FIS Ferrous Weekly Report

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Market Review:

⇒ **Iron ore Fe62%** short-run **Neutral to bearish**. The steel utilisation rate picked up in Tangshan area, however portside discount iron ores are the most cost effective choice, which pulls down the value of seaborne mainstream iron ores.

⇒ **U.S. HRC Front Month** short-run **Bullish**. HRC in U.S. started to follow the massive increase of European steel price supported by the steel shortage expectation in Atlantic market.

⇒ **Rebar 25mm Shanghai** short-run **Neutral to bearish**. The downstream market in China failed to reach expectations because of the sudden spread of pandemic, which currently caused a halt of operations in some big cities in China.

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

Prices movement	14-Mar	7-Mar	Changes %	Sentiment	
Iron Ore Fe62% ($/MT)	144.9	162.75	10.97%	Neutral to Bearish	↘
Rebar 25mm Shanghai (Yuan/MT)	4910	5030	2.39%	Neutral to Bearish	↘
U.S. HRC Front Month ($/MT)	1125	1080	2.27%	Bullish	↑
Australia Export Hard Coking Coal($/MT)	670.5	615.0	9.02%	Bullish	↑

Iron ore Market :

Iron ore port stocks decreased by 3.2 million tons to 157.14 million tons last week from the high of the year 2022 at 160.34 million tons. However the port stocks are not expected to go to anywhere below 120 million tons during H1 2022 because of the strategic build up goal on iron ore inventories, as well as fewer physical trades in Q1 compared to previous two years. SGX—DCE difference corrected from $45 to $37 late last week, since the market started to realise that the difference provided a decent arbitraging opportunity. In fact, the physical market has recognised this weird difference from February and buying portside instead of seaborne was also driving this spread. The narrowing of the difference is expected to continue as multiple Chinese departments led by Commodity Pricing Department started rounds of investigation in pricing methodology in agencies publishing information, as well as quotes from physical traders.

Low grades started to gain attention including SP10 and SSF, with the quick drop on steel margins. MACF and Yandi fines are also popular currently as there is less import loss calculated at their current price. Virtual steel margins remain unchanged at 689 yuan/ton, they have, however, corrected more than 30% from their high in January. On the outright side, iron ore in general is giving back the gains linked with recent crude oil movements, correcting almost 30% from the high of last week. Delayed demand market in China caused by the sudden spread of pandemic also contributed to a decrease in iron ore purchases. The shortage in pellets started to ease since Ukraine indicated the supply in Europe was not impacted, although major pellets miners utilisation rate dropped from 80% to 50%. The Ukraine pellets exported to China was almost completely disrupted, Chinese buyers indicated that they could use some domestic pellets as substitutes. Pellet usage is starting to diminish as the pollution restrictions are relaxed.

CISA proposed a "Milestone" project before the Chinese annual political conference, mentioning increasing domestic iron ore resources, investing foreign miners, and increasing scrap metals usage. Chinese Government Work Report also mentioned controlling commodity prices from irregular movements. Iron ore trading fee in DCE doubled last week. The government control on iron ore never stop from the beginning of the year 2021.

MB65– P62 difference maintained at $30, the spread is logically expected to maintain or widen as the P62 potentially correct faster than MB65 because of the demand decrease in Asian in short-run.

Data Source: Bloomberg, Platts, Fastmarket, FIS

Market Review (Continued)

Downstream/Policies/Breaking News:

New emerging equity markets experienced an expected sell-off from late last week to early this week. However U.S. and Europe equity markets started to recover as the tension between Ukraine and Russia with ongoing peace talks entering round four.

WTI crude oil corrected to $100/barrel from $130/barrel over 1 week. Major commodities suffered a big loss to give back the oil-driven increase. U.S. steel markets followed European markets to increase $100/st in some areas to prevent steel shortages in the near term. A new Chinese Covid outbreak added pressure on steel market demand. Developed coastal areas were the centre of the major virus spread, areas which contributes some 45% of GDP in China. The unexpected virus outbreak has caused some halts in industrial activities including constructions, auto-making and metallurgical work.

Global Steel Market:

TSI US HRC index at $1,220/st EXW Indiana in March 14th, up 22% during the March. The daily price remained below the current offer of $1,300 level, but stay higher than the index level.

North European HRC continued to increase last week driven by slightly bigger trades compared to previous few weeks. The market and mills stock were both high since buyers were making purchases in case of a disruption of imports.

There were 5,000-10,000 tons of SS400 HRC produced by north Chinese mill sold at $863/t CFR Vietnam last week. A same quantity Q235 coils from another Chinese northern mill sold at $855.

Chinese Steel Market:

The consumption over last two weeks failed to indicate seasonally strong demand, steel prices slipped as a result. The new pandemic outbreak is also expected to impact steel making and downstream due to quarantine and restrictions on transportation.

Coal Market:

Activity on physical being more active than paper at the front end of the curve. Futures were quiet in the front with April bid on from last done at 630. Further out and we saw a few trades with some interesting levels, showing that anyone wanting to add a small amount of risk can trade at favorable levels if they counter certain interest.

Coking Coal TSI FOB PLV grew from $615 to $670 during past week, with the market still enveloped under a veil of panic of supply shortages. The index grew 46.61% from late February. However the coal supply is expected to loose when Europe enters spring, as well as hope that the Russia and Ukraine conflict will end. However, currently buyers were pre-stocking coals everywhere around the globe. The electricity companies in UK and France both indicated that the shortage on gas would force them to use coal power generation.

Mongolian ports started to operate as normal, however the trucking numbers were far from the expected 400 vehicles. It was hard to find alternative coal sources when all north Asian countries are looking for strategic coal imports. Indonesian coking coal exports to China reached a seasonal high level of around 3.5 million tons weekly.

Spot buyers were generally quieter on Atlantic coking coal markets after prices went up massively. The highest incremental bid was heard at $670/mt FOB Australia for 35,000 mt of GlobalCOAL HCCLV Saraji for an April laycan. Another bid was heard at $670/mt FOB Australia for 75,000 mt of GlobalCOAL HCCA for an April laycan. Indian end-users struggled to pass the cost increase on iron ore and coking coal to downstream. The tight supply is expected to support FOB Australian coking coal market.

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

Technical view of the Ferrous Markets:

Ore

April futures-Technically bullish last week with downside moves considered to be countertrend with a potential upside target of USD 174.97. The futures did pullback, held support and traded to a high of USD 171.00. We noted on the morning report on the 09/03/22 the futures had produced an exhaustion pattern resulting in the futures trading down to USD 154.50, we followed this with further reports suggesting that below this level we target USD 148.25. The futures have now traded to a low of USD 142.85 meaning the pullback is considered as deep and the technical phase neutral. We highlight USD 140.62 as a level of interest as it is a 78.6% Fibonacci retracement level and a 161.8% projection level of the A-B-C corrective phase. If we hold this level, we could see market buyers looking to test upside resistance (USD 158.89 – USD 167.15); however, if support is broken, we target the USD 132.35 fractal level. Technically bullish with a neutral bias, Key support is at USD 140.62.

Steel

April Futures-Last week we noted the futures had turned technically bullish with downside moves considered to be countertrend, key support was at USD 1,158. The futures entered a corrective phase, held support, and traded to a new high. The futures have potentially completed an intraday Elliott wave cycle based on the William's approach, as the Fibonacci projection of waves 1 – 3 from the base of 4 gives us a potential upside target of USD 1,583, price has traded up to 1,585. Corrective moves that hold at or above USD 1,340 will support a bull argument, below this level the futures will have a neutral bias. The USD 1,585 high has created a negative divergence with the RSI on the intraday technical, meaning new highs should not be considered a buy. Technically bullish the futures are not considered a technical buy and are potentially in the early stages of a corrective phase.

Coal

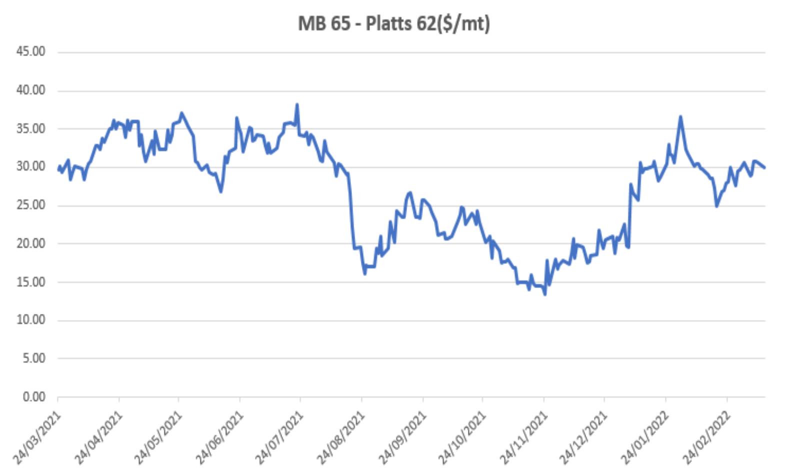
April futures- The futures continued to move higher with price trading above the USD 602-USD 624 resistance levels before starting to consolidate. As noted last week momentum indicators had moved to new highs suggesting we are seeing some form of Elliott wave extension, this would imply downside moves should be considered as countertrend. Corrective moves lower that hold at or above USD 454 will support a bull argument, below this level the futures will have a neutral bias. Technically bullish with resistance at USD 646, USD 669, USD 701 with support at USD 530, USD 498, and USD 454. We should note we are trading around USD 200 above the 55-period EMA indicating we have a mean reversion gap in the market, this is not a sell signal but is warning that futures need to either correct to close the gap or consolidate and wait for the averages to catch up, indicating the technical is overextended at this point.

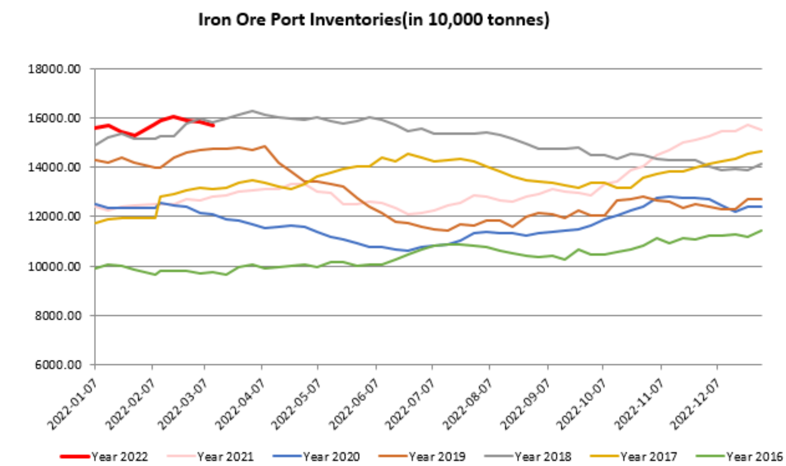
FIS senior analyst, Edward Hutton

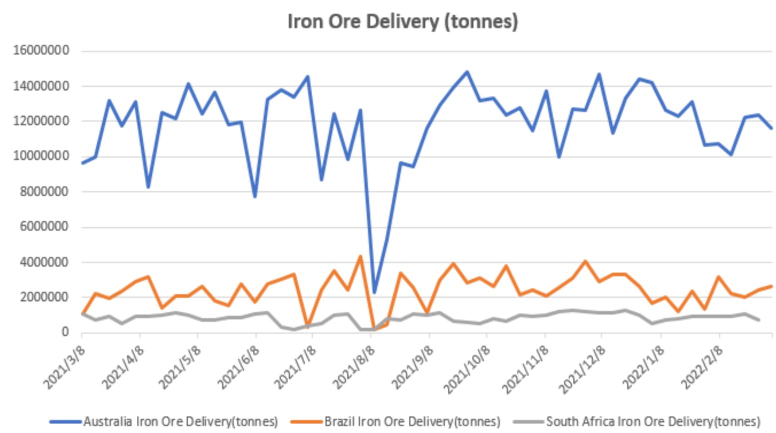
Chart source: Iron ore from Bloomberg

Iron Ore

	Last	Previous	% Change
Platts 62% Fe (Dollar/mt)	144.9	154.5	-6.21%
MB 65% Fe (Dollar/mt)	174.9	185.1	-5.51%
Capesize 5TC Index (Dollar/day)	23101	22195	4.08%
C3 Tubarao to Qingdao (Dollar/day)	30.35	30.78	-1.40%
C5 West Australia to Qingdao (Dollar/day)	12.327	11.909	3.51%
Billet Spot Ex-Works Tangshan (Yuan/mt)	4720	4740	-0.42%
SGX Front Month (Dollar/mt)	157.61	156.83	0.50%
DCE Major Month (Yuan/mt)	816.5	812.5	0.49%
China Port Inventory Unit (10,000mt)	15,714	15,855	-0.88%
Australia Iron Ore Weekly Export (10,000mt)	1,162.90	1,234.40	NA
Brazil Iron Ore Weekly Export (10,000mt)	266.70	244.60	NA







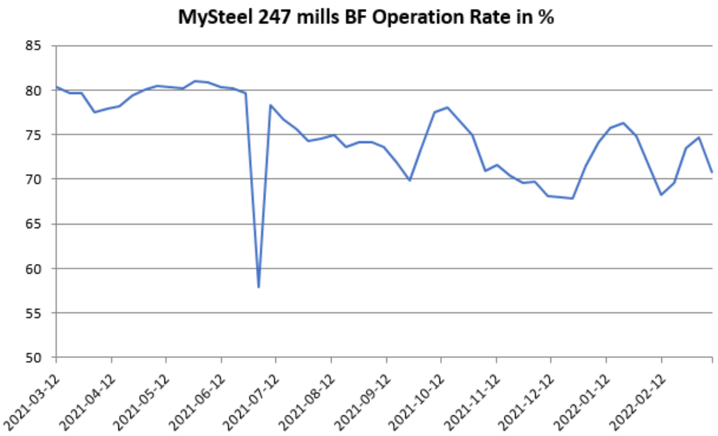
Iron Ore Key Points

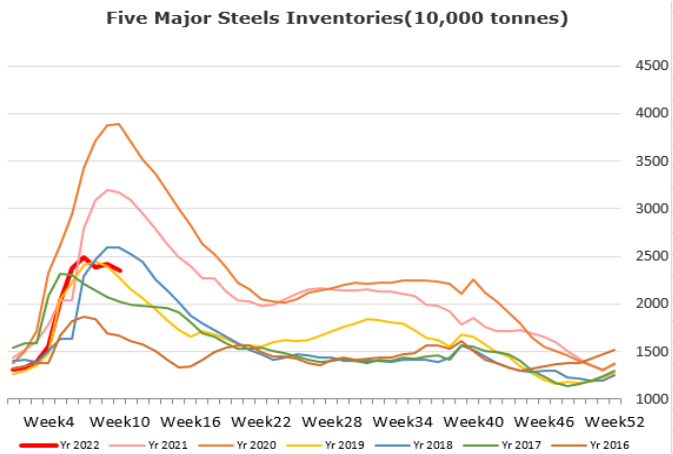
- Iron ore port inventories started a decreasing period since the portside iron ores become more cost-effective compared to seaborne iron ores.
- Iron ore deliveries are sliding globally because of the delay on some of laycans combining the war factors.
- MB65-P62 spread maintain resilient in $30 areas.

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

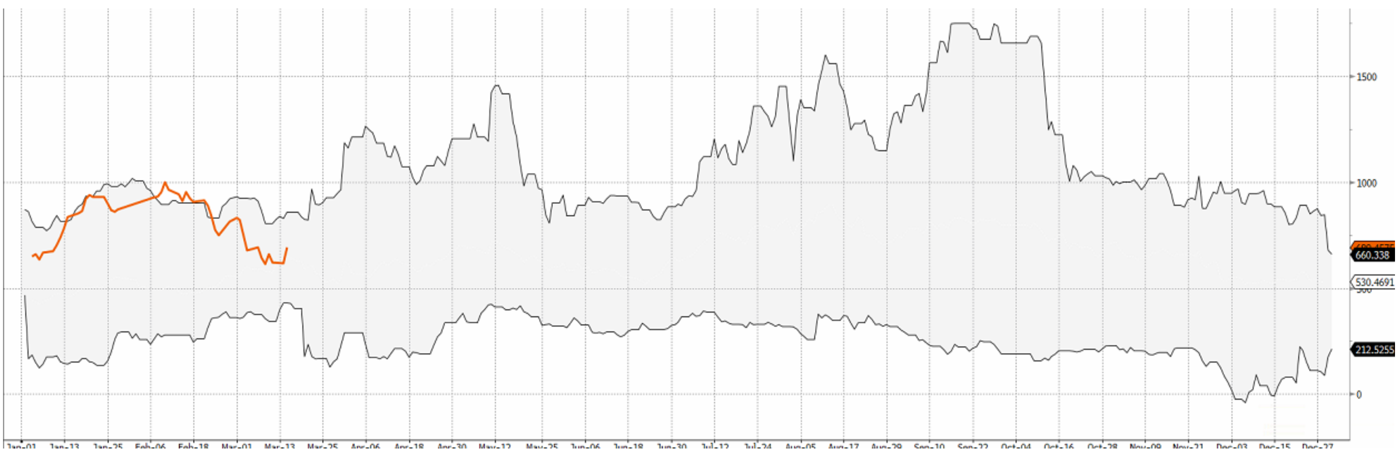
Steel

	Last	Previous	% Change
US HRC Front Month (Dollar/mt)	1125	1175	-4.26%
LME Rebar Front Month (Dollar/mt)	728	722	0.83%
SHFE Rebar Major Month (Yuan/mt)	4894	4881	0.27%
China Hot Rolled Coil (Yuan/mt)	5149	5165	-0.31%
Vitural Steel Mills Margin(Yuan/mt)	689	689	0.00%
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)

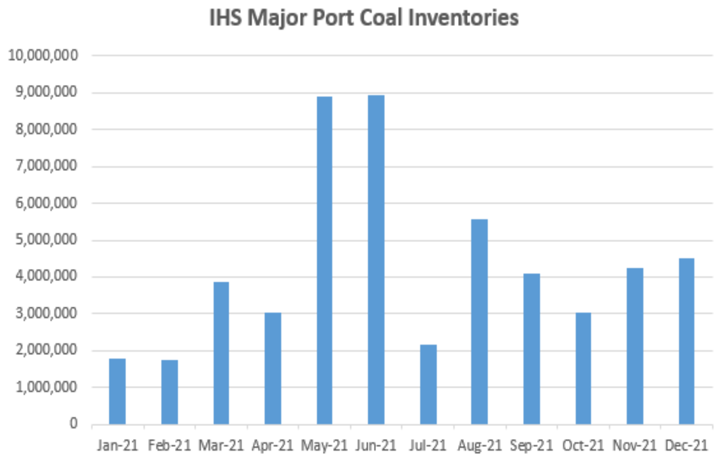


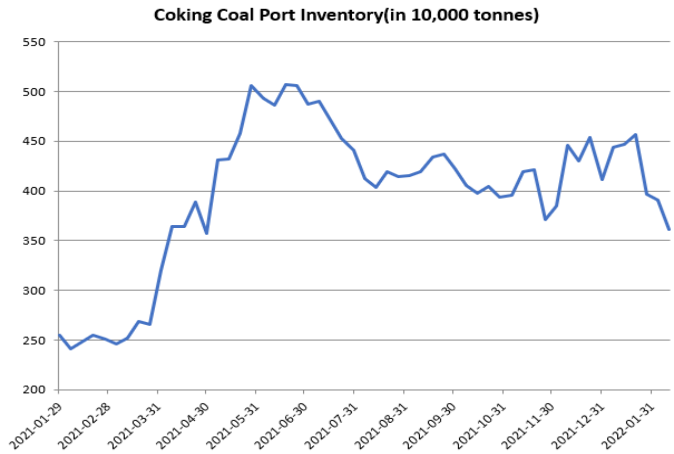
Data Sources: Bloomberg, MySteel, FIS

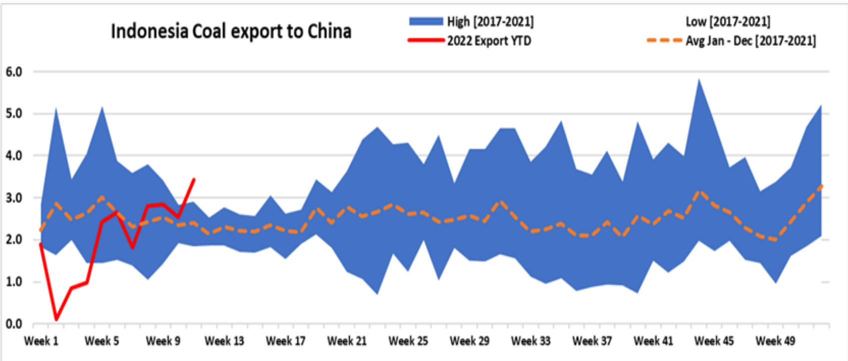
- Virtual steel mill margins fell quickly from 1000 yuan/ton, a seasonal high area to 689 yuan/ton, which forced some of mills start to shift the mass production to cost-saving strategy. In particular physical side the margin narrow faster as lack of liquidity on premium coking coals and fast increasing coke price.
- The five type of steels inventory didn't reach an expected high level, since downstream was cautious buying, concerning the outbreak of the pandemic.

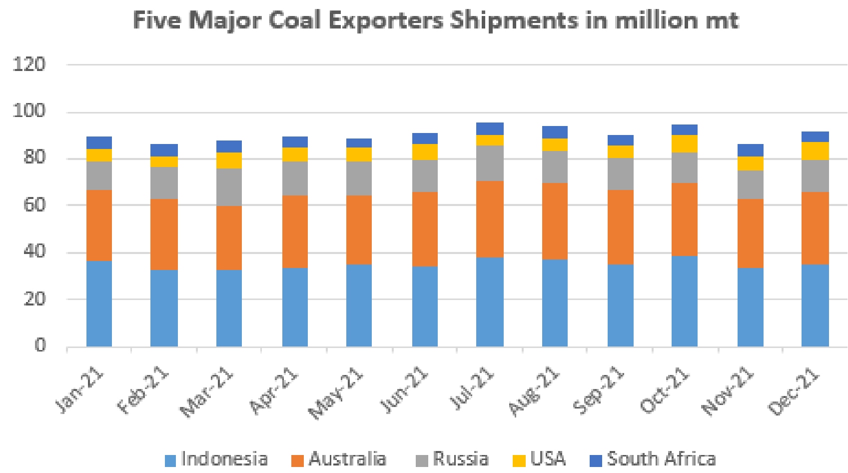
Coking Coal

	Last	Previous	% Change
TSI FOB Premium Hard Coking Coal (Dollar/mt)	670.5	666	0.68%
Coking Coal Front Month (Dollar/mt)	635	578.33	9.80%
DCE CC Major Month (Yuan/mt)	3103	2886	7.52%
IHS Major Coal Port Inventory (mt)	3,415,000	4,511,000	NA
China Custom total CC Import Unit mt	7,487,956	7,741,656	-3.28%









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

Coal Key Points

- China and Japan are both looking for alternative sources other than Australia in case of a shortage on premium low coal.
- European countries are still in a tight supply mode on coal market. UK and France are both considering to start coal generation power if the gas supply become disrupted.

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