

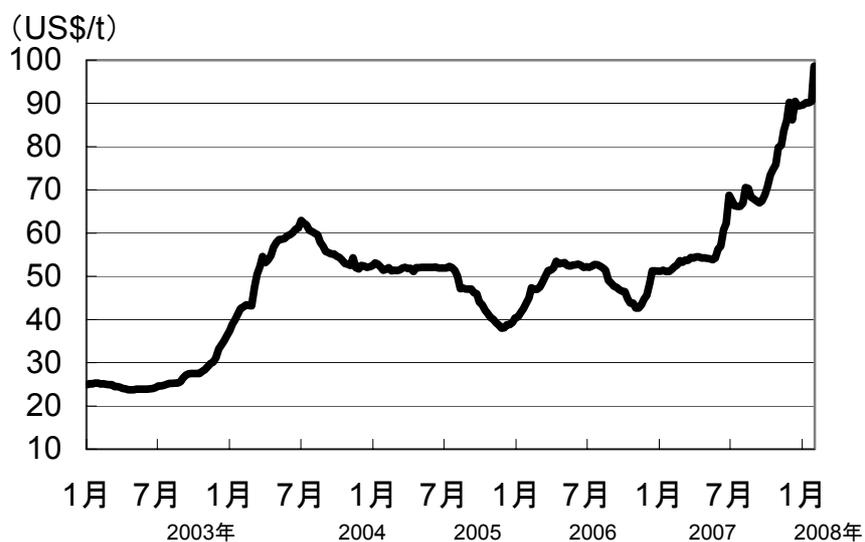
Key Points of Outlook for 2008

Trends in Asian Coal Markets

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In the Asian coal markets, coal prices rose substantially. Spot steam coal prices, which shifted to climb again since summer in 2007, have reached close to the \$100/ton level (see the figure 1) since the beginning of this year. On the other hand, the prices of coking coal, which is mainly based on term contracts, are also climbing with rising demand in the background, and it is most likely that contracts for 2008 will be signed at prices in excess of \$125/ton for 2005 (Japan's annual contract price of high-grade hard coking coal). When gaining a perspective of this year's and the medium-term coal prices, the trends in Australia and China will pose a crucial point.

Fig.1 The Trend of Steam Coal Spot Prices in Australia



In Australia, investments in the export infrastructure were delayed during the price slump period, and it lacks such transportation systems to meet demand, but it also lacks the capacity in existing railways and ports. For this reason, demurrage problems have occurred in coal shipping terminals including such major ports as Newcastle and Hay Point. After the supply shortage occurred in 2004, new coal mines were constructed, and the existing mines were expanded in Australia, and it now has production capacity corresponding to current export demand, but the capacity of export infrastructure is causing some restrictions on production volume. It will take some time to improve

the infrastructure, and it will take two to three years to catch up with export demand, thus the adjustment for export volume has been decided for 2008 as a demurrage measure.

In addition, in China, coal exports have decreased since 2004 due to active domestic demand while imports have increased. In the first half of 2007, imports exceeded exports, but during the second half, coal prices and ocean freight rose in Asian markets, and thus imports decreased and exports increased, and China did not become a net importer for the year. However it is thought that China was likely to become a net importer on an annual basis in 2008. The trend in Chinese imports is to expand centered on its southeastern coastal region, but the volume will depend on the difference between domestic and foreign prices (domestic coal prices and Asian market prices). In addition, export volume may greatly depend on the domestic demand/supply situation and domestic/foreign price differences.

Furthermore, as it is expected that coal imports will expand in Korea, Chinese Taipei, India, and Southeast Asian countries, SUEK, the Russian coal producing company is going to complete its new coal terminal at Muchke bay in the Far East as a new supply source, but it appears the tight coal market will continue due to problems in supplier countries such as Australia and China. In 2007, the steam coal spot prices climbed upward due to the rainstorm that hit New South Wales in Australia and the delayed end to the rainy season or the effects of localized torrential downpours in Indonesia. It is necessary to formulate a coal procurement plan based on the assumption that it is most likely that supply problems may occur in 2008 due to similar natural disasters. In addition, in the second half of January 2008, force majeure clauses have been exercised in the state of Queensland due to the effects of heavy rains there.

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