FIS Ferrous Weekly Report

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⇒ **Iron ore Fe62% CFR China:** short-run **Neutral**. Seaborne iron ore started to recover from the oversold sentiment early this week, supported by continuous growth in the semi-finished steel market over the weekend.

⇒ **Rebar 25mm Shanghai** short-run **Neutral**. There were increasing number of mills starting to enter maintenance mode in June. As a result, mills are expected to ease oversupply issues before late July.

⇒ **U.S. HRC Front Month** short-run **Neutral**. Marginal demand slid down, however competitive semi-finished steels and pig iron could resist current cost hikes. The European steel market remains weak because of uncontrollable high energy costs and production cuts in major industries including automobiles and machinery.

⇒ **Hard Coking Coal FOB Australia** short-run **Neutral**. The market expected Asian blast furnaces would shift to lower iron ore grades combined with premium coking coal to reduce total costs. Market participants expect a slight recovery for the seaborne coking coal market in the coming weeks.

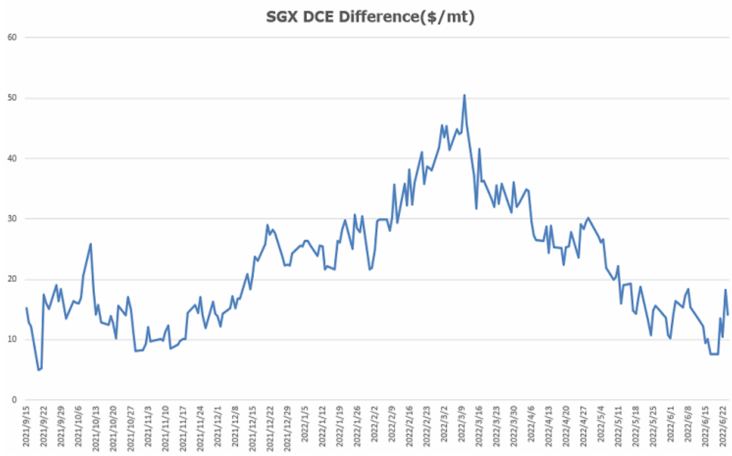
Market Review:

Prices Movement	27-Jun	20-Jun	Changes %	Sentiment	
Iron Ore Fe62% CFR China($/MT)	119.6	112.35	6.45%	Neutral	-
Rebar 25mm Shanghai (Yuan/MT)	4300	4280	0.47%	Neutral	-
U.S. HRC Front Month ($/MT)	1127	1127	0%	Neutral	-
Hard Coking Coal FOB Australia($/MT)	320.0	376.0	14.89%	Neutral	-

Iron ore Market :

Iron ore 62% index recovered 6.45% during the last reporting week, approximately 1/3 of the loss from the previous week. The rebound was due to an oversold sentiment recovery, along with a global asset correction including the equity market, crude oil, copper, and some grains.

Chinese steel mills finally decided to resolve the oversupply issues in late June by idling more furnaces into maintenance. Blast furnace utilisation dropped to 81.92% last week, which had been 83.83% in late May. The utilisation rate is expected to continue to drop in the coming weeks. Iron ore, coal and other raw material purchases were therefore below expected levels. Some minor indicators including daily construction steel trading volume fast reflected the marginal recovery in steel demand. However, iron ore could take a longer period to enter a true recovery with the steel margins needing to be back to positive levels. Chinese EAFs utilisation rates dropped to below 45% last week because of a shortage of scrap, as well as unaffordable power costs. Virtual steel margins grow from 371 yuan/ton to 381 yuan/ton, moving up from the low of the year for the second week running. The average Chinese northern steel mill rebar margins were around -400 yuan/ton last week, a slight recovery from -450 yuan/ton in mid-June. Steel margin recovery is expected to be a trend in the next few weeks. Arbitragers sharply snapped up the opportunity to buy virtual steel margins two weeks ago when the number had dropped to yearly lows.



Iron ore port stocks were decreasing and refreshing yearly lows and approached the similar level seen during the same period in 2021. However, some traders revealed that the destocking could become slower from late June to late July as the mills started to control production. SGX—DCE spread difference tanked from $50 to $9 during the past four months, however, it recovered fast from $9 to $15 after that.

Data Sources: Bloomberg, Platts, Fastmarket, FIS

Market Review (Continued)

The absolute value of this SGX-DEC difference was lower than the theoretical value considering the acceptable grades, premium and popularity among end-users. However, it will potentially take as long as a few months for this difference to recover before the weak steel margins recover.

MB65—P62 spread has maintained around $24 for 2 months however corrected massively from this number to $16 in current three and half weeks. The fast squeeze was a delayed reflection that mills decided to strategically shift from high grades as much as they could to lower grades or domestic-produced ores after experiencing three months of losses.

Neutral

Downstream/Policies/Industry News:

China's manufacturing production index for steel consumption produced by S&P Global reached 110 points this May, 9 points higher than April, and slightly lower than the same period last year, indicating that manufacturing activity in May and June was resurgent. Although vehicle demand picked up significantly in May and June, it is hard to generate big growth from an annual standpoint because of the losses in April. The other three important sectors, home appliances, construction and machinery were expected to become weaker for the rest of the year because of the tight relationship with the housing sector.

Ukrainian steel output is expected to fall 64.5% year-on-year to 7.6 million tons in 2022 due to the war with Russia. Arcelor Mittal will idle a 1.5 million mt/year blast furnace at its site in Dunkirk, France from July 11th due to the ongoing supply chain issues.

Rio Tinto announced that the Pilbara mining areas discovered a new project Gudai-Darri currently with an expected service period of over 40 years, annual capacity reached 43 million tons. The new project is expected to achieve full capacity in 2023. The annual capacity accounts for 1.65% of the total global iron ore output in 2021.

Global Steel Market:

Argus Northwest European index kept refreshing low since January 25th to €829.25/mt, down 6.43% on the week. Large service centres reported deals for 10,000mt of S235 grade HRC at €800/mt ex-works Ruhr.

Chinese SS400 HRC offers were unchanged from late last week and early this week at above $630/mt, with the highest bid seen at $620/mt FOB China. Seaborne sentiments were still sluggish currently. Vietnamese buyers expressed buying interests at $640 CFR Vietnam for SAE1006 coil, much lower than the current offer at $680/mt.

Turkish deep-sea ferrous scrap price created the first week of recovery by 2% to $332.5/ton, after a 50.45% loss from late March. The rebound was related to restock sentiments revealed by collectors and traders. A US-origin deal was booked June 24 by a Marmara mill, with HMS 1/2 (90:10) at $335/mt CFR. The bottom of the scrap price was confirmed by the positive physical market sentiments that suddenly appeared last week.

Global crude steel production totalled 169.5 million mt in May, down 3.5% from May 2021, but 3.7% higher than April, according to World Steel Association. The increase was contributed by China and India's fast growth in May. India's HRC exported in May down 50.5% from 598,500 mt on the year as the country hiked export duties.

Neutral

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

Market Review (Continued)

Chinese Steel Market:

Shanghai domestic 25mm rebar inched up 20 yuan/ton on the week to 4300 yuan/ton, although the futures market rebounded 200 yuan/ton. Construction steel daily trading volume saw a big pick up this Monday at 170,000 mt after remaining at 120,000–130,000 mt for three weeks. However, mills were cautious in pricing as new orders were marginal decreasing compared with May.

China's semi-finished steel exports are expected to decline in H2 2022 because oversea orders led to a sharp drop in order books since April. China's total exported 8.05 million mt of finished steel, created a monthly high since late 2016. However total January to May export decreased by 14.9% on the year. Finished steel also saw a declining trend in orders in the next few months, with high energy costs and slower overseas consumption.

Domestically, China's steel cuts are expected to remain modest in the coming months, however, continuously housing stimulus is expected to drive up end-user demand and eventually ease oversupply. CISA statistics indicated that the daily pig iron production in China reached 2.62 million tons, 3.9% higher on the year. Crude steel production slightly decreased over the year. The divergence of crude steel and pig iron production was majorly due to the EAFs production massively stopping during May because of a big marginal production loss.

Neutral

Coal Market:

The PLV Australia coking coal market dropped to $320/mt from $376/mt last week, as ample nearby supply was found in the market. Buyers were fishing in the market without showing real amounts and acceptable prices. The most competitive offers dropped to as low as $300– $310 last week, for 75,000mt HCCA Branded and Unbranded with July laycan. Indian end-users indicated that PMV tradable value was around $305/mt.

Australia FOB and CFR China spread maintained a negative $70-90 area, suggesting the Australian market was currently weak with less global interest. The supply of the Asian coal market was competitive including U.S., Australia, and Russian coals. Mongolia coals and Chinese domestic coals supply recovery decreased the Chinese interest in looking for seaborne sources as well.

Chinese coke market did not show continuous bearish sentiment after the coke price down of 300 yuan/ton in June 20th. Traders were maintaining a watch-and-see mode. Chinese market regulation bureau decided to start an investigation window from June to September to crack down on illegal actions on price gouging.

In the futures market, although there was some decent Q3 and Q4 volume trading late last week, early this week the market became tentative following the index drop of $25 on Friday.

The trend of physical cargos being offered for July and August has continued and now the Q3 and Q4 periods are testing 300. The futures curve is looking particularly flat now and that is not to suggest that this is a short-term sell-off, merely that sellers are likely to focus on what reflects the physical space and we still are not seeing a rush of sell-side hedging further along the curve from the asset side. In little over a month, Q4 and Q1 have lost over $75 of value (20%).

Neutral

Sources: Argus, IHS Commodities at Sea Service, FIS

Technical view of the Ferrous Markets:

Iron Ore

July Futures – We noted on the last report that the futures were technically bullish but with a neutral bias, downside moves below USD 132.55 would warn that the USD 130.10 support could come under pressure. A fractal breakout below USD 130.10 targeted the USD 123.45 and USD 118.60 support levels. The futures broke to the downside with price trading to a low of USD 106.65 before trading back up to USD 121.05. Upside moves on the daily chart that fail at or below USD 133.83 will leave the futures vulnerable to further test to the downside, above this level the technical will have a neutral bias. Intraday wave analysis is bearish, implying the current upside move is countertrend, warning that we still have the potential for another test to the downside. Key resistance on the intraday Elliott wave is at USD 125.06, upside moves that fail at or below this level will warn that we could be entering into a bearish wave five. Downside moves below USD 118.00 will target the USD 112.95 level in the near-term, with the potential to trade below the USD 106.65 low; based on the current high of USD 121.05, we would have a prospective downside target at USD 97.30.

Steel

July Futures – technically bearish on the last report we noted that that downside moves below the USD 985 level will target the USD 893 low. Price has broken to the downside but has yet to achieve the USD 893 level with price trading to a low of USD 915. We have a previous fractal low that has the potential to act as a resistance if tested, this is at USD 985; however, upside moves that fail at or below USD 997.50 will leave the futures vulnerable to further tests to the downside, above this level the technical will have a neutral bias. Only above USD 1,040 is it bullish. Intraday wave analysis is in divergence, warning we have the potential to base around these levels, if we do trade below the USD 9,15 low, we have further support at USD 893 and USD 882. Technically bearish but not considered a technical sell at these levels due to the intraday technical being in divergence.

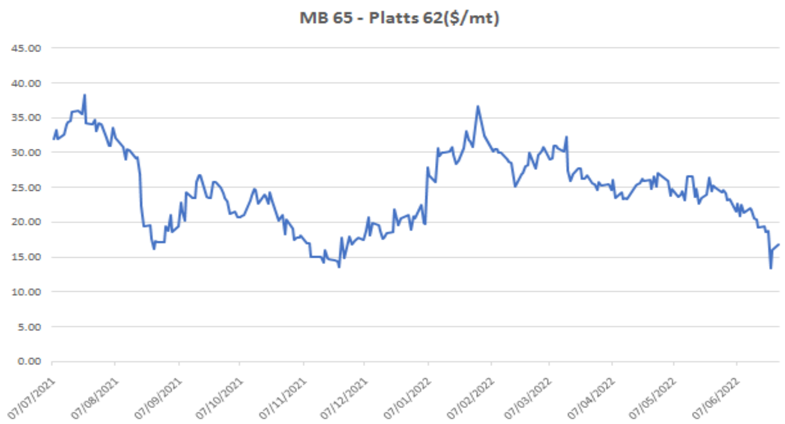
Coking Coal

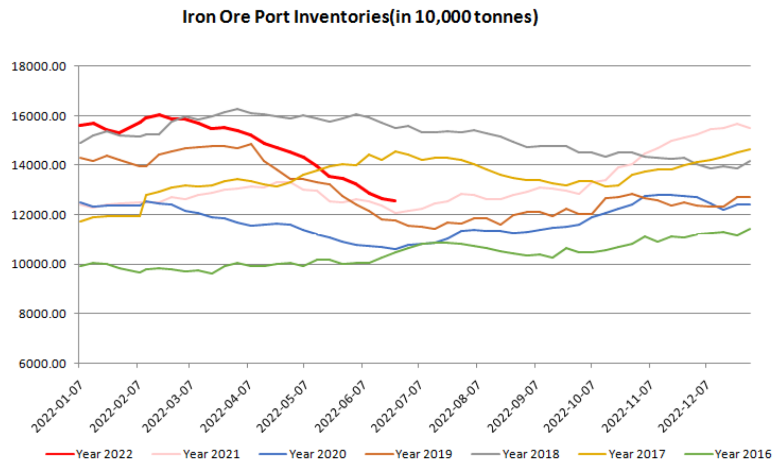
July Futures – Technically bearish on the last report with downside moves that trade below the USD 359.50 level targeting the USD 350 and potentially the USD 317 level. The futures have moved lower with price trading down to USD 315. Upside moves that fail at or below USD 351 will leave the futures vulnerable to further tests to the downside, above this level the technical will have a neutral bias. Near -term support is now at USD 294 with a potential downside target as low as USD 264, the RSI is making new lows suggesting upside moves should be considered as a counter-trend at this point, above USD 370 the technical is bullish.

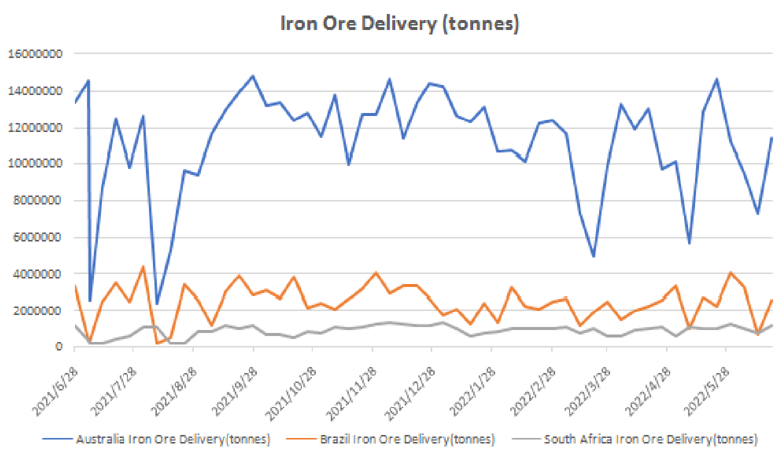
Sources: Argus, IHS Commodities at Sea Service, FIS

Iron Ore

	Last	Previous	% Change
Platts 62% Fe (Dollar/mt)	119.6	112.35	6.45%
MB 65% Fe (Dollar/mt)	136.4	131.7	3.57%
Capesize 5TC Index (Dollar/day)	19336	25138	-23.08%
C3 Tubarao to Qingdao (Dollar/day)	29.533	33.083	-10.73%
C5 West Australia to Qingdao (Dollar/day)	11.65	13.41	-13.12%
Billet Spot Ex-Works Tangshan (Yuan/mt)	3960	4080	-2.94%
SGX Front Month (Dollar/mt)	128.53	131.38	-2.17%
DCE Major Month (Yuan/mt)	842.5	939	-10.28%
China Port Inventory Unit (10,000mt)	12,572	12,665	-0.74%
Australia Iron Ore Weekly Export (10,000mt)	1,140.40	726.10	57.06%
Brazil Iron Ore Weekly Export (10,000mt)	258.70	68.50	277.66%







Iron Ore Key Points

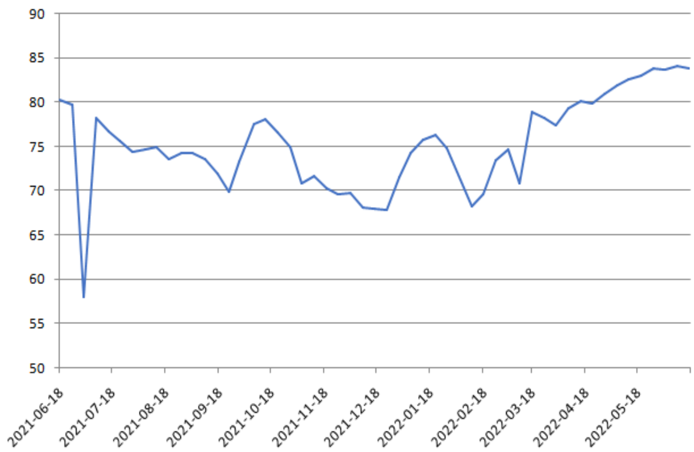
- Iron ore port inventories are expected to decrease considering lower price and flexible trade size and time, compared with seaborne cargoes.
- The 65% and 62% iron ore difference dropped from $22 to $19 because the historical low steel margin forced mills to shift to use alternatives from domestic 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

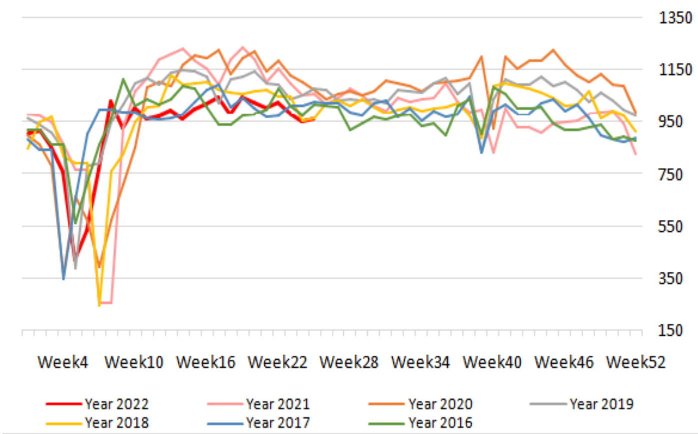
Steel

	Last	Previous	% Change
US HRC Front Month (Dollar/mt)	1127	1126	**0.09%**
LME Rebar Front Month (Dollar/mt)	728	722	**0.83%**
SHFE Rebar Major Month (Yuan/mt)	4301	4552	**-5.51%**
China Hot Rolled Coil (Yuan/mt)	4327	4679	**-7.52%**
Vitural Steel Mills Margin(Yuan/mt)	381	371	**2.70%**
China Five Major Steel Inventories Unit (10,000 mt)	2489.64	2371.33	**4.99%**
Global Crude Steel Production Unit (1,000 mt)	96610	92780	**4.13%**
World Steel Association Steel Production Unit(1,000 mt)	169,483	162,749	**4.14%**

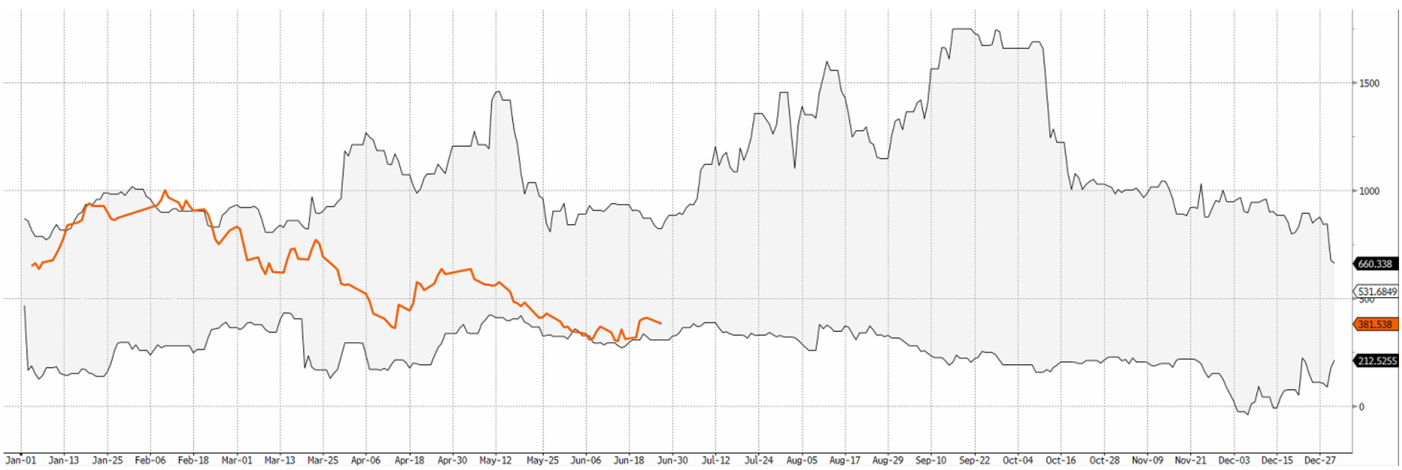
MySteel 247 mills BF Operation Rate in %



China Five Major Steels Apparent Consumption(10,000 tonnes)



Virtual Steel Mill Margins (Five-Year Range)

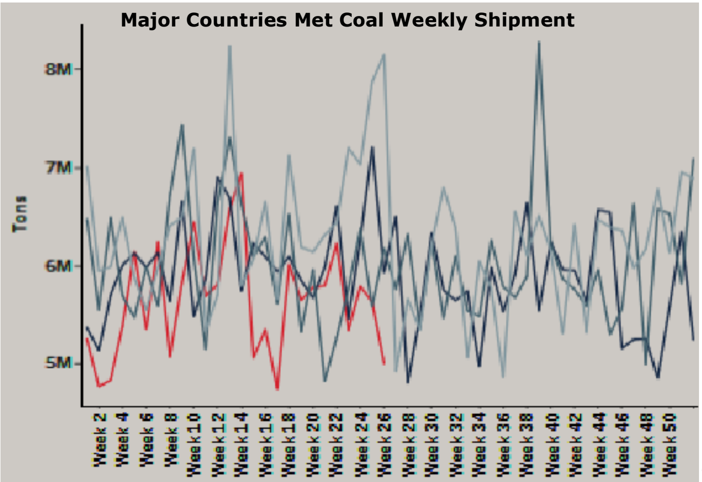


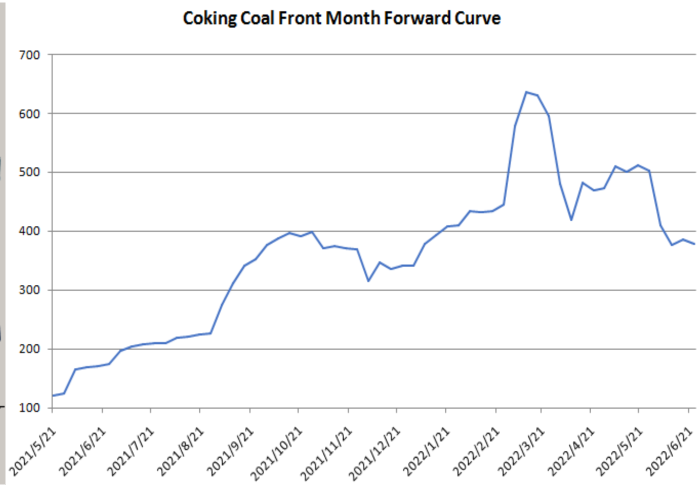
Data Sources: Bloomberg, MySteel, FIS

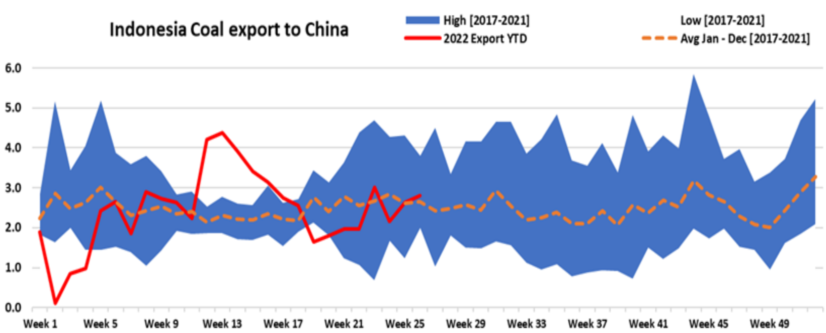
- Virtual steel mill margins recovered to 381 yuan/ton from the yearly and seasonal low of 301 yuan/ton two weeks ago.
- The five types of steel consumption unexpected fell to a three-month low area, driving down the resilient steel price to a yearly low area.

Coking Coal

	Last	Previous	% Change
TSI FOB Premium Hard Coking Coal (Dollar/mt)	320	376	-14.89%
Coking Coal Front Month (Dollar/mt)	377.5	386	-2.20%
DCE CC Major Month (Yuan/mt)	2802	2849.5	-1.67%
IHS Met Coal Weekly Shipment (Million mt)	5.00	5.50	-9.09%
China Custom total CC Import Unit mt	4,565,214	4,256,446	7.25%

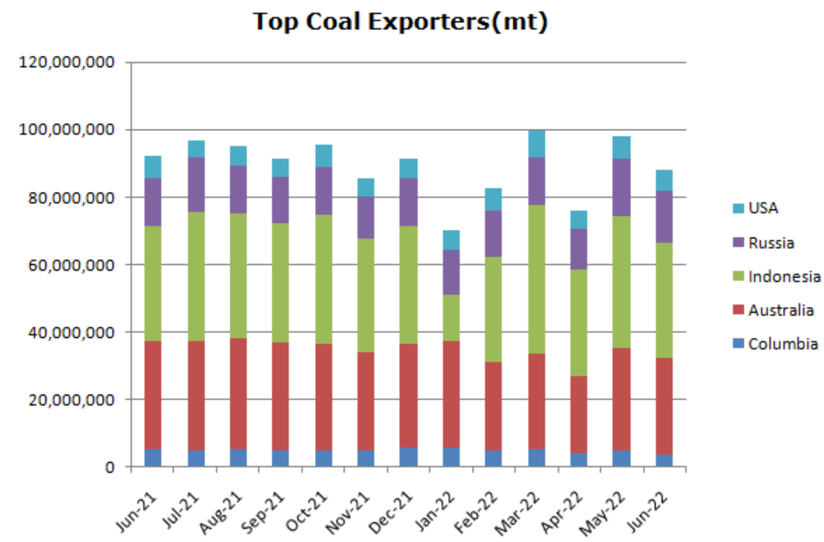






Coal Key Points

- Major countries' metallurgical coal weekly shipments fell to 5 million tons, approaching both yearly and seasonal low in late June.
- Indonesian coal export to China was maintained around the seasonal average area.
- Coking coal front-month contract fell almost half from the high created in March in line with FOB Australia coking coal's physical value.



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 starts 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.

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