FIS Ferrous Weekly Report

info@freightinvestor.asia | freightinvestorservices.com | (+65) 6535 5189

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⇒ **Iron ore Fe62% CFR China:** short-run **Neutral to bullish**. The iron ore spike eroded the steel margin to 0 again. Thus raw materials might 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 potentially 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 previously quoted price, which dragged down the index significantly.

Prices Movement	28-Nov	21-Nov	Changes %	Sentiment	
Iron Ore Fe62% CFR China($/MT)	**98.90**	**96.25**	**2.75%**	**Neutral to Bullish**	↗
Rebar 25mm Shanghai (Yuan/MT)	**3810.0**	**3790.0**	**0.53%**	**Neutral to Bullish**	↗
U.S. HRC Front Month ($/MT)	**655.0**	**665.0**	**1.5%**	**Neutral to Bullish**	↗
Hard Coking Coal FOB Australia($/MT)	**247.0**	**255.25**	**3.23%**	**Neutral**	-

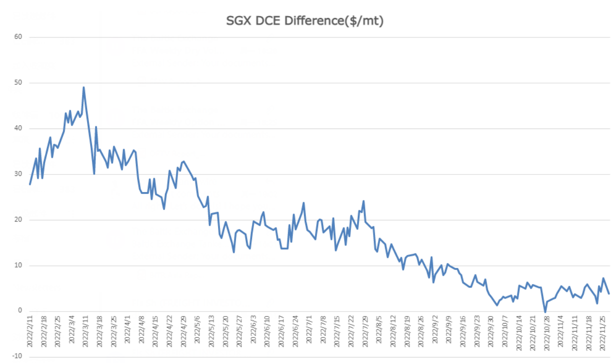
Market Review:

Iron ore Market :

The iron ore 62% index increased by 2.75% last week. The seaborne market volume recovered and mid-grade regained popularity. In particular low-grade value improved during the current two quarters. Externally, China's guarantee on house deliveries entered an "acceleration phase" in November and December. Chinese central bank People's Bank of China (PBOC) cut its required reserve ratio (RRR) by 0.25% last Friday to an average bank ratio of 7.8%, which was equal to releasing 500 billion yuan as long-run liquidity to the market. China has issued 16 measures to encourage housing development, followed by a strong sentiment on the ferrous and housing equities market this week. On the downside, the market was still concerned with the challenging pandemic conditions, which brought uncertainties to the downstream demand. As a result, the industrial value added in China was down 3% on the year for the first ten months, among which the ferrous industry suffered a 92.7% drop for the year.

The sharp rise of iron ore might face some resistance to the lowered high blast pig iron demand and steel production figures. Luckily, the volunteered production cut from big steel mills took effect and reduced the environmental-related restriction onwards. As a result, physical and virtual steel margins were squeezed to a historically low area with 0 margins. However, the market expected the stabilisation of downstream reopens to support the recovery of steel prices and margins in winter.

After the tariff cut on pellets and low grade by the Indian government, the pellet exports still suffered a halt because of the general low margins in blast furnaces in Asia. However, several Indian low-grade fines were traded at a fixed price last week. Some mills were considering blending with some low-priced Indian fines to control costs. Thus, most mills indicated maintaining the input proportion till the end of 2022. The low-grade margin supply is expected to increase in future. 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 low steel margins and a low requirement on the output.



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 .

Data Sources: Bloomberg, Platts, Fastmarket, FIS

Market Review (Continued)

The (Pilbara blended fine) PBF float basis declined from $0.95 to $0.46 during the past week. The float premium consolidated from $0 - $1.5 during the last three months. The drop was due to the increasing supply on mid-grade and the fast growth of fixed price squeezed down the float price. The market prefers fixed trade in November based on prompt demand.

The Dec-Jan23 spread narrowed from $0.95 - $1 to $0.7 during the week, indicating that the market has become cautious about the sudden increased price. However, the structure of the spread should be supported by the resilience of current demand versus a far uncertain market.

Iron ore inventories recovered to a slow picking-up trend from 129 million tons to 134.84 million over the last five weeks. MySteel researched sample pig iron production at 2.2256 million tons, down 22,900 tons weekly, 208,900 tons higher than last year. Blast furnace utilisation rate at 77.03%, up 0.68%. There are signals that the iron ore demand on the mills' side maintains resilience. Virtual steel margin recovered slightly from 17 yuan to 28 yuan; however, the area below 50 yuan generally means most mills suffered a loss.

In summary, the market is expected to remain strong in the short run.

Neutral to Bullish

Downstream/Policies/Industry News:

China cut RRR by 0.25%, weaker than the expected 0.5% in May, equivalent to the release of 500 billion yuan. China pandemic infected numbers grew faster in November, raising concerns about the downstream market's normal operation. China's industrial value-added amount was above the designated scale and reached 6.98 trillion yuan from January to October, down 3% on the year. The ferrous metallurgical industries were down 92.7% in the year. China Securities Regulatory Commission (CSRC) spokesman supported the refinancing function of properties and related listed companies. The equity sectors and ferrous followed a significant growth after the news was published.

The government urged the Indian steel industry to increase exports and regain the market share lost during mid-2022. Vale, one of the biggest iron ore pellet producers, concluded its pellet premium definition process for Q1 2023 at $52/dmt to Fe65% index, down $23.6 from the Q4 2022 because of the low steel margin drive down the Atlantic and Asia Pacific markets.

Participants at the Southeast Asia Steel Institution conference concluded that around 90.8 million tons of steel capacity in southeast Asia would be built, without mentioning the time, expecting oversupply in the area.

Global Steel Market:

The European Hot-Rolled Coil (HRC) and plate steel market generally saw recovered sentiments in southern Europe, although Platts NE HRC index decreased from €625/mt to €605/mt. Steel mills are still looking to destock in December HRC because of the high inventories in service centres and mills. However, some mills started to see recovered sentiments as the order books were filled in January. During the last two weeks, the international exporters were almost muted in the south Europe market.

In the downstream market of Europe, auto-makers have been taking 20% or more steel in the current two months. Italian mills were chatting about the price increase in Q1 2023, targeting €650/mt ex-works. Although some large mills currently sold HRC at €580/mt for December deliveries, they are generally aiming higher for early 2023.

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

Market Review (Continued)

Major Chinese mills held offers unchanged at $540 – $550/mt FOB China for SS400 HRC. A small quantity was sold at $560/mt to South Korea. Japanese offers for SS40 were at $535 FOB Korea and became competitive with Chinese offers. Vietnamese buyers would only consider orders at $530/mt CFR Vietnam, which was not accepted by any seller. Vietnamese mill Hoa Phat was reluctant to take orders below $540.
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 – 3810 yuan/ton during most of Q4. Virtual steel margin squeezed to extreme levels from 0-50 yuan/ton during the past three weeks, a year-low. On the other hand, five typical steel consumption numbers generally maintained resilience from 9.5 - 10.2 million tons after April. Daily construction steel trading volume improved from 150,000 mt to 170,000 mt from early November to late November.

Flat steels started to lose their competitive advantage in the European and S.E. Asia market. However, northern Chinese mills hold export HRC unchanged, indicating a strong outlook in the oversea market in Q1 2023. Chinese January to October auto sales reached 22.67 million units, up 8.1% on the year, faster than the compound annual growth rate of auto sales at 6.44% from 2010-2021.

Domestic rebar recovered from loss firstly on the futures market, following the continuous housing strategies to support building and prompt deliveries by year-end. The capital market was interested in speculating on housing equities. Tier I private property group Vanke and Longfor received credit lines from commercial banks. The market expects more details of 16 measures to support the housing sector.
In summary, rebar price has room to recover since it might catch up with iron ore growth soon.

Neutral to Bullish

Coal Market:

The FOB Australia coking coal market saw a peaceful week after a huge correction of 24% previously. There were massive PMV trades of around $245 - $247, majorly from Goonyella, Peak Downs North, Moranbah North and Riverside. The trades indicated a sufficient supply in December laycans and a well -recovered demand market. However, physical traders were concerned that the weak demand for the steel market and the thin margins needed to be stronger to support the continuous rebound of coking coal.
China coking coal port prices increased for the pre-New Year winter stock. In addition, most of China's cities will enter winter this week following a sharp drop in temperature.

Neutral

Sources: Argus, IHS Commodities at Sea Service, FIS

Technical view of the Ferrous Markets:

Iron Ore

Dec Futures – Technically bullish last week with downside moves below USD 93.90, warning the futures were entering a corrective phase. The futures traded below the USD 93.90 level (low USD 92.90); however, we noted on the intraday technical that the price was holding above the 55-period EMA supported by the RSI above 50, with the stochastic oversold, warning we could see another test of the upside. Intraday Elliott wave analysis told us that the pullback from the 99.15 high meant we had seen a cycle completion; the new high implies we have started a new bull cycle, suggesting resistance levels are vulnerable, regardless of the intraday divergence. We had an air of caution this morning due to the social unrest in China, which could have a bearing on the wave cycle, as this is based on the psychological footprint of the market. However, the futures are again moving higher (current price USD 100.85), suggesting we have the potential to trade as high as USD 115.15 within this phase of the cycle. Technically bullish, the futures are only bearish below USD 92.90.

Steel

December Futures – The futures traded to a high of USD 683 last week, creating an intraday double top in the market, resulting in a pullback to USD 660 today (28/11). Technically we remain bearish on the daily but bullish on the intraday, with the futures testing the intraday fractal support at USD 660; if broken, the intraday technical becomes bearish. The futures initially moved higher on a positive divergence on the intraday, with the upside move above the fractal resistance suggesting the downside cycle may have been completed. Key resistance remains unchanged at USD 699; the futures are bearish below and neutral above. However, downside moves that hold at or above USD 642 will support a near-term bull argument, leaving resistance levels vulnerable. Technically bearish on paper, we have more of a neutral bias due to the completed intraday wave cycle, as it suggests resistance levels remain vulnerable, implying caution on downside moves.

Coking Coal

December Futures – As previously stated, the upside move in the futures was proven to be a countertrend move, with prices moving lower over the last couple of weeks. Technically bearish, we have now broken the targeted 245.50 support (low USD 244.33), with the futures moving higher. Based on the depth of the move on the RSI, we now consider upside moves as countertrend, suggesting resistance levels should hold if tested; upside moves that fail at or below USD 299 will leave the futures vulnerable to further tests to the downside, above this level the technical will have a neutral bias.

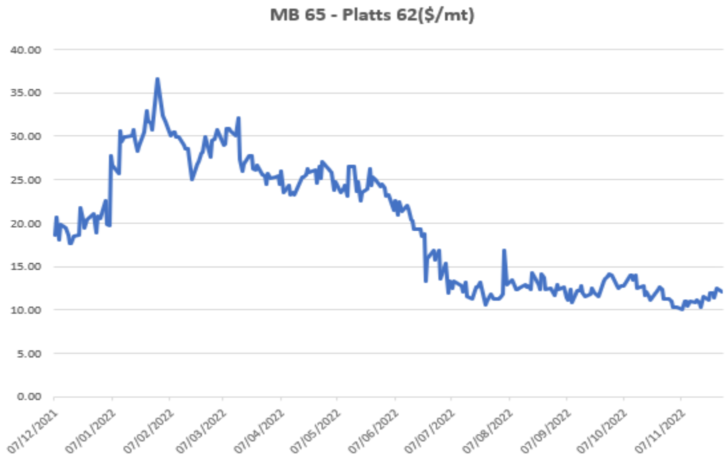
FIS Senior Analyst, Edward Hutton

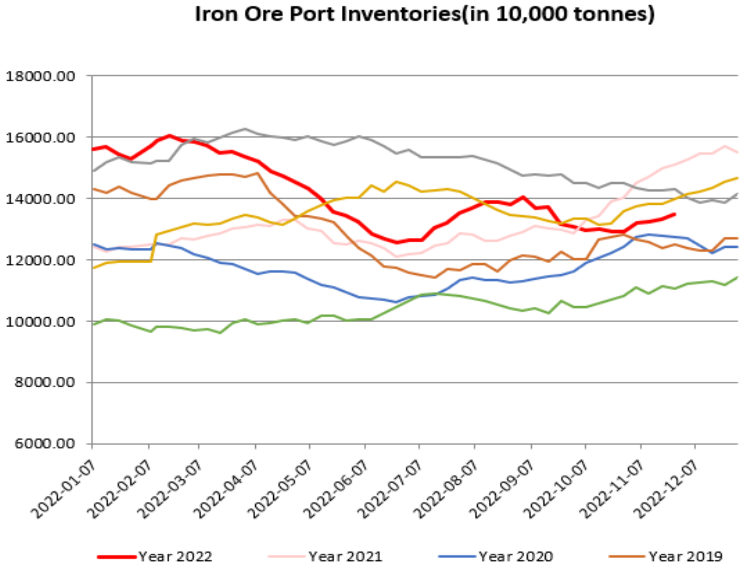
Chart source: *Bloomberg*

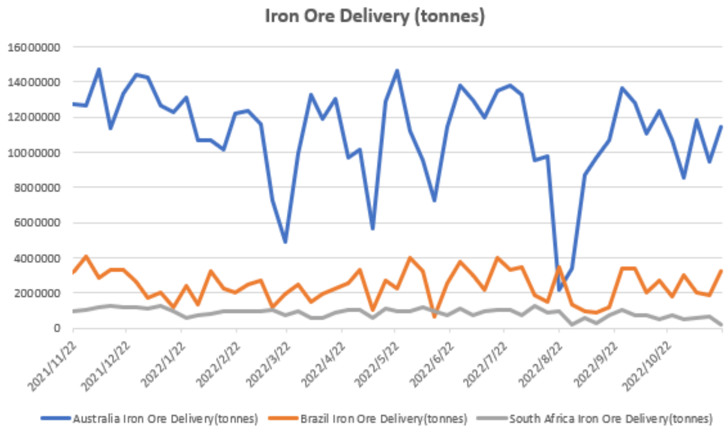
Sources: Argus, IHS Commodities at Sea Service, FIS

Iron Ore

	Last	Previous	% Change
Platts 62% Fe (Dollar/mt)	98.9	96.25	2.75%
MB 65% Fe (Dollar/mt)	111	107.4	3.35%
Capesize 5TC Index (Dollar/day)	13845	9363	47.87%
C3 Tubarao to Qingdao (Dollar/day)	19.294	17.75	8.70%
C5 West Australia to Qingdao (Dollar/day)	9.13	7.665	19.11%
Billet Spot Ex-Works Tangshan (Yuan/mt)	3540	3560	-0.56%
SGX Front Month (Dollar/mt)	99.15	98.60	0.56%
DCE Major Month (Yuan/mt)	738	745.5	-1.01%
China Port Inventory Unit (10,000mt)	13,484.64	13,319.04	1.24%
Australia Iron Ore Weekly Export (10,000mt)	1,141.70	943.90	20.96%
Brazil Iron Ore Weekly Export (10,000mt)	325.90	184.20	76.93%







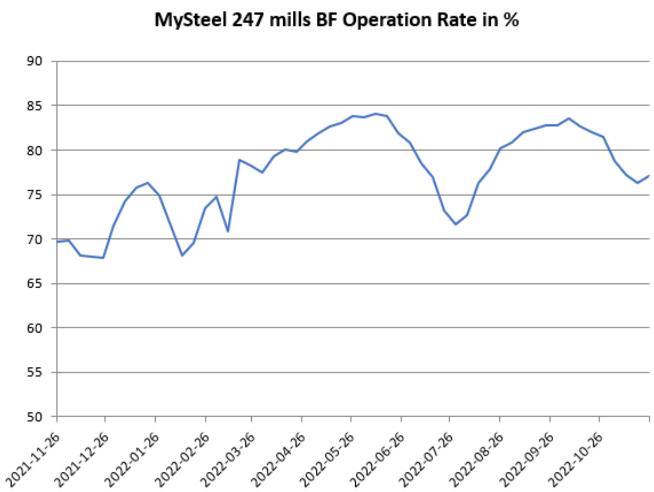
Iron Ore Key Points

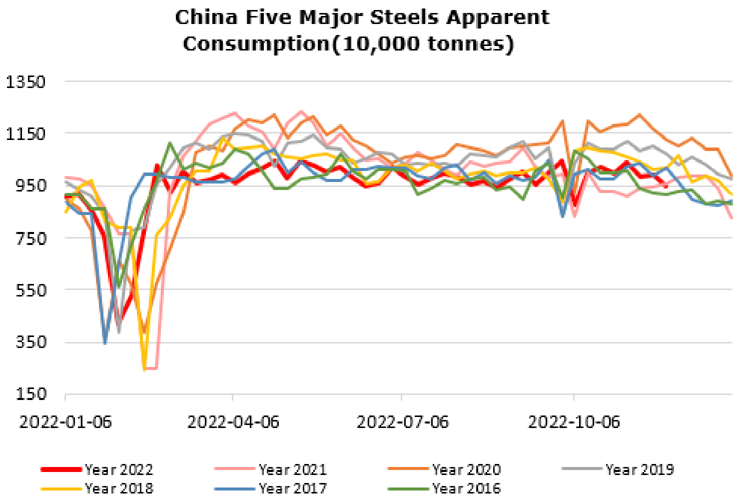
- Iron ore port inventories recovered and maintained a balanced mode in winter.
- The 65% and 62% iron ore spread maintained a $12 - $14 difference for most of the time in June, with a mixed outlook on steel margin.
- Pig iron production reached 2.4 million tons/day in major Chinese steel mills, then fell back to 2.22 million tons/day. Pig iron marginal demand became weaker in November. However, expected to maintain seasonal strong as delayed demand downstream is expected to come back in December.

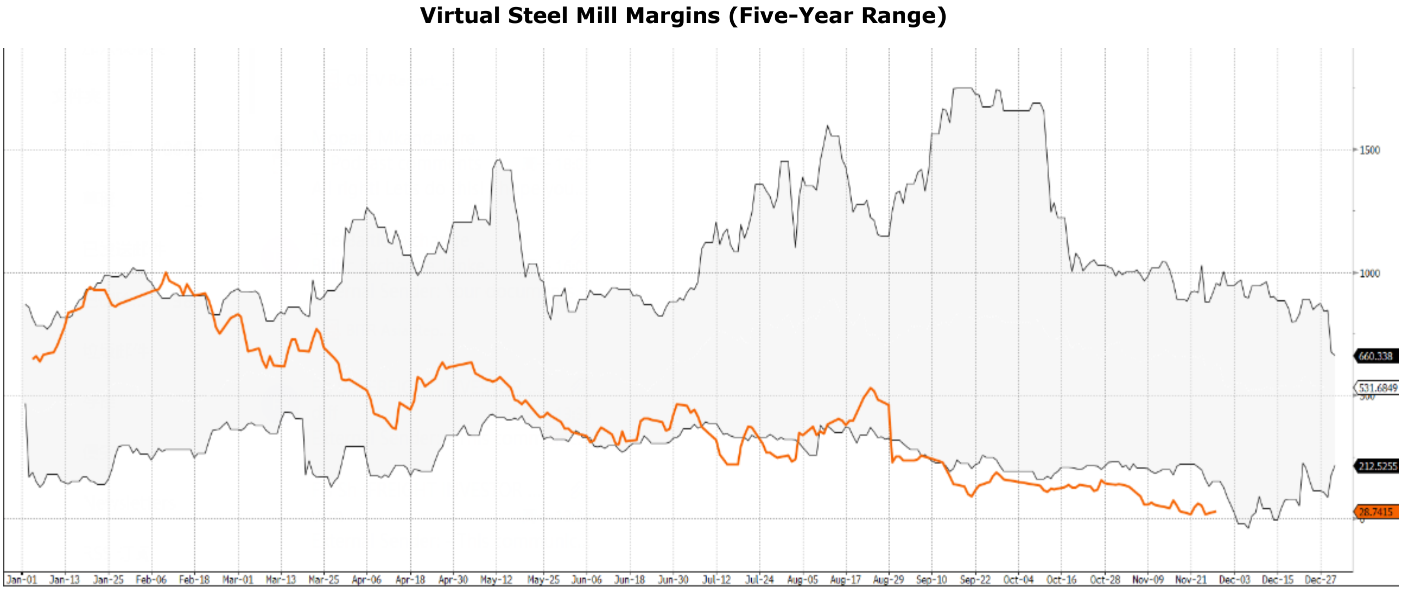
Data Sources: Platts, Fastmarkets, MySteel, Bloomberg, FIS

Steel

	Last	Previous	% Change
US HRC Front Month (Dollar/mt)	656	663	**-1.06%**
LME Rebar Front Month (Dollar/mt)	728	722	**0.83%**
SHFE Rebar Major Month (Yuan/mt)	3691	3715	**-0.65%**
China Hot Rolled Coil (Yuan/mt)	3863	3863	**0.00%**
Vitural Steel Mills Margin(Yuan/mt)	28	17	**64.71%**
China Five Major Steel Inventories Unit (10,000 mt)	2489.64	2371.33	**4.99%**
Global Crude Steel Production Unit (1,000 mt)	79800	87000	**-8.28%**
World Steel Association Steel Production Unit(1,000 mt)	147,300	151,700	**-2.90%**





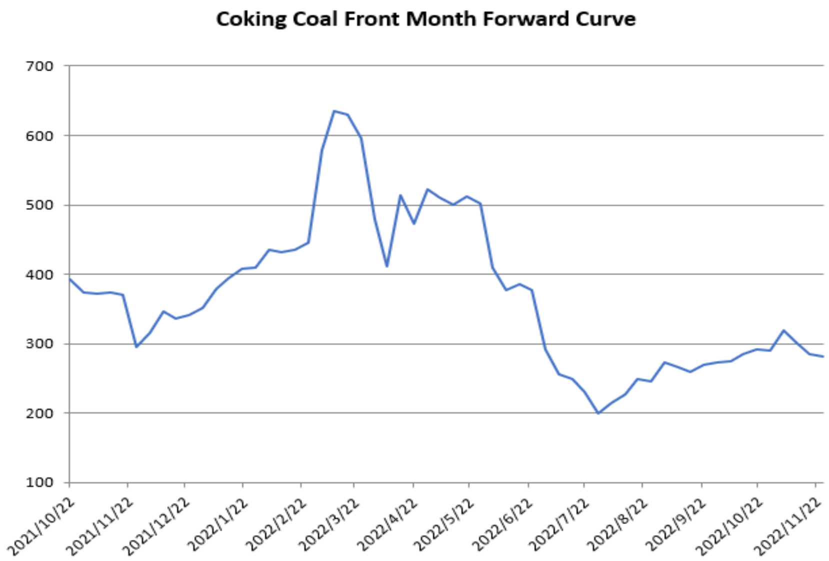


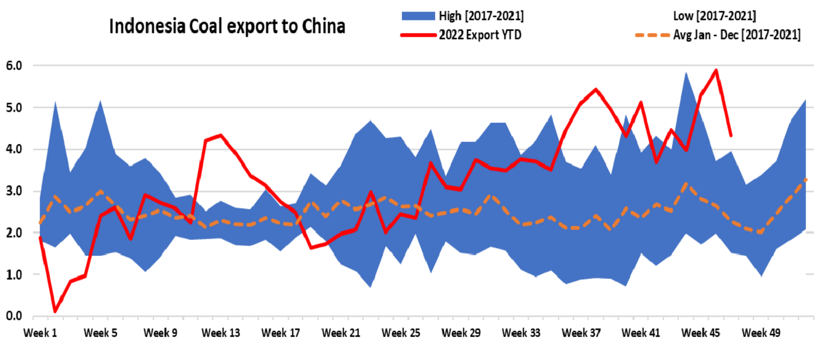
Data Sources: Bloomberg, MySteel, FIS

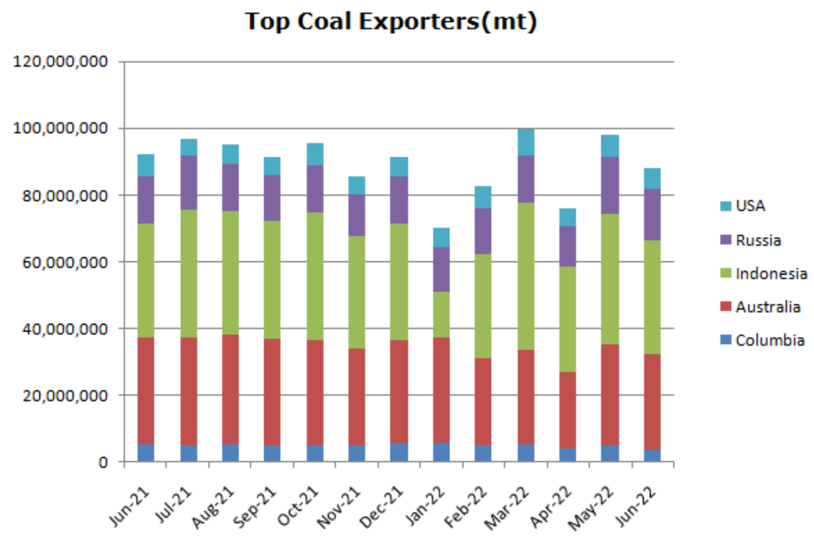
- Virtual steel mill margins maintained low from 0 - 50 yuan/ton. The market expected a statistical "chase" at steel price compared with raw materials to support the current margin level.
- The weekly five types of steel consumption maintained resilience at 9.5 – 10.2 million tons area.

Coking Coal

	Last	Previous	% Change
TSI FOB Premium Hard Coking Coal (Dollar/mt)	247	255.25	-3.23%
Coking Coal Front Month (Dollar/mt)	280.67	285	-1.52%
DCE CC Major Month (Yuan/mt)	2172.5	2168.5	0.18%
Top Six Coal Exporter Weekly Shipment	18.91	20.38	-7.21%
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 and the production cut in European countries might decrease the affordability of premium coal brands. As a result, 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 exports to China were peaking 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.

Written by **Hao Pei**,
FIS Senior Research Analyst

Edited by **Mopani Mkandawire**,
FIS Content Manager
News@freightinvestor.com, +44 207 090 1120