

Iron Ore Futures Weekly Report

(Near term: Bullish)

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Market Outlook and Trading Advice:

Iron ore prices have been volatile this week. Affected by the closure of part of the Vale mining area in the beginning of the week, the future price was quickly climbed and once closed to the price limit. After that, price was influenced by outside ore shipment sharply rebounded this week, the tension eased from supply side, but near the weekend by further strengthening boost demand side, price was back to 780 again. On the whole, iron ore is more obviously disturbed by the supply side this week, but the continuous strong demand side is still the main driving force for its uptrend. Affected by the rainstorm in the south this week, the destocking from finished material were slow down, the inventory has accumulated from factory warehouse, but the increase in steel production is further expanded. The average daily molten iron output also continued to set a new record, exceeding 2.45 million tons this week, up by 11,900 tons. The operation rate of blast furnaces in 163 steel mills also further increased to 70.72%. Although the average daily departing port volume has dropped to 2.963 million tons, the port inventory has continued to be depleted, falling to 106.977 million tons this week, setting a new record low for the same period. At the moment, expectations of a weak iron ore demand season are increasingly likely to prove true. There is still a way to go before iron ore production peaks, and there is still room for improvement at the iron ore demand side. However, the sustainability of the recent recovery of shipments from external mines is still in doubt. In the short term, there is still a certain amount of maintenance in Brazilian mines and Australian mines, and the subsequent shipments are still less than expected. In addition, the recent rapid rise in freight prices, which will also increase the import of the subsequent cost of the port. For trading advice, the iron ore upward trend will continue in the short term, please pay attention to the correction of the opportunity to a bargain price.

1. Iron Ore Market Review

As of June 12, Platts 62% Fe was at 105.35 USD per dry ton, up 4.36% from the previous week, and prices of imported ore varieties continued to rise this week. In terms of Australian mines, there was a big difference in the price trend of high, medium and low quality ore this week. The increase of MNP fines was generally consistent with the future price. The price performance of JMBF was sluggish, only up 1.71% weekly, it was performed the weakest minse of all import of mainstream mines. SS fines price rose more than 8% this week, leading the rise in the all import mining market. The inventroy of Brazil's port stock mines fell further this week, but overall prices were still underperforming Australian mines, largely because they have been partly replaced by domestic refined powder, also a source of low aluminium. Domestic mines continue to be favored by steel mills, the proportion of furnace has been further increased, mainly because of the expansion of the price difference between the inside and outside mines makes its more prominent compared with imported mines. Specifically, the price increase of refined fines in northeast China was higher than that in Hebei. However, some mines think that the price of refined fines in northeast China was still in the state of undervaluation at present, and they intend to reduce the follow-up supply, and the short-term price will remain firm. This week's rise in refined fines price in Hebei was largely due to continued weak supply and strong demand, and there has been a strong buying on refined fines in Hanxing recently, which has not been affected by production restrictions. In general, both the domestic and foreign ore prices have increased significantly. The current foreign ore prices were still lower than the same period last year, while the domestic refined fines price had obviously exceeded the same period last year, which shows that the domestic ore does play a certain role in replacing the foreign ore. At present, the cost performance of domestic mines still has advantages. Under the situation of steel mill profit margin gradually falling, the follow-up demand of domestic fines expected to further strengthen the margin.

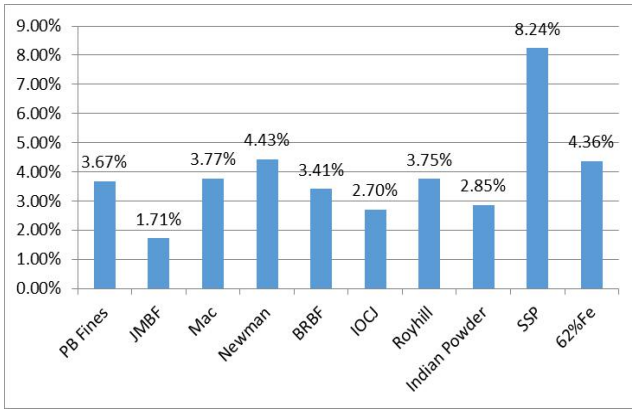


Chart: Up or down of weekly offshore ore prices

Source: Mysteel, Founder CIFCO Futures

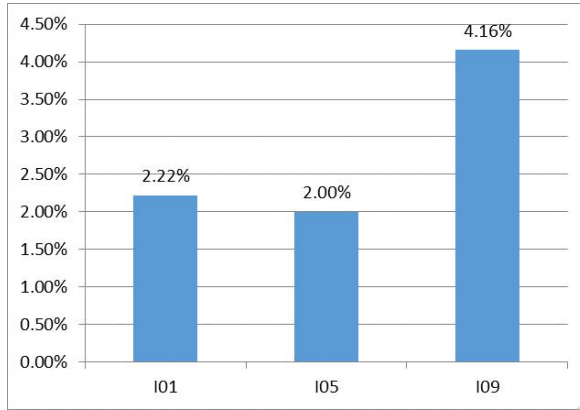


Chart: Up or down of weekly onshore ore prices

	Onshore Ore Prices								
	PB Fines	JMBF	Mac	Newman	BRBF	IOCI	Royhill	Indian Powder	SSP
2020/5/18	763.0	701.0	743.0	790.0	822.0	925.0	746.0	702.0	619.0
2020/5/25	791.0	713.0	771.0	825.0	850.0	950.0	774.0	722.0	670.0
Weekly Up or Down	28.0	12.0	28.0	35.0	28.0	25.0	28.0	20.0	51.0
	3.67%	1.71%	3.77%	4.43%	3.41%	2.70%	3.75%	2.85%	8.24%

Chart: Weekly offshore ore prices in Rizhao port

Source: Mysteel, Founder CIFCO Futures

	Onshore Ore Prices				
	Benxi 65%	Hanxing 66%	Anshan 65%	Tangshan 66%	Wuan 65%
2020/5/18	660.0	883.0	660.0	697.0	800.0
2020/5/25	690.0	910.0	680.0	713.0	800.0
Weekly Up or Down	30.0	27.0	20.0	16.0	0.0
	4.55%	3.06%	3.03%	2.30%	0.00%

Chart: Weekly onshore ore prices

Source: Mysteel, Founder CIFCO Futures

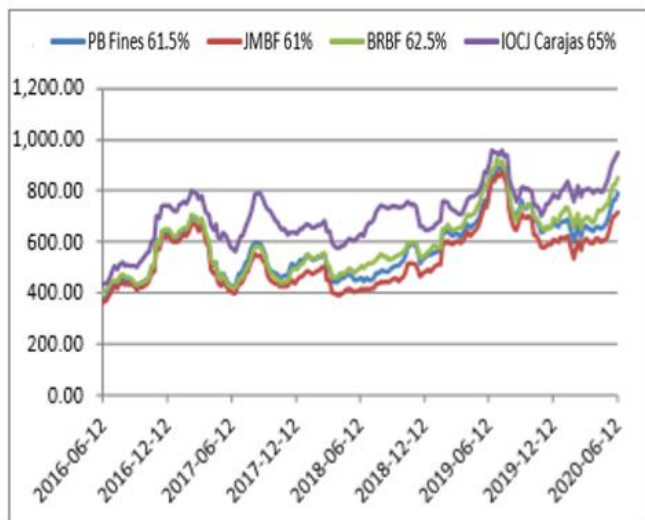


Chart: Medium and high-grade iron ore spot price

Source: Mysteel, Founder CIFCO Futures



Chart: Low-grade iron ore spot price

In terms of futures, the prices of both near and forward month contracts have risen significantly this week. In terms of the trend of each contract, the pattern of near strength and far weakness was still obvious this week. The i2009 rose first, with the 9-1 spread widening significantly. But from the trading volume perspective, the i2009 volume in this week has appeared a certain shrinkage, while the volume of the i2101 increase relatively substantial. In terms of trading positions, each contract had a small increase in positions, but the growth was relatively limited. Although the continuation of the upward trend was still there, but the amount can begin to attenuate, the market began to be caution.

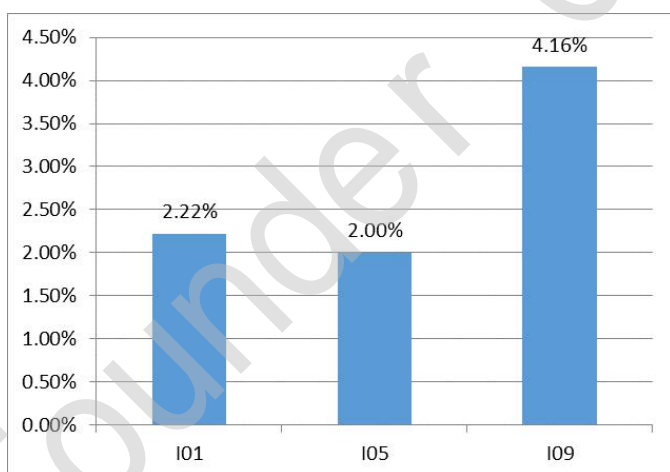


Chart: Up or down of weekly futures prices

Source: Wind, Founder CIFCO Futures

Contract	Open	Close	Settle	Chg	Vol(10,000 bts)	VolChg	Turnover (10,000 RMB)	O I(10,000 bts)	O IChg
I2105	626	638.5	629	2.00%	7.4	8.96%	469,876.0800	2.1963	9.00%
I2009	746	777	762.5	4.16%	713.1	-6.27%	54,768,801.4600	89.8387	4.02%
I2101	677	692	678.5	2.22%	56.8	23.50%	3,928,873.4200	13.909	3.87%

Chart: Weekly data of iron ore futures

Source: Wind, Founder CIFCO Futures



Chart: Technical chart of i2005

Source: Wind, Founder CIFCO Futures



Chart: Price of contract 05 and price forecast

Source: Wind, Founder CIFCO Futures

II. Basis and Spread

This week's basis change was similar to the previous, in addition to the main contract slightly stronger than the spot price trend, the basis of the forward month contract had different degrees of strength. As of June 12, the basis difference of the i2009 was 93.8 RMB/ton, down 0.5 RMB/ton from last week. The continuous repair of the basis difference in the early stage has come to end. In terms of the price difference between IOCJ Carajas and PB fines was dropped slightly this week from 3 RMB/ton to 159 RMB/ton; the price difference between PB fines and JMBF was widened 16 RMB/ton to 78 RMB/ton; the price difference between PB fines and SS fines was down by 23 RMB/ton to 121 RMB/ton. Overall, driven by the future price, PB fines premium was still strengthening. As of the end of this week, the 09-01 contract spread was expanding by 16 RMB/ton to 85 RMB/ton, and the spread between 1-5 contract increased by 2.5 RMB/ton to 53.5 RMB/ton.



Chart: Spread of contract 09 and 01
Source: Wind, Founder CIFCO Futures

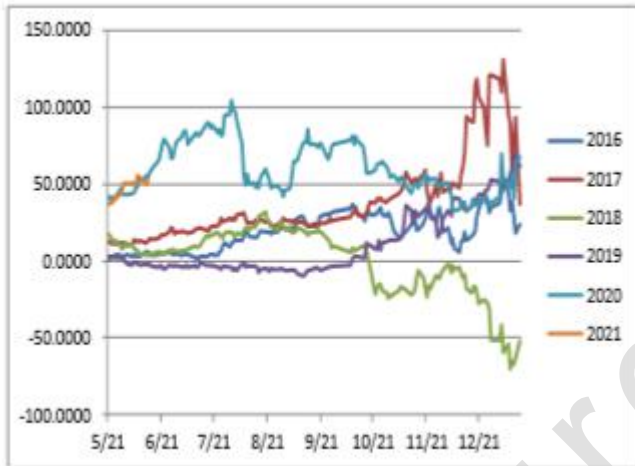


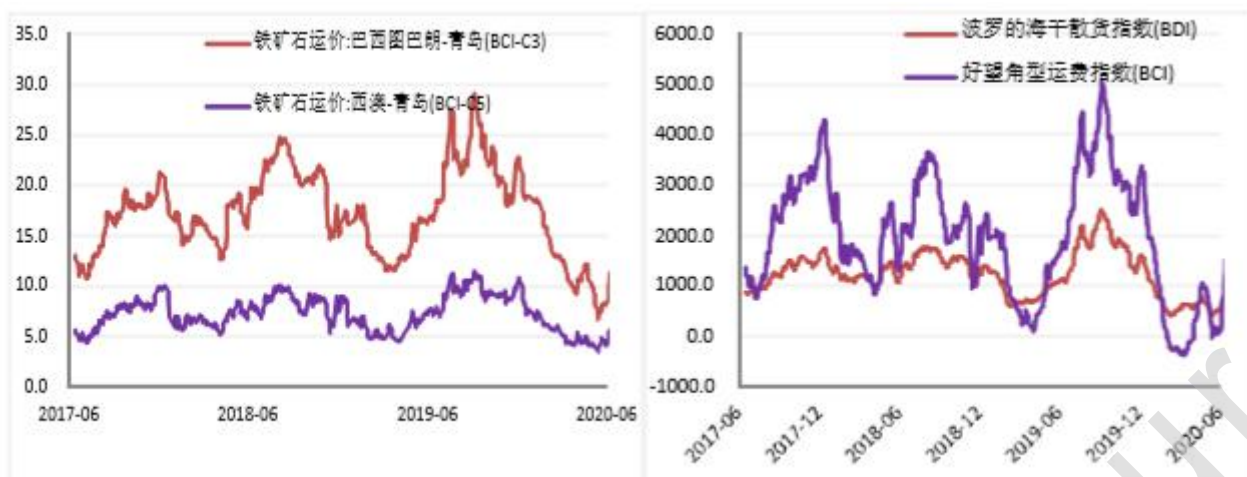
Chart: Spread of contract 05 and 09
Source: Wind, Founder CIFCO Futures



Chart: Basis of spot iron ore (PB fines 61.5%) in Rizhao port
Source: Wind, Founder CIFCO Futures

III. Shipping Market Review

BDI and BCI rebounded sharply this week. As of June 11, BDI was at 839, up 207 (32.75%), and BCI up 782 (150.97%). The freight price accumulates was also more apparent this week. As of June 11, the freight from Tubalang to Qingdao was 14 USD/ton, with an increase of 4.1 USD/ton (41.72%); Freight from Western Australia to Qingdao was at 6.1 USD/ton, up 0.8 USD/ton (16.08%) from the previous week.

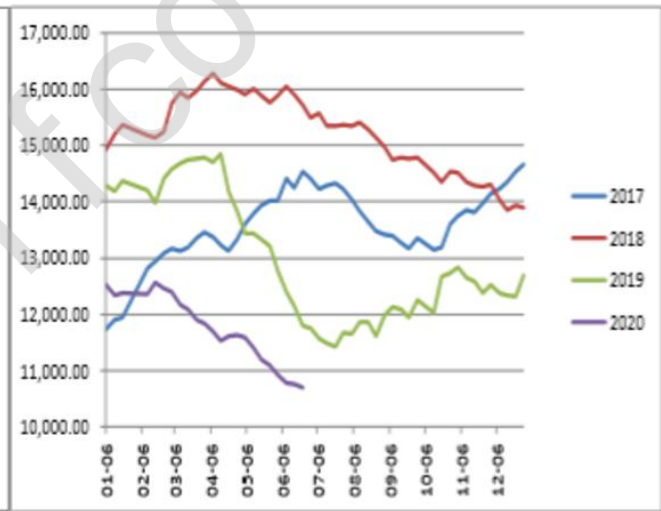
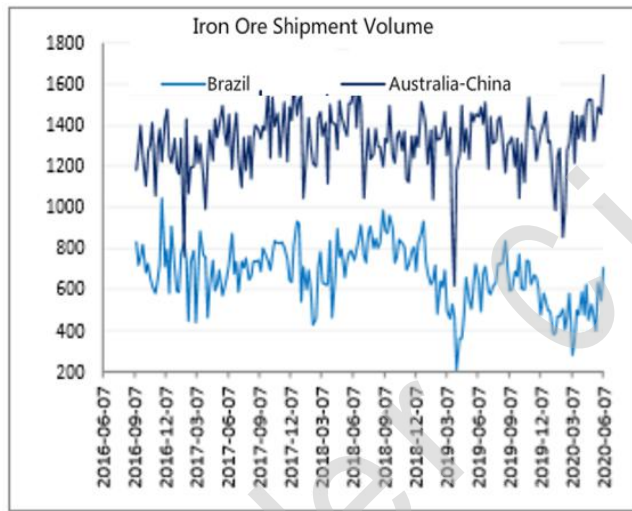
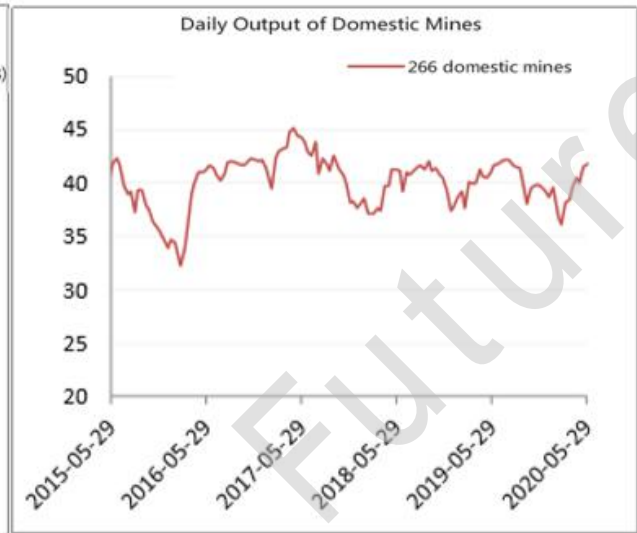
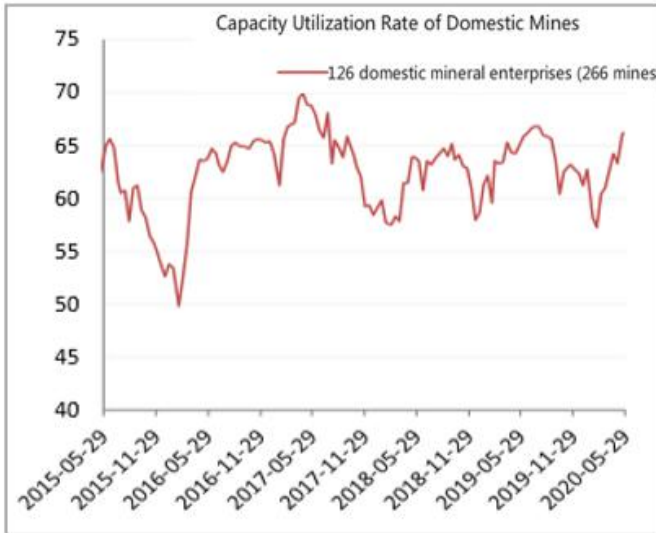


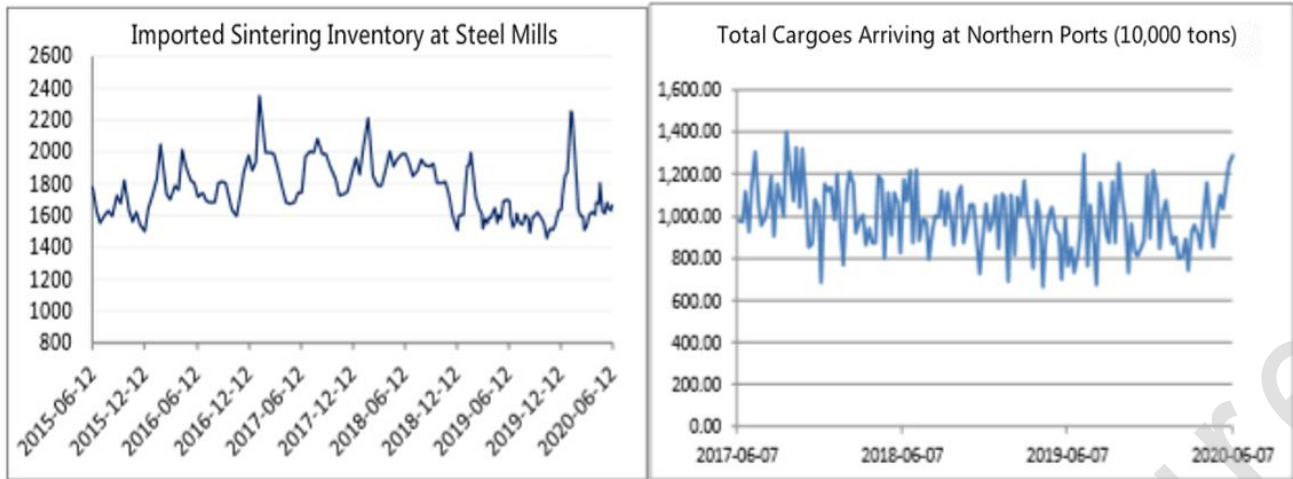
Source: Wind, Founder CIFCO Futures

IV. Supply

The supply of domestic mines continued to rise and increase recently. The latest data (June 12) showed that the operation rate of 126 mining enterprises in China was 68.21% in the current period, up 2.02% from the previous period. The average daily output of domestic mines was 430,300 tons, up 12,700 tons/day from the previous period. According to the shipping situation of foreign mines in this period, the shipping volume of Australian mines has recovered significantly and reached a new high in the year. In this period, the volume increased by 2.6449 million tons, breaking through 19 million tons, among which the volume to China was 16.448 million tons, increasing by 1.896 million tons. Brazilian mine shipments also increased significantly nearly 1.6 million tons to 7.05 million tons and weekly shipments exceeded 7 million tons for the first time since the beginning of the year. In the current period, 26.433 million tons were shipped from Australian and Brazilian mine, a sharp increase of 4.248 million tons from the previous month. However, the Australian and Brazilian mines were still undergoing considerable overhaul recently, and the sustainability of their subsequent shipments was still worth watching closely. The latest foreign ore arrivals from the northern port were up 350,000 tons to 12.88 million tons and still below the demand. As of June 12, the imported mine inventory of 45 ports in China was 10.69770 million tons, with another drop of 560,000 tons, of which the inventory of Australia ore was 61.25500 million tons, with an increase of 782,000 tons; the inventory of Brazil ore was 20.7105 million tons, with a decrease of 1.076 million tons. The trade ore inventory was 50.5690 million tons, with a decrease of 463,000 tons. The number of pellets increased by 38.00 million tons to 7.7191

million tons. The lump mine fell by 108,300 tons to 21.315 million tons, and refined fines down by 82,900 tons to 6.872,800 tons. In terms of the inventory of steel mills, the total inventory of imported sintering fines of 64 sample steel mills was up 337,600 tons to 16,624,100 tons.

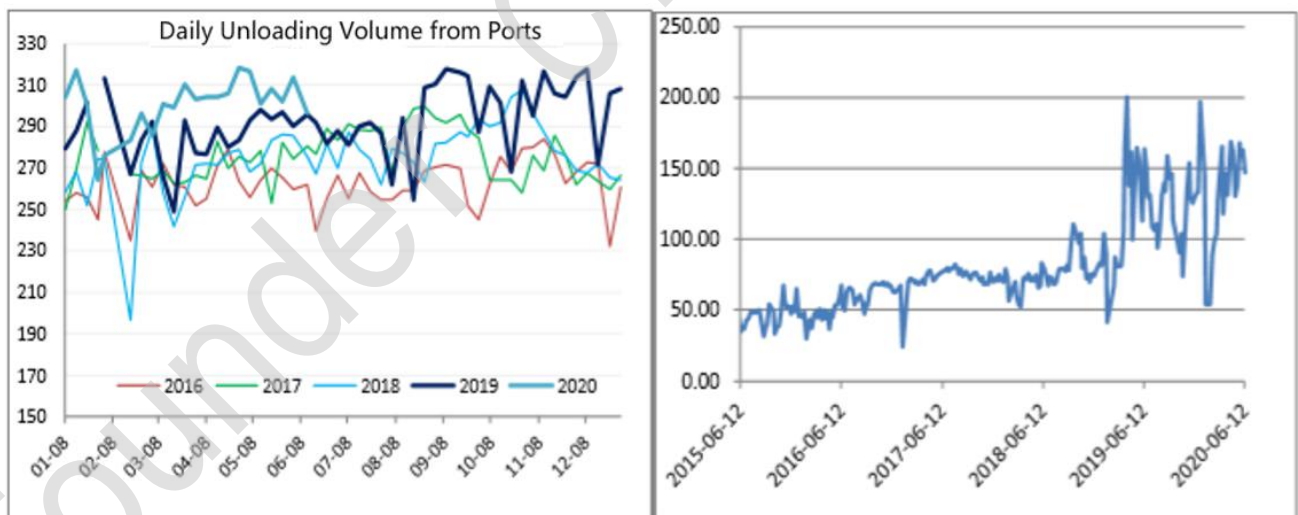




Source: Wind, Founder CIFCO Futures

V. Demand

The latest phase (June 5) steel mill sinter ore into furnace grade was 55.95%, increasing by 0.06%. The ratio of pellets, sinter and lumps ore into the furnace was 15.49%, 73.29% and 11.22% compared with 15.79%, 72.84% and 11.37% respectively. The steel mill has improved the grade of entering the furnace with reasonable profit, and increased the proportion of sinter into the furnace at the same time. The average daily departing port volume fell by 62,000 tons to 2.963 million tons, falling below 3 million tons for the first time since April but still at an all-time high. The average daily spot trading volume of ports also fell from the previous week, with the average volume of 1,472,000 tons/day, down nearly 10%.

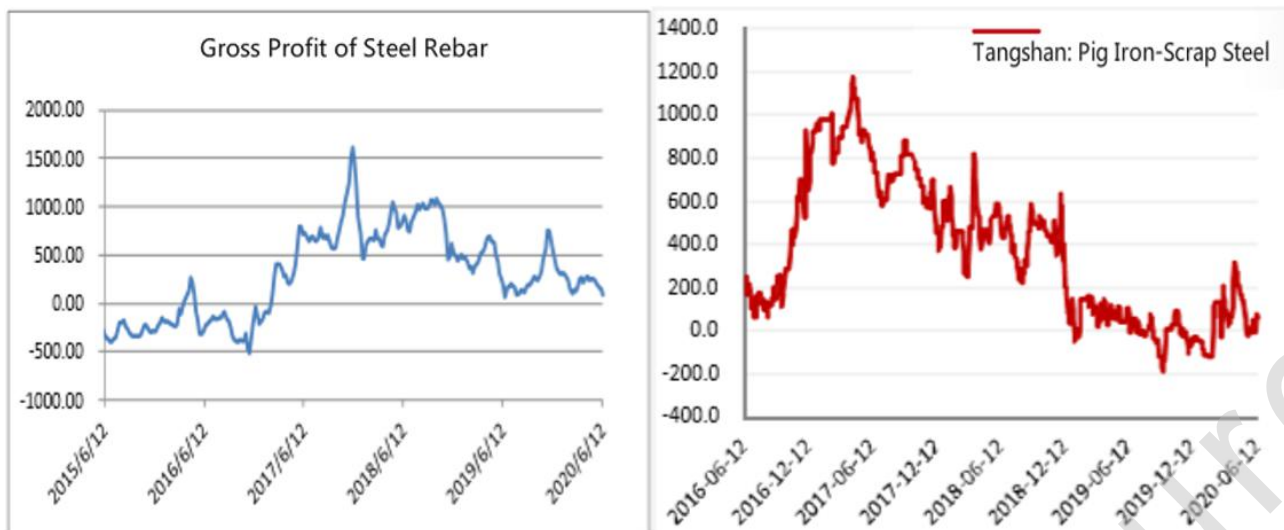


Source: Wind, Founder CIFCO Futures



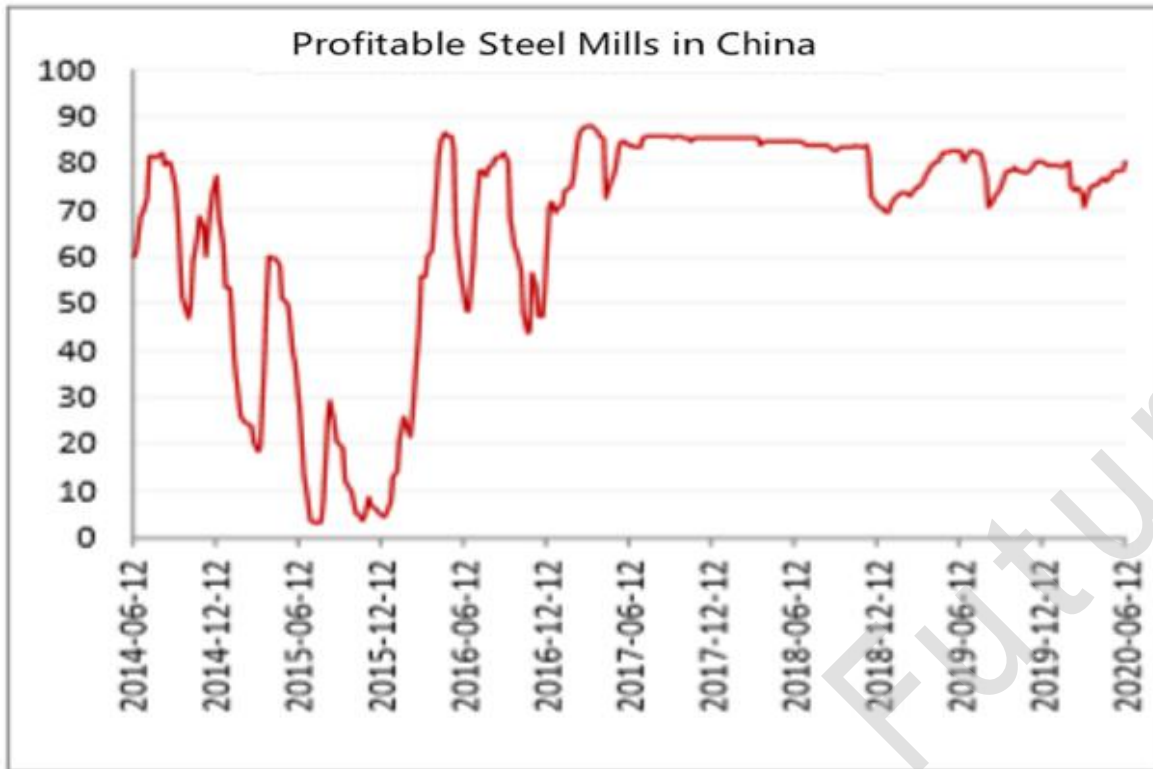
Source: Mysteel, Founder CIFCO Futures

Affected by the southern heavy rain this week, the finished steel price was weakened, but still significantly higher than the same period last year, the prices are still relatively strong. The soaring price of the furnace material further squeezed the profit space of the long-process steel mill and rebar steel profit fell to below 100 RMB/ton this week. As the steel mill has basically completed the maintenance in the early stage, it was expected that the short-term output will remain at a high level, and the subsequent profit level will mainly depend on the toughness of the steel demand. If the consumption of steel products can remain relatively strong, the steel mill profit will not form a negative feedback on the iron ore price for the time being. Scrap steel prices continue to rise this week, but the short process due to the early production period was too long, even if the current profit was small but there was still a strong willingness to start working, hope to improve cash flow as much as possible. The average operation rate of 71 electric arc furnace steel mills nationwide was increased of 2.23% to 72.99%, with a weekly increase of 2.23%. The weekly crude steel output of short-process steel mills was up a little by 3.84%. In the near future, the price difference between the cost of molten iron and scrap steel continues to expand, scrap steel price ratio was gradually protruding, In order to suppress the output of electric furnace, the long process steel mill will increase the proportion of scrap adding, which will produce extrusion effect on the demand side of iron ore.



Source: Wind, Founder CIFCO Futures

The operating rate of blast furnace in 163 steel mills nationwide was 70.72%, up 0.28% from last week. The steel demand began to show signs of weakening, the destocking of finished products slowed down, the inventory of the steel factory has accumulated, but the enthusiasm of the steel factory production was still high, the five major steel production increased by 156,600 tons, the growth rate was further expanded. The average daily iron ore production also continued to set a new record, exceeding 2.45 million tons this week, up by 11,900, and the steel mills still maintained high consumption of iron ore. In addition, some recent steel mills further reduced the proportion of foreign ore use, increased the purchase of domestic refined fines. In addition to the recent rapid increase in the price of foreign ore, the purchase of steel mills was still basically based on demand, and the willingness to take the initiative was not strong. The imported sintering inventory of 64 sample steel mills was increase of 337,600 tons to 16,624,100 tons. Both the total amount and the number of days of inventory were at a relatively low level. At present, the expectation of iron ore demand was not weak in the slack season become more and more likely to be confirmed. There was still a long way to the production peak, and from the transmission time of iron ore production to iron ore prices last year, there was no iron ore prices to fall significantly.



Output (10,000 tons)	Steel Rebar	Wire Rod	Hot Rolling	Cold Rolling	Medium Plate
2020. 06. 05	395. 4	156. 82	313	71. 4	139. 65
2020. 06. 12	398. 56	158. 78	319. 61	75. 51	139. 47
Weekly Up or Down	3. 16	1. 96	6. 61	4. 11	-0. 18

Source: Mysteel, Founder CIFCO Futures

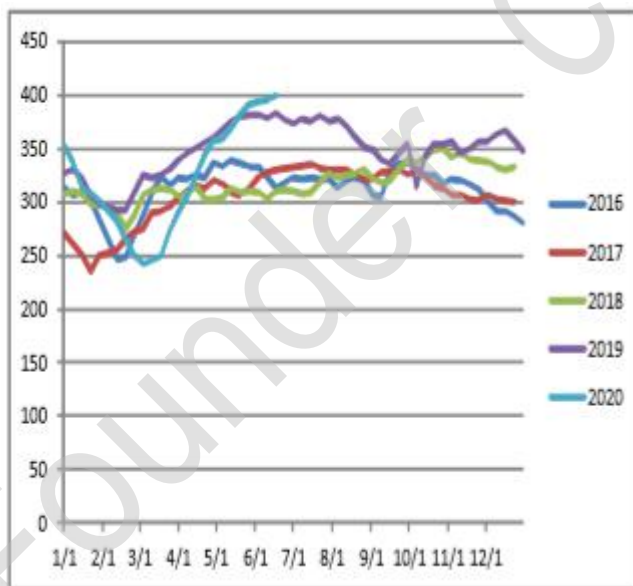


Chart: Weekly output of steel rebar (10,000 tons)

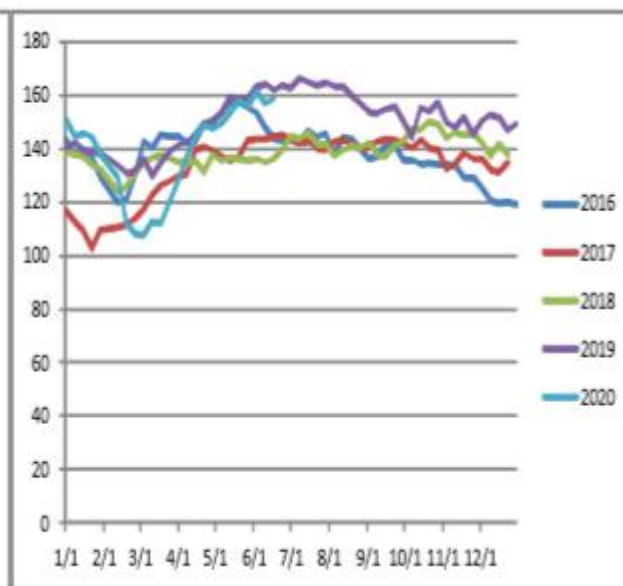


Chart: Weekly output of wire rod (10,000 tons)

Source: Mysteel, Founder CIFCO Futures

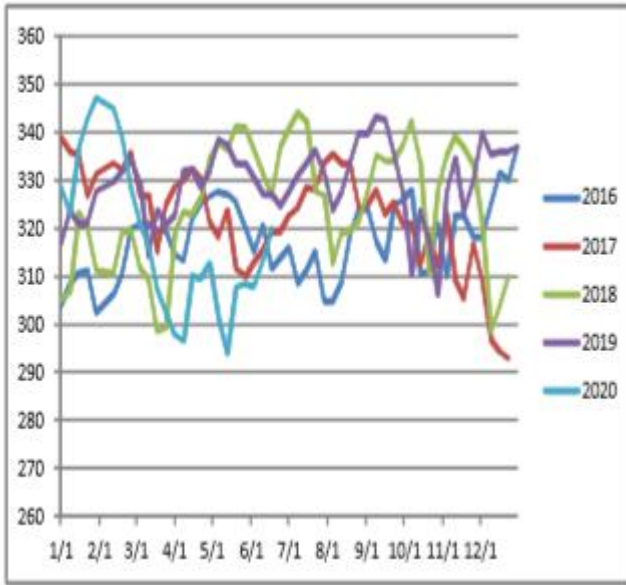


Chart: Weekly output of hot rolling (10,000 tons)

Source: Mysteel, Founder CIFCO Futures

Source: Mysteel, Founder CIFCO Futures

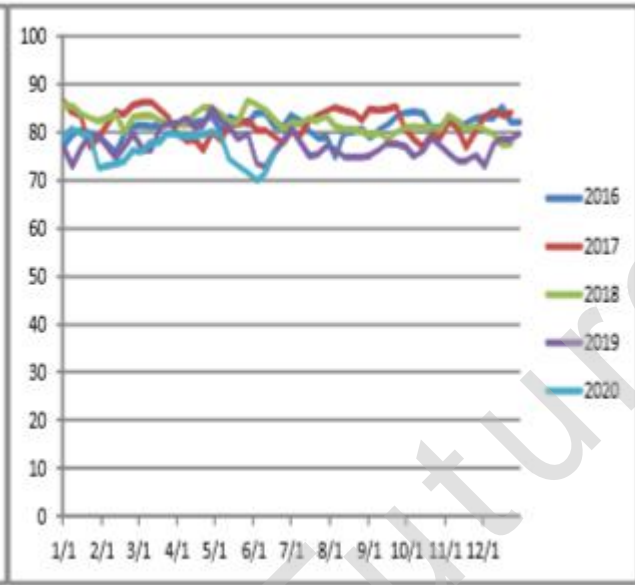


Chart: Weekly output of cold rolling (10,000 tons)

Source: Mysteel, Founder CIFCO Futures

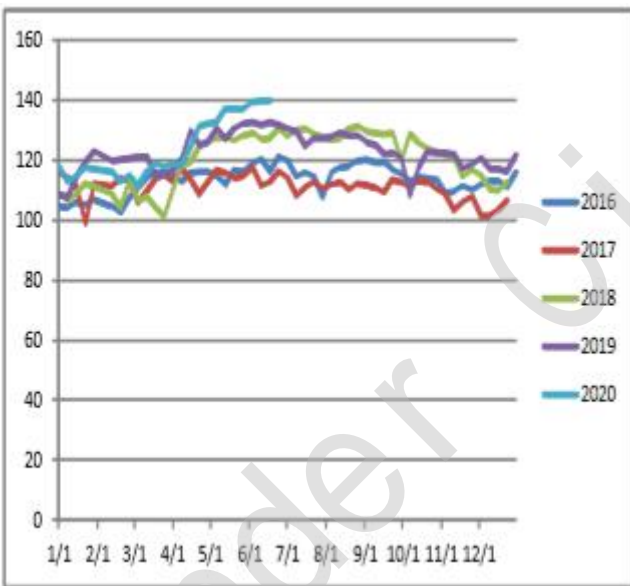


Chart: Weekly output of steel plate (10,000 tons)

Source: Mysteel, Founder CIFCO Futures

Output (10,000 tons)	Steel Rebar	Hot Rolling	Medium Plate	Wire Rod	Cold Rolling
2020. 06. 05	773. 52	271. 5	97. 9	216. 1	129. 25
2020. 06. 12	758. 34	258. 02	97. 78	209. 41	125. 97
Weekly Up or Down	-15. 18	-13. 48	-0. 12	-6. 69	-3. 28

Chart: Social inventory (10,000 tons)

Source: Mysteel, Founder CIFCO Futures

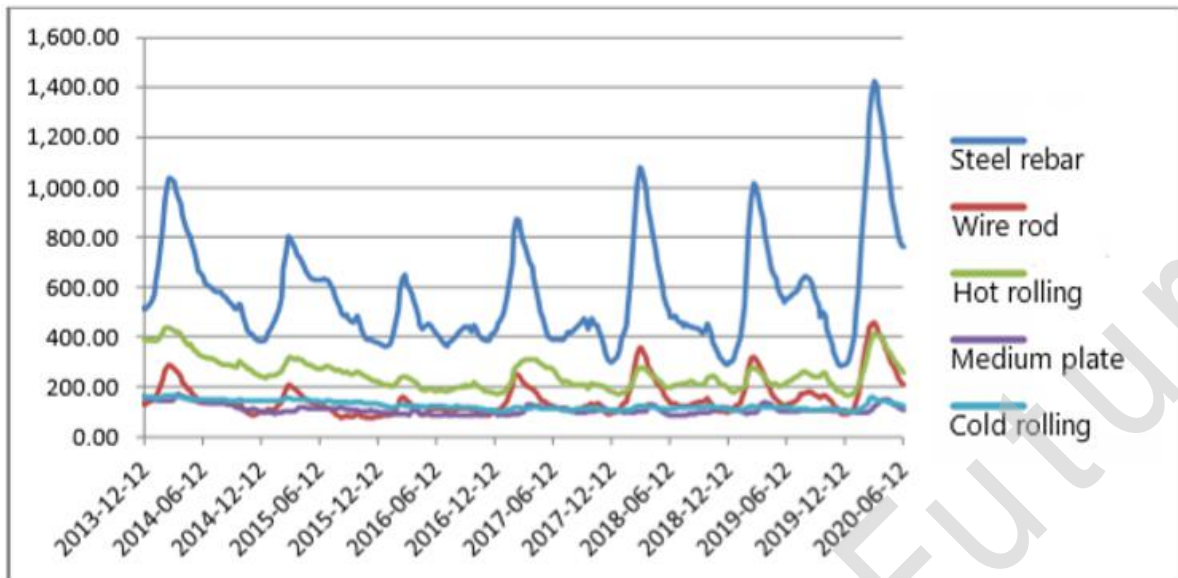


Chart: Weekly social inventory of five steel products

Source: Wind, Founder CIFCO Futures

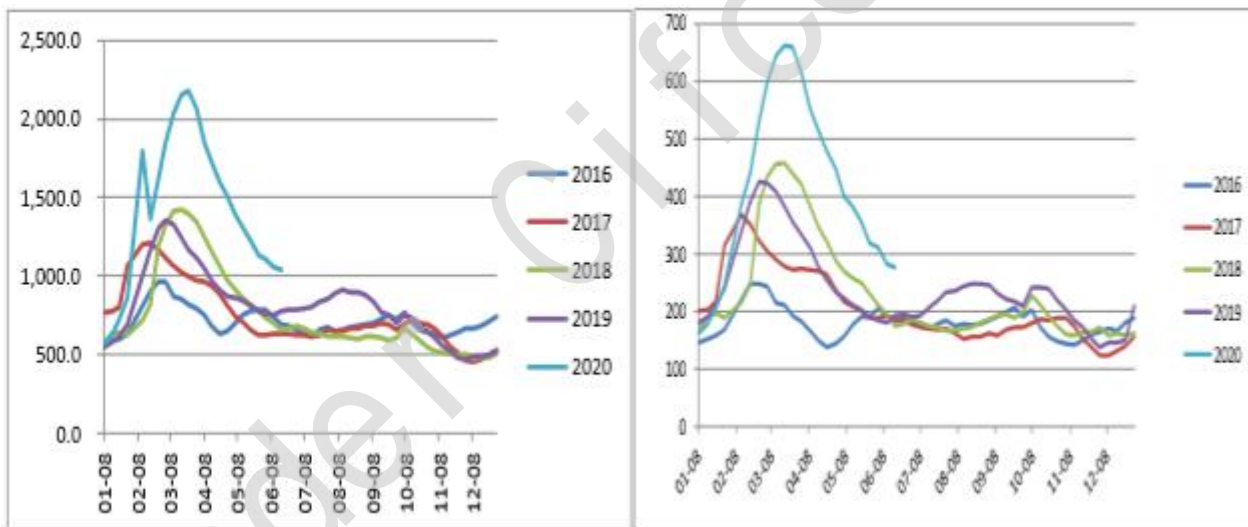


Chart: Total inventory of steel rebar (10,000 tons)

Chart: Total inventory of wire rod (10,000 tons)

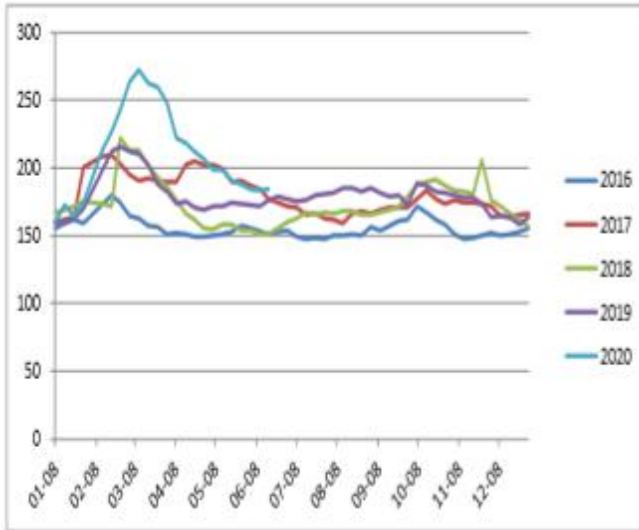


Chart: Total inventory of steel plate (10,000 tons)

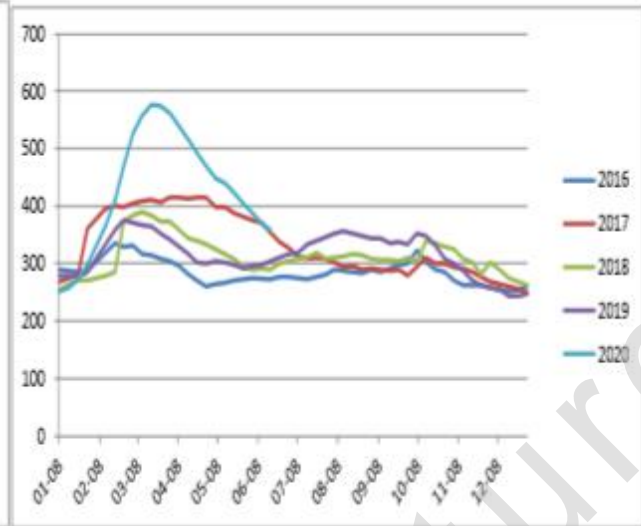
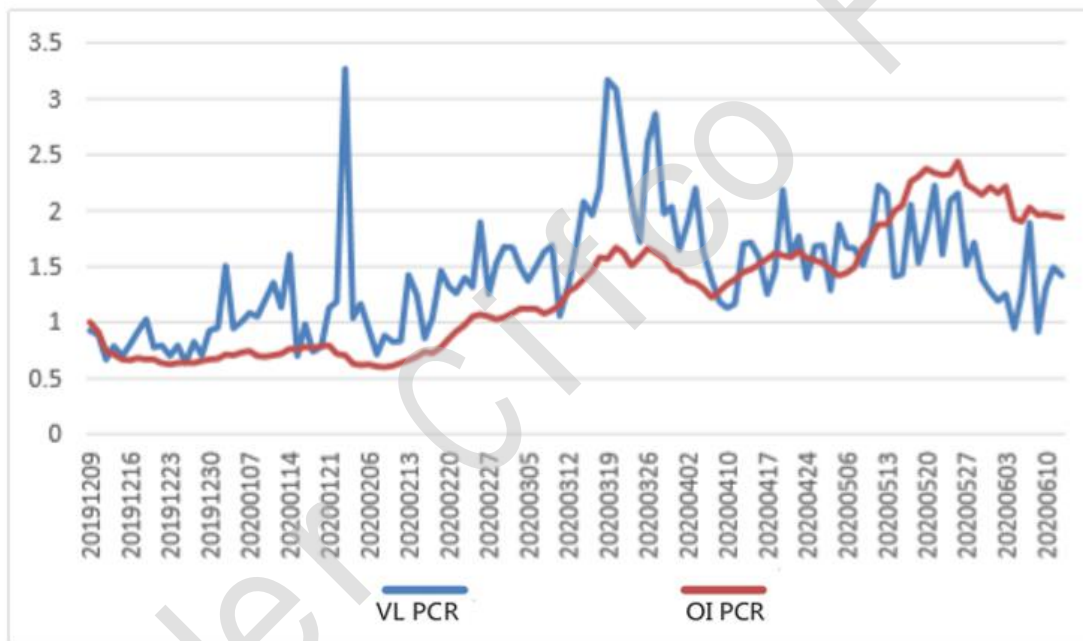
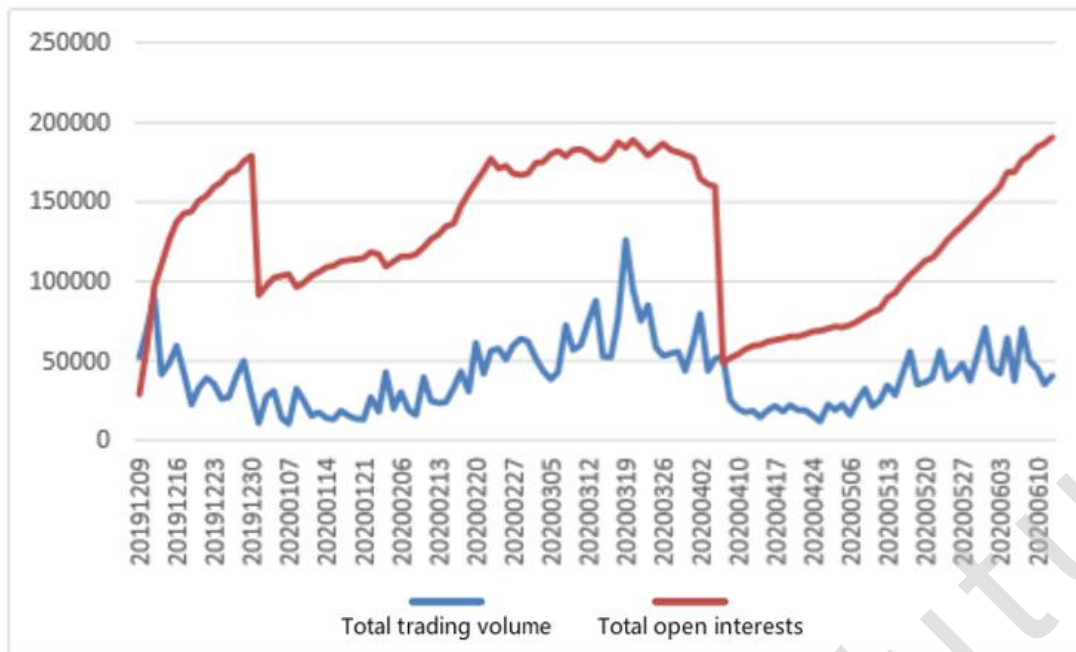


Chart: Total inventory of hot rolling (10,000 tons)

VI. Iron Ore Options

6.1 Options trading and open interest analysis

The daily average trading volume of iron ore options contracts was 48,330 lots, down 3,683 lots from last week and the average daily open interest were 183,558 lots, up 23,143 from last week's average. The put-call ratio of the daily average trading volume was 1.77, 0.22 higher than that of last week, and the average daily open interest was 1.97, down 0.11 from last week.



6.2 Volatility analysis

The implied volatility of iron ore options rose this week, with the weighted daily implied volatility at 41.06%, up 2.45% from the previous week.

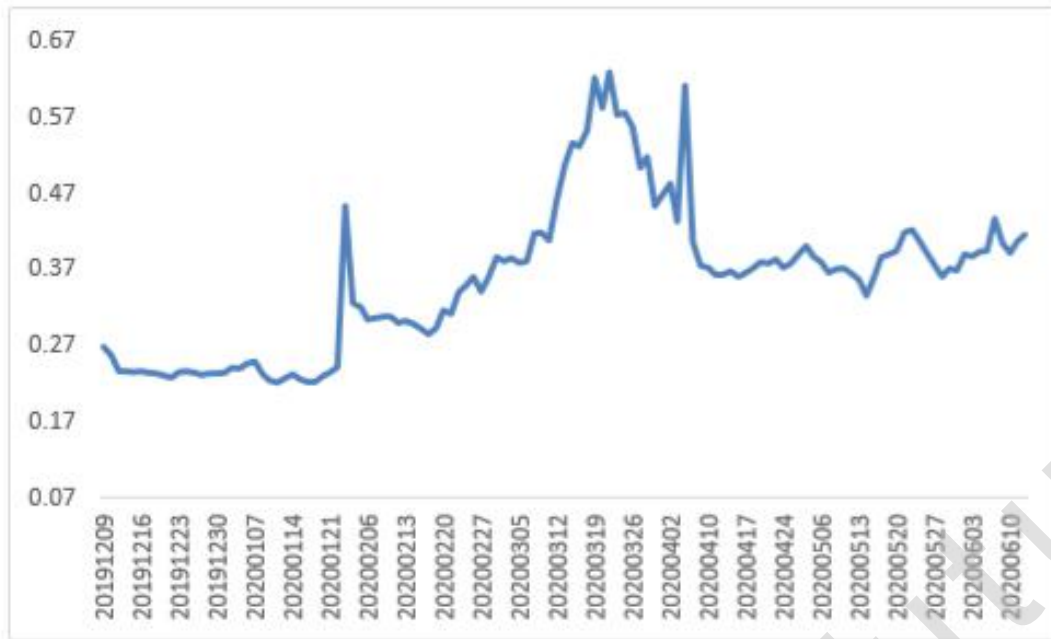


Chart: Implied volatility of iron ore options

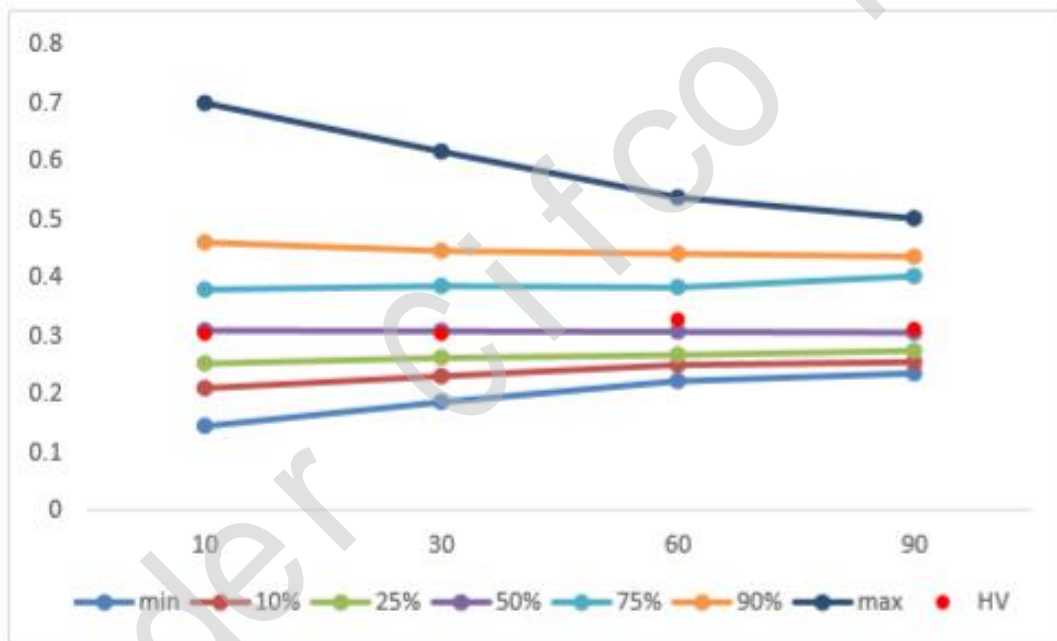


Chart: Volatility cones of iron ore options

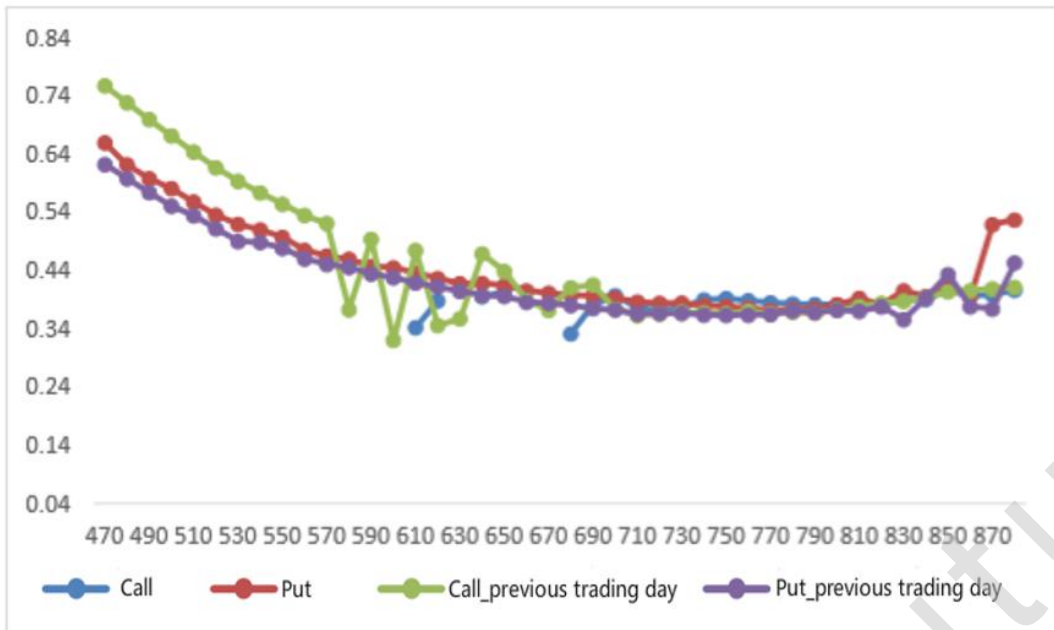


Chart: Implied volatility of nearby contract

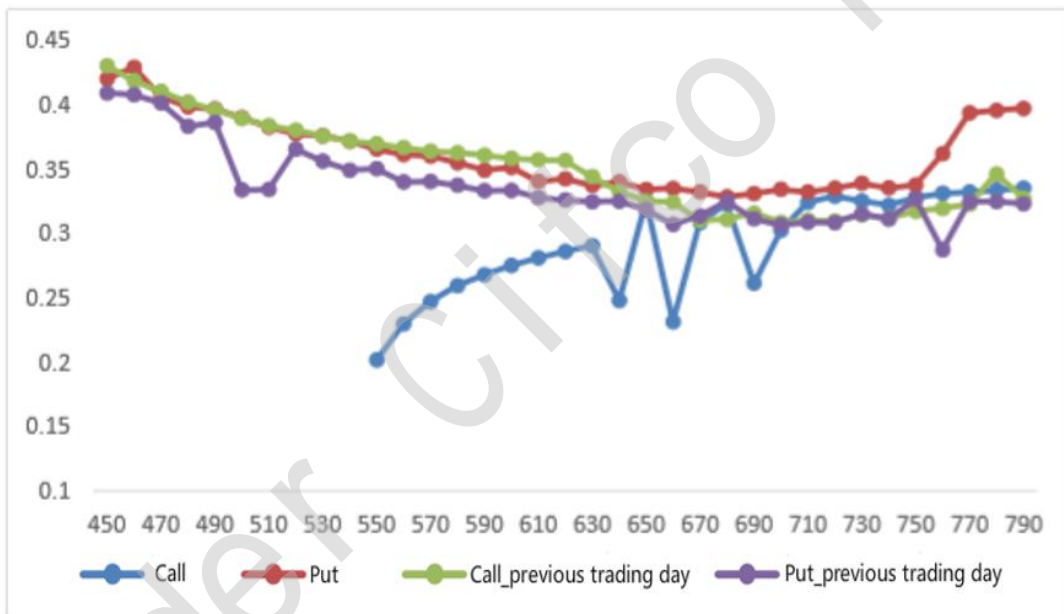


Chart: Implied volatility of forward contract

6.3 Options strategy

The implied volatility of iron ore options has increased recently and the recent rapid upward movement of iron ore futures has further increased the divergence in the market, and the subsequent volatility may rise again, which can be used to construct a long straddle strategy. The future prices will remain strong in the short term, there was still further upside space, so we think a bull spread strategy can be used.

I. Sell strangle options

买卖名称	手数	价格类型	价格	买价	卖价	HV60	IV	Delta	Gamma	Vega	Theta	合约乘数
买 铁矿石期权2009-C-790	1	卖出	48.5	43.9	48.5	33.23%	39.36%	0.5216	0.0033	1.2005	-0.4506	100
买 铁矿石期权2009-P-790	1	卖出	0.0	48.2	-	33.23%	38.94%	-0.4760	0.0033	1.2005	-0.4504	100

最大收益: +∞ 最大亏损: -9,900.58 区间最大收益: 6,099.42 区间最大亏损: -9,900.58
 总Delta: 4.6450 总Gamma: 0.6460 总Vega: 242.2845 总Theta: -89.4510

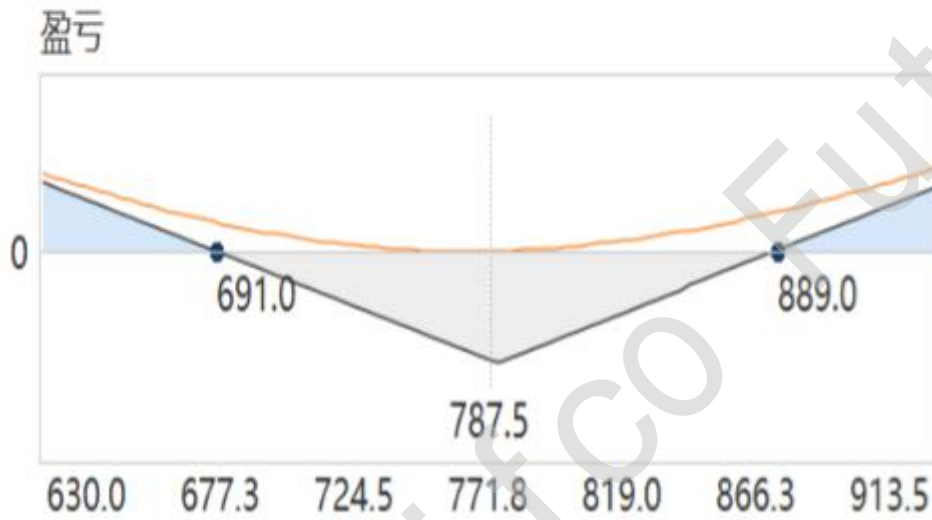


Chart: Break-even balance

II. Sell put options

买卖名称	手数	价格类型	价格	买价	卖价	HV60	N	Delta	Gamma	Vega	Theta	合约乘数
买 铁矿石期权2009-C-790 1	1	买价	48.5	43.9	48.5	33.23%	39.36%	0.5216	0.0033	1.2005	-0.4506	100
卖 铁矿石期权2009-C-820 1	1	买价	29.0	29.0	39.0	33.23%	39.39%	0.4266	0.0032	1.1751	-0.4433	100

最大收益: 1,050.00 最大亏损: -1,950.00 区间最大收益: 1,050.00 区间最大亏损: -1,950.00
 总Delta: 9.3949 总Gamma: 0.0054 总Vega: 2.5682 总Theta: -0.6855

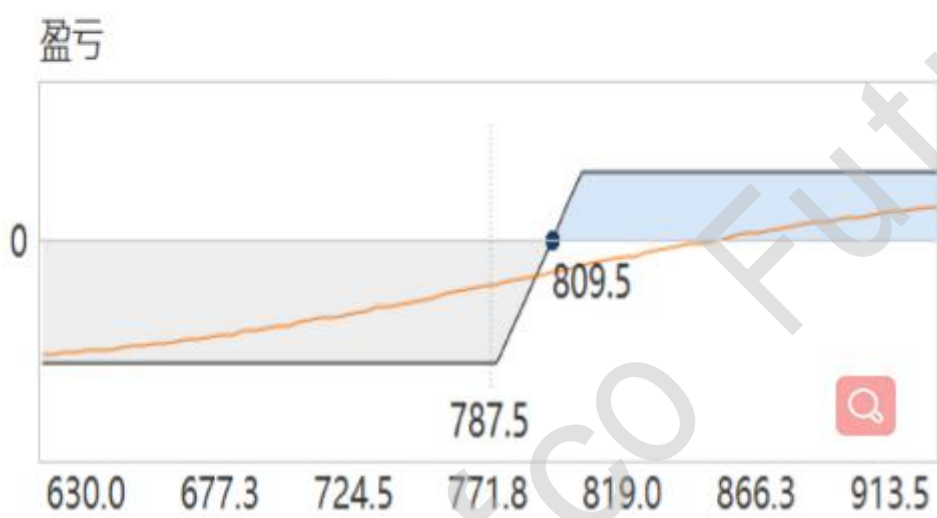


Chart: Break-even balance

VII. Open interests of top futures firms

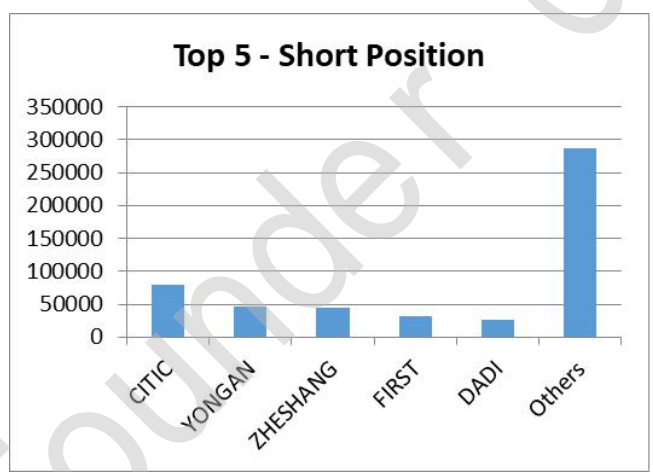


Chart: Top 5 of short positions

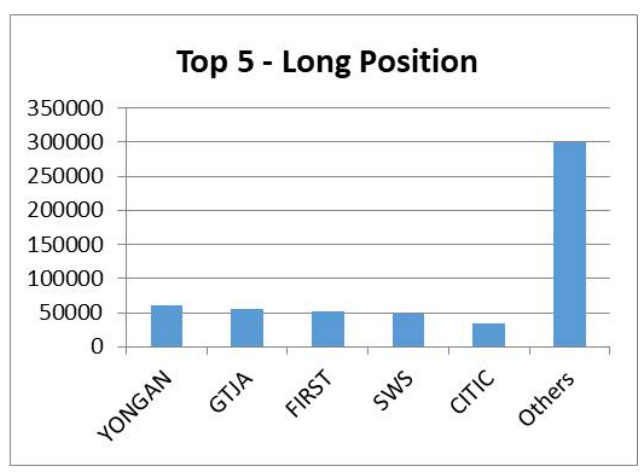


Chart: Top 5 of long positions

Source: Wind, Research Institute of Founder Cifco Futures

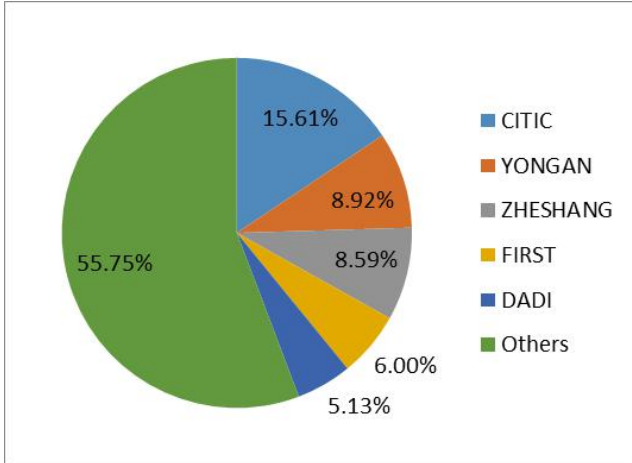


Chart: Short positions proportion

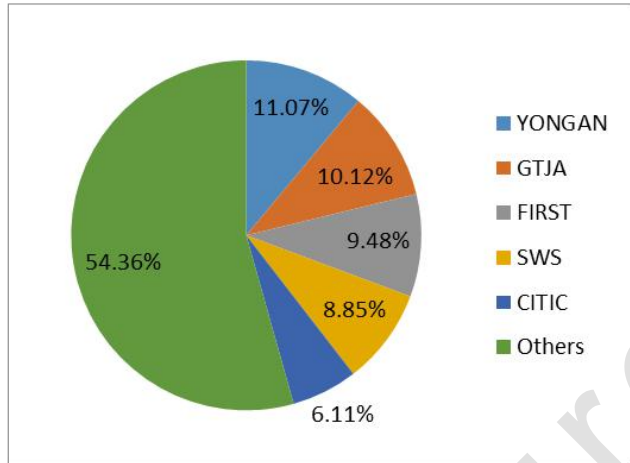


Chart: Long positions proportion

Source: Wind, Research Institute of Founder CIFCO Futures

行方正 以致远

FIND FOUNDER, FIND FUTURES

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