FIS Ferrous Weekly Report

info@freightinvestor.asia | freightinvestorservices.com | (+65) 6535 5189

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Market Review:

⇒ **Iron ore Fe62%** short-run **neutral**. Tonga volcanic eruptions potentially caused an extension on laycans. However Asian entered Lunar New Year mode, with Physical market thin.

⇒ **U.S. HRC Front Month** short-run **neutral**. HRC shortage in mid-western area in U.S. was generally relieved.

⇒ **Rebar 25mm Shanghai** short-run **neutral**. The major mills and downstream completed much of their winter trading, locked at contract price end of last year covering January and first half of February.

⇒ **Australia Export Hard Coking Coal** short-run **neutral**. The current market was chased up by smaller size bids. On the other side, market was in the risk of entering correction phase with Asian Lunar New Year.

Prices movement	17-Jan	10-Jan	Changes %	Sentiment	
Iron Ore Fe62% ($/MT)	124	125.45	1.16%	Neutral	-
Rebar 25mm Shanghai (Yuan/MT)	4730	4770	0.84%	Neutral	-
U.S. HRC Front Month ($/MT)	1406	1438	2.23%	Neutral	-
Australia Export Hard Coking Coal($/MT)	411	378	8.73%	Neutral	-

Iron ore Market :

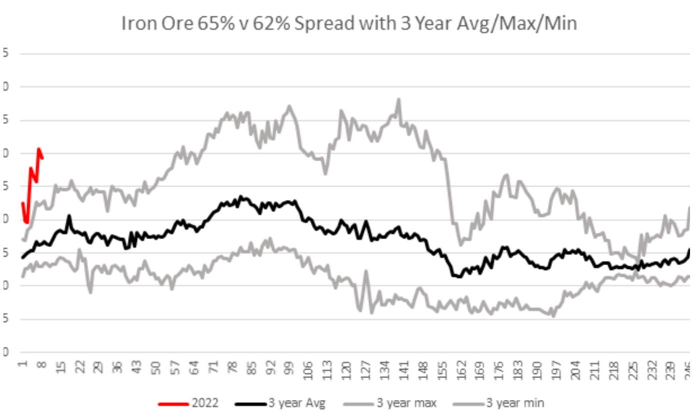
The conservative view of pervious report on iron ore sentiment was finally proven early this week. Iron ore index expected to give back more gains created in early January in the next few trading days, however there was no strong indicator to reverse market into bearish at the moment.

Different from last week, seaborne iron ore saw lower procurement interests as Chinese Lunar New Year approached. At the same time, big Chinese steel mills completed iron ore stock from late January to early February. Scant bids on physical market currently, however sellers hope to clear more ships in case of cross holiday risk.

According to Global Ports statistic, Brazil iron ore exports in Q4 2021 were 91.10 million tonnes, slight lower than previous Q4 at 93.39 million tonnes. The January delivery from Brazil also expected much lower than same period of previous years since the heavy rain and the tailing dam accidents. Australia iron ore exports in Q4 2021 expected to be 216.75 million tonnes, slight lower than last year at 223.89 million tonnes. The January Australia delivery also expected slight lower as the temporary impact from Tonga eruption.

Australia iron ores sources majorly traded MACF and JMBF during entire December and first half of January. SP10 concentrates were oversupplied in eastern and northern ports. In a thin market, the demand was separated into different brands. Which is to say, the correlation in a day or two from different concentrates potentially become irrelevant.

MB65 – Platts62 spread was bullish as expected to $30, doubled from $14 in the last week of November last year. The structure shortage from Brazil expected to maintain till the end of February considering the laycans arrival date. FIS senior technical analyst, Edward Hutton indicated that the spread potentially started to narrow from the day 22, if following past three years seasonal rules. In addition, the absolute value had reached a seasonal high at the moment.



The far month spread including Mar—Apr 2022 was narrowed from $0.90 to $0.60 as expected since iron ore correction flattened spread curve as well. Interestingly, we can focus on this movement when the spread approached $0.50- $0.55 area. Market was traded from $0.50—$0.90 area from mid-November 2021 to present.

Data Source: Platts, Fastmarket, FIS

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Downstream/Policies/Breaking News:

The global market was expecting a slight fall in steel making volumes this year. China, Europe, India, Japan and U.S. are expected to fall this year due to the effect of pandemic.

The Tonga volcanic eruption was expected to impact 1-2 weeks of Australian origination ships delivery. Luckily, the delivery window likely to see little impact due to Lunar Holiday winding down.

China started the first interest rate cut by 10 basis point on MLF（Medium Lending Facility）, Shanghai composite index rebound for consecutive two days after experiencing a streak of losses from mid-December 2021. Major China security houses expect the second interest rate cut will come in late January.

Global Steel Market:

The U.S. EAF profitability Index from Bloomberg dropped from the high at $1054/st to $966/st. Some local mills expected a potential correction to Q1 2021 at $600—800 considering the recover of supply and limited growth range on demand. Mid-west Platts accessed U.S. wire rod prices hold at all-time high at $1,310, however scrap prices fell significantly. Buyers pointed out that output in Optimus Steel is recovering gradually.

Small amounts of February and March delivery HRC from central and eastern Europe were sold to German spot buyers at € 930/mt. Buyers were not accepting higher prices currently. Buyers and sellers were not clear about the directions in the thin market. The Indian HRC sources will be opened again to the market approaching second quarter as residual quotas available.

China Steel Market:

The five major steel types apparent consumption in China maintained at 9.15 million tonnes (9.06 million tonnes previous week), because of both increased output as well as upped decreases in inventories.

HRC market looked positive as Q1 and Chinese New Year were normally the busiest season for auto sales. Spot rebar price was resilient as major orders were booked by month-length agreement buyers. Shanghai 25mm rebar price down 10 yuan in late Monday although a huge correction by 111 yuan on Monday futures market. Downstream started to close down partially from next week. The recovery date continues to be an uncertainty because of the ongoing pandemic.

Coal Market:

The physical trade the market has been waiting for the last couple of days did happen on Friday. Although it was March rather than Feb that traded. A panamax of premium low vol at $410. In line with this, Feb FOB Australia futures traded at $415, so little basis differential at the moment which is a bit unusual given how high the underlying price is. This may explain why March is running into some small resistance at around the $400 mark, with the paper possibly getting ahead of itself earlier last week. Whilst steel futures have retreated this week, margins are still healthy enough to make these high prices work.

Some media reports in China expected the peak of the latest wave of Omicron in China was approaching in next two weeks. However Mongolia changed the isolation for staff without notifying Chinese ports, which caused a temporary closure on Ganqimaodu, the major coking coal import port. Australia FOB prime coking coal up $33 over the past week. A single Peak Down cargo was chased up by several buyers before it was concluded at $410/mt revealed by an Australian buyer. The previous rainy weather as well as the expectation of worsen weather in Q1 were the driven forces of coking coal. Ironically, nothing at the moment was happening including the volcano eruption. The fourth rounds of price hiking up in China physical coke market by 200 yuan, awaiting the responses from major steel mills.

Sources: Argus, IHS Commodities at Sea, FIS

Technical view of the Ferrous Markets:

Ore

February futures- As noted last week the futures had pulled back on light volume, suggesting market buys were holding off rather than market sellers pushing price lower. The futures did trade higher to break the USD 129.15 high, resulting in price trading up to USD 134.15, the negative divergence however has failed. We have now entered a correctly phase as we approach the Chinese New Year with the downside move supported by weakening economic data. Price is nearing the USD 121.44 support, below this level the technical is considered as neutral/bullish, only below USD 114.90 is the technical considered bearish. Our intraday Elliott wave cycle looks to have completed five waves, making USD 121.44 a key level on the daily chart, as the intraday technical has made a lower low. This would suggest the bull run has completed for now, meaning that the technical is now potentially in the early stages of a corrective/bare phase.

Steel

February futures- As noted last week, price was in a bearish trending environment below all key moving averages supported by the RSI below 50. We also highlighted that although there was a negative divergence in play but there had been no clear market pullback, suggesting the divergence should be ignored. Price has now traded below the USD 1,245 support and remains in trend with the futures now looking to test the USD 1,214 Fibonacci projection level. This is now a key level of interest as we also have a 78.6% Fibonacci retracement point at USD 1,212, creating a support overlap. On the daily technical we now have a large three wave corrective pattern that initially based around the 61.8% retracement and is now nearing the 78.6% retracement level, this is known as a Gartley pattern and has potentially bullish implications going forward, suggesting a note of caution for market bears in this area. If we trade below USD 1,089 the bullish Gartley pattern will have failed.

Coking Coal

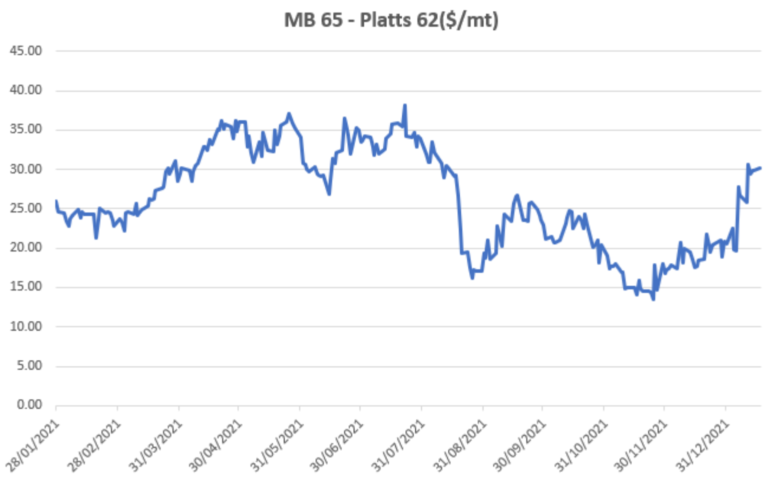
last week we noted that the upside move in the futures were not technically related as it was based on an export ban. We felt the focus should be on the parabolic trend rather than the negative divergence, with a key date of interest being on the 12/01/21, the futures are now on the wrong side of the parabolic curve but continue to move higher on the back of the export ban. The RSI remains in divergence; however, the MACD is making a new high which supports a bull argument, this would also suggest that downside moves should be considered has countertrend at this point. Downside moves that close below USD 409.5 will warn that momentum is weakening based on price; however, the longer period moving averages (30-60) have started to fan implying that the trend is stable. The upside move that started in late November is now greater in length than the move between April and September as we have just traded above the 100% Fibonacci projection level of USD 417.25. Resistance is now at USD 468, USD 489, and USD 512. Technically bullish and in trend.

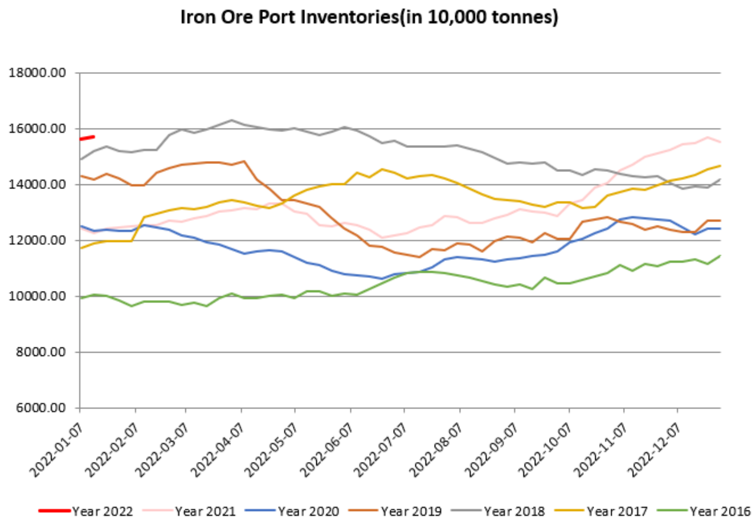
FIS senior analyst, Edward Hutton

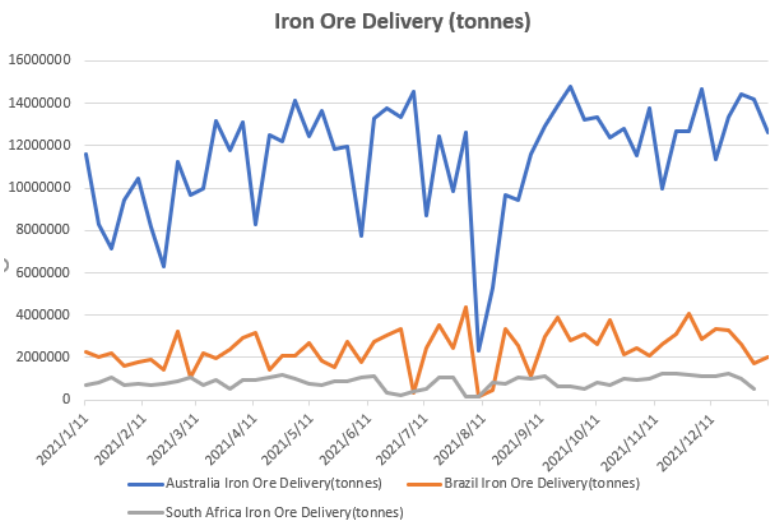
Chart source: Bloomberg

Iron Ore

	Last	Previous	% Change
Platts 62% Fe (Dollar/mt)	124	126.75	-2.17%
MB 65% Fe (Dollar/mt)	154.1	156.6	-1.60%
Capesize 5TC Index (Dollar/day)	12190	12407	-1.75%
C3 Tubarao to Qingdao (Dollar/day)	18.955	19.175	-1.15%
C5 West Australia to Qingdao (Dollar/day)	7.473	7.014	6.54%
Billet Spot Ex-Works Tangshan (Yuan/mt)	4380	4370	0.23%
SGX Front Month (Dollar/mt)	126.69	127.23	-0.42%
DCE Major Month (Yuan/mt)	722	714	1.12%
China Port Inventory Unit (10,000mt)	15,697	15,605	0.59%
Australia Iron Ore Weekly Export (10,000mt)	1,262.60	1,421.50	NA
Brazil Iron Ore Weekly Export (10,000mt)	203.60	172.10	NA







Iron Ore Key Points

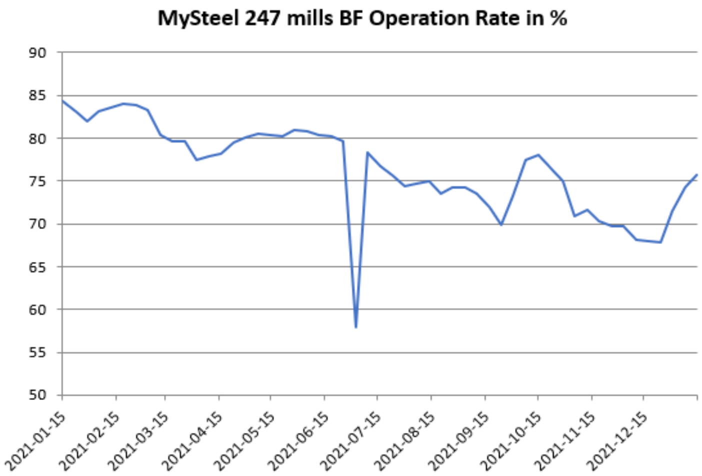
- Iron ore port inventories expected to continue their increase to 200 million tonnes before mid-2022 by some local sources. However from current port stocks, majority of the increase was from low-grade iron ores.

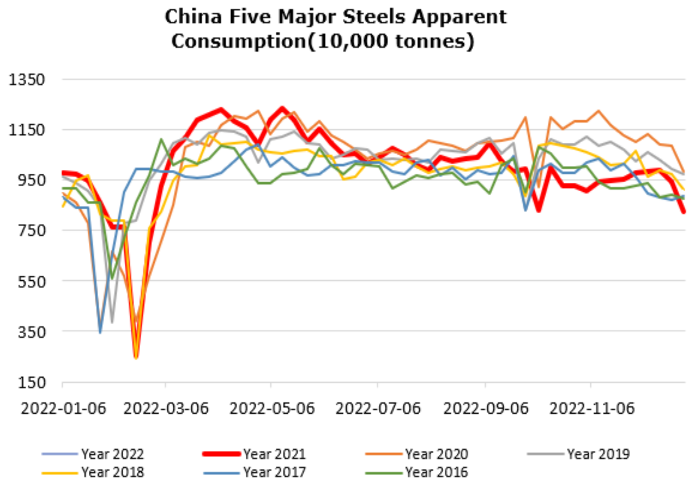
- MB65/Platts 62 spread widened significantly to $30, since Fe65% ores arrivals in February are expected to be lower, caused by fewer shipments, as well as the bad weather and accidents. However Australia sources were sufficient at Asian ports.

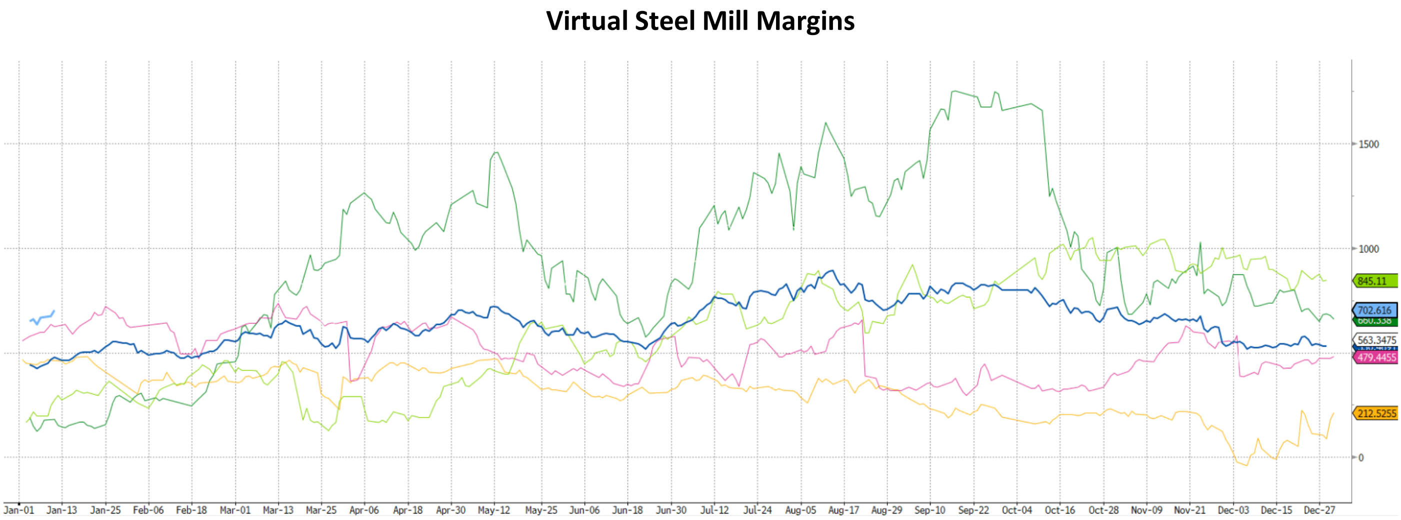
Data Sources: Platts, Fastmarkets, MySteel, Bloomberg, FIS

Steel

	Last	Previous	% Change
US HRC Front Month (Dollar/mt)	1437	1415	1.55%
LME Rebar Front Month (Dollar/mt)	728	722	0.83%
SHFE Rebar Major Month (Yuan/mt)	4648	4488	3.57%
China Hot Rolled Coil (Yuan/mt)	4837	4784	1.11%
Vitural Steel Mills Margin(Yuan/mt)	780	791	-1.39%
China Five Major Steel Inventories Unit (10,000 mt)	1337.1	1317.09	1.52%
Global Crude Steel Production Unit (1,000 mt)	69310	71580	-3.17%
World Steel Association Steel Production Unit(1,000 mt)	145,666	144,417	0.86%





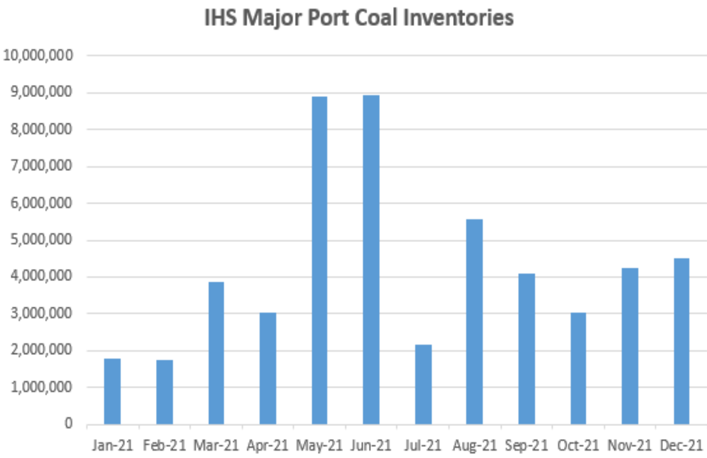


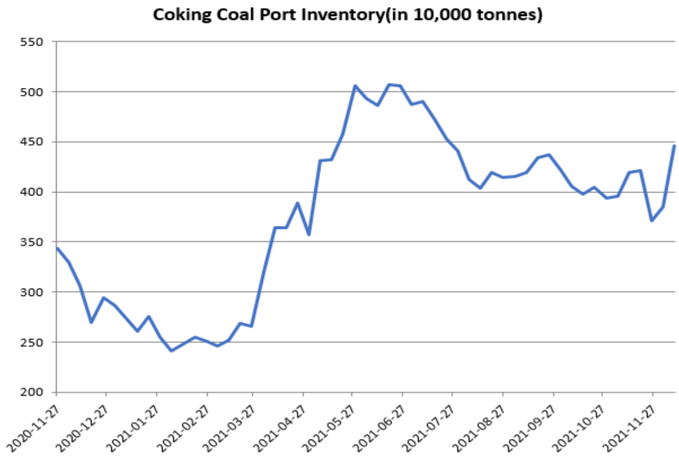
Data Sources: Bloomberg, MySteel, FIS

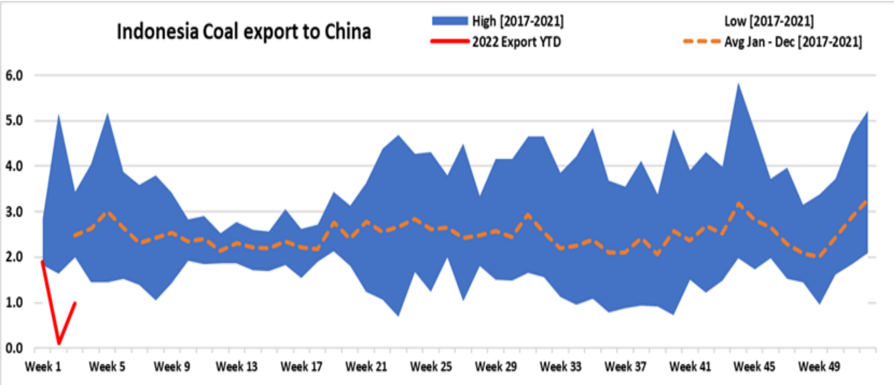
- Virtual steel margins maintained in at seasonal highs. There is risk that it potentially starts to correct before or during Chinese Lunar New Year following seasonal rules.
- The consumption of the five major steels were almost flat to previous week as inventories were cleared when output raised.

Coking Coal

	Last	Previous	% Change
TSI FOB Premium Hard Coking Coal (Dollar/mt)	411	409	0.49%
Coking Coal Front Month (Dollar/mt)	394	378.5	4.10%
DCE CC Major Month (Yuan/mt)	2290	2266	1.06%
IHS Major Coal Port Inventory (mt)	7,592,000	4,355,000	NA
China Custom total CC Import Unit mt	7,741,656	4,384,018	76.59%

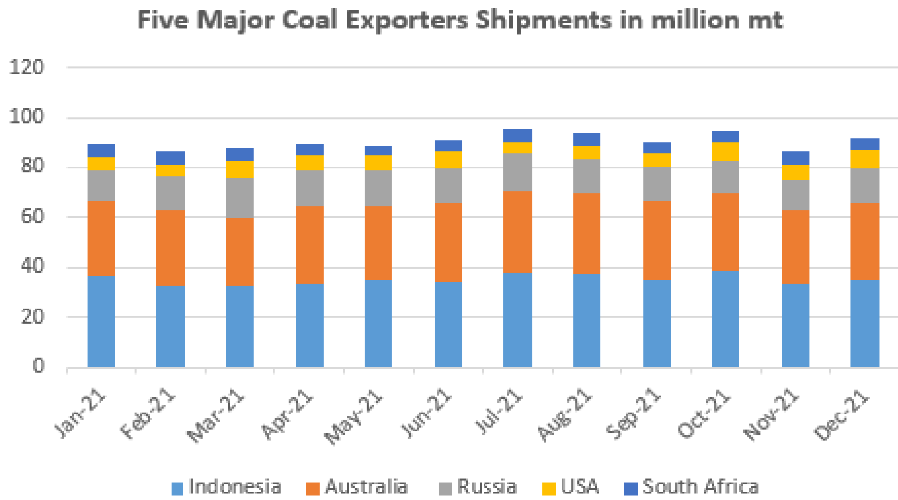






Coal Key Points

- Mongolia major coking coal port, Ganqimaodu announced closure because of a temporary shift change on port transportation staff member.
- China coke plants started to raised the 4th round of offer by 200 yuan/tonne.



Data Sources: IHS, Bloomberg, FIS

Written by **Hao Pei**,
FIS Senior Research Analyst

Edited by **Chris Hudson**,
FIS Communications Director

News@freightinvestor.com,
+44 207 090 1120