Market commentary

By Bob Hodge, bob.hodge@ihsmarkit.com

- Export window could stay open longer than expected.
- An 18- to 24-month window is pessimistic.
- One key is the domestic market.
- Doubts about ILB production rise.

“*To infinity, and beyond!*”

**Buzz Lightyear**

The consensus has been that the current export window for U.S. coal is 18 to 24 months – give or take – and after 2020 or so, the picture gets kind of cloudy.

But there are those on the production side and on the trading side who believe that support for U.S. exports may have stronger legs than that. While nothing lasts forever, one production-sider said that tight capital that has led to expanded production being held in check is a global phenomenon and not just a local one here at home.

His take: If the U.S. is having a hard time expanding production at current thermal coal prices, overseas competitors in the other big exporting countries are going to have a tough go of it as well.

“There’s a lot of new coal-fired capacity coming online, just not here in the U.S.,” he said, pointing mainly to Asia. “If you look at what analysts are saying about worldwide coal consumption, it’s not going down.”

While the U.S. may not be in the best position to take advantage of the big Asian coal buildout – geography is a real thing – countries that have been pushing more coal to the east leaves the U.S. with better markets closer to home. It’s not a situation that is likely to play out for a year or so, then just simply evaporate.

The U.S. can and does ship coal to Asia as the tons that have been going to India attest to, but as long as eastern buyers are in the crosshairs of other exporting countries, that plays into the U.S.’s hands.

“You’re not going to see a lot of (new) thermal production coming from anywhere, in my opinion,” he said. “That’s what’s going to leave the door open.”

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‘US going mainstream globally’: IHS Markit update

By Steve Hooks, steve.hooks@ihsmarkit.com

This makes it official but has long been what U.S. producers saw going forward: “The U.S. role as a world-class coking coal supplier has strengthened and is now joined by the rising U.S. position in the thermal coal market,” according to a new IHS Markit study.

Exports of both U.S. coking and thermal coal will be greater than 50 million metric tonnes in 2018, according to the study’s authors, IHS Markit Senior Directors Dr. James Stevenson and Mark Morey.

This assessment comes in the just-released U.S. Coal Market Update for October.

“Overseas buyers increasingly value the high heat content of U.S. coals from Appalachia and ILB, made even more important by the declining quality of thermal coals from Colombia and South Africa,” the authors state. “The high heat content more than makes up for price.

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The trader

On the trading side of things, talks for shipping coal in 2019 began long ago and, in more than a few cases, shipments are already being lined up for 2020. Earlier this year, some companies had signed on three-year export deals, so the trader believes that the window for exports to continue beyond 18 to 24 months – the latter would, obviously, just about carry through the end of 2020 – has already been cracked open.

A key piece of evidence is that some offers on the table for late ‘19 and early ‘20 exports are being waved off because the prices would put them on the low side of sales that have been made this year. He said that if the mood was that exports were going to be heading into a sharp decline, some of those deals would have been inked already.

“It’s an optimistic outlook,” the trader said, but added that the expectations for the first half of 2019 “have already been exceeded” in some deals.

“Prices are holding their own; there’s not too many deals being made just to say, ‘We’ve booked x amount of tons,’” he said. “That could change depending on where the domestic market goes.”

Plants closing

A wildcard that has yet to be played is how many U.S. coal-fired plants are going to close in that 18- to 24-month window. While production has been adjusted slightly down so far in 2018, if the plant closures continue apace, then there’s going to be that much more coal available for the export market unless a mine here or there cuts back.

While it sounds like a reasonable play, cutting back here or there will push up production costs. The production-side source said the domestic/export play isn’t one size fits all.

“What’s good for NAPP may not be good for CAPP or the ILB,” he said. “I keep hearing that ILB production is going to go up next year ... I have my doubts.”

He said if it was a response to the export play, it would make sense, but that’s leaving domestic markets out of the equation.

“Summer was good for coal, but I think the final numbers are going to show it wasn’t that good,” he said. “It’s the exports that have been pushing the market. What happens if a bunch of that domestic coal comes back into the system?

“I think export demand will be there to take it, but it’s going to push prices down.”

US going mainstream... continued from page 1

discounts owing to the high sulfur content of many U.S. thermal coals.”

IHS Markit’s price marks for Northern Appalachian and Illinois Basin thermal coals have risen steadily in the past few weeks, a reflection of tight supplies for both basins’ output and sustained strength in the export markets.

NAPP rail coal for delivery in November, December and January hit a new high last week, jumping $0.88/ton to $56.21/ton. The coal, with specs of 12,900 Btu/lb. (12,500 Btu min.) and 4.0 lbs. SO2/MMBtu, has moved up $1.33/ton in the past two weeks on continued supply tightness, strong interest overseas and increased domestic demand in the fourth quarter.

Sources said that they would not be surprised to see the price move past the $58/ton mark by mid-October.

ILB rail and barge coals for delivery during the same three-month period also gained ground, moving up $0.58/ton and a more meager $0.08/ton respectively. ILB rail coal jumped over the $44/ton mark to close at $44.06/ton and ILB barge coal continued its push past $45/ton to move up to $45.55/ton.

Specs for both ILB coals are 11,500 Btu (11,200 Btu min.), 3.0% SO2 and 0.35% chlorine.

The only coal to lose ground during the week was NAPP barge-delivered coal – specs are 12,500 Btu/lb. (12,200 Btu min.) and 6.0 lbs. SO2/MMBtu – which slipped $0.29/ton to $46.25.
“Even with all parts of the export infrastructure (rail, barge, terminals) straining to meet the surge in export volumes, overseas buyers are finding U.S. exporters to be resourceful in finding ways to get coals to market,” Stevenson and Morey wrote. “Multiple ports and transport providers are providing that flexibility.”

The IHS Markit update also notes that the National Coal Council is preparing to release a white paper on the dynamics of U.S. coal exports, identifying opportunities for and barriers to greater growth. The paper has been prepared at the request of Energy Secretary Rick Perry and is scheduled for end-of-October release.

**Long term has challenges**

“The drumbeat of U.S. coal-fired power plant retirements gets louder,” the update continues, echoing the pointed words of Fred Palmer, senior fellow for energy and climate at the Heartland Institute, former senior vice president of government relations at Peabody Energy and National Coal Council member.

As reported Friday, Palmer, the NCC chairman of the New Markets for Coal Subcommittee, said that it is urgent that the U.S. government get involved in R&D to find alternative, out-of-the-box uses for U.S. coal, following the path of China and other countries that have commercially viable manufacturing processes in place, such as coal-to-liquid fuels or coal-to-gas.

Palmer said he sees domestic markets for U.S. steam coal possibly shrinking to 400 million tons annually by 2030.

Stevenson and Morey’s October update states: “Coal-fired generating capacity is rated at 245 GW in mid-2018, down 57 GW from 2014. Another 60 GW of capacity is slated for closure by 2025.

“Multiple companies have announced substantial coal plant retirements through 2030: FirstEnergy plans to close 6.2 GW of existing coal capacity between 2020 and 2022; Northern Indiana Public Service Company plans to close 2.0 GW by 2023; Duke Energy plans to shutter 2.4 GW before 2030; and Xcel Energy plans to retire 3.0 GW of coal capacity by 2025. Many of these retirements involve relatively new and large plants, indicating that the plant closings are no longer just affecting very old and small generating units.”

Further, federal and state financial support for “struggling conventional power plants includes nuclear, but not coal (yet).”

“Four states — Connecticut, Illinois, New Jersey and New York — have passed programs that offer subsidies to existing nuclear plants, but no states have done the same for coal,” the update continues. “During September, two separate federal court decisions upheld the validity of the Illinois and New York programs, after they had been challenged by several independent power producers.

“FirstEnergy made an appeal under Section 202(c) of the Federal Power Act, which allows the Department of Energy to issue an emergency order to keep certain coal and nuclear power plants open. However, such an order is aimed only at ensuring reliable power supply and does not address market factors that affect the financial performance of power facilities,” Stevenson and Morey wrote. “However, efforts are under way aimed at providing subsidies to coal-fired plants viewed as important to ensure supply reliability. Nevertheless, the timing and amount of subsidies are uncertain.”

For more information on these and other IHS Markit reports, please contact IHS Markit Customer Care at 1-800-447-2273 or at customercare@ihsmarkit.com.

**North Goonyella not expected to produce in Q4**

**By Mark Burgess, mark.burgess@ihsmarkit.com**

Peabody Energy said that while the company continues to work in conjunction with the Queensland Mines Inspectorate and other third-party experts toward a plan to extinguish the fire at its North Goonyella mine, the company does not expect the facility to produce any coal the rest of the year.

The news had a pretty immediate impact on coking coal markets, with Australian prime hard coking coal prices vaulting $17.70/metric tonne over the weekend to $213.65/t FOB today, primarily in reaction to the Peabody news. The IHS Markit Australian hard coking coal price also jumped $17.05/t to $198.05/t FOB.
“Peabody does not expect any production from North Goonyella in the fourth quarter of 2018 and has a small amount of coal in inventory to ship,” the company stated. “It is too early to assess the full financial impact to future periods as a result of the ongoing issue.”

Operations had been suspended at the mine since the start of September, when high gas-level readings were reported during a planned longwall move.

“Big news, and they are in the market scrambling for Q4 trains to cover commitments, but having no luck,” a source said in reaction to the Peabody event. “Chatter on the ground suggests this could be a permanent closure, but I suspect it is too early to say that with any confidence.

“Regardless, it’s a very big outage, in a market that is already tight.”

Peabody said that despite the loss of fourth-quarter production at North Goonyella, it is maintaining its full-year 2018 metallurgical coal guidance of 11 million to 12 million short tons because of “strong performance from other mines.”

North Goonyella shipped 1.6 million tons in 2016 and 2.9 million tons in 2017.

“We’ve said it over and over again: The met coal supply chain is exceedingly fragile right now,” Seaport Global analyst Mark Levin said in a note. “To the extent that global steel margins remain strong, coking coal supply likely will remain stretched.

“Based on our project-by-project analysis of met coal developments around the world, we simply don’t see enough supply in the global pipeline to provide enough cushion when unforeseen events happen.”
Price markers

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Source: IHS Markit © 2018 IHS Markit
Global Coal News & Analysis

McCloskey Coal Report:
Comprehensive news and analysis of the global coal markets covering coal prices, seaborne trade and discussing supply and demand issues with immediate and longer term implications.

Fax:
Weekly digest of global prices and news in bite-sized form. All your weekly pricing data and market moving information in one place.

Newswire:
Real-time breaking coal market news and pricing wherever you are, delivered 24 hours a day.

Chinese Coal Market News & Analysis
The service, which comprises analytical reports and daily intelligence updates, brings together IHS’ tradition of excellence in covering seaborne markets with Xinhua Infolink's knowledge and insight of the Chinese market. Recent coverage has been at the heart of the policy, regulation, implementation and effect of China's goal of reducing domestic production capacity. This intelligence is augmented with data sets of key indicators.

APAC and African Coal Market News and Analysis

Australian Coal Report
In-depth weekly coverage of Australian coal markets focusing on market moving events. Infrastructure is a key focus and includes port performance, vessel queues and freight. Australian coal statistics and published monthly in Excel covering exports and other data.

Indian Coal Report
Monthly update on developments in the Indian coal, power and steel markets, including coal production and prices. Key shipping routes to India (Cape, Mini Cape, Supermax) are assessed and priced. Data includes monthly coal imports.

Coalfax
Weekly summary of events impacting international coal markets focusing on Australia and wider Asia. Includes prices, tenders, stocks, shipping and the NEX Index, a key indicator of the spot price of thermal coal ex-Newcastle.

South African Coal Report
The interplay between domestic power demand and exports is a focus. Covers corporate news and wider African coal markets and includes an infrastructure focus on Richards Bay coal terminal, loading rates, rail, capacity, vessel queues, and freight.

Global Steam Coal Service
The service is a one-stop shop for forward-looking analysis on the international steam coal market. At its core is a supply/demand and price forecast service. Outlooks are updated quarterly and backed up with in-depth commentary and a comprehensive data-base. The service also focuses on the inter-relationships between steam coal and other fuels, particularly natural gas as well as petcoke.

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Coal Price Data and Indexes
IHS coal price markers form a key component of the API indices, which serve as the settlement price in 90% of the world's coal derivative contracts. With its legacy of playing a key role in developing steam coal indexation, IHS McCloskey first published the NW European marker in 1991. Available as an add on to our other products, the full set of steam, coking and petcoke prices – along with vital coal market data, news and analysis can be accessed through our online platform IHS Connect™.

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Metallurgical Coal Market Insight, News and Analysis

The Metallurgical Coal Quarterly
forecasts metallurgical coal fundamentals and price out ten years. It is the critical decision making tool for metallurgical coal market players, and those in its related commodities.

Inside Coal
Daily news and analysis of the biggest events in the international metallurgical coal market. Complete coverage of prices, deep insight from met coal specialists, and supply/demand analysis.

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