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Medium term Outlook on Steel Flats

August 2017



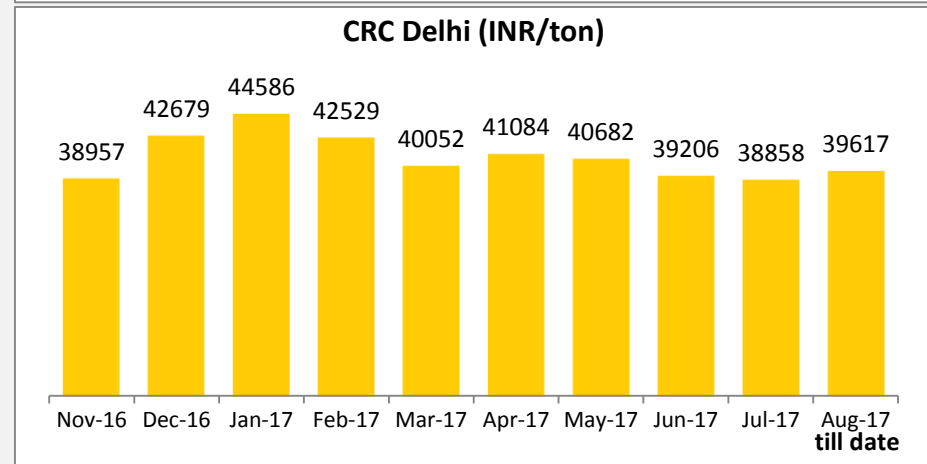
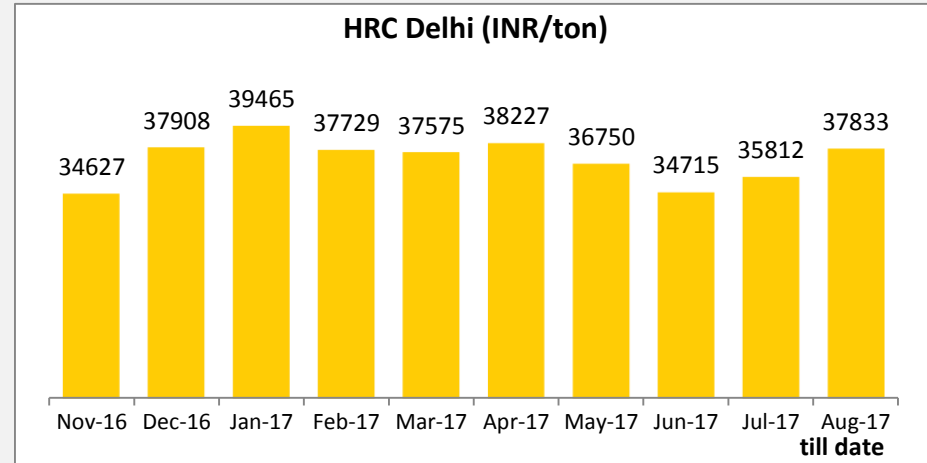
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Price Trend Review – Secondary Steel Market

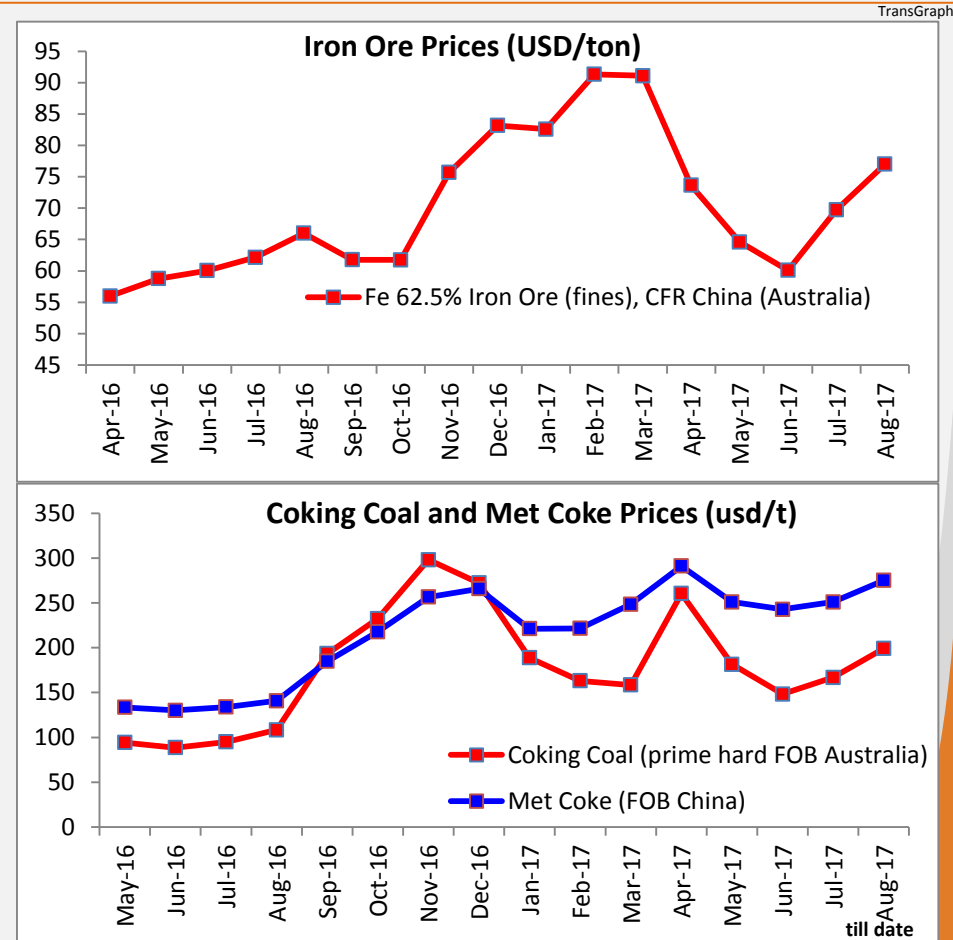
- Domestic flat steel prices have recovered in July amid positive sentiments after GST implementation and increasing buying activity.
- Chinese steel prices have also risen in July supported by expected decline in output levels, coming at a time when steel inventories are low and demand high.
- Domestic raw material prices have also risen supported by domestic steel price rise.
- Moving ahead, prices are likely to find support in August amid increased buying during peak consumption season by automobile sector ahead of festival season.

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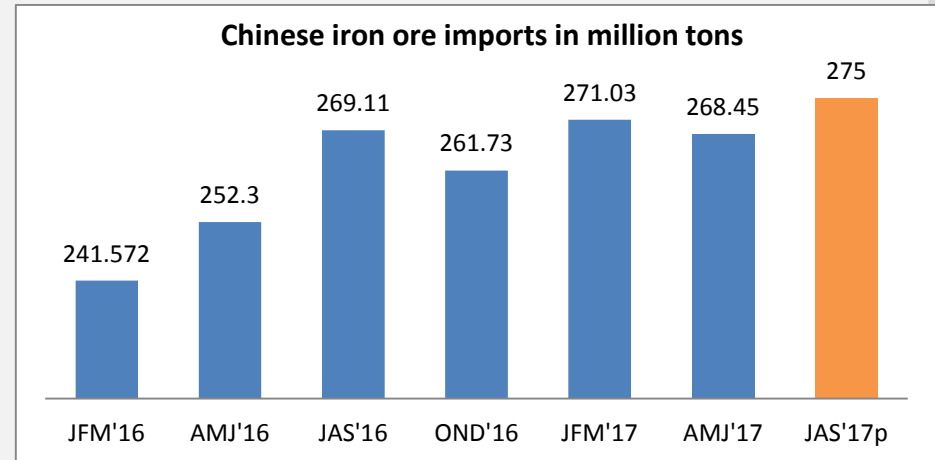
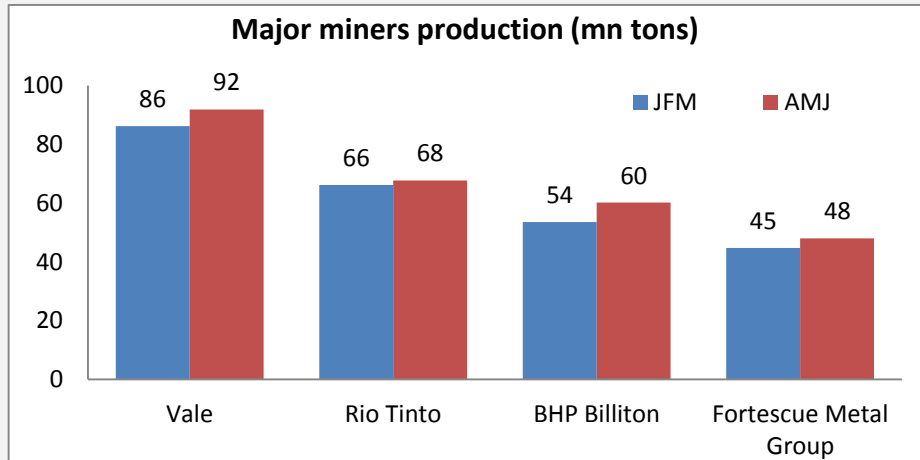
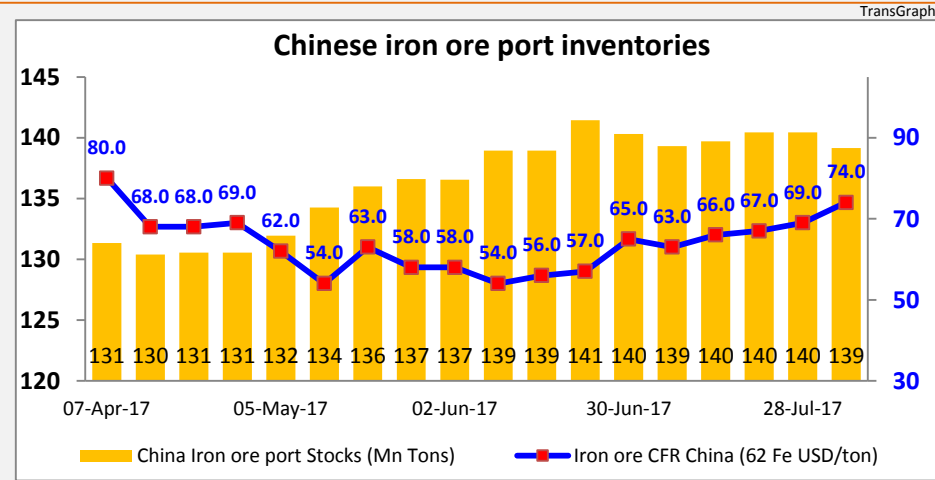
Iron ore and Coking coal prices witness significant rise backed up by steel price rise

- Iron ore prices have declined during Mar-June from more than two year highs despite continued strong import demand from China as stocks in the mainland surged to record highs while supplies from new mines in Australia also emerged into the market. However, prices have witnessed significant rise since mid-June amid rise in Chinese steel prices.
- Meanwhile, coking coal prices, after bottoming to USD 150 levels in June have witnessed support from late-June amid worries about tightening supply after China has announced to ban coking coal import into small ports and rising steel prices.
- Overall, iron ore and coking coal prices are likely to rise further in August amid rising steel prices and worries about tightening supply (for Coking coal).

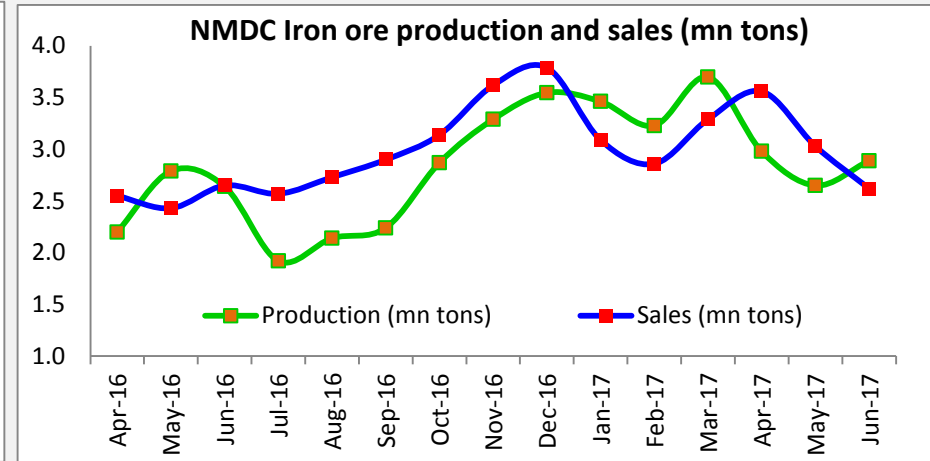
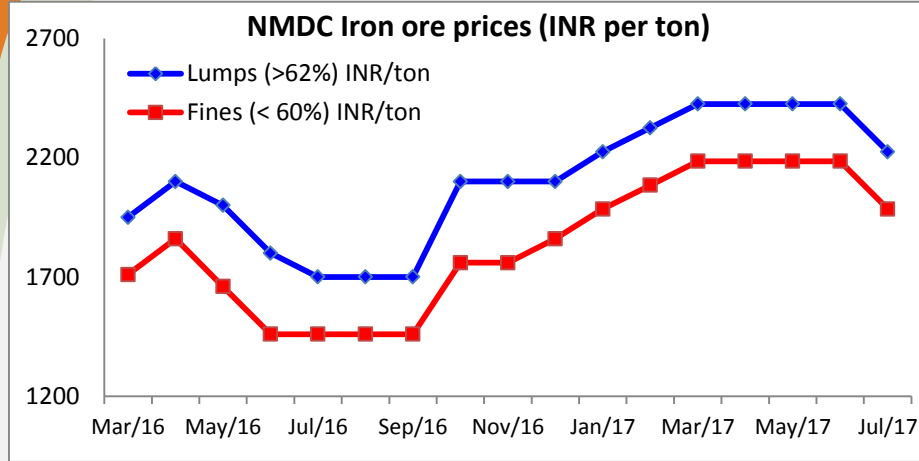


Iron ore rises despite supply glut

- Higher Iron ore imports leading to rise in Chinese port inventories to record levels during the current year (140 mn tons). However, they witnessed moderation in July amid increased steel production backed by higher operating margins due to price rise.
- Moving ahead, despite supply glut at the iron ore front, rising steel prices are likely to support iron ore prices over the coming months.



NMDC iron ore prices likely to witness rise in July, after a slump in June



- NMDC has earlier kept the prices of fines and lumps for the fourth consecutive month at INR 2085 and INR 2325 per ton respectively despite weakness in international prices due to steady rise in sales. However, with sales weakening over the last two months, NMDC has slashed prices by INR 200 for the month of July.
- Further, stock build-up in the recent months at the producer front due to higher export tax is likely to have undermined prices.

State-wise Iron ore Production

State	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17e	2017-18p
Chhattisgarh	29.32	30.54	27.96	29.25	29.42	24.60	32.00	35.00
Goa	35.56	33.67	10.90	0.00	0.00	1.78	4.00	6.00
Jharkhand	22.28	18.94	17.99	22.62	17.00	19.30	23.50	25.00
Karnataka	38.98	13.48	11.50	10.00	11.00	25.50	26.50	28.00
Odisha	76.12	67.31	64.19	75.00	68.00	80.80	100.00	109.00
Others	4.90	4.64	4.07	15.31	3.49	3.92	5.00	7.00
Total	207.16	168.58	136.61	152.18	128.91	155.90	191.00	210.00

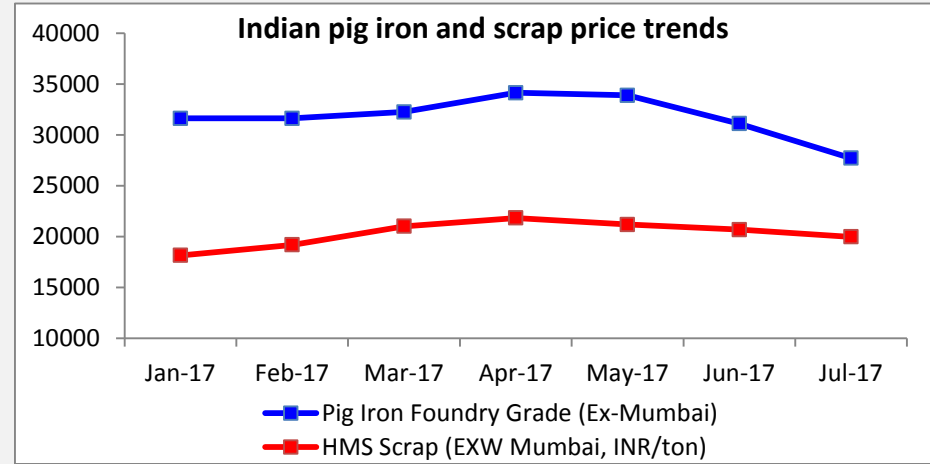
Indian Iron ore - Balance Sheet

Year	Production	Stock Mine Heads	Domestic Demand	Exports	Imports	Net Demand	Surplus
FY12	168.58	123.80	96.61	61.74	0.98	157.37	134.03
FY13	136.61	120.20	100.48	18.37	3.05	115.80	174.70
FY14	152.18	123.97	99.91	14.42	0.36	113.97	161.83
FY15	128.91	128.66	105.30	6.12	12.09	86.09	158.39
FY16	155.90	144.52	98.96	4.50	7.09	85.37	196.96
FY17e	191.00	149.00	107.91	28.00	5.00	130.91	204.09

- Despite rise in iron ore usage, weaker exports and rising production has led to production surplus at the domestic front. Surplus production is likely to have crossed 200 million tons during FY2017.

Pig iron prices lower amid weak RM and steel prices in July

- Strong Indian pig iron exports in JFM 2017 created tightness in the in the domestic supplies leading to surge in domestic pig iron prices
- However, with RM prices falling, pig iron prices have weakened during June-July.
- Prices are likely to find support in August amid rising steel and RM prices.



Indian Pig Iron Supply and demand

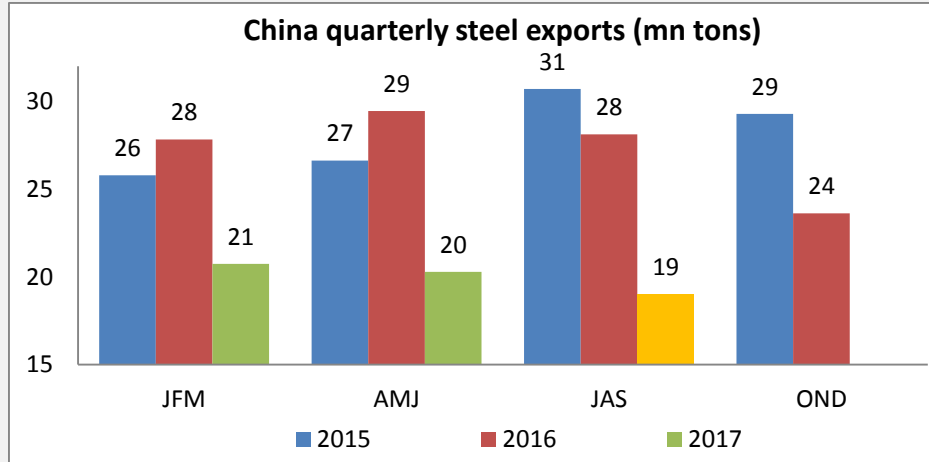
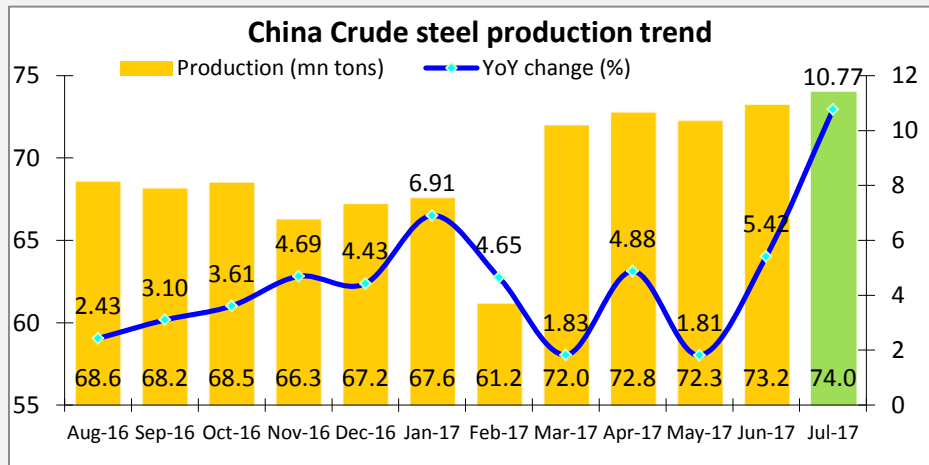
Parameter	AMJ 2016	JAS 2016	OND 2016	JFM 2017	AMJ 2017	2015-16	2016-17	2017-18p
Production	2370	2427	2333	2322	2270	9228	9452	9700
Imports	7	11	11	5	5	22	34	30
Consumption	2349	2200	2350	2165	2046	9021	9064	9160
Exports	9	101	36	241	152	297	387	390
Stock change	19	137	-42	-79	77	-68	35	180

Source: JPC, All units in thousand tons

Chinese steel exports continue to fall amid rising protectionism; Production continues to rise

- Chinese crude steel production for the month of June has risen to all time record high level of 73.2 million tons, a growth of 5.4% compared to last year. Production in July is likely to remain high amid higher operating margins supported by higher steel prices.
- Rising protectionism has led to steady decline in Chinese steel exports over the past four quarters. Correction in Baltic index is also indicating weakness in demand but remains stronger than 2016
- Trade standoff between US and China could further impact Chinese exports during the current year, thereby reducing the surplus material at the global front.

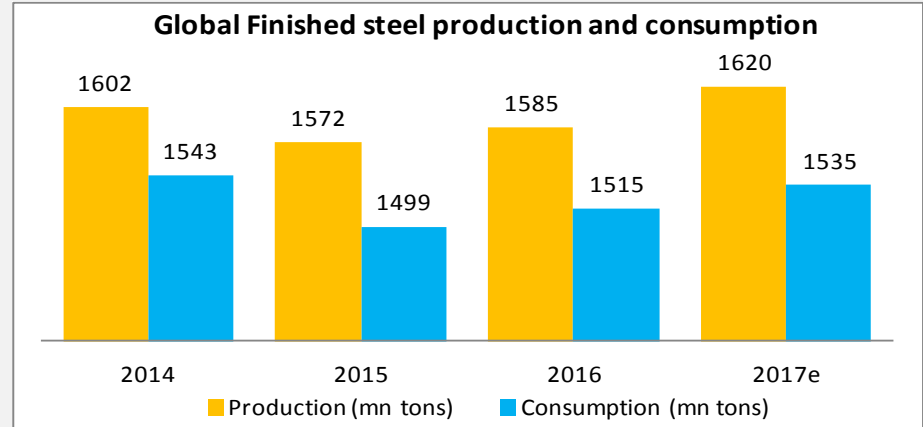
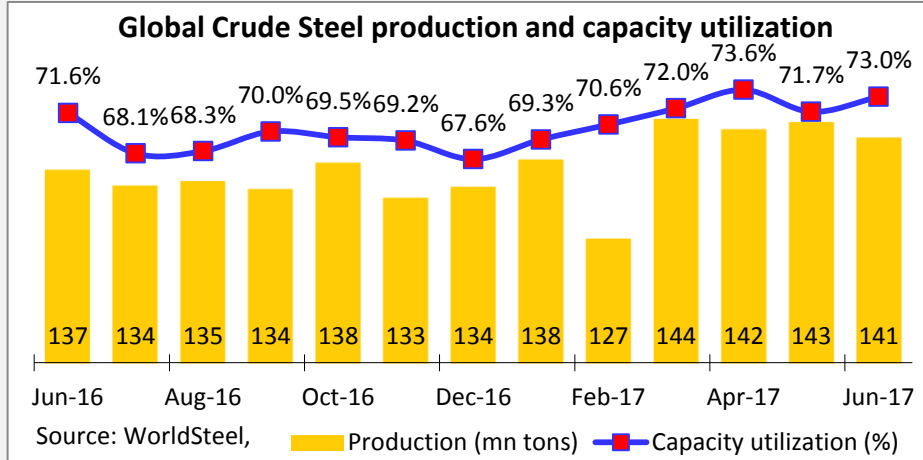
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Global capacity utilization increases as China cuts capacity

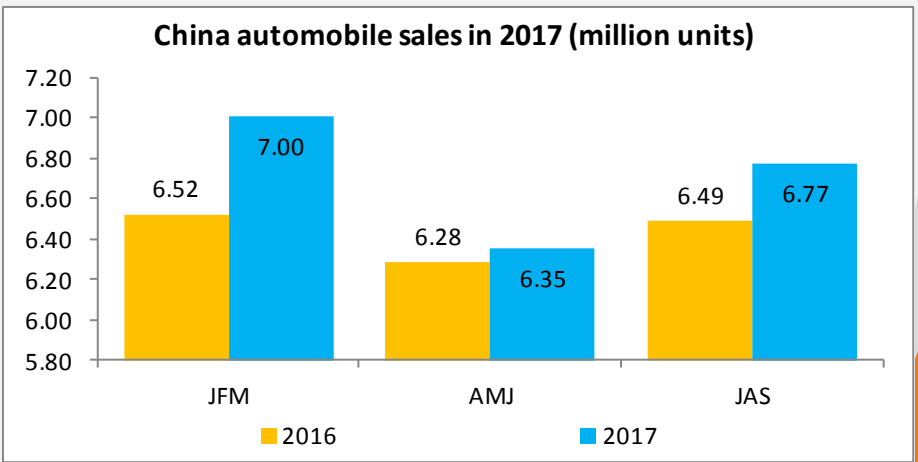
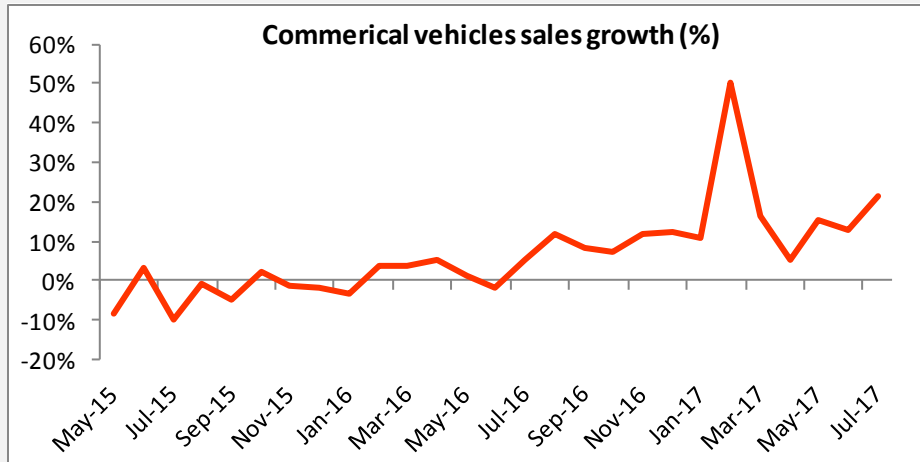
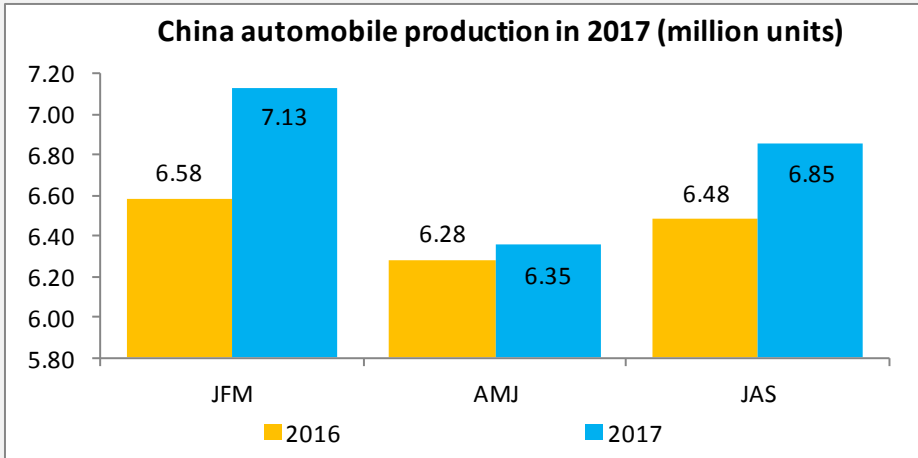
- Global crude steel production for the first six months of 2017 has increased by 4.3% YoY to reach 835 million tons. Production for the month of June has risen by 3.23% YoY.
- With China taking effective measures to cut its excess capacity, global capacity utilization has risen significantly in 2017.
- Global steel production and consumption are likely to witness rise in 2017 amid healthy steel industry in developing countries.

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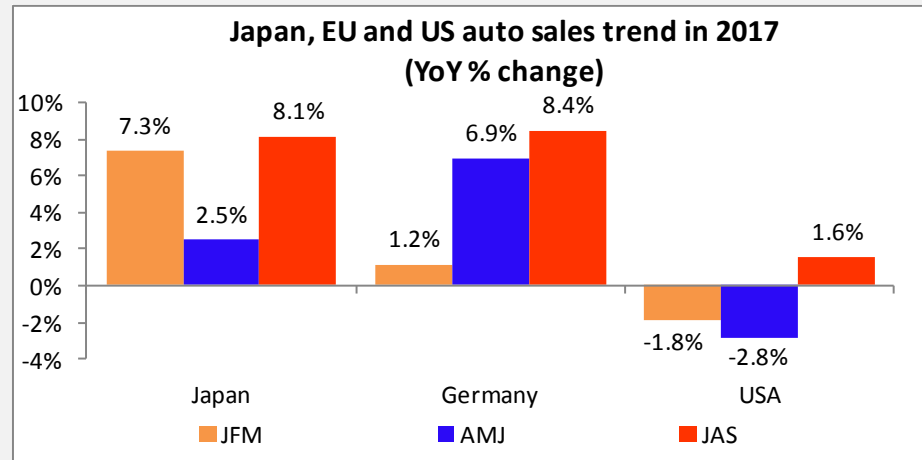
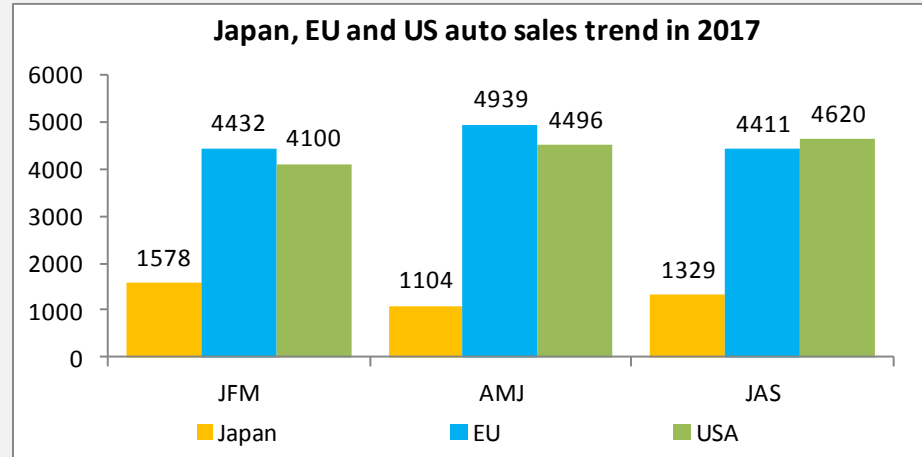
Chinese automobile production growth likely to remain strong

- ❖ Strong growth in China commercial vehicle sales to drive to automobile production higher while the passenger vehicles sales expected to rebound due to seasonal demand in JAS 2017 in the medium term
- ❖ Chinese production is expected to grow at a stronger pace at amid better than expected sales and inventory restocking after buoyant sales in the last two quarters of 2016.



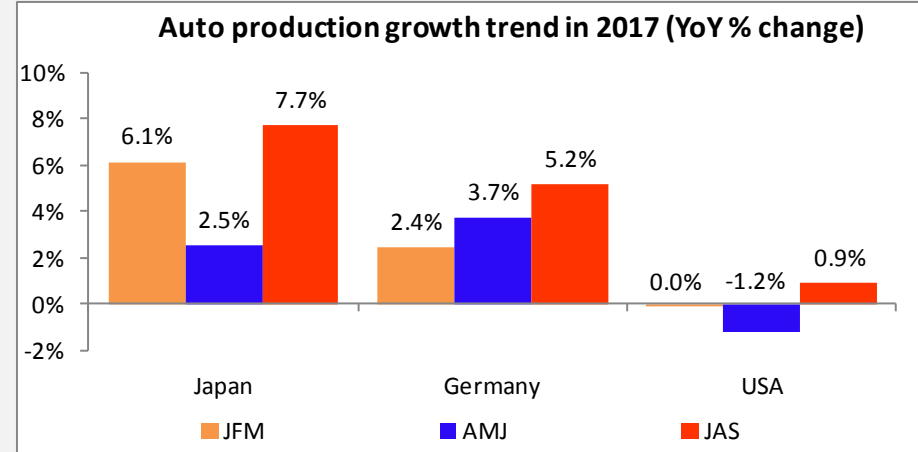
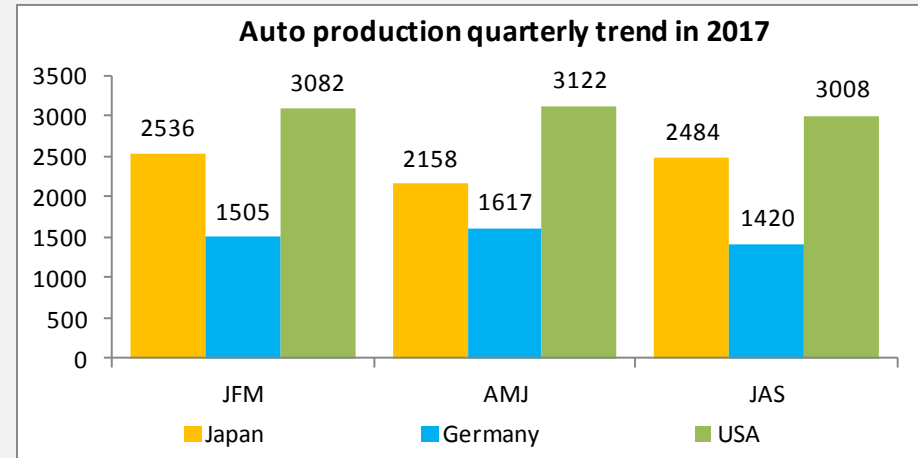
Recovery in US and Japanese sales along with stronger growth in China and EU to keep automobile sales growth prospects bright in the medium term

- ❖ After the weak growth in the past few months, US auto sales are expected to witness gradual recovery in coming months during the summer season.
- ❖ Meanwhile, robust growth momentum at the European front is likely to continue in to the third quarter due to availability of cheap finance and increasing consumer spending.
- ❖ Recovery in Japanese auto sales aided by the revival in Japanese economic growth supported by rise in exports likely to keep the sales growth stronger in the coming quarter.



Japanese auto production in recovery mode after extended slump

- ❖ Japanese auto production is expected to continue the recovery trend in the medium term aided by government's stimulus measures to infuse liquidity in market and higher export demand.
- ❖ Further, aided by strong economic growth sentiments and higher export demand Germany automobile production is likely to witness strong growth to the tune of 5.2% in the coming quarter
- ❖ Meanwhile, after the sluggish growth in the past three quarters US auto production is expected to witness moderate rebound in the next quarter supported by increasing sales and bright sales prospects due to improving wages, consumer confidence and declining unemployment in the coming quarters.



Indian Steel Dynamics



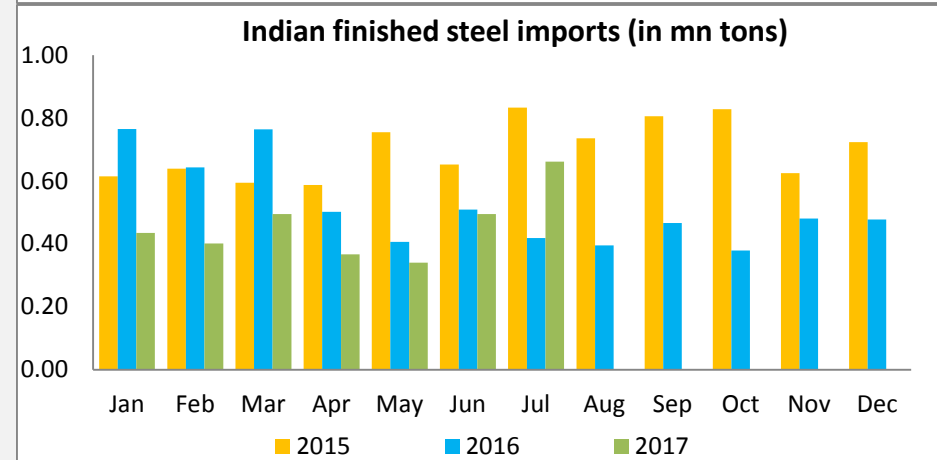
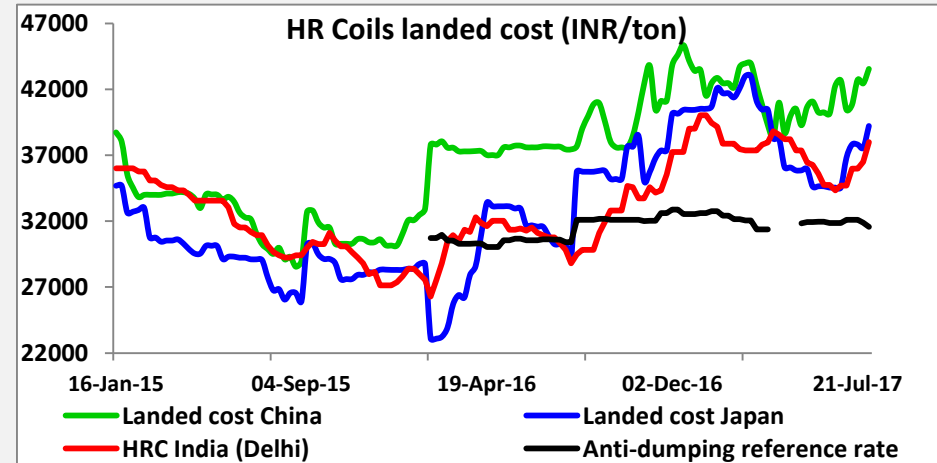
Indian steel balance sheet – Finished Non Alloy steel

Parameter	Jul'17	Jul'16	% Change	Apr-Jun'17	Apr-Jun'16	% Change
Gross production	8.333	7.606	9.56%	26.59	24.53	8.40%
Own consumption	0.849	0.837	1.43%	2.603	2.345	11%
Total Production for sale	7.484	6.769	10.56%	23.99	22.18	8.10%
Imports	0.662	0.419	58.00%	1.206	1.417	-14.90%
Exports	0.709	0.431	64.50%	1.778	1.111	60%
Consumption	7.477	6.757	10.66%	22.57	21.45	5.20%
Stock change	-0.04	0.00		0.842	1.034	

Source: JPC, All units in million units

Imports remain costlier due to Anti-dumping and Safeguard duties

- Currently, flat steel export prices have been rising significantly in China and Japan amid healthy demand. This led to import parity rising to around INR 5500 for China and INR 1200 for Japan.
- Domestic steel has additional support against Chinese imports as safeguard duty is applicable on Chinese imports. Currently, with global prices remaining higher, current anti-dumping duty on imports from China and Japan is zero.
- Steel imports from the first four months of FY18 have fallen by a mere 2% compared to the same period in FY17. This is due to higher imports witnessed in June and July.



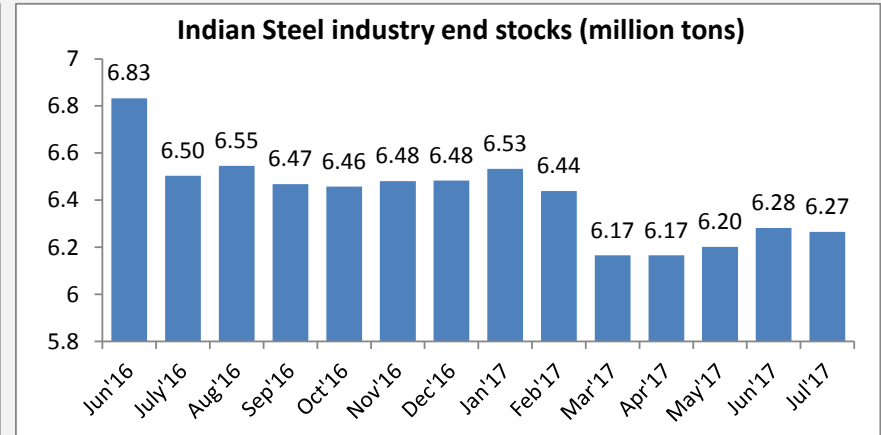
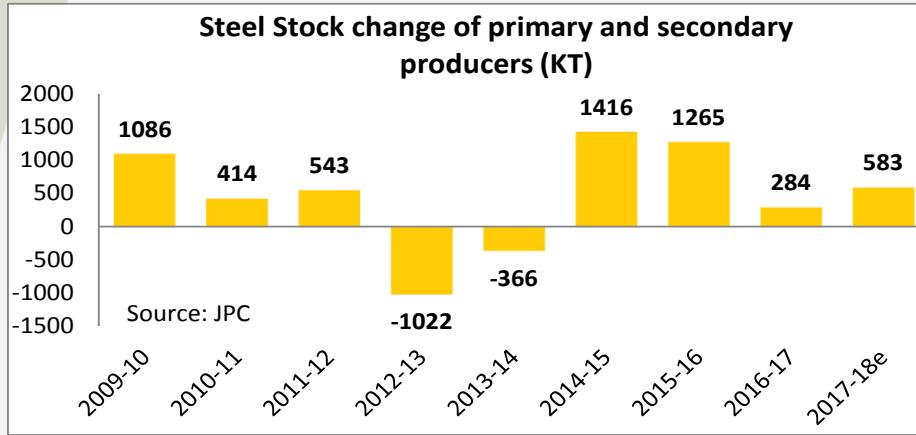
Indian primary producers reap in the recent price increases

Crude steel production	Apr'17 – Jul'17	Apr'16 – Jul'16	Incremental Production	Growth
SAIL	3.785	3.719	0.066	1.77%
RINL	1.155	0.938	0.217	23.13%
TSL	3.93	2.777	1.153	41.52%
ESL+JSWL+JSPL	10.91	9.889	1.021	10.32%
Others	14.941	14.808	0.133	0.90%
Total	31.325	28.949	2.376	8.21%

Source: JPC, All units in million tons

- Essar increased the operating rates after improvement seen in margins in a bid to get the loan recast request put in last year approved
- Increase in sales realization aided JSW repaying debt to the tune of INR 5000 Cr in 2016
- JSPL commissioning of DRI plant of 1.7 MTPA at Angul led to strong production growth.

Indian steel consumption growth remains steady – End stocks witness decline in FY'18

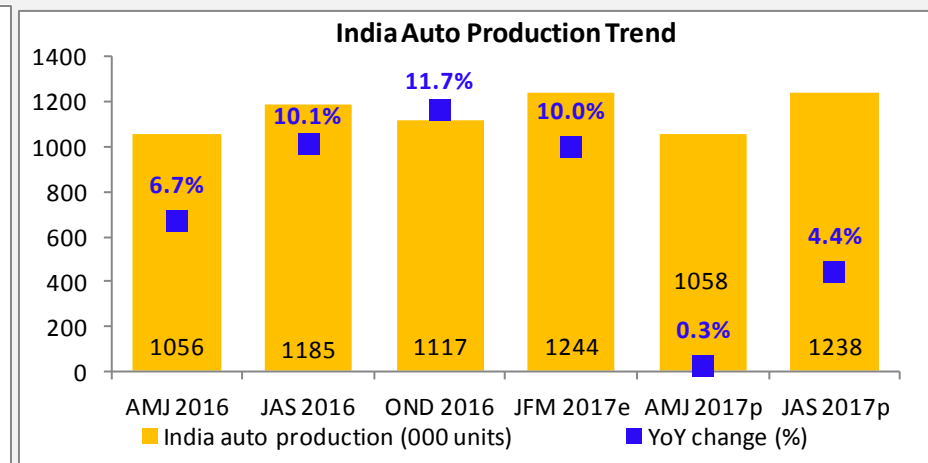
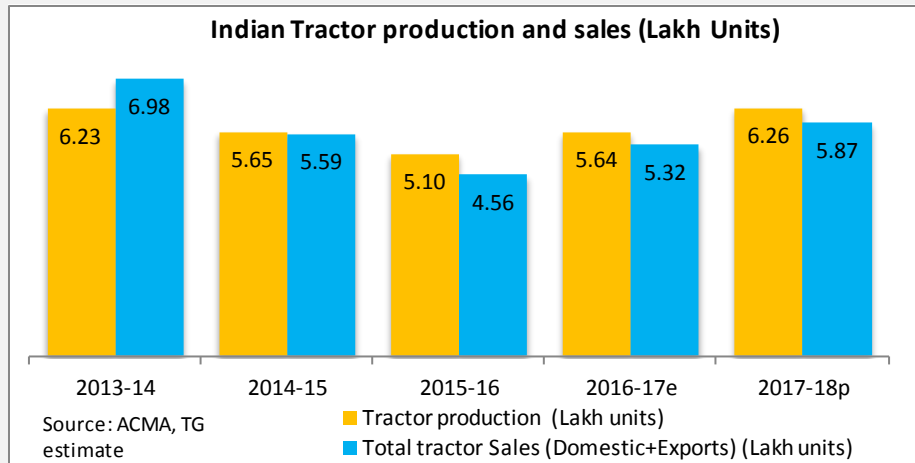
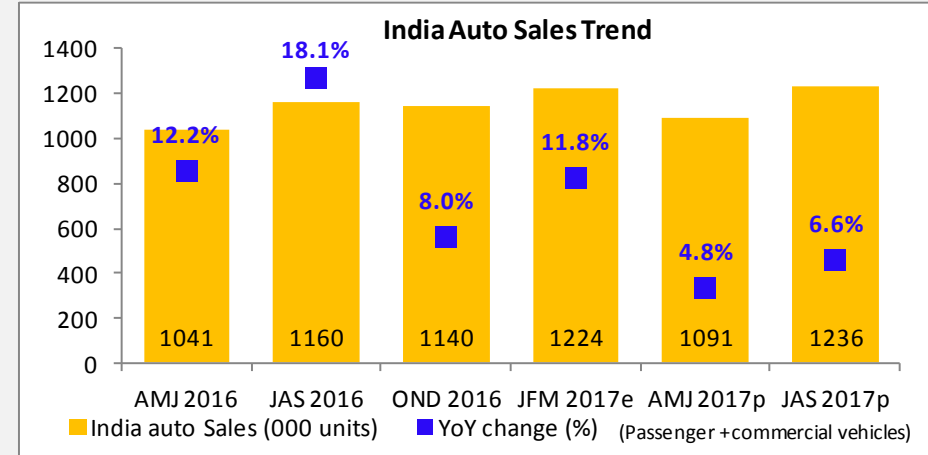


- Despite significant rise in domestic steel production and declining imports, increased domestic consumption has led to depletion of stocks. End stocks have fallen over the past few months indicating healthy demand.
- Earlier, rising imports amid subdued demand has led to stock piles at the domestic front which further pressurized prices.

Stronger Passenger and commercial vehicle sales growth rate post GST along with higher rainfall expected to boost rural demand to keep demand prospects bright

- ❖ India's commercial vehicles sales are seen gradually improving after the declining post implementation of BS-IV norms while June sales of passenger vehicles declined on yearly owing to uncertainty ahead of GST implementations.
- ❖ Going ahead, with automobile manufacturers expected to pass on the benefits of cost reduction after GST, vehicle prices are expected to come down which is expected to boost the sales along with pent-up demand from June is likely to remain supportive to prices in the medium term

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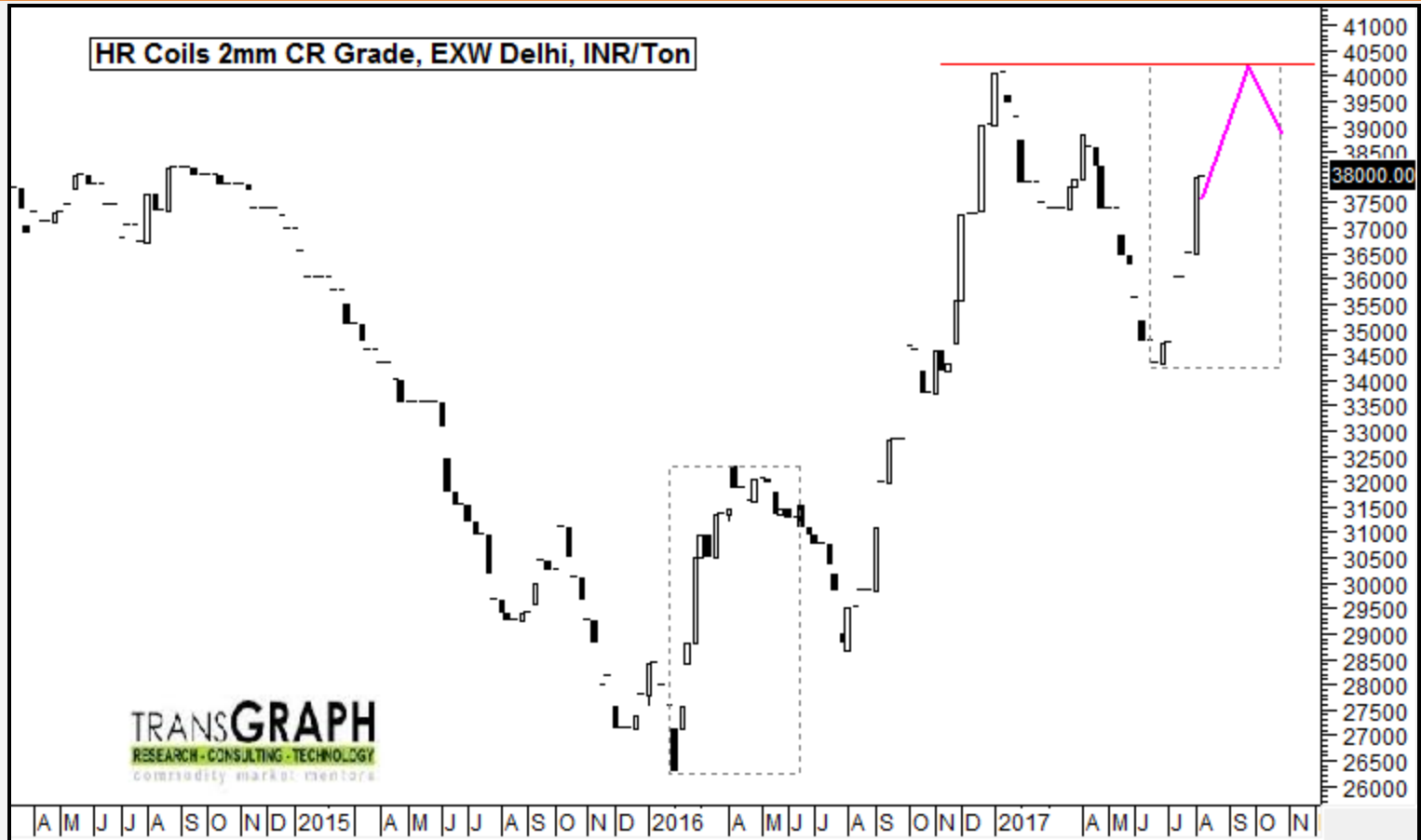
Technical analysis



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Steel (HRC) price outlook



HR Coils (2.5mm) Delhi Spot prices are likely to extend the gains towards INR 40000 before turning weak in the coming 2-3 months

Price outlook summary for next 3-4 months

- ✓ **HR Coils (2mm) Delhi Spot prices are likely to extend the gains towards INR 40000 before turning negative in the coming 2-3 months.**

Market	Aug 09, 2017	Price range	Direction
HRC	38500	37000 to 40000	Upwards

Ex-works Delhi, INR/ton



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