

# FIS Iron Onshore

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Intervention by the Dalian Exchange to raise margins and reduce exposure for non-hedgers, to kill of what is regarded as a speculative rally, has so far had little effect. Rising prices and falling open interest is normally associated with market tops. However, due to the intervention, the drop in aggregate open interest cannot be used as an indicator. The China Iron and Steel Association have also called for intervention, on the basis that this is a speculative rally, suggesting we are in a market bubble.

The futures are in a long term bull cycle that started in 2016 and could well have ended there in normal market condition. The tragedy in Brazil in early 2019, followed by the COVID-19 pandemic, has resulted in infrastructure investment by the Chinese government and an Elliott wave supper cycle.

A speculative Rally, drawing to a close on falling open interest? I think not.

## Rebar

The driver of the iron ore price is steel consumption, page 2 illustrates the steel Rebar futures that are making new highs with aggregate open interest growing. This would support a bull market condition, where the futures are seeing an injection of fresh longs in the market. This is a bullish indicator.

## Steel Margins

Steel margins are currently over CNY 500. Not only is this a healthy margin for the mill, it would suggest that within the steel production chain, the iron ore is at manageable prices. It is not unusual to see margins run at negative values for long periods of time, elevated margins offset elevated iron ore, suggesting the mills will continue to draw down stocks.

## Port stocks

Port inventory is dropping, supporting a bullish environment for Iron ore, combined with the elevated margins and the high steel prices, the futures rally in ore looks to be non-speculative and fundamentally driven.

## The Technical

The psychological footprint (Elliott Wave) is bullish with the focus being on the rally the that started in April. Elliott wave is a common 5 wave pattern that in a bull market would have 3 impulse and two corrective waves. The chart and the MACD (green histogram) have 3 waves, in which within the 3rd wave is a separate Elliott wave cycle. From a technical perspective we would expect the CNY 1,124 level to be tested within the larger wave 3 before price enters a corrective wave 4 before entering a final bullish wave 5.

Based on the Elliott wave count, downside moves should be considered as countertrend, supported by a bullish fundamental.

All charts and data are sourced from Bloomberg

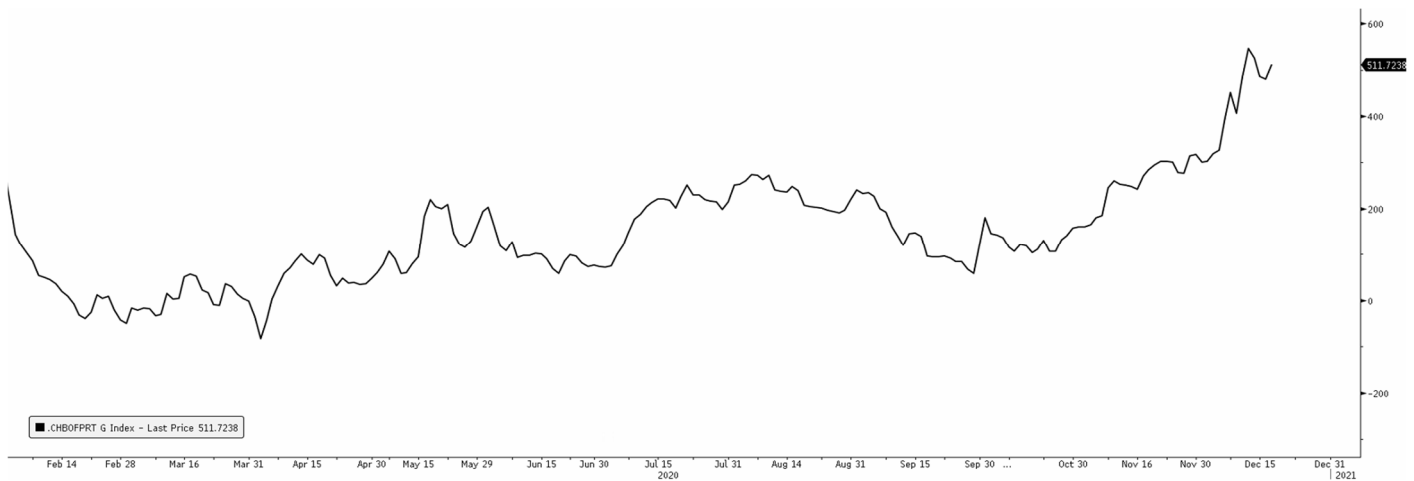
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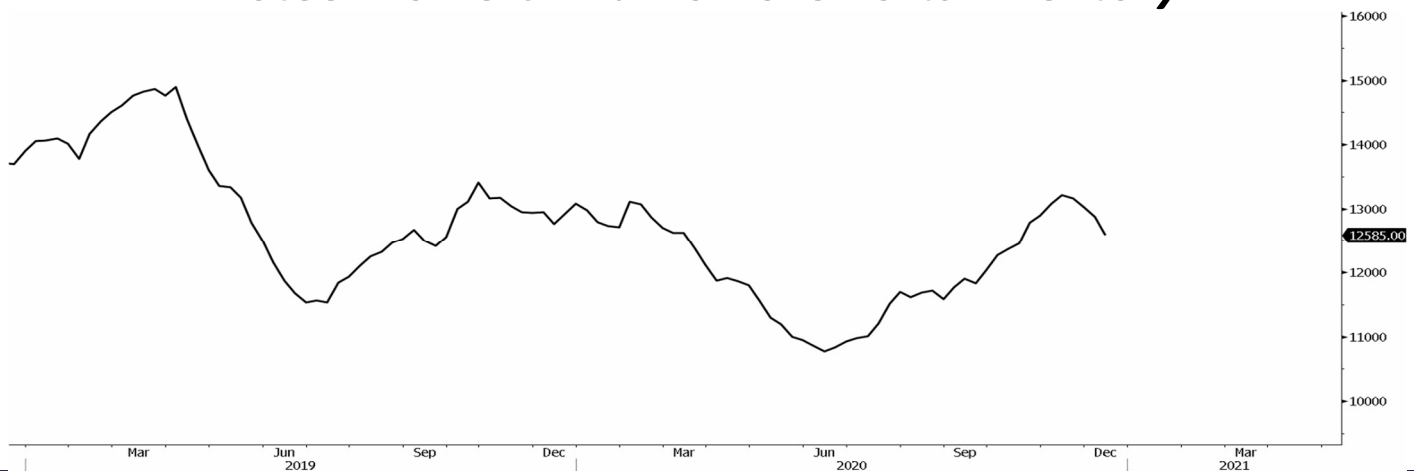
## SHFE Steel Rebar (May 21 Futures)



## Bloomberg Steel Margins



## Steel Home China Iron Ore Ports Inventory



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## DCE Iron Ore May 21



Support	Resistance	Current Price	Bull	Bear
S1	993	R1	1,053	Stochastic overbought
S2	945	R2	1,084	
S3	117.45	R3	1,124	
		1,039	RSI Above 50	

### Synopsis - Intraday

Source Bloomberg

- Price is above the 8 - 21-period EMA's
- RSI is above 50
- Stochastic is overbought
- Price is above all key moving averages with the futures making a higher high—Bullish
- Near-term upside resistance starts at CNY 1,053, with a potential upside target is USD 1,124
- The RSI is in divergence but the MACD is not, this is making a higher high indicating downside moves are likely to be countertrend
- Base on the MACD and the visible wave count since the CNY 542 low on the 02-04-20, it would appear that we are still in a bullish Elliott wave 3. If the futures so not trade above the CNY 1,124 level then the 5th and final bull wave will have to be shorter than the 3rd wave.
- It is worth noting that within the larger wave count we are also on a wave 3 meaning downside moves will be against the trend and less powerful than the impulse moves higher
- Support starts at CNY 932, downside moves that hold at or above CNY 853 will remain in bullish territory. Below this level the pullback would be considered as deep and the phase neutral