FIS

Ferrous Weekly Report

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⇒ **Iron ore Fe62% CFR China:** short-run **Neutral to Bearish**. China domestic hot metal production has declined after remaining stable for two consecutive weeks. Therefore, hot metal has entered a downward cycle from an upward one. The pricing of macro events and the downward inflection point of fundamentals have resonated, causing iron ore prices to start falling. However, due to the upcoming winter stockpiling of steel products and the currently acceptable production profits, the decline may be limited.

⇒ **Rebar 25mm Shanghai** short-run **Neutral to Bearish**. After the China politburo, the trading spurred by real estate stimulus has come to an end. The futures market has witnessed a correction, while the spot market has seen little change. As the winter stockpiling stage begins, price fluctuations have decreased. The international market saw recovery in general.

⇒ **Hard Coking Coal FOB Australia** short-run **Neutral**. In the Australian export market of prime coking coal, the demand for high-quality coking coal is stable, and the price generally remains stable with little change. On the domestic front, although the spot markets of coking coal and coke have witnessed corrections, the demand for heat in winter is relatively high, so the extent of the seasonal corrections is limited.

Prices Movement	11-Nov	4-Nov	Changes %	Sentiment	
Iron Ore Fe62% CFR China($/MT)	101.15	104.10	- 2.83 %	Neutral to Bearish	↘
Rebar 25mm Shanghai (Yuan/MT)	3666.0	3708.0	- 1.13%	Neutral to Bearish	↘
Hard Coking Coal FOB Australia($/MT)	206.50	203.00	+ 1.72%	Neutral	–

Market Review:

Iron Ore Market:

The performance of iron ore during the reporting week fell into expectations with wide fluctuations. There was a significant rebound during the week first, and then all the gains disappeared completely on Friday and this Monday. The market has entered a "cooling-off period" as the macro news are fully priced in. It is oversupplying on the fundamental side. However, a neutral expectation is given this week because the oversupply is not severe and it may prolong the reaction. In addition, a rebound is expected if continuously eyeing sharp corrections.

The impacts of last week's US presidential election and the meeting of the Politburo of China on the market trends were in line with the views of many analysts. Firstly, prior to the events, there was a general significant rebound in commodities (except for crude oil). Then, after these events ended, the gains were quickly wiped out. This rollercoaster move indicated that there were quite a number of short-term investors involved in the trading. There was a wave of interest rate cuts globally and a series of important CPI and PPI data released during weekends. Therefore, in the coming week or even month, it is likely to enter a stage with relatively fewer macroeconomic news. Commodities will most probably return to the logic of the fundamental market.

The oversupply of iron ore in the next one to two months is still quite evident. In terms of shipments, some major mines have accelerated their shipping schedules. Small and medium-sized mines are in a profitable position, and unless the price of iron ore drops further by $10 - $15, there is no reason for them to cut production. Last week, the total shipments of iron ore from Australia and Brazil were 26.44 million tons, a decrease of 289,000 tons on the month. The average weekly shipments in November were 26.58 million tons, an increase of 6.5% compared with October and an increase of 2.17% compared with November last year. Domestic iron ore production is stable. Although production capacity declines in winter, the impact is less than the increase in imports. Port inventories, acting as a "reservoir", are also at 152 million tons, the highest level for the same season.

Data Sources: Bloomberg, Platts, Fastmarket, FIS

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Market Review(Cont'd):

Entering winter, due to the impact of irregular snowfall and icing, logistics and port operations may slow down in December, and the problem of inventory backlog may become more prominent then. In the recent two months, Chinese steel mills prefer to purchase iron ore from ports, which can enable them to obtain lower prices and accurately plan the demand for raw materials. The total inventory of iron ore of steel enterprises in this period is 91.31 million tons, an increase of 132.61 million tons week-on-week and an increase of 123.94 million tons year-on-year. The overall inventory of iron ore of steel enterprises is relatively high year-on-year, but it is within the range of 1.0% - 1.5% and is not very obvious. The imports of iron ore at sea mainly focus on low-grade and discounted products. Last week, the highest transaction price of MACF was $102 per ton, but it dropped to $96.6 at the beginning of this week.

During this week, the virtual steel margin is 28 yuan per ton, which was mainly traded within the range of 25 to 50 yuan per ton in October and November. The landed profit of discounted and low-grade imported iron ore has shown good continuity. The real margin of rebar in the northern China briefly reached a seasonal high of 500 yuan per ton at the end of September and then dropped rapidly to 50 yuan/ton. With the arrival of winter, the sales area of finished products has shrunk, the transportation distance has increased, and the price elasticity has become weaker.

From the perspective of other materials in the ferrous chain, EAF produced steels are on the verge of incurring losses. Similar to the profits of blast furnaces, after briefly reaching a seasonal high of 300 yuan per ton at the end of September, they have dropped rapidly and have now almost returned to zero. The capacity utilization rate is highly likely to continue to decline rapidly. In the Southeast Asian flat products market, both demand and prices are sluggish. However, in Middle Eastern and European markets, demand and prices have recently shown a trend of stabilizing and rebounding. Regarding domestic coke, the potential decline in the future may be limited as inventories are at both a yearly and seasonal low. On the one hand, Australian coking coal exports are suppressed by the resale of resources in the secondary market. On the other, due to the rebound in Asian demand, there may be short-term support.

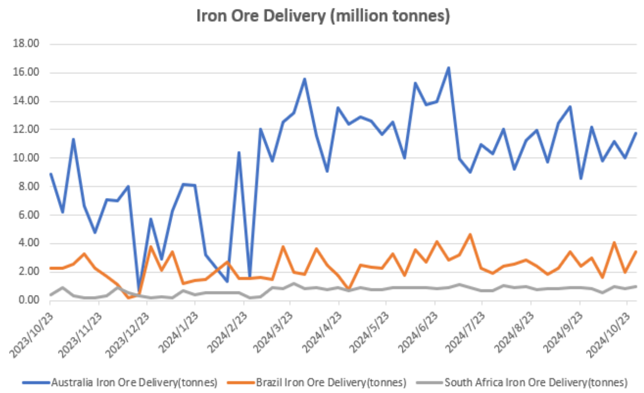
The main price spread of SGX iron ore has rebounded as expected, rising from -$0.10/0.15 two weeks ago to around $0.20/0.25. In the medium term, the absolute level of the price spread is still relatively low, leaving room for further upward room.

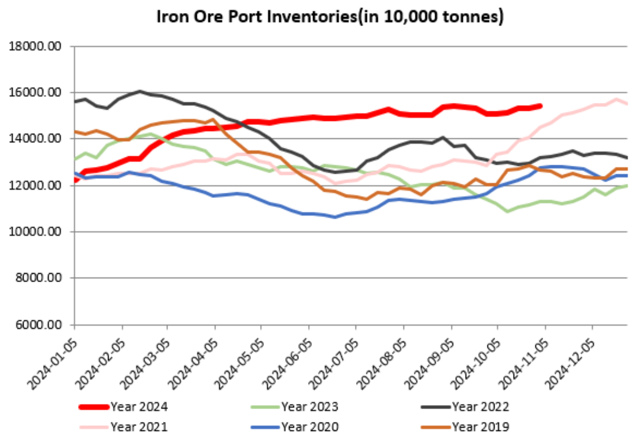
In short-run, iron ore expected to maintain slight weak.

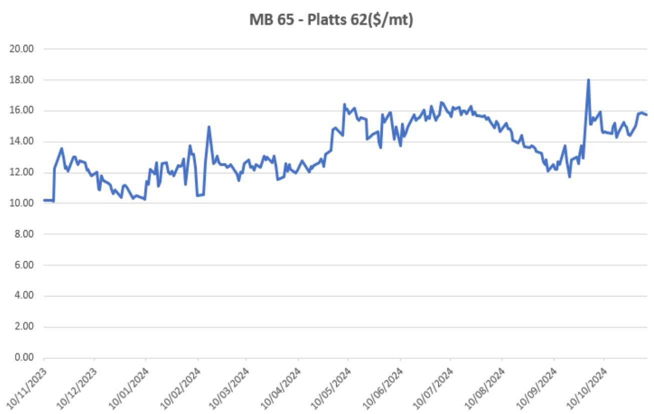
Data Sources: Bloomberg, Platts, Fastmarket, FIS

Iron Ore

	Last	Previous	% Change
Platts 62% Fe (Dollar/mt)	101.15	104.1	-2.83%
MB 65% Fe (Dollar/mt)	116.74	119.82	-2.57%
Capesize 5TC Index (Dollar/day)	20872	15332	36.13%
C3 Tubarao to Qingdao (Dollar/day)	23.27	20.38	14.18%
C5 West Australia to Qingdao (Dollar/day)	10.005	8.82	13.44%
Billet Spot Ex-Works Tangshan (Yuan/mt)	3120	3130	-0.32%
SGX Front Month (Dollar/mt)	102.56	102.14	0.41%
DCE Major Month (Yuan/mt)	784.5	772	1.62%
China Port Inventory Unit (10,000mt)	15,269.06	15,419.98	-0.98%
Australia Iron Ore Weekly Export (10,000mt)	1,190.26	1,175.10	1.29%
Brazil Iron Ore Weekly Export (10,000mt)	301.40	375.60	-19.76%







Iron Ore Key Points

- As expected, the spread between MB65 and P62 generally operates at a relatively high level for the whole year in the range of $15 - $17.

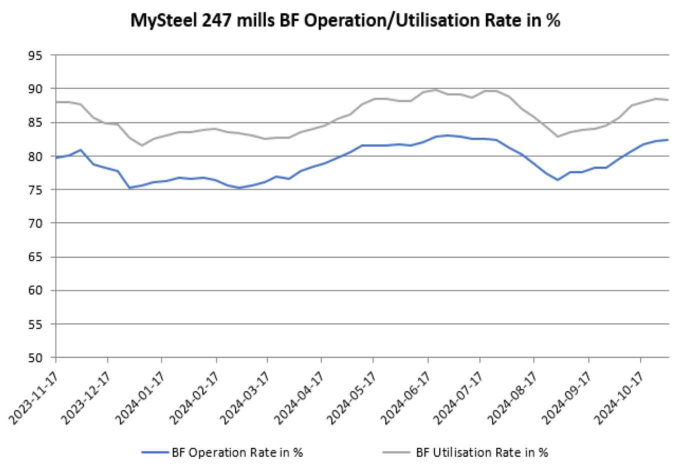
- Chinese port inventories of iron ore dropped from 154 million tons to 152 million tons, which were still at seasonal high level. As the top deliveries in Q4 and decreasing hot metal production, it is hard to see a decreased on port inventories.

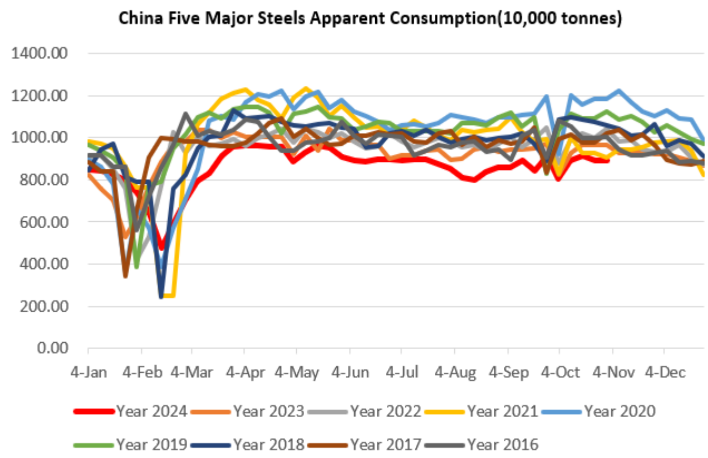
- According to the iron ore shipment volume in the fourth quarter calculated based on the four major mines, it generally remains at a relatively high year - on - year and month - on - month level. Therefore, the supply pressure still exists in the fourth quarter.

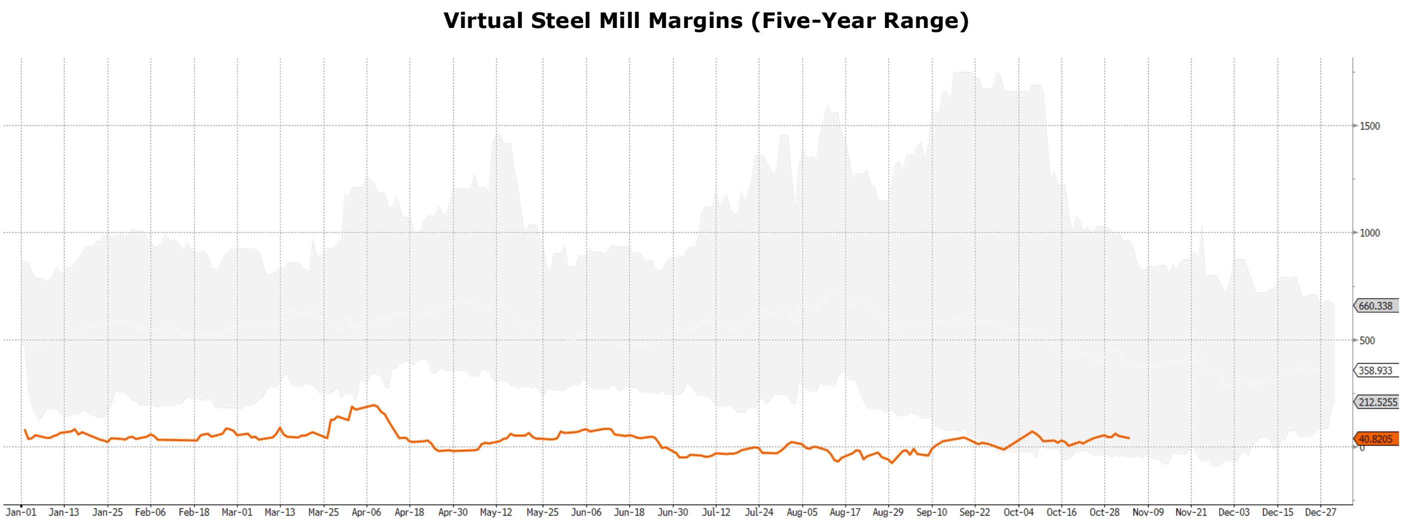
Data Sources: Platts, Fastmarkets, MySteel, Bloomberg, FIS

Steel

	Last	Previous	% Change
US HRC Front Month (Dollar/mt)	707	714	**-0.98%**
LME Rebar Front Month (Dollar/mt)	590	594	**-0.67%**
SHFE Rebar Major Month (Yuan/mt)	3411	3400	**0.32%**
China Hot Rolled Coil (Yuan/mt)	3603	3561	**1.18%**
Vitural Steel Mills Margin(Yuan/mt)	28	29	**-3.45%**
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%**





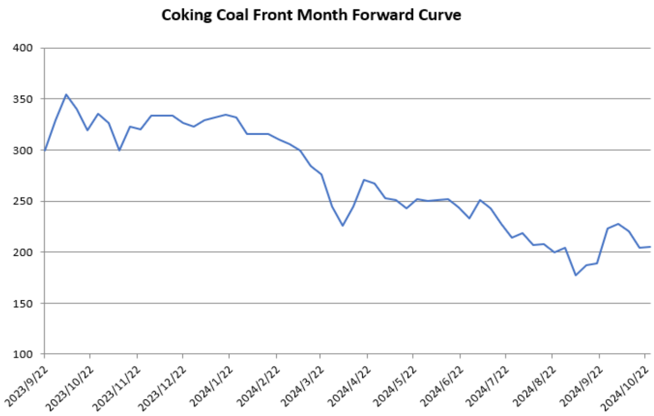


Data Sources: Bloomberg, MySteel, FIS

- The virtual steel margin oscillated in the rangebound of 25-50 yuan/ton for most of the time.
- 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)	206.5	203	**1.72%**
Coking Coal Front Month (Dollar/mt)	210.33	208.5	**0.88%**
DCE CC Major Month (Yuan/mt)	1340.5	1344.5	**-0.30%**
Top Six Coal Exporter Weekly Shipment(Million mt)	12.04	19.45	**-38.10%**
China Custom total CC Import Unit mt	10,362,750	10,699,595	**-3.15%**

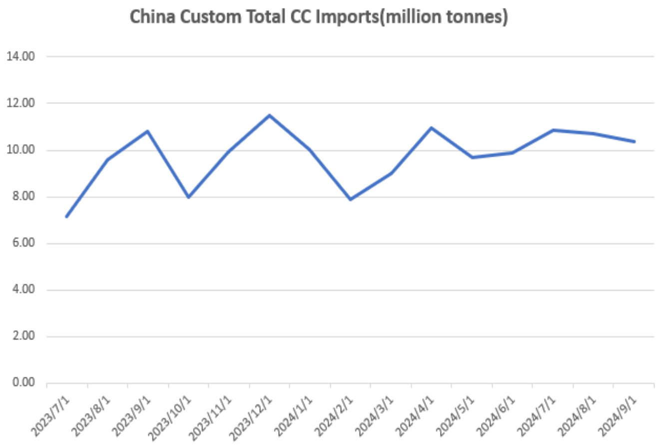


Coal Key Points

– The FOB Australian coking coal has entered a stable period. The demand from Asia in winter is highly resilient. There were signs stabilization last week.

– Chinese mills cut the second round of physical coke price by 50-55 yuan/ton.

– The daily average output of hot metal in China has declined, and some market participants believe that the inflection point of hot metal has arrived. According to history, the downward trend potentially last till the end of January.



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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