FIS Ferrous Weekly Report

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⇒ **Iron ore Fe62% CFR China:** short-run **Neutral to Bearish**. The marginal demand is on a decreasing trend for iron ore. In addition, the growing EAFs production is threatening the blast furnace production in January.

⇒ **Rebar 25mm Shanghai** short-run **Neutral to Bearish**. The downstream saw smaller restock for steel during and before Chinese New Year.

⇒ **HRC NW EU Active Futures** short-run **Neutral to Bullish**. Automobile sales recovered in north America and Europe.

⇒ **Hard Coking Coal FOB Australia** short-run **Neutral**. China and India demand supported Australia FOB market. However, buyers became cautious and are trying to bargain on the current price level. High offers need more time to attract buyers.

Prices Movement	8-Jan	2-Jan	Changes %	Sentiment	
Iron Ore Fe62% CFR China($/MT)	139.40	131.05	6.37%	Neutral to Bearish	↘
Rebar 25mm Shanghai (Yuan/MT)	4119.0	4130.0	0.27%	Neutral to Bearish	↘
HRC NW EU Active Futures ($/MT)	756.21	763.79	0.99%	Neutral to Bullish	↗
Hard Coking Coal FOB Australia($/MT)	336.25	324.75	0.68%	Neutral	-

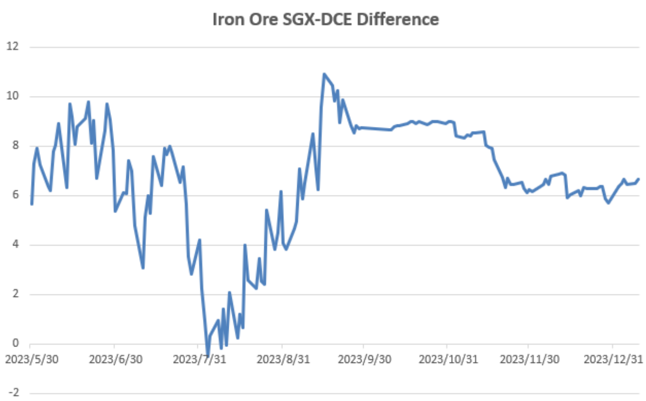
Market Review:

A View on Ferrous Market:

Iron ore saw a 6.37% rebound on index during past report week, but we expect a sharp correction in the current week as the speculation of macro stimulus has been called to an end as well as a slow down on Chinese restock in last five weeks before Chinese New Year.

From macro side, China's central bank made 350 billion yuan in loans to policy banks through its pledge supplementary lending facility (PSL), which once led a strong growth on iron ore and metals market. However, from historical experiences, the macro related movement on commodity market is normally short-lived. FMG derailment announced non-impact on the production target. Futures market in China and Singapore both corrected ahead of physical market, indicating a taking of gains from previous buyers. The sudden drop on the tanker rates indicated the Red Sea confliction and impact potentially entering a small break.

The coking coal supply was still tight for seaborne market, whilst both China and India buyers are in a restocking period. At the same time, China's domestic coking coal production remained at low level during safety check. The scrap supply became short because EAFs are increasing utilisation rate. EAFs have longer working period compared with blast furnaces before Chinese New Year. Thus, the strong raw material costs squeezed steel margin to low areas. Mills were stocking at the minimum for iron ore, to narrow the marginal loss, because iron ore is the only raw material which is in sufficient supply at the moment.



The China mills daily pig iron production reached 2.187 million tons and is on a decreasing trend for the current eight weeks. The EAFs utilisation rate was higher than last January and December. The billet in Tangshan has seen a significant oversupply during the current two weeks. In addition, the end-users of steel indicated a very limited willingness on buying more winter stocks. Thus, iron ore demand should see more downside factors in the coming weeks.

Data Sources: Bloomberg, Platts, Fastmarket, FIS

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Market Review(Cont'd):

Virtual steel margin dropped from 82 yuan/ton to 52 yuan/ton during report week. The margin level on both physical and futures are expected to remain at low level given the weak steel price and strong raw material prices.

The seaborne trade recovered on volume the past week compared to the holiday week. However, import losses will prevent buyers from aggressive buying. FMG widened discounts for FBF and SSF, increasing competitiveness to mid-grade fines. Moreover, pellets and lumps became popular in winter. MB65– P62 difference became close to 11 month-low level at $10.4 as January average. However, we expect the difference to potentially rebound with rainy weather in Brazil and lower Chinese high grade concentrates production in January.

The Feb-Mar24 spread level dropped from $1.75 –1.8 by end December to $1.45– 1.5 in early January. Some importers were thinking of rolling laycans into later arrival dates because of the coming Chinese New Year holiday in early February.

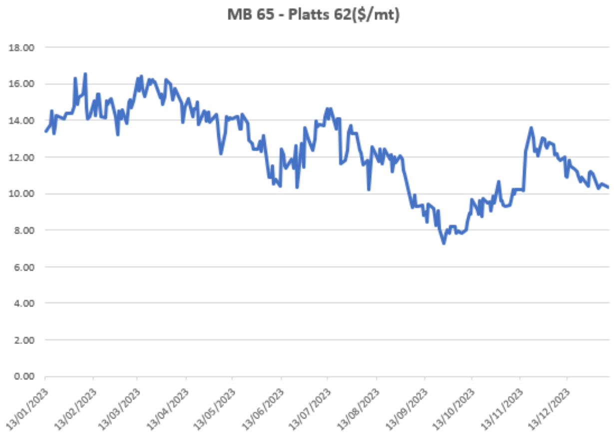
In general, iron ore to potentially see a correction in short-term because of overvaluation and slowing down of demand.

Neutral to Bearish

Data Sources: Bloomberg, Platts, Fastmarket, FIS

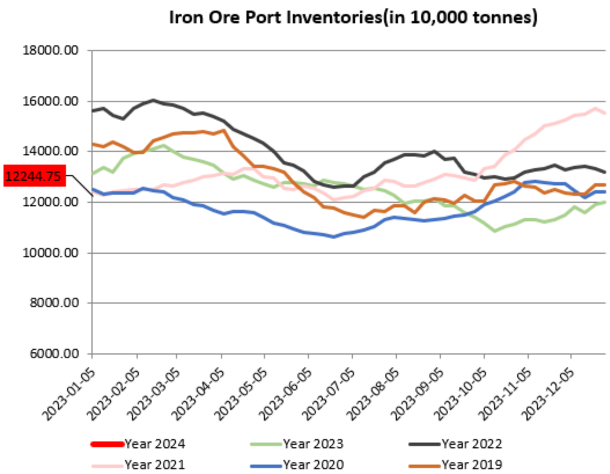
Iron Ore

	Last	Previous	% Change
Platts 62% Fe (Dollar/mt)	139.4	143.2	-2.65%
MB 65% Fe (Dollar/mt)	149.71	153.5	-2.47%
Capesize 5TC Index (Dollar/day)	29581	28896	2.37%
C3 Tubarao to Qingdao (Dollar/day)	27.044	28.306	-4.46%
C5 West Australia to Qingdao (Dollar/day)	9.57	10.56	-9.38%
Billet Spot Ex-Works Tangshan (Yuan/mt)	3660	3660	0.00%
SGX Front Month (Dollar/mt)	138.58	140.08	-1.07%
DCE Major Month (Yuan/mt)	1003.5	973.5	3.08%
China Port Inventory Unit (10,000mt)	12,244.75	11,991.73	2.11%
Australia Iron Ore Weekly Export (10,000mt)	293.70	572.50	-48.70%
Brazil Iron Ore Weekly Export (10,000mt)	143.90	119.30	20.62%



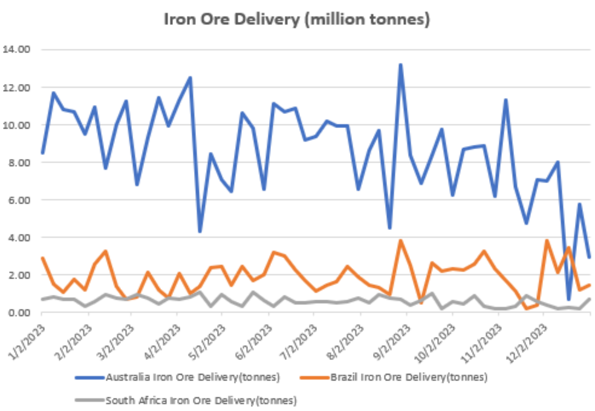
Iron Ore Key Points

- MB65-P62 dropped from $14 to $10 during December because of the low steel margin. However, the spread expected to recover because of inconsistent supply from Brazil during rainy weather and decreased domestic iron ore production in China.



- Iron ore port inventories steadily rebounded from 108 million to 122 million tons from mid-October to early January.

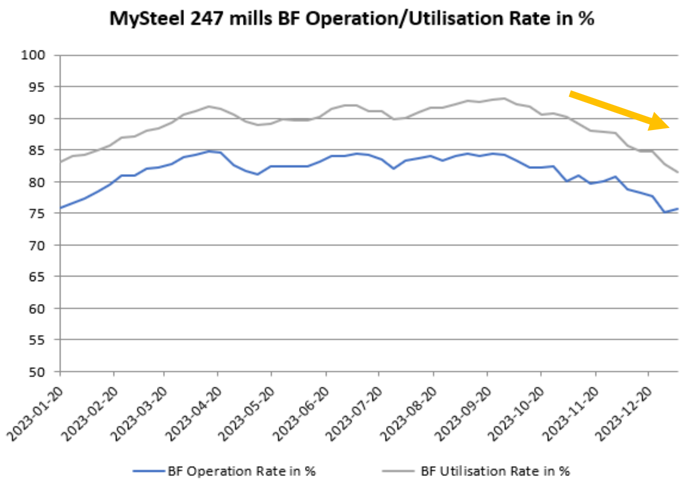
- Both deliveries from Brazil and Australia decreased to avoid laycans arrival during Chinese New Year.

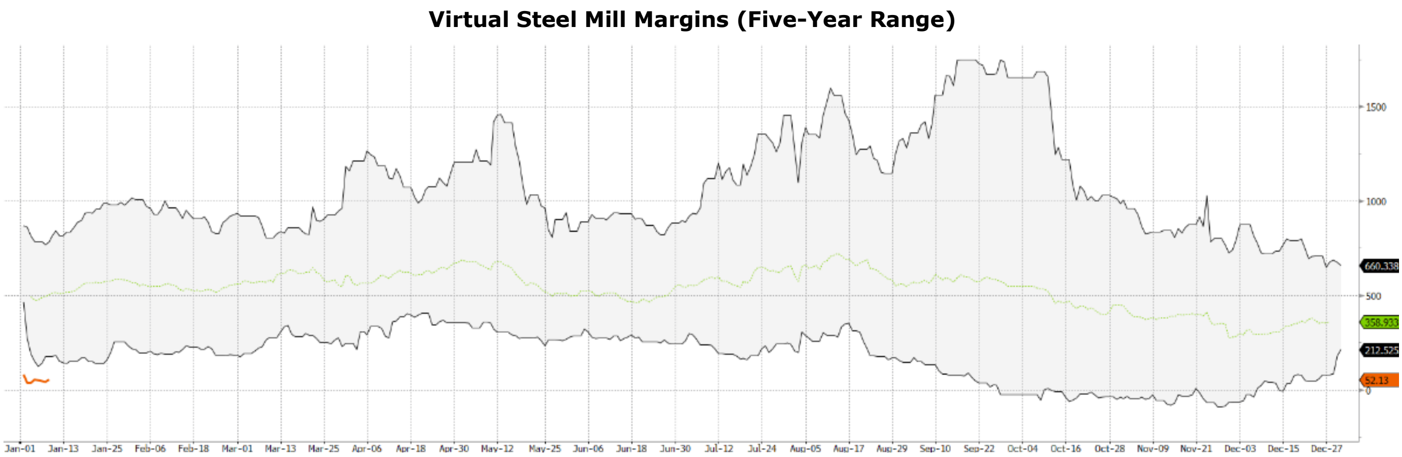


Data Sources: Platts, Fastmarkets, MySteel, Bloomberg, FIS

Steel

	Last	Previous	% Change
US HRC Front Month (Dollar/mt)	1090	1135	-3.96%
LME Rebar Front Month (Dollar/mt)	594.5	601	-1.03%
SHFE Rebar Major Month (Yuan/mt)	4011	4000	0.28%
China Hot Rolled Coil (Yuan/mt)	4089	4078	0.27%
Vitural Steel Mills Margin(Yuan/mt)	52	82	-36.59%
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%



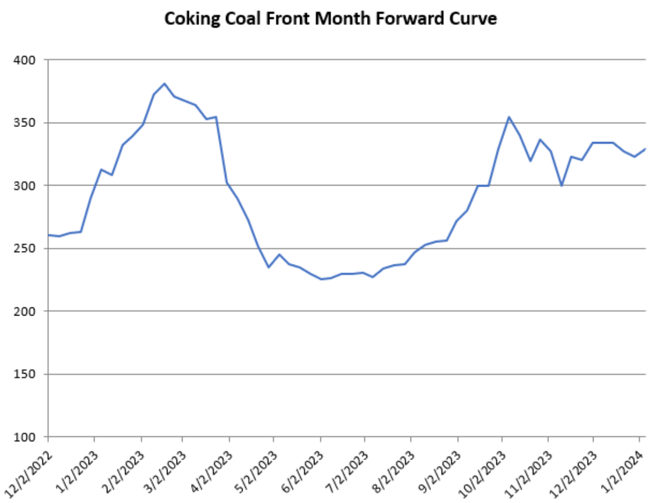


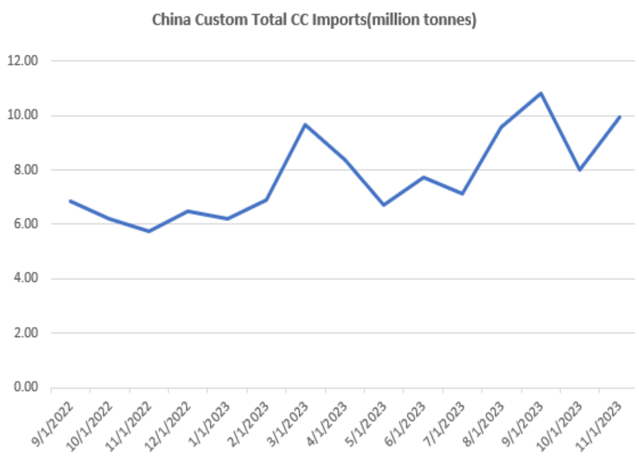
Data Sources: Bloomberg, MySteel, FIS

- Virtual steel mill margins dropped from 82 yuan/ton to 52 yuan/ton because of the weak steel price versus stronger iron ore price.
- The major five types of steel inventories dropped with the slower demand.

Coking Coal

	Last	Previous	% Change
TSI FOB Premium Hard Coking Coal (Dollar/mt)	336.25	324.75	3.54%
Coking Coal Front Month (Dollar/mt)	329	323	1.86%
DCE CC Major Month (Yuan/mt)	1871.5	1884	-0.66%
Top Six Coal Exporter Weekly Shipment	16.13	22.30	-27.67%
China Custom total CC Import Unit mt	9,923,352	7,979,602	24.36%





Coal Key Points

- The miners accidents and strict safety checks in China limited the domestic supply of coking coal. The Indian buyers also have resilient demand on seaborne coking coals. However, both countries started to pull off high bids. Thus, price consolidated narrowly at current level for two weeks.

- Chinese physical coke entered a correction phase, which once dragged down coking coal price domestically. However, the downside risk should be limited because of the limited supply during winter and safety check.

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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