



Coal Export Potential to China Market Amidst Covid-19 Opportunities & Challenges

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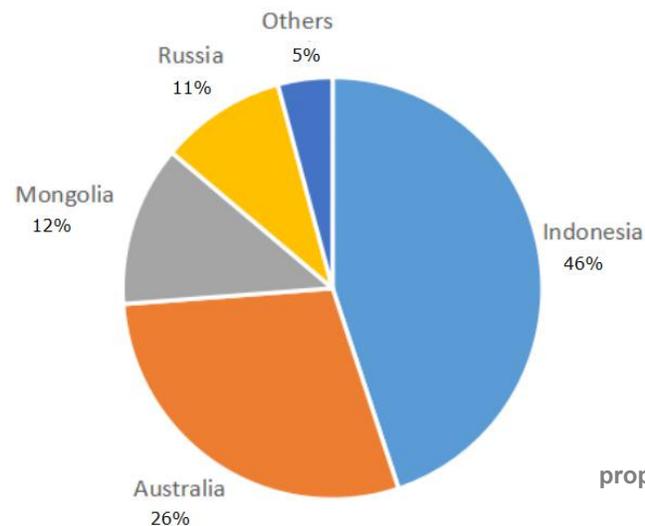


Brief Introduction of China's Coal Industry 2019

- ◆ **China is the largest coal producer and consumer in the world. China produced 3.85 billion tons of coal in 2019, accounting for about 48% of total world.**
- ◆ **China is also the largest coal importer, and imported about 300 million tons of coal in 2019.**

Five major coal exporters to China are Indonesia(138 Mt), Australia(77 Mt), Mongolia(36 Mt), Russia(32 Mt) and Philippines(9.3 Mt).

Indonesia is the largest coal exporter to China, accounting for 46% of total coal import in 2019.



proportion of Imported coal from different countries in 2019



I. Coal market in the first half of 2020

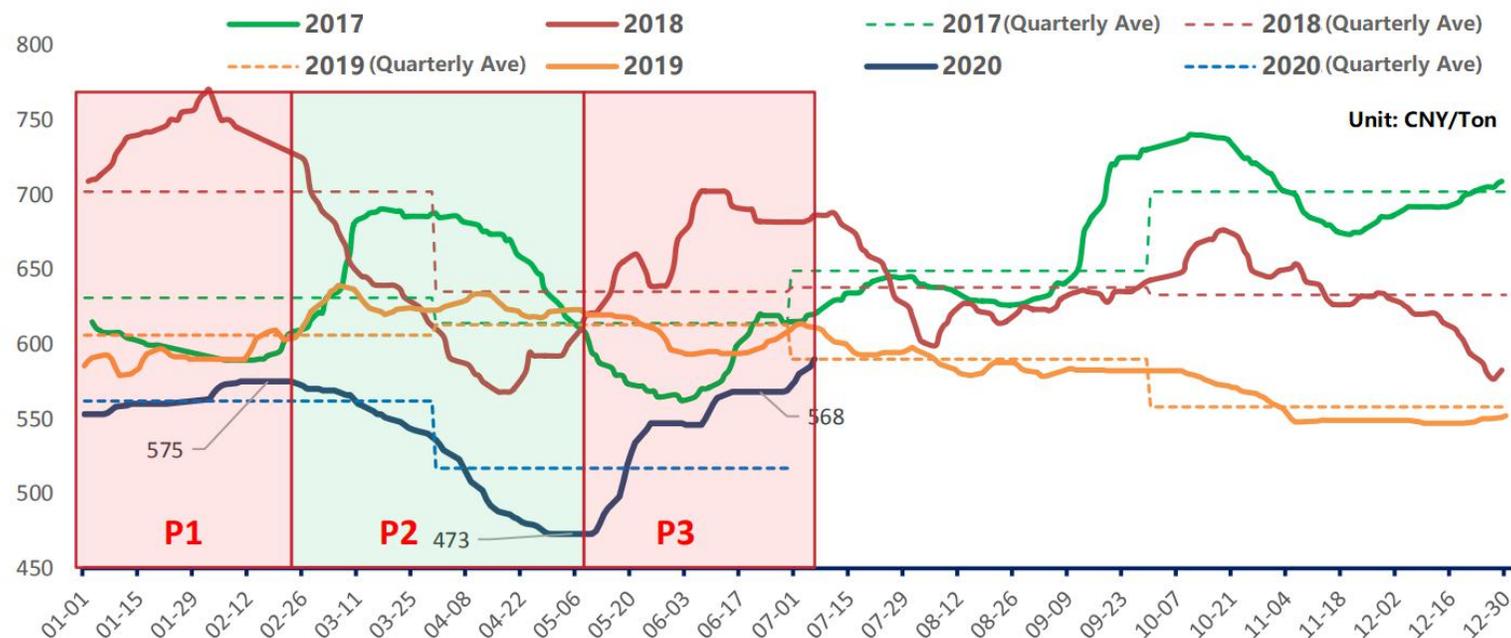




Coal Market in the First half of 2020

- ◆ China's domestic coal production is 1.8 billion tons in first half of 2020.
- ◆ Affected by the Covid, coal supply and demand in first half of the year formed a relatively obvious mismatch, leading to a plunge in coal prices, which once fell below cost, and then quickly rebounded up to 600 CNY/ton with V-shaped reversal.

5500 Kcal Index Trend since June 2017



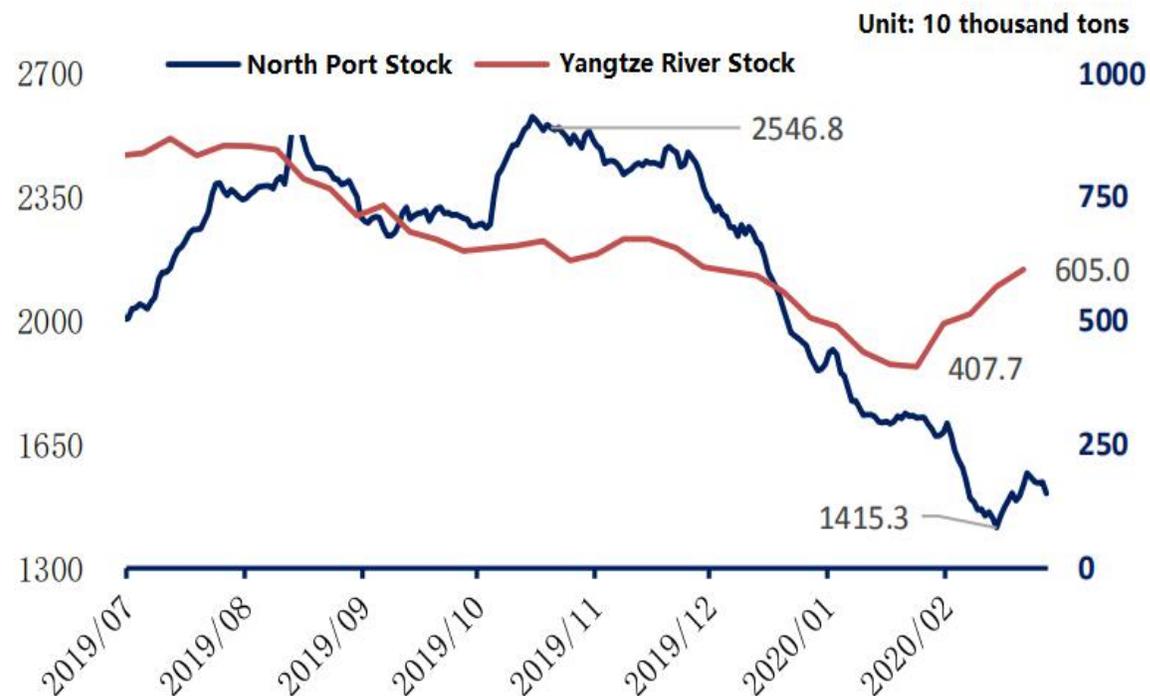


Three Stages of Coal Supply in First Half of 2020

First Stage(January to mid-February): Supply decreases and price increases

Affected by safety inspections of major coal producing areas end of last year and the Covid outbreak in the Spring Festival, the average daily volume of internal trade transferred from the northern port fell from 1.6 million tons to 1.1 million tons, and the price rose from 540 CNY to 570 CNY/ton.

Port stocks fell rapidly since November 2019





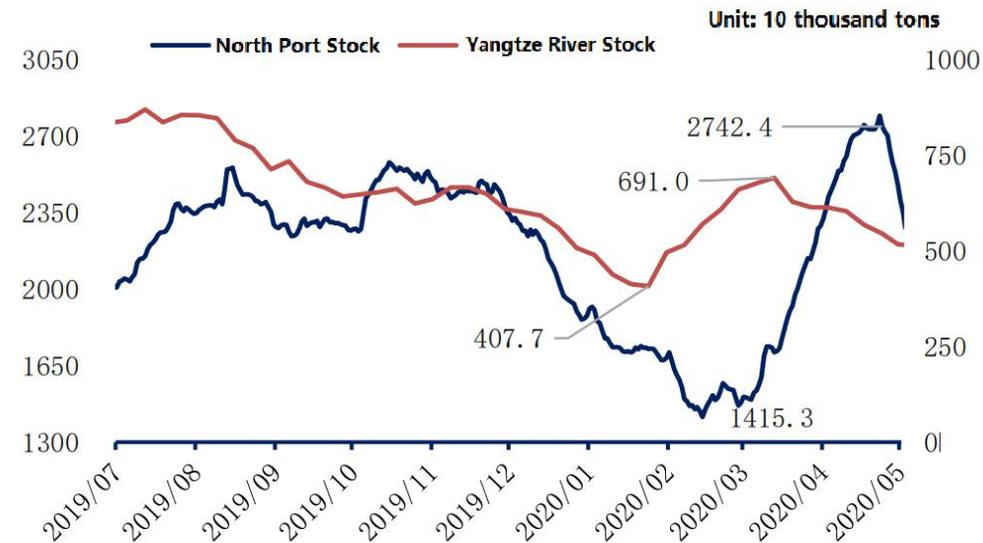
Three Stages of Coal Supply in First Half of 2020

Second Stage(Mid-February to April): Supply increases, demand decreases and price falls

Coal enterprises rapidly recovered production since mid-February to guarantee supply and stabilize prices, and domestic raw coal production reached 340 million tons in March, up 10%. Consumption in the same period was still low. In March, the entire society consumed 540 billion kWh electricity, down 4%.

From mid March to April, although domestic demand gradually recovered, the international Covid outbreak caused external demand decrease in landslide, and daily consumption fell by more than 10%. With the continuous deterioration of the supply and demand structure, and more coal exporter rushed to China's market, coal companies had to reduce coal price for more sales. The coal price fell below the monthly and annual long-term contract prices, even lower than cost.

Port stocks increased rapidly since March 2020





Three Stages of Coal Supply in First Half of 2020

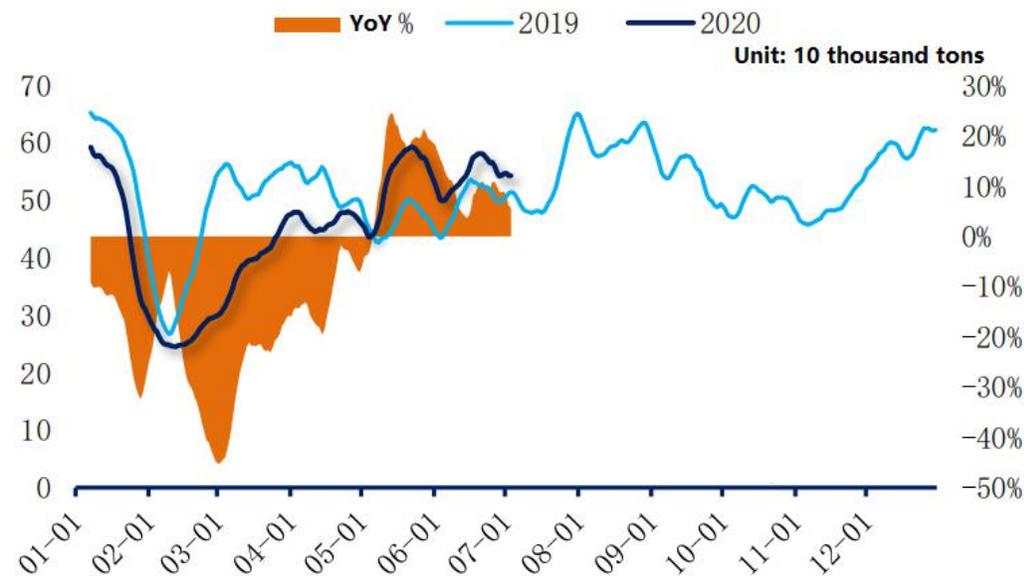
Third stage(since May): Demand growth and price increase

Domestic production decrease to 310 million tons influenced by the low coal price in April. Coal imports fell to 22 million tons at the same time.

With the effective control of the Covid and the impact of stimulus policies in various regions, the demand for social electricity has increased.

Since late June, coal supply continues to be insufficient with summer peak season, and prices have risen rapidly to 600 CNY/ton.

Daily consumption of coastal power plants recovered beyond expectations in May 2020





Coal Price in First Half of 2020

The average coal price in the market fell by 68 yuan/ton in the first half year.

Thermal coal price decreased significantly in first half of 2020

Unit: CNY / Ton

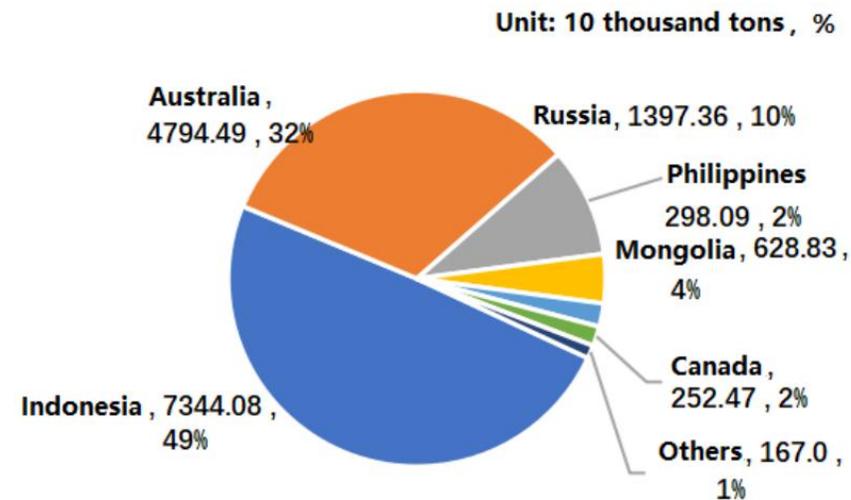
	2019 Ave. Price	2020 Ave. Price	Monthly Ave. Price YoY	2019 Quarterly Ave. Price	2020 Quarterly Ave. Price	Quarterly Ave. Price YoY	2019 1st half year Ave. Price	2020 1st half year Ave. Price	Half year Ave. Price YoY
Jan	590	558	-32						
Feb	601	573	-28	606	562	-44			
Mar	627	556	-72				609	541	-68
Apr	625	496	-129						
May	616	506	-110	613	520	-93			
Jun	596	559	-37						



Coal Imports in First Half of 2020

- ◆ China imported 174 million tons of coal in first half 2020, a year-on-year increase of 13%.
- ◆ Imported coal increase was concentrated in Indonesia and Australia, and coal imported from Indonesia is 85 Mt.
- ◆ Price gap between domestic and imported coal has expanded, and import increased significantly. Thermal coal and coking coal have the largest import increments.

Coal imports by country from January to May





II. Opportunities & Challenges of Coal Export to China





Opportunities for Coal Import in Second Half of 2020

1. China will secure stable economic development and employment rate. It is expected China's GDP growth rate will be 4-5% in the second half of the year, and coal consumption will increase.

2. Import coal price advantage

Normally imported coal price is 10-15 USD/ton lower than domestic coal, but due to the weak global market and accelerated recovery of China's economy, many international traders pushed to export coal to China, and price gap between imported and domestic coal has reached 20-30 USD/ton in first half of this year.

3. When domestic coal prices are increasing too fast, imported coal will play an important role. Safety inspections will be intensified in second half year, which may result in production reduction in main coal production areas in Shanxi, Shaanxi and Inner Mongolia.

4. Uncertainties of hydropower and other issues

The recent floods may have affected the UHV transmission lines along the Yangtze River, leading to a power shortage in the southeast coast.



Challenges for Coal import in second half of 2020

1. Increased domestic coal supply capacity

The newly increased advanced capacity is about 280 million tons in 2020, and estimated production release will be 100-150 million tons.

2. Strengthen the performance of medium and longterm coal contracts

Medium and long-term coal contracts are the stabilizer of the market. Relevant government departments will inspect, evaluate and publicize the performance of coal medium and long term coal contracts this year, and market coal purchase will reduce.

3. High coal storage

China's coal stopile has reached 150 million tons, sufficient to provide over 20 day consumption for utility companies.



Challenges for Coal Import in Second Half of 2020

4. Increased land transport capacity

- ◆ Haoji Railway has shipped 9.7 million tons of coal till end of May.
- ◆ Haoji Railway has started daily operation with 1.8 to 1.9 million tons of monthly transport volume.
- ◆ Affected by this, the coal demand began to decrease from coast to Yangtze River area.
- ◆ With improvement of infrastructure construction, it is expected that the transport volume will reach 25 million tons this year.



Haoji Railway(1,813 KM) from Kholbolji of Inner Mongolia to Ji'an, Jiangxi province



Coal Import Outlook in Second Half of 2020

- ◆ It is estimated that China's coal imports will be between 100 million and 130 million tons in the second half of this year, even coal imports was up 13% to 174 million tons in first half.
- ◆ China imported about 85 million tons of coal from Indonesia from January to June this year, up 11% compared to last year(76 mt), accounting for 49% of total national coal import. It is estimated that 50-60 million tons of coal will be imported from Indonesia in the second half year.