FIS Ferrous Weekly Report

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⇒ **Iron ore Fe62% CFR China:** short-run **Neutral**. The iron ore spike eroded the steel margin to 0 again. Thus, raw materials may face a new round of resistance from steel mills.

⇒ **Rebar 25mm Shanghai** short-run **Neutral to bullish**. China's negotiable winter stock price value was broadly below the current spot and futures price. However, the recovery on macro and downstream might provide resilient demand to this market.

⇒ **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 real demand price was much lower than the quoted price, significantly dragging down the index.

Prices Movement	21-Nov	14-Nov	Changes %	Sentiment	
Iron Ore Fe62% CFR China($/MT)	96.25	95.30	1.00%	Neutral	-
Rebar 25mm Shanghai (Yuan/MT)	3790.0	3800.0	0.26%	Neutral to Bullish	↗
U.S. HRC Front Month ($/MT)	665.0	673.0	1.19%	Neutral to Bullish	↗
Hard Coking Coal FOB Australia($/MT)	255.25	298.0	14.35%	Neutral	-

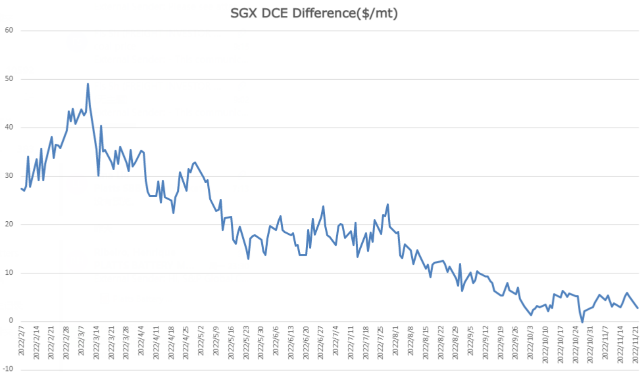
Market Review:

Iron ore Market :

The iron ore 62% index was almost unchanged, as expected. The seaborne market was generally quiet during the past week, although future price upticks. The futures price eroded virtual steel margins almost to zero. The market expected mill maintenance on blast furnaces and some EAFs closure in the coming weeks. The Indian government removed export duties on steel and iron ore products in late May. Export iron ore with less than 58% grade and pellets will attract no duty compared to 45% - 50%. The ferrous grade above 58% will continue to attract 30% duty. India's strategy reversal may pressure BHP and FMG to increase discounts to avoid losing market share. However, it would also impact the benchmark value of mid-grade, mainly when mills are operated at a low margin.

The demand for premium products was still low, given the strong basis on mid-grade ores. The rapid increase in mid-grade price as a benchmark squeezed the already limited room for premium products, including lumps, pellets, and high-grade ores.

MySteel 247 mills daily pig iron at 2.2485 million tons in China, down from 2.4 million tons significantly over the last three weeks, indicated that pig iron production entered a marginal diminishing phase. The blast furnace utilisation rate was 76.35%, down 0.85% on the week and up 6.01% on the year. As a result, pig iron and utilisation figures proved strong, although they entered a decreasing trend. Thus, market participants expected stronger demand in winter compared to the last three years. Although the EAFs utilisation rate reached an eight-month-high at 55.11%, the profit margin entered a negative area because some mills increased the scrap price to squeeze EAF production out of the market.



PBF and NHGF have had a similar premium on 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 level, 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 might help the margin back to a higher level. The import margin for PBF and NHGF recovered positively; the mills were still cautious about buying and controlling inventories because of foreseeable vacancies on order books.

Data Sources: Bloomberg, Platts, Fastmarket, FIS

Market Review (Continued)

However, some mills indicated the downstream demand would become resilient because of the early production cut; maintenance would mean 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 nothing relating 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.

Chinese iron ore port inventories stabilised at around 130 million tons in the past two months 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 90 million tons in mid-November.

Overall, the market is expected to enter a consolidation period.

Neutral

Downstream/Policies/Industry News:

India removed pellet export tariffs and reduced duties on iron ore ferrous grade lower than 58% from 45-50% to 30%. India planned to increase 30 million tons of plate capacity in 20 years.

Market sources indicated that G7 countries might set the price roof for Russian oil on Nov 23rd. U.S. President Joe Biden suggested announcing a "guidance price" to the price roof of oil. Opec has decreased the demand five times during the year.

The European Central Bank (ECB) president, Christine Lagarde, said in a bank conference that ECB would adopt further steps to control inflation, preventing a long-run negative impact on the European economy. U.S. federal officer Lael Brainard indicated that it is possible to slow down interest hikes in the short run. Credit Suisse expect QT may terminate in mid-2023. Morgan Stanley predicted that the U.S. inflation rate would drop to less than 2% because of the global demand weakness, eased supply chain disruptions, destocking on commodities and low house prices.

A possible rail strike is looming in December, with at least some unions voting down the tentative agreement, including scrap shipments into steel mills. The strike is expected to cause a halt in the U.S. economy, reported Argus Media.

Several Chinese departments, including CBRC, CSRC, PBOC and SAFE, announced to support the Chinese housing market with its restructuring and financing to increase the stability of foreign exchanges.

Global Steel Market:

Platts North European HRC Index was unchanged at €625/mt during the past week, with the destocking sentiment among mills and low order books. The December supply for HRC was slightly crowded. Italy offers for small buyers reached as low as €580 - €590/mt. The normal tradeable values were around €600/mt. Some mills shifted the order book target to January because of the holiday in December. However, Asian suppliers were looking to increase HRC export prices equal to €590 - €600/mt. Turkish buyers reported around $520/mt bids for EU and UK sources plate. Port stocks of steel were decreasing significantly. 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 stopping of mill cuts.

China FOB HRC rose to $536 significantly after consolidating around $515 for 4 - 5 weeks. Several bookings from sellers in the last week at SS400 HRC at $535 - $540/mt FOB. The spike was related to Chinese housing and automobile stimulus. China's offer hold is unchanged at $545 CFR Vietnam. Vietnamese mill Formosa Ha Tinh cut January shipment offers by $43 to $550 - $555/mt CIF for SS400 and SAE grade coil, which became competitive offers to Chinese and Japanese offers.

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

Market Review (Continued)

Turkish HMS 1/2 80:20 heavy scrap index slightly improved from $327 last week to $339.5. Turkey-based agent cited an indicative tradable value for U.S. origin HMS 1/2 80:20 at $340 CFR. The demand softened in the Indian and Bangladesh markets. The trade reported 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. The market participants believed that the sales around low levels at $330 - $340 only happened to recyclers who needed to clear stocks by the year-end to reconcile the finance table.

Overall, the European and U.S. flat steel prices are expected to stabilise as both tight supply and demand in winter.

Neutral to Bullish

Chinese Steel Market:

During the past week, Shanghai domestic 25mm rebar maintained at 3760 – 3800 yuan/ton for four weeks. Virtual steel margin squeezed to extreme level from 150 yuan/ton to 17 yuan/ton during past three weeks, a year low. Five typical steel consumption numbers maintained resilience from 9.5 to 10.2 million tons after April. Daily construction steel trading volume improved from 150,000 mt to 161,300 mt from early November to mid-November.

Arbitragers believed that the Jan 23 and May 23 spread recovered from an extreme 20 yuan/ton area to 65 yuan/ton area. The improvement in the price could widen the spread as the front demand returned.

In summary, rebar price has room to recover since it might catch up with iron ore growth in the near future.

Neutral to Bullish

Coal Market:

The PLV FOB Australia coking coal index collapsed by 14.35% during the past few weeks. As expected, the demand market above $300 was mainly an over-speculation on the structural shortage of PLV cargoes. However, the real demand market was priced on or below $300 for more than three weeks. The sharp fall was also a delayed reaction to global steel correction in October. In the long run, stabilising the Asian steel market is expected to affect some marginal raw materials demand.

The previous three rounds of Chinese cookery plant cuts totalled 300 - 330 yuan/ton. Cokery plants believed further cutting was less possible given the plants' meagre operation rate. Current cokery plants in China proposed to increase the 100 yuan on the coke price, yet to wait for the mills' response.

Overall, the current FOB Australia market is potentially overvalued compared with other coking coal markets. However, the price should be supported by the reversal of macro stimulus in the Chinese market and the winter season in the northern hemisphere.

Neutral

Sources: Argus, IHS Commodities at Sea Service, FIS

Technical view of the Ferrous Markets:

Iron Ore

Dec Futures – Technically bearish with a neutral bias last week, the futures continued to move higher with price trading above the USD 97.30 resistance; the trend is now bullish based on the higher high. We highlighted on the morning intraday technical reports that the RSI had produced a negative divergence, warning that we could see a technical pullback, resulting in the futures trading to a low of USD 95.00 today (21/11/22). The intraday technical now has a neutral bias; downside moves below USD 93.90 will warn that the daily technical is entering a corrective phase. However, downside moves at or above USD 84.06 on the daily futures will support a bull argument; the technical will have a neutral bias below this level. Technically bullish, we are seeing warning signs of a technical pullback, making USD 93.90 the key near-term support and USD 84.06 the longer-term support. Caution on the upside moves above USD 99.15 as it has the potential to create further intraday divergences.

Steel - US HRC

December Futures – Technically, we were conflicting last week with the futures trading above the intraday fractal resistance on the back of positive divergence, having previously traded to a new low at USD 621, warning resistance levels could be vulnerable. The futures are trading lower than last week (USD 683 v's USD 668); however, we have been trading sideways for most of this period. The longer-term trend remains bearish, below USD 699, and neutral above, whilst the intraday technical is bullish. We maintain that resistance levels remain vulnerable, suggesting caution on downside moves at this point.

Coking Coal

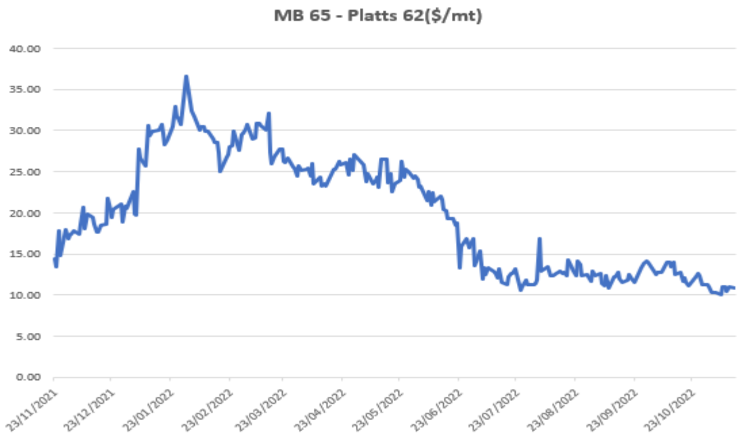
December Futures – We had previously noted that the upside move had looked to be countertrend, which has proven to be the case after the corrective move two weeks ago. The futures continue to move lower with prices below all key moving averages supported by the RSI below 50; upside moves that fail at or below USD 303 will leave the futures vulnerable to further tests to the downside; above this level, the technical will have a neutral bias. We maintain that upside moves should be considered a countertrend, with the futures targeting the USD 245.50 fractal low.

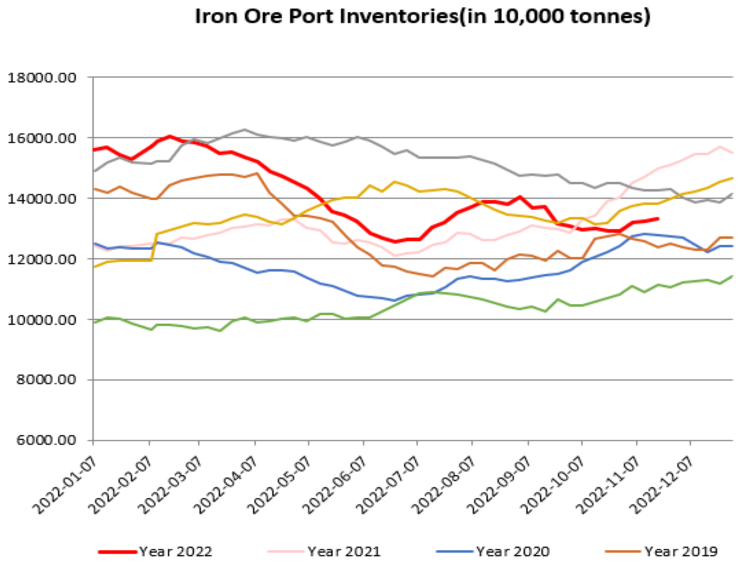
Chart source: Bloomberg

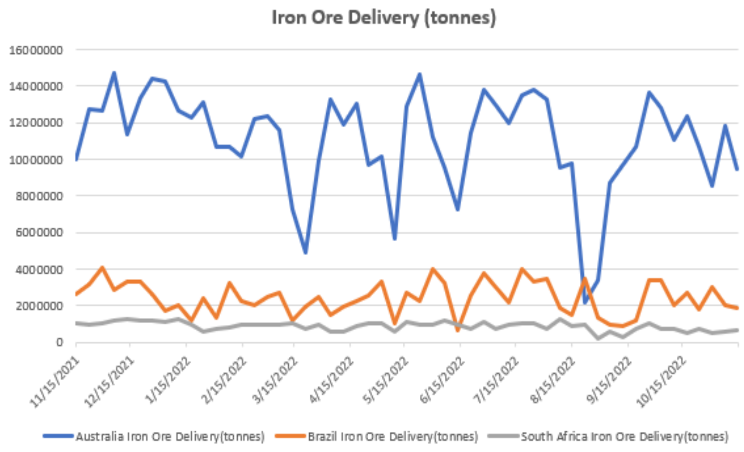
Sources: Argus, IHS Commodities at Sea Service, FIS

Iron Ore

	Last	Previous	% Change
Platts 62% Fe (Dollar/mt)	96.25	95.3	1.00%
MB 65% Fe (Dollar/mt)	107.4	106.1	1.23%
Capesize 5TC Index (Dollar/day)	9363	11995	-21.94%
C3 Tubarao to Qingdao (Dollar/day)	17.75	19.683	-9.82%
C5 West Australia to Qingdao (Dollar/day)	7.665	8.62	-11.08%
Billet Spot Ex-Works Tangshan (Yuan/mt)	3520	3500	0.57%
SGX Front Month (Dollar/mt)	98.60	91.28	8.02%
DCE Major Month (Yuan/mt)	745.5	697	6.96%
China Port Inventory Unit (10,000mt)	13,319.04	13,258.77	0.45%
Australia Iron Ore Weekly Export (10,000mt)	943.90	1,178.80	-19.93%
Brazil Iron Ore Weekly Export (10,000mt)	184.20	198.10	-7.02%







Iron Ore Key Points

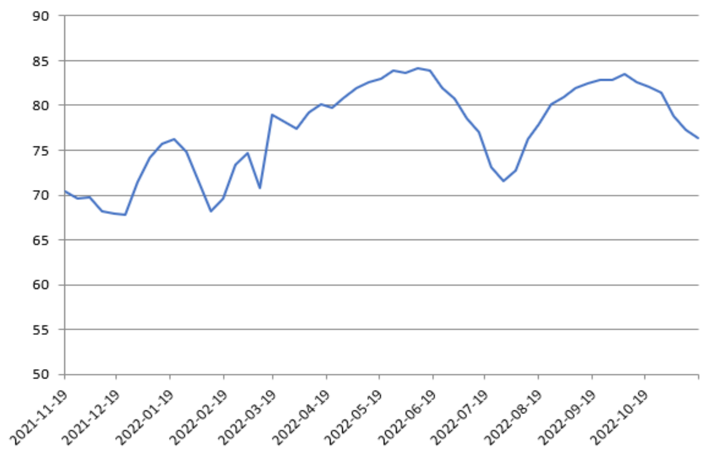
- Iron ore port inventories in the short-run stabilised, supported by the increasing shipments however resisted by strong consumption.
- The 65% and 62% iron ore spread maintained a $12 - $14 difference for most of the time in June, with a mixed outlook on steel margins.
- Pig iron production reached 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

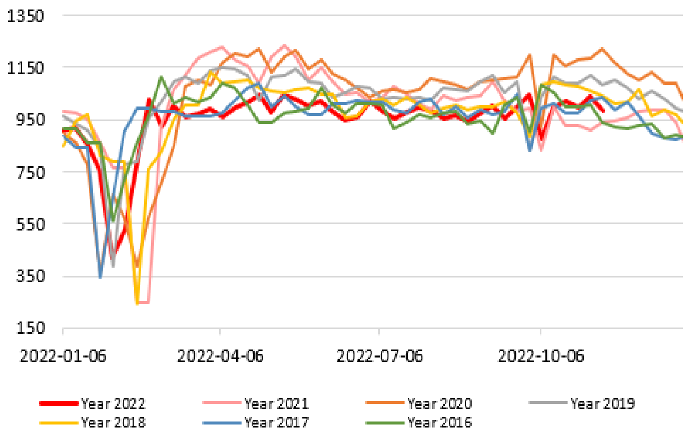
Steel

	Last	Previous	% Change
US HRC Front Month (Dollar/mt)	663	662	**0.15%**
LME Rebar Front Month (Dollar/mt)	728	722	**0.83%**
SHFE Rebar Major Month (Yuan/mt)	3715	3603	**3.11%**
China Hot Rolled Coil (Yuan/mt)	3863	3797	**1.74%**
Vitural Steel Mills Margin(Yuan/mt)	17	43	**-60.47%**
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%**

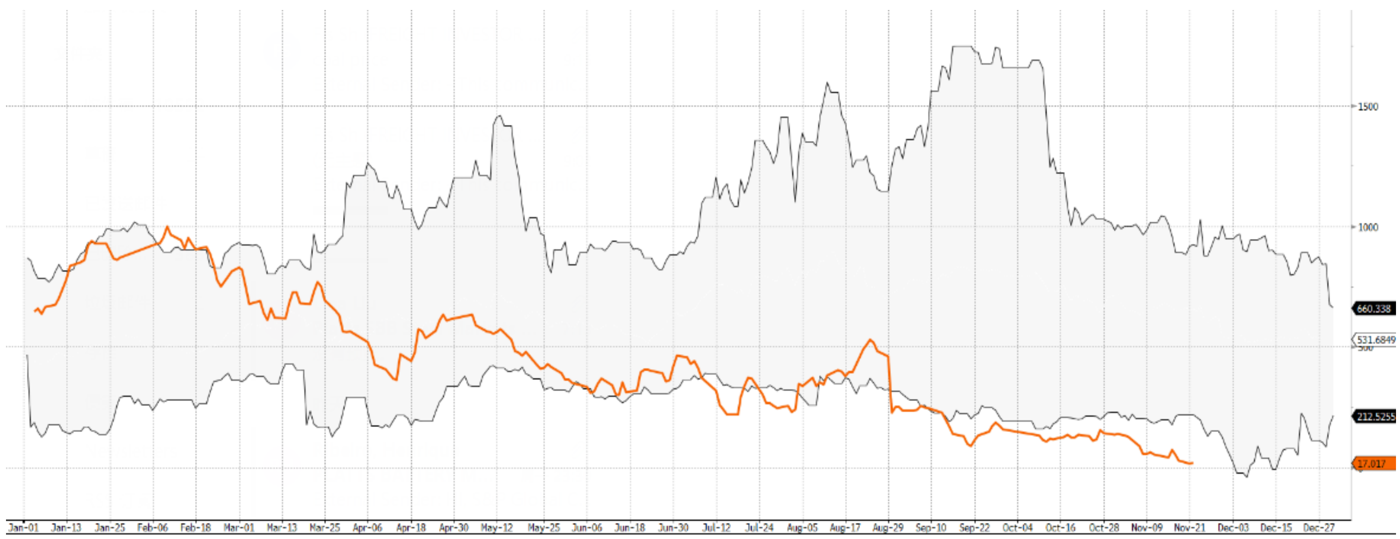
MySteel 247 mills BF Operation Rate in %



China Five Major Steels Apparent Consumption(10,000 tonnes)



Virtual Steel Mill Margins (Five-Year Range)

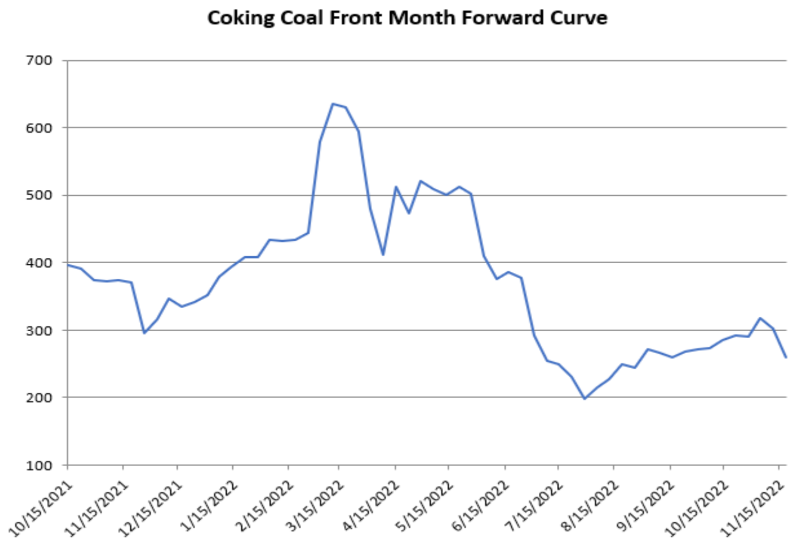


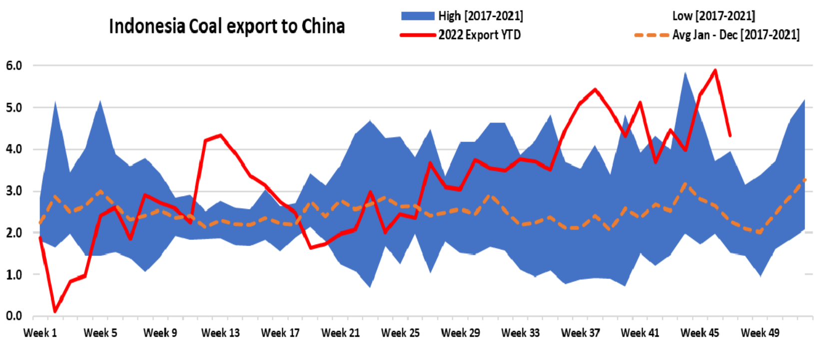
Data Sources: Bloomberg, MySteel, FIS

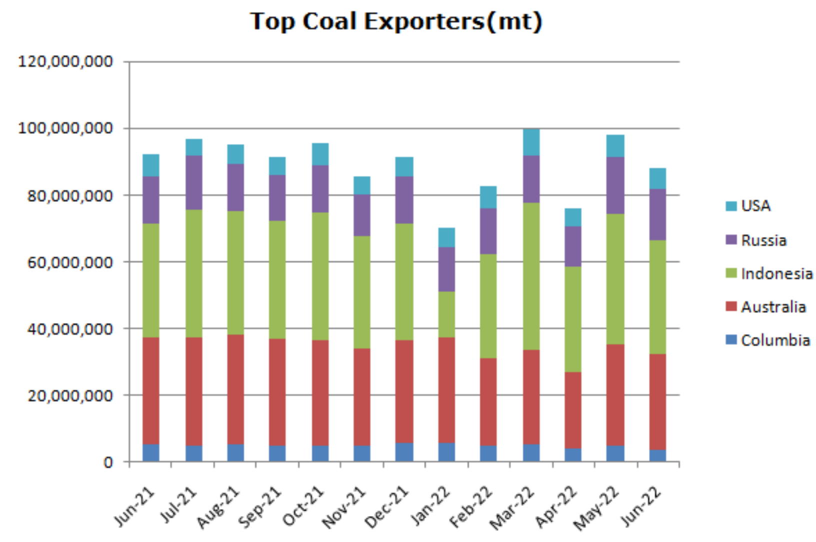
- Virtual steel mill margins rebounded from 43 yuan/ton to 17 yuan/ton. The market expected a statistical "chase" at steel price compared with raw materials to support the current margin level.
- The weekly five types of steel consumption maintained resilience at 9.5 – 10.2 million tons area.

Coking Coal

	Last	Previous	% Change
TSI FOB Premium Hard Coking Coal (Dollar/mt)	255.25	298	**-14.35%**
Coking Coal Front Month (Dollar/mt)	259.67	302	**-14.02%**
DCE CC Major Month (Yuan/mt)	2168.5	2090	**3.76%**
Top Six Coal Exporter Weekly Shipment	16.81	20.38	**-17.52%**
China Custom total CC Import Unit mt	6,207,862	6,844,788	**-9.31%**







Coal Key Points

- The weakening steel margin in Asian countries as well as the production cut in European countries might 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 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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