



ACCCI Spring 2015 Meeting



U.S.A. Coking Coal – Survival in Challenging Market Conditions

Ponte Vedra Beach, FL
April 25, 2015

We Manage the Process
From the Ground Up



Agenda

» Current market conditions seaborne coking coal market –

- **2014 - A Year Not To Remember**
 - › **Annus Horribilis**
- **2015 – Looking For Support**
 - › **Not A Good Start**
- **2015 – Numerous Headwinds**
 - › **Particularly for U.S.A. Suppliers**
- **A Glimpse Beyond 2015**

» Summary – Conclusions

» Leaving you with some good news

Current Market Conditions-Coking Coal

- » Excess supply story
- » Supply of virtually all commodities exceeding demand,
 - oil, natural gas, **coking coal**, **thermal coal**, iron ore, nickel, copper, etc.
- » Market influenced more by increased supply than week demand
- » Last three years seaborne coking coal demand increased by over 35 million MT
- » However Australia added 50 million MT,
 - increase of almost 38%

Agenda

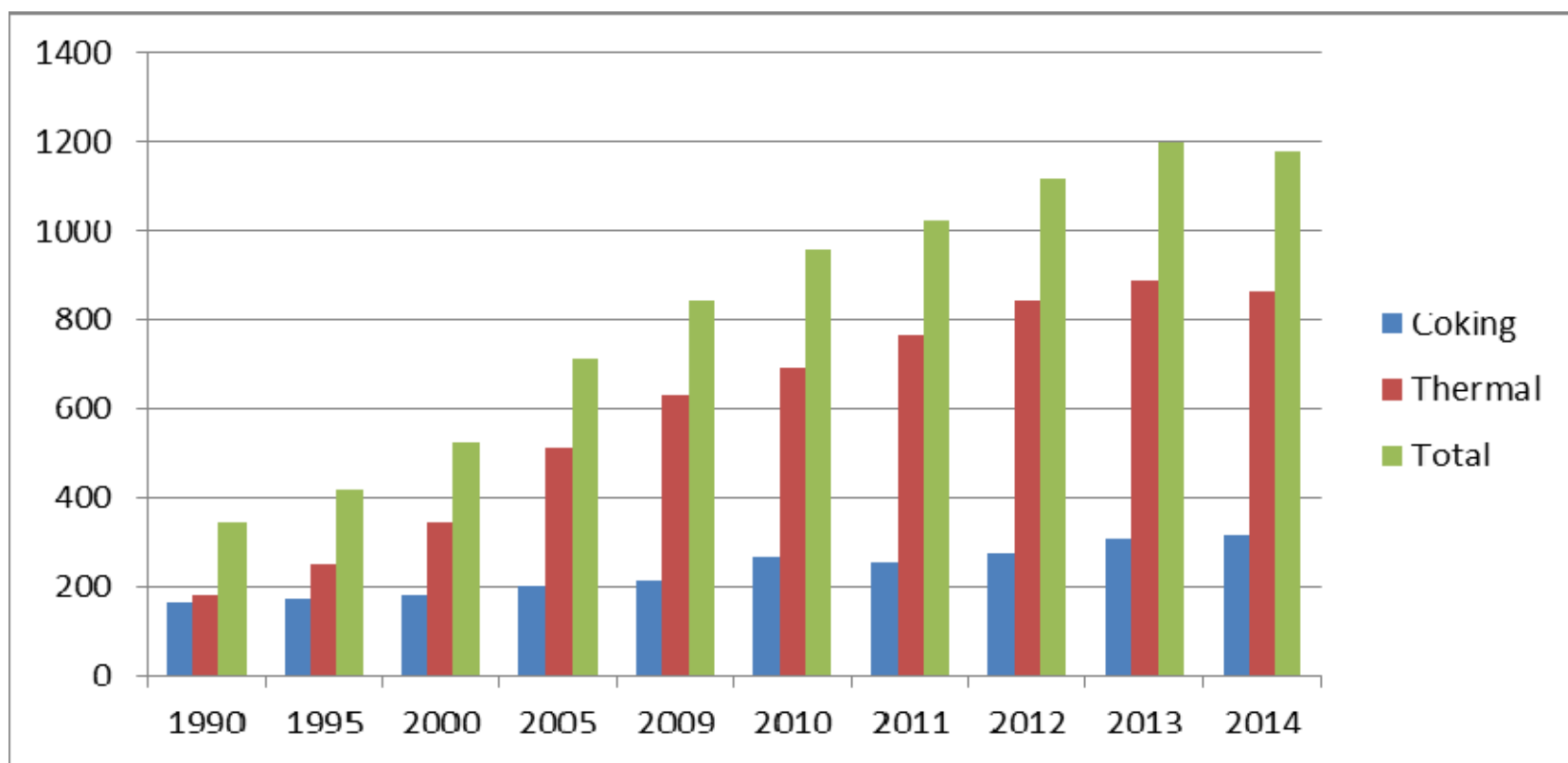
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Current Market Conditions

- » **2014 - A Year Not To Remember – Annus Horribilis**
- » Total seaborne coal trade (coking+thermal) declined 17 million MT
- » Seaborne coking coal demand grew by 8 million MT or 3%
 - 10 year average growth rate has been 5.5%
- » Australia gained market share by adding 15 million MT
- » Pig iron production grew by 11.5 million MT or 1%
 - 2013: growth was 50 million MT or 4.5%
- » Spot prices of coking and thermal coals fell sharply
- » Red ink flowing: 1/3 of the seaborne coking coal sold at negative margins
- » US suppliers found it more difficult to compete & lost market share

Seaborne Coal Market



	<u>1990</u>	<u>1995</u>	<u>2000</u>	<u>2005</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>Y-o-Y 13 vs. 12</u>	<u>Y-o-Y 14 vs. 13</u>
Coking	164.1	170.5	179.8	201.7	215.5	267	253.2	272.9	307.9	315.9	12.8%	2.6%
Thermal	178.8	250.6	343.8	512.6	630.5	691.3	766.3	843.6	888.9	863.5	5.4%	-2.9%
Total	342.9	421.1	523.6	714.3	846	958.3	1019.5	1116.5	1196.8	1179.4	7.2%	-1.5%

Current Market Conditions

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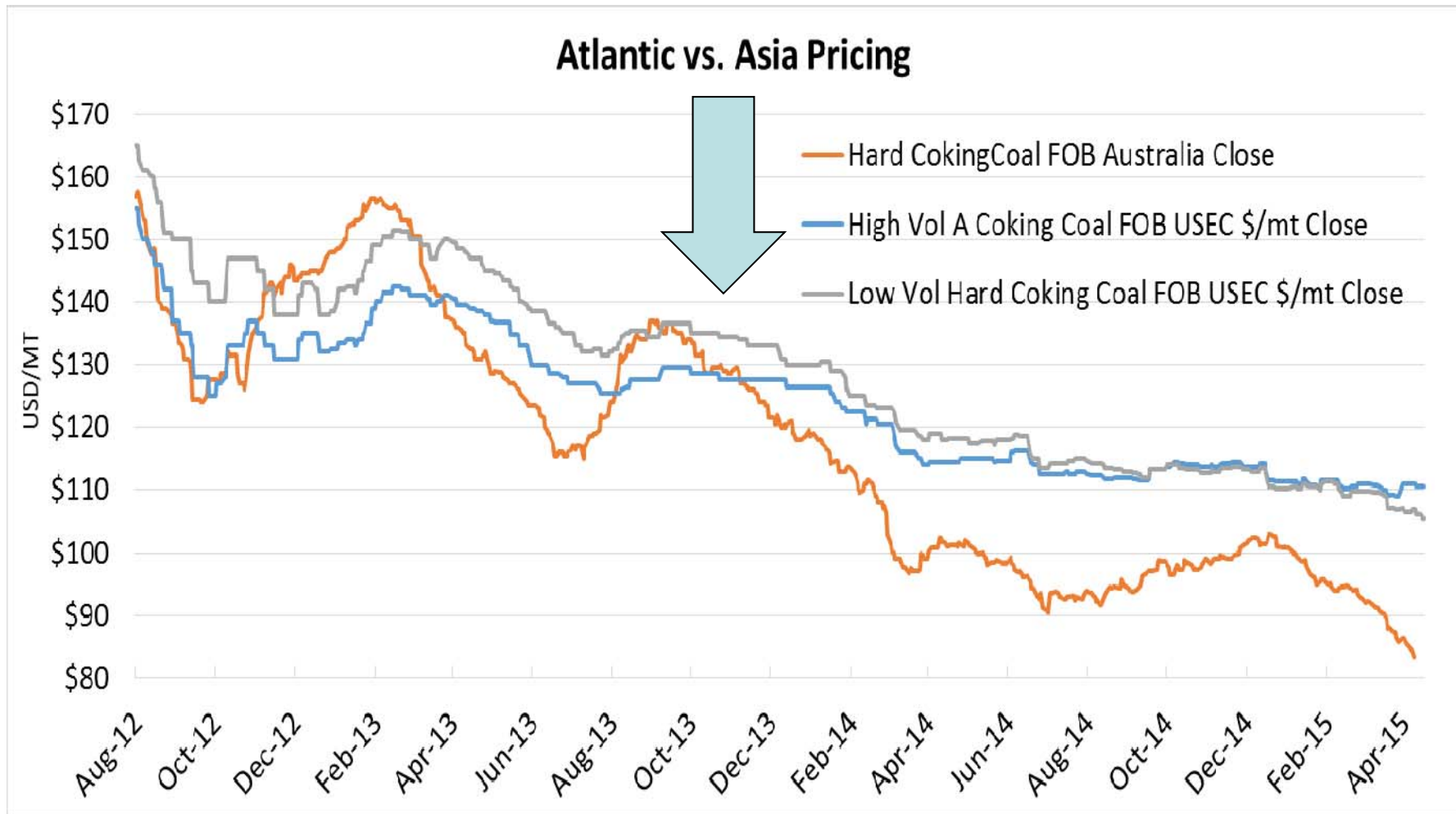
<i>2014 YoY</i>	<i>Prem Low Vol HCC FOB Aus</i>	<i>Low Vol PCI FOB Australia \$/Mt</i>	<i>Semi Soft FOB Australia \$/Mt</i>	<i>High Vol A Coking Coal FOB USEC \$/mt</i>	<i>High Vol B Coking Coal FOB USEC \$/mt</i>	<i>Low Vol Hard Coking Coal FOB USEC \$/mt</i>
Price Change	\$21.50	\$16.25	\$11.00	\$15.25	\$12.50	\$19.75
Percentage Change	16%	15%	12.0%	12.0%	11.0%	15.0%

Current Market Conditions

» 2014 - A Year Not To Remember – Annus Horribilis

<i>2014 YoY</i>	<i>API2</i>	<i>API4</i>	<i>Newcastle</i>
Price Change	\$18.20	\$21.20	\$21.90
Percentage Change	21%	25%	26%

Index Prices – Coking Coal



Seaborne Coking Coal Supply 2010 to 2014

2014 - A Year Not To Remember – Annus Horribilis

Percentage Seaborne Coking Coal Market By Supply Source

Region	2010	2011	2012	2013	2014
Australia	63	53	55	57	61
U.S.A.	19	24	23	19	17
Canada	10	11	11	11	10
Other	9	12	11	13	12

Agenda

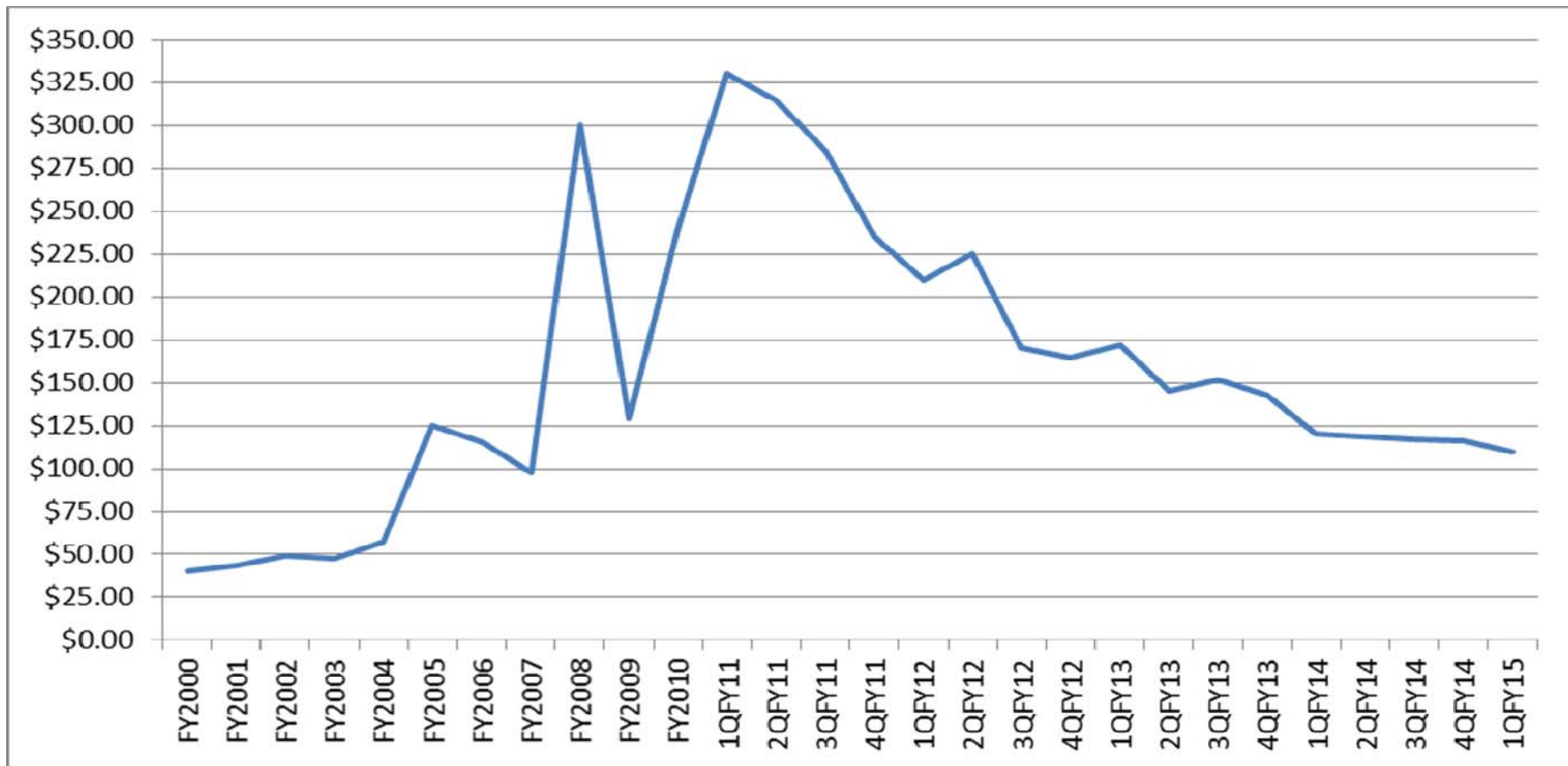
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Current Market Conditions

2015 – Looking For Support -Not A Good Start

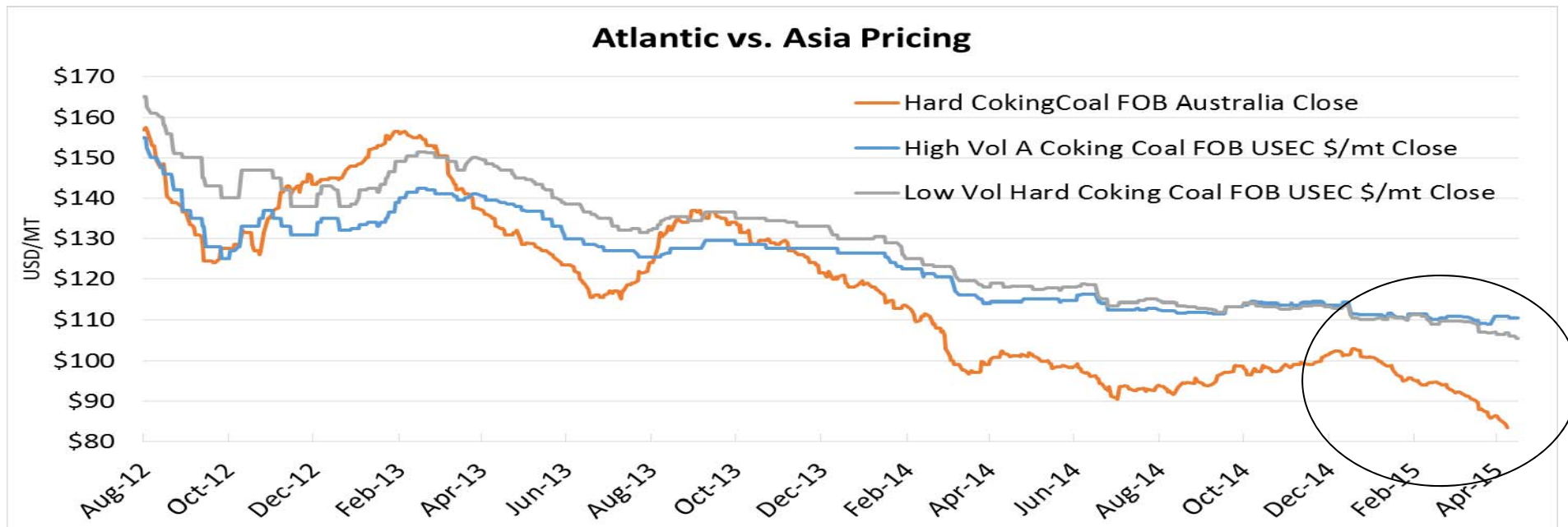
» Q2 Benchmark \$109.50, down \$7.50



Current Market Conditions

2015 – Looking For Support -Not A Good Start

- » Australian spot prices trading \$20 below Benchmark
- » U.S.A. prices have fallen about \$4.00
 - widening the gap with Australian coals and U.S.A. coals



Current Market Conditions

2015 – Looking For Support - Not A Good Start

- » Chinese imports down 34 million MT or 42% YTD March 2015
- » Shifting between domestic and seaborne market

<i>mmt</i>	2014	2015	Diff.	Period %Δ
January	35.9	17.14	-18.76	-52.30%
February	22.82	15.26	-7.56	-7.56%
March	25.0	17.00	-8.00	33.00%
Jan/Feb/March	83.72	49.4	-34.32	-42.00%

Current Market Conditions

2015 – Looking For Support - Not A Good Start

- » USEC coking coal exports down 4.4M Tons or 14.3% YTD March 2015
 - Note increase in thermal exports from Baltimore - India

Met Coal				
	Mar-15	YoY Change	2015 YTD	YTD YoY Change
Baltimore	656,204	-23.22%	1,664,738	-28.08%
Hampton Roads	2,833,692	9.25%	6,192,969	-9.65%
Total	3,489,896	1.20%	7,857,707	-14.30%
Thermal Coal				
	Mar-15	YoY Change	2015 YTD	YTD YoY Change
Baltimore	1,507,948	235.79%	2,847,339	193.64%
Hampton Roads	330,425	-76.30%	1,522,065	-62.71%
Total	1,838,373	-0.25%	4,369,404	-13.49%
Total				
	Mar-15	YoY Change	2015 YTD	YTD YoY Change
Total	5,328,269	0.69%	12,227,111	-14.01%

Current Market Conditions

2015 – Looking For Support

- » Need both additional supply cuts and increased demand
- » Structural correction currently underway
 - 25 – 30 million MT of previously announced coking coal production cuts should materialize
- » Lower prices not increasing demand
- » Growth story will not provide a quick fix - global economic growth modest
- » Last 3 years world GDP growth below 2.5%
 - World Bank forecasts 3% growth in 2015
 - › noticeably below pre-crisis levels
- » WSA forecasting global steel use to increase by only 0.5% in 2015

Current Market Conditions

2015 – Looking For Support

- » Seaborne coking coal demand heavily influenced by China and India
 - » Europe:
 - » South America:
 - » Japan, Korea, Taiwan:
 - » India:
 - » China

} not that difficult to predict but little change

} more difficult to predict but change is anticipated

- » In reviewing 8 forecasts from respected Analysts:

- » India forecasted to be up 3 or 4 million tons
 - critical as likely to account for 2/3 of ex-China growth until end of decade

- » No clear consensus on Chinese imports of coking coal

- » Some have Chinese imports up by 8/9 million tons while others have it down by as much. A swing of 17/18 million tons

Current Market Conditions

» 2015 – Looking For Support

- » Analysts forecasting supply increases of 9.5 million
 - Australian up 5.5 million MT, and “Other” 4 million MT
- » Analysts forecasting U.S.A. exports of coking coal down
 - between 4 and 12 million tons
- » The overriding assumptions are
 - 1) the market is over supplied
 - 2) non-U.S.A. suppliers will produce at max economic capacity and capture increased market share
 - 3) U.S.A. the swing supplier
 - 4) the market will be balanced by reductions in U.S.A. supply
- » Chinese and Indian demand will determine what happens with additional 10 million MT of new supply.
 - Absorbed or displace?

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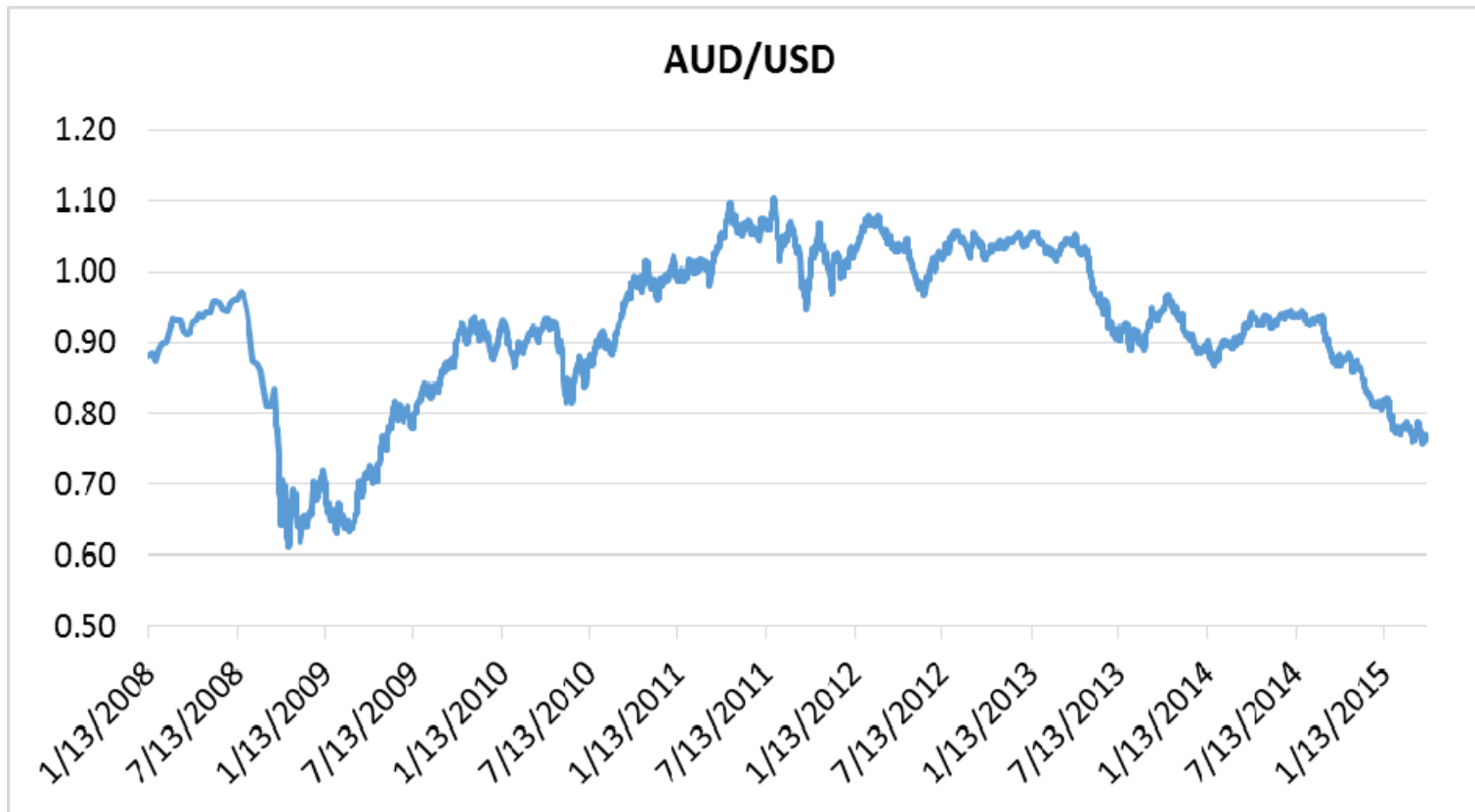
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Current Market Conditions

2015 – Numerous Headwinds For U.S.A. Suppliers:

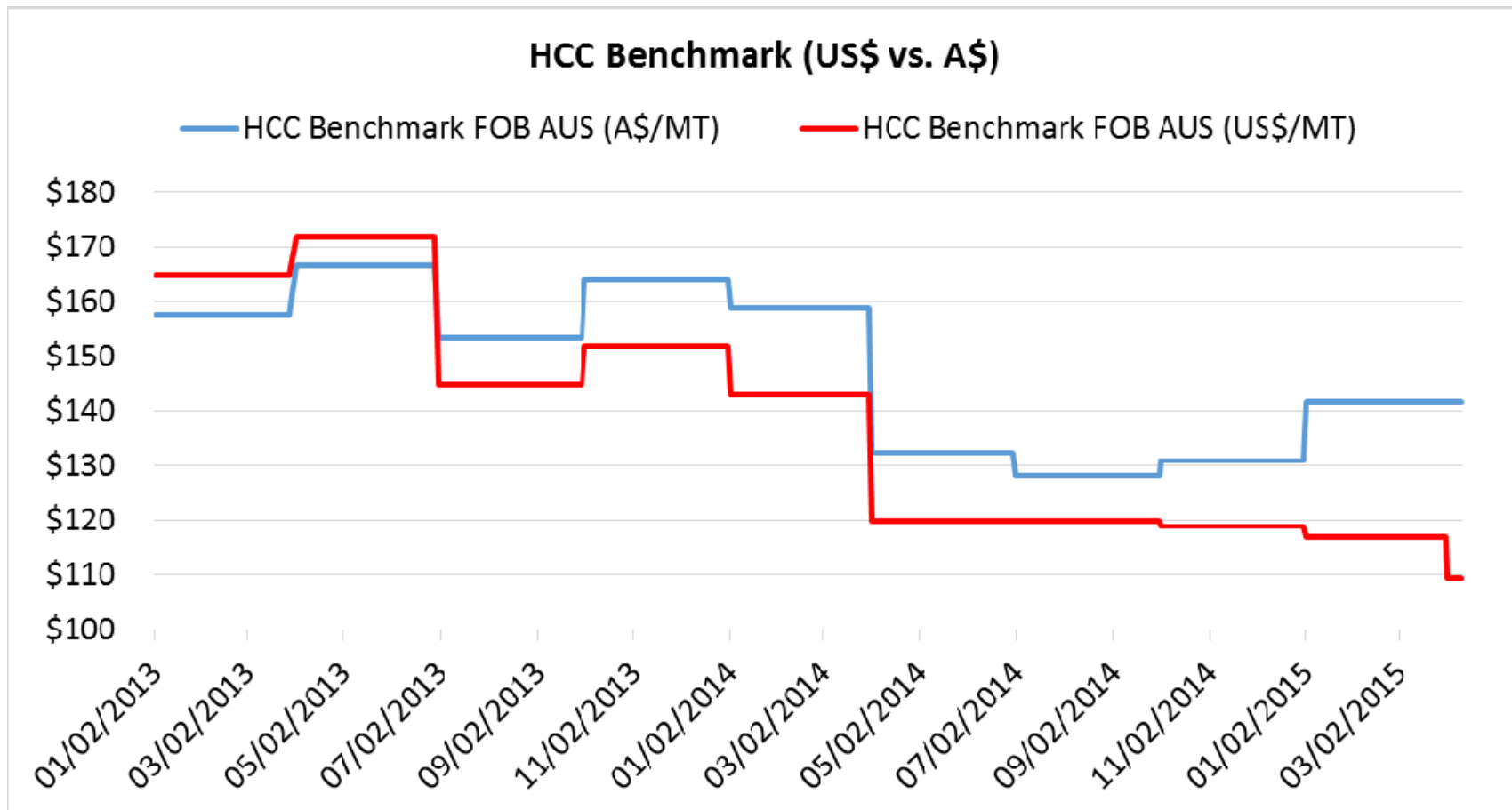
- » Major Australian producers will
 - set the market price
 - marketing strategy
- » Depreciation in the A\$ providing Australian producers opportunity to maintain or reduce prices
 - New Benchmark slight increase vs. \$7.50 reduction
- » Certain Australian producers increasingly “selling” and not marketing
 - using third parties - gives impression more coal available
 - short term focus or spot pricing - leads to price volatility
- » New supplies from Mozambique and Russia entering the market

A\$ vs. US\$ Exchange Rate



Since July 1, 2014, the A\$ has depreciated ~18% versus the US\$

Hard Coking Coal-Benchmark Settlements (US\$ vs. A\$)



Current Market Conditions

- » **2015 – Numerous Headwinds For U.S.A. Suppliers:**
- » Short of an active return from China or a supply disruption, prices have not yet bottomed
- » Expect avg. 2015 prices to be below avg. 2014 prices
- » Government policies affecting the steel industry and/or the use of coal
 - China: Recent policies designed to support domestic coal industry, restrict imports, i.e., more stringent coal quality requirements & increase import and reduce export taxes
 - India: Governmental push to double domestic coal production
- » 2015 will continue to be a challenging environment for U.S.A coking coal suppliers
- » Result: U.S.A. suppliers will lose additional market share

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Future Market Conditions

Beyond 2015

- » Significant decline in prices will likely accelerate adjustments in production. Rebalancing proceeding with supply cuts taking hold
- » Growth rate from Australia will slow
 - unlikely to maintain productivity improvements of last few years
- » Current market prices not supporting new investments. Current prices below cash cost for many producers
- » Steel production ex-China expected to grow at a respectable rate over the next three years
 - India 9%
 - South America 5%
- » Achieving coking coal prices at sustainable levels will likely not occur until 2017 / 2018. U.S.A. exports will continue to lose market share
- » Timing depends on
 - Chinese and Indian participation / growth / governmental policies
 - Rate of supply cuts

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- » Summary – Conclusions

Summary – Conclusion

- » Global coking coal market continues to grow – at a slower pace
- » Lackluster global economic growth & continuing robust increases in supply, will keep the market soft in 2015
- » Only low cost producers will manage through the correction and participate in the seaborne market
 - U.S.A has a number of low cost and highly efficient coking coal mines
- » Stronger US\$ dividing commodity producers into winners and losers along geographic lines
- » U.S.A. coal companies implementing survival plans. A rebound in coking coal prices for U.S.A. coal companies is critical. Can't come too soon

Agenda

- » Current market conditions seaborne coking coal market –
- » Leaving you with some good news

Current Market Conditions

- » Leaving You With Some Good News:
- » “Model” approach not be completely accurate
- » U.S.A. suppliers have a steady domestic based market
- » U.S.A. suppliers have advantages into the Atlantic market
- » Human beings (not models) making purchasing decisions:
 - Not all coals created equal – technical considerations
 - › Good Plastic properties, cold coke strength, stability and low Phos.
 - › Wide range of qualities: LV, MV, HV, SSCC, PCI & anthracite coals
 - Not accounting for logistical considerations
 - › Port restrictions, etc.

Current Market Conditions

» Leaving You With Some Good News:

- Not accounting for physical operations
 - › Stockpile space, blending options, etc.
- Transit time
 - › Inventory control - 14 days versus 35 days
- Diversification
 - › Buyers want geographical reach and product diversity
- Raw material security
 - › Disruptions can and do occur
 - › Reliable – consistent sources
- Financing considerations
- Relationships matter

Credits

- » John T. Boyd Company
- » Financial Times
- » ICAP Energy
- » International Monetary Fund
- » Macquarie Research
- » McCloskey Group
- » Platts
- » SSY Research
- » T. Parker Host
- » World Steel Dynamics

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