

Supply glut continues to weigh on prices

This Coal Market Update summarizes general developments in the last two months that raise the risk of investing in the global coal industry. This is not investment advice. Greenpeace International tracks coal market developments worldwide through specialists located in the 28 national and regional offices, including the United States, China, India, Australia, South Africa and Indonesia. This update is prepared in collaboration with BankTrack. All prices are in USD unless noted.

Key points:

- A lack of new orders from well-stocked Chinese utilities has weighed on China's domestic and import demand and resulted in falling prices.
- Shenhua and Rostec have signed a memorandum of understanding to develop coal deposits in Siberia.
- Shenhua's total output and sales figures are down in the first five months of 2014, compared with the same period last year.
- India's Power Minister has rejected calls from private power producers for the Reserve Bank of India to relax its guidelines on loans to the power sector.
- The Australian Government's decision on whether to approve Adani's Carmichael coal mine has been delayed until August.
- North Queensland Bulk Ports Corporation has announced that it will shelve its \$12 billion Dudgeon Point Coal Terminal project.
- Royal Bank of Scotland joined Deutsche Bank and HSBC in publicly ruling out financing of the controversial Abbot Point coal terminal near Bowen, Queensland.
- North Carolina's state Senate have unanimously approved a bill calling for the closure of Duke Energy's 33 coal ash ponds in the state within 15 years.
- PT Bumi Resources' stock plunged to an 11-year-low on 23 June due to concerns about its ability to repay debt.
- PT Mitrabara Adiperdana is aiming to raise up to 368.6 billion rupiah (\$31.3 million) from an initial public offering in July.

Companies mentioned include:

China Shenhua Energy Company (SEHK:1088)
Adani Enterprises Ltd (BSE:512599, NSE:ADANIENT)
Royal Bank of Scotland (LSE:RBS)
Duke Energy (NYSE:DUK)
PT Bumi Resources (IJ:BUMI)
PT Mitrabara Adiperdana

Global

Supply glut in China drags on demand

Oversupply in China, the world's largest coal consumer and importer, continues to take its toll on prices. High stocks at utilities and a strong year for hydropower has created a backlog of coal at China's main Bohai rim ports. As at 22 June, coal stockpiles at four Bohai seaports – Qinhuangdao, Caofeidian, Tianjin and Jingtang – had on average risen 4.9% week-on-week over the past eight weeks. According to Platts, Shenhua is reported to have made requests to Chinese utilities to help ease the backlog. There is a further speculation that Shenhua will be forced to cut prices again to stimulate demand.

Knock-on impacts have also been felt on the seaborne markets. Imported coal prices into China remain low, with 5500 kcal/kg NAR Australian coal prices falling below \$70/mt, according to Platts.

China

Shenhua and Rostec sign MOU to develop Siberian coal deposits

China's largest coal producer, Shenhua, has signed a memorandum of understanding with the Russian government-owned company Rostec to develop the Ogodzhinskoye thermal coal project and build a new coal export terminal. The companies state that the US\$5 billion project aims to export 18 million tonnes in 2015.

Output and sales down at Shenhua in 2014

Shenhua has had a shaky start to 2014. Platts reported that in the first five months of this year, China Shenhua Energy produced 129.3 million mt of commercial coal, down 2% from a year ago. Total sales during the period also fell 5.4% year on year to 186.8 million mt.

India

Power Minister says he will not relax lending rules to power sector

India's Power Minister, Piyush Goyal, has rejected calls from private power producers for the Reserve Bank of India to relax its guidelines on loans to the power sector, stating that there will be "no major change" in the guidelines. Producers had wanted lenders to be allowed to extend the scheduled commercial operation date of power projects unable to start generation due to non-availability of fuel. This would have the effect of postponing repayments without the need to restructure loans. It is estimated as much as 11,000 MW of coal-fired plants cannot generate power due to lack of a dedicated coal supply.

Adani's Carmichael coal mine approval delayed

Approval for Adani's massive Carmichael coal mine in Queensland's Galilee Basin has been delayed by the Federal Environment Minister Greg Hunt who wants more time to evaluate the project. Adani's \$16.5 billion project consists of an open-cut and underground coal mine as well as a 189 kilometre rail line, water supply infrastructure, a workers' accommodation village and airport. A spokesperson for Hunt said the minister required more time to work through the huge volume of material submitted as part of the approvals process. A final decision is now expected to be made by August 1.

Australia

Dudgeon Point Coal Terminal cancelled

The Dudgeon Point Coal Terminal project is the latest in the line of Australian coal-related developments to be shelved as a result of an industry-wide downturn. Construction of the \$12 billion coal port south of Mackay will no longer go ahead, with North Queensland Bulk Ports Corporation announcing it had requested Queensland's Coordinator General to cancel the project. Dudgeon Point is the fourth coal export terminal expansion in Australia to have been abandoned by proponents in the past two years. Previously:

- In 2012 BHP indicated it would not proceed with its new coal export terminal plans at Abbot Point "T2";
- In May 2013 Glencore announced they had scrapped plans to build a 35Mtpa coal export facility at Balaclava Island, 40km North of Gladstone; and
- In March 2014 Anglo American notified its intention to withdraw from the AP-X coal terminal development project at Abbot Point.

RBS bails on Abbot Point

In another sign of international banks' growing unwillingness to fund coal-related projects, Royal Bank of Scotland last night joined Deutsche Bank and HSBC in publicly ruling out financing of the controversial Abbot Point coal terminal near Bowen, Queensland. The terminal would have serviced nine mega coal mines planned for Queensland's Galilee Basin. Ben Pearson of Greenpeace said: "It is great to see that three global investment banks have now publicly distanced themselves from this risky, irresponsible project. It will be interesting to see if other British banks follow their lead over the coming months – particularly in the light of the strong concern that UNESCO have expressed around the port projects".

United States

North Carolina orders coal ash pond cleanup after Duke spill

Spurred by a massive coal ash spill at a retired Duke Energy power plant earlier this year, North Carolina's state Senate have unanimously approved a bill calling for the closure of Duke Energy's 33 coal ash ponds in the state within 15 years. Reactions to the legislation have been mixed.

Environmental NGO Earthjustice is pushing for federal oversight, asserting that more than 200 of the nation's 1,400 coal ash sites have contaminated nearby waterways.

Indonesia

Bumpy ride for Bumi shareholders

Giant Indonesian coal miner, PT Bumi Resources' ongoing balance sheet struggles has created some jitters among investors. The stock plunged to an 11-year-low on 23 June due to concerns about its ability to repay debt after a creditor's meeting in Singapore on 20 June — convened to discuss Bumi's proposed change to the terms of bonds that are due in August — failed to yield positive results. The stock has recovered slightly over the past few days.

Indonesian coal miner Mitrabara targets \$31 million IPO with eye on Japan

PT Mitrabara Adiperdana is aiming to raise up to 368.6 billion rupiah (\$31.3 million) from an initial public offering in July. Despite lacklustre demand from China, the company is betting on rising energy demand from Japan.