

### SECTOR UPDATE

#### Commodities – China

Weekly: Metal Prices Rebounded On Easing Fed Rate Hike Fears; Industrial Metals And Iron Ore Prices Rising On Stimulus Optimism

**The US' weaker-than-expected Oct 23 CPI has eased market concerns of further rate hikes by the Fed, dragging the US dollar to a two-month low. Expectations of more stimulus measures from China are boosting demand outlook for industrial metals and iron ore. Steel mills' margins expansion continued on the rebound of steel prices, though consumption has slowed. Cement shipment slowed as the northern region entered the low season and the southern region encountered rainy weather.**

#### WHAT'S NEW

- **Base metals (maintain MARKET WEIGHT):** The US dollar fell to a two-month low on easing Fed rate hike fears.
  - COMEX gold/LME copper three-month futures were +2.4%/+2.9% w/w to US\$1,985 per t oz/US\$8,267 per mt.
  - US dollar index fell to a two-month low. US dollar index/10-year treasury yield was down 1.8%/17 bp w/w to 103.92/4.44% last week. The release of the US' weaker-than-expected Oct 23 CPI at +3.20% (vs. consensus +3.30% yoy) has eased market concerns of further rate hikes by the Fed, lending support to metal prices denominated in US dollar.
  - Copper prices hit nine-week high on stimulus optimism. China's weak Oct 23 CPI initially dragged on the demand outlook of industrial metals, but market sentiment was later boosted by China's vow to roll out additional stimulus measures supporting the real estate sector which remains in the doldrums. China has kept both one-year/five-year loan prime rate (LPR) unchanged on 20 Nov 23 at 3.45%/4.20%.
  - According to CME FedWatch Tool, market is now pricing in 100% odds of the Fed maintaining interest rate in Dec 23's meeting. Market is expecting the Fed's first rate cut in May 24 with a slightly higher probability at 61.96%.
  - This week, the market's focus will be on: a) 20-year US treasury bond auction (20 Nov 23), and b) FOMC meeting minutes (22 Nov 23).
- **Steel (maintain UNDERWEIGHT):** Expanding margin despite soaring iron ore prices; consumption under pressure amid sharp rebound in steel prices and low season.
  - Iron ore prices continued rising on China's stimulus optimism. SGX iron ore futures have continued rising to US\$128.51 (+1.3% w/w/+12.1% mom). Sentiment was partly boosted by the series of stimulus measures from the Chinese government intending to support the beleaguered property sector and easing local government liquidity tightness. Spot prices of rebar/hot-rolled coil (HRC)/cold-rolled coil (CRC) as at 17 Nov 23 saw w/w changes of +1.3%/+1.2%/+0.4%.

#### PEER COMPARISON

Company	Ticker	Rec	Price @ 20 Nov 23 (lcy)	Target Price (lcy)	Upside/ (Downside) to TP (%)	Market Cap (lcy m)	PE		P/B		EV/EBITDA		ROE (%)
							2023F (x)	2024F (x)	2023F (x)	2024F (x)	2023F (x)	2024F (x)	
Anhui Conch	914 HK	BUY	19.10	28.20	47.6	126,648.5	8.2	7.1	0.5	0.5	7.8	6.6	6.1
Baosteel	600019 CH	BUY	6.18	7.10	14.9	136,700.7	13.3	9.9	0.7	0.6	5.6	4.8	5.2
CR Cement	1313 HK	HOLD	1.89	2.29	21.4	13,197.8	11.9	8.2	0.3	0.3	8.3	6.5	2.2
Zijin Mining	2899 HK	BUY	11.88	15.00	26.3	333,262.3	12.4	10.6	2.7	2.3	10.2	8.9	23.7

Source: Bloomberg, UOB Kay Hian

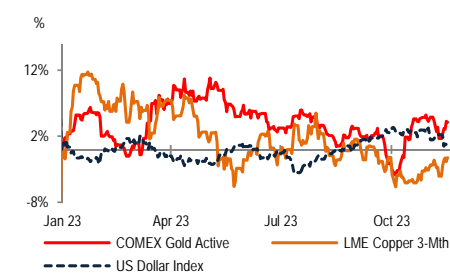
### MARKET WEIGHT (Maintained)

#### SECTOR PICKS

Company	Ticker	Rec	Share Price (HK\$)	Target Price (HK\$)
Anhui Conch	914 HK	BUY	19.10	28.20

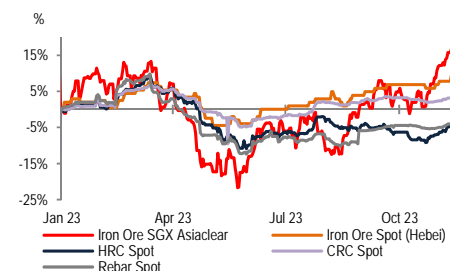
Source: UOB Kay Hian

#### METALS – YTD PRICE PERFORMANCE



Source: Bloomberg, UOB Kay Hian

#### STEEL – YTD PRICE PERFORMANCE



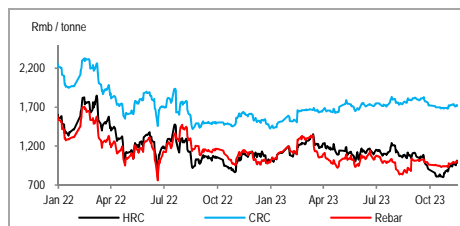
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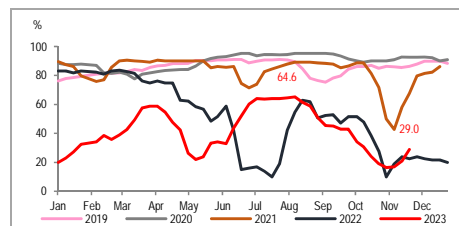
- China's National Development and Reform Commission (NDRC) is tightening its supervision on speculation activities for iron ore futures. Dalian Commodity Exchange has set iron ore futures trading limits at no more than 500 lots on contracts for January to May 24 deliveries.
- **Expansion of steel mills' margin despite rising costs.** Despite fast-rising iron ore prices, the uptick in domestic steel products' prices has been able to offset the impacts of higher costs. Weekly average of HRC steel-raw materials spread expanded by another 2.4% w/w to Rmb983 per tonne. Mysteel's survey indicated that 28.99% (+8.23ppt w/w) out of the 247 sampled steel mills are currently profit-making.

STEEL-RAW MATERIAL SPREADS



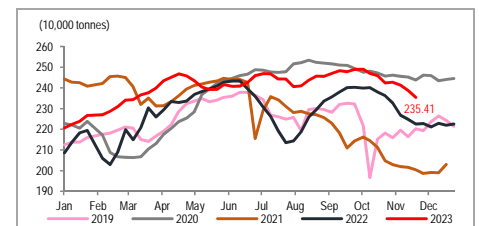
Source: Bloomberg, UOB Kay Hian

RATIO OF PROFIT-MAKING OUT OF 247 SAMPLED STEEL MILLS



Source: Wind, UOB Kay Hian

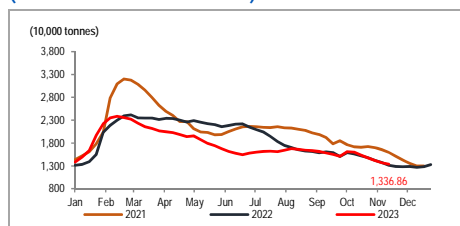
247 SAMPLED STEEL MILLS DAILY AVERAGE MOLTEN IRON OUTPUT



Source: Wind, UOB Kay Hian

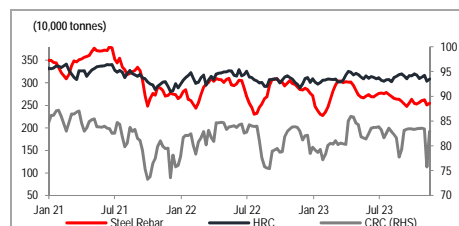
- **Steel production set to rebound on improving margins.** According to Mysteel's survey on 247 sampled steel mills, daily average molten iron production (for the week ended 17 Nov 23) was 2.3541m tonnes (-1.4% w/w), and blast furnace capacity utilisation ratio was down 1.22ppt w/w to 87.99%. Weekly output of five major steel products has rebounded to 8.9508m tonnes (+2.5% w/w/-3.6% yoy). Steel mills are gradually resuming production from maintenance amid improving profitability, and are expected to add on inventory pressure given the lacklustre downstream demand.
- **Steel consumption under pressure.** Overall steel inventory based on Mysteel's survey was down 2.28% w/w to 13.37 tonnes (+1.7% yoy). Weekly steel apparent consumption has slowed as we enter the low season. Apparent consumption was flatish w/w at 9.2633m last week, but was still 4.2% lower compared with last month, pressured by the rising steel prices and the start of the winter season in the northern region.

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



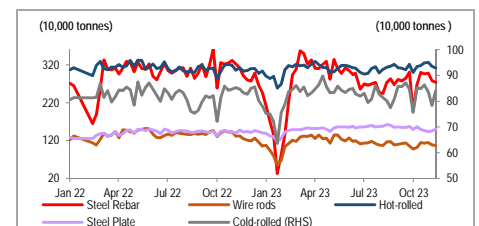
Source: Wind, UOB Kay Hian

WEEKLY PRODUCTION OUTPUT OF MAJOR STEEL PRODUCTS



Source: Wind, UOB Kay Hian

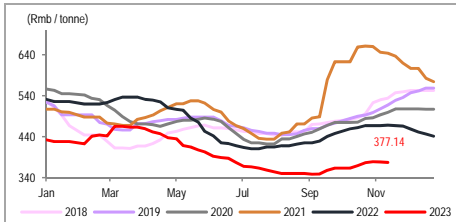
STEEL PRODUCTS WEEKLY APPARENT CONSUMPTION



Source: Wind, UOB Kay Hian

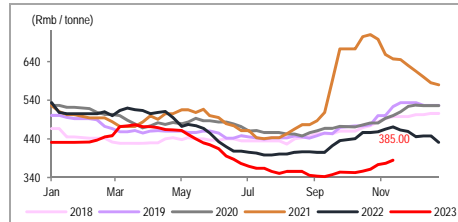
- **NBS: 10M23 China excavator production volume down 34.6%.** According to China Bureau of Statistics (NBS), Oct 23's domestic excavator production volume slowed further by 34.6% yoy to 17,186 units. 10M23 production volume was down 24.6% yoy to 195,124 units.
- **Cement (maintain MARKET WEIGHT):** Price rebound continued; margin recovering on easing coal prices.
  - **Ninth consecutive week of price rebound.** National average PO42.5 cement prices (bulk) continued its upward trend, rising 0.4% w/w to Rmb375.67 per tonne. Average cement prices for the eastern/central/southern regions saw changes of -0.4%/+1.8%/+2.6% w/w. Cement-coal spread expanded further by 1.5% w/w last week to Rmb253.99 per tonne, partly boosted by the 1.7% w/w decline of thermal coal prices.

AVERAGE CEMENT PRICES- EAST CHINA



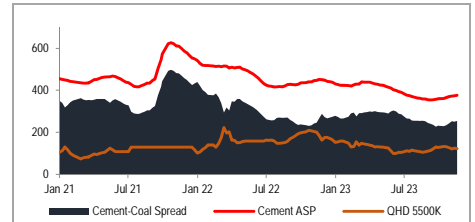
Source: Wind, UOB Kay Hian

AVERAGE CEMENT PRICES- CENTRAL SOUTH CHINA



Source: Wind, UOB Kay Hian

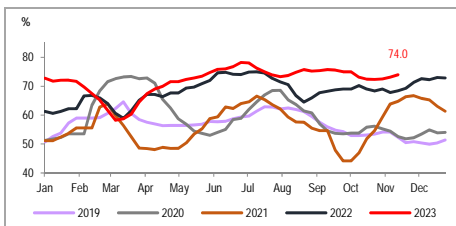
CEMENT-COAL SPREAD



Source: Wind, UOB Kay Hian

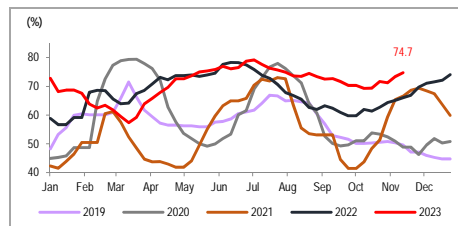
- **Shipments amid winter season and rainy weather.** According to 100NJZ's survey conducted on 250 cement enterprises, weekly cement shipment volume for the week of 8-14 Nov 23 was 6.0285m tonnes (-1.6% wow/-30.0% yoy). By region, the eastern/central/southern regions' shipment volumes were +11.8%/-4.8%/+1.5% mom (-26.8%/-32.2%/-42.0% yoy) respectively. Shipment for infrastructure projects was 2.39m tonnes (-1.2% wow/-8.8% yoy). Majority of the projects in northern regions have halted operations as they enter the winter season, whereas southern regions were hit by rainy weather despite improving project liquidity.
- **Rising inventory pressure despite slowing output.** Based on 100NJZ's survey on 274 cement enterprises, clinker production capacity utilisation was down 7.48ppt wow to 60.79% for the week ended 16 November. Average cement storage capacity ratio for the eastern/central south region was up 1.2ppt wow to 74.7%/76.6%.

CEMENT STORAGE CAPACITY RATIO – NATIONAL AVERAGE



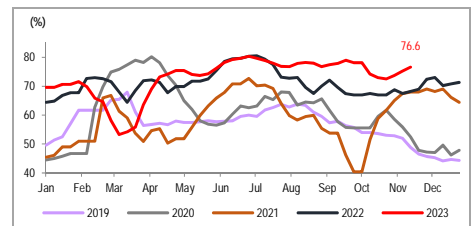
Source: Wind, UOB Kay Hian

CEMENT STORAGE CAPACITY RATIO – EAST CHINA



Source: Wind, UOB Kay Hian

CEMENT STORAGE CAPACITY RATIO – CENTRAL-SOUTH CHINA



Source: Wind, UOB Kay Hian

ESSENTIALS

- **We maintain MARKET WEIGHT on the base metals sector.** Although fears of further rate hikes have eased and thus helped to support metals prices, we are still concerned on global copper demand given the prospects of a prolonged high interest rate environment and gloomy global economic outlook, especially with China's property sector remaining in the doldrums. 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.** Cement shipment volume is reversing down as we enter the winter season, whereby projects in the northern region are gradually halting operations. We have yet to witness significant acceleration in construction progress, with demand to be mainly driven by existing projects while most of the new projects have been deferred to next year. Cement manufacturers and distributors are now focussing on receivables collection and inventory digestion.
- **We maintain UNDERWEIGHT on the steel sector.** Growing production output amid weakening downstream demand during the low season will add on inventory, and steel prices are likely to be under pressure in Dec 23. Steel mills are also generally pessimistic on demand prospects for 4Q23, especially with the intensifying competition between industry players. We are still monitoring the price movement of iron ore futures and doubt the effectiveness of NDRC's recent intervention.

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