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# Monthly Report on Iron Ore

**A trade-off between output control and economy stabilization**

20230901

■ Ferrous Material Group

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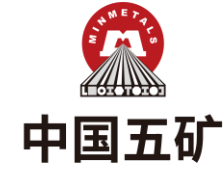
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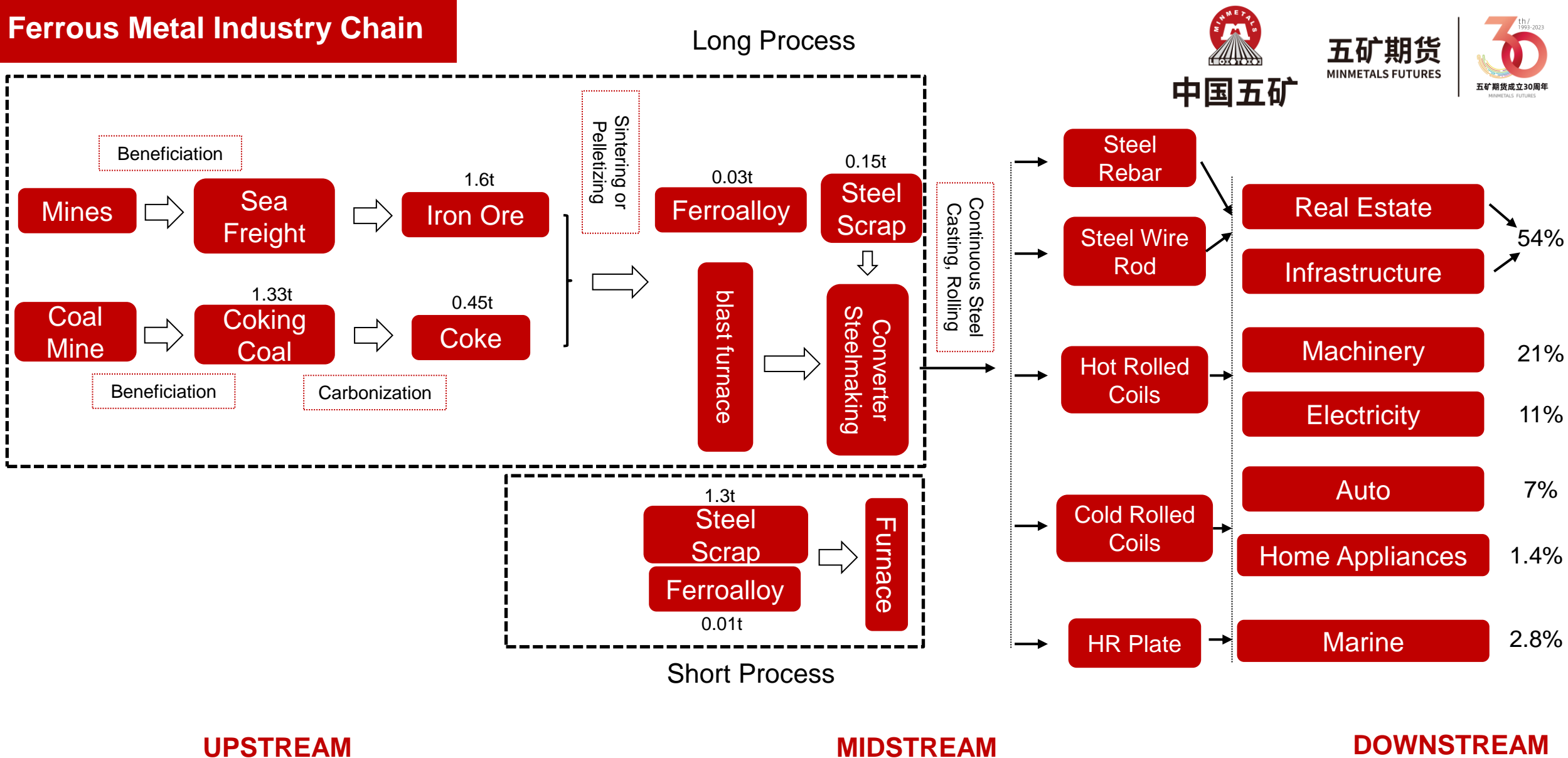


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# 1. Monthly Review & Strategy Recommendation

# Ferrous Metal Industry Chain

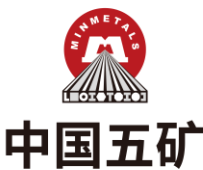


- ◆ **Review of last month:** The iron ore market price made a breakthrough and rose in August, continuing the upward trend since June. The I2309 contract went up by 88 points, or 10.46%, to close at 929.5 points. The I2401 contract increased by 96 points, or 12.75%, to close at 849 points. The biggest surprise in August was no output control being implemented. At the beginning of August, the futures price already priced in certain expectations of production cut. If the cut really occurs, price will rise further. Otherwise, price will go in the opposite direction more rapidly. Still, no control measures have been revealed yet. In mid-August, the prices of all the five major steel products and molten iron stayed at high levels with no signs of output cut. Prices adjusted upward until the end of August. Fundamentally, the supply and demand of iron ore both performed robustly, and inventory level was low.
- ◆ **Outlook for next month**
- ◆ **Supply:** Australian shipments remained stable, with a slight downward trend after the surge at the end of Q3. Brazilian mine shipments climbed steadily and reached a high-level range. Non-mainstream mine shipments increased after June and stabilized in August. As of the end of August, global shipments had a cumulative year-on-year growth rate of 2.3%. The output of domestic mines remained high in August. It is a period with relatively high shipments currently. The increases and decreases in Australia and Brazil will offset in later months, leaving limited room for further shipment growth.
- ◆ **Demand:** The average daily output of 247 molten iron producers is 2.46 million tons. The current profitability of steel mills has further deteriorated, with the overall rate lowering to 45.45%, less than 50%. Specifically, rebar producers suffered losses, while hot rolled coil and medium plate producers struggled with only a profit of less than RMB100. Things were relatively better for cold-rolled sheet manufacturer who still can earn a profit of few hundreds. Certain steel mills already planned to cut output of rebar in September and naturally more mills would follow if the profitability further deteriorated. However, the output cut may proceed quite slowly since this year's output adjustments will rely on market-oriented deployment. A possible situation may happen when the economy already bottoms out, but steel mills still haven't solved oversupply. According to the maintenance plans that already have been announced, demand in September will drop slightly from high and molten iron will slowly slide to 2.35-2.4 tons per day.



- ◆ **Inventory:** The total inventory of the 45 ports was 12,127, an increase of 950,000 tons from the previous month but 3.25 million tons lower than end of July. The port inventory continued to fluctuate mildly while the inventory of steel mills stayed extremely low compared with the same period in history. The current inventory structure provides certain support for iron ore price. However, given the upcoming reduction in crude steel production, inventories are expected to gradually accumulate.
- ◆ **Macro:** In the past month, domestic measures to stabilize economy have been frequently introduced with actual documents being released and some even exceeding the market expectation. In early August, 20 measures to stimulate consumption and to reduce tax for small and micro enterprises were issued. In mid-August, the central bank lowered the interest rates, the 1-year MLF, the 7-day repo rate, the SLF of overnight, 7-day and 1-month as well as 1-year LPR. In late August, a series of stimulus actions have been taken, including tightening IPO, regulating stake deduction, halving stamp duty and lowering margin requirements for stock financing. In late August, a batch of policies have been rolled out to boost property market. Guangzhou and Shenzhen officially said that home buyers will be treated as first-home buyers for loans, regardless of their mortgage record, as long as they don't now own another home in the city. In a joint statement by the PBOC and NAFR, the minimum down payments for mortgages will be cut for first-time buyers. Though each policy alone is not that powerful, but as the pace of policy release increases and more support steps up, policies have become more targeted to the core conflict. In general, the current macro-economic environment is relatively slack, without doubt.
- ◆ **Summary:** August is a critical period for testing the results of production control, but the expectation has been falsified by the increasingly high molten iron output. At present, the output adjustment depends more on profit. We believe that under this circumstance, the decline in the output of steel mills will be a slow process. It's likely that iron ore may face a situation where both demand and supply shrink. Given the low inventory level and a slack macro condition, no obvious conflicts or major irrationalities exist in the price of ore. The price of iron ore is expected to remain volatile but not as strong as in August (a relatively strong surprise in August). It also may drop slightly as the output of steel mills declines. We recommend staying sideline watching.

# Valuation & Driving Forces



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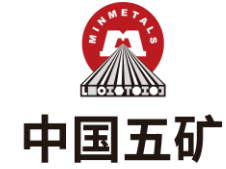


Fundamental for Iron Ore	Valuation		Driving Forces			
	Basis (Basis Rate)	Import Profit Estimate	Production Shipment	Steel Mill Profit	Molten Iron Output	Port Inventory
Long/Short Scoring	(1)	(1)	1	(1)	2	0
Brief Summary	No futures discounts	Small profits for import	Generally stable with a downward trend from high	Average loss but 46% steel mills realize mild profits	At a high level with expectation of moving downward	Low level
Conclusion	August is a critical period for testing the results of production control, but the expectation has been falsified by the increasingly high molten iron output. At present, the output adjustment depends more on profit. We believe that under this circumstance, the decline in the output of steel mills will be a slow process. It's likely that iron ore may face a situation where both demand and supply shrink. Given the low inventory level and a slack macro condition, no obvious conflicts or major irrationalities exist in the price of ore. The price of iron ore is expected to remain volatile but not as strong as in August (a relatively strong surprise in August). It also may drop slightly as the output of steel mills declines. We recommend staying sideline watching.					

# Supply-Demand Balance Table

Date	Domestic Concentrate Output	Ore Net Import	Daily Average Output of Pig Iron	Pig Iron Output	Ore Consumption	Ore Supply-Demand Gap
2023/1/31	2,222	10,191	245	7,580	12,128	285
2023/2/28	2,228	8,911	245	6,846	10,954	185
2023/3/31	2,486	9,829	252	7,807	12,491	(176)
2023/4/30	2,428	8,862	259	7,784	12,454	(1,164)
2023/5/31	2,459	9,437	248	7,700	12,320	(424)
2023/6/30	2,384	9,371	257	7,698	12,317	(562)
2023/7/31	2,458	9,086	231	7,149	11,438	105
2023/8/31	2,406	9,566	219	6,787	10,859	1,113
2023/9/30	2,364	9,840	235	7,044	11,270	933
2023/10/31	2,050	9,476	217	6,733	10,773	753
2023/11/30	2,211	9,806	215	6,449	10,318	1,698
2023/12/31	2,189	9,021	211	6,550	10,480	730





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## 2. Futures Market & Cash Market

Brand (RMB)	2023-09-01	2023-08-25	Weekly Change	Margin
Jimblebar Fines (61%)	862	837	25	2.99%
Newman Fines (62.5%)	918	904	14	1.55%
BRBF (62.5%)	918	913	5	0.55%
Roy Hill Fines (61% )	881	859	22	2.56%
PB Lump (62.5%)	1013	998	15	1.50%
Newman Lump (63% )	1013	988	25	2.53%
58%Tangshan Iron Fines (66%, dry basis, tax included)	1076	1077	(1)	(0.09%)
Daily reference rate for the renminbi against the dollar	7.1811	7.1883	(0.0072)	(0.10%)

Sources: MYSTEEL, Minmetals Futures

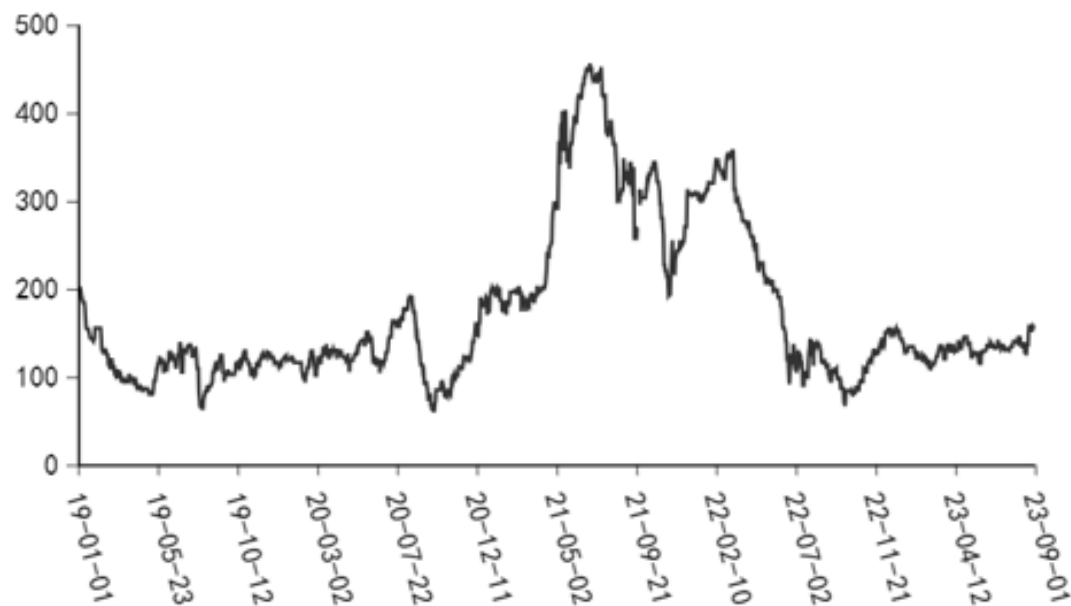
# Price Spread



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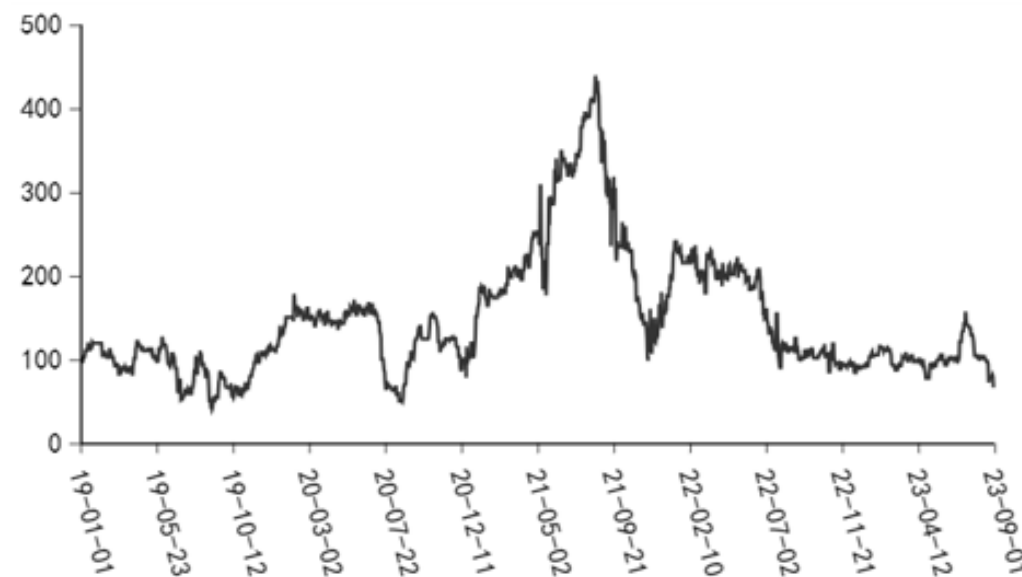


Figure 1: PB-Super Special Price Spread



Sources: MYSTEEL, Minmetals Futures

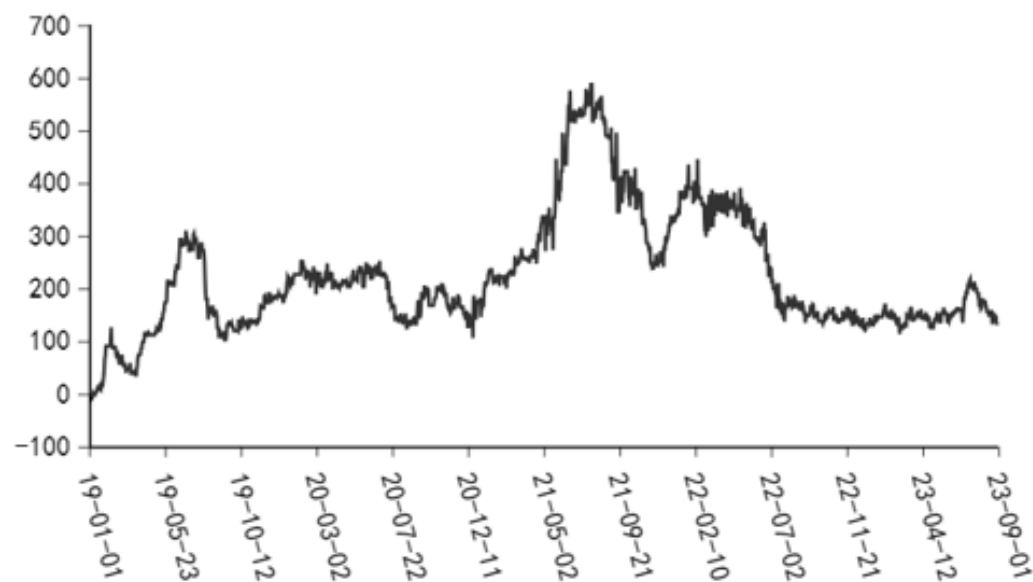
Figure 2: Carajas Fine-PB Price Spread



Sources: MYSTEEL, Minmetals Futures

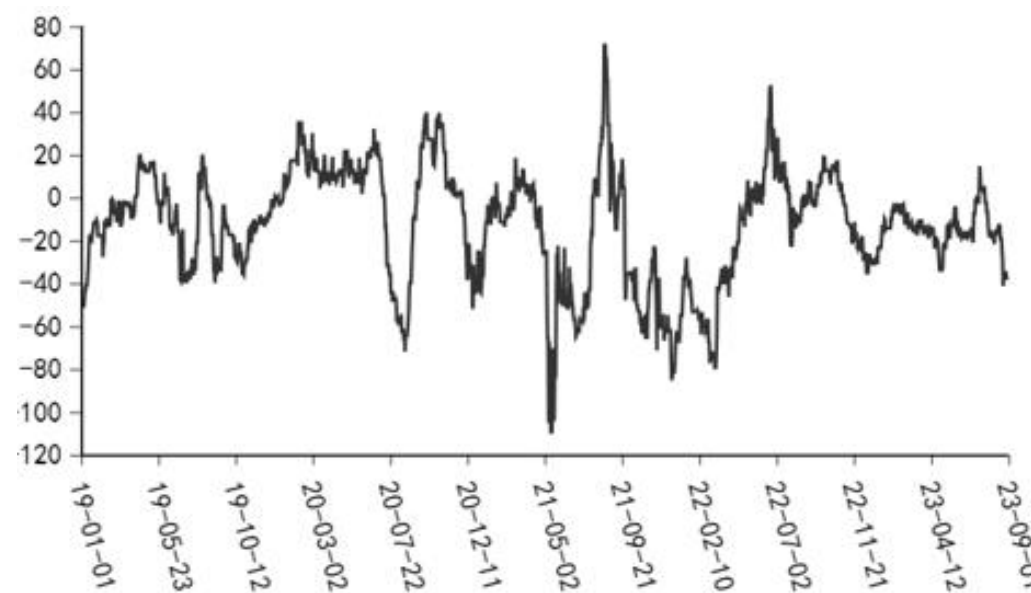
## Price Spread

Figure 3: Spread b/t Carajs Fines and Jimblebar Fines



Sources: MYSTEEL, Minmetals Futures

Figure 4: (Carajss Fines + Super Special Fines)/2 – PB Fines



Sources: MYSTEEL, Minmetals Futures

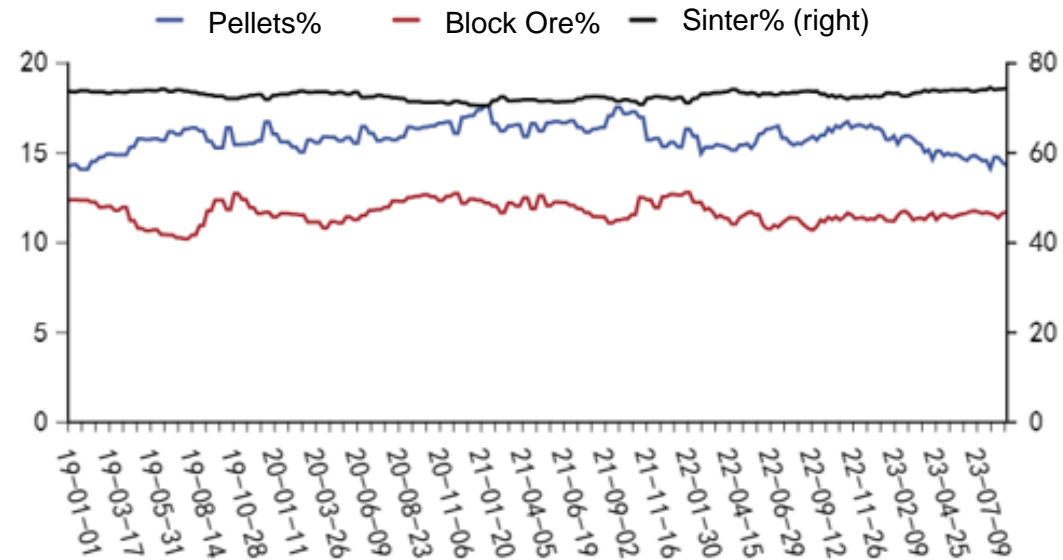
# Furnace Ratio



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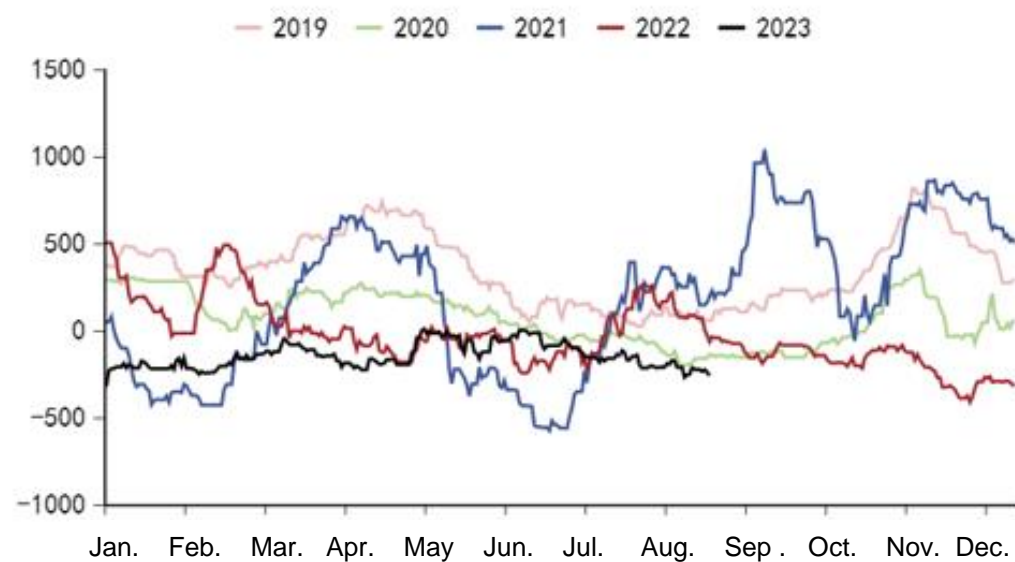
Figure 5: Steel Mill Furnace Ratio (%)



Sources: MYSSTEEL, Minmetals Futures

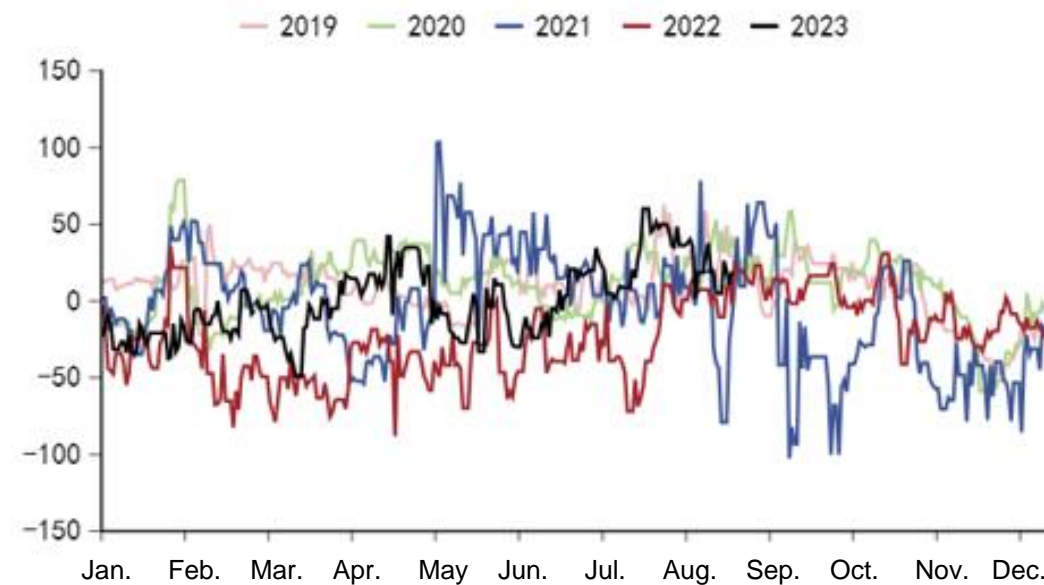
# Profit

Figure 6: Steel Mill Profits (RMB/ton)



Sources: MYSTEEL, Minmetals Futures

Figure 7: PB Fines Import Profit (RMB/ton)



Sources: MYSTEEL, Minmetals Futures



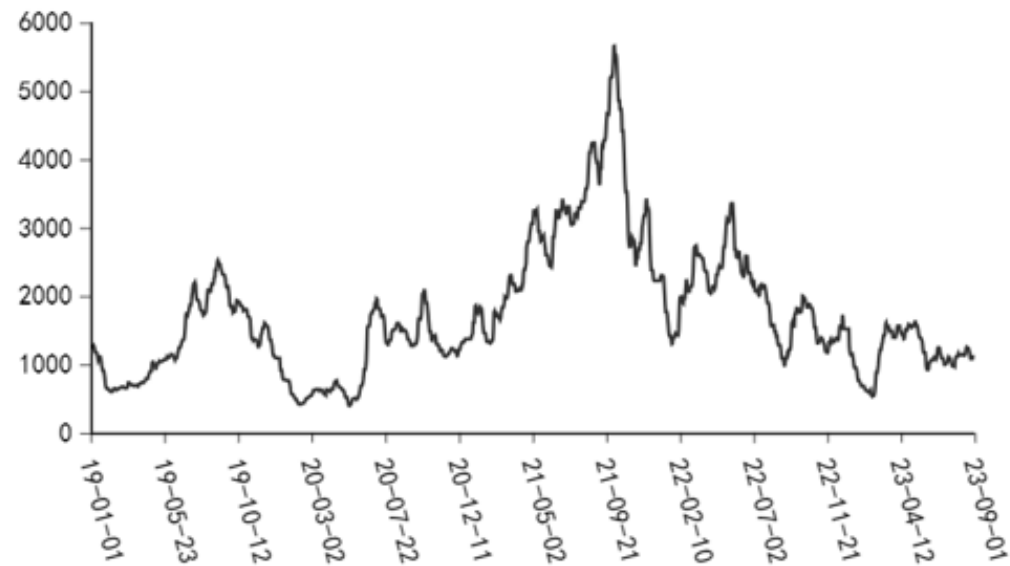
# Sea Freight Rates



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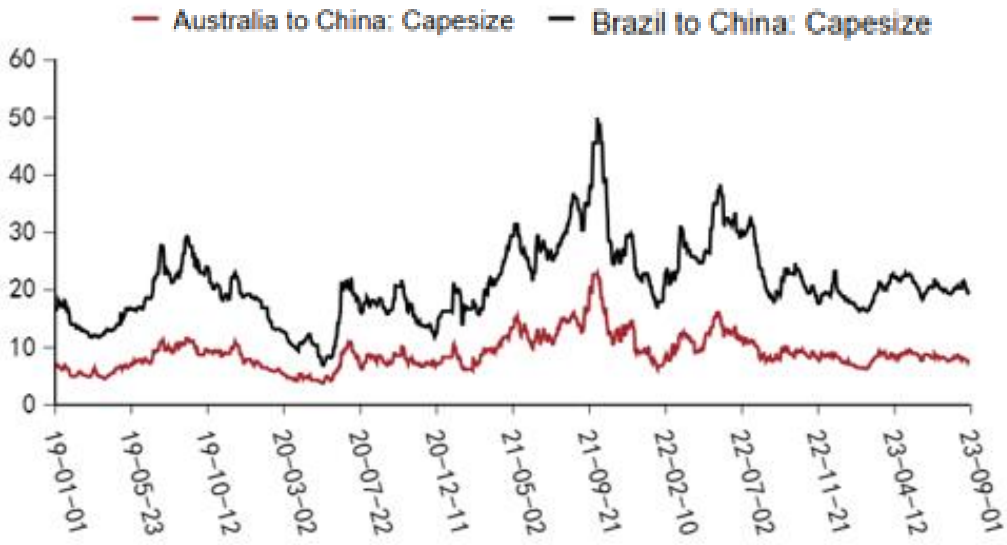


Figure 8: BDI



Sources: MYSTEEL, Minmetals Futures

Figure 9: Ocean Freight by Origins



Sources: MYSTEEL, Minmetals Futures



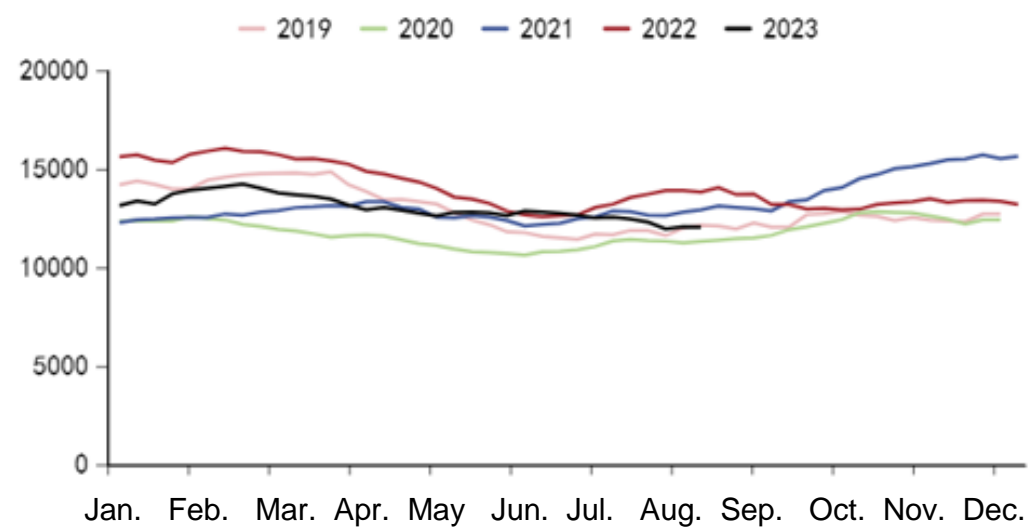
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## 3. Stocks

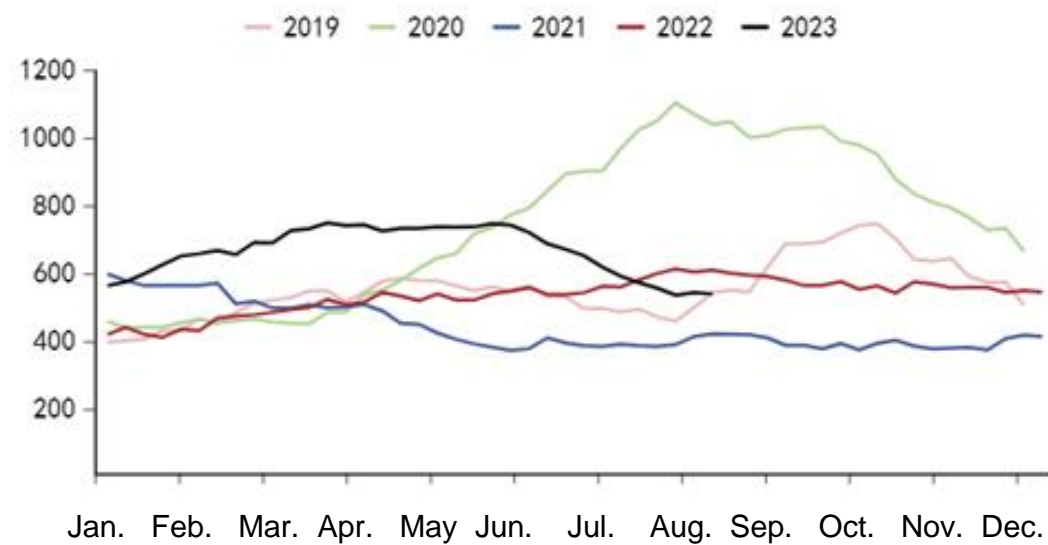
# Stocks

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



Sources: MYSTEEL, Minmetals Futures

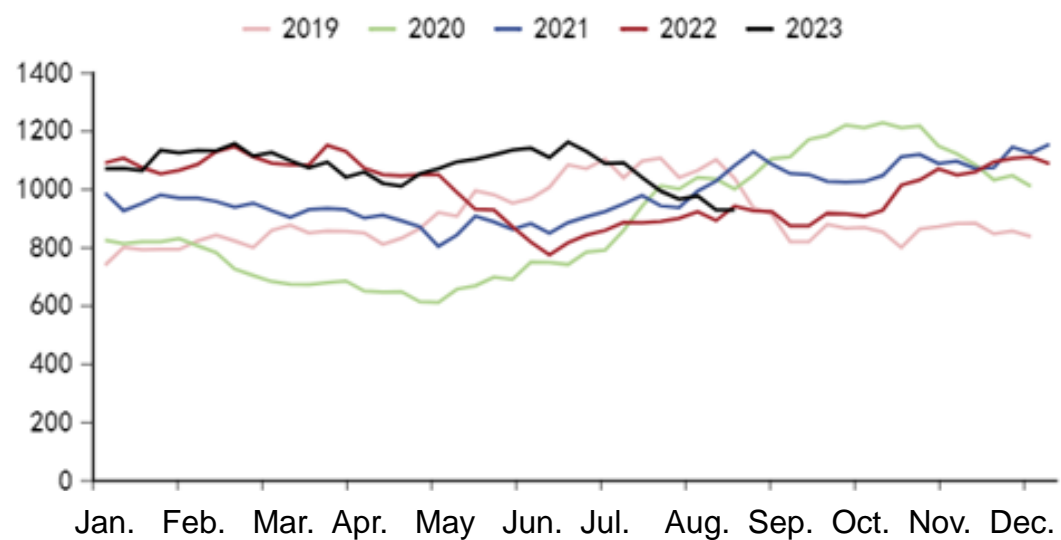
Figure 11: Port Inventory: Pellet Ore (10k tons)



Sources: MYSTEEL, Minmetals Futures

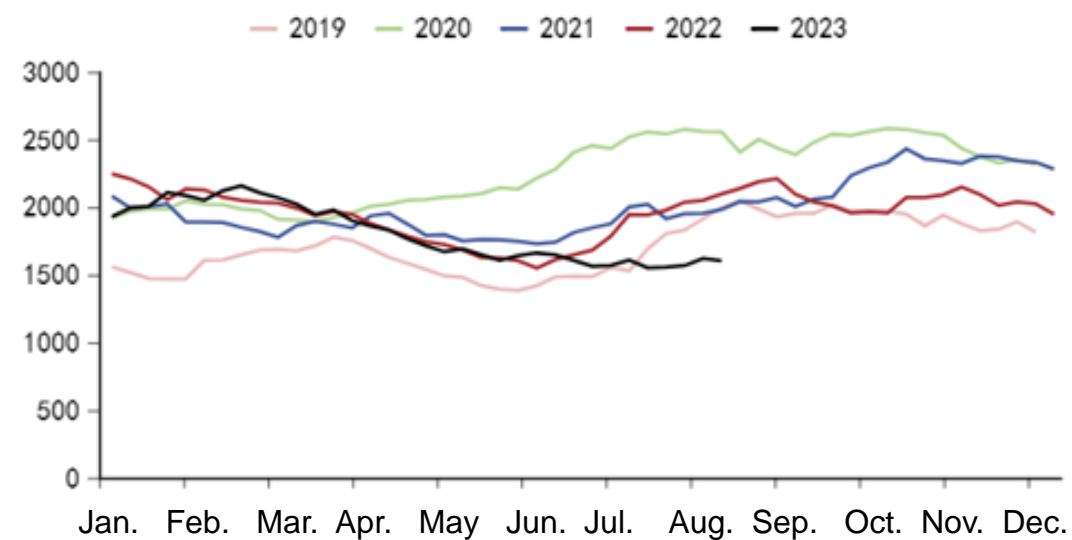
# Stocks

Figure 12: Port Inventory: Iron Ore Concentrate (10k tons)



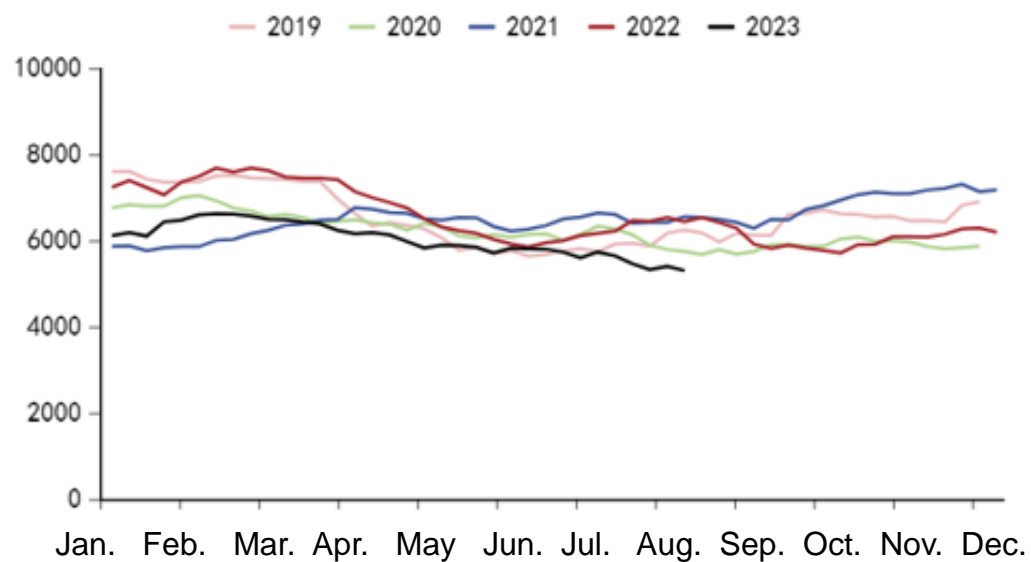
Sources: MYSTEEL, Minmetals Futures

Figure 13: Port Inventory: Block Ore (10k tons)



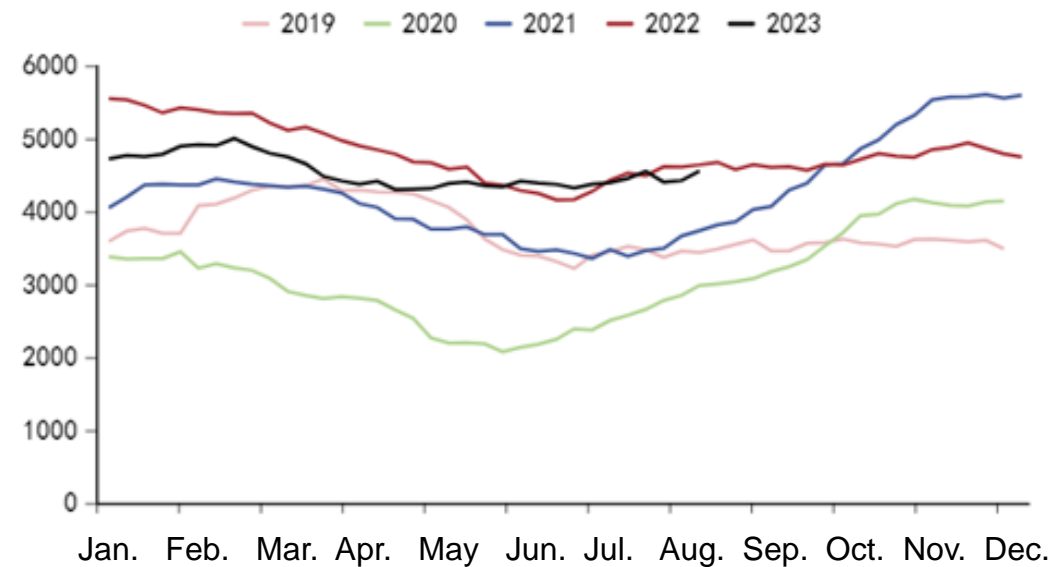
Sources: MYSTEEL, Minmetals Futures

Figure 14: Port Inventory of Iron Ores of Australia (10k tons)



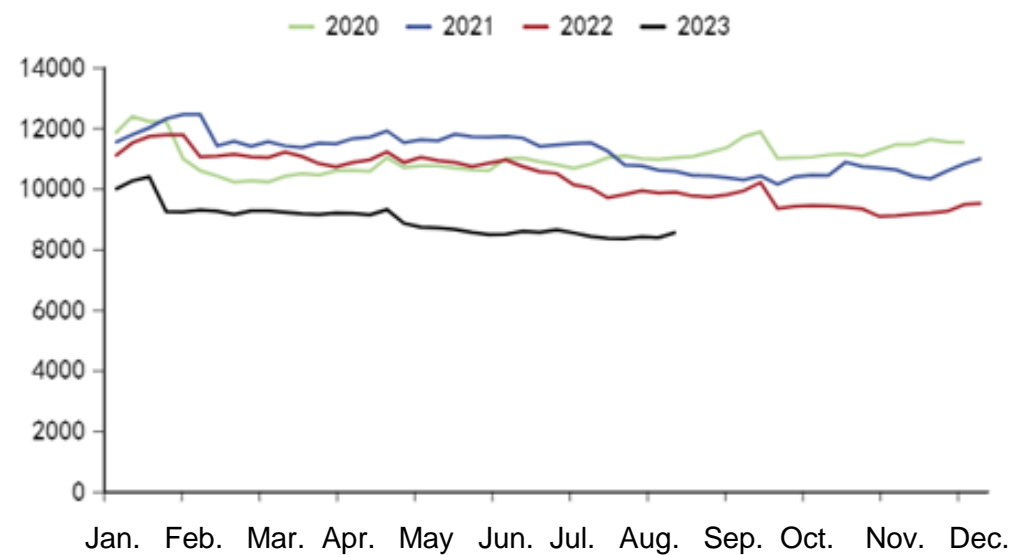
Sources: MYSTEEL, Minmetals Futures

Figure 15: Port Inventory of Iron Ore of Brazil (10k tons)



Sources: MYSTEEL, Minmetals Futures

Figure 16: Inventory of Imported Iron Ore in 247 Steel Mills (10k ton)



Sources: MYSTEEL, Minmetals Futures





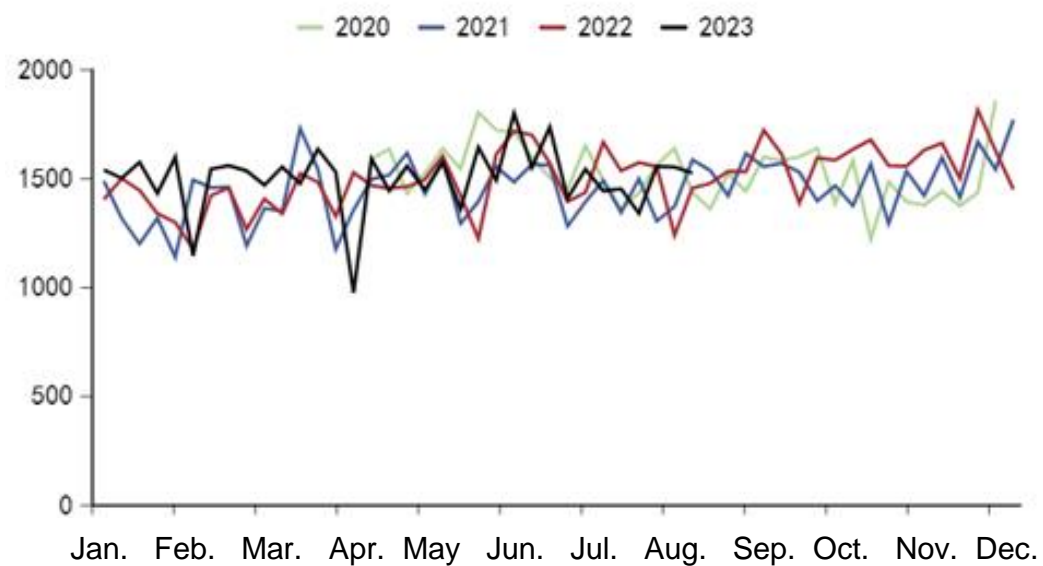
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## 4. Supply

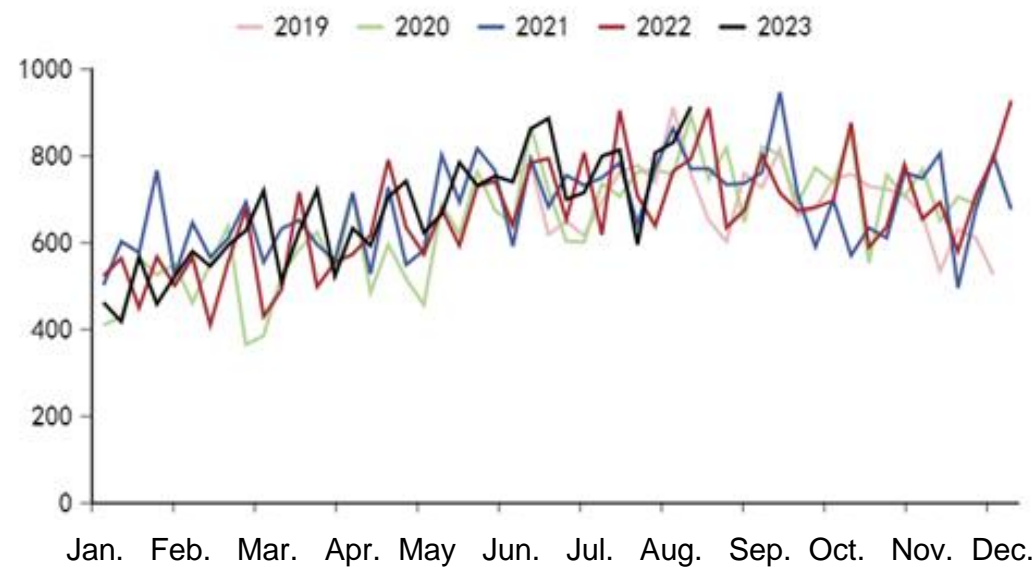
# Supply

Figure 17: Iron Ore Shipments from Australia: 19 Ports (10k tons)



Sources: MYSTEEL, Minmetals Futures

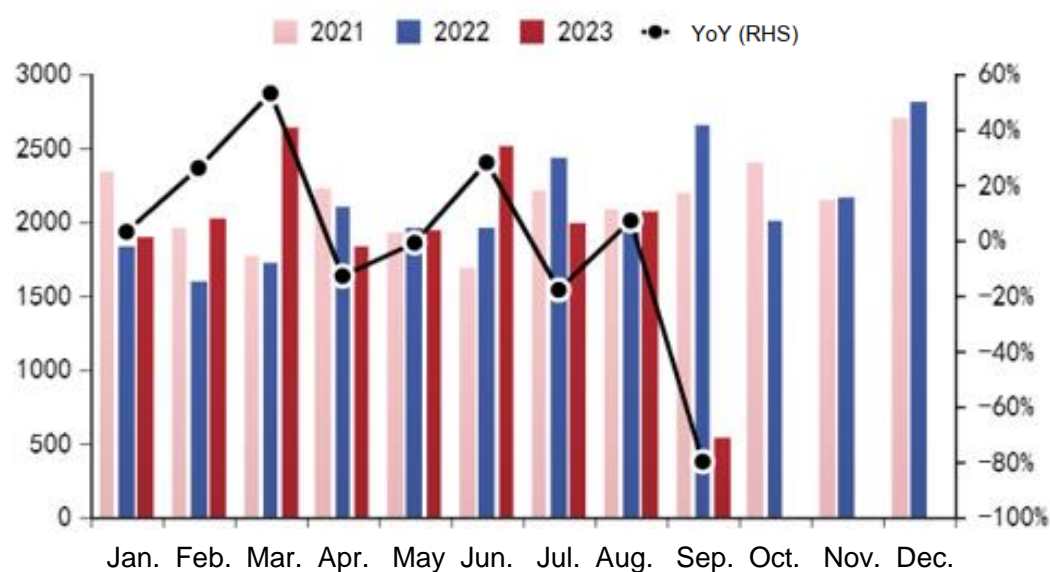
Figure 18: Iron Ore Shipments from Brazil: 19 Ports (10k tons)



Sources: MYSTEEL, Minmetals Futures

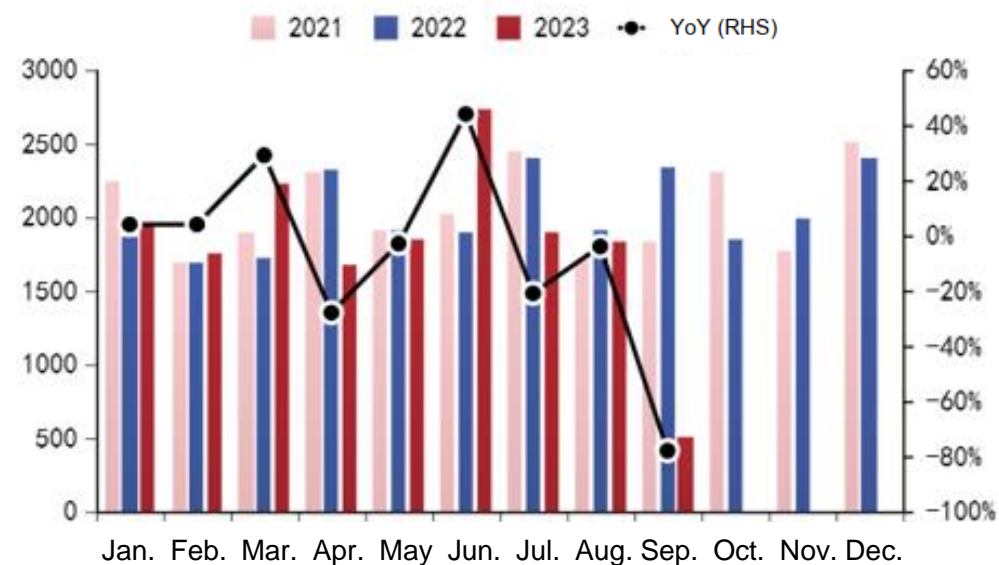
# Supply

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



Sources: MYSTEEL, Minmetals Futures

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



Sources: MYSTEEL, Minmetals Futures

# Supply

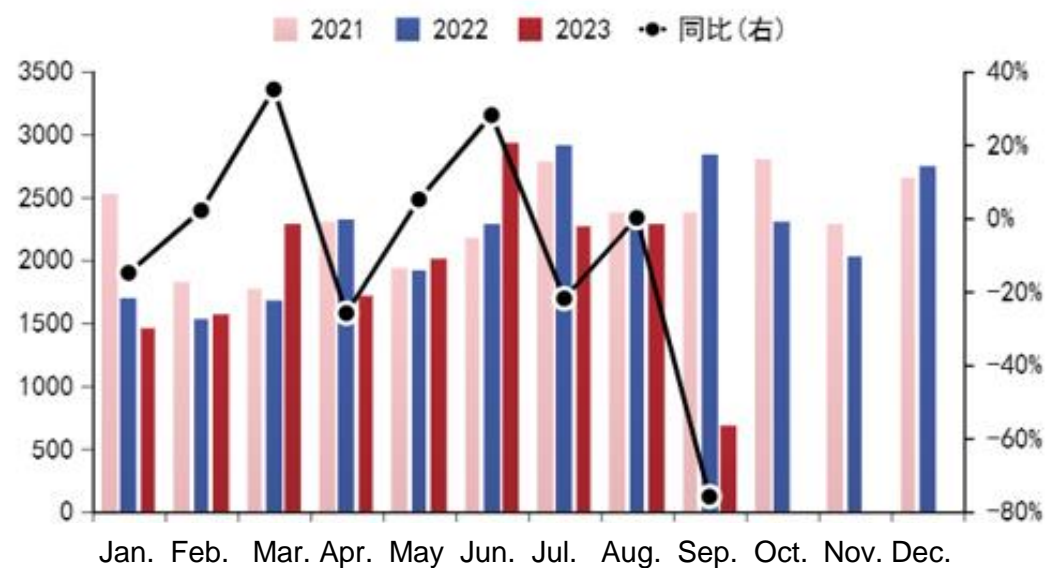
YoY (RHS)



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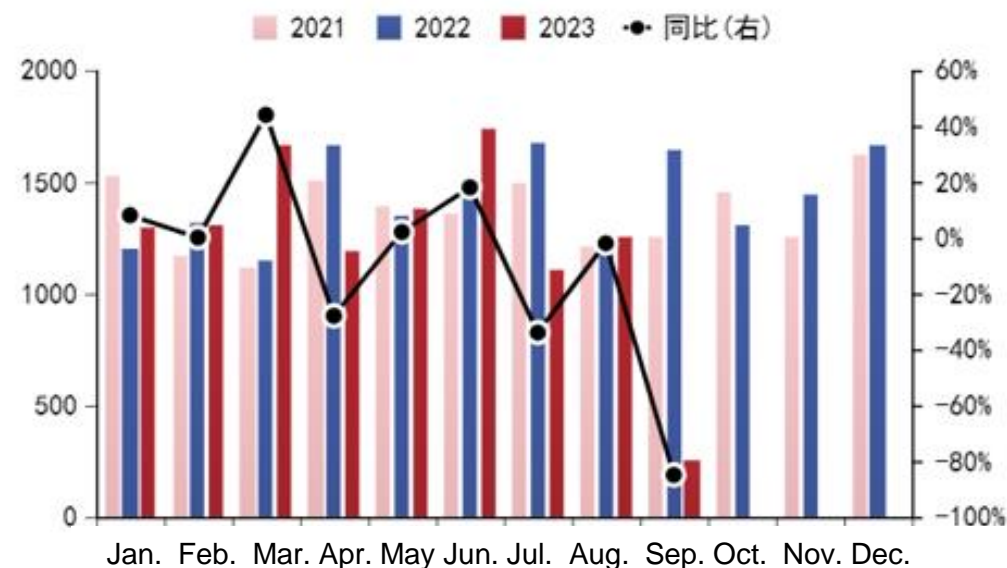


Figure 21: Iron Ore Shipments from Vale (10k tons)



Sources: MYSTEEL, Minmetals Futures

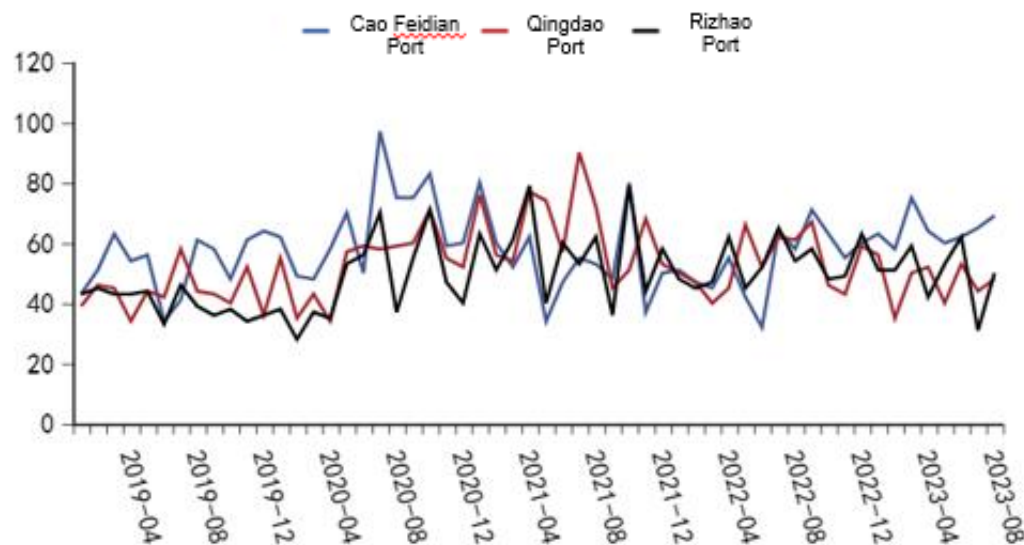
Figure 22: Iron Ore Shipments from FMG (10k tons)



Sources: MYSTEEL, Minmetals Futures

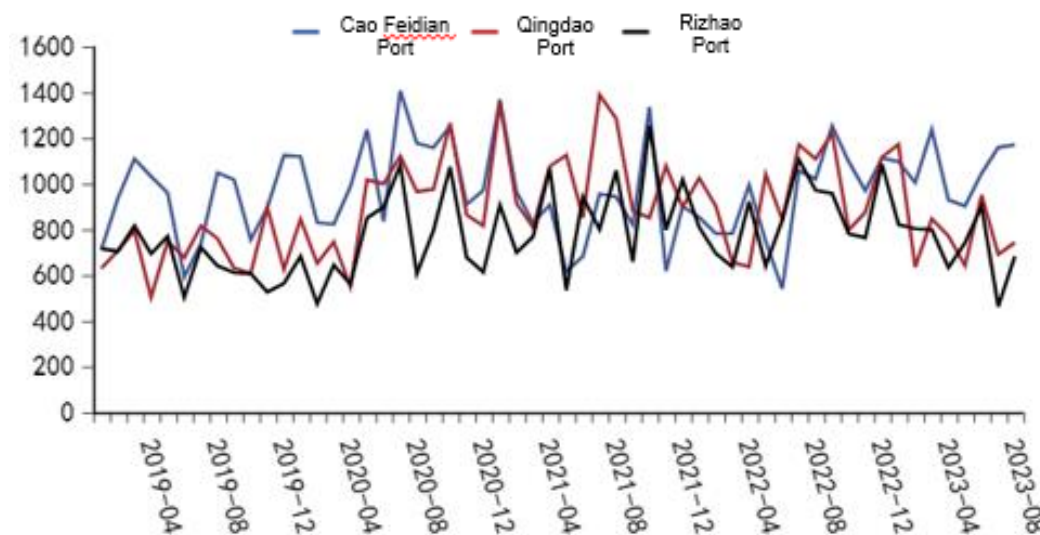
# Supply

Figure 23: Iron Ore Freight Arrival in China (unit)



Sources: MYSTEEL, Minmetals Futures

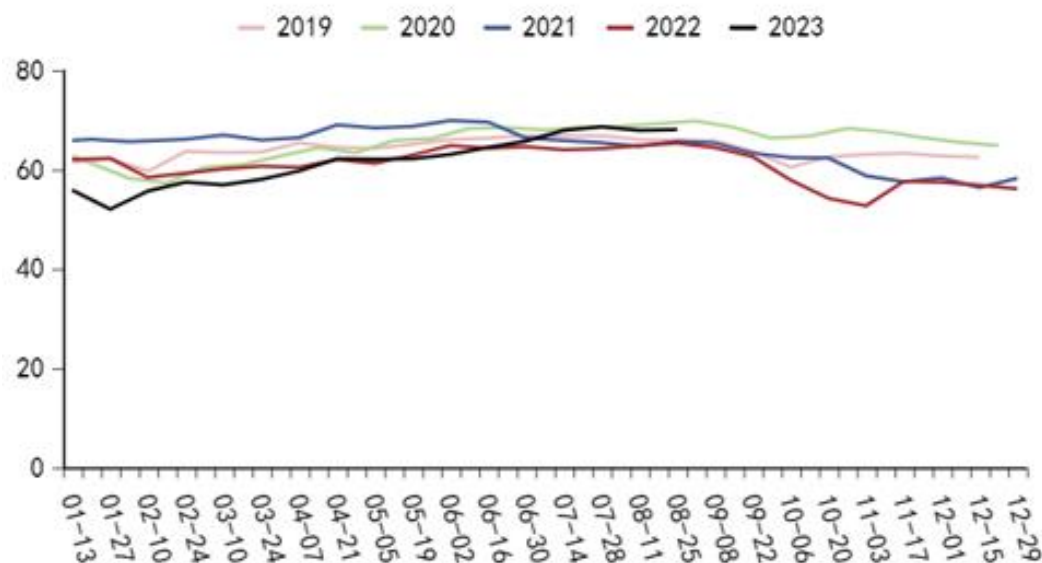
Figure 24: Iron Ore Arrival Volume in China (10k tons)



Sources: MYSTEEL, Minmetals Futures

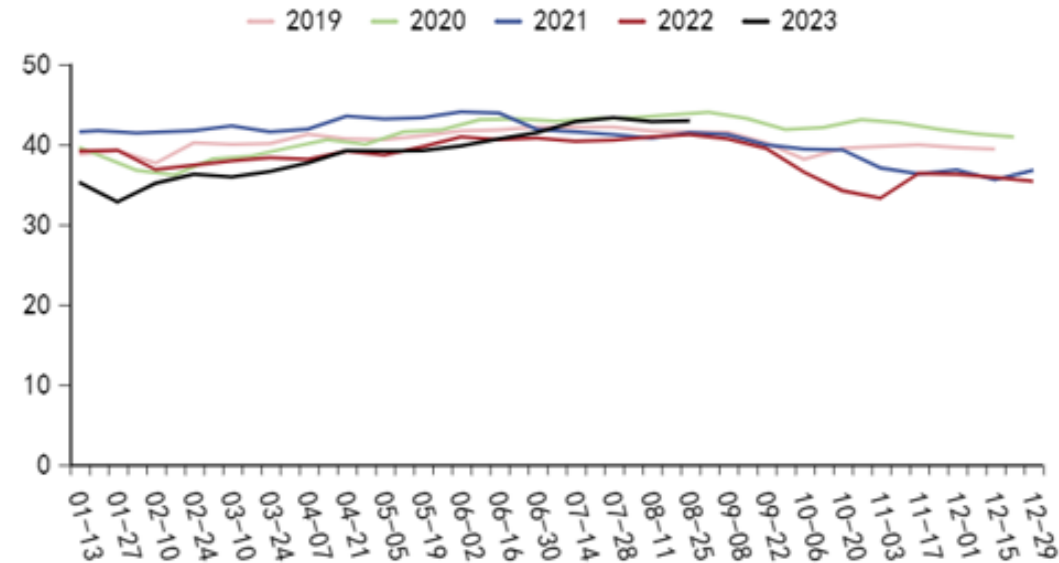
# Supply

Figure 25: Capacity Utility Rate of Domestic Mines (%)



Sources: MYSTEEL, Minmetals Futures

Figure 26: Daily Output of Domestic Iron Ore Concentrate (10k tons)

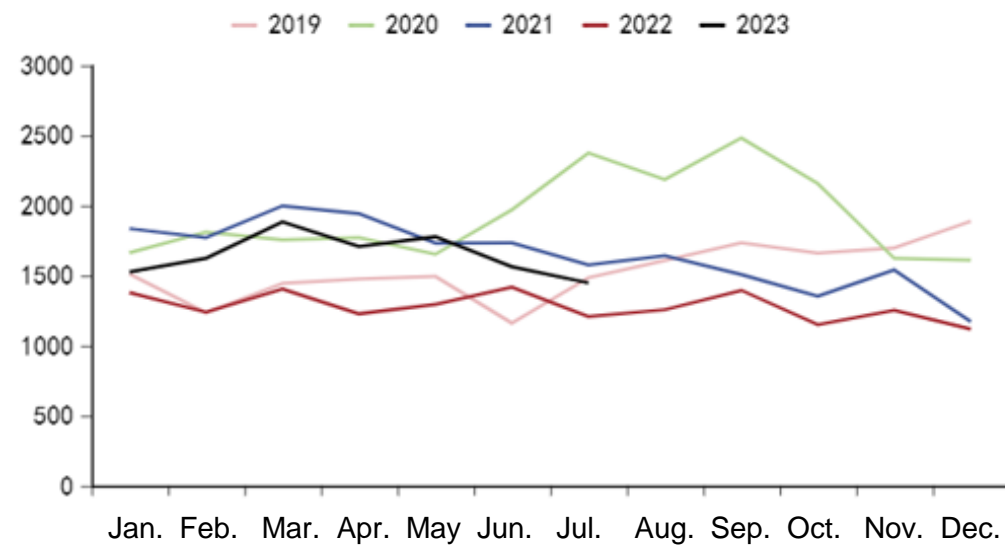


Sources: MYSTEEL, Minmetals Futures



# Supply

Figure 27: Import Volume of Non-mainstream Ores (10k ton)



Sources: MYSTEEL, Minmetals Futures



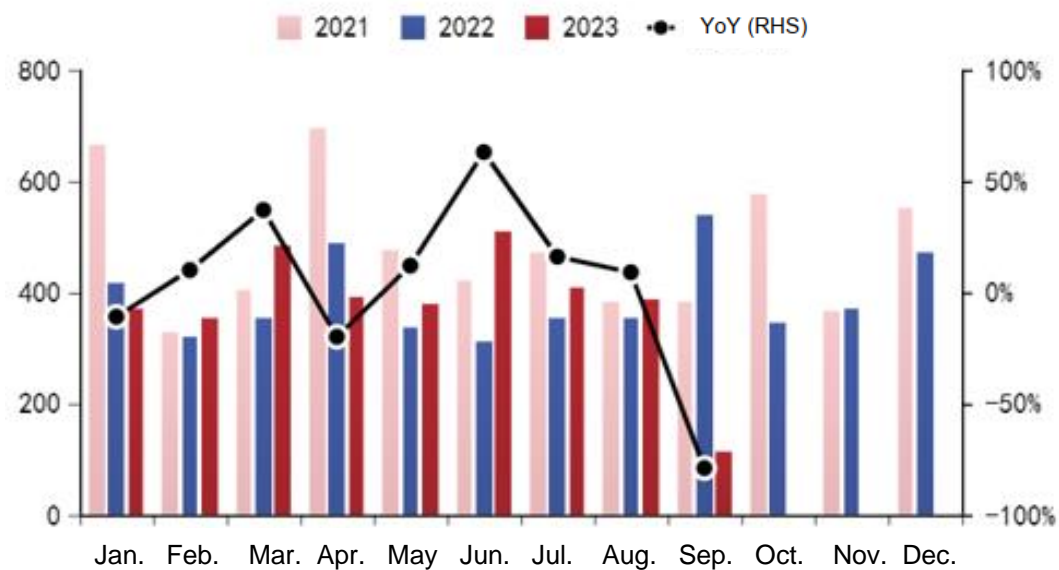
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## 5. Demand

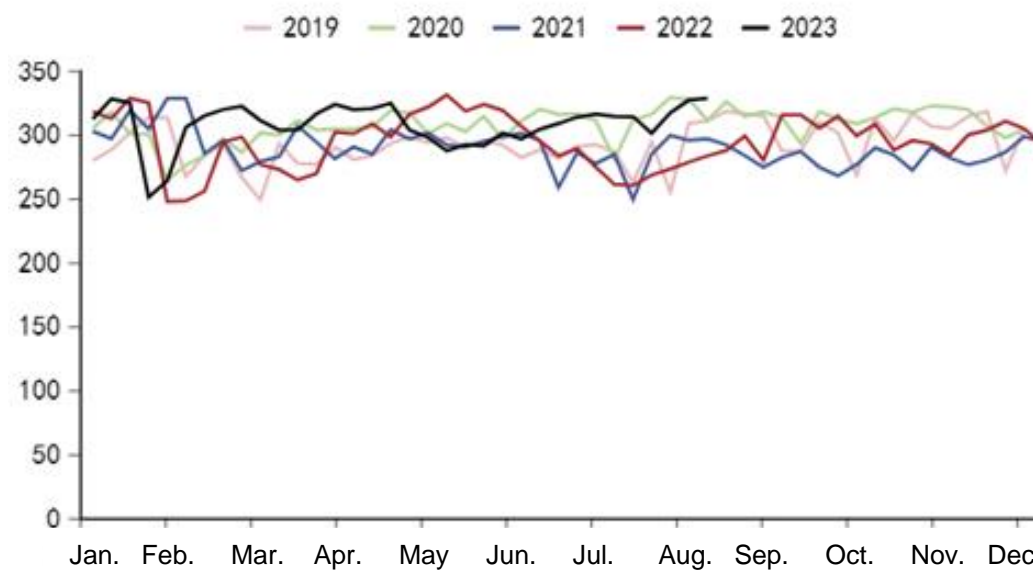
# Demand

Figure 28: Monthly Port Spot Transaction Volume (10k tons)



Sources: MYSTEEL, Minmetals Futures

Figure 29: Daily Port Dredging Volume of Iron Ore (10k tons)



Sources: MYSTEEL, Minmetals Futures

# Demand

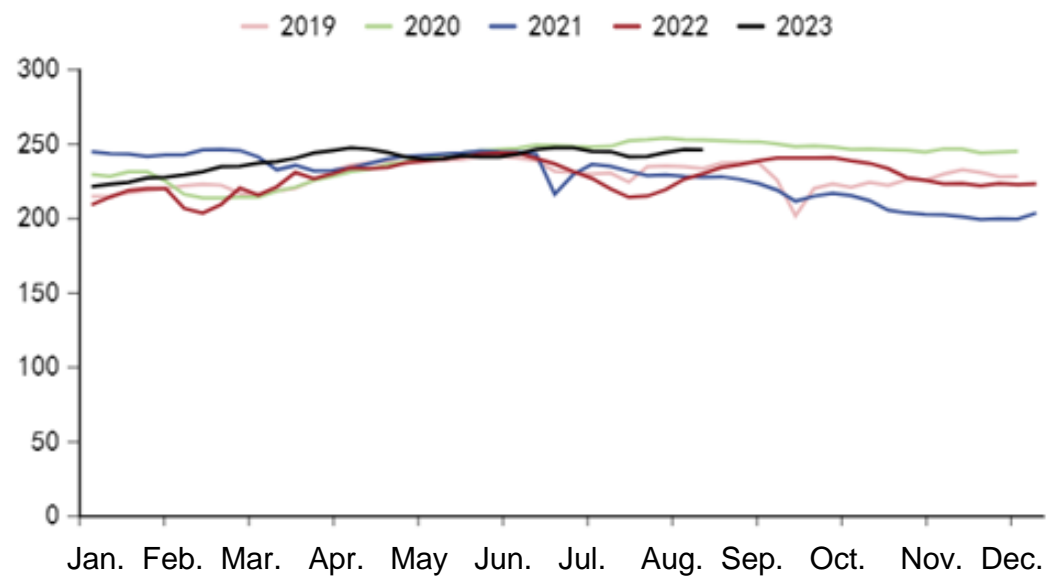


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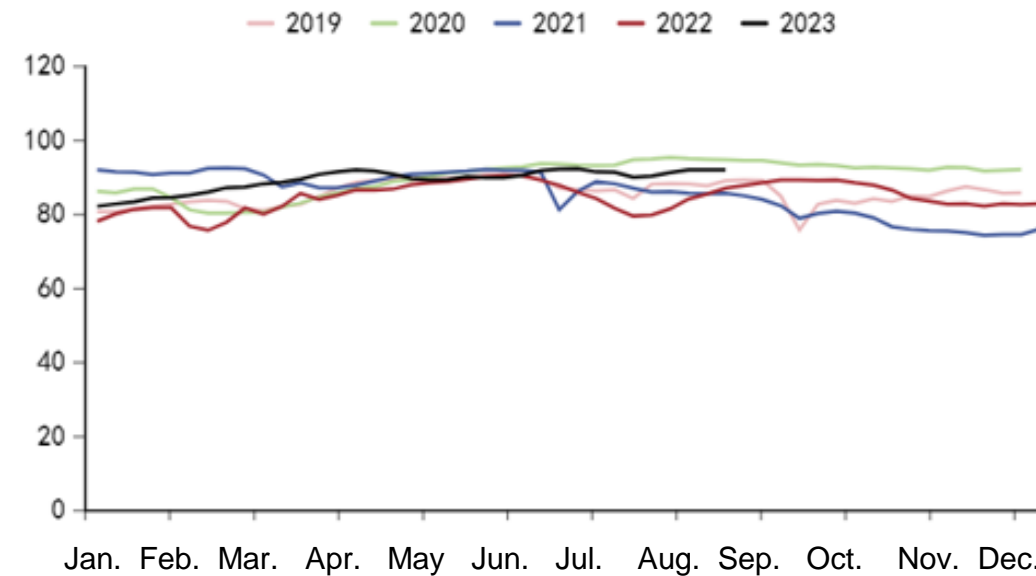


Figure 30: Average Daily Domestic Molten Iron Output (10k tons)



Sources: MYSTEEL, Minmetals Futures

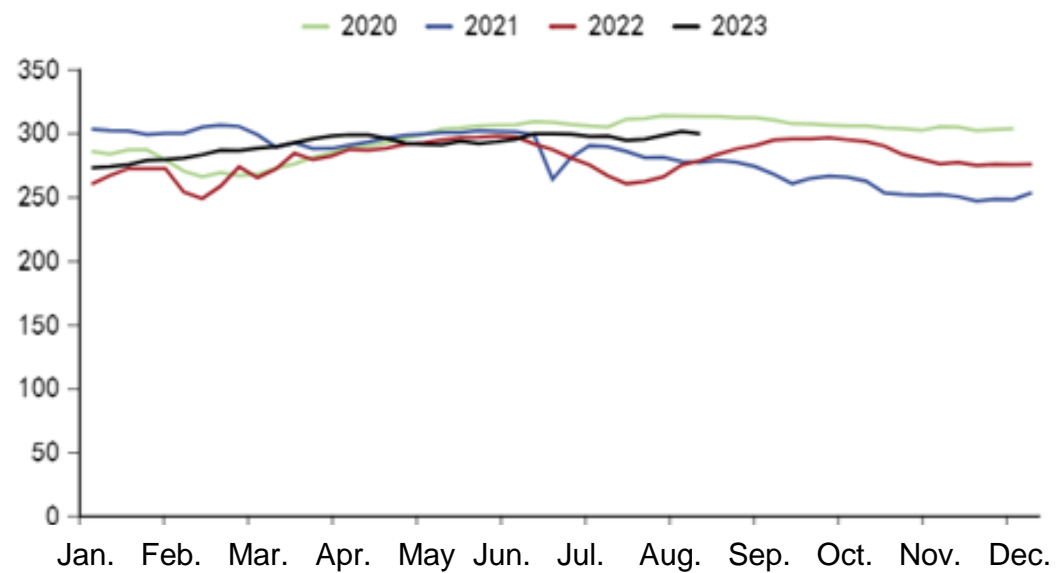
Figure 31: Capacity Utilization Rate for Blast Furnace (%)



Sources: MYSTEEL, Minmetals Futures

# Demand

Figure 32: Daily Consumption of Imported Iron Ore in 247 Steel Mills (10k ton)



Sources: MYSTEEL, Minmetals Futures



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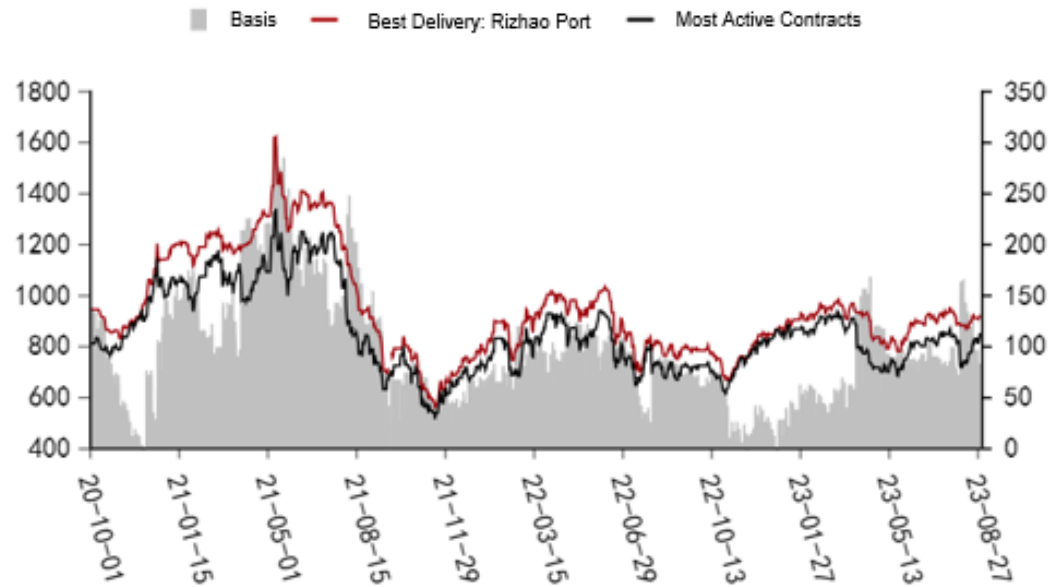


## 6. Basis



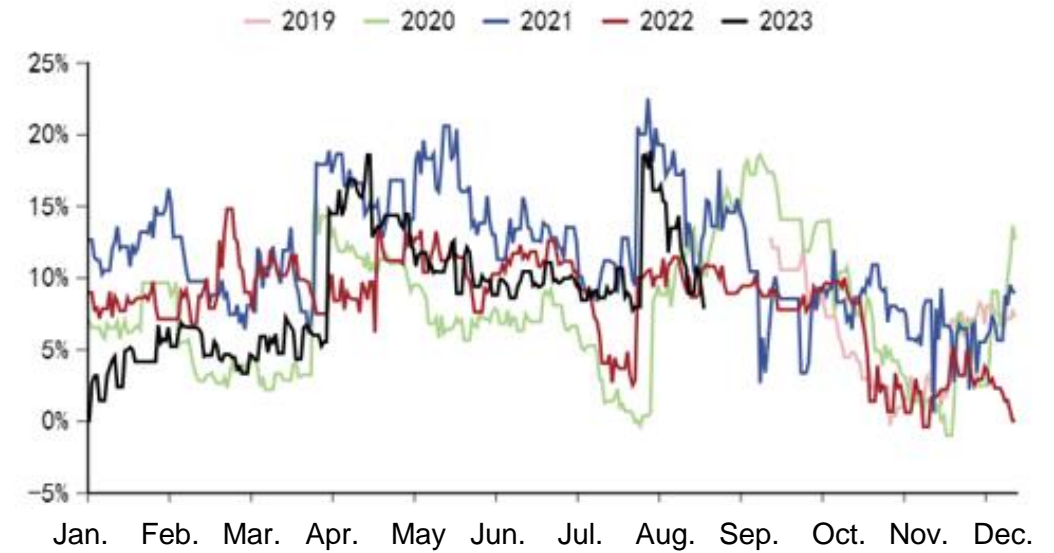
# Basis

Figure 33: Iron Ore Basis (RMB/ton)



Sources: MYSTEEL, Minmetals Futures

Figure 34: Basis Rate of Best Delivery (%)



Sources: MYSTEEL, Minmetals Futures

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