

## Coal Trends

Trends in coal supply, demand and prices as seen from statistics

~ The latest coal trends in China reported by government agencies in USA and Australia ~

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In this issue, we report on market conditions in Australia and South Africa and landed price trends in Japan. We also present the latest trends and changes in China with regard to its production, consumption, and import, based on the report made by government agencies in USA and Australia.

### 1. Spot prices for Australian and South African coal and landed prices in Japan

#### (1) Actual trading price trends for Australian and South African thermal coal (January 2014–May 2014)

Figure 1 shows contracted actual spot trading prices from January 2014 to May 2014, in a time-series for Newcastle (NC), Australia.

For Newcastle, 113 spot trades were recorded in the period between January and May 2014. This represents a 30% year-on-year increase by 26 trades in 2014, given that the contracted spot trades during the Jan-May 2013 period totaled 87.

The boxed amounts in Figure 1 indicate the final transaction prices for the relevant months.

Spot prices hovered slightly above US\$85 per metric ton from October to December 2013, until the trend turned downward again in 2014. The January 2014 final transaction price was recorded at US\$80.00 per metric ton, followed by lower values of US\$77.60 per metric ton in February, US\$75.00 per metric ton in March, US\$76.75 per metric ton in April, and dipping below US\$75 per metric ton again for May, totaling US\$73.00 per metric ton.

New contracts commencing in April 2014, which were entered into with domestic power companies, reflected such stagnant spot price trends, resulting in a sharp US\$5.60 per metric ton drop in comparison to the contracts commencing in January 2014 at US\$81.80 per metric ton.



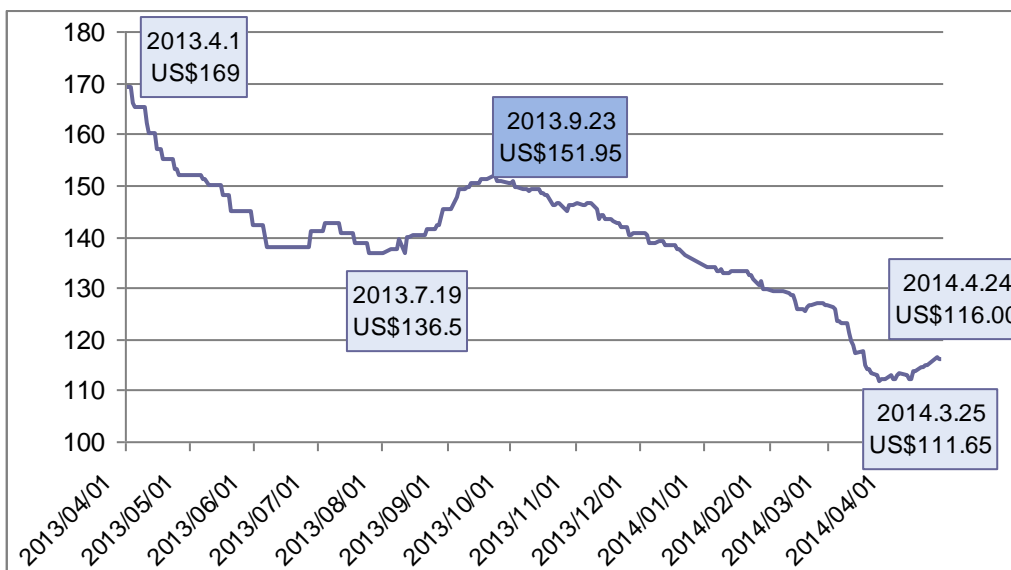
There were 107 spot contracts for FOB Richards Bay (RB) in South Africa during the period from January to May 2014. Given the January-May record of 82 last year, RB also reported an increase of 30% in the number of contracted trades, similar to what we observed in NC.

The price movements also resembled that of NC, showing a downward trend in late January 2014 that led to an accelerated decline in February. The final transaction price at the end of February fell to US\$72.95 per metric ton. This is an astounding drop of US\$8.05 per metric ton in comparison to January's final transaction price. The trend, however, began to reverse in late March, exceeding the NC contracted prices at the end of April with US\$78.00 per metric ton and at the end of May with US\$77.00 metric ton respectively.

(2) Coking coal spot index

The figure below shows the indexes for IHS McCloskey Australian prime hard coking coal FOB; in other words, the hard coking coal price index for Australia, on a daily basis.

Figure 3. Australian Hard Coking Coal Price Index (April 1, 2013-April 24, 2014)



Source: IHS

Although there has been a continuous decline for six months after the peak on September 23, 2013, it bottomed out at US\$111.65 per metric ton on March 25, 2014, and has turned to an upward trend since then. The price rebounded by April 24 to US\$116.00 per metric ton.

The FY2014 first quarter (April-June) pricing of the highest quality Queensland hard coking coal for blast furnaces in Japan was US\$120 per metric ton, which reveals a significant drop of US\$52 per metric ton from the FY2013 first quarter pricing a year ago, and a US\$23 per metric ton decline compared with the immediately preceding fourth quarter (January-March 2013).

## (3) Import price to Japan

--Does the bottoming out trend in coking coal indicate a shift in the moving direction, or a temporary break? --

Table 1 shows the changes in the import prices for all coal landed in Japan from January to April 2014.

Table 1. Japan Landed Imported Coal Prices (January 2014-April 2014)

	Jan 2014 price		Feb 2014 price		Mar 2014 price		Apr 2014 price	
	JPY/ton	US\$/ton	JPY/ton	US\$/ton	JPY/ton	US\$/ton	JPY/ton	US\$/ton
Total imports	12,004	114.70	11,713	113.97	11,569	113.19	11,646	113.61
By coal type								
Coking coal	13,490	128.90	12,945	125.96	12,416	121.47	13,127	128.06
Thermal coal	10,900	104.15	10,861	105.68	10,818	105.83	10,404	101.49
Anthracite	14,670	140.17	13,561	131.95	14,770	144.50	14,297	139.47
By source								
Australia	12,111	115.72	12,004	116.80	11,846	115.89	11,512	112.30
Indonesia	10,035	95.88	9,881	96.14	9,693	94.83	9,897	96.54
Canada	15,774	150.72	14,397	140.08	14,289	139.79	14,865	145.01
China	16,247	155.23	12,789	124.44	15,680	153.40	14,069	137.24
USA	15,899	151.91	13,635	132.67	15,797	154.54	15,006	146.38
Russia	11,854	113.26	11,514	111.76	11,079	108.39	10,811	105.46
South Africa	11,573	110.57	-	-	-	-	-	-
New Zealand	-	-	-	-	-	-	17,005	165.88
Vietnam	14,118	134.89	15,015	146.10	14,021	137.17	14,647	142.88
Mongolia	-	-	790,000	7,687.06	-	-	-	-
Mozambique	-	-	-	-	-	-	-	-
Colombia	14,544	138.96	-	-	-	-	-	-
Coking coal by source								
Australia	13,958	133.37	13,990	136.13	13,229	129.42	13,357	130.30
Indonesia	10,638	102.13	10,356	100.77	10,055	98.38	10,442	101.86
Canada	17,106	163.45	15,793	153.67	15,508	151.73	15,464	150.85
China	11,952	114.20	12,839	124.93	15,859	155.15	14,996	146.29
USA	17,751	169.61	15,233	148.22	15,798	154.56	15,627	152.44
Russia	13,200	126.12	12,344	120.11	12,286	120.20	12,454	121.49
New Zealand	-	-	-	-	-	-	17,005	165.89
Mongolia	-	-	-	-	-	-	-	-
Mozambique	-	-	-	-	-	-	-	-
Thermal coal by source								
Australia	11,208	107.10	11,210	109.08	11,134	108.93	10,512	102.54
Indonesia	9,223	88.12	9,220	89.71	9,062	88.66	9,120	88.96
Canada	10,505	100.37	9,838	95.73	12,476	122.05	10,804	105.40
China	12,425	118.72	12,478	121.42	10,836	106.01	12,160	118.62
USA	9,198	87.89	10,791	105.01	-	-	13,856	135.17
Russia	10,711	102.34	10,696	104.08	10,413	101.88	10,174	99.25
South Africa	11,574	110.59	-	-	-	-	-	-
Colombia	14,544	138.97	-	-	-	-	-	-
	US1\$=¥104.66		US1\$=¥102.77		US1\$=¥102.21		US1\$=¥102.51	

Source: Prepared using Trade Statistics of Japan Monthly Reports

Landed prices over the total import volume have fluctuated around US\$113 per metric ton since February after posting US\$114.70 per metric ton in January 2014.

A data analysis by coal types shows that the coking coal price rebounded by a healthy US\$6.59 per metric ton from US\$121.47 per metric ton in March to US\$128.06 per metric ton in April. On the contrary, the thermal coal pricing recorded an US\$4.34 per metric ton decline, from US\$105.83 per metric ton to US\$101.49 during the same period.

The prospects of future landed prices appear to indicate that the single US\$5.60 per metric ton drop in prices for contracts commencing in April 2014 for Japanese power companies may exert downward pressure in thermal coal prices after May.

While we observed an increase in coking coal landed prices in April, it does not seem to be that it is simply turning into an upward movement to coincide with the above-mentioned upturn in the hard coking coal Index. With regard to the price of the highest quality hard coking coal for blast furnaces in Japan, a significant decrease has been reported to US\$120 per metric ton (April-June) from the US\$143 per metric ton value in the first quarter (January-March). The US\$23 per metric ton difference can only work to place downward pressure on the landed prices after May.

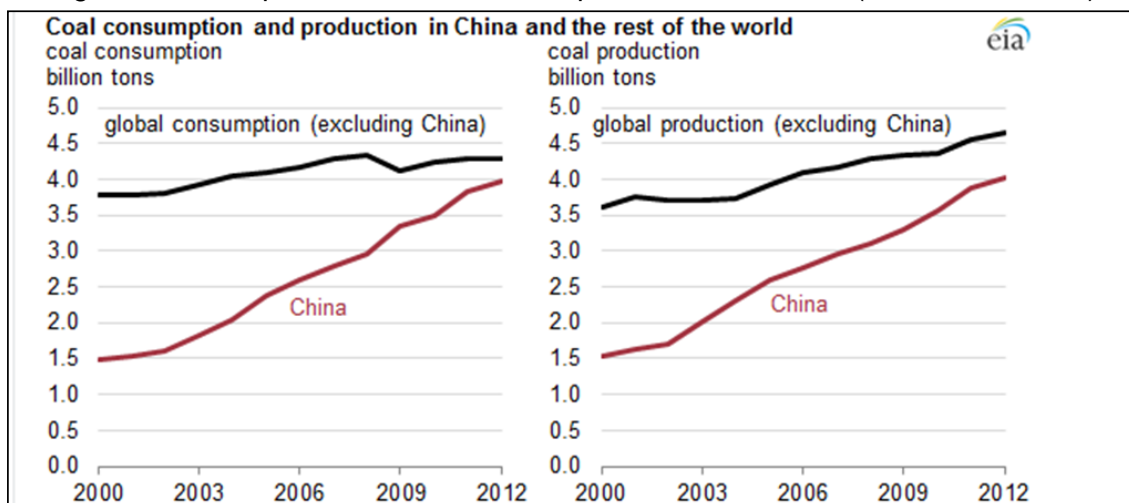
Based on this observation, the stabilized landed price for coking coal would be more appropriate to view as a temporary lull rather than the beginning of an upward trend.

## 2. The latest coal trends in China reported by government agencies in USA and Australia

### (1) A report on China by the U.S. Department of Energy

The U.S. Energy Information Administration (EIA) of the U.S. Department of Energy featured an article providing that “China produces and consumes almost as much coal as the rest of the world,” in the “Today in Energy” section updated on May 14, 2014.

Figure 4. A Comparison of Coal Consumption and Production (China and others)



Source: EIA, the U.S. Department of Energy

It reports a consecutive increase in coal production and consumption for thirteen years as of 2012, reaching approximately 4 billion tons both in production and consumption. 46% of the production and 49% of the consumption in the world are attributed to China, which is reported to single-handedly account for 69% of the world's 3.2 billion ton production increase and for 83% of the 2.3 billion tons of greater consumption over the past decade.

These points probably do not surprise our readers. The following section will address trends related to Chinese coal since 2013.

- (2) The latest trends in China's coal reported by the Bureau of Resources and Energy Economics of Australia (BREE)

The Bureau of Resources and Energy Economics (BREE) under the Ministry of Industry of Australia, studies and publishes information related to resources and energy.

One of its trade journals, *China Resources Quarterly*, is posted regularly on the BREE website. I will introduce the latest information on China's coal that was published on May 9, 2014.

The article "China Resources Quarterly, Southern autumn ~ Northern spring 2014" provides as below:

The growth rate that the Chinese economy displayed in the 2014 first quarter did not reflect its potential.

This was particularly notable in heavy industry, with a sharp increase in inventory from December last year to this February. During this period, production had been adjusted to control supply, and it appears to have weathered the worst.

Despite the mediocre economic growth, the use of resources and energy in 2013 maintained an upward trend. With a 9% surge, China's steel production was a record 775 million tons, which is the largest in history, while the iron ore import

volume was 820 million tons. Notwithstanding the implementation of policies to curb coal use, coal consumption also increased 2.6% to 3.610 billion ton.

As the two tables below illustrate, coal import volumes in 2013 have managed to expand both in coking coal and thermal coal compared to the 2012 figures. A new prospect started to emerge in 2014 on coking coal.

Table 2. Changes in Coking Coal Imports to China

	2012					2013					2014
	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Total	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Total	Jan-Mar
Import volume	12.2	15.4	8.9	17.0	53.5	17.2	18.1	19.4	20.7	75.4	13.0
For Australia	6.9	4.8	3.6	13	28.3	9.1	9.8	12.4	14.0	45.3	9.9

Source: based on the BREE "China Resources Quarterly, Southern autumn Northern spring 2014"

China imported 13 million tons of coking coal in the 2014 first quarter, down 24.5% year-on-year. This was underpinned by a large drop in exports from Canada and Mongolia. They were down 42% and 22% respectively from the same period in the previous year. Exports from Australia, on the other hand, increased 9%.

Over the periods after the second quarter in 2014, the outlook for coking coal consumption is expected to be subdued. This is due to slowing growth in China's steel production, and the roughly 30 million tons of facility capacity that is expected to be lost.

Table 3 represents changes in China's thermal coal import volumes.

Facing lower coal prices, many Chinese producers have been squeezed, forcing some smaller-scale producers to close. Producers in Inner Mongolia have been particularly hard hit because of relatively high transportation costs.

Table 3. Changes in Thermal Coal Imports to China

	2012					2013					2014
	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Total	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Total	Jan-Mar
Import volume	49.3	62.9	54.4	68.5	235.1	62.8	60.5	60.9	67.6	251.8	71.0
For Australia	8.1	11.4	11.3	14.8	45.6	12.9	12.2	17	15.9	58.0	15.4
For Indonesia	25.1	30.5	23.6	36.5	115.7	33.1	29.4	27.8	32.8	123.1	35.7

Source: based on the BREE "China Resources Quarterly, Southern autumn ~ Northern spring 2014"

Table 3 shows that China's thermal coal imports (including lignite) increased 13.1% year-on-year in the first quarter of 2014 to 71.0 million tons. Import volume from Australia were up 19.7% per year, together with an 8.1% increase from Indonesia, reaching nearly 36.0 million tons.

(To be continued in the next issue)

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