FIS Ferrous Weekly Report

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⇒ **Iron ore Fe62% CFR China:** short-run **Neutral to Bearish**. Both supply and demand recovered in March compared with February. However, iron ore might face slight overstock if demand increases are slow.

⇒ **Rebar 25mm Shanghai** short-run **Neutral to Bearish**. Market participants questioned the accuracy of the abnormally high apparent consumption last week.

⇒ **U.S. HRC Front Month** short-run **Neutral to Bullish**. Turkey's absence and Russia export decrease in the steel market tightened the supply market in Europe and CIS areas.

⇒ **Hard Coking Coal FOB Australia** short-run **Neutral**. The market was in a new equilibrium with stable supply and demand.

Prices Movement	20-Mar	13-Mar	Changes %	Sentiment	
Iron Ore Fe62% CFR China($/MT)	126.50	132.35	4.42%	Neutral to Bearish	↘
Rebar 25mm Shanghai (Yuan/MT)	4330	4520	4.20%	Neutral to Bearish	↘
U.S. HRC Front Month ($/MT)	1055.0	1055.0	-	Neutral to Bullish	↗
Hard Coking Coal FOB Australia($/MT)	341.0	363.0	6.06%	Neutral	-

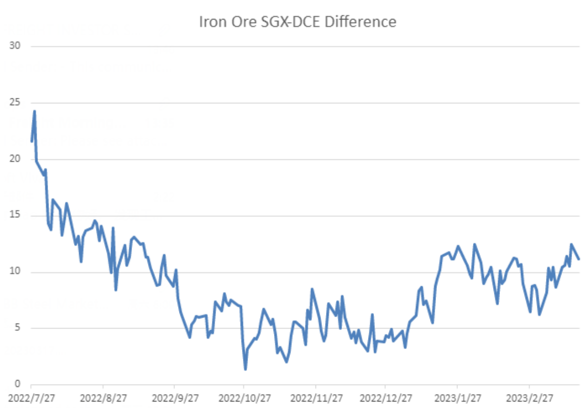
Market Review:

Iron ore Market :

Iron ore dropped by 4.42% during the report week, as expected. On the fundamental side, China pig iron production reached 2.3758 million tons daily, which created the highest of the year, 6.77% higher than a month before. The most increased daily production was 2.52 million tons in 2021 and 2.44 million tons in 2022. There is only 3% room for the growth of the utilisation rate to reach the theoretical high of 91-92% from the current level. The market participants are concerning a sharp correction after the blast furnace produced iron ore reached the roof area. Moreover, the sufficient scrap supply in China in H1 could boost EAF production, increasing the total market supply of steel. Last week, market participants, including many media in China, were discussing the steel production control in 2023 in China. However, the most recent drop was majorly linked to a new round of NDRC control and meetings with Qingdao and Tangshan port about fair pricing and iron ore stocks.

The macroeconomic shocks consistently resisted equity, debt, and commodities market performance. Investors were concerned about more deposit withdrawals in U.S. banks, given that UBS had announced the acquisition of Credit Suisse. China's central bank PBOC unexpectedly decreased the required reserve ratio by 25bps, a positive signal to save investment sentiments.

Iron ore inventories at ports in China had dropped for three weeks from the ten-month high of 142.23 million tons in late February to 136.83 million tons last week. The increased evacuation on ports and daily trading volume indicated that iron ore physical trades had improved. However, steel mills said they would control the stock level at a low level to improve the cost. Physical steel margin improved from 40-50 yuan to 200 yuan during the past 2-3 weeks. Iron ore stocks at mills were stable at 92 million tons, which was 17.44% lower than in the same period last year.



Data Sources: Bloomberg, Platts, Fastmarket, FIS

Market Review (Continued)

The SGX iron ore remained stable again, i.e., Apr-May 23 was flat at the $0.95– $1 area. The market gave a similar outlook in Q2 months. However, DCE September dropped faster after the market expected a production restriction based on 2022. SGX-DCE spread improved from $9 to $11 during the week. The spread was around a similar level from $8-12 during 90% of trading days over the past four weeks. The virtual steel margin slid from 312 yuan to 294 yuan/ton. However, the absolute level was at the high of the year. The physical margin recovered from 50 to 200 yuan for long steels during the past three weeks.

Although the iron ore index and fixed price physical products have corrected for three days, the discounted product maintained resilient pricing. JMBF discount based on May even narrowed from $4.7 to $4.3.

Net, some market participants started to think about fixing sales at the current level instead of betting on the float price. Steel mills also consider fixing amounts and orders in the next two months. Both indicated that the previous week's highs in ferrous products are believed as the high of H1 in the physical market.

Neutral to Bearish

Downstream/Policies/Industry News:

UBS to buy Credit Suisse for $3.3 billion to end the crisis. However, U.S. investors were still concerned about the deposit withdrawal from other commercial banks.

China PBOC announced that it would cut Reserve Requirement Rate by 25 bps for Financial institutions starting from March 27th, which is a positive sign to the investment market.

Europe proposed building a central procurement department to purchase batteries and rare earth metals from China. Previously, European battery industry participants have welcomed the proposed EU new laws as a step for the European lithium-ion supply chain.

Integrated steelmaker U.S. steel restarted its last remaining idled blast furnace at Gary Works steel mill in Indiana. US electric arc furnace (EAF) steelmaker Nucor expects to deliver more mill shipments in the first quarter of 2023 than it did three months earlier.

China's March steel exports are expected to rise from Jan-Feb levels on higher orders.

Global Steel Market:

The Platts North Europe HRC rebounded €903/t, refreshing 9-month-high. The contagion effect of bank system collapses consistently weakened the investor's priorities on risk assets.

Chinese mills and trading firms held offers unchanged during the report week at $640-$660/t FOB China for SS400 HRC. However, seaborne buyers were doubting the sustainability of this trend.

After a month-length fever on scrap buying, Turkish imports gradually reached a balanced mode on the marginal market with current demand. The mill source indicated that U.S./Baltic origin HMS 1/2 80:20 tradeable value at $455-$460/mt CFR Turkey. However, Turkish mills are currently looking for lower workable levels of $450–$455.

Overall, both flat steels and scrap are expected to maintain strength as resilient demand and foreseeable shortage in supply.

Neutral to Bullish

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

Market Review (Continued)

Chinese Steel Market:

Shanghai domestic 25mm rebar corrected by 190 yuan/t during the report week at 4330 yuan/ton. Given a fast pick-up in apparent consumption of construction steels for the past two weeks, market participants doubted the sustainability of this demand. Mills even lock further months of sales on the paper market. Thus, the spot market dropped suddenly without seeing a refresh on ex-work prices from mills. The blast furnace utilisation rate left only 2-3% to a theoretical roof at 91-92%. Moreover, EAF production is expected to boost in this Q2.

Overall, rebar price expected a slight correction in the short run after fully priced in the over-heat sentiment.

Neutral to Bearish

Coal Market:

The Australia FOB coking coal has corrected from the year's high in mid-February at $390/mt to $341/mt. PLV market remained thin trading. Indian steel mills and coke plants expected the trading range at $320-$350/mt, although the last few trades on PLV were around $341 after normalisation. Second Tier US-origin coal in the Indian market became active at $330-$340/mt CFR.

Previously, China customs have lifted all restrictions on importers. At the same time, Chinese buyers are weighing the options of importing more Australian coals. However, buyers expect a $10-$20 lower on the current trading levels of $330-$340/mt.

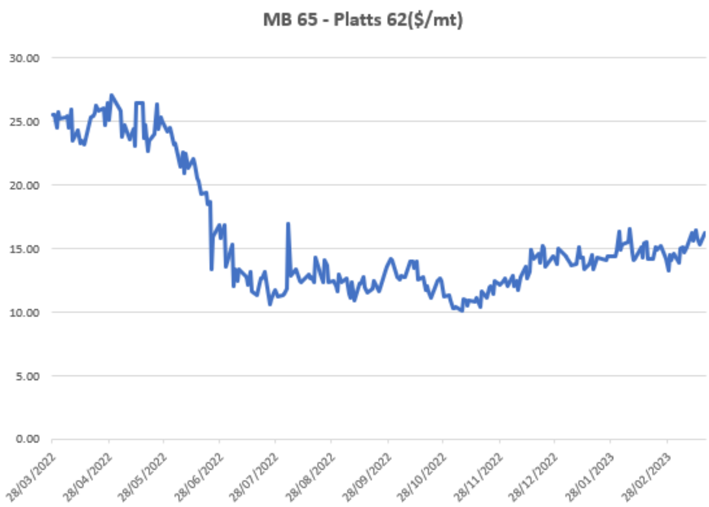
Overall, Australia FOB might maintain neutral under an equilibrium mode on supply and demand.

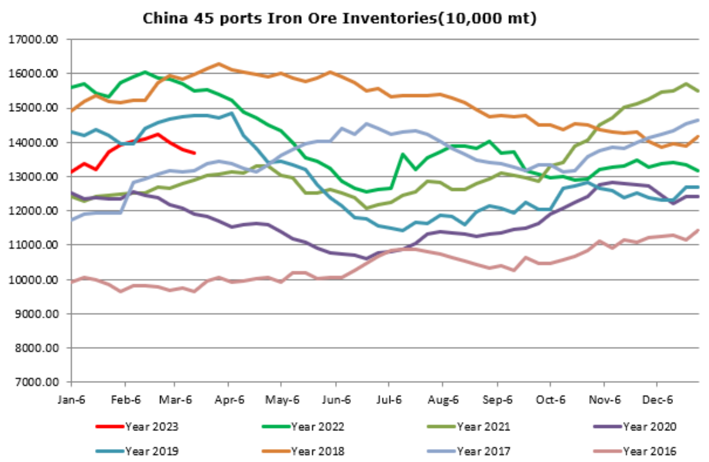
Neutral

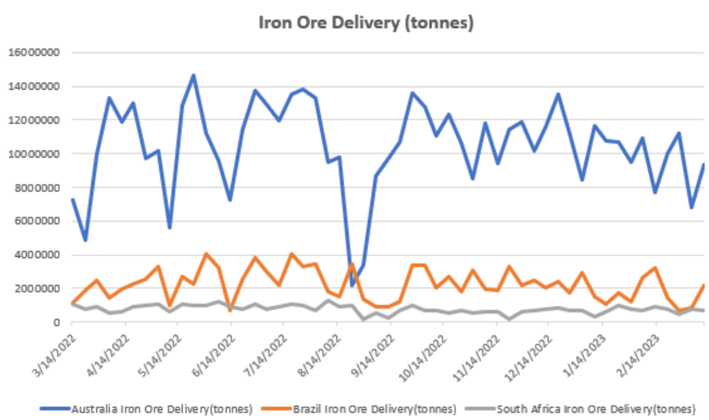
Sources: Argus, IHS Commodities at Sea Service, FIS

Iron Ore

	Last	Previous	% Change
Platts 62% Fe (Dollar/mt)	126.5	132.35	-4.42%
MB 65% Fe (Dollar/mt)	142.7	148.6	-3.97%
Capesize 5TC Index (Dollar/day)	16134	15099	6.85%
C3 Tubarao to Qingdao (Dollar/day)	20.622	20.156	2.31%
C5 West Australia to Qingdao (Dollar/day)	9.095	8.495	7.06%
Billet Spot Ex-Works Tangshan (Yuan/mt)	4000	4030	-0.74%
SGX Front Month (Dollar/mt)	130.79	128.77	1.57%
DCE Major Month (Yuan/mt)	905.5	924.5	-2.06%
China Port Inventory Unit (10,000mt)	13,682.88	13,770.03	-0.63%
Australia Iron Ore Weekly Export (10,000mt)	932.50	681.50	36.83%
Brazil Iron Ore Weekly Export (10,000mt)	214.10	80.50	165.96%







Iron Ore Key Points

- Iron ore port inventories fell from a 10-month high area during the last two weeks. Port stocks potentially entered a declining period as evacuation picked up gradually. Stocks shifted from ports to mills and traders.

- The 65% and 62% iron ore corrected to the lower area as thin steel margin.

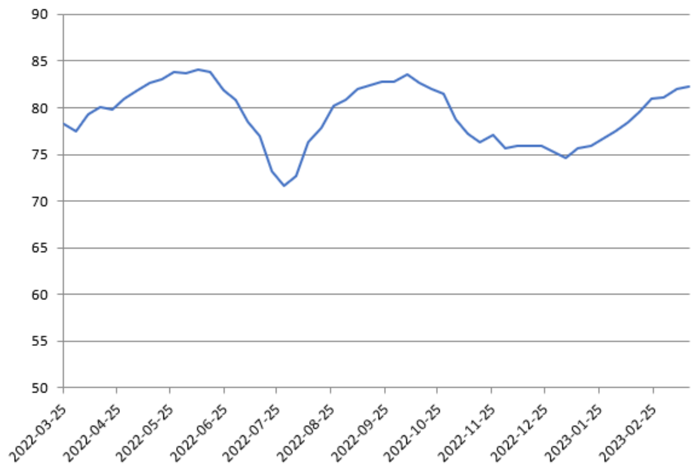
- The pig iron production increase slowed down. The utilisation rate left 2-3% to reach the theoretical roof.

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

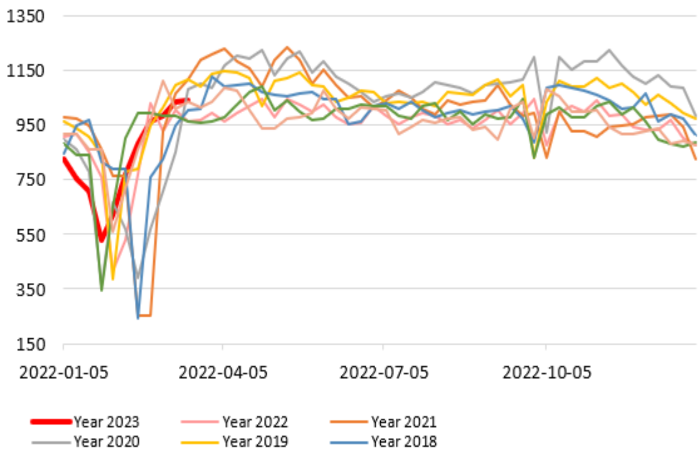
Steel

	Last	Previous	% Change
US HRC Front Month (Dollar/mt)	1056	1056	**0.00%**
LME Rebar Front Month (Dollar/mt)	730	754	**-3.18%**
SHFE Rebar Major Month (Yuan/mt)	4234	4328	**-2.17%**
China Hot Rolled Coil (Yuan/mt)	4404	4494	**-2.00%**
Vitural Steel Mills Margin(Yuan/mt)	292	315	**-7.30%**
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)	145,300	140,700	**3.27%**

MySteel 247 mills BF Operation Rate in %



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



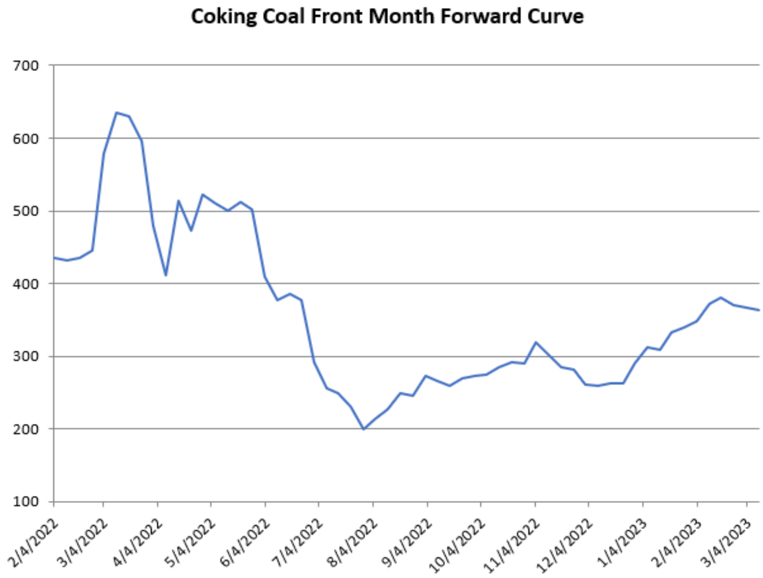
Virtual Steel Mill Margins (Five-Year Range)

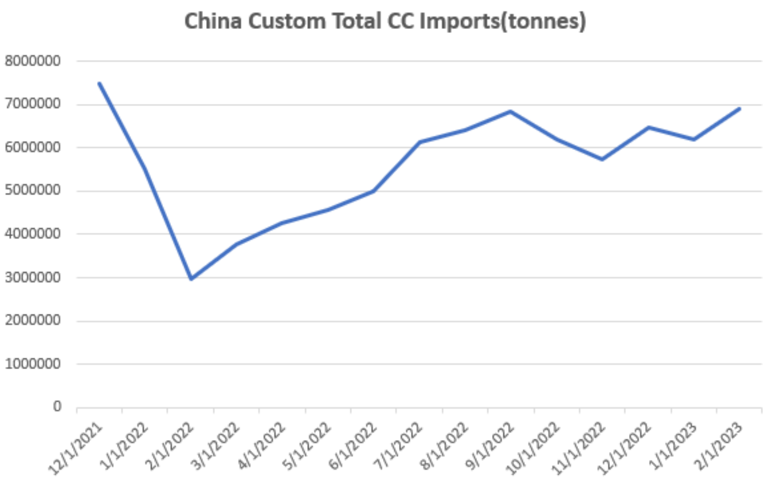
Data Sources: Bloomberg, MySteel, FIS

- Virtual steel mill margins slid from 315 yuan/ton to 292 yuan/ton after the physical steel market correction led to the ferrous drop. However absolute margin was at a high level in the first three months.
- The apparent consumption of construction steels suddenly climbed last week, which triggered a fast growth in ex-work rebar prices in many mills.

Coking Coal

	Last	Previous	% Change
TSI FOB Premium Hard Coking Coal (Dollar/mt)	341	363	-6.06%
Coking Coal Front Month (Dollar/mt)	353	364	-3.02%
DCE CC Major Month (Yuan/mt)	1874	1987.5	-5.71%
Top Six Coal Exporter Weekly Shipment	17.99	21.55	-16.52%
China Custom total CC Import Unit mt	6,913,694	6,196,516	11.57%





Coal Key Points

- The supply eased on PLVs and PMVs. However, demand is present from Asian buyers.
- Mongolia hauls more coal trucks compared to last Q4. China, India, and Europe are all looking for high-quality blend coals as demand grows.
- Chinese Inner Mongolia province coal miner accident led to an extensive safety inspection of all miners, which would lower the 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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