FIS

Ferrous Weekly Report

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16/8/2022

⇒ **Iron ore Fe62% CFR China:** short-run **Neutral to Bullish**. Chinese and southeastern Asian steel mills started restocking in late July. Demand in August and September is expected to be better than in June and July, especially when high temperatures and typhoons disappear.

⇒ **Rebar 25mm Shanghai** short-run **Neutral to Bullish**. The daily construction steel trading volume recovered significantly in the last three weeks compared to early July and June.

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

⇒ **Hard Coking Coal FOB Australia** short-run **Neutral to Bullish**. The prompt demand in late August and September was crowded in the seaborne market, particularly when European countries were looking for alternatives to Russian coal.

Prices Movement	15-Aug	8-Aug	Changes %	Sentiment	
Iron Ore Fe62% CFR China($/MT)	104.4	108.8	4.04%	Neutral to Bullish	↗
Rebar 25mm Shanghai (Yuan/MT)	4270.0	4200.0	1.67%	Neutral to Bullish	↗
U.S. HRC Front Month ($/MT)	801.0	818.0	2.08%	Neutral to Bullish	↗
Hard Coking Coal FOB Australia($/MT)	244.5	203.5	20.15%	Neutral to Bullish	↗

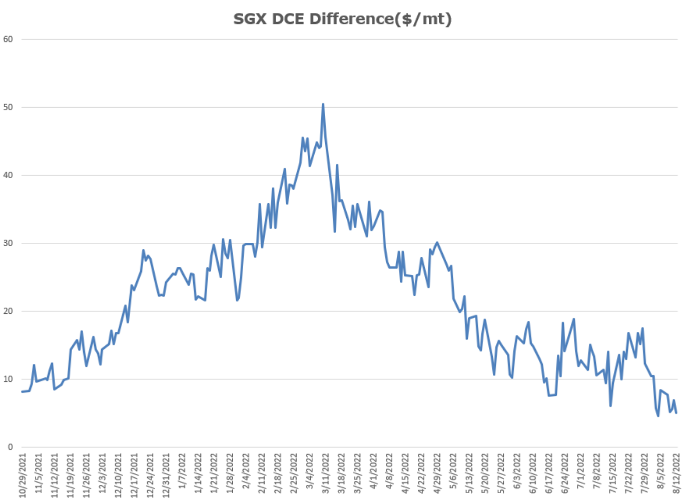
Market Review:

Iron ore Market :

The iron ore 62% index slightly corrected down 4.04%. However, it is expected to recover the losses in the following week with a fast pick up in pig iron production, and the market having priced-in geopolitical uncertainties.

The leading indicator of the Chinese industrial downstream market, China Machinery Data, indicated that excavators' sales in July reached 17,393 units, up 3.42% on the year, reversing the previous 14-months of negative growth. The data showed that the Chinese infrastructure market saw resilient demand and may enter a re-booming cycle in the last five months of the year.

The market saw growing prompt laycan enquiries and trades over the past two weeks, which potentially pushes up the front of the flat structure of the iron ore curve. The flat structure is normally an indicator the market has found a periodic "bottom", since physical traders start to roll demand to deferred months. Thus, the recovery of the structure into deep backwardation could confirm the prompt demand market is booming. PBF float basis decreased from a $1.75 premium in mid-June to a $1.75 discount in early August. NMHG float price dropped from a premium of $1.2 to a discount of $2.55. The market found the cost-effectiveness of the mainstream brands' iron ores. As a result, seaborne trades boosted over the last 3-4 weeks. The mainstream market is expected to remain rangebound from a small discount to a slight premium adapting to brands' supply and demand.



Indian minister considered the iron ore export tax removal in to "examination period". Previously, Indian state-controlled iron ore pellet producer KIOCL temporarily shut its 3.5 million ton pellet capacity facilities because of the 45% duty. Low grades and pellet exports had essentially paused when steel prices dropped to a three-year low after the duties. Indian private-sector conglomerate Adani Group planned to set up a 30 mtpa iron ore plant in east India's Odisha State.

Data Sources: Bloomberg, Platts, Fastmarket, FIS

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Market Review (Continued)

The SGX—DCE spread corrected from $18 to $5 in the previous two weeks because of the slight volatile DCE contract upon the rolling period. However, expect the difference to rebound to $15 or better, with improved steel margins, increased import iron ore margins and a preference to trade seaborne market in current weeks.

MySteel steel mill iron ore inventories were at 96.21 million tons over the last report week, up 1.31 million tons from the previous week. The consecutive increase of the last two weeks after a six-week drop previously indicated the mills officially entered a restocking period. Physical trades gradually shifted back from portside to seaborne after a quiet market from early June to mid-July. The market strongly expects an output recovery in the coming weeks due to the construction season and the lifting of sintering restriction curbs.

Iron ore Chinese port inventories have grown by 12.21 million tons from late June. The sharp increase was caused by mills intentionally decreasing iron ore inventory levels to control financial and production costs, as well as recent low operation efficiency related to geo-political concerns. The inventories are expected to be consumed in the coming few weeks as fast as the mills start to restock—real data usually takes a few more days or a week to become official statistics.

The MB65—P62 spread stayed relatively flat between $11-13 in the last two weeks; the higher grade was still not preferable when absolute steel margin levels and low furnace utilisation rates.

Neutral to Bullish

Downstream/Policies/Industry News:

The U.S. House passed the Inflation Reduction Act in 2022. The Act will focus on increasing company taxes, reacting to environmental changes, decreasing prescription medicines, and decreasing the fiscal deficit. NAHB/Wells Fargo Housing Index (HMI) fell from 6 to 49, creating the eighth consecutive monthly decrease. The number was also the lowest since 2014, which indicated the U.S. economy was slowing down.

China's newly issued household mid-term and long-term loans decreased by around 67% from June and 63% on the year, which was majorly used on home buying loans. Jan-Jul loans dropped 55% on the year. The property sector accounts for 1/3 of steel demand. China Jan-Jul fixed-asset investment 3.198 trillion yuan, up 5.7%, est. 6.2%, last 6.1%. China Jan-Jul designated above scale industrials added value up 3.5%, est. 3.5%, last -0.7%. Housing investment -6.4%, est. -5.5%, last -5.4%. The People's Bank of China (PBOC) unexpectedly lowered the Medium Lending Facility rate by 10 bps on Aug 15th. Market participants believed that the Loan Prime Rate decrease would come very soon.

India's Adani Group plans to build a 4 million mt/year integrated alumina refinery and a 30 million mt/year iron ore plant in Odisha, costing Rupees 575.7 billion ($7.2 billion), the group said Aug. 11.

S&P Global Ratings' 2022 price expectation for iron ore was cut by about 20% to $100/mt, down from $130/mt, noting that prices have trended downward since March on the back of the COVID-19 pandemic in China and a slowing economic growth outlet.

Global Steel Market:

Platts TSI North Europe HRC ex-work Ruhr price fell by €800/mt to €750/mt last week. October-December traded at €890/mt, which created large premiums to NE HRC physical index by €120-130/mt. The contango structure enabled service centres to buy physical HRC at current spot levels and sell high-priced futures contracts to protect the margins. The structure helped steelmakers to lock in prices which was hard to achieve in the physical market. European mills are selling spot cargoes for August and September at €750– 760/ton, significantly lower than large buyers' acceptable levels. Despite the weakening spot market, steelmakers were engaging in rollovers for their July-December contracts around €1,000/ton. Some buyers signalled to look for similar levels for January– June contracts next year.

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

Market Review (Continued)

Turkish HMS 80:20 heavy scrap remains rangebound from $325—$410.0 since late June. Index price recovered to the $398 area as a Benelux-origin deal was booked by an Iskenderun mill at $393. Two other Benelux-origin deals were heard to be booked earlier last week at $385—387/ton CFR Izmir. A Baltic-origin cargo was heard to have been booked by a Marmara mill with HMS 1/2 80:20 around $399.5/mt CFR. Import prices for containerised shredded scrap rose sharply because of the iron ore shortage.

Neutral to Bullish

Chinese Steel Market:

Shanghai domestic 25mm rebar slightly rebounded from 4200 yuan/ton to 4270 yuan/ton during the report week, with neutral market sentiment. However, the price is expected to catch up with the strong futures price in the current reporting week. Northern China entered cool weather in late August, and southern and eastern China and south-east Asian countries entered Autumn from mid-September. Cooling and less rainy weather would improve the utilisation rate of steel mills. MySteel sample Chinese steel mills operation rate at 76.24%, increased 3.24% on the week, created the most significant one-week increase in Q3. Virtual steel margins recovered from year-low 212 yuan/ton to 399 yuan/ton in the last three weeks. EAFs operation rate finally rebounded from the year's low at 43% to 56% over the past four weeks, reversing the bearish sentiment with significantly improved margins at 100-200 yuan/ton from a break-even profit last over seven months previously. Many independent research agencies expect the utilisation and operation rate to climb steadily in August.

Daily construction steel trading volume maintained stable at 170,000 tons, significantly picked up from 156,000 tons in June. Northern and eastern steel mills saw longer lists on their order books from mid-July. The apparent consumption of the typical five types of steel ranged from 9.5-10.2 million tons over the past nine weeks and positioned at an average level of the past few years, suggesting the significant selling on the market has diverged from the actual resilient demand market. The resilient demand was supported by the fast decrease in inventories, approaching a three-year low level. The production also dropped to a seven-year-low level.

Neutral to Bullish

Coal Market:

This week has very much been focused on physical more than paper. Bids have been edging up, and Friday, the index rose again, with Platts reporting a Sep PMV trade at 235 for 75KT. Aug futures traded Friday at $233, above where the index printed the day before. Only 2 weeks ago, Aug was trading barely above $200, and physical offers were aplenty. It now needs the index to move over $250 to justify the move on paper! Supply apparently is well balanced in the spot market, but bids are in the market with expectation of interest towards the end of the summer.

The PLV Australia coking coal index improved slightly from $203.5 to $240/mt, as expected among strong buying interest. Last Thursday, a trade was completed at $228 for 75,000mt PMV Moranbah North cargoes. Another PMV trade from Caval Ridge was reported done $234 a day after. PMV cargoes saw significantly increased buying interest for late August and September laycans. International buyers have preferred to buy at a fixed price rather than a floating price.

Upon the European ban on Russian coals taking effect from August 10th, the market found some imports demand from Australia to European countries. A southern coastal steel mill said their improved steel margin increased their willingness to consider prime U.S. and Canadian coking coals. Chinese steel mills were negotiating with coke plants on some possible coming rounds of price upticks after the successful landing of the first round of price increases nationwide. PLV CFR China market saw limited trade activity because of the disparity between buyers and sellers.

Neutral to Bullish

Sources: Argus, IHS Commodities at Sea Service, FIS

Technical view of the Ferrous Markets:

Iron Ore

September futures - Technically bearish but in divergence last time, the futures traded above the USD 108.86 and the USD 115.75 resistance levels, meaning the technical is now bullish based on price making a higher high. Based on our longer-term Elliott wave cycle from the high at USD 233.75, we now look to have completed wave 3 of wave C that started in March 2022, meaning the current upside move is still considered a countertrend. Key resistance levels to follow are USD 121.10 and USD 129.92. Upside moves that fail at or below the secondary resistance will leave the futures vulnerable to further tests to the downside. Above this level, the technical will have a neutral bias. The recent downside move has held the USD 104.25 support, meaning near-term price action is bullish; however, the longer-term technical would suggest that the upside move is countertrend as the wave analysis still implies further downside within this cycle.

Steel

September futures – Technically bearish but not considered a technical sell previously, the futures closed above the USD 830 level, warning that the USD 890 resistance could be tested in the near-term (report 18/07). The price traded to a high of USD 890 before trading to a new low at USD 812. The new low has created a positive divergence with the RSI, which is above its moving average, suggesting the USD 890 high is now vulnerable. We closed on 08/08 at USD 833; upside moves above USD 840 will further support a bull argument. Technically bearish but not considered a technical sell with resistance levels (USD 890 - USD 981) now looking vulnerable.

Coking Coal

September Futures – Technically bearish in the August contract on the last report with upside moves considered countertrend, the positive divergence warned of the potential for a momentum slowdown. The futures traded to a low of USD 198.83, with the price remaining in divergence. We see a similar technical footprint in the Sep contract with the futures trading to a low of USD 203 with price in divergence, warning that the futures have the potential to see a momentum slowdown, meaning we are not considered a technical sell at these levels. The one difference in the Sep contract is that we see a 5-wave pattern lower, warning this downside move has the potential to exhaust soon. Technically bearish but not considered a technical sell, the futures are vulnerable to an upside move at this point.

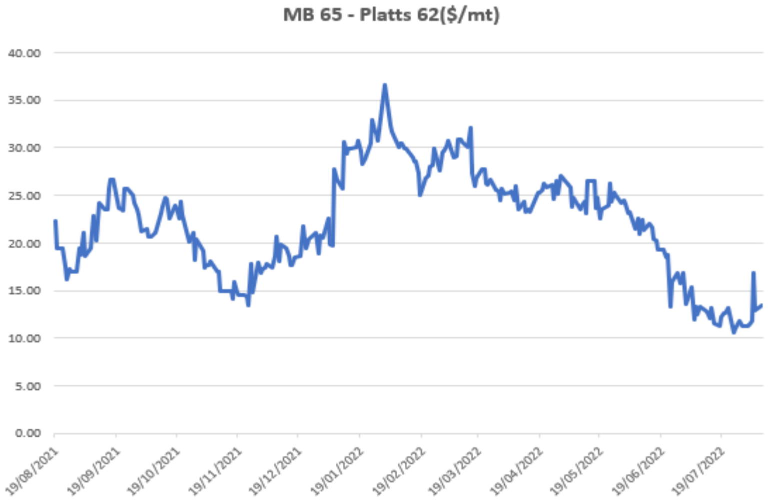
Iron Ore Offshore Sep 22 Morning Technical Comment – 240 Min Chart

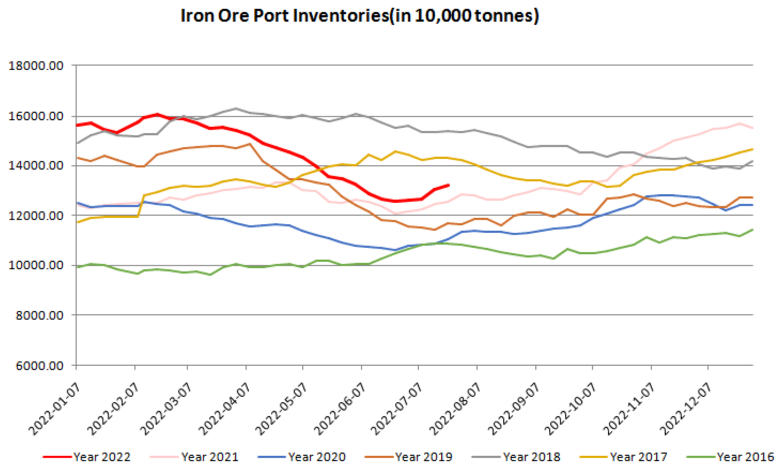
Chart source: Bloomberg

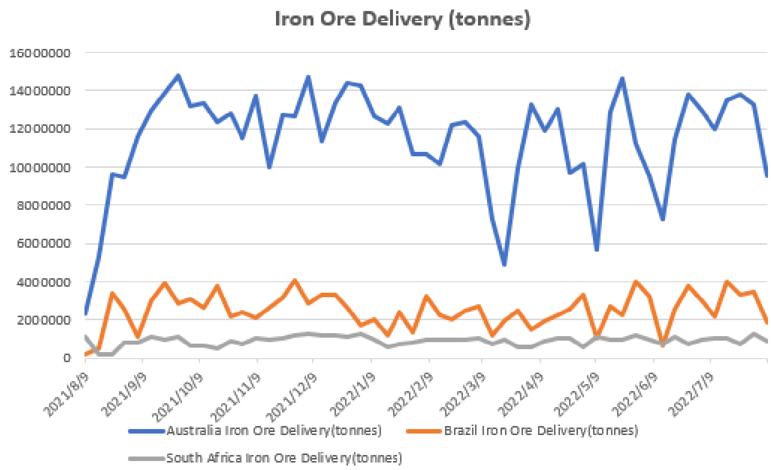
Sources: Argus, IHS Commodities at Sea Service, FIS

Iron Ore

	Last	Previous	% Change
Platts 62% Fe (Dollar/mt)	104.4	108.8	-4.04%
MB 65% Fe (Dollar/mt)	117.3	119.8	-2.09%
Capesize 5TC Index (Dollar/day)	9104	12152	-25.08%
C3 Tubarao to Qingdao (Dollar/day)	20.306	21.95	-7.49%
C5 West Australia to Qingdao (Dollar/day)	7.56	8.22	-8.03%
Billet Spot Ex-Works Tangshan (Yuan/mt)	3770	3710	1.62%
SGX Front Month (Dollar/mt)	109.86	109.11	0.69%
DCE Major Month (Yuan/mt)	789.5	789	0.06%
China Port Inventory Unit (10,000mt)	13,886.16	13,703.98	1.33%
Australia Iron Ore Weekly Export (10,000mt)	952.20	1,329.90	-28.40%
Brazil Iron Ore Weekly Export (10,000mt)	182.80	344.20	-46.89%







Iron Ore Key Points

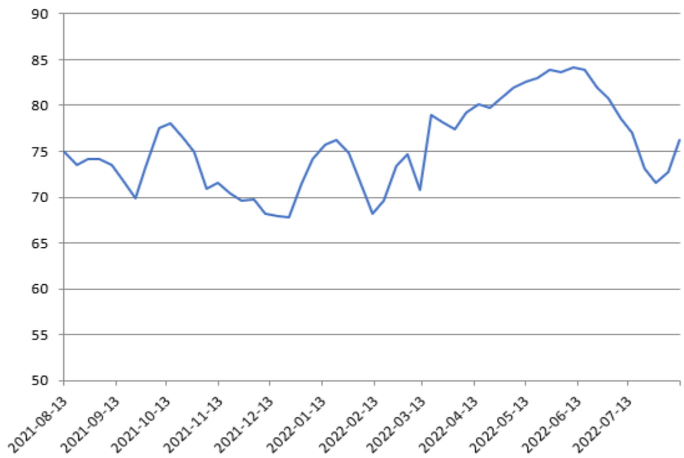
- Iron ore port inventories increased because of the low port efficiency and steel mills' cutting output.
- The 65% and 62% iron ore maintained weak from $11-13 from June most of the time since the drop in steel margin.
- Iron ore delivery from Australia and Brazil was stable monthly. However, small 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

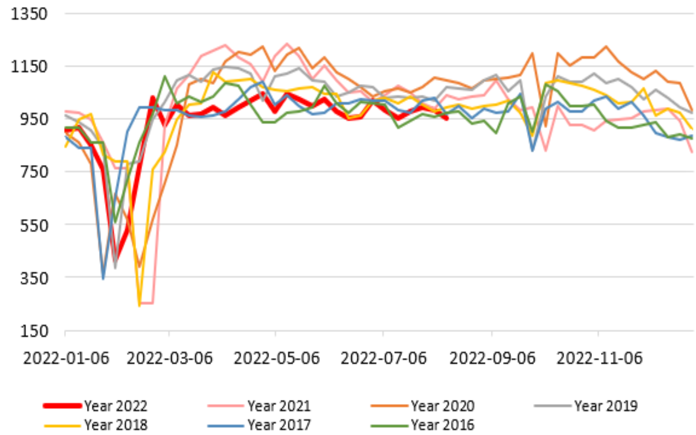
Steel

	Last	Previous	% Change
US HRC Front Month (Dollar/mt)	812	818	**-0.73%**
LME Rebar Front Month (Dollar/mt)	728	722	**0.83%**
SHFE Rebar Major Month (Yuan/mt)	4135	4061	**1.82%**
China Hot Rolled Coil (Yuan/mt)	4065	4024	**1.02%**
Vitural Steel Mills Margin(Yuan/mt)	399	375	**6.40%**
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%**

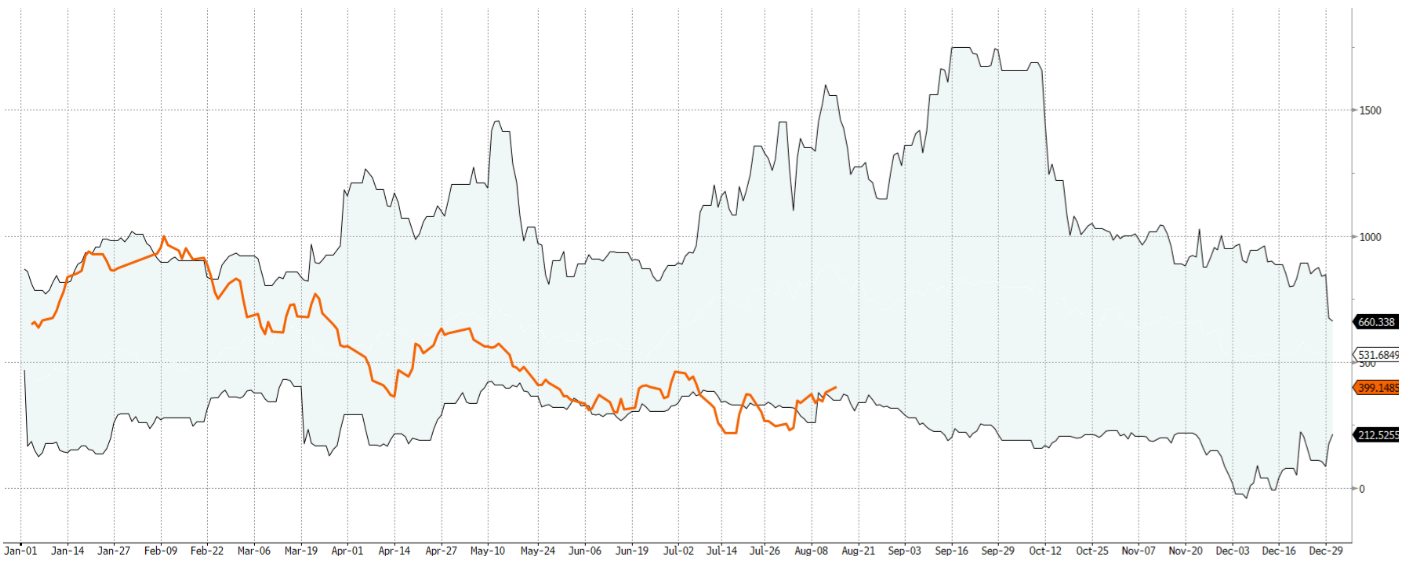
MySteel 247 mills BF Operation Rate in %



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



Virtual Steel Mill Margins (Five-Year Range)

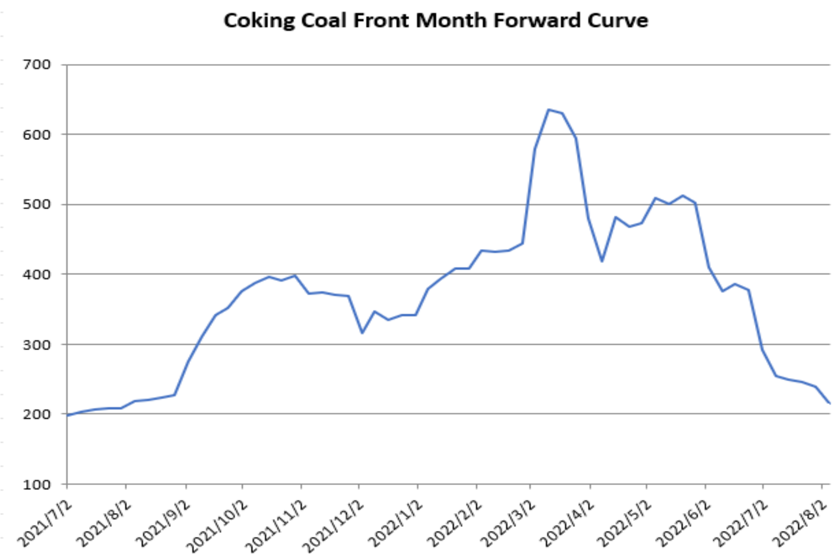


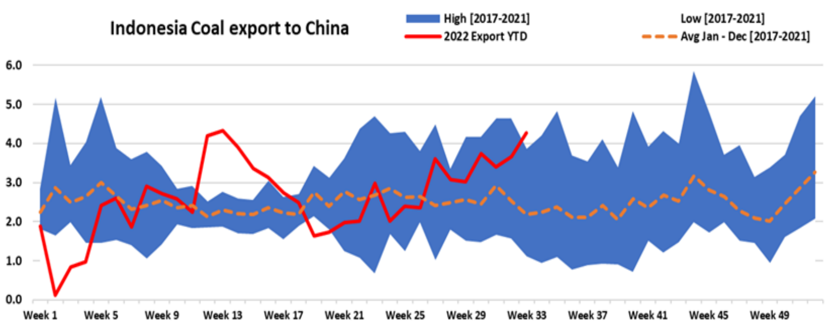
Data Sources: Bloomberg, MySteel, FIS

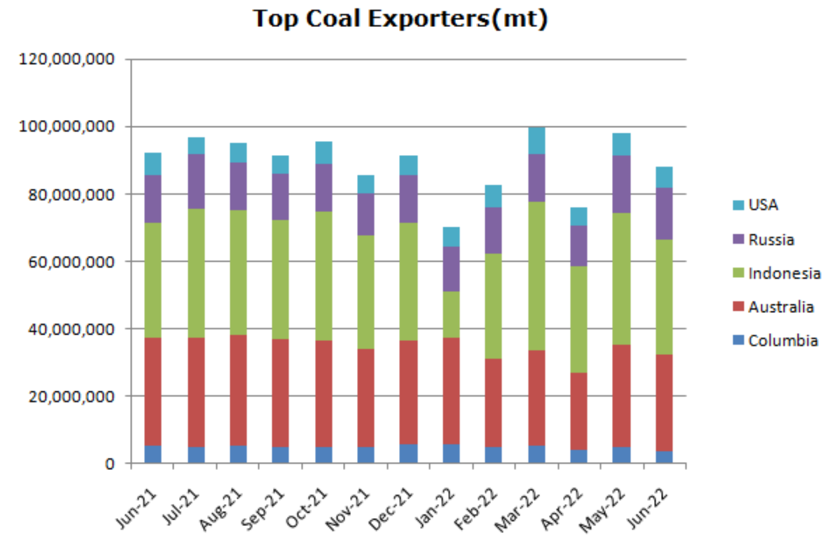
- Virtual steel mill margins recovered from a year-low of 212 yuan/ton to 399 yuan/ton over the last two weeks because the steel price increase was slightly delayed due to raw materials. The steel margin level was recovered from both paper and physical standpoints.
- The weekly five types of steel consumption-maintained resilience during the past nine weeks, around 9.5–10.2 million tons, because of the fast drop in inventories.

Coking Coal

	Last	Previous	% Change
TSI FOB Premium Hard Coking Coal (Dollar/mt)	244.5	203	**20.44%**
Coking Coal Front Month (Dollar/mt)	227.5	215	**5.81%**
DCE CC Major Month (Yuan/mt)	2400	2400	**0.00%**
Top Six Coal Exporters Weekly Shipment(Million mt)	21.37	21.05	**1.52%**
China Custom total CC Import Unit mt	4,983,083	4,565,214	**9.15%**







Coal Key Points

– Indonesia's coal export to China was boosted again to a seasonal high, although the government punished some coke plants that failed to guarantee supply to domestic mills.

– European countries actively sought new coal sources from Australia and North America after the coal ban on Russia took effect. Conversely, coal stocks picked up quickly in CIS areas as broken logistics and limited prompt demand.

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 deferred months contracts.

Contango Market: when futures prices are higher than the underlying physical prices or front months are lower than deferred 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, Ferroalloys, and different furnace or EAF materials. Midstream commonly refers to semi-finished steels, including crude steels, or finished steels, structured steels, flat steels, HRC/CRC, rebar, etc. Downstream meant the end-users of steels, including housing, infrastructure, auto-making, energy market, shipbuilding, housing appliances, containers, and mechanics.

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 increased moisture rates. 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 is a significant input for EAFs. China, Japan, and India are using BF-Converter majorly. The 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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