

SECTOR UPDATE

Commodities – China

Weekly: Steel Prices Rally On Sentiment Recovery; Rainy Season Ahead

Gold pared gains following the release of strong US non-farm payroll data. Steel prices rallied on hopes of policy support for the property sector. The 4.7% wow increase in rebar's apparent consumption was largely due to seasonality, and is unsustainable. Cement shipment volume declined 7% last week. As we enter the rainy season and with the restrictions being implemented on construction activities during the national college entrance exam period, downstream demand will remain under pressure.

WHAT'S NEW

- **Metals (maintain MARKET WEIGHT):** Mixed signals from US job data.
 - COMEX gold/LME copper 3-month futures rose 0.7%/2.5% wow to US\$1,961/US\$8,335. The rebounds in gold and copper prices were partly supported by the decline in 10-year US treasury yield and the US dollar index, which declined 11bp/0.2% wow to 3.69%/104.00.
 - **US job data sends out mixed signals.** May 23 non-farm payroll data released last week rose 339,000, far exceeding market expectations of 195,000. However, May 23 unemployment rate of 3.70% was higher than market consensus' expectations of 3.50%. Gold prices declined 1.3% subsequent to the data release.
 - **Pace of growth in the US service sector softens.** ISM Services PMI came in below expectations at 50.3 vs consensus' 52.4. Furthermore, prices paid index edged down to 56.2 from 59.6 last month while employment index also declined to 49.2 from 50.8 last month.
 - According to CME FedWatch Tool on 2 Jun 23, the market is now pricing in 74.7% (30 May: 33.4%) odds for a pause in the current rate hike cycle.
 - We expecting lower volatility in metal prices as we enter the Fed blackout period prior to the FOMC meeting on 14 June and given the lack of major data release throughout the week. China inflation data that will be released on 9 June will be the market's focus this week.
- **Steel (maintain UNDERWEIGHT):** Sentiment recovery on hopes of policy support for property sector.
 - **Steel prices rallied on sentiment recovery.** As at 5 June, SGX iron ore futures/Hebei iron ore spot price were up 5.0%/1.0% wow to US\$105.04/Rmb990 per tonne. Spot prices of rebar/hot-rolled coil steel (HRC)/cold-rolled coil steel (CRC) were up by 0.8%/1.0%/0.3% to Rmb3,650/Rmb3,737/Rmb4,351 per tonne.
 - **Improving profitability.** As at 5 June, our self-computed HRC steel-raw materials spreads have expanded by 4.4% wow, largely due to the 2.4% wow decline in coke price. Mysteel's survey indicates that 32.9% of steel mills are currently profit-making (-1.30ppt wow, -18.62ppt yoy).

MARKET WEIGHT

(Maintained)

SECTOR PICKS

Company	Rec	Share Price (HK\$)	Target Price (HK\$)
Anhui Conch	BUY	20.55	33.80

Source: UOB Kay Hian

PEER COMPARISON

Company	Ticker	Rec	Price @ 6 Jun 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	20.55	33.80	64.5	138,744.5	5.2	5.0	0.5	0.5	5.3	4.9	10.1
Baosteel	600019 CH	BUY	5.90	7.10	20.3	131,347.0	10.2	8.1	0.6	0.6	4.8	4.2	6.5
CR Cement	1313 HK	HOLD	3.03	4.05	33.7	21,158.3	6.8	5.6	0.4	0.4	6.0	5.1	6.2
Zijin Mining	2899 HK	BUY	11.40	15.60	36.8	323,723.9	11.4	9.7	2.5	2.1	9.7	8.4	24.3

Source: Bloomberg, UOB Kay Hian

ANALYST(S)

Ziv Ang Sze Champ

+603 2147 1826

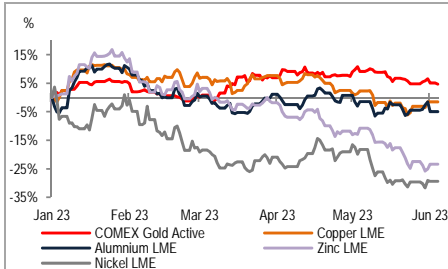
zivang@uobkayhian.com

- **Slower steel products output.** Last week, the blast furnace capacity utilisation rate of 247 domestic steel mills was 89.66% (-0.26 wow; -0.24ppt yoy), and average daily molten iron production was down by 0.71 tonnes to 2.4081m tonnes (-0.29% wow). The weekly output of five major steel products declined 0.1% wow to 9.23m tonnes. Production output of rebar/HRC/CRC was +1.1%/-1.7%/+1.3% wow, and was still 8.1%/1.6%/1.5% lower yoy.
- **Seasonal pick-up in rebar consumption.** Apparent consumption for five major steel products edged up by 0.9% wow to 9.88m tonnes last week, beating market expectations. The key contributor for the pick-up in apparent consumption was rebar, which recorded a 4.7% wow increase in apparent consumption to 3.12m tonnes, but was still 3.4% lower yoy.
- **Acceleration in steel inventory digestion.** Overall inventory dropped by 3.6% wow to 16.79m tonnes. Inventory at sampled traders/steel mills dropped by 4.0%/2.5% wow last week to 11.94m/4.85m tonnes, declining by 20.6%/26.2% yoy. It is worth noting that the inventory of rebar declined at a faster pace last week, down by 3.81m tonnes wow (vs -2.71m tonnes for the week ended 26 May).
- **Cement (maintain MARKET WEIGHT):** Weakening shipment volume on seasonal factors.
 - **Cement prices continued trending down.** National average PO42.5 cement price (bulk) dropped 1.9% wow last week to Rmb403.00 per tonne. Average cement prices for Eastern/Central/Southern region continued trending down last week, declining by 1.2%/0.8%/1.4% wow to Rmb402.86/Rmb391.67/Rmb458.33 per tonne. Average cement-coal spreads widened to Rmb303.55 per tonne (+2.0% wow; -2.8% yoy) last week with the 12.1% wow decline in spot QHD5500 thermal coal prices.
 - **Cement shipment reverses down.** According to 100NJZ's survey conducted on 250 cement enterprises, weekly cement shipment volume for the week of 24-30 May declined to 5.38m tonnes (-6.7% wow; -33.1% yoy). By region, the Eastern/Central/Southern regions saw -8.3%/-10.2%/-5.2 wow changes. As for infrastructure projects, weekly cement direct supply volume was lower at 1.96m tonnes (-3.0% wow/-3.8 yoy).
 - May 23's cement shipment volume was 28.14m tonnes (+15.5% mom/-25.1% yoy). Clinker capacity utilisation remained high at 63.89% (+0.21ppt mom).
 - **Lower shipment ratio speeds up inventory build-up.** Average cement shipment ratio was down 1.78ppt wow to 47.13% last week. As a result, national average cement storage capacity ratio has continued climbing, up 1.3ppt wow to 74.8%. Inventory levels for the East/Central-South China regions were last reported at 75.9%/76.2% (+0.5 ppt/+1.9 ppt wow).

ESSENTIALS

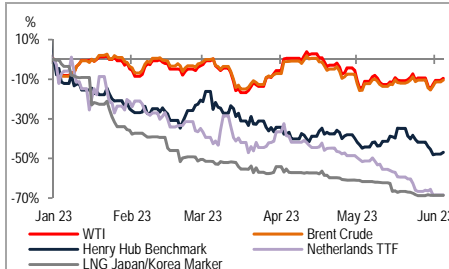
- **We maintain MARKET WEIGHT on the cement sector.** Demand is expected to further weaken as we enter the rainy season in Jun 23, and with construction activities also being restricted to minimise sound pollution with the commencement of national college entrance exam. However, the impact on cement prices is likely to be partially offset by the potentially slower production with the implementation of the staggered production scheme in certain cities and given the current narrow production margins. With cement enterprises aiming to maintain both market share and healthy inventory levels, along with easing cost pressure (downtrend in coal prices), we see a low likelihood of a meaningful rebound in cement prices in the near term.
- **We maintain UNDERWEIGHT on the steel sector.** The recent rally was mainly driven by sentiment recovery on the hopes of potential policy support for the property sector without meaningful improvement in downstream demand outlook. We believe the recent rebound in rebar consumption is not sustainable as it was mainly due to month-end seasonal restocking demand from infrastructure projects. Together with the rainy season ahead and construction restrictions throughout the college entrance exam period, consumption of rebar should normalise in the following weeks (based on historical trend). Besides, with the recent improvement in steel mills' profitability, we see growing risk of further expansion in steel mills' production output (assuming that there is no policy intervention).

METALS – YTD PRICE PERFORMANCE



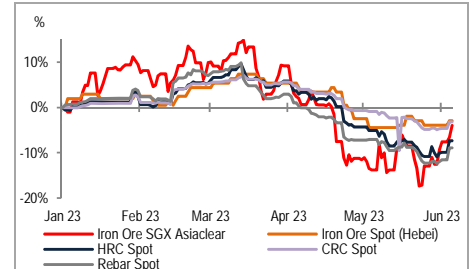
Source: Bloomberg, UOB Kay Hian

ENERGY – YTD PRICE PERFORMANCE



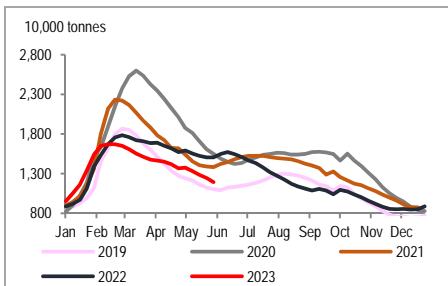
Source: Bloomberg, UOB Kay Hian

STEEL – YTD PRICE PERFORMANCE



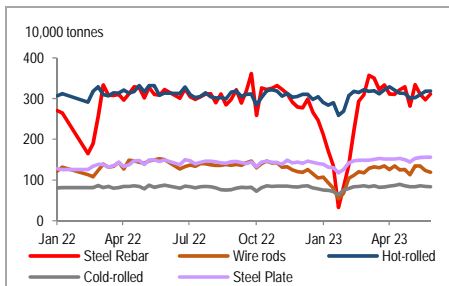
Source: Bloomberg, Wind, UOB Kay Hian

OVERALL STEEL PRODUCTS INVENTORY AT TRADERS



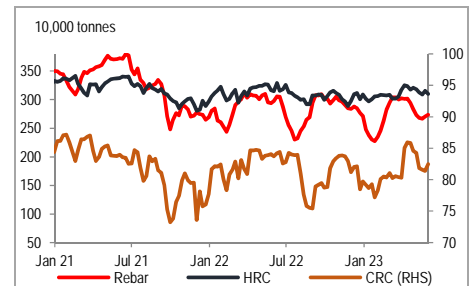
Source: Wind, UOB Kay Hian

STEEL PRODUCTS APPARENT CONSUMPTION



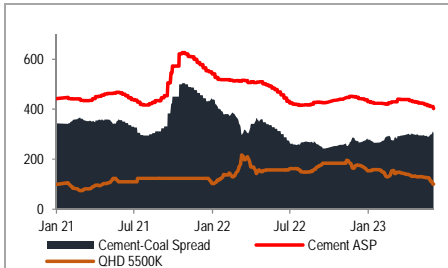
Source: Bloomberg, UOB Kay Hian

KEY STEEL MILLS WEEKLY PRODUCTION VOLUME



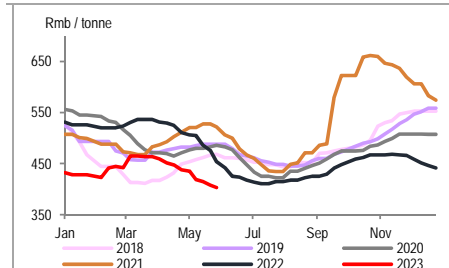
Source: Wind, UOB Kay Hian

CEMENT-COAL SPREAD



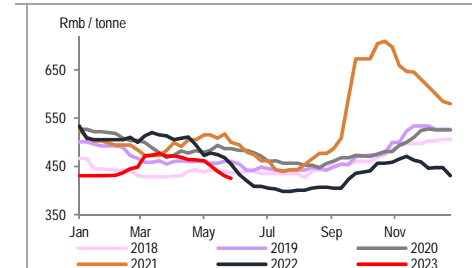
Source: Wind, CEIC, UOB Kay Hian

AVERAGE CEMENT PRICES – EAST CHINA



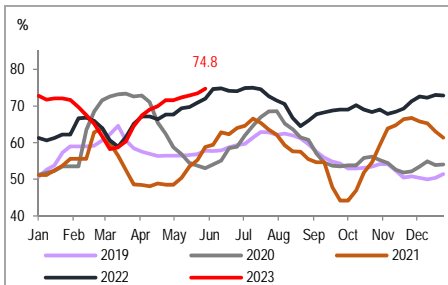
Source: CEIC, UOB Kay Hian

AVERAGE CEMENT PRICES – CENTRAL-SOUTH CHINA



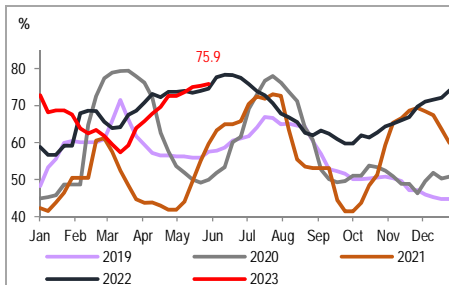
Source: CEIC, UOB Kay Hian

CEMENT STORAGE CAPACITY RATIO – NATIONAL AVERAGE



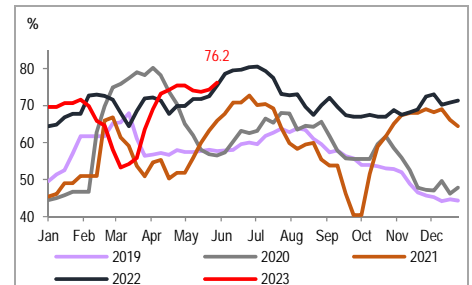
Source: CEIC, UOB Kay Hian

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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