FIS Ferrous Weekly Report

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

21/6/2022

⇒ **Iron ore Fe62% CFR China:** short-run **Neutral to Bearish**. Seaborne iron ore slumped as more Chinese mills started to enter maintenance to avoid marginal losses.

⇒ **Rebar 25mm Shanghai** short-run **Neutral to Bearish**. The three-month mill losses finally saw a signal of slowing steel consumption, leading to a price collapse across the whole ferrous complex

⇒ **U.S. HRC Front Month** short-run **Neutral to Bearish**. Steel mills were trying to firm prices with them wary of the decrease in demand.

⇒ **Hard Coking Coal FOB Australia** short-run **Neutral**. The market expected Asian blast furnaces would toto lower iron ore grade combined with premium coking coal to comprehensively reduce total input costs. Therefore, an expected slight recovery for the seaborne coking coal market is expected.

Prices Movement	20-Jun	13-Jun	Changes %	Sentiment	
Iron Ore Fe62% CFR China($/MT)	112.35	136.6	17.75%	Neutral to Bearish	↘
Rebar 25mm Shanghai (Yuan/MT)	4280	4770	10.27%	Neutral to Bearish	↘
U.S. HRC Front Month ($/MT)	1126	1138	1.05%	Neutral to Bearish	↘
Hard Coking Coal FOB Australia($/MT)	376.0	381.0	1.31%	Neutral	-

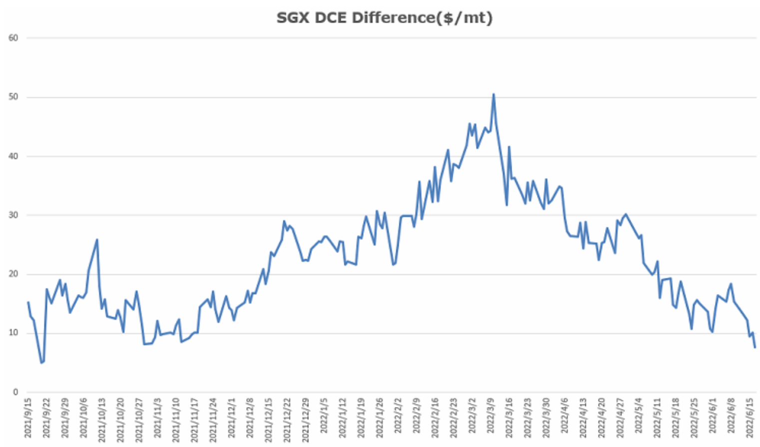
Market Review:

Iron ore Market :

Iron ore 62% index, as expected, corrected back by 17.75% during the last reporting week because Chinese mills started maintenance given sluggish downstream demand. Daily construction steel traded around the 120,000 tons level, down from a 140,000 level, reaching a two-year low level (excluding holiday and pre-holiday times). It is expected the ferrous chain correction would slow after the combination of a reduction of macro risks and that the bearish sentiment will have been priced in.

Northern mills theoretical lost 400 to 500 yuan/ton, a historical low. However, virtual steel margins (calculated by futures) reached 371 yuan/ton, slightly improved from last week. Arbitragers were indicating that it is possible to start looking at the rebound of mill margins after a periodic production decrease. Thus, the increase on virtual steel margins were potentially due to the entrance of those arbitragers. The physical cost based on the materials purchased in June and May would last for a longer period, which means mills have to stop production or buy much cheaper materials to dilute the average costs.

Iron ore port stocks were decreasing and refreshing yearly lows as they approached a similar level to the period in 2021. Portside iron ores were becoming popular compared to seaborne brands in H1 2022 and as a result, the SGX—DCE spread difference tanked from $50 to $9 over the past four months. The absolute value of this difference was lower than the theoretical value considering the acceptable grades, the premium and their popularity among end-users. In addition, import losses have recovered significantly since May. After the correction of the seaborne market, it is expected that the difference could drive back significantly, purely from the standpoint of valuation recovery.



The U.S. 40-year-high unexpected CPI growth and aggressive interest hikes forced global countries to join in with similar policies to fight inflation. Investors expect long-term agreements or trade barriers to be removed on commodities in the coming years before the resolution of global inflationary problems. Thus, investors started to dump commodities in the short run.

Data Sources: Bloomberg, Platts, Fastmarket, FIS

Market Review (Continued)

The penalties and premiums on ferrous, alumina and sulphur were not moving significantly during the past week, however, the low-grade and high impurity cargoes were generally popular simply for their lower price. The ferrous differentials from Fe60—63.5% dropped from $2.49 to $2.2/mt since March. The drop in iron ore prices became a delayed reaction to the preference shift from mid-grade iron ores to low grade.

The MB65—P62 spread slid from $22 to $19 during the past week. The fast squeeze was due to the sharp fall in steel margins when Chinese mills were starting to use domestic alternatives to high-grade iron ores.

Neutral to Bearish

Downstream/Policies/Industry News:

The aggressive U.S. interest rate hike of 75 basis points become the trigger of a commodity price collapse, indicating that market participants started to believe that the economic policies and lower trade barriers would lower commodity prices and increase supply. An anchor commodity, WTI crude oil, corrected more than 12% over the past five trading days.

China's new housing sales declined 41.8% year-on-year in May, slightly better than the 44.2% decrease in April, but still 22.2% lower than March. House buyers are postponing purchases because of the reduction in business earnings and job losses. However, China M2 in May outperformed expectation at 11.6%, indicating the liquidity was sufficient however investment interests were still low.

The United States is considering removing some tariffs on China and suspending the gasoline tax to help curb inflation. U.S. President Joe Biden was planning to set up a conference with Chinese chairman Xi Jinping soon to discuss these measures.

Global Steel Market:

Argus Northwest European index slipped to €827.5/mt, down €77 over the report week and refreshed the lowest since January 25th. It was heard that German mills were negotiating trades around €850. Eastern European producers were targeting offers at €870. Obviously, the market was still on a downward trend.

Chinese SS400 HRC export to south-eastern Asia tanked below $700/mt FOB. Vietnamese local mill Formosa’s offer failed to attract local buyers at $741/mt CIF because Chinese and Indian offers were below $720 adding up the freight cost. Formosa cuts offer to $724 by the end of last Friday.

Tokyo Steel kept its listed price for July unchanged from June, although weak demand from the automotive market. The mill expects the demand for building materials to offset the loss in the auto market, leading to the steel consumption growth in the current two months. However, a local Japanese trader believed that the plunge in Turkish scraps and Chinese steel will soften the Japanese steel market very soon.

Turkish deep-sea ferrous scrap price fell sharply to $355/mt, the lowest since November 2020. EU source cited indicative value for US/Baltic origin HMS 1/2(80:20) at $360–365/mt CFR, EU origin $10 lower. However, the recyclers were resisting on this level.

Neutral to Bearish

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

Market Review (Continued)

Chinese Steel Market:

Shanghai domestic 20mm rebar had its biggest single weekly drop since March 2020 by 490 yuan/ton (10.27%) to 4280 yuan/ton. Tangshan and Qinhuangdao steel billet dropped by more than 13% in three days commenced last Friday. The apparent consumption of steel fell from 10.43 million tons to 9.5 million tons from mid-May to mid-June, disappointing for those that expected a significant uplift after the return to work in Shanghai. Mills have started maintenance after suffering three months of losses and even created the biggest ever marginal loss in mid-June. The reason for the consumption drop was due to the continuous production of steel with unexpectedly small orders from the downstream market. The mismatch was reflected in the figures for June. Pig iron production in May in China even refreshed a record high for a single month at 80.49 million tons.

Bearish global markets in H1 also crushed exports in the flat steel market. Many spot deals need to take a few weeks to complete negotiation, which used to trade within a week. Indian offers became competitive in ASEAN countries, as well as European countries.

Market participants are still confident in the long run, in particular after the maintenance and rainy seasons pass in July. However, there was not enough positive sentiment to persuade buyers to enter the market.

Neutral to Bearish

Coal Market:

The PLV Australia coking coal market corrected slightly by 1.31%, however in general it stabilised with a few spot trades emerging last week around fair value from $375—385/mt. Market participants were expecting a slight recovery with new tenders completed. Spot demand from India and ASEAN countries seems to be picking up from the previous week. The recent tradable values were completed at around $372–381/mt for FOB Australia PLV. There were offers on $450 CFR China however, it was not accepted by end-users amid uncertainties. Selling interests continued from the U.S. on its low-vol Oak Grove cargoes offered at $480 CFR China. Russian PCI cargoes loading in July started to have difficulty getting into Europe considering the impending sanctions. Thus, more supply was expected to go to China, as revealed by Chinese traders.

Australia FOB and CFR China spread maintained during last week at $67, indicating a resilient Chinese demand came 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.

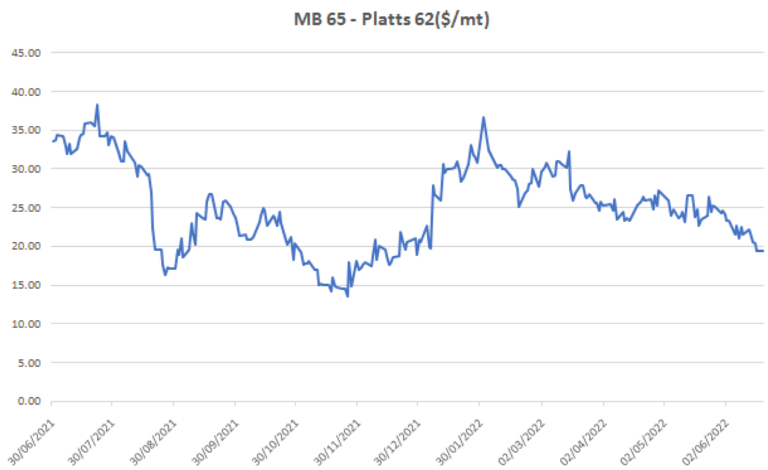
Coke prices, unfortunately, cut back 300 yuan/ton after the plants raised bids two weeks ago. Mills were trying to cut the price further. Several Chinese mills started idling steel plants to exert some inventories. The market committee of the China Coking Coal Association held a market meeting on June 20th. Major Chinese coking enterprises in seven major coal-producing provinces attended the meeting. The participating enterprises unanimously agreed to adhere to the principle of no production at loss and no sales without profit, comprehensively limit production and suspend coal procurement till the prosperity of the industry returns.

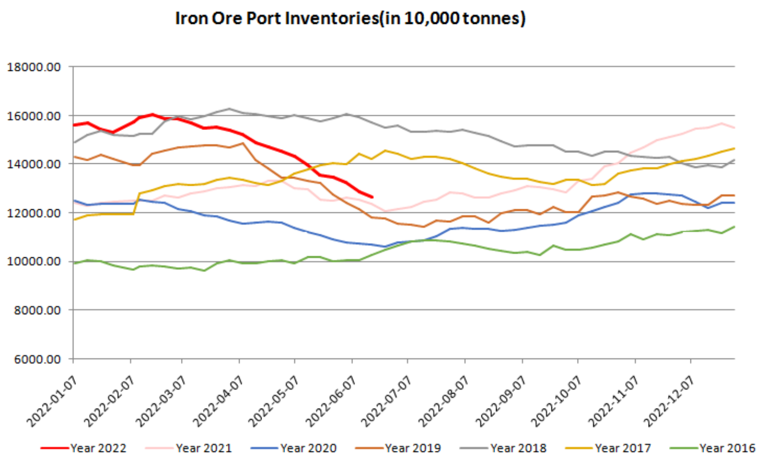
Neutral

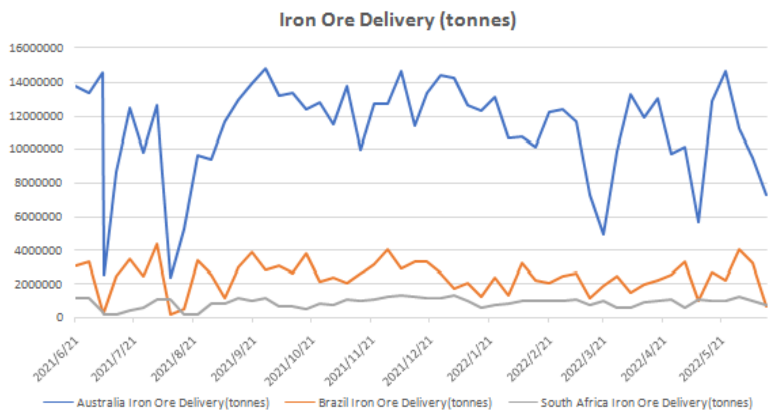
Sources: Argus, IHS Commodities at Sea Service, FIS

Iron Ore

	Last	Previous	% Change
Platts 62% Fe (Dollar/mt)	112.35	136.6	-17.75%
MB 65% Fe (Dollar/mt)	131.7	158.6	-16.96%
Capesize 5TC Index (Dollar/day)	25138	18627	34.95%
C3 Tubarao to Qingdao (Dollar/day)	33.083	31.07	6.48%
C5 West Australia to Qingdao (Dollar/day)	13.41	12.236	9.59%
Billet Spot Ex-Works Tangshan (Yuan/mt)	4080	4480	-8.93%
SGX Front Month (Dollar/mt)	131.38	142.37	-7.72%
DCE Major Month (Yuan/mt)	939	992	-5.34%
China Port Inventory Unit (10,000mt)	12,665	12,845	-1.40%
Australia Iron Ore Weekly Export (10,000mt)	726.10	954.10	-23.90%
Brazil Iron Ore Weekly Export (10,000mt)	68.50	323.20	-78.81%







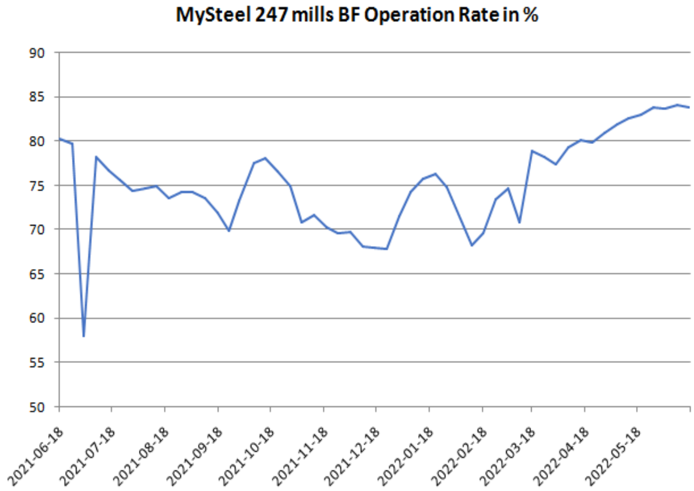
Iron Ore Key Points

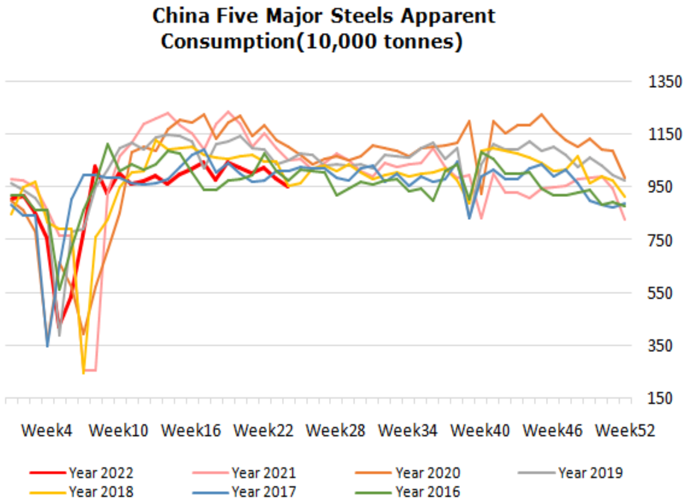
- Iron ore port inventories are expected to decrease considering lower price and flexible trade size and time, compared with seaborne cargoes.
- The 65% and 62% iron ore difference dropped from $22 to $19 because the historical low steel margin forced mills to shift to using alternatives from domestic miners on high-grade ores.
- Iron ore delivery from Brazil and Australia recovered during June compared to April and May.

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

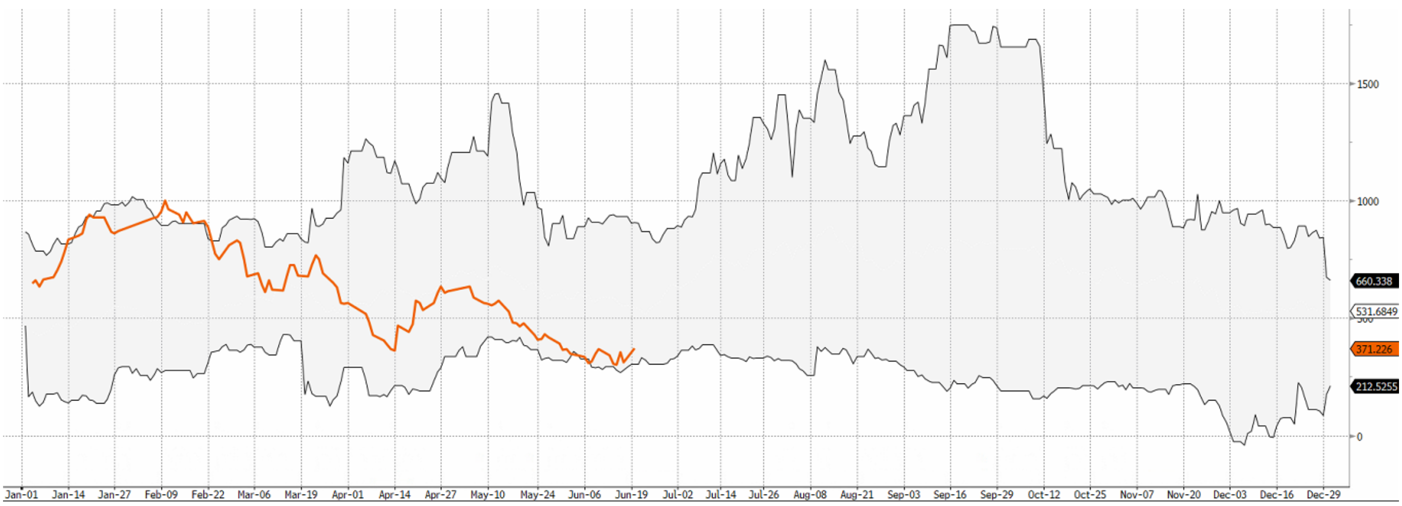
Steel

	Last	Previous	% Change
US HRC Front Month (Dollar/mt)	1126	1160	-2.93%
LME Rebar Front Month (Dollar/mt)	728	722	0.83%
SHFE Rebar Major Month (Yuan/mt)	4552	4600	-1.04%
China Hot Rolled Coil (Yuan/mt)	4679	4870	-3.92%
Vitural Steel Mills Margin(Yuan/mt)	371	301	23.26%
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)	162,749	161,047	1.06%





Virtual Steel Mill Margins (Five-Year Range)

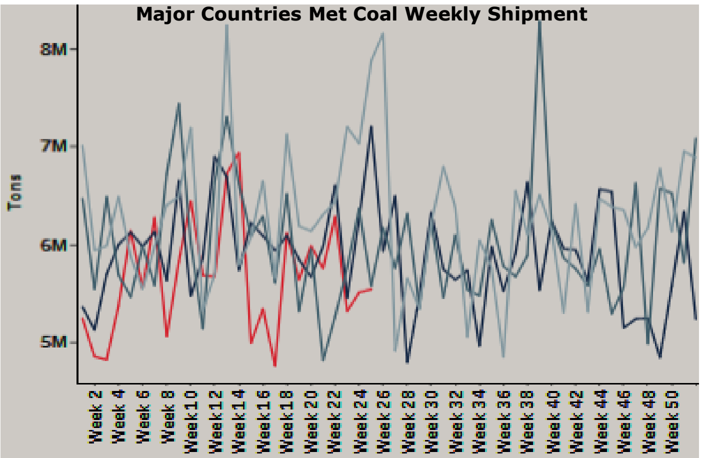


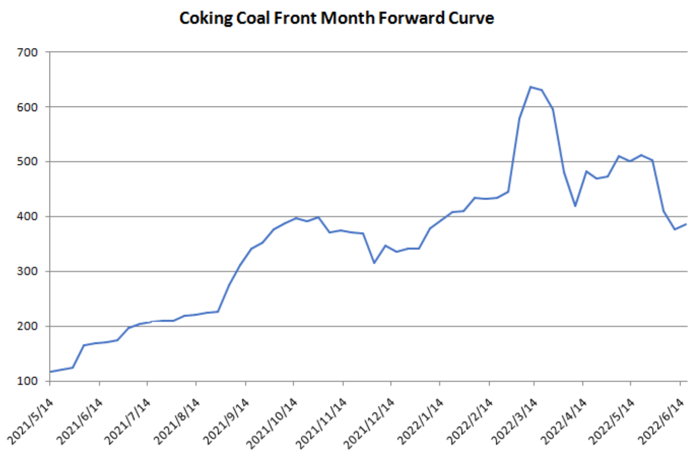
Data Sources: Bloomberg, MySteel, FIS

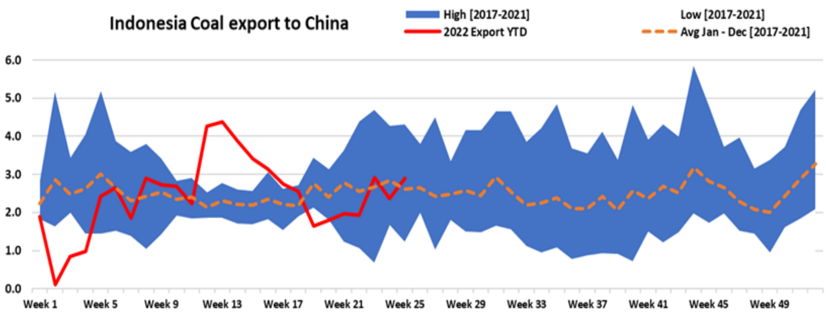
- - Virtual steel mill margins recovered to 371 yuan/ton from the yearly and seasonal low of 301 yuan/ton last week.
- - The five types of steel consumption unexpected fell to a three-month low area, driving down the resilient steel price to a yearly low area.

Coking Coal

	Last	Previous	% Change
TSI FOB Premium Hard Coking Coal (Dollar/mt)	376	381	-1.31%
Coking Coal Front Month (Dollar/mt)	386	376.5	2.52%
DCE CC Major Month (Yuan/mt)	2849.5	3250	-12.32%
IHS Met Coal Weekly Shipment (Million mt)	5.50	5.50	0.00%
China Custom total CC Import Unit mt	4,565,214	4,256,446	7.25%







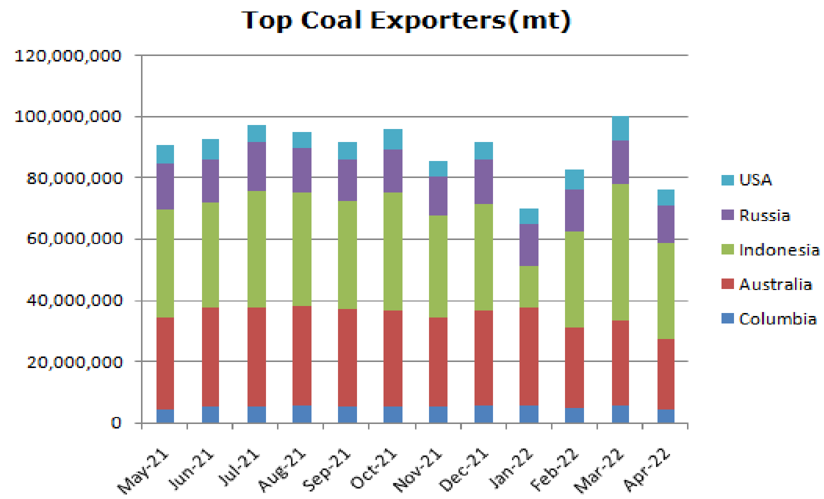
Coal Key Points

– FOB Australia coking coal market saw demand recovery from India and ASEAN countries. China's demand is expected to shift to Q3 due to the current rainy season and maintenance.

–

–

– - Global weekly coal shipments delivered at 15—16 million tons weekly, a slightly high level seasonally.



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. 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 start on July 1st to the next June 30th. The fiscal year of the U.S., Mexico start from October 1st to 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 belts. Normal flat steel including hot-rolled steel or cold-rolled steel. Downstream markets are auto making, 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 steel 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 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 was major input 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.

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

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