FIRST LIGHT

16 September 2021

RESEARCH

Metals & Mining | Ferrous Chartbook

Steel margins to soften only gradually

SUMMARY

Metals & Mining: Ferrous Chartbook

- We launch our Ferrous Chartbook to track key global supply and demand drivers for the steel sector
- Expect near-term support for steel prices from elevated coking coal costs and tight supply as Chinese steel exports ease
- Indian steel margins likely to remain elevated near term but revert to mean in longer run; we prefer TATA and JSP

Click here for the full report.

Daily macro indicators

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	1.28	(4bps)	1bps	60bps
India 10Y yield (%)	6.20	1bps	(4bps)	17bps
USD/INR	73.69	0.0	0.8	(0.1)
Brent Crude (US$/bbl)	73.60	0.1	4.3	81.6
Dow	34,578	(0.8)	(2.6)	23.5
Shanghai	3,663	(1.4)	4.2	11.1
Sensex	58,247	0.1	5.1	49.2
India FII (US$ mn)	**13-Sep**	**MTD**	**CYTD**	**FYTD**
FII-D	34.7	362.7	(1,051.1)	976.1
FII-E	191.7	569.2	7,959.7	633.4

Source: Bank of Baroda Economics Research

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METALS & MINING

Ferrous Chartbook

15 September 2021

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China demand-supply balance likely to remain tight in H2: Chinese steel production has reduced to 980mn tonnes (mt) on an annualised basis in Aug'21 from a peak of ~1,200mt in Apr'21. While indicators point to lower offtake in H2FY22 as the stimulus recedes, we expect demand to hold up supported by ongoing real estate and infrastructure projects.

Ex-China market tightness to ease gradually: Global demand ex-China is being supported by restocking and a recovery in construction and other industrial consumption. With production recovering above previous peak levels, we expect the supply-demand balance to slowly improve.

HRC prices supported by high coking coal costs and supply concerns: China's HRC export price has seen only a modest 9% decline from the recent peak in May'21 as the 40% correction in iron ore was largely offset by a 60% increase in coking coal price. HRC prices continue to reflect concerns over tightness in the market as China's net exports of steel have begun to moderate in the second half.

Sharp correction in iron ore prices but structural issues persist: We attribute the current sharp correction to readjustments of purchase commitments in response to lower crude production. While Australian iron ore producers need to demonstrate successful tie-in of replacement capacity, Vale needs to deliver on several milestones to sustainably raise its production capacity to the targeted 400mt by end-CY22.

Steel margins to normalise in medium term: We expect steel demand to moderate over the next six months, whereas it could take 12-18 months to restore iron ore supply and 6-12 months for coking coal. We, thus, believe steel margins will soften over the next 6-12 months with steel prices easing to US$ 650/t by FY23.

Prefer TATA, JSP: With the steel cycle at a peak, we prioritise capital discipline over expansion projects. Accordingly, we are positive on Tata Steel (TATA) and Jindal Steel & Power (JSP) who are now focusing on responsible growth (see **Disciplined capital allocation key to improving payout, 16Aug21**).

Recommendation snapshot

Ticker	Price	Target	Rating
JSP IN	402	555	BUY
JSTL IN	697	795	HOLD
SAIL IN	121	150	HOLD
TATA IN	1,455	1,755	BUY

Price & Target in Rupees | Price as of 15 Sep 2021

Disclaimer

Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

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