FIS

Ferrous Weekly Report

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Market Review:

⇒ **Iron ore Fe62%** short-run **Neutral**. The current divergence of SGX futures and DCE futures could attract arbitragers in long-run, however market was not convinced as geo-political risk outweighed other variables.

⇒ **U.S. HRC Front Month** short-run **Bearish**. HRC supply and demand were both waning, however margins were squeezed on lower volume requirements from steel mills.

⇒ **Rebar 25mm Shanghai** short-run **Bearish**. The downstream has gradually restarted and production curbs expected to end soon, however physical market is cautious at the moment.

⇒ **Australia Export Hard Coking Coal** short-run **Neutral**. The war between Russia and Ukraine caused a short-run coal buying interest spike as some countries worried about logistic disruption. Japan and Korea were both actively seeking offers from Australia, U.S. and India.

Iron ore Market :

Prices movement	28-Feb	21-Feb	Changes %	Sentiment	
Iron Ore Fe62% ($/MT)	139.1	139.0	-	Neutral	-
Rebar 25mm Shanghai (Yuan/MT)	4780	4860	1.65%	Bearish	↓
U.S. HRC Front Month ($/MT)	1056	1117	5.46%	Bearish	↓
Australia Export Hard Coking Coal($/MT)	457	440.0	3.86%	Neutral	-

Iron ore almost ended flat during the week on week reporting period. Seaborne iron ore and dollar iron ore has diverged to more than 50 yuan for few weeks now. Surprisingly, this arbitrage failed to attract some trades to narrow the difference, as the sudden warfare in eastern Europe increased dollar demand, while port iron ore was sensitive to government control on publishing fair prices. China's annually political conference potentially will mention controlling Chinese yuan appreciation, preventing a potential deficit, contrasting with the inflationary issues in the West and FED rate rises.

Major seaborne branded PBF was traded volume was down 10% compared to port Renminbi based PBF. Physical traders have realised the inconsistency of the seaborne market, although steel profit margins were still at a seasonal high level. MACF was the most popular brand traded on a seaborne basis.

Ferrexpo announced force majeure late last week. The miner produced 11.2 million tons of pellet ores exporting to the U.S., East Europe, Asia and U.S. The mid-grade and low-grade iron ores are currently under no strain on supply side. Nippon steel was seeking alternative sources of iron ore other than Australia and Brazil in case the shortage on shipping or production disruption.

The valuation of iron ore on DCE was at 655 yuan/t, which was only 30-35 yuan above the overall theoretical cost of FMG SSF. The market rebounded on the back of the cost support. Which is to say, traders potentially recognised this theoretical cost support and traded on the back of this logic.

The iron ore inventories are expected to enter a slowing period of ore decreases since several departments of China started to increase operational efficiency, preventing stock hoarding and decreasing price manipulation. The supply from Brazil and Australia is expected to be resilient, however European imports of iron ores are almost certain to see a decrease in the near future because of the impact of war.

May-June 22 spread dropped from $1.55 to $0.40 across the later half of February. However, outrights were in a growth trend during same period. The low level of the spreads could potentially attract some market interests to bring market back to normal levels, in particular if the iron ore market stablises or increases in the next few days.

MB65—P62 went back from $25 to $27 level as the war increased the sensitivity of higher grade or niche markets in iron ores, which was more easily to cause a disruption. However, it is believed that the easing of the war would depress this difference again in next few weeks.

Data Source: Platts, Fastmarket, FIS

Market Review (Continued)

Downstream/Policies/Breaking News:

Russia-Ukraine war and talks were becoming the trade headwind for this week. The sanctions against Russia are expected to have a direct impact on energy costs, which would drive up major industrial finished and raw materials' transportation and smelting costs. Ports in Black Sea area are facing uncertainties because of the war impact.

World Steel Association indicated that global steel production recovered to pre-pandemic levels at 1.91 billion tonnes, up 3.6% y-o-y. Ex-China production growth up 12.6% y-o-y. Africa, EU(27 countries), and North America contributed the major growth at 26.7%, 15.4% and 16.6%.

Global Steel Market:

Russia major steel companies say sanctions imposed will not have immediate effect on production. Theoretically Ukraine produced 1.8 million tons of steels and Russia produced 6.5 million tons of steels. European steelmakers have announced new prices over the weekends, however no reported offers yet. Liberty Galati announces price increase on HRC for April delivery to €1000 /t due to increasing input costs and high energy prices. However traders cut offers to $780-800/t fob China for SS400 HRC although Chinese mills kept offers at $825-835 for the past two weeks. Most buyers were cautious amid uncertainties, market saw Vietnamese buyer at $800/t CFR. The European market pricing was in different levels since limited offers and also buyers. Most were traded on prompt demands, so the level was not negotiable in most circumstances.

China Steel Market:

China downstream market started to warm up as consumption almost doubled in the previous two weeks from 5.29 million tons to 12.71 million tons, and is expected to catch up previous years' levels, although the general start of the consumption season was slightly late compared to the previous five years. Consumption is expected to reach yearly highs following the Olympics, ending of production curbs and seasonality. Tangshan blast utilization reached at 70% from 50% over last two weeks, confirming the downstream market was close to a complete restart.

However downstream market was also trying to resist the high steel prices, which were majorly increased during holiday period with very few trades. Thus, Shanghai rebar corrected 1.65% to 4780 yuan/ton. Major steel mills published a flat price on construction steels in early March, which was slightly conservative compared to same period over last few years, in particular when orders are almost fully booked.

Coal Market:

Torrential rain over the past 3 days in Queensland has been caused significant disruption, with some areas receiving as much rain in a few days as their expected totals for the year. With an already tight market and the increasing sanctions being deployed, this is exacerbating issues in the market and if offers were scarce in the future market this is only going to intensify the situation.

Atlantic metallurgical coal markets saw miners and traders with strong buying interest last Friday for prompt laycans, which drove prices up. Shortages in spot volumes and inefficient transportation both supported nearby months of contracts, however deferred months were still weak at deeper discounts. Front-back month spreads were still wide at $120 since market was expecting the coal supply tension in major areas potentially resolved as the war terminated and major supplying countries recovering export. This spread was near $100 two weeks ago.

The war in Eastern Europe could force European buyers to accept deals at very different levels. The Chinese coking coal market was slightly loose as supply from Mongolia started to stabalise as the peak of last round of pandemic in border area passed. Australia coking coal surged to pre-historical levels at $457 since war increased the uncertainty of Russian met coals.

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

Technical view of the Ferrous Markets:

Ore

March futures – Lots of outside influence from the NDRC had been hampering upside moves until today, price has now broken the USD 141.75 fractal resistance on the intraday meaning this is now in bullish territory. Price is now targeting USD 146.29, if broken then the technical will have a neutral bias, only above USD 157.25 is it bullish. As previously noted, the upside move from the USD 84.60 low had no semblance of an Elliott wave cycle, suggesting the upside move had been a corrective one. For this reason, we maintain our bearish view even as the USD 146.29 resistance comes under pressure. Downside moves below USD 136.27 will target the USD 125.00 support. The caveat will be the cost of steel which has the potential to rise on the back of the war in Ukraine, this has the potential to keep margins elevated which could in turn keep price elevated but is outside of the technical footprint at the moment.

Steel

April futures - A noted previously noted the futures were technically bearish but were not considered a technical sell due to a positive divergence with the RSI, the futures have moved higher and rolled into the April contract with price nearing the USD 1,144 resistance. We also highlighted that the Elliott wave cycle would suggest that this upside move should be considered as countertrend, corrective moves higher that fail at or below USD 1,288 remain vulnerable to further tests to the downside, only above USD 1,464 is the technical bullish. From a technical perspective we remain bearish in what looks to be an upside countertrend move; however, we remain conscious the war in Ukraine has the potential to increase the cost of steel production due to the current sanctions. This has the potential to change the psychological footprint of the futures in the long-term, making USD 1,288 the key resistance level to follow at this point.

Coal

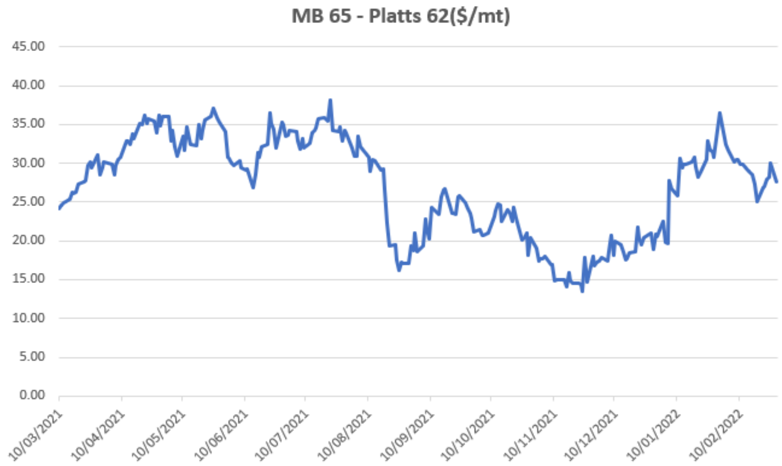
March futures – As previously noted the Elliott wave analysis had indicated that we had looked to be on a corrective wave-4 indicating that we had a bullish impulse wave-5 to follow. We also highlighted that the oversold stochastic whilst the RSI was below 50 warned that we could be about to see a move to the upside. As noted in other commodity products the driving force is coming from the Russian invasion of the Ukraine, who produce 90% of their coal in the East. The new high means that we have a negative divergence between price and the RSI, this is not a sell signal it is a warning of the potential for a momentum slowdown, as it can and does give false signals, especially at times like this. Technically bullish, resistance is at USD 460, USD 484, and USD 509. Downside moves that hold at or above USD 408 will support a bull argument, below this level the futures will have a neutral bias, only below USD 387 is it bearish.

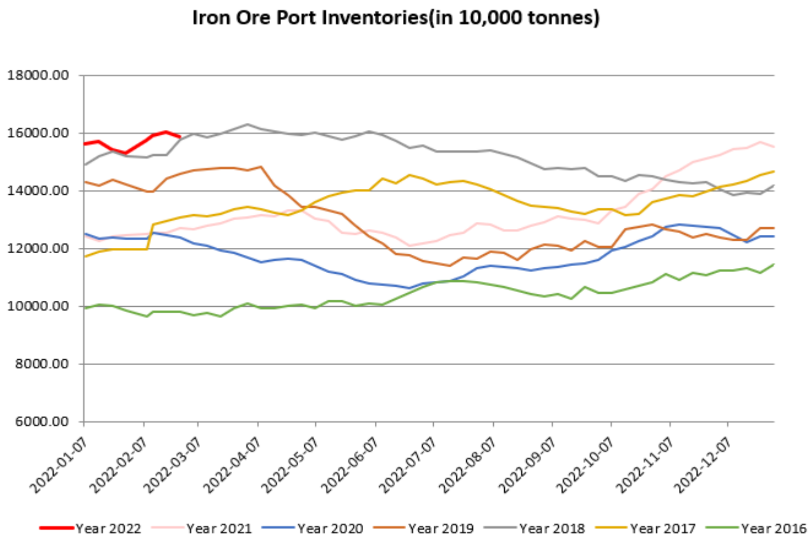
FIS senior analyst, Edward Hutton

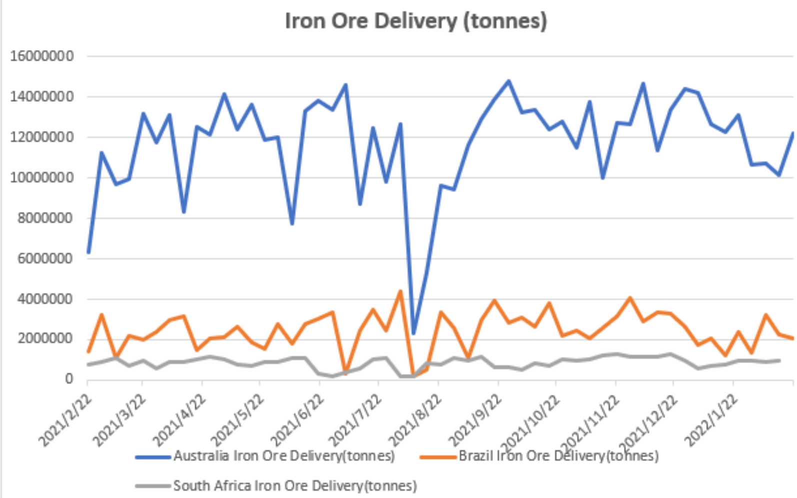
Chart source: Iron ore from Bloomberg

Iron Ore

	Last	Previous	% Change
Platts 62% Fe (Dollar/mt)	139.1	139	0.07%
MB 65% Fe (Dollar/mt)	166.7	165.8	0.54%
Capesize 5TC Index (Dollar/day)	13414	14026	-4.36%
C3 Tubarao to Qingdao (Dollar/day)	21.71	21.695	0.07%
C5 West Australia to Qingdao (Dollar/day)	8.623	8.8	-2.01%
Billet Spot Ex-Works Tangshan (Yuan/mt)	4550	4670	-2.57%
SGX Front Month (Dollar/mt)	136.74	133.22	2.64%
DCE Major Month (Yuan/mt)	687	675	1.78%
China Port Inventory Unit (10,000mt)	15,887	16,035	-0.92%
Australia Iron Ore Weekly Export (10,000mt)	1,221.20	1,016.00	NA
Brazil Iron Ore Weekly Export (10,000mt)	203.30	225.70	NA







Iron Ore Key Points

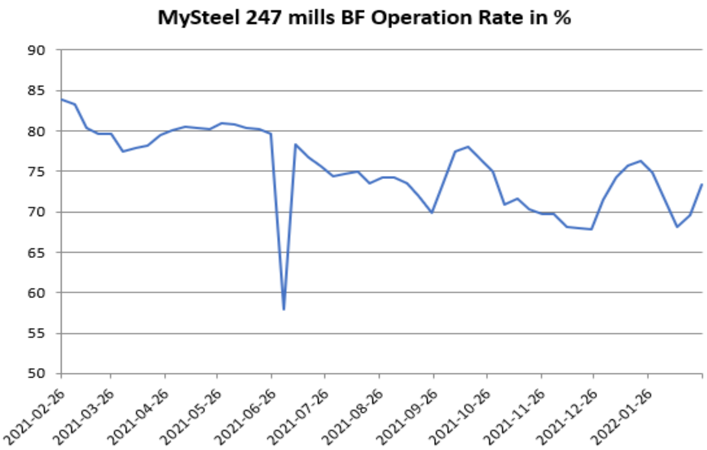
- Iron ore port inventories potentially slow down on the stocking since a more efficiency operation expected in the March related to new policies, as well as steel mills started to purchase materials for the new round of production.

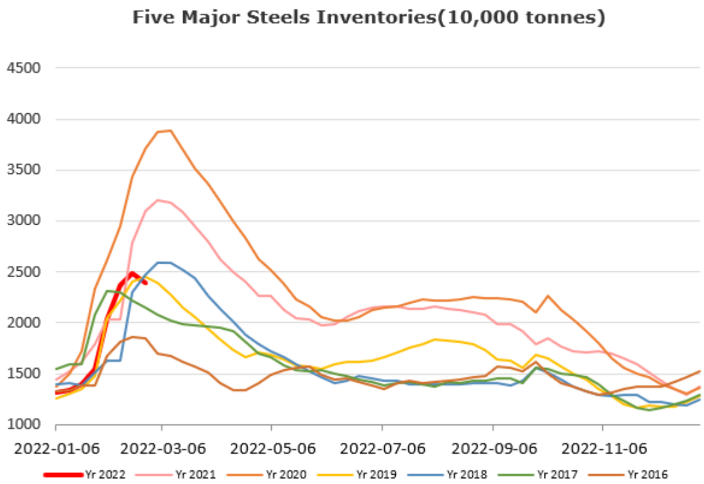
- MB65/Platts 62 spread moved up to $27 from $25 as the niche market was more sensitive to potential demand disruption.

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

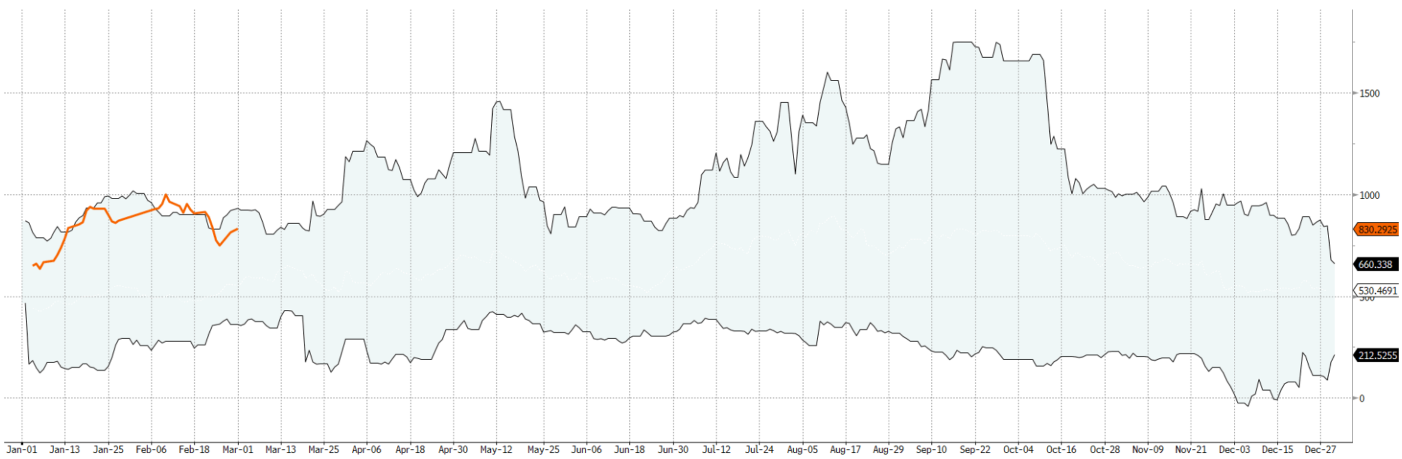
Steel

	Last	Previous	% Change
US HRC Front Month (Dollar/mt)	1010	1117	-9.58%
LME Rebar Front Month (Dollar/mt)	728	722	0.83%
SHFE Rebar Major Month (Yuan/mt)	4603	4730	-2.68%
China Hot Rolled Coil (Yuan/mt)	4939	4983	-0.88%
Vitural Steel Mills Margin(Yuan/mt)	830	737	12.62%
China Five Major Steel Inventories Unit (10,000 mt)	2489.64	2371.33	4.99%
Global Crude Steel Production Unit (1,000 mt)	81685	86190	-5.23%
World Steel Association Steel Production Unit(1,000 mt)	145,666	144,417	0.86%





Virtual Steel Mill Margins (Five-Year Range)

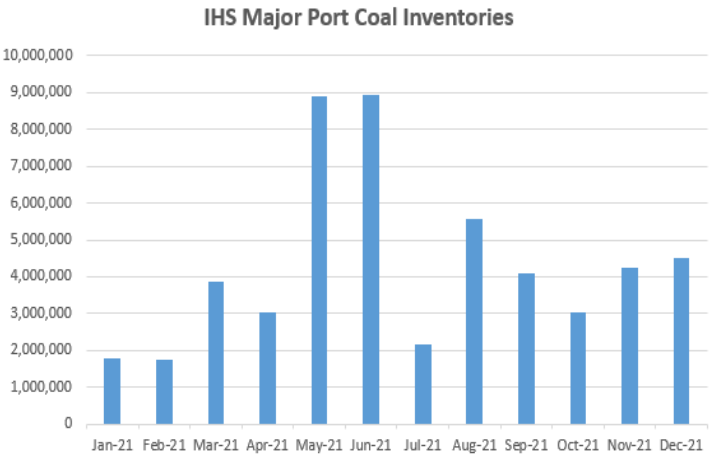


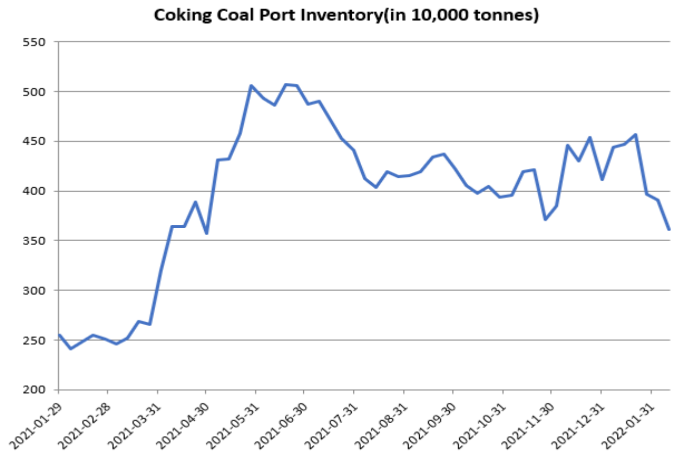
Data Sources: Bloomberg, MySteel, FIS

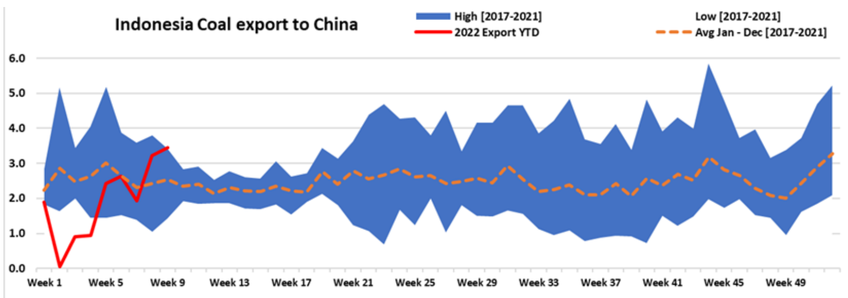
- Virtual steel mill margins maintained at seasonal highs. However absolute levels were neutral.
- The consumption of the five types of major steels doubled to over 10 million tons over the previous two weeks, and expected to reach the peak close to May.

Coking Coal

	Last	Previous	% Change
TSI FOB Premium Hard Coking Coal (Dollar/mt)	457	457	0.00%
Coking Coal Front Month (Dollar/mt)	445	434.5	2.42%
DCE CC Major Month (Yuan/mt)	2585	2519.5	2.60%
IHS Major Coal Port Inventory (mt)	3,100,100	3,415,000	NA
China Custom total CC Import Unit mt	7,487,956	7,741,656	-3.28%

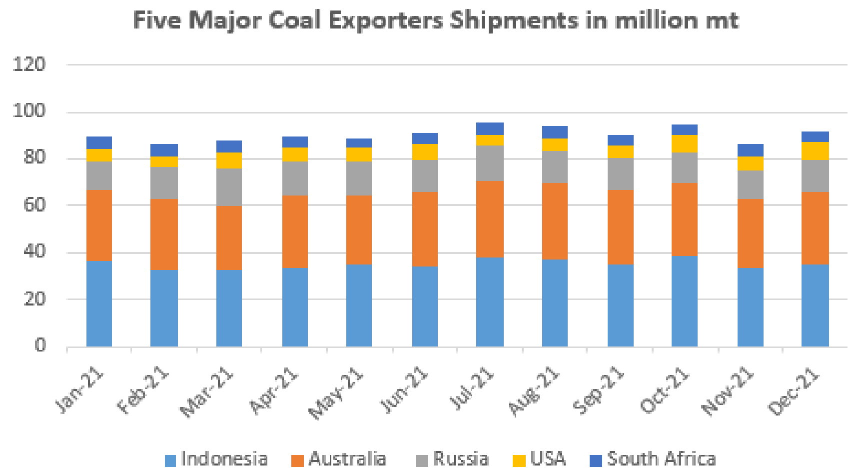






Coal Key Points

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



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

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