FIS

Ferrous Weekly Report

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Market Review:

⇒ **Iron ore Fe62%** short-run **Bearish**. Vale increased annual production targets as heavy rains ended. Supply significantly increased and Chinese government clamped down on false pricing.

⇒ **U.S. HRC Front Month** short-run **Bearish**. HRC supply and demand were both waning, however the marginal market started to collapse by the liquidity requirement from mills.

⇒ **Rebar 25mm Shanghai** short-run **Bearish**. The production curbs for Chinese steel mills extended to mid-March due to the Winter Olympic Games. Physical market was very cautious before the construction season starts.

⇒ **Australia Export Hard Coking Coal** short-run **Bearish**. Indonesian supply increased after the export ban in January. Australia supply was still tight. The absolute price level was too high when the rest of ferrous commodities were in decreasing phase.

Prices movement	14-Feb	7-Jan	Changes %	Sentiment	
Iron Ore Fe62% ($/MT)	149.4	149.4	-	Bearish	↓
Rebar 25mm Shanghai (Yuan/MT)	4940	4790	1.04%	Bearish	↓
U.S. HRC Front Month ($/MT)	1131	1180	4.15%	Bearish	↓
Australia Export Hard Coking Coal($/MT)	445	442.5	0.56%	Bearish	↓

Iron ore Market :

SGX iron ore March reached $157.25 in February, hitting a seven months high, before quickly pulling back to $144.45 after a cross-weekend China NDRC discussion relating to investigating mispricing in the market. DCE may contract also corrected from 849.5 to 761.5 dropping to its the lowest on Monday. SGX – DCE iron ore futures spread reached $40, an historical high indicating that one side of the contract is potentially misvalued.

Chinese NDRC, CISA and State Administration for Market Regulation made a joint appeal to supervise the fast change in the iron ore price. At the same time, the Chinese Ministry of Industry and Information Technology published a practical plan to promote the waste metal utilisation by the year 2025, including 320 million of scrap and 20 million non-ferrous scraps. Money significantly flowed out from iron ore, with DCE aggregated open positions down over 5% from last Friday to this Monday. SGX hasn't significantly seen this exodus.

Buying interests remained extremely low in seaborne market from late January to the first half of February. Platts report indicated that several trading companies were summoned by NDRC. Physical traders believed a further correction on seaborne market following the previous sharp drop of DCE market.

Vale iron ore fines production in FY2021 totaled 315.6 million mt, up 15.2 million mt, or 5% from the year 2020, after easing some restrictions imposed on company's operations following the Brumadinho tailing dam collapse in early 2019. MB65 – P62 spread looks neutral currently, which didn't follow the correction as previous years since Brazil supply is expected to catch up. All operations in Minas Gerais were recovering after the heavy rains.

Iron ore port inventories were approaching historical highs of 162.81 million tons stockpiled at the end of March, 2018. However inventories are expected to be consumed after processing recovered from seasonal lows since the Beijing Winter Olympic Games extended production restrictions to mid- March, delaying the seasonal pickup of the March onwards construction period in China.

Data Source: Platts, Fastmarket, FIS

Market Review (Continued)

Downstream/Policies/Breaking News:

The Russia and Ukraine tensions triggered a general panic on commodity markets. Multiple Chinese departments are investigating false pricing which led to a significant correction in the ferrous sector. Chinese January statistics for the social financing growth rate indicated a positive signal for secondary markets. U.S. initial jobless claims continued to drop for the past three weeks.

Global Steel Market:

The S&P Global Platts TSI US hot-rolled coil index was assessed at $1,100/st EXW Indiana at February 14th, down $20/st from 11th. A mid-west buyer indicated that larger volumes going for $900-1000/st, smaller orders traded near $1,100/st. The European market indicated second-quarter contractual deals had been finalized around €980/t. Some traders believed that Tata Steel's blast furnace maintenance next year could help tighten up the market assuming automotive consumption increasing in the following year. In Asian market, a Chinese major coil producer Baosteel lifted HRC ex-work prices by 350 yuan/t for March deliveries from February basis. An Indian mill increased offers to $900/t CFR Vietnam for April delivery. The mills considered to increase the offer to $930/t, which was far above Vietnamese buyer bids at $810-820.

CME forward curve firmed on the back of small physical trades spear to have pushed up reference prices. March jumped by €34/t to €964/t, while April at €952 up €22/t.

In general global steel market was in overbought territory since major trading in Europe and U.S. was limited, as well as Chinese offers were far from some south-eastern bids.

China Steel Market:

Major state-owned and private steel mills gradually recovered as the pandemic came under control after the Lunar Holiday. However, the Winter Olympic Games and snow storms in northern areas delayed the start of downstream operations.

Virtual steel mill margins retreated to 930 yuan/ton from 950 yuan/ton area, however they still remained at seasonal highs. Shanghai rebar improved from 4790 yuan to 4940 yuan across the week. However, the adjustment was related to futures and sentiment with very few trades. The inventories picked up fast following seasonality rule last week on all types of steels, however the steel stock level expected to become slight higher as postponed construction season. Physical steel prices potentially remain weak before consumption comes back.

Coal Market:

This week has seen some stability in the front end futures markets, although this has not dampened selling interest along the forward curve, with Q2 and Q3 losing close to $10 week on week. Feb dropped early in the week trading to a low of 427 before recovering to 432 today. March has been lacking buyers although found some support at 395 yesterday. March is still some $20 off its highs from 2-3 weeks ago but now it should encourage some buyers who might need to hedge index linked buying. Spreads have not narrowed too much with Q2/Q3 still pricing in at around $60. March/April at $20 is looking narrow given the underlying price of spot.

Physical buyers entered a watch and see mode, with a potential correction down $10-20 a potential reality with lower bids and liquidity widening the gap between buyers and sellers.

CFR Premium Low Vol slipped faster to $392 compared to FOB. China Energy Bureau started to investigate domestic physical pricing over the past two weeks, resulting in a quick drop on western and northern coking coal and coke price. The Chinese Atlantic metallurgical coal market spearheaded several U.S. coals towards lower reference prices.

China coke has fallen two successive rounds by 200 yuan/ton, which is abnormal after Chinese New Year. Market participants saw competitive offers to Chinese coke market. Traders were actively seeking export opportunities to India and indicated that the lower Chinese coke and very high and tight supply Indian coke created an apparent arbitrage opportunity.

Sources: Argus, IHS Markit Commodities at Sea Service, FIS

Technical view of the Ferrous Markets:

Ore

March futures - Price did move above the USD 150.41 level last week with price trading between our upside target zone of USD 154.56 and USD 159.85. Price has since entered a corrective phase with the daily technical breaking the fractal support at USD 143.85, meaning the technical is now bearish based on price. Upside moves on the intraday technical above USD 150.65 will warn that the USD 157.25 high could be tested once again. A key area of interest is the USD 159 level as this is the 50% retracement from the USD 233.75 high to the USD 84.60 low, as well as a Fibonacci projection level. The fact there is no semblance of on Elliott wave withing this upside move would suggest the rally from November is part of a larger corrective phase. Technically bearish having failed to trade above our key resistance at USD 159.17 – USD 159.44. Note, if for some reason this resistance zone is broken the futures have the potential to go on another run, targeting the USD 183.04 level.

Steel

March futures – Price has entered a consolidation phase with the futures moving sideways for the last week, meaning that from technical perspective there has been little change. Price remains 24% below the 55-period moving average, creating a mean reversion gap. Elliott wave analysis suggests that the downside move is an extended wave 3, meaning upside moves should be considered as countertrend. Technically bearish, price is in consolidation with wave analysis indicating resistance levels should hold; upside moves that fail at or below USD 1,299 remain vulnerable to further tests to the downside.

Coking Coal

March Futures – Price remains in a corrective phase on what looks to be a countertrend Elliott wave 4, suggesting there is another bull wave still to come. Fibonacci support remains unchanged at USD 339, USD 315, and USD 282. The rule of alternation would suggest that the technical pullback here is likely to be shallow as the previous pullback was deep, suggesting we should hold above the USD 339 – USD 315 support zone. The RSI is above 50 (65) with the stochastic in oversold territory, momentum is waning that we are vulnerable to a test to the upside. Technically bullish but in a corrective phase.

FIS senior analyst, Edward Hutton

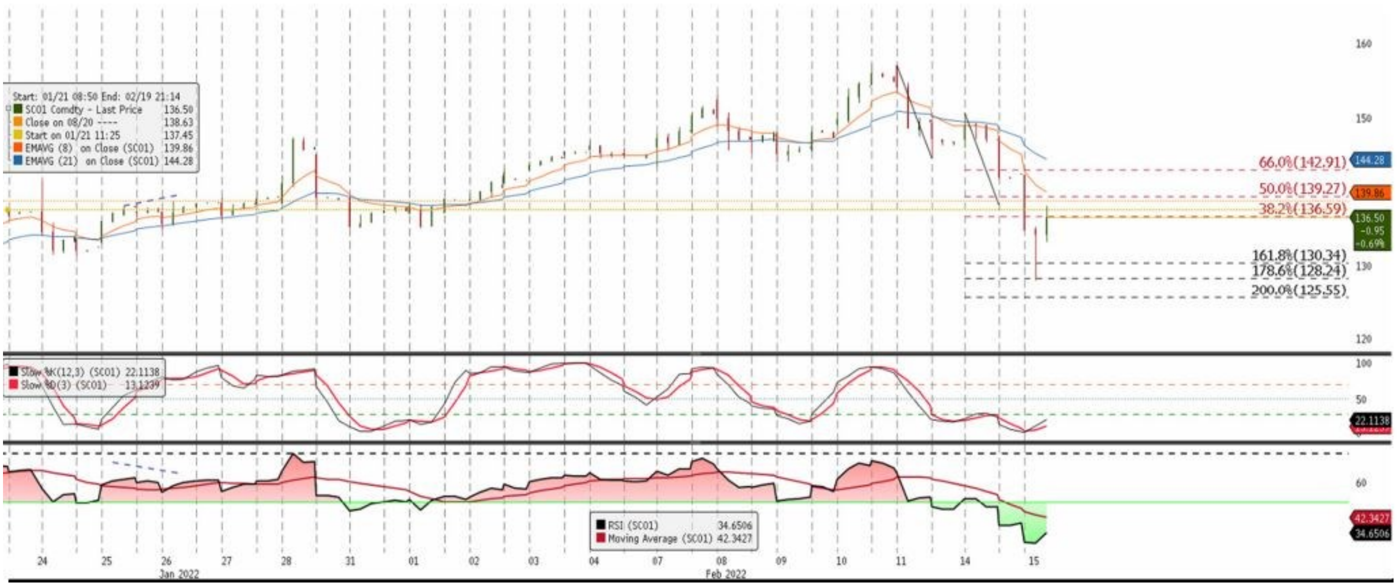
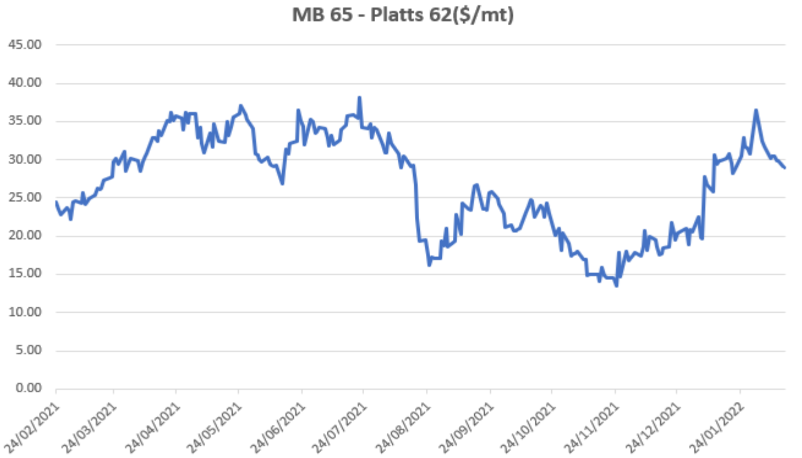
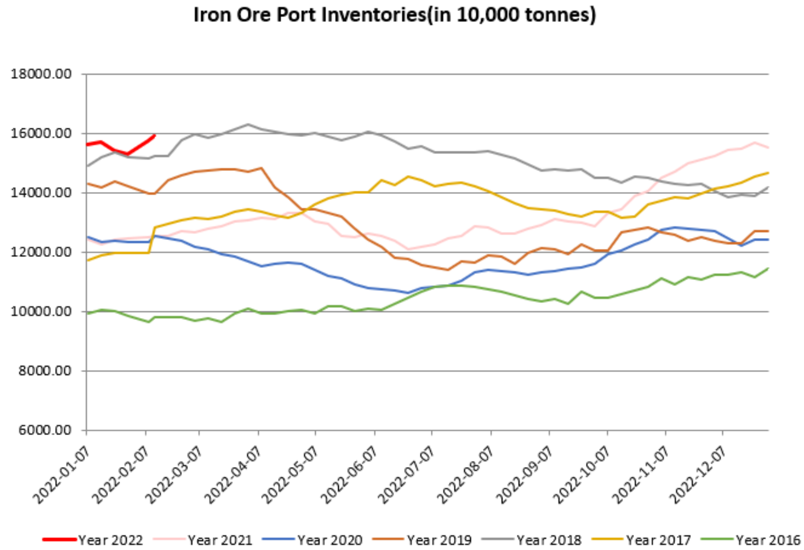


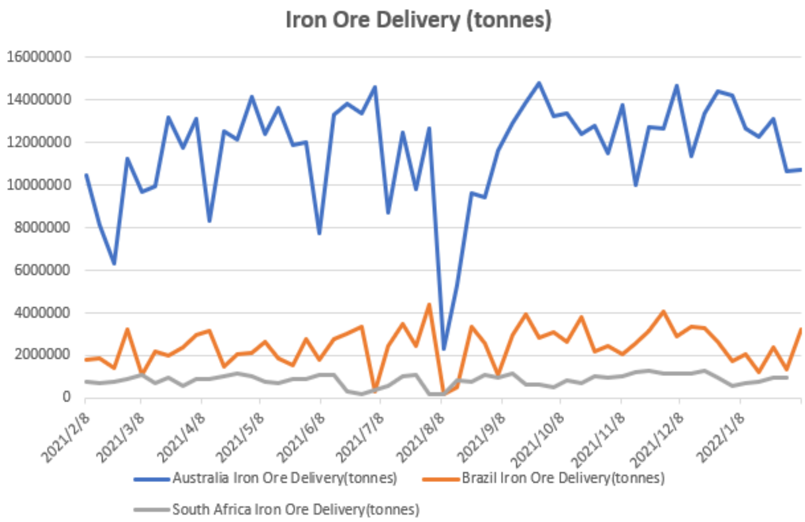
Chart source: Iron ore from Bloomberg

Iron Ore

	Last	Previous	% Change
Platts 62% Fe (Dollar/mt)	149.4	150.15	-0.50%
MB 65% Fe (Dollar/mt)	178.4	180	-0.89%
Capesize 5TC Index (Dollar/day)	14888	15397	-3.31%
C3 Tubarao to Qingdao (Dollar/day)	23.23	23.485	-1.09%
C5 West Australia to Qingdao (Dollar/day)	8.255	8.559	-3.55%
Billet Spot Ex-Works Tangshan (Yuan/mt)	4740	4500	5.33%
SGX Front Month (Dollar/mt)	149.80	145.05	3.27%
DCE Major Month (Yuan/mt)	833.5	797.5	4.51%
China Port Inventory Unit (10,000mt)	15,890	15,726	1.04%
Australia Iron Ore Weekly Export (10,000mt)	1,071.80	1,064.30	NA
Brazil Iron Ore Weekly Export (10,000mt)	321.00	134.20	NA







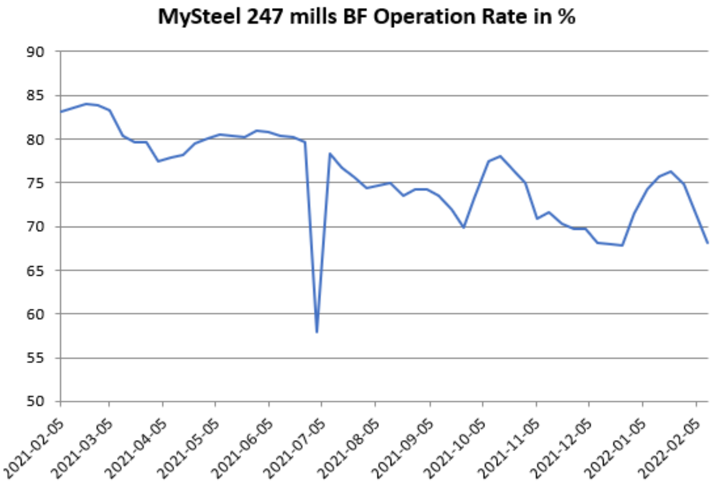
Iron Ore Key Points

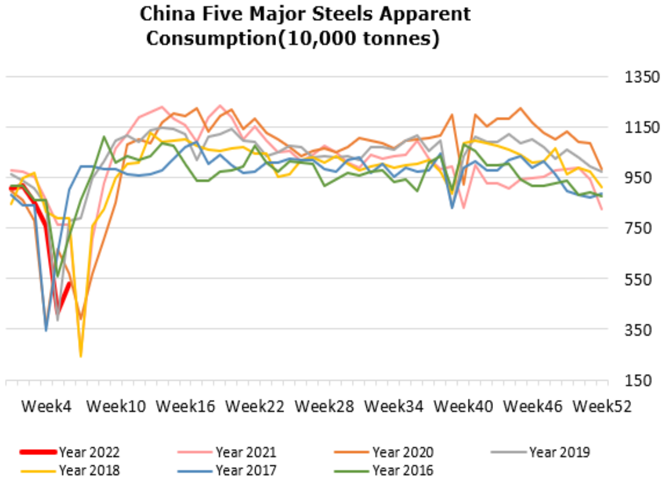
- Iron ore port inventories refreshed seasonal highs and also expected to break the historic high (March 2018) in the first half of 2022.
- MB65/Platts 62 spread slightly declined to $29 level. The spread expected to continuously decrease as Brazil supply started to increase. In addition, Vale increased annual production target by 5%.

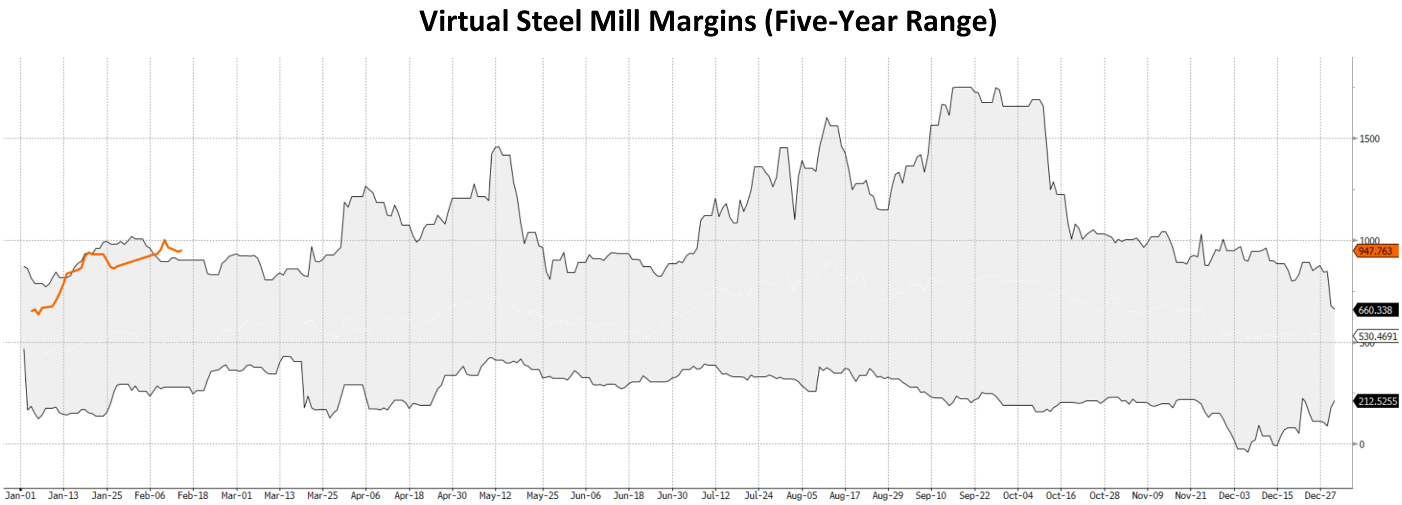
Data Sources: Platts, Fastmarkets, MySteel, Bloomberg, FIS

Steel

	Last	Previous	% Change
US HRC Front Month (Dollar/mt)	1131	1190	-4.96%
LME Rebar Front Month (Dollar/mt)	728	722	0.83%
SHFE Rebar Major Month (Yuan/mt)	4986	4764	4.66%
China Hot Rolled Coil (Yuan/mt)	5108	4875	4.78%
Vitural Steel Mills Margin(Yuan/mt)	950	931	2.04%
China Five Major Steel Inventories Unit (10,000 mt)	1396.05	1337.1	4.41%
Global Crude Steel Production Unit (1,000 mt)	86190	69310	24.35%
World Steel Association Steel Production Unit(1,000 mt)	158,743	143,262	10.81%





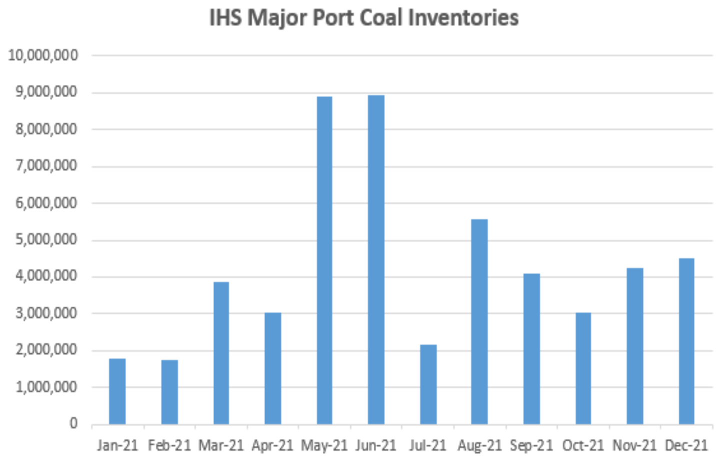


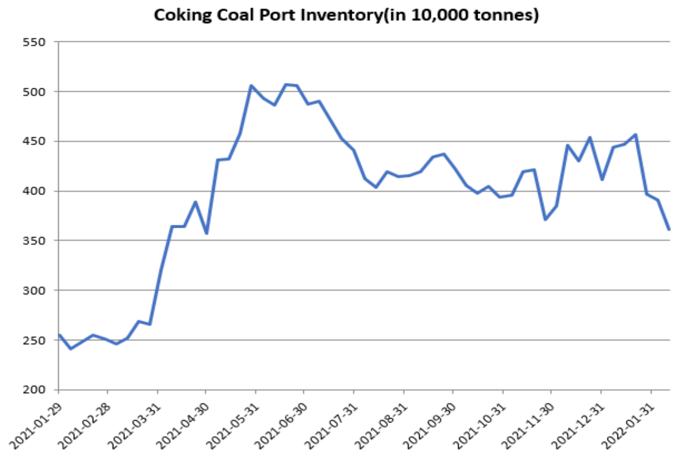
Data Sources: Bloomberg, MySteel, FIS

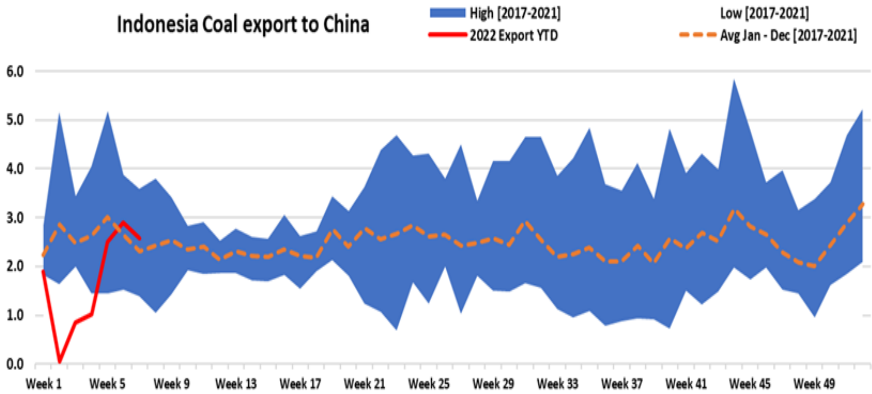
- Virtual steel mill margins maintained at seasonal highs. However absolute levels were neutral.
- The consumption of the five types of major steels picked up slower than last year because the production restriction last a month longer.

Coking Coal

	Last	Previous	% Change
TSI FOB Premium Hard Coking Coal (Dollar/mt)	442.5	442.5	0.00%
Coking Coal Front Month (Dollar/mt)	431.67	434.67	-0.69%
DCE CC Major Month (Yuan/mt)	2405	2267	6.09%
IHS Major Coal Port Inventory (mt)	3,801,000	3,415,000	NA
China Custom total CC Import Unit mt	7,487,956	7,741,656	-3.28%

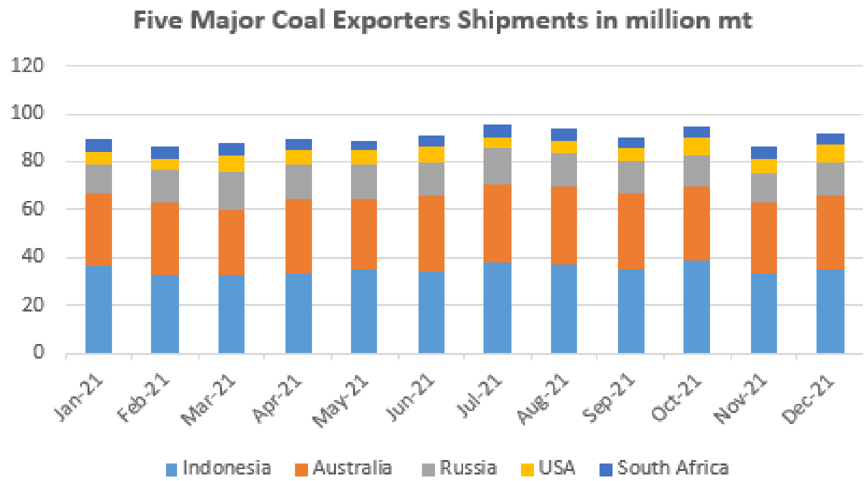






Coal Key Points

- Mongolia ports reopened and trucks flow returned to normal level. U.S. negotiate with China on some coking coal similar with Australia grade but pricing much lower.
- Some China based coke traders were seeking export to India.



Data Sources: IHS Markit Commodities at Sea Service, Bloomberg, FIS

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