

FIS Ferrous Weekly Report

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- ⇒ **Iron ore Fe62% CFR China:** short-run **Neutral to Bearish**. Events-driven and macro support normally play a short-run impact without structure change to the market.
- ⇒ **Rebar 25mm Shanghai** short-run **Neutral to Bearish**. The downstream demand remained sluggish, steel sales shifted from northern to southern area because of the cold weather.
- ⇒ **HRC NW EU Active Futures** short-run **Neutral to Bullish**. The automobile sales are gradually recovering in both US and EU market.
- ⇒ **Hard Coking Coal FOB Australia** short-run **Neutral to Bearish**. The demand market from India started to extend from prompt laycans to far laycans. Thus, the index price started to drop given less trades completed recently.

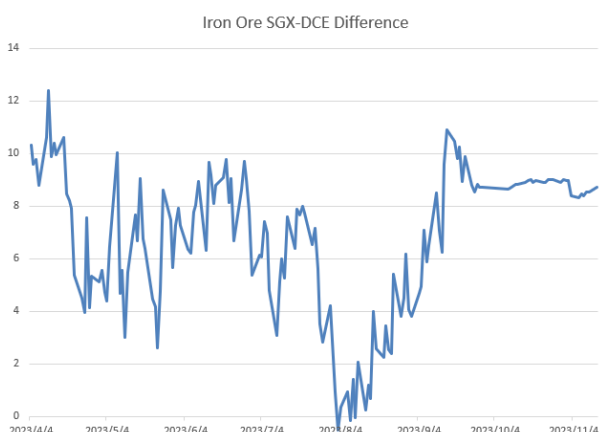
Prices Movement	13-Nov	6-Nov	Changes %	Sentiment
Iron Ore Fe62% CFR China(\$/MT)	129.80	126.10	2.93%	Neutral to Bearish ↓
Rebar 25mm Shanghai (Yuan/MT)	3966.0	3912.0	1.12%	Neutral to Bearish ↓
HRC NW EU Active Futures (\$/MT)	683.57	673.32	1.52%	Neutral to Bullish ↑
Hard Coking Coal FOB Australia(\$/MT)	287.50	292.0	1.54%	Neutral to Bearish ↓

Market Review:

A View on Ferrous Market:

Iron ore remained bullish after a series of events including investment banks' bullish comments, soft-landing on China's housing and local debts and decreasing 10-year US Treasury bond yield. However, we insist the valuation of iron ore currently is too high. The high cost squeezed Chinese steel mills margin to negative area for two months, which is potentially forcing mills to consider about longer maintenance.

From macro side, there were a series of stimuluses, news and stories which happened on the market during the past few weeks and which supported iron ore to become the strongest asset amongst commodities. China's housing strategies seem to work as the total number of trades returned to positive in October on the year basis, after a nine-month drop. Moreover, the completion of houses went up by 20% in the first ten months. The central government works actively with developers and banks to resolve the liquidity issue in local projects and housing. Goldman Sachs indicated that iron ore will potentially see a "shortage" in Q4. There were a couple of incidents following the macro news, including BHP train accident, miner strike and Australia port internet going down because of hackers. However, from historical learnings, the event-driven or macro driven trends normally ends quickly compared to a fundamental driven trend.



When we go back to reality, there are some non-neglectable factors on the fundamental side which enables us to review the market with cautious eyes. The Chinese steel margin has been suffering in a negative area from September to November. The only supply shortage in ferrous market happened on some brands of coking coals but not iron ore. Iron ore shipments see no issue from arrangements of laycans in Q4 given much drier weather in Brazil and Australia. The ships were crowded in some ports but sufficient for iron ore in general compared to past three years during same period. EAF mills saw high scrap arrivals and stable profit, which supported a high growth of production in November and December. EAFs also have less pollution issues compared with blast furnaces, in particular in Q4.

Data Sources: Bloomberg, Platts, Fastmarket, FIS

Market Review(Cont'd):

The high crude steel production grew by 1.7% for the first nine months, which potentially means some decrease in Q4 which would result in a small growth or flat annual production target in 2023. Daily pig iron production was on a descending trend, which was non-reservable in Q4 as a light season without significant supply issue. Port inventories started to become flat in November at 112.37 million tons. The evacuation expects to slow down because of the snowy and cold weather normally in winter months from November to February compared to other times of year in northern ports, which accounted for more than 50% of iron ore imports into China.

SGX-DCE remained at \$8.5-9 for 95% of the time throughout the past 10 weeks, which provided a healthy import margin. Thus, imports of iron ores became active in general in late Q3 and early half of Q4 compared to last year.

In general, the over-valuation of iron ore is a risky factor worth noting.

Neutral to Bearish

Industry News and Macro Update :

The economists from Goldman Sachs expect that the US federal will not cut interest rates until the fourth quarter of 2024. The soft-landing of US economy has made substantial progress. Last week, the number of initial claims for unemployment benefits in the United States was 217,000, with an estimated 219,000, compared to 217,000.

China's National Bureau of Statistics: October CPI down 0.2% on the year, down 0.1% on the month. PPI in October down 2.6% on the year. Chinese Ministry of Housing and Urban Rural Development stated that the new housing strategies in China had taken effect. From January to October, the overall number of new home buyers and second-hand houses traded increased on the year. During the same time, house completion is up 20% on the year.

China M2 supply up 10.3% in October, the growth rate was flat last month, however 1.5% lower than last October. Social finance amount reached 1.85 trillion yuan, up 910.8 billion yuan on the year, or 9.3%.

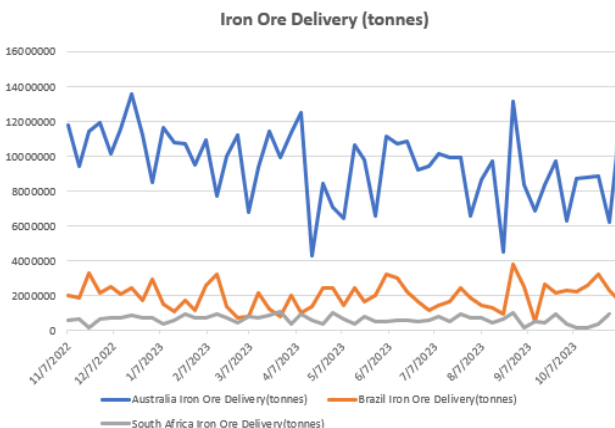
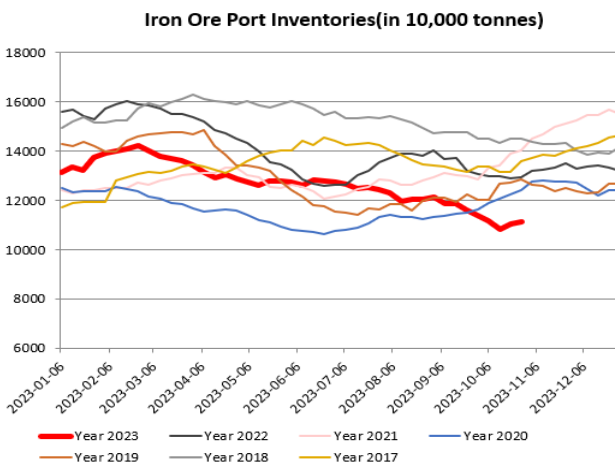
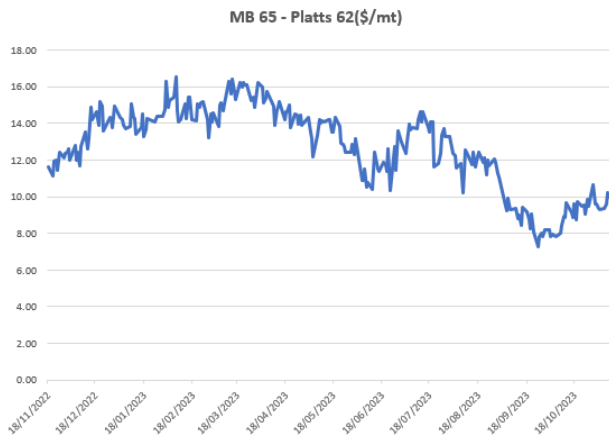
IMF increased GDP growth in China in 2023 from 5% to 5.4%, after the new basket of financial support carried out from the government in Q3. IMF also predicted a soft-landing in European economy with a growth rate up from 1.3% to 1.5%.

ECB banker Christian Lagarde said that the disappear on base effect will naturally control inflation from increasing in mid-run. Thus, further interest hikes potentially become avoidable.

China Ministry of Commerce announced revisions to a list of bulk commodities, requiring to keep statistical records, which include rare earth and iron ore. However, market participants expect no direct impact on the process of imports or quota change.

Iron Ore

	Last	Previous	% Change
Platts 62% Fe (Dollar/mt)	129.8	126.8	2.37%
MB 65% Fe (Dollar/mt)	140.02	136.07	2.90%
Capesize 5TC Index (Dollar/day)	21619	19234	12.40%
C3 Tubarao to Qingdao (Dollar/day)	22.017	21.311	3.31%
C5 West Australia to Qingdao (Dollar/day)	9.99	9.48	5.38%
Billet Spot Ex-Works Tangshan (Yuan/mt)	3630	3530	2.83%
SGX Front Month (Dollar/mt)	126.81	122.94	3.15%
DCE Major Month (Yuan/mt)	950.5	925.5	2.70%
China Port Inventory Unit (10,000mt)	11,308.55	11,293.41	0.13%
Australia Iron Ore Weekly Export (10,000mt)	1,128.70	619.50	82.20%
Brazil Iron Ore Weekly Export (10,000mt)	171.40	230.90	-25.77%



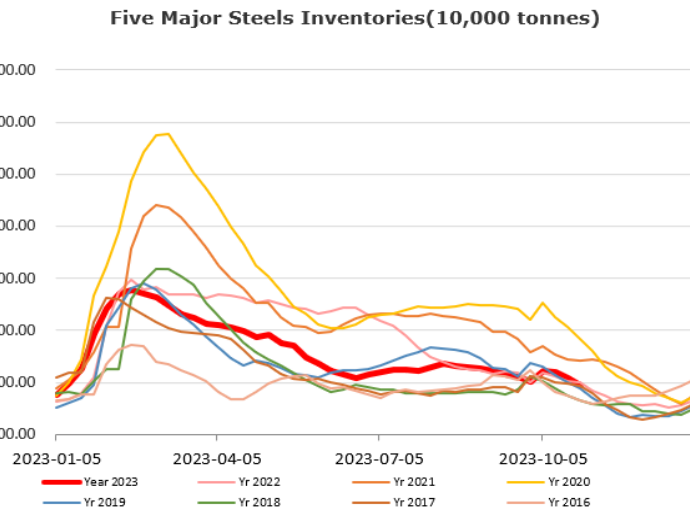
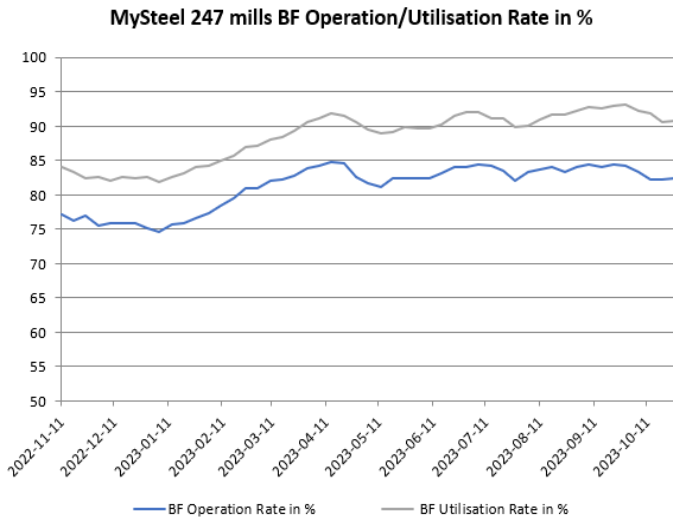
Iron Ore Key Points

- Chinese iron ore port inventories entered a stable mode as both supply and demand have been decreasing the past two weeks.
- SGX-DCE difference remained almost flat during the past three weeks at \$8.5- 9/mt.
- The pig iron demand dropped from 2.48 million tons to 2.38 million tons during past six weeks.

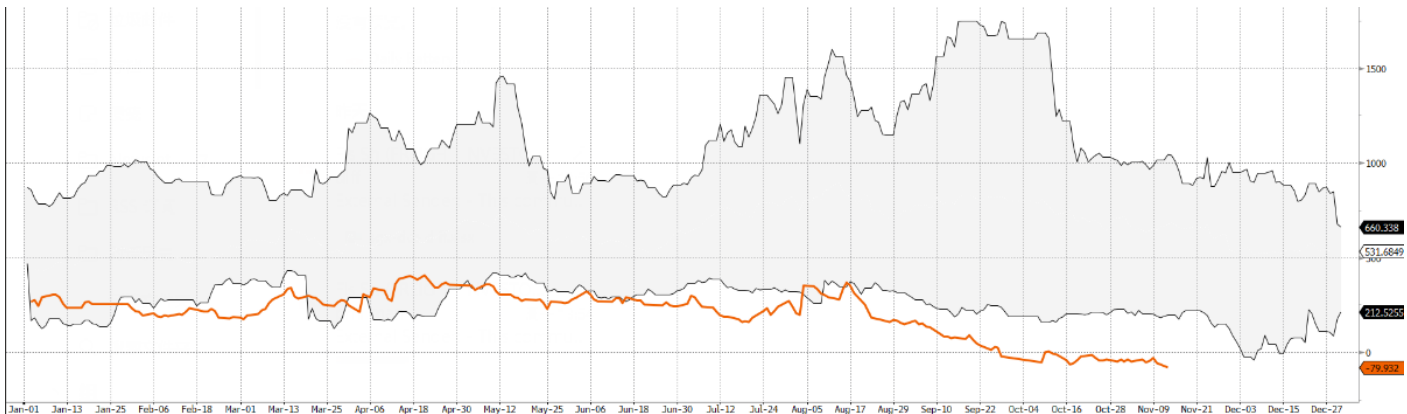
Data Sources: Platts, Fastmarkets, MySteel, Bloomberg, FIS

Steel

	Last	Previous	% Change
US HRC Front Month (Dollar/mt)	893	873	2.29%
LME Rebar Front Month (Dollar/mt)	567	560	1.34%
SHFE Rebar Major Month (Yuan/mt)	3870	3783	2.30%
China Hot Rolled Coil (Yuan/mt)	3949	3886	1.62%
Vitural Steel Mills Margin(Yuan/mt)	16.23	20.93	-22.46%
China Five Major Steel Inventories Unit (10,000 mt)	2489.64	2371.33	4.99%
Global Crude Steel Production Unit (1,000 mt)	82100	86400	-4.98%
World Steel Association Steel Production Unit(1,000 mt)	152,600	158,500	-3.72%



Virtual Steel Mill Margins (Five-Year Range)



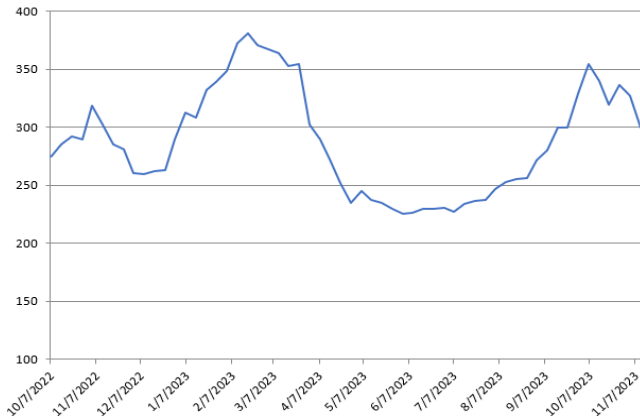
Data Sources: Bloomberg, MySteel, FIS

- Virtual steel mill margins reached -79 yuan/ton on Monday, refreshed year-low and remained in negative area for most of the month.
- The major five types of steel apparent consumption remained around 9.45 million tons as an average number during past ten weeks except one holiday week.

Coking Coal

	Last	Previous	% Change
TSI FOB Premium Hard Coking Coal (Dollar/mt)	246.5	349	-29.37%
Coking Coal Front Month (Dollar/mt)	300	326.67	-8.16%
DCE CC Major Month (Yuan/mt)	1991	1855	7.33%
Top Six Coal Exporter Weekly Shipment	-79	-38	107.89%
China Custom total CC Import Unit mt	10,824,809	9,573,059	13.08%

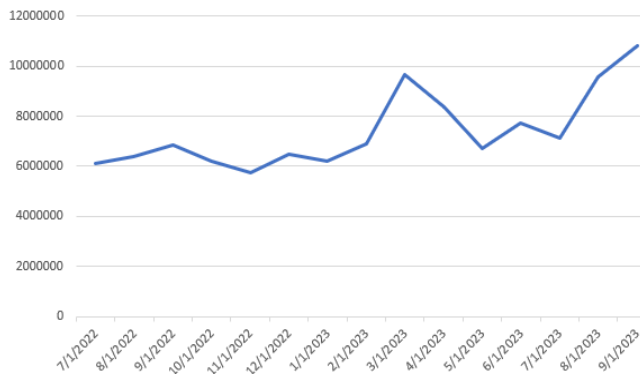
Coking Coal Front Month Forward Curve



Coal Key Points

- The FOB Australia coking coal saw a slight shift from prompt demand to back. Thus, index price started correction.
- The decreasing trend in Chinese pig iron production in Q4 would become a resistance for coking coal price in long-run. However, in short-run, steel mills need to start winter stock on coal products. Chinese cokery plants proposed a price increase by 100 -110 yuan/ton yesterday.

China Custom Total CC Imports(tonnes)



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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