

**RESEARCH**
**Metals & Mining**

Ferrous – Read-across from production results of iron ore majors

**SUMMARY**
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- Iron ore price likely to remain elevated through the June quarter as supply issues persist
- Pace of softening of coking coal price dependent on restoration of export volumes; BHP guidance suggests initial signs of improvement
- Expect steel price to ease to mid-cycle level given sharp cuts in WSA's CY22 demand growth forecast and likely unwinding of supply disruptions

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**Daily macro indicators**

Indicator	20-Apr	21-Apr	Chg (%)
US 10Y yield (%)	2.83	2.91	8bps
India 10Y yield (%)	7.11	7.14	4bps
USD/INR	76.21	76.16	0.1
Brent Crude (US\$/bbl)	106.8	108.3	1.4
Dow	35,161	34,793	(1.0)
Hang Seng	20,945	20,682	(1.3)
Sensex	57,038	57,912	1.5
India FII (US\$ mn)	19-Apr	20-Apr	Chg (\$ mn)
FII-D	(67.2)	(124.0)	(56.8)
FII-E	(667.3)	(306.2)	361.1

Source: Bank of Baroda Economics Research




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22 April 2022

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**Kirtan Mehta, CFA**  
 researchreport@bobcaps.in

The four global iron ore majors – Vale (Vale3 BZ), Rio Tinto (RIO LN), BHP (BHP LN) and Anglo American (AAL LN); all Not Rated – have reported production results for the Mar'22 quarter. We summarise the read-across for Indian steel markets.

**Iron ore price to remain elevated through the Jun quarter:** Iron ore supply across all three major exporters – Australia, Brazil and South Africa – underperformed expectations during the March quarter. Collective shipments of the four majors, which account for close to 60% of global iron ore trade, declined 20% QoQ and 6% YoY. Delays in ramp-up, replacement and growth projects have affected production, besides the impact of a severe wet season due to La Niña. Guidance from the majors suggest that supply issues could persist through the June quarter and keep iron ore prices elevated. The Russia-Ukraine situation will also weigh on prices.

**Coking coal price to ease with improvement in Australian supply:** Australian supply disruptions have been a key driver of the sharp rise in coking coal prices during the March quarter. While BHP guidance suggests initial signs of supply improvement, the pace at which prices will cool down depends upon a ramp-up of exports.

**Steel demand expectations revised down:** World Steel Association (WSA) has lowered its CY22 demand growth forecasts to 0.4% (from 2.2%), factoring in global spillovers of the Ukraine war and low growth in China. However, WSA does expect China demand to stabilise this year given a government push for infrastructure investment and efforts to support the real estate sector.

**Read-across for Indian ferrous industry:** While steel prices have been supported by concerns related to the Russia-Ukraine war, we forecast a softening to mid-cycle levels of US\$ 650/t over FY24 as supply disruptions unwind in the coking coal and iron ore markets. A muted demand growth outlook for CY22 would also gradually lead to cycle-average margins. We expect margins to hold at these levels, supported by the differential in iron ore costs.



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

**SELL** – Expected return <-6%

**Note:** Recommendation structure changed with effect from 21 June 2021

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