

Weekly Indian Steel Longs Price Outlook and Strategy

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Report for week beginning 28 Jun 2017

Indian Steel Longs Price Outlook Summary

| | TMT Bar 12mm Fe500, EX-Works Mumbai, INR/MT | Channels (IS 2062), 75/100, Grade A, EX-Works Mumbai, INR/MT | Angle (IS 2062), 65x6, Grade A, EX-Works Mumbai, INR/MT | | | |
|------------------------------|--|--|--|------------------|------------------|------------------|
| 27 Jun 2017 | | | | | | |
| Closing Prices | 30100 | 32350 | 31100 | | | |
| Change | 100 | 100 | 100 | | | |
| Fundamental Summary | Critical Price drivers | | Price Direction | | | |
| | Global production levels and stock scenario | | Downward | | | |
| | Beijing's campaign to clamp down polluting producers | | Upward | | | |
| | Higher production from primary producers in India | | Downward | | | |
| GST impact on Housing Sector | | Mixed | | | | |
| Price Outlook Summary | Mumbai TMT Bar 12mm Fe500 | Mumbai Channels (IS 2062), 75/100, Grade A | Mumbai Angle (IS 2062), 65x6, Grade A | | | |
| | Prices are likely to stay below INR 30800 and trade lower towards INR 29000 in coming 3-5 weeks. | Prices are likely to stay below INR 32500 and trade lower towards INR 31000 in coming 3-5 weeks. | Prices are likely to stay below INR 31500 and trade lower towards INR 30000 in coming 3-5 weeks. | | | |
| | 0 to 1 Month | 0 to 2 Months | 0 to 1 Months | 0 to 2 Months | | |
| Direction | Downward | Mixed | Downward | Mixed | | |
| Price Range | 30800 – 29000 | 29000 – 31300 | 32500 – 31000 | 31000 – 33300 | 31500 – 30000 | 30000 – 32000 |

Mumbai TMT Bar 12 mm Procurement Strategy for spot month*

| Open Position | Pricing Window | | | Already Priced | |
|---------------------------|---|--------------------------|---|--------------------------------|----------|
| | Start | End | Avg Till Date | Weighted Average Price | Quantity |
| | 01 June 2017 | 30 June 2017 | 30174 | -- | -- |
| | | | | Yet to be Priced (100%) | |
| | | | | Consider at CMP | 40% |
| Strategy Review | 60% of July'17 buying requirements covered at INR 30100 | | | | |
| Closed Positions Audit | Market | Period | Procurement savings % (Bettering the market average) | | |
| | TMT Bar 12mm, Mumbai | Aug 2009 to Till Date | 1.86% | | |
| | | May 2017 | 1.50% | | |

* Please contact Engagement manager for forward / long term buying strategies

Fundamental Analysis: Raw Material

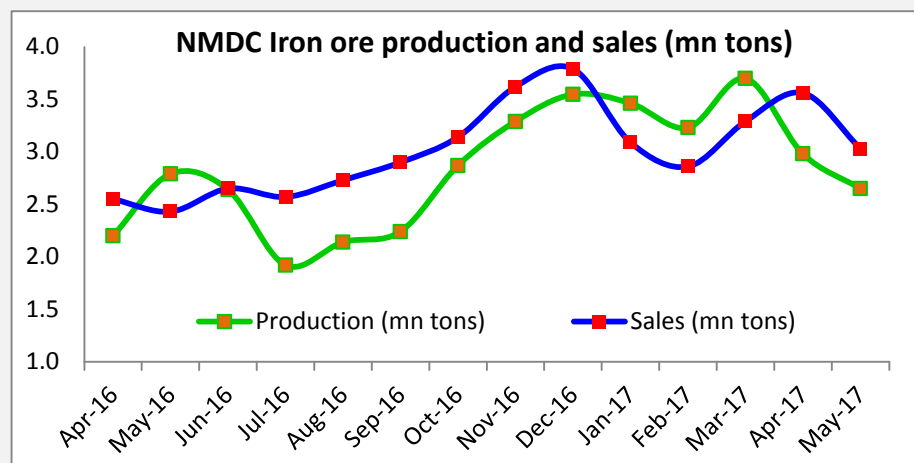
- ❖ Global iron ore prices have found support over the previous week due to rise in Chinese steel prices. Higher billet prices have led to rise in steel prices which in turn led to iron ore prices rise.
- ❖ Meanwhile, amid strong demand for high grade iron ore due to the Chinese push for greener steel 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



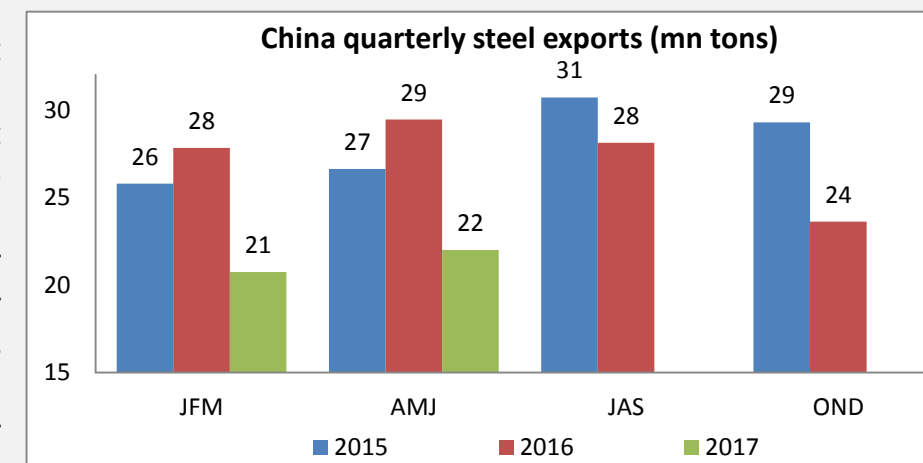
- ❖ Strong Indian pig iron exports created tightness in the in the domestic supplies led to surge in domestic pig iron prices during Mar-Apr. However, prices have remained weak since then undermined by lower downstream steel prices and RM prices. Higher export demand has limited fall in pig iron prices 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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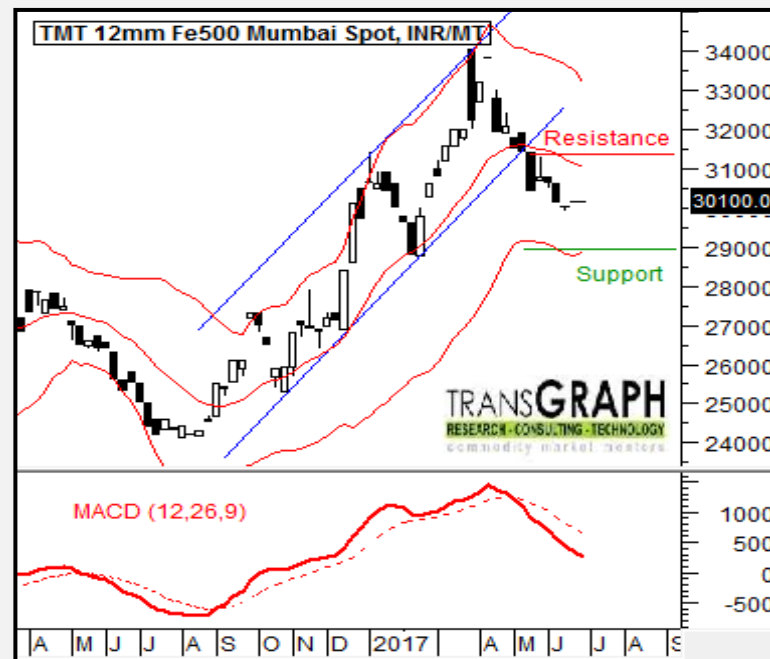
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- ❖ At the Indian front, crude steel production for the month of May has risen by around 10% YoY to reach 8.3 million tons compared to 7.5 million tons recorded in May'16. With imports remaining weak and exports rising since late 2016, domestic producers have ramped up their production.
- ❖ 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.
- ❖ GST is likely to have beneficial impact on housing sector. GST rate of 12% applicable on under-construction properties is likely to bring down property prices as some developers would now decide to pass on the benefit of input tax credit to homebuyers. However, the new GST rate may increase prices of premium units due to high land costs.
- ❖ Even though the GST rate of 12% is higher than the current effective tax rate of 10% (including service tax, VAT and excluding stamp duty), the cost of an affordable unit for home buyer is likely to be reduced if the developer is willing to pass on the benefit of input tax credit available to him for procurement of raw materials such as steel, cement, glass and services such as interiors and architectural work.

Technical Outlook: Steel TMT 12mm, Mumbai Spot

- ❖ Steel TMT 12mm Mumbai spot prices have resumed the weakness after pull back action for the rising channel break down and closed at INR 30100 in the last session.



- ❖ The long upper tail Doji formation below middle Bollinger band suggesting resumption of the short term bearish trend.
- ❖ The weekly momentum indicator MACD (12,26,9) has witnessed bearish crossover supporting the mixed to bearish view.
- ❖ Prices have witnessed 5 leg positive momentum from INR 21450 and placed top at INR 34050 in Mar'17.
- ❖ In the long term, prices have corrected 61.8% of the 2012-15 bear market and experiencing selling pressure.
- ❖ Going ahead, prices likely to test INR 29000 before any corrective gains.
- ❖ On the higher side, INR 31300 can act immediate resistance.
- ❖ On the lower side, INR 29000 region can act as immediate support.

Prices are likely to stay below INR 31300 and trade lower towards INR 29000 in coming 3-5 weeks.

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% |

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| | | | | | | | | | | | |
|-------------------------|------------------------------|-------|-------|------|--------|----------------------------------|-------------------------------|-------|-------|------|--------|
| Met Coke (> 62 CSR) | FOB China, USD/MT | 246 | 246 | 0 | 0.00% | Angle 65x65x6 (IS 2062 Grade A) | EXW Mumbai, INR/MT | 31000 | 31100 | -100 | -0.32% |
| Pig iron Foundry grade | EXW Raipur, INR/MT | 23500 | 23650 | -150 | -0.63% | Angle 65x65x6 (IS 2062 Grade A) | EXW Raipur, INR/MT | 27100 | 27700 | -600 | -2.17% |
| Pig iron Steel grade | EXW Raipur, INR/MT | 22150 | 22650 | -500 | -2.21% | Channel 75/100 (IS 2062 Grade A) | EXW Mumbai, INR/MT | 32250 | 32350 | -100 | -0.31% |
| Sponge Iron | EXW Raipur, INR/MT | 14800 | 15700 | -900 | -5.73% | Channel 75/100 (IS 2062 Grade A) | EXW Raipur, INR/MT | 27400 | 28000 | -600 | -2.14% |
| Billet 125X125 | EXW Raipur, INR/MT | 24100 | 24700 | -600 | -2.43% | SHFE Rebar futures | CNY/MT | 3276 | 3382 | -106 | -3.13% |
| Pencil Ingot (Rolling) | EXW Mumbai, INR/MT | 26200 | 26350 | -150 | -0.57% | TMT Rebar 8-32 mm (BST 500) | FOB Turkey, USD/MT | 433 | 433 | 0 | 0.00% |
| Melting Scrap HMS 80:20 | EXW Mumbai, INR/MT | 20450 | 21100 | -650 | -3.08% | TMT Rebar 8-32 mm (A 500C) | FOB Ukraine Black Sea, USD/MT | 425 | 410 | 15 | 3.66% |
| TMT-12mm-Fe500 | EXW Mumbai, INR/MT | 30000 | 30100 | -100 | -0.33% | TMT Rebar 10-32 mm (Fe 500) | FOB China, USD/MT | 445 | 445 | 0 | 0.00% |
| TMT-12mm-Fe500 | EXW Mandi Gobindgarh, INR/MT | 32200 | 32600 | -400 | -1.23% | TMT Rebar 10-32 mm (Fe 500) | CFR India, USD/MT | 470 | 470 | 0 | 0.00% |
| TMT-12mm-Fe500 | EXW Chennai, INR/MT | 29000 | 29000 | 0 | 0.00% | Angle 40-100 mm (S235JR) | FOB Turkey, USD/MT | 430 | 430 | 0 | 0.00% |
| TMT-12mm-Fe500 | EXW Ahmedabad, INR/MT | 28500 | 28900 | -400 | -1.38% | Channel 80-200 mm | FOB Turkey, USD/MT | 460 | 435 | 25 | 5.75% |
| TMT-12mm-Fe500 | EXW Kolkata, INR/MT | 27900 | 27500 | 400 | 1.45% | | | | | | |
| TMT-12mm-Fe500 | EXW Hyderabad, INR/MT | 28800 | 29100 | -300 | -1.03% | | | | | | |
| TMT-12mm-Fe500, | EXW Raipur, INR/MT | 28300 | 28900 | -600 | -2.08% | | | | | | |
| TMT-12mm-Fe500 | EXW NCR(Delhi), INR/MT | 32625 | 32600 | 25 | 0.08% | | | | | | |

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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.Zlc1.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 |

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|---|--------------------|----------------------------|
| 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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