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Coal Trends

Trends in coal supply, demand and prices as seen in statistics

~ BREE, Australia, forecasts thermal coal trading (export and import volumes, pricing) ~

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In this issue, we report on market conditions in Australia and South Africa, as well as the trends in landed prices in Japan. We also feature forecasts published on June 25 in the *Resources and Energy Quarterly*, June Quarter 2014, by the Bureau of Resources and Energy Economics (BREE) of Australia, regarding world thermal coal trading (export and import volumes, pricing).

1. Spot prices for Australian and South African coal and landed prices in Japan

(1) Actual trading price trends for Australian and South African thermal coal (January 2014–June 2014)

Figure 1 shows contracted actual spot trading prices from January 2014 to June 2014, in a time-series for Newcastle (NC), Australia.

For Newcastle, 35 spot trades were recorded during June 2014, marking the second highest number of contracts after the 40 that were recorded in March. This increases the total number recorded in January to June to 148, marking a 30% increase from 112 for the same period of the previous year.

It should be noted that the final transaction prices for June narrowly maintained the US$70 per metric ton level, with its highest contracted price at US$74.75 per metric ton, and the lowest at US$70.35 per metric ton. A gentle decline was observed during the month of June.

The boxed figures in Figure 1, which indicate the final transaction prices for the relevant months, show the June 2014 final transaction priced at US$72.25 per metric ton, the lowest price recorded this year.

Such sluggish spot pricing was expected to further reduce the prices of new contracts commencing in July 2014, which were entered into with domestic power companies, in comparison to the contracts commencing in April 2014 at US$81.80 per metric ton. However, no agreement was reached during contract negotiations and a decision has been made to link the pricing with the NC spot price Index.

Figure 1. Contract Prices FOB Newcastle (NC), Australia (January 2014-June 2014, actual)

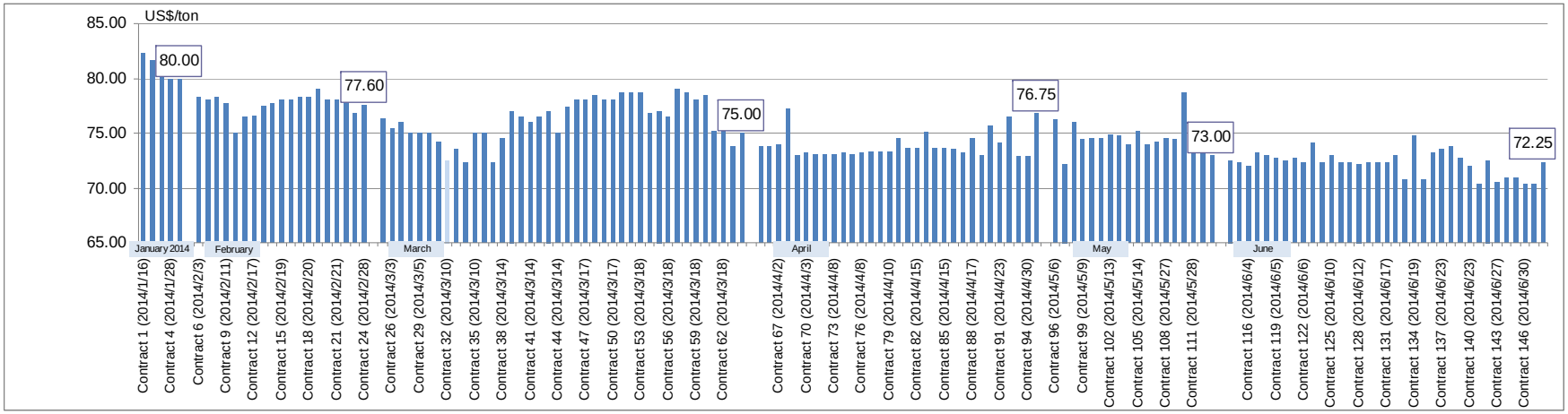
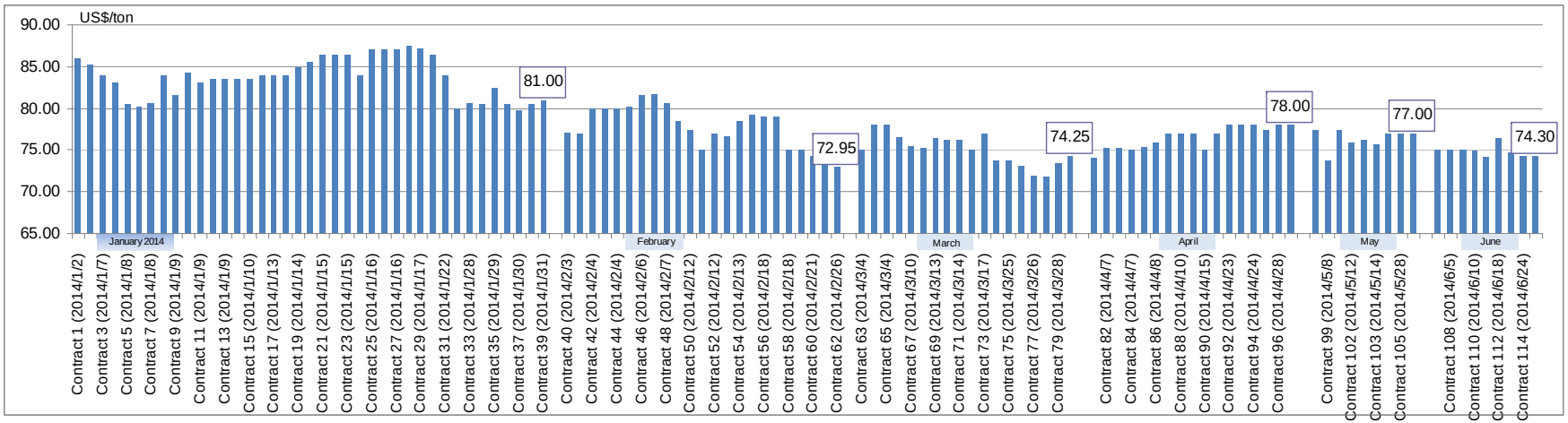


Figure 2. Contract Prices FOB Richards Bay (RB), South Africa (January 2014-June 2014, actual)



Source: Prepared using globalCOAL materials

In June, for the second consecutive month, spot trading contracts for FOB Richards Bay (RB) in South Africa recorded the lowest number for the year at 9, the same amount recorded in May.

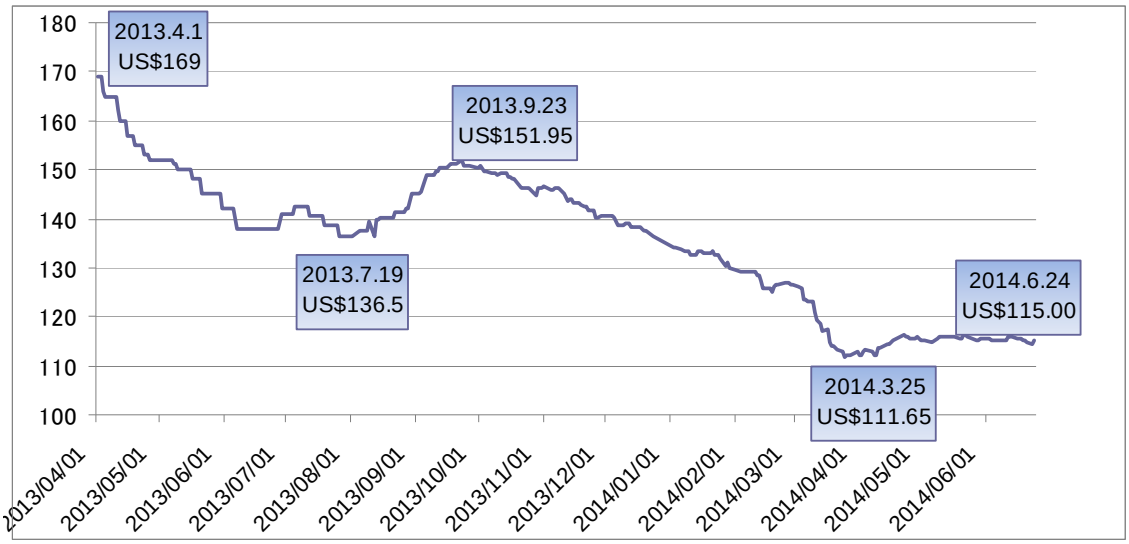
The monthly total number of contracts demonstrated a downward trend as the months passed: the total number of contracts was 39 in January, 24 in February, 19 in March, 18 in April, and 9 in May. However, the total number of contracts over the January-June 2014 period amounted to 115, which is nearly equivalent to the116 contracts in the same period of the previous year.

As mentioned above, NC saw a successful January-June period during which the number of contracts increased by more than 30%. Perhaps some of the determining factors with respect to the drastic contrasts between NC and RB lie in the reversal of their contract pricing this year: RB's contract price increased slightly compared to that of NC. It is assumed that this change in prices has led to an expansion of contracts in NC and fewer transactions in RB.

(2) Coking coal spot index

The figure below shows the indexes for IHS McCloskey Australian prime hard coking coal FOB; in other words, the hard coking coal price index for Australia, on a daily basis.

Figure 3. Australian Hard Coking Coal Price Index
(April 1, 2013-June 24, 2014)



Source: IHS

The IHS Index continued a six-month decline after September 23, 2013, and bottomed out at US$111.65 per metric ton on March 25, 2014, before returning to US$116.00 per metric ton as of April 24.

A stalling of prices ensued then, as prices fluctuated within a narrow range of US$114.35 to US$116.20 per metric ton. The price on June 24 was US$115.00 per metric ton.

The prices of the highest quality Queensland hard coking coal for blast furnaces in Japan in the second quarter 2014 (July-September) reflected the stagnant condition in this tight range, settling at the same US$120 per metric ton of the first quarter (April-June) value.

(3) Import prices to Japan
- Continued decline in import prices and vanished Chinese coals -

Table 1 shows the changes in the import prices for all coal landed in Japan from January to May 2014.

Table 1. Japan Landed Imported Coal Prices (January 2014-May 2014)

	Jan 2014 price		Feb 2014 price		Mar 2014 price		Apr 2014 price		May 2014 price	
	JPY/ton	US$/ton	JPY/ton	US$/ton	JPY/ton	US$/ton	JPY/ton	US$/ton	JPY/ton	US$/ton
Total imports	12,004	114.70	11,713	113.97	11,569	113.19	11,656	113.71	10,973	107.45
By coal type										
Coking coal	13,490	128.90	12,945	125.96	12,416	121.47	13,132	128.11	11,928	116.79
Thermal coal	10,900	104.15	10,861	105.68	10,818	105.83	10,417	101.62	10,067	98.57
Anthracite	14,670	140.17	13,561	131.95	14,770	144.50	14,297	139.47	12,694	124.29
By source										
Australia	12,111	115.72	12,004	116.80	11,846	115.89	11,527	112.44	11,456	112.17
Indonesia	10,035	95.88	9,881	96.14	9,693	94.83	9,898	96.55	9,251	90.58
Canada	15,774	150.72	14,397	140.08	14,289	139.79	14,865	145.01	13,138	128.63
China	16,247	155.23	12,789	124.44	15,680	153.40	14,069	137.24	12,886	126.17
USA	15,899	151.91	13,635	132.67	15,797	154.54	15,006	146.38	13,621	133.36
Russia	11,854	113.26	11,514	111.76	11,079	108.39	10,811	105.46	10,201	99.88
South Africa	11,573	110.57	-	-	-	-	-	-	-	-
New Zealand	-	-	-	-	-	-	17,005	165.88	-	-
Vietnam	14,118	134.89	15,015	146.10	14,021	137.17	14,647	142.88	15,463	151.40
Mongolia	-	-	790,000	7,687.06	-	-	-	-	583,500	5,713.30
Mozambique	-	-	-	-	-	-	-	-	-	-
Colombia	14,544	138.96	-	-	-	-	-	-	-	-
Coking coal by source										
Australia	13,958	133.37	13,990	136.13	13,229	129.42	13,367	130.40	12,466	122.06
Indonesia	10,638	102.13	10,356	100.77	10,055	98.38	10,442	101.87	9,567	93.68
Canada	17,106	163.45	15,793	153.67	15,508	151.73	15,464	150.85	13,653	133.68
China	11,952	114.20	12,839	124.93	15,859	155.15	14,996	146.29	-	-
USA	17,751	169.61	15,233	148.22	15,798	154.56	15,627	152.44	14,368	140.68
Russia	13,200	126.12	12,344	120.11	12,286	120.20	12,454	121.49	10,480	102.62
New Zealand	-	-	-	-	-	-	17,005	165.89	n.a.	n.a.
Mongolia	-	-	-	-	-	-	-	-	-	-
Mozambique	-	-	-	-	-	-	-	-	-	-
Thermal coal by source										
Australia	11,208	107.10	11,210	109.08	11,134	108.93	10,530	102.72	10,714	104.91
Indonesia	9,223	88.12	9,220	89.71	9,062	88.66	9,120	88.96	8,890	87.05
Canada	10,505	100.37	9,838	95.73	12,476	122.05	10,804	105.40	11,373	111.36
China	12,425	118.72	12,478	121.42	10,836	106.01	12,160	118.62	-	-
USA	9,198	87.89	10,791	105.01	-	-	13,856	135.17	9,224	90.32
Russia	10,711	102.34	10,696	104.08	10,413	101.88	10,174	99.25	9,852	96.47
South Africa	11,574	110.59	-	-	-	-	-	-	-	-
Colombia	14,544	138.97	-	-	-	-	-	-	-	-
	US1$=¥104.66		US1$=¥102.77		US1$=¥102.21		US1$=¥102.51		US1$=¥102.13	

Source: Prepared using Trade Statistics of Japan Monthly Reports

Though the April price was an indication of bottoming out, the trend in May proved this indicator to be wrong.

The average landed price for total imports has hovered at the US$113 per metric ton level since February this year, and a sharp decline of US$6.26 per metric ton was observed in May as compared to the previous month.

When the figures are analyzed by coal type, the coking coal price declined steeply, as it dropped by US$11.32 per metric ton, while thermal coal declined by US$3.05 per metric ton, and anthracite also experienced a sharp drop of US$15.18 per metric ton.

With regard to the price of the highest quality hard coking coal for blast furnaces in Japan in the April-June period, it decreased to US$120 per metric ton from the US$143 per metric ton value in the first quarter (January-March). The US$23 per metric ton difference worked to place significant downward pressure on the May landed prices.

The US$3.05 per metric ton drop in the value of thermal coal in May in comparison to the previous month is considered to be a result of the significant decline of US$5.60 per metric ton that was recorded in the prices for contracts commencing April for Japanese power companies compared with the January figure.

As of May this year, both coking coal and thermal coal imports ceased to come in from China. A small incoming shipment of 77,000 tons of anthracite is all that arrived.

2. Thermal coal prices and trade volumes forecast by BREE, Australia - 2015 will continue to see easing demands, maintaining price decline -

The following is an excerpt concerning thermal coal trading from the *Resources and Energy Quarterly*, June Quarter 2014, released on June 25, 2014, by the Bureau of Resources and Energy Economics (BREE), an internal organization of the Australian Department of Industry.

(1) Thermal coal trade

World trade in thermal coal is forecasted to increase by 1% from 2013 to 1,035 million tons in 2014 and increase by 1.9% to 1,055 million tons in 2015.

The stability of coal supply that is suitable as a source of base load power, and its relatively low-cost, will continue to support the use of coal, particularly in emerging economies. The largest importer of coal, China, and its largest exporter, Indonesia, will maintain their important bearing on world coal trade.

China: As the Chinese government proceeded to announce a series of policy and

legislative measures aimed at improving air pollution in early 2014, a reduction in China's coal use is anticipated.

However, there are early indications suggesting that China's coal imports may significantly expand in 2014. From January-April of 2014, thermal coal imported to China increased by 8%, year-on-year, to 91 million tons.

Growth in China's imports may be greatly affected by increasing competitiveness of domestic coal and the potential for restrictions on the importation of low-grade coal. Shenhua, the largest coal producer and price setter in China, has reduced its offer prices to domestic utilities companies several times in 2014.

Under such a background, in China, thermal coal import volumes are forecasted to increase by 4% from the 2013 value, to 260 million tons in 2014.

Table 2. Thermal Coal Prices and Trade Volumes Forecast

(megatons)

	2012	2013	2014 projection	2015 projection	
Trades	989	1023	1035	1055	Mt
Imports					
Asia	691	738	755	770	Mt
China	218	251	260	267	Mt
Taiwan	56	56	57	58	Mt
India	123	130	135	141	Mt
Japan	132	137	137	135	Mt
South Korea	94	96	97	99	Mt
Europe	215	210	208	216	Mt
European Union 27	168	165	159	162	Mt
Others	47	45	50	54	Mt
Exports					
Australia	171	188	190	197	Mt
Colombia	82	76	81	90	Mt
Indonesia	380	411	420	413	Mt
Russia	116	110	108	105	Mt
South Africa	74	73	76	80	Mt
USA	51	47	41	35	Mt

Source: *Resources and Energy Quarterly*, June Quarter 2014, BREE

India: India's 2014 thermal coal imports are predicted to rise by 4% from the previous year, to 135 million tones. In 2015, a further 4% increase is projected, to 141 million tons.

Since most of India's coal imports are by state-owned power plants, thermal coal

imports were relatively subdued leading up to the May 2014 election, with the expectation that the import pace would pick up following the election.

Japan: In 2014, Japan's coal imports are forecasted to remain steady at around 137 million tons, which is equivalent to the 2013 level. A new energy policy passed in April this year by the cabinet reaffirmed the role of coal as an important base load source of energy. While the plans to build new, high efficiency facilities are driven by the cost-competitiveness of coal, most of these are unlikely to become operational until closer to the end of the decade.

All the nuclear power plants in Japan remain closed, and the timing of their resumption of operations remains uncertain. Despite this ambiguity, there is potential for an expansion of Japan's coal imports. This is due to the fact that most of these coal-fired facilities are forced to operate at close to capacity. Following the Fukushima incident, many of these plants have been running continuously to fill the electricity generation deficiency. It is possible that some of these plants will be temporarily closed due to required scheduled periodic maintenance and inspection. These environments were factored in when predicting that thermal coal imports would decline by 2% in 2015 to 135 million tons.

South Korea: Thermal coal imports to South Korea in 2014 are predicted to total 97 million tons, 1% higher than 2013. The adverse effect in the growth of coal imports is expected due to the introduction of an import tax coming into effect from July 1 this year. The tax will charge US$16.20 per metric ton for low-grade coal (5,000kcal/kg or less as received) and US$18.10 per metric ton for high-grade coal. It is not believed that this new tax on low-grade coal will result in any significant decline in import volumes over the short term. This is because coal will still be required to meet electricity demand and many South Korean coal-fired plants are designed to run most efficiently using low-grade coal. We expect to see the volume of thermal coal imported to South Korea to increase by 2% in 2015 compared to 2014 to 99 million tons.

We will now address the coal exporting countries. First, Australia's exports of thermal coal are forecasted to increase by 2% from the previous year to 190 million tons in 2014, and an additional 3% to 197 million tons in 2015. The expansion of production due to new coalmines reflects the efforts made to attain production cost reduction at these new production sites. Lower output mines will be forced to close over the next two years.

Indonesia's exports of thermal coal are predicted to increase by 2% to 420 million tons in 2014. Its exports will be dependent greatly on domestic output and the potential for China to implement a ban on low-grade coal imports. In March this year, the Indonesian government relaxed the coal production cap to 421 million tons, up from the 400 million tons outlined earlier in the year. This mirrors an argument made by major producers that they would need to increase their output

to offset the large effects of lower prices on profitability.

In May, the Indonesian government announced its intention to relax the domestic supply obligation. Should this be passed, it will expand the volume of material available for export. On the other hand, if the Chinese ban on low-grade coal is introduced, Indonesia is likely to be the hardest hit. The coal that would be blocked from being exported to China may be diverted to the Indonesian market.

In USA, in early 2014, coal use increased due to a cold winter and higher gas prices. Domestic rail congestion prevented smooth domestic distribution of material to power plants that use coal, resulting in increased imports of coal, particularly from Colombia. These transportation infrastructure limitations are obstructing growth in 2014 US coal exports, which have declined by 13% to 41 million tons year-on-year. This trend is expected to continue into 2015, with exports forecasted to decline by an additional 15% to 35 million tons. As a high-cost supplier to the Asia-Pacific, exports from USA are also yielding losses at current prices.

(2) Australia's thermal coal price forecast

The *Resources and Energy Quarterly*, June Quarter 2014, also forecasts Australian thermal coal export prices. Newcastle (NC) FOB spot prices for 6,000 kcal/kg continued on a downward trajectory in the first half of 2014, averaging around US$76 per metric ton in the five months (January-May). Prices, which were at US$84 per metric ton in January, dropped progressively to US$73 per metric ton by mid-April, maintaining a low level of around US$73 per metric ton.

Although coal consumption in key Asia-Pacific markets is increasing, thermal coal prices are expected to remain subdued throughout the rest of 2014 (June-December), due to an even larger supply that continues to expand.

While prolonged low coal pricing has affected the profitability of Australian producers, many were forced to take a conservative view with respect to the closing of facilities as they have been locked into long-term take-or-pay contracts for infrastructure services (rail and sea transports). These contracts obligate them to pay for rail transport and port usage fees, regardless of shipment. However, after a sustained period of low prices, several companies finally announced their intention to stop the operation of unprofitable mines over the next two to three years. These closures are expected to ease some of the downward pressure on prices.

The contract price commencing April 2014 was settled with power companies in Japan at a rate of US$81.80 per metric ton. This is around US$9 per metric ton higher than the spot prices that prevailed at the time of negotiation, yet represents a 14% decline from the contract price commencing April 2013 at US$95 per metric

ton. The depreciation of the Australian dollar (against US$) over the past year limited the drop of actual gain for Australian producers to a mere 2% decline.

Coal consumption in the Asia-Pacific is projected to maintain an upward trend in 2015; however, the global supply is also expected to persist. As such, we forecast that contract prices for Japanese power companies (nominal price) will decline by an additional 6% and settle in the vicinity of US$77 per metric ton.

Table 3. Australian Thermal Coal Prices and Trade Volumes Forecast

		2012	2013	2014 projection	2015 projection
Contract price b					
- Nominal	US$/t	115	95	82	77
- Actual c	US$/t	119	97	82	75

Source: Resources and Energy Quarterly, June Quarter 2014, BREE

b. Japanese fiscal year, FOB, thermal coal 6,700kcal/kg air-dried basis (adb)

c. Current Japanese fiscal year, US$

(To be continued in the next issue)

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