FIS Ferrous Weekly Report

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⇒ **Iron ore Fe62% CFR China:** short-run **Neutral**. Iron ore is expected to maintain its resilience as steel mill operation rates continue to climb. However, it's becoming "expensive" with the fast-appreciating U.S. dollar.

⇒ **Rebar 25mm Shanghai** short-run **Neutral to Bullish**. Orderbooks increased while downstream markets started to be bolstered by cooler weather in the northern hemisphere.

⇒ **U.S. HRC Front Month** short-run **Neutral to Bullish**. The overselling of steel has now seen strong support and buying interest from downstream.

⇒ **Hard Coking Coal FOB Australia** short-run **Neutral**. Prompt demand supported the September price. However, higher offers saw significantly decreasing buying interest and size.

Prices Movement	29-Aug	22-Aug	Changes %	Sentiment	
Iron Ore Fe62% CFR China($/MT)	101.75	100.65	1.09%	Neutral	-
Rebar 25mm Shanghai (Yuan/MT)	4200.0	4180.0	0.48%	Neutral to Bullish	↗
U.S. HRC Front Month ($/MT)	792.0	785.0	0.89%	Neutral to Bullish	↗
Hard Coking Coal FOB Australia($/MT)	273.5	271.0	0.92%	Neutral	-

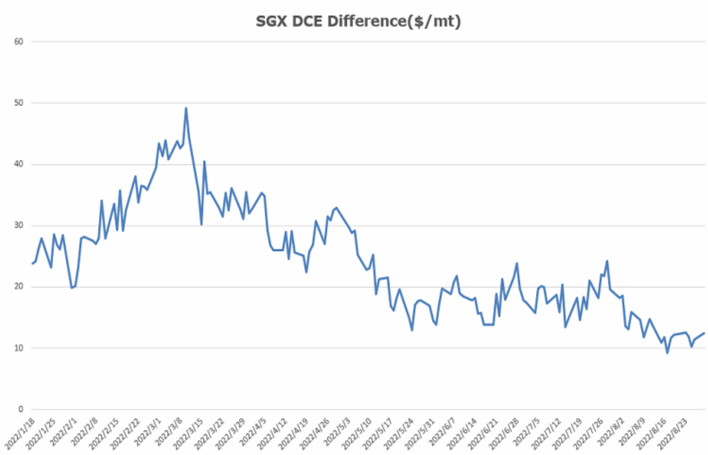
Market Review:

Iron ore Market :

The iron ore 62% index rebounded slightly as expected in the last report. Iron ore is expected to maintain its resilience in the mid-term as steel production and margins recover after the initial production cut and cost control in July by top steel mills in China, Japan, and Vietnam. China was expected to see a massive production recovery ahead of other Asian countries as the construction season arrives, including the projects delayed by the hot weather and pandemic. However, a fast drop in currencies became a pull-back factor on dollar-linked import commodities.

The market saw growing inquiries on prompt laycans and trades in August and September, 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. The spread between next month and the third month was $0.35, 11% away from the lowest level in the past five years, according to the probability map. However, the spread lay below the 50% area over 90% of the days from last September, which indicated that the low spread had become a "new normal" in the current market.

Seaborne floating basis saw improving premiums and discounts led by the recovered steel margin. From early August, the PBF float basis discount narrowed from $2 to $0.60. BRBF improved from a discount of $0.30 to a premium of $1.20. NMHG, JMBF and MACF all saw improving prices and trade volume. However, Yandi saw weaker market demand as the discount widened from $5.4 to $8.6 over the same period.



Virtual steel mill margins dropped from 526 yuan/ton at a three-month-high to 456 yuan/ton. The margin level is expected to maintain at 400-600 yuan/ton, supported by strong consumption in September. The iron ore market has slightly shifted from a "cost-effective" mode to expand margin production mode with well-improved margins at blast furnaces.

Data Sources: Bloomberg, Platts, Fastmarket, FIS

Market Review (Continued)

The SGX—DCE spread maintained at $10-$12 in the late half of August around the historical low area because traders expect an iron ore seaborne supply boost in Q4. However, the recovery in steel margins could support this spread getting back to the $15-20 area.

The MB65—P62 spread has mostly remained in the $12 to $14 range during the last three weeks. The increasing shipment from Brazil and unstable steel margins from blast furnaces became the main drags on the spread.

Iron ore Chinese port inventories slightly decreased by 650,000 tons to 138.16 million tons. However, the inventories were still close to a three-month high level. Some trade sources in Australia believe that the line-ups indicate port inventories could reach 160 million tons in the next few months, which used to be a yearly-high and four-year high level. In the short run, the port inventories were believed to have been consumed due to the upcoming postponed construction season. MySteel steel mill iron ore inventories were at 98.67 million tons over the last report week, up 238,100 tons on the week. The mills should enter a restocking period technically. However, the buying stocks were temporally slowed by hot weather. Mills are expected to recover and restock when temperatures cool down.

India's top court raised the ceiling on iron ore mining from 28 million tons in the district of Ballari to 35 million tons and from 7 million tons to 15 million tons collectively for the districts of Chitradurga and Tumkuru.

Neutral

Downstream/Policies/Industry News:

The Chinese congress meeting deployed 19 measures to support the economy, including increasing 30 billion yuan financial tools, approving infrastructure projects, allocating 10 billion yuan agriculture subsidies and issuing 200 billion yuan face value debts to power plants. China CISA officials indicated that Chinese steel enterprises had invested more than 150 billion yuan in low emission facilities.

The U.S. Federal Bank chairman Jerome Powell launched a speech at the Jackson Hole conference, strengthening the aggressive interest hike route. Dow Jones corrected massively after the speech. The Fed also increased the annual target interest rate from 3.5 –3.75% to 3.75-4%.

The joint research centre of the European Commission issued a report saying that Europe is experiencing the worst drought in 500 years and has not seen any signs of relief.

U.S. dollar index DXY refreshed its 20-year-high on August 29th above 109, resisting all non-U.S. currencies. Euro depreciated to a 20-year-low, the Japanese Yen declined to a 24-year-low, and the Chinese Yuan depreciated to April 2020 pandemic level.

Global Steel Market:

Platts TSI North Europe HRC ex-work Ruhr price fell sharply from €867/mt to €707/mt during August. Large mills reduced their initial offer from €900/mt to €780/mt in mid-August. Last week, Arcelor Mittal increased offers by €50-100/ton. Other producers expect a more significant increase in offers this week. The increase was because the high energy cost shifted the burden to end-users. Market participants were concerned that the production cut would support current price levels. Some producers revealed deals near €700/ton ex-works levels for large buyers. However, buyers were waiting for the international market, where Asia's offer was only $660/ton CFR south Europe.

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

Market Review (Continued)

Some northern Chinese mills started several rounds of HRC maintenance to support the weak ex-work price. The overhaul and maintenance targeted weekly levels, as the market believed September would be the best steel consumption season in H2. Chinese mills, therefore, kept offers unchanged at above $600/ton FOB China for SS400 HRC. SAE 1006 grade coils saw a significant divergence between CFR Vietnam and accepted bids for local end-users because local mills Hoa Phat sold at $595/ton CIF Vietnam, slightly lower than Chinese offers.

Turkish HMS 80:20 heavy scrap index was $402 over the previous week. Index price stabilised at $397–$402 from August 10th. The international market seemed more enthusiastic than local Turkish mills in the trade size. Similar to Arcelor Mittal, Tokyo Steel increased the price for most steel types last week. The hike was related to limited scrap supply and high energy costs. The Chinese market was worried about the later-than-expected demand. Hot weather previously has forced some EAFs to halt. Traders expect more scrap imports from the Chinese market when construction seasons start in September. EU-based recycler cited an indicative tradable value for Benelux-origin HMS 1/2 (80:20) at $390-$400/mt CFR. Venezuela-origin cargo was booked by an Izmir mill with HMS 1/2 (80:20) at $396/mt CFR Turkey. The local agent indicated that the low collection was due to logistic problems.

Neutral to Bullish

Chinese Steel Market:

Shanghai domestic 25mm rebar slightly rebounded from 4180 yuan/ton to 4200 yuan/ton during the report week. MySteel sample Chinese steel mills operation rate increased by 2.24% to 80.14% on the week. The utilisation rate increased by 1.39% to 85.27%. The mills believed that operation and utilisation rates entered a long-run recovering trend until the numbers reached the high of the year. EAF operation rates recovered to 53% because many cities temporarily closed high electricity consumption industries to save power. In addition, some domestic collectors with mills background increased scrap offers, which squeezed EAFs margins to a negative.

Daily construction steel trading volume traded at 138,000 tons, significantly lower than the previous week at 151,740 tons, which is also lower than June and July average. The increasing daily pig iron recovered 6.8% from mid-July. According to recovered production and mills orders, steel trading is expected to recover to 150,000-160,000 conservatively in the next few weeks. CISA members (which produced 85.5% of steel in China) realised a net income from January to July of 93.6 billion yuan, down 63.4% on the year. 34 members out of 90 members realised a net loss. Virtual steel mill margins are expected to stabilise between 400–600 yuan in the next few weeks. On the physical side, more middle and small mills are expected to break even to realise a marginal profit.

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 is positioned at an average level of the past few years. This suggests that the significant selling on the market has diverged from the resilient demand market. The resilient demand was supported by the fast decrease of inventories, approaching three-year lows. The production also dropped to a seven-year-low.

Neutral to Bullish

Sources: Argus, IHS Commodities at Sea Service, FIS

Market Review (Continued)

Coal Market:

Optimism for the paper coking coal market remains strong further out with Q1 trading at $316 following Thursday's $316 trade. The physical print Friday (26th Aug), although a lot lower than futures is still a higher priced trade which suggests the market will stay supported in the high $200s. The question is can we break $300 without steel demand picking up.

The PLV FOB Australia coking coal index stabilised at $270–$272, while the CFR China market stabilised at $280. Goonyella PMV laycans were traded with split into two buyers at $272 last week. Trading sizes significantly became smaller when slightly higher offers appeared in the market, indicating the market potentially stabilised at the current level. The index once increased by over 33% from early August to mid-August. The market placed tradeable levels on PLV at $260-285/ton.

The downstream market in China was still expecting a golden construction season in September and October after experiencing rainfall, hot weather, and a pandemic. Steel mill margins recovered significantly from August, especially for the giant steel mills.

Limited visible offers on the market supported the U.S. coking coal market. Mongolia's metallurgical coal shipments to China were at elevated levels as the number of met coal trucks from Mongolia to China at 1,000, much higher than July levels. China's met coal imports rose for five months and reached a year-to-date high of 6.118 million mt in July. China imported 26.06 million mt of coking coal in the first half of 2022, up 17% year on year. Russia's coking coal production rose 5.8% on the year to 58.3 million mt over January-July. Russia increased deliveries of coking coal concentrate to Japan and South Korea in the first half of the year, with a steep spike in its exports to China and India.

Neutral

Sources: Argus, IHS Commodities at Sea Service, FIS

Technical view of the Ferrous Markets:

Iron Ore

September Futures – The futures broke the consolidation phase to the upside but failed to trade above the USD 108.91 resistance, leaving the technical vulnerable to further tests to the downside. Price has moved lower with the USD 100.35 fractal low being broken; the intraday divergence has failed with the futures trading to a low of USD 96.35 (current price USD 97.85). We maintain our longer-term view that the futures should trade below the USD 95.50 low, with a potential downside target as low as USD 89.30. However, a new low will mean that the minimum requirement for wave/phase completion will have been met, meaning the futures will be in divergence with the RSI. Not a buy signal it will need to be monitored going forward if a new low is achieved.

Steel

September Futures – Technically bearish last week with the futures in divergence, intraday Elliott wave analysis although not clear warned that we may have another test to the downside. The futures traded from USD 810 to a low of USD 769 before trading back up to USD 815. The futures remain technically bearish with price below all key moving averages, upside moves that fail at or below USD 838 will leave the futures vulnerable to further tests to the downside, above this level the technical will have a neutral bias. Only above USD 875 is the technical bullish. Intraday wave analysis continues to suggest we could still have another test to the downside with the potential to trade as low as USD 740, making USD 838 and USD 875 the key resistance levels to follow.

Coking Coal

September Futures – Having broken fractal resistance last week the futures entered bullish territory, the MA on the RSI implied that downside support levels should hold in the near-term if tested. We have seen a minor pullback just below the USD 319.50 resistance, with price closing at USD 300, downside moves that hold at or above USD 240 will support a bull argument, below this level the technical will have a neutral bias. Key resistance remains unchanged at USD 356; upside moves that fail at or below this level warn that this move higher is potentially part of a larger, more complex corrective move. The MA on the RSI continues to suggest that support levels should hold if tested in the near-term.

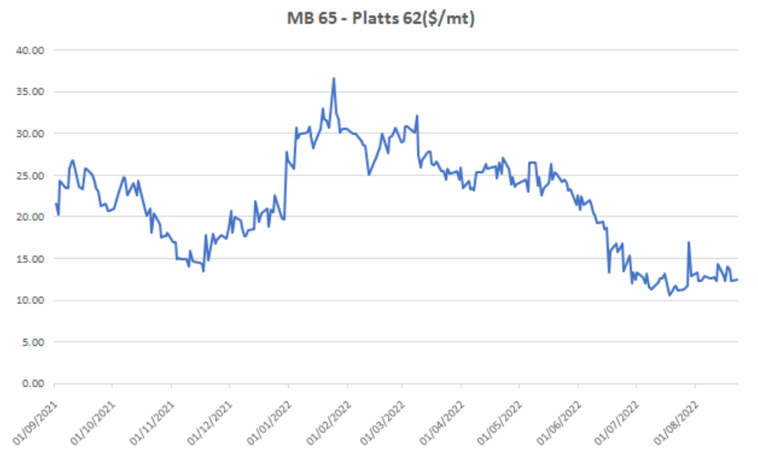
Iron Ore Offshore *Sep 22 Morning Technical Comment – 240 Min* **Chart**

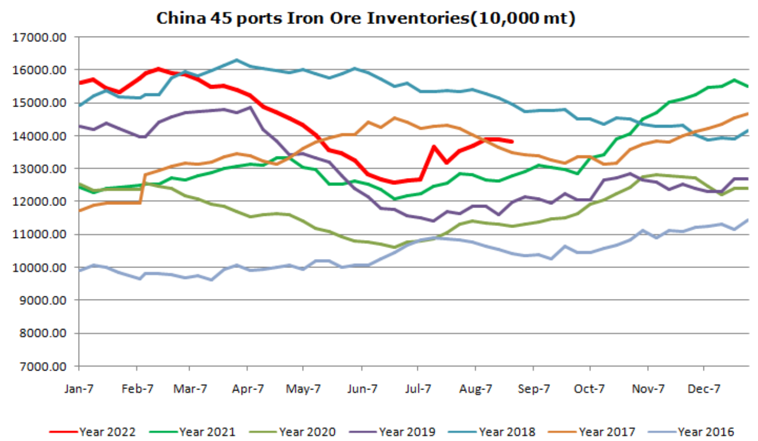
Chart source: Bloomberg

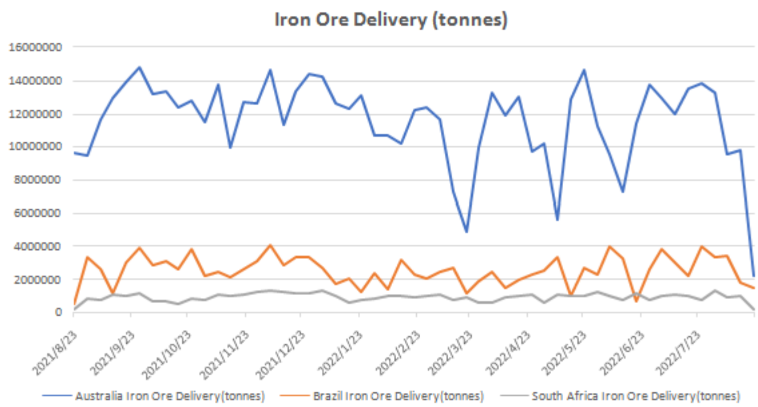
Sources: Argus, IHS Commodities at Sea Service, FIS

Iron Ore

	Last	Previous	% Change
Platts 62% Fe (Dollar/mt)	101.75	102.3	-0.54%
MB 65% Fe (Dollar/mt)	114.2	113.6	0.53%
Capesize 5TC Index (Dollar/day)	3413	6297	-45.80%
C3 Tubarao to Qingdao (Dollar/day)	17.844	18.828	-5.23%
C5 West Australia to Qingdao (Dollar/day)	7.625	7.595	0.39%
Billet Spot Ex-Works Tangshan (Yuan/mt)	3770	3690	2.17%
SGX Front Month (Dollar/mt)	105.38	104.21	1.12%
DCE Major Month (Yuan/mt)	793	759	4.48%
China Port Inventory Unit (10,000mt)	13,888.20	13,886.16	0.01%
Australia Iron Ore Weekly Export (10,000mt)	219.40	980.30	-77.62%
Brazil Iron Ore Weekly Export (10,000mt)	149.10	182.80	-18.44%







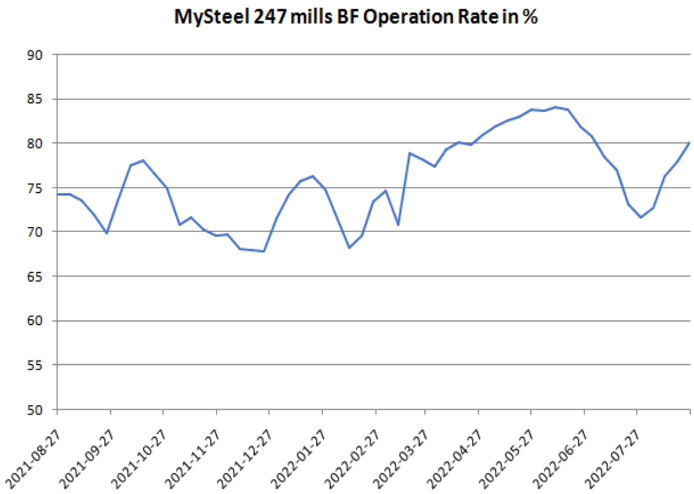
Iron Ore Key Points

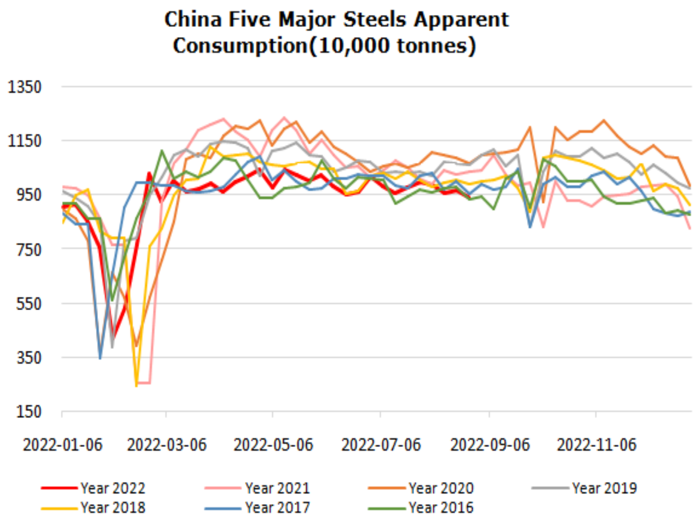
- Iron ore port inventories in the short-run stabilised, supported by the increasing shipments. However, resisted by strong consumption.
- The 65%/62% iron ore spread maintained its weak position at $12 -14, a position its been at for most of the time since June with the mixed outlook on steel margins.
- 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.

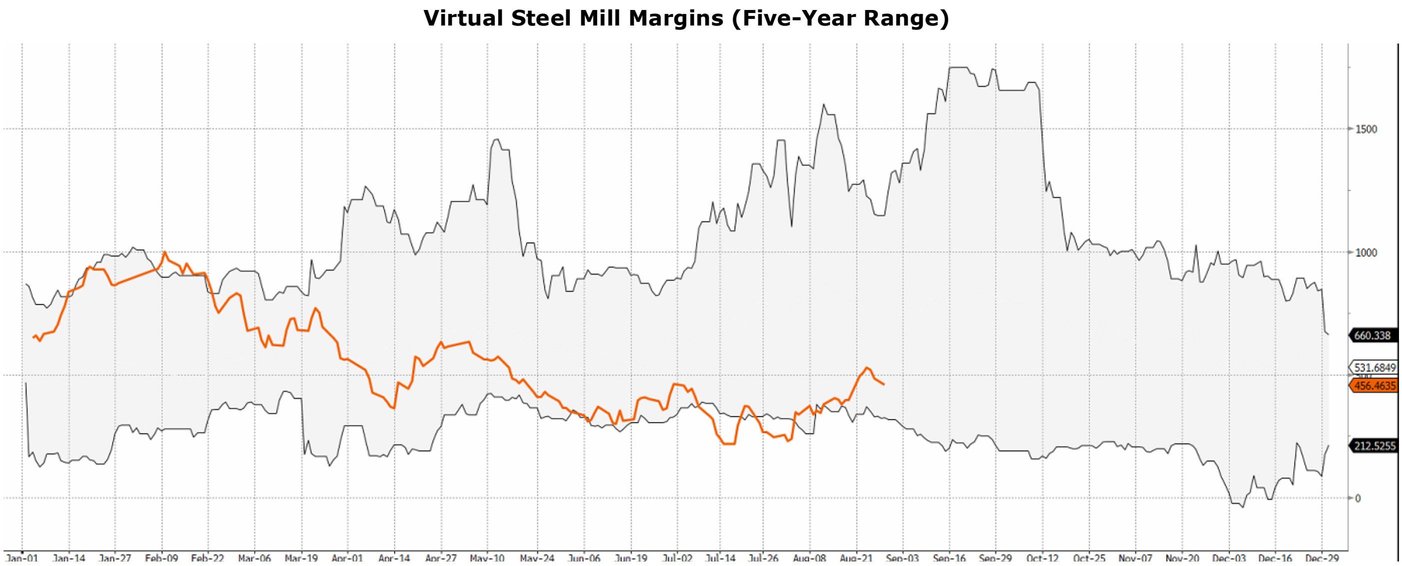
Data Sources: Platts, Fastmarkets, MySteel, Bloomberg, FIS

Steel

	Last	Previous	% Change
US HRC Front Month (Dollar/mt)	794	787	0.89%
LME Rebar Front Month (Dollar/mt)	728	722	0.83%
SHFE Rebar Major Month (Yuan/mt)	4076	3996	2.00%
China Hot Rolled Coil (Yuan/mt)	4029	3957	1.82%
Vitural Steel Mills Margin(Yuan/mt)	456	526	-13.31%
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%





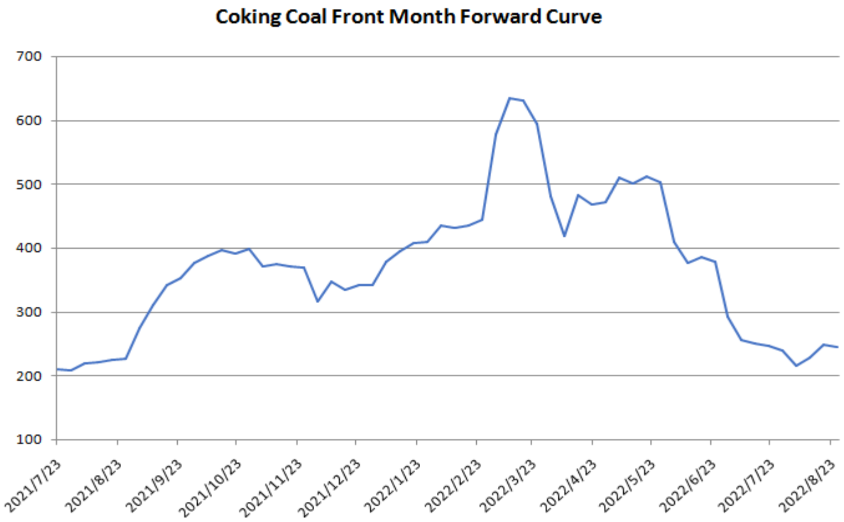


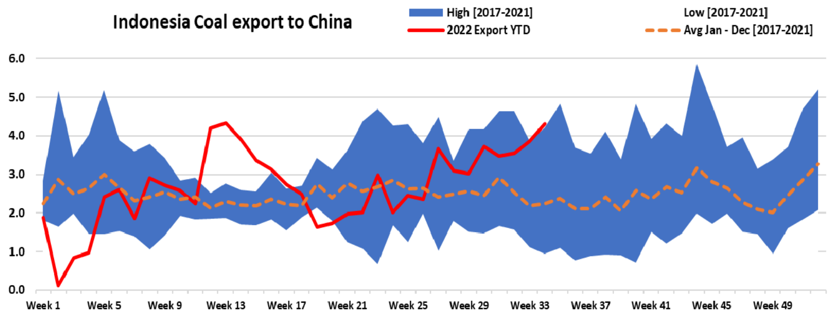
Data Sources: Bloomberg, MySteel, FIS

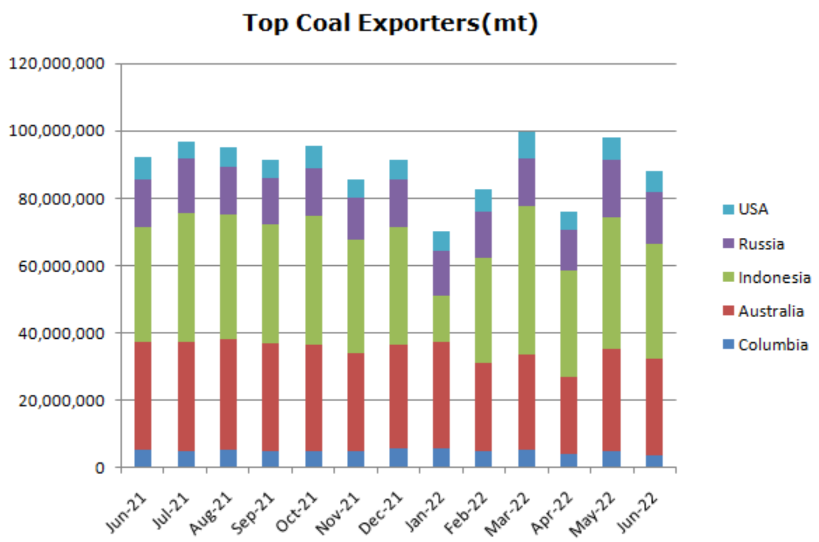
- Virtual steel mill margins dropped from 526 yuan/ton, a three-month-high, to 456 yuan/ton. The correction was believed to be a normal volatile instead of a fundamental change. Margin levels are expected to maintain at 400-600 yuan/ton, supported by solid consumption in September.
- The weekly five types of steel consumption-maintained resilience during the past nine weeks,

Coking Coal

	Last	Previous	% Change
TSI FOB Premium Hard Coking Coal (Dollar/mt)	273.5	271	0.92%
Coking Coal Front Month (Dollar/mt)	245	249	-1.61%
DCE CC Major Month (Yuan/mt)	2157.5	2109	2.30%
Top Six Coal Exporter Weekly Shipment	14.31	19.32	-25.93%
China Custom total CC Import Unit mt	6,118,019	4,983,083	22.78%







Coal Key Points

- Indonesia's coal export to China rose to a seasonal high again, although the government punished some coke plants that failed to guarantee the supply of 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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