Date of Report: June 01, 2005

STEEL INDUSTRY MARKET SCENARIO

FLAT & LONG PRODUCT

Domestic Scenario:

Texmaco's new steel foundry unit may begin operations in mid-2006: Texmaco Ltd will bank heavily on its steel foundry business in the days ahead, beginning with a new unit that is expected to commence operations in mid-2006. After commissioning, the new unit will also enable Texmaco to improve export performance. Further, it has also planned to broad base some of its other operations like heavy engineering division in order to realize the full potential of the infrastructure that it already has.

Orissa plans 56 mt more steel: A fresh steel production capacity of 56 million tonnes is going to be created over the next four to five years in the state. Already in the pipeline is Posco's investment for setting up the country's biggest steel plant in Orissa.The project would include building a 10-million-tonne steel plant, a 30-million-tonne iron ore mine, a mill for making hot rolled coil and a sea port.

Kalyani Steels likely to set up unit in Jharkhand: The Company is going to set up a one million tonne speciality steel unit. The offer comes close on the heels of LN Mittal Group's expression of interest in setting up a five million tonne Greenfield project in Jharkhand.The Pune based group has core businesses in steel and steel-based products,forgings and automotive components.

Weak domestic demand of steel: Domestic demand was weakened due to demand supply imbalance and high rise in stock with large traders. A significant growth in demand for steel in India is expected in near future because of **construction activities** on account of the Commonwealth Games slated for 2010. Besides infrastructure and construction, sectors such as automotive and capital goods will also be key drivers for this demand growth.

Steel makers to take price call in June: The softening of global steel prices could soon lead to a correction in domestic rates. According to industry estimates, domestic prices may soften by $25-50 a tonne on indications of international prices turning around. At present, the domestic prices of HR Coil are hovering at Rs 28,000-29,000 a tonne ($636-$660) while the ruling free-on-board (f..b) prices in Europe is about $500-$550. After adding the transport charge and a 5 per cent duty protection, the landed cost still works out to be cheaper than domestic prices. The development comes at a time when the Indian Steel Alliance (ISA) is seeking duty protection from cheap imports.

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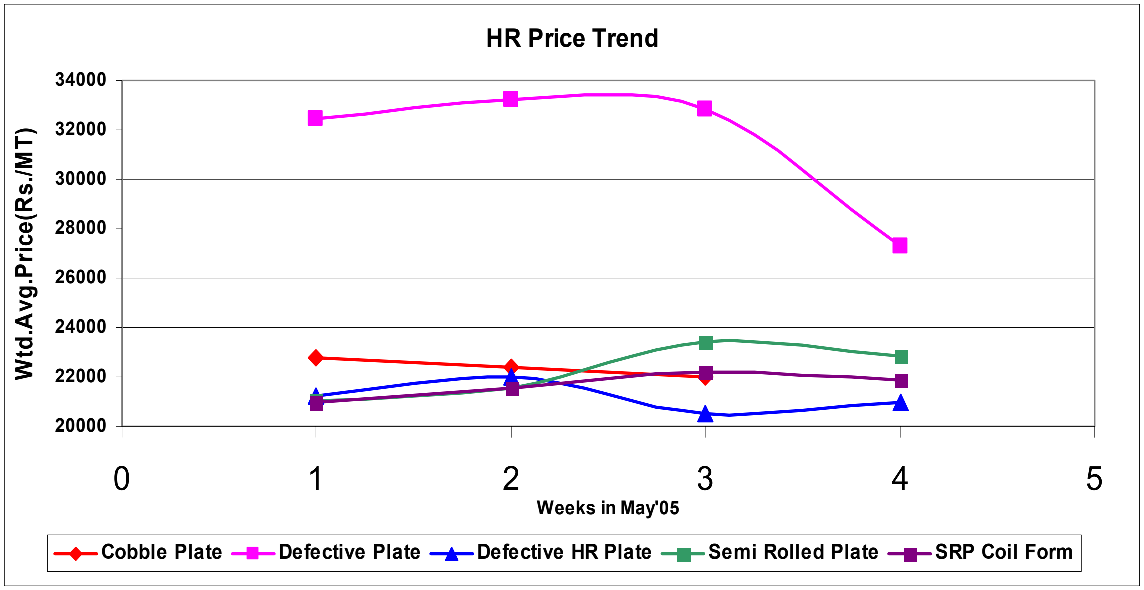
Price Trend as observed in the Auctions held at Metal Junction for Flat Products:

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



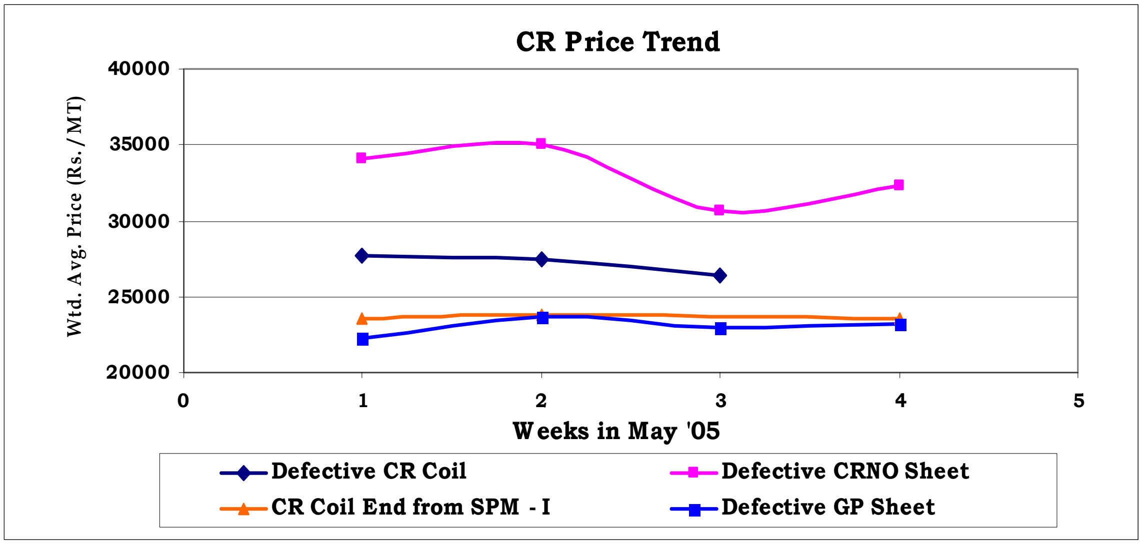
Cobble Plate: The product showed a fall in price trend in the entire month.

Defective Plate: The product showed a major fall in price in the fourth week.

Defective HR Plate: The product showed fluctuations in price trend and ended with a lower note in the fourth week.

Semi Rolled Plate: This product too showed fluctuations in price trend and ended with a lower note in the fourth week.

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



Defective CR Coil: The product more or less showed a steady price trend.

Defective CRNO Sheet: The product showed fluctuations in price trend in the entire month.

CR Coil End from SPM-I: The product more or less showed a steady trend and stabled at around Rs.23,500/MT.

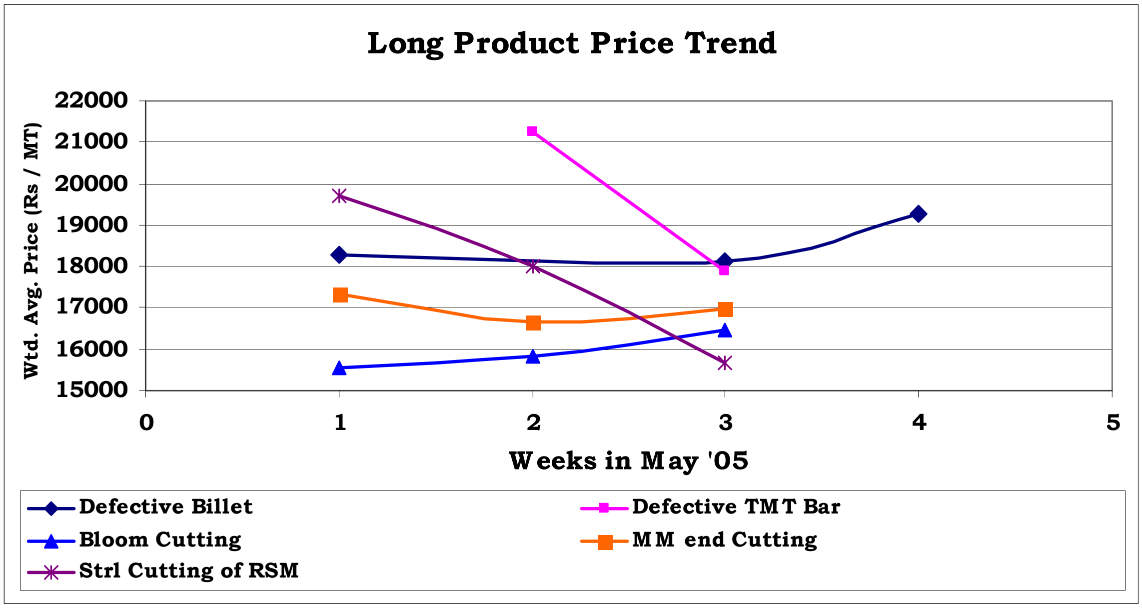
Defective GP Sheet: The product initially started at Rs.22,240/MT and ended at around Rs. 23,180/MT in the fourth week.

Outlook: All the HR and CR items showed a diminishing trend in the market with market sentiment getting a setback. Similar downward trend is expected in the coming month.

Date of Report: June 01, 2005

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 May for different long products.



Defective Billet: The product showed a steady trend till the third week and then showed a rise in the fourth week.

Defective TMT Bar: The product showed a sharp decline in price from the second week to the third week.

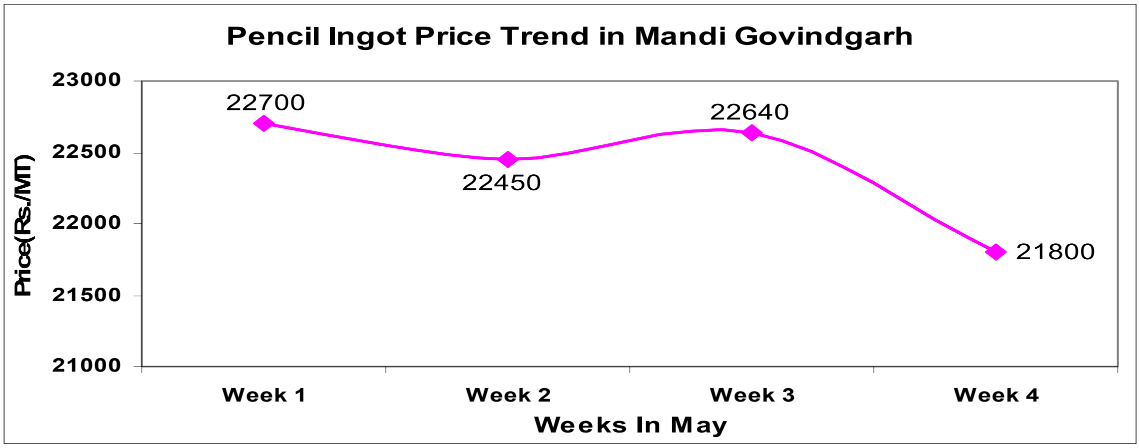
Bloom Cutting: The product showed a smooth rise in price from the first week to the third week.

MM End Cutting: The product initially started at above Rs. 17000/MT, then declined a bit in the second week and then showed a rise in price in the third week.

Strl Cutting Of RSM: The product showed a sharp decline in price from a high of Rs.19,692/MT to a low of Rs.15,688/MT.

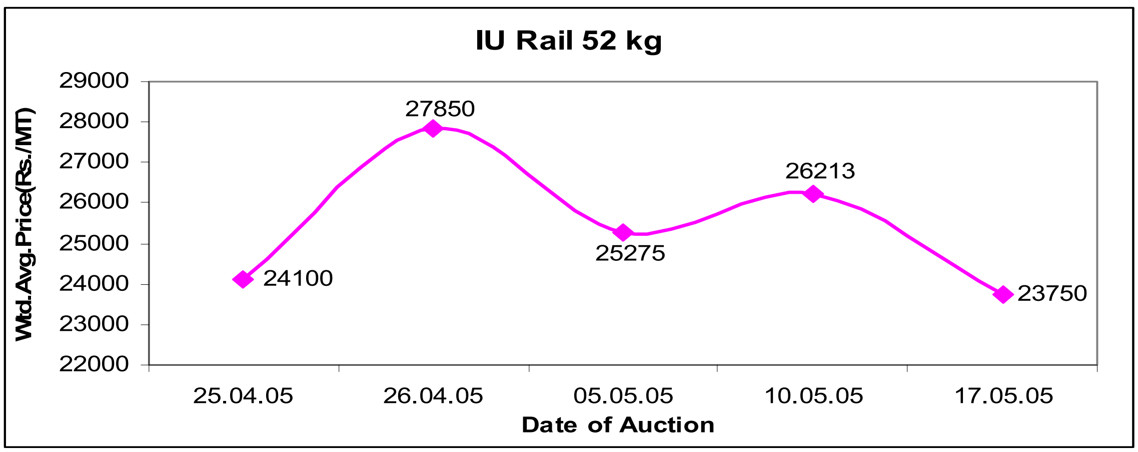
Outlook: As compared to the earlier month scenario, all the long product items showed a diminishing price trend in the post VAT era and a similar trend is expected in the coming month with steel prices softening both globally and domestically.

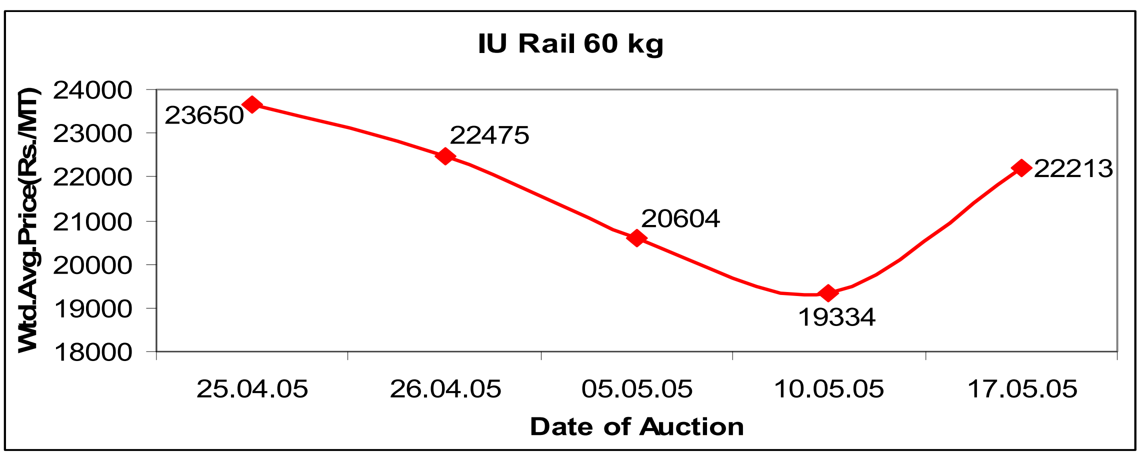
Pencil Ingot Price Trend for the month of May (in Mandi Gobindgarh market):



A mix of rising and decreasing phenomenon is depicted in the above graph where the product has finally shown a major drop in the fourth week.

IU Rail Price Trend:





While IU Rail 52 kg showed a declining price trend, IU Rail 60 showed a positive sentiment on 17^{th} of May, 2005.

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International Scenario

Global Steel buys plant in Turkey: Global Steel Holdings, a special purpose vehicle (SPV) controlled by the Pramod and Vinod Mittal Ispat group, has signed a deal to acquire Turkish steel company Izmir Demir Celik for $ 78.4 million (about Rs 340 crore). With the acquisition of the Turkish company, which has a capacity of 1 million tonnes, the Ispat group's capacity will go up to 15 million tonnes. The acquisition may help the Ispat group to acquire other steel companies in Turkey.

Chinese domestic prices of HR and CR slip: Coil prices in Southeast Asia have fallen by as much as 30$/tonne due to oversupply taking its toll and further price fall is expected. However on the other side China's position as a growing net exporter of certain steel products will be increased throughout the year.

U.S. market-better times for bar mills, coil market hesitant: Civil engineering work stoked up demand for rebars and rod. Coil buyers, enjoying ample supplies, falling prices and short delivery times have successfully bargained prices down. Mills are girding themselves to battle to stabilize prices.

Chinese steel may create global glut: After a long period of pulling in huge imports of steel and thus boosting the world market, China is gearing up for a new role as a net steel exporter that may turn recent global shortages of steel into oversupply and depress regional and global prices. China exported 5.19 million tons of steel products in the first quarter of this year, up 219% from a year ago. Since China's domestic prices for steel are currently 10% below world rates, the country will flood the globe with cheaper metal that could bring international prices crashing down.

Flat prices have fallen in North American markets by $70-80 per tonne in the last two months. The current HR coil price by US mills is pegged at $615 fob/t with CR price at $695 per tonne. Compared to flat producers the long product market is relatively stable and there is no decline in the prices of structurals, more due to fall in import volumes.

JP Morgan sees weak steel prices: Steel prices are expected to remain weak in the near term despite mill cutbacks while China's increasing steel output is a growing worry for other producers. Chinese steel output growth continues at a worrying pace. At current rates, Chinese steel output would rise to 56 million tones for the full year compared to JP Morgan's forecast of 40-45 million tonnes.According to JP Morgan, developments in the world economy in the second half of 2005 would be key when deciding whether to invest in the sector.

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Overall Scenario:

Steel prices weakening in domestic and international market: Steel prices have started showing signs of weakness, with **long product** prices sliding by Rs 1,500-2,000 per tonne, in the secondary market due to slowdown in the construction sector and price softening in International Market. Ingot prices have come down from Rs 23,200 per tonne on April 25 to Rs 20,800 per tonne. Sponge iron prices have moved from Rs 14,200 per tonne to Rs 10,400 per tonne while scrap prices have come down by Rs 1,500 per tonne, during the same period. Moreover, steel prices across the globe have also dropped dramatically across categories. World's leading steel producers expect prices to weaken in the coming months with demand cooling off in key markets and a rise seen in iron ore prices. Increase supply from China and increased inventory of US pulled the price down. Arcelor, Mittal Steel of US and Corus of UK had taken production cuts. In India the price softening is lower than the international market but due to flow of materials from CIS countries with the advantage of 5% import duty keeps the pressure on the domestic prices and the spot market prices got corrected accordingly.

Steel companies may cut output to stem price fall: The international steel industry will see a 50 million tonne production cut this fiscal to suck excess stocks out of the market and rectify the prevailing demand supply match in all major markets. With annual production estimated to reach a billion tonne a 4% to 5%, production cut will add up to 50 million tones of steel not reaching the market.

Price Movement:

Product	Review (April 05 over March 05)	Outlook (May 05 over April 05)
HR Coil	**SAME**	**LOWER**
CR Coil	**LOWER**	**LOWER**
GP/GC	**SAME**	**LOWER**
Long Products	**LOWER**	**LOWER**
Stainless Steel	**SAME**	**SAME**

Data Sources:

1) www.metalbulletin.com
2) www.news.google.com
3) The Economic Times Of India
4) Business Standard
5) The Telegraph
6) www.financialexpress.com
7) Steel Product Report of CRISIL Research and Information Services

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STEEL INDUSTRY MARKET SCENARIO

SCRAP

Domestic Scenario

Rising global steel output hammers prices: Recently steel prices have dropped in India. Consequently, **DRI and scrap prices** have also fallen. Many are concerned about the real strength of the market as this comes at a time when production increases have not been substantial. One of the reasons for this drop in steel prices in India is the seasonality - the months of April and May - the beginning of the financial year - are normally quieter when capital investments get planned rather than pushed into the action pipeline. Then comes monsoon when steel market generally remains quiet and then onwards the real steel-based activities gain momentum. Global prices of all categories of steel have fallen sharply. The lower priced imports reportedly have risen, posing strong competition in the domestic market. This is bringing in pressure on the domestic players to cut prices.

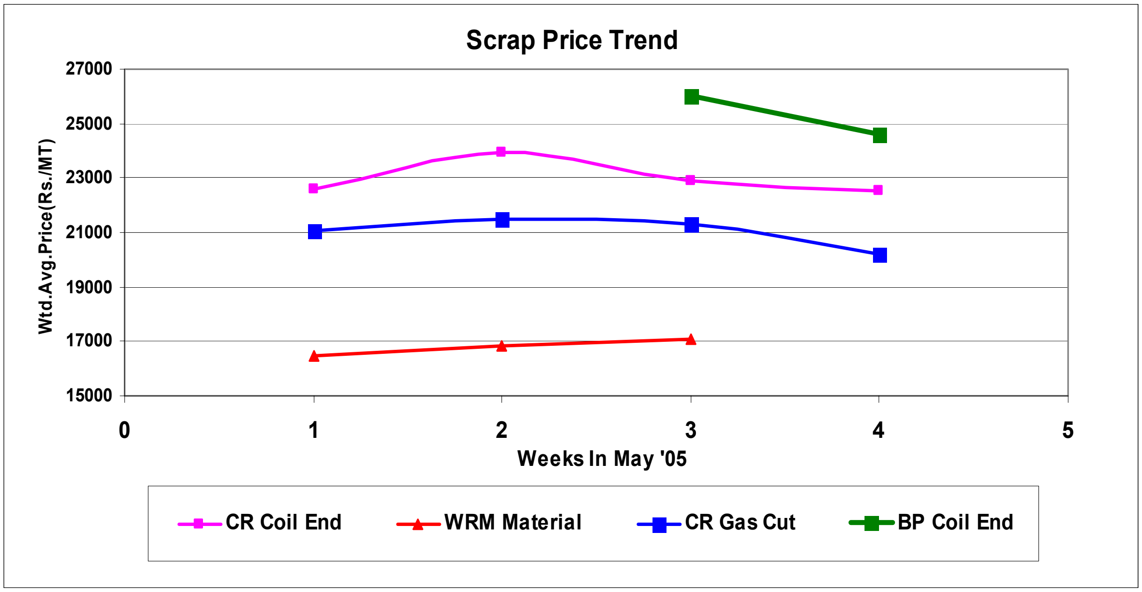
Jharkhand Has No Iron Ore for Steel Project Proposed By Mittal: Jharkhand is left with no free iron ore reserves, which could feed an annual 5-10 million tonne (mt) capacity greenfield steel plant in the state, like the one proposed by the LN Mittal-controlled Mittal Steel. Going by rough estimates, a five mt steel plant would require an annual eight mt of iron ore. Thus, going by a normal 50-year lease sought for by any steel producer, any iron-ore deposit should have around 400 mt of extractable deposits.

Posco's Ore Import Plan Questioned: Former Union minister of state for steel Dilip Ray has questioned the proposal of Korean steel giant Posco to import high quality iron ore from Brazil for its operations in the state when most Indian companies were using locally available iron ore.

Ore scarcity rings alarm bells for state's sponge iron units: Sponge iron units in West Bengal are under threat. Due to the lack of steady supply of iron ore and non-coking coal, the state's sponge iron units are considering shutting shop. The sponge iron units functioning in the state have a production capacity of two million tonnes per year, which require more than three million tonnes of iron ore and 2.6 million tonnes of non-coking coal.

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 May 2005 for different scrap products.



CR Coil End: The product showed a declining price trend in the third and fourth week.

WRM Material: The product more or less showed a steady trend.

CR Gas Cut: The product showed a declining trend in the third and fourth week.

BP Coil End: The product showed a declining trend in the fourth week.

Outlook: All the scrap items showed a fall in price except for WRM material that showed steadiness in price. The reason behind this is fall in demand. A similar trend is expected in the coming month followed by a steady scenario in the last quarter of the year.

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International Scenario:

Kobe Steel and Shigang agree 500,000 tpy pig iron plant plan: Kobe Steel has signed a letter of intent (LoI) with Chinese special steel producer Shijiazhuang Iron & Steel (Shigang) to study the construction of a 500,000 tpy plant to supply molten pig iron to the Hebei province-based steelmaker. As the facility will supply mostly molten pig iron, it will be located within Shigang's works.

Tokyo Steel makes "extraordinary" scrap price cut: Tokyo Steel Manufacturing has cut scrap buying prices at all its works by ¥1,000 ($9.6) per tonne for all grades. Tokyo Steel insists the cuts reflect declining global market conditions. In the US the price of factory bundles has weakened, and in Japan scrap arrivals are very smooth.

Rebar, merchant bar, scrap are dropping: Transaction prices for bar products from the mini-mills are cascading downward. **Nucor** is leading a steep $30/ton decline in list prices for merchant bar and rebar to be delivered in June due to collapse in scrap steel prices. Near-term steel demand is weak, and so is the pricing environment, due to overbuilt inventories. U.S. scrap shipments to India and Turkey have dropped off. Some of the decline is attributed to seasonal factors. Turkish buying is typically lower in the spring due to the availability of scrap accumulated during the winter months at Russian and East European locations.

Steelmakers in various countries have started a movement to form a **"pool"** to renegotiate **2005 iron ore prices**, amid strong downward steel product price pressures, with prospects of further product price falls to come. The movement is linked to pressure from rerollers to renegotiate long-term slab supply contracts.

US ferrous scrap export markets weaken: Traders involved in the US ferrous scrap export market have said the levels of overseas activity are lower than many had anticipated. Turkish scrap buyers might not need more scrap until July at the earliest because the steel billet market has weakened. Several Chinese scrap buyers have been turning down offers of shredded scrap at $270 a tonne as they won't go above $ 260 a tonne.

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Overall Scenario:

Companies decry 'emotional' falls in ferrous scrap market: Prices and demand for ferrous scrap are slumping in the USA and Europe, but seem to be faring better in Russia. Scrap prices and demand in the USA were driven in large part by the strong domestic demand for steel. As a consequence scrap prices are down sharply reflecting the weakening condition in the US steel industry. The gloomier economic outlook and the weaker steel demand are running contrary to the steel production trends in both the USA and elsewhere. Demand for scrap has dropped because of lower steel production. However it is predicted that the current state of 'panic' in the scrap market is not likely to last and scrap prices will be stable in the last quarter of year 2005.

Price Movement:

Product	Review (April 05 over March 05)	Outlook (May 05 over April 05)
SPONGE IRON	**LOWER**	**SAME**
PIG IRON	**LOWER**	**LOWER**
FERRO-SILICON	**LOWER**	**LOWER**

Data Sources:

1) www.metalbulletin.com
2) www.news.google.com
3) Times of India
4) The Economic Times of India
5) Business Standard
6) The Telegraph
7) www.wastenews.com
8) Report of Crisil Information Services

(DIPANKAR CHAKRABARTI)
GM (eSales and Inspection Services)

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STEEL INDUSTRY MARKET SCENARIO

STAINLESS STEEL

Domestic Scenario:

Whopping rise in stainless steel production: There has been a major rise in stainless steel production in the past few years with India being the eighth biggest producer of stainless steel in the world and also the seventh largest market. About 75% of the stainless steel produced is consumed in the catering equipment sector. With added thrust on consumption of stainless steel in architecture, building, construction, automotive, railway and transport segments, the stainless steel production in the country is expected to cross **two million tonnes by 2009.**

International Scenario:

China cuts tax rebate on exports of steel, base metals: China cut tax rebates on exports of some steel products and coal to restrict shipments abroad and address domestic shortages. Last month it abolished a 13 percent tax rebate on exports of pig iron, iron ingots and some semi-finished steel products to cope with increased domestic demand. The country removed a tax rebate on exports of nickel, a material used to make stainless steel.

Nickel prices may extend gains on China demand: Prices of the metal may extend gains as mine supply continues to lag demand driven by Chinese stainless steel producers. Prices of nickel, used to make stainless steel, have risen 69 percent in the past two years, driven by demand from China, the world's fastest growing major economy. Chinese demand for stainless steel, used in appliances such as dishwashers and in construction, would continue to grow in the coming days.

Strong Nickel Demand in the global market: Demand for nickel is expected to remain strong in the Chinese market and the rest of the world with no signs of slowdown in demand from U.S. despite lower production growth of lower grade stainless steel. Some believe that Chinese will be ramping up their stainless steel capacity by over 100% in the year 2005.It is believed that 2005 will be a record year for nickel alloy demand.

Jisco eyes Jinchuan nickel deal for stainless project: China's Jiuquan Iron & Steel (Jisco) is in talks with the country's largest nickel producer, Jinchuan Group, to secure a steady nickel supply for it's 600,000 tpy stainless steel project to be started later this year. **Jisco** - which has 5 million tpy of production capacity for carbon steel products such as wire rod, bar, coil and plate - will begin test-runs on its first **stainless steel** facility near the end of the year. According to sources, the initial stage of Jisco's project will have a capacity of 600,000 tpy for producing **stainless Grade 300 and 400 hot rolled coil** while a second stage will see the company move on to installing **800,000 tpy of stainless cold rolling capacity in 2007.**

<u>Stainless Steel Market Forecast in 2005-Growth Rate in % p.a.</u>

Product Form	Europe	N.America	Japan	Other Asia	Other World	Total World
Long Products	3.0	1.5	-1.0	5.5	4.0	3.3
Flat products	5.0	3.5	1.0	8.5	6.0	4.8
All Products	4.8	3.2	0.7	7.8	5.2	4.5

The above table depicts an overall positive trend in the stainless steel market.

In the Stainless Steel Scrap Scenario, it is observed that the CIS countries are the main exporter of the scrap and are exporting to Europe and Asia. USA is also exporting scrap to Asia.

While in the year **2000** the export to Asia has been 360 kt, for the year **2005** supplies are expected to reduce down to 250 kt. Hence, the battle for stainless steel scrap is on with supplies to Asia being threatened.

Shine comes off stainless steel scrap market: The stainless steel scrap market that performed strongly in the last year has peaked and is about to enter a period of decline. Gloomier forecasts for European economies, lower US automobile sales, less aggressive buying by Chinese stainless steel importers and the potential for a stronger US dollar may also drive US special mills to reduce their scrap buying and maintain tighter inventory controls. Europe's stainless scrap processors also face new risks and uncertainties of higher oil prices and the weak US dollar. The **stainless steel industry** is restructuring in Europe, a process that has altered the geography of production and scrap flow. Stainless scrap shipments to France and Italy from other European countries have also declined.

<u>Overall Scenario:</u>

By 2010, it is forecasted that six companies will dominate the stainless steel flat products market that will grow to 20.2 million tonnes.The biggest of those will reach an annual output of 4.5 million tonnes.Similar scenario is expected in the long products market with consolidation seeming to be ten years behind the consolidation in the flat products market. **Overall Stainless steel crude production** is expected to reach 30 million tonnes by 2010 with capacity boom continuation in the form of melt shop expansions in Asia and Western Europe.

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The **total stainless steel demand** is anticipated to be around 27.80 million tonnes in 2012 with scrap demand of 7.70 million tonnes. Also; the same shining factor is going to prevail in India with production expected to cross two million tonnes by 2009.

Price Movement:

Product	Review (April 05 over March 05)	Outlook (May 05 over April 05)
HR Coil	**SAME**	**LOWER**
CR Coil	**LOWER**	**LOWER**
GP/GC	**SAME**	**LOWER**
Long Products	**LOWER**	**LOWER**
Stainless Steel	**SAME**	**SAME**

Data Sources:

1) www.metalbulletin.com
2) Minerals & Metals Review-April 2005
3) www.news.google.com
4) Steel Product Report of CRISIL Research and Information Services

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