

STEEL INDUSTRY MARKET SCENARIO

FLAT & LONG PRODUCT

Domestic Scenario:

Steel fall seen as a correction: There seems to be a consensus in the steel industry that the recent fall in the prices of steel products is a correction, and that there is no need to panic. The prices are continuing to fall all across the world. According to analysts, there is no need to press the panic button. Such price correction is normal. Speculators are facing the maximum brunt during the times of a fall in prices.

Rail iron ore freight up 14%: The railways have raised the tariffs charged for iron ore meant for steel plants by nearly 14 per cent from May, 2005. A 14 per cent rise will translate into an increase of Rs 51 per tonne of iron ore hauled. This will affect companies like SAIL, Tata Steel, IISCO, Jindal and Rashtriya Ispat Nigam Ltd. For 2005-06, nearly 34.8 million tonnes of iron ore are expected to be carried to steel plants. This means that the railways will earn approximately Rs 177 crore more this year on this account.

Ispat eyes south for sponge iron sales: Ispat Industries entered in the sponge-iron market from June, 2005 by taking advantage of falling scrap prices. The company will mainly cater to the southern market where demand for sponge iron is soaring because of a large number of auto component units. It generally uses 60 per cent of hot metal from the blast furnace, 30-35 per cent DRI and about 5 per cent metal scrap. **The company intends to ramp up the use of scrap and lower that of DRI to cash in on the recent reduction in scrap prices.** US scrap prices have gone down by 30 per cent in the last few months. The free-on-board (f.o.b) price of US scrap is about \$180 a tonne, while the landed price will be \$220 a tonne at the end of June, 2005.

POSCO investment in Orissa: After months of negotiations, the government of Orissa and Korean steel giant has signed the MoU for the 12 million tonnes per annum steel plant. At \$12 billion, this will be the single largest FDI the country has attracted so far. The initial capacity of the plant will be 3 million tonnes which will be expanded gradually to 12 million tonnes. The entry of Posco could have significant implications for the domestic iron and steel industry. The Korean major has clearly stated that it will be mainly focussing on the domestic markets for its sales. The company would start with carbon steel and would later expand the portfolio to value added products. However; there is considerable political opposition to the project. The first objection is regarding granting captive iron ore mines to Posco and insist that the Korean company should buy ore from the state mining PSU. The second objection is to the export of iron ore by Posco.

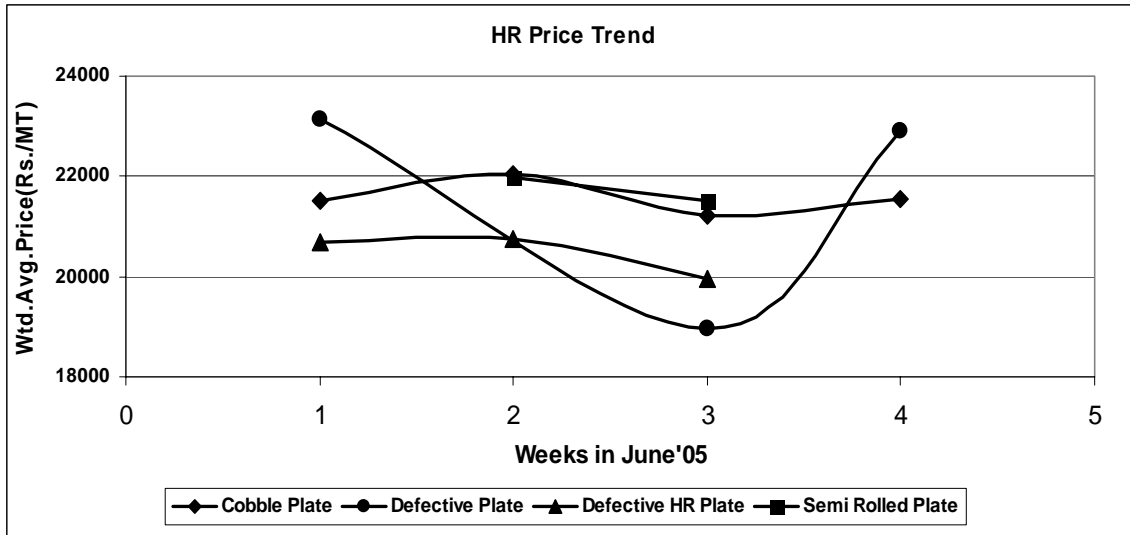
Curbs on steel exports likely to be reimposed: To prevent spurt in domestic steel prices, the government is likely to reimpose curbs on steel exports which

have risen 27.65% in April-May period of the current fiscal. According to sources, the steel ministry is considering a freeze on export incentives like duty entitlement passbook scheme (DEPB) on steel once again to prevent exports that have the potential to push up the domestic steel prices. The rise in exports has largely been attributed to high international prices of steel. There are fears that an increase in steel exports would put pressure on domestic prices where demand is growing annually at about 8%.

Sponge Iron Units Send Sops For Coal Supplies: The sponge iron plants in Orissa, gasping for life due to short supply and escalation in prices of coal and iron ore, have pleaded for immediate steps to ensure supply linkages of these two key inputs to tide over the crisis. Due to short supply and sharp rise in the prices of coal and iron ore, these units are in dire straits.

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 June for different HR and CR products.

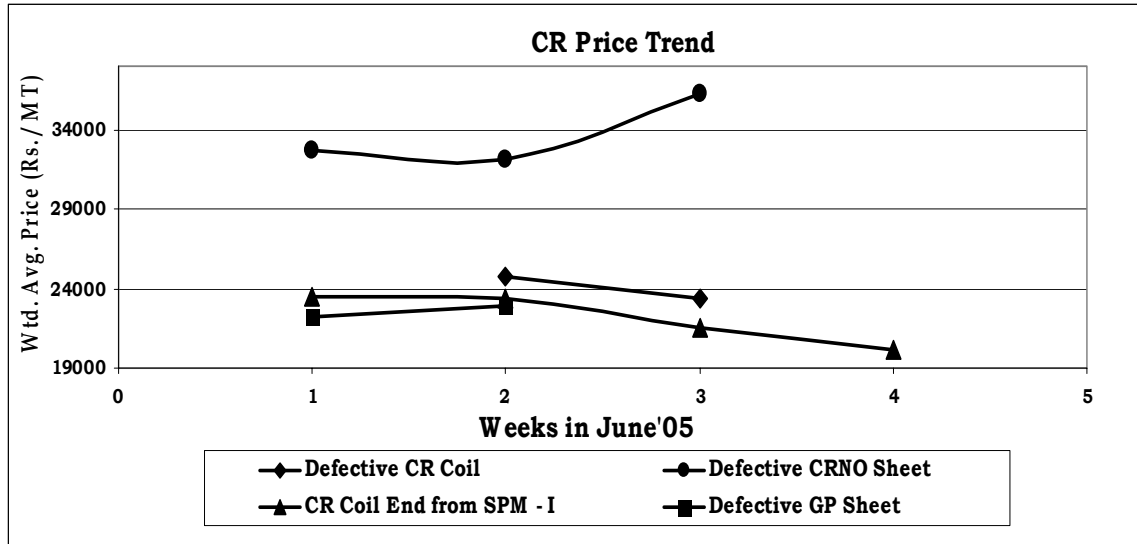


Cobble Plate: The product showed an initial nominal rise and then a downward trend in the entire month.

Defective Plate: The product showed a major fall in the third week and then a rise in trend in the last week but still is lower than the starting price of the month.

Defective HR Plate: The product showed a downward trend throughout the month.

Semi Rolled Plate: The product showed a declining price trend in the month of June.



Defective CR Coil: The product showed a downward trend in the third week.

Defective CRNO Sheet: The product showed a nominal fall in price in the second week and then a sharp rise in the third week escaping the normal downward trend..

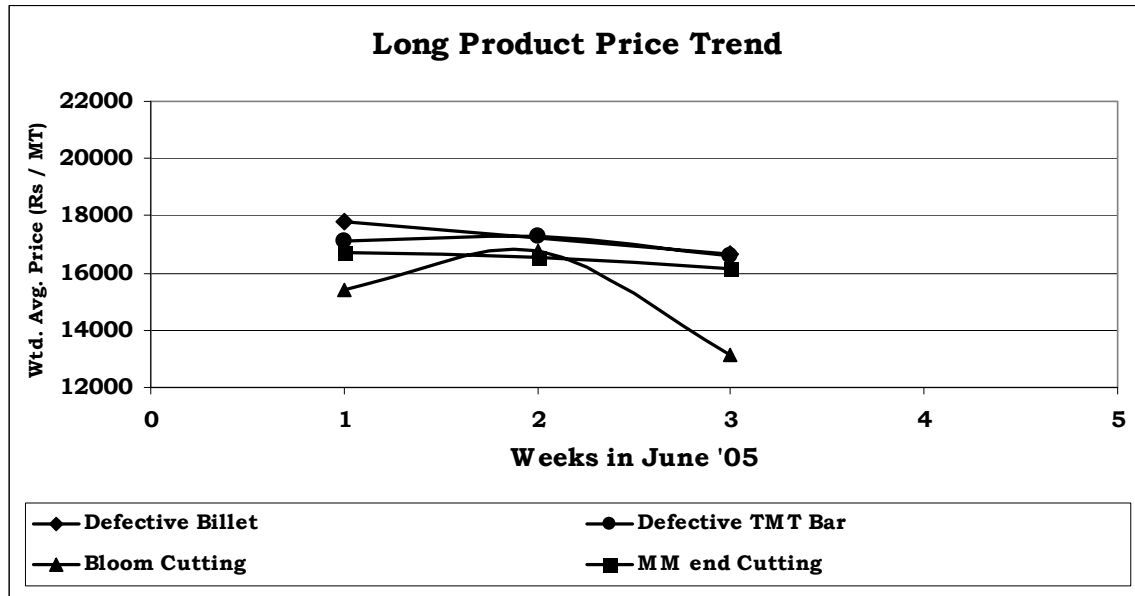
CR Coil End from SPM-I: The product showed a continuous declining trend in the month of June.

Defective GP Sheet: The product showed a slight rise in price in the second week.

Outlook: All the HR and CR items in general showed a downward trend in the market in line with the falling sentiment in the market. A similar downward trend is expected in the coming month as the major Steel Players are announcing price cut and the slow rate of depletion of stock from different stock points. The industry observed unprecedented stock pile up.

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 June for different long products.



Defective Billet: The price of this product has showed a downward trend throughout the month of June.

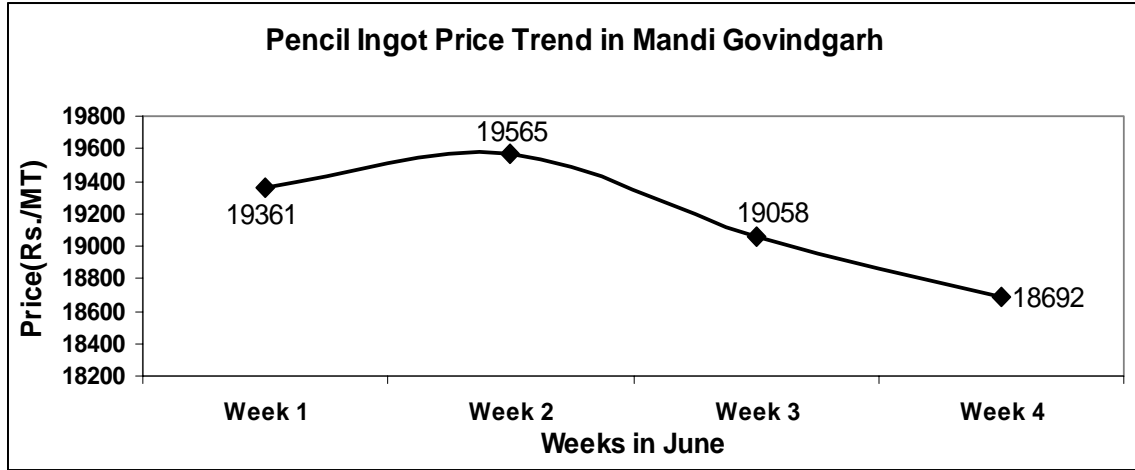
Defective TMT Bar: The price of this product too showed a downward trend and ended at around Rs.16,600/MT in the end of the month.

Bloom Cutting: The product showed a rise in price in the second week and then had a massive price fall in the third week.

MM End Cutting: The product more or less showed a steady trend in the price range of Rs.16,700/MT to Rs.16,200/MT.

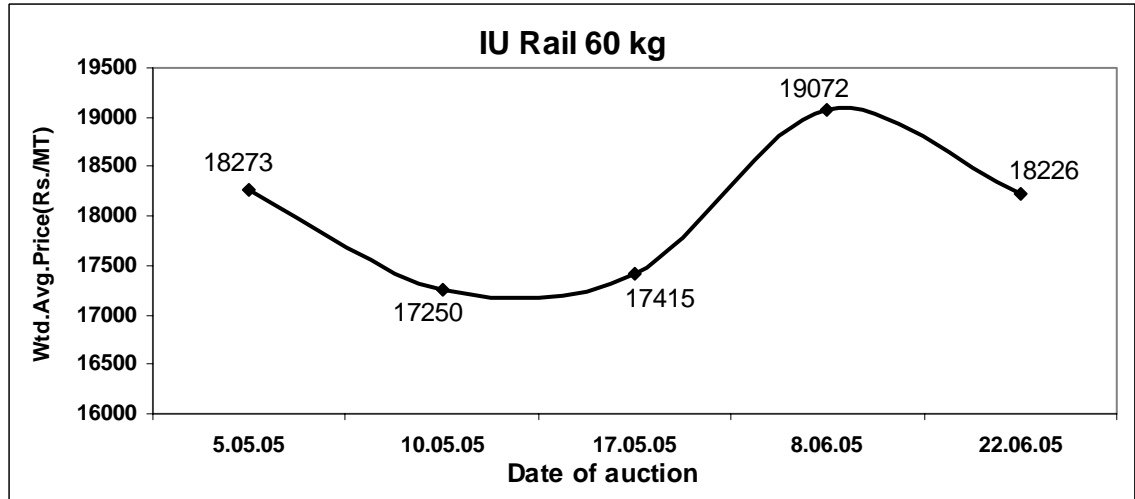
Outlook: Long products have also experienced fall in price like the flat products. It has also seen almost 21% drop in price from April to June. As the market sentiment is down due to softening of world wide market and free availability of steel items from CIS countries it is anticipated that the price will continue to decline.

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



A diminishing price trend is depicted in the graph where prices of ingot has fallen down drastically compared to earlier month and further decline is expected in the coming month.

IU Rail Price Trend:



This grade of IU Rail showed a declining price trend in the last week of June and the market is in a slump condition.

International Scenario

Stelco, Algoma, Dofasco face increased costs as steel market shifts:

Canadian steel giants Stelco Inc., Algoma Steel Inc. and Dofasco Inc. are seeing their margins pressured through the rest of this year by rising input costs and steel prices that have fallen off cyclical peaks. Dominion Bond Rating Service said the impact of rising iron ore and coal costs will be "most notable" at the three integrated steel producers through the remainder of 2005, given their exposure to those commodities.

Steel Prices Fall Sharply, Says American Institute of Steel Construction:

Structural steel prices have dropped more than \$100 per ton since the beginning of 2005, reflecting a 20 percent decrease in the cost of material, according to the American Institute of Steel Construction. The current decrease in price is primarily the result of **lower scrap costs**. Major U.S. producers of structural steel significantly reduced mill prices of structural steel effective June 8, 2005.

China Scenario: China's economic boom may be slowing much more rapidly than expected, with plummeting world freight rates and lower growth in Chinese imports both pointing to weaker demand. International freight rates for bulk commodities such as iron ore and coal have more than halved since last November, and are now at their lowest level. The fall in freight costs coincides with a sharp fall in scrap steel prices, another indirect indicator of the strength of Chinese demand.

China Steel Team Visits Japan and South Korea to discuss the outlook for the steel market. China had two proposals. One was to ask Japan to stop exporting 200-series stainless steel to China, and the second was that China would control its steel exports to South Korea. The country has shipped more steel to Japan and South Korea as output rose, intensifying competition with companies like Nippon Steel Corp., JFE Holdings Inc. and Posco.

Steel Prices slump in European Union due to oversupply: The downward movement is proving to be stronger than most observers – and steel producers – anticipated. To the extent that the announced production cuts have in fact been implemented, these measures have failed adequately to deal with the problem. The market has continued to be over-supplied. One of the reasons for this is that import volumes have ballooned. European flat product price – a weighted average of transaction prices for all flat products - fell by 4.2 percent from May to stand at Euro 531 per tonne in June. Also, long product weighted average price has also come down by 7 percent from May.

Japan's Topix Drops; Nippon Steel Paces Slide on Price Concern: Japan's Topix index fell and slipped 0.1 percent to 1169.15. Steelmakers including Nippon Steel Corp. and Tokyo Steel Manufacturing Co. slumped on concern a record gain in China's output of the metal will cause prices globally to drop. Nippon Steel, Japan's biggest steelmaker, slipped 2 yen, or 0.8 percent, to 262. Tokyo Steel Manufacturing, Japan's largest maker of steel using electric

furnaces from scrap metal, dropped 87 yen, or 5.8 percent, to 1,427. Sumitomo Metal Industries Ltd., Japan's third-biggest steelmaker, dropped 2 yen, or 1 percent, to 191.

Posco to Lower Steel Prices on Competition from China: Posco, the world's fifth-biggest steel maker, will cut prices of some lower-grade steel starting in July because of increasing competition from Chinese imports. Posco will cut the price of hot-rolled coil made from scrap steel by 15,000 won a metric ton to 580,000 won (US\$572) a ton and will cut the price of wire rods by 40,000 won a ton to 530,000 won a ton.

Overall Scenario:

The prices of steel products have softened in the domestic market as well as globally. Long product prices suffered a drop of Rs.1500-2000/tonne in the secondary market. Ingot prices are down from Rs.23,300 to Rs.20,800/tonne, sponge iron of more than 88% metallization value dropped from Rs.14,200 to Rs.11,800/tonne and scrap has suffered a fall of Rs.1500/tonne. Globally, steel prices have slipped by \$30-\$40/tonne. HRC prices in the US have dived from \$720 to \$510 per tonne. Steel plan in India and in World is seeing unprecedented stock build up. Price cut and production cut are announced or on the verge of announcement from all major steel plants in the country and also all across the world. Further drop in prices is expected. Even though steel prices have witnessed a downfall, there is no decrease in the price levels of iron-ore, pellet and coke. Steel guru, Peter Marcus, managing partner, World Steel Dynamics, believes that once the prices hit bottom by third quarter of this year, they will begin to pick up again.

Data Sources:

- 1) Iron&Steel Review, June 2005
- 2) www.news.google.com
- 3) The Economic Times of India
- 4) Business Standard
- 5) The Telegraph
- 6) www.financialexpress.com
- 7) Metal Bulletin

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STEEL INDUSTRY MARKET SCENARIO

SCRAP

Domestic Scenario

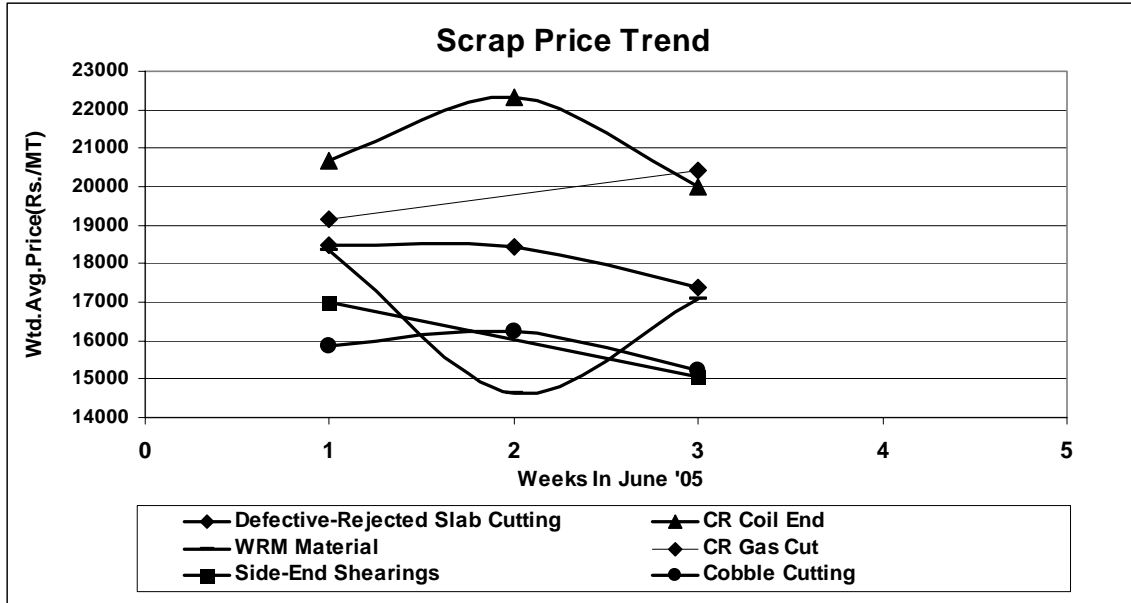
Ship scrap prices fall in India, Bangladesh: The price offered for ships to be scrapped fell last week in Bangladesh and India, the world's largest markets, after prices of recycled steel plates dropped. Indian buyers offered \$315 a tonne of recoverable steel for oil tankers, down \$35 a ton from a week earlier. The price of recycled steel plates dropped \$10 a ton to \$380. Prices for oil tankers fell in Bangladesh to \$350, down \$10 from a week earlier. Prices paid for ships to be scrapped rose to a record \$470 a tonne in Bangladesh in February because of a shortage of ships sold for scrap and rising global steel prices.

Kolkata-based Neo Metaliks Ltd is venturing into manufacture of pig iron. The group is planning to diversify its portfolio and is foraying into pig iron manufacture as there is a good opportunity in Durgapur and strong demand for the product. Neo Metaliks will be setting up its pig iron plant at Durgapur where it has secured a plot of around 80 acres for the project. The first phase of the project will undertake pig iron production. The production of pig iron in the new plant will commence from October 2005.

Gujarat NRE Coke is planning to set up sponge iron, pig iron, steel making and rolling mill projects in Kutch district of Gujarat. The combined project cost is estimated to be more than Rs. 250 crore. Gujarat NRE Coke is also planning to set up a plant at Dharwar (Karnataka) to produce 400,000 mtpa of coke. After completion of this project, total capacity of the company will increase to more than 1m mtpa, the company added.

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 June 2005 for different scrap products.



Defective-Rejected Slab Cutting: The product showed a downward trend in the month of June.

CR Coil End: The product showed a slight rise in the second week and then a falling trend in the third week.

WRM Material: The product showed a falling trend in the second week and then a rise in price trend in the third week, however it ended at a lower note compared to its starting price.

CR Gas Cut: The product showed a rise in price in the third week as compared to the first week.

Side-End Shearings: The product showed a downward price trend and a fall in price in the third week as compared to the first week.

Cobble-Cutting: The product showed a rise in the second week and then again a downward trend for the rest of the month.

Outlook: All the scrap items except CR Gas Cut material showed a downward price trend in the market for the month of June. A similar trend is forecasted in the coming month.

International Scenario:

Commercial Metals opens new scrap plant in Birmingham: The new facility will primarily provide processed scrap to SMI Steel-Alabama, CMC's steel minimill, which is also located in Birmingham. Additionally, CMC (Commercial Metals Co.) Birmingham will engage in all other facets of industrial and peddler scrap purchasing.

Hugo Neu to merge with Sims Group of Australia: Hugo Neu Corp. and Sims Group Ltd., one of the world's largest recycling companies, have merged operations to form Sims Hugo Neu Company LLC, which will be the largest U.S. exporter of scrap steel and one of the nation's biggest recyclers. Privately held, New York-based Hugo Neu operates primarily as a scrap metal recycler and is the largest scrap steel exporter and one of the largest steel recycling in the United States.

Price Trends of different Steel Scrap in International Market from April to June, 2005 are depicted here. The tables shows overall fall of price across world and all type of products.

Price of the Shredded US Steel Scrap, fob US East Coast \$ per tonne

2-Jun-05	225
26-May-05	225
19-May-05	225
5-May-05	235
28-Apr-05	235
19-Apr-05	235
12-Apr-05	235
5-Apr-05	235

% fall since April: 4.35%

Steel Scrap No 1 heavy melting United States fob East Coast \$ per tonne

2-Jun-05	215
26-May-05	215
19-May-05	215
5-May-05	225
28-Apr-05	225
19-Apr-05	225
12-Apr-05	225
5-Apr-05	225

% fall since April: 4.44%

Steel Scrap "A" Basic Scrap United Kingdom Metal Bulletin Ferrous Scrap Index

22-Jun-05	243.51
15-Jun-05	243.51
8-Jun-05	282.05
1-Jun-05	282.05
25-May-05	282.05
18-May-05	282.05
11-May-05	308.28
4-May-05	308.28
27-Apr-05	308.28
20-Apr-05	308.28
13-Apr-05	299.44
6-Apr-05	299.44

% fall since April: 18.73%

Overall Scenario:

Scrap metal prices fall 65% in 6 months: The steel market is down with falling scrap price trend in the market. Prices of scrap metal and new steel are coming down fast, bringing relief for some and pain for others. The price of prime scrap steel has dropped from a high of \$430 a ton last November to \$150 in June, including a \$120 drop in the last two months. The price of No. 1 heavy-melt scrap, a common type of steel, has fallen 52% from about \$252 a ton last November to \$120 this month. About a 65% drop in the value of scrap steel is expected in the current period.

One reason for the decline is the scrap-metal pipeline has been filled with material, partly as the result of metal collectors cashing in when prices were high. **Also**, the automakers have cut production of cars and trucks - meaning they have bought less steel, further reducing the need for scrap metal and some other raw ingredients used to make steel. The fall in scrap price is helping drive steel prices down. U.S. steel prices have fallen for nine straight months. The domestic scenario also foretells the same thing with falling scrap and steel prices in the market.

Data Sources:

- 1) www.news.google.com
- 2) Times of India
- 3) The Economic Times of India
- 4) Business Standard
- 5) The Telegraph
- 6) Metal Bulletin

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STEEL INDUSTRY MARKET SCENARIO

STAINLESS STEEL

Domestic Scenario:

Jindals Plan Rs 7,000 Cr Steel Plant In Orissa: Jindal Stainless Ltd (JSL) signed a memorandum of understanding with the Orissa government for setting up a 1.6 million tonne integrated steel plant along with a 500 Mw captive power plant at Kalinga Nagar in Jajpur district of Orissa. According to Ratan Jindal, vice-chairman and managing director, JSL, this will be the largest integrated stainless steel project in south Asia. With the implementation of the project, JSL will move up to acquire a position among the top 10 stainless steel producers in the world.

International Scenario:

First Quarter Data on Stainless Steel Bar and Rod Imports Raise Red Flags: The dramatic increase in imports and import penetration of stainless steel bar and rod in the first quarter of 2005 raises red flags for U.S. producers. U.S. stainless steel bar and rod producers made it clear that the imports, particularly from Italy, Taiwan, India, Germany, China and Sweden, are on the industry's radar screen and being monitored closely. Stainless steel wire imports also increased year on year capturing 56% of the U.S. market. Imports from U.K., Germany, Spain, Sweden, Switzerland, China and Korea increased substantially.

US to maintain stainless steel antidumping duties: The US International Trade Commission (ITC) has decided to uphold antidumping duties on stainless steel sheet and strip from six countries including Mexico. The ITC ruling, which in addition to Mexico impacts France, Germany, Italy, Japan and Korea, keeps the antidumping duties in place for another five years. The countervailing and antidumping duty orders that remain in place will allow continuing to compete with imports that are fairly priced under World Trade Organization and US trade rules. The Japanese steel industry believes that the decision is inconsistent with international law. Japanese exports to the U.S. declined sharply over the period reviewed.

Reduction in stainless output by POSCO: South Korea's Posco (PKX), the world's fifth-largest steel maker, plans to cut its stainless steel production amid an industry-wide oversupply problem. Posco said it would cut output of stainless hot-rolled coil by an overall 80,000 tons in July and August after it cut prices in May amid rising production in China. This it would do in order to stabilize the market.

ThyssenKrupp said it is cutting stainless steel production by 120,000 metric tonnes.

Steel Scrap 18/8 turnings stainless United Kingdom Merchants d/d customer/docks £ per tonne from April to June, 2005

Price Date	Price
24-Jun-05	620
17-Jun-05	620
10-Jun-05	620
3-Jun-05	620
27-May-05	650
20-May-05	650
6-May-05	650
29-Apr-05	650
20-Apr-05	650
13-Apr-05	650
6-Apr-05	650

Steel Scrap 18/8 solids stainless United Kingdom Merchants d/d customer/docks £ per tonne from April to June, 2005

Price Date	Price
24-Jun-05	780
17-Jun-05	780
10-Jun-05	780
3-Jun-05	780
27-May-05	800
20-May-05	800
6-May-05	800
29-Apr-05	800
20-Apr-05	800
13-Apr-05	800
6-Apr-05	800

Stainless Steel Asia Grade 304 2mm CR coil 2B cif East Asian port \$ per tonne from April to June, 2005

Price Date	Price
24-Jun-05	2400
17-Jun-05	2400
10-Jun-05	2450
3-Jun-05	2450
27-May-05	2500
20-May-05	2500
13-May-05	2500
6-May-05	2600
29-Apr-05	2600
22-Apr-05	2600
15-Apr-05	2600

**Stainless Steel Asia Grade 304 HR sheet cif East Asian port \$ per tonne
from April to June, 2005**

Price Date	Price
24-Jun-05	2250
17-Jun-05	2250
10-Jun-05	2250
3-Jun-05	2250
27-May-05	2400
20-May-05	2400
13-May-05	2400
6-May-05	2450
29-Apr-05	2450
22-Apr-05	2450
15-Apr-05	2450
8-Apr-05	2500
1-Apr-05	2500

Overall Scenario:

Stainless Steel price is also slumping down keeping in tune with the current market trend. The Nickel price is also falling in the international market making the price more softened. Internationally different producers are also announcing production cut to control the current over supply scenario in the market. The stainless steel scrap price is also slowing down and it is anticipated that the price outlook will be same in the coming month.

Data Sources:

- 1) www.news.google.com
- 2) Times of India
- 3) The Economic Times of India
- 4) Business Standard
- 5) The Telegraph
- 6) Metal Bulletin

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