FIS Ferrous Weekly Report

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- ⇒ **Iron ore Fe62% CFR China:** short-run **Neutral to Bearish**. The annual steel production target in some provinces in China raised concerns on the pig iron usage in Q3.
- ⇒ **Rebar 25mm Shanghai** short-run **Neutral**. Tangshan restriction and steel production target control limited supply of finished steels and supported rebar price.
- ⇒ **HRC NW EU M1 Futures** short-run **Neutral**. The quota depletion and competitive international exports potentially increase supply.
- ⇒ **Hard Coking Coal FOB Australia** short-run **Neutral.** The market was supported by strong Chinese demand. However, Indian demand marginally decreased in Monsoon month.

Prices Movement	31-Jul	24-Jul	Changes %	Sentiment	
Iron Ore Fe62% CFR China($/MT)	110.05	114.50	3.89%	Neutral to Bearish	↘
Rebar 25mm Shanghai (Yuan/MT)	3790	3750	1.07%	Neutral	-
HRC NW EU M1 Futures ($/MT)	722.06	722.79	0.10%	Neutral	-
Hard Coking Coal FOB Australia($/MT)	237.0	237.0	-	Neutral	-

Market Review:

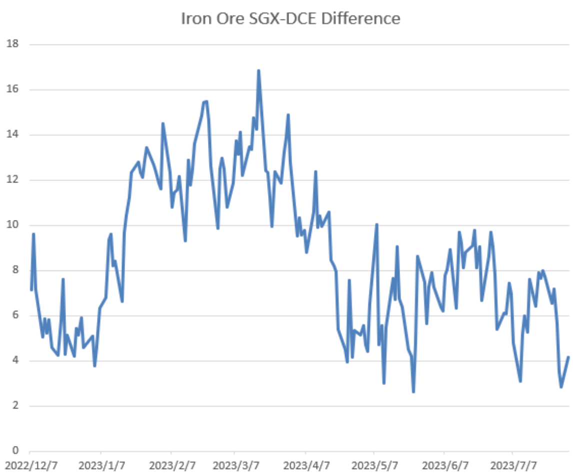
Iron ore Market :

Iron ore corrected by 3.89% during the report week as expected. The contributors of the correction include China's annual steel production target landing, price-in effect of the property stimulus, rollover on DCE active month, EAFs production increase and seasonal demand decrease in August.

From this week, the typhoon weather caused lagging on shipments in pacific area. Thus, iron ore arrivals at Chinese ports down significantly by 2.956 million tons to 20.338 million tons last week. Moreover, the Tangshan maintenance expected to call an end this week or next week, which would increase pig iron demand. Iron ore potentially still need to face a small correction with concentrated gains taking on speculative positions.

Virtual steel margin hiked from 147 yuan/ton to 299 yuan/ton during the past two weeks. Construction steels daily trading volume was stable at 150,000– 155,000 level in June and July. Apparent consumption maintained at 9.38-9.41 million tons during past two weeks, 8-8.5% weaker than average number over the past three years during same period.

The fast drop on MACF discount was because some Chinese steel mills replaced high premium PBF with MACF. MACF saw a resilient day to day trade in June and July. PBF premium raised from $1.1 to $1.95 during July while MACF discount narrowed from $4.5 to $1 during same period. SSF and JMBF both maintained competitive to premium cargoes as well. In long-run, mills indicated that they are potentially entering the cost-saver mode to replacing premium concentrates by discount concentrates. The seaborne trade significantly cooled last week compared to previous week, PBF trade almost vanished for nearby laycans. The active port trades narrowed the SGX-DCE difference, which dropped from $7.8 to $2.8 during past two weeks. We expect a recovery as traders potentially buy back seaborne cargoes when there is import margin.



Data Sources: Bloomberg, Platts, Fastmarket, FIS

Market Review (Continued)

The MB65-P62 monthly average improved from $11.7 in June to $13.48 in July, due to the market preference shift from mid-grade to the blend of high grade and low grade.

Analysts from consulting firms of China concluded with a 6-7% decrease on pig iron production in H2 to fulfill the China zero growth steel output target. Moreover, few southern provinces received official notice on the blast furnace production cut. Market read as the national output cut is coming.

Net, be aware of gains taking effect.

Neutral to Bearish

Downstream/Policies/Industry News:

IMF increased global GDP growth in 2023 from 2.8% in April to 3% in July.

FOMC raised the federal funds target rates by 25 bps to 5.25-5.5%, the highest since 2001. According to CME FedWatch, the probability interest rates remain unchanged in September reached 82%, while the probability to hike 25% reached 18%. The probability to maintain unchanged interest rate for November reached 68%. U.S. GDP expanded 2.4% in Q2 on the year, beyond analysts' slow down expectation.

European Central Bank President Christine Lagarde stated that interest rate hikes may be raised or suspended in September. Lagarde said that inflation must return to the target level and interest strategies should became restrictive at a certain level and for a period of time.

China July manufacturing PMI 49.3, est. 49.2, last 49. China H1 above designated scale industrial value added amount at 3.388 trillion yuan, down 16.8% on the year, improved by 2% from the first five months in 2023.

Integrated steelmaker U.S. Steel shipments fell to 3.97 million short tons in Q2, down 5.2% on the year. US automaker Ford increased its sales in Q2 to 1.12 million vehicles, up 8.4% on the year. GM nQ2 vehicle sales jumped to 1.58 million units, from 1.42 million units in the prior year.

Global Steel Market:

The front month contract of Argus NW HRC remained largely unchanged at $722/mt during past week. The Q3 exports quota for Europe were almost 80% used in the first three weeks of July. Thus, physical traders are worrying about the inventory rise at European ports in the near future.

More Tangshan restrictions irritated the flat steel and half finished steel supply. HRC consumption up 1.32% on the week. The weekly average consumption was 1.1% lower on the year. Major Chinese mills offer up $30/t from past week to $580/mt for SS400 HRC FOB Tianjin, while trading firms lift price up to $587/mt. Sellers lift SAE1006 offers to $610-620.

Indicative workable levels for HMS 1/2 80:20 were $350/mt CFR. There was an EU-origin deal booked by Marmara mill at $346/mt and a Baltic origin deal booked by Izmir mill at $349.5/mt. There was rumor surrounding a 50-70% electricity price hike in August, which potentially leads to a maintenance and production cut.

Net, the supply of Asian exports and quota depletion in Europe will potentially cause a stockpile on inventories at ports, slightly bearish to the current market.

Neutral

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

Market Review (Continued)

Chinese Steel Market:

Shanghai domestic 25mm rebar up 40 yuan during the week, supported by production curb. The apparent consumption of Chinese typical steels up 2.62% on the week. HRC apparent consumption up 4.43%, became the major contributor. Construction steel up slightly. The daily trading volume for construction steels maintained at 150,000 to 155,000 during most weeks in the past three month. However, the apparent consumption for long steels down 13.17% in July on the year. The apparent consumption of HRC down slightly by 1.1% in July on the year.

EAFs utilisation rate hiked 25-27% in July year-to-year, which potentially squeezes the usage of iron ores. Moreover, there was rumor that the pig iron production needs to be controlled while EAFs production would not be restricted in H2.

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

Neutral

Coal Market:

The Australia FOB coking coal index remained flat at $237during the report week as expected. There was firm demand from Asia during the past week, however thin trade completed. Both China and India end-users were bidding actively for August/September laycans of PHCC.

Chinese import met coke price hike ended with 100– 110 yuan/mt for the third round, total up 200-220 yuan/mt from June 20th. The northern cokery plants started to propose the fourth round of price increase by 100– 110 yuan, yet to receive responses from steel mills.

The risk side was the total output control of crude steels in 2023, which potentially weaken the overall demand on cokes. Moreover, the Monsoon month in India decreased the August demand. U.S. PHCC remained competitive to Australia sources.

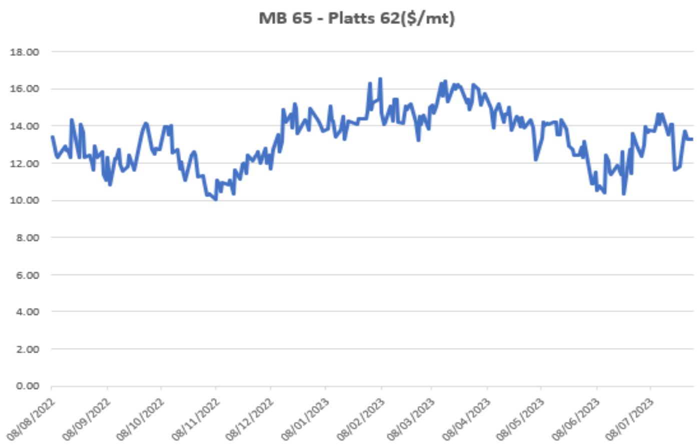
Net, Australia FOB potentially enter a stabilised mode at current level.

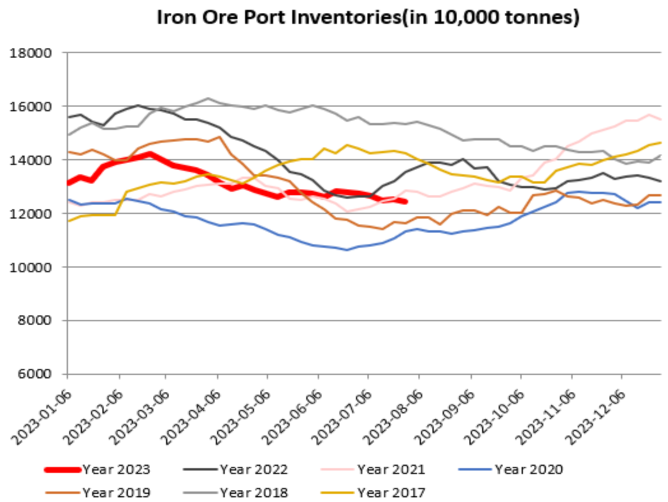
Neutral

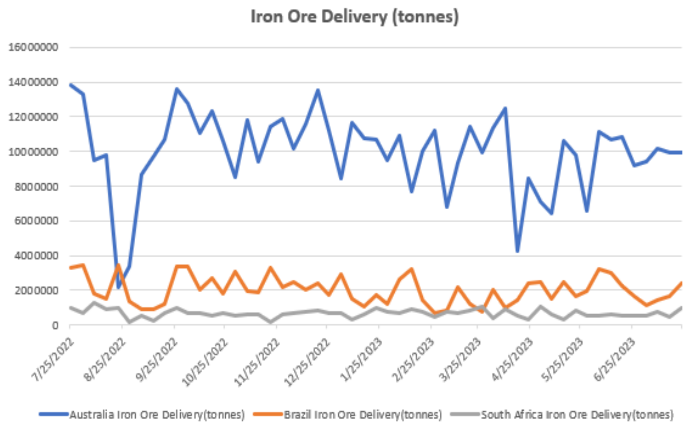
Sources: Argus, IHS Commodities at Sea Service, FIS

Iron Ore

	Last	Previous	% Change
Platts 62% Fe (Dollar/mt)	110.05	114.5	-3.89%
MB 65% Fe (Dollar/mt)	123.3	126.3	-2.38%
Capesize 5TC Index (Dollar/day)	15533	11795	31.69%
C3 Tubarao to Qingdao (Dollar/day)	19.85	19.128	3.77%
C5 West Australia to Qingdao (Dollar/day)	8.04	7.645	5.17%
Billet Spot Ex-Works Tangshan (Yuan/mt)	3650	3570	2.24%
SGX Front Month (Dollar/mt)	106.67	113.66	-6.15%
DCE Major Month (Yuan/mt)	837	842.5	-0.65%
China Port Inventory Unit (10,000mt)	12,451.96	12,540.56	-0.71%
Australia Iron Ore Weekly Export (10,000mt)	994.60	990.70	0.39%
Brazil Iron Ore Weekly Export (10,000mt)	241.60	163.70	47.59%







Iron Ore Key Points

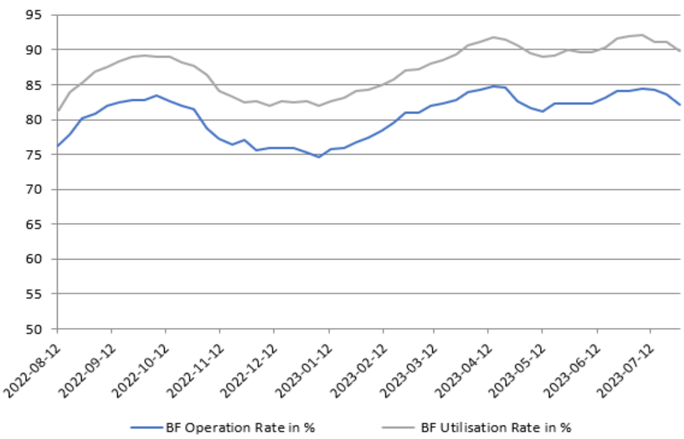
- Chinese iron ore ports arrivals decreased because of the irritations of typhoon.
- The MTD of 65% and 62% iron ore recovered to $13.55 in July from $11.7 in June, backed by the high grade iron ore demand.
- The pig iron production expected to enter a declining period after EAFs production grew fast in July.

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

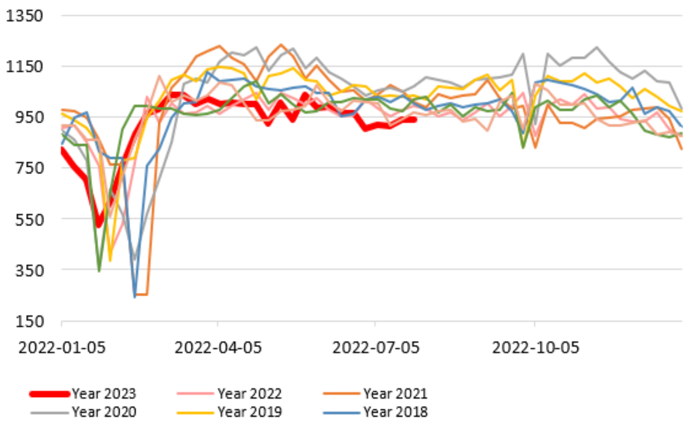
Steel

	Last	Previous	% Change
US HRC Front Month (Dollar/mt)	824	858	**-3.96%**
LME Rebar Front Month (Dollar/mt)	580.5	577	**0.61%**
SHFE Rebar Major Month (Yuan/mt)	3841	3779	**1.64%**
China Hot Rolled Coil (Yuan/mt)	4062	3911	**3.86%**
Vitural Steel Mills Margin(Yuan/mt)	299	225	**32.89%**
China Five Major Steel Inventories Unit (10,000 mt)	2489.64	2371.33	**4.99%**
Global Crude Steel Production Unit (1,000 mt)	91100	90100	**1.11%**
World Steel Association Steel Production Unit(1,000 mt)	158,800	161,600	**-1.73%**

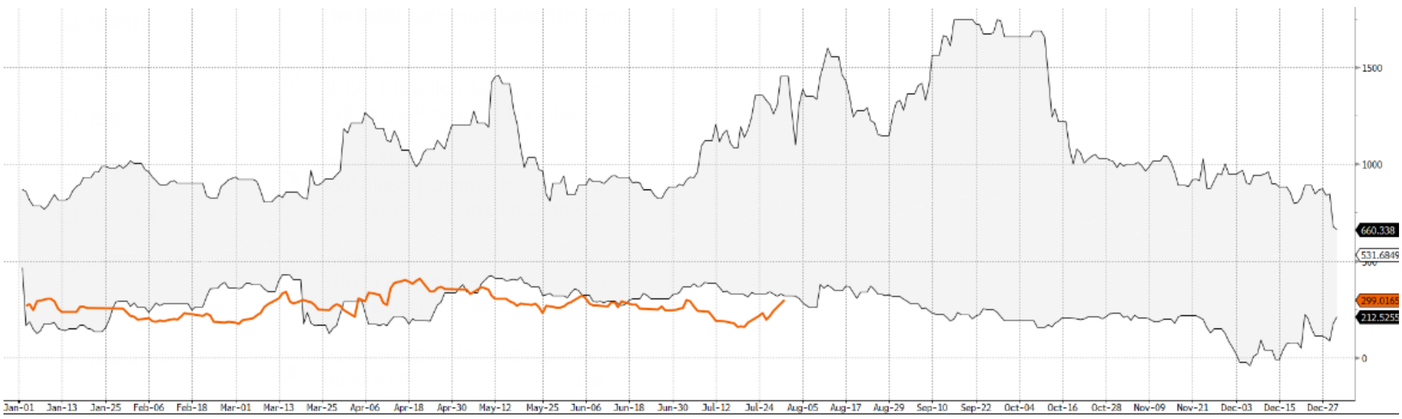
MySteel 247 mills BF Operation/Utilisation Rate in %



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



Virtual Steel Mill Margins (Five-Year Range)

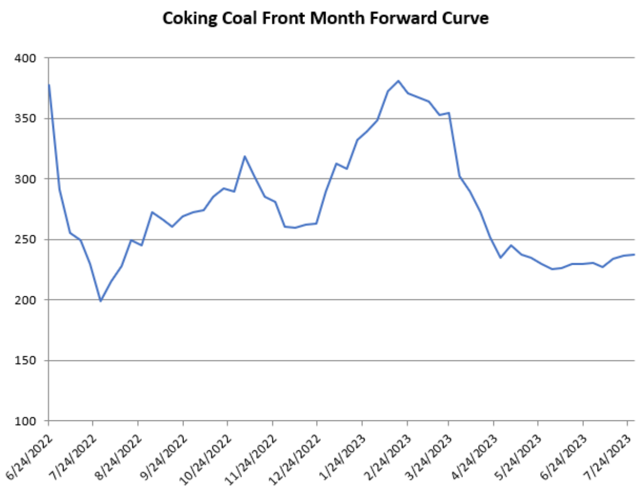


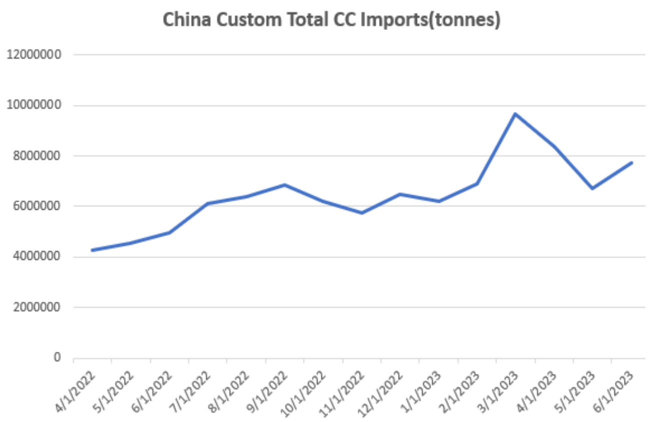
Data Sources: Bloomberg, MySteel, FIS

- Virtual steel mill margins more than doubled from 147 yuan/ton to 299 yuan/ton during the past two weeks, as the production curb in steels raised steel price and resisted iron ore price.
- The long steels weekly consumption was 8-8.5% weaker compared to last July.

Coking Coal

	Last	Previous	% Change
TSI FOB Premium Hard Coking Coal (Dollar/mt)	237	237	0.00%
Coking Coal Front Month (Dollar/mt)	237.5	236.5	0.42%
DCE CC Major Month (Yuan/mt)	1490.5	1507	-1.09%
Top Six Coal Exporter Weekly Shipment	18.33	18.49	-0.87%
China Custom total CC Import Unit mt	7,745,318	6,724,634	15.18%





Coal Key Points

- The current miner accidents supported the current coking coal price in China.
- In FOB Australia market, India entered Monsoon and finished most of coal imports in short-run.
- The northern cokery plants started to propose the fourth rounds of price increase by 100–110 yuan, yet to receive responses from steel mills.

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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