FIS

Ferrous Weekly Report

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14/1/2025

⇒ **Iron ore Fe62% CFR China:** short-run **Neutral**. The physical market trades on marginal demand, while futures also see decrease on volatility before Chinese New Year.

⇒ **Rebar 25mm Shanghai** short-run **Neutral**. The winter stock price of major steel brands were fixed. Thus, spot price has less impact over index or average market price.

⇒ **Hard Coking Coal FOB Australia** short-run **Neutral**. The resales, lower China demand and increasing US exports resisted Asian coking coal market. However, resilient Indian demand supported current prime coal market.

Prices Movement	13-Jan	6-Jan	Changes %	Sentiment	
Iron Ore Fe62% CFR China($/MT)	99.20	97.05	+ 2.22 %	Neutral	–
Rebar 25mm Shanghai (Yuan/MT)	3495.0	3526.0	- 0.88%	Neutral	–
Hard Coking Coal FOB Australia($/MT)	199.00	199.00	- 1.51%	Neutral	–

Market Review:

Iron Ore Market:

As expected in the last report, the iron ore index fluctuated within a narrow range between $97 - $98. With the Chinese New Year approaching, restocking was generally based on marginal demand. Traders were cautious in their final decisions before the long-holiday, and steel mills focused on portside resources.

The Federal Reserve has been continuously signaling a slowdown in interest rate hikes. Coupled with the strong non-farm payroll data in US, which reached a 9-month high, the USD index has remained strong, constantly hitting new 14-month highs. This has exerted downward pressure on commodities priced in US dollars.

The domestic finished steel products market is generally in the price-locking stage of winter storage. The small amount of spot demand has little impact on the average market price. Shanghai rebar price decreased by 31 yuan per ton during the reporting week, and the market generally anticipates that it has reached the bottom. In January, the weekly average inventory of the five major finished steel products was 11.24 million tons, 20.47% lower than the average of the past five years. The weekly average inventory of production in January was 8.08 million tons, 8.23% lower than the average of the past five years. The relatively low production volume is mainly due to the early arrival of the CNY. However, the significantly low inventory level is conducive to the improvement of the fundamental situation of the steel market after the holiday. The blast furnace utilization rate was 84.24%, 0.31% lower than that of last week. In addition, EAFs began to shut down on a large scale this week, so the decline in pig iron demand was relatively slow.

The port inventory of iron ore remained high at 150 million tons, but the shipments in December did not increase significantly, so the pressure of arrivals in January was relatively small. In the future, steel enterprises will mainly purchase from ports and extremely reduce the raw material inventory of enterprises. However, this makes the restocking market after the holiday promising. The virtual profit margin decreased from 60 yuan per ton to 41 yuan per ton during the reporting week. Overall, the profit levels in January and the second half of December were significantly higher than those in October and November last year, but they are not sufficient to increase the production willingness of steel enterprises.

Data Sources: Bloomberg, Platts, Fastmarket, FIS

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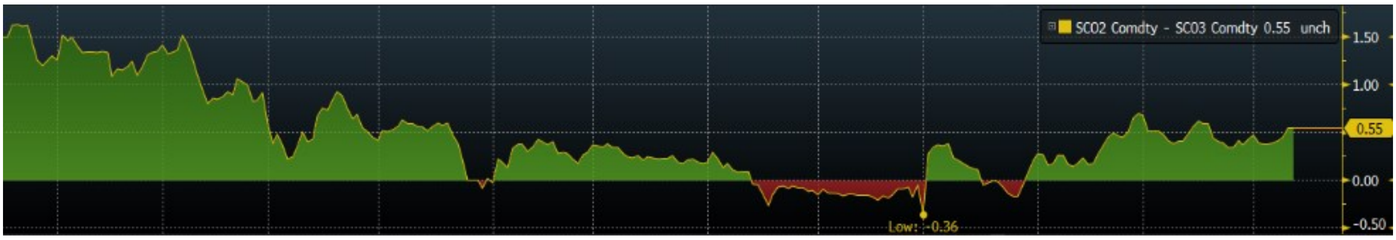
Market Review(Cont'd):

Spot trades were relatively active in the first half of the reporting period, but declined in the second half. In early this week, some non - mainstream concentrates and high grades ores were traded. The price of medium - grade fines fluctuated little around the index. Brazil reduced the premium level of blast furnace pellets in the first quarter by $2 to $36 per ton. The discount of PBF remained stable between $0.1 - $0.2 against February index. The fixed-price transaction of BRBF was $97.35 last week and $99.15 this week. JMBF was transacted at the February index with a discount of $5.35, compared with a discount of $5.4 last week.

The December average of MB65-P62 was $14.51 last year, which was $14.44 for January. The spread will most likely remain stable given a stable supply condition for both mid-grade and high grade. DCE active spread May-Sep 25 has remained in the range of 23.5 - 25 yuan per ton for more than 95% of the trading time in the past five weeks. During the same period, the main spread of the SGX has been stable at $0.35 - $0.45. There are no obvious trading opportunities for both spread. In the coming year, it is recommended to seize the buying opportunities when the spread drops below $0.25, especially when the iron ore price is also at a relatively low level.

The average price spread between MB65 - P62 was $14.51 per ton in December last year, and the current average in January is $14.36 per ton. The price spread is likely to remain stable when steel mills profits are stable and the supply of high - grade and medium - grade ores is also stable. The DCE May25 and Sep25 spread has remained in the range of 23.5 - 25 yuan per ton for more than 95% of the trading time in the past five weeks. There were two days last week when there were buying opportunities at around 20 yuan per ton. The main spread of SGX has recovered from $0.35 - $0.45 per ton to $0.50 - $0.55 per ton. Currently, trading opportunities are not obvious. In the coming year, it is still recommended to look for buying opportunities when the spread is below $0.25.

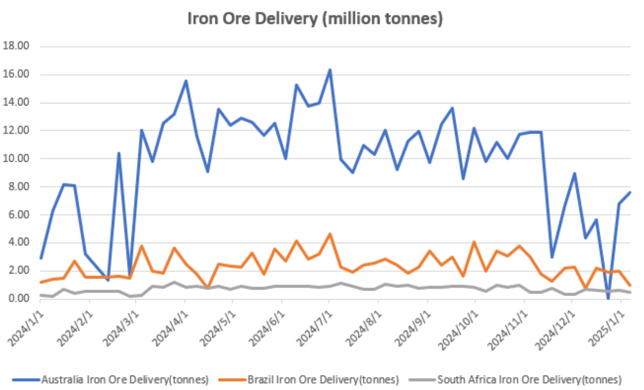
In general, iron ore should remain neutral in short-term.



Data Sources: Bloomberg, Platts, Fastmarket, FIS

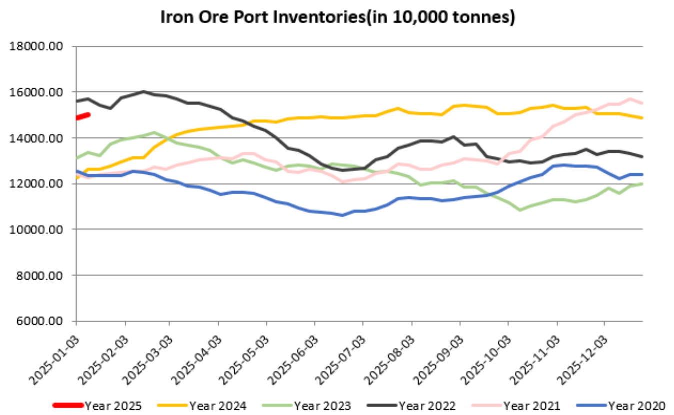
Iron Ore

	Last	Previous	% Change
Platts 62% Fe (Dollar/mt)	99.2	97.05	2.22%
MB 65% Fe (Dollar/mt)	113.54	111.8	1.56%
Capesize 5TC Index (Dollar/day)	13391	10696	25.20%
C3 Tubarao to Qingdao (Dollar/day)	18.51	17.64	4.93%
C5 West Australia to Qingdao (Dollar/day)	6.63	6.84	-3.07%
Billet Spot Ex-Works Tangshan (Yuan/mt)	2930	3010	-2.66%
SGX Front Month (Dollar/mt)	97.15	98.21	-1.08%
DCE Major Month (Yuan/mt)	754	768.5	-1.89%
China Port Inventory Unit (10,000mt)	15,002.96	14,876.94	0.85%
Australia Iron Ore Weekly Export (10,000mt)	758.97	676.62	12.17%
Brazil Iron Ore Weekly Export (10,000mt)	99.09	201.47	-50.82%

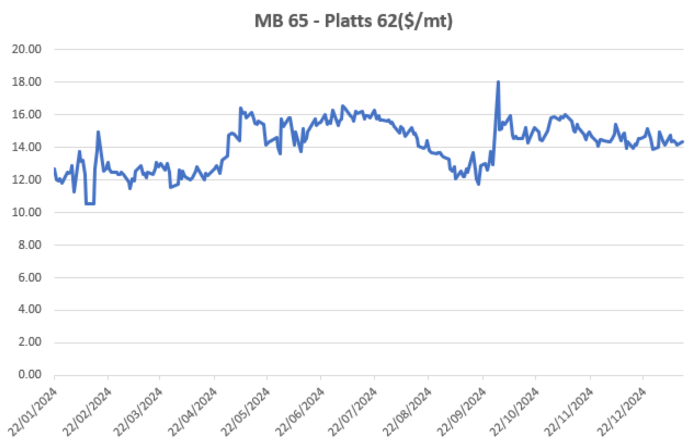


Iron Ore Key Points

- As the year-end approaches, the average value of MB65-P62 is suppressed by the decrease in steel production on the upside and supported by the relatively low supply from Brazil on the downside. It could potentially remain in the range of $14 - $15.



- Port inventories of iron ore have remained stable at a seasonal high at 150 million tons. The depreciation of the Chinese yuan, high port inventories and the decline in demand at the end of the year have led traders to shift their seaborne demand to portside.

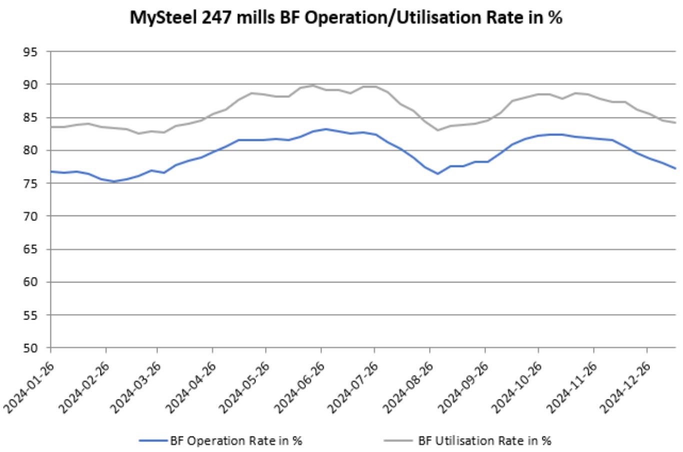


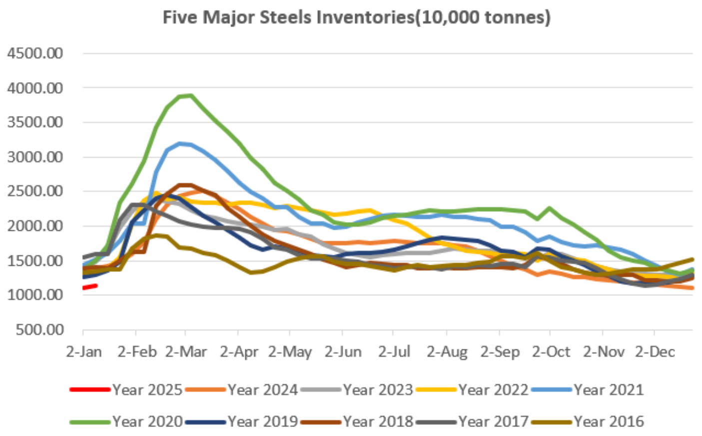
- The shipment volume of iron ore in December declined compared with last December. The delivery pressure for January and February maintain limited.

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

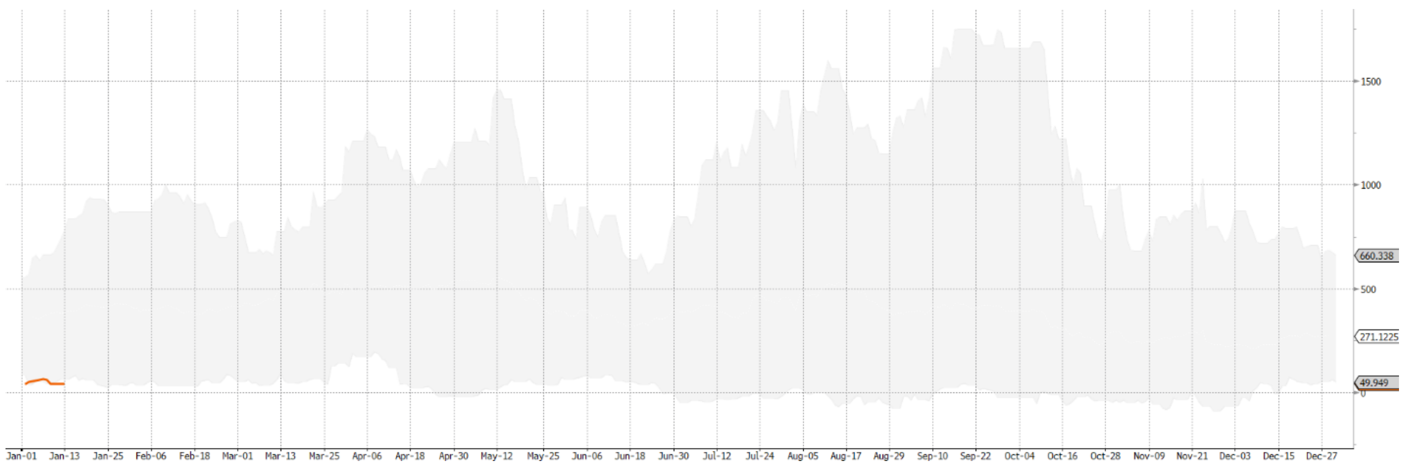
Steel

	Last	Previous	% Change
US HRC Front Month (Dollar/mt)	704	708	**-0.56%**
LME Rebar Front Month (Dollar/mt)	560	570	**-1.67%**
SHFE Rebar Major Month (Yuan/mt)	3203	3280	**-2.35%**
China Hot Rolled Coil (Yuan/mt)	3351	3441	**-2.62%**
Vitural Steel Mills Margin(Yuan/mt)	40	60	**-33.33%**
China Five Major Steel Inventories Unit (10,000 mt)	2489.64	2371.33	**4.99%**
Global Crude Steel Production Unit (1,000 mt)	78400	81900	**-4.27%**
World Steel Association Steel Production Unit(1,000 mt)	146,800	151,200	**-2.91%**





Virtual Steel Mill Margins (Five-Year Range)



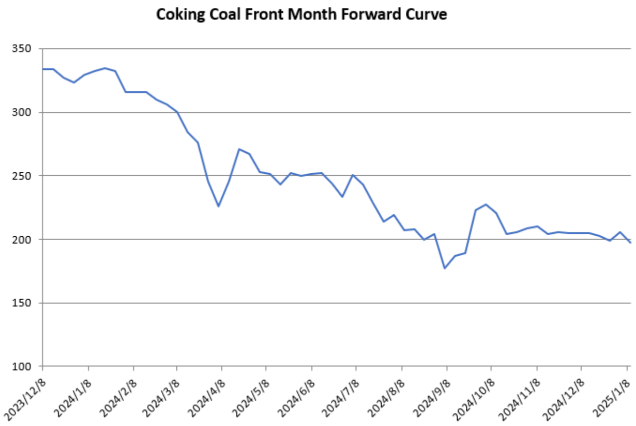
Data Sources: Bloomberg, MySteel, FIS

- The virtual steel margin remained around 40– 70 yuan/ton during the past six weeks.
- The inventories of five major steel types in China has reached seasonal low by 20% compared to average of last five years.

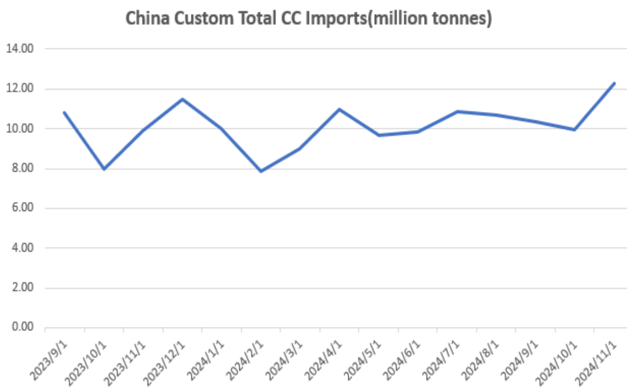
Coking Coal

	Last	Previous	% Change
TSI FOB Premium Hard Coking Coal (Dollar/mt)	196	197	**-0.51%**
Coking Coal Front Month (Dollar/mt)	197.5	206	**-4.13%**
DCE CC Major Month (Yuan/mt)	1091	1152.5	**-5.34%**
Top Six Coal Exporter Weekly Shipment(Million mt)	5.57	7.70	**-27.66%**
China Custom total CC Import Unit mt	12,295,067	9,956,949	**23.48%**

Coal Key Points



- The FOB price of Australian coking coal remains stable. Demand from India supports the market, but China high inventories and decreasing pig iron production resisted the price.



- China domestic pig iron production entered diminishing phase with more maintenance in northern areas.

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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