FIS

Ferrous Weekly Report

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⇒ **Iron ore Fe62% CFR China:** short-run **Neutral**. The recovery in China would stimulate material buying sentiment, however low steel margins could limit the level of the rebound.

⇒ **Rebar 25mm Shanghai** short-run **Neutral**. Shanghai expected to completely resume work in early June, however, the market's appetite could shift from futures to physical in the next month.

⇒ **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.

⇒ **Hard Coking Coal FOB Australia** short-run **Bullish**. The coking coal market normally drops when the market is quiet. However, a rebound should come along with new tenders and trades next week.

Market Review:

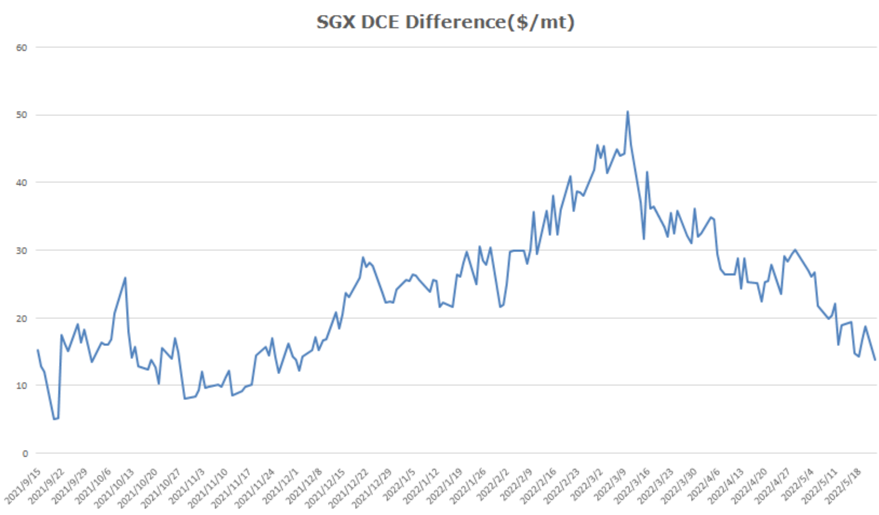
Prices Movement	30-May	23-May	Changes %	Sentiment	
Iron Ore Fe62% CFR China($/MT)	136.6	135.95	0.48%	Neutral	-
Rebar 25mm Shanghai (Yuan/MT)	4780	4900	2.45%	Neutral	-
U.S. HRC Front Month ($/MT)	1181	1385	14.73%	Neutral to Bearish	↘
Hard Coking Coal FOB Australia($/MT)	456	520	12.31%	Bullish	↑

Iron ore Market :

The iron ore 62% index rebounded 0.48% during the last week, as was expected in the previous FIS report. The rebound over the previous two weeks was mainly down to the expected resumption of work in Shanghai in early June. Although margins were stuck in the negative to zero range during the past two months, mills saw some positive signals to reverse marginal losses in the coming weeks.

PBF started to attract more interest because import margins improved from mid-May. Seaborne trade was boosted last Friday and this Monday, with July laycans of Fe61% traded at a fixed price sold by Rio Tinto. BHP sold July laycans of JMBF discount at $9-10 through GlobalOres. Beijing also announced that the virus outbreak in Shanghai was reducing in a boost to efforts to return to normal activity. On the other hand, physical steel mill margins were still at the zero to marginal loss level in northern mills, while virtual steel margins (margin in the futures markets) had dropped 70% in the past three months. There are concerns that the forecast wet weather for central, southern, and eastern provinces would reduce some downstream steel-producing activity in June.

There were some market participants in China who were revealing more control measures on price fairness on iron ore, following the investigation on coal products earlier this May. However, the shipment of iron ores failed to rise as expected in early May, mainly because miners potentially give up some orders to maintain margins. If there is a demand increase in June, miners indicated that they would be able to match it with increased supply.



Domestic Tangshan concentrates still suffered from a weak buying appetite, down 47 yuan/ton from 1100 yuan/ton last week. The market expects weak support for lump premiums in the next two months because of the wet season.

Data Sources: Bloomberg, Platts, Fastmarket, FIS

Market Review (Continued)

SGX–DCE spread touched the $10 level, a historic low, however, it soon recovered to $13. The current price level was considered oversold with the improved import margins and expected recovery of steel margins following the restart of the Chinese downstream market.

MB65—P62 spread dropped from $26.30 to $24.20 as was expected, as high premium products were not a preferable option for Asian blast furnaces considering the low-cost efficiency. As a result, the current market structure was not supporting the MB65—P62 spread.

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:

Toyota is expected to lose an additional 50,000 vehicles from its June production figures as it extended shutdowns for its domestic plants from June 3rd to 10th. Platts indicated that the company's production would drop 12.3% compared to the data posted last June. The large steelmaker, Nippon steel said that steel prices had doubled from 65,000 yen/mt to 130,000 yen/mt.

U.S. Steel planned to boost self-reliance on new pig iron capacity. The steel producer began to construct pig iron caster operations and is expected to begin operation in early 2023, with a 0.5 million annual capacity. Russia and Ukraine's pig iron exports accounted for 60% of total U.S. imports according to U.S. Commerce Department.

The Russian Steelmakers Association has urged the government to drop excise duty on some steel products and abolish the increase in mineral extraction taxes imposed on iron ores and coking coals, confirmed by S&P Global Commodity Insights.

Global Steel Market:

Argus Daily HRC index Northwest Europe HRC corrected 6.4% during last week at €977/mt. The index corrected more than 22% during May. Vietnam SAE1006 grade steel was offered to Antwerp at $850/t CFR Antwerp. Chinese sellers lifted offers by $5-10/t last Friday at $710-720/t for SS400 HRC, ended with no buying interest. There was a $20-30 disparity last for 2 weeks between China's offer on SAE1006 coils CFR Vietnam and the bids.

European suppliers believed that Turkish deep-sea import ferrous scrap prices were close to a bottom, given the price suffered continuous correction during the last two weeks. A sub-supplier in the Benelux region reported HMS offers as low as €340– 350/mt. Recyclers could afford €10-20 higher than this level with larger tonnages of cargoes.

Neutral to Bearish

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

Market Review (Continued)

Chinese Steel Market:

There was a slightly positive signal on eastern Chinese steel markets 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 the entire May. Mills were cautious on pricing and orders in response to the slow recovery in the downstream market. The major auto-producers including Tesla and SAIC indicated that they would produce massively in H2 to fulfill the annual guidance. The production value of SAIC contributes 17.5% to Shanghai's GDP. SAIC had recovered to normal production from early May. Tesla guaranteed to catch up to normal daily production of units in June.

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 pick up in the next few weeks as a massive recovery in the downstream market is expected in eastern China.

Neutral

Coal Market:

The PLV Australia coking coal market suffered a streak of losses over the report week because the delivered price to China declined due to negative steel margins. FOB market saw two trades concluded at $462/mt and $465/mt respectively, HCCA brand. The physical traders were mainly concerned with the inverse relationship between PLV and PCI not being sustainable in the mid-term. In other words, PCI is expected to drop given a low PLV price because there are many alternatives including low vol HCC and high CV thermal coals.

Australia FOB and China CFR difference narrowed from $85–90 to $50. However, the disparity was still the biggest obstacle for Chinese importers as many mills were operating at negative margins. Moreover, Mongolian coal exports to China have increased from 200 trucks/day to 400 trucks/day in May. There were sources saying Indian coke plants were planning to decrease production and rely more on imported cokes. In general, CFR China prices could be $80 lower than other areas, which resisted the global coking coal market.

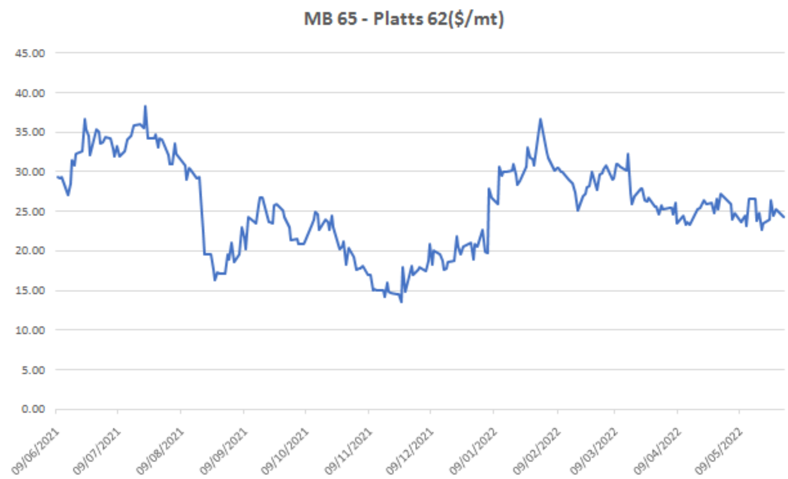
China NDRC has announced multiple documents to restrict speculation and improve price fairness in the last five months. The physical coking coal price range narrowed significantly compared with 2020 and 2021. Chinese domestic steel mills hoped to resist coking coal price increases because of weak steel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

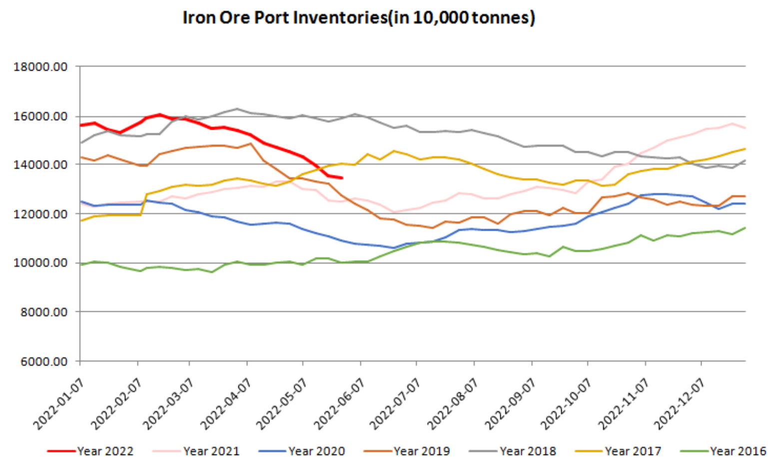
Bullish

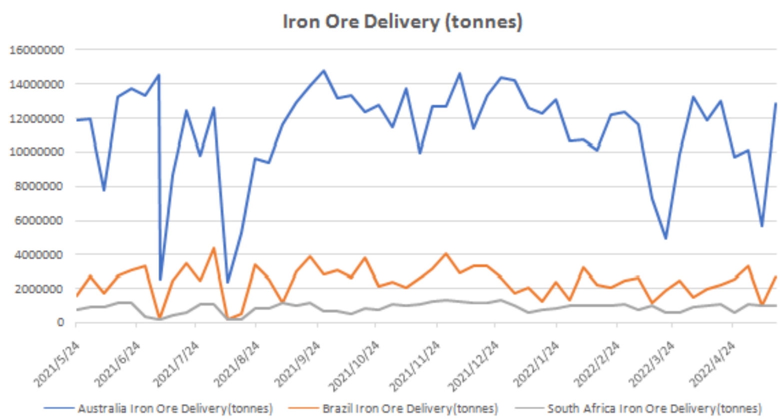
Sources: Argus, IHS Commodities at Sea Service, FIS

Iron Ore

	Last	Previous	% Change
Platts 62% Fe (Dollar/mt)	136.6	135.95	0.48%
MB 65% Fe (Dollar/mt)	160.8	159.9	0.56%
Capesize 5TC Index (Dollar/day)	21516	38169	-43.63%
C3 Tubarao to Qingdao (Dollar/day)	30.85	38.325	-19.50%
C5 West Australia to Qingdao (Dollar/day)	11.545	15.341	-24.74%
Billet Spot Ex-Works Tangshan (Yuan/mt)	4470	4520	-1.11%
SGX Front Month (Dollar/mt)	133.41	134.36	-0.71%
DCE Major Month (Yuan/mt)	960.5	939.5	2.24%
China Port Inventory Unit (10,000mt)	13,454	13,558	-0.77%
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.

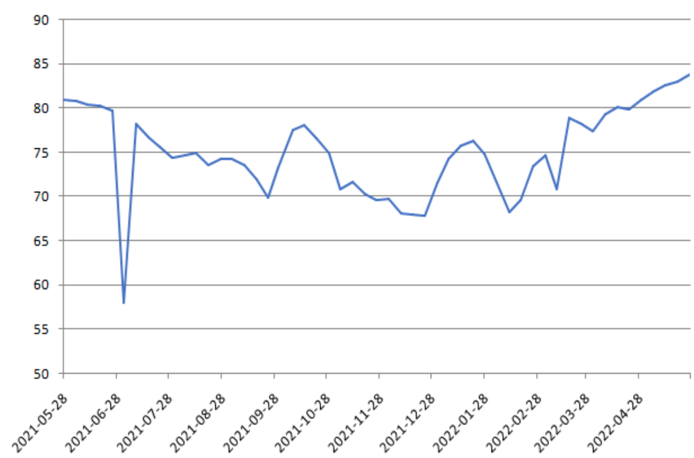
– The 65% and 62% iron ore difference returned from \$23–\$26 area during last week. The spread has stayed in the range-bound for a month.

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

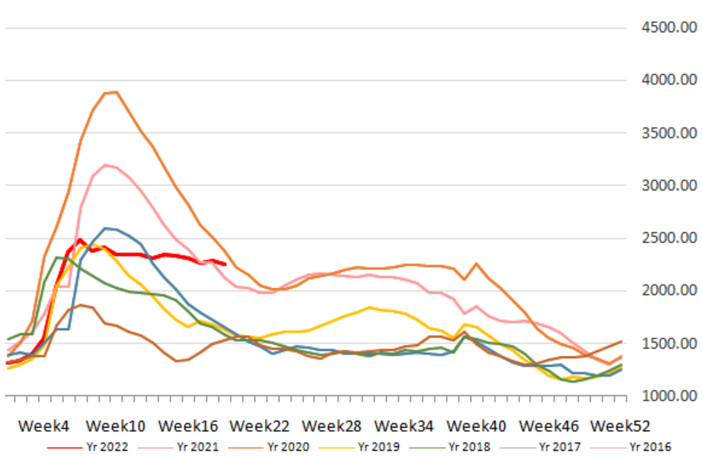
Steel

	Last	Previous	% Change
US HRC Front Month (Dollar/mt)	1195	1385	-13.72%
LME Rebar Front Month (Dollar/mt)	728	722	0.83%
SHFE Rebar Major Month (Yuan/mt)	4683	4817	-2.78%
China Hot Rolled Coil (Yuan/mt)	4811	4890	-1.62%
Vitural Steel Mills Margin(Yuan/mt)	391	470	-16.81%
China Five Major Steel Inventories Unit (10,000 mt)	2489.64	2371.33	4.99%
Global Crude Steel Production Unit (1,000 mt)	92780	88300	5.07%
World Steel Association Steel Production Unit(1,000 mt)	161,047	142,676	12.88%

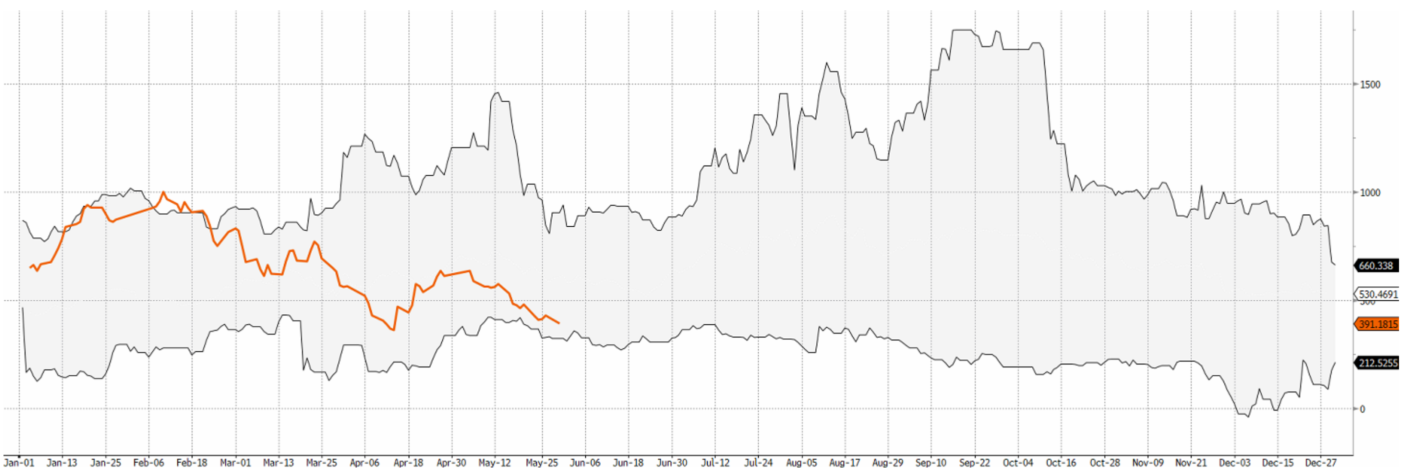
MySteel 247 mills BF Operation Rate in %



Five Major Steels Inventories(10,000 tonnes)



Virtual Steel Mill Margins (Five-Year Range)

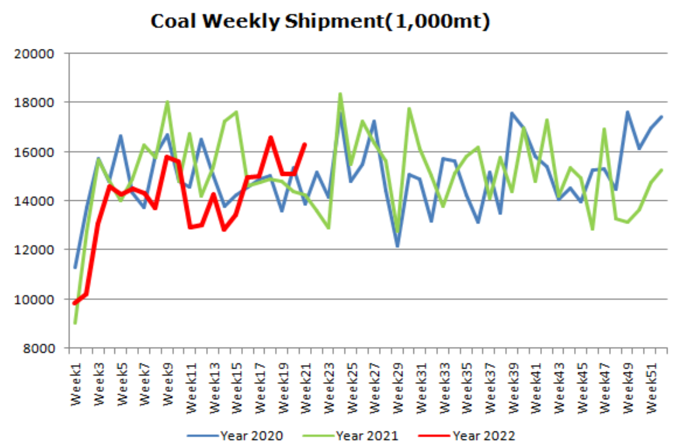


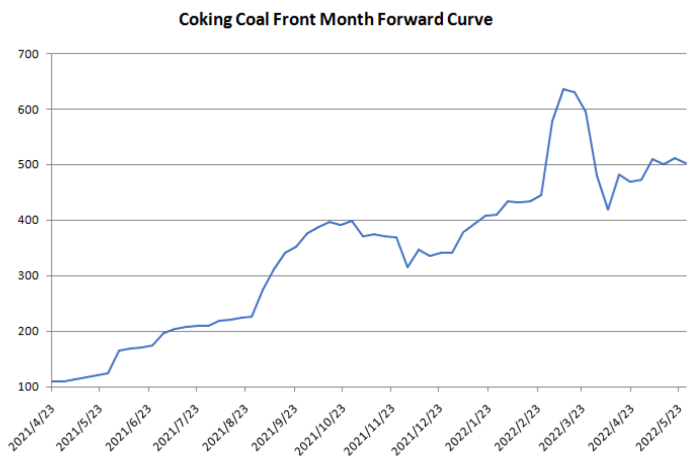
Data Sources: Bloomberg, MySteel, FIS

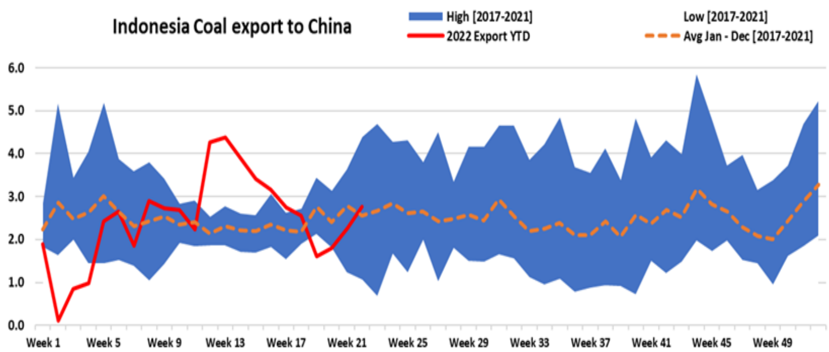
- Virtual steel mill margins corrected from 470 yuan/ton area to 391 yuan/ton, close to yearly-low and seasonal low area.
- The five types of steel inventories have not achieved expected higher levels, as downstream buying has been cautious due to control or quarantine on the pandemic.

Coking Coal

	Last	Previous	% Change
TSI FOB Premium Hard Coking Coal (Dollar/mt)	456	520	**-12.31%**
Coking Coal Front Month (Dollar/mt)	502.33	512.5	**-1.98%**
DCE CC Major Month (Yuan/mt)	3084.5	2808	**9.85%**
IHS Coal Weekly Shipment (1,000 mt)	16,313	15,111	**7.95%**
China Custom total CC Import Unit mt	4,256,446	3,762,210	**13.14%**

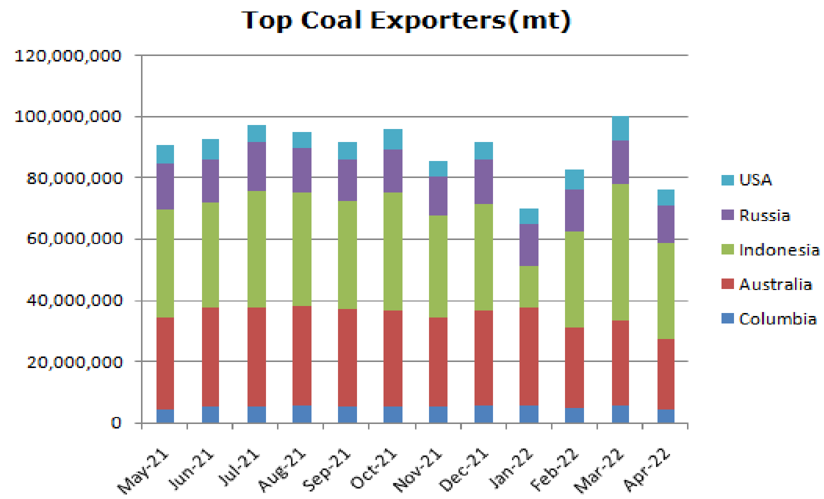






Coal Key Points

- 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 slightly 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, and rebar. Downstream meant the end-users of steels, including housing, infrastructure, auto-making, energy market, shipbuilding, housing appliances, containers, and mechanics.

Fiscal Year: An accounting period of 12 months. The 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 from July 1st to June 30th, in the next year. The fiscal year of the U.S., Mexico starts from October 1st to September 30th, in the next year. 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 belts. 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 bulks 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 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 the increase in 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. The U.S. and West Europe are using EAFs. Pig iron/scrap were 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 a complex of rebar, iron ore and coking coal to represent the leading indicator of physical steel margin.

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