



## DTC Flash@: The Week Ahead – 04 Dec 2017

## Catalysts We Are Watching

- **Lunch, Coal, and Q&A – See You Wednesday!** We want to thank you for your support in giving us our 16<sup>th</sup> consecutive sold-out **Lunch, Coal, and Q&A**. This year's line-up consists of presentations from heavy-hitters including: **Jefferies'** Dan Chu, **BTU Analytics'** Andrew Bradford, an all-star coking coal panel discussion line-up featuring Randy Atkins/**Ramaco Resources**, Jack Porco/**Xcoal**, Dan Horn/**Alpha Natural Resources** as well as an all-star thermal coal panel featuring Todd Myers/**Cloud Peak**, Mark Morey/**Independent**, David Lawson/**NS** and Jim Grech/**Nexus Gas Transmission**. We often have a few last minute openings and the NYAC is willing to make room for our loyal clients so contact [Vicky Bray](#) if you are interested in attending or if you have any questions about the event. We look forward to seeing you all in New York! Doors open at 10:30AM.
- **Indian Cement Producers Turn to Coal on Petcoke Ban:** Some cement producers in India are switching back to coal from petcoke after the country's Supreme Court banned the use of the raw material in Uttar Pradesh, Haryana and Rajasthan, all surrounding New Delhi. The move is aimed at reducing pollution from the high-sulfur fuel which is a byproduct of oil production. Sulfur levels in petcoke can be double the content in ILB coal. The courts in India are also considering a nationwide ban on petcoke imports – that decision could come as soon as today (December 4.) The replacement fuel would mostly be coal but natural gas can also be used in some situations. The move away from petcoke is expected to hurt cement companies both financially and logistically. Cement producers have noted challenges to finding acceptable quantities of petcoke since Hurricane Harvey affected U.S. refineries in Texas earlier this year so some of this switch has already been happening. The price of petcoke has also moved higher because of the outages, currently trading for close to \$107/Mt compared to about \$40/Mt in 2016. With regards to coal: "New linkages are not available for the cement industry. While theoretically, the cost/kilocalorie of linkage coal works out to be cheaper, the coal available is of a grade which can be used only for captive power plants and is not suitable for use in kilns," **Edelweiss Securities Ltd** said in a report. Companies will likely be forced to turn to the import market but those prices are approx. 30% higher than petcoke price. We speculate implementation of this ban has the potential to provide a big boost for seaborne thermal coal demand which would also benefit US producers.
- **China Natgas, LNG Demand Up, Moving Prices Higher:** The China-Central Asia natural gas pipeline has transported a total of 200 billion cubic meters of natural gas since it started operation in December 2009, meeting demand in the world's second-largest liquefied natural gas importer, according to **China National Petroleum Corp**, the country's largest oil and gas supplier and producer. However, *Bloomberg* has reported that China's efforts to boost natural gas demand worked so well sellers are running out of supply just two weeks into the winter heating season which has been compounded by the Country's efforts to reduce reliance on coal. Natgas demand is up by 19% this year, according the *Bloomberg*, and is on track for the highest growth since 2011. LNG imports are up 48% YoY through October which is forcing suppliers to raise prices by 10-20%.
- **Seaborne Thermal Market Commentary:** The API2 paper market was down \$0.10 during the week to \$90.20/MT, while the API4 was up \$2.85 to \$94.30/MT and NEWC was up \$2.65 to \$95.50/MT. *Hellenic Shipping News* reported that Indonesian mid-CV thermal coals may be outcompeting high-ash coals from Australia for the Chinese import market. Australian-sourced coals have fallen approx. \$10/MT to low \$70/MT levels while Indonesian thermal coals are in the

upper \$80/MT with a spread between the two nearing \$8/MT currently. It's speculated that the discrepancy between the prices could be attributed to the shorter shipping distance for Indonesian supplies as well as higher competition for a share in China's import market. The report outlined that since early April, cargoes from Indonesia have typically traded at a \$1-2/MT discount to those from Australia. Last week we saw October's Chinese Coal Import figures which detailed a 38% decline in thermal imports and we suspect declining figures for the remainder of the year as Chinese authorities impose limits during the seasonal winter heating period on both the production and consumption sides which will continue to drive competition for China's import market.

- **Coking Coal Indices Above \$200/MT:** Last week, all of the major coking coal indices broke through the psychologically-important \$200/MT mark with the Platts Premium Low Vol market ending at \$213.50/MT FOB Aus, up \$11.50 for the week, the TSI was up \$11.70 to \$211.30/MT FOB Aus, and the Metal Bulletin Australia premium hard coking coal index was up \$16.10 to \$214.35/MT FOB Aus. Prices moved up on worries that production issues experienced in the Oct-Dec period at some Australian mines in the premium segment may extend into the first quarter of 2018 and these prices may continue to move higher if Queensland experiences above-normal rainfall. In addition to supply concerns, mills in Asia and India are now restocking premium and semi-premium materials ahead of winter months.
- **DTC speaks at the 2017 U.S.-China Clean Coal Industry Forum:** Over 200 delegates gathered in Morgantown last week to attend the 3<sup>rd</sup> Annual U.S.-China Clean Coal Industry Forum put on by the U.S. Department of Energy and the Chinese National Energy Administration. The two-day event is intended to foster collaboration between the U.S. and China. Delegates also included representatives of **Governor Jim Justice** (who was also present for meetings), **Senator Joe Manchin III** and **Senator Shelley Moore Capito**. **Steven Winberg**, DOE's freshly appointed **Assistant Secretary for Fossil Fuels** provided a supportive speech during the opening plenary. Other dignitaries included **E. Gordon Gee, President of the West Virginia University**, the **Honorable H. Woody Thrasher, West Virginia Secretary of Commerce** and **Wang Xiaolin, Vice Administrator of China's National Energy Administration**.

**DTC's Andy Blumenfeld** presented a brief overview of the international outlook for coal and as noted by several attendees, the news was a little brighter than the past two years, particularly the prospects for exports. Both the U.S. and China have considerable coal resources and with varying degrees view the resource as an integral part of each nations' national interest. Still, one thing hung over the conference and that is while research moves forward, interests to build new coal-based generation seems all too distant in the U.S. while China continues to embrace coal. **DOE's National Energy Technology Laboratory (NETL)** was at the center of U.S. efforts and clearly there are some promising programs that aim to improve coal's performance while maintaining/improving its cost completeness.

One topic at the conference was of keen interest – how to put coal on an equal footing with natural gas and renewables. This was touched on by some of the presenters and in private conversations. Obviously, the U.S. political change (“180-degree switch” as expressed by one of the presenters) was covered but it is the economic reality of natural gas remains a primary challenge for U.S. coal. During one conversation, a delegate mentioned that the coal industry needs a technological game-changer, something akin to what horizontal drilling/fracking did for natural gas.

Nearly all the technologies presented also recognize that reducing or eliminating carbon emissions are an essential part of a successful new technology. Papers covering enhanced oil recovery, carbon conversion, sequestration and non-combustion uses for coal were part of the conference. There was also considerable discussion about improving the efficiency of coal plants

with reminders that the U.S. fleet suffers from very low thermal efficiencies. **Xiao Ping** of the **Huaneng Clean Energy Research Institute** in China presented a promising paper on their testing of a 700°C ultra-supercritical unit which uses nickel alloy components in the boiler. Demonstrated thermal efficiencies top 50% -- close to a 20% improvement over many U.S. coal-based generation units.

The notion of promoting an “efficiency tax credit” like the PTC/ITC programs for wind and solar was a topic during one panel discussion and during off-line discussions. As was noted by many attendees, if the existing U.S. coal fleet were given an incentive to improve efficiencies, that would have a deeper and immediate impact on reducing carbon emissions compared to the tax programs for wind and solar. Place that in the holiday “wish-list” category for coal.

### Longview Plant Tour



Part of the program included a tour of **Longview Power LLC's Longview power plant**.

The 700 MW (net) is located about 20 minutes north of Morgantown near **FirstEnergy's Ft. Martin power plant**. Longview was completed in late 2011 at a cost of over \$2.1 billion. This super-critical plant is the most efficient coal unit in the U.S. with a demonstrated heat-rate of 8775 Btu/KWh or about 40% thermal efficiency. The operating costs are on par with most natural gas combined cycle units and is one of the lowest cost fossil units in the PJM.

The environmental controls include an advanced FGD, low-NOx burners and a bag house for ash/mercury collection. The plant uses natural gas as the start-up fuel and was the first to store LNG on-site for this purpose because of problems with reliable pipeline delivery of natural gas. The plant can also co-fire with natural gas up to 20%.

The coal for the plant currently comes from the affiliated No. 4 West mine in southeast Pennsylvania which produces an 11,000 Btu, 2.7% sulfur and 20% ash product according to EIA data. Coal is delivered to the plant on a 4.5-mile conveyor.

This was an exceptionally clean facility and many from the Chinese delegation noted how few workers were at the site as this plant is one of the most automated coal units in the U.S. Obviously, coal's domestic situation is difficult. However ongoing research and advancements like Longview and the many programs in China are basic reminders that the situation is not being ignored and indeed cost effective solutions are both possible and probable.



- **Natgas Markets Turn Volatile on Uncertain Weather:** Prompt month Henry Hub futures ended the week up after several sharp moves back and forth last week, over a range of \$0.16/mmBtu, due to uncertainty on heating demand expectations this winter. January Henry Hub natural gas futures rose 5.0% WoW to \$3.061/mmBtu, and Calendar Year 2018 rose 2.4% WoW to \$2.971/mmBtu. In the day-ahead market, prices at Henry Hub fell 2.9% WoW to \$2.840/mmBtu, and fell 13.0% WoW at TETCO M3 to \$2.318/mmBtu.
- **Strong Cold in Eastern US Next Weekend:** Temperatures across the eastern US are forecast to turn significantly colder towards the end of this week, and stay there at least through the following week, truncating the current mild weather pattern. According to **WeatherBELL Analytics**, temperatures will average 4°F – 15°F below normal from the Mississippi River to the East Coast over the 6- to 15-day time frame, a forecast in general agreement with the forecast for next week from **NOAA**. Temperatures will continue to be mild early this week, with warming across the western US, leading to total heating degree days 18.0% below normal and 21.7% lower YoY for the week ending December 8<sup>th</sup>.
- **December Monthly Update/Tuesday:** Look for our final Monthly Update of the year to brighten your inbox on Tuesday. We have been hot on the trail of many market moving items in Q4 and we are excited to present them all to you in one handy package (minus the ribbon).
- **US Census Import/Export Data/Tuesday:** The Census Bureau will release October data on Tuesday. We already know that combined exports from the east and gulf coasts totaled 7.23 mm tons in Oct, up nearly 80% from last Oct.
- **Queensland Export Data/This Week:** November figures may be available late in the week or early next. Oct was down from Sept by 11.24% seq pd with 17.69 mm MT of exports and we expect November may be another tough month as the terminals battle swollen vessel queues and a heavy maintenance schedule. Exports were annualizing at 200.60 mm MT in Oct, which would see 2017 totals fall below 2016 by 13.71 mm MT.

#### Notable DTC Coverage This Week

Monday	Tuesday	Wednesday	Thursday	Friday	Further Out
Utility & Natgas Report*	Dec Monthly Update		Natural Gas Storage Flash*	EMO Stockpiles	
Basin Stocks & Fuel Switching**	US Imports/Exports		Weekly Production		
			Queensland Exports		
			Exports by Basin**		

\*Weekly Utility and Natgas Subscribers only

\*\*Quarterly Coal Report Subscribers only

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