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## Monday Market Monitor - China (WEEK 07) - Crouched Geng Yin

Monday, 22 Feb, 2010

Chinese steel market remained closed last week due to Lunar Holiday and we are likely to see hectic activity this week setting course for short term

It is expected that domestic prices of benchmark products rebar and HR will look up after Chinese buyers come back at least for next 1 to 2 weeks, after which possibility exists that they may start to weaken again.

Factors pushing prices up immediately on opening

1. Speculators on SHFE and even in physical markets would like to make quick buck by setting up trend so that they can cash their lower price positions
2. Steel mills have hiked prices for March. BaoSteel surprisingly gave notice on Friday morning, just before closing for Lunar Holiday. This would also set a positive trend
3. Iron ore miners have hinted at 100pct hike, Thus settlement would be certainly over 50pct. Rather we could be looking something close to 80pct to 90pct. So the steel mills would use this opportunity to push for higher prices for finished products on the pretext of cost push. The fact of the matter is that they are already paying these levels on spot and benchmark settlement at even 100pct hike would not push their costs higher than what they have been incurring.

But negative factors influencing downside are

1. Inventory levels remain high and due to very high production levels they would not come down even if demand spurts for a while
2. Iron ore hike argument does not hold water, s explained above. In fact, we have heard that some mills have agreed for 40pct hike (provisional) for Jan-Mar, as benchmark would take effect from April 1st 2010.
3. Chinese curbs on lending are likely to stay thus removing liquidity pushing the overall activity level down and in turn reducing steel demand

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