

## Metals &amp; Mining

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SMEL (BUY)  
Hindalco (BUY)

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## INDIA



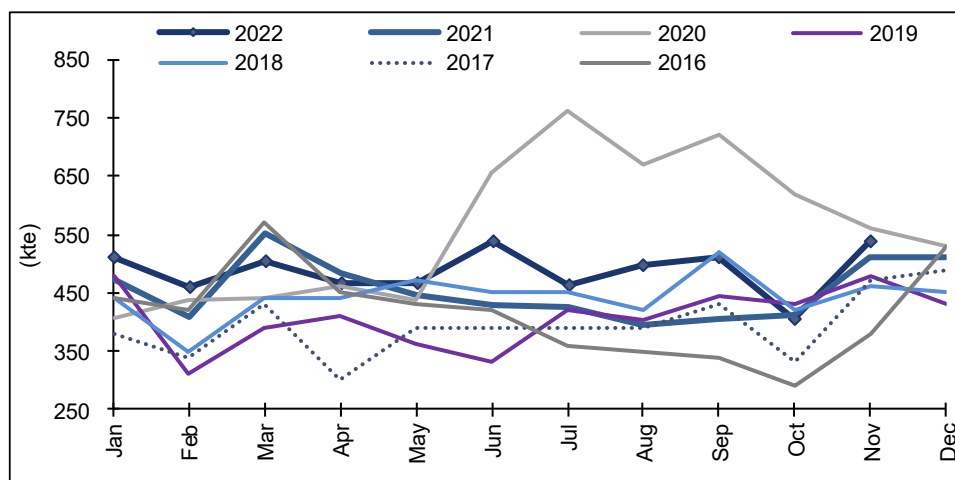
## Metals &amp; Mining

## China trade data: Optimism amidst covid relaxation

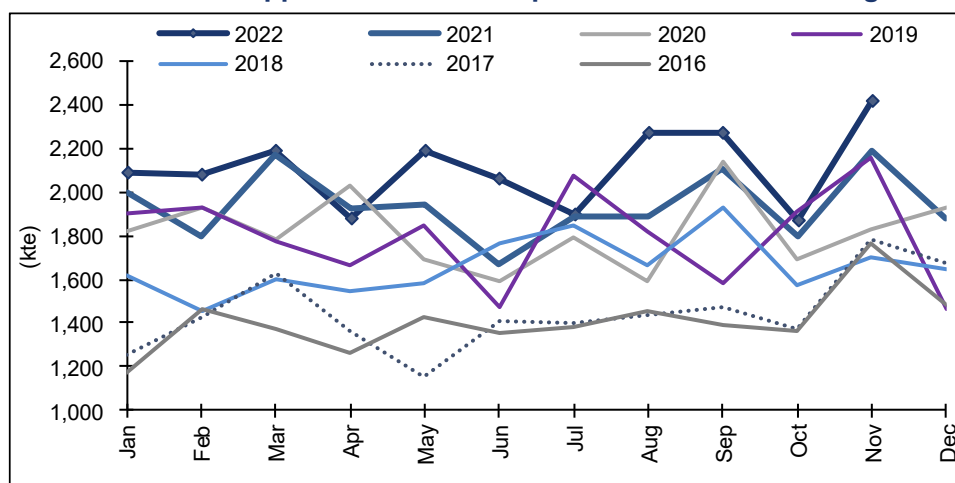
China's trade data for Nov'22 was reasonably robust on hopes of easing of covid restrictions and stimulus measures by the government. Key highlights: 1) copper imports, in both refined and concentrate forms, rose 10% YoY and 6% YoY respectively; 2) steel exports rose for the second successive month while aluminium (Al) exports declined further; and 3) coal imports fell 11% YoY on higher domestic output.

Going ahead, while the China government has reportedly agreed to ease rigid covid-related shutdowns, we don't see signs of pick-up in domestic demand as yet. Chinese spot HRC prices have crept to a 1.5-month high, largely mirroring futures prices – though real estate demand indicators remain weak. We maintain our cautious view on the ferrous space with JSPL (TP: Rs605) and Shyam Metalics (TP: Rs425) as our key picks. That said, we see declining Al exports from China as a positive for Hindalco, our top pick in the non-ferrous space with a TP of Rs515.

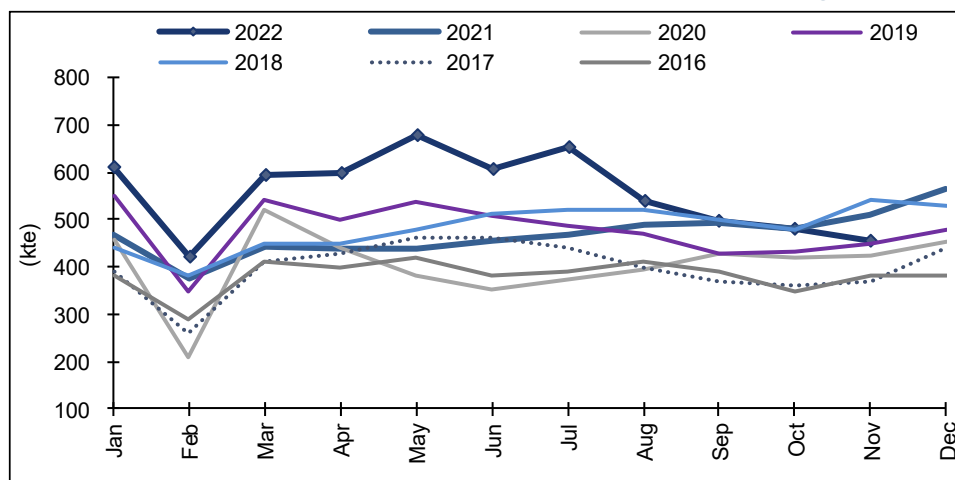
- ▶ **Higher copper imports on optimism around possible demand rebound:** China's trade data for Nov'22 was strong on rising optimism around possible easing of covid-related restrictions. Key points: 1) refined copper imports rose 6% YoY (34% MoM) to 540kte. Copper concentrate imports rose 10% YoY (29% MoM) to an all-time high of 2.4mnte; 2) steel exports rose 28% YoY (8% MoM) to 5.6mnte – the highest for a November since CY16 owing to the weak domestic demand; 3) Al exports however declined 11% YoY (5% MoM) to 456kte mainly due to production curtailments in response to lower LME Al prices; 4) coal imports too declined 8% YoY (rose 11% MoM) to 32mnte; however, it remained higher than the 11MCY22 average of 24mnte. Going ahead, we would keep a close tab on steel and Al exports from China, particularly as the period of weak domestic consumption in China approaches.
- ▶ **Steel production rising again in anticipation of stimulus:** Due to the strong demand expectations as a result of possible relaxation in covid measures, the proclivity of steel mills to resume production has got enhanced, leading to a recovery in steel production. Over 25<sup>th</sup> Nov – 1<sup>st</sup> Dec'22, daily billet output among the 30 steelmakers in Tangshan (key steel-producing region) tracked by Mysteel averaged 42,600 te/day, up 20% MoM. Furthermore, authorities in North China have not officially required steelmakers to cut production to reduce air pollution as they usually do during winter. However, with the traditional lean period for construction looming, we expect inventory build-up resulting in pressure on prices, particularly for longs. Thus far, inventory has reduced to 9.35mnte as on 1<sup>st</sup> Dec'22 compared to 11.4mnte at the beginning of Q3CY22 as exports have picked up owing to weak demand recovery within China. Currently, traders are importing more iron ore as evident in the ports-side inventory rising to 138mnte (up 6% MoM).
- ▶ **Outlook – Stimulus awaited:** China's trade data for copper suggests optimism around the possible stimulus. However, the pick-up in steel exports, despite declining global prices, is a cause of concern, particularly when the traditionally weak demand period for construction looms large and winter production cuts in Tangshan are not as stringent as last year. That said, lower Al exports owing to domestic production curtailment is expected to maintain the market balance and support LME Al price. We retain our cautious outlook on the ferrous space with JSPL and Shyam Metalics as our key picks. Among non-ferrous players, we see Hindalco benefiting from lower Al exports from China.

**Chart 1: China's refined copper imports on the rise**

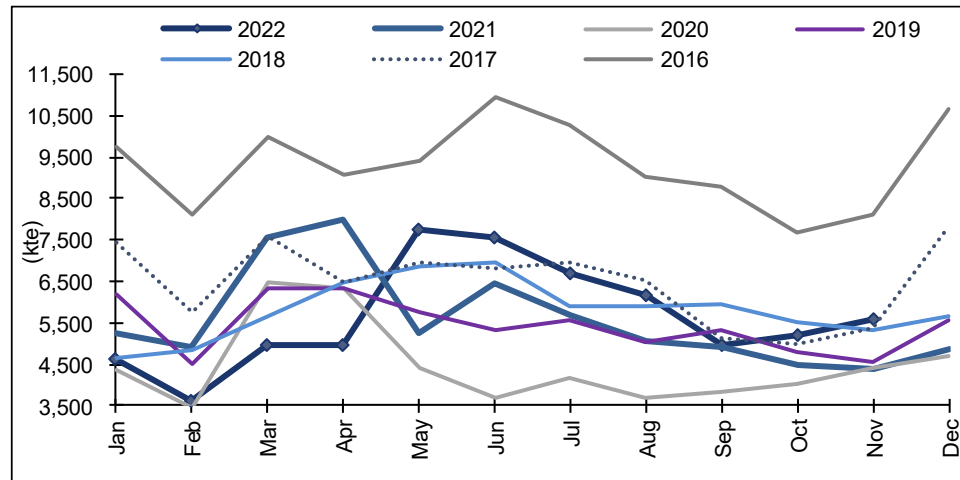
Source: I-Sec research, Steel Mint

**Chart 2: China's copper concentrate imports are at an all-time high**

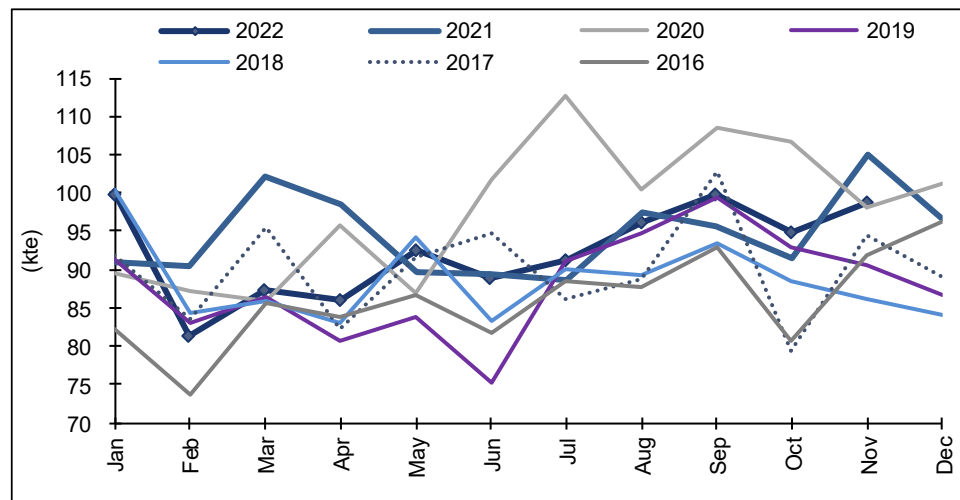
Source: I-Sec research, Steel Mint

**Chart 3: China's aluminium export volumes have come off highs**

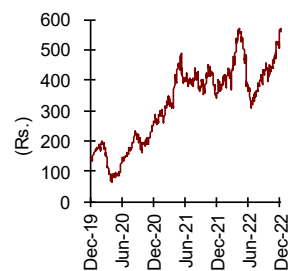
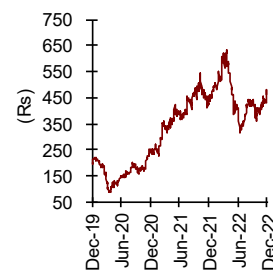
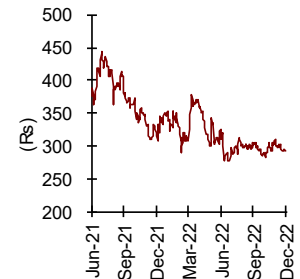
Source: I-Sec research, Steel Mint

**Chart 4: China's steel export volumes have risen again**

Source: I-Sec research, Steel Mint

**Chart 5: China's iron ore imports up as steel production rises**

Source: I-Sec research, Steel Mint

**Price charts****Jindal Steel****Hindalco****SMEL**

Source: Bloomberg

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