FIS Ferrous Weekly Report

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⇒ **Iron ore Fe62% CFR China:** short-run **Neutral to Bearish**. Following the China NDRC's discussion on overpricing of iron ore, the market slowed down the previous speculation and turned to look at the real demand side.

⇒ **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**. Turkey's reconstruction plan withdrew some flat steel flows in Europe and CIS countries. U.S. pig iron potentially saw a tight supply in 2023.

⇒ **Hard Coking Coal FOB Australia** short-run **Neutral**. The recovery in supply pulled back PLV and PMV to the real demand market.

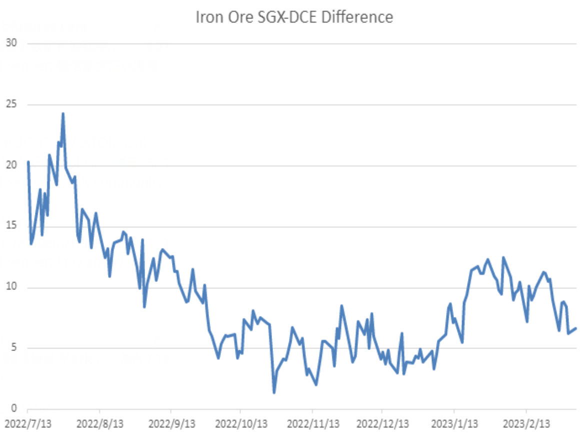
Prices Movement	6-Mar	27-Feb	Changes %	Sentiment	
Iron Ore Fe62% CFR China($/MT)	125.35	122.50	2.33%	Neutral to Bearish	↘
Rebar 25mm Shanghai (Yuan/MT)	4420	4390	0.68%	Neutral to Bearish	↘
U.S. HRC Front Month ($/MT)	1060.0	1044.0	1.53%	Neutral to Bullish	↗
Hard Coking Coal FOB Australia($/MT)	368.0	347.0	6.05%	Neutral	-

Market Review:

Iron ore Market :

Iron ore dropped during the report week, as expected in the last report. However, it recovered all losses by Tuesday Asian morning. Cited from the previous article of the FIS Ferrous Weekly report, "the past bullish run had exhausted the time window for a continuous growth, as the average bull or bear market in iron ore was only four months". From the fundamental side, steel production and pig iron production were in line with the past two years, which failed to meet the "super construction cycle" expectation previously. Therefore, the market would expect more NDRC controls out if nothing changes in the physical price.

Chinese physical traders or mills are still in a watch-and-see mode as the downstream is yet to show a significant sign of a "better year". Moreover, market participants were waiting for the reform plan on institutions released during the China National Political Congress(NPC) week. In general, the previous speculation sentiment of housing stimulus and recovery are temporally priced in after iron ore once created 65% of growth from the low last November to the high in late February. China NDRC, for the third time, mentioned the iron ore overpricing in the first quarter of 2023. The market still has a memory that the past concentrate regulation control in China in 2021 caused a nearly half loss in iron ore price. On Monday, the slightly weaker-than-expected Chinese GDP target, at 5% in 2023, also became a dragging factor on the equities and commodities side.



The narrower spread between IOCJ and BRBF at 80 yuan/ton portside attracted buyers to shift interest from BRBF to IOCJ. The market was very active in the first four days of last week and winded down before China NPC. Quite a few PBF enquiries during the previous week, with many traded in fixed price as well. Although iron ore port stocks in China decreased by 2.23 million tons weekly, the port stocks in late February were still at a ten-month high level.

Data Sources: Bloomberg, Platts, Fastmarket, FIS

Market Review (Continued)

The SGX iron ore spread structure was still flat after the roller coaster on the outright side. The April-May and May-June spread remained unchanged at $0.8-0.85, indicating a stable outlook on the value in the second quarter of 2023.

SGX-DCE difference also narrowed from $11 to $6 during the past three weeks due to a fast drop in the import margin of iron ore. However, the difference might climb back to $10 after the SGX follows up with a deeper correction.

The supply in Brazil and Australia are expected to increase after the cyclone and floods weather went. Moreover, domestic iron ore miners in China expected to increase their production from Q2. Therefore, the general increase in supply and high iron ore port stocks could become a long-run roof for iron ore prices.

Overall, the iron ore market potentially entered a taking gains period after the big spike over the last four months and a less-than-expected construction season.

Neutral to Bearish

Downstream/Policies/Industry News:

China set its economic growth target at around 5% for this year, according to government reports released at the annual session of the National People's Congress. In addition, the government work report proposed that this year we should effectively prevent and defuse the risks of high-quality real estate enterprises, improve the balance sheet, prevent disorderly expansion, and promote the steady development of the real estate industry.

The Turkish government said earlier this month that an estimated 4 million mt of rebar would be required in the coming 3-4 months. However, local mills viewed this timeline as unrealistic.

Sales of light vehicles in the U.S. slowed to a seasonally adjusted annual rate of 14.9 million vehicles in February from a 15.9-million-unit pace in January; however, higher than the same period last year at 13.7 million units.

European Central Bank President Christine Lagarde said that core inflation in the euro area would remain high in the short term, so the possibility of the ECB raising interest rates by 50 basis points in March was increasing. J.P. Morgan expected that the Federal Reserve would raise interest rates by another 50 basis points (25 basis points in March and 25 basis points in May) and then stop the hike for the rest of the year. However, the Federal Reserve still has the risk of further tightening policy. It is expected that the overall Labour market will remain strong in February. The number of non-agricultural employments will increase by 200,000 in February, and the unemployment rate will remain at 3.4%.

India's finished steel production and consumption in February fell from January by 7.9% to 9.87 million tons month-to-month, still 2.9% higher on the year.

Global Steel Market:

The Platts North Europe HRC rebounded €40 to €820 in February, driven by Turkey's reconstruction projects in the country, which both supported scrap and steel prices. Italian HRC was offered at €830/t ex-works. However, buyers wanted to negotiate at €800/t level. Given the absence of Turkey, some smaller distributors from oversea suppliers have increased. Korea and Japan were offered at €760/t CIF Italy. Indian CRC was booked at €810/t last week. However, the big SSCs and distributors only look for big orders. Global steelmaker Arcelor Mittal has increased flat steel prices at Canadian and U.S. mills by C$220/st and $150/st, respectively.

Most Asian steel importers indicated a low downstream demand, limiting their interest in the seaborne market. Vietnamese buyers accepted prices upon $635/t CFR for SS400 HRC after several deals traded at a similar level. However, Chinese mills insisted on $670-675/t FOB China, which was still 0-$5 higher than the Vietnamese buyers, plus shipping cost.

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. Turkey-based mill cited a tradeable range for Premium HMS 1/2 80:20 at $450– 455/t. The volume of rebar required for post-earthquake reconstruction remained largely uncertain. However, speculation strengthened in the global ferrous scrap market. Argus mentioned that if all rebar were produced domestically, it would take 4.5 million mt scraps, equal to 20% of the country's import volume last year. The number meant almost double the utilisation rate last year or import level. Thus, market participants believed this was unrealistic from a pure market angle. Although most market participants were sceptical of the government's target, the commitment to rapid reconstruction and speculators still created a spike in rebar and scrap prices. .

Neutral to Bullish

Chinese Steel Market:

Shanghai domestic 25mm rebar inched up 20 yuan during the report week. Physical rebar has limited performance during February and early March, given a fast spike in futures. The trading volume caught up with a similar period last year but failed expectations at the recovery pace.

Northern mills prioritised domestic demand for flat steel products, with stable orders. Market participants expected more flat steels would emerge in the international market after the construction season in China ended in April or a less-than-expected demand domestically. Some physical traders were waiting for the policies to change after China NPC, which might impact the manufacturers directly.

Overall, rebar prices might be dragged down by the raw material price control at a slower pace.

Neutral to Bearish

Coal Market:

The Australia FOB coking coal improved by 6.05% on the week. After a correction, the market still saw demand present. However, an international trader said that the strong sentiment in the paper market would unlikely support consistency on the physical side in the long run. There were trades completed at $368.2/mt for PMV Goonyella, which came with another trade with the same laycan and quality at $367.2/mt.

The China Inner Mongolia province safety inspection on miners decreased domestic production regionally. There are concerns on the market that Mongolia’s export might decrease in the coming weeks. However, the market supply is expected to recover stability after the inspection. The first 100 yuan/ton of physical coke price proposed by coking plants is largely accepted by most Chinese mills.

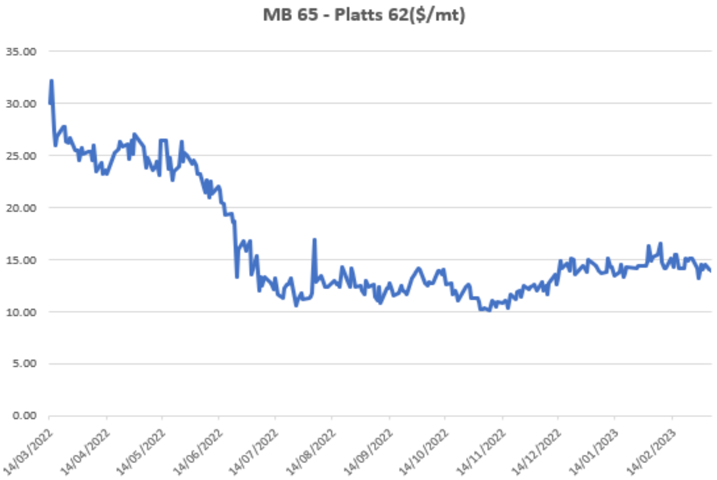
Overall, Australia FOB might maintain neutrality till the equilibrium of supply and demand inclines.

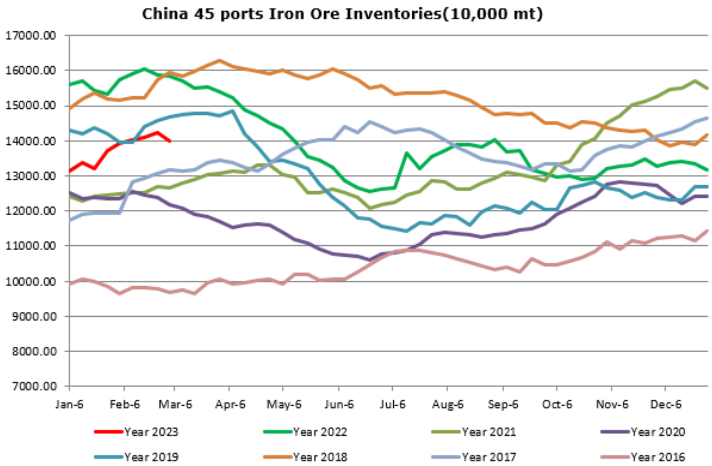
Neutral

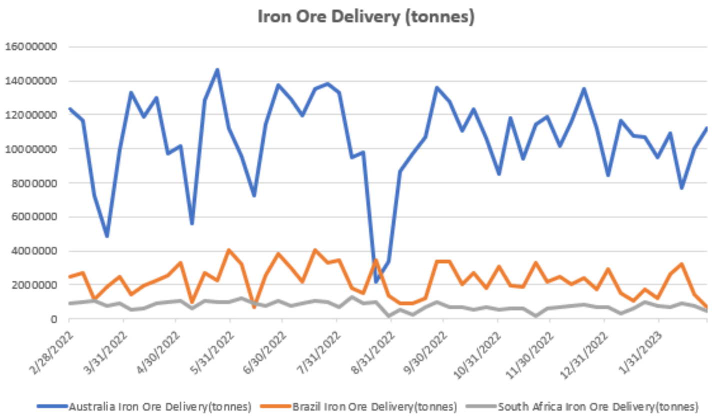
Sources: Argus, IHS Commodities at Sea Service, FIS

Iron Ore

	Last	Previous	% Change
Platts 62% Fe (Dollar/mt)	125.35	122.5	**2.33%**
MB 65% Fe (Dollar/mt)	139.2	136.7	**1.83%**
Capesize 5TC Index (Dollar/day)	11026	5815	**89.61%**
C3 Tubarao to Qingdao (Dollar/day)	19.033	17.122	**11.16%**
C5 West Australia to Qingdao (Dollar/day)	8.09	7.07	**14.43%**
Billet Spot Ex-Works Tangshan (Yuan/mt)	3990	3930	**1.53%**
SGX Front Month (Dollar/mt)	125.39	126.75	**-1.07%**
DCE Major Month (Yuan/mt)	916.5	908.5	**0.88%**
China Port Inventory Unit (10,000mt)	14,000.56	14,223.26	**-1.57%**
Australia Iron Ore Weekly Export (10,000mt)	1,122.00	997.90	**12.44%**
Brazil Iron Ore Weekly Export (10,000mt)	70.20	139.90	**-49.82%**







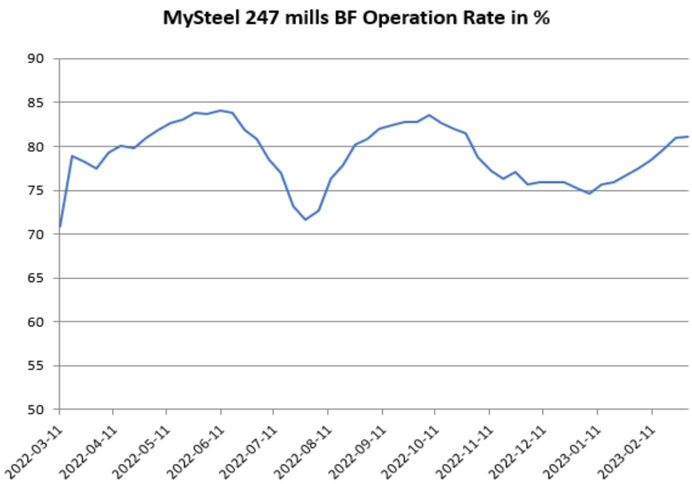
Iron Ore Key Points

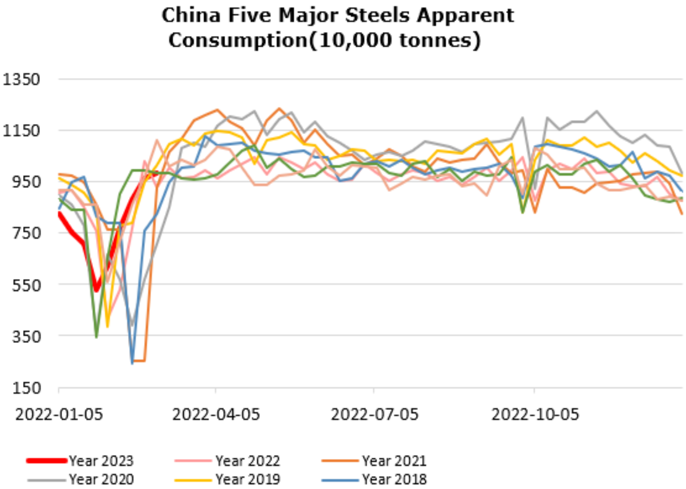
- Iron ore port inventories are maintained at a 10-month high area. However, steel mill inventories were in the lower area seasonally.
- The 65% and 62% iron ore slightly recovered, followed by the steel margin rebound.
- Pig iron production picked up in line with the past two years, expected to reach a year-high in April following seasonal movement.

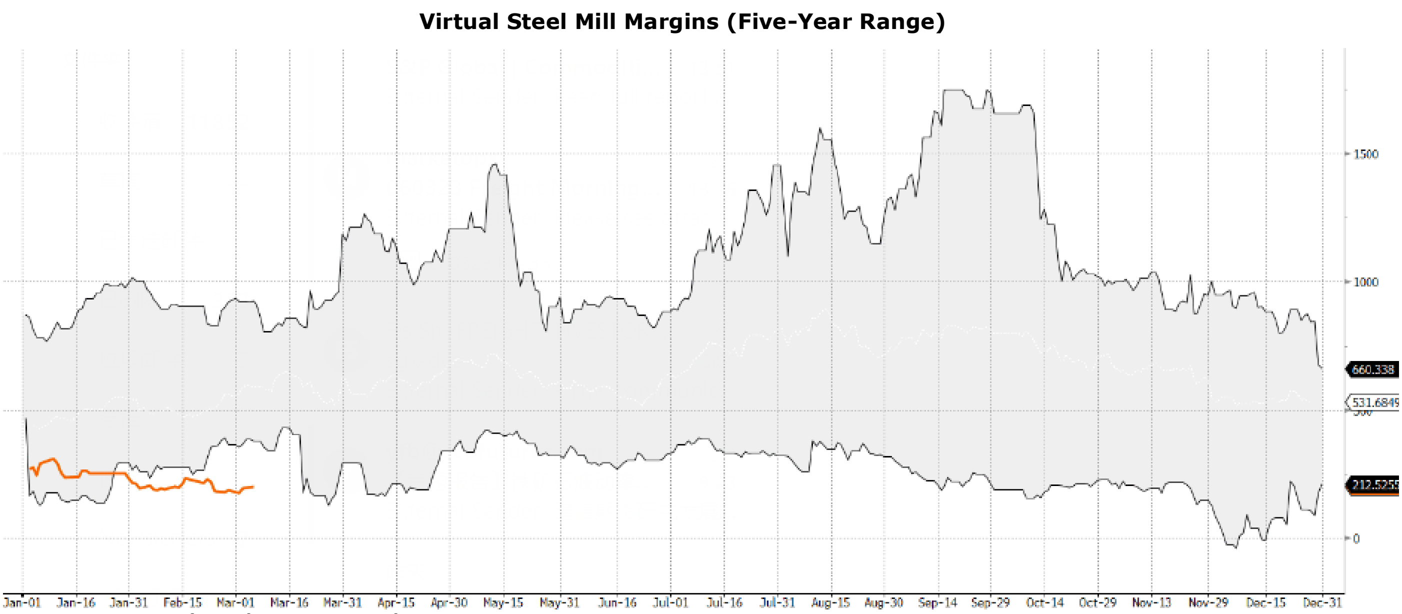
Data Sources: Platts, Fastmarkets, MySteel, Bloomberg, FIS

Steel

	Last	Previous	% Change
US HRC Front Month (Dollar/mt)	1050	1020	2.94%
LME Rebar Front Month (Dollar/mt)	741.5	699	6.08%
SHFE Rebar Major Month (Yuan/mt)	4249	4218	0.73%
China Hot Rolled Coil (Yuan/mt)	4423	4372	1.17%
Vitural Steel Mills Margin(Yuan/mt)	200	212	-5.66%
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%





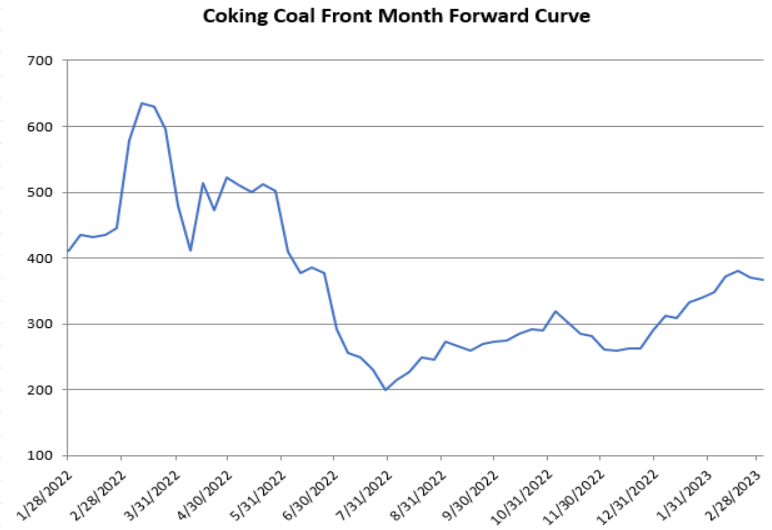


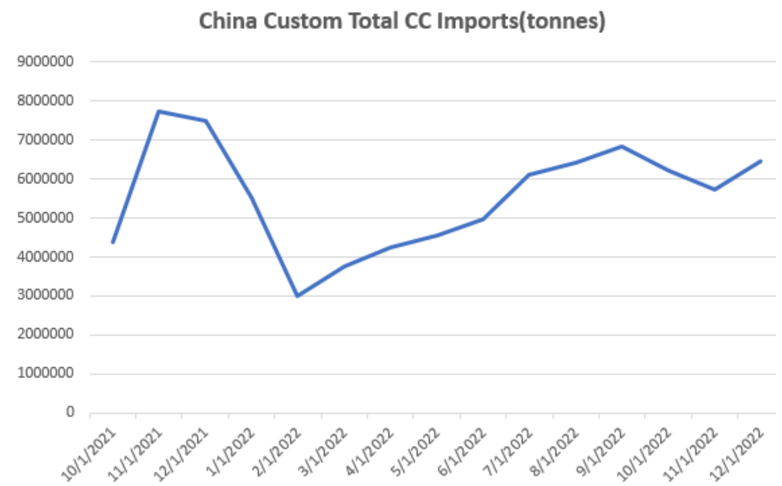
Data Sources: Bloomberg, MySteel, FIS

- Virtual steel mill margins recovered steadily between 200-220 yuan/ton in Q1. The physical margin is also followed by the virtual margin from the negative to the positive area.
- The apparent steel consumption slowed down last week; however, takes more weeks to confirm a roof area.

Coking Coal

	Last	Previous	% Change
TSI FOB Premium Hard Coking Coal (Dollar/mt)	368	347	**6.05%**
Coking Coal Front Month (Dollar/mt)	367.5	370.33	**-0.76%**
DCE CC Major Month (Yuan/mt)	2002.5	2040.5	**-1.86%**
Top Six Coal Exporter Weekly Shipment	18.97	20.46	**-7.28%**
China Custom total CC Import Unit mt	6,464,859	5,732,165	**12.78%**





Coal Key Points

- The supply eased on PLVs and PMVs; however, demand was 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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