



Summary

- ▶ Spot iron ore prices enjoyed a period of relative stability through June on thin trade, as prices fluctuated around the US\$50/dry metric tonne basis. On average, prices were lower than in May, though appeared to again be rallying going into the current month.
- ▶ China imported 86.8 million tonnes of iron ore in May, according to the latest customs data. This was 3% higher than the April level and 16% higher than the same month of 2015. Iron ore exports from Port Hedland in June came in at a record 41.8m tonnes, boosted by rising output from new entrant Roy Hill.
- ▶ Steel market sentiment in China weakened as the rainy season began, hampering activity in end-user markets. The regular monthly survey of manufacturers in China by Caixin showed conditions deteriorating at the fastest rate in four months.
- ▶ Over 100 million tonnes of US\$-denominated iron ore swaps, options and futures were cleared in June, up 10% year-on-year. Open interest on Singapore Exchange (SGX), the bourse clearing the majority of trades, averaged more than 200 million tonnes.

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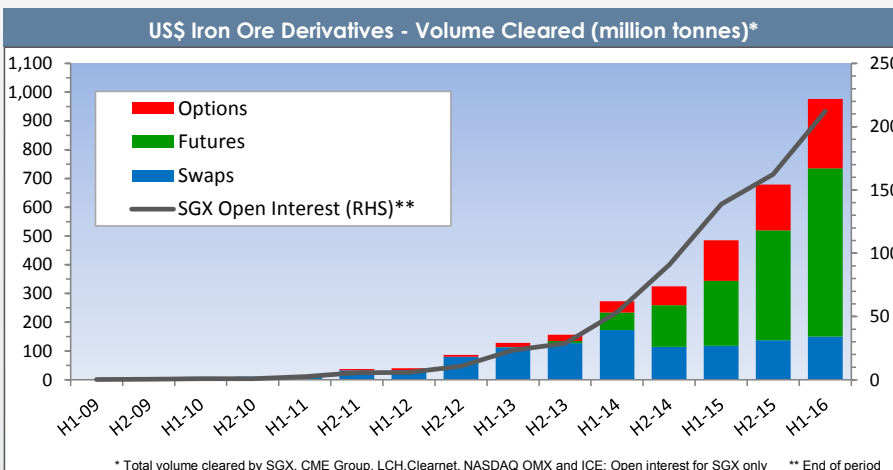
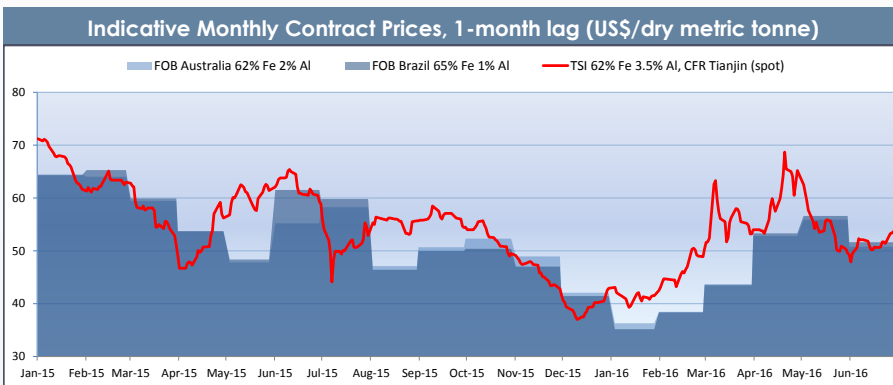
Prices

- ▶ Despite the lower monthly average, TSI's daily 62% Fe fines benchmark was generally on a flat to upwards trend through June, rising from US\$49.30/dmt CFR Tianjin port at the beginning of the month to US\$54.20/dmt by June 30.
- ▶ The June monthly average of TSI's 62% Fe fines benchmark price, used to settle derivatives contracts as well as monthly physical contracts, fell 5.7% from May to US\$51.36/dmt CFR Tianjin port.
- ▶ The June monthly average synthetic net-back price for 62% Fe fines with low alumina FOB West Australia port was US\$47.10/dmt, down 7.2% m-o-m.
- ▶ The average synthetic net-back price for 65% Fe fines FOB Brazil for the second quarter was US\$51.39/dmt, down 9.2% on the Q1 2016 average.

TSI Iron Ore Spot Reference Prices (US\$/dry metric tonne)					
Index	Chinese Port	June Averages		Q2 Averages*	
			m-o-m		q-o-q
62% Fe, 3.5% Al	CFRFO Tianjin	51.36	-5.7%	55.08	-7.5%
58% Fe, 1.5% Al	CFRFO Qingdao	43.06	-8.0%	47.52	-10.2%
62% Fe, 2% Al	CFRFO Qingdao	51.63	-5.8%	55.37	-7.5%
63.5/63% Fe, 3.5% Al	CFRFO Qingdao	52.36	-5.4%	55.94	-7.2%
65% Fe, 1% Al	CFRFO Qingdao	55.27	-7.3%	59.78	-7.5%

Indicative Net-back FOB Spot Prices (US\$/dry metric tonne) ^					
Pricing Point	Fe and Al Content	June Averages		Q2 Averages*	
			m-o-m		q-o-q
FOB West Australia	62% Fe, 2% Al	47.10	-7.2%	51.20	-8.4%
FOB Brazil	65% Fe, 1% Al	46.18	-10.5%	51.39	-9.2%

*Calendar quarter: April-June 2016
 ^Basis: TSI 62% Fe, low alumina (2% Al) series. FOB prices derived as net-backs from avg. Platts PC3 and PC5 rates



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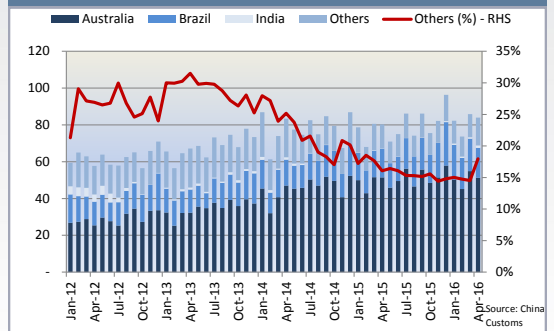
Supply

- Trade in the iron ore spot market thinned out further in June, with TSI recording just 33 fixed-price transactions last month. There were ten deals on the globalORE trading screen, six of which were on a floating price basis and the remainder fixed-price.
- China imported 86.8 million tonnes of iron ore in May, according to the latest customs data. This was 3% higher than the April level and 16% higher than the same month of 2015. For the second month in a row, imports of Indian iron ore came in above one million tonnes.
- Iron ore exports from Port Hedland in June came in at a record 41.8m tonnes, boosted by rising output from new entrant Roy Hill. The miner is targeting an annual capacity of 55m tonnes/year, and expects to be producing at an annualised rate of 40m t/y by the end of December this year.
- Low grade products have seen reduced demand amid increased availability of affordable medium-grade ore. Fortescue Metals Group, Australia's third-largest iron ore miner which only produces ores with under 60% Fe, last month increased its discount for contract customers for July loading cargoes. The discount for FMG's 56.7%-Fe Super Special Fines product rose to 12%, up from 8% for June-loading cargoes. For its 58.3%-Fe Fortescue Blend product, the discount widened to 10%, compared with 6% a month ago.
- Samarco, the beleaguered joint venture in Brazil between local mining giant Vale and Australia's BHP Billiton, is seeking a cash injection from its owners as it runs out of cash. It is no longer expected to resume operations at any point this year, after having suspended operations last year after a fatal disaster.
- Vale was meanwhile reported by Bloomberg to be in talks with Asian miners with a view to selling a minority stake in its business in a sale which may fetch as much as 7 billion dollars.
- Australian miner Rio Tinto will undergo a restructuring, which will see the departure of CEO Andrew Harding. The new setup will see its Canadian iron ore unit put under a diverse energy and minerals business group at its London headquarters, leaving the iron ore unit managing its main Pilbara operations.

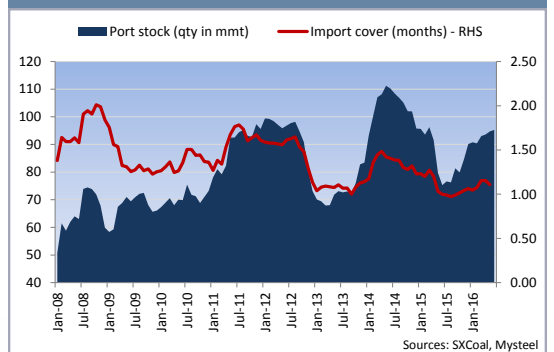
Demand

- Global crude steel production in May was 139.2 million tonnes, down by just 0.1% from the same month last year, the World Steel Association's latest figures for the 66 countries reporting to it revealed. That took total output for the first five months of 2016 to 658m tonnes, 2.2% below the 673m tonnes produced between January-May 2015.
- China's May production of 79.5 million tonnes was 1.8% more than in May 2015, and accounted for 50.7% of the world total. However, several mills began maintenance on their blast furnaces in June, traditionally a slow period for steel demand due to the rainy season. This was reflected in early data: according to the higher-frequency steel production reports from China Iron & Steel Association (CISA), daily output over the first 20 days of June dipped from May levels.
- Steel inventory continued the downward trend which started in March. Mysteel data showed rebar inventories in China's major cities were down a whopping 39% compared with late February. As inventories have continued to fall, Shanghai rebar prices gained RMB90/t (\$13.5/t) over June contained with the end of May.
- However, a number of indicators pointed to a softer steel market in June, despite the falling inventory. China's steel purchasing managers' index (PMI) registered a contraction again in June after two months of expansion, with the index compiler, CFLP Steel Logistics Professional Committee (CSLPC), marking the steel PMI down 5.8 basis points month-on-month to 45.1. A reading below 50 signifies contraction while above indicates expansion.
- A survey of steel market sentiment by Platts (the Platts China Steel Sentiment Index) meanwhile collapsed to a 16-month low, with most market participants expecting new steel orders and prices to weaken further over the next month. The PCSS showed a headline reading of just 15.92 out of a possible 100 points in June.
- Manufacturing activity meanwhile saw the sharpest deterioration in operating conditions in four months, with the Caxin manufacturing PMI slipping to 48.6 in June from 49.2.
- Two major state-owned Chinese steelmakers, Baosteel and Wuhan Iron & Steel (WISCO), announced joint restructuring plans. The two are expected to merge as the Chinese authorities put increasingly pressure on the country's steelmakers to consolidate and tackle overcapacity in the industry.

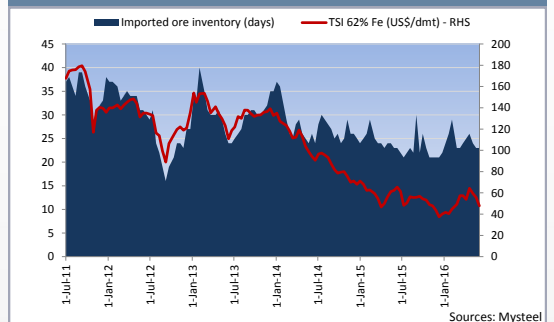
Iron ore imports into China by origin (million metric tonnes)



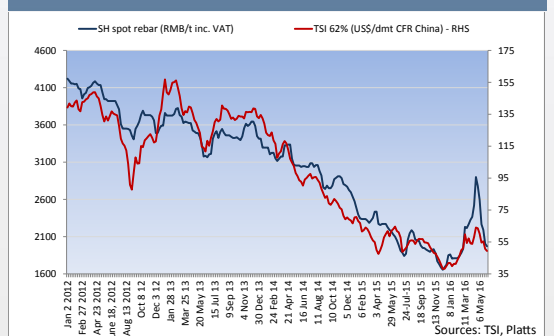
Iron ore port stocks in China (million metric tonnes)



Iron ore inventory at small & medium mills (days of use)



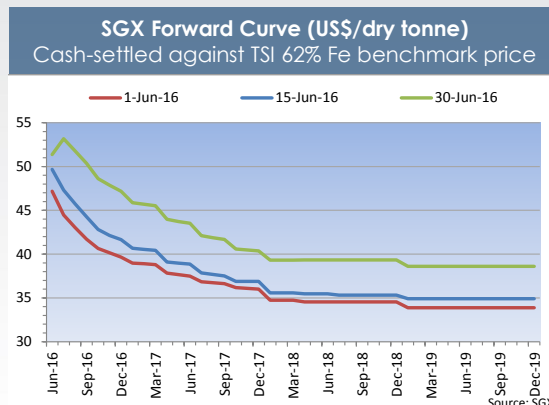
Chinese spot rebar prices vs. iron ore (RMB/tonne, US\$/dmt)





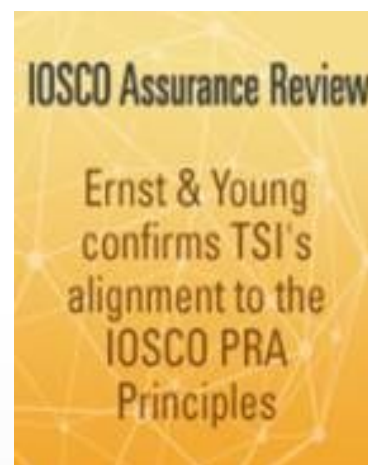
Derivatives

- ▶ In another month of relatively stable pricing and muted physical trade, iron ore derivatives trading saw a relatively slow month of trade. Still, over 100 million tonnes of iron ore swaps, options and futures were cleared in June. This represented a more than 10% increase on a year ago.
- ▶ Open interest in Singapore Exchange (SGX), which is home to around 90% of US\$ denominated trade in iron ore swaps, options and futures, averaged more than 200 million tonnes in June.
- ▶ Meanwhile, on the Chinese “on-shore” futures markets, trade in the physically settled iron ore contract on Dalian Commodities Exchange (DCE) fell 34% in June compared with May and down 28% on a year-ago.
- ▶ The forward curve firmed throughout the month, with the front month moving into contango in the final days of June as spot prices firmed.



Outlook...

- ▶ Steel prices in China performed relatively well in June, despite weakening sentiment and declining demand from end-users. Many market participants felt that the proposed tie-up between WISCO and Baosteel would result in a consolidation of production, which would help address the oversupply in the market which has until now always acted as a brake on steel price increases.
- ▶ However, the summer months in China tend to see a marked slowdown in demand, since the rain and heat lead to a slowdown in activity in construction activity. Last year's nadir for rebar prices in Shanghai was reached in July.
- ▶ The Indian authorities are reported to be mulling fresh curbs on exports of iron ore in order to protect domestic steelmakers. The entire policy regime for the raw material has been placed under review. India's steelmakers are already benefitting from minimum import price provisions for finished steel products, which have helped them weather the surge in Chinese exports that has depressed prices in much of the rest of the region.



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TSI Iron Ore Index

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TSI's iron ore index is used by the Singapore Exchange (SGX), CME Group (Chicago), LCH.Clearnet (London), NASDAQ OMX (Oslo), Intercontinental Exchange (ICE) and European Energy Exchange (EEX) for settling monthly iron ore financial contracts.

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