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The world waits on India but will it deliver?

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A who's who of the Indian steel industry gathered in Mumbai last week for the annual Global Steel Conference organised by Gujarat NRE Coke Ltd and the Economic Times.

In the first such assembly since the Modi government swept to power promising to turn India from a developing to a developed country, there was much talk of targets to reach a magical 300mt/yr of steel production in the next 10 years - a feat that would require lifting output from current levels around 80mt/yr.

But 'cautiously optimistic' sums up the mood, with many speakers and panellists well aware of the challenges ahead.

One of the biggest question marks surrounds how an extra 200mt/yr of steel output would be financed.

Ashish Chandat from Yes Bank said that the "start of all the problems" is that lenders are not providing "the right size of financing" to allow new projects to move ahead.

His crude calculations indicated the debt requirement would be 3,500 – 4,000 crore per million tonnes of steel produced.

"Even taking liberal estimates, the term of financing is fifteen years, including three years for construction," he said.

"Financing can be done but when construction implementation comes into place, three years is very tight. Four to five years is more realistic."

However he said that moves have been made to improve project financing. These include a scheme for coal and steel projects requiring longer-term financing, called "5:25". Chandat explained that the scheme allows a project to be refinanced by another bank at the end of the fifth year of financing.

On projects that are already underway, the government has "taken care of those that have been delayed at implementation". Measures include making available additional financing to the tune of 10% of the cost of a project, and extensions to project completions without classifying them as a non-performing asset.

But he warned that there are "many other hurdles that must be tackled by government, most of which lay on what he termed the "supply side": the difficulties in acquiring land, and the environmental and regulatory approvals required to build new plants.

IHS coal marker prices

Coking coal daily	Basis	Day	Change
Australian prime hard coking coal	FOB	113.10	n/c
North China prime hard coking coal	CFR	122.75	(0.10)
Australian hard coking coal	FOB	98.15	n/c
North China hard coking coal	CFR	110.10	n/c
Coking coal weekly	**Basis**	**Week**	**Change**
US low-vol	FOB	109.05	(0.50)
US high-ash, high-vol	FOB	100.30	(0.45)
ULV PCI	FOB	91.20	(0.55)
Coke Rizhao	FOB	179.20	(0.60)
ARA coke	CIF	212.50	(0.30)
Steam coal weekly	**Basis**	**Week**	**Change**
NEX	FOB	64.65	0.57

Source: IHS © 2014 IHS

Freight rates

Coking coal	China	ARA	Japan	Taiwan
Queensland C	11.60	16.00	11.00	--
Queensland P	10.00	14.86	--	--
US east coast C	30.40	11.90	--	--
US east coast P	27.35	10.83	--	--
Canada C	11.35	--	10.25	11.30
Canada P	13.40	16.75	--	--

Note: All prices weekly apart from US east coast routes to ARA, which are assessed daily

Source: SSY, Clarksons © 2014 IHS

Global coking coal trade (million tonnes)

Key exporters	Sep-13	Aug-14	CY-13	Sep-14
Australia	15.09	15.74	169.06	16.08
US (excl. Canada)	4.53	4.20	59.48	4.42
Canada	3.56	2.76	35.27	2.91
Key importers	**Oct-13**	**Sep-14**	**CY-13**	**Oct-14**
China	6.05	4.50	75.42	5.44
Japan	3.68	3.53	48.43	--
Korea	2.29	0.88	21.4	1.87

Source: Customs authorities © 2014 IHS

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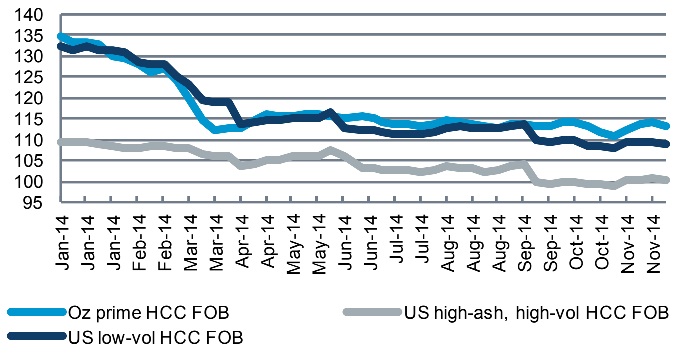
IHS weekly coking coal prices ($/t)



Source: IHS

Anjani Agrawal from Ernst & Young is highly sceptical about India's steel production growth potential, pointing out that there are many other places across the globe that could challenge India for steel growth.

He said: "There's low cost shale gas in the US, low cost iron ore in Brazil. Steel making could move to these low cost bases".

Many pointed out that the first test would be how the government handles the re-allocation of coal blocks.

Chandat said: "I see a silver lining in the cancellation of the coal blocks. We need to do it in the right way that it doesn't raise issues in the future. It will set the tone of future development. The world is watching us."

Biswadip Gupta of JSW Bengal Steel said a big issue for steel makers is the availability of raw materials, in particular iron ore, following production curbs aimed at tackling illegal mining, and coking coal.

"We need to make sure iron ore is freely transferable from one state to another," he said, adding: "We also need to allow the railway networks to be more efficient and to make sure coal for importing is made available as quickly as possible".

Dr Neil Bristow from H&W Worldwide Consulting said the government needs to "improve access to foreign investment, privatise one of the Steel Authority of India (SAIL) plants, and conduct a proper auction of the coal blocks. It will be the sign of a competent government".

He finished by saying: "There's a desire in India to follow a set route. Why? Why not do it a different way?

"Sometimes I hear steel mills say they can't afford to build a blast furnace. Why not build a mini-blast furnace? They're significantly smaller furnaces but with higher productivity rates.

"They take one year to build, would minimise capital outlay and get cash flow coming in to allow you to build more mini-blast furnaces over time".

He added: "SAIL has idle blast furnaces and idle coke ovens. Why?" Nobody dared answer the questions.

Met coke producers financially stretched

Dipak Agarwalla of met coke producer Saurashtra Fuels said "India's merchant coke industry is at a cross roads. Most of the 10mt produced here is sick or on the borderline".

He pinned most of the blame onto China, explaining: "Coke prices are at new lows. This is because two years ago China withdrew the

Market comment

Australia

A number of floating cargoes were on offer this week with some concluded as traders worked to clear stocks before year-end.

A prompt cargo of Queensland premium hard coking coal was done at $112/t FOB, possibly into India. While this was a few dollars lower than last week's deals for similar quality coal the downward trend appears to be more to do with increased trader activity than any fundamental market change.

Another prompt cargo of premium Australian mid-vol is said to have traded into Europe at around $115t FOB, via a trader. This is up slightly from a January loading cargo of mid-vol heard traded last week at around $114.50/t FOB direct from the producer.

On a CFR basis, a major Chinese trader is believed to have offloaded a capesize vessel of premium quality coal at $121/t, after receiving no interest last week for offers at $123/t CFR. Chinese commentators described this week's achieved deal as low. Second-tier coals were reportedly being offered at $102/t FOB and $114/t CFR.

US

Activity in the US met coal market was subdued during the holiday-shortened week, but an apparent uptick in European demand is providing some positive momentum ahead of first-quarter contract negotiations.

One producer said that he was receiving fresh enquiries from both established and new customers in Europe, but supply was limited due to production being allocated already. However, the fresh enquiries were mostly not at higher price points as there is ongoing competition from producers looking to "clear the decks" before the end of the year.

"We don't have coal available because we've sold it all, which is frustrating as there is demand out there," he said.

US met coal exports remain under intense price competition from Australian producers, which have seen spot prices hover near historic lows amid weak demand from China.

Meanwhile, there is said to have been some early agreements for first-quarter US supply into European mills, despite Australian producers having not yet made initial offers to their key customers. The first-quarter deals are said to be at roll-over prices compared to the current quarter.

40% export tax on coke, which opened the floodgates."

He added that transport infrastructure is playing its part in the problems faced by his company, with difficulties in getting the coking coal imports to plant on time. "On the east coast all our merchant cokeries are suffering".

He said most of Saurashtra's met coal is coming from Australia which is currently the most cost effective supplier. It has previously taken coal from Mozambique, Indonesia, Russia and the US.

Vale gears up to boost Mozambique exports

Meanwhile, on the supply side Vale used the conference to announce some milestones at its Mozambique coal project.

Vale's Andrea Cornwell said the company is about to start commissioning the next stage of expansion, which is a 900km rail line to the port of Nacala.

Vale hopes to get the first train on the tracks before Christmas and to start loading coal vessels in Nacala in Q1 2015. It is envisaged Vale will ship 50% of its Mozambique coal from Nacala and 50% from Beira. It is already shipping out of Beira.

She added that by the end of this year Vale will have exported 9mt of coal from Mozambique since it started shipping three years ago.

Briefs

Rio Tinto touts 30% coal cost cuts

Rio Tinto has claimed unit cost reductions of around 30% in its coal operations since 2012 and has signalled increased sales of blended products from 2015.

In investor briefings, Rio energy chief, Harry Kenyon-Slaney, said the company had reduced its thermal coal unit costs by around 32% since the 2012 peak, with coking coal costs down 28% in the period.

He claimed Rio's realised coal pricing had comfortably beaten relevant indices over the past three years and indicated the company continued to study 'low capital intensity' expansion options, including the long-delayed Mount Pleasant thermal prospect in New South Wales.

Kenyon-Slaney's presentation outlined that Rio planned to apply an 'iron ore-style' strategy to its coal assets, including 'developing blended products to suit current and new market segments.'

He said Rio had completed an evaluation of its coal assets, confirming a 41.3% increase in reserves to 1.88bn t, from 1.33bn t previously.

UK September coking coal consumption falls 17%

UK coking coal consumption fell 17% to 0.49mt in September, from 0.59mt in the year-ago month, and fell 17% compared to 0.58mt in August this year, according to the Department of Energy and Climate Change.

For the January-August period, coking coal consumption totalled 4.88mt, which is 2% down on the year-ago period's 4.97mt.

Stocks of coking coal held by UK coke ovens stood at 0.74mt in September, compared to 0.95mt in September last year and 0.82mt in August this year.

Japan October coke imports jump 60%

Japan imported 0.40mt of coke in October, which is a 60% jump on 0.25mt in the year-ago period, according to government statistics.

The majority of the imports were sourced from China, accounting for 0.32mt of the October imports, which is up 68% on the 0.19mt imported from there in the year-ago month.

Imports from Australia rose 48% to 71,175t in October, from 48,068t in October last year.

Oz terminals face more maintenance delays

Fresh maintenance commitments at a number of Queensland terminals are shaping up to impact coal movement into early 2015.

Logistics sources indicate Hay Point has advised of a five-day maintenance shutdown of one berth, beginning December 1, while Gladstone's RG Tanna terminal has a three-day ship loader closure scheduled from January 13.

Abbot Point and Dalrymple Bay also have brief one berth closures scheduled for next month while in New South Wales the PWCS Carrington terminal is yet to return to full operational levels after lengthy repairs this month.

Quarterly metallurgical coal benchmark price history

Coking coal	HCC ($/t)	+/- % on previous quarter	ULV PCI ($/t)	+/- % on previous quarter	PCI/HCC relativity %	Semi-soft ($/t)	+/- % on previous quarter	SS/HCC relativity %
Apr-Jun 2010	200.00	n/a	170.00	n/a	85.00%	167.00	n/a	83.50%
Jul-Sep 2010	225.00	12.50%	180.00	5.88%	80.00%	*171.00	2.40%	76.00%
Oct-Dec 2010	209.00	-7.11%	*149.00	-17.22%	71.29%	143.00	-16.37%	68.42%
Jan-Mar 2011	225.00	7.66%	180.00	20.81%	80.00%	181.25	26.75%	80.56%
Apr-Jun 2011	*330.00	46.67%	*275.00	52.78%	83.33%	*259.00	42.90%	78.48%
Jul-Sep 2011	315.00	-4.55%	230.00	-16.36%	73.02%	212.00	-18.15%	67.30%
Oct-Dec 2011	285.00	-9.52%	208.00	-9.57%	72.98%	*182.00	-14.15%	63.86%
Jan-Mar 2012	235.00	-17.54%	171.00	-17.79%	72.77%	179.00	-1.65%	76.17%
Apr-Jun 2012	210.00	-10.64%	153.30	-10.35%	73.00%	147.00	-17.88%	70.00%
Jul-Sep 2012	225.00	7.14%	162.00	5.68%	72.00%	147.00	0.00%	65.33%
Oct-Dec 2012	170.00	-24.44%	125.00	-22.84%	73.53%	117.00	-20.41%	68.82%
Jan-Mar 2013	165.00	-2.94%	124.00	-0.80%	75.15%	117.00	0.00%	70.91%
Apr-Jun 2013	172.00	4.24%	141.00	13.71%	81.98%	121.00	3.42%	70.35%
Jul-Sep 2013	145.00	-15.70%	116.00	-17.73%	80.00%	105.00	-13.22%	72.41%
Oct-Dec 2013	152.00	4.83%	121.00	4.31%	79.61%	105.50	0.48%	69.41%
Jan-Mar 2014	143.00	-5.92%	116.00	-4.13%	81.10%	103.50	-1.90%	72.40%
Apr-Jun 2014	120.00	-16.08%	100.00	-13.79%	83.33%	90.00	-13.04%	75.00%
Jul-Sep 2014	120.00	n/a	100.00	n/a	83.33%	89.00	-1.11%	74.17%
Oct-Dec 2014	119.00	-0.83%	99.00	-1.01%	83.19%	87.00	-2.25%	73.11%

*=average of a range

Source: IHS Energy

IHS coking coal index specifications

	Total moisture (%) max	Ash % max	Sulphur % max	CSR min	CSN min	Rank	Fluidity (ddpm)	Vols %	c.v	Phosphorus %
Australian prime hard FOB	10	10.5	0.7	67	7	1.15-1.55	100-plus	26 max	--	
North China prime hard CFR	10	10.5	0.7	67	7	1.15-1.55	100-plus	26 max	--	
Australian hard coking coal FOB	--	7.5 – 10.5	0.4 – 1	58-66	--	--	--	20-28	--	0.02-0.08
North China hard coking coal CFR	--	7.5 – 10.5	0.4 – 1	58-66	--	--	--	20-28	--	0.02-0.08
US high-ash, high-vol FOB	--	9	1	--	7-9	--	15,000	32-34	--	
US low-vol FOB	--	9	1.2	--	7-9	--	--	16.5-21	--	
Australian ULV PCI FOB	--	10	0.8	--	--	--	--	12-21	6,900-7,750 GAD	

Source: IHS Energy

IHS coke index specifications

	Ash %	Sulphur % max	M40 min	CSR
Coke FOB Rizhao	12	0.6	80	60>
Coke CIF ARA	12.5	0.6	80	60>

The methodology is available on www.mccloskeycoal.com

Source: IHS Energy