FIS

Ferrous Weekly Report

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

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

⇒ **Rebar 25mm Shanghai** short-run **Neutral to Bullish**. The construction trade volume recovered significantly domestically.

⇒ **U.S. HRC Front Month** short-run **Neutral to Bullish**. Expensive raw materials supported steel after a 10% capacity cut in European regions and rising energy costs.

⇒ **Hard Coking Coal FOB Australia** short-run **Neutral to Bullish**. The seaborne trade became active during the past week with an aggressive price on PLV cargoes and decent volume.

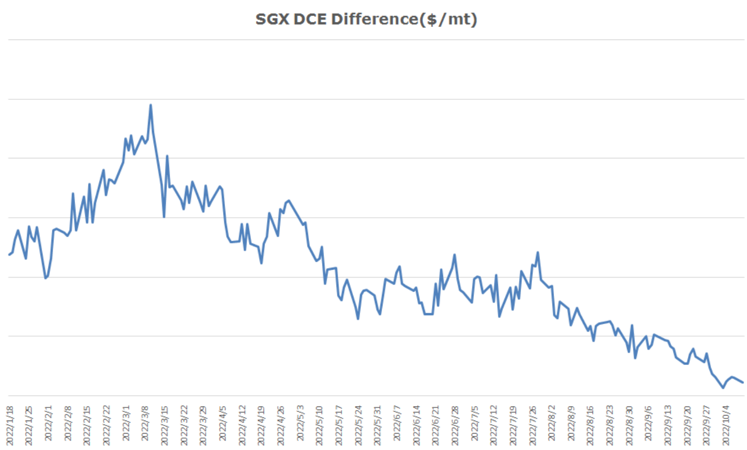
Prices Movement	10-Oct	27-Sep	Changes %	Sentiment	
Iron Ore Fe62% CFR China($/MT)	98.75	96.05	2.81%	Neutral to Bullish	↗
Rebar 25mm Shanghai (Yuan/MT)	4090.0	3980.0	2.76%	Neutral to Bullish	↗
U.S. HRC Front Month ($/MT)	750.0	799.0	6.13%	Neutral to Bullish	↗
Hard Coking Coal FOB Australia($/MT)	283.5	258.0	9.88%	Neutral to Bullish	↗

Market Review:

Iron ore Market :

The iron ore 62% index rebounded across the Golden Week in China by 2.81% as expected from the last report. Mills are approaching a seasonal end for raw material buying. However, supply became tight, aggravated by Tangshan's restriction on sintering ores and Transnet's strike disrupting Kumba's iron ore operations. However, iron ore, generally, is yet to leave the range from $95 – $102. Chinese political conferences weighed the importance of the housing sector and investment, which encouraged the sentiment on the secondary market in ferrous. Housing sectors boomed in Shanghai equity, and steel futures also saw recovery. However, the Ukraine-Russia tension was raised again, potentially resisting investors' risk appetite. Global stocks suffered a panic during the past 2 - 3 trading days after the escalation of the conflict.

Seaborne iron ore was temporarily removed from the currency impact as non-dollar currencies seemed to stabilise. The market was quiet as China's Golden Week meant that the index was effectively static for the 1-3 of October. Mills may start to stock for 5 - 7 useable days due to the coming political conference in mid-October. However, Tangshan mills were already requested to cut 50% of sintering, which could support the lump price in the short run. The seaborne float iron ore slightly corrected after seeing PBF and NMHG float premiums recover to $1.3 and $2.55 from no premium. High silicon Brazil iron ores, including IOC6, consistently gained market interest, with expectations of a Q4 restriction in China. The alumina difference for both bands fell by $1.20 and $0.50, respectively. At the same time, the silicon difference decreased by $0.50. PBF was traded on November index + $1.8. JMBF was traded on AM November Index—$3.7. With all major brand float basis improving.



SGX—DCE Jan23 difference tested extreme levels at $2 - $3. The spread was expected to recover to $10 or above in Q4 if mill margins were recovered or the Chinese yuan appreciated slightly better than the U.S. dollar.

Data Sources: Bloomberg, Platts, Fastmarket, FIS

Market Review (Continued)

Virtual steel mill margins fell from 166 yuan/ton to 136 yuan/ton; the 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, the steel margin is also expected to recover by then.

Over 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 Q4, the recovery of steel margins, as long as the upcoming production curbs in China go ahead.

Chinese iron ore port inventories dropped massively by 10.74 million tons to 129.62 million tons over the past five weeks. Major steel mill maintenance is expected to recover in late October. However, the nine-month-high daily pig iron production at 2.4 million tons indicated that the overall demand was resilient. The highest number in the year was 2.45 million tons in January. Mysteel's' analysis of blast furnace operation rates in 247 Chinese steel mills was at 83.50%, up 0.69% on the week and 5.98% on the year. Chinese six northern port arrivals last week were at 12.656 million tons, up 2.206 million tons on the week. Australia and Brazil deliveries were at 21.87 million tons, down 1.808 million tons. The decrease in deliveries to China and increase in arrivals were both due to the long holiday delaying operations.

Neutral to Bullish

Downstream/Policies/Industry News:

The global September Manufacturing PMI reached 50.3%, down 0.6% on the month, creating four consecutive drops and the lowest number from July 2020. Europe and U.S. became the main drag to this number.

Last week, the Europe Council adopted its eight sanctions package against Russia to include semi-finished steel. However, EC set a quota to allow some types of flat steel exports to the EU in a two-year "transition period". A Transnet strike in Kumba, the biggest iron ore complex in South Africa, was estimated to affect export sales by 120,000mt/day.

China governors strengthened the guarantee on house deliveries in multiple provinces and avoided the banks' and developers' default to help the soft-landing on the biggest investment market.

Global Steel Market:

Platts North European HRC Index slipped from €760/mt in early September to €710/mt in early October. The current workable price for HRC in Northern Europe ranged from €750 – €780. European Service Centre reported an indicative level for S235 grade HRC at €750/mt, €10 - €20 lower than in late September.

Chinese SS400 HRC export price at $570 FOB and above for Northern mills. The index was fixed because of the Golden Week holiday. Japanese HRC offer at $600/mt CFR. Korean offer at $590. Major Asian sources were covering December laycans. Chinese sources have become competitive in pricing.

Turkish HMS 1/2 80:20 heavy scrap index significantly improved from $365 to $372 during the report week. Benelux-origin cargo traded at $367.5/mt CFR. However, the cost surge in October and September was to fit the $25 - $30 cost increase from October. A Turkey-based trading source cited an indicative tradable level for premium HMS 1/2 80:20 at $367 - $370/mt CFR. Turkish steel maker Kardemir planned to increase the sales target to 232,000 mt in Q4; ex-work S235 price was set at $610/mt.

Neutral to Bullish

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

Market Review (Continued)

Chinese Steel Market:

As expected from the previous report, the Shanghai domestic 25mm rebar rebounded from 3980 yuan/ton to 4090 yuan/ton. Daily construction steel trade volume recovered from 150,000 to 190,000 from mid-September to early October, indicating the delayed demand finally returned. Steel mills indicated previous order books could at least support the market until late October. Northern mills' flat steel became tight in both domestic supply and export.

Chinese houses soft-landing policies and quick actions encouraged the positive sentiment on fixed investment and supported industrial materials, including steel, cement, glass, copper, and coal.

Weekly apparent consumption sharply dropped from 10.45 million tons to 8.75 million tons because of the holiday impact. Thus, the number is expected to recover in the following week.

Neutral to Bullish

Coal Market:

In the coal paper market week-on-week there has been little to no change on the front month, with Oct printing at 272.00 and Nov up 2.00. However we have seen continued price support for Q1-23, which is up 2.50 WoW.

The PLV FOB Australia coking coal index increased by $4 - $5 per week from early September and fell in our expectation from previous reports following a neutral to a bullish route. The index improved from $240 to $283.5 during the period. The current increase was due to an 80,000 mt Goonyella PMV trade reported last Friday at $278. Following a 35,000mt PLV trade from Peak at $285. Some sources attributed the rise to the Canadian workers' actions causing operational disruption.

Some Chinese cokeries were planning the second round of price increases by 100 yuan/ton because of the new pandemic spread after Golden Week and some coke miner closures, which tightened the supply market. However, mills prefer to resist the current coke prices due to fast evaporating margins before the national conference in mid-October.

Neutral to Bullish

Sources: Argus, IHS Commodities at Sea Service, FIS

Technical view of the Ferrous Markets:

Iron Ore

November Futures – No report last week due to the Chinese holidays. The futures did create a new low on the roll into November, creating a positive divergence with the RSI. Price moved higher but with minimal trading volume making intraday TA less reliable. The upside move means we are testing the EMA resistance band with the futures unchanged on the day at 96.30. Having traded higher in the Asian day session, the technical remains bearish, below USD 100.18, and neutral above. We have broken intraday trend resistance warning buyside momentum is increasing; upside moves above USD 104.30 will mean the technical is bullish. The downside move below USD 93.00 does warn of further weakness. However, we have a positive divergence in play, meaning this technical is conflicting. This is not helped by the onshore market being closed last week.

Steel - US HRC

November Futures – We noted on the last report that the downside move had pushed the RSI to a new low, suggesting that upside moves should be considered countertrends. Meanwhile, upside moves that failed at or below USD 819 would leave the futures vulnerable to further tests to the downside; above this level, the technical would have a neutral bias, whilst a move below USD 734 would target the USD 701 and 673 levels. The futures traded to a high of USD 781 before trading to a low of USD 713. The trend remains bearish; upside moves that fail at or below USD 757 will leave the futures vulnerable to further tests to the downside; above this level, the technical will have a neutral bias. Elliott wave analysis suggests that upside moves should still be considered countertrends.

Coking Coal

November Futures - Technically bearish last week, with momentum suggesting the futures were looking vulnerable to further tests to the downside. Price has consolidated over the previous two weeks with little directional movement. We maintain our view that upside moves that fail at or below USD 342 will leave the futures vulnerable to further tests to the downside; above this level, the technical will have a neutral bias. Likewise, downside moves below USD 247 will leave the USD 218 fractal low vulnerable. Technically bearish the RSI is above 50 (54) at this point, meaning the overbought stochastic is less relevant; however, if the RSI moves below 50, then momentum would imply the futures are vulnerable to a test to the downside.

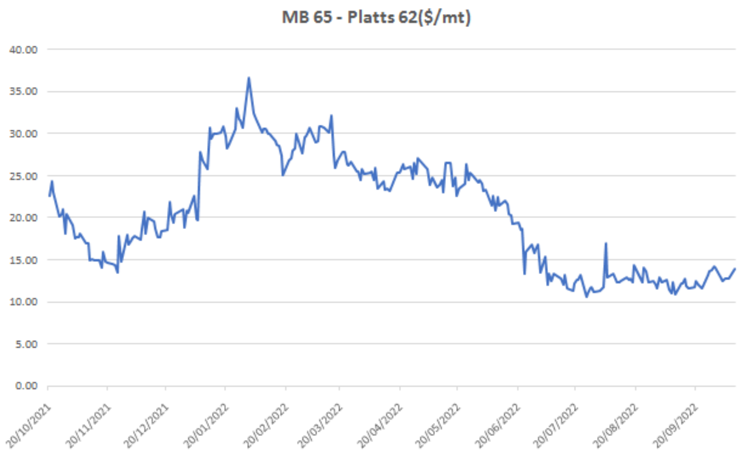
Iron Ore Offshore November 22 Morning Technical Comment – 240 Min Chart

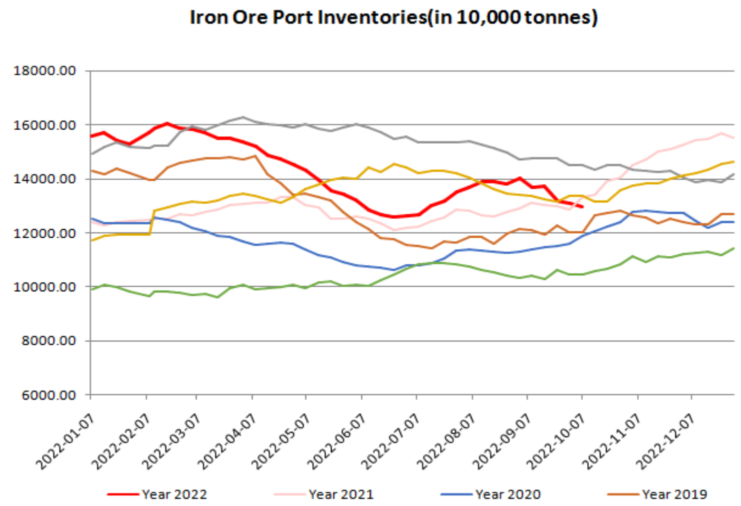
Chart source: Bloomberg

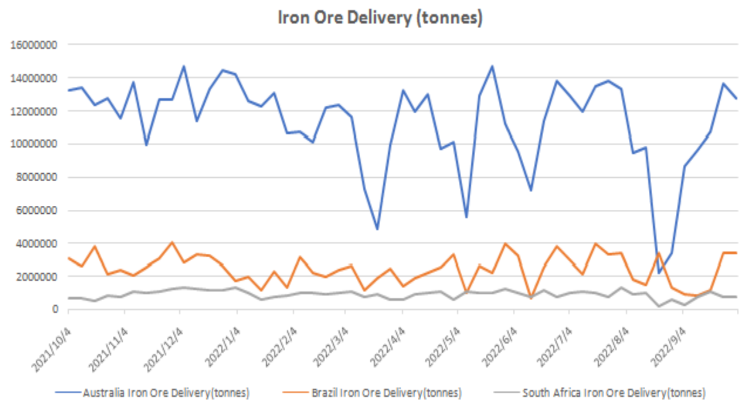
Sources: Argus, IHS Commodities at Sea Service, FIS

Iron Ore

	Last	Previous	% Change
Platts 62% Fe (Dollar/mt)	98.75	95.3	**3.62%**
MB 65% Fe (Dollar/mt)	112.7	108	**4.35%**
Capesize 5TC Index (Dollar/day)	19418	16924	**14.74%**
C3 Tubarao to Qingdao (Dollar/day)	24.4	23.106	**5.60%**
C5 West Australia to Qingdao (Dollar/day)	9.315	8.355	**11.49%**
Billet Spot Ex-Works Tangshan (Yuan/mt)	3710	3680	**0.82%**
SGX Front Month (Dollar/mt)	94.07	95.46	**-1.46%**
DCE Major Month (Yuan/mt)	723.5	721	**0.35%**
China Port Inventory Unit (10,000mt)	12,961.85	13,075.64	**-0.87%**
Australia Iron Ore Weekly Export (10,000mt)	1,277.90	1,360.60	**-6.08%**
Brazil Iron Ore Weekly Export (10,000mt)	339.80	340.30	**-0.15%**







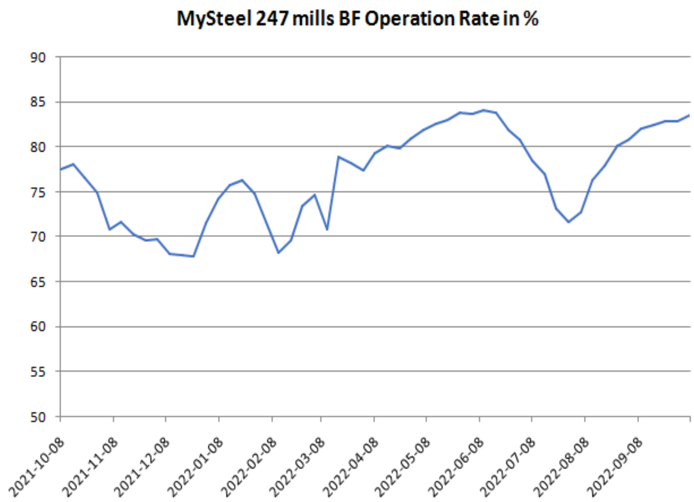
Iron Ore Key Points

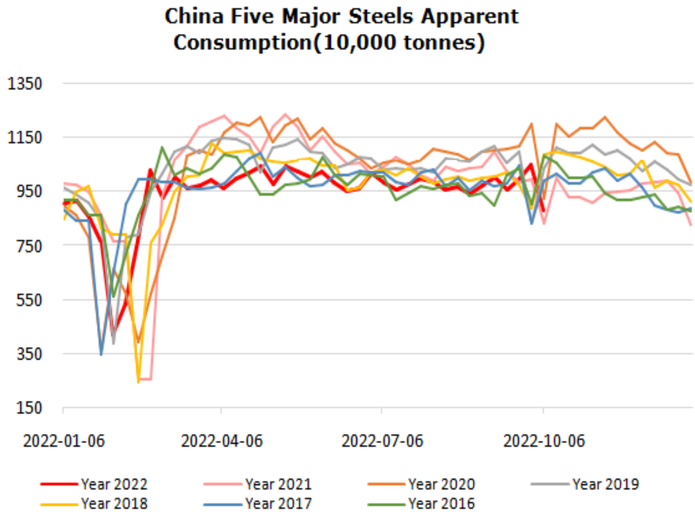
- Iron ore port inventories in the short-run stabilised, supported by the increasing shipments however resisted by strong consumption.
- The 65%/62% iron ore spread maintained its weak position at $12 - $14, a position it's been at since June with the mixed outlook on steel margins.
- Iron ore deliveries from Australia and Brazil were 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.
- Pig iron production reached 2.4 million tons/day in major Chinese steel mills, approaching the yearly high of 2.45 million tons.

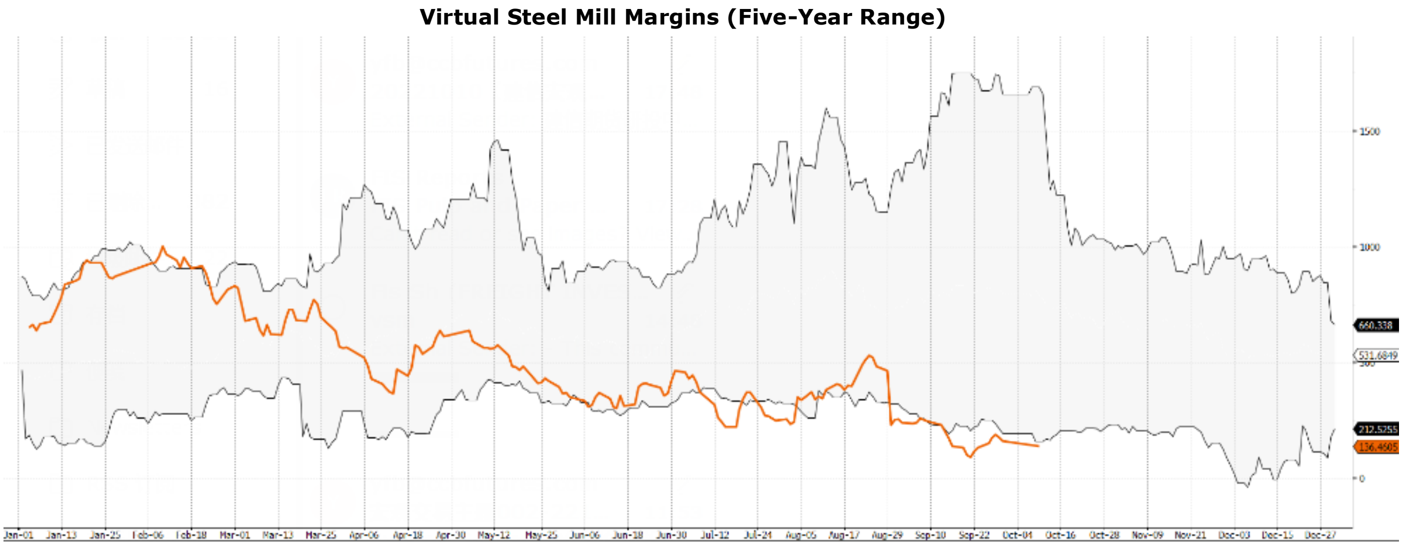
Data Sources: Platts, Fastmarkets, MySteel, Bloomberg, FIS

Steel

	Last	Previous	% Change
US HRC Front Month (Dollar/mt)	748	776	-3.61%
LME Rebar Front Month (Dollar/mt)	728	722	0.83%
SHFE Rebar Major Month (Yuan/mt)	3823	3768	1.46%
China Hot Rolled Coil (Yuan/mt)	4030	3999	0.78%
Vitural Steel Mills Margin(Yuan/mt)	132	166	-20.48%
China Five Major Steel Inventories Unit (10,000 mt)	2489.64	2371.33	4.99%
Global Crude Steel Production Unit (1,000 mt)	83900	81400	3.07%
World Steel Association Steel Production Unit(1,000 mt)	150,600	149,300	0.87%





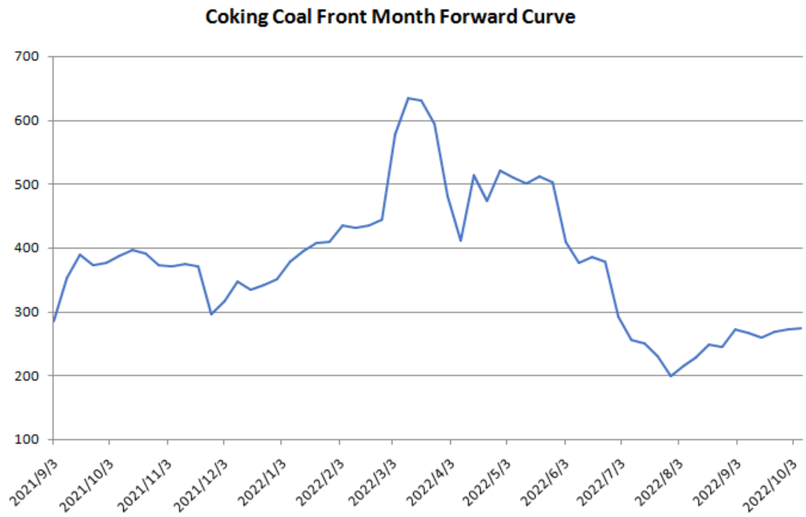


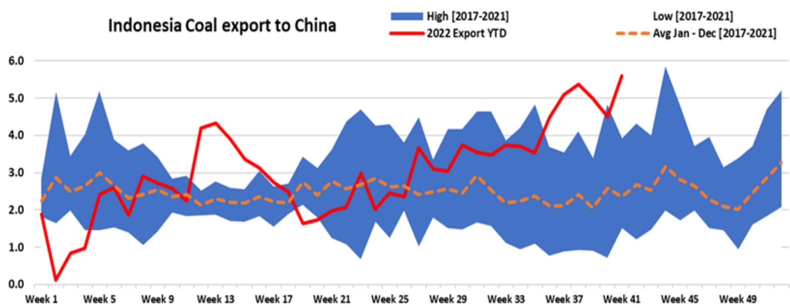
Data Sources: Bloomberg, MySteel, FIS

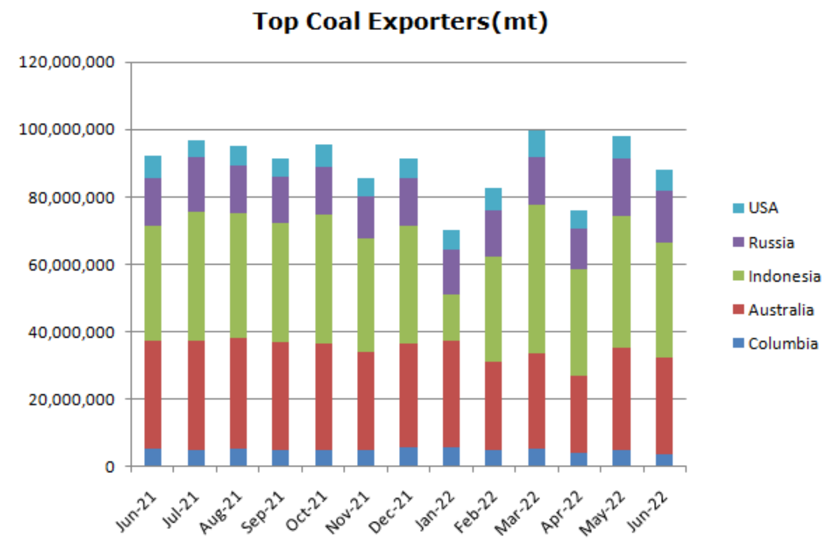
- Virtual steel mill margins remained low from 120 yuan/ton to 170 yuan/ton during the last three weeks because of the cautious purchase of steel in China. However, pig iron production was peaking.
- The weekly five types of steel consumption suddenly dropped from 10.45 million tons to 8.75 million tons because of the holiday effect. It is expected to recover in 1-2 weeks.

Coking Coal

	Last	Previous	% Change
TSI FOB Premium Hard Coking Coal (Dollar/mt)	283.5	270.5	**4.81%**
Coking Coal Front Month (Dollar/mt)	274	272.33	**0.61%**
DCE CC Major Month (Yuan/mt)	2106	2101.5	**0.21%**
Top Six Coal Exporter Weekly Shipment	19.40	22.70	**-14.54%**
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 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.

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

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