FIS Ferrous Weekly Report

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*****Holiday Note: Dear subscribers, please note that there will be no report next Tuesday (May 3rd), because of the Chinese and Singapore Labour Day Holiday. *****

⇒ **Iron ore Fe62%** short-run **Neutral to Bearish**. Iron ore price reversed and entered a correction since the demand market came late than expected.

⇒ **Rebar 25mm Shanghai** short-run **Neutral to Bearish.** The downstream market was delayed and supply chain of infrastructure market was disrupted. Steel demand remains vague at the moment.

⇒ **U.S. HRC Front Month** short-run **Neutral to Bearish.** The 2–3-day spike in early April priced-in all shortage news, the Atlantic steel market has started to enter a mid-run level correction period on reduced demand due to high material prices.

⇒ **Australia Export Hard Coking Coal** short-run **Neutral**. The supply of coking coal expected to become steady in Q2 in Atlantic areas. However the demand slow in European countries and China become a challenge on the demand side.

Prices Movement	25-Apr	18-Apr	Changes %	Sentiment	
Iron Ore Fe62% ($/MT)	135.75	153.85	-11.76%	Neutral to Bearish	↘
Rebar 25mm Shanghai (Yuan/MT)	5010	5080	-1.38%	Neutral to Bearish	↘
U.S. HRC Front Month ($/MT)	1466	1480	-0.95%	Neutral to Bearish	↘
Australia Export Hard Coking Coal($/MT)	465	512	-9.18%	Neutral	-

Market Review:

Iron ore Market :

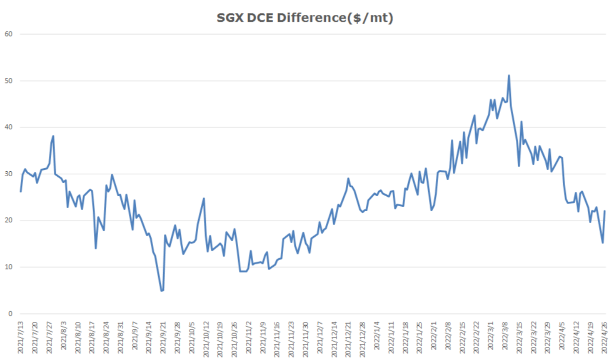
Iron ore prices fell 11.76% during the past week. As expected in the last two reports, iron ore suffered sell-offs on the panic of partial mill disruption in northern China, correction of oil, Chinese Covid concern, and sudden depreciation of the Chinese Yuan.

The sharp depreciation of Chinese Yuan by 1700 basis points in four trading days forced some buyers to give up import iron ores for a few days and waiting for the recovery of the currency, because the currency movement would increase costs by 2.5%. Some Chinese mills indicated that they normally hedge currency risk a few times a year. Thus, they have limited options in particular dealing with the sudden movement in the currency market. Mid-small mills and traders do not have a thorough currency hedging plan.

The drop of Brent oil from $116 to $100 led a global commodity correction and squeezing of markets. U.S. Federal Bank started to turn very hawkish with its interest rate rise last week, when market traders believe that the inflation control in U.S. potentially controlled within the year.

Although PBF saw two fixed price laycans traded in April, mainstream mid-grade iron ore purchasing remained light for northern mills due to the cost-saving strategy. The Chinese physical steel margins dropped from 500 yuan/ton in mid-February to almost 0 yuan/ton during the past three months. However virtual steel margins picked up from 362 yuan/ton to 633 yuan/ton from last two weeks, which could be an early signal of physical margin recovery. In China, transportation issues forced some mills to make early purchases of raw materials. Several cities around Tangshan suffered consecutive lockdowns in April when traders starting to worry that this could be a repeated pattern for the remainder of the year. Mills must balance maintaining utilisation rates, alongside decreasing raw materials cost and inventories. Shanghai downstream market started to recover gradually, however efficiency remain a problem due to the close-cycle management.

Big iron ore miners published annual production guidance last week. BHP maintained the FY2021 production target at 249 -259 million tons unchanged from previous prediction. Vale sustained its previous production target of 320 -335 million tons in 2022. Rio maintained unchanged for the yearly production guidance at 320 -325 million tons. The guidance was beyond expectation considering the biggest steel producer in the world China has earlier announced a crude steel production decrease strategy in mid-April. In addition, miners tend to increase shipments in Q2 (the last quarter of financial year) to improve the performance of their annual report.



The SGX-DCE differential touched $18 and recovered back to $21, as highlighted in our previous reports, suggesting traders to take gains around $18, which level was not expected for a prolonged period of time, because the natural difference on grade and discount between SGX and DCE would be slightly more than $18.

Data Source: Bloomberg, Platts, Fastmarket, FIS

Market Review (Continued)

Iron ore Market (Continued):

Fundamentally, the contango SGX curve structure indicated the demand market is coming later than expectated. Thus, index buyers tried to roll interests back to later dated months. Historically, the contango structure from February has created the longest contango period compared with last two times in June 2014 and November 2017.

The 65% and 62% iron ore differential inched up to $26 level from $24, supported by the limited supply of Brazilian high grade ore, whilst European supplies were disrupted. Meanwhile, crushed steel margins have also resisted growth for the high-grade ores.

Risks: After China recovered downstream operations, mills are now seeing new orders representing real market demand. During this same period, physical traders could potentially try to close deals quickly to reduce exposure if demand is confirmed to be weakening. In addition, transportation disruption is also expected to recover soon, meaning iron ore supply could increase.

Neutral to Bearish

Downstream/Policies/Industry News:

U.S. Federal Bank officials suggested an increase of 75 basis points in May last week. Namura Securities indicated that the U.S. Fed could potentially increase interest rate by 75 basis points in June or July.

After China's issuance of RRR previous week, the PBOC started to decrease foreign exchange deposit reserve ratio by 1% for commercial banks to 8% to counter against the sharp depreciation of CNY by 1766 basis points in four trading days along with the appreciation of U.S. dollar, which put pressure on dollar-linked commodities and global equities. After the news come out yesterday, the CNH recovered 389 basis points quickly.

Global Steel Market:

North European HRC prices slipped the last week since mills offered some service centres big discounts from their initial offers. Excluding one service centre received offers €1,300-1,360/mt, the rest of the mills were willing to provide healthy discounts. Service centres were buying precisely based on their real demands. The Argus northwest Europe HRC index slipped by €3.25/mt to €1,314.25/mt last Friday. CME Group's north European HRC contract, the forward curve softened while the backwardation between May and June steepened to €80/t early this week, compared with €50/t last week.

Global Steel Association indicated that first quarter crude steel production at 456.6 million tons, down 6.8% y-o-y. Asia and Oceania Q1 production 33.13 million tons, down 7.8% y-o-y. Europe Q1 production 36.8 million tons, down 3.8% y-o-y. North America Q1 crude steel production 28.1 million tons, down 0.9% y-o-y. Russia, Ukraine and CIS countries Q1 crude steel production 24 million tons, down 8.5% y-o-y. In the first quarter of the year 2022, China Iron and Steel Industry Association indicated that China's steel output was 243 million tons, a year-on-year decrease of 10.5%. From the perspective of daily output level, China's average daily output of steel was 2.742 million tons in the first quarter, decreased year-on-year, higher than fourth quarter of last year.
Neutral to Bearish

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

Market Review (Continued)

Chinese Steel Market:

Shanghai 25mm rebar started to correct around 1 percent during the past report week. SHFE futures reduced significantly during same period by 4.65%. Physical steel mills decreased rebar prices by 30–40 yuan over the whole country. Steel consumption is expected to decrease while inventories level remain high observed by five typical steel data from last week. Sluggish demand potentially start to crackdown the confidence of offers on the market.

The Tangshan area pandemic is still impacting the transportation from mills to ports. Mills entered an untimely stoppage in many areas. Road transportation account for 65% of total transportation in the two ports near Tangshan.

China NDRC announced that the country would stick to a crude steel reduction target based on 2021 levels. Market participants expected the decrease amount at a likely 30 million tons, which was the amount decreased in 2021 from 2020 levels. However the Q1 crude steel reduction in China reached 28.5 million tons, indicated that the annual decrease target was nearly completed.

Neutral to Bearish

Coal Market:

The futures market remained well supported, even resisting the general commodity sell off on Thursday last week. There was still a reluctance for sell hedging for the 2nd half of 2022 but with steel margins in Asia beginning to be squeezed, $350 - 400 is beginning to look attractive.

Coking Coal TSI FOB PLV decreased by 9.18% over the previous week, majorly impacted by one trade from Tata steels which pulled down the index last Friday. The weather in Australia started to dry up, thus coal shipping is expected to start to stablise in the next few weeks. Market participants reported tradable values at between $450-$480/mt FOB Australia for PLV coking coals. A competitive offer was heard at $525/mt FOB Australia HCCLV Peak Downs with a May laycan.

Southern China mills indicated that they are currently buying more domestic coking coals instead of seaborne cargoes given the poor steel margins at a historical low area. Northern mills indicated the restocking sentiments are strong as the transportation disruption from Shanxi province. Mongolia imported coking coal reached a seasonal high area as all major ports opened during Q2.

Indonesian exports to Asian countries slowed down significantly from this April. Asian seaborne buyers were in general trying to stock as much coking coal as they can to avoid the shortage of their own country. However both the Asian and Atlantic market indicated the buying interests focused on June or back months, the prompt demand was still sluggish global speaking, as apparently more unsold laycans last week compared with buying interests, after Tata finalised a previous deal which was on the market for few weeks previously.

Neutral

Sources: Argus, IHS Commodities at Sea Service, FIS

Technical view of the Ferrous Markets:

Iron ore

May futures - Last week the Chinese Government suggested that inflation is the focus, not stimulus. After the close on Friday price weakened by USD 3.00, warning we could be about to see market longs start to unwind, crucially the futures had closed below the daily EMA support band warning that price and sentiment were weak. A deep sell off today (Monday 25/04) has resulted in the May contract trading to a low of USD 133.25. we could see a consolidation around these levels and perhaps a small test to the upside as traders re-balance risk; however, the trend is technically bearish, supported by the RSI making a lower low, suggesting upside moves will find technical sellers. If we trade above USD 150.30 then the technical will have a neutral bias. Bearish, could consolidate, upside moves should be against the trend in the near-term.

Steel

May futures – As noted last week the futures were bearish based on the lower low, suggesting price could test the 55-period EMA at USD 1,390, the futures have traded to a low of USD 1,400 with price just below the average. Fibonacci support starts at USD 1,350, as previously noted corrective moves lower that hold at or above USD 1,169 will support a bull argument, suggesting there is a bigger Elliott wave cycle in play, below this level price will target the USD 9,47 fractal support. A close above USD 1,436 would indicate that momentum is improving based on price, warning the USD 1,490 and USD 1,602 fractal support levels could be tested. Technically bearish the RSI is at 47 with the stochastic in oversold territory, if the RSI moves above 50 whilst the stochastic is below 30 then momentum indicators would suggest that resistance levels could be tested. If the RSI holds below 50 then expect further tests to the downside.

Coal

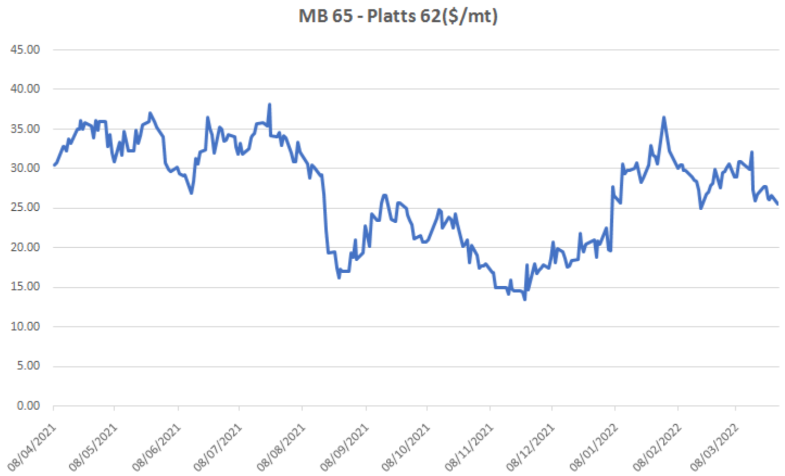
May Futures - The futures had a bullish Gartley pattern in play last week resulting in price trading from USD 462.50 to a high of USD 522, price has now entered a corrective phase. Downside moves that hold at or above USD 433 will support a bull argument, below this level the futures will have a neutral bias, further support is at USD 419 and USD 3,88. The RSI is at 48 with the stochastic in overbought territory, momentum is warning the technical is vulnerable to further tests to the downside, Implying downside support levels could come under pressure. Below USD 388 the technical is bearish. Technically we are bullish but in a corrective phase, momentum would suggest we could soon be neutral and potentially bearish.

Iron Ore Offshore** May 22 Morning Technical Comment – 240 Min **Chart

Source: Bloomberg, Ed Hutton FIS Senior Technical Analyst

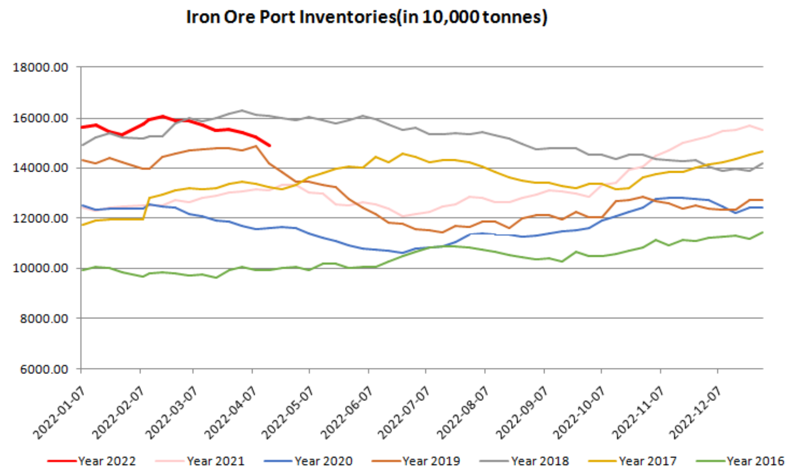
Iron Ore

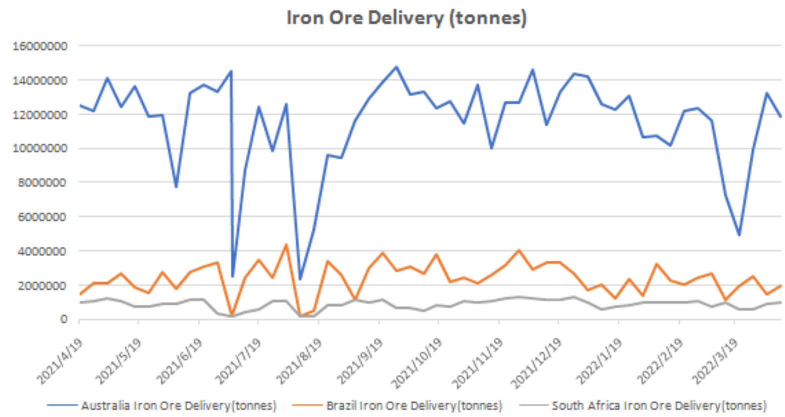
	Last	Previous	% Change
Platts 62% Fe (Dollar/mt)	153.85	154.65	-0.52%
MB 65% Fe (Dollar/mt)	179.1	178.1	0.56%
Capesize 5TC Index (Dollar/day)	12285	11753	4.53%
C3 Tubarao to Qingdao (Dollar/day)	24.5	25.075	-2.29%
C5 West Australia to Qingdao (Dollar/day)	9.818	8.85	10.94%
Billet Spot Ex-Works Tangshan (Yuan/mt)	4810	4790	0.42%
SGX Front Month (Dollar/mt)	158.40	155.07	2.15%
DCE Major Month (Yuan/mt)	914	910	0.44%
China Port Inventory Unit (10,000mt)	14,873	15,226	-2.32%
Australia Iron Ore Weekly Export (10,000mt)	1,191.30	1,325.90	NA
Brazil Iron Ore Weekly Export (10,000mt)	196.20	146.20	NA



Iron Ore Key Points

- Iron ore port inventories have started a decrease as portside iron ore became more cost-effective compared to seaborne iron ores. The inventories level were still at historical high.
- Australia Port Hedland plans to increase iron ore allocations to 660 million tons in 2022. Previous port deliveries totalled 546 million tons in 2021.
- Big miners including Vale, Rio Tinto, BHP and FMG entered the last quarter of financial year, market expected them to improve profitability before the issuance of annual report by increasing iron ore shipments in next few weeks.

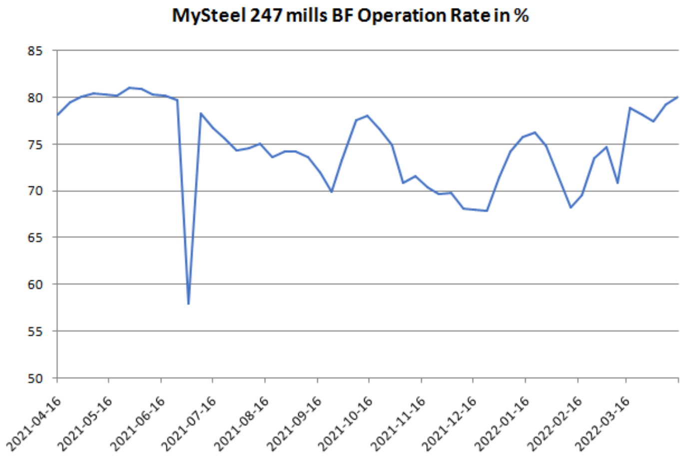


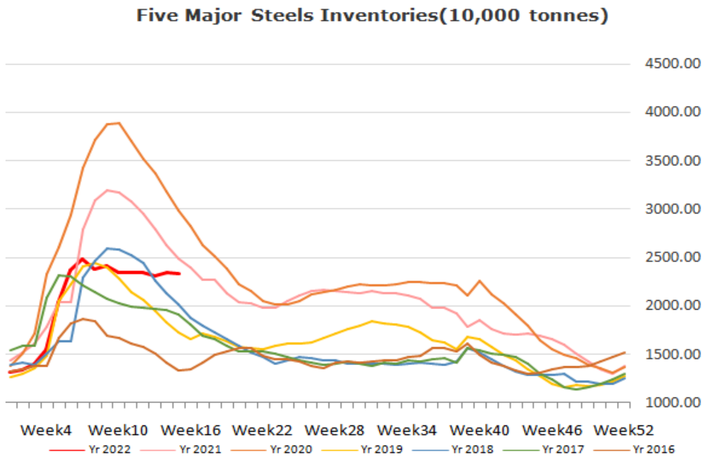


Data Sources: Platts, Fastmarkets, MySteel, Bloomberg, FIS

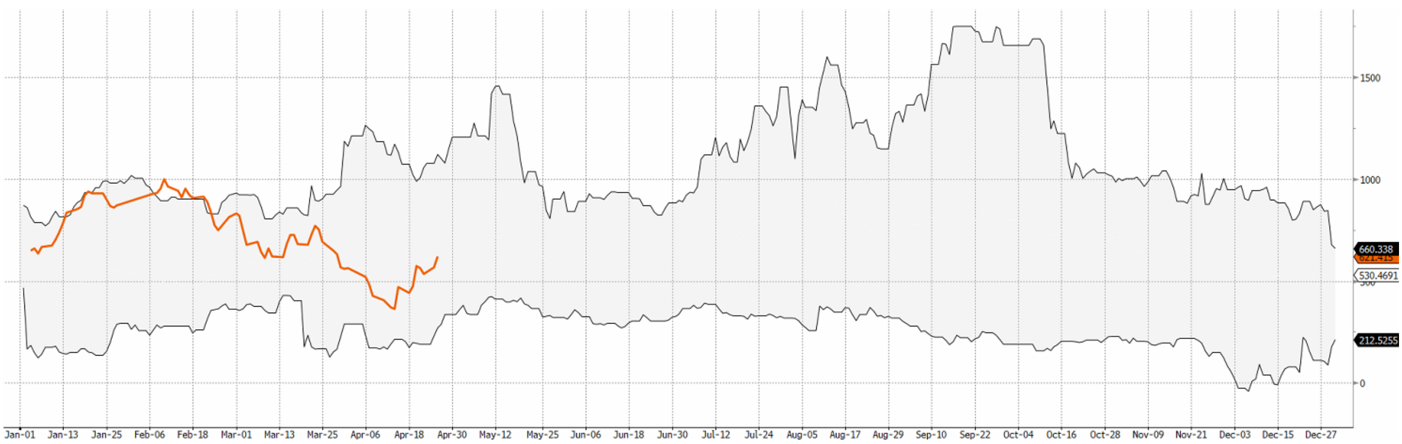
Steel

	Last	Previous	% Change
US HRC Front Month (Dollar/mt)	1479	1490	-0.74%
LME Rebar Front Month (Dollar/mt)	728	722	0.83%
SHFE Rebar Major Month (Yuan/mt)	5040	5025	0.30%
China Hot Rolled Coil (Yuan/mt)	5267	5303	-0.68%
Vitural Steel Mills Margin(Yuan/mt)	633	440	43.86%
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)	161,047	142,676	12.88%





Virtual Steel Mill Margins (Five-Year Range)

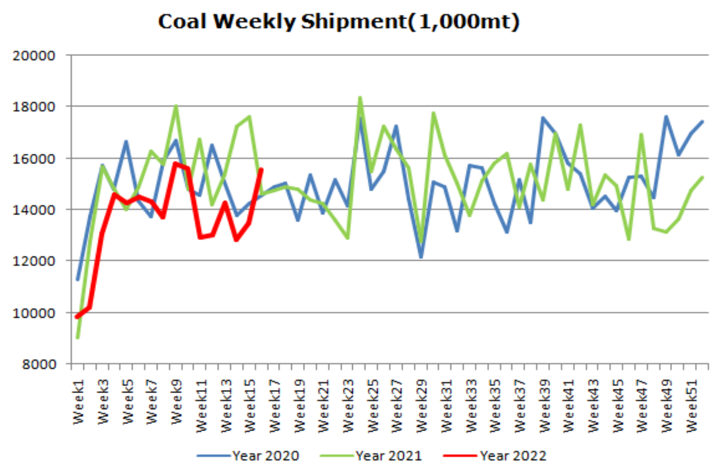


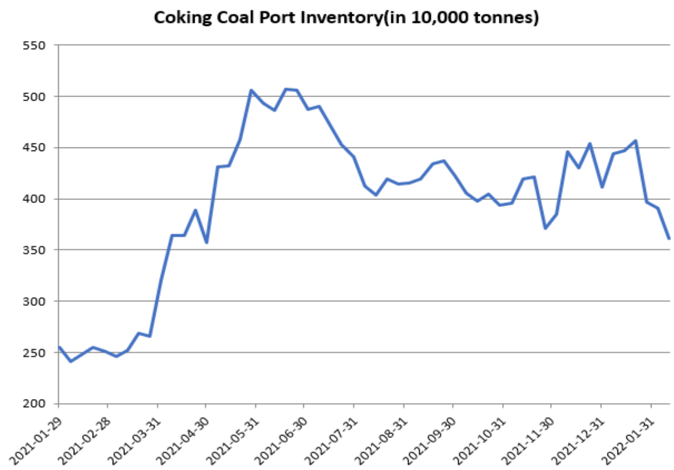
Data Sources: Bloomberg, MySteel, FIS

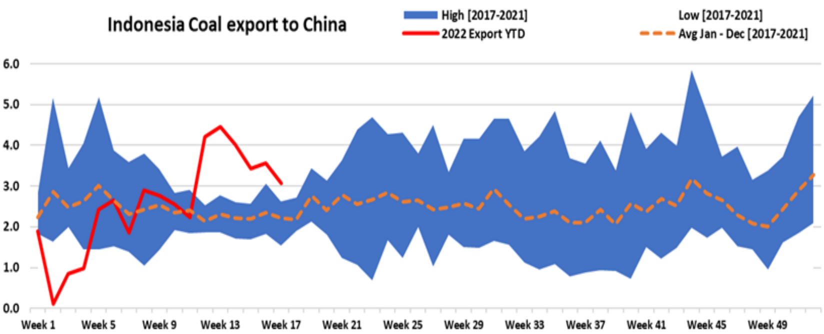
- Virtual steel mill margins picked up from 362 yuan/ton to 633 yuan/ton in the past two weeks because of the sudden drop of iron ore.
- The five types of steel inventories have not achieved the expected higher levels, as down-stream buying has been cautious on the back of rising covid levels.

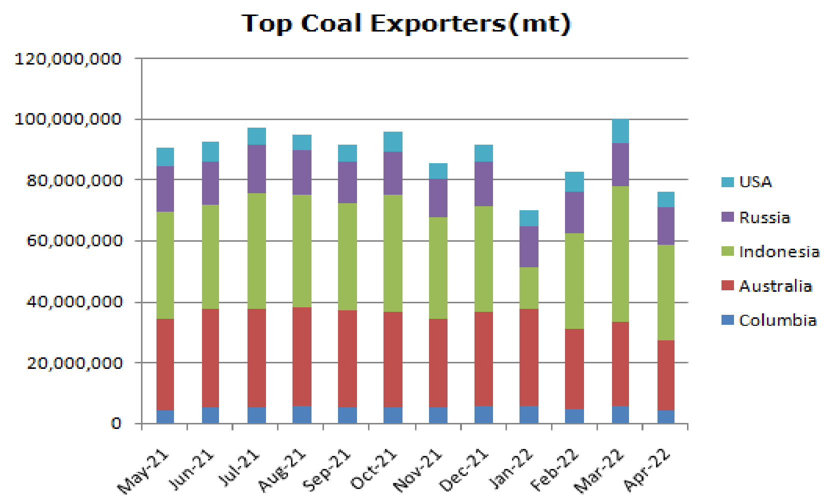
Coking Coal

	Last	Previous	% Change
TSI FOB Premium Hard Coking Coal (Dollar/mt)	512	404	26.73%
Coking Coal Front Month (Dollar/mt)	513.33	411.33	24.80%
DCE CC Major Month (Yuan/mt)	3159	3220.5	-1.91%
IHS Coal Weekly Shipment (1,000 mt)	13,795	12,853	7.33%
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

- Russian coal exports declined significantly from 13.9 million in March tons to 12 million tons in April because of the European countries sanctions.
- Indonesian coal export to China fell sharply from the week commenced in April. Weekly shipments dropped from 4.5 million tons to 3 million tons in April. However the number was still a seasonal high.

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