

Weekly Indian Steel Flats Price Outlook and Strategy

Decision enabling market analysis & price outlook



Report for week beginning 28 Jun 2017

Indian Steel Flats Price Outlook Summary

27 Jun 2017	HR Coil, 2 mm Delhi, Ex-Works, INR/MT	CR Coil, 0.8 mm Delhi, Ex-Works, INR/MT	HR Coil 2mm (SS400) FOB Japan USD/MT	CR Coil 0.5-1mm (Standard) FOB China USD/MT
Closing Prices	34498	38718	460	500
Change	-254	-260	0	40
Fundamental Summary	Critical Price drivers		Price Direction	
	RM and Semis price trends		Downward	
	International prices and Import price parity		Downward	
	GST impact		Upward	
	China's efforts to curb steel capacities		Upward	
Price Outlook Summary	HR Coil 2.00 mm Delhi Spot		CR Coils 0.8 mm Delhi Spot	
	HR Coil (2.5mm) Delhi spot prices are likely stay above INR 34000 and trade higher towards INR 35500 in the coming 3-5 weeks.		CR Coil (0.8mm) Delhi spot prices are likely to find support around INR 38300 and trade higher towards INR 40000 in the coming 3-5 weeks.	
Direction	0 to 1 Month	0 to 2 Months	0 to 1 Months	0 to 2 Months
Price Range	Upward	Upward	Upward	Upward
	34000 – 35500	34000 – 36500	38300 – 40000	38300 – 40500

Delhi HR Coils 2 mm Procurement Strategy for spot month*

Open Position	Pricing Window	Already Priced
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	Start	End	Avg Till Date	Weighted Average Price	Quantity
Strategy Review	01 June 2017	30 June 2017	34739	Yet to be Priced (50%)	
					Consider at CMP
Closed Positions Audit	50% of July'17 buying requirements covered at INR 34328				
	Market	Period	Procurement savings % (Bettering the market average)		
	Delhi HR Coils 2.00 mm Spot	Dec 2009 to Till Date	1.29%		
		May 2017	1.65%		
* Please contact Engagement manager for forward / long term buying strategies					

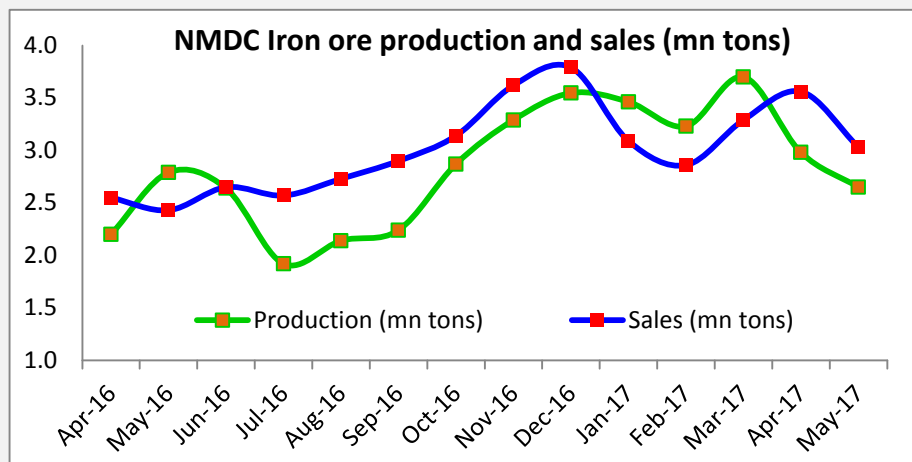
Fundamental Analysis: Raw Material

- ❖ Global iron ore prices have found support over the previous week due to rise in Chinese steel prices. Higher billet prices have led to rise in steel prices which in turn led to iron ore prices rise.
- ❖ Meanwhile, amid strong demand for high grade iron ore due to the Chinese push for greener steel industry, imports continued to remain higher than previous levels despite already existing inventory which comprises of low grade iron ore that was imported earlier. Chinese iron ore imports for the month of May have risen by 5.5% YoY and 11.3% MoM..
- ❖ Iron ore inventories at Chinese ports have moderated over the last two weeks by around 2 million tons. However, they still remain at elevated levels. Iron ore inventory levels remain at elevated levels causing worries of eventual supply glut which has pressured the prices in the last few months.
- ❖ Coking coal prices have continued their falling streak last week. Prices have fallen back to USD 146 from USD 302 recorded in mid-April. Met coke prices have also moderated to USD 246 from USD 304 recorded in April. With sudden rise in Coking coal prices due to cyclone

impact, negotiations to set quarterly coking coal prices that the Japanese steel companies will pay to the Australian miners have resumed. Also, with prices falling down, steel producer's margins have risen over the past few weeks.

❖ **At the Indian front**, NMDC has kept its lumps and fines prices unchanged for the past four months. Despite a fall in global ore prices and domestic steel prices over the past two months, NMDC has not altered the prices owing to steady sales at the domestic front.

❖ NMDC iron ore production for the month of May has fallen by 5% YoY and 11% MoM. Iron ore sales have also fallen by 15% MoM whereas it has risen by 25% YoY. Strong iron ore sales over the past four months have supported the price over the last few months.



❖ Domestic iron ore production is expected to have reached 190 million tons in FY'17 as compared to 156 million tons recorded in FY'16. With ongoing steel capacity expansion, many integrated players have raised their mine output to meet their expansion needs. However, with supply surpassing demand, this has led to heavy supply glut at the domestic front, further weighing on prices.

❖ Strong Indian pig iron exports created tightness in the in the domestic supplies led to surge in domestic pig iron prices during Mar-Apr. However, prices have remained weak since then undermined by lower downstream steel prices and RM prices. Higher export demand has limited fall in pig iron prices over the last few weeks.

Fundamental Analysis: Steel

❖ China reported that the crude steel production has reached record high levels of 72.78 million tons in April'17 up by 4.8% YoY breaking the previous highest peak of 72 million tons recorded in March'17. However, it has fallen in May by around 0.7% to reach 72.26 million tons.

❖ Chinese mills have ramped up production despite decline in export demand as domestic off take has increased with rise in property sales and also in the wake of reports of Beijing stressing hard to shut the steel capacity by around 50 million tons as the premiere continue to push for greener environment. China has already cut 31.7 million tons of steel capacity, accounting to 63.4% of this year's target of 50 million tons. This has supported prices but subdued demand and increasing concerns of oversupply have undermined prices over the past few weeks.



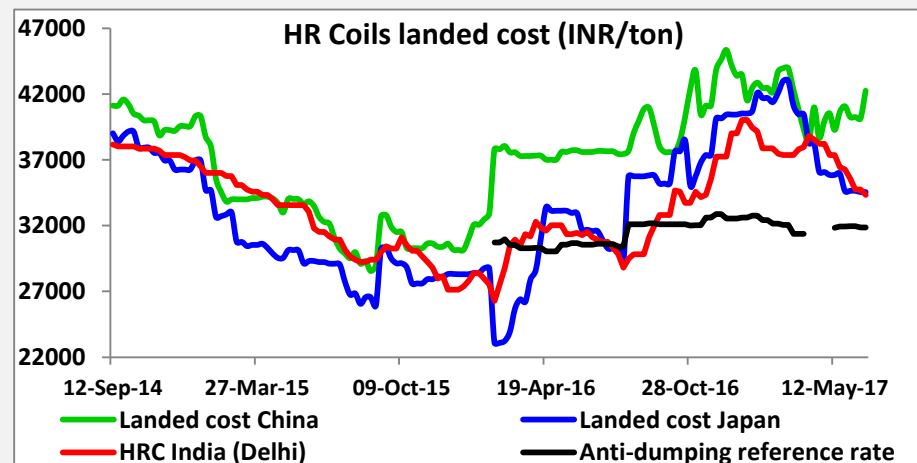
❖ Despite an improvement in Chinese steel production in the recent months, exports have fallen due to increasing protectionism in other countries against cheaper Chinese imports undermining the overall trade. Over the past four quarters, exports have been falling in YoY terms whereas as steel production has risen over the same period. This has led to supply glut at Chinese front despite healthy consumption.

❖ At the global front, crude steel production for the month of May has risen by 2% YoY to reach 143.3 million tons with half of its production rise from China alone. However, the capacity utilization ratio has fallen compared to last month to 71.8%.

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❖ At the Indian front, crude steel production for the month of May has risen by around 10% YoY to reach 8.3 million tons compared to 7.5 million tons recorded in May'16. With imports remaining weak and exports rising since late 2016, domestic producers have ramped up their production.

❖ Currently, with international prices remaining higher, current anti-dumping duty on imports is zero. Japanese landed prices are costlier by INR 200. Chinese prices are still costlier by around INR 8000 as safeguard is also applicable on Chinese imports.



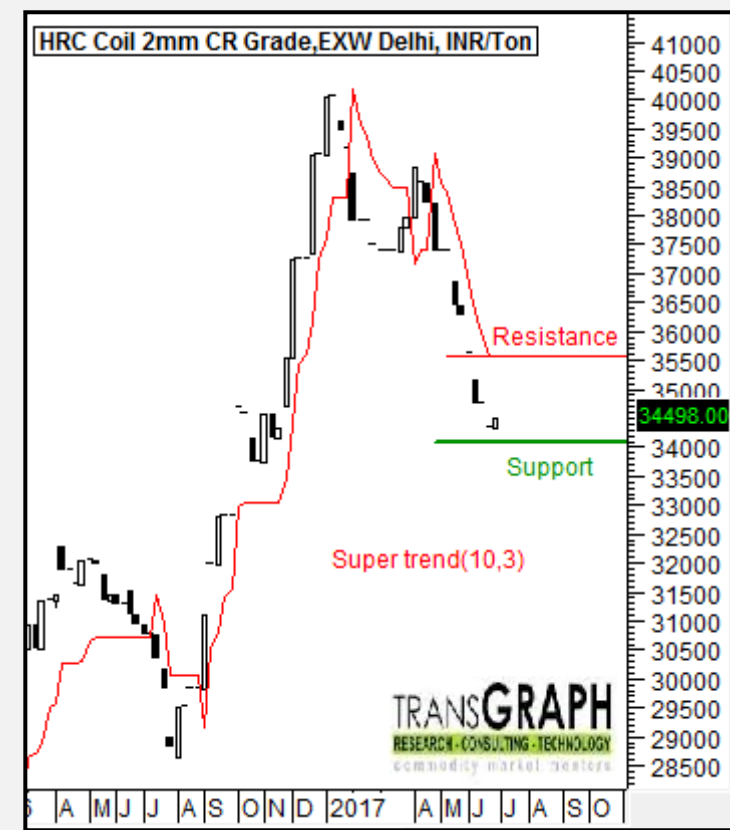
❖ Steel industry is likely to benefit from the new GST rate for steel which is set at 18%. GST on other Raw materials like coal and iron ore is fix at 5% which could lower input costs. Also, with a substantial slash in transport costs due to unified and standard tax rate under GST, this is likely to help steel companies reeling under large debt and also keep steel prices stable. Also, GST is expected to lead to faster production, wider markets and cost savings as a result of simplified taxation.

❖ At the demand front, Mahindra and Escorts tractor cumulative tractor sales in April and May increased by 15.9% and 24.2% YoY respectively. In FY'17 cumulative sales of Mahindra and Escorts increased by 16.1% and 22.6% compared to FY'16 due to improvement in rainfall after two years of drought conditions.

❖ Going ahead, expectations better than normal rainfall and seasonal higher sales during Aug-Oct months is likely to result in higher offtake from the market in the coming days, which is expected to remain supportive to prices in the medium term.

Technical Outlook: HR Coils 2.0 mm Delhi Spot

- ❖ HRC Coil (2.5mm) Delhi spot prices have extended the bearish momentum below previous swing low and closed at INR 34498 in the last trading day.
- ❖ The resumed bearish momentum has approached the 161.8% of prior bearish leg(Jan-Feb'17) clustering with 50% retracement.
- ❖ The weekly momentum indicators MACD (12,26,9) is approaching the equilibrium suggesting potential price consolidation above INR 34000 before resuming the weakness.
- ❖ The bull market from 2016 has almost retested the 2012 swing high and experiencing selling pressure with Zigzag formation.
- ❖ On the higher side, INR 35500 can act as immediate resistance.
- ❖ On the down side, INR 34000 can act as immediate support.



Concisely, HR Coil (2.5mm) Delhi spot prices are likely stay above INR 34000 and trade higher towards INR 35500 in the coming 3-5 weeks.

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Market Prices

Commodity	Market	16-Jun-17	09-Jun-17	Change	%Change
Iron ore Fines (Fe 63.5/63%)	CFR China(India), USD/MT	56	54	2	3.70%
Iron ore Lumps (Fe 63%)	CFR China(Australia), USD/MT	60	58	2	3.45%
Coking Coal (Prime Hard 0-50)	FOB Australia, USD/MT	146	148	-2	-1.35%
Coking Coal (Hard 0-50)	FOB Australia, USD/MT	134	140	-6	-4.29%
Met Coke (> 62 CSR)	FOB China, USD/MT	246	246	0	0.00%
Pig iron Foundry grade	EXW Raipur, INR/MT	23500	23650	-150	-0.63%
Pig iron Steel grade	EXW Raipur, INR/MT	22150	22650	-500	-2.21%
Sponge Iron,	EXW Raipur, INR/MT	14800	15700	-900	-5.73%
Billet 125X125	EXW Raipur, INR/MT	24100	24700	-600	-2.43%
Pencil Ingot	(Rolling), EXW Mumbai, INR/MT	26200	26350	-150	-0.57%
Melting Scrap HMS 80:20	EXW Mumbai, INR/MT	20450	21100	-650	-3.08%
HR Coils 2 mm (CR Grade)	EXW Delhi, INR/MT	34752	34752	0	0.00%

CR Coil 0.8 mm (Standard)	EXW Delhi, INR/MT	38978	39411	-433	-1.10%
CR Coil 0.8 mm (Standard)	EXW Mumbai, INR/MT	40262	40262	0	0.00%
HR Coil 4.5- 11 mm (SS 400)	FOB China, USD/MT	425	425	0	0.00%
HR Coil 2 mm (SS 400)	FOB Japan, USD/MT	460	460	0	0.00%
HR Coil 1.8-3.0 mm (CR Grade)	CFR India, USD/MT	460	460	0	0.00%
HR Coil 2-16 mm (KP08)	FOB Russia, USD/MT	435	435	0	0.00%
HR Coil 2-16 mm (KP08)	FOB Ukraine, USD/MT	430	430	0	0.00%
HR Coil 2-16 mm (Standard),	FOB India, USD/MT	450	450	0	0.00%
HR Coil 2-16 mm (SS 400)	FOB South Korea, USD/MT	460	460	0	0.00%
CR Coil 0.5-1 mm (Standard)	FOB China, USD/MT	460	460	0	0.00%
CR Coil 0.5-1 mm (Standard)	FOB Ukraine, USD/MT	480	480	0	0.00%
CR Coil 1 mm (Standard)	CFR India (China), USD/MT	490	490	0	0.00%
CR Coil 0.8-2 mm (DC01)	CFR India, USD/MT	485	485	0	0.00%
CR Coil 0.8-2	FOB India, USD/MT	520	520	0	0.00%

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mm (DC01)

Our Extensive coverage of Industrial & Base Metals

Report	Coverage #	Price Outlook & Strategies
Daily Aluminium Price Outlook and Strategy	NU, FA, TA, PO, TS, PS, FF, MP, 5D, 2W	UK.AL3M.LME, IN.ALc1.MCX
Daily Copper Price Outlook and Strategy	NU, FA, TA, PO, TS, PS, FF, MP, 5D, 2W	UK.CU3M.LME, IN.CUc1.MCX
Daily Lead Price Outlook and Strategy	NU, FA, TA, PO, TS, PS, FF, MP, 5D, 2W	UK.PB3M.LME, IN.PBc1.MCX
Daily Zinc Price Outlook and Strategy	NU, FA, TA, PO, TS, PS, FF, MP, 5D, 2W	UK.ZN3M.LME, IN.ZIc1.MCX
Bi-Weekly Aluminium Elliott wave analyser	EWA, PO, 6W, 4-6M	UK.AL3M.LME
Bi-Weekly Copper Elliott wave analyser	EWA, PO, 6W, 4-6M	UK.CU3M.LME
Bi-Weekly Lead Elliott wave analyser	EWA, PO, 6W, 4-6M	UK.PB3M.LME
Bi-Weekly Zinc Elliott wave analyser	EWA, PO, 6W, 4-6M	UK.ZN3M.LME
Bi-Weekly Gold Technical Analysis and Price Outlook	EWA, PO, 6W, 4-6M	US.AU.SPOT, US.AG.SPOT, IN.AU.MCX, IN.AG.MCX
Weekly Indian Steel Flats Price Outlook and Strategy	NU, FA, TA, PO, PS, FF, MP, 2W, 6W	IN.HRC.LUDHN
Weekly Indian Steel Longs Price Outlook and Strategy	NU, FA, TA, PO, PS, FF, MP, 2W, 6W	IN.REBAR.MUM
Weekly Indian Steel Raw Materials Price Outlook and Strategy	NU, FA, PO, FF, MP, 2W, 6W	--
Monthly Aluminium Special Report	FA, BS, TA, PO, 2M	UK.AL3M.LME
Monthly Copper Special Report	FA, BS, TA, PO, 2M	UK.CU3M.LME
Monthly Lead Special Report	FA, BS, TA, PO, 2M	UK.PB3M.LME
Monthly Zinc Special Report	FA, BS, TA, PO, 2M	UK.ZN3M.LME

Monthly Indian Steel Flats Special Report FA, BS, TA, PO, 2M IN.HRC.LUDHN, IN.CRC.LUDHN

Monthly Indian Steel Longs Special Report FA, BS, TA, PO, 2M IN.REBAR.MUM

News Update **NU**, Fundamental Analysis **FA**, Balance Sheets **BS**, Weather Analysis **WA**, Policy Impact **PI**, Technical Analysis **TA**, Trading Strategies **TS**, Procurement Strategies **PS**, Price Outlook **PO**, Market Intelligence **MI**, Facts & Figures **FF**, Market Prices **MP**, Price Spreads **PS**, Forward Curves **FC**, Elliott Wave Analysis **EWA**, 5D, 2W, 6W, 2M, 4-6M

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Talk to us on: [+91-40-46619999](tel:+91-40-46619999) Research Queries: services@transgraph.com

Sales: mktg@transgraph.com TransRisk software: demo@transgraph.com

More info: www.transgraph.com | www.transrisk.net

TransGraph Consulting Private Limited

6C/A, Melange Towers, Sy.No.80-84, Hitech City, Hyderabad – 500081, India