

Snapshot over a Fortnight

News Flash

Tata Steel crude steel production falls for second consecutive month: Tata Steel's May crude steel production fell 3.37% month-on-month to 486,000 tonnes, down from 503,000 tonnes in April. The company's sales tonnages have improved month-on-month by 3.76%, with sales in May reaching 469,000 tonnes compared with 452,000 tonnes in April. Saleable steel production in May fell to 501,000 tonnes, a drop of 3% compared with April's 516,000 tonnes.

NMDC's iron ore output falls 4%: State-owned NMDC Ltd, India's largest producer of merchant iron ore, saw output fall 4% to 28.5 million tonnes for the year ended March 31 on the back of a 6% dip in sales. Iron ore sales fell to 26.5 million tonnes, with a 7% dip in domestic sales to 22.6 million tonnes offsetting a 3% increase in exports to 3.9 million tonnes.

Indian railways reduce freight on iron ore for export: Indian iron ore exporters are now paying lower rail freight rates. This follows the issuance of a notification on 1 June by Indian Railways, the state-owned railways operator, re-classifying iron ore meant for exports as class 180X, thereby reducing overall freight costs. Ore meant for domestic use remains classified under category 180X.

China incentivises steel exports: China has increased rebate on export tax on hot rolled steel to 9 per cent, giving a boost to the steel exports. This is also applicable to steel plate, sections and some stainless products and alloy steel. The rebate has come into effect from June 1, 2009.

Oil price hit a high of 72 dollars a barrel: U.S. crude oil futures rallied for a third straight day and ended above \$72 a barrel on June 11, as the dollar dropped and economic recovery hopes rose on reassuring jobless benefit claims and retail sales data. Crude oil cleared \$70 a barrel by a whisker on June 09, getting an immediate boost from a weaker dollar as traders continue to bet that a stronger economy will lift soft demand.

Steel Sector

The **domestic steel market** exhibited a softening price movement beginning of June with Long Products sector receiving a major setback as demand slid down.

The price of HRC prevailed at Rs.27,500/tonne, basic in Mumbai market in the first week, a drop of Rs.500 per tonne since the last week of May. Steel Plate price too dropped by Rs.500 per tonne to prevail at Rs.28,500/tonne, basic in the first week of the month. There was no significant performance in the second week as well with the entire domestic sector depicting a gloomy condition. There is not much buying in the market and the buyers did not make any huge volumes of purchase accompanied by slow movement of material. Real demand still lacks in the market and the approach of monsoon has further aggravated the situation. The buyers are still holding a go slow attitude with their purchasing decision. This type of stagnant situation is expected to last till the declaration of the union budget in the first week of July after which both demand and price may witness some movement.

The long products market exhibited a declining trend over a fortnight. Wire Rod prices dropped by 1 to 2 percent in the first week to prevail at around Rs.29,500/tonne, basic. The drop in metallic market further aggravated the scenario where prices dropped in the range of 2 to 4 percent over a week. The second week of the month further saw drop in prices with prices of angle steel further dropping by 1 to

2 percent due to lack of demand from end users. The Wire rod and TMT market too continued to remain dim because of limited demand from downstream customers. Steel ingot, Melting Scrap and Sponge Iron market too witnessed a drop in prices in the range of 2 to 4 percent over a week. There is not much hope for the revival in the steel market at present and the steel market is expected to stagger along in this fashion up till the declaration of the central budget in the first week of July.

Prices achieved through **e-auction** have almost remained aligned with the domestic market. The falling trend of the steel prices in the domestic market was noticeably mirrored in the auction platform as well. Various long steel items auctioned from various clients in the last week have seemed to have tumbled as compared to the previous week and prices of billet, bloom TMT have dropped in the range of 2 to 5 percent over a fortnight. A significant fall in price has also been noticed across the flat segment as well with prices dropping by around 2.5 percent over a fortnight in the CR category and a price drop of around 3 percent being noticed in the plate category.

With demand conditions still remaining low and everybody waiting for the announcement of the central budget, a similar softened trend can be expected in the coming days.

The **international steel market** exhibited a weakening trend in the beginning of June. Commercial plate prices remained sluggish over a week in Southern Europe as demand remained by and large stagnant. In United States, the hot rolled sheet import applications dropped 10.4% m-o-m, from 106,300 MT in April to 95,200 MT in May, the Cold rolled coil imports saw the biggest month-on-month decline in license applications at 40.4% - from 94,000 MT in April to 56,000 MT in May while Hot-dipped galvanized sheet import applications fell 22% m-o-m, from 93,400 MT in April to 73,000 MT in May. The second week of the month saw further decline with The northern European ex-works plate reference price dropping marginally by USD 1.41/MT than that of last week and prevailed at USD 663/MT. In United States, HR coil reference price FOB Midwest mill dropped by USD 2/short tonne and prevailed at USD 421/MT.

The international long steel market remained by and large stagnant with lack of demand from the end users. The domestic rebar prices in UK have dropped due to falling scrap prices, import pressure and slack demand. In South East Asia, the market portrayed a gloomy picture as well. The billet import market in south East Asia has slowed down quite significantly of late. Russian origin billet was booked at around USD 418/MT cfr in northern Vietnam and USD 420-425/MT cfr in southern Vietnam.

Ferrous Scrap Sector

The month of June started on a declining note across the domestic steel market with Scrap, Sponge Iron and finished long steel items witnessing a price drop in the range of 2 to 4 percent in the first week. Melting scrap prices across the country portrayed a declining trend (a drop of over 4 per cent) and prevailed at around Rs. 21,170/MT (incl. ED) in Mandi Govindgarh on Jun 03. Sponge iron price at Raipur took a nosedive as prices dipped by around 4 per cent over a week and prevailed at Rs. 14,280/MT (incl. ED) on Jun 03, 2009.

The steel market across the country remained continued to remain depressed in the second week of the month. Ingot prices at various places of the country tumbled in the range of 1.5 to 3.2 per cent over a week owing to lack of demand in the market. Finished steel items across the country also exhibited a declining trend (a drop of around 2 percent was noticed). Melting scrap and sponge iron also remained subdued over a week, exhibiting price drop in the range of 2 to 4 percent.

The **international steel scrap** market remained depressed in the first week. In USA, the shredded steel scrap FOB East Coast suffered a drop of USD 35/MT over a week and prevailed at USD 210/MT while steel scrap HMS 1&2 (80:20 mix) in USA witnessed a drop of USD 30/MT and prevailed at USD 205/MT. The European scrap steel market was no exception as the prices weakened there as well.

Over a week, the shredded steel scrap FOB Rotterdam declined by USD 10/MT to prevail at USD 235/MT while steel scrap HMS 1&2 (80:20 mix) FOB Rotterdam saw a drop of USD 10/MT and prevailed at USD 230/MT. The second week of the month saw a further drop in prices by 10 USD/tonne.

Base Metals Sector

In the first week of June, the base metals pack delivered a strong performance both in the London Metal Exchange and in MCX as the metal prices ended distinctly higher as compared to the week before. A weaker dollar and buoyant equity markets provided support to base metal prices throughout opening week of June. Moreover, the declination in inventory in case of various base metals added to the sentiments in the first week which further helped in propelling up the metal prices. June Week 02 was no exception; as the base metals staged an impressive performance in the second week touching new multi-month peaks on the back of a weaker dollar and waves of investment fund buying. This rally was mainly backed by a weaker dollar as it makes base metals look attractive for holders of other currencies. However, it seems that the base metals are racing ahead of their fundamentals and this rise in prices may not be sustainable in the days to come as a market correction seems likely in the future.

Nickel: Nickel prices marched northward with the commencement of June with the gradual improvement in the demand condition from the stainless steel mills. Nickel staged an impressive performance in the first week of June as prices in both LME and home exhibited a significant rise of over 8 per cent as compared to the week before. The price rally remained unperturbed in June week 02 as well and nickel in both LME and home experienced a price increase of around 5 per cent over a week.

Copper: Copper exhibited a steady upward trend since the beginning of the month of June as the market is gradually witnessing a rise in the consumer confidence of late and demand is slowly picking up. Copper prices zoomed up in the first week of June by more than 7 per cent both at LME and home as compared to the previous week while the week 02 saw a little deceleration in the rate of rise of copper prices as compared to that of week 01 but still managing a price increase of more than 4 per cent at home and around 2.5 per cent at LME.

Aluminum: Aluminum remained strong since the beginning of June as investment buying coupled with overall boost in financial market sentiment helped the metal to gain ground. In Jun week 01, aluminum prices both at home and in LME witnessed an increase of around 5 per cent while in the second week the prices soared by more than 12 per cent in both home and abroad.

Zinc: Zinc exhibited a healthy price trend since the beginning of the month of June both in the domestic market as well as in the international arena owing to a slight improvement in the demand from the galvanizers and a slight revival of the automobile industry across the world of late. Zinc prices soared up in the first week of June registering a price increase of around 5 per cent both at LME and in the domestic market. Zinc remained strong in June week 02 as well; as zinc prices climbed up by around 3.5 per cent both at home and LME.

Lead – Lead kicked off at a strong note since the beginning of June. Lead prices started moving a brisk pace in the opening week of June registering a rise of more than 11 per cent both at LME and in the domestic market as compared to the earlier week. June week 02 also depicted a significant rise in the lead prices of over 5 per cent both at London Metal Exchange and at home.

Iron Ore Sector

After depicting an upward trend in the fag end of May, the beginning of June saw a positive trend in the Iron Ore Fines Export market. Due to the increasing freight cost, devaluation of US dollars and tight supply the export price of Indian iron ore fines moved up on CIF basis. For example, China importers

reported that the price of iron ore fines 63.5% rejection below 62.5% was USD72-73/t CIF Chinese main ports in the first week, up by USD4/t from that of last week of May.

A Goa-based iron ore fines exporter confirmed the price increase. Now the source quotes USD38-39/t FOB Indian west coast for iron ore fines 58%, up by USD2/t from June 02. Besides the above factor, the source added that the tight supply also supports the price to increase. The second week of the month saw the export market stable as price of iron ore fines 63.5% rejection below 62.5% was around USD57/t FOB Indian east coast and the price of the same grade on CIF China basis was USD72-73/t, the same as those of last week.

According to sources, traders are not expected to expand stock in the coming weeks as the sea shipment will be affected by the continuous heavy rain, which will start from the end of this month in east part of India.

Coal & Coke Sector

SAIL, RINL negotiate FY10 coking coal at 60% discount: State-owned steel giants SAIL and RINL have negotiated the current fiscal's long-term coking coal prices with global suppliers at \$115-125 per tonne, which is over 60 per cent lower than what the companies had paid in the last financial year. The new contract would be effective from April 1 this year. The negotiation of coking coal prices between Indian steel mills and global suppliers for the 2009-10 fiscal was on the basis of the benchmark \$129 per tonne settled by global miners recently with Japanese steel companies.

Thermal coal prices remain stable in China. On one hand, water-generated power has gone up in China's southern area, and in addition coal imports from Vietnam and Indonesia have increased, exerting notable impact on coal supply demand in the China's eastern coastal areas. On the other hand, power plants have sufficient coal stock and there is no reason to purchase coal. On such basis, coal market has been flat as whole.

BHPB confirms coking coal price drop: BHP Billiton has formally confirmed what market-watchers have known since mid-March, namely that its coking coal price settlements for 2009 represent a drop of about 58% from 2008.

Ferro Alloys Sector

The Ferro-alloys sector remained stable throughout the month.

Ferro-chrome market – The Ferro-chrome market across the country has remained by and large stable after witnessing a price increase of Rs. 1000/MT in the fourth week of May and is currently prevailing at Rs. 41,500/MT ex works for high carbon Ferro-chrome (60% min). The demand in the domestic market hasn't reflected any significant movement over the last fortnight and a similar calm situation is expected in the days ahead.

Ferro-Moly market – The Ferro-molybdenum market across India remains steady at the moment with demand condition in the market improving slightly in the recent past. Indian ferromolybdenum (60% min) price has improved by Rs. 50/Kg in the second week of June after remaining stable since third week of May and is currently prevailing at Rs. 825/Kg. According to the domestic market sources, the economic situation in India is gradually improving at the moment, and people are confident about the market direction and the consumers are expected to sign long-term Ferro-molybdenum deals if the market improves significantly.

Ferro Manganese Market - The market for Ferro-manganese has remained grossly stable since the beginning of April with the demand not showing much movement. At present the high carbon Ferro-manganese (65–70) % is prevailing at around Rs. 41,000/MT ex-works in India.

Ferro-Vanadium market – The market for Ferro-vanadium is firm at present. The demand situation has ameliorated significantly with more and more Ferro-vanadium demand coming up from the Chinese mills. According to the market sources, the Ferro-vanadium supply in India is just equivalent to the local demand; hence demand from China for the material has led to a slump in the supply of Ferro-vanadium which in turn has swirled up the prices of late. In India, the Ferro-vanadium (50% min) prices have increased by Rs. 50/Kg in the second week of June after remaining stable since middle of May and is currently prevailing at Rs. 515/Kg.

Price Trend of Major items

Price at LME in USD/tonne	Jun Wk 02	May Wk 04	May Wk 02	Apr Wk 04	Apr Wk 02
Nickel	14943	12738	12458	11652	10599
Zinc	1581	1466	1503	1421	1330
Aluminum	1612	1427	1497	1424	1423
Copper	5106	4609	4583	4516	4309
Lead	1709	1448	1427	1438	1319

Items	June'09 Week 2	May'09 Week 4	May'09 Week 2	Apr'09 Week 4	Apr'09 Week 2
China Domestic HRC Yuan/tonne	3450	3400	3290	3170	3240
China Domestic CRC Yuan/tonne	4400	4200	4130	3980	4000
Europe Domestic HRC Ex-Works €/t	350	350	350	320	340
Europe Domestic CRC Ex-Works €/t	420	420	420	380	400
US Domestic HRC FOB \$/tonne	370	410	410	400	430
US Domestic CRC FOB \$/tonne	480	510	510	530	530
CIS Export HR Coil \$/tonne	380	355	350	350	330
CIS Export Billet \$/tonne	360	360	360	360	340
CIS Export Rebar \$/tonne	400	430	430	420	380
Shredded Scrap US fob East Coast \$/tonne	220	210	240	230	230
HMS I&II(50:50) fob Rotterdam Export \$/tonne	190	200	200	200	195
HMS I\$II(80:20mix) Rotterdam Export \$/tonne	220	230	230	230	225
IOF Fe=63.5% CNF China USD/tonne	74	68	65	62	61

Note: All prices of items represented in graphs are in Rs./t, basic except Sponge Iron and Melting Scrap where Price is incl. Excise Duty.

Outlook

In the international market, not much improvement is to be noticed as the month of June has begun on a weaker note with Scrap prices not showing much improvement. The latest forecasts are still predicting negative global economic growth for 2009, but there should be some increases in most Asian countries. It still appears that improvements in general economic activity are expected later in the year, though this may not immediately lead to higher steel consumption. The developed economies are likely

to show negative growth for 2009, and even if the US economy is among the first to emerge from recession, it is unclear whether this will still occur during this year.

In the domestic front, market conditions still remain unpredictable. The trend of recovery that was observed in the steel market across the country in the latter half of May following the formation of a stable government at the centre and the consequent improvement of the market sentiment appeared to have got arrested since the beginning of June with the demand condition across the domestic steel market slipping in to an inert mode, which in turn is creating a downward pressure on the steel prices. The prevalence of the existing volatility in the steel market has made the market participants a bit apprehensive and skeptic about the future market behavior and performance; hence they are not very intent to make any significant or long term purchase decisions for the time being. Moreover, the demand from the steel consuming segments like construction sector and infrastructure are not that steady at the moment as monsoon is slowly creeping in across the country resulting in a slow material movement and a lower off take, which has added to the woes of the current dwindling steel market. There is not much hope for the revival at present and the steel market is expected to stagger along in this fashion up till the declaration of the central budget in the first week of July.

Source: Asian Metal, SBB, Metal Bulletin, NCDEX, MCX, The Economic Times