

FIS Ferrous Weekly Report

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- ⇒ **Iron ore Fe62% CFR China:** short-run **Neutral**. Iron ore corrected following the weak economic data in China, as well as the decreasing trade on major mid-grade brands in seaborne market.
- ⇒ **Rebar 25mm Shanghai** short-run **Neutral**. The weak daily trading volume resisted the growth of long steels.
- ⇒ **HRC NW EU Active Futures** short-run **Neutral**. The market returned to stable mode and is waiting for the finalisation of H2 long-term contracts.
- ⇒ **Hard Coking Coal FOB Australia** short-run **Neutral**. The market was waiting for clear direction, as India weakened significantly during the monsoon season.

Prices Movement	10-Jul	3-Jul	Changes %	Sentiment	
Iron Ore Fe62% CFR China(\$/MT)	105.4	110.55	4.66%	Neutral	-
Rebar 25mm Shanghai (Yuan/MT)	3700.0	3760.0	1.60%	Neutral	-
HRC NW EU Active Futures (\$/MT)	719.87	710.29	1.35%	Neutral	-
Hard Coking Coal FOB Australia(\$/MT)	229.0	233.0	1.72%	Neutral	-

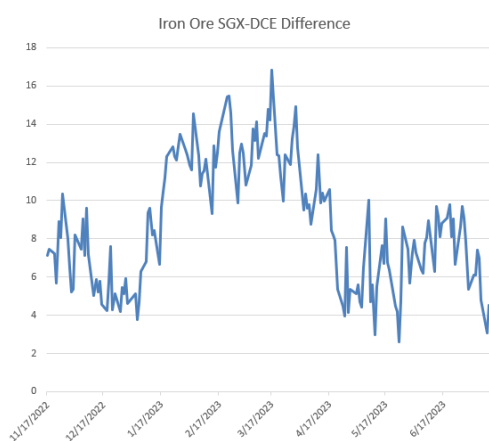
Market Review:

Iron ore Market :

Iron ore corrected by 4.66% as expected from last report. The major mid-grade brands cargoes were becoming crowded in the market, while buyers saw the real cost-efficiencies from low grade and high grade. China signals more economic support by extending debt repayment for 1 year, which potentially supports the current market. However, the upside room should be limited given a strong shipment number in June and July and low sales in steel.

The economic support on extension for the debt repayment became a saver for housing developers. Market participants expect more stimulus and details coming out in the half-year government conference held at the end of July.

For the first two weeks in July, steel sales were 15%-20% lower than June. Heavy rain in southern China and high temperatures in northern cities impacted the normal operation of downstream projects and construction sites. The extreme weather is expected to last till August.



In the secondary market of iron ore, there was PBF offer at August Index with a \$1.4 premium, up from \$0.8 last week. In primary market, PBF was traded at \$2.4 premium. JMBF was traded at August Index and \$4.9 for at least four laycans during last week, while the cargo was traded at \$5.4 discount this week. Major mid-grade brands of iron ore started to lose cost-efficiency compared with alternatives. Following the purchasing of IOCJ, low grade also regained popularity. SSF were traded in port areas in CNY actively last week. The fast growth of iron ore price eroded steel margin in a week. Virtual steel margin dropped from 304 yuan/ton to 217 yuan/ton.

The SGX-DCE difference dropped massively from \$9 in late June to \$3 on July 10th. The fast drop was related to the fast movement in non-active hours. The spread expected to recover as both markets stabilise in short-run.

Data Sources: Bloomberg, Platts, Fastmarket, FIS

Market Review (Continued)

The MB65-P62 monthly average in July was \$13.4, improved from \$11.7 in June, due to the market preference shift from mid-grade to high grade for the cost-efficiency in high grade.

Net, the Tangshan production curb, increased EAFs output and low steel margin have become resistance factors. However, market could be supported by the new debt resolutions in China as well.

Neutral

Downstream/Policies/Industry News:

China signaled more economic support by extending loan relief for house developers. Some outstanding loans will be given a 1-year repayment extension. China June CPI unchanged on the year, down 0.2% from May. China June PPI down 5.4% on the year, down 0.8% from May.

Initial jobless claims in U.S. for the week ended July 1st, increased by 12,000 to 248,000, est. 245,000, indicating a gradual cooled labor market.

Eurozone PPI down 1.9% on the month est. down 1.8%, last down 3.2%. PPI down 1.% on the year, est. 1.3%, last up 1.0%.

US sales of light vehicles rose by 4% in June from May to 15.7 million units, up 20.77% from last June, supported by steady job growth and wage gains.

Canada expected to increase 6 million tons of crude steel capacity and 2.5 million tons of directed reduced iron (DRI) capacity in the next three years. Vietnam Hoa Phat steel mills scheduled to restart No.4 blast furnace in early July, with annual capacity of 5.6 million tons of crude steels.

Global Steel Market:

The active month contract of Argus NW HRC slightly improved from \$710 to \$719 during report week. The market was waiting for the finalisation of H2 long-term contract. Spot market largely maintains a slow change.

China FOB market held offers unchanged during the week at \$540– 580/t for SS400 HRC. Some international buyers were waiting for a correction on export price after seeing a correction on China's domestic market.

Turkish deep sea ferrous scrap price remained stable from \$375-376/t during the report week. The VAT increase in Turkey caused a general price rise in steel sales price which lowered the competitiveness of Turkish exports. There was a low offer reported at below \$370/t CFR for EU origin HMS 1/2 80:20. Mills indicated that they were reluctant to purchase scraps with low sales.

Net, the flat steel market was waiting for a clear direction.

Neutral

Market Review (Continued)

Chinese Steel Market:

Shanghai domestic 25mm rebar down 60 yuan during the report week, almost offset the previous weeks growth by 70 yuan. As expected, the Chinese domestic steel market remains in a stable mode in a light season, seeing 130,000 tons of trade on construction steels per day compared with 156,000 tons in June. The apparent consumption of construction steels recovered slightly last week, however HRC consumption headed down.

EAFs utilisation rate expected to recover fast in July. The increasing EAFs production expected to resist the BF's production in the next few weeks, in particular the steel margin in BF's were squeezed significantly by the iron ore growth in past two weeks.

Net, Chinese domestic steel expected to maintain a neutral outlook in the coming week.

Neutral

Coal Market:

The Australia FOB coking coal index slightly corrected from \$233 to \$229 during the report week. Indian buyers were becoming quiet ahead of monsoon season. The PLV tradeable levels heard at \$215-230/mt CFR China.

China met coal price up ticked by 50-60 yuan/mt on July 7th, however sellers were cautious on the yuan/dollar currency change. The futures market grew given the support by Chinese house loan extensions as well as the closure of Mongolian ports.

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

Neutral

Iron Ore

	Last	Previous	% Change
Platts 62% Fe (Dollar/mt)	105.4	110.55	-4.66%
MB 65% Fe (Dollar/mt)	119.1	122.9	-3.09%
Capesize 5TC Index (Dollar/day)	12894	13692	-5.83%
C3 Tubarao to Qingdao (Dollar/day)	19.85	20.767	-4.42%
C5 West Australia to Qingdao (Dollar/day)	8.305	8.19	1.40%
Billet Spot Ex-Works Tangshan (Yuan/mt)	3550	3540	0.28%
SGX Front Month (Dollar/mt)	107.71	109.07	-1.25%
DCE Major Month (Yuan/mt)	824	833	-1.08%
China Port Inventory Unit (10,000mt)	12,638.56	12,742.00	-0.81%
Australia Iron Ore Weekly Export (10,000mt)	939.00	920.90	1.97%
Brazil Iron Ore Weekly Export (10,000mt)	116.50	167.90	-30.61%

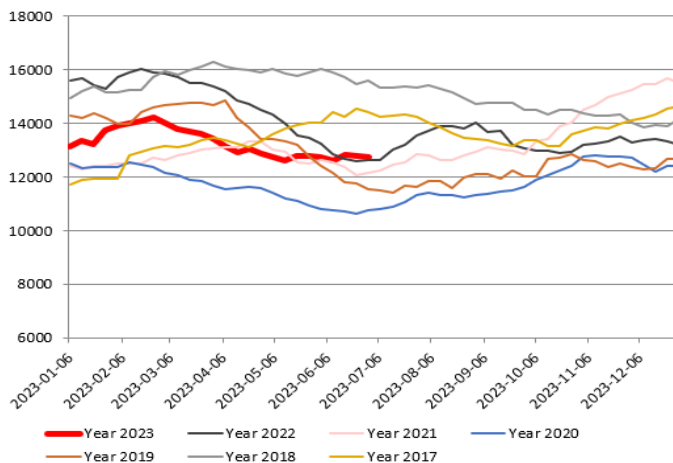
Iron Ore Key Points

- Chinese iron ore port inventories stabilised as demand market gradually entered a light season mode.
- The MTD of 65% and 62% iron ore recovered to \$13.4 in July from \$11.7 in June, backed by the high grade iron ore demand.
- The pig iron production expected to enter a declining period after EAFs production grow fast in July.

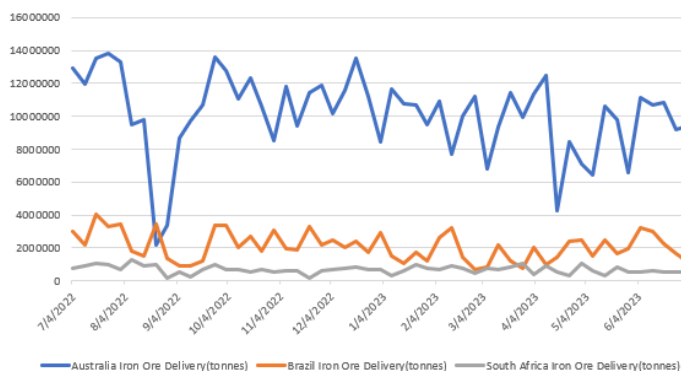
MB 65 - Platts 62(\$/mt)



Iron Ore Port Inventories(in 10,000 tonnes)



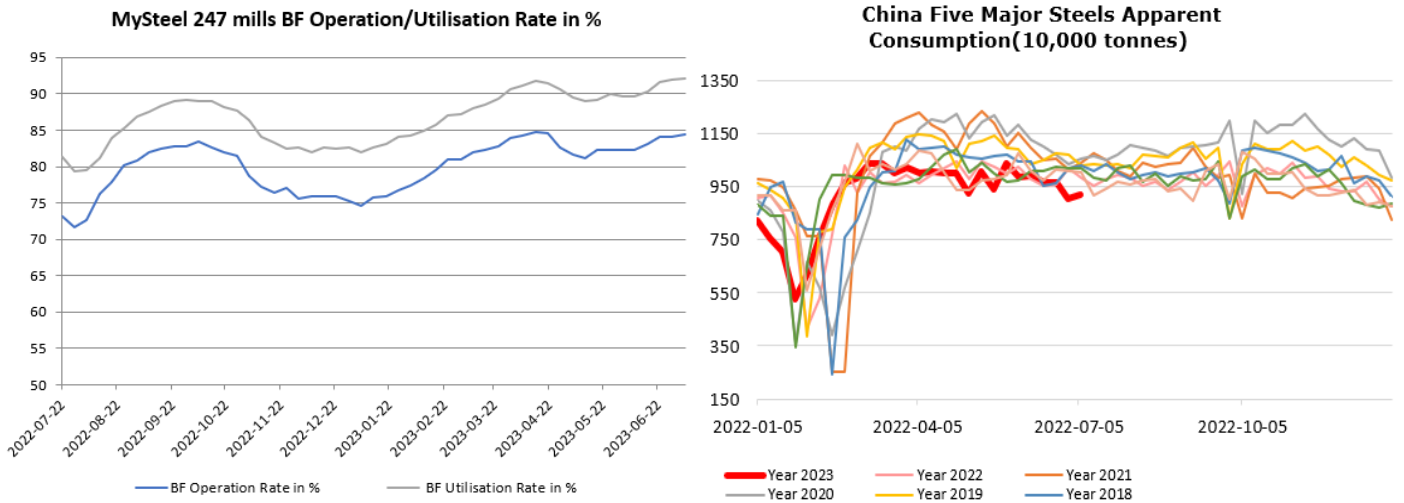
Iron Ore Delivery (tonnes)



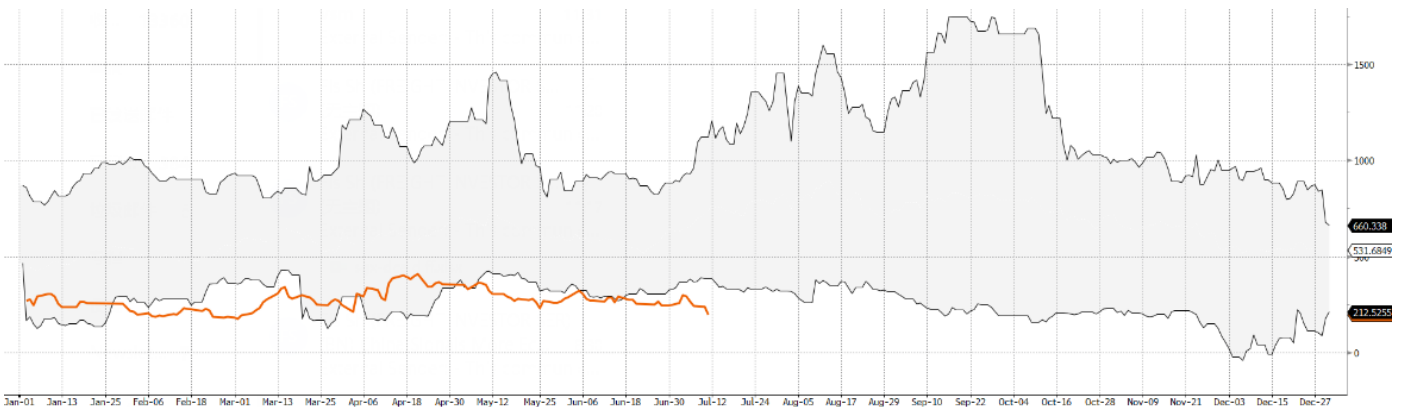
Data Sources: Platts, Fastmarkets, MySteel, Bloomberg, FIS

Steel

	Last	Previous	% Change
US HRC Front Month (Dollar/mt)	905	881	2.72%
LME Rebar Front Month (Dollar/mt)	580	618	-6.15%
SHFE Rebar Major Month (Yuan/mt)	3729	3746	-0.45%
China Hot Rolled Coil (Yuan/mt)	3877	3885	-0.21%
Vitural Steel Mills Margin(Yuan/mt)	217	304	-28.62%
China Five Major Steel Inventories Unit (10,000 mt)	2489.64	2371.33	4.99%
Global Crude Steel Production Unit (1,000 mt)	90100	92600	-2.70%
World Steel Association Steel Production Unit(1,000 mt)	161,600	161,400	0.12%



Virtual Steel Mill Margins (Five-Year Range)



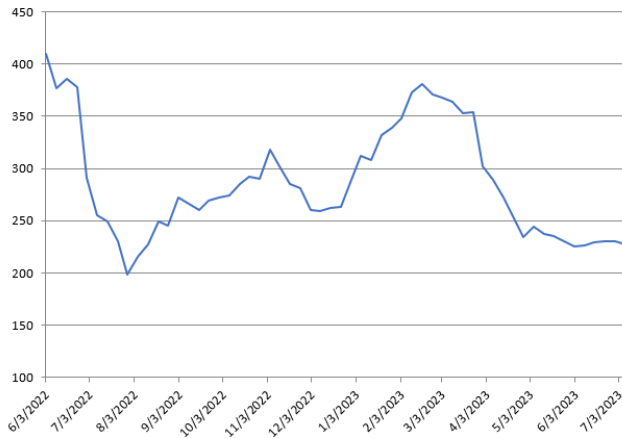
Data Sources: Bloomberg, MySteel, FIS

- Virtual steel mill margins corrected from 304 yuan/ton to 207 yuan/ton, after the spike of iron ore.
- The apparent consumption slightly recovered from 9.05 million tons to 9.17 million tons.

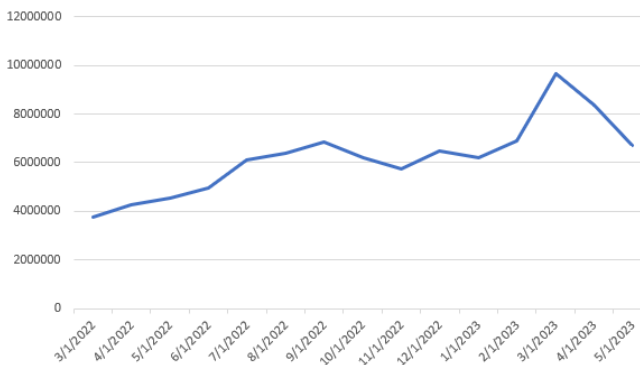
Coking Coal

	Last	Previous	% Change
TSI FOB Premium Hard Coking Coal (Dollar/mt)	229	233	-1.72%
Coking Coal Front Month (Dollar/mt)	227.33	230.67	-1.45%
DCE CC Major Month (Yuan/mt)	1336.5	1345.5	-0.67%
Top Six Coal Exporter Weekly Shipment	20.25	20.10	0.75%
China Custom total CC Import Unit mt	6,724,634	8,386,554	-19.82%

Coking Coal Front Month Forward Curve



China Custom Total CC Imports(tonnes)



Coal Key Points

- Mongolia closed ports, which potentially decrease the supply to China.
- China house debt repayment extensions gave a stimulus on the ferrous complex.
- In FOB Australia market, India entered Monsoon and finished most of coal imports in short-run.

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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