FIS Ferrous Weekly Report

info@freightinvestor.asia | freightinvestorservices.com | (+65) 6535 5189

27/8/2024

- ⇒ **Iron ore Fe62% CFR China:** short-run **Neutral to Bullish**. Iron ore rebounded as expected thanks to restock trading before mid-September, which is normally a busy season.
- ⇒ **Rebar 25mm Shanghai** short-run **Neutral**. China started to reduce new steel capacity thus supporting steel price growth.
- ⇒ **Hard Coking Coal FOB Australia** short-run **Neutral**. Miners started resisting the continuous drop in prices. As consequence, index start to stablise. However, China steel mills achieved physical coke cut by 50 –55 yuan/ton, with total six rounds cut by 300-330 yuan/ton.

Prices Movement	26-Aug	19-Aug	Changes %	Sentiment	
Iron Ore Fe62% CFR China($/MT)	100.10	94.45	5.98%	Neutral to Bullish	↗
Rebar 25mm Shanghai (Yuan/MT)	3313.0	3321.0	0.24%	Neutral	-
Hard Coking Coal FOB Australia($/MT)	196.0	204.5	4.16%	Neutral	-

Market Review:

Iron Ore Market:

Iron ore rebounded by 5.98% during the past week as expected, although most of market participants believed that iron ore should have dropped $5 further during the period. We believe that this rebound should continue on a robust trend. Iron ore price should see strong support at $95– 100 in Q3.

Fed Chair Jerome Powell sent the strongest dovish signal at Jackson Hole, which increased the expectations of an interest rate cut for 2024. Most of the commodities started to rebound on Monday. In addition, the Ministry of Information and Technology in China announced a reduction on new capacity, which may potentially influence the production in H2. Steel mills started to restock before the busy season in September. Thus, ferrous metals spiked from this Monday.

US, Europe and South East Asian flat steel market stabilised after a decline of almost 5 weeks. China Lecong HRC weekly inventories saw a first drop last week after a five-year high at 1.10 million tons. Market believe that a destock on HRC inventory should start soon. Lecong HRC inventory is one of the most important indicator to predict HRC consumption in China. The market was sensitive to HRC inventory in Q2 and Q3 as HRC has fewer production lines in China. A reduction on even one HRC process line could cause regional shortage and a price increase.

Iron ore port stocks were almost unchanged during past week at around 150 million tons. BHP narrowed MACF from $4.42 to $3.92 for the September contract, NHGF discounted from $2.63 to $2.5. BHP increased JMBF from $7.31 to $7.55. The discount cargoes became mainstream versus premium brands, given a weak margin on both landing and steel making. Restocking would decrease the port stock quickly. In the long-run, high delivery may potentially bring port stock back, considering high delivery in Q4. The virtual steel margin stayed in the negative area most of time in Q2 and in the first half of Q3, which resisted the upside room on iron ore.

The front spread Sep24– Oct24 became contango at –$0.20/0.25, and recovered to -$0.05/0.10 as expected. The spread trading should consider to roll to Oct24-Nov24. Spread trades were safer compared to outright if expecting an uncertainty in long-run performance, since spread was in a lower relative level compared with the outright price during the past 52 weeks.

Data Sources: Bloomberg, Platts, Fastmarket, FIS

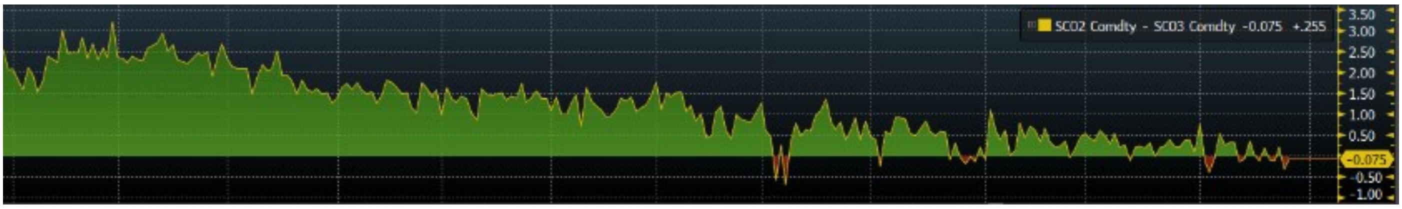
Ferrous Weekly Report

info@freightinvestor.asia | freightinvestorservices.com | (+65) 6535 5189

Market Review(Cont'd):

The monthly average of MB65– P62 spread dropped from $15.89 to $14.65 from July to August. Previously, we expected the spread level potentially stay in the range from $14 - 16 for most of time from June to August. It is hard to see both fundamental or statistical change on this spread in August. Although improved steel margin level up spread, increased Brazil delivery and lower mid-grade price resisted the growth of spread on the other hand.

In general, we maintain a rebound outlook for iron ore in the short-run.

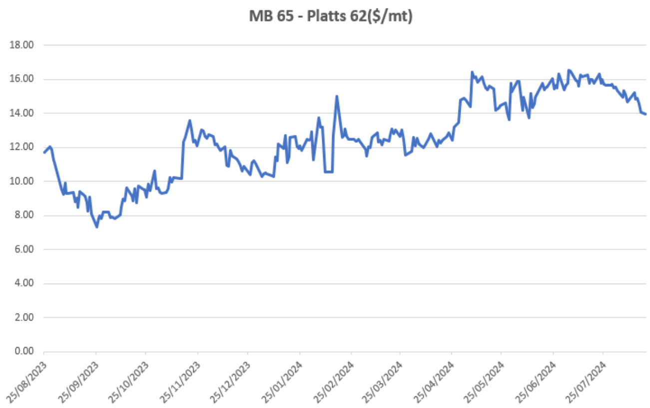


Data Sources: Bloomberg, Platts, Fastmarket, FIS

FIS

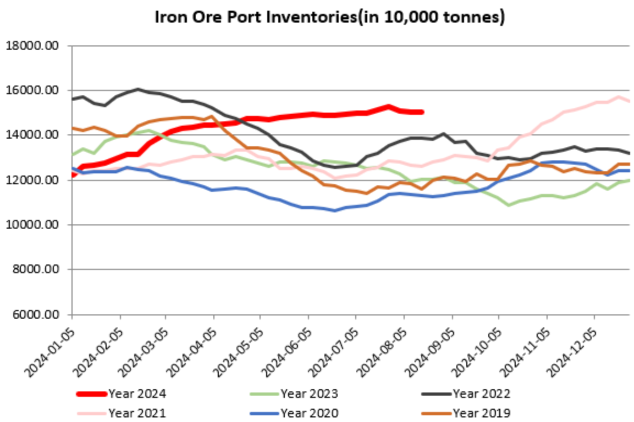
Iron Ore

	Last	Previous	% Change
Platts 62% Fe (Dollar/mt)	100.1	94.45	5.98%
MB 65% Fe (Dollar/mt)	113.74	108.38	4.95%
Capesize 5TC Index (Dollar/day)	23645	21037	12.40%
C3 Tubarao to Qingdao (Dollar/day)	26.28	25.04	4.95%
C5 West Australia to Qingdao (Dollar/day)	11.005	10.485	4.96%
Billet Spot Ex-Works Tangshan (Yuan/mt)	2900	2860	1.40%
SGX Front Month (Dollar/mt)	97.60	95.55	2.15%
DCE Major Month (Yuan/mt)	742.5	723	2.70%
China Port Inventory Unit (10,000mt)	15,032.52	15,035.10	-0.02%
Australia Iron Ore Weekly Export (10,000mt)	1,126.80	922.05	22.21%
Brazil Iron Ore Weekly Export (10,000mt)	185.44	239.20	-22.47%

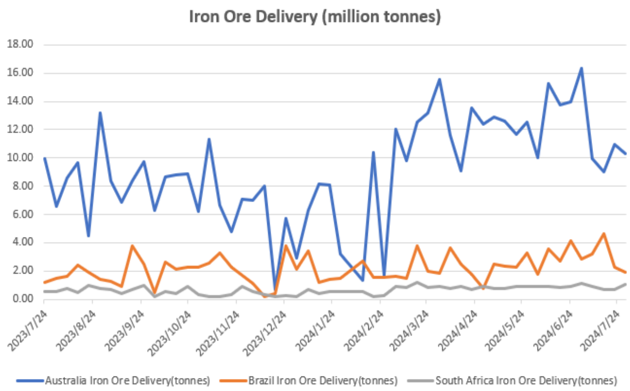


Iron Ore Key Points

– As expected, MB65—P62 stayed in the $14 – 16 range during the past two months as expected. The spread stayed in this area through entire Q3.



– The iron ore port inventories dropped from year-high and seasonal high at 152 million tons. Market expect a faster in September with increasing seasonal demand.

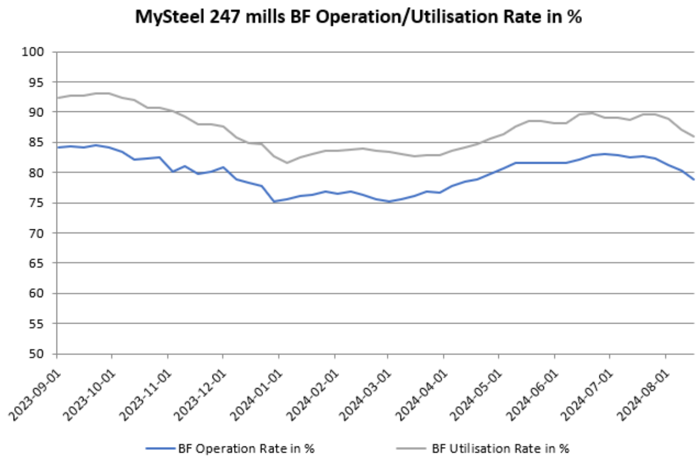


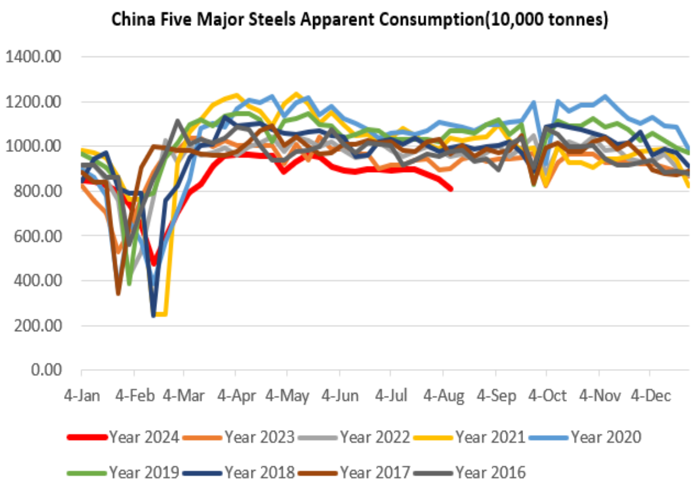
– Brazil delivery picked up significantly in August and expected to maintain high through Q3.

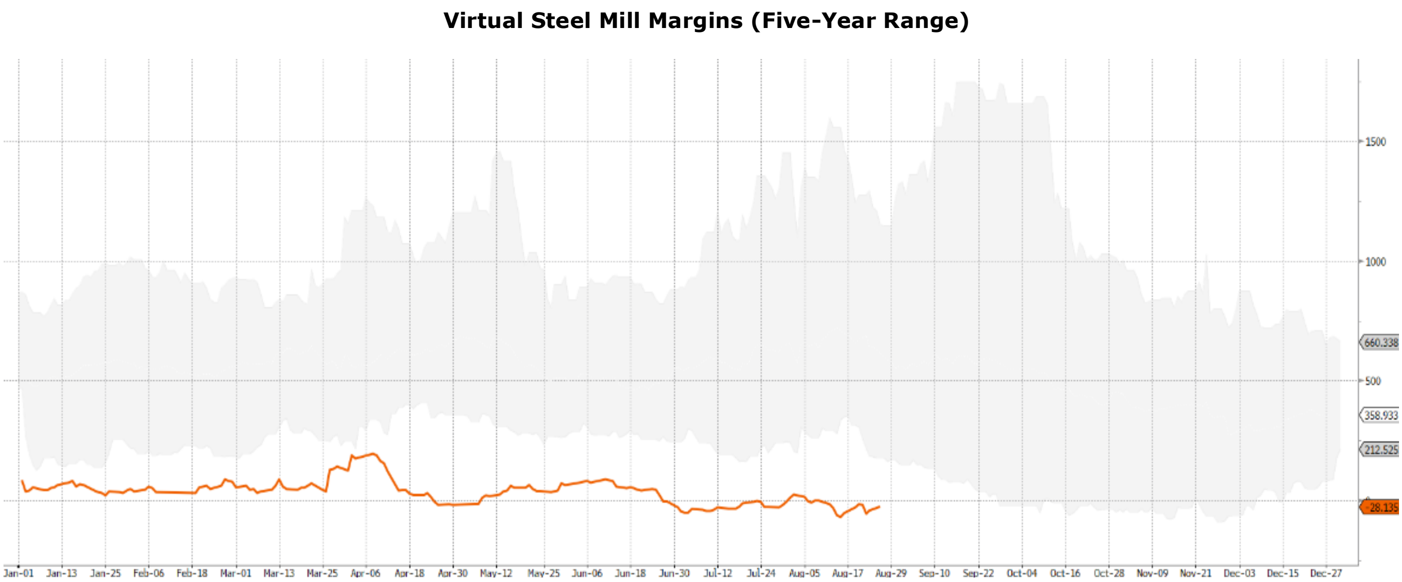
Data Sources: Platts, Fastmarkets, MySteel, Bloomberg, FIS

Steel

	Last	Previous	% Change
US HRC Front Month (Dollar/mt)	672	656	2.44%
LME Rebar Front Month (Dollar/mt)	562.5	566	-0.53%
SHFE Rebar Major Month (Yuan/mt)	3000	2919	2.77%
China Hot Rolled Coil (Yuan/mt)	3173	3142	0.99%
Vitural Steel Mills Margin(Yuan/mt)	-28	-30	-6.67%
China Five Major Steel Inventories Unit (10,000 mt)	2489.64	2371.33	4.99%
Global Crude Steel Production Unit (1,000 mt)	82900	91600	-9.50%
World Steel Association Steel Production Unit(1,000 mt)	152,800	161,400	-5.33%





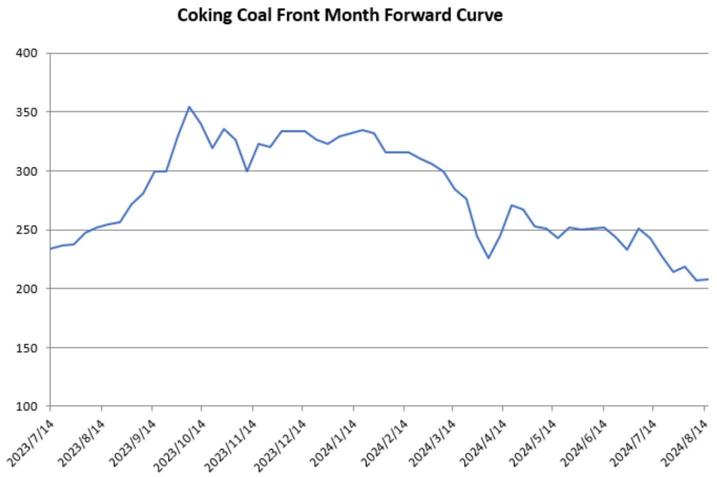


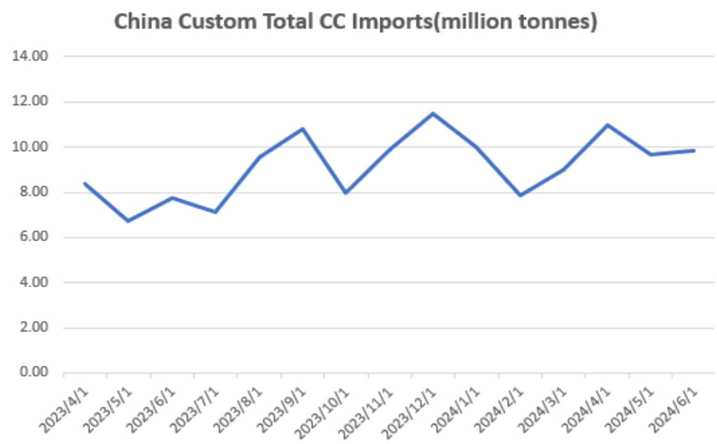
Data Sources: Bloomberg, MySteel, FIS

- The virtual steel mill margin curve stayed negative for most of time from June to August. The low margin resisted production level.
- The major types of steel consumption dropped fast to seasonal low area.

Coking Coal

	Last	Previous	% Change
TSI FOB Premium Hard Coking Coal (Dollar/mt)	198.5	204.5	-2.93%
Coking Coal Front Month (Dollar/mt)	200	208	-3.85%
DCE CC Major Month (Yuan/mt)	1273.5	1362.5	-6.53%
Top Six Coal Exporter Weekly Shipment(Million mt)	11.14	18.28	-39.06%
China Custom total CC Import Unit mt	10,841,328	9,867,290	9.87%





Coal Key Points

– FOB Australia coking coals saw stablisation with China restock started for raw materials as well as miners started to resist price drop.

– China steel mills landed a physical coke cut by 50– 55 yuan/ton, with a total cut of 300 – 330 yuan/ton for the past six rounds.

– Market expects a mills maintenance decrease in September as weather cooled down and demand recovered.

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.

Written by **Hao Pei**,
FIS Senior Research Analyst
haop@freightinvestor.com
Edited by **Davide Annarumma**
Senior Communications Specialist