

12/12/2023

- ⇒ **Iron ore Fe62% CFR China:** short-run **Neutral to Bearish**. The positive sentiment from China's politburos was offset by lower than expected CPI and PPI. Snow in northern China forced mills to limit production of steels. Shipments increased from Australia in December.
- ⇒ **Rebar 25mm Shanghai** short-run **Neutral**. The snowy weather decreased the efficiency of logistics and productions. Downstream demand has become lighter in winter.
- ⇒ **HRC NW EU Active Futures** short-run **Neutral to Bullish**. The automobile sales recovered in north America and Europe.
- ⇒ **Hard Coking Coal FOB Australia** short-run **Neutral**. China and India demand supported Australia FOB market. The heat demand in winter supported thermal coal market. Snowy weather to potentially impact the Mongolia coal exports.

Market Review:

Prices Movement	11-Dec	4-Dec	Changes %	Sentiment	
Iron Ore Fe62% CFR China(\$/MT)	136.85	131.05	4.43%	Neutral to Bearish	↘
Rebar 25mm Shanghai (Yuan/MT)	4179.0	4164.0	0.36%	Neutral	-
HRC NW EU Active Futures (\$/MT)	733.55	729.44	0.56%	Neutral to Bullish	↗
Hard Coking Coal FOB Australia(\$/MT)	332.25	330.0	0.68%	Neutral	-

A View on Ferrous Market:

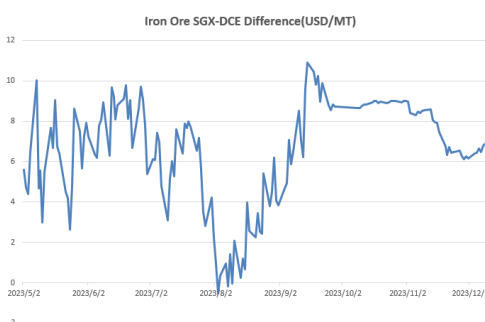
Iron ore seaborne index remained strong during past week, increasing by 4.43%. Most of the increase was contributed by marginal trade near MOC closing. The physical trade became quiet above \$125 index level. In addition, DCE iron ore started to see correction from Friday night to Monday. The iron ore uptick was mostly supported by strong economic expectations from the recent Chinese political conference. The sentiment was offset by lower than expected CPI and PPI data out on Monday. We insist on the high valuation risk for iron ore in mid-run.

From macro side, the interest rate cut rumor in China became one event for speculators of iron ore. Moreover, the sharp drop on US Treasury yield supported the value on risk assets including ferrous. However, as we mentioned for past few months, the impact on macro side tends to be short-lived compared with fundamental factors.

The snowy weather conditions in mid and northern China became harsh for logistics and steel production. Thus, traders expect some disruptions on shipments as well as decreasing production during the rest of December. Physical coke price grew rapidly (300-330 yuan) during past three weeks.

From supply and demand side, iron ore daily pig iron consumption 2.29 million tons, down from 2.34 million tons previous week. Accordingly, the blast utilisation rate decreased by 2.11% last week, creating the biggest single weekly drop in 2023. The decreasing demand on iron ore was accelerating. On the shipment side, iron ore imports in China reached 102.74 million tons, up 3.4% on the month. Iron ore normally increases shipments during November and December because the

miners need to fulfill their annual target. Thus, the shipments in December are also expected to increase. China's domestic mines production at 825 million tons for the first 10 months, up 7.8% on the year. The domestic iron ore expected to increase in November and December without unexpected maintenance.



Data Sources: Bloomberg, Platts, Fastmarket, FIS

Freight Investor Services 2023.

Market Review(Cont'd):

From valuation side, China's physical steel margin suffered from negative loss for 3 months, with a current loss around - 100 yuan/ton. The virtual steel margin was a negative number for 90% of the time during past three months. However, the virtual margin recovered to 12-week high to 75 yuan/ton, suggesting a reversal. In winter, mills tend to increase lump and pellets proportion in furnaces to meet with environmental protection requirements. Increasing port inventories gave mills more choices to avoid heavy cost on import cargoes. The weekly average of SGX-DCE spread improved slightly from \$6.24 to \$6.69, supported by improved import margin.

Seaborne iron ore saw strong trade interest in the early half of last week, however became quiet in the latter half of the week. FMG lowered discount for all flagship products including WPF, SSF and FBF. The demand for Brazilian cargoes increased as concerns rose for the rainy season. On the other side, the market has limited acceptance for IOCJ because of the high cost. IOCJ was traded with a \$1 premium over the 65% Index. MB65-P62 spread narrowed from \$12.75 to \$11.0 during past report week. The traders expected a narrower spread value because of the low physical steel margin currently. The JMBF float level was traded at \$2.65 based on January Index, given the increasing index.

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

Neutral to Bearish

Industry News and Macro Update :

China held December politburo during the weekend, putting emphasis on stabilising the monetary and financial tools. China's November CPI down 0.5% on the month, bigger than expected. The dragging contributor was that food price was weaker because of the warmer weather and logistics compared to last year. The bank background analyst predicted a stable rise on CPI in 2024 given the recovery of meat price and consumption.

The Chinese State Council issued the "Action Plan on Air Quality Improvement", which proposed that the new steel production capacity quota should be prohibited. Clean energy should be developed. The total coal consumption should be reasonably controlled. China imported 427 million tons of coal for the first 11 months of 2023, up 62.8% on the year. China imported 1.078 billion tons of iron ore for the first 11 months, up 6.2% on the year. China imported 516 million tons of crude oil for the first 11 months, up 12.1% on the year.

The Chinese Automobile Association said that in November, automobile production and sales completed 3.093 million units and 2.97 million units respectively, an increase of 7% and 4.1% month-on-month, and a year-on-year increase of 29.4% and 27.4% respectively. The Association expected that automobile production and sales would hit record high in 2023.

The US non-farm payroll increased by 199,000 in November, with an estimated increase of 183,000, compared to a previous increase of 150,000. The November unemployment rate was 3.7%, estimated at 3.9%, compared to the previous value of 3.9%.

BHP faces strike threat at Australian coking coal mines in Queensland, after the train drivers held off strikes at iron ore operations. The 3rd round of price increase by 100-110 yuan/ton on China domestic physical coke was accepted by mills. The strong domestic coke price was supported by snowy weather in north-western provinces.

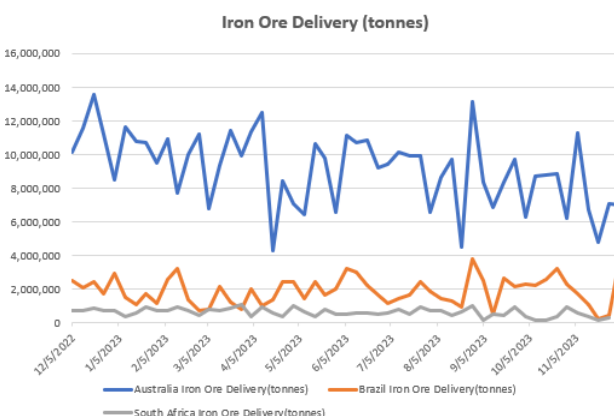
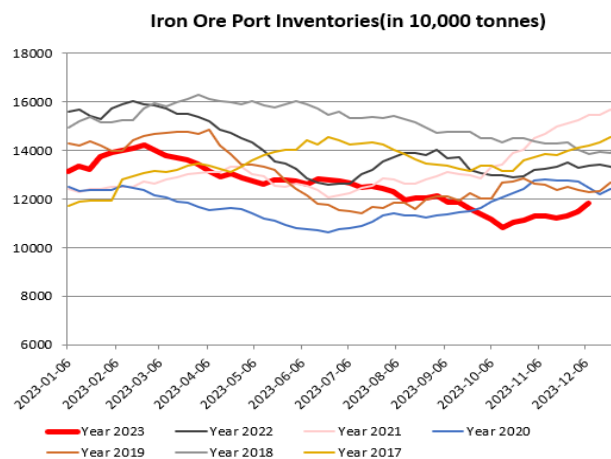
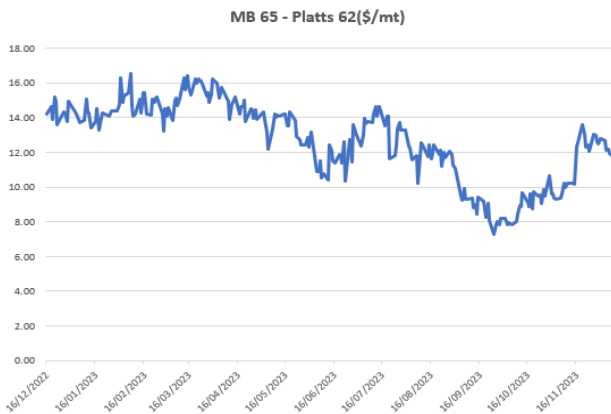
The biggest pig iron exporter over the world, Brazil, exported 3.47 million tons of pig iron in the first eleven months of 2023, down 2% on the year.

Iron Ore

	Last	Previous	% Change
Platts 62% Fe (Dollar/mt)	136.85	131.05	4.43%
MB 65% Fe (Dollar/mt)	148.87	143.71	3.59%
Capesize 5TC Index (Dollar/day)	36475	54584	-33.18%
C3 Tubarao to Qingdao (Dollar/day)	28.583	35.022	-18.39%
C5 West Australia to Qingdao (Dollar/day)	12.925	13.745	-5.97%
Billet Spot Ex-Works Tangshan (Yuan/mt)	3710	3630	2.20%
SGX Front Month (Dollar/mt)	135.52	131.16	3.32%
DCE Major Month (Yuan/mt)	958.5	969	-1.08%
China Port Inventory Unit (10,000mt)	11,814.97	11,497.66	2.76%
Australia Iron Ore Weekly Export (10,000mt)	699.30	705.80	-0.92%
Brazil Iron Ore Weekly Export (10,000mt)	379.70	40.70	832.92%

Iron Ore Key Points

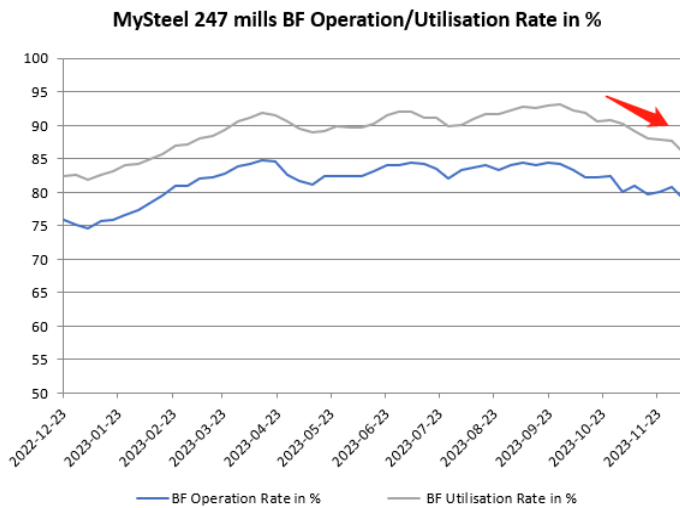
- Chinese iron ore port inventories slowly picked up from 108.45 million tons to 118.15 million tons during past eight weeks. The stocks are expected to increase in next few weeks as shipments increase and pig iron production decreases.
- SGX-DCE difference rebounded from \$6.5 to \$7, indicating a slight recovery on the import margin. However buyers were considering both seaborne and portside to control the cost.
- The iron ore deliveries from Australia and Brazil expected to recover in December because miners need to complete the annual shipment targets.



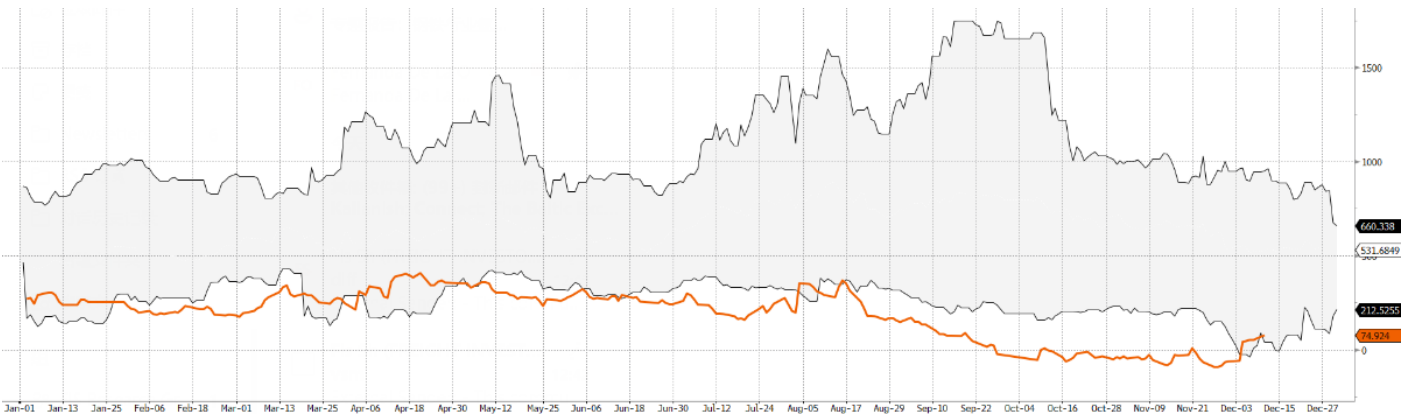
Data Sources: Platts, Fastmarkets, MySteel, Bloomberg, FIS

Steel

	Last	Previous	% Change
US HRC Front Month (Dollar/mt)	1070	1039	2.98%
LME Rebar Front Month (Dollar/mt)	609	599	1.67%
SHFE Rebar Major Month (Yuan/mt)	4035	3917	3.01%
China Hot Rolled Coil (Yuan/mt)	4093	4006	2.17%
Vitural Steel Mills Margin(Yuan/mt)	78	-65	-220.00%
China Five Major Steel Inventories Unit (10,000 mt)	2489.64	2371.33	4.99%
Global Crude Steel Production Unit (1,000 mt)	79100	82100	-3.65%
World Steel Association Steel Production Unit(1,000 mt)	150,000	149,300	0.47%



Virtual Steel Mill Margins (Five-Year Range)



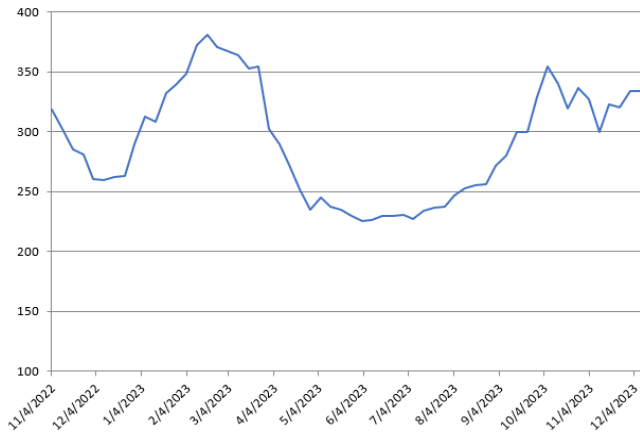
Data Sources: Bloomberg, MySteel, FIS

- Virtual steel mill margins reached 75 yuan/ton, refreshing a 12-week high, contributed by the correction of coke as well as strong rebar price. Steel price supported by heavy snow in northern and mid-China slowed down the production and logistics from the weekend and early this week.
- The five major types of steel inventories dropped with the slower demand.

Coking Coal

	Last	Previous	% Change
TSI FOB Premium Hard Coking Coal (Dollar/mt)	246.5	330	-25.30%
Coking Coal Front Month (Dollar/mt)	334	334	0.00%
DCE CC Major Month (Yuan/mt)	2002.5	2109	-5.05%
Top Six Coal Exporter Weekly Shipment	13.89	20.86	-33.41%
China Custom total CC Import Unit mt	7,979,602	10,824,809	-26.28%

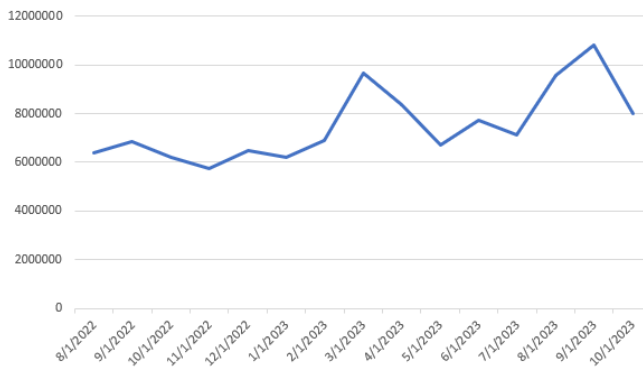
Coking Coal Front Month Forward Curve



Coal Key Points

- The FOB Australia and CFR China spread narrowed from \$67 to \$2 during November.
- The miners accidents and strict safety check in China limited the domestic supply of coking coal. The Indian buyers started restocking on coking coals.
- BHP union workers were negotiating with local departments on a potential strike.

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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