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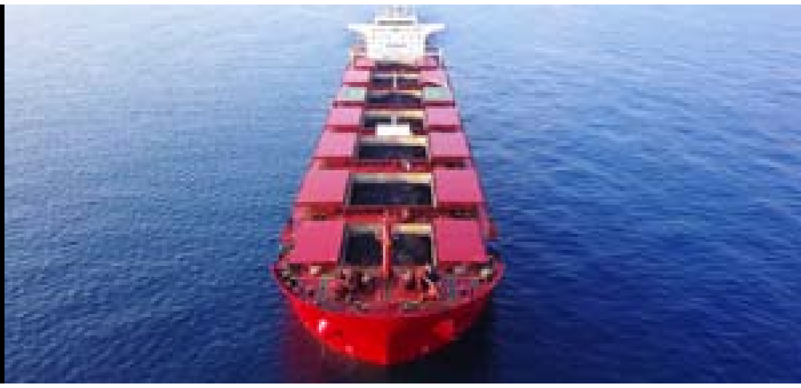
Argus White Paper:

Seaborne coking coal market in first-half 2022



The premium hard low-volatile fob Australia coking coal price rose to $664/t on 15 March, the highest price in the history of Argus assessments, spurred by panic buying following the start of the Russia-Ukraine conflict on 24 February. Ongoing economic weakness, the retention of strict Covid-19 policies and steel output cuts have dampened Chinese import demand, paving the way for a record premium of more than $230/t for the fob Australia premium low-volatile index over the China cfr index in early March.

Key takeaways

Spot market trade flows

- Wet weather and Covid-19 absenteeism weighed on Australia exports
- Increased Russian availability and lower Chinese import demand hurt demand for Atlantic coals
- Spot trade liquidity plummets for Tier 1, Tier 2, semi-soft coking coals and pulverised coal injection (PCI)

Spot market price trends

- Fob Australia Tier 1 index surges to new record at $664/t
- Fob PCI index soars to historic high, almost $600/t
- Fob Australia Tier 1 index losses of 15pc, while cfr China Tier 1 gains of 16pc
- PMV trades double while PLV trades halve

Fob spot trade recovers above 1.5mn t since 3Q21

- Fob Tier 1 spot transactions fell marginally in the first quarter but rebounded in the second quarter to 1.7mn t.
- There were 14 and 28 fob Tier 1 transactions in the first and second quarters, respectively, a steady increase from the fourth quarter.
- Fob Tier 2 spot trade remained absent in the first half, with 2Q22 marking the third consecutive quarter without a fob Tier 2 trade.
- Fob Australia Tier 1 spot price rose to a record high of $664/t on 15 March and finished mid-year at $303.50/t, down by $51.50/t, or 15pc, from the start of this year.

Coal

illuminating the markets®

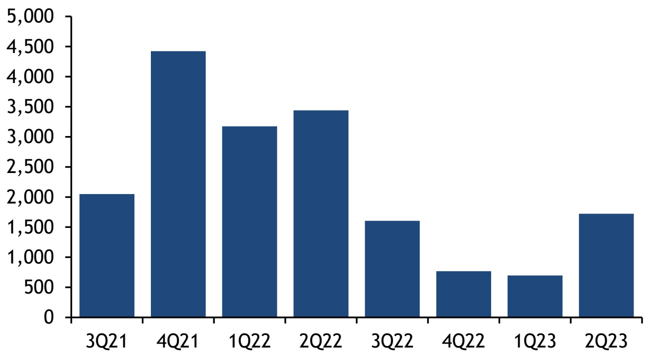
Fob Australia premium rises to record

The Argus fob Australia premium low-volatile (PLV) hard coking coal index rose to a record premium of more than $230/t above the cfr China index for the first time in early March following Russia's invasion of Ukraine on 24 February.

The last time a wide price gap emerged was in early 2017 when Cyclone Debbie sent fob prices soaring to a premium of nearly $90/t. But the fob index flipped back to a discount to cfr China prices at the end of the first half of 2022 amid waning demand in the ex-China markets.

The Argus fob Australia PLV hard coking coal index soared by 87pc to a historical high of $664/t in mid-March on strong demand and limited spot availability. Supply disruptions on account of wet weather and Covid-19-related absenteeism weighed on exports from top producer Australia. Market uncertainty was deepened with Russia's invasion of Ukraine and the extension of the La Nina weather pattern through to May. But a global steel market slowdown weighed heavily on fob prices in the second quarter as buyers held back, sitting on sufficient inventories. Australian coking coal prices eventually reached a 10-month low of $303.50/t fob at the end of June.

Fob Australia Tier 1 spot trade volumes mn t

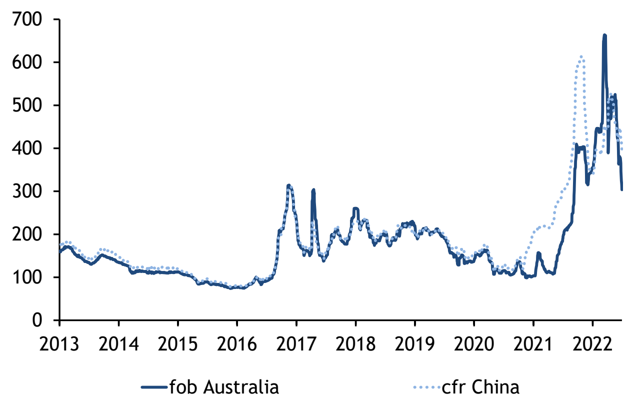


Australian supply woes persist

Australian metallurgical coal exports in January-June fell by 5.5pc from a year earlier, driven by a 6.3pc decline in shipments of hard coking coal, according to Australian Bureau of Statistics trade data. Australian hard coking coal shipments in 2021 fell to their lowest since 2017. Shipments of semi-soft and PCI material in the first half of 2022 fell by 4.2pc.

Coking coal suppliers struggled to assemble shipments as Covid-19-related absenteeism and tight labour markets challenged operations and supply chains. Heavy rainfall and flooding affected shipments for several months, with Queensland shipments in April recording their lowest level since February 2019. Weather-related supply constraints are likely to persist for the rest of this year. The Australian Bureau of Meteorology declared a third consecutive La Nina event, raising the likelihood of increased rainfall in eastern Australia during October-November.

Premium low-vol hard coking coal indexes $/t

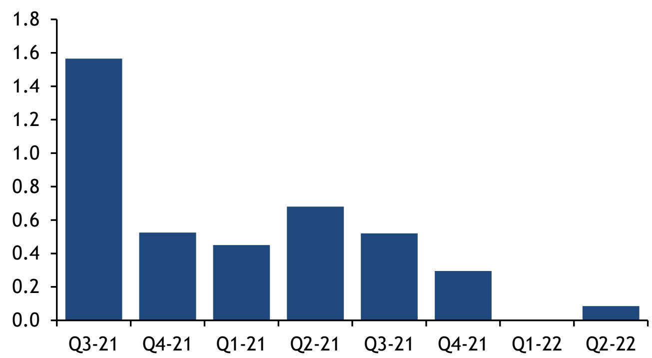


Cfr China price peaked in mid-April before easing

Chinese premium hard coking coal import prices strengthened each month in tandem with a rising domestic market to hit a peak of $525.85/t cfr in mid-April. Steel output failed to pick up after the traditional peak construction season commenced in April following the end of the winter heating season. But renewed outbreaks of Covid-19 dealt a heavy blow to steel demand. Frequent lockdowns in major east and north Chinese cities slowed activity in the steel sector, pushing prices down by 24pc from its peak to $397.40/t by end June. Lockdowns in the steel production hub of Tangshan crippled blast furnace operations and logistics, while Shanghai was placed under lockdown for most of the second quarter.

China reduced its crude steel production in January-June by 6.5pc from the same period of 2021 to 526.9mn t. The top five steel-producing provinces produced 282.4mn t steel in the first half of this year, down by 7.86pc from the same period last year. Buying activity from China decreased in the second quarter compared with the first quarter, as deteriorating steel margins pushed several steel mills to bring forward maintenance plans and reduce production levels.

Cfr China Tier 1 spot trade volumes mn t



China import trade halts in 1Q22

- Cfr China Tier 1 spot trade volumes plunged to a historic low without any trades in the first quarter, as the Chinese market was weighed down by Covid-19-related lockdowns and poor steel demand.
- The only cfr China Tier 1 transaction in the second quarter was from a Canadian producer to a Chinese trading company.
- The cfr China Tier 1 spot price rose by $53.40/t, or 16pc, to $397.40/t in the first half of this year.

Russian-Ukraine crisis

The onset of the Russian-Ukraine conflict on 24 February drove a spate of panic buying among European mills traditionally reliant on Russian PCI and coals. But demand soon dissipated as shipping routes and market expectations adjusted to the new risk profile of Russian suppliers and European buyers focused on ramping up term contracted imports ahead of the 10 August ban on Russian coal in the EU.

Russian suppliers turned their attention to Chinese and Indian buyers with their spot offerings, but trade was slow to pick up in the first 2-3 months as market participants navigated the initial challenges of increased scrutiny from financial institutions on transactions with Russian companies. Still, the increased Chinese consumption of Russian coal, coupled with reduced steel output in China, weighed on spot liquidity in Atlantic coals.

Russia dominates Chinese imports

Russia became China's largest source of imports in the first half of this year, at 8.45mn t, accounting for 45.4pc of the country's total seaborne imports in the same period, compared with a 31.6pc share a year earlier. Increasing sanctions being imposed on Russia in the wake of the conflict pushed Russian suppliers to ramp up sales into China. Russian cargoes were delivered at such steep discounts that buyers were willing to take the risks involved in dealing with coal of this origin – around logistics and payments, in particular. Chinese consumers boosted Russian imports in order to compensate for the drop in north American and Mongolian supplies. Persistent rail transportation woes limited US coking coal exports, bringing China's January-June imports of US supply down by 26pc to 2.87mn t.

Imports from Mongolia in this same period fell by 10pc on the year to 7.49mn t as Covid-19-related regulations restricted transport over the China-Mongolia border. The largest export border post, Ganqimaodu, recorded an average of 116 daily coal truck crossings in the first quarter, nearly a third of the 347 reported a year earlier, according to Chinese market sources. The number of daily truck crossings increased to an average of 422 in June following the easing of Covid-19-related restrictions at the start of that month.

China's total coking coal imports from January-June increased by 17pc on the year to 26.07mn t, according to Chinese customs data. Arrivals of Russian coking coal into China also benefited from zero import tariffs since 1 May 2022. Before the military operation in Ukraine, Russia aimed to sign an agreement to export 100mn t of coal to China, in a bid to take advantage of firm Asia-Pacific demand.

Seaborne spot sales into China hit record lows

Spot liquidity stalled in the cfr China market, with only five Tier 1 and two cargoes reported over the January-June period. Four out of the five trades were done on a fixed-price basis. Trade flows shifted as US and Canadian suppliers took advantage of record low coking coal prices in the ex-China region. Supply uncertainties in the first quarter pushed buyers in major markets such as Europe, Japan and India to seek alternatives to Russian coal. Chinese buyers were put off by the long lead time of US and Canadian spot shipments and turned to competitively priced Russia-origin coal.

China coking coal imports

Origin	Jun-2022	Jun-2021	± %	Jan-Jun 2022	Jan-Jun 2021	± %
Australia	0	0	n/a	2003	0	n/a
Russia	1,697	1,159	46	8,447	4,406	92
Canada	685	888	-23	3,865	4,028	-4
US	79	938	-92	2,870	3,870	-26
Other	243	303	-20	1,390	1,633	-15
Seaborne total	2,703	3,288	-18	18,573	13,937	33
Mongolia	2,280	846	169	7,491	8,346	-10
Total	4,983	4,134	21	26,065	22,283	17

— China customs

Chinese mills also ran down on stockpiles of pre-ban Australian cargoes released at Chinese ports since last October. The gradual release of these stranded cargoes mostly completed by March this year led to 2mn t of Australian imports, accounting for 10.8pc of total seaborne import volume in the first half of this year. The unofficial ban on Australian coal imports remains in place.

1H22 met coal spot sales to China (cfr and fob basis)

Brand	Origin	Volume
Buchanan	US	270,000
Conuma	Canada	85,000
Standard	Canada	85,000
Raven	Canada	85,000
Total		525,000

First-half 2022 spot trades fall to new low

- Asia-Pacific spot met coal trade volumes fell to 740,000t in the first quarter, the lowest level since 2017, but rebounded to 1.9mn t in the second quarter across all categories.
- First-half trade volumes at 2.6mn t fell by 26pc from the second half of 2021 and by almost two-thirds from a year earlier.
- Argus observed 45 spot deals in Asia-Pacific trade for Tier 1, Tier 2, semi-soft coking coals and pulverised coal injection (PCI) in the first half, down from 54 in July-December 2021 and 130 a year earlier.
- Cfr China trade remained at low levels as a result of the ban on Australian coal, with only one Tier 1 trade in the first half, compared with 10 in the second half of 2021 and 15 a year earlier.
- Fob basis Tier 1 deals increased to 42 in the first half from 38 in the second half of 2021, but fell from 95 a year earlier.
- The only PCI deal reported in the first half hit an all-time high of $645/t fob on 14 March. No semi-soft deals were reported.

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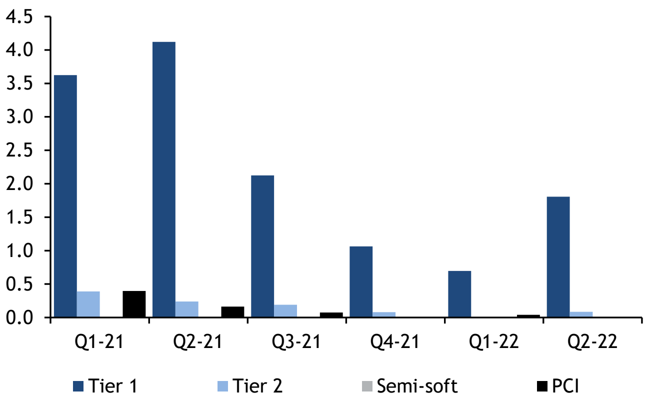
Index volatility

The further slowdown in China cfr trade in the first half of 2022 continued to thin liquidity in the spot market, leading to a smaller pool of deals determining spot prices in the first half. In the fob Australia market, significant discrepancies in screen trades on two occasions in May were cause for confusion and uncertainty among market participants.

Asia-Pacific met coal spot trade volume mn t



On 5 May, two cargoes traded at $142/t apart on two different platforms. A combined shipment for low-volatile Peak Downs and mid-volatile Peak Downs North coal traded at $378/t fob, facilitated by the Market-On-Close process run by Platts, a competitor to Argus, while a deal for Peak Downs concluded at $520/t fob on globalCOAL.

On 25 May, when an international trading firm bought a June-loading Illawarra on globalCOAL at $475/t fob and in the same day, the trading firm sold a July-loading Peak Downs on screen at $520/t fob, market participants struggled to make sense of the number.

PCI premiums

PCI prices started to gain on PLV coal in the first half of this year, particularly as European, Japanese and South Korean mills looked to diversify away from Russian producers. The surge in thermal coal prices – also linked to the exit of Russian suppliers in the European market – where the 6,000 kcal NAR fob Newcastle coal price reached a high of $425.90/t on 20 May, further buoyed PCI prices.

Supply tightness in Australia lent an additional boost to PCI prices in the first half. But by the end of June, with European buyers still focused largely on securing term PCI volumes from Russia, a gap in price expectations started to emerge between buyers and Australian suppliers. Chinese and Indian buyers, in the meantime, benefited from competitive Russian PCI offers.

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