

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

Market rebalancing underway – ArcelorMittal

**SUMMARY**
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- Global steel spreads saw sharp compression in Q3CY22, per MT. We expect Indian steel margins to bottom out in the Sep quarter
- MT sees market rebalancing underway in Europe and does not perceive China as a threat to structural market balance
- Looking beyond near-term uncertainty, we prefer defensive play TATA (BUY, TP Rs 140) in the current volatile environment

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**Daily macro indicators**

Indicator	27-Sep	28-Sep	Chg (%)
US 10Y yield (%)	3.95	3.73	(21bps)
India 10Y yield (%)	7.29	7.33	4bps
USD/INR	81.58	81.94	(0.4)
Brent Crude (US\$/bbl)	86.3	89.3	3.5
Dow	29,135	29,684	1.9
Hang Seng	17,860	17,251	(3.4)
Sensex	57,108	56,598	(0.9)
India FII (US\$ mn)	26-Sep	27-Sep	Chg (\$ mn)
FII-D	53.4	(112.4)	(165.8)
FII-E	(570.3)	(373.6)	196.7

Source: Bank of Baroda Economics Research

**BOBCAPS Research**

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29 September 2022

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We summarise takeaways from meetings with Hetal Patel, the European IR Head of ArcelorMittal (MT EN, Not Rated).

**Bottoming out of steel spreads to differ across markets:** MT highlights significant compression in steel spreads across markets in Q3CY22. As Europe and the US have contractual price mechanisms, their margin decline is likely to be spread over 2-3 quarters. We currently expect Indian steel margins to bottom out in the Sep'22 quarter given the limited contractual framework. Coking coal prices also need to correct for margins to stabilise at mid-cycle levels.

**Market rebalancing underway:** While MT is seeing slower recovery in China, it does not perceive China as a threat to structural market balance as production discipline has improved. MT is noticing weaker demand in Europe, but the industry has already responded with 15-20% capacity curtailments and MT is prepared to do more. Other markets including the US are also facing a steep decline in apparent demand with destocking underway. We believe stabilisation in China is essential for steel prices/margins to bottom out and are watching US demand for the possibility of a soft landing.

**Decarbonisation journey needs government support:** MT has developed a US\$ 10bn capex plan till 2030 to lower its emission footprint by 35% in Europe and by 25% globally. The company is waiting for EU approval for 50% government funding support of its US\$ 6bn proposals to kickstart investments.

**India – material growth underway:** MT's India JV is progressing on its US\$ 10bn capex drive that involves doubling of capacity to 15mtpa by mid-CY26, downstream expansion focused on flat products, and US\$ 2.4bn of infrastructure development.

**Constructive on Indian ferrous players:** MT plans to stick to its balanced growth plus returns strategy through the downturn. We believe this reflects its confidence in the return of a structural balance in the steel market. We remain constructive on Indian ferrous players as we look beyond near-term uncertainty and focus on delivery of the next wave of expansion. Defensive play TATA (TP Rs 140) remains our top pick.



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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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