

## STEEL INDUSTRY MARKET SCENARIO

### FLAT & LONG PRODUCT

#### Domestic Scenario:

**Price squeeze to hit steel makers' margins:** Margins of all leading steel companies may shrink by 8-10 per cent in the first two quarters of the current fiscal compared with the corresponding period in the previous fiscal. This is because HR steel prices have come down to Rs. 21,000 per tonne from Rs 29,000 per tonne three months back due to an over-supply situation. There will be **further price decline by 5-7%** is expected in the next month. The over-supply situation has resulted from a significant dip in demand for steel in China and also in Europe, especially from France, Germany and Italy, due to low economic growth over the past few months. **Prices of raw materials such as coal and iron ore** have shot up in recent past, adding to steel makers' woes. While **international HR prices** are hovering around **Rs 21,000 per tonne**, **domestic prices** are still in the range of about Rs **24,000 per tonne**. The current decline in steel prices is just a correction. According to steel officials an improvement is expected by October. However, a sector analyst pointed out that even if there was a correction in steel prices, the margins of the steel companies would remain flat.

**JSW Steel adopts Oracle biz suite:** Jindal South West (JSW) Steel Limited, the flat steel producer in South India, has implemented Oracle E-business suite to enhance its production capacity from 2.5 million to 4 million tonnes per annum and drive expansion plans throughout its business. Oracle's extensive domain expertise and solution offerings in the manufacturing sector, especially in the steel industry, enable customers to achieve competitive advantage they seek in the Indian and global market place.

**Uco Bank plans to hike exposure to steel sector:** Kolkata-based UCO Bank is proposing to increase its exposure in steel sector with Orissa, Jharkhand, Chattisgarh and West Bengal lining up steel projects. UCO Bank has an exposure of Rs 1700-crore in steel sector. The bank has financed several steel projects mostly in Orissa and West Bengal.

**Falling steel prices hammer companies on stock exchanges:** Declining steel prices have taken a toll on the performance of steel companies on the bourses. Despite a booming stock market and rapid economic growth, steel scrips have posted negative growth in the first quarter of FY 06. Stock price of all the steel majors like SAIL, TISCO, JSW fell down. However, Jindal Stainless was the only company that succeeded in bucking the trend. This is because its operations are mainly confined to value-added niche steel products.

**Govt. Spurns Duty Cut On Steel Imports:** In a major setback to primary steel producers, the government has spurned their demand for a hike in customs

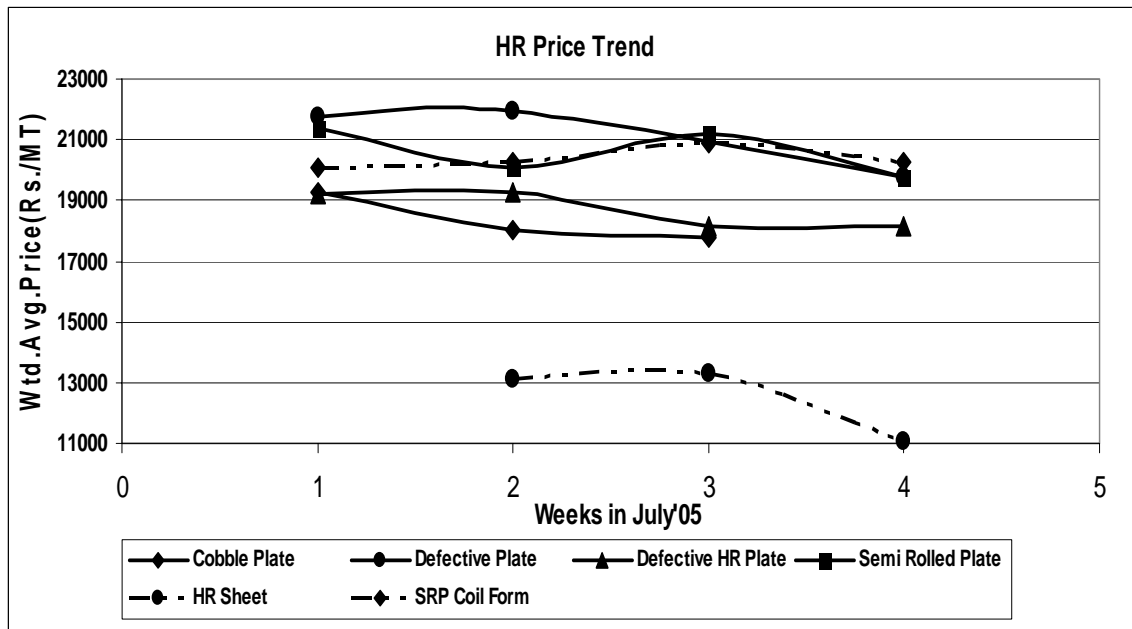
duty on steel. Finished steel imports surged 34% during April-June this year to about six lakh tonne mainly due to cheap steel coming from CIS countries. The industry had asked for increasing the duty, which was cut in phases from a high of 30% a year-and-a-half ago to 5% now. Steel ministry sources, however, said the quantum of steel imports was still not alarming to warrant duty intervention. The ministry has decided to first assess the extent of damage to domestic steel producers before recommending any change in import duty, they said.

**HR, CR Price (Landed) (Rs. /tonne)**

| Product Specifications                | June  | July  |
|---------------------------------------|-------|-------|
| Prices of HR Coils 3.15 mm in Kolkata | 35550 | 32750 |
| Prices of HR Coils 3.15 mm in Chennai | 34500 | 32000 |
| Prices of HR Coils 3.15 mm in Delhi   | 31500 | 30500 |
| Prices of HR Coils 3.15 mm in Mumbai  | 30375 | 30250 |
| Prices of CR Coils 0.63 mm in Delhi   | 33500 | 33000 |
| Prices of CR Coils 0.63 mm in Chennai | 40000 | 39000 |
| Prices of CR Coils 0.63 mm in Kolkata | 40625 | 38125 |
| Prices of CR Coils 0.63 mm in Mumbai  | 34500 | 34500 |

**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 July for different HR and CR products.



**Cobble Plate:** The product showed a downward trend in price.

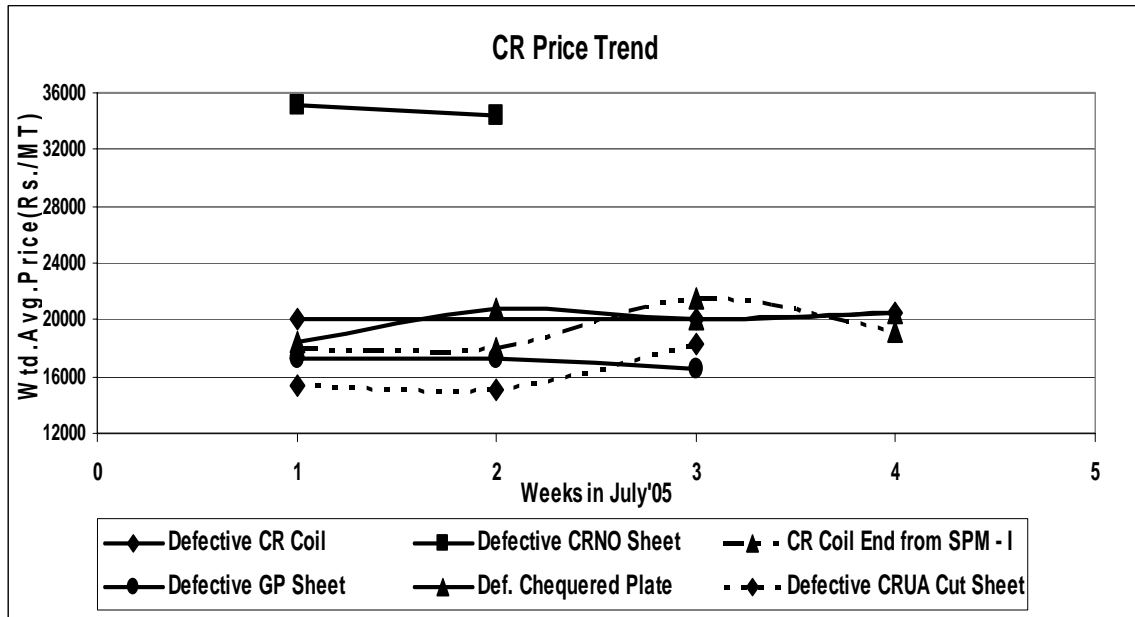
**Defective Plate:** This product too showed a fall in price trend in the month of July.

**Defective HR Plate:** This product too showed a downward trend.

**Semi Rolled Plate:** This product too showed a declining trend at the end of the month.

**HR Sheet:** The product showed a falling price trend since the 3rd week and ended at around Rs.11000/MT in the end of the month.

**SRP Coil Form:** The product showed a fall in price in the fourth week.



**Defective CR Coil:** The product more or less stabled around the 20,000 mark.

**Defective CRNO Sheet:** The product showed a fall in price in the second week.

**CR Coil End from SPM-I:** The product showed a rise in the third week and then again a falling trend in the fourth week.

**Defective GP Sheet:** The product showed a downward trend in the third week.

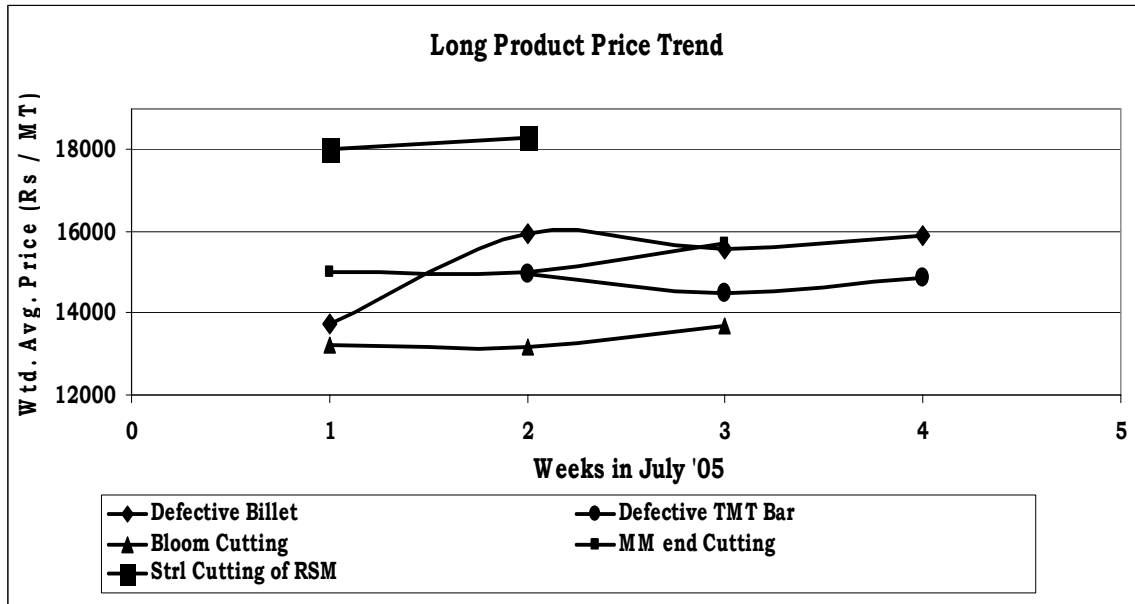
**Defective Chequered Plate:** The product showed a rise in the second week and then stabled around Rs.20,000 mark.

**Defective CRUA Cut Sheet:** The product showed a rise in price in the third week.

**Outlook:** An overall downward trend is depicted in the graph and further price decline is expected in the coming month as the steel majors are decreasing the price of prime flat products to bring the price at par global trend.

**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 July for different long products.



**Defective Billet:** The product showed a slight rise and then a fall in price trend.

**Defective TMT Bar:** This product too showed a declining price trend.

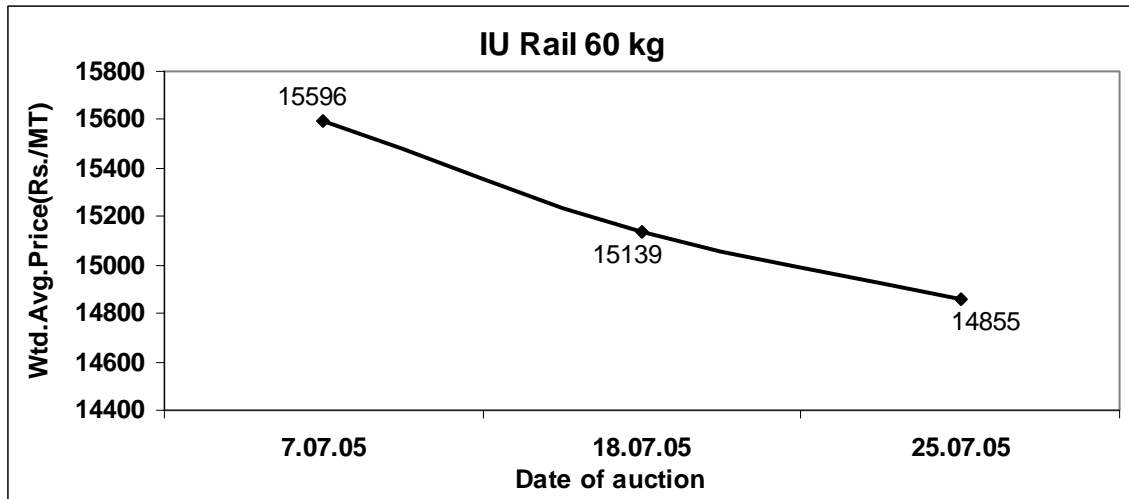
**Bloom Cutting:** The product showed a slight rise in the third week.

**MM End Cutting:** The product ended with a slight positive note in the third week.

**Strl. Cutting of RSM:** The product more or less steadied around the 18,000 mark.

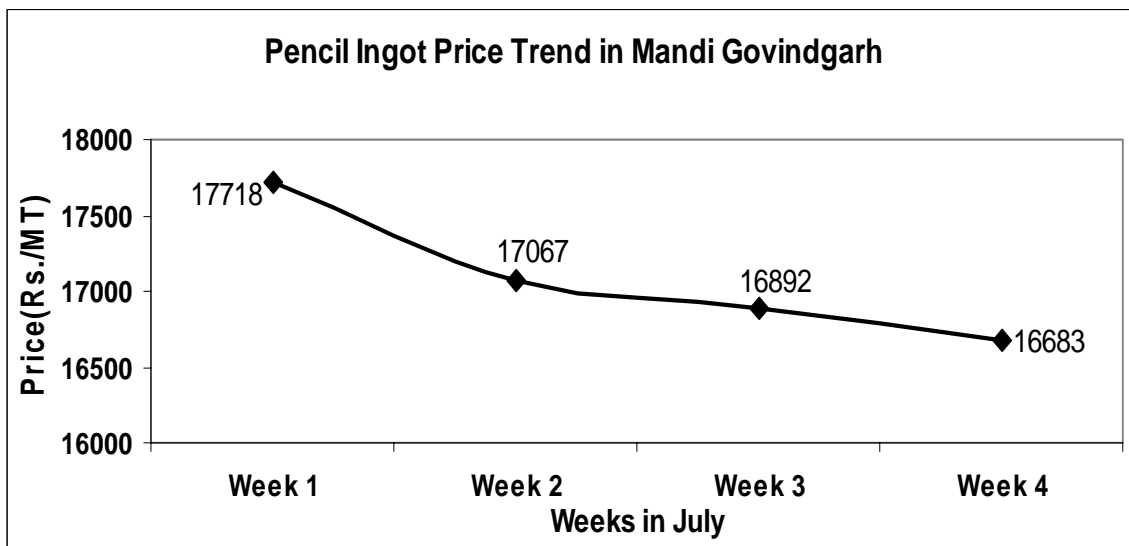
**Outlook:** The long product items are expected to hover around these price points and may even further decline downwards in the coming month. The drop of long product will be less than that of the flat products.

**IU Rail (60 kg) price trend in metal junction platform:**



The graph above indicates a steep fall in price.

**Pencil Ingot Basic Price Trend for the month of July (in Mandi Gobindgarh market):**



There is a steep price fall in the ingot price also.

**International Scenario**

**Steel Technologies posts sharp drop in third-quarter profit:** This is mainly due to reduced demand for flat-rolled steel and softer market prices. Company officials anticipate current market conditions to last until at least October.

**China's Demand for Steel Slows, but the Mills Keep Churning:** The world is facing a surfeit of steel as demand from Asia's most populous nation, and in slowing economies elsewhere in the world, cools off, triggering an extended decline in prices, fears of a long-term glut and the possibility that China will move further toward becoming a net exporter of steel in coming years. If China continues to export its surplus output, industry analysts fear a further downward pressure on prices. Industry analysts also say that one of the government's objectives in the pending industry consolidation will be to bring steel output back in line with demand and to reduce pressure on steel makers to find foreign markets. Under the consolidation plan, Beijing is expected to force some of the more than 800 steel mills in China to close or to merge with bigger, more efficient plants.

**Steel output shines 20% in Asia, but dulls globally:** Most of the steel producing regions of the world have shown a reduction in steel production compared to last year while it has grown by nearly 20% in Asia. This is mainly fuelled by Chinese growth that shows no signs of stopping or even slowing down. A look at major geographical regions reveals that production is shifting to the Asian economies from the more developed regions of the world. **Europe** shows a **drop of 4%** over the year. Even **CIS region** shows a drop of **0.7%** in production. In US, output has dropped by more than 5% compared to last year. In **Brazil**, output has **dropped by almost 2%**. A comparison of the major producer regions of the world shows that only Asia has displayed strong growth over the last quarter on a YoY basis. This is on account of China. **China** bucks the global trends by continuing to grow at a breakneck speed over the rest of the world. It has grown at 32% in the first quarter of FY06 over the corresponding quarter last year.

**China to have industrial policy on iron, steel:** Considering the big appetite of the iron and steel sector for raw materials like iron ore and coal, the new policy is said to encourage iron-steel companies to locate themselves in ports, especially good deep-water ports. As the proportion of imported iron ore is expected to grow from the present 40 percent to 65 percent in the future, experts said that moving factories to port cities will reduce transportation costs and sharpen the competitive capability of Chinese iron and steel products. The best scenario projected by the policy is the formation of rational industrial distribution by 2010, which, complete with efficient supply chains and convenient transportation routes, will allow the balanced development of market demand and the natural environment.

**Nippon Steel Corp,** Japan's biggest steel maker expects its July-September steel output to fall at least 300,000 tonnes below its original plan as it seeks to counter falling prices. Nippon Steel officials predicted that the fall in steel output would be temporary as long-term demand from China and Southeast Asian countries remains high.

**U.S.:** US demand is sluggish. The traditional July/August slowdown is likely to be even more exaggerated than usual this year. Canadian buyers report that

mill transaction values are constantly reducing. The **Canadian market** is soft and bar prices are starting to slip, under the influence of lower raw material costs. Producers are selling "non prime" material at very low figures. The market is extremely soft and expected to remain that way through the third quarter.

**South Korea's** economy is slow to recover from its current depression. Flat product demand is lackluster but forecasts suggest small growth during the second half of this year.

**A slowdown in Poland's** general economy has clearly impacted on domestic steel demand. In the **Czech and Slovak** markets, producers are curtailing output of commodity grade strip products. Their goal is to liquidate stocks and to restrict supply to the market place in order to try to slow the relentless negative trend in prices. Steel service centers have stopped purchasing and are undertaking an inventory draw down. End users are only buying limited quantities at the last moment. Export business is dull.

**Western European long product** prices continue to decrease, following the fall in scrap values. The market is quiet. There is also pressure in some countries from non-EU imports. **Polish inventories** are still high to the detriment of mill prices.

**Japan to Impose U.S. Steel Tariff:** Japan is planning to impose a 15 percent retaliatory tariff in September on about 10 products as a countermeasure to duties imposed by the United States on Japanese steel products under the so-called Byrd amendment. Washington placed tariffs on **hot-rolled steel** from Japan, Brazil and others starting in 1999 on allegations that they were selling their products at unfairly low prices. The retaliatory duties would be the first to be issued by Japan.

## **Overall Scenario:**

**Global steel prices set to firm up after September:** The downward turn in steel prices is likely to be continued till September. The prices may firm up gradually from month of October, as per the international analysts. The outlook for the sector still remains buoyant with the country's GDP expected to grow 6-7%. The push in the manufacturing sector would help generate demand in the steel sector. Moreover a 4% growth in global steel consumption will bring about price stability in the domestic market. Once global steel inventory levels falls, prices in all the categories would also firm up.

A **significant demand** growth for steel in **India** can be expected on account of the Commonwealth Games to be held in 2010. Infrastructure, automotive, capital goods and construction sectors will be the major drivers for growth in domestic demand. Industry is expected to remain buoyant. Prices are likely to reverse the current trend in the foreseeable future.

### **Data Sources:**

- 1) Iron&Steel Review, July 2005
- 2) [www.news.google.com](http://www.news.google.com)
- 3) The Economic Times of India
- 4) Business Standard
- 5) The Telegraph
- 6) [www.financialexpress.com](http://www.financialexpress.com)
- 7) [www.basemetals.com](http://www.basemetals.com)
- 8) [www.ncdex.com](http://www.ncdex.com)

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## STEEL INDUSTRY MARKET SCENARIO

### SCRAP

#### Domestic Scenario

**Major pig iron companies grapple with huge pig iron inventory:** The slump in the global pig iron market has left major pig iron producers of the country with huge inventory. According to sources, slump is owing to the availability of cheap scrap. The scrap prices have come down as China has stopped importing. The **domestic demand for pig iron has been affected** because of the import of scrap at a much lower price. As **scrap is available at \$180 to \$190 a tonne** compared to **pig iron** whose **domestic price** is currently hovering around **\$200-\$240 a tonne**, the steel makers have switched over to scrap. The sudden slump in the market has hit companies like **NINL**, the single largest pig iron exporter in the country. The company has planned production of 6.75 lakh tonne pig iron during **2005-06**.

**Govt. Initiates Fresh Review Of Iron Ore Export Policy:** The government has begun a fresh review of the iron ore export policy, in a dramatic reversal of the earlier decision to put the controversial issue in abeyance. A commerce department official told FE that the new policy would be in place by September. The idea is to re-examine the whole issue around three questions scope of exports, and if they are desirable how much and how long. The approach towards the three long-term iron ore contracts - with China, Korea and Japan - would also be decided as part of the policy. The existing iron ore exports contracts with these three largest buyers are slated to end by March 2006.

**Sponge iron units voice grievances:** The sponge iron industry in West Bengal has formed an association to mitigate the problems currently facing the units and to collectively take up the issues with the state government. As the **availability of scrap** for the huge quantum of steel proposed to be produced would be **inadequate**, therefore scraps would have to be replaced more and more by directly reduced iron i.e. sponge iron. According to estimates by the World Steel Dynamics (WSD), the global shortage of scrap would reach 68 million tonne in the year 2010, which implied that the scrap price would go up and availability would be a problem.

#### **Melting Scrap Price (Landed) (Rs. /tonne)**

| Place   | May   | June  | July  |
|---------|-------|-------|-------|
| Delhi   | 17000 | 15800 | 15000 |
| Chennai | 17500 | 15000 | 15000 |
| Mumbai  | 15300 | 14500 | 14000 |
| Kolkata | 16600 | 14000 | 15500 |

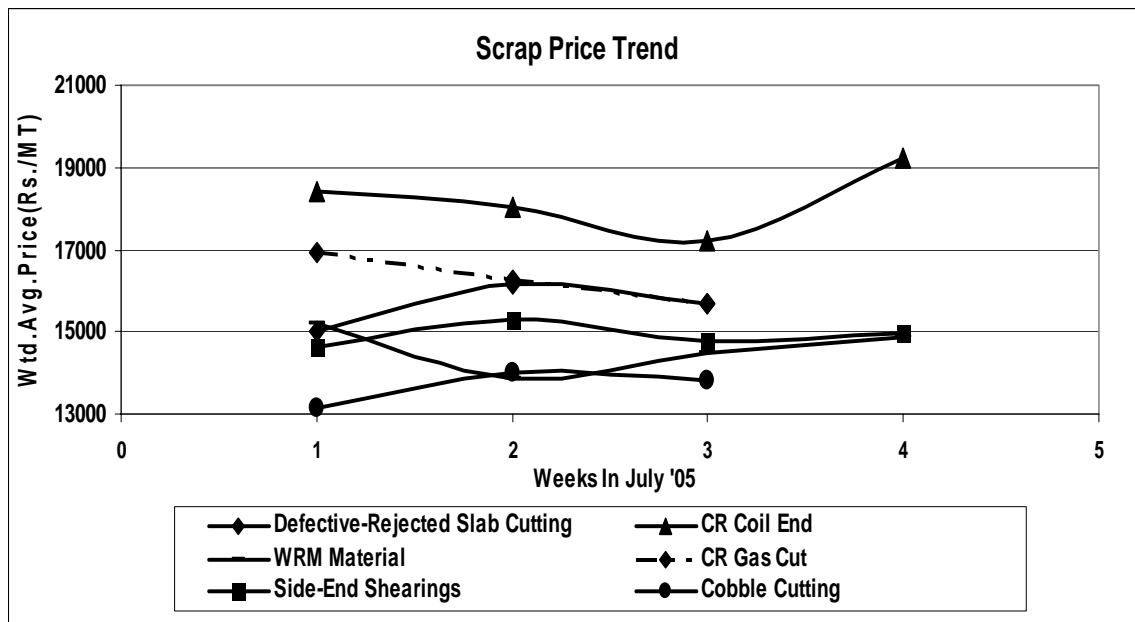
**Domestic Pig Iron Price (Rs. /MT) – Landed**

| Month | Delhi | Chennai | Mumbai | Kolkata |
|-------|-------|---------|--------|---------|
| March | 20167 | 19082   | 19133  | 19148   |
| April | 21500 | 18500   | 20200  | 20250   |
| May   | 20750 | 18500   | 19850  | 19850   |
| June  | 19000 | 17500   | 18300  | 17500   |

From the above table it is seen that pig iron price has fallen in the subsequent months which is mainly due to weak demand of steel and declining scrap price.

**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 July 2005 for different scrap products.



**Defective-Rejected Slab Cutting:** The product showed a downward trend in the third week.

**CR Coil End:** The product showed a downward trend throughout and ended with a positive note in the fourth week.

**WRM Material:** The product showed a falling price trend.

**CR Gas Cut:** This product once again showed a fall in price.

**Side-End Shearings:** The product showed a steady fall in price throughout the month.

**Cobble Cutting:** The product showed a slight rise in price in the second week and then declined down.

**Outlook:** With a declining trend in the market and prices of all steel items falling down considerably, it is expected that in the coming month there will be a further fall in scrap item prices.

### **International Scenario:**

**Iron ore market to remain in balance till 2010:** The biggest bull market in iron ore history culminated in a 71.5 per cent rise in iron ore fines prices in 2005. Steel prices have recently started to fall and spot freight rates have collapsed, however the iron-ore market is still to stay. Forecasting that iron ore market will remain balanced to short up to 2010, the analyst said the market would be impacted by how quickly new projects can ramp up. While falling steel prices and more supply of iron ore will lead to lower iron ore prices in recent future, high prices would attract surge in Chinese and Indian iron ore supplies.

**News from Pakistan:** Declining prices and government incentives likely to increase scrap production by year-end. Ship breakers have placed orders of over a dozen ageing vessels expected to anchor at the Gadani ship-breaking yard within a month as declining prices of old ships coupled with government incentives have brought a new life to the business. By August-end it is forecasted that 13 to 15 ships anchored at Gadani will get scrapped. He said that with the arrival ships next month at the Gadani ship-breaking yard, scrap production is predicted to be higher by the end of 2005-06.

### **Overall Scenario:**

With weak demand of steel further forecasted in the coming months and steel prices to remain in a downward fashion, scrap prices are to fall down further.

### **Data Sources:**

- 1) [www.news.google.com](http://www.news.google.com)
- 2) Times of India
- 3) The Economic Times of India
- 4) Business Standard
- 5) The Telegraph
- 6) [www.finanicaexpress.com](http://www.finanicaexpress.com)

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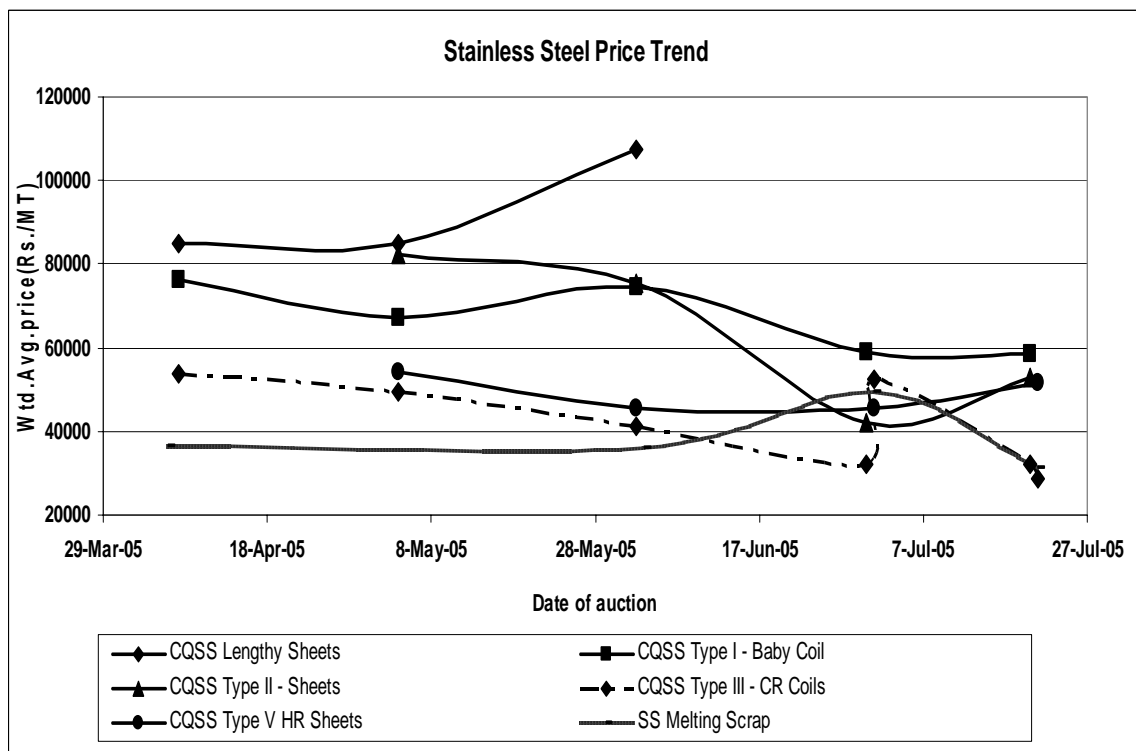
## STEEL INDUSTRY MARKET SCENARIO

### STAINLESS STEEL

#### Domestic Scenario:

**Indian stainless steel makers** are falling prey to widespread arm-twisting by Chinese importers. With demand for stainless steel in China having dipped in the past few months, the Chinese are asking Indian exporters to offer hefty discounts on their consignments. Recently, Shah Alloys, a Gujarat-based steel manufacturer, has shelled out close to \$1.1m as discount after demands by a Chinese importer.

#### Price Trend as observed in the Auctions held at Metal Junction for Stainless Steel Products:



**CQSS Lengthy Sheets:** The product showed a rising trend till the month of May.

**CQSS Type I Baby Coil:** The product showed a declining trend in the month of July.

**CQSS Type II-Sheets:** The product showed a declining trend in the month of July and a slight rise in the last auction.

**CQSS Type III-CR Coils:** The product showed a massive fall in price in the month of July.

**CQSS Type V HR Sheets:** The product more or less showed a steady trend in the 50,000 mark.

**SS Melting Scrap:** The product showed a downward trend in the month of July.

**Outlook:** With a falling trend in price, further decline is expected in the coming month.

### **International Scenario:**

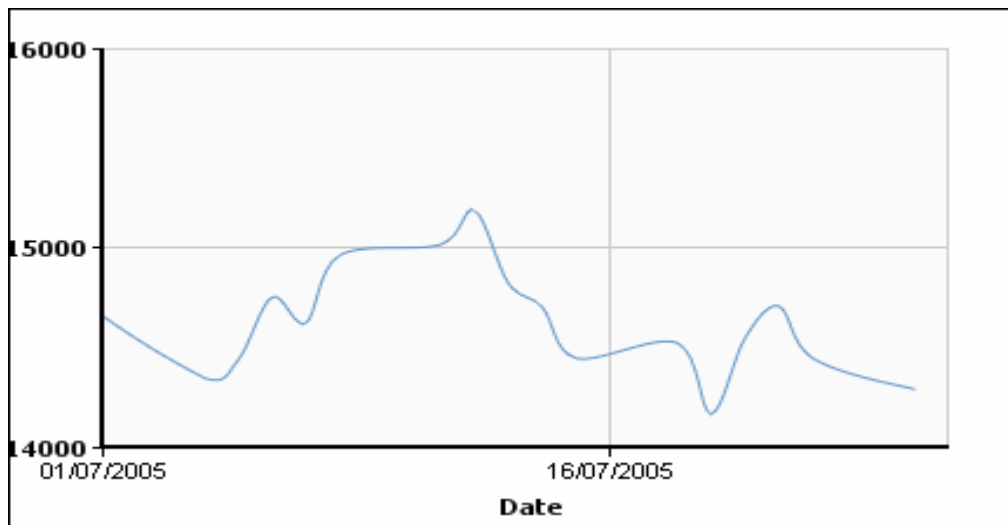
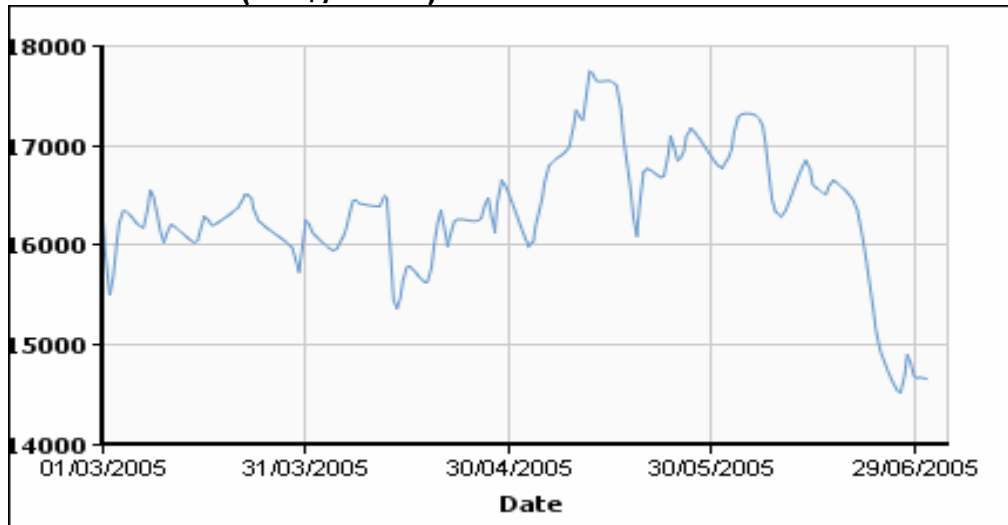
**Japan steel mills to cut stainless output in Q3 on slow demand:** Japanese steel mills will cut stainless steel output during the third quarter of 2005 on the back of slow construction demand and increased stainless steel imports. Nisshin Steel also plans to cut nickel-based stainless sheet output for the domestic market by 30% in Q3 and reduce exports to China and South East Asia.

**Yieh United to cut output:** Yieh United Steel Corp, Asia's second-biggest manufacturer of stainless steel, plans to cut output by 30 percent this month in a move that will reduce its need for nickel, used to make the corrosion-resistant alloy. The company will reduce stainless-steel production by more than 20,000 tonnes this month to stop prices falling. Global stainless steel prices have declined by more than 10 percent since the beginning of May, after distributors built up excessive inventories and also on rising supplies from China

**US 18-8 stainless steel scrap prices** fell under \$1,300/gross ton in the end of July as one of the major stainless steel mills booked no material for August delivery and two other large mills are expected to book very little material. Most of the mills are looking for a **bright September**. Major stainless mills in Europe and Asia have cut stainless steel production in response to weakened market conditions. Such kind of cuts has added to a global glut of raw material like 18-8.

**Stainless steel producers in Korea, Taiwan and Japan** have announced cutbacks as a result of a slowdown in global industrial production, including reduced off take from US car makers. China has also been increasing its output and reducing its imports. China sources some of its needs from small local producers. Stainless steel buyers began stocking up towards the end of last year and have been destocking this year, thus weakening the price. Ferrochrome competes with stainless steel scrap, too, which is cheaper for producers to buy and use than ferrochrome.

**Price of Nickel (US \$/tonne)**



As seen from the above graphs, the international price of nickel has fallen down drastically in the month of July. The main reason behind this is its weakening demand in the stainless steel industry where it has an usage of 65%. Further falling is expected in the year 2006.

### **Overall Scenario:**

The ISSF expects global stainless steel production to grow by 5% to 25.8 mt in 2005 and stainless steel demand in Asia is expected to grow by 12% annually. Much of the growth in stainless steel is expected to come from developing nations, with production in the industrialized countries stagnating.

UK steel consulting company, MEPS said: "China remains the power house for stainless demand. New capacity is being installed at a rapid pace to meet expanding requirements."

**European Union output** is expected to increase marginally in 2005 to 8.9 million tons from 8.8 million tons. **Japanese stainless output** is expected to rise to four million tons from 3.950 million tons. The **US** market continues to be hit by high levels of imports, with 2005 production to increase to 2.35 million tons from 2.3 million tons. **South Korean stainless steel** making will increase to 2.4 million tons from 2.250 million tons. **Taiwanese supply** should remain at 1.6 million tons. **Brazil** is also likely to contribute more over the next few years. **MEPS said:** "There are increasing fears that China will become a net exporter of cold rolled coil in the short term and have a surplus of stainless steel making before the end of the decade."

**In the domestic sector** a progressing monsoon would boost the agriculture output and in turn help to achieve GDP close to 7%. Industrial output is buoyant in the country and the manufacturing sector has grown 12.7% in the month of May 2005 as against 10.7% during the corresponding period last year. The growth in GDP and industrial production is going to boost the demand for steel, the low per capita consumption of steel in India will sustain the demand for stainless steel which is expected to grow by 7-9% annually driven by construction, automotive and railways.

### **Data Sources:**

- 1) [www.news.google.com](http://www.news.google.com)
- 2) Times of India
- 3) The Economic Times of India
- 4) Business Standard
- 5) The Telegraph
- 6) [www.metalsplace.com](http://www.metalsplace.com)

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