429th Forum on Research Works on July 26, 2018

Outlook for the International Coal Market (Summary)

Atsuo Sagawa
Manager
Coal Group, Fossil Energies & International Cooperation Unit
The Institute of Energy Economics, Japan

Outlook for coal prices in 2018-2019

1. Both steam and coking coal prices have remained elevated from early 2018 to today. The spot price of steam coal (as FOB price at Newcastle Port in Australia) has trended around $100/ton since the summer of 2017. After rising to $110/ton in March 2018, the price fell back to $93/ton in April 2018 after the end of the high demand season. However, the price reversed course upward to $120/ton once again with increased procurement by China ahead of the summer demand season.

   The spot price of coking coal (an FOB price for Australian premium hard coking coal) rose to $260/ton in January 2018 on the back of increased imports in China and India. The price retreated back to $170/ton at the end of April, but rebounded and hit $200/ton in early July. Currently, the price has fallen back to the $170/ton range once again. One of the main factors behind this increase is China's spot procurement.

2. Coal demand will increase in emerging countries, mainly in Asia (India and ASEAN, etc.), which will boost coal imports as well.

3. In response, coal supply will be able to meet increasing demand because of the restart of idled coal mines and expansion plans for operating coal mines as a result of the market recovery (elevated prices). In addition, Colombia and Russia, where there was major growth in exports in 2017, are looking to increase supply to future growth markets in Asia.

4. Given this situation, the coal market should see both steam and coking coal prices fall back from the elevated levels at present, as supply can be expected to outpace demand. However, attention must be paid to temporary drops in supply caused by

natural disasters and larger procurement from the spot market and temporarily increased demand in China and others.

The spot price of steam coal fluctuates based on seasonal changes, but it appears headed downward toward the lower $70/ton range at lowest. The annual average price is forecast to rise to $101/ton in 2018, up from $89/ton in 2017, and then fall to $80/ton in 2019.

The spot price of coking coal appears headed toward a drop to the $150/ton range. The average annual price will increase from $188/ton in 2017 to $192/ton in 2018, but 2019 prices are expected to retreat to $160/ton.

<u>Coal supply and demand trends</u>

5. In China, coal demand declined for three consecutive years from 2014 due to slower economic growth and measures against air pollution. However, in 2017, consumption shifted upward and both domestic production and imports were up. The Government of China has a policy in place to control coal consumption and production in a balanced manner. Generated output using thermal power and pig iron production both increased year on year in 2018, and for the time being, coal demand will rise.

6. In India, coal imports declined slightly for two years after peaking in 2015 due to the increase policy of domestic production, however coal imports are rising year on year since autumn of 2017 and have continued to increase even after the start of 2018. Steam coal imports will increase owing to superiority in terms of quality and cost and the start of operation at imported coal-fired thermal power plants. Coking coal imports will increase following higher pig iron production because India has few high-grade coking coal reserves.

7. In the United States, coal demand has declined sharply due to the shutdown of coal-fired thermal power plants from measures against environmental pollution and the shift to gas caused by low prices. President Trump has ordered the review of regulations on new and existing thermal power and the Clean Power Plan (CPP). This could put a damper on declining coal demand to some extent. On the other hand, coal exports increased in 2017 mainly bound for Asia (up 34 million tons over 2016). The increase in United States coal export with a higher FOB cost is due to the recovery in overseas market conditions (elevated prices). The United

States has excess supply capacity, and export levels should trend flat depending on international market prices.

8. Indonesia's exports declined for three consecutive years from 2014, but increased in 2017. The Government of Indonesia announced a production adjustment policy in early 2015 from the standpoint of protecting coal resources and their effective use (slight decline from 425 million tons in 2015 to 400 million tons in 2019). Reportedly, however, production in 2017 amounted to 460 million tons, and the production target for 2018 is 485 million tons. This indicates exports will not decline for the time being.

9. Australia's exports have remained largely unchanged due to lackluster growth in global coal trade volume. Australia's coking coal exports declined in 2017 following significant damages to a coal railway caused by the cyclone that struck Queensland at end of March 2017.

10. Coal industry reorganization is progressing given the weak prices from 2011 to early 2016. Looking at the situation in Australia, Rio Tinto exited the coal business, Glencore increased its steam coal business mainly in New South Wales, BHP Billiton strengthened its coking coal business in Queensland, and Anglo American plans to exit the coal business. Meanwhile, Yancoal, White Haven and others have acquired concessions and are seeking to expand production. As stated above, asset disposals have been carried out, but overall Australia's production capacity has been maintained. And it is expected to increase production in companies seeking to restart idled coal mines or increase production capacity depending on coal demand.