FIS

Ferrous Weekly Report

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⇒ **Iron ore Fe62% CFR China:** short-run **Neutral to Bullish**. Iron ore expected to recover from being oversold, driven by the overall investment preference in the secondary market, supported by resilient high pig iron production in China.

⇒ **Rebar 25mm Shanghai** short-run **Neutral to Bullish**. The short-run movement was probably oversold due to the weak physical market, however downstream orders improved with worksites reopening.

⇒ **U.S. HRC Front Month** short-run **Neutral**. Steel was supported by material and energy costs, however resisted by the weak manufacturing demand.

⇒ **Hard Coking Coal FOB Australia** short-run **Neutral**. The market returned to a quiet mode with smaller size inquires in the market. However a $4-5 drop in the index could suddenly spark some interest.

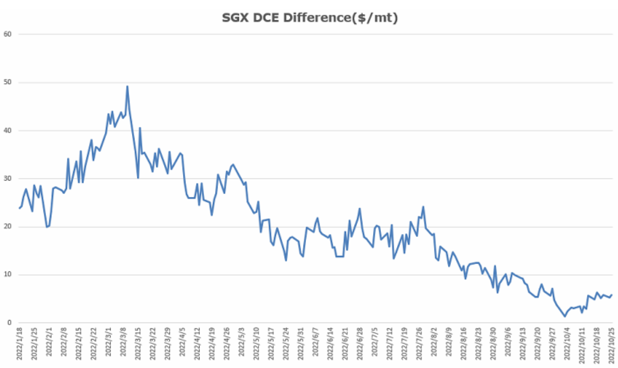
Prices Movement	24-Oct	17-Oct	Changes %	Sentiment	
Iron Ore Fe62% CFR China($/MT)	93.00	93.75	0.8%	Neutral to Bullish	↗
Rebar 25mm Shanghai (Yuan/MT)	3880.0	3930.0	1.27%	Neutral to Bullish	↗
U.S. HRC Front Month ($/MT)	757.0	755.0	0.26%	Neutral	-
Hard Coking Coal FOB Australia($/MT)	299.0	286.5	4.36%	Neutral	-

Market Review:

Iron ore Market :

The iron ore 62% index remained flat around $93.00. Marginal iron ore demand reached a stable point given a flat daily pig iron production for the last three weeks. Market participants expected the number had reached its peak level for H2 2022. However, the recovery on downstream activities could stimulate the resilience of the price levels for raw materials in the following weeks, given the easing off of pandemic conditions. The massive loss on Chinese onshore and HK stock markets dragged down China-linked asset performances. Chinese offshore yuan CNH refreshed a 20-year-low. Overall, iron ore could see a recovery of some losses hit by macro factors during this week.

The import margin for PBF seaborne versus portside has ranged from −50 to +50 yuan since late May 2022. The SGX—DCE spread difference recovered from an extreme low of $2-3 to $5-6 as expected. The absolute number was still stuck at an historic low with the weak steel margins. Virtual steel margins were flat around 115-130 yuan for the last three weeks, maintaining at a seasonal low. The real Tangshan mills margin level was also struggling near the breakeven point of production, which kept physical traders and mills away from the premium brands of ores. Instead, cost-saving has become the major strategy for the rest of year.



The Premium of PBF dropped sharply from $2.35 to $1 during the last two weeks, because current market participants were sensitive about the premium given weak steel margins. On the other side, Chinese daily pig iron production approached a peak at 2.4 million tons. Unexpectedly, BHP reduced narrowed November MACF discount from 2.5% to 0%, JMBF was narrowed from 6.5% to 4.5%. Mills indicated that they would think material costs with the poor margin levels.

Lump premium fell back from H2 high at $0.2475dmtu to $0.158dmtu sharply, after trading before the golden week holiday and national congress. Market participants expected further drops in the following weeks because trade on the winter production cut prediction was too early at this point in time. Some northern mills indicated a potential mild cut during this winter since most of mills would maintain low stocks naturally with low steel margins.

Data Sources: Bloomberg, Platts, Fastmarket, FIS

Market Review (Continued)

The MB65—P62 spread is still stuck in the $12 to $14 range for most of the last four months. However the difference could recover to $18-19 in Q4 with the recovery of steel margins, as long as upcoming production curbs in China go ahead as planned.

The continuous production cut and inconsistent environment protection actions during The Chinese National Congress boosted lump premiums from $0.10 dmtu in mid-September to $0.2475 dmtu early this week. Market participants believed a subsequent growth period could happen as the physical supply was still tight for the next 2-3 weeks.

Chinese iron ore port inventories stablised around 129– 130 million tons in past three weeks after a sharp drop in August and September. Major steel mill maintenance is expected to dissipate in late October, however the nine-month-high daily pig iron production at 2.4 million tons indicated that overall demand was resilient. The highest number this year was 2.45 million tons in January. MySteel 247 mills blast furnace operation rate was 82.62%, down 0.88% on the week, and up 8.38% on the year. A drop in the operation rate would be an early signal that the utilisation and operation rates are close to a theoretical high. Six northern Chinese 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:

From January to September, Chinese national real estate development investment was 10.36 trillion yuan, down 8.0% on the year. Among them, the residential investment was 7855.6 billion yuan, down 7.5% on the year. Chinese offshore yuan CNH refreshed 20-year low at 7.33.

The biggest steel-maker in Europe, Germany registered a 15.4% year-on-year drop in September at 2.84 million tons. January to September fell 6% on the year to 28.2 million tons. EAFs produced steel fell sharply by 7.5% in the first nine months in 2022 because of the high electricity cost.

A deepsea recycled steel cargo is getting Chinese customs clearance, the first after the country lifted a ban on scrap imports and introduced new recycled steel import standards since 2021.

Chinese January to September crude steel production 780.83 million tons, down 4.3% on the year. Coal production 3320 million tons, up 11.2% on the year. Crude oil production 153.75 million tons, up 3% on the year. Natural gas production 160.1 billion cubic meter, up 5.4% on the year.

Global Steel Market:

Platts North European HRC Index slipped from €660/mt to €650/mt during the past week, however HRC ex-factory in mid-west U.S. slight rebounded from $831/st to $838/st. Italian sheet price continue to fall last week. Some workable levels indicated at €660/mt. Mills were suffering from a smaller order books. Thus, the price decrease failed to help growing the orders demand. Two Italian producers stopped production for 2-3 weeks in November. Asian import prices were around $620–640/mt CFR. Germany steel inventories decreased to healthier level, flat steel stocks dropped to 1.358 million tons, the lowest since December 2021.

Chinese SS400 HRC was offered at $550/mt from Chinese northern mills. The level last at least three weeks, which was still far from buyers acceptable levels. Offers were unchanged at $570/mt CFR Vietnam for SAE 1006 grade coil from China and Japan.

Turkish HMS 1/2 80:20 heavy scrap index maintained steady in the range $365-375 over past five weeks. Market was waiting for new deals. Different origins reported HMS 1/2 80:20 tradable levels at $360-367/mt CFR. The suppliers were firm on the price supported by high energy cost and limited sources after some mills closure or suspension. On the other side, weak demand was holding off the market interest, scrap was bought cautiously matching with the sales on rebar.

Neutral

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

Market Review (Continued)

Chinese Steel Market:

During the past week, Shanghai domestic 25mm rebar dropped 50 yuan/ton from 3930 yuan/ton to 3880 yuan/ton. Daily construction steel trade volume is expected to recover after the closure of national congress meeting as well as pandemic restrictions easing-off. The five typical steels consumption number recovered to three-week high at 10.2 million tons. Steel consumption actually ranged from 9.3-10.4 million tons during most of weeks from late February this year.

Arbitragers believed that the decrease on the January23 contract in SHFE was due to the weak than expected delivery price in Oct22 contract, which lowered the benchmark value of the entire curve before next March by 100 yuan/ton. In addition, Jan 23 and May 23 spread narrowed from 100 yuan to 80 yuan, approaching historical low area. The flat structure normally should last less than three months.

The bearish macro sentiment dragged steel performance because rebar futures were the biggest futures product listed in the Asian market. The return to fundamentals in next few weeks could see a partial recovery on the loss created by recent negative actions.

Neutral to Bullish

Coal Market:

The last week Coking Coal futures and physical both pushed on this week despite a weak global economic outlook and a downturn in thermal coal and iron ore futures markets. Week on week the move has been much bigger on the physical rather than the paper side, which suggests the sentiment that has so far driven futures higher is beginning to lose momentum. All eyes will be on physical now which has been chasing paper and now if very much in line. The main concerns are all about weather and the lack of alternative supply if Australian becomes unavailable. India has been able to source small amounts of Australian PLV to blend with cheaper alternative off spec coal. This has also added support. Elsewhere steel margins continue to come under pressure.

The PLV FOB Australia coking coal index improved to $299 last week, with a small size of PLV Peak Downs bid up lifted the market sentiment. However market stopped by then after seeing no real trade. FOB Australia index approached CFR China index again at $8 spread from $45 difference saw in mid September.

The wet season in eastern Australia raised concerns on the prompt delivery of cargoes. However, the delayed Chinese downstream also froze the seaborne demand market in China, given a negative flat steel margin and a tiny long steel margin currently. In addition, continuous strike by union workers in Australia became a big uncertainty on mines. The front-month November derivatives contract climbed to $310.25/mt, while December rose to $320/mt.

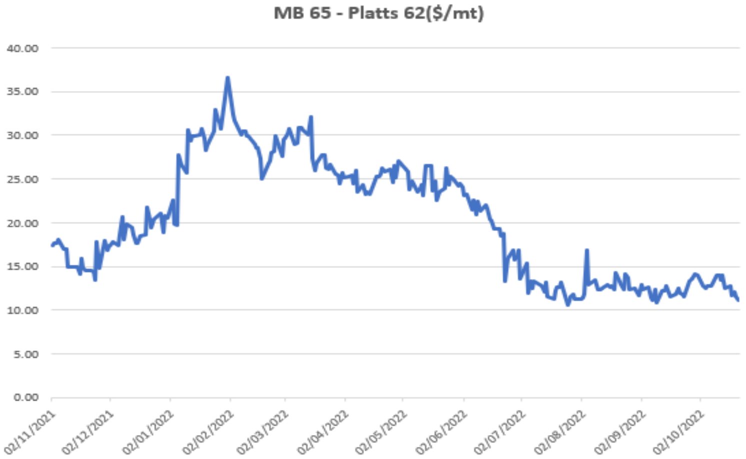
Higher shipping cost from U.S. to China depressed transaction value compared to FOB sales. Some index-linked U.S. low-vol coals for November and December loading were available. Monthly exports of thermal and metallurgical coal from the Hampton Roads terminals in Virginia dropped 8.5% on the month to 2.7 million short tons in September. Hampton Roads coal exports were 24.2 million short tons year-to-date, up11.6% from the 2021.

Neutral

Sources: Argus, IHS Commodities at Sea Service, FIS

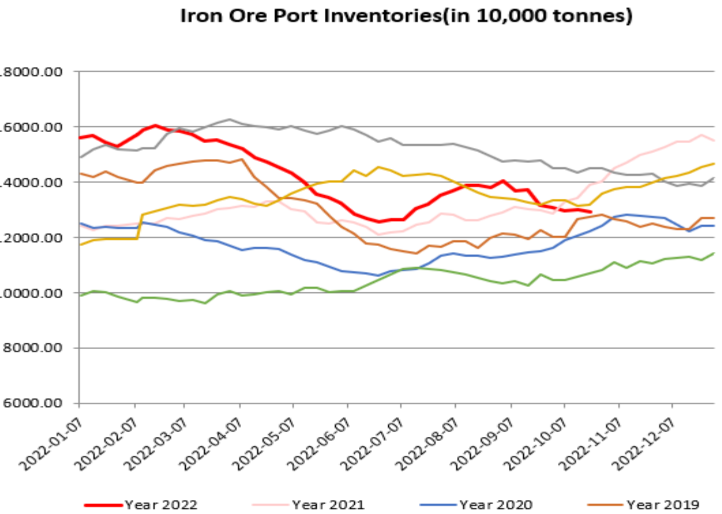
Iron Ore

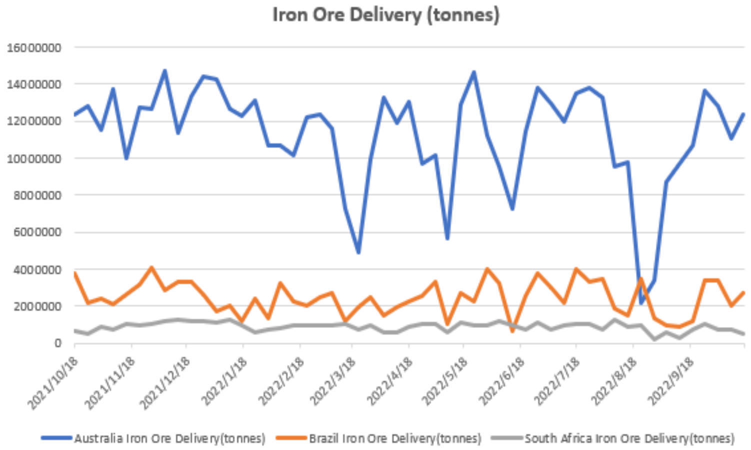
	Last	Previous	% Change
Platts 62% Fe (Dollar/mt)	93	96.15	-3.28%
MB 65% Fe (Dollar/mt)	104.1	108.7	-4.23%
Capesize 5TC Index (Dollar/day)	16883	18133	-6.89%
C3 Tubarao to Qingdao (Dollar/day)	21.061	22.944	-8.21%
C5 West Australia to Qingdao (Dollar/day)	9.42	9.325	1.02%
Billet Spot Ex-Works Tangshan (Yuan/mt)	3610	3650	-1.10%
SGX Front Month (Dollar/mt)	90.82	93.77	-3.15%
DCE Major Month (Yuan/mt)	678.5	700.5	-3.14%
China Port Inventory Unit (10,000mt)	12,912.76	12,992.70	-0.62%
Australia Iron Ore Weekly Export (10,000mt)	1,235.50	1,104.10	11.90%
Brazil Iron Ore Weekly Export (10,000mt)	272.70	201.20	35.54%



Iron Ore Key Points

- Iron ore port inventories in the short-run stabilised, supported by increasing shipments, however resisted by strong consumption.
- The 65% and 62% iron ore spread maintained at $12-14 difference for most of time since June, and with a mixed outlook for steel margins.
- The pig iron production reached 2.4 million tons/day in major Chinese steel mills, approaching the yearly-high at 2.45 million tons.

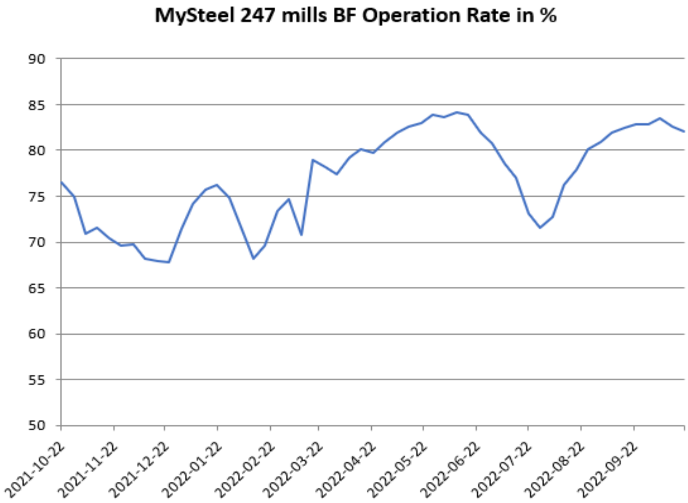


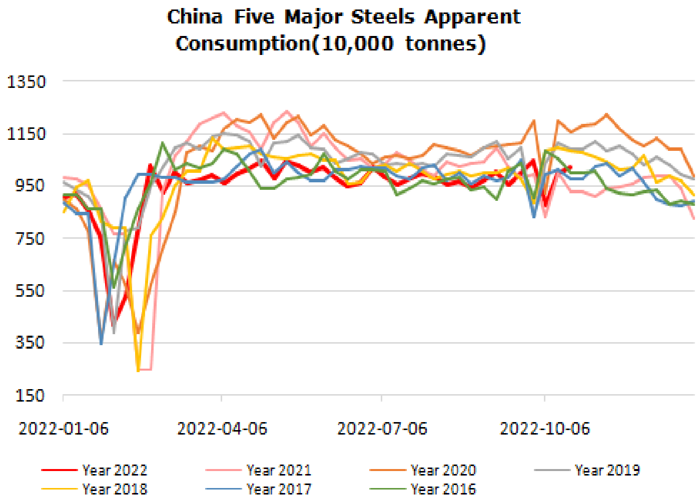


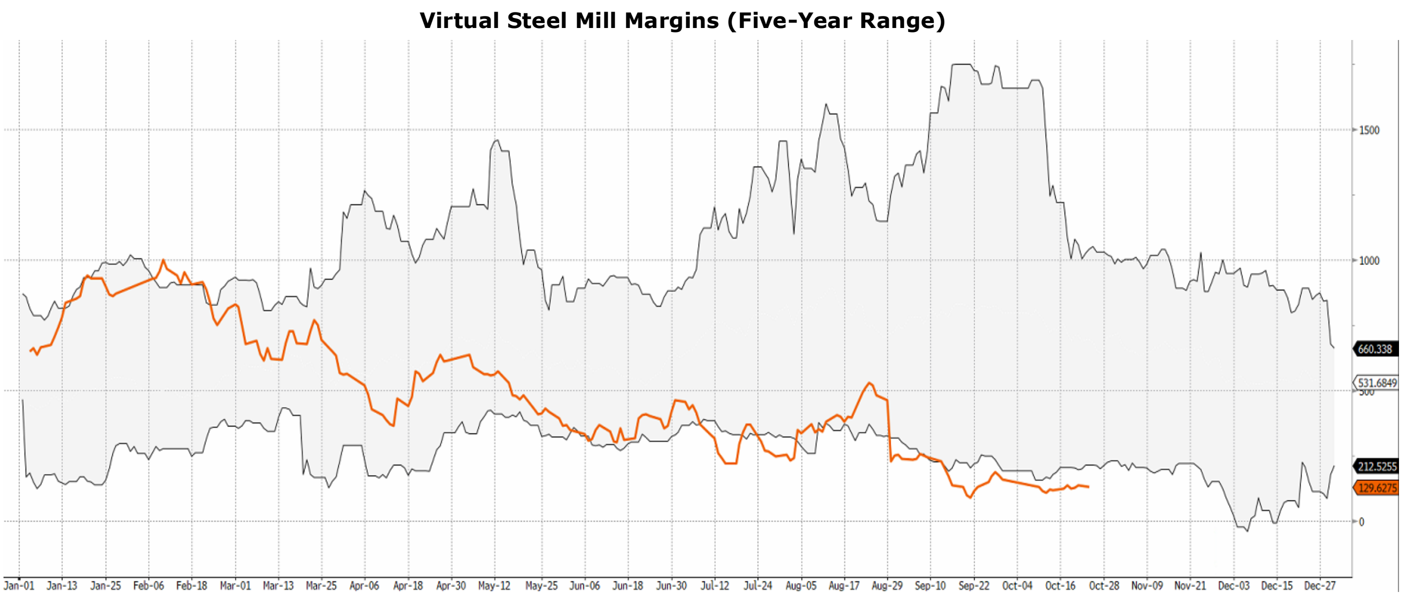
Data Sources: Platts, Fastmarkets, MySteel, Bloomberg, FIS

Steel

	Last	Previous	% Change
US HRC Front Month (Dollar/mt)	762	751	1.46%
LME Rebar Front Month (Dollar/mt)	728	722	0.83%
SHFE Rebar Major Month (Yuan/mt)	3634	3739	-2.81%
China Hot Rolled Coil (Yuan/mt)	3875	3952	-1.95%
Vitural Steel Mills Margin(Yuan/mt)	129	124	4.03%
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	150,600	149,300	0.87%





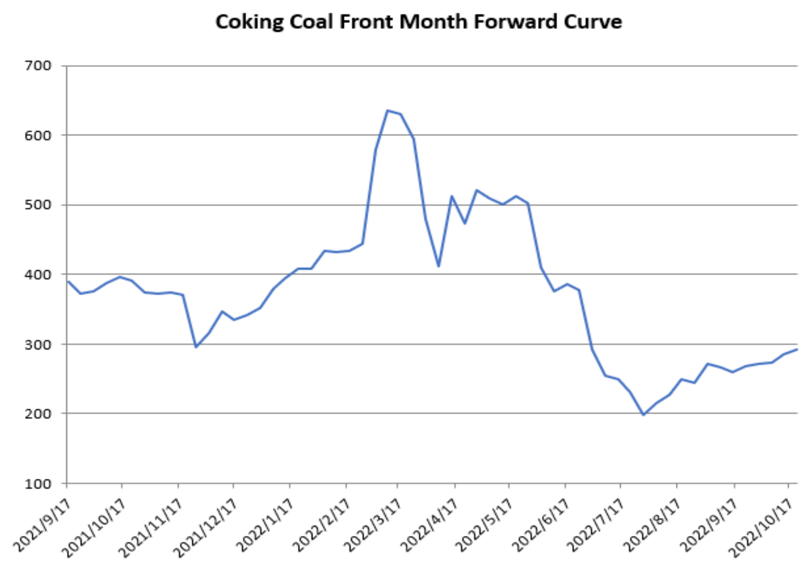


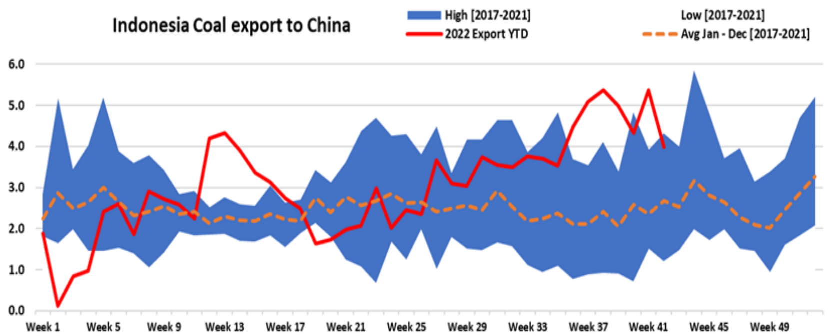
Data Sources: Bloomberg, MySteel, FIS

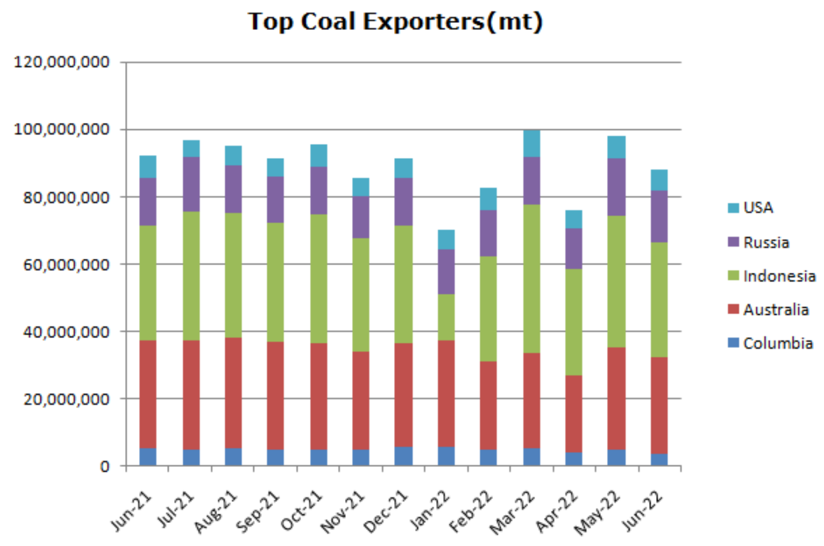
- Virtual steel mill margins remained similar level around 120 yuan/ton for current two weeks because the cautious purchase of steels in China, however pig iron production was peaking.
- The weekly five types of steel consumption recovered to 9.5-10 million tons average level, filling the gap created because of golden weeks. The consumption level was generally indicating a resilient demand market.

Coking Coal

	Last	Previous	% Change
TSI FOB Premium Hard Coking Coal (Dollar/mt)	299	286.75	4.27%
Coking Coal Front Month (Dollar/mt)	291.67	284.75	2.43%
DCE CC Major Month (Yuan/mt)	2037.5	2134.5	-4.54%
Top Six Coal Exporter Weekly Shipment	18.23	20.65	-11.72%
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 as well as the production cut in European countries could decrease the affordability for premium coal brands. The mills are looking for a cost-effective blends.

- On the other side, a wet period in Australia, as well as strikes in Canada, both added concerns on the supply side.

- Indonesian coal exports to China were peaking at a five-year seasonal high area 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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