

SECTOR UPDATE

Commodities – China

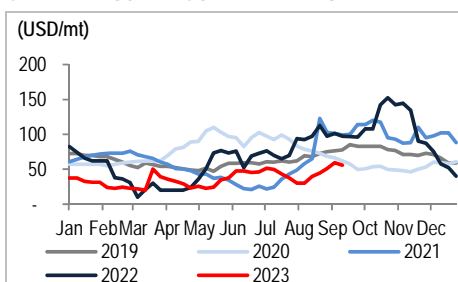
Weekly: Signs Of Economic Stabilisation From Improving CPI/Credit Data

Metal prices have been boosted by China's Aug 23 CPI figures which have returned to positive territory, paring some of the losses last week given the strength of the US dollar. Iron ore prices corrected last week as Chinese authorities stepped up intervention and warned futures brokers not to hype up iron ore prices. Steel production activities expand further as steel mills anticipate consumption to pick up further. Cement shipments continue to recover as weather conditions improve, but rising coal prices are eroding margins.

WHAT'S NEW

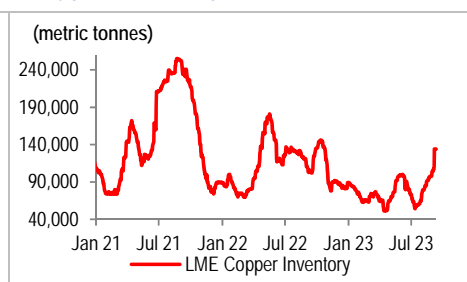
- **Metals (maintain MARKET WEIGHT):** Improving CPI and credit data bolstered confidence.
 - Copper prices rallied yesterday, boosted by China's improving Aug 23 CPI data at +0.1% yoy, returning to positive territory while the decline of PPI has also slowed to -3.0% yoy (Jul 23: -4.4% yoy). China's Aug 23's aggregate financing has also beat expectations at Rmb3,120b (consensus: Rmb2,690b), indicating improving credit demand after a series of steps was taken to stabilise the economy.
 - COMEX gold/LME copper three-month futures were down 1.2%/3.0% w/w to US\$1,925 per t oz/US\$8,243 per mt, largely dragged by the strength in USD where USD index had hit the highest level last week since Mar 23. Market weighed on the possibility of the Fed maintaining interest rate at the current level for longer given the better-than-expected labour market (six-month low initial jobless claims) and ISM non-manufacturing PMI (54.5 vs consensus 52.5).
 - According to CME FedWatch Tool, the market has priced in 93.0% odds of the Fed maintaining interest rate at 5.25-5.50% in Sep 23 and 45.2% odds of cutting interest rate in May 24, deferring from the previously expected Mar 24.
 - The focus this week will be on the US' CPI data releasing on 13 September with consensus looking at +3.6% yoy.

CHINA YANGSHAN COPPER PREMIUM



Source: Bloomberg, UOB Kay Hian

LME COPPER INVENTORY



Source: Bloomberg, UOB Kay Hian

MARKET WEIGHT

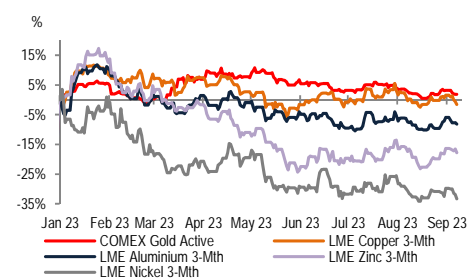
(Maintained)

SECTOR PICKS

Company	Rec	Target Price (HK\$)	Share Price (HK\$)
Anhui Conch	BUY	28.30	21.65

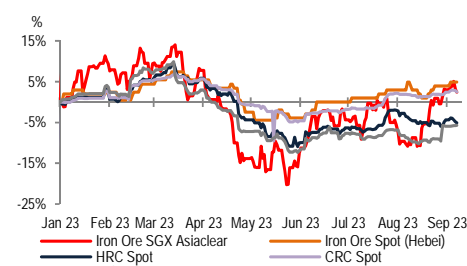
Source: UOB Kay Hian

METALS – YTD PRICE PERFORMANCE



Source: Bloomberg, UOB Kay Hian

STEEL – YTD PRICE PERFORMANCE



Source: Bloomberg, UOB Kay Hian

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PEER COMPARISON

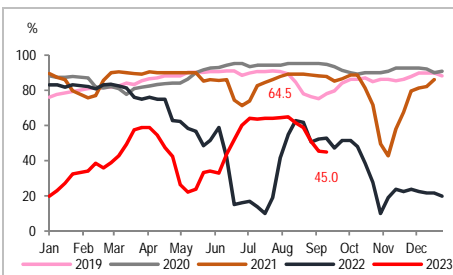
Company	Ticker	Rec	Price @ 11 Sep 23 (lcy)	Target Price (lcy)	Upside/ (Downside) to TP (%)	Market Cap (lcy m)	PE 2023F (x)	PE 2024F (x)	P/B 2023F (x)	P/B 2024F (x)	EV/EBITDA 2023F (x)	EV/EBITDA 2024F (x)	ROE (%)
Anhui Conch	914 HK	BUY	21.65	28.30	30.7	139,051.9	9.0	8.3	0.6	0.5	8.2	7.3	6.4
Baosteel	600019 CH	BUY	6.21	7.10	14.3	138,248.3	13.3	9.9	0.7	0.7	5.6	4.8	5.2
CR Cement	1313 HK	HOLD	2.39	3.10	29.7	16,689.2	8.8	6.9	0.3	0.3	7.2	5.9	3.8
Zijin Mining	2899 HK	BUY	12.78	15.00	17.4	360,682.2	13.5	11.5	2.9	2.5	10.8	9.5	23.7

Source: Bloomberg, UOB Kay Hian

• **Steel (maintain UNDERWEIGHT):** Chinese authorities investigated irrational iron ore price movement.

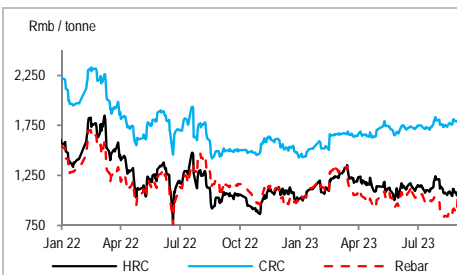
– **Iron ore prices corrected as authorities stepped up intervention.** On 7 August, National Development and Reform Commission and China Securities Regulatory Commission summoned iron ore futures brokers to discuss the recent iron ore price movement; participants were told not to hype up iron ore prices during the meeting. SGX iron ore closed at US\$113.33 (-0.6% w/w), but was still +14.1% mom. Domestic spot prices of rebar/hot-rolled coil steel (HRC)/cold-rolled coil steel (CRC) saw w/w changes of +0.2%/-0.8%/+0.1%.

247 SAMPLED STEEL MILLS PROFIT-MAKING RATIO



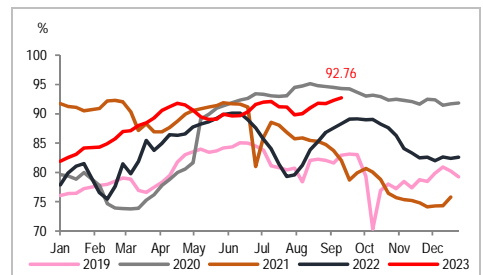
Source: Wind, UOB Kay Hian

STEEL-RAW MATERIAL SPREADS



Source: Bloomberg, UOB Kay Hian

247 SAMPLED STEEL MILLS BLAST FURNACE UTILISATION RATIO



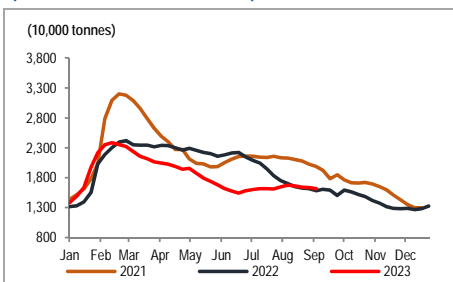
Source: Wind, UOB Kay Hian

– **Strong steel prices driving margin recovery.** The recent rebound in steel prices has helped support the margins of long products. Weekly average of HRC steel-raw materials spread was up 1.2% w/w. Robust steel production continued dragging margins, and Mysteel's survey indicated that 45.0% of steel mills are currently profit-making (-0.45 ppt w/w), dragged by the robust production activities.

– **Ramping up production as peak consumption season is approaching.** The blast furnace capacity utilisation rate of 247 domestic steel mills has expanded again to 92.76% (+0.49ppt w/w) while the weekly average daily molten iron production has also hit another record high of the year at 2.4824m tonnes (+0.5% w/w). However, weekly output of five major steel products has slowed to 9.224m tonnes (-0.8% w/w) this week.

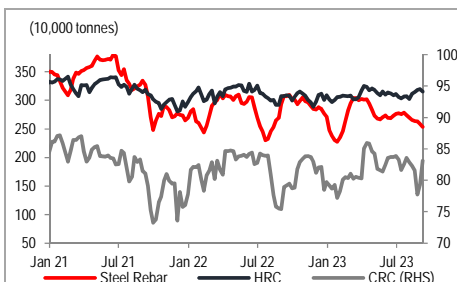
– **Inventory down for fourth consecutive week; apparent consumption picking up.** Overall steel inventory based on Mysteel's survey was down 1.37% w/w to 16.16m tonnes (+2.0% yoy), down for the fourth consecutive week. Steel apparent consumption continued growing last week, up 1.2% w/w to 9.449m tonnes, driven by the 5.2%/6.2% w/w increase in consumption of rebar/CRC. However, rebar consumption was still 12.4% yoy lower whereas CRC/steel plate demand remained resilient at +7.6%/+7.2% yoy.

INVENTORY OF FIVE MAJOR STEEL PRODUCTS (TRADERS & STEEL MILLS)



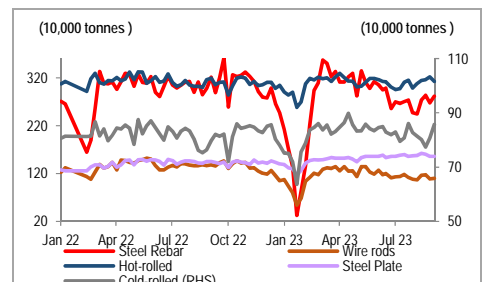
Source: Wind, UOB Kay Hian

WEEKLY PRODUCTION OUTPUT OF MAJOR STEEL PRODUCTS



Source: Wind, UOB Kay Hian

STEEL PRODUCTS WEEKLY APPARENT CONSUMPTION



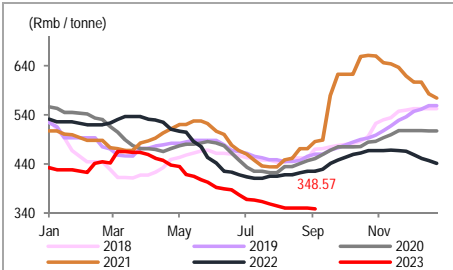
Source: Wind, UOB Kay Hian

• **Cement (maintain MARKET WEIGHT):** Shipment picking up as weather condition improves.

– **Cement prices still finding footing.** National average PO42.5 cement prices (bulk) were last reported at Rmb353.50 per tonne, down 0.28% w/w. Average cement prices for the eastern/central/southern regions saw changes of -0.41%/-1.0%/flat w/w. Cement-coal spread has narrowed slightly to Rmb254.18 per tonne (-0.2% w/w/-7.1% yoy), largely due to the rebound of Q5000 QHD thermal coal prices in recent weeks (+8.4% since mid-Aug)

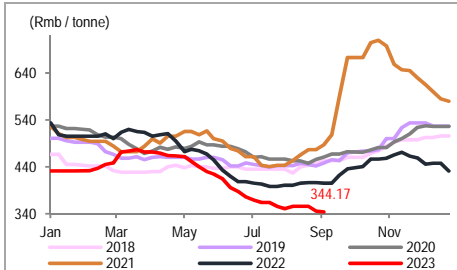
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AVERAGE CEMENT PRICES – EAST



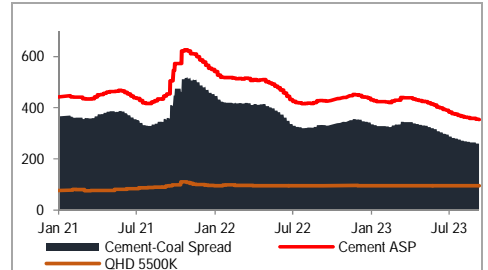
Source: CEIC, UOB Kay Hian

AVERAGE CEMENT PRICES – CENTRAL-SOUTH



Source: CEIC, UOB Kay Hian

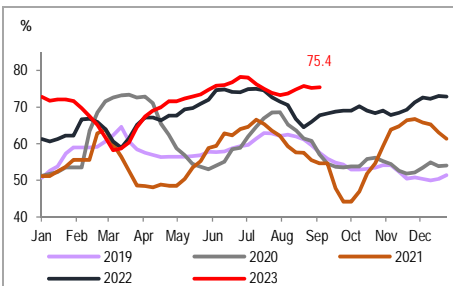
CEMENT-COAL SPREAD



Source: CEIC, Wind, UOB Kay Hian

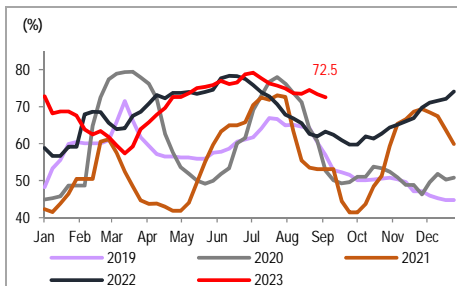
- **Shipment recovered by 3% wow; southern region demand dragged by typhoon.** According to 100NJZ's survey conducted on 250 cement enterprises, weekly cement shipment volume for the week of 30 Aug-5 Sep 23 was 5.7315m tonnes (+3.0% wow, -28.1% yoy). By region, the eastern/central/southern regions' shipment volume was +0.66%/+9.49%/-2.67% wow (-36.20%/ -28.57%/-37.01% yoy) respectively. Shipment for infrastructure projects was 2.22m tonnes (+3.26% wow/-8.26% yoy), remaining as the key demand pillar.
- **Rising inventory pressure amid recovering output.** Based on 100NJZ's survey on 274 cement enterprises, clinker production capacity utilisation rebounded to 56.8% last week (+4.48ppt wow). National average cement storage capacity ratio was up 0.1ppt wow to 75.4%. Inventory level for central-south China regions, particularly Fujian and Guangdong, was up 0.7ppt to 77.4% as demand was deterred by typhoons.

CEMENT STORAGE CAPACITY RATIO – NATIONAL AVERAGE



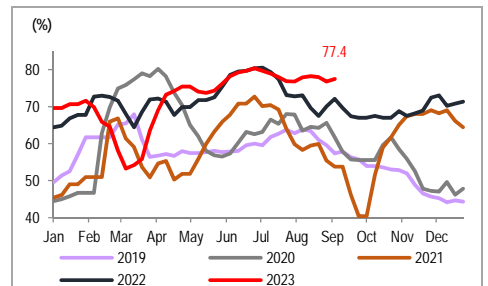
Source: CEIC, UOB Kay Hian

CEMENT STORAGE CAPACITY RATIO – EAST CHINA



Source: CEIC, UOB Kay Hian

CEMENT STORAGE CAPACITY RATIO – CENTRAL-SOUTH CHINA



Source: CEIC, UOB Kay Hian

ESSENTIALS

- **We maintain MARKET WEIGHT on the cement sector.** We expect construction activities to continue to normalise in the following weeks as the weather condition improves. However, construction progress of infrastructure projects would largely still hinge on the pace of local government special purpose bond (LGSB) issuance, of which the utilisation of annual quota was slower than the previous year. Local governments were asked to complete the issuance by end-Sep 23 and fund disbursement should be completed by end-Oct 23; infrastructure projects' constructions should gain traction by then.
- **We maintain UNDERWEIGHT on the steel sector.** The recent policy easing has lifted market sentiment. Apparent consumption since mid-Aug 23 has been encouraging, which saw steel products' inventory trending down for fourth consecutive weeks and maintaining at reasonable levels. We are hopeful on downstream consumption as we enter the traditional peak season, which coupled with the potential production curbs, should result in fundamentals continuing to improve in the following weeks.

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