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**. China hot metal production may have peaked in the short term, and the inventory of iron ore at ports is relatively high. In addition, the market is awaiting the impact brought by the US presidential election, thus showing a certain degree of risk aversion.

⇒ **Rebar 25mm Shanghai** short-run **Neutral to Bullish**. The international steel market has stopped falling. In China, the construction steel market is awaiting the results of the economic conference. In the medium term, as winter storage approaches, the volatility is likely to gradually decrease.

⇒ **Hard Coking Coal FOB Australia** short-run **Neutral to Bullish**. China domestic coke is expected to decline in price this week. Although the coke inventory at ports is low, steel mills maintain a low inventory and small size procurement. In the Australian FOB coking coal market, Indian buyers were absent last week and Chinese buyers took their place.

Prices Movement	4-Nov	28-Oct	Changes %	Sentiment	
Iron Ore Fe62% CFR China($/MT)	104.10	103.55	+0.53 %	Neutral to Bullish	↗
Rebar 25mm Shanghai (Yuan/MT)	3814.0	3853.0	- 1.01%	Neutral to Bullish	↗
Hard Coking Coal FOB Australia($/MT)	203.00	199.00	+ 2.01%	Neutral to Bullish	↗

Market Review:

Iron Ore Market:

The iron ore index only rebounded by 0.53% in this reporting period, and it is generally neutral as expected. Despite the arrival of the "super week", we expect a fluctuating market in bullish tunnel.

In October, the fluctuations in the iron ore index level consolidate around the $102 - $108 range. In terms of volatility, it is less if compared with commodities with high liquidity such as gold, crude oil, FFA, and soybeans. The US presidential election and an important economic conference in China will take place in the same week. It is hard to expect the direct guidance of macro events on prices. If iron ore undergoes a huge directional change, a reversion trade or volatility trade should have better safety margin. Due to hurricanes and the strike at Boeing, last week's US non-farm payroll data was low. The US ISM manufacturing data for October reached the lowest value in 15 months. The data is all conducive to expectations of US interest rate cuts. China's manufacturing PMI in October rebounded to the expansion range, suggesting a continued economic rebound. Big corrections in precious metals potentially transmit pressure across commodities. However, if there is only minor change on precious metals, then commodities are likely to return to their own logic.

Returning to the supply and demand market, in the first three quarters, Australian shipments decreased by 0.2% year-on-year, Brazilian shipments increased by 6.75% year-on-year, and non-Australian and Brazilian shipments increased by 15.32%. The index price of iron ore is still at a capacity percentile of 90-95%, which means most of miners were operating with margin. Therefore, the possibility of a decline in production or shipments in the fourth quarter is extremely slim. The inventory of iron ore at 45 ports in China is at a nine-year high for the same period and the highest level for the whole year. Therefore, under the major premise that hot metal production will inevitably decline seasonally in the fourth quarter, overall and marginal excess of iron ore become inevitable. The current market swung between stimulus boosted expectation and weak fundamental reality. The average daily hot metal production has stabilized at around 2.355 million tons in the past two weeks, which potentially become a sign of a peak. In the same period last year, hot metal production also reached an inflection point in the last week of October and then continued to decline until the Chinese New Year.

Data Sources: Bloomberg, Platts, Fastmarket, FIS

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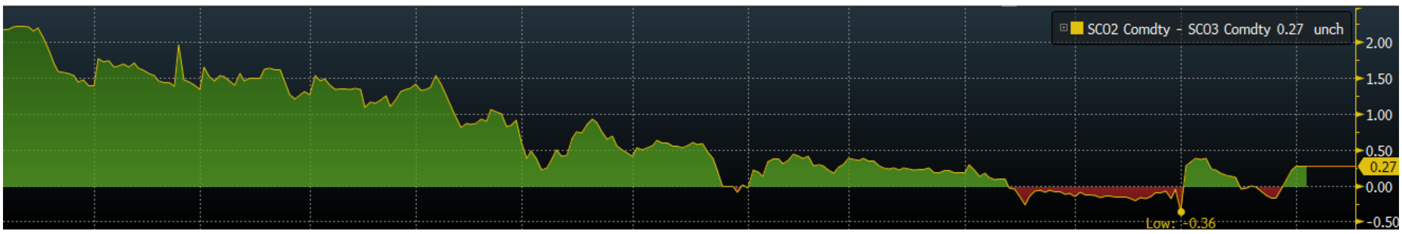
Market Review(Cont'd):

The iron ore inventory of Chinese steel mills was 89.979 million tons last week. It has been continuously rebounding since the end of September. Due to the high inventory of iron ore at ports and weak bargaining power, medium-grade iron ore has no landing profit. At the same time, some low-grade iron ores such as SSF can still have a certain landed profit. The discount for SSF has narrowed from 7% in October to 6.5%. For BHP concentrates, the tight inventory at ports provides price support, while the price is suppressed with thin landing profits. The profit of rebar in northern provinces has rapidly dropped from 400 yuan/ton at the end of September to 200 yuan/ton last week. As the weather starts to turn cold, it is expected that profits may be further compressed in the future. The profit on the futures market is 50 yuan/ton. From September to November, it mainly fluctuates within the range of 18 - 70 yuan/ton.

Looking at other materials in the ferrous complex, EAFs are also facing profit compression and have begun to cut production. In terms of coke, although the port inventory is at a historically low level, steel enterprises are cautious in their procurement sentiment and are planning a second round of price cuts. For coking coal, the fundamentals are relatively strong. With the arrival of the heating season in Asia, the demand for carbon becomes higher than last two months. In terms of high-quality coking coal, the FOB Australian market has also shown signs of stabilization.

The main contract spread of iron ore has rebounded from -$0.10/0.15 last week to around $0.15/0.20. As we expected earlier, buying the main contract spread at a negative value is a highly profitable trade, and the market has provided many opportunities since the August. In the medium term, the absolute level of the spread is still relatively low and there is rooms for upside direction.

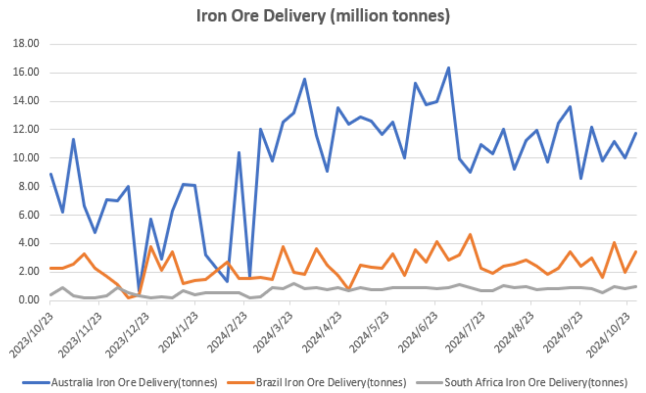
In short-run, iron ore expected to maintain bullish.

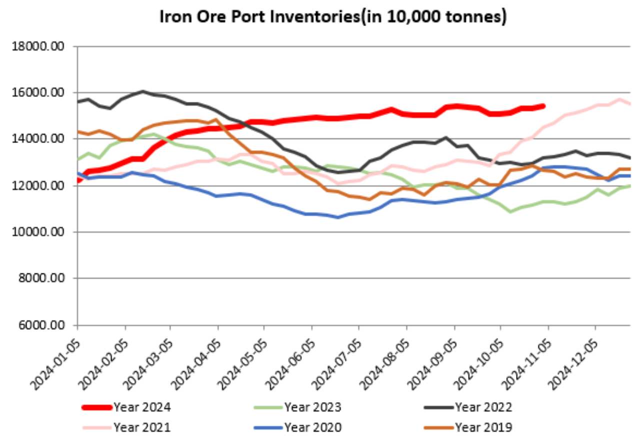


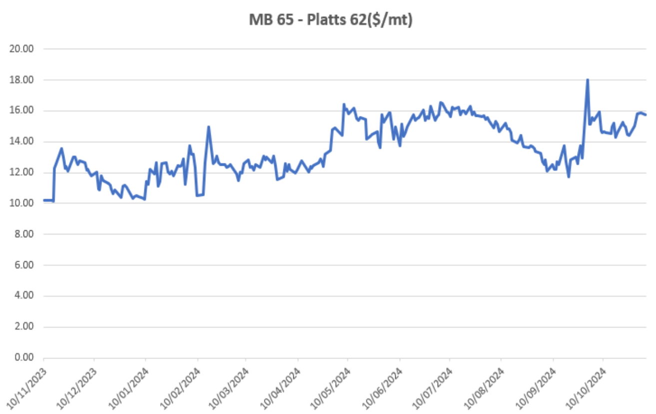
Data Sources: Bloomberg, Platts, Fastmarket, FIS

Iron Ore

	Last	Previous	% Change
Platts 62% Fe (Dollar/mt)	104.1	103.55	0.53%
MB 65% Fe (Dollar/mt)	119.82	118.55	1.07%
Capesize 5TC Index (Dollar/day)	15332	14811	3.52%
C3 Tubarao to Qingdao (Dollar/day)	20.38	20.85	-2.25%
C5 West Australia to Qingdao (Dollar/day)	8.82	8.555	3.10%
Billet Spot Ex-Works Tangshan (Yuan/mt)	3130	3090	1.29%
SGX Front Month (Dollar/mt)	102.14	101.13	1.00%
DCE Major Month (Yuan/mt)	772	765.5	0.85%
China Port Inventory Unit (10,000mt)	15,419.98	15,341.68	0.51%
Australia Iron Ore Weekly Export (10,000mt)	1,175.10	1,003.30	17.12%
Brazil Iron Ore Weekly Export (10,000mt)	375.60	308.20	21.87%







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.

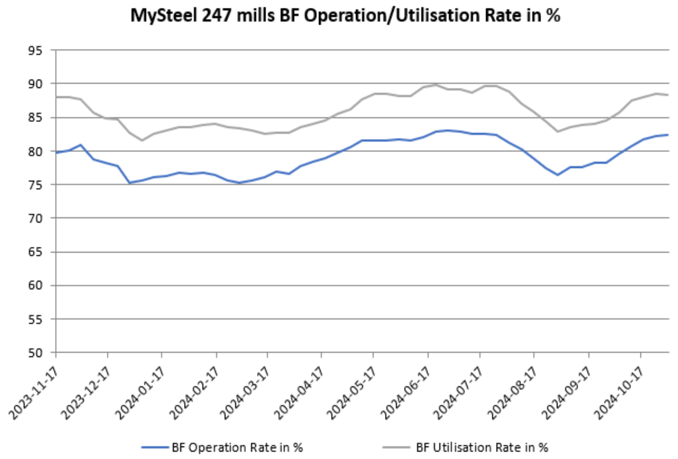
- The port inventory of iron ore has once again reached the annual high of 154 million tons. It's hard to see any decline on delivery on the fourth quarter. In the future, as the demand for hot metal declines, the port inventory expected to maintain high.

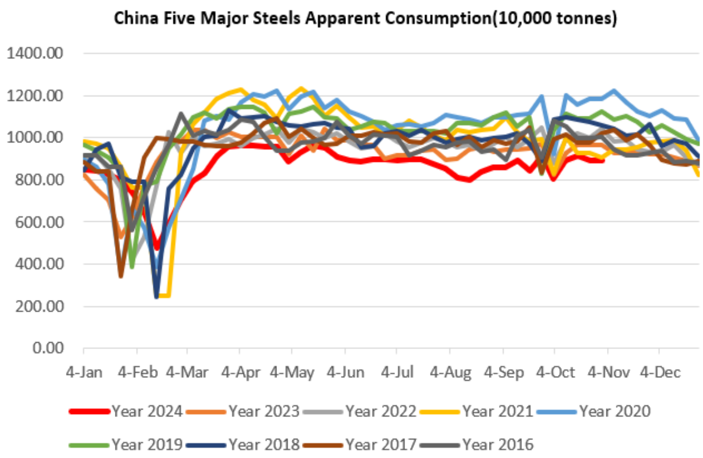
- According to the iron ore shipment volume in the fourth quarter calculated based on the four major mines, it generally remains at a relatively high year - on - year and month - on - month level. Therefore, the supply pressure still exists in the fourth quarter.

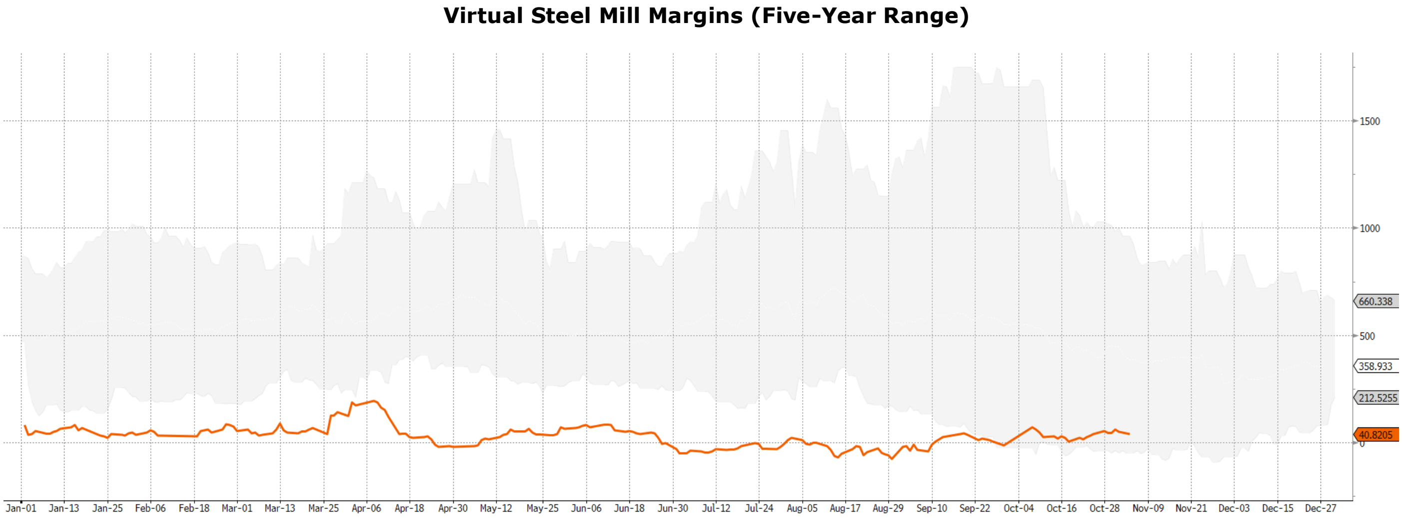
Data Sources: Platts, Fastmarkets, MySteel, Bloomberg, FIS

Steel

	Last	Previous	% Change
US HRC Front Month (Dollar/mt)	714	704	1.42%
LME Rebar Front Month (Dollar/mt)	594	596	-0.25%
SHFE Rebar Major Month (Yuan/mt)	3400	3362	1.13%
China Hot Rolled Coil (Yuan/mt)	3561	3496	1.86%
Vitural Steel Mills Margin(Yuan/mt)	50	54	-7.41%
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%





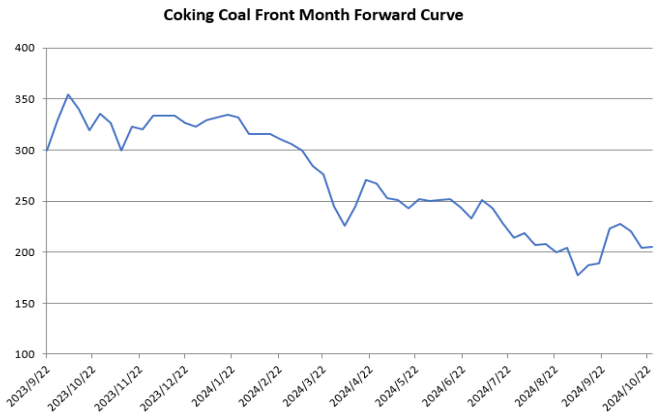


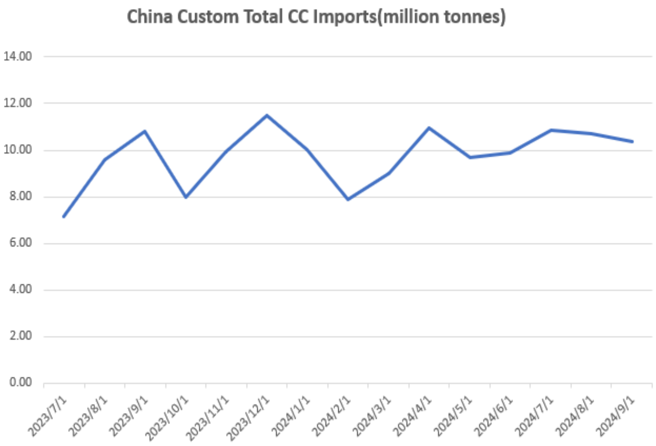
Data Sources: Bloomberg, MySteel, FIS

- The virtual steel margin maintained at negative for most of time in the first three quarters. In the fourth quarter, profit level recovers to 18-70 yuan/ton. The margin maintained around 50 yuan/ton during past two weeks. The physical margin in northern China once reached 500 yuan/ton and declined fast in the following weeks to 200 yuan/ton. Mills expected to see 0 or negative margin again in November or December.
- 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)	203	199	2.01%
Coking Coal Front Month (Dollar/mt)	208.5	205.5	1.46%
DCE CC Major Month (Yuan/mt)	1344.5	1353.5	-0.66%
Top Six Coal Exporter Weekly Shipment(Million mt)	13.56	19.34	-29.89%
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.
- China mills were expecting the second round of price cut on physical coke.

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