China's thermal coal market weakens as supply increases

China’s thermal coal market turned bearish in mid-March, as a host of small mines reopened, but demand retreated as heating supply in northern regions ended.

The weakness is expected to persist on the back of a recovery in hydro power output, before summer demand picks up around June.

Transactions on 25 March hit RMB624/t ($93.27/t) FOB Qinhuangdao (QHD), basis 5,500 kc NAR, down RMB18/t ($2.69/t) from RMB642/t ($95.96/t) FOB on 11 March, when the prices began to weaken.

The price of 5,000 kc NAR cargoes fell RMB42/t ($6.28/t) to RMB525/t ($78.48/t) FOB QHD on 25 March, from the recent peak of RMB567/t ($84.75/t) FOB on 11 March.

Price declines for higher c.v. products were comparatively mild in March, given a large portion of supply had been removed after imports of similar products from Australia slowed since late January.

In late March, higher quality material saw signs of stabilising, after restocking demand from cement and chemicals plants emerged.

Such producers boosted production as environmental controls eased after the winter ended.

There were a number of market participants who were concerned about supply strains during the spring maintenance on the Daqin line, China's major coal railway, which is scheduled for 6-30 April.

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Source: IHS Markit, Xinhua Infolink © 2019 IHS Markit

<table>
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<th>Coal stocks (mt)</th>
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Source: IHS Markit, Xinhua Infolink © 2019 IHS Markit
Daqin operations could be halted for three hours per day and this could reduce deliveries by 0.15-0.20 mt/d or 12-16% during the period. However, most sources believe the impact will be minimal as the overall demand slows.

Generators, most of which are expected to carry out unit maintenance between April-May, were focused on term coal supply, and were in no hurry to replenish stocks. Stocks at coastal units fell to 15.53 mt or 23 days on 25 March, from 17.21 mt or 24 days on 1 March.

China's domestic seaborne freights picked up in late March, but sources expect weakness in April due to lower demand.

The rate for QHD to Guangzhou in 50,000-60,000 t vessels climbed to RMB31.2/t ($4.66/t) on 25 March, up from RMB28.60/t ($4.28/t) on 1 March, and QHD to Shanghai in 40,000-50,000 t vessels increased to RMB24.70/t ($3.69/t) from RMB24/t ($3.59/t).

Long term subdued
Market players in China generally expect spot prices to remain weak in the next two months, when production will increase, and hydro power output will rise as well, but demand is seen slipping due to seasonal factors.

Coal burn at major plants across China was 3.53 mt on 18 March, down from 3.78 mt a week earlier, and in contrast with the peak level of 4.99 mt on 30 December. Inventories were 67.78 mt on 18 March, up from 66.52 mt a week earlier.

At coastal units, consumption stood at around 0.66 mt/d in late March, similar to a year earlier, but stocks were still 15.53 mt or 23 days on 25 March, compared with 14.60 mt or 22 days a year earlier.

Generator consumption is forecast to shrink steadily before the air conditioning season begins around June, but hydro power output will grow by 10-15%/m in the second quarter.
This is at a time when China’s industrial production growth is expected to remain sluggish in the second quarter, after trade disputes with the United States dampened the growth outlook for the medium term.

**Production seen rising**

Production in the second quarter is forecast to be strong, as almost all the suspended small mines will be restarted around late April, according to market sources.

In Yulin, Shaanxi, 52 mines had resumed production as of 20 March, with the combined operational capacity at 293 mt/y, which increased 134 mt/y from a week earlier.

Meanwhile, controls on sales licensing in Inner Mongolia have eased in mid-March, after the National People’s Congress meeting concluded, adding more supply to the already abundant local market.

Prices in Shaanxi, as a result, declined RMB50-90/t ($7.47-13.45/t) in March, contrasting sharp price hikes due to mine closures previously. Prices in Inner Mongolia dropped RMB20-40/t ($2.99-5.98/t), and rates in Shanxi fell approximately RMB10/t ($1.49/t).

Stocks at loading ports were on the rise after coal production increased. The tonnage at QHD rose to 6.33 mt on 25 March, up from 5.43 mt on 1 March, and stocks at Huanghua also reached 1.69 mt on 22 March, up from 1.33 mt on 2 March.

The country’s coal output is expected to exceed 310 mt/month in the second quarter, which will be similar to tonnages in peak demand months earlier, at 320 mt in December and 315 mt in November last year.

China has issued approvals for at least 125 mt/y of mining capacity since November last year, and more...
approvals are projected for later months, with the move aiming to keep spot prices under RMB600/t ($89.69/t) FOB, basis 5,500 kc NAR, throughout the year.

China reduced its power cost to industrial users by 10% last year, and an additional 10% cut is planned for this year. It is thought that coal cost stability could help improve the financial status of generators, after a large number of thermal power plants incurred losses in 2018.

China import settlements seen slipping in March

Chinese power plants lowered their import interest toward the end of March, as weak demand is anticipated for the next few months, and amid rumours suggesting import controls will be tightened further including the lengthening of customs clearance periods.

Before this, import prices for Australian cargoes had been weak since late January, when China slowed imports from the country, leading to waiting periods of around 40-60 days for cargoes at Chinese ports, which forced a number of cargoes to change their destinations.

In contrast, imports from Indonesia were largely smooth, and prices had remained firm before China’s domestic market turned soft in the second half of March. High-ash Australian material was traded on 22 March at around $65.60/t CFR, basis 5,500 kc NAR, falling $2.59/t from $68.19/t CFR on 1 March, and decreasing $6.37/t compared with $71.97/t CFR on 25 January, when import controls began.

Lower rank Indonesian cargoes were estimated on 22 March at $45.75/t CFR, basis 3,800 kc NAR, down from $47.14/t CFR on 8 March, but much higher compared with $39.94/t on 25 January.

As increasing signs of oversupply emerged in the domestic market, industry sources expect China to cap this year’s imports at last year’s level, while some local sources said that new restrictions on Australian material were heard, including bans on berthing at night and weekends. Customs clearance for vessels from Indonesia has also been prolonged slightly.

It is understood that the domestic price falls in late March followed the restarting of around 60% of the capacity in Yulin, Shaanxi, with local sources expecting all the suspended mines to reopen by the end of April.

Earlier forecasts indicted that domestic prices could hit as low as RMB550-570/t ($82.21-85.20/t) FOB, basis 5,500 kc NAR, between late April and early May. Domestic material was traded at RMB624/t ($93.27/t)
FOB Qinhuangdao on 25 March, basis 5,500 kc NAR, equating to $80.41/t FOB exclusive of the 16% VAT.

However, China’s power plants are expected to increase stocks ahead of the next high demand season between July-August. And in order to receive material before that time, users need to book imports between early May-early June, by which time domestic prices are expected to have bottomed, analysts said.

**Imports slump 47%**
China’s imports of all types of coal were 17.64 mt in February, a decline of 47.3% from a five-year high of 33.50 mt in January, and down 15.6% from 20.91 mt a year earlier, according to customs statistics.

January-February imports amounted to 51.14 mt, still a rise of 3.8% from 49.29 mt in the same period of last year.

The February slump was largely attributed to the week-long Chinese Lunar New Year holiday and controls on Australian cargoes at major receiving ports since late January.

The January figures suggested imports from Australia stood at 10.82 mt, or 32% of China’s total, including 6.32 mt of steam coal and 4.33 mt of coking coal.

Specifically, imports of thermal coal, including lignite and steam coal, plunged to 13.88 mt in February, decreasing 11.3 mt or 45% from 25.18 mt in January, when customs clearance returned to normal after the suspension since mid-November.

This was also down 21% from 17.6 mt in February last year, bringing total arrivals in January-February to 39.06 mt, dipping 2% from 39.73 mt imported in the first two months of last year.
Steam coal came in at 5.64 mt, less than half of 12.33 mt imported in January, and slumping 42% from 9.68 mt in February last year. Lignite arrivals were 8.24 mt, slipping from 12.85 mt in the previous month, but climbing 4% from 7.92 mt a year earlier.

Coking coal imports decreased more sharply, a combined effect of the Lunar New Year holiday and slow customs clearance for Australian material. Total arrivals slumped to 2.91 mt in the month, in contrast with 7.37 mt in January, and also dropping 5% from 3.06 mt a year earlier.

And anthracite came in at 0.85 mt, down from 0.95 mt the previous month, but higher than 0.59 mt a year earlier.

For January-February, steam coal arrivals totalled 17.98 mt, growing 12% from 16.04 mt in the same period of last year, on the back of strong performance in January. Lignite imports came in at 21.08 mt in the two months, still slipping 11% from 23.69 mt a year earlier.

Coking coal arrivals were 10.28 mt, increasing 26% from 8.18 mt in January-February last year, and anthracite imports totalled 1.8 mt, also surging 32% from 1.36 mt a year earlier.

**Coal output in China down 1% in Jan-Feb**

China’s raw coal production in January-February was 513.67 mt, down 6.24 mt from 519.91 mt a year earlier, the National Bureau of Statistics said.

This marked the first year on year decline since July last year, and followed a year on year rise of 2% in December. The decrease was attributed to tighter safety controls across the minerals sector, after a coal mine accident in Shenmu, Shaanxi, on 12 January, and a silver mine accident in Inner Mongolia on 23 February.

The heightened safety concerns continued in the first half of March, but mine reopenings accelerated after the conclusion of the National People’s Congress meeting on 15 March.

**Major provinces slide**

Coal output by the eight leading producing provinces - Inner Mongolia, Shanxi, Shaanxi, Xinjiang, Shandong, Henan, Anhui and Guizhou - totalled 450.12 mt in January-February, which dropped 4.6 mt or 1% from 454.72 mt in the same period last year.

The volume accounted for 88% of China’s total coal output of 513.67 mt in the first two months, which decreased 1% from 521.43 mt in the same period last year.

Inner Mongolia mined 143.85 mt, rising 2% from 141.26 mt in January-February last year, and production in Shanxi was 134.66 mt, increasing 6% from 127.01 mt in January-February last year.

Shaanxi’s performance slipped to 70.78 mt in the two months, decreasing 16% from 84.33 mt in the same period of last year. All private coal mines were closed in Yulin after a mine accident on 12 January, and they largely remained shut until recently, though reopenings have gathered pace since mid-March.

The top three producers mined a total of 349.29 mt in the two months, accounting for 68% of China’s total output, with Inner Mongolia capturing 28%, Shanxi 26%, and Shaanxi 14%.

Elsewhere, output in Xinjiang was 32.53 mt, climbing
3% on the year from 31.66 mt, but Shandong’s production dropped 7% to 18.33 mt from 19.78 mt a year earlier.

Henan produced 17.42 mt in January-February, also falling 5% from 18.39 mt in the same period last year, and Anhui mined 17.31 mt, dropping 6% on the year from 18.43 mt. However, Guizhou’s output stood at 15.24 mt, growing 10% from 13.86 mt a year earlier.

**Shenhua up 22%**

Output from Shenhua Energy hit 25.70 mt in February, hiking 22% from 21.10 mt in January and increasing 15% on the year. Its output in the first two months was 46.80 mt, sipping 0.4% from the same period of last year.

The company’s coal sales in January-February fell 5% on the year to 64.90 mt, but the tonnage in February hit 38.90 mt due to delayed settlements, soaring 50% month on month and increasing 16% on the year.

ChinaCoal Energy mined 7.21 mt in February, dropping 13% from January, but surging 35% from a year earlier. The company produced 15.54 mt in January-February, jumping 36% from the same period of last year.

The company’s sales reached 13.84 mt in February, down 14% from January, but rising 7% on the year. This brought total sales in January-February to 30.00 mt, increasing 20% from the same period of last year.

**Met coal market in China under downward pressure**

China’s met coal market faced downward pressure in late March, after the reopening of small mines accelerated.

Prices of low volatile material fell to RMB1,740/t ($260.09/t) FOR in Gujiao, Shanxi, on 22 March, down RMB30/t ($4.48/t) from RMB1,770/t ($264.57/t) in mid-March.

The price of high volatile product dropped to RMB1,680/t ($251.12/t) FOR in Linfen, also in Shanxi, down RMB20/t ($2.99/t) from mid-March.

Prior to this, the prices had increased RMB10-20/t ($1.49-2.99/t), when supply was curbed by suspensions of small mines and lower imports from Australia. Supply is thought to be increasing amid the rapid pace of mine reopenings since mid-March.

Prices also eased at the coking coal handling port of Jingtang, with premium domestic material traded at RMB1,690/t ($252.62/t) on 22 March, down RMB20/t ($2.99/t) on the week, and ex-stock prices of imported cargoes from Australia dropped to RMB1,660/t ($248.13/t), falling the same amount.
Meanwhile, imports from Mongolia reached about 800 truckloads/d in March, in contrast with 345 truckloads/d in mid-February and around 600 truckloads/d in early March.

Weaker coke prices were also partially responsible. Coke with 13% ash was traded at RMB1,750/t ($261.58/t) in Luliang, Shanxi on 20 March, dropping RMB200/t ($29.90/t) from early March. In Tangshan, the price of products with 12.5% fell RMB100/t ($14.95/t) to RMB2,200/t ($328.85/t).

Coal railings, shipments in China fall in February

China’s coal railings and shipments declined in February, due to the impact of the week-long Lunar New Year holiday early in the month.

Shipments from north China ports came in at 52.90 mt, decreasing 10% on the year, and slipping 18.68 mt or 26% from 71.58 mt in January, which itself increased 10% on the year, according to statistics from the China Coal Transport and Distribution Association.

January-February deliveries slid 1% to 124.48 mt, from 125.99 mt in the same period last year. Shipments from Qinhuangdao were 30.75 mt, down 4.72 mt or 13% on the year.

Deliveries by rail were impacted by holidays as well, with volumes at 174 mt in February, decreasing 48 mt or 22% from 222 mt in January, and slipping 16.63 mt or 9% from the same month last year. This brought total railings in January-February to 396 mt, which dipped 2.16 mt or 0.5% on the year.
Daqin delivered 31.85 mt in February, dropping 10% from 35.58 mt a year earlier, and decreasing 17% from 38.36 mt in January. Total performance in January–February came in at 70.86 mt, down 5% from 74.85 mt in the first two months of last year.

China’s total cargo railings stood at 295 mt in February, dropping 70 mt or 19% from 365 mt in January, and decreasing 9.32 mt or 3% from a year earlier. The January–February figure was 660 mt, rising 18.6 mt or 3% on the year.

**Power output and demand growth slows in China**

The growth rates of China’s power production and consumption slowed in January–February, as a result of slowing industrial activity.

Power consumption stood at 1,106.3 TWh, which grew 4.5% from a year earlier, but the growth rate narrowed from the rise of 8.5% in 2018, and from 13.3% in the same period of last year, according to statistics from the National Energy Administration (NEA).

The industrial and construction sector used 705.9 TWh, which was up 1.2% year on year. This compared with the growth rate of 7.2% in 2018, and the increase of 11.5% in the same period of last year.

The service sector consumed 199.4 TWh, which climbed 10.5% from a year earlier, with the growth narrowing from 18.8% a year earlier. Residential consumption went up 11.1% to 189.9 TWh, also slowing from the 15.2% rise in January–February 2018.

Demand from the agricultural sector went up 7.9% year on year to 11.0 TWh, narrowing from the rise of 12.6% in the same period of last year.

By province, demand growth rates in 16 provinces topped the country’s average level, with Tibet reporting the highest rise of 20.2% in January–February. This was followed by growth rates of 13.0% in Inner Mongolia, and 10.6% in each of Hubei, Anhui and Xinjiang.

The country’s power use in February was 489.1 TWh, which grew 7.2% year on year, and accelerated from the rise of 3.0% in January. The higher growth rate was attributed to warmer weather and the Lunar New Year.

Consumption averaged 17.47 TWh/d in the month, down from 19.91 TWh/d in January and 20.16 TWh/d in December. This was in line with sliding coal burn
levels at major power plants, which averaged 3.72 mt/d in February, down from 4.50 mt/d in January, and from 4.55 mt/d in December.

The industrial sectors consumed 288.1 TWh in February, which was up 6.7% from a year earlier, and compared with the drop of 2.0% in January.

Consumption by the service sector was up 8.2% year on year to 93.2 TWh in February, though the figure was down 12.3% from 106.3 TWh in January. Residential demand increased to 96.5 TWh, up 8.3% year on year, and up 3.3% from 93.4 TWh in January. Demand from the agricultural sector stood at 5.2 TWh, growing 6.7% from a year earlier, but falling 10.3% month on month.

China’s power output from all types of power units reached 1,098.2 TWh in January–February, a rise of 2.9% from the same period of last year. The rate of increase also cooled from the growth rate of 6.8% in 2018, and from 11.0% in the same period of last year, according to the National Bureau of Statistics.

Daily power output averaged 18.6 TWh/d, which declined 7.0% from 20.0 TWh/d in December, as a result of holidays.

Thermal power output reached 842.7 TWh in the two months, an increase of 1.7% year on year, and compared with the rise of 6.0% in 2018. The output averaged 14.28 TWh/d, also falling 7.3% from 15.4 TWh/d in December.

Hydro power output came in at 135.2 TWh in January–February, gaining 6.6% from the same period of last year, while nuclear power output was 48.4 TWh, an increase of 23% on the year. Solar power output expanded 3.8% year on year to 14.7 TWh, but wind power output declined 0.6% to 57.2 TWh.

**Steel demand in China seen improving in Q2**

China’s steel consumption is expected to improve in the second quarter, as construction work resumes in north China due to seasonal factors, while major infrastructure projects are initiated to stabilise growth.

As a reflection, spot HRB400 rebar traded at RMB3,880/t ($579.97/t) in Shanghai on 22 March, up RMB50/t ($7.47/t) from RMB3,830/t ($572.50/t) on 1 March, which already gained RMB80/t ($11.96/t) from RMB3,750/t ($560.54/t) on 22 February.

The price for Q235B plate climbed to RMB4,010/t ($599.40/t), up from RMB3,970/t ($593.42/t) on 1
March and RMB3,740/t ($559.04/t) on 15 February. As demand picked up, inventories in the market in major steel consuming cities dropped to 17.80 mt on 15 March, down 0.70 mt on the week. Rebar stocks, in particular, fell 0.38 mt to 9.73 mt from 10.11 mt a week earlier.

Crude steel output hit 149.58 mt in January-February, expanding 9% on the year, and the growth rate enlarged 3.3 percentage points from the same period last year. Output of finished steel product hit 171.46 mt in the first two months, increasing 11% on the year, and accelerating 6.1 percentage points from January-February last year.

The infrastructure and real estate sectors showed signs of improving, with investment in infrastructure projects growing 4% on the year in January-February, accelerating 0.5 percentage point from the full year performance last year, and investment growth in the real estate sector was 12%, quickening 2.1 percentage points from 2018.

Meanwhile, steel exports hit 10.70 mt in January-February, increasing 13% from the same period of last year, with whole year export volumes forecast at more than 72 mt, a rise of 5% from 69.34 mt last year, which itself decreased 8% from 2017.

Major producers raised prices sharply for April consequently, following moderate gains of around RMB50/t ($7.47/t) in March. Baosteel hiked prices by RMB300-350/t ($44.84-52.32/t), and Wuhan Iron and Steel lifted prices by RMB100-300/t ($14.95-44.84/t).

**Industrial growth in China slows to 5.3% in Jan-Feb**

China’s January–February industrial output growth cooled to 5.3% year on year, from 5.7% in December, and 7.2% in the same period of last year, according to the National Bureau of Statistics (NBS).

This was a new low in recent years, and was in line with GDP targets set by the Chinese government, aiming at growth of 6.0-6.5% this year, after growth hit 6.6% in 2018.

The slowdown came with the outlook for various sectors having been uncertain for months, after trade disputes between the United States and China escalated in the second half of 2018.

The two countries are now expected to reach a trade agreement sometime in the second quarter, which means further weakening appears unlikely, before potential recovery in the next few months, analysts said.

The mining sector expanded 0.3% year on year in January–February, compared with the 3.6% rise in December. At the power, heat, gas and water production and supply sector, growth hit 6.8%, narrowing from 9.6% in December. However, the manufacturing sector recorded growth of 5.6%, higher than 5.5% in December.

As a reflection of this, the Purchasing Managers’ Index (PMI) for China’s manufacturing sector dipped
below the 50% boom-or-bust line for the third consecutive month in February, at 49.2%, declining from 49.5% in January.

The production sub-index slipped 1.4 percentage points to 49.5%, from 50.9% in January, as factories suspended production for the Lunar New Year holiday. The new orders sub-index, however, increased to 50.6%, from January’s 49.6%, which has declined for eight months in a row. The new export orders sub-index was 45.2% in February, falling from 46.9% in January, while the import sub-index slipped to 44.8%, from 47.1% in January.

Customs statistics showed a similar picture. January-February exports reached $353.22bn, declining 4.6% from the same period of last year, and compared with the year on year rise of 9.9% in 2018. Imports slipped 3.1% to $309.51bn, versus the rise of 15.8% in 2018.

Exports to the United States stood at $59.30bn in the first two months, which declined 14.1% year on year, and versus the 11.3% rise seen in 2018. Imports from the country hit $17.18bn, dipping 35.1% from a year earlier, and also compared with the growth rate of 0.7% last year.

However, the growth rate of fixed-asset investment accelerated to 6.1% year on year in January–February, from 5.9% in 2018, after authorities boosted infrastructure investment in recent months.

Investment in the sector expanded 4.3%, widening half a percentage point from the growth rate in 2018.

Investment into the real estate sector grew 11.6%, accelerating 2.1 percentage points from 2018. Investment into the manufacturing sector slowed to 5.9%, down 3.6 percentage points from 2018.

Retail sales increased 8.2% in January–February, which was flat from the growth seen in December.

Automobile Sales, which weigh roughly 28% in the total retail sales value, declined 2.8% on the year in the two months, narrowing from the 8.5% drop in December. Sales of communication devises climbed 8.2% year on year, reversing the drop of 0.9% in December.

The growth rate for home appliance sales hit 3.3%, cooling from the 13.9% rise in December. Furniture sales saw an increase of 0.7%, and sales for construction and decoration materials grew 6.6%, respectively cooling from 12.7% and 8.6% in December.

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