

SECTOR UPDATE

Commodities – China

Weekly: Gold Dips Below US\$2,000; Wavering Recovery Dragging Down Commodity Prices

Gold fell below US\$2,000 last week following the hawkish comments from Fed officials and optimism over a debt-ceiling deal. HRC steel-raw materials spreads compressed 2.2% wow with a rebound in iron ore prices. Steel mills activities are recovering upon completion of maintenance, and are likely to see stronger inventory pressure ahead. Cement prices continue to search for a bottom, with demand being swayed by weather conditions and a lack of incremental demand from new construction projects.

WHAT'S NEW

- **Metals (maintain MARKET WEIGHT):** Fed officials gave contrasting views on the upcoming interest rate decision.
 - COMEX gold/LME copper 3-month futures were -1.9%/flat wow to US\$1,982/US\$8,252. The 10-year US Treasury Yield and US dollar index ticked up 0.24ppt/0.5% wow to 3.70%/103.20.
 - The strong rallies in US treasury bond yields and US dollar last week were backed by: a) hawkish comments from Dallas Fed President, Lorie Logan, who said last Thursday that economic data does not support skipping a rate hike during the central bank's June meeting; b) optimism for a debt-ceiling deal, and c) stronger-than-expected initial jobless claims and Apr 23 retail sales data.
 - However, Federal Reserve Chair Jerome Powell also indicated last Friday that "rates may not need to rise as much" in order to curb inflation. Fed officials seem to be divided on the next interest rate decision and gave contrasting views. We foresee greater volatility in gold prices this week, and this will hinge on the outcome of the debt-ceiling negotiations.
 - We could see more clues from the upcoming release of FOMC meeting minutes (25 May) and Core PCE qoq (25 May).
 - According to CME FedWatch Tool on 19 May, market remained firm in pricing in 82.6% odds of the Fed pausing its current rate hike cycle during the next meeting on 14 June. Market is also seeing 29.0% odds of the Fed cutting interest rate by 25bp in Sep 23.
- **Steel (maintain UNDERWEIGHT):** Gradual resumption of steel production may add on to inventory pressure.
 - SGX iron ore futures/Hebei iron ore spot price rebounded by 6.0%/2.6% wow to US\$105.38/Rmb1,000 per tonne last week. Spot prices of rebar/hot-rolled coil steel (HRC)/cold-rolled coil steel (CRC) steadied last week, with wow changes of +0.8%/ +0.9%/ -0.2% to Rmb3,763/Rmb3,830/Rmb4,448 per tonne.
 - Subsequent to the slight rebound of iron ore prices last week, our self-computed weekly average of HRC steel-raw materials spreads have narrowed by 2.2% wow, indicating a thinner margin for steel mills. Mysteel's survey indicated that 33.3% of steel mills are currently profit-making (+9.52ppt wow; -9.09ppt mom; -23.38% yoy).
 - Total inventory declined 4.2% wow to 17.94m tonnes. Inventory at sampled traders/steel mills further dropped by 3.5%/ 5.7% wow last week to 12.83m/5.11m tonnes respectively, and -15.9%/-27.0% yoy.

PEER COMPARISON

Company	Ticker	Rec	Price @ 22 May 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	22.65	33.80	49.2	148,082.5	5.7	5.4	0.6	0.5	5.5	5.1	10.1
Baosteel	600019 CH	BUY	6.27	7.10	13.2	139,584.0	10.8	8.6	0.7	0.7	5.0	4.4	6.5
CR Cement	1313 HK	HOLD	3.08	4.05	31.5	21,507.4	6.9	5.7	0.4	0.4	6.0	5.1	6.2
Zijin Mining	2899 HK	BUY	11.26	15.60	38.5	314,405.3	11.2	9.4	2.5	2.1	9.4	8.2	24.3

Source: Bloomberg, UOB Kay Hian

MARKET WEIGHT

(Maintained)

SECTOR PICKS

Company	Rec	Target Price (HK\$)	Share Price (HK\$)
Anhui Conch	BUY	33.80	22.65

Source: UOB Kay Hian

ANALYST(S)

Ziv Ang Sze Champ
+603 2147 1826
zivang@uobkayhian.com

- Key steel mills' weekly production activities have started to recover. Last week, capacity utilisation rate of 247 domestic steel mills was 89.12% (+0.09ppt wow; -2.38ppt mom; +0.46ppt yoy). Last week, average daily molten iron production was up 1,100 tonnes to 2.39m tonnes (+0.05% wow; -6.5% mom; -0.2% yoy). As for steel products, key steel mills' production volume of rebar/HRC/CRC was -0.5%/-1.3%/-0.3% wow.
- The recent pick-up in production activities was due to the gradual completion of planned plant maintenance. As of 18 May, there were still 31 blast furnaces/12 electric arc furnaces/79 steel products lines halted production and undergoing plant maintenance, with total affected production volume of 96,300 tonnes/26,600 tonnes/234,400 tonnes. The expected gradual resumption of production activities may add on to inventory pressure in the coming weeks.
- **Cement (maintain MARKET WEIGHT):** Slight recovery in cement shipment volume, with demand swayed by weather condition and project liquidity.
 - Cement prices in East/Central-South China continued to trend down last week, declining by 1.2%/3.1% wow to Rmb478/Rmb508 per tonne. Cement-coal spreads further narrowed to Rmb343.72/tonne as the slump in cement prices continued to outpace the decline in thermal coal prices, indicating deteriorating margins for cement enterprises.
 - National average cement storage capacity ratio has continued climbing, up 0.6ppt wow to 72.9%. Inventory levels for the East/Central-South China regions were last reported at 75.0%/74.0% (+1.4 ppt/-0.3 ppt wow). Easing inventory pressure for Central South region was due to lower production output amid rainy weather.
 - Based on the survey conducted on 274 cement enterprises, weekly clinker production capacity utilisation for the week ended 17 May has rebounded to 66.36% (+13.73ppt wow). Production output was lifted by the recovery of production in the central and southwest regions, due to the completion of staggered production scheme and easing impacts from the power rationing in Yunnan. The southern region's capacity utilisation dropped 6.25ppt wow to 25.02%.
 - According to 100NJZ's survey conducted on 250 cement enterprises, weekly cement shipment volume for the week of 10-16 May rebounded to 5.87m tonnes (+3.5% wow; -15.0% yoy) largely due to improved weather conditions. By region, Eastern/Central/Southern regions saw +6.6%/+13.1%/-8.5% wow changes. As for infrastructure projects, weekly cement direct supply volume was 1.99m tonnes (+4.7% wow, +33.6% yoy).

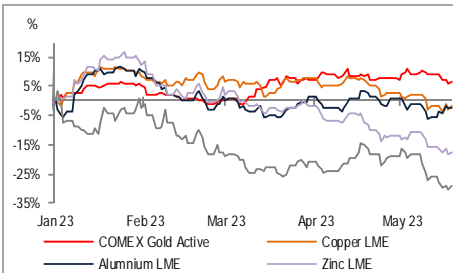
ESSENTIALS

- **We maintain MARKET WEIGHT on the cement sector.** Cement shipment volume saw a slight improvement this week as weather conditions improved, especially in the Eastern region. We might see some seasonal rebound in cement demand prior to the rainy season starting in July. However, the lack of incremental demand from infrastructure projects and a shorter duration of staggered production scheme in 2Q23 are contributing to the current inventory build-up.

With cement enterprises aiming to maintain both market share and healthy inventory levels and along with easing cost pressure (downtrend of coal prices), we see a low likelihood of cement prices rebounding in the short term. The cement industry's profitability will remain under pressure even though we still see some upside to cement shipment volume in the following weeks.

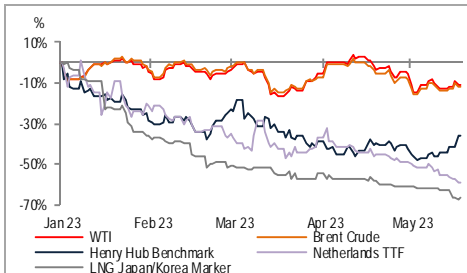
- **We maintain UNDERWEIGHT on the steel sector.** With the rapid decline in raw materials prices bringing down steel mills' production costs, the voluntary production cut from domestic steel mills may slow down. We are seeing a growing number of steel mills cutting ex-factory prices, especially for rebar, partly due to the recent rainy weather which has slowed down construction activities. The waning property sales in Apr 23 was also seen as an alarming sign on the pace of recovery for the property sector, which further weighed on market sentiment. We believe more interventions from the authorities are needed to maintain healthy supply-demand dynamics, especially with steel mills production activities starting to rebound last week.

METALS – YTD PRICE PERFORMANCE



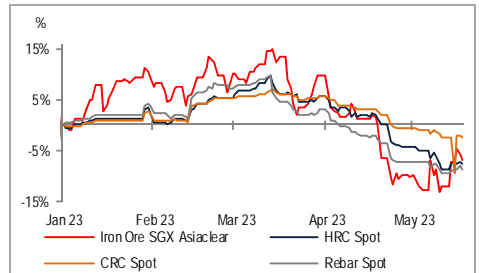
Source: Bloomberg, UOB Kay Hian

ENERGY – YTD PRICE PERFORMANCE



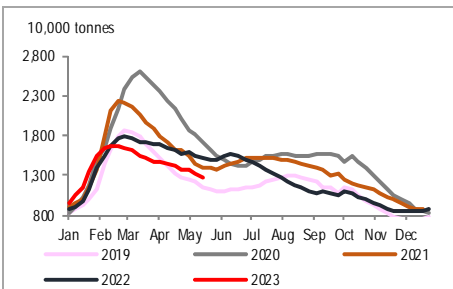
Source: Bloomberg, UOB Kay Hian

STEEL – YTD PRICE PERFORMANCE



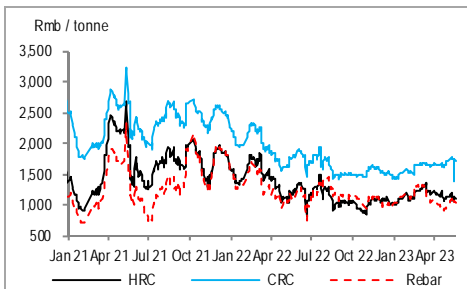
Source: Bloomberg, Wind, UOB Kay Hian

OVERALL STEEL PRODUCTS SOCIAL INVENTORY



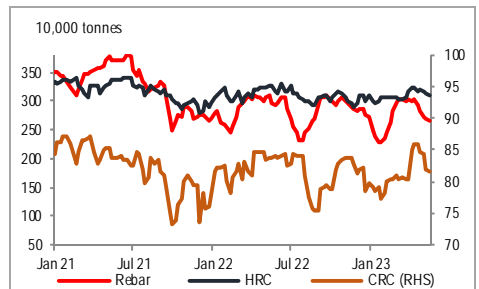
Source: Wind, UOB Kay Hian

STEEL-RAW MATERIALS SPREADS



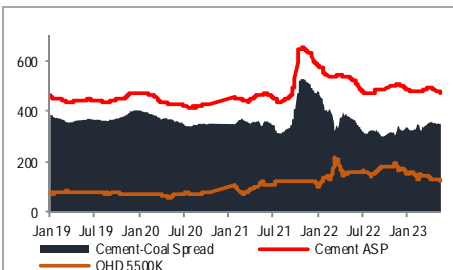
Source: Bloomberg, UOB Kay Hian

KEY STEEL MILLS WEEKLY PRODUCTION VOLUME



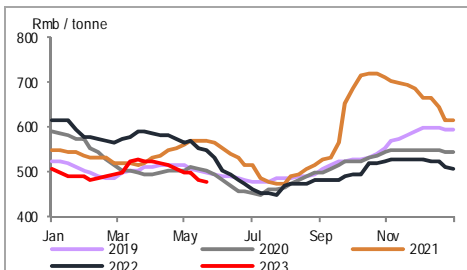
Source: Wind, UOB Kay Hian

CEMENT-COAL SPREAD



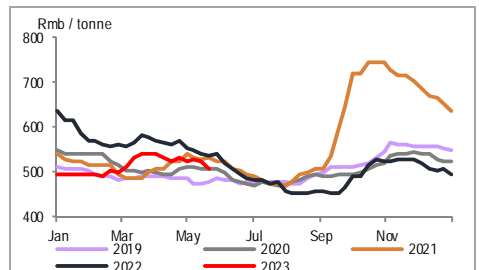
Source: Wind, UOB Kay Hian

AVERAGE CEMENT PRICES – EAST CHINA



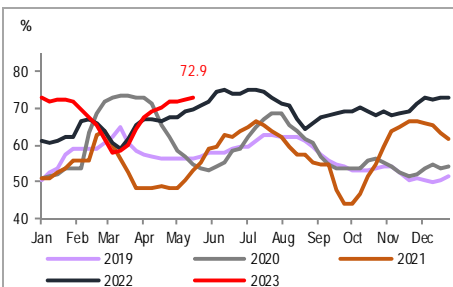
Source: Wind, UOB Kay Hian

AVERAGE CEMENT PRICES – CENTRAL-SOUTH CHINA



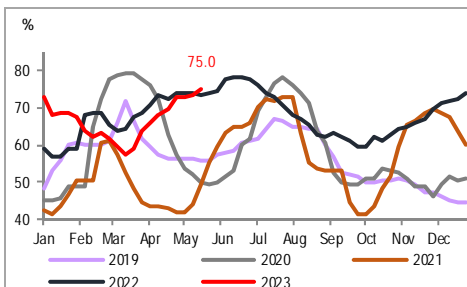
Source: Wind, UOB Kay Hian

CEMENT STORAGE CAPACITY RATIO – NATIONAL AVERAGE



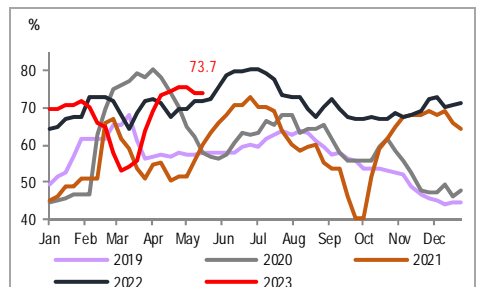
Source: CEIC, UOB Kay Hian

CEMENT STORAGE CAPACITY RATIO – EAST CHINA



Source: CEIC, UOB Kay Hian

CEMENT STORAGE CAPACITY RATIO – CENTRAL-SOUTH CHINA



Source: CEIC, UOB Kay Hian

Disclosures/Disclaimers

This report is prepared by UOB Kay Hian Private Limited ("UOBKH"), which is a holder of a capital markets services licence and an exempt financial adviser in Singapore.

This report is provided for information only and is not an offer or a solicitation to deal in securities or to enter into any legal relations, nor an advice or a recommendation with respect to such securities.

This report is prepared for general circulation. It does not have regard to the specific investment objectives, financial situation and the particular needs of any recipient hereof. Advice should be sought from a financial adviser regarding the suitability of the investment product, taking into account the specific investment objectives, financial situation or particular needs of any person in receipt of the recommendation, before the person makes a commitment to purchase the investment product.

This report is confidential. This report may not be published, circulated, reproduced or distributed in whole or in part by any recipient of this report to any other person without the prior written consent of UOBKH. This report is not directed to or intended for distribution to or use by any person or any entity who is a citizen or resident of or located in any locality, state, country or any other jurisdiction as UOBKH may determine in its absolute discretion, where the distribution, publication, availability or use of this report would be contrary to applicable law or would subject UOBKH and its connected persons (as defined in the Financial Advisers Act, Chapter 110 of Singapore) to any registration, licensing or other requirements within such jurisdiction.

The information or views in the report ("Information") has been obtained or derived from sources believed by UOBKH to be reliable. However, UOBKH makes no representation as to the accuracy or completeness of such sources or the Information and UOBKH accepts no liability whatsoever for any loss or damage arising from the use of or reliance on the Information. UOBKH and its connected persons may have issued other reports expressing views different from the Information and all views expressed in all reports of UOBKH and its connected persons are subject to change without notice. UOBKH reserves the right to act upon or use the Information at any time, including before its publication herein.

Except as otherwise indicated below, (1) UOBKH, its connected persons and its officers, employees and representatives may, to the extent permitted by law, transact with, perform or provide broking, underwriting, corporate finance-related or other services for or solicit business from, the subject corporation(s) referred to in this report; (2) UOBKH, its connected persons and its officers, employees and representatives may also, to the extent permitted by law, transact with, perform or provide broking or other services for or solicit business from, other persons in respect of dealings in the securities referred to in this report or other investments related thereto; (3) the officers, employees and representatives of UOBKH may also serve on the board of directors or in trustee positions with the subject corporation(s) referred to in this report. (All of the foregoing is hereafter referred to as the "Subject Business"); and (4) UOBKH may otherwise have an interest (including a proprietary interest) in the subject corporation(s) referred to in this report.

As of the date of this report, no analyst responsible for any of the content in this report has any proprietary position or material interest in the securities of the corporation(s) which are referred to in the content they respectively author or are otherwise responsible for.

IMPORTANT DISCLOSURES FOR U.S. PERSONS

This research report was prepared by UOBKH, a company authorized, as noted above, to engage in securities activities in Singapore. UOBKH is not a registered broker-dealer in the United States and, therefore, is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. This research report is provided for distribution by UOBKH (whether directly or through its US registered broker dealer affiliate named below) to "major U.S. institutional investors" in reliance on the exemption from registration provided by Rule 15a-6 of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act"). All US persons that receive this document by way of distribution from or which they regard as being from UOBKH by their acceptance thereof represent and agree that they are a major institutional investor and understand the risks involved in executing transactions in securities.

Any U.S. recipient of this research report wishing to effect any transaction to buy or sell securities or related financial instruments based on the information provided in this research report should do so only through UOB Kay Hian (U.S.) Inc ("UOBKHUS"), a registered broker-dealer in the United States. Under no circumstances should any recipient of this research report effect any transaction to buy or sell securities or related financial instruments through UOBKH.

UOBKHUS accepts responsibility for the contents of this research report, subject to the terms set out below, to the extent that it is delivered to and intended to be received by a U.S. person other than a major U.S. institutional investor.

The analyst whose name appears in this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA") and may not be an associated person of UOBKHUS and, therefore, may not be subject to applicable restrictions under FINRA Rules on communications with a subject company, public appearances and trading securities held by a research analyst account.

Analyst Certification/Regulation AC

Each research analyst of UOBKH who produced this report hereby certifies that (1) the views expressed in this report accurately reflect his/her personal views about all of the subject corporation(s) and securities in this report; (2) the report was produced independently by him/her; (3) he/she does not carry out, whether for himself/herself or on behalf of UOBKH or any other person, any of the Subject Business involving any of the subject corporation(s) or securities referred to in this report; and (4) he/she has not received and will not receive any compensation that is directly or indirectly related or linked to the recommendations or views expressed in this report or to any sales, trading, dealing or corporate finance advisory services or transaction in respect of the securities in this report. However, the compensation received by each such research analyst is based upon various factors, including UOBKH's total revenues, a portion of which are generated from UOBKH's business of dealing in securities.

Reports are distributed in the respective countries by the respective entities and are subject to the additional restrictions listed in the following table.

General	This report is not intended for distribution, publication to or use by any person or entity who is a citizen or resident of or located in any country or jurisdiction where the distribution, publication or use of this report would be contrary to applicable law or regulation.
Hong Kong	This report is distributed in Hong Kong by UOB Kay Hian (Hong Kong) Limited ("UOBKHHK"), which is regulated by the Securities and Futures Commission of Hong Kong. Neither the analyst(s) preparing this report nor his associate, has trading and financial interest and relevant relationship specified under Para. 16.4 of Code of Conduct in the listed corporation covered in this report. UOBKHHK does not have financial interests and business relationship specified under Para. 16.5 of Code of Conduct with the listed corporation covered in this report. Where the report is distributed in Hong Kong and contains research analyses or reports from a foreign research house, please note: (i) recipients of the analyses or reports are to contact UOBKHHK (and not the relevant foreign research house) in Hong Kong in respect of any matters arising from, or in connection with, the analysis or report; and (ii) to the extent that the analyses or reports are delivered to and intended to be received by any person in Hong Kong who is not a professional investor, or institutional investor, UOBKHHK accepts legal responsibility for the contents of the analyses or reports only to the extent required by law.
Indonesia	This report is distributed in Indonesia by PT UOB Kay Hian Sekuritas, which is regulated by Financial Services Authority of Indonesia ("OJK"). Where the report is distributed in Indonesia and contains research analyses or reports from a foreign research house, please note recipients of the analyses or reports are to contact PT UOBKH (and not the relevant foreign research house) in Indonesia in respect of any matters arising from, or in connection with, the analysis or report.
Malaysia	Where the report is distributed in Malaysia and contains research analyses or reports from a foreign research house, the recipients of the analyses or reports are to contact UOBKHM (and not the relevant foreign research house) in Malaysia, at +603-21471988, in respect of any matters arising from, or in connection with, the analysis or report as UOBKHM is the registered person under CMSA to distribute any research analyses in Malaysia.
Singapore	This report is distributed in Singapore by UOB Kay Hian Private Limited ("UOBKH"), which is a holder of a capital markets services licence and an exempt financial adviser regulated by the Monetary Authority of Singapore. Where the report is distributed in Singapore and contains research analyses or reports from a foreign research house, please note: (i) recipients of the analyses or reports are to contact UOBKH (and not the relevant foreign research house) in Singapore in respect of any matters arising from, or in connection with, the analysis or report; and (ii) to the extent that the analyses or reports are delivered to and intended to be received by any person in Singapore who is not an accredited investor, expert investor or institutional investor, UOBKH accepts legal responsibility for the contents of the analyses or reports only to the extent required by law.
Thailand	This report is distributed in Thailand by UOB Kay Hian Securities (Thailand) Public Company Limited, which is regulated by the Securities and Exchange Commission of Thailand.
United Kingdom	This report is being distributed in the UK by UOB Kay Hian (U.K.) Limited, which is an authorised person in the meaning of the Financial Services and Markets Act and is regulated by The Financial Conduct Authority. Research distributed in the UK is intended only for institutional clients.
United States of America ('U.S.')	This report cannot be distributed into the U.S. or to any U.S. person or entity except in compliance with applicable U.S. laws and regulations. It is being distributed in the U.S. by UOB Kay Hian (US) Inc, which accepts responsibility for its contents. Any U.S. person or entity receiving this report and wishing to effect transactions in any securities referred to in the report should contact UOB Kay Hian (US) Inc. directly.

Copyright 2023, UOB Kay Hian Pte Ltd. All rights reserved.

<http://research.uobkayhian.com>

RCB Regn. No. 197000447W