FIS Ferrous Weekly Report

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⇒ **Iron ore Fe62% CFR China:** short-run **Neutral to Bullish**. Seaborne iron ore market trades emerged, signalling that mills would start restocking. Demand is expected to be better in August compared with June and July.

⇒ **Rebar 25mm Shanghai** short-run **Neutral to Bullish**. The daily construction steel trading volume recovered significantly last week compared to the previous week and month.

⇒ **U.S. HRC Front Month** short-run **Neutral to Bullish**. Marginal demand started to recover after the supply squeezed to the lowest of the year.

⇒ **Hard Coking Coal FOB Australia** short-run **Neutral to Bullish**. The rumour of a potential reboot of Chinese imports in Q4 lit up traders' hopes for the FOB market.

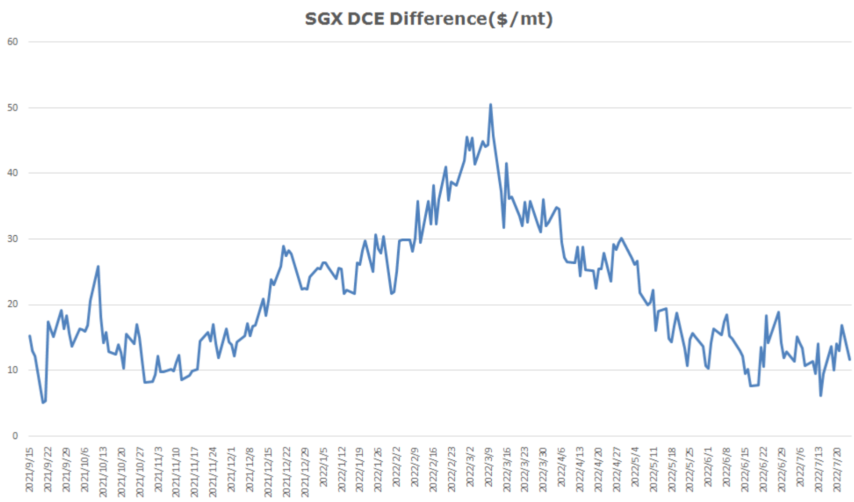
Prices Movement	25-Jul	18-Jul	Changes %	Sentiment	
Iron Ore Fe62% CFR China($/MT)	104.0	100.9	3.07%	Neutral to Bullish	↗
Rebar 25mm Shanghai (Yuan/MT)	3950	4230	6.62%	Neutral to Bullish	↗
U.S. HRC Front Month ($/MT)	923	915	0.87%	Neutral to Bullish	↗
Hard Coking Coal FOB Australia($/MT)	221.0	230.0	3.91%	Neutral to Bullish	↗

Market Review:

Iron ore Market :

The iron ore 62% index rebounded 3.07%, as was expected from the previous report, following an oversold recovery. Iron ore is expected to maintain a bullish sentiment in the short run, supported by downstream demand recovery. Some steel mills are starting to be interested in seaborne cargoes to restock.

Construction steel daily trading volumes suddenly climbed from 130,000 to 160,000 tons during the week. Moreover, BHP offered an increased discount on JMBF and MACF at 9.3% and 4.8%, respectively. BHP and FMG increased the discount of their iron ore brands throughout the year to compete with Rio Tinto's primary product, PBF and the highly competitive Chinese onshore market. Major miners are to publish quarterly reports by the end of July. Vale decreased their annual guidance on production by 10-15 million tons because of the pandemic, heavy rain, and maintenance. The overall seaborne iron ore supply is expected to be tight for the remainder of 2022 because of the slowing of deliveries by Rio Tinto and Vale, the Russia and Ukraine war, and the export tariff increase by India. The demand market remains sluggish since global downstream operations have been cut due to the shortage of materials. Both the supply and demand markets expect continued moves to alleviate geopolitical tensions, with alternative ways to resolve tensions and more trade treaties.



The market recognised the theoretical low of around 590 yuan/ton as a period low for DCE May23 contract, which was previously calculated as the major miners' CFR costs. EAFs utilisation rate finally rebounded from the year's low at 43% to 45%, dropping from 73% in mid-April. Many independent research agencies indicated that they expect the utilisation rate to climb for the coming 2-3 weeks. Blast furnace utilisation rate decreased, down to 73%, off by 3% during the week. Mills indicated that the utilisation rate had reached a bottom area concerning the future orders from the revitalised downstream market.

Data Sources: Bloomberg, Platts, Fastmarket, FIS

Market Review (Continued)

MySteel surveyed EAFs profit margin reached 200 yuan/ton, a year high. However, Blast furnace profits in northern Chinese provinces recovered positively from half-year marginal losses. The blast furnace profit margin is expected to see a marginal increase next month because some raw materials costs were based on the previous month. Virtual steel margins stayed in the 280–290 yuan/ton area for the past three weeks, which could be an early signal to expect the reversal of physical steel margins.

The SGX—DCE spread stuck in $10—$20 from mid-May. The unchanged logic on arbitraging or preferable brands froze the movement to drive the difference in a clear direction. Many opportunities during the past two months were generated from the difference in trading times or holidays.

The MB65—P62 spread maintained around $13 during the past four weeks with limited fundamental changes in the dynamic of the spread.

Neutral to Bullish

Downstream/Policies/Industry News:

The G20 reached a consensus on food security and cooperation in dealing with inflation. Russia and Ukraine signed agreements with Turkey and the United Nations on transporting agricultural products from the Black Sea ports. The parties will cooperate in exporting grain from three Ukrainian ports, including Odesa.

The World Steel Association published global steel production for June at 158.1 million tons, down 5.9% per year. H1 2022 steel production at 949.4 million tons, down 5.5%. India was the only country out of the global top ten crude steelmakers to realise a year-on-year increase in H1 2022. The bearish H1 2022 trend is expected to continue into Q3 after Japan's Ministry of Economy Trade and industry projected on July 14th that the country will produce 23.49 million tons of crude steel in Q3, down 2.45% on the year. Electricity rate hikes added high costs for EAFs, forcing a cut in output.

Global Steel Market:

Platts TSI North Europe HRC ex-work Ruhr price at €860/mt last Friday, up €20 from the year low at €840/mt created on June 27th. Italian HRC prices are up €40/mt from the beginning of the month as massive buyers emerged to purchase. However, some big buyers still believed that the rebound should be minimal. There are concerns that the heavy destocking from service centres potentially hamper the price level.

U.S. mid-west service centre indicated recent transactions between $800–880/st. FOB China HRC fell from $650 as the high of the month to $578 during the last two weeks. Vietnamese mill Hoa Phat cut September shipment SS400 HRC offers by $80 to $610/mt CIF. The price was still less competitive than Chinese or Indian offers.

Turkish deep-sea ferrous scrap price dropped from $408 in mid-July to $362 last week as several U.S. recyclers provided lower offers on the market. A Northern American cargo was heard to be booked by an Izmir mill with HMS 1/2 (95:5) at $377/ton CFR. The indicative trade levels of HMS 1/2 (80:20) at $375–380/mt CFR maximum.

Neutral to Bullish

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

FIS

Market Review (Continued)

Chinese Steel Market:

Shanghai domestic 25mm rebar corrected by 280 yuan/ton during the report week. Some big mills' total decreased by 800–900 yuan during the past two months on rebar products. However, the market expected the physical price to be squeezed to an extremely low area, which became generally well accepted downstream. Daily construction steel trading volume increased from 130,000 to 160,000 tons, indicating a recovery sentiment. Mills saw longer lists on their order books.

The typical five steel mill's apparent consumption maintained resilience at 9.7 million tons per week. Production approached a yearly low at 8.83 million tons, similar to the Chinese New Year level. Daily pig iron production maintained at 2.19 million tons, dropped 8.37% from mid-June. The massive cut in steel production and pig iron expected to resolve the oversupply in Q2.

Neutral to Bullish

Coal Market:

With physical cargos continuing to be offered into the spot market and the index creeping lower, we are seeing a slow grind on futures, with sellers reluctant to chase the market lower in hopeful anticipation of a pick-up in demand later this quarter. This is a fair assessment, and the rate of decline in the index has slowed. Still, with poor steel demand and a seeming (current) inability for PLV/PMV hard coking coals to be sold into the thermal market, we could easily be testing $200 over the next couple of weeks.

The PLV Australia coking coal index slid to $230, a ten-month low, due to vanished spot buyers versus anxious sellers keen to clear off some cargoes. JSW Steel Global Trade intended to offer a PMV of 45,000mt of Goonyella C and 35,000mt Caval Ridge Coking coal on July 26th at a sellers' option. The market was waiting for the floor price and participants of the tender. If the trade successfully attracts market interest, the index could temporarily recover.

Indian coke producers indicated they would hold back buying interest in coking coal given the weak coal market sentiment. The Chinese coke market went through four rounds of price cuts by 800 yuan/ton during the previous 5-6 weeks. More than half of coal auction volumes were unsold in July. An HCCA Branded offer of 75,000 mt with August laycan at $225/mt was lucky to see any buying interest.

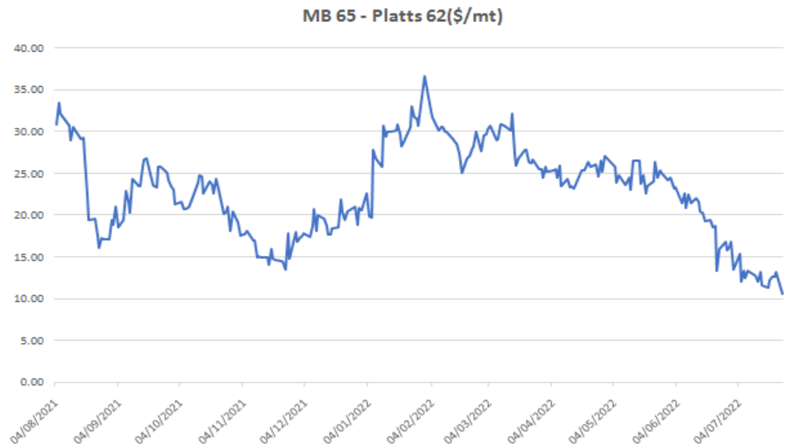
Australian FOB and CFR China spread maintained wide at $110-130 area, suggesting the preference and marginal demand shift from Atlantic market to the Asian market. The market expects China to reopen Australian coking coal imports in Q4. However, prompt demand has many alternatives, including Chinese coals or North American coals.

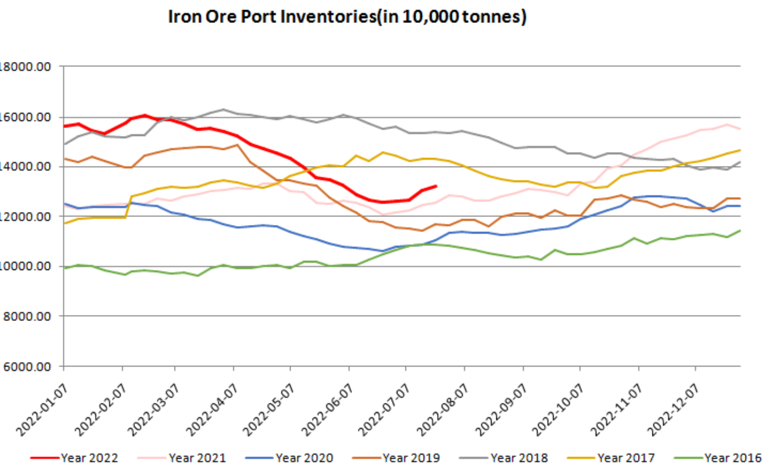
Neutral to Bullish

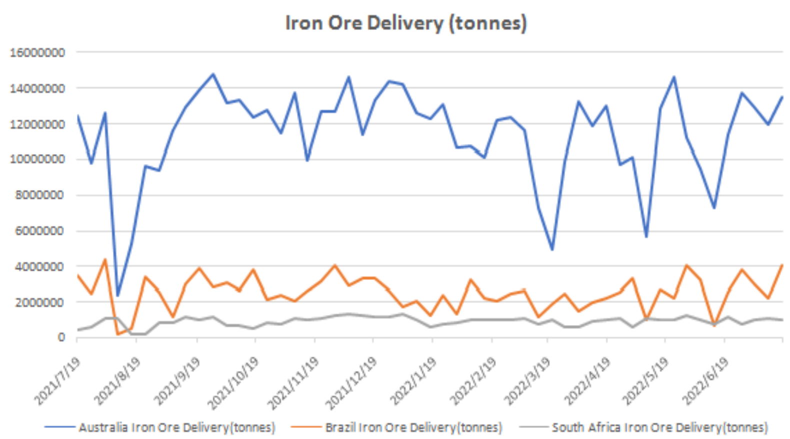
Sources: Argus, IHS Commodities at Sea Service, FIS

Iron Ore

	Last	Previous	% Change
Platts 62% Fe (Dollar/mt)	104	100.9	3.07%
MB 65% Fe (Dollar/mt)	114.6	112.2	2.14%
Capesize 5TC Index (Dollar/day)	21526	24603	-12.51%
C3 Tubarao to Qingdao (Dollar/day)	29.728	32.483	-8.48%
C5 West Australia to Qingdao (Dollar/day)	10.715	11.065	-3.16%
Billet Spot Ex-Works Tangshan (Yuan/mt)	3550	3400	4.41%
SGX Front Month (Dollar/mt)	104.46	103.07	1.35%
DCE Major Month (Yuan/mt)	718	726	-1.10%
China Port Inventory Unit (10,000mt)	13,194.55	13,028.29	1.28%
Australia Iron Ore Weekly Export (10,000mt)	1,348.50	1,195.20	12.83%
Brazil Iron Ore Weekly Export (10,000mt)	401.20	219.60	82.70%







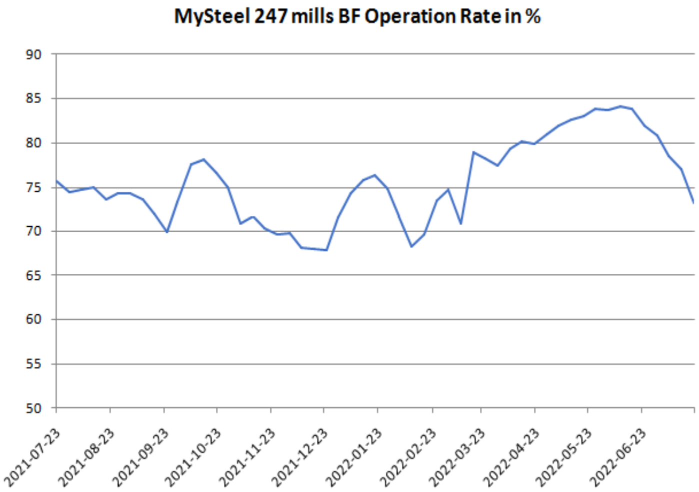
Iron Ore Key Points

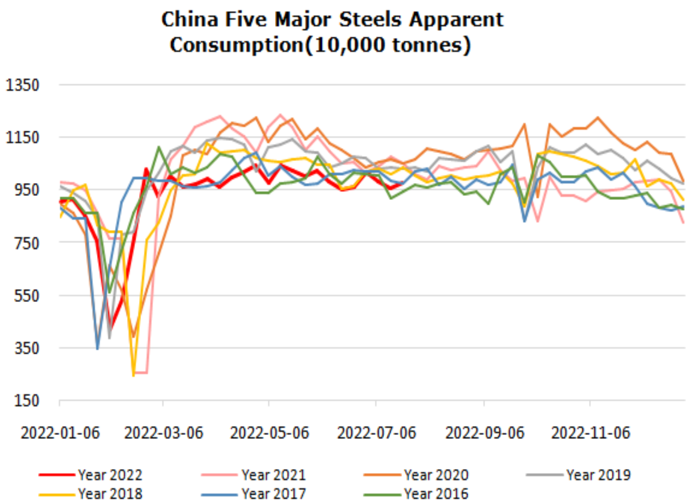
- Iron ore port destocking slowed down due to rainy weather and seaborne supply reduction in June.
- The 65% and 62% iron ore difference dropped to $13.5 because the historical low steel margin forced mills to shift to alternatives from domestic miners on high-grade ores.
- Iron ore deliveries from Australia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

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

Steel

	Last	Previous	% Change
US HRC Front Month (Dollar/mt)	923	915	0.87%
LME Rebar Front Month (Dollar/mt)	728	722	0.83%
SHFE Rebar Major Month (Yuan/mt)	3829	3930	-2.57%
China Hot Rolled Coil (Yuan/mt)	3985	4323	-7.82%
Vitural Steel Mills Margin(Yuan/mt)	283	293	-3.41%
China Five Major Steel Inventories Unit (10,000 mt)	2489.64	2371.33	4.99%
Global Crude Steel Production Unit (1,000 mt)	90730	96610	-6.09%
World Steel Association Steel Production Unit(1,000 mt)	158,083	169,483	-6.73%





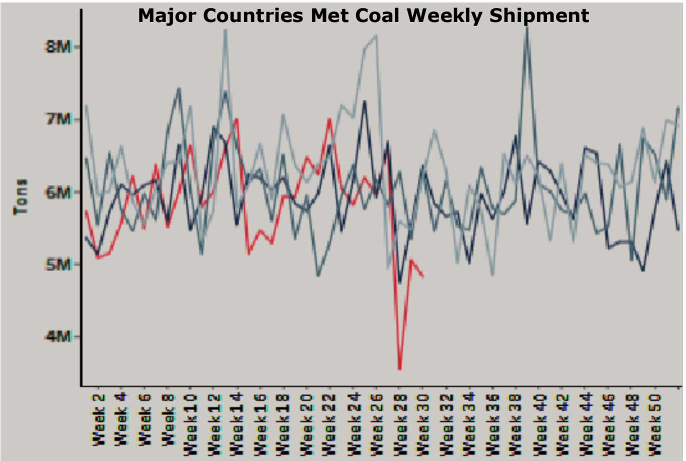
Virtual Steel Mill Margins (Five-Year Range)

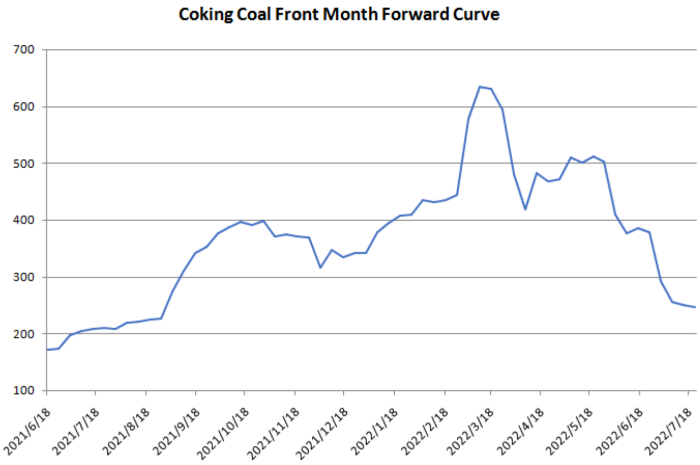
Data Sources: Bloomberg, MySteel, FIS

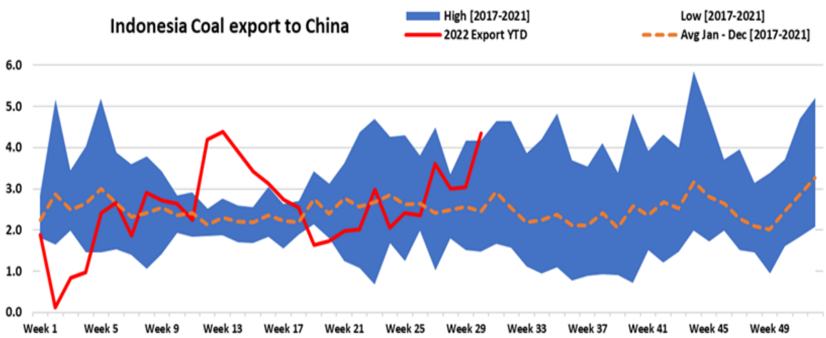
- Virtual steel mill margins tanked at 281 yuan/ton from 455 yuan/ton because of the swift drop in steel prices.
- The five types of steel consumption unexpectedly fell to a three-month low area, driving the resilient steel price to a yearly low area .

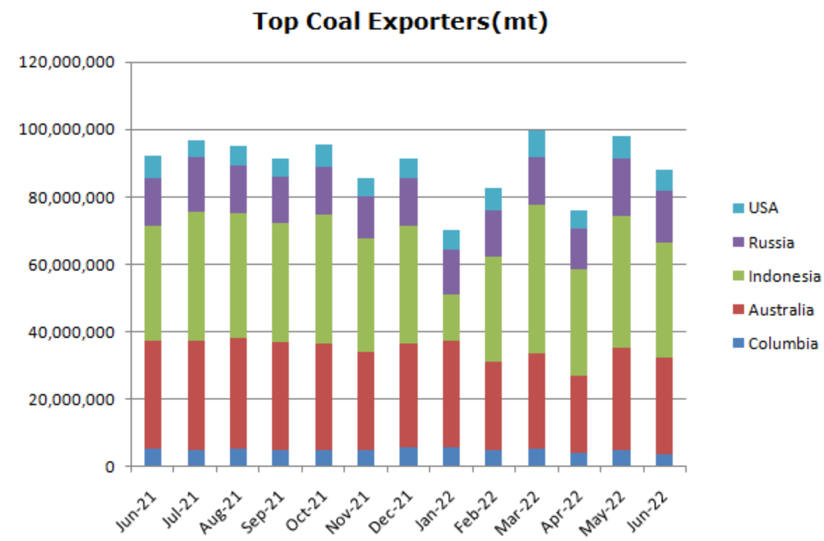
Coking Coal

	Last	Previous	% Change
TSI FOB Premium Hard Coking Coal (Dollar/mt)	221	230	**-3.91%**
Coking Coal Front Month (Dollar/mt)	246.33	249.67	**-1.34%**
DCE CC Major Month (Yuan/mt)	2349	2448.5	**-4.06%**
IHS Met Coal Weekly Shipment (Million mt)	4.80	5.10	**-5.88%**
China Custom total CC Import Unit mt	4,983,083	4,565,214	**9.15%**









Coal Key Points

- Major producers' weekly shipment of metallurgical coal fell to 5 million tons, approaching 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 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 front months are higher than far months contracts.

Contango Market: when futures prices are higher than the underlying physical prices or front months are lower than far months contracts.

Cost Saving Strategy: refers to steel mills focusing on lower variable costs 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 different furnace or EAF materials. Midstream commonly 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 is from April 1st to March 31st. Australia, Sweden, and Egypt's fiscal year from July 1st to June 30th. The fiscal year of the U.S., Mexico is from October 1st to 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 adjusts the acidity and alkalinity of a blast furnace. Pellets have premium to iron ore concentrates.

Long Steel: Finished steel, including wire rods and rebar, is generally related to the housing building market.

More or Less Clause: Trade Terms. In iron ore seaborne trading, the weight could differ from loading to arrival ports because of the increasing moisture rate. For example, some customs accept a 10% maximum moisture rate on some brands of iron ore. In steel trading by trucks or trains, there is usually a certain percentage of weight difference tolerance between quality test and contract.

Rebar 25mm Shanghai: The most volatile physical steel product traded in China and the major exported brand. SGX's rebar contract was highly correlated to this physical brand.

Steelmaking Process: The process typically included the BF-Converter process and EAF process. The U.S. and West Europe are using EAFs. Pig iron/scrap was the primary input for EAFs. China, Japan and India are using BF-Converter majorly. The significant 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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