FIS

Ferrous Weekly Report

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⇒ **Iron ore Fe62% CFR China:** short-run **Neutral**. Iron ore was supported by the unexpected high pig iron production throughout past nine weeks, however mills saw marginal slow down on steel production.

⇒ **Rebar 25mm Shanghai** short-run **Neutral**. The stimulus on housing supported the construction sales of steels in Q2, however the orders of October failed to prove the sustainability.

⇒ **HRC NW EU Active Futures** short-run **Neutral to Bullish**. The U.S. steel market is expected to see a price rise after the strikes end. European service centers and traders were trying to size down the inventories amid sluggish automobile demand.

⇒ **Hard Coking Coal FOB Australia** short-run **Neutral**. Aggressive Indian end-users plus the previous Peak Downs truck accident in the mines supported a spike on FOB market.

Prices Movement	18-Sep	11-Sep	Changes %	Sentiment	
Iron Ore Fe62% CFR China($/MT)	124.45	120.65	3.15%	Neutral	-
Rebar 25mm Shanghai (Yuan/MT)	3898.0	3874.0	0.62%	Neutral	-
HRC NW EU Active Futures ($/MT)	680.38	689.69	1.35%	Neutral to Bullish	↗
Hard Coking Coal FOB Australia($/MT)	314.75	280.5	12.21%	Neutral	-

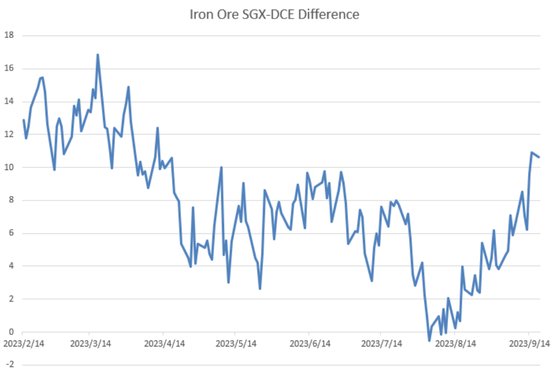
Market Review:

Iron ore Market :

The unexpected 25 bps drop on China RRR announced last week supported the rebound of commodity market in general. In addition, the US Fed expect the interest rate to peak in 2024, and mentioned the interest cut in 2024. Daily pig iron production experienced a seasonal high in August and early September, however yet to see any significant rise on steel orders in September and October. Thus, the market is expecting a marginal slow down on steel production.

The EAFs production remained strong in Q3, at the same time, blast furnace produced pig iron stayed at high level. The market will potentially see some pressure if both EAFs and blast furnaces still maintain high production after China's golden weeks in October, when the demand normally slows down and enters a less active mode.

Pig iron production remained at 2.47 million tons per day, which was the second highest number during the past 52 weeks, as well as a three-year-high during the same period of time. The iron ore inventories at China ports were 118.66 million tons, a year-low and seasonal low, while steel mills' seaborne iron ore inventories remained at 86– 88 million tons through Q3. The fast decreasing port inventories and moderate mills inventories indirectly impacted the high consumption in iron ores.



The decreasing ferrous content and higher moisture level decreased the prompt demand for PBFs. Some market participants indicated that the FMG low grade potentially maintained an unchanged discount due to strong market interests and low steel margin in China. The demand for MACF and JMBF were reliable. The JMBF discount narrowed from $3.3 in late August to $1.9 based on October Platts 62% Index last week.

Data Sources: Bloomberg, Platts, Fastmarket, FIS

Market Review (Continued)

Virtual steel margin refreshed year-low at 70 yuan/ton, 80.97% drop over past four weeks, following the spike on iron ore and coking coal. Steel mills started to enter a general loss condition on marginal production of long steels in south. Thus, MB65—P62 stayed in low area at $9.21 as a monthly average in September, compared with $12 in August.

The spread curve of Oct-Nov23 increased by 50% to $2.55 in September, after being flat around $1.7 in second half of August. Nov-Dec23 improved by similar percentage during the same period. The fast rise on spread was in fact a delayed reaction of iron ore picked up. The October futures contract of SGX TSI iron ore has rebounded 22.66% from the low in August. Moreover, the increase indicated a strong October demand during constructional season in China and a rather decreasing demand outlook in the months after November.

In general, iron ore expected to enter a consolidation mode in next few weeks after a fast rebound.

Neutral

Downstream/Policies/Industry News:

China central bank PBOC cut RRR by 0.25% unexpectedly last week, to release the medium term liquidity of 500 billion yuan to the market.

China August CPI up 0.1% on the year, up 0.3% on the month. China PPI down 3% on the year, up 0.2% on the month. China January to August manufacturing investment grew by 5.9% on the year, up 0.2% from January to July period. During January to August, China housing development investment down 8.8% on the year. New house built area down 24.4% on the year. Commercial house sales down 7.1% on the year. However, economists indicated the stimulus impact should emerge in Q4 with latency on data.

U.S. August CPI up 3.7%, est. 3.6%, last 3.2%. PPI up 1.6%, est. 1.2%, last 0.8%.

ECB hiked interest rate by 25bps, however, expect a slower inflation growth in 2024 and 2025 at 3.2% and 2.1% respectively. Europe Council launched anti-dumping on automobile import subsidies from China. ECB governors indicated that the Thursday interest hike potentially became the last hike in the year.

The monthly report of OPEC indicated that the oil shortage reached 3 million barrels/day because of the extension of the oil cut from Saudi Arab.

Global Steel:

The current strike in US curbed supply of steel. The United Auto Workers(UAW) rejected the 20% pay increase offered by GM and Ford. Mid-west HRC price fell from $790/st to $720/st ex-work Indiana. Service centers had already reduced inventories of steels before the strike. In addition, the strike caused a few weeks of production idling in some mills. Thus, the US steel market expect a price increase when the strike ends. Turkey scrap market remained unchanged during the report week at $377/mt, while mills could accept $380/mt as the highest offer.

In general, US steels expected to rebound after the strike ends. EU HRC expected to slowly pick up as the vacations ends.

Neutral to Bullish

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

Market Review (Continued)

China Steel:

China physical 25mm rebar at Shanghai only ticked up slightly by 0.63% during the week. Steel growth was moderate compared with fast climbing iron ore and coking coal. Thus, virtual steel margin refreshed year-low at 70 yuan/ton. At the same time, Southern mills physical margin reached negative area.

The five typical steel apparent consumption remained stable around 945 million tons for the past five weeks. The market yet to see any increasing demand in the construction season in September and October with similar daily trading volume of construction steels compared to August as well as stable flow on orderbooks.

In general, the stable consumption and supply support price level at equilibrium.

Neutral

Coal Market:

Australia FOB coking coal index rebounded by 12.21% during past week, supported by BHP truck accident at Peak Downs. The sudden spike led FOB price to five-month high. The sudden disruption on the miners tightened the premium met coal supply on the seaborne market. The seaborne shortage created a ripple effect on domestic market in both China and India. However, some traders indicated that the high coking coal price was not sustainable, which was almost at the same level as some seaborne coke price. High material costs squeezed most blast furnaces in Asia into a marginal loss.

China cokery plants raised price of cokes by 100 yuan/ton, yet to receive official response from steel mills.

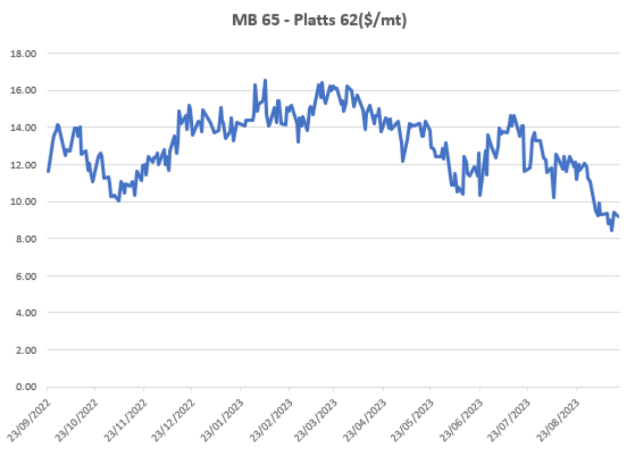
In general, the high coking coal price was not sustainable after BHP recovered the production after safety check on the miner.

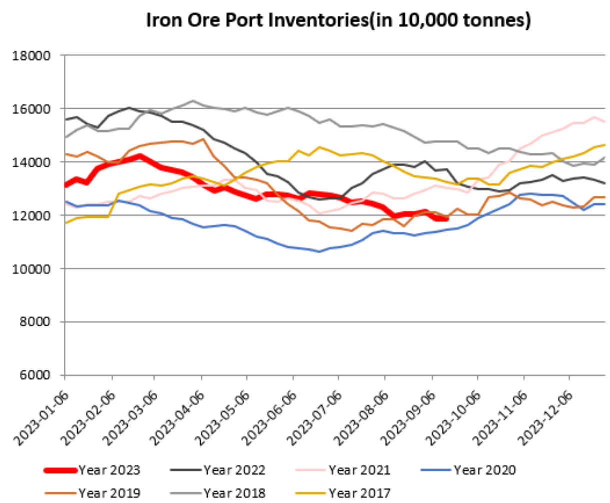
Neutral

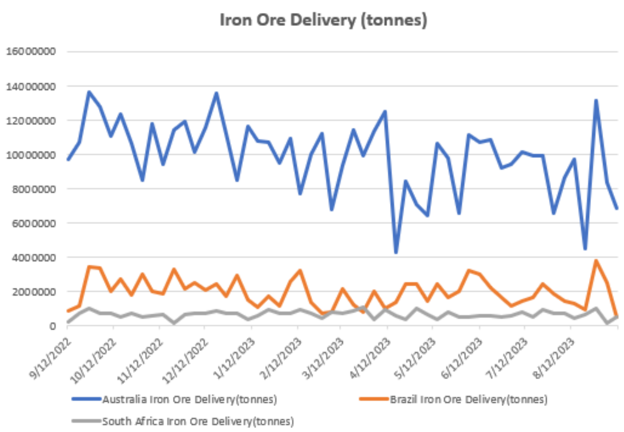
Sources: Argus, IHS Markit Commodities at Sea Service, FIS

Iron Ore

	Last	Previous	% Change
Platts 62% Fe (Dollar/mt)	124.45	120.65	3.15%
MB 65% Fe (Dollar/mt)	133.6	130	2.77%
Capesize 5TC Index (Dollar/day)	14503	10982	32.06%
C3 Tubarao to Qingdao (Dollar/day)	20.867	19.683	6.02%
C5 West Australia to Qingdao (Dollar/day)	9.2	8.3	10.84%
Billet Spot Ex-Works Tangshan (Yuan/mt)	3570	3510	1.71%
SGX Front Month (Dollar/mt)	122.95	113.33	8.49%
DCE Major Month (Yuan/mt)	873	831.5	4.99%
China Port Inventory Unit (10,000mt)	11,865.75	11,867.87	-0.02%
Australia Iron Ore Weekly Export (10,000mt)	687.60	836.70	-17.82%
Brazil Iron Ore Weekly Export (10,000mt)	49.20	252.50	-80.51%







Iron Ore Key Points

- Chinese iron ore port inventories remained at year-low level below 120 million tons in current five.

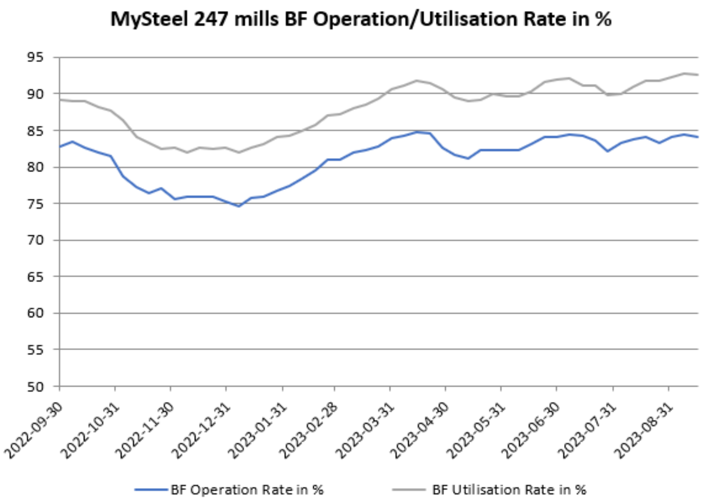
- The demand for premium mid-grade is gradually replaced by discount concentrates in Q2 and Q3, for better cost-efficiency. PBF demand weakened given a lower ferrous content and higher moisture level.

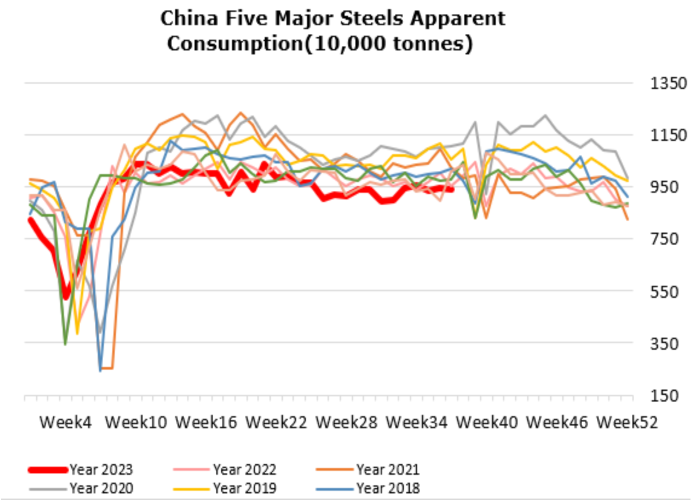
- The pig iron demand maintained a seasonal high in August, while iron ore arrivals expected to decrease in September.

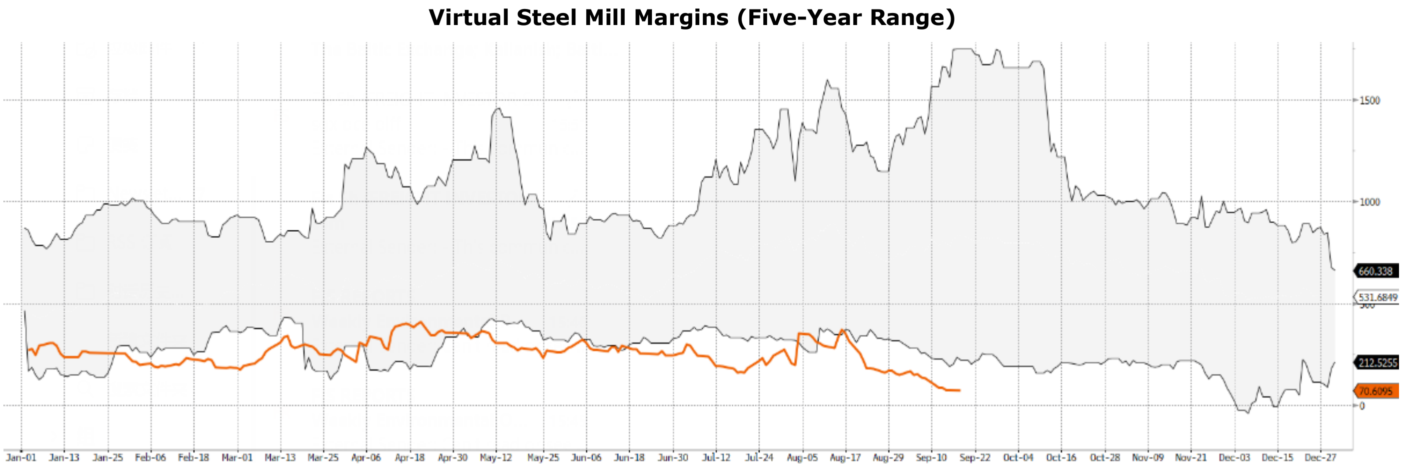
Data Sources: Platts, Fastmarkets, MySteel, Bloomberg, FIS

Steel

	Last	Previous	% Change
US HRC Front Month (Dollar/mt)	704	720	-2.22%
LME Rebar Front Month (Dollar/mt)	572.5	561	2.14%
SHFE Rebar Major Month (Yuan/mt)	3816	3757	1.57%
China Hot Rolled Coil (Yuan/mt)	3953	3934	0.48%
Vitural Steel Mills Margin(Yuan/mt)	70	90	-22.22%
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%





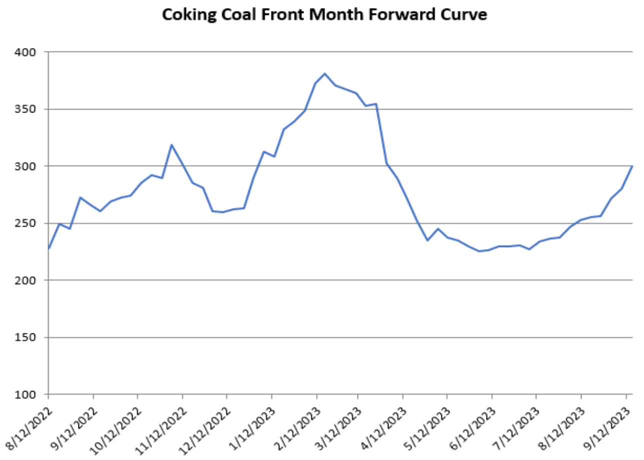


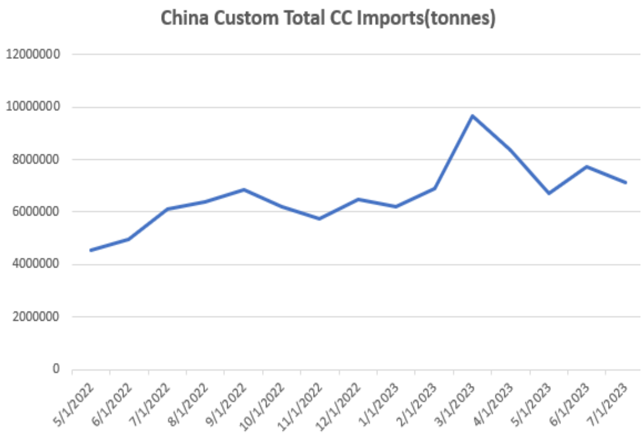
Data Sources: Bloomberg, MySteel, FIS

- Virtual steel mill margins corrected from 368 yuan/ton three weeks ago to 70 yuan/ton after the spike of iron ore and coking coal. Some physical mills variable margin dropped to negative area.
- The five major 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	280.5	**-12.12%**
Coking Coal Front Month (Dollar/mt)	300	280.33	**7.02%**
DCE CC Major Month (Yuan/mt)	1812	1677.5	**8.02%**
Top Six Coal Exporter Weekly Shipment	14.54	19.25	**-24.47%**
China Custom total CC Import Unit mt	7,133,243	7,745,318	**-7.90%**





Coal Key Points

- The seaborne demand boosted by China and India, in particular for HCCAs and PMVs.
- The BHP miner accident decreased seaborne coking coal supply in short-run.
- China cokery plants proposed a new round of price increase by 100-110 yuan/ton.

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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