FIS

Ferrous Weekly Report

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Market Review:

⇒ **Iron ore Fe62%** short-run **Neutral to bearish.** Iron ore rebounded because steel mills are temporarily short of useable raw materials. However the downstream demand pressure would soon shift to steel mills. The uptick was related to oil led inflation asset speculation. Correction on the oil market would withdraw the short-run investment on iron ore as well.

⇒ **Rebar 25mm Shanghai** short-run **Neutral**. China saw construction material trade expanded on daily basis last week, however market doubt this was a pure physical—futures linked arbitrage, which was not real demand.

⇒ **U.S. HRC Front Month** short-run **Neutral to bearish**. China started to export pig iron to the U.S. Moreover, European steel markets also expect to see Turkey and India based steel arrivals in current weeks with it being $100-110 cheaper compared with domestic offers.

⇒ **Australia Export Hard Coking Coal** short-run **Bearish**. India planned to double coking coal imports from Russia. Japan was actively buying coals from U.S. and Canada. China demand market still remain static since the pandemic issue.

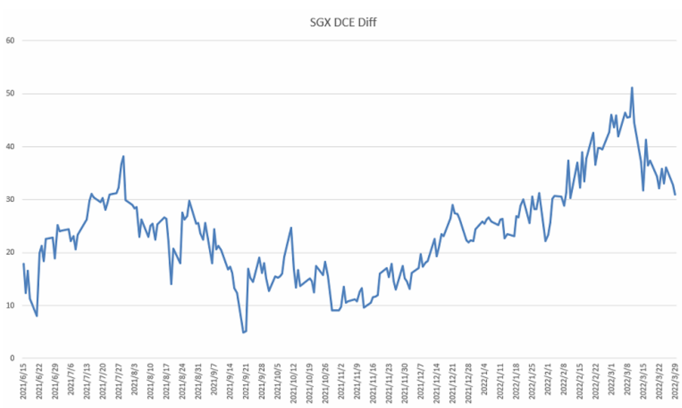
Prices movement	28-Mar	21-Mar	Changes %	Sentiment	
Iron Ore Fe62% ($/MT)	**152.4**	**147.9**	**3.04%**	**Neutral to Bearish**	↘
Rebar 25mm Shanghai (Yuan/MT)	**5000**	**4950**	**1.01%**	**Neutral**	-
U.S. HRC Front Month ($/MT)	**1120**	**1135**	**1.32%**	**Neutral to Bearish**	↘
Australia Export Hard Coking Coal($/MT)	**539**	**625**	**13.76%**	**Bearish**	↓

Iron ore Market :

Iron ore price went up $5.50 across the week, representing a neutral sentiment on the seaborne market. However it is still believed that the market was neutral to bearish on the perspective of fundamental analysis, because the slight rebound was supported mainly by crude oil strength, similar to early March. However crude oil started to correct another 10-12% from its last high.

The seaborne market started to see some bids on PBF and some mixed-laycans with improving premiums. However the buying interests were still a way from the expectations by sellers. Mainstream volume traded through seaborne was still tiny. Mills are currently reluctant to risk stocking iron ores in particular during the pandemic spread, although some Tangshan mills have only 1-3 days of useable iron ore — an historical low. Mills have to close or start maintenance if there is a further disruption on iron ore. The last pick up on iron ore purchases was due to some mills trying to prevent the closure of mills. Otherwise they will have to spend more than 15 days to re-start the furnaces. As a result, the previous iron ore spike was truly not related to mill demand. Cost-effective FMG SSF and seaborne MACF are still major trades from last week and early this week.

China Iron Ore Milestone Project is expected to expand iron ore concentrations by 60 million tons by 2025. China expected to increase 37% of iron ore concentrates production in the year 2025 compared with 2020. According to a report released by Transition Zero, a UK based climate organisation, said high-cost steel manufacturers producing through the traditional blast furnace converter (BF / BOF) route may be forced to rationalise their production structure. Japan, Germany, China, Italy and U.S. will have to downsize a total 10% of the blast furnace capacity to avoid exceeding the carbon emissions levels by 2030.



The SGX-DCE difference started to narrow fast after the derivative market started to arbitrage. This market was still expecting to narrow to a $20-25 area if the onshore physical steel margin was on decreasing trend. The import loss caused the seaborne market to freeze during February and March. No physical trader would take risk of loss by importing mainstream seaborne iron ores currently. In addition, virtual steel margins reached 530 yuan/mt level, which is both a year-low and seasonal low area. The real physical steel margins dropped to less than 70 yuan in some northern mills because of the uptick transportation costs.

Data Source: Bloomberg, Platts, Fastmarket, FIS

Market Review (Continued)

Iron ore Market (Continued):

MB65– P62 difference fell from $29 to $25 level after the Brazil high grade and pellets supply caught up to fill the gap from Ukrainian shortage. The difference is expected to narrow as China exits winter restrictions in mid-March.

The front spreads for example Apr/May 22 recovered from −$0.77 last report date to −$0.2 as negative areas were abnormal historically speaking. There are two negative areas saw started from the year 2015 if calculating the spread between next month SGX contract and the third month SGX contract. The longest period last 20 trading days while the shortest last 7 trading days. The current negative spread period has already lasted 13 trading days from March 11th.

Downstream/Policies/Industry News:

The Guinean government reached a $15 deal with Rio Tinto and consortium SMB-Winning to resume the Simandou iron ore project reported by Africaguinee.com. Simandou estimated to contain 4 billion of high grade iron ore reserve. The project was suddenly suspended in early March ordered by the President Mamady Doumbouya.

Turkey aimed to raise domestic pig iron production as shipments from CIS region collapsed after the Russia-Ukraine war. 70% of Turkey pig iron imports were from CIS region.

The G7 countries rejected to pay Russia gas by rubles. OPEC+ countries agreed to moderately increase the supply of crude oil.

Automakers in North America could produced nearly 300,000 fewer automobiles than expected previously because of the semiconductor shortages according to AutoForecast Solutions.

Global Steel Market:

The north America area expected to produce at risk or potential loss for 300,000 vehicles, accounting for 220,000 short tons of flat-rolled steel and 73,000 short tons of aluminum usage. Regional automakers suffered from plant shutdowns.

Looking back to the steel market, Arcelor Mittal maintained the HRC offers at €1,400/t, a clear sign of slowing momentum. Argus' benchmark northwest EU HRC index has jumped by €441.25t since March 1st. European end-users hesitated on either purchase a high price steel or wait till some liquidity of market coming back. The spread between Chinese HRC and European HRC reached $700/t. Cold-rolled coil from China was sold € 240/t lower than the local sources. India laycans expected to arrive in current weeks as well with much lower offers. The sustainability from China low offers remained a question considering the pandemic condition potentially increase the FOB prices.

Three major China mills lifted offers last Friday by around $10/t to $870-915/t FOB for SS400 HRC. Mediterranean customers was interested in the levels however Vietnam buyers thought the level was beyond their expectation since Vietnam bought $862-870/t CFR Vietnam from a northern China mills earlier last week in 60,000 tons.

Sources: Argus, IHS Commodities at Sea Service, FIS

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Market Review (Continued)

Chinese Steel Market:

The weekly consumption of five typical steel mills is maintaining around 9-10 million ton level, a seasonal low area because the static downstream market has been hit by the pandemic. The control of the pandemic has yet to reach a turning point, or even a peak. However the growth rate in some cities has started to slow down. The supply chain was broken into several rather isolated segments including ports, steel mills, warehouses, in-transit trucks, immediate lockdown areas.

Interestingly, the daily construction steel trades volume reached 200,000- 220,000 tons early this week, highest of the current two months. Northern physical traders indicated the volume was partially built up by some physical-futures arbitragers, but was not related to the real demand.

The tough conditions in steel mills in Tangshan has pushed some to extreme measures to prevent the stoppage of furnaces. At the same time, mills are also worried about the shortage of iron ores and cokes. Most of mills in Tangshan have only 3-5 usable days of stock. Some mills started maintenance.

Shanghai 25mm physical rebar price increased 50 yuan/ton over the week, however the spot market reject any price higher than 5000 yuan.

Coal Market:

The futures market, which have been running ahead of physical all week, has found some stability now that the market realises the fundamentals are going to remain. Six weeks ago the March futures peaked close to $420 and then fell off to $385; now March looks set to settle around the $600 mark. April trading at $480 on Friday which is down $100 from one week ago, but this still remains well above where the March peaked back in February. A lot has happened since then but steel margins remain strong and so does uncertainty.

Coking Coal TSI FOB PLV suddenly dropped during the past two weeks from $675 to $539 because India doubled imports of coal products from Russia. The major consumers of coal finally found multiple matches of suppliers, outside the presence of Australia. Japan made several deals and increasing imports from North America. China was currently impacted by pandemic with waning demand, however China also saw stockpiles in western areas due to increasing production as well as Mongolia imports. India sought Russian coals and also increased the domestic production. European countries were more relying on Australia coals, while the downstream market was also decreasing. Indonesia coal export spiked to 5 million tons last week, created a weekly high seasonally.

The previous closure of Australian miner Moranbah North Mine after a fatality was reported to have limited impact on the coking coal market. Heavy rainfall in some parts of Queensland started to impact the coal supply chain again. Seaborne sellers were becoming reluctant to bring prime coking coal cargoes into China while the Chinese buyers were also not interested.

The gaps between front contracts and far contracts of SGX Australia FOB coking coal still reflect the big divergence on supply in near term and long run. As time goes, market participants believe the front-back spreads will likely narrow.

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

Technical view of the Ferrous Markets:

Ore

April Futures – The futures held above the USD 143.10 support last week resulting in price trading higher, the technical is bullish (based on a higher high) but remains vulnerable to a technical pullback below the USD 156.88 resistance, above this level we target the USD 160.69 and USD 167.15 resistance levels. Downside moves that hold above USD 147.20 will support a bull argument, below this level price will have neutral bias and target the USD 143.70 and USD 136.95 fractal supports. The technical is only bearish below USD 125.00. Technically bullish based on price, key resistance is at USD 156.88 as this is the 66% retracement of the last dominate bear wave down (Neely 61.8% plus 4%), meaning the futures remain vulnerable at this point.

Steel

April Future – Price continues to consolidate below the USD 1,585 high. As previously stated, corrective moves lower that hold at or above USD 1,330 will support a bull argument; likewise, upside moves above the USD 1,585 would suggest we remain in the intraday bullish impulse Elliott wave 5. Technically bullish based on price, the futures have made a lower high whilst the stochastic is overbought and the RSI is below its moving average, implying the futures are vulnerable to a technical pullback, making USD 1,330 a key support to follow.

Coal

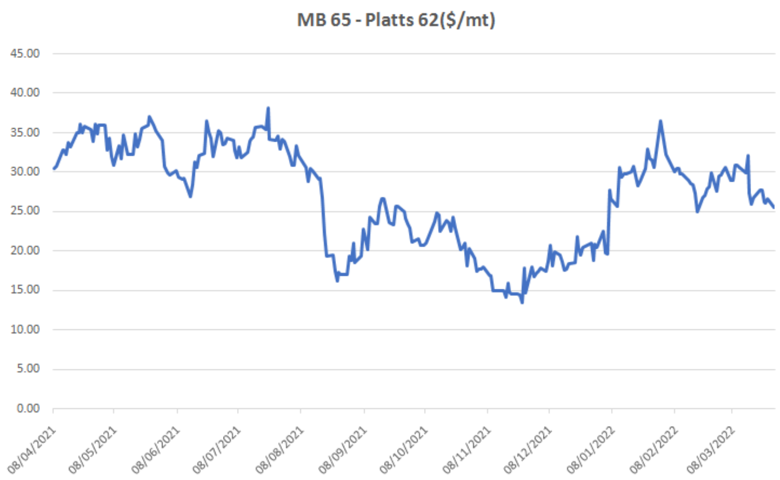
April Futures – Technically bullish last week we still had a mean reversion gap of around USD 135 above the 55 period EMA, suggesting the support zone could be tested. The futures have moved lower with the mean reversion gap now closed, the futures are now at USD 478, corrective moves lower that hold at or above USD 454 will support a bull argument, below this level the futures will have a neutral bias. Upside moves that fail at or below USD 581 will suggest the futures remain in a complex corrective phase, leaving the futures vulnerable to further tests to the downside, above this level the futures will target the USD 635 high. Technically bullish, we remain in a corrective phase with the mean reversion gap now close, key support is at USD 454.

FIS senior analyst, Edward Hutton

Chart source: Iron ore from Bloomberg

Iron Ore

	Last	Previous	% Change
Platts 62% Fe (Dollar/mt)	152.4	147.9	3.04%
MB 65% Fe (Dollar/mt)	177.9	175.6	1.31%
Capesize 5TC Index (Dollar/day)	14380	20481	-29.79%
C3 Tubarao to Qingdao (Dollar/day)	25.925	27.875	-7.00%
C5 West Australia to Qingdao (Dollar/day)	10.986	11.741	-6.43%
Billet Spot Ex-Works Tangshan (Yuan/mt)	4800	4720	1.69%
SGX Front Month (Dollar/mt)	150.17	151.35	-0.78%
DCE Major Month (Yuan/mt)	855	851	0.47%
China Port Inventory Unit (10,000mt)	15,518	15,497	0.13%
Australia Iron Ore Weekly Export (10,000mt)	489.40	727.40	NA
Brazil Iron Ore Weekly Export (10,000mt)	190.60	115.60	NA

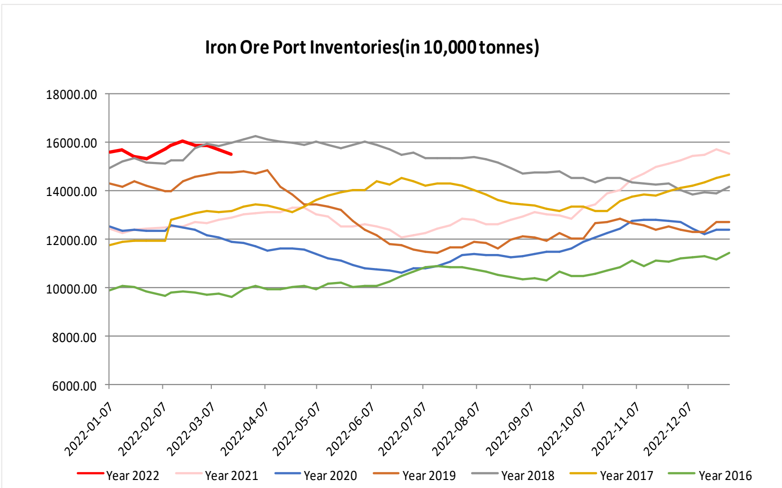


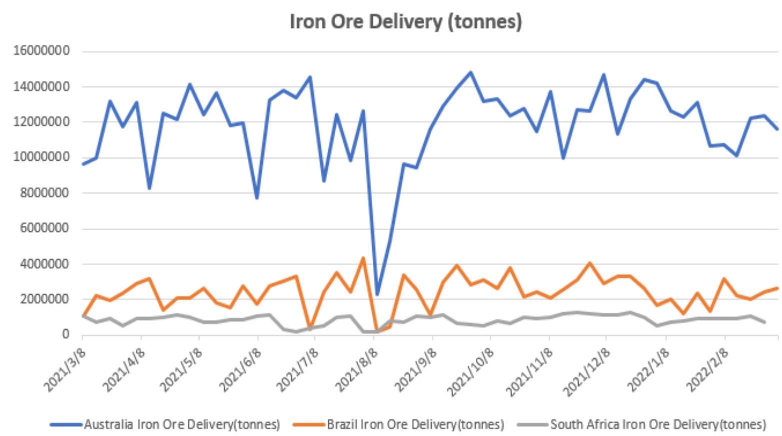
Iron Ore Key Points

– 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 down globally because some of the laycans are in-transit.

– MB65-P62 spread retreated to $26 as the demand market for high grade narrowed after China restriction timing passed as well as the narrow down on blast furnace margin in North Asian areas.

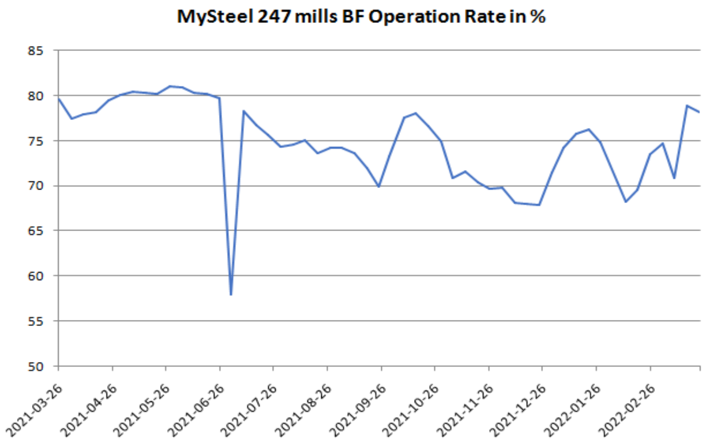


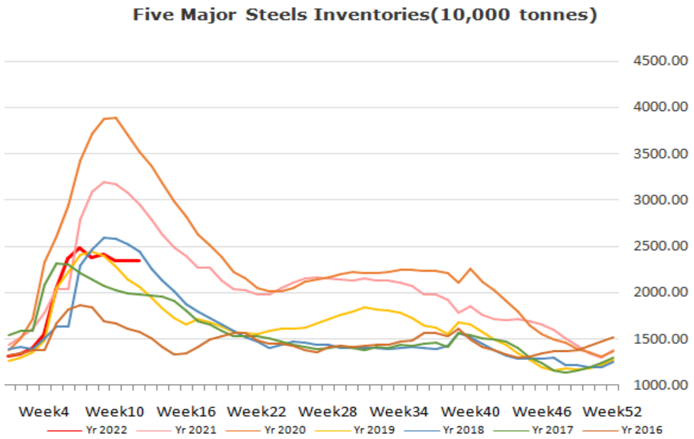


Data Sources: Platts, Fastmarkets, MySteel, Bloomberg, FIS

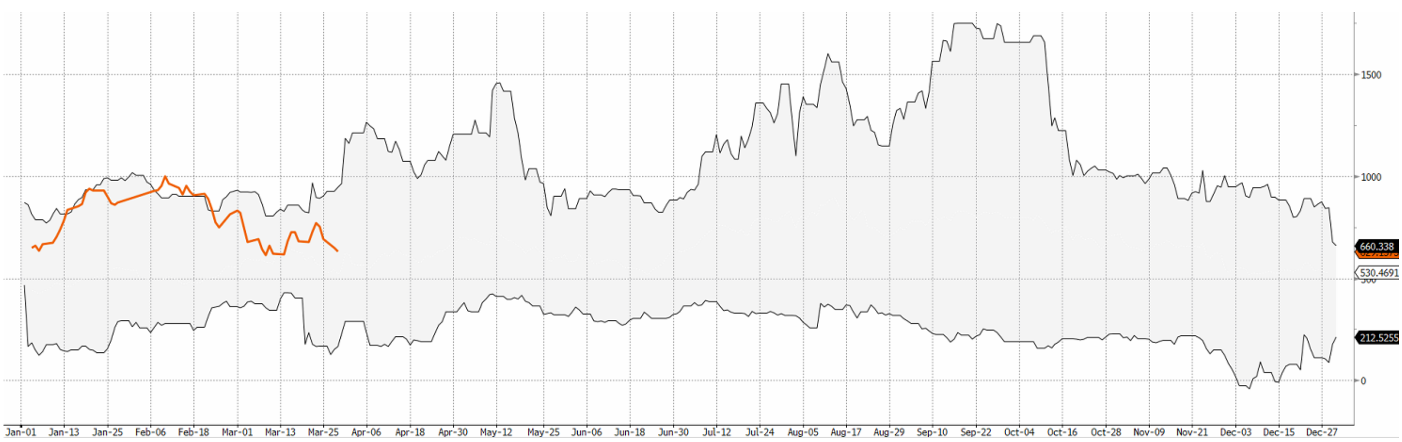
Steel

	Last	Previous	% Change
US HRC Front Month (Dollar/mt)	1123	1134	-0.97%
LME Rebar Front Month (Dollar/mt)	728	722	0.83%
SHFE Rebar Major Month (Yuan/mt)	4954	4943	0.22%
China Hot Rolled Coil (Yuan/mt)	5213	5147	1.28%
Vitural Steel Mills Margin(Yuan/mt)	530	620	-14.52%
China Five Major Steel Inventories Unit (10,000 mt)	2489.64	2371.33	4.99%
Global Crude Steel Production Unit (1,000 mt)	74964	81685	-8.23%
World Steel Association Steel Production Unit(1,000 mt)	145,666	144,417	0.86%





Virtual Steel Mill Margins (Five-Year Range)

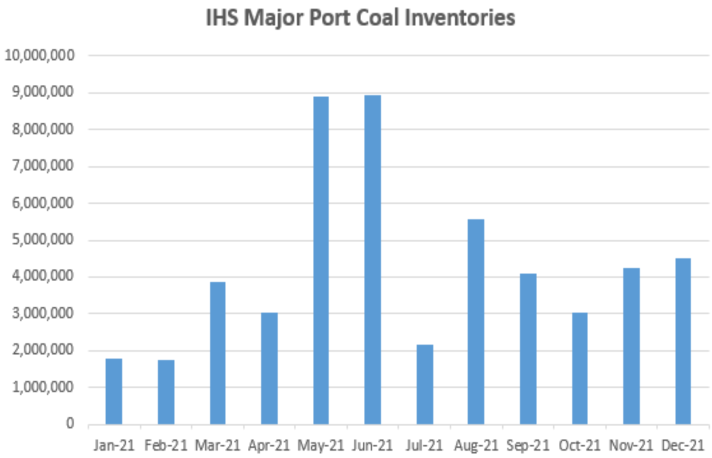


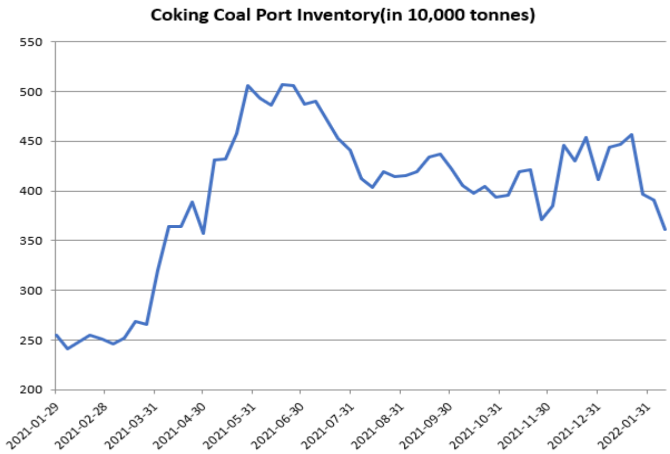
Data Sources: Bloomberg, MySteel, FIS

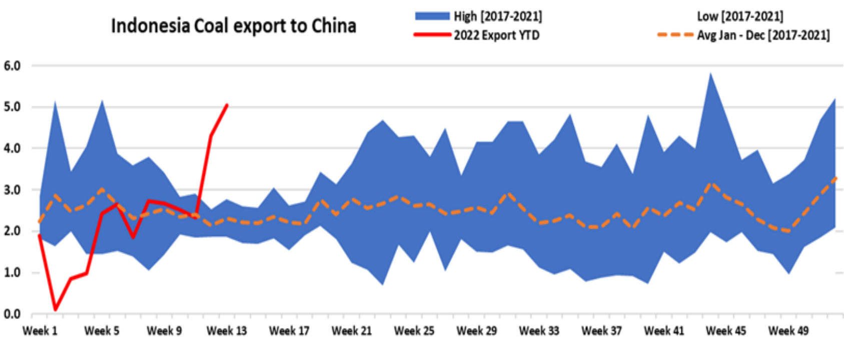
- Virtual steel mill margins fell quickly from 1000 yuan/ton, a seasonal high area to 530 yuan/ton during March, some mills started to shift the mass production to cost-saving strategy. Some mills have to maintain production in case of the stoppage of blast furnace, however major Tang-shan mills have iron ore useable days from 3-5 days.
- The five type of steels inventory did not reach an expected high level, since downstream was cautious buying, concerning the outbreak of the pandemic.

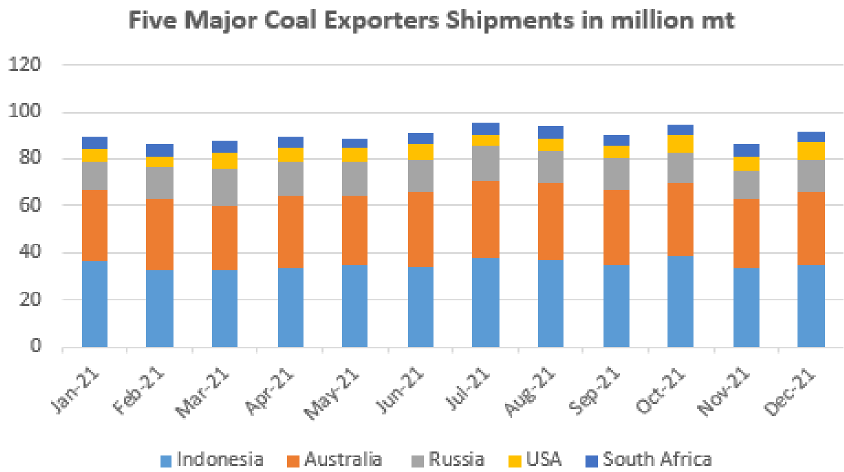
Coking Coal

	Last	Previous	% Change
TSI FOB Premium Hard Coking Coal (Dollar/mt)	539	625	**-13.76%**
Coking Coal Front Month (Dollar/mt)	595	630	**-5.56%**
DCE CC Major Month (Yuan/mt)	3245	3274	**-0.89%**
IHS Major Coal Port Inventory (mt)	4,511,000	5,632,000	**NA**
China Custom total CC Import Unit mt	2,986,580	5,511,153	**-45.81%**









Data Sources: IHS Markit 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. Current buyers are watching and waiting for the upcoming laycans when market relax.
- Indonesia coal export to China significantly picked up at 5 million tons/week level.

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