

Key Points of Outlook for 2009

Developments Involving Asian Coal Market

Atsuo Sagawa, Senior Analyst
Coal Research Group, Strategy and Industry Research Unit
The Institute of Energy Economics, Japan

Spot steaming coal prices, in an upward trend since 2007, soared fast from levels just below \$100 per ton in early January 2008 to \$140 in early March due to a production decline on heavy rains hitting Australia's Queensland state and an export suspension on heavy snowfalls in the mid-south of China. Prices later fell to \$120 before jumping toward the summer demand season. In early July, they reached \$195 (as crude oil prices soared fast then, the price level was equivalent to one-fourth of the crude oil price in terms of calorific value).

Then, prices for Japan's long-term steaming coal import contracts were set in April at \$125 per ton, some 2.5 times higher than in fiscal 2007. Prices for high quality coking coal in 2008 had been expected to rise to \$150 amid the tightening supply/demand relationship since 2007. As heavy rains seriously damaged coal production equipment in Australia's Queensland state, however, coking coal prices for 2008 were finally fixed at \$300, three times higher than in 2007.

However, spot steaming coal prices turned down in July and stood at levels between \$75 and \$80 in December. The steaming coal price decline was similar to the crude oil price drop. The financial crisis began to overshadow energy demand, affecting steaming coal consumption as well. Usually, spot steaming coal prices rise in November and December. In reality, however, these prices failed to rise even by mid-December on the easing coal supply/demand relationship. Coking coal demand has decreased on a plunge in steel production. On the supply side, the brisk demand and price hikes in the first half of 2008 prompted Australia, Indonesia, Canada and other coal exporters to expand production at existing mines and develop new mines. Australia has promoted coal transportation infrastructure development, matching coal export demand.

Under such circumstances, steaming coal demand growth for 2009 is expected to decelerate substantially in the Asian coal market. Coking coal demand is projected to

decline, while supply capacity is likely to increase. As the coal supply/demand relationship is expected to ease in 2009, the sellers' market may be replaced with the buyers' market. However, the financial crisis since the summer of 2008, the relevant deceleration of economic growth and a coal demand decline amid the economic slump could cause delays in development of coalmines and coal transportation infrastructure. Such delays are seen as problematic, as coal demand, though declining temporarily on the economic crisis, is well expected to expand mainly in Asia over a medium to long term.

Contact: report@tky.ieej.or.jp