

SECTOR UPDATE

Commodities – China

Weekly: Gold Steadies Above US\$2,000; Market Sees Over 80% Odds Of A 25bp Hike In May

Gold and copper futures retraced from the multi-month peak on 14 April on the hawkish statement from the Fed governor. Traders now see over 80% odds of a 25bp rate hike in the next FOMC meeting. Weakening steel prices have further compressed steel mills' profitability. With steel production still hovering at high levels, we see strong inventory pressure ahead. Cement prices have continued weakening while inventory is piling up, due to high capacity utilisation and a lack of incremental demand from new projects.

WHAT'S NEW

- **Metals (maintain MARKET WEIGHT):** Prices of metals have retraced from multi-month highs on the Fed governor's hawkish statement.
 - COMEX gold/LME copper 3-month futures have retraced from the multi-month high of US\$2,055.30/US\$9,058.50 on 14 April, as Fed governor Christopher Waller urged for more monetary policy tightening considering the fact that inflation remains stubbornly high and the labour market remains resilient. The 10-year US Treasury Yield has also rebounded to 3.52% (+13bp wow) while the US dollar index has also ticked up to 101.55.
 - According to CME FedWatch Tool, as of 14 April, traders were pricing in 78.0% odds (7 April: 71.2%) of a 25bp rate hike in the upcoming FOMC meeting (3 May), even as the US' Mar 23 retail sales declined more than expected at -1.0% mom (consensus: -0.50% mom). The probability edged up further to above 80% on 17 April.
 - Looking ahead, market will be focusing on: a) the release of the Fed's beige book (20 April) and speeches by Fed officials during the week.
- **Steel (maintain UNDERWEIGHT):** Steel prices continued trending down on weak demand.
 - SGX iron ore futures/Hebei iron ore spot prices steadied at US\$116.52/Rmb1,055 per tonne last week. Both remained flat wow, but were still 10.7%/3.7% 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 falling, with wow changes of -2.0%/-1.4%/-0.9% to Rmb4,042/Rmb4,228/Rmb 4,700 per tonne last week.
 - Our self-computed weekly average of HRC steel-raw materials spreads has contracted by 2.3% wow, even though the impact on margins has been partially offset by the simultaneous correction of raw material prices. Mysteel's survey indicated that only 47.6% of steel mills are currently profit-making (-6.9ppt wow; -27.3ppt yoy).
 - Inventory at sampled traders/steel mills remained on a downtrend, declining 1.3%/0.4% wow last week to 14.49m/5.77m tonnes. It is worth noting that according to China Iron and Steel Association (CISA), inventory at key domestic steel mills as of early-April had rebounded by 6.2% from end-March's level to 18.32m tonnes.
 - Steel production still hovered at a high level. Key steel mills' weekly production volumes of rebar/HRC/CRC are 0.2%/5.5%/6.7% higher than Mar 23's average. However, we note that more and more steel mills have started cutting/halting productions and are carrying out plant maintenance due to the current slim/negative margins.

MARKET WEIGHT

(Maintained)

SECTOR PICKS

Company	Rec	Target Price (HK\$)	Share Price (HK\$)
Anhui Conch	BUY	33.80	26.25

Source: UOB Kay Hian

PEER COMPARISON

Company	Ticker	Rec	Price @ 17 Apr 23 (lcy)	Target Price (lcy)	Upside/ (Downside) to TP (%)	Market Cap (lcy m)	----- PE ----- 2023F (x) 2024F (x)	----- P/B ----- 2023F (x) 2024F (x)	----- EV/EBITDA ----- 2023F (x) 2024F (x)	ROE (%)
Anhui Conch	914 HK	BUY	26.25	33.80	28.8	164,704.2	6.4 6.0	0.6 0.6	5.6 5.3	10.1
Baosteel	600019 CH	HOLD	7.03	6.70	-4.7	156,503.3	9.8 8.0	0.7 0.7	5.1 4.5	7.7
CR Cement	1313 HK	HOLD	3.79	4.50	18.7	26,465.3	7.8 6.7	0.5 0.5	5.7 4.8	6.7
Zijin Mining	2899 HK	BUY	14.38	15.60	8.5	409,683.1	13.9 11.7	3.1 2.6	11.1 9.6	24.3

Source: Bloomberg, UOB Kay Hian

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- According to Mysteel's survey, as at 14 April, the ratio of domestic blast furnaces in operation was 84.7% (+0.44 ppt wow) vs electric arc steel mills' capacity utilisation of 64.0% (-2.4 ppt wow). At least 10 steel mills have announced production cut plans mtd, which implies that steel production should come down gradually in the second half of the month.
- According to Caixin, although no formal document has been released yet, 2023's domestic crude steel production is expected to be capped at last year's level of 1,013m tonnes. The production restrictions will be reviewed in 2H23 based on market conditions. Note that 2M23 crude steel production was +5.6% yoy/+10.74m tonnes compared to last year.
- **Cement (maintain MARKET WEIGHT):** Lacklustre downstream demand has failed to digest the normalised production output.
 - Cement prices in East/Central-South China continued to trend down last week, declining by 0.8%/1.5% wow to Rmb517/Rmb525 per tonne. National average cement storage capacity ratio expanded further to 69.0% (+1.6ppt wow), with inventory levels for the East/Central-South China regions last reported at 67.8%/73.2% (+2.0 ppt/ +4.2 ppt wow).
 - Normalisation of cement production upon the end of 1Q23's staggered production scheme has contributed to the growing inventory pressure. Capacity utilisation rate spiked from early-March's 48.4% to end-March's 80.8%, and cement inventory level has reversed up since mid-March as the market was unable to fully digest the incremental output. As of 13 April, national average clinker production capacity utilisation rate was 83.5% (+0.23ppt wow), and shows no signs of easing yet.
 - According to 100NJZ's survey conducted on 250 cement enterprises, weekly cement shipment volume for the week of 5 -10 April was 6.01m tonnes (+3.2% wow; -11.7% yoy). By region, Eastern/Central/Southern regions had -3.2%/+2.1%/+15.6% wow changes. As for infrastructure projects, weekly cement direct supply volume was 1.94m tonnes (+2.7% wow, +17.6% yoy).
 - Weekly shipment volumes, especially in the Southern region, have continued to recover given the improving weather condition. However, there is no meaningful growth in shipment volume due to the lack of new property projects in the market, while tight developers' liquidity conditions are also slowing down property projects' construction progress.

ESSENTIALS

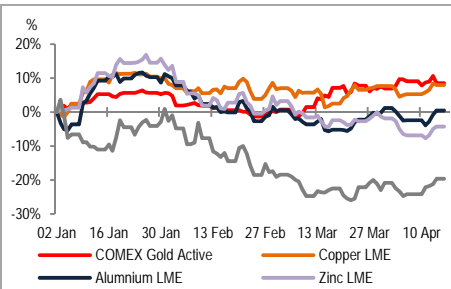
- **We maintain MARKET WEIGHT on the cement sector.** Cement shipment volume is currently weaker than that of last year, but we believe that demand from infrastructure projects still has further upside in the upcoming weeks. The current high capacity utilisation is expected to continue weigh on cement prices and lead to a build-up in inventory. However, the recent decline in cement prices should be partially compensated by falling domestic thermal coal prices, which is the largest cost component of cement production, and thus offset the impact on gross margin.

Infrastructure projects will remain as a key source of cement demand while we await the stabilisation and gradual recovery of the property sector closer to the end of the year. 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.** The recent reporting of a potential cap on domestic crude steel production was largely in line with market expectations, despite no official confirmation having been issued yet. It should benefit the industry as a whole, and will be effective in easing the oversupply condition especially with the weak downstream demand, and support domestic steel products' prices and help to maintain healthy margins.

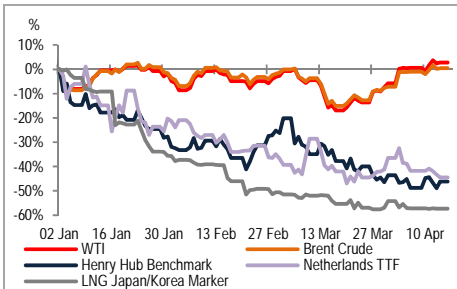
We remain cautious on the sustainability and strength of demand recovery for steel products. The effects of pent-up demand have started to subside, with the guidance from downstream companies being rather conservative; hence, the near-term outlook remains challenging for the sector.

METALS – YTD PRICE PERFORMANCE



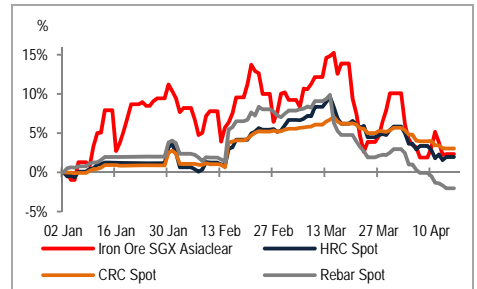
Source: Bloomberg, UOB Kay Hian

ENERGY – YTD PRICE PERFORMANCE



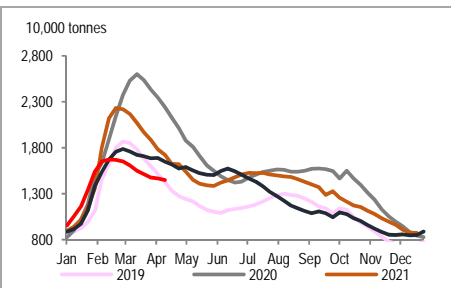
Source: Bloomberg, UOB Kay Hian

STEEL – YTD PRICE PERFORMANCE



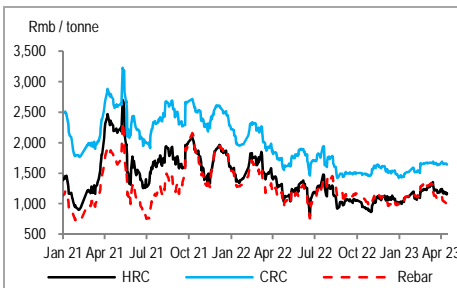
Source: Bloomberg, Wind, UOB Kay Hian

OVERALL STEEL PRODUCTS SOCIAL INVENTORY



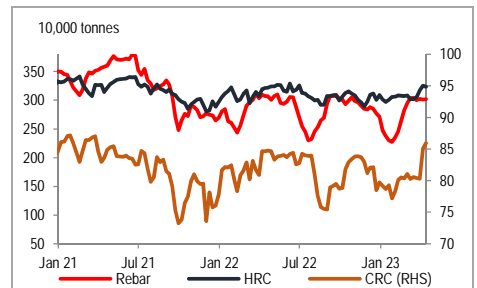
Source: Wind, UOB Kay Hian

STEEL-RAW MATERIALS SPREADS



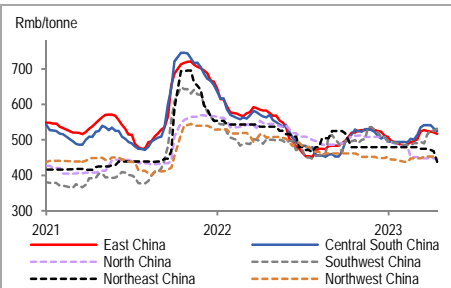
Source: Bloomberg, UOB Kay Hian

KEY STEEL MILLS WEEKLY PRODUCTION VOLUME



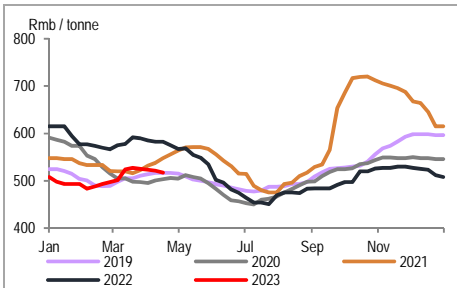
Source: Wind, UOB Kay Hian

CEMENT PRICES BY REGION



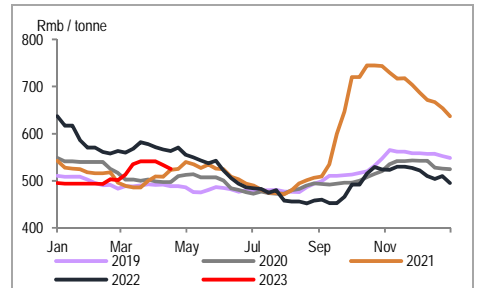
Source: Wind, UOB Kay Hian

AVERAGE CEMENT PRICES – EAST CHINA



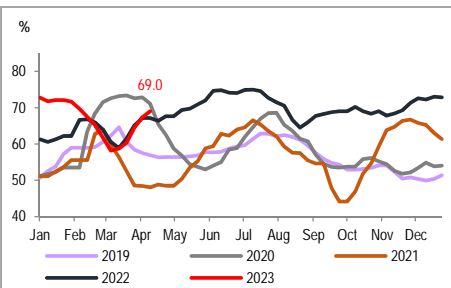
Source: Wind, UOB Kay Hian

AVERAGE CEMENT PRICES – CENTRAL-SOUTH CHINA



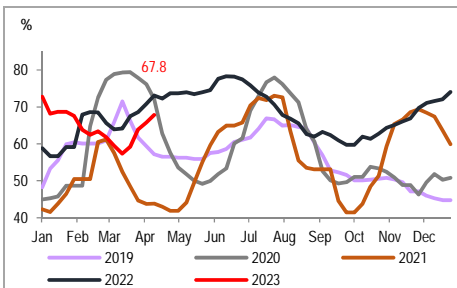
Source: Wind, UOB Kay Hian

CEMENT STORAGE CAPACITY RATIO – NATIONAL AVERAGE



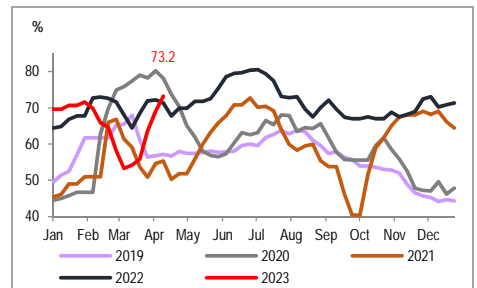
Source: CEIC, UOB Kay Hian

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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