Don't call it a comeback, we've been here for years!

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Argus is well known for coking coal news coverage and metallurgical coal price indices, particularly for premium hard coking coal and the pulverised coal injection (PCI) grade coal. But as well as a host of non-Australian and Chinese domestic coking coal prices, we also track Chinese coke exports on a fob basis.

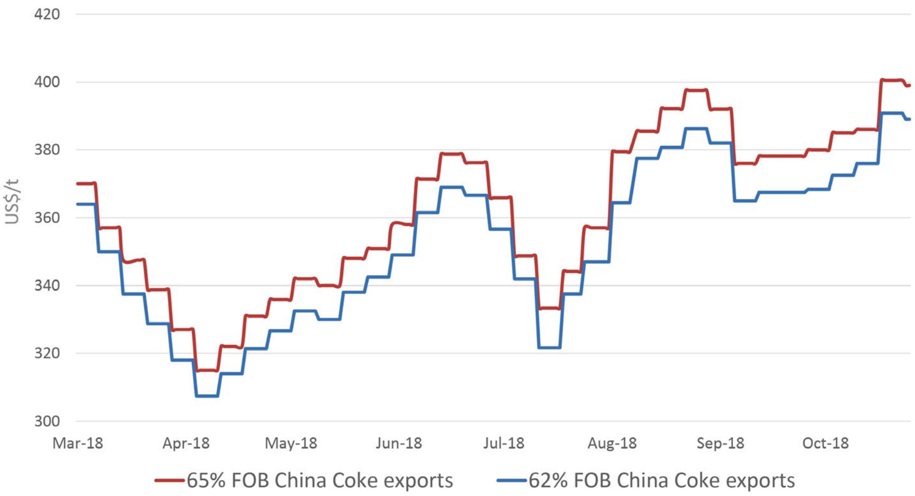
We have tracked Chinese fob exports of both 62 and 65 CSR since 2014. Several years of oversupply and falling demand culminated in a low for 62 CSR prices of $110.84/t in February 2016.

By November they had almost tripled in value, amid domestic and import supply disruptions, just as Chinese steel production increasingly climbed on the back of rising steel mill margins. This period may have just come to an end last month, as explored **here**, after 23 months.

In January this year Argus switched publication of Chinese coke exports from weekly to daily on expectations of increasing price volatility.

Wide price movements in coke export prices since Q1

Little inhibition exhibited in volatility.



Risks abound in merchant coke exports

One of the defining features of iron ore markets over 2018 has been its relative price stability, at least in the benchmark grades. Coke export buyers and sellers might be wishing for some of this torpidity to visit their markets, given the recent rollercoaster ride they have been on.

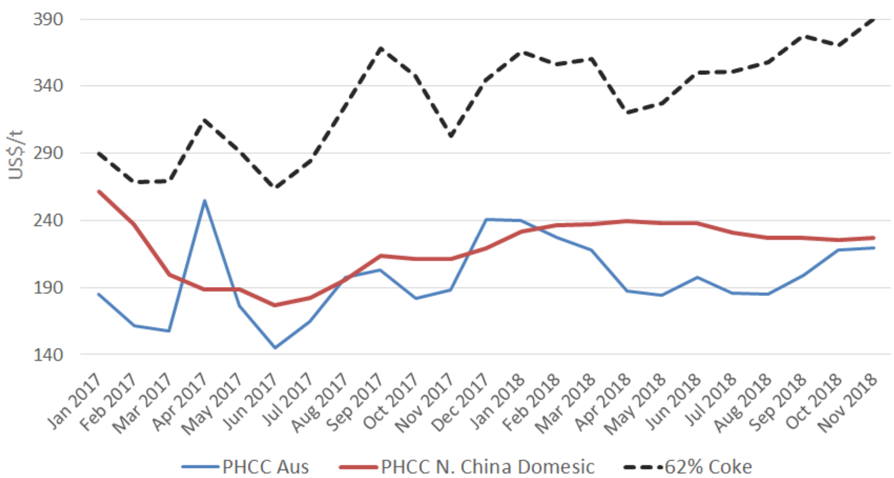
Export values for China's merchant coke since March have moved within an $84/t range, providing huge price risk. This is compounded by the issue that nothing in this space moves how you might expect it to. Chinese 62 CSR met coke prices do not correlate particularly well with seaborne, or import, prices of premium hard coking coal, with a monthly R Square value of just 43pc since 2017. An R2 correlation of 100pc indicates a perfectly positive relationship between prices, while 0pc indicates no relationship. The weak correlation is somewhat understandable, as imports are not the biggest share of Chinese metallurgical coal use. But neither do coke prices correlate better with Chinese domestic coking coal, which forms by far the largest share of coke battery input by volume. This R2 is just 18pc.

Prime hard Australian imports versus prime hard north China domestic coking coal gives a lowly R2 of 5.3pc over the same period. It is best not to expect seaborne price direction to be an indicator of domestic prices, or vice versa.

Poor correlations are exacerbated by volatility in the yuan/US dollar link, a currency risk that has only increased in recent months. It is an inescapable

Perplexing lack of relationships between three related products

62% FOB China Met coke exports most 'related' to FOB Aus PHCC prices...
...Yet, even those correlations are as loose as a wizard's sleeve (43.2%).



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China coke export prices cover a lot of ground each month...

...Making it a fun market to watch, if not trade.

issue that has to be managed for high CSR imports from Australia, but also exists on the selling side to international buyers, even if coking coal has been sourced domestically.

Timing risk is also just as much of an issue as outright price risk when movements are rapid.

Met coke prices have move quickly over short spans, meaning that 62 CSR coke averaged 9.5pc of a monthly price rise up from its lowest monthly value over the period in the chart.

For a seller this can easily mean significant money left on the table. Purchasing at the wrong time for a buyer can meaningfully drag on steel margins.

Volatile prices amid so many risks have naturally led companies to gravitate towards price indices to see whether they might alleviate some of these problems.

Simple solutions

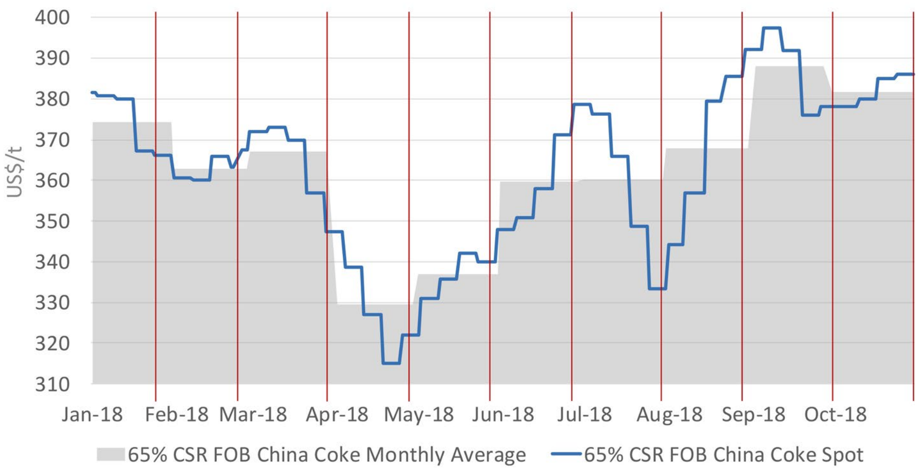
As an industrial transaction strategy, it is an oldie but a goodie. So successful that it is actually relatively rare for markets to continue evolving after spot price volatility has been rendered harmless.

By simply moving to reference the average of the trading month, buyers and sellers can share the upside or downside risks. Making counterparts likelier to return the following month. Argus publishes 62 and 65 CSR fob China export prices online every day at Argus Direct and in the Argus Ferrous Markets publication.

At a time when coke markets are tightening or **changing**, customers are clearly saying that upstream and downstream coverage is a tangible benefit. With use in nearby markets such as **metallurgical coal** and confidence in the Argus produced prices there, some are trying to sign Argus-linked coke export contracts as well.

Simple averaging removes a lot of the sting of price moves

Coking coal & iron ore provided the case studies for merchant coke indexation.
Linking to 65% or 62% CSR indexes useful for floating or term trade.



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