# FIS Ferrous Weekly Report

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⇒ **Iron ore Fe62% CFR China:** short-run **Neutral to bearish**. The previous movement exhausted the positive sentiment of the Chinese housing recovery and the restart of mill production. The absolute level is not safe to make spot purchase. Moreover, import margins were squeezed.

⇒ **Rebar 25mm Shanghai** short-run **Neutral**. Steel mills started spot trade and reopened books after the holiday. It is hard to see an outlook on very near-term downstream at this point.

⇒ **U.S. HRC Front Month** short-run **Neutral**. The filled order books indicated the recovered demand in Europe and U.S. markets in March and April.

⇒ **Hard Coking Coal FOB Australia** short-run **Neutral**. The rail accident is expected to impact 3-7 days of transportation in Australia, plus the postponed laycans would increase supply tension. However, the market seemed to have priced in this sentiment already.

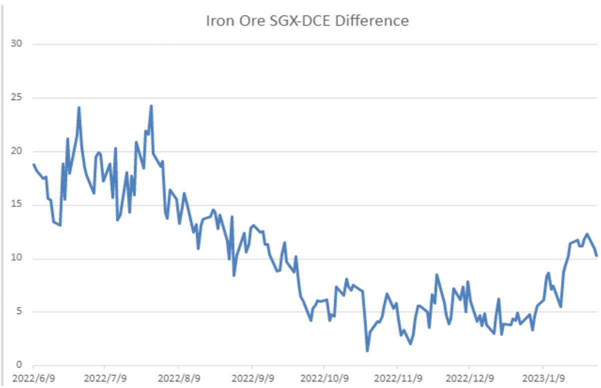
| Prices Movement | 30-Jan | 16-Jan | Changes % | Sentiment | |
|---|---|---|---|---|---|
| Iron Ore Fe62% CFR China($/MT) | 129.80 | 120.75 | 1.73% | Neutral to Bearish | ↘ |
| Rebar 25mm Shanghai (Yuan/MT) | 4220 | 4140.0 | 1.93% | Neutral | - |
| U.S. HRC Front Month ($/MT) | 788.0 | 725.0 | 8.69% | Neutral | - |
| Hard Coking Coal FOB Australia($/MT) | 335.25 | 311.0 | 7.80% | Neutral | - |

## Market Review:

### Iron ore Market :

Although the iron ore index increased significantly by 7.49% during the past two weeks, the physical trade volume remained quiet because of the Chinese holiday. Therefore, market participants were waiting for true direction before they decided on imports. At the same time, it is heard that importers showed strong interest in low-grade fines, considering the cost-effectiveness.

The low physical margin might become the current resistance for raw materials, including iron ore, coking coal and scrap, in Q1. The major blast furnaces in China, Vietnam, Japan, and Korea were still running on thin margins. In the meantime, downstream activities take more time to recover compared to investment sentiments. Thus, the higher priced pellet and high grade have limited upside room. The import margin was squeezed significantly because of the unchanged port price and the fast growth of the seaborne price. SGX-DCE futures difference also indicated a near-term narrowing from $12.5 to $10. Unlike the fast-picked front futures, float sales were more rational. BHP sold JMBF with a March discount at $4.95 based on IODEX, which was even slightly wider than $4.85 in mid-January.




*Data Sources: Bloomberg, Platts, Fastmarket, FIS*

Pig iron production gradually entered a recovery phase after the steel mill maintenance was completed in most areas of China. As a result, China might increase domestic iron ore supply by 15 million tons in the current 12-18 months, with 1/3 of the concentrates reaching high ferrous grade at 66-67%.

The iron ore arrivals during the past week at 45 major Chinese ports reached 25.28 million tons, down 579,000 tons on the week. Nineteen major Australian and Brazilian iron ore deliveries at 21.58 million tons last week, down 2.5 million tons.

## Market Review (Continued)

In the downstream market, 40 Chinese cities announced policies to support the housing market. As a result, economists expect bigger coverage and impact, along with more specified policies coming out in H1 2023. As a result, the second-hand house trading volume improved by more than 50% in the past three weeks in China compared to last year's period.

Overall, the fast growth in the futures and physical markets without seeing any fundamental movement in the short run is risky; there could be a price-in correction following the exhaustion of this sentiment.

**Neutral to Bearish**

### Downstream/Policies/Industry News:

AFS predicted a 304,600-automobile cut in 2023 because of a shortage of chips.

China NBS: China produced 237.63 million tons of rebars in 2022, down 8.1% on the year. China produced 4.496 billion tons of coals in 2022, up 9% on the year. China January Manufacturing PMI 50.1, est. 49.8, last 47. China's industrial amount above the designated scale at 8.4 trillion yuan in 2022, down 4% from 2021.

Turkey's presidential decree announced that to protect domestic industry, import duties on flat steels will be increased by 6-7% to 15-20%, without citing how long this duty will be in force.

### Global Steel Market:

There was a slight divergence between NW Europe HRC and southern countries late last week. Producers brought more capacities back, whereas buyers started a cautious buying sentiment. Italian sellers were seeking €780/t for HRC for March deliveries and €850/t for sheet. Asian export was absent from Asian suppliers last week. Sales in the northwest EU were heard at €750-760/t for April delivery.

Turkish deep-sea scrap prices extended gains as the market was firm over the last two weeks. Importers were looking for March and April shipments; there was a $410/mt CFR level on the book. The current workable level for U.S./Baltic origin HMS 1/2 80:20 was at least $415/mt CFR. The decrease in the electricity ceiling price should lower Turkey's electricity by 12% from February, impacting the total energy cost of steelmaking.

**Neutral**

### Chinese Steel Market:

Shanghai, domestic 25mm rebar, rebounded 80 yuan last two weeks from 4140 to 4220 yuan/ton; the modest increase was even smaller than half-finished materials, for example, billet or pig iron, during the same period. The spot sale was open, with fewer fill-in order books in March and April. Thus, it is hard to see a clear direction on steel demand. Physical steel was the only "rational" product among the entire ferrous complex, which was invoked mainly by China's border opening sentiments and new housing support policies.

Overall, rebar prices might experience a flat period or follow the direction of other ferrous products before major steel mills offer out.

**Neutral**

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

## Market Review (Continued)

**Coal Market:**

China's lift on the Australian import ban stimulated a significant spike in the FOB coking coals in early January. In addition, the laycans tight postponed ships' delivery window from February to April, caused by the chain reaction of the wet weather in Queensland and port areas. So, in the short run, the rail accident might impact 3-7 days of traffic.

JFE completed a transaction for 4,000 mt Saraji PMV with March laycan. Some market participants expected a higher market for premium coals because of supply tightness. Tradeable values are concentrated at $332-340/mt for Peak Downs or Saraji PLV. The highest bid was heard at $335 FOB Australia.

The Chinese physical coke down 100 yuan/ton was proposed on January 29th. As a result, the total three rounds decreased by 300-330 yuan/ton.

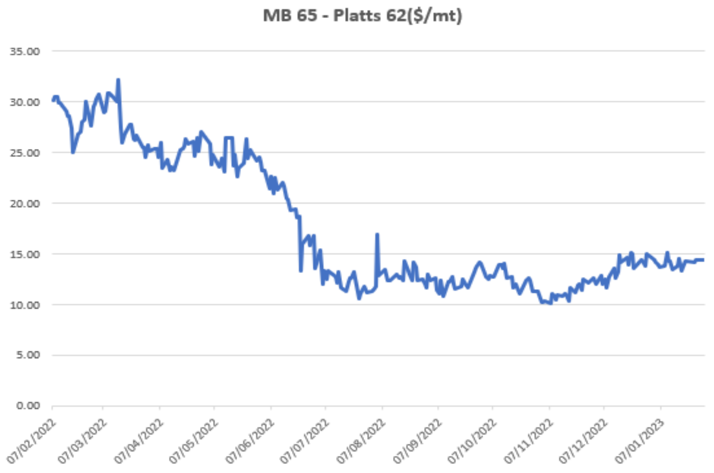
Overall, Australia's FOB is expected to reach a periodic high and face the correction risk.

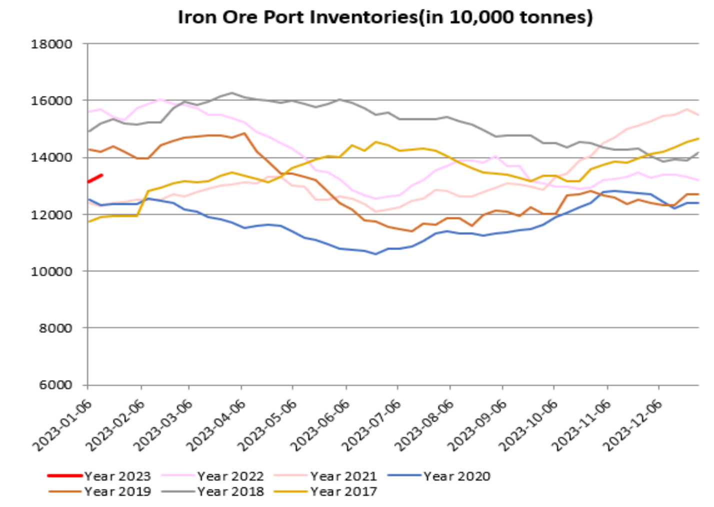
**Neutral**

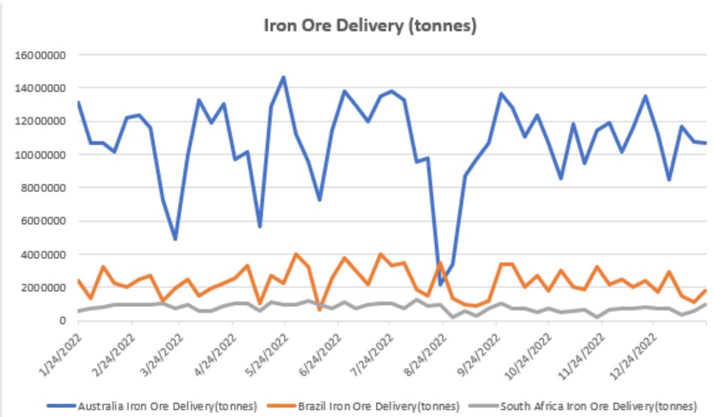
***Sources: Argus, IHS Commodities at Sea Service, FIS***

# Iron Ore

| | Last | Previous | % Change |
|---|---|---|---|
| Platts 62% Fe (Dollar/mt) | 129.8 | 124.95 | 3.88% |
| MB 65% Fe (Dollar/mt) | 144.2 | 138.6 | 4.04% |
| Capesize 5TC Index (Dollar/day) | 4418 | 6094 | -27.50% |
| C3 Tubarao to Qingdao (Dollar/day) | 16.811 | 16.838 | -0.16% |
| C5 West Australia to Qingdao (Dollar/day) | 6.365 | 6.645 | -4.21% |
| Billet Spot Ex-Works Tangshan (Yuan/mt) | 3820 | 3850 | -0.78% |
| SGX Front Month (Dollar/mt) | 126.37 | 126.12 | 0.20% |
| DCE Major Month (Yuan/mt) | 856.5 | 870 | -1.55% |
| China Port Inventory Unit (10,000mt) | 13,725.83 | 13,201.72 | 3.97% |
| Australia Iron Ore Weekly Export (10,000mt) | 1,068.90 | 1,079.40 | -0.97% |
| Brazil Iron Ore Weekly Export (10,000mt) | 175.60 | 106.80 | 64.42% |



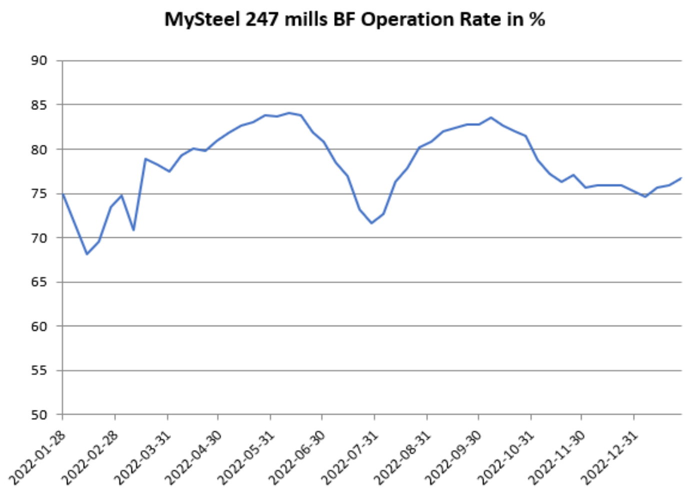

### Iron Ore Key Points

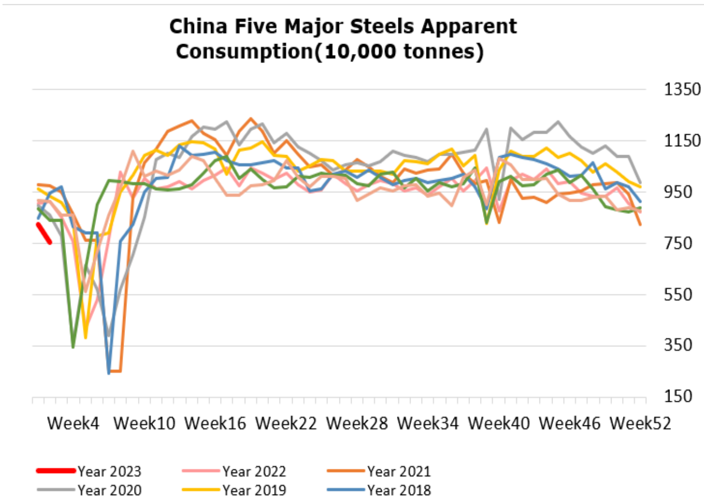
- Iron ore port inventories recovered and maintained a balanced mode in winter.
- The 65% and 62% iron ore maintained stable at $14-15 during December and January, supported by the low Brazil export and resisted by low physical steel margin.
- The pig iron production was expected to recover gradually after the Chinese holiday, as no other mills' maintenance or production cut was heard in February.

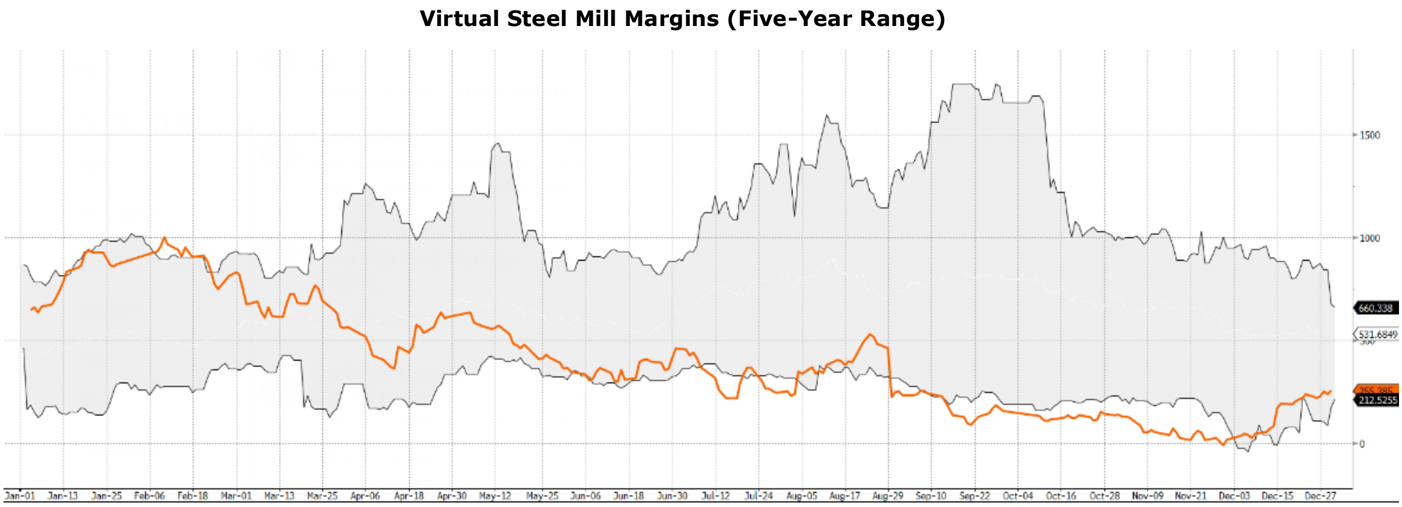
***Data Sources: Platts, Fastmarkets, MySteel, Bloomberg, FIS***

# Steel

| | Last | Previous | % Change |
|---|---|---|---|
| **US HRC Front Month (Dollar/mt)** | 775 | 715 | **8.39%** |
| **LME Rebar Front Month (Dollar/mt)** | 690 | 685 | **0.73%** |
| **SHFE Rebar Major Month (Yuan/mt)** | 4176 | 4154 | **0.53%** |
| **China Hot Rolled Coil (Yuan/mt)** | 4195 | 4198 | **-0.07%** |
| **Vitural Steel Mills Margin(Yuan/mt)** | 255 | 260 | **-1.92%** |
| **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%** |



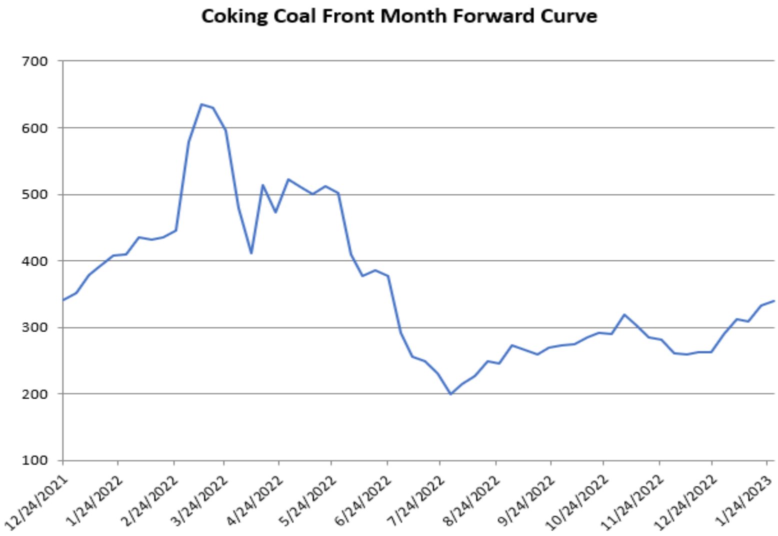




***Data Sources: Bloomberg, MySteel, FIS***

- Virtual steel mill margins recovered steadily from 0 areas in early December to 260 yuan/ton in early January. However physical steel margin was still suffering in 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.

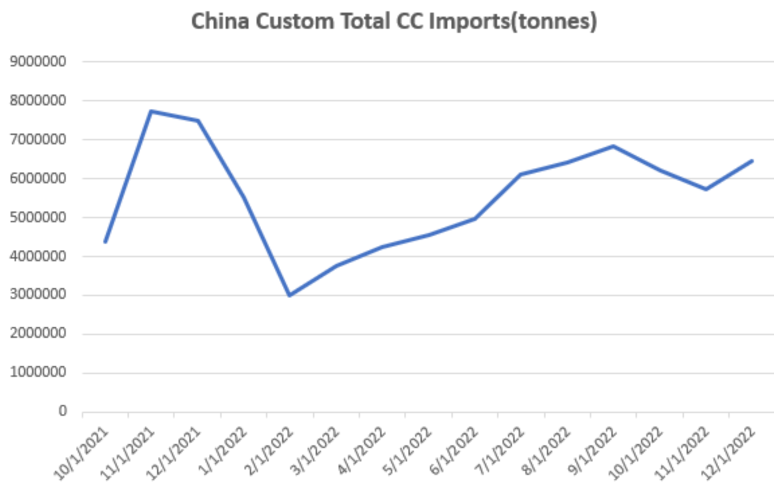
# Coking Coal

| | Last | Previous | % Change |
|---|---|---|---|
| **TSI FOB Premium Hard Coking Coal (Dollar/mt)** | 335.25 | 325 | **3.15%** |
| **Coking Coal Front Month (Dollar/mt)** | 339.25 | 332.33 | **2.08%** |
| **DCE CC Major Month (Yuan/mt)** | 1894 | 1874 | **1.07%** |
| **Top Six Coal Exporter Weekly Shipment** | 14.24 | 19.03 | **-25.17%** |
| **China Custom total CC Import Unit mt** | 6,464,859 | 5,732,165 | **12.78%** |




## Coal Key Points

- The freight train accident impacts the short-term coking coal delivery to port areas.
- Chinese coke mills accepted three rounds of physical coke price decrease by 300 yuan, starting from late December. Indian coke mills were running at a low utilisation rate because of a shortage of met coal.




***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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