

Metals

Monthly wrap

INDIA

27 February 2021

Key highlights

Global crude steel production continues to improve - Global crude steel production for January 2021 improved 4.8% yoy to 162.9mn. Major geographies such as China, India and CIS reported yoy improvement in steel production. Mom average daily production improved 1.3% to 5.25mn tonnes. China accounted for 55.4% of global production, up 100bps yoy but down 140 bps mom.

- **Steel demand improving:** Almost all major geographies reported mom improvement in steel demand.
- **Steel prices were mixed:** While China (+8%), US (+5%) and Europe (+4%) reported mom increase in steel prices, India and CIS reported mom fall of 4% and 3% respectively..
- **Raw material prices increasing:** Iron-ore fines (63.5 Fe China export) jumped 2% mom to US\$ 172/t. Coking coal prices (Premium HCC FOB Australia) improved 4% mom to US\$ 132/t.

Chinese production remained high; Inventories increasing

- Chinese crude steel production jumped 7% yoy to 90.2mn tonnes. Avg daily production fell 120bps mom to 2.91mn tonnes.
- At current prices, Chinese steel mills are making loss of CNY 60/t, a sharp fall from profit of CNY 160/t mom.
- Iron ore imports increased 10% yoy to 99mn tonnes. Current inventory days decreased to 39 days from 36 days a month ago.
- Chinese mills inventories jumped sharply to c.17mn tonnes (seasonal in nature).

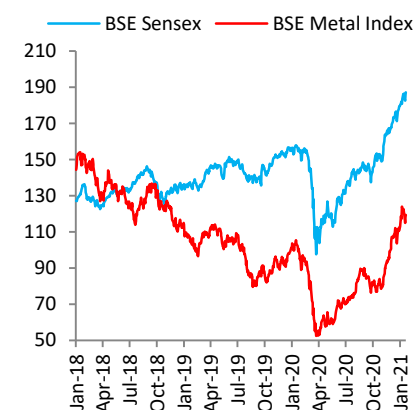
Indian demand recovered; Steel prices stabilised

- Indian crude steel production for January 2021 improved 7%/2% yoy/mom to almost 10mn tonnes.
- January 2021 steel demand improved 9%/3% yoy/mom to 9.9mn tonnes..
- India's net steel exports stood at 0.11mn tonnes vs 0.19mn tonne mom.
- Current domestic HRC at Rs 54,500/tonne fell 5% mom. However given the domestic prices are now at a discount to China as well as Korea imported HRC, further fall looks unlikely.
- Discount between imported vs domestic iron ore increased to 48% from 42% a month ago.
- Ferro chrome prices are at 3-4 year high of Rs 99,000/t (+61% yoy).

Non-ferrous: Prices falling

- Global aluminium production improved 4.3% yoy to 5.7 mn tonnes aided by 6.9% jump in Chinese production (3.3mn tonnes).
- Global and China mom average daily production remained flat at 184KT and 106KT.
- Aluminium prices improved 9% mom to US\$ 2,202/t. The gap between LME and Shanghai prices widened to US\$ 475/t from US\$ 310/t mom.
- Aluminium inventories on major exchanges range bound near 1.6mn tonnes.
- Both, Chinese captive power and grid based smelter mom profitability improved sharply by 31% and 63% to CNY 6,178/t and CNY 3,478/t.
- Alumina prices fell 1% mom to US\$ 302/t.
- Zinc LME jumped 6% mom to US\$ 2,835/t while lead prices improved 5% to US\$ 2,122/t.
- Zinc TC/RC remained below US\$ 100/t
- Zinc inventories were up while lead inventories have fallen.

Indices (rebased)



Absolute Performance Change

	1M	3M	6M
China HRC	8.4	19.2	37.4
Europe HRC	4.4	42.2	51.0
US HRC	5.4	69.0	92.6
Black SEA	-2.7	39.6	55.0
India HRC	-4.6	23.1	43.6
Iron ore	2.4	36.2	89.1
Coking coal	4.2	31.3	23.1
Aluminium	8.6	9.2	27.3
Zinc	6.5	2.8	38.5
Copper	16.8	28.3	64.9
Lead	4.8	4.9	9.4
Alumina	-0.9	8.8	4.5
Thermal coal	-6.9	34.6	25.9
INR	0.7	2.1	0.7

Source: Company, PhillipCapital India Research

Stock Performance

	1MTH	3MTH	1YR
Hindustan Zinc	12.7	23.1	29.5
JSPL	23.5	29.6	37.7
Tata Steel	14.2	14.9	23.9
SAIL	33.6	27.1	58.0
JSW Steel	5.1	8.0	12.9
Vedanta	27.2	27.3	71.7
Hindalco	47.0	43.6	50.3
Nalco	25.3	46.7	53.1
NMDC	18.9	12.0	31.7

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Global crude steel production

Mn tonnes	Jan 20	Dec 20	Jan 21	YoY (%)	MoM (%)
Africa	1.3	1.3	1.2	-7.9%	-7.7%
Asia & Oceania	111.8	119.1	119.0	6.3%	-0.1%
CIS	8.8	8.7	9.2	4.5%	5.7%
EU (27)	12.2	11.6	12.2	-0.4%	5.2%
Europe (Other)	4.0	3.9	4.4	11.2%	12.8%
Middle East	3.6	3.5	3.6	1.5%	4.0%
North America	10.3	9.1	9.6	-7.0%	5.5%
South America	3.4	3.7	3.8	11.4%	4.1%
Total	155.4	160.9	162.9	4.8%	1.3%

Note: The 64 countries included in this table accounted for ~99% of total world crude steel production in 2018.

Source: World Steel Association

Global crude steel production for January 2021 improved 4.8% yoy to 162.9mn. Major geographies such as China, India and CIS reported yoy improvement in steel production. Mom average daily production improved 1.3% to 5.25mn tonnes. China accounted for 55.4% of global production, up 100bps yoy but down 140 bps mom.

10MFY21 global crude steel production fell by mere 0.4% to c. 1,544mn tonnes. While China grew by 7% for the same period, all other major geographies posted sharp fall (Indian production fell 10% yoy).

Top 10 Steel producing countries

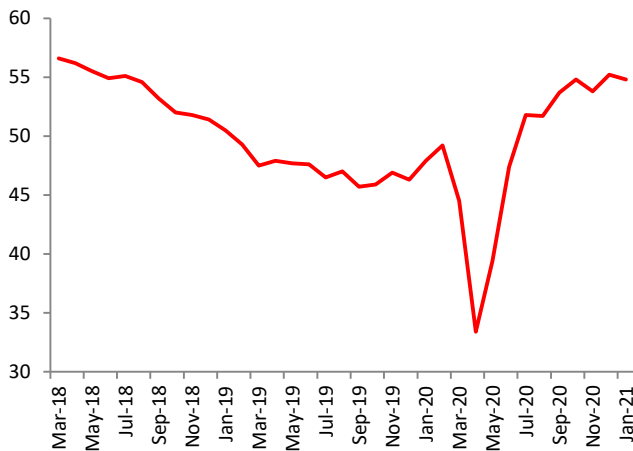
Mn tonnes	Jan 20	Dec 20	Jan 21	YoY (%)	MoM (%)
China	84.5	91.3	90.2	6.8%	-1.2%
India	9.3	9.8	10.0	7.6%	2.1%
Japan	8.2	7.5	7.9	-3.9%	5.0%
US	7.7	6.4	6.9	-9.9%	7.3%
Russia	6.3	6.1	6.7	6.5%	9.7%
South Korea	5.7	6.0	6.0	4.9%	0.8%
Turkey	3.0	3.4	3.4	12.7%	0.0%
Germany	3.1	3.1	3.3	6.0%	5.4%
Brazil	2.7	2.9	3.0	10.8%	4.2%
Iran	2.4	2.7	2.6	10.2%	-2.3%

Source: World Steel Association

China continues to remain at top followed by India. The third and fourth largest producers Japan and US are yet to reach back to pre-covid levels.

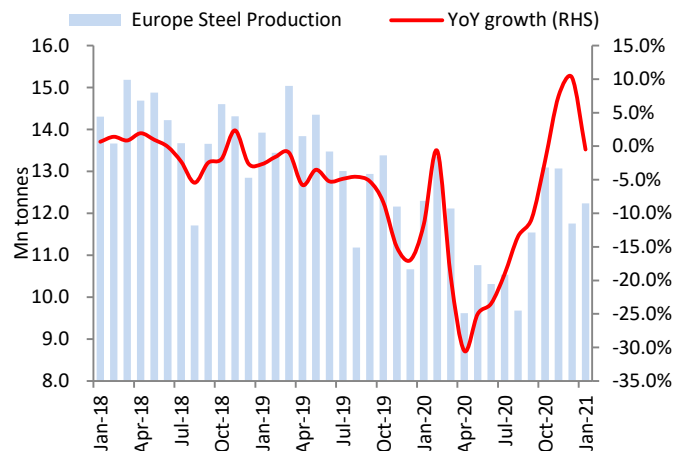
Ferrous: Global

Markit Eurozone Manufacturing PMI



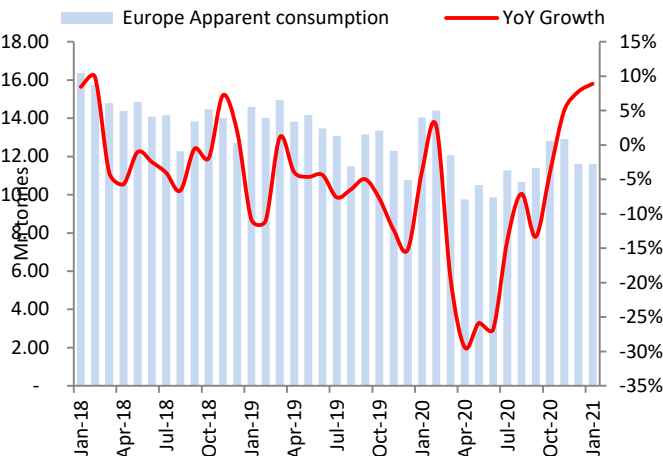
PMI stood at an expansionary mode at 54.8, a 690 bps improvement yoy. On mom basis its 40bps lower.

Europe steel production (mn tonne)



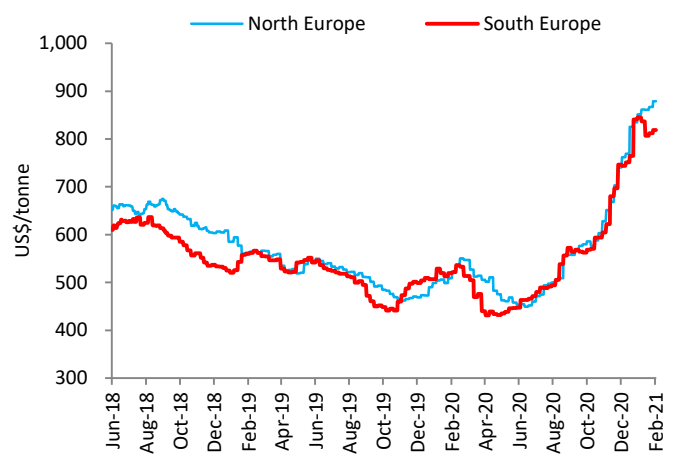
Euro zone January 2021 crude steel production was flattish yoy to 12.2mn tonnes.

Europe apparent steel consumption (mn tonnes)



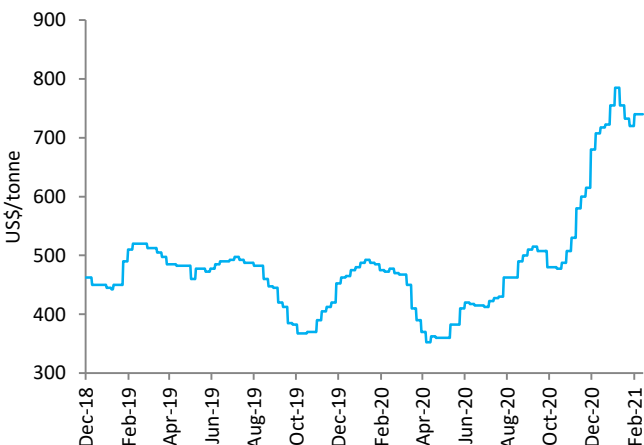
EU apparent steel consumption has also recovered sharply.

Europe domestic HRC price ex-works (USD/tonne)



North Europe steel prices improved 4%/68% mom/yoy while South Europe steel prices fell 3% mom but still up 57% yoy.

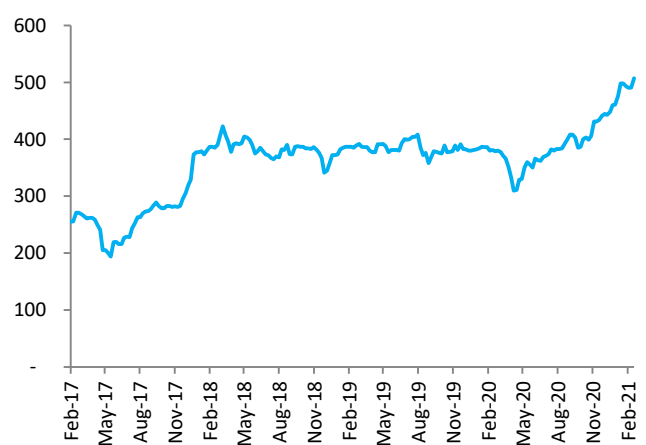
Black Sea HRC Spot FoB (USD/tonne)



Black Sea HRC export prices fell 3% mom but it's still higher 55% yoy.

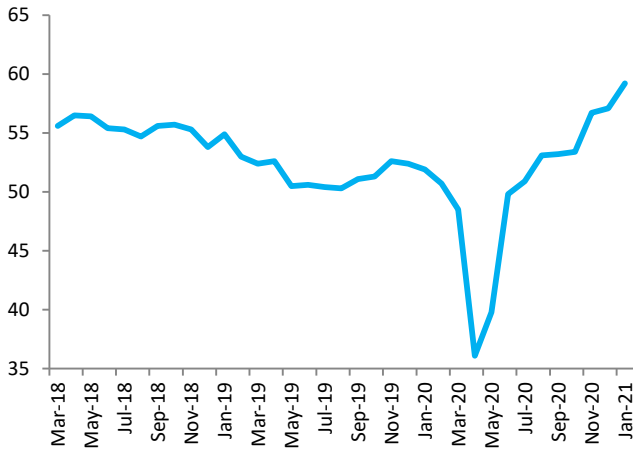
Source: Bloomberg

Turkey scrap prices – (USD/tonne)



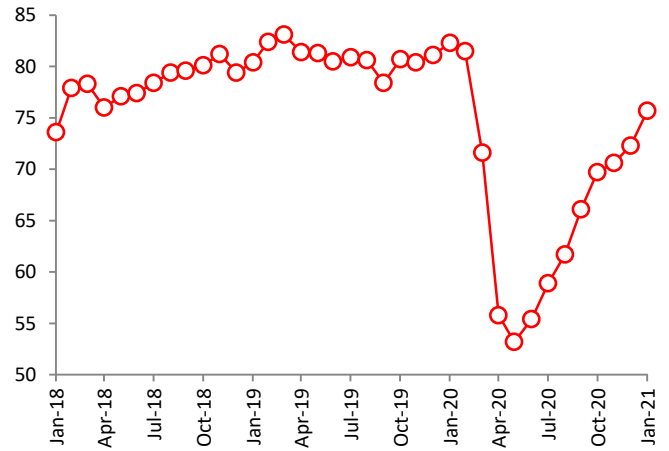
Scrap prices jumped 2% mom to US\$ 507/t (yoy it's up 34%).

Markit US Manufacturing PMI



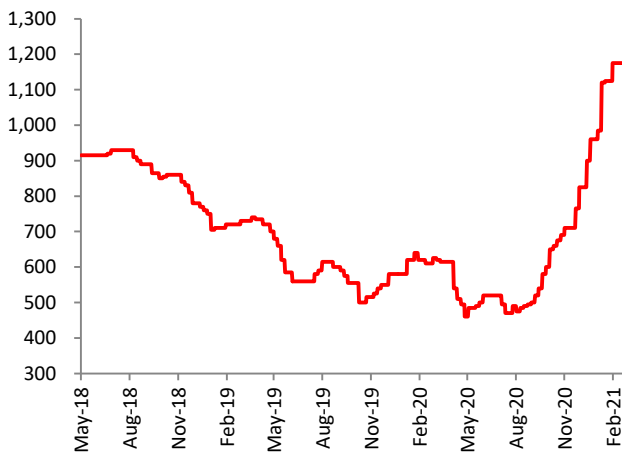
US PMI improved 210bps/730bps mom/yoy to 59.2.

US steel capacity utilisation (%)



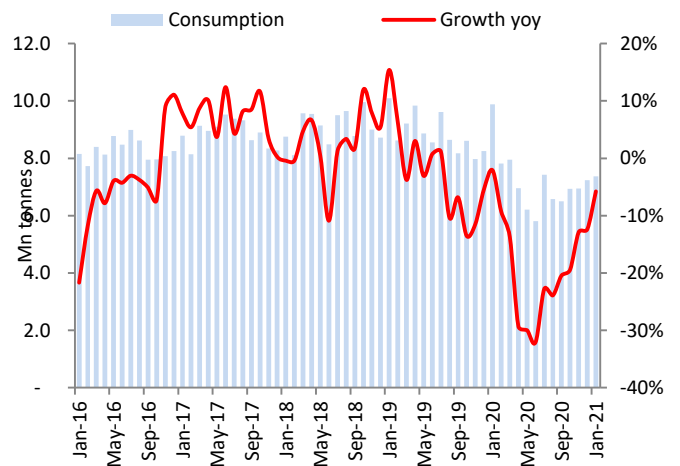
Steel capacity utilizations also improved 340bps mom to 75.7% in January. Yoy it's still 6.6% lower.

US HRC price (USD/tonne)



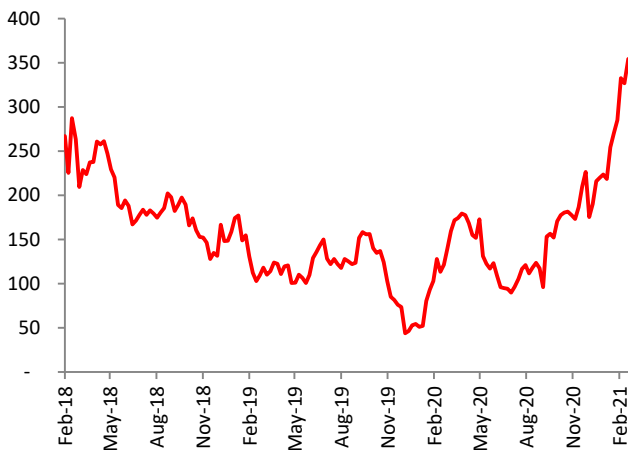
US domestic HRC prices improved further by 5%/93% mom/yoy to US\$ 1,175/t).

US apparent consumption (mn tonne)



US apparent steel consumption continues to improve on mom basis.

Europe EAF steel profitability (USD/tonne)

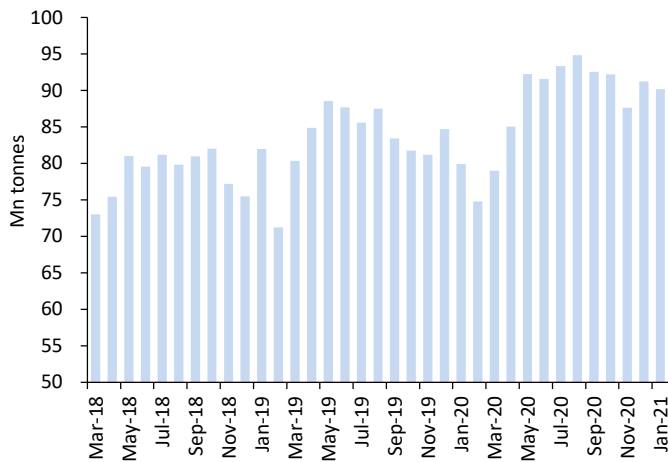


Europe EAF steel mill profitability improved 31% mom.

Source: Bloomberg

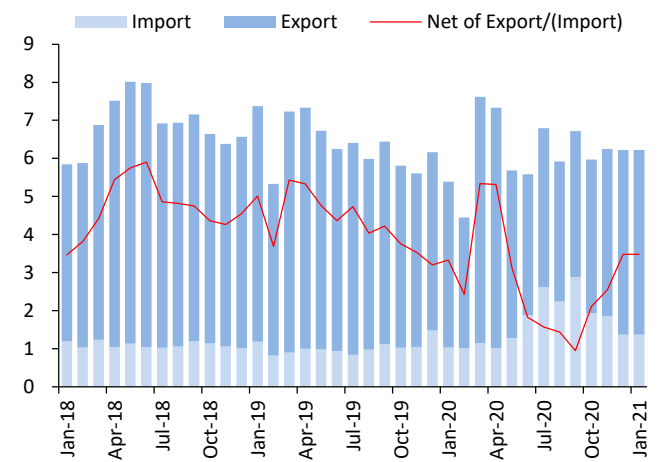
Ferrous: China

China crude steel production (mn tonnes)



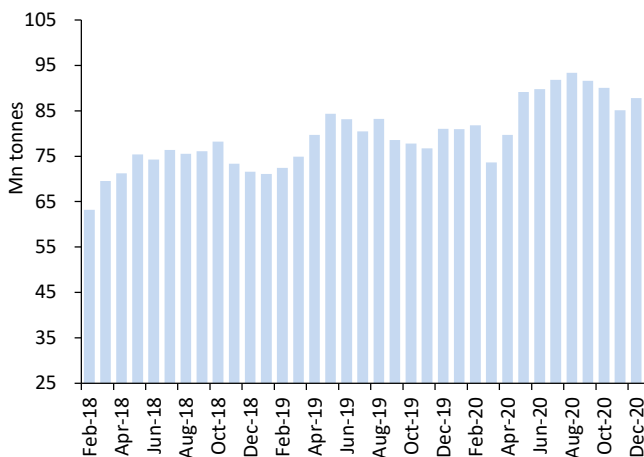
Chinese crude steel production jumped 6.8% yoy to 90.2mn tonnes. Avg daily production fell 120bps mom to 2.91mn tonnes.

China net steel exports (mn tonnes)



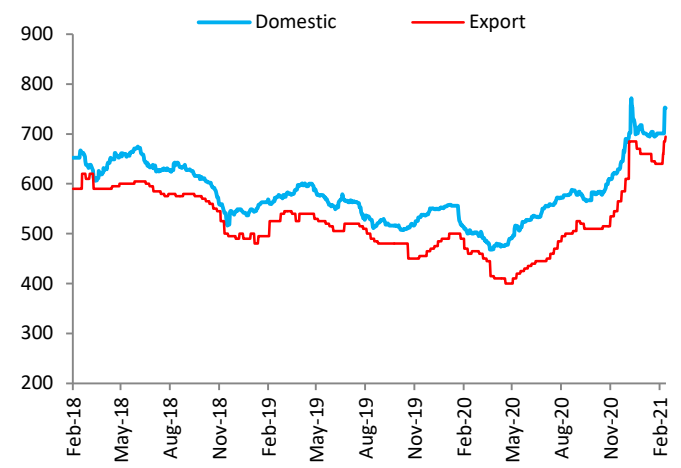
Chinese custom provides Jan–Feb combined data in March.

China Steel demand – (mn tonne)



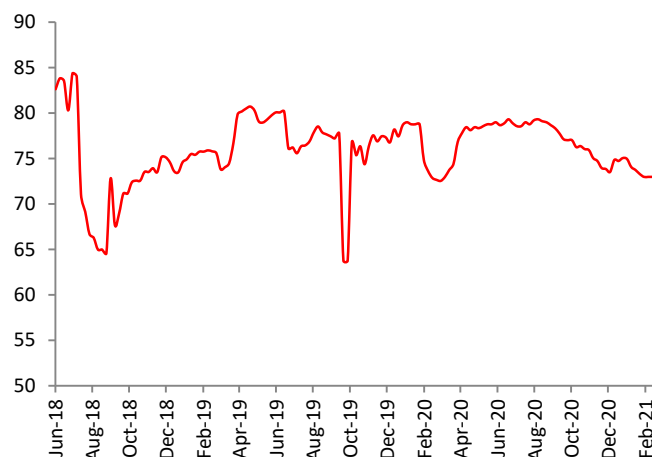
Chinese demand also improved c.8% yoy In December. Jan-Feb combined data will be published in next month.

China HRC prices – (US\$/tonne)



Chinese domestic and export price both increased 8% and 5% mom to US\$ 752/t and US\$ 690/t.

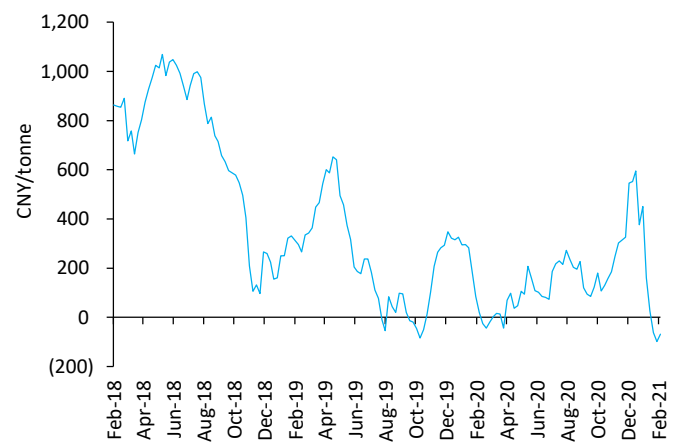
Tangshan BF utilisation rate – (%)



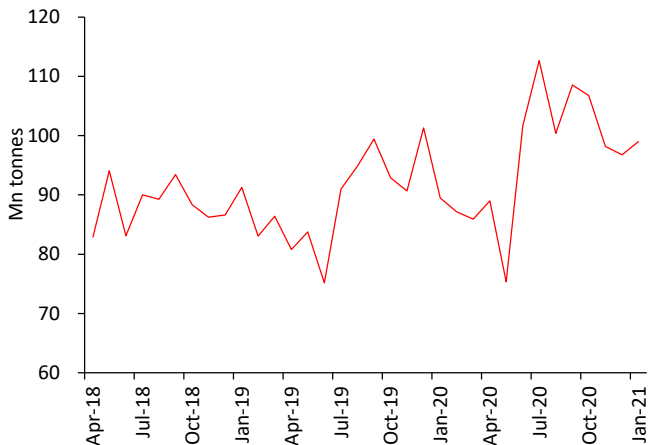
Blast furnace utilisations rates fell 80bps mom to 73%.

Source: Bloomberg

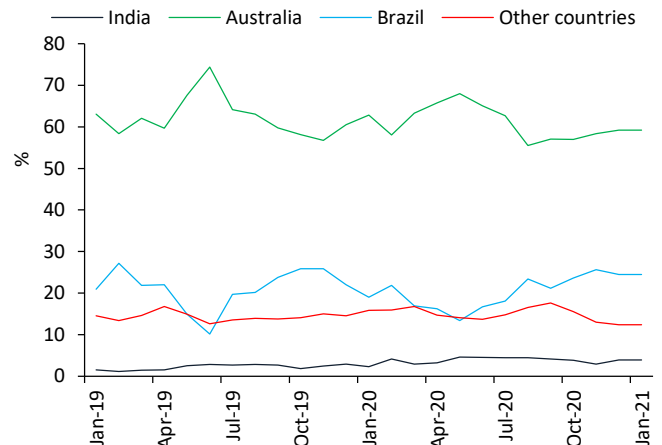
China BoF Steel profitability (CNY/tonne)



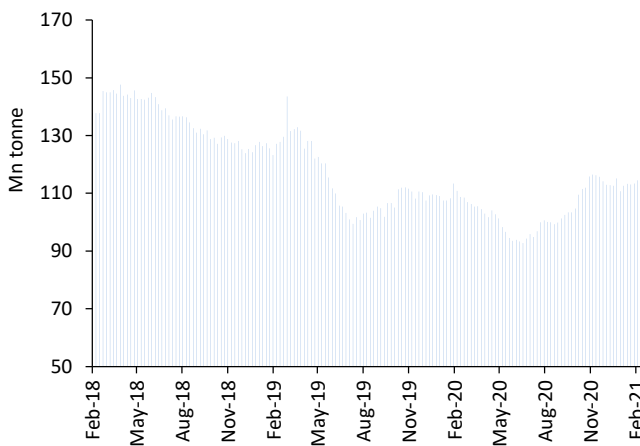
Domestic steel profitability fell sharply to negative zone.

China iron ore imports (mn tonne)


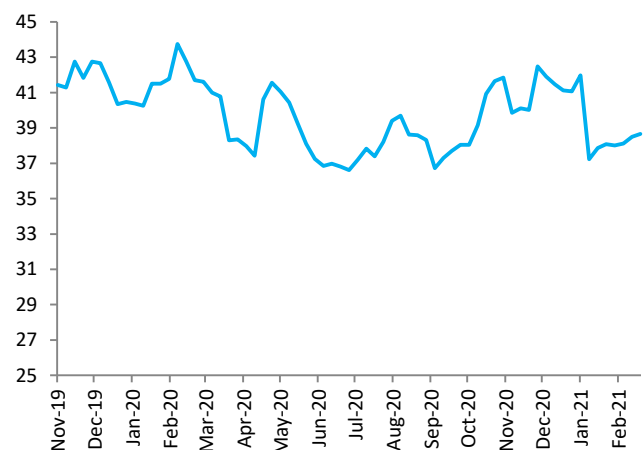
January 2021, iron-ore imports stood at 98.8mn tonnes (+10/+2% yoy/mom).

Share of iron-ore exporters in Chinese ore imports (%)


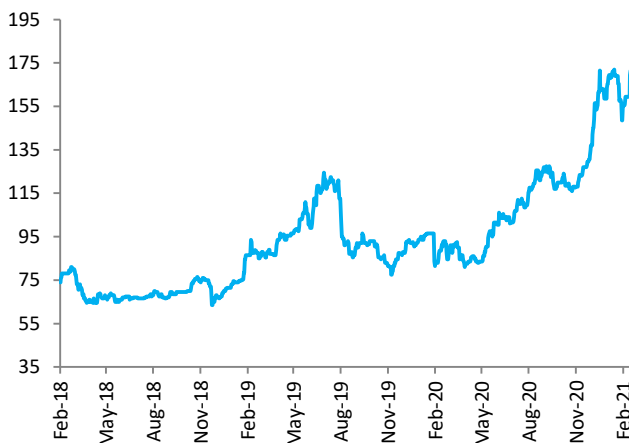
Share of Australia has improved marginally.

China iron-ore weekly inventory (mn tonnes)


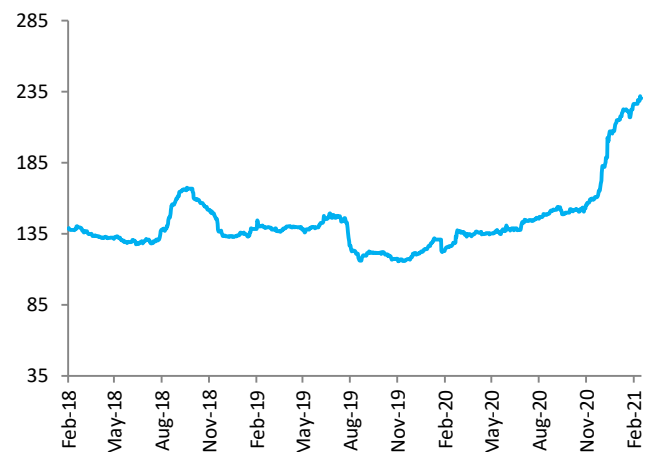
Iron ore inventories at Chinese port increased marginally on mom basis

Iron-ore inventory to consumption days


Inventory to consumption day increased to c.39 days from 36 days a month (calculated on daily steel production run rate).

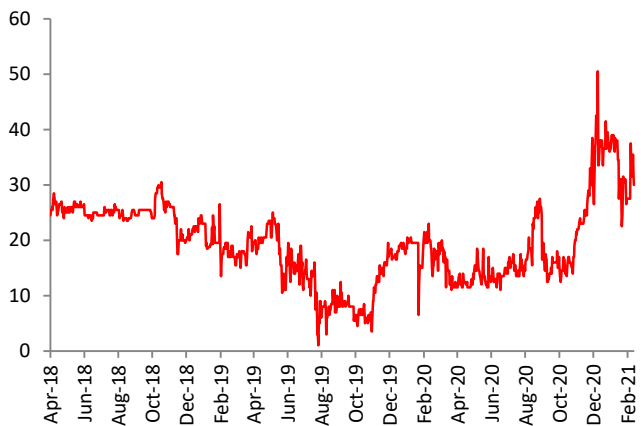
China import – 63.5% Fe Iron ore, CIF (USD/tonne)


Iron ore price at US\$ 172/t jumped 2%/88% mom/yoy.
Source: Bloomberg

China import 65% Fe pellet, CFR – (USD/tonne)


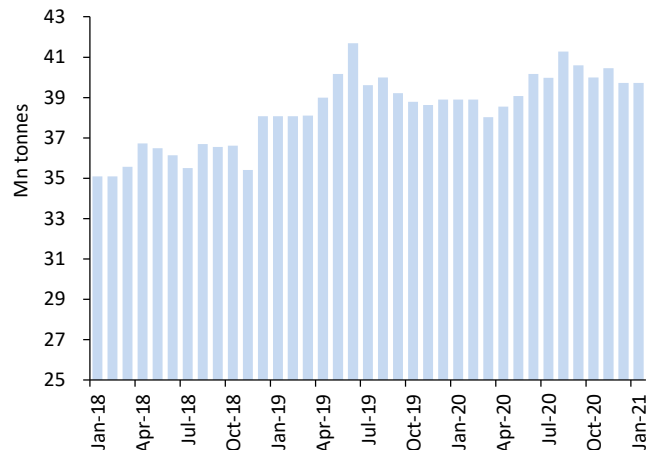
Pellet prices jumped 4%/80% mom/yoy.

Spread between 63.5% and 58% Fe imported iron ore (USD/tonne)



Gap between high vs. low-grade iron ore fallen to US\$ 30/t from US\$ 60/t a month ago.

China coke production (mn tonne)



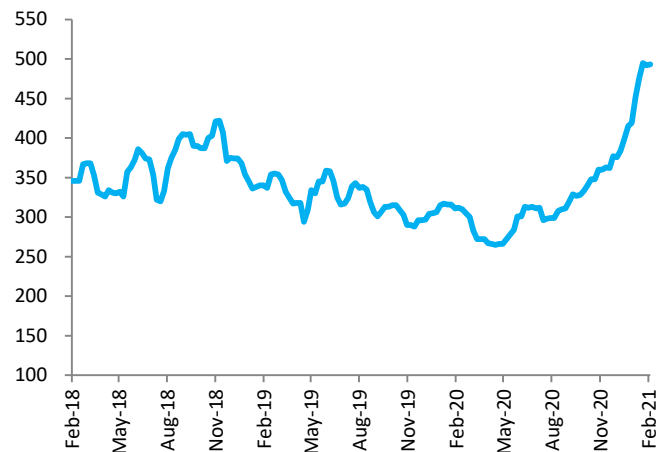
China Jan-Feb coke production will be published combined..

Australia premium hard coking coal price – (USD / tonne)



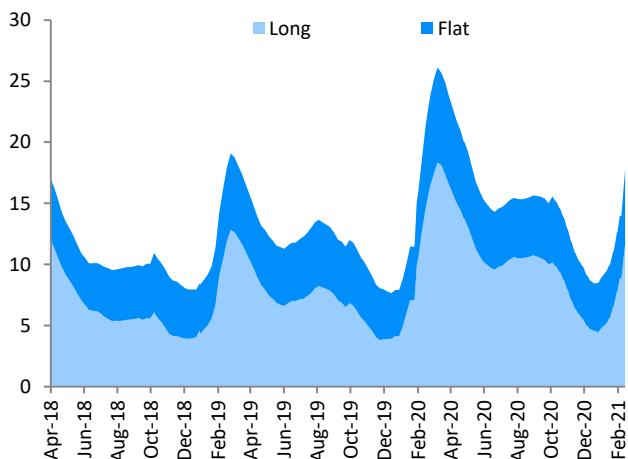
Coking coal prices jumped 4% mom to US\$ 131/t. Yoy prices are still 17% lower.

China domestic coke spot price (USD / tonne)



Chinese domestic coke prices jumped 4%/58% yoy/mom to US\$ 493/t.

Steelhome China inventory – (mn tonne)

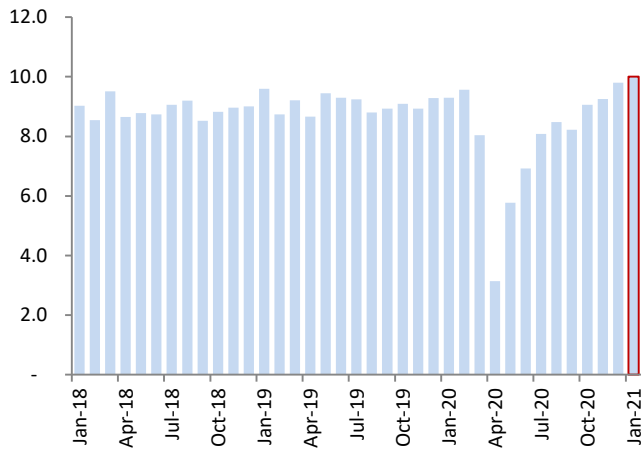


Inventories jumped sharply (driven by long inventories) to c.18mn tonnes (seasonal in nature)..

Source: Bloomberg

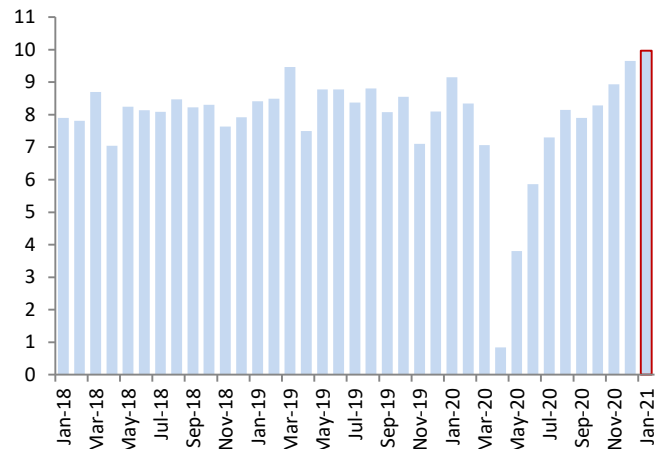
Ferrous: India

Crude steel production (mn tonnes)



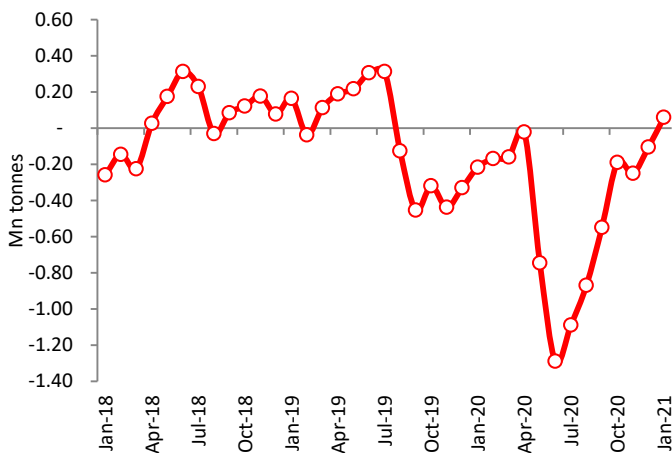
January 2021 crude steel production improved 7%/2% yoy/mom to 10mn tonnes.

India steel consumption (mn tonne)



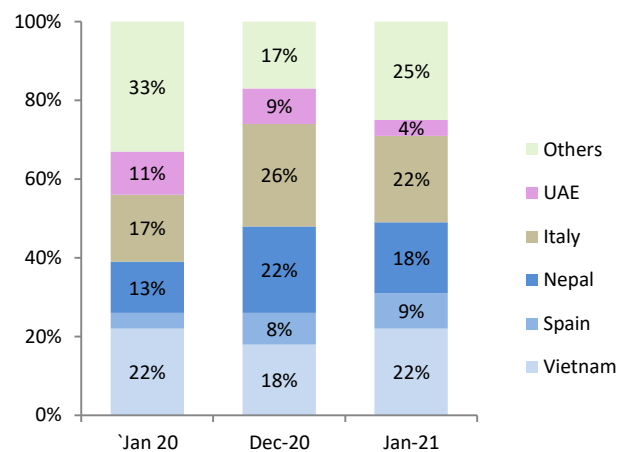
Steel demand improved 9%/3% yoy/mom to 9.9mn tonnes.

Net steel import/ (export) – mn tonnes



After 9 months, India once again became net importer of steel at 0.06mn tonnes net export of 0.11mn tonnes mom.

County-wise Steel export share



Nepal, Vietnam and Italy were major exporting destinations. India imports are majorly coming from Korea (37%) and China (17%).

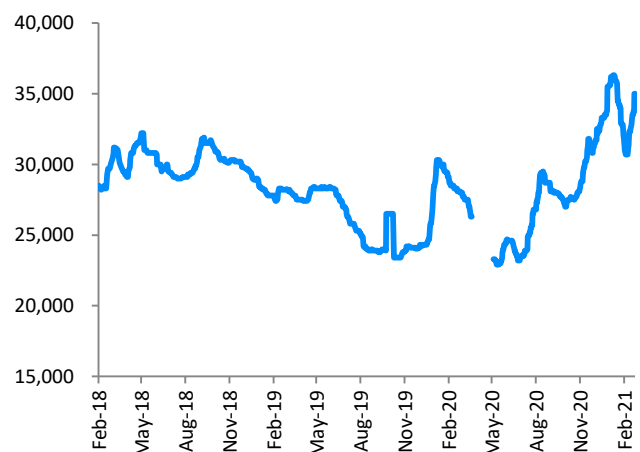
Sponge iron price, Raipur – (Rs / tonne)



Sponge iron prices improved 8%/27% mom/yoy to Rs 26,100/t.

Source: JPC, Steelmint

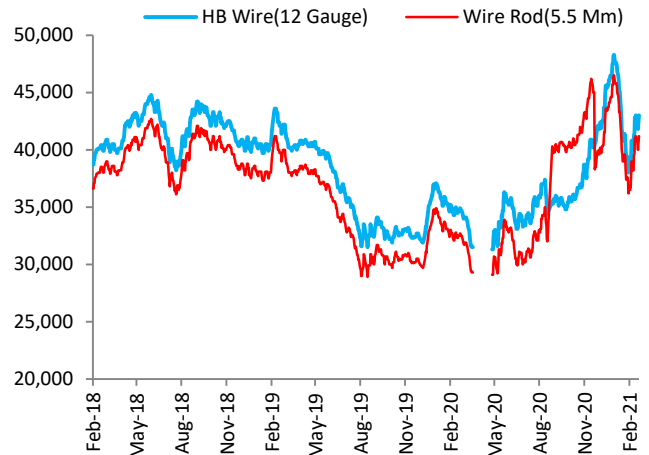
Pig iron price, Raipur – (Rs / tonne)



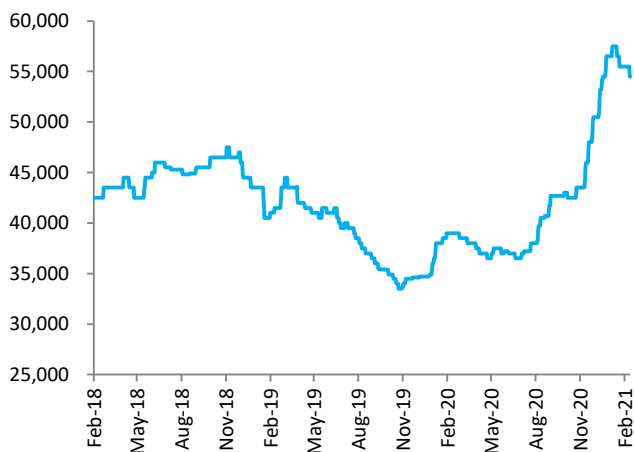
Pig iron prices improved 3% mom to Rs 35,000/t (+24.6% yoy).

Billet price, Raigarh (Rs / tonne)

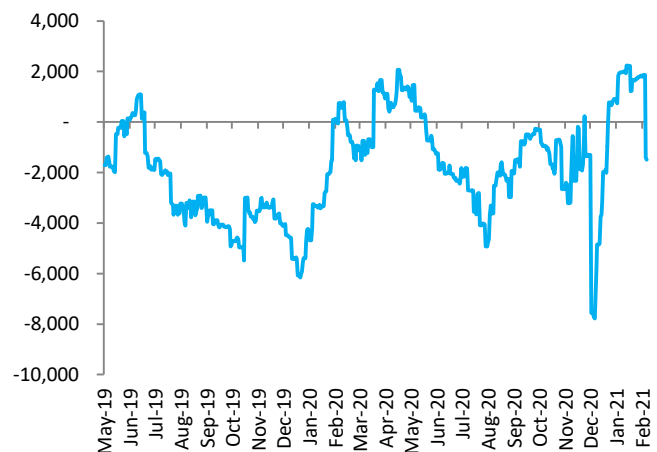

Billet prices improved 5%/41% mom/yoy to Rs 36,950/t.

Wire Rod and HB wire price, Raipur (Rs / tonne)


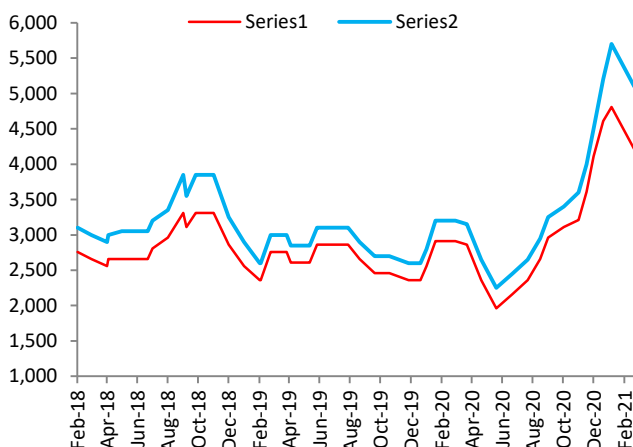
Both HB wires and wire-rod prices increased 4% mom (yoy up 38%).

Domestic HRC price – Mumbai (Rs/tonne)


Domestic HRC (Ex-Mumbai) prices at Rs 54,500/t fell 5% mom. However; yoy its still 40% up..

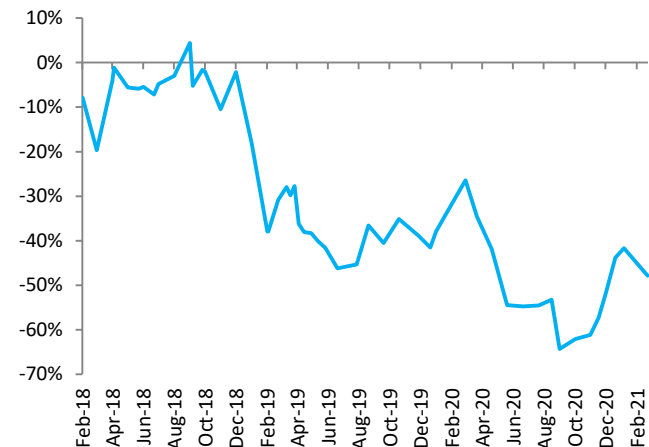
Domestic HRC premium/(discount) vs China imports- Rs/t


Domestic HRC prices are now at discount to both China and Korea imported HRC.

NMDC Chattisgarh price (Rs/tonne)


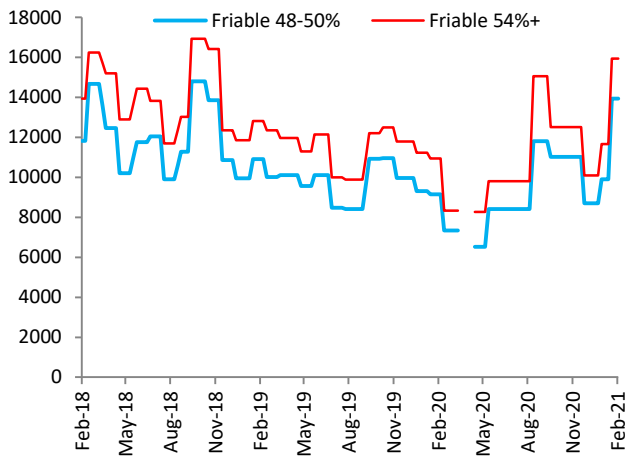
NMDC has reduced lump /fine prices by 11-12% in the month of February. YoY prices are still 70%/53% higher.

Source: JPC, Steelmint

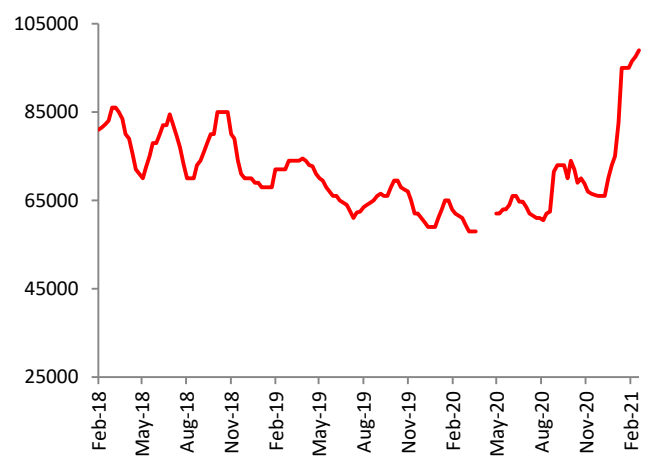
Imported iron ore vs. NMDC parity


NMDC's iron ore is trading at c. 48% discount to imported iron ore prices vs over 42% a month ago.

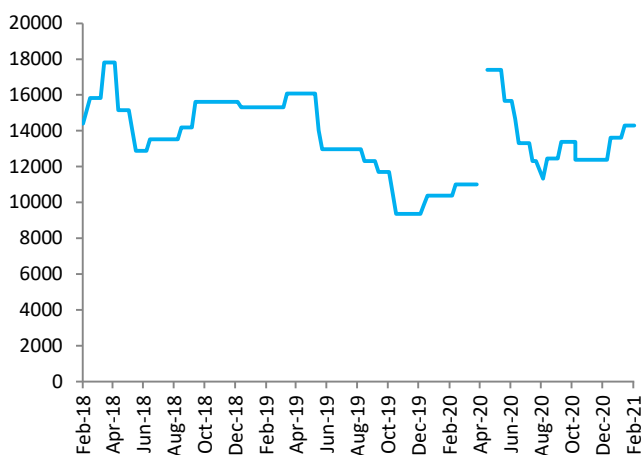
Ferro Alloys

Chrome ore – Barbil, Orissa (Rs/tonnes)


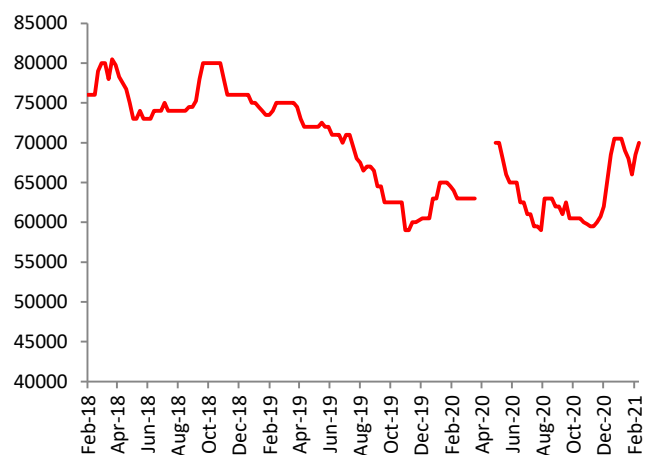
Chrome ore mom/yoy prices improved 37%/48%.

Ferro chrome – Jaipur, Orissa (Rs/tonnes)


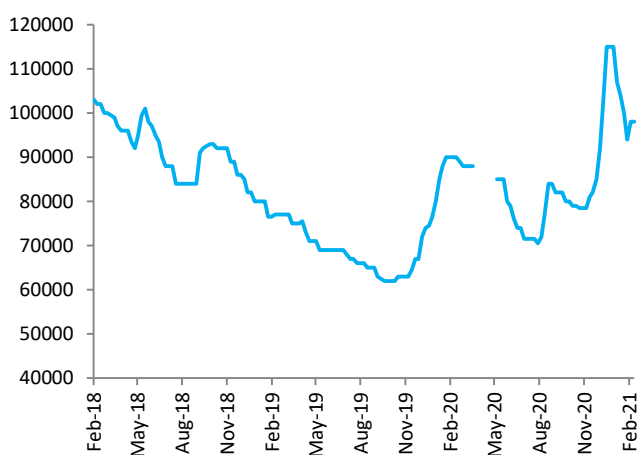
Ferro chrome prices jumped multiyear high of Rs 99,000/t (+61% yoy and 4% mom).

Manganese ore – Balaghat, MP (Rs/tonnes)


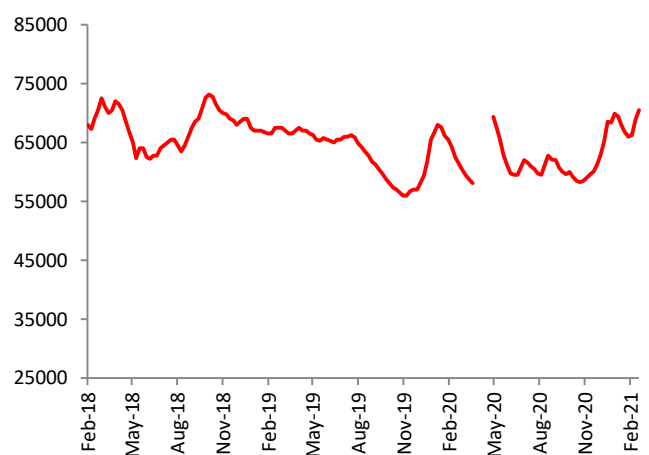
Manganese ore prices improved 5% mom to Rs 14,300/t (+38% yoy).

Ferro manganese - Raipur (Rs/tonnes)


Ferro manganese prices improved 1%/11% mom/yoy to Rs 70,000/t.

Ferro silicon - Bhutan (Rs/tonnes)


Ferro silicon prices fell 6% mom to Rs 98,000/t (+9% yoy).

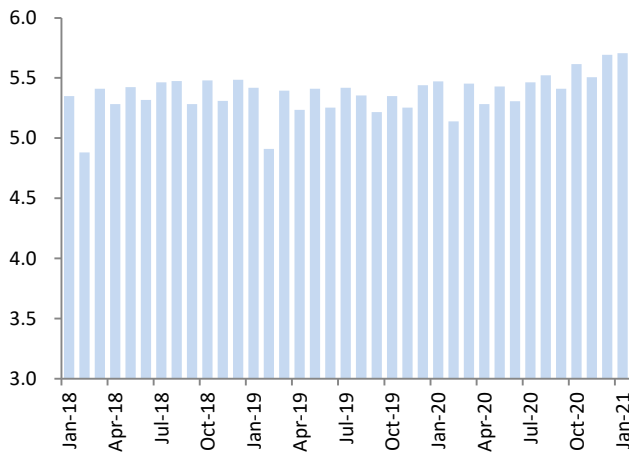
Silico manganese - Raipur (Rs/tonnes)


Silico manganese prices improved 4%/15% mom/yoy to Rs 70,050/t

Source: Steelmint

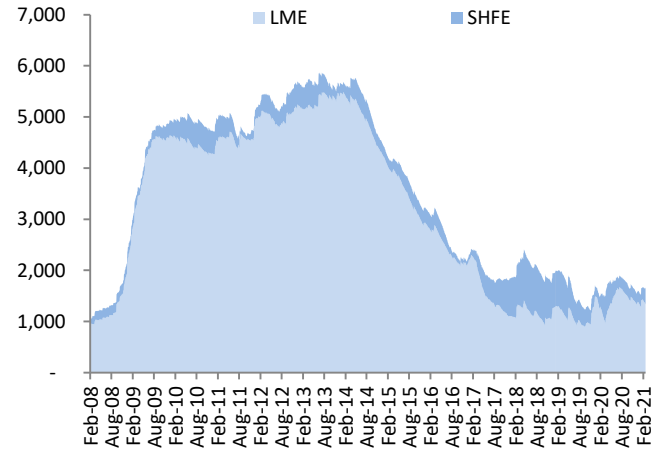
Non-ferrous: Aluminium

Global primary aluminium production (mn tonnes)



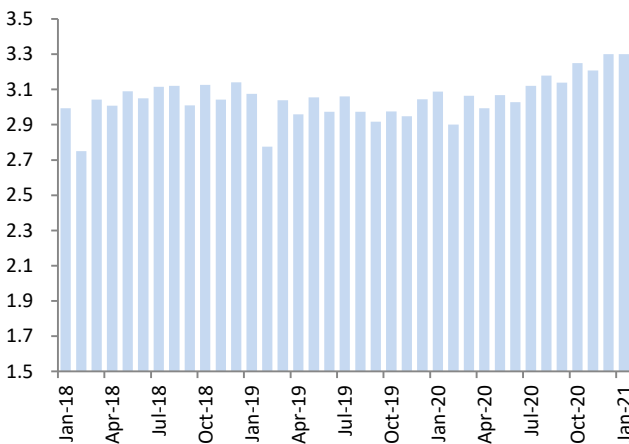
Global aluminium production improved 4.3% yoy to 5.7 mn tonnes. Average daily production remained flat on mom to 184KT.

Aluminium inventory on major exchanges ('000 tonnes)



Aluminium inventories in major exchanges remained range bound at 1.6mn tonnes.

China: Primary aluminium production (mn tonnes)



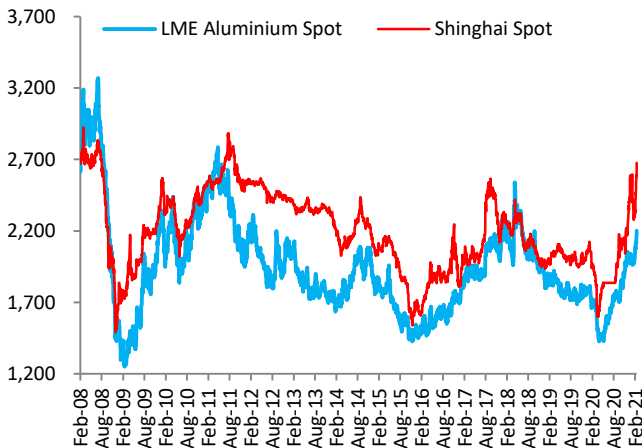
Chinese production jumped 6.9% yoy to 3.3mn tonnes. Average daily production at 106KT remained flat mom.

China aluminium exports/ (import) ('000 tonne)



China aluminium net exports stood at 191KT in December. January data is yet to be released.

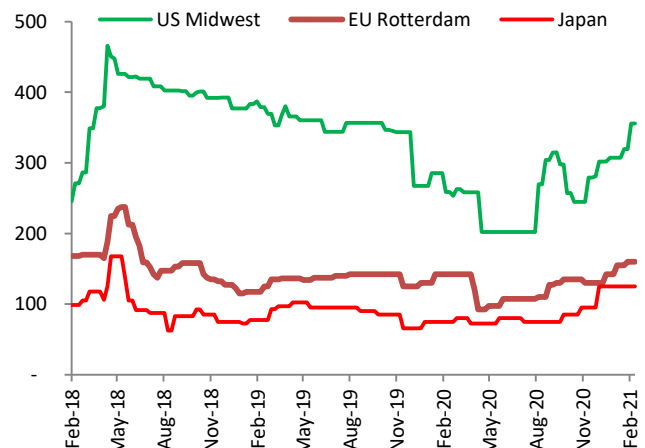
Aluminium spot prices - (USD / tonne)



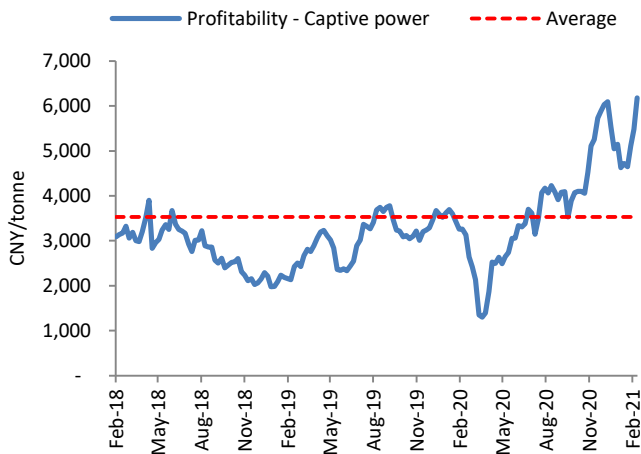
LME prices at US\$ 2,202/t (+9%/+31% mom/yoy). The gap between LME and SHFE jumped to US\$ 475/t from US\$310 mom.

Source: Bloomberg

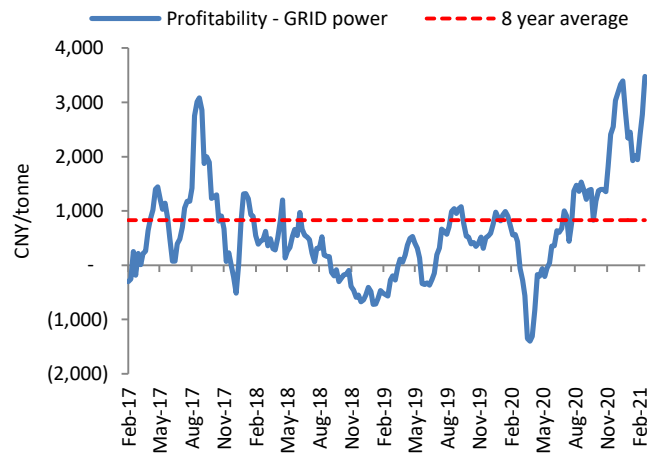
Regional premiums (USD / tonne)



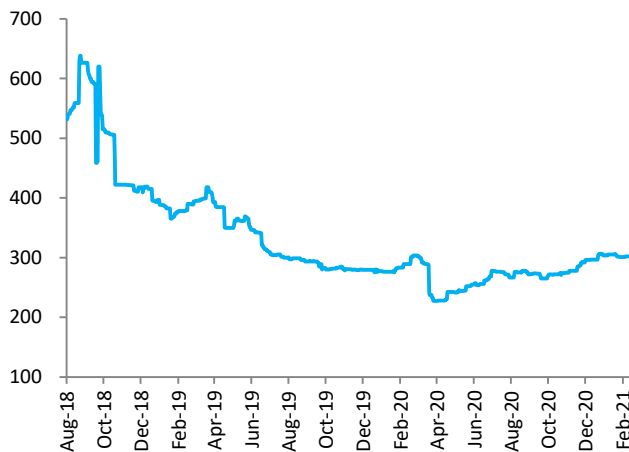
EU and EU premium moved up mom while Japan premiums remained flattish.

China smelter profitability (captive power) - CNY/tonne


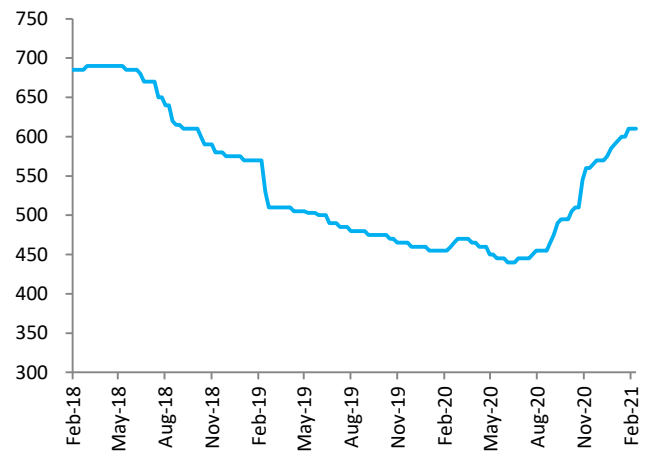
Chinese captive power smelter profitability jumped sharply by 31% mom to multiyear high of CNY 6,178/t.

China smelter profitability (grid power) - CNY/tonne


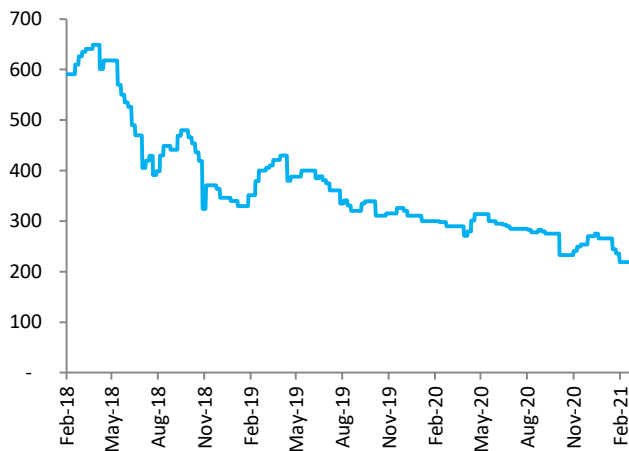
Chinese non-integrated smelters profitability also fell improved sharply to CNY 3,478/t.

Australia alumina FoB - (USD / tonne)


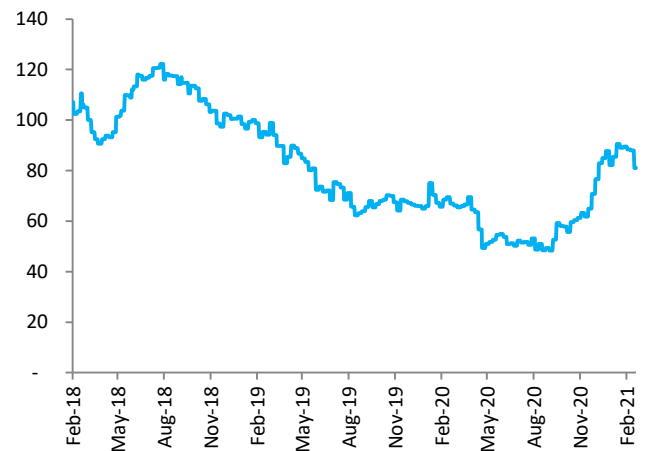
Alumina prices stands at US\$ 302/t; -1%/+5% mom/yoy.

China prebaked anodes (USD / tonne)


Anode prices improved 3% mom and 33% yoy.

Caustic soda - SE Asia, CFR (USD / tonne)


Caustic soda prices at US\$ 219 fell 10%/26% mom/yoy.

Australia Thermal Coal 6000 kcal FOB - (USD / tonne)


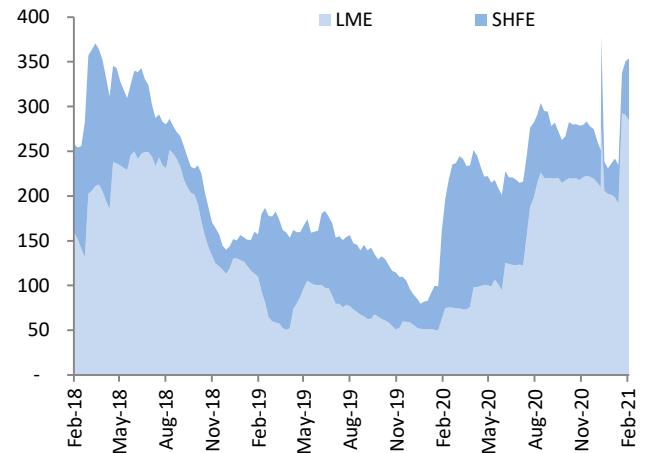
Coal prices fell 7% mom but still higher by 32% yoy.

Source: Bloomberg

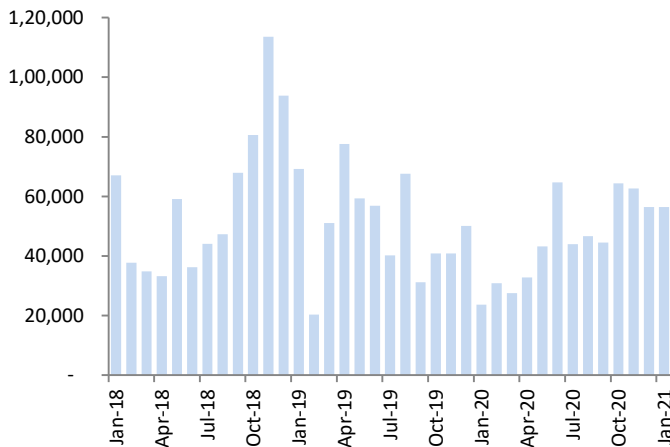
Non-ferrous: Zinc and Lead

Zinc LME price – USD/tonne

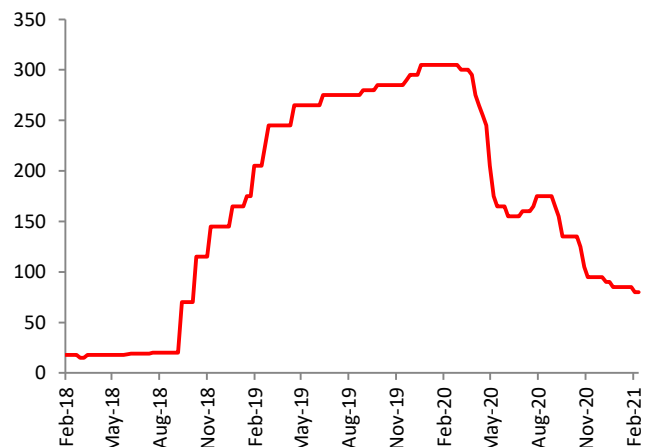

Zinc prices improved fell 6% mom to US\$ 2,835/t (+38% yoy).

Major exchange zinc inventory ('000 tonnes)


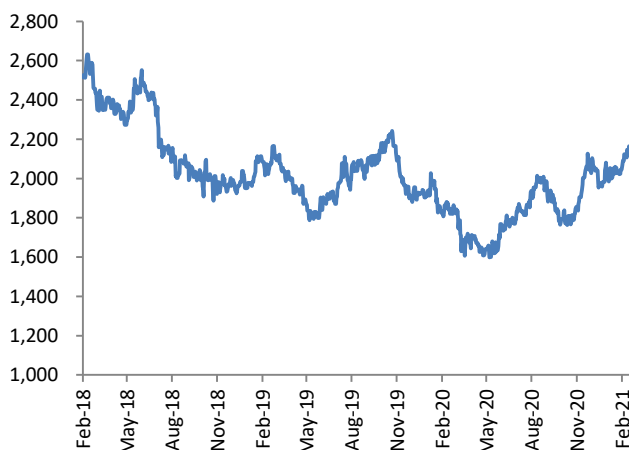
Inventories improved sharply.

China zinc imports (tonnes)


Chinese Jan-Feb data will be published together

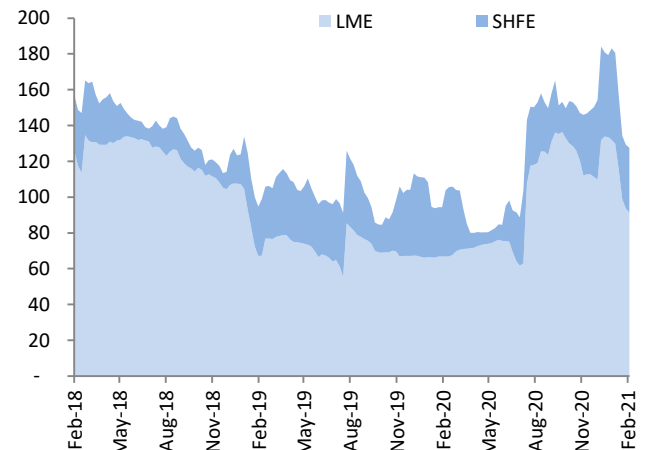
China zinc concentrate TC 50% CIF – USD/tonne


Treatment charges fell marginally.

Lead LME prices – USD/tonne


Lead prices improved 5% mom to US\$ 2,122/t (+17% yoy).

Source: Bloomberg

Major exchange lead inventory ('000 tonnes)


Inventories have fallen on mom basis

Valuation

	CMP Rs	TP (Rs)	Rating	Adj EPS (Rs)		PER (x)		EV/EBITDA (x)		Net Debt/Equity (x)		P/BV (x)		RoE (%)	
				FY21E	FY22E	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Ferrous															
Tata Steel	715	845	Buy	68.6	90.3	10.4	7.9	5.9	5.2	0.9	0.8	1.0	0.9	9.4	11.2
Jindal Steel and Power	336	385	Buy	54.5	51.0	6.2	6.6	4.5	4.1	0.8	0.5	0.9	0.8	14.7	12.1
JSW Steel	396	365	Neutral	28.7	36.1	13.8	11.0	7.7	6.4	1.2	1.0	2.2	1.9	16.0	17.1
SAIL	77	90	Buy	8.2	16.2	9.3	4.8	5.8	4.6	0.9	0.7	0.7	0.6	8.0	12.9
NMDC	127	125	Neutral	21.9	21.0	5.8	6.1	4.2	4.3	0.0	-0.1	1.3	1.2	23.0	19.9
Non-Ferrous															
Vedanta	207	184	Buy	21.1	25.9	9.8	8.0	4.8	4.1	0.8	0.7	1.3	1.3	13.6	15.8
Hindustan Zinc	297	260	Sell	17.8	22.6	16.7	13.2	9.6	7.7	-0.4	-0.4	3.4	3.7	20.3	27.8
Nalco	60	58	Buy	4.2	6.0	14.3	10.0	7.0	5.1	-0.2	-0.2	1.1	1.0	8.2	10.9
Hindalco	340	325	Buy	24.5	32.5	13.9	10.5	7.5	6.4	0.8	0.7	1.2	1.1	8.6	10.3

Source: PhillipCapital India Research Estimates

Rating Methodology

We rate stock on absolute return basis. Our target price for the stocks has an investment horizon of one year. We have different threshold for large market capitalisation stock and Mid/small market capitalisation stock. The categorisation of stock based on market capitalisation is as per the SEBI requirement.

Large cap stocks

Rating	Criteria	Definition
BUY	$\geq +10\%$	Target price is equal to or more than 10% of current market price
NEUTRAL	$-10\% > \text{to} < +10\%$	Target price is less than +10% but more than -10%
SELL	$\leq -10\%$	Target price is less than or equal to -10%.

Mid cap and Small cap stocks

Rating	Criteria	Definition
BUY	$\geq +15\%$	Target price is equal to or more than 15% of current market price
NEUTRAL	$-15\% > \text{to} < +15\%$	Target price is less than +15% but more than -15%
SELL	$\leq -15\%$	Target price is less than or equal to -15%.

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