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Here's why Nifty Metal has gained 68% YTD; 106% in last 6 months

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- Steel demand will be supported by economic recovery, government spending and enhanced liquidity.
- Experts believe that the up-cycle in steel prices is expected to continue in FY22.

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Metals gauge, Nifty Metal index has posted over 68 percent returns year-to-date (YTD) and more than 106 percent

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see an uptrend on signs of recovery in the world economy which seems to be moving out of the woods.

Among metals, the prices of steel and copper have surged to levels not seen for many years. This sharp rally has sweetened the prospects of the domestic steel and metal companies.

In fact, in April 2021, domestic steel players announced further price hikes by up to Rs 1,000-2,000 per tonne in HRC and around Rs 3,000 per tonne in CRC. HRC are offered at Rs 59,700-60,000 per tonne in April 2021, up from Rs 36,950 per tonne in April 2020. This is the highest level seen since 2008, the year of the financial crisis.

Chart 1: Trend in global steel prices

The up-cycle in domestic steel prices is supported by the bullish trend in the global steel prices and a revival in domestic demand.

The rise in global steel prices is linked to China, a crucial supplier and consumer of commodities. Beijing's recent move to limit capacity fuelled worries about a supply shortage and prompted speculative buying.

Beijing announced a series of measures on Friday to tighten controls

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reduce blind investments and disorderly constructions.

Additionally, fiscal measures announced by the US also propelled optimism in the market. The expectations of rise in industrial demand for global commodities in the US lifted the steel prices.

Yet another factor is the reopening of the European economy as acceleration in the COVID-19 vaccination rollout also supports steel prices.

Taking a positive stance on the situation, CARE Ratings expects FY22 steel production to reach 112-114 million tonnes, posting a growth of 8-9 percent YoY. The crude steel production is expected to be marginally higher than in FY19 when India produced nearly 111 million tonnes of crude steel.

Steel demand will be supported by economic recovery, government spending and enhanced liquidity, CARE Ratings added.

Experts believe that the up-cycle in steel prices is expected to continue in FY22.

"Stimulus package unveiled by various countries will keep the demand for steel high. The absence of China from the world export market and higher import of steel from China is one of the major factors keeping steel prices elevated," CARE Ratings said

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on the back of the stimulus package and the country's desire to bring down production levels in 2021 to reduce Co2 levels will be an important factor that will strengthen steel prices.

Demand-supply imbalance in the global market will also continue to present export opportunities to domestic players

Tags china commodity steel steel prices

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