FIS Ferrous Weekly Report

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

14/6/2022

⇒ **Iron ore Fe62% CFR China:** short-run **Neutral to bearish**. Chinese steel production decreased due to some main furnace maintenance and the rainy season disrupting coastal cities and mid-China.

⇒ **Rebar 25mm Shanghai** short-run **Neutral to bearish**. Physical trading volumes decreased significantly last week. Less than expected demand forced down mill offers in order to execute business.

⇒ **U.S. HRC Front Month** short-run **Neutral to bearish**. 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 market expected Asian blast furnaces would shift to lower-grade iron ore, combining it with premium coking coal to try to reduce total costs. Thus, market participants expect a slight recovery for the coking coal seaborne market in the coming weeks.

Prices Movement	13-Jun	6-Jun	Changes %	Sentiment	
Iron Ore Fe62% CFR China($/MT)	136.6	146.75	6.92%	Neutral to Bearish	↘
Rebar 25mm Shanghai (Yuan/MT)	4770	4850	1.65%	Neutral to Bearish	↘
U.S. HRC Front Month ($/MT)	1138	1155	1.47%	Neutral to Bearish	↘
Hard Coking Coal FOB Australia($/MT)	381.0	423.25	9.98%	Neutral	-

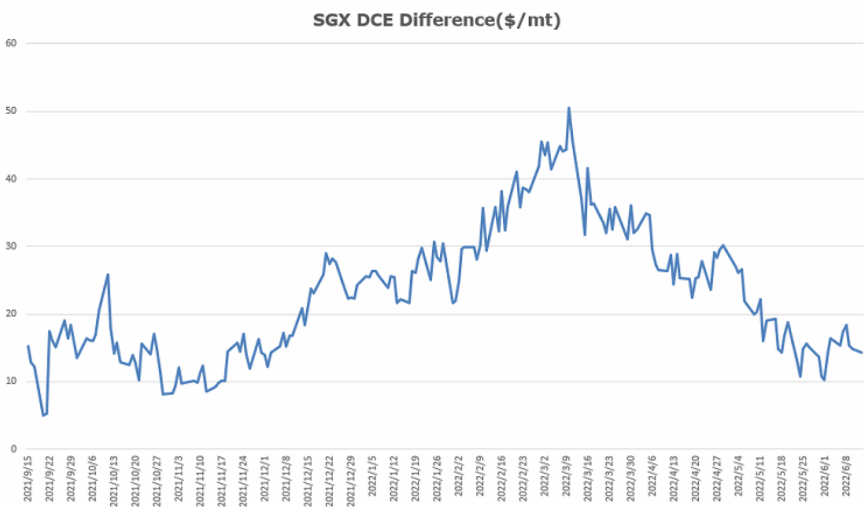
Market Review:

Iron ore Market :

Iron ore 62% index corrected back by 6.92% during the last reporting week, giving back all the gains from the previous week and staying neutral for the first half of June. However, it is believed that iron ore prices may drop, as the steel production recovery was slower than expected, partially due to the uncertainty of the pandemic's impact in some northern Chinese cities. Physical construction steel daily trading volume was 149,200 tons over last week, significantly lower than the May average of 170,000 tons. The number was also smaller than in the same period last year.

Virtual Steel Margins (calculated by futures) reached 301 yuan/ton, approaching both seasonal and yearly lows. Northern mills reported a physical production loss of nearly 100 yuan/mt because of two rounds of quick coke price increases along with iron ore spikes over the previous two weeks. Some mills have to enter the maintenance process after suffering two months of marginal loss plus the upcoming rainy seasons. It is not possible for mills to suffer a loss in a quarter-length period without changing output levels, as observed from history. Thus, investors expect to see a recovery in both physical and virtual margins in the near future, by buying steel and selling raw materials including iron ore, scrap, and coal.

The steel output decrease would naturally fit into the country's annual crude steel decrease target. Some agencies calculated that the production cut target is less than 100 million tons each month for the rest of 2022 given the previous impact of the pandemic on production levels.



Iron ore port stocks were decreasing and refreshed yearly lows, approaching a similar level during the same period in 2021. Some sources indicated that DCE would add more domestic brands into the physical delivery process. There is no direct link to impact the premium and discount of the DCE benchmark, but increasing the flexibility for physical traders is an option.

Data Sources: Bloomberg, Platts, Fastmarket, FIS

Market Review (Continued)

SGX–DCE spread had dropped to $10, a historic low in late May, and then bounced to $18 in early June, before settling around $15 each time after a fast movement in price. 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 maintained a weak position at $22. Looking back to early March, virtual steel margins had reached above 800 yuan/ton, while MB65–P62 used to be $30 and P62—P58 used to be $50. However, when virtual steel margins dropped to a yearly low level from 300–400 yuan/ton in late May and early June, MB65—P62 narrowed to $30, P62—P58 narrowed to $26. The spreads indicated that low-grade prices were climbing fast, and mid-grade was considered to have high cost-efficiency.

Neutral to Bearish

Downstream/Policies/Industry News:

U.S. May CPI unexpectedly refreshed a 40-year high, ruining the theory of the cooling of inflation mentioned by mainstream analysts last month. Thus, there’s an expectation of further rate rises, while U.S. stocks slumped for two trading days — the S&P500 entering a technical bear market.

The World Bank cut 1/3 off its previous global economy growth rate predictions, putting it at 2.9%. The World Bank indicated the growth rate would stay similar for 2023 and 2024. Global Manufacturing PMI achieved 53.5% in May, up 0.3% and ended two months of decreases.

The European Central Bank decided to increase rates by 25 basis points in July, and the next rate hike is expected in September. The ECB decided to stop asset purchasing from July 1st. EU member countries started the seventh round of sanctions against Russia, including an immediate ban on the insurance of new contracts for Russian oil vessels. The existing insurance will be phased out within six months.

Shanghai Financial Department statistics indicated that 9,472 enterprises above designated scale resumption rates reached 96%, and utilisation rates reached 69% up 20% from the first week of June. Daily electricity consumption was up 5.6% last week, which was 86% during the same period last year.

Global Steel Market:

Argus Northwest European index slipped to €904/mt, the lowest since January 25th. Mills and service centres were negotiating on the contracts in H2 2022, in range €1,000–1,100 currently. European sellers reported a 3,000 mt S235 HRC at €905/mt ex-works Ruhr on Jun 13th, with 1/3 of the size traded at €895/mt. Argus reported an indicative level for S235 HRC at €880—890 ex-works Ruhr.

Northern Chinese mill sold SS400 HRC at $770/mt CFR to South Korea early last week when the sentiment was bullish, however, the following interest slid down to $730 after the market reversed.

Neutral to Bearish

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

Market Review (Continued)

SAE1006 grade coils were sold for $745 CFR to Vietnam last week, the level was acceptable for Indian mills as well. Traders were expecting a $10 decrease from the previous trade level.

Turkey HMS1/2(80:20) continued to drop during last week. The index has dumped 38.7% from mid-April 2022. Some Turkish mills have pulled down the domestic bids due to the bearish sentiment in the market. In addition, Turkey Lira accelerated the depreciation of the U.S. dollar. Turkey consumed 30 million mt steel scraps annually, 75% of the amount was from import sources.

Neutral to Bearish

Chinese Steel Market:

The apparent consumption of steel fell from 10.22 million tons to 9.8 million tons last week but was disappointing because of high expectations after the relaxing of Shanghai lockdown conditions. Southern and mid-China were affected by heavy rain, causing many downstream operations to stop in June. Northern mills' spot margins were squeezed to negative levels again because raw materials eroded midstream and downstream margins in advance of production. Some northern mills started seasonal maintenance and so demand may potentially shift to early Q3. EAFs suffered a general loss due to high electricity costs and a shortage of scrap. Nearly 70% of EAFs in China were at breakeven or marginal loss for the previous two months. EAFs losses reached 150 yuan/ton on average, the biggest losses this year. Some EAFs were considering shutting down temporarily.

Shanghai 25mm domestic spot rebar corrected 1.65% during the past reporting week, market participants expected a much lower price with some seeing a significant drop in daily physical trading volume compared with early June or the same period over the last few years.

Neutral to Bearish

Coal Market:

The PLV Australia coking coal market corrected over the report week with many selling interests versus limited buyers on the market. However, the market stabilised with a spot trade of July Saraji FOB Australia coking coal finalised at $381/mt.

Australia FOB and CFR China PLV diverged further, CFR China's current became $59 higher than Australia FOB ($67.5 as the highest last week), indicating a resilient Chinese demand coming back to the seaborne market after being restricted for two months by the pandemic. The FOB used to be $80-90 higher than CFR in April.

FOB Australia market saw the most competitive offer at $348/mt for 80,000 mt June laycan of GlobalCoal HCCA Unbranded, down $10 from the initial level last week. PLV—PMV spread widened as the supply of PMV increased. Market participants believed that the spread would widen further. Market participants placed tradable levels from $410-440 for U.S. low-vol Blue Creek No. 7 and Oak Grove, noted by Platts.

Coke price and coking coal price started to recover as mills started to use slightly lower ferrous grade iron ores to decrease costs as the reduction of ferrous grade theoretically means mills need to use premium coal. However, there is a balance and cost equilibrium between ferrous elements and coal elements. China's domestic market started the two rounds of increases on coke price totalling 200 yuan/ton, after a previous drop of 800 yuan in the past two months.

Neutral

Sources: Argus, IHS Commodities at Sea Service, FIS

Technical view of the Ferrous Markets:

Iron Ore

July futures – As noted on the last report, the futures were technically bullish, but we had a note of caution as above USD 145.05 as the we had the potential to enter a corrective phase due to a negative divergence on the intraday chart. The futures traded to a high of USD 146.70 before entering a corrective phase. The futures have traded below the USD 135.74 support, meaning the daily technical has a neutral bias, below USD 130.10 the technical is bearish. Upside moves that fail at or below USD 141.89 will leave the futures vulnerable to further tests to the downside, above this level we target the USD 146.70 high. Technically bullish but with a neutral bias, downside moves below USD 132.55 will warn that the USD 130.10 fractal support could come under pressure, below this level we target the USD 123.45 and USD 118.60 levels.

Steel

July Futures – We noted least week that intraday momentum indicators suggested that we could be vulnerable to a test to the upside, price moved sideways to slightly higher with the futures finding resistance at the 8 period EMA on the daily chart. Technically bearish, downside moves that trade below USD 985 will target the USD 893 low. Likewise, upside moves above USD 1,070 will warn that the USD 1,190 fractal resistance could be tested. The rolling front month futures remain in bear territory below USD 1,392; however, based on how far away the rolling resistance is we are focusing on the July outright at this point. The technical is bearish but has the potential to create a positive divergence below USD 985 which will need to be monitored.

Coking Coal

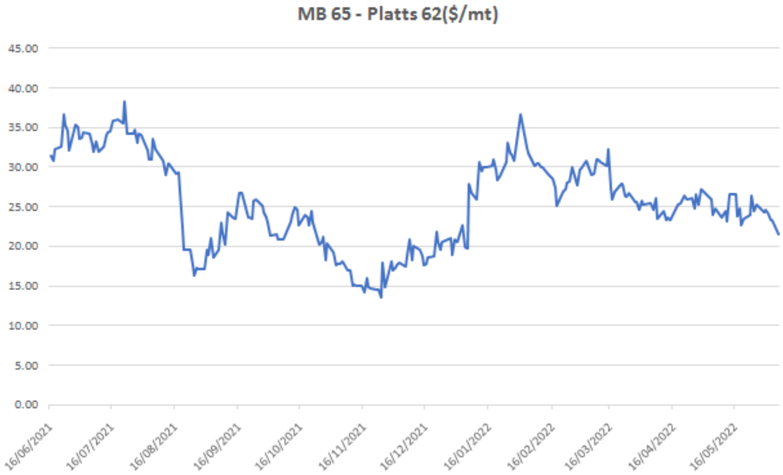
July futures – technically bearish last week having made a new low, the MA on the RSI had suggested that upside resistance levels should hold if tested. The futures had only a small one day move higher before continuing lower. Upside moves that fail at or below USD 388 will leave the futures vulnerable to further tests to the downside, above this level we target the USD 403 level. Downside moves below USD 359.50 will target the USD 350 and potential the USD 317 support levels. Technically bearish with price below all key moving averages supported by the RSI below 50, the MA on the RSI continues to suggest that resistance levels should hold if tested.

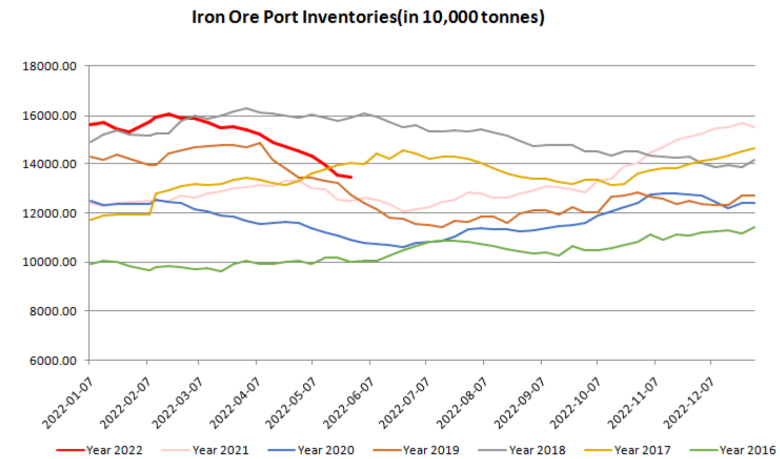
Iron Ore Offshore *July 22 Morning Technical Comment* – *240 Min* Chart

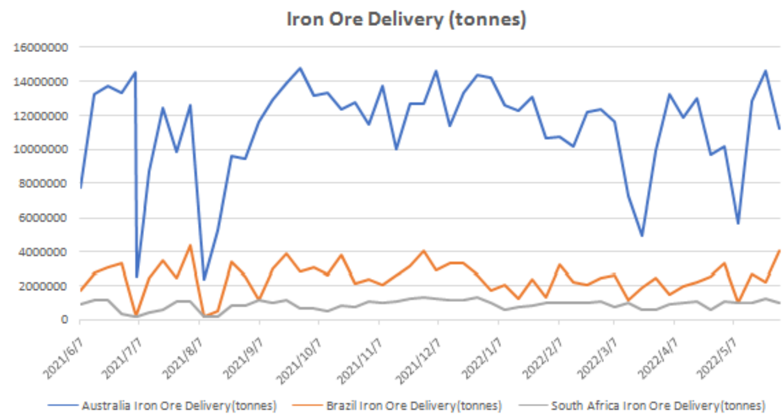
Sources: Argus, IHS Commodities at Sea Service, FIS, Bloomberg (chart)

Iron Ore

	Last	Previous	% Change
Platts 62% Fe (Dollar/mt)	136.6	146.75	-6.92%
MB 65% Fe (Dollar/mt)	158.6	168.2	-5.71%
Capesize 5TC Index (Dollar/day)	18627	22866	-18.54%
C3 Tubarao to Qingdao (Dollar/day)	31.07	32.778	-5.21%
C5 West Australia to Qingdao (Dollar/day)	12.236	12.968	-5.64%
Billet Spot Ex-Works Tangshan (Yuan/mt)	4480	4500	-0.44%
SGX Front Month (Dollar/mt)	139.70	142.70	-2.10%
DCE Major Month (Yuan/mt)	920.5	919	0.16%
China Port Inventory Unit (10,000mt)	12,845	13,234	-2.94%
Australia Iron Ore Weekly Export (10,000mt)	954.10	1,122.10	-14.97%
Brazil Iron Ore Weekly Export (10,000mt)	323.20	402.50	-19.70%







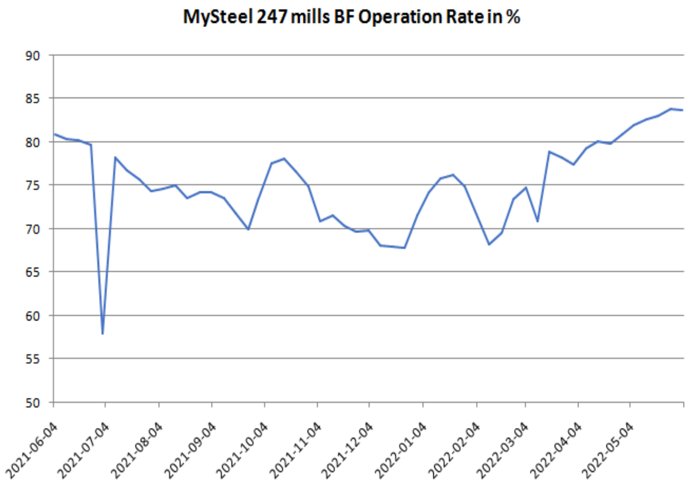
Iron Ore Key Points

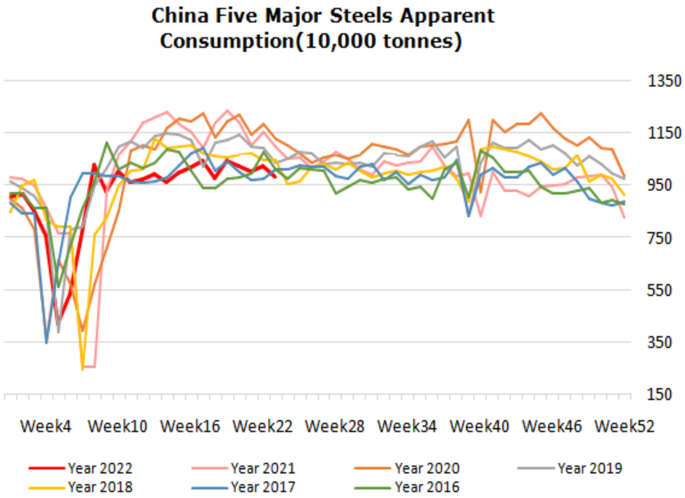
- Iron ore port inventories are expected to decrease as the port efficiency increased after the controlled pandemic in northern China.
- Big miners including Vale, Rio Tinto, BHP, and FMG entered the last quarter of the financial year, the market expected them to improve profitability before the issuance 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

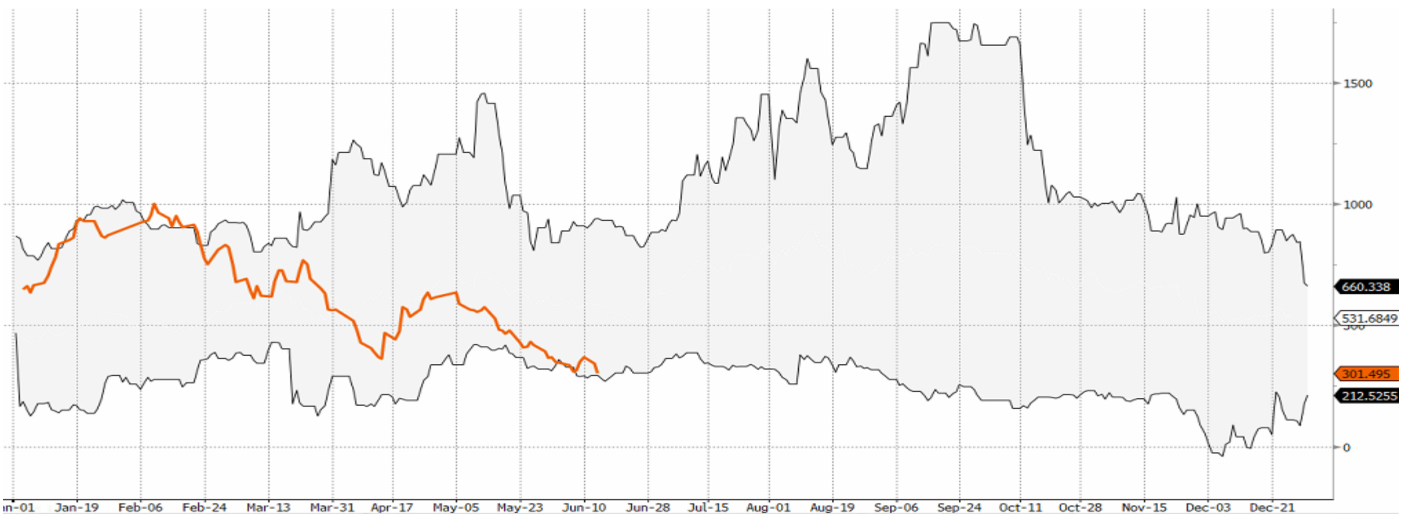
Steel

	Last	Previous	% Change
US HRC Front Month (Dollar/mt)	1160	1155	**0.43%**
LME Rebar Front Month (Dollar/mt)	728	722	**0.83%**
SHFE Rebar Major Month (Yuan/mt)	4786	4733	**1.12%**
China Hot Rolled Coil (Yuan/mt)	4870	4856	**0.29%**
Vitural Steel Mills Margin(Yuan/mt)	301	391	**-23.02%**
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%**





Virtual Steel Mill Margins (Five-Year Range)

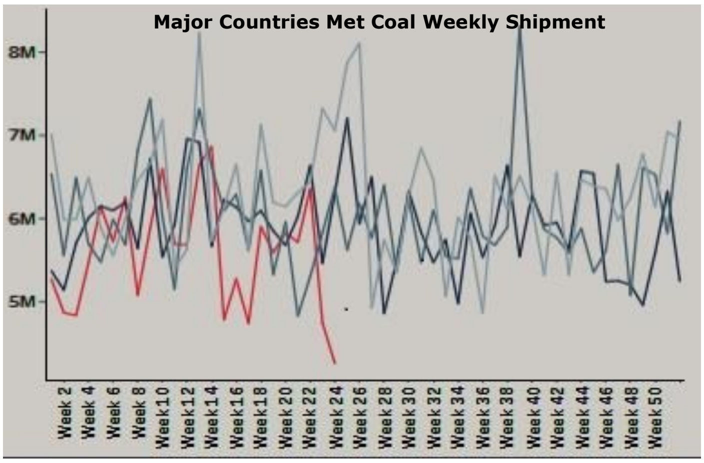


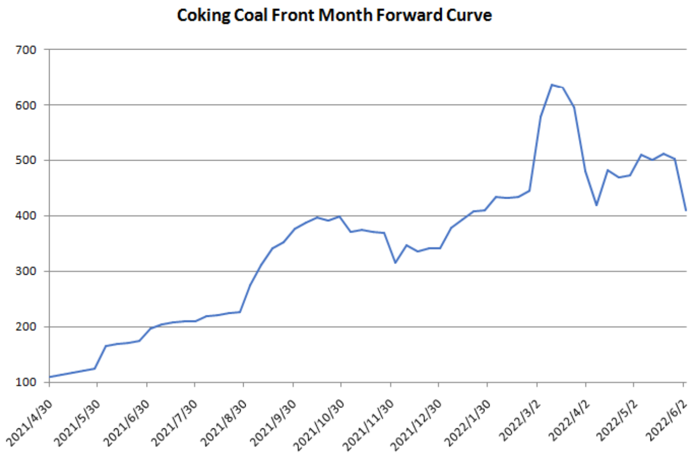
Data Sources: Bloomberg, MySteel, FIS

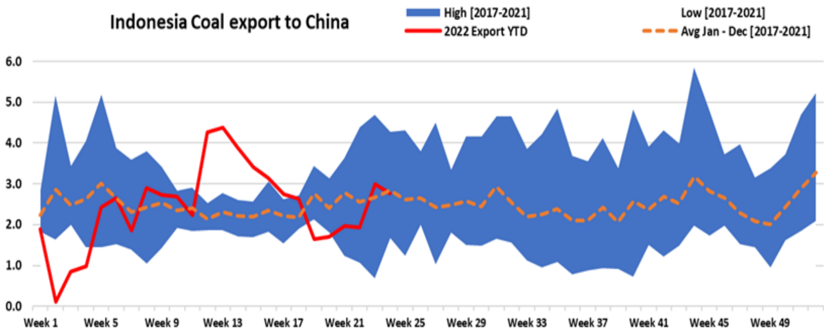
- Virtual steel mill margins reached 301 yuan/ton approaching yearly-low and seasonally low.
- The five types of steel consumption expected to start growing as downstream recovery generally in China.

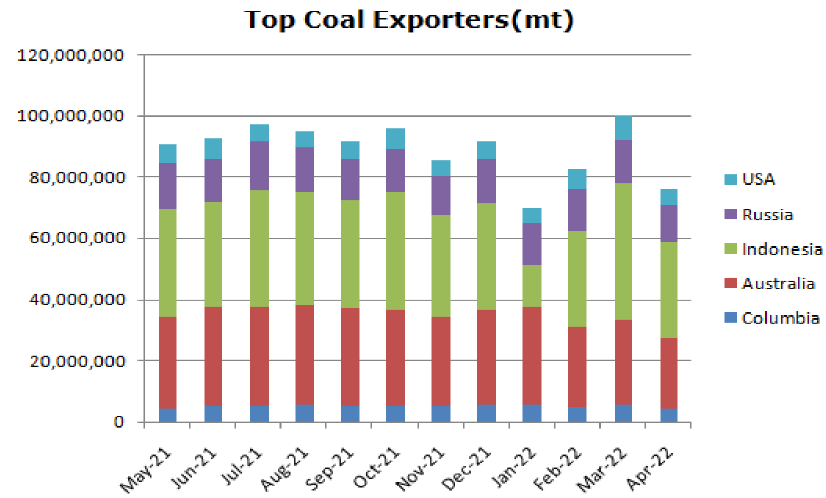
Coking Coal

	Last	Previous	% Change
TSI FOB Premium Hard Coking Coal (Dollar/mt)	381	423.25	-9.98%
Coking Coal Front Month (Dollar/mt)	376.5	410	-8.17%
DCE CC Major Month (Yuan/mt)	2881.5	2763.5	4.27%
IHS Met Coal Weekly Shipment (Million mt)	4.20	4.70	-10.64%
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 on prompt purchases was weak.
- Global weekly coal shipments delivered at 15—16 million tons weekly, a slight high level seasonally.
- The disparity between Australia FOB and CFR China market narrowed from $90 in May to $17 in early June, potentially induce more buying interest from Chinese importers.

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 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 refers 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