

# Weekly Report of Rebar and Iron ore market

Saturday, August 8, 2020

## Summary

Regarding rebar, the blast furnace capacity utilization rate and blast furnace operating rate of steel mills have remained high in the past three years. The profitability of steel mills has steadily rebounded. The profit of long-term steel mills will maintain a neutral level. Rebar output will remain at historically high levels.

The transactions of mainstream building materials traders across the country have maintained a positive growth compared with the previous level of transaction volume. The market is optimistic about terminal demand after the rainy season. Coupled with the strong support from Super Macro in terms of infrastructure, future demand can be expected.

The overall supply and demand structure of rebar is improving. Optimistic demand is expected to have strong support for steel prices, and steel prices are optimistic. However, the current strong rainfall in East China and South China has curbed short-term purchases, and steel prices may consolidate mainly in recent days. In recent days, the consolidation may be dominated by shocks. The near-month steel contract is more optimistic than the far-month contract, but due to the high output and the limited construction in the north in the fourth quarter, the far-month is slightly weaker.

In terms of iron ore, last week, the shipments from Australia and Brazil were reduced. Affected by the overhaul and maintenance of some iron ore berths in Australia and Brazil, shipments will continue to be restricted, and the overall delivery level of foreign mines is not as good as expected.

The blast furnace capacity utilization rate and average daily molten iron output have rebounded and continued to maintain high levels. The current environmental protection has not affected the molten iron output, and the demand for furnace materials is still strong. The port volume has been at a high level over the years, and the iron ore port inventory and medium-grade fine ore inventories have remained at a low level overall. Under the structural support of fine ore, the price of iron ore remains highly elastic.

At present, the overall supply and demand of iron ore is tight, and it is difficult to see a substantial increase in supply. The environmental protection production restrictions in Tangshan will affect the demand for charge, but it is not easy to see a sharp decline in the demand for charge from the production situation of steel mills. Therefore, it is difficult to see the price of iron ore reverse in the short term. It is expected that the price of ore will fluctuate strongly in the near future.

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## MARKET REVIEW (2020/8/3-2020/8/7) :

CONTRACTS	WEEKLY OPENING PRICE	WEEKLY CLOSING PRICE	WEEKLY HIGHEST PRICE	WEEKLY LOWEST PRICE	WEEKLY CHANGE %	WEEKLY TRADING VOLUMES	WEEKLY OPEN INTEREST
RB2010. SHF	3,771.00	3,832.00	3,888.00	3,762.00	1.97	4,613,363.00	1,137,326.00
RB2101. SHF	3,630.00	3,727.00	3,750.00	3,616.00	3.30	1,123,249.00	598,490.00
RB2105. SHF	3,507.00	3,586.00	3,608.00	3,497.00	2.75	203,856.00	162,222.00
HC2010. SHF	3,847.00	3,904.00	3,949.00	3,829.00	2.17	1,143,240.00	428,372.00
HC2101. SHF	3,675.00	3,761.00	3,800.00	3,670.00	2.68	365,393.00	143,048.00
HC2105. SHF	3,538.00	3,603.00	3,639.00	3,531.00	2.33	46,991.00	26,525.00
I2009. DCE	848.00	896.00	915.00	842.00	6.99	2,868,273.00	444,354.00
I2101. DCE	757.00	816.00	828.50	756.50	8.29	1,777,142.00	470,634.00
I2105. DCE	705.00	746.50	759.50	699.00	7.26	116,993.00	37,443.00

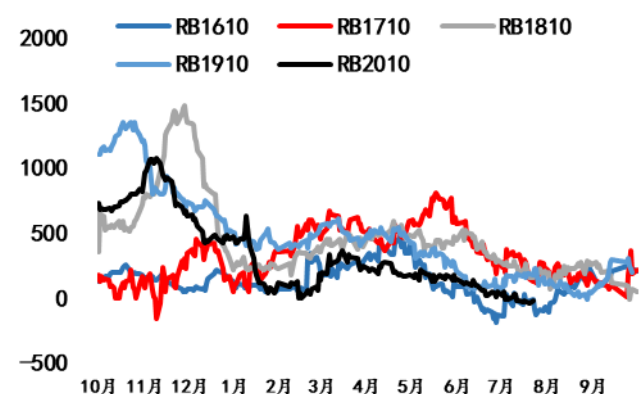
This week, the main contract prices of rebar and iron ore futures have climbed to their highest point in the past year. The price of hot-rolled sheet steel futures has reached the highest point in 2019, and the iron ore of the charge has the largest increase.

From the perspective of basis, the basis of rebar has been narrowing and has been closed to a low level over the same period in the past. The basis of the 10 contract for rebar remains negative, and the space below the basis of rebar is relatively smaller than the space under which the basis of hot-rolled sheet steel goes down. The spot price of hot-rolled sheet steel is slightly stronger than that of rebar, and its basis fluctuates repeatedly around the same period in history. If the basis of hot-rolled sheet steel is restored to the average level in the later period, futures growth will still be expected under the expectation of peak demand. The fluctuation of iron ore basis is relatively stable, narrowing slightly but still near the average level in recent years.

From the perspective of the futures price spread, the expected recovery of steel demand after the rainy season has made steel mines basically stronger than the far month. The October and January contract spreads of rebar and hot-rolled sheet steel are both at a historically higher level. The pressure on the supply side of hot-rolled sheet steel is relatively lower than that of rebar, making the price of hot-rolled sheet steel stronger than that of rebar. The main price difference between hot-rolled sheet steel and rebar futures has expanded to 72 yuan/ton. Steel mills' blast furnace capacity utilization rate and average daily molten iron output remain high. The demand for charge materials is relatively strong, and the pressure on the supply side of superimposed iron ore is relatively small, making iron ore perform better than rebar. Rebar and iron ore futures are the main contract price comparison Drop to 4.28.

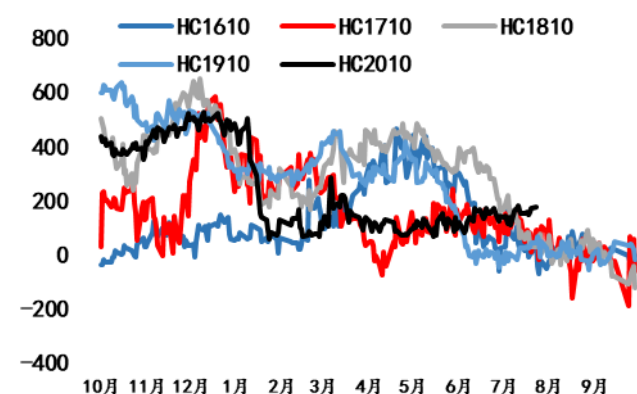
The resonant rise of raw materials and finished products has played a role in supporting each other in terms of costs. The rebound in daily scrap demand in steel mills has gradually tightened the supply and demand of scrap, and the price trend of scrap has been firm, providing support for the continuous upward shift in the price of finished products.

Figure1: RB10 contract basis



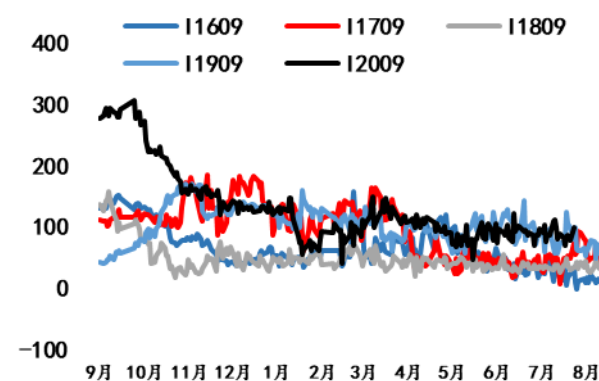
Source: Wind、Haitong Futures

Figure2: HC10 contract basis



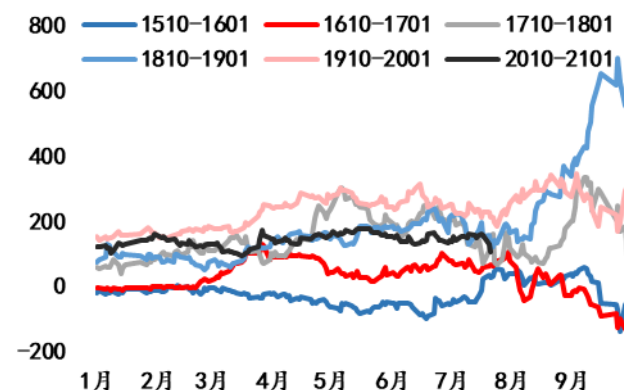
Source: Wind、Haitong Futures

Figure3: I2009 contract basis



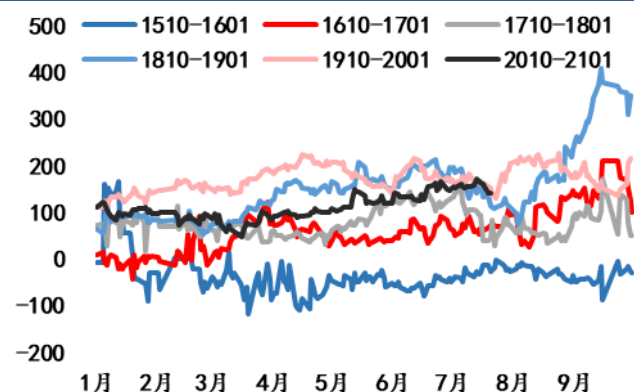
Source: Wind、Haitong Futures

Figure4: Spread between RB10 &amp; RB01



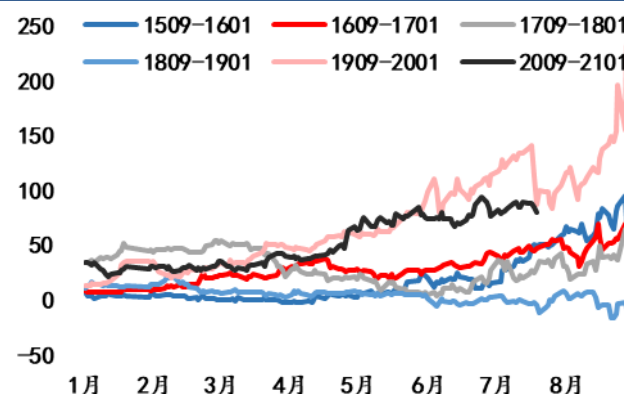
Source: Wind、Haitong Futures

Figure5: Spread between HC10 &amp; HC01



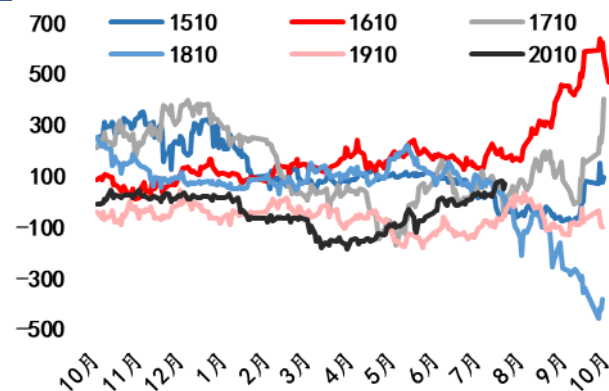
Source: Wind、Haitong Futures

Figure6: Spread between I09 &amp; I01



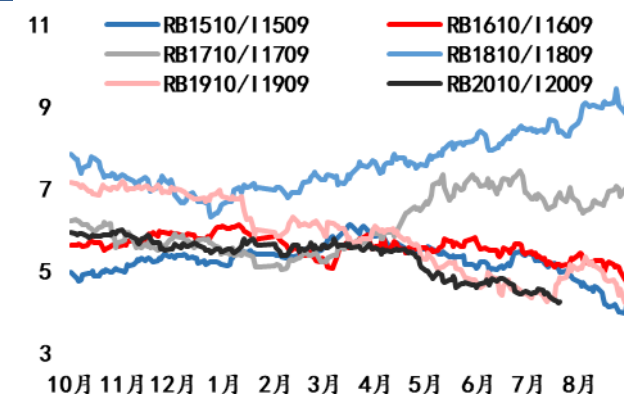
Source: Wind、Haitong Futures

Figure7: Spread between HC10 &amp; RB10



Source: Wind、Haitong Futures

Figure8: Parity between RB10 &amp; I09



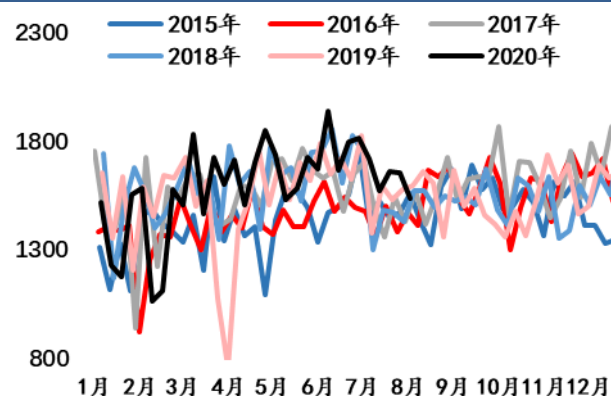
Source: Wind、Haitong Futures

## Iron ore supply and demand

**Foreign mine supply:** The third quarter is the general maintenance season for mines in Australia. During the period from 7/27 to 8/2 last week, the total iron ore shipments of 19 ports in Australia and Brazil decreased by 815,000 tons from the previous month. The shipments in Australia and Brazil both decreased, and the iron ore shipments from Brazil decreased by 304,000 tons. Australian iron

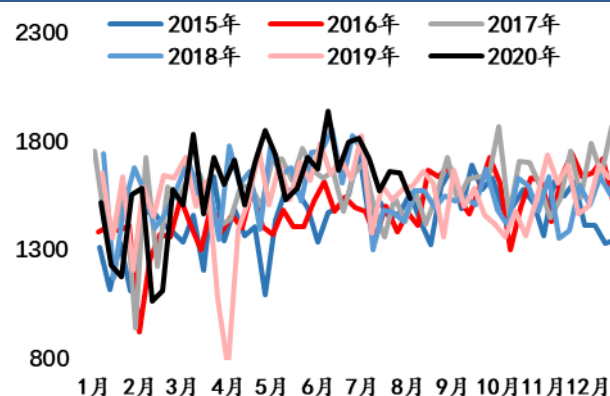
ore shipments decreased by 511,000 tons from the previous month. Affected by the overhaul and maintenance of some of the iron ore shipping berths in Australia and Brazil, the delivery of iron ore from Australia to Brazil will continue to be restricted. Superimposed on the impact of the overseas epidemic that has not completely dissipated, the overall foreign ore supply is slowly recovering.

Figure9: Australian iron ore shipments



Source: Mysteel、Haitong Futures

Figure10: Brazil iron ore shipments

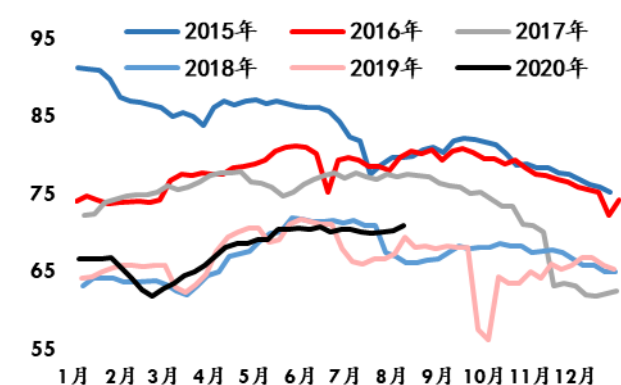


Source: Mysteel、Haitong Futures

**Iron ore demand:** According to Mysteel data, as of August 7, the national blast furnace capacity utilization rate continued to rise to 80.02% month-on-month, the national blast furnace overhaul limit output fell to about 483,700 tons, and the average daily hot metal output of 247 steel plants nationwide increased by 6700 tons month-on-month to 252.22. Million tons. The blast furnace capacity utilization rate and average daily molten iron output have rebounded and continued to maintain high levels. The current environmental protection has not affected the molten iron output, and the demand for furnace materials is still strong.

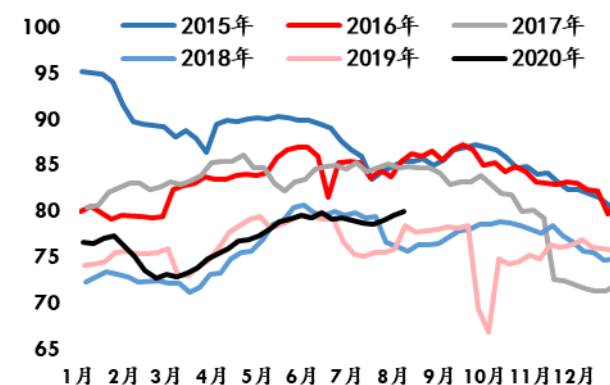
The port iron ore spot trading volume fluctuated at a relatively high level during the same period, and the port volume maintained a positive growth trend year-on-year. The average daily port volume of 45 ports across the country on August 7 increased by 50,000 tons from last week to 3.158 million tons.

Figure11: 163 steel mills blast furnace operating rate



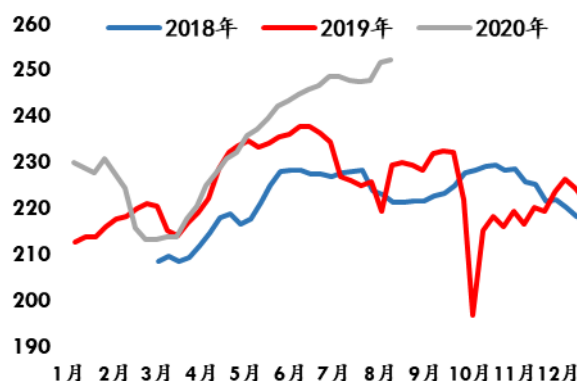
Source: Mysteel、Haitong Futures

Figure12: Blast furnace capacity utilization (163)



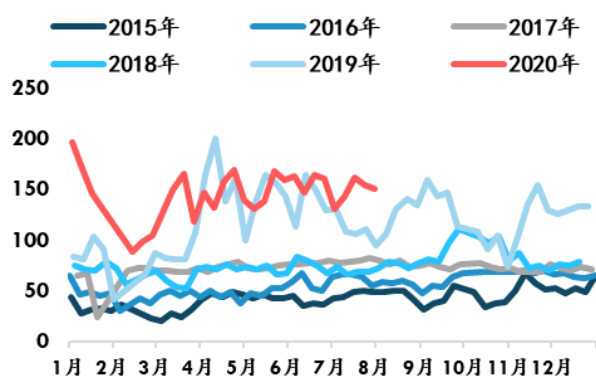
Source: Mysteel、Haitong Futures

Figure13: Average daily molten iron output of 247 steel mills



Source: Mysteel, Haitong Futures

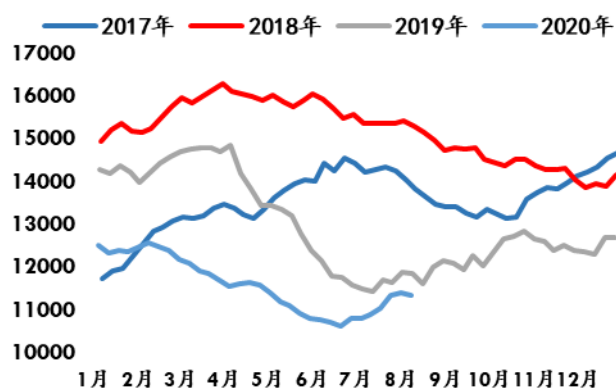
Figure14: Average daily trading volume of iron ore major port traders



Source: Mysteel, Haitong Futures

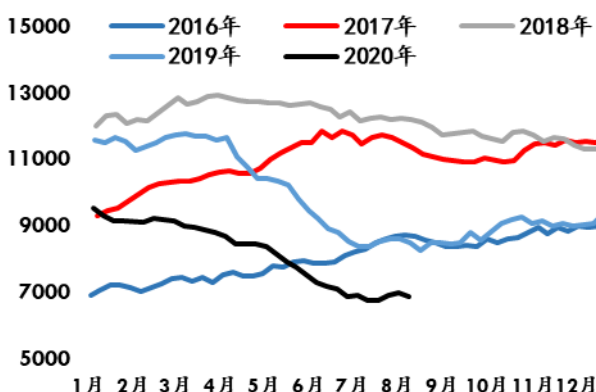
**Iron ore inventory:** According to data on August 7th, the total inventory of iron ore 45 ports ended 6 consecutive weeks of accumulation, with a week-on-week decrease of 569,600 tons to 113.46 million tons, but the overall inventory remained low. The 45 port lump ore decreased by 164,400 tons from the previous month to 25,376,700 tons; the pellets increased by 254,500 tons from the previous month to 10,488,700 tons; the iron powders increased by 700,500 tons from the previous month to 10.096 million tons; The estimated fine ore inventory continued to drop by 980,400 tons from the previous month to 68,866,800 tons. Australia's iron ore inventory dropped by 1.397 million tons from the previous month to 61,239,900 tons, and the Brazilian mine port inventory increased by 810,900 tons from the previous month to 26,528,500 tons. In the inventory structure of port iron ore, the stocks of medium-grade ore in the six northern ports stopped rising and fell again, and PB powder also fell slightly, maintaining a low level. Due to the tighter supply and demand structure of fine ore, it performed better than lump ore, and the price gap between lump ore and fine ore narrowed, shrinking from 23 to 0 yuan/wet ton from last week. The spot price difference between PB fine ore and low-grade super-special fine was enlarged by 17 to 179 yuan/wet ton due to the shortage of medium-grade fines. The overall inventory of iron ore is still at a low level in recent years, and the price of iron ore remains highly elastic under the structural support of fine ore.

Figure15: Total inventory of iron ore 45 ports



Source: Mysteel, Haitong Futures

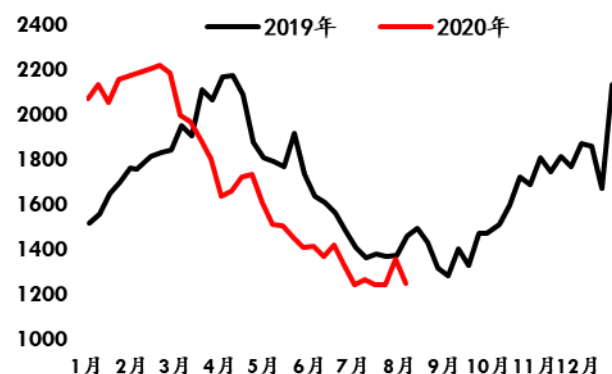
Figure16: Estimated 45 port fine ore inventory



Source: Mysteel, Haitong Futures

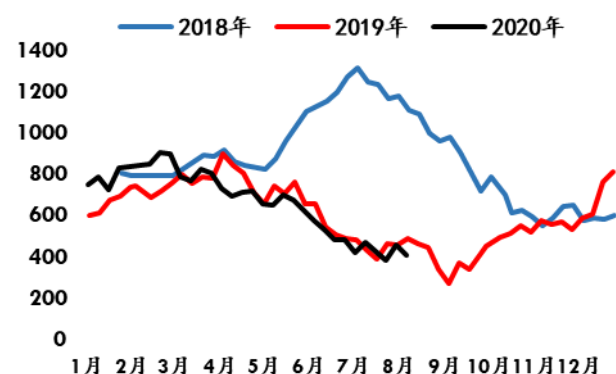


Figure17: Inventory of fine ore in North Six Ports



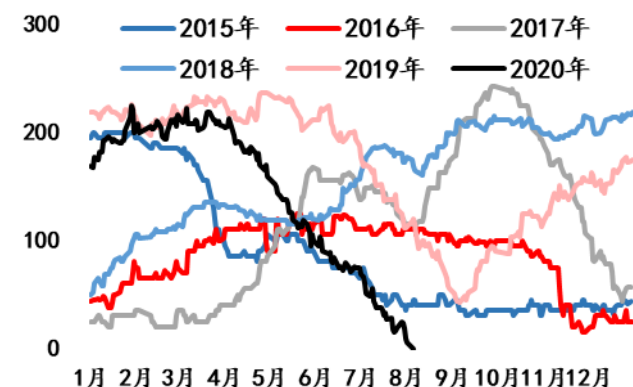
Source: Esteele, Haitong Futures

Figure18: North Six Ports PB powder inventory



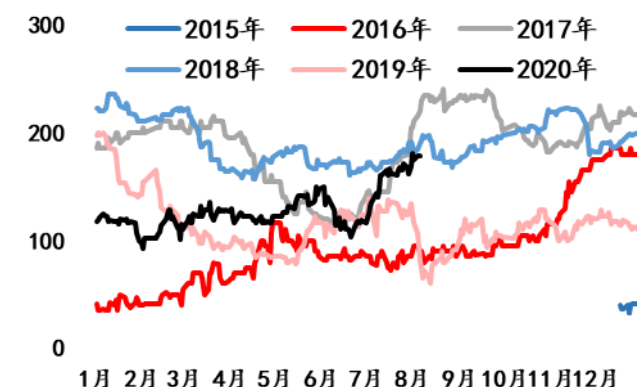
Source: Esteele, Haitong Futures

Figure19: PB lump ore-PB fine ore



Source: Wind, Haitong Futures

Figure20: PB fine ore-super special fine



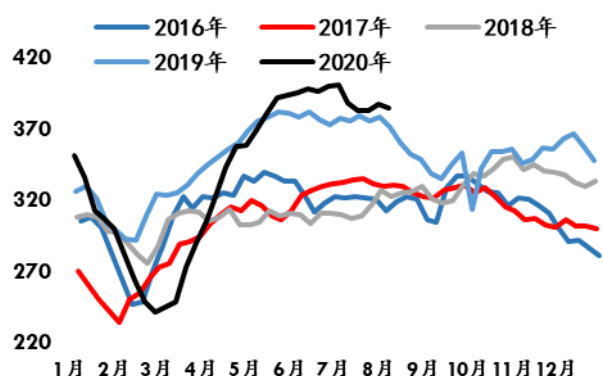
Source: Wind, Haitong Futures

At present, the overall supply and demand of iron ore is tight. The price of iron ore has risen to a high level in recent years and the volatility has increased. There are two main risk factors. The first is the supply side of foreign mines. Under the influence of the concentrated maintenance season of foreign mines and the foreign epidemic situation has not yet dissipated, it is difficult to see a substantial increase in supply in the short term. The second is the demand side, including the demand for furnace materials affected by Tangshan environmental protection production restrictions and the actual consumption of finished building materials after the rainy season. Judging from the current production situation of steel mills, the sharp decline in the demand for charge is not easy, and the demand for finished products still has the peak season expectations of "golden nine silver ten", so short-term iron ore prices are difficult to reverse, and there is a high probability that iron ore prices will continue to fluctuate strongly.

## Steel supply and demand

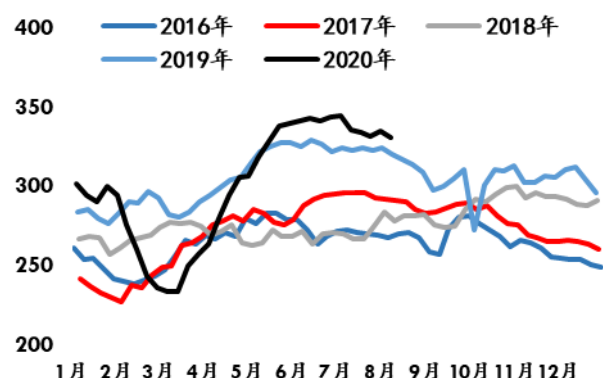
**Steel supply:** Mysteel data shows that as of August 6, the production of rebar has stopped rising and falling, with a week-on-week decrease of 28,700 tons to 3,847,200 tons. The output of both long and short processes has declined, but it still maintains a high level over the years. Hot-rolled sheet steel production increased by 81,800 tons to 3.3467 million tons on a week-on-week basis, maintaining near the historical average level, and from a production perspective, its supply marginal risk is lower than that of rebar. The operating rate of blast furnaces in steel mills across the country has remained high in the past three years. The profitability of steel mills has steadily recovered. At present, the gross profit of long-process rebar and hot-rolled sheet steel is about 200-250 yuan/ton, and the billet is about 150-200 yuan/ton. Long-flow steel mills maintain a neutral level of profit. In the case of good profits, steel mills maintain a certain degree of enthusiasm for production, which in turn will support the continued high level of rebar output.

Figure21: Rebar weekly production



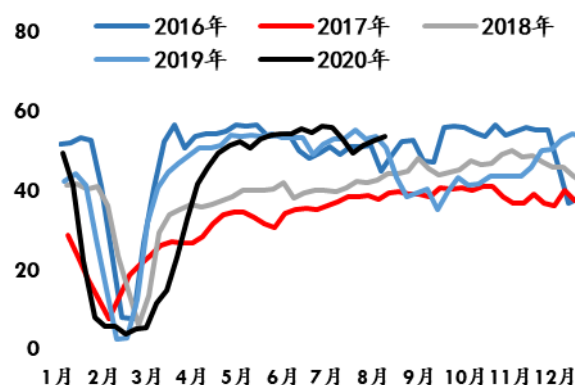
Source: Mysteel, Haitong Futures

Figure22: Sample internal rebar long process output



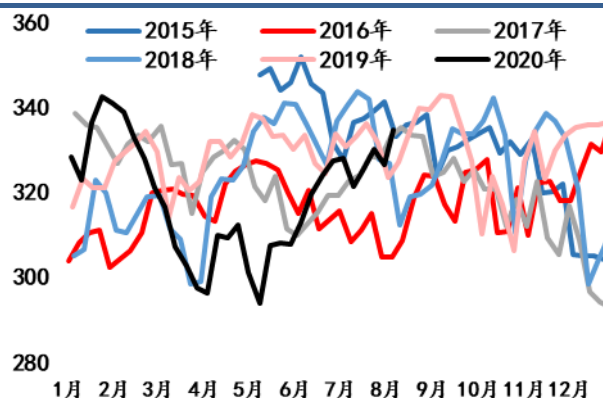
Source: Mysteel, Haitong Futures

Figure23: Sample internal rebar short process output



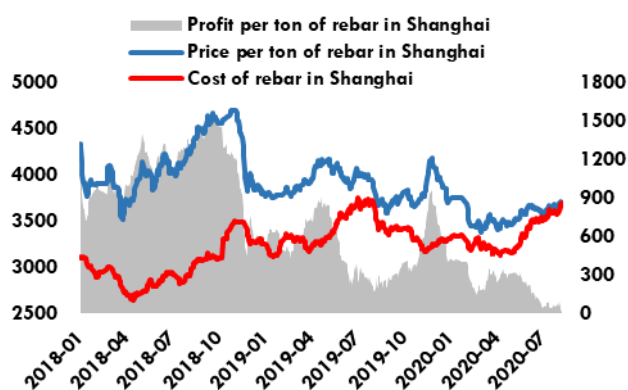
Source: Mysteel, Haitong Futures

Figure24: Weekly hot-rolled sheet steel production



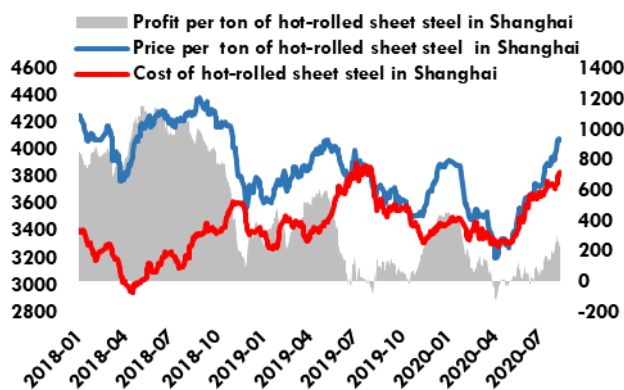
Source: Mysteel, Haitong Futures

Figure25: Rebar long process production profit



Source: Wind, Haitong Futures

Figure26: Hot coil long process production profit



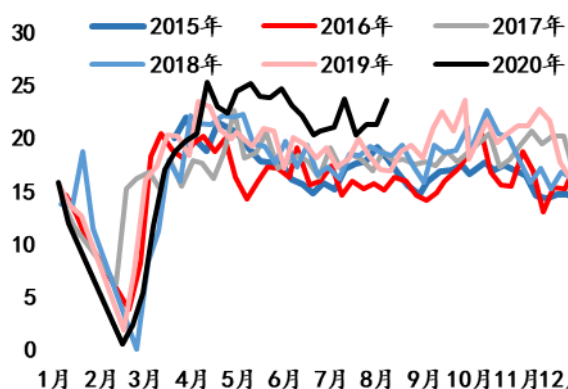
Source: Wind, Haitong Futures

**Steel demand:** In the first week of August, the disk prices of finished products remained high and fluctuated, and the spot prices also rose more than fell. In the first four days of this week, the daily trading volume of mainstream building materials traders nationwide was 236,300 tons, an increase of 22,700 tons from the previous week's 213,600 tons/day. The transactions of mainstream building materials traders across the country have maintained a positive growth compared to the previous level of transaction volume. The estimated weekly apparent consumption of rebar has also begun to rebound to 3.939 million tons. The rainy

season in East China is coming to an end, the demand is showing signs of improvement, and the year-on-year growth rate of meter demand has maintained a positive growth.

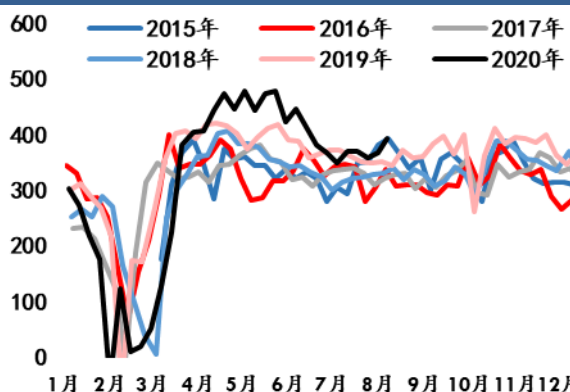
Although the impact of the epidemic has been suppressed to a certain extent, and the recent heavy rains in East China and South China have suppressed short-term purchases, and there has been a short-term decline in demand, the actual demand trend is still stronger than previously expected. The overall expectation of terminal demand in the peak season of October is still optimistic.

Figure27: Average weekly trading volume of traders



Source: Mysteel, Haitong Futures

Figure28: Apparent consumption of rebar

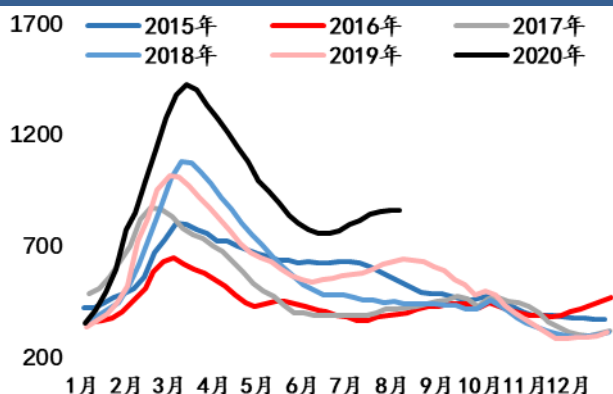


Source: Mysteel, Haitong Futures

**Steel inventory:** According to Mysteel data, as of August 6, the social inventory of 35 cities of rebar has decreased by 13,700 tons to 8,591,400 tons on a week-on-week basis, a decrease of 0.75%, ending six consecutive weeks of accumulation; steel mill inventories ended the second consecutive increase, with a week-on-week decrease of 78,100 tons to 3,492,700 tons, a 2.19% decrease. The total rebar inventory also ended and continued to accumulate, with a week-on-week decrease of 0.75%. The social inventory of hot-rolled sheet steel in 33 cities increased by 44,200 tons to 2.807 million tons on a week-on-week basis; steel mill inventories increased by 2400 tons to 1,120,200 tons on a week-on-week basis. The total inventory of hot-rolled sheet steel has been accumulated for the seventh consecutive week after falling for 15 consecutive weeks, an increase of 46,600 tons from the previous month.

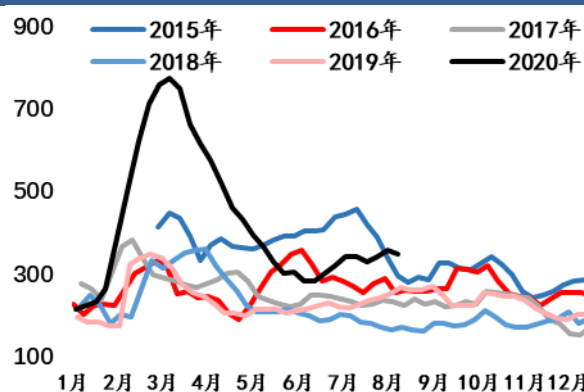
Rebar production, social inventories, and steel mill inventories have also declined. The superimposed market has optimistic expectations for demand after the rainy season. The overall supply and demand structure has improved, which has produced support for steel prices. However, the overall steel spot inventory is still large, and the superimposed output is high, and the marginal risk of steel prices still exists.

Figure29: 35 cities rebar social inventory



Source: Mysteel, Haitong Futures

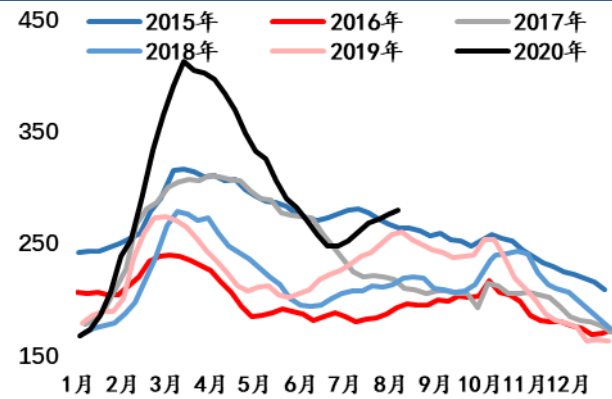
Figure30: Rebar steel mill inventory



Source: Mysteel, Haitong Futures

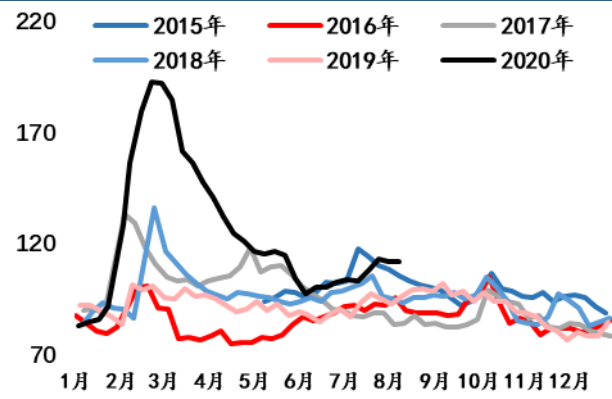


Figure31: 33 cities hot-rolled coils social inventory



Source: Mysteel、Haitong Futures

Figure32: Hot-rolled coil steel mill inventory



Source: Mysteel、Haitong Futures

At present, the overall supply and demand structure of the steel market is improving, and the supply-side high supply pattern has always existed. The elasticity is not large, but the toughness of steel demand is greater. The expected and actual strength of terminal demand has become a key factor determining the trend of steel prices. The changeable weather factors in recent days have caused a short-term decline in demand, and it may consolidate in recent days. But after all, the recovery period of demand has not yet arrived. The market's expectation of peak-season demand for the "Golden Nine and Silver Ten" and macro support for infrastructure investment will still support the price of steel from falling sharply. Therefore, the price of steel is still optimistic.

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