



Dalian Commodity Exchange applied new position control to Iron Ore Futures

June 17, 2020

Exchange Notice

On June 15th, DCE released Notice of Trading Limit on Iron Ore Futures (<http://www.dce.com.cn/DCE/TradingClearing/Exchange%20Notice/6222237/index.html>)

) stating that starting trade date of June 16th (night session on calendar date June 15th) non-clearing trading member of exchange and client level account, except hedger and market maker, cannot exceed net new positions of 30K lots per day across all iron ore future contracts.

This notice came in with more stringent control after DCE's Notice of Market Risk Management on June 2nd (<http://www.dce.com.cn/DCE/TradingClearing/Exchange%20Notice/6220232/index.html>)

) warning the market risk for Iron Ore futures trading.

Rule Book

Trading limits is a risk control measure adopted by Chinese exchanges since 2016. DCE has this control clearly defined in its Dalian Commodity Exchange Risk Management Method in article 31. Such limit control was previously applied in ferrous sector such as Iron Ore.

Market Statistics

From the start of 2020 to June 12th, the settlement price of Iron Ore has increased 16%. The yearly lowest price occurred on April 2nd at 542RMB/Ton, and it is up to 762.5RMB/Ton on June 15th on the lead month contract, 40% price jump. Per the statistics from Chinese market data vendor Webstock (文华财经), there are two commodities in China futures market attracting over 10 billion RMB investment, the gold listed in SHFE and the iron ore listed in DCE, and the amount invested in these two products are 13.641 billion RMB and 11.760 billion RMB, respectively. These two products have attracted substantive market attention, and also showed the largest gap between long and short sides.

Per the volume and long/short position ranking list by FCM posted on the DCE website, Yongan Futures, has the largest long position on Iron Ore, and was holding a long position of 60,865 lots on June 12th. On June 15th, Yongan reduced its total long to 47,021 lots. At the same time, the largest short position holder CITIC reduced to 15,638 lots on June 15th, followed by GTJA with a total reduced short position of 10,523 lots. The trading volume also showed an obvious deduction on June 15th.

In general, YTD (to June 12th) ADV is 1,151,400 lots, and the average position is 938,000 lots, YOY are 0.46% and 12.86% respectively. The trade/position ratio is 1.21, lower than 1.36 from last year for the same period.

Spot Market Change

Two supply countries, Brazil and Australia, were both affected by COVID-19 this year, and Vale S.A. was partially closed. These changes caused the price to move close to upper limit for a while. However, the analyst from Founders CIFCO Futures commented that the driving force for the price roaring comes from the sustained rising demand from China domestic market.

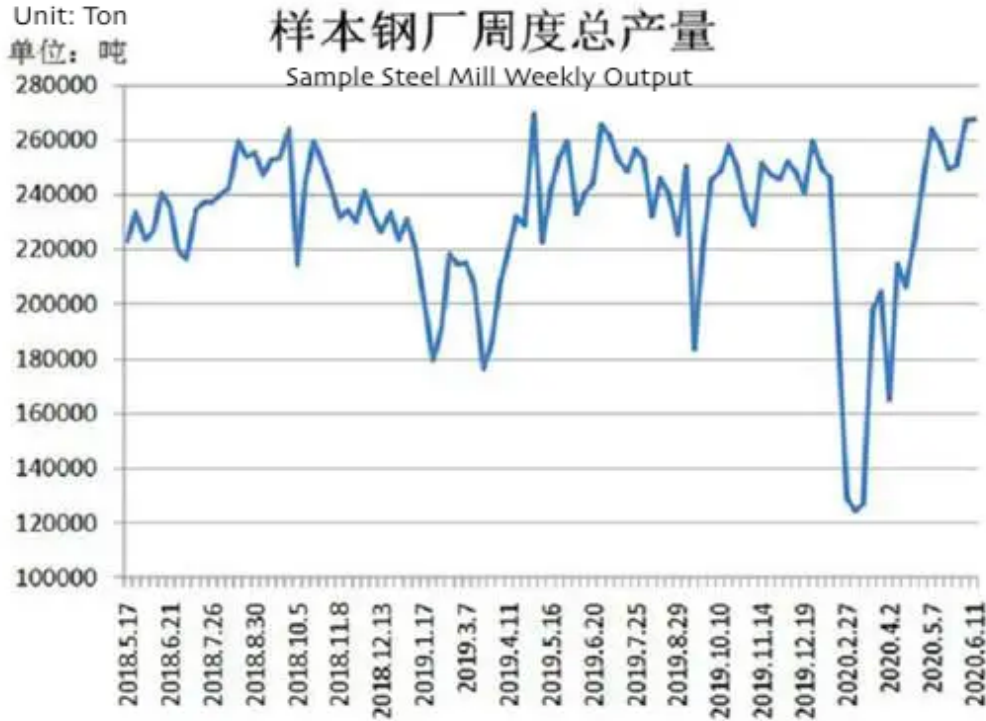
At present, inside China, the operating rate of steel mills is maintained at a high level, and the capacity utilization rate is also maintained at a high level. After the iron and steel production enterprises resumed, they started full production and demand for raw materials continued to be strong. Starting from April 2nd, the prices of iron ore, rebar, hot coil, coke... and various ferrous products rebounded sharply.

Below are the most recent weekly updates reflecting the steel construction market in Sichuan Province. The capacity utilization of sample steel mill A and B increased 1% and 2% in last week from the week before, while C and D showed 1% drop from the week before.



Data source: Sichuan Steel Circulation Association

From the weekly total output perspective, Sample Steel Mill A and B increased 3,000 Tons and 4305.22 Tons respectively, while C and D reduced 6,000 Tons and 7,000 Tons from the week before. In general, the weekly output for all mills have been maintained at their high-level.



Data source: Sichuan Steel Circulation Steel

The national statistics showed the same trend. The average daily output created a new high. Last week it reached to 2.45 million tons, YOY increase of 11,900 tons. Although the average daily sparse port volume fell to 2.963 million tons, port inventory continued to decrease, and this week it fell to 10.6977 million tons, continuing to refresh the historical low of the same period.

Conclusion

Under the influence of multiple factors such as Brazil's epidemic, Australia's geopolitical factors, continually declined port inventories, and steel mills maintaining high operating rates, iron ore futures prices have risen.

Ref source:

1. www.dce.com.cn
2. <https://mp.weixin.qq.com/s/zjtXOfmX4cBxbuZE7iX51w>
3. https://mp.weixin.qq.com/s/5W-l_gdXMMyHIJZVHs6vtg