FIS

Ferrous Weekly Report

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- ⇒ **Iron ore Fe62% CFR China:** short-run **Neutral to Bullish**. A new global interest rate cut wave has started. Europe and China have cut interest rates successively. Signals of gradual optimization of the financial market and bottoming out of market-oriented debt resolution in China's real estate sector have been continuously released, giving the market confidence in the stability of the overall steel industry. Demand for hot metal continues to increase. Last week's overall decline was only a side effect after profit-taking of financial assets in China.
- ⇒ **Rebar 25mm Shanghai** short-run **Neutral to Bullish**. Since late September, steel consumption has continued to grow at a faster rate and order volume has increased. Currently, the demand in October and early November is still increasing, and the inventories of mainstream steels are continuously declining.
- ⇒ **Hard Coking Coal FOB Australia** short-run **Neutral to Bullish**. The demand for prime coking coal in US and Australia is relatively sustainable. However, some market participants revealed that domestic steel enterprises were currently discussing plans to reduce the price of physical coke in coming weeks after six rounds hikes during September and October.

Prices Movement	21-Oct	14-Oct	Changes %	Sentiment	
Iron Ore Fe62% CFR China($/MT)	**101.30**	**107.50**	**5.77%**	**Neutral to Bullish**	↗
Rebar 25mm Shanghai (Yuan/MT)	**3799.0**	**3720.0**	**2.12%**	**Neutral to Bullish**	↗
Hard Coking Coal FOB Australia($/MT)	**202.00**	**208.00**	**2.88%**	**Neutral to Bullish**	↗

Market Review:

Iron Ore Market:

During the last report week, iron ore corrected significantly. The market continues to experience wide fluctuations. We have predicted the two market reversals in late September and mid-October respectively. It is expected that a week-level rebound should start from the beginning of this week.

Logically, this round of significant fluctuations in iron ore is similar to the previous round of fluctuations, both being related to the frequently released real estate stimulus policies, debt resolution plans, and continuous expected interest rate cuts in China. The last correction on iron ore market was oversold at this point of time since most of industrial commodities and equities started to rebound from last Friday. Changes in the probability of US presidential candidates lead to fluctuations in industrial products and risk appetite of investors. After a wave of pullbacks, what we always consider is when and at what point will be that "bottom." From historical data, the correlation among precious metals, non-ferrous metals, and ferrous metals were not deviate continuously at the quarterly level. Given the most outstanding performance ever in previous metals market this year, it is extremely unlikely to expect a huge decline in metal market.

In addition to policy stimulus, in the first half of October, the transaction volume of commercial housing in China's first-tier cities increased significantly year-on-year and month-on-month. In China, the frequency of policy introduction is accelerating and the methods are becoming dynamic compared to last five years. Therefore, it can be affirmed in terms of trend that the real estate market potentially turn from high risky to stability.

The ECB has cut its interest rates for the third time this year. The deposit facility rate has been lowered from 3.5% to 3.25%. In China, the five-year Loan Prime Rate has been reduced from 3.85% to 3.6%, and the one-year LPR has been reduced from 3.35% to 3.1%. This LPR reduction created the largest single-month decline in history.

Data Sources: Bloomberg, Platts, Fastmarket, FIS

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Market Review(Cont'd):

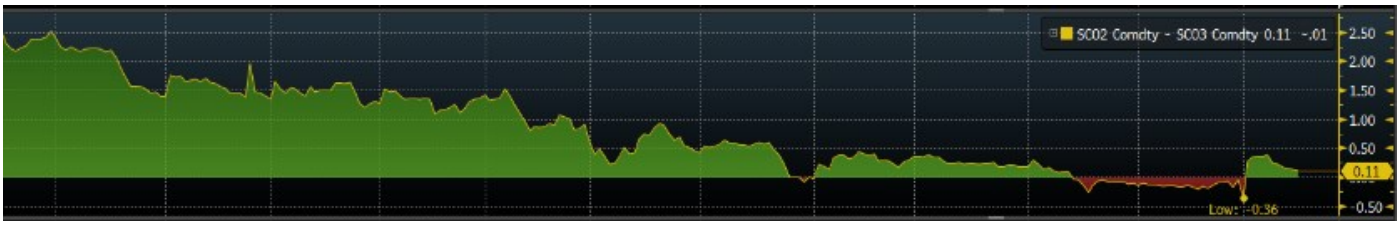
From a fundamental perspective, the port inventory of iron ore increased by 1.91 million tons to 152.98 million tons last week. In terms of the inventory data of steel enterprises, it is still in a state of sequential decline. The daily output of hot metal is 2.34 million tons, an increase of 105,300 tons year-on-year compared to September. The inventory of steel enterprises is 90.07 million tons, a decrease of 259,300 tons compared to last month. In fact, steel enterprises have high demand and low inventory for iron ore. The downstream orders for steel products continue to be favorable. The infrastructure funds in China this year is weaker in the first half than in the same period of the past three years. Delayed in-place funds will exert force in Q3 and Q4. Therefore, steels potentially see more downstream support in H2. In addition, the profits of steel enterprises finally ushered in a stable period after six months of decline. The profit of spot rebar once reached a two-year high of 250 yuan/ton. The virtual steel mills margin had break-even from negative range to positive range by late September. BHP's third-quarter output was 63.4 million tons, an increase of 2% on the year. Rio Tinto's third-quarter output was 84.1 million tons, an increase of 1% year-on-year. Vale's third-quarter iron ore output was 90.97 million tons, an increase of 5.5% year-on-year. Vale has raised its production target from 310-320 million tons to 323-338 million tons. The other two mines maintain their previous production targets unchanged.

In physical market, although iron ore demand has increased, traders were extremely cautious in their purchases. The secondary market is extremely inactive. Transactions are dominated by discounted products and low-grade iron ore. Domestic iron ore in China and new blended ore from Brazil have become new substitutes. Therefore, the competitiveness in the medium-grade market was very intense. Entering the winter stocking period, the price of lump ore became relatively stable, but its future strength would depend on the regulations on production restrictions during winter. Premium iron ore traders were difficult. PBF saw trades at an index basis and a discount of $0.30 - 0.50 for the first time within the year. In the past 10 months, it was traded in premium.

From the perspective of other raw materials, margins for EAFs in China have emerged, and capacity utilization had risen rapidly since September. From August to October, capacity utilization rebounded by more than 17% to 51.88%. In terms of spot coke, there had been six consecutive rounds of rebounds of 300 - 330 yuan/ton. The cost of imported coking coal from Australia and the US became been relatively stable in October. The scrap steel market in Turkey continued to rebound. Hot rolled coil prices in Europe and the US had also continued to rebound after a turning point in September. In India, hot rolled coils have become net imports since this September.

In terms of price spreads, it rebounded rapidly from -$0.10/0.15 to $0.4/0.45 from late September to mid October and then fell back again to around -$0.05/0 in past week. We believe that the price spreads were on the low side again and potentially return to $0.10/0.15 within a few weeks. The volatility of spreads had increased during the past four weeks.

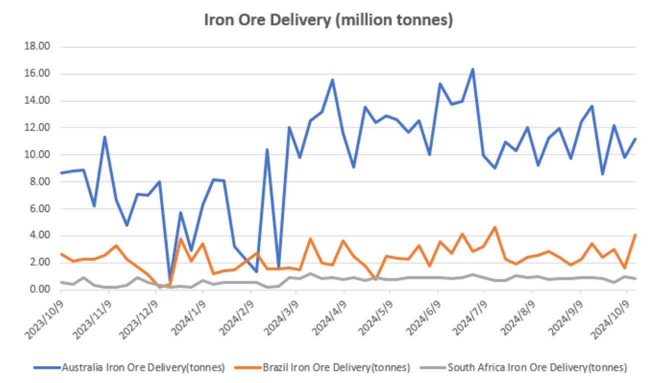
In the short term, the average price of iron ore in this reporting week was expected to be higher than the past report week.

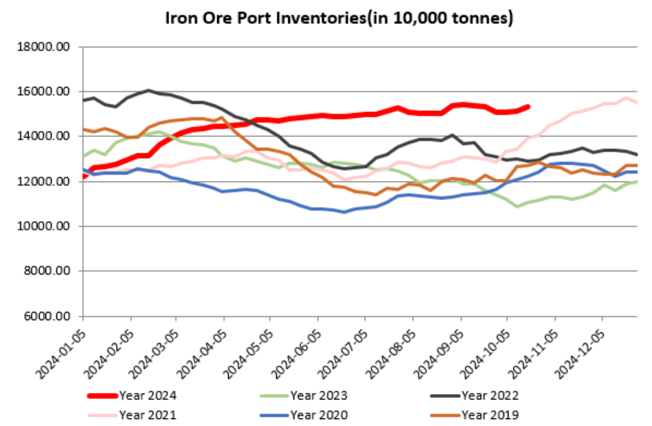


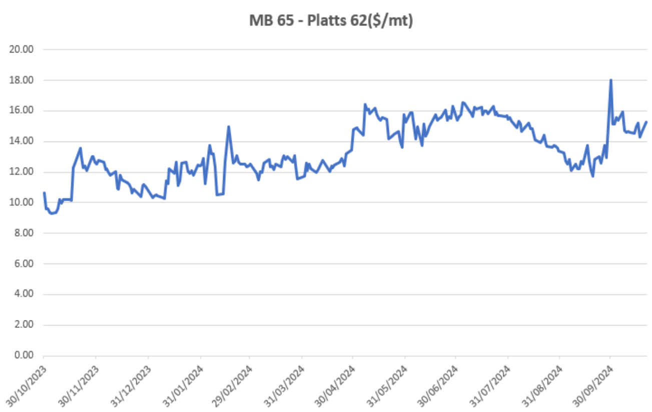
Data Sources: Bloomberg, Platts, Fastmarket, FIS

Iron Ore

	Last	Previous	% Change
Platts 62% Fe (Dollar/mt)	101.3	107.5	-5.77%
MB 65% Fe (Dollar/mt)	116.55	122.02	-4.48%
Capesize 5TC Index (Dollar/day)	18174	23872	-23.87%
C3 Tubarao to Qingdao (Dollar/day)	21.84	25.35	-13.85%
C5 West Australia to Qingdao (Dollar/day)	8.86	10.25	-13.56%
Billet Spot Ex-Works Tangshan (Yuan/mt)	3070	3190	-3.76%
SGX Front Month (Dollar/mt)	101.68	106.21	-4.27%
DCE Major Month (Yuan/mt)	758.5	785	-3.38%
China Port Inventory Unit (10,000mt)	15,297.53	15,105.93	1.27%
Australia Iron Ore Weekly Export (10,000mt)	1,114.50	983.90	13.27%
Brazil Iron Ore Weekly Export (10,000mt)	340.90	195.40	74.46%







Iron Ore Key Points

- MB65—P62 recovered to $14.97 in October from $12.96 in September. The fast recovery was helped by the rebound on steel margin.

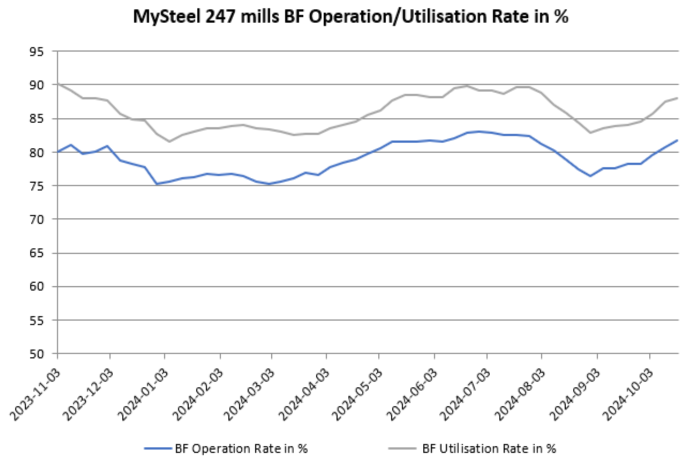
- The iron ore port inventories went unexpectedly up 1.91 million tons to 152.97 million tons. Given a fast hot metal consumption background and decreasing iron ore inventories at mills, the port inventory is expected to recover in next few weeks.

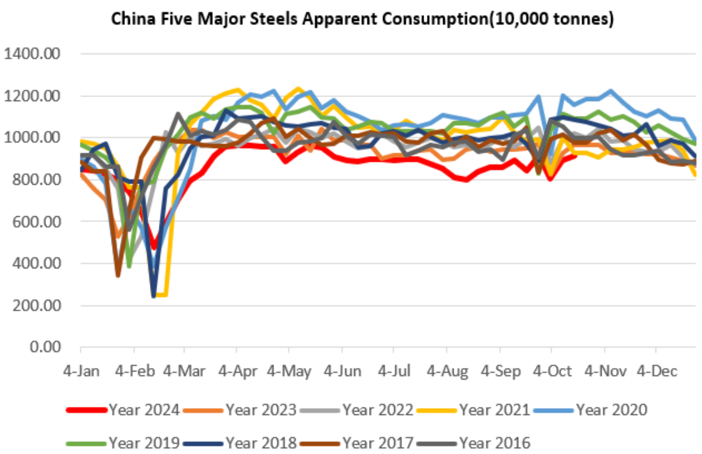
- Brazil and South Africa iron ore shipments are expected to remain high in Q4.

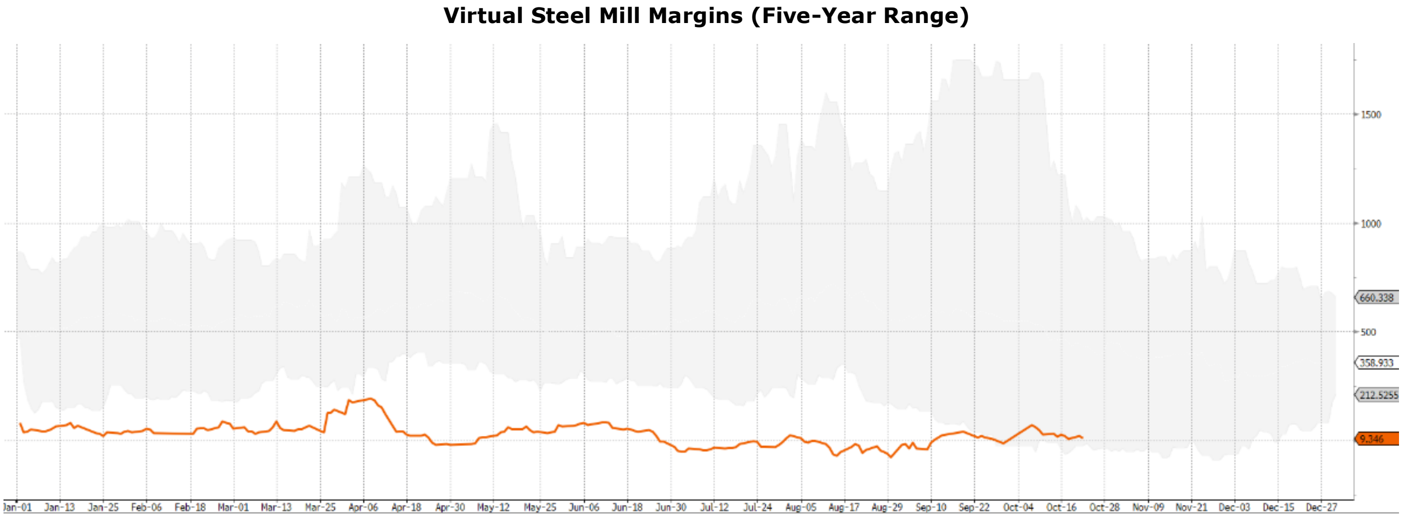
Data Sources: Platts, Fastmarkets, MySteel, Bloomberg, FIS

Steel

	Last	Previous	% Change
US HRC Front Month (Dollar/mt)	705	705	**0.00%**
LME Rebar Front Month (Dollar/mt)	592.5	596	**-0.50%**
SHFE Rebar Major Month (Yuan/mt)	3322	3455	**-3.85%**
China Hot Rolled Coil (Yuan/mt)	3484	3617	**-3.68%**
Vitural Steel Mills Margin(Yuan/mt)	9	17	**-47.06%**
China Five Major Steel Inventories Unit (10,000 mt)	2489.64	2371.33	**4.99%**
Global Crude Steel Production Unit (1,000 mt)	77900	82900	**-6.03%**
World Steel Association Steel Production Unit(1,000 mt)	144,800	152,800	**-5.24%**





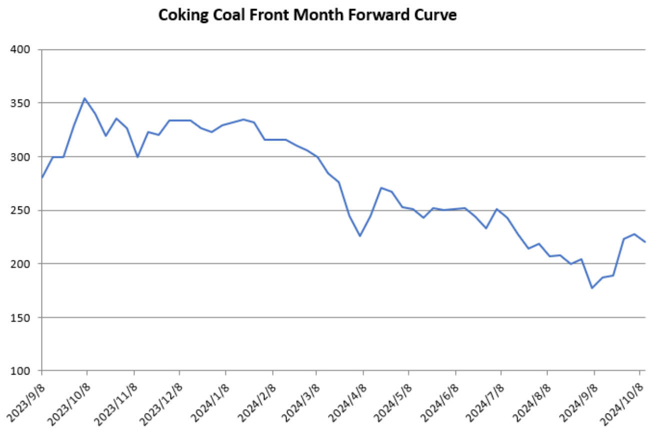


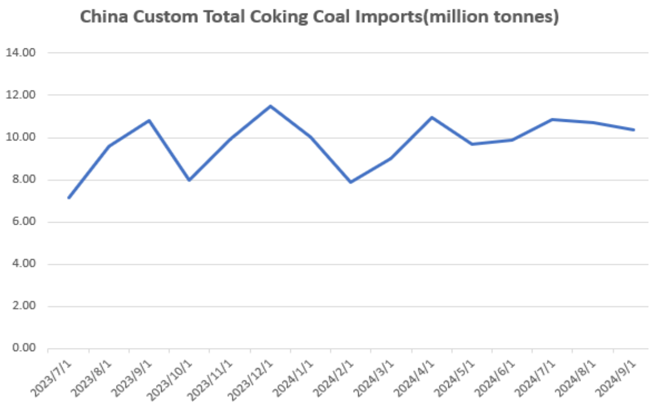
Data Sources: Bloomberg, MySteel, FIS

- The virtual steel mill margin curve corrected from 70 yuan/ton in early October to 9 yuan/ton at late October due to fast increase on iron ore and coking coal futures. The physical margin saw a fast recovery on both long steels and flat steels from late September.
- The production of steels and destock become fast from late September, indicated an improvement on both supply and demand side.

Coking Coal

	Last	Previous	% Change
TSI FOB Premium Hard Coking Coal (Dollar/mt)	202	209	**-3.35%**
Coking Coal Front Month (Dollar/mt)	204	220.5	**-7.48%**
DCE CC Major Month (Yuan/mt)	1347.5	1471.5	**-8.43%**
Top Six Coal Exporter Weekly Shipment(Million mt)	13.60	17.34	**-21.57%**
China Custom total CC Import Unit mt	10,362,750	10,699,595	**-3.15%**





Coal Key Points

- There were increasing demand generated among Asian countries on prime coking coals from US and Australia origin. As the winter approaches in north Asia and Europe, coal demand in general should stay robust.

- China mills were expecting a new round of price cut on physical coke after six rounds of price hike totaled 300-330 yuan/ton.

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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