# FIS Ferrous Weekly Report

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****Notice: There will be no Ferrous Report on Oct 4th****

## 27/9/2022

⇒ **Iron ore Fe62% CFR China:** short-run **Neutral to Bullish**. Iron ore is expected to maintain resilience as pig iron production is on a rising trend towards the usual peak level of the year.

⇒ **Rebar 25mm Shanghai** short-run **Neutral to Bullish**. Domestic construction trade volumes recovered significantly.

⇒ **U.S. HRC Front Month** short-run **Neutral to Bullish**. After a 10% capacity cut in European areas, expensive raw materials supported steel prices.

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

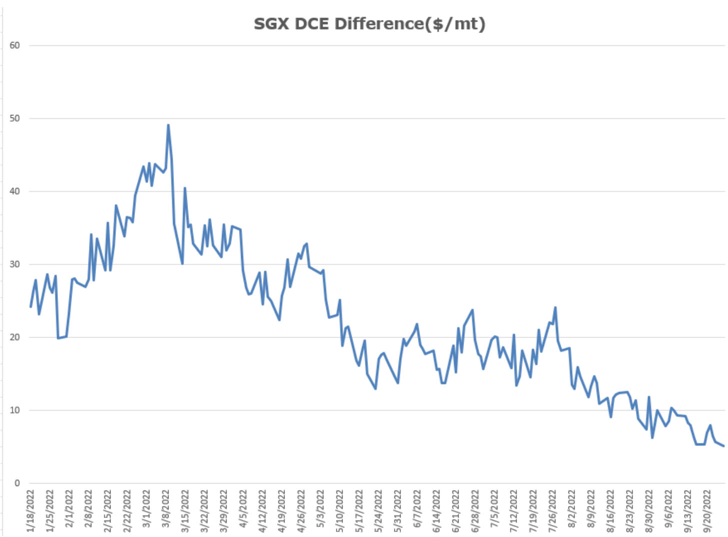
| Prices Movement | 27-Sep | 19-Sep | Changes % | Sentiment | |
|---|---|---|---|---|---|
| Iron Ore Fe62% CFR China($/MT) | 96.05 | 97.70 | 1.69% | Neutral to Bullish | ↗ |
| Rebar 25mm Shanghai (Yuan/MT) | 3980.0 | 3950.0 | 0.76% | Neutral to Bullish | ↗ |
| U.S. HRC Front Month ($/MT) | 799.0 | 787.0 | 1.52% | Neutral to Bullish | ↗ |
| Hard Coking Coal FOB Australia($/MT) | 258.0 | 250.5 | 2.99% | Neutral to Bullish | ↗ |

## Market Review:

### Iron ore Market :

The iron ore 62% index was flat over the reporting week at $96.05 on Monday. The index moved from $96 to $102 over the past four weeks, supported by mill purchases ahead of the construction season in September and the guarantee policies for Chinese house deliveries; however, it was weighted on by concerning global economic picture. Seaborne iron ore prices were depressed by a strong U.S. currency, which decreased buying power on import sources. However, domestic miners in China started maintenance before the National Congress and a long Holiday coming in October. SGX-DCE Jan23 difference maintained at a low level around $5. The spread was expected to recover to $10-$15 after the USD/CNY currency stabilised in Q4. Net iron ore is expected to remain strong as mills restock.

The Chinese Iron and Steel Association (CISA) statistics indicated that member steel mill totals produced 66.03 million tons of crude steel, down 2.15% from July. Daily pig iron production was 2.13 million tons, up 1.42% monthly. The increased daily pig iron statistic supported resilient iron ore demand. The low crude steel numbers versus pig iron was because electric arc furnace (EAF) production was, in fact, lower after profit margins were squeezed to negative levels again. The typhoon impact in northern Asian has abated, POSCO recovered production last week, and Chinese coastal cities recovered port works.




As expected, the SGX Oct-Nov spread, or historically General 2nd and 3rd contract spread, jumped from $0.50 to $1.00 after consolidating from $0.35-$0.50 for two months. The average 12 months back has been $0.45. The average tracing back 36 months was $1.94. The recovery confirmed the flat structure as strong support to this market and indicated a rebounding sentiment.

*Data Sources: Bloomberg, Platts, Fastmarket, FIS*

## Market Review (Continued)

The seaborne iron ore price slightly corrected after seeing PBF and NMHG float premiums disappear. The silicon differential from 6.5% to 6.9% range decreased from $5.10 to $3.40 sharply from early August to late September, indicating that the high silicon Brazil iron ore, including IOC6, regained market interest before the production curbs in China in October. Thus, it is expected that the low aluminium product may also gather some interest because the curb would restrict some similar quality domestic ores produced in China.

Virtual steel mill margins recovered from 128 yuan/ton to 166 yuan/ton as expected last week; the previous correction was related to a mismatch in midstream and downstream operation rates. The market expected higher efficiencies on downstream works in Q4, in line with steel production. Thus, steel margins are also expected to recover by then.

During the last three months, the MB65-P62 spread was mainly stuck in the $12 to $14 range. However, the difference could recover to $18-$19 in early Q4.

Chinese iron ore port inventories dropped massively by 5.34 million tons last week to 131.84 million tons, refreshing an 11-week low. At the same time, mills' iron ore inventories maintain stable at 97-98 million tons. The figures combined indicated that pig iron production was on the rising trend to peak in October. Iron ore demand should maintain resilience in this period. MySteel 247 mills blast furnace operation rate 82.81%, up 0.40% on the week, up 5.37% on the year. Daily pig iron was up 20,200 tons at 2.40 million tons on the week, while the highest number of the year was in January at 2.45 million tons.

**Neutral to Bullish**

## Downstream/Policies/Industry News:

Ten central banks around the globe announced interest rate hikes in September. The U.S. Federal Open Market Committee's (FOMC) decision in September met the expectation of a 75-basis points hike. However, the plot matrix indicated that the interest hike would not stop until 2024, which was longer than expected. U.S. Federal Reserve Chairman Jerome Powell insists on reducing the inflation rate below 2%.

The Asian Development Bank lowered its economic growth forecast for Asia for the second time this year. It is now expected that Asian economic growth in 2022 will be 4.3%, down from the 5.2% expected in April, and the economic growth forecast for 2023 will be lower at 5.3% rather than 4.9%.

The People's Bank of China (PBOC) is expected to raise the reserve requirement for forward forex trading from 0% to 20%. The market read this as a cost increase for commercial banks to purchase foreign currencies. Thus, the strategy was expected to protect Chinese yuan from fast depreciation. CNH stabilised on Tuesday on the back of the news. Industrial commodities, including copper and iron ore, also saw a rebound.

China increased support for new-energy vehicles (NEV) by extending the purchase tax exemption for another year. China started to extend mid and long-term loan projects in 16 main areas, including carbon neutralising, upgrading traditional industries, domestic manufacturing, and mining.

## Global Steel Market:

Platts North European HRC Index consolidated €735-€740/ton during the last two weeks. However, market participants expect the price to slip with sluggish demand and trading activity. Southern European mills were ready to place as low as €750-€760, although the official offers were €780-€800/ton. A Japanese mill considered cutting offers to the level two weeks ago after not finding bids. End-users were waiting for a clear market direction. The northern mills indicated that they saw better order books, enabling them to be patient and hold the price from big corrections.

Large European steelmaker reports massive deals on September delivered S235 grade HRC at €760-€770/mt. Chinese mills lifted offers of SS400 HRC by $5 to $585/mt CFR.

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

## Market Review (Continued)

Chinese SS400 HRC was offered $570/mt CFR Vietnam last week. However, the level was no longer available after the price rose. A Japanese mill kept offers unchanged at $620/mt CFR Vietnam for SAE1006 grade coils. South Korea POSCO expected to resume one of its HRC lines in early October.

Turkish HMS 1/2 80:20 heavy scrap index significantly improved from $349 to $365 during the report week, based on a Benelux-origin cargo traded at around $360/mt CFR. Benelux region was reported to increase to €300-€320/mt from €285-€300/mt last week. Turkish mill cited an indicative workable level for U.S. origin HMS 1/2 80:20 at $365-$375 CFR. However, traders were still worried that the strong U.S. dollar would limit the scrap price.

**Neutral to Bullish**

**Chinese Steel Market:**

Shanghai domestic 25mm rebar slightly corrected from 3950 yuan/ton to 3980 yuan/ton during the report week. The spot market had low volatility of 1% to 2% every week from late August to late September. The guaranteed delivery of houses policy accelerated the completion of houses, alleviating the default-related concerns among developers and banks. The trading volume reached 188,200 tons daily last week, up from 151,400 tons in the previous week. Traders were active again in the domestic finished steel market. Downstream activities were confirmed to boom from late September, which supports the strong growth of steel prices given the worsening macro environment.

Export flat steel market demand was strengthened because of the weak currency versus the U.S. dollar, plus the recovered import demand in European countries to save some self-built costs.

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 shut-down risks. Thus, the downstream operation was expected to pick up and match the mid-stream production.

Weekly apparent consumption has indicated a resilient demand figure from 9-10 million tons for the last four months. In addition, mills were confident with pricing seeing consistent order books.

**Neutral to Bullish**

**Coal Market:**

Surprisingly in the paper market, spreads in the front months have not narrowed but then any potential disruption to supply is likely to take some time to filter through to the market. Indeed, the physical offer for October PLV did come in at 300 ($30 premium to the paper) and we expect this to move lower over the coming days. This could all, of course, be quickly resolved and prices head back towards $250 as quickly as they've rebounded. Unlikely to happen for a number of sessions though.

The PLV FOB Australia coking coal index grew from $250 to $258 over the report week, while CFR China improved from $297 to $305. The increase in the index was based on a 75,000mt PLV traded at $260/mt. There had been no trade reported since then. The China CFR market saw limited trading activities amid disparity in price expectations between buyers and sellers. There was growing October and November loading demand. At the same time, Elkview mine was facing some operational difficulties. The slight increase in demand and tight supply support the current seaborne market.

Chinese met coke market saw the first round of price uptick by a major Merchant cokery. However, some sources suspect the consistency of the price as some mills have completed the restock. Traders usually wait for further rounds of price upticks to procure cargo. The market rumoured Tangshan to start an environmental cut because of the worsening air quality and the upcoming Chinese National Congress Conference.

**Neutral to Bullish**

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

## Technical view of the Ferrous Markets:

### Iron Ore

October Futures – The futures remain technically bearish with prices below the 8-21 period EMA's supported by the RSI below 50. Upside moves that fail at or below USD 100.86 will leave the futures vulnerable to further tests to the downside; the near-term technical will have a neutral bias above this level. Only above USD 104.30 is the technical bullish based on the higher high, giving us a potential early warning that the downside cycle has been completed. However, upside moves that fail at or below USD 110.95 will leave the longer-term cycle vulnerable to further tests to the downside; for confirmation that the bear cycle has been completed, the futures would need to trade above USD 120.20. We have seen a lower five-wave pattern, meaning we could see cycle completion, making USD 93.00 the key support to follow. Downside moves below this level indicate that the futures have entered a larger bear cycle (as recently witnessed in Brent on the move below USD 91.51). This would have bearish implications in the future and suggest that upside moves should be considered countertrends.

### Steel

October Futures – Technically bearish with a neutral bias on the last report with key resistance at USD 875. The RSI was below 50 with the stochastic in the overbought territory; momentum warned that the futures were vulnerable to a move lower. Downside moves below USD 787 suggested that the USD 769 fractal low could be tested with further support between USD 759 and USD 734. The futures traded to a low of USD 750 before finding buying support today (26/09/22). The downside move has pushed the intraday oscillators to new lows, suggesting upside moves could be countertrends; the futures remain vulnerable below USD 819 and neutral above. Only above USD 855 is the technical bullish. Downside moves below USD 734 will target the USD 701 and USD 673 levels.

### Coking Coal

October Futures – We noted on the last report that the futures were potentially in a more complex corrective phase as the previous upside move had failed to trade above USD 342, with the USD 251 support looking like it could come under pressure. The futures traded to a low of USD 247 before moving higher (currently USD 271). We maintain our view that upside moves that fail at or below the USD 342 level will leave the futures vulnerable to further tests to the downside; above this level the technical will have a neutral bias; whilst a move below USD 247 would suggest the USD 218 fractal low could be tested. Technically bearish, support levels are starting to look vulnerable, as the RSI is neutral at 50, with the stochastic in overbought territory.

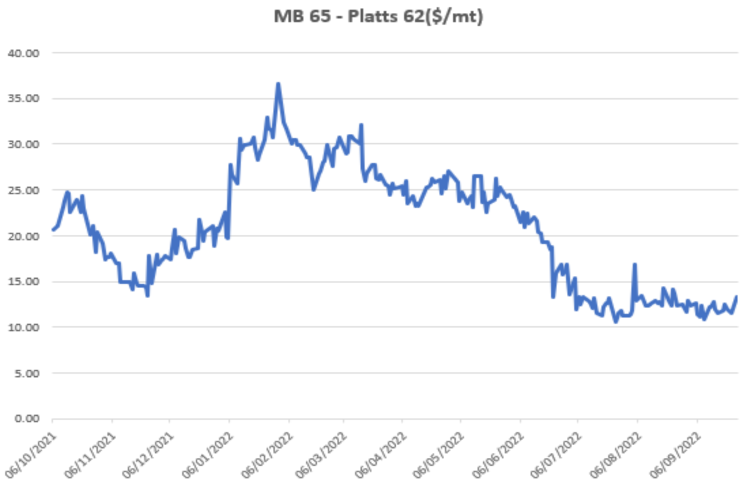
**Iron Ore Offshore** October 22 Morning Technical Comment – 240 Min **Chart**

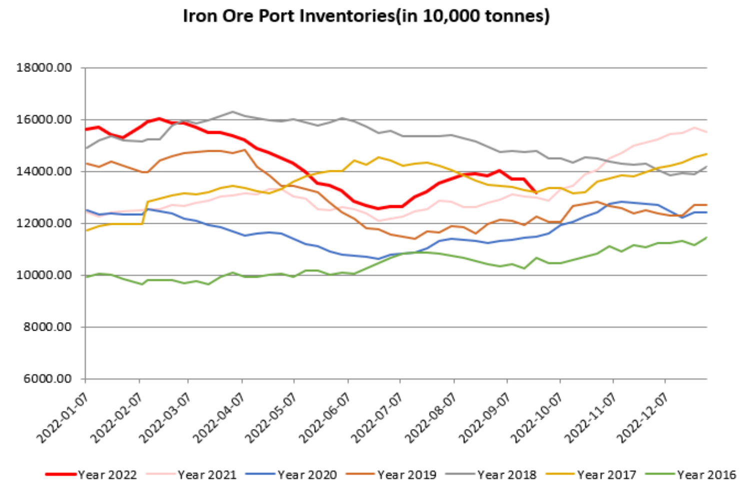

*Chart source: Bloomberg*

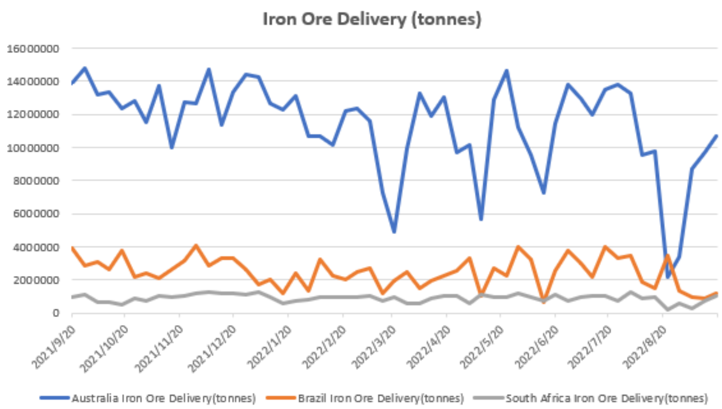
***Sources: Argus, IHS Commodities at Sea Service, FIS***

# Iron Ore

| | Last | Previous | % Change |
|---|---|---|---|
| **Platts 62% Fe (Dollar/mt)** | 96.05 | 97.7 | -1.69% |
| **MB 65% Fe (Dollar/mt)** | 109.3 | 109.5 | -0.18% |
| **Capesize 5TC Index (Dollar/day)** | 18207 | 12599 | 44.51% |
| **C3 Tubarao to Qingdao (Dollar/day)** | 23.689 | 21.917 | 8.09% |
| **C5 West Australia to Qingdao (Dollar/day)** | 9.945 | 8.85 | 12.37% |
| **Billet Spot Ex-Works Tangshan (Yuan/mt)** | 3650 | 3660 | -0.27% |
| **SGX Front Month (Dollar/mt)** | 97.97 | 98.01 | -0.04% |
| **DCE Major Month (Yuan/mt)** | 721 | 715.5 | 0.77% |
| **China Port Inventory Unit (10,000mt)** | 13,184.20 | 13,718.92 | -3.90% |
| **Australia Iron Ore Weekly Export (10,000mt)** | 1,071.40 | 967.70 | 10.72% |
| **Brazil Iron Ore Weekly Export (10,000mt)** | 118.40 | 87.50 | 35.31% |




**Iron Ore Key Points**

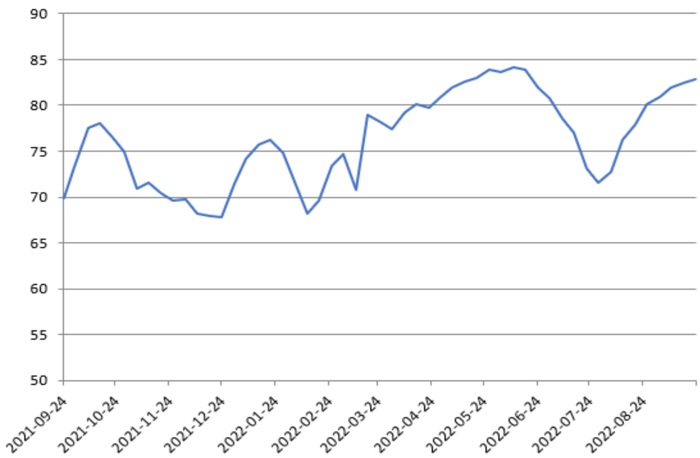
- Iron ore port inventories in the short-run stabilised, supported by increasing shipments, however this was offset by strong consumption.
- The 65% and 62% iron ore contracts maintained at weak levels of $12-$14 in June, due to the mixed outlook on steel margin.
- Monthly Iron ore delivery from Australia 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.
- Pig iron production reached 2.4 million tons/day in major Chinese steel mills, approaching the yearly-high at 2.45 million tons.

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

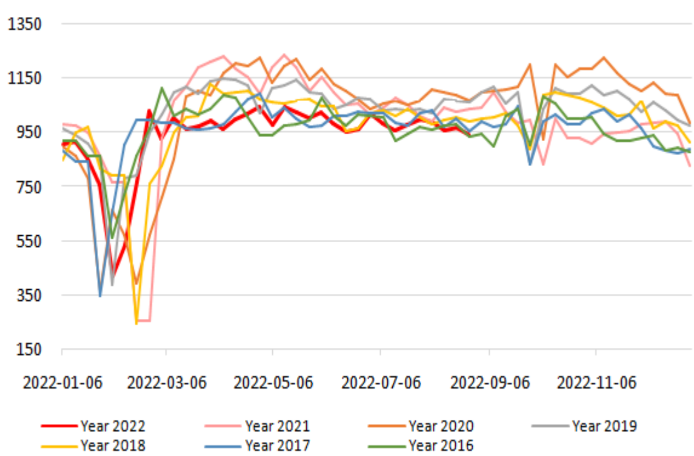
# Steel

| | Last | Previous | % Change |
|---|---|---|---|
| US HRC Front Month (Dollar/mt) | 802 | 789 | 1.65% |
| LME Rebar Front Month (Dollar/mt) | 728 | 722 | 0.83% |
| SHFE Rebar Major Month (Yuan/mt) | 3768 | 3696 | 1.95% |
| China Hot Rolled Coil (Yuan/mt) | 3999 | 3988 | 0.28% |
| Vitural Steel Mills Margin(Yuan/mt) | 166 | 128 | 29.69% |
| China Five Major Steel Inventories Unit (10,000 m | 2489.64 | 2371.33 | 4.99% |
| Global Crude Steel Production Unit (1,000 mt) | 83900 | 81400 | 3.07% |
| World Steel Association Steel Production Unit(1,0 | 149,300 | 158,083 | -5.56% |

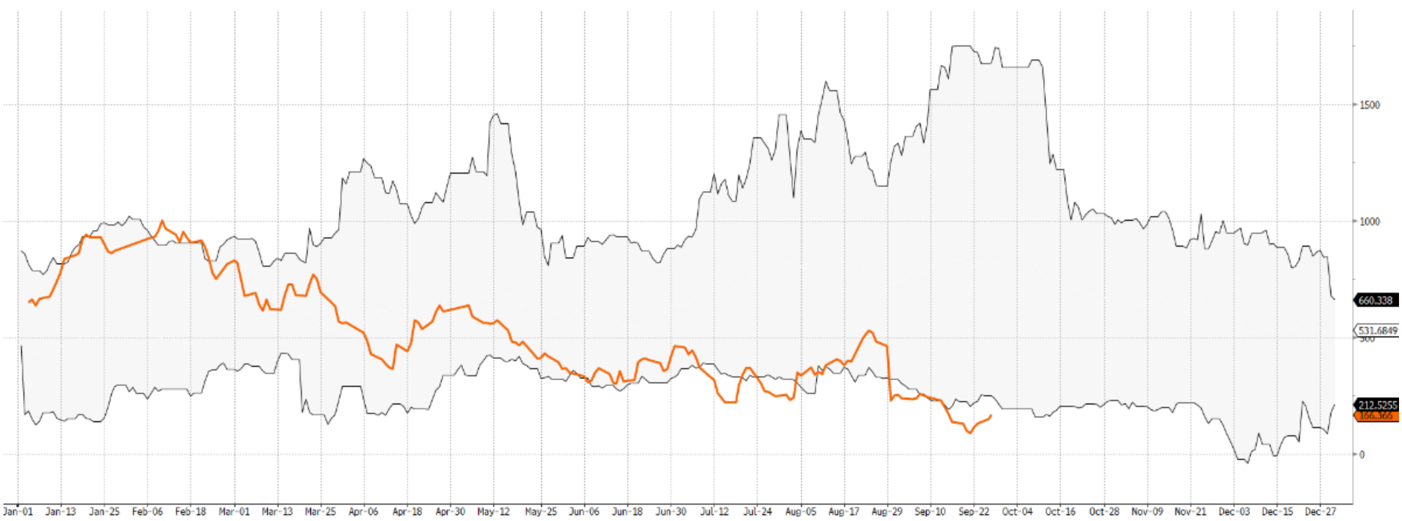
MySteel 247 mills BF Operation Rate in %




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




Virtual Steel Mill Margins (Five-Year Range)

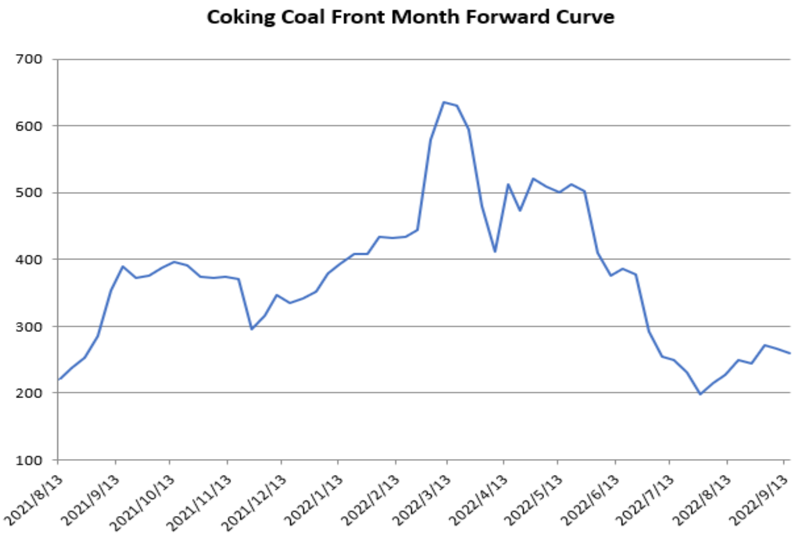


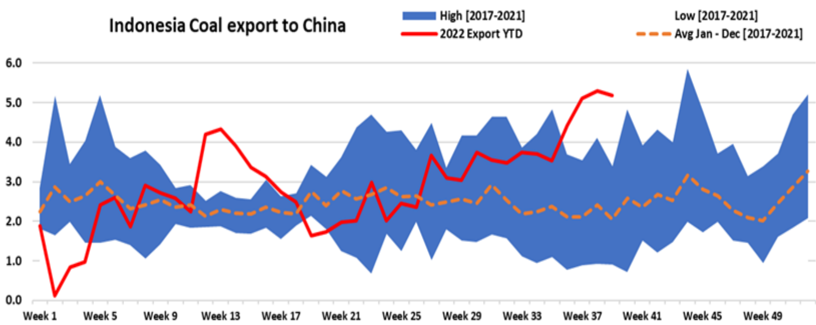

***Data Sources: Bloomberg, MySteel, FIS***

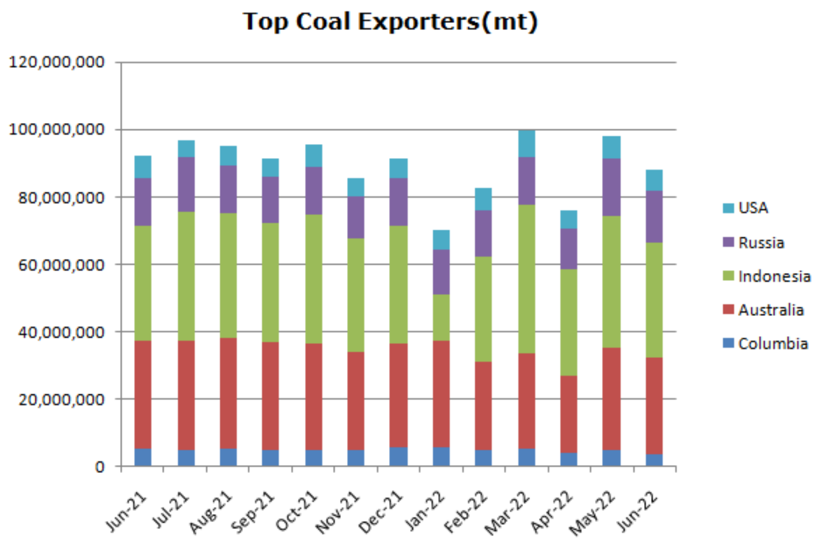
- Virtual steel mill margins recovered from 128 yuan/ton to 166 yuan/ton on the week. The virtual margin would be expected to recover along with the downstream catching up on normal operation.
- The weekly five steel consumption types maintained resilience during the past four months, around 9.5–10 million tons.

# Coking Coal

| | Last | Previous | % Change |
|---|---|---|---|
| TSI FOB Premium Hard Coking Coal (Dollar/mt) | 258.5 | 250.5 | 3.19% |
| Coking Coal Front Month (Dollar/mt) | 269 | 260 | 3.46% |
| DCE CC Major Month (Yuan/mt) | 2101.5 | 1999 | 5.13% |
| Top Six Coal Exporter Weekly Shipment | 20.13 | 20.06 | 0.35% |
| 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 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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