

# Coal Market at a Glance – July 2008

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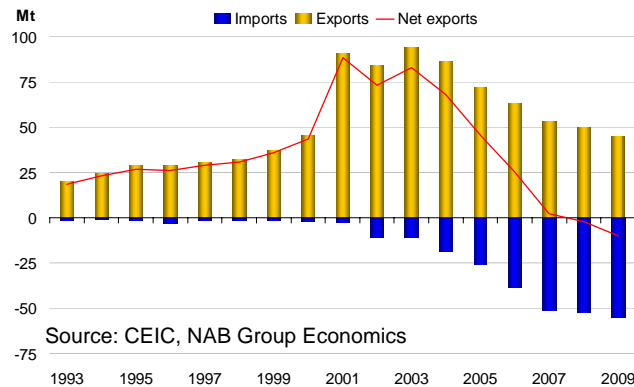
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## Summary – all eyes on China as the pressures on suppliers mount

- Coal demand has risen strongly in recent years – in line with other energy commodities. China's industrialisation has been the key driver of the increase in coal demand – leading to a sharp decline in the country's coal exports.
- Lower exports from China has increased the pressure on other Asia-Pacific producers – with Indonesia receiving the greatest benefit – receiving higher prices while increasing volumes. In contrast, Australian coal exports have remained relatively constrained by infrastructure issues.
- In a such a tight climate of supply and demand, there seems to be limited downside risk to coal prices. Prices for alternative energy sources have also risen – such as oil and natural gas. With no let up in steel production in China, demand for steel making coking coal will also remain firm.
- As a result, our expectations are for a moderate decline in contract prices – down 10 per cent for metallurgical coal and 5 per cent for thermal coal – largely on the expectations for slowing declines in China's net export position and moderate export growth from Australia. That said, should coal supplies remain constrained, there is potential for further price rises.

Demand for energy commodities has risen strongly in recent years – contributing to rising prices for oil, natural gas, coal and uranium. In addition, growth in steel manufacturing in China has contributed to the rising demand for higher quality metallurgical coal.

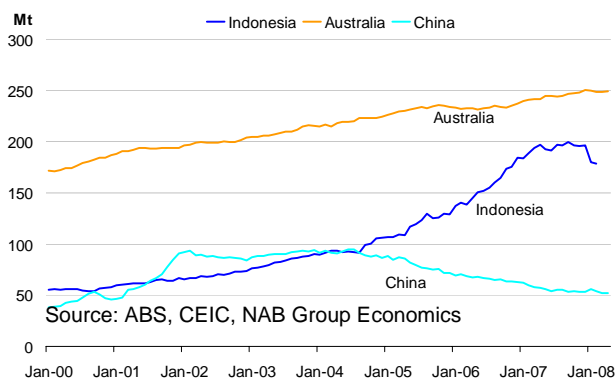
### China's sagging net exports have built pressure on global coal markets...



China's growing domestic coal demand has had a major impact on global coal markets. Since the country's coal exports peaked in 2003, net exports have fallen rapidly, increasing the pressure on other suppliers in the Asia-Pacific region – most notably Australia and Indonesia. In 2007, China was barely a net exporter – at around 2 million tonnes – having effectively withdrawn 81 million tonnes off global markets over four years.

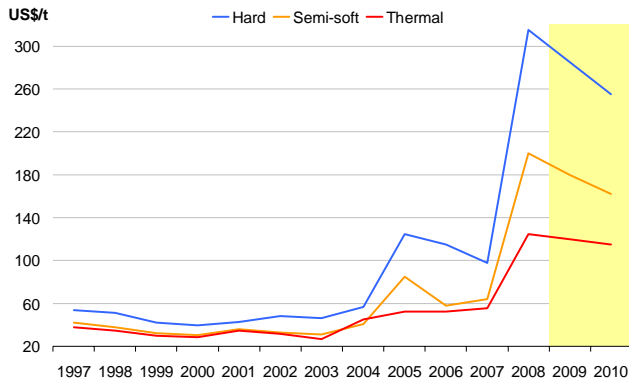
With China's energy demands continuing to rise, the prospects for a reversal of this trend are unlikely; however we expect the rate of decline in net exports to slow. In the first four months of 2008, China's imports and exports of coal were essentially balanced and we expect the country to be a modest net importer this year.

### ...while supplies have remained constrained by infrastructure...



Indonesian producers have benefited most strongly from China's export withdrawal. Indonesia's exports have increased sharply since 2005, coinciding with rising spot and contract prices. That said, annualised exports have slowed in early 2008, due in part to weather related restrictions. Longer term, growing domestic demand is likely to curtail the country's export growth potential.

Australian coal producers have suffered from infrastructure constraints in both New South Wales and Queensland. Despite substantial investment in port and rail capacity, infrastructure has not risen sufficiently to meet the growing demand – particularly as traditional consumers of Chinese coal have searched for alternative volumes.

**...which will maintain high coal prices for the foreseeable future**

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As a result, our expectations are for a moderate decline in contract prices – down 10 per cent for metallurgical coal and 5 per cent for thermal coal – largely on the expectations for slowing declines in China's net export position and moderate export growth from Australia. That said, should coal supplies remain constrained, there is potential for further price rises.

Source: ABARE, NAB Group Economics

**Contract price outlook**

US\$/t	2004	2005	2006	2007	2008	2009	2010
Thermal	45.00	52.50	52.50	55.65	125.00	120.00	115.00
Soft coking	41.00	85.00	58.00	63.90	200.00	180.00	162.00
Hard coking	57.00	125.00	115.00	98.00	315.00	285.00	255.00

Source: ABARE, NAB Group Economics