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Outlook for International Coal Market
(Summary)

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<u>Outlook for coal prices in 2017-2018</u>

1. Both steam and coking coal prices wildly fluctuated in the second half of 2016 due mainly to Chinese factors.
2. The spot steam coal price (an FOB price at Newcastle port in Australia) peaked at $110/ton in November 2016 before falling to around $80/ton in January 2017. The price fell further to the $70-75/ton range and rose back close to $90/ton on an increase in Chinese and South Korean procurement toward the summer demand season. Later, it has moved within an $80-85/ton range.
3. The spot coking coal price (an FOB price for Australian premium hard coking coal) rapidly rose to $310/ton in November 2016 before plunging to $160/ton in mid-February 2017. After continuing a downtrend, however, the price temporarily soared close to $300/ton as a cyclone seriously damaged the key railway system for the coal supply chain in Australia's Queensland in May. The price fell to $140/ton in June and now recovered above $160/ton.
4. In the future international coal market, both steam and coking coal will have no supply problems thanks to the restart of idled coal mines and the expansion of production at operating coal mines. Given that (1) Chinese coal imports will slightly increase and (2) there will not be natural disasters such as cyclones and heavy rains affecting coal supply, spot coal prices will follow a downtrend through early 2018.
5. Spot steam coal prices will fluctuate on seasonal factors (falling toward autumn and spring on a trade decline and rising toward winter and summer demand seasons). The annual average spot steam coal price stood at $66/ton in 2016 and will rise to $80/ton in 2017 before falling back to $73/ton in 2018.
6. Spot coking coal prices will decline to around $140/ton in early 2018 before levelling off. The annual average stood at $141/ton in 2016 and will rise to $165/ton in 2017 before falling back to $140/ton in 2018.

<u>Demand trends</u>

7. In China, coal demand declined for three consecutive years from 2014 due to economic growth deceleration and measures against air pollution. On the other hand, coal imports in 2016

increased by 51.4 million tons from the previous year as domestic production declined (with the annual number of coal mine operating days cut from 330 to 276). While the annual number of coal mine operating days was raised back to 330 in November 2016, imports continued to increase year on year even after 2016. While the Chinese government plans to restrict coal supply and demand, fossil fuel power generation and crude steel production in 2017 are increasing year on year. Given the present trend, we expect imports to continue a slight increase.

8. India's coal imports decelerated growth in 2015 and posted a decline of 3.7 million tons in 2016. The import fall is attributable to the country's domestic production promotion policy and slowing demand growth. However, it would be unrealistic to cover domestic demand growth with domestically produced high-ash coal. Imports will increase again.
9. ASEAN and other Asian countries are constructing new coal power plants, indicating that their steam coal imports will increase.
10. In Europe, steam coal demand and coal imports will decrease as coal power plants are shut down on growing renewable energy power generation, competition from gas, and air pollution and global warming measures.
11. In the United States, coal demand has declined over the past several years due to the shutdown of coal power plants under anti-pollution measures and switching from coal to gas amid gas price drops. Vowing to revive the coal industry, President Donald Trump issued an executive order in March 2017 to revise the Clean Power Plan and lift a moratorium on coal mine leases. Specific measures are left for future consideration. Given growing switching to gas, coal power generation capacity is unlikely to increase. It may be difficult to expand coal demand, although coal demand drops could be decelerated.

Supply trends

12. Among major coal suppliers, Russia and Colombia expanded their respective coal exports by more than 10 million tons in 2016, while Indonesia and the United States cut their exports by 16 million tons and 8 million tons, respectively. Australia and South Africa kept their exports almost unchanged.
13. Coal companies in major coal producing countries have begun to dispose coal assets under slack coal prices over several years since around 2014, leading to active transactions in coal assets. On the other hand, coal price hikes in 2016 prompted some coal companies to restart idled coal mines, expand production at operating coal mines and resume new coal mine development.
14. Australian coal exports have leveled off since 2014. While asset disposal will make progress, overall Australian coal supply capacity will increase on the restart of idled coal mines and the expansion of production at operating coal mines.
15. Indonesian coal exports decreased for the third straight year from 2014. In early 2015, the Indonesian government came up with a plan to gradually reduce coal production (from 425

million tons in 2015 to 400 million tons in 2019) to protect and effectively utilize coal resources. As exports declined substantially, however, production in 2016 slipped below the planned level. Coal exports may be increased over a short term. Over a medium to long term, however, coal exports will decrease on growing demand for coal for domestic power generation.

16. In the United States, domestic demand and export declines and falling international coal prices forced many coal companies including the first and second largest producers to file for bankruptcy. U.S. coal companies have served as swing suppliers (increasing exports when international prices rise). How U.S. coal companies would respond to the current business crisis and the shrinkage of the European market as their major export destination is attracting attention.

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