FIS

Ferrous Weekly Report

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8/11/2022

⇒ **Iron ore Fe62% CFR China:** short-run **Neutral to bullish**. Iron ore improved last week due to the price-in of systematic risk on U.S. interest hiking and marginal recovery on the Chinese pandemic.

⇒ **Rebar 25mm Shanghai** short-run **Neutral to bullish**. North-western and south-western Chinese provinces jointly started production curb to protect steel margin and control supply.

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

⇒ **Hard Coking Coal FOB Australia** short-run **Neutral**. The market improved as new laycans were traded to support higher demand.

Prices Movement	7-Nov	31-Oct	Changes %	Sentiment	
Iron Ore Fe62% CFR China($/MT)	87.95	79.0	11.33%	Neutral to Bullish	↗
Rebar 25mm Shanghai (Yuan/MT)	3760.0	3690.0	1.90%	Neutral to Bullish	↗
U.S. HRC Front Month ($/MT)	669.0	713.0	6.17%	Neutral to Bullish	↗
Hard Coking Coal FOB Australia($/MT)	320.5	311.5	2.89%	Neutral	-

Market Review:

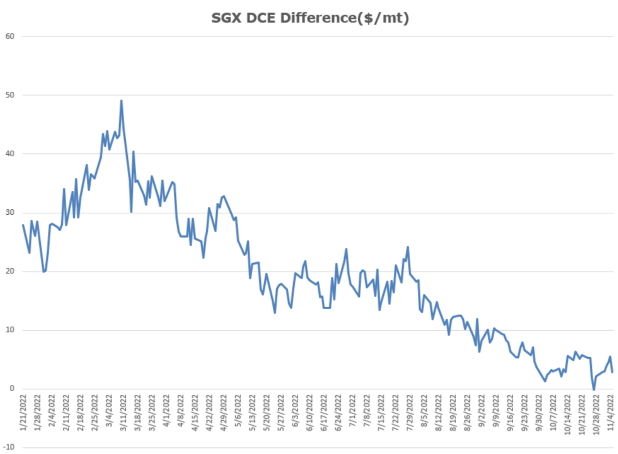
Iron ore Market :

The iron ore 62% index improved by 11.33% after the most significant single-week drop in the previous week by 15%. Daily pig iron was 2.32 million tons in China, down from 2.4 million tons significantly over the last two weeks, indicating that the pig iron production entered a marginal diminishing phase. In addition, the EAFs operation rate recovered substantially from 52% in mid-October to 62% last week, driven by well-recovered margins and lower scrap prices. The increased production in EAFs and marginally decreased pig iron demand both resist the iron ore price.

North-western Chinese provinces started joint production cuts, with a total impact of 100,000 mt of pig iron production daily. Some sources indicate that southwestern provinces started some meetings to discuss joint production curb. The initiative production controls this round shifts the winter curb in advance.

The exchange rate fluctuation cooled down after the landing of the U.S. interest rate decision. Copper, crude oil, gold and iron ore all rebounded due to the price-in of the systematic risk. The US Federal Reserve's decision played a less marginal impact on the secondary market as major economies rehearsed the monetary route in 2023.

MACF market was muted because the discount failed the market expectation. Traders shifted their interest to the PBFs market. However, mills were generally cautious about buying seaborne cargoes, although the macro sentiments looked positive during the past week. Weak steel margins resisted mills from buying high-premium cargoes, including high-grade pellets, lumps, or premium-based concentrates. PBF and NHGF discounts recovered from $0.5 - $0.55 to $1.6 - $1.65 during the week. However, market participants expected a roof for float basis.



The import margin for PBF seaborne raised significantly as the fast drop of midstream seaborne iron ore. SGX—DCE difference returned to a historical low at $2.85. The virtual steel margin dropped again from 150 yuan/ton to 78 yuan/ton. The low difference was unsustainable and expected to bring back some arbitrage opportunities.

Data Sources: Bloomberg, Platts, Fastmarket, FIS

Market Review (Continued)

The lump premium dropped from $0.158dmtu to $0.1305, as expected after speculation on the golden weeks and national congress. The environment-related curb may reduce because of steel mills' early proactive curb action. Thus, mills may need fewer lumps than usual in winter.

Chinese iron ore port inventories stabilised at around 129– 130 million tons in the past four 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. Overall, the market is expected to extend a rebound.

Neutral to Bullish

Downstream/Policies/Industry News:

U.S. November Federal Open Market Committee (FOMC) meeting ended with a 75 bps interest hike, as analysts and Fed governors expected. There is currently a mixed outlook on the decision in December. However, the upper-interest rate level increased from 4.75% to 5%, and the length of the interest hike was also raised. Non-agriculture employees reached 261,000, significantly higher than the expected 205,000. Bank of England increased the interest rate by 75 bps to 3%, refreshing a new high since 2008. Reserve Bank of Australia increased the interest rate by 25 bps to 2.85%. U.S. ISM PMI October PMI 50.2 refreshed a new low since June 2020. The ECB officer indicated that the bank may increase the interest rate by 75 bps this December, which would slow down the interest rate in 2023.

Chinese governors launched a speech at Import Expo that China would promote all countries to share the country's market opportunities, accelerate the construction of a bigger domestic market, optimise the trade mechanism, innovate the trade and services, and expand the import of high-quality products.

Global steel production declined 4.3% year-on-year to 1.41 billion mt in the first nine months of 2022. European steelmaker ArcelorMittal will temporarily shut one of its two 2 million mt/year blast furnaces in Fos-sur-Mer, France.

Global Steel Market:

Platts North European HRC Index stabilised from €640/mt to €650/mt during the past two weeks. Some market participants believe the European HRC market is close to the bottom and could rally from the beginning of 2023. Contract buyers have been patient in settling deals since the sharp downside of the last seven months. HRC price dropped by half from the start of April to early November. The macro sentiment weakness weighed more on the global steel market than the fundamental factors. However, as the destocking of steel and production cuts in mills become the new norm in European countries, the supply has already become very tight to match the current demand. Approximately 18 million tons of steel capacities have been idled. The largest Vietnam steelmaker Hoa Phat halted four blast furnaces because of the fast dropping in the construction steel market.

A Visegrad-based steelmaker said it sold at €645/mt for prompt deliveries into Germany. Steel services centres said they could buy from large mills at about €660/mt. Prices at €650/mt were actively traded early this week. Declining sheet prices and higher coil inventories forced steel service centres to reduce output in the past three months.

In the Asian market, HRC FOB China was reported at $519, which maintained stable for the past few days. The marginal ease of curb expectations supported the entire investment sentiment. However, physical steels were not reacting to or following the other commodities. Chinese mills insisted on offers at and above $520 FOB China. However, buyers were still interested. A small SS400 HRC was traded at $540 from China to Africa. Some sellers lifted SS400 HRC offers to $505-510/mt CFR Vietnam. Vietnamese buyers raised bids by $10 to $495/mt for prompt laycans.

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

Market Review (Continued)

Turkish HMS 1/2 80:20 heavy scrap index dropped to $350 from $356 last week. The correction was related to a heavy melting scrap 1/2 80:20 traded at $350/mt CFR. Baltic-origin deal was booked by an Izmir mill at $348/mt CFR. Previously, the similar cargo was booked at a higher price at $354 - $355/mt.

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

Neutral to Bullish

Chinese Steel Market:

During the past week, Shanghai's domestic 25mm rebar moderately raised by 1.9% to 3760 yuan/ton, given that the iron ore increased by 11.33% during the same period. As a result, the virtual steel margin was squeezed to an extreme level from 150 yuan/ton to 78 yuan/ton. Five steel-type consumption numbers returned to a five-week high at 10.39 million tons, representing a stable and healthy demand market.

Arbitragers believed that the Jan 23 and May 23 spread narrowed from 70 yuan to 40 yuan, approaching a historical low, which shouldn't become a long-lasting scenario according to historical statistics at the 200 - 400 yuan range as a normal level. On the other side, participants from the industries revealed that demand was shifting 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 are the most significant future products listed in the Asian market. The return to fundamental in the next few weeks may see a partial recovery of the loss created by systematic risk.

Overall, the price-in of systematic risk should bring back a more significant recovery in steel prices.

Neutral to Bullish

Coal Market:

This week, the PLV FOB Australia coking coal index improved from $311.5 to $320.5. The uptick was based on PMV HCCA branded trade at $320 for 40,000mt. In addition, another deal was reported at $315 for Goonyella PMV cargoes. Indicative bids were broad, with Indian steel mills at $290 to $300. End-users believed the coking coal price should be unsustainable without significant additional demand in India or ASEAN market.

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. Major steel mills in China are proposing the second round of price cuts of 100 yuan/ton. Further rounds of met coke price cuts were discussed. As a result, portside prices for coking coal and coke in northern China dropped last week.

Overall, the current FOB Australia market is potentially overvalued compared with other coking coal markets. However, the price should be supported because of the supply tight.

Neutral

Sources: Argus, IHS Commodities at Sea Service, FIS

Technical view of the Ferrous Markets:

Iron Ore

December Futures – Technically bearish last week due to the futures trading to new lows alongside its RSI, upside moves were considered countertrend, suggesting resistance levels should hold if tested. The futures are moving higher, but the price remains below the USD 90.16 resistance; upside moves that reject this level will leave the futures vulnerable to further tests to the downside; above this level, the technical will have a neutral bias. Price is below all key moving averages, supported by the RSI below 50, and near-term momentum is to the buyside. A close below USD 84.30 will warn that buyside momentum is starting to weaken. Technically bearish with key resistance to follow at USD 90.16.

Steel - US HRC

December Futures – Technically bearish on the Dec contract last week, with the price looking like it could be on an Elliott wave-5. We had a note of caution due to a minor divergence with the RSI; however, if the divergence failed, it would have bearish implications in the future. The futures traded to a low of USD 623 before finding light bid support, the price is currently trading at USD 659. The positive divergence has failed, suggesting that upside moves should be considered a countertrend, as it now looks like we potentially see some form of Elliot wave extension to the downside. Upside moves that fail at or below USD 700 will leave the futures vulnerable to further tests to the downside. Above this level, the technical has a neutral bias. We now have a potential downside target of USD 535 in the near term.

Coking Coal

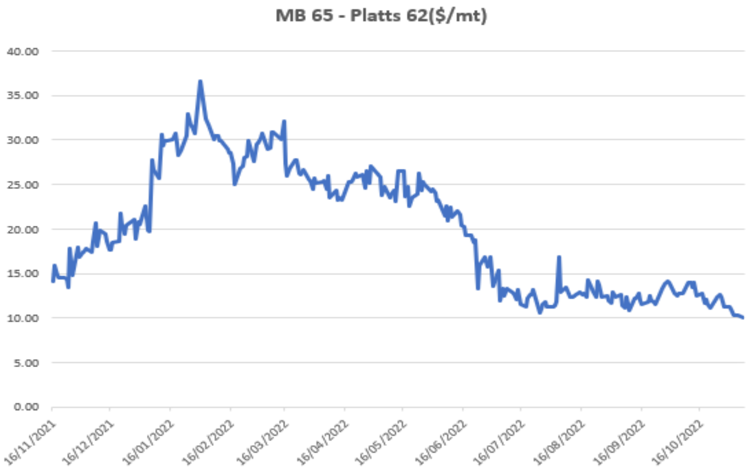
December Futures – Near-term price action remains bullish, with price above the 8-21 period EMA's having made higher highs: however, from a technical perspective, the upside move looks like it could be a countertrend, as the futures remain below the USD 344 resistance. Upside moves that fail at or below this level will leave the futures vulnerable to further tests to the downside. Above this level, the technical will have a neutral bias. Upside moves above USD 327 will create a negative divergence with the RSI, not a sell signal, it does warn that we have the potential to see a momentum slowdown. Downside moves that hold at or above USD 289 will support a near-term bull argument. Below this level, we target the USD 270.50 fractal support. If we trade above USD 327, then key support is at USD 313.67. Below this level, the technical is bearish. Momentum is to the buyside, but the technical remains bearish. The potential divergence is a warning that we could see the technical weakening soon.

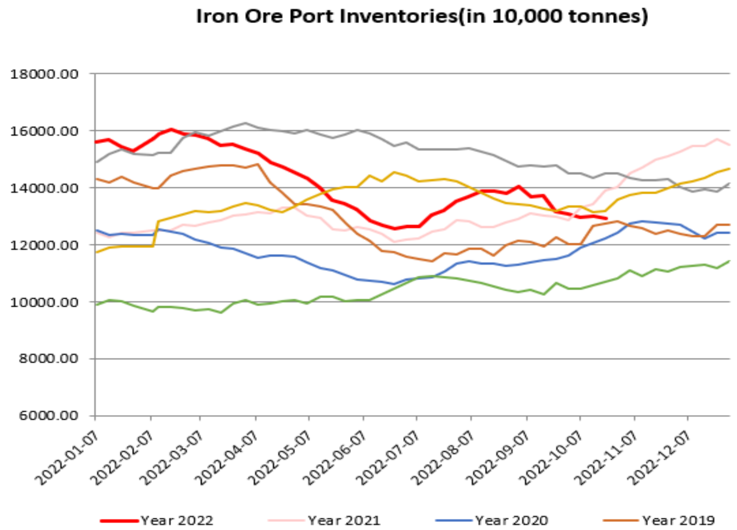
Chart source: Bloomberg

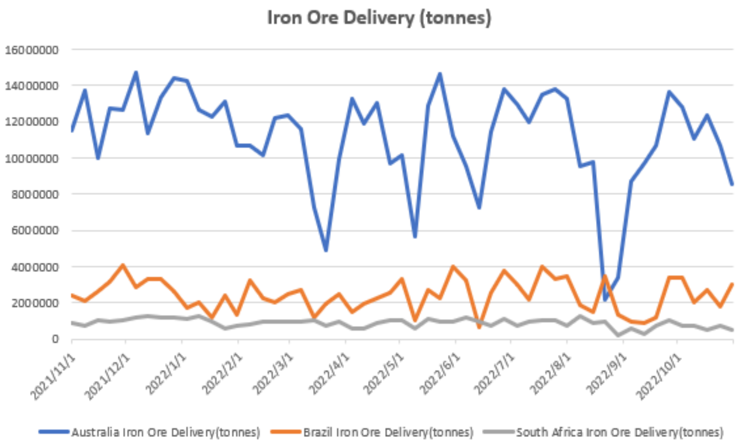
Sources: Argus, IHS Commodities at Sea Service, FIS

Iron Ore

	Last	Previous	% Change
Platts 62% Fe (Dollar/mt)	87.95	79.5	10.63%
MB 65% Fe (Dollar/mt)	98	90.8	7.93%
Capesize 5TC Index (Dollar/day)	11648	12933	-9.94%
C3 Tubarao to Qingdao (Dollar/day)	19.861	19.65	1.07%
C5 West Australia to Qingdao (Dollar/day)	8.12	8.535	-4.86%
Billet Spot Ex-Works Tangshan (Yuan/mt)	560	3510	-84.05%
SGX Front Month (Dollar/mt)	85.95	80.69	6.52%
DCE Major Month (Yuan/mt)	648	632.5	2.45%
China Port Inventory Unit (10,000mt)	13,193.46	12,944.22	1.93%
Australia Iron Ore Weekly Export (10,000mt)	852.50	1,064.40	-19.91%
Brazil Iron Ore Weekly Export (10,000mt)	303.60	181.10	67.64%







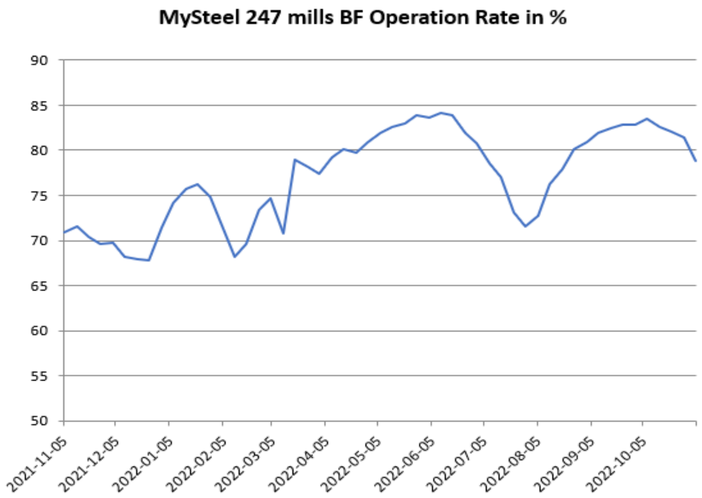
Iron Ore Key Points

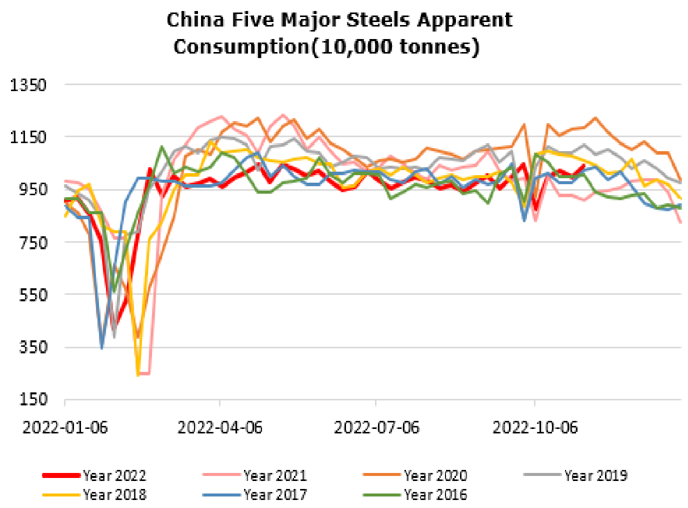
- Iron ore port inventories in the short-run stabilised, supported by the increasing shipments however resisted by strong consumption.
- The 65% and 62% iron ore spread maintained a $12 - $14 difference since June, with a mixed outlook on steel margins.
- Pig iron production reached 2.4 million tons/day in major Chinese steel mills, then fell back to 2.3 million tons/day. Pig iron marginal demand became weaker.

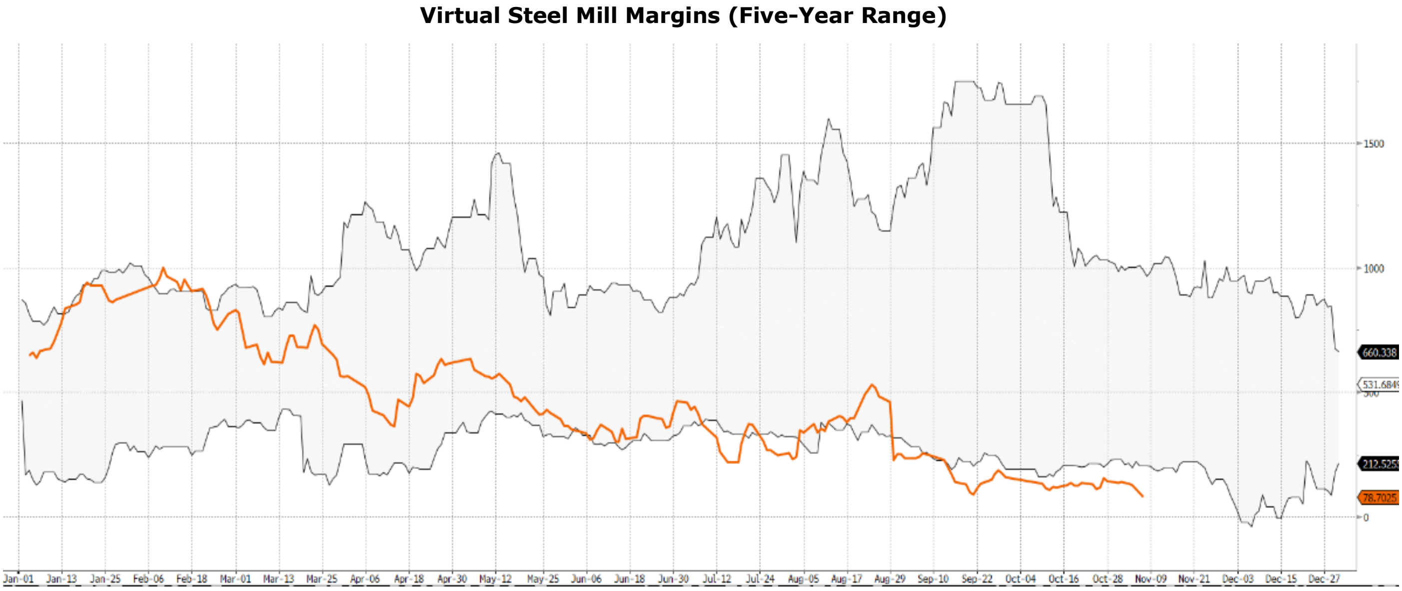
Data Sources: Platts, Fastmarkets, MySteel, Bloomberg, FIS

Steel

	Last	Previous	% Change
US HRC Front Month (Dollar/mt)	678	710	**-4.51%**
LME Rebar Front Month (Dollar/mt)	728	722	**0.83%**
SHFE Rebar Major Month (Yuan/mt)	3536	3517	**0.54%**
China Hot Rolled Coil (Yuan/mt)	3759	3797	**-1.00%**
Vitural Steel Mills Margin(Yuan/mt)	78	150	**-48.00%**
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%**





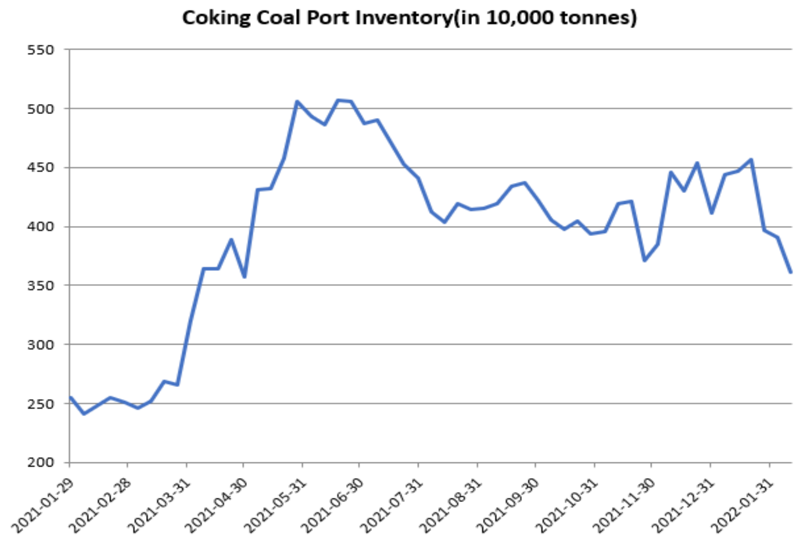


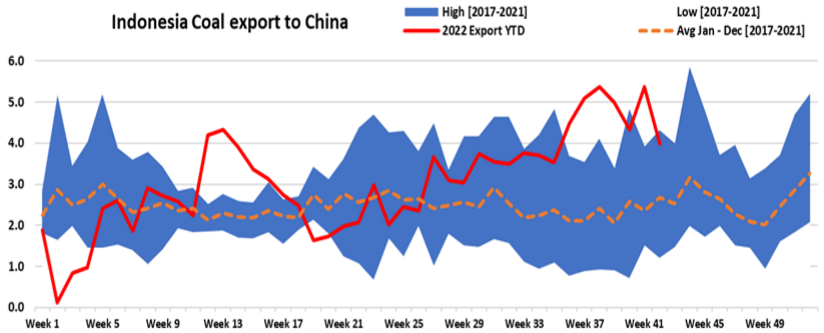
Data Sources: Bloomberg, MySteel, FIS

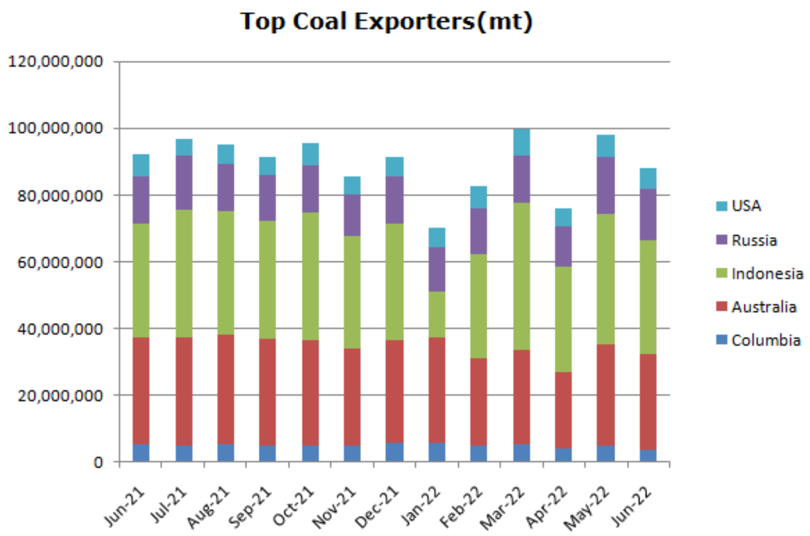
- Virtual steel mill margins rebounded from 150 yuan/ton to 78 yuan/ton. The market expected a statistical "chase" at steel price compared with raw materials to support the current margin level.
- The five weekly types of steel consumption recovered to a five-week-high, indicating a resilient demand market.

Coking Coal

	Last	Previous	% Change
TSI FOB Premium Hard Coking Coal (Dollar/mt)	320.5	311.5	2.89%
Coking Coal Front Month (Dollar/mt)	321	289.83	10.75%
DCE CC Major Month (Yuan/mt)	2009.5	1935	3.85%
Top Six Coal Exporter Weekly Shipment	17.33	19.57	-11.45%
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, 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 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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