

An aerial photograph of a large-scale industrial facility, likely a coal export terminal. In the foreground, a large red-hulled bulk carrier ship is docked at a pier, with its deck visible. Behind it, another similar ship is partially visible. The facility features extensive conveyor belt systems that transport material across the site. Large piles of dark material, presumably coal, are visible in the background. The entire scene is set against a backdrop of a body of water and distant land.

Coal Prices

Global market, but regional specificities

Sylvie Cornot-Gandolphe

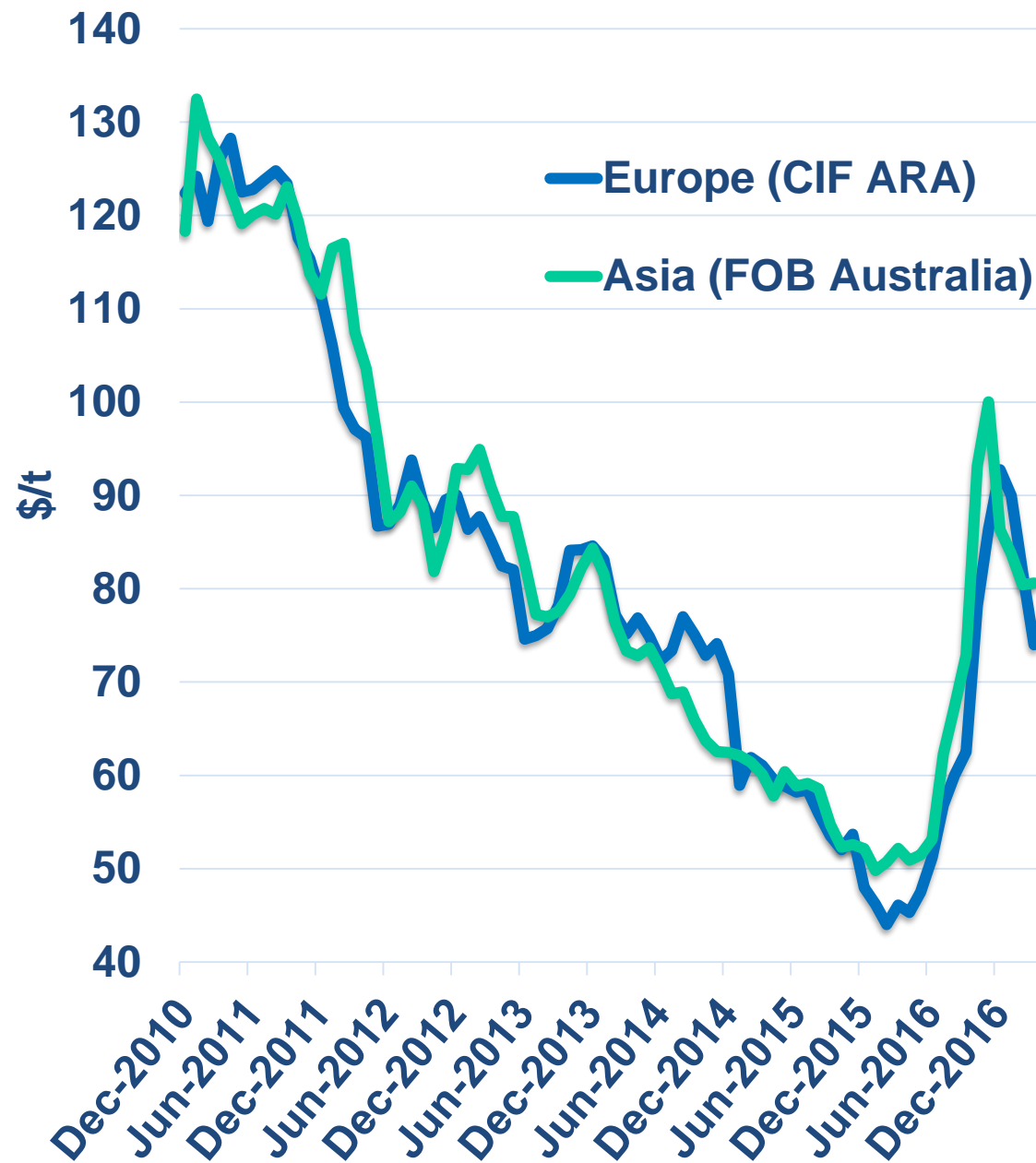
Flame
8 - 11 May 2017
Amsterdam

Outline

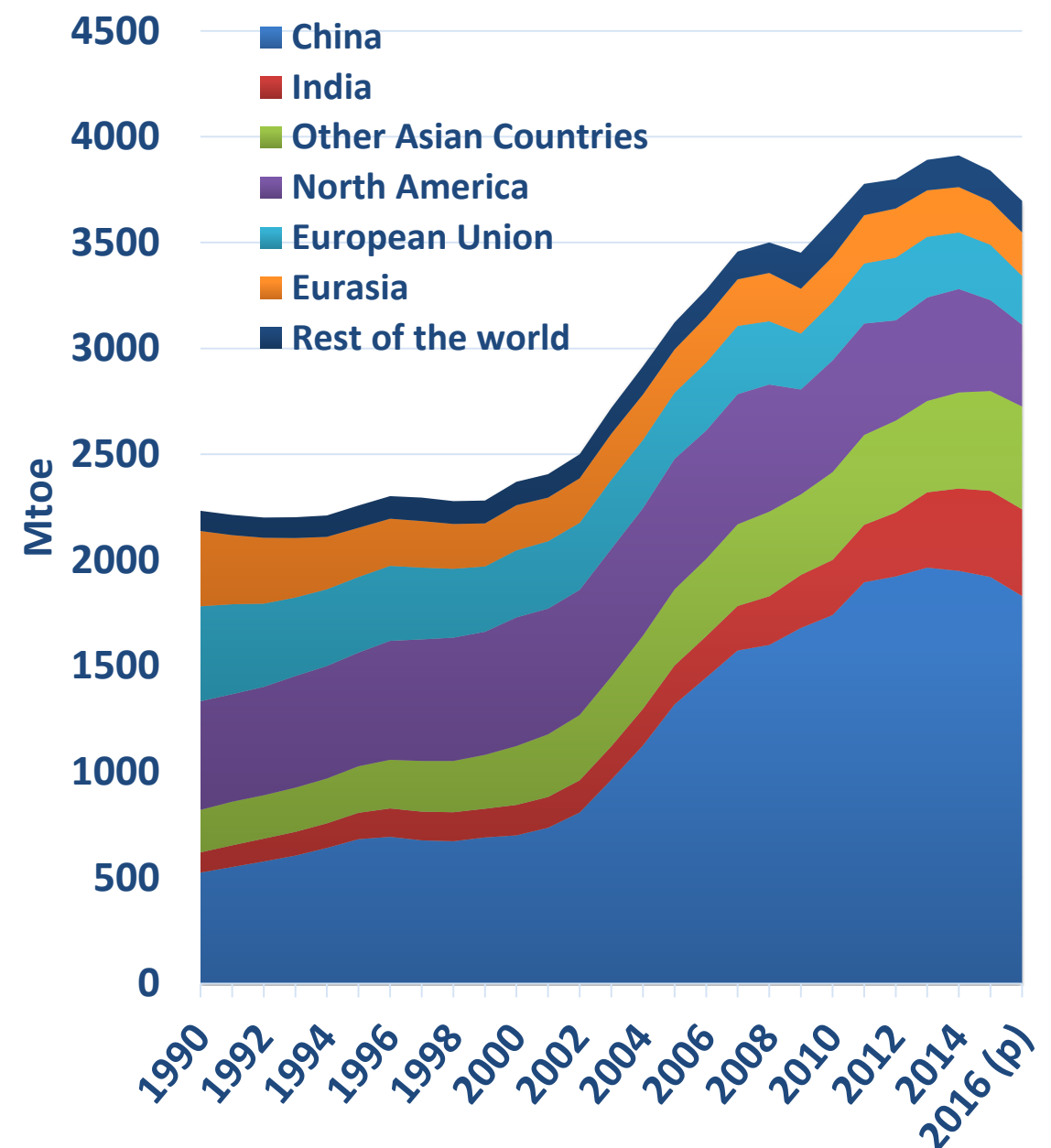
- Coal: the ‘hottest’ commodity of 2016
- A narrow global market
- Influence of China
- A subdued response from suppliers
- Significant implications for European energy sector
- But not (yet) in Asia
- What next?

After five consecutive years of decline, international steam coal prices doubled in 2016

Steam coal prices



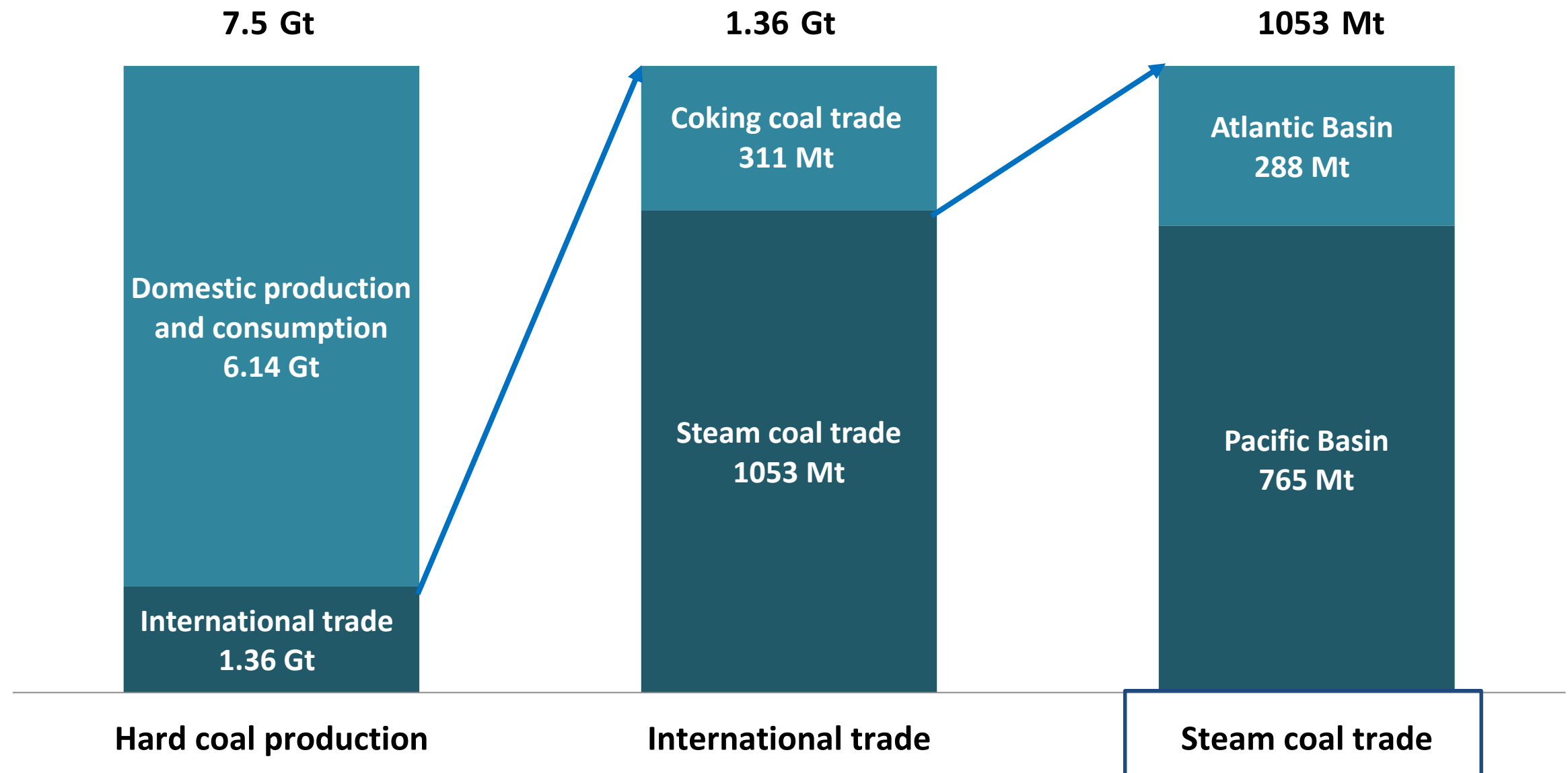
Global coal demand



But not because of higher coal demand

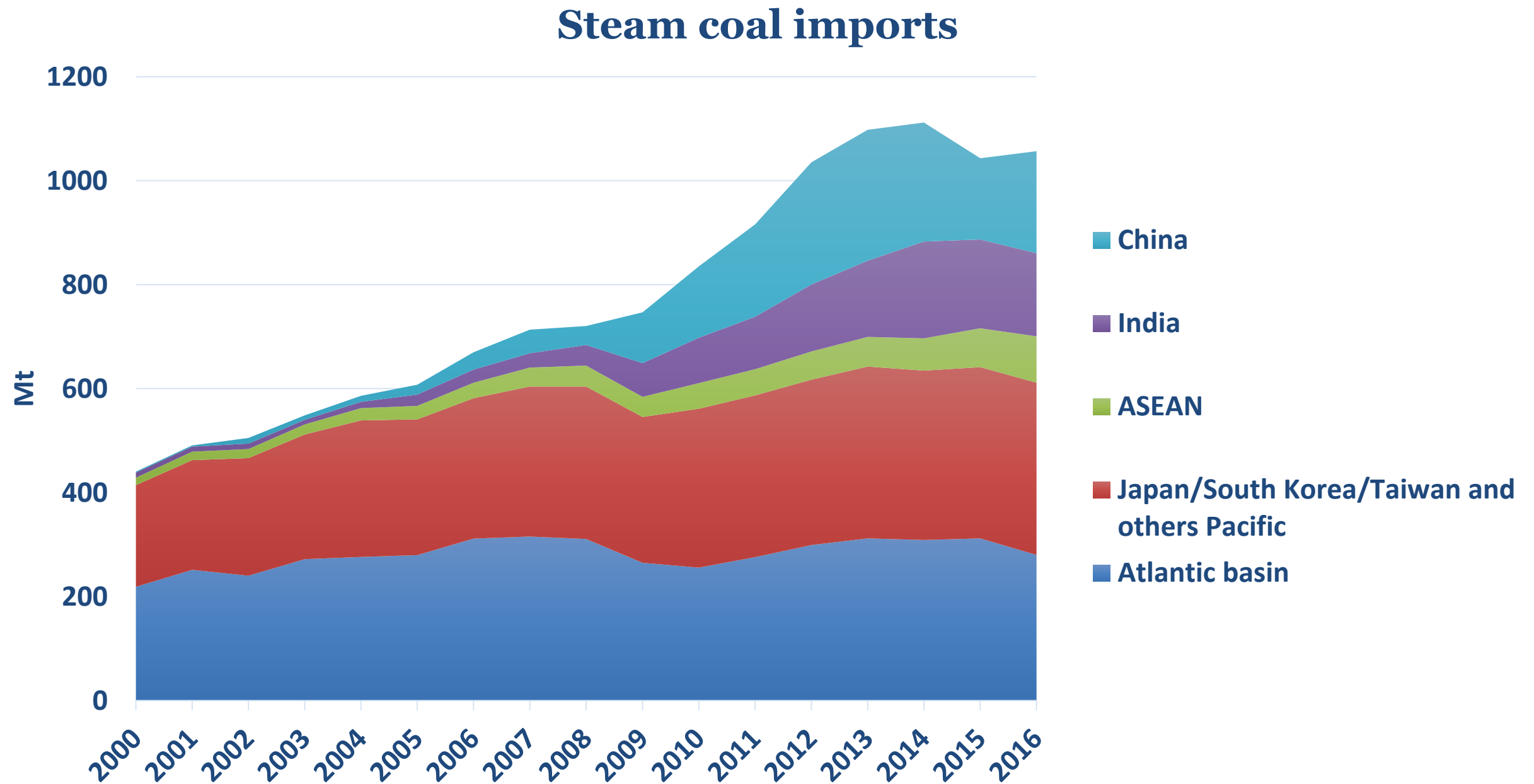
The international steam coal market in perspective

Global coal volumes in 2016



Steam coal trade accounts for 16% of steam coal production
In most markets, coal prices are determined by local conditions and policies

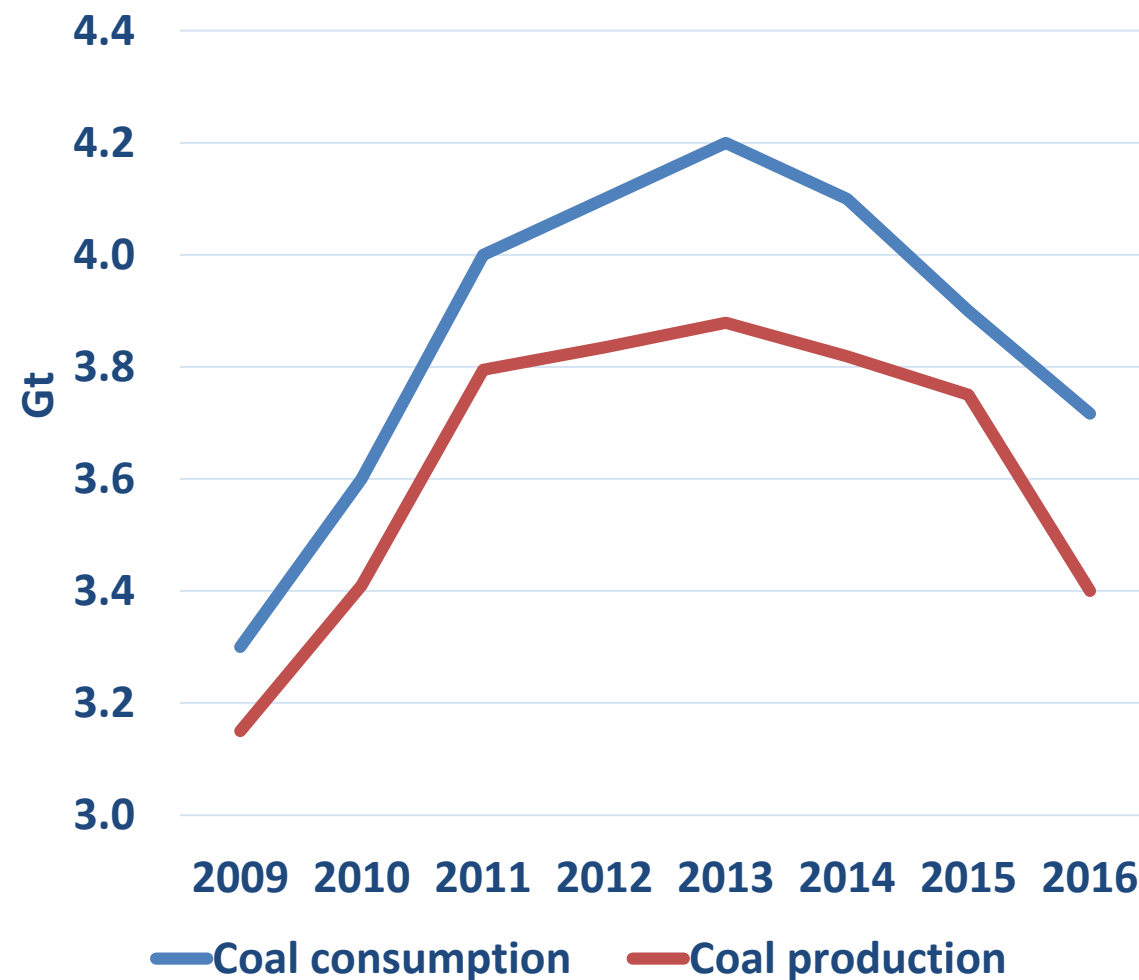
The Pacific Basin dominates steam coal imports



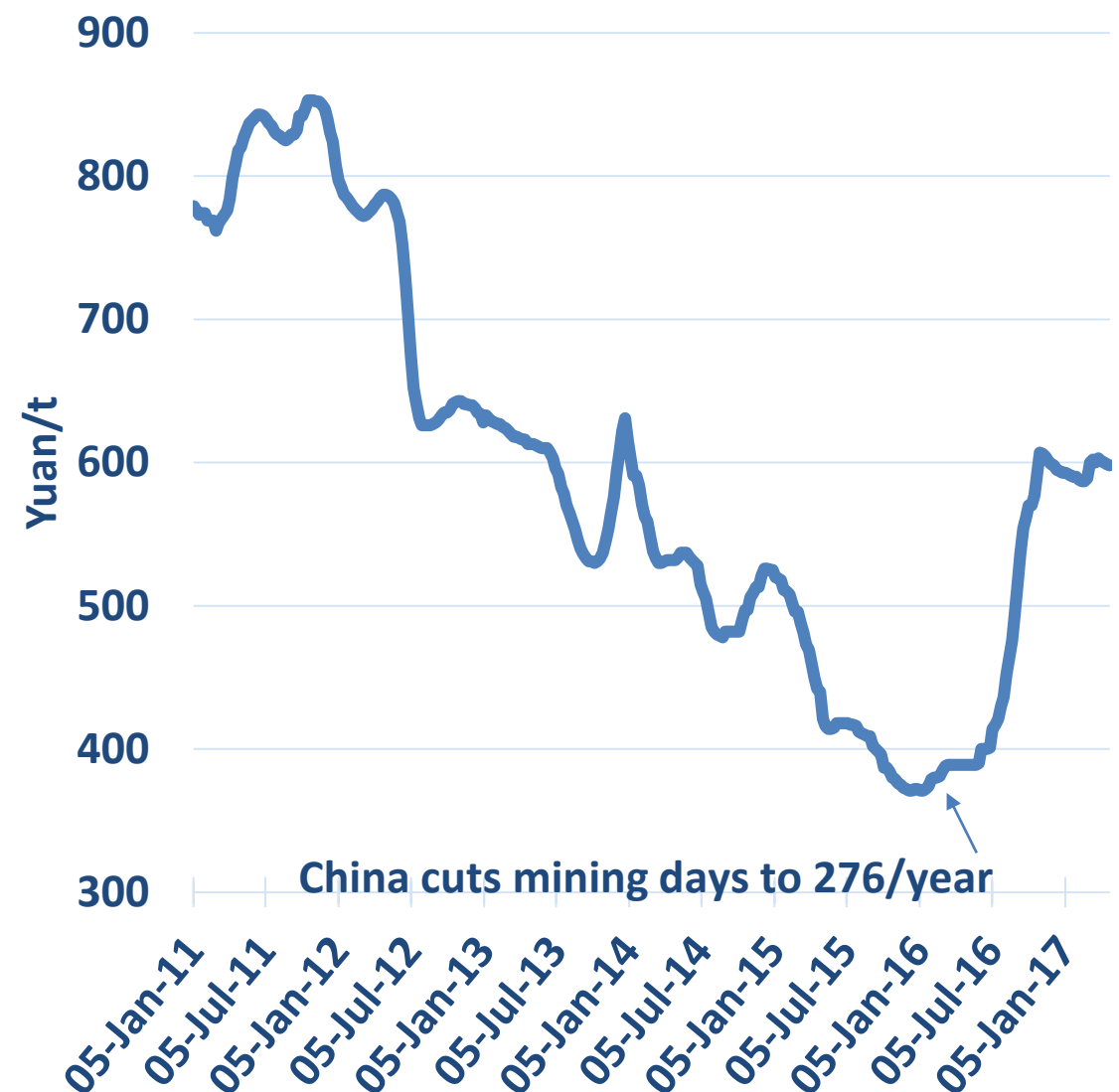
China and India have been the driving force behind the tremendous growth in steam coal trade since 2009

Despite the decline in Chinese coal consumption, coal production has remained high until 2016

China coal consumption and production

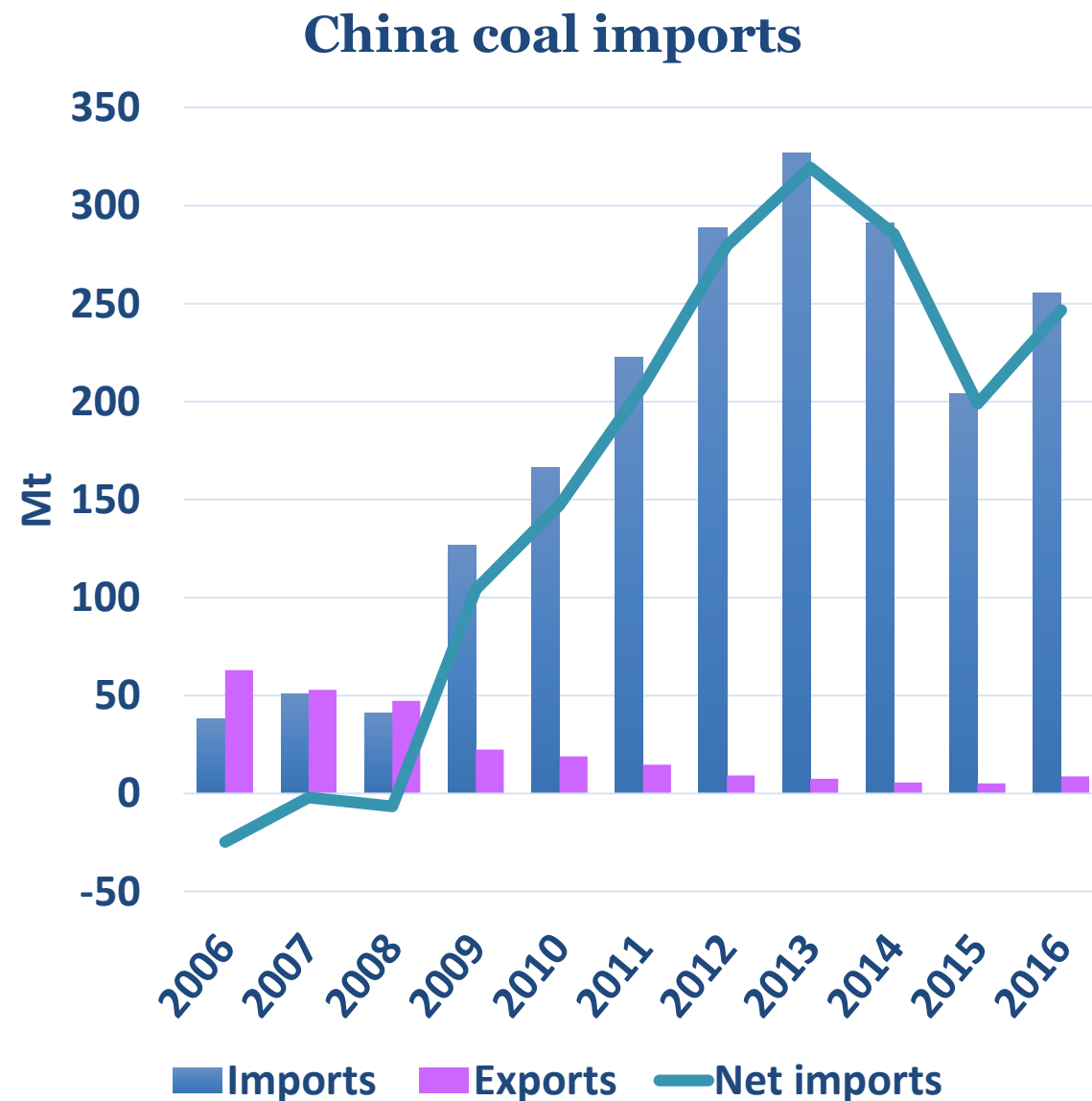


China domestic coal prices



Leading to over-capacity, a fall in domestic coal prices and financial losses in the sector
China's Government intervened to stabilize the market

With a high impact on Chinese coal imports and global coal prices

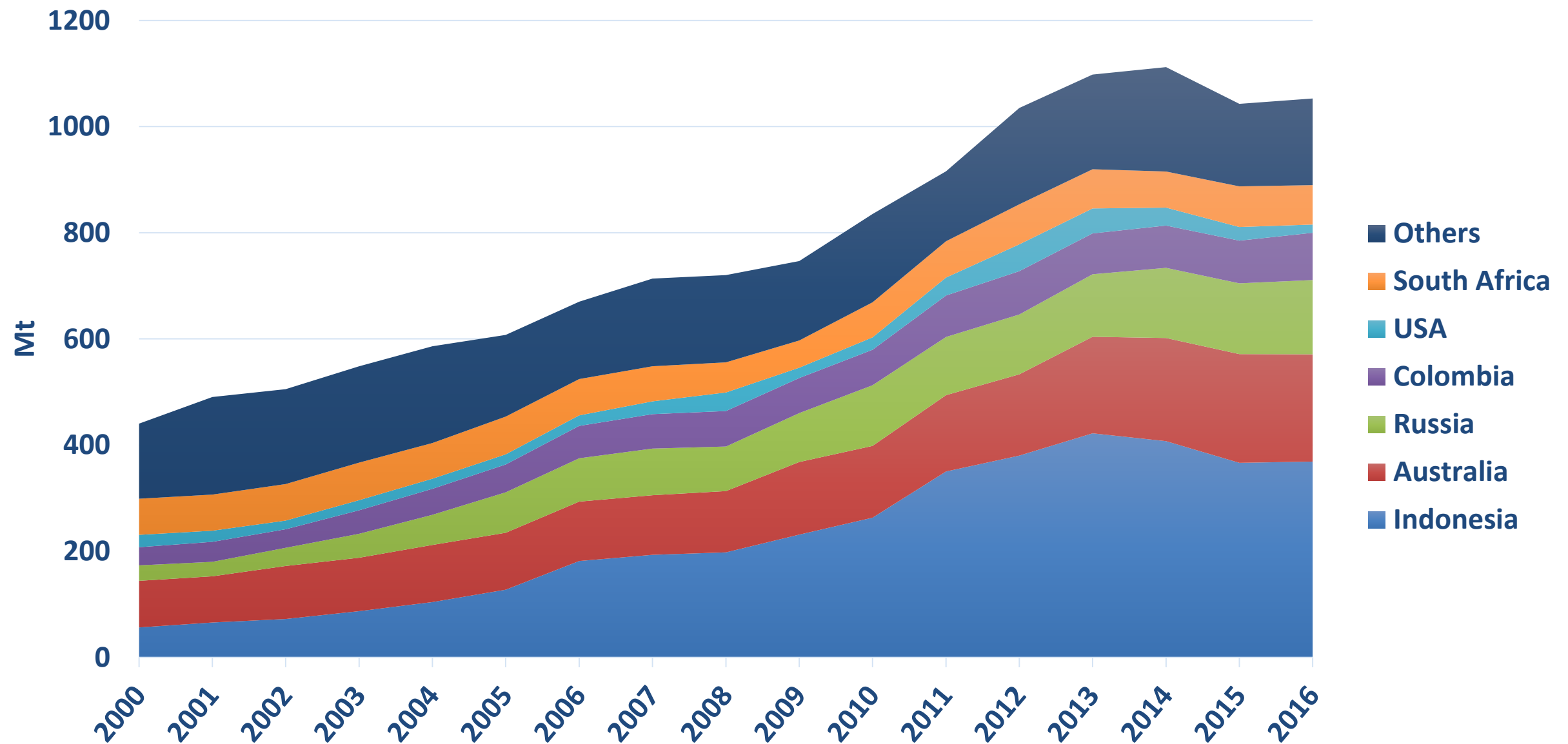


- The rapid increase in Chinese domestic prices reopened the price arbitrage between domestic and imported coal
- The sudden, sharp and unexpected increase in coal imports has tightened the global market and is the major driver of the coal rally.
- Coal imports account for only 5% of Chinese supplies, but between 16% to 20% of global steam coal imports

China relaxed its production control in November 2016. The Government wants 'reasonable' and stable coal prices:

After five years of low prices, coal exports were constrained by mine closures and lack of investment

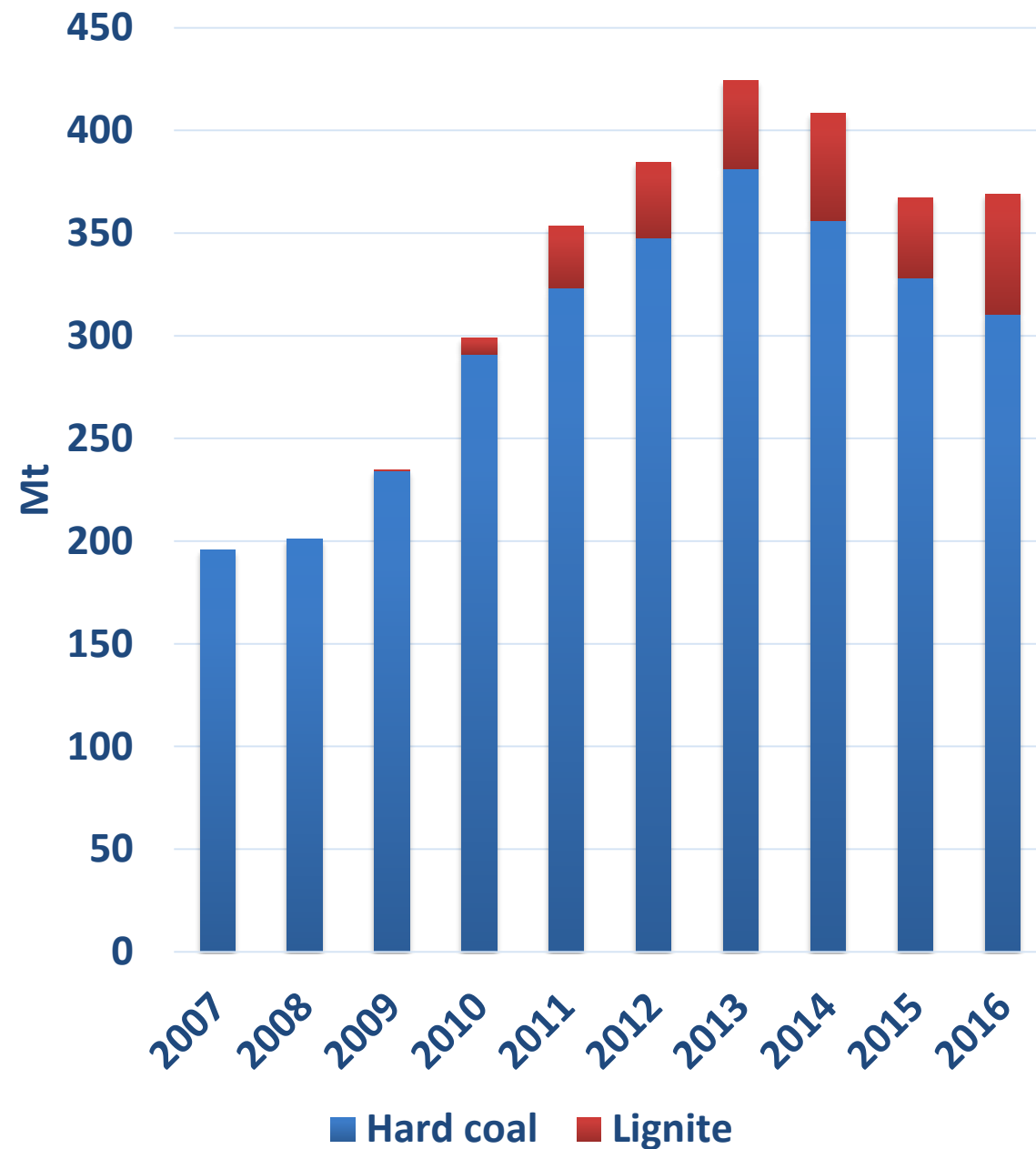
Steam coal exports



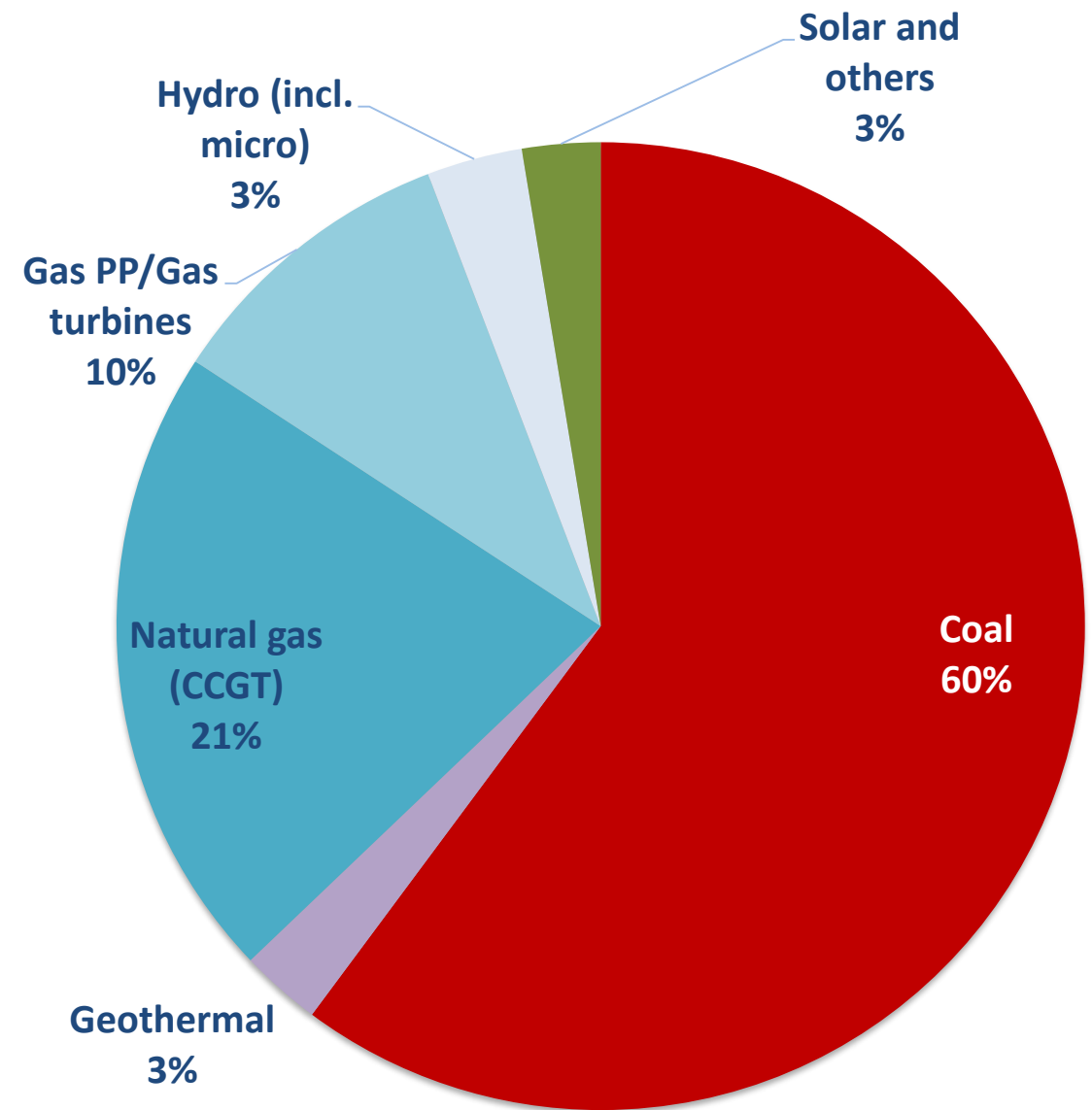
Indonesia plays a major role as the world's largest steam coal exporter, accounting for half of Asian steam coal imports

Indonesia: Export or meet domestic demand?

Indonesian coal exports



Indonesia Fast track program

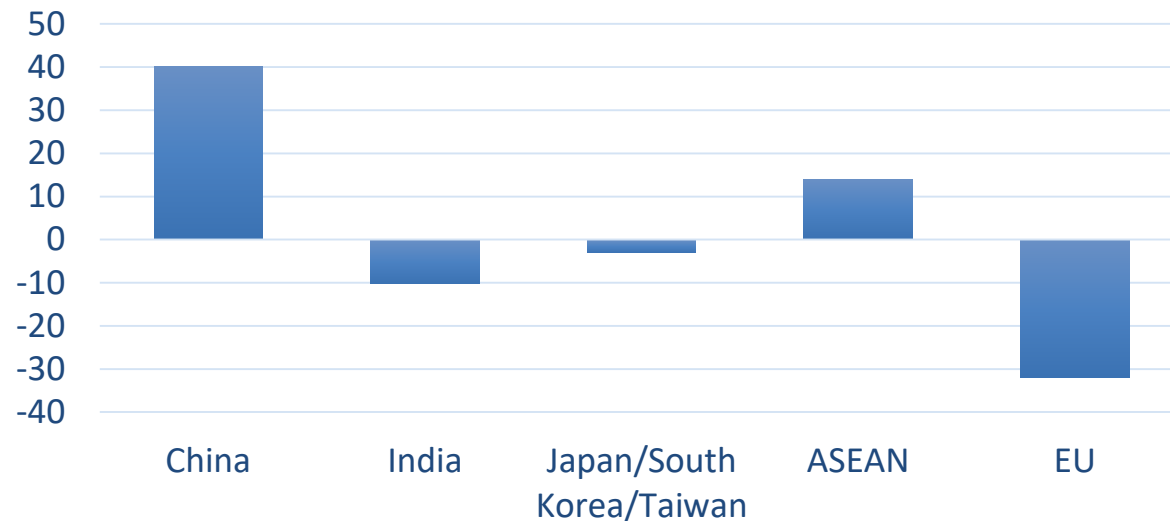


Additional power capacity 2015-2019: 42.9 GW

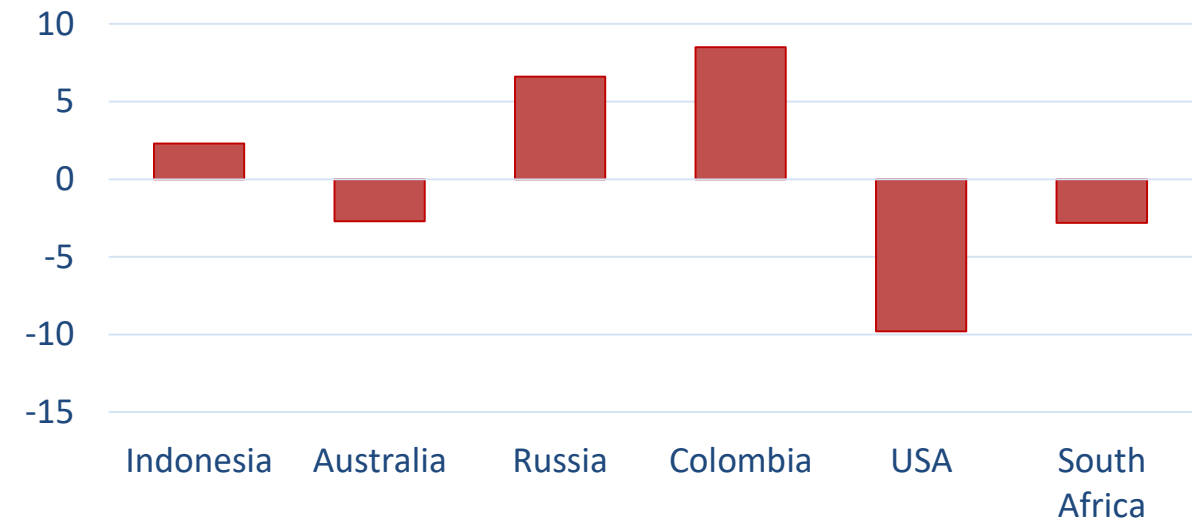
Indonesia is also a rising coal consuming country

After five years of oversupply, the global coal market tightened

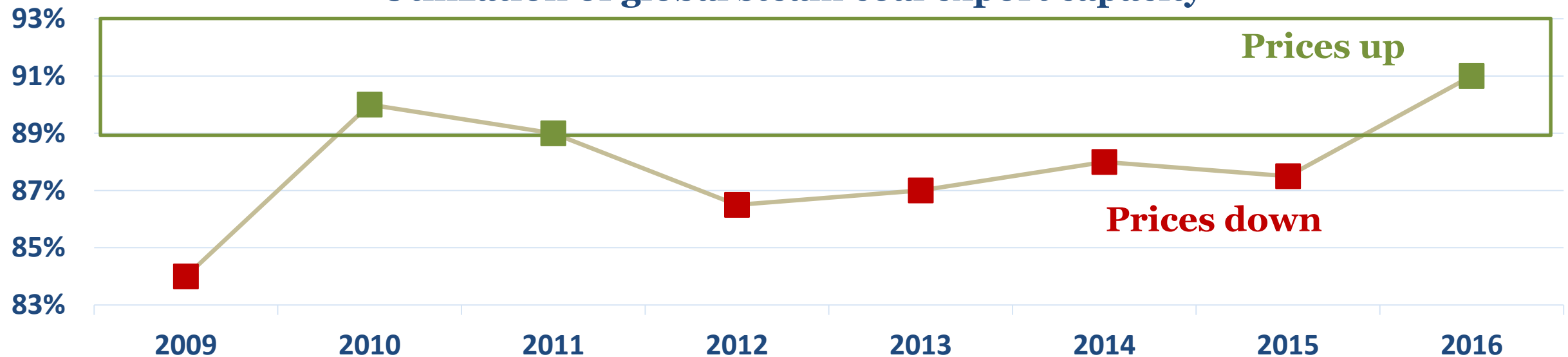
Main changes in imports (Mt)



Main changes in exports (Mt)



Utilization of global steam coal export capacity

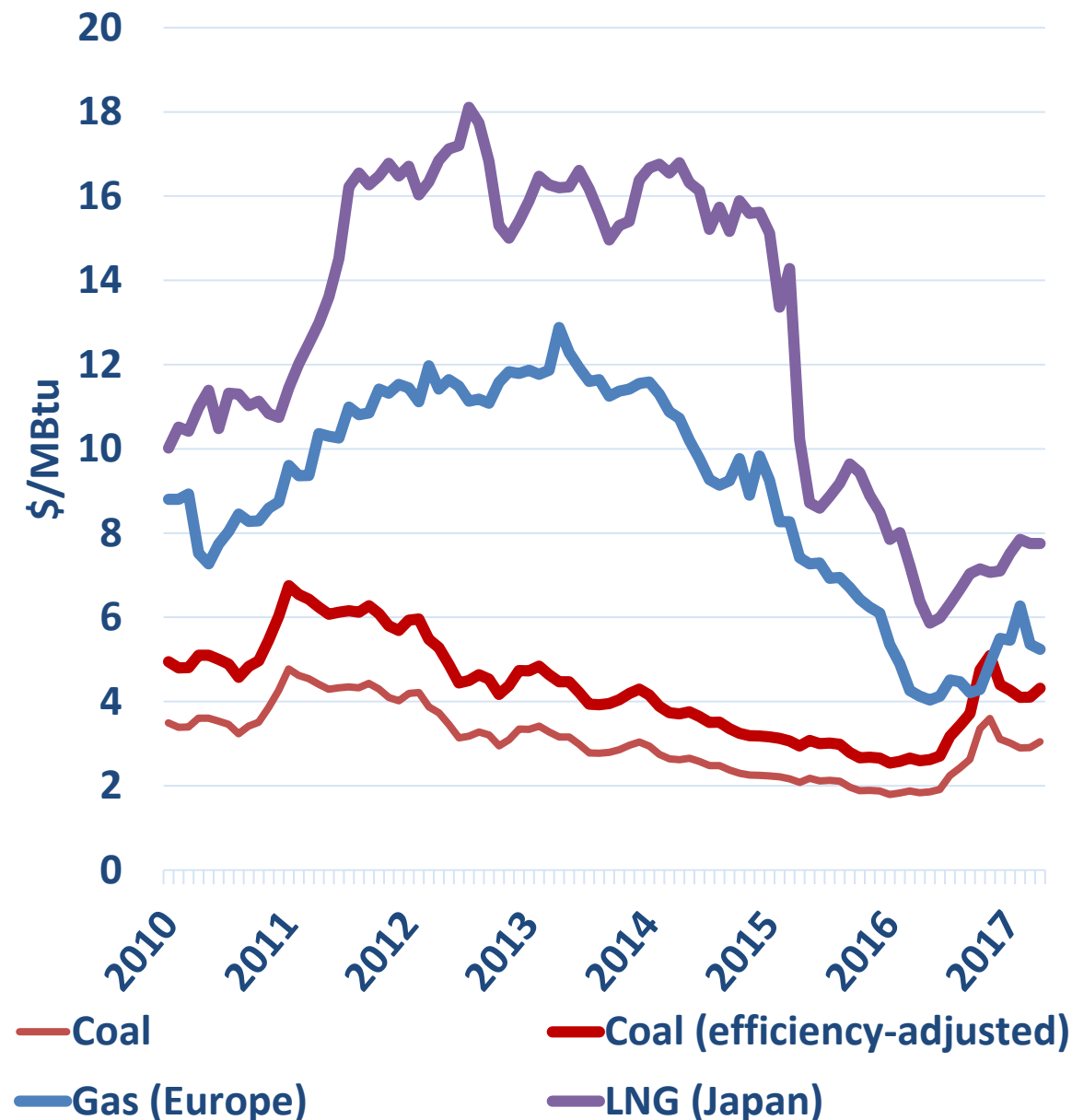


Coal export capacity utilization in 2016 was the highest since 2009, highly impacting coal prices

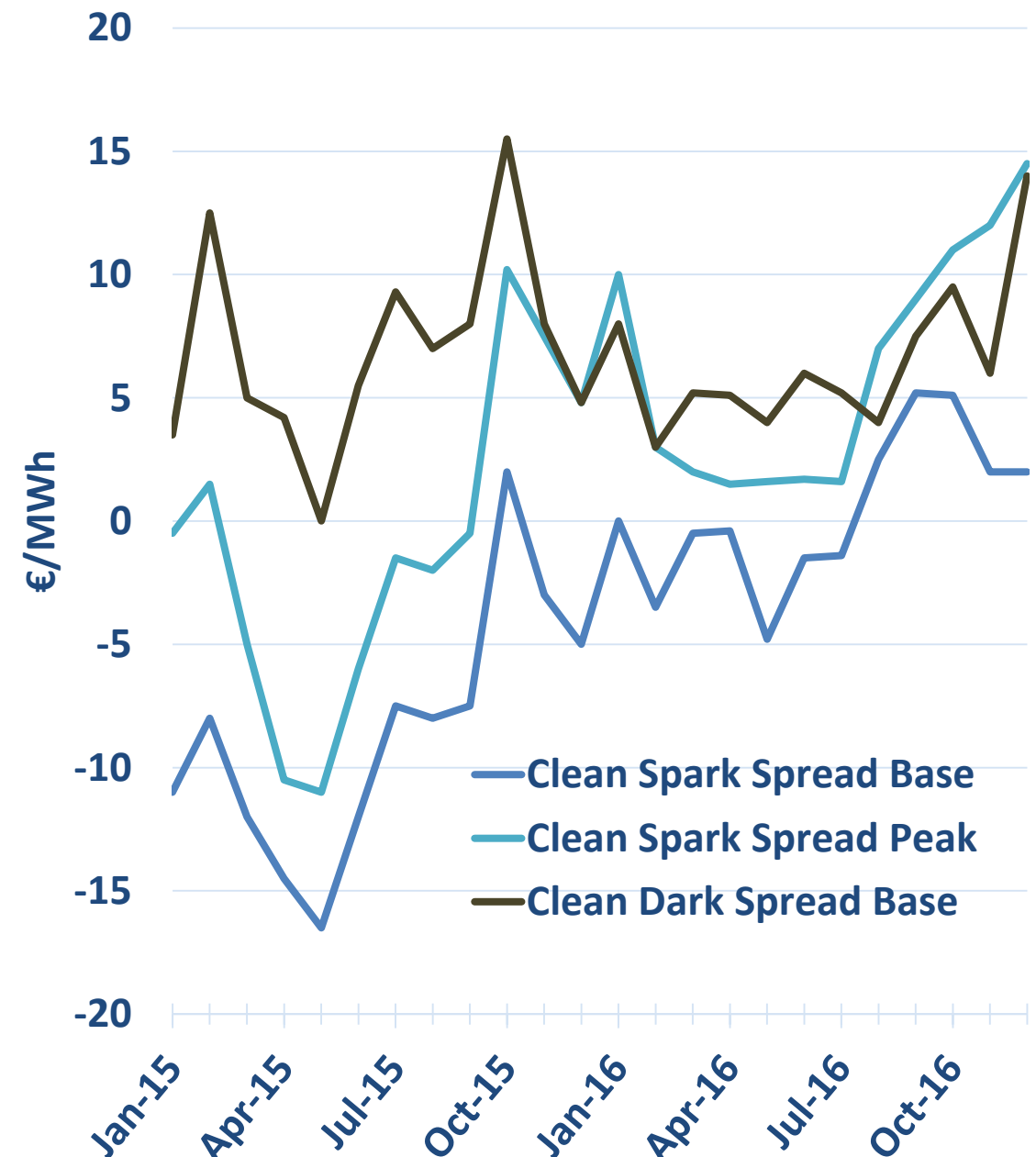
Once again, EU fuel-switching in the power sector helped to rebalance the market

Higher coal prices have a significant impact on the relative competitiveness of coal and gas in the power sector

Gas vs coal prices

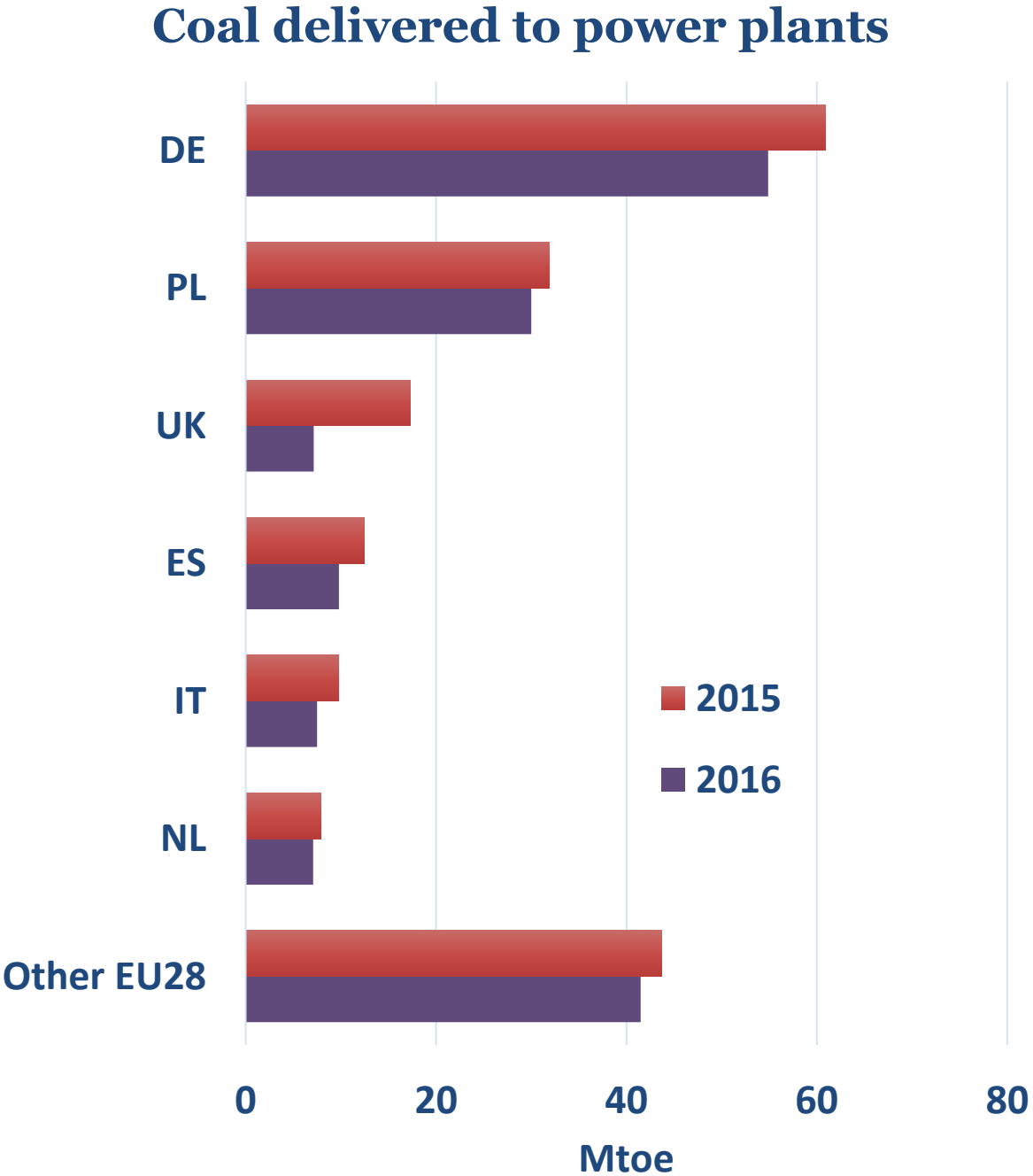
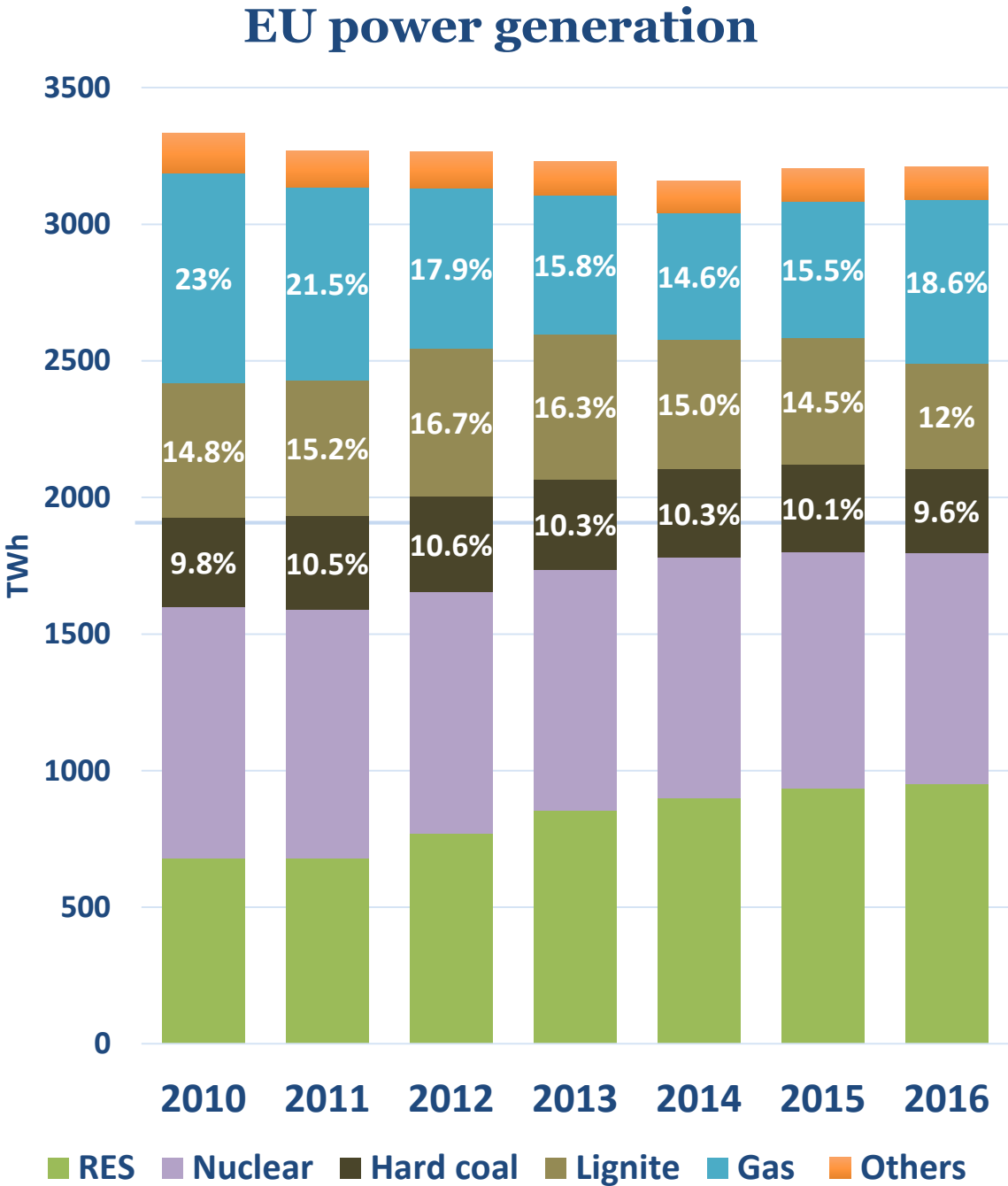


German CDS and CSS



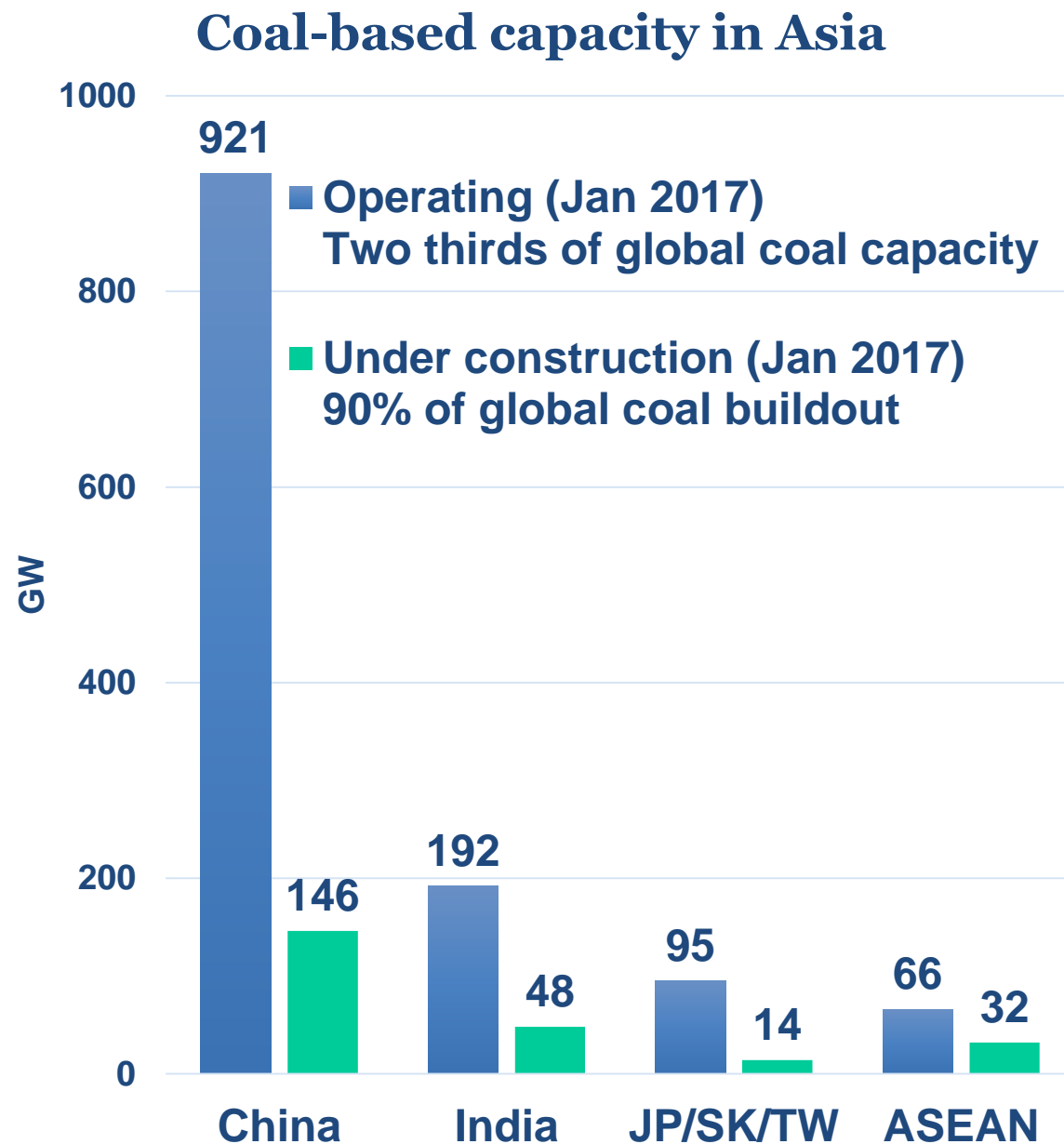
*Coal lost its competitiveness in Europe
Not (yet) in Asia*

Higher prices drove coal plant out of the EU capacity mix, despite low CO2 prices in Continental EU



Coal-to-gas fuel switching, due to relative changes in coal and gas prices, was accelerated by coal plant closures and the carbon floor price (UK)

In Asia, the current least-cost strategy is towards ‘new coal’ and renewables (+ nuclear + some gas)



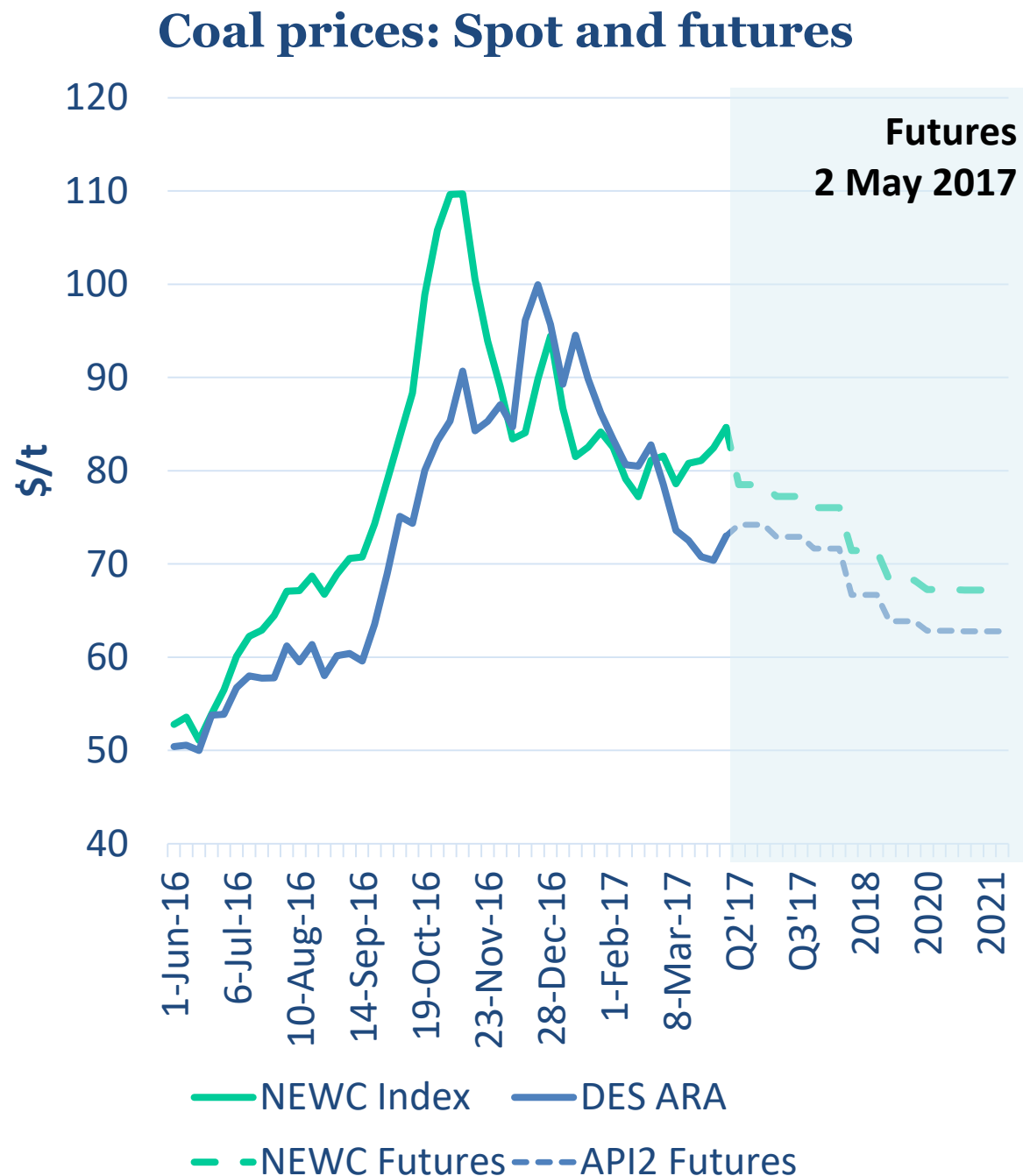
- There is still a **huge coal buildout**, despite current low utilization rates (China and India) and cancellations (particularly in China)
- IF all plants under construction were built: +240 GW (about 750 Mt/y of coal)
- Rationalization of the power fleet : ‘new coal’ to displace old inefficient coal → early retirement

So far, higher coal price have not triggered significant investment in gas power plants

Two perceived issues: security of gas supply (despite ample availability) and lack of gas infrastructure (grid). LNG can help provided it remains affordable

But some early signs: Indonesia, Vietnam, Philippines

What next?



More than ever, energy policy/regulation in China is dictating the price of coal

- Finding 'reasonable' coal price levels and rebalancing a huge market, such as the Chinese one, will not be an easy task.
- Chinese coal demand is highly variable in the short term (weather, hydro production)
- Regulation is unpredictable
- Volatility of coal prices to stay
- Potentially exacerbated by 5 years of lack of investment in the mining sector
- Rising production costs
- Indonesian growing consumption

Coal prices have declined compared with their peak levels, but remain elevated