Ferrous Weekly Report

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

⇒ **Rebar 25mm Shanghai** short-run **Neutral to Bullish**. The recent price movement down to overselling due to a weak physical market. However, downstream orders may improve with recommencing of construction projects.

⇒ **U.S. HRC Front Month** short-run **Neutral**. 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**. The weakening steel margin in Asia may squeeze out some demand for premium coking coals.

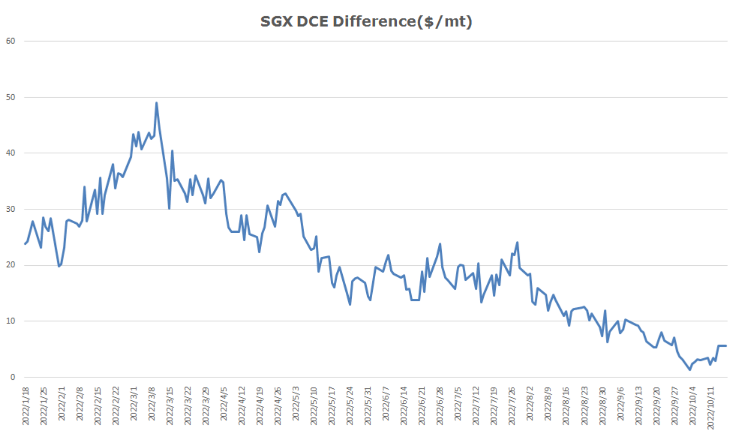
Prices Movement	17-Oct	10-Oct	Changes %	Sentiment	
Iron Ore Fe62% CFR China($/MT)	93.75	98.75	5.06%	Neutral to Bullish	↗
Rebar 25mm Shanghai (Yuan/MT)	3930.0	4090.0	3.91%	Neutral to Bullish	↗
U.S. HRC Front Month ($/MT)	755.0	750.0	0.67%	Neutral	-
Hard Coking Coal FOB Australia($/MT)	286.5	283.5	1.06%	Neutral	-

Market Review:

Iron ore Market :

The iron ore 62% index dropped $5 since the last report with raw material restocking in Chinese steel mills ending. Tangshan production restrictions were lifted, supporting iron ore usage. The size of the iron ore drop was more than expected, even though there were no new fundamental changes during the week. The decrease was partially linked to the risk preference of the weak macroeconomic outlook. Chinese political conferences weighed the importance of the housing sector and investments, which encouraged the sentiment on the secondary market in ferrous. The Ukraine-Russia tensions, U.S. interest rate hike, and European winter energy shortage are still mid-run drags on the industrial sector. Overall, the market is expecting a recovery after a short -term overselling.

Seaborne iron ore was temporarily removed from the currency impact as non-dollar currencies seemed to stabilise. The import margin for PBF seaborne versus portside prices ranged from −50 to +50 yuan since late May 2022. SGX—DCE difference maintained below $5 for the last three weeks. The virtual steel margin was 120-125 yuan, maintaining a seasonal low range. The thin trade and production margin kept physical traders and mills from the regular purchases of premium brands. Cost-saving has to become the major strategy throughout the year.



Trades became more positive on the floating base market with cautious growth on the back of a correction in the fixed market. The seaborne floating iron ore slightly corrected after seeing PBF premium increase from $1.3 to $1.85. Discount float premiums, including JMBF and Yandi, improved by $0.8 - $1 in the last 3-5 days. High silicon Brazil iron ores, including IOC6, gained market interest consistently, expecting Q4 restrictions in China.

Rio Tinto Q3 produced 84.3 million tons of iron ore, up 7% from Q2. The first three-quarters of production totalled 234.7 million tons, unchanged on the year. The delivery target was 320 - 335 million tons for FY2022, which was unchanged from the last estimation. Vale Q3 produced 89.7 million tons of iron ore, higher than analysts expected 87.2 million tons.

Data Sources: Bloomberg, Platts, Fastmarket, FIS

Market Review (Continued)

Over the last four months, the MB65—P62 spread has been stuck in the $12 to $14 range. However, the difference could recover to $18 - $19 in Q4 as long as the upcoming production curbs in China go ahead.

The continuous production cut and inconsistent environment protection actions during the Chinese national congress boosted the lump premium from $0.1 dmtu mid-September to $0.2475 dmtu early this week. Market participants believe there will be follow-up growth as the physical supply was still tight in the last 2-3 weeks.

Chinese iron ore port inventories stabilised at around 129 – 130 million tons in the past three weeks after a sharp drop in August and September. 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 247 mills blast furnace operation rate is 82.62%, down 0.88% on the week and up 8.38% on the year. The first drop in the operation rate would be an early signal that the utilisation and operation rates are close to the theoretical high. Chinese six northern port arrivals last week were at 9.64 million tons, down 3.01 million tons on the week.

Neutral to Bullish

Downstream/Policies/Industry News:

The U.S. FedWatch Tool statistics indicated that the probability of a 75-bps interest rate hike in November had reached 94.7%. The total 150 bps hike probability for November and December reached 68%. However, the FedWatch Tools indicated that the peak level for the U.S. central bank interest rates would be 4.95% in May 2023, and the rate would decrease to 4.5% by the end of 2023.

South Africa's Ironveld is on track to achieve its first production in Q1 2023 with high-purity iron, vanadium, and titanium. South African bulk mineral exporters are losing $44.7/day because of the ongoing Transnet strike, as they are unable to load 357,000 mt/day bulk minerals, and this has damaged the fragile economy in South Africa. China's third largest steel group, Shagang has reached an agreement with Fosun Group to purchase a majority stake in listed big steel maker Nanjing Iron & Steel. Japan expected to produce 22.55 million mt crude steel in Q4, down 6.8% on the year while the last quarter demand was estimated to drop 3.8% on the year.

Global Steel Market:

Platts North European HRC Index slipped from €772/mt in early September to €642/mt on Oct 17th. Northern mills were selling HRC at as low as €650 to Italy and Spain with huge volumes, which dragged the index down. The mills have to look to the overseas market due to quiet demand in the domestic environment. However, many export opportunities have been fined by heavy anti-dumping duties. Distributors indicated high stock issues and decided not to pile up further on stocks. Overall, expecting a neutral sentiment.

Chinese SS400 HRC was offered at $550/mt from northern Chinese mills. Traders lowered offers to $550/mt CFR Vietnam. Vietnamese mill Formosa Ha Tinh cut December shipment monthly offers by $593 - 597/mt CIF Vietnam for SS400 and SAE1006 grade coils. The offers were still not as competitive as China and Japan.

Turkish HMS 1/2 80:20 heavy scrap index remained between $365 - $375 over the past three weeks. The Baltic origin HMS 1/2 80:20 at $365/mt CFR. The local collectors indicated a coming production cut in the next few months because of the high energy cost.

Neutral

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

Market Review (Continued)

Chinese Steel Market:

During the past week, Shanghai's domestic 25mm rebar fell from 4090 yuan/ton to 3930 yuan/ton, a similar level to a month ago. Daily construction steel trade volumes narrowed below 150,000mt again and became sensitive to the macro environment. Steel mills insist that the demand market would come in late instead of a sharp decrease, as stable orders cover Q4. Moreover, the five major steel types apparent consumption increased from 8.75 to 9.95 million tons last week. The number was stable for half a year, excluding the holiday time. Overall, Chinese rebar is currently oversold.

Some analysts believed that the decrease in the January23 contract in SHFE was due to the weaker-than-expected delivery price in the Oct22 contract, which lowered the benchmark value of the entire curve before next March by 100 yuan/ton.

Overall, China's soft landing in the housing market and quick actions encouraged the positive sentiment on fixed investment and supported the industrial materials, including steel, cement, glass, copper, and coal. Moreover, infrastructure investment was expanding its margin impact on the fixed-investment sector.

Neutral to Bullish

Coal Market:

Last week's futures market had a couple of days without physical markets, but by week end bids moved into this space today with both PLV and PMV bid for Nov and Dec. Premium mid vol Goonyella was bid up to $285 and in turn Nov futures traded at $293 and Dec at $295 with bids close to these levels following a move up in the index. Cal 22 rallied from the early week lows to trade at $288. This appears to be sentiment driven with thermal markets remaining strong and Australian CC seemingly being the only high quality metallurgical product in the international market. Weak Chinese demand and a big drop in international steel prices have, so far, been unable to dampen this sentiment and we are poised to test the $300 level again this week.

The PLV FOB Australia coking coal index increased steadily at $4 - $5 per week from early September and fell as expected following a neutral to a bullish route. The index improved from $240 to $286.5 during the period. The weekly improvement on the index was based on a Goonyella PMV bid revised higher from $283 to $285. Seaborne liquidity continued to draw thin last week and early this week. Overall, the market has become neutral as no fundamental signals appeared.

The PLV CFR China market saw an offer at $340/mt CFR China for U.S. low-vol Oak Grove with December laycan.

Chinese met coke prices strengthened amid possible tightness in the Shanxi area. However, DCE futures still saw a significant drop in coking coal and coke for the last two training days. The cokeries were facing production cuts during the party's meeting this week. The market sentiment supported the second round of 100 yuan/ton uptick on physical coke.

Neutral

Sources: Argus, IHS Commodities at Sea Service, FIS

Technical view of the Ferrous Markets:

Iron Ore

November Futures – The futures have traded below the USD 92.00 fractal low, meaning key resistance levels have now dropped. Upside moves that fail at or below USD 95.31 will leave the futures vulnerable to further tests to the downside; above this level, the technical will have a neutral bias, whilst above USD 97.30, the daily technical is bullish. The new low has created a positive divergence on both the daily and intraday RSI, not a buy signal; it does warn that we have the potential to see a momentum slow down soon. From a technical perspective, although bearish, the futures are not considered a technical sell at his point.

Steel - US HRC

November Futures – Having previously stated that downside moves below USD 734 will target the USD 701 and USD 673 levels, we have witnessed further moves to the downside. Price has now traded to a low of USD 680 before buying support in the last three sessions; we are now trading at USD 717 as of 17/10. Technically bearish, the futures are now moving higher on the back of positive divergence; upside moves that fail at or below USD 795 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 the upside moves should be considered a countertrend.

Coking Coal

November Futures – Technically bearish last week with upside moves that failed at or below USD 342, vulnerable to further tests to the downside. Having consolidated for two weeks, the futures have held the 8-21 period EMA's, supported by the RSI above 50, resulting in the futures moving higher. However, we remain in what looks to be an upside countertrend move at this point. If we trade above USD 315, we target the USD 342 resistance; above this level, the technical has a neutral bias. The longer-term trend looks to be still bearish, but momentum is currently to the buyside; downside moves below USD 271 will warn that the USD 247 and USD 218 support levels are vulnerable.

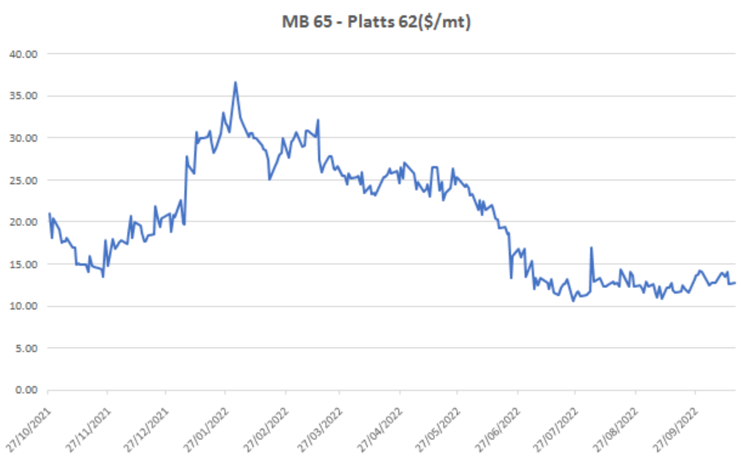
Iron Ore Offshore November 22 Morning Technical Comment – 240 Min Chart

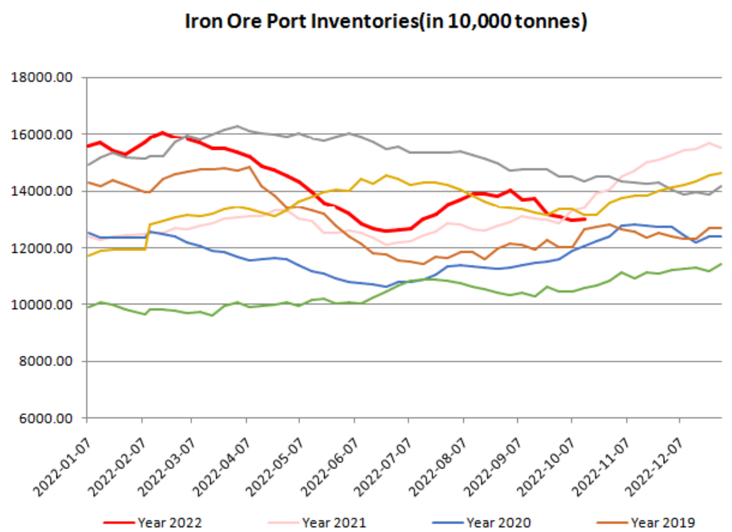
Chart source: Bloomberg

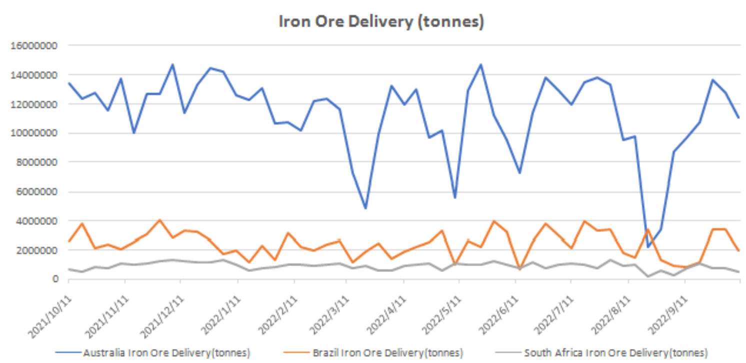
Sources: Argus, IHS Commodities at Sea Service, FIS

Iron Ore

	Last	Previous	% Change
Platts 62% Fe (Dollar/mt)	93.75	98.75	-5.06%
MB 65% Fe (Dollar/mt)	106.5	112.7	-5.50%
Capesize 5TC Index (Dollar/day)	18133	19418	-6.62%
C3 Tubarao to Qingdao (Dollar/day)	22.944	24.4	-5.97%
C5 West Australia to Qingdao (Dollar/day)	9.325	9.315	0.11%
Billet Spot Ex-Works Tangshan (Yuan/mt)	3650	3710	-1.62%
SGX Front Month (Dollar/mt)	93.77	94.07	-0.32%
DCE Major Month (Yuan/mt)	700.5	723.5	-3.18%
China Port Inventory Unit (10,000mt)	12,992.70	12,961.85	0.24%
Australia Iron Ore Weekly Export (10,000mt)	1,104.10	1,277.90	-13.60%
Brazil Iron Ore Weekly Export (10,000mt)	201.20	339.80	-40.79%







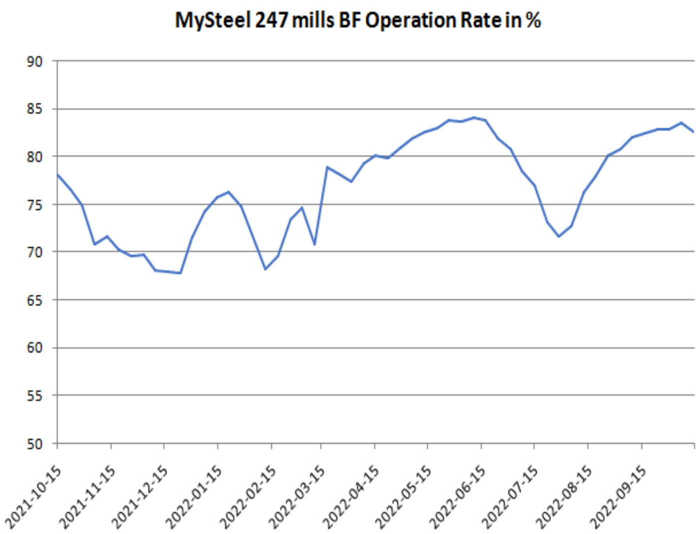
Iron Ore Key Points

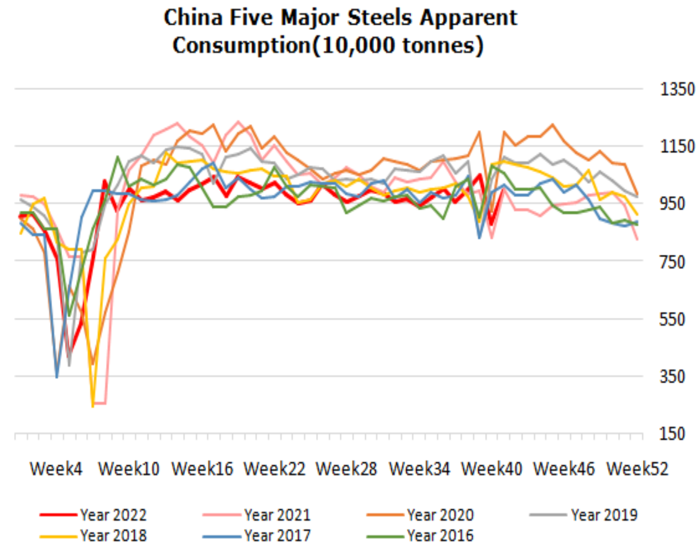
- Iron ore port inventories in the short-run stabilised, supported by the increasing shipments however resisted by strong consumption.
- The 65% and 62% iron ore maintained its weak position at $12 - $14, a position it's been at since June with the mixed outlook on steel margins.
- Pig iron production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

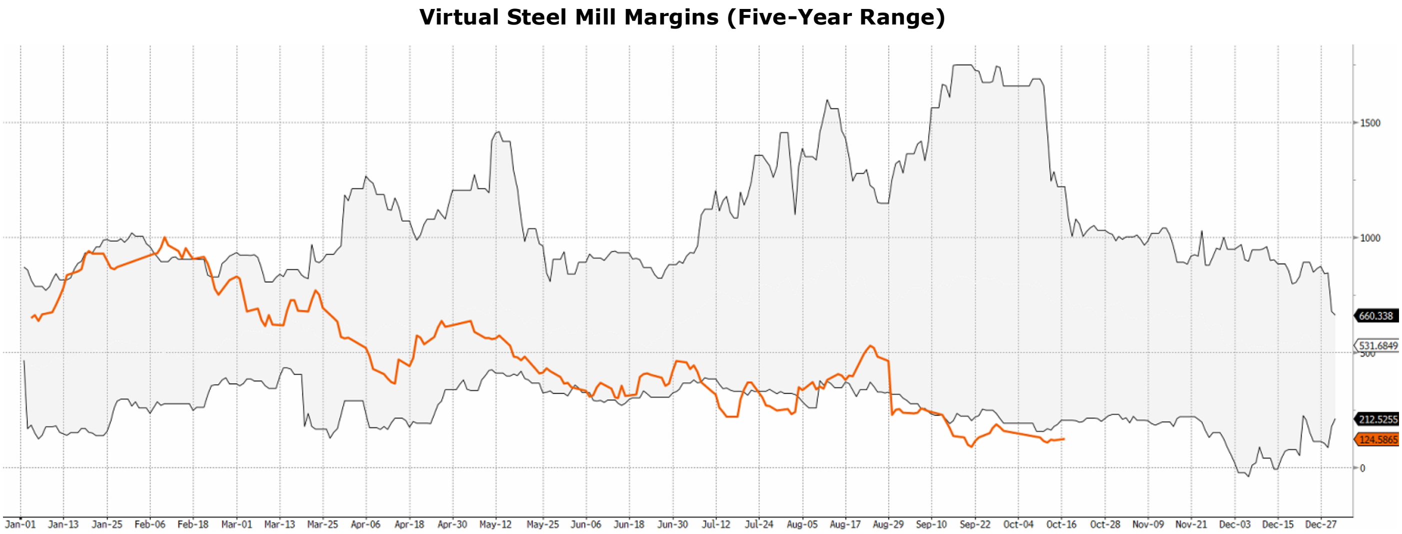
Data Sources: Platts, Fastmarkets, MySteel, Bloomberg, FIS

Steel

	Last	Previous	% Change
US HRC Front Month (Dollar/mt)	751	748	0.40%
LME Rebar Front Month (Dollar/mt)	728	722	0.83%
SHFE Rebar Major Month (Yuan/mt)	3739	3823	-2.20%
China Hot Rolled Coil (Yuan/mt)	3952	4030	-1.94%
Vitural Steel Mills Margin(Yuan/mt)	124	132	-6.06%
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%





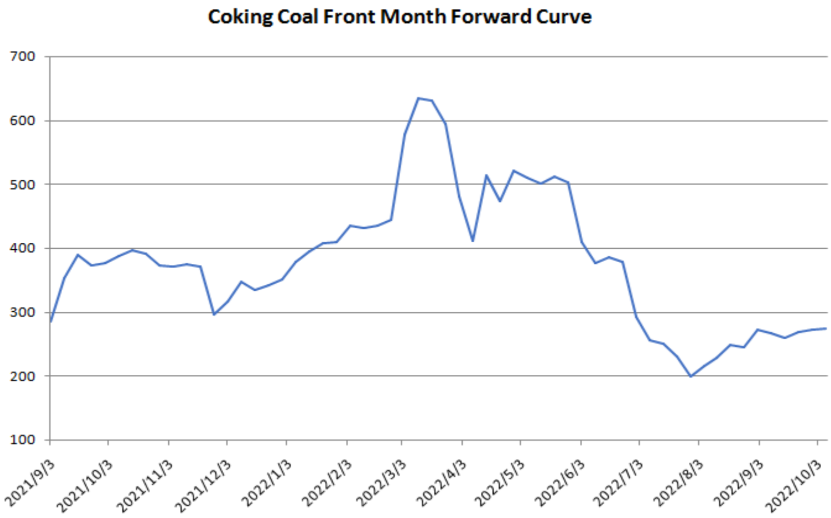


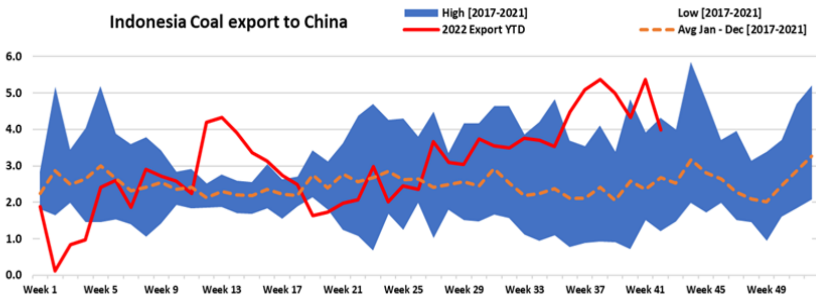
Data Sources: Bloomberg, MySteel, FIS

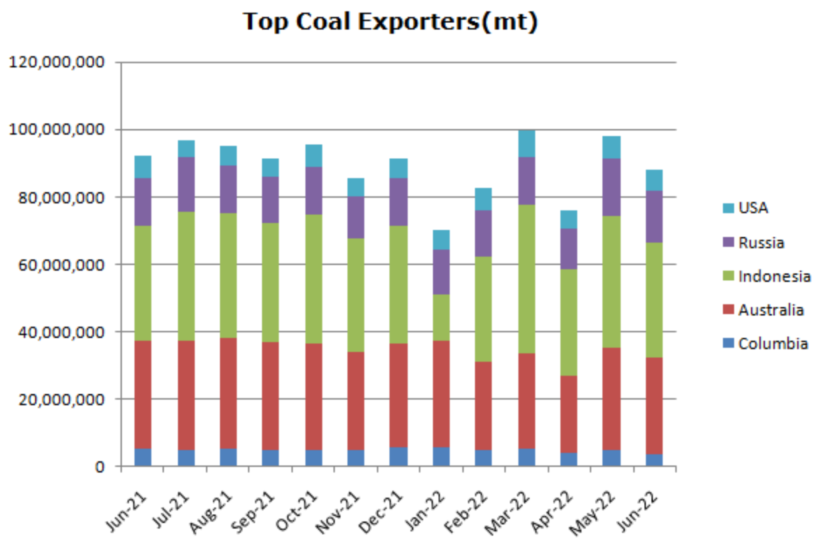
- Virtual steel mill margins remained at a similar level of around 120 yuan/ton for the last two weeks because of the cautious purchase of steel in China. However, pig iron production was peaking.
- The weekly five types of steel consumption recovered to 9.95 million tons average level, filling the gap created because of golden weeks. The consumption level was generally indicating a re-silient demand market.

Coking Coal

	Last	Previous	% Change
TSI FOB Premium Hard Coking Coal (Dollar/mt)	286.75	283.5	**1.15%**
Coking Coal Front Month (Dollar/mt)	284.75	274	**3.92%**
DCE CC Major Month (Yuan/mt)	2134.5	2106	**1.35%**
Top Six Coal Exporter Weekly Shipment	17.93	22.15	**-19.05%**
China Custom total CC Import Unit mt	6,406,036	6,118,019	**4.71%**







Coal Key Points

- The weakening steel margins in Asian countries and the production cut in European countries may decrease the affordability of premium coal brands. The mills are looking for cost-effective blends.
- On the other side, wet seasons in Australia and strikes in Canada both add concerns on the supply side.
- Indonesia's coal exports to China peaked at a five-year seasonal high because plants had almost finished the quotas of domestic industry 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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