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Asian coal rises on stable demand despite oil plunge

(Montel) Benchmark coal prices in the Asia-Pacific region defied a coronavirus-induced collapse in oil markets to climb 1% in the week to Thursday, although that resilience may not last long, analysts said.

Broker GlobalCoal's Newcastle index for high grade (6,300 kcal/kg) Australian coal exports to Asia last stood USD 0.90 higher at USD 66.29/t, compared with last Thursday.

It remains toward the lower end of this year's broad USD 65-75/t trading range but has so far weathered a 60% plunge in oil prices in 2020 as countries around the world shut in communities to halt the spread of the coronavirus.

"The effects on coal are relatively muted as the production of power from coal-fired generation is still relatively stable to slightly down in Asia," said Pat Markey, managing director of Singapore-based consultancy Sierra Vista Resources.

"Unlike crude oil, there isn't a large structural oversupply pressuring the thermal coal market spot price. This is coupled with coal-fired generation's baseload position in the merit order within these countries," said Markey. "Coal is still quite cost competitive versus other fuels, including LNG."

LNG getting cheaper

A European coal analyst noted weather-related disruptions to Australian coal exports as well as annual contract talks between Glencore and Japanese utilities, which normally coincide with stronger Newcastle prices.

Yet both saw pressure on coal ahead given a global slowdown in economic activity and increasingly competitive gas prices in the region.

The preponderance of LNG contracts indexed to oil was likely to make gas competitive with coal in countries like Japan and South Korea by summer at crude prices of around USD 35/bbl, according to consultancy Wood Mackenzie Brent was last seen below USD 27/bbl.

"Due to their take-or-pay contracts with railways, Australian miners are placed on the mid-part of the supply stack globally, thus seeing costs around mid USD 50/t, which could signal a downside risk of up to USD 10/t easily," the analyst said.

Chinese prices soften

Chinese energy consumption has continued to strengthen as the country makes steady progress in defeating its virus outbreak.

China recorded no new domestically transmitted infections on Thursday for the first time since the coronavirus emerged in the country in December. Though still home to most infections, its share of the world's total of more than 200,000 cases is rapidly shrinking.

The Chongqing Petroleum Exchange reported the country's gas consumption began to grow again on an annualised basis last week. Coal-fired generation in the world's biggest coal consumer has also risen but remains muted.

Chinese thermal power generation fell 7% over the first two months of the year, the country's National Bureau of Statistics said this week.

Prices on the country's Zhengzhou exchange continued to hit some of their lowest levels in at least two years. The benchmark May delivery contract was last seen at CNY 528.40/t (USD 74.44/t).

Indonesia, a major coal supplier to China, has also seen its export prices plumb further lows. Indonesian low calorific coal (3,800) – a popular blending fuel in Asia – was down 4% on the week at USD 32/t, according to GlobalCoal's index.

In India, utilities' stocks have reached some of their highest levels in eight years to climb above 40m tonnes or 23 days of power generation, according to the country's Central Electricity Authority.

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