FIS

Ferrous Weekly Report

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- ⇒ **Iron ore Fe62% CFR China:** short-run **Neutral to Bearish**. Demand has decreased as utilisation rate of mills dropped ahead of Chinese New Year. The housing support speculation is expected to be priced-in. However, iron ore futures followed closely the Chinese equity market during the past week.
- ⇒ **Rebar 25mm Shanghai** short-run **Neutral to Bearish**. The downstream spot sales froze because most steels were negotiated on winter stock basis with discounts.
- ⇒ **HRC NW EU Active Futures** short-run **Neutral to Bullish**. The storm weather in US resisted supply and logistics of steel and scrap.
- ⇒ **Hard Coking Coal FOB Australia** short-run **Neutral to Bearish**. The new cyclone is potentially landing on coastal areas, buyers should watch-and-see in case laycans were booked during cyclone weather and cause delays.

Prices Movement	22-Jan	15-Jan	Changes %	Sentiment	
Iron Ore Fe62% CFR China($/MT)	129.45	128.95	0.39%	Neutral to Bearish	↘
Rebar 25mm Shanghai (Yuan/MT)	4065.0	4089.0	0.59%	Neutral to Bearish	↘
HRC NW EU Active Futures ($/MT)	789.35	775.63	1.77%	Neutral to Bullish	↗
Hard Coking Coal FOB Australia($/MT)	329.0	337.0	2.37%	Neutral to Bearish	↘

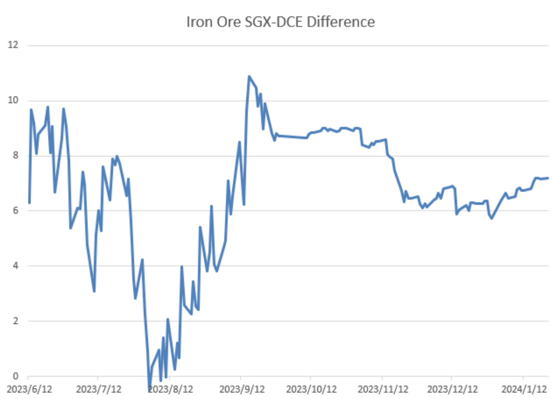
Market Review:

A View on Ferrous Market:

Iron ore index remained almost flat during the past report week. The investment logic and fundamentals were quite similar on iron ore market compared to the previous week. Speculation on disruption of supply and priced-in macro stimulus in China retreated and led to a fast short-run correction. The increase in port stocks and freezing spot steel market has pressured iron ore in mid-run. Investors have gradually become less interested on stimulus news because there will be less policies and statistics seen in January and February during Chinese New Year period.

The rainy weather in Brazil slowed down the shipment of high grade iron ores, thus, the high grade demand has become resilient given low steel margin conditions for all mills in China. MB65—P62 rebounded from $10.30/mt to $12.58/mt, or 22%. We expected this significant growth since the first report after New Year.

Major Chinese mills indicated that the restock of iron ores were completed. The half-finished steels are slightly oversupplied at the moment. Iron ore port inventories reached 126.41 million tons, expected to pick up before Chinese New Year in early February. Iron ore imports in December reached 100.86 million tons, which was a decrease of only 1.88 million tons from November. The import number to maintain seasonal high in January given a high base effect from entire H2 2023.



On the consumption side, daily pig iron production recovered slightly last week, however, it is believed to be on a descending trend in general because of the weakened demand.

Coking coal supply was still tight because of in-coming cyclone in NW Australia and maintenance miners in China. Scrap market saw a lower supply in US because of snow storm in north, however, demand drop potentially offsetting the loss on supply.

The statistics above proved that iron ore was the only overvalued and slightly oversupplied commodity amongst the global ferrous complex.

Data Sources: Bloomberg, Platts, Fastmarket, FIS

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Market Review(Cont'd):

Virtual steel margin dropped by half from 80 yuan/ton in mid and early January to 40 yuan/ton last week, while physical margin was struggling at around −300 yuan level for at least three weeks in northern China. The preference shifted from flagship products of mid-grade to low grade due to widened discounts and CNY settlement advantage. Portside buying has become popular as prompt demands have become the theme of market before Chinese Near Year and import landing losses of seaborne. SGX-DCE spread moved around $6– 7 area during past two months. There were diversified trades during past week from different origins. However, the market only saw active trades after a sharp drop on the futures market each time, which explained a weak sentiment on physical market.

The Feb-Mar24 spread level recovered $1.45– 1.5 to $1.60– 1.65 from last Friday to this Monday, along with the recovery of iron ore outright level.

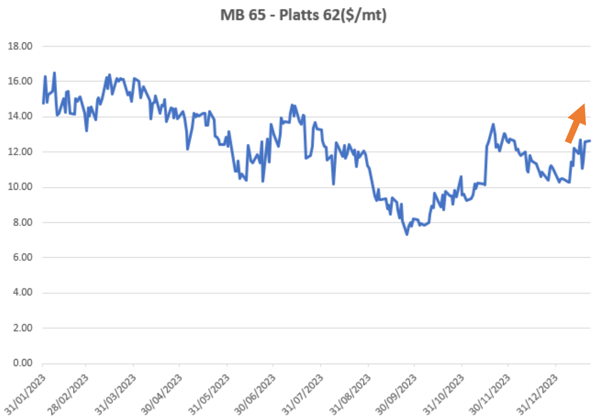
In general, iron ore to potentially maintain the downward trend because of a significant decrease on demand side.

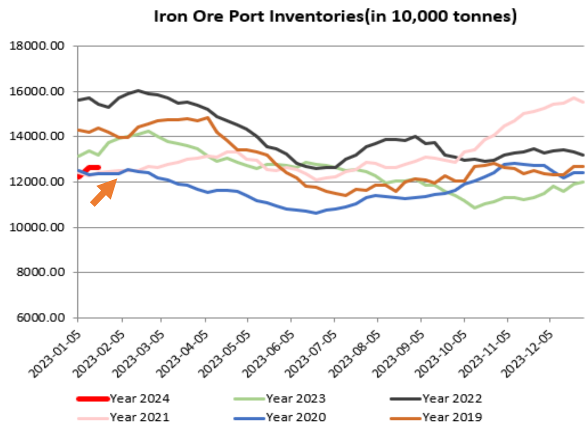
Neutral to Bearish

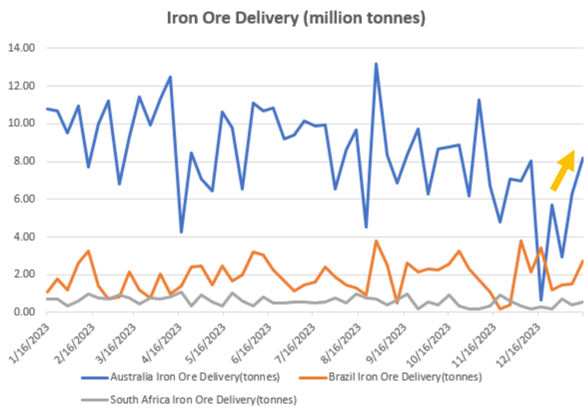
Data Sources: Bloomberg, Platts, Fastmarket, FIS

Iron Ore

	Last	Previous	% Change
Platts 62% Fe (Dollar/mt)	129.45	128.95	0.39%
MB 65% Fe (Dollar/mt)	142.1	140.87	0.87%
Capesize 5TC Index (Dollar/day)	18842	15589	20.87%
C3 Tubarao to Qingdao (Dollar/day)	22.794	20.844	9.36%
C5 West Australia to Qingdao (Dollar/day)	8.32	7.82	6.39%
Billet Spot Ex-Works Tangshan (Yuan/mt)	3590	3600	-0.28%
SGX Front Month (Dollar/mt)	129.90	129.69	0.16%
DCE Major Month (Yuan/mt)	947	963.5	-1.71%
China Port Inventory Unit (10,000mt)	12,641.90	12,621.11	0.16%
Australia Iron Ore Weekly Export (10,000mt)	818.10	625.90	30.71%
Brazil Iron Ore Weekly Export (10,000mt)	272.70	151.50	80.00%







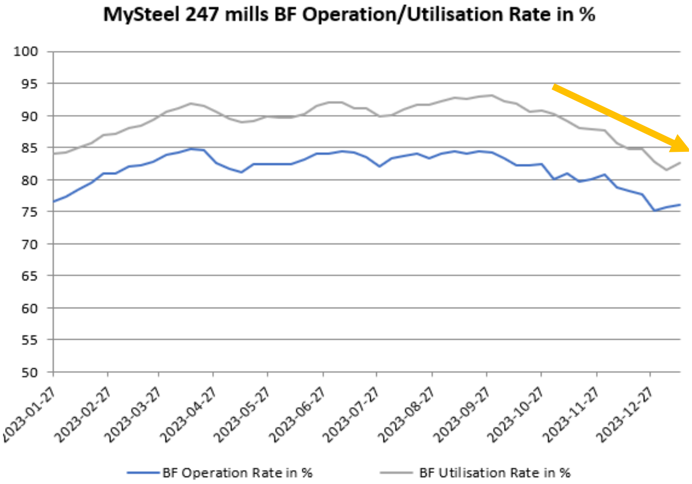
Iron Ore Key Points

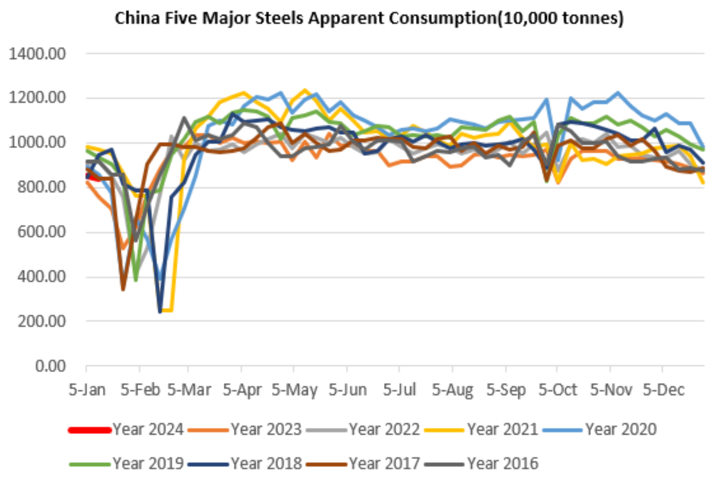
- MB65-P62 recovered from $10 to $12.5 in January. The spread expected to grow given the increasing demand of high grade versus the oversupply on mid-grade.
- Iron ore port inventories entered an increasing period from January by 6%. Port expected to see higher numbers in the coming weeks before Chinese New Year.
- The delivery from Brazil went down because of the rainy weather. However, the delivery from Australia boosted.

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

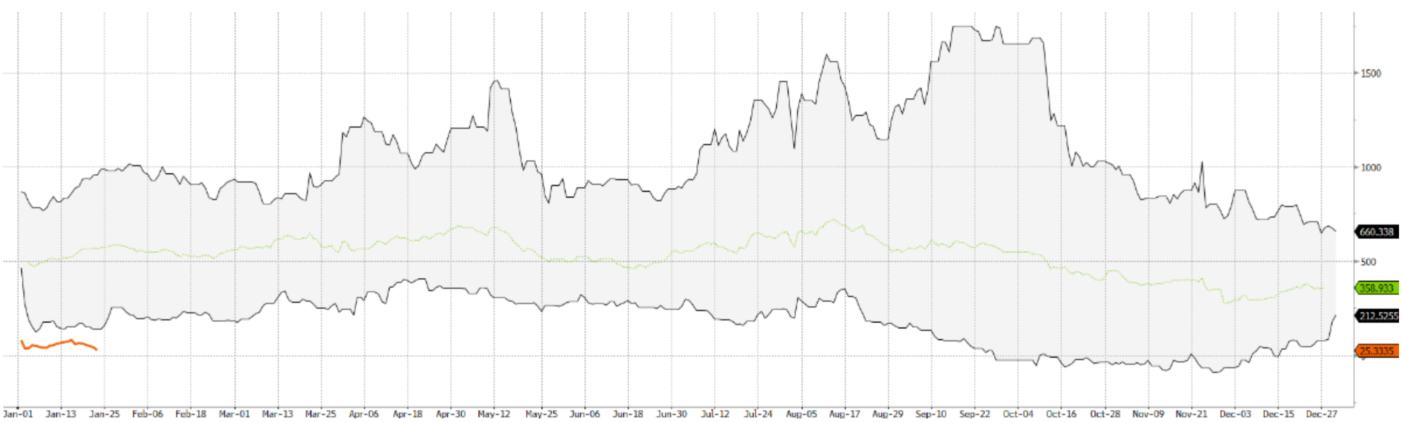
Steel

	Last	Previous	% Change
US HRC Front Month (Dollar/mt)	1070	1076	-0.56%
LME Rebar Front Month (Dollar/mt)	602	598	0.67%
SHFE Rebar Major Month (Yuan/mt)	3907	3915	-0.20%
China Hot Rolled Coil (Yuan/mt)	4044	4057	-0.32%
Vitural Steel Mills Margin(Yuan/mt)	40	78	-48.72%
China Five Major Steel Inventories Unit (10,000 mt)	2489.64	2371.33	4.99%
Global Crude Steel Production Unit (1,000 mt)	76100	79100	-3.79%
World Steel Association Steel Production Unit(1,000 mt)	145,500	150,000	-3.00%





Virtual Steel Mill Margins (Five-Year Range)

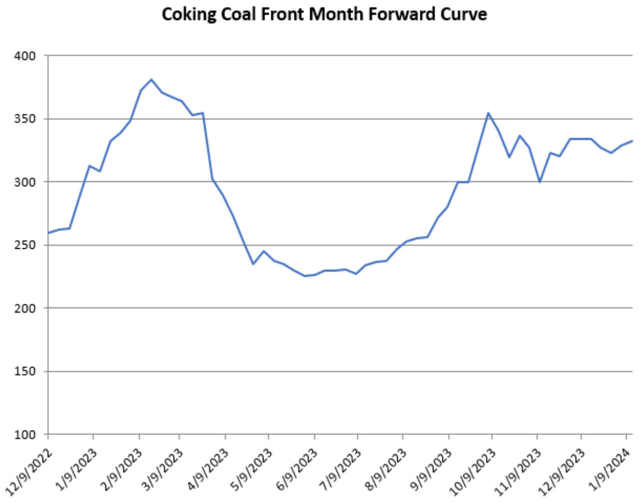


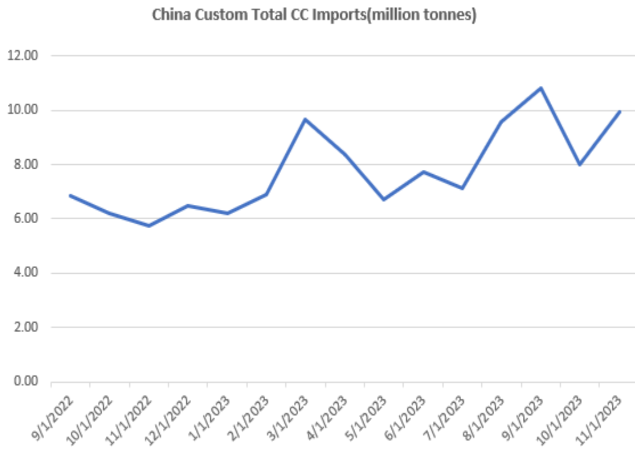
Data Sources: Bloomberg, MySteel, FIS

- Virtual steel mill margins stabilised around 79 –82 yuan/ton in first half of January, however, dropped to 26 yuan/ton last week due to fast pick up of iron ore and a rather frozen steel price.
- The five major types of steel consumption entered a fast dropping period because of the looming Chinese New Year.

Coking Coal

	Last	Previous	% Change
TSI FOB Premium Hard Coking Coal (Dollar/mt)	329	337	**-2.37%**
Coking Coal Front Month (Dollar/mt)	334.5	332	**0.75%**
DCE CC Major Month (Yuan/mt)	1816	1789	**1.51%**
Top Six Coal Exporter Weekly Shipment	13.77	17.28	**-20.31%**
China Custom total CC Import Unit mt	11,464,234	9,923,352	**15.53%**





Coal Key Points

- Chinese domestic coking coal production has become limited before the coming holiday. However, seaborne also entered watch and see mode so expect a following correction.
- A cyclone is expected to land in the coastal area of Queensland on January 25th, which will potentially cause some delays on laycans and port operations.
- Chinese physical coke entered a correction phase, which once dragged down coking coal price domestically.

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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