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Argus White Paper:
Argus US export coal prices

A new record for US seaborne coal exports is assured in 2011, with coal shipping through key US east and Gulf coast terminals straining the limits of capacity. Record exports demand new price tools, and Argus introduced four new assessments to its spot coverage of the US and seaborne coal markets. These include physical market assessments of coal prices on the US east coast at Hampton Roads, Virginia and on the US Gulf coast at New Orleans, Louisiana.

The growth of these new markets has increased demand for trading instruments for coal, with the isolated FOB mine-priced coal often out of step with the terminal priced coal for seaborne export. With long logistics chains, there is significant risk between the mine and terminals at the USGC or USEC. And loading and handling at terminals add risk, making an FOB vessel price the best instrument for indexing seaborne coal supply.

During 2011, US exports are on pace to reach 100mn short tons for the first time in over a decade. And because of reduced North American trade, the year will certainly mark a new record for total seaborne trade. The heavier export flow comes as the coal industry in the US staggers under new environmental rules domestically, providing for improved margins for seaborne shipments that are impossible to replicate at home.

This new dynamism in US coal shipments is also remarkable for its shifting supply profile. US exports have been heavily skewed toward coking coal shipments as seaborne coking coal markets grew and matured. But now, these specialty shipments of high-quality, high-value products are being joined by steam coal supply that is increasingly defined by price competition. Appalachian, Illinois basin and even Powder River basin producers are finding new demand in the seaborne markets.

Illinois basin coal dominates FOB New Orleans market

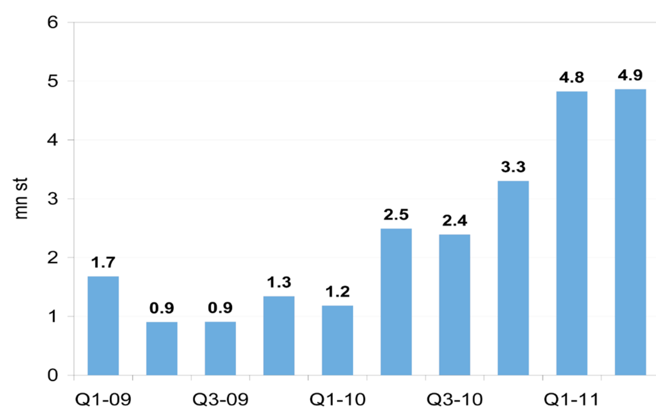
The Illinois basin is perhaps the best positioned for further growth among US coal regions, with its easy transportation to US Gulf coast terminals and easy mining geology making the region attractive to consumers around the world.

Argus assesses two types of coal on the US Gulf coast: the first is a 6,000 kCal/kg coal with less than 1pc sulfur FOB New Orleans, a product which mirrors the standard traded product in the Atlantic basin. The second is an 11,500 Btu/lb 5.0 lbs SO_2/mmBtu coal, which accurately reflects the bulk of the thermal coal from the Illinois basin and other regions, coal that is now moving to export via Gulf terminals but which is not the typically traded seaborne quality.

Producers in the region like Foresight Energy have targeted international markets for their expansions, with Foresight's output set to jump 20 million short tons through 2013. Very little of that coal is being marketed to US generators. It is fueling the export boom on the US Gulf coast in New Orleans.

The rise of the Illinois basin as a steady seaborne supplier has tightened terminal capacity on the USGC, but midstream loading has added capacity while International Marine Terminal struggles to rebound after its shiploader collapsed in the fourth quarter of 2010.

NEW ORLEANS EXPORTS BOOSTED BY ILLINOIS BASIN



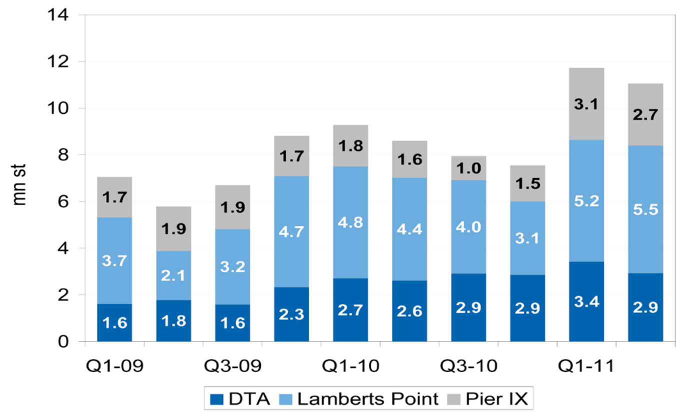
Central Appalachia coal volumes surge in FOB Hampton Roads trade

On the US east coast, coal producers look to coking coal more than thermal shipments and the FOB Hampton Roads coking coal markets are bigger than steam in the region. In contrast to New Orleans, where steam markets are more than half of US shipments, Hampton Roads terminals are the busiest US channel to international steelmakers and steam coal accounts for only 18pc of volume there.

Argus' coal assessments on the US east coast include a seaborne standard 6,000 kCal/kg coal with less than 1pc sulfur and a 12,300 Btu/lb coal with less than 1pc sulfur, both FOB Hampton Roads. The latter is the typical specification in US Central Appalachian rail trade, for both CSX and Norfolk Southern-originated coal.

Hampton Roads terminals are the largest in the country and can load capesize vessels, a key advantage over smaller facilities. Drafts are 50 feet and all terminals feature storage and blending, while rail runs from mines in Central Appalachia are shorter than to other terminals in Baltimore or to the USGC.

TERMINAL VOLUMES JUMP AT HAMPTON ROADS



Argus Atlantic basin coal

Location	Heat content	Sulphur content	Shipping term	Volume (minimum)
fob New Orleans	11,500 Btu	5.0 lbs SO_2/mmBtu	Prompt 90 days	Panamax
fob New Orleans	6,000 kCal/kg	<1pc	Prompt 90 days	Panamax
fob Hampton Roads	12,000 Btu	<1pc	Prompt 90 days	Panamax
fob Hampton Roads	6,000 kCal/kg	<1pc	Prompt 90 days	Panamax
Puerto Bolivar	11,300 Btu	<1pc	Prompt 90 days	Panamax
CIF ARA	6,000 kCal/kg	<1pc	Prompt 90 days	Panamax
FOB Richard Bay	6,000 kCal/kg	<1pc	Prompt 90 days	Panamax

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