

METALS & MINING

17 March 2022

Expert call: Impact of Russia-Ukraine conflict on coal markets

- The conflict has exacerbated seaborne coal tightness with rail and port logistics disruption in Russia reducing its coal export by 75% in Mar'22
- Australia / Indonesian coal supplies are constrained by weather related disruptions and can only respond by mid-to-late April/ May
- Replacement of Russian tonnage, in case of sustained disruptions, is not going to be easy due to difficulty in raising capital for coal projects

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We hosted Matthew Boyle, Lead Dry Bulk Analyst, Kpler Singapore. Key takeaways:

Russia-Ukraine conflict has exacerbated seaborne coal trade tightness: Market was already struggling with production and export difficulties. Due to conflict, Russian coal exports (around 15% of seaborne markets) have reduced to 25% of its usual levels in March due to constraints on rail and port logistics in Russia. In addition, buyers are also seeking alternatives, compounding market tightness.

Illiquid spot markets have increased volatility of spot coal prices: With spot market contracting significantly below the pre-pandemic level of 20% of seaborne trade, spot prices do not reflect tradeable price at times. In thermal coal, spot price (US\$350/t level) has a significant disconnect with contract price (US\$110). Even in met coal, long-term buyers usually pay on a trailing average price.

Short-term response is constrained by weather-driven supply disruptions: Coal supply chain will take at least until mid-to-late April to return to normal in Australia. Considering prioritization for domestic markets, Indonesia could increase exports only from May. In the scenario of a better availability of Russian coal, met coal price could start to retreat from May. Pressure on thermal coal market could ease post winter, and a seasonal increase in renewables generation.

Replacement of Russian tonnage, in case of a sustained disruption, is not easy: Global coal producers are not in a position to raise outputs due to difficulty in securing capital. Potential supply response will be needed from Australia, US and Canada for met coal and from South Africa, US and Colombia for thermal coal.

European coal demand may not increase much above CY21 levels given retirements of generation capacity. ARA ports imported 42.7 Mt of coal in 2021.

Chinese demand pull on seaborne markets may be lower YoY in CY22 with China targeting 300mt increase in domestic coal production and possibility of normalisation of renewables generation.



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