BIR AMSTERDAM: High coking coal prices to continue until late Q1 2017, Wood Mackenzie says

Chinese coking coal prices will remain high until the first quarter of 2017, according to Curtis Zhu, principal analyst for steel and iron ore markets at Wood Mackenzie.

"Coking coal has gone crazy in the past two months [and the fourth quarter] should be the short-term peak level," Zhu told delegates at the Bureau of International Recycling (BIR) meeting in Amsterdam, the Netherlands, on Tuesday October 25.

Metal Bulletin's cfr China premium hard coking coal index was at $252.68 per tonne on Wednesday, up by $147.31 per tonne compared with the beginning of August.

In April, the Chinese government announced a policy restricting operations at coking coal mines to 276 working days per year, compared with an original period of 330 days.

After eliminating some 152 million tonnes of coal capacity during the first eight months of 2016, the government has agreed to partly relax the restrictions for the last three months of this year to meet winter season demand.

China is likely to reduce restrictions again in the spring, Zhu said, meaning that high prices will last until late in the first quarter.

"Once Chinese domestic coal mines start to produce again, the price will drop," he added.

Zhu said the price rise was the result of a "simple miscalculation" by the Chinese government.

Whereas the Chinese government's steelmaking capacity cuts have had little bearing on steel output, with production only dropping by 0.10% this year according to Wood Mackenzie, capacity restrictions on coking coal mining has directly driven down production levels, he said.

Chinese exports

"During the recent president debate in the USA and when Tata Steel wanted to sell [its UK operations], China was blamed," Zhu said.

But steel exports from China to Europe account for only 8% of overall Chinese exports and exports to the USA constitute only 2%, according to Wood Mackenzie statistics, with most Chinese steel being exported to South East Asian countries.

"Exports will come down over the next few years due to the trade cases against China," Zhu said.

But in the long term, Zhu predicts that exports from the country will rise again.

"At some point, there will not be enough capacity outside of China to meet the increase in [global] demand, so at that point China will be in a perfect position to export even more," he said.

Exports from the country will reach 120 million tpy by 2033, according to Wood Mackenzie statistics.

Coking coal price consequences
Soaring coking coal prices have had effects far beyond China over the past two months.

These prices have been a large reason for Turkey's recent strong buying activity of imported cargoes of ferrous scrap.

Turkish mills are having to pay more for ferrous scrap due to higher coking coal, billet and iron ore prices, but rising finished steel prices in the country mean they are able to do this, one source told Metal Bulletin last week.

In India, coking coal prices have caused domestic direct reduced iron (DRI) costs to rise by Rs1,100-1,400 ($17) per tonne since the start of August, helping improve demand for ferrous scrap, which is an alternative to DRI for steelmakers in the country.

Rising coking coal and global scrap prices have led CIS pig iron exporters to increase their prices, while coking coal costs have been a factor in Latin American slab exporters lifting their prices.

Meanwhile, ArcelorMittal cited raw materials costs, including coking coal, among the reasons for its intention to raise prices of its European long products such as beams.

By Lee Allen, October 27