# FIS Ferrous Weekly Report

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## 24/5/2022

- ⇒ **Iron ore Fe62% CFR China:** short-run **Neutral**. Mills buying cautiously on raw materials with thin margins. Pellet premiums are expected to increase, and low-grade discount expected to narrow because India increased export tariffs on iron ore products.
- ⇒ **Rebar 25mm Shanghai** short-run **Neutral**. Shanghai is expected to completely resume work in early June, however the strict controls in northern provinces generated some uncertainty for demand market.
- ⇒ **U.S. HRC Front Month** short-run **Neutral**. The Atlantic steel market demand became sluggish as high material and energy costs led to losses among end-users.
- ⇒ **Hard Coking Coal FOB Australia** short-run **Neutral**. The coking coal market shifted demand to the third quarter, with limited prompt buyers.

### Market Review:

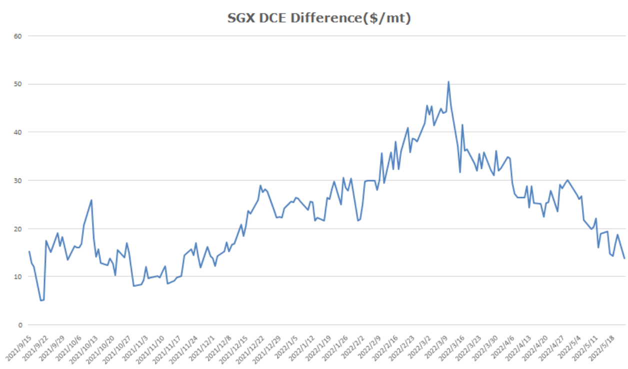
| Prices Movement | 23-May | 16-May | Changes % | Sentiment | |
|---|---|---|---|---|---|
| Iron Ore Fe62% CFR China($/MT) | 135.95 | 127.35 | 6.75% | Neutral | - |
| Rebar 25mm Shanghai (Yuan/MT) | 4900 | 4820 | 1.66% | Neutral | - |
| U.S. HRC Front Month ($/MT) | 1385 | 1376 | 0.65% | Neutral | - |
| Hard Coking Coal FOB Australia($/MT) | 520.0 | 515.25 | 0.92% | Neutral | - |

### Iron ore Market :

Iron ore 62% index increased 6.75% since the last report, supported by the work resumption schedule in Shanghai in early June. However physical and futures steel prices did not move aggressively in line. Iron ore once again squeezed the virtual steel margins to a seasonal low area at 278 yuan/mt, and physical margins for some northern mills are expected to turn negative in the coming weeks.

India increased iron ore export tariffs from 45-50% on May 22nd. In addition, India decreased coking coal and coke import tariff from 2.5% and 5% to 0%. China imported 44.67 million and 33.42 million tons of Indian iron ores in 2020 and 2021, accounting for 3.8% and 3% of total Chinese imports respectively. MySteel estimated that this import data would decrease significantly to 20 million tons in 2022 because the Q1 imports fell sharply compared to 2020 and 2021. However Indian pellets contributed 30% of the Chinese pellet import market. Pellet premiums could start to surge after the supply cut from both Ukraine and India. In addition, Chinese mills increased the use of low-grade Indian fines in Q1 and early Q2 because of the cost-efficiency, but tariff increases would narrow the low-grade discount on global markets.

The offshore Chinese Yuan CNH appreciated 1921 basis points over the last seven trading days, supported by a foreign currency reserve decrease in China. In addition, some traders bought Chinese Yuan as an alternative currency tool to hedge emerging market risk after Japanese yen depreciated by 15% in early March. The unexpected Chinese mortgage rate decrease stimulated the buying sentiment in the ferrous sector and the Chinese housing equities led to a limit-up wave last week. The market expected that more cities would loosen restrictions on house purchases and accelerate building material consumption. Commercial banks started to adopt beneficial mortgage rates for new house buyers.




PBF continuously saw active bids on the physical market in May, however, major trades were based on a discount rather than premium linked cargoes as fixed-price trades normally follow a period of correction. Buyers were waiting for sellers to compromise on their fixed bids. However, miners decided to roll strip sales programs to late June or next quarter if demand came in late.

*Data Sources: Bloomberg, Platts, Fastmarket, FIS*

## Market Review (Continued)

In the high-grade market, Tangshan mills indicated that with thin steel margins they were relying on cheaper domestic concentrates to substitute for costly imported high-grade iron ores. As a result, MB65—P62 were stuck in the lower range of $22-23.

SGX –DCE dropped to historic low levels at $13–14, the short-run movement being a reaction to the fast depreciation of Chinese Yuan and low steel margins. However, after the currency stabilises and the demand market returns, we could see a premium market again as early as June.

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:**

President of the Europe Central Bank Christine Lagarde indicated that the ECB could move interest rates out of the negative territory. The market expects a 110 basis point increase in 2022. U.S. St. Louis Federal Chairman James Bullard said the Federal Bank should implement a series of aggressive interest rate hikes and raise interest rates to 3.5% by the end of the year. If successful, the Fed will effectively lower inflation and then can consider a rate cut in 2023 or 2024.

China PM Li Keqiang presided over a state council conference mentioning 33 measures in six areas: increasing tax relief to 140 billion yuan, doubling the proportion of lending tools for small enterprises, removing some restrictions and fees in the supply chain, promoting consumption and effective investment, ensuring energy safety, and increasing new qualified capacities, and guaranteeing the basic social security of unemployment.

Global Steel Association indicated that 38 countries' blast furnace pig iron production level (99% of global production) was 310 million tons, down 8.8% year-on-year. 13 countries produced 25.95 million tons of DRI (Direct Reduced Iron), down 1.8% year-on-year.

**Global Steel Market:**

Turkey's scrap prices corrected almost 30% in May, while Argus Daily HRC index Northwest Europe HRC corrected 20% in May at €1043.5/mt. Russia's exported steel and product supply increased at least by 55% compared to last year in mid-east and Asian countries. The competitive price increased pressure on billet prices in Turkey and China. In the European market, service centres continued to limit purchases fearing the competitive imports, which could lead to a further price collapse. HRC seller reported transactions around €1,050/t delivered Ruhr, with offers above this level failing to receive positive responses. The demand market started to stabilise, observed by consistent and firm buying interests. Many bids were around €900-1000/t.

Chinese SS400 grade tradable values were reported at $750-760/mt CFR Vietnam. SAE 1006 HRC suppliers were testing buyers' interests during the previous two weeks. Indian HRC offered at $850/t CFR Vietnam last week.

***Neutral to Bearish***

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

## Market Review (Continued)

During weekends, India increased export HRC with 600mm width and wider types of tariffs from 0% to 15%. India contributed 4.3% of total global steel export. The tariff change is expected to increase the global steel price considering India was one of the major exporters to Europe and Southeast Asia.

***Neutral***

### Chinese Steel Market:

There was a slightly positive signal in the eastern Chinese steel market since Shanghai announced a comprehensive resumption of work from early June. Shanghai 25mm rebar acted fairly rationally last week with only +/-10 yuan change on daily basis during May. Mills were cautious on pricing and orders in response to the slow recovery of the downstream market. The major auto-producers including Tesla and SAIC indicated that they would produce massively in H2 to fulfil the annual guidance. The production value of SAIC contributes 17.5% of Shanghai's GDP.

Steel inventories were expected to flatten after mills balanced new orders and production numbers. Weekly five typical steel consumption was flat for 6 weeks at around 900-950 million tons. However, the apparent consumption number is expected to pick up slowly considering the drop in downstream steel usage in late April and early May.

India increased steel export tariffs, which to some extent improved the competitiveness of Chinese export steel in south-eastern and European markets.

***Neutral***

### Coal Market:

The PLV Australia coking coal market increased because of chasing bids for the ArcelorMittal's tender, however, this corrected after some competitive trades concluded in China last Friday. In the FOB Australia market, a trade was completed at $520/mt for 75,000 mt of Australian PLV Peak Downs delivered in July. The most competitive bid was $540/mt for 80,000mt of GlobalCoal HCCLV Peak Downs for June laycan. The trade concentrated in July, and higher-priced June indicated the tight supply on the June market. Both supply and demand in Q3 are expected to improve.

Australia FOB and China CFR difference maintained in a wide range from $80-90 during May, indicating the disparity between importers and exporters. As a result, the Chinese demand market for Australia's FOB was not consistent. At the same time, India cut the import tariffs on coal, which could fill the sluggish seaborne demand market from China. Their 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.

China NDRC has announced multiple documents to restrict speculation and improve price fairness in the last five months. Physical coking coal price range narrowed significantly compared with 2020 and 2021. China's domestic steel mills hope to resist coking coal prices because of the weak steel margin. Shanxi physical coke price total corrected 800 yuan/mt during the past six weeks. Coking coal plants currently have no bargaining power when the demand market was softening.

***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 technical was bearish with upside moves considered as countertrend. Having confirmed the intraday futures were on an extended wave three we traded to a high of USD 131.40 before trading to a new low of USD 119.80, signalling we had entered the 5th and final wave. The upside move on the rate cut last week confirmed the downside movement had been completed, meaning we now have a bullish bias on the technical. Price has traded to a high of USD 139.15 before correcting on an intraday divergence today; downside moves that hold at or above USD 126.38 will support a bull argument, only below USD 119.80 is the technical considered to be bearish. Bullish, but in a corrective phase with price trading on its opening values, warning support levels could be tested in the near-term if we close around these levels, if we trade above USD 139.15 then we target the USD 146.95 fractal on the daily technical.

### Steel

June Futures – The futures continue to consolidate having moved sideways for the last 9 sessions. Price has traded to a low of USD 1,160, indicating that although we remain technically bullish, we do have a neutral bias due to the deep pullback. Upside moves that fail at or below USD 1,451 will leave the futures vulnerable to further tests to the downside, above this level we will target the USD 1,602 high. If we trade above the USD 1,310 level it will warn that resistance levels could be tested; likewise, a close below that holds below the USD 1,160 will warn that we are breaking the consolidation phase to the downside, suggesting the USD 1,086 and USD 9,47 support levels could be tested. Technically neutral.

### Coking Coal

June Futures – Two weeks ago we highlighted a small 5 wave pattern that warned the futures had the potential to exhaust, this was supported by a negative divergence that warned we had the potential to see a momentum slowdown. Price has since consolidated between USD 490 – USD 481.64 indicating the technical is currently neutral. Upside moves that close above and hold above the USD 490 level will target the USD 535 high; however, this could potentially create a second negative divergence and will need to be monitored. Likewise, downside moves that close below USD 481.67 will target the USD 435 level. Technically neutral, we maintain our view that the futures remain vulnerable to a test to the downside.

***Iron Ore Offshore** June 22 Morning Technical Comment – 240 Min **Chart***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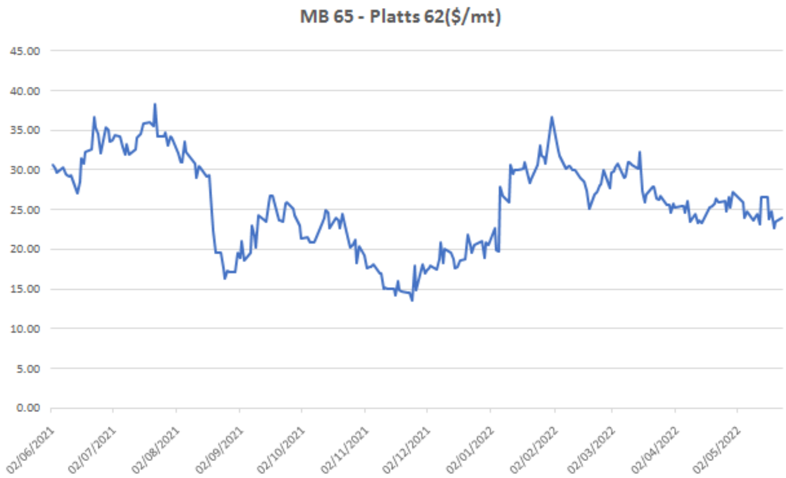
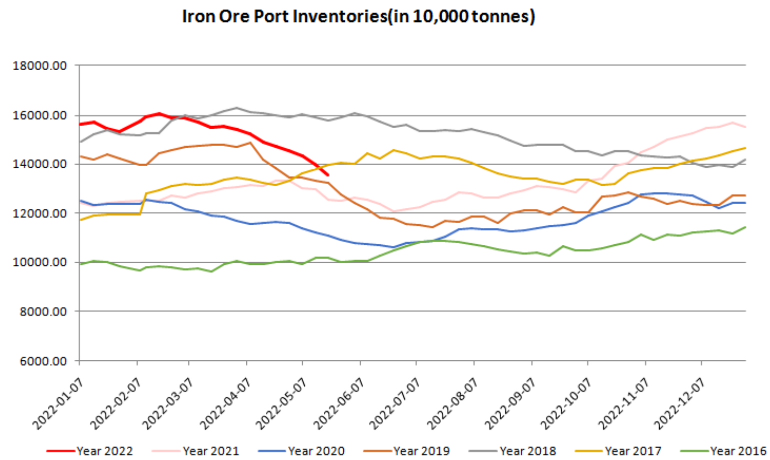
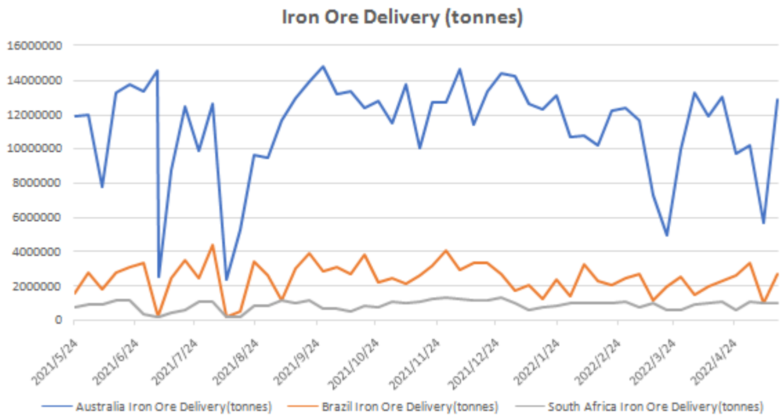
*FIS senior analyst, Edward Hutton*

# Iron Ore

| | Last | Previous | % Change |
|---|---|---|---|
| **Platts 62% Fe (Dollar/mt)** | 135.95 | 127.35 | 6.75% |
| **MB 65% Fe (Dollar/mt)** | 159.9 | 153.8 | 3.97% |
| **Capesize 5TC Index (Dollar/day)** | 38169 | 32581 | 17.15% |
| **C3 Tubarao to Qingdao (Dollar/day)** | 38.325 | 34.515 | 11.04% |
| **C5 West Australia to Qingdao (Dollar/day)** | 15.341 | 15.059 | 1.87% |
| **Billet Spot Ex-Works Tangshan (Yuan/mt)** | 4510 | 4580 | -1.53% |
| **SGX Front Month (Dollar/mt)** | 134.36 | 130.93 | 2.62% |
| **DCE Major Month (Yuan/mt)** | 939.5 | 951 | -1.21% |
| **China Port Inventory Unit (10,000mt)** | 13,558 | 13,996 | -3.12% |
| **Australia Iron Ore Weekly Export (10,000mt)** | 1,287.30 | 563.60 | 128.41% |
| **Brazil Iron Ore Weekly Export (10,000mt)** | 268.00 | 100.80 | 165.87% |




**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.

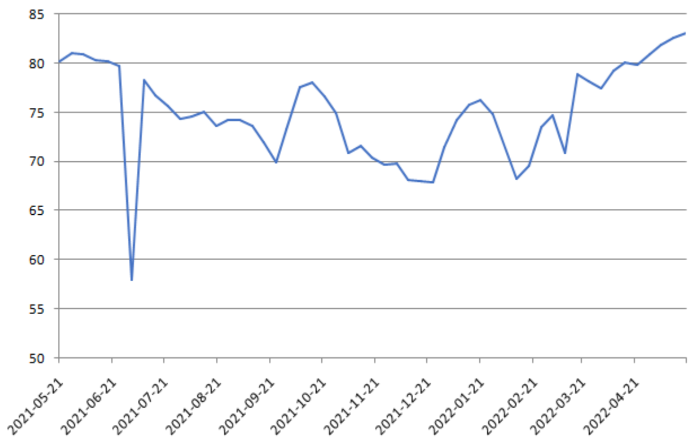
- The 65% and 62% iron ore difference returned from \$23– \$26 area during last week. The spread has stayed in the range-bound for a month.

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

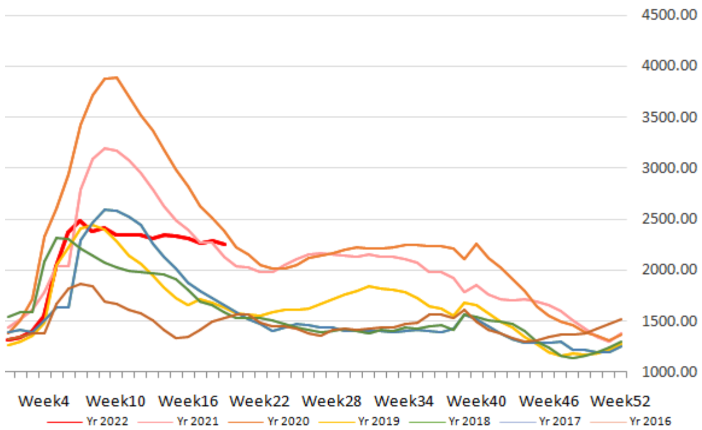
# Steel

| | Last | Previous | % Change |
|---|---|---|---|
| **US HRC Front Month (Dollar/mt)** | 1385 | 1382 | 0.22% |
| **LME Rebar Front Month (Dollar/mt)** | 728 | 722 | 0.83% |
| **SHFE Rebar Major Month (Yuan/mt)** | 4817 | 5018 | -4.01% |
| **China Hot Rolled Coil (Yuan/mt)** | 4890 | 4966 | -1.53% |
| **Vitural Steel Mills Margin(Yuan/mt)** | 278 | 470 | -40.85% |
| **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% |

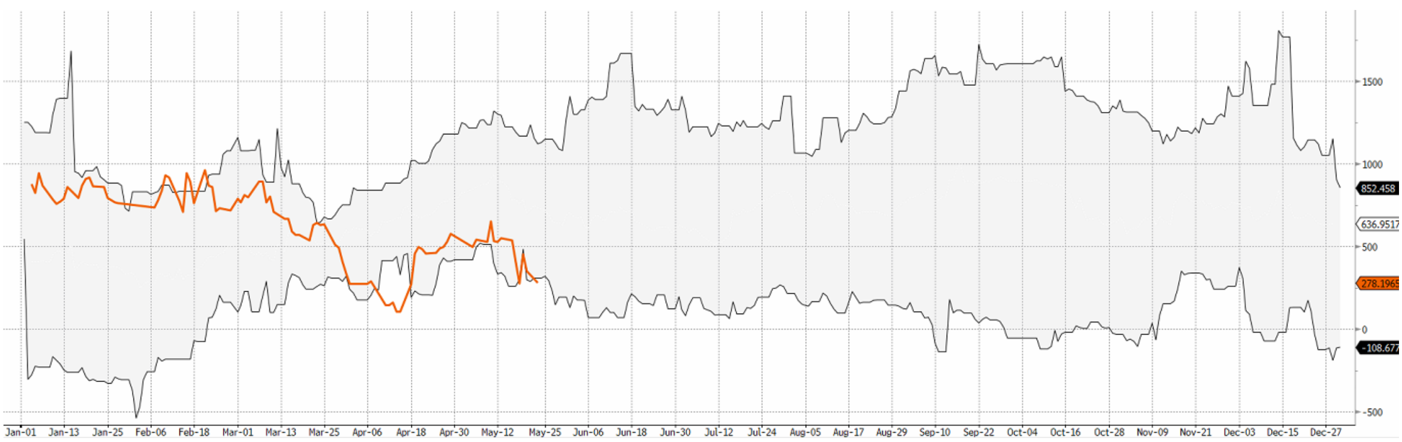
MySteel 247 mills BF Operation Rate in %




Five Major Steels Inventories(10,000 tonnes)




**Virtual Steel Mill Margins (Five-Year Range)**

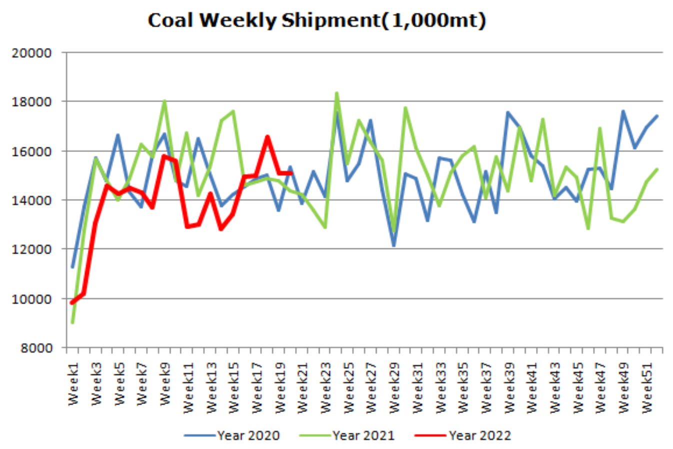


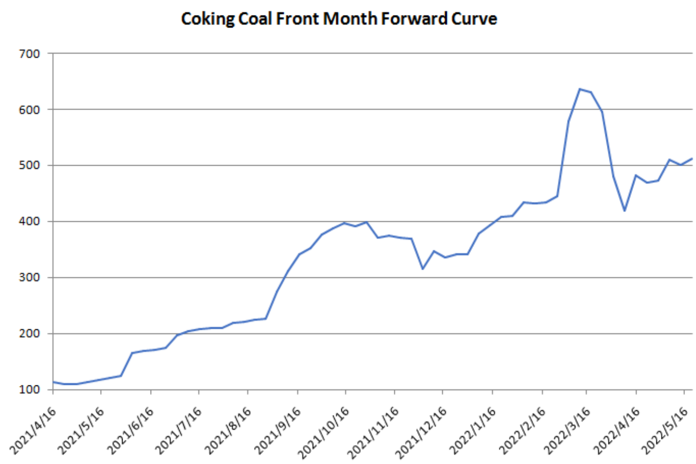

***Data Sources: Bloomberg, MySteel, FIS***

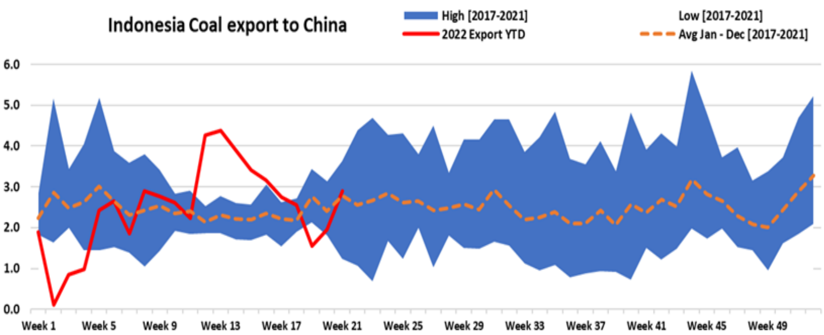
- Virtual steel mill margins corrected from 470 yuan/ton to 278 yuan/ton during last week, along with the weak physical steel margins.
- The five types of steel inventories have not achieved expected higher levels, as downstream buying has been cautious due to control or quarantine of the pandemic.

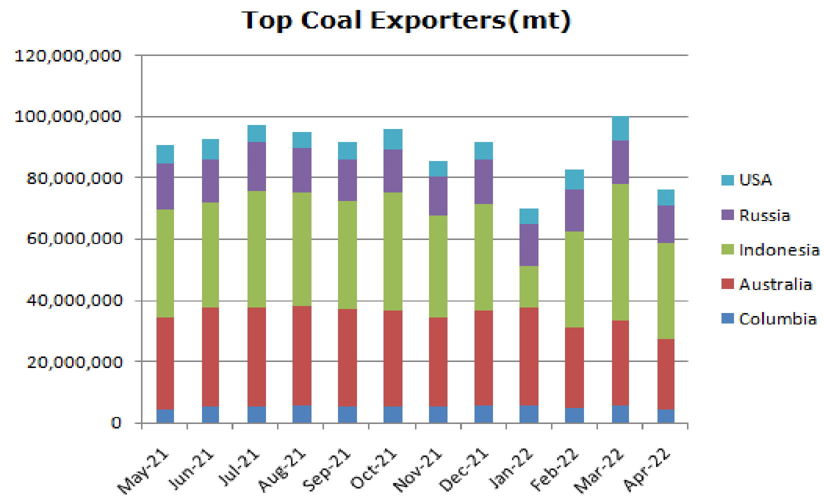
# Coking Coal

| | Last | Previous | % Change |
|---|---|---|---|
| TSI FOB Premium Hard Coking Coal (Dollar/mt) | 520 | 515.25 | 0.92% |
| Coking Coal Front Month (Dollar/mt) | 512.5 | 500.67 | 2.36% |
| DCE CC Major Month (Yuan/mt) | 2808 | 3049 | -7.90% |
| IHS Coal Weekly Shipment (1,000 mt) | 15,111 | 15,100 | 0.07% |
| China Custom total CC Import Unit mt | 4,256,446 | 3,762,210 | 13.14% |




## Coal Key Points

- Atlantic Market saw a continued demand shift to Q3 in May. The willingness for prompt purchases was weak.
- Global weekly coal shipments delivered at 15-16 million tons weekly, a slight high level seasonally.
- The big disparity between Australia FOB and CFR China market restricted the Chinese importers’ interests.

***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 prime quality and higher price.

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

**Contango Market**: when futures prices 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 refers to semi-finished steels including crude steels, or finished steels including structured steels, flat steels, HRC/CRC, rebar 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 in different countries. For example, the Fiscal Year in the U.K., Singapore, Japan, Canada, and India starts from April 1st to the next March 31st. The fiscal year of Australia, Sweden, and Egypt starts on July 1st to the next June 30th. The fiscal year of the U.S., Mexico starts from October 1st to the next September 30th. The fiscal year of China and Brazil are the same as the calendar year.

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

**Iron Ore Lump:** Natural bulk iron ore. Lumps are directly added to a blast furnace, which has 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 the 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 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 product traded in China, as well as the major exported brand. SGX rebar contract was highly correlated to this physical brand.

**Steelmaking Process:** The process normally included the BF-Converter process and EAF process. Major U.S. and West Europe are using EAFs. Pig iron/scrap was major input for EAFs. China, Japan, and India are using the 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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