FIS Ferrous Weekly Report

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

17/5/2022

⇒ **Iron ore Fe62%** short-run **Neutral**. Iron ore prices remained range-bound because mills demand remains uncertain.

⇒ **Rebar 25mm Shanghai** short-run **Neutral**. The downstream market started to recover, however with low efficiency before June.

⇒ **U.S. HRC Front Month** short-run **Neutral to Bearish**. The Atlantic steel market demand became sluggish as high material and energy costs led to losses among end-users.

⇒ **Australia Export Hard Coking Coal** short-run **Neutral**. The coking coal market shifted demand to the third quarter, with limited prompt buyers.

Prices Movement	16-May	9-May	Changes %	Sentiment	
Iron Ore Fe62% ($/MT)	127.35	131.35	3.04%	Neutral	-
Rebar 25mm Shanghai (Yuan/MT)	4900	4950	1.01%	Neutral	-
U.S. HRC Front Month ($/MT)	1376	1365	0.81%	Neutral to Bearish	↘
Australia Export Hard Coking Coal($/MT)	515.25	519.5	0.82%	Neutral	-

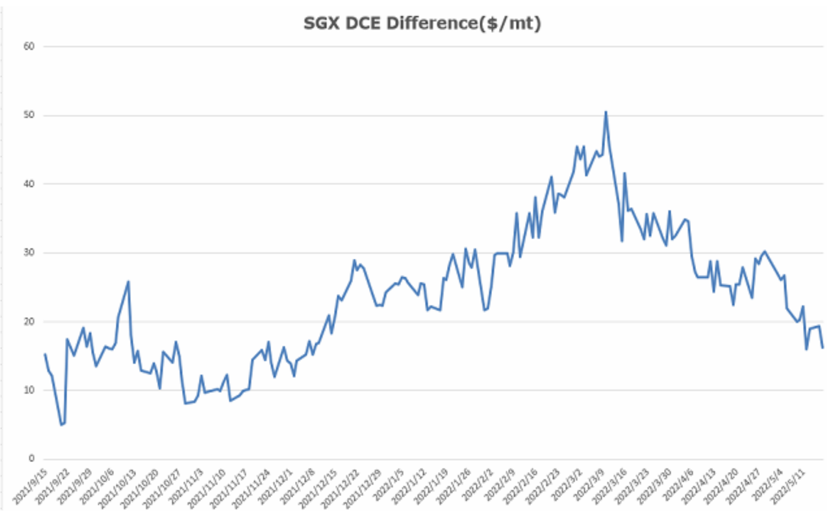
Market Review:

Iron ore Market :

Iron ore 62% index fell 3.04% last week as expected from our last ferrous report. The downstream market recovery in China has been slower than expected, with mills cautious of purchases given the thin steel margins.

Chinese Yuan depreciation added to the pressure on importers, especially considering that this currency risk is expected to last for the entirety of 2022. PBF sold for a few laycans, saw active bids on the physical market, however, the trade was mainly based on discount rather than premium linked cargoes as fixed-price trades normally follow a period of correction. PBF buyers were waiting for sellers to compromise, as they expect sales programs among major miners. However, there was quite a bit of spot demand for MACF and SSF traded on both fixed and floating price basis. SSF discounts had narrowed by more than 10% during the last three months. Low grade and high discount cargoes dominated the demand market. As a result, Platts 62% and Platts 58% difference narrowed from $33 to $28 during May, the difference was at its lowest point since April 2021. High-grade demand was unsustainable given the thin steel margins. Some mills resold Carajas fine after the cargoes arrived at ports last week. 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.

Virtual steel mill margins (the futures equivalent margin) corrected from the 635 yuan/ton area in early May to 470 yuan/ton, in line with the physical market when steel margin was at a historical low area. In the long run, with continued high iron ore, coking coal, and scrap prices this could erode more than 95% of profits for mills. Shanghai is expected to fully resume work in early June. However, the physical traders were in a cautious mind, particularly when mills were precisely controlling their material purchase amounts and wary of rising costs.



The SGX-DCE difference broke down the theoretical support area from $19-20 and reached $16. The unexpected fast yuan depreciation accelerated arbitragers to sell the SGX-DCE spread.

Data Sources: Bloomberg, Platts, Fastmarket, FIS

Market Review (Continued)

Iron ore Market (Continued):

The 65% and 62% iron ore difference returned to the $23– $26 area last week. The spread has stayed in the range for around a month but was expected to correct back towards $23 because of the thin steel margins increasing the holding risk on high premium products including high-grade ores, pellets, and lumps.

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

Downstream/Policies/Industry News:

The sharp depreciation of the Japanese yen prompted Japanese investors to sell U.S. assets to seize the favourable exchange rate at the end of the fiscal year. Japan's holdings of U.S. government bonds fell to their lowest level of the previous two years to $1.232 trillion but remained the largest foreign holder of U.S. Treasury debt. As the second-largest holder, China decreased the holding on U.S. Treasury debt to $1.039 trillion in March, the lowest level since December 2018.

China's social financing in April fell to 910.2 billion yuan, creating an inconceivable drop from 4650 billion yuan in March. China lowered the mortgage rate for homebuyers and announced a phased reopening of shops in Shanghai due this Monday. The China Central Bank PBOC on Sunday cut the lower-bound range of mortgage interest rates from 4.6% to 4.4%.

Global Steel Market:

Argus Daily HRC index Northwest Europe slipped from $1179.75 to $1,100 week-on-week. European HRC buyers cancelled orders placed in $1,200 the last few weeks as a producer said $1,100 sales were made, which was competitive to the lower import price. There was a big disparity in the cold rolled coil market between German buyers and the offer from one service centre at $150. German automotive production was down 10% from January to April in 2020 compared to 2021.

Chinese SS400 HRC offers declined from FOB $790-800 to $730 as the lowest last week, however, failed to conclude deals. The acceptable SS400 HRC CFR Vietnam was $745 –750, still $10-15 lower than the Chinese sources. In the SAE1006 grade market, Chinese offers at $820– 830 CFR Vietnam were much more competitive than Indian offers at $850– 860.

Semi-finished and scrap steels were sluggish globally in May. Vietnam billet offers at $690—700 CFR Manila, with the rest of mills absent. Turkish Deepsea import ferrous scrap has corrected during entire May. Platts indicated that recyclers were supporting the current price HMS 1/2(80:20) at $470—480mt CFR, because of the high freight rates and expensive scrap stocks.

Neutral to Bearish

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

Market Review (Continued)

Chinese Steel Market:

Shanghai 25mm rebar acted fairly rationally last week with only +/-10 yuan change on daily basis, not impacted by the big movement in the futures market. There was no direction on eastern steel markets in China before mills see a much clearer picture of demand. The manufacturers and house building levels have approached 50% resumption in Shanghai, however, the efficiency was low compared to last Q1 or Q2. Steel inventories were expected to flatten after mills balanced new orders and production numbers. Weekly five typical steel apparent consumption was flat for 6 weeks at around 900—950 million tons. However, the apparent consumption number is expected to be higher than the real consumption number accounting for the huge drop of 35% year-on-year in auto sales in April.

The end-users were concerned that the periodic lockdown throughout the year could cause some orders to default or market share loss.

Neutral

Coal Market:

The Platts PLV FOB Australia coking coal corrected by $4.25 week-on-week. The prompt demand in May and June was rolling to Q3 from last week and early this week. The market during the last few days was waiting for a clearer price direction on ArcelorMittal's Peak Down tender. The falling steel price globally created pressure on the current seaborne coking coal market. The tradable levels for Australia FOB PLV Saraji coking coal ranged from $500-520.

The lower PLV market in U.S. and Canada tied the FOB Australia market down. China imported an equivalent low-vol cargo to Australia source last week; however, it was priced $85 lower. In addition, the semi-premium and blended coals from the U.S. were becoming competitive in pricing to Australian sources. A Platts report indicated that anthracite exported in eastern and northern Asia was only half the price in Australia. However, the structure demand for Australian coking coals was resilient. The bandwidth 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.

In the Chinese market, seaborne demand saw a potential recovery as the resumption on downstream, however, the inverse price relationship between FOB Australia and CFR China was an important reason to hold back Chinese buyers. Chinese Yuan's fast depreciation during the last four weeks also increased the import cost, which made importing coking coal less competitive compared to sources settled in other currencies. However, local traders believed that the currency risk should have a limited impact in the long run as they started to hedge the currency risk. Chinese local coke price in Shanxi province corrected 400 yuan for the second round, while physical coking coal prices were down 500 yuan/ton during the last two weeks. The Chinese domestic market was extremely negative on the current outlook of coking coal price because of the sales needed to roll on after the disrupted logistics caused heavy stockpiles. The domestic market believed that the physical price of both coking coal and coke should have at least 2-3 rounds correction in May.

Neutral

Sources: Argus, IHS Commodities at Sea Service, FIS

Technical view of the Ferrous Markets:

Iron Ore

June futures – We noted last week that the futures remained vulnerable to further tests to the downside as the RSI had made new lows. The futures have traded to a low of USD 121.35 with intraday wave analysis suggesting we have seen the corrective wave 3 extend. This would suggest that upside moves that fail at or below USD 138.76 remain vulnerable to further tests to the downside, above this level the technical will have a neutral bias. Technically bearish with upside moves considered as countertrend at this point, as wave analysis would suggest there is further downside price action to come within this cycle.

Steel

June Futures – Technically unchanged from last week. The futures have tested and held above the USD 1,169 support for a second time, downside moves below this level will target the USD 1,086 and USD 947 support levels. Likewise, upside moves that fail at or below USD 1,455 will leave the futures vulnerable to further tests to the downside. If the USD 1,169 support holds then we have the potential to see the futures start a new bullish Elliott wave cycle, however, if broken, the probability of the futures entering a new bull cycle will decrease. Technically bearish, the futures are currently consolidating around key support.

Coking Coal

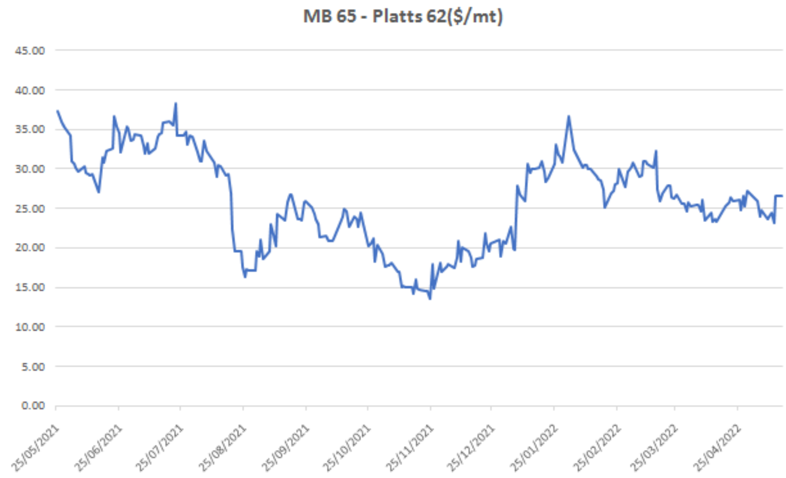
June Futures – last week we highlighted a small 5 wave pattern that warned that the futures had the potential to exhaust whilst the RSI was showing a negative divergence supporting this. Price has since moved sideways with the futures on the 8-period EMA but is still below the USD 495 resistance. Upside moves above the resistance level will target the USD 535 high; likewise, downside moves that trade below the USD 425 level will warn the USD 373 and USD 348 support levels could be tested. Technically neutral, we maintain our view that the futures remain vulnerable to a test to the downside

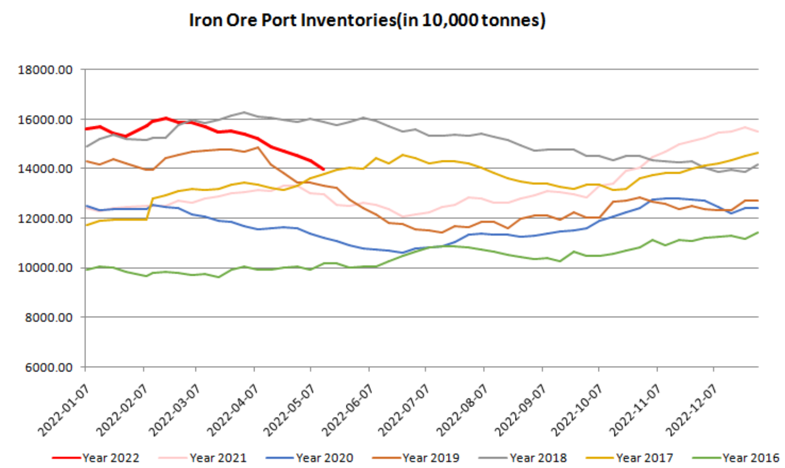
FIS senior analyst, Edward Hutton

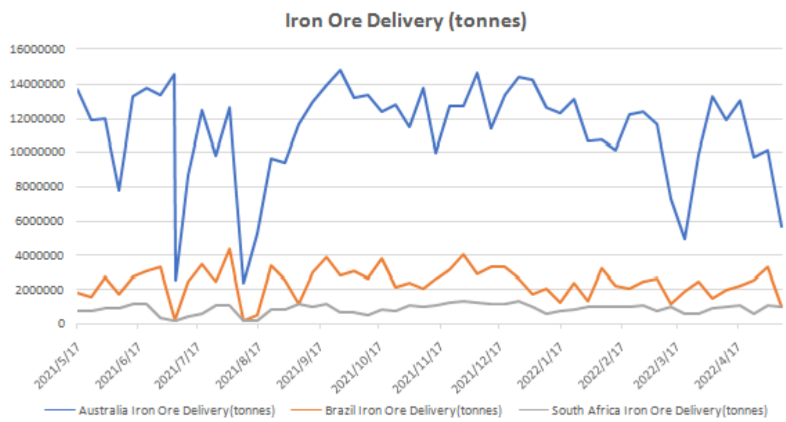
***Chart source:** Bloomberg*

Iron Ore

	Last	Previous	% Change
Platts 62% Fe (Dollar/mt)	127.35	131.35	**-3.05%**
MB 65% Fe (Dollar/mt)	153.8	154.9	**-0.71%**
Capesize 5TC Index (Dollar/day)	32581	26412	**23.36%**
C3 Tubarao to Qingdao (Dollar/day)	34.515	32.5	**6.20%**
C5 West Australia to Qingdao (Dollar/day)	15.059	13.236	**13.77%**
Billet Spot Ex-Works Tangshan (Yuan/mt)	4580	4760	**-3.78%**
SGX Front Month (Dollar/mt)	130.93	138.44	**-5.42%**
DCE Major Month (Yuan/mt)	951	972	**-2.16%**
China Port Inventory Unit (10,000mt)	13,996	14,325	**-2.30%**
Australia Iron Ore Weekly Export (10,000mt)	563.60	1,017.40	**-44.60%**
Brazil Iron Ore Weekly Export (10,000mt)	100.80	332.30	**-69.67%**







Iron Ore Key Points

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

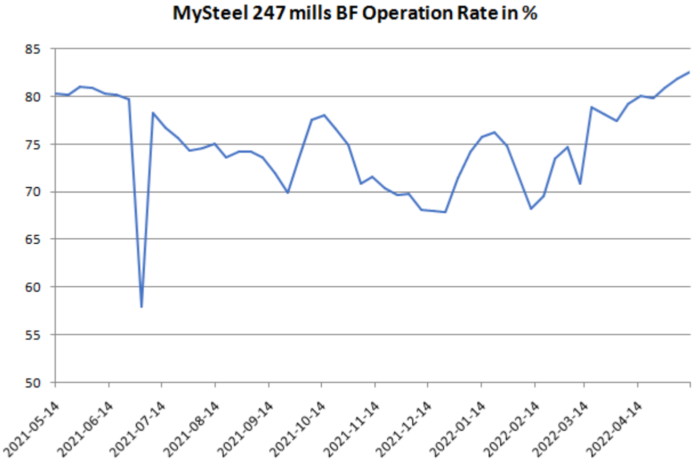
- Big miners including Vale, Rio Tinto, BHP, and FMG entered the last quarter of the financial year, the market expected them to improve profitability before the issuance of the annual report by increasing iron ore shipments in the next few weeks.

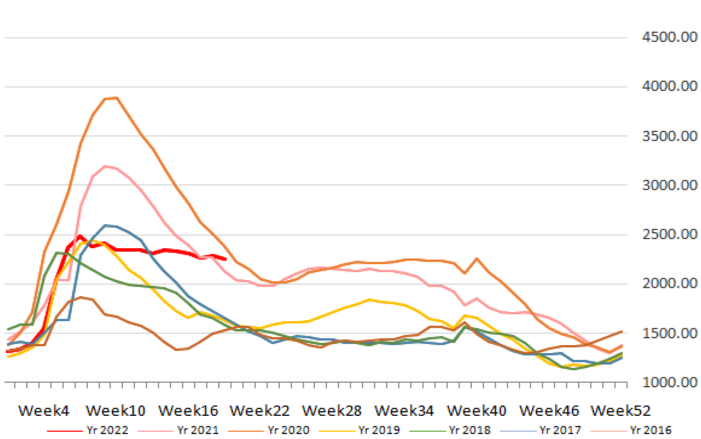
- The 65% and 62% iron ore difference returned from \$23– \$26 area during last week. The spread has stayed in the range-bound for a month. The spread was expected to correct back to \$23 because the thin steel margin increased the holding risk on high premium products including high-grade ores, pellets, and lumps.

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

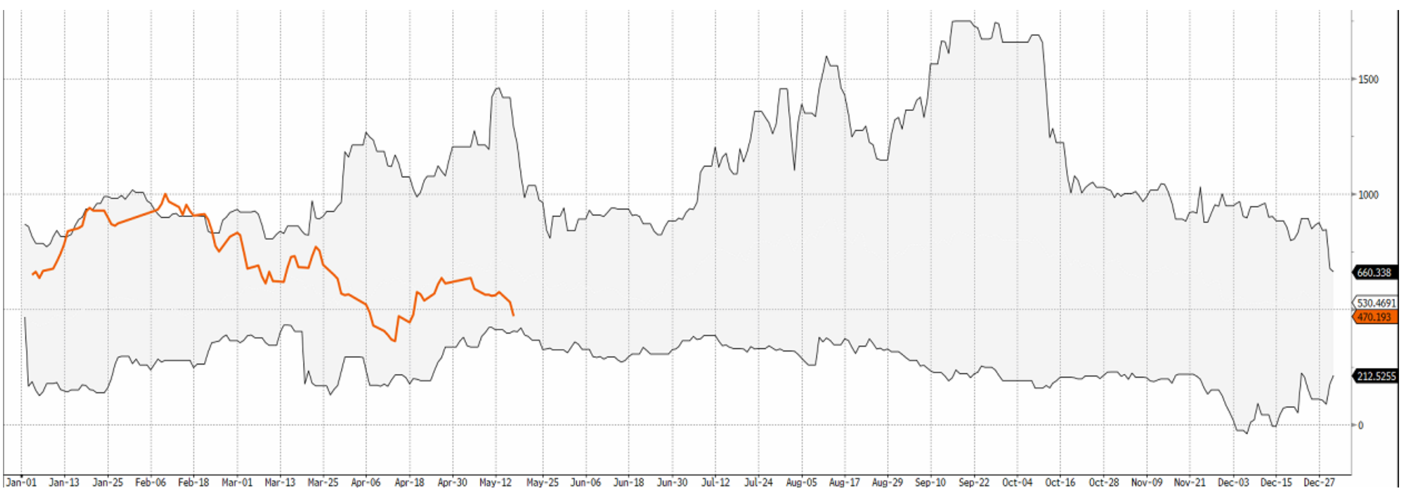
Steel

	Last	Previous	% Change
US HRC Front Month (Dollar/mt)	1382	1378	0.29%
LME Rebar Front Month (Dollar/mt)	728	722	0.83%
SHFE Rebar Major Month (Yuan/mt)	5018	5158	-2.71%
China Hot Rolled Coil (Yuan/mt)	4966	5148	-3.54%
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%





Virtual Steel Mill Margins (Five-Year Range)

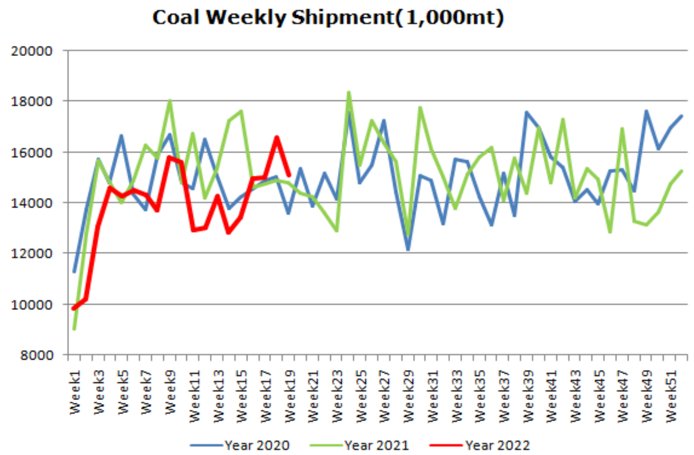


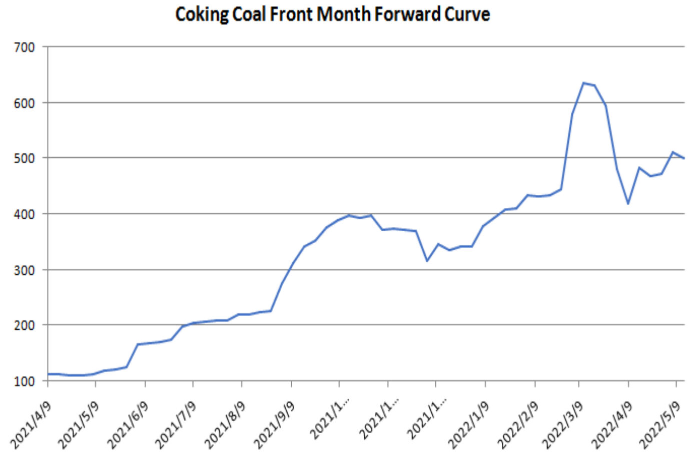
Data Sources: Bloomberg, MySteel, FIS

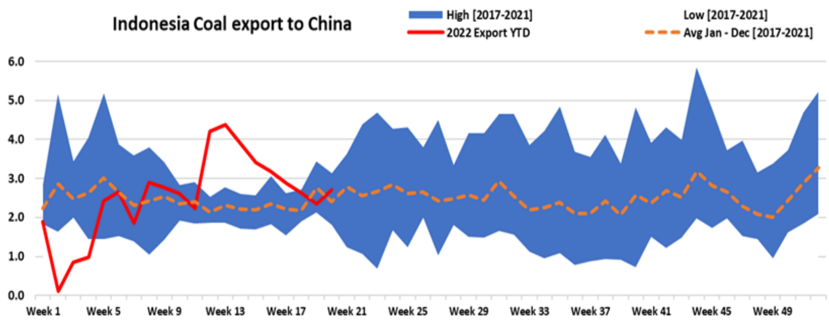
- Virtual steel mill margins corrected from 635 yuan/ton to 470 yuan/ton during May, along with the weak physical steel margins.
- The five types of steel inventories have not achieved expected higher levels, as downstream buying has been cautious on the back of rising Covid levels.

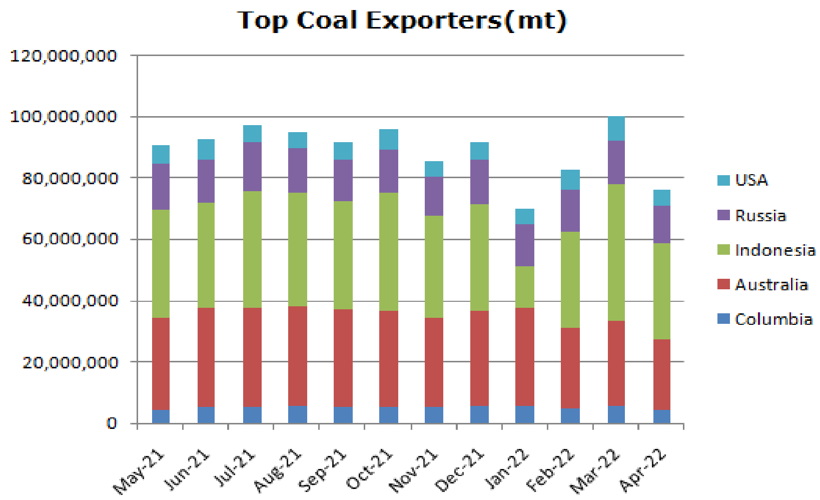
Coking Coal

	Last	Previous	% Change
TSI FOB Premium Hard Coking Coal (Dollar/mt)	515.25	519.5	-0.82%
Coking Coal Front Month (Dollar/mt)	500.67	510	-1.83%
DCE CC Major Month (Yuan/mt)	3049	3171.5	-3.86%
IHS Coal Weekly Shipment (1,000 mt)	15,100	16,556	-8.79%
China Custom total CC Import Unit mt	3,762,210	2,986,580	25.97%









Coal Key Points

- Atlantic Market saw a continued demand shift to Q3 in May. The willingness on prompt purchases was weak.
- 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.

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

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