Trade patterns in the coal market

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For today’s discussion...

• Changes in trade flows
• Price trends in the thermal coal market
• The derivatives market
• SCoTA Overview
• The NEWC index – Asia’s price benchmark
• Conclusions
globalCOAL ownership
What does globalCOAL do?

Coal brokerage
- Screen Trading (Standard contracts)
- Voice brokering (Any coal, any location)

SCoTA
- Contract updates and revisions
- Development of new hubs

Indices and market data
- Index calculation
- Coal Market Report
- Historical Index data
- Delayed Price Feed
Changes in Trade Flows:
The Exporters
The Seaborne Coal Market

Seaborne Coal Volumes 1990-2013 (Mt)

Source: IEA Coal Information (2014)
Major Exporters

- **USA**
  Looking to the Far East

- **Australia**
  New destinations

- **Colombia**
  Europe’s supplier

- **South Africa**
  Looking East

- **Indonesia**
  From zero to hero
South Africa turns to the East

Forecasted RBCT Thermal Coal Exports by Destination, 2005-2040

Sources: globalCOAL, IHS McCloskey

Million tonnes

2005 2010 2015 2020 2030 2040

Atlantic

Pacific

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South Africa turns to the East

RBCT Thermal Coal Exports to Key Asian Destinations, 2006-2014

*2014 annualised from Aug'14

Sources: globalCOAL, IHS McCloskey
Australia Diversifies

Australian Thermal Coal Exports by Major Asian Destination, 2000-2014

Million tonnes


China
Taiwan
South Korea
Japan

*2014 annualised from Aug’14

Sources: globalCOAL, IHS McCloskey
Where to for Indonesia?

Forecasted Growth of Total Indonesian Coal Exports, 2000-2040

Sources: globalCOAL, IHS McCloskey
Where to for Indonesia?

Indonesian Coal Exports by Product, 2000-2014

*2014 annualised from Jun’14

Sources: globalCOAL, IHS McCloskey

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Where to for Indonesia?

Indonesian Coal Exports by destination, 2000-2014

- South Korea
- Taiwan
- Japan
- India & Pakistan
- China
- Other

*2014 annualised from Jun’14

Sources: globalCOAL, IHS McCloskey

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Changes in Trade Flows: The Importers
Major Importers

Europe
Stalling?

China
The big unknown

Japan
Levelling off

India
Critical…
Europe Stalls

Atlantic vs Pacific Steam Coal Imports, 2005-2040

Sources: globalCOAL, Euracoal, IHS McCloskey
China

- The largest producer of coal
- The largest consumer of coal
- Imports are marginal compared to consumption (7.6% in 2013) but have huge impact on international market
- Unlike India, China doesn’t have a coal deficit
- Imports to arbitrage prices between domestic and international coal
China’s Coal Imports

All Coals, 1990-2013 (Mt)

Source: IEA Coal Information (2014)
The Future for Chinese Coal Imports

- Ever changing landscape
- Uncertainty over new regulations affecting imported coal
- Likely that China will impose strict limits on trace elements in imported coal
- Major exemptions (eg. Indonesia)
- Uncertain impact
India

- Large resources, large production but limited growth in extractive capacity
- Indigenous resource also tends to be far from demand centres
- Coal imports are critical to make up shortfall
- Assuming GDP growth rate of 8%, imports will top 350Mt/annum within 20 years
India

All Coal Imports, 1990-2013 (Mt)

Source: IEA Coal Information (2014)
Japan’s Coal Imports

- Historically the largest thermal coal importer
- Surpassed by China in 2010
- Moving away from nuclear power after Fukushima disaster of 2011
- Coal demand expected to level out
Japan

All Coal Imports, 1990-2013 (Mt)

Source: IEA Coal Information (2014)
Price Trends in Seaborne Markets
Price Trend – Last Decade

globalCOAL Indices, 2004-2014 (USD/mt)

Source: globalCOAL
Price Trend – Last 3 years

globalCOAL Indices, 2011-2014 (USD/mt)

Source: globalCOAL
The Derivatives Market
Building Blocks of a Derivative Market

- Standard Contract
- Screen Trading
- Market Data

Market Liquidity & Transparency
Significant growth in recent years

Growth in Coal Derivatives Volume, 2001-2014

Sources: globalCOAL, ICE, CME, SGX, EEX, FSA, LEBA

Δ+7.8%
Growth in clearing vs OTC

Cleared and OTC Derivatives Volumes Growth, 2001-2014

Sources: globalCOAL, ICE, CME, SGX, EEX, FSA, LEBA
Pacific lag

Atlantic Market

Pacific Market

Sources: globalCOAL, ICE, CME, SGX, LCH, Euracoal
SCoTA Overview
A brief history of SCoTA...

- Following the collapse of ENRON in 2001, the thermal coal market demanded reliable, transparent thermal coal pricing.

- globalCOAL was established in 2001 by coal market producers, consumers and traders to establish a standardised coal market:
  - Introduced a standardised coal trading agreement: SCoTA
  - Online trading platform to facilitate the trade of standardised seaborne thermal coal, with all trades underlied by SCoTA
  - Pricing data derived from the platform provided objective, transparent price points to the market for the first time
Benefits of Standardised Screen Trading

Accessible to all
Quick and easy route
to standardised market

Ability to reverse positions quickly

Efficiency & speed of execution (click & trade)

Real-time, transparent & objective spot and forward prices

Anonymity until point of execution
What defines a commodity market?

• The product is traded without qualitative differentiation
• Negotiations are focussed on price rather than quality
• The price is international and fluctuates on global supply / demand
• The product is traded in a transparent market
• There is an active spot and risk management market
Is coal a commodity?

• Is it traded without qualitative differentiation?
  
  ✔ Yes; SCoTA defines standard quality parameters ⇒ pools of liquidity form around most commonly traded hubs

• Are negotiations focussed on price rather than quality?
  
  ✔ Yes; Indices for the main hubs NEWC, RB & ARA give clear price markers

• Is the price international and fluctuating on supply/demand?
  
  ✔ Yes; market participants trade coal globally

• Is the product traded in a transparent market?
  
  ✔ Yes; bids, offers and trades on gC are communicated to the market

• Is there an active spot and risk management market?
  
  ✔ Yes; 2.7 Billion tonnes of cleared derivatives traded in 2014 YTD
**Who uses SCoTA?**

**Principals**
- Utilities
- Miners
- Physical coal traders
- Financial institutions

**OTC Brokers**
- globalCOAL
- Other brokers: LCB, GFI, Ginga, ICAP

There are 2,300+ companies licensed to use SCoTA worldwide and 161 globalCOAL Market Members.
Top 5 Countries
1. Indonesia
2. Australia
3. USA
4. India
5. UK
Total brokered physical SCoTA volumes

Source: globalCOAL & other brokers

* 2014 – estimate
The SCoTA market in perspective

Production

7.2Bt Domestically produced & consumed

Intl Trade

99Mt Overland

971Mt Seaborne Trade

245Mt Coking Coal

726Mt Thermal Coal

571 Mt Bilateral standard and non-standard coal

155 Mt Brokered SCoTA

Thermal Coal Market

Source: VdKI, Euracoal, globalCOAL & other brokers (2010 data)
SCoTA today...

- SCoTA v8
- Master Agreement (v8 MA)
- SCoTA v8 General Terms and Conditions (v8 GTC)
- 15 RSSs on a range of INCO delivery terms
- Build your own RSS
- SCoTA-based transactions underpin 99% of API#2 and 100% of API#4 and gC NEWC Index
- Indonesian and Indian governments use NEWC as a component of their price assessment for coal and power
Standard hubs covered by SCoTA

- **DES ARA**: Multi-origin ACPRSU
- **DAP RTM**: Multi-origin ACPRSU, Lower min CV
- **COL**: FOB, 4 load ports
- **INDO A B C**: FOB or FAS, 3 qualities
- **Richards Bay**: FOB, 3 qualities
- **Newcastle (NEWC)**: FOB
- **NCIG**: FOB
- **High Ash Aus**: FOB, Lower CV
- **CFR Krishnapatnam**: Multi-origin, 2 qualities
- **CFR China**: Multi-origin, 2 qualities
- **Lower min CV**

Standard hubs covered by SCoTA include multi-origin and specific origin hub details with quality and port information.
The gC NEWC Index
The globalCOAL NEWC index

- The benchmark price for coal in Asia Pacific
- Used by governmental agencies around Asia:
  - 25% component of HBA in Indonesia (25% NEX, 25% FOB Kalimantan, 25% ICI)
  - 25% component of CERC in India (25% API4, 50% Indonesian Coal)
  - Chinese government is considering the use of international indices (including gC NEWC) in its forward planning for pricing electricity
- Coaltrans Bali survey in 2011:
  - 64% of respondents stated the NEWC Index is the most trusted Index by Indonesian producers, end users & traders
  - 64% stated that the NEWC Index is the most suitable to establish end-user prices for Indonesian coal (versus 18% for the Argus-ICI)
More spot trading in NEWC

Spot vs forward NEWC volume on the globalCOAL screen and % of NEWC tonnage traded from APAC

Source: globalCOAL
Some conclusions & your questions?
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