

Domestic Scenario:

Industry experts insist that rising steel prices are triggered by rising input cost like scrap, iron ore and coking coal. The main area of concern is iron ore where the country is currently in surplus yet prices are touching the roof with escalation of over 100% during the entire fiscal 2007-08. Even prices quoted by public sector NMDC have moved up by over 50%, said an industry expert.

From a level of \$ 60-70 per tonne in early part of last fiscal, iron ore prices have shot up to over \$ 140(fob) per tonne. Spot prices linked to Chinese spot exports are touching the roof with prices ranging over \$ 200(cfr) a tonne. With ore constituting about 20-25% of total cost of production, its higher prices is largely responsible for rising steel prices, has also shot up between 25-30% since the beginning of calendar year 2008. The year-on-year price index of metallic mineral (mainly iron ore) has moved up by over 47% in week ended March 22. **(THE ECONOMIC TIMES, Apr 5, 2008)**

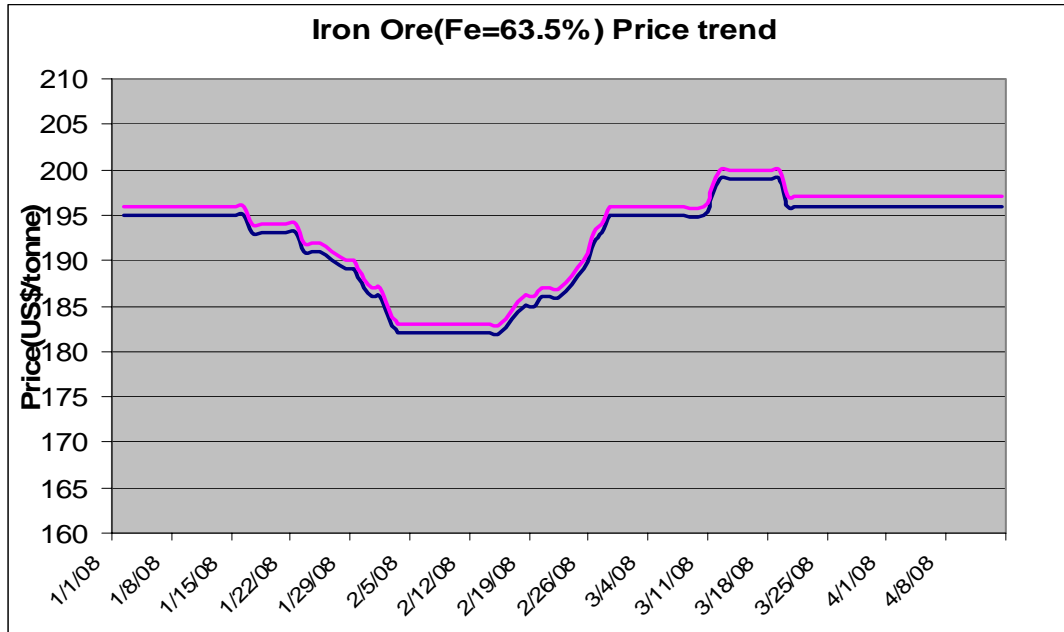
The table below gives the price trend of Indian Iron Ore Fines (63.5%) exported to Chinese market

Date	Price Base	Low price(US\$/t)	High Price(US\$/t)	Trend
07.02.08	FOB	132	135	↓
18.02.08	FOB	136	140	↑
25.02.08	FOB	136	145	↑
03.03.08	FOB	140	146	↑
10.03.08	FOB	142	147	↑
02.04.08	FOB	142	147	↔

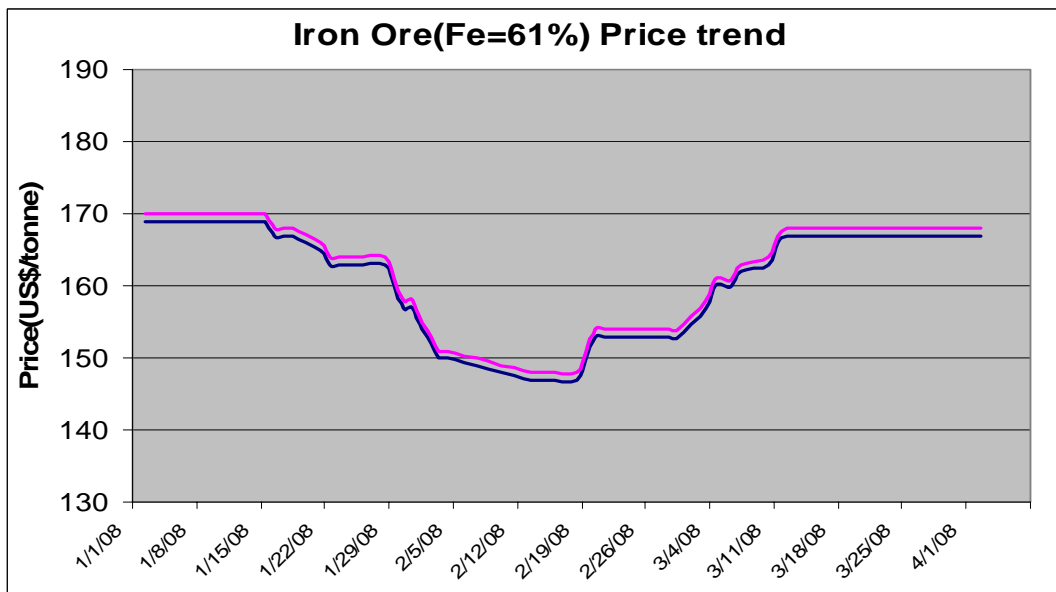
Source: Steel Trade Today

As seen from the above table; the market continued to reflect an upward trend in the month of March as compared to February; however stability has been prevailing since the third week of March till date. The domestic market is holding a surplus of material and prices are expected to go down with supply demand gap reducing. But, the transportation cost remains the major issue and with freight component being on the higher side, the short-term scenario still remains unpredictable. According to steel industry sources, with railways imposing a hefty congestion surcharge ***(The Railways cut port congestion surcharge from 60% to 30% (levied on ore moving from source to ports) on ore meant for domestic use, while increasing the surcharge for ore meant for exports to 100% with immediate effect.)*** as well as changing the freight classification for iron ore to a higher rate, this would hike transportation cost of iron ore by about Rs 15 a tonne to about Rs 185 a tonne.

The graphs below give the CNF China price trend of Iron Ore fines across various grades; Stability prevails in the 1st & 2nd week of April.



A drop of 1.51% over a month.



Stability over a month

Source: Asian Metal

Auction Trend: (Price quoted is basic)

Eastern Region: **IOF (Fe=62%,0-10mm)** fetched a price of Rs.2570/tonne on Apr,01,2008 as compared to the price of Rs.1356/tonne fetched on March,27,2008.

IOF (Fe=57-59%) fetched a price of Rs.880/tonne on Mar,28,2008 as compared to the price of Rs.640/tonne fetched on March,25,2008.

IOF (Fe=60%, 0-10mm) fetched a price of Rs.1270/tonne on Apr,04,2008.

Southern Region: **IOF (Fe=60%)** fetched a price of Rs.1510/tonne on Mar,04,2008 as compared to the price of Rs.1490/tonne fetched on Feb,22,2008. **IOF (Fe=63%)** fetched a price of Rs.4050/tonne on Mar,04,2008 as compared to the price of Rs.3825/tonne fetched on Feb,07,2008.

Outlook: Stability prevails in Chinese market since the 3rd week of March, 2008. Further, there has been increase in logistic charges due to various measures taken by the Central govt. to contain inflation which will put pressure on the margin of the exporters as they may not be able to pass on the increased cost to the steel consumers in China. This may put downward pressure on the domestic prices. As the Union govt. is still weighing various options for further containing the prices of metals and minerals, exporters are adopting a wait and watch scenario for the time-being.

There is news in media that Govt. is planning to impose ad valorem tax in place of specific export tax applicable presently. This may further increase the tax burden on the exporter.