

SECTOR UPDATE

Commodities – China

Weekly: Gold Continues To Shine Amid Market Chaos

Gold continues to shine as the market seeks shelter amid the US debt-ceiling crisis. Steel to raw material spreads seem to have stabilised given the sharper decline of raw material prices. Lower production costs may slow down the current declining trend of steel production. Cement prices continued searching for the bottom with inventory levels staying high. We see further upside in demand from infrastructure projects but the weakening Apr 23 property sales have dampened the sector's recovery outlook.

WHAT'S NEW

- **Metals (maintain MARKET WEIGHT).** Gold continues to shine amid market chaos.
- COMEX gold/LME copper three-month futures were down 0.2%/3.8% wov to US\$2,018.60/US\$8,253.00. The 10-year US Treasury Yield was largely unchanged at 3.46% (+2bp wov) whereas the US dollar index has ticked up 1.4% wov to 102.68.

COMEX gold spiked to US\$2,042.90 when the US' Apr 23 inflation of +4.90% yoy came in slightly below consensus of +5.0% yoy, supporting bets that the Fed may pause on rate hikes. We still see further upside for gold prices in the near term as market seeks for shelter in the midst of the current US debt-ceiling crisis.

Copper on the other hand was largely dragged by the weaker-than-expected economic data from China. Apr 23 inflation was nearly flat at +0.1% yoy, and together with the weaker new borrowings, it has raised concerns over the strength of its economic recovery. The sentiment was further hampered by an 8.8% wov increase in LME copper inventory.

- **Steel (maintain UNDERWEIGHT).** Steel prices slumped to multi-month low; potential rebound of production activities as margins stabilise.

SGX iron ore futures/Hebei iron ore spot prices steadied at US\$99.45/Rmb975 per tonne last week, flat wov, but were still 15.7%/7.6% lower mom given the lacklustre downstream demand in China. Spot prices of rebar/hot-rolled coil steel (HRC)/cold-rolled coil steel (CRC) have continued declining, with wov changes of -2.6%/-3.6%/-1.5% to Rmb3,734/Rmb3,795/Rmb4,456 per tonne last week. HRC and CRC spot prices have fallen to the lowest level since end-22, whereas rebar has dropped to the lowest level since Oct 20.

Our self-computed weekly average of HRC steel-raw materials spreads seems to have stabilised last week and showed some improvement, largely driven by the sharper decline in domestic coke prices of 6.7% wov. Mysteel's survey indicated that only 23.8% of steel mills are currently profit-making (+1.8ppt wov; -34.6ppt yoy).

Inventory at sampled traders/steel mills reversed down again subsequent to a temporary rebound during the early-May holidays, declining 3.3%/6.9% wov last week to 13.31m/5.42m tonnes. According to China Iron and Steel Association (CISA), steel products inventory in early-May 23 was down 2.8% from end-Apr 23's level.

MARKET WEIGHT (Maintained)

SECTOR PICKS

Company	Ticker	Rec	Share Price (HK\$)	Target Price (HK\$)
Anhui Conch	914 HK	BUY	24.05	33.80

Source: UOB Kay Hian

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PEER COMPARISON

Company	Ticker	Rec	Price @ 15 May 23 (lcy)	Target Price (lcy)	Upside/ (Downside) to TP (%)	Market Cap (lcy m)	PE		P/B		EV/EBITDA		ROE (%)
							2022F (x)	2023F (x)	2022F (x)	2023F (x)	2022F (x)	2023F (x)	
Anhui Conch	914 HK	BUY	24.05	33.80	40.5	154,251.1	5.9	5.7	0.6	0.5	5.7	5.3	10.1
Baosteel	600019 CH	BUY	6.41	7.10	10.8	142,700.7	11.1	8.8	0.7	0.7	5.1	4.5	6.5
CR Cement	1313 HK	HOLD	3.39	4.05	19.5	23,672.2	7.6	6.3	0.5	0.4	6.3	5.4	6.2
Zijin Mining	2899 HK	BUY	11.58	15.60	34.7	324,291.8	11.3	9.6	2.5	2.1	9.5	8.3	24.3

Source: Bloomberg, UOB Kay Hian

Steel production continued declining last week. Key steel mills' weekly production volume of rebar/HRC/CRC was 9.2%/2.8%/4.1% lower than Apr 23's average as a result of production cut by steel mills amid thin/negative margins. Last week, the utilisation rate of blast furnaces for 247 domestic steel mills was 81.1% (-0.6ppt wow; -1.5ppt yoy).

According to CISA, key steel mills' average daily crude steel production has rebounded from end-Apr 23's 2.21m tonnes to early-May 23's 2.25m tonnes. In terms of steel products' production output, early-May 23's production volume was 4.2% lower than end-Apr 23's.

- **Cement (maintain MARKET WEIGHT).** Upcoming incremental demand from new infrastructure projects; price upside capped by high inventory level.

Cement prices in East/Central-South China continued to trend down last week, declining by 2.8%/0.6% wow to Rmb484/Rmb524 per tonne. National average cement storage capacity ratio continued climbing, up 0.7ppt wow to 72.3%. Inventory levels for the East/Central-South China regions were last reported at 73.6%/74.0% (+1.0 ppt/ -1.4 ppt wow).

Based on the survey conducted on 274 cement enterprises, weekly clinker production capacity utilisation for 3-9 May had further declined to 52.6% (-0.58ppt wow), much lower compared with 84.3% for the week ended 19 April. Lower production activity was due to the implementation of a staggered production scheme for 2Q23, considering the weak downstream demand (partly due to the rainy weather) and the current high inventory level. The southern region's utilisation rate was the lowest at 31.3%, contributing to the downturn in inventory level.

According to 100NJZ's survey conducted on 250 cement enterprises, weekly cement shipment volume for the week of 3-9 May was 5.67m tonnes (+3.8% wow; -23.0% yoy). By region, Eastern/Central/Southern regions had +7.2%/+1.0%/+8.7% wow changes. As for infrastructure projects, weekly cement direct supply volume was 1.90m tonnes (+2.7% wow, +12.4% yoy).

Weekly shipment volumes have continued to recover after the long holidays in the beginning of the month. Current cement demand is still mainly supported by existing projects. Although we are seeing more new infrastructure projects commencing constructions, they should contribute to the incremental demand closer to Jun 23.

ESSENTIALS

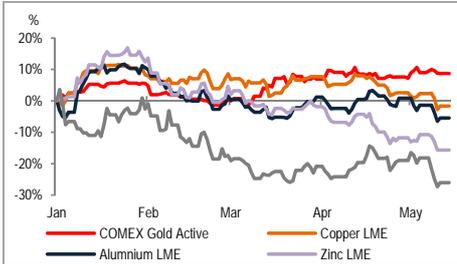
- **We maintain MARKET WEIGHT on the cement sector.** Cement shipment volume is still unable to catch up with the previous year's level lacklustre demand from the property sector, but we believe that there is still further upside in demand from infrastructure projects in the upcoming weeks. The current high inventory level is expected to continue to weigh on cement prices though some provinces have started implementing a staggered production scheme.

Infrastructure projects will remain as a key source of cement demand while we await the stabilisation and gradual recovery of the property sector, though recovery outlook of the property sector has been dampened by the slump in property sales and mortgage loan demand in Apr 23. All in all, we are neutral on the medium- to long-term market demand for cement, with more supply-side reform required to resolve the current structural challenges.

- **We maintain UNDERWEIGHT on the steel sector.** With the rapid decline of raw materials prices which brought down steel mills' production costs, the proactive production cut from domestic steel mills may slow down. We have yet to see meaningful incremental demand at the current juncture while the steel products' prices, which fell to a multi-month low, have further dragged the market sentiment.

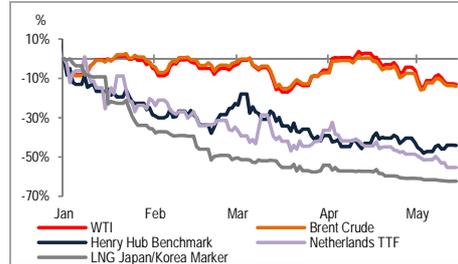
The recent reporting of a potential cap on domestic crude steel production should benefit the industry as a whole if implemented, and will be effective in easing the oversupply condition considering the current weak downstream demand, lend a hand in supporting domestic steel products' prices and help to maintain healthy margins for steel mills.

METALS – YTD PRICE PERFORMANCE



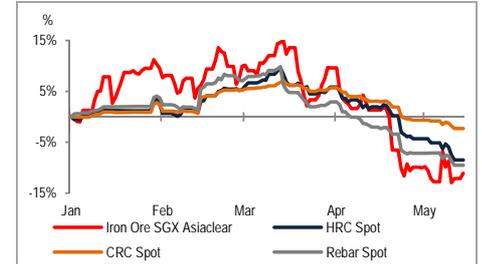
Source: Bloomberg, UOB Kay Hian

ENERGY – YTD PRICE PERFORMANCE



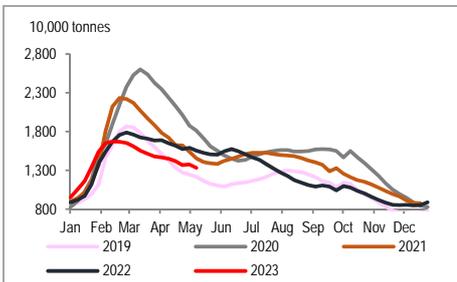
Source: Bloomberg, UOB Kay Hian

STEEL – YTD PRICE PERFORMANCE



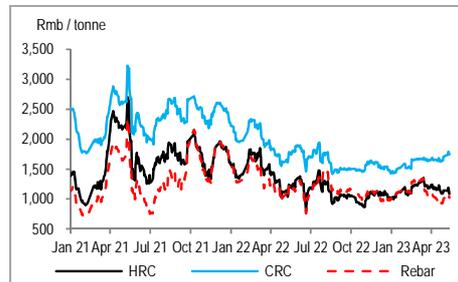
Source: Bloomberg, Wind, UOB Kay Hian

OVERALL STEEL PRODUCTS SOCIAL INVENTORY



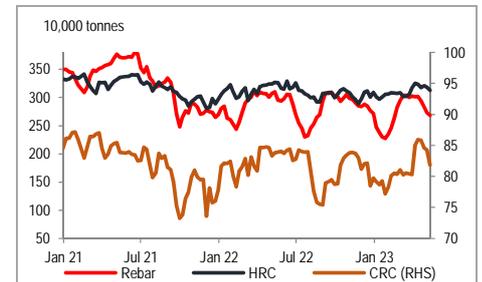
Source: Wind, UOB Kay Hian

STEEL – RAW MATERIALS SPREADS



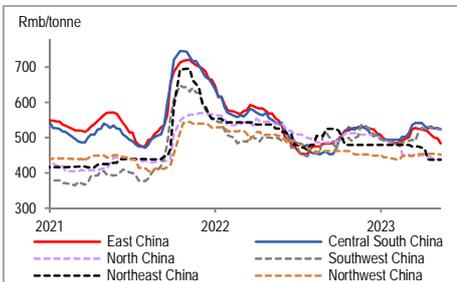
Source: Bloomberg, UOB Kay Hian

KEY STEEL MILLS WEEKLY PRODUCTION VOLUME



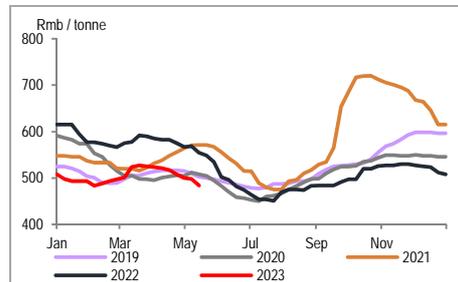
Source: Wind, UOB Kay Hian

CEMENT PRICES BY REGION



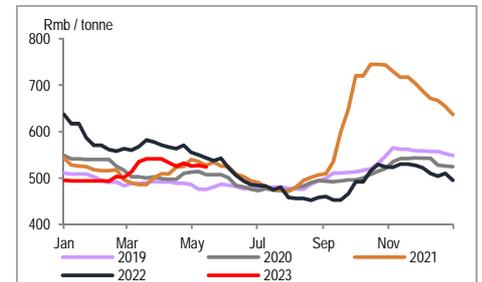
Source: Wind, UOB Kay Hian

AVERAGE CEMENT PRICE – EAST CHINA



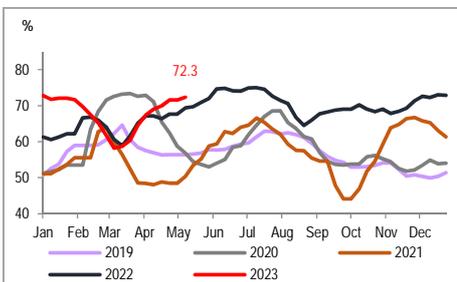
Source: Wind, UOB Kay Hian

AVERAGE CEMENT PRICE – CENTRAL-SOUTH CHINA



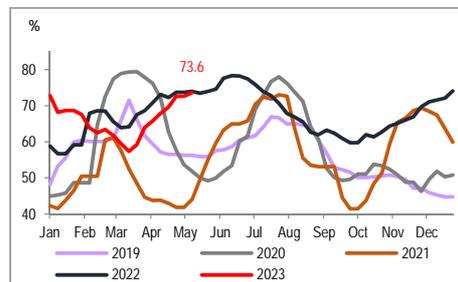
Source: Wind, UOB Kay Hian

CEMENT STORAGE CAPACITY RATIO – NATIONAL AVERAGE



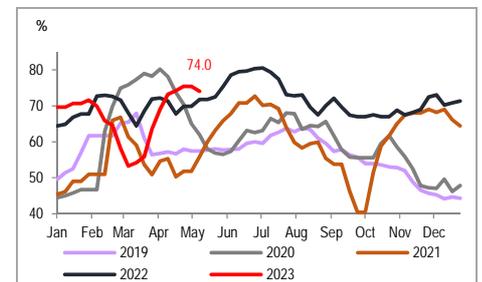
Source: CEIC, UOB Kay Hian

CEMENT STORAGE CAPACITY RATIO – EAST CHINA



Source: CEIC, UOB Kay Hian

CEMENT STORAGE CAPACITY RATIO – CENTRAL-SOUTH CHINA



Source: CEIC, UOB Kay Hian

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