

Steel: HRC price dithers again

Subdued demand pushed domestic HRC price in the traders' market slightly lower to INR63,600/t. Export realisation, however, improved marginally as opportunities in the region strengthened. Rebar prices in the secondary market continued to stay firm, with primary-secondary differential declining to just INR4,200/t. European HRC prices rose on improving automotive demand and robust energy costs.

In China, the reduction in Loan Price Rate (LPR) (for the first time after April 2020) by 5bps to 4.6%. It is likely to boost credit demand, resulting in better prospects for construction and manufacturing. We remain positive in this space with Tata Steel (TP: INR1,950) and JSPL (TP: INR575) as our key picks.

Domestic HRC price slips; export prospects improve

Domestic HRC price in the traders' market slipped by INR200/t on average last week. However, export prospects for the domestic players look better due to ongoing maintenance activities in some steel mills in the far east. Besides, we do not expect import pressure from far east despite domestic HRC price being at a 5% premium to landed price of imports from far east. As a result, export price improved slightly to USD722/t after eleven successive weeks of decline. In longs, secondary rebar prices continue to improve. The differential between primary and secondary rebar is now at INR4,200/t, similar to its long term average. We expect traction in longs to build-up as thrust on government infrastructure projects builds up.

Policy support in China begins

Today, the LPR was cut by 5bps to 4.6% and the 1-year LPR was cut by a further 10bps to 3.7%, following a 5bps cut in December 2021. Our channel checks indicate that this moderate reduction in LPR will support the real estate market. It will also reduce the corporate financing cost, further boosting credit appetite. Market participants are still waiting for PBoC to lower the RRR combined with structural policies to facilitate social financing, RMB loans and other credit indicators. This has resulted in an uptick in both HRC and iron ore futures in China. We expect the improvement in Chinese demand to be a firm support for global prices.

Outlook: China's reflation bodes well for the sector

In our view, China's policy support through LPR cuts, was its first step towards boosting construction and infrastructure demand. We expect further measures to follow post the winter Olympics and new year holidays. Besides, an uptick in Chinese exports seems unlikely, due to apprehension of a possible export tax. Domestically, while longs demand has picked up, we still see a staid market for flats.

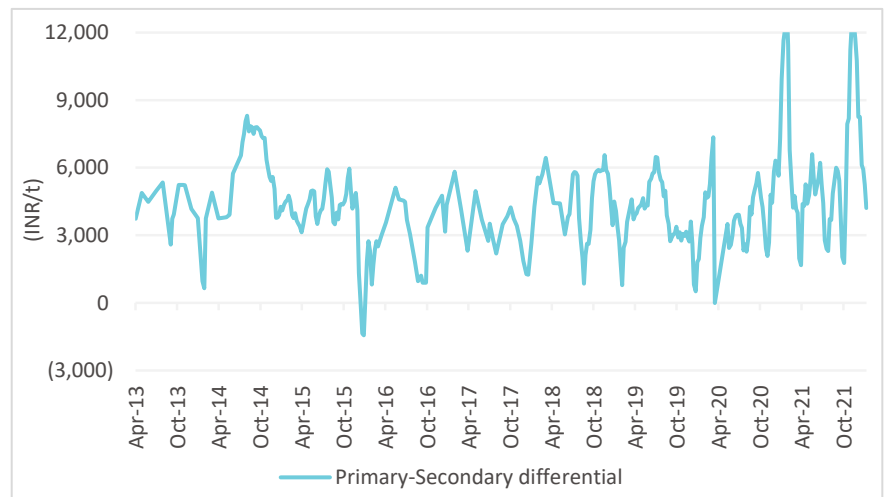
While spot spreads continue to remain low, due to an uptick in coking coal prices pursuant to the La Nina effect, we believe that improvement is in sight, as prices are likely to inch up. We continue to prefer Tata Steel (TP: INR1,950; 5.5x FY23E EBITDA) and JSPL (TP: INR575; 5.5x FY23E EBITDA), both **BUYs**, in the ferrous space owing to their relative security in coking coal compared to peers.

Exhibit 1: Prices across the regions

(In USD/t)	Prices					% chg			
	Current	1M	3M	6M	12M	1M	3M	6M	12M
US	1,673	1,833	2,144	2,000	1,250	(8.7)	(22.0)	(16.3)	33.8
Europe (domestic)	1,066	1,093	1,163	1,447	852	(2.5)	(8.3)	(26.3)	25.2
China	765	775	980	945	645	(1.3)	(21.9)	(19.0)	18.6
Japan	770	805	1,005	1,025	775	(4.3)	(23.4)	(24.9)	(0.6)
South Korea	770	805	1,005	1,025	773	(4.3)	(23.4)	(24.9)	(0.4)
CIS	760	793	830	930	773	(4.2)	(8.4)	(18.3)	(1.7)
India (Export)	722	773	873	896	785	(6.6)	(17.3)	(19.4)	(8.0)
India (Domestic)- INR/t	63,567	65,589	71,006	63,875	57,083	(3.1)	(10.5)	(0.5)	11.4

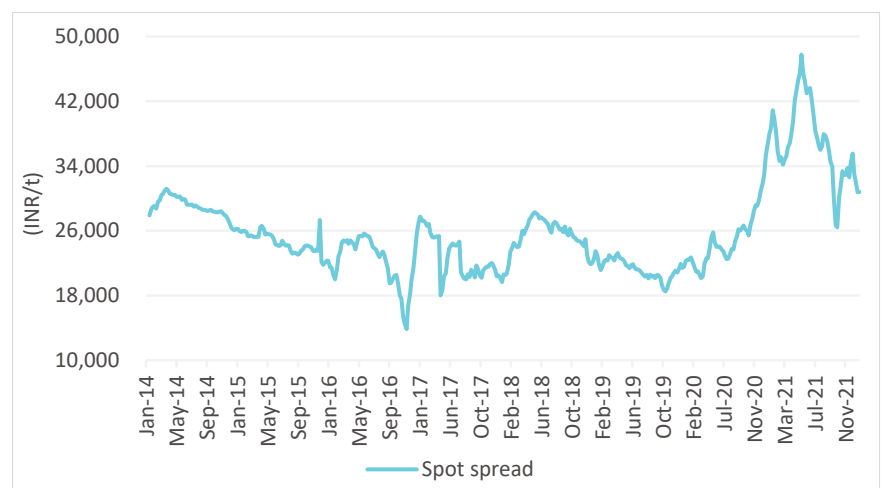
Source: SteelMint, Edelweiss Research

Exhibit 2: Primary-Secondary rebar differential



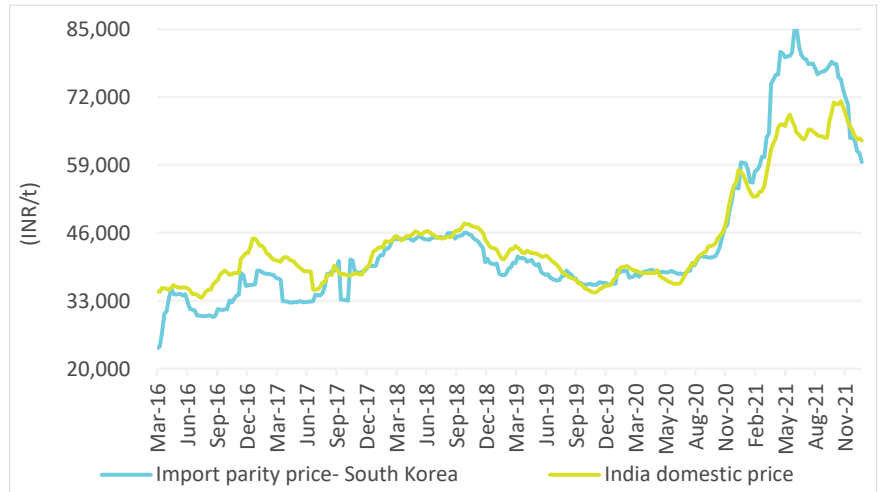
Source: SteelMint, Edelweiss Research

Exhibit 3: RM spread has dropped but still above historical average



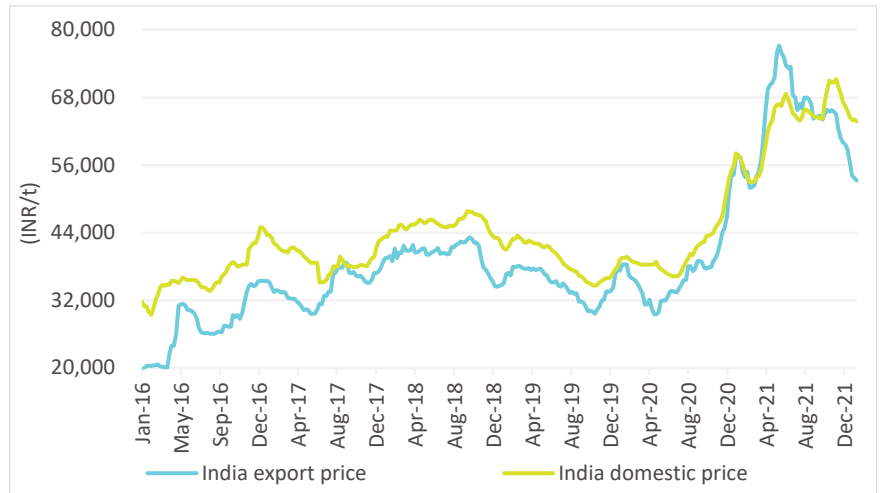
Source: SteelMint, Edelweiss Research

Exhibit 4: Domestic price at premium to landed price of imports



Source: SteelMint, Edelweiss Research

Exhibit 5: Wide gap between domestic and export realisation



Source: SteelMint, Edelweiss Research

All price charts cannot be included given the large of number of companies in our coverage. Specific charts may be available upon request

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