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### KEY HIGHLIGHTS

#### Sector

#### Commodities

Weekly: Hawkish Fed and gloomy China recovery outlook weigh on metals prices.

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#### TRADERS' CORNER

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**China Shenhua Energy Co. Ltd (1088 HK):** Trading Buy range: HK\$24.60-24.90

**Jiangxi Copper Company Limited (358 HK):** Trading Buy range: HK\$12.30-12.60

### CORPORATE AND MACRO CALENDAR

Date	Country/Region	Economic Indicator
27 Sep	China	Aug Industrial Profits
30 Sep	China	NBS Sep PMI
01 Oct	China	Caixin Sep PMI
09-15 Oct	China	Sep Money Supply And Credit
13 Oct	China	Sep Inflation
13 Oct	China	Sep Trade
18 Oct	China	3Q GDP and Sep Economic Activities
20 Oct	China	Oct Loan Prime Rate

### KEY INDICES

	Prev Close	1D %	1W %	1M %	YTD %
DJIA	34006.9	0.1	(1.8)	(1.0)	2.6
S&P 500	4337.4	0.4	(2.6)	(1.5)	13.0
FTSE 100	7624.0	(0.8)	(0.4)	3.9	2.3
AS30	7278.6	0.1	(2.0)	(0.7)	0.8
CSI 300	3714.6	(0.7)	(0.4)	0.1	(4.1)
FSSTI	3215.4	0.3	(1.5)	0.8	(1.1)
HSCEI	6130.3	(2.1)	(1.3)	(0.7)	(8.6)
HSI	17729.3	(1.8)	(1.1)	(1.3)	(10.4)
JCI	6998.4	(0.3)	0.9	1.5	2.2
KLCI	1443.5	(0.5)	(1.0)	(0.1)	(3.5)
KOSPI	2495.8	(0.5)	(3.1)	(0.9)	11.6
Nikkei 225	32678.6	0.9	(2.5)	3.3	25.2
SET	1507.4	(1.0)	(1.3)	(3.4)	(9.7)
TWSE	16452.2	0.7	(1.5)	(0.2)	16.4
BDI	1614	1.3	12.2	49.4	6.5
CPO (RM/mt)	3645	0.2	(2.2)	(5.6)	(10.0)
Brent Crude (US\$/bbl)	93	0.0	(1.2)	10.4	8.6

Source: Bloomberg

### TOP TRADING TURNOVER

Company	Price (HK\$)	Chg (%)	5-day ADT (HK\$m)
HKEX	292.60	(1.1)	1,294.1
JD-SW	115.40	(4.1)	1,144.1
KUAISHOU-W	61.85	(2.6)	1,050.4
XPENG INC-A SHRS	65.70	(1.8)	854.0
LI AUTO INC-A	144.70	(7.7)	785.3

### TOP GAINERS

Company	Price (HK\$)	Chg (%)	5-day ADT (HK\$m)
TRAD CHI MED	3.51	3.5	146.0
WUXI BIOLOGICS C	43.70	2.5	539.6
ORIENT OVERSEAS	107.30	1.7	73.6
SMIC	19.80	1.4	551.0
CHINA MERCHANTS	9.97	1.0	38.5

### TOP LOSERS

Company	Price (HK\$)	Chg (%)	5-day ADT (HK\$m)
LI AUTO INC-A	144.70	(7.7)	785.3
LONGFOR GROUP HO	14.16	(6.5)	195.2
CHINA EVERBRIGHT	2.66	(6.3)	17.9
GALAXY ENTERTAIN	48.55	(5.7)	231.8
SANDS CHINA LTD	23.90	(5.2)	271.0

\*ADT: Average daily turnover

### KEY ASSUMPTIONS

GDP (% yoy)	2022	2023F	2024F
US	2.1	2.0	1.0
Euro Zone	3.5	0.5	0.8
Japan	1.0	1.5	1.0
Singapore	3.6	0.7	3.0
Malaysia	8.7	4.0	4.6
Thailand	2.6	3.1	3.5
Indonesia	5.4	5.1	5.2
Hong Kong	-3.5	4.6	3.0
China	3.0	5.0	4.6
CPO (RM/mt)	5,088	4,000	4,200
Brent (Average) (US\$/bbl)	99.0	81.0	84.0

Source: Bloomberg, UOB ETR, UOB Kay Hian

## SECTOR UPDATE

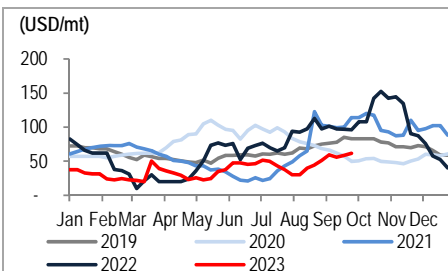
### Commodities – China

Weekly: Hawkish Fed And Gloomy China Recovery Outlook Weigh On Metals Prices

**The Fed maintained interest rates last week but guided for one more rate hike by end-23. The Fed's hawkish guidance and China's gloomy recovery outlook have weighed on the demand outlook of base metals. Steel mills' margin erosion and the upcoming steel production curbs are expected to drag on iron ore consumption. The rebound in cement prices continues to be supported by demand recovery. Guangdong is seeing an intensifying price war given the influx of products from Guangxi.**

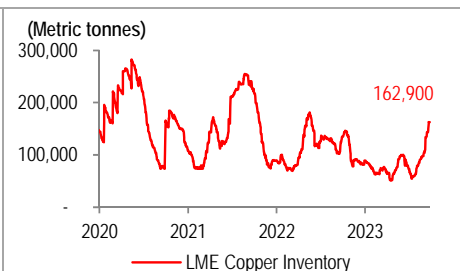
- **Base metals (maintain MARKET WEIGHT):** A hawkish Fed and high inventories have weighed on copper prices.
  - COMEX gold/LME copper three-month futures were flat/-2.2% w/w to US\$1,927 per t oz/US\$8,222 per mt. The US dollar index strengthened to 105.58 on 22 September while 10-year Treasury yield spiked to 4.49% on 21 September, the highest since 2007.
  - **The Fed maintained interest rates at 5.25-5.50%; guided for one more rate hike by end-23.** Fed officials have guided at least one more rate hike by the end of the year and expect rates to stay high for a longer duration that they had initially anticipated.
  - The prolonged high interest rate environment will weigh on global economic growth while the continuous climb of LME copper inventory, which has reached the highest level since May 22, is also concerning to the market. The high-paced growth of new energy industries was insufficient to offset the contraction in copper demand from global manufacturing industries.
  - **Market reassessing Fed rate path.** According to CME FedWatch Tool, the market is still pricing in 74.5% odds of the Fed maintaining interest rate at 5.25-5.50% on 1 Nov 23, and is expecting a first rate cut in Jun 24 with a 43.15% probability.
  - The focus this week will be on the US' core PCE inflation (29 Sep 23), with consensus looking at +3.50% yoy.

#### CHINA YANGSHAN COPPER PREMIUM



Source: Bloomberg, UOB Kay Hian

#### LME COPPER INVENTORY



Source: Bloomberg, UOB Kay Hian

- **Steel (maintain UNDERWEIGHT):** Steel mills are maintaining high production activities despite moderate downstream demand.

**Iron ore pared earlier gains.** SGX iron ore futures pared earlier gains last week, dropping 1.4% w/w to US\$121.18, but still increasing 15.1% mom. Iron ore prices were supported by steel mills' robust restocking demand prior to the Golden Week holidays, which took place at a higher pace compared with the past two years. Spot prices of rebar/rot-rolled coil (HRC)/cold-rolled coil (CRC) were rather flattish with w/w changes of +0.1%/-0.4%/-0.1%.

#### PEER COMPARISON

Company	Ticker	Rec	Price @ 25 Sep 23 (lcy)	Target Price (lcy)	Upside/ (Downside) to TP (%)	Market Cap (lcy m)	2023F PE (x)	2024F PE (x)	2023F P/B (x)	2024F P/B (x)	2023F EV/EBITDA (x)	2024F EV/EBITDA (x)	ROE (%)
Anhui Conch	914 HK	BUY	20.75	28.30	36.4	140,089.8	8.7	8.0	0.5	0.5	8.2	7.4	6.4
Baosteel	600019 CH	BUY	6.24	7.10	13.8	138,916.1	13.4	10.0	0.7	0.7	5.6	4.8	5.2
CR Cement	1313 HK	HOLD	2.13	3.10	45.5	14,873.7	7.9	6.1	0.3	0.3	6.9	5.6	3.8
Zijin Mining	2899 HK	BUY	12.60	15.00	19.0	353,108.6	13.4	11.4	2.9	2.4	10.7	9.4	23.7

Source: Bloomberg, UOB Kay Hian

## MARKET WEIGHT

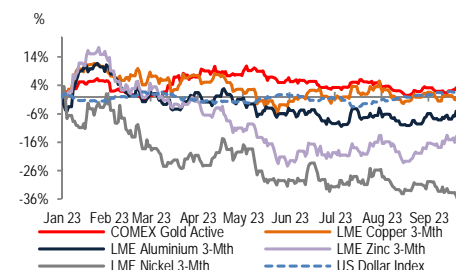
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### SECTOR PICKS

Company	Rec	Target Price (HK\$)	Share Price (HK\$)
Anhui Conch	BUY	28.30	20.75

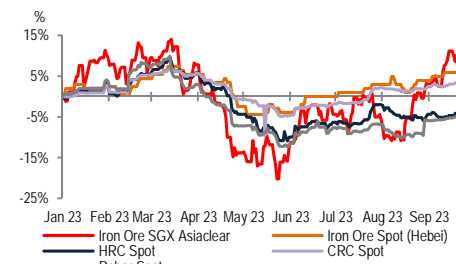
Source: UOB Kay Hian

### METALS – YTD PRICE PERFORMANCE



Source: Bloomberg, UOB Kay Hian

### STEEL – YTD PRICE PERFORMANCE

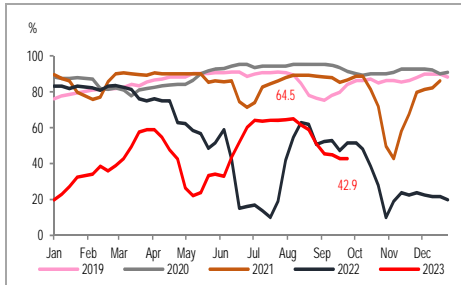


Source: Bloomberg, UOB Kay Hian

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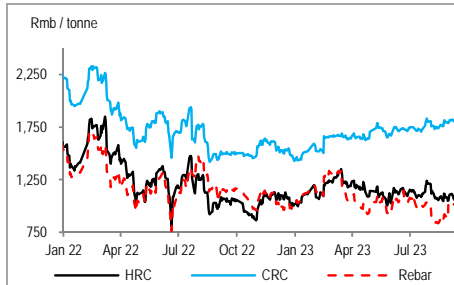
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## 247 SAMPLED STEEL MILLS PROFIT-MAKING RATIO



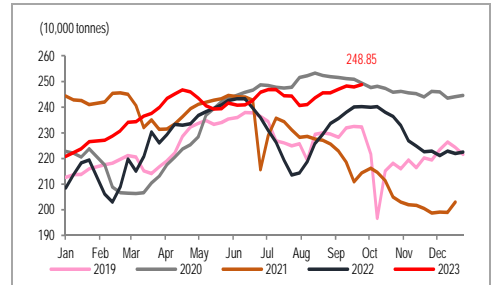
Source: Wind, UOB Kay Hian

## STEEL-RAW MATERIAL SPREADS



Source: Bloomberg, UOB Kay Hian

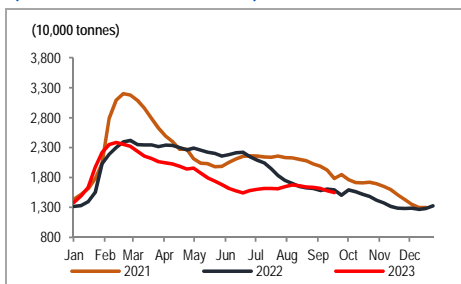
## 247 SAMPLED STEEL MILLS AVERAGE DAILY MOLTEN IRON PRODUCTION



Source: Wind, UOB Kay Hian

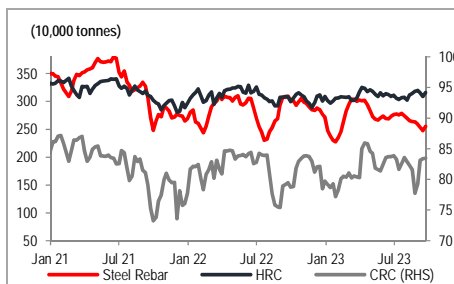
- **Spike in raw materials prices compressed margins.** The recent spikes in iron ore, coke and scrap steel prices have all weighed on steel mills' production margins, with respective average price changes of +0.4%/+1.8%/+0.8% wow. Weekly average HRC steel-raw materials spread was down 1.34% wow. Mysteel's survey indicated that 42.86% of steel mills are currently profit-making (flat wow).
- **Molten iron production hit highest level since Sep 20.** Steel mills' production activities remained high, with weekly average daily molten iron production hitting the highest level since Sep 20 at 2.4885m tonnes (+0.01m tonnes wow), boosted by the growing number of blast furnace resuming operations. Weekly output of five major steel products slowed to 9.1694m tonnes (+1.5% wow) this week.
- **Steel inventory down for sixth consecutive week.** Overall steel inventory based on Mysteel's survey was down 1.9%% wow to 15.49m tonnes (-2.6% yoy). Steel apparent consumption remained flattish at 9.4699m tonnes (+0.7% wow). The weekly average apparent consumption of rebar/HRC/CRC in Sep 23 was -12.9%/-0.4%/+5.9% yoy.
- Based on Mysteel's survey, restocking demand of construction materials before the long holidays remained weak, with only 42% of the 92 sampled entities indicating that they plan to restock before the long holidays. Some 84% of the respondents expect steel prices to stay flattish or fall after the holidays, which explains the delay in the restocking timeline.

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



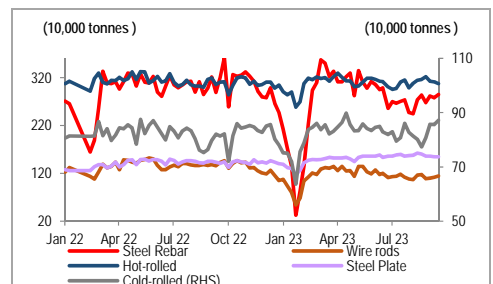
Source: Wind, UOB Kay Hian

## WEEKLY PRODUCTION OUTPUT OF MAJOR STEEL PRODUCTS



Source: Wind, UOB Kay Hian

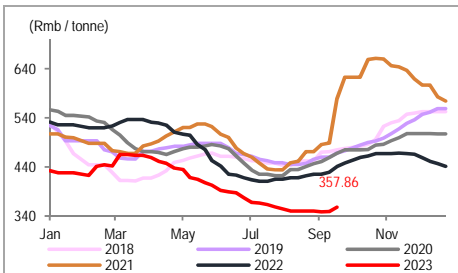
## STEEL PRODUCTS WEEKLY APPARENT CONSUMPTION



Source: Wind, UOB Kay Hian

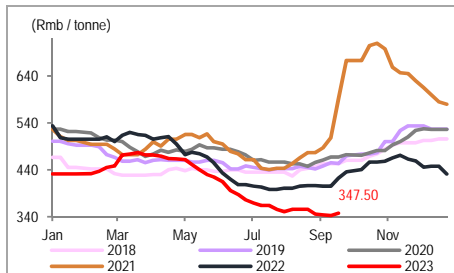
- **Cement (maintain MARKET WEIGHT):** The rebound of cement prices was backed by demand recovery and an uptick in coal prices; the price war in Guangdong is intensifying.
- **Rebound in cement prices continues.** National average PO42.5 cement prices (bulk) continued its uptrend, rising 0.4% wow to Rmb356.67 per tonne. Average cement prices for the eastern/central/southern regions saw changes of +2.5%/+5.2%/-1.8% wow. Guangdong is seeing an intensifying price war, largely due to the influx of cement products from Guangxi and the high inventory level in the region. Cement-coal spread recovered to Rmb248.64 per tonne (+0.5% wow/-3.5% yoy) due to the recent rebound of cement prices.

#### AVERAGE CEMENT PRICES – EAST



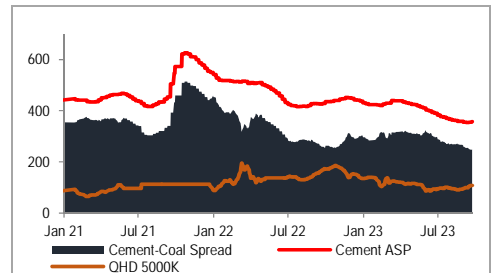
Source: CEIC, UOB Kay Hian

#### AVERAGE CEMENT PRICES – CENTRAL-SOUTH



Source: CEIC, UOB Kay Hian

#### CEMENT-COAL SPREAD

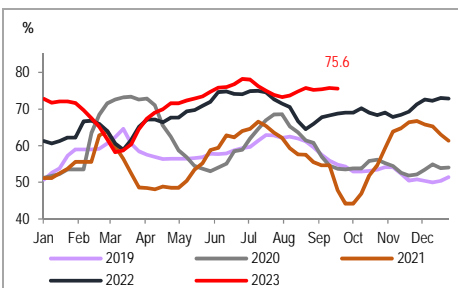


Source: CEIC, Wind, UOB Kay Hian

– **Third consecutive week of shipment recovery.** According to 100NJZ's survey conducted on 250 cement enterprises, weekly cement shipment volume for the week of 13-19 Sep 23 was 5.8855m tonnes (+1.5% wow; -31.4% yoy). By region, the eastern/central/southern regions' shipment volume was -0.9%/+1.3%/+4.8% wow (-36.5%/-28.4%/-41.9% yoy) respectively. Eastern region shipments were dragged by the rainy weather. Shipment for infrastructure projects totalled 2.28m tonnes (+1.3% wow/-10.6% yoy).

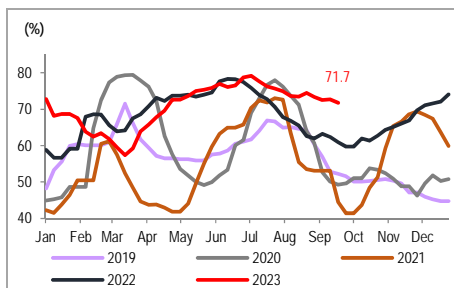
– **Inventory pressure moderated.** Based on 100NJZ's survey on 274 cement enterprises, clinker production capacity utilisation declined to 61.54% last week (-2.98ppt wow). National average cement storage capacity ratio was down 0.13ppt wow to 75.6%. Eastern and southern regions saw a contrasting trend, with changes of -0.92ppt/+1.11ppt to 71.7%/79.0% respectively.

#### CEMENT STORAGE CAPACITY RATIO – NATIONAL AVERAGE



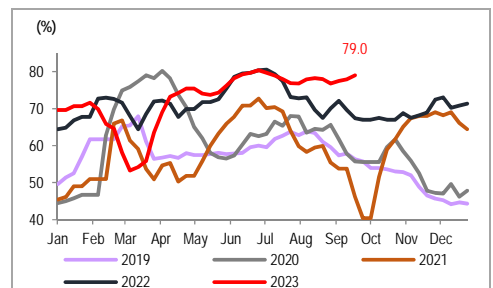
Source: CEIC, UOB Kay Hian

#### 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 base metals sector.** A hawkish Fed and strong US dollar will continue to weigh on metal prices in the short to medium term. We are concerned about the global copper demand given the prospect of a prolonged high interest rate environment and gloomy global economic outlook. Copper prices are likely to fall below US\$8,000 by the end of the year and the downcycle is likely to last until 2H24, while the rebound in crude oil prices would also inflate miners' production costs and erode margins.
- **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. We are still concerned about the high inventory level as it could cap the upside of price recovery. Aug 23's LGSB issuance was the highest of the year at Rmb2,945b, completing 77.5% of the annual quota, but still 16.3% lower yoy. The annual quota should be fully utilised by end-Sep 23, and we should see acceleration in construction progress for infrastructure projects in 4Q23.
- **We maintain UNDERWEIGHT on the steel sector.** Iron ore prices were boosted by robust steel production activities, but the rally will not be sustainable without a meaningful recovery in the property sector. We expect more production curbs to be announced in the following weeks in order to improve air quality. The stronger price performance of raw materials against steel end products would also see steel mills moderating production.

## TRADERS' CORNER



Chart by TradingView

### China Shenhua Energy Co. Ltd (1088 HK)

Trading Buy range: HK\$24.60-24.90

Last price: HK\$25.00

Target price: HK\$25.80/HK\$26.20

Protective stop: Breaks below HK\$23.90

#### Stock Highlights:

In Aug 23, the group's commercial coal production increased 7.5% yoy to 27.3m tonnes. In 8M23, the group's commercial coal production increased 2.2% yoy to 215m tonnes.

#### Technical View:

In mid-August, the share price fell below its 200-day moving average (purple) in a short time. It then rose above its 200-day moving average over the following days. A new round of uptrend then started, with the share price reaching a three-month high in recent days. Its 10-day (light blue), 20-day (orange), 50-day (red) and 200-day moving averages are aligning in order, which is favourable for the outlook. The 14-day RSI is above the midline level of 50 and is currently around 66, indicating strong momentum. The MACD line is higher than the signal line and both lines are in the bullish zone, resulting in a double bullish signal.

Average timeframe: Around two weeks.



Chart by TradingView

### Jiangxi Copper Company Limited (358 HK)

Trading Buy range: HK\$12.30-12.60

Last price: HK\$12.64

Target price: HK\$13.00/HK\$13.26

Protective stop: Breaks below HK\$11.90

#### Stock Highlights:

In 1H23, revenue increased 4.78% yoy to Rmb266.75b.

#### Technical View:

The share price rose with a long white candlestick and high trading volume on 31 Aug 23, and then showed a sideways consolidation trend. It is now near its 10-day (light blue), 20-day (orange) and 50-day (red) moving averages, and higher than its 200-day (purple) moving average. The 14-day RSI is near the midline level of 50 and is now around 48, indicating that momentum is neutral. The MACD line is flat with the signal line and both lines are in the bullish zone. Therefore, the uptrend of the share price remains unchanged for the time being. If the share price stays above the 200-day moving average, a rebound is likely.

Average timeframe: Around two weeks.

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