FIS

Ferrous Weekly Report

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⇒ **Iron ore Fe62% CFR China:** short-run **Neutral to Bearish**. DCE market saw a calm down sentiment during past week. Seaborne trades are flowing to port market.

⇒ **Rebar 25mm Shanghai** short-run **Neutral**. The apparent consumption remain resilient.

⇒ **U.S. HRC Front Month** short-run **Neutral**. The market expects increased volume approaching the H2 contractual talk period in Europe.

⇒ **Hard Coking Coal FOB Australia** short-run **Neutral**. The Indian end-users resilient demand supports the current market. In addition, the safety check in China Shanxi potentially need import sources to fill the gap.

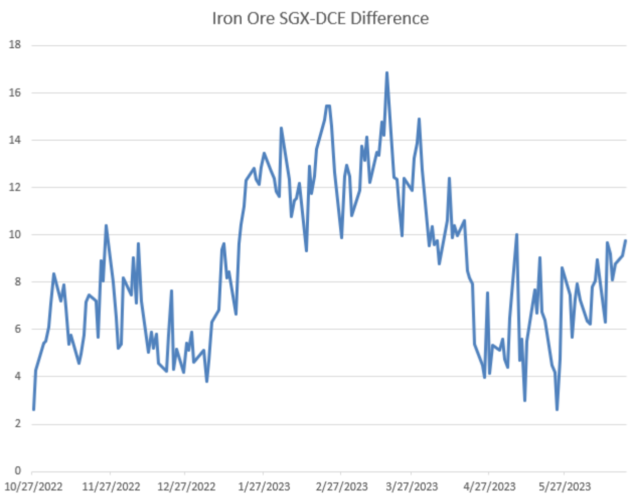
Prices Movement	19-Jun	12-Jun	Changes %	Sentiment	
Iron Ore Fe62% CFR China($/MT)	115.15	112.40	2.45%	Neutral to Bearish	↘
Rebar 25mm Shanghai (Yuan/MT)	3820.0	3700.0	3.24%	Neutral	-
U.S. HRC Front Month ($/MT)	927.0	930.0	0.32%	Neutral	-
Hard Coking Coal FOB Australia($/MT)	230.0	228.0	0.88%	Neutral	-

Market Review:

Iron ore Market :

Iron ore rebounded by 2.45% during the report week, we still insist on an over-reaction on the current market after some stimulus out in the Chinese housing strategies recently. The priority of the stimulus was to save the cost of house buying and consumption market, which shouldn't be considered to generate more aggressive outlook on the building side.

In China, although lending cost decreased in some Tier II and III cities, Tier I new houses tend to soften on the prices. Thus, the price ceiling on house market could hardly support a strong materials market in long-run. According to National Bureau of Statistics, the construction area of real estate development enterprises' houses is 779,506 million square meters, a year-on-year decrease of 6.2%. Among them, the residential construction area was 5,484.75 million square meters, a decrease of 6.5%. The house development data created a three month-drop, indicating that the weak demand in house market may potentially become a new-normal.



If we look back to the iron ore market, the high-low blend cost efficiency potentially starts to outweigh PBF. The difference between PBF and (MB65-P62)/2 expanded from $1 to $3 in the past three weeks. The fast growth of this difference was due to a higher premium in PBF traded in secondary market. In fact, all brands of iron ore except major mid-grade brands were suffering. MB65—P62 narrowed from $12 to $8, indicating a relative weakness on high grade. MACF and JMBF discount widened by at least $1.8-2 during the past four weeks. The seasonal strong performance on pig iron became the major support reason for iron ore on the fundamental side. In addition, scrap utilisation rate has become extremely low in China H1 2023, compared to 2022.

Data Sources: Bloomberg, Platts, Fastmarket, FIS

Market Review (Continued)

The virtual steel margin was 260 yuan/ton last week, which was almost similar to the previous two weeks. The virtual steel margin maintained at low level in June compared with the same period over the last five years, since the low stock strategies and less physical trades decreased the risk-tolerance when price moved to extreme level.

SGX-DCE spread corrected back from $8 to $6 because of the active PBF trades on platform versus a rather fair value traded in port areas. However, the two expected to widen again as more mills are thinking to buy more iron ore ports to lower the cost. The active month spread of SGX largely maintained 5 –10 cents movement during past week. Spread structure expected to remain stable at present with stable delivery and demand on seaborne market.

Net, the supply and demand was balanced, however the absolute value of iron ore index was at a risky high level.

Neutral to Bearish

Downstream/Policies/Industry News:

U.S. lowered the unemployment rate expectation to 4.1%, est. 4.5%. U.S. PPI in May up 1.1%, refreshed new low since December 2020, est. 1.5%, last 2.3%. PPI down 0.3% on the month, est. down 0.1%, last increase 0.2%.U.S. FOMC announced to remain unchanged in the interest rate in June, however, the Federal mentioned a continuous interest hike in July.

Jonathan Haskel, rate setter of BOE, said further increases in interest rate cannot be ruled out given a high inflation rate. Christine Lagarde expected the high inflation would remain at a high level for a very long time, ECB to potentially increase interest rate in July.

China NBS: National house development investment at 4.57 trillion yuan, down 7.2% for the first few months in 2023. Commercial house sales at 4.64 trillion square meters, down 0.9% on the year. China central bank PBOC lowered 10 bps for 7-day repo to 1.9%, refreshed historical low. China May social financing increased by 1.56 trillion yuan, up 331.2 billion yuan on the month, 1.31 trillion yuan lower than last year. M2 supply up 11.6%, down 0.8% on the month.

The ferrous scrap trades between India and UAE come to a halt as Indian port officials investigate cargoes arriving from the UAE.

Gerdau Group, Brazil's biggest steelmaker, planned to boost production capacity at Miguel Burnier iron ore mine to 5.5 million tons/year.

Global Steel Market:

The front month contract of Argus NW HRC stabilised during the report week at $739-740/t, after a massive drop by 21% from mid-April to late June. The market was waiting for the new round of contractual talks for July-December, expected to increase market volume significantly if mills rolling over from H1 to H2.

The biggest EAF steelmaker in North America, Nucor, has increased its ex-work HRC steel price to $900/st minimum, from $850/st previously. The Argus U.S. HRC MW have dropped 27% from April to mid-June.

China NDRC announced several times in Q2 to support auto-making and consumption. In the first five months, China exported 5.47 million tons of flat steels, up 35.1% on the year in the first five months in 2023. Some trading firms lifted sales prices by $10/t to $562/t CFR Vietnam for SS400 HRC after Chinese domestic prices rose. However, Vietnamese buyers were reluctant to place orders above $560/mt CFR.

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

Market Review (Continued)

Net, the U.S. and European HRC both expected to maintain a stable trend in short-run, before the H2 contractual talk.

Neutral

Chinese Steel Market:

Shanghai domestic 25mm rebar up 120 yuan during the report week. The increase was related to the filled order books in June, which led to a general increase on ex-work price on long steels. Flat steels increased both on domestic price and export offers. The Chinese stimulus on housing and auto-making once attracted attention on the steel products. However, we have yet to see some significant change in the current demand, as both construction steel and HRC saw a marginal decrease compared to last 2-3 weeks, and remained in line with same period over last year. Daily trading volume of construction steels at 140,000/t was still considered a particular "off-season" mode. Heavy rain in mid and eastern China caused some halt on the construction sites. The bad weather theoretically has no impact on downstream of flat steels.

Net, rebar price and HRC are currently supported by strong orderbooks, however, be aware of the taking gains effect as mills only operate at a small margin.

Neutral

Coal Market:

The Australia FOB coking coal index slightly increased from $228 to $230 during the report week. As expected the index stabilised in the current area in June. The current bid in FOB Australia market was heard at $228/mt for 75,000mt of globalCOAL HCCA Branded with July laycan, however, there was no offers during the past few days. Supply has tightened for July loading PHCC.

On the other side, Indian end-users sticked to the current bid value for PMVs, indicating they have multiple options from Atlantic areas. U.S. and Canada were offered at $215 –222 CFR India.

An accident in China Shanxi triggered a month-length safety inspection in all coal mines in Shanxi province, expected to affect domestic supply. A major merchant cokery proposed a round of price uptick by 50 yuan/ton, after a previous 9-10 rounds of price decrease in Q1 and Q2.

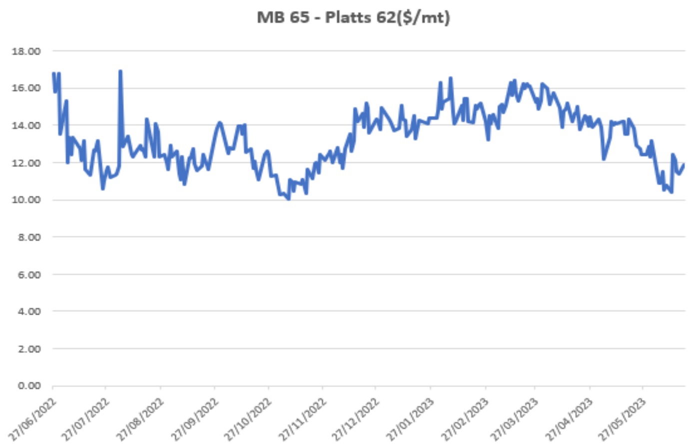
Net, Australia FOB potentially entering a stabilised mode to wait for a clear direction.

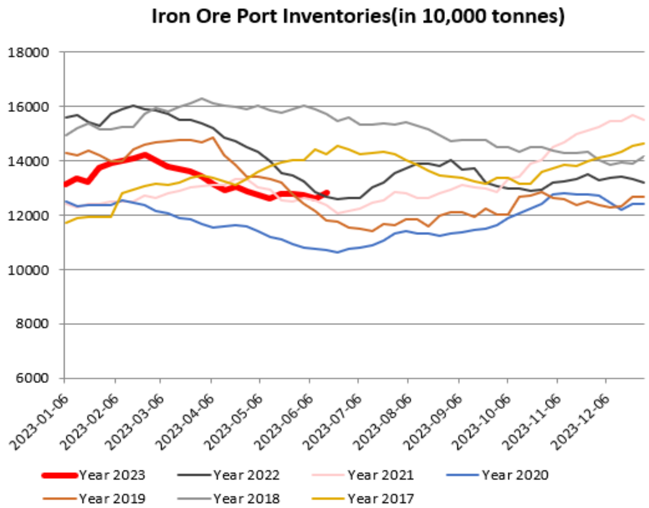
Neutral

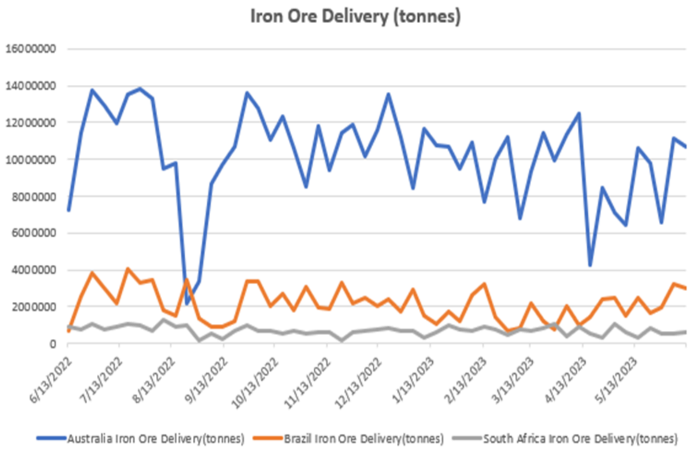
Sources: Argus, IHS Commodities at Sea Service, FIS

Iron Ore

	Last	Previous	% Change
Platts 62% Fe (Dollar/mt)	115.15	112.4	2.45%
MB 65% Fe (Dollar/mt)	127	122.8	3.42%
Capesize 5TC Index (Dollar/day)	12375	12702	-2.57%
C3 Tubarao to Qingdao (Dollar/day)	20.322	19.861	2.32%
C5 West Australia to Qingdao (Dollar/day)	8.06	8.64	-6.71%
Billet Spot Ex-Works Tangshan (Yuan/mt)	3610	3540	1.98%
SGX Front Month (Dollar/mt)	113.51	112.59	0.82%
DCE Major Month (Yuan/mt)	810.5	800	1.31%
China Port Inventory Unit (10,000mt)	12,849.94	12,622.26	1.80%
Australia Iron Ore Weekly Export (10,000mt)	1,069.80	1,112.00	-3.79%
Brazil Iron Ore Weekly Export (10,000mt)	302.30	319.60	-5.41%







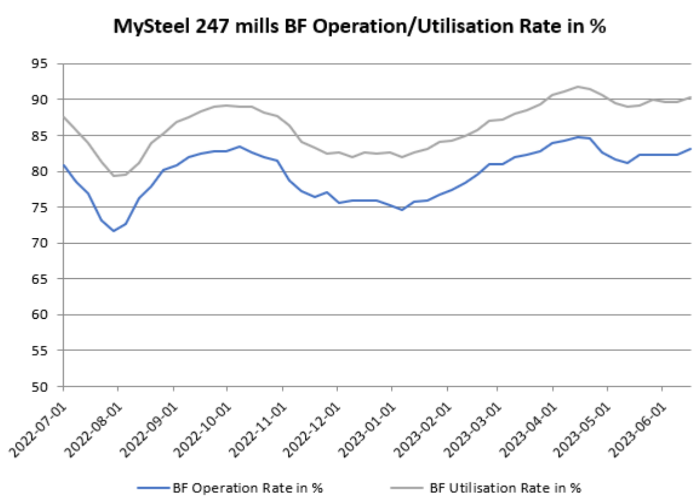
Iron Ore Key Points

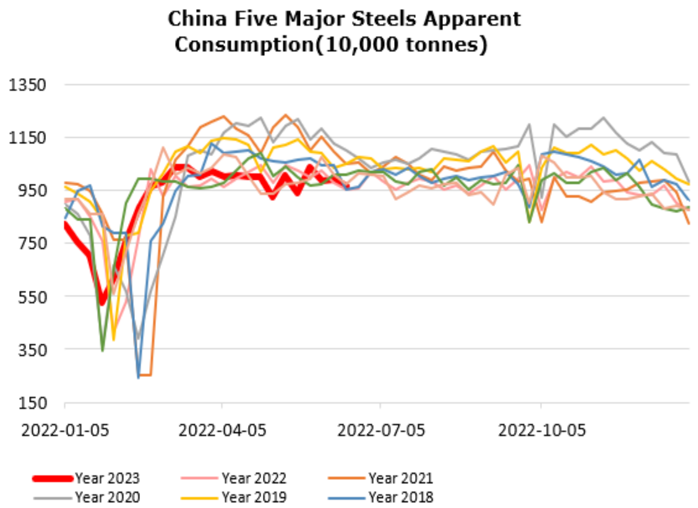
- Chinese iron ore port inventories stabilised as demand market gradually entered a light season mode.
- The 65% and 62% iron ore stabilised in $10-11, however, they are expected to recover the loss in the next few weeks as the cost-efficiency of 65% improved.
- The pig iron production followed a descending phase from late May to late June.

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

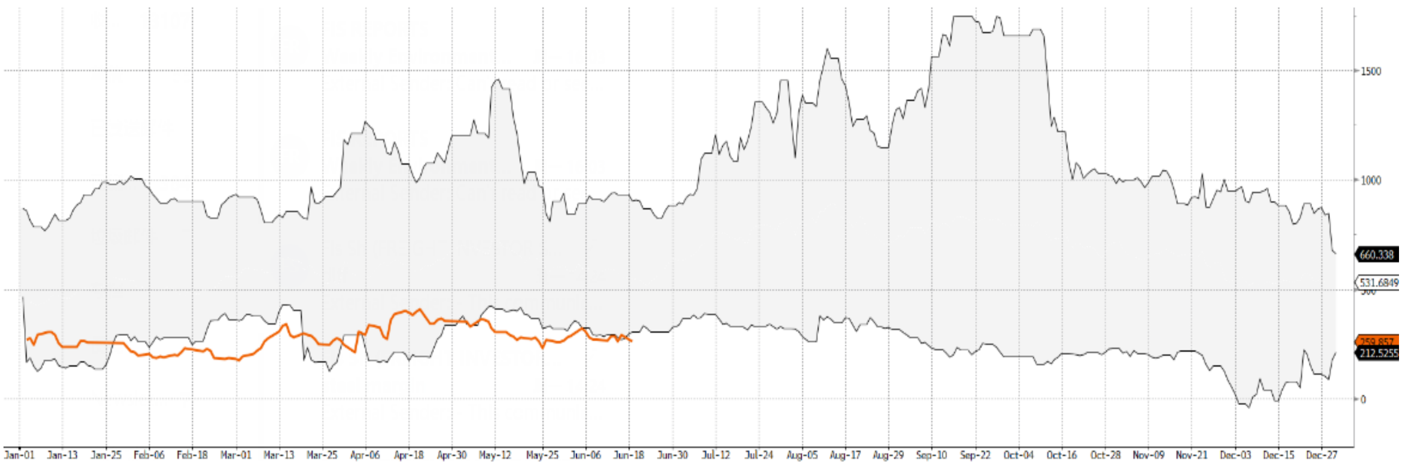
Steel

	Last	Previous	% Change
US HRC Front Month (Dollar/mt)	927	928	-0.11%
LME Rebar Front Month (Dollar/mt)	620	616	0.73%
SHFE Rebar Major Month (Yuan/mt)	3780	3691	2.41%
China Hot Rolled Coil (Yuan/mt)	3891	3837	1.41%
Vitural Steel Mills Margin(Yuan/mt)	361	75	381.33%
China Five Major Steel Inventories Unit (10,000 mt)	2489.64	2371.33	4.99%
Global Crude Steel Production Unit (1,000 mt)	92600	95700	-3.24%
World Steel Association Steel Production Unit(1,000 mt)	165,100	142,400	15.94%





Virtual Steel Mill Margins (Five-Year Range)

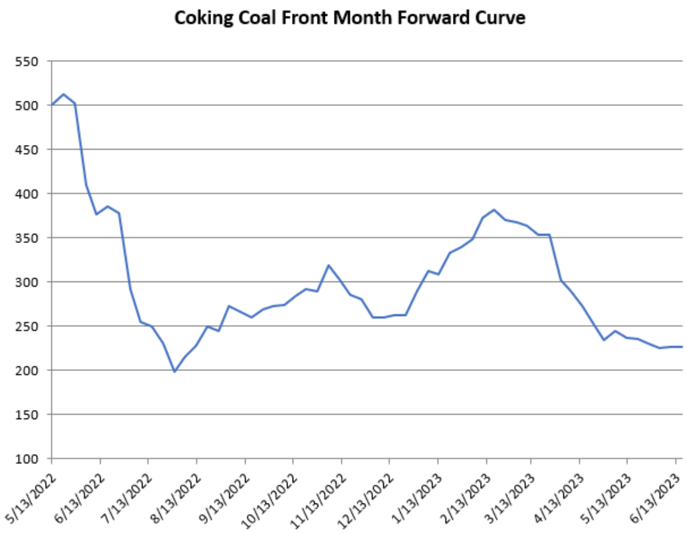


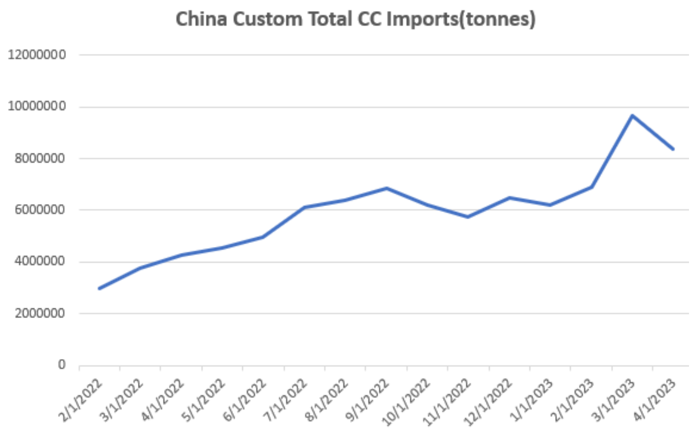
Data Sources: Bloomberg, MySteel, FIS

- Virtual steel mill margins remained at 260 yuan/ton, similar to the last two weeks level.
- The apparent consumption remained largely unchanged from last week, below 10 million tons.

Coking Coal

	Last	Previous	% Change
TSI FOB Premium Hard Coking Coal (Dollar/mt)	230	228	0.88%
Coking Coal Front Month (Dollar/mt)	227	226.5	0.22%
DCE CC Major Month (Yuan/mt)	1389.5	1280	8.55%
Top Six Coal Exporter Weekly Shipment	15.78	23.56	-33.02%
China Custom total CC Import Unit mt	8,386,554	9,646,998	-13.07%





Coal Key Points

- The FOB Australia coking coal is supported by resilient demand from Indian market.
- Cokery plant in China are planning the first round of increases after a consecutive 10 rounds of price cut during past 3 months.
- China Shanxi coal transportation accident triggered a month-length safety inspection in all mines operated 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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