



EURACOAL Market Report 2/2009

July 2009

WORLD MARKET

For the first time in many years, the World market for hard coal fell by some 8 % during the first quarter 2009.

WORLD COAL TRADE

	2009 (1-3)	2008 (1-3)	Difference
Mt=t			
Steam coal	140.1	140.7	- 0.6
Coking coal	29.9	42.6	- 12.7
Total	170.0	183.3	- 13.3

1. STEAM COAL (see Table 2)

Nevertheless, markets behaved differently: whilst the Atlantic steam coal market decreased exports, the Pacific market increased slightly.

b) Pacific Market

The Pacific market increased by only 2.2 Mt with Australia being the only exporter, increasing sales (+ 6.7 Mt). China (- 2.6 Mt) and Indonesia (- 2.0 Mt) bore the main decreases.

	2009 (1-3)	2008 (1-3)	Difference
Exporting countries			
Mt=t			
Australia	36.1	29.4	+ 6.7
China	7.1	9.7	- 2.6
Indonesia	35.0	37.0	- 2.0
Vietnam	6.0	6.4	- 0.4
Others	2.0	1.5	+ 0.5
Total	86.2	84.0	+ 2.2

b) Atlantic Market supply

On the Atlantic market, only South Africa (+ 1.3 Mt) and Russia (+ 0.4 Mt) could increase exports. The total Atlantic market shrunk by 2.8 Mt.

	2009 (1-3)	2008 (1-3)	Difference
Exporting countries	Mt=t		
Colombia	15.5	17.6	- 2.1
Russia	20.4	20.0	+ 0.4
South Africa	14.6	13.3	+ 1.3
Venezuela	0.4	1.5	- 1.1
USA	2.0	3.3	-1.3
Others	1.0	1.0	0
Total	53.9	56.7	- 2.8

2. COKING COAL SUPPLY (see Table 3)

The coking coal market felt the burden of the economic crisis and dropped by 30 % during the first quarter 2009. China became a net importer for coking coal. Australia exported 8.1 Mt less than during the first quarter 2008 and the US and Canada also recorded an export decrease. The total coking coal market is expected to decrease by some 40 to 50 Mt for the entire year 2009.

	2009 (1-3)	2008 (1-3)	Difference
Exporting countries	Mt=t		
Australia	21.5	29.6	- 8.1
Canada	2.3	4.4	- 2.1
China	0.2	0.5	- 0.3
Russia	0.5	1.0	- 0.5
USA	5.4	7.1	- 1.7
Total	29.9	42.6	- 12.7

4. PRICE EVOLUTION (see Table 1)

a) Steam Coal Prices

The steam coal prices fob South Africa are currently around 60 US\$/t, even though the demand on the Atlantic market stays weak.

	March 2008	August 2008	December 2008	March 2009
US\$/tce	170.00	219.00	90.00	68.00
€/tce	110.00	146.00	67.00	52.00

b) Coking Coal and Coke Prices

Contract prices for coking coal which also reached historic peaks during the 2008 summer are now coming back to normal and the negotiated prices for 2009/2010 are expected to be low. Hard coking coal is currently contracted at 120-125 US\$/t, semi-soft coking coal at 80-90 US\$/t and low-volatile PCI coal at 75-80 US\$/t.

A special situation was observed in China, who became for the first time a net importer. The reason was that for the steel and electricity industries, located near the harbours, it was cheaper to import coal because international coking coal prices are currently lower than Chinese coking coal prices.

The Chinese coke market totally collapsed; in April 2009 there were only some 20.000 t of coke exported. After the very high coke prices in summer 2008 the prices collapsed in winter 2008 but are currently again picking up slowly. In March 2009 the coke price fob-China was 420 US\$/t.

2005 / 2006	125 US\$/t fob
2006 / 2007	115 US\$/t fob
2007 / 2008	95 US\$/t fob
2008 / 2009	300 US\$/t fob

5. FREIGHT RATES

The extremely high freight rates Richards Bay-Rotterdam during the 2008 summer came down to 5 US\$/t in December and are currently being negotiated at 17 to 18 US\$/t. Due to the increasing shipping capacities worldwide, prices are expected to stay low. At the beginning of May, the freight rates Richards Bay-ARA nevertheless started to increase above the very low levels seen earlier in the year.

EUROPEAN MARKET

1. EUROPEAN COAL INDUSTRY

	2009 (1-3)	2008 (1-3)
	Mt = t	Mt = t
Domestic hard coal production	34.5	38.4
Hard coal imports**	50.5	54.9
Lignite production	106.7	103.3
Total	191.7	196.6

** including coke

2. HARD COAL

	2009 (1-3)	2008 (1-3)
	Mt = t	Mt = t
Bulgaria	0.60	0.73
Czech Republic	3.24	3.68
Germany	3.67	5.51
Poland	19.78	21.39
Romania	0.54	0.73
Spain	2.52	2.66
United Kingdom	4.10	3.73
Total	34.45	38.43

POLAND

Due to the collapse of the steel industry, coke demand dropped by some 30 % on the home market. The demand from Germany and France as well was considerably lower or even cancelled for 2009. The industry nevertheless expects improvements of demand in the second half/end of 2010. Coke production should then even increase again in the following years:

COKE	2009	2010	2011	2012	2017
Production capacity	12.17 Mt	12.45 Mt	12.15 Mt	12.27 Mt	13.14 Mt

GERMANY

The longer-term future of German hard coal depends now, as in the past, on political decisions. According to a legal guideline, the German Bundestag will check before 2012 if the decision to close down in the year 2018 is to be reviewed again or not; this will be determined mainly by the outcome of the Bundestag elections in September 2009. While the Social Democrats and the trade unions together with some of the Christian Democrats are in favour of maintaining a minimum level of indigenous coal production, large numbers of Christian Democrats, Liberals and also Greens in Germany see little reason to go back on the decision to close down.

UNITED KINGDOM

The UK Government made its long-awaited policy announcement on new coal build: any new coal stations must have at least one unit fitted with CCS and the remaining units must be 'carbon capture ready'. The Government will provide financial support for up to four such CCS projects. A consultation on the financial support mechanism was published in June 2009.

Output is now increasing for the first time in many years. There was an increase for the year 2008 compared with 2007 which came from surface mines. The ongoing increase during the first quarter of 2009 includes an increase from deep mines also. There continues to be an encouraging trend in surface mine planning permissions. The potential reopening of

Harworth Colliery would cost some £200m, but sourcing finance for this in the current climate is proving difficult.

CZECH REPUBLIC

The situation in the Czech hard coal industry is strongly influenced by lower demand for coal suitable for coking and a drop in its price by one third. This year OKD-OKK a.s. (Ostravsko-karvinské koksovny, a coking coal company) expects a decrease in its annual coke production to 710 kt against the planned 850 kt. The other negative factors include decreasing electricity consumption, lower electricity prices on the energy exchange, and an increase in the price of steam coal (+ 17 %). These three factors prompted the operator of the 800 MW hard coal-fired Dětmarovice power station, ČEZ, to consider a shutdown of this power station for 4 months. Following an agreement between ČEZ and OKD, the duration of the shutdown was reduced to one month. OKD's supplies to the power station are 800,000 t annually. This has made it possible for OKD to maintain extraction and hundreds of jobs in northern Moravia. In 1Q 2009 OKD produced 3.1 Mt of hard coal. Compared with 1Q 2008, production dropped by 12 %.

3. LIGNITE PRODUCTION

	2009 (1-3)	2008 (1-3)
	Mt = t	Mt = t
Bulgaria	6.93	6.67
Czech Republic	12.63	13.18
Germany	44.76	43.30
Greece	15.88	14.10
Hungary	2.16	2.25
Poland	15.25	14.33
Romania	7.09	7.60
Slovak Republic	0.64	0.58
Slovenia	1.36	1.33
Total	106.70	103.34

GERMANY

Lignite production during Q1 2009, at 44.8 Mt, was generally 3.4 % higher than the previous year. In Lausitz (+ 11.8 %) and in Central Germany (+ 4.6 %), lignite production was higher; on the contrary, in the Rhineland (- 1.6 %) and in Helmstedt (- 1.3 %) production dropped. Changes are essentially due to the development of deliveries to power plants (+ 3.2 %), where approx 92 % of all production goes. Power generation by lignite-fired power plants was generally a good 3 % higher than during the same period last year. For refined products, briquetting (+ 47.3 %) showed a clear increase during the first quarter of 2009. The production of lignite dust (- 11.2 %) and lignite coke (- 8.7 %) was dropping. Pulverised lignite production (- 1.8 %) was just under last year's level.

CZECH REPUBLIC

In the chain of the impacts of the economic crisis, brown coal is not in the forefront and the it will be affected at some later stage. This year's fall of electricity prices can be expected to be reflected in energy companies' results for 2010 and 2011. The price of coal is expected to drop by a few per cent in 2010. In 1Q 2009 brown coal and lignite production amounted to 12.6 Mt. Brown coal companies contributed to this output as follows: SD, 6 Mt (+ 2.8 %), CCG, 3.8 Mt (- 2.9 %) and SU, 2.6 Mt (- 16.9 %). The Centrum brown coal deep mine and Hodonín deep coal mine (lignite) produced 150,000 t. Compared with 1Q 2008, brown coal and lignite production declined by ca 4%. Customers' demand has helped to change the Czech Coal Group's original decision to discontinue extraction from the last deep brown coal mine in the country. Extraction from the Centrum mine was to be ended last year, with employment contracts terminated for 300 employees. An agreement on extension of supplies until 2012 with the petrochemical company Unipetrol has ensured continued mining. Centrum produces ca 280,000 t of coal every year.

POLAND

Adamow Lignite Mine, which wishes to open a new lignite mine south of Zgierz, has approached the Ministry of Environment to ask for a concession to explore the deposits. Once they have obtained the concession, they will have priority for lignite production within the area. Konin Lignite Mine intends to issue bonds for 135 million PLN. The money will be invested in opening of the Tomisławice open pit.

HUNGARY

Expectations are that lignite output in the ongoing second trading period will continue to remain approximately at today's level of 9 – 10 million tons per year. Regarding the subsequent period, it remains to be seen what the final emissions trading regulations will look like and, in particular, how CO₂ prices will develop.

In order to reach a further improvement of productivity in Matra's opencast mines, the assembly of a new compact excavator was started at the end of 2008. This machine is a prototype of the world's biggest compact excavator. Its assembly is largely completed, and it will start operation in the Bükkabrány opencast mine in mid-2009.

SLOVENIA

The Slovenian power plant Sostanj (TES) is preparing to build a new so-called block 6 with 600 MW capacity and ca 42% efficiency. It will replace old units. The Velenje Coal Mine will start a project for vertical skip winding of coal this year.

SERBIA

Serbia completed and launched the new overburden ECS (Excavator-Conveyor-Spreader) system in the "Kostolac" lignite basin in order to increase annual production from 6.5 to 9 Mt of lignite in the first stage and finally to 12 Mt of lignite.

STEEL PRODUCTION (SEE TABLE 4)

World steel production during the first quarter of 2009 was 264 Mt, a decrease of - 22.8 % compared to the first quarter of 2008.

During the first three months of 2009 Asia produced 173 Mt of crude steel, a decrease of - 8.9 % over the first quarter of 2008. The EU produced 30 Mt of steel during the first quarter of 2009, down by - 43.8 % compared to the same quarter of 2008. North America showed a - 52.1 % decline, producing 16.6 Mt during the first three months of 2009. China showed a slight increase of 1.4 % while all the other major steel-producing countries showed a decrease in the first quarter of 2009.

Over the first quarter steel production in EU member states was typically down by around 40% but there were some significantly worse drops, illustrated by Table 4. The most recent trends show that Germany's crude steel was 2.1 Mt in March 2009, a decrease of - 49.8 % from March 2008. Italy's crude steel production was 1.7 Mt, down - 42.7 % compared to the same month last year. France showed a decrease of - 36.7 % from March 2008, producing 1.1 Mt in March 2009. Spain's crude steel production for March 2009 was 1.1 Mt, - 41.2 % less than the same month last year.

World Market Price evolution (Coal, Coke, Freight, Crude Oil)

MCIS Steam Coal Marker Price (7000kcal/kg)

		Jan	Feb	March	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec
cif-NW Europe													
Steam Coal	2008	150.38	160.77	170.57	150.56	170.98	201.83	255.92	218.75	222.95	176.28	127.75	90.13
(US\$ / tce)	2009	98.47	89.48	67.61	76.71	68.95							
Steam Coal													
	2008	102.17	109.00	109.85	95.58	109.91	129.78	162.29	146.08	155.15	132.32	99.65	66.70
(EUR / tce)	2009	74.37	68.79	51.80	58.16	50.51							

Source: VDKI, Mc Closkey

fob-China

Coke (12.5%)

USD / t	2008	445	490	526	569	572	641	694	747	620	480	440	350
	2009	370	433	420									

Source: China Coal Report

Freight Rates (USD /t)

R Bay/Rotterdam	2008	29.49	30.70	34.80	38.40	52.19	50.45	41.70	36.75	25.55	11.93	6.45	5.85
(Capesize)	2009	7.39	10.78	7.81	7.42	12.69							
Newcastle/Rotterdam	2008	49.04	51.50	56.60	62.79	59.31	84.45	68.70	61.54	43.54	22.47	12.16	11.63
(Capesize)	2009	12.85	17.73	13.74	13.37	20.51							
Bolivar/Rotterdam	2008	28.76	29.80	33.70	40.70	59.31	53.35	49.75	39.25	24.34	11.38	5.06	5.12
(Capesize)	2009	7.76	11.56	9.60	9.00	13.93							

Source: VDKI

Currency Rates

EUR/USD	2008	0.68	0.68	0.64	0.63	0.64	0.64	0.63	0.67	0.70	0.75	0.78	0.74
	2009	0.76	0.78	0.77	0.77	0.73							
ZAR/USD	2008	6.99	7.66	7.99	7.76	7.61	7.94	7.62	7.67	8.05	9.77	10.10	9.91
	2009	9.92	10.01	9.96	9.01	8.39							
AUD/USD	2008	1.13	1.10	1.08	1.07	1.05	1.05	1.04	1.13	1.22	1.46	1.52	1.49
	2009	1.48	1.54	1.50	1.40	1.31							

Source: Exchange rates download center

Crude Oil (USD/Barrel)

Crude Oil	2008	88.35	90.64	99.03	105.16	119.39	128.33	131.22	112.41	96.85	69.16	49.76	38.60
	2009	41.54	41.41	45.78	50.20	56.98							

Source: OPEC Basket Prices

WORLD SEABORNE COAL TRADE - STEAM COAL			
Exporting Countries	2009 (1-3) Mt	2008 (1-3) Mt	Diff. 2008/09 Mt
PACIFIC			
Australia	36.1	29.4	6.7
China	7.1	9.7	-2.6
Indonesia	35.0	37.0	-2.0
Vietnam	6.0	6.4	-0.4
Others	2.0	1.5	0.5
SUB-TOTAL	86.2	84.0	2.2
ATLANTIC			
Colombia	15.5	17.6	-2.1
Russia	20.4	20.0	0.4
South Africa	14.6	13.3	1.3
Venezuela	0.4	1.5	-1.1
USA	2.0	3.3	-1.3
Others	1.0	1.0	0
SUB-TOTAL	53.9	56.7	-2.8
TOTAL	140.1	140.7	-0.6

incl. Anthracite and PCI-Coal
 Source: VDKI

WORLD SEABORNE COAL TRADE - COKING COAL			(inc. PCI-Coal)
Exporting Countries	2009 (1-3) Mt	2008 (1-3) Mt	Diff. 2008/09 Mt
Australia	21.5	29.6	- 8.1
Canada	2.3	4.4	- 2.1
China	0.2	0.5	- 0.3
Russia	0.5	1.0	- 0.5
USA	5.4	7.1	1.7
TOTAL	29.9	42.6	- 12.7
Source: VDKI provis. Figures			

EU CRUDE STEEL PRODUCTION			
COUNTRY	2009 (1-3) Mt	2008 (1-3) Mt	Change in %
Austria	1.1	2.0	- 42.4
Belgium	0.8	2.9	- 71.9
Bulgaria	0.2	0.4	- 52.2
Czech Republic	1.0	1.8	- 43.0
Finland	0.6	1.2	- 51.6
France	2.9	4.9	- 39.7
Germany	7.3	12.1	- 39.4
Greece	0.5	0.7	- 20.7
Hungary	0.3	0.6	-50.6
Italy	4.9	8.3	- 40.9
Luxembourg	0.5	0.8	-36.9
Netherlands	1.0	1.9	-50.4
Poland	1.5	2.7	- 42.9
Romania	0.5	1.5	-66.3
Slovakia	0.8	1.3	- 41.6
Slovenia	0.1	0.2	- 28.6
Spain	2.8	4.9	-42.7
Sweden	0.7	1.5	-52.0
United Kingdom	2.0	3.7	-43.7
Others	0.5	0.5	0
EU-27	30.0	53.9	- 43.8
Source: IISI			

COUNTRY	EU Hard coal production		EU Hard coal sales		EU Coke production **	
	1-3 2009 Mt	1-3 2008 Mt	1-3 2009 Mt	1-3 2008 Mt	1-3 2009 Mt	1-3 2008 Mt
Bulgaria *	0.60	0.73	0.60	0.73	n.a.	n.a.
Czech Republic	3.24	3.68	1.34	1.89	0.6	0.89
Germany	3.67	5.51	3.38	5.89	0.41	0.51
Hungary	0	0	0	0	0.15	0.25
Poland	19.78	21.39	17.11	21.51	2.34	2.76
Romania	0.54	0.73	0.54	0.73	0.19	0.34
Spain	2.52	2.66	2.21	1.90	0.48	0.55
United Kingdom	4.10	3.73	3.90	3.70	1.05	1.18
EU-27	34.45	38.43	29.08	36.35	n.a.	n.a.

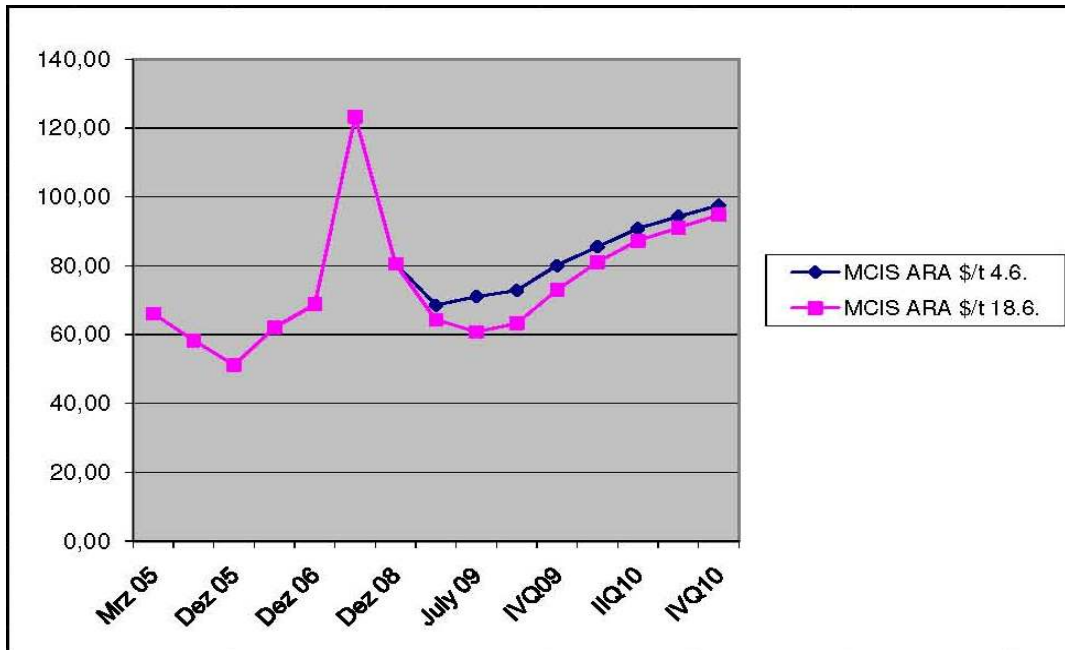
* brown and black coal

** only hard coal producing countries

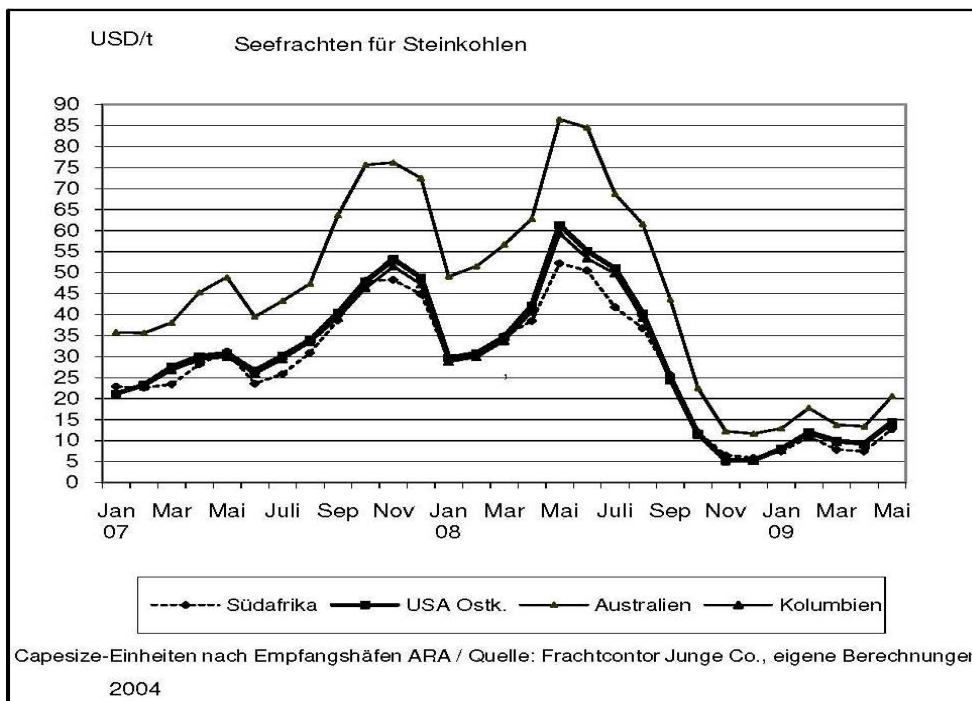
COUNTRY	EU Lignite production		EU Consumpt. Public power plants	
	1-3 2009 Mt	1-3 2008 Mt	1-3 2009 Mt	1-3 2008 Mt
Bulgaria	6.93	6.67	6.65	6.35
Czech Republic	12.63	13.18	10.49	11.01
Germany	44.76	43.30	41.06	39.77
Greece	15.88	14.10	16.40	14.74
Hungary	2.16	2.25	2.26	2.22
Poland	15.25	14.33	14.96	13.84
Romania	7.09	7.60	7.09	7.60
Slovakia	0.64	0.58	0.64	0.58
Slovenia	1.36	1.33	1.25	1.18
EU-27	106.70	103.34	100.08	97.29
Serbia	10.39	10.75	8.11	10.25

COUNTRY	EU Coking coal imports		EU Steam coal imports		EU Total imports	
	1-3 2009 Mt	1-3 2008 Mt	1-3 2009 Mt	1-3 2008 Mt	1-3 2009 * Mt	1-3 2008 Mt
Austria	0	0	1.1	1.0	1.1	1.0
Belgium					1.5	2.0
Bulgaria					0.4	0.4
Czech Republic	0.18	0.23	0.3	0.27	0.48	0.5
Denmark					0.8	1.0
Finland					0.8	1.0
France					3.0	4.0
Germany	0.34	2.32	9.86	9.2	10.2	11.52
Greece	0	0	0	0	0	0
Hungary	0.18	0.36	0.09	0.14	0.27	0.5
Ireland					0.4	0.5
Italy					4.5	5.5
Netherlands	0.65	1.0	2.2	2.4	2.85	3.4
Poland	1.73	1.14	1.69	1.23	3.42	2.37
Portugal					1.0	1.0
Romania					1.0	1.0
Slovakia					1.16	1.29
Slovenia	0.12	0.17	0.1	0.14	0.22	0.31
Spain	0.48	0.43	4.19	5.86	4.67	6.29
Sweden					0.3	0.5
United Kingdom	1.72	1.32	10.68	9.78	12.41	11.1
EU-27					50.48	54.89

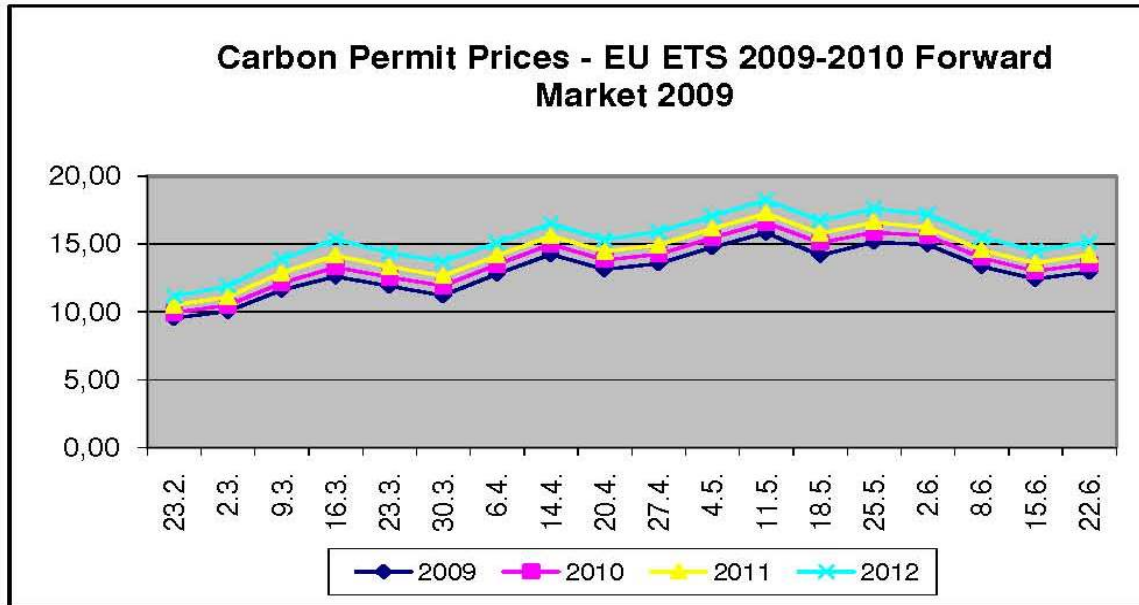
* preliminary figures



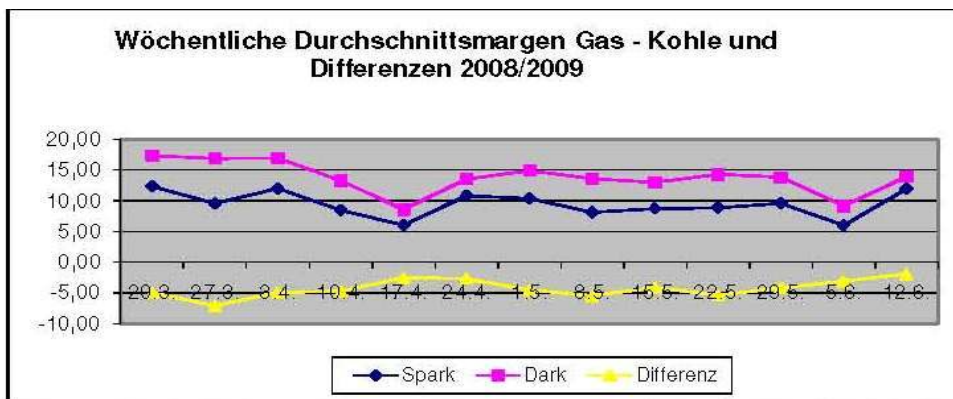
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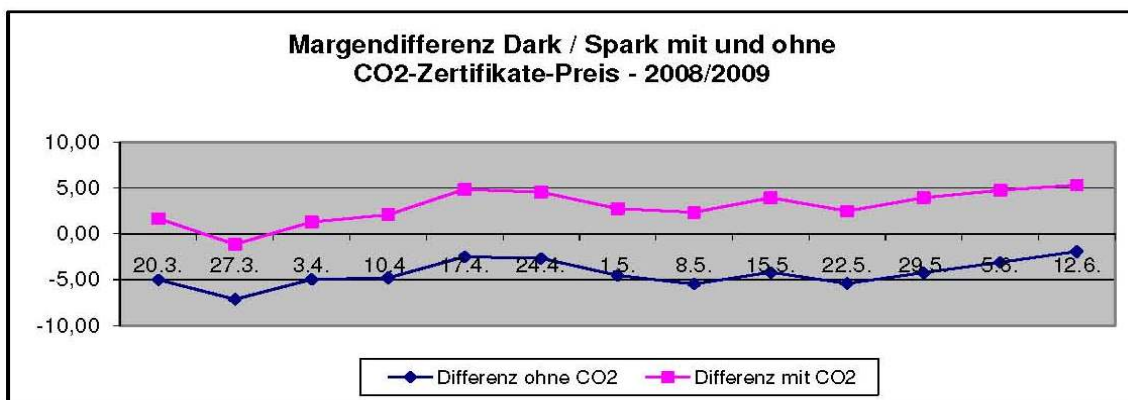
source: VDKI



source: VDKI



Difference: Spark - Dark; plus difference: advantage for gas/minus difference advantage for coal



Source: VDKI