FIS Ferrous Weekly Report

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⇒ **Iron ore Fe62% CFR China:** short-run **Neutral to bullish**. Iron ore rebounded, supported by the new stimulus in China to support housing and automobile consumption.

⇒ **Rebar 25mm Shanghai** short-run **Neutral to bullish**. The marginal epidemic control ease accelerated the recovery of downstream works.

⇒ **U.S. HRC Front Month** short-run **Neutral to bullish**. The energy cost marginally decreased, and demand in the long-run market is expected to recover.

⇒ **Hard Coking Coal FOB Australia** short-run **Neutral**. The actual demand price was much lower than the quoted price, significantly dragging down the index.

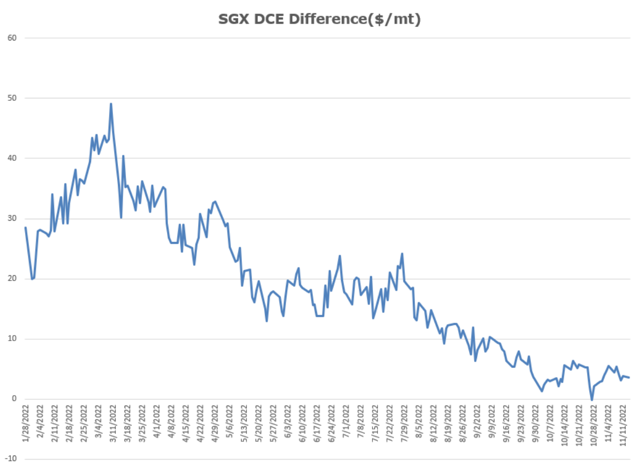
Prices Movement	14-Nov	7-Nov	Changes %	Sentiment	
Iron Ore Fe62% CFR China($/MT)	95.30	87.95	8.36%	Neutral to Bullish	↗
Rebar 25mm Shanghai (Yuan/MT)	3800.0	3760.0	1.06%	Neutral to Bullish	↗
U.S. HRC Front Month ($/MT)	673.0	669.0	0.6%	Neutral to Bullish	↗
Hard Coking Coal FOB Australia($/MT)	298.0	320.5	7.02%	Neutral	-

Market Review:

Iron ore Market :

The iron ore 62% index improved by 8.36%, as expected. China National Bureau of Statistics indicated that daily pig iron production was 2.28 million tons in October, down 7.3% from September. MySteel 247 mills daily pig iron 2.268 million tons in China, down from 2.4 million tons significantly over the last three weeks, indicating the pig iron production entered a marginal diminishing phase. On the other side, EAFs may face a roof area of production since the sharp increase of 200 yuan in the scrap price could soon erode the thin profit. The weekly rebound, however, was majorly linked with the risk appetite shift because of U.S. dollar depreciation after marginal weaker CPI data. Moreover, new policies to stimulate housing, automobile and epidemic control helped the secondary market significantly recover.

Pilbara Blend Fines (PBF) and Newman High Grade Fines (NHGF) have had a similar premium on a December float basis for the past week. The seaborne and portside market didn't follow the excitement of the paper market. Virtual steel margin was squeezed to a 40-50 yuan/ton area, a year-low, because of the quick uptick in iron ore and scrap. However, it is believed that the price circulation among ferrous complexes would also lift steel prices, which could help the margin back to a higher level. The import margin for PBF and NHGF recovered to a positive level. The mills were still cautious about buying and controlling inventories because of foreseeable vacancies in order books. However, some mills indicated the downstream demand would become resilient because of the early production cut, and maintenance means there should be shorter winter cuts than usual. SGX-DCE spread maintained $0 - $5 during the last five weeks. The absolute low number on the spread became less attractive because the holding risk was growing as the uncertainties on policies in the front months compared to next year.



The lump premium was frozen again because no saying related to an official window of winter cut was mentioned in the market. Pellets, lumps, and high grades were sluggish in demand because of the low steel margin and a low requirement on the output.

Data Sources: Bloomberg, Platts, Fastmarket, FIS

Market Review (Continued)

Chinese iron ore port inventories stabilised at around 129 – 130 million tons in the past six 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 93 million tons in early November. MySteel 247 blast furnace operation rate at 77.21% dropped significantly from the Q3 high at 83%. EAFs operation rate ran at 62.5%, which increased dramatically from 45% in Q3 low. However, expected to decrease gradually as the sharp rising scrap cost.

Overall, the market is expected to maintain a healthy rebound.

Neutral to Bullish

Downstream/Policies/Industry News:

The U.S. CPI decrease in October was smaller than last month. Expectations came with dovish signs released from Federal governors, which triggered a significant depreciation in the U.S. dollar and an appreciation in non-dollar currencies. Thus, equity and industrial commodities saw a considerable spike.

The fourth round of anti-dumping measures on Hot-Rolled Coil (HRC) in Europe is possible, according to a law firm. India became a net importer of steel in the last four months. However, India exported steel reached a three-year-low level.

China published new pandemic control policies. The market read as a marginal ease. Together with new housing stimulus and automobile consumption benefits, all supported a new buying wave on China-linked assets. Moreover, the G20 conference in Indonesia signals that member countries will start to cooperate again, reversing the barriers and split thoughts early this year.

China's October was above-designated scale industrial value-added amount up 5% on the year, Jan-Oct up 4% on the year. January to October fixed investment was down 8.8% on the year, dragged by the 28.2% sales drop on commercial houses. China NBS crude still daily production in October at 2.57 million tons, down 11.2% on the year. Jan-Oct crude steel production 860.57 million tons, down 2.2% on the year.

Global Steel Market:

Platts North European HRC Index dumped from €650/mt to €625/mt during the last week, with the destocking sentiment among mills. The order books were low. The current mills have sufficient supply for HRC on December deliveries. The tradeable values were around €610 to 650/mt. Some mills were confident of securing higher levels after sending initial offers to German buyers at €650/mt delivered in December. However, the accelerated movement on destocking by year-end creates enormous pressure on the price. Buyers are also concerned about the consistent availability caused by production cuts. The market supply of HRC reached the lowest level since August 2020. There is still no sign to see the stop of mills cut.

China FOB HRC stabilised near $515 for three weeks. Thus, the MTD was $516.78 at a similar level. However, in the real trade, some Chinese mills offers reached as high as $530 for SS40 HRC, given a quiet market. Vietnamese buyers turned from a negative outlook for eight months to bullish and chased up the bids to $530 CFR Vietnam for the SAE1006 grade coil. This bid was considered too low to be accepted by Japanese mills.

Turkish HMS 1/2 80:20 heavy scrap index dropped to $354 from $327 last week. The correction was related to a demand softened in Indian and Bangladesh markets. The trade reported that the Benelux-origin deal was completed at $334 CFR by Izmir mill for HMS 1/2 80:20. In the UK, HMS collection prices were heard at £ 220-225/mt, down £ 10/mt.

In summary, the European and U.S. flat steel prices are expected to stabilise as both tight supply and demand.

Neutral to Bullish

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

Market Review (Continued)

Chinese Steel Market:

During the past week, Shanghai's domestic 25mm rebar moderately raised 40 yuan to 3800 yuan/ton, given that the SHFE rebar grew 113 yuan/ton. Platts IODEX rebounded by 8.36% during the same period. As a result, the virtual steel margin squeezed to an extreme level from 78 yuan/ton to 43 yuan/ton, a year low. Five typical steel consumption numbers, in general, maintained resilience from 9.5 to 10.2 million tons after April. Daily construction steel trading volume improved from 150,000 mt to 167,300 mt from early November to mid-November.

Arbitragers believed that the Jan 23 and May 23 spread reached an almost flat level because the market was betting on the far-month recovery after the Covid marginal ease in China and housing stimulus. However, the market has somewhat less confidence in the front months.

Overall, rebar price has room to recover since it could catch up with iron ore growth soon.

Neutral to Bullish

Coal Market:

The PLV FOB Australia coking coal index dropped from $320 to $298 after the bigger demand market below $300 was found. The last round of growth above $300 was driven by small trades and a structural lack of PLV. However, $300 was a significant price in the mind of buyers since Indian buyers placed these tradeable bids at $290 to $300 for three weeks without any change. Thus, the market has to fall when there are no buyers other than Indian mills. The most competitive offer was at $298 for globalCOAL HCCA branded Goonyella with two cargoes totalling 110,000mt.

The CFR China market still saw a continuous disparity between buyers and sellers. Chinese physical market saw a diminishing marginal demand with decreasing pig iron produced after the production cut, although the futures market experienced a decent rebound following the macro sentiment. China's domestic physical coke cut the price for the third round from 100 to 110 yuan/ton. The previous three rounds total cut 300 to 330 yuan/ton. Cokery plants believed that further cutting was less possible given the plants' extremely low operation rate.

In summary, the current FOB Australia market is potentially overvalued compared with other coking coal markets. However, the price should be supported by the current liquidity.

Neutral

Sources: Argus, IHS Commodities at Sea Service, FIS

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Technical view of the Ferrous Markets:

Iron Ore

Dec Futures – Technically bearish last week, with key resistance to follow at USD 90.16. The futures moved higher on the back of some easing of COVID restrictions in China, resulting in resistance levels being broken. The technical is still bearish but with a neutral bias; upside moves above USD 96.05 will mean the intraday technical is bullish, whilst above USD 97.30, the daily technical becomes bullish. Downside moves that hold at or above USD 82.81 will support a near-term bull argument; below this level will leave the USD 75.35 low vulnerable. The futures are now approaching key resistance at 97.30 that could take the technical into bullish territory; however, it is worth noting that the intraday 4-hour technical is in divergence, warning we could see a momentum slow down and potentially a technical pullback, providing the divergence does not fail. We also highlight the stochastic at 96.50, which is a key long-term resistance; if the stochastic pulls back and holds above 50, then we could see resistance levels come under pressure; if it breaks 50, then look for further technical weakness. A bit of a mixed technical; we are bearish/neutral, with price and momentum at key resistance levels; if resistance holds, we could see a technical pullback soon.

Steel

December Futures – We noted last week that we could potentially be seeing some form of Elliott wave extension to the downside. The futures traded down from USD 659 to produce a new low at USD 621 before moving higher again (Current price USD 683). Upside moves that fail at or below USD 699 will leave the daily technical vulnerable to further tests to the downside; above this level, the technical has a neutral bias, and only above USD 740 is the daily technical bullish. However, this is where the technical is conflicting; the futures traded to a new low and created a positive divergence with the RSI on the intraday; the upside move above USD 670 has broken a key intraday fractal resistance, meaning the lower timeframe technical is now bullish. The Elliott wave cycle is now very unclear, as a new low was achieved, suggesting market sellers should be cautious as resistance levels could now come under pressure.

Coking Coal

December Futures – As noted previously, near-term price action remained bullish, but the technical move to the upside looked countertrend; the potential to diverge above USD 327 warned we could see the technical weakening soon. The futures have moved USD 52.00 lower with the price below the 8-21 period EMA’s supported by the RSI below 50; the technical is now bearish. Upside moves that fail at or below USD 309 will leave the futures vulnerable to further tests to the downside; above this level; the technical will have a neutral bias. Only above USD 327 is the technical bullish. Downside moves below USD 270.50 will warn that the USD 245.50 low is vulnerable. Technically bearish, the RSI is making new lows, suggesting upside moves should be considered countertrend.

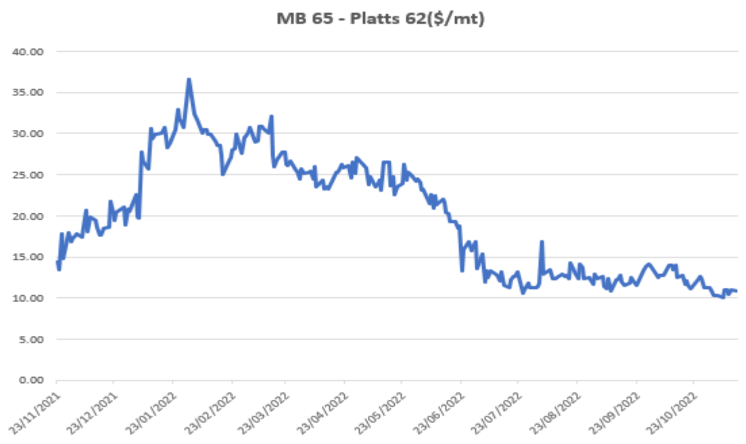
FIS Senior Analyst, Edward Hutton

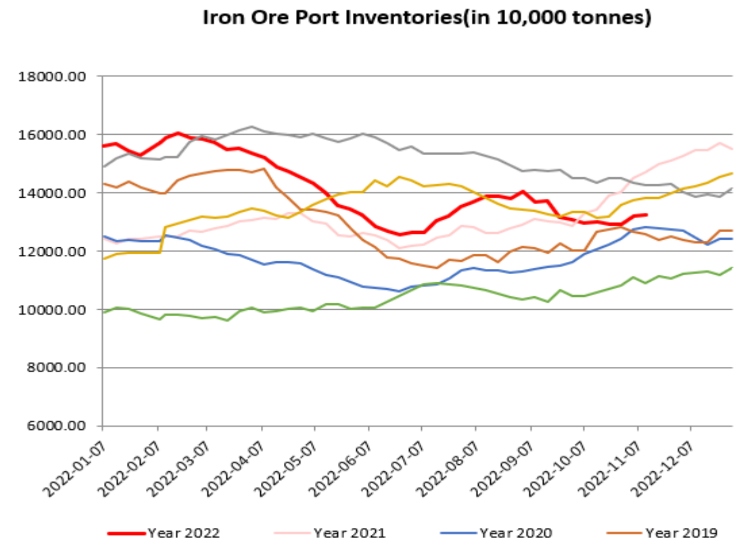
Chart source: Bloomberg

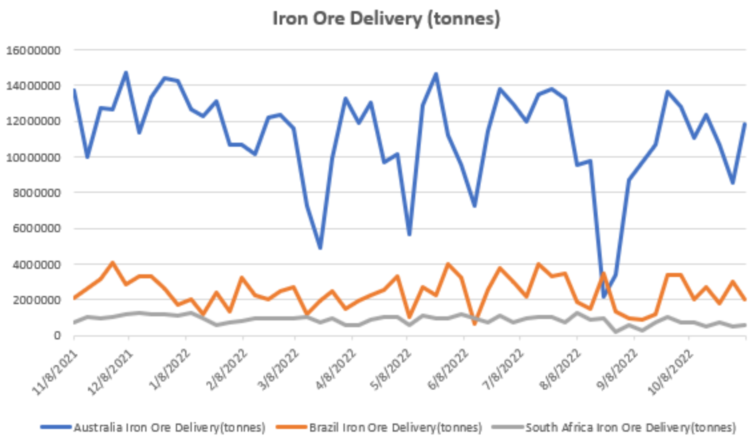
Sources: Argus, IHS Commodities at Sea Service, FIS

Iron Ore

	Last	Previous	% Change
Platts 62% Fe (Dollar/mt)	95.3	87.95	8.36%
MB 65% Fe (Dollar/mt)	106.1	98	8.27%
Capesize 5TC Index (Dollar/day)	11995	11648	2.98%
C3 Tubarao to Qingdao (Dollar/day)	19.683	19.861	-0.90%
C5 West Australia to Qingdao (Dollar/day)	8.62	8.12	6.16%
Billet Spot Ex-Works Tangshan (Yuan/mt)	3470	3480	-0.29%
SGX Front Month (Dollar/mt)	91.28	85.95	6.20%
DCE Major Month (Yuan/mt)	697	648	7.56%
China Port Inventory Unit (10,000mt)	13,258.77	13,193.46	0.50%
Australia Iron Ore Weekly Export (10,000mt)	1,178.80	852.50	38.28%
Brazil Iron Ore Weekly Export (10,000mt)	198.10	303.60	-34.75%







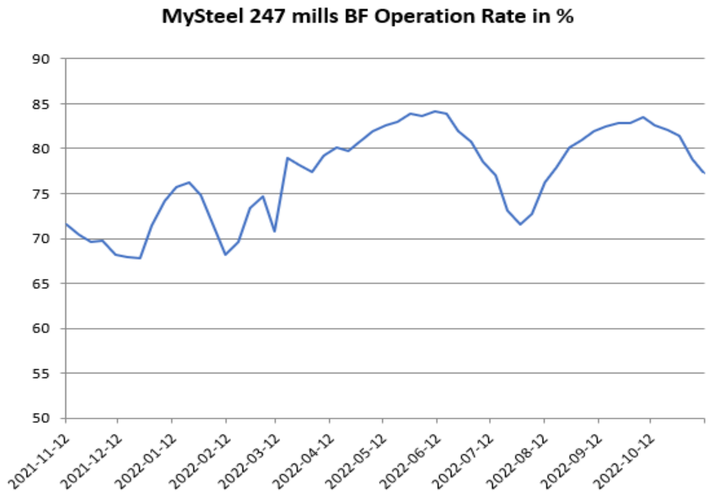
Iron Ore Key Points

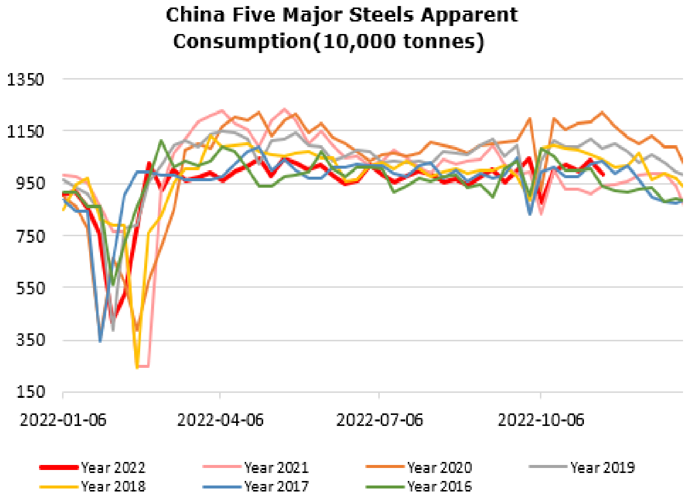
- Iron ore port inventories in short-run stabilised supported by the increasing shipments however resisted by strong consumption.
- The 65% and 62% iron ore spread maintained a $12 to $14 difference for most of the time in June, with a mixed outlook on steel margins.
- Pig iron production reached 2.4 million tons/day in major Chinese steel mills, then fell back to 2.26 million tons/day. Pig iron marginal demand became weaker.

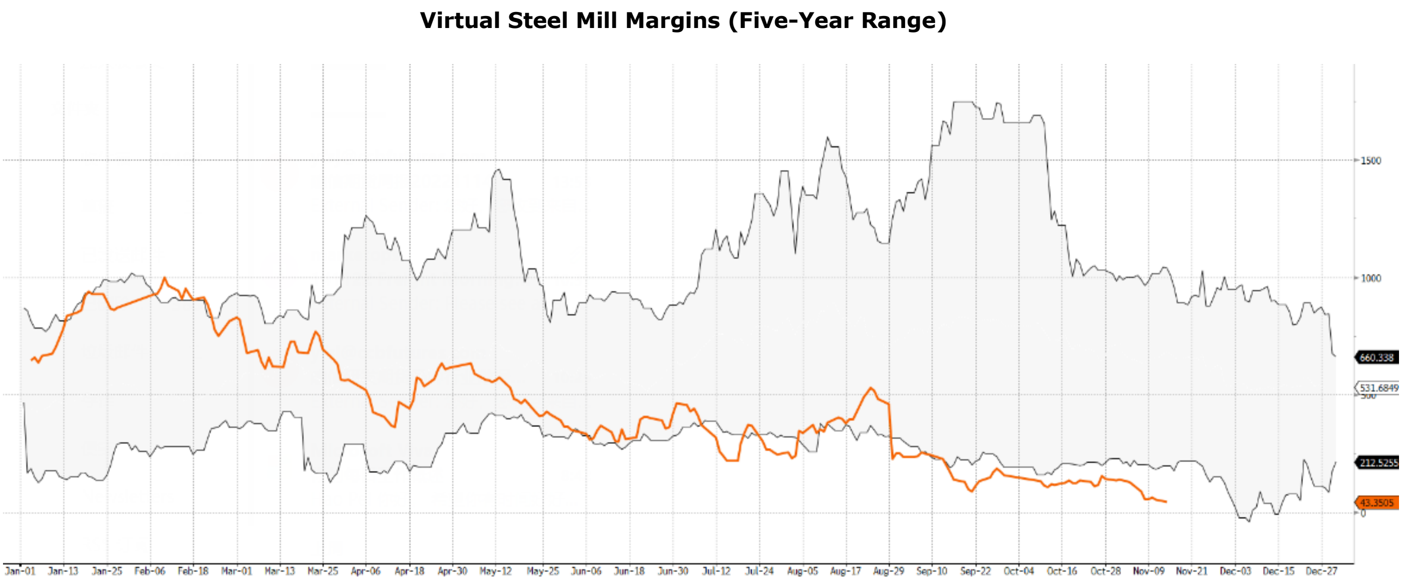
Data Sources: Platts, Fastmarkets, MySteel, Bloomberg, FIS

Steel

	Last	Previous	% Change
US HRC Front Month (Dollar/mt)	662	678	**-2.36%**
LME Rebar Front Month (Dollar/mt)	728	722	**0.83%**
SHFE Rebar Major Month (Yuan/mt)	3603	3536	**1.89%**
China Hot Rolled Coil (Yuan/mt)	3797	3759	**1.01%**
Vitural Steel Mills Margin(Yuan/mt)	43	78	**-44.87%**
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)	151,700	150,600	**0.73%**





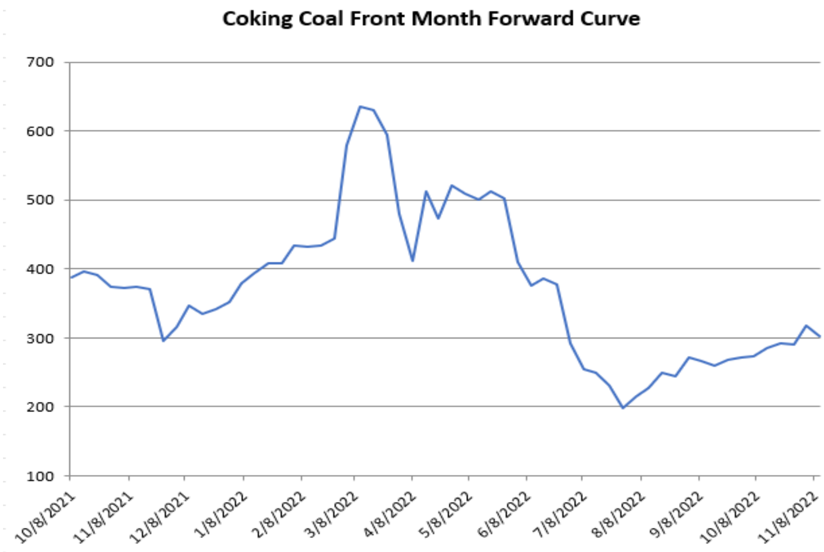


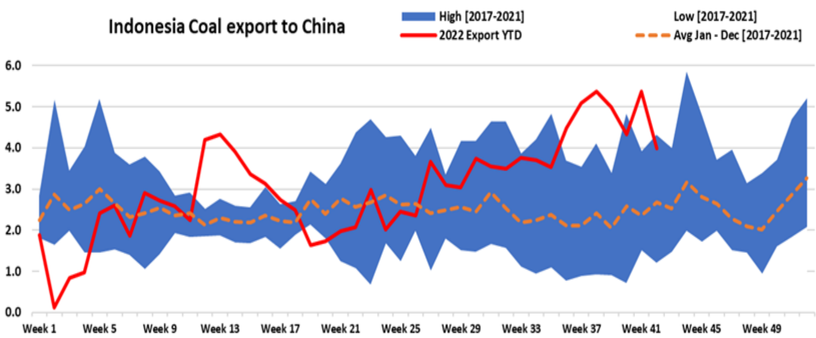
Data Sources: Bloomberg, MySteel, FIS

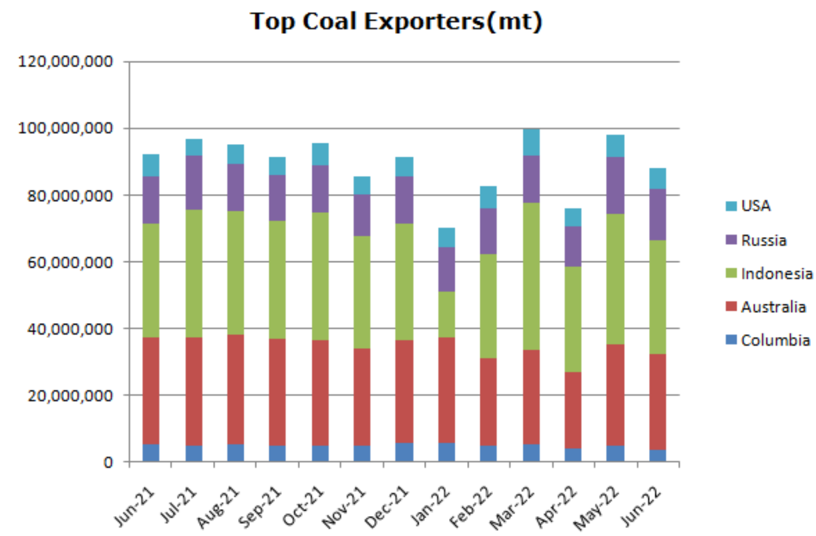
- Virtual steel mill margins rebounded from 78 yuan/ton to 43 yuan/ton. The market expected a statistical "chase" at steel price compared with raw materials to support the current margin level.
- The five weekly types of steel consumption recovered to a five-week-high, indicating a resilient demand market.

Coking Coal

	Last	Previous	% Change
TSI FOB Premium Hard Coking Coal (Dollar/mt)	298	320.5	**-7.02%**
Coking Coal Front Month (Dollar/mt)	302	318.33	**-5.13%**
DCE CC Major Month (Yuan/mt)	2090	2009.5	**4.01%**
Top Six Coal Exporter Weekly Shipment	17.90	21.13	**-15.29%**
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 a cost-effective blend.

- On the other side, wet seasons 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, finished steels, structured steels, flat steels, HRC/CRC, rebar, etc. Downstream meant the end-users of steel, 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, flat steel-using industries. Flat steels are the most active international trading steel type.

Iron Ore Lump: Natural bulks of 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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