FIS Ferrous Weekly Report

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⇒ **Iron ore Fe62% CFR China:** short-run **Neutral**. The full downstream recovery in China was faster than expected. However, iron ore has already priced in the bullish sentiment over the past two weeks.

⇒ **Rebar 25mm Shanghai** short-run **Neutral**. Mill order books filled fast after Shanghai restrictions were lifted. However, southern, and mid-China rain is expected to slow down regional consumption.

⇒ **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 **Neutral**. The coking coal market normally drops when the market is quiet. However a rebound is expected to come along with new tenders.

Prices Movement	6-Jun	30-May	Changes %	Sentiment	
Iron Ore Fe62% CFR China($/MT)	146.75	136.6	7.43%	Neutral	-
Rebar 25mm Shanghai (Yuan/MT)	4850	4780	1.46%	Neutral	-
U.S. HRC Front Month ($/MT)	1155	1181	2.2%	Neutral to Bearish	↘
Hard Coking Coal FOB Australia($/MT)	423.25	456	7.18%	Neutral	-

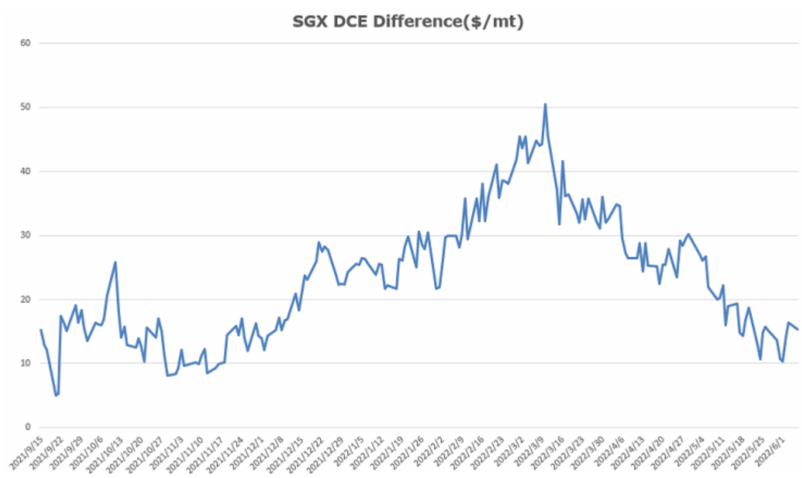
Market Review:

Iron ore Market :

Iron ore 62% index soared up 7.43% week-on-week. The rebound over the previous three weeks was mainly supported by the expectation of the resumption of work in Shanghai. However commodity prices had already priced in the effects of this return to work in China.

Virtual Steel Margin (calculated by futures) unfortunately refreshed yearly lows at 317 yuan/mt, which was also a seasonal low. Northern mills reported that their physical production losses reached near−100 yuan/mt. However, mills were willing to take marginal losses because of increasing liquidity in the steel market toward normal levels. Investors expect to see a recovery both on physical and virtual margins in the near future, seen in trading plays of buying steels and selling raw materials including iron ores, scrap and coals.

There was news saying Tangshan exit blast furnace volumes were below 1000m³, however, local mills indicated that the overall impact was limited because of a shift in production percentages to bigger furnaces. Iron ore port stocks have been decreasing and refreshed yearly lows, as they approached similar levels to the same period last year. The decrease in May was mainly down to Australia and Brazil export levels stabilising. The market generally expects deliveries to increase alongside the expectation of the Chinese market recovery from June. Global shortages in scrap and high electricity costs have dampened EAFs production in 2022, which would add to the demand from blast furnaces in Asia.



PBF started to attract more interest because the import margins improved from mid-May. Seaborne trades boosted in the last two weeks with July laycans of Fe61% traded in fixed price sold by Rio Tinto. BHP sold July laycans of JMBF discount at $9-10 through GlobalOres. Moreover, the buying sentiment was lit up by the sudden resumption of work in Shanghai. Shanghai automobile sales climbed up almost 50% in May compared with April. Given the increasing rate, the whole country's auto-making growth target set for Q1 is a possibility in the next few months .

Data Sources: Bloomberg, Platts, Fastmarket, FIS

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Market Review (Continued)

The SGX–DCE spread has dropped to $10 and a historic low in late May, however, it soon recovered to $15. The current price level was considered to be oversold with the improved import margins and expected recovery of steel margins following the restart of the Chinese downstream market.

MB65—P62 spread maintained weak at $23. Looking back to early March, virtual steel margins reached above 800 yuan/ton, while MB65–P62 was at $30 and P62—P58 spread had been $50. When virtual steel margins dropped to yearly low levels from 300–400 yuan/ton in late May and early June, MB65—P62 narrowed to $30, and 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.

Risks: Slow growth in steel demand in countries outside of China.

Neutral

Downstream/Policies/Industry News:

Shanghai lifted restrictions and work resumed faster than expected, which bolstered sentiment on ferrous commodities and equity markets. China PM Li Keqiang held a conference to accelerate the economic stimulus impact including increasing credit lines to banks to 800 billion yuan. The Chinese Ministry of Finance ensured the full issuance of specialised debts in June and the complete usage of the debts in August, including funding for advanced infrastructure and new energy projects.

Biden suggested that the U.S. could decrease government debt by 1.7 trillion dollars, the biggest drop in government debt in history.

The European steel industry's decarbonisation projects in the current decade would reduce carbon emissions by 81.5 million mt (1/3). A ton of green steel is estimated to be 135% to 100% more expensive than the current cost of blast furnace produced steel.

Neutral to Bearish

Global Steel Market:

South Europe HRC traded at €930—950/mt last week, with some end-users believing the price could even break below €900 in the following weeks. Asian exported HRC has become competitive in the European market. India guaranteed export volumes to Europe and volumes are unchanged despite the tariff increasing two weeks ago. JSW cold coil slumped by $30 because of the export tariff increase.

The Asian rebar market was quiet during the last report week. Singapore imported rebar traded at $725–735/mt CFR, down $10/mt, with July laycans. Vietnam and Malaysia rebar are offered at $735/mt CFR. The offer price has dropped significantly by $25. India power company JSPL announced to decrease 12-32mm rebar price in June to $812/mt. JSW decrease the ex-factory price of the same type to $819/mt.

Turkey's HMS1/2(80:20) import price fell to $440/mt CFR, refreshing the lowest of the year. Turkey rebar export price at $770—800 FOB, with a $20 disparity to the buyer's side. Turkey collectors believed that the rebar price in Europe and CIS potentially climb as the energy cost seasonally climbs in the next few weeks.

Neutral to Bearish

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

Market Review (Continued)

Chinese Steel Market:

Chinese construction steel trading volume revived after the general recovery in the downstream market. Shanghai's domestic rebar cautiously increased by 1.46% compared with the fast increase in iron ore. Mills spot margins were squeezed to negative again because raw material costs eroded midstream and downstream margins. South-eastern countries entered a passive-production mode, because of an inability to negotiate the import price of raw materials.

The competitive market would naturally edge out mid-to-small mills in the medium term. However, blast furnaces will likely need to cover the drop in production from EAFs. EAFs suffered a general loss under high electricity costs and a shortage of scrap. Nearly 70% of EAFs in China were at breakeven or marginal loss levels for the last two months. Mills are expected to catch up to a utilisation rate level similar to the same time last year in the next few weeks.

Rain and floods raised concerns for logistics and construction sites. Some mills, therefore, decided to start seasonal maintenance early in June and July.

Neutral

Coal Market:

The PLV Australia coking coal market corrected over the reporting week because there was no tender to impact the index. A 75,000mt HCCA July laycan bid at $420 was assessed at a $3/mt discount to Platts PLV FOB Australia. A PMV Illawarra coking coal was priced at $420 FOB Australia. The physical market is expected to stabilise with more fixed-price cargoes. FOB Australia and CFR China PLV disparity narrowed from $90 in early May to $17 in the first week of June, indicating seaborne trades were close to a bottom area and close to deals with Chinese importers.

The trade-related to the Indian market started to weigh a big proportion in the seaborne market this year. However, the Indian market has dynamic sources including metallurgical cokes from China, semi -soft, and semi-hard coal from Russia. Thus, it was hard for Australian miners to find buyers in the Indian market in June.

China's domestic Shanxi auction saw a significant increasing buying sentiment with fewer unsold deals compared with mid-May.

In the futures market, following some minor support late last week and an improvement in the overall ferrous complex, bids returned to the futures space and with a lack of physical offers, futures at the front end quickly ticked back higher.

Demand remains sluggish so it is as much about keeping an eye on the macro situation right now as it is on the spot physical market which can change from day to day.

Neutral

Sources: Argus, IHS Commodities at Sea Service, FIS

Technical view of the Ferrous Markets:

Iron Ore

July Futures – We previously noted that the Elliott wave cycle to the downside had completed, indicating the futures had a bullish bias. Price has since traded above our near-term resistance levels with the July contract nearing the USD 145.75 fractal resistance, above this level we target the USD 147.50 and USD 154.60 resistance. A close below USD 141.01 today (07/06 SGX) will warn that the futures have entered a corrective phase; however, downside moves that hold at or above USD 135.18 will support a bull argument, below this level the futures will have a neutral bias. Technically bullish supported by the RSI above 50, a note of caution on the intraday technical as we have the potential to create a negative divergence above USD 145.05. This is not a sell signal; it is a warning that we could see a momentum slowdown so will need to be monitored, as we have the potential to enter a corrective phase soon.

Steel

July futures – technically bullish but with a neutral bias on the June last time, the roll into July has put the futures below the USD 1,086 support, meaning we now target the USD 9,47 low, below this level the technical is bearish. The intraday futures have produced a 5-wave pattern lower with a potential downside target at USD 941; however, we are on the 5th wave of this phase with intraday momentum indicators in divergence, warning we could soon be vulnerable to a test to the upside. Corrective moves higher that fail at or below USD 1,392 will remain vulnerable to further tests to the downside, above this level the futures will have a neutral bias. Technically bearish, the 5-wave bear pattern on the intraday alongside a positive divergence with the RSI means the futures are not considered a technical sell at these levels.

Coking Coal

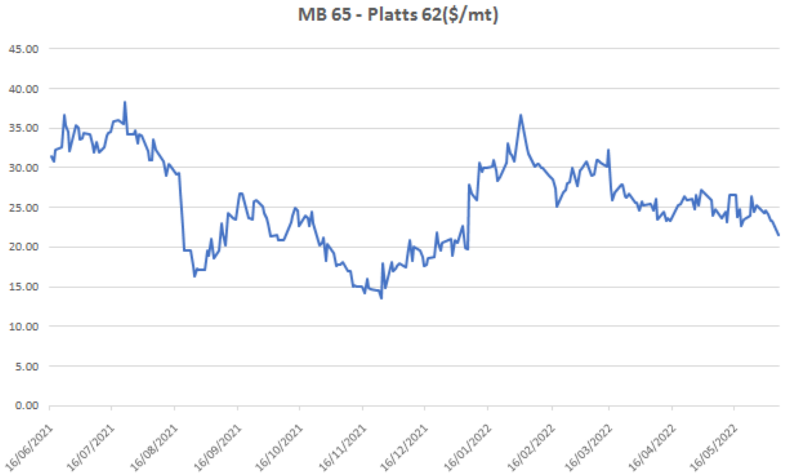
July Futures – Just a note to highlight that the June futures have now entered a corrective phase in which the upside pattern and momentum had threatened. The downside move in the July futures has created a lower low, indicating the technical is bearish, with the price now trading below the EMA support band. Upside moves that fail at or below USD 451 will leave the futures vulnerable to further tests to the downside, above this level the technical will have a neutral bias. The RSI is below 50 with its moving average sloping to the downside, suggesting resistance levels should hold in the near-term (resistance USD 427, USD 437, USD 450). Technically bearish with upside moves considered as.

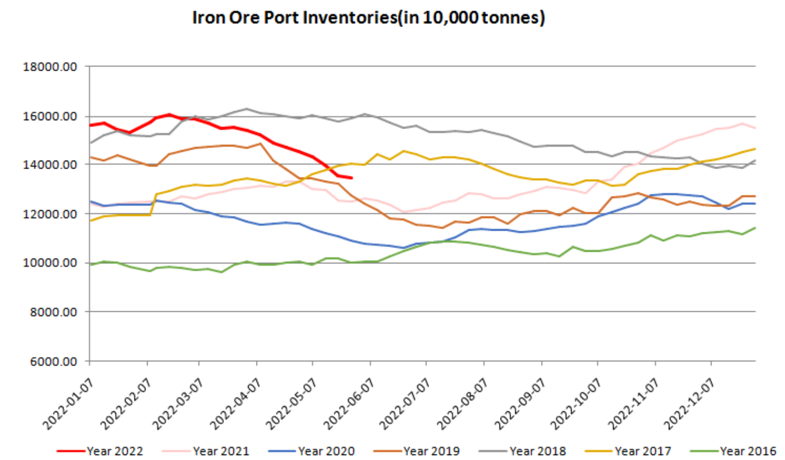
Iron Ore Offshore July 22 Morning Technical Comment – 240 Min Chart

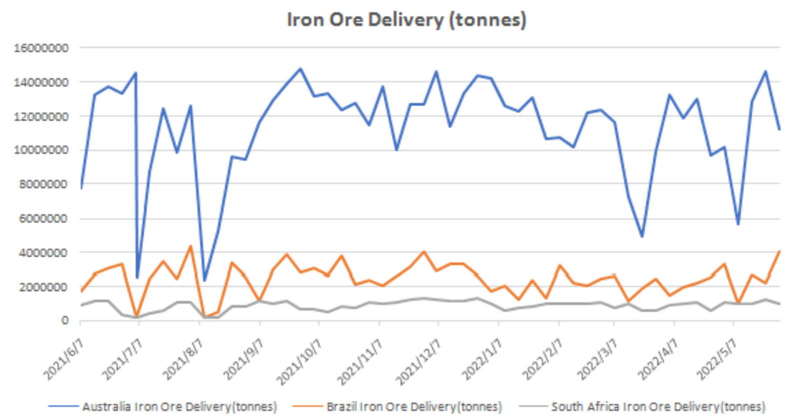
Sources: FIS, Bloomberg (chart)

Iron Ore

	Last	Previous	% Change
Platts 62% Fe (Dollar/mt)	146.75	136.6	7.43%
MB 65% Fe (Dollar/mt)	168.2	160.8	4.60%
Capesize 5TC Index (Dollar/day)	22866	28840	-20.71%
C3 Tubarao to Qingdao (Dollar/day)	32.778	35.3	-7.14%
C5 West Australia to Qingdao (Dollar/day)	12.968	13.086	-0.90%
Billet Spot Ex-Works Tangshan (Yuan/mt)	4500	4470	0.67%
SGX Front Month (Dollar/mt)	144.40	133.41	8.24%
DCE Major Month (Yuan/mt)	940	960.5	-2.13%
China Port Inventory Unit (10,000mt)	13,234	13,454	-1.64%
Australia Iron Ore Weekly Export (10,000mt)	1,122.10	1,466.40	-23.48%
Brazil Iron Ore Weekly Export (10,000mt)	402.50	224.30	79.45%







Iron Ore Key Points

- Iron ore port inventories are expected to decrease as the port efficiency increased after the controlling of the 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.

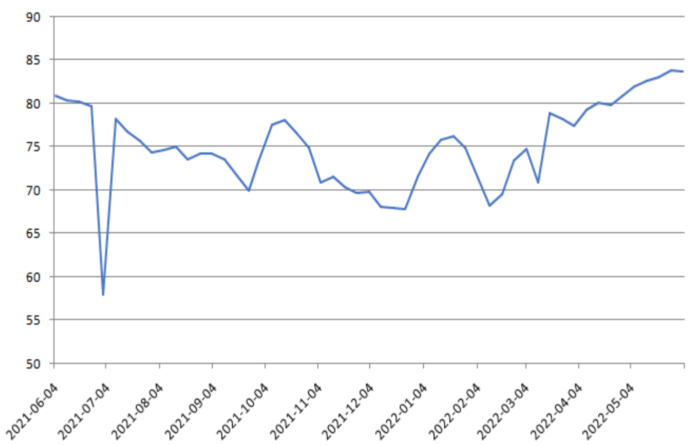
- The 65% and 62% iron ore difference returned from $23– $26 area during last week. The spread has stayed in the range-bound for a month.

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

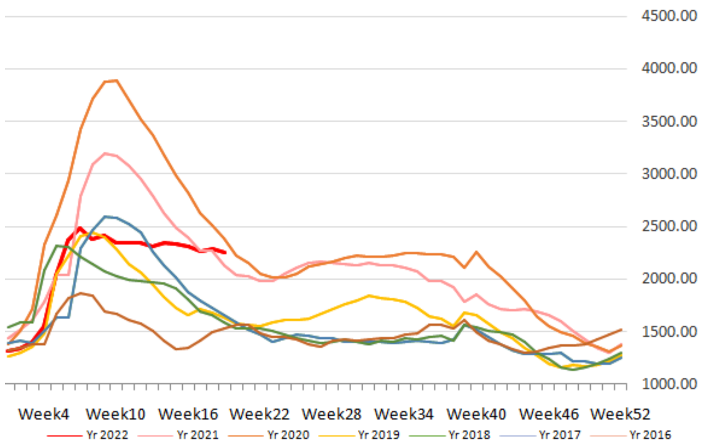
Steel

	Last	Previous	% Change
US HRC Front Month (Dollar/mt)	1155	1195	**-3.35%**
LME Rebar Front Month (Dollar/mt)	728	722	**0.83%**
SHFE Rebar Major Month (Yuan/mt)	4465	4683	**-4.66%**
China Hot Rolled Coil (Yuan/mt)	4856	4811	**0.94%**
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%**

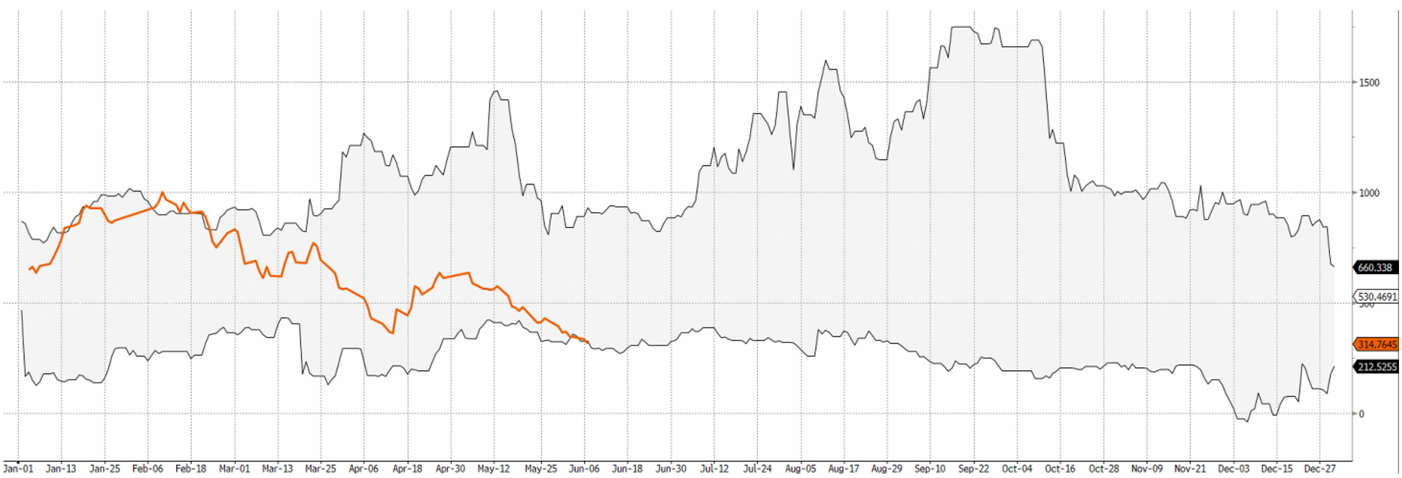
MySteel 247 mills BF Operation Rate in %



Five Major Steels Inventories(10,000 tonnes)



Virtual Steel Mill Margins (Five-Year Range)

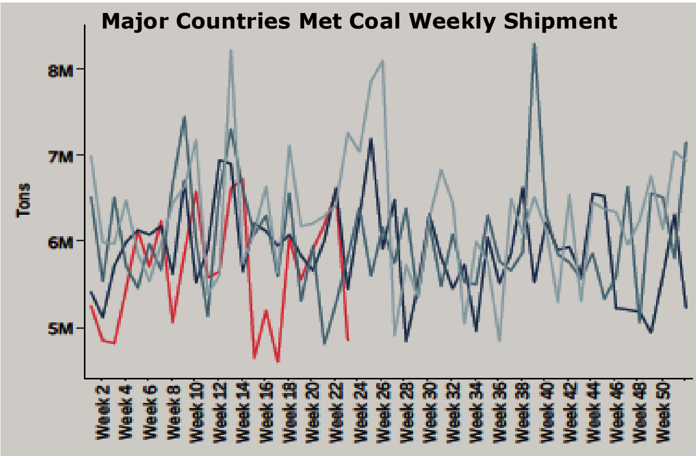


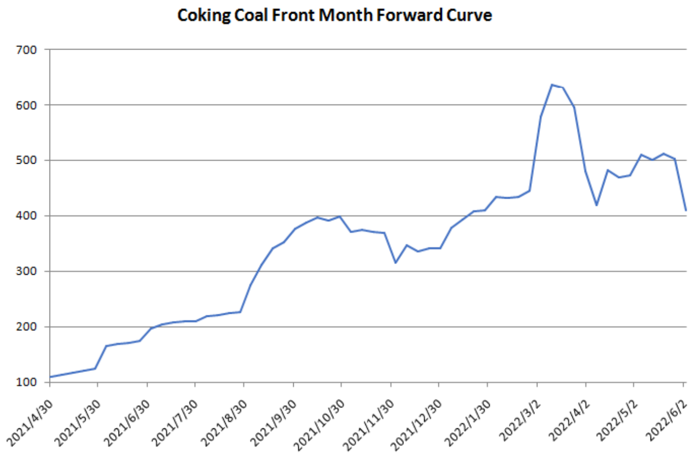
Data Sources: Bloomberg, MySteel, FIS

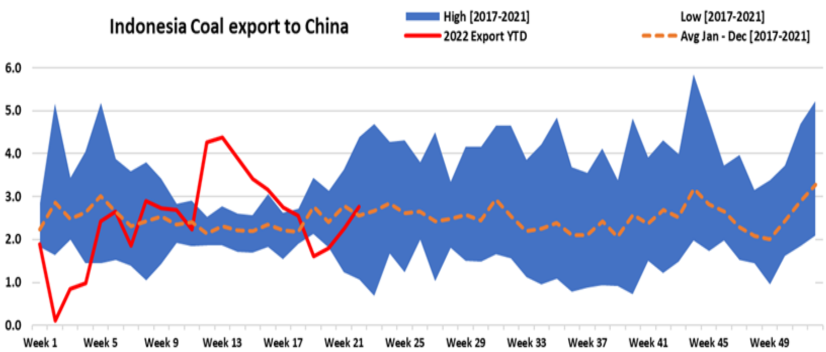
- Virtual steel mill margins corrected from 391 yuan/ton area to 314 yuan/ton, reached to both yearly and seasonal low area.
- The five types of steel consumption expected to start growing as downstream recovery generally in China.

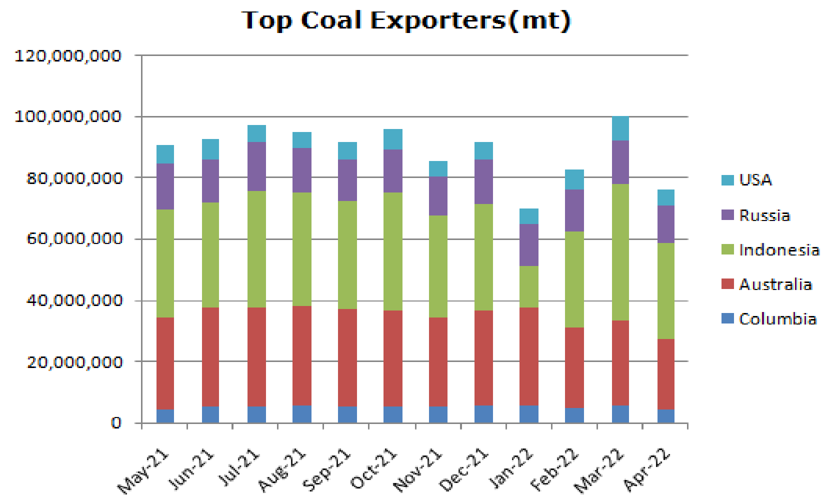
Coking Coal

	Last	Previous	% Change
TSI FOB Premium Hard Coking Coal (Dollar/mt)	423.25	456	-7.18%
Coking Coal Front Month (Dollar/mt)	410	502.33	-18.38%
DCE CC Major Month (Yuan/mt)	3300	3084.5	6.99%
IHS Met Coal Weekly Shipment (Million mt)	4.90	6.60	-25.76%
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.

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