Weekly Wrap 28 April 2023 –

The market's outlook for iron ore & steel demand

Thank you for joining us this Friday the 28th April, I'm Sophia Mavridis, a Market Analyst with Bell Direct and this is your weekly market update.

Well, as China emerged from lengthy COVID-19 restrictions earlier this year, iron ore miners rallied on the local stock market as the demand outlook from the leading iron ore importing country became strong again. Fast forward to this month and the outlook isn't so bright, with the price of iron ore diving 11.5% this week to US$107.50 per tonne, the lowest level since December last year.

China's reopening hasn't quite lived up to global expectations, and a ramp up to full operational capacity in the region hasn't happened as fast as expected either. In a meeting this week China Iron and Steel Association officials allegedly told Chinese mills to cut output. China's steel mills are already losing money and cutting output in a bid to stabilise cash flow as the domestic prices of steel have sunk in recent times.

China's crippling property market is also weighing on iron ore demand, with the largest demand driver for steelmaking in China still struggling through recovery mode. Iron ore prices declined this week, amid a weaker-than-expected start to China's construction season, which runs from April to June. Developers in the region are focused on completing existing projects rather than taking on new ones which has added to the dampened demand for iron ore and metals during the time of the year that would traditionally be booming for commodity demand in China.

So how does this impact local Australian miners?

Well, one stock to look at is Mineral Resources. This week we saw Mineral Resources (ASX:MIN) cut production volume guidance for FY23 from 270-280 million tonnes of iron ore to 245-255 million tonnes amid drying up contracts, labour constraints and new projects still being in the approval stages. This saw the MIN share price drop over 14% over the last 5-days.

This morning Bell Potter reduced their target price by 5% to $95, and maintained their Buy rating on the stock.

Taking a look now at the market's performance this week so far.

The ASX200 has dropped 0.5% Monday to Thursday, as the materials sector weighed down on the market the most, dropping 2.2%. Financials, consumer discretionary and utilities are also lower, while communication services and industrials advanced.

The biggest mover on the ASX200 this week was Blackmores (ASX:BKL) gaining an impressive 20%, boosted by news of a $1.9 billion takeover bid. Japanese beer giant Kirin is set to buy the Australian vitamin brand for $95 per share, less any special dividend declared prior to its implementation. If the takeover proceeds, Blackmores will declare a fully franked special dividend of $3.34 per share.

On the losing end, Syrah Resources (ASX:SYR) declined over 16% this week, after the company released its quarterly update, reporting flat quarter-on-quarter natural graphite sales, as well as disappointing operating performance of its Balama operation. Meanwhile, Invocare (ASX:IVC), Mineral Resources (ASX:MIN), Imugene (ASX:IMU), Champion Iron (ASX:CIA) and South32 (ASX:S32) are also in the red this week.

And on the All Ords, the best performing stocks were Symbio Holdings (ASX:SYM), Kogan (ASX:KGN) and Blackmores (ASX:BKL), while stocks that declined the most were Tigers Realm Coal (ASX:TIG) and Synlait Milk (ASX:SM1).

The most traded stock by Bell Direct clients this week was the Bank of Queensland (ASX:BOQ), which hit a new 52-week low on Thursday at $5.78 – the lowest the stock has been since October 2020. BOQ's share price has not had a great run as of late, down 14% year-to-date. New York listed peer First Republic Bank is down over 50% this week, which may have had some influence.

Meanwhile, the other most traded stocks by Bell Direct clients this week were BHP, Western Mines Group (ASX:WMG) and Pilbara Minerals (ASX:PLS).

Clients also bought into Rio Tinto (ASX:RIO), South32 (ASX:S32) and Fortescue Metals (ASX:FMG), while took profits from National Storage (ASX:NSR), Macquarie Group (ASX:MQG) and Core Lithium (ASX:CXO).

And the most traded ETFs this week were from Betashares, including their Australian Strong Bear hedge fund, their Geared Australian Equity hedge fund, and their US equities strong bear hedge fund.

And to end, economic data to watch out for next week:

Tuesday will be the first Tuesday of a new month, which means the RBA will meet again, and will announce the next cash rate decision. After remaining unchanged at 3.6% in April, the cash rate is expected to lift on Tuesday to 3.85%. On Wednesday, retail sales data for March will be released, on Thursday balance of trade data for March will be out, and on Friday, the RBA will provide a statement on monetary policy.

And that's all for this week. I'm Sophia Mavridis with Bell Direct. Have a great day and happy trading!

- Sophia Mavridis, Market Analyst