FIS

Ferrous Weekly Report

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

6/9/2022

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

⇒ **Rebar 25mm Shanghai** short-run **Neutral to Bullish**. The order books and the downstream market started to boost as the weather cooled down in the northern hemisphere.

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

⇒ **Hard Coking Coal FOB Australia** short-run **Neutral**. . The European and Asian markets were expected to benefit Australia and North American exports in the long run. However, short-run demand was showing limited buying interest.

Prices Movement	5-Sep	29-Aug	Changes %	Sentiment	
Iron Ore Fe62% CFR China($/MT)	98.00	101.75	3.69%	Neutral to Bullish	↗
Rebar 25mm Shanghai (Yuan/MT)	3990.0	4200.0	5%	Neutral to Bullish	↗
U.S. HRC Front Month ($/MT)	795.0	792.0	0.38%	Neutral to Bullish	↗
Hard Coking Coal FOB Australia($/MT)	273.5	273.5	-	Neutral	-

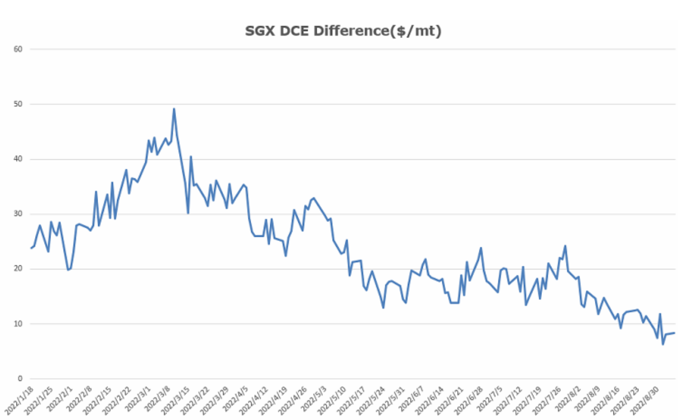
Market Review:

Iron ore Market :

The iron ore 62% index corrected from $101.75 to $98, unexpectedly corrected during the report week, which was related to the big spike of U.S. dollars limiting the buying power of the Chinese Yuan. We maintain that iron ore would recover the loss once currency movement slowed down. China will decrease the foreign reserve ratio by 2% as a hedge against the depreciation of the Chinese yuan. The market expects more monetary tools to defend the currency in the last quarter of the year. In addition, CISA data indicated pig iron in late August was up 4% from mid-August. China exchanges started introducing foreign investors to trade some domestic commodities through QFII and RQFII, which supported the cross weekends market.

A few Chinese domestic miners' accidents impacted the limited domestic supply of high-grade concentrates and pellets; however, miners may keep the utilisation rate at a limited level before the 20th National Congress. Moreover, POSCO suspended some blast furnace operations before the typhoon landing. An unexpected fire accident took place in a POSCO mill previously.

The flat structure was 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. According to the probability map, the spread between the next month and the third month was $0.4-0.45, 15% away from the lowest level in the past five years. However, the spread lay below 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 float basis saw improving premiums and discounts led by the recovered steel margin. From early August, PBF float basis improved from a discount of $2 to a premium of $0.2. BRBF improved from a discount of $0.3 to a premium of $1.9. NMHG, JMBF and MACF all saw improving prices and trade volume. Yandi became the weakest brand based on float price, which once corrected from a discount of $5.6 to $8.6. However, it saw a recovery from $8.6 to $6.85 in the last two weeks.

Data Sources: Bloomberg, Platts, Fastmarket, FIS

Market Review (Continued)

Virtual steel mill margins dropped to 212 yuan/ton as the year's low from the 456-yuan level, driven by the strong iron ore push following some Chinese domestic miners' accidents. The market believes the extreme low should be recovered in the next week after arbitragers flow into the market. The physical margin narrowed again because the mills had to consider production after the delayed downstream demand.

The SGX—DCE spread fell under $10 early this week; however, it is believed that statistical trades would bring the difference back to $12-15 in the short run. The sudden crash was due to the Chinese domestic miner accidents, strengthening the local ores supply.

During the last five weeks, the MB65—P62 spread was mainly stuck in the $12 to $14 range. The increasing shipment from Brazil and an unstable steel margin from blast furnaces become the main drags of the spread.

Iron ore Chinese port inventories reached a three-month high at 140.36 million tons. Some trade sources in Australia indicated that the line-ups show port inventories could get 160 million tons in the next few months, which used to be a yearly-high and four-year high level. MySteel steel mill iron ore inventories were at 97.4 million tons over the last report week, down 1.27 million tons on the week.

Neutral to Bullish

Downstream/Policies/Industry News:

An official from the Ministry of Industry and Information Technology (MIIT), China, said at the raw material industry high-quality development press conference that the prices of steel, copper, aluminium, cement and other products have declined recently and that the MIIT will continue to ensure supply and stabilise prices in the next step. China NDRC urged accelerating construction completion in Q3 after specialised debts had been issued earlier than in previous years.

China cut the foreign reserve ratio by 2% to 6% to resist the quick depreciation of the currency. This is the second time the ratio has been cut. The market generally believes more tools should be in the monetary box to counter currency risk.

Morgan Stanley Global PMI in August reached 48.2, lower than the boom-and-bust line for two months. CME FedWatch tool increased the 75-bps hike rate in September to 57%.

The world's giant in steelmaking, Arcelor Mittal, announced a shutdown of some blast furnaces in Germany, Austria, and France in late August due to the high energy cost and lower downstream demand.

Global Steel Market:

Platts TSI North Europe HRC ex-work Ruhr price improved by 8.8% from August 24th at €755/ton, as expected the half-year length correction called a halt with the limited production global-wise. Steelmakers and processors shifted high energy and material cost to end-users. Market participants are concerned that the production cut would support current price levels. Leading steelmaker ArcelorMittal will idle blast furnace III at its Bremen site in Germany indefinitely from the end of September due to unaffordable energy costs. The furnace can produce 1.2 MTPA of pig iron. During the same week, ArcelorMittal decided to take down blast furnace III with 1.8 MPTA of pig iron capacity at its Dunkirk site in France for relining from the end of September, given weak steel demand.

Last week, a European seller reported deals for 7,500mt of S235 grade HRC at €782.5/t delivered Ruhr. Central and Eastern European mills reported dead for 500mt of S235 grade HRC at €775/t ex-work Ruhr equivalent.

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

Market Review (Continued)

The sudden outbreak of Covid-19 in Chengdu, China, caused a 90,000mt HRC capacity shut-down. However, mills indicated that the production also increased over the week. The market is waiting for the policy changes before the 20th National Congress Meeting in mid-October. Production increased rapidly because of the golden week, and the meeting may lead to almost 4-5 weeks of production restriction in some northern provinces. Chinese mills held offers unchanged at $595/mt FOB for SS400 HRC, along with the $580/mt CFR South Korea, both of which failed to attract buyers. The market was quiet in south-eastern Asia since Vietnam was on holiday.

Turkish HMS 80:20 heavy scrap index dropped to $389 last week; previously, the price stayed in the $397-402 range for three weeks. Chinese EAFs recovered production massively with a hike in utilisation rate after the end of hot weather and electricity restrictions. Traders were expecting more scrap imports from the Chinese market in September. The tradeable value for Benelux-origin HMS 1/2 (80:20) at $388/mt CFR, while another higher deal from EU origin was booked by Iskenderun mill at $396 CFR for prompt shipment.

Neutral to Bullish

Chinese Steel Market:

Shanghai domestic 25mm rebar slight rebounded from 4180 yuan/ton to 4200 yuan/ton during the report week. The huge correction was partially due to the interest hike and weaker currencies. The rolling from October to January could strengthen the price volatility. Thus, the market should see some recovery since rolling was completed. Jan-May 23 spread 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 less chance of production loss. The downstream was located in different areas with more risks of a shutdown. Thus, downstream production was expected to pick and match the steelmaking in the next few months, which could boost the statistical demand figures.

Some areas of Sichuan, China, suffered an earthquake, which could impact the local downstream and metals production in the last few months. However yet to see the detailed impact with the fatalities and damages on the rise.

MySteel sample Chinese steel mills operation rate at 80.85%, increased 0.71% on the week. The utilisation rate increased by 1.56% to 86.83%. The mills believed that operation and utilisation rates entered a long-run recovering trend until the numbers reached the year’s high. EAFs operation rate recovered to 53%, a month low area because many cities had to close high electricity consumption industries to save power temporarily. In addition, some domestic collectors with mills background increased scrap offers, which squeezed EAFs margins to a negative again.

Daily construction steel trading volume picked up from 130,000–140,000 tons range to 151,700 tons level last week, indicating a slight recovery. The September and October peak level should reach beyond 210,000 tons/day in previous years. Apart from the lower-than-expected trading market, apparent weekly consumption has indicated a resilient demand figure from 9.5-10.2 million tons for the last three months. Moreover, northern steel mills have significantly increased order books since late July. The daily demand market should match with longer-term figures in the long run and is expected to grow.

Neutral to Bullish

Sources: Argus, IHS Commodities at Sea Service, FIS

Market Review (Continued)

Coal Market:

Over the last two weeks, the PLV FOB Australia coking coal index was flat at $272-273.5, while CFR China market was stabilised at $276-280. The stabilised market was because importers and miners were waiting for a direction change. The recent offer at $280 for 75,000mt FOB Australia HCCA Prime failed to attract some buying interest. There is currently ample supply in September and October laycans. Rising pandemic concerns in China and U.S. currency boost have weakened the buying power of Asian countries in the short-run.

The Chinese downstream market recovered slower than expected, observed by slowly picking up the trading volume on steels. Thus, coke plants were cautious on the auctions and imports. Chinese physical coke decreased by 100 yuan/ton last week after the sudden increase in Mongolia's imports and crashed futures prices in ferrous products. The decrease was generally considered smaller than expected, indicating a mixed outlook on the spot market. Chinese major port import coking coal inventories decreased from 2.34 million tons to 2.17 million tons. However, Mongolia cleared trucks raised from 300 trucks/day in late Q2 to 900-1000 trucks/day, which alleviated the coking coal tight supply in China. Traders believed the coke supply would become sufficient in the last four months in China. The current price change was in line with the steel price.

Limited visible offers on the market supported the U.S. coking coal market. Mongolia's metallurgical coal shipments to China are elevated as the number of met coal trucks from Mongolia to China, at 1,000, is much higher than the levels in July. China's met coal imports have risen 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

October Futures – As noted last week, our wave analysis indicated that the USD 95.50 low remained vulnerable, with a potential downside target at USD 89.30; however, a new low would mean the minimum requirement for wave/phase completion had been achieved. The price traded to a low of USD 92.75 before finding buying support. Upside moves that fail at or below USD 102.09 will leave the futures vulnerable to further tests to the downside; above this level, the technical will have a neutral bias, and only above USD 106.90 is the technical bullish. The futures are moving higher on the back of a positive divergence with intraday wave analysis warning of possible exhaustion in the market, making Key resistance to follow at USD 102.09. If we trade below USD 92.75, we target the USD 89.30 level.

Steel

October futures – Technically bearish with the potential for another test to the downside, the futures have moved slightly higher; however, the technical itself remains unchanged, meaning we reiterate last week's view. Key resistance remains unchanged at USD 838 (currently 810); upside moves that fail at or below this level 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

October futures – Resistance held last week, resulting in the futures failing to trade above the USD 342 level. However, the RSI on the MA suggested that support levels could hold if tested. Downside moves that hold at or above USD 251 will leave the futures vulnerable to further tests to the upside; below this level, we target the USD 218 low. The futures remain below key resistance and are potentially in a more complex corrective wave 4. We remain cautious regarding the upside rejection at this point, as corrective patterns often come in 3 waves, leaving the futures vulnerable to another test to the upside, making essential support to follow at USD 251.

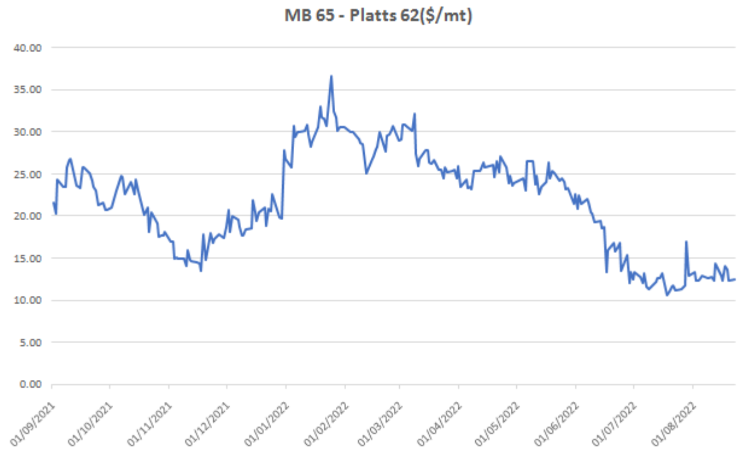
Iron Ore Offshore October 22 Morning Technical Comment – 240 Min Chart

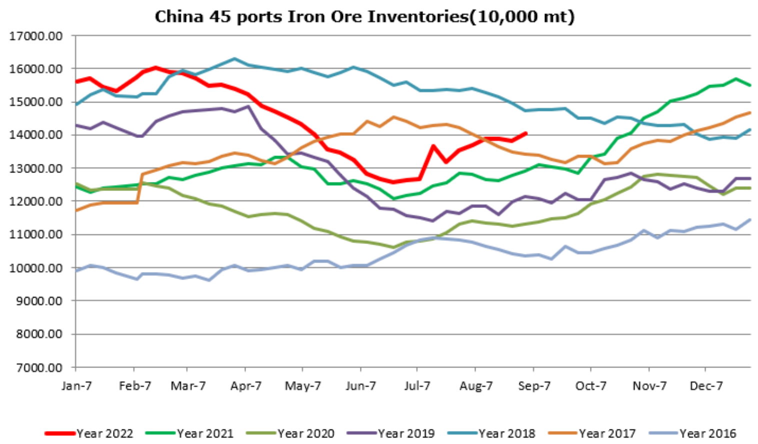
Chart source: Bloomberg

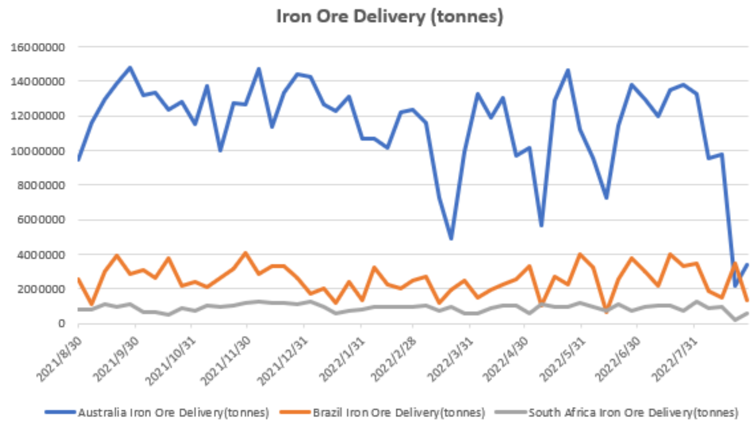
Sources: Argus, IHS Commodities at Sea Service, FIS

Iron Ore

	Last	Previous	% Change
Platts 62% Fe (Dollar/mt)	98	101.75	-3.69%
MB 65% Fe (Dollar/mt)	110.6	114.2	-3.15%
Capesize 5TC Index (Dollar/day)	7000	3413	105.10%
C3 Tubarao to Qingdao (Dollar/day)	19.928	17.844	11.68%
C5 West Australia to Qingdao (Dollar/day)	8.805	7.625	15.48%
Billet Spot Ex-Works Tangshan (Yuan/mt)	3660	3770	-2.92%
SGX Front Month (Dollar/mt)	94.52	105.95	-10.79%
DCE Major Month (Yuan/mt)	665.5	724	-8.08%
China Port Inventory Unit (10,000mt)	14,036.46	13,815.99	1.60%
Australia Iron Ore Weekly Export (10,000mt)	340.30	219.40	55.10%
Brazil Iron Ore Weekly Export (10,000mt)	133.60	342.80	-61.03%







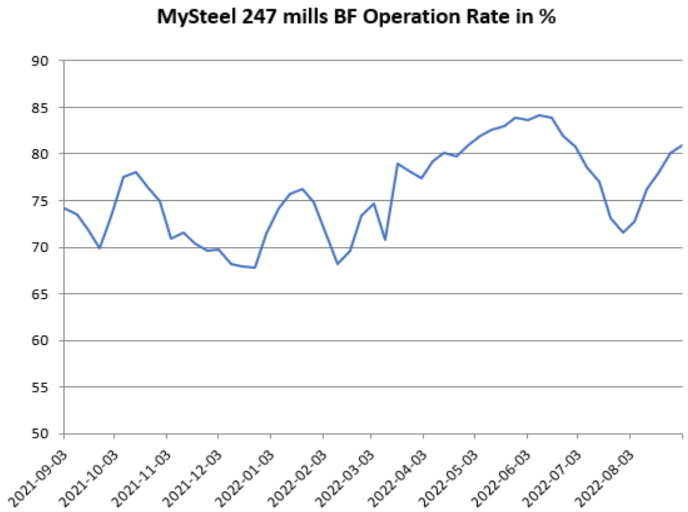
Iron Ore Key Points

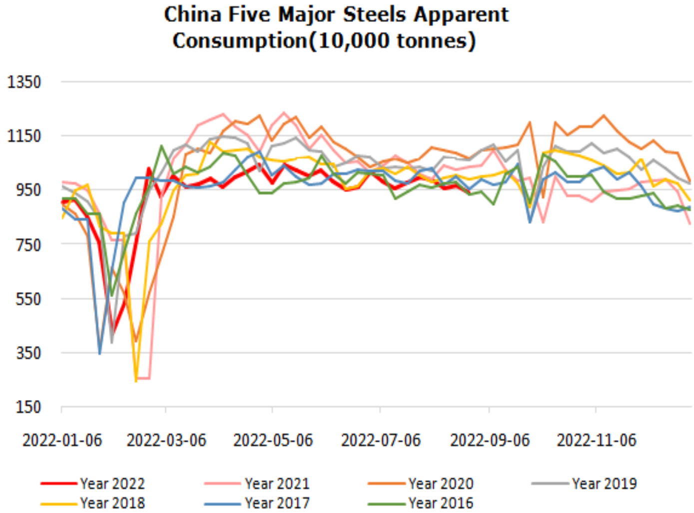
- Iron ore port inventories in the short-run stabilised, supported by the increasing shipments; however, resisted by strong consumption.
- The 65% and 62% iron ore maintained weak from $12-14 in June since the mixed outlook on steel margin.
- Iron ore delivery from Australia and Brazil was stable monthly. 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.

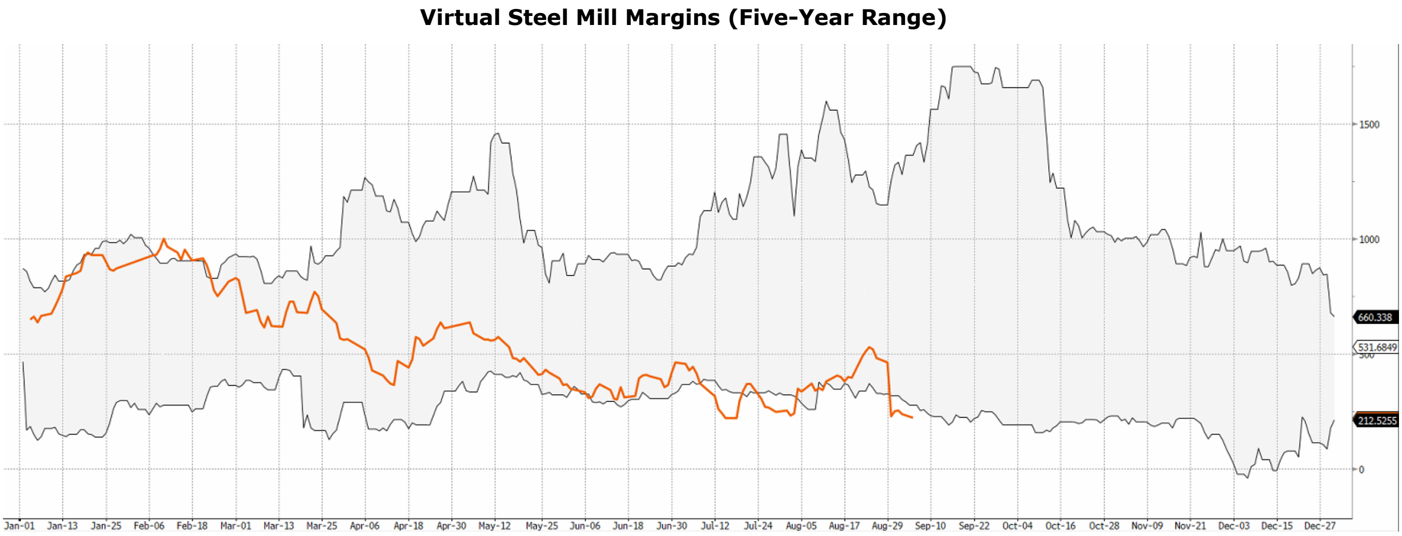
Data Sources: Platts, Fastmarkets, MySteel, Bloomberg, FIS

Steel

	Last	Previous	% Change
US HRC Front Month (Dollar/mt)	780	794	-1.76%
LME Rebar Front Month (Dollar/mt)	728	722	0.83%
SHFE Rebar Major Month (Yuan/mt)	3622	4078	-11.18%
China Hot Rolled Coil (Yuan/mt)	3942	4029	-2.16%
Vitural Steel Mills Margin(Yuan/mt)	212	456	-53.51%
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	158,083	0.00%





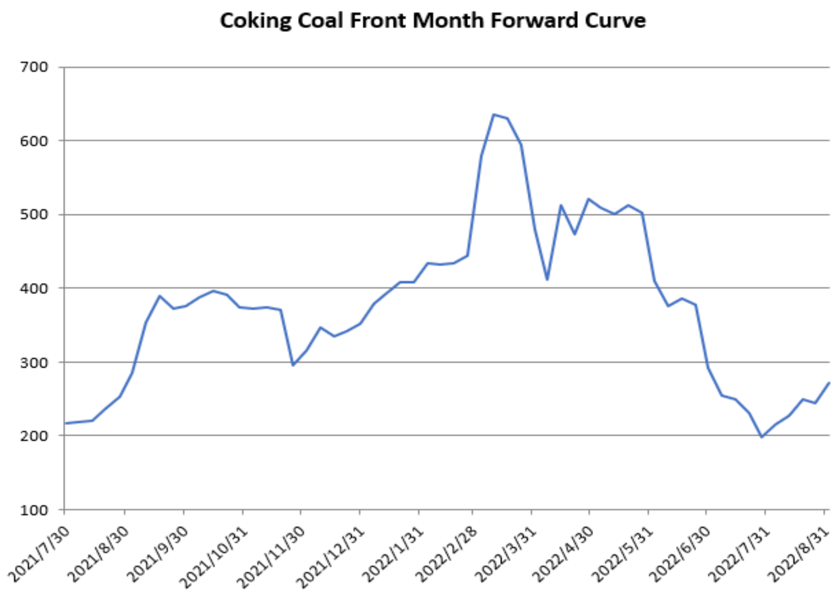


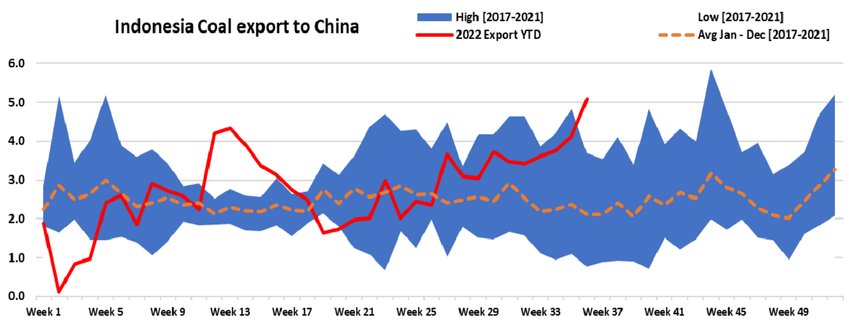
Data Sources: Bloomberg, MySteel, FIS

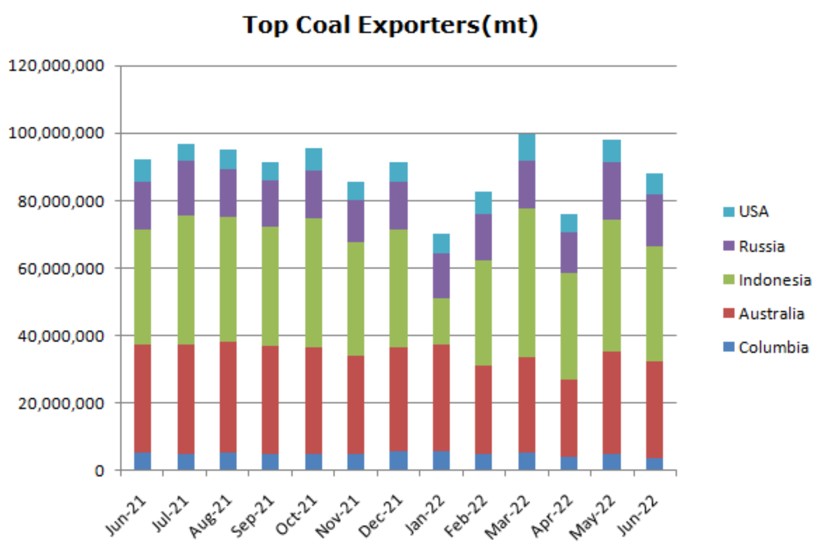
- Virtual steel mill margins dropped from 526 yuan/ton at a three-month-high to 456 yuan/ton. The correction was believed to be a normal volatile instead of a fundamental change. Margin levels are expected to maintain at 400-600 yuan/ton, supported by strong consumption in September.
- The weekly five 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)	273.5	273.5	0.00%
Coking Coal Front Month (Dollar/mt)	272.33	245	11.16%
DCE CC Major Month (Yuan/mt)	1816	2007	-9.52%
Top Six Coal Exporter Weekly Shipment	15.42	22.32	-30.91%
China Custom total CC Import Unit mt	6,118,019	4,983,083	22.78%







Data Sources: IHS Commodities at Sea Service, Bloomberg, FIS

Coal Key Points

- Indonesia's coal export to China was again boosted to a seasonal high, although the government punished some coke plants and 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.

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 **Mopani Mkandawire**,
FIS Content Manager
News@freightinvestor.com, +44 207 090 1120