FIS

Ferrous Weekly Report

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⇒ **Iron ore Fe62% CFR China:** short-run **Neutral to Bullish**. A sharp drop in global currencies dragged down the entire commodity sector, and the market potentially sees a recovery rebound in the following week. Virtual steel margins improved significantly to a three-month high.

⇒ **Rebar 25mm Shanghai** short-run **Neutral to Bullish**. The daily construction steel trading volumes remained low, however bigger orders from mills are expected shortly.

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

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

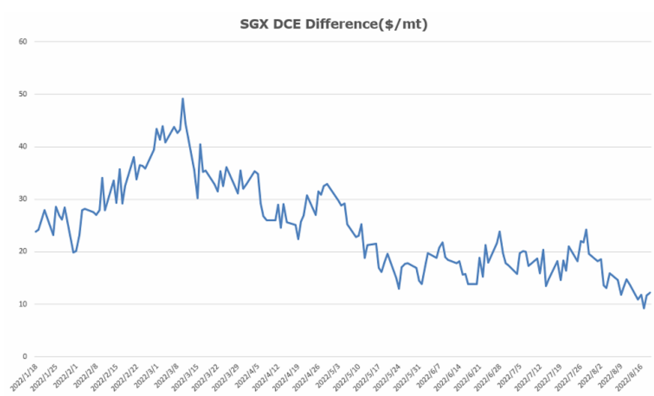
Prices Movement	22-Aug	15-Aug	Changes %	Sentiment	
Iron Ore Fe62% CFR China ($/MT)	100.65	104.4	3.59%	Neutral to Bullish	↗
Rebar 25mm Shanghai (Yuan/MT)	4180.0	4270.0	2.11%	Neutral to Bullish	↗
U.S. HRC Front Month ($/MT)	785.0	801.0	2.00%	Neutral to Bullish	↗
Hard Coking Coal FOB Australia($/MT)	271.0	244.5	10.84%	Neutral to Bullish	↗

Market Review:

Iron ore Market :

The iron ore 62% index corrected slightly by 3.59% last week, which was lower than expected. The correction was mainly caused by the sharp dollar appreciation and global currency depreciation, which depressed industrial materials in Asian and European countries. From historical examples, the currency-linked movement on commodities typically sees a recovery in around 1-2 weeks. Moreover, the exceptionally high temperatures in the northern hemisphere delayed many downstream construction projects, which slowed down the entire trade flow of ferrous products.

The market saw growing inquiries for prompt laycans and trades through August, which could lend support to the flat front-back structure of the iron ore curve. The flat structure is typically one indicator of a market "bottom" since physical traders start to roll demand to deferred months. Thus, the recovery of the structure into deep backwardation could confirm prompt demand in the market is booming again. PBF float basis discount narrowed from $2 to $1.3. BRBF premium improved from $0.3 to $0.75. However, Yandi saw weaker market demand as the discount widened from $5.65 to $7.45 over the same period. Virtual steel margin increased from 399 yuan the previous week to 526 yuan/ton last week, a three-month high. The iron ore market has slightly shifted from a "cost-effective" mode to a "ready to boom" mode with well-improved margins in blast furnaces. Speculative demand picked up recently; however, mill restarts were delayed because of the hot weather.



The SGX—DCE spread corrected from $15 in early August to $10-11, a historical low area. Because traders expect iron ore seaborne supply boost in Q4. However, the recovery on steel margin potentially supports this spread going back to the $15-20 area.

The MB65—P62 spread stayed relatively flat between $11 -13 in the last three weeks; the higher grade was still not preferable until physical steel margin levels recovered in line with the virtual steel margin.

Data Sources: Bloomberg, Platts, Fastmarket, FIS

Market Review (Continued)

MySteel steel mill iron ore inventories were at 98.43 million tons over the last report week, down 774,300 tons on the week. The mills should enter a restocking period technically, however the buying of stock was temporally slowed by hot weather. Mills are expected to recover and restock once the weather starts to cool.

Chinese iron ore port inventories have increased by 9.7% from the beginning of June. Some trade sources in Australia indicated that the line-ups are indicating port inventories could again reach 160 million tons in the next few months, a yearly-high and four-year high level. However, these high port inventories are expected to be consumed as the postponed construction season starts.

Neutral to Bullish

Downstream/Policies/Industry News:

China cut its 1-year LPR by 5 bps to 3.65%, slightly lower than the expected 10 bps cut. However, the cut on 5-year LPR by 15 bps was slightly higher than expected. The LPR cut neutralised the negative impact of the slowing of the housing market data as well as the sharp depreciation of the Chinese Yuan over the past week. Chinese commercial houses sales area was at 781.78 million m2, down 23.1% on the year. The national housing development investment was 794.62 million yuan, down 6.4% on the year. July industrial value added above-designated scale up 3.8%, down 0.1% from June. January to July up 3.5% on the year. Chinese PM Li Keqiang emphasised at a conference the decreasing electronic vehicle purchase tax to support the new automobile market.

U.S. dollar index DXY increased 3.69% from the low on August 11th. Simultaneously, all other major currencies suffered the fastest depreciation since May. Global equities resisted growth and volume. Major industrial commodities were corrected last week.

Russia is starting domestic development of chromium and ferroniobium deposits to reduce the country's dependence on import sources. Turkish long steel mills considered stoppages on low demand and high costs. Chinese semi-finished steel imports advanced for the second month, raising 32.9% to 603,000 mt in July. However, the local physical traders don't believe the imports will be consistent through Q3 and Q4 since the domestic steel price has corrected almost 30% from the high in April. Tokyo Steel reduced its September lists prices for several construction steel products by 5,000 Yen/mt ($36/mt) and by 8,000 Yen/mt for flat steel, as indicated by the Japanese EAFs.

Global Steel Market:

Platts TSI North Europe HRC ex-work Ruhr price fell sharply from €867/mt to €758/mt during August. Starting from late July, European mills have been selling spot cargoes for August and September at €750–760/ton, which was significantly lower than large buyers' acceptable levels and dragged down the spot market price in August. Large mills reduced the initial offer from €900/mt to €780/mt, offering discounts for large tonnages, however, they were yet to receive any interest. Upon weak demand, some mills are considering starting a summer shutdown. Imports remain at competitive levels in Asia. South Korean materials were booked at €660-670/mt CFR for October shipment. Constrained logistics and decreased Russian deliveries, and high energy costs are affecting the supply of mills.

The contango structure enabled service centres to buy physical HRC at current spot levels and sell high-priced future contracts to protect the margins. The structure helped steelmakers to lock in prices which were hard to achieve in the physical market. Thus, theoretically, the front-back spread on the curve should narrow, given an arbitraging strategy from mills.

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

Market Review (Continued)

Turkish HMS 80:20 heavy scrap index was $397.50 this Monday. Index price stabilised at $397–400 from August 10th. However, the international market seemed more enthusiastic than local Turkish mills on trade sizes. Local mills would accept $390-400/mt for HMS 1/2 80:20. The same quality cargoes are offered at $420 CFR Middle East or Africa, $435 CFR Asia, which was similar to local price after considering the freight costs. The current tradable value for US/Baltic HMS 1/2 (80:20) at $398/mt CFR Turkey, and a near-term tradable value above $400/mt CFR Turkey. Import prices for containerised shredded scrap rose sharply because of the iron ore shortage. Some Turkish long steel mills have begun considering stoppages after failing to lock in higher offers and suffering from high energy costs. Many mills have already decreased utilisation and working hours from July. Long steel mills tried to secure the price at 650-670/mt EXW. However, the sharp currency depreciation lowered the demand outlook and strengthened input costs.

Neutral to Bullish

Chinese Steel Market:

Shanghai domestic 25mm rebar retreated from 4270 yuan/ton to 4180 yuan/ton during the reporting week. However, the price is expected to catch up with the strong futures price in the current reporting week. MySteel sample Chinese steel mills operation rate at 77.9%, increased 1.67% on the week. The utilisation rate increased by 2.66% to 83.89%. The mills believed that operation and utilisation rates entered a long-run recovering trend until the numbers reached the high of the year. EAFs operation rate dropped from three months high of 56% to 40% last week because many cities have to temporarily close high electricity consumption industries to control the power overload. In addition, some domestic collectors with mills background increased scrap offers by 700 yuan/ton during August, which eroded the profits of EAFs.

Daily construction steel trading volume dropped to 140,000 tons, lower than last month's average of 154,200 and June average of 156,000 tons. The sudden drop in the previous two weeks is because of the unexpected high temperature in many provinces in China when we have seen cool weather seasonally in the last few years. Many cities have had to cut electricity for a few hours during the day. Some surveyed construction sites indicated they could only work 4-6 hours per day in August when they used to work 8-10 hours or even 16 hours in two shifts as mid-Q3 was usually a busy season.

Northern and eastern steel mills saw longer lists on their order books in July and August compared with April to June. The apparent consumption of the typical five types of steel ranged from 9.5-10.2 million tons over the past eleven 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 three-year low levels. The production also dropped to a seven-year-low level. Steel mills expect a quick destock in the next few weeks as the high temperatures are expected to end in late August. Downstream will need to catch up with the half-started projects desperate the press ahead.

Generally, steel and semi-steel products are expected to maintain strong on the physical side through Q3, after a 30% correction in Q2 and financing support on the downstream projects.

Neutral to Bullish

Sources: Argus, IHS Commodities at Sea Service, FIS

Market Review (Continued)

Coal Market:

It was another quiet week on coking coal paper. The triggering the $300 level has understandably brought some sellers to the market. Q4 printing a few times at $303 followed by September also at this level. Q4/Q1 traded at -1 and so with Sep bid on we're finally seeing the contango erode and potentially move into a backwardated market. Again despite the strength in the index there were no bids seen for September (offered at 297) with buying interest for Oct onwards thought to be from traders rather than end users with the anticipation that buyers will continue to come back to the table. Recent buying from end users appeared to slow down above $250. There is a fair chance selling interest would have appeared sooner, but another strong surge this week in gas and thermal coal prices has almost certainly added fuel to this rally.

The PLV Australia coking coal index improved aggressively from $244.5 to $271/mt among strong buying interests. The index increased by 33.17% during the past two weeks. Monday market saw an offer at $268/mt FOB Australia for 75,000 mt PMV Caval Ridge with mid-September laycan. Participants have a mixed outlook after the significant rebound in the coking coal market, as the global market has yet to see a solid recovery recently. Coking coal derivatives rose higher than the physical price, potentially providing some chances for traders to sell futures and lock the prompt profit.

The CFR China and FOB Australia have narrowed from $130 in July to $10 in mid-August, supported by the recovery demand and steel margin in China and alternatives seeking European countries. The solid thermal and PCI markets supported the Atlantic metallurgical coal market.

Chinese coke plants are negotiating a general third round of increase in the coke market. Some mills have accepted the third round of higher prices. The physical coke market rebounded by 300 yuan if calculated in the third round of price uptick, after a sharp drop of 1000 yuan in July and late June.

Neutral to Bullish

Sources: Argus, IHS Commodities at Sea Service, FIS

Iron Ore

September Futures – Technically bearish last week with the futures below all key moving averages supported by the RSI below 50, we noted that price has rolled to the downside with price testing the USD 104.25 support. Price continued to move lower with the futures trading to a low of USD 100.35. We have entered a consolidation phase for the last four sessions, with prices remaining below the shorter period averages. We remain technically bearish with a near-term downside target at USD 95.50; however, below USD 100.35, the intraday technical will go into divergence, and this will need to be monitored as we advance. Upside moves that fail at or below USD 108.91 will leave the near-term technical vulnerable to further tests to the downside. If we trade above USD 113.30 before making a new low, it suggests we remain in a complex corrective wave 4 with key longer-term resistance at USD 129.29. Just an observation outside of the technical, we have seen rate cuts in China today, but as of 14.25 GMT on 22/08, we do not see a move to the upside, warning that the market remains weak.

Steel

September Futures – Technically bearish last week, we maintained the view that the futures were not considered a technical sell below USD 812 due to a positive divergence in the market. Support was broken with price trading to a low of USD 790 before moving back up to USD 8,10. Price remains below all key moving averages supported by the RSI below 50; however, we continue to see a positive divergence with the RSI. Not a buy signal it does warn we have the potential to see a momentum slowdown. Upside moves that fail at or below USD 846 will leave the futures vulnerable to another test to the downside; above this level, the futures will have a neutral bias. Only above USD 875 will the technical be bullish. The intraday Elliott wave cycle is not the clearest; we may have another test to the downside in the near term; however, the daily divergence is significant, suggesting caution on lower moves.

Coking Coal

September Futures – Technically bearish with a neutral bias last week based on the depth of the pullback, momentum had warned we could be vulnerable to a test to the downside providing the RSI remained below 50. The RSI moved above 50 whilst the price moved above the USD 225 level, meaning the technical is now bullish. Downside moves that hold at or above USD 239 will support a near-term bull argument. Above this level, the technical will have a neutral bias, warning the USD 203 low could be vulnerable. Likewise, upside moves that fail at or below USD 356 will warn that the upside move is part of a more significant complex corrective move. Technically bullish, having made a higher high supported by the RSI above 50, the MA on the RSI is pointing in an upward trajectory suggesting support levels should hold if tested in the near term.

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

Chart source: Bloomberg

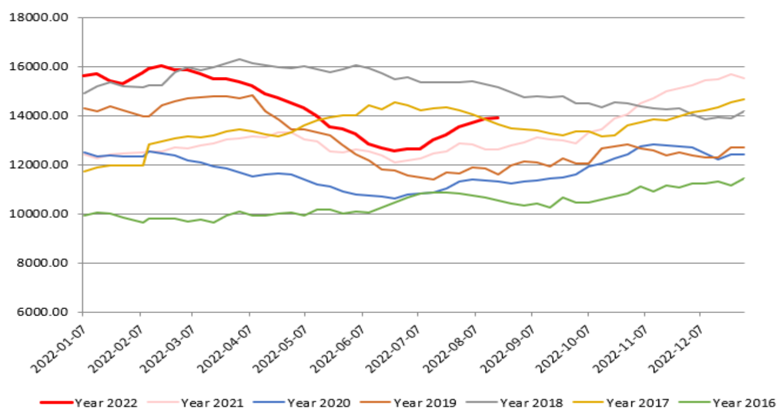
Sources: Argus, IHS Commodities at Sea Service, FIS

Iron Ore

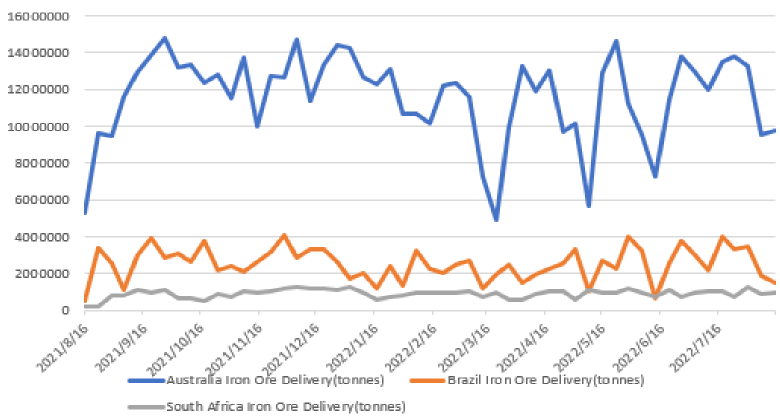
	Last	Previous	% Change
Platts 62% Fe (Dollar/mt)	100.65	104.05	**-3.27%**
MB 65% Fe (Dollar/mt)	113.6	117.3	**-3.15%**
Capesize 5TC Index (Dollar/day)	6199	9104	**-31.91%**
C3 Tubarao to Qingdao (Dollar/day)	18.917	20.306	**-6.84%**
C5 West Australia to Qingdao (Dollar/day)	7.95	7.56	**5.16%**
Billet Spot Ex-Works Tangshan (Yuan/mt)	3690	3770	**-2.12%**
SGX Front Month (Dollar/mt)	104.21	109.86	**-5.14%**
DCE Major Month (Yuan/mt)	759	789.5	**-3.86%**
China Port Inventory Unit (10,000mt)	13,888.20	13,886.16	**0.01%**
Australia Iron Ore Weekly Export (10,000mt)	980.30	952.20	**2.95%**
Brazil Iron Ore Weekly Export (10,000mt)	149.10	182.80	**-18.44%**

MB 65 - Platts 62($/mt)

Iron Ore Port Inventories(in 10,000 tonnes)



Iron Ore Delivery (tonnes)



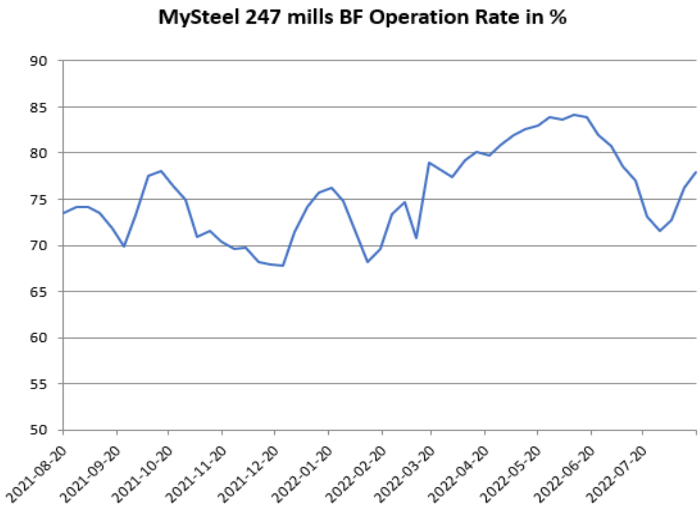
Iron Ore Key Points

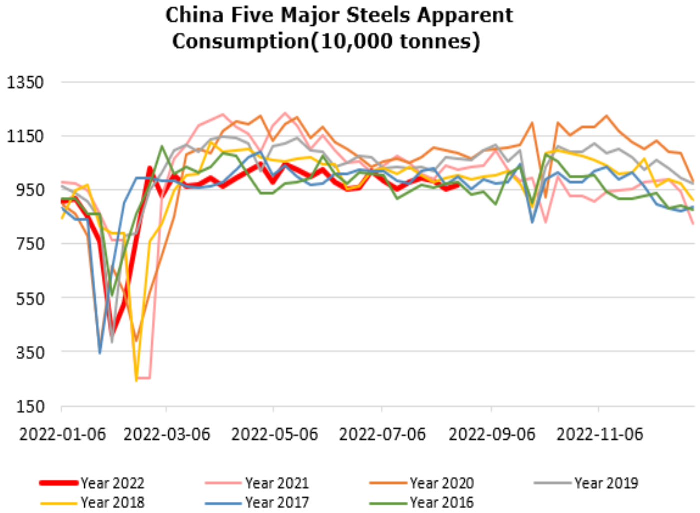
- Iron ore port inventories increased because of the low port efficiency and steel mills' cutting output.
- The 65% and 62% iron ore maintained weak from $11-13 from June most of the time since the drop in steel margin.
- Iron ore delivery from Australia and Brazil was stable monthly. However, small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

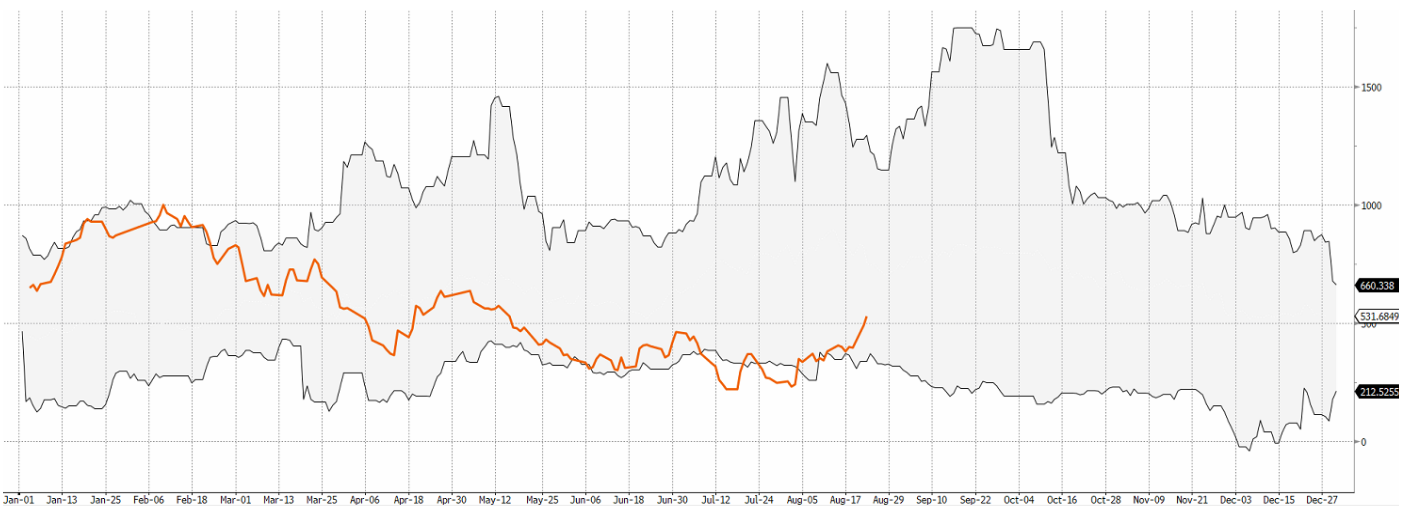
Steel

	Last	Previous	% Change
US HRC Front Month (Dollar/mt)	787	812	-3.08%
LME Rebar Front Month (Dollar/mt)	728	722	0.83%
SHFE Rebar Major Month (Yuan/mt)	3996	4135	-3.36%
China Hot Rolled Coil (Yuan/mt)	3957	4065	-2.66%
Vitural Steel Mills Margin(Yuan/mt)	399	375	6.40%
China Five Major Steel Inventories Unit (10,000 m	2489.64	2371.33	4.99%
Global Crude Steel Production Unit (1,000 mt)	90730	96610	-6.09%
World Steel Association Steel Production Unit(1,0	158,083	169,483	-6.73%





Virtual Steel Mill Margins (Five-Year Range)

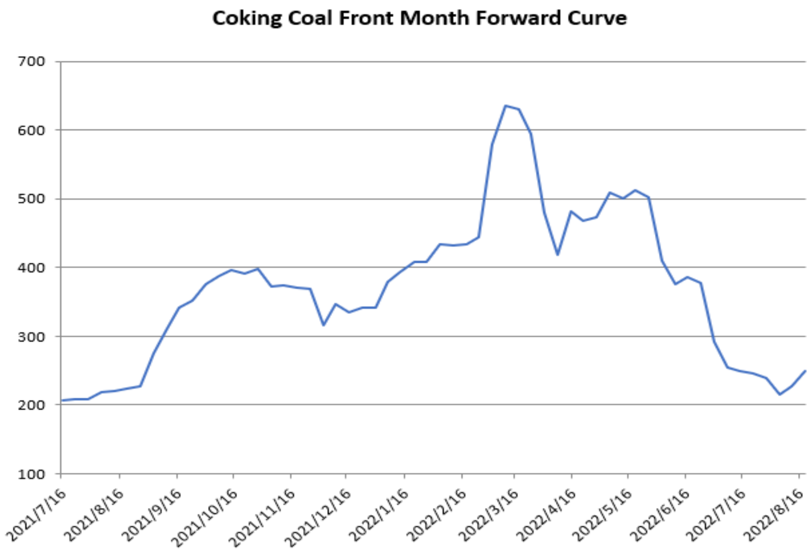


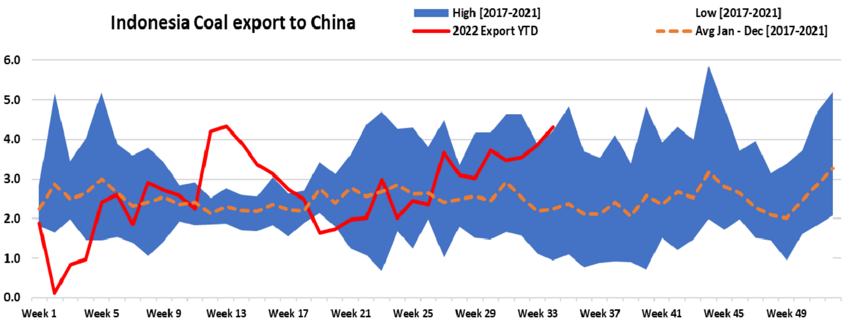
Data Sources: Bloomberg, MySteel, FIS

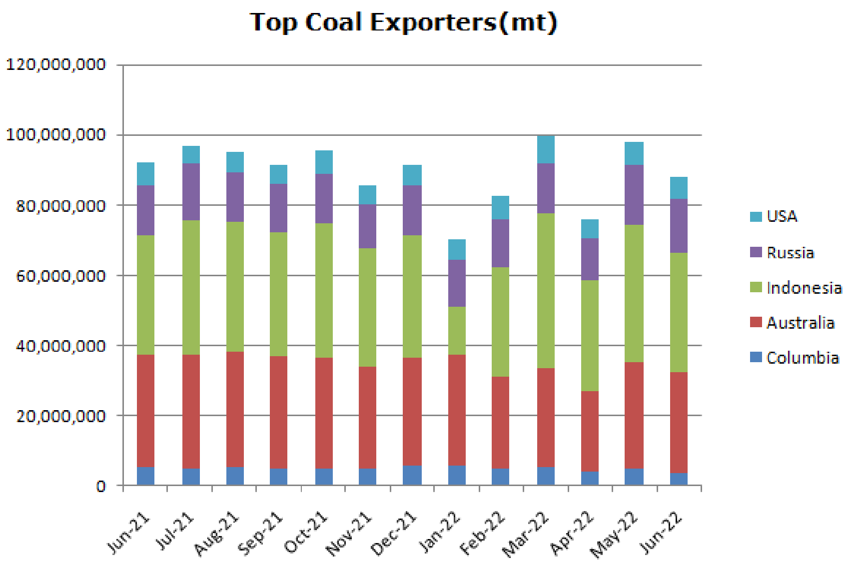
- Virtual steel mill margins increased fast from 399 yuan/ton to 526 yuan/ton. In August, the steel margin level was recovered from both paper and physical standpoints.
- The weekly five types of steel consumption-maintained resilience during the past nine weeks, around 9.5–10.2 million tons, because of the fast drop in inventories.

Coking Coal

	Last	Previous	% Change
TSI FOB Premium Hard Coking Coal (Dollar/mt)	271	244.5	10.84%
Coking Coal Front Month (Dollar/mt)	249	227.5	9.45%
DCE CC Major Month (Yuan/mt)	2109	2400	-12.13%
IHS Met Coal Weekly Shipment (Million mt)	3.00	6.30	-52.38%
China Custom total CC Import Unit mt	6,118,019	4,983,083	22.78%







Coal Key Points

– Indonesia's coal exports to China were boosted again to a seasonal high, although the government punished some coke plants that failed to guarantee the domestic supplies.

– 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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