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20220909

Monthly Report on Iron Ore

Weak Demand Awaiting Busy Season

■ Ferrous Material Group

Zhao Yu zhaoy@wkjyqh.com
0755-23375155
Futures Practice Qualification No. F3084536
Investment Consulting Qualification No. Z0016349

Zhou Jiayi zhoujy@wkjyqh.com
0755-23375129
Futures Practice Qualification No. F3017773



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1. Monthly Review & Strategy Recommendation

- ◆ **Cost:** BDI plunged in August, reaching a two-year low. Ocean freights from Australia and Brazil to China decreased side by side, with the former showing a sharper drop. Import margin of PB fines turned positive and fluctuated within a narrow range.
- ◆ **Supply:** In August, the shipments from Brazil and Australia remained above the historical average. More specifically, less shipments departed from Australia while shipments from Brazil steadily grew with the Vale witnessing a year record. Supply from non-mainstream mines remained low while domestic miners' output edged up. In general, iron ore supply stayed loose.
- ◆ **Demand:** The output of molten iron rebounded to above 2.3 million tons, back to historical normal level. Downstream demand stayed weak. With steel mills suffering losses, further production resumption can hardly be expected.
- ◆ **Summary:** Iron ore supply is sufficient thanks to the relatively high supply level from overseas miners and small recovery for domestic mining output. Currently we are in a traditional off-season with a weak downstream demand and stocks are piling up in ports. With more steel mills resuming production, more molten iron will be produced, lifting certain iron ore demand. Incentivizing by stimulus policies, market price strengthened. But in general, the August fundamental remained weak.
- ◆ **Market outlook for September :** With an estimated high level of overseas supply, Q4 supply is expected to stay loose. Demand is still deficient, combined with pandemic disruptions, a gloomy real-estate industry and a pessimistic market sentiment, a prosperity can hardly be expected for next two months. Stockpiling in port warehouses is likely to continue. With the loss experienced by steel mills, rise in molten iron production is least possible, posing a downward pressure on raw material market. In general, given the current sufficient supply, upcoming demand uncertainties, price rebound due to stock accumulating before holiday season, we suggest take short positions for mid- and long-term and sell short on price rebound.

Valuation & Driving Forces

Fundamental for Iron Ore	Valuation		Driving Forces				Steel Mill Profits
	Basis	Import Profit	Shipments	Quality Spread	Demand	Port Stock	
Data(2022.9.2)	RMB 182/ton	RMB 19.25/ton	From Australia: 12.534 million tons From Brazil: 8.247million tons	PB-Super Special: RMB 96/ton Carajas Fine-PB: RMB 109/ton	Average daily molten iron at 2.336 million tons	140.3646 million tons	RMB -44.8/ton
Long/Short Scoring	0	-1	-1	-1	+2	-2	-1
Brief Summary	Fluctuating within a narrow range	Import profit turning to positive	Shipments from Australia and Brazil reaching high levels	Spread b/t high and low-quality ore diverges	Molten iron output continued decreasing	Restock continued	Loss
Conclusion	Fundamentals for iron ore stayed weak in August. Shipments from overseas remained at a relative high level. Port stocks were piling up. Steel mills suffered loss. Domestic daily molten iron output recovered quickly, contributing to certain demand for iron ore. With some macro stimulus policies, market price rebounded.						

Trading Recommendation



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Trading Recommendation

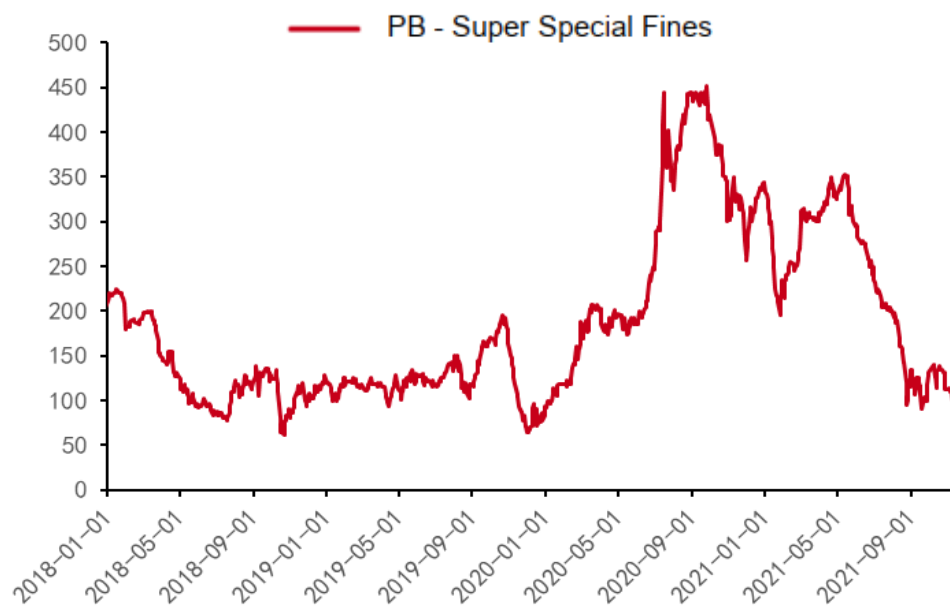
Strategy	Advice to operation	Price range to establish positions	Strategy Span	Core Driving Forces	Recommendation Grade	Proposal Date
Sideline Watching	Sell short when price strengthens					

Supply-Demand Balance Table

2022	Crude Steel Output (10kt)	Pig Iron Output (10kt)	Crude Steel/Pig Iron	Iron Ore Demand(10kt)	Iron Ore Supply Imported(10kt)	Iron Ore Supply Domestic (10kt)	Iron Ore Supply(10kt)	Gap b/t S&D (10kt)
Jan.-Feb.	15795.8	13213.1	1.2	21801.6	18108.3	15575.7	22558.5	756.9
Mar.	8829.5	7159.8	1.2	11813.7	8728.3	9476.2	11435.8	-377.9
Apr.	9277.5	7677.8	1.2	12668.4	8605.6	8579.4	11059.6	-1611.5
May	9661.3	8048.9	1.2	13380.7	9251.7	9780.5	12046.1	-1234.6
Jun.	9073.0	7687.5	1.2	12684.4	8896.9	9871.1	11717.2	-967.2
Jul.	8143.0	7049.0	1.2	11630.9	9124.4	8022.7	11416.6	-214.3
Aug.	8305.0	7030.0	1.2	11599.5	9620.8	8250.0	11977.9	378.4
Sep.	7580.0	6580.0	1.2	10857.0	10330.0	8300.0	12701.4	1844.4
Oct.	7360.0	6370.0	1.2	10510.5	9835.0	8000.0	12120.7	1610.2
Nov.	7150.0	6250.0	1.1	10312.5	10250.0	7700.0	12450.0	2137.5
Dec.	8820.0	7280.0	1.2	12012.0	9150.0	7600.0	11321.4	-690.6

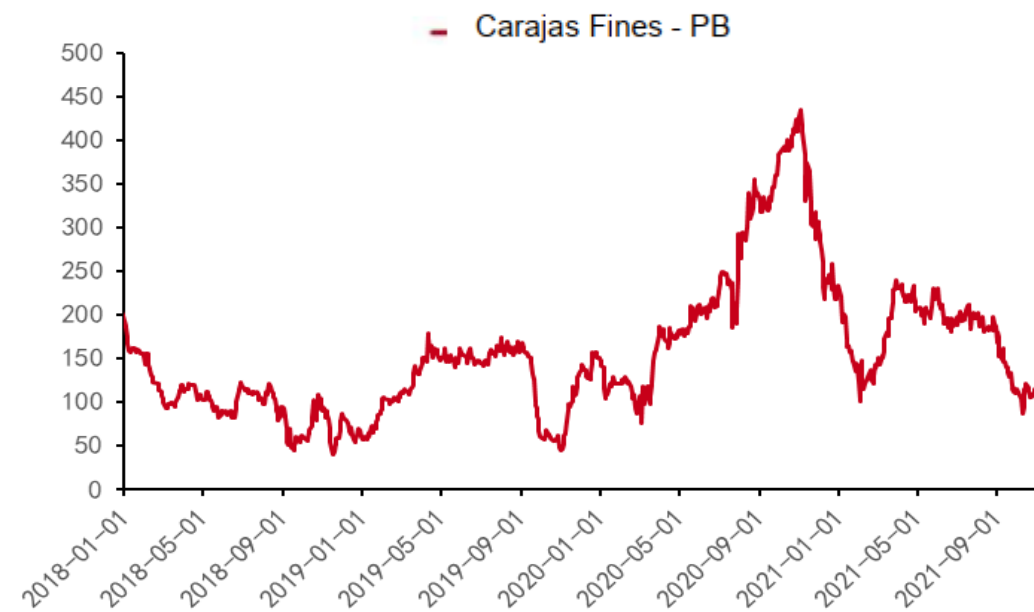
2. Futures Market & Cash Market

Figure 3: PB-Super Special Price Spread



Sources: MYSTEEL, Minmetals Futures

Figure 4: Carajas Fine-PB Price Spread



Sources: MYSTEEL, Minmetals Futures

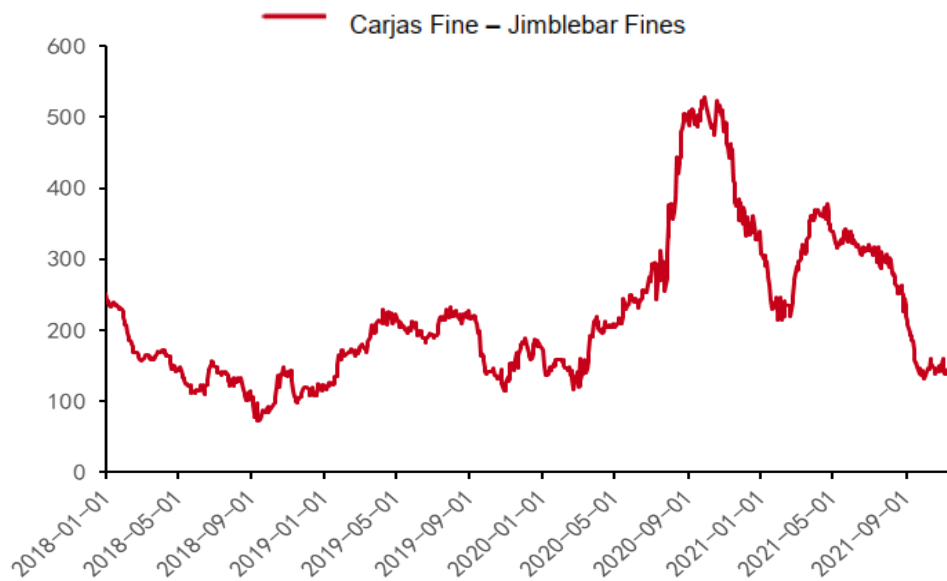
In August, the spread b/t high- and low-quality iron ores diverged, with PB-Super Special Price Spread narrowing while the Fine-PB Price Spread fluctuating within a narrow range.

Price Spread



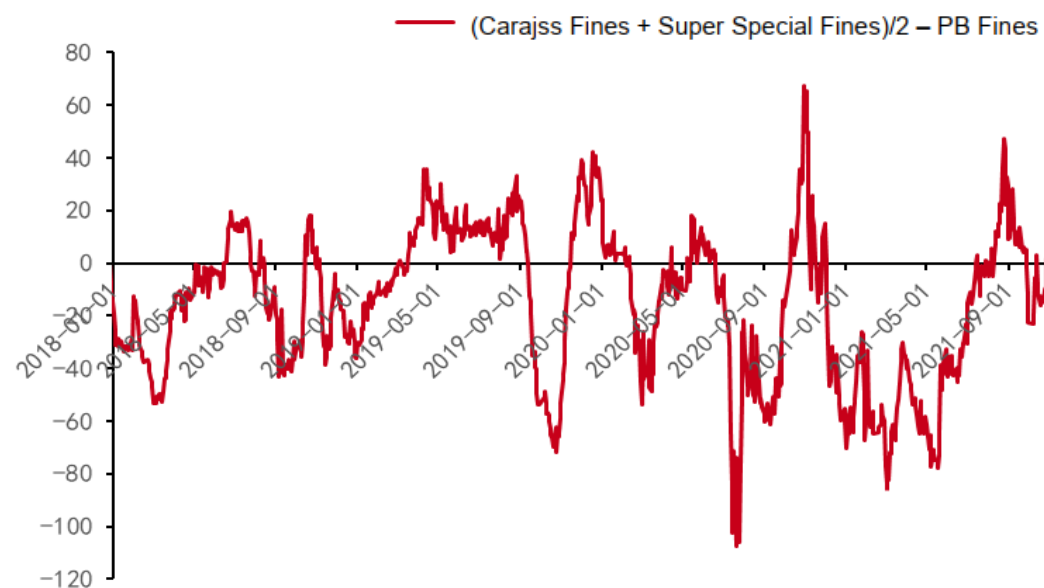
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Figure 5: Spread b/t Carajs Fines and Jimblebar Fines



Sources: MYSTEEL, Minmetals Futures

Figure 6: (Carajss Fines + Super Special Fines)/2 – PB Fines



Sources: MYSTEEL, Minmetals Futures

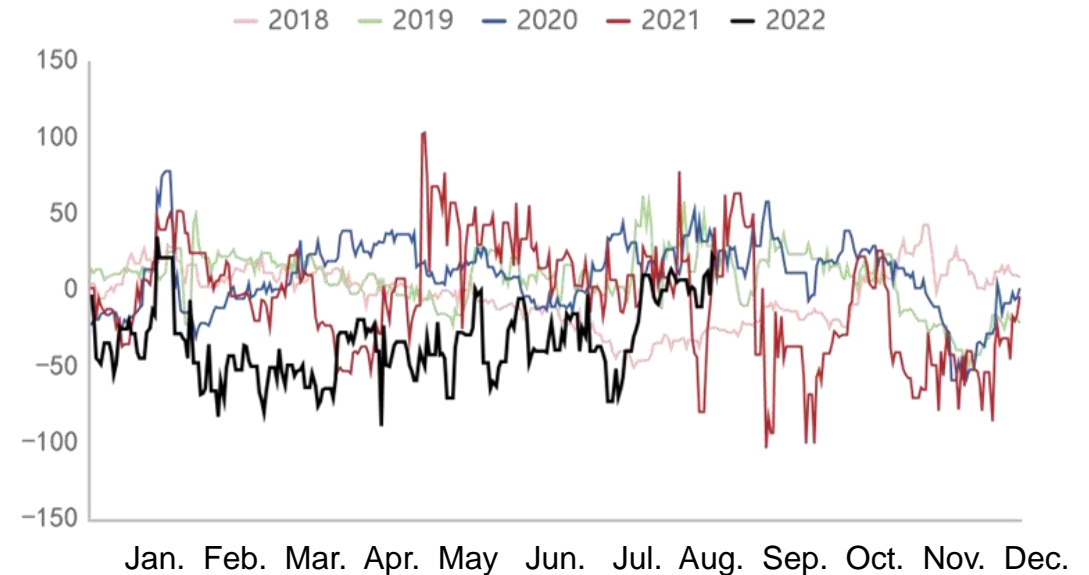
Figure 7: Spot Price

Brand (RMB)	2022-07-29	2022-08-31	Weekly Change	Margin
Jimblebar Fines (61%)	735	705	-30	-4.08%
PB Fines (61.5%)	782	740	-42	-5.37%
Super Special Fines(56.5%)	646	634	-12	-1.86%
Newman Fines (62.5%)	794	753	-41	-5.16%
BRBF (62.5%)	827	780	-47	-5.68%
Roy Hill Fines (61%)	757	725	-32	-4.23%
Carajas Fines (65%)	880	847	-33	-3.75%
PB Lump (62.5%)	900	870	-30	-3.33%
Newman Lump (63%)	895	863	-32	-3.58%
58%Tangshan Iron Fines (66%, dry basis, tax included)	866	923	57	-6.58%
Daily reference rate for the renminbi against the dollar	6.7437	6.8906	0.1469	2.18%

Sources: MYSTEEL, Minmetals Futures

Spot price in August extended its loss but at a slower pace, with super special fines as the most resilient one. The PB import profit swung around the break-even line with insignificant fluctuation.

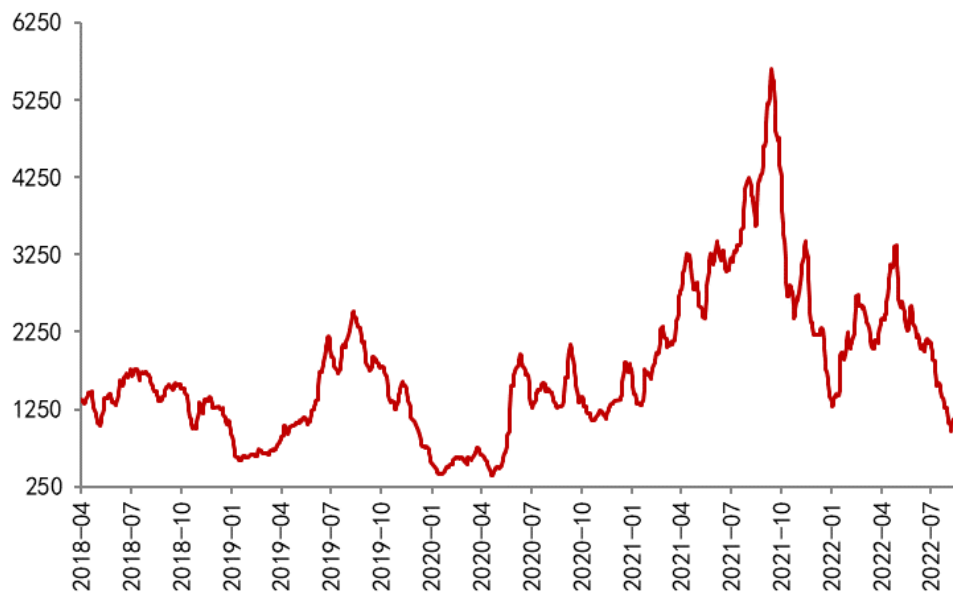
Figure 8: PB Fines Import Profit



Sources: MYSTEEL, Minmetals Futures

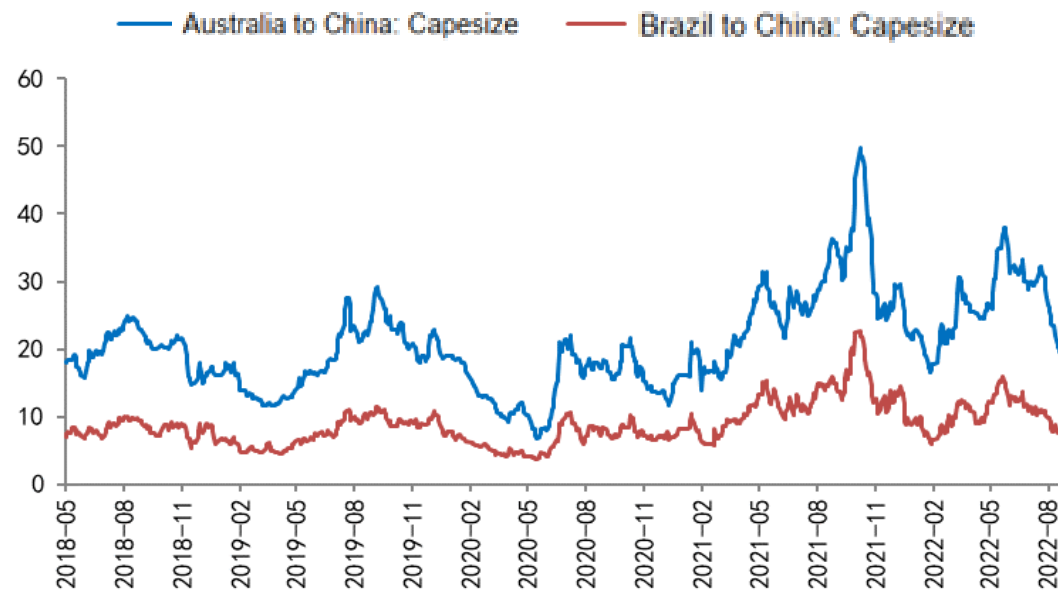
Sea Freights

Figure 9: BDI



Sources: MYSTEEL, Minmetals Futures

Figure 10: Sea Freights by Origins



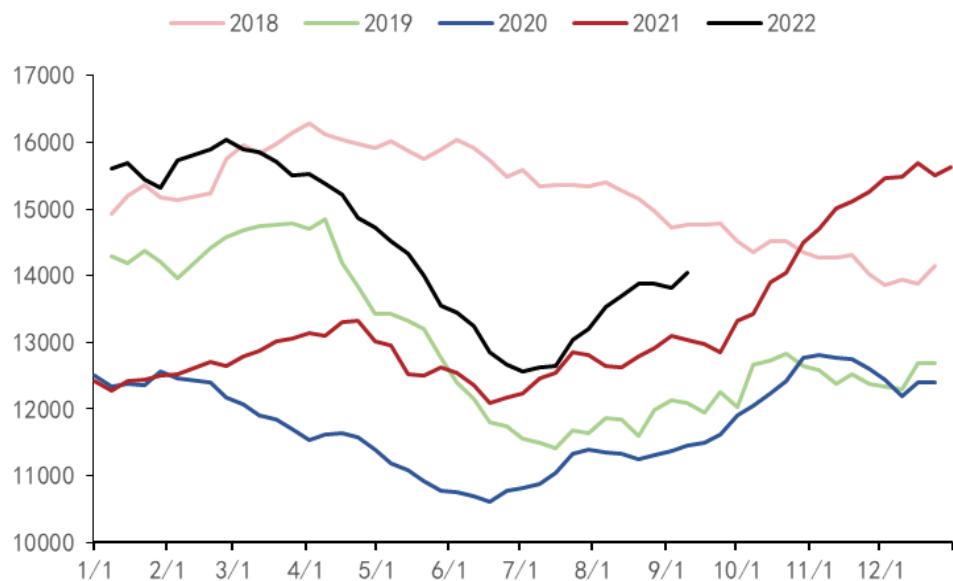
Sources: MYSTEEL, Minmetals Futures

BDI in August tumbled, to 965 points by the end of month with a monthly decrease of 49%. The sea freights from Brazil and Australia in August dropped by \$ 9.6/ton and \$ 2.6/ton, respectively.

3. Stocks



Figure 11: Iron Ores Inventory in Domestic Ports (10k tons)



Sources: MYSTEEL, Minmetals Futures

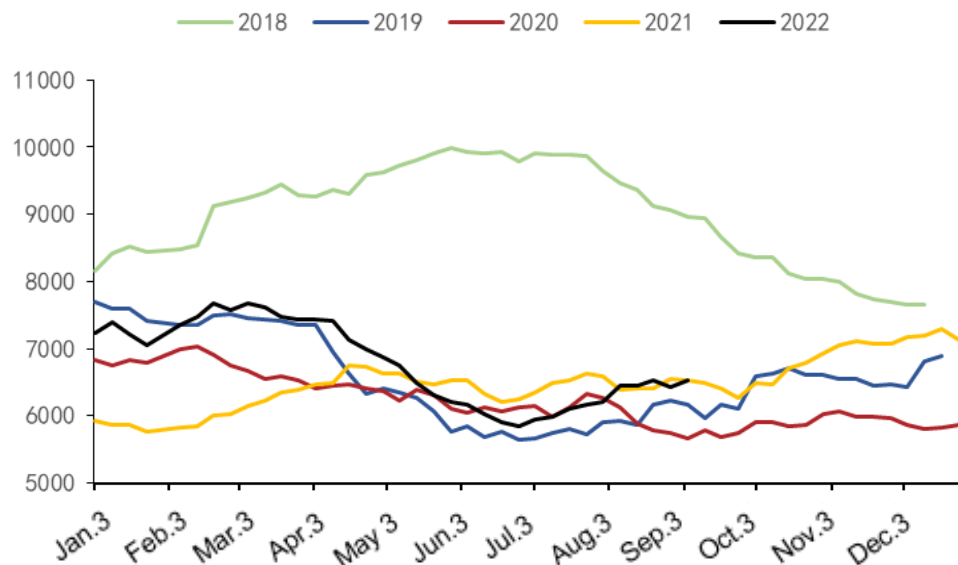
Figure 12: Iron Ore Port Inventory as per different physical forms (10k tons)



Sources: MYSTEEL, Minmetals Futures

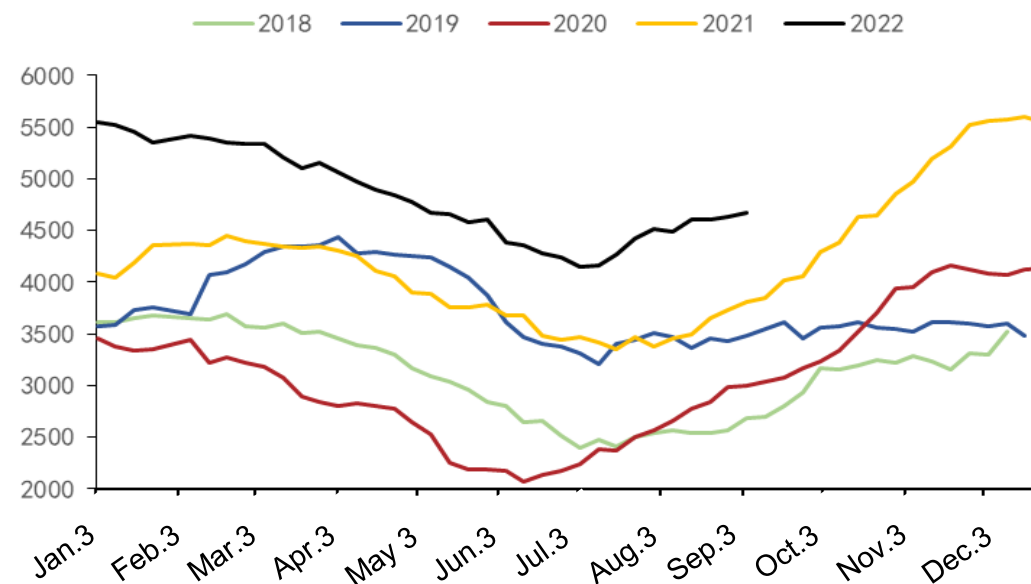
Port inventory of iron ore in August kept building up, exceeding 140 million tons.

Figure 13: Port Inventory of Iron Ores from Australia (10k tons)



Sources: MYSTEEL, Minmetals Futures

Figure 14: Port Inventory of Iron Ore from Brazil (10k tons)



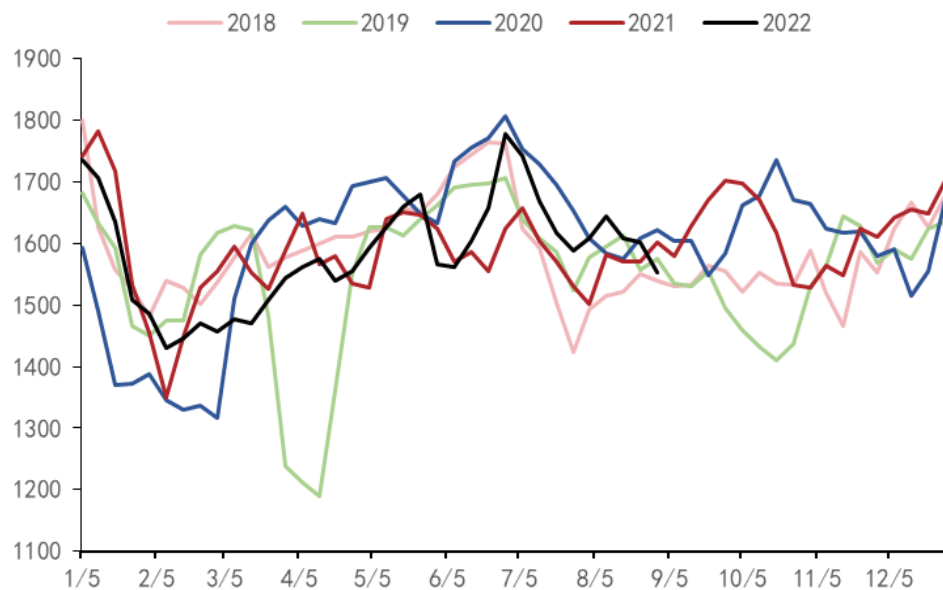
Sources: MYSTEEL, Minmetals Futures

In August, port inventories of Australia and Brazil continued its piling-up but at a slower pace compared with last month.

4. Supply

Supply

Figure 15: Iron Ore Shipments from Australia (10k tons)



Sources: MYSTEEL, Minmetals Futures

Figure 16: Iron Ore Shipments from Brazil (10k tons)

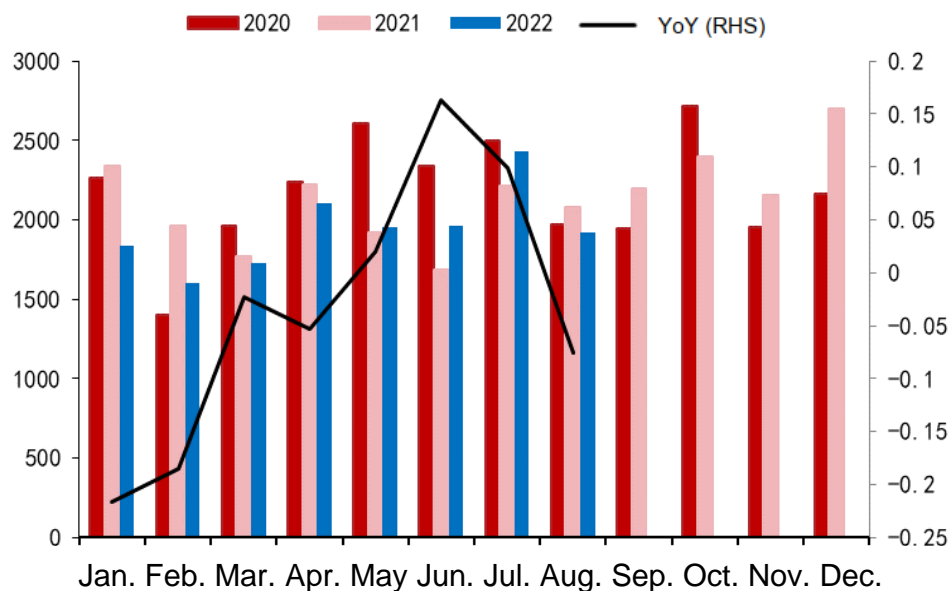


Sources: MYSTEEL, Minmetals Futures

In August, less shipments departed from Australia while shipments from Brazil steadily grew, reaching a level above the historical average. (Shipments in the diagrams above are the average numbers of 4 weeks, not the actual amount.)

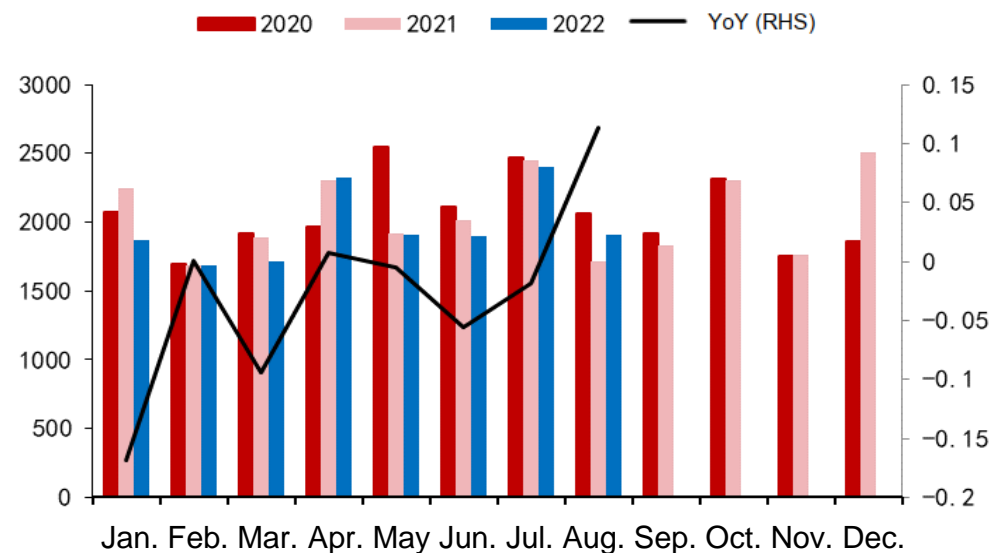
Supply

Figure 17: Iron Ore Shipments from Rio Tinto (10k tons)



Sources: MYSTEEL, Minmetals Futures

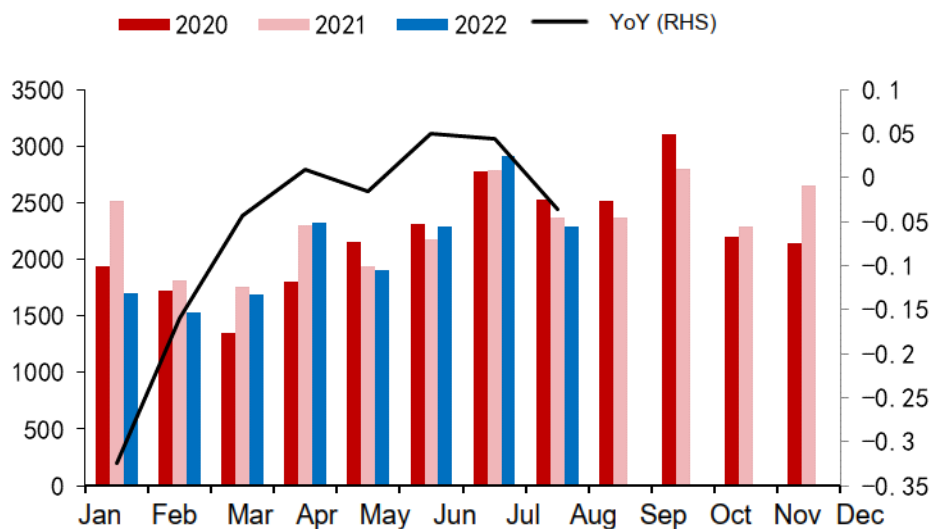
Figure 18: Iron Ore Shipments from BHP Billiton (10k tons)



Sources: MYSTEEL, Minmetals Futures

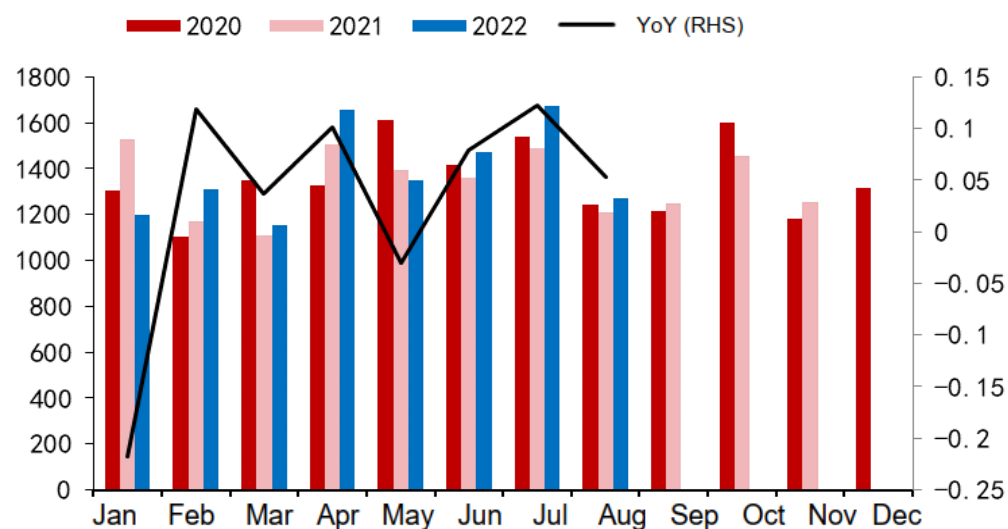
Four Majors produced less iron ore in August month-on-month but BHP Billiton and FMG realized a month-on-month increase.

Figure 19: Iron Ore Shipments from Vale (10k tons)



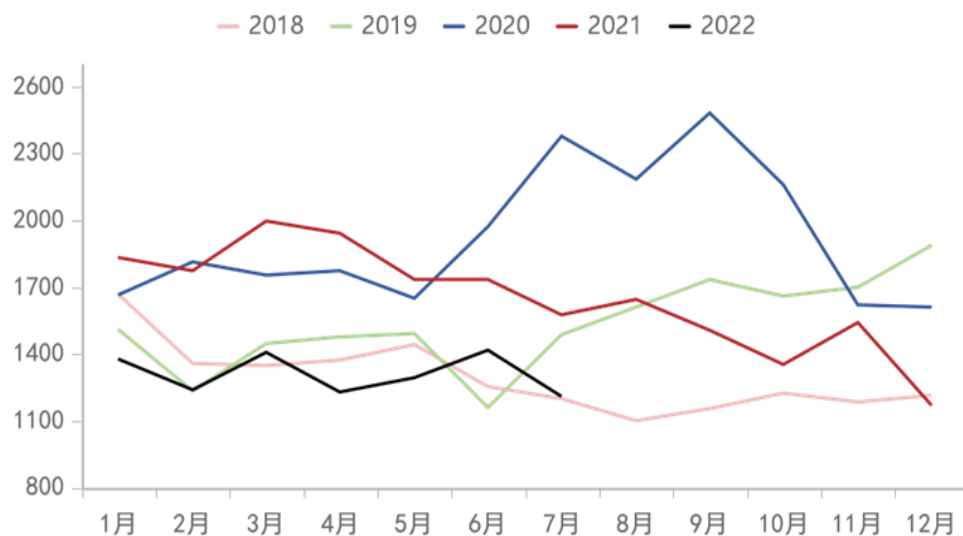
Sources: MYSTEEL, Minmetals Futures

Figure 20: Iron Ore Shipments from FMG (10k tons)



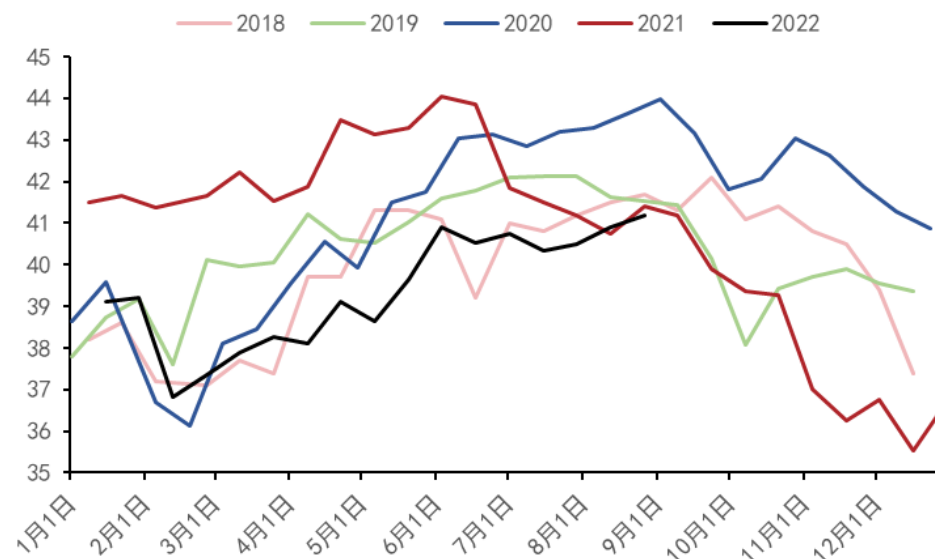
Sources: MYSTEEL, Minmetals Futures

Figure 23: Iron Ore Import from Non-Major Mines (10k tons)



Sources: MYSTEEL, Minmetals Futures

Figure 24: Average Daily Domestic Iron Ore Fines Output (10k tons)

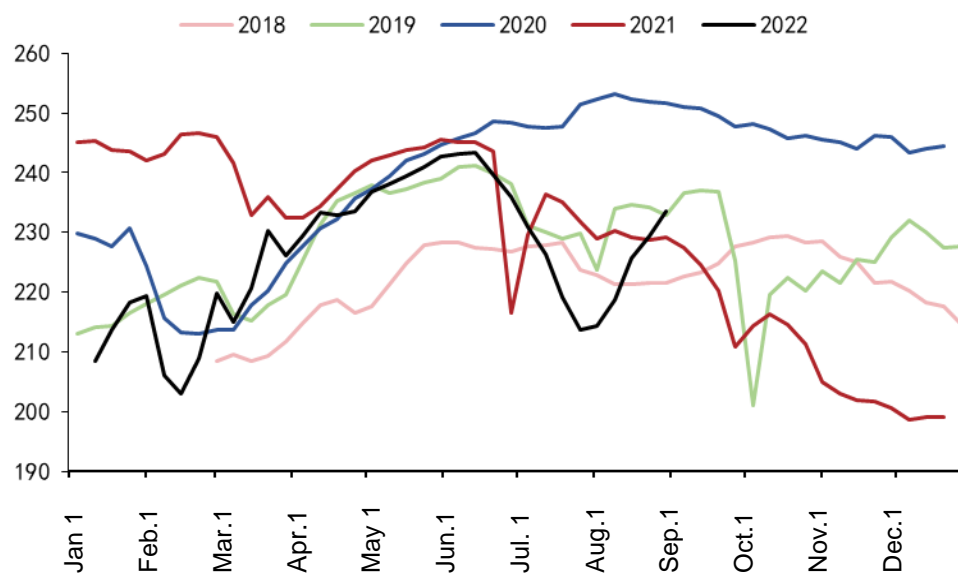


Sources: MYSTEEL, Minmetals Futures

Import from overseas non-major mines witnessed a decline in July, falling to a historical low. The output of domestic mines edged up with limited increments in August.

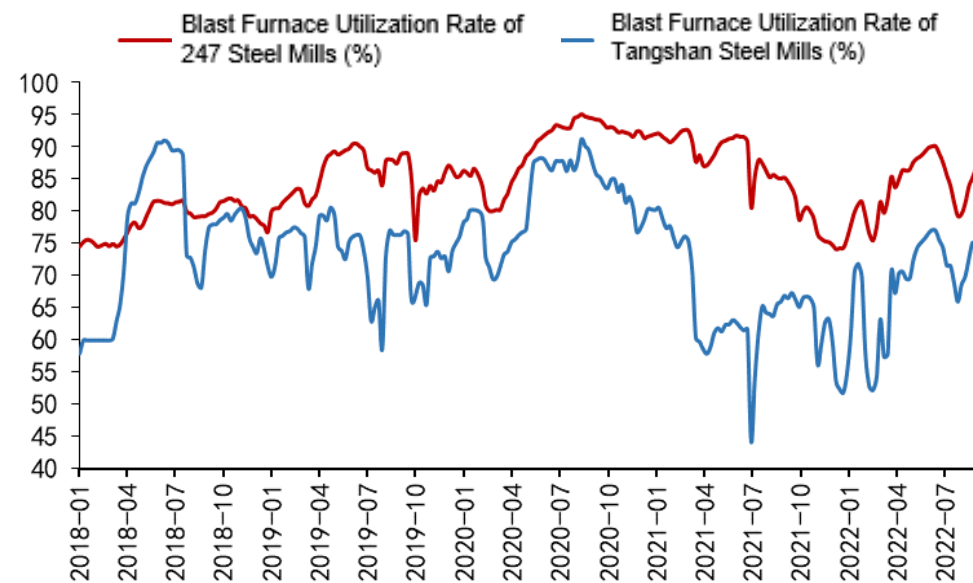
5. Demand

Figure 28: Domestic Daily Average Molten Iron Output (10k tons)



Sources: MYSTEEL, Minmetals Futures

Figure 29: Capacity Utilization Rate for Blast Furnace (%)

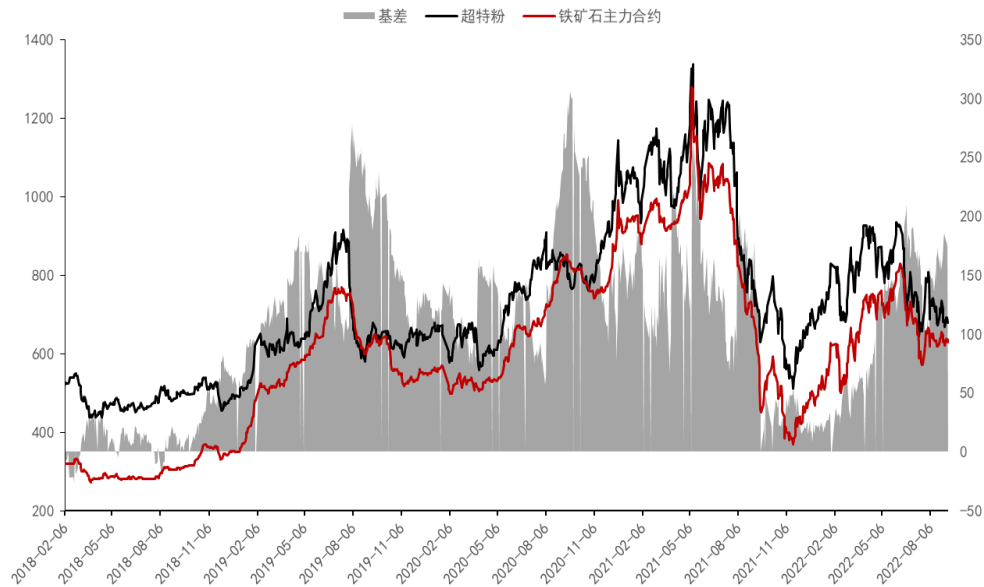


Sources: MYSTEEL, Minmetals Futures

Molten iron output in August recovered rapidly, returning to a historical normal level. Along with further resumption of steel mill operation, the capacity utilization rate for blast furnace rebounded at a fast speed, arriving at a relatively high level within this year.

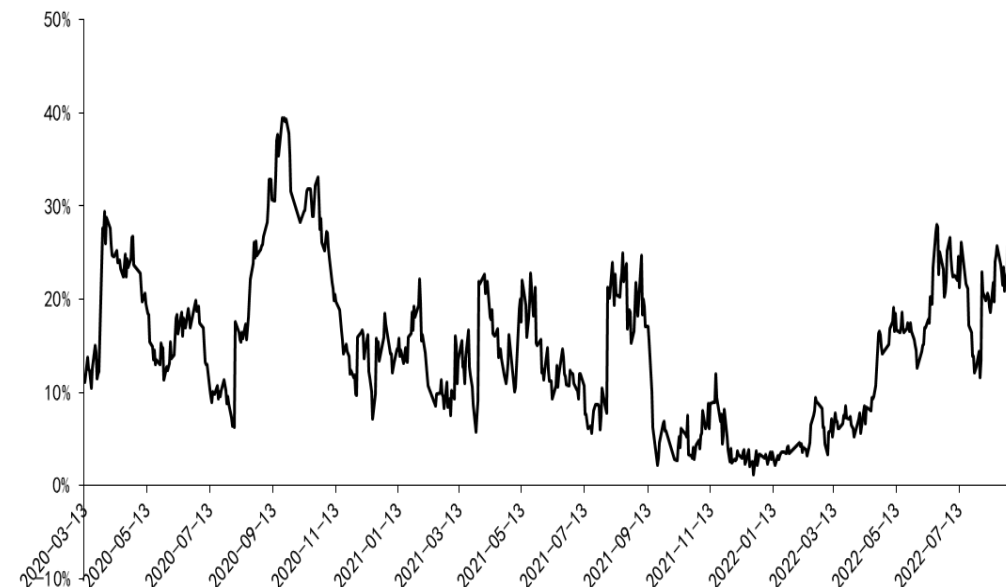
6. Basis

Figure 30: Iron Ore Basis (RMB/ton)



Sources: MYSTEEL, Minmetals Futures

Figure 31: Basis rate to Super Special Fines (%)



Sources: MYSTEEL, Minmetals Futures

Iron ore basis in August stayed mildly choppy (contract rollover) and fluctuated at a high level within a narrow range after rolling over.

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Contact



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产融服务专家，财富管理平台

Website: www.wkqh.cn www.minfutures.com/english/index

Hotline: 400-888-5398

Headquarter Address: 13-16/F, Minmetals Financial Center, No. 3165 Binhai Ave., Nanshan District, Shenzhen, China



Wechat Account: wkqhwfw



Weibo Account