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Russian coal export markets

Russian coal prices moving down

Prices for Russian thermal coal in Europe and the Asia-Pacific region declined by 13-17pc in November amid bearish market sentiment, while demand in Germany picked up after showing signs of recovery last month as forecast higher Rhine river levels could unlock coal shipments from major northwestern ports in Europe – Amsterdam, Rotterdam and Antwerp (ARA).

Spot prices for Russian thermal NAR 6,000 kcal/kg coal prices exported to Europe fell to \$76.46/t fob Baltic ports on 30 November reaching the lowest level since May, under Argus assessments. And prices could still move toward \$75/t and lower.

Russian coal prices fell the most – at 17pc – compared with a decline in European-delivered coal values, which have decreased by 12pc in November. This resulted from higher stocks in ARA ports that peaked at 7.22mn t of coal in early December – a multi-year high after Rhine levels fell making it impossible to move tonnage along the river to power plants (see graph).

Low water levels on German waterways have hampered the barging of commodities to regional end-users for a number of weeks. Rhine water levels at the key measuring point of Kaub stood at 57cm on 3 December, which is well below the 180cm mark at which coal barges can load at full capacity. But thermal generation in Germany could rise with swelling Rhine levels as Kaub is expected to breach 200cm by 6 December – for the first time since June – as rainfall is forecast in the coming days.

But German coal-fired power generation rose to a 21-month high of 8.27TWh in November, provisional data from Fraunhofer Ise show. Meanwhile, nuclear and renewable output fell by a combined 1.2TWh on the year last month helping to support power prices relative to coal and draw the fuel further into the generation mix.

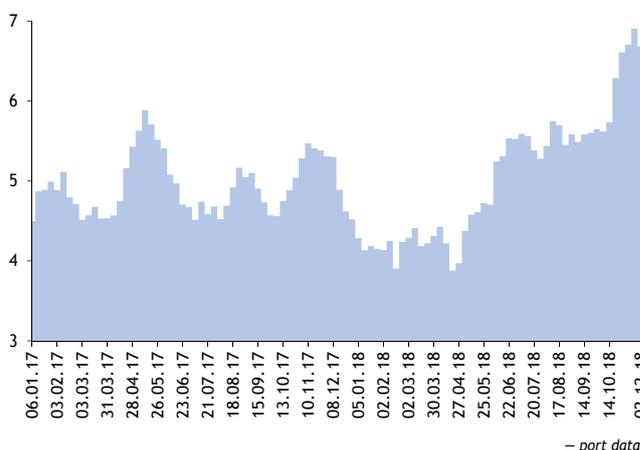
In addition, comparatively firm gas prices weighed on day-ahead clean spark spreads, which helped extend coal's advantage in the thermal generation stack compared with a year earlier. The premium held by 38pc day-ahead clean dark spreads over 55pc clean spark spreads averaged more than €6/MWh last month, up from €1.68/MWh in November 2017,

with coal burn rising by 11pc on the year and gas burn falling by 24pc. Month-ahead and quarter-ahead clean dark spreads were at least 50pc higher on the year last month, suggesting strong positive marginal returns for German coal burn during the rest of winter.

Market participants are uncertain about the market saying it is hard to predict how prices will move in 2019, with many unwilling to commit now to large purchases and sales for the next year.

Coal stockpiles in ARA in 2017-18

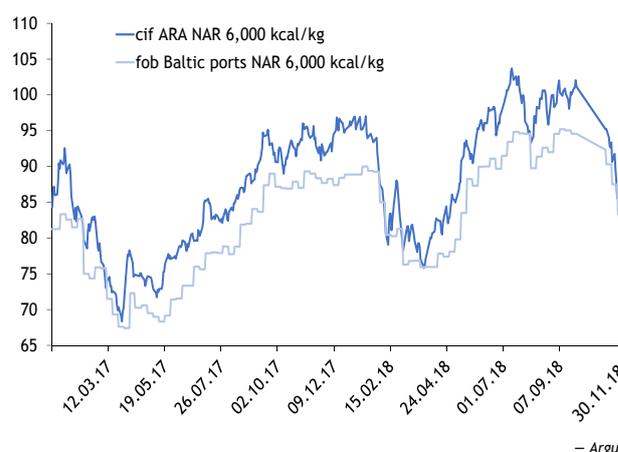
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– port data

Price dynamic in Europe

\$/t



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Russian coal export markets

Asia-Pacific market tightens

Spot prices for Russian thermal NAR 6,000 kcal/kg coal exported to Asia-Pacific declined to \$92.50/t on 30 November, falling below \$100/t at the end of November for first time since May (see graphs).

Prices in Asia-Pacific declined as Chinese authorities have limited coal imports. And Chinese coal production is on the rise this year owing to the development of advanced and most effective mines. Output in China rose by 8pc on the year, to 305.1mn t in October, which was the biggest year-on-year increase since July 2017, national bureau of statistics data show. Cumulative coal production in China reached 2.9bn t in January-October, up by 5.4pc from a year earlier.

But the Chinese government has asked major domestic coal producers and power utilities to enter into two-year coal supply contracts instead of one-year traditional contracts, which would limit spot supply supporting prices on the spot market.

Additionally, Russian producers face tough competition with Indonesian suppliers, which are often able to make much more attractive offers for Asian consumers. Russian exporters offered material at a discount to the fob Newcastle index but it was still less competitive compared with Indonesian coal.

Most of the reported deals for delivery to Asia-Pacific in July-October were for Taiwanese conglomerate formosa plastics' (FPG) utilities in Taiwan and Vietnam (see table). Russian firms have lost out in a number of recent FPG tenders to more competitive Indonesian offers. This has become particularly visible in FPG tenders for its power plants in Vietnam.

A Russian producer lost out to Indonesian origin material in a tender held by FPG on 19 November for its power plant in Vietnam. A 95,000t cargo of Indonesian coal was sold at \$80/t cif Phumy port on a GAR 5,900 kcal/kg basis and should be delivered in Handysize or Supramax vessels in January-February. The Russian offer was \$5/t higher on a cif basis.

In FPG's tender that closed on 12 November, Russian coal was undercut by an Indonesian supplier whose offer was \$3/t lower. The Indonesian supplier will be delivering three Handysize cargoes to Vietnam's Phumy port in January-February. The firm was seeking three 55,000t cargoes with minimum NAR 5,500 kcal/kg.

Similarly, at the start of November an Indonesian supplier was awarded an FPG tender to Vietnam, offering its material at around \$80/t on a cif basis for GAR 5,700 kcal/kg. Russian coal under the same tender was offered at a higher price.

Russian suppliers are offering their cargoes at a discount of around \$6/t to the index on a fob Vostochny basis in mid-November. While last year their offers were at a premium to the index.

Sliding from the top

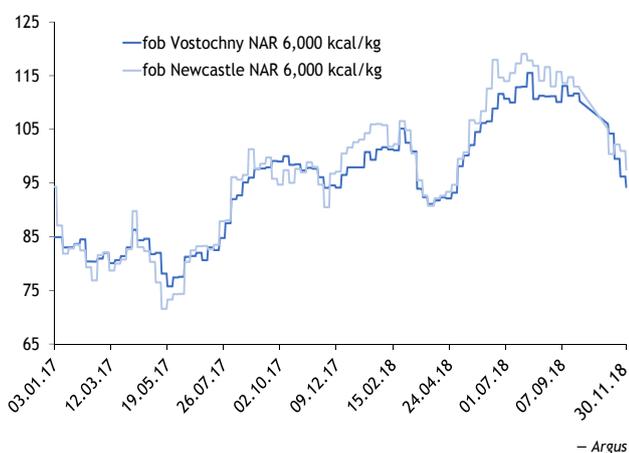
Russian coal values have started to decline after a remarkable rise in the middle of the year. The spot price of Russian NAR 6,000 kcal/kg coal on a fob Baltic basis rose by almost 11pc on the year to an average of \$87.24/t fob Baltic in January-November. And quotes of the same quality coal exported to Asia-Pacific rose by 19pc on the year to \$103.90/t fob Vostochny over the same period.

Similarly, fob Vostochny prices for NAR 5,500 kcal/kg, which Argus started to assess in February last year, rose by 14pc to \$84.17/t in January-November. Russian high-ash NAR 5,500 kcal/kg coal is exported to China and lower-ash coal is supplied normally to other counties in the region, including South Korea, Taiwan and Thailand.

Russian prices in the Black Sea region followed the same trajectory, rising by 10pc to \$89.39/t on a fob Black Sea NAR 6,000 kcal/kg basis in January-November, under Argus assessments that started to assess fob Black Sea values for Russian coal exports in February 2017.

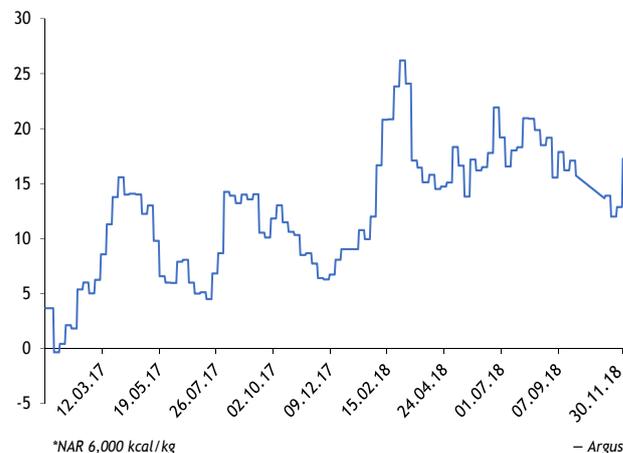
Price dynamic in Asia-Pacific

\$/t



fob Vostochny* premium over fob Baltic*

\$/t



*NAR 6,000 kcal/kg

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Russian coal export markets

July-November Russian trades					
Month	Destination	Volume	Calorific Value	Laycan	Price
July	Taiwan, FPG*	188,000t	NAR 5,500 kcal/kg	Sep-Oct	na
July	Taiwan, FPG*	Capesize	GAR 6,100 kcal/kg	25 Aug-10 Oct	\$100.50/t fob Vanino
July	Vietnam, FPG*	55,000t	min NAR 5,500 kcal/kg	Oct	\$107/t fob Vanino
July	Germany	Panamax	NAR 6,000 kcal/kg	Sep	\$102/t cif ARA
Aug	southern Europe	na	NAR 6,000 kcal/kg	na	\$87/t fob Black Sea
Aug	Turkey	na	NAR 6,000 kcal/kg	Sep	\$96-97/t fob Black Sea
Aug	Vietnam, FPG*	55,000t	min NAR 5,500 kcal/kg	Oct-Nov	plus \$4/t to fob Newcastle 6,000 kcal/kg
Aug	Taiwan, Ho-Ping Power	Panamax	NAR 6,000 kcal/kg	Oct	\$2.50/t discount to fob Newcastle 6,000 kcal/kg on fob Vostochny
Aug	Germany	na	NAR 6,000 kcal/kg	Oct-Mar	na
Sep	Taiwan, FPG*	40,000t	min NAR 5,750 kcal/kg	Sep-Nov	\$115/t cfr Taiwan
Sep	Taiwan, Ho-Ping Power	75,000t	NAR 6,000 kcal/kg	Nov	\$109.50/t fob Vanino
Sep	Turkey	10,000t	na	na	na
Sep	Taiwan, FPG*	150,000t	NAR 5,850 kcal/kg	Dec	\$6/t discount to fob Newcastle 6,000 kcal/kg on fob Vanino
Sep	Turkey, Medcem	120,000t	NAR 6,000 kcal/kg	Oct-Dec	\$104/t cif Turkey
Sep	Germany	400,000t	NAR 6,000 kcal/kg	Oct-Mar	na
Oct	South Korea	280,000t	NAR 6,080 kcal/kg	Dec 18-Jan 19	\$94-95/t fob far east ports
Nov	Taiwan, FPG*	110,000t	NAR 6,000 kcal/kg	Feb 19	\$90/t fob Vostochny

*Formosa Plastics Group

Argus Russian Coal

Features

- Spot price assessments for Russian coal on a fob Baltic Sea, fob Vostochny, fob Black Sea and cif Marmara basis;
- Netbacks on the key export routes, including transshipment rates at Russian ports and railway transport costs;
- Freight rates for bulk carriers used to ship coal to key destinations;
- Overview of the global coal market;
- Planned and actual data on railed export shipments to far eastern, Baltic, Black Sea and Azov Sea ports, as well as to land border crossings;
- Coal export volumes including transshipment at ports;
- Data on coal mining in Russia and Kazakhstan, analytical reviews and news;
- Regular reports on port terminals used for export shipments of Russian coal;
- Data on the coal transit, import and export through Ukrainian state ports

Our advantages

- A transparent methodology for coal pricing and calculation of netbacks with a detailed breakdown;
- Data on procurement tenders and transactions;
- Market analysis and updates on the global coal supply and demand balance;
- Exclusive news including data on port capacities and infrastructure projects;
- An archive of prices and volumes since 2007.

Target audience

The publication is intended for exporters and importers of Russian coal, mining companies, industrial consumers, trading firms, analysts as well as tax authorities and investment companies.

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