FIS

Ferrous Weekly Report

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⇒ **Iron ore Fe62% CFR China:** short-run **Neutral to Bearish**. Market participants only saw stable demand recovery on steel and pig iron production, below the previous expectation. Physical traders started to become cautious on the front-load laycans on mid-grade as high stock levels and low import margins.

⇒ **Rebar 25mm Shanghai** short-run **Neutral to Bearish**. High inventory level kept downstream to hold orders back to wait for discounts in future weeks.

⇒ **U.S. HRC Front Month** short-run **Neutral to Bullish**. The investment environment improved in auto-making and infrastructure projects, following slowed-down inflation and a better economic outlook in H1 2023.

⇒ **Hard Coking Coal FOB Australia** short-run **Neutral**. However, the recovery of supply bottlenecks of PLVs significantly reduced the price.

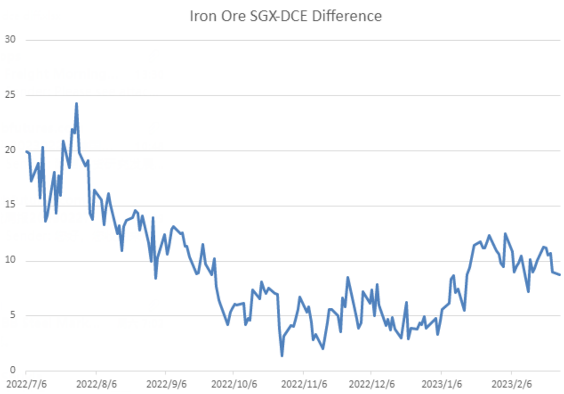
Prices Movement	27-Feb	20-Feb	Changes %	Sentiment	
Iron Ore Fe62% CFR China($/MT)	122.50	129.55	5.44%	Neutral to Bearish	↘
Rebar 25mm Shanghai (Yuan/MT)	4390	4350	0.92%	Neutral to Bearish	↘
U.S. HRC Front Month ($/MT)	1044.0	800.0	30.5%	Neutral to Bullish	↗
Hard Coking Coal FOB Australia($/MT)	347.0	390.0	11.03%	Neutral	-

Market Review:

Iron ore Market :

Iron ore dropped by 5.44% during the report week. As expected, the past bullish run had exhausted the time window for continuous growth, as the average bull or bear market in iron ore was only four months. Moreover, from the fundamental side, steel and pig iron production failed to create significant annual growth, which fell below expectations previously. Accordingly, some physical traders in China started to control the physical iron ore stocks by clearing front-month cargoes at discount prices, although the market has a premium right now.

Iron ore shipments are expected to recover this week after the weather impact in Australia and Brazil. Total crude steel output at major Chinese mills rose 1.49% in mid-February. However, inventories raised 8.32% last week, indicating a slightly weaker demand on the steel side. Daily trading volume reached 143,900 tons last week, still 25%-35% lower than a traditional building season. MySteel 45 ports iron ore inventories at 142.23 million tons, up 1.13 million tons on the week, a ten-month high. Some Chinese traders revealed they are looking to clear premium PBFs at a discount of the March index, which was initially sold at a $0.4-0.6 premium. PBF premium has become a discount of $0.5 currently. Discount ores, including MACF, was resilient, with discount ranging from -$0.25 to -$3 most of the time in February. The sudden drop scared away float buyers and other sellers. However, the reality is that mid-grade concentrates became crowded for March laycans. The previous index growth was more related to the sentiment on the futures market and pulled back by weak demand.



Tangshan started an air pollution sintering cut by 30-50% for major mills. Lump premium is expected to maintain resilience before the political conferences. Pellets became weak as portside was cheaper than seaborne.

Data Sources: Bloomberg, Platts, Fastmarket, FIS

Market Review (Continued)

Given the fast drop in import margin, the SGX-DCE difference also narrowed from $9.6 to $8.7 over the past week. However, the difference might climb back to $10 after a round of recovery import margin.

The expected construction season in April supported the month's becoming relevant strong. Moreover, the crowded laycans in March, import loss and Tangshan sintering cut enabled physical traders to need basic mode. Thus, April-May becomes higher than both March-April and May-June spreads.

Brazil's miner Vale reported a decline by $7 to $45/dmt in contract iron ore pellet premiums for Q2, compared with Q1. Pellet premiums declined progressively after the record high in Q2 2033.

Overall, the high level faced gains taking effect in the short-run from speculative investors or financial market.

Neutral to Bearish

Downstream/Policies/Industry News:

According to the U.S. Department of Commerce, U.S. steel import volumes fell in 2022 to 28.01 million mt, a 2% decline compared with 2021. HRC fell by 19% to 2.25 million tons. Platemaker in U.S. SSAB has increased plate price for the second time in just over a month by $60/st to $1,480/st.

U.S. Steel, a Pittsburgh-based steel maker, applauded Biden Administration for adding pig iron to its list of Russian products targeting steep tariffs by 70%, effective April 7th. Russia was the biggest supplier of pig iron to the U.S. in 2021. In addition, Russia restricted exporting steel scrap to nine ports, leaving the 600,000mt export quota underutilised.

Tata Steel Netherlands has declared force majeure because of difficulties upgrading its cold rolled lines. India remained a net importer of steel for the fourth consecutive month in January, rising 33$ from a year earlier to 596,000t.

Some iron ore mines in Sichuan, China, suffered from roof accidents. However, the impacts are expected to have a minor effect since SMM calculated that the miners have a 590,000mt capacity, with only 49,000 mt impact if breaking down to a monthly basis.

CNH and CNY depreciated to 6.98 and 6.96, respectively, refreshing new highs in 2023. China's Q4 monetary report indicated a generally positive outlook for China's economy in 2023 and an expected mild inflation and neutral monetary policy.

U.S. January PCE is up 0.6% on the year, refreshed the biggest increase since August 2022, est. 0.4%, last 0.3%.

Global Steel Market:

The Platts North Europe HRC rebounded €40 to €795 in February, driven by Turkey's reconstruction projects, which supported scrap and steel prices. Tata Steel invoked force majeure because of the cold rolled coil lines revamp. There was €790/t CIF Spain for HRC from Turkey. However, the amount became problematic because Turkey needed more steel to fill the domestic demand market. Thus, international supply started to decrease in the European steel market. Indonesian HRC was offered at €730/t this week, while Japanese offered €760/t CIF.

The China market was still expecting the traditional construction season in March and April. However, most buying activities should concentrate in late February and mid-March. Private-owned house developers were still in cautious mode even after getting out of financial stress last year. Northern mills stopped offering SS400 HRC the previous week. Chinese mill offers ranged from $640–$680, who are waiting for market direction instead of concluding deals. Vietnamese bids expected $630–$635/t CFR, while Chinese offers were $10 higher. SAE1006 offers were generally unchanged from China and Japan from last week.

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

Market Review (Continued)

Global Steel Market (Continued):

Turkish deep-sea HMS 1/2 80:20 index raised from $389 to $452.5 during February. The Turkish government aims to start reconstruction work in the earthquake zones and demanded 4 million mt of rebar from domestic producers, which created a significant gap and even topped the utilisation rate for all mills. The last reported scrap bookings last week were $450/mt CFR. However, some offers for premium scrap were already at $465-475/mt CFR Turkey. Short-sea workable levels were at $420-430.

Neutral to Bullish

Chinese Steel Market:

Shanghai domestic 25mm rebar was almost unchanged over the report week. Daily trading volume was at the 140,000 level, which was still 25-35% lower than a normal busy construction season.

The five major steel apparent consumption entered a fast recovery period from mid-February to mid-March. Inventories are expected to peak before mid-March as well. Mills prioritise domestic demand first on plates, with better sizes and stable demand. Market participants expected more flat steels would emerge in the international market after the construction season in China ended in April, leaving mills softened the export price by then. Some physical traders were waiting for the policy change after the Chinese government conference in late February and early March.

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

Neutral to Bearish

Coal Market:

The Australian FOB market climbed from $276 to $390 during February, then fell to $347 after the supply bottleneck was eased. Indian steelmaker had a PMV tender for 40,000–75,000mt of Prime Hard Coking Coal with April laycan. On the other side, ArcelorMittal intended to offer 42,000mt of Illawarra PMV.

The China physical coke price increased by 100-110 yuan/mt, which was the first round of price increase in February. A few coking plants extended production hours from 24 to 30 hours. Steel mills currently have a year-low inventory of coking coal and coke, which would support price. Moreover, the miner accidents in Inner Mongolia come with a strict safety inspection on all miners in Inner Mongolia province, which lasts for two months and certainly lowers overall production.

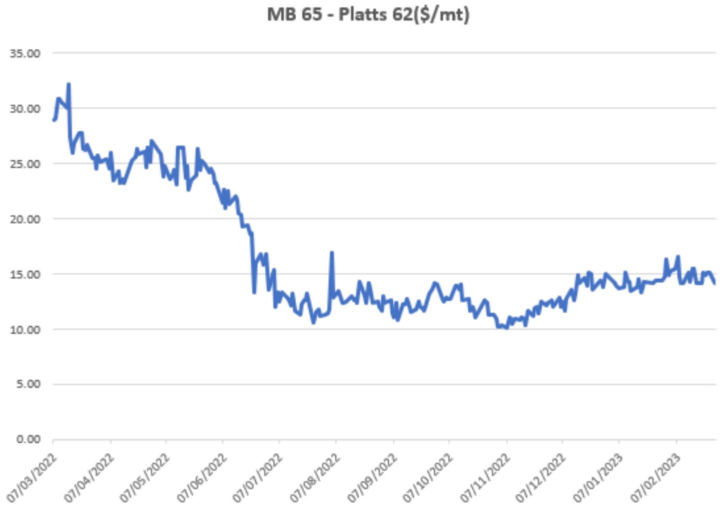
Overall, Australia FOB potentially faces correction risk since the weather condition improved, supply is tight, and logistics recovered.

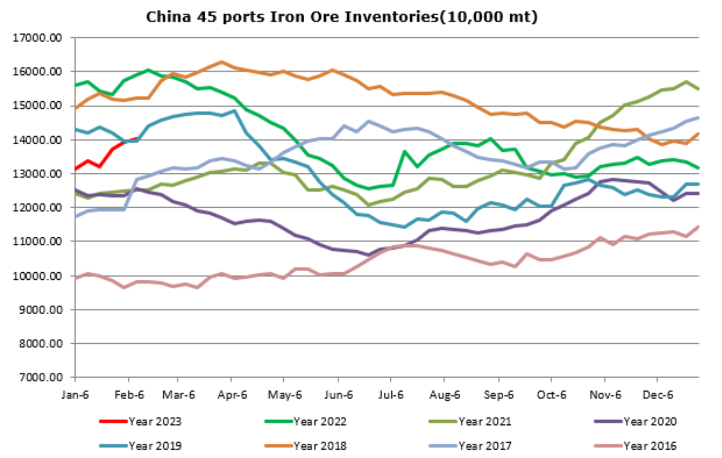
Neutral

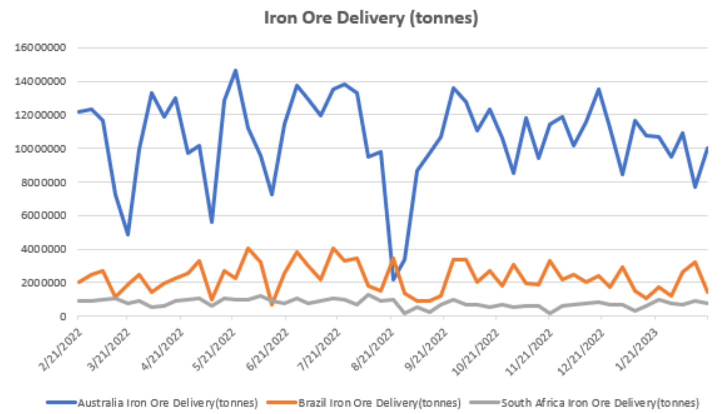
Sources: Argus, IHS Commodities at Sea Service, FIS

Iron Ore

	Last	Previous	% Change
Platts 62% Fe (Dollar/mt)	122.5	129.55	-5.44%
MB 65% Fe (Dollar/mt)	136.7	143.7	-4.87%
Capesize 5TC Index (Dollar/day)	5815	2354	147.03%
C3 Tubarao to Qingdao (Dollar/day)	17.122	16.05	6.68%
C5 West Australia to Qingdao (Dollar/day)	7.07	6.115	15.62%
Billet Spot Ex-Works Tangshan (Yuan/mt)	3930	3870	1.55%
SGX Front Month (Dollar/mt)	126.75	126.54	0.17%
DCE Major Month (Yuan/mt)	908.5	885	2.66%
China Port Inventory Unit (10,000mt)	14,223.26	14,110.72	0.80%
Australia Iron Ore Weekly Export (10,000mt)	997.90	769.20	29.73%
Brazil Iron Ore Weekly Export (10,000mt)	139.90	325.50	-57.02%







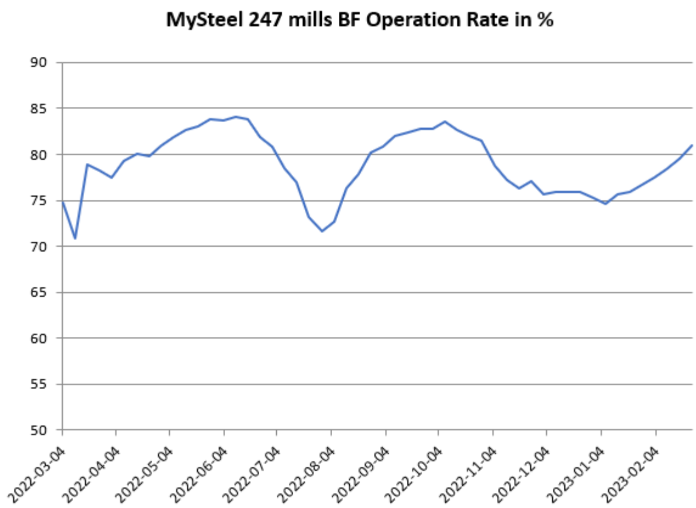
Iron Ore Key Points

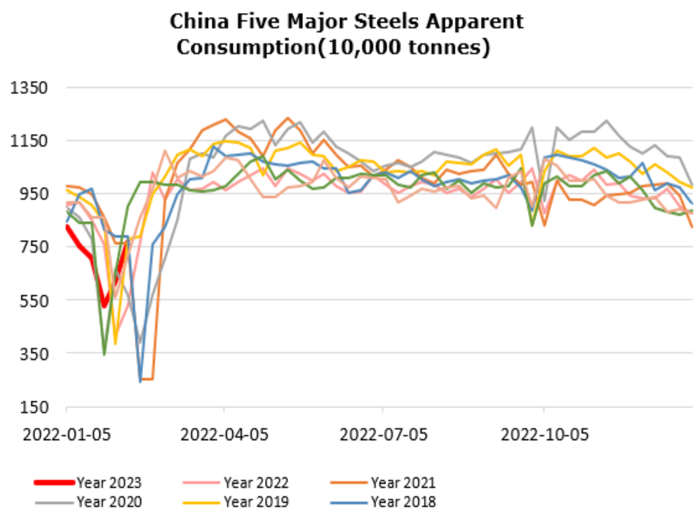
- Iron ore port inventories are expected to decrease in Q2 with fewer arrivals and fast consumption in the construction season in March and April.
- The 65% and 62% iron ore slightly recovered, followed by the steel margin rebound.
- The pig iron production picked up in line with the past two years,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

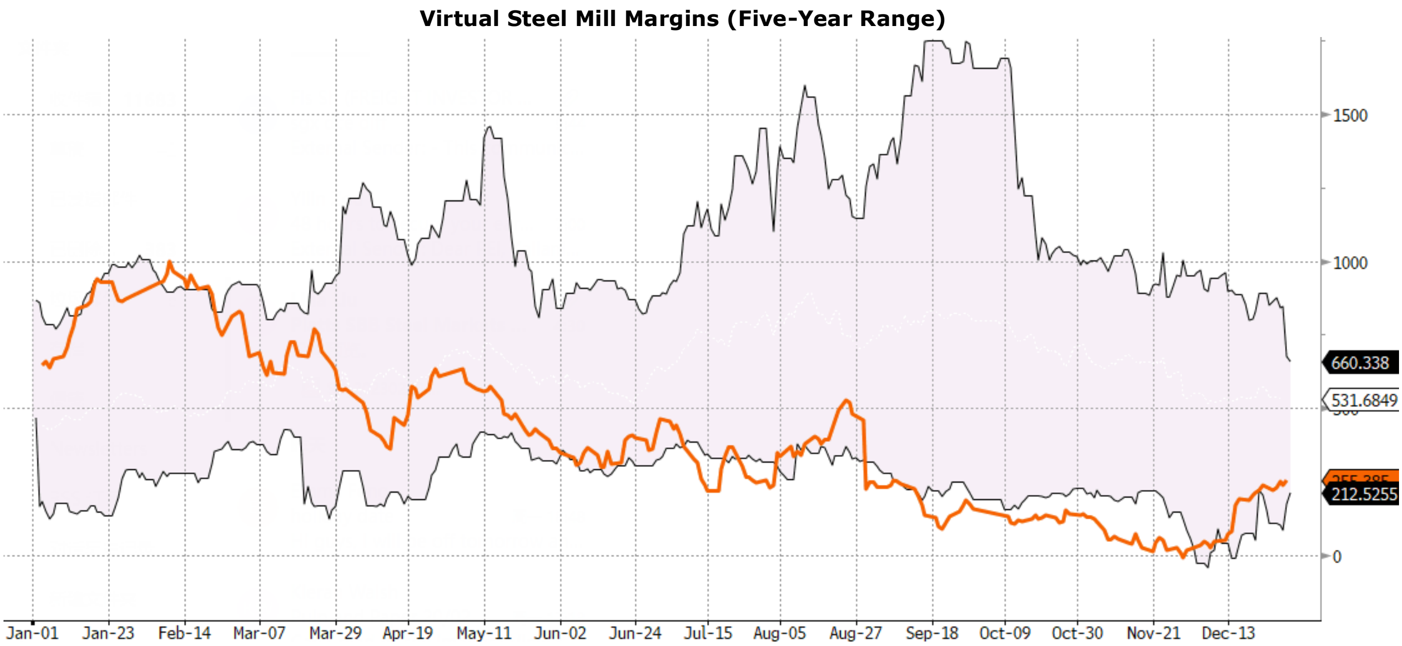
Data Sources: Platts, Fastmarkets, MySteel, Bloomberg, FIS

Steel

	Last	Previous	% Change
US HRC Front Month (Dollar/mt)	1020	798	27.82%
LME Rebar Front Month (Dollar/mt)	699	708	-1.20%
SHFE Rebar Major Month (Yuan/mt)	4218	4162	1.35%
China Hot Rolled Coil (Yuan/mt)	4372	4319	1.23%
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)	79500	77900	2.05%
World Steel Association Steel Production Unit(1,000 mt)	140,700	139,100	1.15%



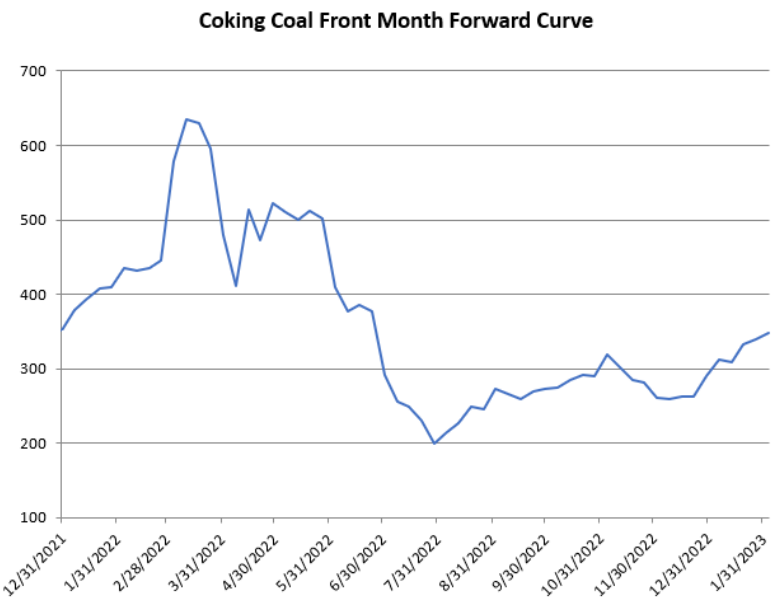


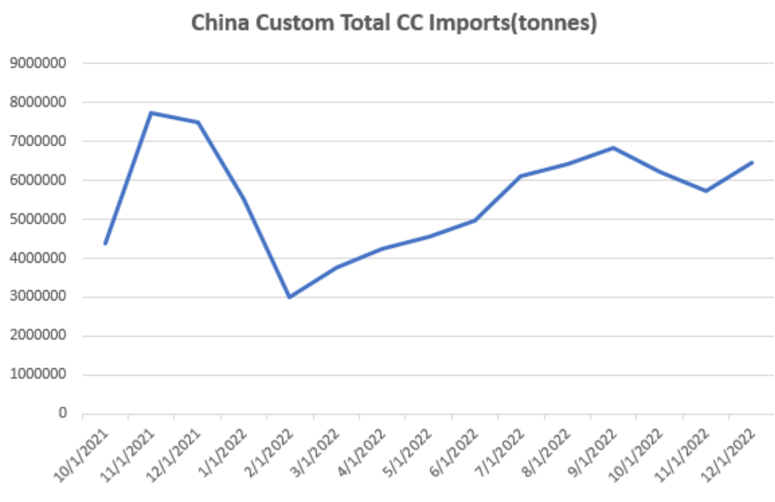


- Virtual steel mill margins recovered steadily from 0 levels in early December to 255-260 yuan/ton in this January and February. The physical margin was also followed by the virtual margin from a negative to a positive area.
- The five weekly types of steel consumption started recovery mode, and the 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)	347	390	**-11.03%**
Coking Coal Front Month (Dollar/mt)	370.33	381	**-2.80%**
DCE CC Major Month (Yuan/mt)	2040.5	1884	**8.31%**
Top Six Coal Exporter Weekly Shipment	16.38	20.61	**-20.52%**
China Custom total CC Import Unit mt	6,464,859	5,732,165	**12.78%**





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.

– The Chinese Inner Mongolia province coal miner accident led to a big safety inspection over all miners, which would lower overall utilisation rate in the province.

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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