

STEEL INDUSTRY MARKET SCENARIO

FLAT & LONG PRODUCT

Domestic Scenario:

Hike in steel prices by domestic steel makers: A hike in steel prices is imminent due to higher input costs and according to analysts this will lead to better price realization. Buoyed by a firm demand and rising input costs, domestic steel makers are expected to hike steel prices for their annual contracts beginning April, 2005. Analysts expect domestic steel prices to rise by Rs. 4,000 per tonne for the year 2005-06.

Steel cos feel the pinch as inputs, freight cost rises: Prices of essential raw materials used by the steel industry have been rising by leaps and bounds over the past three years leading to an increase in production costs. However a big hike in steel prices is not expected by the government, owing to the new steel capacity being built globally.

Steel scrip fancied on strong demand: A strong international and domestic demand and an expected price hike have helped steel companies attract huge investor attention on the bourses. The metal sector, especially steel companies, have had a dream run on the bourses, with the BSE metal index hitting a lifetime high on huge investor demand.

Global majors keen on investing in Orissa: Orissa, which has become a hot destination for multi-national companies (MNCs), is expecting huge flow of foreign direct investments (FDI) in sectors such as mining, power, steel and aluminium in coming years. Global majors like Posco, BHP Billiton, De Beers, Acc Rio-Tinto, Dubal Aluminium, Russian Aluminium, AES Corporation are lining up to invest in steel, power, mining and aluminium sectors.

Rs 90 cr steel unit in Rajasthan: BlueScope Steel Ltd, a leading flat steel manufacturer in Australia and New Zealand, is setting up a steel-building unit in Rajasthan with an investment of Rs 90 crore. The Australian steel major is also considering setting up similar units at Pune and Chennai.

Automakers to raise prices in April: Major automakers are citing price rise in their products due to increase in costs of steel. India's second-biggest motorcycle maker, **Bajaj Auto Ltd** would raise prices of all its vehicles by one to two per cent on account of higher steel costs and new emission norms. The country's largest carmaker, Maruti Udyog, is planning an across-the-board increase in car prices from April 1.

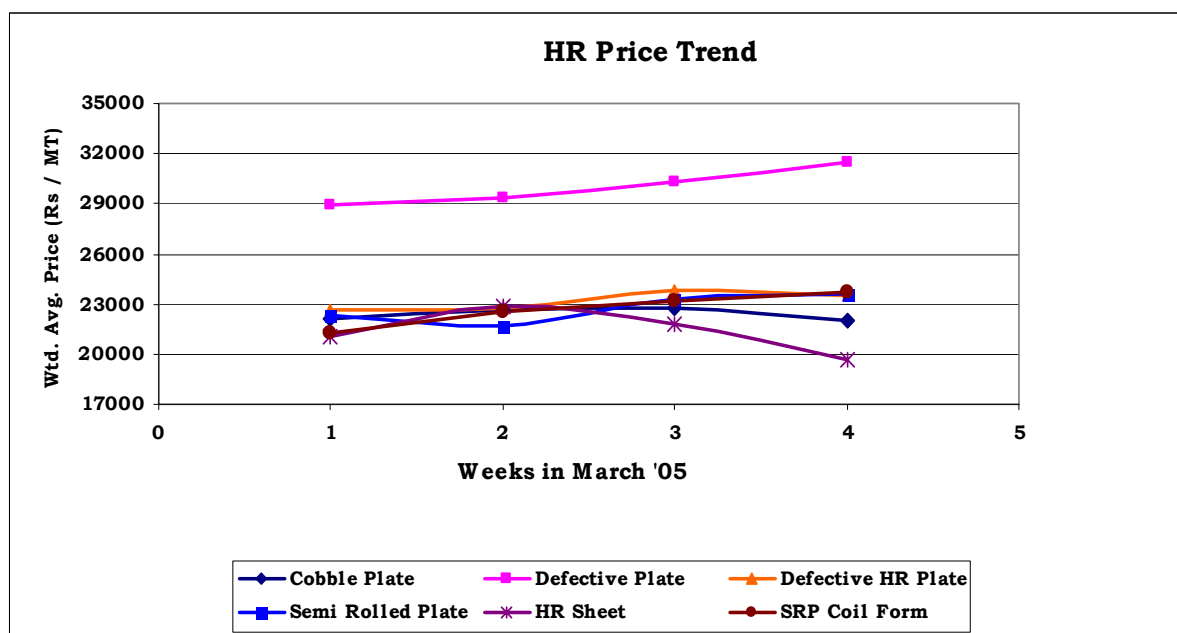
Excise duty hike to hit small steel players: The impact of the excise duty hike from 12% to 16% is going to affect the smaller players in the steel industry. The hike will straight away increase the price of CR and HR and it is expected that CR coil price will reach a high of Rs 27,040 per tonne and galvanized steel will touch a high of Rs 31,200 per tonne.

Arcelor forges ahead on new steel capacity in India: The world's second largest steel maker is interested to participate in the expansion of steel sector in India. India has set a target of increasing its steel production capacity from 36 million tonnes a year to 100 million tonnes by 2020. According to industry observers, Arcelor's interest in India's expansion of steel capacities coincides with its plan to cut down production at its European facilities where demand for flat-steel products has fallen by almost 14%.

Electrotherm commissions steel project in Kutch: Ahmedabad-based Electrotherm Ltd has commissioned its 1.2 lakh ton per annum (tpa) steel project in Kutch for an investment of Rs 125 crore. The new unit is an integrated steel project consisting of a sponge iron plant, a pig iron unit, a steel billets facility and a TMT bars unit. The steel project will be quite profitable as the industry is in the midst of a boom.

Price Trend as observed in the Auctions held at Metal Junction for Flat Products:

Following graphs show the price trend observed in the auction services of Metal Junction for the month of March for different HR and CR products.



Cobble Plate: The product showed an overall decreasing trend in the entire month. This has happened due to low demand but high availability.

Defective Plate: The product showed a phenomenal rising trend and ended with a positive note. The data showed here for defective plate is inclusive of excise duty.

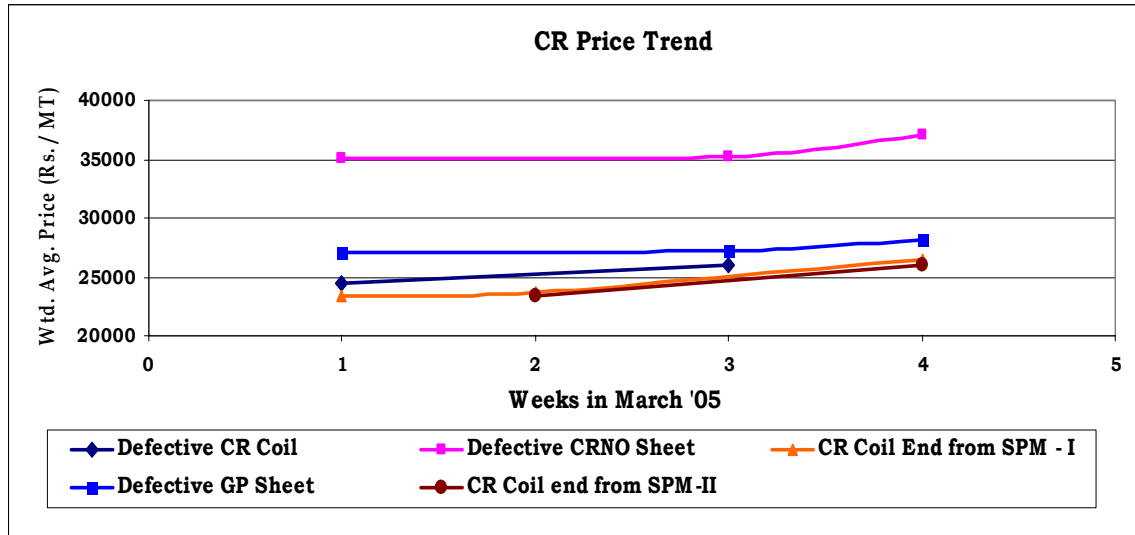
Defective HR Plate: The product showed more or less a steady trend throughout.

Semi Rolled Plate: The product showed a rising price trend from 2nd week and finally ended at around Rs.23,590/MT.

HR Sheet: The product initially showed a rising trend and then a decreasing phenomenon for the rest of the month.

SRP Coil Form: The product showed a rising trend in price throughout.

Outlook: It is expected that in the coming month the products will show increase in trend apart from the cases where the supply outweighs the demand.



Defective CR Coil: The product showed a rising trend throughout the moth.

Defective CRNO Sheet: The product showed a steady trend and then a rising trend with positive sentiment prevailing in the market.

CR Coil End from SPM-I: The product showed a rising trend throughout.

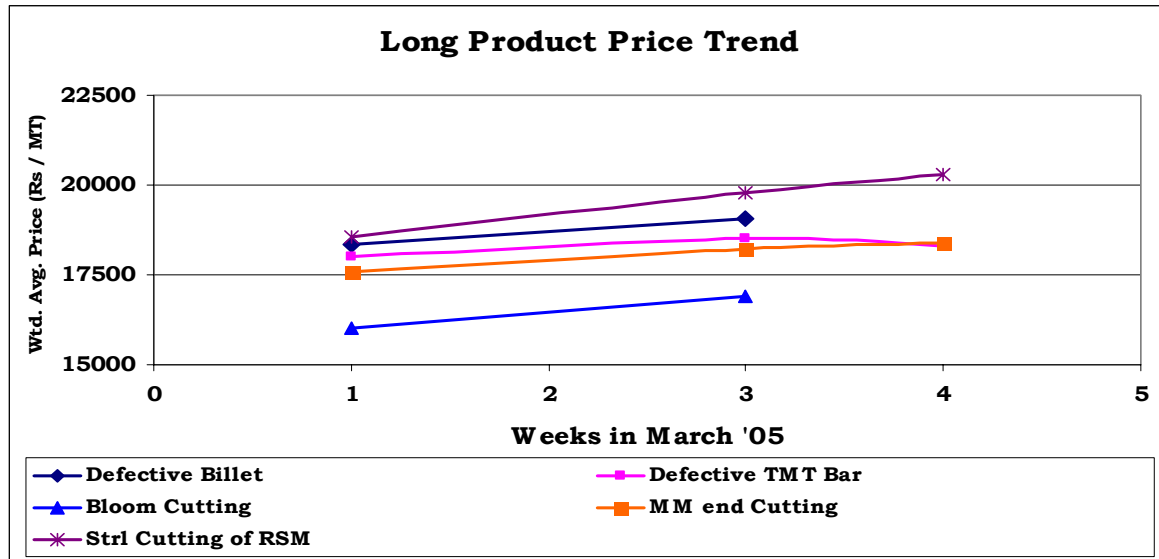
Defective GP Sheet: The product showed a steady rising trend.

CR Coil End from SPM-II: The product showed a massive rise in price at the end of the month.

Outlook: The products showed a positive sentiment in the market. The reason for this could be the rising steel prices announced by the steel players that is to be implemented from April. Similar price trend is expected in the coming month.

Price Trend as observed in the Auctions held at Metal Junction for Long Products:

Following graph shows the price trend observed in the auction services of Metal Junction for the month of March for different long products.



Defective Billet: The product showed a rising trend throughout.

Defective TMT Bar: The product showed a bit of decrease in price at the end of the month.

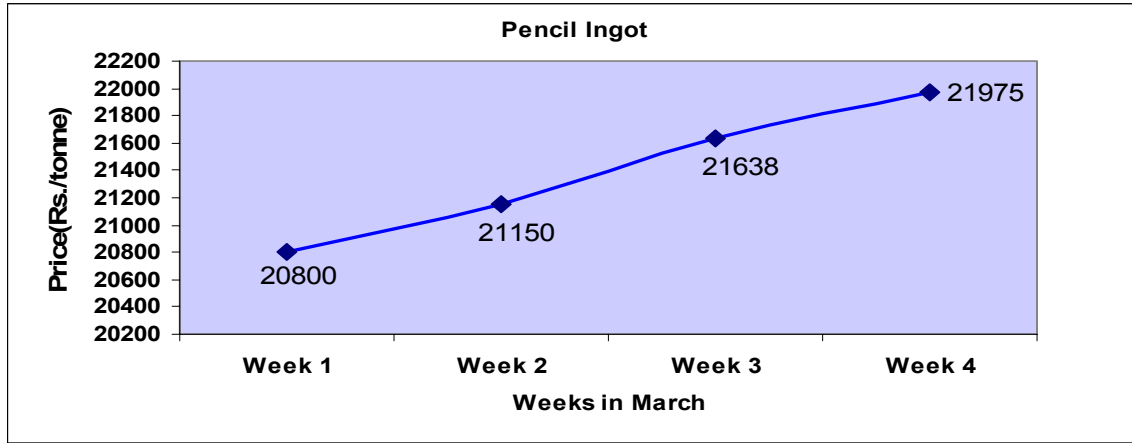
Bloom Cutting: The product showed a rising trend throughout the month.

MM End Cutting: The product showed a rising trend throughout the month.

Strl Cutting Of RSM: The product showed a positive sentiment in the market with rising price trend in the entire month.

Outlook: The long products showed a positive sentiment in the market and all of them ended with a rising price trend. The main reason for this could be rising price scheme announced by the major steel players in the market. It is forecasted that similar trend will be maintained in the coming month.

Pencil Ingot Price Trend for the month of March (in Mandi Gobindgarh market):



The product showed a very positive sentiment in the market and ended at Rs.21975/MT in the fourth week.

International Scenario

Rise in steel prices by Nippon Steel Corp: The top Japanese steel maker saw **20%** rise in steel plates and sheet prices. Steel companies and auto makers in Japan are expecting price rise by around 10% to 20%.

Producers warn of higher steel prices as global supply tightens: Prices of **flat steel products**, such as slabs, hot-rolled coils and cold-rolled coils used heavily by the construction sector are likely to go up globally over the next few months owing to the lack of supply in the world market.

Steel glut feared: America's major steel producers fear that global industry is heading for massive oversupply which would drive raw material costs even higher and undermine profits as new government-subsidized mills ramp up exports. **World crude and finished steel supply** is expected to jump by **278 million metric tonnes** to more than 1.2 billion tonnes within the next three years due to aggressive government-subsidized expansions in China, India, Russia and Brazil. **Global demand** is expected to grow at between 4 and 5 per cent a year to only **1.08 billion tonnes by 2008**.

Two Chinese steel giants to merge: China's steel giant **Anshan Iron and Steel** Group will soon merge with **Benxi Steel** to create the country's second largest steel producer with an annual capacity of more than 20 million tonnes. According to analysts, the merger would mark a fresh move in sharpening China's competitive edge in its large state-owned enterprises.

Chinese steel to swamp markets, warns US Steel: Chinese products may swamp the global steel market if the country fails to rein in excess growth in its steel sector. While forecasts point to continued economic growth and steel demand in China, the China factor could easily reverse just as unexpectedly and quickly as it did for the better. Current Chinese steel capacity exceeded 300 million tonnes, having more than doubled since 2000. If China becomes a substantial net exporter on a continuous basis, rather than an importer, the excess steel production could be poured into the market barely in the balance on the strong end of the business cycle, and oversupplied.

Chinese futures: China may consider allowing steel futures on its derivatives market after 11 years. The Shanghai Futures Exchange has approached the China Securities Regulatory Commission asking for permission to host trading in wire rods, one of the primary components in construction. The futures route is being considered to protect the Chinese steel industry from the erratic price swings in the global markets.

China to end rebates for cheap steel exports: China will slash or abolish export tax rebates for some low-end steel products to curb iron ore and power usage in the world's top steel market. The rebate on **long products** typically, rods and bars for construction - would be reduced to 10 per cent from 13 per cent. This will curb excess capacity in China's low-end steel industry and avoid the potential of trade wars due to rising exports of such products. With tax rebates cut or abolished low-end steel producers will have to either reduce exports or hike their prices on the international markets.

Ore costs to prompt steel price hikes: German's biggest steelmaker **ThyssenKrupp** will have to raise steel prices so as to compensate for higher iron-ore costs. The company has also informed that it will raise prices for various **flat products** by 15-30 euros per tonne from April 1.

Overall Scenario:

Excise duty hike to hit steel industry: Terming the four per cent hike of excise duty on steel **(from 12 percent to 16 percent)** as-negative for industry growth, Indian steel industry said it would make steel products dearer by Rs 1000-1500 per ton. This in turn will have an impact on the construction industry as steel constitutes an integral part of any construction work.

2005 watch for Indian steel sector: Almost all Indian steel majors are in capacity expansion mode. Also, there are the planned investments by global steel majors in the country, the most notable one being **Posco in Orissa**. Over the next two years, companies both Indian and global will pump in some Rs 25,000 crore into the sector, and in the next five years India's capacity is set to go up from 35 million tonnes a year to 60 million tonnes a year. For the next two years, prices look in steel is set to remain firm.

India seen as driver of global steel growth by 2015: The government will initiate dialogue with all the stake-holders of the iron and steel industry to work out a comprehensive steel policy as an approach in the fast-growing global steel scenario. This policy will also include a viable policy for exports of iron ore. Australia is expected to remain the dominant coking coal supplier to India taking into account Indian steel production projections of 60m tonnes by 2011 which will imply annual consumption of 70m tonnes of coking coal.

Tapping of Indian steel sector by Cisco: The networking giant sees the manufacturing sector in India as the next growth segment. The company is investing substantially to develop the manufacturing sector in India. As the steel sector is growing rapidly, it is planning to tap this sector and further add value to the country's economy.

Hot numbers hide a cold reality: Steel boom may peter out soon: It is expected that the world would be consuming and producing more than a billion tonnes of steel by 2008. But in the hot numbers lies coiled a pretty cold reality. The annual growth in steel demand and supply is expected to peter out to little more than 2% over the next four years. This will be a sharp slowdown from the blistering 6% yearly increase in consumption of steel presently. Chinese government is keen to avoid overheating of their economy and it is making attempts to reduce growth in steel sector.

GFMS-MC foresees 27% fall in flat steel prices: The world renowned GFMS-Metals Consulting (GFMS-MC) has forecast **global flat steel prices** to fall by 27% over the next 12 months. Raw material prices are expected to remain high for most of the year, slab prices will decline at a slower rate than the HR coil. Plate will remain the best global product, but it too will fall from the third quarter of 2005. The economic outlook for steel is not that positive but still everything has to be watched out before coming to any such conclusion.

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STEEL INDUSTRY MARKET SCENARIO

SCRAP

Domestic Scenario

Steel Producers scramble for coal imports: India is facing an acute shortage of coal and electricity generators resulting in steel manufacturers scrambling for imports. Coal prices have generally shot up by over 100% in the international market over the past one year, but importers may have little opinion. China is restricting coal exports, due to their increased local demand. India gets steam coal from Indonesia while coaking coal from Australia. Expansion projects by India's largest generator has boosted demand for domestic steam coal and imports.

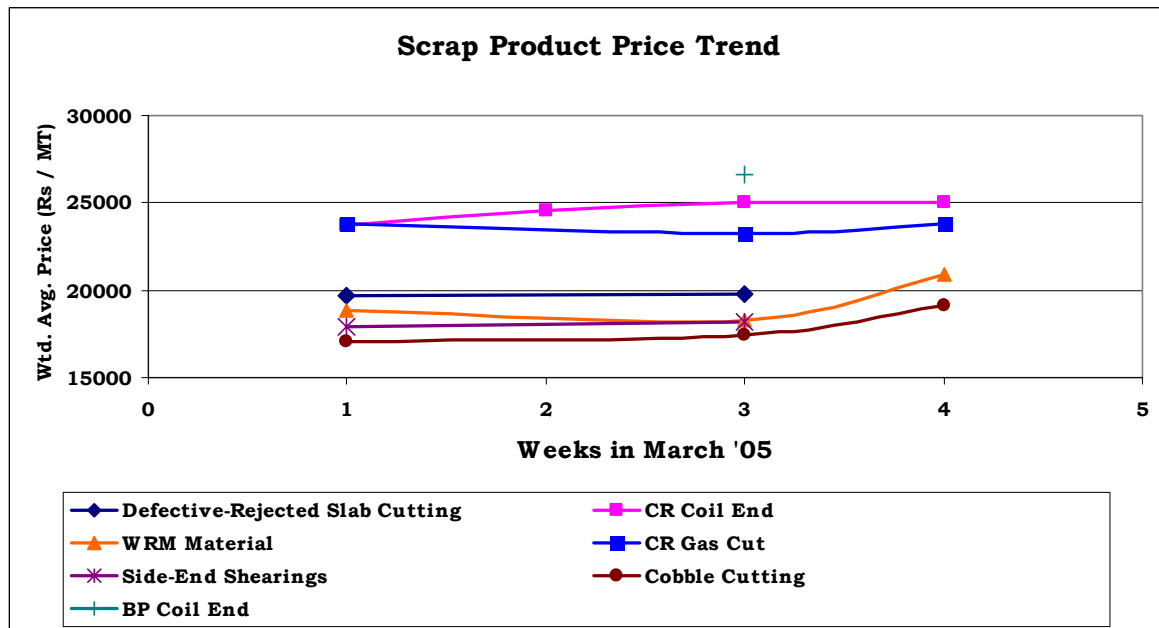
Increased Coaking Coal price to hit Indian steel sector: The near certainty that coaking coal prices will more than double in the new season will hit all Indian steel makers across the table.

JSPL eyeing Aussie mines: The O P Jindal Group promoted Jindal Steel & Power Ltd (JSPL) is exploring the options to acquire the cooking coal mines in Australia. The company's coal requirements are expected to fuel its steel plant in Chhattisgarh which is going to be expanded shortly.

Reduction of peak rate of customs duty from 20 to 15 per cent: The reduction will help bring down the cost of new projects and will help the steel industry which is in the process of modernizing and creating new capacities. Reduction of duties on inputs and consumables like refractories and coking coal will bring down costs.

Price Trend as observed in the Auctions held at Metal Junction:

Following graph shows the price trend observed in the auction services of Metal Junction for the month of March 2005 for different scrap products.



Defective Rejected Slab Cutting: The product showed a stable phenomenon throughout.

CR Coil End: This product showed a steady increasing trend throughout.

WRM Material: The product initially showed a decreasing trend but then showed a massive rise in the fourth week to end at around Rs.21,000/MT.

CR Gas Cut:The product more or less showed a steady trend throughout the month.

Side-End Shearings: The product once again showed a steady trend throughout the month.

Cobble Cutting:The product initially showed a steady trend and then a rising trend in the fourth week.

BP Coil End: The product showed a price of around Rs.26,000/MT.

Outlook: The scrap products more or less showed a steady and positive trend in the market with domestic demand of scraps on an increasing note. The same trend is expected to be maintained in the coming month.

International Scenario:

Increased scrap prices globally: Higher metal and scrap prices are increasing the costs of construction and manufacturing in China and throughout America and beyond. However the metal increases may be a factor in slowing the size of employment increases in the current economic upswing for China as a whole.

Iron ore mining companies call the shots: Bullish demand of iron-ore is expected to sustain for the coming years leading to further price increase. Worlds mining giants like Billiton and Rio Tinto have been investing heavily in new mines openings in the “strong” belief that the Chinese resources requirements will be sustainable in the medium and long term. The newly negotiated iron-ore prices are harmful to the steels sector in the short term, but in the long term it will be harmful for the shortsighted miners.

Overall Scenario:

The overall scrap scenario seems to be positive both in the domestic and international market with prices increasing and demand for supply rising at a steady pace. Newer mini-mills make steel from scrap and demand from China has been pulling scrap prices higher.

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STEEL INDUSTRY MARKET SCENARIO

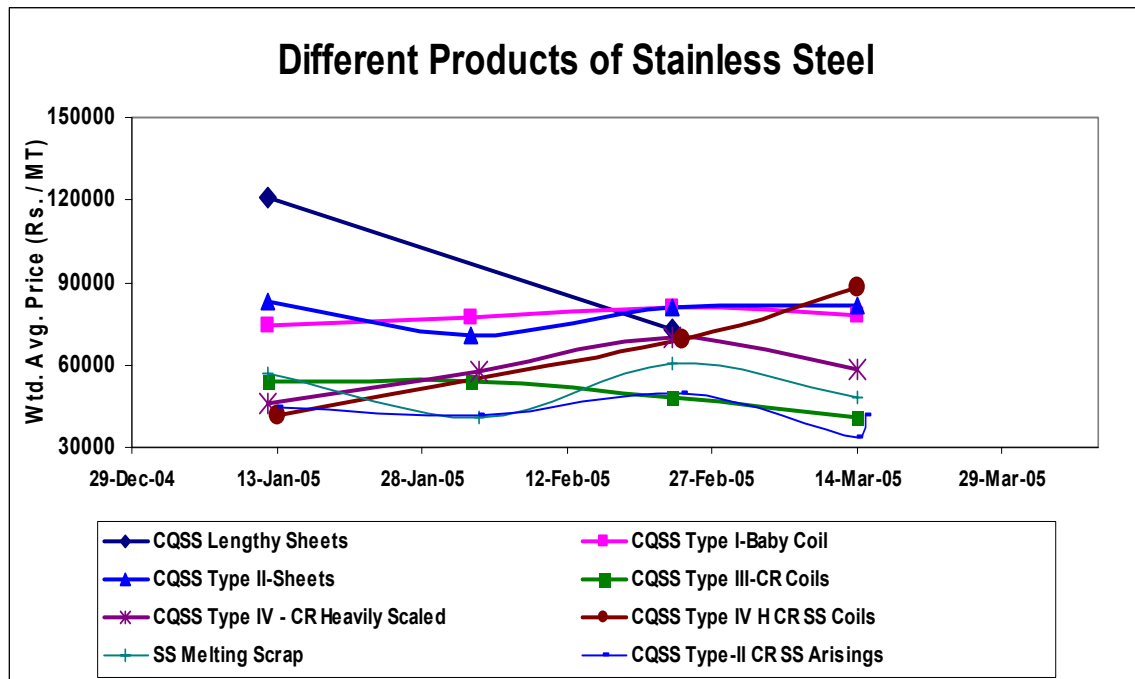
STAINLESS STEEL

Domestic Scenario:

Jindal Stainless eyes fresh Asian buyouts: Jindal Stainless, close on the heels of acquiring an Indonesian unit, is eyeing further buyouts in Asia for backward linkages. The company is in an expansion mode and would endeavor to become competitive by having access to raw materials. Apart from acquisition the company has also lined up a Rs 950 crore Ferro chrome project in Orissa for backward linkages. Also, the company's **cold rolling capacity** is being enhanced from 90,000 tonne to 250,000 tonne. In anticipation of the boom in the Indian economy, Jindal Stainless had embarked on the expansion drive.

Jindal investment in West Bengal: The Jindal group will invest Rs 10,000 to Rs 12,000 crore in Bengal to build a stainless steel plant with an annual capacity of 5 million tonnes. However, they made it clear that the proposed project would come up only if the state government could guarantee the supply of iron ore from either Orissa or Jharkhand.

Price Trend as observed in the Auctions held at Metal Junction:



CQSS Lengthy Sheets: The product showed a massive fall in price throughout from January to February.

CQSS Type I-Baby Coil: The product showed a bit of fluctuation in price trend from January to March.

CQSS Type II-Sheets: The product showed massive fluctuation in price trend throughout.

CQSS Type III-CR Coils: This product too showed a decreasing trend in the entire period from January to March and ended at around Rs.4800/MT.

CQSS Type IV-CR Heavily Scaled SS: The product initially showed a rising trend and then a decreasing trend from end of February to middle of March.

CQSS Type IV H CR SS Coils: The product showed a rising trend throughout.

SS Melting Scrap: The product once again showed a fluctuating trend throughout the period.

CQSS Type II- CR SS Arisings: The product showed fluctuations in price trend throughout the period.

Outlook: The stainless steel items showed fluctuations in price in the market with demand showing a mixed effect in the market.

International Scenario:

POSCO Finished Work on Stainless Steel Plant in China: South Korea's largest steel maker POSCO's joint venture with China's Qingdao Steel Co. has launched production of cold-rolled stainless steel at its plant in Qindao, Shandong Province. The joint venture, Qingdao POSCO Stainless Steel Co., has completed the plant with an annual capacity of 180,000 tons of cold-rolled stainless steel.

S. Korean Output of Stainless Steel Tops 1 Mn Tons: For the first time, South Korean output of Stainless steel surpassed one million tones in the year 2004. Industry leader POSCO and other steelmakers produced 1.07 million tons of cold-rolled stainless steel last year, up 9.2 percent from a year earlier. According to sources, POSCO, whose output of cold-rolled stainless steel amounts to 400,000 tons, is pushing for a plan to boost its production to 3 million tones by 2007.

Stainless steel mills switch to manganese as nickel price rises: Stainless steel mills, which buy more than half of the world's nickel, may turn more to cheaper alternatives such as manganese as the price of the base metal stays high.

Overall Scenario:

The overall scenario for stainless steel seems to be healthy with demand increasing both in domestic and international forum. With **Jindal** in an expansion mode, the condition is quite healthy in the domestic market. Moreover; there is a booming scenario in China with POSCO setting up a plant there. Also, the scenario is quite healthy in South Korea with output surpassing one million tones.

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