FIS Ferrous Weekly Report

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⇒ **Iron ore Fe62% CFR China:** short-run **Neutral to bearish**. The Brazil landslide was confirmed to have a short-run impact on the railway system. Thus, the market could give back the gains created by the over -interpretation of the news.

⇒ **Rebar 25mm Shanghai** short-run **Neutral to bearish**. Most steel mills locked prices and started the holiday in preparation for the coming week. As a result, spot demand decreased to a year-low level.

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

⇒ **Hard Coking Coal FOB Australia** short-run **Neutral**. The reopening of imports from China increased the demand market for Australian FOB coking coal. However, the price went too fast for importers to book cargo.

Prices Movement	16-Jan	9-Jan	Changes %	Sentiment	
Iron Ore Fe62% CFR China($/MT)	120.75	118.7	1.73%	Neutral to Bearish	↘
Rebar 25mm Shanghai (Yuan/MT)	4140.0	4120.0	0.49%	Neutral to Bearish	↘
U.S. HRC Front Month ($/MT)	725.0	730.0	0.68%	Neutral to Bullish	↗
Hard Coking Coal FOB Australia($/MT)	311.0	313.75	0.87%	Neutral	-

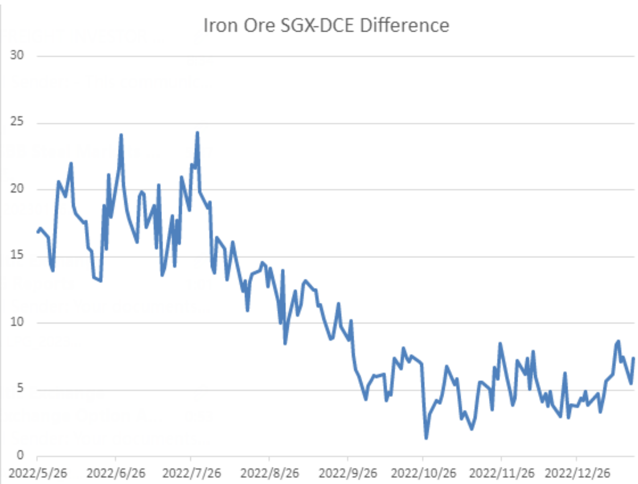
Market Review:

Iron ore Market :

Iron ore was facing a short-run correction after the Brazil landslide had proven to have a limited impact on iron ore delivery. On the other side, the market was concerned with China's National Development and Reform Commission (NDRC) or related departments' control of iron ore prices. The control in early 2022 on iron ore used led to a month-long correction of 5.95%. However, iron ore recovered all losses within a few months. Therefore, market participants believed that the control would lead to less volatility instead of a clear sign of direction change in the long run.

Considering the low physical steel margin in Asian mills, it is hard for iron ore to expect another fast growth month, particularly in a traditional light season of steelmaking, with most mills taking off next week and entering holiday mode.

Despite the strong index, the seaborne market saw fewer firm bids than in early January. On the supply side, lower Indian and Brazilian deliveries were vital to support the current seaborne prices. On the demand side, most steel mills had finished restocking for iron ores. The rest of the mills were stocked with port cargoes in limited sizes. The long-run low number of MB65-P62 spread improved the high-grade cost-effectiveness. High grades became popular after an almost silent 9-month period previously.



Data Sources: Bloomberg, Platts, Fastmarket, FIS

Although the iron ore index climbed significantly in January by 2.9%, the float basis was almost unchanged for PBF ranging from $1.1-1.2/mt. The futures spread between February and March 23 maintained $0.85-0.9 during the first two weeks of January. The flat structures in both physical premium and futures spread were indicating the fundamental view of the next few months is quite similar.

Three provinces of China launched infrastructure projects with annual investments of 1-1.5 billion yuan. Chinese produced 27.02 million automobiles and sold 26.86 million vehicles in 2022, up 3.4% and 2.1%, respectively. China's national grid investment is expected to reach half a billion

Market Review (Continued)

The biggest iron ore port in Australia, Hedland, shipped out 5.597 million tons of iron ores, up 2.5% on the year and shipment to China up 6.3% on the year. Rio Tinto produced 324.1 million tons of iron ore in 2022, up 1% of the year.

China's six major iron ore ports arrived at 12.54 million tons, down 1.81 million tons on the week. Australia and Brazil shipped 19.69 million iron ores last week, down 1.279 million on the week.

Overall, iron ore might enter a correction phase in the short run after the materialisation of the speculation on mills restocking, recovered economy, and shortage of deliveries news.

Neutral to Bearish

Downstream/Policies/Industry News:

India Steel Association (ISA) recommended a rise in customs duties on the import of flat steel from 7.5% to 12.5% and long steel from 7.5% to 10%, as well as a complete waiver of import duties on coking coal. However, the Indian government needs to consider the inflation effect of adding duties.

The EU ban on seaborne imports of Russian crude and the G7-led price cap on Russian oil sales took effect on December 5th but appear to have had little impact on Russian production last month, which was unchanged from November.

British Steel will install a new billet caster at its Scunthorpe plant as part of a 54 GBP million investment by Chinese-based owner Jingye Group.

China's multiple departments urged strengthening physical market control on commodity stocking, mispricing, or illegal speculation.

Global Steel Market:

The European HRC NW index reversed a half-year bearish outlook from last November at €629/t to €761/t in mid-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 components in inflation except salaries. A mill was considering offering between €730-750/t in Italy. The lowest offer heard from Indian HRC at €700/t CFR.

European beams and merchant bar suppliers started last week with a significant price increase, referring to rising scrap and finished product offers in the international market and low stocks among their clients. Turkey rebar was up 2.1% in the previous week at $685-715/mt for the spot market. Turkey's giant steelmaker Kardemir restarted sales after New Year, up $10 from late December at $707/mt for 12-32mm width rebar.

Currently, the Indian state-owned steel mill JSPL rebar price increased from $18/mt to $757/mt. However, the rebar market was all traded in very tiny sizes in January. Indian HRC price recovered to a three-month high at $680-692/mt. 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. North Chinese steel mills sold 2,000t SS400 HRC at $605/t CFR South Korea last week. 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:

Shanghai domestic 25mm rebar humbly recovered 20 yuan last week from 4120 to 4140 yuan/ton, given that futures rebounded over 80 yuan during the same period. Construction steel daily trading volume dropped from 150,000 tons to 95,000 tons and dropped to 41,000 tons last week. The spot market is expected to reach a fixed point since downstream finished booking steels.

China Construction Machinery Association statistics researched 26 enterprises, seeing 16,869 units, down 29.8% from December. Chinese automobiles exported 3.32 million vehicles, up 56.8% on the year. MySteel researched China started 4,019 projects in December, down 19.8% on the month, and total investment amount down 39.2% on the year.

Overall, rebar price potentially saw a slight correction after a high price level reached earlier and lower spot activities.

Neutral to Bearish

Coal Market:

China's lift on the Australian import ban stimulated a significant spike in the FOB coking coals, which grew over the first two weeks of January. In addition, ISA's request for the complete waiver of import duties on coking coal followed the nation's coal shortage earlier in 2022. Canadian coking coal improved its competitiveness in the Indian and Chinese markets in 2022 because of its high quality.

The current trade on PMV was concentrated at $310/mt for March laycan from Goonyella C and Riverside. Heavy rainfall in Queensland, Australia, impacted operations at Dalrymple Bay Coal Terminal. As a result, market participants were concerned about the potential disruption in the port in the next two weeks.

FOB Australia coking coal caught up with CFR China price, which left no margin for Chinese traders to import PLVs or PMVs. Chinese mills started two rounds of physical coke price decrease by 200-220 yuan/ton in northern areas. However, cokery plants indicated that the price should be supported by low production and low inventory level at steel mills. As a result, market participants heard no further adjusting plans for increase or decrease in the rest of January.

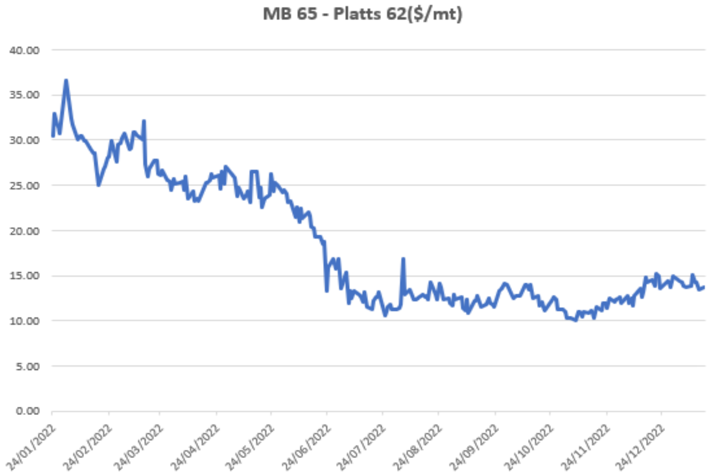
Australia FOB is expected to become quiet after a big spike and the looming Chinese holiday.

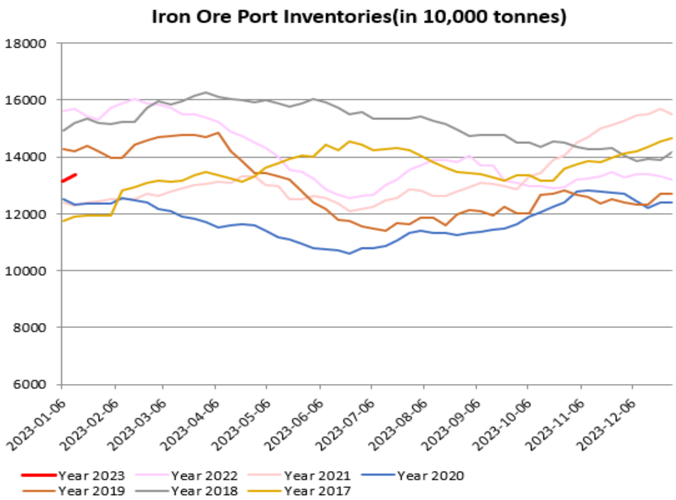
Neutral

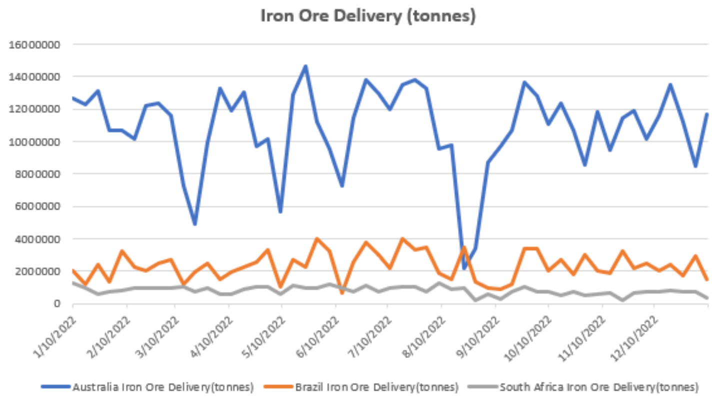
Sources: Argus, IHS Commodities at Sea Service, FIS

Iron Ore

	Last	Previous	% Change
Platts 62% Fe (Dollar/mt)	120.75	118.7	1.73%
MB 65% Fe (Dollar/mt)	134.5	132.5	1.51%
Capesize 5TC Index (Dollar/day)	10874	13237	-17.85%
C3 Tubarao to Qingdao (Dollar/day)	17.828	18.906	-5.70%
C5 West Australia to Qingdao (Dollar/day)	7.48	7.4	1.08%
Billet Spot Ex-Works Tangshan (Yuan/mt)	3850	3780	1.85%
SGX Front Month (Dollar/mt)	125.50	117.82	6.52%
DCE Major Month (Yuan/mt)	870	844	3.08%
China Port Inventory Unit (10,000mt)	13,358.93	13,130.54	1.74%
Australia Iron Ore Weekly Export (10,000mt)	1,164.70	846.60	37.57%
Brazil Iron Ore Weekly Export (10,000mt)	148.20	290.40	-48.97%







Iron Ore Key Points

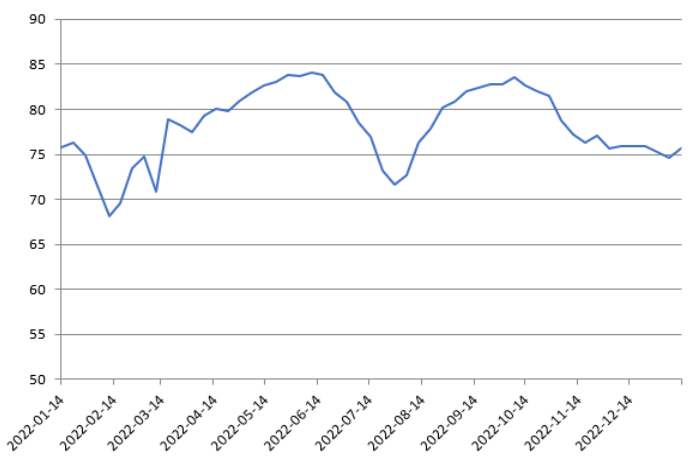
- Iron ore port inventories recovered and maintained a balanced mode in winter.
- The 65% and 62% iron ore spread maintained a $12 to $14 difference in June, with a mixed outlook on steel margins.
- Pig iron production gradually fell to 2.2 million tons, however higher than in previous years during the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

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

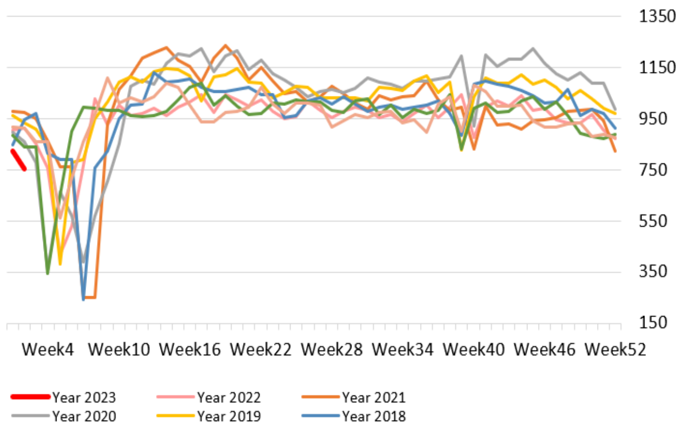
Steel

	Last	Previous	% Change
US HRC Front Month (Dollar/mt)	725	730	-0.68%
LME Rebar Front Month (Dollar/mt)	687.5	699	-1.65%
SHFE Rebar Major Month (Yuan/mt)	4154	4070	2.06%
China Hot Rolled Coil (Yuan/mt)	4198	4151	1.13%
Vitural Steel Mills Margin(Yuan/mt)	260	174	49.43%
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)	147,300	151,700	-2.90%

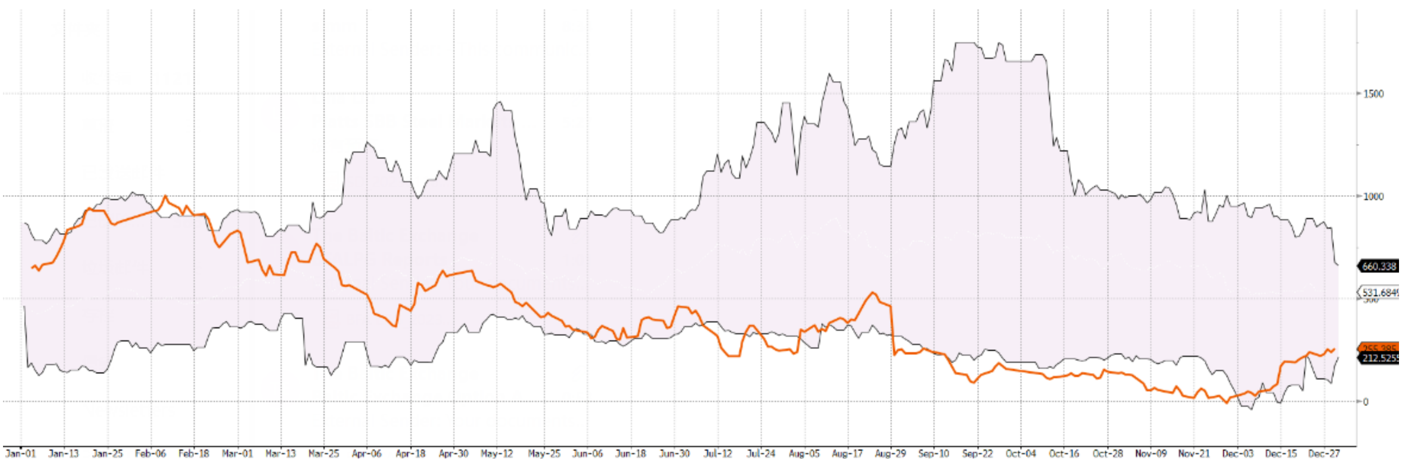
MySteel 247 mills BF Operation Rate in %



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



Virtual Steel Mill Margins (Five-Year Range)

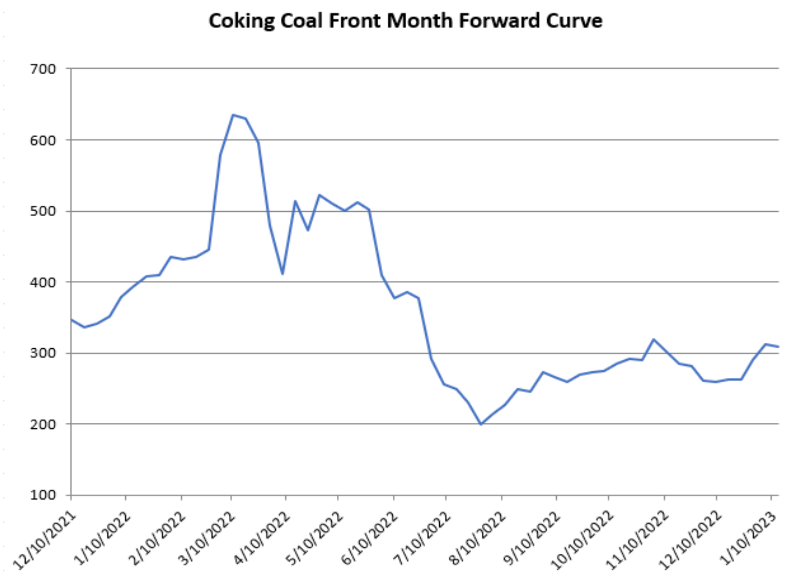


Data Sources: Bloomberg, MySteel, FIS

- Virtual steel mill margins recovered steadily from 0 levels in early December to 260 yuan/ton in early January. However, physical steel margins were still suffering in the 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 upcoming holiday.

Coking Coal

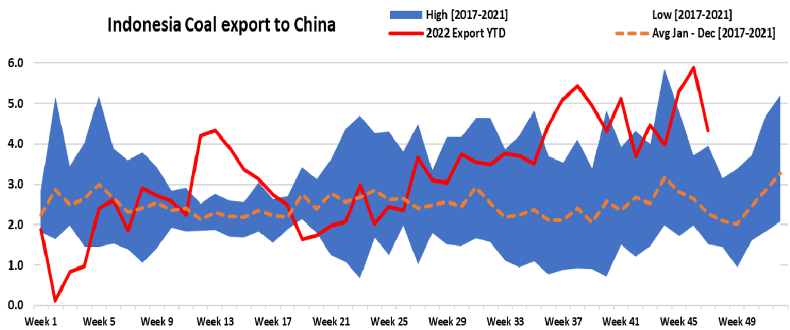
	Last	Previous	% Change
TSI FOB Premium Hard Coking Coal (Dollar/mt)	311	313.75	**-0.88%**
Coking Coal Front Month (Dollar/mt)	308.5	312.33	**-1.23%**
DCE CC Major Month (Yuan/mt)	1874	1801	**4.05%**
Top Six Coal Exporter Weekly Shipment	21.09	16.06	**31.32%**
China Custom total CC Import Unit mt	5,732,165	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 a physical coke price decrease, impacting 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 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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