



# West Virginia Geological and Economic Survey *Colloquium Series*

---

Presents

**Jim Truman**

Principal Analyst, Wood Mackenzie

Date: **Monday December 6, 2010**

Place: [West Virginia Geological Survey, 1 Mont Chateau Rd, Morgantown, WV](#)

Presentation: **Begins at Noon**

---

## **West Virginia Coking Coal Market Drivers**

Global crude steel production peaked in April 2010. Companies over-produced based on expected demand, as opposed to just-in-time orders. At the same time, economies did not recover as quickly or as robustly as had been expected and steel demand fell. As a result of the surge in production and weaker demand, stockpiles of crude steel rose and steel prices fell. Since April, steel production has slowed and in some countries, most notably China, stockpiles have been drawn down.



This was the backdrop for the most recent quarterly coking coal price negotiations. And because steel demand is the primary driver for coking coal demand, coal prices fell for the first time since the new quarterly pricing structure was adopted in the First Quarter of the 2010 Japanese Fiscal Year (April - June).

The new benchmark price for Australian Peak Downs/Saraji low-volatile, hard coking coal was settled at US\$209/t. Wood Mackenzie believes this price is stronger than was expected, showing that even in a short-term environment of excess steel, there is an over-arching fear of diminishing coal availability. This fact is punctuated by a recent global trend of steel companies buying coal properties to secure supply and reduce exposure to the volatile pricing.

Although US\$209/t is a reduction, it is still a very strong price, and well above the cost of production. Additionally, since September, spot prices have increased to about US\$220/t. This pricing strength has caused coal companies to globally expand production and propose new mines. In Central Appalachia (and West Virginia specifically) reserve depletion and permitting difficulties have limited expansions. In order to take advantage of these prices, companies in this region are switching as much coal as possible from thermal markets to metallurgical markets.



Jim Truman is a Principal Analyst for Wood Mackenzie and is responsible for the global metallurgical trade service, which forecasts prices and trade volumes. He is a geologist by training and has specialized for over thirty-five years evaluating supply-side issues of the coal industry.