

Metal Sector Update

Steel (\$/t)

Prices	Current	YTD-11*	YTD-10*	% yoy
Benchmark	617	708	618	14.6
China Export	613	688	616	11.7
EU Domestic	617	776	687	12.3
Indian HRC (Rs/t)	39575	40363	37928	6.4
Iron Ore	146	178	151	17.9
Coking Coal	292	261	247	5.7
Thermal Coal	103	117	90	30.0

* Avg prices

Inventory Position – China

mn tonne	Current	Nov-11	Nov-10	% yoy
Iron ore	96.8	96.9	66.7	45.3
Steel	25.3	26.8	33.0	-18.8

Base Metals (\$/t)

Prices	Current	YTD-11*	YTD-10*	% yoy
Copper	7192	8864	7468	18.7
Aluminium	1973	2413	2163	11.5
Zinc	1848	2206	2152	2.5
Lead	1961	2413	2134	13.1

* Avg prices

LME Inventory Position

mn tonne	Current	Nov-11	Nov-10	% yoy
Copper	0.38	0.39	0.36	8.3
Aluminium	4.8	4.6	4.3	7.0
Zinc	0.76	0.74	0.63	17.5
Lead	0.36	0.37	0.20	85.0

BSE Metal Vs Sensex Chart



Steel Sector News

- India's steel consumption during April-November-2011 period grew by 3.9% yoy to 44.2 mn tonnes, as off-take continues to remain sluggish owing to decline in demand from Auto, construction and capital goods sectors.
- Domestic flat steel prices have declined by ~2% in last few days as sluggish demand scenario; largely aided by Auto and capital goods segment, continue to weigh on steel demand. In case of long steel products prices continue to hold firm as construction activities have picked up a bit post monsoon season.
- World HRC prices remained stable over last fortnight, with marginal recovery in some cases. Chinese and Benchmark export prices have improved marginally by 1%, while HRC prices in Europe dipped 3%. **We expect global steel prices not to correct significantly from here on as prices are likely to find support near its cash cost of production and on expected Chinese restocking ahead of Chinese new year in January-12**
- Iron ore prices have once again corrected by 10% after a brief recovery witnessed during the last month. The prices fell as Chinese steel mills continue to stay away from the market on expectation of gloomy demand outlook for early 2012. **We expect iron ore price to remain stable at current levels albeit with upward bias as Chinese steel mill look to boost their stock piles ahead of Chinese New Year.**

Base Metal News

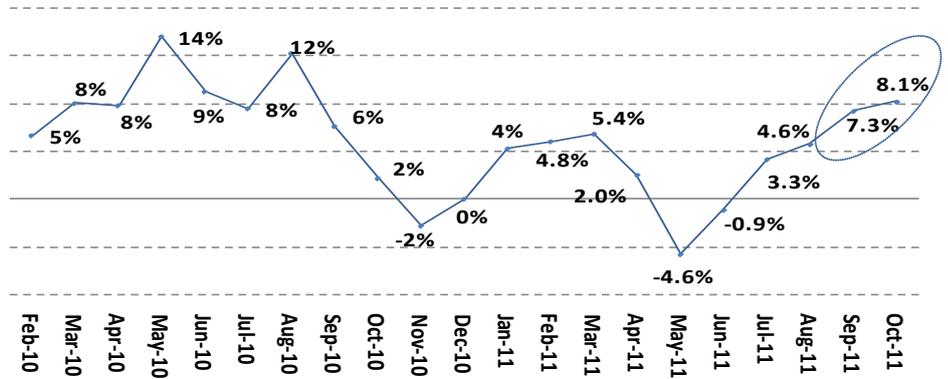
- Amid continued uncertainty over European debt crisis, base metal price corrected significantly in the range of 5-10%. Prices corrected on fear of possible credit rating downgrade in Europe. Within base metals Zinc fared badly and declined ~11% followed by copper that declined ~9%. Aluminium and Lead prices declined by ~6%, respectively, during the same period.
- We expect that base metal prices may continue to trade weak unless European nations come out with any concrete bailout plan that could prop-up investor sentiments as underlying demand continue to remain weak. Within base metal pack, copper look more vulnerable as it is still well above marginal cost of production, followed by Lead as demand for automobiles are expected to cool down globally. Also, any further strengthening of dollar will put pressure on prices of base metals.**



Ferrous Sector:

Indian steel consumption growth trend

Steel consumption through April-Nov-11 period grew 3.9% yoy.



Source: Bloomberg, Arihant Research

Global HRC prices more or less remained stable over Dec-11.

World steel prices (HRC) US \$/tonne

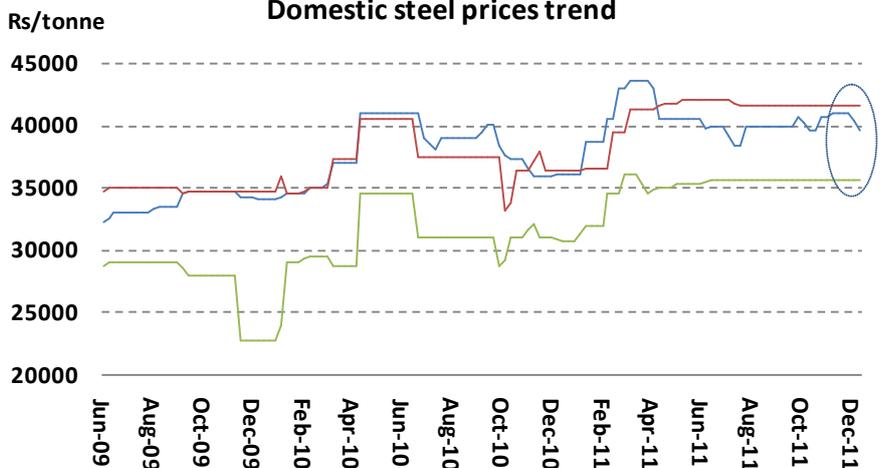
Prices have corrected in range of 5-10%



Source: Bloomberg, Arihant Research

Domestic flat steel prices have corrected ~2% in recent times.

Domestic steel prices trend

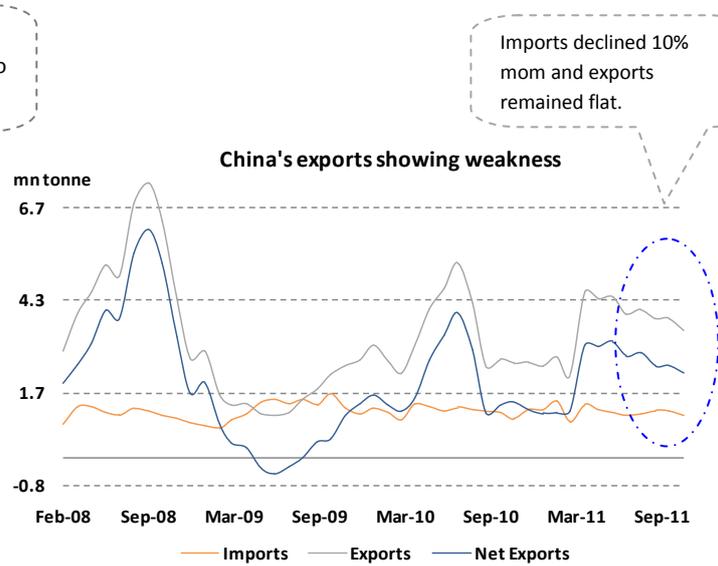
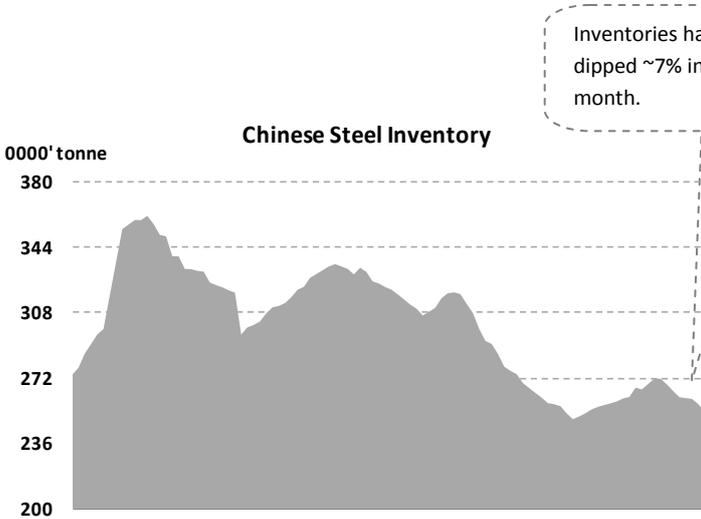
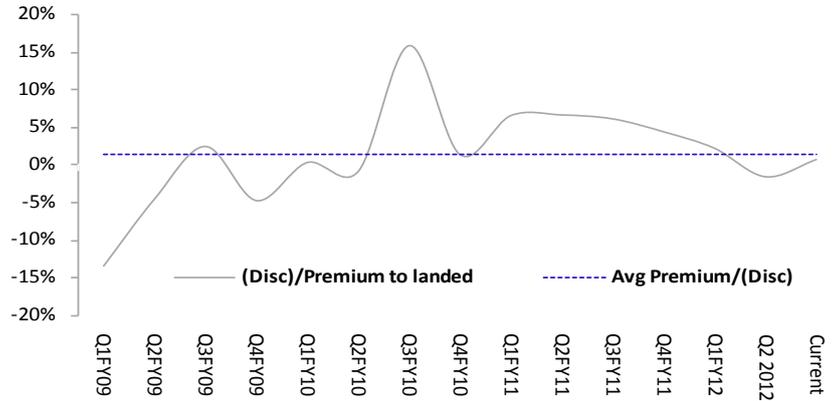


Source: Bloomberg, Arihant Research



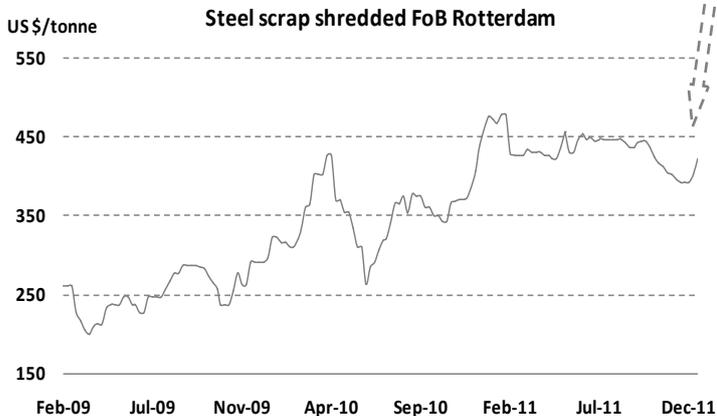
Domestic Vs landed steel prices– Premium/ (discount)

Domestic to landed premium has now narrowed down to ~2% from 5-6% earlier.



Source: Bloomberg, Arihant research

Scrap prices have moved up 8% since end of Nov-2011.



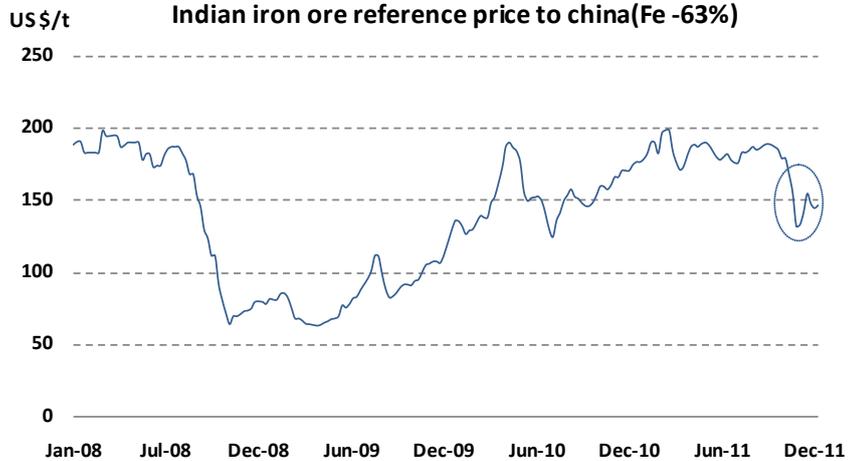
Source: Bloomberg, Arihant research

Iron ore

Iron ore prices have once again corrected by 10% after a brief recovery witnessed during the last month. Iron ore imports in China declined from 60mn tonne in August to 50mn tonne during November-11.

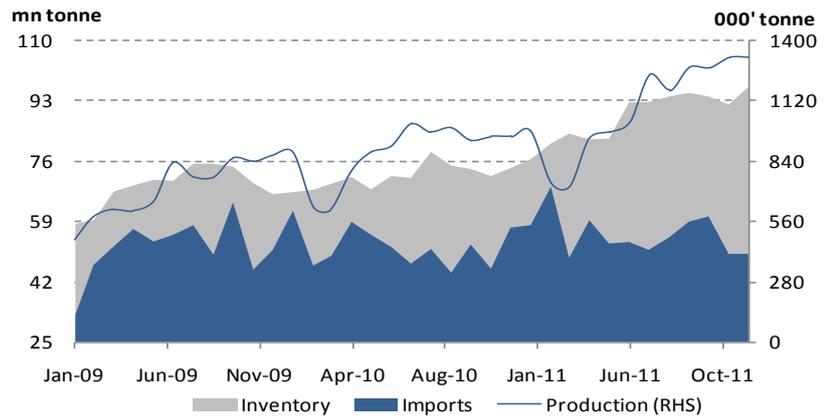
Ferrochrome Prices

Chinese domestic ferro chrome prices continue to slide as end user demand from stainless steel industry expected to remain weak in coming days. Depreciation of South African (*largest producer of Ferro Chrome*) Rand against dollar has further put pressure on prices.



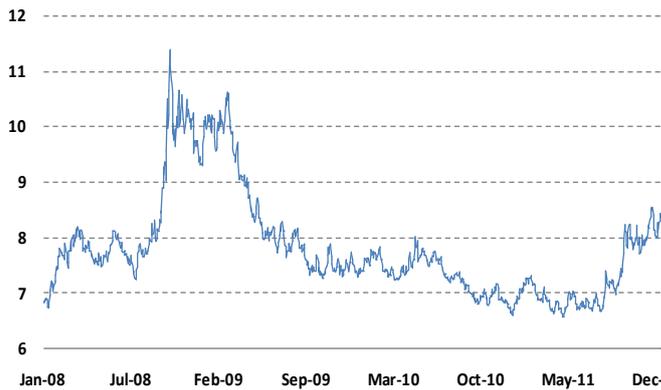
Source: Bloomberg, Arihant Research

Chinese iron ore production, Imports and inventory levels

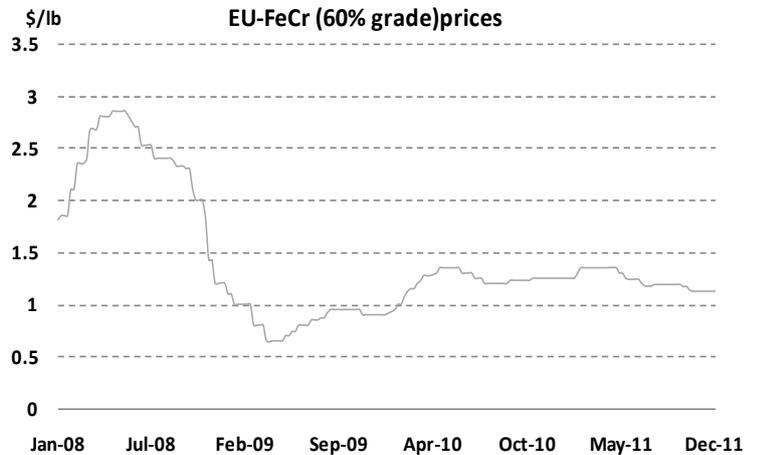


Source: Bloomberg, Arihant Research

South African Rand /US \$ currency movement

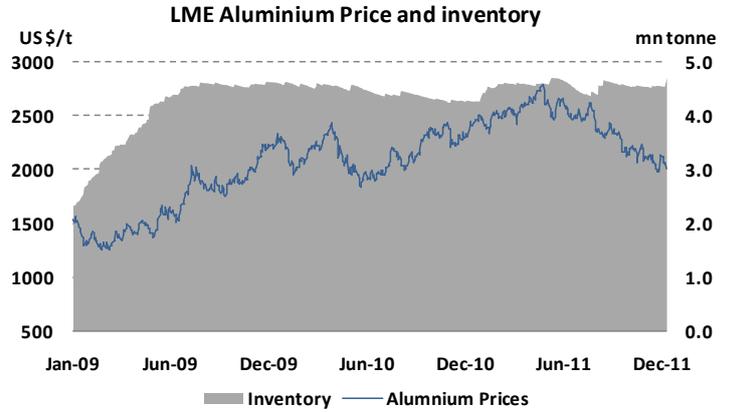
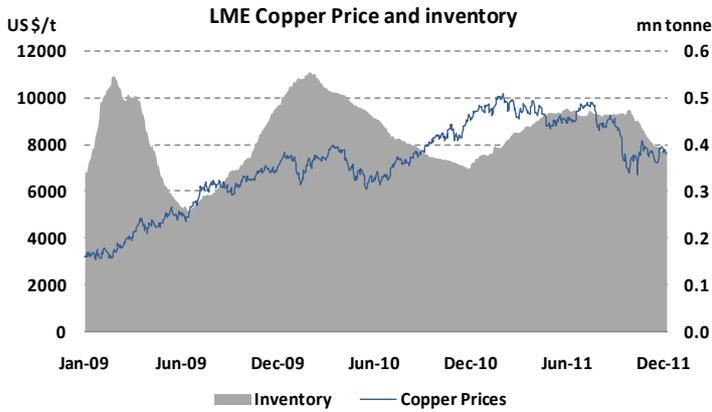


Source: Bloomberg, Arihant research



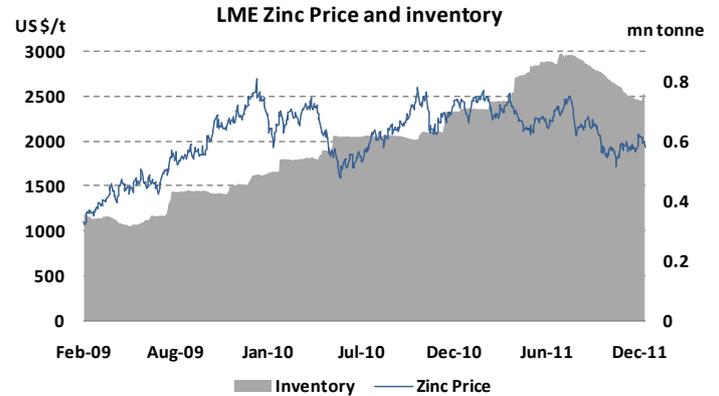


Non-Ferrous Sector

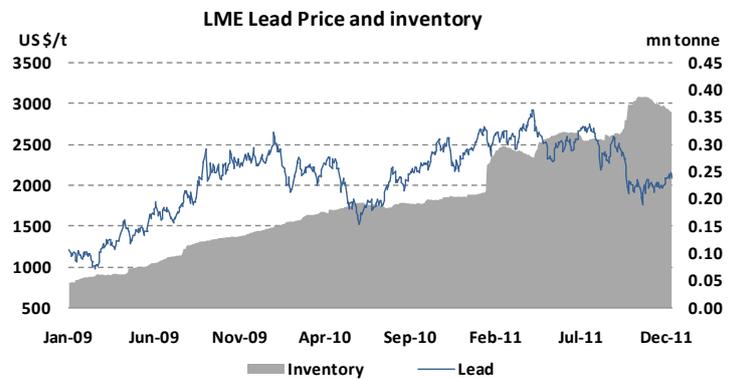


Amid continued uncertainty over European debt crisis, base metal price corrected significantly in the range of 5-10%. Prices corrected on fear of possible credit rating downgrade in Europe.

Other factor that has resulted into significant drop in base metal prices was appreciation of dollar against major currencies; as reflected in dollar index that has jumped 7% in last two months.



US Dollar Index Movement



Source: Bloomberg, Arihant research



Corporate News

- ✓ *Hindustan Zinc paid Rs. 400cr as third advance tax instalment for the FY 2012.*
- ✓ *JSW Steel said a Rs 523cr initial payment from a promoter has been forfeited, as the promoter group entity could not convert warrants worth Rs 2,117.5cr within the permitted time period.*
- ✓ *JSW Steel Ltd proposes to reduce its capital expenditure by over half for the current fiscal and go slow with its capacity expansion.*
- ✓ *Steel Authority of India took over the Salem refractory unit of Burn Standrad & Co, an ailing public sector unit, for a token consideration of Re 1.*
- ✓ *National Aluminium Co has offered a discount of Rs 2,000 (\$ 37.9) per tonne across all products in the domestic market.*

Source: Economic Times, Business Standard, Business line.



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Stock Rating Scale

Absolute Return

BUY	:	>20%
ACCUMULATE	:	12-20%
HOLD	:	5-12%
REDUCE	:	< 5%

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