

SECTOR UPDATE

Commodities – China

Weekly: Central Banks' Hawkish Stance Outweighs Heightening Geopolitical Risks

The hawkish tones of major central banks have outweighed the heightening geopolitical uncertainty given the slight uptick in gold prices on 26 June. The recent rally of steel prices has started to lose steam, and SGX iron ore futures have reversed down by 3.8% wow. Steel production continued expanding given improved profitability, but CISA's data indicated that steel mills' inventory is expanding. Cement prices fell further with inventory build-up continuing. We are cautious on the potential risk of power rationing.

WHAT'S NEW

- **Metals (maintain MARKET WEIGHT):** The hawkish major central banks stance has outweighed the elevating geopolitical uncertainty.
 - COMEX gold/LME copper three-month futures last closed at US\$1,919 per t oz/US\$8,391 per mt (-2.0% wow/-2.1% wow) on the back of the strengthening US dollar. 10-year US treasury yield was down 3bp to 3.74% while US dollar index was up 0.6% wow to 102.90.
 - Initial market response towards elevating geopolitical uncertainty was rather muted, judging from the slight uptick in gold prices on 26 June. The hawkish stance of major central banks has outweighed the elevating geopolitical risks where Fed chair Jerome Powell during his congressional testimony last week reiterated that the Fed will likely raise interest rates again this year.
 - According to CME FedWatch Tool, the market is pricing in 71.9% odds for a 25bp rate hike in Jul 23, and 65.3% odds of maintaining it at 5.25-5.50% in Sep 23.
 - Looking ahead, market focus will be on US' May 23 core PCE index releasing on 29 June, and market consensus is looking at +4.70% yoy.
- **Steel (maintain UNDERWEIGHT):** Iron ore price rally lost momentum.
 - **Spot prices largely unchanged.** As at 21 June, Hebei iron ore spot prices were flat wow at Rmb1,020 per tonne. Spot prices of rebar/hot-rolled coil steel (HRC)/cold-rolled coil steel (CRC) had changes of +0.1%/-0.5%/+0.1% to Rmb3,817/Rmb3,873/Rmb4,463 per tonne.
 - **Steel futures ended three-week upward streak.** Last week, SGX/DCE iron ore futures were down 3.8%/1.2% wow to US\$109.2/ Rmb800.5 per tonne whereas Shanghai Futures Exchange (SHFE) rebar and HRC futures were down 1.8%/1.9% wow to Rmb3,713/Rmb3,807 per tonne.
 - **60.17% of steel mills now profit-making.** Our self-computed HRC steel-raw materials spread rebounded 2.0% wow given the slight uptick in steel prices last week. Mysteel's survey indicates that 60.17% of steel mills are currently profit-making (+8.22ppt wow).
 - **Steel production activities continued expanding.** Last week, the blast furnace capacity utilisation rate of 247 domestic steel mills was 91.60% (+1.28ppt wow), and average daily molten iron production was up 1.4% wow at 2.4585m tonnes. The weekly output of five major steel products grew 0.66% wow to 9.3359m tonnes, with production of rebar/HRC/CRC having changes of +1.78%/-1.17%/+0.02% wow.

MARKET WEIGHT

(Maintained)

SECTOR PICKS

Company	Ticker	Rec	Share Price (HK\$)	Target Price (HK\$)
Anhui Conch	914 HK	BUY	20.45	33.80

Source: UOB Kay Hian

PEER COMPARISON

Company	Ticker	Rec	Price @ 26 Jun 23 (lcy)	Target Price (lcy)	Upside/ (Downside) to TP (%)	Market Cap (lcy m)	PE 2023F	PE 2024F	P/B 2023F	P/B 2024F	EV/EBITDA 2023F	EV/EBITDA 2024F	ROE (%)
Anhui Conch	914 HK	BUY	20.45	33.80	65.3	128,697.2	5.3	5.0	0.5	0.5	5.1	4.7	10.1
Baosteel	600019 CH	BUY	5.50	7.10	29.1	122,442.1	9.5	7.5	0.6	0.6	4.5	4.0	6.5
CR Cement	1313 HK	HOLD	3.19	4.05	27.0	22,275.6	7.2	5.9	0.4	0.4	6.1	5.2	6.2
Zijin Mining	2899 HK	BUY	11.70	15.60	33.3	323,172.6	11.9	10.1	2.6	2.2	9.8	8.5	24.3

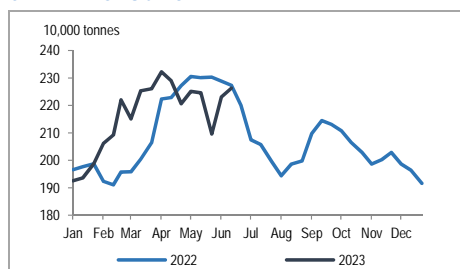
Source: Bloomberg, UOB Kay Hian

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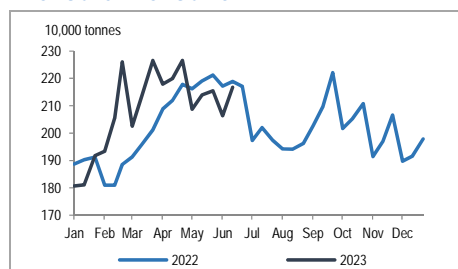
- **Steel inventory digestion continued.** Overall inventory dropped 2.0% wow to 15.45m tonnes. Inventory at sampled traders/steel mills declined 1.5%/3.3% wow last week to 11.09m/4.35m tonnes, 28.2%/35.6% lower yoy. Apparent consumption for five major steel products fell 0.1% wow to 9.657m tonnes last week.
- According to China Iron and Steel Association (CISA), for mid-Jun 23, key steel mills' average daily crude steel/molten iron/steel products production rose 1.4%/0.7%/5.0% from early-Jun 23's level. Given the rebound in steel production since early-Jun 23, steel inventory at key steel mills had expanded further by 2.64% to 16.22 tonnes as of mid-June.

KEY STEEL MILLS AVERAGE DAILY CRUDE STEEL PRODUCTION



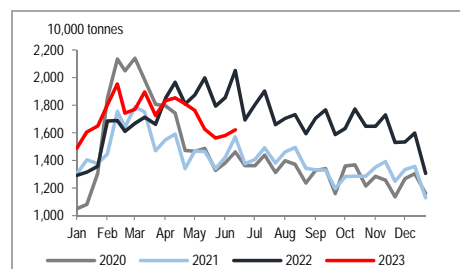
Source: China Iron and Steel Association, UOB Kay Hian

KEY STEEL MILLS AVERAGE DAILY STEEL PRODUCTS PRODUCTION



Source: China Iron and Steel Association, UOB Kay Hian

KEY STEEL MILLS STEEL PRODUCTS INVENTORY



Source: China Iron and Steel Association, UOB Kay Hian

- **Cement (maintain MARKET WEIGHT):** Demand stays weak; elevating risk of power rationing.

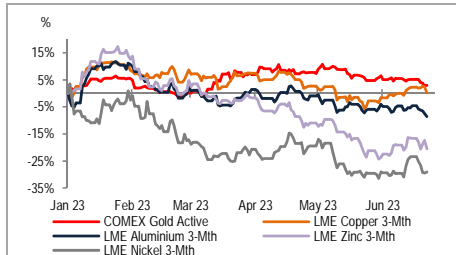
- **Fairly limited downside to cement prices.** National average PO42.5 cement price (bulk) dropped 0.8% wow last week to Rmb389.67 per tonne. Average cement prices for the eastern/central/southern region continued trending down last week, declining by 0.6%/flat/4.0% wow to Rmb387.14/Rmb376.67/Rmb398.33 per tonne. Average cement-coal spreads narrowed by another 2.2% wow to Rmb283.07 per tonne (+1.6% yoy), compressed by a 3% wow rebound in QHD 5,500 thermal coal spot price.
- **Cement shipment flat wow.** According to 100NJZ's survey conducted on 250 cement enterprises, weekly cement shipment volume for the week of 14-20 Jun 23 remained flat at 5.1775m tonnes (-0.08% wow, -34.55% yoy). By region, the eastern/central/southern regions saw -1.88%/+0.35%/-4.14% wow changes. For infrastructure projects, weekly cement direct supply volume grew to 1.98m tonnes, jumping 2.06% wow but tumbling 3.88% yoy.
- **Inventory build-up continued.** Clunker capacity utilisation rate declined to 61.68% last week (-0.07ppt wow). The southern and central region's utilisation rate continued to trail behind the other regions at 31.58%/39.36% given the unfavourable weather conditions. Average cement shipment ratio for East/Central-South China was down 1.79/1.25ppt wow to 56.07%/51.25%. National average cement storage capacity ratio was up 0.8ppt wow to 76.8%. Inventory levels for the East/Central-South China regions were last reported at 76.5%/79.7% (+0.4 ppt/+0.4 ppt wow).

ESSENTIALS

- **We maintain MARKET WEIGHT on the cement sector.** Cement demand in the eastern, central and southern regions was still dragged by the hot rainy weather. We should keep a close eye on the growing risk of power rationing in the following weeks, especially in the southern region, which could provide support to cement prices. Based on the historical trend, cement inventory should peak around mid-July while prices should bottom in end-July. We believe the downside is fairly limited at the current juncture, not to forget the narrowing margins due to the recent rebound in thermal coal prices.
- **We maintain UNDERWEIGHT on the steel sector.** Market remains hopeful on the potential stimulus policy from the authorities as the strength of recovery is fading fast. The previous round of steel price rally seems to have started to lose momentum, partly due to the milder-than-expected five-year LPR cut and downward revision of price quotations by

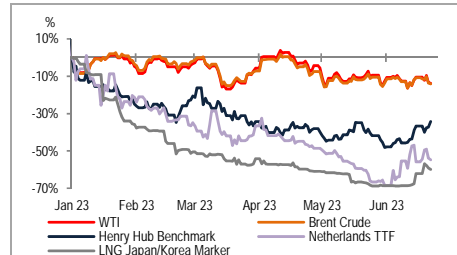
domestic steel mills. We remain cautious on the scope of potential government stimulus given the soaring debt levels and stretched balance sheets of local governments, as well as the time-lag to see actual improvement in steel consumption.

METALS – YTD PRICE PERFORMANCE



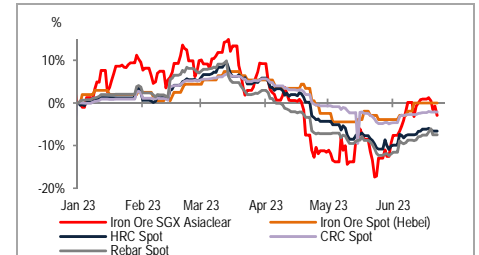
Source: Bloomberg, UOB Kay Hian

ENERGY – YTD PRICE PERFORMANCE



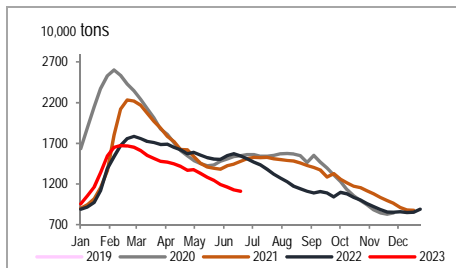
Source: Bloomberg, UOB Kay Hian

STEEL – YTD PRICE PERFORMANCE



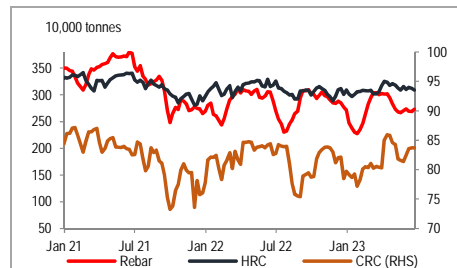
Source: Bloomberg, UOB Kay Hian

OVERALL STEEL PRODUCTS INVENTORY AT TRADERS



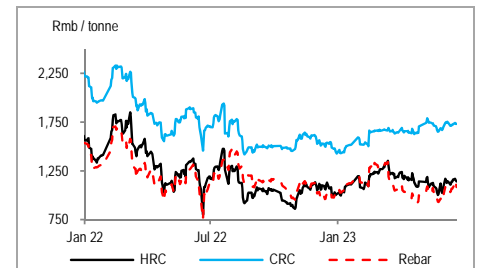
Source: Wind, UOB Kay Hian

KEY STEEL MILLS WEEKLY PRODUCTION VOLUME



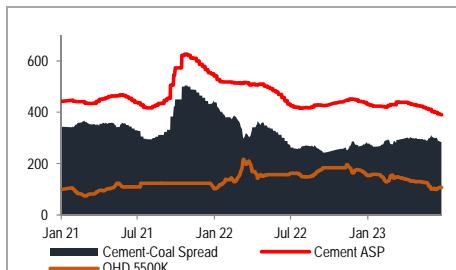
Source: Wind, UOB Kay Hian

STEEL-RAW MATERIALS SPREAD



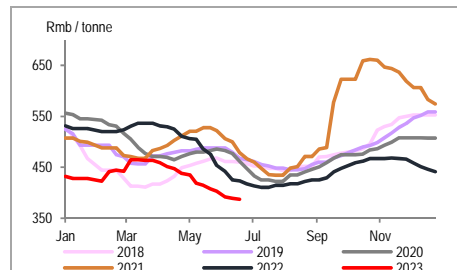
Source: Bloomberg, UOB Kay Hian

CEMENT-COAL SPREAD



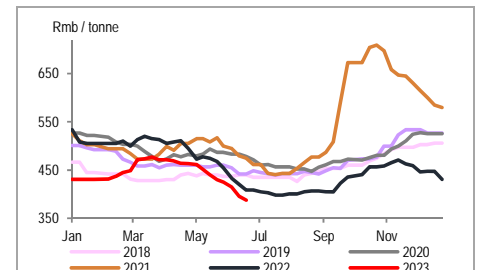
Source: Wind, UOB Kay Hian

AVERAGE CEMENT PRICES – EAST CHINA



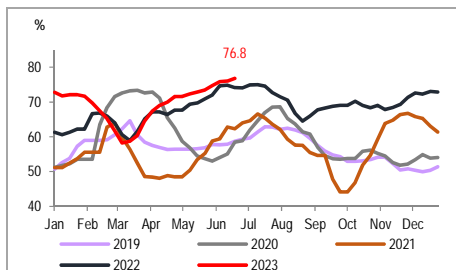
Source: CEIC, UOB Kay Hian

AVERAGE CEMENT PRICES – CENTRAL-SOUTH CHINA



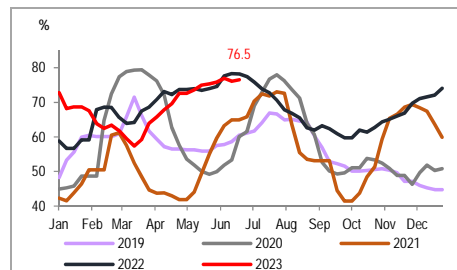
Source: CEIC, UOB Kay Hian

CEMENT STORAGE CAPACITY RATIO – NATIONAL AVERAGE



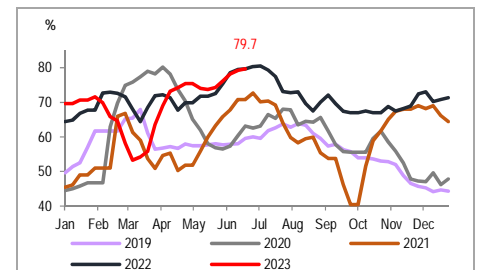
Source: CEIC, UOB Kay Hian

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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