

AUGUST 2023

GLOBAL AND RUSSIAN THERMAL COAL MARKET FORECAST

MONTHLY REVIEW | 23-01

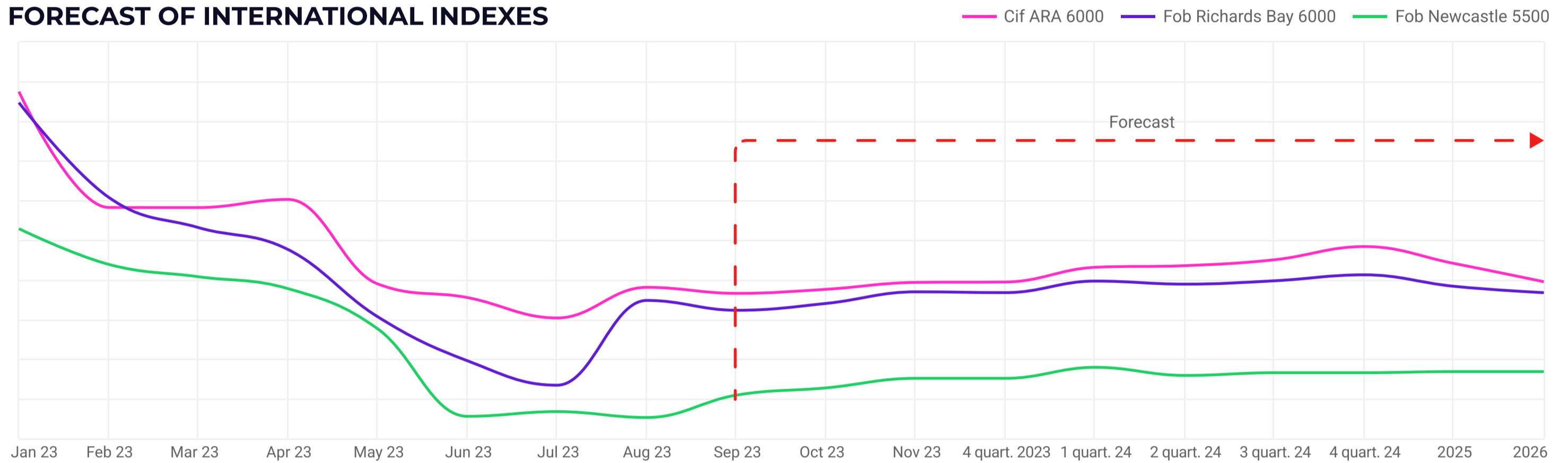
SHORT-TERM FORECAST (FOR 2023)

- ↗ Global coal benchmarks will improve due to the increased consumer demand before winter
- ↗ Russian coal export indexes will rise following international benchmarks
- ↗ A high export alternative and an increase in operating costs will support the growth of domestic grade D coal prices

MEDIUM-TERM FORECAST (FOR 2024-26)

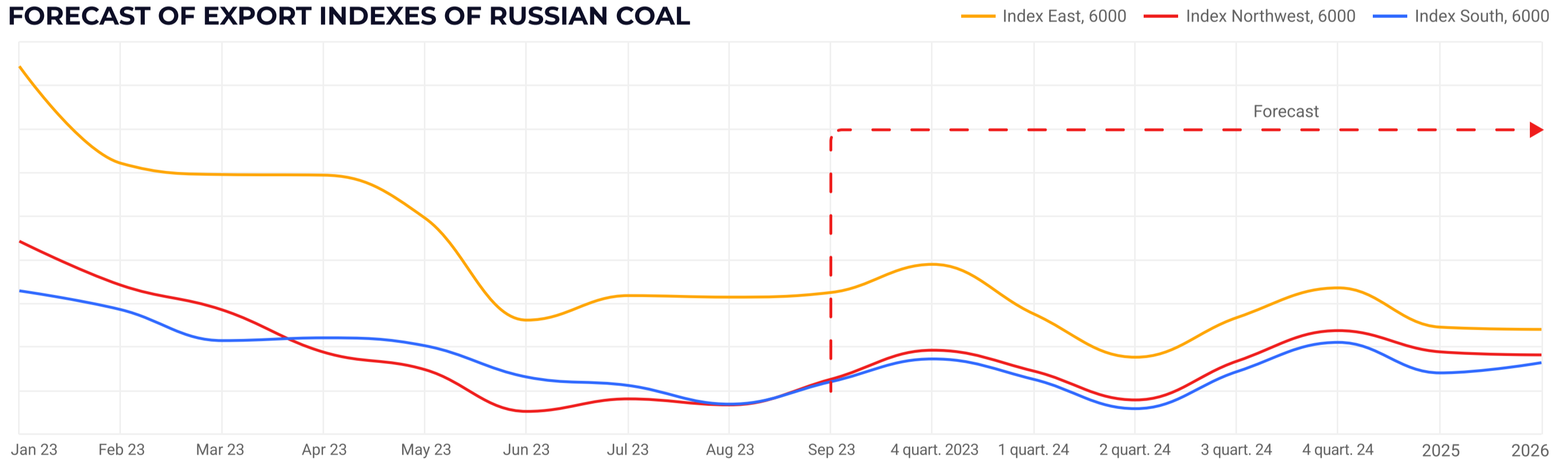
- ↗ Global coal benchmarks will be under pressure from a sharp increase in LNG supply, as well as the development of renewable energy generation
- ↗ Increased supply to India and China will support prices, while stagnant shipments to JKT countries will become a deterrent
- ↗ Grade D coal prices will continue to rise due to high inflation and the devaluation of the ruble

FORECAST OF INTERNATIONAL INDEXES



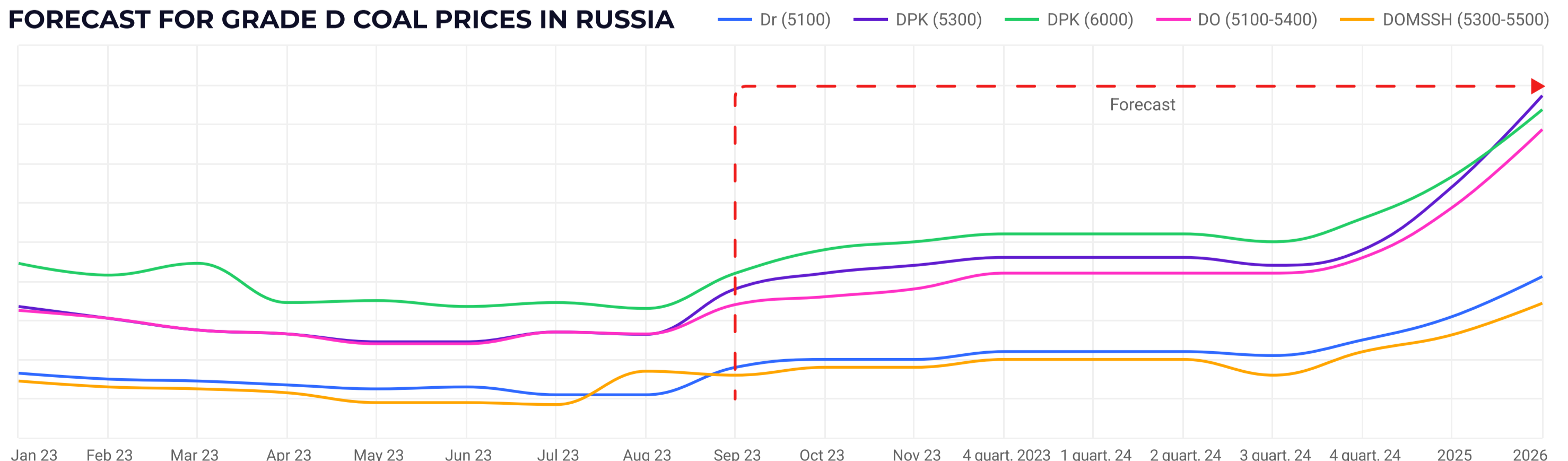
Source: estimates of market participants, calculated by Neft Research

FORECAST OF EXPORT INDEXES OF RUSSIAN COAL



Source: calculated by Neft Research

FORECAST FOR GRADE D COAL PRICES IN RUSSIA



Source: estimates of market participants, calculated by Neft Research

Forecast of International Indexes

	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	1ST QUARTER 2024	2ND QUARTER 2024	3RD QUARTER 2024	4TH QUARTER 2024	2025	2026
CIF ARA (6000 kcal/kg)	167,5	138,3	138,3	140,3	119,1	115,6	110,5	118,2										
FOB Richards Bay (6000 kcal/kg)	164,8	140,9	133,3	127,7	110,8	99,7	93,5	114,9										
FOB Newcastle (5500 kcal/kg)	133,0	124,0	120,9	117,8	107,7	85,6	86,8	85,3										

Source: data from market participants, analyzed by Neft Research

Forecast

Key Drivers

Growing demand from energy and cement enterprises, which will form reserves before winter, will support the prices of thermal coal globally in the coming months. In addition, the growth of gas prices will also contribute to the increase of the indexes, due to the uncertainty caused by strikes of gas platform workers in Australia and a decrease in gas production in Norway. Another factor is a possible decrease in South African coal exports due to restrictions on the transportation of coal to the port of Richards Bay by rail related to cases of vandalism on the North Corridor branch.

Meanwhile, in the medium-term forecast, i.e., 2025-2026, coal benchmarks will be under pressure from a sharp increase in global LNG supplies, which will peak in 2025, as well as the development of renewable energy generation.

Forecast of Russian Coal Export Indexes

	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	1ST QUARTER 2024	2ND QUARTER 2024	3RD QUARTER 2024	4TH QUARTER 2024	2025	2026
Index Northwest (6000 kcal/kg)	114,2	104,1	98,5	88,8	84,7	75,2	78,0	76,7										
Index South (6000 kcal/kg)	102,8	98,5	91,4	92,0	90,2	83,1	81,1	76,8										
Index East (5500 kcal/kg)	154,3	132,1	129,5	129,4	119,5	96,1	101,7	101,4										

Source: data from market participants, analyzed by Neft Research

Forecast

Key Drivers

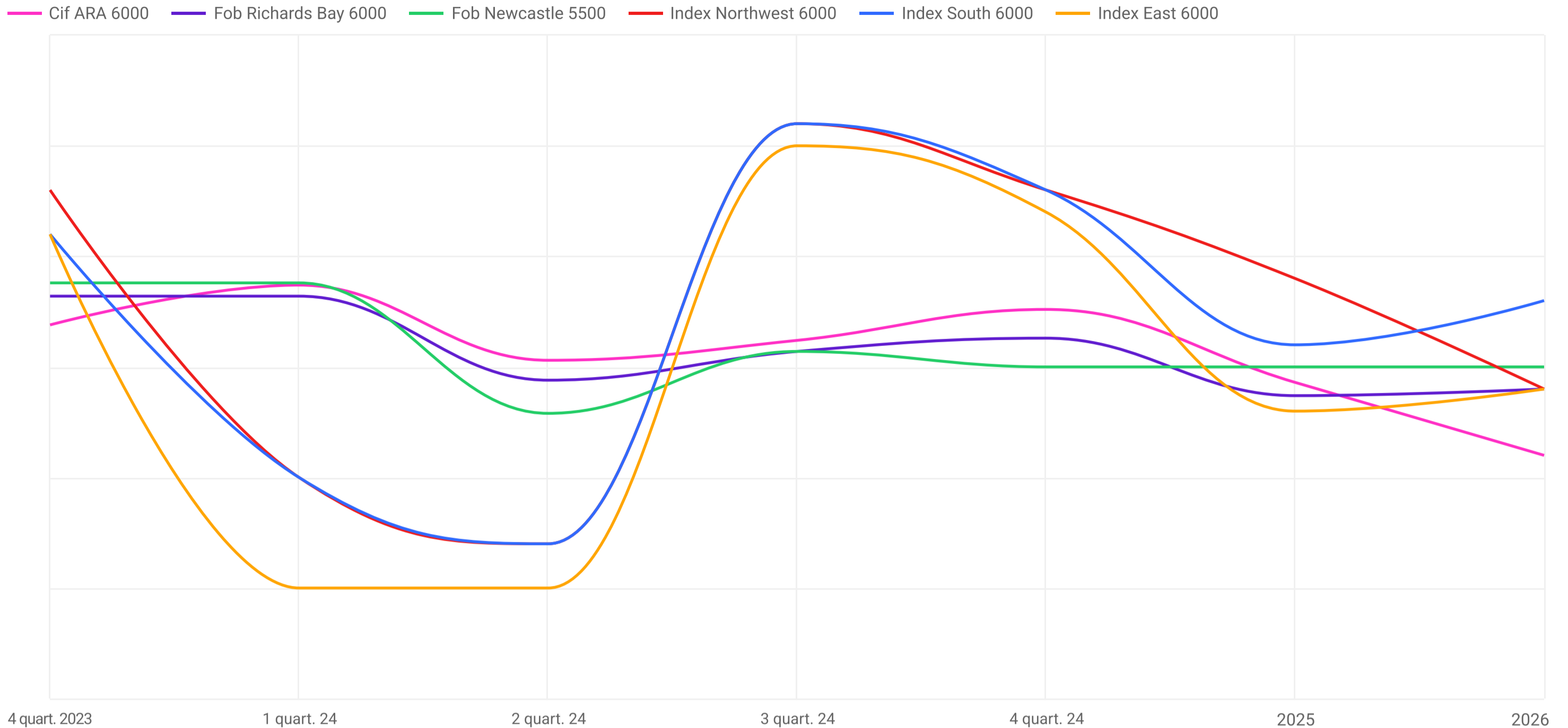
Russian export indexes will increase in the coming months of 2023 following international coal benchmarks, which will be influenced by a number of factors. First of all, there is an increase in demand for solid fuels in the energy industry in the Asia-Pacific region, especially in India and China.

From the fourth quarter of 2023 until 2024, the pricing of export shipments of Russian thermal coal will be subject to high volatility, in contrast to the dynamics of international indexes.

It is caused by the continued sanctions pressure on the domestic coal industry, primarily all kinds of trade restrictions that result in continuous abnormal discounts on Russian coal.

Starting in 2025, the dynamics of price fluctuations in Russian and international indexes are forecast to gradually equalize against the background of a decrease in the coal supply on the world market, including Indonesia. Around the same time, the process of restructuring new long-term coal supply chains in the world is expected to be completed. As a result, Russian indexes in the coming two years may return to reasonable levels with minimal discounts.

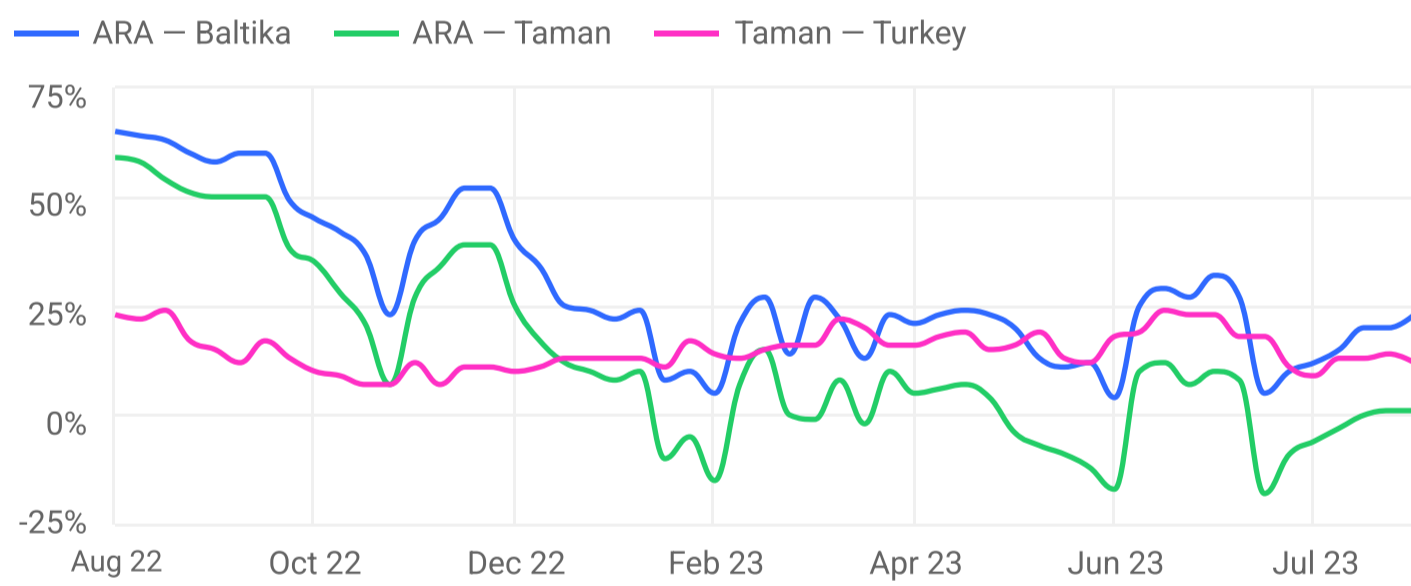
PRICE DYNAMICS OF RUSSIAN EXPORT INDEXES AND INTERNATIONAL INDEXES



Source: calculated by Neft Research

DISCOUNT ON RUSSIAN COAL IN THE WEST

The discount on Russian coal supplied to Turkey lowered due to a decrease in exports of thermal coal from Colombia

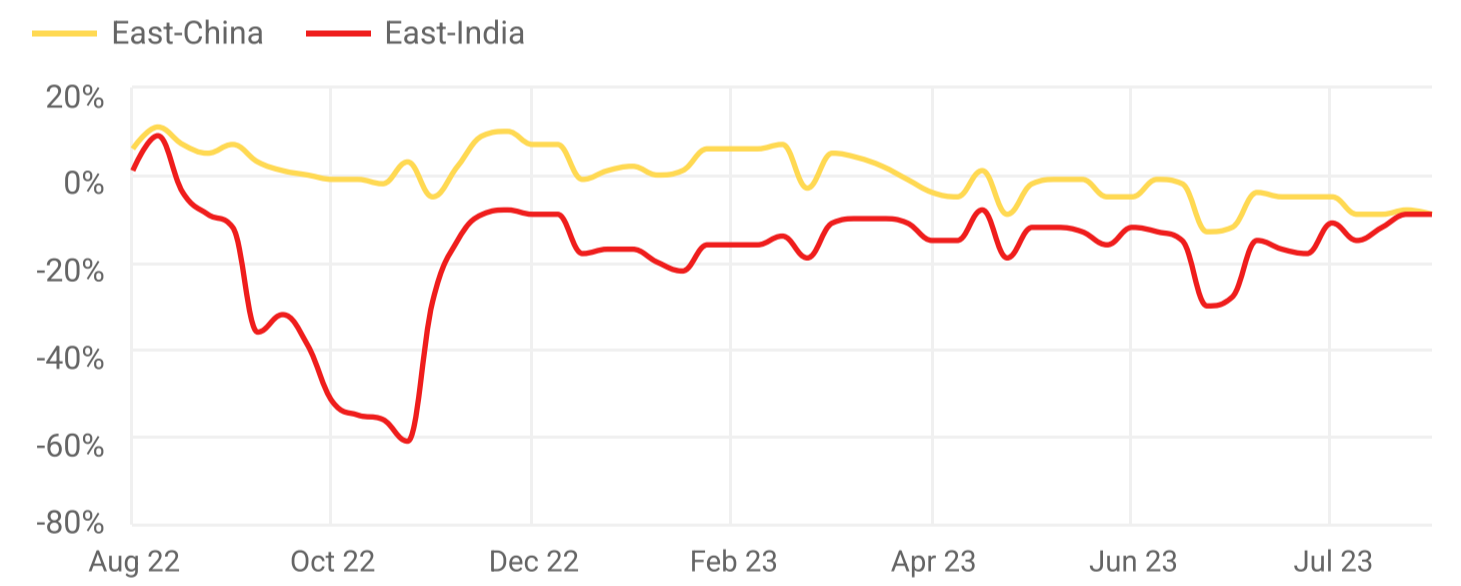


DISCOUNT / PREMIUM	25.08.2023	WEEK/WEEK	SINCE THE BEGINNING OF 2023
ARA-Baltika	-23%	+17 pp	-5 pp
ARA-Taman	-1%	-45 pp	-93 pp
Taman - Turkey	-12%	-11 pp	-6x

Source: Neft Research Analysis

DISCOUNT ON RUSSIAN COAL IN ASIA

The premium for Russian coal supplies to China has increased against the background of a decrease in coal reserves in the port of Qinhuangdao



DISCOUNT / PREMIUM	25.08.2023	WEEK/WEEK	SINCE THE BEGINNING OF 2023
East-China	9%	+19 pp	-13x
East-India	9%	-4 pp	-49 pp

Source: Neft Research Analysis

FORECAST OF COAL GRADE D PRICES IN RUSSIA

	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	1ST QUARTER 2024	2ND QUARTER 2024	3RD QUARTER 2024	4TH QUARTER 2024	2025	2026
Dr (5100)	1825	1750	1725	1675	1625	1650	1550	1550										
DPK (5300)	2675	2525	2375	2325	2225	2225	2350	2320										
DPK (6000)	3225	3075	3225	2725	2750	2675	2725	2650										
DO (5100-5400)	2625	2525	2375	2325	2200	2200	2350	2325										
ДОМСШ (5300-5500)	1725	1650	1625	1575	1450	1450	1425	1850										

Note: all prices are stated for FCA Kuzbass, ex VAT, shipping time is up to 90 days

Forecast

Source: data from market participants, analyzed by Neft Research

KEY DRIVERS

The main drivers of cost changes of grade D thermal coal in Russia will be the heating season, as well as the dynamics of the export alternative.

The increase in prices for long-flame coal in Russia during the period under review is caused by high inflation and the devaluation of the ruble.

Strong demand for Russian thermal coal from foreign buyers, primarily in China, India and Turkey, and escalating operational costs will support the increase in domestic grade D coal prices.

The forecast for 2025-2026 is not permanent due to geopolitical instability.

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