FIS

Ferrous Weekly Report

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⇒ **Iron ore Fe62%** short-run **Neutral to Bearish**. Iron ore prices maintained their correction as mills were controlling raw material costs to save steel profit margins.

⇒ **Rebar 25mm Shanghai** short-run **Neutral to Bearish**. The downstream market was delayed and supply chains for the infrastructure market were disrupted.

⇒ **U.S. HRC Front Month** short-run **Neutral to Bearish**. The Atlantic steel market has started to enter a mid-run level correction period on declining demand from auto-making industries and high material prices.

⇒ **Australia Export Hard Coking Coal** short-run **Neutral**. The supply of coking coal is expected to become steady in Q2 in Atlantic areas.

Prices Movement	9-May	2-May	Changes %	Sentiment	
Iron Ore Fe62% ($/MT)	131.35	142.9	8.08%	Neutral to Bearish	↘
Rebar 25mm Shanghai (Yuan/MT)	4950	4990	0.8%	Neutral to	↘
U.S. HRC Front Month ($/MT)	1365	1400	2.5%	Neutral to Bearish	↘
Australia Export Hard Coking Coal($/MT)	519.5	518	0.29%	Neutral	-

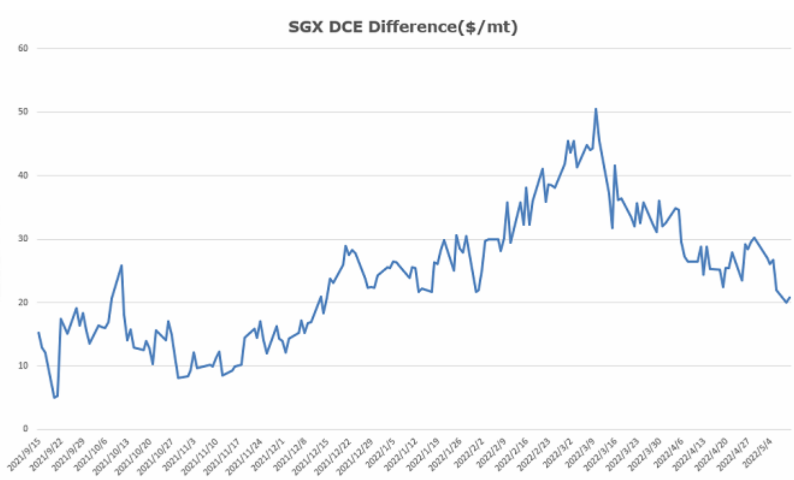
Market Review:

Iron ore Market :

The global ferrous market suffered a correction over the last week. Iron ore prices fell 8.08% as expected from our last ferrous report. The downstream market recovery in China became slower than expected, with tight steel margins and transportation restricted, the stocking demand from mills was low, as were interests from physical traders.

Chinese Yuan depreciated 6.33% over the past three weeks, which meant dollar-priced seaborne iron ore become 6.5-7% more expensive for the importers. Under such circumstances, mills were becoming more interested in domestic iron ores or portside CNY-based iron ores. The flagship product in iron ore PBF started to offer at a discount in mid-April (PBF was offered at a premium since 2018). The discount indicated Rio Tinto's awareness of the competition from low-grade iron ores, as well as the fast-increasing trades on Chinese portside products. The discounted PBF successfully attracted buyers' attention once offers were indicated and buyers transacted the full size of offers in a short time. However, when the floating price returned to a moderate premium, bids in the market suddenly vanished. The current market seems more sensitive to this premium/ discount than the absolute value of cargoes. SP10, MACF, and JMBF are favourable choices for physical traders because of the improvement. In general, the diversification of iron ore types has created a more competitive environment and enhanced price transparency and trading fairness. Looking forward, the iron ore annual price range in 2022 is expected to be lower than the 2020 and 2021 levels.

Chinese mills and Japanese mills started to adopt a cost-saving strategy because of the razor-thin steel margins. Chinese northern mills' steel margins have shrunk to 0-30 yuan for the last three months. Looking at virtual steel mill margins (the futures equivalent margins) recovered significantly from 497 yuan/ton to 681 yuan/ton, which potentially indicates a potential rebound on the physical market in the coming weeks. In long run with continued high iron ore, coking coal, and scrap prices this could erode more than 95% of profits for mills. The pandemic in China extended to many big cities with more than 10 million residents now under lockdown measures. As a turning point, Shanghai experienced a significant drop on daily infections in early May. A 'white list' of more than 2000 enterprises resumed work including manufacturing and food companies. However, investment and operations are still significantly disrupted in many cities.



As in previous years, the big four miners expected to increase production and shipments before the last filing of annual reports in June. Luckily, the first quarter has safely passed in Australia, where there were many weather uncertainties including cyclones and floods impacting the deliveries of iron ores.

The SGX-DCE difference maintained around the $19–20 mark during most of the trading days last week. The market looks like finding a stabilise point within the $20-25 area with the recovery of import loss in PBF and healthier steel margins.

Data Sources: Bloomberg, Platts, Fastmarket, FIS

Market Review (Continued)

Iron ore Market (Continued):

The Chinese Pricing Supervision Department started to take action against the false physical trading of commodities. Different Chinese departments jointly worked together since last December to fight against industrial material speculation and import inflation risk. The strategies started to gradually increase the transparency of physical trading. The H1 2022 physical trade volume is expected to decrease on year to year due to this action.

The 65% and 62% iron ore difference corrected back to $23.55 from $26 in late April, the demand market of Fe65% in Asia started to fall as narrow steel margins focused minds on lower-cost ores, however, the supply from Brazil has picked up significantly. The absolute difference is expected to obtain some support above the $20 level given the current price level of iron ores because the difference ratio has reached 16.5%, which was at historical lows.

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:

The FedWatch indicated a June 75 basis points interest rate increase with an 80-85% probability. Ironically, the Fed chairman Powell had earlier said the 75 basis points was not a primary consideration the day before. Global equities dumped massively worrying about the uncontrollable inflation risk. Most commodities ended the week down except crude oil.

Many central banks followed the U.S. Federal Bank to increase interest rates. The BOE interest rate reached 1%, refreshing highs from 2009. The BOE started to increase interest rates for the fourth time since last December. Brazil, Iceland, India, Australia, Chile, and Canada started interest rate increases in Q2 following the U.S.

Global Steel Market:

Argus Daily HRC index Northwest Europe slipped to $1179.75, down 5.79% since the beginning of May. Bids are decreasing in both the Atlantic market and Pacific market on front months. Small tons were traded at $1,170 while most buyers were in a watch-and-see mode.

Chinese SS400 HRC was sold at $790-800/t CFR Vietnam last week, however, Vietnamese importers lowered bids after the previous trades were finished. The Chinese offers softened as the domestic demand was hit by the strict control of the pandemic. Moreover, the fast depreciation of the yuan versus the strong dollar decreased the price of Chinese export cargoes. On the other side, the lower price would increase competitiveness in the international market. China producers were expecting more trades and offered lower to fulfill the rolling projects in Q2.

The buying sentiment for U.S. pig iron dropped after Indian exports increased to the U.S. Offers from Brazil remained at $900/mt CFR a superior quality to Indian sources. The competitive international sources of pig iron and semi-finished steel depressed the whole Atlantic market swiftly. However, some traders indicated that the market was divided into a 'sanction related market' and 'non-sanction related market', where the material costs differed significantly.

Neutral to Bearish

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

Market Review (Continued)

Chinese Steel Market:

Shanghai 25mm rebar has acted fairly rationally during 90% of the year, not impacted by the fast-moving futures market, as a result, physical steel mills had been cautiously using the financial tools. Mills were producing sharply matching the demand orders. Thus, peak steel inventories were expected much lower than in 2020 and 2021. The apparent consumption of five typical mills was flat at around 950 million tons per week. The slow price movement on the physical market mirrors static fundamental changes.

The resumption of normal activity in China was generally delayed, although Shanghai saw a clear turning point of the pandemic and recovered some important manufacturer operations. The downstream market was worried that the unexpected halt would become a new normal for the rest of this year. This would significantly increase the risk of default on sales contracts or interruption of business processes.

In late April, China NDRC announced that the country would stick to a decreased crude steel target from 2021 levels. If based on this 2021 of 30 million tons, Q1 had fulfilled 95% of the target levels.

Neutral to Bearish

Coal Market:

The Platts PLV FOB Australia coking coal was almost flat from early last week at $519.5. The highest bid was heard at $520.00/mt FOB Australia for 50,000 mt of May-loading GlobalCOAL HCCLV Peak Downs. A trade was reported at $516.80/mt FOB Australia for 75,000 mt of Australian premium mid-vol Caval Ridge Coking Coal with mid-June laycan. However, the market started to feel stress after Arcelor Mittal started to offer a 75,000 mt cargo of Peak Downs. The market was waiting for the results of the tender.

The brand width was widened since the market was seeking more PLV over PMV, Peak Downs, and Saraji in H1 2022 are increasingly accepted by Indian traders compared to previous years. The U.S. miner Warrior Met Coal’s coking coal sales in the first quarter of 2022 fell 45% year on year to 1.1 million st because the port congestion caused shipments delay. This delay also boosted up inventory level. However, the company maintained its guidance at 5.5-6.5 million st. Russian iron ore and coal exports to China are likely to increase this year because of a new railway bridge connecting the two countries is under construction. The new bridge theoretically increases Russia’s export cargoes to China by up to 40% compared to the previous rail connections according to Platts research. Indonesian exports to Asian countries slowed down significantly from this April. Ex-China Asian importers were actively rolling in prime coking coals to avoid the potential shortage in their own country.

In the Chinese market, seaborne demand remained sluggish due to disrupted domestic logistics, as well as the inverse price relationship between FOB Australia and CFR China. There were still huge disparities between seaborne sellers and Chinese importers. China Shanxi’s coking coal auctions got no results before and after the holidays. The pandemic was still disrupting both the domestic supply and demand market in China. China NDRC consistently held meetings to supervise the pricing of coal products.

Neutral

Sources: Argus, IHS Commodities at Sea Service, FIS

Technical view of the Ferrous Markets:

Iron Ore

June Futures – As noted on the May futures upside moves were likely to find technical sellers, the futures did trade to a high of USD 147.10 before trading to new lows today (09/05). The June futures are following the same technical footprint with price trading below the USD 132.40 fractal support to a low of USD 125.40, lower highs and lower lows on the daily chart do support a bearish argument. The RSI has traded to a new low on the daily chart again supporting a bearish argument. Upside moves that fail at or below USD 140.02 will warn the futures are vulnerable to further test to the downside, above this level the technical will have a neutral bias. The downside push in the momentum indicators is warning that the wave cycle could be extending lower, we had noted in the May contract an underlying strength in the market based on the previous upside move; however, based on the intraday technical in June, it looks like resistance levels (USD 133.89, USD 136.48, and USD 140.02) could hold if tested in the near-term.

Steel

June Futures – having previously noted that the May futures had entered bearish territory the June contract has carried on in the same theme. Price has traded to a low of USD 1,170, within USD 1.00 of our key support level. If we hold this level, it will support a bull argument for a longer-term Elliott wave cycle; however, if support is broken then the USD 1,086 and USD 9,47 support levels could come under pressure. Upside moves that fail at or below USD 1,455 will leave the futures vulnerable to further tests to the downside, above this level the futures will have a neutral bias. The technical has held key support but remains bearish and vulnerable to further tests to the downside at this point.

Coking Coal

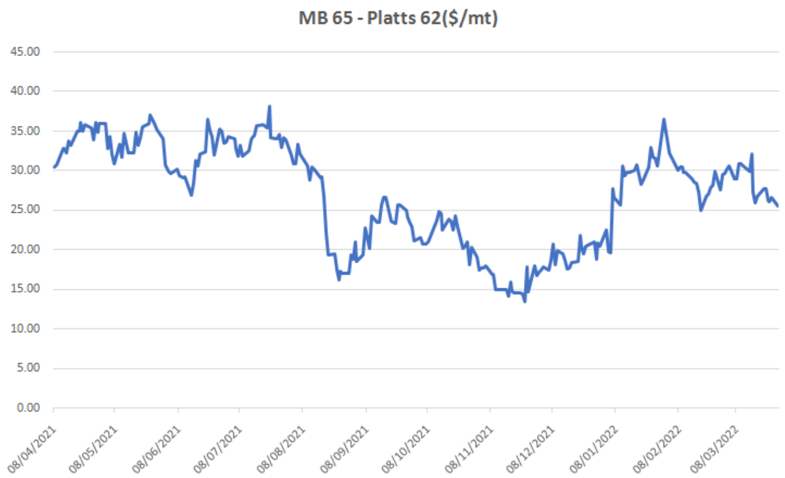
June Futures – Momentum had warned that May support levels could come under pressure on the last report; however, the price held the key USD 433 level to trade back to a high of USD 525. The June futures have produced a deep pullback followed by a deep upside move into the last bear wave, meaning the technical is neutral based on price. Near-term price action is bullish following a series of higher highs and higher lows, but the upside move remains within the last bear wave down. We now have a small 5-wave pattern higher, warning the futures have the potential to exhaust. Downside moves below USD 425 will warn the USD 373 and USD 348 support levels could be tested. Likewise, upside moves above USD 495 will warn the USD 535 high could be tested. The RSI is bullish but showing a small negative divergence whilst the stochastic is overbought, alongside the small 5-wave pattern there is a warning sign that we have the potential to see a technical pullback. technically neutral with some warning signs coming into play.

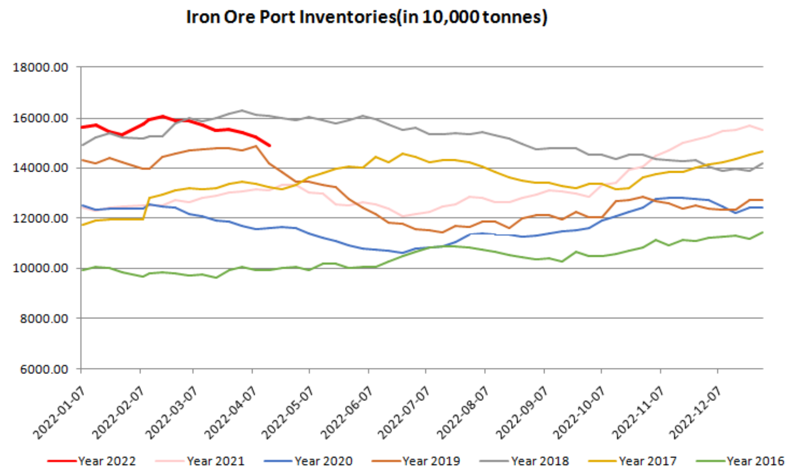
FIS senior analyst, Edward Hutton

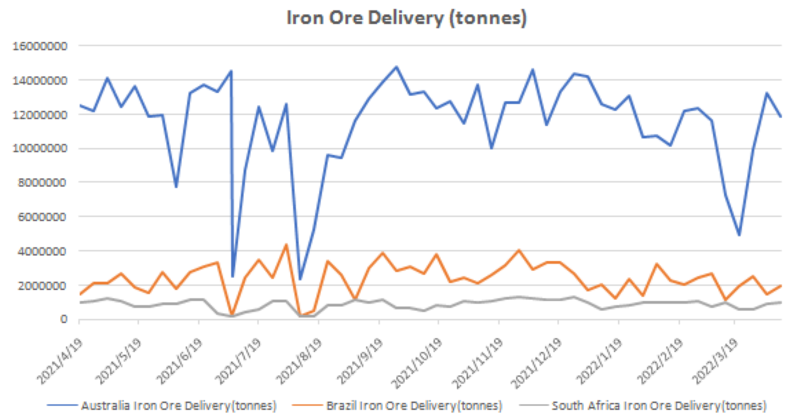
Chart source: *Bloomberg*

Iron Ore

	Last	Previous	% Change
Platts 62% Fe (Dollar/mt)	131.35	142	**-7.50%**
MB 65% Fe (Dollar/mt)	154.9	167.1	**-7.30%**
Capesize 5TC Index (Dollar/day)	26412	17713	**49.11%**
C3 Tubarao to Qingdao (Dollar/day)	32.5	25.47	**27.60%**
C5 West Australia to Qingdao (Dollar/day)	13.236	11.964	**10.63%**
Billet Spot Ex-Works Tangshan (Yuan/mt)	4760	4760	**0.00%**
SGX Front Month (Dollar/mt)	137.92	146.30	**-5.73%**
DCE Major Month (Yuan/mt)	856	855.5	**0.06%**
China Port Inventory Unit (10,000mt)	14,325	14,518	**-1.33%**
Australia Iron Ore Weekly Export (10,000mt)	1,017.40	972.40	**NA**
Brazil Iron Ore Weekly Export (10,000mt)	332.30	255.40	**NA**







Iron Ore Key Points

- Iron ore port inventories are expected to decrease as the port efficiency increased after the controlled pandemic in northern China areas.

- Big miners including Vale, Rio Tinto, BHP, and FMG entered the last quarter of the financial year, the market expected them to improve profitability before the issuance of the annual report by increasing iron ore shipments in the next few weeks.

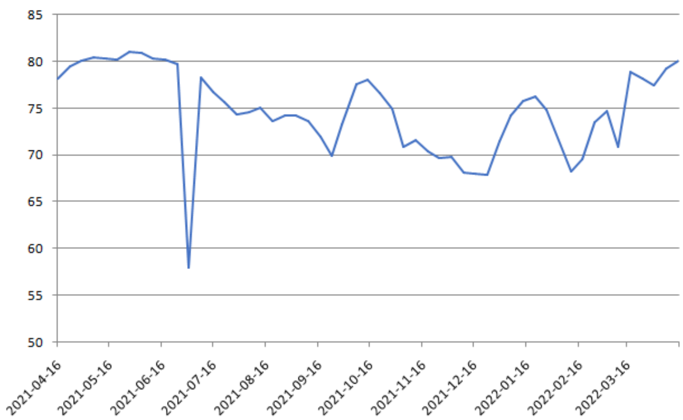
- The 65% and 62% iron ore difference corrected back to $23.55 from $26 in late April, the demand market of Fe65% in Asia started to fall as the thin steel margin, however, the supply from Brazil picked up significantly.

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

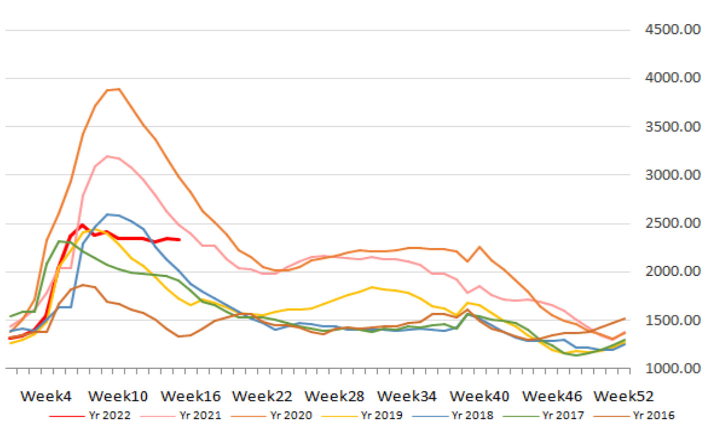
Steel

	Last	Previous	% Change
US HRC Front Month (Dollar/mt)	1378	1400	**-1.57%**
LME Rebar Front Month (Dollar/mt)	728	722	**0.83%**
SHFE Rebar Major Month (Yuan/mt)	4834	4863	**-0.60%**
China Hot Rolled Coil (Yuan/mt)	5148	5124	**0.47%**
Vitural Steel Mills Margin(Yuan/mt)	681	497	**37.02%**
China Five Major Steel Inventories Unit (10,000 mt)	2489.64	2371.33	**4.99%**
Global Crude Steel Production Unit (1,000 mt)	88300	74964	**17.79%**
World Steel Association Steel Production Unit(1,000 mt)	161,047	142,676	**12.88%**

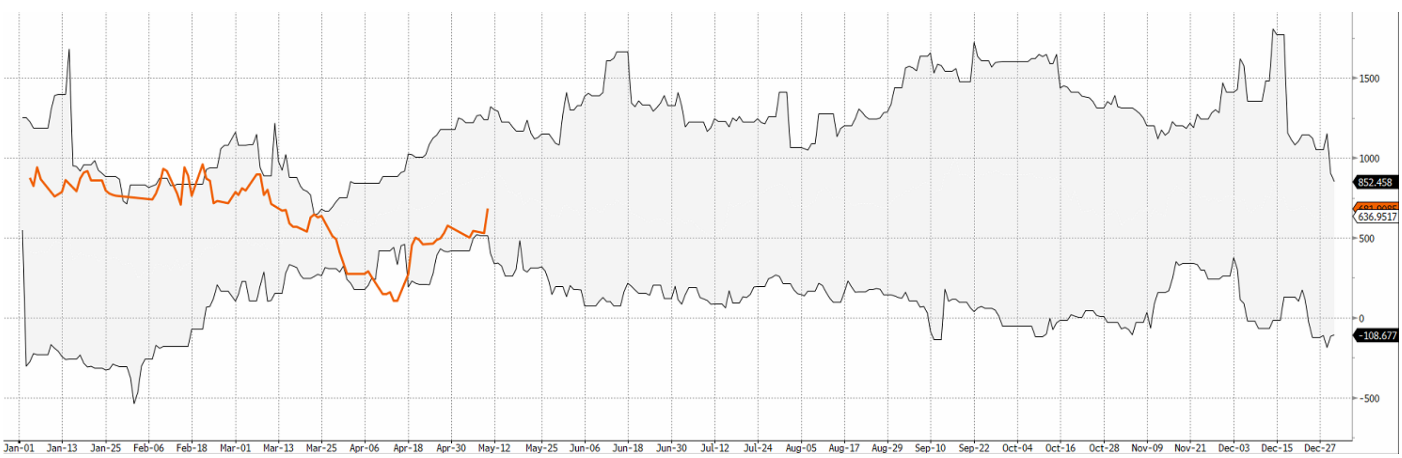
MySteel 247 mills BF Operation Rate in %



Five Major Steels Inventories(10,000 tonnes)



Virtual Steel Mill Margins (Five-Year Range)

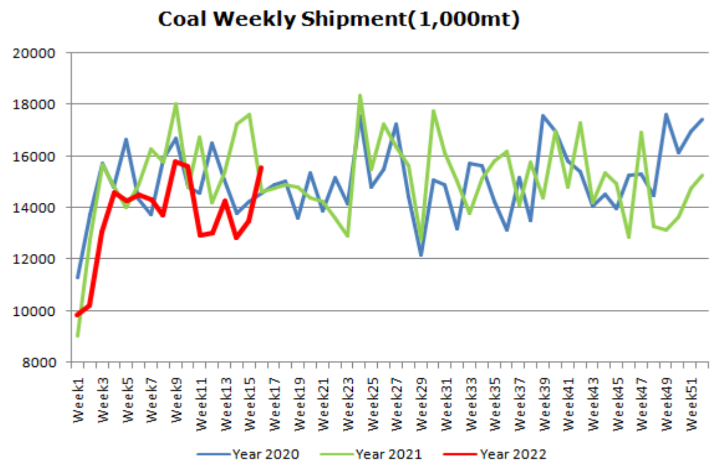


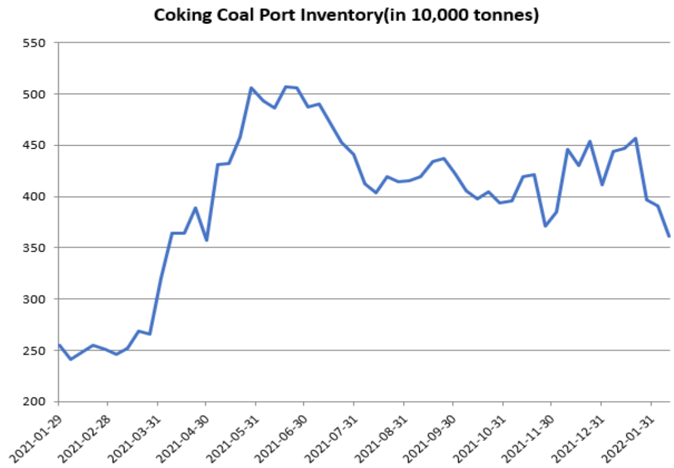
Data Sources: Bloomberg, MySteel, FIS

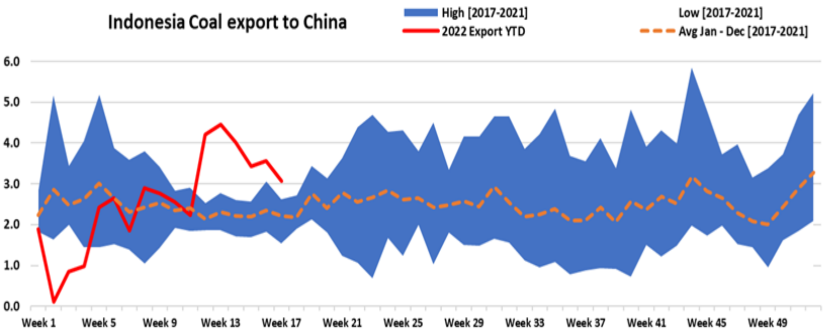
- Virtual steel mill margins recovered from 497 yuan/ton to 681 yuan/ton during last week.
- The five types of steel inventories have not achieved the expected higher levels, as down-stream buying has been cautious on the back of rising covid levels.

Coking Coal

	Last	Previous	% Change
TSI FOB Premium Hard Coking Coal (Dollar/mt)	519.5	518	0.29%
Coking Coal Front Month (Dollar/mt)	510	521.67	-2.24%
DCE CC Major Month (Yuan/mt)	2776	2783.5	-0.27%
IHS Coal Weekly Shipment (1,000 mt)	14,652	12,881	13.75%
China Custom total CC Import Unit mt	3,762,210	2,986,580	25.97%



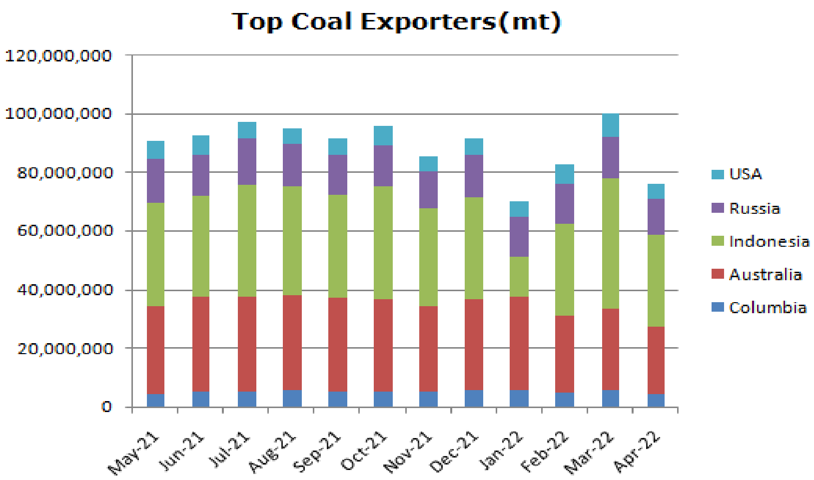




Coal Key Points

– Indonesia coal exports 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.

– U.S. coal exports expected to decrease because of the heavy port congestions. Russia coking coal expected to decrease because of the sanctions as well as the increasing ship charges on longer routes.



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

FIS Ferrous Fact Sheet

Australia HCCLV Peak Downs: An important hard and low volatility coking coal benchmark brand in Australia with a prime quality and higher price.

Backwardation Market: when futures price are lower than the underlying physical prices, or when front months are higher than far months contracts.

Contango Market: when futures price are higher than the underlying physical prices, or when front months are lower than far months contracts.

Cost Saving Strategy: refer to steel mills focusing on lower variable cost to maintain profit margin.

Ferrous Industry Chain: Upstream materials included iron ores concentrates/lumps/pellets, scrap/pig iron/HBI/DRI, Coking coal, semi-soft coals or other coals, ferro-alloys and other furnace or EAF materials. Midstream normally refer to semi-finished steels including crude steels, or finished steels including structured steels, flat steels, HRC/CRC, rebar and etc. Downstream meant the end-users of steels, including housing, infrastructure, auto-making, energy market, ship-building, housing appliances, containers and mechanics.

Fiscal Year: An accounting period of 12 months. Fiscal Year is different among different countries. For example, Fiscal Year in U.K., Singapore, Japan, Canada and India start from April 1st to the next March 31st. The fiscal year of Australia, Sweden, Egypt start from July 1st to the next June 30th. The fiscal year of U.S., Mexico start from October 1st to next September 30th. Fiscal year of China and Brazil are same with calendar year.

Flat Steel: Finished steels categorised by wide-belt and narrow belt. Normal flat steel including hot-rolled steel or cold-rolled steel. Downstream markets are auto making, electricity appliances and thin and flat steel using industries. Flat steels are most active international trading steel type.

Iron Ore Lump: Natural bulks iron ore. Lumps are directly added to blast furnace, which have premiums to iron ore concentrates.

Iron Ore Pellets: Semi-processed iron ore to make concentrates into pellets after sintering. Pellets are acidic, which are used to adjust the acidity and alkalinity of a blast furnace. Pellets have premium to iron ore concentrates.

Long Steel: Finished steels including wire rods and rebar, normally related to housing building market.

More or Less Clause: Trade Terms. In iron ore seaborne trading, the weight could be different from loading ports to arrival ports because of increasing on moisture rate. For example, some customs accept a 10% of maximum moisture rate on some brands of iron ore. In steel trading by trucks or trains, there is normally a certain percentage of weight difference tolerance between quality test and contract.

Rebar 25mm Shanghai: The most volatile physical steel products traded in China, as well as the major exported brand. SGX rebar contract was high correlated to this physical brand.

Steelmaking Process: The process normally included BF-Converter process and EAF process. Major U.S. and West Europe are using EAFs. Pig iron/scrap was major inputs for EAFs. China, Japan and India are using majorly BF-Converter. The major materials include iron ores, cokes, and coking coals.

SGX—DCE Difference: The SGX settlement price minus the DCE value after normalised by VAT, ferrous grade and foreign exchange.

Virtual Steel Margin: Calculating the futures steel margins by complex of rebar, iron ore and coking coal to represent as the leading indicator of physical steel margin.

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