FIS

Ferrous Weekly Report

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

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⇒ **Iron ore Fe62% CFR China:** short-run **Neutral to Bullish**. Iron ore rebounded following the strong stimulus from China and reversal of China equities. The future path depends on the demand of fundamental on steel consumption in Q4.

⇒ **Rebar 25mm Shanghai** short-run **Neutral to Bullish**. Production increased and inventories decreased, indicating that the steel market entered a busy season in China. Eastern mills in China hiked rebar price by 350—450 yuan/ton, originating the biggest weekly price change over the year.

⇒ **Hard Coking Coal FOB Australia** short-run **Neutral to Bullish**. Seaborne coking coal market is tight for nearby laycans. The chinese physical coking coal hiked by 500 –650 yuan/ton during September.

Prices Movement	7-Oct	30-Sep	Changes %	Sentiment	
Iron Ore Fe62% CFR China($/MT)	109.10	108.30	0.74%	Neutral to Bullish	↗
Rebar 25mm Shanghai (Yuan/MT)	3473.0	3473.0	-	Neutral to Bullish	↗
Hard Coking Coal FOB Australia($/MT)	203.00	204.75	0.85%	Neutral to Bullish	↗

Market Review:

Iron Ore Market:

Iron ore didn't move much during the Golden Week in China. However, iron ore Oct24 futures rebounded by 24% after China announced new stimulus measures to support the house and equity markets from September 24th. The sustainability of this bull-run largely depends on the Chinese equity market as well as the new economic measures.

The Fed rate cut could generate an opportunity for investments outside of US. The Chinese equity market is the most undervalued assets among the ones in emerging markets. The rise of commodity prices has followed the Chinese asset buying cycle during the past two weeks. It is worth noting that the CSI 300 Index has gained 38.52% during the past six trading days, the largest growth and biggest volume over the history.

The Chinese eastern steel mills hiked rebar price by 350– 450 yuan/ton during the Golden Week, originating the biggest price change of the past five years. Five typical steels production were up 3.7% while inventories went down 3.7%, indicating that the steel market entered a busy season eyeing improvement on both demand and supply side.

For raw materials, the Chinese physical coke hiked by 500-550 yuan/ton during September. FOB coking coal market was tight on prime coking coal supply. Approaching winter has increased demand on coal in northern hemisphere. Physical traders were cautious about the market movement, waiting for opportunities. The mid-grade concentrates market remains competitive, as newcomers including Brazilian fines and China domestic blends are important alternatives to traditional brands from Australia. Thus, the physical upside room for mid-grade should be limited after the huge price spike. The good news is that virtual steel margin had improved from the negative area in August to 29 yuan/ton, representing a recovery of physical margin in 3-4 weeks. The widened margin expectation allowed more tolerance for mills to consider the overall cost on raw materials.

Data Sources: Bloomberg, Platts, Fastmarket, FIS

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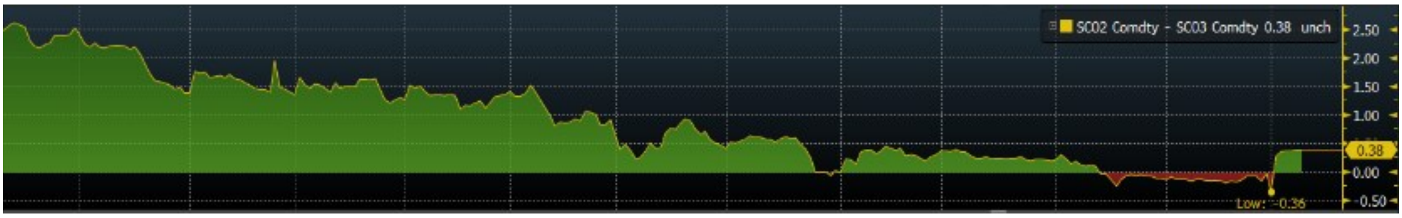
Market Review(Cont'd):

As we expected, the Oct24/Nov 24 spiked from –\$0.25 from mid September to \$0.45 in early October. The only holding risk of the spread was rolling cost, which was normally very low when the curve structure was flat or contango. The spread level here was believed to have more upside room in Q4.

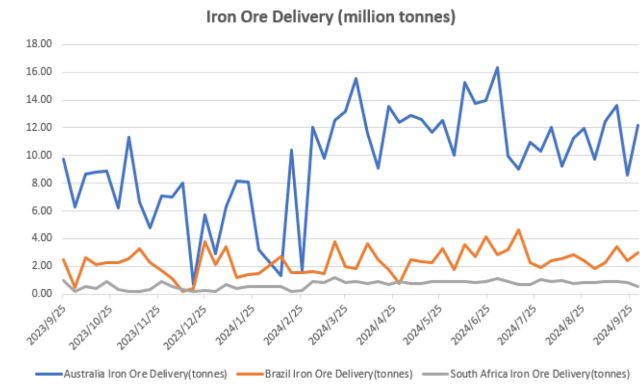
In general, the iron ore index should have more upside room in Q4, but be aware of the risk of taking short-run gains.

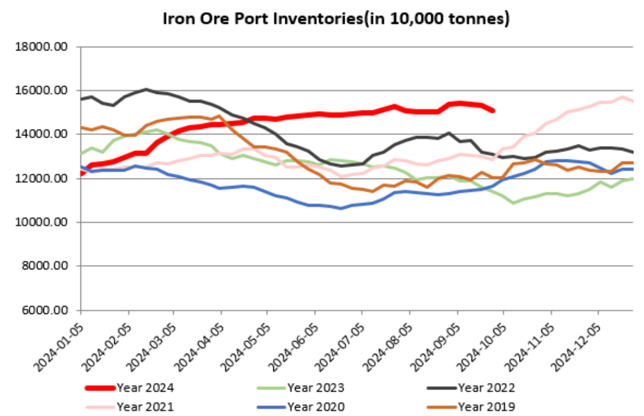


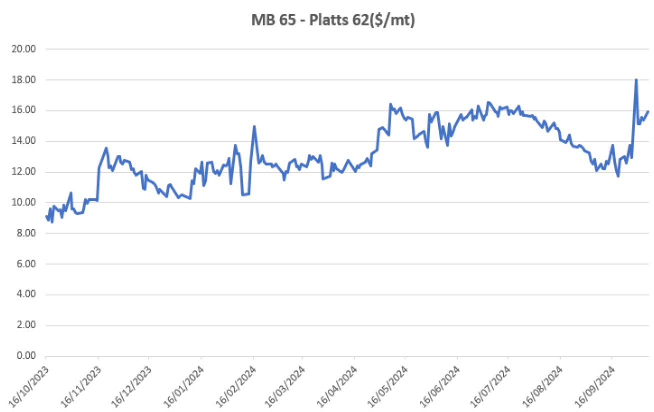
Data Sources: Bloomberg, Platts, Fastmarket, FIS

Iron Ore

	Last	Previous	% Change
Platts 62% Fe (Dollar/mt)	109.1	108.3	0.74%
MB 65% Fe (Dollar/mt)	125.05	126.3	-0.99%
Capesize 5TC Index (Dollar/day)	26213	30258	-13.37%
C3 Tubarao to Qingdao (Dollar/day)	26.945	28.17	-4.35%
C5 West Australia to Qingdao (Dollar/day)	10.65	11.655	-8.62%
Billet Spot Ex-Works Tangshan (Yuan/mt)	3390	3050	11.15%
SGX Front Month (Dollar/mt)	108.60	102.09	6.38%
DCE Major Month (Yuan/mt)	802.5	742	8.15%
China Port Inventory Unit (10,000mt)	15,052.92	15,311.85	-1.69%
Australia Iron Ore Weekly Export (10,000mt)	1,218.90	857.50	42.15%
Brazil Iron Ore Weekly Export (10,000mt)	406.00	165.30	145.61%







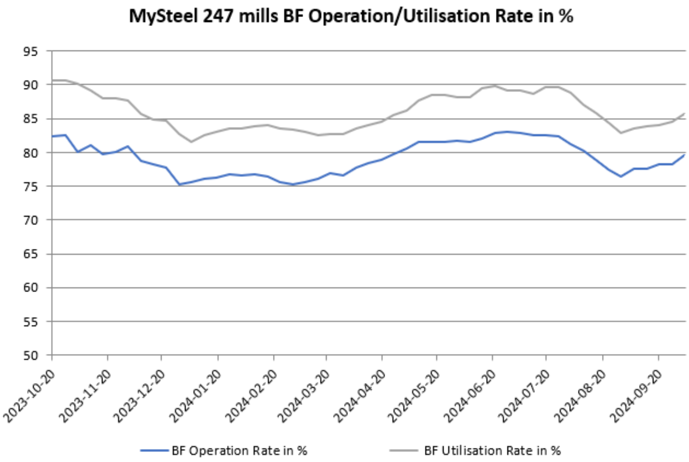
Iron Ore Key Points

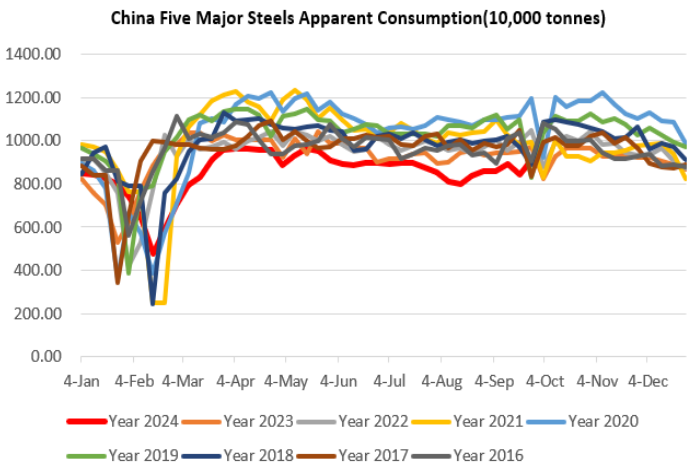
- MB65—P62 recovered to $15.3 from $12.96 in September. The fast recovery was supported by the rebound on steel margin.
- The iron ore port inventories gradually decreased from the year-high at 154 million to 150 million tons during September, which should shift to mills along with growing steel production.
- Both Australia and Brazil are expected to ship at high level in Q4.

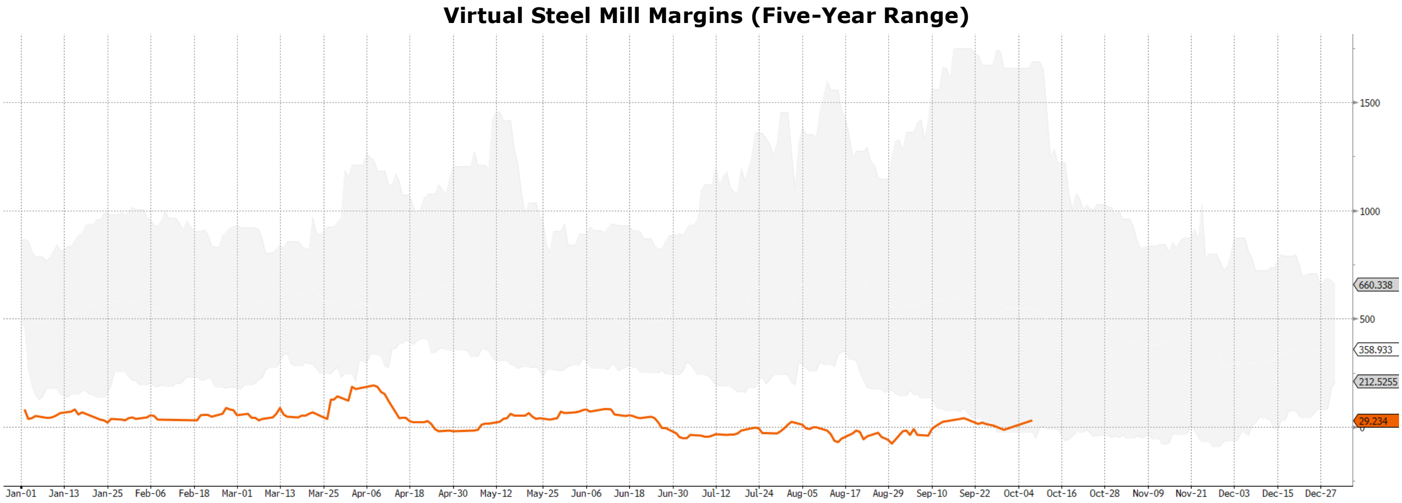
Data Sources: Platts, Fastmarkets, MySteel, Bloomberg, FIS

Steel

	Last	Previous	% Change
US HRC Front Month (Dollar/mt)	724	734	**-1.36%**
LME Rebar Front Month (Dollar/mt)	605.5	581	**4.22%**
SHFE Rebar Major Month (Yuan/mt)	3471	3319	**4.58%**
China Hot Rolled Coil (Yuan/mt)	3675	3314	**10.89%**
Vitural Steel Mills Margin(Yuan/mt)	29	-23	**226.09%**
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)	114,800	152,800	**-24.87%**





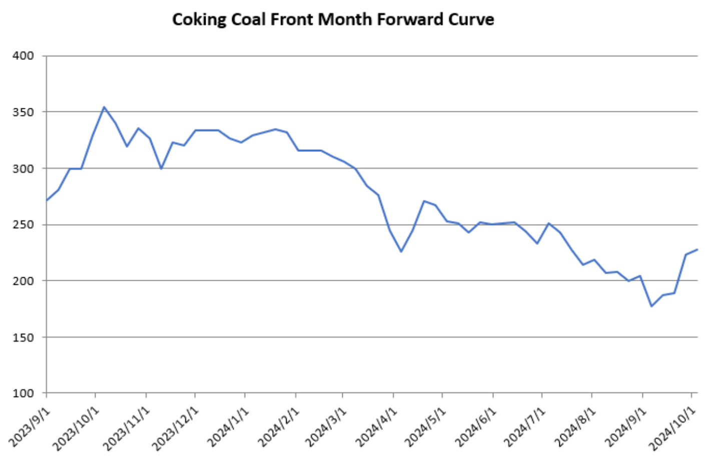


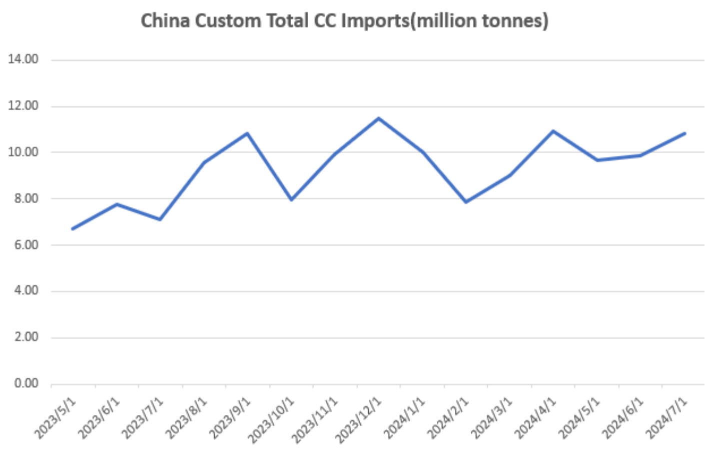
Data Sources: Bloomberg, MySteel, FIS

- Virtual steel mill margin curve recovered from the negative to positive area at 29 yuan/ton. The physical margin is expected to recover in the following weeks.
- The production of steel and destock increased from late September, indicating an improvement on both supply and demand side.

Coking Coal

	Last	Previous	% Change
TSI FOB Premium Hard Coking Coal (Dollar/mt)	203	204.75	**-0.85%**
Coking Coal Front Month (Dollar/mt)	227.5	223	**2.02%**
DCE CC Major Month (Yuan/mt)	1493	1393	**7.18%**
Top Six Coal Exporter Weekly Shipment(Million mt)	13.38	17.61	**-24.02%**
China Custom total CC Import Unit mt	10,699,595	10,841,328	**-1.31%**





Coal Key Points

– FOB Australia coking coal saw a tight supply during tje past three weeks. Thus, the index climbed gradually.

– China physical coke total was up by 500– 650 yuan/ton for five rounds during September.

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

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