

# Thermal Coal Price Hike Difficult to Reverse before Raising Output, Coke and Coking Coal Prices Going Up amid Low Stocks

2018-9-9

## 1. Weekly Overview

### 1.1 Thermal Coal: Price Rise Difficult to Reverse before Output Grows

(1) As bearish sentiment relaxed temporarily, thermal coal price resumed the upward trend.

Although the government tried to make coal prices return to the green zone through policy regulation, thermal coal prices restored the rising trend after a short-term decline, due to the rapidly increasing demand and the impeded growth of supply. As of June 1 (Friday), CCI5500 index jumped 26 yuan/t to 672 yuan/t, up 4% w/w. Coal prices at mine mouth continued heading upward. Shanxi's Datong Q5500 was assessed at 440 yuan/t, up 10 yuan/t w/w. Inner Mongolia's Erdos Q5500 registered 361 yuan/t (+5 yuan/t w/w) and Shaanxi' Yulin Q5800 quoted 421 yuan/t, up 10 yuan/t.

Thermal coal stocks at producing areas continued accumulating. The stocks at the northern ports were reducing, while the inventories at consuming areas rose slightly. **Producing areas:** thanks to the rising mood of thermal coal market, the weighted capacity utilization of sample thermal coal mines in Shanxi and Shaanxi grew by 1pp to 111%. Due to environmental factors, the combined thermal coal output at producing areas ticked down 83kt or falling 2.8% w/w. On the contrary, inventories at producing areas climbed up. The stocks at sample mines in Shanxi and Shaanxi recorded 0.92Mt, up 96kt or 11.6% w/w. **Ports:** the stocks at the northern ports continued declining. As of June 1, their stocks totaled 13.65Mt, down 0.17Mt or 7.0% w/w. The inventory of Guangzhou Port was 2.18Mt, edging down 34kt or 1.5% w/w. As vessel sailing was hindered at Yangtze River ports, their stocks piled high. Totally 4.36Mt of coal was stocked at five ports along the Yangtze River, up 0.09Mt or 2.1% w/w. **Consumption areas:** affected by more rainy days in southern China, coal burn of the six coastal power plants reached 5.33Mt in the week, falling by 0.18Mt or 3.3% w/w. In particular, the daily consumption on June 1 grew by 18% YoY yet dropped 3.3% w/w to 0.74Mt. Subsequently, inventories inched up by 0.16Mt or 1.3% w/w to 12.56Mt, leading the available days up 1.3 days w/w to 16.9 days.

(2) As overseas miners were confident on China's market in the peak season, the offer prices elevated marginally.

As domestic market landscape turned positive, overseas miners raised their expectation on China's coal market in the peak season. The prices of imported coals continued forging ahead. As of June 1 (Friday), CCI import 5,500 was assessed at US\$86/t, up US\$0.7/t w/w, CCI import 4,700 at US\$71.5/t and CCI import

## Price changes

Unit: yuan/t

	Spot	Up/ down	Converted Futures	Futures close price	Up/ down	Basis	Up/ down
<b>Thermal coal</b>							
QHD Q5500	667	26	0	0	0	0	0
CCI5500	672	26	672	636.2	46.4	35.8	-20.4
CCI import 5500	641.5	8.2	0	0	0	0	0
<b>Coking coal</b>							
CCI Liulin low-sulfur	1610	30	0	0	0	0	0
CCI Liulin high-sulfur	1120	10	1338	1253	77.5	85.4	-58.05
Australian Primary*	199	3	0	0	0	0	0
Australian mid-volatile*	184	0.1	1415	0	0	0	0
Mongolia 5#	970	0	1428	0	0	0	0
<b>Coke</b>							
Rizhao Quasi Grade I met.	2050	50	2050	2081	102	-31	-52

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

## Macro and industry data

Unit: Mt, TWh, %

	3/18	4/18	5/18	YTD	YoY	YTD YoY
<b>Macro Economy Data</b>						
FAI growth	7.5%	7.0%			-	-5pps
Infrastructure investment growth	13.0%	12.4%			-	-0.6pps
Real estate investment growth	10.4%	10.3%			-	-0.1pps
PPI	3.1%	2.9%			-0.2pps	
PMI	51.5%	51.4%	51.9%		0.7pps	
Steel sector PMI	50.6%	51.7%	50.6%		-4.2pps	
<b>Coal Industry Downstream Data</b>						
Power generation	528.3	510.78		2087.65	6.9%	7.7%
Of that: thermal	401.7	378.47		1595.1	7.3%	7.1%
Hydro	66.6	70.18		263.33	-2.6%	1.3%
Cement output	154.43	210.72		584.21	3.2%	-1.9%
Crude steel output	73.98	76.70		288.97	4.5%	5.4%
Pig iron output	60.46	63.11		238.78	-0.4%	-1.2%
Coke output	35.57	36.72		139.35	-3.6%	-3.5%
Raw coal output	288.26	293.30		1096.71	4.1%	3.8%
<b>Coal Imports &amp; Exports</b>						
Coal imports	26.70	22.28		97.70	-10%	9%
Coal exports	0.22	0.51		1.48	-43%	-55%
Coal net imports	26.48	21.77		96.22	-9%	12%
Thermal coal imports	22.68	17.74		81.17	9%	27%
Thermal coal exports	0.16	0.38		1.03	-22%	-61%
Thermal coal net imports	22.52	17.36		80.14	10%	31%
Coking coal imports	4.02	4.54		16.53	-46%	-35%
Coking coal exports	0.06	0.13		0.45	-68%	-37%
Coking coal net imports	3.96	4.41		16.08	-45%	-35%

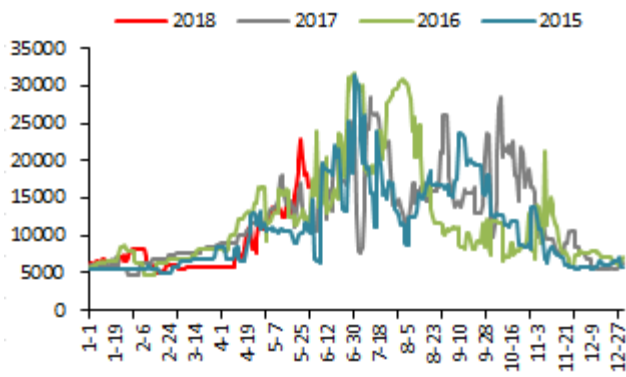
3,800 was assessed at US\$54.8/t, up US\$1.1/t w/w. As of May 31, Newcastle NEWC spot thermal coal price traded US\$108.3/t, down US\$1.23/t.

The price gap between Q5500 thermal coal at China southern ports and seaborne coal registered at 56.4 yuan/t, narrowing by 7 yuan/t from last week.

### (3) Amid a shortage of supply, the price rally is hard to reverse.

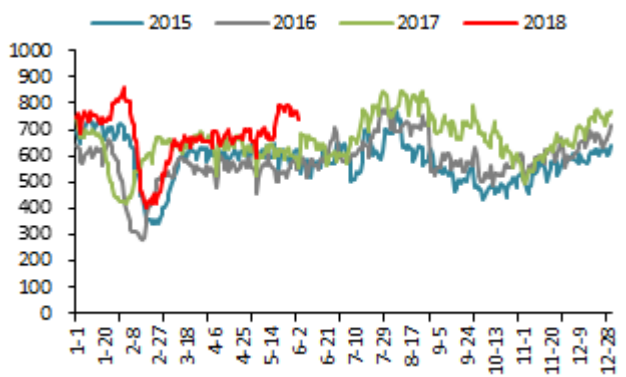
Pressurized by the policy, some traders start to destock. Thus, thermal coal price has been trending down one week. Seeing from the fundamentals, demand grows rapidly. Although the hydropower picks up recently, the daily consumption of thermal power remains high over a year ago. Guangzhou is reported to have a large gap for power supply, as Guangzhou Power Supply Authority announced on May 30 to exercise off-peak production. We believe demands of electricity and coal will maintain high this summer.

**Recovering Flow Rate of the Three Gorges** Unit: m<sup>3</sup>/s



Source: Fenwei

**Daily Consumption of Six Power Plants Staying High** Unit: kt



Source: Fenwei

Despite a robust demand, the supply side is unable to substantially release output due to the examination on overcapacity production and environmental concerns. The “nine measures” introduced by the National Development and Reform Commission (NDRC) only delivers a short-term effect of guiding market sentiment and public opinions, while the effect on regulating supply and demand is limited. On the one hand, the NDRC intends to raise output; on the other hand, safety

### Thermal coal prices:

Unit: yuan/t

	Thermal coal	Daily change	Weekly change
<b>At producing areas</b>			
Datong 5500	440	0	10
Shuozhou 5000	360	0	0
Erdos 5500	361	4	5
Erdos 5000	295	1	5
Erdos 4500	205	0	5
Yulin 6200	447	0	2
Yulin 5800	421	0	10
<b>At ports</b>			
QHD 5800 mixed	692	27	26
QHD 5500 mixed	667	27	26
QHD 5000 mixed	578	22	22
QHD 4500 mid-sulfur	508	21	21
Shenmu premium 6000 mixed	825	0	30
Shenhun 1# 5500	775	0	30
GZ Shanxi 5500	760	0	30
GZ Shanxi 5000	680	0	20
<b>Price indexes</b>			
CCI5500	672	6	26
CCI5000	584	4	22
CCI 5500 import	641.5	6.2	8.2
CCI 4700 import	533.3	0.8	2.5
CCI 3800 import	408.7	3.6	10
CEIC 5500 composite	591		5
CEIC 5500 trading price	653		1
CEIC 5000 trading price	567		-12
CEIC 5500 FOB	594		8
CEIC 5000 FOB	524		1
CCTD5500	-		-
CCTD5000	564		-8
CCTD4500	475		-8
BSPI	570		-1
BSSPI5500	574		-
BSSPI5000	492		-
Australia 5500 FOB(\$/t)	76		1
Australia 5500 CFR(\$/t)	86		1
NEWC(\$/t)	108	1	-1
RB(\$/t)	106	0	0
DES ARA(\$/t)	95	0	3

and environmental departments do not ease control on the supply side. Apparently, regulatory policies in the coal industry are not coordinated. This summer, the phased shortage of coal supply may continue occurring. **If no concerted efforts target on raising output, the price rally may be difficult to reverse.**

## 1.2 Coke: Price Bullishness Continuing owing to Strong Supply and Demand

### (1) Coke price continued hiking.

Coke prices were in the sixth-round hike this week. As of June 1 (Friday), the prices of Shanxi Lvliang Quasi Grade I coke rose by 90 yuan/t w/w to 1,980 yuan/t. Shandong Rizhao Grade II coke and Hebei Tangshan Quasi Grade I coke registered 2,080 yuan/t and 2,180 yuan/t, up 30 yuan/t and 80 yuan/t w/w respectively. The price of quasi grade I met coke at Tianjin Port posted 2,050 yuan/t, up 50 yuan/t w/w.

**The steel stocks continued declining, bolstering steel prices.** This week, the social inventories of main steel products reached 10.77Mt, down by 0.58Mt or -5% w/w. Affected by production cuts at many regions for environmental concerns, the overall sentiment was positive and prices moved upward. As of June 1, Shanghai rebar price registered 4,050 yuan/t, skyrocketing 200 yuan/t w/w.

**Operating rates of coking plants and steel mills fell down due to production cuts.** This week, the operating rates of blast furnaces posted 71.82%, down 0.14pp w/w, and those of coke ovens ticked down 3.5pps to 75.4%. As environmental supervision was still going on, the output release was rather slow. Yet, the downstream demand was robust. Under the context, coke prices welcomed the sixth hike in a row. This week, coke output of Fenwei sampled coking plants rose by 15kt to 1.62Mt, while steel mills' inventory reduced to 4.15Mt, down 0.07Mt or 2% w/w, leading available days for coke use to shortening by 0.2 day to 12.3 days. Stocks of coking plants reduced by 57kt or 13% w/w to 384kt. Stocks at four ports reached 3.72Mt, down 0.14Mt or 3.6% from last week. After six-round price lifts, **profits in coking industry continued improving.** The profits per ton coke at the sample coking plants averaged 333 yuan/t, rising 78 yuan/t or 31% w/w.

### (2) Amid robust demand and supply as well as the reducing stocks, the price rally may continue.

After six-round price hike, the profits of coking plants are picking up greatly, while the effect of lifting stocks by steel mills is not satisfactory. The coke supply is suppressed by environmental protection, and there is limited space for the already high operating rates of coke ovens to go up further. Although steel mills in some areas are also affected by environmental protection, the impact on coking industry is even greater. As the Shanghai Cooperation Organization (SCO) Summit is going to convene in Shandong, the productions of steel mills and coking plants will be restricted. Yet, the reducing coke supply and demand in certain region will not change the overall restocking of steel companies. Also, the rising expectation stimulates traders to stockpile more goods, which tends to make it more

Thermal coal stocks		Unit: kt	
	Quantity	Daily change	Weekly change
<b>At ports</b>			
Qinhuangdao	5220	-5	-70
SDIC Jingtang (east port)	1857	6	-45
Jingtang Port (old port)	2100	0	-68
Caofeidian	3320	-34	-410
Huanghua	1150	-140	-430
Guangzhou	2184	39	-34
Subtotal	13647	-173	-1023
<b>Stocks of five ports along Yangtze River</b>			
Rugao Port	1300		0
Changhong International	940		50
Jiangyin Port	#N/A		-
Yangtze Harbor	1150		-50
Taihe Port	970		90
<b>At six major power plants</b>			
Zhejiang Power	1950	50	100
Shanghai Power	234	9	-6
Guangdong Yudean	2580	20	125
Guodian	2506	-29	-70
Datang	1528	-67	141
Huaneng	3766	-77	-134
<b>Daily consumption</b>			
	741	-27	-50
Zhejiang Power	136	-11	-10
Shanghai Power	31	3	3
Guangdong Yudean	149	-6	-35
Guodian	133	-4	0
Datang	83	-8	-12
Huaneng	209	0	-1
<b>Available days</b>			
	17	0.5	1.3
Zhejiang Power	14	1.4	1.7
Shanghai Power	8	-0.6	-1.0
Guangdong Yudean	17	0.8	4.0
Guodian	19	0.4	-0.5
Datang	18	0.9	3.0
Huaneng	18	-0.3	-0.6
<b>Australia Newcastle Port</b>			
Carrington dock	278		119
Kooragang dock	2398		747

difficult for steel mills to replenish and help push up coke price to a certain extent. In our view, coke price will continue running strongly in the short run.

### 1.3 Coking Coal: Despite Falling Supply and Demand, Low Inventories Supporting the Price to Trend Upward

#### (1) Coking coal price continued growing this week.

As of June 1, CCI Liulin low sulfur index posted 1,610 yuan/t, up 30 yuan/t w/w, and CCI Liulin high sulfur at 1,120 yuan/t, up 10 yuan/t from last week. Coking coal prices saw a larger growth w/w. For example, primary coking coal prices at Shanxi's Anze area rose by 50 yuan/t to 1,650 yuan/t.

**As the operating rates of coke ovens fell down, coking coal supply and demand were restricted in the short term. Supply:** Due to environmental inspection, the capacity utilization of coking coal mines retreated 1.0pp w/w to 114%. **Stocks:** This week, coking coal stocks at merchant coking plants recorded 7.02Mt, edging down 18kt or 0.3% w/w, while stocks at steel mills stood at 7.51Mt, rising 45kt w/w. The stocks in the three ports declined by 50kt or 2.6% w/w to 1.83Mt. **Imported coals:** imported coal prices ticked up thanks to the recovering domestic price along with increasing demands from other Asian countries. As of May 31, Australia premium primary coking coal reported US\$199/t CFR China, up US\$3/t w/w. Mongolia 5# coking coal reported 970 yuan/t at Ganqimaodu Border, and 1/3 coking coal at Ceke Border quoted 680 yuan/t, all remaining steady.

#### (2) Despite restricted coking coal supply and demand, low stocks will underpin the price to head ahead.

The recently escalated environmental protection policy inhibits the operating rates of coke ovens, causing the demand to weaken in this period. Meanwhile, over-capacity production inspection on coal mines also delivers a certain impact on the supply at producing areas. So, both supply and demand tend to see a fall in some periods. Meanwhile, the inventory is relatively low at present. Despite the slowdown in production, the procurements by coking plants and steel mills may not be affected much, which will continue supporting the price to head upwards.

## 2. Key News & Events in Coal and Downstream Industries

### 2.1 Domestic News

#### (1) Shenhua June's annual long-term contract price maintaining stable while monthly long-term contract price surging

Shenhua Annual Long-term Contract Price in June compared with before May 31, 2018

Coal Type	Price (yuan/t)	Change
Shen Mix 1#	557	-
Shen Mix 2#	527	-
Shen Mix 5000	506	-
Shen Mix 3#	486	-
Shen Mix 4#	456	-

### Coking coal prices:

Unit: yuan/t

	Coking coal	Daily change	Weekly change
<b>Price at producing areas</b>			
Liulin 4# JM	1640	0	30
Liulin 9# JM	1178	0	10
Kailuan washed JM	1605	0	0
Baotou washed JM	1090	0	0
<b>CCI coking coal price index</b>			
CCI Liulin low-sulfur	1610	0	30
CCI Liulin high-sulfur	1120	0	10
CCI Lingshi fat coal	1070	0	0
CCI Jining gas coal	980	0	0
CCI Changzhi PCI coal	850	0	0
<b>CCI Fenwei estimation</b>			
Gujiao 2# JM	1590	20	20
Linfen Anze JM	1650	0	50
Linfen Puxian 1/3 JM	1280	20	20
Liulin low-sulfur (raw coal)	920	0	0
Changzhi meager lean coal	1010	10	10
Jincheng PCI coal	910	0	10
Yangquan PCI coal	940	0	0
<b>Coking coal price at Jingtang Port</b>			
Shanxi JM	1760	0	30
Shanxi 1/3 JM	1390	20	20
Hebei JM	1580	0	0
Inner Mongolia fat coal	1200	0	0
Inner Mongolia 1/3 JM	1140	0	0
<b>International coking coal price</b>			
Australian premium(\$/t)	199	0	3
Low-volatile primary(\$/t)	198	0	3
Medium-volatile HCC(\$/t)	184	0	0
Low-volatile PCI coal(\$/t)	152	0	-2
Medium-volatile PCI(\$/t)	151	0	-2
SSCC(\$/t)	132	0	0
Russia K10 primary(\$/t)	194	0	0
Ganqimaodu Mongolia 5#	970	0	0
Ceke 1/3 CC	680	0	0

Coal Type	Price (yuan/t)	Change
Shen Mix 5#	435	-
Quasi 2#	496	-
Quasi 5#	435	-

Shenhua Monthly Long-term Contract Price in June compared with before May 31, 2018

Coal Type	Price (yuan/t)	Change
Outsourced-5800	659	+33
Outsourced 1-5500	625	+31
Outsourced 2-5200	591	+29
Outsourced coal 2-5200	591	+29
Outsourced 3-4800	545	+27
Outsourced coal 3-4800	545	+27
Outsourced 4-4500	511	+25
Outsourced coal 4-4500	511	+25
Outsourced coal 7-4800	545	+27

Spot price of special coal types

Coal Type	Price (yuan/t)	Change
Coal with ultra-low ash	710	+45
Shenhua Premium 2#	695	+45

## (2) China Railway informs to reduce basis rate 1 and lift basis rate 2 for 20' and 40' containers

From June 1, 2018, the standard rates of 20' and 40' containers are adjusted as follows:

Item	Type	Basis Rate1 (yuan/container)		Basis Rate 2 (yuan/container-km)	
		Before	After	Before	After
Container	20'	500	440	2.025	3.185
	40'	680	532	2.754	3.357

## (3) The examination on performance of long-term coal contracts starts

The emphasis of this examination is to comprehensively check the performance of the annual long-term coal contracts of coal companies and large coal groups in Shanxi, Shaanxi and Inner Mongolia. The examination mainly covers four aspects: 1) whether the ratio of the signed long-term contracts is more than 75% of the self-owned resource volume; 2) whether the performance rate is more than 90%; 3) whether the monthly shipment, loading and unloading are balanced; 4) whether there are non-conformed behaviors like violating the price mechanism, tie-in sales and disguised price hike, etc. Moreover, the third-party credit service agencies are invited to collect credit data during the examination. Those companies with good performance will be rewarded with preferential policies in project approval, transport capacity allocation, price supervision and credit constraints, while those with low performance rates and non-compliance performance behaviors will be punished or even blacklist in discredited companies

Coking coal stocks:		Unit: kt	
	Quantity	Weekly change	
<b>Merchant coking plants</b>			
Coking coal stocks	7015	-18	
Available days	15	0.6	
<b>Steel mills</b>			
Coking coal stocks	7509	45	
Available days	15	0.1	
<b>At ports</b>			
Jingtang Port	1240	-94	
Qingdao Port	40	-5	
Rizhao Port	550	50	
Subtotal	1830	-49	

Coke prices:		Unit: yuan/t		
	Coke	Daily change	Weekly change	
<b>Coke price at producing areas</b>				
Changzhi grade I met coke	2060	30	90	
Jinzhong grade II	1880	30	80	
Lvliang quasi grade I	1980	30	90	
Rizhao grade II	2080	0	30	
Tangshan quasi grade I	2180	30	80	
Tangshan grade II	2050	50	100	
Wuhai grade II	1850	0	100	
<b>Coke price at ports</b>				
Rizhao quasi grade I (domestic trade)	2050	20	50	
Tianjin Port quasi grade I (domestic trade)	2050	20	50	
Tianjin Port quasi grade I (export)(\$/t)	313	0	8	

Coke stocks:		Unit: kt	
	Quantity	Weekly change	
<b>Merchant coking plants</b>			
Coke stocks	384	-57	
<b>Steel mills</b>			
Coke stocks	4147	-71	
Available days	12	-0.2	
<b>At ports</b>			
Tianjin	660	-40	
Lianyungang	60	-20	
Rizhao	1450	-150	
Qingdao	1550	70	
Subtotal	3720	-140	

#### (4) Manufacturing PMI reaches 51.9% in May, 0.5pp higher MoM

China's Manufacturing Purchasing Managers Index (PMI) posted 51.9% in May, up 0.5pp from Apr, indicating that the manufacturing industry expanded fast. In May, China's Non-manufacturing Business Activity Index registered 54.9%, up 0.1pps MoM, meaning non-manufacturing industries grew slightly amid stability. The Composite PMI Output Index was 54.6% in May, 0.5pps higher MoM, still above the critical point, indicating that the production and operation of Chinese companies expanded in a faster pace.

#### (5) 15 provinces rank excellent in the execution of "Air Ten Articles"

The Ministry of Ecology and Environment (MEE) announced the final assessment results on the implementation of "the Action Plan for Air Pollution Prevention and Control". 15 provinces including Beijing, Inner Mongolia, Heilongjiang, Shanghai, Zhejiang, Fujian, Shandong, Hubei, Hunan, Hainan, Sichuan, Guizhou, Yunnan, Tibet and Qinghai are rated as excellent; eight provinces of Tianjin, Hebei, Liaoning, Jilin, Jiangsu, Guangdong, Chongqing and Xinjiang as good; eight provinces of Shanxi, Anhui, Jiangxi, Henan, Guangxi, Shaanxi, Gansu and Ningxia as qualified.

#### (6) Shanxi's Zhongyu Coal Mine Project, with a total investment of RMB 7.7 billion yuan, is approved

Zhongyu Coal Mine Project in Huozhou East Mining Area of Shanxi Province was approved by the NDRC on May 28. The total investments amount to 7.7 billion yuan. The project unit is Qin'an Coal & Electricity Co., Ltd. affiliated to Huozhou Coal & Power Group. The construction site is located in Shanxi's Changzhi and Linfen. Zhongyu Coal Mine boasts a construction scale of 5 Mtpa, and is equipped with a coal preparation plant.

#### (7) Tangshan-Caofeidian Railway (Tangcao Railway) is expected to open at the end of June

The entire tracking project of the Tangcao Railway is drawing to an end now, and other remaining works are in progress. Tangcao Railway is expected to be open to traffic by the end of June, and starts taking passengers before the end of 2018.

#### (8) Hebei Province plans to withdraw 12.17Mtpa of coal capacity in 2018

Hebei Province plans to close off 22 coal mines with a total capacity of 12.17Mtpa in 2018, of which 21 coal mines will be shut down involving a capacity of 11.62Mtpa, and one coal mine will cut its capacity by 0.55Mtpa.

#### (9) Inner Mongolia is expected to complete coal de-capacity tasks ahead of schedule

Over 2016-2017, Inner Mongolia exited 14.1Mtpa of coal capacity totally, i.e. 82.5% of the tasks set in the "13th Five-Year Plan of the Coal Industry". In 2018, 22 coal mines will be withdrawn with a capacity of 11.1Mtpa in Inner Mongolia. A total of 57 coal mines will be closed in 2016-2018, involving a combined capacity of 25.2Mtpa. Inner Mongolia may complete the withdrawal tasks set in the Plan two years ahead of schedule.

#### (10) Datong Coal is projected to extract 25Mt of coal in 2018

Yin Jimin, chief accountant of Datong Coal Group, said that coal output of Datong Coal is expected to reach 25Mt in 2018, and its commercial coal sales will realize 21Mt, bringing about a revenue of 8.4 billion yuan.

#### (11) Trading of coal capacity replacement quota heats up

Recently, Hebei, Hunan, Fujian, Heilongjiang, etc. have successively initiated replacement of coal capacity quota. Hebei has completed the replacement of 12.08Mtpa of coal capacity quota by May 19, with the transaction price averaging at 161,500 yuan/kt. Through the trading, the backward capacity can exit as soon as possible after obtaining the required funds for employee resettlement and restructuring & transformation; newly-added capacity, especially unapproved constructed capacity, also regarded as high-quality capacity, can obtain producing quota and supply coal to the market, thus optimizing the coal supply structure on the whole. However, it should be ensured that the transaction price is within a reasonable level, which is conducive to steadily advancing the de-capacity efforts.

#### (12) No allocation for the construction of general photovoltaic power plants in 2018 and reducing subsidies for the PV power price

On May 31, NDRC, the Ministry of Finance and the National Energy Administration (NEA) jointly informed that 10 million kilowatts will be allocated to support the construction of distributed photovoltaic projects in 2018, and no project will be scheduled to general photovoltaic power plants in 2018.

Since May 31, benchmark on-grid tariff for the newly-commissioned photovoltaic power plants will reduce by 0.05 yuan/Kwh, and that for class I, II and III resource zones will be adjusted to 0.5 yuan/Kwh, 0.6 yuan/Kwh, and 0.7 yuan/Kwh respectively (tax included). For newly-commissioned distributed photovoltaic power generation projects, the subsidy standard for whole power quantity will reduce by 0.05 yuan/kwh to 0.32 yuan/kwh (taxes included).

## 2.2 International News

### (1) To reduce the trade deficit, China plans to import more coals from the United States

China promised to purchase more energy and agricultural products from the United States in May, with an aim to reduce the trade deficit of up to 375 billion U.S. dollars and ease the escalating trade war between the world's two largest economies.

### (2) U.S. estimated coal production over May 21-26 inches up 0.6% YoY

American coal output was estimated at 14.83 million short tons or 13.45 Mt in the fourth week of May (May 21-26), increasing 7.8% w/w and ticking up 0.6% YoY, according to the data from U.S. Energy Information Administration (EIA).

The combined coal production of the U.S. is forecast to reach 304.5 million short tons in the first 21 weeks in 2018, and the annual output is estimated to hit 753.9 million short tons, down 2.6% YoY.

### (3) BHP Mitsubishi Alliance will sell an Australian coal mine to Japan Sojitz Corporation

The global mining giant BHP stated On May 30 that its joint venture with Mitsubishi Corporation BHP Mitsubishi Alliance will sell a hard coking coal mine named Gregory Crinum located in Queensland to Japan Sojitz Corporation for a price of A\$100 million.

The Gregory Crinum mine, with a claimed production capacity of 6Mtpa, has stopped production since the end of 2015.

### (4) BHP and Queensland reach an agreement on \$288 million mining royalties

Australian mining giant BHP and the Queensland government have reached an agreement "in principle" on resolving the long-standing dispute over \$288 million coal mining royalties.

### (5) Rio Tinto will complete the sales of Winchester South Metallurgical Coal Project in Australia

An Australian miner Whitehaven Coal stated on May 24 that Rio Tinto has agreed to sell its remaining 25% stakes in the Winchester South Metallurgical Coal project to Whitehaven.

### (6) Australia South32 Company acquires 50% of China Baowu Group Eagle Downs metallurgical coal project for US\$106 million

Australia South32 Company has agreed to purchase a 50% stake in the Eagle Downs metallurgical coal project in Queensland from China Baowu Steel Group, with an upfront payment of US\$106 million. The acquisition includes a deferred payment of US\$27 million and a price-linked production license fee of up to US\$80 million. After this acquisition, the Company will become the operator of this metallurgical coal project, and Aquila Resources Pty Ltd, a subsidiary of Baowu Group will hold the remaining 50% stakes in Eagle Downs.

### (7) Japan's coking coal imports rose by 39% MoM in April, while thermal coal imports decreased by 11.54% MoM.

Japan imported 7.52 Mt of coking coal in total in April, surging 49.83% YoY and 39.07% MoM.

Japan's thermal coal imports reached 8.74Mt (including bituminous coal and sub-bituminous coal), rising 6.67% YoY but decreasing 11.54% MoM.

### (8) South Korea announces to restrict the sulfur content of thermal coal within 0.4% as received basis.

South Korea's power companies, including five state-owned power companies, have to implement this new regulation on sulfur from July, 3 months earlier than originally planned. South Korea government shall impose economic penalties on power companies if the annual average sulfur content of imported thermal coal is higher than 0.4% as received basis. The move may change the demands of imported thermal coal in South Korea.

### (9) India's coal shipments via railways rise by 18.7% YoY in Apr-May

In April-May, India's coal transports via railways increased by 18.7% YoY to 431.5 fleets. "India's coal shipments increased significantly, from 533Mt in FY2016-17 to a record high of 555Mt in FY2017-18; As Indian economy booms, demands in the power industry will maintain strong," an official from the Ministry of Railways and Coal of India said.

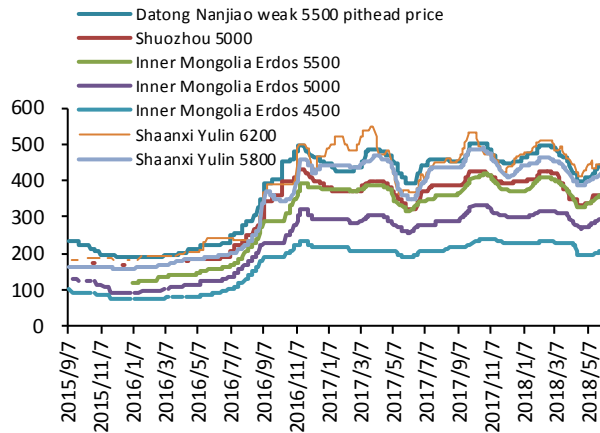
### (10) India's domestic coal supply to power industry grows by 7% YoY in FY2017-18

Indian Ministry of Coal announced on May 28 that, in FY2017-18, Indian Coal Ltd and Singareni Collieries Company Limited (SCCC) supplied 507.5 Mt of coal to India's power industry, a YoY increase of 7%. In April 1 to May 23, 2018, Indian Coal Ltd supplied a total of 73.6Mt of coal to the power industry, up 14% YoY. In April 2018, Indian Coal Ltd and SCCC delivered 45.10Mt of coal to the power industry altogether, less from the estimated demand of 47.23Mt. The combined supply from May 1-24 hit 37.20Mt, also lower than the estimated demand of 38.05 Mt.

## Thermal Coal Price

Figure 1: Thermal coal price at producing areas

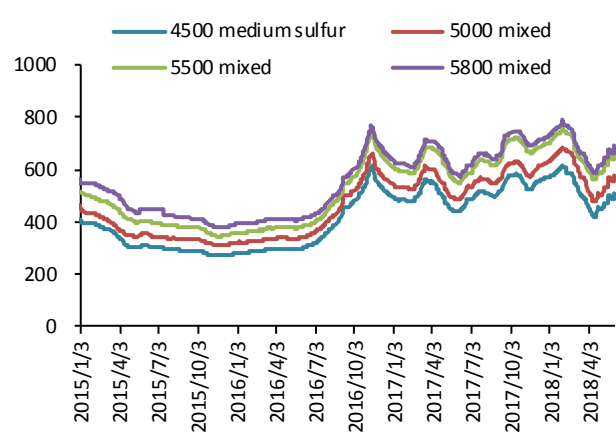
Unit: yuan/t



Source: Fenwei

Figure 2: Thermal coal price at Qinhuangdao Port

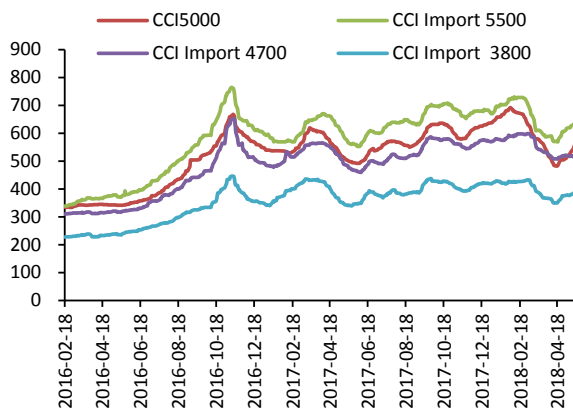
Unit: yuan/t



Source: Fenwei

Figure 3: CCI thermal coal indexes

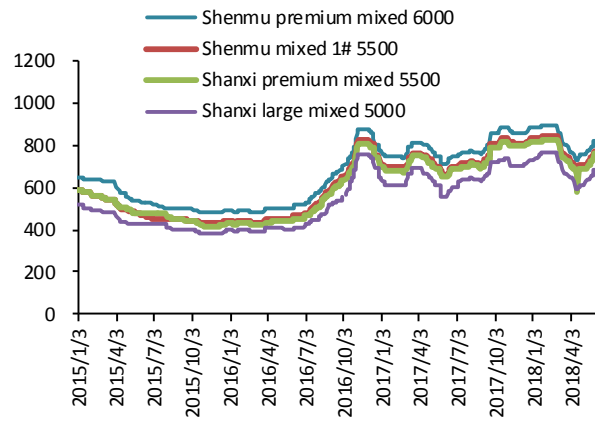
Unit: yuan/t



Source: Fenwei

Figure 4: Thermal coal price at Guangzhou Port

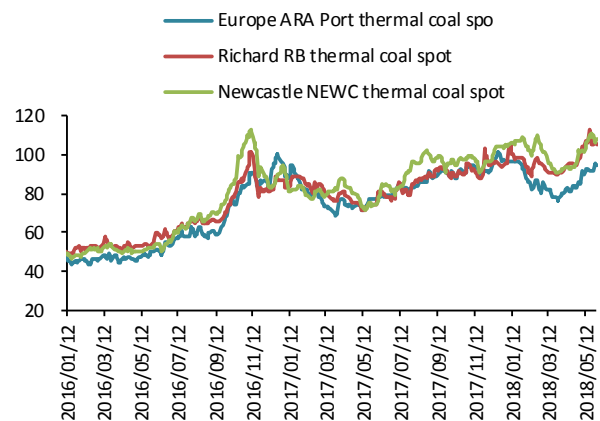
Unit: yuan/t



Source: Fenwei

Figure 5: International thermal coal price

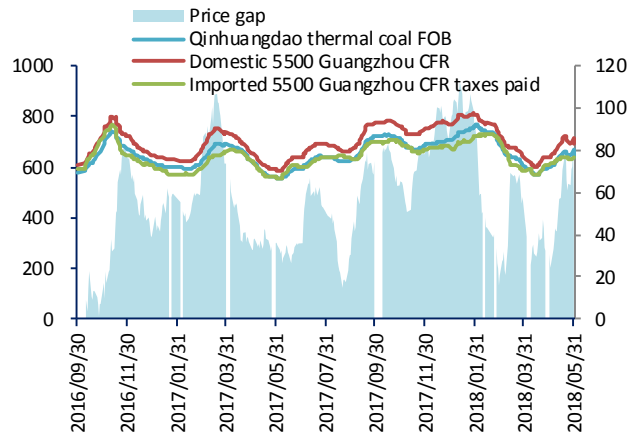
Unit: US\$/t



Source: Fenwei

Figure 6: Domestic and international coal price

Unit: yuan/t

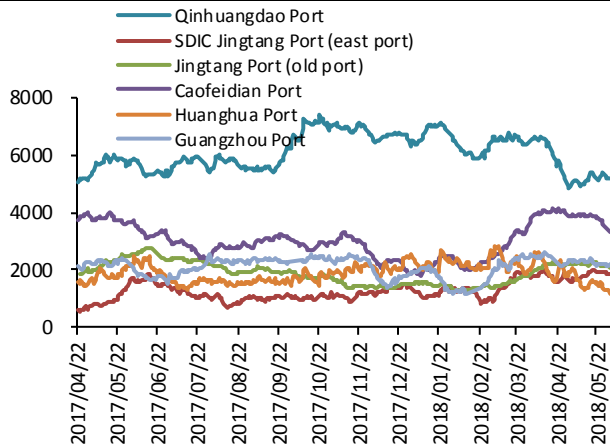


Source: Fenwei

## Thermal Coal Stocks

Figure 7: Thermal coal stocks at ports

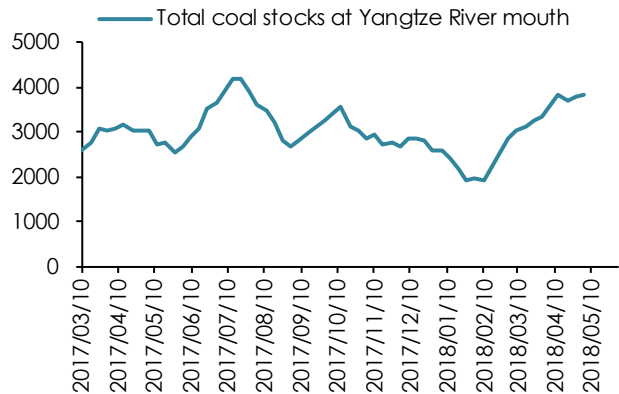
Unit: kt



Source: Fenwei

Figure 8: Stocks at Yangtze River mouth

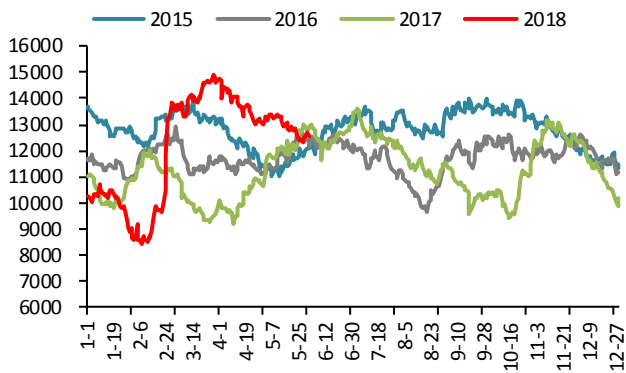
Unit: kt



Source: Fenwei

Figure 9: Stocks of coastal six power plants

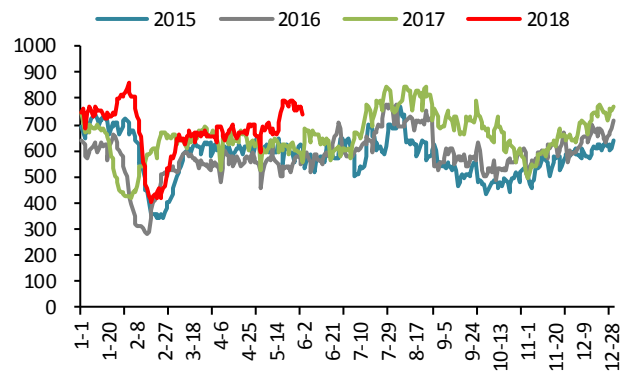
Unit: kt



Source: Fenwei

Figure 10: Daily consumption of six power plants

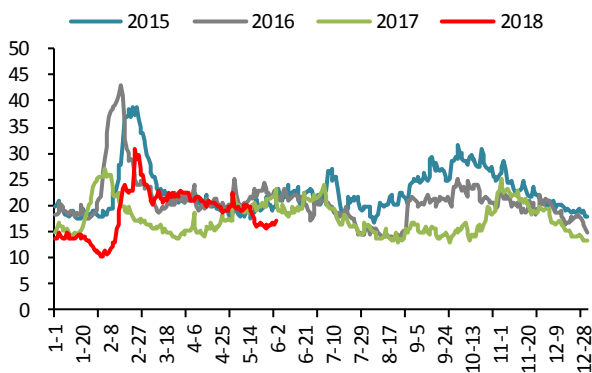
Unit: kt



Source: Fenwei

Figure 11: Available days of coastal six power plants

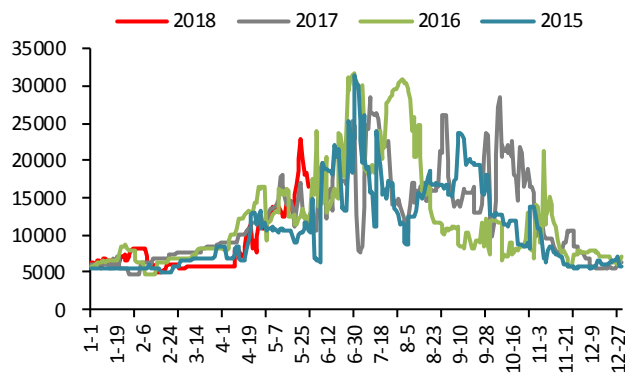
Unit: days



Source: Fenwei

Figure 12: Water flow of the Three Gorges Dam

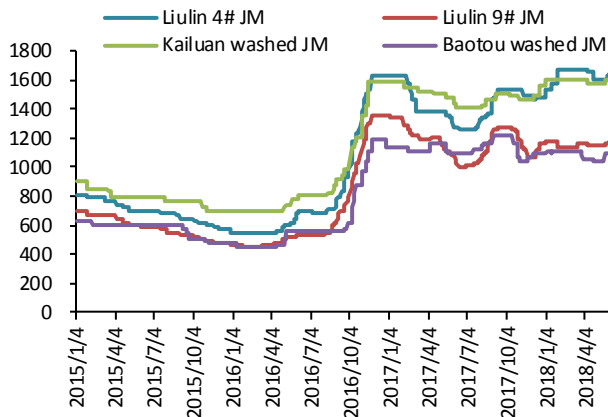
Unit: m<sup>3</sup>/s



Source: Fenwei

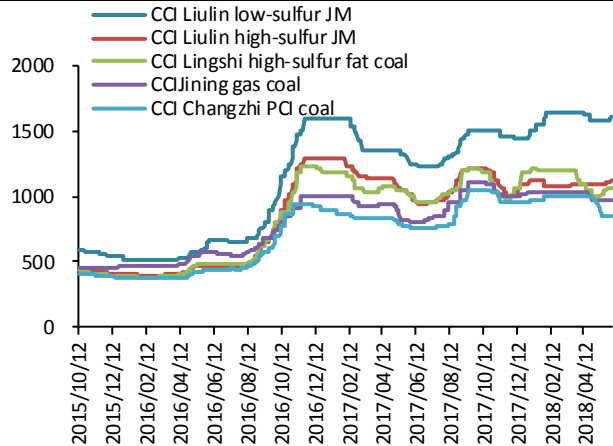
## Coking Coal Price

Figure 13: Coking coal price at producing areas Unit: yuan/t



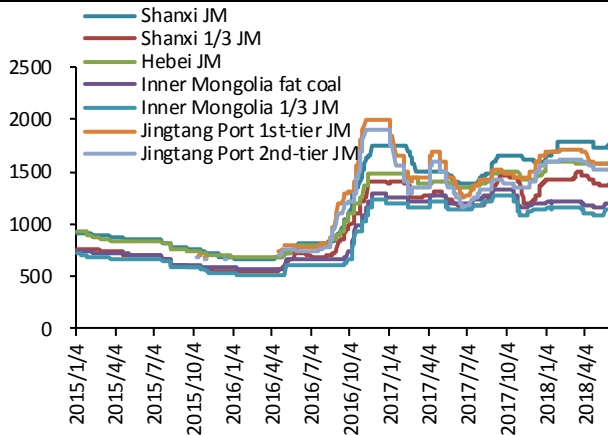
Source: Fenwei

Figure 14: CCI coking coal price index Unit: yuan/t



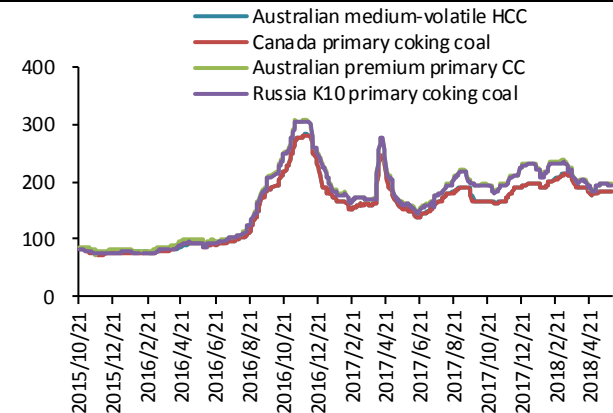
Source: Fenwei

Figure 15: Coking coal price at Jingtang Port Unit: yuan/t



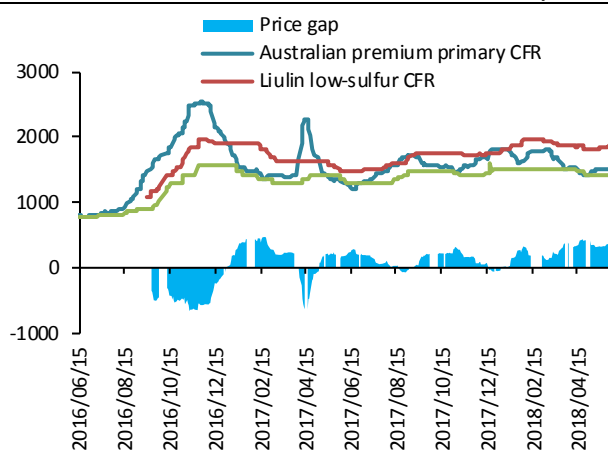
Source: Fenwei

Figure 16: Imported coking coal price Unit: US\$/t



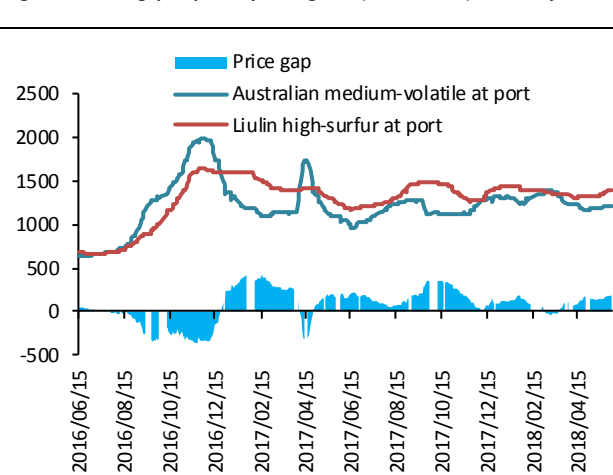
Source: Fenwei

Figure 17: Price gap of primary coking coal at Jingtang Port (premium) Unit: yuan/t



Source: Fenwei

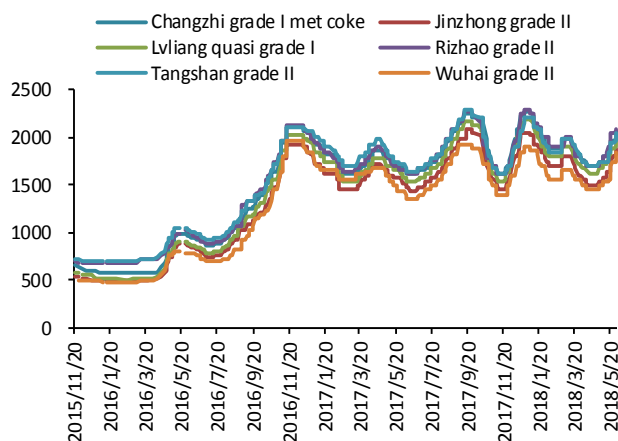
Figure 18: Price gap of primary coking coal (mid-volatile) Unit: yuan/t



Source: Fenwei

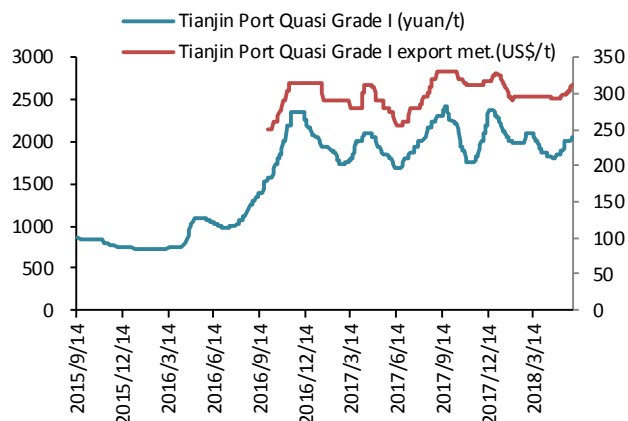
## Coking Coal and Coke

Figure 19: Coke prices at producing provinces Unit: yuan/t



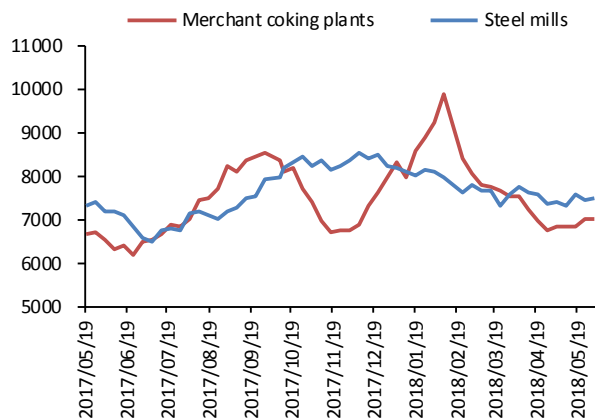
Source: Fenwei

Figure 20: Coke prices at ports Unit: yuan/t, US\$/t



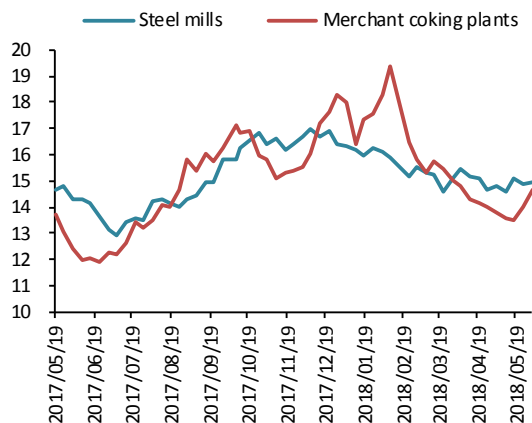
Source: Fenwei

Figure 21: Coking coal stocks at steel mills and merchant coking plants Unit: kt



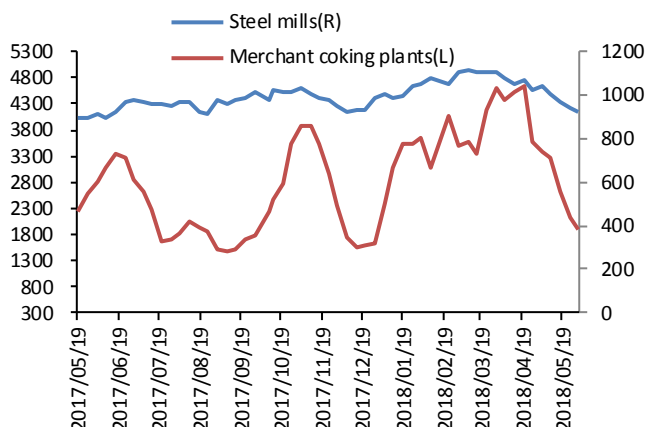
Sources: Wind, Fenwei

Figure 22: Coking coal available days at steel mills and merchant coking plants Unit: days



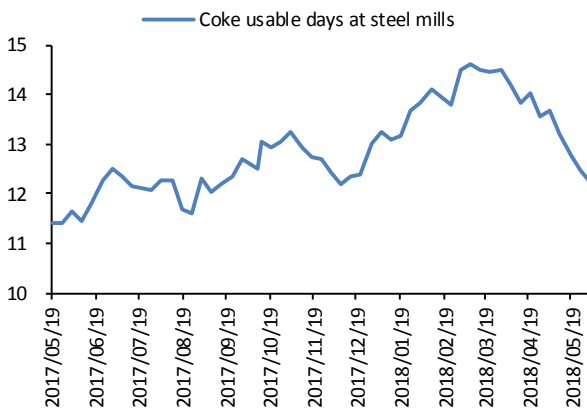
Sources: Wind, Fenwei

Figure 23: Coke stocks at steel mills and merchant coking plants Unit: kt



Sources: Wind, Fenwei

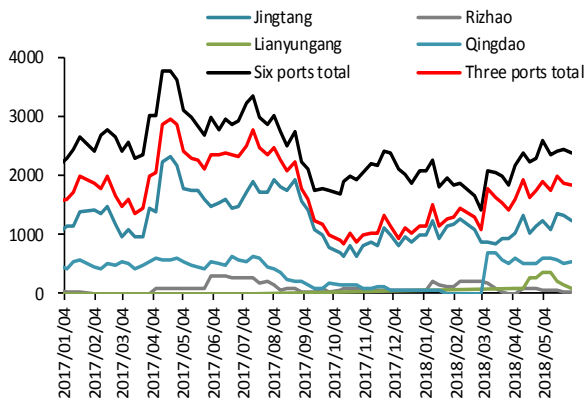
Figure 24: Average available days for steel mills Unit: days



Sources: Wind, Fenwei

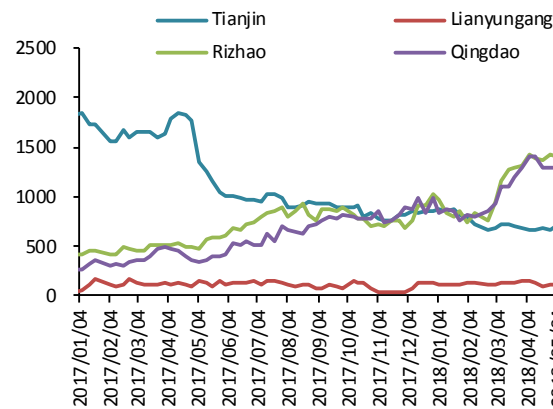
## Coke Price & Stocks

Figure 25: Coking coal stocks at ports Unit: kt



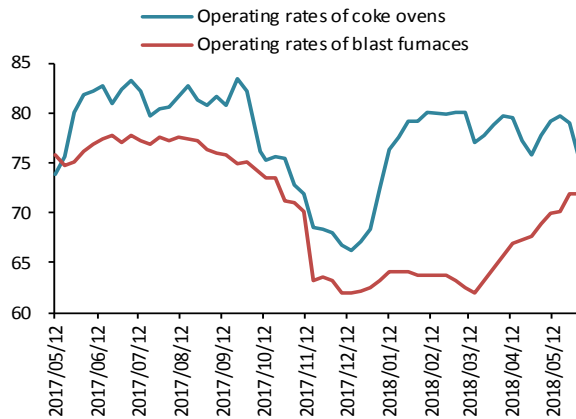
Source: Fenwei

Figure 26: Coke stocks at ports Unit: kt



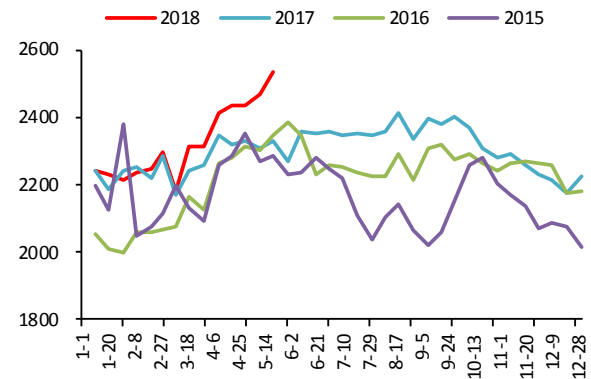
Source: Fenwei

Figure 27: Operating rates of coke ovens and blast furnaces Unit: %



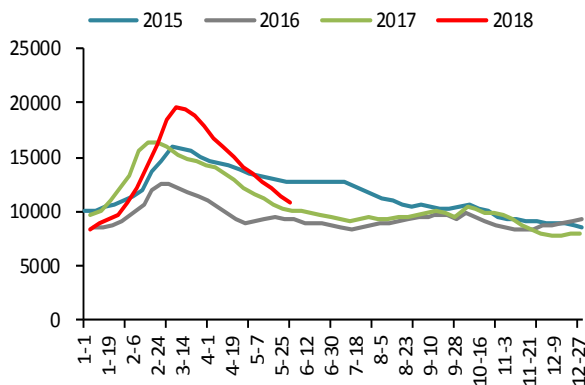
Sources: Wind, Fenwei

Figure 28: Estimated daily average output of crude steel Unit: kt



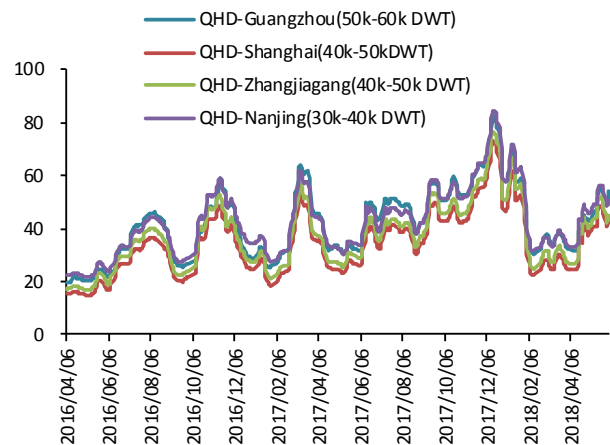
Source: China Iron and Steel Industry Association (CISA)

Figure 29: Total social steel stocks Unit: kt



Sources: Wind, Fenwei

Figure 30: QHD seaborne freight rate Unit: yuan/t



Source: Fenwei

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