

STEEL INDUSTRY MARKET SCENARIO

FLAT & LONG PRODUCT

Domestic Scenario:

Consumers feel the pinch of rising steel prices: A bad news in the New Year with the end-users facing steep rise in steel prices in all the major steel companies. The cascading effect was also felt on the automobile and white goods industry. The driving force behind this increase in steel prices was the railway freight hike which raised the price of raw materials like coal and iron ore. The price of **HR coils** in the domestic market is said to be ruling around Rs 29,000 per tonne. Moreover, an increase in international steel prices has further aggravated it and is going to hit the cost of production as the price of imported steel is also on a higher side.

Uttam Galva Steels eyes Rs 1260 cr exports this year: Mumbai-based Uttam Galva Steels (**India's second largest exporter of galvanized steel**) is targeting Rs 1,260 crore of exports by the end of the current year, with at least 10 per cent of this coming from China. With infrastructure taking a rapid pace in China, Indian galvanized steel manufacturers are assured of a good market demand from China. Also, **US, Europe and Australia** are expected to be good markets for India in the next few years.

Essar Steel hikes HR coil prices: With the direct fallout of railway freight hike and faced with rising input cost, Essar Steel hiked the prices of hot rolled (HR) coils by an average of Rs. 500 a tonne.

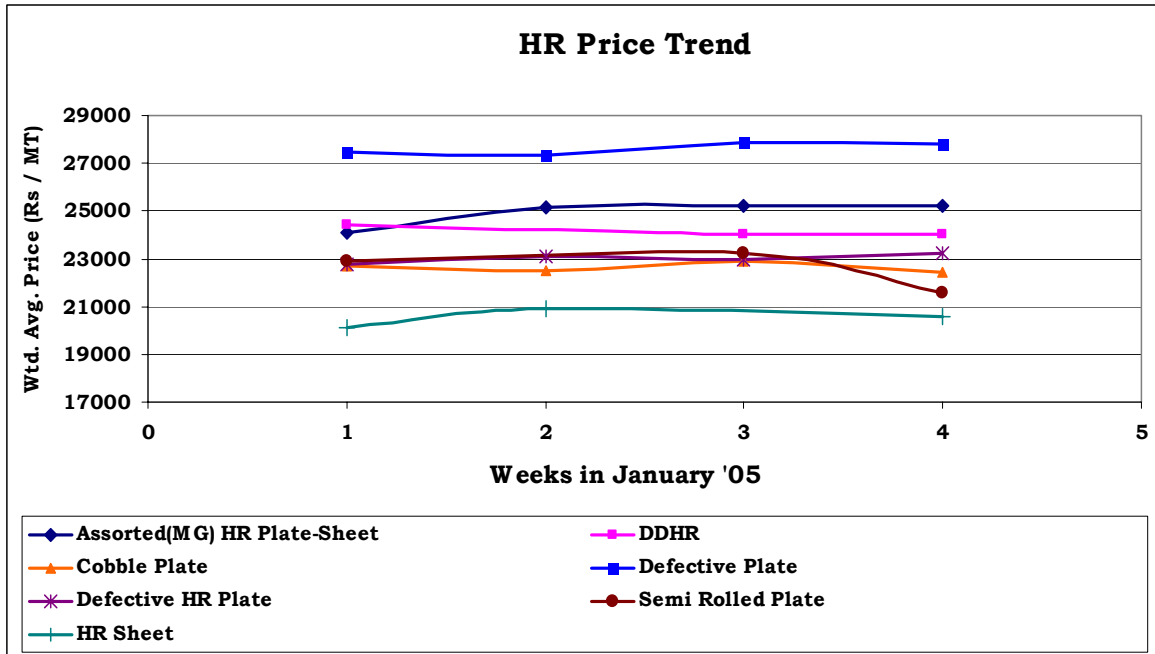
Small and Mid-Sized Steel Firms Draw Up Expansion Plans: It is not just the big steel companies that are bullish about 2005. Small and mid-sized firms are also drawing up plans to expand capacity and ramp up revenues in the New Year — either through Brownfield expansion or by raising productivity at the plant level. **For instance**, Pune's mid-sized steel company Indian Seamless Metal Tubes (**ISMT**) is hoping to increase production to 225 metric tones from the existing 180 metric tones.

Timken to double sourcing from India: The \$5.5-billion bearings and steel major Timken expects to double its outsourcing from India to about \$50 million in 3-4 years. Timken plans to widen its focus in India to the two-wheeler industry, apart from offering more 'friction-free' solutions to customers in the commercial and heavy vehicles segments. It is also upping its headcount at the new \$8-million engineering facility in Bangalore. This in fact proves to be a good news for the Indian steel industry.

India is happy with China's new steel policy: With China going to introduce new steel policy from the beginning of the new fiscal, India is particularly happy at this new development as this will allow foreign investors to enter on of the biggest steel consuming countries of the world.

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 January 2005 for different HR and CR products.



Assorted (MG) HR Plate-Sheet: The product showed a stable price trend throughout the month and settled around Rs.25,000/MT at the end of the month.

DDHR: The product showed a stable trend in the entire month.

Cobble Plate: The product more or less showed stability with a bit of fluctuation in price.

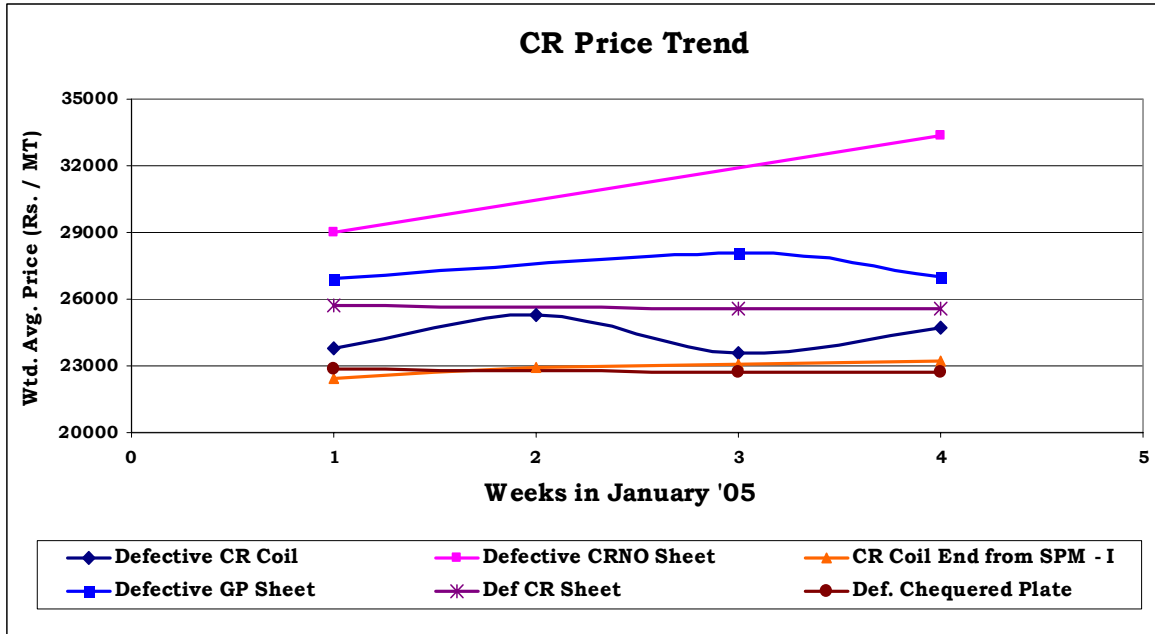
Defective Plate: The price of this product too showed a stable trend in the entire month with a little bit of rise in the third week.

Defective HR Plate: The price of this product showed a steady trend in price in the entire month.

Semi Rolled Plate: The product initially showed rising trend but finally steadied down to around Rs.21,500/MT in the fourth week.

HR Sheet: The price of this product showed an increasing trend and finally decreased a little to end at around Rs.20,800/MT.

Outlook: The market was steady for most of the products and showed a rising trend in price as compared to last month due to strong demand in the market. It is expected that more or less same trend will be maintained in the coming month.



Defective CR Coil: The price of this product showed a fluctuating trend and ended at around Rs.24,700/MT at the end.

Defective CRNO Sheet: The price of this product showed a massive rise and ended at around Rs.33,350/MT at the end of the month.

CR Coil End from SPM-I: The product more or less showed a steady trend and ended at around Rs.23,300/MT at the end of the month.

Defective GP Sheet: The product initially showed an increasing trend and then lowered down to around RS.27,000/MT in the fourth week.

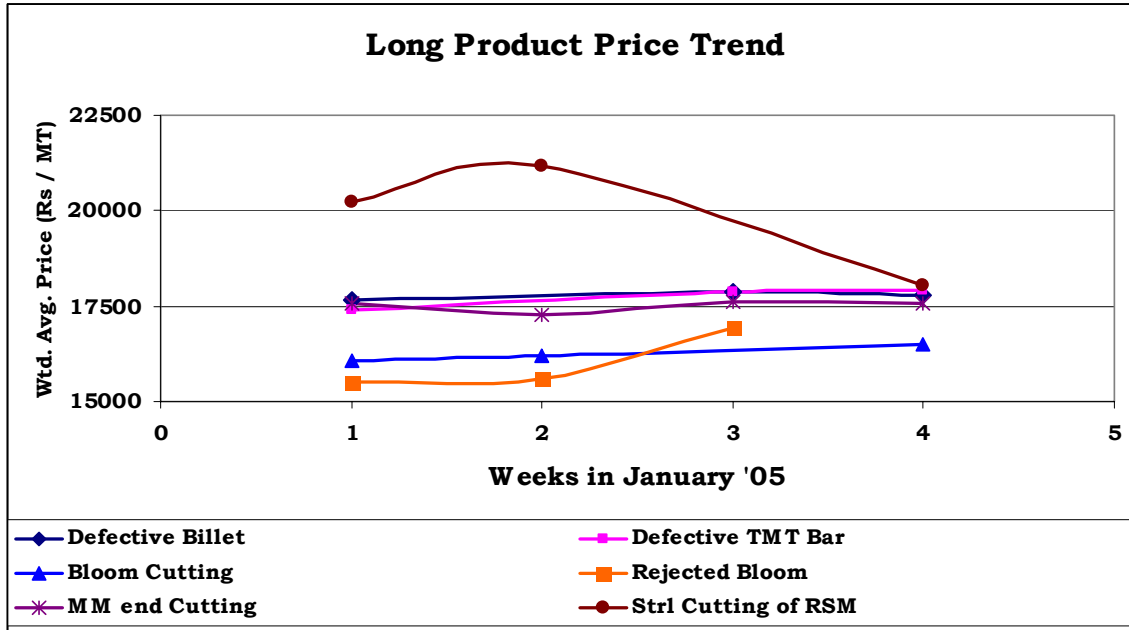
Def CR Sheet: The product showed a steady trend throughout the month.

Def.Chequered Plate: The product showed a stable trend in price and ended at around Rs.22,700/MT.

Outlook:The market showed a mix of fluctuations and rising price in the entire month. CRNO showed a massive rise due to strong demand situation in the market. It is expected that more or less same market sentiment will be maintained in the next 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 January 2005 for different long products.



Defective Billet: The price of this product more or less showed a steady trend in the entire month.

Defective TMT Bar: The price of this product showed arising trend and ended with an incremental difference of Rs.500/MT.

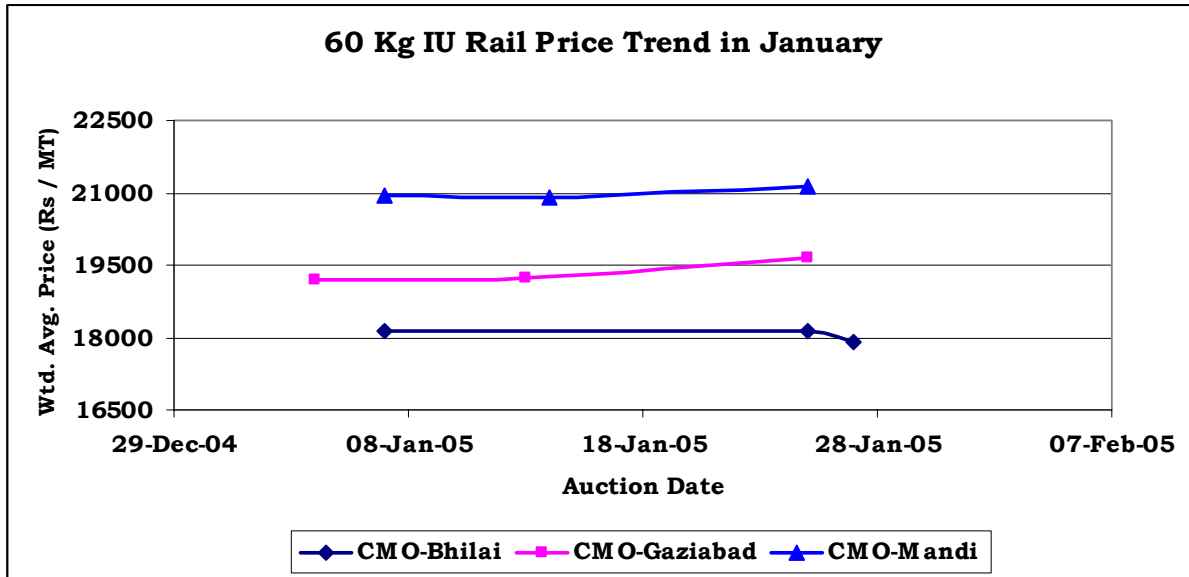
Bloom Cutting: The product showed a rising trend in the entire month and stabilized at around Rs.16,500/MT.

Rejected Bloom: The price of this product showed a rising trend and ended with a difference of around Rs.1400/MT. This had happened as there were surge in demand at the end of the month which driven the price up.

MM End Cutting: The product showed a stable trend throughout the month, just similar to last month's trend.

Strl Cutting Of RSM: The product initially showed a rising trend but ultimately showed a massive decline and settled down to Rs.18,000/MT at the end of the month.

Outlook: The market showed more or less a steady trend except for **rejected bloom** that showed a massive rise and **structural cutting of RSM** that showed a massive decline. The main reasons for such type of market could be a temporary market sentiment and medium demand for long products in the market. It is expected that more or less a steady or rising phenomenon will be seen in the coming month.



All the prices showed a more or less steady trend and will continue to show the same.

International Scenario

A cooling China prompts relief: Economists expect demand for steel imports to remain buoyant: The economy will probably expand 8 percent in 2005 after estimated growth of 9.3 percent last year. Also, strong foreign investment, burgeoning domestic demand and increasing exports will prevent a too-sharp descent. This is in fact a good news for Japanese steel makers, American car manufacturers and Chilean copper producers - all of whom would suffer from a sharp drop in Chinese demand. It is expected that **Chinese steel demand** will probably rise 8 percent in 2005, led by auto production and preparations for the 2008 Beijing Olympics.

Worldwide steel price up by 150% in past three years: Production of crude steel will exceed 1 billion tons for the first time. Steel consumption is at record levels. U.S. Auto makers expect a 26% increase in steel prices in 2005 due to doubling of demand in China's booming economy. Also, **reconstruction in Iraq** and recovery efforts in South Asia **post tsunami** will likely add to pressure on steel prices.

Fast growing market scenario in America: Demand for steel is estimated to grow at 4-5 per cent in the New Year, from a historical average of 2-2.5 per cent. **HRC prices** in the American market are estimated at \$ 710-\$715 a tonne and are likely to move up in the New Year owing to better demand conditions.

US long product supply has increased lately as high prices have attracted imports. However, as demand is holding up, pricing has been relatively firm. Canadian building activity is fairly dull. Nevertheless, the mills have fought hard to maintain transaction values.

Africa's biggest steel maker Ispat Iscor to cut steel prices of flat products by around 8% on **plate** and 4% on **colour-coated** steel. The company has received a government approval to launch a project to more than double coke production to 8,50,000 tonnes a year.

The construction steel market in China continues to show an overall downward price trend as demand fails to recover. Government measures have impacted on the residential building sector. Infrastructure projects continue to flourish. The immediate outlook for sales is poor because of the onset of cold weather in many parts of the country.

Steel industry scenario for 2005 in Australia: It is expected that hot rolled coil prices will strengthen this year and the **HRC producers** will pass on the dramatic rise in coaking coal and iron prices. **BlueScope Steel's** (one of the major steel producer) earnings growth and share price performance will be driven by China's deficit of flat product steel and higher HRC prices. It also noted that BlueScope was the most likely of Australia's steel companies to face

Japan's steel crisis forces Nissan to cut car production: Nippon Steel and JFE have failed to keep up with Japan's export boom and the global shortage of materials. The **steel drought** coincides with record high prices for three other critical commodities: **oil, coal and iron ore**. The sudden supply crisis has forced Nissan to close three of its main factories in Japan for five days. **China's surging economy**, preparations for the Beijing Olympics and Shanghai Expo have had a **profound effect on demand for construction-grade steel**. China has also driven a trade-related boom in **shipbuilding**, for which Japanese steelmakers are key suppliers. But it is China's rapid growth that has particularly increased the scale of the materials supply problem. **Coal and iron ore prices** have soared in response to China's voracious appetite.

Japanese commercial building activity is strong but residential construction has failed to pick up. Depression in the **South Korean** construction industry has led to a flat market for long products. Due to a slowdown in building in Taiwan, together with a weakening in regional scrap values, most construction steel products have registered price declines since last month.

Domestic HR Coil Market Rebounding In USA after the arrival of New Year: Steel market conditions are expected to improve in the first quarter and AK Steel Corp. has already announced a \$US50 per ton hike. Canadian market activity continues to be subdued. However, inventory levels appear to be more tailored to present day demand than those in the US.

The South Korean economy is slow. Although overseas sales of manufactured goods are high, domestic business has contracted. Despite this, local steel consumption of **flat products** is forecast to keep firm throughout 2005.

Fall in EU domestic demand and prices because of seasonal factors. Export markets offer limited opportunities. Several mills are still contemplating their length of closure over the holiday period. The recent positive price tendency in Poland has reversed. Growth in the construction sector lagged behind other steel consuming segments throughout the year and, throughout the winter period, no improvement is likely until next spring. There is also seasonal negative pressure on Czech/Slovak values.

Overall Scenario

Bright Outlook for Steel Industry in 2005-2006 Forecast at OECD/IISI Conference: The current buoyant market conditions in steel are expected to continue throughout 2005 and 2006, according to industry and government officials. The outlook for 2005 remains bright as world steel demand should continue to **grow by around 5%**, driven by the continuing strong growth in demand in China where steel consumption is expected to increase by another 10.7%. It is also forecasted that **crude steel production** will grow in 2005 and 2006 when China, with an expected 340 million tonnes, will represent 30% of world production. Global **crude steelmaking capacity** is expected to increase from 1184 million tonnes per year in 2004 to over 1305 million tonnes per year in 2006.

Mixed year for Steel: Some of the Steel industry observers debated over whether 2005 will be a good or a bad year for Steel. One of the published article quotes **Wilbur Ross**, the founder of International Steel Group in Richfield, who's preparing to sell the company to Mittal Steel. "For steel investors, Mr. Ross's decision to sell to Mittal Steel of London for about \$4.5 billion — half in stock, half in cash — could be especially telling. When the smart money is selling, do you want to be buying?" Mr. Ross told the newspaper, "We were at a cost disadvantage competing with them, and we could never reproduce what they had ... **No one knows what will really happen to steel, because no one really knows what will happen to the global economy.**"

Stable market in steel in most parts of the world: The international market is maintaining a strong growth as compared to 2004. In Asia, the steel demand is strong. Notwithstanding policies implemented by the Chinese government to bring supply and demand into equilibrium, global steel demand and supply remains adequately consistent to support current steel prices.

(DIPANKAR CHAKRABARTI)
GM (OPERATIONS)

STEEL INDUSTRY MARKET SCENARIO

SCRAP

Domestic Scenario

Blast in Bhushan Steel Factory kills one person: Once again terror gripped the Bhushan steel factory in Ghaziabad as blast occurred once again. Sources revealed the cause due to gas leakage but investigations are still going on.

Customs duty on defectives of steel and iron slashed: The Finance Ministry has slashed the customs duty on imported seconds and defectives of iron and steel from 40 per cent to 20 per cent. This seems to be good news in the New Year.

Companies to pay global rates for ore: The steel ministry has made it clear for **NMDC (the mining major)** to auction iron-ore to domestic steel makers at international spot prices and not at long-term fixed prices. However, the long-term pricing would be followed for **Japanese steel mills** as there long-term contracts come up for renewal in 2006. The news has already scared the domestic steel companies because this would mean an increase in cost and the burden might be passed on to the customers with NMDC being a monopoly over supplies in the domestic market.

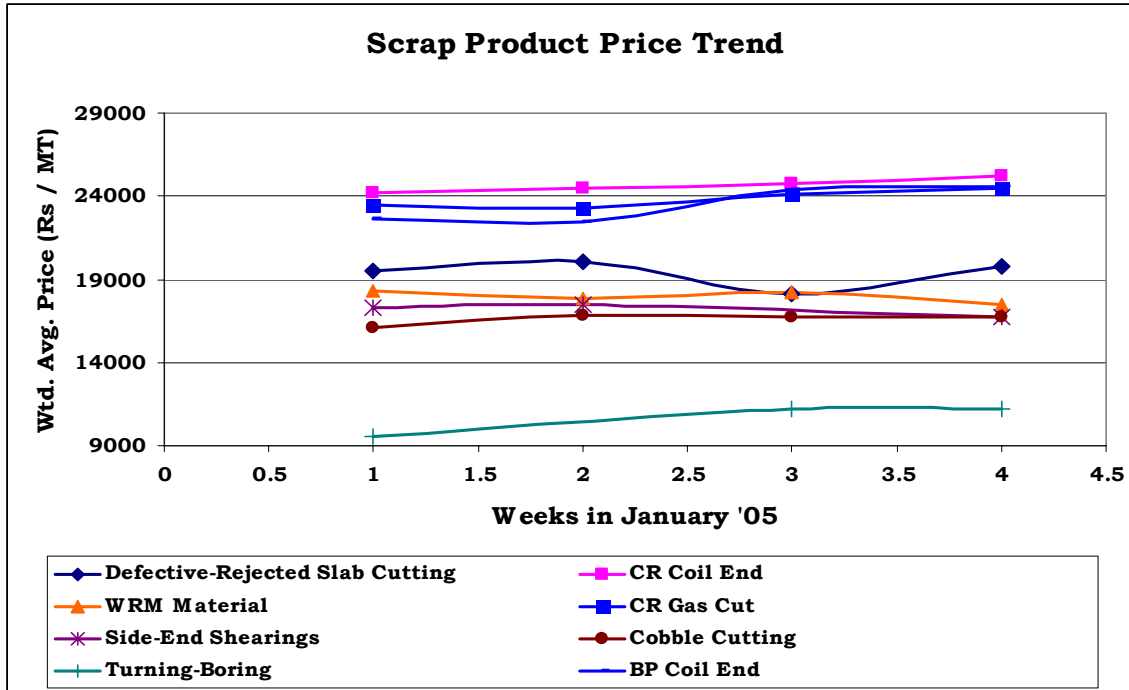
Monnet Ispat posted a net profit of Rs.31.54 crore for the quarter ended December 2004, an increase of 276 % compared to corresponding quarter of previous fiscal. The company's coalmine at Rajgarh has started commercial operations and significant steps have been taken in acquisition of iron ore mines for captive mining.

Coking coal costs set to double for steel firms: Indian steel manufacturers like TISCO, SAIL, Essar Steel, and Ispat will see their expenditure on procurement of coking coal more than double in 2005. This could very well lead to rise in steel prices after renewal of contracts. The recent hike in railway freight on coking coal and iron has already added to the costs. Further, consumption of coking coal is also likely to rise with **steel majors lining up a number of expansion plans and demand for steel rising.**

Posco seeks 1 bn tonne ore reserve in Orissa: South Korean-based steel major Posco has sought a one billion tonne iron ore reserve in Orissa for its proposed Rs. 40,000 crore steel plant in the state. If finalized, the Orissa project would be Posco's first venture out of South Korea. According to sources, Posco is also weighing options in **Brazil and China** and both the countries are making efforts to rope in the steel behemoth for investment. So, India needs to make all efforts to reap this big opportunity and further let the steel sector shine for India.

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 January 2005 for different scrap products.



Defective Rejected Slab Cutting: The product showed fluctuations in price trend and finally settled down at around Rs.19,800/MT almost same as the start of the month price.

CR Coil End: The price of this product showed an increasing trend throughout the month.

WRM Material: The price of this product showed a bit of fluctuation in price throughout the month and ended at around Rs.17,500/MT.

CR Gas Cut: The price of this product initially showed a bit of fall and then a rising trend throughout.

Side-End Shearings: The product showed a decreasing trend smoothly, ending with a difference of around Rs.400/MT.

Cobble Cutting: The product more or less showed a steady trend throughout the month.

Turning-Boring: The product showed a rising trend throughout and finally stabilized at around Rs.11,250/MT in the fourth week. This may be due to the demand as raw material in medium sized furnace.

BP Coil End: The product showed rising trend throughout and ended at around Rs.24,550/MT.

Outlook: The scrap items showed fluctuations in price trend and most of them ended at a higher note due to strong demand of steel and rising price of steel in the market. It is forecasted that a stable price trend of scrap items will be maintained in the coming month.

International Scenario:

Scrap prices come down from highs: Scrap metal prices are falling from record highs after months of steep increases that left steel mills and manufacturers clamoring for relief. Scrap metal is a key ingredient in the manufacturing of new steel. The price of No.1 **heavy-melt scrap**, a common type of steel, has dropped 21% from \$249 a ton last November to \$196.50. The price is nearly down by 35% from last March.

Japan may pay more for iron ore: Australian natural resources giant **Rio Tinto** had asked Japan's leading steel company **Nippon Steel** to pay 50% more for iron ore for the fiscal year beginning April 2005. According to sources, the high potential price rises for iron ore reflected continued strong Chinese demand. Leading Japanese steelmakers have so far been able to successfully negotiate higher steel prices with their largest customers, more than offsetting the rising cost of raw materials such as coke and iron ore.

Scrap prices to come under pressure in the Australian Steel Market: The weakening residential and non-residential construction markets will see the domestic steel market soften. However; strong engineering construction demand in 2005 will offset some of the weakness in other markets. The end of the **scrap price uptrend** is likely to result in a more risky market for scrap companies, who will be more dependent on volatility trading strategies to maintain earnings.

Chinese Metallurgical Coke Export Market Remaining High: Even after the turn of the New Year, export market of Chinese metallurgical coke has been maintaining high level. Offer prices to Japan for prompt shipments have now risen to around US\$260.

Overall Scenario:

With global demand for scrap rising and the domestic steel market in an expansion mode, it is expected that scrap items will find a strong trend in the market. The big steel companies are investing in India and it is to be seen that how the scrap market is favored in this event packed New Year where steel has really shone its way and the overall performance has been supported by higher demand and firm steel prices in the international market.

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STEEL INDUSTRY MARKET SCENARIO

STAINLESS STEEL

Domestic Scenario:

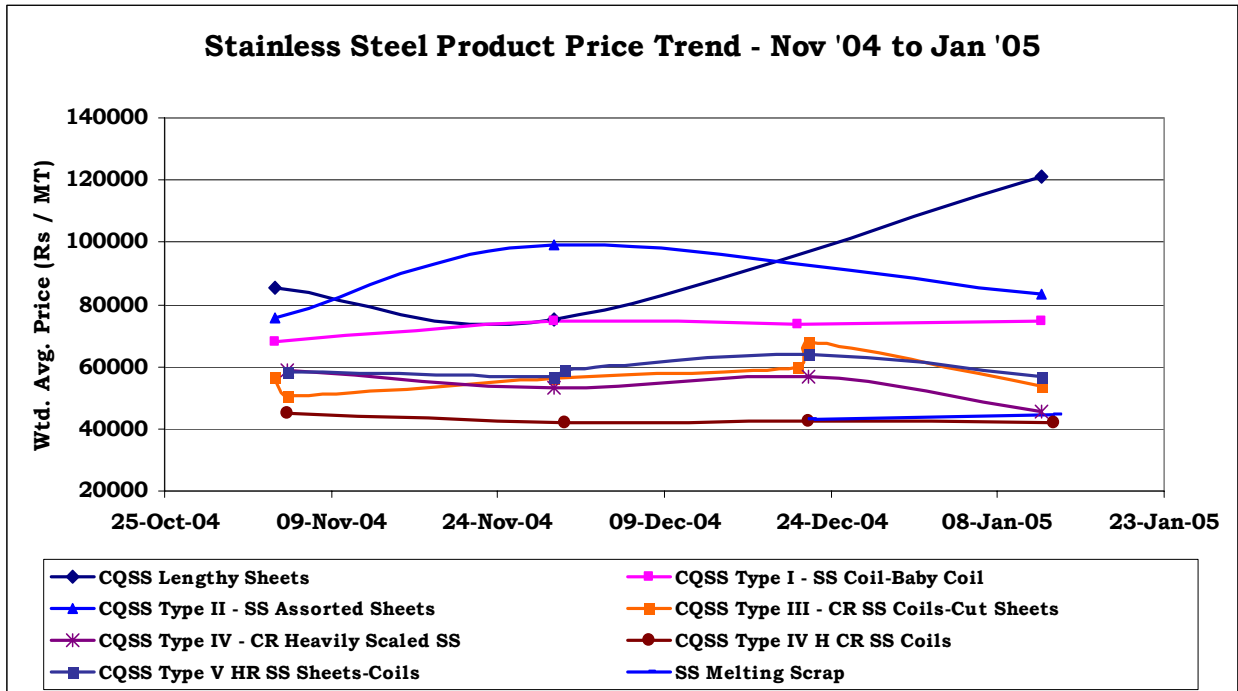
Jindal Stainless plans buyouts in Asia: After acquiring a cold-rolling mill in Indonesia last year for \$30 million, the Ratan Jindal-controlled Jindal Stainless Ltd. is scouting for more cold-rolling capacity in Taiwan, Vietnam and Thailand. Jindal Stainless sends 70-80 per cent of its exports to East Asian countries including China.

Jindal Stainless Ltd may buy coal mine in Indonesia: India's stainless steel major is in negotiation for acquiring a coal mine in Indonesia. The proposed acquisition is to source coal and coke for the company's upcoming power, Ferro alloy and steel ventures in Orissa. The CR steel company is now in the process of doubling its capacity and is in an expansion mood. The company has also drawn up plans to set up **service centres** in several Indian cities and foreign markets such as Italy, Turkey, Iran and Australia. The service centres will act as the interface with customers in these markets and help the company to get into more value added products for various user groups.

Jindal group lines up Rs 586 crore to increase Sisco capacity: The OP Jindal group, which took over the ailing Southern Iron and Steel Company Ltd (**Sisco**) plans to make it a million-tonne capacity company by the end of 2006 by pumping in Rs 580 crore in two phases.

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 months November to January for different stainless steel items.



CQSS Lengthy Sheets: The price of this product showed an increasing trend throughout.

CQSS Type I-SS Coil-Baby Coil: The price of this product showed a stable trend in price throughout the month.

CQSS Type II-SS Assorted Sheets: The price of this product showed fluctuations in the entire month and settled down at around Rs.83, 500/MT.

CQSS Type III-CR SS Coils-Cut Sheets: The price of this product initially showed an increasing trend and finally lowered down.

CQSS Type IV-CR Heavily Scaled SS: The price of this product more or less showed a decreasing trend throughout.

CQSS Type IV H CR SS Coils: The product more or less showed a steady trend throughout.

CQSS Type V HR SS Sheets-Coils: The price of this product showed fluctuations and finally ended in a decreasing trend.

SS Melting Scrap: The price of this product more or less stabled around Rs.44,000/MT.

Outlook: The stainless steel items showed a mixed phenomenon of both rising and decreasing pattern and the mixed effect could be due to good demand of stainless steel in the market. Also, post-tsunami has given rise to a good demand of stainless steel in the market.

International Scenario:

Shining factor in China's stainless steel market: China's largest steelmaker, Baosteel Group, is considering a \$10 billion expansion plan to build a 10-million-ton-a-year plant. Baosteel has started construction on a stainless-steel plant in Guangdong that would be the biggest stainless-steel processing and distribution center in China when finished.

Chinese company striving to lead world stainless steel market: Taiyuan Steel (Group) Corporation (**China's largest stainless steel producer**) in north China's Shanxi Province is striving to become one of the world's largest stainless steel producers in 2006. The Company is investing 1.98 billion US dollars in expanding stainless steel production capacity, which will reach **three million tonnes** in 2006.

Soaring steel price lifts ThyssenKrupp: ThyssenKrupp, the Dusseldorf-based company, the **world's biggest manufacturer of stainless steel**, had good profit figures. Sales rose by 20% and the company credited its improved performance to the strength of the steel market, which has been underpinned by strong Chinese demand.

Price of Stainless Steel Keeps Feeling Tension for Higher Nickel Price: Due to higher LME nickel price, the Yen price of nickel-based stainless steel scrap to be supplied from domestic sources of Japan has kept to feel a tension. Major stainless steel companies of Japan suddenly notified on the end December of last year the distributors concerned to rise their price of nickel-based stainless steel scrap by Yen 10,000 per ton for cargoes to be supplied from domestic sources in January of this year.

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. Also there is a shining factor in China's economy with more and more stainless steel companies coming up and China's largest stainless steel producer in an expansion mode.

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