

SE Exclusive

HD **China** may still continue to drive **coal** demand, keep export markets robust

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At a time when **China** is restricting **coal** use and enacting policies to limit **coal** imports, expectations of miners and traders have grown that India could emerge as the mainstay of global thermal **coal** demand. Nevertheless, some analysts still believe **China** will continue to drive the **coal** market, in part due to the continued dependence of its **coal**-intensive sectors on the fuel.

Even though **China** finally announced regulations to restrict imports and domestic **sale** of certain low-grade **coal**, the limitation can also cause a local impact, to which producers could take time to adjust to the new standards, and in this period, **coal** imports could become stronger, according to shipbroker Intermodal analyst Eva Tzima.

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**Coal**-intensive sectors in **China**, such as crude steel, cement and pig **iron**, will still remain dependent on **coal** and the fact that those sectors' profits may stay under pressure will be exactly what will support **coal**, "which still [remains] one of the cheapest options for **energy** out there, a knowledge well adopted across the Asia Pacific region," Tzima was quoted as saying in the Oct. 22 Hellenic Shipping News.

Continuing in the same vein, Wood Mackenzie recently said that the collective efforts by **China** to control air pollution and limit **coal** use in its **energy** mix would increase demand for **coal** in the near term.

From Jan. 1, 2015, **China** will prohibit domestic **mining**, **sale**, transportation and imports of **coal** with ash and sulfur content exceeding 40% and 3%, respectively. Barely a few weeks later after **China** announced the restrictions, it initiated a move to impose new tariffs on **coal** imports, starting Oct. 15.

Both moves, according to some analysts and experts, could affect Australian **coal** exports. Australia is the world's largest coking **coal** exporting country. However, Australian treasurer Joe Hockey said **China** may waive its new **coal** tariff on Australian shipments if a free trade agreement between the two countries is reached, Sydney Morning Herald Business Day reported.

Globally, despite the glut of **coal** on seaborne markets, trade data indicate major **coal** producers are nearly on pace to meet expectations for 2014 shipments. Data from various sources obtained by SNL **Energy** showed that in the first eight months of 2014, **coal** shipments from major exporting countries accounted for 64.5% of the total **coal** export targets estimated for these nations for the 2014 full year. The latest monthly export data out of South Africa, however, was unavailable.

In Australia, thermal and met **coal** exports remain robust in the year, as key producers continued to focus more on productivity gains than price support, analysts say. According to data cited by BB&T Capital Markets, Australia has the largest market share in coking **coal** export trade in 2014, estimated at 57%.

In August, **coal** exports out of major Australian **coal** ports, including the Port Waratah **Coal** Services Ltd. and Dalrymple Bay, totaled 29.5 **million** tonnes, according to data obtained from various sources by SNL **Energy**. As exports increase from Australia, BB&T said "hopes for supply rationalization seem to rest on the US and other high-cost regions."

Australian **coal** exports to **China** may take hit in the short- to medium-term, but seaborne **coal** trade volumes in the Pacific market could soon find their balance back, as Australia may improve the quality of their production and lure back **Chinese** buyers, Tzima said.

Imports into **coal**-hungry India and **China** slip

**China** saw a decline in its total **coal** imports in August from July due to slower demand and abundant supply, according to the Business Standard of India. **China** shipped in 18.9 **million** tonnes of **coal** in August, compared to 23 **million** tonnes in July. **China's** market share in met **coal** import trade during 2014 is estimated at 28%, according to BB&T.

India may be unable to fill the gap created due to receding **Chinese** imports, despite India's massive requirements for **coal**, Xavier Marcel Prévost, senior **coal** analyst at XMP Consulting CC, told SNL **Energy**. Giving an example of what interests Indian **coal** buyers, Prévost said that in South Africa, "Indian buyers/traders are known to only buy if the [**coal**] price is extremely low." But if the prices are really low, miners prefer to reduce exports rather than lose money, he explained.

"We could [here in South Africa], if/when the export market reach real parity with the inland one, convert/sell our potential exports to local users. We have the advantage to have a really big local demand of steam **coal** [Eskom utility], prices not good, but improving. We might go again into another **energy** crisis, like in 2008, then the price will move quickly up," Prévost added.

India's top 12 major ports handled 9.4 **million** tonnes of **coal** in August, up 12% from 8.4 **million** tonnes, according to the Press Trust of India. The country's total **coal** imports reached 16.1 **million** tonnes in August, according to an India-based commodity news service. Meanwhile, India's domestic **coal**-fired power plants continue to have **coal** inventories at critical levels. India imported 152 **million** tonnes of **coal** in 2013 to meet such shortages.

Asia may see another nation emerging as a major **coal** consumer in the global market in the future — Vietnam. The country currently is an exporter of thermal **coal**, Andy Roberts, principal analyst at Wood Mackenzie Ltd., told SNL **Energy**.

"[A]s it [Vietnam] industrializes and further electrifies, its position as a net exporter will end and it will become a significant net importer," Roberts said. "It is actively using **coal** to promote economic development. Vietnam has reserves in its Red River Delta Basin, but extraction there is made difficult by complicated geography. Thus, we expect Vietnam to import about 20 [**million** tonnes of **coal**] in 2020 and as much as 50 [**million** tonnes] in 2030 in order to fuel an additional 36 GW of power production."

"The actual government target is 75 GW of new plant capacity, but this may prove to be unrealistic without significant outside capital. Vietnam will need expensive new port infrastructure to accommodate the growth in imports," Roberts added.

Indonesia, the world's largest **coal** exporter, exported 30.7 **million** tonnes of **coal** in August, according to data from Bank Indonesia. The country has been exempted from import restrictions by **China** due to a free trade agreement. But that may not be enough to pull up Indonesia's exports in 2015, as the shipments are expected to decline to 300 **million** tonnes in the next year, Reuters earlier said, citing the Indonesian **Coal Mining** Association.

Emerging markets show signs of growing **coal** demand

Throwing light on the other emerging **coal** markets, Mongolia and Mexico have shown impressive growth signs in terms of **coal** exports and consumption this year. Mongolia's year-to-date met **coal** exports as of August touched 9.8 **million** tonnes, up 25.8% year over year, according to data from Stifel Nicolaus & Co. Mexico reported a 13% increase in its **coal**-fired generation in the first half of 2014, a Peabody **Energy** Corp. presentation shows. Annual global **coal** use is expected to grow 600 **million** tonnes over the next three years, Peabody said in the presentation.

South Africa, which exported roughly 78 **million** tonnes of **coal** in 2013, may declare the fuel a "strategic" mineral, allowing **coal** to be sold on production cost minus transportation charges. South Africa's **coal** exports to **China** have reportedly dropped to almost nothing since March 2014, echoing the impact of **China's** protectionist measures against **coal** imports, according to the City Press. The report said **China's** imports of South African **coal** in the first eight months of 2014 dropped by more than 50%, to 3.3 **million** tonnes from 7.5 **million** tonnes a year ago.

The Richards Bay **coal** terminal in South Africa, one of the world's largest **coal** terminal, did not report port statistics for August. Queries sent to the **company** went unanswered.

Data collected from Australia's Bureau of Resources and **Energy** Economics and other sources show Russia is on the path to cross the estimated annual export target much before the year ends. Russia exported 12.7 **million** tonnes of **coal** in August, up 3.8% from the year-ago period, according to government data cited by Port News. During the January-August period, Russia's **coal** exports were up 12.4% from the same period of 2013.

**Coal** exports from Canada reached 3.1 **million** tonnes of **coal** in August, with the largest shipments going to South Korea, followed by Japan and **China**, data from Statistics Canada showed. Canada may export 34 **million** tonnes of **coal** in full year 2014, according to BREE.

Colombian **coal** exports were 8.6 **million** tonnes in August, down from 8.9 **million** tonnes in the previous month, according to a government statistics agency.

When asked at what price levels the global met and thermal **coal** industries can comfortably service their capital structure or expect a positive outlook, Prévost said: "I think we're not far from it. We did a quick calculation of mine costs plus logistics and it showed not much room left for maneuvering."

As of Oct. 17, thermal **coal** prices at the Newcastle and Richards Bay benchmarks were \$63.30/tonne and \$64.90/tonne, respectively, data from Bloomberg and McCloskey showed. While seaborne high-quality coking **coal** prices have reached \$119/tonne in fourth quarter of 2014, Cormark Securities Inc. expects prices to reach \$128/tonne in 2015. The potential for a policy change in **China** could support higher demand and a recovery in prices sooner than it has estimated, Cormark said in a research note.

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