

SECTOR UPDATE

Commodities – China

Weekly: US Dollar Strengthens On Hawkish Fed Expectations; Rebar Price Plunges To Lowest Level Since Apr 17

The US dollar strengthened last week on dwindling rate cut expectations. Steel prices continued searching for a bottom, with rebar prices dropping to the lowest level since Apr 17. HRC steel-raw materials spread was compressed by 7% wow. Steel mill activities recovered with molten iron output up 0.9% wow. National average cement price edged down 0.9% wow while shipment volume was down 1.8% wow. Cement-coal spreads widened by 3.0% wow with a 9.8% wow decline in thermal coal price.

WHAT'S NEW

- **Metals (maintain MARKET WEIGHT):** US dollar strengthens on dwindling rate cut expectations.

Last week marked the third/sixth weekly loss for COMEX gold/LME copper 3-month futures, which was down 1.9%/1.4% wow to US\$1,944/US\$8,135. The 10-year US Treasury Yield and US dollar index ticked up 10bp/1.0% wow to 3.80%/104.21.

Monetary policy outlook has leaned towards a more hawkish direction on solid US data. US annualised 1Q23 GDP growth was revised up to 1.3% from 1.1%. Apr 23's core inflation of +4.7% yoy (consensus: 4.6%) was also well above the Fed's 2% target.

Restricted fiscal spending and the higher interest rates could push the US economy into a recession which adds to safe haven appeal. However, gold price movement is expected to have higher correlation to the Fed's interest rate decision in the following weeks.

According to CME FedWatch Tool on 26 May 23, the market is now pricing in 64.2% (22 May: 25.7%) odds of a 25bp rate hike in the next Fed meeting on 14 Jun 23, a shift from the 74.3% odds for a pause in the current rate hike cycle last week.

We should keep a close eye on US labour market data to be released on 2 Jun 23.

- **Steel (maintain UNDERWEIGHT):** Rebar spot price plunges to lowest level since Apr 17.

SGX iron ore futures/Hebei iron ore spot price was down 4.6%/2.0% wow to US\$100.58/Rmb980 per tonne last week. Spot prices of rebar/hot-rolled coil steel (HRC)/cold-rolled coil steel (CRC) slumped further by 3.8%/3.4%/2.4% to Rmb3,620/Rmb3,699/Rmb4,340 per tonne.

Our self-computed weekly average of HRC steel-raw materials spreads have narrowed by 7.0% wow last week subsequent to another round of steel prices corrections. Average profit for steel billet sales for Tangshan steel mills have fell into negative territory last week, at -Rmb89/ tonne. Mysteel's survey indicated that 34.2% of steel mills are currently profit-making (+0.87ppt wow; -14.28ppt yoy).

Steel product inventory declined at a slower pace last week, while overall inventory was down by 2.9% wow to 17.42m tonnes. Inventory at sampled traders/steel mills dropped by 3.0%/ 2.7% wow last week to 12.44m/4.98m tonnes, and were -17.45%/-28.5% yoy.

MARKET WEIGHT (Maintained)

SECTOR PICKS

Company	Ticker	Rec	Share Price (HK\$)	Target Price (HK\$)
Anhui Conch	914 HK	BUY	21.45	33.80

Source: UOB Kay Hian

PEER COMPARISON

Company	Ticker	Rec	Price @ 29 May 23 (lcy)	Target Price (lcy)	Upside/ (Downside) to TP (%)	Market Cap (lcy m)	PE 2023F (x)	PE 2024F (x)	P/B 2023F (x)	P/B 2024F (x)	EV/EBITDA 2023F (x)	EV/EBITDA 2024F (x)	ROE (%)
Anhui Conch	914 HK	BUY	21.45	33.80	57.6	140,496.5	5.4	5.2	0.5	0.5	5.3	4.9	10.1
Baosteel	600019 CH	BUY	6.03	7.10	17.7	134,241.1	10.4	8.2	0.7	0.6	4.9	4.3	6.5
CR Cement	1313 HK	HOLD	2.93	4.05	38.2	20,460.0	6.6	5.4	0.4	0.4	5.9	5.0	6.2
Zijin Mining	2899 HK	BUY	10.86	15.60	43.6	308,324.6	10.8	9.2	2.4	2.0	9.3	8.1	24.3

Source: Bloomberg, UOB Kay Hian

ANALYST(S)

Ziv Ang Sze Champ

+603 2147 1826

zivang@uobkayhian.com

Subsequent to the resumption of production activities after completing scheduled plant maintenance, we see some recovery in steel mills' output. Last week, capacity utilisation rate of 247 domestic steel mills was 89.93% (+0.80ppt wow; +0.67ppt yoy), average daily molten iron production was up 0.02 tonnes to 2.42m tonnes (+0.9% wow). As for steel products, key steel mills' production volume of rebar/HRC/CRC was +1.4%/+2.1%/-0.3% wow, rebounding back to early-May 23 levels.

Based on the expected resumption of production and commencement of planned maintenance next week, domestic molten iron production is likely to decline by about 5,000 tonnes this week.

According to National Bureau of Statistics, for 4M22, China's steel industry operating revenue/expenses/profit was down 6.5%/4.2%/99.4% yoy to Rmb2,678.6b/Rmb2,583.4b/Rmb390m amid the challenging operating environment.

- **Cement (maintain MARKET WEIGHT):** Stable shipment volume; infrastructure projects remain key source of demand.

National average PO42.5 cement price (bulk) was down 0.9% wow last week to Rmb410.83 per tonne. Average cement prices for Eastern/Central/Southern region continued trending down last week, declining by 1.7%/2.5%/2.1% wow to Rmb408/Rmb395/Rmb465 per tonne. Average cement-coal spreads widened to Rmb297.73 per tonne (+3.0% wow; -9.1% yoy) last week given the 9.8% wow decline in spot QHD5500 thermal coal prices, signalling an improvement in cement production margins.

Based on the survey conducted on 274 cement enterprises, weekly clinker production capacity utilisation for the week ending 23 May 23 has rebounded to 68.24% (+1.88ppt wow). Eastern region's capacity utilisation rate was up by 2.06ppt wow to 61.84%, subsequent to completion of staggered production scheme in Fujian. The southern region's capacity utilisation which recovered to 34.71% (+9.69wow ppt) has ended its downtrend in inventory level since end-Apr 23.

According to 100NJZ's survey conducted on 250 cement enterprises, weekly cement shipment volume for the week of 17-23 May declined to 5.76m tonnes (-1.8% wow; -26.6% yoy). By region, the Eastern/Central/Southern regions saw -2.57%/-0.58%/flat wow changes. As for infrastructure projects, weekly cement direct supply volume was 2.02m tonnes (+1.5% wow, +12.9 yoy).

Average cement shipment ratio was up 0.20ppt wow to 47.85% last week. National average cement storage capacity ratio has continued climbing, up 0.6ppt wow to 73.4%. Inventory levels for the East/Central-South China regions were last reported at 75.3%/74.3% (+1.4 ppt/+0.6 ppt wow).

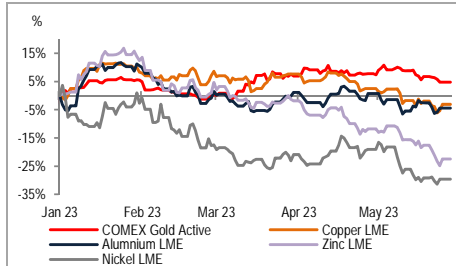
ESSENTIALS

- **We maintain MARKET WEIGHT on the cement sector.** Infrastructure projects remained as the key pillar supporting market demand. Shipment volume to infrastructure projects remained stable in recent weeks with a couple of new projects starting cement procurement. Demand from property projects remained lacklustre given the lack of new construction starts. The current focus of ensuring completion of existing projects does not contribute much to the actual cement demand.

With cement enterprises aiming to maintain both market share and healthy inventory levels, 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.

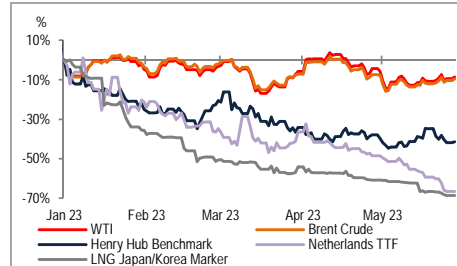
- **We maintain UNDERWEIGHT on the steel sector.** Steel prices continued to slump amid wavering downstream demand and at the same time passing through cost savings from the cheaper raw material prices. A growing number of steel mills are cutting ex-factory prices, especially for construction-related steel products, with prices likely to hover at low levels as construction activities are expected to slow further as we enter the rainy season. It is worth mentioning the first three weeks' weekly average property sales for May 23 was about 17.7% lower than Apr 23. Property sales in Jun, the traditional peak season, would be critical for home buyers' sentiment recovery in 2H23. Potential supportive policies from Politburo meeting in Jul 23 could help lift demand outlook for rebar in 2H23.

METALS – YTD PRICE PERFORMANCE



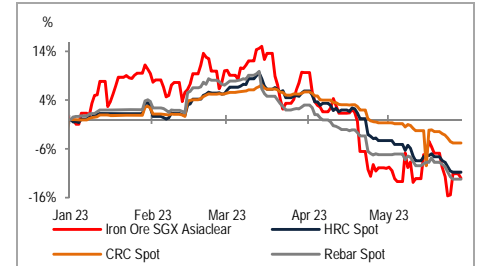
Source: Bloomberg, UOB Kay Hian

ENERGY – YTD PRICE PERFORMANCE



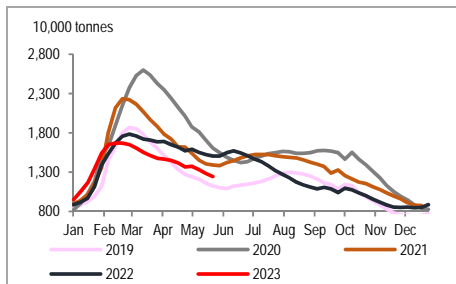
Source: Bloomberg, UOB Kay Hian

STEEL – YTD PRICE PERFORMANCE



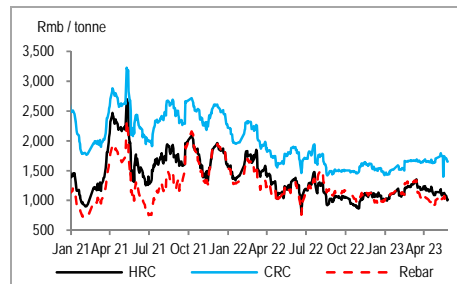
Source: Bloomberg, Wind, UOB Kay Hian

OVERALL STEEL PRODUCTS SOCIAL INVENTORY



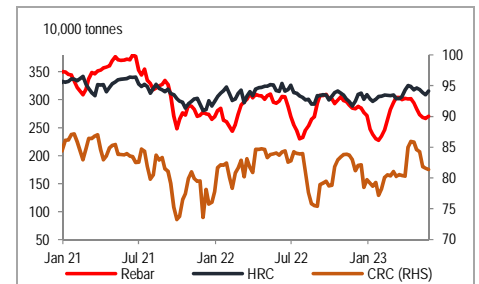
Source: Wind, UOB Kay Hian

STEEL – RAW MATERIALS SPREADS



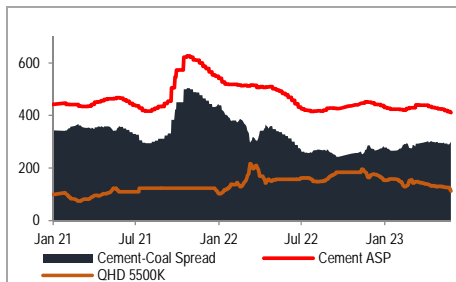
Source: Bloomberg, UOB Kay Hian

KEY STEEL MILLS WEEKLY PRODUCTION VOLUME



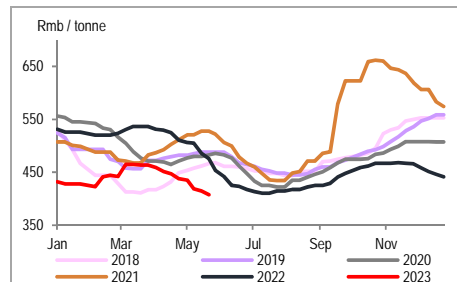
Source: Wind, UOB Kay Hian

CEMENT-COAL SPREAD



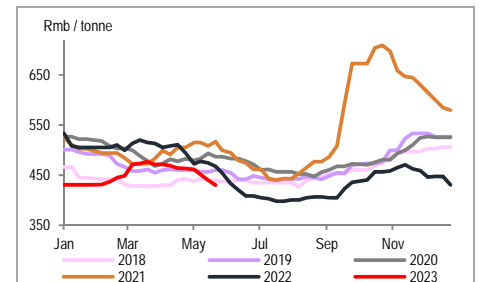
Source: Wind, UOB Kay Hian

AVERAGE CEMENT PRICE – EAST CHINA



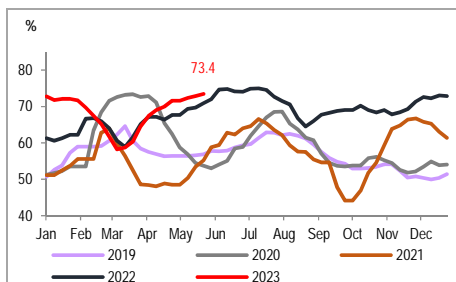
Source: Wind, UOB Kay Hian

AVERAGE CEMENT PRICE – CENTRAL-SOUTH CHINA



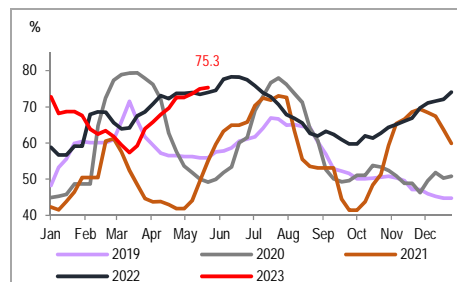
Source: Wind, UOB Kay Hian

CEMENT STORAGE CAPACITY RATIO – NATIONAL AVERAGE



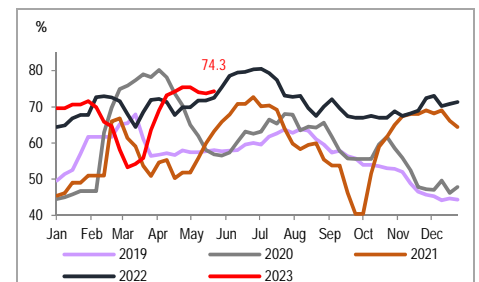
Source: CEIC, UOB Kay Hian

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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