MARKET RECAP

The collapse in domestic price levels in China by a whopping $120 per tonne in last two months set the tone for a price undercutting. The NCDEX most active steel futures contract lost close to 5.65% in October, as compared to 2.23% fall in September. However this is far better as compared to 27% fall October 2008. Prices have fallen close to 8.30% in the last ten months of 2009. Prices fell mostly on overgrowing stocking, feeble demand from major consumers, and low cost imports from China under its dumping plan of cheap imports.

GLOBAL PRODUCTION

Coming on to the demand supply outlook, the World crude steel production for the 66 countries reporting to the World Steel Association was 107 million tonnes in September, as against -0.6% lower for September 2008. However, it has shown steady increase since April 2009. China’s crude steel production for September 2009 was 50.7 million tonnes, 28.7% higher than September 2008. Total crude steel production for the first nine months of 2009 was 866 million tonnes, a -16.4% decrease over the same period of 2008.
According to the China Iron and Steel Association, China daily crude steel output dropped slightly in the middle of September and its heavy stocks of steel products failed to get obvious decline in the month. Its commercial stocks of steel products have stood at 11.23 million tonnes by the end of September compared with 11.3 million tonnes at the month's beginning.

It further forecast apparent steel usage will contract worldwide by -8.6% to 1,104 million tonnes in 2009 after declining by -1.4% in 2008. The usage of steel in India would grow by about 2%. This is an improved figure over the spring forecast issued in April 2009 which predicted a decrease of -14.1%. The improvement is largely due to the exceptionally strong growth in steel demand in China. With signs, from the beginning of the second half of 2009, of a recovery across the world now apparent, global steel demand in 2010 is forecast to grow by 9.2% to 1,206 million tonnes which is a recovery to the level of 2008.

China's apparent steel use in 2009 is expected to increase by 18.8% to reach 526 million tonnes. China is expected to account for 47.7% of world steel apparent use and excluding China, potential world steel demand would have fallen by -24.4%. India also remained relatively resilient to the global crisis and apparent steel use is expected to grow by 8.9% and 12.1% in 2009 and 2010, respectively.
<table>
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<tr>
<th>Country</th>
<th>September 2009 (in MMT)</th>
<th>% Change from September 2008</th>
<th>August 2009 (in MMT)</th>
<th>% Change from August 2008</th>
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<td>4.0%</td>
<td>0.9</td>
<td>15.2%</td>
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*MMT is Metric Million Tonnes

**DOMESTIC FRONT**

India’s steel consumption rose 5.7% to 26.49 million tonnes in the Jan-June 2009 on account of improved demand from automobile and consumer durables. However the domestic steel production rose only 2% to 28.49 million tonnes during the period from 27.93 million tonnes in the year-ago period. Thus as per Mr P.K. Rastogi Steel Secretary, the deficit was met by 1% increase in steel imports to 3.22 million tonnes and 43% decline in exports to 1.34 million tonnes.

Steel imports in India jumped 9% to 8, 00,000 tonne in August from the year-ago period, showed data published by the steel ministry. Anticipating higher demand in India, Chinese steel producers have increased production levels significantly in August, said an executive with state-run SAIL, the country's largest steel producer. The Chinese steel is around $40-50 per tonne cheaper than Indian products of some grades, leading to fear of surge in imports. A proposal in this regard was earlier rejected by the government as a probe failed to establish injury to the domestic industry.
INDUSTRIAL UPDATE

Even when there exist a significant growth in steel production in the last few months the leading steel producers such as TATA Steel, SAIL and JSW Steel have reported a marginal dip in both steel consumption and demand in September. Rastogi described it as temporary phenomena that might be due to some insignificant domestic factors. India’s industrial production for the period April to August rose 5.8 percent from a year earlier. Rastogi added India’s steel demand may gain as much as 10 percent this fiscal year, almost double the pace previously estimated, as the government spends more on infrastructure.

Mr Sarangi, head HR, TATA steel, said that although the country has set a formidable target of achieving 120 million tonne of steel production by 2020 from a level of 54 million tonne at present, envisaging that per capita steel consumption would go up from a current level of 30 kg to 90 kg by then, it does not seems to be geared up to create proper skilled development centers for supplying human resources suitting the steel sector’s needs.

The domestic steel industry has been doing well since April this year, growing in terms of both production and sales. SAIL become the most profitable steel company globally beating steel biggies such as Arcelor Mittal, Posco, Bao Steel and Nippon Steel in the first half of the calendar year. The company has reported a net profit of $571 million in the January-June period of 2009 bucking the trend that saw most global firms posting losses.

In terms of profit during the January-June period, POSCO is the only international company coming closer to SAIL. ArcelorMittal has reported net loss of $1855 million during the period while Nippon has reported a loss of $1043 million, Severstal a loss of $944 million, US Steel loss of $831 million, Bao Steel a profit of $98 million. Another Indian steel company, Tata Steel has emerged as the third most profitable company during the period, reporting a profit of $458 million. The profitability is only for its domestic operations not including the operations of Corus. The comparison has been making using the average of dollar rates prevailing during the first half of 2009.
GOVERNMENT CONTROL

Further, the US government imposes an anti-dumping duty ranging from 10.9% -30.7% on Chinese steel pipes in order to protect the domestic pipe making industry from low-priced imports. This has in turn has provided an opportunity to Indian manufacturers to increase exports to the US. As per industry estimates, China exported 1.9 million tonnes of steel pipes to the US last year. Chinese government extended various export subsidies to its pipe-makers early this year to do away with surpluses. Being a low cost producer, China remains a threat to all global producers.

The European producers’ claims that Chinese sold their products at low prices and hurt businesses. Following which European Union, levied 24% anti-dumping duty on Chinese steel pipes and wire rods for a period of five years. China, has, however, objected to the US and European Union’s decision to impose anti-dumping tariffs on China-made seamless steel pipes.

As per steel minister Virbhadra Singh, the government plans to launch a survey to assess per capita steel consumption in rural India, to identify the rural steel consumption. In the prior survey conducted 5-6 years ago, per capital steel consumption in rural areas was 2 kg. There is definitely some improvement over the last 2-3 years, considering that a large number of infrastructure and rural housing projects have been taken up under various schemes of the government.

FUNDAMENTAL OUTLOOK

Although signs of recovery are seen in the market, pace is still fragile, and in many parts of the world will be slow and progressive. Prices have recently slipped; with overcapacity in the market. Many plants are still idled; and there is a significant risk of cheap imports flooding the market with China increasing production. Month ahead, we expect steel to consolidate the prior losses.

The most active steel futures contract trade range could be anticipated as 21450-22100.
TECHNICAL OUTLOOK

**Trend Analysis:** Steel Futures on continuation chart traded sideways to lower last month continuing the previous month’s bearish trend posting a low of 21000 and finally closed at 21450. The entire month prices were seen trading on the lower side with negative bias although minor intraday corrections were noticed on the higher side. Steel prices in the monthly chart gave a break out on to higher side in the month of August, but could not sustain at these levels although a high of 23750 was created in the month of September. Prices were seen falling since then as the price movement in October was no different from September. The consolidation break out point in August is now acting as a support to the market which is at 20840 levels and last’s month low of 21000 is acting as an immediate support in continuation charts. Looking at the weekly charts one may see clear strength for the prices to trade on to the lower side. The break out below 21000 confirms the lower trend. However we can see some price pull back if prices falter to break 21000 levels on the lower side.

**Indicators:** Momentum Indicator RSI (14) in Monthly & Weekly charts is treading at 0.44 & 0.42 levels respectively suggesting potential for prices to trade further lower side. However, RSI (14) in daily charts is treading at 0.30 levels that is nearing to oversold zone and may limit the further fall
of prices. Moreover, prices are trading below 20 Month EMA suggesting a bearish outlook of prices. Prices are hovering below the average line of Bollinger Band in weekly charts suggesting prices may test lower band of the Bollinger Band suggesting lower price movement.

**Fibonacci Theory:** Prices are trading below 23.6% retracement level (22750) for its fall from 37370 levels to 18240 levels indicating sideways to lower price movement in the near term.

**KARVY’S OUTLOOK**

We expect prices to trade sideways to lower for this month and fall steeply after the break of 21000 levels on the lower side. However, a break out above 22100 levels may temporarily halt the downside side trend.

**Steel Dec Ncdex: Supports: 20400, 20840 & 21000. Resistances: 21850 & 22100 Cmp: 21400**

**RECOMMENDATION**

- **Long term Strategy:** Steel Dec Ncdex: Sell in the range 21750-800 targeting 21000 then 20700 with stop loss above 22300.

- **Short term Strategy:** Steel Nov Ncdex: Sell on break of 21000 levels targeting 20600 & 20450 with stop loss above 21450.

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