



Illinois Coal Basin in Precarious Position

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Hanou Energy recently completed its annual *Illinois Basin Coal Price and Demand Forecast 2017-2036*. The following are some of the major findings of the report:

Executive Summary

Illinois Basin (ILB) coal producers are in a precarious position as demand and prices have dropped precipitously over the last five years. It is Hanou Energy's position that the ILB coal arena is not healthy. However, potential for a reversal exists due to production cutbacks and consolidation that have occurred over the last 5 years and higher natural gas prices, which when combined may boost coal prices and stabilize demand in the near term.

- The ILB saw tremendous growth from 2000 to 2014 as demand increased by almost 50 million tons (mmt) and as weighted average ILB coal prices more than doubled from the low \$20/ton to \$48-\$50/ton. Since then, however, demand and prices have been on a downward spiral. ILB coal production peaked at 137 mmt in 2014 only to drop to 98 mmt in 2016. In addition, weighted average coal prices reported by publicly-traded coal producers have dropped by \$8 to \$10/ton since 2012.
- Foresight Energy's buying of market share is one of the main causes of the price downturn; however, they had nothing to do with low natural gas prices and closures of coal-fired power plants that have eaten into coal demand. The success of shale gas fracking technology, which has provided abundant supplies of low priced natural gas, has placed a lid on what coal producers can expect regarding coal prices. On a positive note, these realities have forced all producers to consolidate and tighten belts, lower costs and become competitive in a down market.
 - In early 2015 ILB coal producers were planning to produce more than 150 mmt in that year. Today, this number has been drastically reduced. Q1 2017 coal production was 111 mmt on an annualized basis. We estimate that another 5 to 10 mmt on an annualized basis can be produced with existing equipment and manpower.
- The last price surge occurred the end of 2016 and early 2017. History suggests coal price surges occur in roughly three (3) year increments. If so, the next price surge should happen sometime in 2019; however, should we get a sharp rise in demand due to higher natural gas prices, lower coal stocks and/or higher exports, coupled with the consolidation and the resulting lower production capacity, the ILB might not be able to respond quickly enough. Hanou Energy believes there is high potential of demand outstripping available supply causing a price surge before 2019.



- With \$3.50/mmBtu gas prices we expect ILB demand to be around 120 to 125 mmtpy for the next several years. The current price of Henry Hub natural gas is around \$3.20/mmBtu. For the long term, we expect ILB coal demand will drop as there are no new coal plants being built and as the aging coal fleet continues to retire. By 2036 our Base Case ILB coal demand could be around 68 mmt but it could be as low as 42.5 mmt if gas prices are at or below \$2.50/mmBtu. Under both of these cases, the Clean Power Plan is a moot point – it really doesn't matter if it's made into law.
- There is a strong correlation between the McCloskey/Argus API2 Index and ILB coal exports. When the API2 index exceeded more than \$100 for more than a year, ILB coal exports peaked in 2012 when 17 mmt were exported. By the end of March 2014 the API2 price dropped to less than \$80/tonne. ILB exports then dropped to 13.5 mmt in 2013 and to 10.3 mmt in 2014 and 2015. With the API2 index well below \$50 during the first few months of 2016, ILB exports could have vanished; however, the index surged to more than \$85 the second half of 2016 resulting in a strong finish at the end of the year. Year end ILB 2016 exports totaled 6.1 mmt.
 - Based on interviews with various traders and coal companies, ILB exports are expected to increase to 9.5 mmt in 2017 but are expected to drop to 4.5 mmt in 2018 which is basically the Foresight Energy export commitment of 4.5 mmtpy through 2022 to move ILB coal through the SunCoke Convent Marine Terminal in Louisiana.
 - Our research suggests that when the API2 index is above \$75 ILB producers can compete overseas. As of May 31 the API index was \$77.47.
- The bottom line for ILB coal companies is: "The future belongs to the low cost producer."

Interested in more?

The *Illinois Basin Coal Price & Demand Forecast 2017 – 2036* is an in-depth assessment and analysis of Illinois Basin (ILB) coal prices and demand and the factors affecting them in the past, present and future. This study is a supplement to Hanou Energy's *Illinois Basin Coal Supply 2017-2026* study.

The report includes a 20-year price forecast for various ILB coal quality types in the railcar or barge. The forecast includes a Low, Base and Spike price case for each of these coal types, including one for high chlorine coal.

The 20-year Demand Forecast for ILB coal provides a Base, High and a Low Demand Case forecast on a plant-by-plant, unit-by-unit basis for ILB coal for the period 2017 – 2036. The potential impact of the Clean Power Plan is also discussed.

The *Illinois Basin Coal Price & Demand Forecast 2017 – 2036* is priced at \$6,000 and is available in hard copy. If purchased in conjunction with our ILB Coal Supply Study, together the studies are discounted by \$4,000!! Please visit "Services" at <http://hanouenergy.com/home> for more information on Hanou Energy's ILB reports. Please call John Hanou at (410) 279-3818 or email Mr. Hanou at jthanou@hanouenergy.com if you have any questions.

