



## Market Commentary

by Jim Thompson

Weather, weather, everywhere is weather. Yeah, it's winter, and in the winter, there are supposed to be weather issues. But things do feel a bit differently right now, in part because it's 12 degrees or whatever in the Southeast, and I no longer feel my toes.

I'm usually hesitant to write much about rain and snow and cold weather. It usually doesn't make sense to do so in, say, August, and when I do so in December, buyers generally heckle me. "Man, you are a news machine, baby! It's cold in December! Sign me up for that insightful newsletter."

Let's plunge the ol' neck out, though, and explore Jack Frost and the International Rain Men. Piers Corbyn / WeatherAction long range forecasters, a London-based firm in which my friend Gerard McCloskey sets considerable store, released a report referring to the recent harsh weather in the Midwest and Southeast. "You ain't seen nothing yet," Piers Corbyn wrote, compared to what it expects to strike the Northeast the week between Christmas and New Year's Eve.

The weatherman predicts "one of the most significant snowfall/blizzard periods" for decades in the Northeast and Eastern U.S.

Placing a bet on weather is treacherous, but if such a scenario is even close to reality, things could get interesting. At least in the short-term, there could be some reasonably substantial pressure on domestic buyers, and at least one major coal producer thinks those in need of coal are in for a surprise.

### Coal or no coal?

"I'm telling you there's no coal out there," the source, who happens to be

SEE MARKET COMMENTARY, PAGE 2

## Greens grit teeth, gird to fight West Coast terminal, but Longview is bullish

An appeal by environmental group Earthjustice of Cowlitz County, WA's decision to grant a permit for construction and operation of a coal export facility near Longview likely won't prevent the project from moving forward, though delays probably will result, according to a Coal & Energy source.

Earthjustice claims in a filing with the state Shoreline Hearings Board that Cowlitz County commissioners failed to complete a valid environmental impact study before approving a permit earlier to Millennium Bulk Logistics, a subsidiary of Ambre Energy of Australia.

Ambre intends to purchase certain facilities on the property from Chinook Ventures.

The hearings board has 180 days to rule on the appeal of the permit.

"Ambre has the permit, or at least board approval," the *Coal & Energy* source said.

"I think they will be proceeding with that one. They will probably be the first (new West Coast export facility) to come online. But it could take six months to a year.

"There is a lot of environmental pressure. Everybody has got to be more cautious, so I am a little less optimistic

when someone like the Sierra Club gets involved, but I think it will work out."

Millennium has said that it plans

to export up to 5 million tons of coal from the Powder River Basin and Montana to consumers in Asia. The source says that number could be considerably larger at some point.

"Officially they are talking 4-5 million tons, but realistically it could be 10-15 million tons" he said.

"I think they just want to downsize the volume until they have the permit for certain. They don't want to say 'we will bring in a terminal and bring 50 million tons of coal through here a year.' Then everybody would be upset, whereas small tonnages are not as big a deal."

The source views the group's opposition to the new facility as merely a senseless delay of the inevitable.

"The environmental argument is turning out to be a global warming issue," he said.

"They say 'why do we want to help people burn coal?' They will burn coal whether you ship it to them or not. You might as well take some revenue off of this. China will burn coal no matter what." (PM)

***"Ambre has the permit, or at least board approval. I think they will be proceeding with that one. They will probably be the first (new West Coast export facility) to come online. But it could take six months to a year."***

# Market Commentary

CONTINUED FROM PAGE 1

the top sales and marketing official for a top tier Eastern producer, said.

Counter-argument: A trader said there's plenty of coal available. In fact, he compared the current situation to an Asian restaurant. "There is every kind of sushi you want," he said.

All of these things are a matter of degree, of course. In a slender market, there can be a decent variety of coal on offer in the OTC, but that might not make much difference if true physical demand develops. Witness the summer here in the States and the current market in Europe. Stockpiles can evaporate in a hurry when conditions are right.

Coal production issues abound, which has prevented producers from being awash in coal. Some say their mine inventories are remarkably low.

The export market continues to be a significant story. Dan and Phillip Vaughn of ICAP United point out in their Weekly Recap of all that's carbon: "Coal is still moving into the export market in large numbers."

The Vaughns peg 2-3 million tons/month of steam coal exports as a likely level, and the guys note domestic utilities are "countering with early RFPs for 2011 coals."

In the meantime, out in Europe, it's stick rock 'n' roll to me. As of this morning, the API 2 was trading for February at \$116-118/tonne, which is awfully healthy. But the market has been rather quiet, and bids/offers are "far apart," according to a European source.

"Richards Bay prices put a cap on Europe," the source noted. "Richards Bay started being offered into Europe when Europe reached about \$120, so this put a stop to further price rises. "Most thought that is enough for now."

The international side is still being driven by Asia, which is another example of the insightful, challenging commentary available here.

"China is buying all the steam coal they can get their hands on," one source with close ties to the Indonesian market

said. He speculated that China might also have its eyes on Colombian coal.

"We see little respite from higher prices in the coal market in the short term," the coal market analysts at Barclays Capital wrote in a new report. "In Europe, with rising gas prices over the winter, coal prices can go higher still."

## Who'll stop the rain?

Rain in major producing regions continues to be a major market driver. Evolution is springing gills on our friends in Australia and Indonesia, and the Colombians also are learning to swim.

Here are some current headlines from Australian news media:

- "Rain delays Gladstone Port"
- "Rio Tinto's Queensland coal mines hampered by rain"
- "Australia reduces commodity export sales outlook on weather, Bureau says"
- "Australia's exports hit by floods, minerals dip"
- "Wesfarmers drops Curragh production forecast"

On interesting feature of the weather, of course, is that seasons change. I hearken to one of the worst songs ever to hit the radio: "We had joy, we had fun, we had seasons in the sun." The lyrics were so cloying even the Beach Boys turned the song down when they were at their nadir, smoking bongo skins and divorcing each other. But Terry Jacks turned it into a hit. Man's inhumanity to his own ear.

"Following the end to the cold spell, prices are likely to soften in Q2 '11, especially due to our view of lower gas prices in the summer, pressured by plentiful supplies," Barclays wrote. The reference was to the global market, but it could just as easily have been tuned to the U.S. scene.

The Vaughns noted that U.S. natgas prices, which opened December 6 at \$4.35, were at \$4.42 by December 10. The latter price level is still about right. What giddy excitement!

The overhang of gas is going to make it difficult for prices to break through the glass ceiling, which is really more of a tungsten ceiling, and change appreciably even in the face of sustained cold weather. Absent a significant supply disruption, the natgas picture is likely to stay rather bearish, though there are a few dissenting views – very few, as far as I can tell.

For now, though, Barclays expects Europe to continue to be priced high enough to attract South African coal, which translates to "about current levels." U.S. guys can continue to find export deals until and unless there is a global price downturn – or domestic demand and prices increase.

## China, India, gobble, gobble

In the longer term, developments from China are bullish, as noted by Melinda Moore and the energetic analysts at Credit Suisse.

China's National Development & Reform Commission has set 2011 state-owned-enterprise thermal contract tonnage allocations to power generators at an increase of only 6.5 percent from 722 million tonnes to 769 million tonnes.

"This is relative to our 2011 domestic thermal consumption growth expectations of at least 8 percent YoY, meaning a greater percentage of total demand will be filled by domestic plus imported spot tonnes at prevailing market prices," Credit Suisse wrote. It also means less tonnage will fall victim to Chinese government price cap controls than previously expected.

The NDRC's allocations for China's 2011 coking coal tonnes are even more bullish, Credit Suisse figures – "up a paltry 2.8 percent YoY from 158.5 million tonnes to 163 million tonnes."

The development supports "at least an 8 percent YoY lift in Chinese coking coal imports," Credit Suisse thinks. "In turn, this will place even more strains on an already struggling ex-China coking coal market, given blast furnace expansions across Korea, Turkey, Brazil and India."

In the meantime, the aforementioned McCloskey is in India, no doubt wishing he were at Sussex Gate in his beloved England, and various media have reported on his bullish outlook for coking coal.

"There will be immense corporate activity pushing assets to new highs," McCloskey said, according to Business Standard and other sources. "This year, China's coking coal imports could be more than 40 million tonnes, up from 34 million tons last year."

McCloskey, who spoke at the Steel Raw Materials conference organized

SEE COMMENTARY, PAGE 3

# Market Commentary

CONTINUED FROM PAGE 2

by IPF Online and the Bengal Chamber of Commerce & Industry, dismissed outlying predictions the coking coal market could push to \$350/tonne, citing inadequate demand and pricing for finished products. "When coking coal prices soared to \$300 a tonne, steel prices were at \$1,000 a tonne," he noted, "and steel prices are nowhere near that level."

But prices certainly could move up rapidly from the new \$225/tonne global benchmark.

"Met coal for Q1 '11 is being priced at \$225 per metric tonne by BHP Billiton and Japan," the Vaughns noted. "Still some mid-vol quality coal has already been sold for \$230-235 per tonne."

Much of the bullishness is on the back of the deluge of rain in Australia, and supply circumstances are beginning to mirror those of 2008.

India-based commodity trader mjunction Services Ltd caught a lot of hair on fire December 6 when it mentioned in a note, citing India Coal Minister Sriprakash Jaiswal, China and India could increase imports of coal by 78 percent to 337 million tonnes in 2011. The world was a bit deaf to the report until it was cited by Bloomberg.

Barclays has a bullish view, though it is muted in comparison to the Indian headline. The analysts think "price risks are skewed to the upside in the Pacific Basin and would view dips as presenting

buying opportunities." They wrote: "The end of winter could bring about some relief in the tightness, but the market is likely to exit the winter with lower inventories along the supply chain."

All of this means something in the U.S. The senior marketing executive mentioned above is the same guy who predicted a few weeks ago prices here could skirt \$100/ton FOB mine by the end of the year. He thinks his prediction still looks good, though the timing might be a bit later than he expected.

Natgas is the drag, of course, and it has some muscular arms. But Jack Frost and the International Rain Men have conspired to make things interesting, at least.

"Our market balances already point to a rather large deficit in the coal market, given a mix of developments including the growth of coal-fired generation in emerging Asia and Eastern Europe, various supply shortfalls due to adverse weather conditions in key exporting nations in the Pacific Basin and Colombia, and coal transport problems in Russia and South Africa," Barclays wrote. "A cold winter in Northern Europe could result in sharp price spikes in a market that is constantly susceptible to infrastructure bottlenecks.

"Our revised Pacific balances show a tightening in 2011 relative to 2010, as do our revised Atlantic Basin balances. As such, prices should be well-supported, and we expect some upside risks to our current price forecasts, with annual averages of \$99/tonne for API2, \$97/tonne for API4 and \$100/tonne for Newcastle in 2011."

Whither NYMEX?

## EPA slows on emissions rules as Republicans ready themselves to take charge

The Environmental Protection Agency's decision to delay implementing two new rules covering industrial emissions is because the agency is getting a stern look from its dad, in this case the new Republican House of Representatives.

The new rules governing CO2 and other emissions were to take effect January 2 but have been delayed until July. The new rules governing the way, among other things, emissions are monitored are going to cost the economy nearly a trillion dollars according to the harshest critics. Is the House going to start telling EPA what to do? Not in so many words.

According to Coal & Energy sources the way the House is going to go about reigning in the EPA is by constricting its cash flow. The House sets the EPA's budget and now that a flood of Republicans are headed to Washington the cash isn't going to be flowing quite like it has been.

"They are going to simply refuse to fund certain EPA programs ... at least that's what they say they are going to do," said a source who had a sit-down with his local congressman last week. He said the EPA knows there are going to be lots of opportunities to be called up on the Hill to testify about its myriad rules.

"I think they are going to have to justify a lot of what is out there right now," source said. "I was told there are going to be a lot of committee hearings where the EPA is going to be asked questions it might not like."

Needless to say the new reality hasn't been lost on environmentalists. They say that Republicans are going to gut the Clean Water Act, the Toxic Substances Control Act and the Comprehensive Environmental Reclamation, Cleanup & Liability Act – which if not gutted at least needs to be renamed. The source said he was told there will be no wholesale gutting, but EPA isn't going to be allowed

SEE EPA, PAGE 4

### Request a trial of our other newsletters...

- COAL AMERICAS
- CHINA COAL
- THE PETCOKE REPORT
- CLEAN COAL
- INSIDE COAL
- US COAL REVIEW

And for coal news covering the pacific rim, visit [CoalPortal.com](http://CoalPortal.com)

Call 865-584-6294

Energy Publishing, Inc.  
824 E. Peters Road, Suite 202, Knoxville, TN 37923  
865.584.6294 • [www.energypublishing.biz](http://www.energypublishing.biz)

# EPA slows on emissions rules

EPA, FROM PAGE 3

to make up the rules as it goes along.

“They (the EPA) know somebody is watching now,” said the source.

According to media reports the Obama administration and the EPA are denying the delays are politically motivated.

“If legislation comes to the president’s desk that backtracks on regulation of greenhouse gases, his senior advisors would recommend a veto,” said a White House official. “That’s our position today and that will be our position in the future.” In West Virginia ...

A legislator in West Virginia said he knows of a novel way for the state to fight off the EPA’s ever-growing presence in the state’s coalfields. It’s called read the Constitution.

Gary Howell is a freshman Republican in the state house but he believes both the U.S. and West Virginia constitutions limit the EPA’s powers when it comes to issuing permits for mines. He’s not denying the EPA’s role when it comes to a lot of the coal mined in the state, but he said if that coal doesn’t leave the state then EPA doesn’t have say-so.

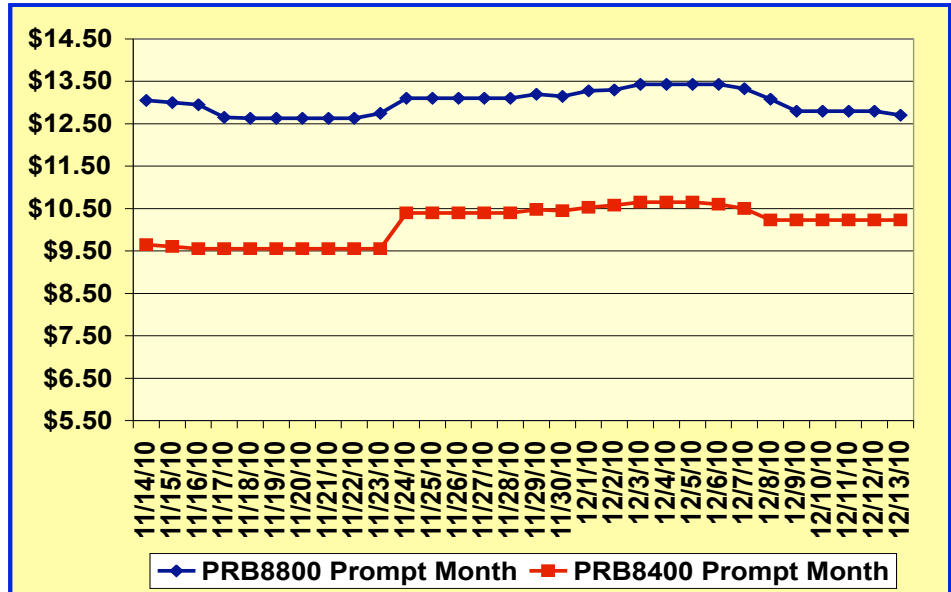
“The EPA gets its authority from the interstate commerce clause, and where no interstate commerce exists, they have no jurisdiction,” Howell told the Beckly Register-Herald.

Howell said he’s not for easing environmental regulations as much as for giving the state the ability to issue permits and thereby speed the process up considerably. If a West Virginia mine sells its coal to a West Virginia utility, then the EPA stays out of the permitting process. Coking coal and coal used for chemical feedstock would also get a state permit if the coal was altered before it left the state.

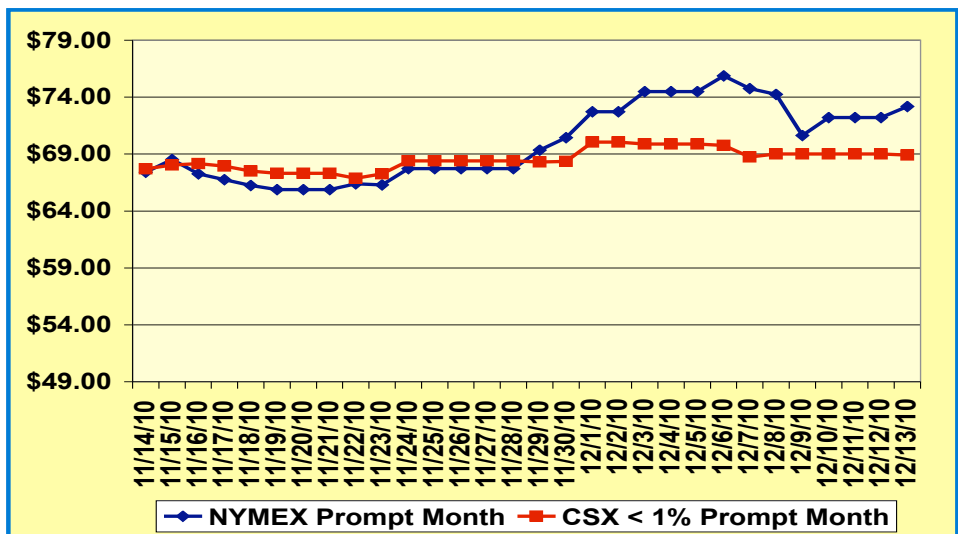
“That coal is chemically altered and becomes a different product at that point,” Howell said. “You’re not sending the coal out of state. The new product would be regulated. It’s just the process of getting the coal out of the mine, getting it to the plant, would not be regulated.”

Howell said he plans to introduce his approach to permitting in the West Virginia legislature next year. (BH)

## PROMPT MONTH FOR PRB 8800 AND PRB 8400 COALS



## PROMPT MONTH FOR CSX < 1% & NYMEX COALS



## Are you an Insider?

# Inside Coal

**Inside Coal: Your best source for insight and analysis on the global coal markets from the name you trust.**

**Each week in *Inside Coal*...**

- MONDAY: Focus on Australia, top daily news
- TUESDAY: Focus on Atlantic Basin
- WEDNESDAY: Focus on Pacific Basin
- THURSDAY: Global view of thermal/coking markets
- FRIDAY: Americas, US focus domestic and export

Contact John Norris at 865.584.6294 or [jnorris@energypublishing.biz](mailto:jnorris@energypublishing.biz) for your free trial.

**Energy Publishing, Inc.**  
224 S. Peters Road, Suite 202, Knoxville, TN 37923  
865.584.6294 • [www.energypublishing.biz](http://www.energypublishing.biz)

Month Codes: Jan-F; Feb-G; Mar-H; Apr-J; May-K; Jun-M; Jul-N; Aug-Q; Sep-U; Oct-V; Nov-X; Dec-Z

**OTC NYMEX Coal**

(12,000 Btu/lb., 1% sulfur)

Term	Vol	Price	Bid	Offer
F11	5B	\$0.00	\$72.60	\$73.60
G11	5B	\$0.00	\$73.40	\$74.40
Q111	5B	\$0.00	\$73.30	\$74.30
Q211	5B	\$75.25	\$74.75	\$75.75
Q211	5B	\$75.00	\$0.00	\$0.00
Q211	5B	\$75.25	\$0.00	\$0.00
Q211	5B	\$75.25	\$0.00	\$0.00
Q211	5B	\$75.75	\$0.00	\$0.00
Q311	5B	\$0.00	\$75.75	\$76.75
Q411	5B	\$0.00	\$76.75	\$77.75
Q411	5B	\$82.40	\$0.00	\$0.00
Q411	5B	\$82.50	\$0.00	\$0.00
Q411	5B	\$82.40	\$0.00	\$0.00
Q112	5B	\$78.60	\$77.95	\$78.95
Q212	5B	\$0.00	\$79.35	\$80.35
Q312	5B	\$0.00	\$80.75	\$81.75
CY11	5B	\$0.00	\$75.14	\$76.14
CY12	5B	\$0.00	\$80.01	\$81.01

**OTC PRB 8800**(at 0.8 lbs. SO<sub>2</sub>)

Term	Vol	Price	Bid	Offer
F11	2T	\$12.75	\$12.55	\$12.95
G11	1T	\$0.00	\$13.00	\$13.40
Q111	1T	\$0.00	\$12.88	\$13.28
Q211	1T	\$0.00	\$13.30	\$13.70
Q311	1T	\$0.00	\$13.60	\$14.00
Q411	1T	\$0.00	\$13.90	\$14.30
Q112	1T	\$0.00	\$14.20	\$14.60
Q212	1T	\$0.00	\$14.50	\$14.90
Q312	1T	\$0.00	\$14.70	\$15.10
CY11	1T	\$0.00	\$13.42	\$13.82
CY12	1T	\$0.00	\$14.58	\$14.98

**CSX-BSK < 1%**

Term	Vol	Price	Bid	Offer
F11	1T	\$0.00	\$68.40	\$69.40
G11	1T	\$0.00	\$72.75	\$73.75
Q111	1T	\$0.00	\$71.55	\$72.55
Q211	5K	\$74.75	\$74.15	\$75.15
Q211	5K	\$74.25	\$0.00	\$0.00
Q211	5K	\$74.40	\$0.00	\$0.00
Q211	5K	\$74.40	\$0.00	\$0.00
Q211	5K	\$74.40	\$0.00	\$0.00
Q211	5K	\$74.50	\$0.00	\$0.00
Q311	1T	\$0.00	\$75.65	\$76.65
Q411	1T	\$0.00	\$76.80	\$77.80
Q112	1T	\$0.00	\$78.75	\$79.75
Q212	1T	\$0.00	\$80.15	\$81.15
Q312	1T	\$0.00	\$81.55	\$82.55
CY11	1T	\$0.00	\$74.54	\$75.54
CY12	1T	\$0.00	\$80.81	\$81.81

**Emissions Markets Prices**

NOX OTC Allowances	Ton Units
BANK	\$0 X \$0
Vintage 2011 Bid/Ask	\$20 X \$35
Vintage 2012 Bid/Ask	\$0 X \$0
<b>SO<sub>2</sub> OTC Allowances</b>	
Vintage 2009 Bid/Ask	\$7 X \$7

**Hill Daily Index ©**

Quality	Hill Price	Hill Index	Last Trades
NYMEX Current Quarter, Plus One	\$72.50	302.71	12/10/10
NYMEX Current Quarter, Plus Two	\$75.30	314.41	12/13/10
NYMEX Next Calendar Year	\$77.98	325.59	12/13/10
PRB 8,800 Current Quarter, Plus One	\$12.75	285.87	12/13/10
PRB 8,800 Current Quarter, Plus Two	\$15.05	337.44	09/21/10
PRB 8,800 Next Calendar Year	\$12.75	285.87	12/13/10
PRB 8,400 Current Quarter, Plus One	\$10.90	315.03	11/23/10
PRB 8,400 Current Quarter, Plus Two	\$0.00	0.00	10/05/09
PRB 8,400 Next Calendar Year	\$10.90	315.03	11/23/10
CSX <1% sulfur Current Quarter, Plus One	\$70.66	271.77	12/08/10
CSX <1% sulfur Current Quarter, Plus Two	\$74.45	286.35	12/13/10
CSX <1% sulfur Next Calendar Year	\$74.45	286.35	12/13/10
CSX compliance Current Quarter, Plus One	\$0.00	0.00	03/25/10
CSX compliance Next Calendar Year	\$0.00	0.00	10/15/07
NS <1% sulfur Current Quarter, Plus One	\$67.30	258.85	11/17/10
NS <1% sulfur Next Calendar Year	\$67.95	261.35	11/17/10
NS compliance Current Quarter, Plus One	\$70.00	269.23	12/09/10
NS compliance Next Calendar Year	\$70.00	269.23	12/09/10

All prices are based exclusively on latest actual trades, and are indexed against market as of 12/28/99, when NYMEX-spec coal had been traded most recently at \$23.95/ton, 8,800 Btu/lb. Powder River Basin coal at \$4.46/ton and 8,400 Btu/lb. PRB coal at \$3.46/ton. The eastern rail index is measured against an arbitrary price of \$26.00/ton. "Hill Index" reflects weighted average of prices recorded on most recent trading day. On days when no trades occur, published index remains at previous level. "Mid-market" reflects mid-point of current bid/ask values.

**OTC Broker Index**

December 13, 2010

	NYMEX look-alike	CSX 12,500 -1% sulfur	PRB 8,400	PRB 8,800
Prompt Month	73.18 0.98	68.90 -0.10	10.23 0.00	12.70 -0.10
Prompt Quarter	74.03 1.03	71.61 0.91	10.39 0.00	13.09 -0.10

Indices compiled courtesy of Argus Media, Inc.

**NYMEX Futures**

Term	Last	Open High	Open Low	Most Recent Settle	Prev. Day Total Vol
Natural Gas (Henry Hub)					
F11	4.381	4.439	4.36	4.42	5713
G11	4.398	4.447	4.379	4.434	2126
Crude Oil					
F11	88.34	88.94	88.13	88.61	38456
G11	88.89	89.5	88.68	89.14	18582

**Price Markers**

**NAPP** 13,000 Btu/lb., 3.4 lbs SO<sub>2</sub>/MMBtu, \$73.00/ton (RAIL)  
**ILB** 11,500 Btu/lb., 2.8 lbs. SO<sub>2</sub>/MMBtu, \$60.00/ton



Delivered daily to your e-mail account at an annual rate of \$1800 (add \$150 for fax service). For subscription information, contact John Norris at Energy Publishing at 865.584.6294 or by email at jnorris@energypublishing.biz

Report intended for information purposes only, prepared based on information from sources believed reliable. Under no circumstances should it be considered an offer to sell or a solicitation to buy any commodity or investment. Opinion expressed is only a statement of our views based on information received. No guarantee of accuracy or completeness is made. Persons relying on this information do so at their sole risk. No liability shall be accepted by Energy Publishing, Inc. or its employees. This report is the property of Energy Publishing, Inc.. No reproduction or further circulation in whole or in part, is permitted without express written permission of Energy Publishing, Inc.. All information is considered proprietary and confidential. All prices are for indicative purposes only.

**NO DUPLICATION OF THIS REPORT IN WHOLE OR PART IS PERMITTED WITHOUT EXPRESS WRITTEN CONSENT OF ENERGY PUBLISHING, INC.**