Coal & Energy

Price report

Issue 11 | Volume 22 | 17 January 2020

Market Commentary

By Mark Burgess, mark.burgess@ihsmarkit.com

- Trade deal reaction: caution.
- Could push prices forward.
- Discouraging words still heard.
- EIA not liking coal.

Hopeful but cautious might be the best way to sum up how most U.S. coking coal producers are approaching Phase One of the U.S.-China trade agreement.

On paper, it obviously has strong possibilities. In reality, most producers will maintain a certain level of skepticism until paper meets ink on some deals.

"It would be tough to say that there is anything sentiment-wise that is pushing prices up based upon the trade deal," a producer source said. "At this stage, we just do not know enough about what the deal will look like for coal. Let's hope it's positive and the Chinese are open for business to the U.S. soon."

At the moment, anyone "open for business" to the U.S. would be a nice change of pace.

The back half of 2019 and the start of 2020 haven't exactly sizzled with spot activity as steel producers in Europe and South America have suffered through some lean times.

For months, U.S. producers have been banking on a new trade deal being a potential game-changer.

Now – we wait and see.

"Obviously we look forward to seeing more details on the China trade deal," another source said. "In the meantime, there's no question that any unexpected uptick in Chinese demand for U.S. met coal would be welcome.

"It would also likely help continue the upward momentum in pricing that we have seen in recent weeks."

U.S. and Australian pricing hasn't exactly gone stratospheric, but it has recovered somewhat from recent lows.

IHS Markit is currently assessing U.S. high-vol B (MCC7) at $123/metric tonne, U.S. high-vol A (MCC8) at $133/tonne, U.S. mid-vol (MCC9) at $130.50/tonne and U.S. low-vol at $129.50/tonne, all up slightly week on week more on sentiment than concrete deals.

CSX sees lots of headwinds in export met, thermal markets in 2020

By Bob Hodge, bob.hodge@ihsmarkit.com

Just as expected, the slowdown in U.S. coal exports is fanning out and it's not just a story for producers and traders.

CSX is proof of that.

The railroad reported its fourth-quarter earnings Thursday and during its conference call pointed to the headwinds in the coal industry. CEO Jim Foote said CSX expects its full-year revenue for 2020 "to be flat to down 2% versus 2019" and coal plays a role in that projection.

"This forecast includes more than $300 million of top line headwinds from the coal business, driven primarily by lower export coal volumes and pricing," he said during the call. That would translate into about a 15% decline from 2019 numbers.

Last year, CSX guidance was for 40 million tons of exports for both met and thermal coal. The actual total came in slightly less at 38 million tons. Less than three weeks into 2020, the

continued on page 3

"There's not much demand yet," the first source said. "A couple of opportunities have materialized in Brazil, but that is about it."

A sudden upswing in Chinese interest, however -- mandated by Phase One or not -- could set off a chain reaction of interest as buyers try to get in on the ground floor of pricing.

At least we can dream.

"The Chinese are talking their book," one of the more skeptical sources said of the freshly announced deal.

Whether it's book-talking gamesmanship, or not, it appears no one is exactly sure how the arrangement will impact pricing until Phase Two lays out a clearer picture of the steel industry and how overall tariffs will be dealt with, or done away with.

Too many questions persist and too much bearishness is still being seen and felt from Europe.

"I don't see any real change in the pricing in the short term," a trader source said. "Everything I hear regarding the European market in general is discouraging -- no demand.

"We are seeing tons of foundry coke coming into the U.S. from there, which is really the proof in the pudding. I've seen this before. I just hope that it's short lived, but only time will tell. The foundries we are dealing with are slow, with business off 10-15%. Most try to keep very low inventories at the end of the year, so there should be a big tug on products now. But there isn't."

Rough EIA outlook

The Energy Information Administration's short-term energy outlook for January would have gotten flagged for unnecessary roughness if this were the NFL, and not the U.S. thermal coal industry we were talking about.

About two seconds after the whistle, the EIA body-slammed coal.

What's tough to handle is it barely raised an eyebrow among U.S. coal producers. They've seen this coming for years.

The EIA projected in its latest report that total U.S. coal production in 2020 will slide to 597 million tons, down 93 million tons, 14% from 2019's estimated total of 690 million tons.

To blame? "Anticipated declines in both exports and domestic consumption in the electric power sector," the EIA said, pointing to the "Western production region" as the most likely to see the most dramatic declines.

By 2021, the EIA expects another 3% dip to 581 million tons of production.

"The slowing declines in production for 2021 are based on EIA's expectation of modest increases in demand for U.S. exports offset by continuing, albeit slowing, demand declines in the U.S. electric power sector," the report said.

As you would expect, the natural gas outlook isn't doing coal any favors.

The EIA expects record dry natural gas production in 2020, climbing to 94.7 billion cubic feet per day (Bcf/d) from 2019's record-setting 92 Bcf/d.

Henry Hub spot prices for natural gas are expected to average $2.33/MMBtu in 2020, down from $2.57/MMBtu seen in 2019.

Happy New Year.

"EIA expects the share of U.S. total utility-scale electricity generation from natural gas-fired power plants will remain relatively steady," the report said. "It was 37% in 2019, and we forecast it will be 38% in 2020 and 37% in 2021.

"Electricity generation from renewable energy sources rises from a share of 17% last year to 19% in 2020 and 22% in 2021. The increase in the renewables share is the result of expected additions to wind and solar generating capacity. Coal's forecast share of electricity generation falls from 24% in 2019 to 21% in both 2020 and 2021."

On a positive note, the EIA's most recent coal production data, for the week ending Jan. 11, showed total U.S. production was actually up 4% week on week to 12.9 million tons. The bad news is that weekly figure is down 18.3% from the comparable week of 2019.

Through the first two weeks of the year, the EIA puts U.S. output at 20.1 million tons, down 11.8% from the early pace set in 2019.

Besides the obvious slack demand seen on the domestic home front, exports aren't providing much cause for optimism.

"In 2019, coal exports decreased 20% from 2018 to 92 million tons," the EIA said. "Less favorable market conditions, such as competitive steam coal cargoes from Eastern Europe and high freight costs, contributed to the decline, which was offset somewhat by residual contracts that will expire in 2020."

The EIA is guessing exports will slip another 11% in 2020 to 83 million tons before stabilizing near that level in 2021.

"Despite EIA's forecast decline in total U.S. coal exports, shipments to top destinations such as India, Japan, and South Korea, are expected to remain stable," the report said. "Exports to these three countries accounted for 34% (27 million tons) of the coal exported in 2019 through October. Europe received about 36% of U.S. exports during that period. Although U.S. exports to Europe are mostly metallurgical coal and used predominantly for steel production, U.S. steam coal is still used in Germany, Portugal, and the United Kingdom.

"U.S. coal exports to North Africa, particularly Egypt and Morocco, rose 5% compared with the same period in 2018, accounting for 9% of total exports. Comparatively, coal exports to North and South America accounted for 8% and 9% of total coal, respectively."

CSX sees lots...continued from page 1

railroad is guiding for exports to be somewhere in the low 30s.

Coal revenue decreased 22% from the fourth quarter of last year on 17% lower volumes, with declines in both export and domestic markets, due to the impact of lower export demand and benchmark prices, as well as low natural gas prices. Lastly, other revenue declines resulted from lower storage revenue at intermodal facilities and lower demurrage charges.

Met coal makes up about 65% of CSX's export business and Executive Vice President of Sales and Marketing Mark Wallace said the railroad reprices its contracts quarterly. Despite met prices having rebounded from the lows of late last year by about $20 a metric tonne, that's not enough for CSX to be expecting another export windfall.

Throw in some bad numbers for its domestic business, too, and it's not hard to see why CSX executives were talking about headwinds.

"Our contracts reprice quarterly, so you should expect to see a bit of a drag on the RPU into Q1," Wallace said. "That's kind of where it is and we will see what happens throughout the year. As a reminder, this time last year the met prices were coming into the first quarter of the year at about 220 bucks."

Wallace said the way to think about exports and pricing – as far as the met side of the ledger is concerned – is to assume prices are going to be more or less flat with where they are. The first quarter is likely to be mostly a downer, but he said "sequentially throughout the rest of the year, we don't think it's going to get worse on the RPU."

While the declines are going to claim both met and thermal export tons, the thermal numbers will likely go down the most.

"On the thermal side, again, it's one third of our export shipments where we've seen the largest volume declines," Wallace said, pointing a finger at low natural gas prices and not-too-wintry winters impacting demand overseas and pushing the API 2 into the low $50s.

"On the met side it is mostly a price story, not a volume story," he said. "The prices have continued to slide down to about $150 per ton today. So that's kind of what we see on the export coal front."

As for the domestic side of the CSX coal business, the low natgas prices have been coupled with lower demand for electricity. With more and more coal-fired power set aside for peaking generation, it doesn't help when the peaks aren't reached.

Wallace said that translates into a domestic utility market that should be "relatively" flat compared to last year, with CSX having "some wins" that will be offset by "some market declines."

CSX seeks coal export sales manager

CSX has an opening on the export side of its Coal Business Unit, a critically important role within the company. Exports have been and will remain an important part of the railroad's business, CSX said.

CSX is looking for a senior sales manager to provide sales, marketing management and analysis for an export coal portfolio valued up to $1.0 billion.

In addition to sales, the job entails market research and negotiating responsibilities.

The ideal candidate will bring significant skills to the table –

I know what you're thinking – only ol' Jim Thompson could get all that done. Not true, and CSX wants someone with less, um, baggage.

The job is posted on the CSX website:

https://csx.taleo.net/careersection/basic_faceted_search/jobdetail.ftl?job=046231&tz=GMT-05%3A00&tzname=).

The job ID is Senior Sales Manager-046231.

You have until January 25 – really the day before as the posting will be taken down that morning – to respond.

Two Colstrip units retired this month

Talen Energy has indicated that the coal-fired Units 1 and 2 of the Colstrip power plant were retired as of this month.

"The Colstrip power plant, consists of 2 active coal-fired generating units capable of producing up to 1,480 megawatts of electricity," according to the Talen website. "Units 3 and 4 each have about 740 megawatts of generating capacity; Talen Montana has 30 percent ownership in Unit 3 and no ownership in Unit 4. Talen Montana operates the plant. Units 1 and 2 were retired in January 2020."

Talen Energy did not issue a public statement about these retirements. They had been long-planned under a clean-air deal.

Talen Montana owns, and has the right to the output of, these shares of Colstrip units:

- 50% interest in Unit 1, which had a total capacity of 307 MW (summer);
- 50% interest in Unit 2, which had a total capacity of 307 MW (summer); and
- 30% interest in Unit 3, which has a total capacity of 740 MW (summer).

The Colstrip plant is owned by Talen Montana, Puget Sound Energy, Portland General Electric, Avista Corp., PacifiCorp and NorthWestern Energy. Some of the co-owners of Units 3 and 4, pushed by state utility regulators in Washington and Oregon, are looking at possible retirement of this capacity later this decade.

The Nov. 7 quarterly Form 10-Q of Puget Sound Energy says: "PSE has a 50% ownership interest in Colstrip Units 1 and 2 and a 25% interest in Colstrip Units 3 and 4. ... As part of the [clean-air] settlement that was signed by all Colstrip owners, Colstrip 1 and 2 owners, PSE and Talen Energy, agreed to retire the two oldest units (Units 1 and 2) at Colstrip in eastern Montana no later than July 1, 2022. ... On June 11, 2019, Talen made a public announcement that Colstrip 1 and 2 will be shut down at the end of the year due to operational losses associated with the units."

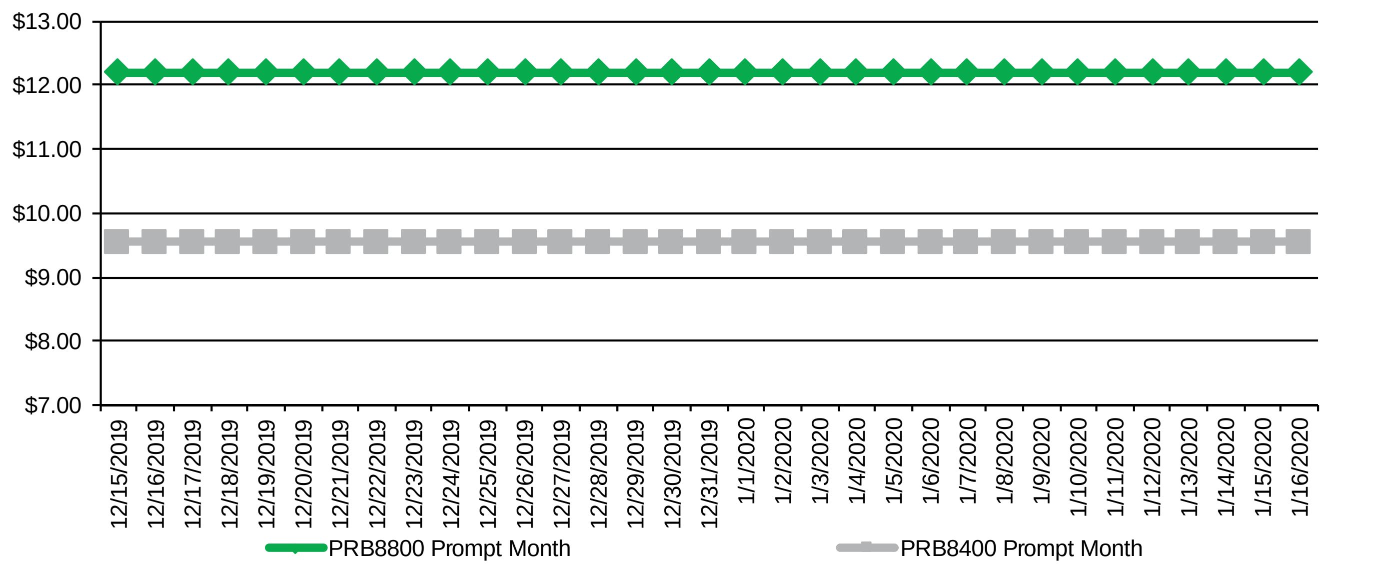
In the meantime, as an example of efforts to early-retire Units 3 and 4, Avista Utilities has committed to no longer support investments that would extend the life of what's left of the Colstrip power plant past the end of 2025. This is under a proposed settlement filed Nov. 21 at Washington's State Utilities and Transportation Commission. The commission is still reviewing that settlement.

Also, PacifiCorp, in a 2019 integrated resource plan filed this past October with various state utility commissions, said it plans in 2027 to retire its 148-MW share of Colstrip Units 3-4 (instead of the 2046 expected retirement year that was in its 2017 IRP).

Customer Notice

Coal & Energy Price Report will not publish on Monday, Jan. 20, in observance of Martin Luther King Jr. Day, a U.S. holiday.

Prompt Month for PRB 8800 and PRB 8400 Coals



Source: IHS Markit

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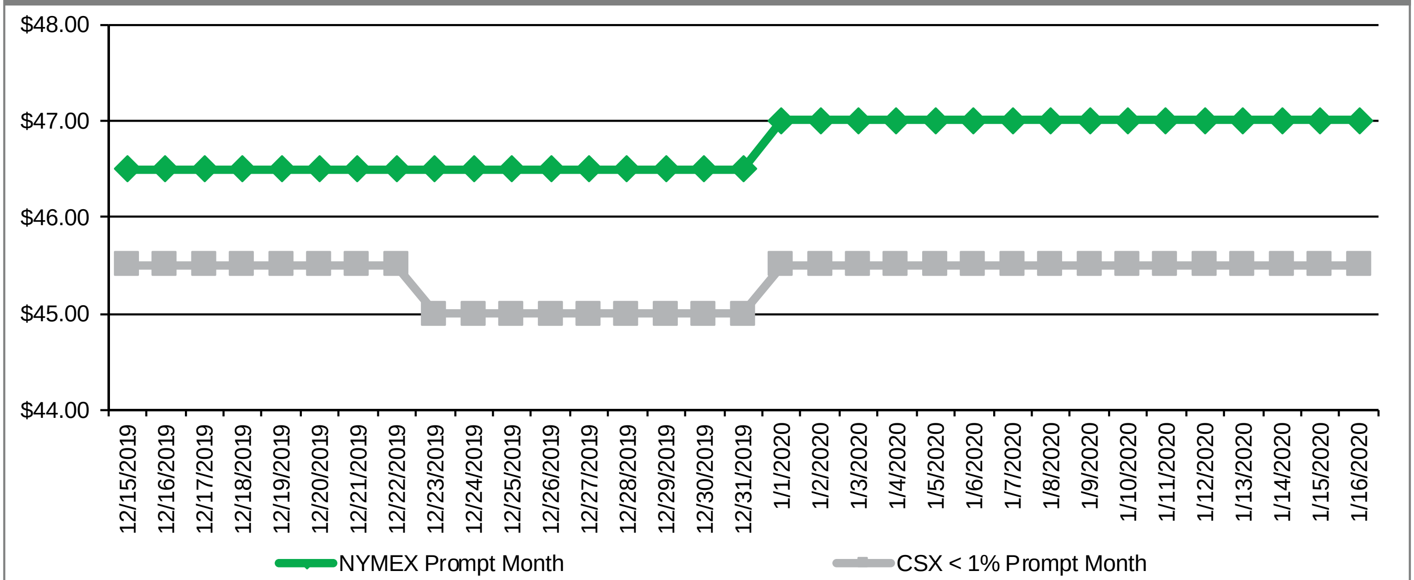
Prompt Month for CSX < 1% & NYMEX Coals



Source: IHS Markit

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Price markers

NAPP FOB rail	12,900 Btu/lb., 4.0 lbs. SO2/MMBtu, **$38.87/ton**
ILB FOB rail	11,500 Btu/lb., 3.0% Sulphur, **$32.10/ton**
NAPP FOB barge	12,500 Btu/lb., 6.0 lbs SO2/MMBtu**, $37.65/ton**
ILB FOB barge	11,500 Btu/lb., 3.0% Sulphur, **$33.39/ton**

Source: IHS Markit

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15th Annual

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