Met coal H1 2018 spot trade review

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Met coal prices soften amid lower trade flow in H1 2018

The volume of seaborne metallurgical coal spot trades into the Asia-Pacific region has fallen 27.2% year on year to 25.4 million mt in the first six months of 2018, led by a series of environmental related issues in China.

S&P Global Platts recorded a total of 345 spot transactions in Asia-Pacific for met coal, comprising premium, second-tier, semi-hard and semi-soft coking coal and pulverized coal injection coal — used for steelmaking — over January-June.

In H1 2018, premium hard coking coal (PHCC) accounted for 55% of the total Asia-Pacific spot trades, followed by PCI at 18%, tier-two HCC at 17%, semi-hard and semi-soft coal at 6% and 4% respectively (See figure 4).

The year 2018 started with a steep decline in PHCC prices, as concerns over the weather in Australia’s Queensland eases, in addition to an improvement in supply of coking coal. This resulted in the narrowing of the spread between PHCC and HCC prices, which was later relatively consistent through H1 2018.

Across all segments, prices hit a low in late April, after concerns over cyclones in Australia waned. Further downward pressure on PHCC and tier-two coking coal came from increased spot offers as miners sought to sell their cargoes ahead of the end of the Australian fiscal year in June.

However, throughout H1 2018, PCI and semi-soft prices remained relatively stable despite volatile coking coal prices. Tight spot availability had underpinned PCI prices, while semi-soft prices were supported by strong thermal coal prices.

In Australia, concerns over Aurizon's dispute with local authorities in the form of the Queensland Competition Act had first surfaced in February, with Aurizon threatening to take out 20 million mt of coal from the railing system.
Market participants adopted a wait-and-see approach, and prices did not react negatively to the news.

In the PHCC segment, BMA has maintained its firm grip with 78% of its coal traded in this segment, up 21% year on year. This was largely due to Teck’s absence in the Chinese spot market as it looked to diversify its demand centers. The absence of Canadian coal was also reflected in Chinese coking coal customs data where imports slipped 38% year on year to 350,000 mt in Q1 2018. (Detailed data showing a breakdown of China’s coking coal imports by countries had been discontinued in April 2018)

Anglo American and Rio Tinto came in second and third respectively, with 7% and 6% of the PHCC market share.

### Spot trade data analysis

The decline in the number of spot trades during H1 2018 was largely due to the fall in spot liquidity of HCC. Another factor was China’s import appetite for seaborne coking coal as ad hoc production cuts and checks have left steelmakers taking a hand-to-mouth approach.

### PREMIUM HARD COKING COAL (PHCC)

In H1 2018, traded volume for PHCC fell 10% year on year to 14 million mt. (See Figure 1)

Traders remained active in the PHCC and tier-two HCC segments as prices were volatile, with more miner-to-trader spot trade activity captured as compared to H1 2017, rising 7% year on year to account for 30% of all PHCC and HCC trades.

Of the PHCC and HCC trades, 51% were done to end-users, down 7% year on year. End-users also continued to increase spot sales participation by 1% to 4.5% in H1 2018, compared with 3.5% in the same period last year.

### PRICE RATIO BETWEEN PHCC AND HCC

The price ratio of premium coal to tier-two HCC averaged at around 88% during H1 2018, down four percentage points compared with the same period in 2017. The narrower price spread stemmed from relatively stronger tier-two HCC on the back of supply tightness and demand for low ash and low sulfur coal.

HCC traded volume slipped 47% year on year to 4.3 million mt in H1 2018. The decline was driven by tight supply of tier-two HCC cargoes due to railing capacity constraints in Queensland. Of the tier-two HCC trades, 55% were sold to end-users and 37% to traders.

In the tier-two HCC segment, Jellinbah’s Lake Vermont came in top, accounting for 30% in H1 2018 volume, down 5% from the same period in 2017.

Coronado’s Buchanan came in second, capturing 23% of the tier-two HCC market share, up 3% year on year compared to the same period in 2017. This was due to favorable US pricing and Chinese steelmakers seeking low ash coal. But this trend soon disappeared as the trade war escalated between the US and China, with China slapping an additional 25% import tariff on US coking coal in August.
PULVERIZED COAL INJECTION (PCI)

PCI spot trade volume fell 23% year on year to 4.6 million mt in H1 2018. The price ratio between low vol PCI and PLV had averaged at 69% in H1 2018, compared with 66% in the same period last year. PCI prices have seen lower volatility in H1 2018 with supply coming under pressure.

FIG 8: H1-18 HCC GLOBAL VOLUMES BY PRODUCERS

In the PCI segment, BMA, Yancoal and Peabody retained their top three positions in H1 2018, a situation similar to the same period in 2017. BMA captured 38% of the PCI market share, followed by Yancoal at 25% and Peabody at 22%.

SEMI-SOFT AND SEMI-HARD

Combined traded volume of semi-soft and semi-hard fell 51.6% year on year to 2.5 million mt in H1 2018. Semi-soft saw a relatively resilient first half of the year as thermal coal prices were continuously supported during seasonal demand, which saw miners continue to prioritize sales of thermal coal over semi-soft. Though traded volume of semi-hard fell in H1 2018, prices gained traction in the absence of tier-two HCC coal, which were often traded at a good relativity to tier-two HCC coals as buyers prized it for its low ash content. For instance, Poitrel semi-hard traded at an average of 93% of HCC 64 Mid Vol CFR China for the period over May-June, as tier-two supply became evidently tight. This compares to 90% during May-June 2017.

Platts spot trade data: A showcase in China

Using Platts observed spot trade data going back to January 2016, it demonstrates a generally positive correlation with that of the official China custom reporting. The statistical correlations of the data between Platts and China custom reporting were consistently positive near 60%. Although not perfect for forecasting, the Platts spot trade data makes it statistically possible for the market to stay ahead of the curve, to gauge a forward trend by approximately two months.

FIG 9: SPOT TRADE DATA: TWO-MONTH LEADING INDICATION

The above graph showcases Platts spot trade data being a leading indicator to the Chinese official reporting, with a two-month time shift considered. This is due to the deals observed typically requiring a two-month lead time for the physical cargo to arrive at the Chinese ports. For the first half of 2018, Platts observed 14 million mt equivalent of met coal trade to China, 33% of China custom’s total reporting of 43 million mt. Between January 2016 and August 2018, Platts observed a total 63 million mt of met coal deals into China, 37% of China custom’s total reporting of 172 million mt.

While Platts observation of spot trade data captured approximately one-third of China customs data, coking coal demand from major Chinese steelmakers, both state-owned and private mills are covered by long-term contracts not captured in Platts spot trade data.