FIS

Ferrous Weekly Report

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⇒ **Iron ore Fe62% CFR China:** short-run **Neutral**. After a round of correction, iron ore expected to recover to neutral after taking gains. The downstream cooling became a mid-run bearish indicator.

⇒ **Rebar 25mm Shanghai** short-run **Neutral**. Floods and extreme weather discouraged sales in northern China. However, supply chain was also delayed domestically.

⇒ **HRC NW EU M1 Futures** short-run **Neutral to Bearish**. US auto production expected to lower in Q3 because of strikes. US crude steel production remained high. International sources became crowded in European areas, nearly using up import quotas.

⇒ **Hard Coking Coal FOB Australia** short-run **Neutral.** China hiked two rounds of coke price in a week and half and increased interest on buying seaborne coking coals.

Prices Movement	7-Aug	31-Jul	Changes %	Sentiment	
Iron Ore Fe62% CFR China($/MT)	**104.10**	**110.05**	**5.41%**	**Neutral**	-
Rebar 25mm Shanghai (Yuan/MT)	**3710**	**3790**	**2.11%**	**Neutral**	-
HRC NW EU M1 Futures ($/MT)	**804.0**	**825.0**	**2.55%**	**Neutral to Bearish**	↘
Hard Coking Coal FOB Australia($/MT)	**246.5**	**237.0**	**4.01%**	**Neutral**	-

Market Review:

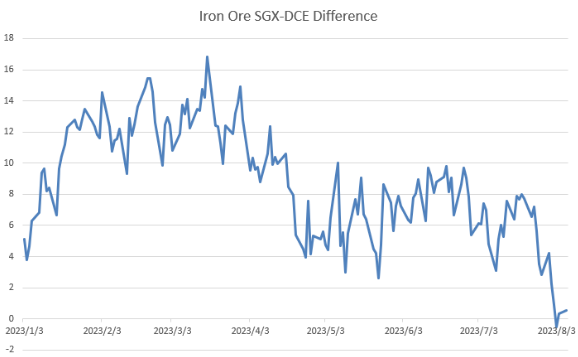
Iron ore Market :

Iron ore corrected by 5.41% during the report week as expected. The recent flood in Hebei, China, as well as the rumor on the default risk of some Chinese housing companies became negative indicators on macro side. However, iron ore demand market saw a marginal decrease in August, as utilisation rates decreased in blasts, as well as competitive EAF products.

The typhoon impacted northern China, causing floods and potentially facing some suspensions in downstream activities. The construction trading volume saw 110,000 tons early last week, which was 16-17% lower than average daily level in June and July. The light season came, and iron ore is facing a marginal decrease on demand side in August. EAFs utilisation rate up 7% on the year. The total EAFs production expected to exceed 20% in July compared to the same period in 2022.

Virtual steel margin hiked from 147 yuan/ton to 347 yuan/ton during the past three weeks. On the other side, import margin widened significantly, as the SGX-DCE spread dumped from $5 to 0 in a week. The buying back on seaborne and improvement of port operations after disastrous weather will potentially drive the difference back to normal levels quickly in the coming 1-2 weeks.

Seaborne market remained quiet while port side saw aggressive buying activities. Traders were concerned with the extreme weather near ports and delayed laycans. However, Brazil concentrates were popular as an expectation surrounded the decreasing delivery in Q3. The PBF trade vanished during the past week and early this week, given slight tight inventories in China's northern ports. JMBF narrowed from $4.5 to $3.8 during the first week of August. SSF and JMBF both remained competitive to premium cargoes as well. Although the blast furnace utilisation rate remained at seasonal high 90%, physical traders believed that the rate could come off quickly in the remainder of August. Mill orders saw a decline in second half of August and early September.



Data Sources: Bloomberg, Platts, Fastmarket, FIS

Market Review (Continued)

China’s 45 iron ore port inventories were still going down last week, reaching a year-low at 122.9 million tons. However, the recovery of port activities after two typhoons will potentially increase the inventory level in coming weeks.

Net, iron ore saw a balanced supply and demand in August market.

Neutral

Downstream/Policies/Industry News:

BOE hiked interest rate by 15 bps to 5.25%, 15-year-high. The central bank indicated maintaining lending cost at high level until the inflation target of 2% reached.

US July non-agricultural payrolls increased by 187,000, lower than expected 200,000. Financial market expected the hike in July should be the last action in 2023. U.S. ADP new jobs in July increased by 324,000, est. 190,000, last 497,000.

China CISA proposes cancelling night trading of iron ore, rebar, coking coal and related nine ferrous products. China authorities call for intensifying rescue and relief in flood-hit areas.

The China National Development and Reform Commission: select projects with healthy income to encourage the enrollment of private capital, by increasing issuance REITs in infrastructure, promoting qualified private investment projects to issue infrastructure REITs. China’s July manufacturing PMI 49.3, est. 49.2, last 49.

Brazil central bank decreased 50bps on the interest rate to 13.25%, created the first interest cut in the past three years.

Saudi Arabia Energy Bureau announced to extend the oil cut of 100 barrel/day by one month, estimated the daily production to be at 900 barrels/day in September. Saudi Arabia increased the oil delivered to Asia after the cut.

Global Steel Market:

The front month contract of Argus NW HRC decreased by 2.55% to $804/mt during past week. The drop was partially due to a mark-down on August value, which was $100 higher than July. The August demand in orderbooks failed expectation. Import quota depletion is becoming a persisting issue in Q3 for European countries. At the same time, international orders from Asia were becoming crowded on the sea. US HRC price created the lowest of past six months at $870/st. US expecting to see union strikes by three major automakers in September. The semiconductor chips shortage limited auto production as well. North America auto cuts estimated at 342,000 in 2023, according to AutoForecast Solutions. Another 300,000 vehicles are listed at risk.

China Tianjin FOB SS400 down $15 to $565 during past week, while SPCC saw a smaller decrease. However, the decrease on the offers failed to attract any buyer. Vietnamese bought small quantities at $560/mt for SS400, however, the local buyers were holding a bearish outlook.

Net, the increase port stocks in Europe and lackluster demand in US has become dragging factors for global steels.

Neutral to Bearish

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

Market Review (Continued)

Chinese Steel Market:

Shanghai domestic 25mm rebar down 2.11% during the week, which was rather supportive compared to a 5.41% drop on seaborne iron ore. Thus, virtual steel margin spiked to year-high area at 347 yuan/mt. The general output control limited blast furnace production. However, it seems like EAFs production were less impacted as there should be very small pollution counted.

The recent flood and hot weather limited the normal operation of infrastructure and construction sites. Daily trading volume of steel was 16-17% smaller than July average. Apparent consumption of major types of steels in China slumped by 4.89%, signaling the demand market is starting to edge down in August.

Net, the marginal demand of Chinese steels are decreasing, however, the macro stimuluses are supporting the price movement.

Neutral

Coal Market:

The Australia FOB coking coal rebounded significantly by 4.01% during the report week to $246.5/mt, supported by the strong Chinese seaborne demand. Southeast Chinese mill completed a 100,000mt deal for Australia PLV at $246.5. The decrease on long-term contract in H2 stimulated demand on spot cargoes.

Northern China's cokery plants hiked price by the fifth round by 100-110 yuan/ton. As the steel margin is improving, mills potentially accept the price increase on cokes. However, the long-run steel production control and pollution emissions assessment will decrease coal demand in H2 2023.

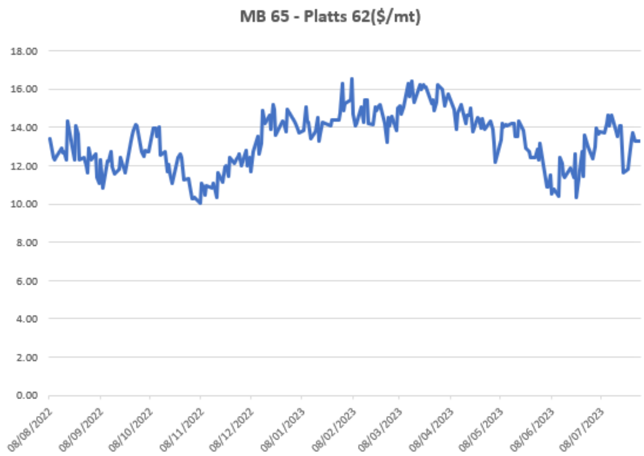
Net, Australia FOB potentially enter a stabilised mode at current level.

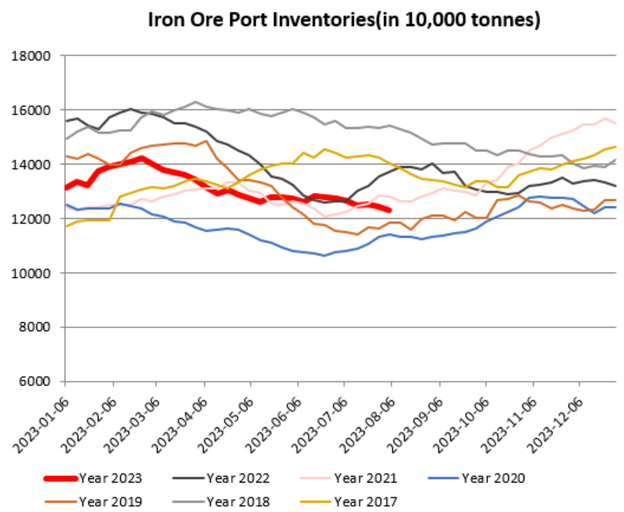
Neutral

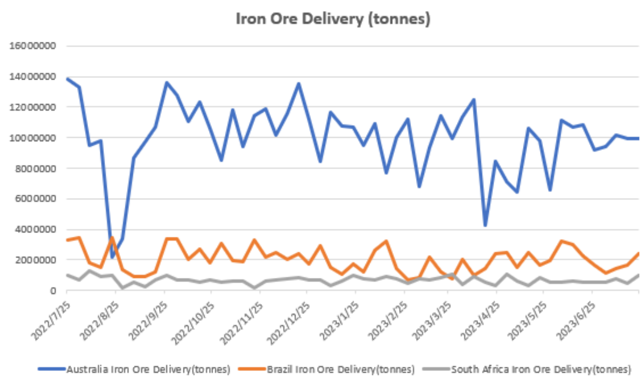
Sources: Argus, IHS Commodities at Sea Service, FIS

Iron Ore

	Last	Previous	% Change
Platts 62% Fe (Dollar/mt)	104.1	110.05	-5.41%
MB 65% Fe (Dollar/mt)	115.9	123.3	-6.00%
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)	3580	3650	-1.92%
SGX Front Month (Dollar/mt)	101.71	106.67	-4.65%
DCE Major Month (Yuan/mt)	731	837	-12.66%
China Port Inventory Unit (10,000mt)	12,451.96	12,540.56	-0.71%
Australia Iron Ore Weekly Export (10,000mt)	656.30	994.60	-34.01%
Brazil Iron Ore Weekly Export (10,000mt)	188.20	241.60	-22.10%







Iron Ore Key Points

- Chinese iron ore port inventories potentially increase as the typhoon has gone and ports operations are recovering.

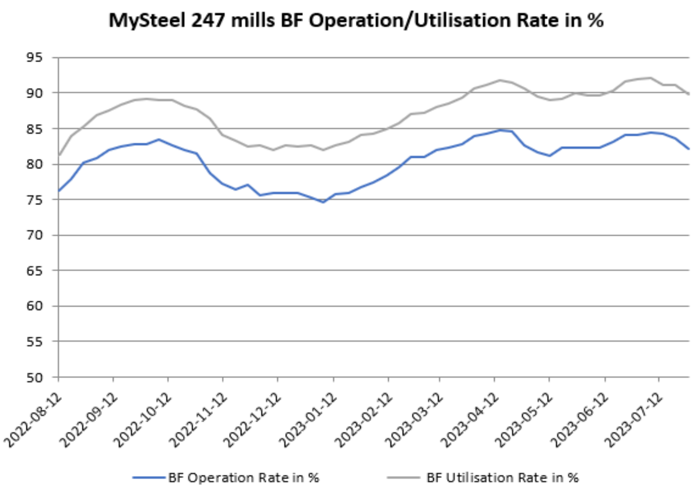
- The demand for premium mid-grade is gradually replaced by discount concentrates in Q2 and Q3, for better cost-efficiency.

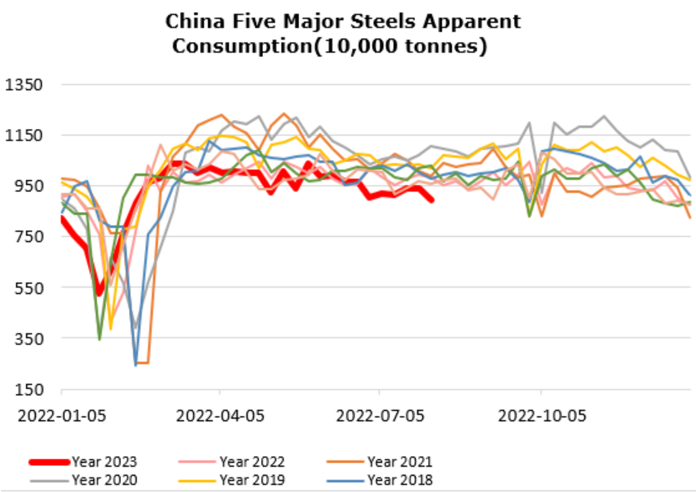
- The pig iron production expected to enter a declining period after EAFs production grew fast in July.

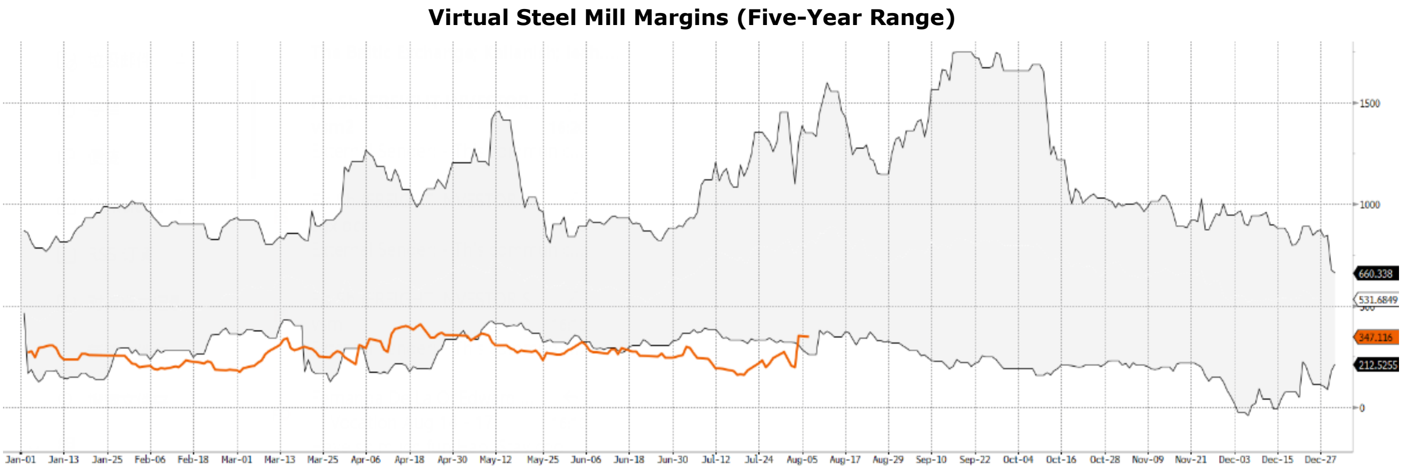
Data Sources: Platts, Fastmarkets, MySteel, Bloomberg, FIS

Steel

	Last	Previous	% Change
US HRC Front Month (Dollar/mt)	803	824	**-2.55%**
LME Rebar Front Month (Dollar/mt)	548.5	581	**-5.51%**
SHFE Rebar Major Month (Yuan/mt)	3752	3841	**-2.32%**
China Hot Rolled Coil (Yuan/mt)	4031	4062	**-0.76%**
Vitural Steel Mills Margin(Yuan/mt)	347	299	**16.05%**
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%**





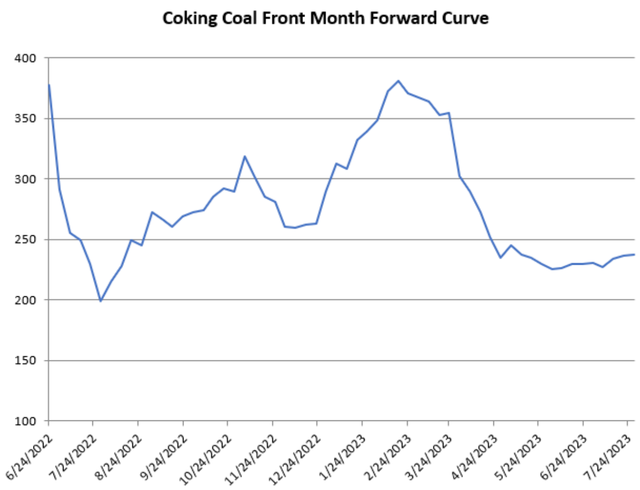


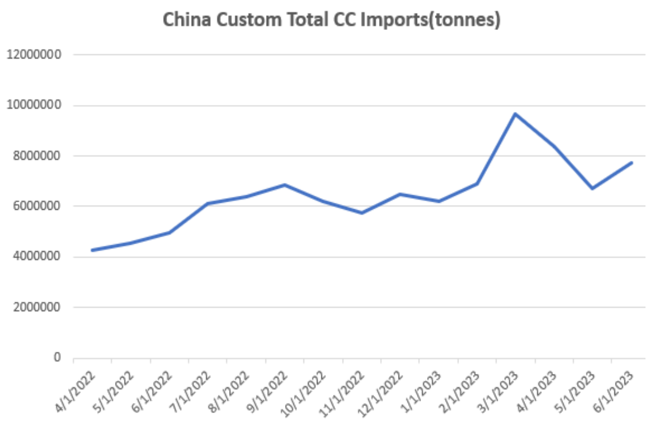
Data Sources: Bloomberg, MySteel, FIS

- Virtual steel mill margins more than doubled from 147 yuan/ton to 347 yuan/ton during the past three weeks, as the production curb in steels raised steel price and resisted iron ore price.
- The five major types of steel apparent consumption down significantly by 4.89%.

Coking Coal

	Last	Previous	% Change
TSI FOB Premium Hard Coking Coal (Dollar/mt)	237	237	**0.00%**
Coking Coal Front Month (Dollar/mt)	247	237.5	**4.00%**
DCE CC Major Month (Yuan/mt)	1471	1490.5	**-1.31%**
Top Six Coal Exporter Weekly Shipment	16.39	20.62	**-20.51%**
China Custom total CC Import Unit mt	7,745,318	6,724,634	**15.18%**





Coal Key Points

- The seaborne demand for prime coking coal in Australia gained support from 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 fifth 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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