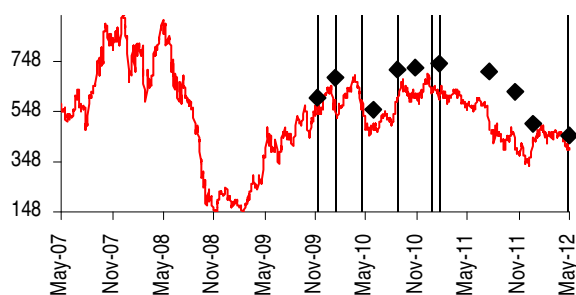
Source: HSBC

Recommendation & price target history

From	To	Date
N/A	Overweight (V)	09 November 2011
Overweight (V)	Neutral (V)	21 February 2012
Target Price	Value	Date
Price 1	18.30	09 November 2011
Price 2	16.00	21 February 2012

Source: HSBC

Tata Steel Ltd (TISC.BO) Share Price performance INR Vs HSBC rating history



Source: HSBC

Recommendation & price target history

From	To	Date
N/A	Neutral (V)	01 December 2009
Neutral (V)	Overweight (V)	04 February 2010
Overweight (V)	Neutral (V)	05 May 2010
Neutral (V)	Overweight (V)	13 September 2010
Overweight (V)	Restricted	18 January 2011
Restricted	Overweight	09 February 2011
Overweight	Neutral	21 May 2012
Target Price	Value	Date
Price 1	608.00	01 December 2009
Price 2	690.00	04 February 2010
Price 3	562.00	18 June 2010
Price 4	720.00	13 September 2010
Price 5	730.00	14 November 2010
Price 6	Restricted	18 January 2011
Price 7	740.00	09 February 2011
Price 8	710.00	14 August 2011
Price 9	630.00	10 November 2011
Price 10	500.00	13 January 2012
Price 11	450.00	21 May 2012

Source: HSBC

HSBC & Analyst disclosures

Disclosure checklist

Company	Ticker	Recent price	Price Date	Disclosure
TATA STEEL	TISC.NS	396.25	23-May-2012	1,2,5,6,7

Source: HSBC

- 1 HSBC* has managed or co-managed a public offering of securities for this company within the past 12 months.
- 2 HSBC expects to receive or intends to seek compensation for investment banking services from this company in the next 3 months.
- 3 At the time of publication of this report, HSBC Securities (USA) Inc. is a Market Maker in securities issued by this company.
- 4 As of 30 April 2012 HSBC beneficially owned 1% or more of a class of common equity securities of this company.
- 5 As of 31 March 2012, this company was a client of HSBC or had during the preceding 12 month period been a client of and/or paid compensation to HSBC in respect of investment banking services.
- 6 As of 31 March 2012, this company was a client of HSBC or had during the preceding 12 month period been a client of and/or paid compensation to HSBC in respect of non-investment banking-securities related services.
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- 8 A covering analyst/s has received compensation from this company in the past 12 months.
- 9 A covering analyst/s or a member of his/her household has a financial interest in the securities of this company, as detailed below.
- 10 A covering analyst/s or a member of his/her household is an officer, director or supervisory board member of this company, as detailed below.
- 11 At the time of publication of this report, HSBC is a non-US Market Maker in securities issued by this company and/or in securities in respect of this company

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* *HSBC Legal Entities are listed in the Disclaimer below.*

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- 1 This report is dated as at 25 May 2012.
- 2 All market data included in this report are dated as at close 25 May 2012, unless otherwise indicated in the report.
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