

Southern African Coal Report

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News

South African coal output down sharply due to heavy rains

Heavy rains across key coal mining regions in South Africa have led to a sharp drop in production over the past few weeks, helping to push export prices to one-year highs and putting a strain on stockpiles.

The weather-related production problems have been one of the main causes for the decline in stocks at the Richards Bay Coal Terminal (RBCT), which last week tumbled to 2.7 mt, from 3.7 mt last month.

“All our mines in Mpumalanga were adversely affected, that’s why RBCT stocks are so low,” an official with a major producer told IHS Markit, adding its production was down 15-20% for the month.

“Things are getting back to normal in terms of weather, but the effects might last a bit longer.”

The supply issues, along with strong Indian buying, where significant volumes of South African coal are used in sponge iron making, has propped up the Richards Bay market to a one-year high, a rare bright spot in the global coal markets.

On Thursday, a 50,000 t February-loading cargo traded at \$96.00/t FOB, the highest since late December 2018.

A South African trader said production in the key Mpumalanga coal mining region could be down as much as 20% in December, translating roughly to a drop of around 3.2 mt. A second trader said the rain’s impact was significant, but he didn’t think it was as much as a 20% production loss in Mpumalanga.

The region produces more than 80% of South Africa’s coal output of around 20 mt a month. Of that total, South Africa exports around 5-7 mt a month.

Briefs

Eskom board, minister under fire over Eskom crisis

Eskom board members and South Africa’s public enterprises minister, Pravin Gordhan, are under increasing pressure to step down as the state utility continues to struggle to keep the lights on.

The National Union of Mineworkers (NUM) on Saturday called for the entire Eskom board to be replaced after the utility was forced to implement rolling blackouts throughout the end of the year holidays. Board chairman Jabu Mabuza announced his resignation last week.

The National Union of Metalworkers of South Africa (NUMSA) has also reiterated its call for the removal of Eskom’s entire board, as well as Minister Gordhan.

Gordhan told local media that his future lies in the hands of President Cyril Ramaphosa but that “intense efforts” were being made to stabilise Eskom and other state-owned enterprises.

Ramaphosa over the weekend said he will speed up the process of turning Eskom around. Among his plans, the president wants to unbundle the huge utility into three entities – generation, transmission and distribution.

Eskom’s new CEO Andre de Ruyter, who took over last week, is responsible for implementing these steps.

Eskom is by far the largest buyer of South Africa’s thermal coal supplies, taking around half of the country’s 250 mt/y output.

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Seriti Resources' Kriel mine was among the worst hit, with flooding problems forcing the temporary shutdown of operations in mid-December. The mine produces around 5 mt/y for the nearby 3 GW Kriel power station, operated by Eskom. The state utility said it was forced to impose rolling blackouts last month, partly due to the flooding of the mine and power station.

Mbuleyo Coal's 1.2 mt/y Mavungwani Colliery in Mpumalanga was also affected, with half of its production down due to the floods. An industry official said the Msobo and WoestAlleen collieries in Mpumalanga also experienced problems with flooding.

"As we speak, it is raining again," an Mbuleyo Coal official told IHS Markit on Friday. "Thus, we expect the situation to continue throughout January."

Court to hear Koornfontein sale dispute at end-Jan

A South African court is scheduled at the end of this month to hear a legal challenge by trading house Lurco Group over the sale of Koornfontein to Black Royalty Minerals (BRM).

Lurco was initially announced as the winning bidder for the 3.5 mt/y mine, but business rescue practitioners (BRPs) withdrew the award at the last minute after they decided funds for the sale were not submitted on time. The BRPs instead awarded the mine, which includes a 1.6 mt/y export allocation at the Richards Bay Coal Terminal (RBCT), to BRM.

Lurco filed the suit against the BRPs, claiming the company unfairly lost the bid. The high court will hear the case on 27-28 January.

The court challenge is the latest in delays to the drawn out process of finding new owners for Koornfontein and its 10 mt/y sister mine, Optimum. The assets were placed into business rescue two years ago, after banks withdrew their relationships with the parent owner, Tegeta Resources, due to its links to the controversial Gupta family.

Creditors are due to vote on a final list of bidders for Optimum at the end of the month.

The finalists are a consortium led by state-owned

Kenya boosts investment for coal power development

Kenya's government has boosted its investment for coal power development over the next three years, despite a tribunal's decision last year to block the construction of the country's first coal-fired power plant.

The National Treasury has allocated a total of \$2bn (\$20m) for coal power development over the next three years, local media said.

The government is also developing a coal masterplan and feasibility report, both scheduled for completion in 2023. The report will detail how the country will develop and integrate coal into the national grid.

The increased funding comes despite a tribunal's decision last June to halt the construction of Amu Power Limited's 1,050 MW coal-fired power plant. The tribunal ruled that authorities had not conducted enough environmental studies on the project's potential impact on the UNESCO World Heritage area in Lamu, where it will be built.

Amu Power has appealed the decision to the high court.

The power plant, if built, is expected to burn mainly imported South African thermal coal until domestic supplies become available. Typically, a 1 GW plant takes around 2 mt/y of 6,000 kc NAR basis material.

African Exploration Mining and Finance Corporation (AEMFC) and trading house Lurco Group, a second group led by DSA Investments' subsidiary Orchid Mining, and little known Izingane Zethu Mining, a source with direct knowledge of the matter told the Southern African Coal Report last week.

Last year, the AEMFC-Lurco consortium was the leading contender to take over Optimum's coal assets. But that is now uncertain following Lurco's legal challenge over Koornfontein.

Richards Bay prices likely to steady near one-year highs

Richards Bay thermal coal markets are expected to steady this week after surging to a one-year high as heavy rains hit supplies and led to reduced stockpiles.

Average weekly Richards Bay 6,000 kc NAR prices climbed to \$88.21/t FOB, up 14% and the highest weekly average since early 2019.

On Thursday, a February loading cargo traded at \$96.00/t FOB for 50,000 t, its highest in a year. The highest bid for March was at \$91.50/t FOB on 10 January and the best offer seen was \$91.00/t FOB on 8 January.

Supply issues and strong Indian buying have driven Richards Bay prices higher over the past few months, a rare bright spot in the global coal industry.

The weather-related production problems have been one of the main causes for the decline in stocks at the Richards Bay Coal Terminal (RBCT), which last week tumbled to 2.7 mt from 3.7 mt last month.

In the off-spec market, the 5,700 kc NAR min differential value is assessed at minus \$2.79/t for February and minus \$2.76/t for March, compared to minus \$3.27/t and minus \$3.23/t, respectively previously.

For 5,500 kc NAR material, February was assessed at minus \$9.56/t and March at minus \$9.64/t. In the previous session, February was assessed at minus \$9.40/t and March at minus \$9.41/t.

In the 4,800 kc NAR market, February was assessed at minus \$17.31/t and March at minus \$17.25/t. In the previous session, February was assessed at minus \$17.07/t and March at minus \$17.04/t.



15th Annual

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Freight

After recent declines from around \$18,000/day in mid-December, Capesize (180,000 dwt) average earnings assessed by the Baltic Exchange found support at close to \$9,000/day in the second week of January.

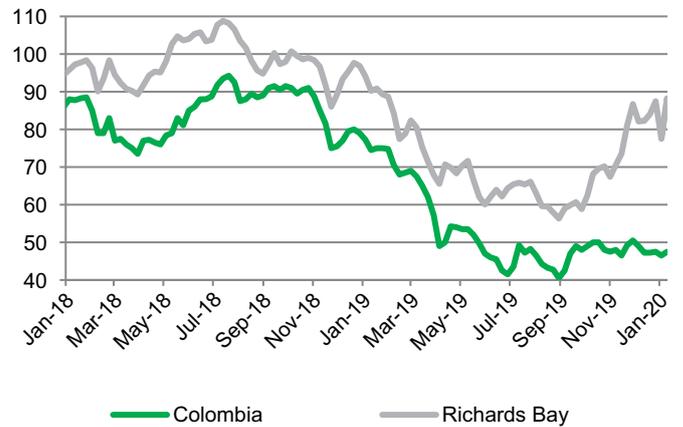
While recent vessel demand have been negatively impacted from the continued underperformance of Brazil's iron ore exports against 2018 levels, data from Australian iron ore export ports released last week offers a positive view. Port throughput data for Port Hedland and Dampier showed a monthly record of 60.4 mt, implying a strong end to 2019 for Australian iron ore exports. However, any potential support to Pacific Capesize freight rates from Australian iron ore chartering has been diluted by a build-up of tonnage in the basin. The Newcastle-Zhoushan Capesize coal spot voyage rate rose to \$10.85/t on 10 January from \$10.45/t a week earlier, according to SSY.

Average earnings for 82,500 dwt Baltic Exchange-type Panamax vessels slumped to \$6,834/day on 13 January, down from \$8,013/day on 6 January.

Bulker demand has also been affected by instances of government intervention (such as the Indonesian nickel ore export ban and anti-pollution measures on coal burn in Asia), seasonal Q1 weakness (grain) as well as cyclicity (in global steel markets). End-year fleet data from SSY show 2019 had the biggest annual net gain in dry bulk carrier fleet capacity (33.2 mdwt) for six years.

(Source: Simpson, Spence, Young)

FOB (US\$/t) Colombia - South Africa



Source: IHS Markit

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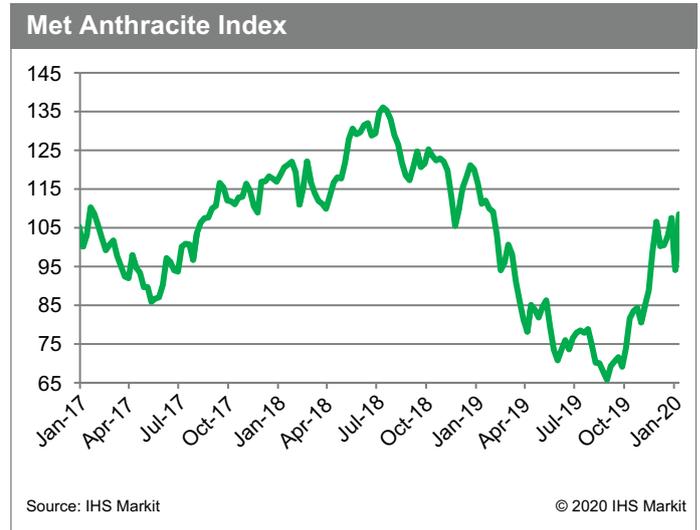
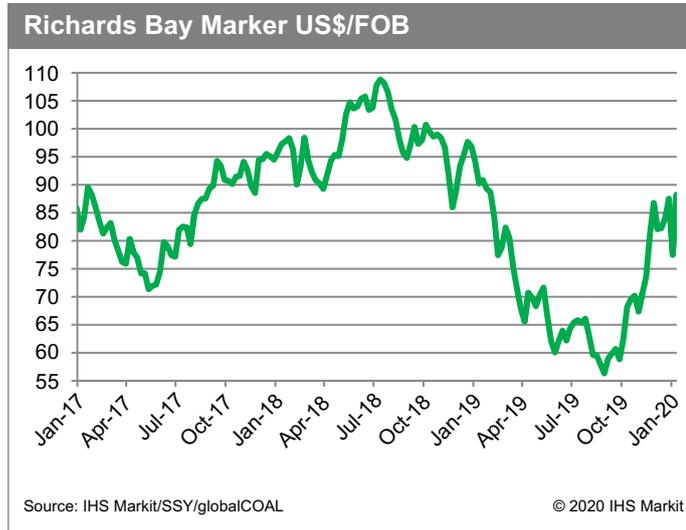
Weekly shipping fixtures

Load port	Vessel	Capacity Discharge (dwt) port	Load date	Load/discharge terms	Freight Shipper (US\$/t)
Newcastle	Classic TBN	130,000 Zhoushan	15/25 Jan	scale/25000shinc	\$11.00 Pacific Bulk
Abbot Point	TBN	150,000 Putian & Xiamen	15/24 Jan	scale/25000shinc	\$8.60 Crystal Sea
Dalrymple Bay Coal Terminal	TBN	75,000 Gangavaram	20/29 Jan	30000shinc/40000shinc	\$13.25 RINL
Port Kembla	TBN	75,000 Vizag	21/30 Jan	40000sshex/20000sshex	\$15.40 SAIL
Gladstone	TBN	75,000 Vizag	12/21 Jan	40000sshex/20000sshex	\$15.15 SAIL

Source: Simpson Spence Young (SSY)

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Statistics



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

FOB markers	Basis	Jan-19	Dec-19	3-Jan	10-Jan
Richards Bay	6,000kc NAR	91.12	83.96	77.53	88.21
South African 5,700	5,700kc NAR	84.42	71.47	71.46	79.48
South African 5,500	5,500kc NAR	65.07	59.07	58.90	66.83
South African 4,800	4,800kc NAR	47.47	47.21	46.96	52.97
Differential (RB vs 5,500)	6,000kc NAR	-20.14	-19.52	-13.28	-15.30
Spreads					
FOB Spread (NEX/RB)*	6,000kc NAR	6.48	-19.79	-13.19	-22.08
FOB Spread (Newc/RB)**	5,500kc NAR	-3.84	-7.78	-6.45	-13.44

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

Met anthracite index

Richards Bay Spot	US\$/t	Index
20-Dec-19	84.03	102.88
27-Dec-19	87.47	107.49
Dec average	84.06	102.93
03-Jan-20	77.53	94.18
10-Jan-20	88.21	108.48

Source: IHS Markit

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Freight rates

Week ending	Vessel size	3-Jan-20	10-Jan-20
Richards Bay/Mundra	Cape	11.05	10.06
Richards Bay/Mundra	Panamax	14.50	14.00
Richards Bay/ Krishnapatnam	Cape	11.50	10.12
Richards Bay/ Krishnapatnam	Panamax	13.00	13.00
Taboneo/ Mundra	Cape	6.68	6.00
Taboneo/ Krishnapatnam	Cape	6.88	6.14
FOB Barge ARA 6,000 NAR			
ARA	Barge	54.35	55.05

Source: IHS Markit, Rates are calculated voyage rates

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