

Asian coal prices ease as pollution controls bite

Nathan Witkop
28 Nov 2019
14:17 CET

(Montel) Benchmark Asian coal prices slid 1% in the week through to Thursday amid signs of growing pressure to cut air pollution among northeast Asian consumers as well as elevated Chinese inventories.

The Newcastle index, a reference price for high grade (6,000 kcal/kg) Australian coal exports to Asia, last stood at USD 67.77/t, down USD 0.74 week on week.

Traders highlighted pressure from regulatory announcements this week after paper prices for December delivery slumped as much as 5% from a high of 71/t on Monday.

Taiwan and **South Korea** – which together buy 25% of Australian thermal coal – have announced rules that will limit coal-fired power generation this winter to improve air quality.

Pat Markey, managing director of Singapore-based Sierra Vista Resources, said Taiwanese restrictions on the 5.5 GW Taichung power plant were likely to reduce the country's demand by 2m tonnes next year, including 1m tonnes of high calorific Australian fuel.

Downside risk ahead

This would be equivalent to around 5% of Taiwan's Australian thermal coal purchases. Similarly, South Korea will idle 15 plants from December to February and restrict output to 80% for the rest.

Markey noted this was likely to "have some impact on the demand for coal", though the overall effect on the region's seaborne trade remained uncertain.

Justin Smirk, a senior commodities analyst for Australia's Westpac bank, was "cautious" about reading too much into the restrictions. He expected persistently weak prices to begin deterring some Australian supply and to encourage demand.

"Coal prices are still so competitive in Japan relative to gas that they are looking to index LNG contracts against coal," Smirk said.

Smirk also saw the possibility of cyclone season disruptions to Australian exports given a particularly hot start to spring. Westpac forecast prices to remain flat over winter and to ease over the course of next year to USD 63/t.

"I see downside rather than upside risk," he added.

China importing less

Cold weather was supporting thermal demand in China, according to ANZ bank. However, high inventories and strong domestic supply were limiting the call on imports.

Stockpiles tracked by the bank were up 1% on the week at 23.4m tonnes – close to some of their highest levels so far this year and 8% above the corresponding period of 2018.

Coal prices on China's Zhengzhou exchange were down 1% on the week at CNY 552.60/t (USD 78.57/t).

Chinese customs restrictions aimed at limiting 2019 coal imports were also weighing on the market, according to Markey.

However, "deliveries arriving in January should not face any import restrictions," he said

Indian power plant stocks continued to climb over the past week, rising 6% to 24.2m tonnes. This was enough to meet 14 days of generation, according to the country's Central Electricity Authority.

Newcastle stocks have fallen 170,000 tonnes week on week and last stood at 1.78m tonnes, according to port data.

Its exports are on track to rise 4% this year, despite a 33% slump in prices since January. The benchmark's premium to European coal has narrowed by USD 1 to around USD 15/t.

Indonesian low calorific coal (4,200) – a popular blending fuel in Asia – was up 1% on the week at USD 33.39/t, according to GlobalCoal's index.

<https://www.montelnews.com/en/story/asian-coal-prices-ease-as-pollution-controls-bite/1063679>