

Outlook for International Coal Market

(Summary)

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Outlook for coal prices in 2015-2016

1. Coal price trends through 1st half 2015

- Both steam and coking coal prices declined further as oversupply continued.
- The spot steam coal price (an FOB price at Newcastle port in Australia) continued a downward trend throughout 2014 in response to the loosening supply-demand balance amid decelerating demand growth in China, falling from \$86/ton at the beginning of 2014 to \$61/ton at the beginning of 2015. The price rose above \$70/ton in early 2015 as supply declined temporarily due to heavy rainfall in New South Wales State and a cyclone disaster in Queensland State. But it later fell to \$55/ton before remaining around \$60/ton in June.
- The spot coking coal price (an FOB price for Australian hard coking coal) dropped from \$134/ton at the beginning of 2014 to \$112/ton in April as the supply-demand balance loosened. It remained in a \$110-115/ton range from April 2014 to March 2015. But the price declined to \$85/ton in May and remained slightly below \$90/ton in June.

2. Outlook for coal prices

Steam and coking coal prices are likely to moderately increase in 2016 as overproduction is expected to diminish due to weak coal prices that may depress supply.

- The spot steam coal price (an FOB price at Newcastle port in Australia) will remain at the present level around \$60/ton in the second half of 2015 and range from \$60/ton to \$70/ton in 2016.
- The spot coking coal price (an FOB price for Australian hard coking coal) will move within an \$80-85/ton range in the second half of 2015 and range from \$90/ton to \$100/ton in 2016.

Coal market through 2016

3. Coal demand

The international coal market consists of Asian and European components.

- Asian steam coal demand will increase mainly in India and Southeast Asia where demand for steam coal for power generation is expected to steadily expand in line with economic development. These regions will thus raise steam coal imports. Asian coking coal demand and imports will expand in India where crude steel production is growing. But China will reduce both steam and coking coal imports due to an economic growth slowdown and the current oversupply.
- Indian coal imports in FY2014 (April 2014-March 2015) expanded by 50 million tons to 218

million tons (including 44 million tons in coking coal), topping 200 million tons. The level exceeded 185 million tons (including 35.5 million tons in coking coal) projected for the final year (April 2016-March 2017) of India's 12th five-year development plan.

- China reduced its coal imports in 2014 by 36 million tons from the previous year as its coal consumption growth stopped after it drove Asian coal demand and market growth until 2013. Even after the beginning of 2015, China's domestic coal consumption and imports declined year on year. Factors behind the coal consumption decline include slack demand for electricity, steel and cement from coal-consuming industries under an economic growth slowdown, as well as coal consumption curbs and environmental regulations in major cities and coastal zones under the pressure of the air pollution problem. Hydro power generation, which has been brisk since 2014, also contributed to reducing steam coal consumption.

In the first five months of 2015, China's coal consumption stood at 1.57 billion tons, down 5% year on year. Coal imports decreased by 52 million tons, indicating a faster fall than in the previous year.

- European coal consumption has been decreasing since 2013 as coal-fired power generation has been falling due to a drop in total power generation and an increase in renewable energy-based generation. This trend will continue in 2016, with steam coal imports decreasing on a demand fall. Coking coal imports have remained around 35 million tons per year since 2010 and are likely to stay almost unchanged in the future.

4. Coal supply

- Coal prices' fall and their slackness over several years have resulted in a drop in earnings at coal production companies despite their cost-cutting efforts. Major coal companies have shut down unprofitable coalmines or suspended production at such coalmines. At the same time, they have been focusing business resources on more profitable coalmines and expanding output there.
- Australian coal exports have smoothly increased, totaling 387 million tons in 2014. The Australian government's biannual coalmine development plan gives production capacity at coalmines launching production in 2015 at 15.2 million tons for steam coal and 19.7 million tons for coking coal. Present transportation infrastructure capacity (including railways and ports) exceeds export demand, indicating that the present supply arrangements are sufficient. A matter of concern is the delay or postponement of new coalmine and transportation infrastructure development under slack coal prices, which could affect the supply-demand balance in several years.
- Attention must be paid to the Indonesian situation. Indonesia expanded coal exports in response to the growing Asian market until 2013 before reducing exports in 2014 by 7% (or 25 million tons) from the previous year. The Indonesian government has offered a policy of restricting coal production for the protection and effective utilization of domestic coal resources. Under a medium-term national development plan, it intends to reduce coal output from 425 million tons in 2015 to 400 million tons in 2019. Indonesia will substantially cut coal exports as domestic coal demand expands in line with electricity demand growth.
- Among other coal exporting countries, Russia, Colombia and South Africa increased exports in 2014, while the United States reduced exports. The U.S. export decline may be attributable to the shrinking European market and a drop in the competitiveness of U.S. coal featuring a high FOB cost in the market where prices are falling.