

SECTOR UPDATE

Commodities – China

Weekly: Gold Extends Losing Streak From 25 Sep 23; LME Copper Trading At Widest Contango Since 1994

A hawkish Fed, which led to rising treasury yields and a strengthening US dollar, continued to weigh on gold prices, which have been on a losing streak since 25 Sep 23. LME copper saw the widest contango since 1994 with cash-to-three-month discount reaching US\$70/mt, partly dragged by concerns on near-term demand. Steel mills saw a steep margin deterioration amid weakening product spot prices and raw material price upticks, which should help moderate production activities.

WHAT'S NEW

- **Base metals (maintain MARKET WEIGHT): A hawkish Fed continues to drag on sentiment.**
 - COMEX gold/LME copper three-month futures were -4.1%/+0.6% wov to US\$1,848 per t oz/US\$8,271 per mt. Hawkish Fed remains an overhang, with the US dollar index strengthening further to 106.17 on 29 Sep 23 while 10-year Treasury yield climbed to 4.61% on 27 Sep 23, the highest since 2007.
 - **LME copper traded at widest contango since 1994.** LME copper recorded widest cash-to-three-month discount since 1994, hitting US\$70 per mt on 25 Sep 23, mainly due to: a) continued expansion of LME copper inventory, and b) concerns on global economic growth given the expected prolonged high interest rate environment. LME copper inventory was last reported at 167,825 mt as at 27 Sep 23, up 3% wov. Besides, China NBS's Sep 23 manufacturing PMI data came in above expectations at 50.2 (consensus: 50.1), having returned to the expansionary zone since Mar 23, which helped in easing market concerns on the weakening industrial activities.
 - **Gold prices on losing streak since 25 Sep 23; at seven-month low.** Gold prices remained under pressure last week amid rising treasury yield and strengthening USD, while news of the US averting a government shutdown over the weekend also contributed to the diminishing safe-haven attractiveness. The US' Sep 23 core PCE inflation released last Friday came in slightly below expectations at +0.4% mom/+3.9% yoy (consensus: +0.2% mom/+3.9% yoy), which did not ease concerns on another rate hike by the end of the year.
 - According to CME FedWatch Tool, market is still pricing in 71.1% 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 42.60% probability.
 - The focus this week will be on the US' Sep 23 change in non-farm payroll data release, with consensus looking at +165k.

MARKET WEIGHT

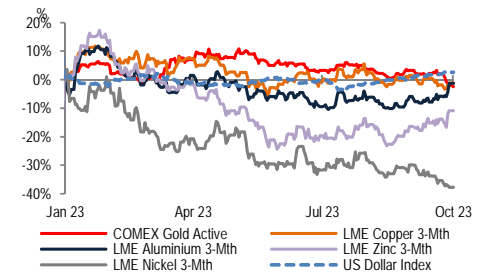
(Maintained)

SECTOR PICKS

Company	Ticker	Rec	Share Price (lcy)	Target Price (lcy)
Anhui Conch	914 HK	BUY	20.85	28.30

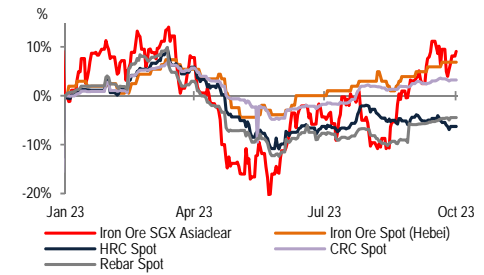
Source: UOB Kay Hian

METALS – YTD PRICE PERFORMANCE



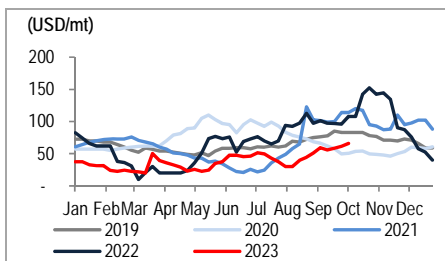
Source: Bloomberg, UOB Kay Hian

STEEL – YTD PRICE PERFORMANCE



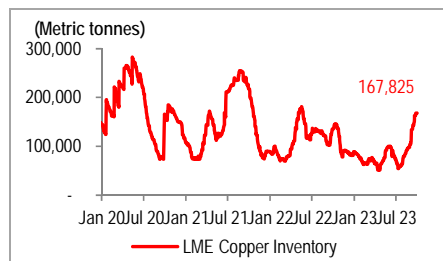
Source: Bloomberg, UOB Kay Hian

CHINA YANGSHAN COPPER PREMIUM



Source: Bloomberg, UOB Kay Hian

LME COPPER INVENTORY



Source: Bloomberg, UOB Kay Hian

PEER COMPARISON

Company	Ticker	Rec	Price @ 2 Oct 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	20.85	28.30	35.7	138,726.8	8.6	8.0	0.5	0.5	8.1	7.2	6.4
Baosteel	600019 CH	BUY	6.09	7.10	16.6	135,576.8	13.1	9.7	0.7	0.6	5.5	4.7	5.2
CR Cement	1313 HK	HOLD	2.01	3.10	54.2	14,035.7	7.4	5.8	0.3	0.3	6.7	5.5	3.8
Zijin Mining	2899 HK	BUY	11.98	15.00	25.2	336,515.3	12.6	10.7	2.7	2.3	10.3	9.0	23.7

Source: Bloomberg, UOB Kay Hian

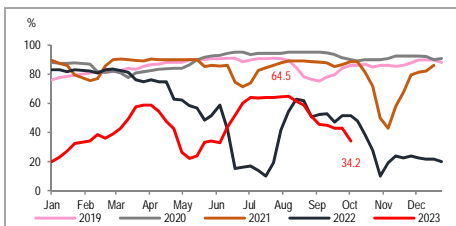
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• **Steel (maintain UNDERWEIGHT):** Steep deterioration of steel mills' margins.

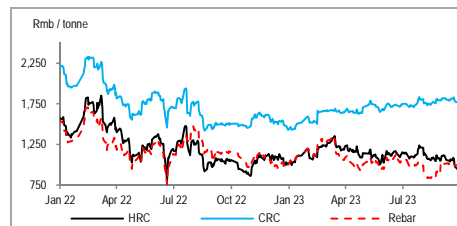
- **Iron ore prices boosted by China's encouraging set of economic data.** SGX iron ore futures continued declining last week, down 1.3% wov to US\$119.61 per mt. Concerns on peaking demand as restocking demand prior to long holidays coming to an end and the re-emergence of Evergrande's debt repayment issue have weighed on market sentiment. However, the price rebounded and it was later boosted by the encouraging set of economic data from China, particularly Sep 23 manufacturing PMI. Spot prices of rebar/rot-rolled coil (HRC)/cold-rolled coil (CRC) as at 28 Sep saw wov changes of +0.3%/-0.9%/-0.3%.

247 SAMPLED STEEL MILLS PROFIT-MAKING RATIO



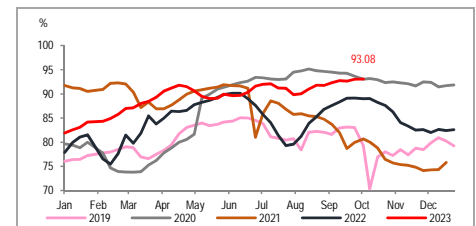
Source: Wind, UOB Kay Hian

STEEL-RAW MATERIAL SPREADS



Source: Bloomberg, UOB Kay Hian

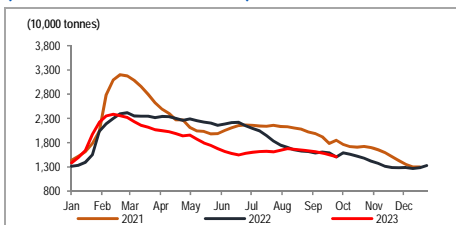
247 SAMPLED STEEL MILLS BLAST FURNACE UTILISATION RATIO



Source: Wind, UOB Kay Hian

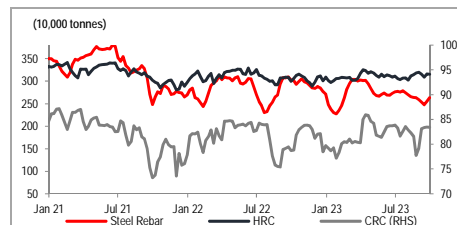
- **Steep deterioration of steel mills' margins.** Weekly average of HRC steel-raw materials spread was down 10.5% wov given the 1.7% slump in HRC average prices and 3.7% spike in domestic coke prices. Mysteel's survey also indicated that 34.20% of steel mills are currently profit-making (-8.66ppt wov).
- **Oct 23 production activities expected to stay active.** According to Mysteel's survey on 247 sampled steel mills, daily average molten iron production (as of 26 Sep) was 2.484m tonnes (+0.032m tonnes vs Aug 23's average), whereas ytd molten iron production was up 35.53m tonnes (+5.73% yoy). Mysteel projected Oct 23's daily average molten iron production to be 2.457m tonnes, based on currently known production schedule, merely 0.027m tonnes lower mom. Weekly output of five major steel products slowed to 9.3027m tonnes (+1.5% wov) this week.
- **Steel inventory down for seventh consecutive week.** Overall steel inventory based on Mysteel's survey was down 2.5%% wov to 15.11m tonnes (+0.3% yoy), but worth noting that the sampled steel mills' inventory was up 0.5% wov to 4.32m tonnes. Weekly steel apparent consumption remained resilient at 9.5541m tonnes (+0.9% wov). Sep 23's weekly average apparent consumption of rebar/HRC/CRC was -12.1%/+0.5%/+5.5% yoy.

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



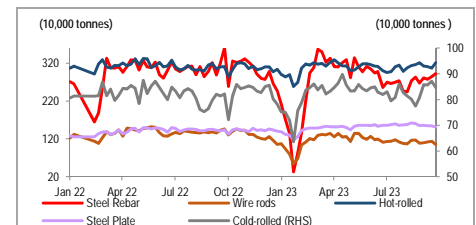
Source: Wind, UOB Kay Hian

WEEKLY PRODUCTION OUTPUT OF MAJOR STEEL PRODUCTS



Source: Wind, UOB Kay Hian

STEEL PRODUCTS WEEKLY APPARENT CONSUMPTION

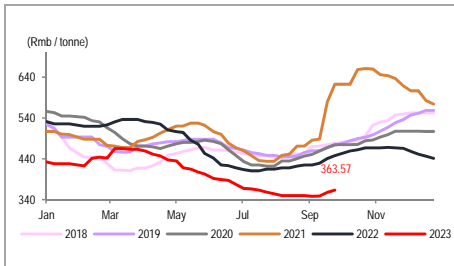


Source: Wind, UOB Kay Hian

• **Cement (maintain MARKET WEIGHT):** Easing thermal coal prices help in widening spread.

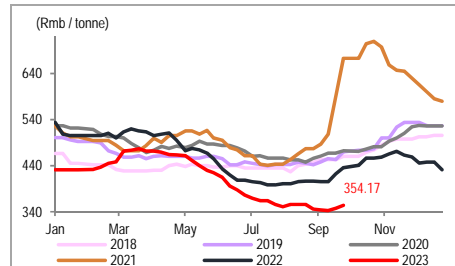
- **Rebound in cement prices accelerates.** National average PO42.5 cement prices (bulk) continued its upward trend, rising 0.7% wov to Rmb356.67 per tonne. Average cement prices for the eastern/central/southern regions saw changes of +1.6%/+3.9%/flat wov. Cement-coal spread recovered to Rmb246.23 per tonne (+1.5% wov/-3.7% yoy) thanks to the recent rebound of cement prices and correction of QHD5000 thermal coal price (Shanxi production).

AVERAGE CEMENT PRICES – EAST



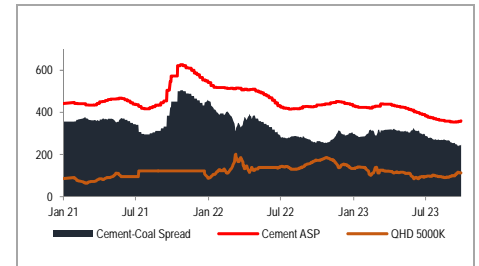
Source: CEIC, UOB Kay Hian

AVERAGE CEMENT PRICES – CENTRAL-SOUTH



Source: CEIC, UOB Kay Hian

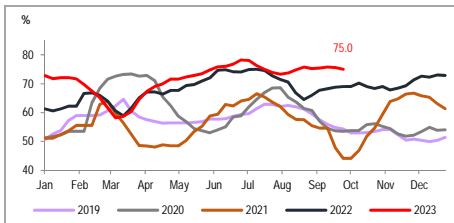
CEMENT-COAL SPREAD



Source: CEIC, Wind, UOB Kay Hian

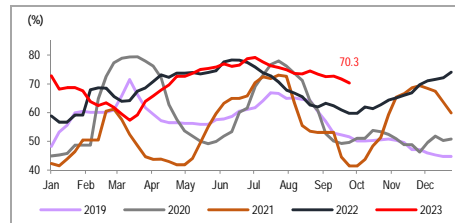
- **Weekly shipment reversed down.** According to 100NJZ's survey conducted on 250 cement enterprises, weekly cement shipment volume for the week of 20-26 Sep 23 was 5.7105m tonnes (-2.97% wow/-36.43% yoy). By region, the eastern/central/southern regions' shipment volume was -4.1%/-8.2%/+4.6% wow (-40.8%/-39.2%/-41.7% yoy) respectively. Construction activities in eastern and central regions were slowed by rainy weather while shipment in eastern region was also affected by construction restrictions due to a major sporting event. Shipment for infrastructure projects was 2.24m tonnes (-1.8% wow/-15.5% yoy).
- **Inventory level trimmed further on slowing production output.** Based on 100NJZ's survey on 274 cement enterprises, clinker production capacity utilisation has declined to 53.46% last week (-8.08ppt wow). National average cement storage capacity ratio was down 0.6ppt wow to 75.0%. Eastern and southern regions have both saw inventory digestion at -1.4ppt/-0.8ppt to 70.3%/78.2% respectively.

CEMENT STORAGE CAPACITY RATIO – NATIONAL AVERAGE



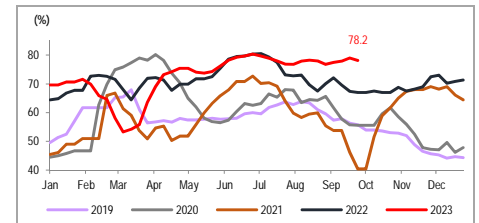
Source: CEIC, UOB Kay Hian

CEMENT STORAGE CAPACITY RATIO – EAST CHINA



Source: CEIC, UOB Kay Hian

CEMENT STORAGE CAPACITY RATIO – CENTRAL-SOUTH CHINA



Source: CEIC, UOB Kay Hian

ESSENTIALS

- **Maintain MARKET WEIGHT on the base metals sector.** A hawkish Fed and strong US dollar have continued to weigh on metal prices. We are concerned on the global copper demand given the prospect of a prolonged high interest rate environment and gloomy global economic outlook. Partly due to the high pace expansion of inventory level, 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.
- **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. Sep 23's LGSB issuance expected to be over Rmb700b in order to complete utilisation of Rmb3.8t annual quota. The proceeds should be disbursed to the infrastructure projects by Oct 23 and we should see acceleration in construction progress in 4Q23.
- **Maintain UNDERWEIGHT on the steel sector.** We expect more production curbs to be announced in the following weeks with the authorities' intention to improve air quality. Steel production activities are expected to remain active in Oct 23 based on the current known production schedule, but we expect the growing inventory pressure and recent steep deterioration of profitability to help moderate production output in the following weeks.

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