Snapshot over a Fortnight

News Flash

Union Budget brings in little hope for steel industry: The only positive news for the steel industry was the announcement that the government will proceed with a nationwide gas grid to transport gas from the Bay of Bengal around the country. The project is expected to be a major source of steel demand.

JSW Steel's Q1 output up 45%: Crude steel output rose to 1.41 million tonnes for the June quarter, up 45% year-on-year, mainly due to expansion. Flat rolled production during the quarter rose 47% year-on-year to 870,000 tonnes, while long product output increased 103% to 186,000 tonnes.

Ennore Coke clinches coking coal deals with Rio, BHP: The Company clinched the coking coal contract for 2009-10 at $128 per tonne for hard coking coal and $100-118 a tonne for soft and semi-soft varieties of coking coal. Out of the 400,000 tonnes of coking coal to be imported by the firm, 50 per cent would be hard coking coal while the remaining would be a mix of soft and semi-soft varieties.

Welspun re-enters export market for HBI as production reaches full capacity: The Company will adjust its HBI and DRI production according to the demand it can generate from the export market.

Crude Oil falls below $60 a barrel: Prices fell as lingering concerns about the pace of a global economic recovery encouraged a further sell-off. Prices fell by almost 14 percent over a fortnight amid mounting worries that an economic rebound may not be coming soon to help spur flagging fuel demand.

Steel Sector

The ***domestic steel market*** exhibited a stable trend in the Flats sector while a sharp decline was noticed in the Longs segment beginning of July.

The price of steel plate witnessed an increase in price of Rs.500/tonne in Mumbai market over a week to prevail at Rs. 29,000/MT (basic). The imports market too saw a shoot up in price with HRC offers taking place at 530 USD/tonne, cfr and CRC offers taking place at 600-620 USD /tonne, cfr in the first week. Market participants however prefer to buy in smaller quantities in the domestic market rather than risking imports. The second week of the month saw further firmness in the flats segment accompanied by the hike in flat steel price by SAIL in the range of Rs.500 to Rs.700 per tonne. Steel Plate prices surged by Rs.500 per tonne over a week. CRC prices too firmed up due to stronger demand. CRC import offers too increased to 680-700 USD/tonne, cfr. A firm situation is expected to last for a while.

The price of wire rod went down by 1-2% in the first week due to low demand under the backdrop of still continuing world economic recession. Furthermore, prices of wire rod imports from European countries are much cheaper, which makes domestic prices to go down further. Price of low carbon steel wire rod prevailed in the range of Rs. 28,500-30,500/MT (basic) in the first week. The metallic segment too fluctuated in the negative range of 1 to 2 percent. The second week of the month saw no recovery with prices further sliding in the range of 2 to 3 percent. ***Billet*** prices dropped by Rs. 500-700/MT ($10-14/MT) as demand for the semi-finished product continued to fall. Domestic billet prices fell to Rs 19,500- 20,000/MT ex-mill from Rs 20,200-20,500/MT ex-mill a week ago. Delivered prices of ***Rebar*** went down by Rs. 200-300/MT (USD 4-6/MT) as stockists restricted buying due to falling demand. Benchmark 12 mm rebar traded at Rs. 32,900-32,800/MT (all incl.) down by Rs. 300/MT from Rs.

33,200-33,100/MT previously. Delivered prices of 8mm rebar also fell by Rs. 300 from Rs 33,100-33,400/MT last week to Rs. 32,800-33,100/MT. Prices of 10 mm rebar fell to Rs. 32,800-33,000/MT from Rs. 33,100-33,300/MT last week. ***Wire Rod*** prices have also seen a drop of around 2 percent over a week. The Longs sector is expected to exhibit a declining trend due to lack of demand in the market on account of ongoing market uncertainty and unfavorable climatic conditions. Further slash in long steel prices by SAIL has added to the deteriorating situation in the market.

Prices achieved through ***e-auction*** have almost remained aligned with the domestic market. In consonance with the steady movement in flat steel prices in the domestic market, the auction platform too reflected a stable trend across HR and CR items.
The longs segment however suffered due to poor demand and low market sentiment. The first week of the month saw a fall in price in the range of 1 to 4 percent across various items and conditions further deteriorated in the second week of the month with prices further dropping by 2 to 5 percent over a week. On account of poor demand in the market, a declining scenario is forecasted in the Longs sector while the Flats sector is expected to exhibit a stable trend.

The ***international steel market*** for flat steel items exhibited a mixed trend in the first week with the flat product prices in the western world improving while at the same time flat steel prices softening in the Asian market. In Europe, the CRC price rose by USD 20/MT to USD 624/MT in the first week.
In the second week, US plate prices slipped by USD 6/short tonne to USD 572/short tonne (USD 630/MT) over a week. The northern European plate ex-works reference price remained stable at USD 627/MT. Both the CRC and HDG prices also remained unchanged over a week. In China, the domestic prices of hot-dip galvanized (HDG) coil have stabilized since the beginning of this month after a series of increases in June. In Tianjing province of China, after price increases of around USD 9 – 10/MT in June, the current price for Anshan Iron & Steel’s 1.0mm HDG is prevailing at around USD 679/MT with VAT.
The international long steel market exhibited a sluggish trend in the first week. Middle Eastern and Turkish users slowed their billet buying, the main reason being uncertainty as to the future direction of prices. UK rebar prices have fallen marginally over the last month and prevailed in the range of USD 487 - 510/MT range on a delivered basis. On the other hand, Chinese long steel market also didn’t reflect too much movement of late and market has kept more or less stagnant over a week.
The second week depicted more or less a stable trend over a week but few long product prices at some parts of Europe have witnessed a slight softening in their prices. The latest reference prices released by The Steel Index show that most US and European rebar reference prices have remained steady since last week, though northern European rebar prices have fallen. On the other hand, the long steel prices in China haven’t depicted any major movement in the second week and the prices have remained by and large stable on account of more or less stable demand in the market at the moment.

Ferrous Scrap Sector

The month started on a lower note as everybody awaited the announcement of the Union Budget. The metallic segment remained depressed with scrap prices falling by 3 percent over a week and Sponge iron prices too dropping by 2 percent over a week. Market conditions continued to remain unfavorable with Steel Ingot prices further dropping by 2 to 3 percent in the second week while Melting Scrap and Sponge Iron further dropping by 3 percent over a week. The e-auction prices too headed southward with prices of MS scrap dropping in the range of Rs.800 to Rs.1200 per tonne over a fortnight.

The ***international steel scrap*** market showed some improvement in the beginning of the month. Improved demand, from the Indian sub-continent and Middle East Gulf region, has firmed Rotterdam export prices, which traders believe could increase further if shipments continue at current levels. The

US scrap market too firmed up as domestic deals were made indicating that some grades are up as much as USD 50/long tonne over last month while prime scrap is up USD 95/long tonne. Heavy Melting scrap of grade I in US increased by 10 USD/tonne over a fortnight.

Base Metals Sector

Commodity markets witnessed a huge sell-off in the last week with the prices taking a cue from currency movements in addition to being influenced by renewed macro-economic concerns. While crude declined below the psychological USD 60/barrel, base metals continued to decline following expectation of Chinese purchase slowdown.

Nickel – Nickel prices remained steady with the inception of the month of July as the prices both at home and abroad moved northward both witnessing a price improvement of over 3 per cent in the first week of July as compared to the previous week. But from the second week onwards as the hopes of economic recovery receded, the commodity futures was in the grip of hefty-sell off that resulted in prices of most base metals including nickel to fall rapidly. July week 02 witnessed a drop of over 4 per cent in the nickel prices in Mumbai market while the drop was even more severe in the London Metal Exchange as prices declined by 7 per cent as compared to the week before.

Zinc – Zinc market remained depressed since the beginning of the month of July as the demand from the end users and galvanizers continued to remain low and poor. Moreover, the strengthening of US dollar in the past few days has further affected the zinc prices as the metal is now becoming more expensive for the buyers of other currencies. Zinc witnessed a drop of around 1 per cent in Mumbai market in July week 01 while at LME zinc saw a drop of around 0.3 per cent as compared to the week before. Zinc continued to remain depressed in the second week of July as well, as the zinc prices further went down by more than 1 per cent at home and over 3 per cent in LME.

Aluminum – Aluminum market remained downward since the beginning of July with the demand in the market remaining slack at the moment as global economic condition looking pretty grim at the moment. Aluminum both in the domestic market as well as in the international market suffered a price declination in range of 0.6 to 1.6 per cent in July week 01 as compared to the last week of June. Aluminum prices failed to recover in even in the second week of the month and prices further dropped by 1.2 per cent in Mumbai and over 3 per cent as compared to the week before.

Copper – The market for red metal remained stable in the first week of July both at home and abroad. The demand in the market is the real cause of concern at the moment and with the dollar gaining its strength once again has put some downward pressure on the copper prices of late. Like all other base metals copper also weakened in the second week of July and suffered a drop of over 2.6 per cent while copper at Mumbai fell by 1.0 per cent as compared to July week 01.

Lead – Lead remained more or less stable in July week 01 with the lead prices not exhibiting much movement. Monsoon concerns are weighing heavily on the market as physical demand is prone to drying up from an already low level of sales. Lead market faltered in the second week of July quite significantly as the prices in the Mumbai market witnessed a drop of around 4 per cent while its counter part in LME experienced a drop of nearly 5 per cent.

Iron Ore Sector

The month of June ended on an improved note in Indian Export market mainly due to rising sea freight cost. The price of iron ore fines 63.5% rejection below 62.5% was USD74-75/t CNF China, up by USD2-3/t in a day. The month of July saw a positive beginning with export prices of Fe 63% prevailing at USD 57-58/tonne FOB Indian East Coast and USD 76-77/tonne, CIF Chinese port. Prices remained

stable due to tight supply in the market; however trading remained inactive due to the onset of monsoon which propels many mines in India to operate at half capacity or even to stop production.
The second week of the month saw a rise in spot price by $4 to 5 per tonne on tight supply due to monsoon, port strikes and absence of Australian material. "Port congestion and strikes at India's east coast have resulted in slower loading," said a trader in Shanghai. Unloading takes up to 10 days, with costs rising up to $2 per tonne, he said, adding: "The situation will last another two months."
A source from a West Bangal-based exporting company confirmed the tight supply and the high price. In addition, the source said the weakening of US dollar also supports the export quotation to move up. He quoted USD59/t FOB Indian east coast for iron ore fines 63.5% rejection below 62.5% in the second week of the month, USD2/t higher than that of late last week.

Ferro Alloys Sector

Ferro-Alloys market witnessed a strong price movement over a fortnight.

Ferro-chrome market – The market for Ferro chrome in India has depicted a northwardly movement since the beginning of the month of July on account of improved demand in the market of late. In the first week of July, Ferro chrome (HC 60% min) in the domestic market shot up by Rs. 5,000/MT to prevail at Rs. 49,500/MT ex-works while in the second week the prices moved further upward by Rs. 1,000/MT and is currently prevailing at Rs. 50,500/MT ex-works. On other hand, Ferro chrome prices in the United States & European markets are also ruling strong with slightly improved demand scenario.
Ferro-Molybdenum market – The Ferro molybdenum prices have remained steady in the Indian market over the last couple of weeks. In July week 01, the domestic ferro-moly (60% min) prices went up by Rs. 20/Kg to prevail at Rs. 845/Kg while in the second week, prices have further increased by Rs. 30/Kg and is currently prevailing at Rs. 875/Kg. On the other hand, the Chinese ferro-moly market is also on a higher note at the moment with the prices gradually creeping up and the Chinese smelters expect that the ferromolybdenum price will go up further in the coming days.
Ferro Manganese Market – Indian Ferro-manganese market has remained grossly stable since April, 2009 with no significant movement been observed in the domestic Ferro manganese prices. Currently the High Carbon Ferro Manganese (65-70%) is prevailing around Rs. 41,000/MT ex-works in India. In Turkey, the buyers are still holding a wait and watch attitude towards the market as the demand still continues to be slow and sluggish.
Ferro-Vanadium market – Ferro-vanadium market across the country has depicted a rising trend through out the month of July. In July week 01, the Ferro vanadium (50% min) prices rose by as high as Rs. 85/Kg to prevail at Rs. 690/Kg while in the following week the Ferro vanadium prices further increased by Rs. 30/Kg and is currently prevailing at Rs. 720/Kg. On the other hand, in the Chinese market, the vanadium prices kept on increasing this week, with the mainstream prices varying in the range USD29.87-30.75/kg for ferrovanadium 50%.

Price Trend of Major items

Price at LME in USD/tonne	July Wk 02	Jun Wk 04	Jun Wk 02	May Wk 04	May Wk 02
Nickel	15261	15371	14943	12738	12458
Zinc	1508	1543	1581	1466	1503
Aluminum	1566	1606	1612	1427	1497
Copper	4878	4976	5106	4609	4583
Lead	1641	1675	1709	1448	1427

Items	July'09 Week 2	June'09 Week 4	June'09 Week 2	May'09 Week 4	May'09 Week 2
China Domestic HRC Yuan/tonne	3660	3600	3450	3400	3290
China Domestic CRC Yuan/tonne	4630	4580	4400	4200	4130
Europe Domestic HRC Ex-Works €/t	380	350	350	350	350
Europe Domestic CRC Ex-Works €/t	450	420	420	420	420
US Domestic HRC FOB $/tonne	460	400	370	410	410
US Domestic CRC FOB $/tonne	560	500	480	510	510
CIS Export HR Coil $/tonne	490	490	380	355	350
CIS Export Billet $/tonne	390	400	360	360	360
CIS Export Rebar $/tonne	400	440	400	430	430
Shredded Scrap US fob East Coast $/tonne	235	235	220	210	240
HMS I&II(50:50) fob Rotterdam Export $/tonne	210	210	190	200	200
HMS I$II(80:20mix) Rotterdam Export $/tonne	240	240	220	230	230
IOF Fe=63.5% CNF China USD/tonne	86	81	74	68	65

Outlook

The likely scenarios for the next three months are:

• Producers of flat products in both northern and southern Europe are expected – slowly - to achieve their targeted price increases by September, on the back of the recent small increase in demand.

• Prices for US flats have been raised sharply for the start of Q3, though there has not been much growth in demand. It remains to be seen whether the full increases can be achieved, or maintained if there is no rise in demand during the rest of Q3.

• Asian demand remains better than elsewhere, and the rising price levels are likely to be easier to maintain than in US and Europe, especially as there is a reduction in the availability of cheap imports.

• The southern European flat prices are still at lower levels than in the north, and any increases in Q3 may be smaller than in the north.

• Long products' pricing has been slipping again in northern Europe, but is firmer in other regions. Demand does not seem to have improved going into the summer construction period, so price levels are unlikely to increase again throughout Q3.

• Elsewhere longs prices will probably stabilize unless output continues to rise further than demand, though prices generally are likely to be a little stronger due to higher scrap and billet prices. Middle East purchasing is about to cease for Ramadan, but the change is much less dramatic than last year and is being closely watched this year.

Forecasts of economic activity continue to be revised downwards with more negative growth predicted globally for second half of 2009; only China and other Asia seem likely to show positive growth. The sizeable production cutbacks seem to have reached a balance with demand in most regions, though continuing lower output is still required in the mature economies. Indeed, the dramatic production cuts in Europe and US of 40-50% should continue during Q3. It must also be hoped that other, imported material does not disturb the balance of supply.

Source: Asian Metal, SBB, Metal Bulletin, NCDEX, MCX.