FIS Ferrous Weekly Report

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⇒ **Iron ore Fe62% CFR China:** short-run **Neutral**. Seaborne iron ore market trades emerged with signals of mills starting to restock. Demand in August is expected to be warmer compared with June and July.

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

⇒ **U.S. HRC Front Month** short-run **Neutral**. Marginal demand started to recover after supplies were squeezed to their lowest levels of the year.

⇒ **Hard Coking Coal FOB Australia** short-run **Neutral**. The big slump in the prime coking coal prices might attract some Asian buyers to stock coking coals in Q3.

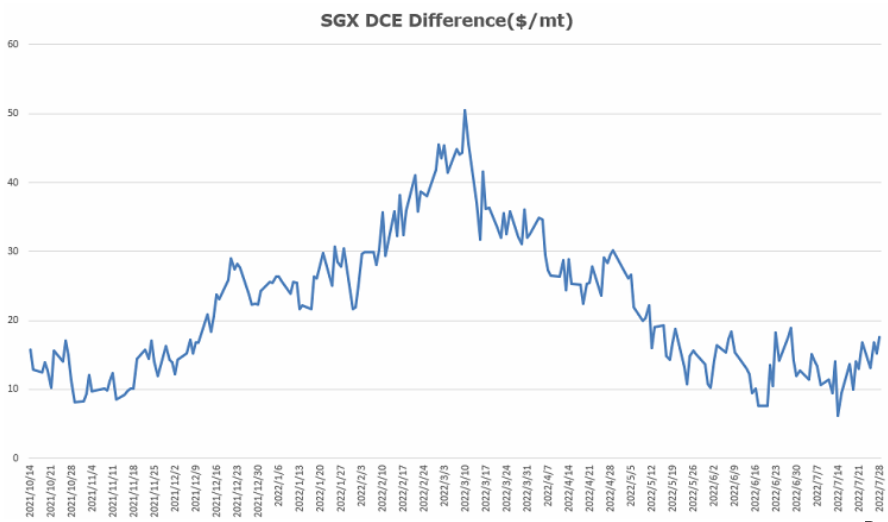
Prices Movement	1-Aug	25-Jul	Changes %	Sentiment	
Iron Ore Fe62% CFR China($/MT)	112.9	104.0	8.56%	Neutral	-
Rebar 25mm Shanghai (Yuan/MT)	4150.0	3950.0	5.06%	Neutral	-
U.S. HRC Front Month ($/MT)	822.0	923.0	10.94%	Neutral	-
Hard Coking Coal FOB Australia($/MT)	188.5	221.0	14.71%	Neutral	-

Market Review:

Iron ore Market :

The iron ore 62% index rebounded by 8.56%, as expected from the previous report. However, we started to maintain a neutral outlook for the iron ore market in the coming weeks because of the well-recovered pig iron production and external political risk. Last Friday, the Chinese political conference guaranteed the delivery and completion of buildings under construction, eliminating the concerns of developer default and bank liquidity risk. In general, the policy would guarantee the purchase of building materials with sufficient funds.

The market saw active seaborne trades over the past report week, including PBF, JMBF, and MACF for August and September laycans, after a quiet period from early June to mid-July. Chinese steel mill maintenance season ended, and daily pig iron production reached a bottom area at 2.13-2.14 million tons and the market expects an output recovery in the coming weeks. FMG widened SSF discount by 4% from July to August discounts, 7% to 10% on FBF, and 7% to 8% on WPF. However, some physical traders revealed the discount was not competitive in the current market. However, Platts report indicated more discounts in the next few months to encourage usage. Big miners entered a competing mode by expanding discounts. Seaborne iron ore supply is expected to be tight in 2022 because of the slow delivery of Rio Tinto and Vale, the Russia and Ukraine war, and the export tariff increase in India. At the same time, the demand market saw signals of recovery in China, North Europe, and North America, with a reversal of steel price and buying interests.



The SGX—DCE spread has been stuck at $10—$20 from mid-May. The unchanged logic on arbitraging or preferred brands froze the movement to drive this spread in a clear direction.

The MB65—P62 spread decreased to $11 since falling high grade helped optimise the marginal costs for steel mills. The spread is expected to maintain in a low area until the recovery of the blast furnace margins.

Data Sources: Bloomberg, Platts, Fastmarket, FIS

Market Review (Continued)

Virtual steel margins tanked to 212 yuan/ton area, approaching a year-low, after the uptick in iron ore and relatively slow response in rebar. The blast furnace operation rate decreased from 84.11% to 73.16% during the past six weeks. The number created a year-low excluding the Chinese New Year period. EAFs operation rate finally rebounded from the year's low at 43% to 49% over the last two weeks, reversing the bearish sentiment with significantly improved margins of 100-200 yuan/ton from a break-even profit over the last seven months. Many independent research agencies expect the utilisation and operation rate to climb steadily in August.

The market recognised the theoretical low of around 590 yuan/ton as a period low for the DCE May 23 contract, which was previously calculated as the major miners' CFR cost. This kind of "buying around theoretical bottom" played for several times in the iron market in mid-2015, mid-2018, early 2020 and late 2021. The quarter-length rebound after this "bottom" ranged from 30-50%. If purely from statistical assumption, the conservative 30% rebound added to the previous low at $96.60 would be $125.

Neutral

Downstream/Policies/Industry News:

Given the crude steel decrease in H1 2022 in China, NDRC vowed to decrease H2 steel output, which was a stricter than expected control or a slight increase in steel output by analysts.

World Steel Association published global steel production in 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%. Electricity rates hiking might add costs to EAFs, forcing them to cut output.

Global Steel Market:

Platts TSI North Europe HRC ex-work Ruhr price at €850/mt this Monday, down €10 per week. The price has stuck in the €840-860/mt range for more than a month since late June. The slight decrease was because European mills were filling the low rolling programmes. Visegrad-based producers reported the trade with Germany at €800/mt ex-works Ruhr. One northern European mill has sold as low as €700/mt tons to Italy to boost the trade volume. There was a massive divergence in the Italian market with offers of €780– 820/mt, and acceptable bids were €20–40 lower.

Northern Chinese mills HRC was tradeable at $590/mt FOB. Eastern Chinese mill's offers were around $590 –595, with a slight raise. Traders raised bids from $590–610 CFR Vietnam to $600—620, with buyers from Vietnam raising acceptable levels accordingly. Some exporters withdrew offers in the international market and waited for a clear direction in the domestic market.

Turkish deep-sea ferrous scrap HMS 1/2(80:20) price was assessed at $340.75, dropped from $408 in mid-July, as recyclers continued to provide lower offers on the market because of the holiday period, hot weather, and negative global steel demand impact. Growing energy costs are making buyers unwilling to meet the current offer at $350/mt CFR.

Neutral

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

Market Review (Continued)

Chinese Steel Market:

Shanghai domestic 25mm rebar dropped during the reporting week as expected in a reversal from last week. Some big mills' margins decreased by 800–900 yuan during the past two months on rebar products. Daily construction steel trading volume gradually increased from 130,000 tons to 170,000 tons in the second week of July, indicating a steady recovery sentiment. The average number in June was 156,000 tons. At the same time, steel mills saw longer lists on their order books from mid-July.

The five different types of steel consumption ranged from 9.5 to 10.2 million tons over the past nine weeks. They were positioned at an average level over the past few years, suggesting the significant selling in the market diverged from the resilient demand market. The demand was supported by the rapid decrease in inventories which approached a three-year low level. Production also dropped to a seven-year-low level. The quick dynamic change in the Chinese steel market was led by top steel mills, who sacrificed market volumes and marginal profits to resolve the oversupply issue in Q2.

Neutral

Coal Market:

The month closed today with little activity, although it has been another week of strong moves in the index. Week on week the index dropped $35 (15%) mainly on re-selling interest from a Steel Mill back to the market, combined with sluggish spot demand.

Futures had a more mixed week, with Aug and Sep futures only losing $15/tonne week on week but Q4 losing $30 week on week. Despite this there is still a strong contango between September and Q1 but spread buyers have emerged. Given the index now it does look as the support for August futures is a result of end of month position tidying, as the futures and physical now need to meet. Meanwhile Chinese futures have rallied hard this week recouping much of last week's losses.

The PLV Australia coking coal index slid to near $40 over the reporting week because JSW trade ended on the buyer's preference level at $195. Last Friday, a bid was heard at $168/mt FOB Australia for 75,000 mt GlobalCoal HCCLV Peak Downs with September laycan, down from $195 placed three days before. Some end-users from Asia indicated they would book more cargoes if the prices were attractive, for example, in the $165-175 range.

Australia 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.

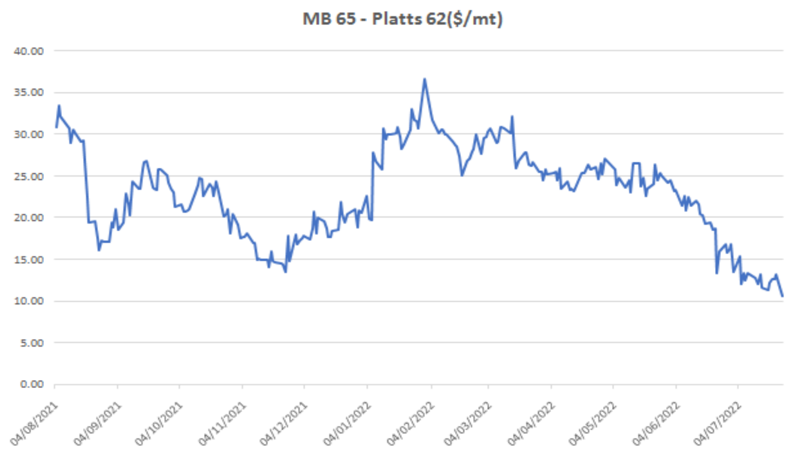
Chinese domestic coke price dropped by 200 yuan/ton, total down 1000 yuan for the past five rounds from June 22nd. Market participants expected 2-3 rounds of higher offers in negotiations between coke plants and steel mills. Chinese local market believed that physical coke had reached a reversal timing after a strong rebound in the futures market last week. In addition, the market expects tremendous cash support from house developers in China's September and October construction season.

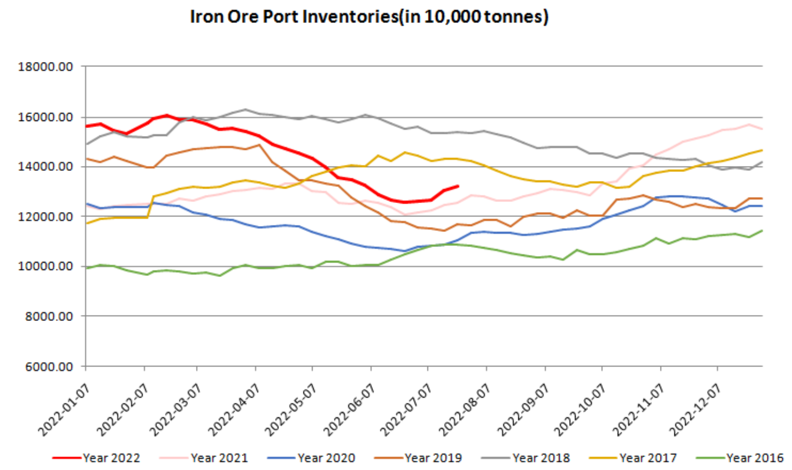
Neutral

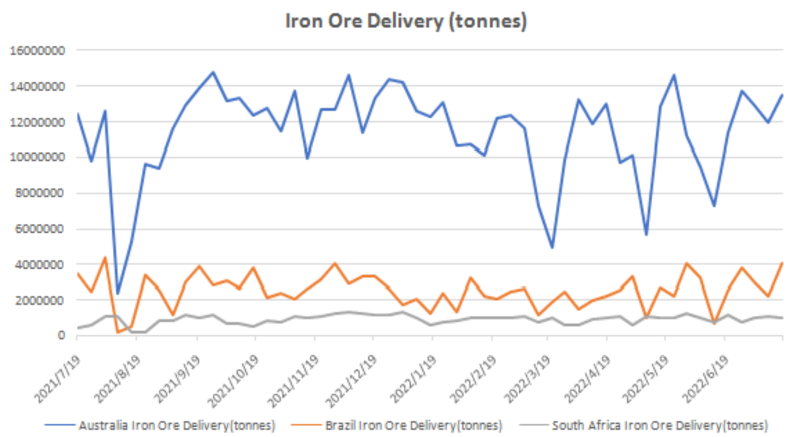
Sources: Argus, IHS Commodities at Sea Service, FIS

Iron Ore

	Last	Previous	% Change
Platts 62% Fe (Dollar/mt)	112.9	104	8.56%
MB 65% Fe (Dollar/mt)	124.2	114.6	8.38%
Capesize 5TC Index (Dollar/day)	17100	21526	-20.56%
C3 Tubarao to Qingdao (Dollar/day)	25.583	29.728	-13.94%
C5 West Australia to Qingdao (Dollar/day)	9.76	10.715	-8.91%
Billet Spot Ex-Works Tangshan (Yuan/mt)	3630	3550	2.25%
SGX Front Month (Dollar/mt)	107.22	104.46	2.64%
DCE Major Month (Yuan/mt)	832.5	718	15.95%
China Port Inventory Unit (10,000mt)	13,534.55	13,194.55	2.58%
Australia Iron Ore Weekly Export (10,000mt)	1,381.80	1,348.50	2.47%
Brazil Iron Ore Weekly Export (10,000mt)	332.80	401.20	-17.05%







Iron Ore Key Points

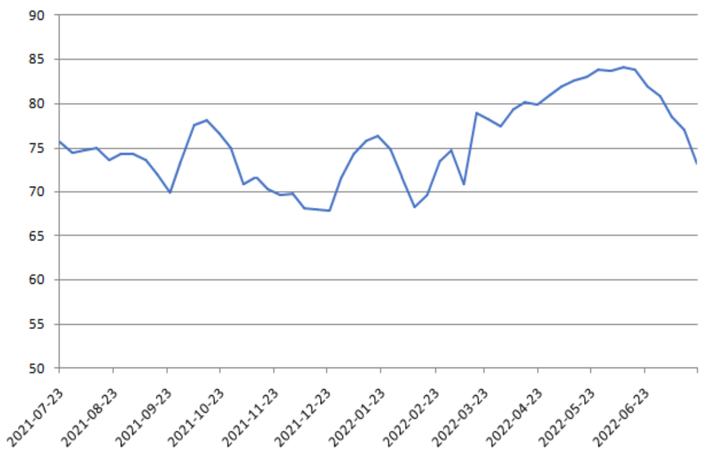
- Iron ore port inventories increased because of the low port efficiency and steel mills cutting output.
- The 65% and 62% iron ore difference dropped to $11 because the historical low steel margins forced mills to shift to alternatives from domestic miners on high-grade ores.
- Iron ore delivery from Australia and Brazil was stable on a month on month basis. However, small miners from non-Brazilian and non-Australian exports became unstable in H1 2022 because of high energy costs, fewer available ships, and longer routes/laycans on the sea.

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

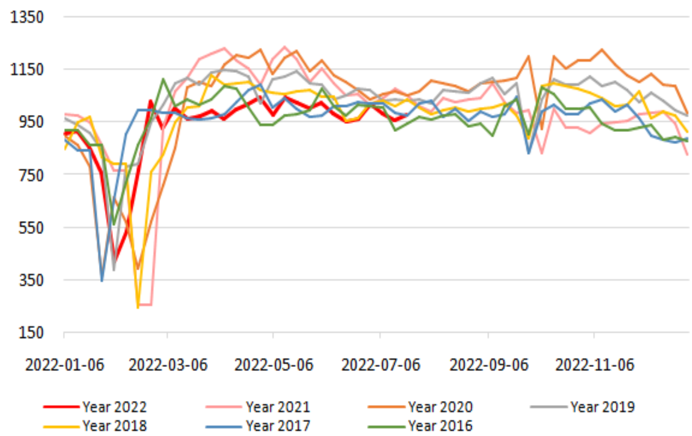
Steel

	Last	Previous	% Change
US HRC Front Month (Dollar/mt)	855	923	**-7.37%**
LME Rebar Front Month (Dollar/mt)	728	722	**0.83%**
SHFE Rebar Major Month (Yuan/mt)	4122	3829	**7.65%**
China Hot Rolled Coil (Yuan/mt)	3959	3985	**-0.65%**
Vitural Steel Mills Margin(Yuan/mt)	293	212	**38.21%**
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%**

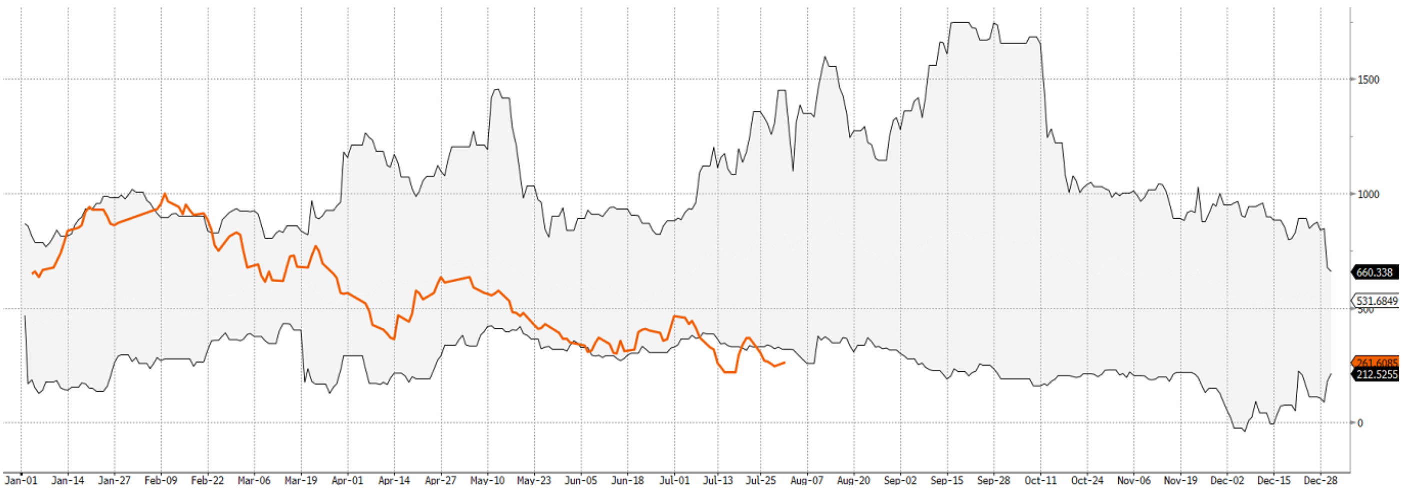
MySteel 247 mills BF Operation Rate in %



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



Virtual Steel Mill Margins (Five-Year Range)

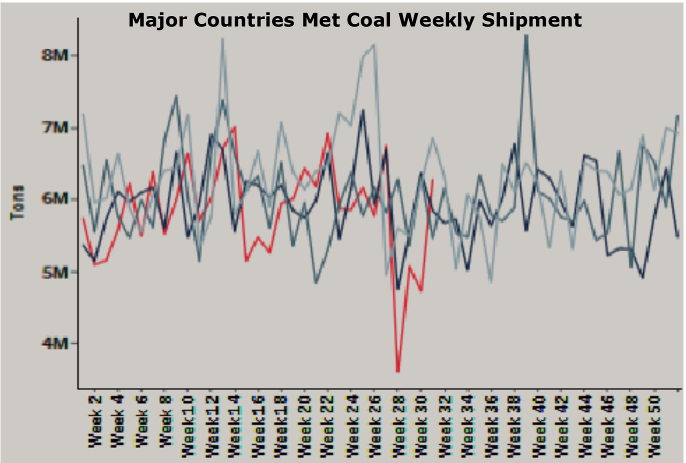


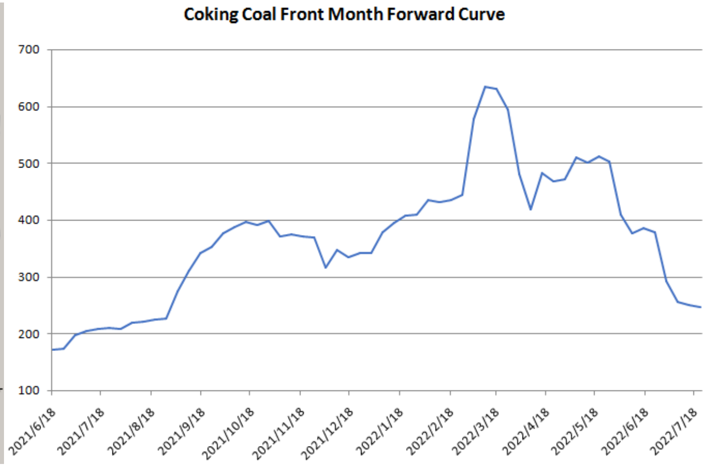
Data Sources: Bloomberg, MySteel, FIS

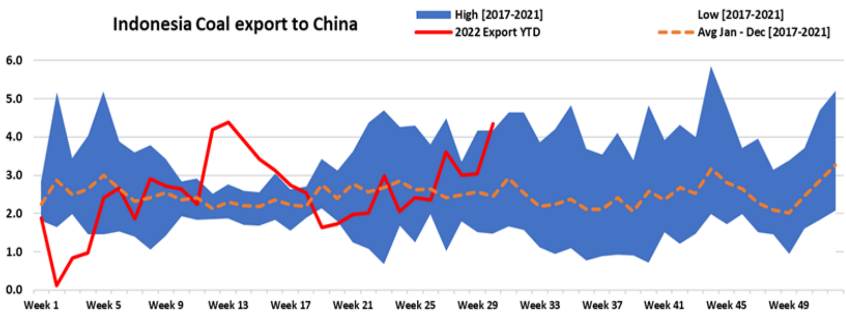
- Virtual steel mill margins tanked to 212 yuan/ton approaching a year-low because of the slow growth of rebar versus the spiked iron ore.
- The weekly five types of steel consumption maintained resilience during the past nine weeks, around 9.5–10.2 million tons, because of the fast drop in inventories.

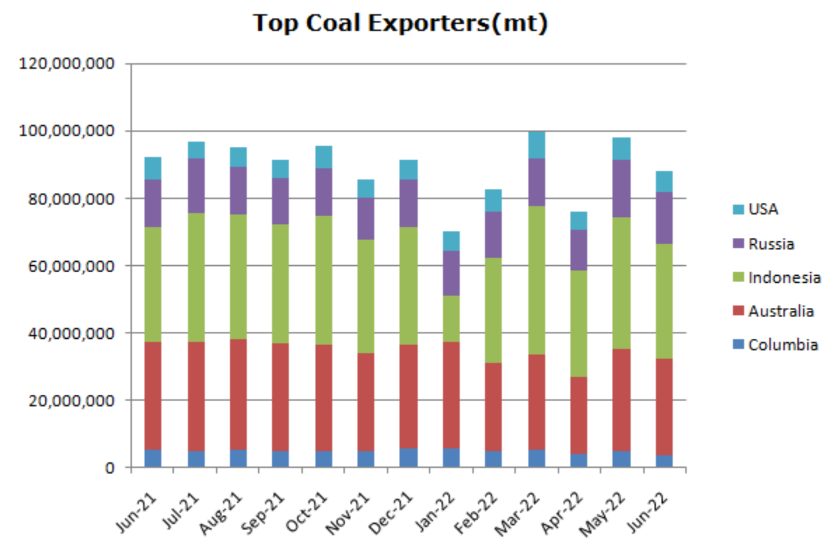
Coking Coal

	Last	Previous	% Change
TSI FOB Premium Hard Coking Coal (Dollar/mt)	188.5	221	-14.71%
Coking Coal Front Month (Dollar/mt)	239.18	246.33	-2.90%
DCE CC Major Month (Yuan/mt)	2313.5	2349	-1.51%
IHS Met Coal Weekly Shipment (Million mt)	4.70	6.30	-25.40%
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 exports to China were boosted again to seasonal highs.
- The Atlantic coking coal shifted to Pacific areas during the year with faster steel-making development. India, China, and Japan maintained resilient steel production compared to European countries.

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, Ferro-alloys 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, ship-building, 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 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, 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 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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