Medium-term Coal Market Report 2011

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Brussels, 25 January 2012
The context

- Uncertainties will fundamentally shape the medium-term outlook for coal including:
  - Economy activity and demand
  - Chinese growth and trade policies
  - Supply shocks - Australian floods

- Longer-term structural changes associated with the nature and rate of decarbonisation
Coal was king over the last decade

Growth in global energy demand, 2000-2010

Source: IEA World Energy Outlook 2011
World coal demand will continue to grow until 2016

- Coal demand is expected to grow at around 600,000 tonnes a day to 2016
Power dominates coal use, especially in OECD

Industry is the second largest use, with steel as the main consumer.
Increase in coal supply concentrates in China

Note that the graph only refers to the high Chinese production (HPS) scenario.
Mining costs increasing moderately

Source: IEA Clean Coal Centre analysis based on data from Marston Associates, McCloskey, IEA Analysis.
Costs at destination declined due to lower freights

Source: IEA Clean Coal Centre analysis based on data from Marston Associates, McCloskey, IEA Analysis.
Prices on the rise since 2009

USD/t (6000kcal/kg)

Richards Bay (FOB)  MCIS NWE steam coal marker (CIF)  Quinhuaingdao (FOB)

Source: McCloskey.
Are steam and coking coal prices decoupling?

Note: Index derived from imported prices in OECD countries (in nominal USD).
Coal trade increases, but most production remains to be consumed locally

Seaborne hard coal trade

- **Hard coal**
- **Hard coal HPS**
- **Coking**
- **Coking LPS**
- **Coking HPS**
- **Thermal**
- **Thermal LPS**
- **Thermal HPS**
- **Hard coal LPS**
Importers continue to rely on existing major exporters

High Production Scenario. Steam coal exports outlook Low Production Scenario

Indonesia and Australia will continue to be the main suppliers of steam coal US, as high cost supplier and swing exporter, is most affected by Chinese imports
Global coal trade impacted by China production assumptions

-150
-100
-50
0
50
100
2012
2014
2016
USA
Australia
Indonesia
Canada
Russia
South Africa
India
Other
China

higher in "low Chinese production scenario"
lower in "low Chinese production scenario"
Uncertainty of imports from major users drives price volatility and investment risk

Monthly imports to China from different origins show the high volatility of Chinese purchases
As can very high utilization of export infrastructure

Among the big exporters, only US and Australia provides market with significant spare capacity
Plentyful bulk freight capacity continues

Source: Barry Rogliano Salles, DnB NOR; IEA analysis
Outlook for global export capacity utilisation for seaborne hard coal trade until 2016

- Installed mine capacity
- Probable mine expansions
- Potential mine expansions
- Port handling capacity
- Historic exports
- China low production exports
- China high production exports

Mtpa


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KEY MESSAGES

- Coal demand will make a substantial contribution to the global energy mix to 2016
- Key economic uncertainties will largely shape global coal supply, demand, investment and trade over the period
- Coal demand and trade is projected to grow over the next 5 years, although more slowly than in the last decade
- China will continue to dominate global coal consumption and trade outcomes, with Indian influence growing
- Investments in supply capacity and handling infrastructure should be sufficient to meet incremental demand growth over the outlook period
- However, delays and cancelation of projects as well as weather-related events may tighten the market occasionally
Thanks for your attention