

Outlook for International Coal Market (Summary)

Atsuo Sagawa

Manager

Coal Group, Fossil Fuels & Electric Power Industry Unit

The Institute of Energy Economics, Japan

Outlook for coal prices through 2015

1. Trend of coal prices

The spot steam coal price (an FOB price at Newcastle port in Australia) rose before the winter demand season, moving around \$85/ton in November and December 2013. But it fell to \$72.98/ton during the January-March 2014 quarter. The price failed to rally later, remaining in a \$70-75/ton range until recently.

The spot coking coal price (an FOB price for Australian hard coking coal) continued a downward trend from September 2013 to March 2014, falling from \$151.95/ton to \$111.65/ton. Since then, it has remained around \$115/ton.

Coal prices have thus remained low since mid-2012 as supply capacity has stayed above demand (oversupply) amid low growth in demand for both steam and coking coal.

2. Outlook for coal prices

Spot steam coal prices are likely to rise in the fourth quarter of this year before the winter demand season as the shutdown of depressed coalmines, temporary production suspensions and coalmine development project modifications are accelerating to indicate that oversupply could be resolved. They may weaken temporarily in early 2015 toward the spring low-demand season and turn up again toward the summer high-demand season. We project the average spot steam coal price in 2015 to rise back above \$80/ton (against \$85/ton in 2013).

Spot coking coal prices are likely to remain low in 2014 as the resolution of oversupply takes time due to stagnant demand. In 2015, they may follow an upward trend as oversupply is reduced gradually, as is the case with steam coal. We project the average spot price for hard coking coal in 2015 to rise back above \$130/ton (against \$151/ton in 2013).

Coal market through 2015

3. Coal demand

Asian steam coal demand will increase mainly in India and ASEAN countries where demand is expected to steadily expand in line with economic development. Asian imports will also expand. China, though having

increased steam coal imports year on year since early 2014, has slowed demand growth due to an economic growth slowdown and measures against air pollution and cannot be expected to sharply expand imports. European steam coal demand will fluctuate in line with gas and coal price changes. But the European steam coal market is likely to shrink due to a decline in thermal power generation amid energy conservation and growing renewable energy consumption, as well as measures against air pollution under the Industrial Emission Directive.

While the Indian component of Asian coking coal demand is expected to increase, Chinese coking coal imports are projected to slightly decline or level off as indicated by a sharp deceleration in 2014 in Chinese pig iron production that had driven the coking coal market growth. European coking coal demand, though depending on economic recovery conditions, is likely to decline along with imports. But Europe has continued reducing coking coal production. Imports may fluctuate in response to production cuts.

4. Coal supply

While the shutdown of coalmines is accelerating due to slack coal prices, the addition of new production capacity is making progress. For example, Australia is expected to expand coal production capacity by 22.3 million tons (comprising 9.7 million tons for steam coal and 12.6 million tons for coking coal) in 2014, according to the BREE (Australian Bureau of Resources and Energy Economics) list of major minerals and energy projects in April 2014. Given oversupply in the current coal market, we can conclude that supply can meet import demand.

Major viewpoints for anticipating future coal market

5. China's coal demand

While coal-fired power generation will increase to meet a rise in electricity demand, growth in demand for coal for power generation will decelerate gradually due to coal consumption regulations in coastal cities and the improvement of power generation efficiency. In the industrial sector, coal demand may increase to meet the promotion of coal gasification and liquefaction. But coal demand in coal consuming industries such as cement is expected to peak out. China's steel demand is reportedly likely to peak out in the near future. Year-on-year growth in pig iron production in the first four months of 2014 was limited to 0.24%. Given progress in the elimination of overcapacity (shutdown of inefficient steelmaking facilities) as well as the slowing pig iron production growth, coking coal demand is expected to peak out in several years.

6. U.S. coal demand

The United States plans to maintain coal-fired power generation by raising the operating rate of existing coal-fired power plants (now at 60%) while shutting down some 50 GW in coal-fired power generation capacity by 2016 under mercury and pollutant emission regulations. Coal consumption is thus expected to level off.

The Environment Protection Agency announced draft regulations on carbon dioxide emissions for new coal-fired power plants on September 13, 2013, and draft guideline of regulations on carbon dioxide emissions

for existing thermal power plants on June 2, 2014. While carbon dioxide capture and storage technology is indispensable for clearing the emission standard of 1,100 lbs/MWh for new coal-fired power plants, the present CCS technology development stage indicates that the standard would effectively ban new coal-fired power plants. With regard to the regulation for existing plants, the EPA will release a final draft guideline by June 2015 and state governments will prepare their respective regulation implementation plans for approval by the EPA. While it is uncertain whether the regulations could be implemented, coal demand is expected to decline over a medium to long term irrespective of the regulations.

7. Restrictions on export credits for coal-fired plant construction

The Obama administration has come up with restrictions on new coal-fired power plants in its Climate Action Plan, urging other countries and multilateral development banks to support the restrictions. The United Kingdom, the Netherlands and Northern European countries have accepted the proposal. In addition, MDBs such as the World Bank Group, the European Investment Bank and the European Bank for Reconstruction and Development have established tougher restrictions on credits for new coal-fired plant projects. While Asian and other non-OECD countries are expected to expand coal-fired power generation, restrictions on credits for new coal-fired plant projects are attracting attention.

8. Australia's coal supply capacity

Slackening coal demand and prices have forced Australia to revise coalmine development projects. A comparison between the BREE lists of major minerals and energy projects in April 2014 and April 2013 indicates that production launch delays are planned for five coalmine development projects (for total production capacity of 32 million tons) in New South Wales and 10 projects (for 140 million tons) in Queensland. Deleted from the list are six projects (for 24 million tons) in New South Wales and 11 projects (for 51 million tons) in Queensland. While coalmine development plans will be changed depending on future coal market, projects in the BREE list indicate that 276.6 million tons in new production capacity for steam coal and 93.7 million tons in capacity for coking coal may be created by 2019. Given the new capacity, no problem is expected with future coal supply.

9. Indonesia's coal supply capacity

Indonesia's coal exports have continued to expand. But its future coal exports are expected to decelerate and peak out around 2020 due to rising domestic demand amid electricity demand growth and the Indonesian government's policy of promoting the protection and effective utilization of domestic coal resources.

Contact: report@tky.iecej.or.jp