

Coal Trends

– Trends in coal supply, demand and prices as seen from statistics –
 ~Continued fall of coal prices and strengthening of production reduction policy in coal-producing countries~

Koji Morita, Board Member, Director, Charge of Electric Power & Coal Unit

This paper first discusses the import price trend for coal for Japan, and then introduces the situation of coal-producing countries that are now being shaken up by falling prices.

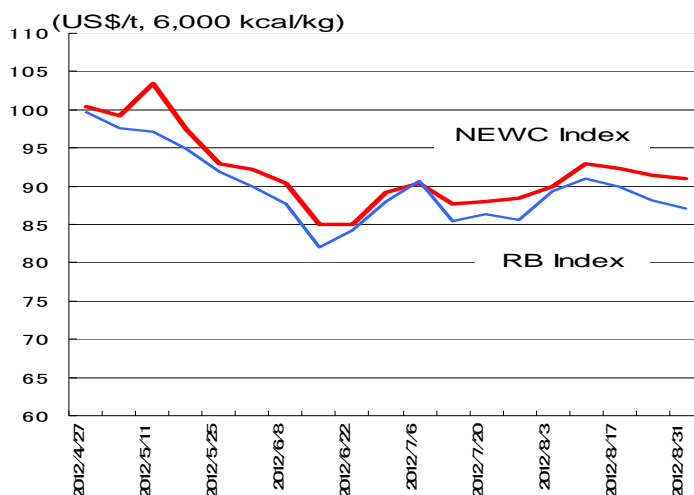
1. Japan’s Coal Imports

(1) Spot prices

Spot FOB prices for thermal coal at Newcastle, Australia were transitioning around US\$120-130 per metric ton from the start of 2011 to around mid-October, but gradually started to fall from that point, and that trend continued after plunging below US\$120 per metric ton. At the end of April 2012, prices fell below US\$100 per metric ton and in the start of June reached as low as US\$85 per metric ton (see Figure 1). They then showed some signs of rebounding and at times moved past US\$90 per metric ton, but remained more or less stagnant at the US\$90 level until mid-August.

Moves indicating a falling trend in prices were again seen from mid-August, and US\$82.50 and US\$84.50 were observed in spot trading concluded at the end of September (delivery for October and November, respectively) (globalCOAL).

Figure 1. Transition of globalCOAL NEWC and RB Indices



Note: NEWC Index: FOB Newcastle, NSW, Australia price for thermal coal (6,000 kcal/kg net)

RB Index: FOB Richards Bay, South Africa price for thermal coal (6,000 kcal/kg net)

Source: globalCOAL

Also in the South African thermal coal market (RB spot), trading took place at US\$83.75 and US\$84.25 per metric ton at the end of September (both November deliveries) (globalCOAL).

In coking coal, the FOB price for strong coking coal at East Coast Australia transitioned around a little over US\$220 per metric ton until around the start of July 2012, but entered a downward trend by mid-July and moved below US\$200 by the start of August. This downward trend remained strong in September and the prices had fallen to the mid-US\$160s per metric ton in the latter half of September (Energy Publishing website).

(2) Import price to Japan

As indicated in Table 1, compared with the average actual figures for January-July of this year, the price for all imports for August fell by 10.2%; from an average of US\$166.88 per metric ton down to US\$149.79 per metric ton (comparison on US\$ basis, same to apply hereunder). Compared with 2011, the fall is even greater, at 14.7%.

By coal type, the fall in coking coal was -12.3% in comparison with the average for January-July, and -21.1% against 2011.

Thermal coal fell 10.0% against January-July, and -8.1% against 2011, indicating a smaller rate of fall than coking coal, but nevertheless falling.

Table 1. Comparison of imported coal prices, landing in Japan
(August 2012 and January-July 2012 average)

	August 2012 price		Jan-Jul 2012 price		2011 price	
	yen/ metric ton	US\$/ metric ton	yen/ metric ton	US\$/ metric ton	yen/ metric ton	US\$/ metric ton
Total Imports	11,767	149.79	13,671	166.88	14,033	175.5
By coal type						
Coking coal	14,129	180.01	16,340	205.31	18,238	228.01
Thermal coal	9,903	126.17	11,160	140.22	10,980	137.27
Anthracite	13,327	169.79	15,604	196.05	17,769	222.13
By source						
Australia	11,945	152.19	13,429	168.72	14,389	179.89
Indonesia	9,128	116.29	10,232	128.55	10,108	126.36
Canada	15,727	200.37	18,619	233.94	19,367	242.12
China	15,103	192.91	15,251	191.61	15,644	195.57
USA	18,677	237.96	20,865	262.15	20,439	255.52
Russia	10,699	136.31	12,272	154.19	13,431	167.90
South Africa	-	-	10,104	126.96	11,793	147.43
New Zealand	-	-	19,989	251.15	20,502	256.31
Vietnam	13,219	168.42	16,129	202.65	18,931	236.67
Mongolia	-	-	23,076	289.94	272,500	3,406.68
Mozambique	-	-	21,860	274.66	-	-
Coking coal by source						
Australia	15,323	195.22	17,107	214.94	19,780	247.28
Indonesia	9,374	119.43	10,674	134.12	10,700	133.76
Canada	17,115	218.05	20,674	259.76	21,955	274.47
China	-	-	18,506	232.52	20,109	251.39
USA	18,934	241.23	21,815	274.10	21,456	268.24
Russia	14,238	181.40	16,824	211.38	19,932	249.19
New Zealand	-	-	19,989	251.15	20,502	256.31
Mongolia	-	-	23,076	289.94	-	-
Mozambique	-	-	21,860	274.66	-	-
Thermal coal by source						
Australia	10,249	130.57	11,522	144.76	11,360	142.02
Indonesia	8,822	112.39	9,826	123.45	9,689	121.12
Canada	9,887	125.96	11,348	142.58	11,101	138.78
China	12,141	154.69	12,388	155.64	11,753	146.93
USA	10,567	134.63	11,133	139.88	9,513	118.93
Russia	9,175	116.90	10,511	132.07	10,898	136.25
South Africa	-	-	10,104	126.96	11,793	147.43
	US1\$=¥78.49		US1\$=¥79.59		US1\$=¥79.99	

Source: Monthly Trade Statistics of Japan

Needless to say, the cause of the fall for coking coal is the lower global coking coal demand fueled by the economic crisis in Europe and the slowdown of economic growth in China.

With the softening of coking coal prices, it was reported that Nippon Steel Corporation and BHP Billiton Mitsubishi Alliance (BMA) set the FOB price for strong coking coal produced in Queensland, Australia at US\$170 per metric ton for October-December 2012 delivery. This represents a US\$55 markdown from the previous term. Based on US\$330 per metric ton for April-June 2011, it fell by US\$160 in a year and a half; a drop of almost 50%.

The prices of coking coal landed in Japan continue falling.

(3) No import of Chinese coking coal

Noteworthy in Table 1 is the absence of any export of coking coal from China to Japan in August.

China has been reducing its export of coal, be it thermal or coking, for the past several years (refer to Figures 2 and 3). The export of coking coal to Japan peaked at 11,478,000 metric tons in 2003 and fell rapidly to 603,000 metric tons in 2010, rose to 1,098,000 metric tons in 2011, down to 371,000 metric tons in January-July 2012, and finally reached zero in August 2012.

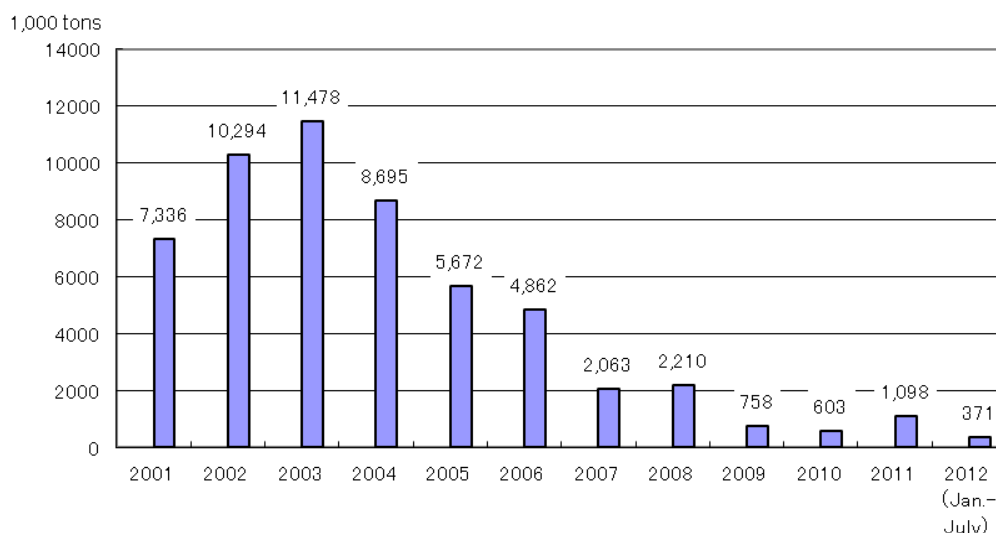


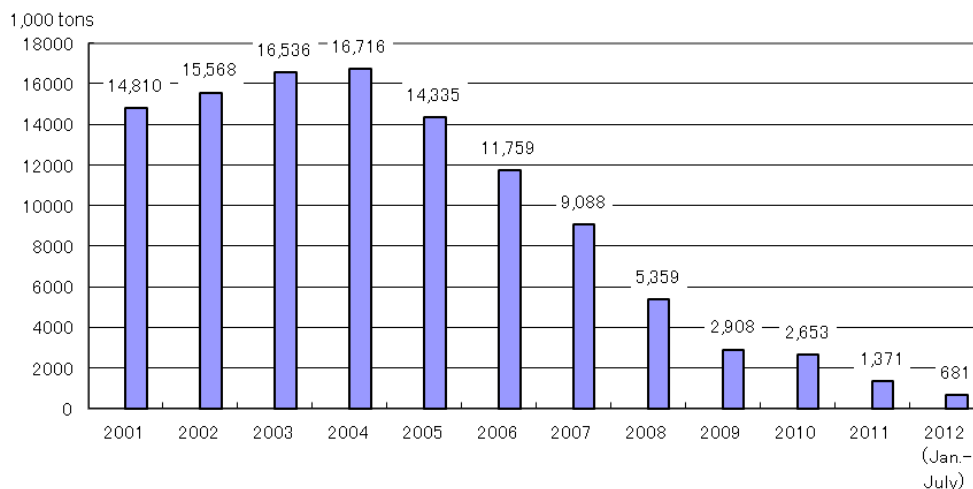
Figure 2. Transition of coking coal export quantity from China to Japan

Source: Monthly Trade of Japan

We can see that it is becoming increasingly difficult to try to read the cause of the reduction in China’s coking coal exports and future trends, with so many factors to be taken into account, such as progressively decelerating economic growth, falling coking coal prices, trends such as production adjustments by other exporting countries accompanying the fall in prices, and the increase in Mongolian coking coal production where almost all production is exported to China.

With that said, we will be watching the developments closely since this concerns China, the world’s largest coal country.

Reference: Figure 3. Continued fall of China’s thermal coal exports to Japan



Source: Monthly Trade of Japan

Similar to coking coal, the export of thermal coal from China to Japan peaked at 16,710,000 metric tons in 2004, sharply fell to 1,370,000 metric tons in 2011, and fell again to 680,000 metric tons for January-July 2012.

(4) Concern brought on by fall in coal prices and the woes of producing countries, as well as exchange rate issues

Other than China, there were no imports of coking coal in August from New Zealand, Mongolia or Mozambique¹.

The main reason for the halt in export from Mongolia evidently was the exportable quantity of coal being determined by the buying motives of China, and for Mozambique production and exports have just begun. Concerns remain, however, as to whether the reality of the rapid fall in coking coal prices could have hampered exports from these emerging exporting countries.

As can be seen from Table 1, the January-July average landed price in Japan of coal from the three countries whose exports were zero in August, including New Zealand, was US\$250-290 per metric ton; at a higher level compared to Australian coal priced at US\$214 per metric ton for the same period. The price level for steel mills in Japan was set around US\$225 per metric ton for the July-September term, perhaps making export difficult.

As mentioned, this price level setting has now been reduced down to US\$170 per metric

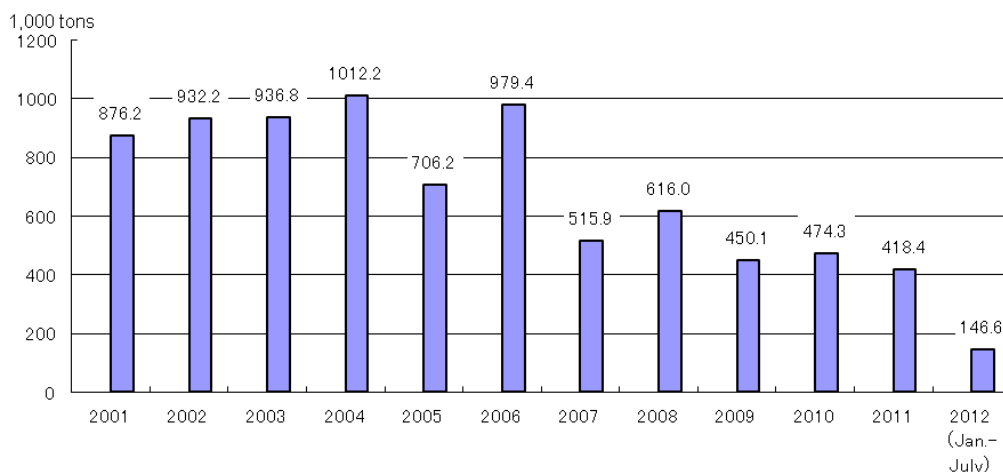
¹ Records indicate imports from Mongolia were 60,000 metric tons in August 2010 and 19,000 metric tons in February 2012, and 54,000 metric tons from Mozambique in April 2012. For the past several years, import of coking coal from New Zealand has not been regular, with import not recorded every month. Imports were registered for seven months in 2010, four months in 2011, and only two months, May and July, in 2012.

ton for October-December 2012. This could prove to be a very high hurdle for high-cost exporters to clear.

Information received at the end of September reports that Solid Energy New Zealand Limited is to cut 25% of its workforce, close down high-cost underground mining coal fields and reduce coking coal production, in order to respond to the fall in global coking coal demand.

The import of coking coal from New Zealand has fallen since 2007, to half its peak, but with this new round of price decreases import quantity of coking coal from the country is likely to fall even further.

Figure 4. Transition of import quantity of New Zealand coking coal



Source: Monthly Trade of Japan

Trying to overcome falling prices by cutting costs through closure of mines is occurring not only in New Zealand but even in Australia, which is considered to have greater price competitiveness than other countries.

BHP Billiton Mitsubishi Alliance (BMA) of Australia, one of the world’s largest players in production and export of coking coal, closed its Norwich Park coalmine located in Queensland on May 11 and announced it will be shutting down its open pit coking coalmine in Gregory, Queensland in mid-October.

The company also announced its decision to postpone development of the Red Hill coking coalmine, where preparations were being made to start production in 2017, indicating its commitment to its policy of reducing production. For reference, the Red Hill project was reportedly expected to produce a maximum of 14 million metric tons of coking coal per year.

Concern is now growing about excessive cutbacks in supply capacity from the closure of mines and postponement of projects as a means of production adjustment.

There are also rumors of possible labor disputes at BMA, though they had been considered as settled. This is another concern when thinking about the future of coking coal.

Progressing negotiations between Tohoku Electric Power Co., Inc. and the Australian coal supplier Xstrata reached an agreement for prices commencing October 2012 (until September 2013). The newly decided FOB price is reportedly US\$96.90 per metric ton (GAR6,322 kcal/kg).

With negotiations between the two companies for prices commencing July 2012 (until June 2013) settled at US\$94.90 per metric ton, these recent negotiation results indicate a US\$2 increase per metric ton.

However, considering that the price commencing October 2011 was US\$126.50 per metric ton (GAR6,322 kcal/kg), this marks a US\$29.60 per metric ton fall in one year.

As can be seen from Table 1, the landed Japan price for thermal coal fell from US\$140.22 per metric ton for January-July 2012 to US\$126.17 per metric ton in August, and the price after September is expected to continue falling.

However, similar to coking coal, reports have now begun to appear such as that on the workforce reduction of 600 employees by Xstrata's Australian coal mining operations, and workforce reductions by other thermal coal suppliers in order to reduce costs.

Reports of restructuring, not only from Xstrata but also from Ensham mines, in which Idemitsu Kosan Co., Ltd. holds a 85% stake, and Rio Tinto's Clermont coalmine, both very familiar to Japan, continue to pour in.

One reason being focused on for why Australian companies were forced into restructuring was the push for cost increases brought on by the resource development rush that gathered steam in Australia, and another is the Australian dollar's strength against the US dollar, significantly affecting the mines' declining profitability.

Table 2. Transition of exchange rates (A\$/US\$)

	A\$/US\$
2001	1.9334
2002	1.8406
2003	1.5419
2004	1.3598
2005	1.3095
2006	1.3280
2007	1.1951
2008	1.1922
2009	1.2822
2010	1.0902
2011	0.9695
2012/10/9	0.9785

Source: International Financial Statistics

Table 2 indicates movement of the exchange rate of the Australian dollar against the US

dollar. The average 1.9334 in 2001 has risen to 0.9695 in 2011 with the increasing valuation of the Australian dollar.

This high Australian dollar poses a serious threat to Australian suppliers fixing their export prices based on US dollars, and has a significant effect on them.

For example, an export of one million metric tons of coal at US\$100 per metric ton would have netted A\$193.34 million in 2001 but only A\$97.85 million on October 9, 2012. A\$100 million has simply disappeared.

Thinking in macro terms, the country exports approximately 300 million metric tons of coal each year. Applying the above calculation, what was A\$58 billion in 2001 would only amount to A\$29.4 billion using the rate on October 9, 2012; an amount of almost 2.3 trillion Japanese yen is lost in a single year.

With the rapid fall in coal prices, this exchange rate issue is becoming an unbearable headache for suppliers.

Many Japanese manufacturers shifted their production bases to China and other Asian nations to avoid the rising yen, but Australian coal suppliers cannot conduct such a shift, which would leave the country's own resources untouched.

I can recall back around 2003 when coal prices were low, similar to the current situation. When the Australian dollar began to rise against the US dollar it caused a delay in investments being made in mines and transportation infrastructure, and the supply could not keep up with the sudden increase in demand, causing coal prices to soar in the next year, 2004.

Please direct inquiries to: report@tky.ieej.or.jp