Australian Coal Report

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Taipower to lift FM as coal burn quota to reset

By Gomati Jagadeesan

Taiwan's Taipower is expected to lift force majeure (FM) at its 5,500 MW Taichung Power Plant by the end of this month as the new annual coal consumption quota kicks in, sources said.

However, the monopoly utility is still in dispute with the Taichung local government over the sudden cut on coal burn imposed on the plant last November, that capped its annual coal use at 11.04 mt by 26 January 2020 compared to the initial allowance of 16 mt permitted earlier.

As the power plant continued to generate electricity, albeit at a lower rate, coal consumption continued to exceed allocations and the local government slapped fines on the plant for exceeding the quota.

"The power plant is still running, and the government have given a huge fine. Taipower is fighting it and will apply to reject the fines," said a utility source, adding Taipower is seeking to maintain its coal burn at 12.60 mt with a 10% margin.

Taipower has been embroiled in a battle with the Taichung local government, which issues the Taichung power plant with the licence to operate the 10 generating units, over air quality issues, with the government charging that the coal-fired plant is responsible for the deteriorating air quality in the city.

As the utility was slapped with a slew of fines last year over environmental violations, the local government imposed a 40% reduction in the power plant's annual coal burn, forcing Taipower to declare force majeure. More recently, the government forced Taipower to suspend two generating units at Taichung from 1 January, a move that could compromise the country's grid stability, according to observers.

It was estimated that at least 2 mt of coal supply, at least half of it Australian high c.v. material, would have been impacted by the two-month FM.

The FM itself has been contentious with some suppliers questioning the validity of such a move. Some argue that suppliers have a contract with Taipower and not the Taichung power plant, and hence the utility should perform the contract, even if it has to divert coal supplies to other plants. Others argue Taipower should have anticipated the local government's clamp down and the cut backs, given the hefty fines it had copped for environmental violations through the year.

"It can be argued it was not an unforeseen event," said a supplier source.

However, many shippers are understood to have complied with the FM.

"They have agreed to delay the shipments, but they tried very hard to negotiate," said the source.

Regardless, the Taichung plant has even lower coal burn allocation for 2020, now capped at 12.50 mt though Taipower's overall coal consumption is expected to remain at around 28-29 mt.

"They'll reset on 26 January and be back to normal but because coal consumption is set lower for this year, they'll have to carefully plan to comply," said the utility source.

Thermal coal: IHS Markit weekly prices (US$/t)

FOB markers	Grade	Jan-19	Dec-19	27-Dec	3-Jan
Newcastle (McCloskey)*	6,000 kc NAR	97.60	64.34	64.00	64.00
Australian high-ash	5,500 kc NAR	61.23	51.32	51.41	52.45
Differential	6,000 kc NAR	28.24	7.66	7.26	6.22
FOB spreads					
FOB Spread (NEX/RB)*	6,000 kc NAR	6.48	-19.79	-23.13	-12.99
FOB Spread (Newc/RB)**	5,500 kc NAR	-3.84	-7.78	-7.66	-6.45
Washspreads					
Simple	6,000 kc NAR	14.52	-3.23	-3.71	-4.75
Logistical†	6,000 kc NAR	18.52	0.77	0.29	-0.75

FOB spread is differential of Newcastle minus Richards Bay, for both 6,000kc NAR and 5,500kc NAR

*NEX equals Newcastle Export Index

** Newcastle price minus Richards Bay price

† Assumes $3.50/t washing cost, 20% yield loss and $20.00/t port and rail fees

Source: IHS Markit © 2020 IHS Markit

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Australian bushfire crisis yet to affect coal, but risks rise

By James Stevenson

While Australia's devastating bushfire season in 2019-2020 continues to severely impact wide swathes of the country, including both major coal producing states, the impact on coal mining, transportation, or ports has been limited so far.

At times, fires have been close to coal infrastructure - notably in parts of the Hunter Valley in November – but these had a negligible impact on coal movements.

"The recent fires which have impacted parts of the Australian Rail Track Corporation Network (ARTC) have had minimal impact to the coal mining industry in New South Wales," said an ARTC spokesperson.

"Minor delays were experienced to the Southern Highlands coal services, with conditions stable at other locations on the ARTC Network.

"ARTC continues to work with fire authorities to monitor conditions and ensure safety."

Though there has been little disruption so far, it is only early January, and January typically marks the beginning of the Australian bushfire season. There are still three months before April brings appreciably lower temperatures.

Beyond the immediate risk, the coal industry will be impacted going forward in a range of ways.

First, there is widespread concern Australia is witnessing a broader change in both the duration and intensity of its bushfire season.

While some coal infrastructure has a certain degree of resilience against fires - for example, mines are usually in low vegetation areas - many rail lines transit vegetated areas on their way to ports.

Sooner or later, coal infrastructure is likely to be directly impacted by fires. An increased frequency of bushfires means an increased supply risk for coal.

It also increases the number of years with supply risk. Previously supply risks were highest in years of high expected cyclone activity or rainfall. Now supply risks will also be in years of low rainfall and high temperatures.

Supply risk from bushfire activity is unlikely to match risks from cyclones and tropical storms, which can cause widespread flooding and direct damage that can take weeks or months to recover from.

But where cyclones and flooding are primarily a risk for the Bowen Basin in Queensland, fires can impact the Sydney and Gunnedah Basins in New South Wales.

Public backlash

The change in public perception is likely to bring the biggest impacts.

In the May 2019 Australian Federal election, the conservative Liberal-National Party Coalition returned to power with an outright majority.

Climate change policy - and with it, views on coal use - was a key difference between the two parties.

The election was seen, in part, as a vote by the average Australian in favour of jobs and economics over climate change action.

Just eight months later, the bushfires have put climate change front and centre in public discussion. This has not just been coming from those directly affected by the fires, which are primarily focused in country areas away from the major cities.

It has also been a function of Sydney and Brisbane - usually clear and sunny in the summer - being blanketed in smoke for many days in the past two months.

It is hard to quantify how much public sentiment has swung, but the appetite for climate change action has clearly increased, with the Coalition Government under heavy criticism for climate change inaction to date.

Pressure has already increased on the Coalition to act now to act on climate change, and it will be much harder for them to continue to claim the mandate of climate change inaction perceived from the election result.

Action may come

What the Coalition government would do is likely to be moderate, at least at first.

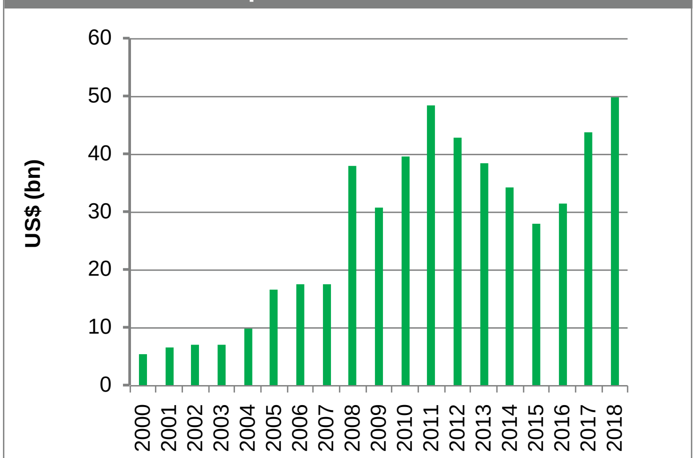
Carbon taxes or carbon trading in the Australian National Electricity Market (NEM) are probably unlikely.

More moderate efforts are likely, such as increases to subsidies and funding of research into clean or low emissions technologies - perhaps including clean coal.

Much greater action from the Coalition would likely require a similarly bad fire season in the summer of 2020-21.

However, given domestic Australian coal burn is small relative to most coal burning countries globally, a much more meaningful impact could be achieved in the export market, where Australia is a major player.

Australian coal export revenue



Source: IHS Markit © 2020 IHS Markit

A tax on coal exports could easily meet the need for visible action on climate change, while increasing government revenues to help counter its effects, without having much actual impact on a trade flow that looks likely to drive about US$46bn in revenue this year.

It would increase delivered coal costs, helping move the needle towards alternative fuels, though low taxes would likely simply create wealth transfer without bringing much change to coal demand.

The most extreme case would be an actual limit on exports, most likely achieved through a steep tax of $20/t or more. But this is unlikely given how reliant Australia is on the revenues from coal exports, though is not outside the realm of possibility, particularly if bushfires like the ones in 2019-20 become a regular occurrence.

The challenge with an export tax or other limitation on exports is that it can simply lead buyers to source coal from elsewhere, without actually achieving the underlying carbon objective.

Even in coking coal exports, which Australia dominates, a high carbon tax would likely simply translate to higher steel prices - at least until alternatives to coking coal such as hydrogen become more widespread.

(James Stevenson is a Senior Director within IHS Markit and runs the global coal research team)

Lack of buying interest for Newcastle spot

Buying interest for Newcastle 6,000 kc NAR material has been muted in the first week of 2020 with no deals recorded on globalCOAL and many market participants still on leave.

Yesterday (7 January), a February loading Panamax was reportedly bid at US$64.15/t FOB, basis 6,000 kc NAR, and offered at $66.40/t FOB on the same basis.

A 25,000 t February loading cargo was also heard offered at $68.00/t FOB, basis 6,000 kc NAR.

Activity in the Australian high ash 5,500 kc NAR market was more animated with a trade for a February loading Cape reported this week at $53.00/FOB, basis 5,500 kc NAR.

A February loading Panamax was also heard offered at $53.50/t FOB, basis 5,500 kc NAR and a January loading Cape was understood to have transacted at $52.50/t FOB, basis 5,500 kc NAR.

In additional, an index-linked March loading Cape was bid at API5 plus $0.30/t this week.

Late last week, deals for January and February loading Capes were heard concluded at $53.20/t FOB and $53.00/t FOB, basis 5,500 kc NAR, respectively.

A Russian shipment for delivery to a Yangtze River port was understood to have been bought at $65.20/t CFR, basis 5,500 kc NAR, for a geared vessel arriving in January.

Meanwhile, Chinese domestic prices for 5,500 kc NAR material has firmed.

Total inventories at major Chinese coastal power plants are sufficient for about 22 days of consumption.

Briefs

Chinese ports ease import controls

Imports controls at various Chinese ports have eased this week, but the bulging backlog arising from the late 2019 clampdown means newly arriving cargoes now face clearance delays of between one to two months.

Clearance requests at some hubs have surged with customs giving the green light for the resumption of normal activities.

However, officials at some ports have been inundated with so many applications that they have had to suspend new clearance requests from traders the remainder of January.

Local customs in Guangxi sent a note to trading companies on Monday detailing a temporary suspension on accepting new clearance requests. The suspension does not apply to end-users, it is understood.

Jingtang, which is China's largest coking coal clearance hub and one of the most jammed ports at present, has also opened its doors to imports, but has warned of delays of up to 60 days.

China's coal imports rose to 299 mt in January-November, with full year tonnage expected to have hit near record levels of at least 310 mt, forecasts from IHS Markit show.

Whitehaven increases Narrabri interest to 77.5%

Gunnedah Basin producer Whitehaven Coal has increased its interest in the Narrabri underground thermal coal mine to 77.5% following the US$72m (A$50m) purchase of EDF Trading's 7.5% interest in the mine.

The purchase triggers the pre-emptive rights of each of the other Narrabri joint venture partners.

If all the JV partners exercise their pre-emptive rights, Whitehaven's interest in Narrabri would decrease to about 75.7%.

Indonesia eyes 10% output cut for 2020

Authorities in Indonesia plan to limit coal production to 550 mt in 2020, considerably less than estimated production of 610 mt in 2019.

The government says it wants "to avoid an oversupply in order to guarantee price stability".

It is understood larger, more established miners have been asked to reduce output on the year, while smaller miners appear to be looking at more favourable allocations.

Of the 550 mt to be produced in 2020, central authorities will administer 340 mt, while the remaining 210 mt will be divided by local governments, a circular distributed by the Directorate General of Minerals and Coal (DGMC) states.

Indonesia's largest coal miners - CCoW (Coal Contract of Work) permit holders, state-miner Bukit Asam (PTBA) and over 20 Foreign Investment Business Mining Licences (PMA IUP) – report directly to the central government.

These miners typically account for more than 70% of Indonesia's output, but if the cuts are maintained, this will be the first time the proportion of output volume of CCoWs will hover slightly over 60%.

IUP (Business Mining License) holders are to account for the remaining volume of coal.

Japan's coal imports drop 12% on year in Nov

Japan's total coal imports declined heavily on the year in November, with both thermal and metallurgical tonnage sliding, the latest data from the Ministry of Economy, Trade and Industry show.

Thermal coal imports dropped 10% on the year in November, falling 1.12 mt, as utilities scaled back purchasing amid forecasts of a mild winter, additional nuclear power generation and tepid electricity demand from the commercial and residential sectors.

Thermal imports were 10.36 mt in the month, compared with 10.24 mt in October, and 11.48 mt in November 2018.

Australia remained by far the largest supplier to Japan, providing 6.42 mt of thermal coal in November, but the tonnage fell 8% on the year.

Indonesia was in second place, with 2.39 mt arriving in Japan, down 4% from a year earlier.

On the whole, thermal coal imports were down 6% on the year at 114.27 mt in January-November.

November met coal imports were down 13% on the year, to 4.74 mt from 5.45 mt, but rose 4% from October's 4.58 mt. Met coal imports in January-November were up 10% on the year to 49.17 mt, from 44.68 mt.

Coal Chain: Australia weekly

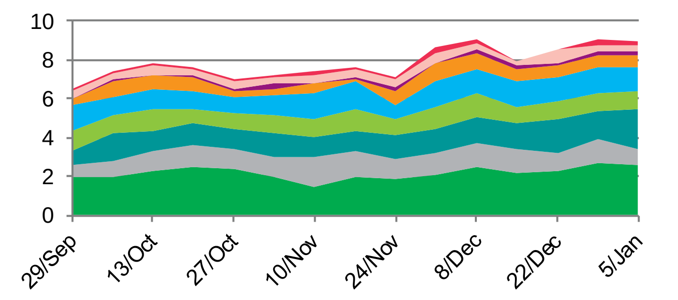
Australian Ports weekly throughput figures week ending 5 January 2020

Port	WE 05/01	WE 29/12	% Change w-o-w	Weekly Average	Vessel queue	Avg. Wait (days)
Abbot Point	0.64	0.59	7%	0.57	5	8
DBCT	1.97	1.38	43%	1.31	17	27
Hay Point	0.93	1.02	-9%	0.98	6	8
Gladstone						
RG Tanna*	1.28	1.27	1%	1.17	13	19
WICET	0.34	0.37	-9%	0.28	2	0
Brisbane	0.15	0.21	-25%	0.12	0	0
Port Kembla	0.19	0.30	-37%	0.16	0	0
Newcastle						
PWCS*	2.57	2.67	-4%	2.13	8	2
NCIG	0.88	1.28	-31%	1.02	6	7
Total	**8.96**	**9.09**	**-1%**	**7.75**	**57**	**8**

Note* Confirmed figures from PWCS and Gladstone Coal Port. All other throughput figures obtained from reported cargoes data on Commodities at Sea. Weekly average calculated on a rolling average of the previous 52 weeks.

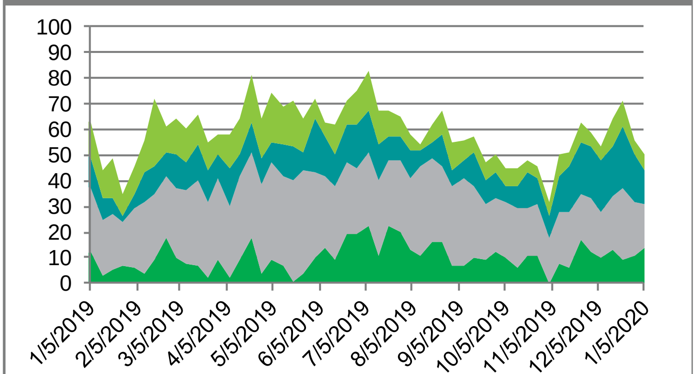
Source: IHS Markit, Commodities at Sea, Hunter Valley Coal Chain Coordinator, Gladstone Coal Port

Australian weekly coal shipments (mt)



Notes: Figures compiled from confirmed terminal data, shipping schedules and Commodities at Sea
Source: IHS Markit

Major terminals vessel queue history



Source: IHS Energy

Newcastle

Shipments from Port Waratah Coal Services (PWCS) terminals at Newcastle were down 4% to 2.57 mt, from 2.67 mt, in the week to 5 January, but remained above the terminal operator's long term weekly average of 2.13 mt.

PWCS's ship queue remained flat at eight vessels by week's end.

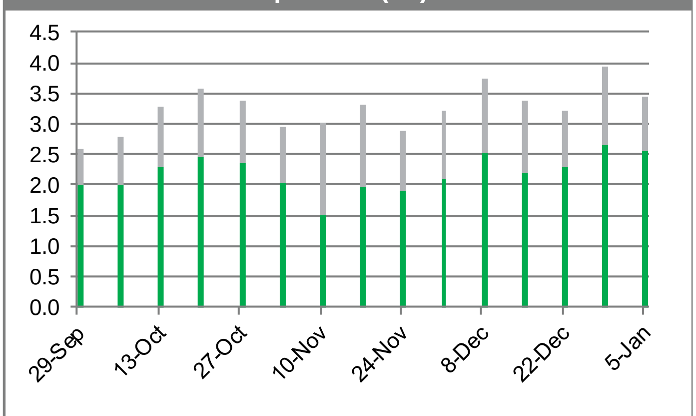
PWCS's port stocks were up 12% week on week to 1.58 mt, from 1.41 mt.

Producer forecast arrivals for January stood at 8.4 mt while nominated arrivals were at 7.6 mt.

At the neighbouring Newcastle Coal Infrastructure Group (NCIG) terminal, shipments were down 31% on the previous week to 0.88 mt, from 1.28 mt, below the long term weekly average shipments of 1.02 mt.

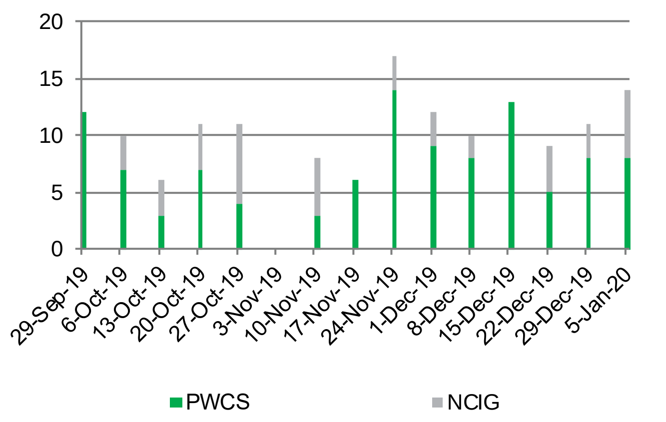
NCIG had six vessels waiting to load coal, up three vessels from the previous week.

PWCS and NCIG shipments (mt)



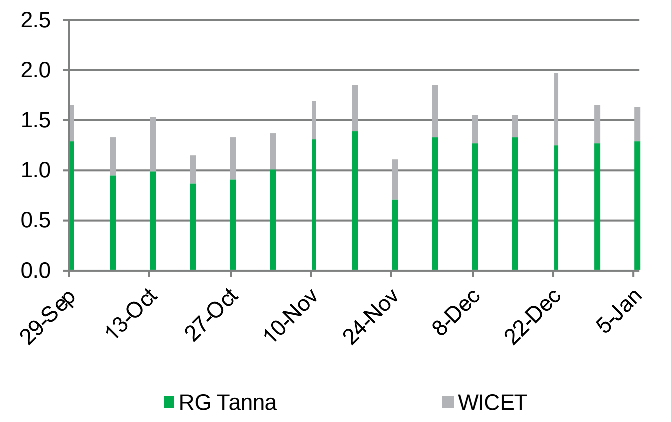
Source: HVCCC, Commodities at Sea

PWCS and NCIG vessel queue



Source: Hunter Vallley Coal Chain Coordinator (HVCCC)

Gladstone shipments (mt)



Source:Gladstone Port Corporation, Commoditities at Sea

Port Kembla

The Port Kembla Coal Terminal shipped 0.19 mt of coal in the latest week, compared with 0.30 mt in the previous week.

There were no vessels in PKCT's ship queue.

The terminal operated at 55% of its nominal weekly capacity.

Gladstone

Shipments from Gladstone's RG Tanna coal terminal were up 1% to 1.28 mt from 1.27 mt shipped in the previous week, above the long term weekly average of 1.17 mt.

The terminal operated at 88% of its nominal weekly capacity.

RG Tanna had 13 vessels in its queue at the end of the week, five fewer than the previous week, with an average wait time of 19 days.

The Wiggins Island Coal Export Terminal (WICET) shipped 0.34 mt in the latest week, compared with 0.37 mt in the previous week.

WICET had two vessels in its ship queue as at 5 January.

The loading stream at WICET will be closed for 12 hours on 21 January for maintenance.

Dalrymple Bay

Shipments at the Dalrymple Bay Coal Terminal (DBCT) were up 43% week on week to 1.97 mt from 1.38 mt, one of its highest weekly throughputs on record and well above the long term weekly average of 1.31 mt.

DBCT's ship queue fell by four vessels to 17 vessels, with an average wait-time for loading of 27 days.

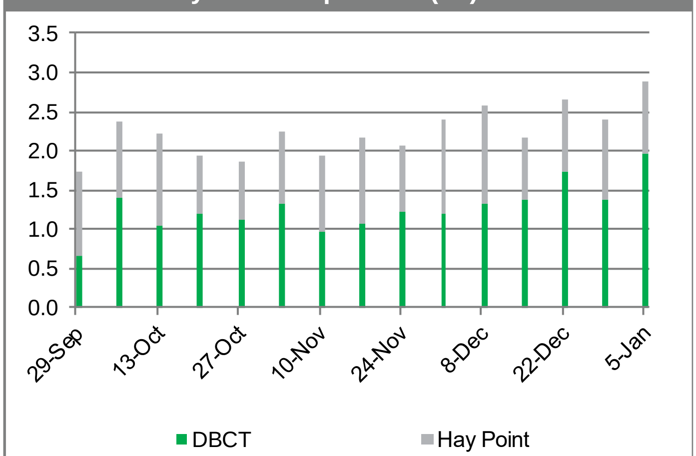
The terminal operated at 121% of its nominal weekly capacity.

Hay Point

Coal shipments from the BMA controlled Hay Point Coal Terminal (HPCT) were down 9% week on week to 0.93 mt from 1.02 mt, and was below the long term average weekly shipments of 0.98 mt.

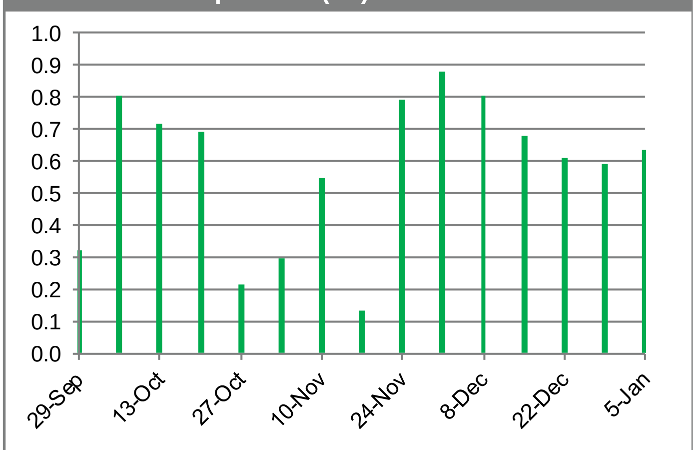
HPCT's ship queue in the latest week had six vessels, the same

DBCT and Hay Point shipments (mt)



Source: IHS Markit

Abbot Point shipments (mt)



Source: IHS Markit

number as the prior week, with an average wait time for loading of eight days.

Berth 2 at HPCT will be closed for maintenance between 13-20 January.

Abbot Point

The Abbot Point Coal Terminal (APCT) had a throughput of 0.64 mt, up 7% from 0.59 mt of the previous week, and was above the long-term average weekly shipments of 0.57 mt.

The APCT ship queue had five vessels, three fewer than the previous week, with an average wait time of eight days.

Tenders

- Moroccan power producer Jorf Lasfar Energy Company (JLEC) is in the market for 0.72 mt of thermal coal, starting in the second quarter. It is requesting 12 cargoes each of 60,000 t for delivery on the fifth of each month, starting in April this year. The closing date for offers is 13 January. JLEC is understood to be requesting 5,400 kc NAR min material with 1.5% max sulphur.
- Moroccan power producer Safi Energy is understood to have bought multi-origin material in a tender for 0.249 mt in a range of $62-63/t CIF Jorf Lasfar. It requested four 60,000-63,000 t cargoes for delivery starting in the back end of January to the end of February.

Freight

In the two weeks to 6 January, Capesize (180,000 dwt) average earnings, as assessed by the Baltic Exchange, fell $4,583/day to $9,783/day, which was the lowest level since April 2019. The fall in earnings comes despite the fact that more than 50 Capes are currently in dry dock in China, many of which are highly likely to be involved in scrubber-fitting as IMO regulations on low sulphur marine fuel enter effect on 1 January.

Capesize round-voyage earnings sunk $6,525/day over the two-week period to $4,879/day.

Fresh official data emerged in the past week confirming one of the main drivers of recent Capesize market weakness, with Brazilian iron ore exports tumbling 8.5 mt annually in December to 24.7 mt, the lowest month since April and largest annual fall in 11 years. The Newcastle-Zhoushan Capesize coal spot voyage rate fell $0.60/t in the two weeks to 6 January to $10.45/t, spot rates continue to be supported by the rising price of IMO 2020-compliant bunker fuel.

The Panamax (82,000 dwt) time charter average also fell in the two weeks to 6 January, down $2,086/day to $8,013/day. In the Pacific, SSY brokers reported a reluctance to ballast vessels to the Atlantic as bunker prices jumped as a result of IMO 2020 fuel regulations and major moves in the underlying price of crude oil. As indicated by freight futures contracts (FFAs) market sentiment for January 2020 has weakened, with the Panamax 4 TCs (74,000 dwt) trading at $6,900/day as of 6 January, down from the two week-ago level of $8,750/day.

- Source: Simpson Spence Young

Freight rate 8 January 2020 (US$/t)

Vessel	Route	US$/tonne
Cape 165,000 Mt	Gladstone/Qingdao	9.60
	Newcastle/Qingdao	10.80
	Vancouver/Qingdao	11.50
	RBCT/Qingdao	14.30
	Gladstone/Krishnapatnam (India)	10.90
	RBCT/Krishnapatnam	11.90
Mini Cape 110,000 Mt	Brisbane/Kaohsiung (Taiwan)	11.30
	Gladstone/Krishnapatnam (India)	13.10
	Gladstone/Qingdao	11.60
	Newcastle/Qingdao	13.00
Supramax 50,000 Mt	Gladstone/Krishnapatnam (India)	19.10
	Taboneo/Krishnapatnam	8.40
	Taboneo/Qingdao	9.10
	Vancouver/Qingdao	20.10
Post Panamax 90,000 Mt	Gladstone/Qingdao	13.60
	Newcastle/Qingdao	14.90
	Vancouver/Qingdao	16.10
	Brisbane/Kaohsiung (Taiwan)	13.50
	Gladstone/Krishnapatnam (India)	16.00
Panamax 70,000 Mt	Gladstone/Qingdao	12.80
	Newcastle/Qingdao	14.30
	Balikpapan/Qingdao	8.40
	Lyttelton/Qingdao (62k)	18.37
	Vancouver/Qingdao	15.08
	RBCT/Qingdao	18.77
	Gladstone/Krishnapatnam (India)	14.59
	RBCT/Krishnapatnam	13.74

Source: Affinity Shipbrokers Australia Pty Ltd © 2020 IHS Markit

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