

**RESEARCH**
**METALS & MINING**

India Ferrous Sector: Read-across from BHP Commodity Outlook

**Daily macro indicators**

Indicator	28-Feb	29-Feb	Chg (%)
US 10Y yield (%)	4.26	4.25	(1bps)
India 10Y yield (%)	7.07	7.08	1bps
USD/INR	82.93	82.91	0.0
Brent Crude (US\$/bbl)	83.7	83.6	(0.1)
Dow	38,949	38,996	0.1
Hang Seng	16,537	16,511	(0.2)
Sensex	72,305	72,500	0.3
India FII (US\$ mn)	27-Feb	28-Feb	Chg (\$ mn)
FII-D	142.4	101.8	(40.6)
FII-E	248.0	(167.5)	(415.5)

Source: Bank of Baroda Economics Research

**SUMMARY**
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- We interpret the BHP outlook to mean continuing improvement in China's steel demand-supply balance through CY24...
- ...and resilient Chinese steel production extending support to iron ore while global supply trends would define coking coal prices
- We expect India's steel sector margin to remain at mid-cycle level, backed by gradually improving global demand but capped by surplus in China

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We summarise the readthrough for the Indian ferrous sector from BHP's February Economic and Commodity Outlook.

**China steel exports to ease somewhat in CY24:** BHP expects China's steel production to remain resilient at 1-1.1bn tonnes for the sixth consecutive year in CY24. Further, for CY24, it expects net steel exports to settle midway between the CY22 and CY23 levels of 54mt and 87mt respectively. This could imply lower pressure on the supply-demand balance outside China.

**China steel demand drivers:** In CY23, weak steel demand from China's real estate sector was offset by strong demand from non-housing sectors and a material jump in net exports, including for steel-contained finished goods. Per BHP, key drivers for CY24 include (a) continuing support from the infrastructure sector, (b) pace and scale of housing recovery and its steel demand intensity, (c) level of pick-up in machinery demand from recovery in non-housing sectors, and (d) momentum in exports of steel-contained finished goods.

**Real estate stabilisation:** The pickup in sales of completed projects and second-hand houses in China during CY23 confirms the importance of real estate as an asset class. However, confidence in private developers remains low. New measures underway include the relaxation of housing purchase restrictions at the city level, launch of the "three major projects" plan, better banking fund access for developers, and higher accountability of government officials to coordinate funding access for urban developers.

**Iron ore price drivers:** A resilient crude steel production outlook for China in CY24 and the need for high-cost iron ore should extend price support.

**Coking coal price drivers:** Global supply performance is now the key driver as China's influence has waned with most of its needs being met by Russia and Mongolia.

**Our sector view:** We expect Indian steel sector margins to remain at mid-cycle level over the next two years. While we expect gradual stabilisation of global steel demand, we believe supply pressure from a likely surplus in China will keep a lid on margins.



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