

Thermal Coal Market Further Weakening; Watching Downstream Stock Building

1. Weekly Overview

Thermal Coal: Prices at Port Keep Falling and Bearishness Continues.

(1) Thermal coal price decline accelerated last week.

Thermal coal market at northern ports remained weak last week, as traders sold off the stocks and downstream power plants slowed down procurement under high inventories. Tepid transactions were seen for high and medium CV coal. Amid pessimistic expectation on the future market, coal price decline accelerated. As of last Friday (Dec 24), CCI5500 thermal coal price at northern port was 907 yuan/t, plunging 143-153 yuan/t w/w, showing a faster decline than last week. Power plants cut purchase price and slowed down procurement; traders and users in chemical and metallurgy industries suspended procurement waiting for price cut after large coal group adjusted down coal prices remarkably. Thermal coal prices dropped at most mines. As of Dec 24, Shanxi's Datong Q5500 assessed 780 yuan/t, -90 yuan/t w/w. Inner Mongolia's Ordos Q5500 registered 707 yuan/t, -133 yuan/t w/w. Shaanxi's Yulin Q5800 reported 892 yuan/t, -31 yuan/t w/w.

Producing areas: Some coal mines stopped or cut production due to the shortage of coal sales quotas, overhaul or relocation of work face and the completion of annual production tasks, and some mines slowed down production due to high stock levels. The overall operating rate declined, but the supply kept loose. Capacity utilization of surveyed thermal coal mines in Shanxi, Shaanxi and Inner Mongolia reported 101% on Dec 23, -0.9pps w/w. Affected by price drop at ports, traders and buyers from railway stations were inactive in coal shipment. End users also slowed down purchase on bearish outlook. As sales turned unsmooth, stocks at sample coal mines increased 0.06Mt or +2.4% w/w, +14.6% YoY to 2.43Mt. **Ports:** As the delivery of long-term coal went on, and spot coal shipment picked up after coal prices declined at producing areas, coal inflows to northern ports increased 0.04Mt w/w to 15.36Mt. As coal prices at port were expected to fall further, power plants sat on sidelines under high stock levels, pushing down coal outflow by 0.55Mt w/w to 15.15Mt. With outflows lower than inflows, coal stocks at northern ports accumulated 0.29Mt or +1.3% w/w, +32.5% YoY to 22.24Mt as of Dec 24. Coal inventories at the five Yangtze River estuary ports built up 2.2% w/w to 3.78Mt as of Dec 24, +65.1% YoY. **Seaborne transport:** Power plants slowed down procurement due to high inventory and price sluggishness, so shipping demand was low. On the other hand, shipping capacity became loose as a large number of ships were idled at the end of the month. As shipping capacity turned surplus, coastal seaway freight continued tumbling. Shipping rates of 50,000-60,000 DWT vessel slumped 22.9 yuan/t or -30.5% w/w to 52.2 yuan/t by Dec 23.

(2) Imported seaborne coal prices held firm while domestic demand was weak, stagnating transactions.

Indonesia coal supply was limited due to continuous rainfall, and the offers held firm. Domestic power plants' bids were low amid soft demand. The bids demanded the delivery in January, but the spot supply was tight in seaborne market, leading to stalemated transactions. As of Dec 24, CCI import 3,800 was assessed at US\$80.0/t, flat w/w. CCI import 4,700 was assessed at US\$107.0/t, -US\$4.0/t w/w. As energy sources were short in Europe, coal

Price changes

Unit: yuan/t

	Spot	Up/ down	Manifest cost	Main futures close price	Up/ down	Basis	Up/ down
Thermal coal							
QHD Q5500	902	-40					
CCI5500	907	-40	907	708	-33	199	+455
Coking coal							
in low-sulfur	2300	100.0					
n high-sulfur	1976	+96.0	2284	2327	+159	-116	+50
tile primary*	341.5	-3.0					
mid-volatile*	310.5	-7.5					
Mongolia 5#	1760.0	60.0	2420				
Coke							
Grade 1 met.	2830	+0	2830	3169	+118	-339	-118

*The price (US\$/t) is CFR China Port.

Macro and industry data

Unit: Mt, TWh, %

	10/21	11/22	YTD	YoY	YTD YoY
Macro Economy Data					
FAI growth			5.2%		2.6pct
Infrastructure investment			0.5%		-0.5pct
Real estate investment			6.0%		-0.8pct
PPI	13.5%	12.9%		14.4pct	
PMI	49.2%	50.1%		-2.0pct	
Steel PMI	38.3%	36.6%		-12.7pct	
Coal Industry Downstream					
Data					
Power generation	639.3	654.0	6717.6	0.2%	9.2%
Of that: thermal	426.4	464.5	4755.6	-2.5%	9.9%
Hydro	119.4	90.1	1022.2	-1.9%	-2.2%
Cement output	201.4	199.6	2172.6	-18.6%	-0.2%
Crude steel output	71.6	69.3	946.4	-22.0%	-2.6%
Pig iron output	63.0	61.7	796.2	-16.6%	-4.2%
Coke output	36.0	33.9	394.1	-17.4%	-1.6%
Raw coal output	357.1	370.8	3674.3	4.6%	4.2%
Coal Imports & Exports					
Coal imports	26.9	35.1	292.3	200.3%	10.4%
Coal exports	0.2	0.3	2.4	52.9%	-22.9%
Coal net imports	26.8	34.8	289.9	202.5%	10.8%
Thermal coal imports	22.6	27.3	245.1	243.5%	25.2%
Thermal coal exports	0.2	0.3	2.3	120.3%	2.2%
Thermal coal net imports	22.4	27.1	242.8	245.4%	25.4%
Coking coal imports	4.4	7.7	47.2	108.1%	-31.6%
Coking coal exports	0.0	0.0	0.1	-100.0%	-89.4%
Coking coal net imports	4.4	7.7	47.1	111.0%	-30.9%

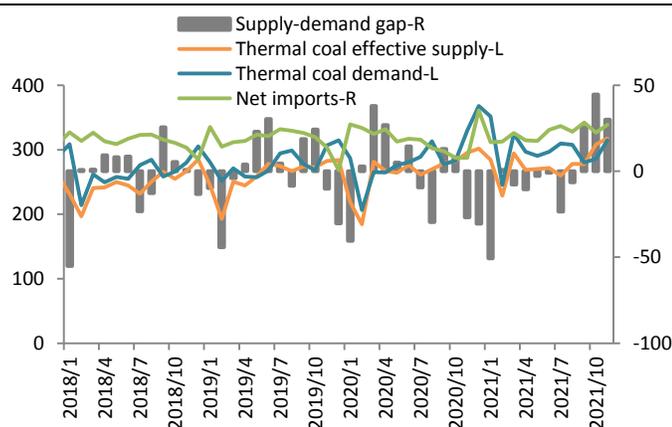
demand was boosted. Spot thermal coal price FOB NEWC spiked US\$9.24/t w/w to US\$187.37/t by Dec 23.

(3) Supply continued rising while demand growth was not as strong as expected in Nov, causing inventories to build up.

Newly-approved capacity in Oct and newly-commissioned capacity was released in Nov, and coal production in the month was little disrupted except for short-term impact of cold wave. As the operating rate of coal mines kept high, coal supply continued rising. Total thermal coal supply (domestic supply + net imports) hit 344.87Mt, +4.3% MoM, +13.8% YoY, sending cumulative supply in Jan-Nov to 3.30 billion tonnes, +7.5% YoY. In Nov, domestic supply reached 317.82Mt, +3.1% MoM, +7.6% YoY, bringing total supply in Jan-Nov to 3.06 billion tonnes, +6.2% YoY. Net imports were 27.05Mt in Nov, +20.8% MoM, +245.5% YoY, leading net imports to total 243.22Mt in Jan-Nov, +25.5% YoY.

Downstream industrial production gradually recovered in Nov, but the production of high-energy-consumption industries was still restrained by the control of energy consumption and the cap of crude steel output. In the peak consumption month, daily coal burn climbed up slowly, though the increment was weaker than anticipated. As hydropower was in the winter dry season, the squeeze on thermal power was minor. Thermal coal demand rose 10.1% MoM to 314.8Mt in Nov but fell 4.6% YoY. Coal demand in Jan-Nov totaled 3.30 billion tonnes, +7.5% YoY. Thermal coal market saw 30.07Mt of supply glut in Nov, and the supply gap narrowed to 1.37Mt in Jan-Nov.

Thermal coal supply-demand balance in Nov Unit: Mt



Source: Fenwei

(4) Thermal coal prices at portside market continue declining amid bearish momentum.

Some coal mines complete the supply guarantee tasks, but coal supply is still ample: Only some coal mines in northern Shanxi have completed the supply guarantee tasks, and other mines are still implementing the tasks. In addition, coal sales quotas become short at the end of Dec, and some mines start to cut or stop production after completing annual production guidance. The overall operating rate has dropped but coal supply remains at a high level.

Under high inventory, power plants mainly take in long-term coal: Due to high inventory and bearish sentiment, wait-and-see stance grows. Power plants mainly take in long-term coal before the cold waves arrive at the most parts of southern China. Inventories of sample power plants in coastal areas edged down 0.3% w/w. Daily coal consumption of sample plants rose 4.3% w/w. The outflow of the Three Gorges Dam continued weak and hydropower ticked up 0.9% w/w.

Thermal coal prices:

Unit: yuan/t

	RMB*	W/W	W/W	YoY
At producing areas				
Datong 5500	780	-90	-10.3%	+44.4%
Shuozhou 5000	671	-94	-12.3%	+41.3%
Ordos 5500	707	-133	-15.8%	+46.4%
Ordos 5000	635	-90	-12.4%	+49.4%
Ordos 4500	541	-47	-8.0%	+67.0%
Yulin 6200	915	-45	-4.7%	+70.1%
Yulin 5800	892	-31	-3.4%	+68.9%
At ports				
QHD 5800 mixed	948	-43	-4.3%	21.1%
QHD 5500 mixed	902	-40	-4.2%	21.1%
QHD 5000 mixed	795	-74	-8.5%	+15.7%
QHD 4500 mid-sulfur	625	-145	-18.8%	+2.0%
Shenmu premium 6000 mixed	1295	+0	0.0%	+34.9%
Shenhun 1# 5500	1245	+0	0.0%	+36.8%
GZ Shanxi 5500	1230	+0	0.0%	+37.4%
GZ Shanxi 5000	1050	+0	0.0%	+28.8%
Price indexes				
CCI5500	907	-40	-4.2%	+20.9%
CCI5000	801	-74	-8.5%	+15.6%
CCI 4700 import (CFR)	107	-4	-3.6%	+45.6%
CCI 3800 import (CFR)	80	+0	+0.0%	+49.3%
CCI 3800 import (FOB)	65	+0	+0.0%	+44.4%
CECI 5500 composite price(weekly)	908	-55	-5.7%	-
CECI 5000 composite price(weekly)	947	+0	+0.0%	-
CECI 4500 composite price(weekly)	875	+0	+0.0%	-
CECI 5500 FOB	941	-38	-3.9%	-
CECI 5000 FOB	847	-11	-1.3%	-
CCTD 5500 QHD price (weekly)	995	+45	+4.7%	-
CCTD 5000 QHD price (weekly)	899	+48	+5.6%	-
CCTD 4500 QHD price (weekly)	791	+40	+5.3%	-
BSPI	740	-3	-0.4%	+27.2%
NEWC(FOB)	187.37	+9.24	+5.2%	+121.3%
RB(\$/t)	150.70	+5.65	+3.9%	+40.2%
DES ARA(\$/t)	147.50	+5.50	+3.9%	+125.6%

Comprehensively, although some coal mines stop or cut production due to the shortage of sales quotas and the completion of the annual production guidance, the supply keeps loose thanks to supply guarantee policy. Power plants' daily coal burn has lifted but coal supply remains ample under high inventory, so they are inactive in stock replenishment in market downturn. Thermal coal price is projected to continue going down. We need closely watch policy trend, weather change and its impact on transport.

2. Key News & Events in Coal and Downstream Industries

2.1 Domestic New

(1) Shanxi's Xiaoyi launched a one-month special action to crack down on illegal mining activities.

Xiaoyi city, Shanxi province decided to launch a one-month campaign to crack down on illegal coal mining from December 19, and five supervision teams were set up in the meantime, after a water inrush incident happened in a local coal mine on December 15, trapping 22 people, of which 20 were rescued and two died.

(2) The railway link connecting Haoji Railway with China Coal Group's Wangjialing Station was officially opened.

On December 20, 2021, the railway link connecting Haoji Railway with China Coal's Wangjialing Station was open to traffic, announced by the Taiyuan and Xi'an railway bureaus. The link has total length of 2.366 km and designed transport volume of 2Mt per year in the near term and 3Mt per year in the future. The opening of the line marks the outbound railing transport of Huajin Group under China Coal will expand to 7.2Mtpa.

(3) International coal producers signed the first batch of 25.82Mt medium- and long-term coal supply agreements with Chinese buyers.

Many coal producing countries have signed medium- and long-term coal supply agreements with Chinese importers, aiming to increase coal trade and strengthen cooperation with China, the CPPCC Online reported.

On December 21, the China Coal Import Summit 2021 was held in Beijing, at which coal exporters from Russia, Indonesia and Mongolia signed long-term thermal coal supply contracts with Chinese companies for 2022. The initial contract volume reached 25.82Mt with a value of US\$2.49 billion.

(4) China's coal imports were higher than expected in November, with Australian coal imports ranking second.

Indonesia remained China's top source country of imported coal in the January-November period, and its coal exports to China continued surging YoY. China also increased imports from Russia, the United States and Canada.

In November, Australia overtook Russia and Mongolia to become China's second largest source of imported coal, after China released 2.78Mt of Australian coal in October and another 5.25Mt in November. Customs clearance of Australian coal stopped from December 2020 to September 2021.

(5) Coal consumption in electric power, steel, cement and coal chemical industries is expected to peak in 2025.

Coal consumption in the four key industries of power, steel, cement and coal chemical is expected to peak in 2025, according to the Executive Summary of Coal Consumption Control Roadmap for Key Industries under Carbon Peak and Carbon Neutrality published by the Natural Resources Defense Council (NRDC).

Thermal coal stocks		Unit: Kt			
	Quantity	W/W	W/W	YoY	
At producing provinces					
Total stocks	2430	+58	+2.4%	+14.6%	
Shanxi	730	+17	+2.4%	+15.9%	
Shaanxi	630	+6	+1.0%	+31.3%	
Inner Mongolia	1070	+35	+3.4%	+5.9%	
Operating rates	101%	-1%	-	+4.9%	
Shanxi	100%	0%	-	+4.5%	
Shaanxi	106%	1%	-	+15.0%	
Inner Mongolia	99%	-3%	-	-1.2%	
Weekly output	7920	-72	-0.9%	+5.0%	
Shanxi	2310	(7)	-0.3%	+4.5%	
Shaanxi	2240	+19	+0.9%	+16.1%	
Inner Mongolia	3370	-84	-2.4%	-1.2%	
At ports					
QHD	5090	+190	+3.9%	+0.9%	
SDIC Jingtang	1640	-160	-8.9%	+102.5%	
Jingtang dedicated terminal	2444	-132	-5.1%	+52.9%	
Jingtang old port	1230	120	10.8%	-18.0%	
SDIC Caofeidian	4290	+50	+1.2%	+25.5%	
Caofeidian Phase II	2533	+98	+4.0%	+70.2%	
Huaneng Caofeidian	2213	+28	+1.3%	+63.7%	
Huadian Caofeidian	983	+70	+7.7%	+348.9%	
Huanghua	1814	+30	+1.7%	+34.2%	
Total	22237	+294	+1.3%	+32.5%	
Guangzhou port					
	1560	90.0	+6.1%	-35.0%	
Yangtze River Estuary ports					
Rugao	320	+70	+28.0%	-8.6%	
Changhong International	200	-50	-20.0%	-9.1%	
Yangtze River	870	+70	+8.8%	+117.5%	
Taihe	650	-50	-7.1%	+116.7%	
Total of Yangtze River ports	3780	+80	+2.2%	+65.1%	
Four northern ports					
Coal inflows (weekly)	15364	+44	+0.3%	+14.9%	
Coal outflows (weekly)	15145	-548	-3.5%	+11.4%	
Three Gorges Dam					
Water discharge	6830	+60	+0.9%	+7.1%	
Six major power utilities					
Daily coal burn	877	36.1	+4.3%	+25.0%	
Stocks	11671	-36	-0.3%	-19.3%	

According to the report, the policy scenario is adopted as the recommended scenario considering the accessibility of objectives, feasibility of measures and economy of inputs. Under the recommended scenario, the total coal consumption of the four key industries will peak at 2.49 billion tonnes of standard coal in 2025, and there will be a plateau period of 5-6 years before and after the peak. Carbon emissions will peak at 8.01 billion tonnes in the same year.

2.2 International News

(1) Indonesia's coal production is expected to increase to 664Mt in 2022.

Indonesia's coal production is expected to rise to 637-664Mt in 2022, up 6.24% from the target in 2021, the Ministry of Energy and Mineral Resources (ESDM) said in a recent press conference.

Indonesia's coal consumption is projected to reach 190Mt next year, said the ministry's director in mineral and coal development project. However, the production and consumption forecasts have not yet been finalized.

(2) Global thermal coal trade is expected to increase 7% YoY in 2021

Global thermal coal demand has recovered rapidly as the economic recovery gathers pace and power demand climbs up in the winter season of the northern hemisphere, but coal supply has not restored to the pre-pandemic level.

According to the Resources and Energy Quarterly Report released by the Department of Industry, Science, Energy and Resources of Australia, the global seaborne thermal coal trade is estimated to rise 7% YoY to 1.06 billion tonnes in 2021, while the growth pace is expected to slow down in the next two years. The trade volume is estimated to reach 1.08 billion tonnes in 2023, slightly below the peak in 2019.

(3) IEA: Global coal production is expected to rise 2.8% YoY in 2022.

Global coal production is expected to hit a record of 8.11 billion tonnes in 2022, up 2.8% from the projected 7.89 billion tonnes in 2021, the International Energy Agency (IEA) said.

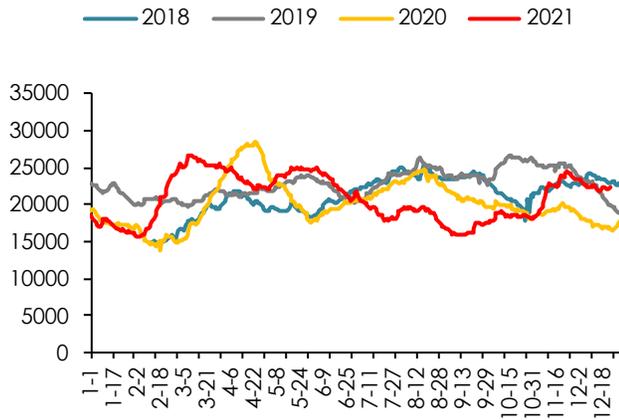
In its Coal 2021, the IEA expected India to see the largest YoY growth in coal production in 2022, at 163Mt, followed by China's 57Mt, Russia's 16Mt and Pakistan's 12Mt.

However, the report predicted a drop of 44Mt and 82Mt of coal production in the U.S. and the European Union respectively in 2022.

Thermal Coal Stocks

Figure 1: Thermal coal stocks at northern ports

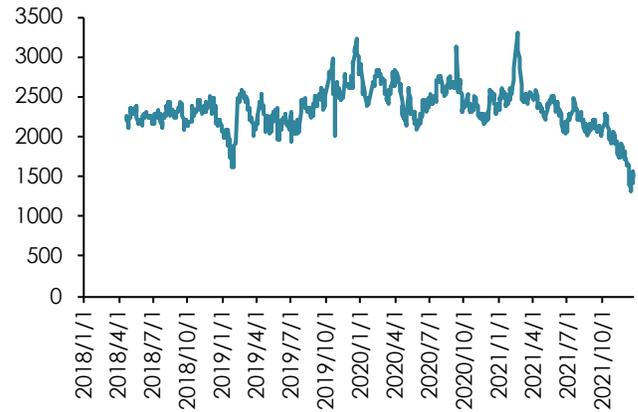
Unit: kt



Source: Fenwei

Figure 2: Stocks at Guangzhou port

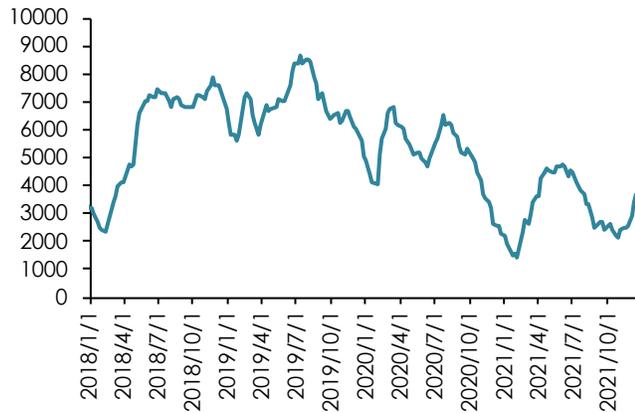
Unit: kt



Source: Fenwei

Figure 3: Stocks of Yangtze River estuary ports

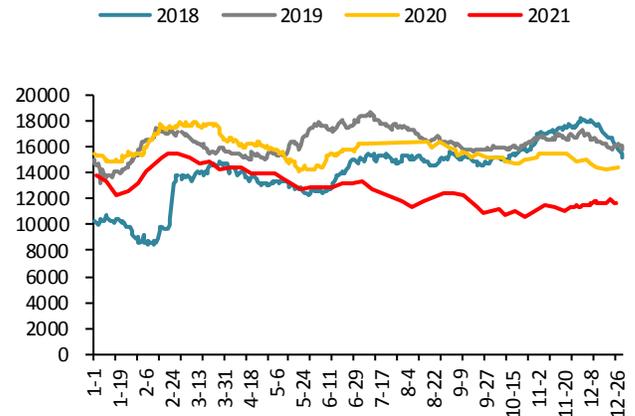
Unit: kt



Source: Fenwei

Figure 4: Stocks of six major power utilities

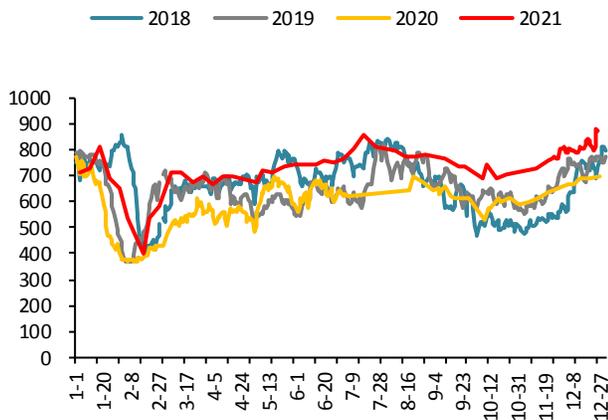
Unit: kt



Source: Fenwei

Figure 5: Daily burn of six major power utilities

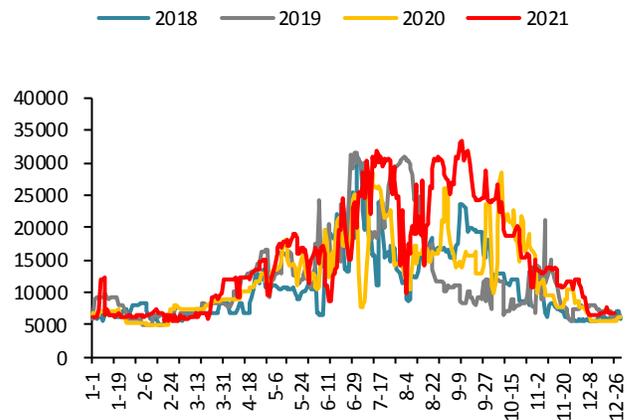
Unit: kt



Source: Fenwei

Figure 6: Water flow of the Three Gorges Dam

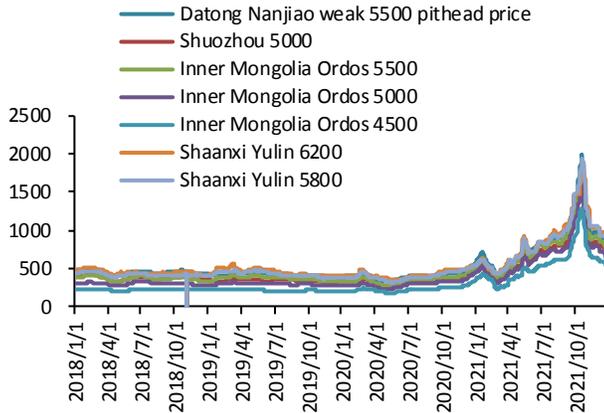
Unit: m³/s



Source: Fenwei

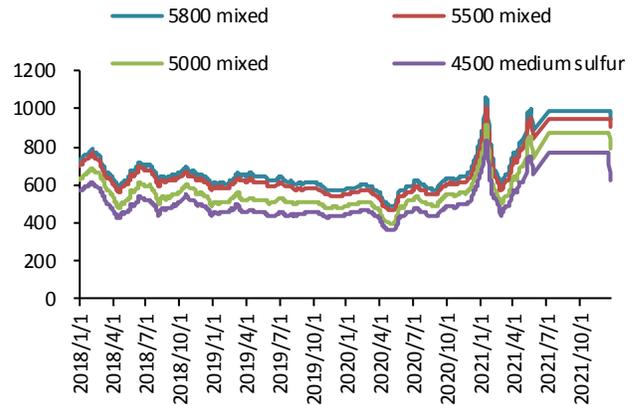
Thermal Coal Price

Figure 7: Thermal coal price at producing areas Unit: yuan/t



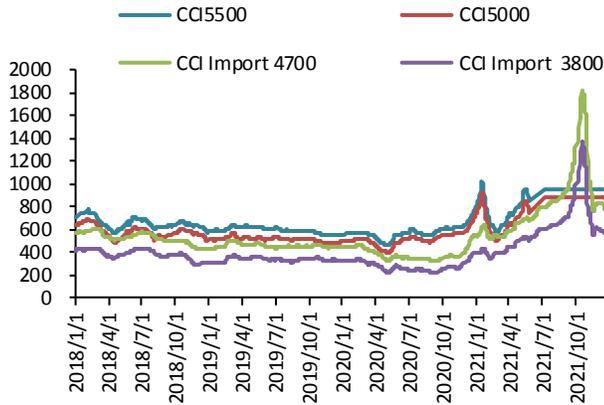
Source: Fenwei

Figure 8: Thermal coal price at Qinhuangdao Port Unit: yuan/t



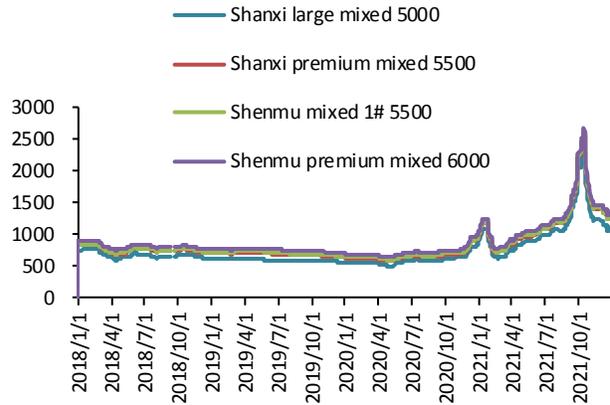
Source: Fenwei

Figure 9: CCI thermal coal indexes Unit: yuan/t



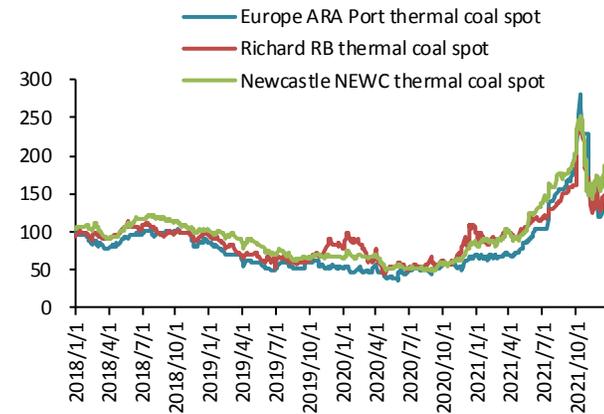
Source: Fenwei

Figure 10: Thermal coal price at Guangzhou Port Unit: yuan/t



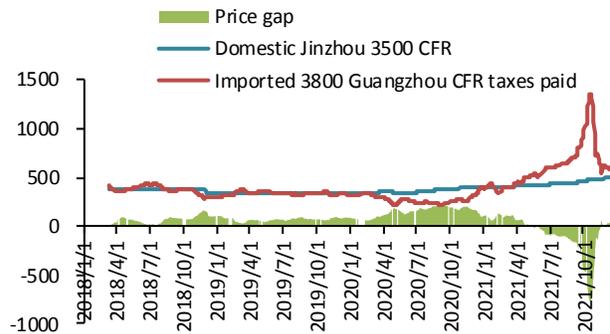
Source: Fenwei

Figure 11: International thermal coal price Unit: US\$/t



Source: Fenwei

Figure 12: Domestic and international price comparison Unit: yuan/t



Source: Fenwei

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