

## **STEEL INDUSTRY MARKET SCENERIO**

### **FLAT and LONG PRODUCT**

#### **Domestic Scenario:**

**Effect of possible hike in HR product prices:** Automobile companies are considering an increase in prices of vehicles in the month of January due to probable rise in HR product prices by around Rs.500-1000/tonne.

**Rise in topline for Bhushan Steel & Strips Ltd.:** The country's third largest cold rolled steels manufacturer registered a rise in topline by Rs.450 cr per year following the commissioning of a pre-painted galvanized steel line at Khapoli in Maharashtra. The commissioning of the galvanized steel plan which is used as a raw material in the production of high value white goods and building materials particularly roofings will help the company better realize more steel out of every tonne produced.

**Rail freight hike to hit steel sector:** Coal is a basic raw material in the making of steel and the steep hike in the freight of coal is going to have a major affect on steel industry and a cascading effect on other industries as well.

**Australia BlueScope to invest \$77 m in India:** The Company is going to build three new manufacturing plants in India. It's strong focus will be on developing new markets and new applications for coated steels in the Indian construction market. Also, it is expanding sales of its higher-value steel products in Asia, and is building metal coating and painting lines in China, Vietnam and Thailand.

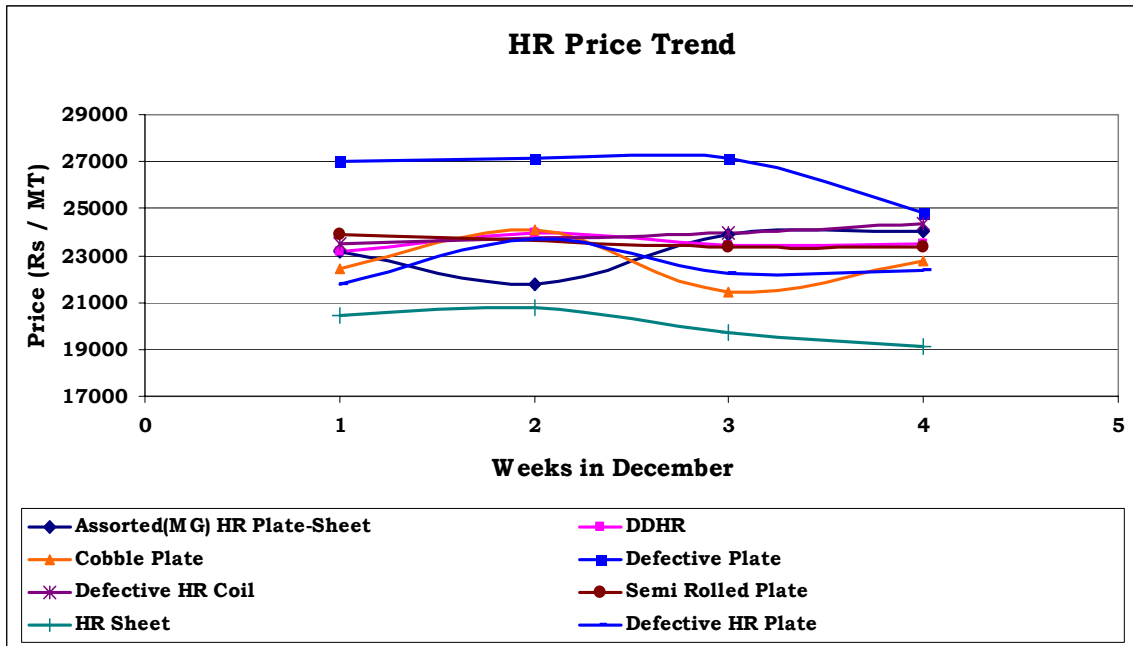
**Steep hike in prices of steel:** The construction sector in Kerala is in doldrums due to the steep hike in prices of steel. Moreover, the shortage of river sand has aggravated the problem.

**Poland seeks better economic, defence ties with India:** According to sources there could be joint ventures between the two countries in the mining sector and steel making to increase the trade from around US dollar 40 million to over 300 million. The government was keen for investments into the coal sector.

**Tata Steel Setting up 3 Mt Plant:** With an increase in demand for steel, India's largest private steel maker is planning to set up a 3 million tonne integrated steel plant. The company is in the process of identifying a suitable site for the plant. The plant is also looking at acquiring capacities abroad.

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

Following graphs show the price trend observed in the auction services of Metal Junction for the month of December 2004 for different HR and CR products.



**Assorted (MG) HR Plate-Sheet:** Price had an initial dip but recovered to end the rally at a price similar to the start of month price.

**DDHR:** The product more or less showed a steady price trend and stabled around Rs.23,500/MT at the end of the month. The price ended at a higher note as compared to the earlier month.

**Cobble Plate:** The product showed a sinusoidal fluctuation depending on the market availability of the product.

**Defective Plate:** The product showed a very stable price trend for the first three weeks at around Rs.27,000/MT but dropped down to Rs. 25,000/MT in the last week as there was imbalance in demand and supply.

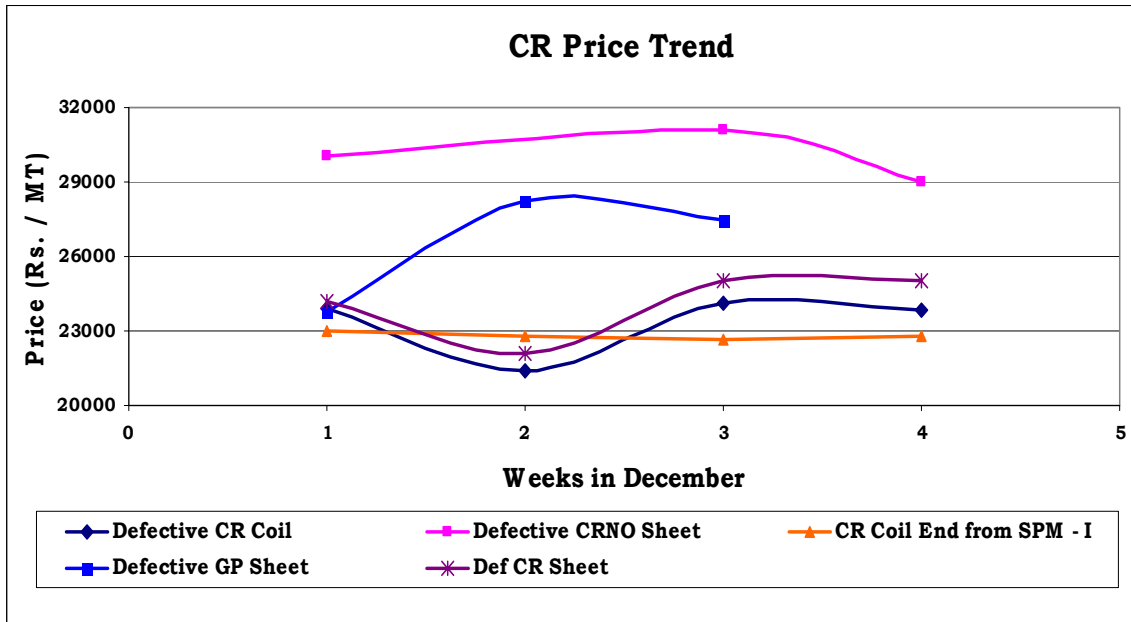
**Defective HR Coil:** The product more or less maintained a stable price trend at around Rs.24.000/MT for the entire month.

**Semi Rolled Plate:** The product more or less showed a steady price trend throughout the month.

**HR Sheet:** The product started with a higher price and finally ended at a lower note to around Rs.19,000/MT which is much similar to the earlier month's ending price.

**Defective HR Plate:** Price had an initial increase but ultimately ended the rally at a price similar to the start of month price.

**Outlook:** The market was more or less steady but for HR sheet and defective plate. Assorted Mixed Gauge HR plate had end the rally in a high note. Others ended at around the start of the month price. Market was expectant about the possible increase of price and anticipating reduction in customs duty on iron scrap steel from 40% to 20% in the next month. The trend may show almost same trend in the next month.



**Defective CR Coil:** Price had an initial dip but recovered to end the rally at a price similar to the start of month price.

**CR Cut Sheet:** Price had an initial dip but recovered to end the rally at a price similar to the start of month price. It has the same trend like Defective CR coil.

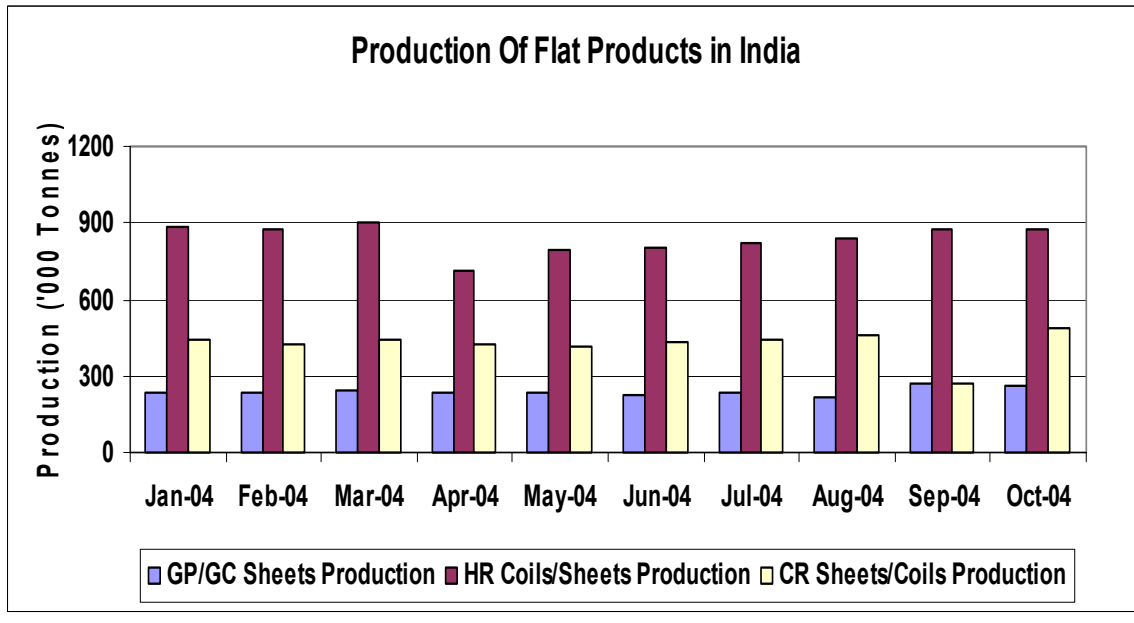
**Defective CRNO Sheet:** The price of this product showed an increasing trend till third week and ended the rally in lower not at Rs.29,000/MT in the fourth week which is very much similar to the earlier month.

**CR Coil End from SPM-I:** The product more or less showed a steady trend and stabled at around Rs.23,000/MT at the end of the month which is at a much higher note as compared to the earlier month's closing price.

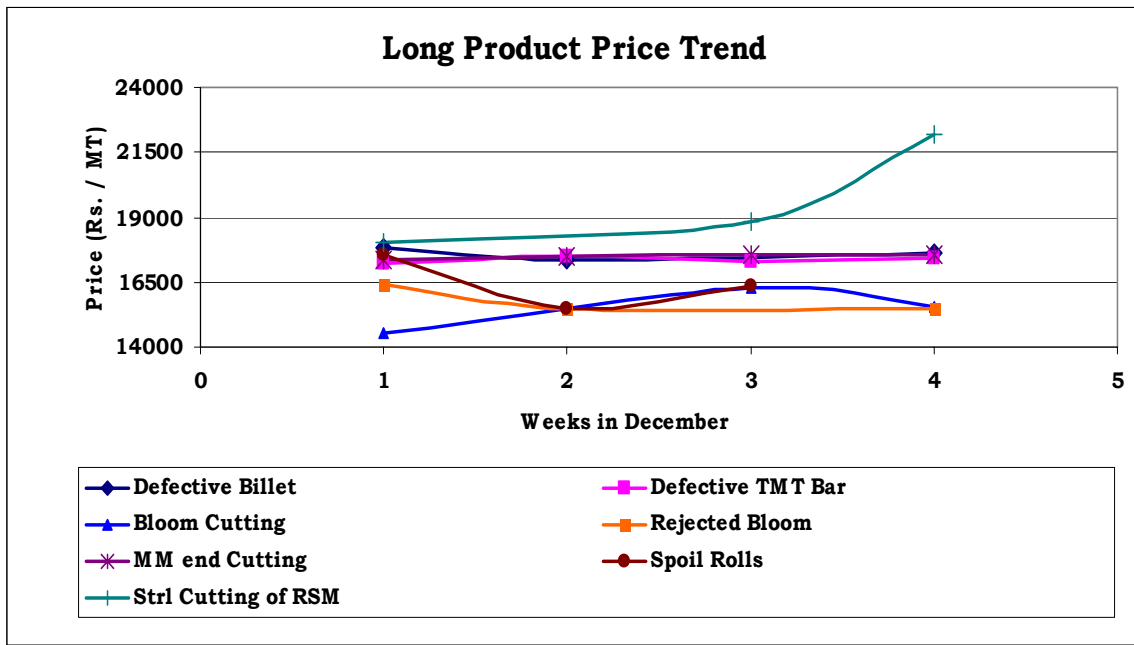
**Defective GP Sheet:** The product had a peak rise in the second week and finally settled down to approximately Rs.28,000/MT in the third week due to demand in market.

**Outlook:** The price trend is overall steady and due to seasonal high demand of GP it has shown a higher trend. The trend will be followed till the demand gets saturated.

**The graph below** indicates the production of flat products in India from the month of January to the month of October. While GP/GC Sheets has shown a fluctuation in production trend, the other two products have more or less shown a steady trend.



Following graph shows the price trend observed in the auction services of Metal Junction for the month of December 2004 for different long products.



**Defective Billet:** The product more or less showed a steady price trend and stabled at little bit lower than start of the month price.

**Defective TMT Bar:** The price of this product showed a stable price trend throughout the month with a slightly lower price trend.

**Bloom Cutting:** The price of this product showed an increasing trend for the first three weeks and finally lowered down to around Rs.15,000/MT.

**Rejected Bloom:** The price of this product more or less showed a steady price trend throughout the month except for the initial hitches.

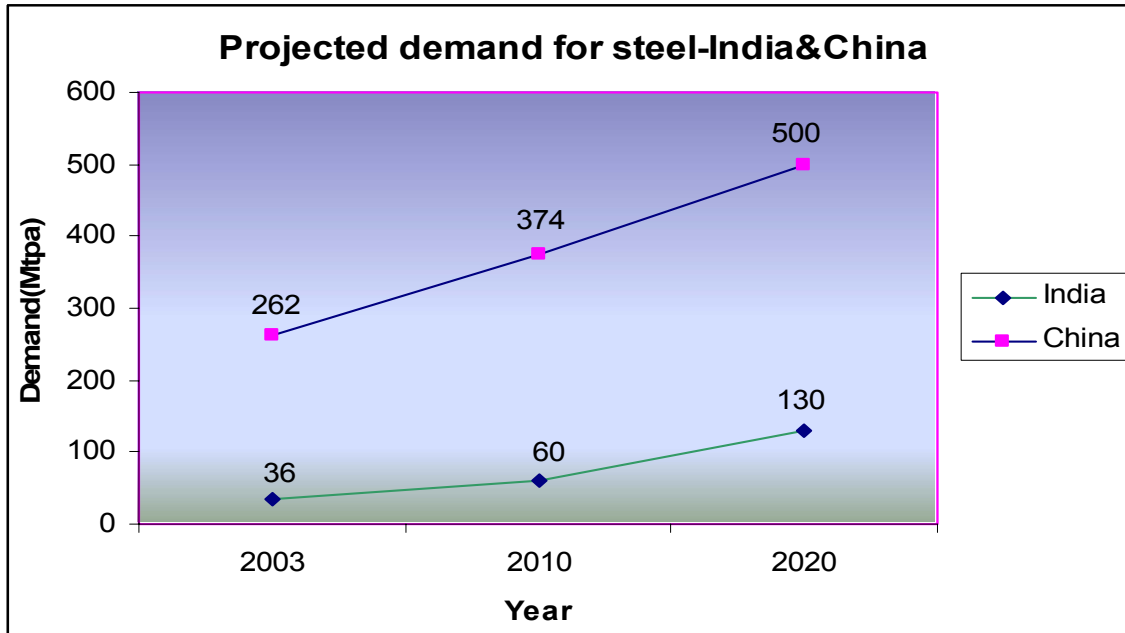
**MM End Cutting:** This product too showed a stable price trend throughout the month.

**Spoil Rolls:** The product showed fluctuations in price trend and ended at around Rs.16,500/MT in the third week.

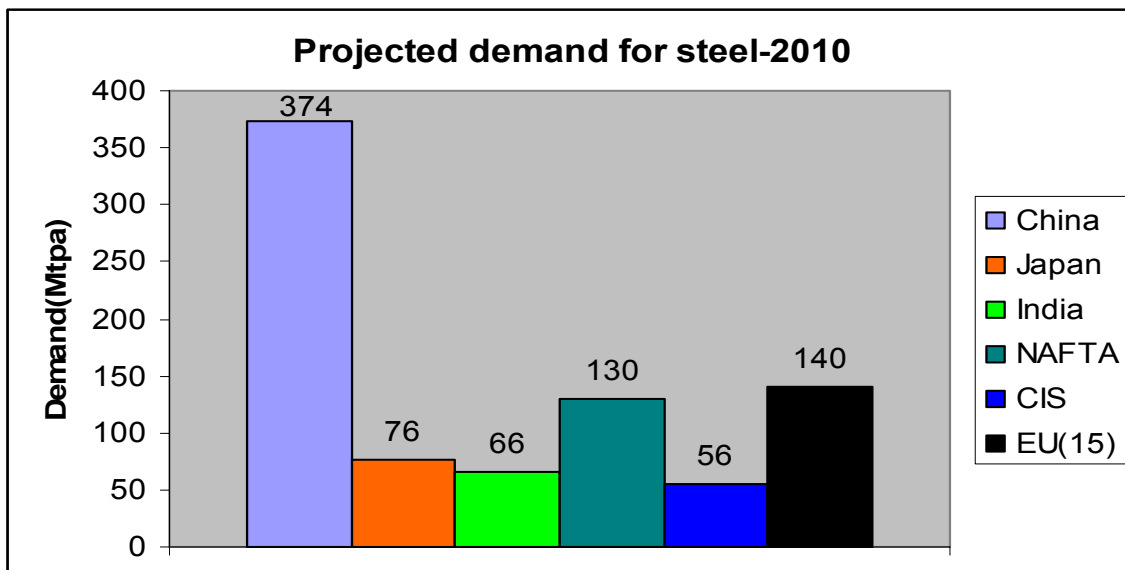
**Str1 Cutting Of RSM:** This product initially started at a lower note and finally ended at a very high note of around Rs.22,000/MT.

**Outlook:** The market was more or less stable throughout the month except for structural cutting and spoil rolls that showed fluctuations in price due to non-availability of material locally and also due to competition. It is more or less expected to maintain same or may be a bit higher price trend in the New Year with market sentiment remaining strong enough post-tsunami.

The **graph below** indicates **projected demand** for steel in India and China. China shows a pattern with higher values as compared to India as expected.



The **graph below** indicates the projected demand for steel by the year 2010. India is likely to be among the top 5 consumers of steel by 2010. It is forecasted that India will be a key global steel market. It is likely that in next 10 years steel growth to be likely at 9% in India. It is also estimated that per capita consumption to increase to about 55-60 kg by 2010 and over 100 kg by 2020.



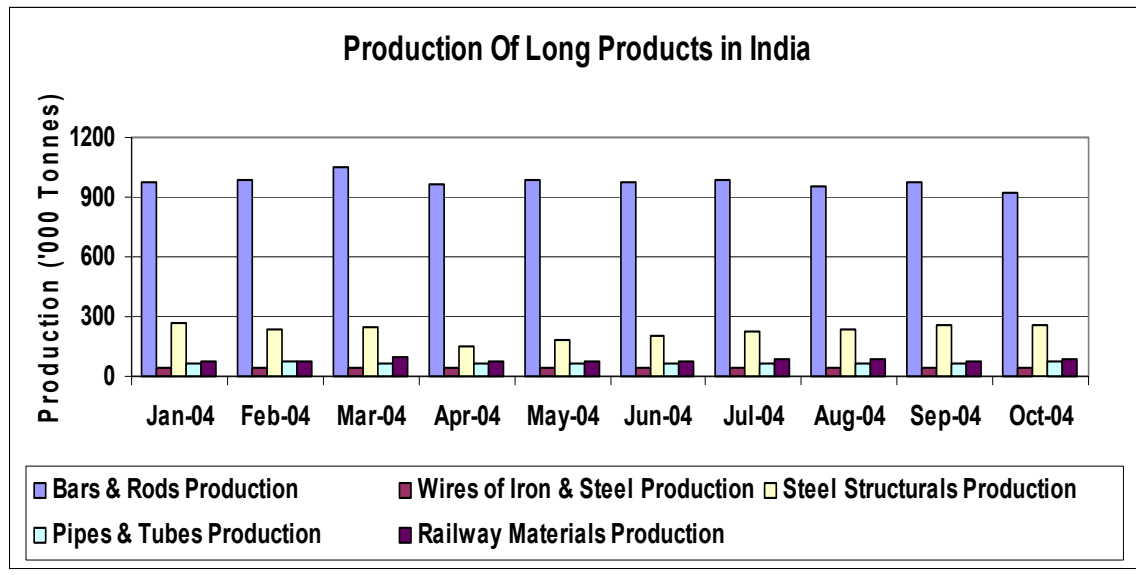
The table below indicates change in demand pattern with fluctuations in GDP.

**Projected demand for steel in India (2010) under different GDP growth scenarios:**

GDP Growth (%)	Steel Growth (%)	Demand(mtpa)
7.0	9.1	66
6.0	7.8	61
5.5	7.2	58
5.0	6.5	56

From all the above **tables and graphs**, it is concluded that India will be amongst the fastest growing economies in the next 7-10 years. India has a substantial base with the future looking brighter. India has the potential to be amongst the top 5 steel markets in the world.

**The graph below** indicates the production of long products in India from the month of January to the month of October. The production trend has been almost stable with a bit of fluctuation for bars & rods, steel structurals. Other products have almost shown a steady trend.



**International Scenario:**

**NSC Settles HR Coil Deal with Hyundai Hysco:** Nippon Steel Corp (NSC) has settled its HR coil export negotiations with South Korea's Hyundai Hysco at slightly over US\$550/ton FOB for January shipment in 2005.

**U.S.:** Real consumption remains healthy in flat product categories.

**China:** Rise in CR and HR sheet prices has been observed. **Favourable factors** prevailing in the market are:

High price in the world market attracts many Chinese steel plants to export more goods.

Most dealers and producers are still optimistic about the world market based on the price hikes at main steel plants in EU and Asia

The production cost will be still very high due to the high freight and raw materials prices. That would be a strong support to the market price.

Finally, the supply on some markets would be tight continually due to the further tight transportation capacity at the end of the year. Prices on these markets would go up strongly boosted by the tight supply.

**Unfavourable factors** are weak demand due to surge in prices.

Imports in China so far this year are 6.2m tonnes HR, 6m tonnes of cold rolled steels, 3.7m tonnes galvanized sheet, and 425,000tonnes of colour-coated sheet.

**Japan:** The local market is quite strong and this is helping to offset a recent fall-off in export business particularly to South Korea and China. Imports continue to strengthen.

**E.U.:** Arcelor is considering raising prices in the first quarter 2005 by 3 to 7%, depending on product. As a result, EU price levels are nearing average world market values. This means that there could be an increase in imports in the near future.

**Positive scenario for Brazil:** According to country's steel producing association, the steel production will end 2004 5.7% higher than last year and is expected to rise another 2.1% in 2005. Also, exports soared to 28% in 2004. This trend is likely to continue because demand is expected to be high in 2005 from China, Japan, Latin America and the United States.

**Steel shortage to affect automobile sector:** Companies like Suzuki has cut the output due to steel shortage. The metal's supply problem has affected the entire Japanese car industry. Even Nissan whose major steel suppliers are Nippon Steel Corp and JFE Steel Corp has been forced to take supplies from Posco. However, while Suzuki and Nissan has been affected, Honda and its affiliated parts makers were set for next year. According to sources, it is seen that Honda has "**strong, long-term relationships**" with its main steel suppliers, Nippon Steel Corp and JFE Steel.

**Steel-guzzling China puts world's auto industry on edge:** Nissan's unprecedented decision to temporarily cut output due to a lack of steel shows how extreme the world's supply problems have become as China's huge economy consumes more and more basic materials. China last year accounted for more than 25 percent of the world's steel consumption and analysts believe the shortfall may not be solved until 2006 when the world's largest metallurgical coke factory begins operation in China.

**Tsunami Boosts Prospects of Thai Steel, Shipping Firms:** Although tidal waves have devastated six coastal provinces of Thailand, causing billions of baht in economic losses and thousands of casualties, Thai steel, shipping and construction companies stand to benefit from restoration work on beachfront properties, analysts said. The reconstruction and repair of damaged property will require a lot of building

materials, which will boost demand for these products. Given the enormous destruction in Sri Lanka, India and Indonesia, demand for steel as well as its price may tend to rise. Millennium Steel PCL (MS.TH) and Sahaviriya Steel Industries PCL (SSI.TH) are likely to see increased revenue as a result of the regional disaster.

### **Overall Scenario:**

**Japan's economy slowdown:** Steel shortages are compounding slowdown in Japanese economy. Nissan Motor has been forced to halt production temporarily. Suzuki Motor is also expected to cut production and shipbuilders are also being affected. Japan's two largest steelmakers, Nippon Steel and JFE, are running at full capacity but still struggling to meet demand. Japanese industrial production was down 0.7 per cent in July-September and dropped a revised 1.3 per cent month-on-month in October.

**Threat for steel sector as China demand slows:** The head of European steel group Arcelor Guy Dolle said that slowing Chinese demand for commodities would likely dent global sector growth next year, particularly in the second half. The prospect of China becoming a regular net exporter of steel has some analysts worried about a glut of steel hitting international markets from 2009, causing another of the industry's notorious depressions.

**With Poland seeking better economic, defense ties with India,** the trade scenario in steel seems to improve with major investment in coal sector. This is overall a healthy sign for steel sector in India.

**China lifts restrictions on steel import:** The product is now open to free trade. China Iron and Steel Association officials said its steel imports would continue to be greater than exports in the next few years. China's strong demand for steel amid a construction boom, together with the lifting of the import restrictions, is expected to boost its imports. This proves to be a good sign for the global scenario.

**With domestic scenario appearing bullish,** it is expected that India will be a key global steel market with steel likely to grow at 9% in next 10 years. Per capita consumption to increase to about 55-60 kg by 2010 and over 100 kg by 2020. Also, demand pattern will be on a rising trend by 2010.

**Positive feedback from steel ministry project co-ordination group: India's Capacity is going up:** Growth in the steel sector is essential for the economy to sustain an 8% GDP growth as said by the steel minister Mr. Ram Vilas Paswan. The steel ministry has started talking of doubling India's steel production target from **100 million tones to 200 million tones by 2020**. The projects have been announced more with an eye on country's ample iron reserves. The news seems to be a good shining factor in the coming New Year.

**Eventful and action-packed year for steel industry:** The scenario in 2004 was one of raw material shortage, steep raw material costs and high finished steel prices. The latter was a constant bone of contention between steel producers and users. As steel

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prices rose, users battled to contain the impact and eventually passed on costs to the market. With it, the government dug out threats of a price controller. **Tata Steel** dropped prices by a hefty margin of Rs 2,000 per tonne on hot-rolled products. Domestic steel companies — medium to small-sized players — also drew up expansion plans. **Rashtriya Ispat Nigam** announced a three phase-expansion plan extending up to 2018 that would enhance its steel output to 10 million tonnes.

(DIPANKAR CHAKRABARTI)  
GM (OPERATIONS)

## **STEEL INDUSTRY MARKET SCENERIO SCRAP**

### **Domestic Scenario**

**Ghaziabad seeks Centre's nod to destroy scrap:** The Ghaziabad District Administration has sought the Union Home Ministry's permission to destroy about 200 explosives found in the scrap at Bhushan Steel Factory.

**Neelachal Ispat, Konark Met hold out iron hand:** Neelachal Ispat Nigam (NINL) and Konark Met Coke (KMCL) - both jointly promoted by MMTC and the Orissa Government - are set to emerge as the largest producers and exporters of pig iron in the country by the end of March next year.

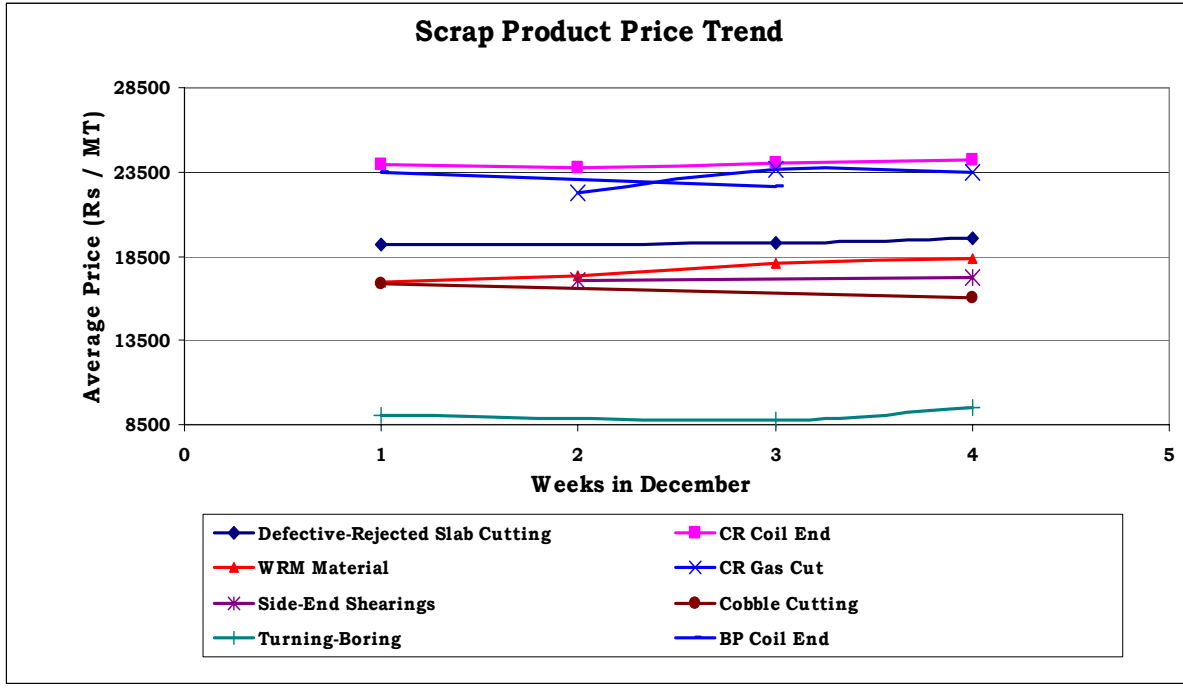
**Aluminium wagons to be procured by Railways: Govt.:** Due to escalating steel prices, the government is planning to float global tenders to procure 240 wagons and 60 coaches made of aluminium. Also, railways would reutilize the iron scrap worth Rs 10 billion that have accumulated with it and would not allow it to be controlled by the mafia.

**Natural Gas Price Hike Hits Sponge Iron Companies:** If there is a hike in gas price with respect to international prices, then this will surely render the sponge iron plants on the West coast unviable as these plants incur higher expenses in shipping raw materials like iron ore from the East coast and depend on gas for manufacture of sponge iron. Sponge iron makers have said that the increased cost will have to be passed on to the consumers as they cannot absorb the impact.

**Bright future for domestic sponge iron industry:** The projected rise in demand for steel has made the sponge iron industry's future bright and secure. The prospect of sponge iron industry is immense. Further; the growing demand of coal is to be met by increasing the production of CIL. This way, the sponge iron sector's scenario will be more secure and safe.

### **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 December 2004 for different scrap products.



**Defective Rejected Slab Cutting:** The product showed a steady price trend throughout the month.

**CR Coil End:** The product showed a steady increasing trend throughout the month however little it may be.

**WRM Material:** The price of this product showed an increasing trend and settled down to around Rs.18,500/MT.

**CR Gas Cut:** The price of this product showed a steady trend throughout the month.

**Side-End Shearings:** This has also shown a steady price trend.

**Cobble Cutting:** The price of this product also showed a steady trend.

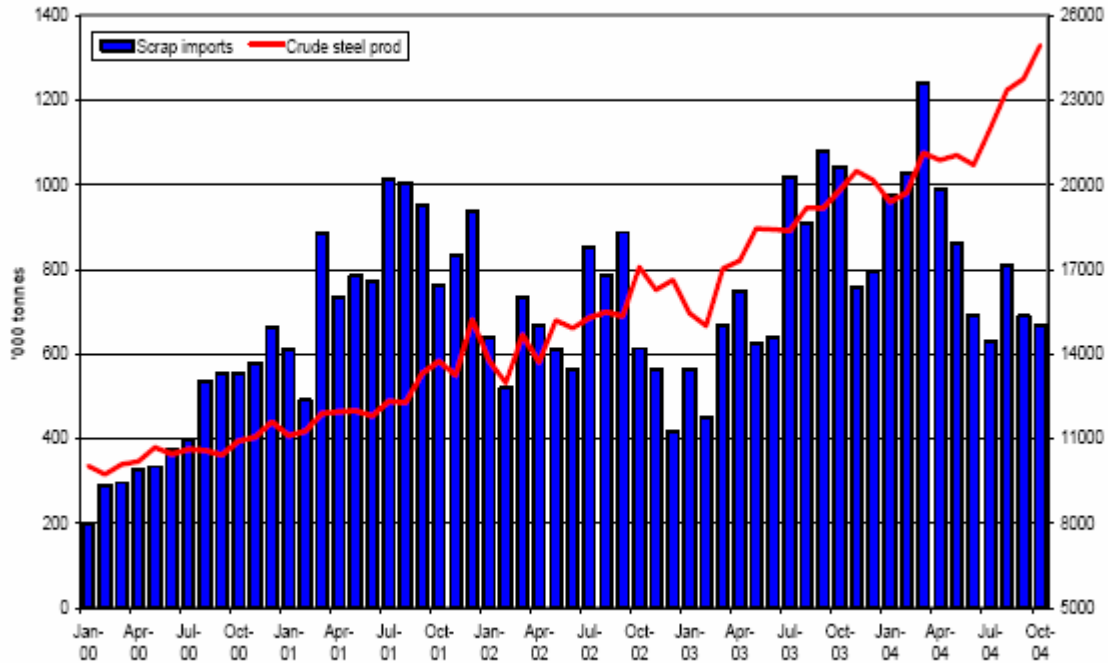
**Turning-Boring:** The price of this product more or less showed a steady trend in price and finally ended with a higher note of around Rs.9000/MT.

**BP Coil End:** The product showed a decreasing pattern in price.

**Outlook:** The scrap items showed stable price trend throughout the month and it is expected to maintain a strong market sentiment in the New Year.

## International Scenario:

### **China:**



Source: Customs statistics, CISA

The chart above shows that scrap imports have risen in recent years, but then declined in the latter half of 2004. This is probably due to the high international scrap prices witnessed this year, and would also suggest that some de-stocking has taken place.

Looking ahead, it is expected that a significant proportion of China's growing scrap demand will be met by imports, due to the lack of domestic reserves.

**Bangladesh:** Ship scrap steel price rose in Bangladesh as the falling dollar and rising local steel prices allowed breakers to boost prices.

## Overall Scenario:

**Costlier coal, iron ore set to send global steel prices soaring again:** Steel is becoming the new gold as a sharp spike in global prices is again round the corner. Coal suppliers in Australia and USA are tightening the noose around steel makers in Asia and Europe by demanding almost double. It is expected that iron ore might become 30% more expensive and this would surely allow steel makers world-wide into marking up their products by more than 10% to retain current margins.

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**Eventful and action-packed year for steel industry:** Besides strong financial results and capacity expansion in steel sector, another urge across steel companies was to secure **raw material supply**, at times through investments in mining. It also turned the spotlight on **India's iron ore reserves**. India has large reserves of ore. But questions did arise like should it open up access to it when there is a bright steel future at home? Is it not a strategic asset? In 2005, steel companies could be less bothered by price trends, which is a global certainty.

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## STEEL INDUSTRY MARKET SCENERIO STAINLESS STEEL

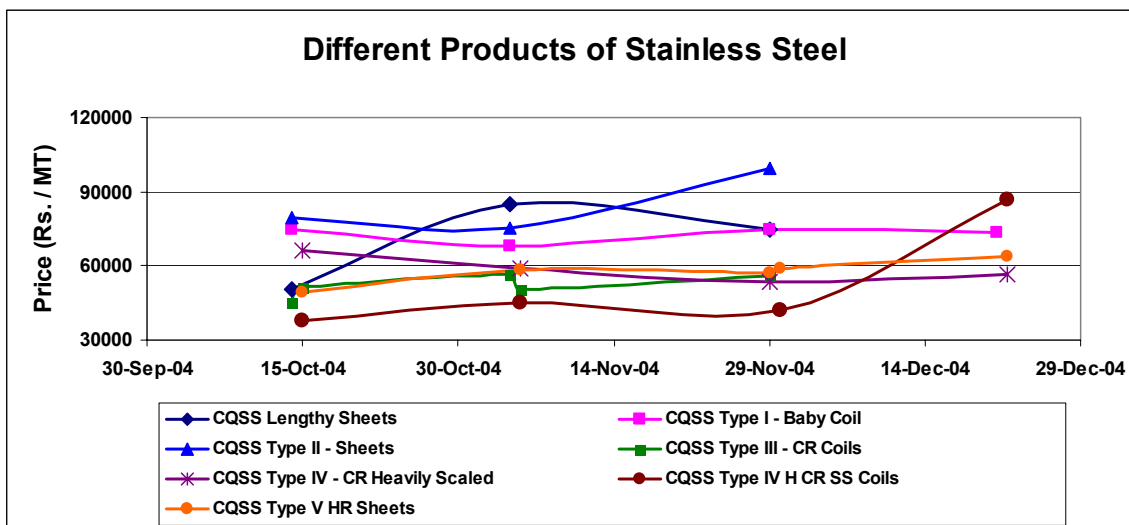
### Domestic Scenario

**Jindal Stainless acquires Indonesian Cold Rolling Mill:** The industry has acquired a 50,000 tpa (tonne per annum) stainless steel cold rolling mill in Indonesia from PT Maspion Stainless Steel Indonesia. This is aimed at improving operational efficiency of its parent as well as expanding its marketing foot print in the key East Asian market.

**High stainless steel prices force consumers to look for alternatives:** Consumers are looking for alternatives that look almost the same but cost less. Due to rise in stainless steel prices; the product is losing favoritism in the market. Also, it is expected that more and more products with stainless-style finishes will hit the market.

### **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 from the month of October to December 2004 for different Scrap products.



**CQSS Lengthy Sheets:** This product had an increasing trend in the market price in November around Rs. 75000 /MT.

**CQSS Type I - SS Coil-Baby Coil:** Over the three months Baby Coil has a fluctuation in market price of around Rs. 7000 / MT.

**CQSS Type II - SS Assorted Sheets:** The market price of the product is having an increasing trend at the end of November around Rs. 99000 / MT.

**CQSS Type III - CR SS Coils-Cut Sheets:** The market price of the product had an increasing through out the three months having a slight high value in the month of November around Rs. 56000 / MT.

**CQSS Type IV - CR Heavily Scaled SS:** Though the market price of the product observed a downward move in the month of November but it becomes at the level around Rs. 57000 / MT at the end of December.

**CQSS Type IV H CR SS Coils:** Though the market price of the product observed a downward trend in the month of October and November but it becomes at the level around Rs. 86000 / MT at the end of December.

**CQSS Type V HR SS Sheets-Coils:** Though the market price of the product observed a downward trend in the month of October and November but it becomes at the level around Rs. 64000 / MT at the end of December.

### **International Scenario:**

**China:** Shanghai imported less stainless steel for the past 11 months due to lukewarm demand at home. According to sources, Shanghai imported 388,000 tons of stainless steel, a year-on-year decrease of 20.6 percent. Industry analysts ascribed the decline to a substantial expansion of China's production capacity of stainless steel and an ensuing cool down in demand for imports. Analysts warned of a likely oversupply of stainless steels in 2007, when the country will be able to produce more than 3.5 million tons of cold-rolled steel products and 5.5 million tons of hot-rolled steel products every year.

**Stainless Steel Production:** Global demand for stainless steel grew by about 7 percent in the first three quarters of this year. World stainless steel production reached 5.9 million metric tonnes (mmt) in the third quarter of 2004. International Stainless Steel Forum forecasts world crude stainless production to fall to 5.9 percent in 2005.

**Europe:** Strong growth was seen in Europe. YTD production for the Western Europe/Africa region was 7.1 mmt, 4.6% more than in the same period of 2003.

**Asia:** Stainless steel production in Asia was again strong with YTD production of 8.7 mmt. This is almost 11% higher than for the same period of 2003.

**America:** Stainless steel production in The Americas was 2.2 mmt. This is a rise of 4.6% YTD.

**Taiwan seen increasingly relying on Chinese market for exports:** Taiwan's dependence on the Chinese market for exports could hit a record this year, highlighting the need to diversify the island's export markets if it is to scale down potential risks. China is Taiwan's largest export market. Among the products, flat-rolled stainless steel is a very important product that goes to China. In the first

eight months of this year, around **70.48% of flat-rolled stainless steel** went to the mainland. Taiwanese firms are facing fierce competition from South Korean and Chinese counterparts in the mainland market.

**U.S.:** Domestic consumption of total specialty steel and stainless steel increased in the first nine months of 2004 compared to 2003. U.S. consumption of total stainless steel increased 14% to 1,812,900 tons. Imports increased 28% to 473,946 tons, capturing 26% of the U.S. market for stainless steel.

**Overall Scenario:**

The overall scenario for stainless steel seems to be healthy with demand increasing both in domestic and international forum. Also, Jindal Steel is acquiring Indonesian Cold Rolling Mill and this is a real sign of boom in Indian economy.

In **U.S.** stainless steel penetration is on the rise despite gain in domestic consumption. Total stainless steel comprises sheet/strip, plate, bar, rod and wire. With imports on a rise, the domestic demand in stainless steel is being met smoothly.

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