FIS Ferrous Weekly Report

info@freightinvestor.asia | freightinvestorservices.com | (+65) 6535 5189

29/08/2023

⇒ **Iron ore Fe62% CFR China:** short-run **Neutral**. Iron ore supported by the high pig iron production as well as low delivery and port inventories in China.

⇒ **Rebar 25mm Shanghai** short-run **Neutral**. Construction sales remained resilient in August, which was slightly higher than July.

⇒ **HRC NW EU Active Futures** short-run **Neutral**. The summer holiday and hot weather reached an end in Europe. U.S. auto industry strikes loomed over the flat steel market.

⇒ **Hard Coking Coal FOB Australia** short-run **Neutral**. Demand remained firm in Australia FOB market, with many enquiries on PMVs and HCCAs during the report week.

Prices Movement	29-Aug	22-Aug	Changes %	Sentiment	
Iron Ore Fe62% CFR China($/MT)	113.95	110.35	3.26%	Neutral	-
Rebar 25mm Shanghai (Yuan/MT)	3730.0	3700.0	0.81	Neutral	-
HRC NW EU Active Futures ($/MT)	691.19	689.64	0.22%	Neutral	-
Hard Coking Coal FOB Australia($/MT)	265.00	258.50	2.51%	Neutral	-

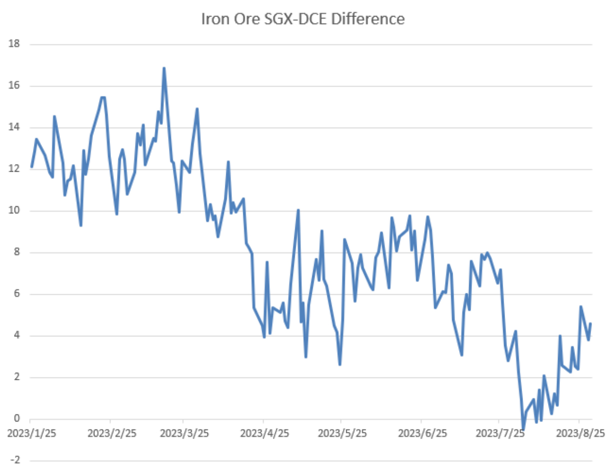
Market Review:

Iron ore Market :

Iron ore increased by 3.26%, fell into the neutral expectation. The uptick was related to the Chinese housing stimulus and unexpected strong pig iron production in a traditional light season.

The production target of 2023 saw disparities from different market participants. However, there were many areas and mills who had already made official plans to restrict steel production based on carbon pollution or a certain output level. China's Ministry of Industry and Information Technology and seven other departments in China carried out an early warning of supply and demand of iron ore in different levels with "red, yellow and blue", and strengthened spot market supervision during the period.

On the positive side, China's house stimulus and resolution to restructure debt became a theme of strategies in August. During this weekend, China cut stamp duty by half, followed by tightening IPOs, which was normally considered as a reversal of a bearish market. Moreover, strong US dollar naturally supported the dollar settled commodities.



China's pig iron production per day reached 2.46 million level, which was the highest level in 2023 and an absolute seasonal high level in August compared to past ten years. Thus, the unexpected strong demand supported the growth of iron ore for the past three weeks. China's iron ore port inventories remained at 120 million tons, which was a year-low level as well as seasonal low level. However, the growth rate of pig iron production slowed down during past two weeks, which potentially signaled that a peak approached. The deliveries of commodities potentially see some impact by the three recent cyclones in west and south pacific areas, yet to receive any port warning.

Data Sources: Bloomberg, Platts, Fastmarket, FIS

Market Review (Continued)

Virtual steel margin dumped from 376 yuan/ton to 162 yuan/ton during the past two weeks. Steel margin remained at 200—300 yuan for most of 2023. Weaker steel margin limited the seaborne purchase on iron ores significantly last week. However, price level went up, supported by the low supply of domestic iron ores in northern China. The SGX-DCE spread improved above $4 as expected last week.

BHP narrowed JMBF discount from $4.5 to $4 in September. MACF maintained an unchanged discount at 0.25%. The current narrowed steel margin supported the demand on discount concentrates. PBF only saw trade in October because the moisture increase and loss on ferrous content both weakened its competitiveness towards discount brands.

Net, given the slow down of iron ore marginal demand, the market potentially remained in a stabilised mode.

Neutral

Downstream/Policies/Industry News:

WTO indicated that the global trade should recover gradually in Q2 2023, and should stabilise in Q3. The 1.7% growth rate of world trade in 2023 is approachable.

U.S. Federal president, Jerome Powell, signaled that the Fed potentially proceed with a careful management style on the interest rate, without clearly mentioned rate cuts or hike. U.S. jobless claims last week reached 230,000, created two consecutive drops, est. 240,000, last 239,000. The strong performance of the labor market and the decline in inflation led to some optimism that the recession should be avoidable.

S&P indicated that the U.S. Service PMI in August at 51.0, refreshed the slowest increase since February. Manufacturing PMI in August at 47.0, down from 49.0 in July, created a fourth consecutive month drop. Europe August Manufacturing PMI at 43.7, est. 42.6, last 42.7. Europe August Service PMI at 48.3, est. 50.5, last 50.9.

The Chinese Ministry of Finance and the State Administration of Taxation have announced to activate the capital market and boost investor confidence, that the stamp duty on securities transactions will be reduced by half effective from August 28th, 2023. China Securities Regulatory Commission: Based on recent market conditions, we will gradually tighten the pace of IPO and promote dynamic balance between investment and financing. Listed companies are not allowed to reduce their holdings due to issues such as breakdowns, net losses, or failure to receive cash dividends for three years.

China's July industrial profit above designated scale down 6.7% on the year, however, the decrease narrowed for five consecutive months.

Underground supervisors will extend the strike at Australian mining firm South 32's Appin coking coal mine after the failure to reach agreement among parties. The company expected a production decrease on its annual target.

Global Steel Market:

The Argus NW HRC August remained almost unchanged at $691.69/mt during past week. The price level remained at $688-692 during most of the past three weeks. The summer holiday of Europe approached an end as cooling weather expected to come in September, yet to see the change on trade activities. The market was waiting for the automakers strike in September in U.S. The U.S. market was quiet during past week. The indicative value was in range of $750– 760/st.

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

Market Review (Continued)

China's Tianjin FOB SS400 remained unchanged at $555 through the report week. Vietnamese buyers lowered SAE 1006 bids to $565—575/t CFR Vietnam, the current offers were at $575/t.

As Turkey hiked central bank interest rate by 750 bps to 25%, the lira appreciated fast against US dollar. The import scrap was facing pressure, however, tight supply supported the US origin scrap.

Net, the decreased supply on steels and scraps and low demand are maintaining the price level at a stable mode.

Neutral

Chinese Steel Market:

Shanghai domestic 25mm rebar remained unchanged at 3700 yuan last week, which ranged from 3690– 3800 yuan for past 11 weeks. Construction steels traded 155,000 tons/day during last three weeks, which was slightly higher than 150,000 tons/day as an average number in July.

The five typical steels apparent consumption went up for the past two weeks from 8.98 million tons to 9.55 million tons. Virtual steel margin remained at 200– 350 yuan for 90% of trading days during the same period. However, January—July ferrous and related industry profit above designated scale down 90.5% on the year.

Net, the marginal demand of Chinese steels remained resilient.

Neutral

Coal Market:

The Australia FOB coking coal remained stable for most of the week, however supported by a PMV trade on Friday. The PMV and HCCA were supported by resilient demand.

A deal was completed in the FOB market by a miner at $262.37/mt FOB Australia for 30,000mt PMV Goonyella C/Riverside/Caval Ridge with September laycan. There was HCCA bid at $259/mt for early October laycan. Early this week, another deal of PMV Riverside was completed at $270. Indian mills became the major buyers on Australia FOB coking coals in current 4-5 weeks.

The proposal of the first round of coke decrease by 100-110 yuan/ton in China was rejected by cokery plants.

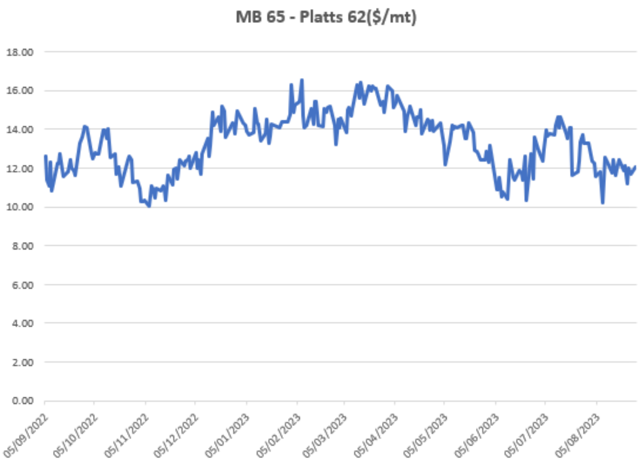
Net, strong demand and limited supply would stabilise the current coking coal market.

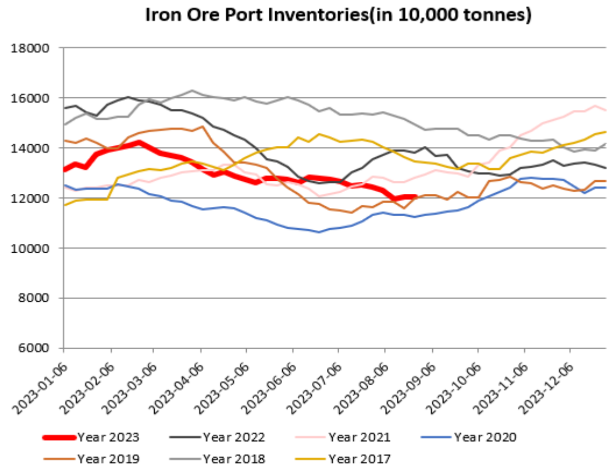
Neutral

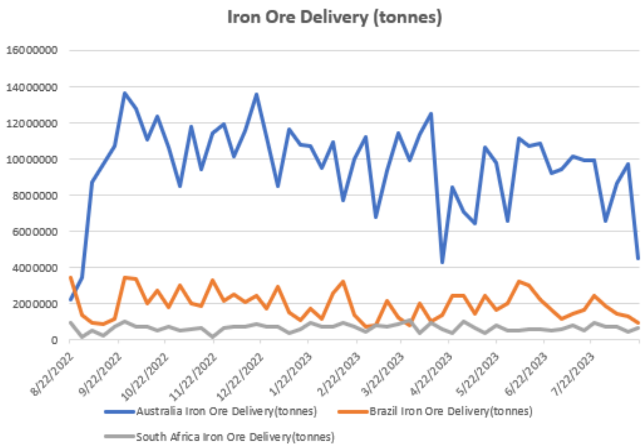
Sources: Argus, IHS Commodities at Sea Service, FIS

Iron Ore

	Last	Previous	% Change
Platts 62% Fe (Dollar/mt)	113.95	110.35	3.26%
MB 65% Fe (Dollar/mt)	126	122.2	3.11%
Capesize 5TC Index (Dollar/day)	9735	13255	-26.56%
C3 Tubarao to Qingdao (Dollar/day)	19.072	21.228	-10.16%
C5 West Australia to Qingdao (Dollar/day)	7.39	7.84	-5.74%
Billet Spot Ex-Works Tangshan (Yuan/mt)	3550	3530	0.57%
SGX Front Month (Dollar/mt)	113.77	106.85	6.48%
DCE Major Month (Yuan/mt)	819.5	770	6.43%
China Port Inventory Unit (10,000mt)	12,032.48	12,050.99	-0.15%
Australia Iron Ore Weekly Export (10,000mt)	450.70	969.60	-53.52%
Brazil Iron Ore Weekly Export (10,000mt)	94.10	130.10	-27.67%







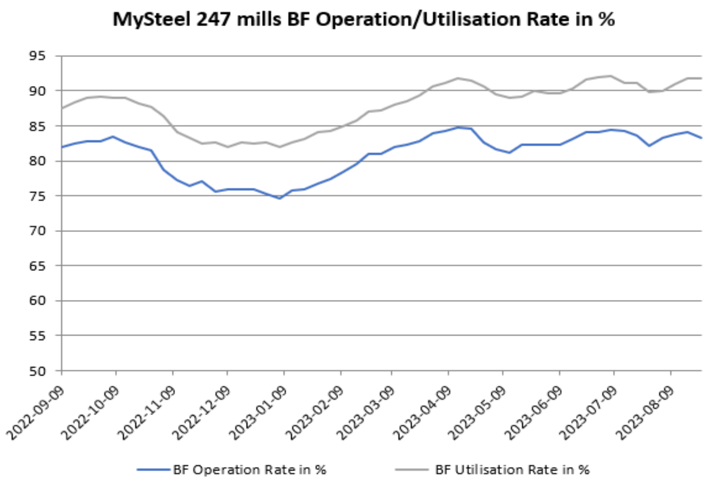
Iron Ore Key Points

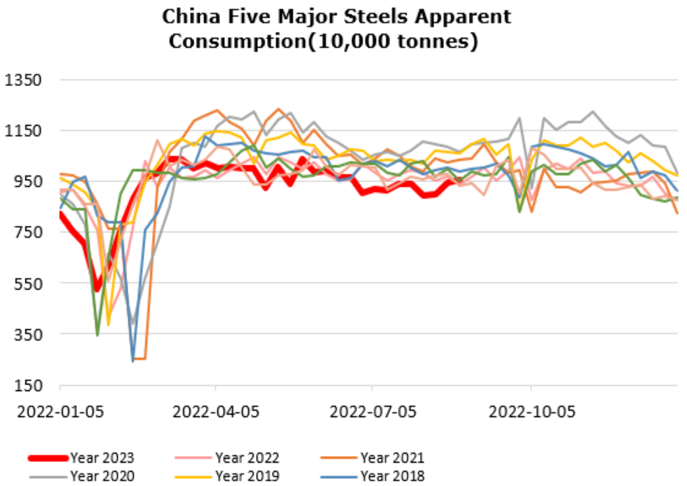
- Chinese iron ore ports inventories remained at year-low level around 120 million tons in current three weeks.
- The demand for premium mid-grade is gradually replaced by discount concentrates in Q2 and Q3, for better cost-efficiency. PBF demand weakened given a lower ferrous content and higher moisture level.
- The pig iron demand maintained seasonal high in August, while iron ore shipments are declining in late August.

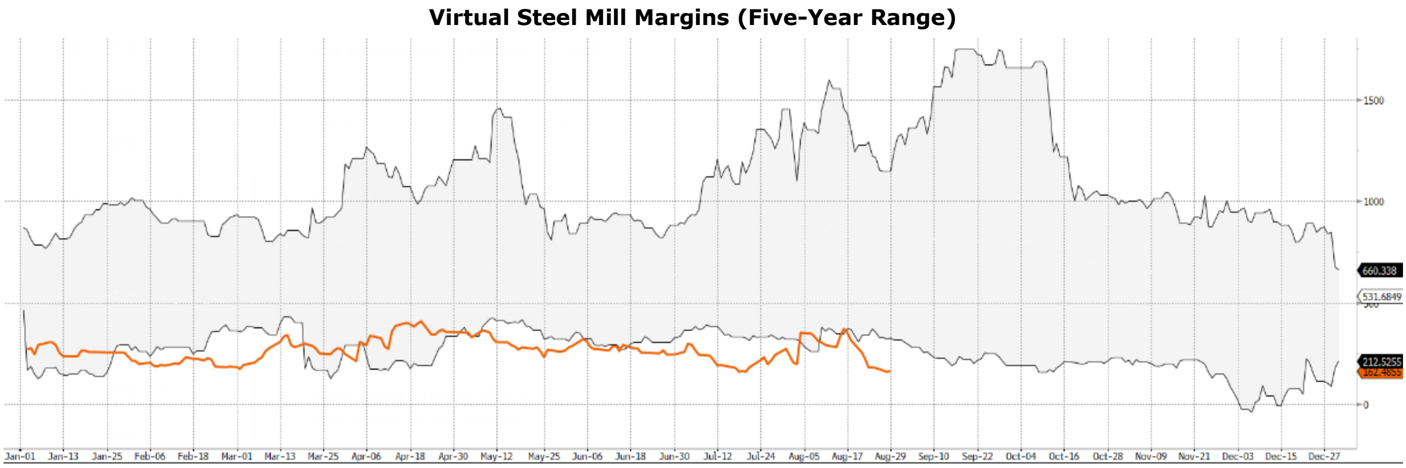
Data Sources: Platts, Fastmarkets, MySteel, Bloomberg, FIS

Steel

	Last	Previous	% Change
US HRC Front Month (Dollar/mt)	803	807	**-0.50%**
LME Rebar Front Month (Dollar/mt)	561	563	**-0.27%**
SHFE Rebar Major Month (Yuan/mt)	3714	3718	**-0.11%**
China Hot Rolled Coil (Yuan/mt)	3933	3939	**-0.15%**
Vitural Steel Mills Margin(Yuan/mt)	162	216	**-25.00%**
China Five Major Steel Inventories Unit (10,000 mt)	2489.64	2371.33	**4.99%**
Global Crude Steel Production Unit (1,000 mt)	90800	91100	**-0.33%**
World Steel Association Steel Production Unit(1,000 mt)	158,800	161,600	**-1.73%**





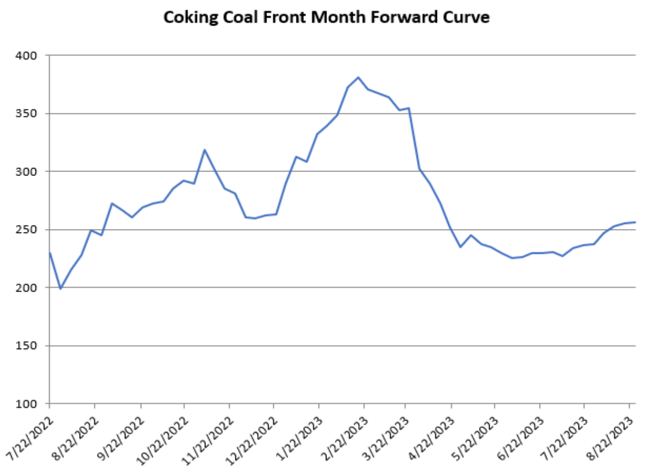


Data Sources: Bloomberg, MySteel, FIS

- Virtual steel mill margins corrected from 216 yuan/ton to 162 yuan/ton during the report week, down 55.98% from the high of 368 yuan/ton two weeks ago. The normal margin ranged from 200– 350 yuan during most of 2023.
- The major five types of steel apparent consumption recovered to 9.54 million tons, a nine-week -high.

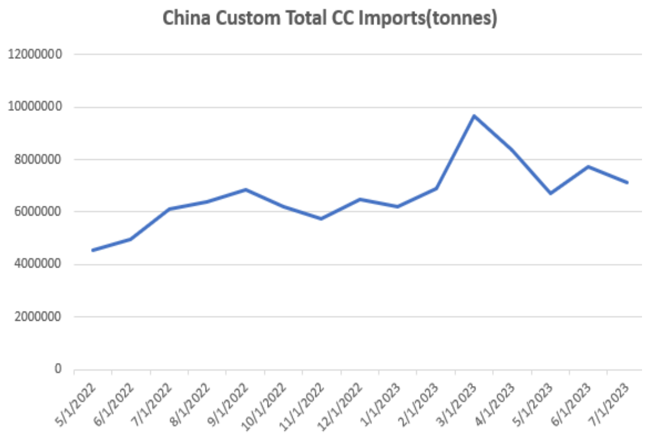
Coking Coal

	Last	Previous	% Change
TSI FOB Premium Hard Coking Coal (Dollar/mt)	246.5	258.5	-4.64%
Coking Coal Front Month (Dollar/mt)	256.25	255	0.49%
DCE CC Major Month (Yuan/mt)	1509	1405.5	7.36%
Top Six Coal Exporter Weekly Shipment	13.32	18.27	-27.09%
China Custom total CC Import Unit mt	7,133,243	7,745,318	-7.90%



Coal Key Points

- The seaborne demand for prime coking coal in Australia gained support from China.
- In FOB Australia market, India end-users became the major buyers.



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.

Written by **Hao Pei**,
FIS Senior Research Analyst

Edited by **Luke Hanley**
FIS Content Manager
News@freightinvestor.com