FIS

Ferrous Weekly Report

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***Notice: There will be no Ferrous Weekly Report in July 19th. ***

12/7/2022

⇒ **Iron ore Fe62% CFR China:** short-run **Neutral to Bearish**. Seaborne iron ore market trades vanished after a big correction across all commodities over the previous week to avoid systematic risk. However, the index is potentially impacted with some delay because of limited pricing levels to refer to.

⇒ **Rebar 25mm Shanghai** short-run **Bearish**. The futures market has corrected 2.86% during the week, however saw a delayed reaction on the physical market. Chinese eastern mills decreased ex-factory mills' rebar and flat steel prices in July.

⇒ **U.S. HRC Front Month** short-run **Neutral**. Marginal demand slid down, and competitive semi-finished materials flowed into the European and U.S. market. However, the market was supported by the marginal cost.

⇒ **Hard Coking Coal FOB Australia** short-run **Neutral**. The fast drop scared away prompt buyers, however major buyers currently showed interest on or above $200. Sellers tried to firm current index price at $250 on PLV.

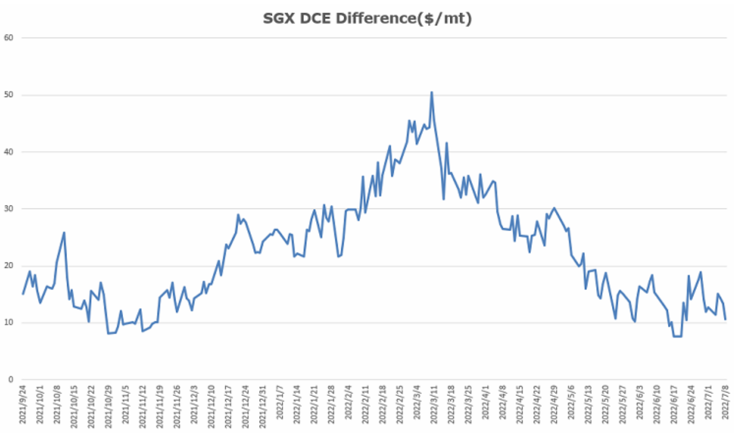
Prices Movement	11-Jul	4-Jul	Changes %	Sentiment	
Iron Ore Fe62% CFR China($/MT)	114.05	109.9	3.78%	Neutral to Bearish	↘
Rebar 25mm Shanghai (Yuan/MT)	4320	4340	0.46%	Bearish	↓
U.S. HRC Front Month ($/MT)	915	917	0.22%	Neutral	-
Hard Coking Coal FOB Australia($/MT)	258.0	300.0	14%	Neutral	-

Market Review:

Iron ore Market :

The iron ore 62% index rebounded 3.78%, as expected from the previous report following an overall neutral sentiment. However, it is expected that iron ore will potentially decrease with a small correction similar to other commodity futures because the lack of liquidity on seaborne trade disconnected the physical and futures during the previous week.

DCE May23 contract last week was 10-11% higher than some major miners' CFR costs. In addition, EAFs production failed to catch up with the demand market and maintained a low utilisation rate of around 30% during May and June, adding to the production requirement for blast furnaces in Q3. Blast furnaces produced a pre-historic level of production in May, however, started to enter the fast utilisation drop phase concerning the marginal loss of steel margins. Virtual steel margins dropped from 455 yuan/ton to 281 yuan/ton, a yearly low and seasonal low. Physical steel margins on the eastern side recovered to a positive level at 100 yuan/ton. Unluckily northern mills in China were struggling with around 0 yuan/ton margin. The utilisation rate is expected to continuously drop until the general areas in China recover to a positive margin level.



Iron ore port stocks had their second weekly increase after 18 weeks of declines. The drop was related to the global iron ore deliveries decreasing to 133 million tons in June, as mainly non-Australia and Brazil miners dropped levels. H1 2022 total global iron ore deliveries were at 748 million tons, down 37.66 million tons on the year. Iron ore port stocks are expected to return to a descending trend after the rainy season has passed and daily evacuations increase.

Data Sources: Bloomberg, Platts, Fastmarket, FIS

Market Review (Continued)

The SGX—DCE spread dropped swiftly to $10 after standing on $17-18 for just two trading days. The spread was still hampered by the poor steel margins and thin interest in buying mainstream seaborne stocks compared with port cargoes. It will take more time for the spread to stabilise at $18 and for steel margins to recover.

The MB65—P62 spread has maintained around $24 for 2 months, however, it corrected from this number to $13.35 in the following four weeks. The fast squeeze was a delayed reflection of mills strategically shifting from high grade to a lower grade or domestically produced ores after experiencing three months of loss.

Neutral to Bearish

Downstream/Policies/Industry News:

Chinese M2 money supply growth was up 11.4% in June year-on-year from 11.1% in May, outpacing the 11.1% forecast in June. The high growth rate in the money supply indicated a sufficient liquid environment for the investment market and support to stabilise the economy.

The U.K. imposed new sanctions on Belarus including iron and steel products. Belarus exported 3556 mt of iron and steel to the U.K. in 2021, and 101,046 mt in 2020.

China's crude steel output in June was down 4.3% to 2.983 million mt from an 11-month high in May. CISA estimated that China's daily pig iron output in June was down 3.1% on the month to 2.516 million mt.

Global Steel Market:

Italian hot-rolled coil slipped as integrated mill offers continuously dropped. Italian offers were marked €760–770/mt into Spain, with limited interests. Restocking sentiments and firm scrap prices supported the bottom areas of the European HRC market.

Some outdoor construction was suspended because of the college entrance examinations, hot weather, and newfound pandemic cases. Mill production may potentially recover from late July or early August. Indian SAE1006 grade coil was traded at $660-665.

Turkish deep-sea ferrous scrap price significantly inclined from $380/ton to $410/ton. After a 50.45% loss from late March to late June, the scrap price continued to rebound for three weeks. Benelux-origin HMS 1/2 (80:20) was offered at $400-405/mt CFR.

Neutral

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

Market Review (Continued)

Chinese Steel Market:

Shanghai domestic 25mm rebar corrected 20 yuan/ton on the week to 4320 yuan/ton. Physical rebar corrected 20 yuan in July disregarding a near 329 yuan/mt drop in the futures market. However, BaoSteel and ShaSteel started to decrease steel prices in all brands including rebar, HRC, and plates. Daily construction steel trading volume maintained from 130,000–140,000 tons level, significantly lower than 160,000 level during the same period last year and slightly lower than June.

Large-scale steel mill maintenance together with some regional production cuts started to generate an effect to stabilise steel prices. Daily pig iron production maintained at 2.31 million tons, dropped 5.12% from mid-June. Steel stocks decreased in July following seasonal features. The slow growth of housing properties and manufacturers pulled back the downstream market on steel, given the fast-booming automobile market.

Bearish

Coal Market:

The PLV Australia coking coal index dropped from $302 to $258 during July and is off considerably from the historical high of $671 in March. Weak steel production and a further decrease in output levels reduced the restocking demand for raw materials. Physical traders and mills were waiting for the recovery of steel margins. Several cargoes of U.S. high-vol A with high CSR and 1-1.1% sulfur were heard loading over July, with a tradeable offer value at $300-310 FOB U.S. East Coast.

A major Indian steel mill expressed that they would conclude the sale of second-half August loading PMV at $290 or at 102% of average PLV based on the August Index. Buyers were given privileges to negotiate preferable deals due to ample offers in the market. Australia's Bureau of Meteorology reported heavy rainfalls through the past week with no current impact on production and railway.

Australia FOB and CFR China spread widened to a negative $130.5 area after stabilising around $70–90 for almost a month, 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 coal. Mongolia and Chinese domestic coal supply recovery decreased the Chinese interest in looking for seaborne sources as well.

PLV ex-stock Jingtang down 200 yuan/mt on the week to 3250 yuan/mt, equating to $424.69 CFR Jingtang.

Neutral

Sources: Argus, IHS Commodities at Sea Service, FIS

Technical view of the Ferrous Markets:

Iron Ore

August Futures – The daily technical remains bearish having rejected the 8-21 period EMA's with the RSI below 50. However, the intraday technical traded to a new low before trading above the USD 113.40 fractal resistance, suggesting the bearish wave cycle had been completed. If we trade back below the USD 106.45 to create a new low, it implies we are seeing some form of wave extension which would have bearish implications going forward. It is worth noting that the intraday onshore cycle has not been completed (but has achieved the minimum requirement for wave completion) and has a potential downside target at RMB 668. Technically bearish with support looking like it could go tomorrow.

Steel

August Futures – Technically bearish last week but not considered a technical sell due to the intraday divergence. The futures have moved lower (USD 30.00) but continue to produce an intraday divergence. Upside moves that fail at or below USD 983 will leave the futures vulnerable to further tests to the downside, above this level the technical will have a neutral bias. The intraday Elliott wave cycle continues to warn that we have the potential to exhaust soon; for this reason, alongside the positive divergence, we maintain our view that the futures are not considered a technical sell at these levels.

Coking Coal

August Futures – Technically bearish last week with upside moves considered as countertrend, the futures continue to move lower with price trading through the USD 260 support level. Upside moves that fail at or below USD 325 will leave the futures vulnerable to further tests to the downside, above this level the technical will have a neutral bias. The RSI continues to make new lows, supporting a bearish argument, with upside moves still considered a countertrend. Near-term support is now at USD 232 and USD 208

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

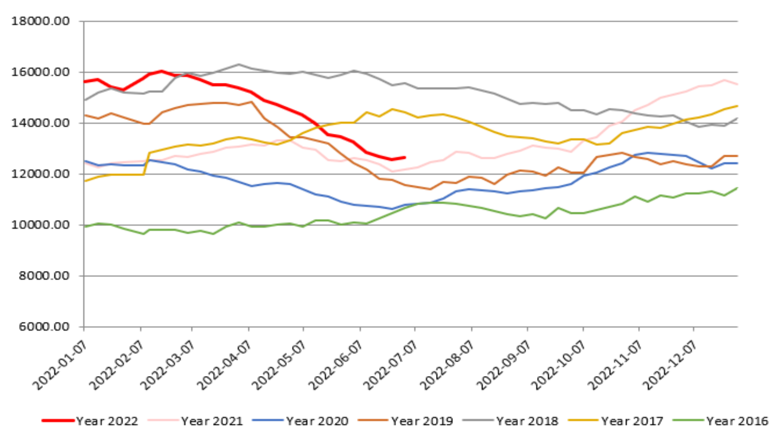
Sources: Argus, IHS Commodities at Sea Service, FIS, Bloomberg (chart)

Iron Ore

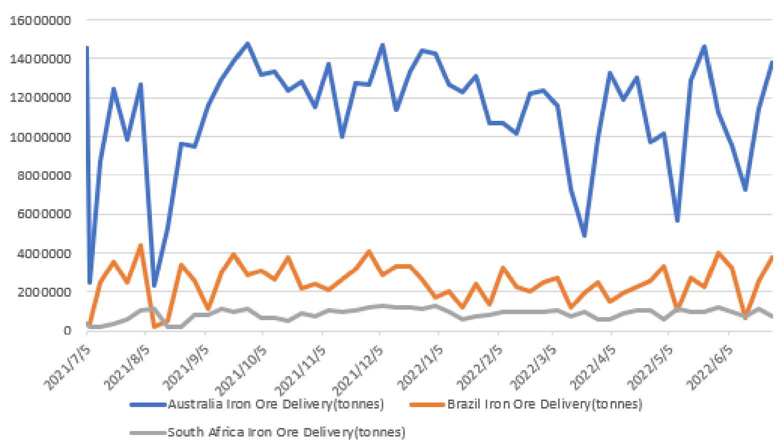
	Last	Previous	% Change
Platts 62% Fe (Dollar/mt)	114.05	116.45	-2.06%
MB 65% Fe (Dollar/mt)	127.4	130	-2.00%
Capesize 5TC Index (Dollar/day)	19613	18481	6.13%
C3 Tubarao to Qingdao (Dollar/day)	30.272	30.261	0.04%
C5 West Australia to Qingdao (Dollar/day)	11.385	10.8	5.42%
Billet Spot Ex-Works Tangshan (Yuan/mt)	3920	4000	-2.00%
SGX Front Month (Dollar/mt)	113.76	115.23	-1.28%
DCE Major Month (Yuan/mt)	852.5	852.5	0.00%
China Port Inventory Unit (10,000mt)	12,625.50	12,571.57	0.43%
Australia Iron Ore Weekly Export (10,000mt)	1,294.30	1,376.20	-5.95%
Brazil Iron Ore Weekly Export (10,000mt)	302.40	379.50	-20.32%

MB 65 - Platts 62($/mt)

Iron Ore Port Inventories(in 10,000 tonnes)



Iron Ore Delivery (tonnes)



Iron Ore Key Points

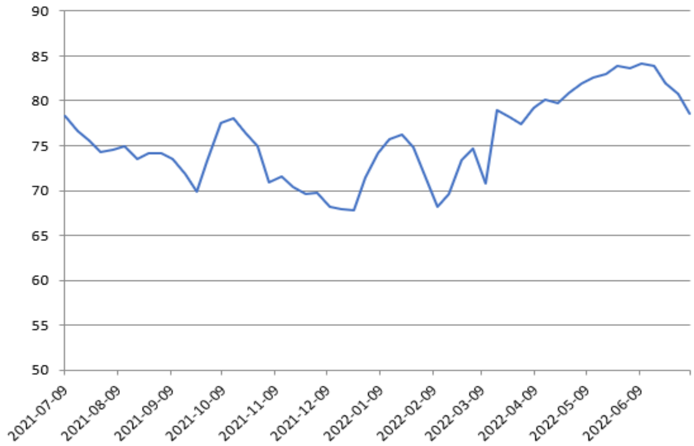
- Iron ore port destocks slowed down due to rainy weather, as well as seaborne supply reduction in June.
- The 65% and 62% iron ore difference dropped to $13.5 because the historical low steel margin forced mills to shift to alternatives from domestic miners on high-grade ores.
- Iron ore delivery from Australia and Brazil were stable on a monthly basis, however, small miners from non-Brazilian and non-Australian exports became unstable in H1 2022 because of high energy cost, fewer ships, and longer route/ laycans on the sea.

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

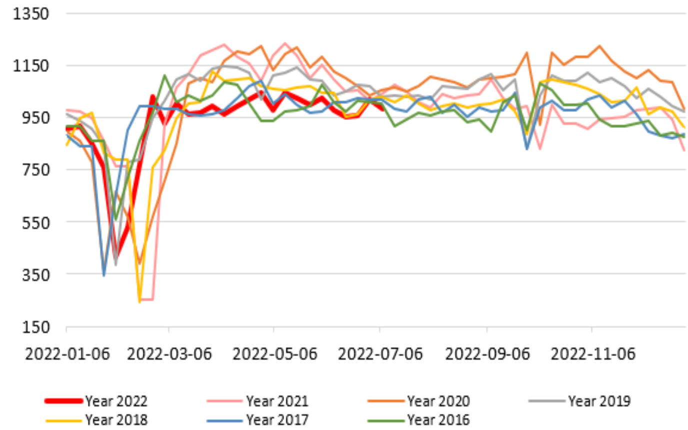
Steel

	Last	Previous	% Change
US HRC Front Month (Dollar/mt)	917	930	-1.40%
LME Rebar Front Month (Dollar/mt)	728	722	0.83%
SHFE Rebar Major Month (Yuan/mt)	4260	4500	-5.33%
China Hot Rolled Coil (Yuan/mt)	4396	4396	0.00%
Vitural Steel Mills Margin(Yuan/mt)	281	455	-38.24%
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%

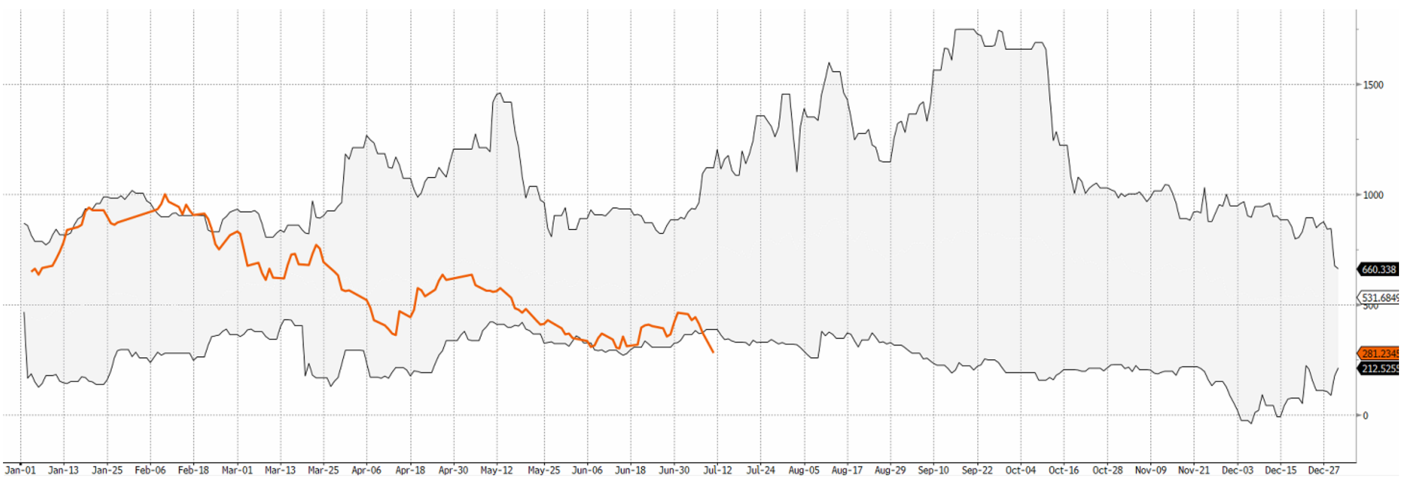
MySteel 247 mills BF Operation Rate in %



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



Virtual Steel Mill Margins (Five-Year Range)



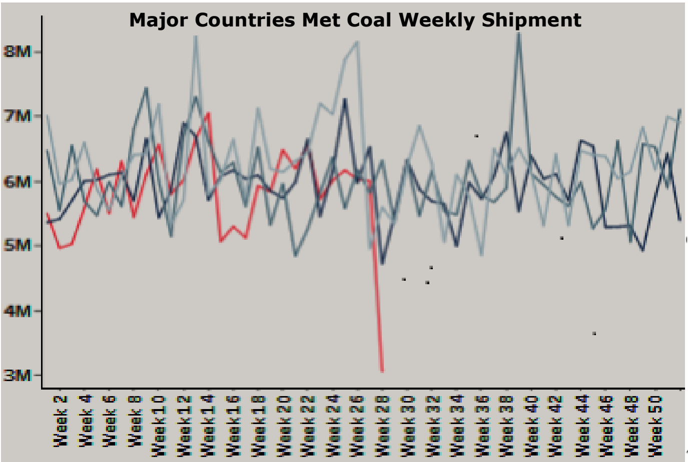
Data Sources: Bloomberg, MySteel, FIS

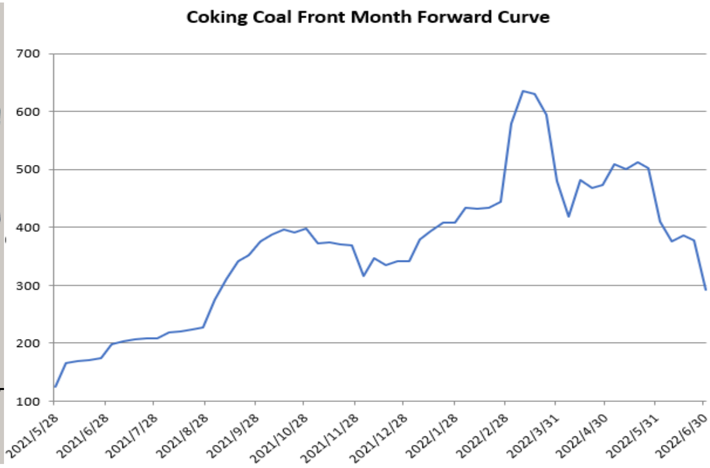
– Virtual steel mill margins tanked at 281 yuan/ton from 455 yuan/ton because of the swift drop in steel prices.

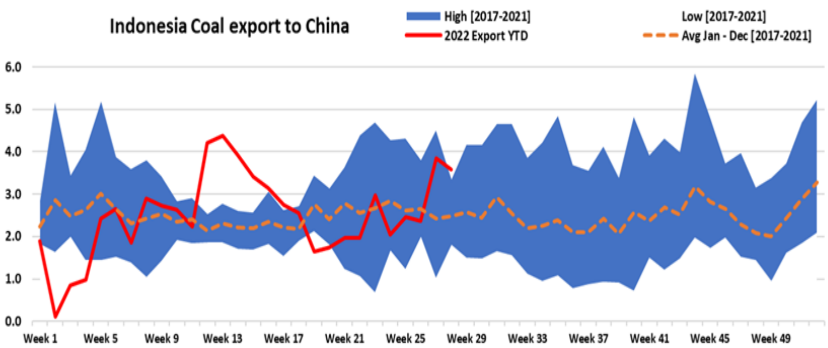
– The five types of steel consumption unexpectedly fell to a three-month low area, driving down the resilient steel price to a yearly low area.

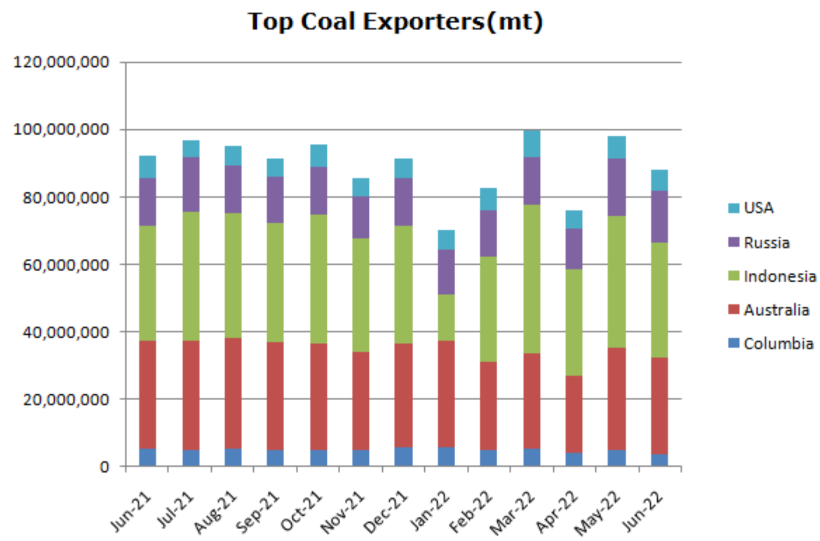
Coking Coal

	Last	Previous	% Change
TSI FOB Premium Hard Coking Coal (Dollar/mt)	258	302	-14.57%
Coking Coal Front Month (Dollar/mt)	255	291.5	-12.52%
DCE CC Major Month (Yuan/mt)	3103.5	3103.5	0.00%
IHS Met Coal Weekly Shipment (Million mt)	3.10	6.30	-50.79%
China Custom total CC Import Unit mt	4,565,214	4,256,446	7.25%









Coal Key Points

– Major producers' metallurgical coal weekly shipment fell to 5 million tons, approaching both yearly and seasonally low in late June.

– Indonesia's coal export to China was boosted again from last week approaching 4 million tons.

– Coking coal's front-month contract fell almost by 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 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.

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