



Elise Bennett, Conrad Haas, Brandon Koenig, Jaden Morgan, Gavin Odell, Brayden Perry

# Security

ZST10 Comdty

# View

Bullish on Price

# Investment

Commodity Future – Chinese  
Stainless Steel  
Hedged with Currency Future

Thesis Points  
and Risks



Learning  
About China



Global Events



Technical  
Analysis



Position  
Overview

## Thesis

- 19.8% increase in export for Chinese stainless-steel YoY
- Strengthening ties between China and its allies
- Growing strength within the members in BRICS
- Action for the Chinese government to stimulate the economy

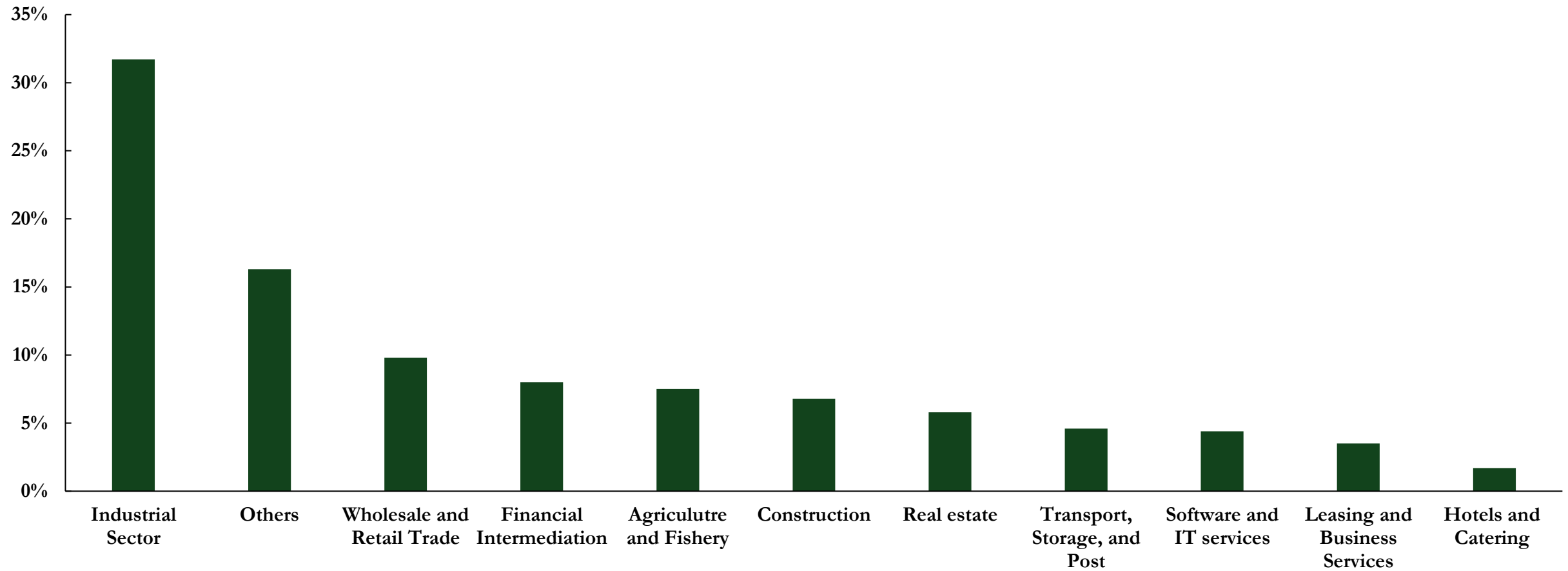
## Thesis Risks

- Tariffs being levied on China by multiple other countries
- A four times increase in anti-dumping cases against Chinese steel YoY
- Chinese Economic Slowdown
- The Bai Lin Movement in Chinese Youth

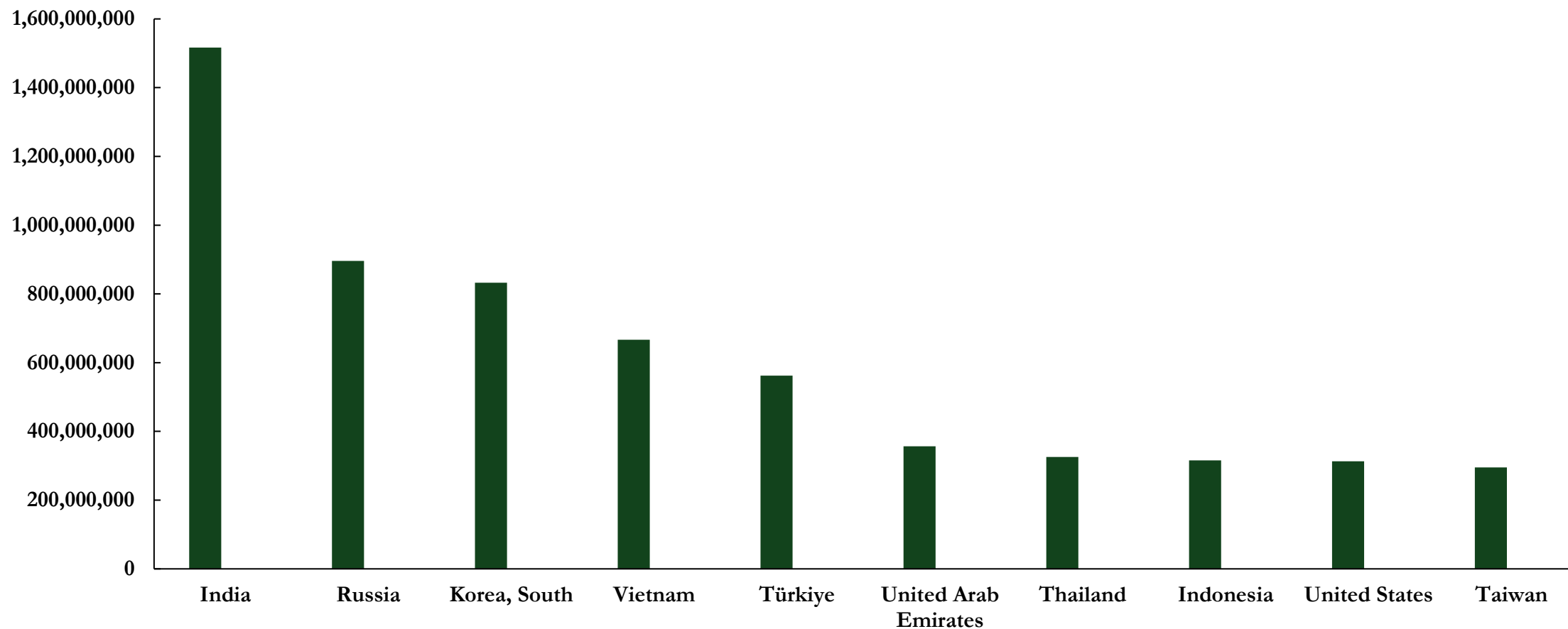
# China Macro News

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# GDP Breakdown



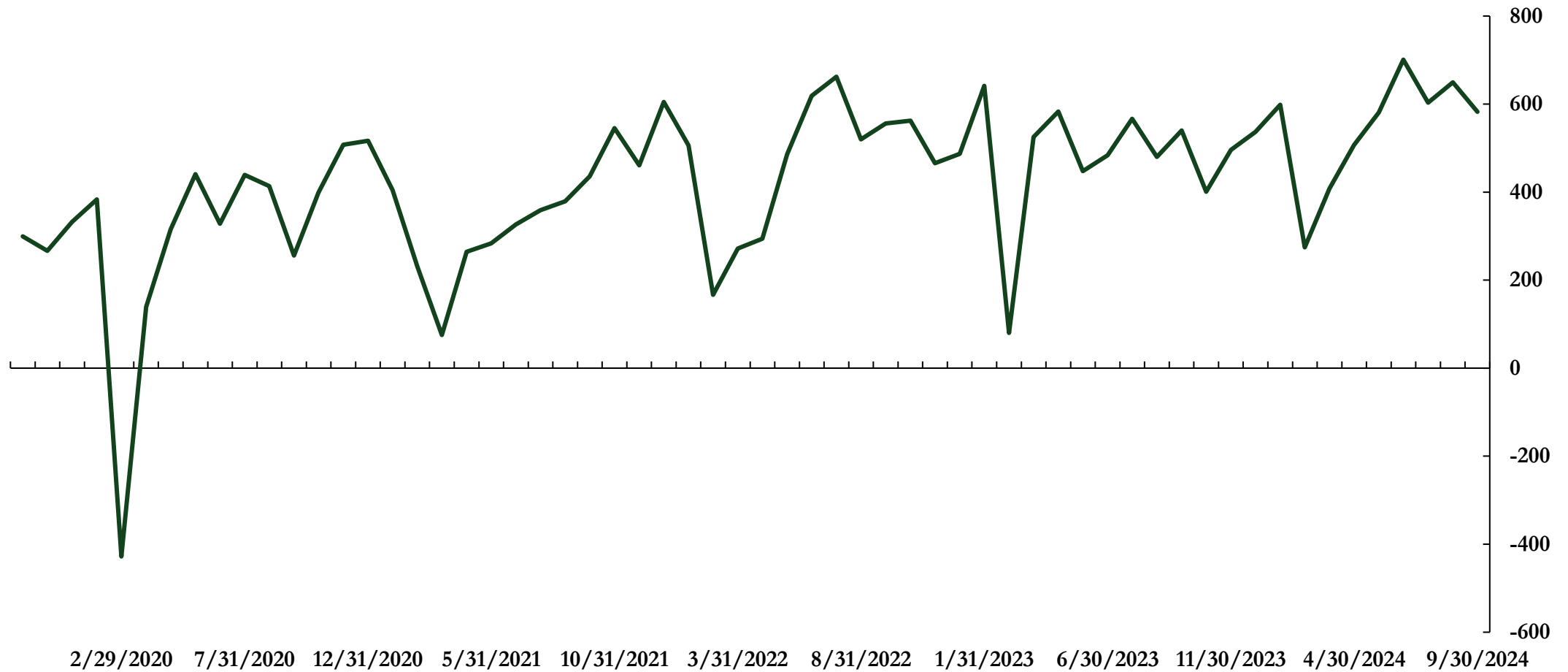
# Top Importers of Chinese Stainless Steel (USD)



# Chinese Foreign Trade

- China's steel exports will soon hit an 8-year high before tariffs drag down industry
- China's cheap steel makes competitors think it is unfair competition leading to higher tariffs
  - Brazil: 25% tariff
  - Canada: 25% surtax
- China's steel exports will reach 109 million tons this year, before declining to 96 million tons in 2025

# Chinese Trade Balance (Yuan)



# Chinese Steel Use Breakdown

- China's domestic demand will be less than half of global demand
- China's Production fell 5.4% in September
- Beijing investigating steel mills

Sector	2010 (%)	2023 (%)
Machinery	20	30
Infrastructure	13	17
Building construction	42	24
Transport	12	9
Durable goods	7	8
Other	6	12

# China's Housing Crisis

- Started in 2021 because of various Chinese property developers defaulting
- Local governments to buy back unused housing from developers to convert them into affordable housing
- Stimulus was given by the Chinese Central Bank of \$169.81 billion
- The reserve requirement was cut 50 bps
- 50 basis point cut on interest rates on mortgages and lowered minimum downpayment by 15%
- Further action by the Chinese communist party is possible

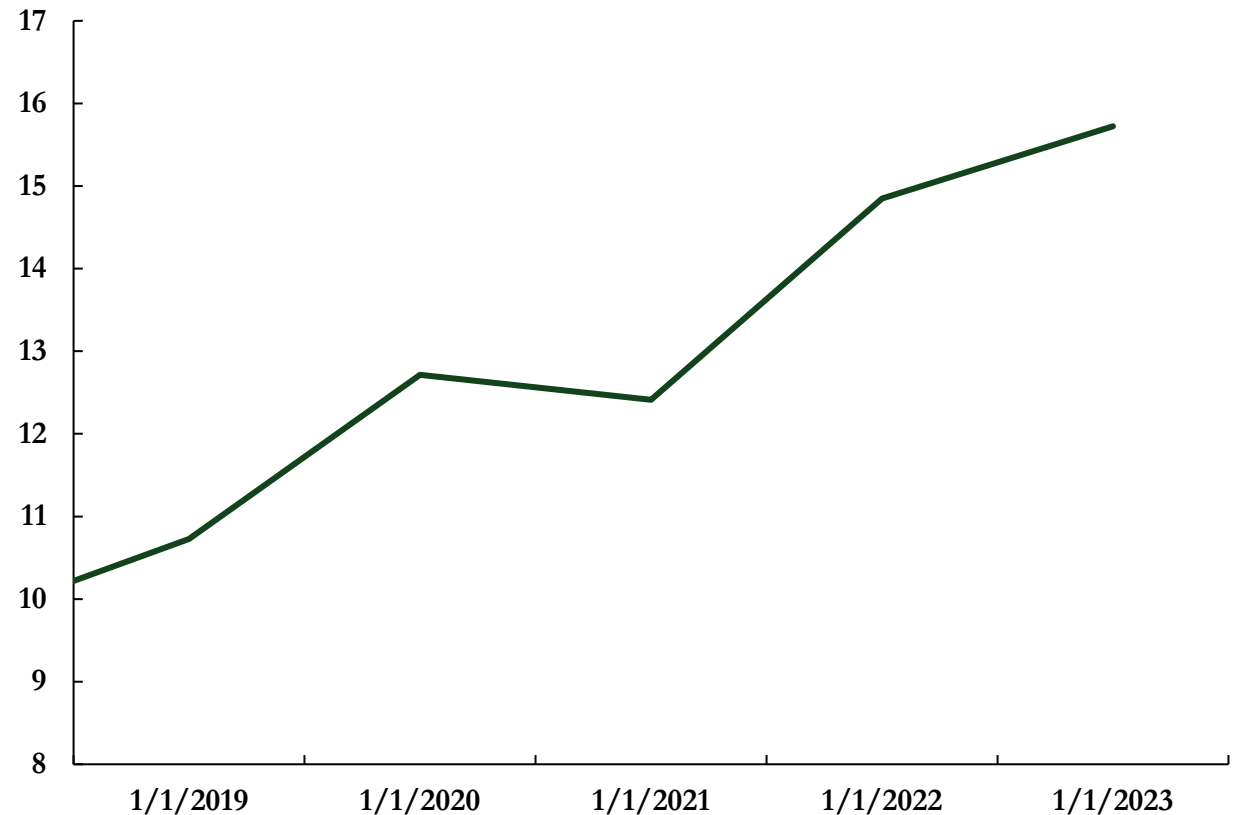
# Chinese Manufacturing

- Manufacturing Purchasing Manager's Index (PMI) indicates the direction of economic trends in manufacturing
  - Based on monthly survey of supply chain managers across 19 industries
- Industry suffering largely due to population aging and shift towards services
- Currently at 49.3 (September) and was at 50.4 in August
  - $> 50$  indicates growth,  $< 50$  indicates contraction

# The Bai Lan Movement

- Translates to “let it rot”
- Prolific in younger Chinese citizens
- 996 work schedule – 9am to 9pm, 6 days a week
- Fueled by economic uncertainty revealed in 2020
- The death of the private tutoring sector

Chinese Youth Unemployment Rate (In Percentage)



# Chinese Foreign Policy

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# China's Economic Strategy

- China is one of the largest exporters in the world
- Top exports are:
  - Broadcasting equipment
  - Integrated circuits
  - Computers
  - Office machine parts
  - Semiconductor devices
- Top export destinations are:
  - United States
  - Japan
  - Germany
  - South Korea

# China's Currency Peg

- A currency peg is a monetary policy that keeps the value of a currency low compared to other countries
- The Chinese yuan has had a currency peg since 1997
- To keep exports competitive, the target exchange rate is 1USD/7YUAN
- Was pegged to the dollar up until 2005
- It has managed its currency against a basket of currencies with weightings determined by levels of trading with its foreign partners

# China's Currency Peg

- This approach keeps the value of the yuan low compared to other countries
- Chinese exports are cheaper and, therefore, more attractive compared to those of other nations
- Exports are a major driver of any economy because they represent money flowing into a nation
- By exporting more goods, China's economy thrives

# Current Global Events

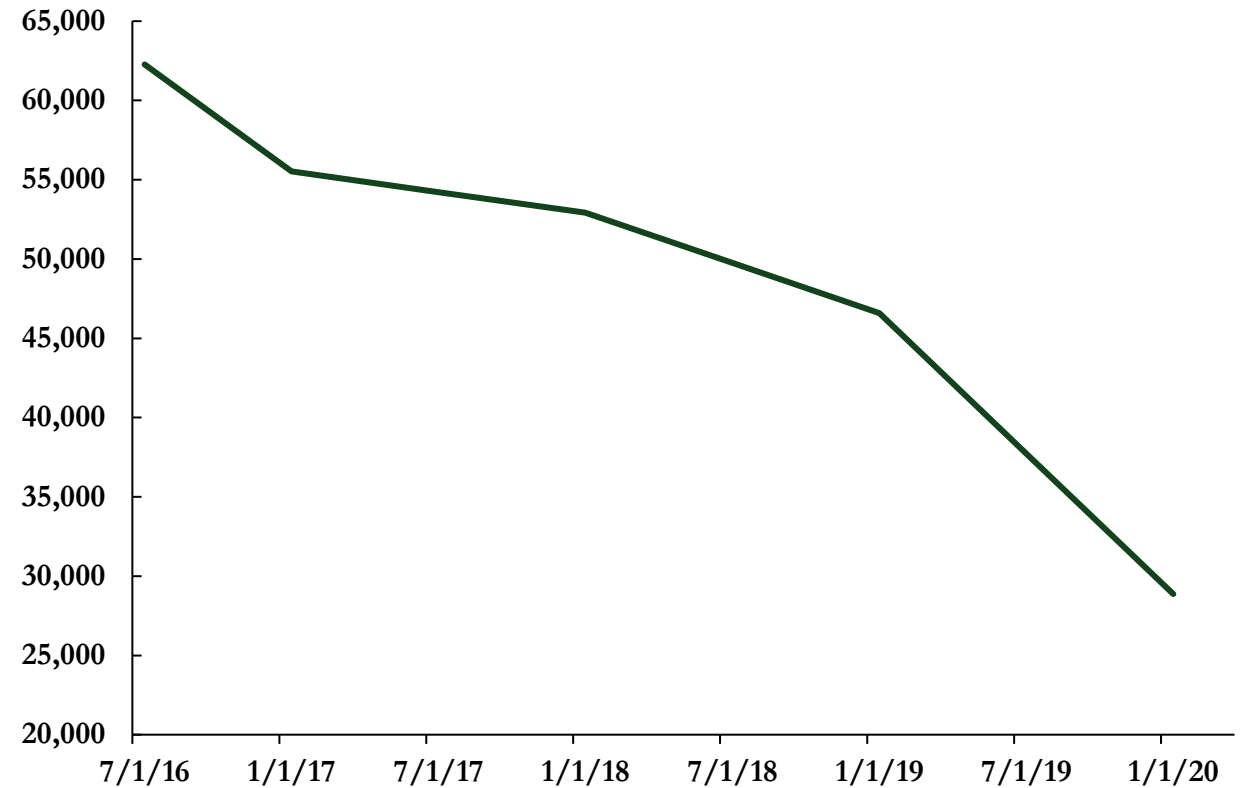
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# 2024 Election

## Donald Trump

- Imposed tariffs on Chinese goods, including steel, during his presidency and will do it again if reelected
- Big focus on domestic production

U.S. Importers of Chinese Stainless Steel (in Tons)

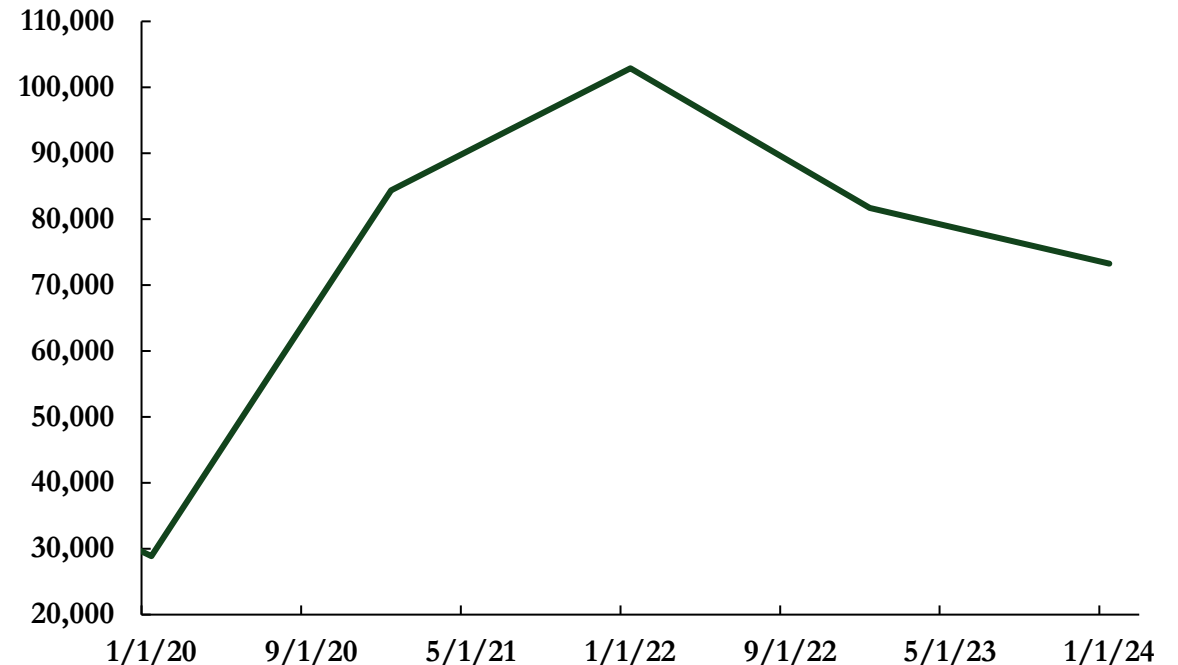


# 2024 Election Continued

## Kamala Harris

- Likely continue Biden Administration tariffs, but more flexible with them
- Focus on environmentalism: steel production has a huge carbon footprint

U.S. Importers of Chinese Stainless Steel (in Tons)



# BRICS

- Goal – come together to economically challenge G7 – U.S. + western allies
- Coalition of countries: Brazil, Russia, India, China, South America, Egypt, Ethiopia, Iran, United Arab Emirates, Saudi Arabia
- Notable stats:
  - 13 Countries added to BRICS Plus
  - Countries within BRICS account 36% on global GDP
  - Members of BRICS make up 47% of the global population
  - GDP growth of BRICS members is projected to be 4%, the G7's projected is 1.7%

# BRICS – Kazan Summit 2024

- October 22<sup>nd</sup>-24<sup>th</sup> in Russia, 36 countries attending
- During the summit all the BRICS nations officially adopted the Kazan declaration
- Peace talks between China and India to decrease tensions over borders
- Emphasis on using local currencies between members and not USD
- First BRICS summit to include both the old members and new members of BRICS

# BRICS Top 3 Economies

## Brazil

- Their current inflation rate is 4.42%
- The GDP increased to \$2.17 trillion in 2023
- In 2023 nearly 57% of steel imports were from China
- Brazil has implemented quotas and increased taxes on imported steel

## Russia

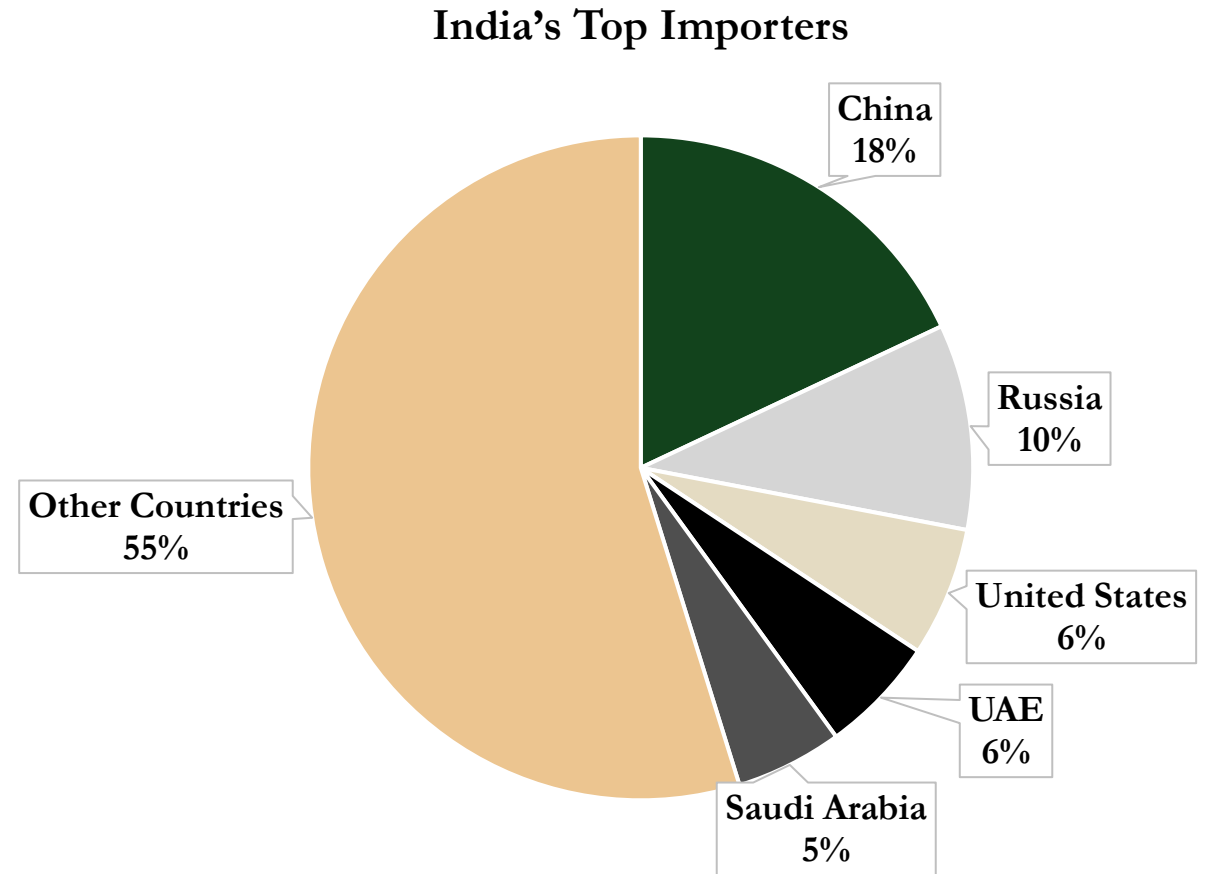
- Their CPI dropped to 8.6% in September
- The GDP decreased to \$2.02 trillion in 2023
- Western sanctions on Russia has pushed them closer with China
- Raw material shortage from Russia and Ukraine

## India

- India's CPI rose to 5.49% in September
- The GDP increased to \$3.73 trillion in 2023
- India will impose anti dumping tariffs ranging from 12 per cent to 30 per cent
- Cheap Chinese stainless steel has put pressure on Indian steel manufactures

# India and China's Relationship

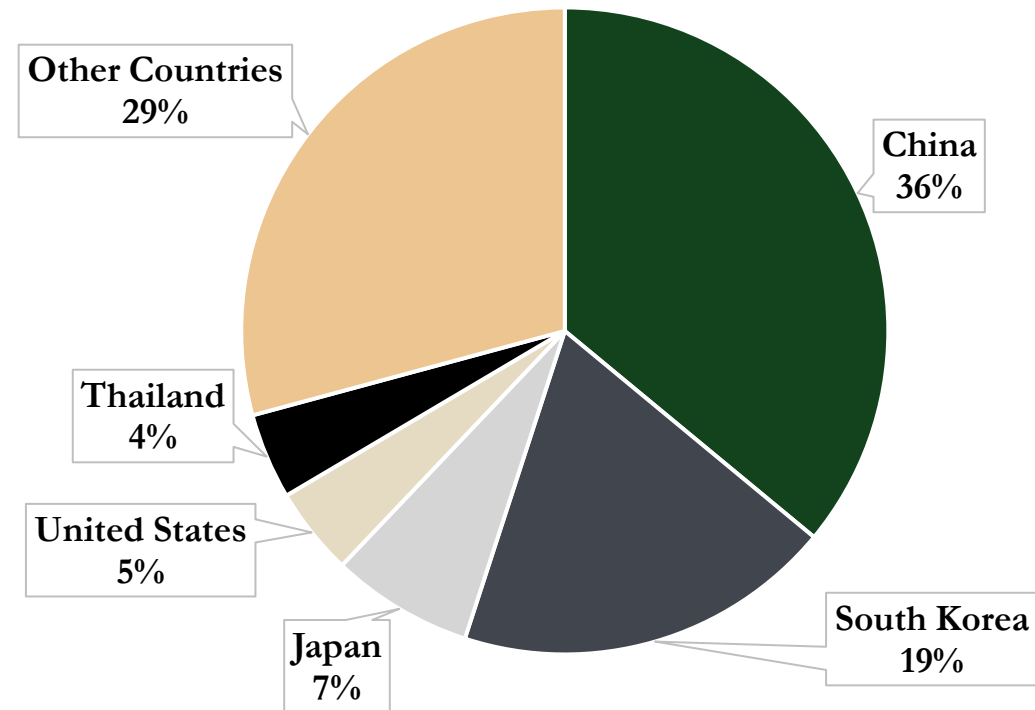
- India will impose anti dumping tariffs ranging from 12 % to 30 %
- India is trying to safeguard and boost their local steel industry
- India has a high demand for steel
- India is currently China's top exporter of stainless steel



# Vietnam and China's Relationship

- Vietnam will impose anti dumping tariffs of between 4.43% and 25.22%
- Imported Chinese steel is flooding the Vietnam domestic market
- Vietnam currently has extensive infrastructure projects
- Vietnam is currently China's second top exporter of stainless steel

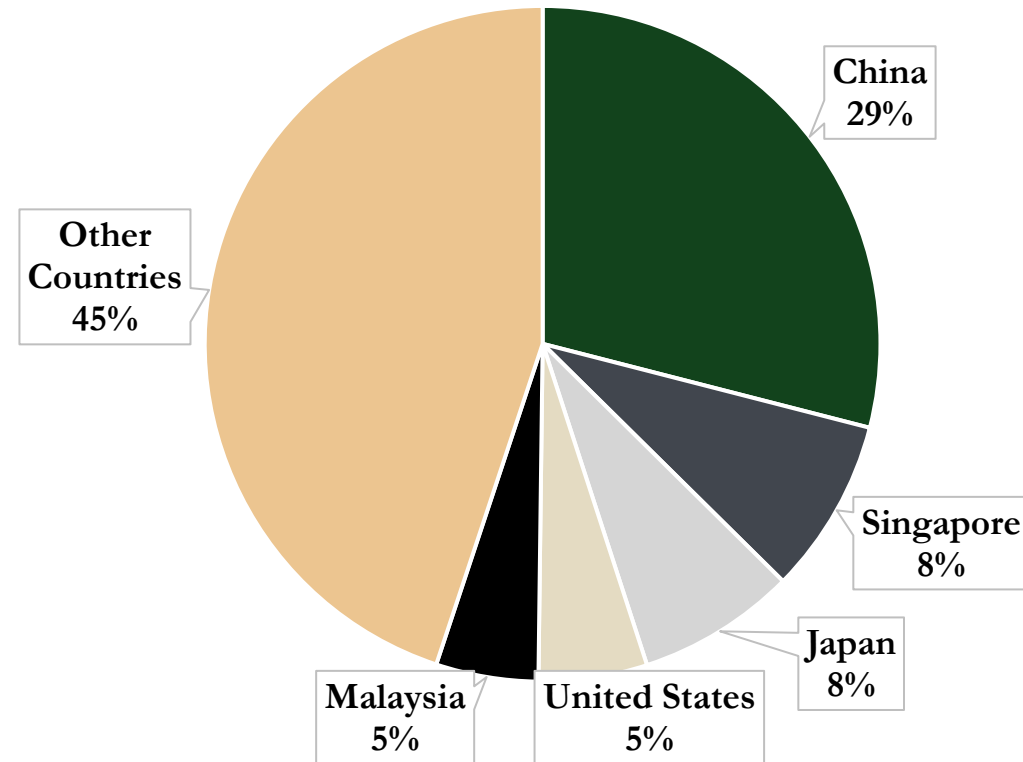
Vietnam Top Importers



# Indonesia and China's Relationship

- Indonesia extended anti dumping import tariffs of up to 20%
- Steelmakers blame imports from China for plummeting sales
- Imports of stainless steel have flooded the domestic market
- Indonesia is currently China's seventh top exporter of stainless steel

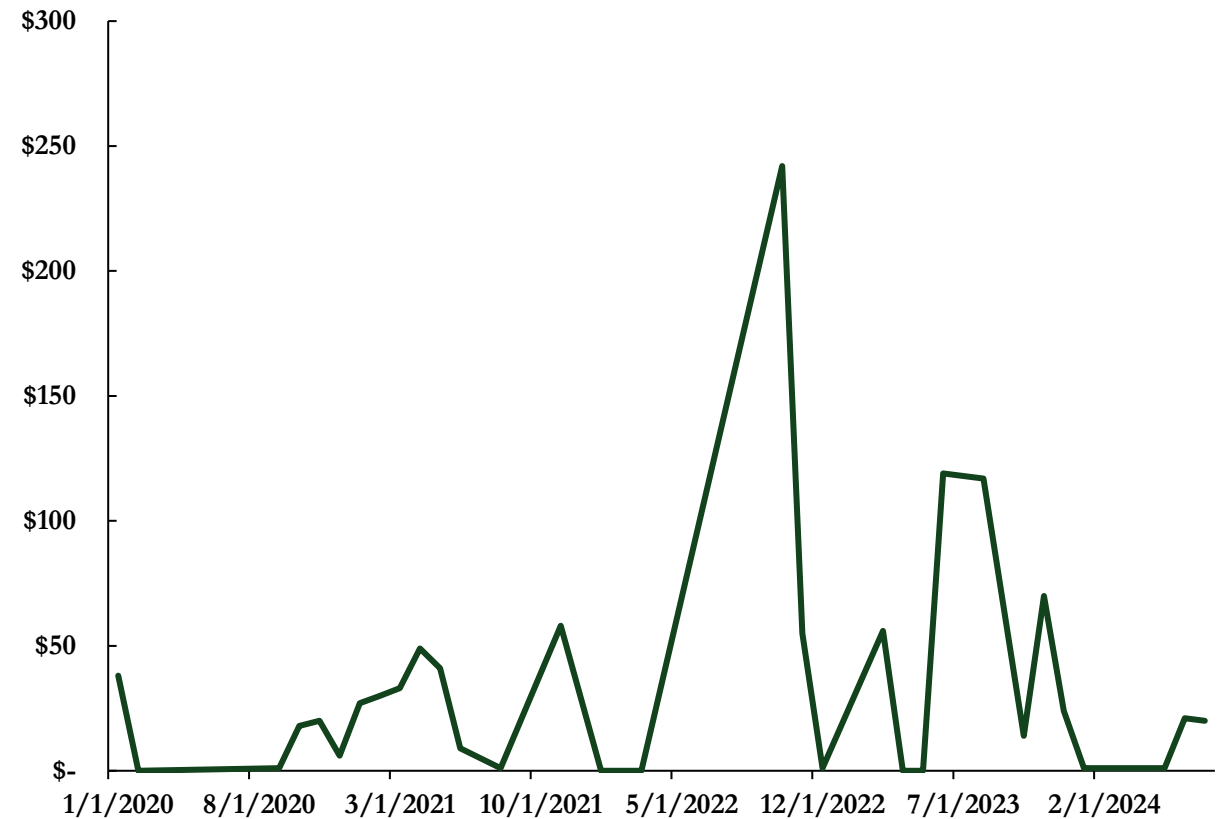
Indonesia Top Importers



# Ukraine-Russian War

- The war has brought Russia and China closer together economically
- Increased demand for stainless steel from China
- Raw material shortage from Russia and Ukraine
- Increased energy cost

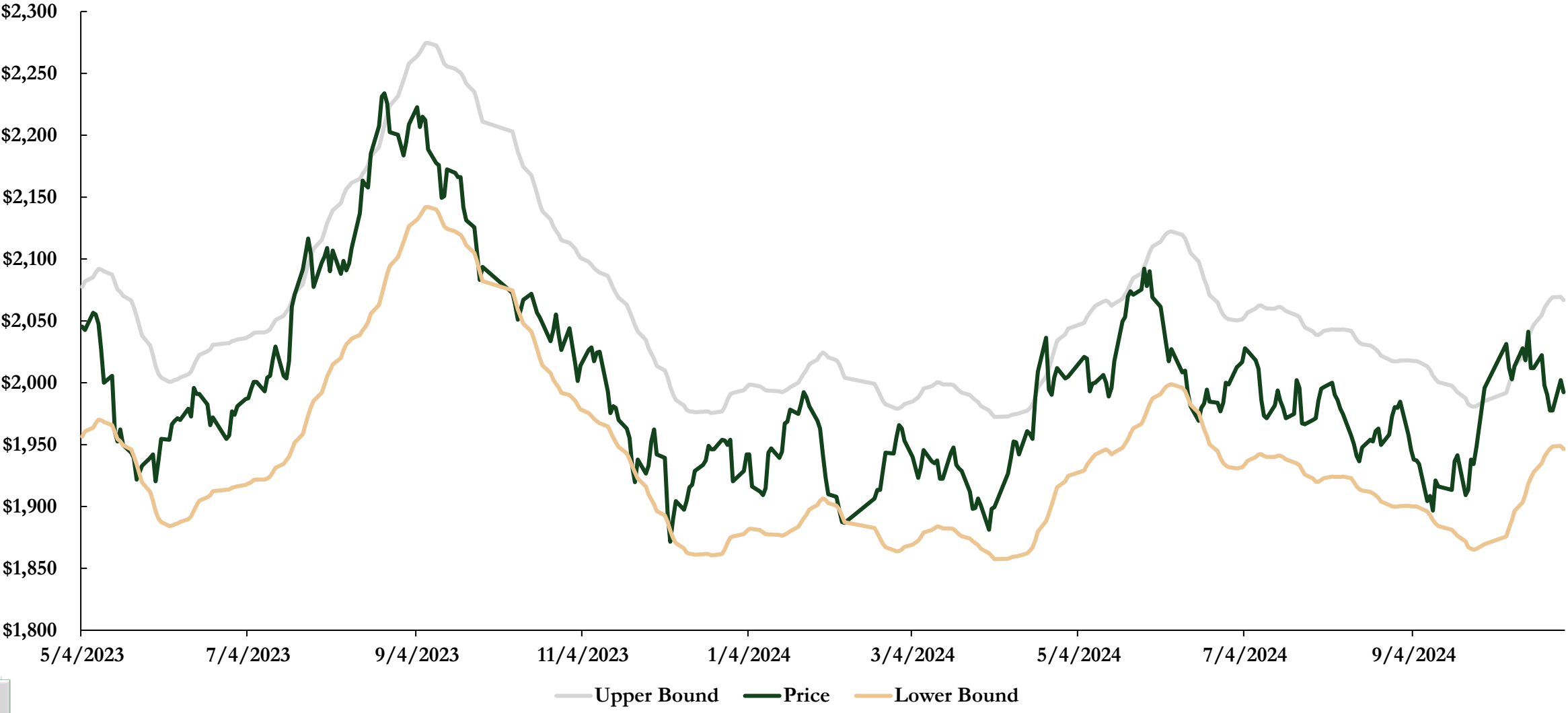
China's Stainless Steel Exports (\$ Millions)



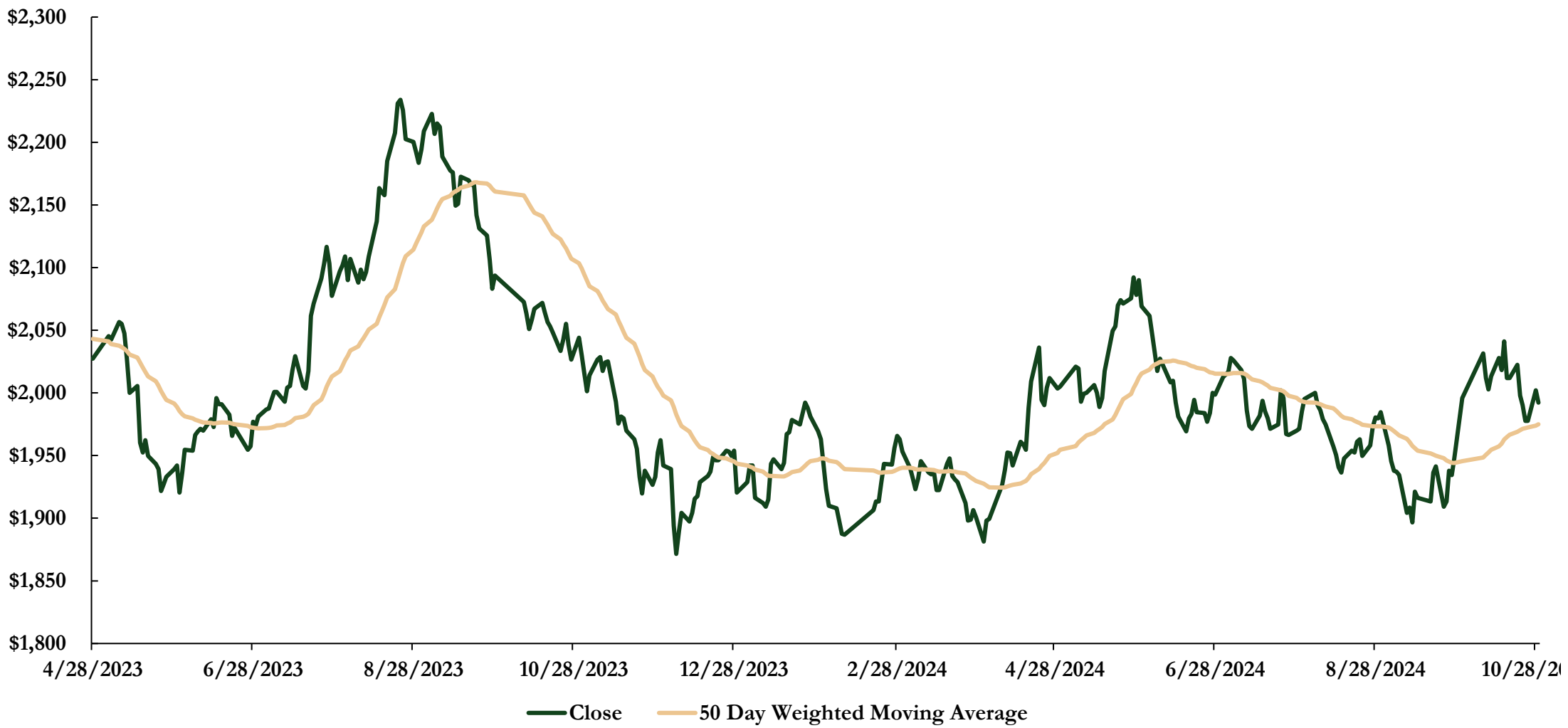
# Technical Indicators

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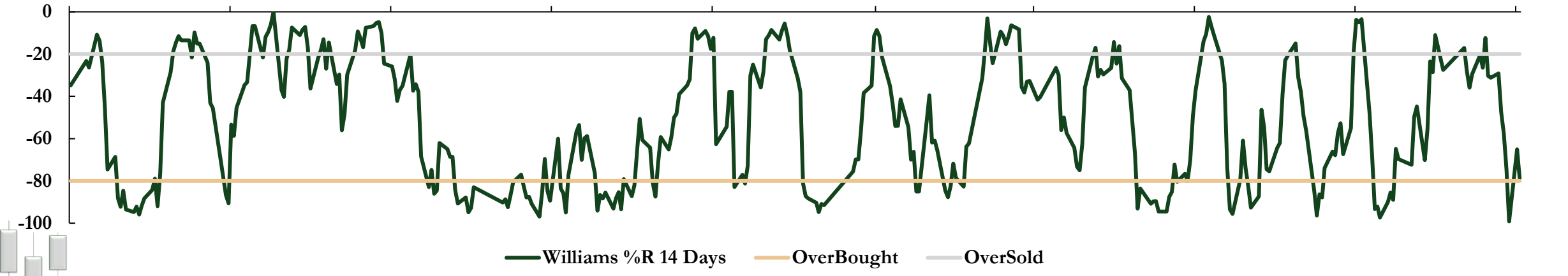
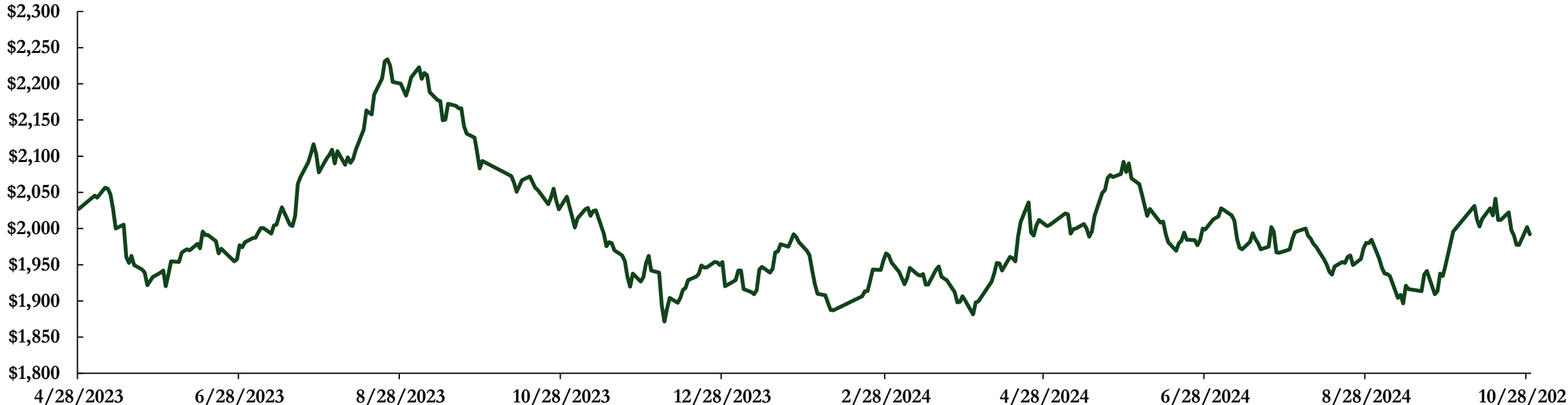
# Bollinger Bands



# Weighted Moving Average



# William %R Oscillator



# Position Overview

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# Commodity Futures

- Futures contracts are exchange-traded agreements between parties to have a sale of an underlying asset at an agreed-upon price and date
- These are used for hedging and speculation of commodities
- The buyer of the contract is taking on the obligation to buy the commodity when the futures contract expires
- The seller of the futures contract is taking on the obligation to provide the commodity at the expiration date
- Seller's must deal with storage costs
- Commodities are food goods, metals, minerals, and energy produce

# Chinese Stainless Steel Position

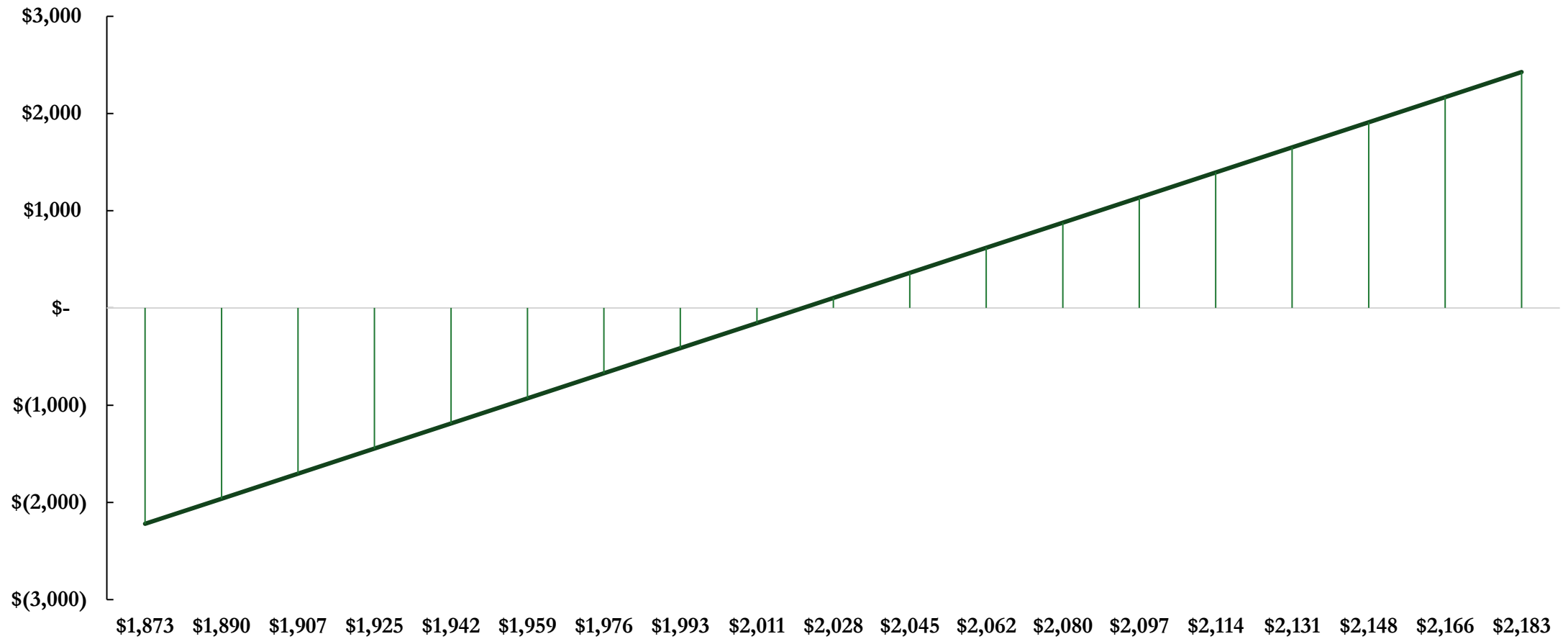
## ZST10 – Chinese Stainless Steel

- Available only on the Shanghai Exchange
- Number of contracts - 3
- Contract Unit – 5 metric tons
  - Priced in dollars per metric ton
- Price Per Metric Ton – \$2,021.00
- Total Position Value – \$30,315

## Market Contract Information

- Open Interest – 52
- Total Volume – 7
- YTD Price: - **-0.138%**

# Position Profit & Loss



# Hedging Currency Risk

## CCN+9M – Forward

- Number of contracts – 30,938
- At a futures price of 6.979 USD to YUAN exchange rate
- This will allow us to lock our exchange rate so avoid currency risk when we receive YUAN

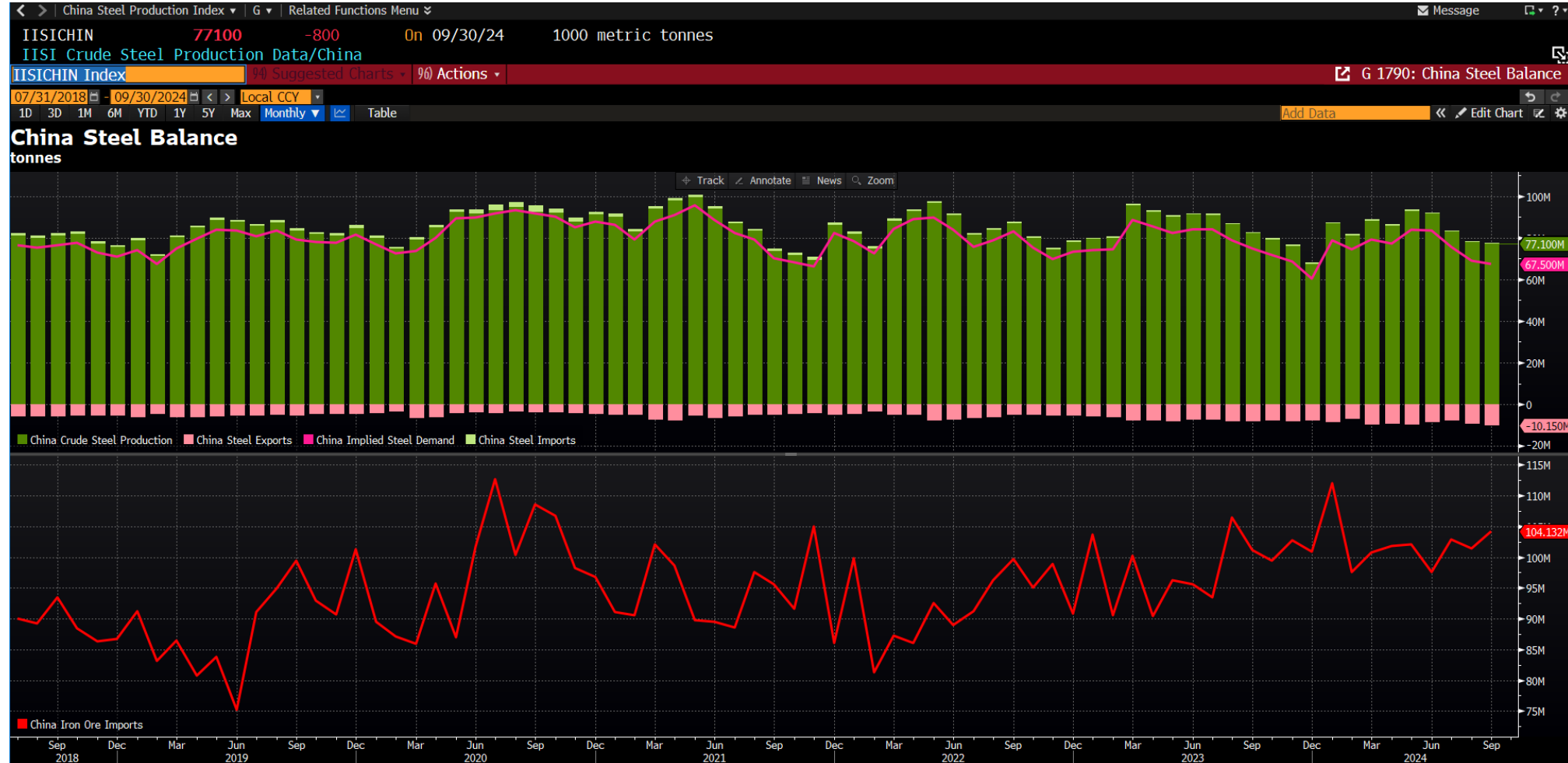
USD/YUAN Exchange Rate



# Appendix

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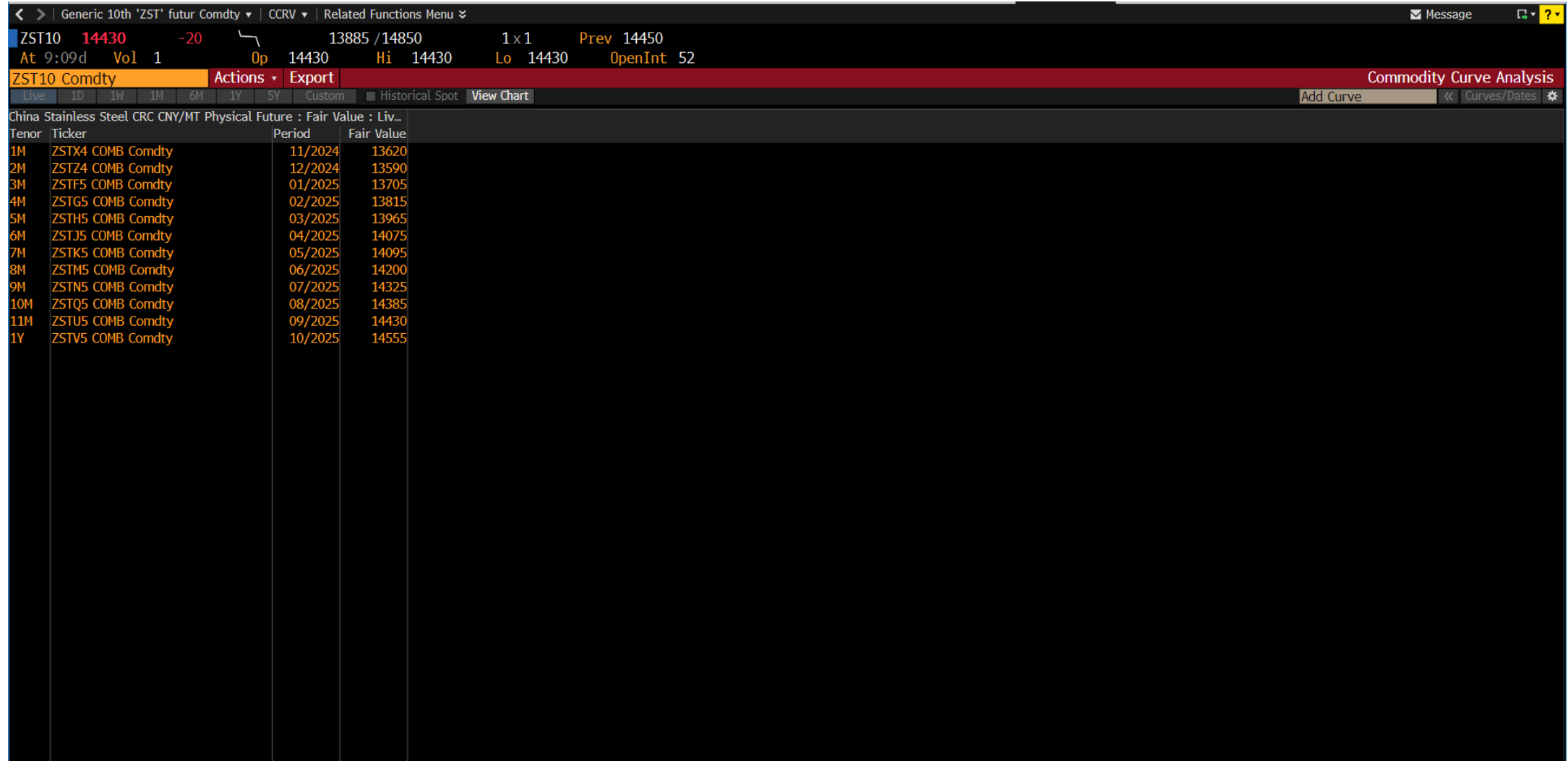
# China Crude Steel Production



# Open Interest and Volume



# Commodity Curve Analysis



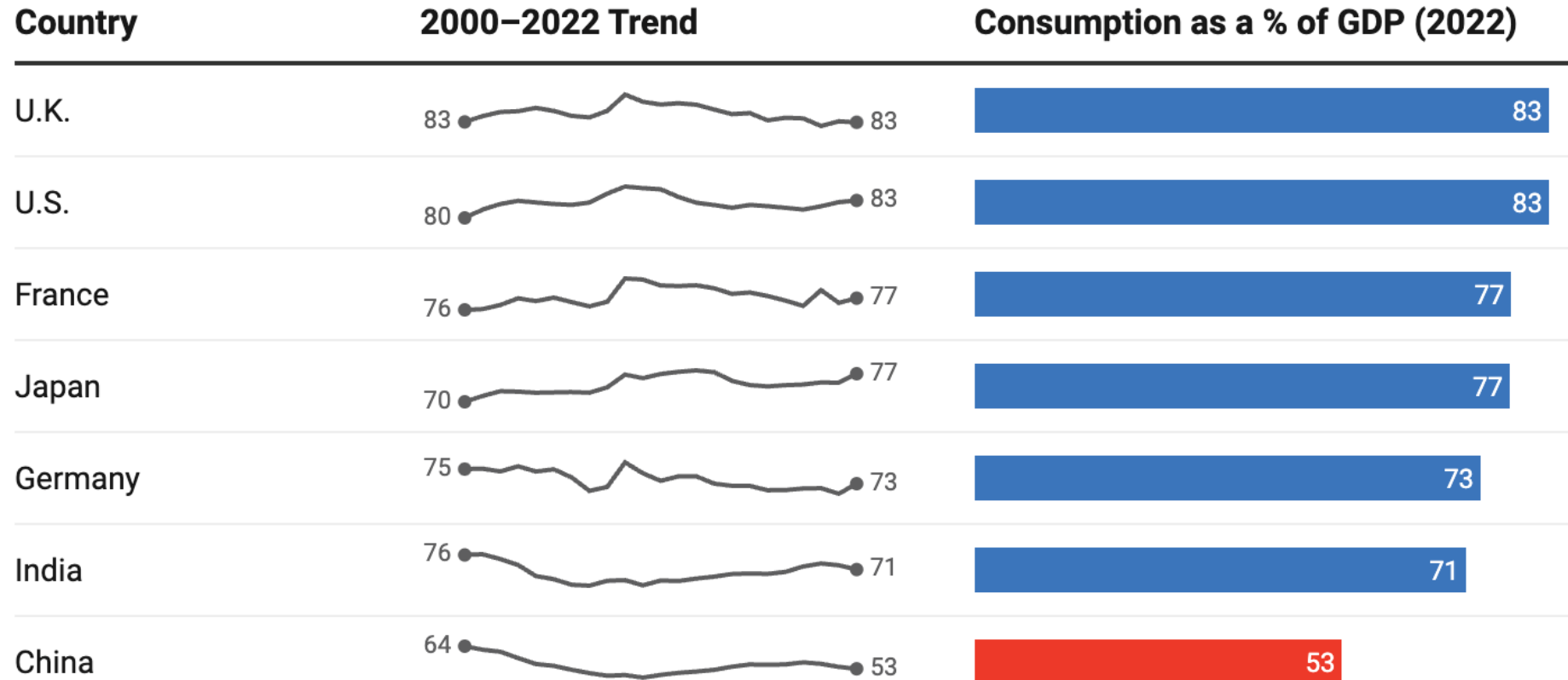
# Commodity Curve Analysis



# Price Line Chart



# Consumption of as a Percentage of GDP222



Source: CSIS China Power Project; World Bank

# The Shanghai Exchange

- Originated in 1891, closed in 1941, it was reestablished in 1990
- 4<sup>th</sup> largest exchange by market capitalization: \$6.41 Trillion
- Foreign investors are required to have follow the QFII/RQFII programs
- To qualify you be an institutional trader
- Have \$500 million of assets under management
- Register with the state administration of Foreign Exchange to convert foreign currency
- Regular reports regarding investment activities, fund performance, and compliance

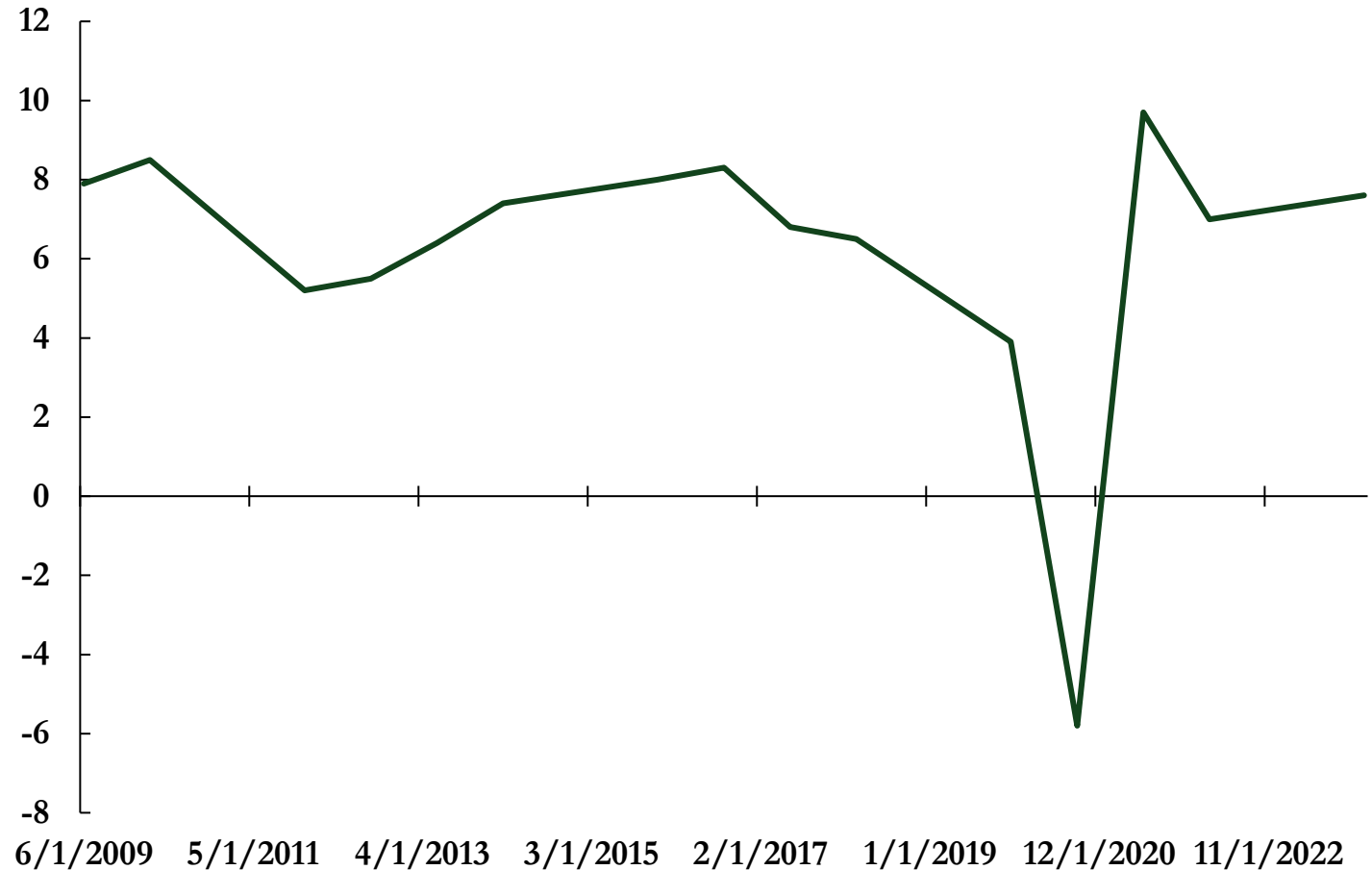
# Types of Steel Produced in China

- Flat (coils, other flat products)
- Long (bars, wires, tubes)
- Stainless
- Galvanized
- Hot-rolled
- Cold-rolled

# India's Economy

- India's CPI rose to 5.49% in September
- Unemployment rate was at 7.8% in september
- Exports have increased by 0.5% from the previous year to \$34.6 billion
- Imports have increased by 1.6% from the previous year to \$55.4 billion

India's GDP YOY %



# Brazil's Economy

- Brazil has an unemployment rate of 6.7%
- Their current inflation rate is 4.42%
- Imports are up 13% to \$24.25 Billion
- Exports are down 6.5% to \$29.08 Billion



# Russia's Economy

- Russia's unemployment rate is 2.6%
- Their CPI rose to 8.6% in September
- Imports have increased to \$25,194 million
- Exports have decreased to \$33,692 Million

