FIS Ferrous Weekly Report

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

20/9/2022

⇒ **Iron ore Fe62% CFR China:** short-run **Neutral to Bullish**. Iron ore is expected to maintain its resilience as the coming construction season accelerates demand in September.

⇒ **Rebar 25mm Shanghai** short-run **Neutral to Bullish**. The downstream market recovered after the past week's typhoon impact on ports in China, Korea and Japan.

⇒ **U.S. HRC Front Month** short-run **Neutral to Bullish**. Oversold steel prices saw strong support and buying interest from the downstream market.

⇒ **Hard Coking Coal FOB Australia** short-run **Neutral**. European and Asian market demand was expected to benefit Australia and North American exports in the long run; however, short-run demand showed limited buying interest.

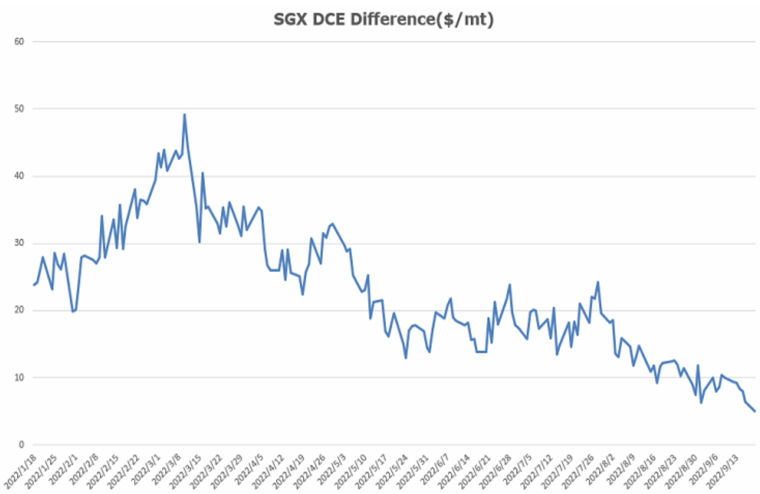
Prices Movement	19-Sep	12-Sep	Changes %	Sentiment	
Iron Ore Fe62% CFR China($/MT)	97.70	101.95	4.17%	Neutral to Bullish	↗
Rebar 25mm Shanghai (Yuan/MT)	3950.0	4010.0	1.50%	Neutral to Bullish	↗
U.S. HRC Front Month ($/MT)	787.0	805.0	2.24%	Neutral to Bullish	↗
Hard Coking Coal FOB Australia($/MT)	250.5	271.5	7.73%	Neutral	-

Market Review:

Iron ore Market :

The iron ore 62% index corrected from $101.95 to $97.70; the index jumped from $97 - $102 during the past four weeks, supported by mill purchases ahead of the construction season in September and the guaranteed policies on Chinese house deliveries. However, seaborne iron ore was resisted by a strong U.S. currency, which limited buying power on imports. Given the big move in the foreign exchange rate, mills may consider increasing domestic or port ores. As a result, SGX - DCE Jan23 difference tanked to a listed low at $5. However, it is expected that the difference would recover to $10 - $15 at least when the USD/CNY currency stabilises in Q4. Overall, iron ore is expected to remain strong as mills restock.

CISA statistics indicated that member steel mills produced 66.03 million tons of crude steel, down 2.15% from July. On the other hand, daily pig iron production was 2.13 million tons, up 1.42% per month. The increased daily pig iron statistic supported the resilient iron ore demand. The low crude steel number versus pig iron was because EAF production was, in fact, lower after the profit margin was squeezed to negative again. The typhoon impact in north Asian area has gone, POSCO recovered production last week, and Chinese coastal cities recovered port works.



The SGX Oct - Nov spread, or historically General 2nd and 3rd contract spread, became flat from $0.40 - $0.45 on most trading days from mid-August. The median tracing 12 months back was $0.45. The median tracing 36 months back was $1.94. Thus, the spread was flat in the perspective of long-run investment. However, the current level was in the mid-area for the year.

The seaborne floating iron ore saw a general slight recovery pricing in September. PBF improved from $0 premium to $0.45. NMHG and BRBF both saw improved premiums. Yandi, MACF and JMBF saw narrowed discounts.

Data Sources: Bloomberg, Platts, Fastmarket, FIS

Market Review (Continued)

The silicon differential from 6.5% - 6.9% range decreased from $5.1 to $3.6 sharply from early August to late September, indicating that the high silicon Brazil iron ores, including IOC6, regained market interest before the production curb in China in October. Thus, low aluminium products are expected to potentially gather some interest because the curb would restrict some similar quality domestic ores produced in China.

Virtual steel mill margins dropped by 50% to 128 yuan/ton as the year's low. The sharp drop was due to the operation of steel mills being stable during the pandemic while the downstream market was impacted severely. However, the mismatch in midstream and downstream should rebalance soon, supported by many Chinese cities that have started introducing policies to guarantee house deliveries in Q3 and early Q4.

During the last three months, the MB65 - P62 spread was stuck in a $12 to $14 range. However, the difference may recover to $18 - $19 in early Q4 with the recovery of steel margins, as long as the upcoming production curbs in China go ahead.

Chinese iron ore port inventories may start to consolidate from 137 - 145 million tons for 2 - 3 months instead of up to 160 million tons as some analysts expected in Q2, as mills' strong buying powers would digest a significant proportion of port stocks. MySteel's survey of 247 mills' blast furnace operation rate is 82.41%, up 0.43% on the week, and expected to increase faster this week after the typhoon and earthquake. Daily pig iron was up 24,700 tons at 2.38 million tons on the week, while the highest number of the year was in January at 2.45 million tons. The MySteel Australia and Brazil iron ore deliveries increased by 1.677 million tons last week from the previous week at 25.42 million tons. Chinese 45 ports iron ore arrivals commenced from the week of September 12th and reached 25.19 million tons, up 1.72 million tons week-on-week.

Neutral to Bullish

Downstream/Policies/Industry News:

Chinese national fixed investment from January to August, at 36.71 trillion yuan, is up 5.8% on the year, up 0.1% from January to July. The August infrastructure investment is up 10.37% from last year, refreshing a single-month high since April 2020. In August, Chinese retail sales of consumer goods amounted to 3.63 trillion yuan, up 5.4% on the year, up 2.7% from July. Chinese August industrial value-added amount above designated scale up 4.2%, increased 0.4% from July. Chinese PM Li Keqiang emphasised extending the tax payment cycle to help mid and small-capital enterprises and increase tax rebates for manufacturers.

The secondary market started to wait for major central banks' decisions during the week. FedWatch tools indicated that the 75 rates hike probability has reached 90%. The number of U.S. unemployment benefits for the week commenced from September 10th recorded 213,000, the lowest since May 28th in 2022. The statistic indicated that the demand for workers remains strong in the U.S.

Global Steel Market:

Argus NW HRC Index fell €746.5/ton from €767.5/ton during the report week. A large Iberian buyer received an offer at €770/mt. CRC and HDG were offered at €870/mt and €890/mt, respectively. The import market improved as Japanese HRC quoted around €710/mt CFR into Antwerp. Steelmakers and processors shifted high, given weak steel demand. The world's biggest steel producer Arcelor Mittal cut its hot-rolled coil offer for November delivery by €40/mt to €810/mt.

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

Market Review (Continued)

Previously, Arcelor Mittal has shut capacity to around 6 - 7 million mt per year of flats-oriented crude steel in response to weaker demand and rising material and energy costs. Offers have increased since flooding affected shipments from Posco's Pohang mill in South Korea last week and a typhoon in eastern China ports. A few large-scale buyers booked third-country cargoes to fill the supply gap of around €700/t cif. However, slightly longer-run orders and bookings indicated uncertainty of the sentiments.

Traders cut acceptable bids to $540 - $565/mt FOB China, although Chinese mills maintained unchanged at $575 - $580 FOB. The only acceptable priced product was from the Philippines at $570/mt FOB China for a small quantity. In addition, the fast depreciation of Chinese yuan versus U.S. dollars weakened Chinese export prices.

Turkish HMS 1/2 80:20 heavy scrap index slightly dropped from $351.5 to $349 during the past week. A large-volume Croatia-origin cargo was due to be booked by an Izmir mill with HMS 1/2 (80:20) at $335/mt CFR and shredded scrap at $350/mt CFR. However, the price level was not acceptable to Benelux-origin suppliers. The market was quiet, while sellers were less active in seeking buyers. Turkish mills cited workable levels for U.S./Baltic-origin HMS 1/2 (80:20) at $340/mt CFR, with a seller put at $350 - $355/mt CFR.

Neutral to Bullish

Chinese Steel Market:

Shanghai domestic 25mm rebar slightly corrected from 4010 yuan/ton to 3990 yuan/ton during the reporting week. The spot market maintained low volatility by 1-2% on a weekly basis. The guaranteed deliveries of house policies accelerated the completion of houses. The steel price was expected to increase as it recovered downstream after the extreme weather and pandemic in the past two months. For long steel, the construction season left limited time since many mills started maintenance before the 20th national congress conference in October and golden weeks. Export flat steel market was weakened because of the fast depreciation of the yuan. However, domestic flat steel demand picked up as infrastructure investment and project operations increased from August.

Jan - May 23 spread for rebar futures saw some chances to grow in a low statistical range. There is some timing mismatch in the downstream and steel production. Steel mills have better close-cycle management, operating with fewer chances of production loss. The downstream was located in different areas exposed to risks of shutting down. Thus, downstream operation was expected to pick up and match the mid-stream production.

Daily construction steel trading volume picked up from 151,400 tons last week, indicating a slight recovery from 140,000 and 147,400 tons in August. The market still expects the delayed demand market to see peak levels above 210,000 tons in late October or November. Some northern mills expect fewer environmental-related production curbs in winter. Weekly apparent consumption has indicated a resilient demand figure from 9 - 10 million tons for the last four months. Moreover, northern steel mills have seen significantly increased order books in Q3.

Neutral to Bullish

Sources: Argus, IHS Commodities at Sea Service, FIS

Market Review (Continued)

Coal Market:

In the paper market as we move into Q4 this is unlikely to be sustainable due to the nature of how the index is calculated and the 60 day physical window. Speaking of physical we saw a week on week $20 drop in value on the back of poor steel demand. Thursday's part fixed price deal at $252 was rumoured to have been bought by a trader but it's unknown if the end user is a steel producer or if this cargo will partly find a way into the thermal market.

The PLV FOB Australia coking coal index was flat at around $249 - $251 last week, while the CFR China market was at $295 - $297. The market was flat because importers and miners were waiting for a direction change. Chinese buyers indicated a restock sentiment before the long holiday and the 20th party's national conference. In addition, European countries were trying to build up coal inventories to generate electricity. As a result, some steel-making capacity shifted from EAFs to blast furnaces to save electricity.

The highest bids were heard at $290/ton CFR South China for U.S. low-vol Oak Grove and Blue Creek No. 7, which remained at the same level over the week to support CFR China Index. The PLV FOB market index was based on JFE trade last week by 34,000mt PLV Peak Downs at $252 and a PMV trade at $248 Caval Ridge at sellers' option.

The Chinese coke market has seen a second round of price hikes by 100 yuan/ton. Both Chinese coke plants and steel mills maintained low coke inventories, which might support the price uptick. Mills shifted from PCI purchase to coking coal as the overvalue on PCI and soft coals.

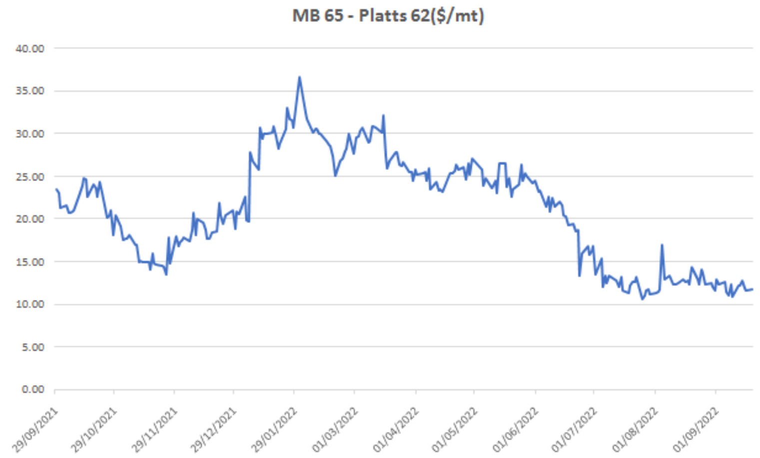
According to EIA, U.S. coal production fell 9.8% to 11.3 million tons in the week ended on September 10th, creating a five-week low.

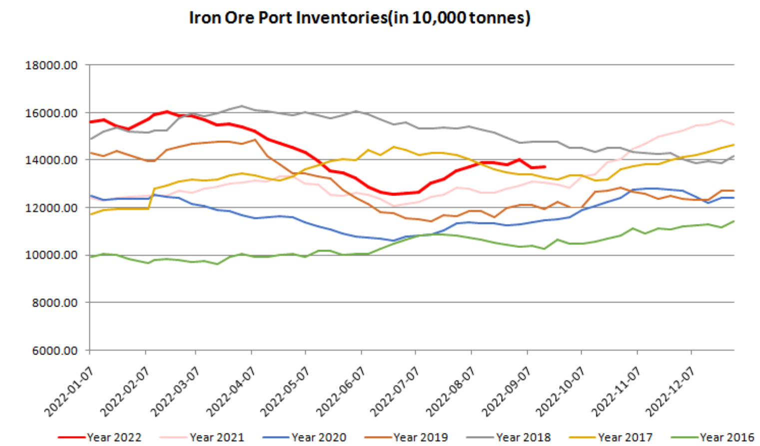
Neutral

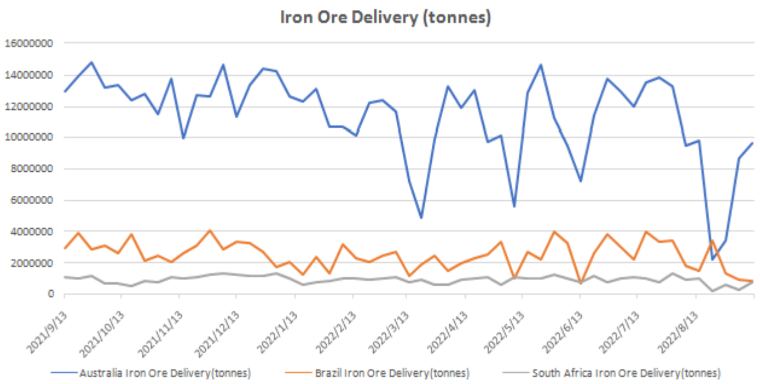
Sources: Argus, IHS Commodities at Sea Service, FIS

Iron Ore

	Last	Previous	% Change
Platts 62% Fe (Dollar/mt)	97.7	101.95	**-4.17%**
MB 65% Fe (Dollar/mt)	109.5	114.2	**-4.12%**
Capesize 5TC Index (Dollar/day)	12599	5574	**126.03%**
C3 Tubarao to Qingdao (Dollar/day)	21.917	18.813	**16.50%**
C5 West Australia to Qingdao (Dollar/day)	8.85	7.755	**14.12%**
Billet Spot Ex-Works Tangshan (Yuan/mt)	3660	3720	**-1.61%**
SGX Front Month (Dollar/mt)	98.01	102.98	**-4.83%**
DCE Major Month (Yuan/mt)	715.5	714.5	**0.14%**
China Port Inventory Unit (10,000mt)	13,718.92	13,688.98	**0.22%**
Australia Iron Ore Weekly Export (10,000mt)	967.70	868.80	**11.38%**
Brazil Iron Ore Weekly Export (10,000mt)	87.50	93.90	**-6.82%**







Iron Ore Key Points

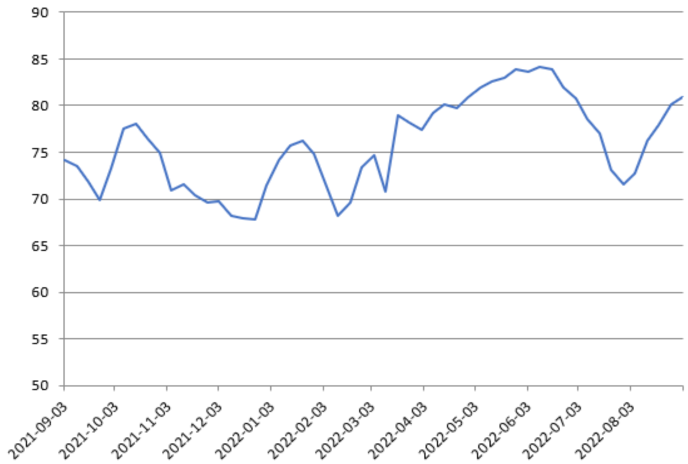
- Iron ore port inventories in the short-run stabilised, supported by the increasing shipments; however resisted by strong consumption.
- The 65% and 62% iron ore maintained weak from $12 - 14 in June since the mixed outlook on steel margin.
- Iron ore delivery from Australia and Brazil was stable monthly. 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.
- he pig iron production reached 2.38 million tons/day in major Chinese steel mills, approaching the yearly high at 2.45 million tons.

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

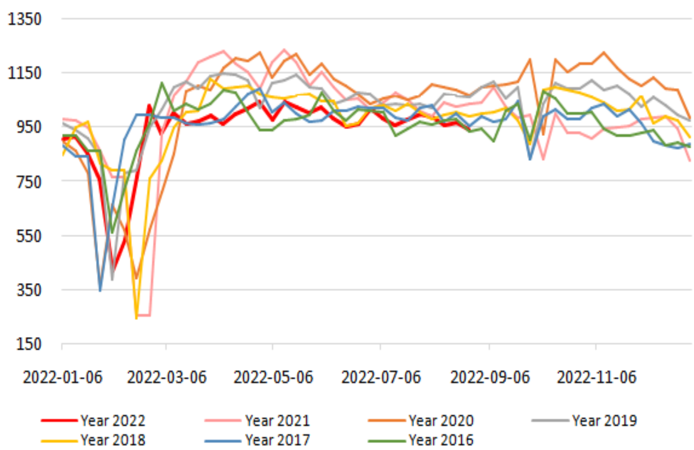
Steel

	Last	Previous	% Change
US HRC Front Month (Dollar/mt)	789	818	**-3.55%**
LME Rebar Front Month (Dollar/mt)	728	722	**0.83%**
SHFE Rebar Major Month (Yuan/mt)	3696	3756	**-1.60%**
China Hot Rolled Coil (Yuan/mt)	3988	4000	**-0.30%**
Vitural Steel Mills Margin(Yuan/mt)	128	244	**-47.54%**
China Five Major Steel Inventories Unit (10,000 mt)	2489.64	2371.33	**4.99%**
Global Crude Steel Production Unit (1,000 mt)	81400	90730	**-10.28%**
World Steel Association Steel Production Unit(1,000 mt)	149,300	158,083	**-5.56%**

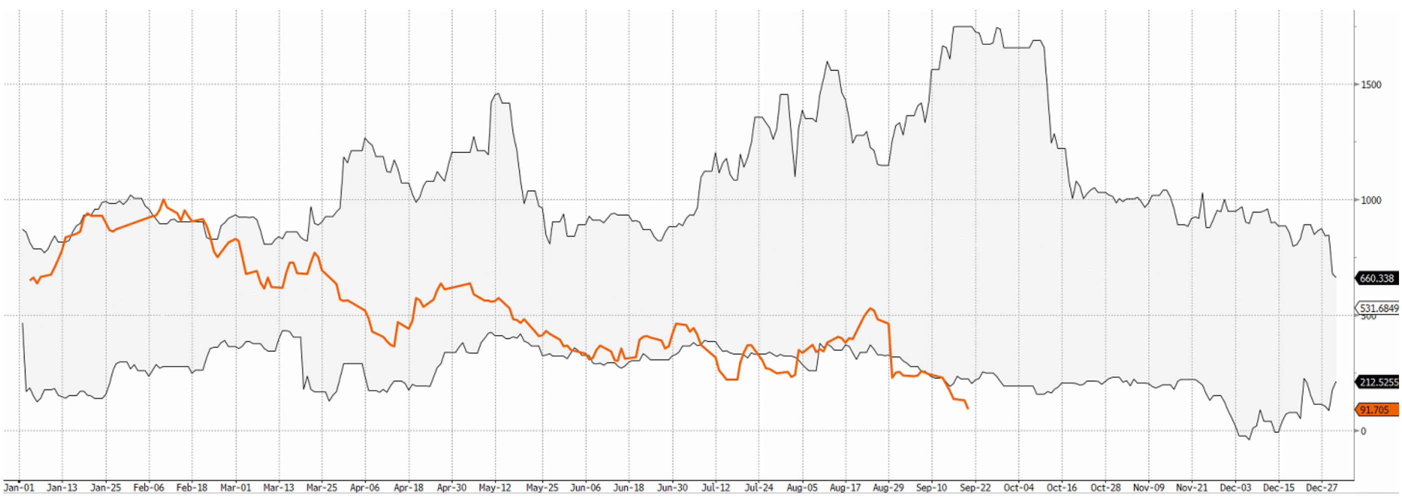
MySteel 247 mills BF Operation Rate in %



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



Virtual Steel Mill Margins (Five-Year Range)

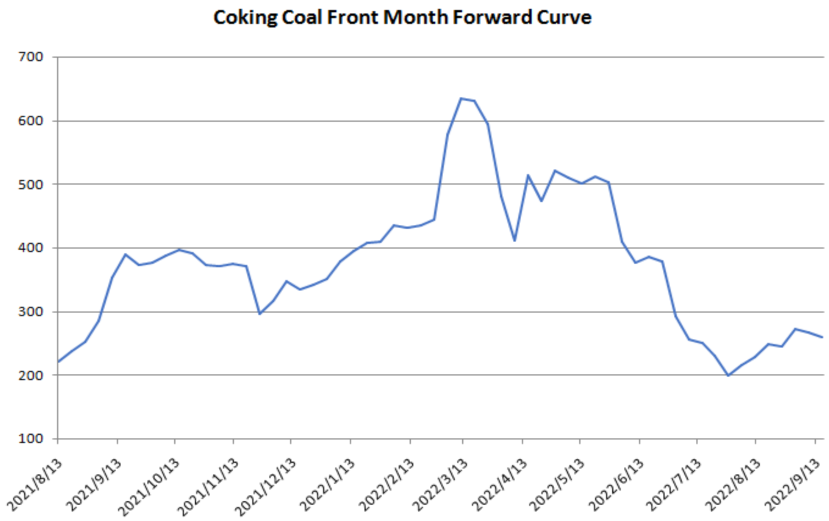


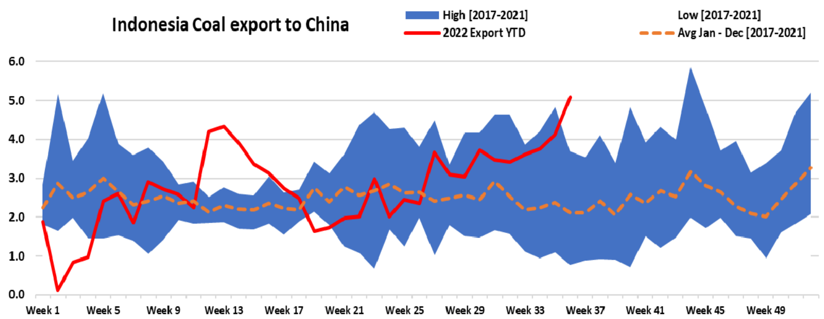
Data Sources: Bloomberg, MySteel, FIS

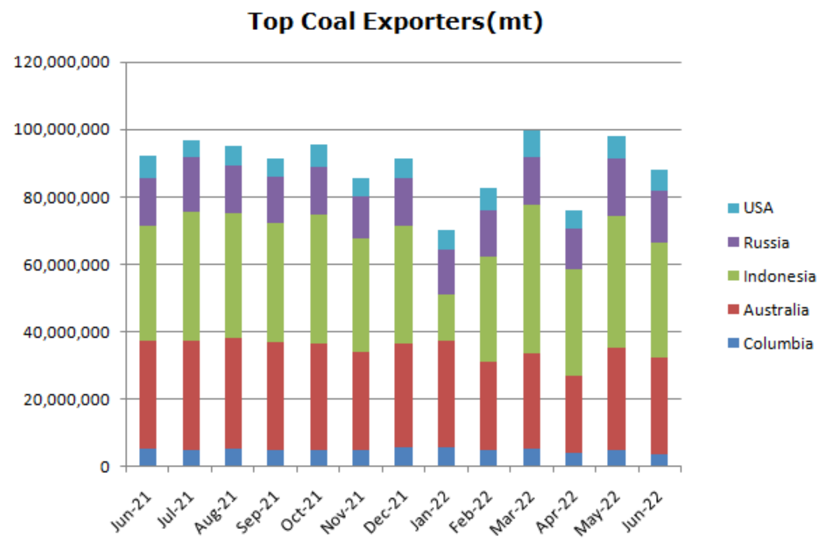
- Virtual steel mill margins dropped by 50% to 128 yuan/ton on the week because of the non-linear relation between raw materials and finished steel in the short run. However, in a few more weeks, the virtual margin will be expected to recover along with the downstream catching up on normal operation.
- The weekly five steel consumption types-maintained resilience during the past four months, around 9.5–10 million tons.

Coking Coal

	Last	Previous	% Change
TSI FOB Premium Hard Coking Coal (Dollar/mt)	250.5	271.5	-7.73%
Coking Coal Front Month (Dollar/mt)	260	266	-2.26%
DCE CC Major Month (Yuan/mt)	1999	1875.5	6.58%
Top Six Coal Exporter Weekly Shipment	13.05	23.83	-45.24%
China Custom total CC Import Unit mt	6,406,036	6,118,019	4.71%







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 the domestic mills' supply.

– European countries were actively seeking new coal sources from Australia and North America after the coal ban on Russia took effect. On the other side, 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.

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

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