FIS

Ferrous Weekly Report

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6/12/2022

⇒ **Iron ore Fe62% CFR China:** short-run **Neutral to bullish**. Mills and physical traders started to become active in stock for materials because of the control ease in many cities in China. Be aware of expectations priced in after fast growth.

⇒ **Rebar 25mm Shanghai** short-run **Neutral to bullish**. Fast-growing materials squeezed virtual steel margin to extremely low levels. The finished steel price is expected to catch up, as the growth in the complex would finally leave some profit to mid-stream.

⇒ **U.S. HRC Front Month** short-run **Neutral to bullish**. The energy cost concerns marginally decreased, and the demand expectations are improving for next Q1.

⇒ **Hard Coking Coal FOB Australia** short-run **Neutral**. The index slightly improved by the recovery on investment outlook in ferrous. However, crowded December laycans would resist the current index price.

Prices Movement	5-Dec	28-Nov	Changes %	Sentiment	
Iron Ore Fe62% CFR China($/MT)	109.6	98.90	10.82%	Neutral to Bullish	↗
Rebar 25mm Shanghai (Yuan/MT)	3820.0	3790.0	0.79%	Neutral to Bullish	↗
U.S. HRC Front Month ($/MT)	666.0	655.0	1.68%	Neutral to Bullish	↗
Hard Coking Coal FOB Australia($/MT)	250.0	247.0	1.21%	Neutral	-

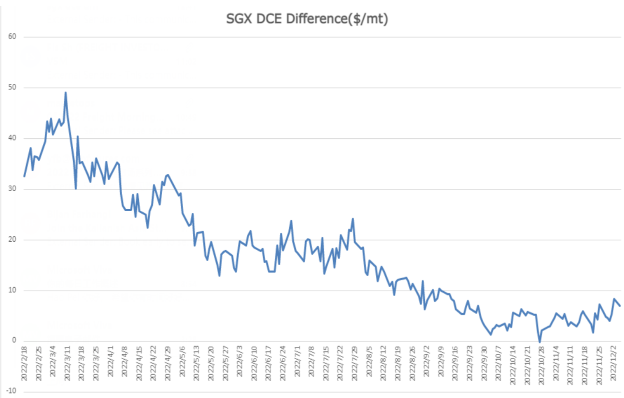
Market Review:

Iron ore Market :

The iron ore 62% index increased by 10.82%, 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 lifted from pandemic control, which boosted the industrial-related investment sentiment. Thus, the metals sector has boomed since last Friday. U.S. Federal revealed ease sentiment on the December interest hike. Chinese offshore yuan CNH appreciated 4% during the past seven days. The secondary market rebounded significantly during the past week, including equities and stocks in major markets.

Following the concentrated strategies preventing the housing default risk in late November, housing equities and ferrous commodities became direct beneficiaries, given the slightly sluggish housing investment statistics. Market trade expectations instead of current conditions again. Thus, be aware of a return to fundamentals after the external excitement ends in the next few weeks.

Virtual steel margin was maintained at 14 yuan/ton, a year-low and seasonal low because of the slow-growing steel products versus the fast picking up on iron ores. The low margin is expected to recover to a 200 yuan/ton area by either arbitraging money or by the profit transmitted from upstream to downstream. Pellets, lumps, and high grade are limited by low steel margin and the high base of mid-grade index. The lump premium floated around 0.147 - 0.1485dmtu from mid-November to early December. Half laycans of BRBF concluded at $107.9/mt last Friday. NHGF traded at $100.8 last week. The market saw active IOC6 from CSN offers last week. Multiple mid-grade fines were traded through the platform as well. Tangshan port saw improving liquidity in physical trade. PBF float price around $0.6 - $0.65/mt. NHGF float price is around $0.5 - $0.55. NHGF was slightly undervalued compared to other mid-grade fines at the moment. Float price, in general, was squeezed by the high base of 62% index price.



SGX-DCE spread improved to $7 following the repaired sentiment on buying back some seaborne iron ores from mills. After the steel profit recovered, the spread was still considered to have some upside room.

Data Sources: Bloomberg, Platts, Fastmarket, FIS

Market Review (Continued)

The Dec-Jan23 spread narrowed from $0.7 to $0.25 during the week, while Jan-Feb23 was also considered a little low at $0.6 to $0.65 compared with the fast-growing outright. The market structure is expected to recover steeper along with the increasing iron ore prices in the mid-run. The market needs more confidence to support prompt demand.

Iron ore inventories dropped 2.07 million tons to 132.78 million tons during the past report week. MySteel sample steel mills inventory at 91.48 million tons, up 500,000 tons, however down 12.49 million tons compared to last year during the same period. Daily pig iron production maintained stable at 2.2 million tons. In general, given a resilient demand, iron ore supply was decreasing.

Overall, the market is expected to maintain strength in the short-run; however, be aware of the pricing-in on the fundamental factors and policies support.

Neutral to Bullish

Downstream/Policies/Industry News:

Many big cities in China eased controls of a pandemic from late last week to early this week, stimulating the growth of industrial materials and housing sectors. USD/CNH depreciated 4% during the past 7-8 days. China Caixin Manufacturing PMI 49.4 in November, up 0.2% on the month, created an 8-month consecutive contraction.

India's largest iron ore state-owned steel mill NMDC increased its iron ore prices following the export duty removal. The Fe64% fines price was increased by $4 compared to last month.

European Parliament committee voted on Thursday to adopt new regulations that will place restrictions on exports of scrap metal from the EU to non-OECD countries but resisted pressure to adopt similar restrictions on exports to OECD importers.

The biggest EAF steelmaker in North America, Nucor, increased its price yesterday by $60/st on new orders.

Global Steel Market:

The European HRC index improved from €605 to €615/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. However, the current demand market was still around €600/mt. A 10,000mt trade for January concluded at €672/mt, while a smaller trade concluded at €670/mt. The market remains a clear contango with Dec-Jan spread at €30/mt. The market anticipated higher demand and price at the beginning of 2023.

During the report week, the Chinese HRC index was broadly stable at $533 to $536/mt because major Chinese mills and traders held offers unchanged at $535 to $560 FOB China for SS400 HRC. Offers to Vietnam increased from $550 to $570/mt for SAE1006 coil from Japan and China. However, Vietnamese buyers were reluctant to change the bid to $530 — $535/mt.

Turkish Deepsea scrap reversed from the continuous weak sentiment in November. Premium heavy melting 1/2 80:20 was traded at $370/mt CFR Turkey. HMS 1/2 85:15 was concluded at $378/mt from U.S. origin. Baltic cargoes traded at $373 to $374 for HMS 1/2 80:20.

Overall, the European and U.S. flat steel price expected to stabilise as both tight supply and a better outlook in market demand in Q1 2023.

Neutral to Bullish

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

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Market Review (Continued)

Chinese Steel Market:

During the past week, Shanghai domestic 25mm rebar maintained 3760 to 3810 yuan/ton during most of Q4. Virtual steel margin squeezed to extreme levels from 0 to 30 yuan/ton during the 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 170,000 mt from early November to late November. The unchanged fundamentals supported the currently delayed recovery of steel products. However,30% of downstream gave up winter steel stocks, and the limited demand in Q4 also resisted the steel growth.

Flat steels started to lose their competitive advantage in the European and S.E. Asia market. However, northern Chinese mills were still increasing HRC prices, indicating a strong outlook in the oversea market in Q1 2023. Domestic rebar recovered from losses on the futures market, following the continuous housing strategies to support building and prompt deliveries by year-end.

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

Neutral to Bullish

Coal Market:

The FOB Australia coking coal market remains stable, supported by massive PMV traded around $245 - $250, majorly from Goonyella, Peak Downs North, Moranbah North and Riverside. The most current trade was a Moranbah North PMV concluded at $255/mt FOB Australia. The PMV was supported by the recent weather causing supply disruptions. Market participants mentioned strengthened PMV-PLV relativities. PCI saw active trade because of railway disruption in Russia.

China's coke market saw a total 200–220-yuan coke price increase. However, cokery plants maintain low utilisation rates currently because of environmental control, pandemic and mixed factors.

Neutral

Sources: Argus, IHS Commodities at Sea Service, FIS

Technical view of the Ferrous Markets:

Iron Ore

Jan 23 Futures – Technically bullish last week, the upside move above USD 99.15 suggested we had started a new intraday bull cycle, meaning we had the potential to trade as high as USD 115.75. The futures have rolled into Jan but continue to increase, with price trading to a high of USD 109.00 this morning. Technically we remain bullish, with downside moves considered countertrend at this point. Corrective moves lower that hold at or above USD 98.37 will support a bull argument; below this level, the intraday technical will have a neutral bias. However, the daily technical is only considered as bearish below USD 92.90. Bullish, we maintain an upside target of USD 115.75 with a key support of USD 98.37.

Steel - USD HRC

Jan 23 – We noted last week that although technically bearish, the Dec futures looked to have completed a bearish intraday wave cycle, suggesting caution on downside moves. The Dec contract has since increased, with the price breaking the intraday high at USD 683 today. The Jan contract gapped higher on the roll but has since increased with price trading up to (but not above) the USD 740 fractal resistance. This is a key level going forward; if broken, the daily technical will have broken a key fractal high (swing high) for the first time since March, and this would take the technical into bullish territory. Technically bearish with a neutral bias, the futures look like they will soon be bullish; downside moves that hold at or above USD 670 will support a bull argument, and if broken, we target the USD 635 and 621 support levels.

Coking Coal

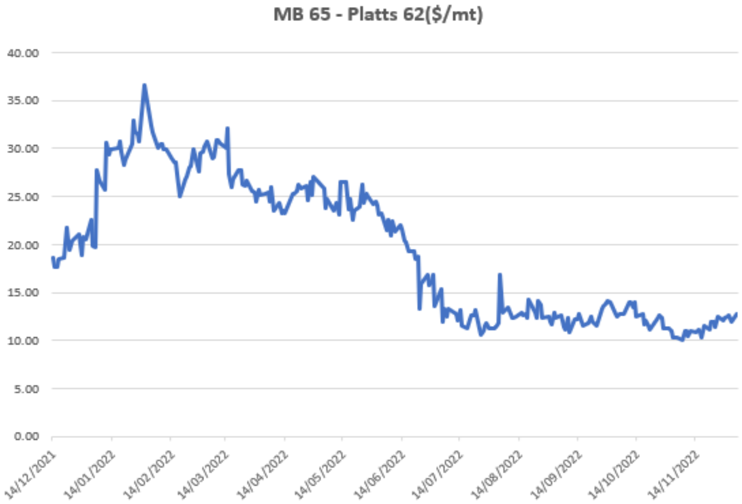
Jan 23 Futures – Technically bearish last week with futures moving higher; however, based on the depth of the downside move on the RSI, upside moves were considered countertrend. The futures continue to increase (both Dec and Jan), with prices below the Fibonacci resistance zone. Upside moves that fail at or below USD 303 (in Jan) will leave the futures vulnerable to further tests to the downside; above this level; the technical will have a neutral bias. The RSI is at 41, with the stochastic about to enter the overbought territory; momentum is warning that the futures are vulnerable to a test to the downside. However, if the RSI moves above 50, the overbought stochastic will be considered less relevant, warning that the USD 303 resistance could be tested and broken. Bearish and starting to look vulnerable.

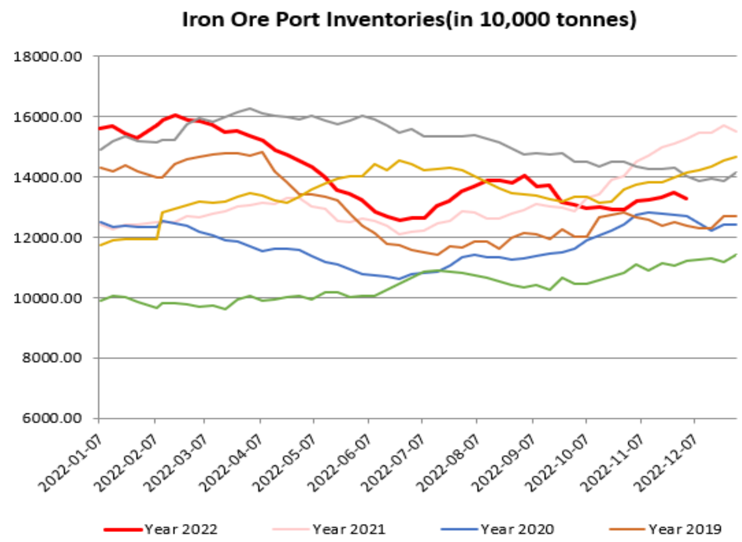
Chart source: Bloomberg

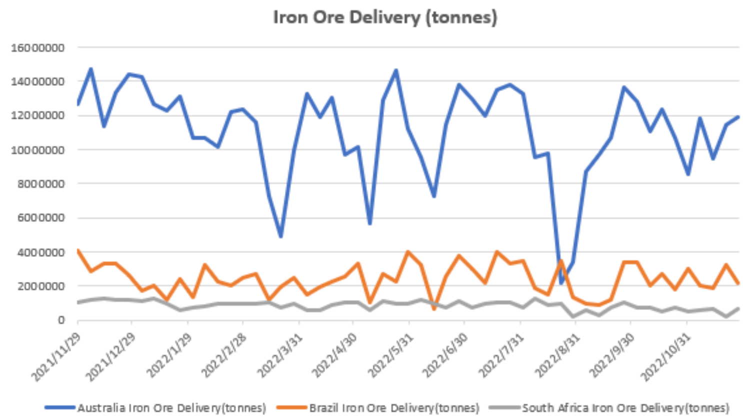
Sources: Argus, IHS Commodities at Sea Service, FIS

Iron Ore

	Last	Previous	% Change
Platts 62% Fe (Dollar/mt)	109.6	98.9	10.82%
MB 65% Fe (Dollar/mt)	122.4	111	10.27%
Capesize 5TC Index (Dollar/day)	12457	13845	-10.03%
C3 Tubarao to Qingdao (Dollar/day)	19.328	19.294	0.18%
C5 West Australia to Qingdao (Dollar/day)	8.2	9.13	-10.19%
Billet Spot Ex-Works Tangshan (Yuan/mt)	3550	3540	0.28%
SGX Front Month (Dollar/mt)	105.92	99.15	6.83%
DCE Major Month (Yuan/mt)	776.5	738	5.22%
China Port Inventory Unit (10,000mt)	13,277.81	13,484.64	-1.53%
Australia Iron Ore Weekly Export (10,000mt)	1,190.30	1,141.70	4.26%
Brazil Iron Ore Weekly Export (10,000mt)	217.50	325.90	-33.26%







Iron Ore Key Points

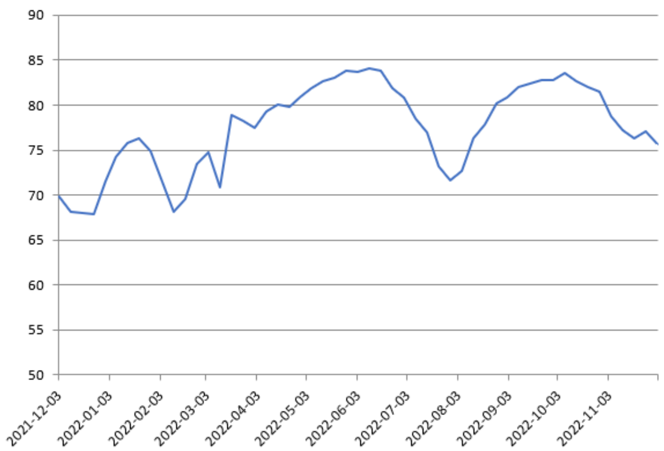
- Iron ore port inventories recovered and maintained a balanced mode in winter.
- The 65% and 62% iron ore spread maintained a $12 - $14 difference in June, with a mixed outlook on the steel margins.
- Pig iron production reached 2.4 million tons/day in major Chinese steel mills, then fell back to 2.22 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

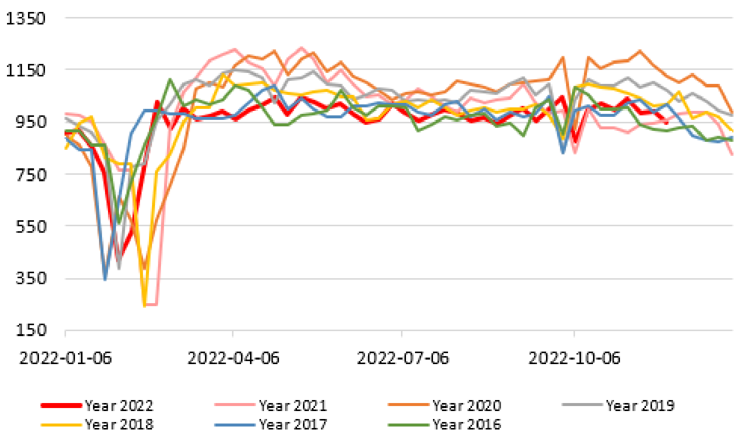
Steel

	Last	Previous	% Change
US HRC Front Month (Dollar/mt)	672	656	2.44%
LME Rebar Front Month (Dollar/mt)	728	722	0.83%
SHFE Rebar Major Month (Yuan/mt)	3773	3691	2.22%
China Hot Rolled Coil (Yuan/mt)	3920	3863	1.48%
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%

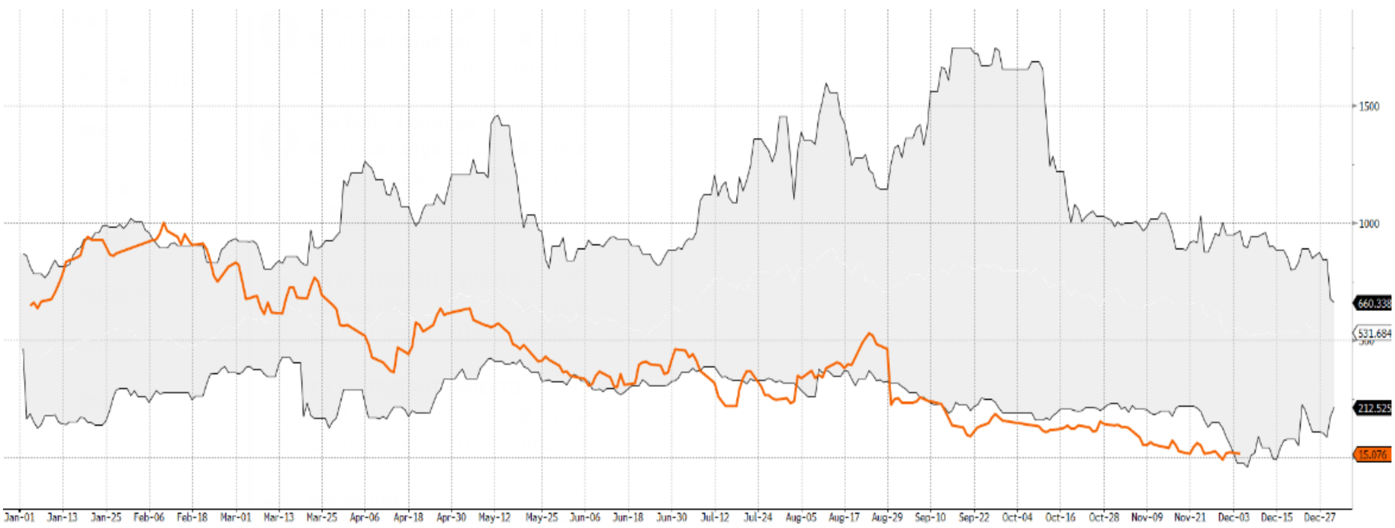
MySteel 247 mills BF Operation Rate in %



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



Virtual Steel Mill Margins (Five-Year Range)

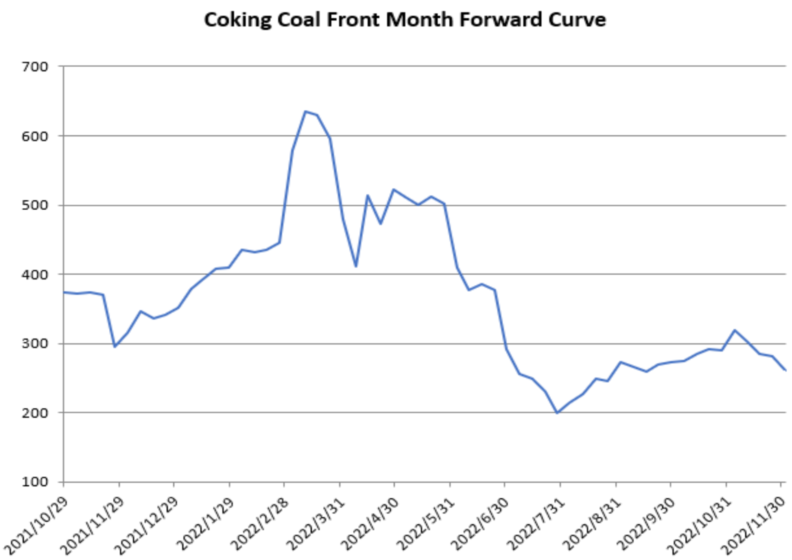


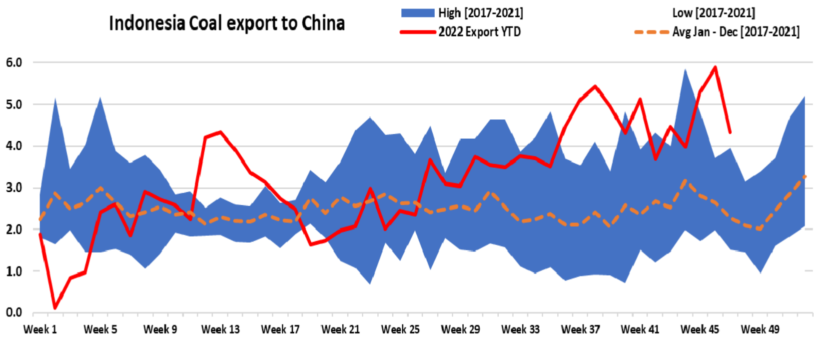
Data Sources: Bloomberg, MySteel, FIS

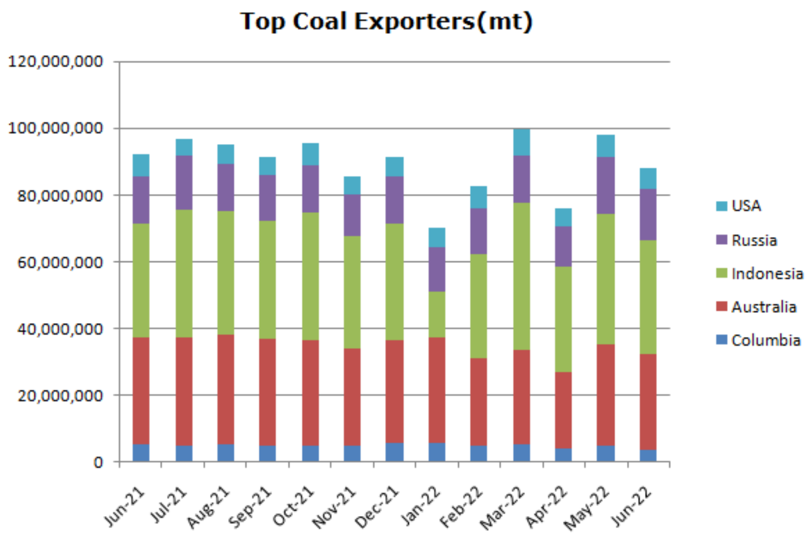
- Virtual steel mill margins maintained low from 0-30 yuan/ton. The market expected a statistical "chase" at steel price compared with raw materials to support the current margin level.
- The weekly five types of steel consumption maintained resilience at 9.5 – 10.2 million ton levels.

Coking Coal

	Last	Previous	% Change
TSI FOB Premium Hard Coking Coal (Dollar/mt)	250	247	1.21%
Coking Coal Front Month (Dollar/mt)	260.17	280.67	-7.30%
DCE CC Major Month (Yuan/mt)	2187.5	2172.5	0.69%
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. 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 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 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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