

Metal Sector Update

Steel (\$/t)

Prices	Current	YTD-12*	YTD-11*	% yoy
Benchmark	595	637	739	-13.8
China Export	595	622	708	-13.1
EU Domestic	646	701	825	-15.0
Indian HRC (Rs/t)	37172	36253	35572	1.9
Iron Ore	138	145	184	-21.2
Met Coke	355	374	414	-9.7
Thermal Coal	88	100.4	120.4	-16.6

* Avg prices

Inventory Position – China

mn tonne	Current	June-12	June-11	% yoy
Iron ore	94.8	94.8	92.3	2.7
Steel	21.6	21.6	25.2	-14.3

Base Metals (\$/t)

Prices	Current	YTD-12*	YTD-11*	% yoy
Copper	7692	8107	9396	-13.7
Aluminium	1876	2084	2552	-18.3
Zinc	1881	1980	2324	-14.8
Lead	1848	2036	2576	-21.0

* Avg prices

LME Inventory Position

mn tonne	Current	June-12	June-11	% yoy
Copper	0.26	0.26	0.47	-44.7
Aluminium	4.8	4.8	4.5	6.7
Zinc	0.99	0.99	0.86	15.1
Lead	0.35	0.35	0.32	9.4

BSE Metal Vs Sensex Chart



Steel Sector News

- Steel prices, globally, has corrected significantly as falling demand and excess supply continue to exert pressure on steel prices. Falling prices of coking coal and iron ore and depreciating local currencies viz-a-viz dollar has resulted in fall in dollar denominated prices. Recent quotes for CIS origin HRC were at \$ 550/tonne representing 16% fall over April-2012 prices. Chinese export prices dipped 8.5% since April-12 and were at \$ 595/tonne. Steel prices in Europe declined 12% in dollar terms over April-12 prices.
- Domestic flat steel prices, on other hand, were resilient as ~13% rupee depreciation during 1QFY13 kept landed prices at premium to domestic one. **Going forward, we expect flat steel prices unlikely to decline significantly from current levels. Though long steel prices have been steady for some time, we expect them to correct in the range of 8-10% on account of lower off take during monsoon season.**
- Iron ore prices have dipped ~9% in last two months amidst falling demand from China. Lull in iron ore prices was also accentuated by increased supply from Australia and Brazil. Notably, supply has jumped in backdrop of increased inventory levels at Chinese ports and increased domestic production. **We expect iron ore prices to remain weak unless Chinese government come out with any meaningful economic stimulus.** Notably, Australian Bureau of Resources and Energy Economics (ABARE) has lowered iron ore prices forecast for CY-12 to \$ 136/tonne from \$ 140/t earlier.

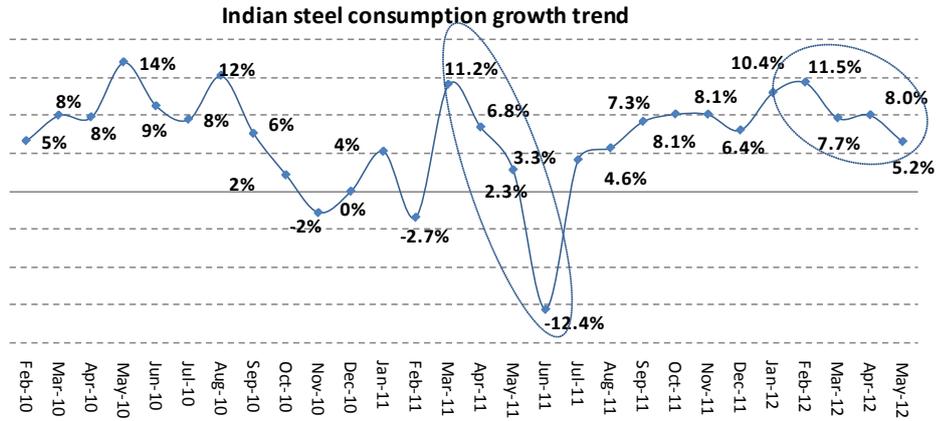
Base Metal News

- Base metal prices gained 2-7% in last one week on the back of positive sentiment emanating from Europe. Further expectation of favourable Chinese monetary policy aided rally in base metals. Within base metals Zinc gained 7%, Lead 6%, Copper 3.7% and Aluminium 2.3% in last one week.
- We expect base metals continue to take cues from Europe as European Central Bank and the Bank of England are both expected to announce cut in benchmark interest rates following separate policy setting meeting Thursday. Further, International monetary fund has lowered US growth projection for year 2012 and 2013. In the event of continued slowdown in US economy additional stimulus cannot be ruled out and this could weaken US dollar against major currencies and may led rally in base metals.**



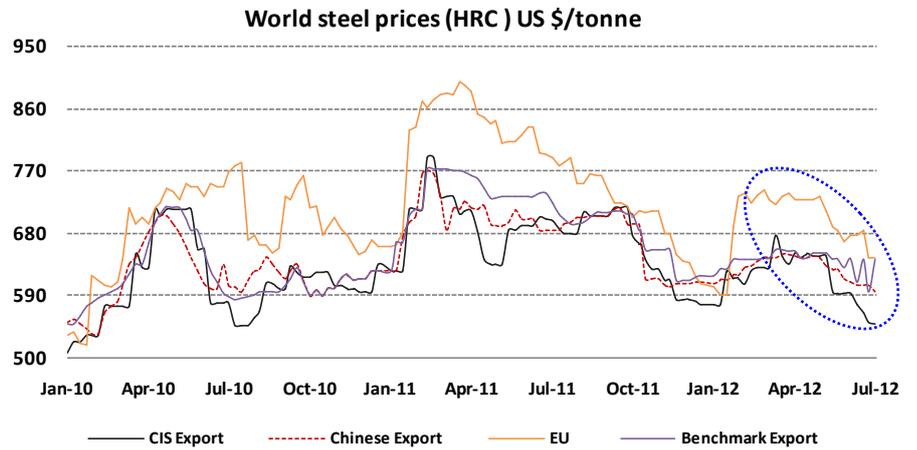
Ferrous Sector:

Steel consumption expected to witness tepid growth over next 2-3 months on account of monsoon season.



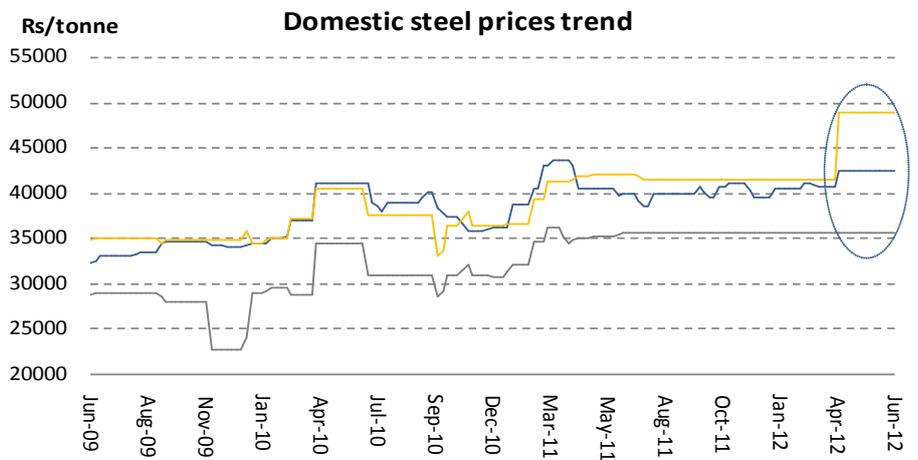
Source: Bloomberg, Arianth Research

HRC prices have corrected 8-16% in last one month across all regions.



Source: Bloomberg, Arianth Research

Flat steel prices continue to hold firm despite falling globally.

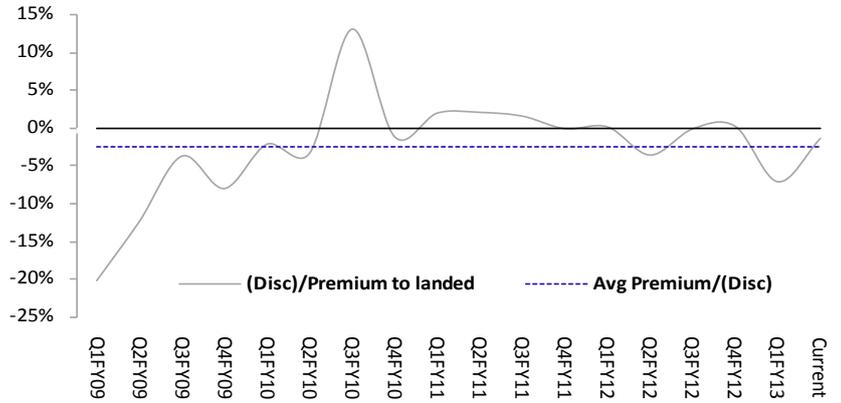


Source: Bloomberg, Arianth Research



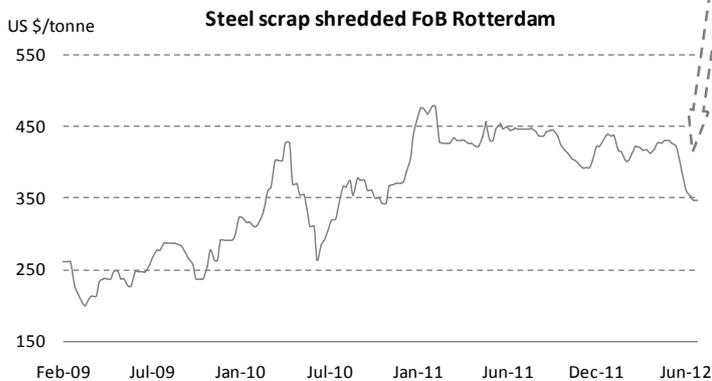
Domestic prices are at par with landed prices.

Domestic Vs landed steel prices– Premium/ (discount)



Source: Bloomberg, Arihant research

Scrap prices corrected ~20% in last two months.



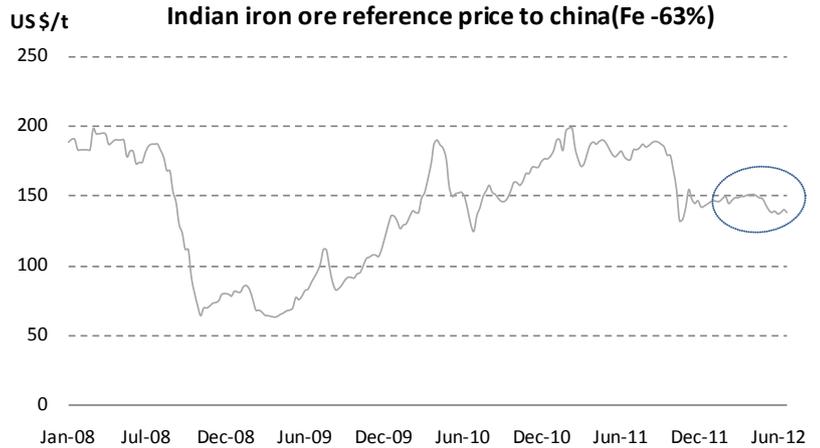
Source: Bloomberg, Arihant research

Iron ore

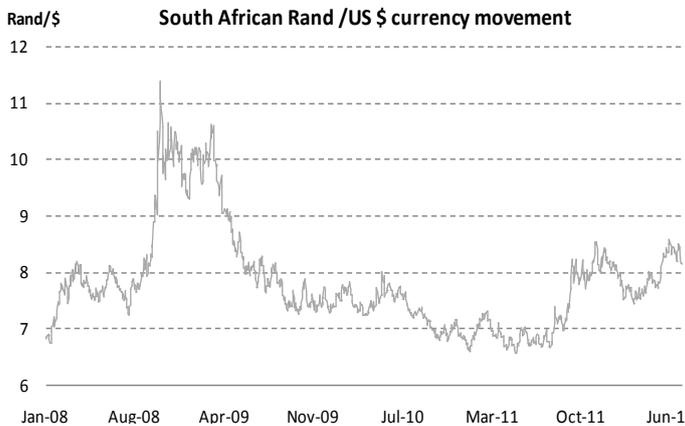
Iron ore prices have dipped ~9% in last two months amidst falling demand from China.

Ferrochrome Prices

European ferro chrome prices declined 4% in last month on the back of falling demand, strong dollar and depreciating rand.

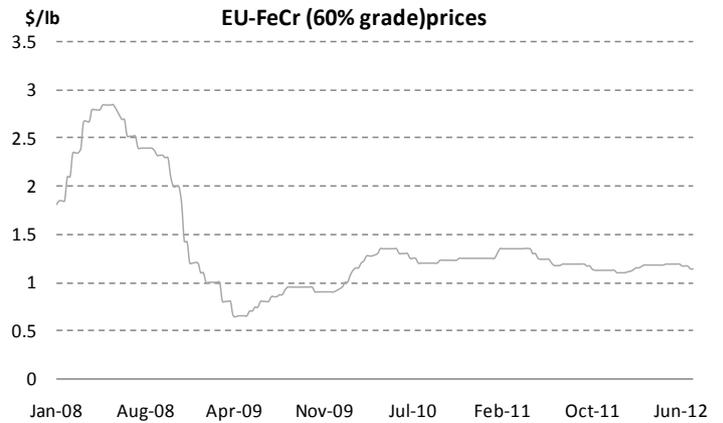
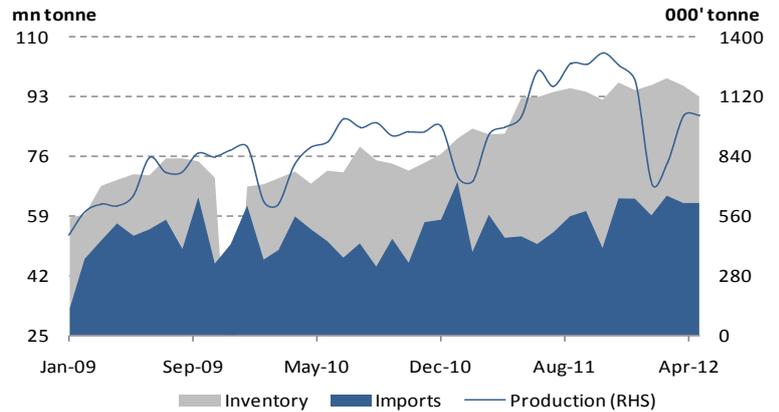


Source: Bloomberg, Arihant Research



Source: Bloomberg, Arihant Research

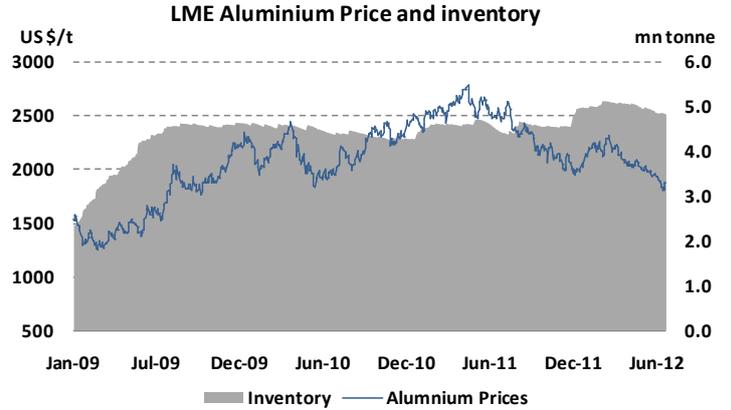
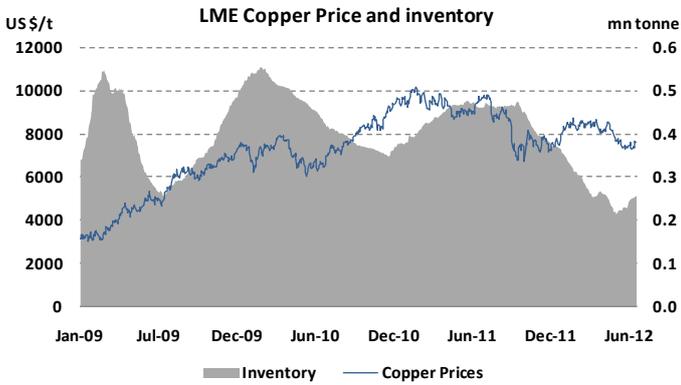
Chinese iron ore production, Imports and inventory levels



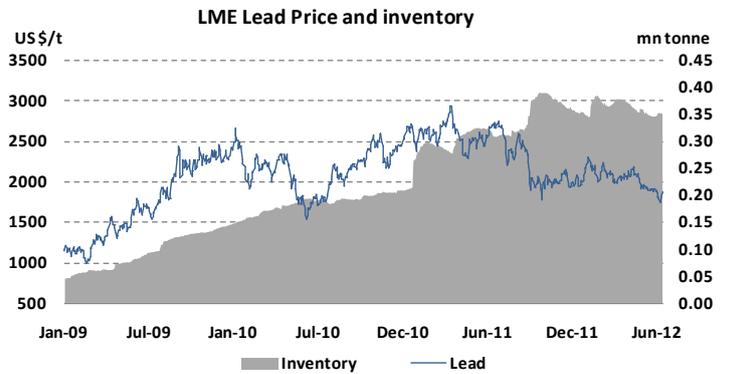
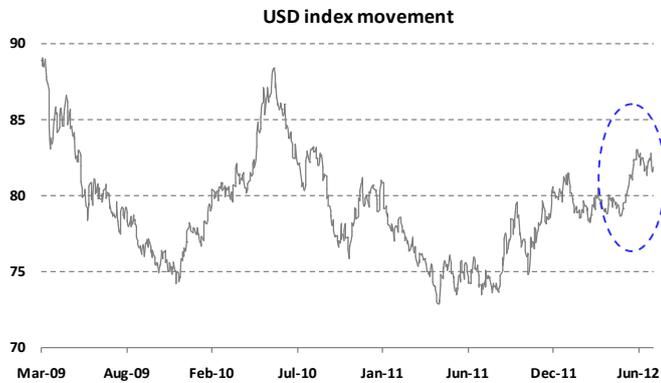
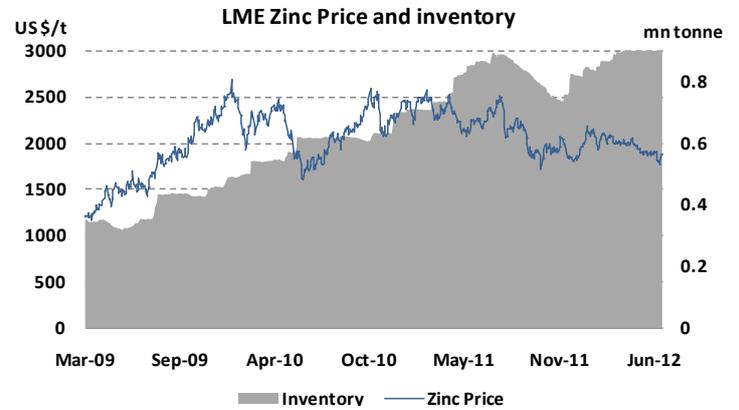
Source: Bloomberg, Arihant research



Non-Ferrous Sector



Base metal prices gained 2-7% in last one week on the back of positive sentiment emanating from Europe.



Source: Bloomberg, Arihant research



Corporate News

- ✓ *SAIL will sign the final pact with Japan's Kobe Steel next week for a joint venture which will set up a facility to produce iron nuggets at an investment of Rs 1,500cr.*
- ✓ *SAIL is planning spend Rs 3,000cr to hike its Gua mine capacity in Jharkhand.*
- ✓ *The SAIL-led consortium may sign the final pact with Afghanistan by July-end to develop a steel plant, a thermal power plant and necessary infrastructure with total investments of over \$ 10bn*
- ✓ *JSW Steel will start operating at its full capacity of 11mn tonnes per annum in the next two months on expectations of additional iron ore.*
- ✓ *Adhunik Metaliks is slated to commission a 1.2mn tonne pellet plant in Jamshedpur for merchant sales in the eastern region.*
- ✓ *NMDC will invest Rs 30,071cr during the 12th Five Year Plan period, which started on April 1 this year, to achieve a production capacity of 50mn tonnes by 2016-17*

Source: Economic Times, Business Standard, Business line.



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Stock Rating Scale

Absolute Return

BUY	:	>20%
ACCUMULATE	:	12-20%
HOLD	:	5-12%
REDUCE	:	< 5%

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