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Argus Insight: Suek-related coal

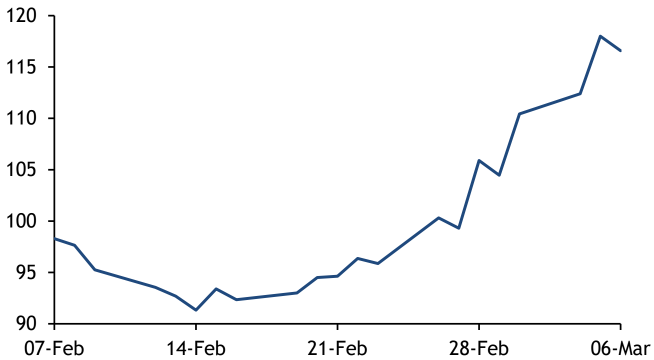
Suek-related coal price spike may be short-lived

- A fresh round of US sanctions imposed on Russian coal trader-producer JSC Suek on 23 February pushed European spot API 2 prices back above $110/t for the first time since 9 January.
- The news drove liquidity on API 2 financial contracts to over 4mn t/d in early March, the highest since before the Russia-Ukraine war began.
- Some buyers abstained from buying Suek and Russian coal, at least until more legal clarity over the situation emerges.
- But upside to second-quarter API 2 prices is likely to be short-lived given low demand from European utilities and trading houses. High stocks and non-Russian imports can cushion any short-term disruption to Suek supplies.
- Longer term, the sanctions could hasten a switch away from Suek coal, and Russian coal generally, in markets including South Korea, Taiwan and Turkey. The switch could put 20mn t of coal at risk.
- Russia successfully rerouted flows after the first round of western sanctions in 2022. Buyers such as China and India are likely to increase their Russian intake to some extent — both countries have made fresh purchases of Russian coal over the past fortnight.
- But Russian seaborne supply in 2024 and 2025 is expected to fall because of domestic rail bottlenecks and supply uncertainty from Taman, Murmansk and Vanino ports. In addition, lower international coal prices are squeezing producer margins, leaving Russian producers struggling with wafer thin profitability.

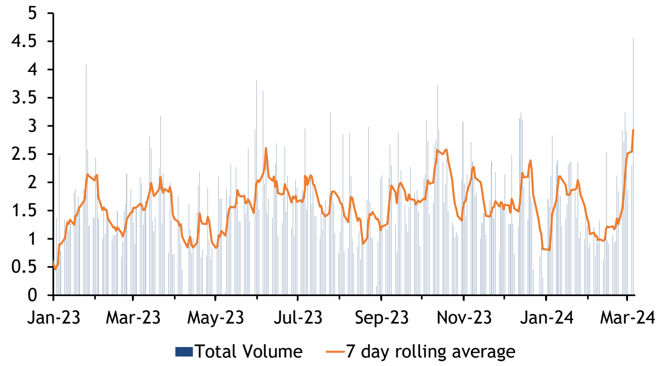
API 2 price rally, liquidity spike

Spot API 2 physical prices have gained $20/t since the US placed sanctions on Suek on 23 February, putting a potential 35mn-40mn t of seaborne thermal coal at risk. But does this translate into a supply shortfall? The market seems to think so, because the news triggered a spate of short covering. Open interest on Ice Rotterdam coal futures contracts fell to 25mn t on 6 March, from 31mn t in late February.

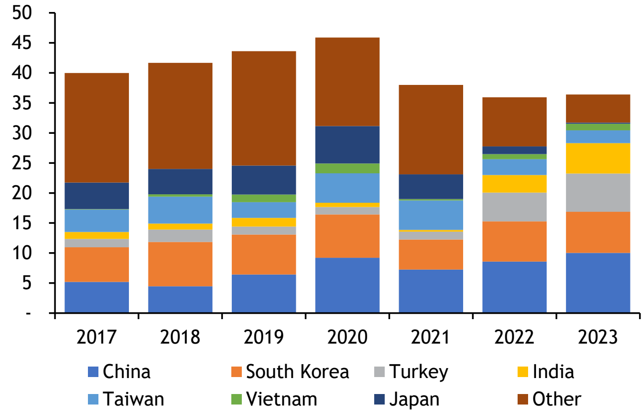
Coal prices: cif ARA NAR 6,000 kcal/kg *$/t*



API 2 paper traded volume on Ice *mn t*



Suek seaborne coal exports *mn t*



API 2 traded volumes on the Ice exchange between 26 February and 6 March totalled 25mn t, compared with 11.3mn t for the previous eight days. Volumes reached 4.6mn t on 5 March, the highest in several years. API 4 traded volumes have also climbed, with more than 1.83mn t trading in February, up by 50pc compared with a month earlier.

Fundamental balance

But there is great uncertainty around the impact of the sanctions on trade flows. The waters are muddied by Suek's international exports being handled by several entities — including UAE-based firms Black Sand Commodities and Ashon, and Swiss arm Suek AG — which also trade coal produced by other Russian and international mining companies. And Suek AG on 27 February sent a notice to some of its customers in Asia-Pacific, claiming that its sales operations will not be affected by the sanctions.

So far, buyers of Suek coal appear in no immediate rush to replace volumes with product from alternative Russian suppliers or from different origins. South Korean and Taiwanese buyers are most likely to pull away from Russian coal because of their close ties to the US. These two markets took a combined 31mn t of coal from Russian ports last year, data from analytics firm Kpler show.

Assuming that Russian exports to South Korea and Taiwan halve on the year in 2024 to around 15mn t, this volume would most likely be replaced by alternative high-heat content, low-sulphur supply from Australia, South Africa or Colombia.

Japan has already largely stopped taking Russian coal, importing just 3.2mn t in 2023, down from 8.1mn t in 2022 and 13.9mn t in 2021, customs data show. Any further contraction in Japanese buying — which is currently confined to the non-power sector — is unlikely to have a meaningful impact on global trade.

Suek has not released official export figures since 2021, when it sold 54.5mn t to international customers from 118mn t of combined domestic and overseas sales. Since then, the firm has lost access to the EU market, and redirected flows to Asia-Pacific. Suek exported 35.5mn t of coal to non-CIS markets in 2023, up by 3.4pc on the year, trade data aggregated by *Argus* show. This would include overland shipments to China, which rose strongly last year. Analytics firm Kpler puts Suek's seaborne coal exports in 2023, including thermal and metallurgical coal, at around 36mn t.

China, Turkey, India flows

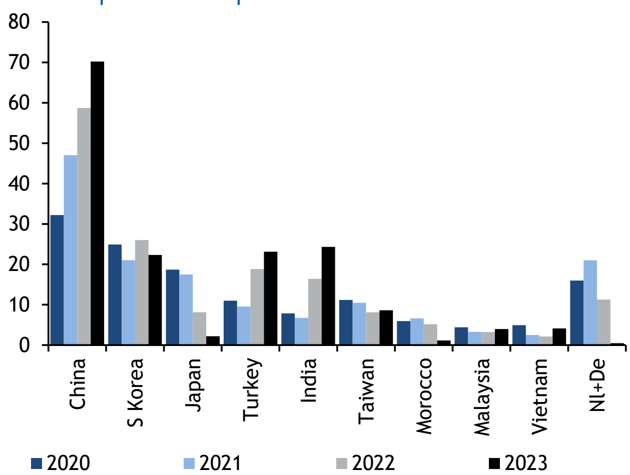
How the sanctions will affect Russia-China flows is less clear. China imported 58mn t from Russia in 2023, up from 36.6mn t in 2022, GTT data show.

"The big Chinese importers we talked to said nothing changes for them. I don't think it's going to be a game changer but who knows?" a Switzerland-based trader said.

In the oil markets, more Chinese banks are refusing to finance purchases of Russian supplies because of sanctions concerns, according to a London-based broker. Some countries are still able to trade Russian anthracite because they can use alternative payment mechanisms, he added. A lack of financing could be a key constraint behind Chinese buyers' ability to absorb Suek volumes in the medium term. And the decision by China to introduce a 6pc import tax in January — which affects Russian and Colombian coal but not Indonesian or Australian — is another headwind for Russian producers.

Sanctions may also affect flows to Turkey, which imported 23.2mn t from Russian ports in 2023, according to Kpler. But for now, Turkish utilities are in no rush to replace Russian volumes, market sources said. This may be because Turkish utilities have built up stocks ahead of annual plant maintenance. Some Turkish utilities have existing contracts for Russian coal, which could include volumes produced by Suek. The firm exported around 6mn t to Turkey last year, according to Kpler data.

Russian port coal exports *mn t*



India has emerged as another key buyer of Russian coal since the EU's embargo was introduced in August 2022, increasing imports to 24mn t last year from 7mn t in 2021, Kpler data show. Some Indian industrial users continue to purchase Russian supplies. In the short term, ample availability of South African, Colombian and US supply, as well as coal from other origins and petroleum coke could cushion the impact if some buyers look to switch away from taking Russian coal. Suek's exports to India rose to 5mn t last year from 2.9mn t in 2022, Kpler data show.

Other key buyers of Russian coal include Sri Lanka, which has historically bought from Suek/BSC, taking 1.6mn t last year, and Vietnam and Malaysia, which each imported 4mn t from Russian ports in 2023.

Colombian coal to keep heading to Asia

Russian suppliers will focus on retaining market share in China and India should they lose their presence in other markets. One trader expects some buyers to boost purchases of non-Suek Russian coal that is outside the purview of sanctions. But it is unclear how easy it would be for non-Suek coal to replace Suek supply.

An abundance of Colombian coal now heads to Asia-Pacific markets, given soft European demand. Europe has re-exported supply, diverting cargoes to China, India and Morocco, market sources said. Switzerland-based producer Glencore has already agreed to send around 10mn-15mn t of Colombian coal to China in 2024.

Russian producers face other challenges. Lower international prices have squeezed margins for some small-to-mid sized Russian suppliers, for which breakeven points of around $100/t fob far east are just $9/t below *Argus*' price assessment. For the major producers, which would include Suek, fob costs would be in the mid-$70s/t.

Rail bottlenecks and bad weather have further disrupted Russian exports in recent months. Exports from Black Sea ports have been particularly low, partly because of high port fees. And Russia's decision to reintroduce an export tax at 5.5pc from April will further erode competitiveness in the global market.

Argus' spot NAR 6,000 kcal/kg fob Vostochny assessment was $109.40/t on 1 March.