Coal prices above fundamentals - Merrill Lynch

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Reuters reported that coal prices have defied the gravity of fundamental factors, supported by stockpiling prompted by cheaper prompt prices rather than a reflection of actual demand.

Traders said that prices in Europe are shrugging off oversupply and dire demand, although demand in China and India remained supportive. They said that the contango structure of low prompt prices and dearer forwards is shown in May coal cargoes delivered into Europe at around USD 60 per tonnes to USD 62 per tonnes DES Amsterdam Rotterdam Antwerp and cargoes for Q4 delivery around USD 72.00 to USD 75.00 and for Calendar 2010 around USD 84.00.

Mr Francisco Blanch analyst at Merrill Lynch said that "You could say about coal that both could be priced up to 20% lower on fundamentals but it's not the case."

He said that "Coal prices are buoyed by the contango in the market and ignoring fundamentals."

Others in the market said that the strength of the forward curve, as in the oil market, reflected a view of long term plays that looked to economic recovery next year, disregarding the threatening build up of actual supplies until then.

They said that utilities have been buying spot coal to put on stocks for consumption or re-sale later in the year. The cost of stocking coal in Europe's Amsterdam Rotterdam Antwerp is minimal compared with the contango in prices.

Ms Amrita Sen commodities analyst at Barclays Capital said that "Current coal demand outside of Asia does not warrant FOB prices above USD 60 per tonnes but the market is trading off the contango. We feel FOB prices need to fall to the low USD 50s/high USD 40s per tonne before production cuts happen to put the market into better balance."

Another European utility source said that "There are huge stocks of over 3 million tonnes in ARA and more and more cargoes are due to arrive. The market in Europe is awash with physical coal. There are a few supply disruptions such as the Colombian rail strike but the loss of a few million tonnes won't change the supply/demand balance.”

Traders said that Asian coal prices are several dollars a tonne higher than Europe due to stronger demand. This trend may continue and will provide some price support outside of Asia. A Singapore based trader said that "Without China, in Q1 I am not sure where prices would have gone. China has certainly done a service to producers without China buying we would have seen much lower prices."

Coal production, unlike oil has not reacted to weak demand and oversupply. Global supply this year is likely to be little changed from 2008 levels and set to rise in several key exporting countries. Russia, the world's highest cost exporter may trim 5 million tonnes from total exports of around 65 million last year and some Russian producers are willing to sell at a loss to keep cash flowing.

(Sourced from Reuters)