FIS Ferrous Weekly Report

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Market Review:

⇒ **Iron ore Fe62%** short-run **Bearish**. The current divergence of SGX futures and DCE futures could potentially attract arbitragers. In addition, physical trades were light with speculation sentiment potentially pulling back and squeezing the market.

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

⇒ **Rebar 25mm Shanghai** short-run **Bearish**. The downstream gradually started and its expected production curbs will end soon, however heavy snows and cold weather affected northern and eastern China. The 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. Absolute price levels were too high and physical traders were all in wait and see mode.

Prices movement	22-Feb	14-Feb	Changes %	Sentiment	
Iron Ore Fe62% ($/MT)	139.0	149.4	6.96%	Bearish	↓
Rebar 25mm Shanghai (Yuan/MT)	4860	4940	1.61%	Bearish	↓
U.S. HRC Front Month ($/MT)	1117	1131	1.24%	Bearish	↓
Australia Export Hard Coking Coal($/MT)	440	442.5	0.56%	Bearish	↓

Iron ore Market :

SGX iron ore March reached $141.50 on Monday, refreshing a weekly high, however things were flat the day after the Putin's recognition of the two self-proclaimed republics in eastern Ukraine. China's southern regions cut mortgage interest rates, creating a stimulus to ferrous growth yesterday. In general Platts 62% index was down 6.96% across the report week, however it is still expected that iron ore would correct by the end of February in a shift out of risky assets due to geo-political uncertainty.

Chinese departments started new round of discussion to increase the port operation efficiency and improve the iron ore inventories structure in ports. The attendees included major northern port enterprises. The iron ore inventories built in the long-run increased alternative options for mills and physical traders. Thus it would prevent the cornering of the market close to major DCE delivery months. However the short-run impact depends on the structure and brand in major ports. For example, Brazil originated high grade was still seeing instant demand on near-term laycans.

Buying interest remained extremely low in the seaborne market during the first two months of the year. S&P Global Platts assessed the 62% Fe Iron Ore Index at $139/dry mt CFR North China on Feb. 21, up $5.50/dmt from Feb. 18. Most of the index movement was based on quote price instead of real trades. Premiums on medium grade iron ores fell quickly entering February. Chinese steel mills indicated that they would rather buy portside compared with seaborne due to a lower price and convenience, although production restrictions are approaching an end. For example, an end-user bought Fe61.5% PBF at 870 yuan/wmt on Feb 21st, and most of PBF buyers were seeking CNY-based iron ores. The major seaborne based trade was MACF over the past two months. Mills indicated that they will purchase iron ore closely in line with the demand orders even during the coming consumption season.

SGX iron ore April22– May22 corrected to $0.40-0.50, which was a statistically oversold area. The recovery of front month demand would also increase the value of the spread curve. Brazil delivery potentially sees improvements from mid-March because of deliveries having a time lag. MB65– P62 fell from $29.50 previous week to $26.80 after hold up on $30 for four weeks as expected. The correction was related to expectations on supply recover from Brazil and the loosening of China's restrictions in March.

Data Source: Platts, Fastmarket, FIS

Market Review (Continued)

Downstream/Policies/Breaking News:

The Russia and Ukraine tensions triggered a general panic on equity markets with European, Russian and Asian stocks all suffering losses after Putin's recognition of the independence of two regions in eastern Ukraine.

Steel markets rebounded following China's southern provinces interest rate decision on housing loans and down payment ratio, which was considered as a positive signal for a loosening strategy in general for the housing market after strict policy enforcement since 2018.

Spain's steel consumption rebounded to pre-pandemic levels in 2021, increasing 12% to 13.1 million mt. The recovery in steel demand in European markets and South-eastern Asia were potentially the biggest two marginal demand growth areas in 2022.

Global Steel Market:

Italian mills are negotiating to bring HRC offers up to €900/t ex-works. The tradeable value was €880-890/t ex-works. Turkish HRC was also heard available at €890/t.

The deals for Chinese SS400 HRC heard concluded at $805—$820/t CFR Vietnam last week, however sellers were reluctant to receive at the level. Local Vietnam mills Formosa Ha Tinh and Hoa Phat at $828– $840/t, much lower compared to $835-850/t after adding freight to the Chinese offer.

China Steel Market:

Steel mills picked up production from March on healthy profit margins as well as meeting up with the delayed demand caused by production restrictions and unexpected cold winter. Virtual steel margins retreated from 999 yuan to 903 yuan during February, however still running at a seasonally high area. Physical traders were cautious as the entire growth in February was based on thin trade, so market values could be lower if bigger size was completed at a discount. Major steel mills including Shagang Group and HBIS remain unchanged on the February pricing for rebar and wire rods, diverged with the growing futures price, which could be a warning on the over-stretching of the spot market as well as futures market over last two weeks. Shanghai 25mm spot decreased slightly by 80 yuan/ton at 4860 yuan/ton over the week, which could be an early signal of a correction on steel market. According to the five typical steels data, consumption picked up fast last week by a 2.39 million tonnes compared with previous week, indicating a reinvigoration of steel demand.

Coal Market:

Decent volatility on futures this week despite the physical and index hardly moving. Sentiment very much driving markets across the board (along with politics) and with spot prices holding without printing higher levels, we continue to see a lot more offers than bids along the curve. In the futures the back end found a level of stability with Q1-23 again being the main focal point, trading a number of times at 269, $1 higher than where it was trading mid week. The big question now is whether there's enough conviction to push March back to and above the $400 level.

Coking coal Australian based HCC corrected $2.50 to $440 compared to last Monday, however the price level stayed around $444 area since January 21st. The market above $400 level was major pushed by some tiny trades, without reflecting on the real demand. Physical buyers entered a watch and see mode, obviously market potentially correct down $10-20 very recently according to the lower bids, which was also a liquidity and time gaming between buyers and sellers. The market has yet corrected as expected by Asian physical importers. The arbitragers were cautious given the wide difference between imported and domestic coking coals.

Anglo American's export metallurgical coal production guidance for 2022 was unchanged at 20-22 million mt confirming the restart at Grosvenor. The unit cost guidance for 2022 is revised to $85/mt from $80/mt, compared with $105/mt in the year 2021.

Mogolia TT miner started to build a new railway operate before July 15th. The completion of railway would see it transport 33 million tons of coal to the port areas annually. China NDRC statistic suggested that the country's daily coal production reached 12.18 million tons in February 20th, the level in last Q4. NDRC recently approved 19 million capacity of new coal mines.

Chinese coke has unexpected increased 200 yuan/ton because of the snowy weather hit majority part of China, which significantly impacted the transportation of cokes from western areas to eastern provinces.

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

Technical view of the Ferrous Markets:

Ore

March Futures - As noted last week the upside move that started in November had no semblance of an Elliot wave cycle within it (meaning the upside move is not considered as bullish impulse), suggesting it was part of a larger corrective wave. The futures traded lower to a low of USD 125.00 before producing a bullish rejection candle, resulting in the futures trading to a high of USD 141.35. Upside moves above the USD 141.75 level will create a higher high on the intraday technical, leaving the futures to target our key resistance at USD 146.29. If our analysis is correct, then this upside move is potentially part of a larger corrective cycle, if we do trade above USD 146.29 then the daily technical will have a neutral bias. Technically neutral on the intraday with price still vulnerable to further tests to the downside.

Steel

March futures- As noted on previous reports the futures remain in a bearish impulse wave 3, suggesting upside moves would be considered as countertrend, price now seems to be leaving a consolidation phase to the downside with the futures trading below the USD 965 support. Although technically bearish and in trend the new low has created a positive divergence with the RSI, warning that we have the potential to see a momentum slow down, note this is not a buy signal as divergences can and do fail. Elliott wave analysis continues to suggest that's upside moves should be considered as countertrend, corrective moves higher that fail at or below USD 1,288 remain vulnerable to further tests to the downside (a considerable amount of room to the upside, granted). Above USD 1,025 will warn that the USD 1,144 and USD 1,205 resistance levels could be tested. Technically bearish but not considered a technical sell at this point.

Coal

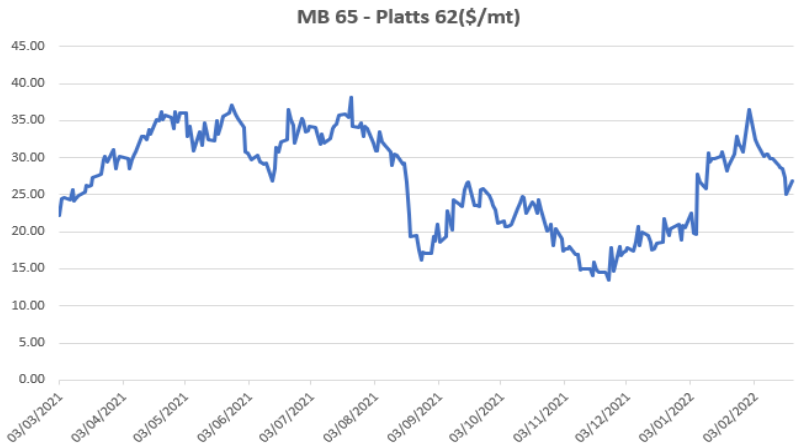
March Futures – Support remains unchanged from last week between USD 339 – USD 282. Elliott wave analysis continues to suggest that the downside move is considered as countertrend at this point, below USD 282 the technical will have a neutral bias. The RSI remains above 50 with the stochastic in oversold territory, momentum is warning that the futures are vulnerable to a test to the upside, suggesting we could be about to enter a bullish wave 5.

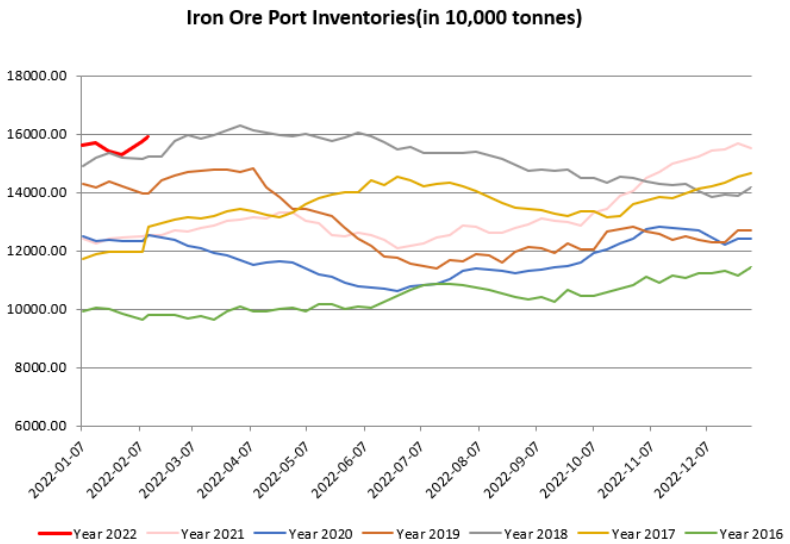
FIS senior analyst, Edward Hutton

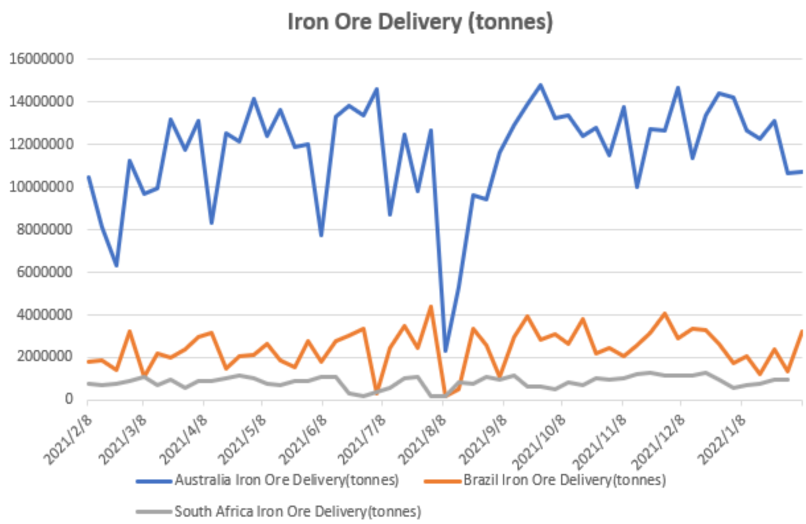
Chart source: Iron ore from Bloomberg

Iron Ore

	Last	Previous	% Change
Platts 62% Fe (Dollar/mt)	139	133.5	4.12%
MB 65% Fe (Dollar/mt)	165.8	158.5	4.61%
Capesize 5TC Index (Dollar/day)	15331	13888	10.39%
C3 Tubarao to Qingdao (Dollar/day)	22.11	21.605	2.34%
C5 West Australia to Qingdao (Dollar/day)	8.859	8.132	8.94%
Billet Spot Ex-Works Tangshan (Yuan/mt)	4670	4740	-1.48%
SGX Front Month (Dollar/mt)	133.22	149.80	-11.07%
DCE Major Month (Yuan/mt)	675	833.5	-19.02%
China Port Inventory Unit (10,000mt)	16,035	15,890	0.91%
Australia Iron Ore Weekly Export (10,000mt)	1,016.00	1,071.80	NA
Brazil Iron Ore Weekly Export (10,000mt)	225.70	321.00	NA







Iron Ore Key Points

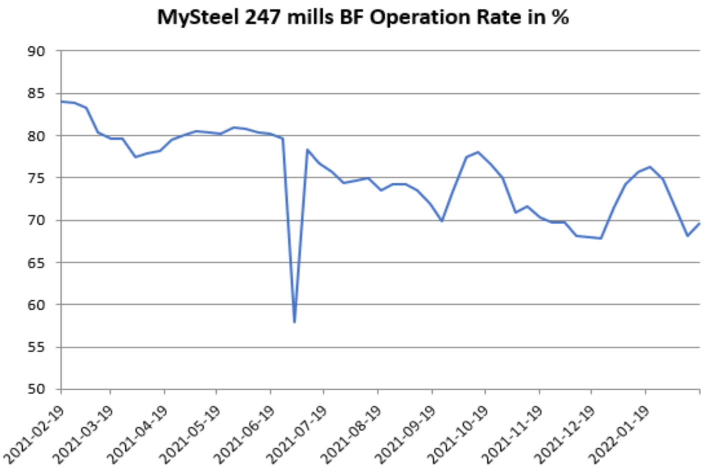
- Iron ore port inventories potentially slow down on the stocking since a more efficiency operation expected in the March related to new policies, as well as steel mills started to purchase materials for the new round of production.

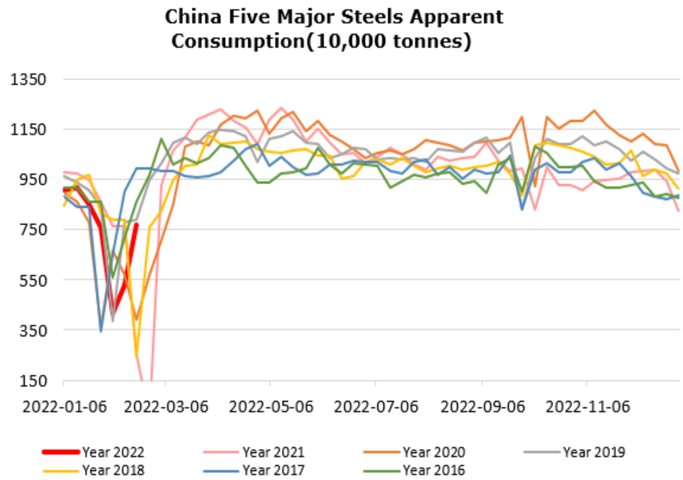
- MB65/Platts 62 spread significantly declined to $26.5 level as expected, because the recovery on Brazil supply and the China winter restriction approached an end in coming March.

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

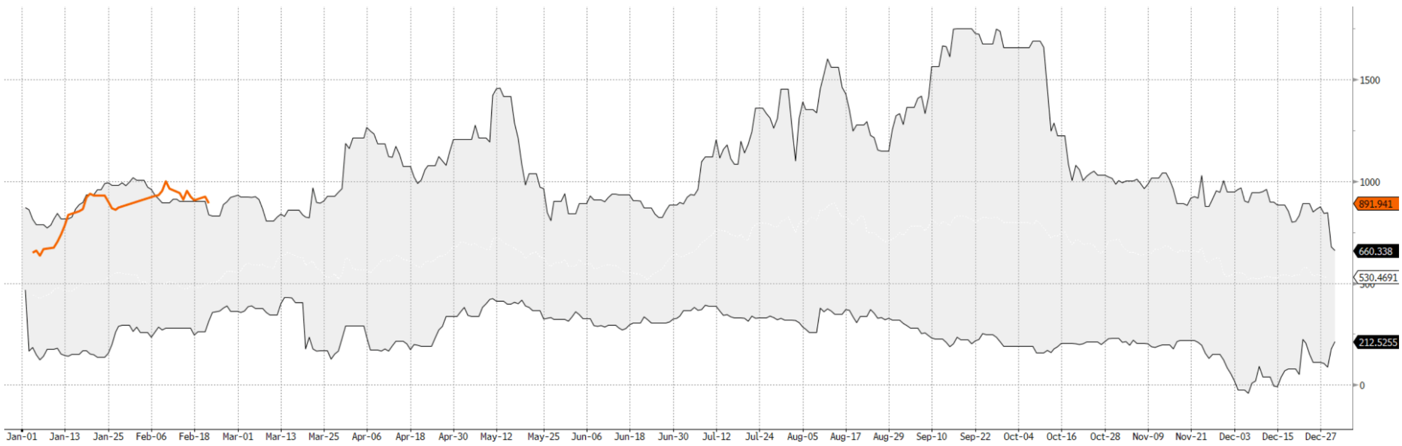
Steel

	Last	Previous	% Change
US HRC Front Month (Dollar/mt)	1117	1131	-1.24%
LME Rebar Front Month (Dollar/mt)	728	722	0.83%
SHFE Rebar Major Month (Yuan/mt)	4730	4986	-5.13%
China Hot Rolled Coil (Yuan/mt)	4983	5108	-2.45%
Vitural Steel Mills Margin(Yuan/mt)	903	922	-2.06%
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)	145,666	144,417	0.86%





Virtual Steel Mill Margins (Five-Year Range)

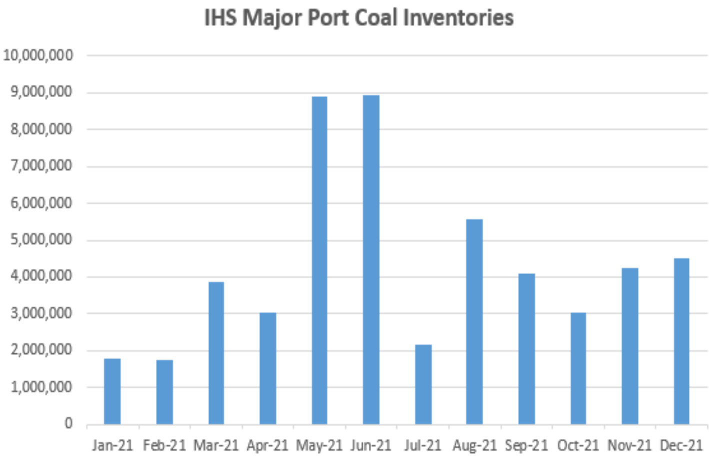


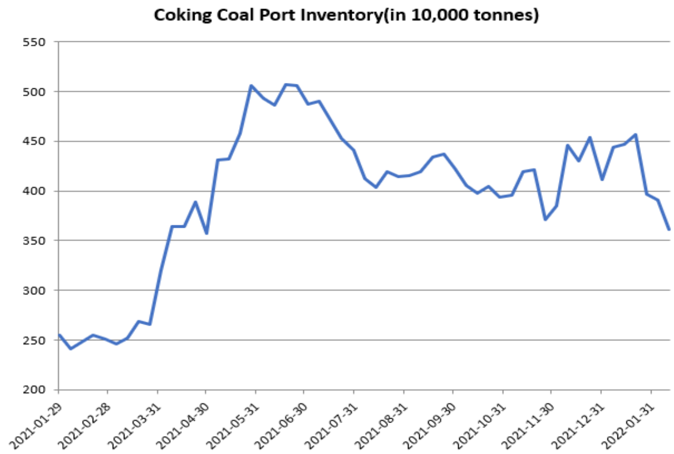
Data Sources: Bloomberg, MySteel, FIS

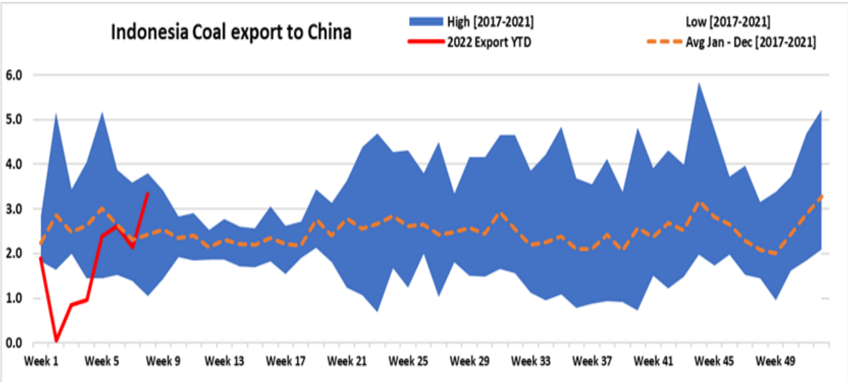
- Virtual steel mill margins maintained at seasonal highs. However absolute levels were neutral.
- The consumption of the five types of major steels picked up slower than last year because the production restriction last a month longer.
- EAFs' full recovery expected to be 1-2 weeks slower compared to BFs this year, observed from the low utilisation rate below 15% surveyed during last week.

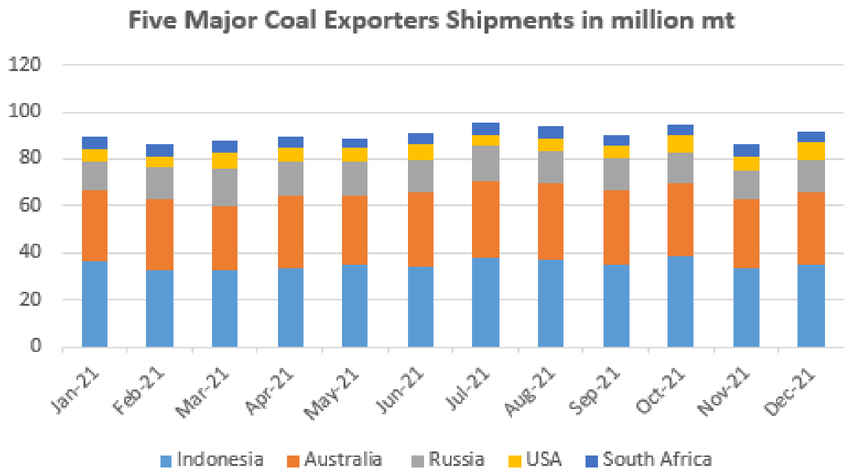
Coking Coal

	Last	Previous	% Change
TSI FOB Premium Hard Coking Coal (Dollar/mt)	440	440	0.00%
Coking Coal Front Month (Dollar/mt)	434.5	431.67	0.66%
DCE CC Major Month (Yuan/mt)	2519.5	2405	4.76%
IHS Major Coal Port Inventory (mt)	3,601,000	3,415,000	NA
China Custom total CC Import Unit mt	7,487,956	7,741,656	-3.28%









Coal Key Points

- Mongolia build a new railroad expected to bring 33 million tons of coal to port areas annually.
- Some China based coke traders were seeking export to India.

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

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