FIS

Ferrous Weekly Report

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⇒ **Iron ore Fe62% CFR China:** short-run **Neutral**. China daily average hot metal output is steadily increasing, marginally boosting the demand for iron ore. China monetary policy conferences are continuously sending out positive signals. In addition, the real estate debt resolution continues to be the theme of political conferences, supporting ferrous market.

⇒ **Rebar 25mm Shanghai** short-run **Neutral**. Due to weak demand, the export markets for HRC and plates witnessed a significant price decline. In the Chinese domestic market, both flat steels and long steels were being rapidly destocked, while the demand for orders remained resilient.

⇒ **Hard Coking Coal FOB Australia** short-run **Neutral**. There have been relatively few responses on big size offers on prime coking coal in Australia, suggesting that the seaborne market has witnessed a weakening in demand recently. China steel enterprises are planning the second - round negotiation for coke price reduction after a 50-55 yuan/ton cut in mid-October.

Prices Movement	28-Oct	21-Oct	Changes %	Sentiment	
Iron Ore Fe62% CFR China($/MT)	103.55	101.30	2.22%	Neutral	–
Rebar 25mm Shanghai (Yuan/MT)	3853.0	3799.0	1.42%	Neutral	–
Hard Coking Coal FOB Australia($/MT)	199.00	202.00	1.49%	Neutral	–

Market Review:

Iron Ore Market:

As expected, iron ore during the report week has shown a neutral-to-bullish trend. After experiencing high volatility, it has staged a strong rebound. Recently, there is a strong correlation between iron ore and China fiscal stimulus. Therefore, after innovative policies emerge or implementation details exceed expectations, iron ore is prone to rebound. Since the end of September, hot metal output has been rebounding steadily, steel production has been increasing, and the inventory of iron ore in steel mills has been decreasing. Thus, the marginal demand for iron ore has been steadily increasing.

From a macro perspective is worth noting that the US presidential election is approaching, while China is also holding an economic conference. During this period, the volatility in the stock, bond and futures markets is expected to intensify. As we approach the realization stage from anticipation, the US dollar index rebounded by 4% in October and is facing the risk of a pullback after major news hit the ground. Thus, macro indicators are pointing to a bullish tendency for industrial products. However, it must be noted that the rebound of iron ore this time is relatively large, and there is a risk of profit-taking or the transfer of trades to other listed industrial products. For example, soda ash is still in a state of loss-making production. Coking coal in China is currently in a situation where demand is increasing but the price is relatively low. The PBoC has announced new open market outright repo operation tool, which is generally considered to be able to provide more effective market liquidity. The specific implemented policies in China are believed to come by the end of November, including fiscal deficit ratio, economic growth targets, measures to boost consumption, maintaining the asset value of the property market and long-term investment in the stock market.

Returning to the supply and demand market, Rio Tinto and Vale had generally stable shipments in the first three quarters. As long as the expected shipment volume is maintained in the fourth quarter, they can complete the annual guidance shipment volume. Currently, BHP's shipments in the first three quarters have fallen short of expectations. Therefore, to achieve the annual shipment target, it needs to increase shipments in the fourth quarter. Thus, the shipments of major mines in general will be relatively high in the fourth quarter.

Data Sources: Bloomberg, Platts, Fastmarket, FIS

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Market Review(Cont'd):

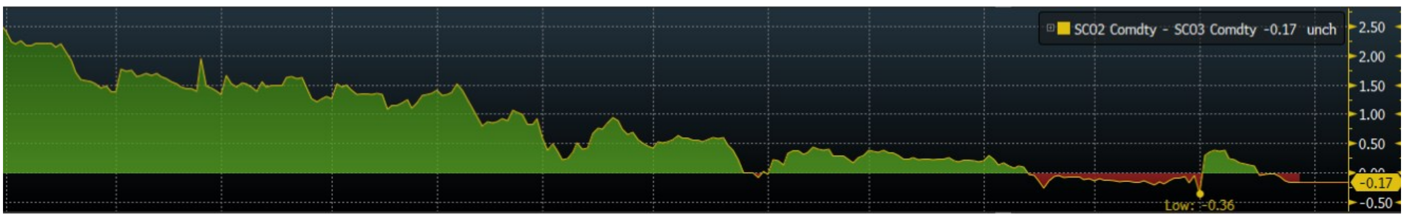
In China, Iron ore port inventories rose slightly by 441,500 tons to 153.42 million tons last week. Despite three week accumulation in October, it's not fast considering the rapid consumption. Steel mill iron ore inventories stood at 89.79 million tons, down 278,300 tons on the week and 5.31 million tons on the year. Daily hot metal output was 2.36 million tons, up 13,300 tons on the week and up 108,300 tons on the year. Inventories of the five major steel products dropped to 12.59 million tons, the lowest this year and also a low for the same period in the past eight years. The biggest uncertainty in future demand lies in the weather. When it gets cold, northern steel demand will depend on southern sales or exports. On the supply side, northern production areas may face output curbs due to environmental factors, but this is uncertain at this timing. During December, there will be winter steel negotiation before Chinese New Year, which tend to limit the range of steel price. By then, both iron ore and steel futures expected to see narrower price range.

Virtual steel mills margin has expanded from 9 yuan/ton to 54 yuan/ton, mainly due to the fact that raw materials rebound first and then finished products follow up. In physical market, the steel price changed in a slower manner compared to iron ore. Thus, fast rebound on iron ore squeezed steel margin. After the winter storage price gradually becomes clear, the price fluctuation of finished products will decrease. At that time, raw materials may again be weaker than finished products. Due to the low profit of steel mills, iron ore trades still mainly consist of low-grade and discounted grades. High-grade transactions are average, and premium products such as lump ore and pellets have not seen rebound on price levels. There have been two discounted transactions of PBF before, and discounted transactions rarely occur in the past five years.

For other raw materials, China's electric utilization rate has risen rapidly by 17% from August to early October. But with the recent sharp drop in electric arc furnace profits, the utilization rate may fall again in coming weeks. After China steel companies cut the price by 50 - 55 yuan/ton in the first round, they're planning a second - round adjustment. Turkish active scrap futures price have fluctuated narrowly around $375/ton in the past two weeks. The active HRC futures contract on the LME has recovered from $578.69/ton in early October to $598.24/ton on October 25, a 3.38% rebound. The European HRC market has seen significant demand recovery recently. As a result, Turkish scrap may rebound gradually following the booming downstream market. China's Tianjin - exported HRC has been cold. High tariffs have suppressed the export price. Also, the Southeast Asian market has short - term low demand. The FOB Tianjin HRC price dropped $25 in a single week last week to $502/ton, the largest weekly drop in past four months.

The active SGX iron ore spread remains at around -$0.15/0.10. We maintain the view that the spread will remain low in the near term and may return to $0.10/0.15 in the coming weeks. The increase in the fluctuation range and shortened cycle present a very good entry opportunity.

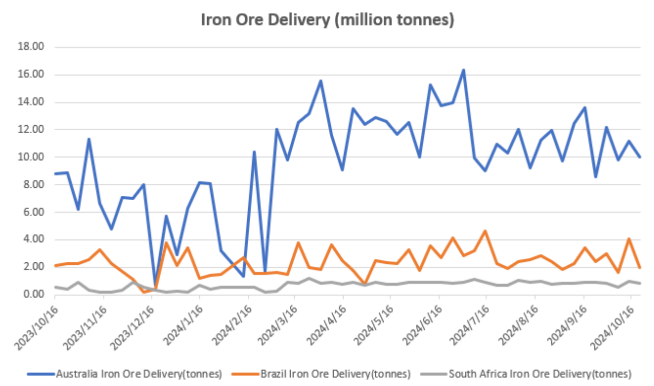
In short-run, iron ore growth trend could potentially slow down.

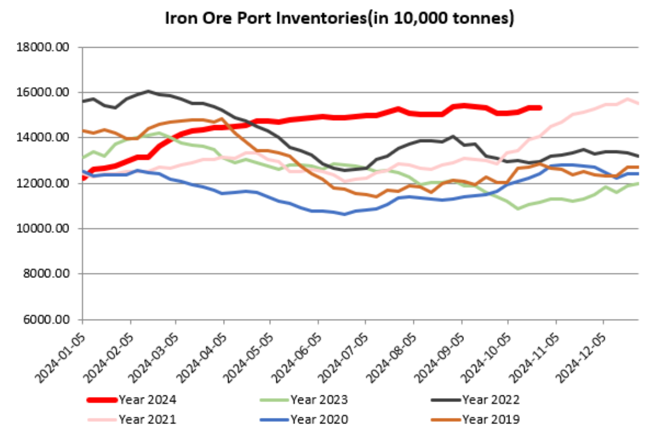


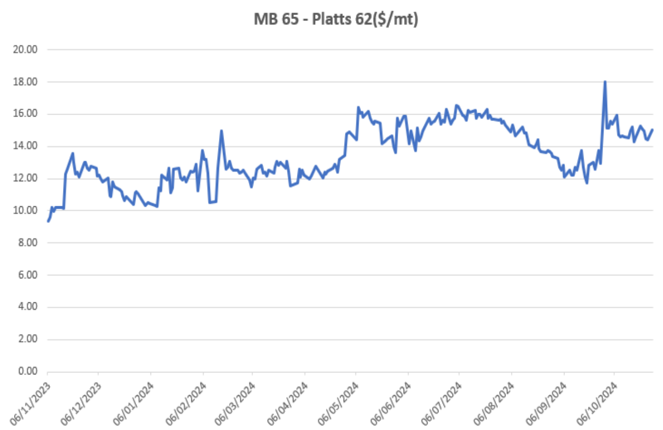
Data Sources: Bloomberg, Platts, Fastmarket, FIS

Iron Ore

	Last	Previous	% Change
Platts 62% Fe (Dollar/mt)	103.55	101.3	**2.22%**
MB 65% Fe (Dollar/mt)	118.55	116.55	**1.72%**
Capesize 5TC Index (Dollar/day)	14811	18174	**-18.50%**
C3 Tubarao to Qingdao (Dollar/day)	20.85	21.84	**-4.53%**
C5 West Australia to Qingdao (Dollar/day)	8.555	8.86	**-3.44%**
Billet Spot Ex-Works Tangshan (Yuan/mt)	3090	3070	**0.65%**
SGX Front Month (Dollar/mt)	101.13	101.68	**-0.54%**
DCE Major Month (Yuan/mt)	765.5	758.5	**0.92%**
China Port Inventory Unit (10,000mt)	15,341.68	15,297.53	**0.29%**
Australia Iron Ore Weekly Export (10,000mt)	1,003.30	1,114.50	**-9.98%**
Brazil Iron Ore Weekly Export (10,000mt)	308.20	340.90	**-9.59%**







Iron Ore Key Points

- MB65-P62 oscillated between $14 and $16 for two months, generally fluctuating as expected. However, after entering September, the oscillation range quickly declined to $11 - $13. In October, it rebounded rapidly to around $15. Steel profits are expected to be restored in the long term. Therefore, the price spread may operate in the relatively high range of $15 - $17 for longer.

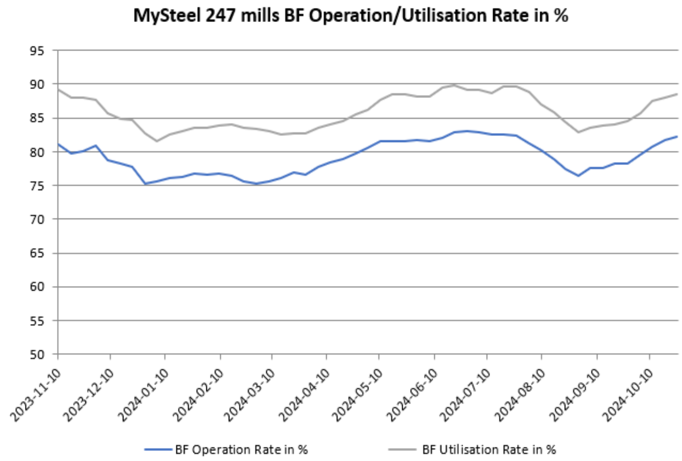
- The port inventory of iron ore has accumulated for three consecutive weeks again after the China National Day holiday. However, steel enterprises have shifted to faster production. Domestically, demand is faster than supply.

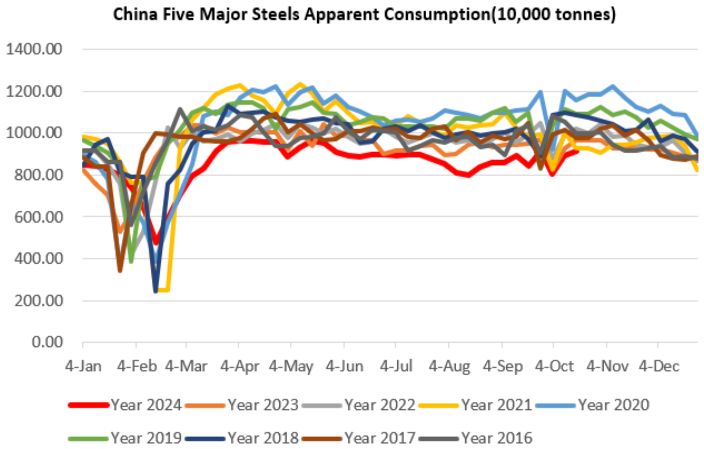
- According to the iron ore shipment volume in the fourth quarter calculated based on the four major mines, it generally remains at a relatively high year - on - year and month - on - month level. Therefore, the supply pressure still exists in the fourth quarter.

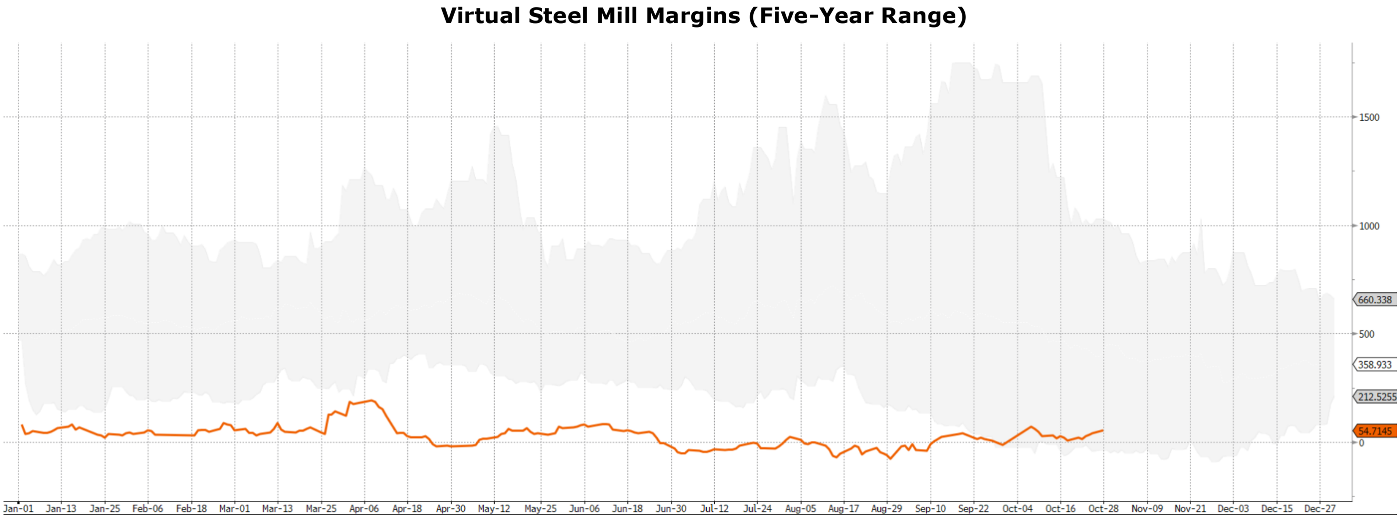
Data Sources: Platts, Fastmarkets, MySteel, Bloomberg, FIS

Steel

	Last	Previous	% Change
US HRC Front Month (Dollar/mt)	704	705	-0.14%
LME Rebar Front Month (Dollar/mt)	595.5	593	0.51%
SHFE Rebar Major Month (Yuan/mt)	3362	3322	1.20%
China Hot Rolled Coil (Yuan/mt)	3496	3484	0.34%
Vitural Steel Mills Margin(Yuan/mt)	54	7	671.43%
China Five Major Steel Inventories Unit (10,000 mt)	2489.64	2371.33	4.99%
Global Crude Steel Production Unit (1,000 mt)	77100	77900	-1.03%
World Steel Association Steel Production Unit(1,000 mt)	143,600	144,800	-0.83%







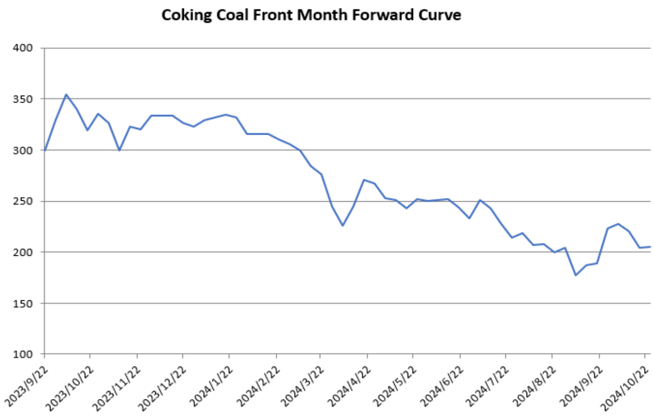
Data Sources: Bloomberg, MySteel, FIS

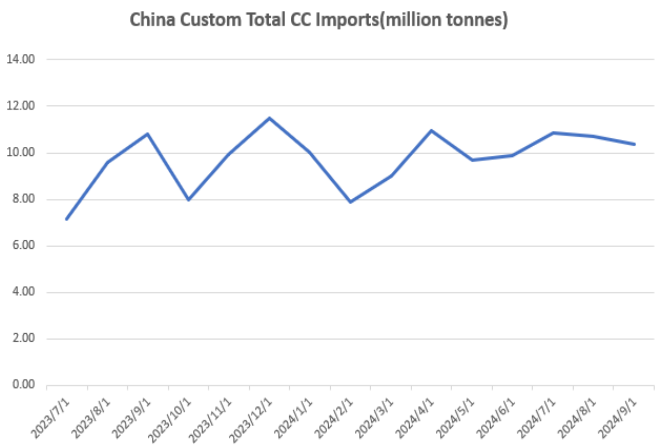
– The virtual steel margin maintained at negative for most of time in the first three quarters. In the fourth quarter, profit level recovers to 8-70 yuan/ton but is still at a seasonal low, mainly due to the weaker rebound cycle of finished steels compared to raw materials.

– The inventories of five major steel types in China has reached seasonal and year-low level.

Coking Coal

	Last	Previous	% Change
TSI FOB Premium Hard Coking Coal (Dollar/mt)	199	201	-1.00%
Coking Coal Front Month (Dollar/mt)	205.5	204	0.74%
DCE CC Major Month (Yuan/mt)	1353.5	1347.5	0.45%
Top Six Coal Exporter Weekly Shipment(Million mt)	13.04	19.28	-32.37%
China Custom total CC Import Unit mt	10,362,750	10,699,595	-3.15%





Coal Key Points

- The big size offers on PMVs and PLVs saw few enquiries, which raised concerns on the sustainability of current market.
- China mills were expecting the second round of price cut on physical coke after the first cut by 50– 55 yuan/ton landed last week.

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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