FIS Ferrous Weekly Report

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⇒ **Iron ore Fe62% CFR China:** short-run **Neutral to Bullish**. Seaborne iron ore market started to recover on oversold sentiment, however, it is expected to remain in rangebound until the market resolves steel oversupply in the coming weeks.

⇒ **Rebar 25mm Shanghai** short-run **Neutral to Bullish**. Physical domestic rebar remains resilient since major Chinese mills started maintenance from mid-June to mid-July. The market expects excess supply seen in May to balance at the end of 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, with resisted local prices.

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

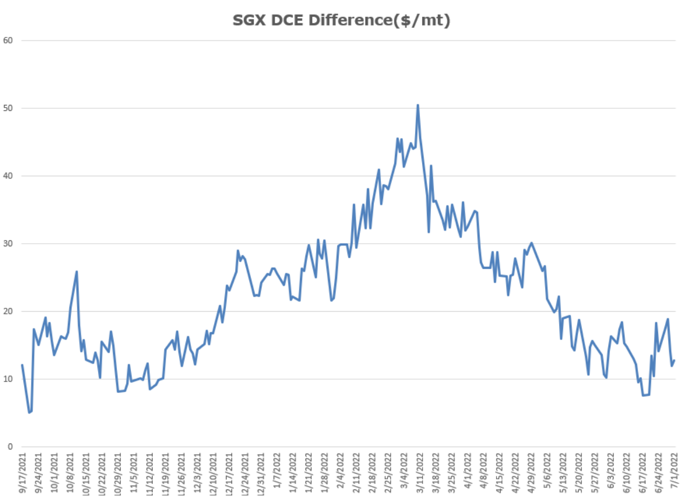
Prices Movement	4-Jul	27-Jun	Changes %	Sentiment	
Iron Ore Fe62% CFR China($/MT)	109.9	119.6	8.11%	Neutral to Bullish	↗
Rebar 25mm Shanghai (Yuan/MT)	4340	4300	0.93%	Neutral to Bullish	↗
U.S. HRC Front Month ($/MT)	917	1127	18.63%	Neutral	▬
Hard Coking Coal FOB Australia($/MT)	300.0	320.0	6.25%	Neutral to Bullish	↗

Market Review:

Iron ore Market :

The iron ore 62% index gave back all the gains of the previous week and returned to $109.90, which was almost flat to the number in the previous reporting week, as it moved to an overall neutral sentiment phase. However, it is expected that iron ore would enter a new round of oversold rebounds in the coming few days as DCE May23 contract was only 15-17% 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 below 60% during the year, adding to the production requirement for blast furnaces in Q3.

Chinese steel mills finally decided to resolve oversupply issues in late June by idling more furnaces into maintenance. MySteel estimated the impact would be to reduce 103,300 tons of pig iron production. Blast furnace utilisation rates dropped to 80.79% last week, which had been 83.83% in late May. The utilisation rate is expected to continuously drop in the coming weeks. Some minor indicators, including daily construction steel trading volume, were fast reflecting steel demands marginal recovery. However, iron ore took a longer period to enter a true recovering route until the steel margin went back to a positive area. Chinese EAFs' profit recovered from –300 yuan to - 100 yuan area. However negative margins dissuaded the interests of producers and will continue until more consistently positive values return. Virtual steel margins grew from 355 yuan/ton to 455 yuan/ton on the week, emboldening hopes of recovery on physical margins. Chinese northern mills physical margins recovered rapidly from –500 yuan/ton to 300 yuan/ton over the previous three weeks. Chinese domestic iron ore production started to decrease in June.



Iron ore port stocks had their first 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 $12 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 $15.30 in the current three and half 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 Bullish

Downstream/Policies/Industry News:

Biden was close to a rollback of China's tariffs to fight inflation, including on some consumer goods and technology areas. In reaction, China extended anti-dumping duties ranging from 5.5% to 26% on certain EU, and UK steel product imports.

U.S. steel announced plans in October 2021 to build 500,000 st/year of pig iron capacity at its Gary Works integrated steel operations. India's JSW to start up 1.3 million mt/year super grinder plant from an initial 800,000/mt year of production.

The steel industry's maintained steelmaking levels accounted for a significant proportion of all global CO2 emissions. Vale has decided to use only natural gas in all its pelletizing plants starting in 2024. The strategic change would reduce emissions by 28%. Currently, pelletizing represents around 30% of Vale's entire greenhouse gas emissions.

Global Steel Market:

EU HRC stabilised during last week, although some small trades were still suggesting a selling sentiment. A mill sold HRC to the German Ruhr region last week at €800/mt. Market participants indicated that the HRC was approaching the bottom as more prices and buying interests emerged in the market in the last two weeks. Japanese HRC was offered into the Liberian Peninsula at €720/mt CFR.

Chinese SS400 HRC offers were cut to $670—673/mt CFR Vietnam from $685/mt CFR. The highest bids were still $25 lower than the offer. Chinese sellers were not expecting a continuous drop after furnace maintenance reduced steel production and floating sources. However, Vietnam buyers were awaiting a new round of correction. In addition, Indian steel has become a major competitor to Chinese exports to the Vietnamese market.

Turkish deep-sea ferrous scrap price created the first week of recovery by 14.29% to $380/ton. After a 50.45% loss in late March, the scrap price continued to rebound for two weeks. The market feels the bottom sentiments as offers from dynamic sources were completed near $300-350 from early June. In addition, the sharp rise was related to a restock before the Eid Al-Adha holidays which begin on July 8th. A US-origin cargo from Marmara mill with HMS 1/2 (90:10) was offered at $380/mt CFR. The indicative tradable value for both U.S. and U.K. were between $370–380, however, a Turkish mill indicated that they didn't expect the price would reach $400 in short run.

Turkey's crude steel output was down 1.4% on the year at 3.2 million mt in May, also down from 3.4 million mt in April. India has become Turkey's top iron ore supplier in 2022, while there used to be 0 imports from India in 2021.

Neutral

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

Market Review (Continued)

Chinese Steel Market:

Shanghai domestic 25mm rebar inched up 40 yuan/ton on the week to 4340 yuan/ton, disregarding a near 200 yuan/mt drop in the futures market. Construction steel daily trading volume saw a big pick up from 130,000 mt in early June to 170,000 mt in early July.

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 2.35 million tons, with an expectation for the number to drop in July. Steel stocks would decrease in July following seasonal features. The slow growth of housing properties and manufacturers pull back the downstream market on steel, given the fast-booming automobile market.

Mid-run recovery in the Chinese steel market needs to see an export warming in flat steel, as well as the housing market's resilience. Otherwise, any rebound would become temporarily volatile.

Neutral to Bullish

Coal Market:

The PLV Australia coking coal market dropped $20 to $300 on the week, however, some buying sentiments on seaborne cargoes started to emerge. 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.

Australian Bureau of Meteorology has reported increasing rainfalls. There was 50—99mm in Queensland and New South Wales saw 100 mm in the past 24 hours. There is a mixed outlook due to the wet weather and an unequal interest in offers and bids.

Australia FOB and CFR China spread maintained a negative $70-90 area for the past 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 coals. Mongolia and Chinese domestic coal supply recovery decreased the Chinese interest in looking for seaborne sources as well.

In the futures market June settled at 372.39, a month on month drop of $129! yet the moves down on paper during the month have been fairly steady with numerous pauses for breath as bids moved back in. There continues to be a notable lack of sellers further back on the curve, surprising now given just how much the index has dropped recently. Steel production cuts have been the main driver, but the counter balance exists with the continued high prices on thermal coal. If enough US high vol can switch in this market then it again leaves buyers with no option than to source Australian material again.

Neutral to Bullish

Sources: Argus, IHS Commodities at Sea Service, FIS

Technical view of the Ferrous Markets:

Iron Ore

August Futures – As highlighted last week, key resistance on the futures was at USD 125.06, upside moves that failed at this level would warn we could be about to enter a bearish wave 5; whilst downside moves below USD 118.00 will target the USD 112.95 level in the near-term. The futures traded to a high of USD 125.10 before trading below the USD 118.00 support, to a low of USD 107.15. The intraday Elliott wave cycle remains bearish with a potential downside target at USD 100.38. upside moves above USD 125.10 will target the USD 133.08 resistance, above this level the technical will have a neutral bias, only above USD 147.60 is the daily technical bullish. However, if we trade below the USD 106.65 low and then trade above the USD 125.10 level the daily technical will be bullish. Technically bearish with a potential downside target at USD 100.38.

Steel

August Futures – technically bearish last week but not considered a technical sell due to the intraday technical being in divergence. The futures did trade lower with price trading below the USD 895 low. The futures have now rolled into August with price continuing to make new lows; however, the intraday technical remains in divergence, warning we have the potential to exhaust soon. Upside moves that fail at or below USD 992 will leave the futures vulnerable to further tests to the downside, above this level the technical will have a neutral bias. Only above USD 1,064 is the technical bullish. Technically bearish, we maintain our view that the futures are not considered a technical sell at these levels.

Coking Coal

August Futures – Technically bearish on the July contract with upside moves considered to be countertrend, price traded below the USD 294 support and is now nearing the USD 264 level. The August contract continues to move lower with price below all key moving averages supported by the RSI below 50. Momentum indicators continue to make new lows, suggesting upside moves should be considered as countertrend at this point. Upside moves that fail at or below USD 334 will leave the futures vulnerable to further tests to the downside, above this level the technical will have a neutral bias. Only above USD 364.33 is the technical bullish. Near-term support is now at USD 260, downside moves below this level will target the USD 232 and USD 208 levels. Technically bearish upside moves are considered as countertrend.

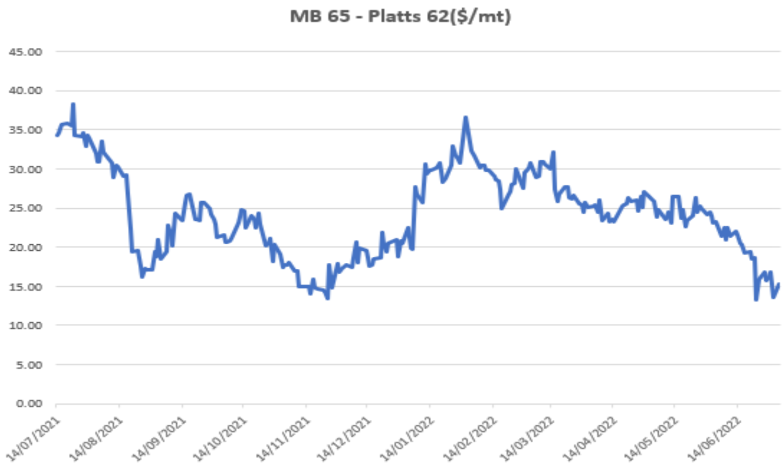
Iron Ore Offshore** August 22 Morning Technical Comment – **240 Min Chart

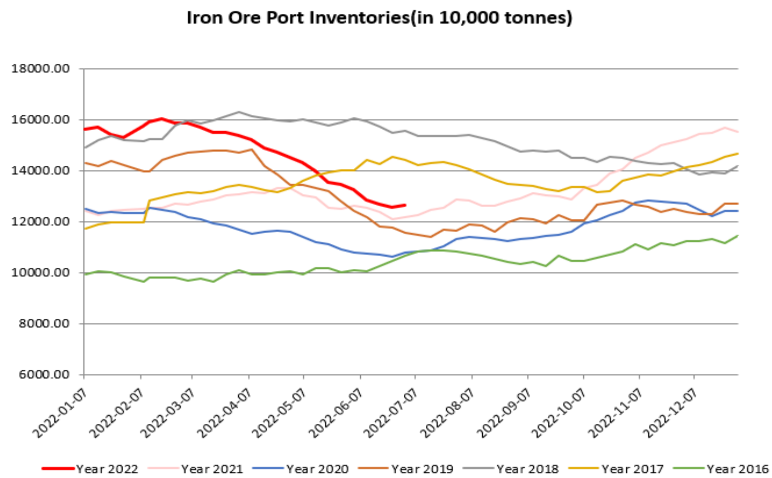
Chart source: Bloomberg

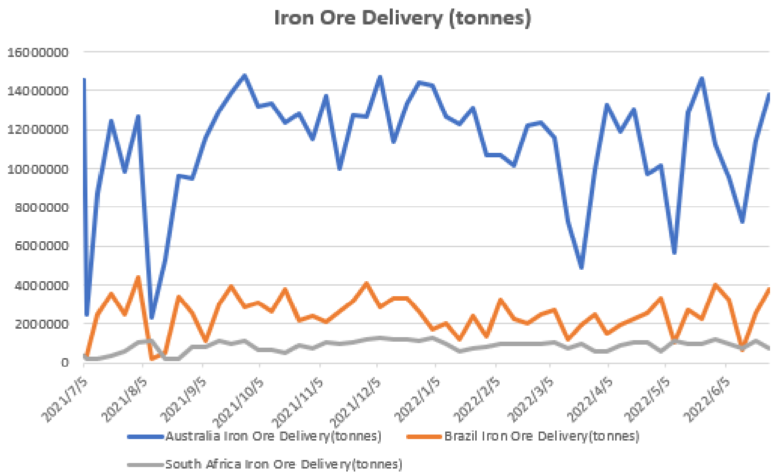
Sources: Argus, IHS Commodities at Sea Service, FIS

Iron Ore

	Last	Previous	% Change
Platts 62% Fe (Dollar/mt)	109.9	119.6	-8.11%
MB 65% Fe (Dollar/mt)	125.2	136.4	-8.21%
Capesize 5TC Index (Dollar/day)	18481	19336	-4.42%
C3 Tubarao to Qingdao (Dollar/day)	30.261	29.533	2.47%
C5 West Australia to Qingdao (Dollar/day)	10.8	11.65	-7.30%
Billet Spot Ex-Works Tangshan (Yuan/mt)	4000	3960	1.01%
SGX Front Month (Dollar/mt)	115.23	128.53	-10.35%
DCE Major Month (Yuan/mt)	852.5	842.5	1.19%
China Port Inventory Unit (10,000mt)	12,626	12,572	0.43%
Australia Iron Ore Weekly Export (10,000mt)	1,376.20	1,140.40	20.68%
Brazil Iron Ore Weekly Export (10,000mt)	379.50	258.70	46.70%







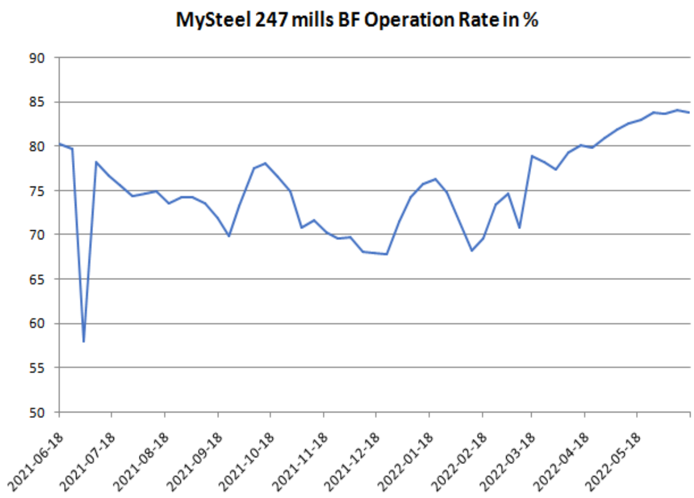
Iron Ore Key Points

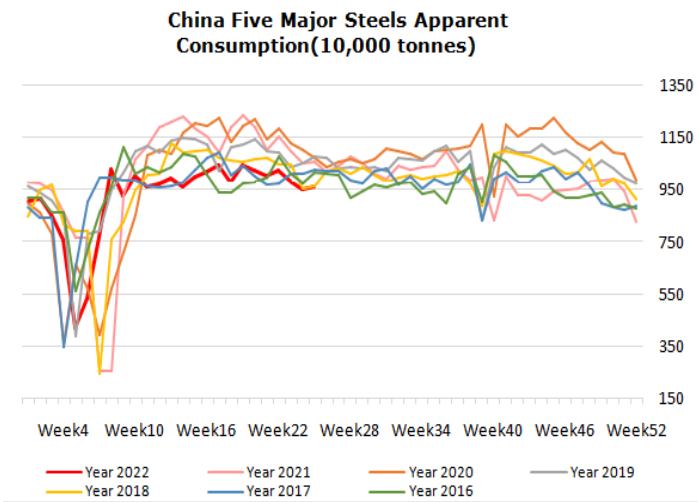
- Iron ore port destocks slowed down due to rainy weather, as well as seaborne supply reduction in June.
- The 65% and 62% iron ore difference dropped to $15 because the historical low steel margin forced mills to shift to alternatives from domestic miners on high-grade ores.
- Iron ore delivery from 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.

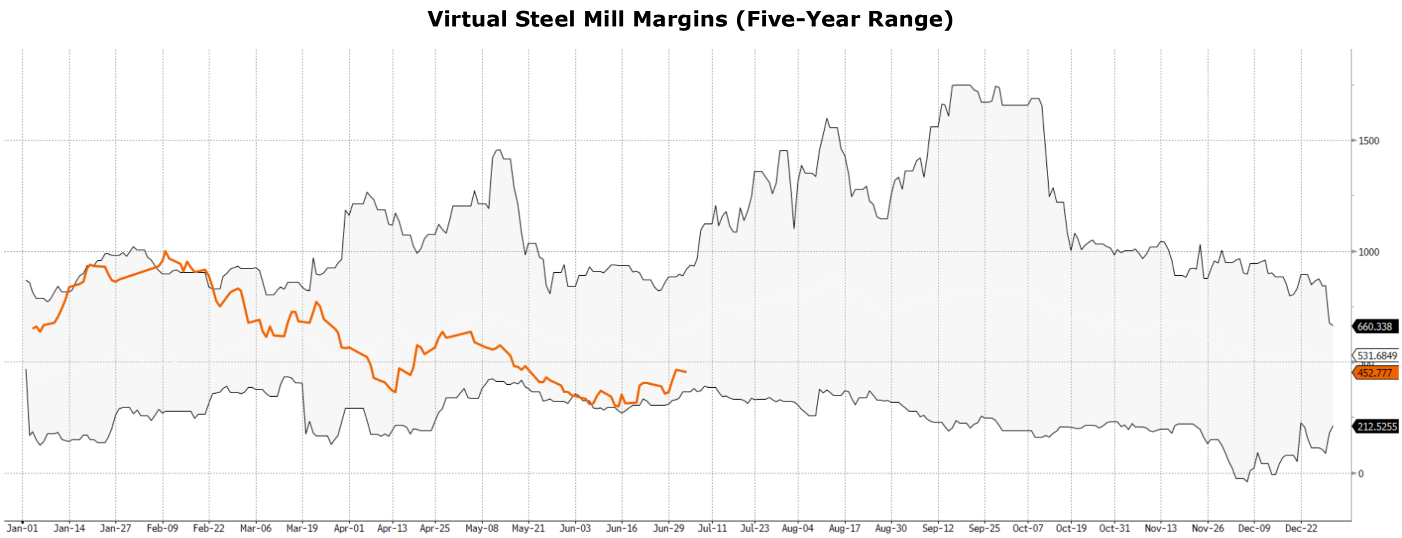
Data Sources: Platts, Fastmarkets, MySteel, Bloomberg, FIS

Steel

	Last	Previous	% Change
US HRC Front Month (Dollar/mt)	930	1127	-17.48%
LME Rebar Front Month (Dollar/mt)	728	722	0.83%
SHFE Rebar Major Month (Yuan/mt)	4500	4301	4.63%
China Hot Rolled Coil (Yuan/mt)	4396	4327	1.59%
Vitural Steel Mills Margin(Yuan/mt)	455	355	28.17%
China Five Major Steel Inventories Unit (10,000 m	2489.64	2371.33	4.99%
Global Crude Steel Production Unit (1,000 mt)	96610	92780	4.13%
World Steel Association Steel Production Unit(1,0	169,483	162,749	4.14%





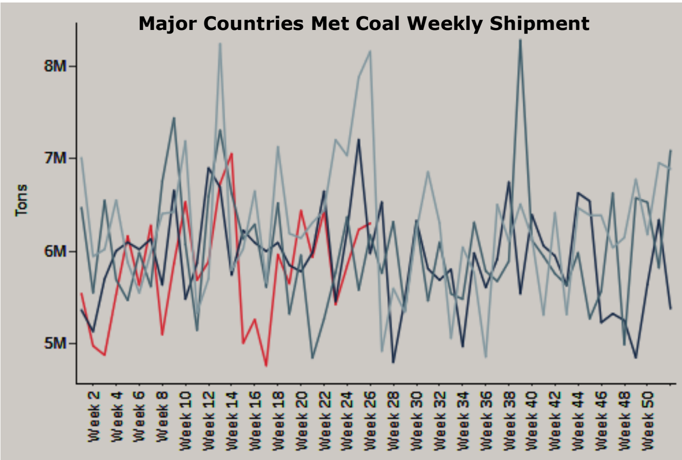


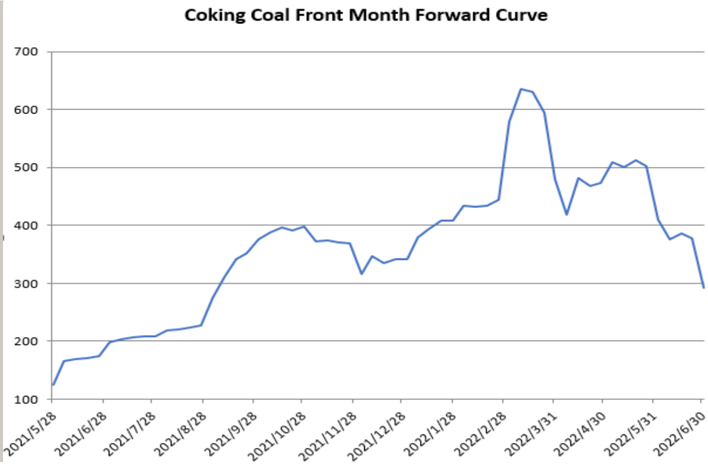
Data Sources: Bloomberg, MySteel, FIS

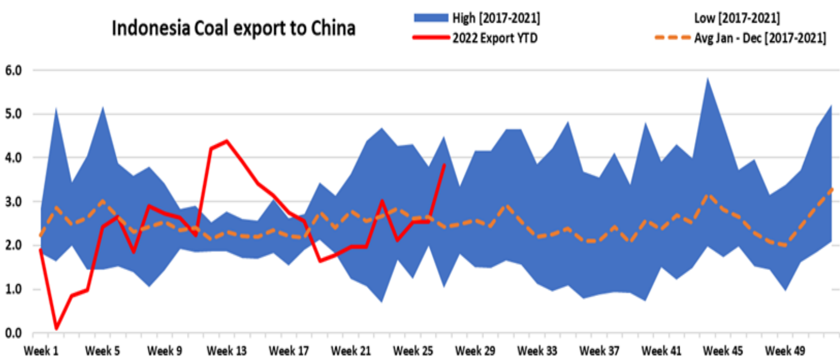
- Virtual steel mill margins recovered to 381 yuan/ton from a yearly and seasonal low of 301 yuan/ton two weeks ago.
- The five types of steel consumption unexpectedly fell to a three-month low area, driving down the resilient steel price to a yearly low area.

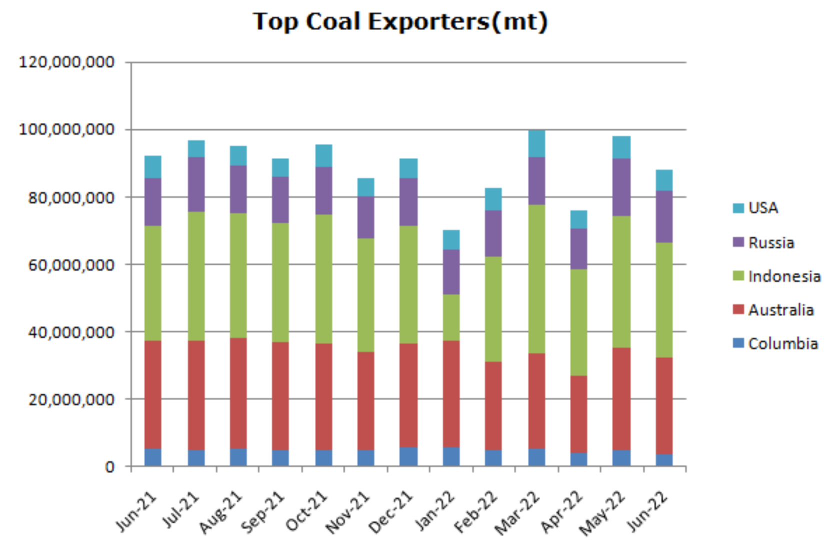
Coking Coal

	Last	Previous	% Change
TSI FOB Premium Hard Coking Coal (Dollar/mt)	300	320	-6.25%
Coking Coal Front Month (Dollar/mt)	291.5	377.5	-22.78%
DCE CC Major Month (Yuan/mt)	3103.5	2802	10.76%
IHS Met Coal Weekly Shipment (Million mt)	6.30	6.20	1.61%
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 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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