

423rd Forum on Research Works on July 26, 2016

Outlook for International Coal Market (Summary)

Atsuo Sagawa

Manager

Coal Group, Fossil Fuels & Electric Power Industry Unit

The Institute of Energy Economics, Japan

Outlook for coal prices in 2016-2017

1. Under the prolonged global weakness of coal prices, coal mining companies are shutting down coalmines, suspending production or making production adjustments, holding down production. Meanwhile, a brake has been applied to a decline in China's coal imports, with a coal glut fading away. As a result, coal prices are stopping their decline and signaling an upturn in 2016 after continuing to fall for more than four years.
2. The spot steam coal price (an FOB price at Newcastle port in Australia) continued a downward trend from \$130/ton in 2011 and slipped below \$50/ton in January 2016. It remained in a \$50-55/ton range later and rose above \$60/ton in early July.
3. We forecast that the spot steam coal price will fall on an import drop in autumn to a \$55-60/ton range in the second half of 2016 before rising back to around \$60/ton on an increase in import demand in Southeast Asia in 2017.
4. The spot coking coal price (an FOB price for Australian hard coking coal) followed a downtrend from more than \$300/ton in 2011, slipping below \$80/ton to \$77/ton in December 2015. It rose back to \$100/ton in late April 2016 before remaining in a \$90-100/ton range.
5. We forecast that the spot coking coal price will stay in a \$90-95/ton range in the second half of 2016 before rising to a \$95-100/ton range on an Indian import increase in 2017.

Demand trends

6. Asian coal demand will post growth driven by India and Southeast Asia where steam coal demand including coal for power generation will steadily increase in line with economic development.
7. India is implementing the policy-based enhancement of domestic coal production, holding down growth in imports. Indian coal imports in FY2015 (April 2015-March 2016) decreased by 12.2 million tons from the previous year due to the domestic production enhancement. Coal India Limited (CIL), which accounts for 80% of Indian coal production, has reportedly set a

FY2016 production target at 610 million tons, meaning that it will have to expand production by 74 million tons from 536 million tons in FY2015. It will not be easy for the company to achieve the target. Indian imports are thus likely to increase again.

8. Chinese coal demand has declined due mainly to economic growth deceleration and air pollution regulations. In 2016, however, a brake has been applied to a decline in imports. In 2015, imports decreased by 50 million tons for steam coal and by 15 million tons for coking coal. In the first five months of 2016, however, China's coal imports leveled off from a year earlier to 86.3 million tons. Factors behind this trend may be domestic coalmine shutdown under weak coal prices and the reduction of excessive coal production capacity. As this trend is likely to continue in the future, steam coal imports are expected to level off, with coking coal imports increasing slightly. As factors exerting great influences on global coal supply and demand, we will have to continuously pay attention to economic growth, domestic coal production and domestic demand trends in China.
9. Among other Asian countries, Southeast Asian countries will expand steam coal imports for new coal power generation capacity under construction. In 2016 and 2017, South Korea plans to launch operation at 10 coal power plants with total capacity at 8,700 megawatts, helping push up steam coal prices.
10. In Europe, coal power plants will growingly be closed due to increasing renewable energy power generation, competition from gas, and air pollution and climate change measures. As a result, demand for steam coal will decline, resulting in a drop in coal imports, particularly steam coal imports.
11. In the United States, coal demand has decreased on the shutdown of coal power plants under air pollution measures and a drop in gas prices. This trend will continue into 2017.

Supply trends

12. Coal prices' plunge and prolonged weakness have led coal companies in major coal exporting countries to continue cost-saving efforts. However, their earnings have declined, forcing them to close unprofitable coalmines and suspend production while concentrating business resources on highly productive coalmines for increased production. They have also made production adjustments in response to coal demand drops.
13. Australia's coal exports in 2015 leveled off from the previous year to 387.4 million tons as foreign demand decreased. Australian coal companies have closed less profitable coalmines, suspended production at such coalmines or consolidated assets to concentrate business resources on highly productive coalmines. Attention must be paid to future moves of coal companies. Weak coal prices have led new coalmine and transportation infrastructure development to be delayed or postponed, indicating potential impacts on the supply-demand

balance several years away.

14. Indonesia's coal exports increased in line with Asian market expansion until 2013 before falling in 2014 and 2015. While the Indonesian government has offered a policy of holding down coal production to protect and effectively use coal resources (planning to reduce coal production from a target of 425 million tons for 2015 to 400 million tons in 2019), a plunge in foreign demand has forced actual output to slip below the target. As coal demand increases in line with domestic electricity demand expansion, however, Indonesia is expected to reduce coal exports over a medium to long term.
15. In the United States, domestic and foreign coal demand drops and weak international coal prices have forced many coal companies, including the two largest ones, to file for bankruptcy protection. U.S. coal exports have declined as the shrinkage of the European market as a major destination of U.S. coal exports and slackening coal prices have prompted U.S. coal with a high FOB cost to lose competitiveness. Future moves of U.S. coal shippers, which had served as swing suppliers, will attract attention.
16. Among other major coal exporters, Russia, Colombia and South Africa saw their exports in 2015 leveling off or decreasing slightly from the previous year in line with weak foreign demand. They can afford to expand output and may increase exports to the Asian market, given the shrinking European market.