Medium Term Coal Market Report 2016

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Coal markets: recent developments

- Global coal demand declined in 2015 for the first time in this century
  - Coal demand drop in China and US in 2015 was unprecedented

- China’s coal demand declined in 2015 for the second year in a row
  - Last time this happened was 1981. Economic restructuring and energy diversification underpinned such decline

- International coal trade shrank in 2015 for the first time in 20 years
  - There is none to offset declines in Europe, India and especially China

- India, Australia and Russia increased production significantly in 2015
  - Despite low prices, cost reduction in Australia and Russia, and increasing demand in India were drivers for production ramp up

- Coal prices ramped up in 2016 to unexpected levels one year ago
  - Chinese supply side policy changes was the main driver, exacerbated by disruption in Australia and other places
The shift of coal to Asia is accelerating

- Coal consumption has decreased in North America and Europe while increasing strongly in Asia
- The coal world is becoming completely asymmetrical
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The coal world is becoming completely asymmetrical.
Coking coal prices: déjà vu?

- The 2010 spike was caused by floods in Queensland
- The 2016 rally comes with policy changes in China, exacerbated by some disruptions
Prices increased for all types of coal

*Thermal coal prices doubled mostly pushed by Chinese supply cut, but some disruptions also contributed*
Does China set the global prices?

The large arbitrage in the southern import ports between domestic and imported coal is key to determines prices – in China and elsewhere.
Global coal demand: from growth to plateau

- Largest growth will be in India and ASEAN region
- Largest decline will be in US and Europe
- Largest uncertainty is China
Coal consumption in China in the future: a flat trajectory

Rebalancing of the economy and the increasing share of generation from hydro, nuclear and other renewables flatten the projection
Who is hitting US coal?

- Coal power generation has largely been replaced by gas generation
- But energy efficiency and wind were also significant
A farewell to coal in Europe?

Belgium was the last European country ending coal generation

But for others, things are far more complex
China: giving access to electricity

After successful electrification at home, Chinese companies are building new coal-fired power plants in numerous countries.
Coal trade forecast: all eyes on China and India

- Coal trade is forecast to recover by the end of the outlook period.
- Imports to China and India will remain volatile and hard to predict.
Despite concrete progress on CCS, only 0.06% of coal-based CO2 emissions are captured

Strong action from governments is urgently needed
Coal markets: the outlook

- Global demand growth to stall in the next coming years
  - With decline in Europe and US almost offsetting increase in India and ASEAN region, China will determine the global trends

- In China, coal demand is in structural and slow decline driven by a new economic growth model and diversification from coal
  - However, dependence on coal of China will remain and demand in 2021 is forecast higher than in 2015

- Coal trade contracts, but recovers at the end of the outlook period
  - Viet Nam, Malaysia, Pakistan, Philippines, Morocco and other importers add up to increase coal trade

- Coal prices have strongly rebounded up in 2016. As a result, the coal industry has found some relief
  - Looking ahead, low costs, slugging demand and structural oversupply in China do not support high prices

- Despite concrete progress, CCS development requires stronger support and commitment by governments
  - Without CCS deployment, coal’s future is seriously challenged, but also our climate targets