FIS

Ferrous Weekly Report

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⇒ **Iron ore Fe62% CFR China:** short-run **Neutral**. Iron ore rebounded faster than other ferrous products, which potentially saw a roof if steel maintained slow movement.

⇒ **Rebar 25mm Shanghai** short-run **Neutral**. The sudden reversal of Chinese pandemic controls recovered confidence in downstream activities. However, the smaller winter stock amount gave a limited marginal demand for rebar.

⇒ **U.S. HRC Front Month** short-run **Neutral to bullish**. The better demand expectations for next Q1 supported the contango structure and far-end price.

⇒ **Hard Coking Coal FOB Australia** short-run **Neutral**. The resilient demand for PMV supported the current price level.

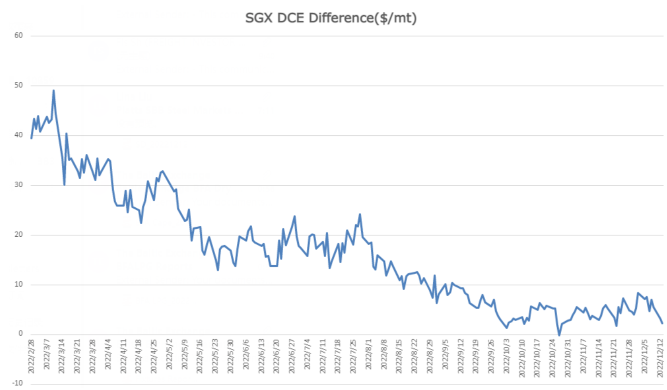
Prices Movement	12-Dec	5-Dec	Changes %	Sentiment	
Iron Ore Fe62% CFR China($/MT)	**110.25**	**109.6**	**0.59%**	**Neutral**	-
Rebar 25mm Shanghai (Yuan/MT)	**3880.0**	**3820.0**	**1.57%**	**Neutral**	-
U.S. HRC Front Month ($/MT)	**670.0**	**666.0**	**0.60%**	**Neutral to Bullish**	↗
Hard Coking Coal FOB Australia($/MT)	**249.5**	**250.0**	**0.20%**	**Neutral**	-

Market Review:

Iron ore Market :

The iron ore 62% index increased by 0.59%, as expected last week. The seaborne market volume recovered during the past two weeks as mid-grade regained popularity after a better outlook on the downstream recovery. Many cities in China partially gradually lifted pandemic control. In addition, December was believed to be the last month to complete house deliveries in China, and the ferrous demand and investment sentiment were driven up. However, the physical market was anxious to clear the account receivables and decrease inventory levels to strengthen the balance sheet by the end of the year, putting some pressure on the marginal raw materials market.

The recovery statistics potentially take more weeks to reveal on the supply and demand table as daily trading volume is still 12-13% weaker than the previous month and pig iron production was still in a week-to-week declining mode from mid-November. Virtual steel margin recovered to 63 yuan/ton quickly following the delayed rebound of steel price. Mysteel researched 91 blast furnace steel production margins improved by 45 yuan/ton to −37 yuan/ton. A continuous low margin from −50 to +50 yuan lasted most of Q4. The negative physical margin is expected to recover after the profit is transmitted from upstream to downstream. Pellets, lumps, and high grades are limited by low steel margins and the high base of the mid-grade index. The lump premium dropped from 0.1485dmtu to 0.13dmtu. Low grade gained continuous liquidity after the removal of export tax; Fe57% level concentrates were traded with a 22-23% discount over January Index. The recovery of Chinese road transportation potentially brings back the volume of the domestic concentrate to the market. There were very few production cuts heard this winter.



SGX-DCE spread smacked down from $7 to $2, as the low physical steel margin limited the buying power on the imported iron ores or far laycans. On the other side, DCE allowed two brands of domestic iron ore and SP10 to enter the delivery process, which lowered the value of DCE iron ore. Thus, SGX is expected to have more premium over DCE theoretically, which is to say, the spread is expected to recover above $10 in the long run.

Data Sources: Bloomberg, Platts, Fastmarket, FIS

Market Review (Continued)

As expected, the Jan-Feb23 recovered from \$0.6-\$0.65 to \$0.7-0.75. The market structure might increase to a steeper structure after proving the front-month resilient demand after China lifted more cities out of control.

Iron ore inventories maintained stable from 132 to 135 million tons during the past five weeks. Pig iron production was reduced to 2.1 million tons on a daily basis. However, the level was higher than in the same period over the last five years.

Overall, be aware of price reversal after the fast rebound.

Neutral

Downstream/Policies/Industry News:

U.K. total exported \$588.7 million equivalent of iron and steel products in November, rising 11.1% on the year, down 2.4% from October, published by the Office of National Statistics.

China central bank PBOC: November social financing 1.99 trillion yuan, down 610.9 billion yuan on the year. M2 money supply remains at 264.7 trillion yuan, up 12.4%, refreshed the fastest year-on-year growth since April 2016.

Europe Union planned to impose import tariffs on carbon emissions on steel, cement, and polluted commodities to support the European industries. Tata Steel UK's blast furnace aims to cut 160,000mt of CO2.

IMF predicted the global economy growth rate at 2.7% in 2023; there was a 25% probability that the growth rate would be lower than 2%. IMF predicted that at least 1/3 of the countries would fall into economic recession.

Global Steel Market:

As expected, the European HRC index improved from €630 in late November to €660/mt. Market participants have been discussing higher prices over the last two weeks. Mills indicated demand was coming back by filling up order books in January. The south producer was shown to increase €30/mt on the HRC offer price to €660/mt delivered to Italy.

U.S. steel imports in November would drop to 1.92 million tons, a 27% decrease on the year or a 13% decrease from last month. HRC in the Indian market continues to slip after the tariff change because of the low prompt demand domestically. Indian steels entered a RoDTEP project, focusing on returning taxes to some types of steels to increase competitiveness in the global market. The biggest state-owned company in Vietnam, Hoa Phat, announced that the company provided 384,000 mt crude steel in 2022, down 43% on the year because of sluggish demand and high cost.

Several deals for Chinese SS400 HRC were concluded at \$560 to \$565/mt FOB China, destined for Vietnam after the Vietnamese accepted the higher offers from Chinese mills last week. Vietnamese buyers were expecting a better outlook for steel demand in Asia, thus building up stock levels and lifting bids as high as \$575 to \$585/mt CFR Vietnam. Both Chinese and Indian offers at \$595 to \$600/mt for SAE1006 grade coil.

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

Market Review (Continued)

Turkish Deepsea scrap improved by $44 to $382 from mid-November to mid-December, supported by the restocking of mills recently. HMS 1/2 80:20 was traded at $385/mt CFR last week. However, Turkish mills thought the $385 should be the theoretical roof area given a decreasing rebar demand. Offers for U.S. and U.K. origins are at $395 and $397, respectively.

Overall, the European and U.S. flat steel price is expected to rebound as time goes on and have a better outlook in Q1 2023.

Neutral to Bullish

Chinese Steel Market:

The lift on pandemic control and allowing homestay for infected persons, together with more open road transportation, supported the rebound sentiment on whole construction materials sectors. Building activities, consumption, and manufacturing were significantly accelerated as a fast-than-expected turning on the control policies in China. However, it might take more than a week to see the data changing on the table.

Apparent consumption in China dropped from 9.32 to 9.45 million tons over the past three weeks, in both the seasonal low and yearly low (except the Chinese New Year period) area. The market believed the figures could be overturned by the sudden opening of the pandemic controls and resilient housing support stimulus.

Shanghai domestic 25mm rebar maintained 3700 to 3900 yuan/ton during most H2. The virtual steel margin recovered to 63 yuan/ton, however, believed the absolute number has more room to rebound, considering the high base number and improving demand downstream.

In summary, rebar price has room to grow since it could catch up with iron ore growth previously, thus recovering the severely squeezed virtual steel margin.

Neutral

Coal Market:

As previously expected, the FOB Australia coking coal market remains stable, supported by many PMVs traded around $245 - $250, majorly from Goonyella, Peak Downs North, Moranbah North, and Riverside. Australia set a 125 AUD cap on wholesale coal prices as the government seeks to limit the high energy cost. Several laycans of globalCOAL HCCA Prime traded at $251/mt. The market has a continuous interest in the cargo, with an even higher bid observed at $252/mt. Peak Downs North PLV cargo was tradeable at $252/mt. Chinese traders revealed a declining outlook on both U.S. and Russian coals. However, several HCCA Unbranded Prime offers at $255/mt enticed no bids.

PCI trades were resilient at $246/mt, and the spread between low-vol prime coal and semi-soft coal was less than 2%, near the historical low area.

Overall, the prime coking coal market is expected to remain resilient to demand as the low current supply of semi-quality and PMV cargoes is resisted by a very low steel production margin.

Neutral

Sources: Argus, IHS Commodities at Sea Service, FIS

Technical view of the Ferrous Markets:

Iron Ore

Jan 23 Futures – Technically bullish last week with downside moves considered countertrend, we had a near-term upside target at USD 115.75. The futures did produce a slight pullback before trading to a high of USD 112.50; however, the price has moved lower today on the back of rising COVID levels in China alongside an intraday negative divergence with the RSI. Downside moves below USD 105.65 will indicate the futures are in a corrective phase with key support at USD 99.56; the futures are bullish above this level and neutral below. Technically bullish but moving lower on the negative divergence, we could potentially miss our upside target at USD 115.75 as support levels are starting to look vulnerable. The key medium-term support to follow is at USD 99.56; if broken, it will warn that we could be in for a more prolonged move to the downside.

Steel - USD HRC

Jan 23 Futures – Technically bearish with a neutral bias last week, the futures looked like they could soon enter the bullish territory. The Downside move did hold above key support levels, resulting in the futures trading above the USD 740 fractal resistance, meaning the technical is now bullish, as we have now made a higher high for the first time since March 2022. Technically bullish, we now have an intraday bearish divergence in play, not a sell signal; it does warn that the futures are vulnerable to a technical pullback. Downside moves below USD 702 will warn that we could test the USD 664 support; this is a key level; if it holds, it warns there is possibly a larger bull cycle in play; however, if broken, we target the USD 635 and USD 621 support levels. If the futures hold above USD 702 (currently USD 735), then we can trade as high as USD 776 within this phase of the cycle.

Coking Coal

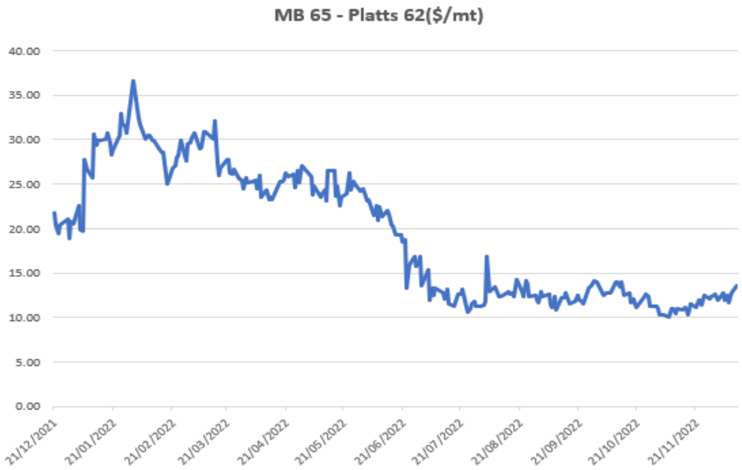
Jan 23 Futures – Technically bearish and starting to look vulnerable last week based on momentum indicators, the futures traded higher but found resistance below the 38.2% Fibonacci level at USD 282. Upside moves that fail at or below USD 303 will leave the futures vulnerable to further tests to the downside; above this level; the technical will have a neutral bias. The RSI is now at 43, with the stochastic in the overbought territory; momentum continues to warn that the futures are vulnerable to a test to the downside, providing the RSI remains below 50. Technically bearish, as previously noted, the depth downside move in the RSI would suggest that the current upside move looks countertrend, making USD 303 the key resistance level to follow.

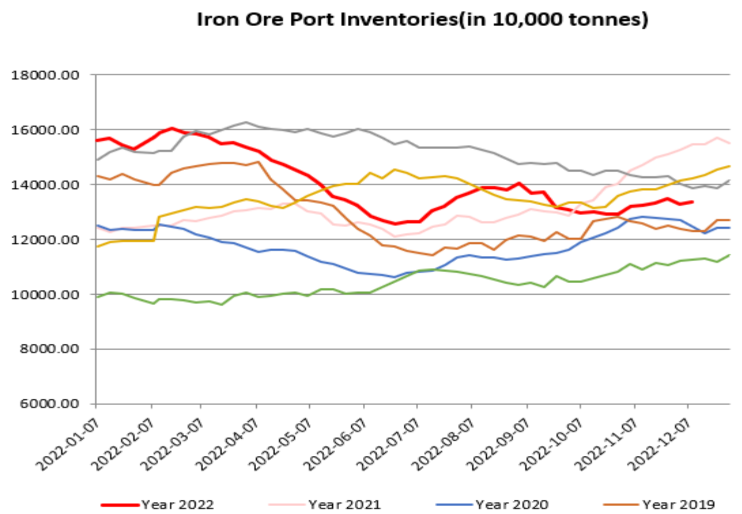
FIS Senior Analyst, Edward Hutton

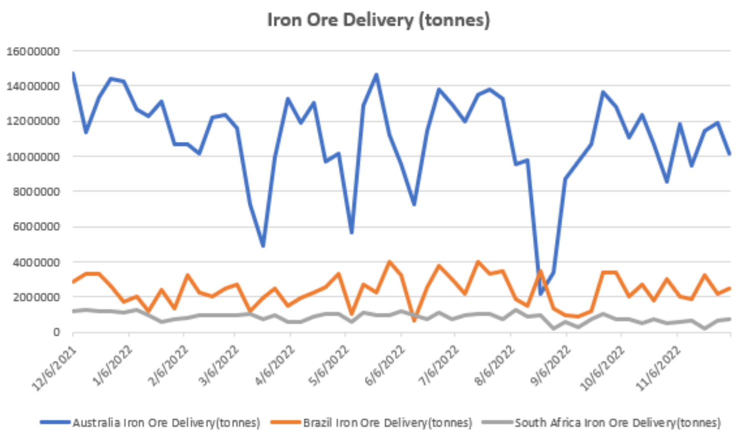
Sources: Argus, IHS Commodities at Sea Service, FIS

Iron Ore

	Last	Previous	% Change
Platts 62% Fe (Dollar/mt)	110.25	109.6	0.59%
MB 65% Fe (Dollar/mt)	123.8	122.4	1.14%
Capesize 5TC Index (Dollar/day)	13424	12457	7.76%
C3 Tubarao to Qingdao (Dollar/day)	18.906	19.328	-2.18%
C5 West Australia to Qingdao (Dollar/day)	8.335	8.2	1.65%
Billet Spot Ex-Works Tangshan (Yuan/mt)	3720	3550	4.79%
SGX Front Month (Dollar/mt)	111.52	105.92	5.29%
DCE Major Month (Yuan/mt)	809	776.5	4.19%
China Port Inventory Unit (10,000mt)	13,384.62	13,277.81	0.80%
Australia Iron Ore Weekly Export (10,000mt)	1,013.30	1,190.30	-14.87%
Brazil Iron Ore Weekly Export (10,000mt)	249.00	217.50	14.48%







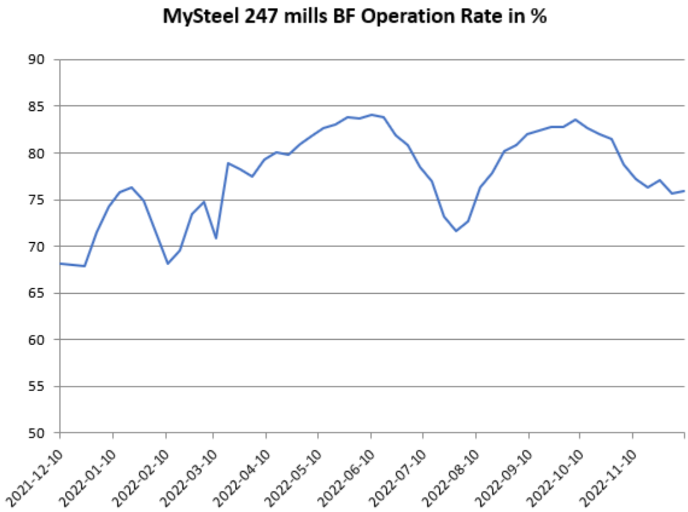
Iron Ore Key Points

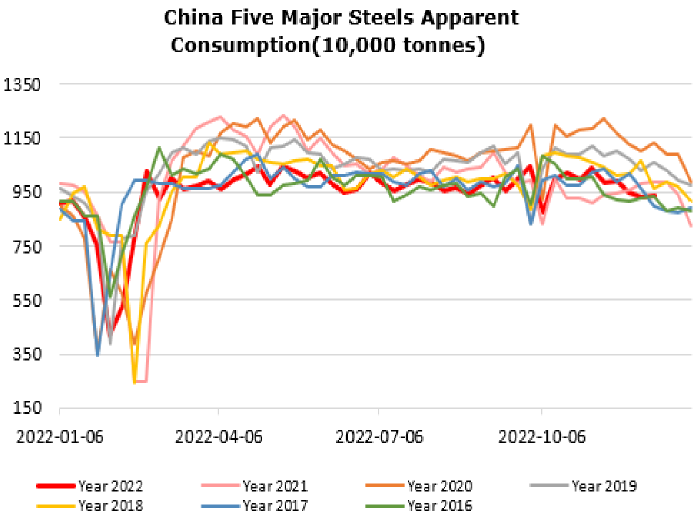
- Iron ore port inventories recovered and maintained a balanced mode in winter.
- The 65% and 62% iron ore spread maintained a $12 to $14 difference in June, with a mixed outlook on the steel margins.
- Pig iron production reached 2.4 million tons/day in major Chinese steel mills, then fell back to 2.21 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.

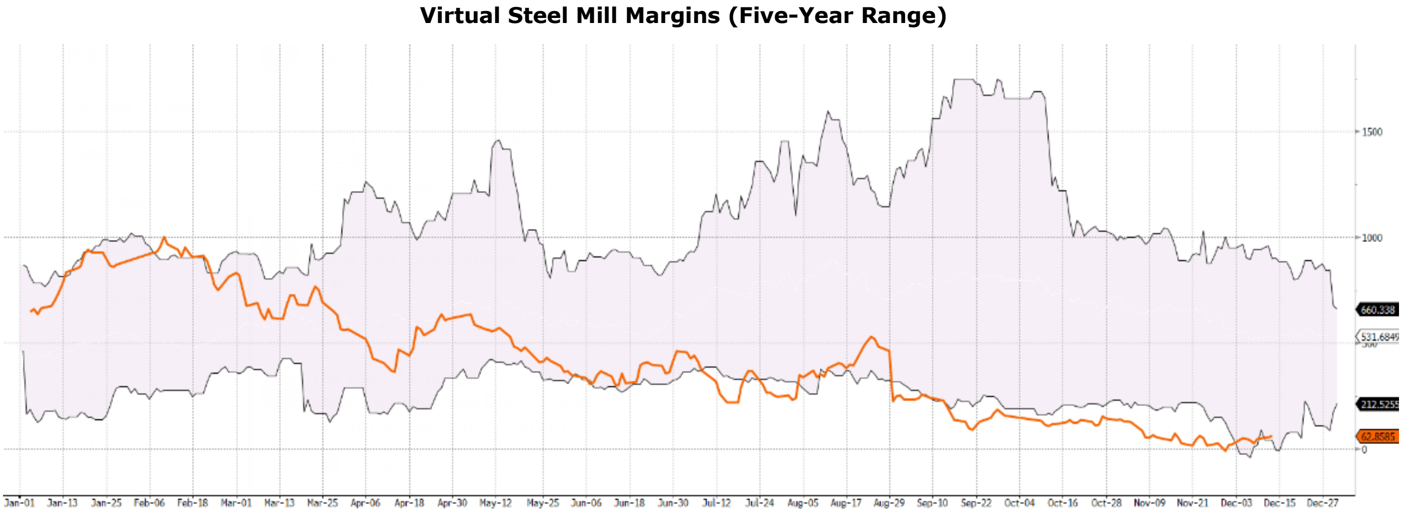
Data Sources: Platts, Fastmarkets, MySteel, Bloomberg, FIS

Steel

	Last	Previous	% Change
US HRC Front Month (Dollar/mt)	667	672	**-0.74%**
LME Rebar Front Month (Dollar/mt)	728	722	**0.83%**
SHFE Rebar Major Month (Yuan/mt)	3909	3773	**3.60%**
China Hot Rolled Coil (Yuan/mt)	4036	3920	**2.96%**
Vitural Steel Mills Margin(Yuan/mt)	62	28	**121.43%**
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%**





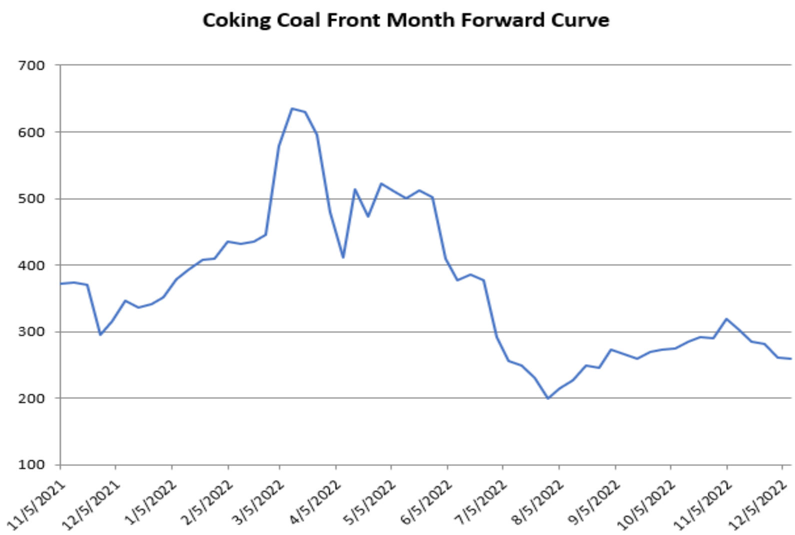


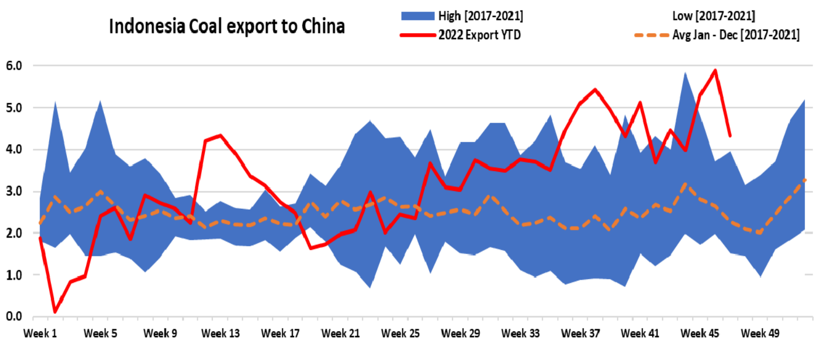
Data Sources: Bloomberg, MySteel, FIS

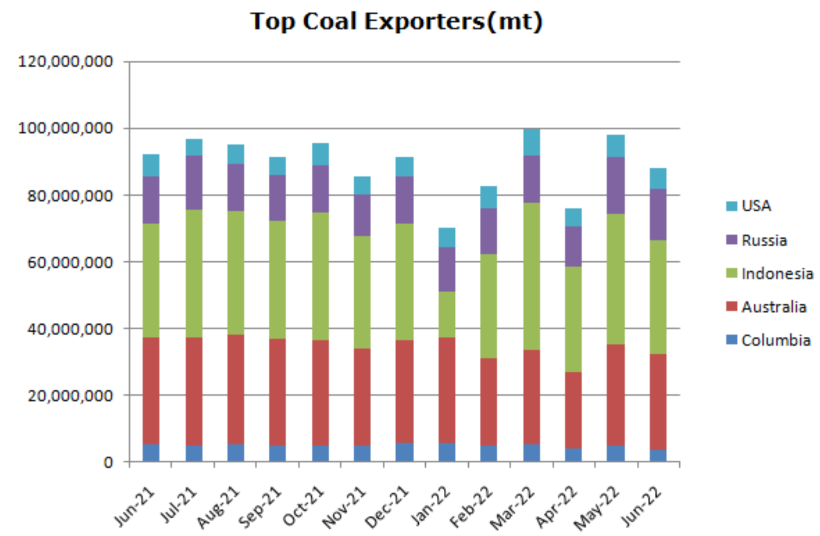
- Virtual steel mill margins recovered from 0 yuan/ton in late November to 63 yuan/ton this week. As expected, steel caught up with the raw material growth finally.
- The weekly five types of steel consumption were maintained at 9.3 to 9.4 million tons, a low seasonal area. However, the market expected that the number would recover to higher as a de-layed statistics after many cities lifted from pandemic control in China.

Coking Coal

	Last	Previous	% Change
TSI FOB Premium Hard Coking Coal (Dollar/mt)	249.5	250	-0.20%
Coking Coal Front Month (Dollar/mt)	259.33	260.17	-0.32%
DCE CC Major Month (Yuan/mt)	1855	2187.5	-15.20%
Top Six Coal Exporter Weekly Shipment	18.65	22.08	-15.53%
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 potentially 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.
- PMV demand boomed in the $245 to $250 area. The market also saw PCI and semi-soft demand growth because of the structural shortage.

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 and 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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