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# Medium term Outlook on Steel Longs

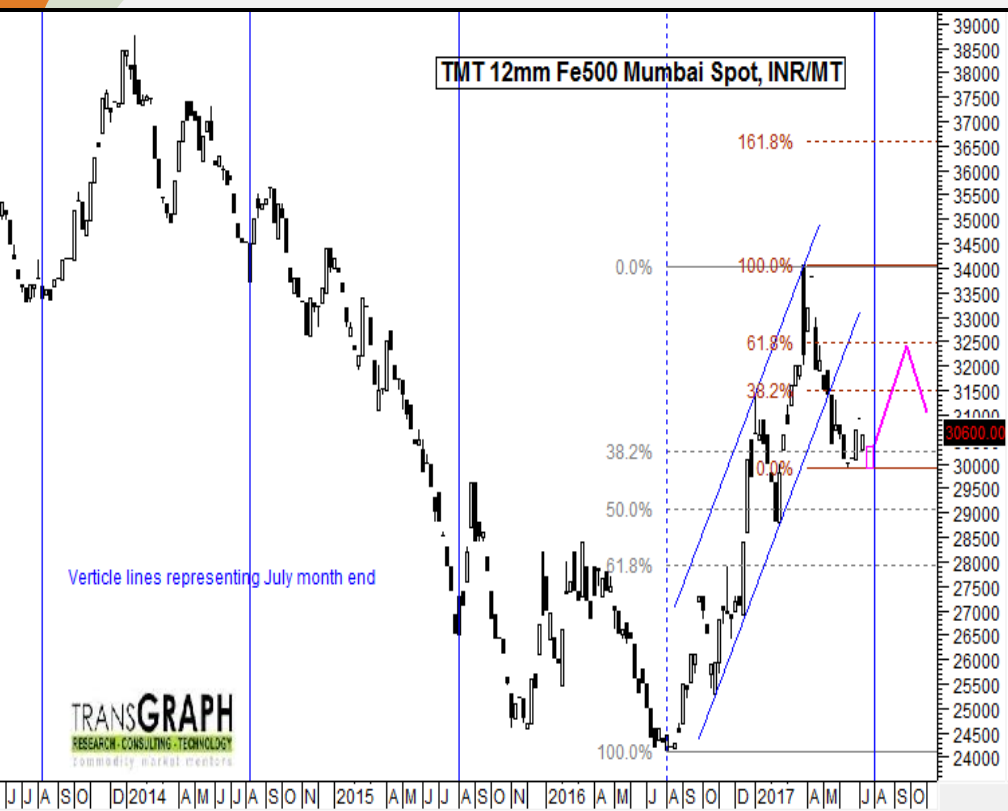
August 2017



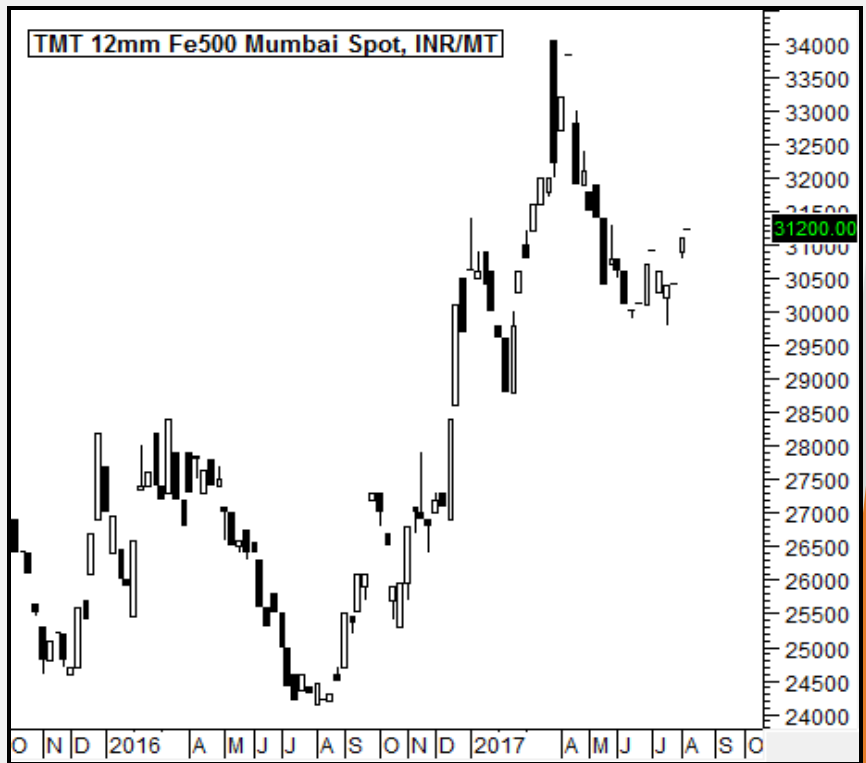
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# Review of TMT price outlook



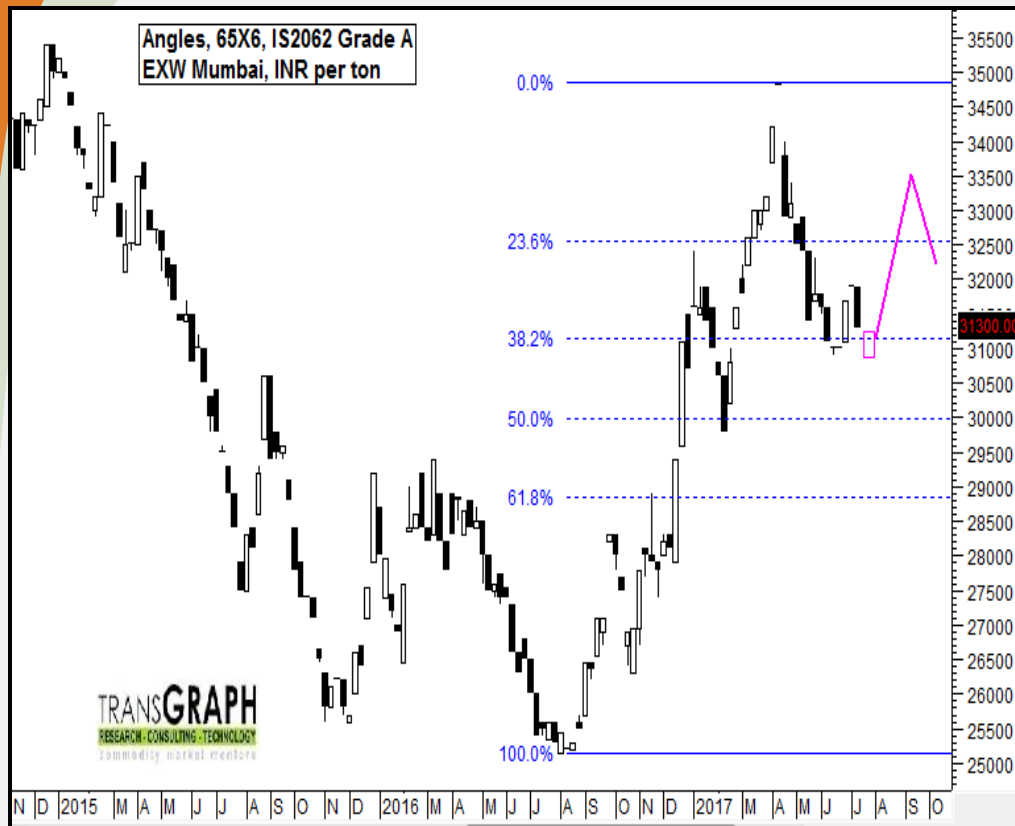
**Projected on July 14**  
Prices expected to trade higher towards INR 32500.



Prices have traded positive towards INR 32500 in the last month.



# Review of Angles price outlook

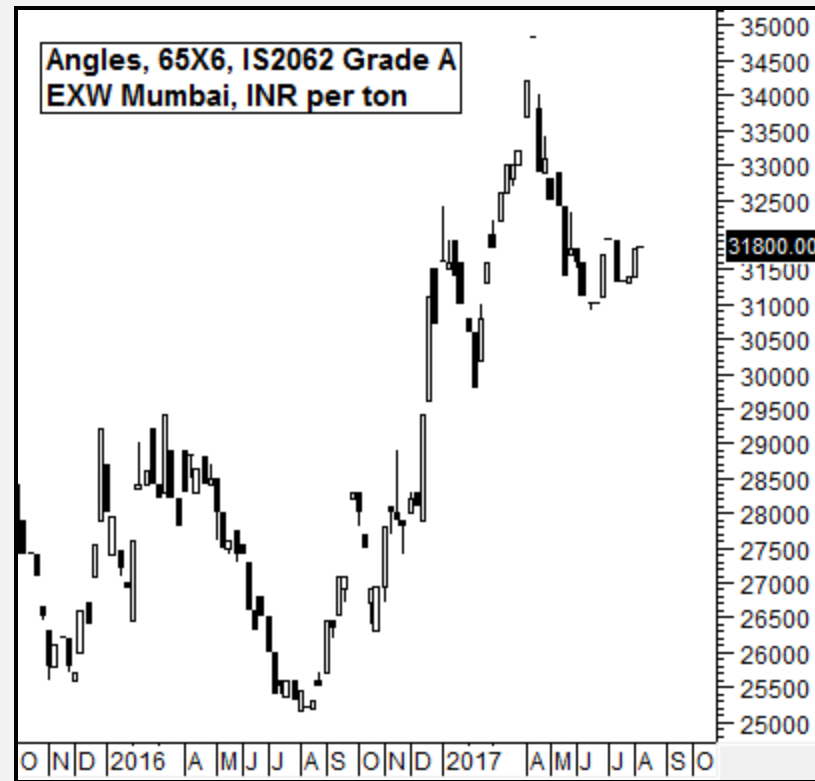


Prices have turned positive and traded higher towards INR 31800 in the last month.

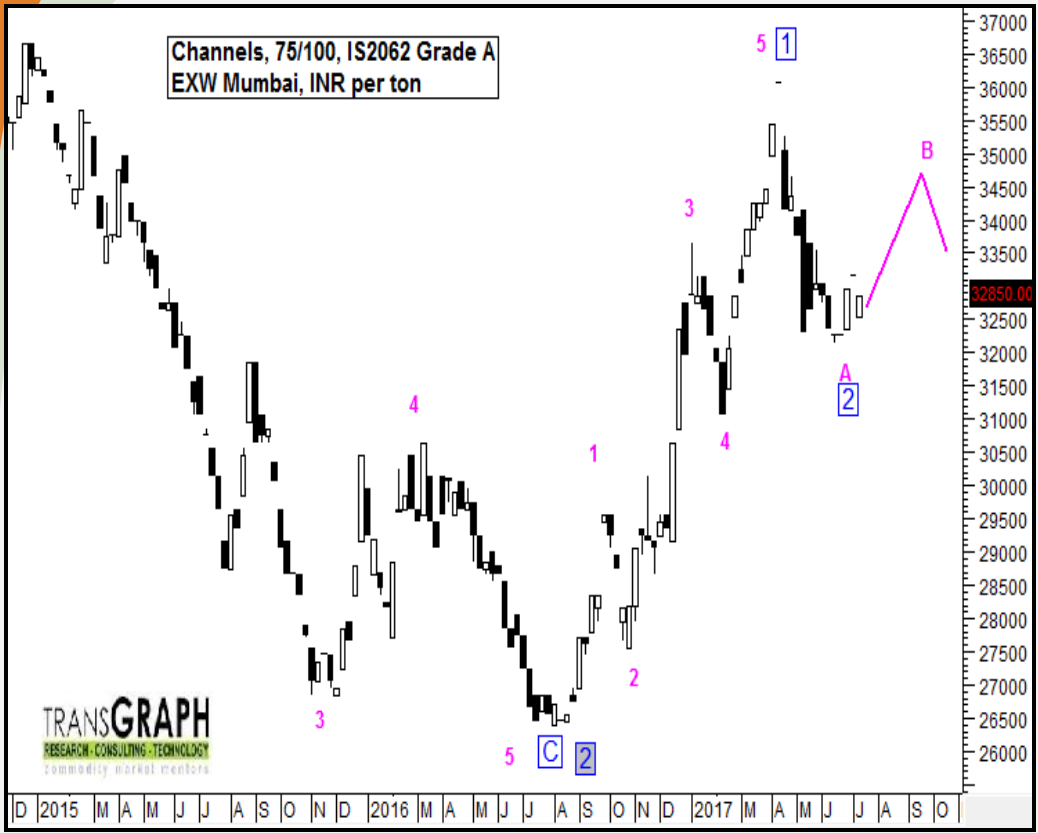


Projected on July 14

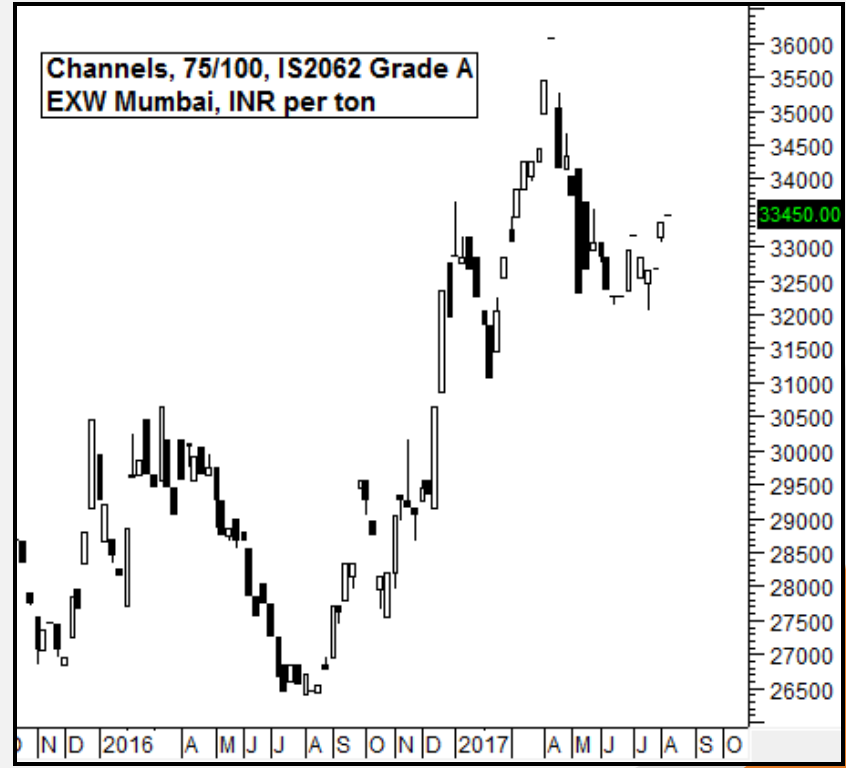
Prices are expected to stay above INR 30900 and trade higher towards INR 33500.



# Review of Channels price outlook



← Projected on July 14  
Prices expected to trade higher towards  
INR 34800 in the last month.

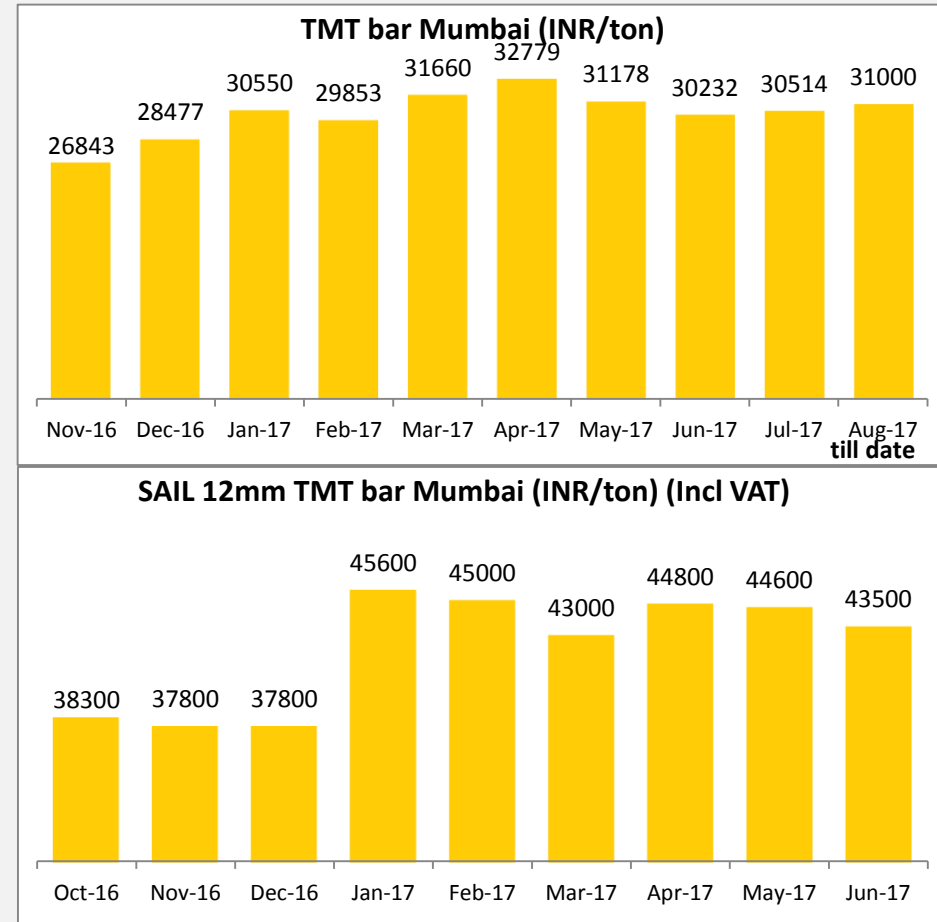


Prices have traded positive towards INR 33450 in  
the last one month.



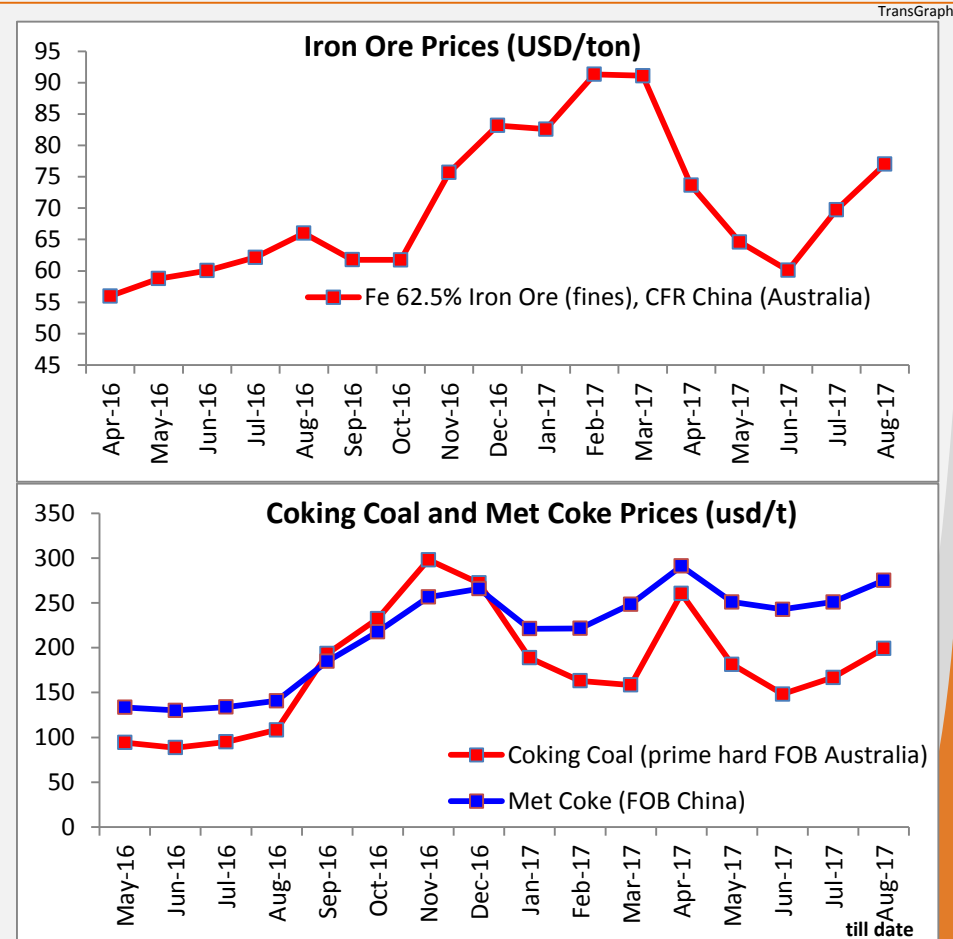
# Price Trend Review

- Domestic long steel prices surged lower during May-Jul period with cost pressure easing from falling raw material and scrap prices.
- However, with RM prices rising, and higher Chinese rebar prices, domestic long steel prices have risen in August. However, price rise is lesser than expected due to delay in monsoon activity which usually leads to lower buying activity.
- Moving ahead, long steel prices are expected to remain higher over the near term due to increased buying activity post monsoon season.



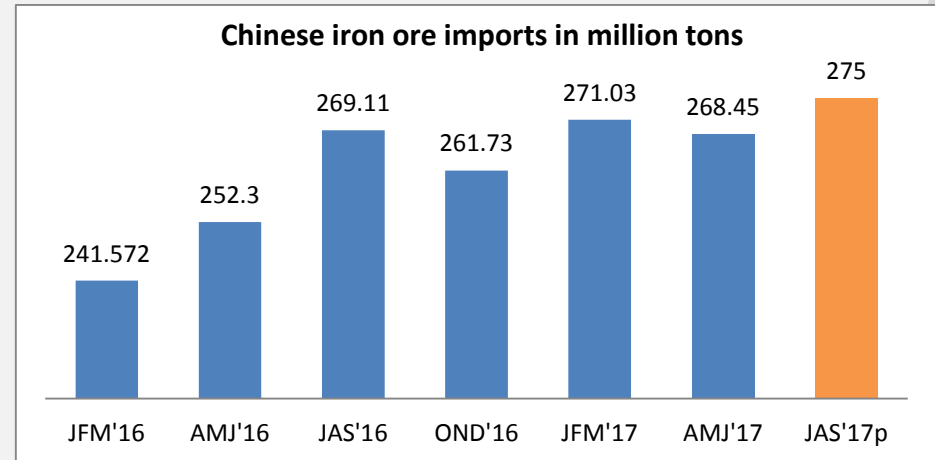
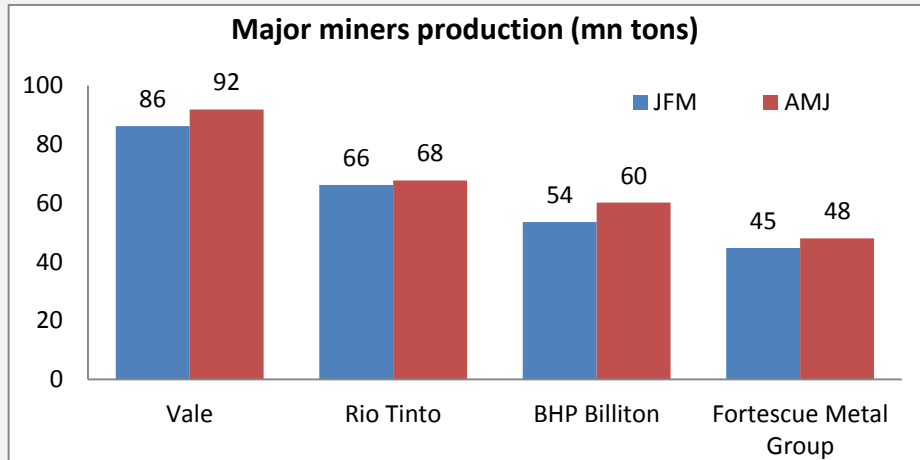
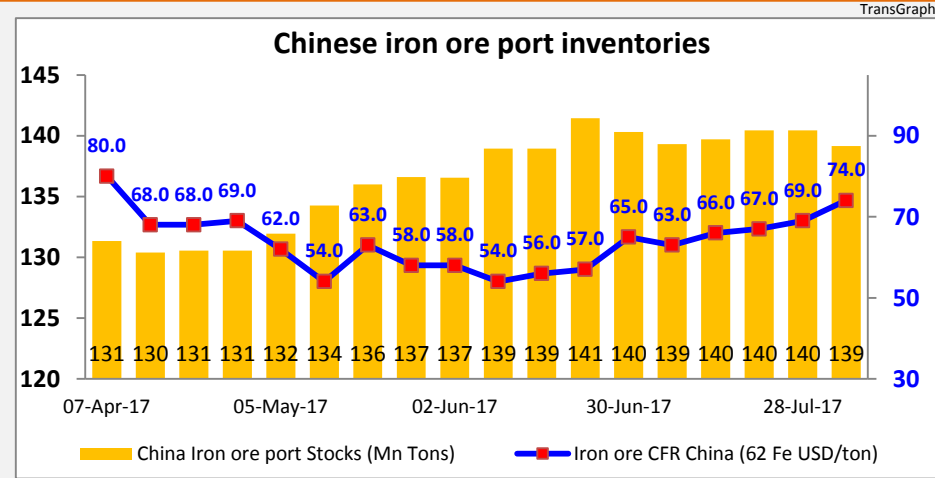
# Iron ore and Coking coal prices witness significant rise backed up by steel price rise

- 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).



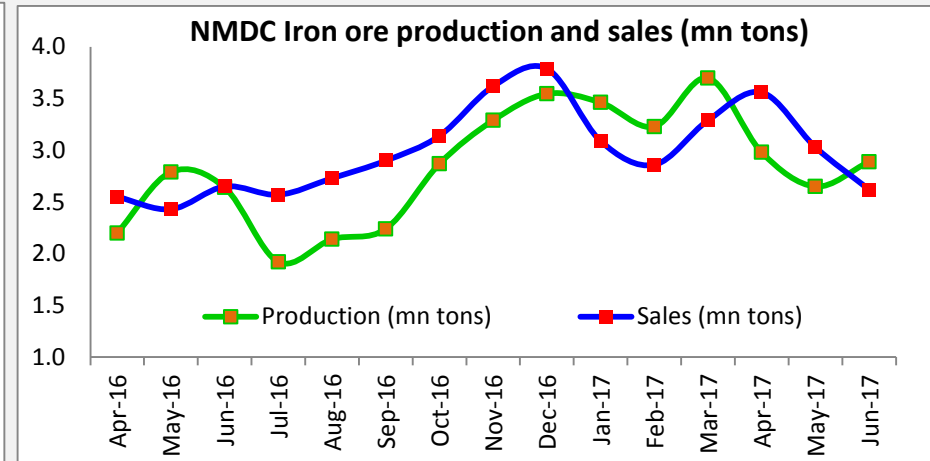
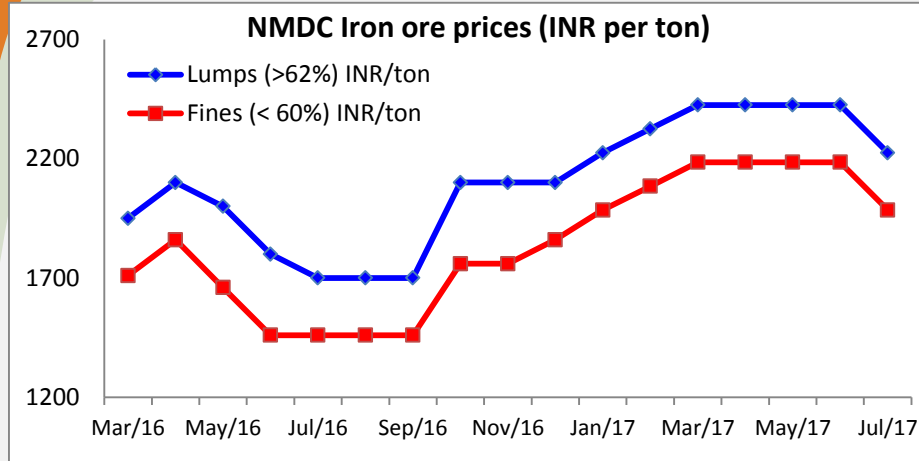
# Iron ore rises despite supply glut

- 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   |

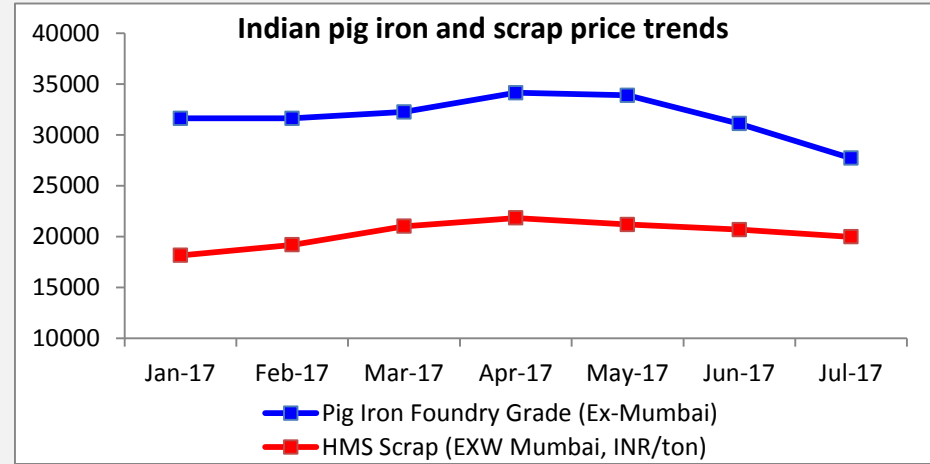
# Indian Iron ore - Balance Sheet

| 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.



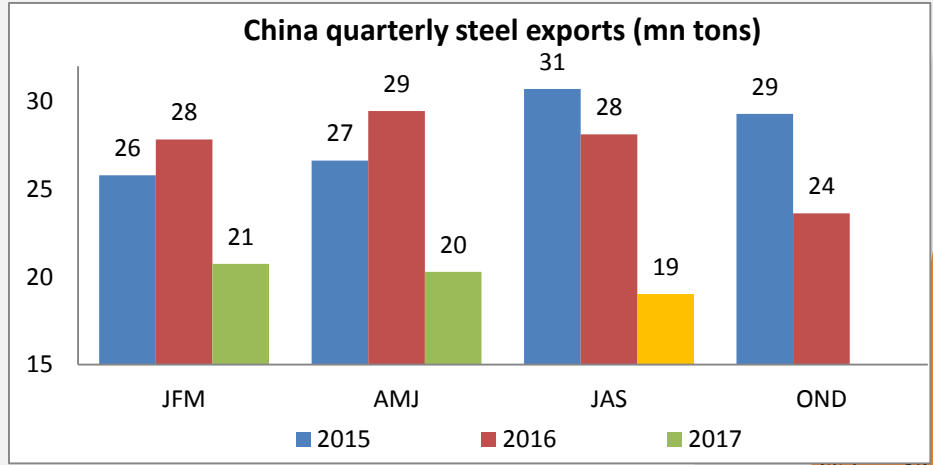
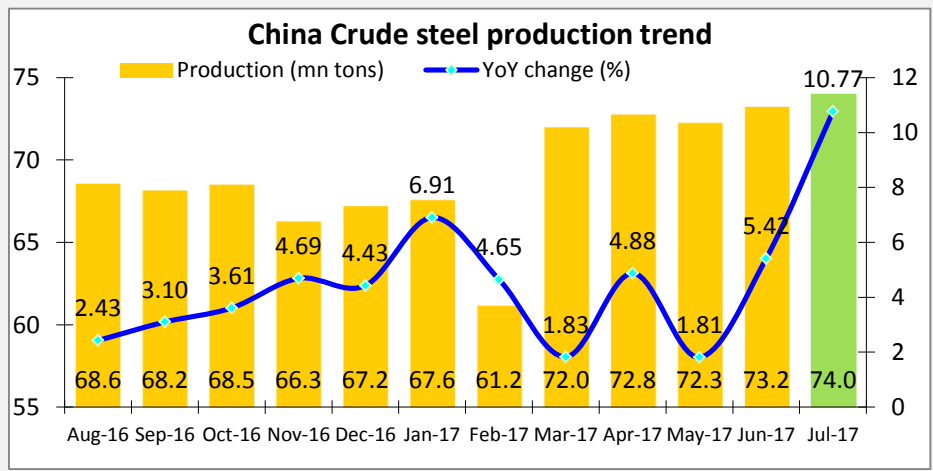
**Indian Pig Iron Supply and demand**

| 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

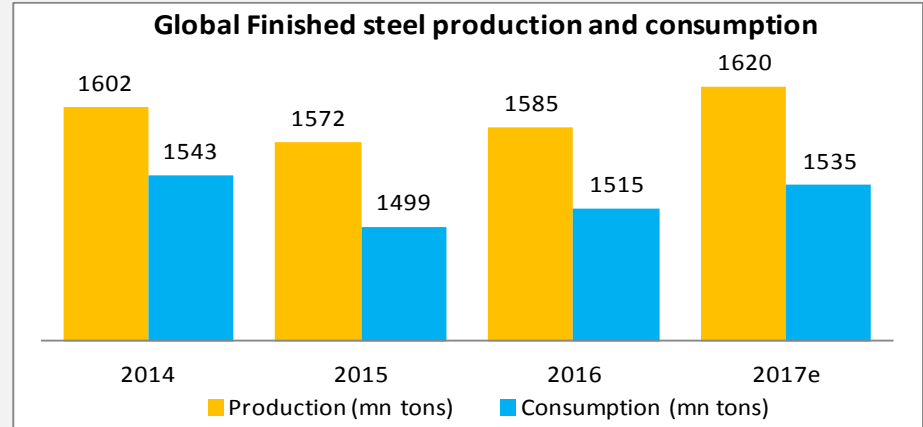
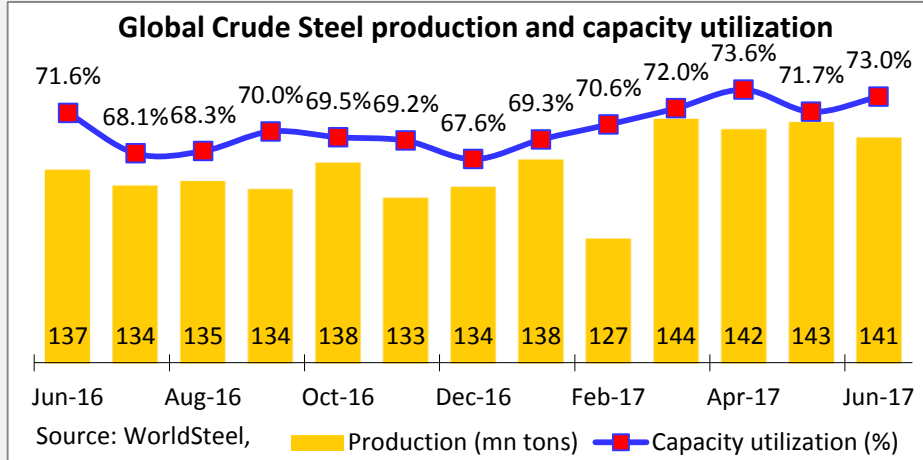
# Chinese steel exports continue to fall amid rising protectionism; Production continues to rise

- 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.

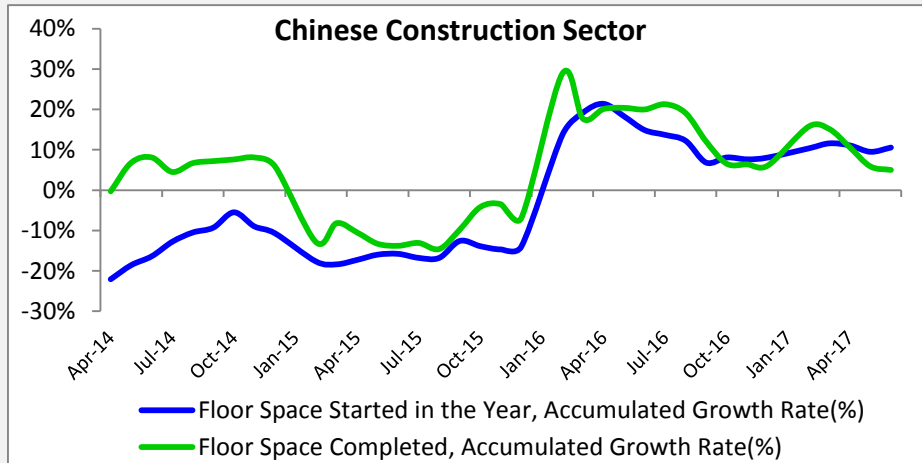
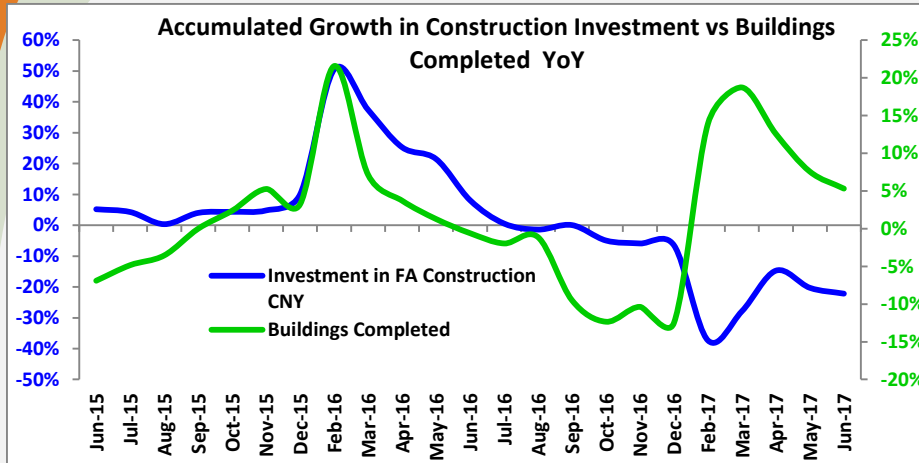


# Global capacity utilization increases as China cuts capacity

- 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.



# Chinese construction sector moderates after China tightens real estate policies



- China's property market witnessed a rebound in 2016 on the back of the government stimulus. New construction starts in China witnessed double digit growth throughout 2016.
- With housing prices reaching record levels, China has tightened its real estate norms to bring prices into check. This led to a double digit decline in Construction investment in 2017.

# 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 |        |        |          |            |            |          |

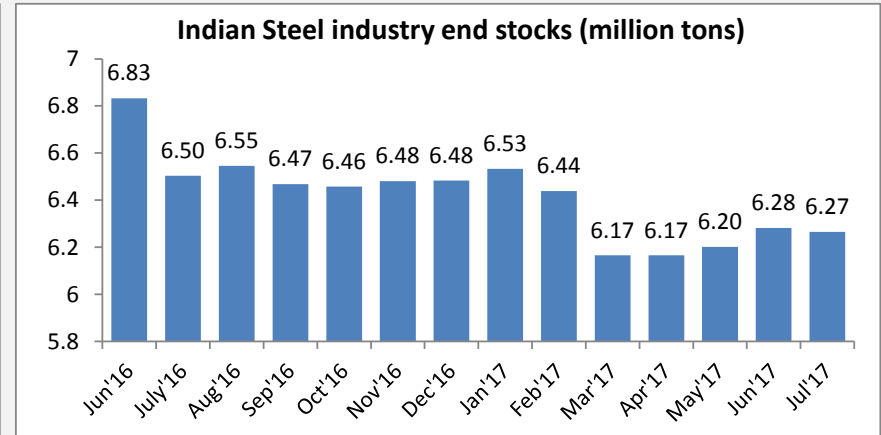
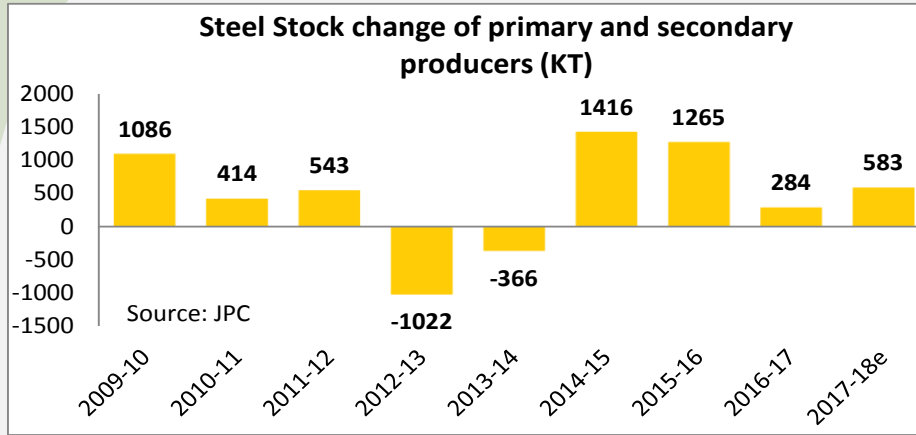
# Indian primary producers reap in the recent price increases

| 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%        |
| <b>Total</b>           | <b>31.325</b>   | <b>28.949</b>   | <b>2.376</b>           | <b>8.21%</b> |

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.

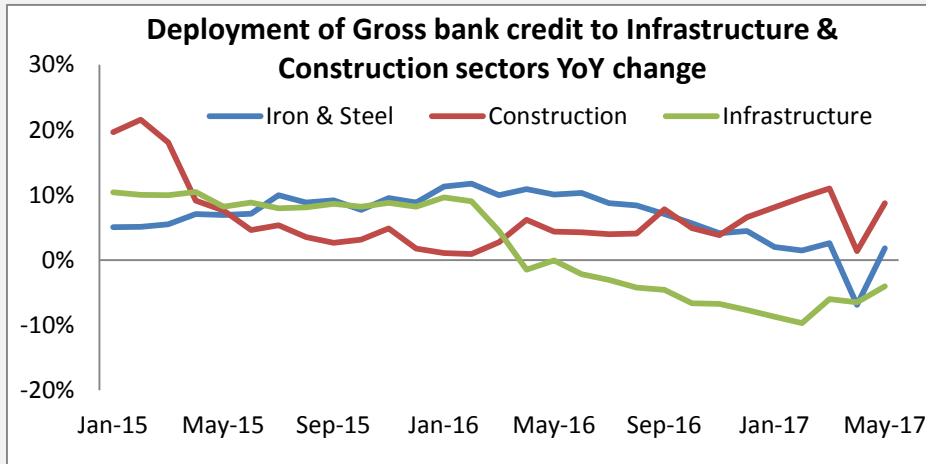
# Indian steel consumption growth remains steady – End stocks witness decline in FY'18



- 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.

# Bank credit to Steel, Construction and Infrastructure industries increases

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- After a major slump witnessed since early 2016, bank credit to infrastructure industry increases over the past four months.
- Steel and Construction sectors also witness a healthy credit growth in May which is likely to increase demand prospects and act positive for prices over the near front.

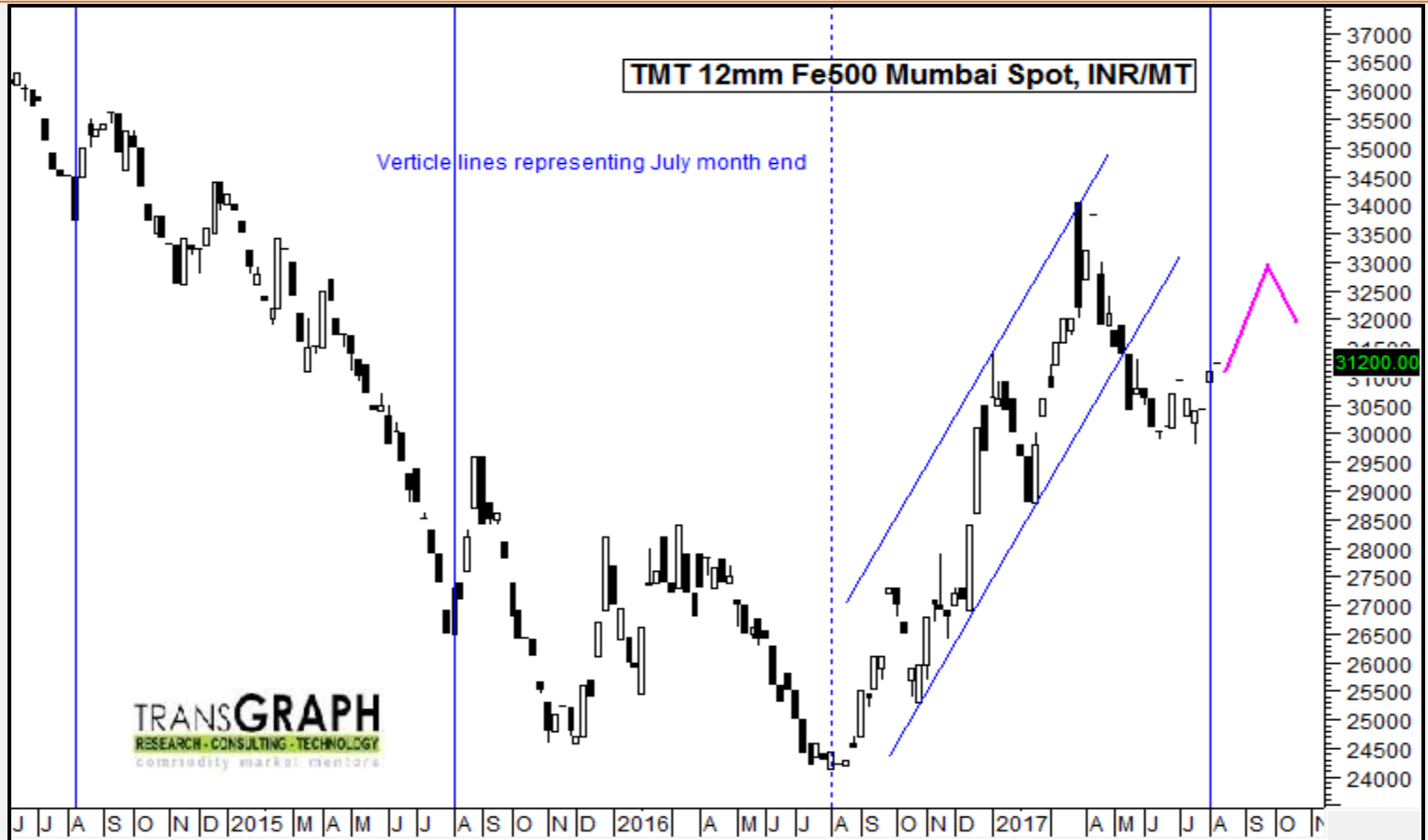
# Technical analysis



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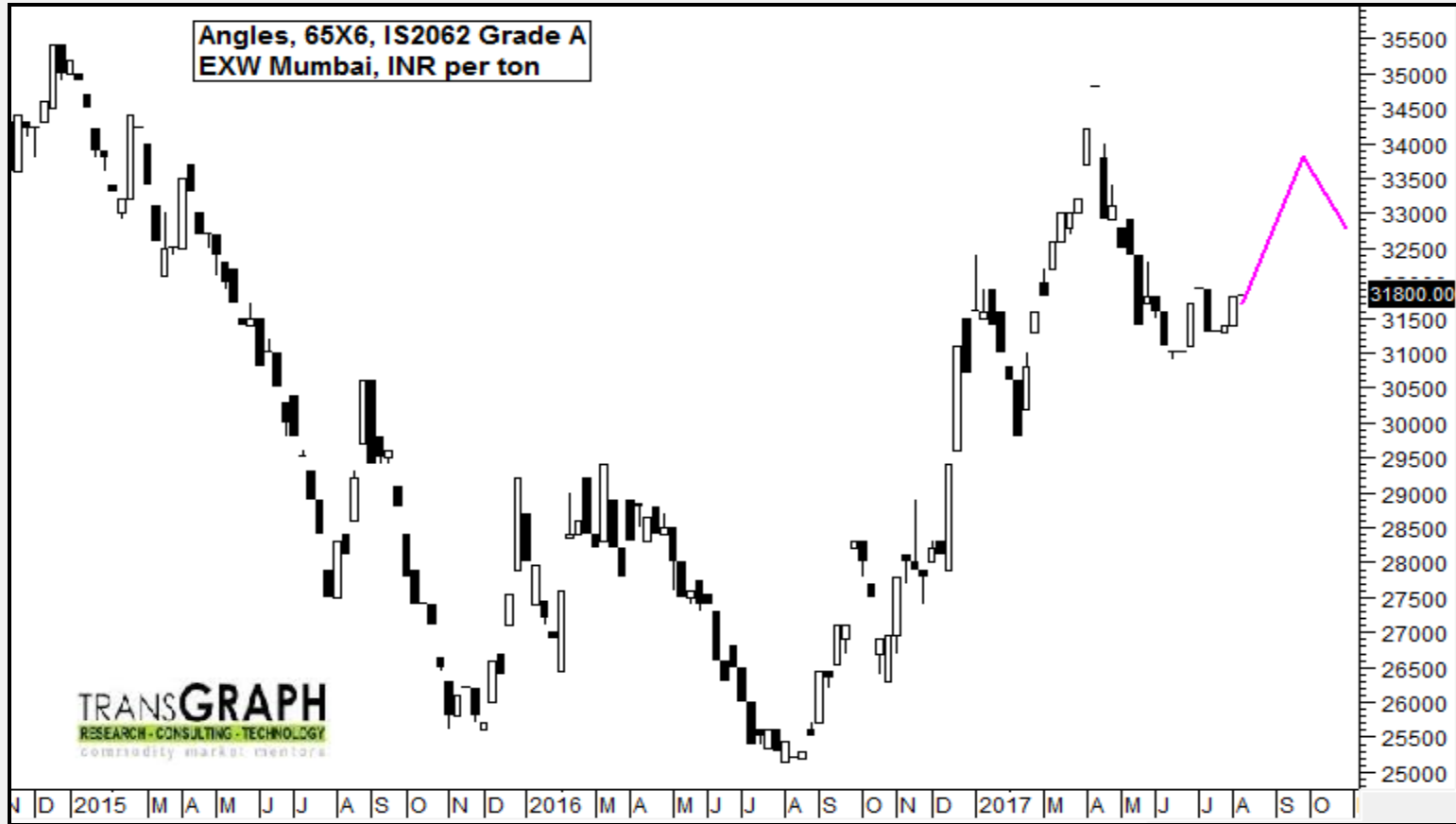


# TMT Bar price outlook



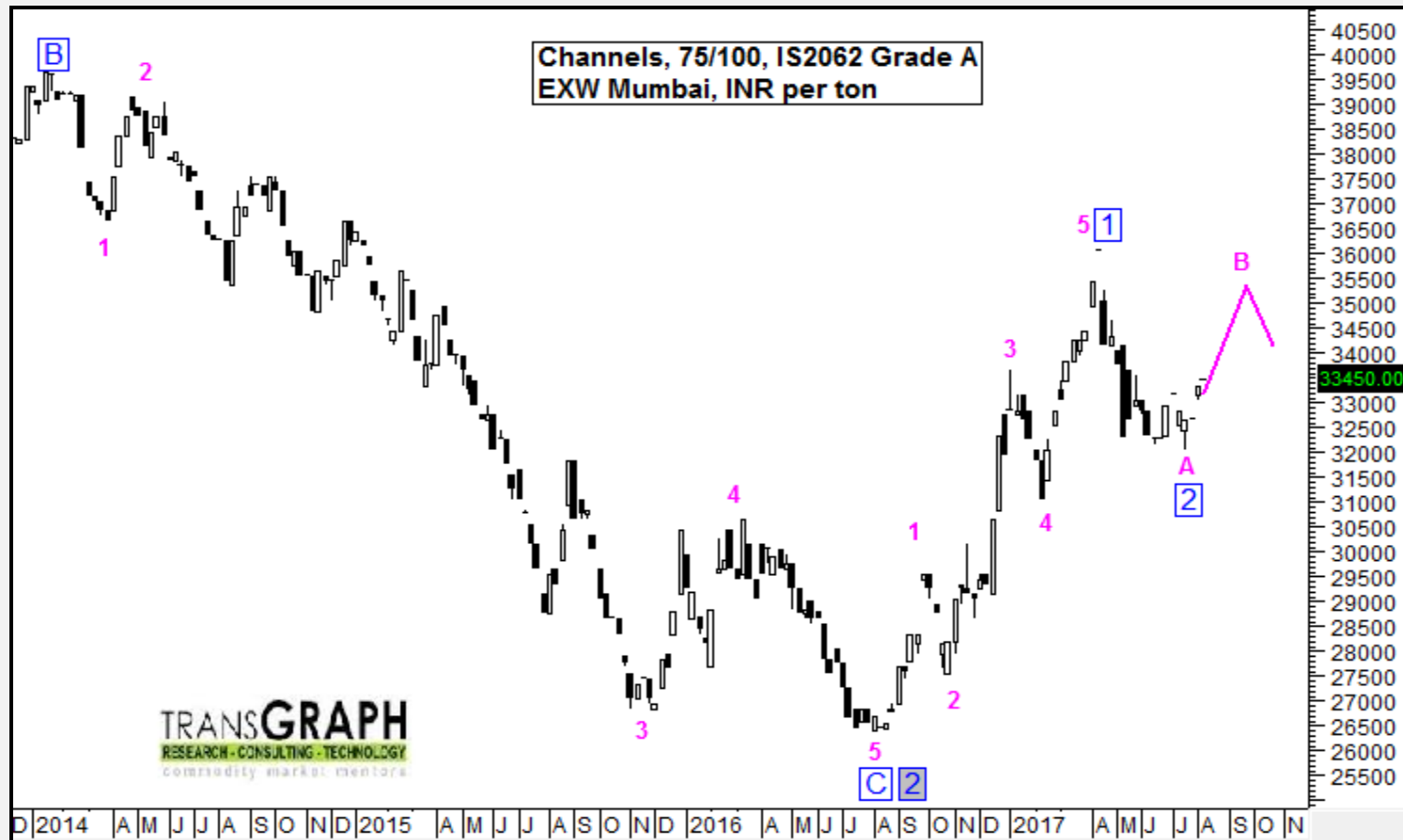
**TMT Steel prices are likely to stay above INR 30500 and trade higher towards INR 33000 in the coming 2-3 months.**

# Angles price outlook



Angle 65X6, prices are likely to stay above INR 31300 and trade higher towards INR 33800 in the coming 3 months.

# Channels price outlook



Channels 75/100, prices are likely to witness corrective rise towards INR 35300 in the coming 2-3 months.



# Price outlook summary for next 2-3 months

| Expected price range |  |                                   |                                     |                                  |
|----------------------|--|-----------------------------------|-------------------------------------|----------------------------------|
| Commodity            | TMT 12mm Fe 500, Mumbai, INR per ton (EXW) | Angles, Mumbai, INR per ton (EXW) | Channels, Mumbai, INR per ton (EXW) | Primary Producer price revisions |
| Current price        | 31300                                      | 31900                             | 33550                               | NA                               |
| Price Range          | 30500-33000                                | 31300-33600                       | 33000-35300                         | --                               |
| Direction            | Upward                                     | Upward                            | Upward                              | --                               |



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