FIS

Ferrous Weekly Report

info@freightinvestor.asia | freightinvestorservices.com | (+65) 6535 5189

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Market Review:

⇒ **Iron ore Fe62%** short-run **Neutral**. Iron ore rebounded on the support of warming signals in the Chinese housing market. However sentiment was based on a presumed demand when 2/3 of China is struggling with transportation problems.

⇒ **Rebar 25mm Shanghai** short-run **Neutral**. China saw construction material trades expanded on a daily basis for the last two weeks, supported by the warming signals of the housing market.

⇒ **U.S. HRC Front Month** short-run **Neutral**. The European steel market expects to see Turkish and Indian based steel arrivals in current weeks at $100-110 discount compared with domestic offers. U.S. auto makers started to cut vehicle production numbers more than expected.

⇒ **Australia Export Hard Coking Coal** short-run **Neutral**. India planned to double coking coal imports from Russia. Japan was actively buying coals from U.S. and Canada. Chinese demand market still remains static since the most recent pandemic outbreaks.

Prices Movement	4-April	28-Mar	Changes %	Sentiment	
Iron Ore Fe62% ($/MT)	160.8	150.8	6.63%	Neutral	-
Rebar 25mm Shanghai (Yuan/MT)	5010	4980	0.6%	Neutral	-
U.S. HRC Front Month ($/MT)	1540	1123	1.32%	Neutral	-
Australia Export Hard Coking Coal($/MT)	457	539	18.92%	Neutral	-

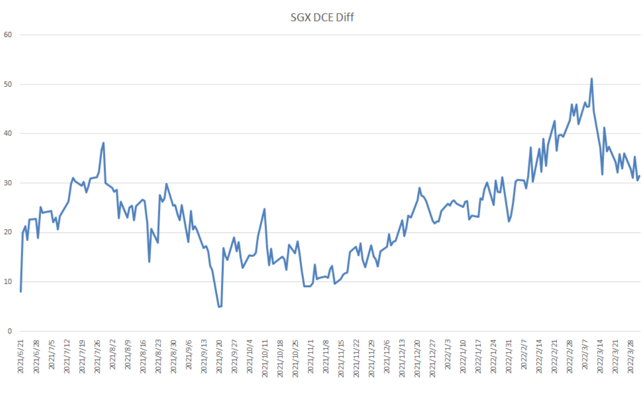
Iron ore Market :

Iron ore prices went up 6.63% across the week, indicated by bullish sentiment in the seaborne market. The market was believed risky in the current high price area as iron ore may have overpredicted demand levels.

The seaborne market started to recover after being quiet for the past two months. Rio Tinto sold a cross-month loading Pilbara Blend Fines cargo with a Fe61% laycan from April 27th to May 6th at a fixed price of $157.70/dmt on the first day of April. Rio Tinto also sold another fixed price laycan on March 30th. Other than PBF, MACF was still the most popular mainstream on portside as well as on seaborne market currently.

The SGX-DCE difference started to narrow fast after derivative markets started to arbitrage because futures started to recognise the strong portside buying interest versus almost frozen seaborne market. The number dropped from an historic high around $45 to $30 and then maintained at $30 supported by the slowly growing PBF demand. Northern Chinese areas physical steel margins were at 0–50 yuan/ton low area if calculated with major seaborne iron ores. Virtual steel margins dropped from 692 yuan/ton to 559 yuan/ton, which created yearly-low and approaching seasonal low area. Seaborne sources are still not perfect choices for producers considering the cost and efficiency. FMG SSF narrowed discount from 37% to 31% in April. The low grade and discount iron ores are still primary furnace input for China mills currently.

The front spreads for example May/June 22 maintained around –$0.2 during the week. 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. As a result, the spreads in Q2 are expected to recover to positive territory from the perspective of historical analysis. However the reality of the current flattened curve also reflected buyers holding off on further months during the uncertainty of pandemic outbreak.



Data Source: Bloomberg, Platts, Fastmarket, FIS

Market Review (Continued)

Iron ore Market (Continued):

The MB65–P62 spread difference maintained at the $25 level after Brazilian high grade and pellets supply increased. Ukrainian pellet exports to European countries were in fact not impacted by the conflict in March. Lump demand however is expected to reach a frozen period as China exits from production restrictions since mid-March. China domestic miners production were reported not impacted by the pandemic.

In long-run, Chinese Iron Ore Milestone Project expects to expand iron ore concentrates by 60 million ton capacity by 2025. China expects to increase 37% of iron ore concentrates production in 2025 compared with 2020. According to a report released by Transition Zero, a UK based climate organization, wjo 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 size-down a total 10% of the blast furnace capacity to avoid exceeding the carbon budget by 2030. Guinean government has successfully acquired the approval to use the port and pathway in Libya which could shorten the iron ore transportation route. Iron ore demand in 2022 globally is expected to rise, however scrap shortages in Europe caused by war and low utilisation rates in China caused by loss and pandemic both shifted more demand to iron ore at the same time.

Downstream/Policies/Industry News:

China gradually indicated that the stablisation of its economy is outweighing the control on mass building development, in particular in housing and manufacturing areas, which has supported industrial material prices for the past two weeks.

The US Supreme Court has denied a petition by Turkish steel exporters to review that the president can hike existing Section 232 steel tariffs. Turkish steel export to U.S. was once as high as 50% in August 2018 and the fell to 25% in the year 2019. U.S. have exempted many steel export tariffs including Australia, Canada and Mexico.

Global Steel Market:

Arcelor Mittal maintained the HRC offers at €1,400/t, a clear sign of slowing momentum two weeks ago. Argus' benchmark northwest EU HRC index has jumped by €441.25t from the beginning of March to the late March. European markets stepped back and wait for much cheaper import sources. Indian, China and Turkey are all excited to export flat steels into European market with competitive offers to European market with at least €100-150 lower offer. Chinese coils were heard available in Europe at €1,310- 1,330/t CFR including anti-dumping duties. However Europe mills are still not flexible on prices for tiny orders.

Large European steelmaker reported a deal for 500mt of June-delivery S235 grade HRC at €1389/t ex-works Ruhr. Northern China mill sold SS400 HRC at $905/mt FOB to South America last week, $5 lower than previous week when they sold to Mediterranean customer.

Automaker Stellantis 's forecast for North American production in 2022 estimated 13.14 million vehicles, 2 million cut more than previous expectation of 120,000 cut by the end of last year. Previously both Ford and GM claimed to decrease their sedan production. North American automakers have dealt with semiconductor and other parts shortages since the year 2021 as a result of global economic and supply disruptions.

In long run, the steel supply concerns are still spreading over European countries since Russia and Ukraine contribute large flat steel export market. Russia was the third biggest steel exporter over the globe while Ukraine ranked at the third.

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

Chinese Steel Market:

The weekly consumption of five typical steel mills is maintaining at around the 9-10 million tons level, a seasonal low area because the static downstream market 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 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.

SHFE rebar major contract went up 3.5% during last week. Compared with the strong sentiment in futures market, Shanghai 25mm spot rebar only inched up 0.6% last week. The Shanghai spot rebar was cautiously maintained around 5000 yuan for more than two weeks due to the pandemic impact. Eastern China steel market was similar to Shanghai area last week.

Daily construction steel trade volumes reached 200,000- 220,000 during last week, in a higher range historically. Northern physical traders indicated the volume was partially built up by some physical-futures arbitragers, not related to real demand. However some eastern physical traders indicated that they were trying to prepare orders in case the sudden boost demand after pandemic ends. Tangshan areas gradually recover production after the regional pandemic got controlled. However the iron ore useable days in many mills were down to less than 3 days, with mills needing to balance the normal operation of furnaces as well as sufficient iron ores.

Coal Market:

Coking Coal TSI FOB PLV dropped massively by 32.3% during the past two weeks from $675 to $457 because demand market found multiple matches of suppliers, outside the presence of Australia. Japan made several deals and increasing imports from North America. China had stockpiles in western areas due to increasing production as well as Mongolia imports. India sought a doubled Russian coals imports 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 4.5-5 million tons weekly level since mid March, which was at all time high.

In anticipation of this physical move down there were offers in the market on Apr and May from the open at the end of last week. Steel has been under a bit of pressure late this week and whilst demand is still robust, the high costs involved in the production has lead to credit and cash flow issues and a slow down and buyers holding back waiting for the market to correct.

The Platts CFR China Premium Low Vol assessment edged up $0.25/mt to $446.50/mt CFR China April 4th based on very thin trading during Chinese Qingming Festival. Physical May PLV coking coal offers emerged at $500 which led April futures to be sold at 480. A sharp $30 drop from Monday close.

The gaps between front contracts and far contracts of SGX Australia FOB coking coal started to narrow massively from $210 to $11.5, which indicated the value to China market should approach a reasonable value. As time goes, market participants believe the front-back spreads potentially narrow.

With sharply diminishing China and Japan steel margin, mills started to give pressure on the import offers of coking coals. However China coking coal was also suffering a disruption regionally. The western China prime sources were stockpiled while the eastern ports area and provinces were almost running out of mills inventories.

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

Technical view of the Ferrous Markets:

Ore

May Futures – The Chinese are on holiday for the 04/05 of this month but we continue to see prices move higher on the back of potential financial stimulus. When we look at the technical, the adage of buy the rumour sell the fact does springs to mind. Price is bullish, but it is not a convincing upside move. The futures have covered around 60% the distance of the previous bull wave in a longer-period of time, indicating a lack of strength in the trend. This does not mean that we will not achieve a new high, but from a technical perspective the weakness in price and momentum is a concern. Seasonality supports an upside move; however, if we do trade above USD 171.00 high we could struggle to hold above it, as price looks vulnerable. An unconvinced bull at this point based on the trend weakness.

Steel

May Futures – the roll into the May contract and the subsequent upside move means the futures remain in a bull-ish wave 5 of this phase. The technical itself is showing a negative divergence, not a sell signal it does warn that we have the potential to see a momentum slowdown, meaning that from a technical perspective the futures are not considered buy. Downside moves below USD 1,465 will create a lower low on the technical indicating we have entered a bearish phase. A corrective move lower that holds above the USD 1,169 level will warn that there could be a larger bull cycle in play; however if we trade below this level then the USD 947 fractal low will become a legitimate downside target. Technically bullish but not a technical buy at this point.

Coal

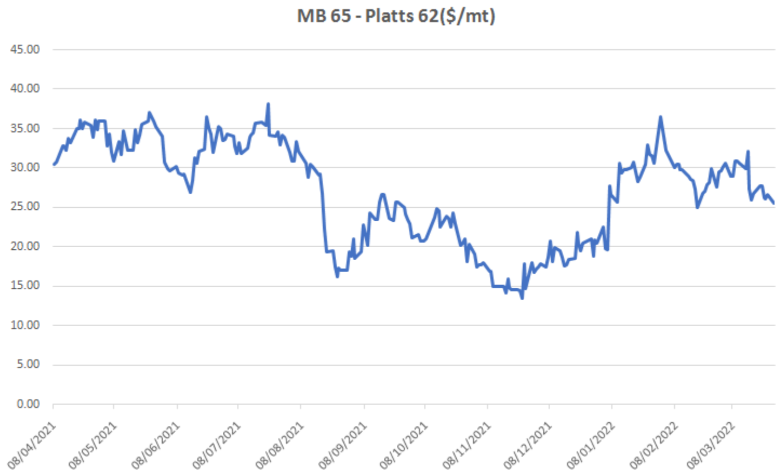
May Futures – the April contract has traded below the USD 454 level meaning the futures have a neutral bias. The May futures have also produced a deep pullback meaning they have a neutral bias. Upside moves above the USD 480.33 level will be considered as bullish, suggesting the USD 585 high could be tested. Likewise, below USD 385 will warn the USD 331 fractal support could be tested. This is a key level as the technical would be con-sidered as bearish below this level. We now have a 3-wave corrective pattern with the RSI below 50, but the moving average on the RSI is not. If the RSI moves above its moving average (RSI is 45 its MA is 54) then we could see upside resistance levels be tested. Bullish but with a neutral bias at this point.

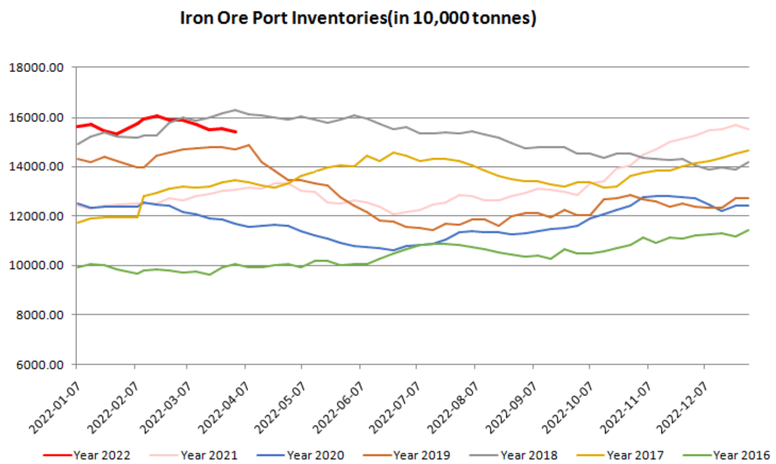
FIS senior analyst, Edward Hutton

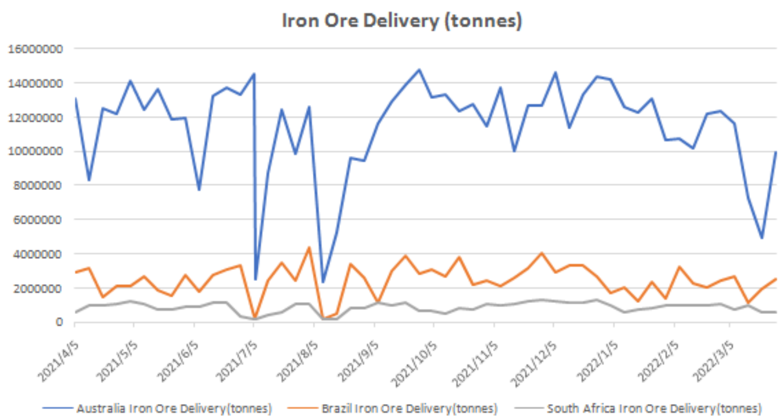
Chart source: Iron ore from Bloomberg

Iron Ore

	Last	Previous	% Change
Platts 62% Fe (Dollar/mt)	160.8	152.4	**5.51%**
MB 65% Fe (Dollar/mt)	186.1	177.9	**4.61%**
Capesize 5TC Index (Dollar/day)	14896	14380	**3.59%**
C3 Tubarao to Qingdao (Dollar/day)	26.06	25.925	**0.52%**
C5 West Australia to Qingdao (Dollar/day)	9.936	10.986	**-9.56%**
Billet Spot Ex-Works Tangshan (Yuan/mt)	4860	4800	**1.25%**
SGX Front Month (Dollar/mt)	161.34	153.16	**5.34%**
DCE Major Month (Yuan/mt)	907	833	**8.88%**
China Port Inventory Unit (10,000mt)	15,389	15,518	**-0.83%**
Australia Iron Ore Weekly Export (10,000mt)	994.50	489.40	**NA**
Brazil Iron Ore Weekly Export (10,000mt)	247.40	190.60	**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.

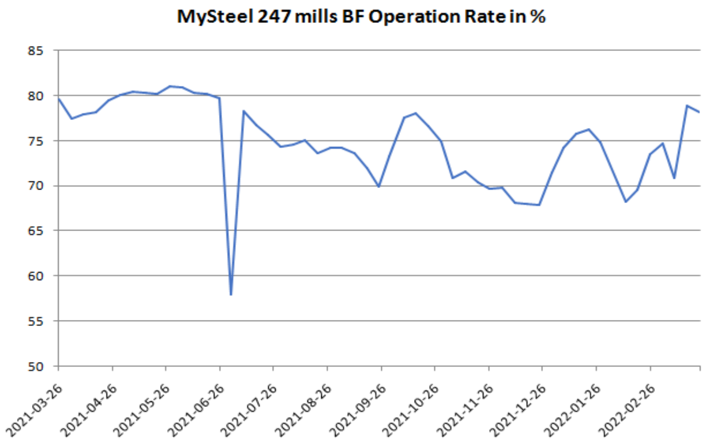
- Iron ore deliveries are sliding down globally because some of the laycans are in-transit.

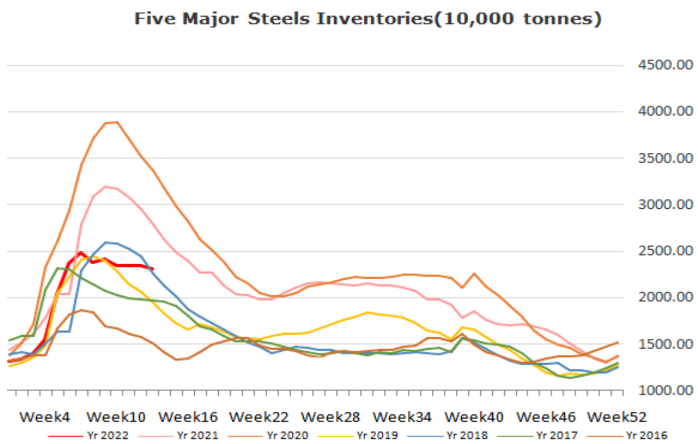
- MB65-P62 spread retreated to $25 as the demand market for high grade narrowed after China restriction timing passed as well as the narrow down on blast furnace margin in North Asian areas.

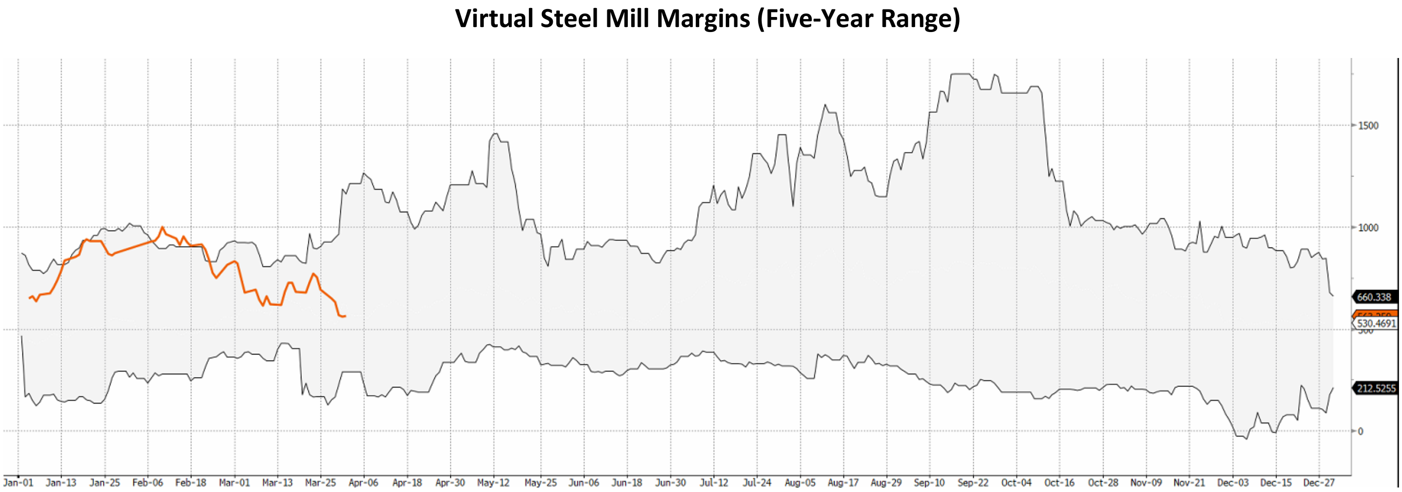
Data Sources: Platts, Fastmarkets, MySteel, Bloomberg, FIS

Steel

	Last	Previous	% Change
US HRC Front Month (Dollar/mt)	1540	1123	**37.13%**
LME Rebar Front Month (Dollar/mt)	728	722	**0.83%**
SHFE Rebar Major Month (Yuan/mt)	5109	4979	**2.61%**
China Hot Rolled Coil (Yuan/mt)	5285	5213	**1.38%**
Vitural Steel Mills Margin(Yuan/mt)	559	692	**-19.22%**
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%**





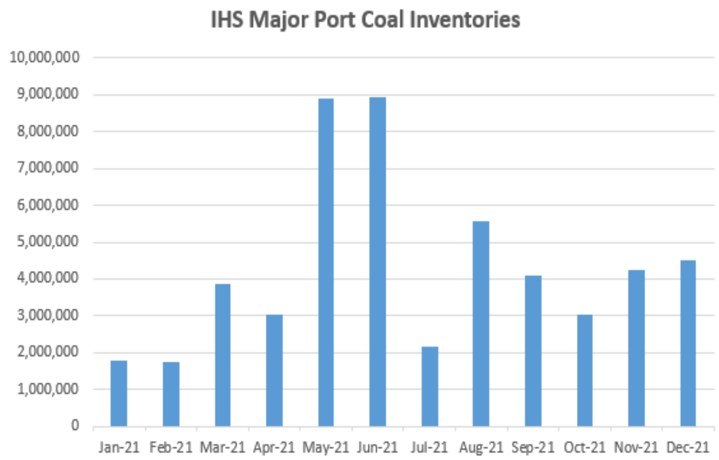


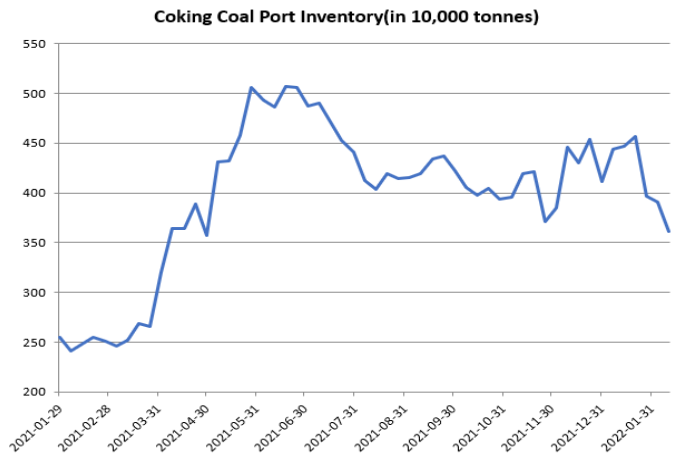
Data Sources: Bloomberg, MySteel, FIS

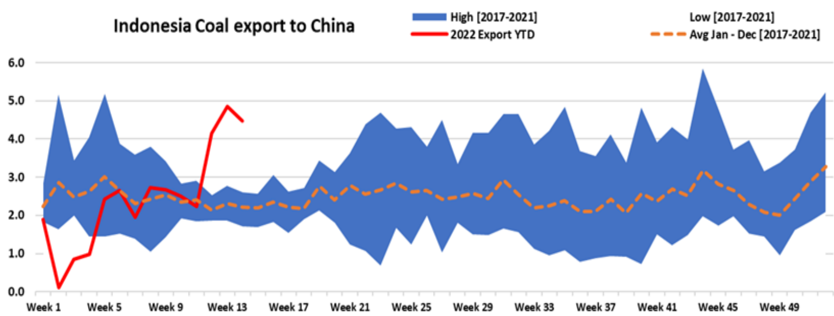
- Virtual steel mill margins fell quickly from 1000 yuan/ton, a seasonal high area to 559 yuan/ton during March, some mills started to shift the mass production to cost-saving strategy. Some mills have to maintain production in case of the stoppage of blast furnace, however major Tangshan mills have iron ore useable days from 3-5 days.
- The five type of steels inventory didn't reach an expected high level, since downstream was cautious buying, concerning the outbreak of the pandemic.

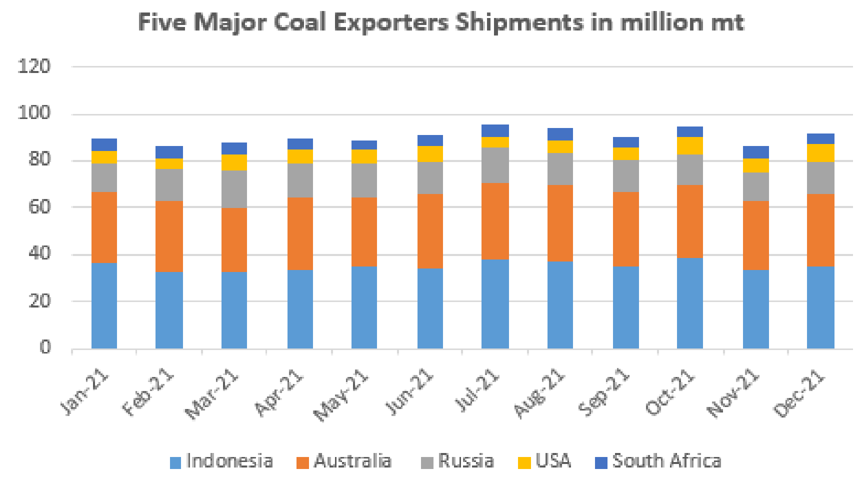
Coking Coal

	Last	Previous	% Change
TSI FOB Premium Hard Coking Coal (Dollar/mt)	457	539	-15.21%
Coking Coal Front Month (Dollar/mt)	480	595	-19.33%
DCE CC Major Month (Yuan/mt)	3218.5	3063.5	5.06%
IHS Major Coal Port Inventory (mt)	3,810,000	4,511,000	NA
China Custom total CC Import Unit mt	2,986,580	5,511,153	-45.81%









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. 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.

Written by **Hao Pei**,
FIS Senior Research Analyst

Edited by **Chris Hudson**,
FIS Communications Director

News@freightinvestor.com,
+44 207 090 1120