FIS

Ferrous Weekly Report

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10/1/2023

⇒ **Iron ore Fe62% CFR China:** short-run **Neutral to bearish**. Iron ore exhausted the Chinese housing market's booming sentiment and entered the price-in period, given the squeezed steel margin and looming Chinese New Year.

⇒ **Rebar 25mm Shanghai** short-run **Neutral to bearish**. Most steel mills locked prices in winter in China. Spot demand decreased quickly in early January.

⇒ **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.

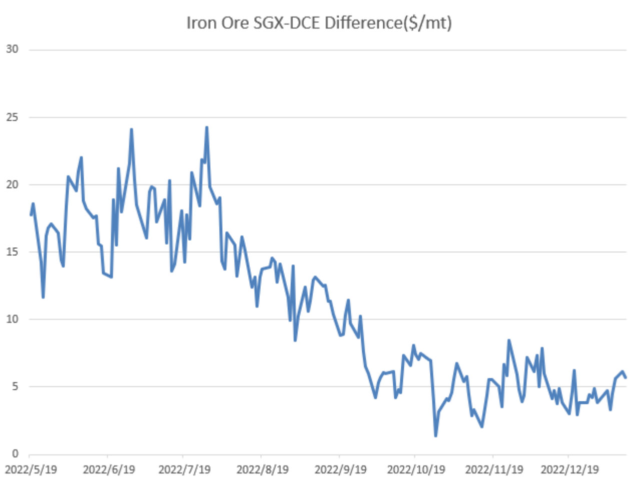
Prices Movement	9-Jan	2-Jan	Changes %	Sentiment	
Iron Ore Fe62% CFR China($/MT)	118.7	117.35	1.15%	Neutral to Bearish	↘
Rebar 25mm Shanghai (Yuan/MT)	4120.0	4100.0	0.49%	Neutral to Bearish	↘
U.S. HRC Front Month ($/MT)	730.0	722.0	1.10%	Neutral to Bullish	↗
Hard Coking Coal FOB Australia($/MT)	313.75	294.5	6.54%	Neutral	-

Market Review:

Iron ore Market :

The Iron ore faces a short-run correction after exhaustion on the restocking sentiment from Chinese steel mills. Steel mills in China, Japan, Korea, and Vietnam were all running slightly positive or negative area 70% of the time in 2022 and are expected to bear with the loss at least in Q1 2023. Chinese steel mills resisted the high raw materials price for the first time in the last three months. In addition, the Chinese NDRC started investigating the mispricing of iron ore with a similar message in 2022. Iron ore has performed quite differently after this news, especially in the past three years. However, the market tends to start correction mode following the news, particularly at periodic high levels. Some macro analysts believed that the market might become "cautious" on iron ore trading, particularly before the Chinese annual political conference and the upcoming Chinese New Year in late January.

On the long-run supply side, Chinese iron ore import is expected to decrease by 15 - 25 million tons in 2023. Domestic iron ore production will be cut by 5 million tons, researched by several independent third-party agencies and ferrous departments of futures companies/trading houses. The biggest four miners' annual report indicated a decrease of 10 million tons in 2023.



It is hard to expect long-run demand in 2023 because of several active components, including the scrap flow globally, Chinese mills strategy changes, sanctions on raw materials, Chinese housing sales, Chinese infrastructure projects landing, the auto-making recovery in E.U. and U.S., and industry recovery in ASEAN countries. However, the big picture is that the stories of the demand market were less than in the previous three years.

From cycle analysis, industry commodities investment might flow out to cash or savings during a high-interest rate cycle, which counters against high inflation and prices. However, some analysts from investment banks believe that we are at the boundary of the "Overheat Cycle" and "Stagflation Cycle", where investments tend to shift from commodities to cash, according to Merrill Lynch Clock.

Data Sources: Bloomberg, Platts, Fastmarket, FIS

Market Review (Continued)

Iron ore's short-run fundamentals saw both weakening trends on marginal demand and supply. Australian and Brazilian iron ore deliveries to China decreased by 5.48 million tons to 22.67 million tons in the first week of January. Brazil contributed a significant decrease of 4.658 million tons.

Net iron ore is expected to enter a short-run correction, yet to confirm the direction for mid-run. Chinese major steel mills' operation rate is 74.64%, down 0.57% on the weeks, and expected to reach a seasonal low as the Chinese New Year effect. Daily pig iron at 2.2 million tons is slightly higher than last few years and lower than in the previous weeks. The Chinese steel mills' iron ore inventories climbed significantly from 89 million in mid-November to 99 million in early January. Many northern steel mills in China indicated that they had completed a major proportionate of iron ore for Chinese New Year.

Overall, iron ore entered a correction phase in the short run after the speculation on mills restocking and economic recovery, as well as a weakening margin demand. As a result, it is hard to evaluate downstream projects at this time.

Neutral to Bearish

Downstream/Policies/Industry News:

U.S. Atlantic Federal president Raphael Bostic predicted 1% economic growth in 2023 instead of a recession view from some economists. However, Bostic believed the peak interest rate could reach as high as 5 - 5.25%, potentially lasting until 2024.

ECB announced that the strong EU salary increase would become essential in supporting interest hikes. Euro Zone January investment index Sentix reached –17.5, recovered for the third month in a roll, and created the highest since last June.

Goldman Sachs sent a report indicating another 15% growth in the Chinese equity market supported by the reopening of Chinese economies and a significant policy change.

From April to December, India's imports rose by 27% to 4.4 million tons. However, due to the tariffs, India's exports fell 54% to 4.74 million tons. After removing the tariff, India saw a significant uptick in December at 442,000 tons in export, up 31% from November.

Global Steel Market:

The European HRC index reversed a half-year, bearish outlook from last November at €609/t to €720/t in early January. As expected, the contango structure indicated a recovery route in 2023, with better Q1 and much better Q2, supported by the booming auto-making market and slow-down inflation components except salaries. The liquidity was poor as many participants were away from the market. However, the limited sellers over the holiday from Italy indicated achievable levels around €820 - 840/t delivered. An offer from Turkey to Italy was heard at €810/t, less competitive than India's.

Vietnamese bids for SS400 at $745 - $750/t CFR Vietnam were $15 - $25 lower than offers. Indian SAE1006 grade offers were unchanged at $755 - $760/t CFR Vietnam, which was not acceptable by a generally neutral to bearish outlook in the Vietnam market. Last week, a northern Chinese steel mill sold 2,000t SS400 HRC at $605/t CFR South Korea. In addition, the mills sold 40,000t SS400 to Turkey, ranging from $595 - $600/t FOB China.

Neutral to Bullish

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

Market Review (Continued)

Chinese Steel Market:

China's January to November crude steel production was 935 million tons, down 13.28 million tons, or 1.4% on the year. CISA expected 2022 China crude steel production of 1.01 billion tons, down 23 million tons, or 2.2%. MySteel estimated a 6 million decrease in crude steel production in 2023 and a narrower trading range in 2023 compared to 2021 and 2022.

Shanghai domestic 25mm rebar maintained quiet at 4110-4120 yuan during the first week of January, up 60 yuan from the last week of 2022. Compared with a huge movement in the futures price, the static physical price was due to the marginal demand for steel approaching the lowest before Chinese New Year, as most downstream finished winter stock. In addition, many steel mills filled up the order books. Thus, the market has very limited spot flow in January. Daily construction steel trading volume narrowed by 27-30% from December. However, the two-month rebound on the futures market might come to a periodic high and face correction. Some non-physical investors are starting to think of taking gains before the holiday.

Overall, rebar prices might reach periodic highs and see changing hands on this level.

Neutral to Bearish

Coal Market:

The FOB Australia coking coal caught up with CFR China price, leaving no margin to import PLVs or PMVs theoretically. Moreover, China steel mills started to cut a new round of physical coke prices by 100-110 yuan/ton because of the squeezed steel margin. On the other side, northern heat demand supported all cookery plants' utilisation at a stable level.

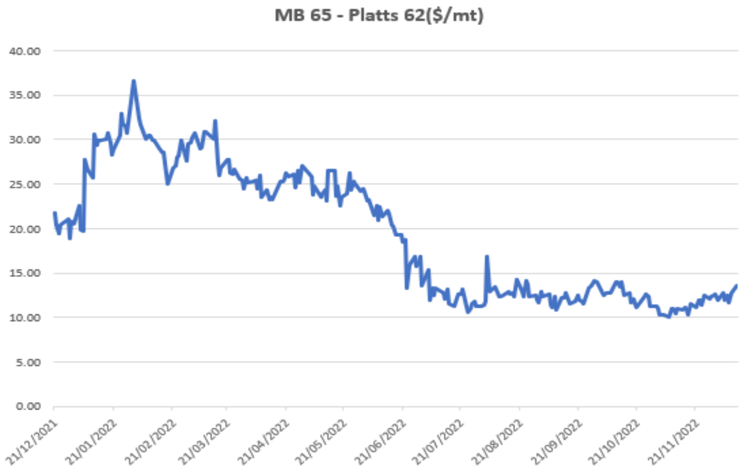
In detail, the tradeable level for Peak Downs and Saraji was at $313.75/mt. The major demand market originated from Southeast Asian, European, and Indian markets. China CFR indicates zero demand ahead of the Chinese New Year.

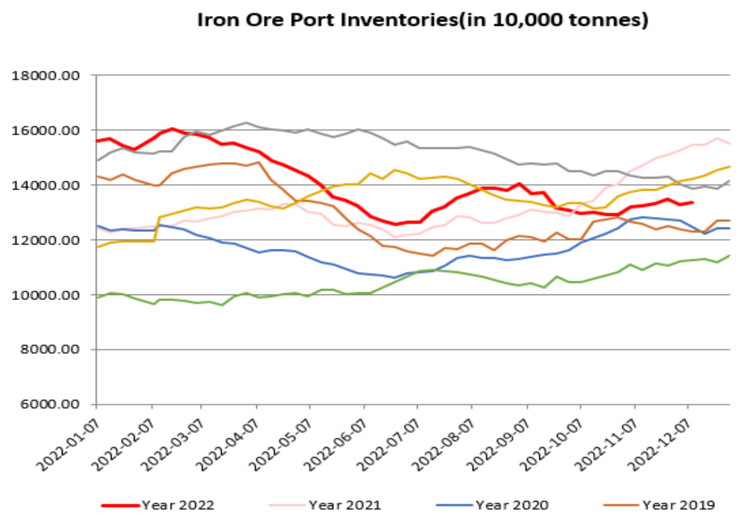
Neutral

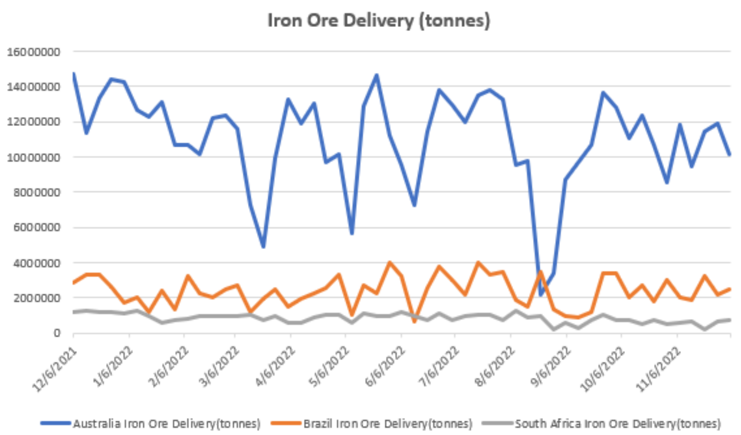
Sources: Argus, IHS Commodities at Sea Service, FIS

Iron Ore

	Last	Previous	% Change
Platts 62% Fe (Dollar/mt)	118.7	117.35	1.15%
MB 65% Fe (Dollar/mt)	132.5	132.3	0.15%
Capesize 5TC Index (Dollar/day)	13237	18749	-29.40%
C3 Tubarao to Qingdao (Dollar/day)	18.906	20.072	-5.81%
C5 West Australia to Qingdao (Dollar/day)	7.4	8.315	-11.00%
Billet Spot Ex-Works Tangshan (Yuan/mt)	3780	3780	0.00%
SGX Front Month (Dollar/mt)	117.82	117.15	0.57%
DCE Major Month (Yuan/mt)	844	855	-1.29%
China Port Inventory Unit (10,000mt)	13,130.54	13,185.63	-0.42%
Australia Iron Ore Weekly Export (10,000mt)	846.60	1,121.10	-24.48%
Brazil Iron Ore Weekly Export (10,000mt)	290.40	172.40	68.45%







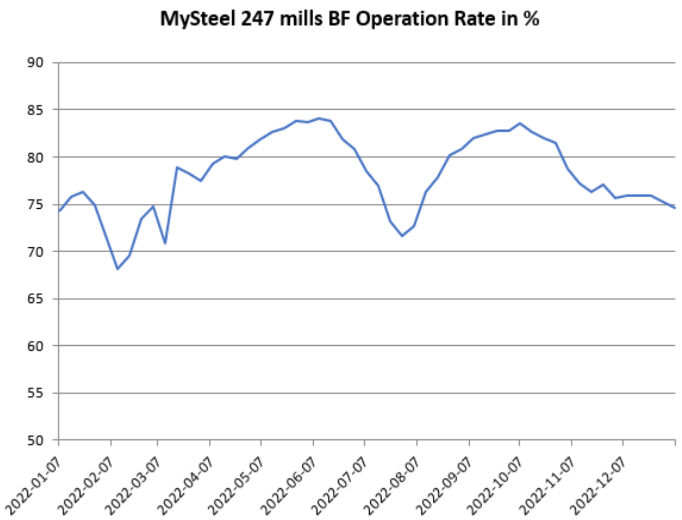
Iron Ore Key Points

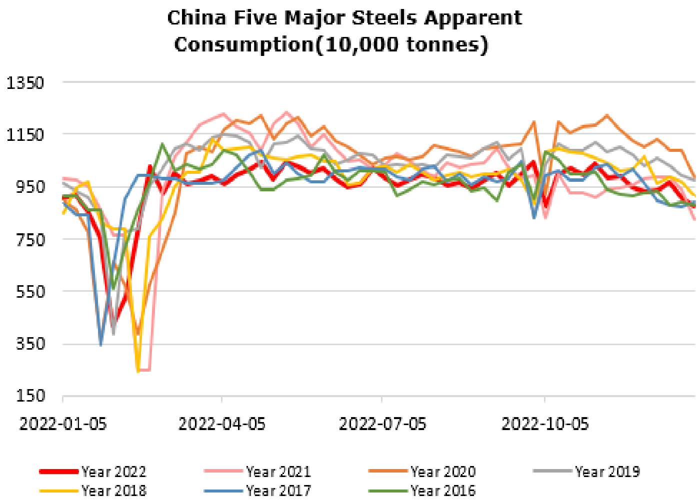
- Iron ore port inventories recovered and maintained a balanced mode in winter.
- The 65% and 62% iron ore spread a $12 to $14 difference in June, with a mixed outlook on steel margins.
- Pig iron production gradually fell to 2.2 million tons level. However higher than in previous years during the same period. Nevertheless, iron ore still faced marginal demand in a month because of the upcoming Chinese New Year and booked steels in term contracts rather than spot sales.

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

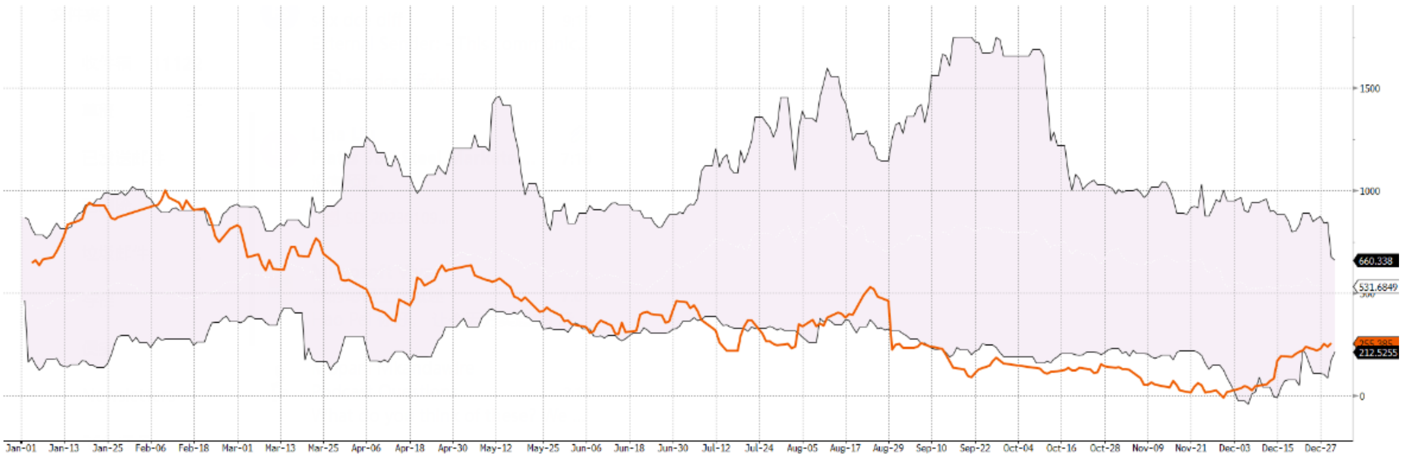
Steel

	Last	Previous	% Change
US HRC Front Month (Dollar/mt)	730	744	-1.88%
LME Rebar Front Month (Dollar/mt)	699	665	5.12%
SHFE Rebar Major Month (Yuan/mt)	4070	4087	-0.42%
China Hot Rolled Coil (Yuan/mt)	4151	4147	0.10%
Vitural Steel Mills Margin(Yuan/mt)	255	212	20.28%
China Five Major Steel Inventories Unit (10,000 mt)	2489.64	2371.33	4.99%
Global Crude Steel Production Unit (1,000 mt)	74500	79800	-6.64%
World Steel Association Steel Production Unit(1,000 mt)	139,100	147,300	-5.57%





Virtual Steel Mill Margins (Five-Year Range)

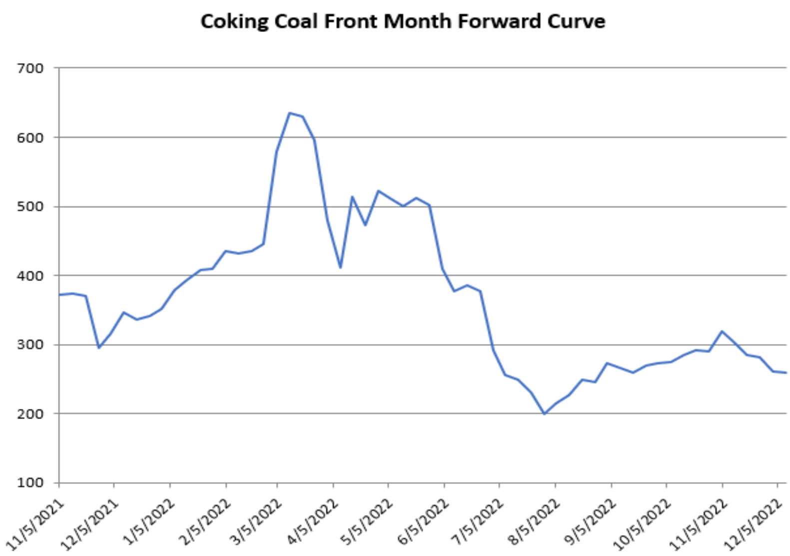


Data Sources: Bloomberg, MySteel, FIS

- Virtual steel mill margins recovered steadily from 0 areas in early December to 255 yuan/ton in early January. However physical steel margin was still suffering a negative area because of the accounting reason and delayed numbers on costs. Therefore, the recovery on the futures margin could be a signal of the general recovery in the industry in Q1.
- The weekly five types of steel consumption dropped to a year-low because of the holiday effect.

Coking Coal

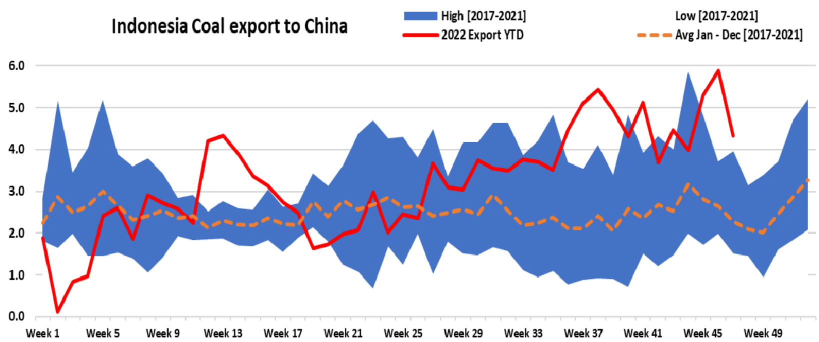
	Last	Previous	% Change
TSI FOB Premium Hard Coking Coal (Dollar/mt)	313.75	294.5	6.54%
Coking Coal Front Month (Dollar/mt)	312.33	289.5	7.89%
DCE CC Major Month (Yuan/mt)	1801	1874.5	-3.92%
Top Six Coal Exporter Weekly Shipment	18.00	22.33	-19.39%
China Custom total CC Import Unit mt	5,732,165	6,207,862	-7.66%



Coal Key Points

- The discussion of releasing the Chinese import ban from Australian coal supported the market rebound of over $50 to close to the CFR price. Thus, import loss emerged to resist further growth of FOB price in the short run.

- China's northern steel mills started a few rounds of physical coke price decrease suffered by low steel margins.



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 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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