

The Outlook for Metallurgical Coal

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A CRU é líder mundial na provisão de análise de mercado e de competitividade de custos, e consultoria para indústria global de minerais, metais e fertilizantes

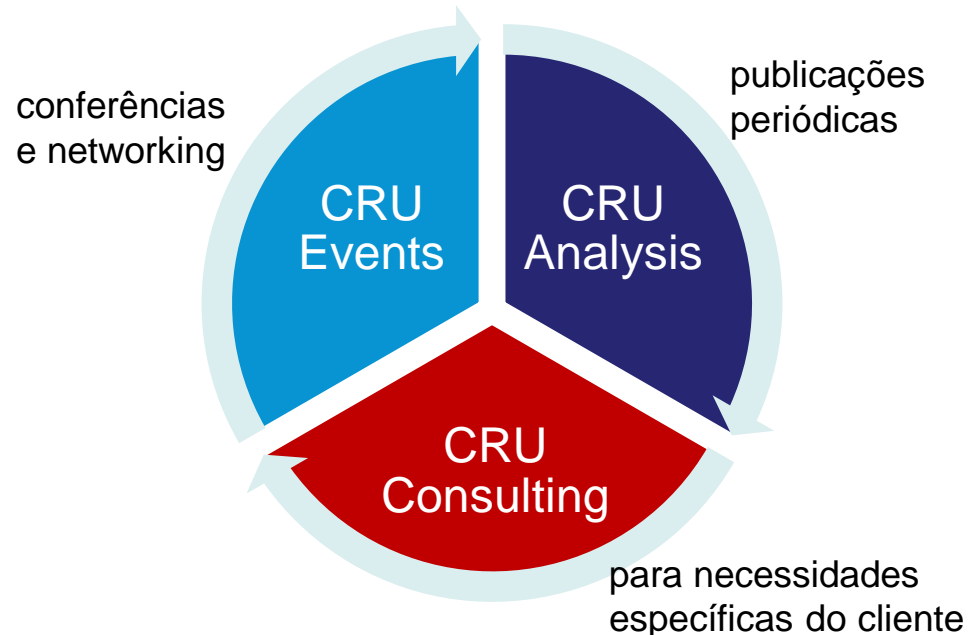
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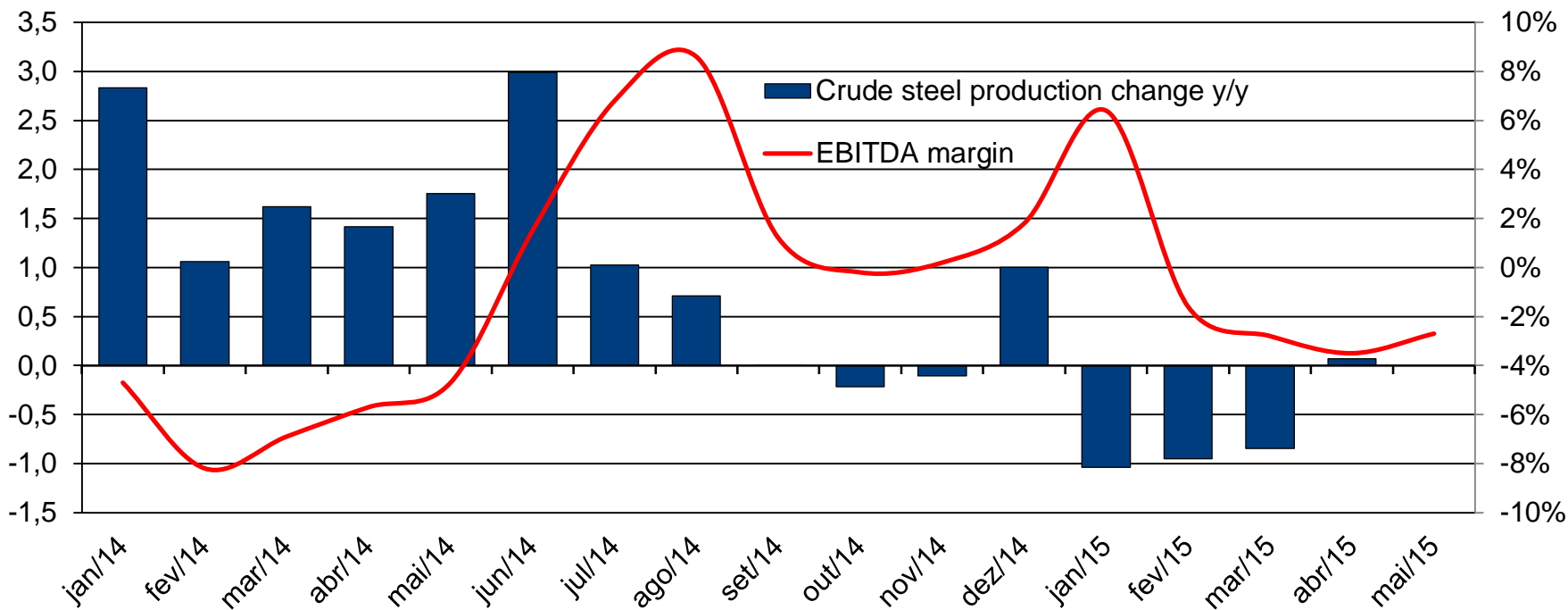


Agenda

- **Metallurgical coal price falls: what drove the spiral in H1?**
- Cost cutting is widespread and aggressive – is it sustainable?
- Price recovery: when will the market rebalance?
- Conclusions

The Chinese steel industry has been flagging and domestic steel prices tumbled in H1

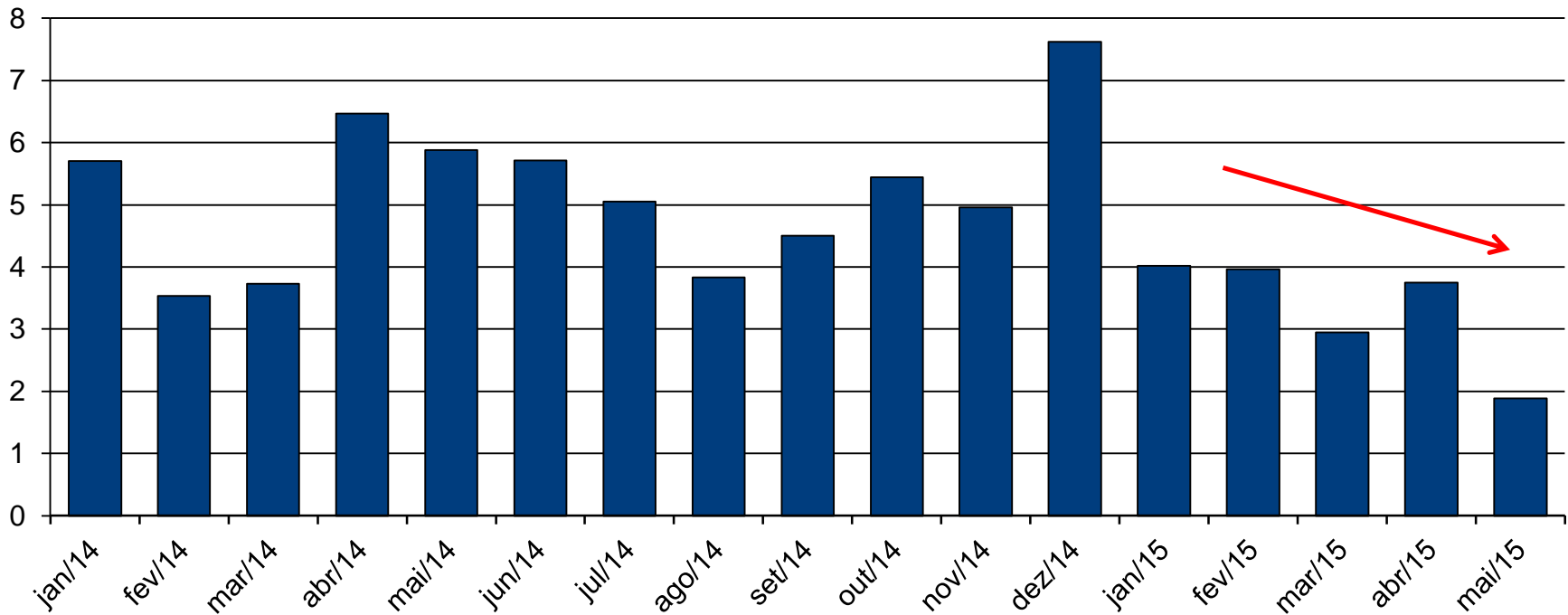
LHS: China crude steel production change y/y, Mt
RHS: Average China steel mill EBITDA margin, %



Data: CRU.

The Chinese coal industry remains oversupplied and coal imports have been contracting sharply

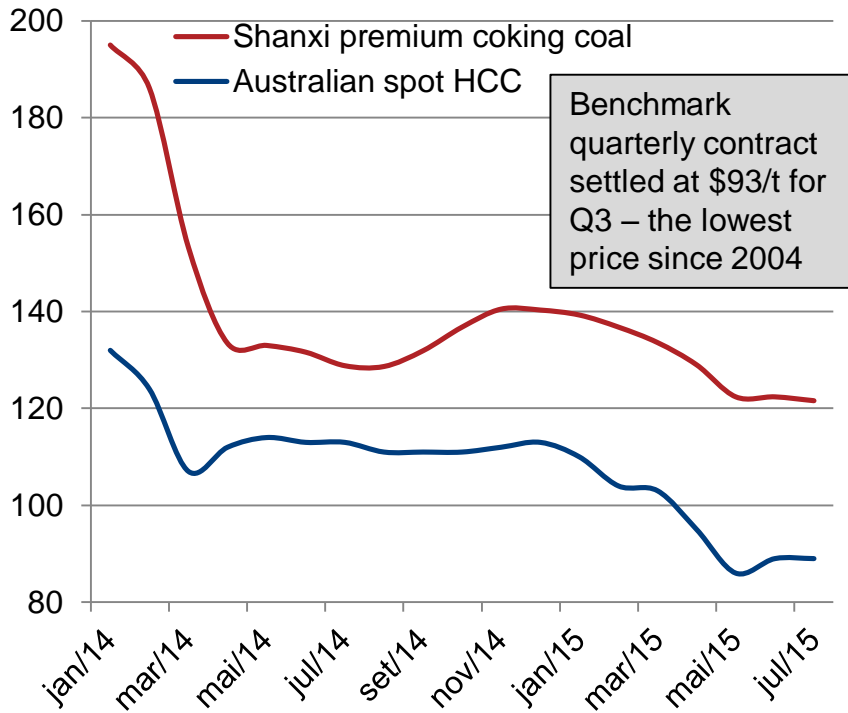
China met. coal imports, Mt



Data: CRU, GTIS.

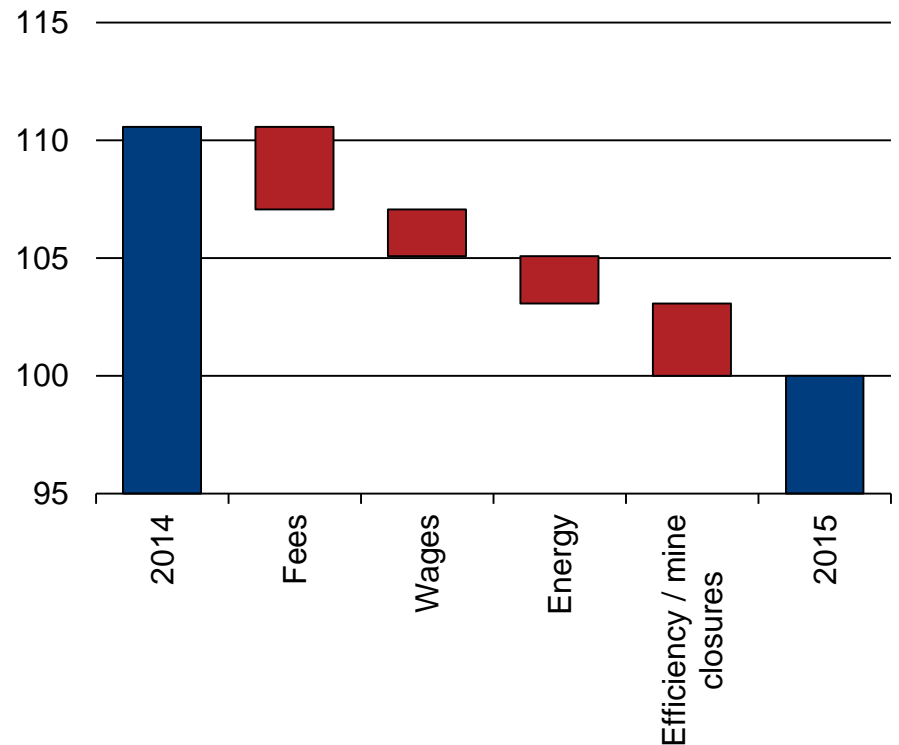
Met. coal spot prices fell rapidly from the end of January, as seaborne competition with Chinese producers intensified

Coking coal prices, \$/t



Data: CRU.

China HCC cost change breakdown forecast, \$/t, nominal



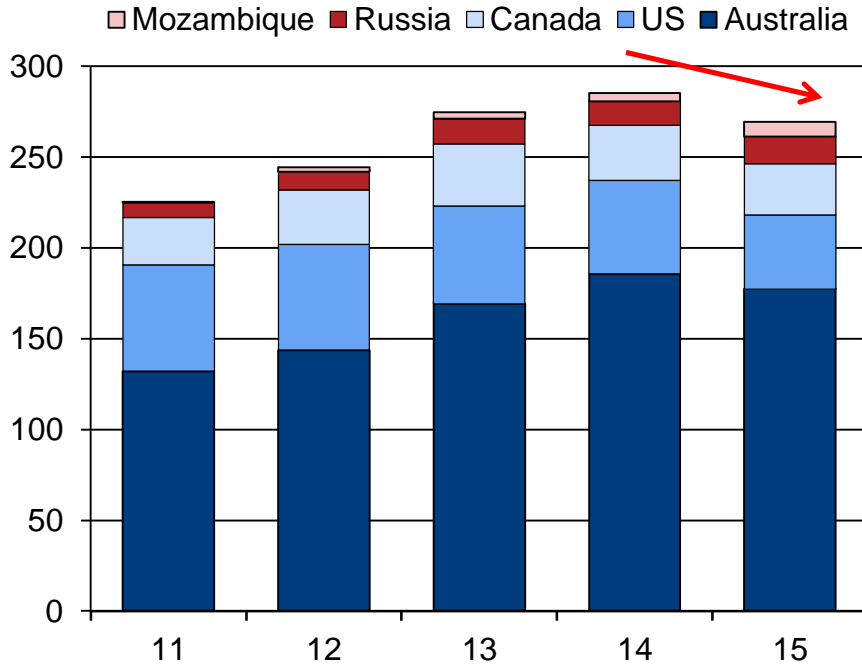


Major seaborne suppliers in Australia and Canada have been announcing mine closures and cuts in recent months

Company	Mine (s)	Date of announcement	CRU's estimate of y/y met. coal reduction in 2015, Mt
<u>USA</u>			
Alpha Natural Resources	Tiller, No. 9, Dorchester, North Fork	May-15	2.8
Consol Energy	Bailey, Enlow Fork, Harvey	May-15	0.4
Patriot Coal	Wells	May-15	0.9
Rhino Resource Partners	Rhino Eastern, Rob Fork, Tug River	Jun-15	0.3
Walter Energy	No.7, No.5	May-15	
<u>Canada</u>			
Grande Cache	Various	Jan-15	1.8
Teck	Various	Jun-15	1.5
<u>Australia</u>			
Glencore	Various	Feb-15	1.5
Peabody	North Goonyella	Jun-15	1.4
Yancoal	Various	Mar-15	0.9
<u>New Zealand</u>			
Solid Energy	Stockton	May-15	0.4
TOTAL			11.9

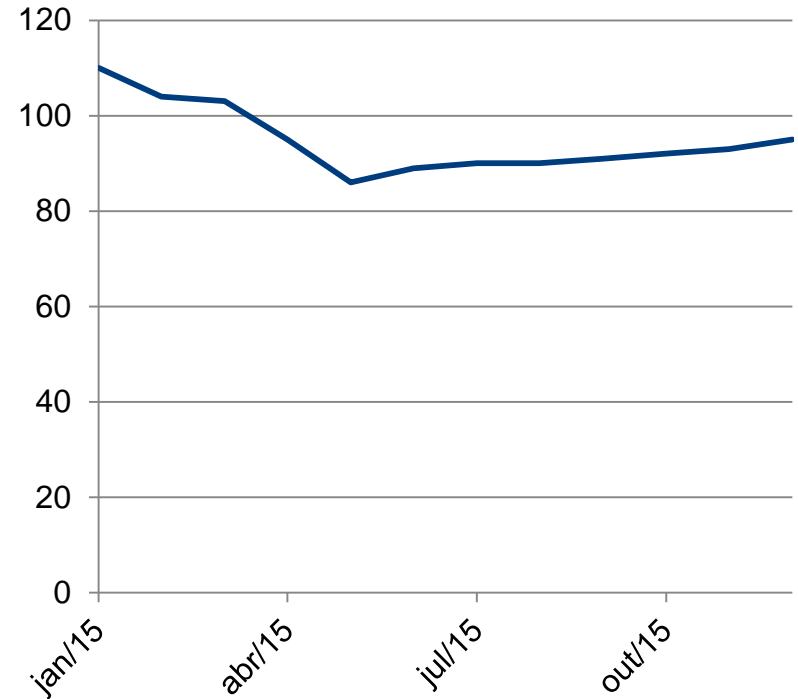
However, the reduction in seaborne exports will not lead to a significant price recovery this year

Met. coal seaborne exports, Mt



Data: CRU.

Australian hard coking coal spot price forecast, \$/t,



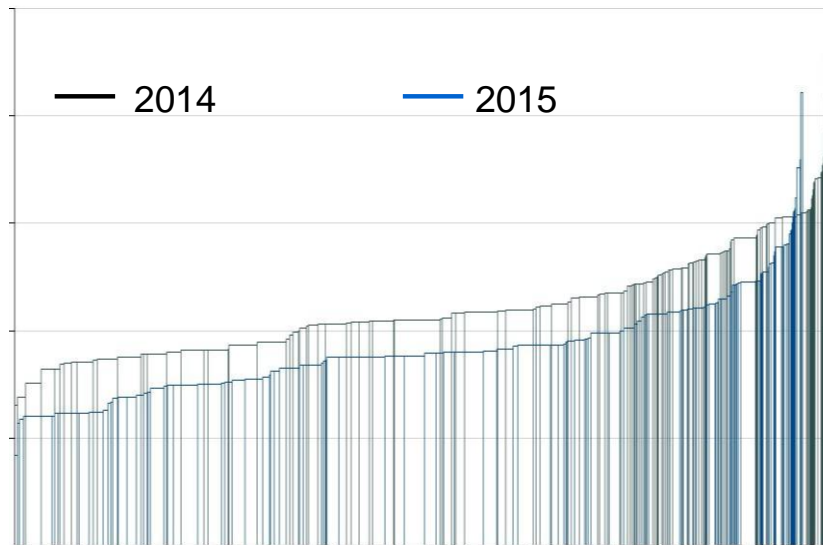


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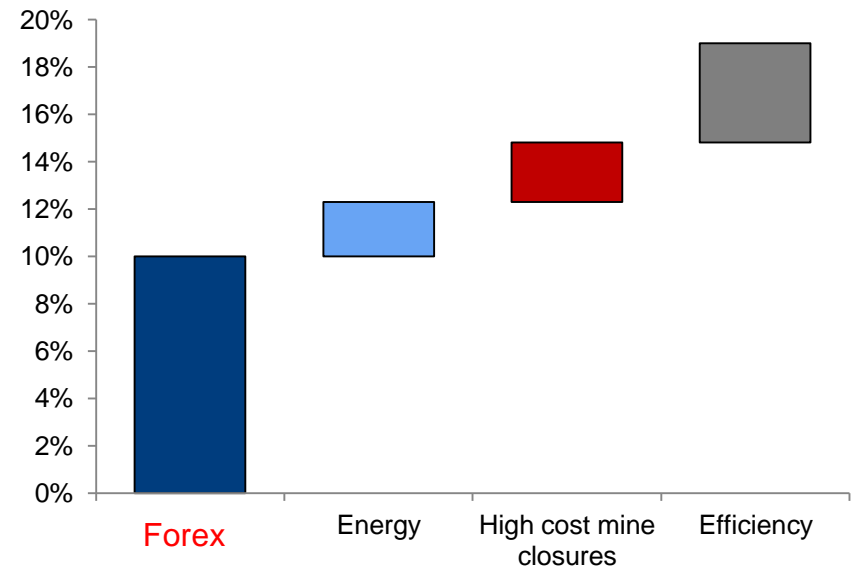
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Macro-shifts and company actions are pushing the Business Cost curve lower in 2015

x-axis: Seaborne HCC supply, Mt
y-axis: Business Costs⁽¹⁾, \$/t, FOB, nominal



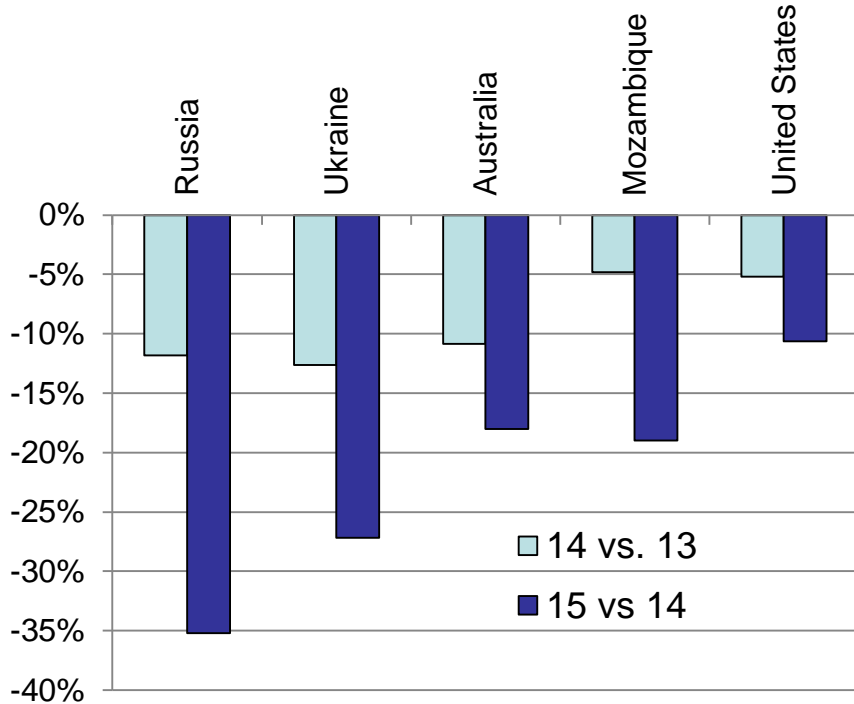
2015 cost reductions split by component, % of total y/y cost reduction



Data: CRU. Note: (1) Business Costs are equivalent to cash costs including royalties, sustaining capital and adjustments to benchmark HCC price for freight and quality differentials.

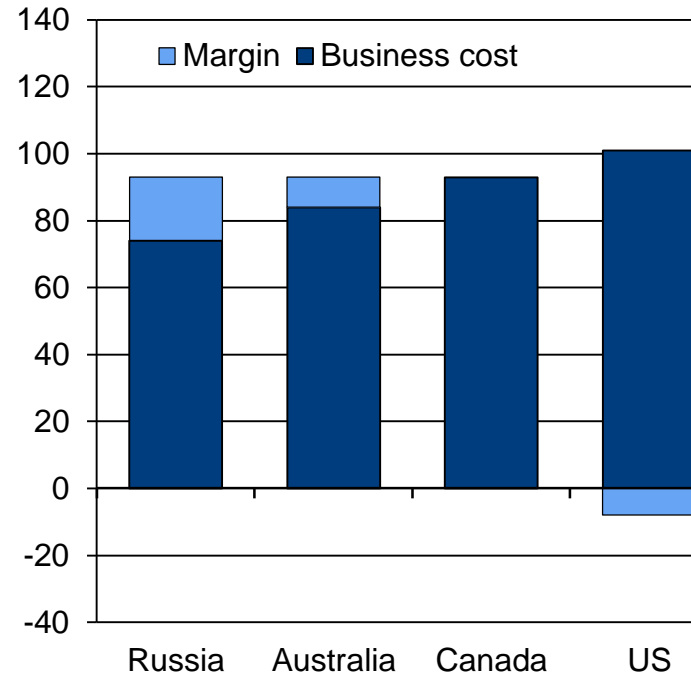
Deprecation of the Rouble means costs in Russia outperform cost cutting efforts by all other main regions

Hard coking coal business costs, y/y change, %



Data: CRU.

Average hard coking coal Business Costs, FOB, and margins, 2015, \$/t



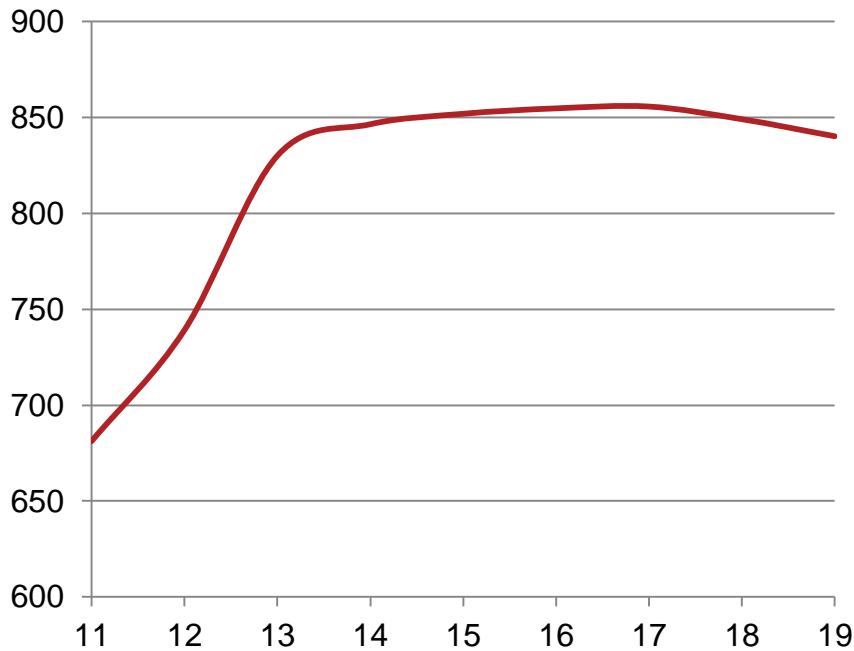


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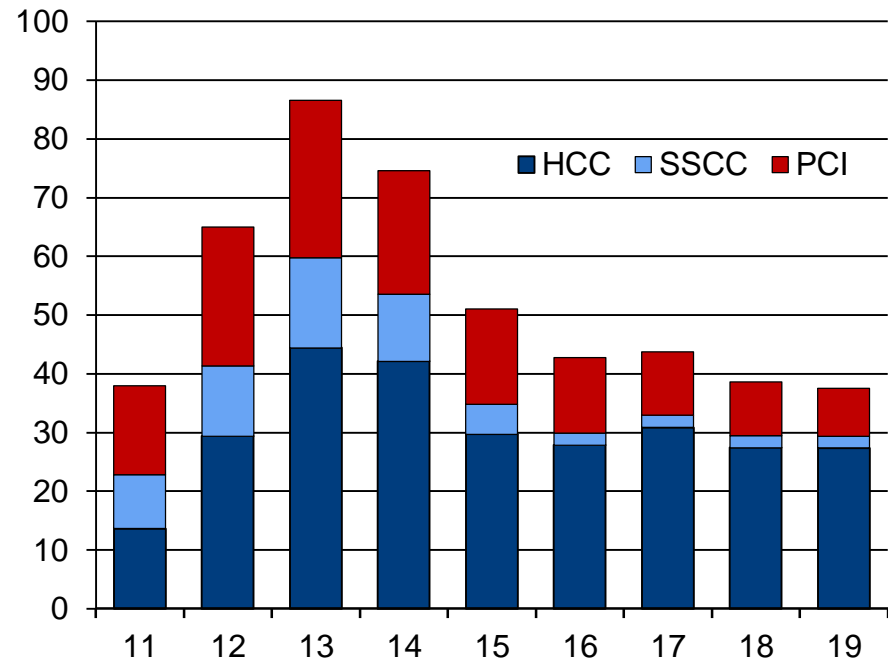
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As China's steel industry will experience zero-to-no growth in the next five years, met. coal imports will fall further

China hot metal production, Mt



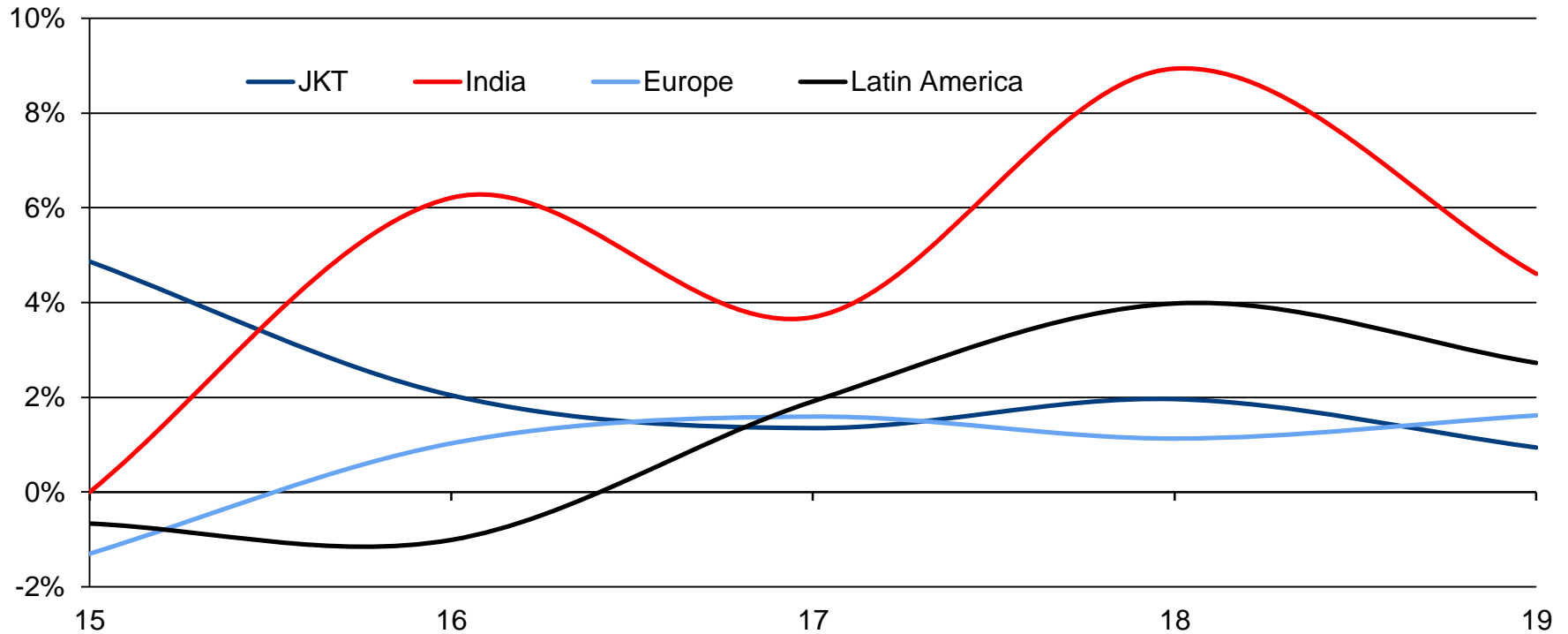
China met. coal imports, Mt



Data: CRU, GTIS.

Robust import demand growth from other markets, including India, will help to offset the decline from China

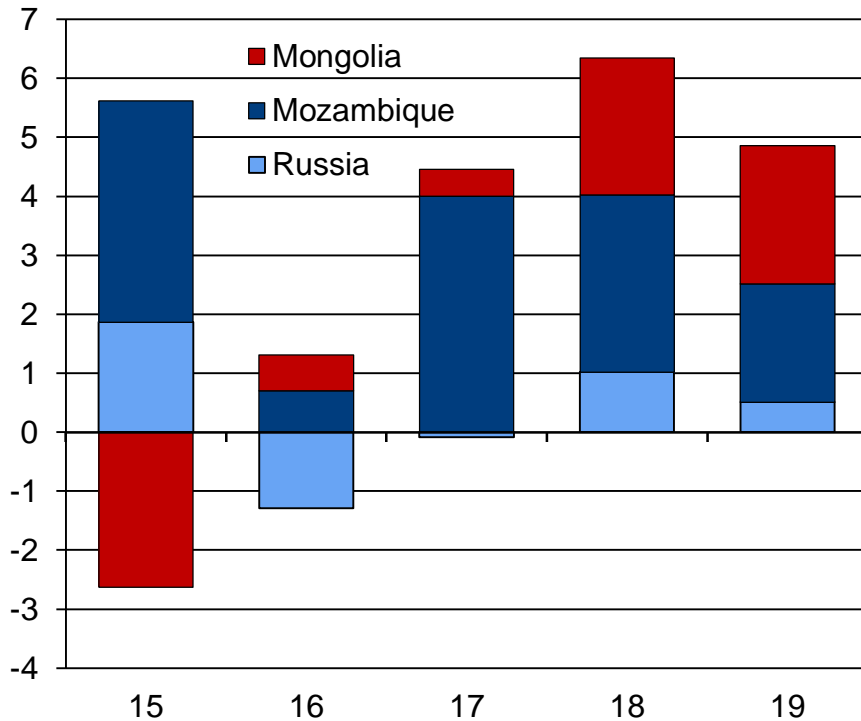
Met. coal seaborne import demand growth y/y, %



Data: CRU.

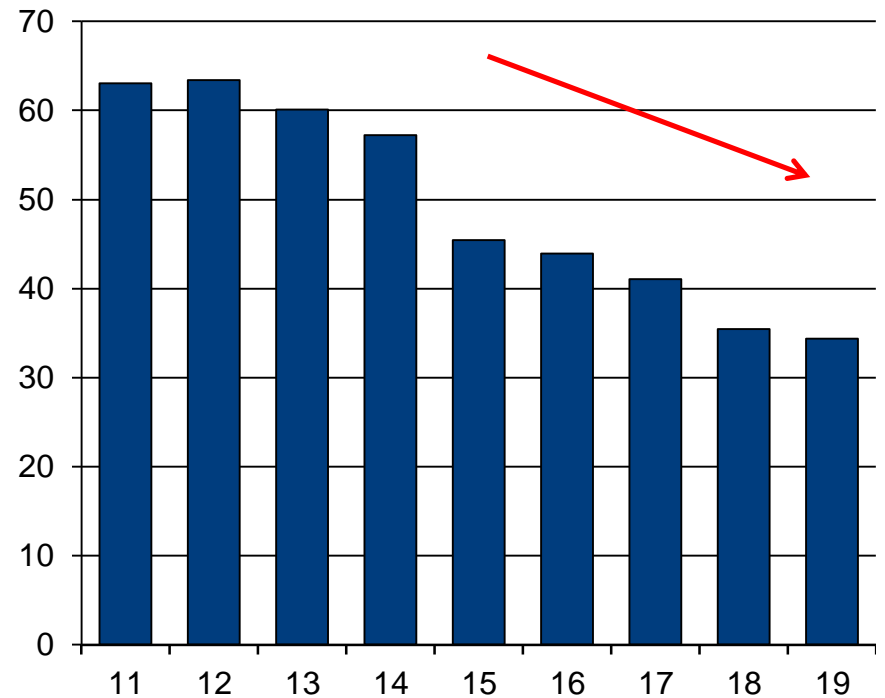
New supply from Mozambique, Mongolia and Russia will come online in the next five years

Met. coal exports change y/y, Mt



Data: CRU, GTIS, company reports.

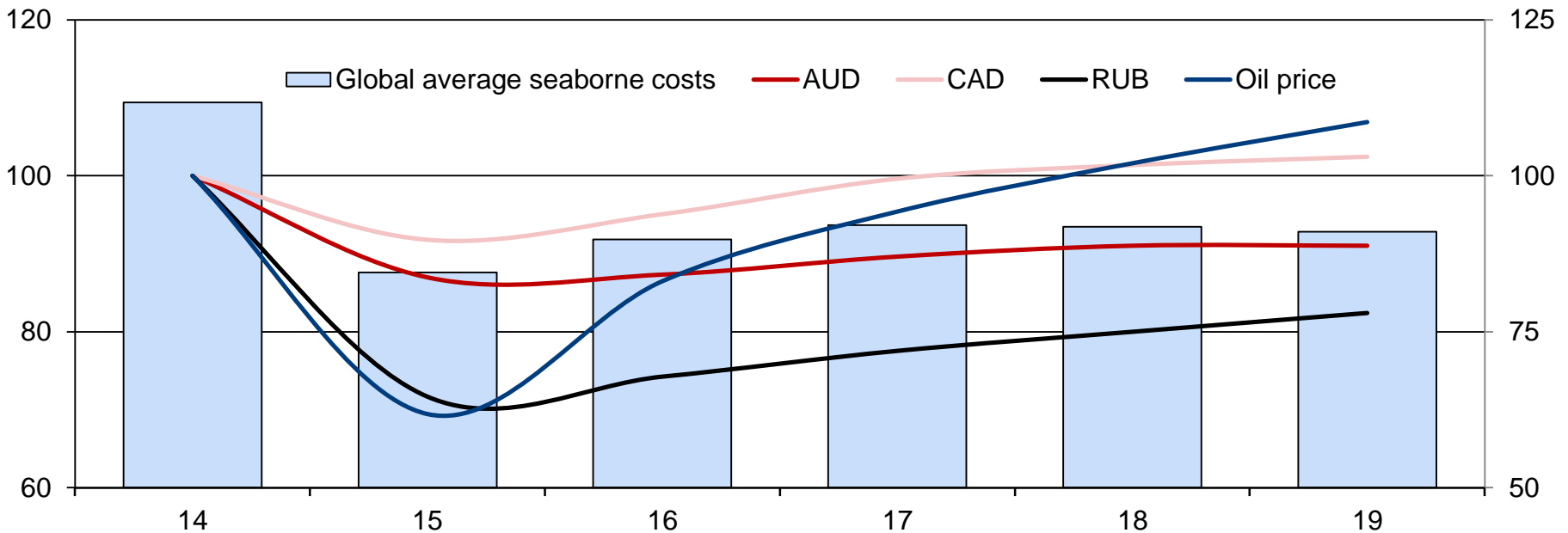
US met. coal exports, Mt



Further cost reductions will be very difficult in the years ahead, as currencies and energy prices recover

LHS: Global average seaborne HCC Business Costs, \$/t, FOB, real 2014\$

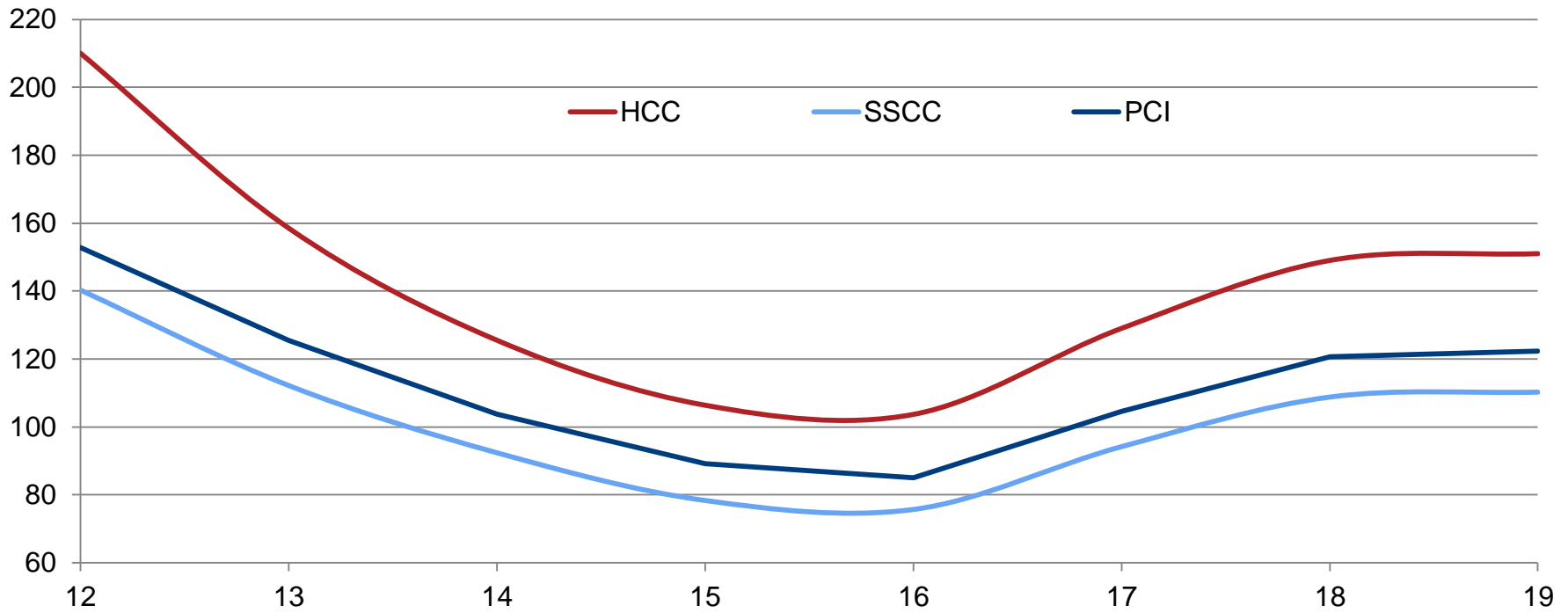
RHS: Key cost macro drivers, index 2014 = 100



Data: CRU Metallurgical Coal Cost Model. Note: (1) Cash costs including royalties, sustaining capital and adjustments to benchmark HCC price for freight and quality differentials.

The coking coal price is expected to transition towards the 90th percentile of the seaborne cost curve from 2017

Metallurgical coal contract prices, FOB, nominal, \$/t



Data: CRU.



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Conclusions

- The latest quarterly contract settlement of \$93/t is expected to shake up the market. Seaborne met. coal exports are forecast to fall this year, due to reductions from US, Australia and Canada.
- Chinese import demand is forecast to fall in 2015 and 2016, which will prevent a significant price recovery.
- Average unit metallurgical coal costs are projected to fall by an average 19% y/y in 2015. However, further cost reductions will be difficult to achieve.
- More supply displacement is required in the next few years for the market to rebalance. US exports are forecast to fall by 40% between 2014-2019.
- The market is projected to rebalance between 2017-2019 and CRU's price forecast for premium hard coking coal in 2019 is \$126/t, FOB, real 2014\$.



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End



Thanks for your attention.



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