FIS Ferrous Weekly Report

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⇒ **Iron ore Fe62% CFR China:** short-run **Neutral to Bearish**. After a round of fast correction hit by macro change, the re-entrance into risk-off mode potentially supports iron ore this week.

⇒ **Rebar 25mm Shanghai** short-run **Neutral**. The trading volume became low and mills started to decrease ex-factory price. However, price potentially had priced-in the bearish factors last week.

⇒ **U.S. HRC Front Month** short-run **Neutral**. The market expected to be supported by resilient demand and orders.

⇒ **Hard Coking Coal FOB Australia** short-run **Neutral.** The Indian end-users resilient demand support the current market. In addition, the low Chinese met coal inventories and increasing physical coke price potentially support the prime coal import price.

Prices Movement	3-Jul	26-Jun	Changes %	Sentiment	
Iron Ore Fe62% CFR China($/MT)	110.55	109.45	1.01%	Neutral to Bearish	↘
Rebar 25mm Shanghai (Yuan/MT)	3760.0	3690.0	1.90%	Neutral	-
Steel HRC NW EU Active Futures ($/MT)	710.29	710.68	-	Neutral	-
Hard Coking Coal FOB Australia($/MT)	233.0	236.0	1.27%	Neutral	-

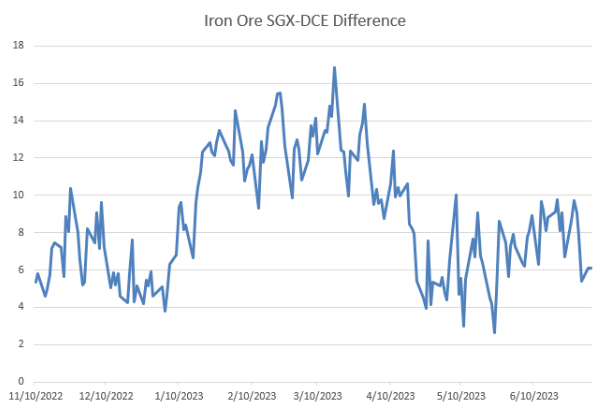
Market Review:

Iron ore Market :

Iron ore generally remained flat as expected from last report. However, the upcoming weeks see downside risks because of the ongoing production cut in Tangshan Area.

The sharp depreciation on Chinese yuan saw a reverse signal following the central bank of China PBOC announcement to prevent huge volatility risks on currencies last week. On the other side, the market fully digested the hawkish talk on U.S. interest hike, as major commodities started to warm up late last week.

There was secondary trade on NHGF at both fixed price and index based. PBF trade saw less market interest in comparison. Following the market activities from last two weeks, the high-low blend cost efficiency potentially started to outweigh PBF. The difference between PBF and (MB65-P62)/2 expanded from $1 to $3 in the past three weeks, which successfully attracted investors to replace major brands by the blend of high grade and low grade. Such alteration is believed to last for weeks. Thus, we saw a recovery on MB 65—P62 difference from $9 to $12 from last week. The seaborne market saw fixed trade in IOCJ last week. In addition, the low grade trade saw active inquires on portside.



Tangshan implemented a month length production curb. Grade A steel mills were required to cut 30% capacity, while grade B and below need to cut 50% capacity. The local mills indicated that most of them have at least 20 useable days on sintering ores, which meant a shortage would not happen largely. Four blast furnaces scheduled for maintenance, equal to 21,000 tons of pig iron decrease. However, market expects more furnaces to start maintenance.

Data Sources: Bloomberg, Platts, Fastmarket, FIS

Market Review (Continued)

The virtual steel margin improved from 266 yuan/ton to 304 yuan/ton over the past week, which increased the tolerance of cost on raw materials. Thus, iron ore, scrap and coal all increased on physical side. However, as for the low profit strategy, market participants are not expecting the profit to be sustainable.

The SGX-DCE difference ranged from $6—$10 during the past five weeks, indicating some arbitraging activities in the market. As expected, the fast pick up previously saw a drawback on the difference last week. The difference reflected a decrease on import margin because of the Tangshan restriction on production.

Net, the Tangshan restriction would limit iron ore demand in July, which creates a slight bearish signal for iron ore.

Neutral to Bearish

Downstream/Policies/Industry News:

The U.S. Market Manufacturing PMI in June was 46.3, est. 46.3, last 48.4. Eurozone Manufacturing PMI 43.4, est. 43.6, last 43.6. China Manufacturing PMI at 49.0, last 48.8.

Australia iron ore producer BHP saw a potential way to convert high-grade iron ore into DRI, yet to be adapted to steel production.

According to the official website of the China Qian'an Municipal Government, on July 1st, 2023, a material leakage accident occurred at Shougang Malanzhuang Iron Mine Co., Ltd., causing three people to lose contact. The accident is currently under emergency rescue.

China Central Committee and the State Council urged to accelerate the development and construction of domestic iron ore projects, and improve the iron ore resources to guarantee capacity, the Industry Department of the National Development and Reform Commission organised a research forum on accelerating the development and construction of domestic key iron ore projects in Anshan City, Liaoning Province, on June 8th.

Australian miner Fenix acquired the mid-west iron ore assets of Mount Gibson, as the weak price forced consolidation of marginal producers. Fenix planned to use the rail and port infrastructure from Mount Gibson to cut costs.

ArcelorMittal, Europe's largest steelmaker, said the company was on process to shut down the French steelwork in 6-8 weeks. The two blast mills hold a capacity of 4 million tons/year. German steel maker Salzgitter has declared force majeure on steel deliveries following heavy rain and floods and warned shipment delays.

Global Steel Market:

The active month contract of Argus NW HRC remained unchanged at $710 level during last report week as expected. Some European steelmakers have concluded July—December HRC contracts. The contracts in H1 in north Europe were close to €800/t. The forward curve on CME covering through July to December was averaged around €671.5/t. Some service centres and rollers in north Europe suggest bidding €100/t below H1 contracts. Nucor remained unchanged for its ex-work HRC at $1,570/st for the second week.

The FOB SS400 China HRC unchanged at $550/t throughout last week. The increase cost on Turkey steel making industry after the big interest hike potentially benefit Chinese export, who has a rather competitive HRC price.

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

Market Review (Continued)

Net, the flat steel market expected to see a flat trend as the contractual talk results were almost priced in the futures market.

Neutral

Chinese Steel Market:

Shanghai domestic 25mm rebar up 70 yuan during the report week. Steel expected to gain resilience because of the restriction curb in July in Tangshan area would decrease both half-finished steel production and some finished steel production. Apparent consumption dropped over 6% for five types of steel in China. The maintenance perhaps became the only option for mills. Construction steel daily trading volume last week was in line with June average at 150,000 tons.

Net, Chinese domestic steel expected to maintain a neutral outlook in July with falling demand as well as supply.

Neutral

Coal Market:

The Australia FOB coking coal index slightly corrected from $236 to $233. Indian end users were considering alternative second Tier sources from U.S., Canada, Poland, or Ukraine. India has initiated a safeguard investigation on imports of metallurgical coke to review its impact on domestic coke producers.

There was a recent offer for 75,000mt Peak Downs PLV at $230 delivered in August. However, this offer was coming after a higher trade at $234 for the same sources of cargoes.

In China, the Tangshan production cut in July expected to impact coke demand. The Q3 domestic term contract lowered 50-100mt across PHCC grades, plus the Yuan depreciation against dollars. China's buying power of seaborne decreased.

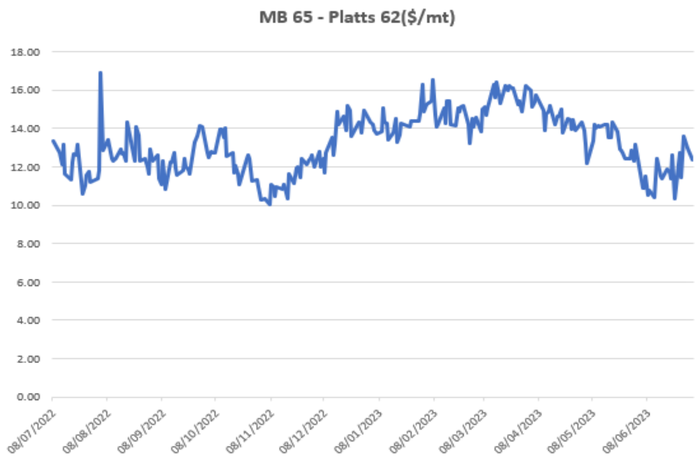
Net, Australia FOB potentially entering a stabilised mode to wait for a clear direction.

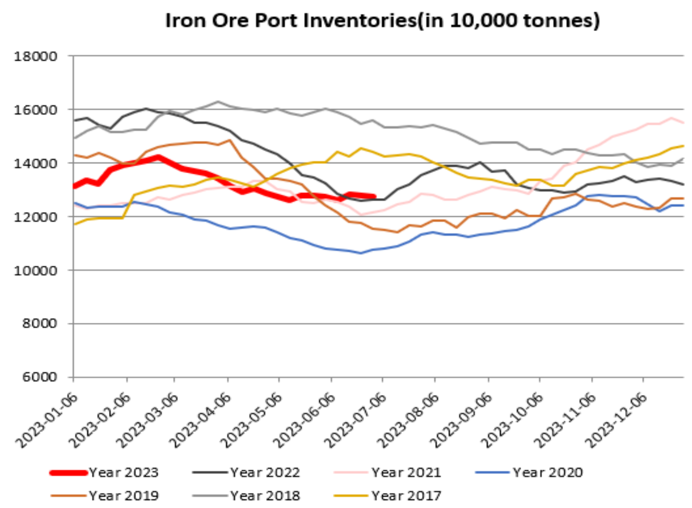
Neutral

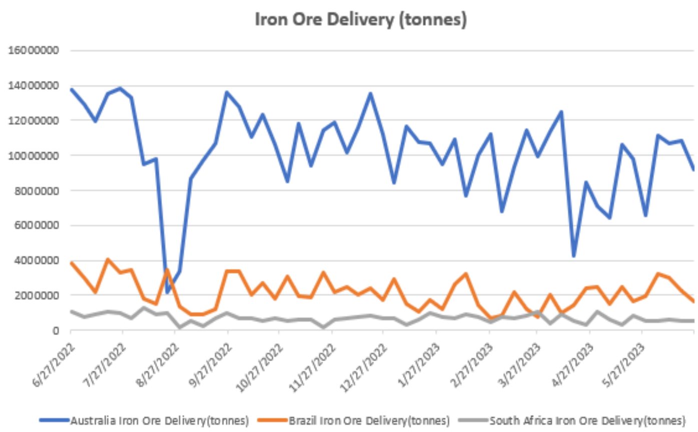
Sources: Argus, IHS Commodities at Sea Service, FIS

Iron Ore

	Last	Previous	% Change
Platts 62% Fe (Dollar/mt)	110.55	112.15	-1.43%
MB 65% Fe (Dollar/mt)	122.9	122.5	0.33%
Capesize 5TC Index (Dollar/day)	13692	17209	-20.44%
C3 Tubarao to Qingdao (Dollar/day)	20.767	21.694	-4.27%
C5 West Australia to Qingdao (Dollar/day)	8.19	8.645	-5.26%
Billet Spot Ex-Works Tangshan (Yuan/mt)	3540	3520	0.57%
SGX Front Month (Dollar/mt)	109.07	109.19	-0.11%
DCE Major Month (Yuan/mt)	833	800.5	4.06%
China Port Inventory Unit (10,000mt)	12,742.00	12,792.98	-0.40%
Australia Iron Ore Weekly Export (10,000mt)	920.90	1,084.90	-15.12%
Brazil Iron Ore Weekly Export (10,000mt)	167.90	222.70	-24.61%







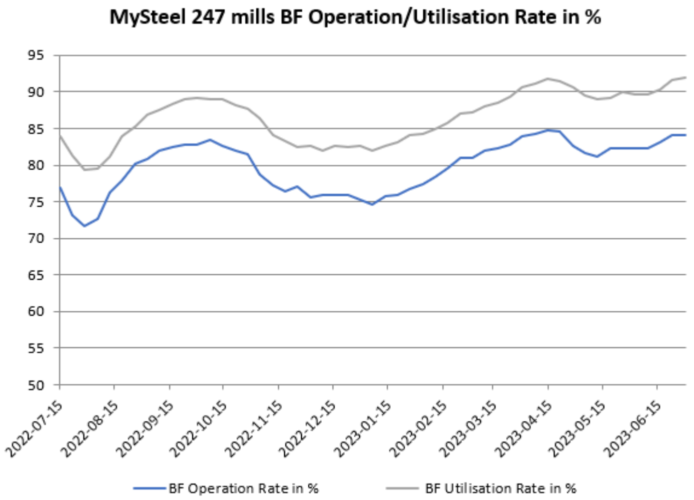
Iron Ore Key Points

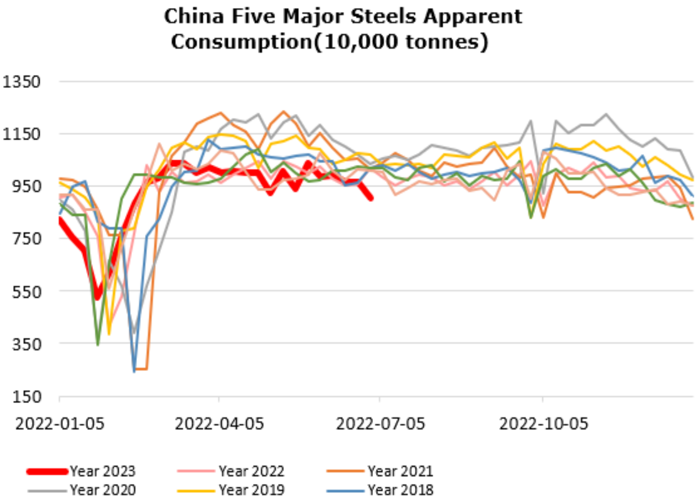
- Chinese iron ore port inventories stabilised as demand market gradually entered a light season mode.
- The 65% and 62% iron ore recovered above $12 as expected, due to the better cost efficiency by blending high grade and low grade compared to some major brands of mid-grade concentrates.
- The pig iron production followed a descending phase from late May to late July.

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

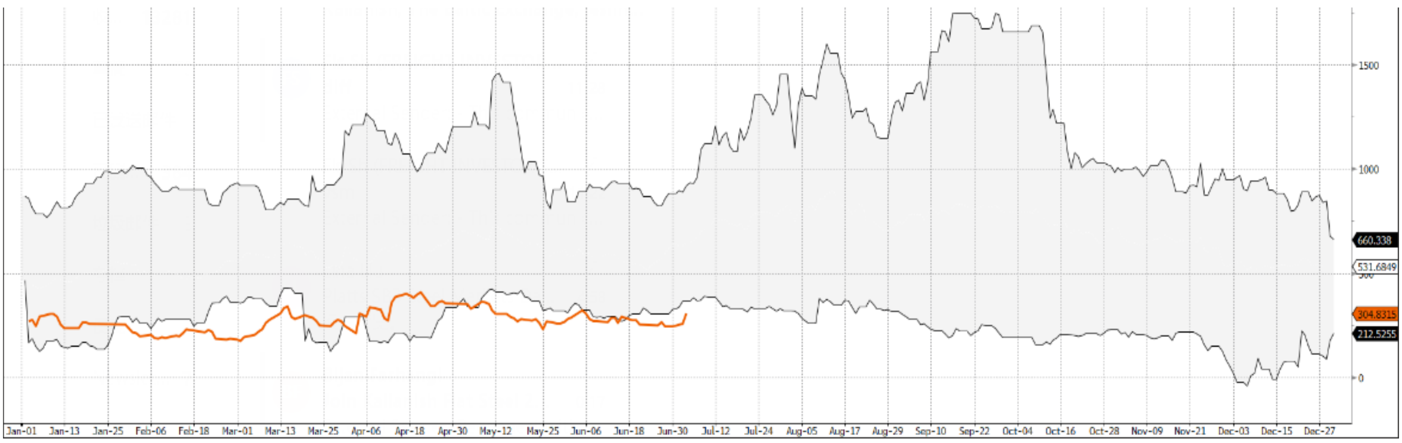
Steel

	Last	Previous	% Change
US HRC Front Month (Dollar/mt)	881	910	**-3.19%**
LME Rebar Front Month (Dollar/mt)	617.98	614	**0.73%**
SHFE Rebar Major Month (Yuan/mt)	3746	3713	**0.89%**
China Hot Rolled Coil (Yuan/mt)	3885	3873	**0.31%**
Vitural Steel Mills Margin(Yuan/mt)	304	266	**14.29%**
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)

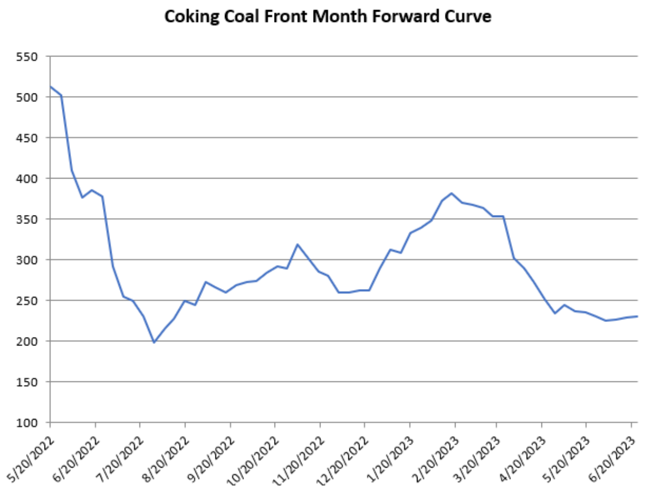


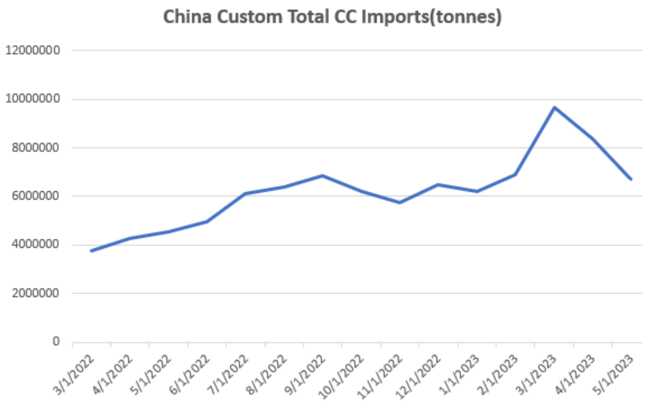
Data Sources: Bloomberg, MySteel, FIS

- Virtual steel mill margins recovered from 266 yuan to 304 yuan/ton, along with the improved physical margin, which left more rooms to afford price increase on raw materials.
- The apparent consumption dropped significantly from 9.66 million tons to 9 million tons.

Coking Coal

	Last	Previous	% Change
TSI FOB Premium Hard Coking Coal (Dollar/mt)	233	235	-0.85%
Coking Coal Front Month (Dollar/mt)	230.67	230	0.29%
DCE CC Major Month (Yuan/mt)	1345.5	1357	-0.85%
Top Six Coal Exporter Weekly Shipment	19.23	19.53	-1.54%
China Custom total CC Import Unit mt	6,724,634	8,386,554	-19.82%





Coal Key Points

- The FOB Australia coking coal is supported by resilient demand from Indian market.
- Improved steel margins left some pricing power on cokery plants to increase offers.

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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