

FIS Ferrous Weekly Report

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- ⇒ **Iron ore Fe62% CFR China:** short-run **Neutral**. Absolute high levels could force mills to rethink control costs. DCE urged to control risk and fair trading. Some market participants also mentioned the relatively high price risk in both physical and futures.
- ⇒ **Rebar 25mm Shanghai** short-run **Neutral**. Daily construction steel trading volume gradually recover to a normal level. Downstream actively started in mid-February, and market participants expected more housing stimulus to come out in or after the political conference in China.
- ⇒ **U.S. HRC Front Month** short-run **Neutral**. The investment environment improved in auto-making and infrastructure projects following slowed inflation and a better economic outlook in 2023.
- ⇒ **Hard Coking Coal FOB Australia** short-run **Neutral**. There was a structural shortage in HCCA. However, the general demand for PLV or PMV remains a question at the high price level.

Prices Movement	20-Feb	13-Feb	Changes %	Sentiment	
Iron Ore Fe62% CFR China(\$/MT)	129.55	121.85	6.32%	Neutral	-
Rebar 25mm Shanghai (Yuan/MT)	4350	4130	5.33%	Neutral	-
U.S. HRC Front Month (\$/MT)	800.0	805.0	0.62%	Neutral	-
Hard Coking Coal FOB Australia(\$/MT)	390.0	380.0	2.63%	Neutral	-

Market Review:

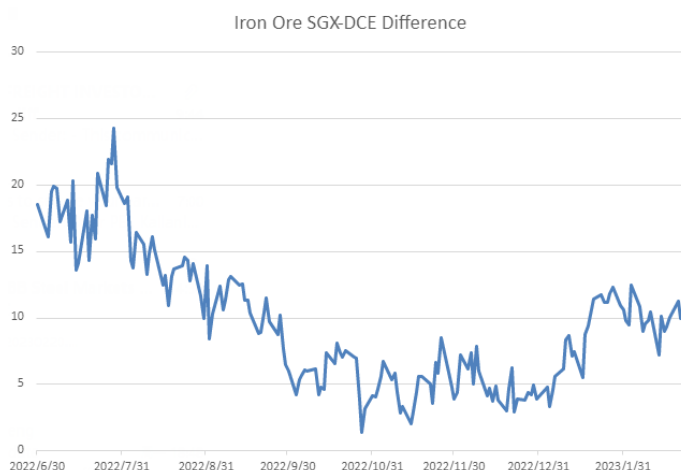
Iron ore Market :

Iron ore increased significantly by 8.14% during February. The bullish run total increased by 58.28% from late October 2022, lasting four months. Goldman Sachs analysts expect Q2 iron ore price to reach \$150 due to the seasonal growth of Chinese crude steel in April, which means another 15% growth from the index now. However, the uncertainty of the upcoming political conference in March and potential priced-in trading at high levels are risk factors.

Cyclone weather started to irritate normal shipments of Australian ports in January, limiting iron ore shipments. At the same time, there was a flood in San Paulo, Brazil, with an undefined impact on port operations. However, the flood and heavy rain created some disruptions in road transportation. China will launch a pilot program for real estate private equity investment funds as part of efforts to promote the property industry. In addition, vital China housing statistics covering 70 major cities indicated that new-built commercial houses reached 0.0%, the first non-negative number after a

streak of losses of 12 months previously. Tier 1 and 2 cities have realised 0.2% and 0.1% growth. The house sales improved significantly during the first two months of 2023. China housing-linked equities and ferrous commodities spiked on the back of the news.

Physical trade dominated the seaborne market in the late half of last week and the early half of this week. PBF traded in \$128-129 with Fe61%. However, PBF premium was stable from \$0.4-0.7dmtu in February, which is squeezed by the strong index.



Data Sources: Bloomberg, Platts, Fastmarket, FIS

Market Review (Continued)

Daily pig iron had increased by 42,400 tons to 2.30 million tons in February, similar to 2021 and even 6.5% lower than in 2022. The physical trade volume for iron ore at ports and steels is back to 80%-85% of standard times, indicating the expectation and price had moved faster than reality.

Although the strong recovery sentiment has stimulated the market on the demand side, the March-April 23 spread was pulled back to the \$0.7-0.8 area after a one-week journey to \$1.05 last week. The flat structure indicated that the front demand still needs a testing period. SGX-DCE spread fell back to \$10. MB65-P62 stay flat at \$14 over three weeks. Both numbers were resisted by the weak steel margin when mills had to control costs.

Overall, the high level faced gains taking effect in the short-run from speculation investors or the financial market. However, accumulated uncertainties become a hold-back factor after time passes by.

Neutral

Downstream/Policies/Industry News:

EU end Covid test requirement for China arrivals. The test started after Beijing rapidly lifted pandemic restrictions in early January. As a result, the ECB council indicated an increase of 50 bps in interest rate in March, aiming to bring the inflation rate back to 2%. Furthermore, the EU council increased Europe's economic growth rate to 8% in 2023. At the same time, European Commission decreased the expected inflation rate from 6.1% to 5.6%.

U.S. jobless claims commenced on February 11th at 194,000, lower than the expected 200,000, last 195,000. The number indicated that the U.S. economy maintained resilient growth given a tight monetary policy.

Global pipe maker Tenaris expected its North American sales and production to continue increasing in H1 2023. Tenaris sold 809,000mt in the fourth quarter, up by 11% on the year. Argentina, Iraq, North America, and the United Arab Emirates drove the demand. Tenaris doubled its profit from \$1.1 to \$2.55 billion in 2022.

Brazil floods in San Paulo killed 19 people, leaving thousands homeless in portal areas. Landslides crushed hundreds of houses and buried some roads. The heavy rain and flood had caused an impact on the port area and road transportation. However, yet to calculate the detailed effects on commodities and assets damage.

Global Steel Market:

The Platts North Europe HRC rebounded €30 at €785 in February, driven by more orders; however, limited capacity from the north in Q1. A large northern European mill increased its offer to €800/t, stimulating other market products to move in line. This mill's strip production is limited through the first two months of 2023. Southern buyers are looking to secure supply concerning Turkish price will increase. Mid-west mills in the U.S. offers ranged from \$840-900/st for a variety of sizes were heard. The tradeable value was evaluated from \$850-870/st. Turkish-based mills indicated that the scrap was highly relied on, while mills are tough to fix prices unless the government supports some material or energy cost.

Turkish deep-sea imported scrap prices fell after a lower U.S. origin deal emerged last week. The HMS 1/2 80:20 index ranged from \$385—400 during February. Sellers mentioned increasing buying interest raised from Marmara mills and Egyptian mills. The trade was heard at the \$415 level for HMS 1/2 80:20 from Benelux-origin. A U.S. origin deal was booked on February 16th by an Iskenderun mill at \$420.5/mt CFR. The Turkey government was aiming to start reconstruction work in an earthquake zone and demanded 4 million mt of rebar from a domestic producer. Some market participants expected the price to increase above \$420, with a foreseeable shortage in the next few weeks.

Market Review (Continued)

Global Steel Market (Continued):

China withdrew lower offers and replaced them with \$5 higher in the Vietnam market at \$630/t for SS400, given a quiet week because mills were expecting faster domestic consumption in flat steels in late Q1. At the same time, Vietnamese mills Formosa Ha Tinh raised its SS400 HRC prices by \$60/t to \$690-694.

Overall, scrap price is expected to maintain stability due to the expected European recovery in steel consumption. In addition, HRC is expected to maintain stability as capacity was limited while the demand market is resilient currently.

Neutral

Chinese Steel Market:

Shanghai domestic 25mm rebar, grew 220 yuan/ton, or 5.33%, during the report week, creating the most considerable single-week growth over the past twelve months.

The five major steel apparent consumption entered a brief recovery period from mid-February to mid-March. HRC and Construction steel consumption was in line with the average for the last two years during the same period. There is yet to be any sign that China would increase export. But Vietnam and European buyers were increasing bids significantly on SS400 and SAE1006 coils. The daily trading volume had recovered to 80-85% of the normal level and downstream started to make steel purchases. The market expected more stimulus on housing and infrastructure through or after the political conference in March. Thus, ferrous futures and housing equities spiked from mid-February.

Shagang Group maintained HRB400 16-25mm rebar unchanged at 4400 yuan/ton. However, it started a general increase for other width rebars.

In summary, rebar prices might maintain flat till the next ex-work price is out for major mills in China.

Neutral

Coal Market:

The Australia FOB market went up from \$276 to \$390 during February, supported by wet weather and postponed laycans, which created a structural shortage of HCCA and PLV supply. HCCA saw competitive bids chasing more than \$30 during the previous week, finally concluding at \$405. However, Indian buyers implied that prime coking coal had become unaffordable, which forced them to control their purchasing amount. Furthermore, more traders are concerned about the previous rainy season causing the coking coal to get wet. In addition, the cyclone season might create more delayed laycans in the coming weeks.

U.S. spot demand for taking coals started to slide, which pushed miners to look for offering in the Asian market. The deep backwardation structure allowed hedgers to avoid risk for Q2 loading offers. There are no signs of restocking in the U.S. domestic market.

The China port coking coal and coke price mainly maintained stability during the past few days. China steel mills indicated that the coal stock was at a low level. Physical traders suggested they would watch and see when more demand comes through.

Overall, Australia FOB might face correction risk if those high physical bids are cancelled in future or vanish in the market.

Neutral

Sources: Argus, IHS Commodities at Sea Service, FIS

Iron Ore

	Last	Previous	% Change
Platts 62% Fe (Dollar/mt)	129.55	121.85	6.32%
MB 65% Fe (Dollar/mt)	143.7	136.9	4.97%
Capesize 5TC Index (Dollar/day)	2354	4432	-46.89%
C3 Tubarao to Qingdao (Dollar/day)	16.05	16.683	-3.79%
C5 West Australia to Qingdao (Dollar/day)	6.115	6.325	-3.32%
Billet Spot Ex-Works Tangshan (Yuan/mt)	3870	3790	2.11%
SGX Front Month (Dollar/mt)	126.54	124.72	1.46%
DCE Major Month (Yuan/mt)	885	860.5	2.85%
China Port Inventory Unit (10,000mt)	14,110.72	14,010.28	0.72%
Australia Iron Ore Weekly Export (10,000mt)	769.20	1,094.30	-29.71%
Brazil Iron Ore Weekly Export (10,000mt)	325.50	260.00	25.19%

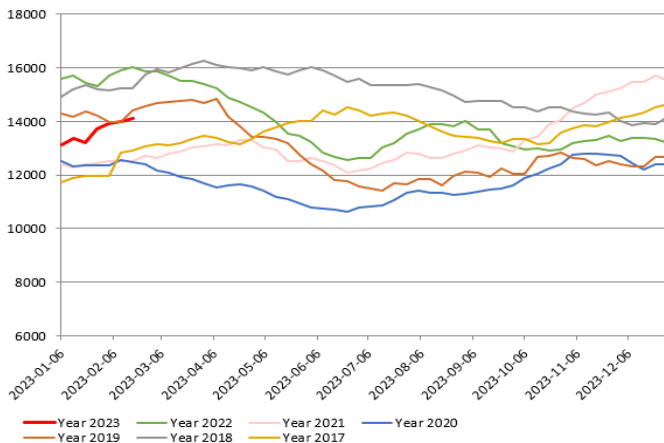
MB 65 - Platts 62(\$/mt)



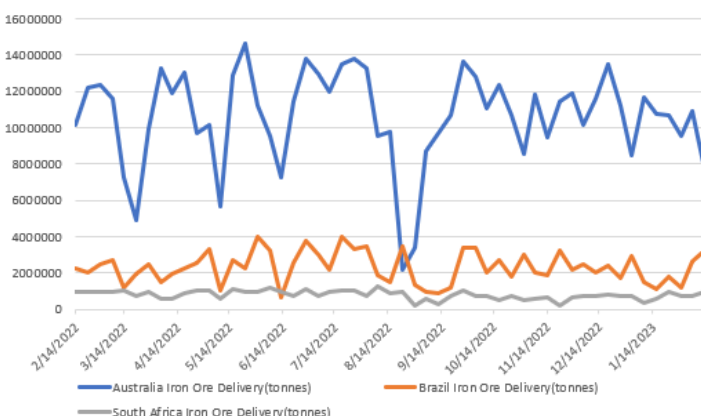
Iron Ore Key Points

- Iron ore port inventories are expected to decrease in Q2 with fewer arrivals and immediate consumption in the construction season in March and April.
- The 65% and 62% iron ore slightly recovered following the steel margin rebound.
- Pig iron production picked up in line with the past two years. It's expected to reach a year-high in April following seasonal movement.

Iron Ore Port Inventories(in 10,000 tonnes)



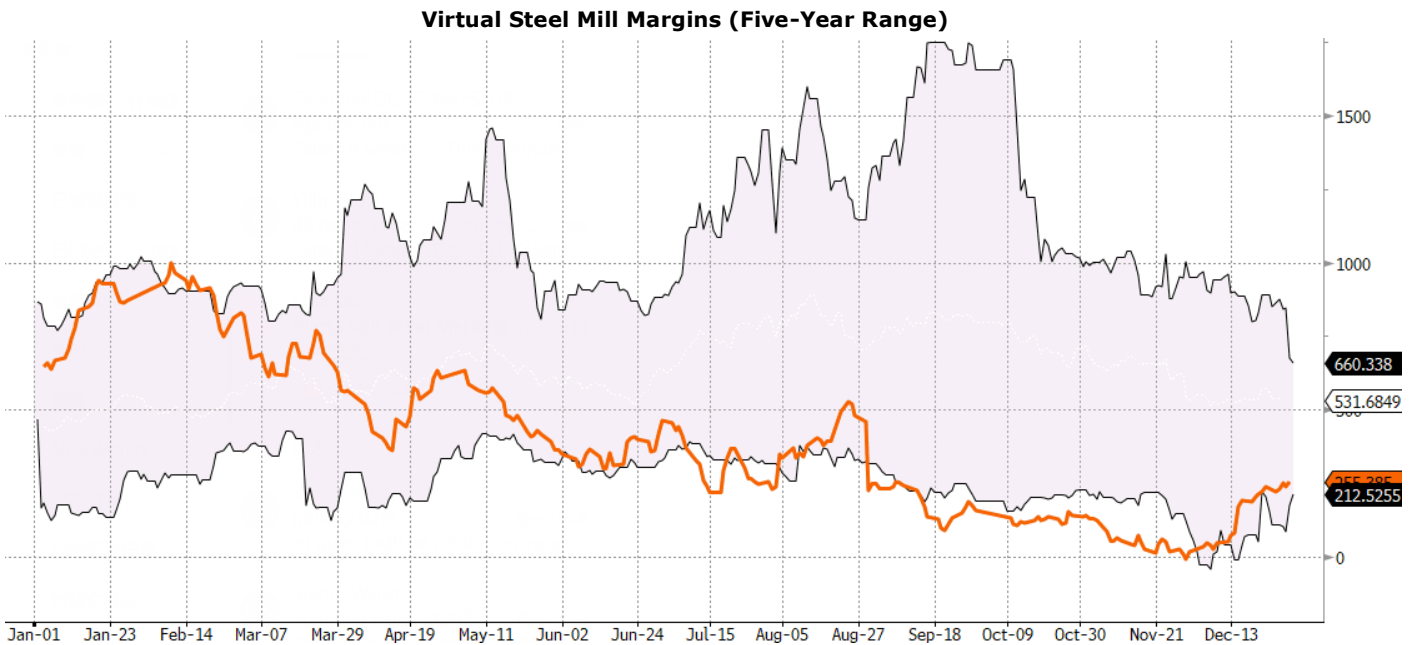
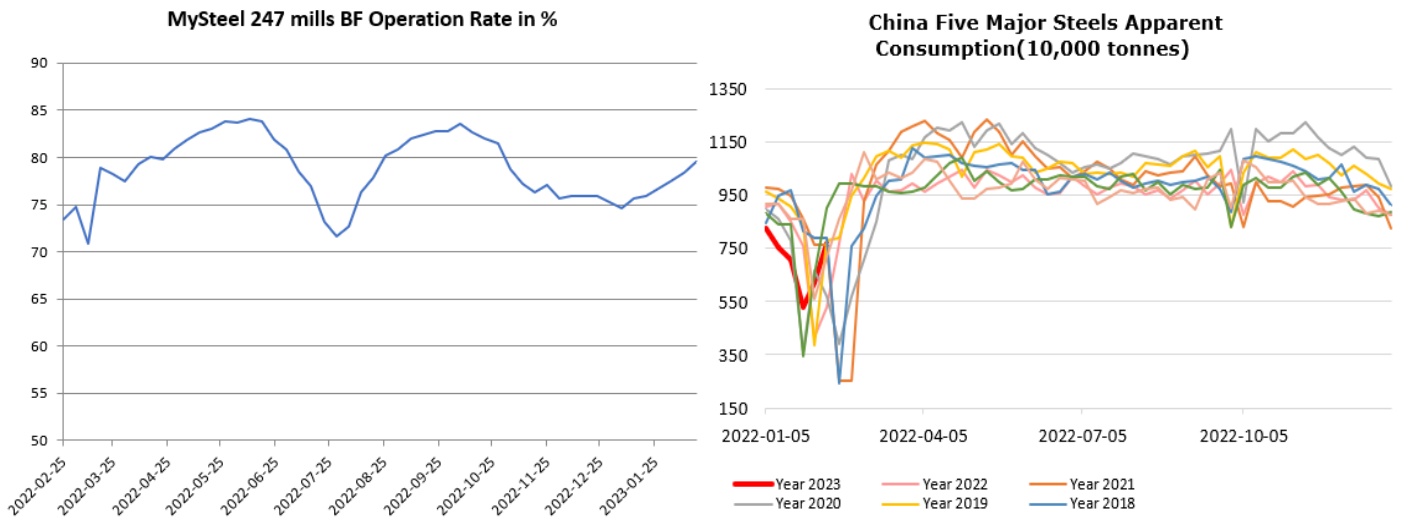
Iron Ore Delivery (tonnes)



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

Steel

	Last	Previous	% Change
US HRC Front Month (Dollar/mt)	798	798	0.00%
LME Rebar Front Month (Dollar/mt)	707.5	707	0.07%
SHFE Rebar Major Month (Yuan/mt)	4162	4058	2.56%
China Hot Rolled Coil (Yuan/mt)	4319	4198	2.88%
Vitural Steel Mills Margin(Yuan/mt)	255	255	0.00%
China Five Major Steel Inventories Unit (10,000 mt)	2489.64	2371.33	4.99%
Global Crude Steel Production Unit (1,000 mt)	77900	74500	4.56%
World Steel Association Steel Production Unit(1,000 mt)	140,700	139,100	1.15%



- Virtual steel mill margins recovered steadily from 0 levels in early December to 255-260 yuan/ton in this January and February. The physical margin was also followed by the virtual margin moving from a negative to a positive area.
- The five weekly types of steel consumption started recovery mode, and the pace of consumption essentially directed the market sentiment in the next few weeks.

Coking Coal

	Last	Previous	% Change
TSI FOB Premium Hard Coking Coal (Dollar/mt)	390	380	2.63%
Coking Coal Front Month (Dollar/mt)	381	372.67	2.24%
DCE CC Major Month (Yuan/mt)	1884	1842.5	2.25%
Top Six Coal Exporter Weekly Shipment	17.69	21.92	-19.30%
China Custom total CC Import Unit mt	6,464,859	5,732,165	12.78%

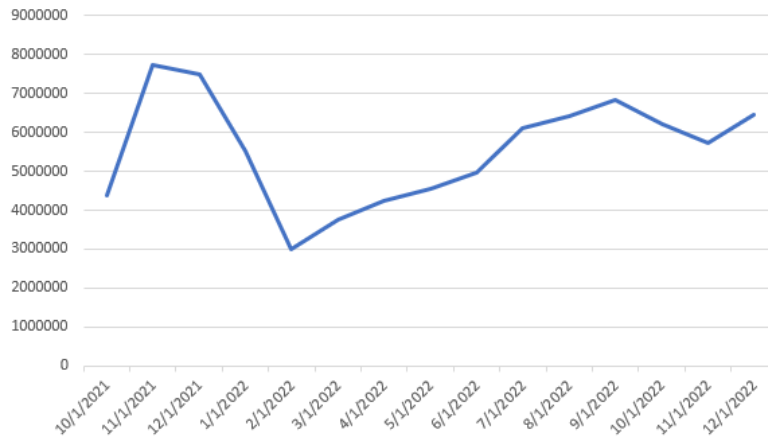
Coking Coal Front Month Forward Curve



Coal Key Points

- The previous laycans of Australian seaborne coals were postponed to April and May, which supported high price and structural shortage in HCCA and PLV.
- Mongolia hauls more coal trucks compared to last Q4. China, India and Europe are all looking for high quality blend coals as demand growing.

China Custom Total CC Imports(tonnes)



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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