

SECTOR UPDATE

Commodities – China

Weekly: Hawkish Fed And Gloomy China Recovery Outlook Weigh On Metals Prices

The Fed maintained interest rates last week but guided for one more rate hike by end-23. The Fed’s hawkish guidance and China’s gloomy recovery outlook have weighed on the demand outlook of base metals. Steel mills’ margin erosion and the upcoming steel production curbs are expected to drag on iron ore consumption. The rebound in cement prices continues to be supported by demand recovery. Guangdong is seeing an intensifying price war given the influx of products from Guangxi.

- **Base metals (maintain MARKET WEIGHT):** A hawkish Fed and high inventories have weighed on copper prices.
 - COMEX gold/LME copper three-month futures were flat/-2.2% w/w to US\$1,927 per t oz/US\$8,222 per mt. The US dollar index strengthened to 105.58 on 22 September while 10-year Treasury yield spiked to 4.49% on 21 September, the highest since 2007.
 - **The Fed maintained interest rates at 5.25-5.50%; guided for one more rate hike by end-23.** Fed officials have guided at least one more rate hike by the end of the year and expect rates to stay high for a longer duration that they had initially anticipated.
 - The prolonged high interest rate environment will weigh on global economic growth while the continuous climb of LME copper inventory, which has reached the highest level since May 22, is also concerning to the market. The high-paced growth of new energy industries was insufficient to offset the contraction in copper demand from global manufacturing industries.
 - **Market reassessing Fed rate path.** According to CME FedWatch Tool, the market is still pricing in 74.5% odds of the Fed maintaining interest rate at 5.25-5.50% on 1 Nov 23, and is expecting a first rate cut in Jun 24 with a 43.15% probability.
 - The focus this week will be on the US’ core PCE inflation (29 Sep 23), with consensus looking at +3.50% yoy.

MARKET WEIGHT

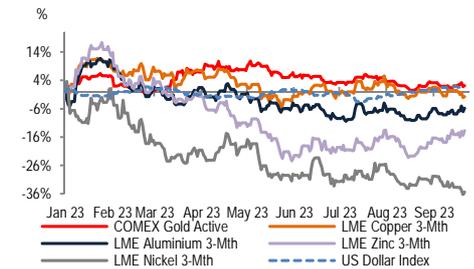
(Maintained)

SECTOR PICKS

Company	Rec	Target Price (HK\$)	Share Price (HK\$)
Anhui Conch	BUY	28.30	20.75

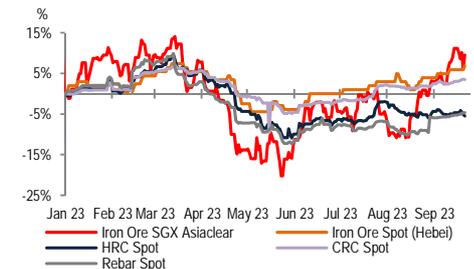
Source: UOB Kay Hian

METALS – YTD PRICE PERFORMANCE



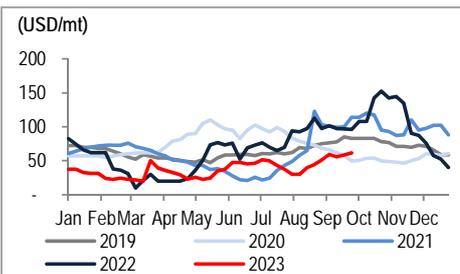
Source: Bloomberg, UOB Kay Hian

STEEL – YTD PRICE PERFORMANCE



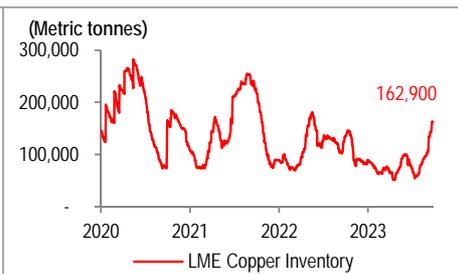
Source: Bloomberg, UOB Kay Hian

CHINA YANGSHAN COPPER PREMIUM



Source: Bloomberg, UOB Kay Hian

LME COPPER INVENTORY



Source: Bloomberg, UOB Kay Hian

ANALYST(S)

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

PEER COMPARISON

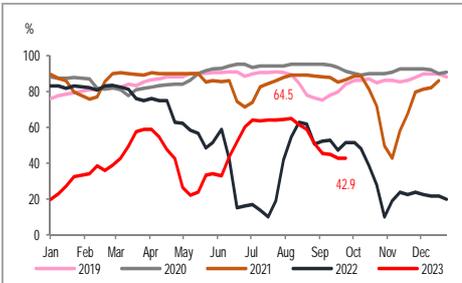
Company	Ticker	Rec	Price @ 25 Sep 23 (Icy)	Target Price (Icy)	Upside/ (Downside) to TP (%)	Market Cap (Icy m)	PE 2023F (x)	PE 2024F (x)	P/B 2023F (x)	P/B 2024F (x)	EV/EBITDA 2023F (x)	EV/EBITDA 2024F (x)	ROE (%)
Anhui Conch	914 HK	BUY	20.75	28.30	36.4	140,089.8	8.7	8.0	0.5	0.5	8.2	7.4	6.4
Baosteel	600019 CH	BUY	6.24	7.10	13.8	138,916.1	13.4	10.0	0.7	0.7	5.6	4.8	5.2
CR Cement	1313 HK	HOLD	2.13	3.10	45.5	14,873.7	7.9	6.1	0.3	0.3	6.9	5.6	3.8
Zijin Mining	2899 HK	BUY	12.60	15.00	19.0	353,108.6	13.4	11.4	2.9	2.4	10.7	9.4	23.7

Source: Bloomberg, UOB Kay Hian

- **Steel (maintain UNDERWEIGHT):** Steel mills are maintaining high production activities despite moderate downstream demand.
 - **Iron ore pared earlier gains.** SGX iron ore futures pared earlier gains last week, dropping 1.4% w/w to US\$121.18, but still increasing 15.1% mom. Iron ore prices were supported by steel mills’ robust restocking demand prior to the Golden Week holidays, which took

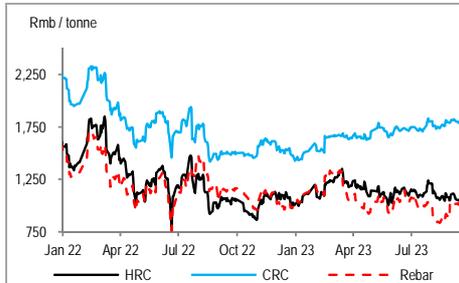
place at a higher pace compared with the past two years. Spot prices of rebar/rot-rolled coil (HRC)/cold-rolled coil (CRC) were rather flattish with wow changes of +0.1%/-0.4%/-0.1%.

247 SAMPLED STEEL MILLS PROFIT-MAKING RATIO



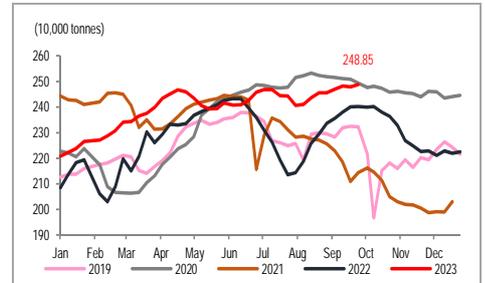
Source: Wind, UOB Kay Hian

STEEL-RAW MATERIAL SPREADS



Source: Bloomberg, UOB Kay Hian

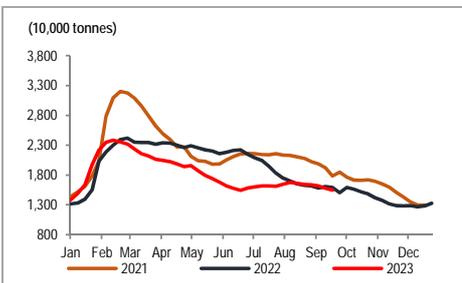
247 SAMPLED STEEL MILLS AVERAGE DAILY MOLTEN IRON PRODUCTION



Source: Wind, UOB Kay Hian

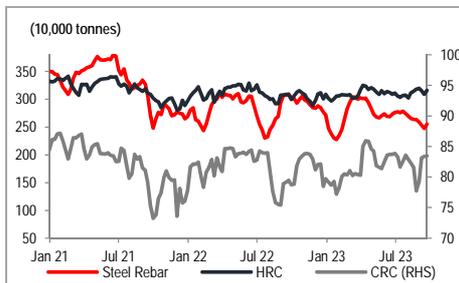
- **Spike in raw materials prices compressed margins.** The recent spikes in iron ore, coke and scrap steel prices have all weighed on steel mills' production margins, with respective average price changes of +0.4%/+1.8%/+0.8% wow. Weekly average HRC steel-raw materials spread was down 1.34% wow. Mysteel's survey indicated that 42.86% of steel mills are currently profit-making (flat wow).
- **Molten iron production hit highest level since Sep 20.** Steel mills' production activities remained high, with weekly average daily molten iron production hitting the highest level since Sep 20 at 2.4885m tonnes (+0.01m tonnes wow), boosted by the growing number of blast furnace resuming operations. Weekly output of five major steel products slowed to 9.1694m tonnes (+1.5% wow) this week.
- **Steel inventory down for sixth consecutive week.** Overall steel inventory based on Mysteel's survey was down 1.9%% wow to 15.49m tonnes (-2.6% yoy). Steel apparent consumption remained flattish at 9.4699m tonnes (+0.7% wow). The weekly average apparent consumption of rebar/HRC/CRC in Sep 23 was -12.9%/-0.4%/+5.9% yoy.
- Based on Mysteel's survey, restocking demand of construction materials before the long holidays remained weak, with only 42% of the 92 sampled entities indicating that they plan to restock before the long holidays. Some 84% of the respondents expect steel prices to stay flattish or fall after the holidays, which explains the delay in the restocking timeline.

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



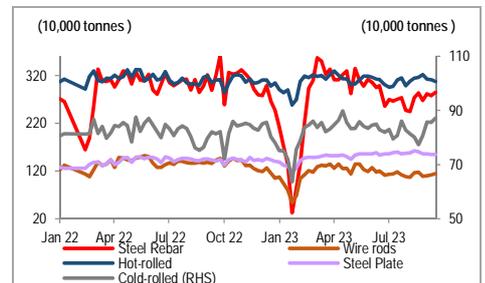
Source: Wind, UOB Kay Hian

WEEKLY PRODUCTION OUTPUT OF MAJOR STEEL PRODUCTS



Source: Wind, UOB Kay Hian

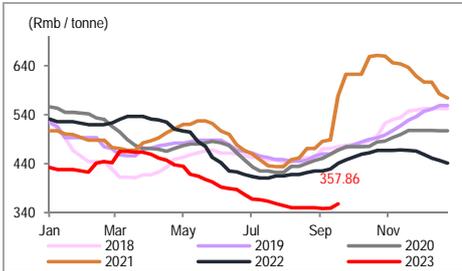
STEEL PRODUCTS WEEKLY APPARENT CONSUMPTION



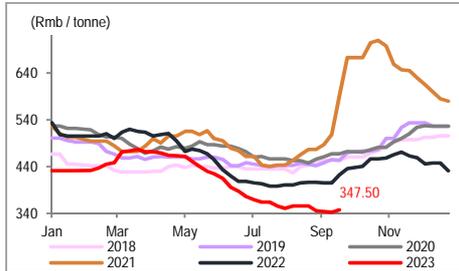
Source: Wind, UOB Kay Hian

- **Cement (maintain MARKET WEIGHT):** The rebound of cement prices was backed by demand recovery and an uptick in coal prices; the price war in Guangdong is intensifying.
 - **Rebound in cement prices continues.** National average PO42.5 cement prices (bulk) continued its uptrend, rising 0.4% wow to Rmb356.67 per tonne. Average cement prices for the eastern/central/southern regions saw changes of +2.5%/+5.2%/-1.8% wow. Guangdong is seeing an intensifying price war, largely due to the influx of cement products from Guangxi and the high inventory level in the region. Cement-coal spread recovered to Rmb248.64 per tonne (+0.5% wow/-3.5% yoy) due to the recent rebound of cement prices.

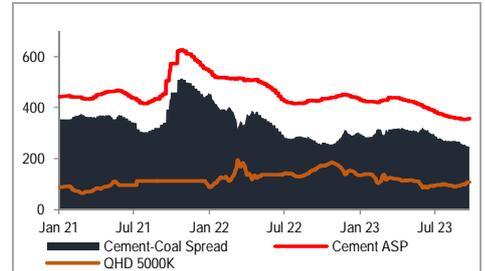
AVERAGE CEMENT PRICES – EAST



AVERAGE CEMENT PRICES – CENTRAL-SOUTH



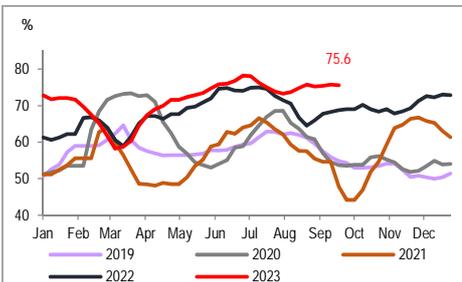
CEMENT-COAL SPREAD



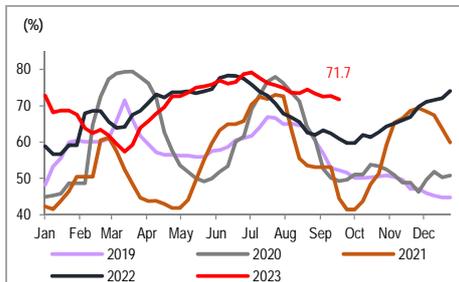
– **Third consecutive week of shipment recovery.** According to 100NJZ's survey conducted on 250 cement enterprises, weekly cement shipment volume for the week of 13-19 Sep 23 was 5.8855m tonnes (+1.5% wow; -31.4% yoy). By region, the eastern/central/southern regions' shipment volume was -0.9%/+1.3%/+4.8% wow (-36.5%/-28.4%/-41.9% yoy) respectively. Eastern region shipments were dragged by the rainy weather. Shipment for infrastructure projects totalled 2.28m tonnes (+1.3% wow/-10.6% yoy).

– **Inventory pressure moderated.** Based on 100NJZ's survey on 274 cement enterprises, clinker production capacity utilisation declined to 61.54% last week (-2.98ppt wow). National average cement storage capacity ratio was down 0.13ppt wow to 75.6%. Eastern and southern regions saw a contrasting trend, with changes of -0.92ppt/+1.11ppt to 71.7%/79.0% respectively.

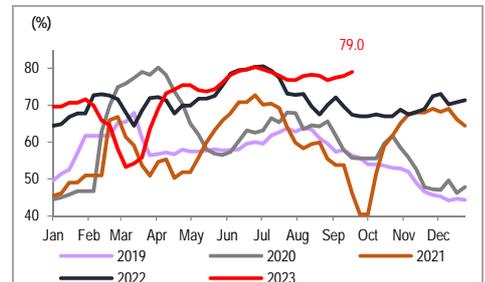
CEMENT STORAGE CAPACITY RATIO – NATIONAL AVERAGE



CEMENT STORAGE CAPACITY RATIO – EAST CHINA



CEMENT STORAGE CAPACITY RATIO – CENTRAL-SOUTH CHINA



ESSENTIALS

- **We maintain MARKET WEIGHT on the base metals sector.** A hawkish Fed and strong US dollar will continue to weigh on metal prices in the short to medium term. We are concerned about the global copper demand given the prospect of a prolonged high interest rate environment and gloomy global economic outlook. Copper prices are likely to fall below US\$8,000 by the end of the year and 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.** We expect construction activities to continue to normalise in the following weeks as the weather condition improves. We are still concerned about the high inventory level as it could cap the upside of price recovery. Aug 23's LGSB issuance was the highest of the year at Rmb2,945b, completing 77.5% of the annual quota, but still 16.3% lower yoy. The annual quota should be fully utilised by end-Sep 23, and we should see acceleration in construction progress for infrastructure projects in 4Q23.
- **We maintain UNDERWEIGHT on the steel sector.** Iron ore prices were boosted by robust steel production activities, but the rally will not be sustainable without a meaningful recovery in the property sector. We expect more production curbs to be announced in the following weeks in order to improve air quality. The stronger price performance of raw materials against steel end products would also see steel mills moderating production.

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