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# Metals & Mining

## Straight out of the Blast Furnace: Week 1, July 2024

**LatAm Metals & Mining**

### Main takeaways on China:

**(i) Official industrial PMI** measured by the NBS in yet another month in the contraction zone, flat m/m at 49.5pts; **(ii)** According to data from Caixin, in June activity in China's industrial sector grew at the fastest pace since May 2021. The manufacturing PMI measured by Caixin rose to 51.8pts (+0.1pt m/m); **(iii)** Some important sub-indexes remain in the contraction zone of the NBS measurement, including the volume of raw material purchases, which fell for the second time in a row, reaching 48.1pts (-1.2pt m/m). This indicator, therefore, does not favor sentiment in the steel and iron ore industry; **(iv) Housing:** The government's willingness policy of buying up housing inventory has reached medium-sized cities; **(v)** Beijing has reduced down payment requirements by -10p.p, to 20% for first buyers and 35% for second homes in urban areas, with a drop of -5p.p (or 30% in non-urban areas), in line with easing measures in other Tier I cities; **(vi)** In the first 23 days of June, new home sales fell -28% y/y, indicating a still fragile environment; **(vii)** In 33 smaller cities, new home sales fell -31% y/y in the first 23 days of June, despite a slight increase of +3% m/m; **(viii)** Recovery in home sales is concentrated in larger cities (Tier I), even favoring the increase in launches, which reached 4.7k units in the week (+8% w/w). In the first 23 days of June, there were sequential increases in the sales rate of +33% m/m to +39% m/m in cities such as Shenzhen, Guangzhou, and Hangzhou; **(ix) Iron ore:** Traders are closely monitoring possible expansions of PBoC-funded support for the housing market, following the improvement in home sales indicators in Tier I cities. The 62% Fe iron ore futures contract for July closed last week at ~US$117/t in Dalian, +4% vs. 2 previous sessions. For the August contract, prices are at ~US$115/t. The spot price closed at ~US$107/t, up +6% y/y; **(x) Steel:** Stocks held by traders and in steel mills continue to rise. Chinese steel mills recorded an increase of +2.3% w/w in steel inventories at the close of June 28, reaching ~5.5Mt. Meanwhile, the volume of steel held by traders in China increased for the fourth consecutive week, rising +0.4% w/w to reach 21Mt; **(xi) Blast furnace utilization rate** fails to sustain last week's rise and falls again. Production at blast furnace (BF) steel mills fell due to maintenance stoppages and lower profit margins (higher coke prices). During the week, the capacity utilization rate at the ~240 steel mills we monitor fell to 89.13% (-0.63p.p w/w), reflecting a drop in daily hot metal production to 2.39Mt/day (-0.2% w/w).

We present another edition of our **weekly report** on the **Metals & Mining** sector for week 1 of July 2024, based on data from the week prior to publication (**from June 21 to 28**). We continue to update the market on **important indicators** for monitoring the **fundamentals of steel supply and demand in China** and, consequently, **iron ore** in the seaborne system. We have also added a **chapter on Brazil** (page11), indicating market sentiment as well as domestic steel premium dynamics for long and flat steel benchmarks vs. imported prices.

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**Companies**

**VALE US Equity**
**Buy**

**Price:** US$ 11.37 (03-Jul-2024)
**Target Price 12M:** US$ 14.50 (NYSE)

**VALE3 BZ Equity**
**Target Price 12M:** R$ 78.50 (B3)

**CMIN3 BZ Equity**
**Buy**

**Price:** R$ 5.49 (03-Jul-2024)
**Target Price 12M:** R$ 6.00

**GGBR4 BZ Equity**
**Buy**

**Price:** R$ 18.34 (03-Jul-2024)
**Target Price 12M:** R$ 23.40

**CSNA3 BZ Equity**
**Neutral**

**Price:** R$ 13.29 (03-Jul-2024)
**Target Price 12M:** R$ 15.50

**USIM5 BZ Equity**
**Neutral**

**Price:** R$ 8.07 (03-Jul-2024)
**Target Price 12M:** R$ 8.70

# China

## Macroeconomics

**Industrial sector grows income, with a slow but ongoing recovery.** We see China's industrial sector with gross profits growing +3.4% y/y, reaching ¥2.75 trillion (~US$380bn) in the first 5M of 2024. In May alone, profits rose +0.7% y/y. Among 41 sub-sectors, 32 recorded year-on-year increases. The electricity production and supply sub-sector, within the infrastructure machinery segment, led gross profits with ¥272bn (~US$37bn), an increase of +35% y/y.

**Official manufacturing PMI in another month of contraction.** China's official industrial PMI for June, calculated by the NBS (China Bureau of Statistics) and released on July 1, stood at 49.5pts (flat vs. May). Among the highlights, the production sub-index remained above the 50pts threshold, but still fell -0.1pt m/m to stand at 50.5pts. According to data from Caixin, in June, activity in China's industrial sector grew at the fastest pace since May 2021. The manufacturing PMI measured by Caixin rose to 51.8pts, an increase of +0.1pt m/m. This indicates expansion, although manufacturers have become less optimistic about the outlook.

**Table 1. PMI China (July-24, ref Jun)**

| | jun/24 | Zone | Δ m/m | Δ y/y |
|---|---|---|---|---|
| **Manufacturing PMI Oficial** | **49.5** | **Contraction** | **0.0pt** | **-3.1pt** |
| Manufacturing PMI Caixin | 51.8 | Expansion | 0.1pt | 1.3pt |
| New Orders PMI | 49.5 | Contraction | -0.1pt | 0.9pt |
| PMI Output Index | 50.5 | Expansion | -0.5pt | -1.8pt |
| Non-Manufacturing | 50.5 | Expansion | 0.6pt | -2.7pt |

*Source: Bloomberg, Genial Investimentos*

### Our take on macroeconomics

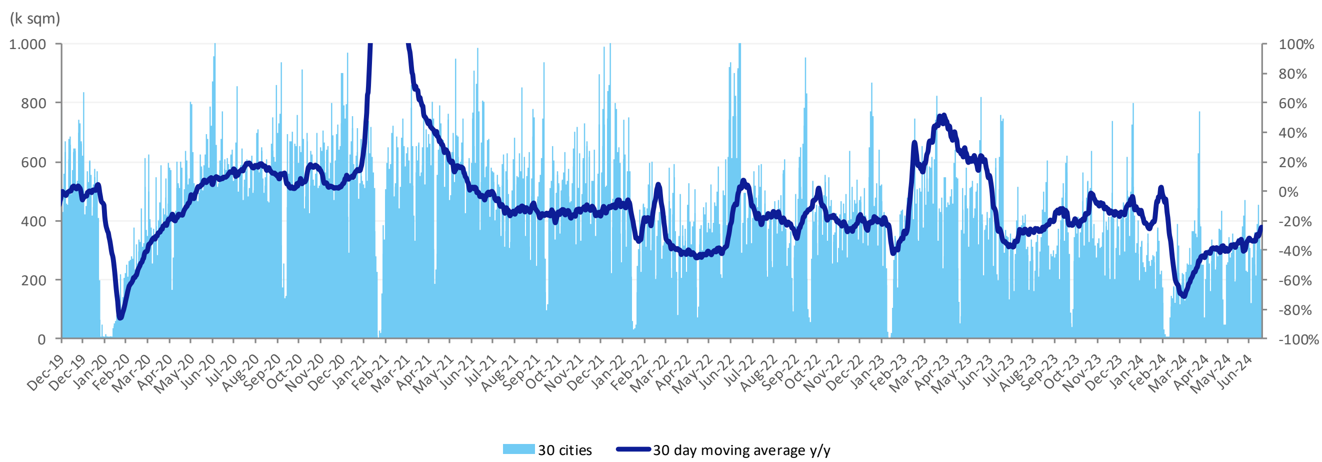
Even with production above the 50pt limit measured by the NBS, some important sub-indexes remain in the contraction zone, including the volume of raw material purchases, which fell for the second time in a row, reaching 48.1pts (-1.2pt m/m). This sub-index includes the purchase of metals for the manufacture of durable goods in the downstream segments. This indicator therefore does not favor sentiment in the steel and iron ore industry.

We would point out that it has become common for the readings measured by Caixin to be higher than the official PMI measured by the NBS, since Caixin considers a higher weighting than the NBS for exporting companies in its survey. This is in line with our thesis that China is exporting a greater volume of durable goods to try to compensate for weaker domestic demand. So, real industrial activity is probably stronger than the official NBS data suggests. The export index will be released on July 11 (for June). Last month (May), growth was +7.6% y/y. We expect +5% y/y for June.

## Policy updates and market sentiment

**Government policy attempt to buy up housing inventory reaches medium-sized cities.** China's Ministry of Housing released a statement last week encouraging cities at the county level to buy unsold homes to reduce inventory, expanding the policy that was announced in May beyond large cities (Tier I). Local governments must consider the demand for affordable housing and the levels of housing stock, buying properties to rent out at low cost. It is not yet clear how the government will buy this inventory. We believe that it will be partly made possible through LGFVs, supported by the lots totaling ¥1 trillion (~US$138bn) in government-issued bonds (we commented on this in last week's edition of the report).

**Graph 1. Daily sales of primary housing (30 major cities)**



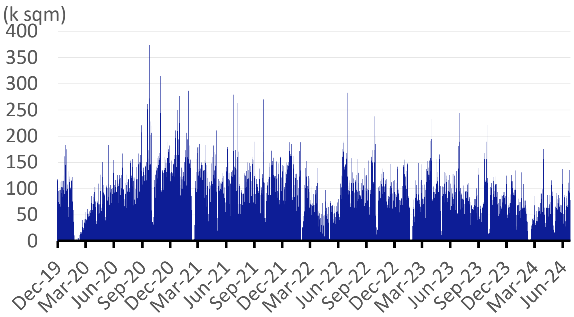

| | 12-Jun-24 | 13-Jun-24 | 14-Jun-24 | 15-Jun-24 | 16-Jun-24 | 17-Jun-24 | 18-Jun-24 | 19-Jun-24 | 20-Jun-24 | 21-Jun-24 | 22-Jun-24 | 23-Jun-24 | 24-Jun-24 | 25-Jun-24 | Average |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| GFA sold (k sqm) | 325 | 326 | 360 | 253 | 213 | 299 | 390 | 377 | 454 | 340 | 305 | 277 | 349 | 453 | 337 |
| Daily y/y | -19% | -31% | -19% | -46% | -13% | 37% | -5% | -35% | -26% | 57% | 55% | 54% | -31% | -27% | |
| 30d MA y/y | -34% | -33% | -33% | -34% | -33% | -31% | -29% | -30% | -30% | -29% | -27% | -26% | -24% | -24% | |

*Source: Wind, Genial Investimentos*

## Our take on policy updates and market sentiment

The central government authorized each province to relax the requirements for down payments on mortgages in May. Beijing has therefore aligned itself in recent weeks with other Tier I cities such as Shanghai, Shenzhen and Guangzhou, and data has started to come out more positively amid the collapse of the sector. This initiative is part of a wider ¥300bn (~US$41bn) financing package for the purchase of unsold homes, which could boost residential real estate transactions and reinvigorate domestic steel demand somewhat. As we commented above, this package seems to us to be linked to the structuring of LGFVs, supported by the issuance of lots totaling ¥1 trillion (~US$138bn). Daily primary transactions on June 27 (7-day moving average) increased by +25% in Shanghai, +51% in Guangzhou and +40% in Shenzhen after the policy easing on May 27 (all Tier I cities).

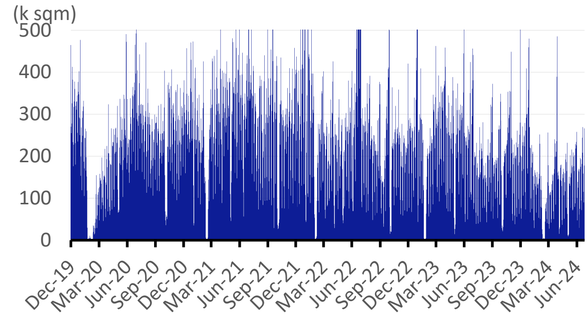
### Graph 2. Daily sales of primary housing GFA (Tier 1)




| | 21-Jun | 22-Jun | 23-Jun | 24-Jun | 25-Jun | Average |
|---|---|---|---|---|---|---|
| GFA sold (k sqm) | 109 | 136 | 93 | 97 | 78 | 102 |
| Daily y/y | 98% | 161% | 73% | -1% | -43% | 57% |

*Source: Wind, Genial Investimentos*

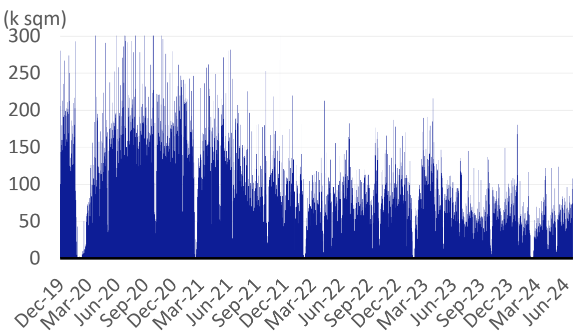
### Graph 3. Daily sales of primary housing GFA (Tier 2)




| | 21-Jun | 22-Jun | 23-Jun | 24-Jun | 25-Jun | Average |
|---|---|---|---|---|---|---|
| GFA sold (k sqm) | 159 | 115 | 91 | 178 | 267 | 162 |
| Daily y/y | 38% | 6% | -6% | -36% | | 1% |

*Source: Wind, Genial Investimentos*

### Graph 4. Daily sales of primary housing GFA (Tier 3)




| | 21-Jun | 22-Jun | 23-Jun | 24-Jun | 25-Jun | Average |
|---|---|---|---|---|---|---|
| GFA sold (k sqm) | 72 | 54 | 94 | 74 | 108 | 80 |
| Daily y/y | 54% | 51% | 213% | -44% | -8% | 53% |

*Source: Wind, Genial Investimentos*

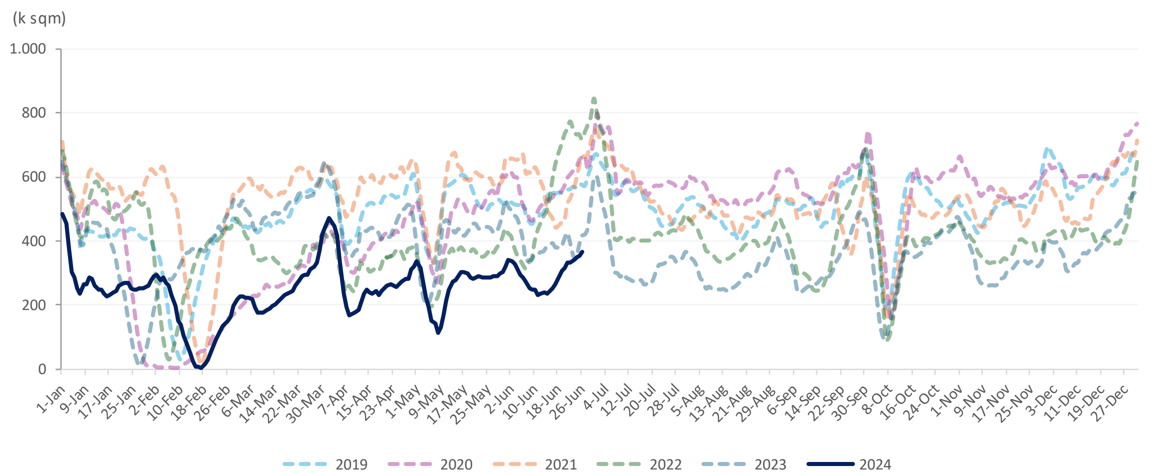
Nevertheless, even though the sector showed improvements in June, the challenges seem very serious to us, with new home sales falling -23.6% y/y and property investment shrinking -10.1% y/y in the 5M accumulated (Jan-May). Our take is that the easing of policy at local government level could create an improvement in the figures for Tier I cities lasting 9 to 12 weeks, effective from early June data.

## Real Estate

**Stimulus in large cities may worsen the buyer sentiment hierarchy for smaller cities.** Our biggest concern, however, is that the stimulus in larger cities ends up further "hollowing out" the priority hierarchy of buyer sentiment for small and medium-sized cities, which were already in the background of new buyer momentum even before the measures. Although the figures do represent an improvement for Tier I cities, to go beyond that, the recovery still depends on the details of the local government's acquisition of inventory (information has not yet been released), which would now move on to medium-sized cities. As a result, the market sentiment for increased steel demand today is "wait and see".

**Beijing was one of the last major cities to embrace the relaxation.** Beijing reduced payment requirements by -10p.p, to 20% for first buyers and 35% for second homes in urban areas, with a drop of -5p.p (or 30% in non-urban areas), in line with easing measures in other Tier I cities. This follows the central government's plan to tackle the housing crisis. Although Beijing's rules now favor families with 2 plus+ children, skepticism persists due to the PBoC's minimal funding (which seems to us to be an obstacle, as we commented last week) and the slow progress of the social housing programs being tested. For example, despite similar measures, primary sales of new homes in Shanghai rose by only +8% in the first 23 days of June, far from ideal to compensate for the total of the 70 largest cities reaching a contraction of -9% y/y in the weekly analysis.

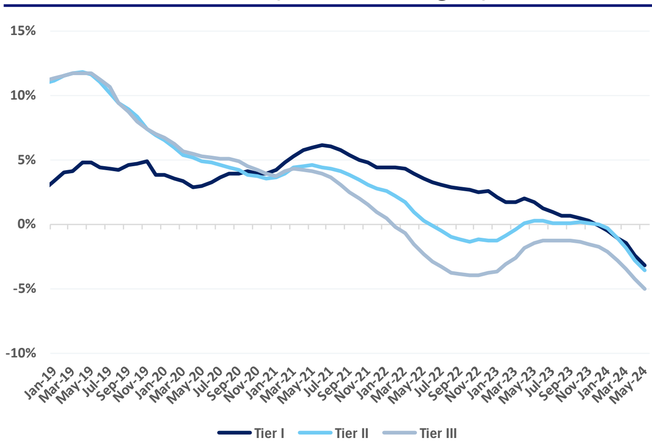
### Graph 5. Daily primary housing GFA sales (30 major cities / 7 days Moving Average)




| | 13-Jun | 14-Jun | 15-Jun | 16-Jun | 17-Jun | 18-Jun | 19-Jun | 20-Jun | 21-Jun | 22-Jun | 23-Jun | Average |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| GFA sold (k sqm) | 325,7 | 359,7 | 252,5 | 212,7 | 298,6 | 389,6 | 377,1 | 454,3 | 340,2 | 305,2 | 277,3 | 327 |
| Daily y/y | -31% | -19% | -46% | -13% | 37% | -5% | -35% | -26% | 57% | 55% | 54% | |
| 7d Moving Average y/y | -39% | -37% | -35% | -30% | -23% | -19% | -22% | -21% | -16% | -4% | 1% | |

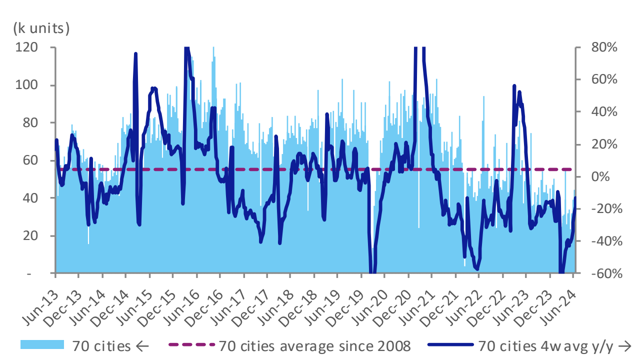
*Source: Wind, Genial Investimentos*

### Graph 6. Price of newly built housing (by Tier)




*Source: Wind, Genial Investimentos*

### Graph 7. Weekly primary housing sales (70 major cities)

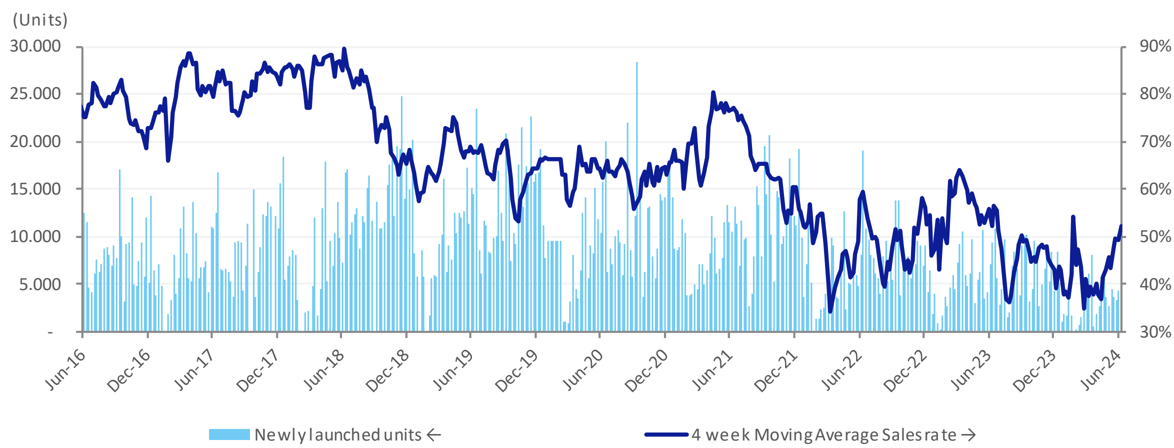



| | 20-May | 27-May | 3-Jun | 10-Jun | 17-Jun | 24-Jun |
|---|---|---|---|---|---|---|
| Units sold | 33.413 | 41.770 | 44.684 | 39.543 | 36.664 | 42.724 |
| Weekly y/y | -34% | -23% | -13% | -9% | -21% | -9% |

*Source: Wind, Genial Investimentos*

**Contracted sales are still expected to fall, even with the easing measures.** As June draws to a close, we expect Chinese developers to face a -30% y/y drop in contracted sales (last year's figures was already weak). Although new mortgage easing policies were introduced from mid-May, our perception is that they have not significantly increased demand for real estate, especially in Tier III cities. On the other hand, the recovery in home sales concentrated in larger cities (Tier I) is already a reality, even favoring the increase in launches, which reached 4,7k in the week (+8% w/w). In the first 23 days of June, we found sequential increases in the sales rate of +33% m/m to +39% m/m in cities such as Shenzhen, Guangzhou and Hangzhou, in contrast to an increase of only +3% m/m in smaller cities. The weekly average in the 9 largest cities totaled 52% (+3p.p w/w).

**Graph 8. Weekly housing launches and sales rate (9 major cities)**




| | 28-Apr-24 | 5-May-24 | 12-May-24 | 19-May-24 | 26-May-24 | 2-Jun-24 | 9-Jun-24 | 16-Jun-24 | 23-Jun-24 |
|---|---|---|---|---|---|---|---|---|---|
| Weekly new launch (units) | 5.215 | 5.578 | 3.640 | 2.636 | 4.536 | 3.626 | 3.322 | 4.355 | 4.711 |
| Sales rate | 37% | 42% | 43% | 46% | 43% | 48% | 50% | 49% | 52% |

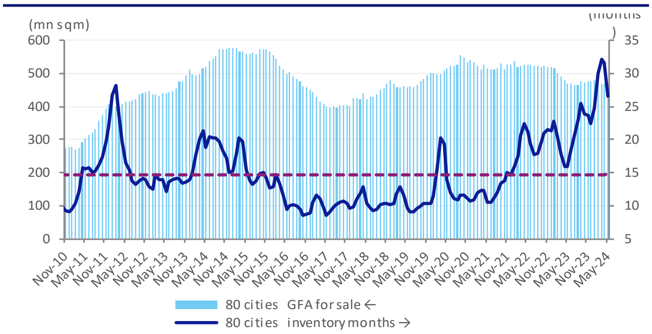
Note: The 9 major cities analised are Guangzhou, Shanghai, Shenzhen, Chengdu, Chongqing, Hangzhou, Nanjing, Wuhan and Suzhou.

*Source: CREIS, Genial Investimentos*

**We've been talking for some time; the big deadlock is in smaller cities.** Medium and small cities (Tier II and III) contribute with ~2/3 of total new home sales in China. As the improvement in sales performance is focused on Tier I cities, we believe that eventually data from smaller cities will provide reasons for market sentiment to remain bearish, due to oversupply and slowing demand.

**Months of inventory in smaller cities is the most worrying indicator.** In 33 smaller cities, new home sales fell -31% y/y in the first 23 days of June, despite a slight increase of +3% m/m. The mid-year increase was soft and typical for the seasonal period, even with reduced mortgage rates and down payment ratios. This could particularly affect developers such as Country Garden, Seazen and Agile, who have significant landbanks in these smaller towns. So even though the months needed to clear the housing inventory is actually decreasing in the consolidated 80 largest cities, when we look at Tier III cities, the number is still +2x the average of the last 10 years.

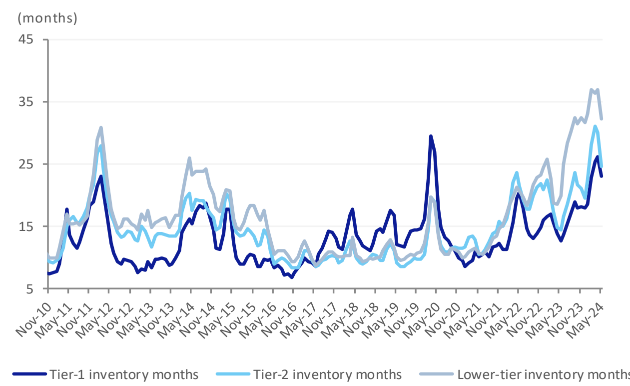
**Graph 9. Inventory months (80 major cities)**




| | Dec-23 | Jan-24 | Feb-24 | Mar-24 | Apr-24 | May-24 |
|---|---|---|---|---|---|---|
| Inventory months | 22,4 | 24,8 | 30,1 | 32,1 | 31,7 | 26,6 |
| GFA for sale (m sqm) | 475,2 | 478,6 | 477,7 | 470,6 | 469,7 | 466,6 |

*Source: CRIC, Genial Investimentos*

**Graph 10. Inventory months (By city tier)**




*Source: CRIC, Genial Investimentos*

**Focus on larger cities obscures the real obstacle to overcoming the crisis.** Stimulus efforts in China may favor large cities over smaller ones, which poses a challenge for Longfor (top 6 among China's largest developers), for example, with 67% of its land in less populated Tier III and Tier II cities. As we have already mentioned, we believe it is likely that relaxed purchase restrictions will shift demand to larger cities even further, and large properties may not meet the size criteria for social housing.

**Developers focused on smaller cities will continue to face falling prices.** Our take is that Longfor and Agile (among others focused on the low tier) will need to offer greater discounts on properties launched in order to clear inventory, which was evidenced by a -15% m/m drop in May, to ¥11.8K/sqm. Despite this, Longfor recorded a moderate decline in sales of -4% m/m in May, compared to -16% m/m in April. Weak pricing power could result in an anemic gross margin for the year.

**Stock index of real estate developers continues to suffer.** The indicator that tracks the shares of China's main real estate developers felt -1.1% last Thursday (June 27), extending this year's decline to -15%. Beijing faces the worst oversupply of housing among the 30 major cities monitored, with inventory needing 48.9 months to sell. New home prices in Beijing fell -1.1% in May, the worst drop in almost a decade. Policymakers are calling for "creative and bold" measures to deal with more than 60mn unsold homes nationwide, which would take at least 4 years without any launches taking place in that period to clear the inventory (excluding government aid).

## Steel and Iron Ore

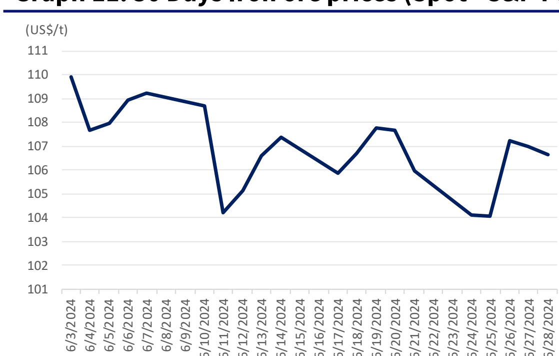
**Steel: Domestic demand still weak due to seasonality, with "wait and see" sentiment.** Last week, steel prices on the spot market fluctuated due to high temperatures and the rainy season (low seasonal demand), with transactions focused on low-price sales. The upward pressure on pig iron production is noticeable. In the short term, we expect that steel prices may come under pressure from increased supply without domestic demand. For the time being, the "wait and see" sentiment has ensured a certain stability. For example, the price of square billet in Tangshan closed the week at ~¥3,300/t (~US$455/t), unchanged y/y. Daily billet production among the 25 Tangshan steel mills we monitor was 43.3Kt/day between June 21 and 28 (+3% y/y). Some mills increased production due to improved sales (durable goods for export), but most kept production stable.

**Inputs: Scrap prices continue to slow and coal mines resume production.** The fall in steel scrap prices in China (which began at the end of May) persisted last week, driven by still-weak domestic demand from steel mills. The national composite steel scrap price fell to ¥2,805/t (~US$386/t) on June 28 (-1% y/y). Meanwhile, operating rates at 110 coking coal washing plants increased by +2.4p.p, reaching an average of ~69% between June 22 and 26, hitting a three-week high. According to our interpretation, this recovery was partly due to the resumption of production at the coking coal mines in the city of Yan'an, which had temporarily halted operations during President Xi Jinping's visit.

**Inputs: Coke producers' margins begin to rise.** Production at China's coke plants increased slightly as profits improved. In the week of June 21-28, total metallurgical coke production rebounded by 600t/day to an average of 537t/per day at the 230 producers we follow, driven by increased activity at coal mines. Although the increase is still modest, we believe that the advances in coke producers' margins promoted incentives for slightly higher production during the week, especially after they had just won the first price increase from their steel customers for this month.

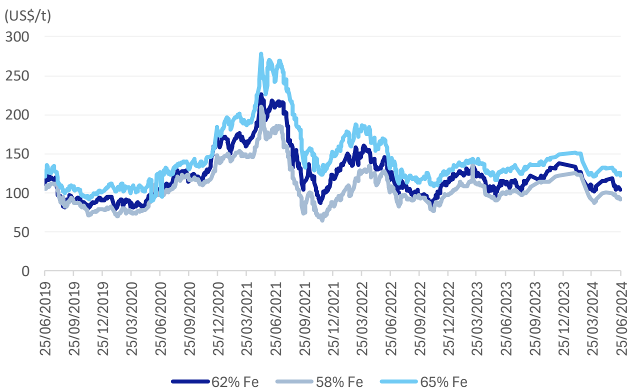
**Iron ore: Prices rebound, boosted by house sales data.** Traders are closely monitoring possible expansions of PBoC-funded support for the real estate market, following the improvement in home sales indicators in Tier I cities. Therefore, we see increased expectations for the Politiburo meeting section, which takes place at the beginning of the 2H. The 62% Fe iron ore futures contract for July closed last week at ~US$117/t in Dalian, +4% vs. 2 previous sessions. For the August contract, prices are at ~US$115/t. The spot price closed at ~US$107/t, up +6% w/w.

**Graph 11. 30 Days Iron ore prices (Spot - S&P Platts)**



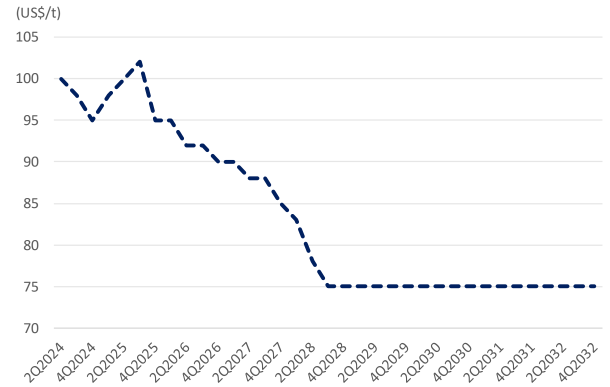

*Source: S&P Platts, Genial Investimentos*

### Graph 12. Iron ore price (Spot - S&P Platts)




*Source: S&P Platts, Genial Investimentos*

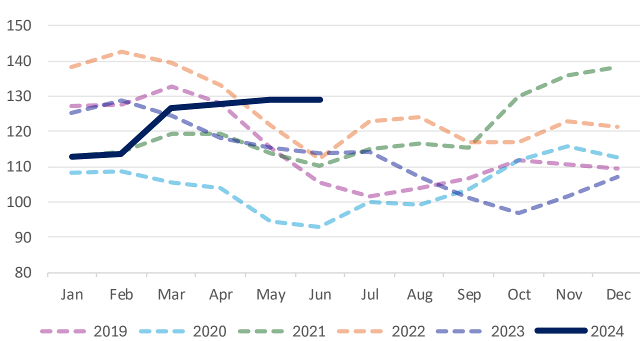
### Graph 13. Iron ore price (Genial Est. 24-32E)




*Source: CRIC, Genial Investimentos*

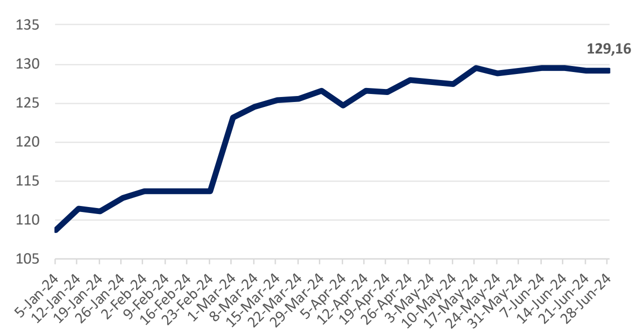
**Iron ore: Real estate market data gives relief, but port inventory levels worry.** After 2 weeks of declines, stocks of imported iron ore at the 40 Chinese ports we follow rose slightly by +0.3% w/w to 129Mt. This volume is 14% higher than in the same period in 2023. As we had already identified in last week's report, we believe that the breach of the 5-year level at the beginning of June is due to the boost in iron ore cargo arrivals at the ports vs. a lower discharge rate due to weak domestic demand. Shipments arrivals between June 21 and 28 increased by +2.7Mt (+12% w/w) to 24.7Mt, with Australian miners recovering and Brazilian miners continuing their strong pace since the beginning of the year. Although they reinforce the operationally positive side of the mining companies, the accumulation of supply at the ports should cause the price to fall back.

### Graph 14. Iron ore port inventory vs. 5Y (Mt)




*Source: Bloomberg, Genial Investimentos*

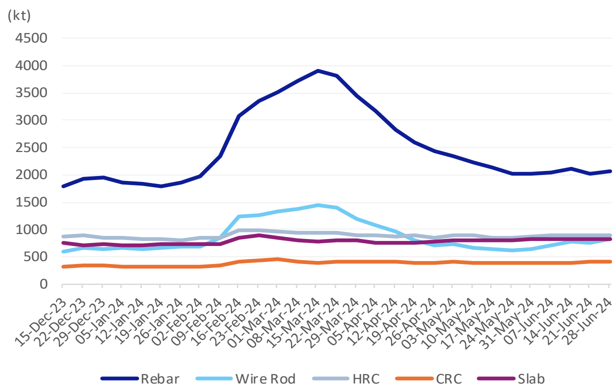
### Graph 15. Iron ore port inventory 2024 (Mt)




*Source: Bloomberg, Genial Investimentos*

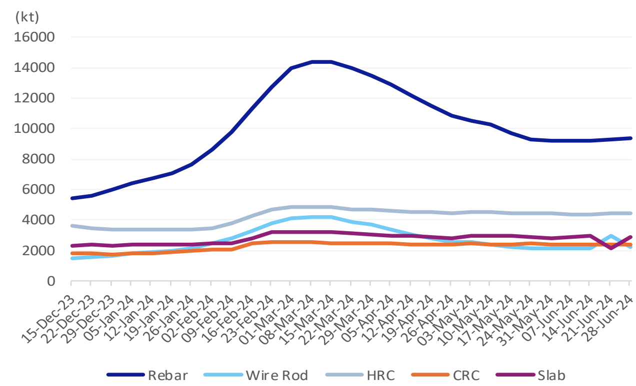
**Steel: Inventory held by traders and steel mills continue to rise.** Chinese steel mills recorded a +2.3% w/w increase in steel inventories at the close of June 28, reaching ~5.5Mt. Meanwhile, the volume of steel held by traders in China increased for the fourth consecutive week, rising +0.4% w/w to reach 21Mt. Our analysis indicates that the increase in inventory, containing rebar, wire rod, hot-rolled coils (HRC), cold-rolled coils and slabs, is due to weak domestic demand during the low steel season.

**Graph 16. Steel mills inventory (130 major cities)**




*Source: My Steel, Genial Investimentos*

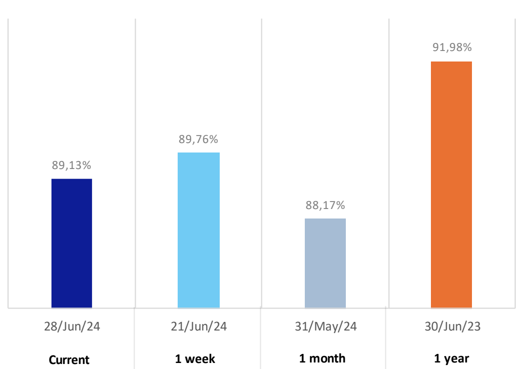
**Graph 17. Traders' steel inventory (130 major cities)**




*Source: My Steel, Genial Investimentos*

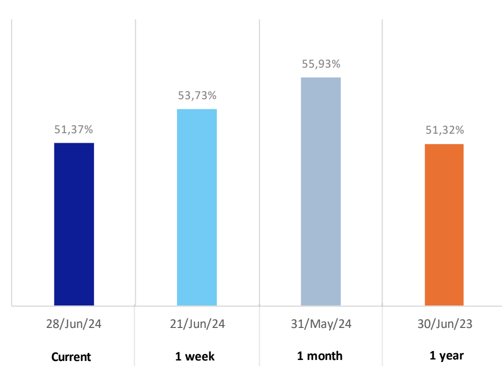
**Steel: Blast furnace utilization rate fails to sustain last week's rise and falls again.** The production of blast furnace (BF) steel mills has decreased due to maintenance shutdowns and narrow profit margins (increase in the coke price, as we commented). In the week ending June 28, the capacity utilization rate at the ~240 steel mills we monitor fell to 89.13% (-0.63p.p w/w), reflecting the daily production of hot metal falling back to 2.39Mt/day (-0.2% w/w). Similarly, electric arc furnace (EAF) producers also slowed down, as more plants reduced working hours to cut financial losses. The capacity utilization rate of ~85 monitored EAF plants fell to 51.37% (-2.36p.p w/w).

**Graph 18. BF capacity % (weighted average)**




*Source: My Steel, Genial Investimentos*

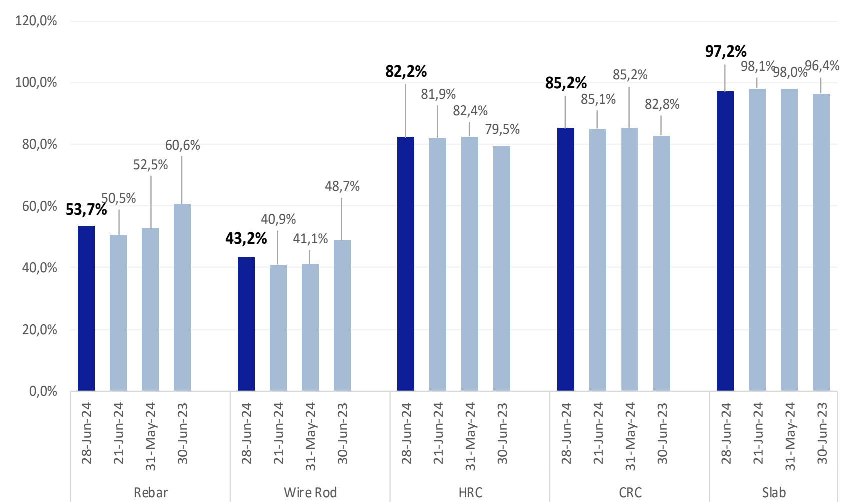
**Graph 19. EAF capacity % (weighted average)**




*Source: My Steel, Genial Investimentos*

**Steel: Rebar production reaches the highest level of the year, coming off last week's low.** After falling for three consecutive weeks, China's rebar production at the 137 steel mills tracked increased to 2.45Mt (+6.2% w/w) closing in June 28, marking the highest weekly output of the year, reaching a utilization rate of 53.7% (+3.2p.p w/w). Some blast furnace manufacturers in Xinjiang (northwest China) put their rolling mills back into operation last week, leading to a significant increase in rebar production. So, the increase seems to have been driven mainly by mills in northwest and central China. On the other hand, production in eastern and southern China remained stable due to poor rebar margins.

**Graph 20. Blast-furnace capacity utilization (by product)**




*Source: CREIS, Genial Investimentos*

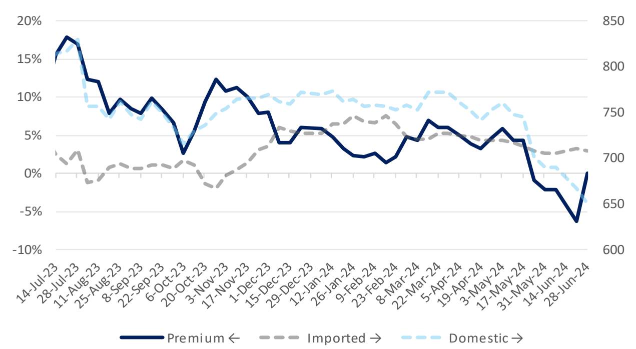
**Steel: HRC production also rises, but at a milder level.** China's HRC production among 37 monitored steel mills reached 3.2Mt (+0.35% w/w), closing on June 28. Unlike the rebar mills, which haven't raised output in a while, the HRC mills went through a boom cycle, which was only interrupted last week. Although this week it started to rise again, the figure seems to have been more moderate. Still, it shows that output has remained resilient, with the utilization rate reaching 82.2% (+0.3p.p w/w). We expect output to fall back next week, because of the smoothing in the weighted utilization rate of the blast furnaces that took place this week.

## Brazil

**Brazilian steel: Rebar prices stable, awaiting negotiations on an increase.** Last week, we saw stable prices for the long steel benchmark at R$3,625/t (~US$650/t), with a range of R$3,500-3,750/t, according to S&P Platts. Mills are seeking a price increase of up to +8% in the July negotiations, as we already mentioned in last week's report. Despite the decrease in demand, we stress that the customer base is likely to be receptive to price increases, since Brazilian rebar is at a negative premium of -8.3% vs. imported steel, quoted at ~US$708/t.

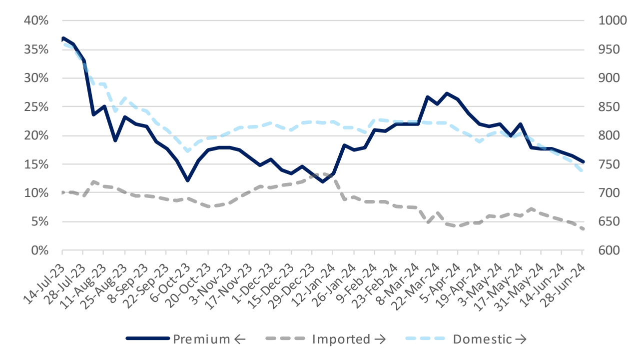
**Brazilian steel: For HRC, the situation is the opposite, premiums are high**. Our analysis suggests that the quota system implemented by the MDIC (Ministry of Development and Trade), as we commented in last week's edition, has not yet taken effect. As a result, we don't feel any repercussions within the import database, which hasn't cooled down clearly enough, so the premium remains very high. Therefore, the benchmark for domestic flat steel, HRC closed last week with a premium of +15.5% vs. imported, a reduction of -5p.p w/w, because of the USD/BRL exchange rate, which rose last week. Domestic HRC was quoted at US$734/t (-2.5% w/w), with the price in USD holding steady against the price in BRL, in the R$4,000-4,200/t range, according to S&P Platts, with the center point stable at R$4,100/t vs. US$507/t for imported.

### Graph 21. Premium on Rebar (Brazil vs. imported)




*Source: S&P Platts, Genial Investimentos*

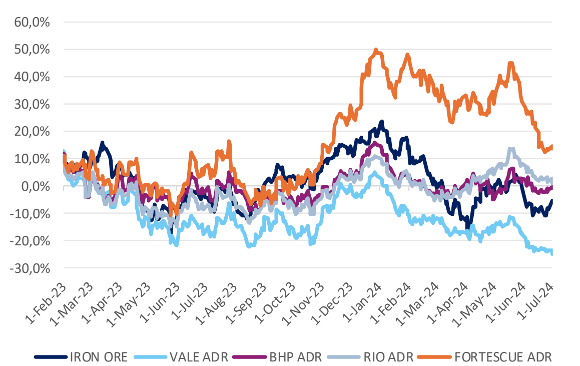
### Graph 22. Premium on HRC (Brazil vs. imported)




*Source: S&P Platts, Genial Investimentos*

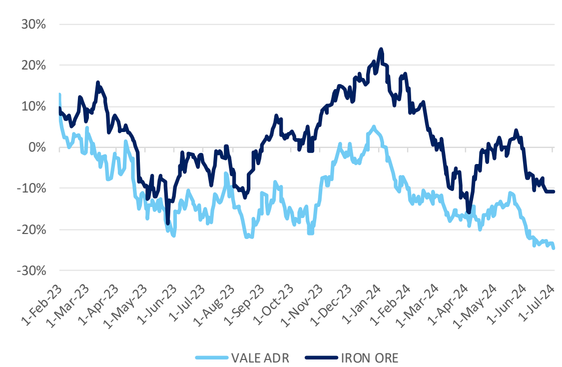
## Key data to keep up with on companies' side

### Graph 23. Mining majors (since Jan/23)




*Source: Bloomberg, Genial Investimentos*

### Graph 24. Vale's ADRs vs. iron ore discount




*Source: Bloomberg, Genial Investimentos*

### Table 2. Short position

| Company | Ticker | Lending Interest Ratio | Change in LI Ratio | Float (%) |
|---|---|---|---|---|
| Vale | VALE3 | 5,7 | -2,4 | 3,9 |
| CMIN | CMIN3 | 5,7 | -6,0 | 19,01 |
| Gerdau | GGBR4 | 9,4 | 1,4 | 4,79 |
| Usiminas | USIM5 | 4,4 | -0,9 | 7,84 |
| CSN | CSNA3 | 9,2 | -2,2 | 6,84 |

*Source: Bloomberg, Genial Investimentos*

## Appendix: Vale

### Figure 1. Vale – Income Statement in US$ Millions (Genial Est. 2024-2029)

| Income Statement | 2024E | 2025E | 2026E | 2027E | 2028E | 2029E |
|---|---|---|---|---|---|---|
| **Net Revenue** | **37.042** | **41.308** | **42.539** | **44.345** | **45.317** | **48.849** |
| (-) COGS | (23.877) | (26.217) | (26.498) | (27.575) | (29.043) | (31.387) |
| **Gross Profit** | **13.165** | **15.091** | **16.042** | **16.770** | **16.273** | **17.461** |
| (-) Expenses | (3.420) | (3.321) | (3.186) | (2.796) | (2.448) | (2.584) |
| **Adjusted EBITDA** | **12.894** | **15.535** | **16.332** | **17.612** | **17.636** | **18.850** |
| (-) D&A | (3.194) | (3.373) | (3.543) | (3.715) | (3.895) | (4.066) |
| **EBIT** | **9.700** | **12.162** | **12.789** | **13.897** | **13.741** | **14.785** |
| (+/-) Financial Result | (1.865) | (1.927) | (2.244) | (2.321) | (2.286) | (2.353) |
| (-) Taxes | (1.010) | (1.395) | (1.509) | (1.661) | (1.644) | (1.791) |
| **Net income** | **6.825** | **8.840** | **9.037** | **9.914** | **9.811** | **10.641** |
| **Profitability** | | | | | | |
| Net margin (%) | 18,43% | 21,40% | 21,24% | 22,36% | 21,65% | 21,78% |

### Figure 2. Vale– Cash Flow in US$ Millions (Genial Est. 2024-2029)

| Cash Flow (FCFF) | 2024E | 2025E | 2026E | 2027E | 2028E | 2029E |
|---|---|---|---|---|---|---|
| **Net Revenue** | **37.042** | **41.308** | **42.539** | **44.345** | **45.317** | **48.849** |
| (-) COGS | (23.877) | (26.217) | (26.498) | (27.575) | (29.043) | (31.387) |
| **Adjusted EBITDA** | **12.894** | **15.535** | **16.332** | **17.612** | **17.636** | **18.850** |
| | | | | | | |
| **Adjusted EBIT** | **9.700** | **12.162** | **12.789** | **13.897** | **13.741** | **14.785** |
| (-) Taxes | (1.010) | (1.395) | (1.509) | (1.661) | (1.644) | (1.791) |
| (+) D&A | 3.194 | 3.373 | 3.543 | 3.715 | 3.895 | 4.066 |
| (+/-) Brumadinho and Samarco | (570) | (2.198) | (1.874) | (1.389) | (1.221) | (923) |
| (+/-) Δ WK | 3.444 | 835 | 151 | (49) | (176) | (70) |
| (-) Capex | (6.719) | (6.792) | (6.792) | (7.333) | (7.333) | (7.333) |
| **FCFF** | **8.039** | **5.984** | **6.308** | **7.179** | **7.261** | **8.732** |

## Appendix: CMIN

### Figure 1. CMIN – Income Statement in R$ Millions (Genial Est. 2024-2028)

| Income Statement | 2024E | 2025E | 2026E | 2027E | 2028E |
|---|---|---|---|---|---|
| **Net Revenue** | **13.366** | **16.842** | **19.948** | **20.607** | **16.959** |
| (-) Cash COGS | (7.635) | (8.548) | (10.263) | (11.133) | (10.455) |
| **Gross Profit** | **4.149** | **6.427** | **7.516** | **6.999** | **3.724** |
| (-) SG&A and others | (1.702) | (2.114) | (2.452) | (2.456) | (1.928) |
| **Adjusted EBITDA** | **4.253** | **6.540** | **7.715** | **7.527** | **4.942** |
| (-) D&A | (1.582) | (1.867) | (2.169) | (2.475) | (2.780) |
| **EBIT** | **2.297** | **4.163** | **4.914** | **4.394** | **1.647** |
| (+/-) Financial Result | (1.087) | (993) | (911) | (934) | (1.002) |
| (-) Taxes | (377) | (989) | (1.248) | (1.079) | (201) |
| **Net income** | **832** | **2.181** | **2.755** | **2.381** | **444** |
| **Profitability** | | | | | |
| Net margin (%) | 6,23% | 12,95% | 13,81% | 11,55% | 2,62% |

### Figure 2. CMIN – Cash Flow in R$ Millions (Genial Est. 2024-2028)

| Cash Flow (FCFF) | 2024E | 2025E | 2026E | 2027E | 2028E |
|---|---|---|---|---|---|
| **Net Revenue** | **13.366** | **16.842** | **19.948** | **20.607** | **16.959** |
| (-) COGS | (7.635) | (8.548) | (10.263) | (11.133) | (10.455) |
| **Adjusted EBITDA** | **4.253** | **6.540** | **7.715** | **7.527** | **4.942** |
| | | | | | |
| **EBIT** | **2.297** | **4.163** | **4.914** | **4.394** | **1.647** |
| (-) Taxes | (377) | (989) | (1.248) | (1.079) | (201) |
| (+) D&A | 1.582 | 1.867 | 2.169 | 2.475 | 2.780 |
| (+/-) Δ WK | 254 | (110) | 23 | 146 | 290 |
| (-) Capex | (1.589) | (2.681) | (3.867) | (5.411) | (5.480) |
| **FCFF** | **2.166** | **2.249** | **1.991** | **525** | **(964)** |

# Appendix: Gerdau

**Figure 1. Gerdau – Income Statement in R$ Millions (Genial Est. 2024-2028)**

| Income Statement | 2024E | 2025E | 2026E | 2027E | 2028E |
|---|---|---|---|---|---|
| **Net Revenue** | **65.957** | **66.628** | **67.907** | **69.433** | **71.736** |
| (-) COGS | (56.697) | (55.257) | (54.833) | (55.976) | (56.782) |
| **Gross Profit** | **9.261** | **11.371** | **13.074** | **13.458** | **14.954** |
| (-) Expenses | (1.875) | (1.777) | (1.802) | (1.823) | (1.871) |
| **Adjusted EBITDA** | **10.615** | **14.122** | **15.989** | **16.449** | **18.253** |
| (-) D&A | (3.230) | (3.569) | (3.900) | (4.197) | (4.464) |
| **EBIT** | **7.714** | **10.258** | **11.947** | **12.323** | **13.795** |
| (+/-) Financial Result | (1.041) | (1.067) | (880) | (711) | (780) |
| (-) Taxes | (1.127) | (1.807) | (2.153) | (2.218) | (2.510) |
| **Net income** | **5.545** | **7.384** | **8.914** | **9.394** | **10.505** |
| **Profitability** | | | | | |
| Net margin (%) | 8,41% | 11,08% | 13,13% | 13,53% | 14,64% |

**Figure 2. Gerdau– Cash Flow in R$ Millions (Genial Est. 2024-2028)**

| Cash Flow (FCFF) | 2024E | 2025E | 2026E | 2027E | 2028E |
|---|---|---|---|---|---|
| **Net Revenue** | **65.957** | **66.628** | **67.907** | **69.433** | **71.736** |
| (-) COGS | (56.697) | (55.257) | (54.833) | (55.976) | (56.782) |
| **Adjusted EBITDA** | **10.615** | **14.122** | **15.989** | **16.449** | **18.253** |
| | | | | | |
| **EBIT** | **7.714** | **10.258** | **11.947** | **12.323** | **13.795** |
| (-) Taxes | (1.127) | (1.807) | (2.153) | (2.218) | (2.510) |
| (+) D&A | 3.230 | 3.569 | 3.900 | 4.197 | 4.464 |
| (+/-) Δ WK | (822) | 220 | (430) | (474) | (212) |
| (-) Capex | (5.998) | (6.063) | (6.130) | (6.198) | (6.267) |
| **FCFF** | **2.997** | **6.177** | **7.135** | **7.631** | **9.270** |

## Appendix: CSN

### Figure 1. CSN – Income Statement in R$ Millions (Genial Est. 2024-2028)

| Income Statement | 2024E | 2025E | 2026E | 2027E | 2028E |
|---|---|---|---|---|---|
| **Net Revenue** | **45.901** | **53.974** | **59.329** | **59.891** | **60.646** |
| (-) COGS | (29.066) | (30.548) | (31.526) | (33.403) | (33.448) |
| **Gross Profit** | **16.835** | **23.426** | **27.803** | **26.488** | **27.198** |
| (-) SG&A and others | (5.478) | (5.584) | (5.350) | (4.796) | (4.089) |
| **EBITDA** | **11.358** | **17.842** | **22.453** | **21.692** | **23.109** |
| (+/-) Financial Result | (3.127) | (3.761) | (4.309) | (4.288) | (4.245) |
| **EBT** | **4.059** | **9.247** | **12.846** | **11.730** | **12.786** |
| (-) Taxes | (1.618) | (3.144) | (4.368) | (3.988) | (4.347) |
| **Net Income** | **2.441** | **6.103** | **8.479** | **7.742** | **8.439** |
| **Profitability** | | | | | |
| Net Margin (%) | 5,32% | 11,31% | 14,29% | 12,93% | 13,92% |

### Figure 2. CSN – Cash Flow in R$ Millions (Genial Est. 2024-2028)

| Cash Flow | 2024E | 2025E | 2026E | 2027E | 2028E |
|---|---|---|---|---|---|
| **Net Revenue** | **45.901** | **53.974** | **59.329** | **59.891** | **60.646** |
| (-) COGS | (29.066) | (30.548) | (31.526) | (33.403) | (33.448) |
| **Adjusted EBITDA** | **11.358** | **17.842** | **22.453** | **21.692** | **23.109** |
| | | | | | |
| **EBIT** | **7.186** | **13.008** | **17.155** | **16.018** | **17.031** |
| (-) Taxes | (1.618) | (3.144) | (4.368) | (3.988) | (4.347) |
| (+) D&A | 4.172 | 4.834 | 5.298 | 5.674 | 6.078 |
| (+/-) Δ WK | 19 | (689) | (236) | (298) | (78) |
| (-) Capex | (5.452) | (6.142) | (6.113) | (5.586) | (5.629) |
| **FCFF** | **4.306** | **7.867** | **11.737** | **11.819** | **13.055** |

## Appendix: Usiminas

### Figure 1. Usiminas – Income Statement in R$ Millions (Genial Est. 2024-2028)

| Income Statement | 2024E | 2025E | 2026E | 2027E | 2028E |
|---|---|---|---|---|---|
| **Net Revenue** | **26.690** | **26.956** | **27.619** | **27.985** | **27.707** |
| (-) COGS | (24.033) | (23.371) | (23.699) | (24.035) | (23.603) |
| **Gross Profit** | **2.657** | **3.585** | **3.921** | **3.949** | **4.104** |
| (-) Expenses | (1.105) | (1.301) | (1.445) | (1.365) | (1.324) |
| **Adjusted EBITDA** | **2.590** | **3.377** | **3.626** | **3.834** | **3.769** |
| (-) D&A | (1.038) | (1.093) | (1.150) | (1.250) | (990) |
| **EBIT** | **1.552** | **2.284** | **2.476** | **2.585** | **2.779** |
| (+/-) Financial Result | 545 | 391 | 469 | 746 | 837 |
| (-) Taxes | (319) | (402) | (441) | (497) | (538) |
| **Net income** | **1.885** | **2.380** | **2.611** | **2.941** | **3.185** |
| **Profitability** | | | | | |
| Net margin (%) | 7,06% | 8,83% | 9,45% | 10,51% | 11,50% |

### Figure 2. Usiminas– Cash Flow in R$ Millions (Genial Est. 2024-2028)

| Cash Flow (FCFF) | 2024E | 2025E | 2026E | 2027E | 2028E |
|---|---|---|---|---|---|
| **Net Revenue** | **26.690** | **26.956** | **27.619** | **27.985** | **27.707** |
| (-) COGS | (24.033) | (23.371) | (23.699) | (24.035) | (23.603) |
| **Adjusted EBITDA** | **2.590** | **3.377** | **3.626** | **3.834** | **3.769** |
| | | | | | |
| **EBIT** | **1.552** | **2.284** | **2.476** | **2.585** | **2.779** |
| (-) Taxes | (319) | (402) | (441) | (497) | (538) |
| (+) D&A | 1.038 | 1.093 | 1.150 | 1.250 | 990 |
| (+/-) Δ WK | 978 | 20 | (188) | (18) | 158 |
| (-) Capex | (1.813) | (1.559) | (2.573) | (2.058) | (1.955) |
| **FCFF** | **1.436** | **1.435** | **425** | **1.261** | **1.434** |

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