



Weekly Virtual Steel Margin Report

Market Verdict:

Iron ore neutral.

Macro Market Change and Money Movement:

Last Thursday, many departments of China began to discuss excessive speculation in dry-bulk commodities, which eventually led to the outflow of some speculative funds from mainstream industrial products. The steel sector continued to fall sharply, while the delivery month contract rapidly declined.

This week, after the market recovered from the panic, the speculation on inflation linked assets expected to slow down. The retreat of macro funds potentially lead to the downward shift of market level and the decrease of volatility. China industrial commodity open interest decreased 8.4% from April 27th. However U.S. dollar Index DXY broke important support level at 90, the second time broke down after February 25th.

	Last	Previous	% Change
USDCNY	6.4371	6.4333	0.06%
Repo 7 Days	2.05	1.77	15.82%
Repo 1 Day	1.84	1.41	30.50%
Dollar Index	90.321	90.233	0.10%
China GDP Constant Price YOY %	18.3	6.5	NA
China PMI (Caixin)	51.9	50.6	NA
China Industrial Production MOM %	0.52	0.6	NA
Commercial Space Under Construction	10.5	11.2	NA
Commercial Space Completed	227.4	191.2	NA
Commercial Building Space Sold, YTD YOY%	48.1	63.8	NA
Residential Space Under Construction, YTD YOY%	10.9	11.6	NA
Residential Space Completed, YTD YOY%	20.7	27.1	NA
Residential Floor Space Sold, YTD YOY%	51.1	68.1	NA

Iron ore Market :

The virtual steel mills margin quickly slipped from 1457 yuan / ton in mid-May to 1195 yuan / ton. Futures market started to squeeze steel margin in advance to physical market, as the quick pick up on iron ore futures compared with a weaker steel price.

DCE benchmark iron ore grade has decreased from 62% to 61%. The total deliverable brands and resources expected to increase. At present, the cheapest to delivery products are not mainstream mid-grade iron ore, thus DCE iron ore value should have a discount compared with SGX in particular approaching delivery time window. The increase in iron ore shipments two weeks ago was offset by a substantial decrease last week. The arrival and port stocks are both stable. The market is still far from fundamental logic such as valuation or supply and demand, since the last few rounds of upside movement were majorly drifted by inflation sentiments. Thus the analysis on the correction should also take inflation into consideration instead of the scope of fundamental side.

Steel Market:

After the billet fell 180 yuan / ton on Saturday, market recovered by 50 yuan / ton on Sunday and Monday. The bullish sentiment on billets and half-finished steels were very solid, because the preparation for the 100th anniversary of the Communist Party of China is about to begin before July, many areas started to increase production in case a harsh restriction during and before anniversary. Thus, the demand for the billet expected to be resilient. The apparent consumption of construction steels continued to be around the historical high of 6-7 million tons from March. The apparent consumption of hot rolled coil rebounded rapidly to the historical high of 3.5 million tons during May. The overall demand of mainstream steels were strong, and the turning point of inventory starting to increase again still have 3-4 weeks according to seasonality rule.

The average FOB of China's HRC in May was \$879.8, which was \$146.67 higher than that of last month. The average Black Sea FOB HRC in May was \$945, which was \$146.5 higher than that of last month. The average ex-factory price of HRC in Indiana was \$1389.88 in May, which was \$96.18 higher than that of last month. U.S. Midwest, as the highest steel price region, began to slow down. However, China FOB price, as the lowest price globally, were following up rapidly to international steel prices. Subsequently, with the further narrowing of world prices, China's export price growth is expected to slow down.

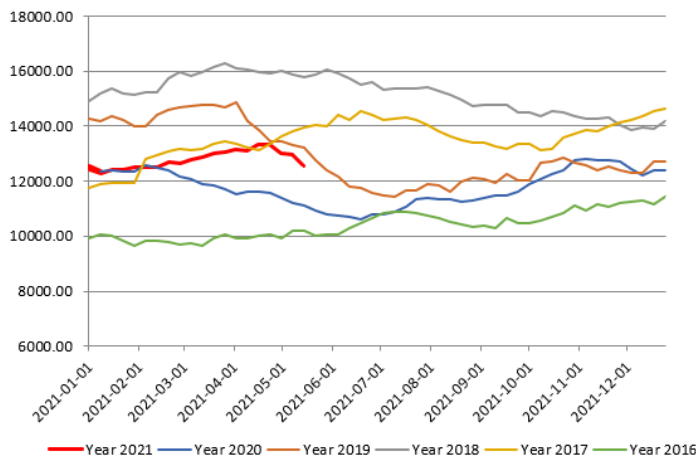


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Iron Ore

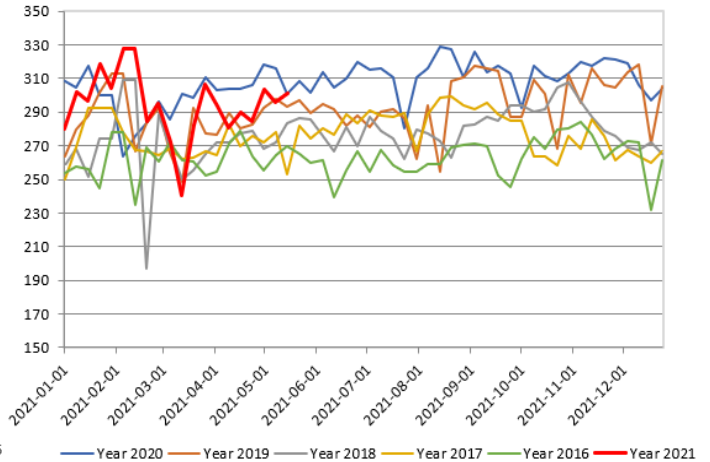
	Last	Previous	% Change
Platts 62% Fe	217	209.35	3.65%
MB 65% Fe	249.3	241.7	3.14%
Capesize 5TC Index	32702	34542	-5.33%
C3 Tubarao to Qingdao	26.239	26.89	-2.42%
C5 West Australia to Qingdao	11.655	12.173	-4.26%
Billet Spot Ex-Works Tangshan MT	5520	5500	0.36%
SGX Front Month	201.74	205.16	-1.67%
DCE Major Month	1186.5	1205.5	-1.58%
China Port Inventory Unit 10,000 mt	12,533	12,958	-3.28%
Australia Iron Ore Weekly Export Unit 10,000 mt	1,242.80	1,412.50	-12.01%
Brazil Iron Ore Weekly Export Unit 10,000 mt	266.30	211.00	26.21%

Iron Ore Port Inventories(in 10,000 tonnes)



Sources from MySteel

Iron Ore Daily Port Evacuation(in 10,000 tonnes)



Sources from MySteel

MB 65 - Platts 62(\$/mt)



Sources from Platts

Iron Ore Indicator Analysis:

- Iron ore port stocks slight decrease as Australia and Brazil delivery have decreased over the previous three weeks.
- PBF float price was stable from \$6-6.5, a retreat from the high at \$8, and less fixed price traded.

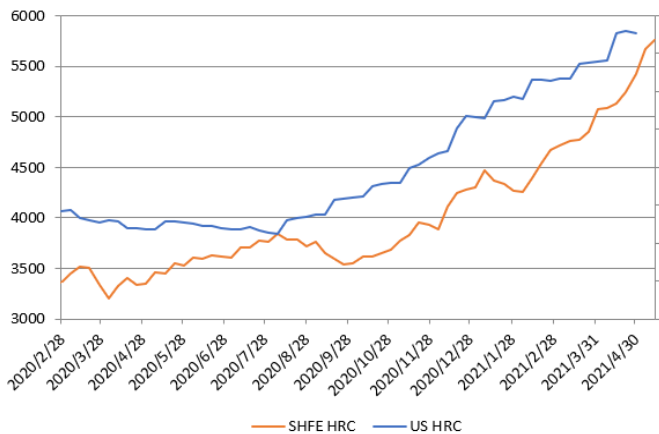


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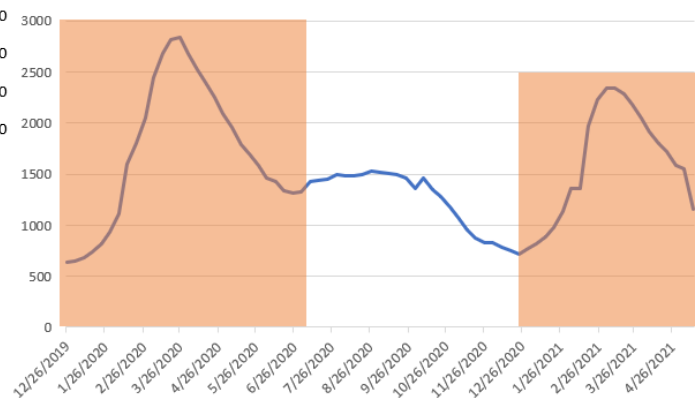
Steel

	Last	Previous	% Change
US HRC Front Month	1505	1519	-0.92%
SHFE Rebar Major Month	5761	5672	1.57%
China Hot Rolled Coil	6383	6010	6.21%
China Monthly Steel consumption Unit 000's mt	87221	87800	-0.66%
Five Major Steel Inventories Unit 10,000 mt	2130.99	2269.37	-6.10%
Construction Steel Total Inventory unit 10,000 mt	1156.13	1554.71	-25.64%
Crude Steel Production China Unit 000's mt	94020	83046	13.21%
China Volume of Commodity Imports Unit 000's mt	1174	1320	-11.06%
China Volume of Commodity exports Unit 000's mt	7973	7540	5.74%

US HRC Vs SHFE HRC



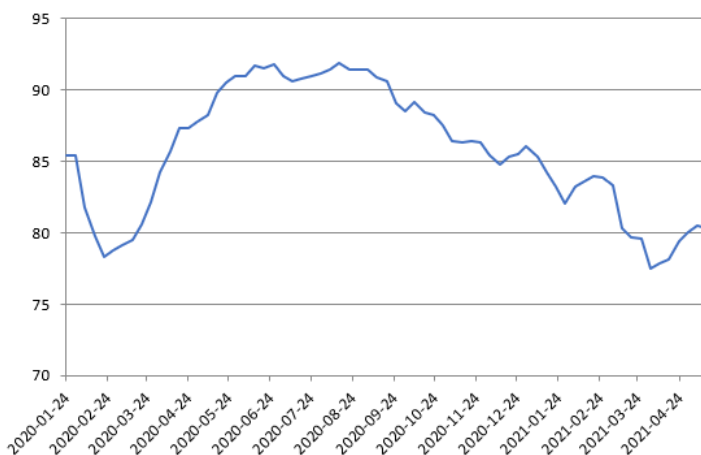
Construction Steel Total Inventories (in 10,000 tonnes)



Sources from Bloomberg

Sources from MySteel

MySteel 247 mills BF Operation Rate in %



Sources from MySteel

Steel Indicator Analysis:

- **Five major types of steel inventories entered a “destock” phase, with decrease stocks expected till late May following seasonally features.**
- **US HRC continuously refreshed historical high under the background of U.S. infrastructure market investments. Shanghai HRC was high because higher price in export as well as the imported inflation.**



Weekly Virtual Steel Margin Report

Coking Coal

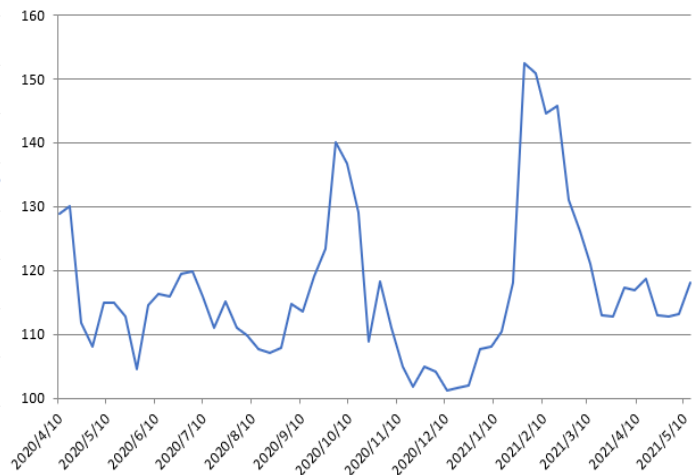
	Last	Previous	% Change
TSI FOB Premium Hard Coking Coal	117	116	0.86%
Coking Coal Front Month	118	113.25	4.19%
DCE CC Major Month	1944	1909.5	1.81%
Coking Coal Port Inventory Unit 10,000mt	432	431	0.23%
China Custom total CC Import Unit mt	4,905,452.00	3,226,689.00	52.03%

Coking Coal Port Inventory(in 10,000 tonnes)



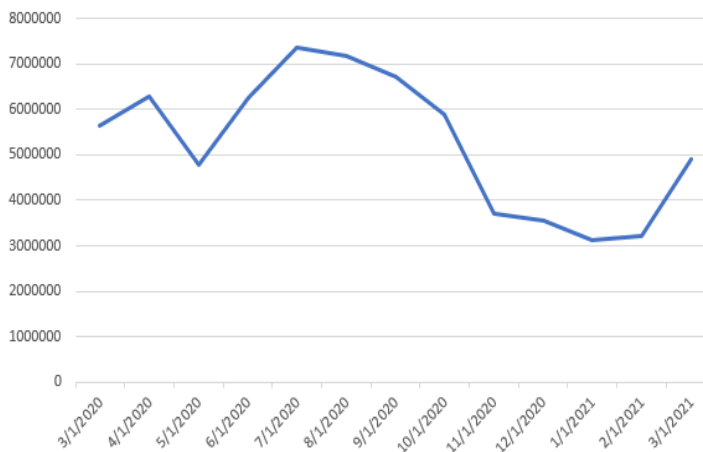
Sources from MySteel

Coking Coal Front Month Forward Curve



Sources from Bloomberg

China Custom Total CC Imports(tonnes)



Sources from Bloomberg

Coking Coal Indicator Analysis:

- Coking coal port inventories started to pick up significantly as Russia exports to China increased to historical high in April and early May. At the same time, Canada and Indonesian sources flow into China eastern ports to fill the short by Mongolia export decrease.**
- China and Australia tension increased the speculation on coal market including thermal coals and Prime coking coals. However the truth is, China has decreased massively since the year 2019, real impact on export decrease was very limited.**