FIS

Ferrous Weekly Report

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1/11/2022

⇒ **Iron ore Fe62% CFR China:** short-run **Neutral to bullish**. Iron ore may recover after the irritation of China's pandemic. However, the timeline of demand returning is uncertain. Daily pig iron is expected to enter a declining phase after confirming a peak in H2 in October.

⇒ **Rebar 25mm Shanghai** short-run **Neutral to bullish**. The low margin, low steel price, and active resistance on raw materials price created negative feedback within the ferrous complex.

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

⇒ **Hard Coking Coal FOB Australia** short-run **Neutral**. The market returned to a quiet period with fewer inquiries on the market. However, $4 - $5 lower on the index could suddenly grab some interest.

Prices Movement	31-Oct	24-Oct	Changes %	Sentiment	
Iron Ore Fe62% CFR China($/MT)	79.0	93.0	15.05%	Neutral to Bullish	↗
Rebar 25mm Shanghai (Yuan/MT)	3690.0	3880.0	4.90%	Neutral to Bullish	↗
U.S. HRC Front Month ($/MT)	713.0	757.0	5.81%	Neutral	-
Hard Coking Coal FOB Australia($/MT)	311.5	299.0	4.18%	Neutral	-

Market Review:

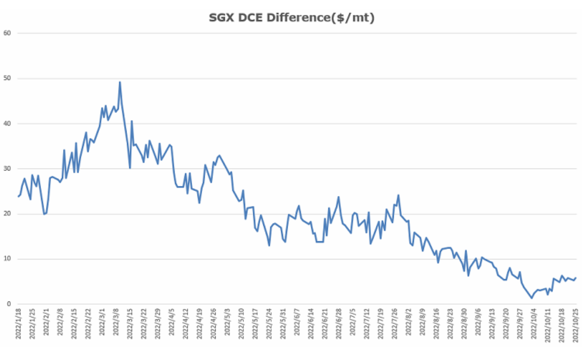
Iron ore Market :

The iron ore 62% index refreshed the largest single weak correction by 15.05% from July 2022. Daily pig iron production reduced from 2.4 million tons to 2.36 million tons, with 5 out of 25 blast furnaces entering a maintenance period in Tangshan, China. In addition, more mills in northern China indicated that they would start actively decreasing production due to the upcoming winter and margin control. Market participants expected to duplicate the same scenario in June 2022, when raw materials suffered a significant drop because mills started to cut production and save margins in the long run.

The fast depreciation in non-U.S. currency right before the U.S. Federal meeting discouraged the dollar-priced assets, including iron ore, copper, and oil, from mid-October. On the other side, the market expected a commodity recovery and a slight correction in dollar value after the Federal Open Market Committee (FOMC) meeting this week.

The import margin for PBF seaborne raised significantly due to the fast drop of midstream seaborne iron ore. However, BHP and FMG still narrowed some low-grade discounts. Mills indicated that they would consider alternatives instead of stable qualities and supply. SGX—DCE difference hit an extreme low in history, around 0. However, the virtual steel margin recovered from 120 yuan to 150 yuan last week. The low difference was unsustainable and expected to bring back some arbitrage opportunities.

The discounts of PBF and NHGF almost disappeared following the bearish sentiments on the market. However, liquidity remains healthy due to the resilient demand for iron ore. Mills have multiple selections on the float or fixed market. According to line-ups, Australian iron ore deliveries are expected to accelerate in November and December. The non-major miners' shipment has fallen sharply because of the high freight cost and geo-political tension in 2022.



Lump premium fell back from an H2 high at $0.2475dmtu to $0.158dmtu sharply after speculation during the golden weeks and national congress. The premium went back to $0.1989 quickly as the approach of winter raised some environment-related production cut concerns.

Data Sources: Bloomberg, Platts, Fastmarket, FIS

Market Review (Continued)

The MB65—P62 spread traded in a $12 to $14 range during the past four months. However, it inched lower to $11.3 early this week. The margin pressure in steel mills became a significant reason to limit high-grade usage.

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. The import iron ore inventories at steel mills dropped from 99 million tons in mid-August to 94 million tons in late October. MySteel 247 mills blast furnace operation rate is 81.48%, down 0.57% on the week and up 6.58% on the year. The operation rate has decreased from an H2 high of 83.5% in early October, indicating the marginal pig iron demand slowed down.

MySteel 19 Australia and Brazil ports delivered 26.67 million tons of iron ore last week, up 1.559 million w-o-w. China 47 ports' iron ore arrivals were at 27.03 million tons, up 2.38 million tons on the week.

Overall, the market expected recovery after the price-in of systematic risk.

Neutral to Bullish

Downstream/Policies/Industry News:

India PM Narendra Modi indicated that India was targeting to double the steel capacity from 154 - 300 million tons in the next 9 - 10 years. Steel coil producer Tata Steel Netherlands will increasingly differentiate between the general spot market and longer-term buyers valuing local supply to increase the spread between spot and contract prices.

Australian iron ore mining firm CuFe will suspend operations at its JWD mine in Western Australia (WA) as rising costs and lower iron ore prices force another marginal producer in the state to stop exporting. JWD shipped 223,000 wet metric tonnes (wmt) of Fe 62.2% iron ore fines from July-September. Ukraine mining company Metinvest was operating at below 50% capacity in 2021.

US Steel expected steel demand to remain under pressure for the rest of 2022 before improving by automakers' contribution in 2023.

A deep-sea 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 in 2021.

Global Steel Market:

Platts North European HRC Index stabilised from €640/mt to €646/mt during the past week. The northern mills were still offering lower offers than Italian mills, around €610 - €620/mt, to fill up the order books. Northern mills were also looking for exporting opportunities. Buyers are currently expecting €10 lower than the current offers. The automobile market is expected to recover to a steady growth rate from next Q2. Italian service centres indicated that the November steel margin might squeeze severely due to high material costs and low volume from orders. For large buyers, import steels could be found at $620 - $630/mt.

In the Asian market, traders cut offers to Vietnam to $505 - $520/mt from $530 - $540 for Chinese SS400 HRC; however, Chinese offers were held intact at $530. Sellers also decreased $5 to $540 for Chinese SAE 1006 grade coils. Mills from other countries were waiting for the direction of the market. Vietnamese mill Hoa Phat suspended one blast furnace from next month.

Neutral

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

Market Review (Continued)

Turkish HMS 1/2 80:20 heavy scrap index dropped to $356 from the range of $365 - $375 last week, which lasted for six weeks. The correction was related to lower offers from the sell side. However, the extremely low supply also supported the current price. UK-origin HMS 1/280:20 was traded at $350/mt CFR, while U.S./Baltic–origin was traded at $355 - $360/mt.

Overall, European and U.S. flat steel prices are expected to stabilise due to the high cost and production control.

Neutral

Chinese Steel Market:

During the past week, Shanghai's domestic 25mm rebar dropped by 4.9% to 3690 yuan/ton. Daily construction steel trade volume remained low at 140,000 tons. However, the five typical steel consumption numbers remained resilient at 9.97 million tons, indicating the traders' market became smaller; however, the direct sales market maintained a healthy size.

Arbitragers believed that the Jan 23 and May 23 spread narrowed from 100 yuan to 70 yuan, approaching a historical low, which shouldn't become a long-lasting scenario according to historical statistics. On the other side, participants from the industries revealed that demand shifted behind the market since betting on time was risky, leaving two months before January entering delivery month.

The bearish macro sentiment dragged the steel performance because rebar futures were the most significant futures product listed in the Asian market. In the next few weeks, the return to fundamentals may show a partial recovery from the loss created by systematic risk.

Overall, the priced-in of systematic risk should bring back recovery on steel price.

Neutral to Bullish

Coal Market:

The PLV FOB Australia coking coal index improved to $311.5 last week. The recent two-week growth was all linked to small-size trades on PLV Peak Downs. The market has yet to see an improvement in volume. The market participants indicated the lack of supplies supported the PLV above $300. U.S. cargo offered a higher-than-expected Chinese level of $350, considering the high freight charge and long laycans. Atlantic sellers started to be concerned that the suddenly weakened Asian market could drag down the seaborne coking coal. Chinese Shanxi miners delivered out coals successfully after suffering transportation issues for a month. The coal demand should recover as the northern hemisphere enters winter. On the other side, the wet weather conditions caused continuous delays in eastern Australia's logistics and mining process.

Overall, the current market may be overvalued. However, the price should be supported because of the tight supply.

Neutral

Sources: Argus, IHS Commodities at Sea Service, FIS

Technical view of the Ferrous Markets:

Iron Ore

November Futures – Technically bearish on the last report two weeks ago, the futures were not considered a technical sell due to a positive divergence in the market. The Divergence failed on the 25/10, resulting in a strong move to the downside, with the price trading to a low of USD 76.90. With the divergence failing and the RSI making new lows, it would suggest that upside moves should be considered countertrends at this point. Upside moves that fail at or below USD 90.36 will leave the futures vulnerable to further tests to the downside; above this level, the technical will have a neutral bias, and near-term support is now at USD 70.14. The divergence failure has changed the technical footprint back to bearish, suggesting upside resistance levels should hold if tested.

Steel - US HRC

November/December Futures – Technically bearish on the last report (Nov), with the futures moving higher on the back of a positive divergence. Upside moves that failed at or below USD 795 would leave the futures vulnerable to further tests to the downside; above this level; the technical would have a neutral bias. Elliott wave analysis suggested that the upside moves should be considered countertrend. The futures traded to a high of USD 740 before moving lower, with the price trading down to a low of USD 782, meaning the USD 780 low remains intact. We are now rolling into the December contract with the futures looking to be potentially on an Elliott wave 5; however, a note of caution here, as the price is showing a minor divergence with the RSI; if the divergence fails, it will warn that we see some form of wave extension that would have bearish implications in the future. Technically bearish, the Dec contract still has the potential to test the USD 660 low in the near term; however, we are now a cautious bear, as the lower timeframe wave cycle is becoming less clear. The futures will need to see a definitive break to the downside, causing divergence failure. Otherwise, this trend could exhaust.

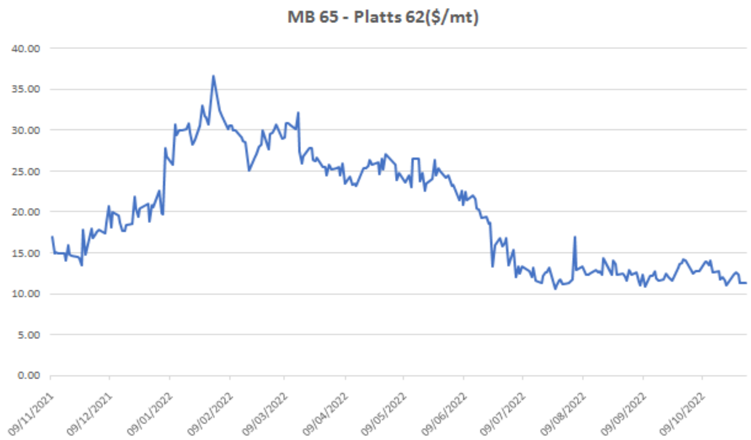
Coking Coal

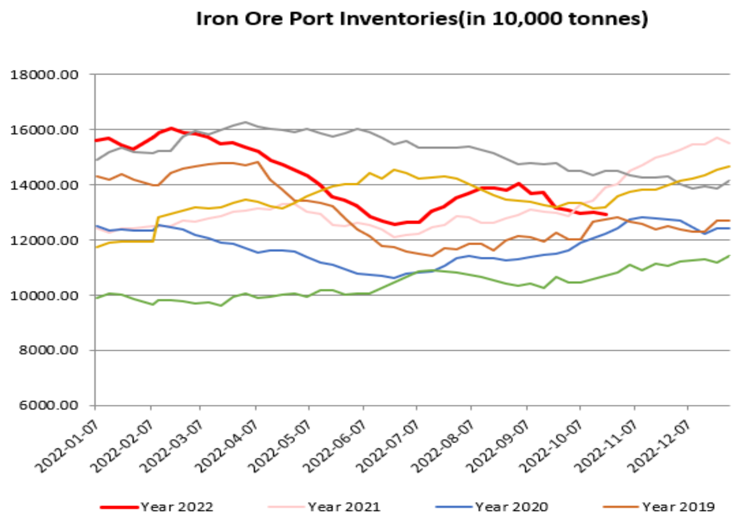
November Futures – Technically bearish last time but with momentum currently to the buyside supported by the RSI above 50. The futures have increased with price trading above the USD 315 resistance to a high of USD 321. However, we are now seeing a minor pullback with price trading between the 8-21 period EMA's whilst the 21 period RSI is below its 13-period moving average; if we start seeing the futures close below the 21 period EMA (currently 303), then we have the potential to see the futures come under further pressure. Downside moves that hold at or above USD 293 will support a near-term bull argument; below this level, we target the USD 280 and USD 260 fractal support levels. Likewise, upside moves that fail at or below USD 344 will leave the futures vulnerable to further tests to the downside; above this level, the longer-term technical will have a neutral bias. Technically bearish, buyside momentum is showing signs that it is weakening.

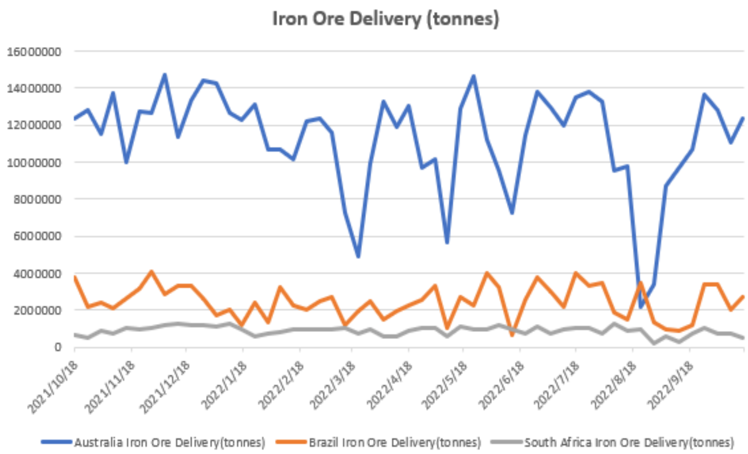
Sources: Argus, IHS Commodities at Sea Service, FIS

Iron Ore

	Last	Previous	% Change
Platts 62% Fe (Dollar/mt)	79.5	93	-14.52%
MB 65% Fe (Dollar/mt)	90.8	104.1	-12.78%
Capesize 5TC Index (Dollar/day)	12933	16883	-23.40%
C3 Tubarao to Qingdao (Dollar/day)	19.65	21.061	-6.70%
C5 West Australia to Qingdao (Dollar/day)	8.535	9.42	-9.39%
Billet Spot Ex-Works Tangshan (Yuan/mt)	3510	3610	-2.77%
SGX Front Month (Dollar/mt)	80.69	90.82	-11.15%
DCE Major Month (Yuan/mt)	632.5	678.5	-6.78%
China Port Inventory Unit (10,000mt)	12,944.22	12,912.76	0.24%
Australia Iron Ore Weekly Export (10,000mt)	1,064.40	1,235.50	-13.85%
Brazil Iron Ore Weekly Export (10,000mt)	181.10	272.70	-33.59%







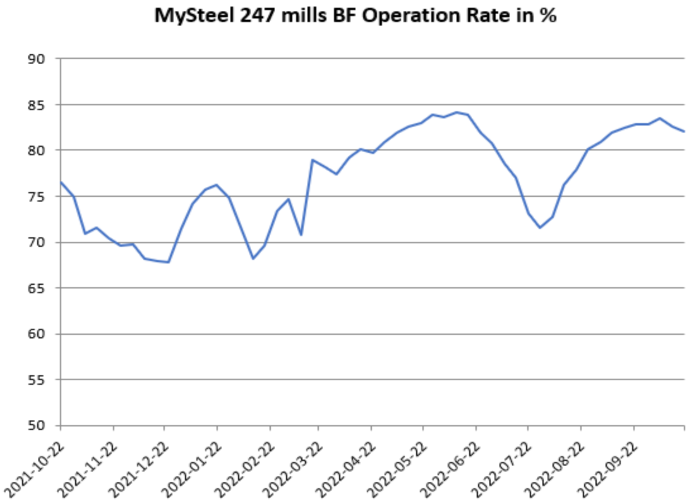
Iron Ore Key Points

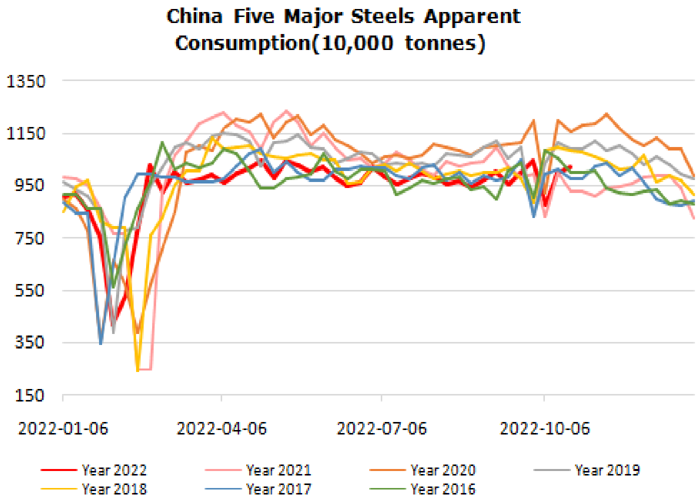
- Iron ore port inventories in the short-run stabilised, supported by the increasing shipments but resisted by strong consumption.
- The 65% and 62% iron ore spread maintained a $12 - $14 difference most of the time since June, with a mixed outlook for steel margins.
- Pig iron production reached 2.4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

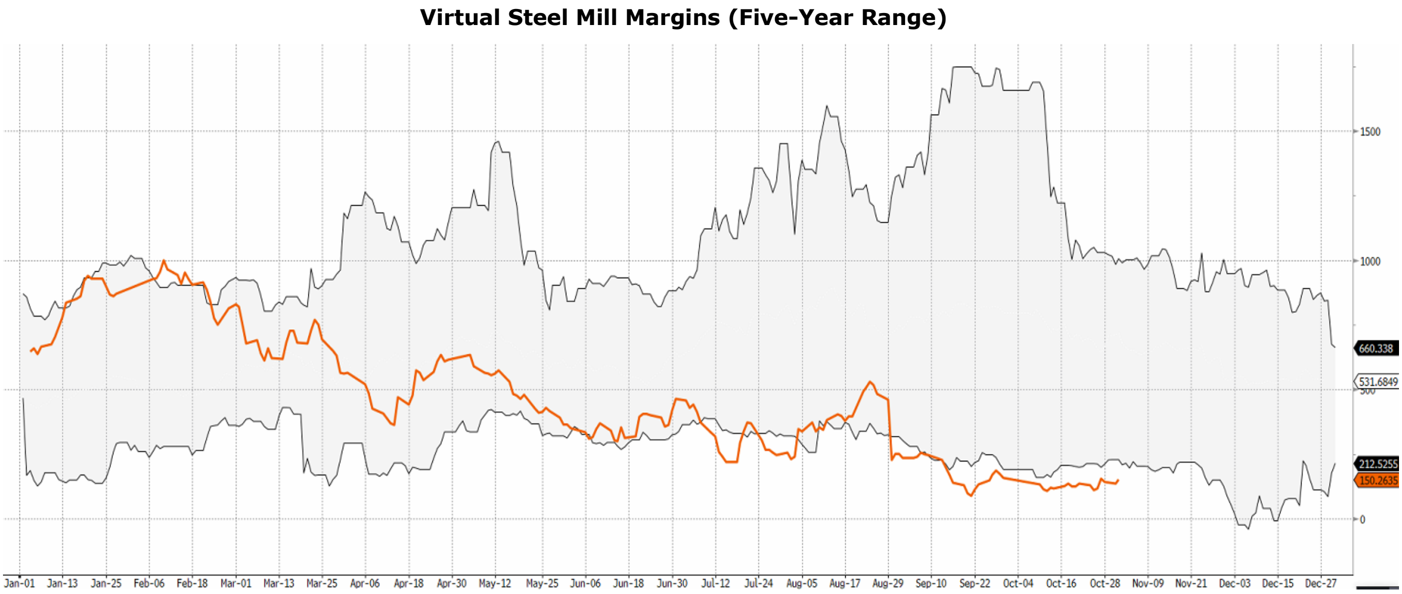
Data Sources: Platts, Fastmarkets, MySteel, Bloomberg, FIS

Steel

	Last	Previous	% Change
US HRC Front Month (Dollar/mt)	710	762	**-6.82%**
LME Rebar Front Month (Dollar/mt)	728	722	**0.83%**
SHFE Rebar Major Month (Yuan/mt)	3517	3634	**-3.22%**
China Hot Rolled Coil (Yuan/mt)	3797	3875	**-2.01%**
Vitural Steel Mills Margin(Yuan/mt)	150	129	**16.28%**
China Five Major Steel Inventories Unit (10,000 mt)	2489.64	2371.33	**4.99%**
Global Crude Steel Production Unit (1,000 mt)	87000	83900	**3.69%**
World Steel Association Steel Production Unit(1,000 mt)	150,600	149,300	**0.87%**





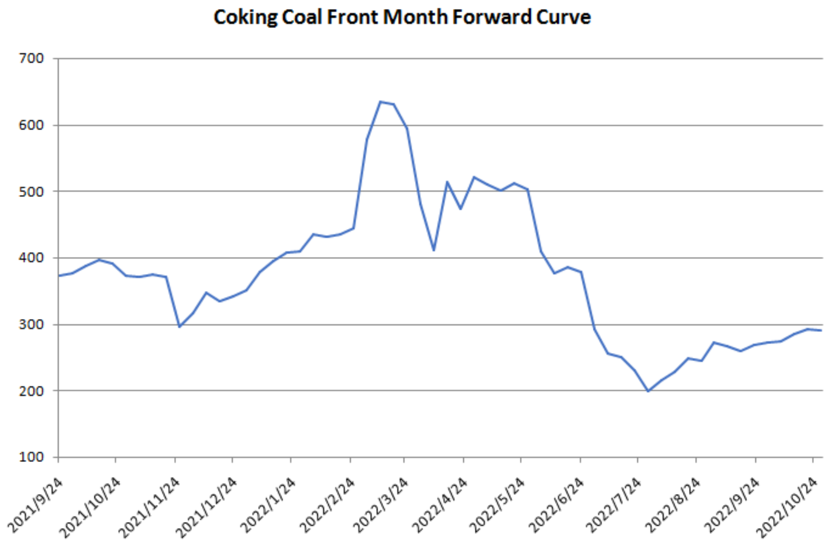


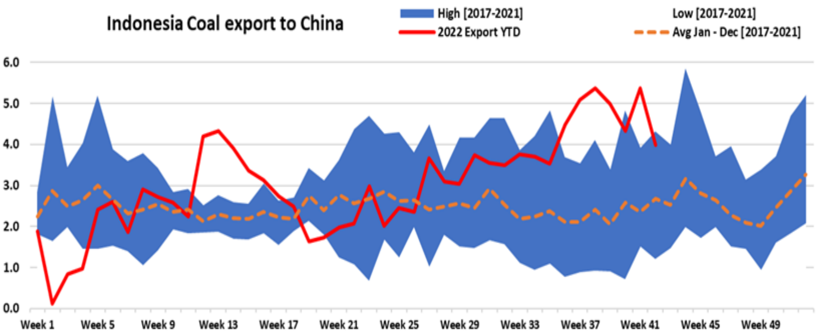
Data Sources: Bloomberg, MySteel, FIS

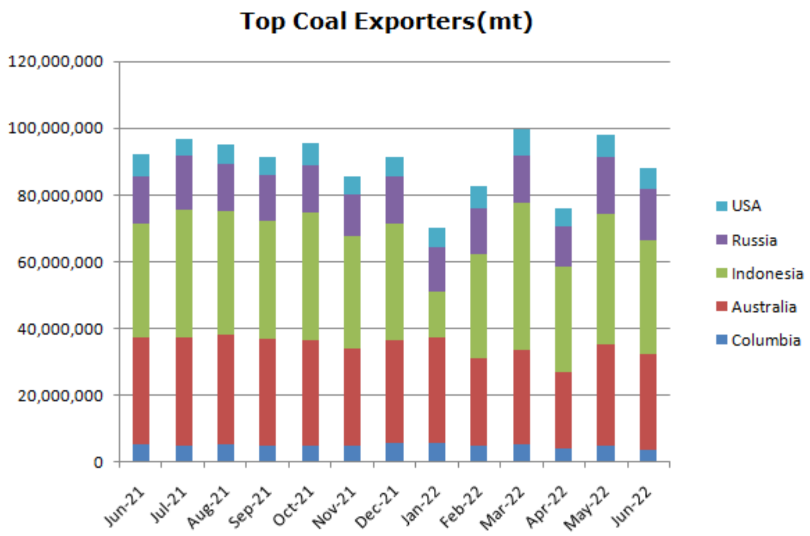
- Virtual steel mill margins rebounded from 120 yuan/ton to 150 yuan/ton as mills started production cuts to limit raw material costs.
- The weekly five types of steel consumption recovered to 9.5 - 10 million tons average level, filling the gap created by the 'Golden Week'. The consumption level was generally indicating a resilient demand market.

Coking Coal

	Last	Previous	% Change
TSI FOB Premium Hard Coking Coal (Dollar/mt)	311.5	299	4.18%
Coking Coal Front Month (Dollar/mt)	289.83	291.67	-0.63%
DCE CC Major Month (Yuan/mt)	1935	2037.5	-5.03%
Top Six Coal Exporter Weekly Shipment	18.99	18.23	4.17%
China Custom total CC Import Unit mt	6,844,788	6,406,036	6.85%







Coal Key Points

- The weakening steel margin 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, the wet season in Australia and strikes in Canada both add concerns on the supply side.
- Indonesia's coal export to China peaked at a five-year seasonal high level because the 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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