

Thermal coal: South African 2018 exports slip, but India and Pakistan to sustain RBCT loadings in 2019



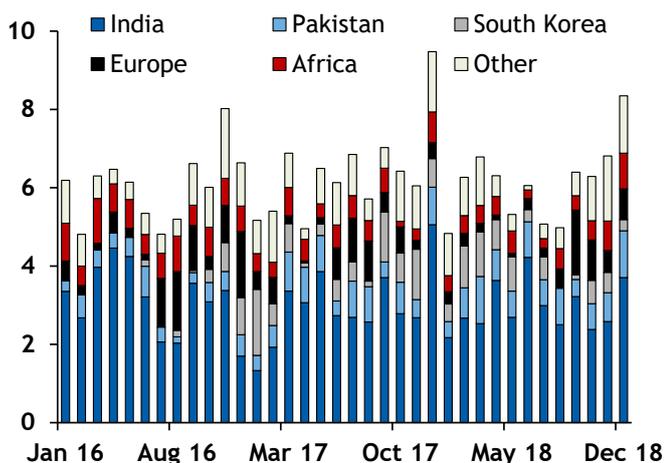
Overview of 2018

South Africa's Richards Bay Coal Terminal (RBCT) exported 73.5mn t of coal in 2018 — predominantly thermal coal — down by 3.1mn t on the year and 3.5mn t short of its 77mn t target.

As in 2014-17, loadings over the second half of the year outpaced those in January-June. Exports in July-December 2018 rose by nearly 7pc, or 2.3mn t, compared with the first six months of the year, to 37.9mn t.

Loadings in 2018 peaked at 8.35mn t in December — their highest in 12 months — drawing down on terminal stockpiles that had swelled to over 6mn t.

RBCT exports by destination mn t



India

Loadings bound for India eased by 1.3pc on the year to 35.3mn t, and accounted for a 48pc share of the terminal's total 2018 exports compared with 47pc last year.

Outright shipments to India slipped by 461,800t on the year as a combination of rising NAR 6,000 kcal/kg fob Richards Bay (RB) spot prices and limited Indian rail rake availability curtailed seaborne demand.

High-grade spot assessments peaked at \$107.94/t fob RB in July, and spot prices in subsequent months remained higher than a year earlier. In August, prices were 14pc higher on the year, but had dwindled to an eight-month low of \$92.38/t fob RB by November, narrowing the year-on-year increase to 1pc.

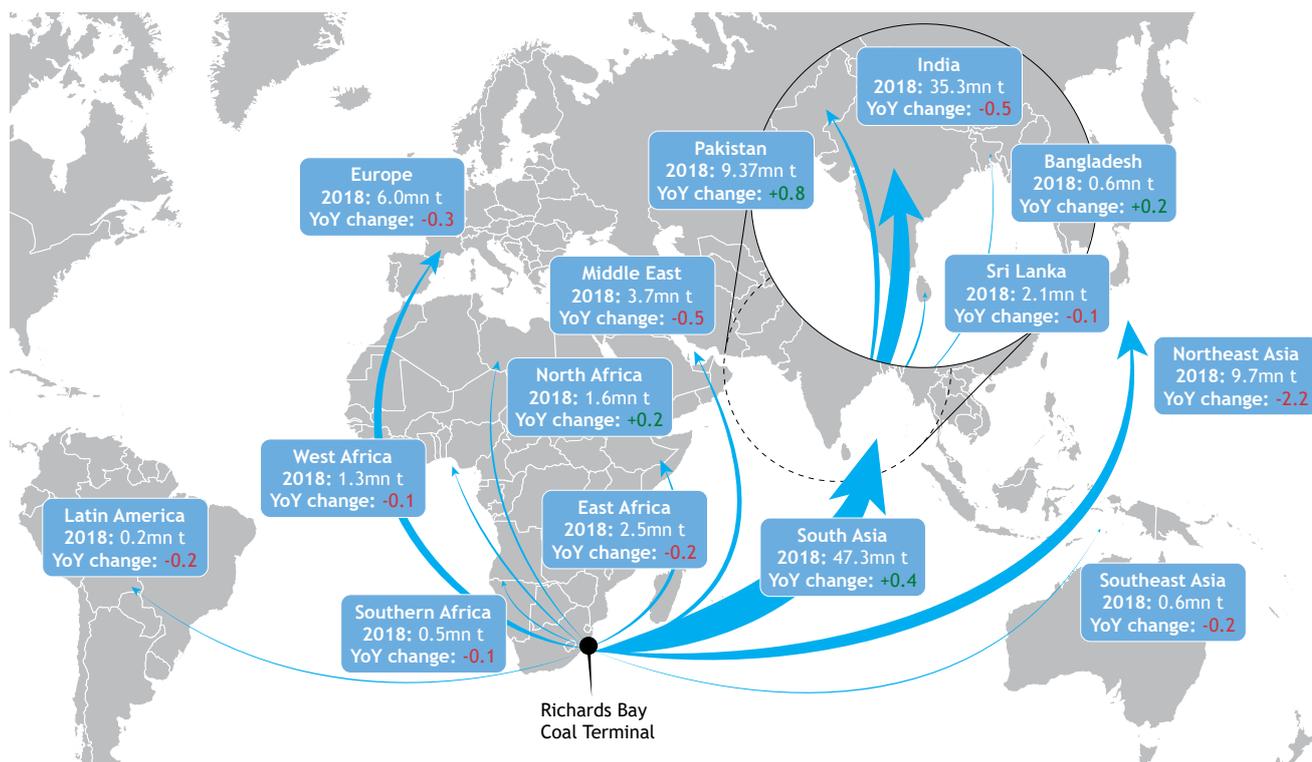
The competitiveness of Australian NAR 5,500 kcal/kg cargoes for delivery to India last year is likely to have displaced some South African supply.

On the demand side, Indian end-user interest stagnated in the third quarter, reducing rail shipments from trading firms' stock and sale operations at ports. Moreover, the limited availability of rail rakes — which carry around 4,000t — slowed offtake from ports, particularly at Gangavaram and Paradip on the east coast.

Pakistan

Pakistan's demand for South African coal was supported by the commissioning of a new power plant. RBCT loaded 9.4mn t for Pakistan last year, up by nearly 9pc, or 771,200t, from 2017.

RBCT export destinations by region, mn t



The country's second 1.32GW seaborne coal-fired power plant — the Port Qasim development— commenced operations in late April.

Coal demand from the cement sector also increased, after Lucky Cement added a new 1.3mn t/yr line at its Karachi-based Indus Highway plant in December 2017. The country's overall operational cement capacity rose by 15.5pc year on year to 54.2mn t by the end of last month, according to the All Pakistan Cement Manufacturer Association.

But some buyers from Pakistan sought supplies from lower-cost origins. A number of industrial buyers with operations in the north of Pakistan opted to procure NAR 6,000 kcal/kg Afghan coal in place of South African supplies. Pakistan could have imported up to 1mn t of Afghan coal last year, some industry sources estimate. The Afghan supplies are equivalent to NAR 6,000 kcal/kg fob RB specifications, apart from the lower-volatile matter of 19-20pc in Afghan coal compared with 22-37pc for South African material.

Delivered NAR 6,000 kcal/kg Afghan coal was around \$138/t, while seaborne coal transported over 1,000km north from the major ports was closer to \$150/t, a cement producer said in early August 2018.

South Korea

RBCT shipments to South Korea slowed to 6.7mn t in 2018, down from 8.6mn t in 2017. Australia and Indonesia remained South Korea's biggest suppliers last year, with total intake for the year down by 940,000t from 2017 at 115.9mn t, customs data show. And South Korean demand may stagnate further this year as the government deploys an increasingly hostile regulatory policy, and state-run utilities focus tenders on lower-sulphur supplies, at around 0.5pc maximum content.

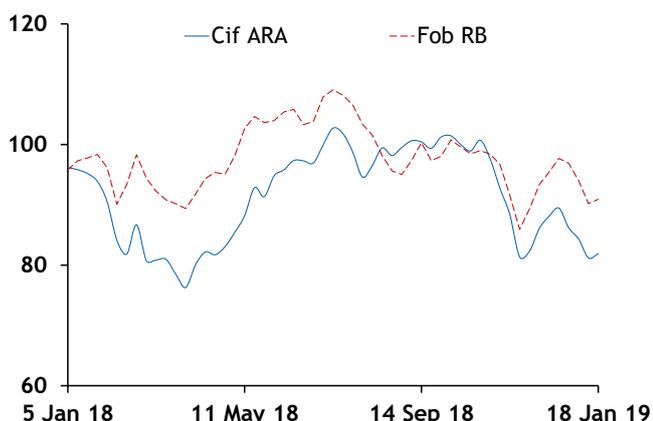
Europe

RBCT shipments to Europe were flat on the year — totalling 6.1mn t in 2018 compared with just under 6.3mn t in 2017.

NAR 6,000 kcal/kg fob RB coal's discount to European-delivered coal opened a window for off-specification qualities — particularly minimum NAR 5,700 kcal/kg and NAR 5,500 kcal/kg fob RB supplies — to make their way to Amsterdam-Rotterdam-Antwerp (ARA) — probably for utilities to blend with high-sulphur US coal.

Loadings for ARA and Spain — where vessels sometimes re-fuel before continuing to the Netherlands — totalled 1.4mn t in September, the highest monthly volume since at least November 2014.

NAR 6,000 kcal/kg weekly spot prices \$/t



High-grade fob RB prices were consistently at a discount to their European delivered counterparts from mid-August to late October — averaging \$1.80/t and widening to a \$4.50/t discount in the last week of August. The weekly cif ARA index was previously at a premium to the fob RB market at the beginning of January 2018.

Egypt

South African exports to Egypt increased to 1.3mn t in 2018 up from 737,800t in 2017, which was a three-year low. A new cement plant boosted coal imports. Egyptian company El-Arish Cement, which has ties to the country's military, opened its second plant, which is comprised of six lines each producing 3.5mn t/yr of cement, in April. The new facility in Beni Suef — which is around 350km south of the port of Alexandria on the Mediterranean coast — is expected to consume 1.8mn t/yr of high-grade thermal coal. The plant trialed high-grade South African and Russian coal and also consumes high-calorie US coal.

Outlook

Demand for South African coal from south Asia is likely to hold steady this year, with supply shortages in India and new developments in Nepal and Pakistan.

India faces a coal supply shortage for the 2018-19 fiscal year ending 31 March 2019. Total coal demand, including thermal and coking coal, is expected to be 985mn t in the 2018-19 fiscal year, with supplies falling around 80mn t short of this, an industry source says. Domestic production is expected to run at around 690mn t in 2018-19, with combined imports of thermal and coking coal of 215mn t.

A competitive price environment and improved transportation have sustained some Indian enquiries for first-quarter South African cargoes. But the prospects for renewed South African export growth in the Indian market will depend on its price advantage compared with exports from other origins.

India-delivered, inclusive of tax and railing 700km, NAR 5,500 kcal/kg South African coal rose to \$106.50/t last week, up by \$2.90/t on the week as fob prices increased, *Argus* calculates. In contrast, equivalent Australian coal was around \$106.10/t on a delivered basis, down by 40¢/t from a week earlier.

Demand from Nepal should rise with four new cement plants expected to start operations in March-April, boosting imports of its preferred NAR 5,500 kcal/kg South African coal to 3mn t/yr from 2.5mn t/yr. Cargoes for this market unload in Kolkata, India, and are transported by rail to Nepal.

And enquiries from Pakistan for NAR 5,500 kcal/kg supplies could rise in 2019 as the new 1.32GW HubCo Balochistan coal-fired power plant is scheduled to be commissioned in August. The first 660MW unit was brought on line last month. The plant could consume up to 4.2mn t/yr of a combination of South African NAR 5,500 kcal/kg and Indonesian NAR 4,700 kcal/kg supply, according to the project's generation licence application to Pakistan's power sector regulator Nepra.

Fob RB spot assessments for week ending 18 Jan		\$/t
Grade	Price	Discount to swaps
NAR 6,000 kcal/kg	90.91	-2.40
min NAR 5,700 kcal/kg	85.51	-7.80
NAR 5,500 kcal/kg	66.43	-20.90