FIS

Ferrous Weekly Report

info@freightinvestor.asia | freightinvestorservices.com | (+65) 6535 5189

9/8/2022

⇒ **Iron ore Fe62% CFR China:** short-run **Neutral to Bullish**. Chinese and southeastern Asian steel mills started restocking in late July. Demand in August is expected to be better compared with June and July.

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

⇒ **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**. The big slump in the prime coking coal prices may attract some Asian buyers to stock coking coals in Q3.

Prices Movement	8-Aug	1-Aug	Changes %	Sentiment	
Iron Ore Fe62% CFR China($/MT)	**108.8**	**112.9**	**3.63%**	**Neutral to Bullish**	↗
Rebar 25mm Shanghai (Yuan/MT)	**4200.0**	**4150.0**	**1.20%**	**Neutral to Bullish**	↗
U.S. HRC Front Month ($/MT)	**818.0**	**822.0**	**0.49%**	**Neutral to Bullish**	↗
Hard Coking Coal FOB Australia($/MT)	**203.5**	**188.5**	**7.96%**	**Neutral to Bullish**	↗

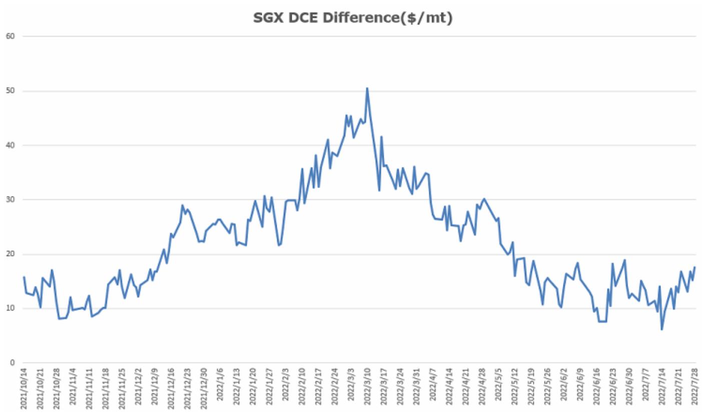
Market Review:

Iron ore Market :

The iron ore 62% index slightly corrected by 3.63%, and was viewed as generally neutral as was expected from our previous report. The market is expected to maintain neutral to bullish sentiment next week due to the well-recovered pig iron production and priced-in geopolitical uncertainties. However, in the long run, it is inevitable to see the Chinese housing market's downturn and the diminishing production of global automobiles negatively impact the market.

Downstream sources in China believed construction projects would catch up in the third quarter to make up for the unexpected losses in Q2. Some contractors in northern China indicated, "the investment has been in place. We are planning to rush and complete projects before Golden week."

The market saw active seaborne trades over the past three weeks, including PBF, JMBF and MACF for August and September laycans, after a quiet market from early June to mid-July. Chinese steel mills' maintenance season approached an end, and daily pig iron production reached a bottom area at 2.13-2.14 million tons. The market strongly expects an output recovery in the coming weeks due to the construction season and the lifting of sintering restriction curbs. Big miners, including FMG and BHP, entered a competing mode by expanding discounts from Q2. Market participants expect more beneficial discounts or price premiums in Q3 and Q4. MySteel steel mill iron ore inventories were at 97.9 million tons over the last report week, up 1.058 million tons from a week before. The increase ended the consecutive six-week drop, indicating that the mills started to restock iron ores. Physical trades gradually shifted back from portsides to seaborne as PBF gained some cost-efficiency. The market saw stable PBF traded from last week and early this week for prompt laycans and September laycans.



The SGX—DCE spread improved from $9-10 to $17-18 because of the improved import margin and steel margin. However, the mid-run spread was expected to maintain $10—$20.

The overall 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.

Data Sources: Bloomberg, Platts, Fastmarket, FIS

Market Review (Continued)

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 furnace utilisation rates are both low.

Virtual steel margins recovered from a yearly low of 212 yuan/ton to 375 yuan/ton because of the delayed price increase on rebar compared with iron ores. Physical steel margin was expected to recover from last week as well.

The blast furnace operation rate slightly increased by 1.09% from the previous week. The two-week increase indicated that steel production will enter a recovery mode in the next few months. 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 said they expect the utilisation and operation rate to climb steadily in August.

Neutral to Bullish

Downstream/Policies/Industry News:

China imported 91.24 million tons of iron ore in July, up 2.275 million tons from June, up 3.1% on the year. Jan-Jul imported 626.82 million tons of iron ore, down 3.4% on the year. China imported 23.52 million tons of coals in July, up 4.54 million tons from June, down 22.1% on the year. Jan-Jul total imported 138.52 million tons of coals, down 6.9% y-o-y.

U.S. metallurgical coal exports were 81.4% higher compared to a year ago. The year-to-date exports were 6.8% higher than in 2021. India and China are the most significant buyers of U.S. met coals in June with 943,020 mt and 612,994 mt, respectively.

Brazilian pig iron producers suffered a static week with no business agreed, as the market was pressured by the devaluation of raw materials abroad. May steel mills take a 30-day vacation to adjust production costs. A local producer indicated that 40% of the country's pig iron production has been halted.

Global Steel Market:

Platts TSI North Europe HRC ex-work Ruhr price fell by €50/mt to €800/mt last week. European mills were filling the low rolling programmes, which resisted the price level currently. One northern European mill sold as low as €700/mt tons to Italy to boost the trade volume. Their gap between bids and offers was as wide as €40. Some market participants thought the bid drop was due to the bearish outlook on U.S. and Europe economies. Service centres started to increase orders from local mills beginning in August. The strong U.S. dollar versus Euro partially contributed to the U.S. import price drop.

ASEAN countries' HRC import prices increased from $580 to $600 during the first week of August. However, HRC in Asia was still resisted by the low sources from Russia and India. Japan's Nippon Steel is expected to produce about 41 million mt crude steel on a consolidated basis for the year ending March 31, 2023, down 7.8% on the year. Q2 production is down 13.1% year-on-year. The mill expects steel shipment to fall to 32 million mt for the fiscal year 2022–2023 from 35.56 million tons a year before.

Russian mining and steel company Severstal said last Friday that it was on track with constructing a 1 million mt/year bar and wire rod rolling mill due to be completed in 2023 despite equipment shipping issues.

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

Market Review (Continued)

U.S. pig iron import price tanked to $470/mt in the absence of fresh trading in the late half of last week. A U.S. mill indicated an interest in buying at $450-460/mt on a CIF basis. Pig iron dropped from $1,030 to $470 over the past five months. The current low U.S. market prices at levels failed to attract exporting cargoes from Vietnam, China, and India. Significant sources were dependent on Brazil for pre-September cargoes. U.S. steel capacity utilisation rate fell to 78.4%, the lowest since May 2021.

Neutral to Bullish

Chinese Steel Market:

Shanghai domestic 25mm rebar slightly increased by 1.2% during the report week, with as expected neutral market sentiment. However, the price is expected to catch up with the strong futures price in the current reporting week. Some big mills' total decreased by 800–900 yuan during the past two months on rebar products. 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. Southern mills were, in general, less impacted on production and construction.

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 of inventories, approaching three-year low levels. The production also dropped to a seven-year-low level. The rapid dynamic change in the Chinese steel market was led by top steel mills, who sacrificed market volumes and marginal profits to resolve the oversupply in Q2 .

Neutral to Bullish

Coal Market:

The PLV Australia coking coal index improved slightly from $195/mt to $203/mt, seeing the most competitive buying interest at $200/mt for Peak Downs. The buying side indicated some sentiments recovery compared to the last few weeks. A southeast Asian end-user stated that they found the current price sustainable. The FOB Australia market saw robust trading activities last week, with three bookings completed at higher levels than a week before. One trade was reported at $205/mt FOB Australia for 75,000mt of PLV Peak Downs for September laycan. Another PMV was done for $201/mt.

Chinese domestic coke price heard no response after the first round of increases by 200-240 yuan/mt in Hebei and Shandong. Market participants still expect 2-3 rounds of higher offers. Some steel mills and coke plants were negotiating on the price levels. Chinese local market believes that physical coke has reached a reversal timing after the resilient futures market over the last two weeks. In addition, the market expects tremendous cash support from house developers in China's September and October construction season.

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

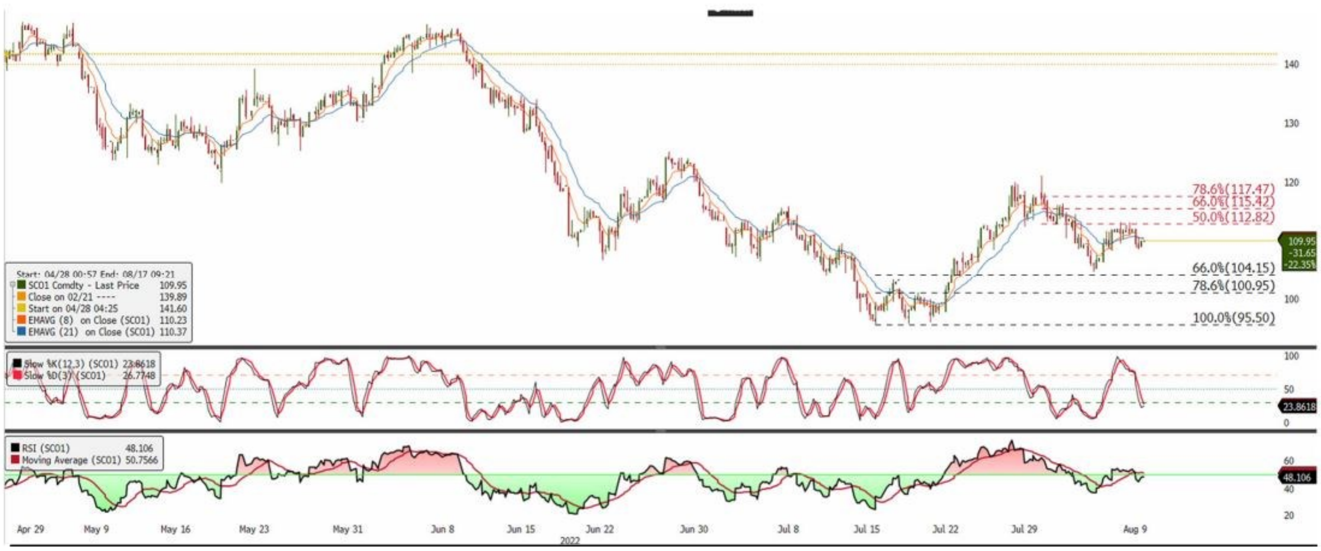
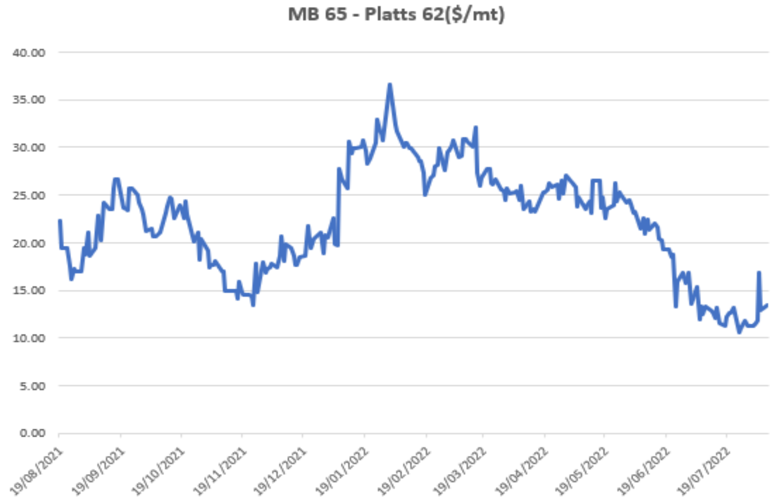


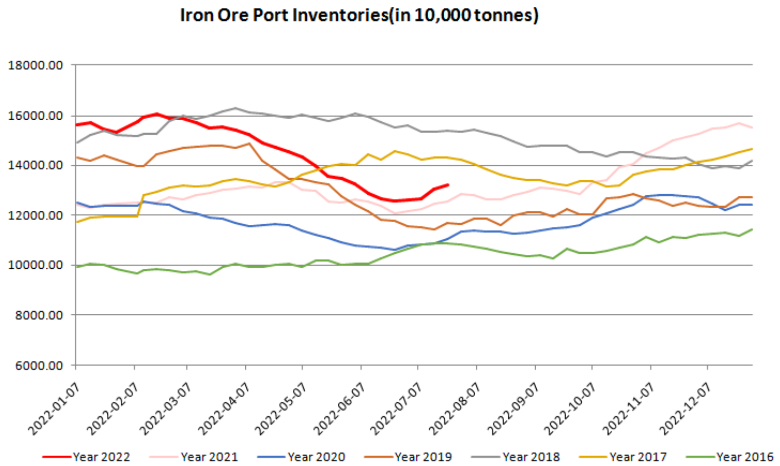
Chart source: Bloomberg

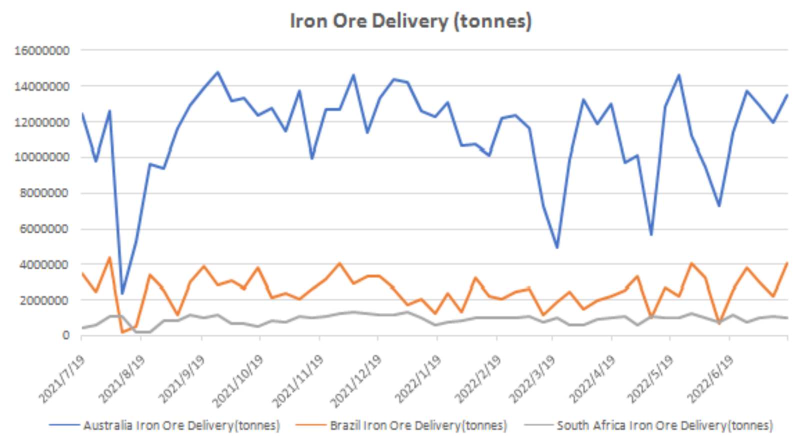
Sources: Argus, IHS Commodities at Sea Service, FIS

Iron Ore

	Last	Previous	% Change
Platts 62% Fe (Dollar/mt)	108.8	112.9	-3.63%
MB 65% Fe (Dollar/mt)	122.2	124.2	-1.61%
Capesize 5TC Index (Dollar/day)	12152	17100	-28.94%
C3 Tubarao to Qingdao (Dollar/day)	21.95	25.583	-14.20%
C5 West Australia to Qingdao (Dollar/day)	8.22	9.76	-15.78%
Billet Spot Ex-Works Tangshan (Yuan/mt)	3710	3630	2.20%
SGX Front Month (Dollar/mt)	109.11	107.22	1.76%
DCE Major Month (Yuan/mt)	789	832.5	-5.23%
China Port Inventory Unit (10,000mt)	13,703.98	13,534.55	1.25%
Australia Iron Ore Weekly Export (10,000mt)	1,329.90	1,381.80	-3.76%
Brazil Iron Ore Weekly Export (10,000mt)	344.20	332.80	3.43%







Iron Ore Key Points

- Iron ore port inventories increased because of the low port efficiency and steel mills' cutting output.

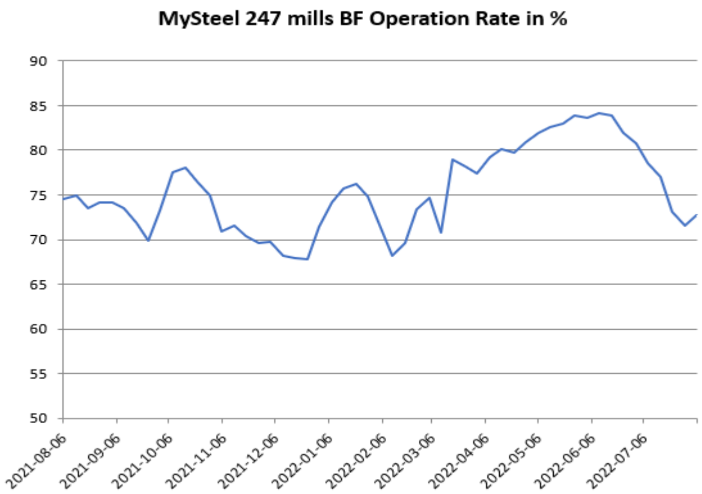
- The 65% and 62% iron ore difference dropped to $11-12 in July because the historical low steel margin forced mills to shift to alternatives from domestic miners to high-grade ores.

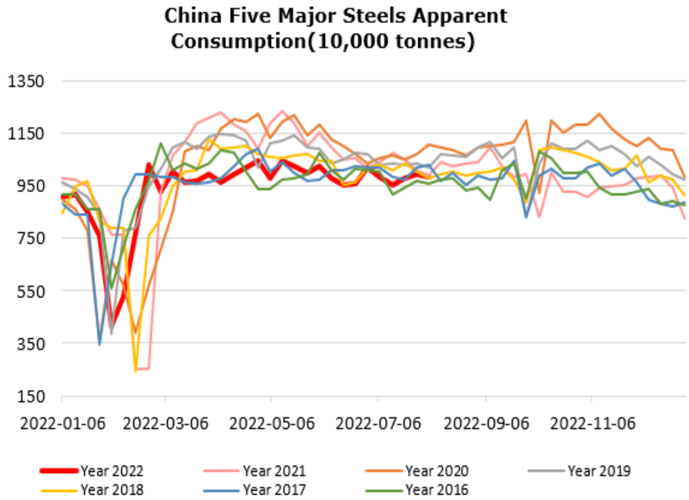
- Iron ore delivery from Australia and Brazil was stable monthly. However, small miners from non-Brazilian and non-Australian exports became unstable in H1 2022 because of high energy costs, fewer ships, and longer routes/ laycans on the sea.

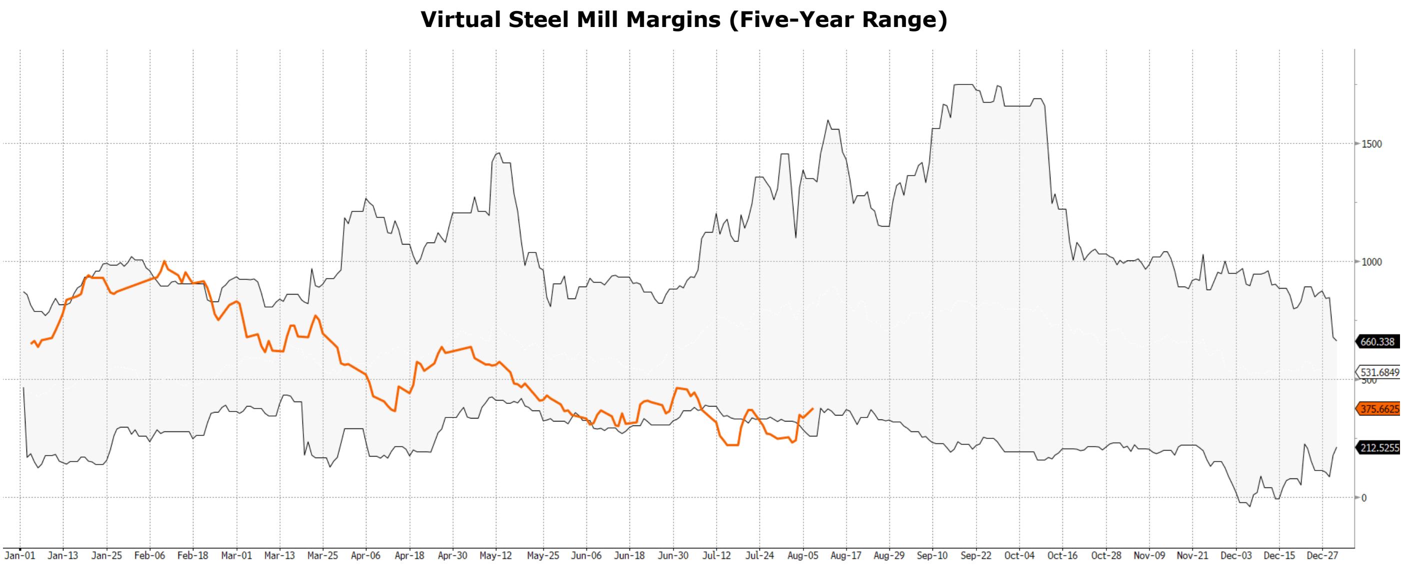
Data Sources: Platts, Fastmarkets, MySteel, Bloomberg, FIS

Steel

	Last	Previous	% Change
US HRC Front Month (Dollar/mt)	818	855	-4.33%
LME Rebar Front Month (Dollar/mt)	728	722	0.83%
SHFE Rebar Major Month (Yuan/mt)	4061	4122	-1.48%
China Hot Rolled Coil (Yuan/mt)	4024	3959	1.64%
Vitural Steel Mills Margin(Yuan/mt)	375	293	27.99%
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%





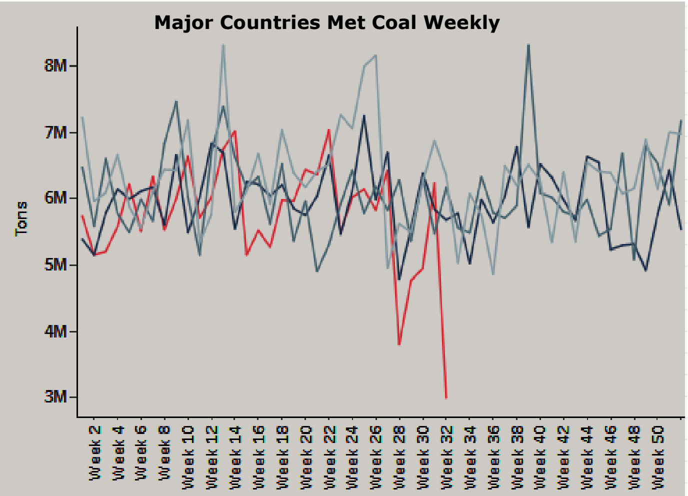


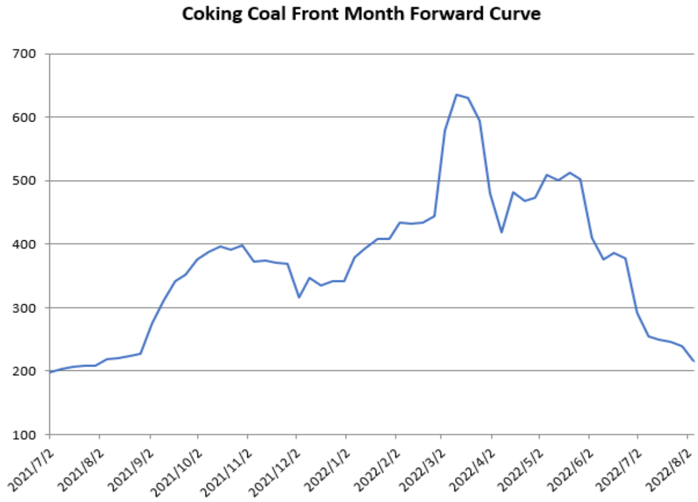
Data Sources: Bloomberg, MySteel, FIS

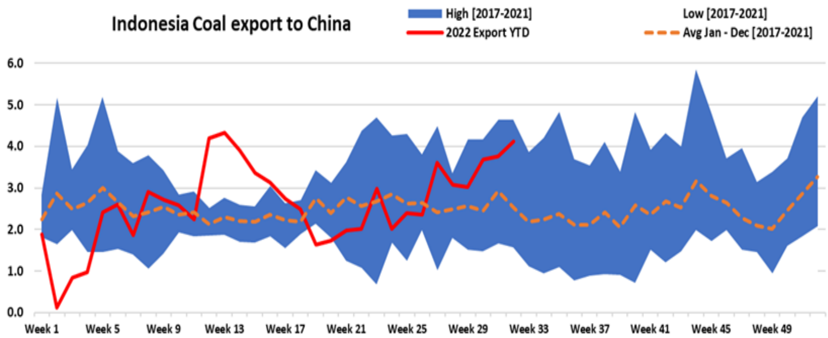
- Virtual steel mill margins recovered from a year-low of 212 yuan/ton to 375 yuan/ton over the last two weeks because the steel price increase was slightly delayed due to raw materials. The steel margin level was recovered from both paper and physical standpoints.
- The weekly five types of steel consumption-maintained 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)	203.5	188.5	7.96%
Coking Coal Front Month (Dollar/mt)	215	239.18	-10.11%
DCE CC Major Month (Yuan/mt)	2400	2313.5	3.74%
IHS Met Coal Weekly Shipment (Million mt)	3.00	6.30	-52.38%
China Custom total CC Import Unit mt	4,983,083	4,565,214	9.15%

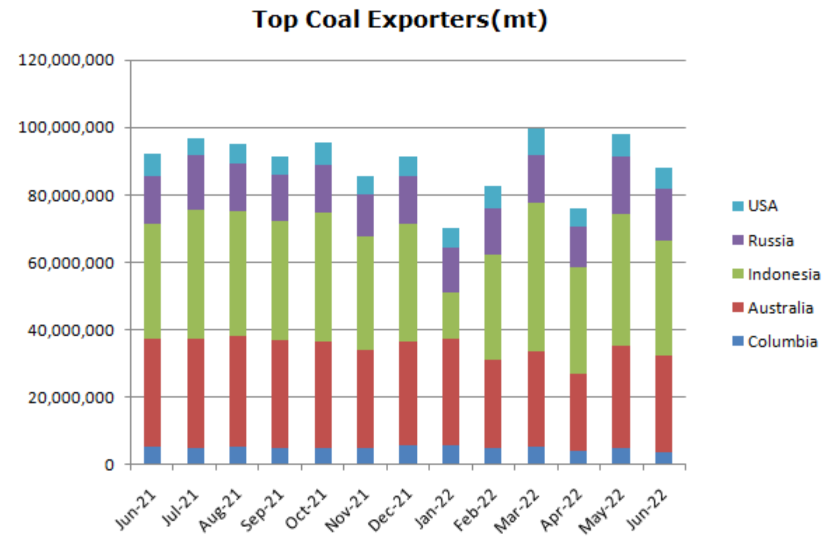






Coal Key Points

- Major producers' weekly shipment of metallurgical coal fell to 5 million tons, approaching yearly and seasonally low in late June.
- Indonesia's coal export to China was boosted again to a seasonal high.
- The Atlantic coking coal demand shifted to Pacific areas during the year with faster development of steel making. 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, 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.

Written by **Hao Pei**,
FIS Senior Research Analyst

Edited by **Chris Hudson**,
FIS Communications Director
News@freightinvestor.com, +44 207 090 1120